MAYOR OF LONDON

London Office Policy Review 2009

November 2009

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Prepared for the Greater London Authority

By Ramidus Consulting Limited

with Roger Tym & Partners

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Readers' notes

(1) Data on potential supply, including construction activity, planning permissions and outstanding planning applications, is mainly sourced from Estates Gazette Interactive's London Office Database (LOD) and London Residential Research (LRR) databases, supplemented where necessary by original research.

(2) As with LOPR 07, this LOPR is presented in metric. However, it is prevalent in the property industry to use imperial measures, particularly when quoting rents and prices, so we have provided imperial conversions of rent figures and land values in brackets.

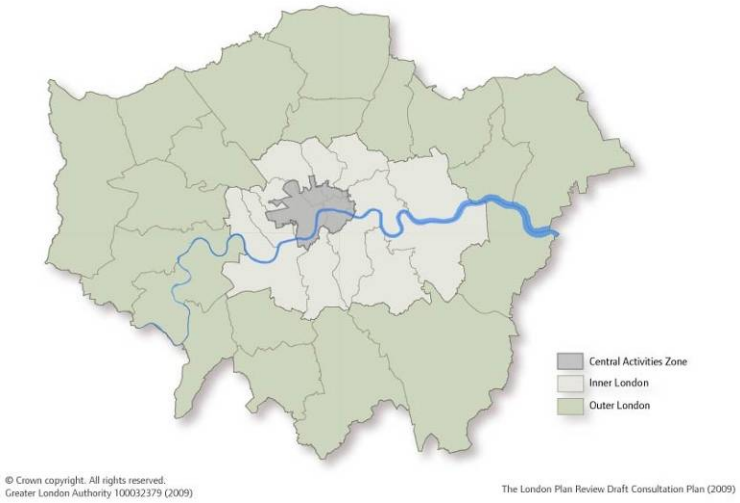
(3) All sq m figures refer to "net internal area" unless otherwise stated.

(4) Part-year time periods are generally referred to in the format of "Q1 07" (first quarter, 2007) and "H2 09" (second half, 2009).

(5) Reference is made to availability rates, i.e. the proportion of the total office stock in a market or sub-market that is being actively marketed for letting. Note that this is not equivalent to a vacancy rate, as some available space is occupied while being marketed.

(6) In the report we use the geographical definitions given below.

- Central Activities Zone (CAZ), Inner London (IL) and Outer London (OL) are shown on the map below. The CAZ cuts across borough boundaries.
- Outer Metropolitan Area (OMA): beyond London, and including parts of the South East and East of England regions.
- Central London: office data on availability and take-up are based on post codes as this is the geographical unit used by the market, and for consistency with previous LOPRs.



Source: Draft Replacement London Plan, 2009

Management summary

Crisis? What a crisis!

There is no question that the recent **economic dysfunction** has had a very major impact on the London office market, the effects of which will be around for some time yet. We describe, in brief, recent events and their knock-on for commercial property. Generally speaking, forecasters expect the rate of contraction to slow in the period ahead, and even suggest the nadir having been reached. However, forecasts indicate a long trough, and there is an expectation that conditions will not particularly improve for the whole of 2010, and only very slowly in 2011.

The impact of these economic trends on the London office market is seen in the **supply and demand assessment**. During 2008, new development, investment and occupier activity all shrunk dramatically. June 2009's fall in commercial property values marked two full years of monthly falls, adding up to a 44% cumulative fall; and rent free periods of over four years speak volumes. Market sentiment remains very subdued.

During 2007 and 2008 there was a complete *volte face* in the Central London office market. On the supply side, the turning point came in Q3 07, when availability fell to just over one million sq m, an availability rate of 5%. By the end of 2008, availability stood at almost 8%. From peaking at 690,000 sq m in 2007, office starts in Central London slumped to 365,000 sq m in 2008.

The second half of 2007 saw a rapid fall in take-up in successive quarters. The effect was to reduce take-up in 2008 to just over one million sq m, a fall of 24% compared with 2007. If the distorting effect of the JP Morgan deal at Canary Wharf (176,500 sq m) is excluded, annual take-up was down 38% on 2007.

After the storm: a brave new world … or *status quo ante*?

The question on many minds is: will economic recovery bring new market dynamics, or will we pick up where we left off in August 2007? As is often the case, the answer is likely to include elements of both.

We trace recent **cyclical economic events**. We point out that at some point the economy will begin a recovery, demand will pick up, confidence will return to the investment and development community and values/rents will turn up (though note that in the City and Midtown markets, peak rents in 1989, 2000 and 2007 have been successively lower in real terms; and real rents have never matched their 1973 levels).

The impact of the recession, the rental and yield adjustment, the fall in output-related demand and the development downturn can all thus be put in a "cyclical" box – albeit a very painful box. But at the same time there are a number of potential and, we believe, actual structural changes taking place.

Among **potential structural changes** we include the impact of financial supervision reforms on London's finance markets; London's reputation as a global finance centre resulting from recent events; the threat from other global centres and central government

policy, particularly the tax regime. These factors *might* all lead to structural changes in the demand for offices in London.

But we believe there are a number of **actual structural changes** underway that are already changing the dynamics of the London office market. In this category we include the emergence of a polycentric office market in Central London, which has implications for Outer London (OL); the impact of policy vis-à-vis an eastwards drift; the increased marginalisation of large numbers of OL centres (in purely office market terms), rationalisation in the public sector and new working patterns. The latter two are summarised here.

We regard the twin trends of property rationalisation within the public sector and the growing acceptance of flexible working styles as key to the changing profile of demand within, and throughout, London. **The public sector**, one of the largest occupational sectors, is now planning its occupation of office space in ways that would not have been envisaged as little as five years ago. Bearing in mind the scale of public sector jobs both in central and local government throughout London, the impact on local markets could be significant. Many of these are heavily reliant upon the public sector to underpin their already fragile office markets, and shrinkage therein is likely to have a disproportionate impact in locations which might be considered marginal in commercial terms.

Growing numbers of organisations are adopting **new working patterns**. The outcomes of this trend are important for the London Plan. Organisations – both public and private – are using space more efficiently and more effectively. Trends in corporate management, competitive pressures, the nature of organisations, the pervasive impact of technology, and evolving social/political attitudes towards work are all changing the demands placed upon office space.

The bottom line is that they are using less space. What is happening is a structural change in which the second most expensive cost for most organisations is managed far more responsibly than has typically been the case in the past. Traditional assumptions about the growth of employment and the associated growth in employment space will need to be re-visited.

Looking outwards ... London's competitive position

Assuming that by 2011 London's economy is growing once again, a key question is whether there are other forces at work that could erode **London's world city role**, which currently remains very strong – not only in finance, but in business services, creative industries and technology products and services. The evidence supports the cautious conclusion that London is unlikely to lose out to so-called competitors in Europe (eg Paris, Frankfurt) in the short-term. The depth and breadth of its economy, and its critical mass, continues to attract more inward investment than competitors. Recent evidence on foreign direct investment, as well as "reinvestment" by existing foreign-owned companies, suggests continuing confidence in London's prospects.

However, as already noted, the prospect of changes to financial supervision regimes creates uncertainty; London's reputation as a centre of finance has taken a battering over the past two years; certain global centres are gaining strength based on the huge

size and growth prospects of their own domestic economies (notably the BRIC[1] economies), and the UK's tax regime threatens prospects in key sectors.

Our research and engagement with stakeholders underlines the point that **London's world city role** is not a given: it must be protected and nurtured. The property market has a role to play through the provision of world class buildings and places. Generally, the market (and policy) has been successful in this respect. However, given current and prospective circumstances, any friction in the process should be reviewed.

One such area is **mixed-use policy**, which is being interpreted and implemented in different ways across London, causing friction in the renewal of buildings. But, whatever the localised short-comings of mixed-use policy as applied to individual sites, when combined with a more enlightened approach to the change of use of office buildings and land, the overall effect has been a more flexible planning regime. As a regime that is more attuned and responsive to the property market, it has encouraged development diversity, including housing, offices, retail, leisure and other uses in a variety of locations.

As well as London's global competition, there is the question of **London's competitive position with its hinterland**. There is a perception that OL centres underperform relative to their Outer Metropolitan Area (OMA) counterparts. We have tested this hypothesis through a high level comparative exercise of ten pairs of centres. Our findings paint a far more complex picture. The relationship between OL and OMA has structurally changed over the past twenty years. For example, the degradation of Central London salary weightings together with the decimating impact of technology on back office functions has led to a massive reduction in the relocation market to these areas. Our review of OL centres and OMA centres confirmed this to be the case. What's left of the relocation market today mainly seeks a low cost regional centre, or moves offshore.

We examined relative performance in OL and OMA, between 2003 and 2007, according to a number of labour market measures. The exercise failed to confirm that OL centres consistently underperform their OMA counterparts. Thus total employment growth and office-based employment growth patterns preclude any definitive and over-arching conclusions. For example, the strongest annual office-based employment growth is, in fact, recorded in OL, in Stratford, as is the strongest decline, which occurred in Romford.

Generally, OL centres tend to be considerably smaller employment centres than their OMA counterparts, but other than this, the most striking difference is that there is a strong distinction between OL and OMA centres in terms of Public Administration employment. Across OL, on average, 8% of total employment (and 28% of office-based jobs) is in public administration compared to 3% (and 10% of office-based jobs) across OMA. Conversely, Business Services account for 17% of total employment in OMA compared to 12% in OL centres.

[1] Brazil, Russia, India and China

Looking inwards ... London's competing office markets

As part of this year's LOPR research, we looked at London's **"mega scheme" pipeline**. We found that current schemes have a potential pipeline of c4.23 million sq m; which compares to 2.3 million sq m delivered in mega schemes over the past 25 years.

The mega schemes will compete with each other; they might depress development viability generally, and they could further weaken prospects in already fragile OL office markets. While recognising that, in reality, not all the space will be built, changes to working styles, a trend towards higher densities and an expected slow-down in the growth of office jobs all suggest that the mega scheme pipeline should be monitored.

One particular area of concern is **east London**. While we concur with planning policy about Stratford's primacy (potential critical mass, transport, accessibility, etc), we raise concerns from a market perspective. Canary Wharf rolls on; Greenwich Peninsula is already underway, and Wood Wharf (effectively an extension of Canary Wharf) is soon to start. Together the three schemes potentially offer over one million sq m of additional space (not to mention myriad schemes elsewhere). Even given a long-term outlook, this is a lot of capacity. And if the three schemes steal a march on Stratford (likely given the hiatus on office development created by the Olympics), we are concerned that its competitive advantage might suffer.

We reviewed **Inner London's** non-CAZ markets to update monitoring advice from LOPR 04. This demonstrated once again how the fall-off in values from the centre is often strikingly steep, but reinforced the fact that there *is* a scatter of sites that need to be given proper consideration for their potential role in an emerging polycentric London. For example, White City, where a number of landowners are seeking to capitalise on a swathe of under-utilised land to the north of the recently completed regional shopping centre and where the vacation of the BBC's Wood Lane studios will create further opportunities.

Our review of **OL centres** found many that have been monitored in the past which no longer merit monitoring as office centres. Whether some of them ever merited monitoring is a valid question. But it is our considered opinion that expectations for office growth in OL office centres, in policy terms, should become more realistic. The relocation of companies from Central London to OL has decreased over the years (with the possible exception of the A4 corridor), and many companies that were located in Central London have relocated staff further afield, to the regions and abroad. Thus many OL centres are now more heavily reliant on offices that serve local demand, including local government and other public sector administration.

Setting aside the issue of drift from Central London to OL, there is the question of whether the pattern of demand *within* OL is changing. One of the key concerns here is the role of **"marginal" office centres**: those which lack critical mass, and which tend to benefit (if at all) in very "hot" markets, but which lose favour when demand is "thinner".

What is apparent from our analysis of OL is that the office market has been stagnant, and in some cases in decline, for many years now in centres that, in policy terms, are expected to perform as office centres. We show that economic viability for office development is a major inhibiting factor in OL at any time. Very few locations

commanded rental values that rendered development viable even at the peak of the cycle when investment yields were lower and rental growth was anticipated. We do not believe that more than a handful stands any realistic chance of attracting demand from Central London, from OMA, from beyond the UK or from central government.

We recommend that a realistic view is taken of these centres and that many are recognised as having no significant part to play in the London office market, other than providing for local needs. We recommend that more than half of the monitored centres have no case for inclusion in future LOPR research, and that policy expectations are addressed accordingly. In this context we have taken a detailed look at Brent Cross/Cricklewood, Croydon, Stratford and west London as *Development Centres*.

West London is and will remain the primary location for office development in OL in our view, and in the medium-term, it is the only location that can support office development without a significant change in market conditions. In the longer-term we consider that office-led development may be viable in Stratford and in Croydon: both have the raw ingredients to offer a low priced, readily accessible alternative to a Central London location if, and only if, there is demand pressure. We are more cautious over Brent Cross/Cricklewood as a future office centre.

A contributing factor to OL becoming a less-favoured relocation option is that over the past twenty years Central London has become a **polycentric office market**, with large off-pitch office campuses in places such as Broadgate, Canary Wharf, More London and Paddington. Such centres provide a rent discount, Grade A buildings, public realm and support services – a very convincing mix of attractors. We believe that some of these campuses have soaked up demand that might otherwise have leap-frogged further to traditional OL centres.

One of the key lessons of this change is that demand *can* be attracted from established markets to projects where suitable premises, for modern businesses, provide **a more attractive alternative to traditional stock**, and where large clusters of buildings (urban campuses) can create critical mass and support retail and other service activity, as well as large public realm spaces. The experience of certain key projects suggests that infrastructure provision is a crucial ingredient of "critical mass".

One of the issues for Central London, since the recession of the early-1990s, has been that of converting existing office stock to alternative uses, both through refurbishment and new build schemes. Many non-office sites with historic office permissions, which formed part of London's potential office capacity, have been permitted change of use, some of which have been implemented. The on-going **change of use of existing office stock** and office land to housing, hotels, student accommodation and teaching space (all part of London's world city role) has, in many instances, contributed to the regeneration and increased vitality of many areas (eg Midtown). The traditional blanket protection of offices was often a recipe for vacancy and dereliction – commonly in fringe locations, but also in core areas during market downturns. In a strategic sense change from offices to other uses appears not to have damaged the office market and, more positively, has provided significantly wider benefits to London through enhanced diversity.

Is the London office market strategically constrained?

The ups and downs of the property cycle ensure that there are times when the London office market is supply-constrained. In addition, the local context for development at sub-market level, including planning policy, means that there are locations which have a tendency to be more supply constrained than others. The result is higher costs for office occupiers. It is important, however, at the strategic level to take a long-term view to ensure that there is an adequate supply of office land for future development to meet the potential need for offices arising from projections of employment change.

We undertook a review of long-term demand for offices based on revised forecasts prepared for the GLA at London level by Volterra and disaggregated spatially within London using the GLA triangulated employment projections. RTP refined the Financial and Business Services (FBS) employment based on finer-grained activity sectors to more accurately reflect employment which occurs in offices. Office employment growth was then converted to office floorspace based on a density ratio.

The revised projections take **a more cautious view of the future prospects** for office employment growth in London. Under the definition of FBS employment, where previous projections saw growth from 2006-2026 of 605,000 jobs, the revised projection is for growth of 428,000 jobs 2007-2031. Based on an annual rate of change this is a reduction of 40%. The implied rate of growth in FBS jobs is 10,000-20,000 per annum, roughly half the rate of recent decades. The vast majority of growth is expected to be in Business Services (424,000 jobs), with only marginal growth in Financial Services (4,000 jobs).

The RTP defined office jobs growth over 2007-2031 is somewhat lower than FBS at 386,000, primarily due to the inclusion of public sector jobs and exclusion of non-office based business services jobs. This is **an average rate of growth of 16,000 office jobs per annum**. This is a significantly lower rate of growth than that projected in LOPR 07 (when the base employment forecasts were higher), which forecast 535,000 office-based jobs 2006-2026, an average rate of growth of 26,750 per annum.

Under the RTP definition, office employment growth 2007-2031 is projected to be highest in the City (71,000), Tower Hamlets (48,000), Westminster (46,000), Camden (39,000), Hammersmith & Fulham (29,000), Islington (28,000) and Southwark (24,000), collectively accounting for 74% of projected growth. Over the shorter period 2011-2031 CAZ and Canary Wharf account for 58% of projected growth, Inner London 22% and Outer London 20%

We then converted office employment growth into potential demand for office space by applying a density ratio of 12 sq m (net) or 13.8 sq m (gross) per worker. This is a higher density than that adopted in LOPR 07, reflecting **trends towards more efficient use of space by office occupiers**. The combined effect of lower growth forecasts and a higher density coefficient produced a much lower potential demand for offices than in LOPR 07, at 4.6 million sq m (net) over the period 2007-2031, an increase on current stock of 16%.

According to data from the London Employment Sites Database (LESD), which is drawn from a combination of planning data and pre-planning site allocations, identified supply

across London as a whole exceeds potential need by 44%, as defined by this methodology. Some local boroughs where office growth projections are high do appear to be supply constrained, particularly Westminster, Islington and Hammersmith & Fulham, but equally there are significant boroughs such as Tower Hamlets which have more than double the projected need for future space.

The vision thing

London is navigating turbulent waters. The level of economic disruption over the past couple of years has had a major impact on the office market, and the short- to medium-term prospects offer little solace. Certain obvious issues are beyond the London Plan's influence – notably the global economic malaise. But on the assumption that economic and property market conditions will improve, the question is: how can the London Plan encourage the office market to help protect and enhance London's world city role?

There is every reason to ensure that, other things being equal, London is positioned for growth. This means inspiring confidence and that, in turn, means a planning framework that provides **vision and certainty,** within which the business community – and specifically the property industry – can operate with confidence and certainty.

In short, the London Plan requires a bold and ambitious statement of intent with respect to the city's most important economic driver – **the office economy**. Such a statement should encourage investment in London's future office market with an enabling framework for both CAZ and selected OL centres.

In policy development, further consideration could be given to deciding which centres are considered appropriate for further **concentration of office activity**, combined with realism over the office market prospects for other centres. In a similar light, a market-led understanding of the cumulative impact of a number of "**mega schemes**", and their implications for London as a whole, should be reflected in emerging policy. Whether called "super hubs" or "development centres", it is clear that a raft of very large office concentrations is emerging and the hierarchy of office centres needs to be recognised.

In formulating clarity over which centres might be subject to further concentration of offices, the Plan should show how concentration in these locations benefits the wider London economy. This might be through transferring benefits across borough boundaries through "swaps", in which London's land use policy priorities are achieved through one borough "exporting", say, housing development, while "importing", say, a greater amount of commercial development from another borough.

Related to the previous point, there is the question of "**east vs west**". Again, a market-led understanding of the "east London offer" and its position in the Greater London office market is important. Not least to avoid potentially cannibalising a hugely successful market on the other side of London.

We would recommend that development of policy in the Plan pays increasing attention to **a finer-grained understanding of the structure of demand** for offices. Two examples demonstrate this point. First, London generally, and certain boroughs, pin a lot of hope on "creative industries" – but what are these? We all know that they represent an important sector of demand, but what do we know of the different locational and property

market caters poorly premises requirements of the diverse functions represented under the umbrella term? Office activities are constantly changing and it is increasingly important for planning policy to reflect the structure of demand over and above that for prime institutional space in core markets.

Secondly, emerging policy could demonstrate more sensitivity to, and **understanding of, the thousands of smaller firms** – particularly in the OL economy – that provide goods and services to larger firms, predominantly in CAZ, in complex, interlocking supply chains – what we call "*servicing the services*". Such firms form the backbone of demand in OL, and many of accommodate white collar office workers in blue collar buildings. We recommend that the GLA reflects this form of office employment in its evolving policy framework, perhaps as a distinctive use type.

As two examples, creative industries and smaller firms are fundamental to the office economy. The institutional for the needs of many companies in these (and other) sectors. The Plan should demonstrate a better understanding of how policy can respond to a diverse demand base and encourage provision for their needs. A diverse property market will be a more robust one. Opportunities should be sought to provide quality, economic premises, in integrated developments, for a wide range of occupiers.

1.0 Supply and demand in Central London

1.1 The Central London office market in context

1.1.1 The previous edition of the London Office Policy Review (LOPR 07) was published in May 2007. The evidence base for the Central London office market analysis derived from market and planning data to 31st December 2006. With the benefit of hindsight, the publication of LOPR 07 coincided with the latest cyclical peak in the London office market – a peak that was dampened by the sudden emergence of the credit squeeze in August 2007.

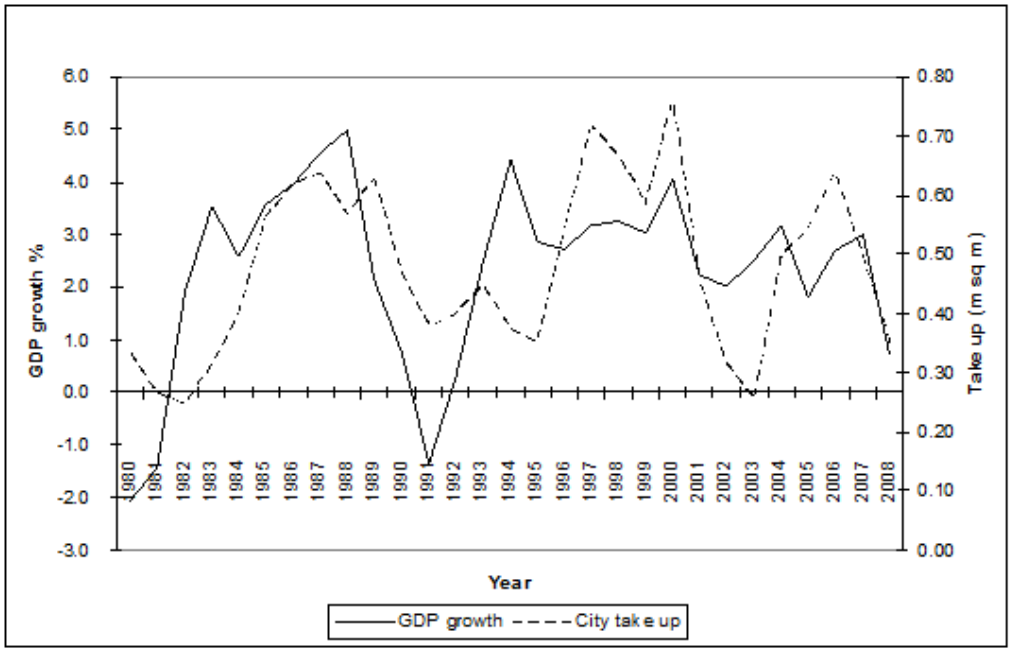
1.1.2 At the time there were concerns about over-inflated asset prices in the office investment market and the rate of rental growth in the occupational market. In particular, a rental spike in the prime West End had taken top rents to £1,157 sq m (£107.50 sq ft) in 2006 and to £1,259 sq m (£117 sq ft) by the time the report was published. Across much of Central London new supply was being delivered in a controlled manner, but LOPR 07 did highlight the potential for speculative construction in the City sub-market to generate over-supply. Much has changed in the two years since.

1.1.3 None of us knew in May 2007 that the US housing market and its packaged securitised secondary residential mortgages would generate an international credit crunch in August 2007 which would mutate into a global banking crisis and precipitate a global and UK recession by mid-2008. The fact that the recession has a systemic failure of the banking system at its core means that London, the world's pivotal *international* financial centre, and its property market, have been hard hit.

1.1.4 That property is a derived market where the property cycle follows the economic cycle is illustrated in Figures 1.1 and 1.2 which juxtapose City take-up and nominal rents against UK GDP.[2] As indicators of the health of the office market both take-up and rents have a strong tendency to vary with GDP, albeit with a time lag. It is noticeable that in the current downswing of the cycle, the lagged effect is almost absent in the City market, which we interpret to be due to the positioning of banking and financial services at the core of the current economic contraction.

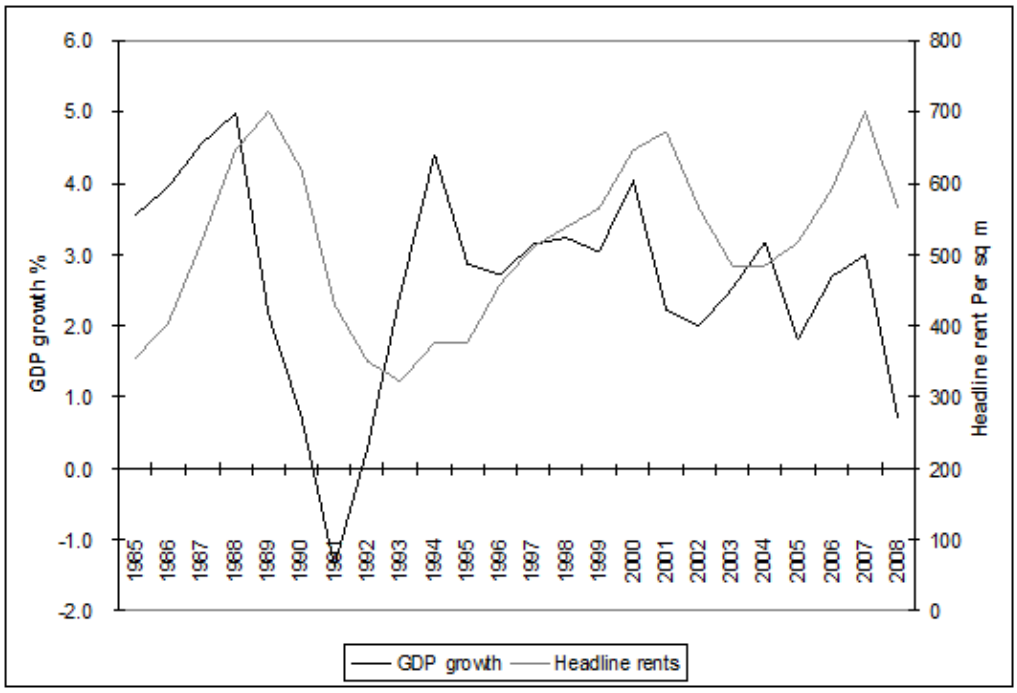
[2] Note that the City office market is used in Figures 1.1 and 1.2 because it is the only market for which sufficient time series data is available.

Figure 1.1 National GDP growth versus City take-up, 1980-2008



Source: DTZ Research; OECD

Figure 1.2 National GDP growth versus City rents, 1985-2008



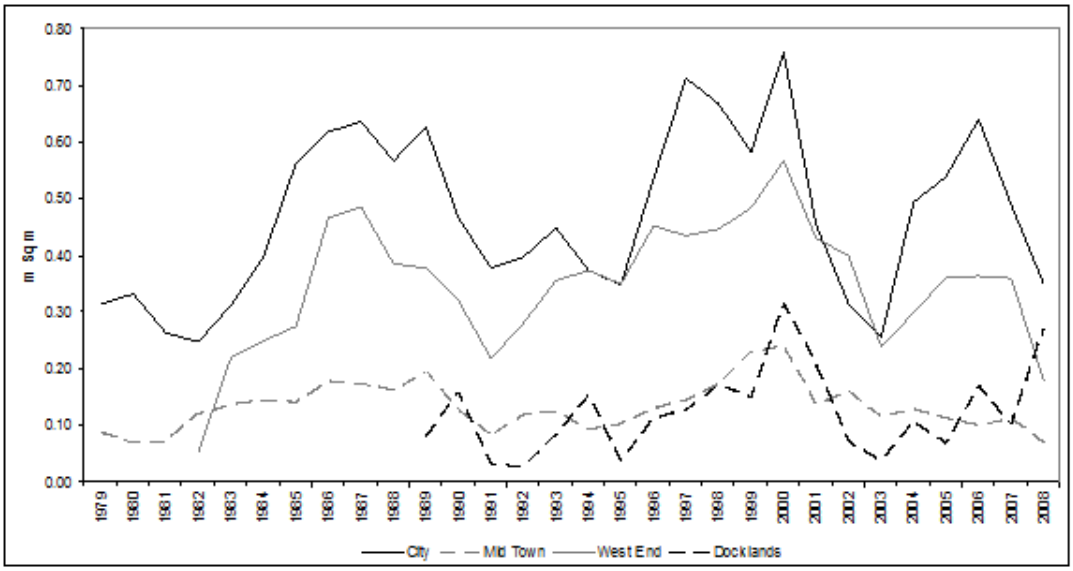
Source: DTZ Research; OECD

1.1.5 The long-term demand trend in the City office market is clearly reflected in the other main Central London sub-markets, proving that the City's cycle, although amplified, is indicative of Central London as a whole (Figure 1.3).

1.1.6 It also shows the rapid response to the downturn in demand for City and Docklands offices from financial services occupiers in 2007, where take-up fell by 23% and 43%, respectively. In the West End and Midtown there was no discernable impact on demand in 2007, with take-up down only 2% in the West End and actually up 6% in Midtown.

1.1.7 By 2008, however, while the City continued on its trajectory, with take-up down a further 29%, West End and Midtown occupiers also drew in their horns and take-up was sharply reduced on 2007, by 37% in Midtown and 50% in the West End, reflecting the deepening and widening of the banking crisis into an economic recession, affecting all occupier sectors. Docklands bucked the trend in 2008, due to a single, very large pre-sale of a development site with planning permission to US bank JP Morgan.

Figure 1.3 Take-up in major sub-markets, 1979-2008



Source: DTZ Research

1.1.8 The quick onset of the economic downturn and its rapid transmission downstream into the property market appears to have cut off a potentially more amplified boom in its tracks. Certainly, the value of London offices as investments had parted company with the underlying occupational market and the signs of this were already apparent in 2006 and the first half of 2007, before the credit crunch. In the City there was clearly a speculative boom to capture expanding demand from banking and financial services that proved without foundation. In an "old fashioned" or typical London boom and slump pattern, this is coming on stream in the City at exactly the time when demand has evaporated.

1.1.9 Elsewhere in Central London, however, it would be difficult to say that the supply side had become oversupplied with speculative space. Development in the Central London fringes and Docklands has become much more about managed supply, balancing speculative and pre-committed space. Often this is being orchestrated in major schemes with critical mass by a single developer creating new "places". It is difficult to envisage mega schemes in this era being speculatively-led.

1.1.10 In the West End and Midtown, office development occurs under a strong regulatory regime where the practical effect of a variety of planning policies is to place limits on the overall expansion of the office stock. Over the last ten years the development of policies to promote mixed use development and affordable housing has reinforced the regulatory regime, impacting on the viability of office development which incorporates an increase in office stock.

1.1.11 Meanwhile, the benign approach to the loss of offices and other "employment generating" land or floorspace to other uses, principally housing but also to student accommodation and hotels, has taken away capacity in particular markets. This relaxation of zoning for commercial use began as a result of office oversupply in the early-1990s and has resulted in the reinvigoration of parts of Central London by the injection of new uses.

1.1.12 This is evident in the northern City fringe and in the South Bank, where low-grade office buildings have been replaced with private and affordable housing, budget and designer hotels and swanky student flats. The impact on the office market has been to suppress vacancy rates and maintain rent levels. It is a process that occurs not only in fringe locations, but also in prime areas of the West End where prime and super prime private residential values, even in today's recessionary market, eclipse even the best office values. Fifteen years of policies to promote diversity in Central London have had an impact on the office market.

1.2 Market and planning data in central London

1.2.1 LOPR 09 examines the Central London office market in the context of crisis and recession. The core evidence base for the report has been rolled on two years to 31st December 2008. The publication date also allows us to provide summary data and analysis of the market up to 30th June 2009.

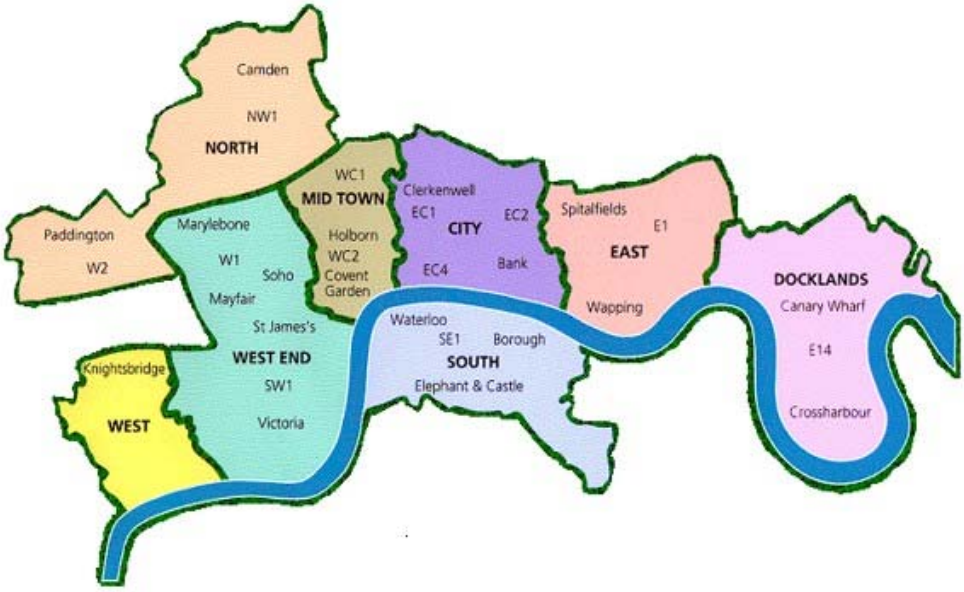
1.2.2 In line with the terms of reference for LOPR 09, a significant part of this report examines the prospects for offices and office development in OL. It remains the case however that Central London dominates the market. The LOPR series has analysed office construction and planning activity since 1995 across a wide definition of Central London which includes 11 Central boroughs.[3] According to the government statistics, these 11 boroughs contained 76% (19 million sq m) of the total stock of "commercial offices" in

[3] Camden, City of London, Hackney, Hammersmith & Fulham, Islington, Kensington & Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth, City of Westminster

London (24.9 million sq m) and the vast majority of take-up and construction activity.[4]

1.2.3 Central London also has long-running market and planning data sources which allow analysis of trends over several property cycles. In this Chapter we utilise two primary data series. Market data on take-up and availability has been provided by DTZ Research and is based on its definition of Central London, with sub-markets derived from aggregated post codes (Figure 1.4). Planning data on office construction and the planning pipeline has been provided by EGi London Offices, based on the 11 Central boroughs referred to above.

Figure 1.4 The Central London office market



Source: DTZ Research

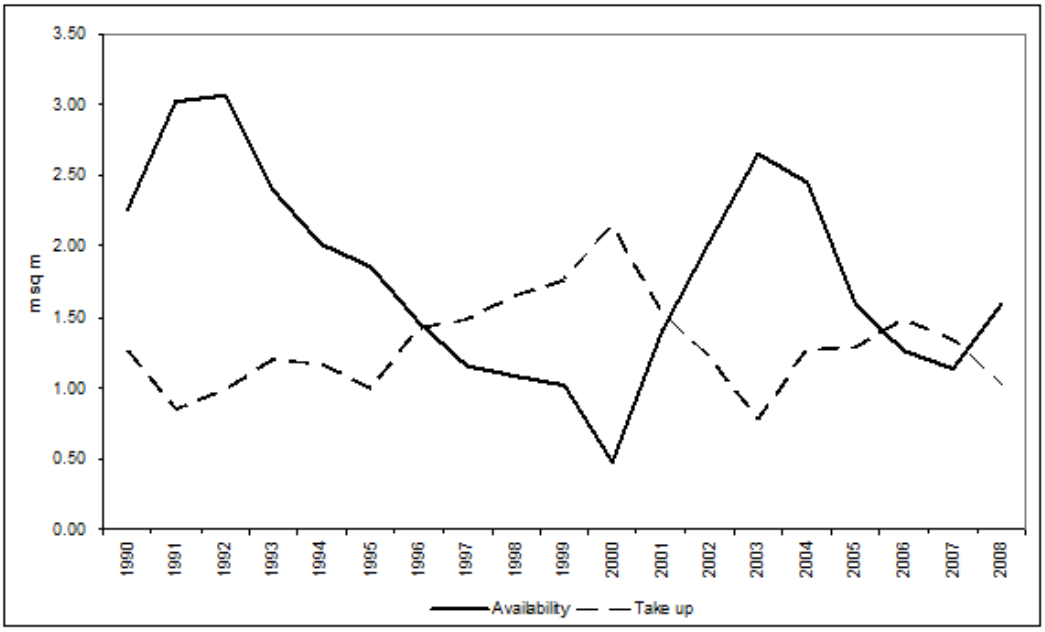
1.3 Central London market overview

1.3.1 During 2007 and 2008 there was a complete *volte face* in the Central London office market (Figure 1.5). The market had staged an impressive recovery between 2004 and 2006 after absorbing the effects of the bursting of the dotcom bubble between 2000 and 2003. From the beginning of 2004 office supply fell consistently and demand recovered to exceed the long-term average for Central London (1.32 million sq m) at 1.49 million sq m in 2006.

1.3.2 On the supply side, the turning point came in Q3 07, when it reached its nadir at just over one million sq m, an availability rate of 5%, down from a rate of 13.5% in 2003. By the end of 2008, office supply had increased by 55% to 1.6 million sq m, an availability rate of just below 8%, which is significant in relation to Benchmark 2 (see Section 2.3).

[4] National Statistics *Commercial and Industrial Floorspace Statistics, 2008*

Figure 1.5 Availability and take-up in Central London, 1990-2008[5]



Source: DTZ Research

1.3.3 In 2007 take-up remained just above the 20 year average at 1.35 million sq m. The second half of 2007, however, saw a rapid stepping down with take-up going from 431,000 sq m in Q2 07 to 260,000 sq m in Q4 07. In fact, take-up fell consistently each quarter to Q3 08 at 208,000 sq m, less than half the peak level (Figure 1.6). The effect was to reduce take-up in 2008 to just over one million sq m, a reduction on 2007 of 24%.

1.3.4 As indicated earlier, Q4 08 take-up, and indeed take-up data for the whole of 2008, was massively distorted by the pre-sale agreement to JP Morgan at Riverside South, Canary Wharf, for 176,500 sq m. This single transaction more than doubled quarterly take-up and increased annual take-up by 21%. Without that deal, Q4 take-up would have been 150,000 sq m, continuing the downward trend, and annual take-up would have been 836,000 sq m, a reduction of 38% on 2007.

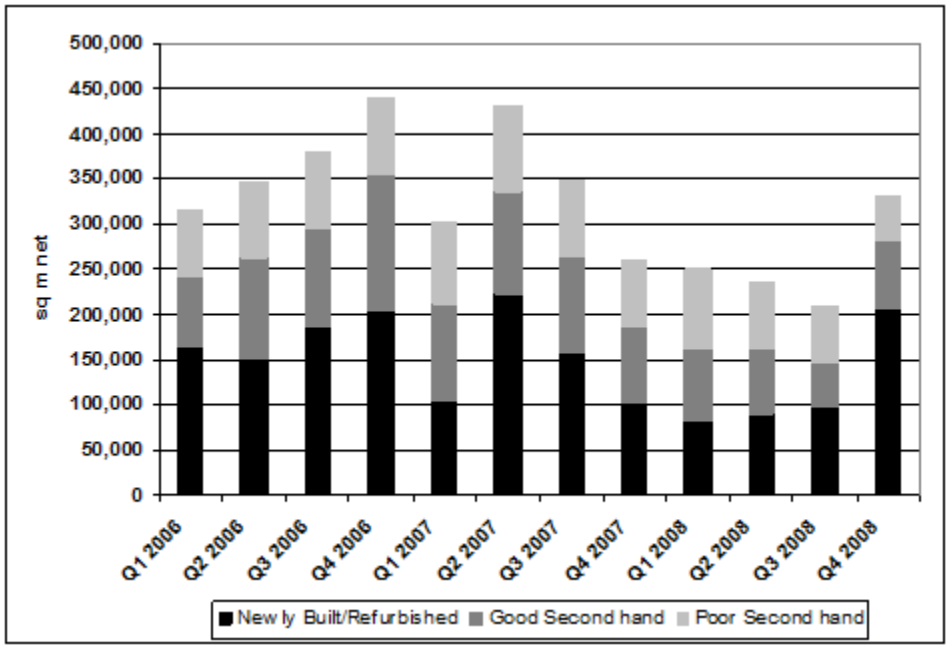
1.3.5 The changing supply and demand balance reversed rental growth, first in the City in the second half of 2007, and later in the West End from early in 2008. From peak to end-2008, according to DTZ Research, prime headline rents fell by 20% in the City and 10% in the West End.

1.3.6 Changing market sentiment and the drying up of sources of debt-funding for development made for two contrasting years in terms of development starts. During the current cycle, office starts in Central London peaked in 2007 at 690,000 sq m. In 2008, starts slumped to 365,000 sq m. At the end of 2008,

[5] Office take-up is based on the total amount of space leased, and does not take into account the release of existing space – it is not a measure of net demand, otherwise known as "net absorption".

however, the overall volume of construction remained relatively high at 1.14 million sq m, of which 27% was committed to occupiers through pre-letting or letting during construction by the end of 2008.

Figure 1.6 Central London office take-up by quarter 2006-2008



Source: DTZ Research

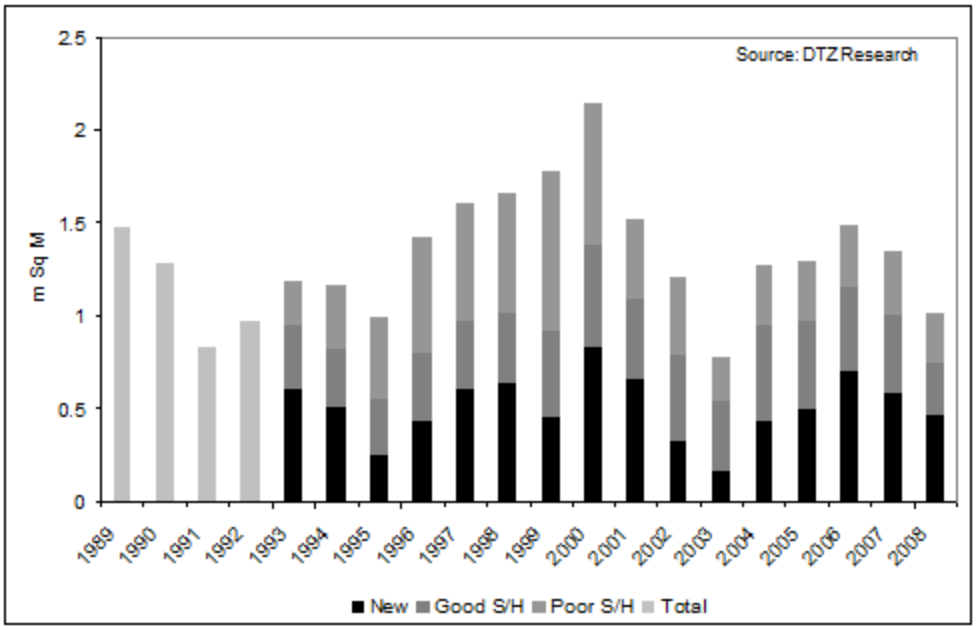
1.4 Office take-up and availability in Central London, 2008

1.4.1 Central London office take-up in 2008 was 1.01 million sq m, down 24% on 1.34 million sq m in 2007 and 32% lower than the most recent peak in 2006 (Figure 1.7). Most of the decline in 2007 was accounted for by a reduction in the letting of new and refurbished space. In 2008, however, there was a more generalised contraction, and all grades of space saw significantly lower levels of take-up.

1.4.2 Appendix A1.1 provides a list of all 17 office lettings in Central London of 5,000 sq m or more in 2008. As an indication of the contraction of take-up, it is worth noting that there were twice as many lettings (35) in this size bracket in 2006.

1.4.3 As at the end of 2008, the long-run twenty year average take-up for Central London stood at 1.32 million sq m. Looking at the slightly shorter span of 16 years for which take-up is available by grade, annual average take-up of new and refurbished space was 510,000 sq m; second-hand Grade A, 405,000 sq m, and second-hand Grade B, 450,000 sq m.

Figure 1.7 Central London office take-up, 1989-2008

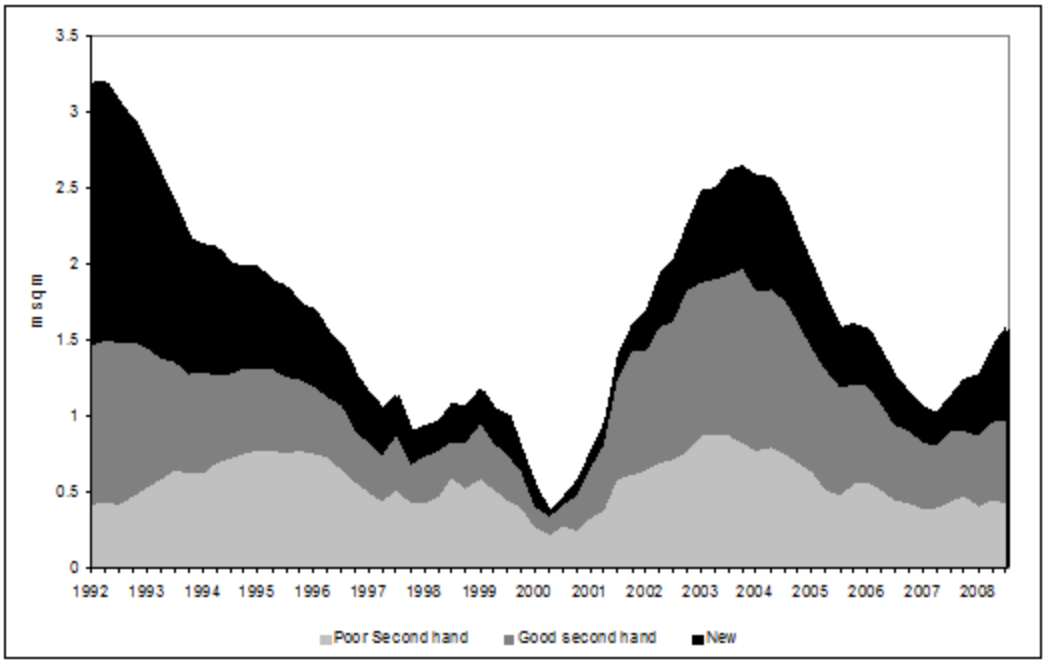


Source: DTZ Research

1.4.4 Although supply started rising again at the end of 2007, the overall change through the year was a reduction in availability of just under 10%, from 1.26 million sq m to 1.14 million sq m (Figure 1.8). During 2008, however, overall supply increased by 38% to 1.57 million sq m, an availability rate of 7.6%.

1.4.5 As Figure 1.8 clearly illustrates, the very steep growth in supply was overwhelmingly attributable to the increase in supply of new and refurbished space, as development schemes reached completion. New and refurbished supply increased by 160%, to just over 600,000 sq m in 2008. Second-hand Grade A space also expanded by 17%, to 545,000 sq m. In spite of, or perhaps because of emerging recessionary conditions prompting occupiers to lease more economical space, the supply of second-hand Grade B offices actually fell by 4% to 419,000 sq m.

Figure 1.8 Quarterly availability in Central London, by quality, 1992-2008



Source: DTZ Research

1.4.6 There are some significant variations by sub-market in the patterns of take-up and availability. Appendices A1.2 and A1.3 provide a detailed breakdown by post code, sub-market and quality of take-up and availability, respectively.

1.4.7 **The City** Driven by the completion of development stock, which increased the supply of new and refurbished space three-fold to over 400,000 sq m in 2008, overall City supply increased by 75% to just over 800,000 sq m. This accounts for 50% of all space available in Central London. Within the City, EC2 is a nexus of supply with 370,000 sq m available at the end of 2008, representing a remarkable 23% of all Central London supply. It is hardly surprising to find that rents are falling at a rate of 20% per annum and that typical incentives increased to over three years rent-free on the biggest deals.

1.4.8 Although LOPR 07 was relatively sanguine about the City's prospects in the light of market conditions and prospects early in 2007, we did note:

> *It is the one major sub-market, however, where there is concern regarding potential oversupply due to the level of speculative construction activity … especially in the context of demand emanating from the global capital markets.*[6]

1.4.9 City take-up meanwhile slumped 29% to 350,000 sq m, its lowest level since 2003. New and refurbished take-up was 39% lower at 125,000 sq m, but demand for second-hand Grade B stock was resilient with a 3% increase to

[6] Ramidus Consulting, with Roger Tym & Partners (2007) *London Office Policy Review 2007* GLA, London

110,000 sq m. Overall, the City has to digest a very significant amount of new, refurbished and Grade A stock before the market can return to equilibrium. Signals in 2009 that major occupiers such as Bank of Tokyo-Mitsubishi and Nomura have an appetite to take new space as a result of the corporate upheavals generated by the banking crisis provide some glimmers of hope.

1.4.10 **Canary Wharf** In terms of bald statistics, Canary Wharf and the wider Docklands market, appear relatively healthy. At the end of 2008 the availability rate for Docklands (E14) was two percentage points lower than the City, and supply had actually fallen through the year by 13%. Canary Wharf is a tightly managed estate with a sensible approach to the future development of the estate, predicated on tenant pre-commitments and a relatively low level of speculative development. However, 2008 showed that even the best covenants can go bust; but the owners of Canary Wharf finished the year with a low rate of exposure to supply from tenants.

1.4.11 On the take-up side, the data is enormously skewed by the pre-sale of Canary Wharf's Riverside South site to JP Morgan for its new European headquarters. JP Morgan's decision was a blow to the City, where the US bank is currently based and where it came very close to leasing 100,000 sq m at St Alphage House, 2 Fore Street, EC2, close to The Barbican. At Riverside South, JP Morgan has acquired the land and appointed Canary Wharf as development managers to deliver a new HQ of up to 176,500 sq m – making it the largest office complex for a single occupier in London. In practical terms, the arrangement allows some flexibility in terms of the amount of occupancy and phasing (indeed, JP Morgan can withdraw from the arrangement, albeit for a hefty financial penalty).[7]

1.4.12 **The West End** Structurally, the West End has a greater diversity of economic sectors than the City which ought to prove more robust in periods of downturn. In 2008 supply increased by 29%, less than half the rate in the City. It is notable, however, that like the City there was a significant proportionate increase in the supply of new and refurbished space, which rose 188% to 97,000 sq m. The supply of second-hand Grade A space was unchanged in 2008, while second-hand Grade B space was up 13%.

1.4.13 Discouragingly for the West End, however, the reduction in take-up, at 51%, was higher than that in the City and double the average rate of reduction for Central London as a whole. Overall take-up fell to 176,000 sq m and the reduction in take-up of new and refurbished space was more marked at 59% to just 56,000 sq m.

1.4.14 **Midtown** The Midtown market has matured and diversified over the past 15 years, attracting new occupiers from both the City and the West End. Its recent performance, in terms of take-up and availability, places it between the City and West End, just as it is geographically. Office supply increased by 40% in 2008, although the rate of increase was a more modest 18% in WC2,

[7] Canary Wharf Group plc (2008) *Report and Financial Statements*

which remained one of Central London's post codes with a very low availability rate of 3.4%.

1.4.15 **The South Bank** The South Bank continued to confound expectations in 2008. Although take-up in this two million sq m slice of the Central London market was down 73% at 49,000 sq m, this was hardly surprising given the "big ticket" lettings to companies decamping from "north of the river" which had inflated take-up in 2006 and 2007. What is surprising is that in a major fringe market in the middle of a downturn, the availability rate was only 3.1% at end-2008, and that supply actually fell 30% during the year to 57,000 sq m.

1.4.16 The answer to the low supply question is two-fold. First, very large parts of second-hand Grade B stock have been demolished and replaced with a combination of private and affordable housing. This would have been the supply to have been dumped by struggling occupiers in a previous cycle. Second, the South Bank has developed a burgeoning small firms sector, which at the end of 2008 appeared to be surviving well in economical space in locations such as Bermondsey.

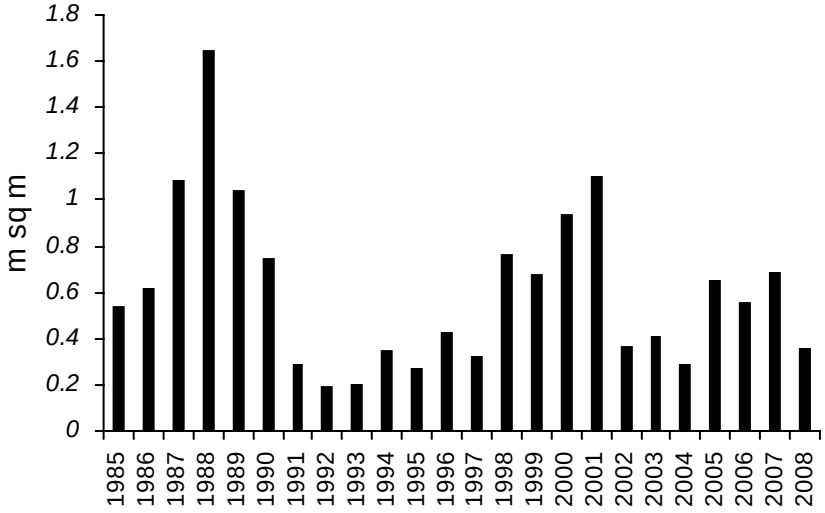
1.4.17 Having examined a summary of market data for the occupational market, we now turn our attention to planning and construction. With a low demand environment, developers are necessarily cautious, but some are making counter-cyclical moves to time their delivery into what it is hoped will be a recovering market.

1.5 Office starts in Central London, 2008

1.5.1 Although the credit crunch emerged as a global phenomenon in August 2007, the implications for the economy and the property market took time to emerge. Office development projects that had been committed to by developers and funders prior to 2007, in the main, proceeded to the construction phase in 2007. With 690,000 sq m commencing, 2007 therefore represented the peak of this cycle (Figure 1.9).

1.5.2 This is a much lower level of annual starts than either of the previous peaks in 1988 (which was largely speculatively driven) and 2001 (more strongly influenced by pre-committed development). The overall impression is of the development industry acting more cautiously over time, especially in the context of an enlarged stock. Taken together, 1.9 million sq m commenced 2005-2007, compared to 3.5 million sq m in 1998-2001.

Figure 1.9 Office starts in Central London, 1985-2008



Source: Egi London Office Database, London Property Research

1.5.3 Of necessity, the development industry responded rapidly to the unfolding economic situation as it impacted on both market sentiment and the ability and willingness of banks and other funding institutions to lend to the sector. The result, in Central London, was to cut office development starts by almost 50% from 690,000 sq m to 365,000 sq m in 2008. Figure 1.10 provides summary data of 2008 starts disaggregated by borough and letting status at development start.

Figure 1.10 Office starts in Central London, 2008 (>500 sq m)

Borough	Letting status at construction start (sq m)		
	Speculative	Pre-let	Total
Camden	13,578	7,897	21,475
City	93,785	37,748	131,533
Hackney	14,835	0	14,835
Hammersmith	0	0	0
Islington	23,726	12,960	36,686
Kensington	0	3,159	3,159
Lambeth	9,818	0	9,818
Southwark	8,929	0	8,929
Tower Hamlets	11,361	0	11,361
Wandsworth	0	0	0
Westminster	94,614	32,169	126,783
Central London	**270,646**	**93,933**	**364,579**

Source: EGi London Office Database

1.5.4 Twenty-five per cent, or 94,000 sq m, of 2008 starts were accounted for by a handful of pre-let developments. The main pre-committed schemes which commenced in 2008 were as follows.

- Man Group, hedge fund, pre-leased 37,748 sq m at Riverbank House, 2 Swan Lane, EC4, in 2006, with 9,290 sq m placed on the market for sub-letting, completion 2010.
- National Audit Office, government body, undertook the refurbishment of 14,922 sq m at its offices at 157-197 Buckingham Palace Road, SW1.
- Marks & Spencer, retailer, pre-leased 14,808 sq m at the 24,356 sq m Carmine Building, Merchant Square, Paddington, W2, as overflow from its HQ 1-2 Waterside, Paddington Basin.
- Cancer Research UK, medical research charity, pre-leased 12,960 sq m, with options on further space at the 22,972 sq m reconstruction and extension of Angel Building, 411 St John Street, EC1.
- Arup, construction consultant, had previously committed to occupy new offices in a three phase development in Fitzrovia, with 7,897 sq m commencing in 2008 at 2-8 Fitzroy Street, W1.

1.5.5 During office development slumps it is normal for construction activity to be mainly concentrated in core locations. Thus, 71% of construction starts were located in the City of London and Westminster. There were no starts over 500 sq m in Hammersmith and Wandsworth, and starts were below 10,000 sq m in Kensington, Lambeth and Southwark. Even in important office market boroughs such as Camden, Hackney, Islington and Tower Hamlets, office starts were very modest.

1.5.6 In the City, aside from Riverbank House, the most significant start was on 40,874 sq m at the Heron Tower, 106-126 Bishopsgate, EC2. This accounted for 30% of City starts. The 46-storey tower will not be completed, however, until 2011, at a time when office demand in the City could be improving and some of the excess new supply currently on the market absorbed. Of 11 other starts, seven were for refurbishments often with minor extensions rather than brand new buildings.

1.5.7 In fringe locations around the City, two major mixed use schemes with substantial office components which had started in 2008, appear to have *ceased* construction. In Hackney, on the site of Eagle House, City Road, EC1, a residential-led scheme with 276 apartments and modest office component of 2,789 sq m, stopped early in 2009. In Tower Hamlets a more balanced mixed-use scheme of 217 apartments and 6,744 sq m offices at 112-120 Whitechapel High Street, E1, fell foul of the Icelandic banking crisis and work there ceased in November 2008.

1.5.8 In some boroughs office starts are largely a reflection of residential starts on former employment land, where local plan policies dictate that B1 space must be provided. This is particularly prevalent in Hackney, Lambeth, Southwark and Tower Hamlets, leading to the provision of economical office space, usually on the ground and first floors of housing blocks, and more rarely as stand-alone blocks alongside housing or student residential. Some of these locations are marginal in the context of the Central London office market.

1.5.9 In Tower Hamlets there were no starts during 2008 at Canary Wharf, albeit preparatory works were undertaken at 25 Churchill Place (which had been on News International's relocation short-list) and at Riverside South for JP Morgan. Aside from the Whitechapel High Street scheme mentioned above, the only other start was on a stand-alone office building of 4,617 sq m at Rodwell House, 100 Middlesex Street, E1. A remarkable 33 storey student city with 1,204 rooms is being constructed here, in place of 1960s offices, with a brand new self-contained office building alongside (let in September 2009 to an educational user).

1.5.10 In Westminster there were 18 starts in 2008, the largest of which were two buildings in the Paddington Special Policy Area. As mentioned above, one was pre-let driven at the Merchant Square development, while at Paddington Central, construction commenced on 23,000 sq m of speculative space in the latest phase of this office campus. In the more prime areas, notable new starts included the redevelopment of the southern end of Regent Street in the Quadrant scheme, and 1 Kingsway, WC2, a new building behind a retained façade, where completion is being timed for 2011.

1.5.11 As we indicate in Section 1.8, the level of office starts continued to be low in the first half of 2009. If we take account the concentration of construction activity in a small number of large schemes, the low level of activity is even more apparent. What is more important is that construction starts are likely to stay low for the foreseeable future due to the inability of developers to raise debt funding.

1.5.12 With over 600,000 sq m new and refurbished space completed and available and 800,000 sq m of speculative construction at the end of 2008, it will take some time for demand and supply to move significantly closer together, especially at the prevailing levels of take-up of new and refurbished space. Over 50% of this speculative space is located in a single sub-market, the City. Across Central London the market is already factoring in "selective shortages" which could emerge initially in niche markets and then more widely if the inability to raise development finance is protracted.

1.5.13 Appendix A1.4 contains a breakdown office development starts, over 500 sq m, in Central London during 2008.

1.6 Offices under construction in Central London, end-2008

1.6.1 Although starts were reduced in 2008, the overall level of construction activity in Central London was still relatively high at the end of 2008. This was due to the commencement of 690,000 sq m in 2007, much of it in major developments where construction timetables are typically in the order of 20 to 24 months. Total office construction in Central London was just over 1.1 million sq m (Figure 1.11), unchanged on the figure reported in LOPR 07 for the end of 2006.

1.6.2 At the end of 2006, the proportion of pre-committed space under construction was 33%, but by the end of 2008 the proportion had fallen slightly to 28%

(314,000 sq m). The vast majority of this space represented major pre-lets, including the following.

- Arup and Gardiner & Theobald in Camden.
- Man Group, Her Majesty's Court Services, Kirkpatrick & Lockhart Preston Gates Ellis LLP in the City.
- London Borough of Hackney owner-occupied development in E8.
- Cancer Research UK in Islington.
- Monsoon and MWB in Kensington.
- PricewaterhouseCoopers in Southwark.
- KPMG and Fimalac/Fitch in Tower Hamlets.
- BBC, NAO and M&S in Westminster.

1.6.3 There was little evidence of letting activity during construction, the rationale for such activity being less compelling in a falling market.

1.6.4 As a result the amount of speculative space under construction at the end of 2008 was just under 800,000 sq m, set to be added to the 600,000 sq m of new and refurbished space already on the market.

Figure 1.11
Offices under construction in Central London, end-2008 (>500 sq m)

Borough	Letting status at end-2008 (sq m)		
	Available	Let	Total
Camden	92,758	16,148	108,906
City	324,484	80,890	405,374
Hackney	21,496	15,850	37,346
Hammersmith	2,846	0	2,846
Islington	83,033	13,460	96,493
Kensington	11,700	14,159	25,859
Lambeth	9,182	5,272	14,454
Southwark	10,283	41,806	52,089
Tower Hamlets	67,073	49,229	116,302
Wandsworth	9,445	0	9,445
Westminster	164,019	77,083	241,102
Central London	**796,319**	**313,897**	**1,110,216**

Source: EGi London Offices

1.6.5 As Figure 1.11 clearly shows, the **City of London** continues to be the dominant location for office development, accounting for 36% of overall construction and 41% of speculative construction. Major speculative schemes under construction at the end of 2008 included the following.

- Watermark Place, 90 Upper Thames Street, EC4 (44,320 sq m, and let to Nomura in August 2009).
- Heron Tower, 106-126 Bishopsgate, EC2 (40,874 sq m).

- St Botolph House, 138-139 Houndsditch, EC3, (48,486 sq m, with 40,636 sq m available).
- The Wallbrook, 23-29 Wallbrook, EC2 (35,368 sq m).
- Drapers Gardens, 12 Throgmorton, EC2 (25,211 sq m).
- 20 Gracechurch Street, EC3, (23,425 sq m, with 20,935 sq m available).
- One New Change, EC4, (31,622 sq m, with 19,000 sq m available).
- Nexus Place, 22-25 Farringdon Street, EC4, (14,131 sq m).

1.6.6 In each case the new development represents a very significant gain to stock compared to the previous office space on the site.

1.6.7 In **Islington**, the data was dominated by a single development, a new 20 storey tower, Ropemaker, 25 Ropemaker Street, EC2. Sometime mistakenly thought to be within the City of London, this is just across the border and is part of a cluster of towers around City Point and the Barbican. Completed since the end of 2008, at 52,185 sq m it is the largest office building in Islington. In Q2 09 the building secured its first tenant with a letting of 16,779 sq m to Bank of Tokyo-Mitsubishi.

1.6.8 Unlike neighbouring **Hackney**, there are very much fewer examples in Islington of offices being constructed in “non-office” locations as a bi-product of residential development. Other schemes under construction at the end of 2008 included the reconstruction of the former BT offices the Angel Centre into the Angel Building on the back of a partial pre-let to Cancer Research UK. Just down the road is the reconstruction to 210 Pentonville Road, now near completion with a spectacular roof extension and symbolic of the revival of King’s Cross. Once a notorious red light area which was a “no-go” area for most occupiers and developers, King’s Cross is now an acceptable location for corporate occupiers.

1.6.9 In **Camden** there were several very significant speculative schemes under construction, the largest being the 37,718 sq m Central St Giles scheme. Located within the London Plan’s Tottenham Court Road Opportunity Area, this scheme will make an important contribution to reviving a location previously blighted by a low quality public realm – not least due to Renzo Piano’s arresting multi-coloured cladding system! At Euston the rejuvenation of Regent’s Place continued with a further very large speculative scheme of 34,700 sq m at the western end of the site on Osnaburgh Street. In Camden’s Midtown office sub-market, 1 Southampton Row, WC1, was being redeveloped behind a retained façade to provide 9,000 sq m of offices. The first office and retail lettings were announced here in the first half of 2009.

1.6.10 In contrast, speculative development in **Southwark** fell to a low level at the end of 2008, with just a little over 10,000 sq m under construction. Overall construction was boosted to over 50,000 sq m only by the construction of 7 More London, which is pre-let to PricewaterhouseCoopers. The next largest scheme was a speculative mixed new and refurbished development of just 3,534 sq m at 46-58 Bermondsey Street, SE1. Most of the other space under construction in Southwark forms part of mixed-use, residential-led schemes.

1.6.11 Apart from at Canary Wharf, most office development in **Tower Hamlets** was ancillary to development led by other uses, pepper-potting modest B1 space across the borough. In the eastern City Fringe three schemes were underway: the aforementioned Nido student residence (see Section 1.5); the Aldgate East Station site where construction stopped, and the reconstruction of part of the well-known Moorish market building in Fashion Street.

1.6.12 At Canary Wharf, the estate continues to pursue a cautious construction strategy favouring pre-committed development over speculative. At the end of 2008, three major buildings were under construction: 15 Canada Square of 37,161 sq m pre-let to KPMG; 20 North Colonnade of 30,392 sq m pre-sold to Fimalac but where 19,000 sq m is available from the owner-occupier and 5 Churchill Place of 27,871 which was pre-let to Bear Sterns, but which is now available for letting from JP Morgan following its purchase of Bear after the bank's failure.

1.6.13 After the City of London, the **City of Westminster** was the borough with the largest amount of offices under construction (240,000 sq m), of which just over 160,000 sq m were speculative. Speculative schemes were located in most of Westminster's principal sub-markets including the following.

- Victoria: The Peak, 15 Wilton Road, SW1, 7,249 sq m.
- Mayfair: 46-50 Maddox Street, W1, 4,645 sq m.
- North Oxford Street: Charlotte Building, Gresse Street, W1, 4,391 sq m.
- Soho: Marshal Street, W1, 2,805 sq m.
- Covent Garden: 60-62 St Martin's Lane, WC2, 2,902 sq m.
- Aldwych: 1 Aldwych, WC2, 12,431 sq m.

As mentioned in Section 1.5, office construction continued at Paddington, at present the key "overflow" location for larger West End occupiers.

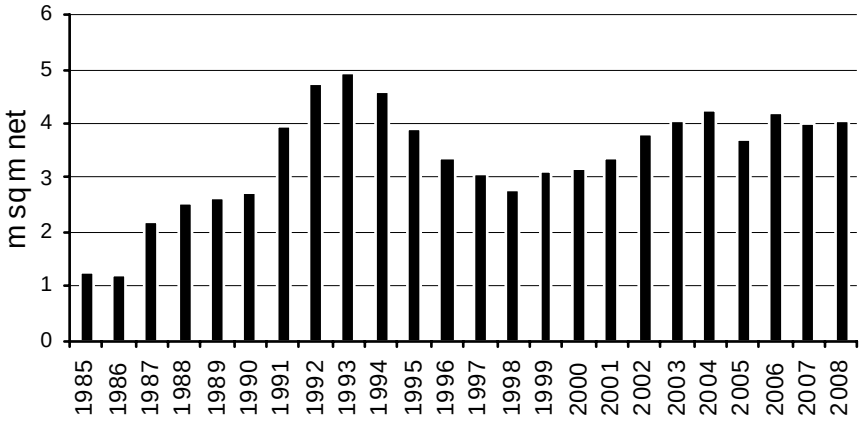
1.6.14 Overall, the pattern of construction activity at the end of 2008 in the 11 Central London boroughs continued to follow established patterns. Most "stand-alone" office construction took place with the CAZ (including Opportunity Areas now incorporated in the CAZ fringe) and Canary Wharf. Only within the City did a speculative boom fall foul of the collapse in take-up. In Docklands and the Central London fringes there is a low level of exposure to speculative new space. Where speculative development has taken place outside the core markets, such as Paddington, there seems to be a strong chance of achieving lettings due to the unique nature of the product in the West End.

1.6.15 Outside these locations the majority of office development was a bi-product of planning policies in certain boroughs to maintain the amount of employment floorspace on individual sites. These commercial elements have far lower values than the principal use (various forms of housing and hotels). Often occupying the ground floor of mixed-use blocks, protracted letting can sometimes detract from the overall development.

1.7 Permissions and applications in Central London, end-2008

1.7.1 Over the three years 2006-2008, the planning pipeline of outstanding planning permissions in Central London has remained relatively stable at or around four million square metres. At the end of 2008 there were 4.06 million sq m of unimplemented planning permissions, compared with 4.2 million sq m recorded in LOPR 07 for the end of 2006 (Figure 1.12). London's developers and local planning authorities have continued to top up the development pipeline, as permissions flow on to either implementation or expiry. Some expire through being superseded by other, non-office, proposals.

Figure 1.12 Planning permissions in Central London, 1985-2008



Source: Egi London Offices, London Property Research

1.7.2 The potential rate of attrition of the planning pipeline by expiry of consents was accelerated by the Government's decision in 2005 to shorten the lifetime of permissions from five years to three years. The upshot – potentially more work for developers and their advisers and a heavier workload for already pressed planning departments. In the context of London office development, the need for developers to submit renewals more frequently makes them susceptible to new planning policies, especially on planning gain, which can have a detrimental effect on viability.

1.7.3 In June 2009, however, the government announced that, due to the recession, local planning authorities would be given temporary powers to extend outstanding consents by a further three years, so outstanding consents at the end of 2008 have a potentially longer life than the previous standard of five years.

1.7.4 While the amount of permitted development in Central London has been maintained, there has been a significant reduction in the volume of space at application stage (Figure 1.13). At just over 500,000 sq m at the end of 2008, this is 40% lower than the level of undetermined applications at the end of 2006. This is not a cause for undue concern at this stage in the development cycle, as there is a general tendency for a slowdown in applications as the market turns down. With starts reduced to 365,000 sq m in 2008, a lower volume of new applications is required in any case to maintain the level of

permissions. During a recession developers are likely to consider carefully whether to incur the heavy cost, including consultants' fees, of making full applications for major developments.

1.7.5 Taking permissions and applications together, the overall size of the Central London office pipeline at the end of 2008 was 4.57 million sq m. This is 10% lower than the comparable figure at the end of 2006.

Figure 1.13 Office development pipeline in Central London, end-2008

Borough	Development status (sq m)		
	Permissions	Applications	Total
Camden	478,244	11,402	489,646
City	1,141,896	130,642	1,272,538
Hackney	50,310	85,753	136,063
Hammersmith	115,439	0	115,439
Islington	128,911	6,257	135,168
Kensington	12,785	14,722	27,507
Lambeth	75,487	80,147	155,634
Southwark	219,473	4,031	223,504
Tower Hamlets	1,486,210	26,682	1,512,892
Wandsworth	42,530	0	42,530
Westminster	305,566	152,158	457,724
Central London	**4,056,851**	**511,794**	**4,568,645**

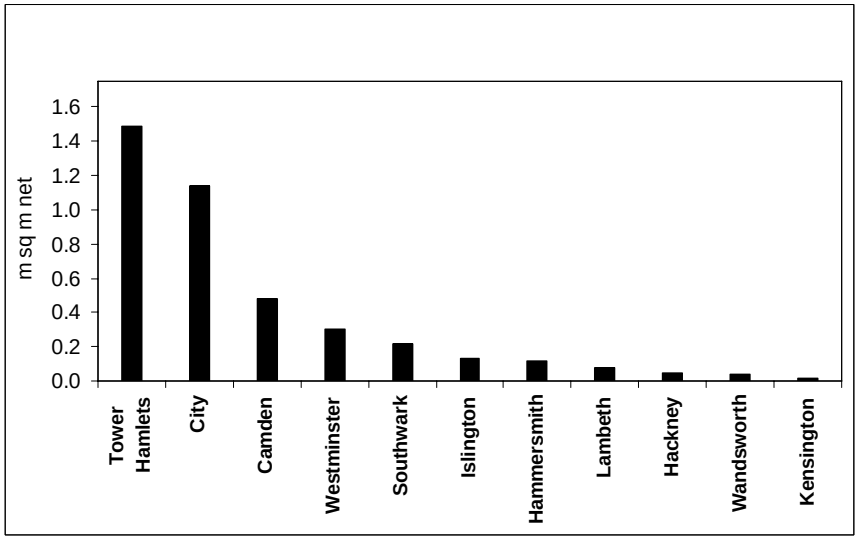
Source: EGi London Offices Database

1.7.6 While Figure 1.13 provides a breakdown by of schemes over 500 sq m, details of the largest schemes, with 5,000 sq m or more of proposed office space can be found in Appendix A1.5.

1.7.7 Tower Hamlets and the City continue to dominate the office development pipeline (65% of all permissions and 61% of the overall pipeline of permissions and applications). There was, however, a relatively low level of applications in Tower Hamlets at the end of 2008. Figure 1.14 highlights the uneven distribution of permissions across Central London.

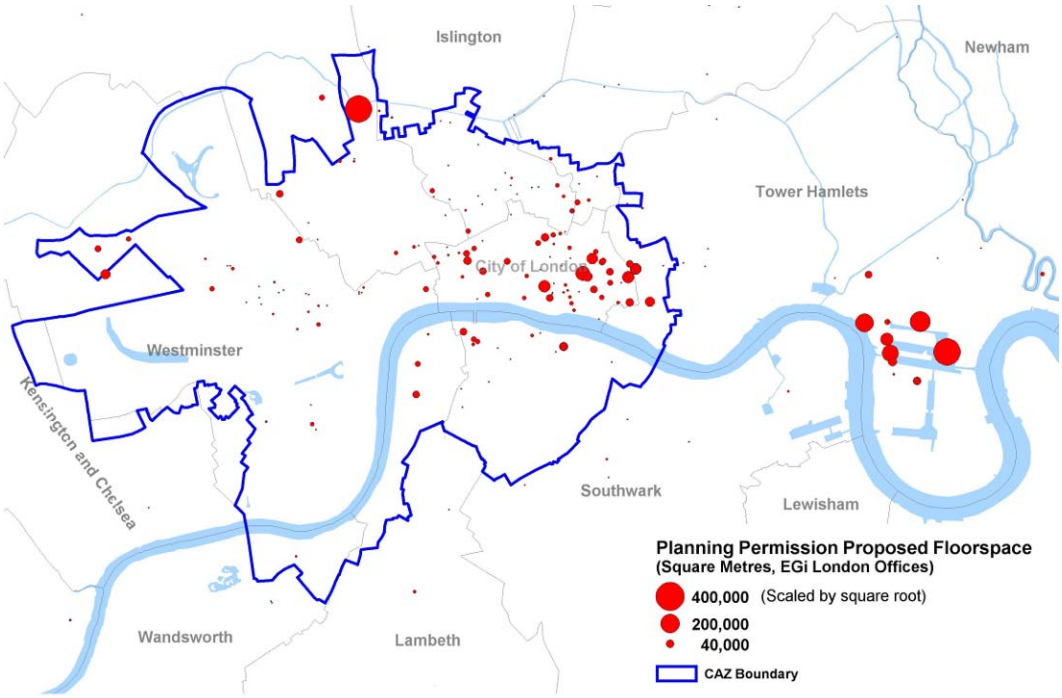
1.7.8 Figure 1.15 maps the distribution and relative size of individual permissions across CAZ and the Isle of Dogs at the end of 2008. The geography of outstanding permissions is striking. To the east is a handful of very large consents, effectively additions to the Canary Wharf "mega scheme", creating a concentration of future capacity in this location – we return to this issue below. To the north is another mega-scheme with consent at King's Cross, which accounted for 9% of all consented space. Within CAZ the main concentration of permissions, including large permissions, is in the City and its immediate fringes. The West End, on the other hand, has a lower density of consents, which tend to be in smaller lot sizes. There are larger consents, however, at Paddington. Outside CAZ there are isolated office permissions, most of which are part of residential-led mixed-use developments.

Figure 1.14 Office permissions in Central London by borough, end 2008



Source: EGi London Offices Database

Figure 1.15 Distribution and relative size of individual permissions across CAZ and the Isle of Dogs, end-2008.



1.7.9 In **Tower Hamlets** the amount of permitted development at the end of 2008 was 1.49 million sq m, an increase of 12% on the end of 2006. The overall

pipeline, including applications, was largely unchanged, however, at just over 1.5 million sq m.

1.7.10 The most significant change in 2008 was a formal resolution to approve the Wood Wharf scheme immediately east of Canary Wharf – in effect forming an office-led, mixed use eastern extension, not least as the owner of Canary Wharf is one of three partners in the Wood Wharf development consortium. Included in the proposals are six new office buildings at the western end of the site, totalling around 370,000 sq m. In May 2009, detailed applications were submitted for the first two planned office towers of 194 and 134 metres with a combined floorspace of 233,000 sq m.

1.7.11 Other un-built elements of the Canary Wharf estate and its immediate environs are as follows:

- North Quay, 222,000 sq m;
- Riverside South, 176,500 sq m (pre-sold to JP Morgan);
- Heron Quays West, 155,000 sq m, and
- 25 Churchill Place, 45,000 sq m.

1.7.12 Taken together, therefore, the potential expansion of Canary Wharf/Wood Wharf encompassed a further 968,000 sq m of offices where there was either planning permission or approval in principle at the end of 2008. This accounts for 66% of permitted office development with Tower Hamlets and a staggering 24% of all permitted office development in Central London. If built out, it would create a “collar” of high-rise office development right across the neck of the Isle of Dogs. Office development proposals in the rest of the Isle of Dogs, meanwhile, have diminished in favour of residential-led permissions.

1.7.13 Tower Hamlets also has an important role as a fringe expansion location for the City office market at times of high demand. Here, the main outstanding development sites are at Aldgate Place/Aldgate Union where there is 144,000 sq m permitted along with 33,000 sq m across the road at United Standard House. There are also a dozen or so permitted schemes with more modest amounts of office floorspace attached to residential developments, in obscure locations.

1.7.14 In the **City of London**, there was 1.1 million sq m of permitted development at the end of 2008, an increase of 6% on the end of 2006. If we include applications, however, the overall pipeline was reduced from 1.44 million sq m to 1.27 million sq m. Unlike in Tower Hamlets, the permitted development schemes in the City are all situated in locations where development could be expected to be viable in a “normal market”. There were 58 consents in excess of 500 sq m of offices at the end of 2008.

1.7.15 The biggest outstanding permission at the end of 2008 was The Pinnacle, Bishopsgate, EC2, with 17,000 sq m in a 62 storey tower. Site clearance actually started in 2007 and the site was largely cleared by the end of 2008.

In the first half of 2009 preliminary piling commenced. Other major outstanding consents in the City at the end of 2008 included the following.

- Trinity 1,2,3, Minories, EC3 (91,000 sq m).
- Bucklesbury House, Bucklesbury, EC4 (82,000 sq m).
- 100 Bishopsgate, EC2 (76,000 sq m).
- 20 Fenchurch Street, EC3 (58,000 sq m).
- The Leadenhall Building, 122 Leadenhall Street, EC3 (55,000 sq m).
- Fleet Building, 70 Farringdon Street, EC4 (45,000 sq m).
- 21 Moorfields, EC2 (44,000 sq m).
- SG House, 41 Tower Hill, EC3 (43,000 sq m).

1.7.16 Given the willingness of planners to permit significant increases to office space on individual sites, development capacity in the City has proven to be somewhat elastic. Even during the recent construction boom, however, there remained pressure on individual sites for change of use from offices to hotels, with five major hotel applications outstanding at the end of 2008, representing a total potential loss of 57,000 sq m offices and a gain of 1,235 hotel rooms.

1.7.17 In **Camden** there was 478,000 sq m in outstanding permissions at the end of 2008, but 364,000 sq m (76%) of the total was accounted for by the King's Cross development. Construction of individual office buildings is yet to start in the King's Cross scheme, with development extremely unlikely to start in the absence of pre-lets. Other important Camden consents include 38,000 sq m in the north east corner of Regent's Place; 13,600 sq m in the reconstruction of Africa House, 64-78 Kingsway, WC2; 9,300 sq m at Chichester House, 278-282 High Holborn, WC1 (where the site has been cleared) and the redevelopment of the former Elizabeth Garret Anderson Hospital at Euston into a new 8,400 sq m HQ for Unison (where construction started in the first half of 2009).

1.7.18 At the end of 2006 there was 360,000 sq m of offices with consent in **Westminster** and an overall pipeline including applications of 476,000 sq m. At the end of 2008, the amount of permitted office floorspace had fallen to 306,000 sq m, a reduction of 15%, with the overall pipeline down to 458,000 sq m, a marginal reduction of 4%. The largest outstanding application at the end of 2008, VTi2 (Victoria Transport Interchange) of 66,000 sq m, has since received permission in February 2009. In LOPR 07, it was also noted that combined permissions and applications had fallen from 540,000 sq m during 2006. This short-term reduction probably reflects exceptional starts in 2006 and 2007.

1.7.19 It is interesting to note, however, that in the first of the LOPR series, published in December 1995 to a survey date of October 1995, Westminster had an overall pipeline of 1.1 million sq m, more than double the figure at the end of 2008.

1.7.20 The 306,000 sq m of permissions in Westminster at the end of 2008 were in 34 schemes, the largest of which were located in Paddington. These

included the Span 4 development at the station (56,000 sq m), 55-65 North Wharf Road, W2, (30,000 sq m) and two remaining office buildings at Merchant Square (18,000 sq m and 15,400 sq m). Taken together with the 4-5 Kingdom Street, the last two office phases of Paddington Central where a further 31,600 sq m is proposed, Paddington has development permitted or approved in principle capable of adding 1.5 million sq m of new, large floorplate offices to the Westminster stock.

1.7.21 Very large office developments are relatively rare in the established market areas of the borough, albeit Victoria has development capacity for larger buildings as mentioned above. Other major permitted developments include Noho Square, Mortimer Street, W1, (26,900 sq m) on the site of the former Middlesex Hospital; 190 Strand, WC2, (23,000 sq m), although this is now thought to be going down the residential route, and Park House, Park Street, W1, (17,800 sq m), where a start on site is expected during 2009 or 2010.

1.7.22 Otherwise, office schemes in Westminster are typically in the order of 1,000 to 9,000 sq m, which is influenced by a range of factors including the size profile of office requirements, plot size, listed buildings, conservation areas and the implementation of policies such as mixed-use, which require increases in office and other commercial floorspace to be matched by increased residential space.

1.7.23 In **Southwark**, the office development pipeline was dominated by a clutch of schemes along the South Bank including the following.

- Redevelopment of The Shard, 32 London Bridge Street, SE1 (54,000 sq m), which has commenced construction in 2009.
- New London Bridge House, 25 London Bridge Street, SE1 (41,000 sq m), the “baby shard” which forms part of the London Bridge Quarter.
- King’s Reach Tower, Stamford Street, SE1 (38,000 sq m).
- 20 Blackfriars Road, SE1 (20,600 sq m).
- 240 Blackfriars Road, SE1 (16,200 sq m).
- Lumina, 135 Park Street, SE1 (86,000 sq m).
- Wedge House, 30-40 Blackfriars Road, SE1 (77,000 sq m).

Otherwise the pipeline is relatively thin as far as self-contained office buildings are concerned, with offices more commonly found as minor elements in larger residential-led or hotel-led developments.

1.7.24 In **Lambeth** the development pipeline has been swelled by the revised proposals for the redevelopment of Elizabeth House in front of Waterloo station. The planning application, dubbed The Three Sisters, which includes 74,000 sq m of offices and 274 apartments in three towers of 22, 28 and 33 storeys, was called in by the Secretary of State and subject to a planning inquiry in May 2009. In the past the site has had consent for a major office scheme of over 90,000 sq m in a mid-rise form. Other major proposals include extant permissions at 199 Westminster Bridge Road, SE1 (36,000 sq m) and the Shell Centre podium site on Chicheley Street (22,400 sq m).

1.7.25 The most significant elements of the **Hackney** office development pipeline relate to major sites on the borough's southern boundary, immediately north of Broadgate. The volume of permissions was reduced to just 50,000 sq m in Hackney at the end of 2008, but the overall pipeline was bolstered by a further 86,000 sq m at planning application stage. Planning applications awaiting determination at the end of 2008 included 70,000 sq m in the major Bishop's Place scheme (formerly Northgate), which also incorporates 181 hotel rooms and 289 flats.

1.7.26 In **Islington** the overall pipeline increased marginally between 2006 and 2008 to 135,000 sq m. The largest consented developments are in the northern City fringe, close to the City border, including Caxton House, 2 Farringdon Road, EC1, (18,600 sq m), Royal London House, Finsbury Square, EC2, (15,400 sq m) and 70-100 City Road, EC1 (10,700 sq m). There is a reasonable depth to the pipeline in locations such as Clerkenwell in stand-alone office scheme, and some evidence of B1 use being included in mixed-use schemes in other locations in the borough.

1.7.27 In **Wandsworth** (42,000 sq m) and **Kensington** (27,500 sq m) the office development pipeline is very modest. In Wandsworth offices have been dependent on residential schemes, but self-contained office proposals have been rare. In Kensington the pipeline is patchy, the office market lacking focus. There does seem to be greater potential in **Hammersmith**, at the eastern end of the Western Corridor, where there was 115,000 sq m in outstanding permissions at the end of 2008. These included Hammersmith Grove, W6, (39,000 sq m) within Hammersmith's town centre and further phases of the partially built Waterfront office park, Chancellor's Road, W6, (37,600 sq m), fronting the Thames.

1.7.28 This tour of 11 Central London boroughs indicates that at the strategic level the planning pipeline for offices is being maintained. Low starts in 2008 are anticipated to continue through 2009 and into 2010 and this will bolster the amount of office space with planning permission not yet implemented. Although the overall quantum of space in the development pipeline remains high, we would argue that it is over-concentrated by location in the City and Tower Hamlets and by type of development in very large schemes.

1.7.29 Although market and construction activity in the residential property market has also been suppressed by the recession, we expect to see pressures emerging for change of use from offices and/or office development sites to alternative uses. The private housing market in Central London showed signs of revival in Q2 09. These pressures will be strongest where office rents and values are relatively low, in Central London's fringes, and where residential values are at their highest in very prime central locations.

1.8 Central London mid-year update, June 2009

1.8.1 Because this year's LOPR is being undertaken later than is normal we have included here a mid-year update on latest trends. This extends the analysis

presented so far beyond the end-2008 survey date, and up to June 2009 (Figure 1.16). This is particularly useful in the light of the speed of events in the economy and in the property market.

Figure 1.16 Market indicators in Central London, H1 09

Market data summary, first half 2009		
Market Indicator	**Q4 2008**	**Q2 2009**
Take-up	1 million sq m (2008)	0.25 million sq m (H1 09)
Availability	1,573,000 sq m	2,053,000 sq m
New/refurb Availability	610,000 sq m	966,000 sq m
Second-hand Grade A Availability	545,000 sq m	604,000 sq m
Second-hand Grade B Availability	419,000 sq m	483,000 sq m
Availability rate	7.6%	9.7%
Construction starts	365,000 sq m (2008)	160,000 sq m (H1 09)

Source: DTZ Research and EGi London Offices

1.8.2 The key points from data relating to the first half of 2009 are as follows.

- Take-up collapsed in the first half of 2009 to just 250,000 sq m, an annualised rate of 500,000 sq m. If take-up continues at this rate, it will be a third *annus horribilis* for London offices in the past two decades after 1991 and 2003, and could be the lowest London office take-up over twenty years.
- Office availability continued to rise in the first half of 2009, with 480,000 sq m added, taking availability to 2.05 million sq m.
- New and refurbished space availability increased by 58% in six months from 610,000 sq m to 966,000 sq m, reflecting the completion of development stock and low rates of take-up of new space.
- The supply of second-hand space increased more modestly, with Grade A up 11% to 604,000 sq m and Grade B up 15% to 483,000 sq m.
- By the end of Q2 09, the overall Central London availability rate had risen by over two percentage points to 9.7%.
- Meanwhile office construction starts continued, in spite of the travails of the market, with 160,000 sq m commencing in the first half of 2009 in 24 schemes, slightly below the rate of starts in 2008.
- First half starts included two very large schemes – The Shard (53,885 sq m), part pre-let (22,200 sq m to TfL) and Cannon Place, a speculative scheme of 35,872 sq m at Cannon Street station in the City of London. These two schemes, therefore accounted for 56% of starts in the first half of 2009. It is difficult to see this being replicated in the second half of 2009 and we consider that starts in 2009 will be lower still than in 2008, comparable to the sorts of level seen in the early 1990s and in 2004.

1.8.3 In broad terms, the trends outlined above are set to continue for the short- to medium-term. With a great deal of uncertainty about the future performance

of the economy and the prospects for unemployment, demand for office space is likely to remain modest. New and refurbished supply will continue to feed into the market, but even at modest rents and with good incentive packages, occupiers are likely to be slow to commit. On the positive side, the sharp slowdown in construction activity will eventually feed through to low rates of addition of new and refurbished space from 2010, giving the market the opportunity to absorb this space if demand starts to recover.

2.0 Benchmarking the Central London office market

2.1 Introduction and overview

2.1.1 In 2001, London Property Research and DTZ Research provided a series of benchmarks on the performance of the London office market, in order to assist the GLA and boroughs to define and implement a robust policy for office development. The report[8], suggested five strategic benchmarks for Central London offices. These were incorporated in LOPR 02[9], LOPR 04[10], LOPR 06[11] and LOPR 07[12], providing a useful tool for monitoring the changing relationship between supply and demand in Central London.

2.1.2 Such a tool could, for example, be useful in informing policy makers whether they should be encouraging the provision of additional capacity or, on the other hand, whether in some locations existing or proposed office sites could "safely" be permitted to change to other uses without detracting from London's long-term office supply.

2.1.3 The benchmarks are broad-brush tools, intended to illustrate the general direction of the office market, rather than to guide specific local area policies. A list of the benchmarks and their definitions is provided in Appendix A2.1.

2.2 Benchmark 1: Permissions versus stock

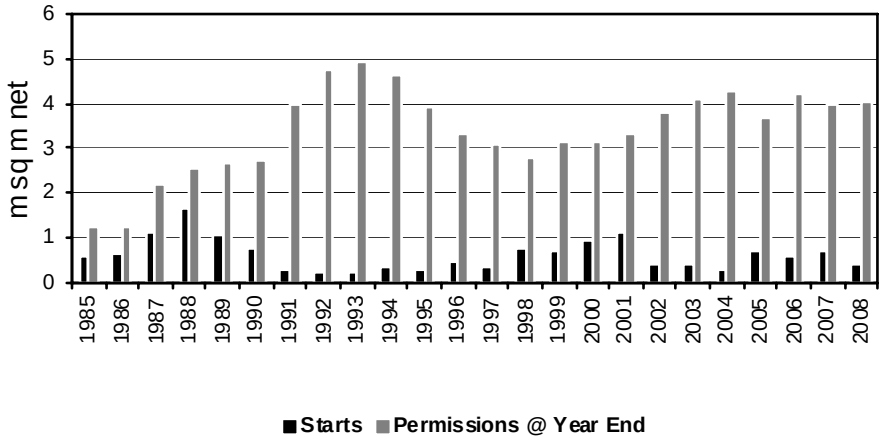
2.2.1 *The stock of permissions (measured as net lettable) should be at least three times the average rate of starts over the preceding three years.*

2.2.2 Benchmark 1 illustrates the relationship between office space with outstanding consent approved by local planning authorities and the prevailing level of office starts. It is not possible for local planning authorities to guarantee the implementation of office development – that is a matter for the market – but it is appropriate for local planning authorities to approve an overall level of office permissions to allow for the provision of office space without restricting supply unnecessarily.

2.2.3 Figure 2.1 illustrates the long-term relationship over 24 years between the volume of permissions in Central London and the level of starts. For Central London as a whole in overall strategic terms, office supply has not been constrained by the planning system in terms of the quantum of permitted development since the beginning of the 1990s.

[8] London Property Research & DTZ Research (2001) *London Office Monitoring Project - Stage II (Benchmarks) SDS Technical Report Ten* Greater London Authority
[9] London Property Research & EGi (2003) *London Office Policy Review 2002*, Greater London Authority
[10] London Property Research (2004) *London Office Policy Review 2004, SDS Technical Report Nine* Greater London Authority
[11] London Property Research (2006) *London Office Policy Review 2006* Greater London Authority
[12] Ramidus Consulting & Roger Tym & Partners (2007) *London Office Policy Review 2007* Greater London Authority

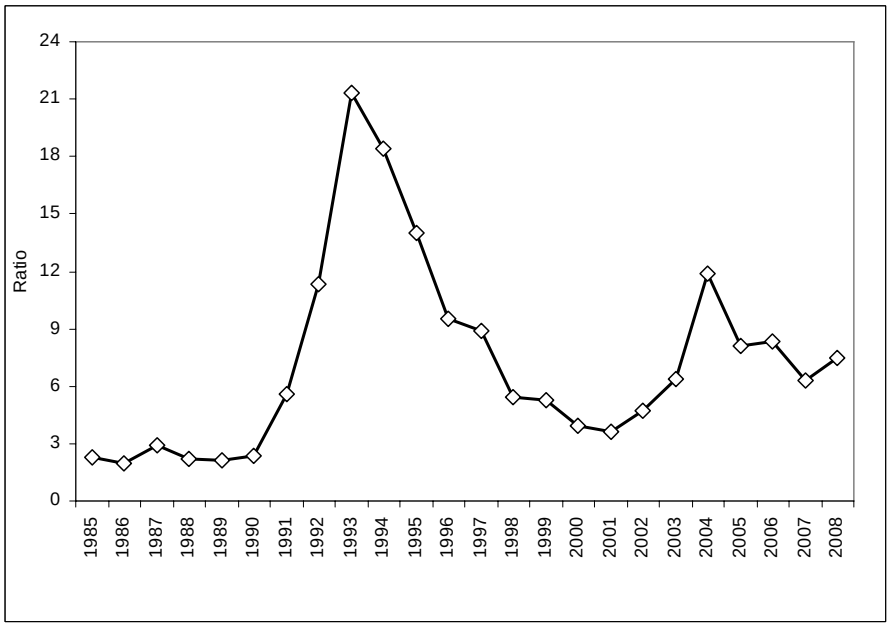
Figure 2.1
Office starts and year-end permissions in Central London, 1985-2008



Source: EGi London Offices, London Property Research Ltd

2.2.4 The impact of the high rate of construction over 2005 to 2007 was to reduce the ratio of average starts from 12:1 at the end of 2004 to just over 6:1 at the end of 2007 (Figure 2.2). By the end of 2008, with low construction starts in 2008 reducing the average rate of starts and the level of permissions being maintained at just over four million sq m, the ratio rose to 7.5:1.

Figure 2.2
Ratio of planning permissions to average of previous three years starts



Source: London Property Research, Ramidus Consulting

2.2.5 Figure 2.2 clearly illustrates that in the latest, possibly truncated, construction boom, the amount of permitted office development in Central London remained very comfortably above the minimum threshold of 3:1. The implication for Central London as a whole is that developers have brought forward and planning authorities have permitted an amount of office development that provides the market with a reasonable degree of choice at the strategic level.

2.3 Benchmark 2: Availability versus stock

2.3.1 *When the Central London availability rate is moving in a direction such that the 8% level seems likely to be crossed, particularly close attention should be paid to other market indicators, and the level of office supply should be reviewed.*

2.3.2 As indicated in previous LOPRs, an 8% availability rate can be seen as a pivotal measure for the London office market. Rates above 8% offer occupiers a wider choice of accommodation with the tendency for rents to fall, especially when the availability rate is rising and wider choice is anticipated in the future. If availability rates are below 8%, and falling, then there is a tendency for rents to rise, reflecting a narrowing choice of accommodation.

2.3.3 The overall Central London availability rate rose from 6.2% in 2006 to 7.6% at the end of 2008, but this single figure masks a greater variation by sub-market. It is at sub-market level that supply and demand are reconciled and rent levels are set. Figures 2.3 and 2.4 indicate the long-term relationship between availability rates and rental change in the City and West End.

2.3.4 In the **City**, the availability rate was 6% at the end of 2006 and then fell marginally in 2007 to 5.8%, albeit if we look at the quarterly data the rate had already risen from its low point of 4.9% at the end of Q3 07. By the end of 2008, the availability rate had more than doubled from the cyclical low of 4.9% to 10.5%. The impact of rising availability can be seen on headline rent levels which fell from peak levels of £700 sq m (£65 sq ft) during 2007 to £565 sq m (£52.50 sq ft) at the end of 2008.

2.3.5 The latest data from DTZ for Q2 09 indicate that the availability rate has risen a further two percentage points to 12.4%. This in turn triggered a very sharp fall in headline rents from £565 sq m (£52.50 sq ft) to £474 sq m (£44 sq ft), a reduction of 16% in only six months.

Figure 2.3 City availability ratio versus headline rent, 1986-2008

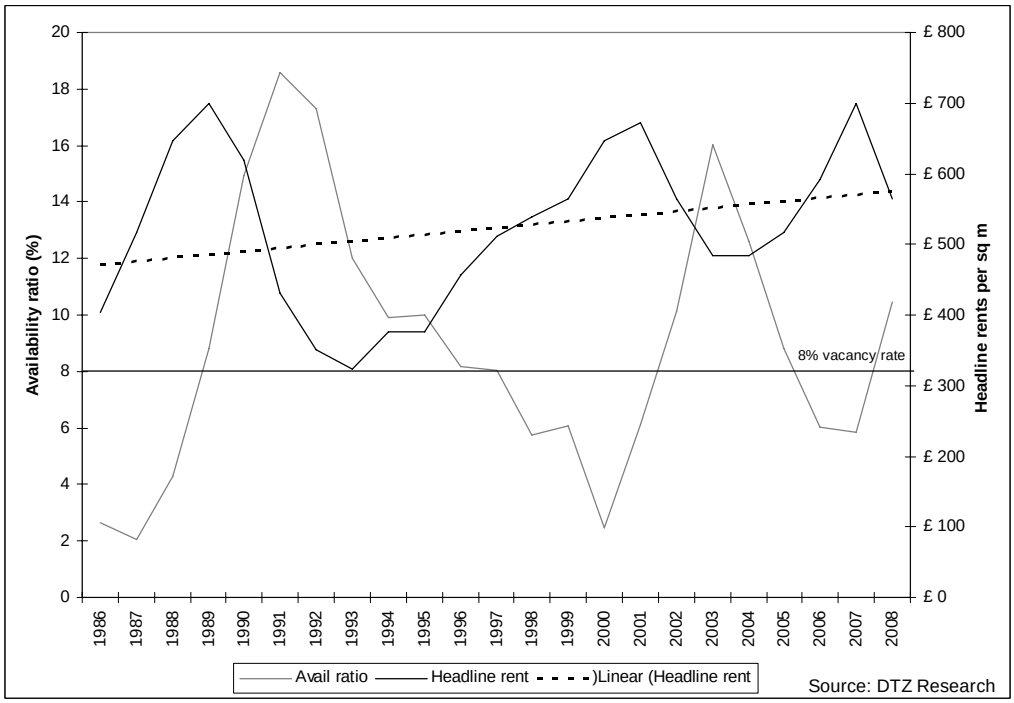
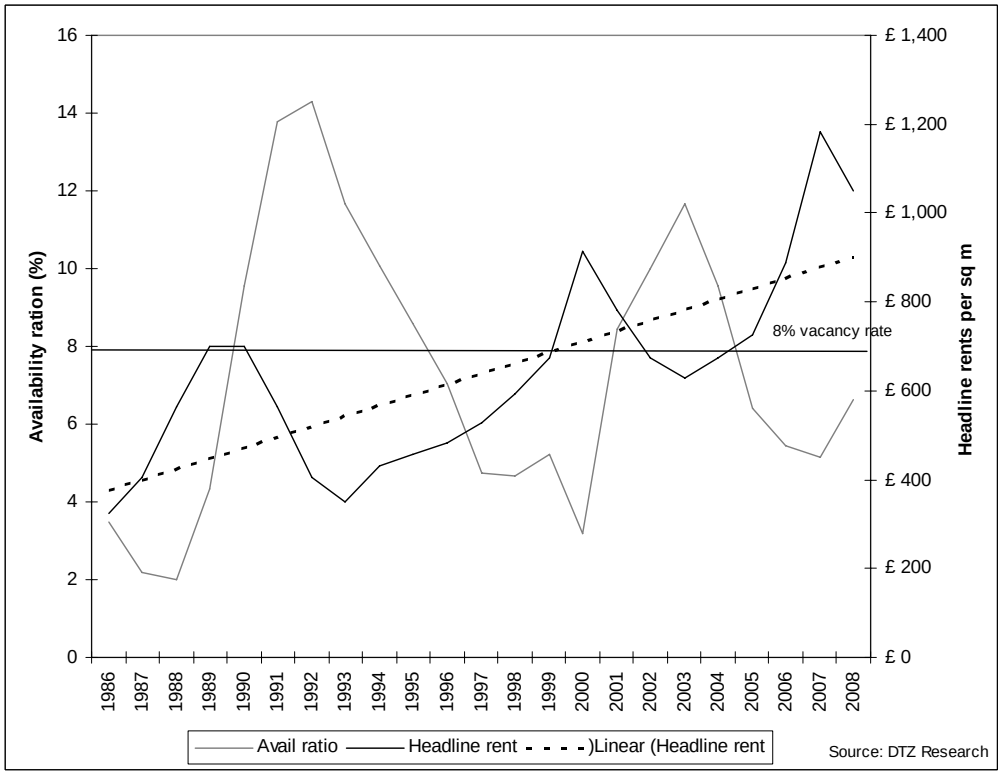


Figure 2.4 West End availability ratio versus headline rent, 1986-2008



2.3.6 In the West End the availability rate is lower than in the City and headline rents are very considerably higher. At the end of 2006 the West End availability rate was 5.6%. It subsequently fell to a low point of 4.5% in Q3 07 and has been rising since. At the end of 2007 the rate was 5.2%, rising to 6.6% at the end of 2008. Although the rate was sub-8%, the expectation of rising supply had already impacted on rent levels, which in the second half of 2008, fell from £1,184 sq m (£110 sq ft) to £1,049 sq m (£97.50 sq ft).

2.3.7 Since the end of 2008 West End office supply has continued to increase. At the end of Q2 09 the rate had risen further to 8.7%, contributing to a 13% reduction in headline rents to £915 sq m (£85 sq ft).

2.3.8 As has been indicated in previous editions of LOPR, the City and the West End have performed very differently over the past two decades in terms of rent levels, from an almost identical starting point of around £430 sq m (£40 sq ft). In current prices City rents have risen only marginally and even peak rents have been little changed over three rental peaks. The trend line for the West End is, by contrast, steep and each rental peak has been considerably higher than the last in current prices.

2.3.9 In our view, this can be accounted for by a more elastic supply of space in the City and its environs, including Canary Wharf, where competition for demand from financial services occupiers is acute. In the West End, the supply of offices has been less elastic and there has not been the emergence of a single powerful competing centre to the West End – notwithstanding that, one or two West End occupiers did leapfrog the City to Canary Wharf.

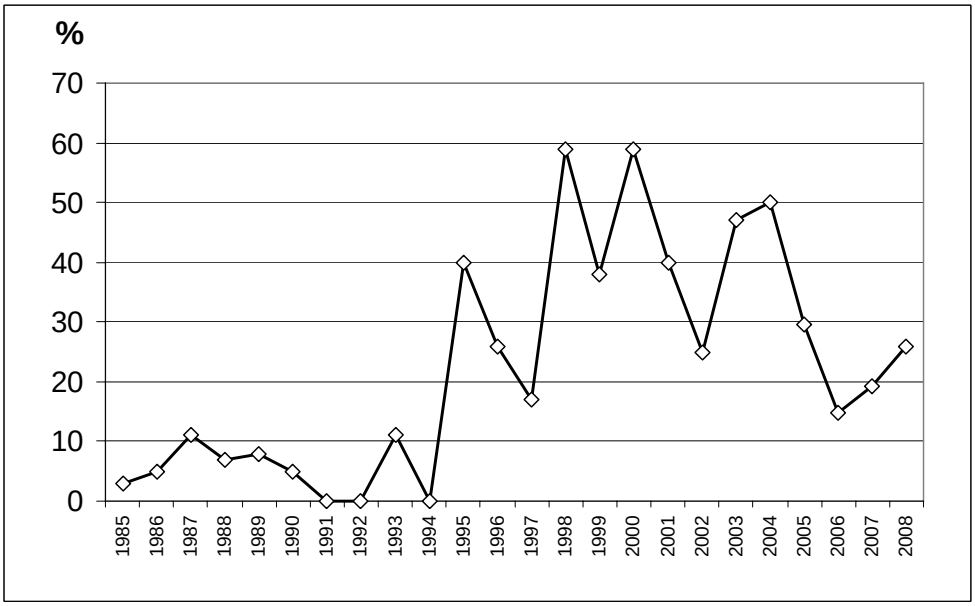
2.3.10 The implication of the current availability rate and its future short-term trend is that the balance of supply and demand has shifted significantly to the supply side, with the disequilibrium in the market expressed as falling rents. If the market continues to be “over-supplied” in the medium-term, there might be implications for the conversion of surplus offices to other uses in some circumstances.

2.4 Benchmark 3: Pre-lets versus overall starts

2.4.1 *Up to 50% of annual starts being comprised of pre-lets and owner-occupier schemes can be regarded as a normal and healthy market, provided the overall volume of starts is consistent with strategic policies to maintain London’s World City role, as defined in strategic Benchmark 1.*

2.4.2 LOPR 06 reported that the proportion of construction starts accounted for by pre-letting activity was 15% in 2006, reflecting an increase in speculative starts. Figure 2.5, which shows the long-term trend in the proportion of office starts accounted for by pre-letting activity, indicates that the proportion increased to 20% in 2007 and further to 26% in 2008. This is well below the 50% level of pre-let starts highlighted in Benchmark 3.

Figure 2.5 Proportion of annual starts in Central London accounted for by pre-lets, 1985-2008

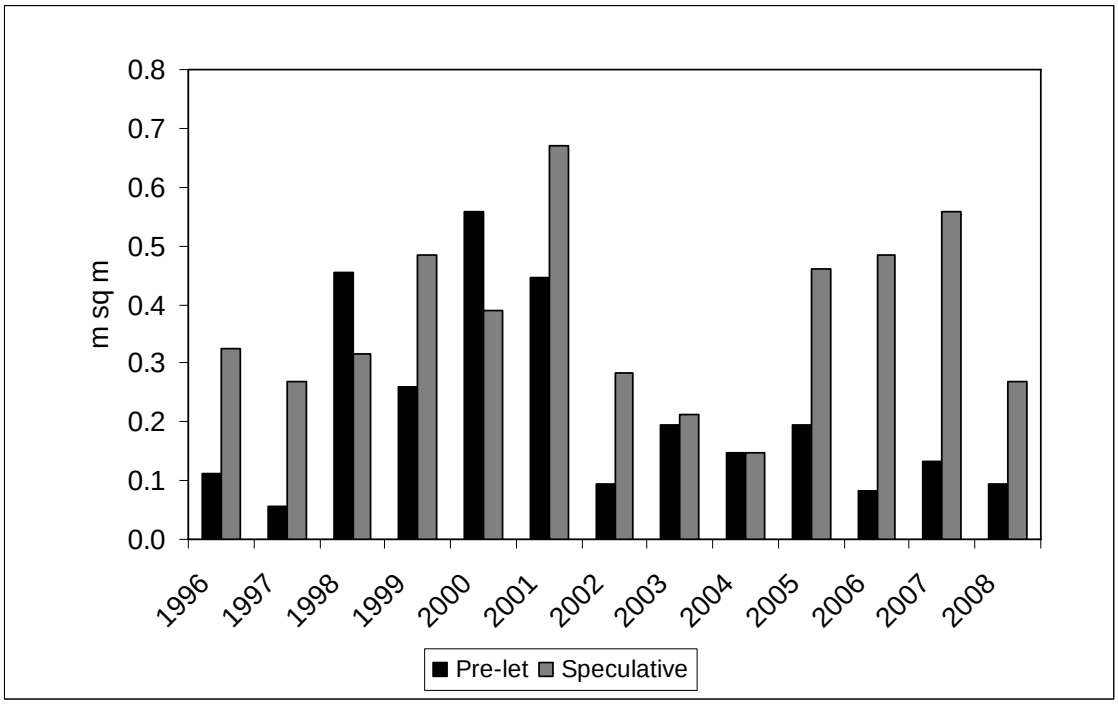


Source: EGi London Offices, London Property Research, Ramidus Consulting

2.4.3 Figure 2.6 illustrates some of the data behind Figure 2.5. Looking back to the previous construction boom of 1998-2001, there was a very high proportion of pre-let development (albeit by the time developments had completed, some of the occupiers had not survived). Pre-let starts surpassed speculative starts in both 1998 and 2000.

2.4.4 In the most recent construction boom, the role of pre-letting was modest by comparison, with speculative starts rising from 2005 to 2007. The effect has been to provide a relatively wide choice of new and refurbished space to occupiers, especially given the unexpected contraction in demand over the past two years.

Figure 2.6 Construction starts in Central London by letting status at construction start, 1996-2008



Source: EGi London Offices, DTZ Research

2.5 Benchmark 4: A range of rent levels

2.5.1 *In seeking to promote worthwhile choice for office occupiers, planning policy should seek to ensure that office development occurs in a range of established office locations which have good public transport, such that new office space should be available in non-prime locations at no more than 50% of top rents in Central London.*

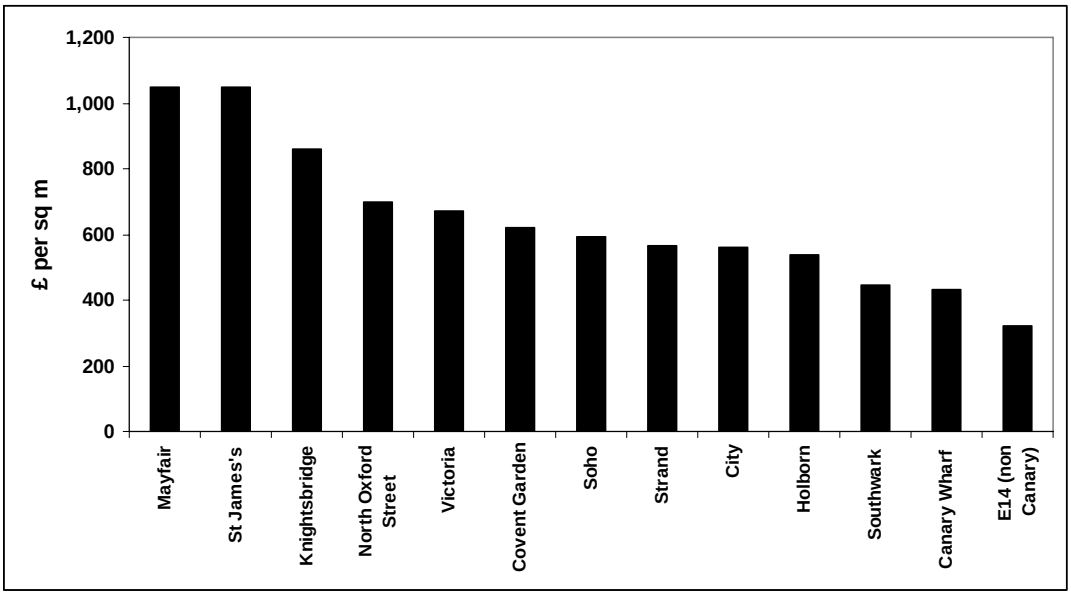
2.5.2 As the market reached its rental peak in 2007, there was concern about the impact of very high rents in the West End on London's competitive position. LOPR 07 noted that the very highest rents in the West End were being driven by competition from financial boutiques including hedge and derivative funds for limited amounts of brand new or Grade A space within specific parts of Mayfair and St James's. The highest London office rent ever reported in the property press was £1,507 sq m (£140 sq ft) for an 800 sq m floor in St James's Square by an asset management company in September 2007.

2.5.3 By the end of 2008 peak rents in the West End had fallen back below the psychological threshold of £1,076 sq m (£100 sq ft). Headline rents have been reducing in all markets. In addition, the level of incentives available to occupiers, typically in the form of rent-free periods, has been enhanced, further reducing the "net effective" rent.

2.5.4 The purpose of Benchmark 4 is to monitor rents across a range of central locations that are accessible by public transport, to explore the broad variation in cost to occupiers at a comparable specification – in this case for the best quality space. Figure 2.7 indicates the level of headline rents for 13 office locations across Central London at the end of 2008.

2.5.5 Overall, there was a wide range in headline rents across Central London sub-markets at the end of 2008, from £1,050 sq m (£97.50 sq ft) in Mayfair and St James's to £323 sq m (£30 sq ft) in the non-Canary market in the Isle of Dogs. One of the notable features of Figure 2.7 is that between these extremes there was actually a more modest range from £430 sq m (£40 sq ft) in Southwark and Canary Wharf to £673-700 sq m (£62.50-65.00 sq ft) in Victoria and North of Oxford Street.

Figure 2.7 Headline rents in sub-markets, end-2008



Source: DTZ Research

2.5.6 In relation to the specifics of Benchmark 4, in perfectly acceptable Central London office locations such as Southwark (the South Bank), Canary Wharf and Docklands, headline rents at the end of 2008 were 50% or less of rents in Mayfair and St James's. Rents in the City market at £560 sq m (£52 sq ft) were 53% of the level in the prime Mayfair and St James's markets. Taking into account the impact of rent-free periods – around three years in the City compared with 12 months in the West End, net effective rents in the City were less than 50% of Mayfair rents.

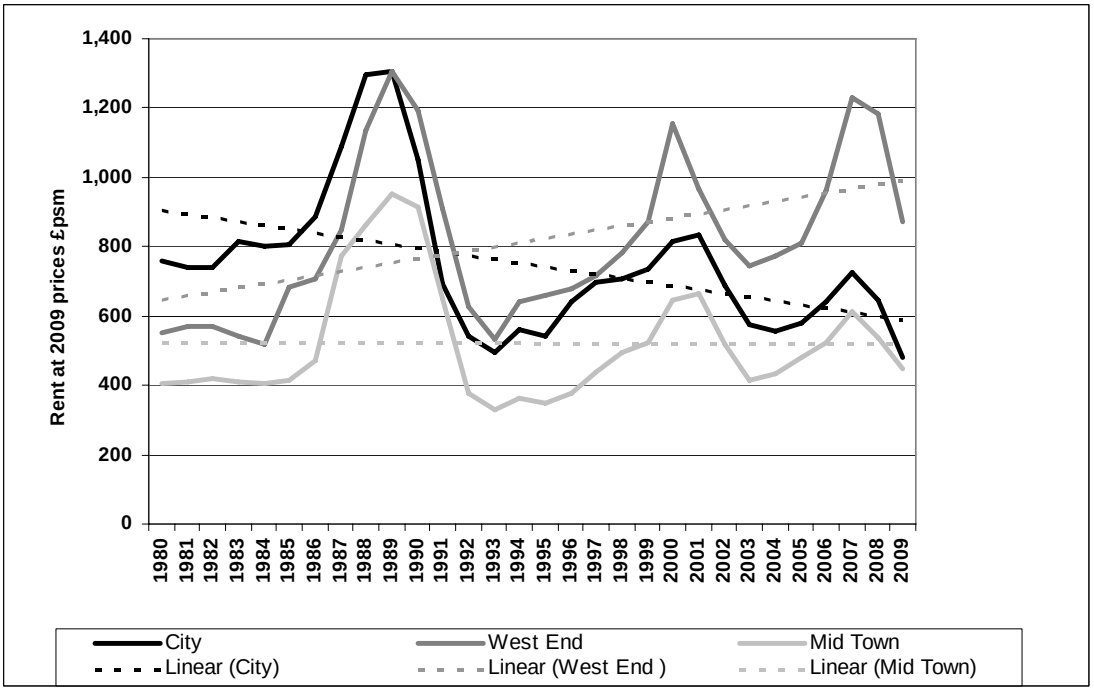
2.5.7 The West End is broader than the very prime locations such as Mayfair and St James's. In an era when occupiers are more footloose, sub-markets within the West End could offer comparable space at headline rents which were between 54% and 67% of the highest rents, in very good locations such as Victoria, North of Oxford Street, Strand and Soho.

2.5.8 Not all occupiers are sufficiently footloose, of course, to take advantage of the lowest rents in Central London, taking into account other considerations such as functional linkages, agglomeration factors, journeys to work for staff, the availability of support services and so on. The fact that there is a range of office rents by location does serve, however, to strengthen the hand of occupiers in leasing negotiations.

2.5.9 The previous analysis is a snapshot of office rental costs at the end of 2008. Rents move in a cyclical pattern, but there are longer-term trends at work. As indicated in previous LOPRs, if we look at rents in constant rather than current prices, the linear trend for the City has been for rents to fall over the past 30 years and for Midtown rents to have a flat trend. Only in the West End has there been a long-term trend for office rents to rise in real terms.

2.5.10 Figure 2.8 shows that in the City and Midtown markets, peak rents in 1989, 2000 and 2007 have been successively lower in real terms. In the most recent cycle this was not true of the West End. Peak rents in 2007 were 7% higher in real terms than the previous peak in 2000, reflecting the imbalance between supply and demand in the prime West End market.

Figure 2.8 Central London office rents, 1980 to mid-2009, at 2009 prices



Source: DTZ Research

2.6 Benchmark 5: Years supply of office space

2.6.1 *Across Central London as a whole, strategic planning policy should seek to ensure that there is at least 3.25 years supply of new office space in the development and planning pipeline. This strategic benchmark is not to be*

applied to small areas where capacity constraints effectively prevent significant gains to the office stock, but should be applied with a view to expanding the office development pipeline in locations with good public transport and substantial land capacity.

2.6.2 Benchmark 5 looks back at the historical performance of take-up of Central London offices and compares this with the supply of completed new space, space under construction and planning permissions. The relationship between take-up and actual and potential supply is expressed in years supply at the average rate of take-up (in the case of LOPR 09, over 16 years).

2.6.3 Figure 2.9 shows the annual average take-up of new and refurbished space in each of DTZ's six Central London sub-markets.[13] In Central London the average take-up of new and refurbished space between 1993 and 2008 was just over 500,000 sq m. This comprised 151,000 sq m per annum in pre-lets, two-thirds of which occurred in the City and Docklands sub-markets, and 361,000 sq m per annum in other lettings after construction start (most often after completion).

2.6.4 The average rate of take-up of new and refurbished space was highest in the City at 199,000 sq m, with the West End and Docklands averaging 93,000 sq m and 97,000 sq m respectively. South and East averaged 59,000 sq m per annum, somewhat higher than Midtown's 44,000 sq m. The lowest average rate of take-up was in the North and West at 18,000 sq m a year.

Figure 2.9
Annual average take-up of new and refurbished space, 1993-2008

Sub-market	New and refurbished (sq m)		
	Pre-leased	Leased	Total
City	51,000	148,000	199,000
West End	12,000	81,000	93,000
Midtown	8,000	36,000	44,000
Docklands	52,000	45,000	97,000
South & East	19,000	40,000	59,000
North & West	9,000	11,000	20,000
Central London	**151,000**	**361,000**	**512,000**

Source: DTZ Research

2.6.5 Figure 2.10 shows the supply of office space in each of these sub-markets for three categories of (1) new and refurbished space: completed and still available at end-2008; (2) under construction, excluding space either pre-let or let during construction prior to end-2008 and (3) outstanding planning permissions, taking into account one or two early pre-lets such as Transport for London at The Shard and JP Morgan at Canary Wharf Riverside South.

[13] City (EC1-4); West End (W1,SW1); Midtown (WC1-2); Docklands (E14); South & East (E1,SE1), and North & West (NW1,SW3,SW7,W2).

2.6.6 Note that the geographical area covered here is somewhat smaller than the earlier data for construction and permissions that covered the whole of the central 11 boroughs, hence the totals for under construction and permissions are lower than Figures 1.11 and 1.13. This is to ensure that the take-up and supply data are from identical areas.

Figure 2.10
Actual and potential new and refurbished supply, end-2008 (sq m)

Sub-market	New, completed & available	Under construction & available	Planning permissions (new and refurbished)	Total
City	404,000	426,000	1,268,000	2,098,000
West End	97,000	98,000	144,000	339,000
Midtown	19,000	78,000	85,000	182,000
Docklands	16,000	49,000	1,049,000	1,114,000
South & East	68,000	31,000	498,000	597,000
North & West	6,000	84,000	561,000	651,000
Central London	**610,000**	**766,000**	**3,605,000**	**4,981,000**

Source: DTZ Research (column 2); EGi London Offices (columns 3 & 4)

2.6.7 A comparison of Figure 2.10 with that in LOPR 07 reaffirms the broad changes to the supply side in Central London during 2007-2008, with the amount of new and available space almost doubling from 316,000 sq m to 610,000 sq m. The amount of speculative space under construction at the end of 2008 was 15% higher than at the end of 2006 at 766,000 sq m. The amount of space with permission (and available) fell marginally, however, from 3.85 million sq m to 3.6 million sq m.

2.6.8 Figure 2.11 makes a simple comparison between the supply and demand data in the preceding tables, measuring the number of years supply at the average rate of take-up. Note that in calculating the years supply of space either completed or under construction, availability is compared only with space leased in Figure 2.9, excluding the demand represented by pre-lets. Space that is already under construction can no longer by definition meet demand from the pre-letting market. Supply represented by unimplemented planning permissions, however, could go down either the speculative or pre-let routes, and is therefore compared with overall take-up including pre-lets.

2.6.9 Taking Central London as a whole, Figure 2.11 indicates that, based on the long-term average rate of take-up, there was at the end of 2008 (1) just under two years supply available for immediate occupation, (2) just over two years of supply under construction and available and (3) seven years worth of supply in unimplemented planning permissions. Taken together, the completed, construction and planning pipeline at the end of 2008 represented almost 11 years of supply at historic rates of demand.

Figure 2.11
Years supply, by type, measured against annual average take-up, 1993-2008

Sub-market	New/ refurbished and complete (years)	Under construction & available (years)	Planning permission, new/refurbished (years)	Total new office supply (years)
City	2.7	2.9	6.4	12.0
West End	1.2	1.2	1.5	3.9
Midtown	0.5	2.2	1.9	4.6
Docklands	0.4	1.1	10.8	12.3
South & East	1.7	0.8	8.4	10.9
North & West	0.5	7.6	28.0	36.1
Central London	**1.7**	**2.1**	**7.0**	**10.8**

Source: Ramidus Consulting

2.6.10 Benchmark 5 suggests that if overall supply falls below 3.25 years then there is potential for shortages to emerge. Given over ten years supply either in the process of being implemented or with planning permission, it appears that at the strategic level the development industry and the planning system are each doing their bit to promote the capacity for offices in Central London.

2.6.11 At the overall Central London level, the construction boom has increased the years supply of completed and construction space from 2.7 years at the end of 2006 to 3.8 years at the end of 2008. In the short-term, this is likely to be an underestimate, as take-up in 2008 was below average, a trend that has continued in 2009.

2.6.12 Although each of the sub-markets remains above the 3.25 years supply suggested by Benchmark 5, for both the West End and Midtown the capacity including planning permissions was only marginally above the benchmark. Evidently there is a divergence between relatively well-supplied City, Docklands and Fringe markets, and the West End and Midtown markets, where supply appeared to be more constrained.

2.6.13 In terms of completed and construction space, the City is relatively well supplied with 5.6 years supply in these categories compared to 2.4 years and 2.7 years in West End and Midtown respectively. In Docklands supply in these categories represents 1.5 years supply and in the South & East 2.5 years supply. In North & West, the small size of this sub-market gives a somewhat distorted picture, speculative space under construction principally at Regent's Quarter and Paddington, pushing supply under construction out to 7.6 years. Generally, however, the relationship between completed and construction supply and take-up follows the expected pattern.

2.6.14 Where there was a strong distinction between the sub-markets was in relation to space with permission. In this category the amount of permitted supply in the West End and Midtown, at 1.5 years and 1.9 years respectively, was very

low and it is these figures that suppress the overall years supply for these two key markets.

2.6.15 At the other extreme, Docklands, North & West and to a lesser extent the South & East, representing various fringe office locations, might well have an over-generous supply of office permissions compared to historic demand. In such circumstances, there may be scope for permitting alternative uses on sites with office permission, especially where that meets other planning objectives such as the provision of housing.

2.7 The benchmarks: a review

2.7.1 As part of the project brief for LOPR 09, we were asked to evaluate the utility and continuing relevance of the five key benchmarks outlined above. The results of this review are described below.

Benchmark 1: Permissions vs starts

2.7.2 Benchmark 1 looks at the supply side of the Central London office market and indicates that the amount of floorspace in outstanding permissions should be maintained at a minimum of three times the prevailing rate of construction starts. This is to ensure that there is an adequate pool of extant planning permissions to meet both the immediate and longer-term needs of the market, sometimes referred to as the "strategic reserve". Maintaining permissions at this minimum level promotes both choice and competition in the development market.

2.7.3 **Recommendation:** as a strategic measure set for Central London as a whole, we consider that this is a valid benchmark.

Benchmark 2: Availability vs stock

2.7.4 Benchmark 2 is another supply-side indicator based loosely on the concept of a market equilibrium rate of supply. The office market moves through a range of rates in a typical cycle, with rates as low as 2% and as high as 20% being experienced in Central London over the past twenty years. Local sub-markets can experience rates outside the range for Central London.

2.7.5 In previous issues of LOPR there has been discussion of increasing the sensitivity of Benchmark 2.[14] Not least, 8% availability is only a trigger point in certain circumstances, as is apparent in Figures 2.3 and 2.4. In our view it would be more appropriate to consider a range of availability rates, centred on 8%, so that the emphasis is on the extremes of availability when rents rise or fall dramatically, which can be disruptive for both occupiers and owners.

2.7.6 **Recommendation:** the availability range should be 6% to 10%, as follows:

> *When the Central London availability rate moves outside a core range of 6%-10%, close attention should be paid to other market indicators, and the level of office supply should be reviewed.*

[14] London Property Research (2004) *London Office Policy Review* GLA

Benchmark 3: Pre-lets vs overall starts

2.7.7 Benchmark 3 provides a benchmark for the proportion of total construction activity which is pre-let, setting this at up to 50% as indicative of a "normal and healthy market". By implication, pre-let starts exceeding 50% could be seen as excessive, outweighing speculative development.

2.7.8 The five benchmarks were originally defined in the aftermath of the 1998-2001 construction boom, when there had been an unusually high proportion of pre-let and owner-occupied development. At the time there was some concern that a high proportion of construction activity could restrict the choice for other occupiers in the speculative market.

2.7.9 Referring back to Figure 2.6, it is evident that the proportion of space under construction that is pre-let or speculative is less important than the overall quantum of construction starts. A high proportion of pre-let activity typically reflects periods of high demand which are translated by the market into increased levels of construction starts overall. Hence in the period 1998-2001, although the proportion of starts that was pre-committed to occupiers was high and in two years exceeded the "normal and healthy" proportion of 50% indicated in Benchmark 3, the absolute amount of speculative construction was also at a cyclical high. When the benchmark was exceeded, a valid response was, "so what?"

2.7.10 There was no danger that a high proportion of pre-let space was restricting choice for occupiers whose requirements were met by speculative construction. Indeed, in the context of the aftermath of the dotcom boom, a significant amount of space, which had been built to order, came back on the market after corporate occupational requirements shrank.

2.7.11 **Recommendation**: we consider that this benchmark is a weak indicator of potential capacity constraints and as the least effective of the five it should be dropped in favour of a measure that reflects demand activity.

Benchmark 4: A range of rent levels

2.7.12 Benchmark 4 measures whether the Central London office market is providing choice for occupiers in terms of the rental cost of equivalent quality space. Specifically, it states that comparable new space should be available in locations with good transport at rents no more than 50% of the very top rents in the market.

2.7.13 **Recommendation:** we consider that this remains a valid measure of occupier choice.

Benchmark 5: Years supply of space

2.7.14 Benchmark 5 measures three different elements of the supply side against average take-up, establishing a co-efficient which can be described as the number of years supply at the average rate of demand. It does so for six defined sub-markets as well as for London as a whole. There are some

innate difficulties with this approach, such as the use of the average rate at times when take-up is either high or low.

2.7.15 In addition, on the supply side Benchmark five creates a sum total from committed supply, which is either completed or under construction, and permitted supply where there is no certainty of implementation. To express this in terms of years supply could be considered somewhat misleading. We might also question the precision of a minimum supply of 3.25 years.

2.7.16 **Recommendation:** we consider that there are elements of Benchmark five which remain valid, but that it should be refined and simplified. In terms of simplification, the distinction between pre-let and let take-up could be abandoned in favour of a combined figure. In terms of refinement, one option would be to separate permitted space from that which is already in existence or committed through construction activity. Maintaining, or perhaps focussing on, a separate years supply figure for permitted development would be more closely aligned with the powers of local planning authorities in plan-making and development control decisions.

Potential new benchmark

2.7.17 In addition to the review of the utility of the five benchmarks, the potential for additional benchmarks was considered. The key conclusion from this part of the review was that there is an over-emphasis on the supply side in the existing five benchmarks and that a demand-led measure would be a very useful addition.

2.7.18 Although rental change is used to illuminate Benchmarks 2 and 4, a benchmark that focussed on the rate of rental change would be a useful addition. Periods of extreme rental growth and decline create problems and discontinuities in the office market.

2.7.19 An early warning mechanism for excessive rates of change could be useful for policy makers. It could be based on quarterly data for defined Central London sub-markets and presented as a rolling moving annual average, perhaps with a progressive three stage warning system based on a banding such as 10-15% change (monitor); 15-25% (closely watch, consider action), 25% plus (take action). When rental growth is considered to be excessively high, actions could include resisting the loss of office space, and the promotion of office development, perhaps through some relaxation of planning policy and lower planning gain tariffs. Conversely, when rental decline is seen to be excessive, as is the case at present, actions could include allowing some office stock to be converted to other uses in order to remove excess supply.

2.7.20 **Recommendation:** we recommend that a new benchmark based on rental change should be established as a demand indicator.

3.0 Employment and floorspace need forecasts

3.1 Method

3.1.1 This Chapter looks at the long-term demand for offices, based on the latest employment forecast for London. It assesses forecast addition to stock for the new London Plan policy areas of CAZ (Central Activities Zone), Inner London and Outer London.[15] This updates similar analyses set out in previous versions of LOPR and compares with the forecast of LOPR 07. We also compare the forecast demand with identified pipeline supply.

3.1.2 In this Chapter we first describe the method behind the forecasts. We then discuss some of the wider employment context that will affect the projections for office demand. Finally we present office demand projections, by borough, and for the key London sub-areas. The method involves two conceptually simple steps:

- forecast employment in office sectors, then
- convert employment to floorspace.

3.1.3 The employment projections use forecasts prepared for the GLA. These are then converted into office sectors using a finer-grained disaggregation of employment sectors developed by RTP in previous work for the GLA. The detail on this method is set out in LOPR 07.

3.1.4 The conversion of employment to floorspace uses an employment density ratio of 12 sq m per worker (net area) or 13.8 sq m (gross area). The detailed rationale behind these density ratios is set out in Section 5.6 of this report.

3.1.5 Both elements of these projections are dependent upon a number of assumptions, and sensitivity tests can be applied to test the outcomes. We undertake some sensitivity tests both of the employment density ratios and of the definitions of office employment. We have not carried out a sensitivity test using an alternative employment forecast, though the GLA's forecasts are benchmarked in this way.

3.1.6 We start by setting out the employment forecasts, compare these with the previous round of projections and look at trends in the office employment sectors in London.

3.2 Office employment projections for London

Forecast context

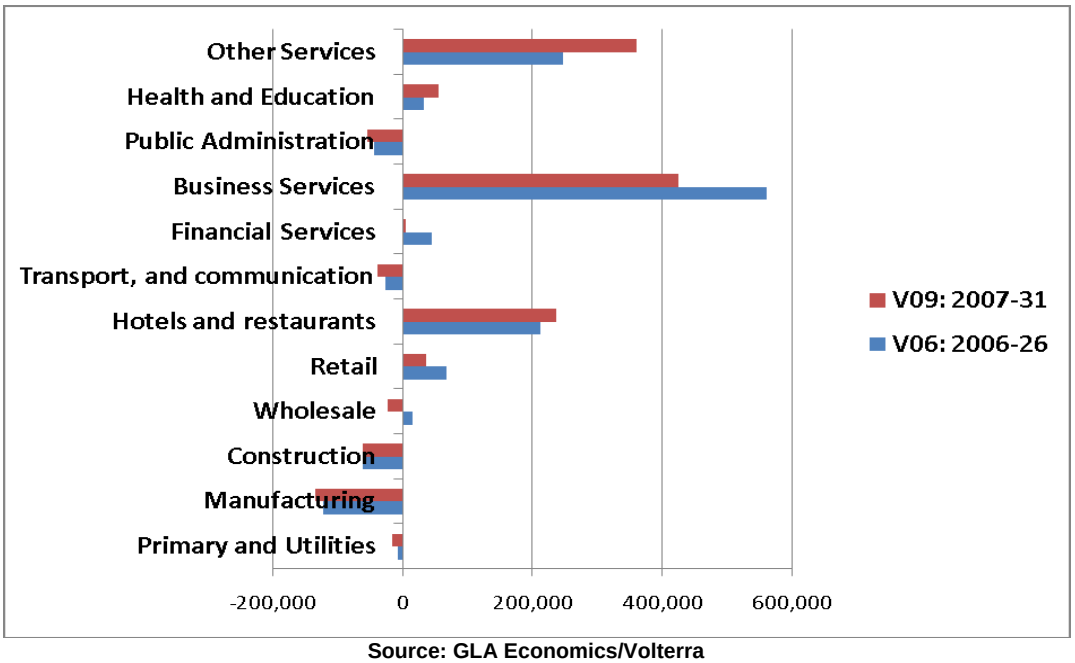
3.2.1 Our method uses two sets of employment forecasts. First, employment forecasts by sector at the London level prepared by Volterra for the GLA. Secondly, for spatial disaggregation within London we use the GLA

[15] Definitions are set out in Readers' Notes on page v.

triangulated employment projections. The detailed methodology and forecast are set out in GLA Working Paper 38. We first set out the sectoral projections at the London level.

3.2.2 Figure 3.1 compares the Volterra/GLA projections used in LOPR 07 with the current round of projections. The previous projections (labelled V06) were for the twenty year period 2006-26, the current projections (labelled V09) are for the longer period 2007-31.

Figure 3.1 London employment forecast by sector: current and previous



Source: GLA Economics/Volterra

3.2.3 The previous projections saw growth of 45,000 jobs in Financial Services and 560,000 jobs in Business Services over the period 2006-26. These projections have been revised down to growth of 4,000 in Financial Services and 424,000 in Business Services over the period 2007-31.

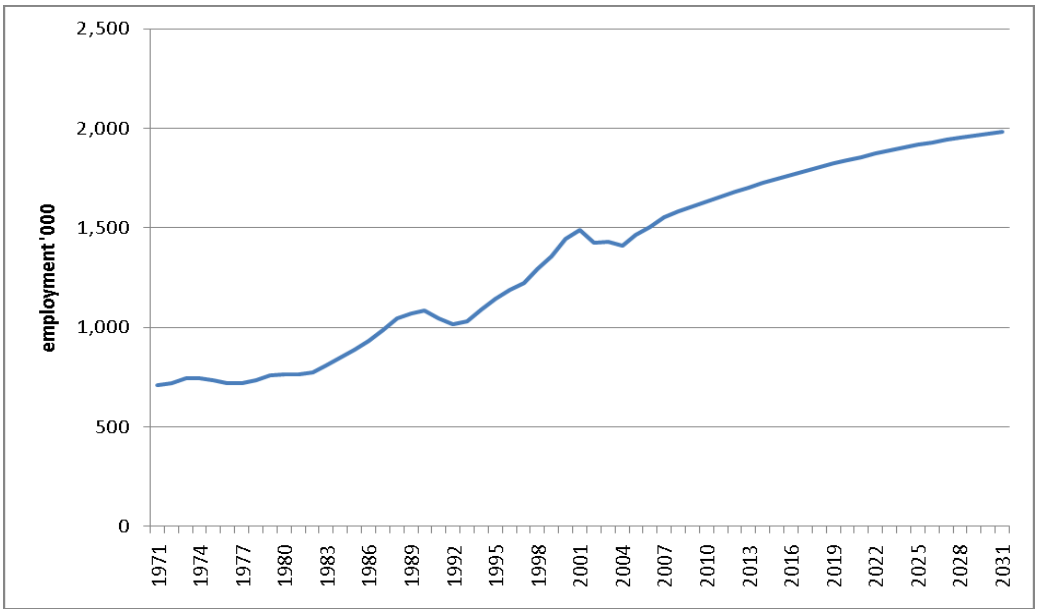
3.2.4 The current projections of employment growth are also lower than those prevailing at the time of the previous report. LOPR 07 used the Volterra/GLA projections prepared in 2002 and set out in GLA Working Paper 20.

3.2.5 This will in turn have implications for the projected demand for office space. We examine trends in these sectors in more detail.

3.2.6 While not the only occupiers of office space, the financial and business services sectors make up the bulk of demand for offices. Figure 3.2 shows past and projected growth in these sectors for London from 1971-2031. Data from 1971-2007 are historic actual figures, while the period 2007-31 is a projection. The GLA produces these forecasts as a trend projection over the

whole of the forecast period and hence there is no cyclical effect to be observed for the current recession.

Figure 3.2 FBS employment, London, 1971-2031



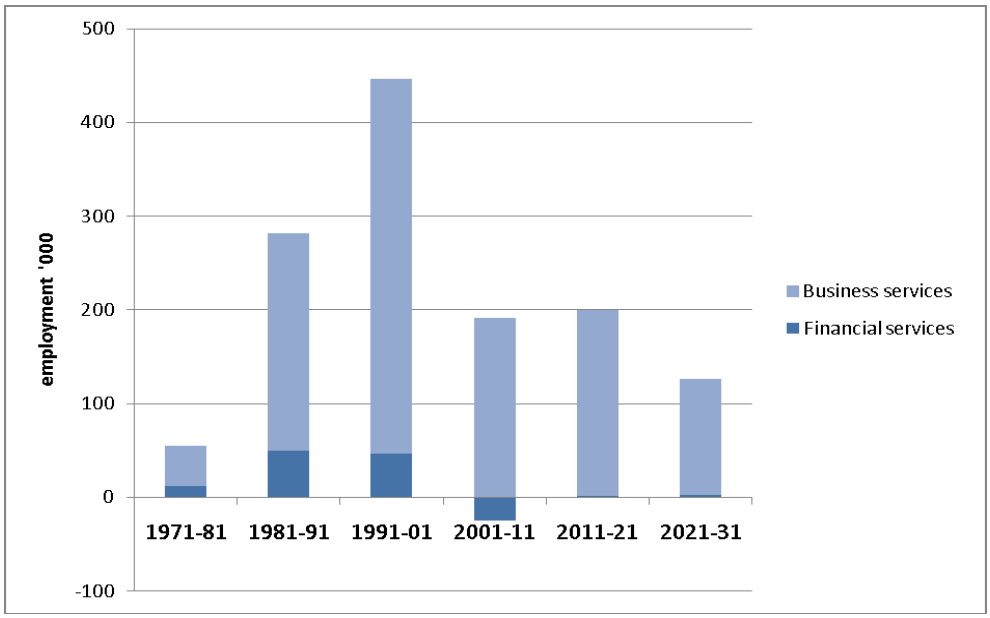
Source: GLA Economics/Volterra

3.2.7 As can be seen, FBS employment in London doubled between 1971-2001, with particularly rapid growth in the 1980s and 1990s. The projections for these sectors remain strong, but at a slower rate than has occurred in the recent past. The graph illustrates previous cyclical downturns, although future growth is projected at the trend rather than cyclical level. As can be seen in both previous dips, employment took about four years to reach its previous level.

3.2.8 The slowing pattern of future growth becomes clearer if we set out growth in FBS employment by decade (see Figure 3.3). This suggests that growth in the 1980s and 1990s was exceptional, and that future growth will settle down at between 10,000 and 20,000 jobs per annum, roughly half the level of recent experience.

3.2.9 The Financial Services segment of FBS growth is shown by the darker shading in Figure 3.3. While Financial Services accounted for 20% of the combined growth between 1971 and 1981 it accounted for just 10% of the much larger growth between 1991 and 2001. The period 2001-2011 shows a decline in financial services, most of which occurred between 2001 and 2006.

Figure 3.3 FBS employment change by decade, 1971-2031



Source: GLA Economics/RTP

Wider office employment sectors

3.2.10 While FBS is a good and useful proxy for office employment, there are other sectors that occupy office space. LOPR 07 introduced a new definition of office employment developed by RTP. The FBS sector includes certain activities, such as Industrial Cleaning, which are unlikely to be significant occupiers of offices, and it excludes others, for example, Publishing and large parts of Public Administration and Defence, which are much larger occupiers of office space. Another component of FBS, Labour Recruitment, is particularly difficult to deal with. Labour Recruitment, a large and fast-growing industry within FBS, covers all the workers employed through agencies. These workers work in all kinds of space, from hospitals to warehouses, rather than just offices.

3.2.11 To build these factors into the assessment, we created a new definition of office employment ('the RTP definition') for LOPR 07, based on finer-grained activity sectors. In the RTP definition, office employment comprises elements of the following broad sectors.

- Financial Services – All
- Business Services – excludes Industrial Cleaning and includes just the proportion of Labour Recruitment jobs which equals the share of offices in the local economy as a whole.
- Manufacturing – Publishing.
- Public Administration – selected parts.
- Other Services – media activities and professional organisations.

3.2.12 A full breakdown of the office sector definition is given in Appendix A3.1

3.2.13 It is this wider office definition that we use for the subsequent analysis, although reference is made to solely FBS change for comparison with other forecasts based on this definition.

Key office activity sectors

3.2.14 Figure 3.4 looks in more detail at the activities that make up the office sector definition. Using comparable four-digit definitions at sector level, there are nine sectors where employment grew by more than 10,000 jobs over the period 1998-2007.[16]

3.2.15 The employment data is for employees in employment and hence excludes the self-employed, but should still help to provide an indication of the dominant office employment sectors in London and of recent trends in these sectors.

3.2.16 The largest growth sector was business and management consultancy activities which grew by 44,000 jobs; followed by security broking and fund management which grew by 26,000 jobs. As can be seen, growth has also been recorded in the standard business service activities of accountancy, legal, financial and consultancy. Patterns of growth in these sectors in London have been very similar to that experienced nationally.

Figure 3.4 Office activities exhibiting growth in London, 1998-2007

Office activity	Employees change 1998-2007	% change London	% change GB
Business and management consultancy activities	44,352	84	106
Security broking and fund management	26,358	114	91
Legal activities	17,847	23	29
General (overall) public service activities	16,847	23	32
Accounting, book-keeping and auditing activities; tax consultancy	13,447	26	28
Activities auxiliary to financial intermediation not elsewhere classified	11,467	76	136
Management of real estate on a fee or contract basis	11,321	87	175
Investigation and security activities	11,136	36	33
Other business activities not elsewhere classified	10,744	13	53

Source: Annual Business Inquiry/RTP

3.2.17 Within these sub-sectors an element of employment will relate to servicing London's residential base, while a proportion will relate to London's wider

[16] There is some discontinuity in ABI data between 2006 and 2007 but this should not have a significant impact on these sectors for the level of analysis used here.

global and national functions. It is the latter component which is most likely to locate in Central London.

3.2.18 If we look at those office sectors that have been losing jobs in London the pattern is again similar to that seen nationally (Figure 3.5). Sectors showing the largest absolute decline are life insurance; other monetary intermediation; regulation of agencies; real estate, and data processing. In all cases, while these sectors were declining nationally, the decline in London was greater.

Figure 3.5 Office activities exhibiting decline in London, 1998-2007

Office activity	Change 1998-2007	% change London	% change GB
Data processing	-5,948	-53	-20
Development and selling of real estate	-6,662	-30	-6
Regulation of the activities of agencies that provide health care, education, cultural services and other social services excluding social security	-7,356	-19	-6
Other monetary intermediation	-9,527	-7	-2
Life insurance	-12,679	-68	-41

Source: Annual Business Inquiry/RTP

3.2.19 The largest office sectors are set out below (Figure 3.6). There are seven sectors that have between 50,000 and 100,000 employees in London. All of these increased employment over the period 1998-2007. But the largest single employment sector, other monetary intermediation, which in 2007 had 136,000 employees, declined by nearly 10,000 jobs from 1998.

Figure 3.6 Office employment, largest activity sub-sectors

Sub-sector	2007
Other monetary intermediation	135,788
Business and management consultancy activities	96,904
Legal activities	94,479
Other business activities not elsewhere classified	94,435
General (overall) public service activities	89,156
Other software consultancy and supply	73,515
Accounting, book-keeping and auditing activities; tax consultancy	66,041
Architectural and engineering activities and related technical consultancy	64,420

Source: Annual Business Inquiry/RTP

3.2.20 These eight sectors account for nearly half of all office employment in London. Any significant change in the future of these sectors, through growth, restructuring or some other factor, will have a significant impact on the future demand for London office space, both in terms of total quantity and

spatial pattern. Further work on the prospects for these sectors would provide a good indicator of future London office demand.

3.2.21 Before moving on to discuss the spatial dimension of the employment forecasts, it is worth noting the average size of unit in the FBS sector as this is a further indicator of the type of space that it likely to be in demand. A total of 91.8% of establishments, accounting for 22.7% of employees, are in firms of between 1-10 employees (Figure 3.7). While the larger corporate businesses may occupy what we think of as traditional office buildings, it is likely that a significant proportion of the smaller firms may be more flexible about the type of space that they occupy, and there are clearly instances of office-type activity taking place in non-office buildings. However we are not aware of any research that has quantified the extent of this.

Figure 3.7 FBS office units by size band

Size band	Data units		Employees	
	Number	% of units	Number	% of units
1-10 employees	156,969	91.8	317,061	22.7
11-49 employees	10,278	6.0	221,317	15.8
50-199 employees	2,804	1.6	265,542	19.0
200 or more employees	960	0.6	593,121	42.5
Total	**171,011**	**100.0**	**1,397,042**	**100.0**

Source: Annual Business Inquiry/RTP

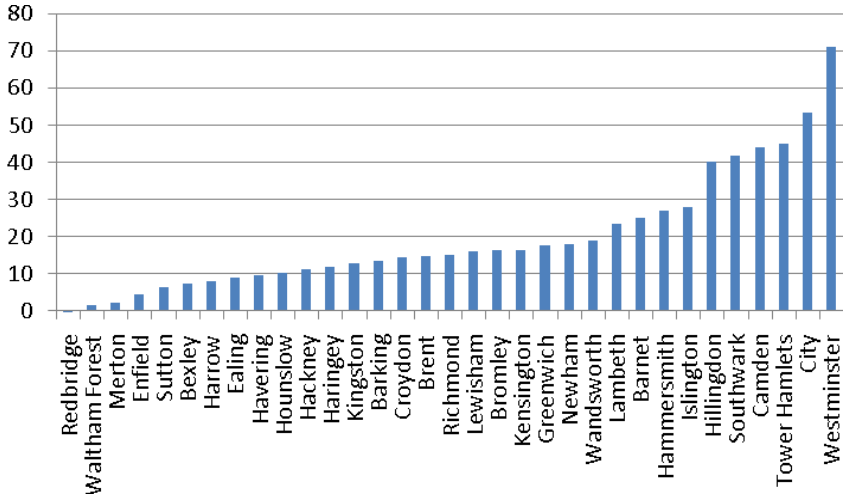
3.3 The geography of employment change

Spatial employment trends

3.3.1 Figure 3.8 shows the projected change in total employment, by borough, for the period 2011-31. The forecasts are for all employment and are produced by the GLA's triangulation method. The largest growth is forecast to be in the central boroughs of Westminster and the City, followed by Tower Hamlets, Camden and Southwark. Of the Outer London boroughs, Hillingdon is forecast to be the next largest growth borough, with some 40,000 additional jobs over the period 2011-31.

3.3.2 We have converted the Volterra London sector forecasts and GLA triangulated borough forecasts into projections of borough growth by sector. This is done by initially applying the London sector level forecast rate of growth to the borough structure, and then reconciling to the GLA's borough level totals. Our borough sector forecasts are then calibrated to ensure consistency with both the GLA's sector level forecasts and with the GLA's borough level forecasts.

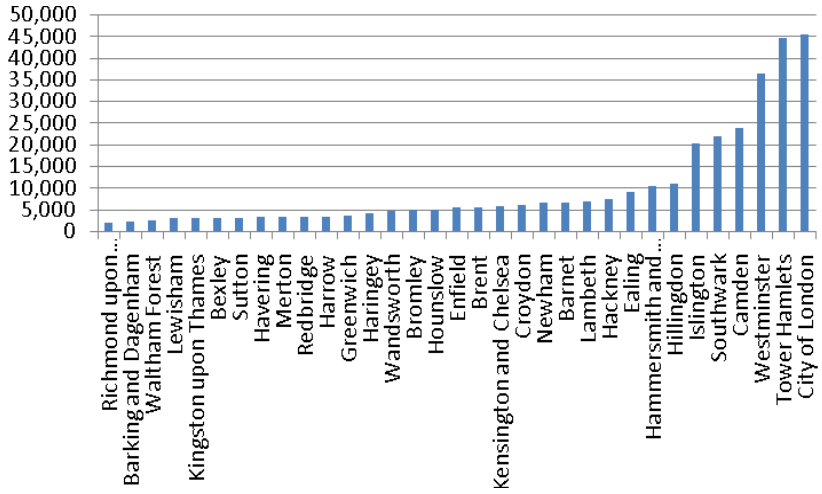
Figure 3.8 Employment forecast by borough, 2011-31 (total employment)



Source: GLA Economics/Volterra

3.3.3 Figure 3.9 shows a similar pattern of borough level growth within all employment for the financial and business services sectors.

Figure 3.9 Employment forecast by borough, 2011-31 (FBS employment)



Source: GLA Economics/RTP

3.3.4 Office sectors are spatially concentrated in London and this informs where growth might be anticipated in the future. For London as a whole, we estimate that two-thirds of office employment is contained within the FBS sectors, with 51% in Business Services and 15.5% in Financial Services. In both the City and Tower Hamlets, the Financial Services sector accounts for fractionally over half of all office employment.

3.3.5 For London as a whole, we estimate that public administration accounts for just over 10% of all office employment. In Croydon, Greenwich, Lewisham, and Newham it is more than twice this proportion.

3.3.6 Other Services accounts for more than 30% of office employment in Hammersmith & Fulham and 25% in Kensington & Chelsea. This reflects the high levels of media employment in these boroughs.

3.3.7 In constructing our office employment forecasts we have assumed that the share of each sector accounted for by an individual sub-sector remains constant over time. The alternative is to project forward using some trend change in shares. Having examined past trends, we did not feel there was enough knowledge about the relative prospects for these sub-sectors to project forward with any significant degree of confidence.

3.3.8 However, to provide a sensitivity test of the office definition, Figure 3.10 sets out forecasts of office growth for London under three different definitions: FBS; RTP Office (constant share); RTP Office (trend share).

Figure 3.10 Alternative office employment projections

Projection	2007	2031	Number 2007-31	% 2007-31
FBS	1,556,000	1,984,000	428,000	27.5
RTP constant	1,616,922	2,002,773	385,851	23.9
RTP trend	1,616,922	2,049,166	422,077	25.9

3.3.9 As can be seen, the pure FBS projection shows a higher level of growth of 428,000 jobs compared to 386,000 under our preferred definition. This is a similar pattern to that found in LOPR 07, where the RTP office definition gave a higher stock figure but a lower projected jobs growth. This is primarily accounted for by the addition of a proportion of the public administration sector where the forecast is for a decline in jobs.

3.3.10 The trend share definition places growth somewhere between the two but is not stable at the local level.

3.4 The demand for additional office space

3.4.1 Appendix A3.2 sets out the projected office employment growth by borough for the period 2007-31.

3.4.2 For London as a whole, between 2007 and 2031, office employment is projected to increase by 386,000 jobs or 24% through to 2031. The biggest growth boroughs are the City (71,000), Tower Hamlets (48,000) and Westminster (46,000). Camden is projected to grow by 39,000 jobs; Hammersmith and Fulham by 29,000; Islington by 28,000, and Southwark by 24,000. As can be seen, these closely follow the borough FBS forecasts set out earlier.

3.4.3 In percentage terms, the largest growth is projected for Hammersmith & Fulham, Tower Hamlets and Newham, reflecting the development of new office centres.

3.4.4 The smallest growth is projected at Croydon, Kingston and Sutton. Croydon has a comparatively large office stock but a large proportion of the occupier base lies in sectors that are forecast to have weak demand, such as public administration. All boroughs are projected to have positive office jobs growth.

3.4.5 We should, of course, note that these are projections based on existing structure and trends. They are not inevitable, and interventions can be made to change both structure and trend.

3.4.6 Looking in more detail at the London Plan policy areas Figure 3.11 sets out the projected office employment growth by the Areas of CAZ, Inner London and Outer London for the London Plan Period of 2011-31. In this definition of CAZ we incorporate Canary Wharf as representing CAZ activities.

Figure 3.11 Projected office employment growth by policy area

Sub-area	2011	2016	2021	2026	2031	2011-31	%
CAZ[17]	925,332	992,217	1,048,151	1,075,113	1,102,786	177,454	19.2
Inner	348,345	364,870	385,986	402,514	415,073	66,727	19.2
Outer	425,716	435,158	442,396	466,393	484,914	59,199	13.9
London	**1,699,393**	**1,792,245**	**1,876,533**	**1,944,020**	**2,002,773**	**303,380**	**17.9**

Source: RTP

3.4.7 In total office employment is projected to grow by just over 300,000 jobs for the London Plan period 2011-31 an increase of 18%. CAZ is projected to account for 58% of the total office employment growth in London, increasing by 177,000 jobs or 19%. Inner London is projected to grow by 67,000 jobs or 19%; while Outer London is projected to increase by 59,000 or 14%.

3.4.8 In order to convert the projected growth of employment into demand for office floorspace, we have applied an employment density ratio of 12 sq m per worker (net) or 13.8 sq m per worker (gross).[18] The rationale for this ratio, and a discussion of trends in occupational density, are set out elsewhere in Section 5.6. The same density ratio is applied uniformly across London.

3.4.9 The resulting demand for floorspace is set out in Figure 3.12, by policy area.

[17] CAZ here includes Canary Wharf

[18] We quote floorspace figures both in terms of net area (more commonly used by the development industry) and gross area (more commonly used in the planning profession), to reflect the needs of different users of this document.

Figure 3.12 Net additional office floorspace demand, 2011-31

Sub-area	Jobs 2011-31	Sq m net	Sq m gross
CAZ	177,454	2,129,449	2,448,866
Inner	66,727	800,728	920,837
Outer	59,199	710,384	816,942
London	**303,380**	**3,640,560**	**4,186,644**

Source: RTP

3.4.10 For London as a whole, there is forecast to be a demand for net additional floorspace of 3.6m sq m (net). Of this 2.1 m sq m is in CAZ; 800,000 sq m in Inner London and 710,000 sq m in Outer London. In terms of gross floorspace area, this is equivalent to 4.2m sq m for London as a whole, comprising 2.4m sq m for CAZ; 920,000 sq m for Inner London and 820,000 sq m for Outer London.

3.4.11 As a sensitivity test using alternative employment density ratios we calculate the floorspace demand using employment density ratios drawn from the 2006 RTP study for the GLA.[19] The floorspace per worker ratio here is for gross floorspace and is marginally higher for CAZ and Inner London and substantially higher for Outer London (Figure 3.13).

Figure 3.13 Floorspace demand, alternative density scenario

Sub-area	2011-31	Floorspace per worker	Sq m gross
CAZ	177,454	14.4	2,555,338
Inner	66,727	14.7	980,891
Outer	59,199	20.6	1,219,493
London	**303,380**		**4,755,722**

Source: RTP

3.4.12 On this basis there would be demand for an additional 4.75m sq m of office floorspace over the period 2011-31. This would be divided into 2.55m sq m in CAZ; 980,000 sq m in Inner London and 1.20m sq m in Outer London.

3.4.13 Figure 3.14 sets out the office floorspace projections by borough, using the office employment densities of 12 sq m (net) and 13.8 sq m (gross). As a standard density ratio is applied this follows the pattern of the office employment forecasts.[20]

[19] RTP, Ramidus & King Sturge (2006) *The use of business space in London*

[20] For a small number of boroughs, the office employment forecasts show a small decline between 2007 and 2011. This follows the pattern of the GLA Triangulated Borough forecasts. In these instances, the net additional floorspace requirement will be lower for 2007-31 than for the shorter plan period 2011-31.

Figure 3.14 Projected office employment floorspace by borough, 2007-31

Borough	2007-31		2011-31	
	Floorspace (sq m net)	Floorspace (sq m gross)	Floorspace (sq m net)	Floorspace (sq m gross)
Barking and Dagenham	18,495	21,269	15,127	17,396
Barnet	80,027	92,031	60,642	69,739
Bexley	19,513	22,440	17,777	20,444
Brent	69,490	79,913	55,695	64,049
Bromley	26,188	30,116	25,976	29,872
Camden	473,431	544,446	358,984	412,831
City	855,928	984,318	536,070	616,481
Croydon	8,809	10,131	18,907	21,743
Ealing	105,214	120,996	93,116	107,083
Enfield	39,691	45,645	36,091	41,505
Greenwich	18,971	21,816	17,508	20,134
Hackney	89,919	103,407	73,250	84,238
Hammersmith and Fulham	348,777	401,094	272,225	313,059
Haringey	48,280	55,523	37,073	42,634
Harrow	33,039	37,995	28,194	32,424
Havering	18,260	20,999	17,865	20,545
Hillingdon	118,424	136,187	102,599	117,989
Hounslow	120,933	139,074	111,233	127,918
Islington	337,994	388,693	252,767	290,682
Kensington & Chelsea	50,503	58,078	42,911	49,348
Kingston upon Thames	8,055	9,263	11,208	12,889
Lambeth	71,475	82,196	57,978	66,675
Lewisham	18,191	20,920	14,749	16,962
Merton	42,244	48,580	29,639	34,085
Newham	75,817	87,189	58,428	67,192
Redbridge	20,591	23,680	22,676	26,078
Richmond upon Thames	14,042	16,148	17,291	19,885
Southwark	287,059	330,118	193,525	222,554
Sutton	11,916	13,704	12,958	14,902
Tower Hamlets	581,072	668,233	517,114	594,681
Waltham Forest	18,185	20,913	15,880	18,262
Wandsworth	48,609	55,900	42,330	48,680
Westminster	551,068	633,728	472,771	543,686
London	**4,630,210**	**5,324,743**	**3,640,557**	**4,186,645**

Source: RTP

3.4.14 For the period 2011-31, Figure 3.14 shows the City requiring 616,000 sq m gross of additional office floorspace. Tower Hamlets would require 595,000 sq m gross and Westminster 544,000 sq m gross.

3.5 Demand and supply 2007-31

3.5.1 Finally, we compare the forecast demand for office floorspace with the identified long-term pipeline (Figure 3.15). Here we draw on data from the London Employment Sites Database (LESD) which contains estimates of future employment floorspace drawn from planning permissions, site allocations and other sources of identified potential supply. The LESD includes increases in capacity from 2007, including completions data. Hence we compare with forecast demand from 2007.

3.5.2 We would caution against using this analysis too prescriptively as both demand and supply data are based on a number of assumptions that are subject to change. Nevertheless it serves to highlight areas where imbalances may arise in order to look at possible areas for intervention.

3.5.3 For London as a whole, the demand and supply figures are reasonably well balanced with potential supply being 50% greater than forecast demand. However within this total there are significant spatial imbalances, and much of this potential might not be available until the end of the Plan period.

3.5.4 In Barnet, Croydon, Greenwich and Newham, identified capacity far outweighs forecast demand, both in absolute and percentage terms. These are boroughs that have sites and ambitions to become large office centres, but need to alter market perceptions about their potential. There is also a large excess capacity for Tower Hamlets, but here the office market is established and forecast demand is high.

3.5.5 In the City the picture is broadly in balance, as is Southwark and Camden. Westminster has a large under-supply, as does Islington. These are boroughs where the forecast would suggest there is strong demand for office employment yet the planning system has not yet identified sufficient sites. There is also a significant under-supply in Hammersmith & Fulham.

3.5.6 A number of boroughs that have a significant excess of supply over demand will have large mixed-used sites which are expected to bring forward some element of commercial office use. Where there is limited information about such sites we have applied standard mix ratios for Inner and Outer London. We suspect one way this table will balance is that a higher proportion of those sites will end up in an alternative use such as residential.

Figure 3.15 Supply and demand of offices by borough, 2007-31

Borough	LESD Sq m gross	Office forecast sq m gross	Supply-demand balance
Barking and Dagenham	90,615	21,269	426%
Barnet	442,440	92,031	481%
Bexley	38,774	22,440	173%
Brent	171,050	79,913	214%
Bromley	28,835	30,116	96%
Camden	621,694	544,446	114%
City of London	1,064,950	984,318	108%
Croydon	155,063	10,131	1,531%
Ealing	96,175	120,996	79%
Enfield	31,127	45,645	68%
Greenwich	474,664	21,816	2176%
Hackney	92,529	103,407	89%
Hammersmith and Fulham	274,491	401,094	68%
Haringey	87,221	55,523	157%
Harrow	11,542	37,995	30%
Havering	107,872	20,999	514%
Hillingdon	62,345	136,187	46%
Hounslow	202,767	139,074	146%
Islington	139,385	388,693	36%
Kensington and Chelsea	56,899	58,078	98%
Kingston upon Thames	31,503	9,263	340%
Lambeth	270,168	82,196	329%
Lewisham	99,529	20,920	476%
Merton	3,327	48,580	7%
Newham	850,023	87,189	975%
Redbridge	3,601	23,680	15%
Richmond upon Thames	2,636	16,148	16%
Southwark	429,179	330,118	130%
Sutton	12,885	13,704	94%
Tower Hamlets	1,669,396	668,233	250%
Waltham Forest	8,053	20,913	39%
Wandsworth	192,573	55,900	344%
Westminster	239,237	633,728	38%
Total	**8,062,550**	**5,324,742**	**151%**

Source: RTP

4.0 London's mega schemes in a historic context

4.1 Context

4.1.1 While undertaking the research for LOPR 09, the number and scale of proposals that involved very large commercial schemes in London became increasingly apparent. Taken alongside historic supply-demand dynamics (Chapter 1.0), and potential structural changes taking place in the quantum and distribution of demand (Chapter 5.0), the large scheme proposals seemed, *a priori*, to be an order of magnitude larger than our collective experience suggested ought to be the case.

4.1.2 We therefore investigated these "mega schemes" in a little more detail. What emerges from this investigation is confirmation that the schemes are, collectively, *very* large by historic standards, and that they could have a negative impact both on the viability of commercial office development across generally, and on specific markets in parts of London.

4.2 The office economy: 1984-2009

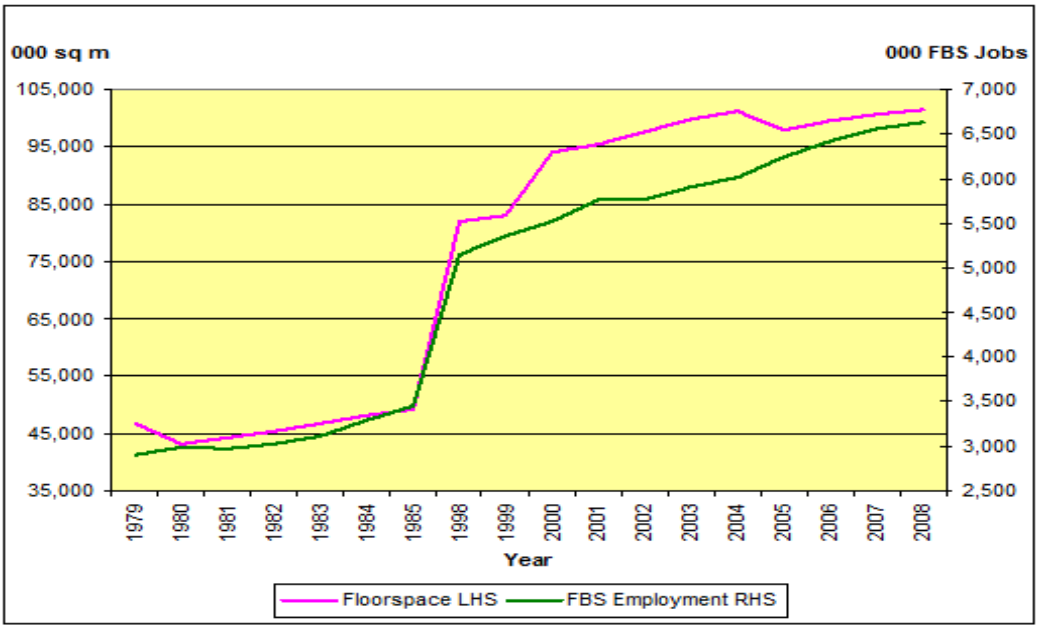
4.2.1 The history of London's office market over the past quarter century mirrors the profound change in the wider economy over that period: the replacement of the industrial base by a service base, and the transformation of the UK to an office economy. Figure 4.1 shows a doubling of office floorspace in England and Wales between 1979 and 2008, from nearly 47 million sq m to 101 million sq m.[21] The graph also shows how the growth in office space was mirrored by a doubling of Financial and Business Services employment over the same period, from just under three million to over six and a half million.

4.2.2 In London specifically, the already large stock of office space grew by 55% over the period 1984-2009, in round terms from around 18 million sq m to 28 million sq m, or a growth of some 10 million sq m over a twenty-five year period. Put another way, a simple long-term average growth rate of 400,000 sq m per annum.

4.2.3 The extraordinary growth impetus delivered by the Information and Communications Technology (ICT) sector was a key factor in the rapid growth of offices in the 1980s, following the launch of the first IBM PC in 1981. It is no coincidence either that the growth followed deregulation of financial services both in New York and London in the mid-1980s, with the emergence of both cities as dominant global financial centres. These changes also drove a fundamental shift in what occupiers expected from offices, creating a huge new market for a whole new product type – large open floors, high specification and superior quality. Crucially, much of the existing stock could not meet this demand. A significant proportion of the new buildings were 100% additions to stock, having been developed on railway lands, former industrial sites and disused docks.

[21] A discontinuity in floorspace data collection means that there is no comparable data for the period 1985-1998.

Figure 4.1 Growth of office floorspace and FBS employment, 1979-2008[22]



4.2.4 One obvious question that this historic snapshot begs is: what will provide the engine of growth to replicate the historic expansion of the office economy over the *next* twenty-five years? However, the specific question here is: how is the current development pipeline responding to forecast demand. We seek to answer this question by reviewing current mega scheme proposals in the context of historic supply patterns, and then evaluating these against latest employment forecasts and their implications for demand.

4.3 Historic pattern of development

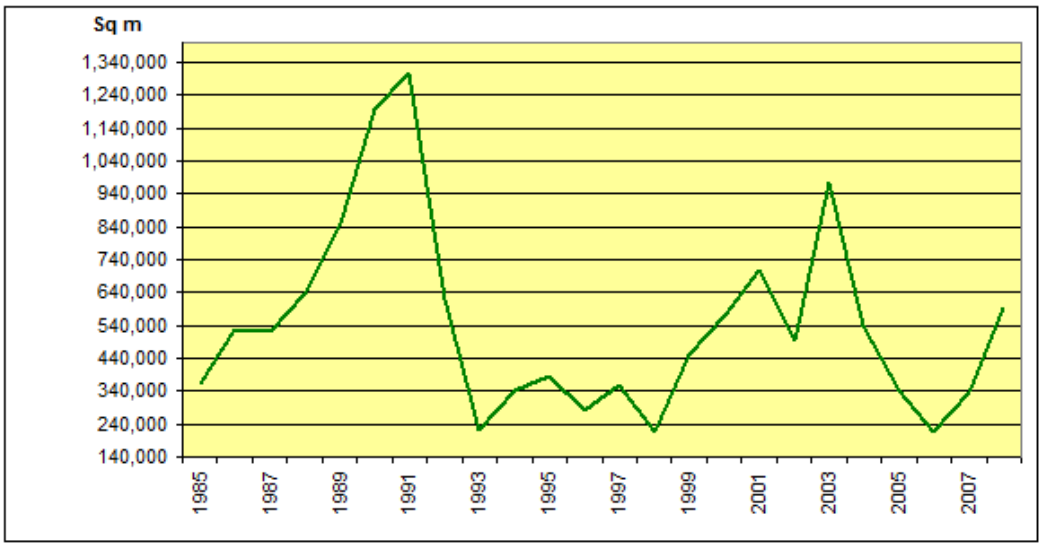
4.3.1 Figure 4.2 shows development completions, for Central London, between 1985 and 2008.[23] The long-term average is 545,000 sq m, with sharp peaks and troughs.[24] The 1990-91 peak resulted from the Big Bang development boom of the late-1980s; while the 2003 peak followed the shorter-lived Dotcom boom.

4.3.2 Even during the past twenty-five years, when the broader economy was losing industrial space as fast as it was producing office space, the number of very large schemes in London was limited to a handful of schemes at any point in time. London Bridge City (first building completed 1986) dovetailed with Broadgate (first building completed 1986); which overlapped with Canary Wharf (first building completed 1991). Then came Chiswick Park (first building completed 2000); followed by Paddington (first building completed

[22] Floorspace data relate to England & Wales; FBS data relate to UK.
[23] Comparable data is not available on a London-wide scale.
[24] This is much larger than the 400,000 sq m given earlier (and for a smaller market area) because it measures gross development rather than net addition to stock.

2002) and More London (first building completed 2002). And now we have King's Cross and others emerging.

Figure 4.2 Development completions, Central London, 1985-2008



Source: DTZ Research

4.3.3 Despite the average annual Central London completion figure of 545,000 sq m, peaking at 1.3 million sq m in 1991 and 976,000 sq m in 2003, the contribution played by Central London mega schemes in meeting demand was relatively modest. The six projects mentioned above have delivered 2.3 million sq m of space since the first buildings in 1986.

- London Bridge City 75,000 sq m
- Broadgate 400,000 sq m
- Canary Wharf 1,400,000 sq m
- Paddington 150,000 sq m
- Chiswick Park 100,000 sq m
- More London 175,000 sq m
- **Total 2,300,000 sq m**

4.3.4 The schemes have provided, on average, 96,000 sq m per annum. And 60% of this space has been in Canary Wharf. This long-term contribution of the six schemes equates to around 18% of the total Central London annual development completions of 545,000 sq m.

4.3.5 The first generation of mega schemes set the precedent for "off-centre" developments. When Broadgate was mooted, half a mile from the Bank of England, it was revolutionary. Now, building in Waterloo, King's Cross and Paddington is mainstream. It is accepted now that it is possible to re-engineer the geography of Central London as long as access to the heart of City and West End by public transport is good, and also that the scheme is large enough to create its own public realm and sense of place.

4.3.6 We now turn to examine the prospective mega schemes in the context of this historic pattern of mega scheme development.

4.4 Current proposals

4.4.1 Set against this historic pattern of supply, there are now a relatively large number of mega schemes, scattered throughout London, at various stages of development – from inception through to part-delivered.

4.4.2 There are three key issues with these proposals in the context of the London Office Policy Review and our central question of the relationship between the development pipeline and forecast demand:

- the scale of development in east London;
- the scale of the east London and other mega schemes combined, and
- the competitive position of the various schemes.

4.4.3 We review the schemes here and then, in Section 4.5, we review the competitive issues.

East London mega schemes

4.4.4 One of the key issues for the east London office market is the question of where new office growth will be most highly concentrated. Apart from the myriad sites and schemes involving one or two buildings that are scattered throughout the area, there are four mega schemes lined up to deliver very large amounts of office space. These are summarised below.

- **Canary Wharf:** in addition to the 176,000 sq m Riverside South scheme, pre-let to JP Morgan, Canary Wharf still has **422,000 sq m** of permitted development at North Quay (222,000 sq m), Heron Quays (155,000 sq m) and 25 Churchill Place (45,000 sq m), to develop – a total of 598,000 sq m.
- **Greenwich Peninsula:** this Quintain scheme is set to provide around **350,000 sq m** in 14 buildings over the next 15 years. Two are already developed: one let to Transport for London and the other under offer to French contractor Bouygues.
- **Stratford City:** includes **465,000 sq m** of office development. The 100,000 sq m envisaged for Zone 1 will be driven by market demand and there are currently no plans to build speculatively. The rest of the office space falls within Zones 2 to 7 which are on land that will be used for Olympic facilities and therefore cannot be developed until after 2012.
- **Wood Wharf:** in effect an eastwards extension of Canary Wharf, Wood Wharf promises to deliver six new office buildings, totalling **370,000 sq m**, within a mixed use scheme.

4.4.5 These schemes could, together, deliver just over 1.6 million sq m of office space.[25] To give a sense of scale, together they are:

[25] Using the smaller Canary Wharf figure of 422,000 sq m, ie, net of the JP Morgan pre-let.

- equivalent to 14 HSBC towers;
- equivalent to the amount of space completed within east London at Canary Wharf 1991-2009;
- equivalent to 70% of already completed space within London Bridge City, Broadgate, Canary Wharf, Paddington, Chiswick and More London combined; or
- enough to house 133,000 workers (at the LOPR density assumption of 12 sq m net per worker).

4.4.6 Outside of the Canary Wharf complex, east London has so far failed to attract any significant corporate occupier interest.

Other London mega schemes

4.4.7 As well as the competitive position of the schemes in east London, there is of course the wider question of whether the east London schemes will be competing for occupiers with other mega schemes emerging at the same time, elsewhere in London. In our experience, the largest office requirements consider a broad range of locations in their initial searches and are rarely confined to a single sub-market. There are a number of other mega schemes on the horizon, and the key projects are summarised below.[26]

- **Brent Cross/Cricklewood:** proposals for a 60 ha development aim to create a new "urban quarter" focussed on the existing Brent Cross Shopping Centre. Plans incorporate **c400,000 sq m** of office space.
- **Chiswick Park:** 100,000 sq m of "mid-urban business park" was completed 2000-2009, in nine buildings on the former Chiswick bus garage site. There is **75,000 sq m** of permitted development on three remaining plots at the north of the site, where buildings of 9-12 storeys are approved.
- **Croydon:** there are various schemes proposed in Croydon. Cherry Orchard Road, Chroma, Odalisk and Ruskin Square alone total nearly **200,000 sq m;** and there several other schemes that could increase this very significantly.
- **Earls Court/Olympia:** a mixed use scheme of 1.7 million sq m being promoted by Capital & Counties, that includes **600,000 sq m** of offices. Runs counter to London Borough of Hammersmith & Fulham's desires to replace the Convention Centre following the 2012 Olympics.
- **Euston:** in partnership with Network Rail, British Land is working up proposals for the redevelopment of Euston Station. The 6 ha site has potential for more than **300,000 sq m** of mixed use development, including office, retail, residential and a new station.
- **King's Cross:** Argent secured planning permission in July 2008 for nearly 800,000 sq m of mixed use development, including up to 25 new office buildings, totalling **c450,000 sq m**.

[26] We have excluded proposals for Vauxhall City and Wembley as we believe the office content to be ancillary in nature. Battersea's planning application, including c65,000 sq m of office content, emerged late in the drafting of this report.

- **Paddington:** with 150,000 sq m already completed or under construction at mid-2009, there is further potential permitted development at Span 4 Paddington Station (56,000 sq m), Merchant Square (33,000 sq m), Paddington Central (31,000 sq m) and North Wharf Road (30,000 sq m), totalling **150,000 sq m**
- **Waterloo:** the redevelopment of Elizabeth House on York Road will deliver two office towers totalling **75,000 sq m**. There is further potential on the 9.9 ha station concourse for c100,000 sq m of offices but, as indicated in the Waterloo Opportunity Area Framework, this would be predicated on a cluster of towers.[27]
- **White City:** owned by a development consortium including Helical Bar, Land Securities and Morley, as well as the BBC, this 17 ha site focuses on Wood Lane and BBC Television Centre. The umbrella scheme, Creative London, totals **450,000 sq m** of office space, including the BBC's plans for a 100,000 sq m sq "media hub" on its 5 ha site.

4.4.8 We have included Croydon here, even though it does not qualify as a single, unified mega scheme. We have done this because of the significance of Croydon both in market terms and in policy terms.

4.4.9 These schemes total 2.63 million sq m.[28] Clearly, many of the proposals are at early stages of formulation; some are more certain than others, and the precise office content of each will respond to market signals. Furthermore, the timescale of the schemes will stretch over at least two decades. However, they do signal a very large addition to stock.

4.4.10 Taking the four east London schemes outlined in Section 4.4.1 together with the nine other schemes in London listed above, the mega-scheme pipeline has the capacity to add 4.23 million sq m of office space to the London stock in the future. This is almost double what was provided in the six existing mega-schemes over 25 years (2.3 million sq m), during a period of massive expansion in the London economy. At the completion rates in mega schemes over the past 25 years (average 96,000 sq m pa), the total of 4.23 million sq m equates to 44 years of supply.

4.4.11 Figure 4.3 shows a composite map of the historic and proposed mega schemes.

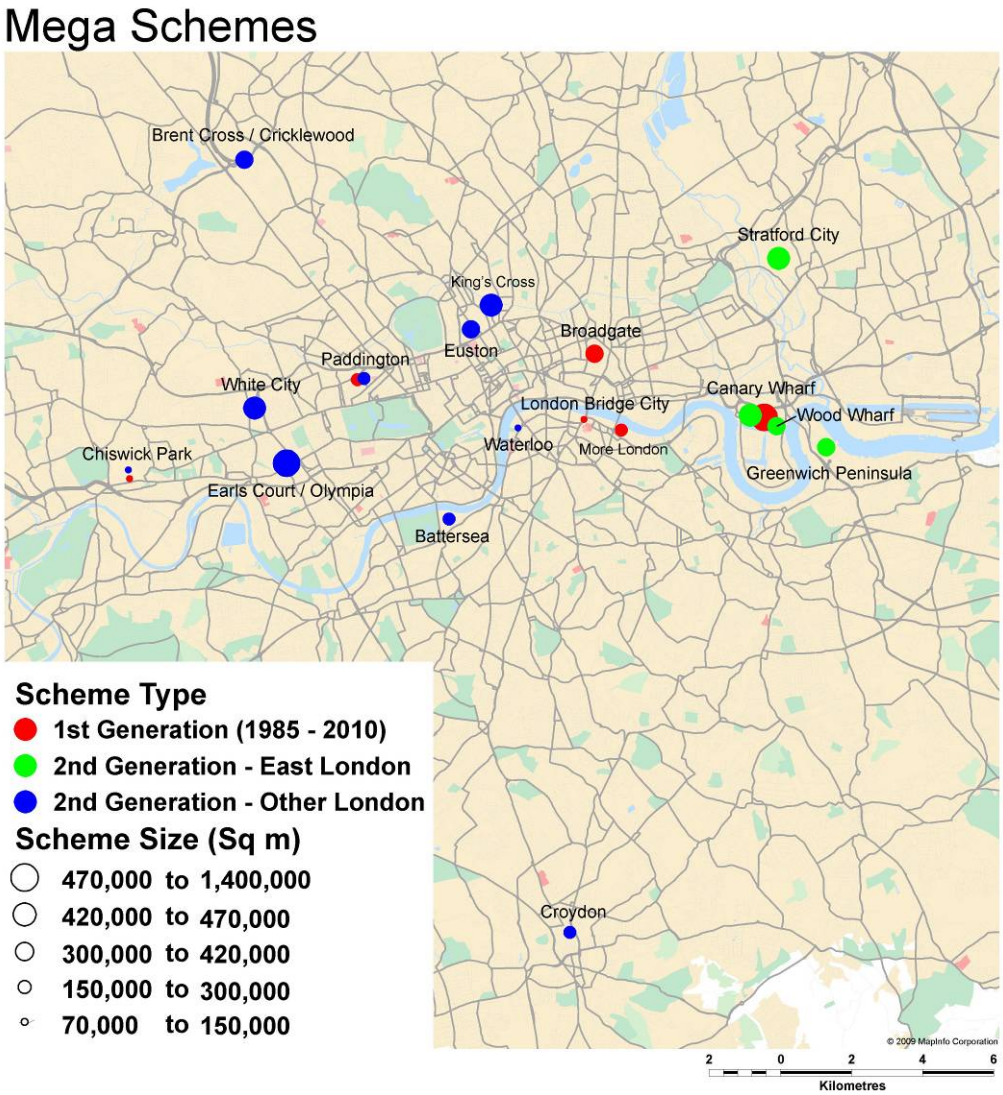
4.5 Competition

4.5.1 Having quantified the scale of mega scheme proposals, we turn now to the question of competition. Clearly, whatever the rate of growth in office employment over the coming period, there will be a level of competition for occupiers. Two key questions emerge:

- to what extent will the east London schemes compete with each other?
- to what extent will they compete with others in London?

[27] GLA (2007) *Waterloo Opportunity Area Framework* GLA, London.
[28] This assumes the smaller, 200,000 sq m, figure for Croydon and 75,000 sq m for Waterloo.

Figure 4.3 First and second generation London mega schemes



Competition within east London

4.5.2 The four mega schemes will potentially bring a large amount of office space to the market simultaneously (accepting that little will be built-out speculatively for the next few years). On the assumption that the weight of potential space (and land) outweighs demand, the schemes will compete for occupiers. It could even be argued that this is already happening in the competition for pre-lets for those schemes that are being actively marketed (Canary Wharf and Greenwich Peninsula).

4.5.3 The exception to the simultaneous push will be Stratford, which will not be "pushed" as an office development until after the Olympics. There is thus the possibility that it will be disadvantaged among the four in market terms (even

with its superior transport links). However, Stratford might be protected in this sense due to the general level of development inactivity expected until 2011. Perhaps it can use this time to establish itself and its public realm.

4.5.4 There seems little doubt that the four schemes will be competitive: how could they not be? The key issues are as follows.

- As already noted, the east London market beyond Canary Wharf is an untried office market in terms of attracting corporate occupiers. Levels of demand might therefore be expected to "slow burn", increasing the competitive pressure on each scheme.
- Stratford currently lacks critical mass: this is a fact. It is a "new starter", despite transport advantages. But it has huge public investment and profile and unusually good public transport. In this sense, the history of King's Cross is instructive. Stratford will need to create an identity and a compelling case if it is to compete successfully with its more established competition to the south.
- Related to the previous point, there is the question of whether the established and mature office centre of Canary Wharf provides North Quay and Wood Wharf with an unassailable advantage over both Greenwich and Stratford.

4.5.5 It is worth bearing in mind in this regard the failure of the Royals Business Park to take-off beyond its first phase. The first building, of 22,000 sq m, was completed in 2004 and eventually occupied by LB Newham. The masterplan for the scheme was for a 150,000 sq m mid-urban, mid-rise business park, and was first mooted in the mid-1980s by developer Rosehaugh Stanhope. The scheme's relative remoteness and lack of transport infrastructure probably played a major role in its lack of success.

4.5.6 However, even having an anchor tenant, access to public transport and locational advantage is no guarantee of success. FirstCentral at Park Royal in west London, developed by landowner Diageo, has a masterplan for nine office buildings totalling just over 100,000 sq m. Diageo occupied its 14,400 sq m headquarters building in 2002. Billed as "*London's new international business destination*", no other occupiers have been attracted to this scheme, where the immediate context is the Park Royal industrial estate, in the subsequent seven buoyant years.

Competition between east London and other mega schemes

4.5.7 There is little doubt that the east London schemes will be competing with the other mega schemes planned elsewhere; the key issues are as follows.

- What is the compelling offer in east London that will break down strong allegiances, and the practicalities of agglomeration economics, to encourage a west-east drift of large occupiers?
- Given that Stratford might already be struggling to compete with future phases of Canary Wharf and Wood Wharf, will it also struggle to

compete with King's Cross, which has many of the transport advantages boasted by Stratford?

- Is it possible that, in a zero sum game, the competition will dilute occupational demand to the detriment of the market overall?

4.5.8 The potential competition is illustrated by CapCo's plans at Earls Court, where they claim their scheme will "*create a west London urban quarter to rival Canary Wharf and King's Cross*". Behind the marketing angle, there is a strong message.

4.5.9 Existing and proposed mega schemes, as outlined here, certainly provide a wide choice to potential occupiers. That there is a choice of development opportunities for developers to pursue and occupiers to consider is an important principle of strategic planning for London offices: future capacity should include a "strategic reserve". The implication of this, though, that not all mega schemes will succeed. Where such schemes appear to have failed over more than one cycle, developers are likely to look at alternative masterplans. In the context of the volume of potential space in the pipeline, including mega schemes and conventional locations, the planning system might have to look sympathetically at alternative uses.

Impact on Inner/Outer London market dynamics

4.5.10 Three further points merit consideration. First, is there also an impact on the core Central London market to be considered? The recent success of, for example, Paddington in attracting corporate occupiers out of the core area could potentially multiply with a number of the mega schemes.

4.5.11 Secondly, will the mega schemes further denude the viability of outer London office markets? LOPR 09 has highlighted the structural fragility of many of these. The mega schemes will provide a ready and unconstrained supply of relatively cost effective space in integrated developments with public realm. This could choke off any vestiges of the traditional centripetal drift of occupiers from the high cost core to the lower cost fringes.

4.5.12 Thirdly, London must also look beyond its boundaries. At Ebbsfleet, for example, Land Securities is planning a mega scheme containing several hundred thousand square metres of commercial space. In June 2008, consent was granted for the "Station Quarter North" phase, which alone has 200,000 sq m of employment space. Such OMA competition should not be ignored in the consideration of the impact of London's mega schemes.

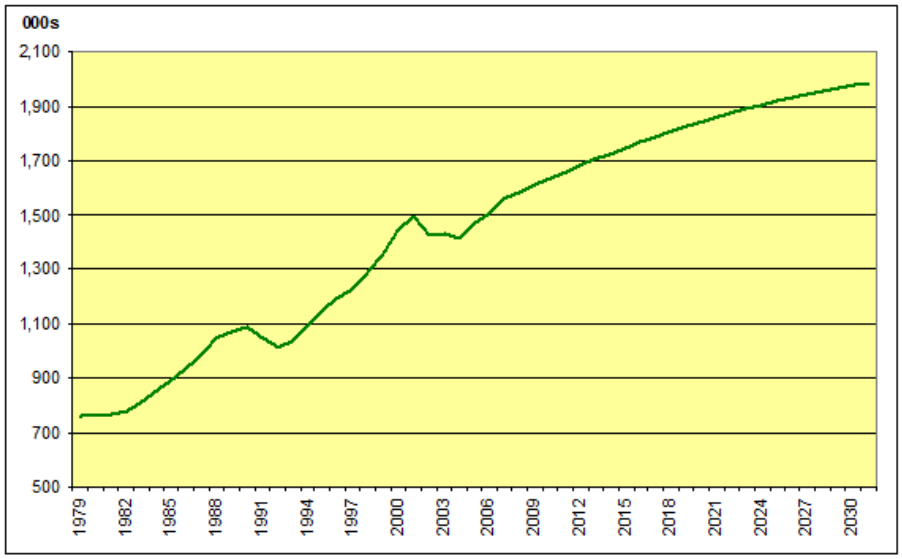
4.6 Employment growth forecasts

4.6.1 New forecasts of employment growth in London have just been released. By focusing on the data for Financial and Business Services (FBS) employment as a proxy for office employment, we are able to gain a useful insight into the expected *rate of change* in the demand for offices in the future.

4.6.2 Figure 4.4 shows both historic and forecast FBS employment in London. Starting from 757,000 in 1979, FBS employment grew to a pre-Big Bang

891,000. Thereafter, it grew quickly, reaching 1,046,000 in 1991 (just prior to the onset of recession), and 1,356,000 in 1999. Over the next ten years, apart from a hiccup around the burst of the Dotcom bubble, FBS jobs grew steadily, reaching 1,608,000 in 2009.

Figure 4.4 Financial & Business Services employment, London 1979-2009, and forecast 2009-2031



4.6.3 In terms of the forecasts, these show steady grow from 2009 to 2031, although at a slower rate than in the past. Overall forecasts show FBS jobs growing to 1,984,000 by 2031, representing a 23% increase over the 22 year period. If we cast back 22 years (1987-2009), the growth rate was 63%.

4.6.4 In other words, forecasts for a key indicator of overall demand for offices (FBS employment) are showing a *growth rate* over the coming period a little more than one-third that over the previous period.

4.7 Overview

4.7.1 Comparing one period's mega schemes with those of a subsequent, future period is not a very "scientific" method of looking at the development pipeline. However it does provide a very useful, and graphic, baseline against which to view the scale of proposed development in mega schemes for London.

4.7.2 A number of conclusions and implications emerge from this analysis.

- The mega schemes of the past 25 years delivered c96,000 sq m per annum (two thirds in Canary Wharf), or around 18% of the total Central London annual development completions of 545,000 sq m.
- There is nearly twice the space in the mega scheme pipeline (4.23 million sq m) as there was in the previous period (2.3 million sq m).

- The proposals represent 44 years of supply at the previous period's completion rates. This is a very, very large pipeline.
- And, of course, this ignores large schemes elsewhere in the capital (eg Bucklersbury, Heron Tower; News International site; Shard; Victoria).
- The first period saw a major structural change in the economy (the rise of the office economy); which is unlikely to be repeated in the future.
- On the contrary, there is credible evidence to suggest that this will not be the case. FBS employment forecasts suggest a slowing of growth.
- If changes to working styles and a generally more efficient approach to space management (see Sections 5.5 and 5.6) are added to the mix, then future take-up levels could be quite different to historic trends.
- Not all the mega schemes can succeed (in terms of office provision). East London schemes will compete with each other; west London schemes will be competitive; and east will compete with west.
- The mega schemes might depress development viability, and could further weaken prospects for Outer London office markets.

4.7.3 The timescales of mega-schemes is measured in decades in terms of securing ownership and/or development agreements, masterplanning, providing infrastructure, the phased construction of buildings, letting and selling, and management and place-making. Timing is crucial. Some schemes which have "missed" or "failed" in one cycle have "hit" or "succeeded" subsequently. Others have fallen by the wayside, it seems, even where a start has been made and an anchor occupier found.

4.7.4 While it does seem that there is a potentially very large over-supply contained within the mega schemes, we recognise that, in reality, market signals will determine how much is actually built, and the office components of schemes will respond to changing demand circumstances, including the shifting profile of employment and new jobs.

4.7.5 However, given the most recent and more subdued forecasts for office employment, together with the transport infrastructure implications, we suggest that the potential impact of the mega schemes on London's structure is monitored carefully.

5.0 Recent changes: cyclical or structural?

5.1 Introduction

5.1.1 Since August 2007 we have witnessed seismic events in the global economy. Beginning with the credit crunch in August 2007, and feeding through to a full blown recession by the end of 2008, events have been dramatic, including the demise of some of the biggest names in investment banking, and the effective nationalisation of large parts of what remains. As a world city and global financial centre, London has suffered significantly, and there has been a very significant knock-on effect for the London commercial property market.

5.1.2 "All Property" asset values have fallen by 44.1% since their peak in mid-2007[29], while headline rents have fallen 35% in the West End and 27% in the City (net effective rents, 46% and 43%, respectively).[30] New speculative development has virtually ceased; town centre regeneration schemes have been postponed, and pressure to convert employment land to housing has dissipated. Bank lending to the property sector has plummeted, and weakening occupational demand in the face of economic uncertainty is reinforcing the fragility of the development and investment markets. Nomura's recent leasing of Watermark Place in the City, with a near six year rent free period symbolises the fragile state of the London office market.

5.1.3 Consensus among market practitioners remains pessimistic over the prospects for commercial property for the next two years. And there is an expectation that the financial services sector will emerge substantially and fundamentally changed in its structure and methods of operation.

5.1.4 This Chapter places a spotlight on recent economic events and other on-going trends to provide an overview of prospective implications for the Central London office market. In particular we examine the following:

- recent changes in the economy;
- London's competitive position;
- spatial change in the occupational market;
- public sector relocation and rationalisation, and
- the impact of ICT and flexible working styles.

Finally, we examine to what extent the changes described here are "normal" cyclical changes; and to what extent they represent structural change.

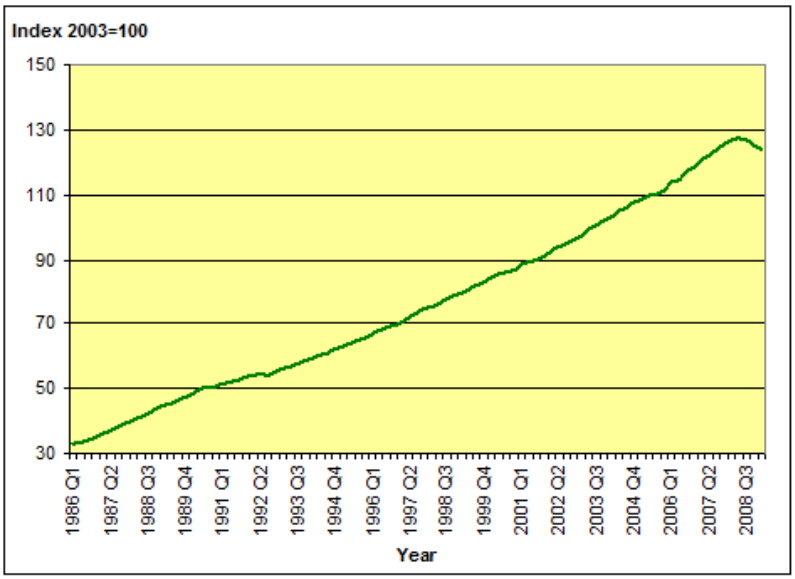
5.2 Recent changes in the economy

5.2.1 The national property market experienced a prolonged and vigorous period of growth between 2003 and through to 2007. Indeed, following the mild

[29] IPD *Press Release* 14th July 2009
[30] JLL (2009) *Central London Market Q1 2009* JLL, London

recession of the early-1990s, the UK economy delivered a record 64 consecutive quarters of growth up to Q2 08 (Figure 5.1).

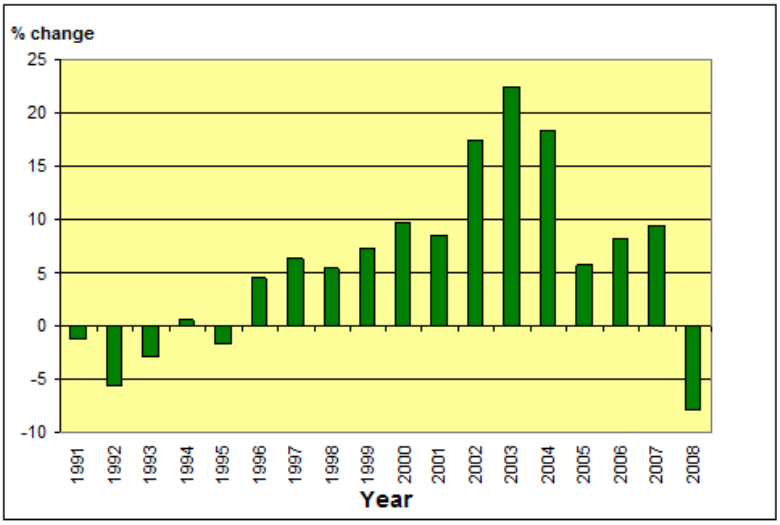
Figure 5.1 Quarterly GDP growth, UK, 1986-2009



Source: National statistics

5.2.2 Another area normally seen as an indicator of underlying economic strength is the housing market. Figure 5.2 shows Halifax data, with annual price increases.[31] The parallel with the annual growth in GDP is clear.

Figure 5.2 House price annual increases, 1991-2008



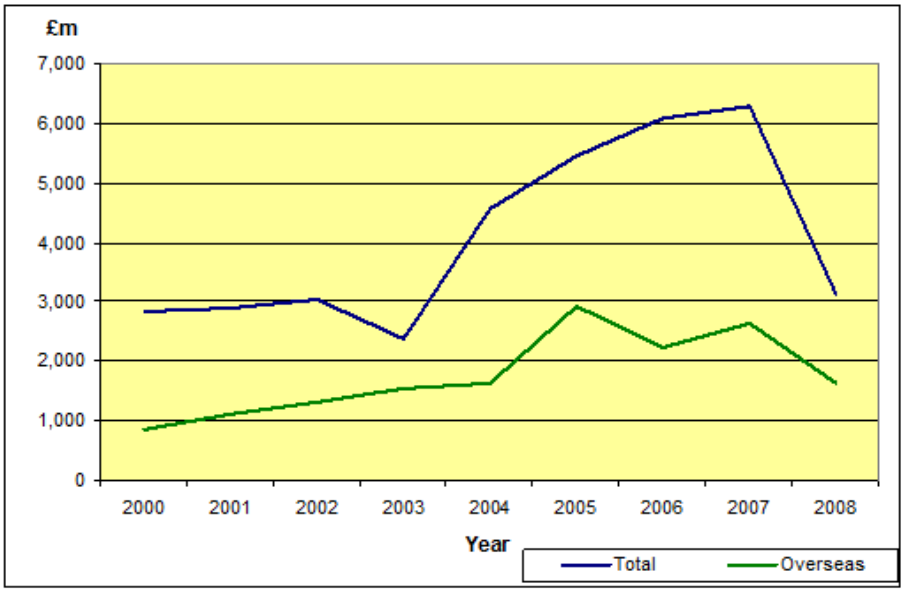
Source: Halifax (Various) House Price Index

[31] Halifax (Various) *House Price Index*

5.2.3 The number of people in employment rose to 29.36 million by November 2007, the highest figure since comparable records began in 1971. The unemployment rate in November was 5.3%; having fallen for 15 consecutive months; and the claimant count reached 807,000, the lowest since 1975.

5.2.4 The pattern of growth in the residential market and the generally benign conditions in the economy were mirrored in the commercial property sector. Figure 5.3 shows the growth in volume of capital transactions in Central London between 2000 and 2008.

Figure 5.3 Capital transactions in Central London, 2000-2008



Source: JLL (Various) Central London Market Report

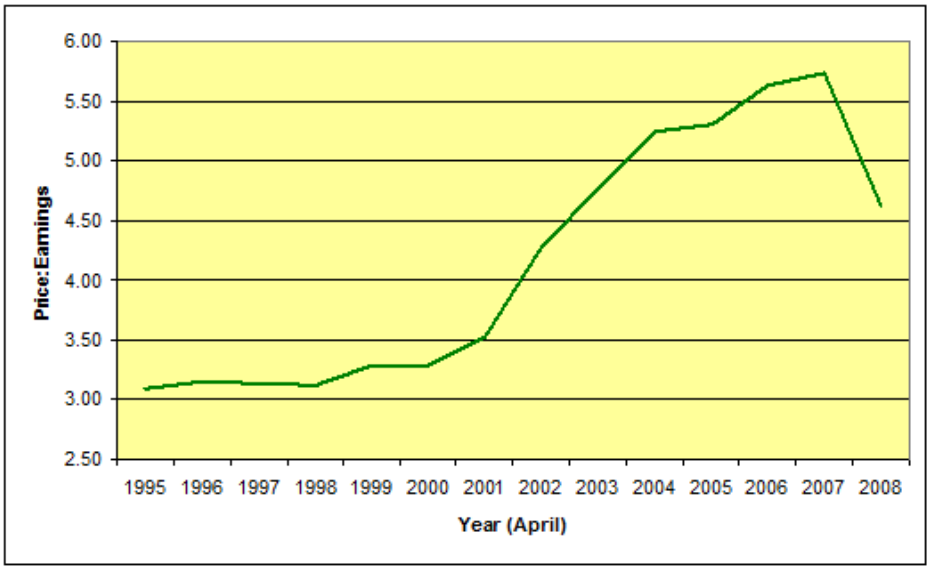
The annual level of investment doubled between the early part of the period and 2007, with overseas investment rising from one-third to around one-half.

The crunching halt

5.2.5 However, as Figures 5.1 to 5.3 all show, events changed very quickly between 2007 and 2008. During August 2007 the sub-prime mortgage crisis in the US became clear, leading to a chain of events that would engulf the world economy within months, the defining moment perhaps being the collapse of US investment bank Lehman Brothers. The events surrounding the onset of the credit crunch are now well-documented, suffice to say that the key problem behind the residential sub-prime crisis was the same as in the commercial property market: the explosive growth of cheap debt, being marketed to those most likely to run into difficulty.

5.2.6 As we now know, behind the house price inflation lay a time bomb. The house price/earnings ratio fell from around 4.8 at the previous peak in 1988, to a little over 3.0 in the mid-1990s; but then rose inexorably to almost 6.0 during 2007 (Figure 5.4).

Figure 5.4 House price:earnings ratio, 1983-2008



Source: Halifax (Various) House Price Index

5.2.7 What became clear with the crunch was the scale to which the economic growth had been fuelled on cheap debt. Research released in August 2007 showed personal debt in the UK standing at £1.345 trillion. While not by itself a signal of a major problem (most of the debt is secured on property and can be repaid over the medium-term), such a level of debt leaves many vulnerable if problems elsewhere in the economy deteriorate.

5.2.8 The final quarter of 2007 witnessed a major change of sentiment in financial markets as the full-scale of the US sub-prime crisis began to emerge. Coming as this did on the back of continuing concerns over the general health of the US economy, it was inevitable that the impact would be felt in Europe, and the UK in particular.

5.2.9 The commercial property market deteriorated quickly. IPD figures showed the biggest ever monthly fall in values, 4.2%, in December 2007, with a 10% drop in capital values over the year, all of which came in the last quarter. Most listed property companies were by this time trading at a 30% or more discount to underlying net asset value, and soon enough all of the major players were going to the market to raise funds to shore up balance sheets.

5.2.10 As well as the scale, the speed of the falls caught most observers off guard. Faced with stark statistics a gloom quickly settled over the market in early 2008. Falling values, the drying up of investment deals and faltering occupier demand were reinforcing a deepening gloom. The mood echoed the wider business community. By the end of 2008, the FTSE 100 was 30% down on the year – the worst annual decline since its inception in 1985.

The onset of recession

5.2.11 The UK economy officially tipped into recession in mid-2009, going on to record a fifth consecutive quarter of contraction in Q2 09 of 0.8%, following fall of -2.4% in Q1 09 and -1.9% in Q4 08. The dismal performance led the GLA Economics to comment "*The annual rate of decline now stands at 5.6 per cent, the biggest fall since records began in 1955*".[32] Some observers have predicted that it be 2011 before output returns to pre-recession levels.

5.2.12 The first quarter of 2009 provided little comfort that markets were improving. In January, the Bank of England cut interest rates by 50 basis points to 1.5% (the lowest rate since the Bank's foundation in 1694); Sterling hit a 24 year low against the Dollar, and unemployment hovered around two million – a level not seen since 1997. The Bank further reduced interest rates to 0.5% in March and, with so little room left for manoeuvre, also began a major programme of "quantitative easing".

5.2.13 RPI inflation turned negative in March (0.4%) for the first time since 1960, and was down (by 1.8%) in June, amid forecasts that it would not improve for some time amid weak demand. Meanwhile, a large section of the UK banking system was part-nationalised; and public debt continued to soar, with Standard and Poor's forecasting unprecedented levels of borrowing, at £200 billion in 2009/10. Unemployment reached 4.8% in June 09, although this remained below early-1990s levels.

5.2.14 Generally speaking, forecasters expect the rate of contraction to slow in the period ahead, but there is also an expectation that conditions will not particularly improve for the whole of 2010.

5.2.15 The impact of these economic trends on the London office market is seen in the supply and demand assessment presented in Chapter 1.0 of this report. What is clear is that London's office market was badly hit: during 2008, new development, investment and occupier activity all shrunk dramatically. A fall of 0.9% in commercial property values during June 2009 marked two full years of monthly falls.[33]

5.2.16 The extent of the downturn in the London office market is illustrated by two developers each granting leases with four years rent free in key City schemes, scales of incentive not seen since the crash of the late-1980s:

- Hammerson to Talbot Underwriting at 60 Threadneedle St, EC2.
- British Land to Bank of Tokyo Mitsubishi at Ropemaker, EC2.

At the time of writing, there were rumours that US law firm Orrick Herrington & Sutcliffe had taken c4,500 sq m at 107 Cheapside, EC2, in a deal including nearly five-years rent free on a 15-year lease at around £398 sq m (£37 sq ft). Nomura secured six years rent-free in late August 2009 on its new HQ at Watermark Place.

[32] GLAE *London's Economy Today* Issue 83 July 2009 GLA, London
[33] IPD *Press Release* 14th July 2009

5.2.17 Elsewhere, projects are being delayed, including

- British Land's "Cheese Grater" scheme at 122 Leadenhall Street, EC3;
- Arab Investments' Pinnacle on Bishopsgate, EC2, and
- Land Securities' Park Street scheme in the West End.

5.2.18 Clearly, London has suffered badly as a result of the Credit Crunch and the ensuing recession, due largely to its exposure to the financial services sector. It has to be assumed that economic recovery – whenever that happens – will benefit London as elsewhere, but when will that be? Several indicators point to the nadir having been reached, but forecasts indicate a long trough. Market consensus seems to suggest that GDP, industrial production, house prices and office rents and capital values will all remain in negative growth through 2010, albeit slightly less negative than 2009, but that faltering growth will return thereafter (there have been some monthly gains in house prices according to some indices in mid-2009, although annual change remains negative). It should also be remembered that office rental growth is likely to lag the economy.

5.2.19 Assuming that by 2011 London's economy is growing once again, the real question for the longer-term outlook is whether there are other forces at work that could erode London's competitive position, particularly with respect to global financial and business services firms. This question of London's competitive position has been in the air for some time but it has been obscured over the past year by the scale and drama of upheaval in the financial sector and the wider economy. As London emerges from recession, its place in the hierarchy of world city economies will be critical.

5.3 London's competitive position

5.3.1 First, the good news. Ernst & Young's latest annual country attractiveness survey reports that the UK retained its position

> *as the most attractive destination for inward investment in Europe in 2008. Despite current difficulties, London and New York are seen as the clear leaders with the capacity to rebound from the crisis. These global cities have become clusters of education, entrepreneurship and opportunities, drawing the most able talent from around the world.*[34]

5.3.2 In addition, the recession has, arguably, improved the attractiveness of London because the commercial property price adjustment here has been sharper than in several competitive cities: capital values on commercial property in London are likely to see a peak-to-trough drop of over 50%.

5.3.3 But now for the bad news, also from the Ernst & Young report.

[34] Ernst & Young (2009) *Reinventing European Growth: 2009 European Attractiveness Survey* E&Y, London

The primacy of long-established centres in the developed world – including Europe's capitals - is being challenged by emerging Asian cities such as Shanghai and Bangalore and by regional cities acquiring international expertise. Investors now have confidence in the innovation capacity of global cities in high-growth economies. When asked where the next Google or Microsoft will emerge, Shanghai and Mumbai are seen as more credible alternatives than US innovation leaders New York and Silicon Valley, or London's global financial centre.

5.3.4 The threats to London's global role should not be underestimated. They are real. And in the modern world, change can be sudden. Furthermore, despite the focus on financial services, London has global strengths in other key sectors – media, technology, pharmaceutical – and these and the threats to them should not be forgotten. A diverse ecology is always more resilient to threats than a narrowly-based one.

5.3.5 **UK creditworthiness** Some of the potential threats to London's position have become clear in the press this year. For example, Standard & Poor's expressed concern over the UK's creditworthiness in the light of its public debt position, raising the previously unheard of prospect of the UK losing its Triple-A rating. While this might seem a rather esoteric measure to most, the impact could be profound.

5.3.6 **Supervision of financial markets** Another straw in the wind emerged in February with the publication of the EU's proposals for a European system of supervision of financial markets. This came in the form of the de Larosiere Report which, among other things, proposes the setting up of separate regulatory authorities for banking (in London), insurance (Frankfurt) and Securities (Paris).[35] The report also proposes vigorous regulation of the hedge fund industry, despite its rather marginal role in the credit crisis.

5.3.7 While changes to financial services supervision are inevitable following the crisis of the past two years, any such interventions should recognise the interconnectedness of London's financial service agglomeration and the potential threat of emerging financial centres in other parts of the globe. International investors are, by definition, footloose, and tradition and critical mass alone cannot be relied upon to secure future success.

5.3.8 **The threat from Europe** Paris and Frankfurt have long threatened to challenge London's role. Most recently, President Sarkozy has announced plans for a large-scale expansion of La Defence in Paris, "*to challenge the City of London as Europe's pre-eminent financial centre*".[36] It is difficult to see how Paris could mount a serious challenge to London's No1 position, given the latter's critical mass, not only in the primary businesses but also in the associated business services that give it such critical mass. But Paris could attract sufficient businesses to reduce London's role and importance.

[35] de Larosiere J (2009) *The High-level Group on Financial Supervision in the EU* European Union, Brussels
[36] *Financial Times* Overarching Ambition 23rd July 2009

London's ranking among global financial centres

5.3.9 In spring 2007 – just before the credit crunch – PricewaterhouseCoopers produced a research report which provided a very positive picture of London's future strength.[37] The research showed that, despite challenges from fast-growing cities in emerging markets, London's status as one of the top city economies of the world looked set to continue and improve. The report showed that while London ranked sixth largest city economy in the world by estimated GDP at purchasing power parities in 2005, it should rise to fourth place (behind Tokyo, New York and Los Angeles) by 2020, overtaking Paris and Chicago.

5.3.10 None of the projected 30 fastest-growing large cities in 2020 are in the major advanced economies. The key trend is for emerging economy cities such as Buenos Aires and Mexico City to rise. Beijing, Istanbul, Manila, Mumbai and Shanghai are expected to enter the top 30. Lower down the list notable climbers include, Bangkok, Delhi, Guangzhou, Jakarta and Monterrey.

5.3.11 Three Indian cities are projected to rise into the top 100, while China and Brazil each have two new entries. Ten of the 30 fastest growing large cities in the period 2005-20 are projected to be from China and eight from India. While London improves its position, other European cities, including Berlin, Milan, Rome and Vienna look set to slip down the rankings as the emerging cities of Asia and Latin America rise.

5.3.12 The obvious question is whether PwC would reach the same conclusions today, given the weakened state of the financial and business services sector in the wake of recent economic events.

5.3.13 In Spring 2009 the City of London published its periodic assessment of the performance of global financial centres.[38] The Global Financial Centres Index (GFCI) compares 62 financial centres, and offers "*an insight into changing perceptions of financial centres' competitiveness over time and how these relate to the underlying data*". It is claimed that the method "*reflects changes in periods of relative stability and growth, as well as in the current conditions of crisis and contraction*".

5.3.14 The report hints at the enduring strength of the more established centres with a reference to "*a genuine flight to safety*". The report argues that London and New York "*remain the only truly global financial centres*". While both centres' ratings have fallen so have all the others, reflecting an "*overall negativity about the current and future state of the sector*".

5.3.15 London and New York are almost identical in their performance, separated by only 13 points (Figure 5.5). The report notes that "*In spite of the current economic climate, London is again in the top quartile of nearly all instrumental factors as well as the overall GFCI*". London leads New York in all areas of competitiveness, and in four of the five industry sector sub-

[37] PricewaterhouseCoopers (2007) *UK Economic Outlook March 2007* PWC, London
[38] Zyen (2009) *The Global Financial Centres Index* City of London

indices, although respondents expressed continuing concerns about the likelihood of increased regulatory burden, and a less predictable tax-regime.

5.3.16 The report notes that the gap between the top two centres and third and fourth placed Singapore and Hong Kong has widened since GFCI 4. The top six centres remained unchanged between GFCI 4 and GFCI 5, but Tokyo dropped eight places to 15th and Sydney fell six places to 16th. The report notes the strong performance of certain "secondary or regional centres" in the top ten, notably Chicago and Frankfurt; while Boston and Dublin have both entered the top ten.

Figure 5.5 The Global Financial Centres Index

Financial Centre	GFCI 5 Rank	Change since GFCI 4	GFCI 5 Rating	Change since GFCI 4
London	1	0	781	-10
New York	2	0	768	-6
Singapore	3	0	687	-14
Hong Kong	4	0	684	-16
Zurich	5	0	659	-17
Geneva	6	0	638	-7
Chicago	7	1	638	-3
Frankfurt	8	1	633	-3
Boston	9	2	618	-7
Dublin	10	3	618	-4

Source: Zyen (2009) The Global Financial Centres Index

5.3.17 Respondents to the GFCI survey expressed concerns over threats to the positions of London and New York in two ways:

- potential regulatory knee-jerk reactions to the credit crunch, which may have unintended consequences, and
- in addition to fall out from the credit crunch, London and New York will also be hurt by their national recessions.

The GFCI report is clearly optimistic. It is based on a robust methodology, and it is up-to-date. Its conclusions suggest that there will not be any structural change in the profile of demand for office space in London in the foreseeable future. In this sense it is possibly more optimistic than the Ernst & Young survey discussed earlier. The lesson from both reports seems to be that, while London is, and continues to be, a leading global centre of financial and business services, the current turbulent conditions pose threats which must be taken seriously.

The threat posed by global financial centres

5.3.18 On the 15th June 2009, the *Financial Times* reported that two of the biggest bourses in Asia and Latin America had, for the first time, overtaken both New

York and London in terms of their market capitalisation "*in a sign of how the economic crisis and tough competition in mature markets is reshaping the global exchange landscape*".[39]

5.3.19 The article noted that Hong Kong Exchanges and Clearing (HKEx) and Brazil's BM&F Bovespahave have passed NYSE Euronext, Nasdaq OMX and the London Stock Exchange in terms of the capitalisation of the companies listed there. HKEx is now the world's second-largest exchange by market value, behind CME Group, the largest US futures exchange; while BM&F Bovespa is in fourth place, after the Deutsche Börse. The LSE has slipped to 10th place.

5.3.20 The story once again raised the question of whether or not London is vulnerable to a global shift in financial markets activity that might see its role reduce in the future. Some insight into this prospect was provided during late-2008 when the Corporation of London published a report which examined the future of Asian financial centres.[40] The report examined factors affecting the current and future development of the three leading financial centres in Asia: Tokyo, Hong Kong and Singapore.

5.3.21 The report concluded that "*Those interviewed were largely in agreement that none of the financial centres reviewed in this report are likely to challenge London's pre-eminence as the world's leading financial centre*". As evidence the report suggested that Asia's lack of financial integration "*will mean that much of region's surplus reserves will continue to be invested through financial institutions based in London (and New York) until regional financial centres in Asia can begin to match the depth and diversity of products on offer in these former centres*".

5.3.22 The report also argued that "*the increasingly global ambitions of the region's emerging financial actors will become inevitable drivers of international financial services into and out of Asia*". In this respect "*London's international financial cluster offers unique pools of capital and expertise and a competitive environment which complements and works with the individual Asian centres*".

5.3.23 Nevertheless, there remain very real challenges for London in the current global financial environment.

- Regulatory failures in the UK have caused significant reputational damage to London.
- Current difficulties in international finance have illustrated how the international centre of gravity is moving towards Asia.
- This being the first major international crisis where Asian markets have been relatively stable, with the difficulties and losses being concentrated

[39] Bourses in Brazil and Hong Kong Leap Up Global Rankings *Financial Times*, 15th June 2009
[40] Research Republic (2008) *Future of Asian Financial Centres – Challenges and Opportunities for the City of London* City of London

in the western world, it might represent "*a tipping point in the emergence of Asia as a dominant force in the global economy*".

- While the crisis represents an opportunity for London to establish partnerships with other financial centres in Asia, "*in the face of ongoing problems confronting the international financial system London will need to articulate and manage these relationships in a way that displays a certain humility in regard to the model of financial market liberalisation that its current pre-eminence is based*".

5.3.24 The Middle East is another potential magnet of global investment. However, a report on the competitive position of the Gulf states[41], notes that, with the exception of Saudi Arabia, the local capital markets there are all small, relatively illiquid and volatile; regulation and corporate governance are often below international standards; they are owned by the government. "*The expectation is that the local markets, including Saudi Arabia, will develop to attract inward investment business but will maintain a largely domestic focus*".

5.3.25 The report goes on to conclude that the emergence of significant cross holdings of UK and US exchanges by Gulf Co-operation Council partners (Dubai for NASDAQ and Qatar for LSE) might mean that issues which are currently seen as competitive between exchanges will in fact become collaborative. Furthermore, the UK has adopted the position that the UK should become a major portal for Islamic finance.

5.3.26 The common thread running through various reports is that London and New York's dominance in global financial and business services have been wounded by recent economic turmoil at a time when other emerging economies were, anyway, beginning to assert their strength on the global stage. Navigating a path through the domestic issues of a deep economic recession while nurturing international relationships will be a key challenge for London over the next five to ten years.

Foreign direct investment

5.3.27 Quite apart from whether the money is being invested in Central London, the on-going level of foreign direct investment in the UK is a useful barometer of the country's attractiveness to overseas companies, and of their perceptions about the UK's economic prospects.

5.3.28 In June 2009 the department of UK Trade & Investment released its latest foreign direct investment (FDI) report.[42] The report shows that in the year to April 2009 foreign direct investment in the UK rose, with 1,744 investment projects locating and expanding here. The data suggest an 11% increase on 2007/08 – the fifth successive year of growth.

5.3.29 Around 47% of the projects were new investments (up by 26% on the previous year). The following list shows a breakdown of the year's projects by business sector.

[41] ICMA Centre (2008) *The Competitive Position of the Gulf as a Global Financial Centre* City of London
[42] UKTI (2009) *UK Inward Investment 2008-2009* UK Trade & Investment, London

- Software 306
- Advanced Engineering 211
- Business Services 187
- ICT 152
- Life Sciences 140
- Finance 130
- Creative and Media 89
- Environmental Technology 56
- Other 473

5.3.30 Business Services and Finance together account for 317 projects, or just 18% of the total. FDI is, in fact, broadly-based, with strong representation in software, engineering, ICT and life sciences. These are all sectors in which London's neighbouring region, the South East, is particularly strong.

5.3.31 Despite the global economic backdrop, the UK maintained its position as the most popular destination for foreign investors in Europe, and second in the world. During the year, 53 countries invested in the UK, with investment projects from India increasing by 44% (108 projects) to become the UK's second largest source, behind the USA (up 30% to 621 projects). Other countries increasing their investment into the UK during the year were Italy (up 45%), France (15%), Canada (25%) and The Gulf (25%).

5.3.32 FDI projects in the year created over 35,000 new jobs (c78,000 created or safeguarded), contributing to a total of over 215,000 new jobs being created (c500,000 created or safeguarded) over the past six years. Investment increased across a range of sectors.

- Financial Services: +20%
- Business Services: +34%
- Software and Computer Services: +36%
- Creative Industries: +65%
- High tech manufacturing: +18%
- Advanced Engineering: +15%

5.3.33 More specifically, FDI in London between April 2008 and March 2009, saw 178 projects, creating 6,190 new jobs (a slight increase on the previous year).[43] The 178 projects break down in the following ways.

- 56 from USA; 22 India; 12 China and 12 Japan.
- 53 in ICT; 27 business services; 21 creative and 21 financial services.
- 94 sales and marketing; 73 headquarters functions.

5.3.34 A few examples illustrate the overall picture of FDI.

[43] Think London (2009) *A Year in Review 2008-09*

- **First Citizens BancShares**, the largest family controlled bank in the USA, chose London for its first overseas representative office.
- From India, the **India Infrastructure Finance Company** (a Government-backed infrastructure fund), chose to make its first overseas office in London.
- **Hana Bank**, the leading South Korean bank, opened its European Headquarters in London.
- **China Construction Bank**, the second largest bank in the world by market capitalisation, established its European HQ in Canary Wharf.
- And to illustrate the potential for re-investment, **Microsoft** chose London as the location for its new European Search Technology Centre, creating 160 new jobs.

5.3.35 Other companies setting up European bases in London recently included the following.

- Air Asia (Malaysia) established a European HQ in London.
- Alibaba.com (China), the world's largest B2B on-line service provider, established a European HQ in the West End.
- China Central Television (China) started up new studios in Camden.
- Fresnillo (Mexico), a mining group, listed in the City.
- Kingfisher Airlines (India) established a London office to service its growing Heathrow-India business.
- M3 Mobile (South Korea) set up a European test bed for delivering mobile solutions for PDAs.
- Panasonic (Japan) established a new European design centre.
- Sony Computer Entertainment Europe (Japan) set up its new European headquarters in Great Marlborough Street, W1.
- Vanceinfo Technologies (China) provider of IT outsourcing services opened a new European HQ in London.

5.3.36 Overall, the FDI data suggest a very positive picture for London's continuing global role, not least because of the broad industry representation. Structured data on FDI (in terms of long-run time series breakdowns) are not available, but the short-term snapshots discussed here show no hint of a structural change in the profile of demand, merely an adjustment in levels, reflecting the turbulent economic conditions.

5.4 Spatial change in the occupational market

5.4.1 There is no doubt that the credit crunch and subsequent recession have had a dramatic impact on the *level* of occupational demand throughout the London office market. But have recent events had an impact on the spatial pattern of demand? Is Central London maintaining its level of attractiveness to global businesses? And are there any subtle, long-term changes in the pattern of demand within London?

5.4.2 These are very important questions, not least because a steady stream of media reports highlights London's high cost as a business location, its

perceived weaknesses in terms of transport and congestion, and even some of its social issues (witness the headlines over knife crime and terrorism in the capital). In addition, there are growing concerns over the UK's tax regime and its potential to make London a less attractive location as a global headquarters.

5.4.3 Section 5.5 examines recent trends in public sector relocation and rationalisation, while Section 5.6 looks at the impact of technology and changing working patterns on demand. This Section examines the spatial pattern of demand *within* London.

Change in Central London

5.4.4 We examine change within central London by addressing four questions.

- Is Central London losing its allure to global businesses?
- Is there evidence of spatial change in demand in Central London?
- Is London becoming a genuinely polycentric occupational market?
- Is Central London losing occupier demand to Outer London?

5.4.5 **Is Central London losing its allure to global businesses?** Of course, at the time of writing, we remain in the trough of a recession and it is therefore very difficult to draw conclusive findings. The evidence of FDI projects presented in Section 5.3 suggested that Central London is maintaining its attraction to overseas investors. In addition to these projects, the past twelve months have seen a number of significant corporate decisions among existing occupiers which also suggest long-term confidence in London as a centre of global finance, even in the face of large-scale restructuring.

- Commerzbank bought Dresdner Kleinwort and announced that the combined group would consolidate into 30 Gresham Street.
- Bank of America announced that it would be leaving its 35,000 sq m Canary Wharf base, and consolidating into Merrill Lynch's 70,000 sq m HQ in the City – having bought Merrill in January.
- JP Morgan announced a deal to develop c176,000 sq m of HQ space at the Riverside South site at Canary Wharf.
- Bank of Tokyo & Mitsubishi took 17,000 sq m at British Land's Ropemaker.
- Nomura took the 52,000 sq m Watermark Place next to Cannon Street (following its purchase of the collapsed Lehman Brothers business based in Canary Wharf).

Other large requirements known to be in the market include Australian bank Macquarie, which revived a London HQ search for 25,000 sq m that had been on hold since August 2007; Far Eastern bank Daiwa Securities; Canadian banks Bank of Nova Scotia and Toronto Dominion, insurance broker Jardine Lloyd Thompson (20,000 sq m) and US news and information business Bloomberg which is assessing options for up to 40,000 sq m.

5.4.6 These examples are anecdotal. But they are significant. Several of the decisions have been driven by corporate activity (mergers and acquisitions), and they do not represent new inward investment (although Section 5.3 indicated that there are several examples suggesting that FDI remains strong). They do however, indicate long-term intent and, in this sense, are positive news for London's global financial role.

5.4.7 In a further example of confidence in London's role in the future, NYSE Euronext, the Wall Street firm that bought the Paris stock exchange in 2007, has announced its intention to relocate its European equity data centre from Paris to London for efficiency reasons.

5.4.8 Despite the positive news suggested by the letting activity listed above there is cause for concern. Just as we saw earlier that emerging global financial centres pose a potential long-term threat to London's historic role in global financial markets, so smaller regional cities in Europe are challenging London's role as a base for a more broadly-based set of organisations.

5.4.9 In July 2009, fast food firm McDonald's announced its intention to move its European HQ to Geneva; where it will join Colgate, Kraft, Palmolive and Procter & Gamble.[44] Google recently opened a new European HQ in Zurich. Other firms moving their HQs from London recently include serviced office firm Regus (Luxembourg), advertising firm WPP (Ireland) and pharma company Shire (Ireland). While some of these firms retain a large presence in London and the South East, the UK's tax regime was cited by several of these firms as key to the HQ decisions.

5.4.10 There has, in recent times been a growing trend for banks to open regional operations as they increase their presence in the UK. For example, Deutsche Bank opened a transaction reconciliation processing centre in Birmingham, growing the operation significantly during 2008/09; while Bank of New York Mellon expanded in Manchester. Several banks extended their retail operations by opening new branches across the UK. The highest-profile example of this was Handelsbanken, the Nordic bank that continued its branch opening programme and now has more than 60 UK branches.

5.4.11 These moves do not so much signal dissatisfaction with London among international businesses, as a continuation of the 1970s and 1980s trend among UK businesses to locate back office functions away from the high cost of Central London.

5.4.12 The discernable trend for headquarters to be moved away from London (and the South East) to more "tax friendly" European countries is not yet a major concern, but it is a very strong signal that the UK's tax regime could be hugely influential longer-term.

[44] Big Mac Quits London for Geneva Over Tax Concerns *Daily Telegraph* 12th July 2009 pB1

5.4.13 **Is there evidence of spatial change in demand in Central London?**
There is some evidence of firms taking advantage of the cost differential between sub-markets. The following two examples illustrate the point.

- Property services firm DTZ consolidated its City and West End offices into c7,000 sq m of the redeveloped Stock Exchange site.
- Pharmaceutical firm Astra Zeneca has leased c6,000 sq m at Development Securities' Two Kingdom Street in Paddington.

Both firms vacated high cost West End premises in favour of a lower cost solutions.

5.4.14 There is always a trickle of firms moving from relatively high cost to relatively low cost locations within Central London. One such recent example was the announcement by Cancer Research UK of its move from various London offices, including its main facility in Lincoln's Inn Fields WC2, to 14,000 sq m in Derwent London's Angel Centre EC1, on the corner of St John Street and Pentonville Road near Angel Tube station.

5.4.15 Beyond such occasional moves from high to low cost locations, there is little evidence to suggest a more fundamental change in demand patterns. One of the exceptions to this is the Victoria office market.

5.4.16 In recent times, Victoria has begun the process of "reinvention", casting aside its traditional association as the home of government. The completion of Cardinal Place in 2006 led the way, and there are several further large schemes under consideration. This office and retail development has attracted 3i, Experian, Kazakhmys plc and P&O. More recently, Derwent Valley attracted luxury clothing firm Burberry from a cluster of older buildings around Haymarket to a new 15,000 sq m global HQ at Horseferry House. Land Securities' Victoria Interchange scheme will reinforce this process.

5.4.17 While there is little discernable evidence of change in the organic pattern of demand within Central London, the key influence on the spatial demand for space is the availability of high quality premises in off-centre developments, and London's apparent transition to a polycentric occupational market.

5.4.18 **Is London becoming a genuinely polycentric occupational market?**
Traditionally, in market terms, the core London office market was tightly defined by the Square Mile; core West End, Midtown and Victoria. During the 1980s, the Square Mile spread northwards and eastwards; while London Bridge City and Canary Wharf provided "off centre" alternatives. During the 1990s further peripheral developments began to challenge traditional boundaries: Paddington, More London near Tower Bridge (and the nearby Shard); and Bankside near Tate Modern, and British Land's investment at Regent's Place and Euston are all good examples. At various stages of development, we also have proposals for Battersea/Vauxhall, Greenwich Peninsula, King's Cross and Waterloo.

5.4.19 While recognising that these are largely speculative schemes (ie developer-led), they are influencing the pattern of demand. **More London**, for example, has become a business services cluster, with large lettings to Ernst & Young, Lawrence Graham, Norton Rose and PricewaterhouseCoopers.

5.4.20 Another example is **Paddington**, where a number of connected schemes have created a new business location in west London. The location has attracted major firms including Kingfisher, Marks & Spencer, Misys, Orange, Prudential, Statoil, Visa and Vodafone.

5.4.21 Many of these firms moved out of old, legacy estates in the traditional West End market, in favour of single, large, well-designed modern buildings. Misys is typical. The firm, offering software and related services to the health care, banking and insurance industries, was based in a collection of small premises in EC1, EC2, WC2 and W8, before reaping the benefits of consolidation into 6,800 sq m at Development Securities' Paddington scheme.

5.4.22 This pattern echoes the genesis of Canary Wharf in the 1980s, and more recently More London, with inadequate provision in the traditional locations being relieved by modern purpose-built space outside the core.

5.4.23 Looking to the future, a key emergent off-centre hub is **King's Cross**, which has been attracting much occupier interest in recent times. For example, Argent's King's Cross scheme has attracted the interest of two large occupiers.

- In July 2009, it was reported that Ogilvy & Mather is in advanced negotiations to take 20,000 sq m. Part of the WPP Group, Ogilvy is seeking to exit its current premises in Canary Wharf.
- Sainsbury's has long been associated with the relocation of its Holborn Circus HQ to a 25,000 sq m facility.

Just to the north east of Argent's scheme, at King's Place, Guardian Newspapers and Network Rail have both moved in; while in neighbouring York Way, professional services firm EC Harris has relocated its HQ from Tavistock Square to the south.

5.4.24 Another emergent off-centre location, in east London, is Lend Lease and Quintain's **Greenwich Peninsula**. On the face of it a far off pitch, the project is in fact just one tube stop from Canary Wharf and sits adjacent to the popular O2 arena. This new commercial district promises around 350,000 sq m of office space as well as retail, leisure and housing.

5.4.25 The first tenant is London's TfL, which has taken 20,000 sq m and, at the time of writing, talks are well advanced for a second letting of 10,000 sq m to French construction group Bouygues. This scheme should also be considered in the context of the eastern extension of Canary Wharf – Wood Wharf: in effect, a neighbour to Greenwich Peninsula.

5.4.26 As noted in Paragraphs 1.7.10-1.7.12, the Wood Wharf proposals include six new office buildings at the western end of the site, totalling around 370,000 sq m. In May 2009, detailed applications were submitted for the first two planned office towers of 194 and 134 metres with a combined floorspace of 233,000 sq m. Other un-built elements of the Canary Wharf estate and its immediate environs bring the total Canary Wharf/Wood Wharf expansion to an additional 968,000 sq m of offices.

5.4.27 One of the key lessons from London's emergent polycentric office market is that demand *can* be attracted from established markets to projects where suitable premises, for modern businesses, provide a more attractive alternative to more traditional stock, and where large clusters of buildings (urban campuses) can create critical mass and support retail and other service activity, as well as large public realm spaces.

5.4.28 The experience of certain key projects suggests that infrastructure provision is a crucial ingredient of "critical mass". The unarguable success of Canary Wharf can be traced, after some false starts, to the commencement of construction on the Jubilee Line Extension. Paddington received a huge boost when the Heathrow Express service opened in June 1998, leading to a construction start at Paddington Central in 2000. Similarly, although the idea of redeveloping the railway lands around King's Cross has been around for at least 20 years, it is possible to argue that it was the huge investment associated with High Speed One[45], and the associated upgrade of the tube station and mainline terminal that gave the area credibility.

5.4.29 Figure 5.6 provides a map of Central London showing the location of the principle "off centre" markets that help to define the polycentric Central London office market described above. The ring of projects on the edge of the traditional core can clearly be seen, as well as those projects, east and west, providing opportunities further out. For the sake of clarity, we have only included here, very large, multi-building office campuses with large public realm and retail/leisure components supporting the office space.

5.4.30 **Is Central London losing occupier demand to Outer London?** In market terms, the Inner/Outer London boundary is something of a porous and artificial concept, not least because it implies a concentric pattern of activity which bears little relation to reality. Nevertheless, in policy terms, there is a need to focus on the inner/outer question not least because of the recent emphasis on the role of the latter through the Outer London Commission.

5.4.31 There is a long history of occupiers drifting westwards from Central London to Hammersmith, Chiswick, along the A4 in Hounslow, and beyond to Stockley Park and Bedfont Lakes. Typically these have been technology-based companies, and also corporate organisations (engineering, manufacturing, consumer goods) looking either for business synergies or cost reductions.

[45] Formerly: Channel Tunnel Rail Link, or CTRL.

5.4.32 Data from JLL indicate that this trend has been maintained, even during the current recession.[46] Although 2009 data is not yet available, the following snapshot of annual take-up (rounded to nearest 500 sq m) in west London suggests a fairly stable level of activity.

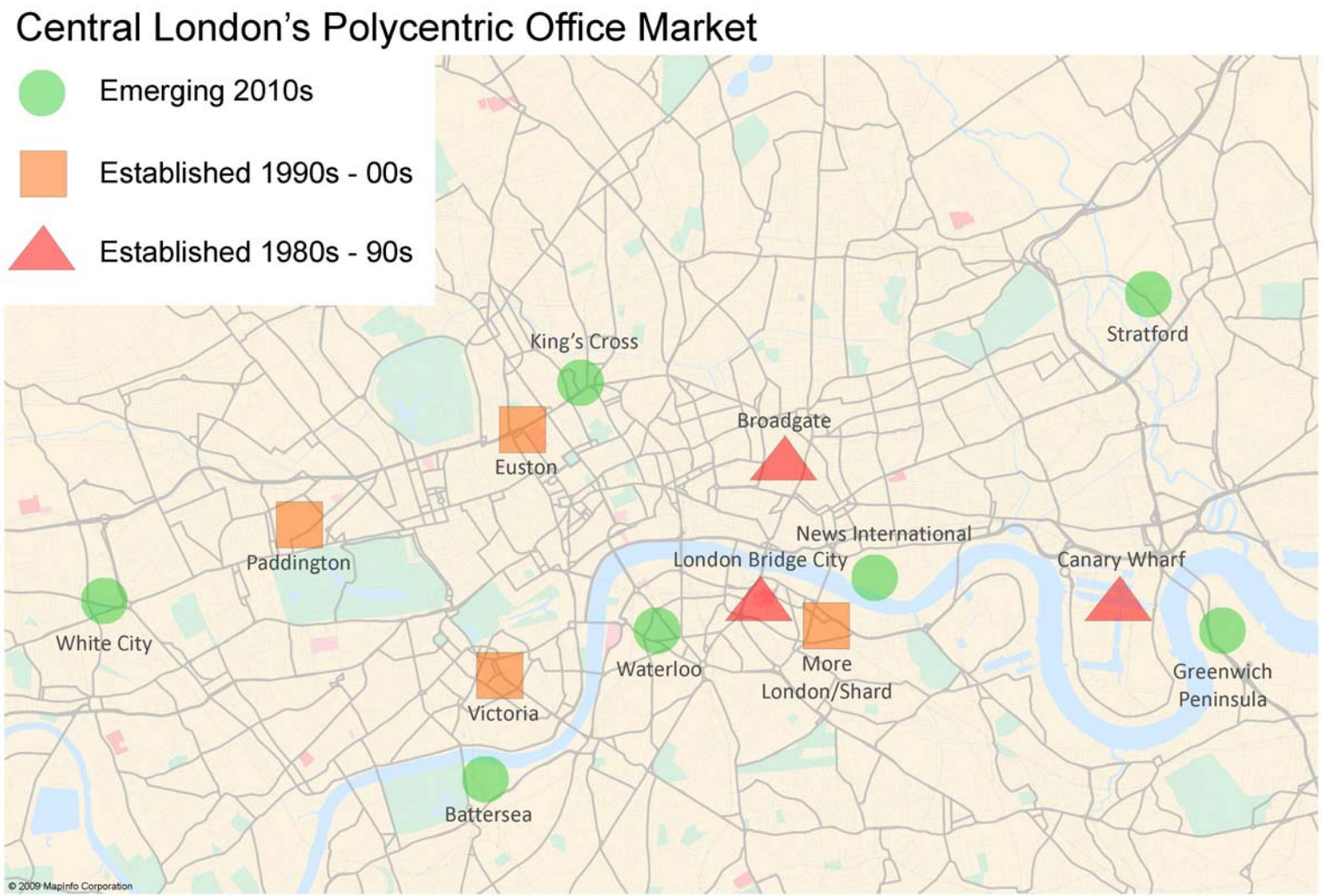
- 2008 – 96,500 sq m
- 2007 – 127,000 sq m
- 2006 – 98,000 sq m
- 2005 – 108,000 sq m

While recognising that only part of this take-up is by companies actually moving from the centre to west London, the overall pattern is important.

5.4.33 The drift of occupier demand towards other Outer London centres has been discernable, but much weaker. In the 1980s, Croydon was the beneficiary of much central government relocation activity. This slowed some while ago and Croydon has become a net loser of office employment in more recent times. During the 1970s and 1980s Central London occupiers could achieve significant cost savings by moving back office staff to Outer London, thereby saving on "Central London salary weightings" and also a sharper decline in property values than exists today. Such incentives have been eroded dramatically, to the point that relocation to Outer London makes little financial sense on salary grounds (which often comprise 80% of a firm's cost base).

[46] Jones Lang LaSalle (Various) *Western Corridor Office Market Report*

Figure 5.6 Central London's polycentric office market



5.4.34 There is little reason, and no evidence at this stage, to assume that the historic pattern of dispersal, with a strong westward drift and not much elsewhere, will change the other side of the recession. Indeed, in the absence of Canary Wharf, it would be possible to argue that the historical geography of London has been the geography of westward drift. Given the dominance of Heathrow Airport, and the well entrenched high technology cluster west of London, it is difficult to see what countervailing influences could be brought to bear in the short-term.

5.4.35 In the longer-term, the pull to the east will strengthen as infrastructure is established and as critical mass builds. Stratford, for example, is targeted in policy terms to become a major growth hub in the east. It is important to remember, however, that such changes normally occur over at least two property cycles. It is also likely that the area will need to establish its own distinctive demand profile. It is unlikely, for example, to break the software cluster to the west of London: it will need to find another, possibly in the environmental industries.

Change within Outer London

5.4.36 Setting aside the issue of drift from Central London to Outer London, there is the question of whether the pattern of demand *within* Outer London itself is changing. We deal with this here firstly in terms of west London, and secondly with the remainder of Outer London. We draw this distinction because of the absolute strength (scale) of the western sector and its focus on particular industries.

5.4.37 The western segment of Outer London forms the base of the much larger Thames Valley market. It stretches from Hammersmith, south west to Richmond and Teddington, and north west to Greenford and Uxbridge. There is widespread concern in the market that this region's exposure to north American corporates will have a disproportionate impact on occupier activity in the current recession. However, the market does in fact attract investment from a wide base, and in their latest Western Corridor market report, JLL[47] note the following.

> *The increasing proportion of international companies (excluding Europe and the US) is also encouraging. Last year in West London these … accounted for 9% of space let, compared with 4% in 2007. The weak pound will assist this trend, making this market … more affordable and attractive to overseas companies.*

5.4.38 While most market reports anticipate difficult conditions throughout 2009 and into 2010, there is no evidence of structural change in the demand profile. A number of large-scale planned relocations are known to have been put on hold, and it is clear that market activity is focused now more on smaller deals and relocations and consolidations driven by lease events. But there is no suggestion of a more fundamental change in the nature of the occupier base.

[47] Jones Lang LaSalle (2009) *Western Corridor Office Market Report Spring 2009*

5.4.39 Indeed, there are one or two examples suggesting – short-term vicissitudes aside – more of a "business as usual" pattern ahead. In one particularly optimistic report, in May 2009, Japanese photography firm Canon announced that it would be setting up its European headquarters at Stockley Park near Heathrow. What distinguishes this otherwise run-of-the-mill announcement was that the headquarters function was moving from Amsterdam to London. And the rationale for the move was given as "*the capital's skilled workforce, technological capability and transport links*".[48]

5.4.40 One spatial characteristic of the occupational market is the relative levels of take-up in town centres and out-of-town locations. The key issue here is whether the climate change agenda is having any impact on the pattern of demand by discouraging car-dependent business parks and encouraging town centre locations with good public transport links.

5.4.41 Figure 5.7 presents some data showing that, in west London in 2008, over two-thirds of take-up was in town centres. While this was significantly up on 2007 and 2006, it is difficult to draw any concrete conclusions.

Figure 5.7 Town centre and out of centre office take-up

Market	2006	2007	2008
West London take-up (% of floorspace)			
Town centre	57	54	66
Out-of-centre	43	46	34
Thames Valley take-up (% of floorspace)			
Town centre	34	56	35
Out-of-centre	66	44	65

Source: JLL (2009) *Western Corridor Office Market Report Spring 2009*

5.4.42 We turn now to the remainder of Outer London, where one of the key concerns in terms of spatial change in the demand for office space, certainly in the short- to medium-term, must be the role of **"marginal" office centres**. These are centres which lack critical mass, and which tend to benefit, if at all, in very "hot" markets, when they offer a price advantage, but which lose favour when demand is "thinner". This is a manifestation, only on a local scale, of the flight to quality in the consideration of global financial centres outlined above.

5.4.43 Chapter 6.0 provides an update of earlier LOPR work which examined strategic options to rejuvenate, consolidate and re-position the offer of London's suburban office markets, taking into account the locational typology set out in the London Plan.

5.4.44 Our assessment of these centres provides an expected "mixed bag" of results; but what is clear is that a large number of centres can, realistically, be considered as marginal in terms of meeting demand for offices in London. In

[48] Canon Relocates to London for Improved Transport Links *The Daily Telegraph* 2nd May 2009 pB2

office market terms, these centres are in structural decline, and there is little likelihood of reviving their fortunes.

5.4.45 What is quite apparent from the analysis of Outer London centres undertaken in Chapter 6.0 is that the office market has been stagnant, and in some cases in decline, for many years now in centres that, in policy terms, are expected to perform as office centres. We recommend that a realistic view is taken of these centres and that a number are recognised as having no significant part to play in the London office market, other than providing for local needs.

5.5 Public sector relocation and rationalisation

5.5.1 One of the largest sectors of occupational demand in London is the public sector. CLG data show that London's office stock is some 28 million sq m. Of this total, 3.5 million sq m (12%) is classed as "other office", which broadly relates to the public sector (local authorities, the police, higher education, etc). The Central Civil Estate alone measures almost 2.5 million sq m. What happens within the public sector is therefore important.

5.5.2 What is clear, is that the public sector is now considering and planning its occupation of commercial office space in ways that would not have been envisaged as little as five years ago.

5.5.3 Sir Peter Gershon identified the potential for the public sector to release resources to frontline delivery of services through savings in back office, transactional and procurement functions.[49] The Government accepted the main recommendations, and set out agreed efficiency targets for each central government department. In 2004 Sir Michael Lyons set down a number of challenges to the government aimed at reducing space requirements in London. Not least among his recommendations was the proposed relocation of 20,000 civil servants to the regions.[50]

Relocation

5.5.4 LOPR 07 reported on the progress that central Government was making with its programme to relocate over 20,000 central government jobs from London to the regions by spring 2010 (see Paragraph 5.3.1 of LOPR 07).

5.5.5 The existing Lyons programme is reported to be on target, and projections suggest that 24,000 will in fact be achieved. And in a sign of the government's intent, of the relocations already undertaken, "*In approximately 90% of cases, relocations took place to existing properties already held on the government estate*".[51]

5.5.6 The government is thought to be considering a further 10-20,000 moves beyond the current target. If the top end of expectations is achieved, then the

[49] Gershon P (2004) *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency* HMSO, London
[50] Lyons M (2004) *Well Placed to Deliver? Shaping the Pattern of Government Service* HMSO, London
[51] OGC (2009) *The State of the Estate in 2008* OGC, London

impact on London will be large. At, say, 14.5 sq m per person, the moves represent over 600,000 sq m of vacated space.

Rationalisation

5.5.7 Alongside the actual space reductions, a growing body of evidence has emerged showing the benefits of innovative approaches to asset management, including studies by the NAO[52], the OGC[53] and the University of Reading.[54] This has encouraged flexible working styles in which people can outnumber desks in a building (see Section 5.6).

5.5.8 In 2007 a report from the NAO suggested that central government departments could achieve "*potential gross savings of up to £326 million per annum by improving a combination of space efficiency and cost efficiency*". As hinted by Bootle, "*The majority of the savings are likely to be generated by improving space efficiency*", rather than through cost (facilities) savings.[55]

5.5.9 From April 2008, government has committed to a new workspace standard of 10 sq m per FTE (NIA) for all new buildings and major refurbishments. This is relaxed to 10-12 sq m in other situations, recognising the inherent physical constraints in some of the legacy estate. At the top end, the new standard represents a 31% space saving on the government's own average occupancy of 14.5 sq m per person.

5.5.10 In April 2009, the Operational Efficiency Programme (OEP) reported on potential savings across public spending.[56] The report recommended a new, central property function, extending beyond the OGC's current remit, to include all public sector organisations. The report made recommendations on work to rationalise, co-ordinate and oversee property performance of the public estate; to identify surplus and under-utilised property assets; to provide property standards and advice, and to develop cross-government initiatives.

5.5.11 The OEP identified a timetable for the delivery of savings. By 2014, cost savings of up to £1.5 billion per year could be achieved across the public sector's property estate. Over the next ten years, there is potential for savings from improved efficiency of around £20 billion in receipts from property disposals, not including council housing.

5.5.12 Finally, in June 2009, an Audit Commission examined how well local authorities are managing their estates. The report was critical, arguing that local authorities are unsuccessfully managing the value of their property assets, and that only limited and inconsistent progress had been made since the Commission's earlier report in 2000.

5.5.13 The report called upon local authorities to take a more strategic approach to asset management in order to secure better value for taxpayers money. It

[52] National Audit Office (2006) *Getting the Best from Public Sector Office Accommodation* NAO, London
[53] Allen T; Bell A, Graham R, Hardy B & Swaffer F (2004) *Working Without Walls* OGC, London
[54] Gibson V & Luck R (2004) *Flexible Working in Central Government: Leveraging the Benefits* OGC, London
[55] National Audit Office (2007) *Improving the Efficiency of Central Government's Office Property* NAO, London
[56] HM Treasury (2009) *Operational Efficiency Programme: Final Report* HMT, London

urged councils to dispose of property assets, to change their use, and to reorganise them or share them.

5.5.14 While the report was generally correct in its criticism of progress among local authorities, some have made progress. The London boroughs of Ealing, Greenwich, Newham and Westminster, for example, have all made significant reductions to their occupied space; while Lambeth and Waltham Forest are known to be planning major space saving programmes.

Overall impact of change

5.5.15 The single most important conclusion from this review of recent public sector asset management is that, over the coming years, the public sector could radically alter its occupation of offices. The current recession and the state of public finances and borrowing will serve only to reinforce this trend. Bearing in mind the scale of public sector employment both in central government and also in many commercial centres throughout London, the impact on local markets could be quite significant.

5.5.16 In several Outer London areas, the public sector ranks among the largest of employers. While not all based in offices (figures include, for example, medical staff, teachers and a multitude of blue collar workers), office workers are very significant. According to one source "Public Administration and Other Services", which excludes Education and Health, accounts for 14% and 15% of all employment in Inner London and Outer London, respectively.[57]

5.5.17 As the public sector responds to the OEP agenda over the coming years, there will be a reduction in the overall amount of space occupied. Many of the centres examined in Chapter 6.0 are heavily reliant upon the public sector to underpin their already fragile office markets, and shrinkage therein is likely to have a disproportionate impact in those locations which might be considered marginal in commercial terms.

5.6 The impact of ICT and flexible working styles

5.6.1 Influenced by the recession of the early-1990s, "corporate real estate" management has become a profession in its own right, and one of the key outcomes of relevance to this study is the pervasive spread of workplace standards and measures. These are now commonly used, in conjunction with business metrics, to manage real estate tightly and, where possible, reduce exposure to expensive and inflexible property.

5.6.2 Alongside a general search for efficiency, growing numbers of organisations are changing the way in which they occupy their office buildings. Expanses of largely sterile, production line-style office space are yielding to more dynamic work environments in which team work and collaboration occupy far greater proportions of space. Organisations are transforming their work processes to respond to fluid organisational pressures, and technology is acting as a key enabler.

[57] Thompson R (2007) *Outer London: Issues for the London Plan* Mayor of London

5.6.3 Organisations are thus responding to both cost pressures and operational demands as they introduce flexible working styles (FWS) to improve efficiency and effectiveness.

Flexible working styles

5.6.4 Demands on the workplace – the relationship between the world of work and the physical environment within which it takes place – are evolving rapidly, and will continue to change. Trends in corporate management, the nature of organisations, the pervasive impact of technology, and evolving social attitudes towards work are all changing the demands placed upon the office. For many organisations – and especially those involved in service-based activities – property is no longer perceived to be a passive, inert bi-product of doing business, but rather a measurable component of business planning that needs to be provided and managed in the same efficient and effective way as other organisational resources.

5.6.5 Many organisations are using broad change management programmes to deliver far more *effective* as well as more *efficient* workplaces. The distinction is important. As well making significant space savings, such programmes leverage benefits, both for the individual and the organisation. The design of the new workplace must address a range of different goals.

- Enabling new ways of work for individuals.
- Valuing the individual.
- Implementing new technology.
- Shifting/reinforcing culture and change.
- Leveraging facilities as assets.
- Facilitating faster and simpler change.
- Achieving financial objectives.

5.6.6 Such change programmes bring about significant changes in work patterns, including increased mobility, more shared, collaborative and “touch down” and, in some circumstances a blurring of the traditional work-home boundary. Hence the term flexible working styles. Buildings thus come to resemble hubs around which business activity is spun.

5.6.7 There is a growing body of evidence showing the emergence of the new workplace. For example, Barber *et al*[58] undertook a study of 147 US and European corporations to understand emerging workplace trends, and three of their key findings were as follows.

- **The creation of spaces to support collaborative work** Respondents reported that they expected collaboration in the workplace to grow. The percentage of floor space dedicated to the individual relative to meeting

[58] Barber C; Laing A & Simeone M (2005) Global Workplace Trends: A North American and European Comparison *Journal of Corporate Real Estate* Vol 7 No 3 2005 pp210-221

and collaborative space is around 80%-20% today. The ratio is expected to change to roughly 60%-40% over the next five years.

- **Less workspace allocated to individuals** Over the next five years, the size of individual/dedicated workspaces will become smaller than they are today. Two factors contributing to the decrease in the space allocated to individuals are advancements in ICT (which reduce storage needs), and hoteling and free-address modes of working.

- **Technology to support collaboration, connectivity and distributed working** Technologies that support collaboration and connectivity will be more widely used over the next five years. Technology is becoming increasingly portable, miniaturised and wireless, providing staff with the ability to be increasingly mobile, both inside and outside the workplace.

5.6.8 It is perhaps technology, more than any other factor that has defined the new workplace. For example, internet-based telephony is in the process of killing the telephone exchange, as well as the fixed phone itself. At the same time, PCs are yielding to wireless laptops, PDAs and Bluetooth technology. Such trends are changing the rules of communication. The underlying theme is the growing redundancy of "fixed" technology and the growing importance of mobile technologies.

5.6.9 The number of organisations using the new workplace to help improve their business performance is expanding rapidly. Figure 5.8 shows a small sample of organisations whose workplace change programmes have been reported in trade and national press.

Figure 5.8 Sample of organisations adopting flexible working styles

Sector	Organisation
Financial	Abbey National, ABN Amro, Capital One, Prudential
Technology	BT, Cisco, DEC, Fujitsu, Hewlett Packard, IBM, ICL, Motorola, Nokia, Sun Microsystems
Local Government	Hertfordshire CC, LB Ealing, LB Greenwich, LB Islington, Suffolk CC, Surrey CC
Central Government	Child Benefit Agency, DEFRA, DTI, GCHQ
Business Services	Deloitte, E&Y, KPMG, PricewaterhouseCoopers
Other	BA, BAA, BP, Centrica, Marks & Spencer

5.6.10 Clearly, the diversity of the organisations shows that implementing FWS is no longer the preserve of technology companies promoting their products. All manner of organisations is involved including, notably (see Section 5.5) the public sector. We turn now to examine the impact of FWS on demand for office space.

5.6.11 It has already been established here that expensive and inflexible property is being used far more efficiently than in the past, and new standards for best practice in space management are emerging: the "Holy Grail" of spaceless growth has arrived. A small but very important consequence of these trends has yet to be widely recognised: our traditional understanding of occupancy densities requires updating. The occupancy density metric with which we are all familiar is not actually about "square metres per person": rather it reflects "square metres per desk".

5.6.12 This was fine in an era when everyone "owned" a desk, but the key difference with flexible work environments is that they are not only occupied more intensively, but they are also *utilised* more intensively. More people share desks, and so greater numbers of people are supported by a given building, at a given time. In short we need to complement the *desk density* metric (which will remain integral to building regulations) with a *building utilisation* metric to reflect flexible working styles, thereby allowing more accurate demand planning.

Occupancy density

5.6.13 There are a number of sources which can be used for occupancy density benchmarking data, but the published data are not very consistent. One reason for this is their reliance, as surveys, on respondents providing accurate returns on both headcount and occupied area, when such returns are notoriously unreliable. Such studies include Gerald Eve [59], Arup Economics & Planning[60] and DTZ.[61] More reliable results can be found where sampling is interrogated and where market knowledge is also applied. These are shown in Figure 5.9.

Figure 5.9 Key occupancy density benchmarking reports

Source	Density benchmark (sq m NIA)	Comments
TOCS[62]	14 sq m	Up to 12.5 sq m in the IT sector
BCO[63]	14 sq m Range: 12 sq m to 17 sq m	National guidance based on knowledge of best practice
RTP et al[64]	16.2 sq m Range: 14.4 sq m to 20.6 sq m	London study, large sample
IPD[65]	14.5 sq m	375 building sample of the Government estate
IPD/Ramidus[66]	Maximum 12 sq m	Recommendation for new standard across government
BCO[67]	12 sq m	2m sq m sample of office space

[59] Gerald Eve (2001) *Overcrowded, Underutilised or Just Right?* Gerald Eve, London
[60] Arup Economics and Planning (2001) *Employment Densities: A Full Guide* AEP, London
[61] DTZ (2004) *Use of Business Space and Changing Working Practices in the South East* SEERA, London
[62] Actium Consult & CASS Business School (2003) *Total Office Cost Survey* Actium, London
[63] BCO (2005) *BCO Guide 2005: Best Practice in the Specification for Offices* BCO, London
[64] Roger Tym & Partners, Ramidus Consulting & King Sturge (2006) *The Use of Business Space in London* RTP, London
[65] IPD (2006) *Property Benchmarking 2006 Report* OGC, London
[66] IPD and Ramidus Consulting (2007) *Efficiency Standards for Office Space*
[67] Bedford M; King A & McLennan P (2009) *Occupier Density Study Summary Report* BCO, London

5.6.14 Three of these reports are worth looking at in a little more detail. The IPD/Ramidus Consulting report established a benchmark density standard for government office buildings, which it said "*should aim to provide a maximum of 12 sq m [NIA] per person in all their buildings and across their estates*". It argued that the standard should be achievable in the majority of offices "*but may only be an aspiration in others due to physical, operational, cultural and financial constraints*".

5.6.15 Conversely, the report stated that where there are opportunities to occupy new or substantially-refurbished offices, departments should consider densities higher than 12 sq m: "*At present many schemes with design densities of 10 sq m per person or less meet business need and are popular with staff*".

5.6.16 The report recognised the growing importance of flexible working and the opportunities to make efficiency savings through higher utilisation of desks rather than simply through higher desk densities. To this end, it argued that if either business needs or physical characteristics dictated that a building was not capable of being used at 12 sq m, then business and property managers could focus on changing the number of persons per workstation: "*Even at 15 sq m per workstation, the standard can be achieved by adopting a ratio of 1.25 people per workstation*".

5.6.17 The other two research reports are survey-based. Investment Property Databank's (IPD's) most recent Property Benchmarking report of the central civil estate measures 375 offices comprising 1.37 million sq m of space and 105,000 workstations. The headlines are as shown in Figure 5.10.

Figure 5.10 IPD Property Benchmarking Report

IPD Property Benchmarking Report	
Square metres per FTE	14.5
Square metres per workstation	13.0
Workstations per FTE	1.1

5.6.18 The recent BCO study included both private and public sector office accommodation. This study measured 249 offices comprising 2.04 million sq m and 173,000 workstations. The overall density is 12 sq m per workstation. One of the interesting findings of this report is the narrow banding of densities, including central and local government (Figure 5.11).

Figure 5.11 BCO research on occupancy densities

BCO Densities Report	
Finance	11.0
Insurance	13.0
Manufacturing	16.0
Accounting/management consulting	11.1
Legal	20.9
Other professional services	10.5
Real estate	9.9
Central government	11.9
Local government	10.1
Media	11.0
Information technology	10.0

Source: BCO, 2009

5.6.19 Thus if the legal profession (mostly cellular) and manufacturing (mostly headquarters) are discounted, the whole data set averages between 9.9 and 13.0 sq m per workstation. Local government is benchmarked at 10.1 sq m per workstation.

5.6.20 The three studies thus produce workstation benchmark densities, in ascending order, of 11.8, 12 and 13 sq m, with the BCO study producing a local government figure of 10.1 sq m.

The role of higher utilisation

5.6.21 There are two principle ways of achieving higher occupancy densities. First, space allocations per person are reduced. For employees in open plan, there is simply less space around their workstations; while for others there is less enclosed space and more open plan, allowing higher densities; and space is generally planned with greater efficiency (eg by rationalising support space). Increased efficiency through higher densities can have an immediate impact, but it does, of course, have limitations imposed by building regulations relating to fire escapes, WC provision, and so on.

5.6.22 The second step is to manage the work environment more dynamically. It is well known that traditional office layouts are, typically, half empty for most of the time due to people being out of the office, and many organisations have introduced hot desking and desk sharing in order to improve utilisation.[68] Such initiatives allow a building to support more people in the same amount of space. Their impact on overall densities can be dramatic, often reducing an organisation's appetite for space by around 20%-30%. This phenomenon is now widely referred to as *"spaceless growth"*, and there is increasing

[68] See for example: Allen T, Bell A, Graham R, Hardy B & Swaffer F (2004) *Working Without Walls* OGC, London; NAO (2006) *Getting the Best from Public Sector Office Accommodation* NAO, London; Harrison A, Wheeler P & Whitehead C (2004) *The Distributed Workplace* Spon Press, London; Worthington J (2005) *Reinventing the Workplace* (2nd Edition) Architectural Press, Oxford

anecdotal evidence that the trend is permanent rather than simply a response to economic pressures.

5.6.23 Published data on desk sharing is rare, and so hard evidence of its overall impact is difficult to find. One study that did provide some numbers was produced by the National Audit Office in 2006.[69] This report cited a number of case studies, which are shown in Figure 5.12. The overall utilisation achieved is 1:1.3 (ie one desk per 1.3 people), with 5,376 (or 24%) people sharing desks.

5.6.24 It is important to recognise that large swathes of offices workers are not being forced to give up their desk against their will. What the data above demonstrate is a more realistic assessment than would typically have been the case in the past by some organisations of who really needs a desk. Those who spend most of their time out of the office can benefit in other ways (eg greater mobility and work-life balance, and better facilities in the office).

Figure 5.12 Flexible working desk ratios

Organisation	People	Desks	People:Desks
Adult Learning Inspectorate	282	151	1.9
BAA	540	459	1.2
BP	4,445	3,799	1.2
DTI	2,590	2,070	1.2
Ernst & Young	4,200	3,164	1.3
GCHQ	4,900	4,149	1.2
Hertfordshire County Council	1,000	770	1.3
IBM	1,473	765	1.9
Norfolk County Council	163	145	1.1
PricewaterhouseCoopers	1,750	670	2.6
Suffolk County Council	1,150	975	1.2
Total	**22,493**	**17,117**	**1.3**

Source: adapted from NAO, 2006

Implications for the London Plan

5.6.25 It is clear that growing numbers of organisations are dramatically changing the way in which they occupy their office buildings. Expanses of largely sterile (and largely under-occupied), production line-style office space are yielding to more dynamic work environments in which team work, collaboration and meeting space occupy far greater proportions of space. Part of the drive is economic as organisations respond to competitive pressures. Part of the drive is organisational as they transform their work processes to respond to fluid business environments. Technology is acting as a key enabler, and the climate change agenda is also playing a role.

[69] NAO (2006) *Getting the Best from Public Sector Office Accommodation* NAO, London

5.6.26 The outcomes are important for the London Plan. Organisations – both public and private – are using space more efficiently and more effectively. The bottom line is that they are using less space. This trend is not about "battery hen" planning office workers who will become disaffected, leading ultimately to a backlash and a return to the *status quo ante*.

5.6.27 Office workers can be very comfortably accommodated at higher densities than has historically been the norm: indeed in many cases, what is happening is that buildings are simply being occupied at the densities for which they were designed. Plentiful examples now exist of occupiers adopting higher densities and higher utilisation with *positive* impacts on their business.

5.6.28 What is happening is a structural change in which the second most expensive cost for most organisations is managed far more responsibly than has typically been the case in the past. This meets both organisational cost objectives as well as other CSR obligations (eg carbon footprint). Traditional assumptions about the growth of employment and the associated growth in employment space will need to be re-visited. Moreover, given the capital's commitments with respect to carbon reduction, it would indeed seem odd not to encourage more prudent use of resources.

5.6.29 On the basis of this analysis, we recommend that for forecasting purposes the London Plan adopts the 12 sq m (net) figure when converting employment forecasts into floorspace demand.

5.7 Stakeholder input

5.7.1 As part of the background research for LOPR 09, we undertook a set of face-to-face interviews with stakeholders in the London office market to canvas their views on the future shape of London and the prospects for the office market. These interviews were broadly structured around an interview template, but were relatively informal to allow the interviewees to focus on issues and interests that were, in their view, most pertinent. We interviewed a selection of investors, developers and advisors with significant interests in the London office market. We are grateful for their contribution to this document, and their names and businesses are listed in Appendix A5.1.

5.7.2 Where these views concur broadly with our own, or have illuminated our thinking, they have been used to inform the content of LOPR 09. If opinions have been expressed which differ to a large extent from our own and those of other interviewees, or which we feel would be difficult to substantiate, these have been highlighted.

Overview of the economy

5.7.3 The generally held view was that the current malaise is fundamentally cyclical rather than structural. In other words, the recession in the UK economy may be relatively deep and long-lasting but growth will inevitably resume. One interviewee drew our attention to the evidence in some indicators of a recovery during the first half of 2009, and observed that this had not been anticipated at the end of 2008. Evidence cited included the rise in the stock

market and a more rapid deceleration of the fall in house prices (and evidence of increases in London). Such recovery, in his view, is fragile and potentially short-lived.

5.7.4 At the same time, there was an expectation that this economic downturn is likely to leave a lasting legacy of structural change in the financial services industry. For instance, as one interviewee pronounced: "*Leveraged derivative trading is dead*". Another argued that the credit crunch was the end of a process that began with Big Bang over two decades ago.

5.7.5 In considering the likely future progress of this economic cycle, the threat posed by property debt was raised by one interviewee. His view was that the banks' strategy to 'nurse' property loans is avoiding distress at present but it may be merely postponing the hardship for many property investors which could, in turn, have wider consequences for the economy. His argument was, that, many of the commercial mortgage backed securities lenders sold-on the debt and much of that debt will come up for re-financing in 2010 and 2011 – which will create the conditions for another economic dip. This would, in his view, be mirrored in the real economy through consumer spending patterns. On a more general note, the possible return of inflation as a consequence of quantitative easing was flagged by several as a real concern.

5.7.6 There was general agreement amongst our interviewees that, after the next General Election, public spending has to decrease to begin the road to re-balancing the books. The need to raise taxes by the next government, by whatever means, was seen as likely to suppress consumer spending with consequences for the economy and the property market. The burden of debt in the national economy will be a constraint on growth for many years.

5.7.7 The consensus view that this recession is cyclical but severe and an underlying confidence that recovery will follow is neatly summed up by the observation of one: "This will be slowly unravelled".

Overview of the prospects for London

5.7.8 All of our interviewees hold positive views on the long-term future of London as a world city, based in large part on its long-term mercantile success. One observed that London was becoming increasingly disengaged from the rest of the UK Economy and more aligned with the global economy. "*It is no longer a British city but a world city*" and emphasised the need to make policy decisions that allow it to maintain that role. Another raised a concern over the consequences of a decline in the Eastern European economies and the strains that such decline would put on institutions that have lent money there.

Supply and demand in office markets

5.7.9 There was some reflection on the long term balance of supply and demand in the UK's office markets which could be of particular significance to the future of London. It was the opinion of more than one of the stakeholders that a steady release of land into the office market over the last 20 to 30 years, through increases in plot ratios, changes of use and the embracing of new

areas as acceptable office locations, means that the office market and in particular the London office market, can no longer be considered to be inherently supply constrained. For this reason, successful development must rely on an in-depth understanding of the type and quantity of office space that will be needed and where it is best located. By implication, the quality of development teams (including developer, investor, designer, agent and lawyer) will be a crucial determinant of future success.

Prospects for the London office market

5.7.10 Among our interviewees there was a generally held view that London office property would not perform well as an investment within the next two to three years, indeed some forecast negative total returns over that period. For some investors, this has prompted a strategic decision to sell assets in the London office market and reallocate the funds derived from those sales, to other asset classes. This is partly driven by the need to raise cash to satisfy their own investors who are seeking to withdraw funds from investment vehicles.

5.7.11 There was greater confidence that the provincial markets could deliver positive investment returns within a shorter timescale; but for London the more cautious do not propose to be actively seeking opportunities until beyond 2011. The belief in provincial markets rests on their lower exposure to FBS employment.

5.7.12 There is apparently interest from some sources - often fuelled by a need to put equity somewhere other than a bank or from overseas buyers who see value in London today. Yields we were told are already 'hardening' for good quality buildings with seven years or more unexpired on the lease and with a reasonable covenant, as long as they are not substantially 'over-rented' – ie as long as the rent currently payable under the lease terms is not too much greater than the prevailing market level. One observed that "*overseas investors are happy with five year leases*".

5.7.13 Rents were widely expected to fall, at least until 2010 and one confirmed that he expected no return to real rental growth until 2012-2013 and even then, recovery in rental values was considered to be dependent on the wider economy providing a platform for growth; which was by no means seen as assured by all.

5.7.14 One interviewee suggested three scenarios for the future focussed on financial services and the market for major buildings and occupiers. These were as follows.

- Cyclical scenario – this is "just another cycle" and the downturn will be followed by a return to strong growth leading to requirements for more big buildings in the City, its environs and Canary Wharf.
- Low growth scenario – the credit crunch and recession have led to a "fundamental shift" and financial services will have a prolonged period of low growth rates, which in turn will impact on other London sectors.

Requirements for new space will be scaled back, with a stronger emphasis on the efficient use of existing stock.

- Low growth/re-regulation scenario – under this scenario high level policy responses to the role of financial services in the recession lead to more onerous regulation. Allied with low growth, locations focussed on financial services like the City and Canary Wharf might need to re-invent themselves as more plural markets, with shallower floorplates, more adaptable/flexible buildings, with diverse support services. "*In terms of the occupier base, [we] would prefer the lower volatility offered by diversity in the City*".

5.7.15 The view of most of our stakeholders was probably a qualified option one – ie expect a return to growth but not necessarily 'strong growth' and tempered by some structural changes within financial services, although with a clear message that any tightening of regulation should be approached with great caution to avoid 'throwing the baby out with the bath water".

5.7.16 On wider matters of future occupier demand, the view was expressed by one interviewee that a change of government is likely to lead to contraction of the government sector, impacting on overall levels of demand [for offices].

Development prospects and geography

5.7.17 Construction is not expected to become generally viable in Central London for some while – estimates ranged from two to five years - simply because of the relative levels of rental value and construction costs and notwithstanding the availability of development finance. Beyond Central London, the prospect is even more remote. The result will be that no new stock is brought to the market for some five years or more and this will build its own cyclical pressures.

5.7.18 The was a general level of scepticism about the volume of office space being planned or mooted around London, and caution about the tendency towards unrealistic optimism during a strong economy. This is best illustrated by some quotes:

"It is very difficult to see how all the polycentric schemes will be filled up".

"In the froth of the market everybody thinks we can push the boundaries a bit – Hammersmith is just like London – then it falls away".

"The band of suburban London has never really worked for us".

"I cannot see the future of the London suburbs (as office locations)".

5.7.19 Several of our stakeholders are, or have been involved with schemes that help to re-shape the geography of London offices and they had clear views on what constitutes a successful formula: for a market to succeed outside of the centre, it needs transport, amenities and the capability to attract corporate occupiers, not just local businesses. It also needs investors with a very long

time perspective. This mirrors our views of the prospects for mega-schemes in London as expressed elsewhere in LOPR 09.

Comments on planning policy

5.7.20 The only topic which provoked any strongly-held views on planning was mixed use policy. Our interviews revealed a concern that including residential content in commercial buildings has an adverse affect on capital value because there is a fear that residential occupiers will acquire a right to buy the freehold. There is also resistance on the part of residential occupiers to living above offices. There was a view that mixed use policy is too crude in the way it imposes an obligation on the owner to incorporate residential content into office developments in some London boroughs. The concept of 'donor buildings' is gaining acceptance as a way to deal with mixed use obligations – whereby the developer transfers the residential element of an office consent to an alternative and more suitable location in exchange for exclusive office use on that site.

5.7.21 Lack of consistency in the application of mixed use policy was cited. In one location, an important prospective office development has been "killed" by the insistence by planners for on-site affordable housing, while other schemes in the vicinity have been allowed to use off-site solutions or commuted payments. Mixed use is seen to create vitality in areas, but it does not have to be within individual buildings. One solution might be to create a pooled fund from all commercial development, to be applied on appropriate sites.

5.7.22 The only other observation made on planning was the view that: a coherent view of London is essential and that borough level politics is often counter-productive in finding solutions to the question of suburban futures. Towns need to re-invent themselves, perhaps based on clusters or centres of excellence, Chiswick and Camden were cited as examples of places that have successfully 're-invented' themselves. It was suggested that tightly targeted central government investment is the most reliable way to kick start re-invention. Crossrail, however, far from improving the prospects for office markets in West London, could be to their detriment by enabling commuters to by-pass them at speed, since the stations are in locations that are not viable as office markets.

Occupier trends

5.7.23 According to our stakeholders, concern for sustainability is still a relatively new issue as far as Central London occupiers are concerned. Historically buildings have perhaps been "over-specified" in any case, but there is a tension between the need for power, temperature control and meeting Corporate and Social Responsibility (CSR) obligations.

5.7.24 One interviewee described the ideal City office building as "green" and "grunt", not only meeting the sustainable agenda, but also providing occupiers with an efficient hard-working building. Developers are moving beyond a responsibility for the base build to work with occupiers in order to

reduce the energy consumption of tenants. Occupiers are also looking for choice in terms of heating and cooling systems.

5.8 Conclusion

5.8.1 The period that has lapsed since LOPR 07 has seen major changes in London's office market. Some of those changes are undoubtedly cyclical and will see conditions easing as the economy inches towards recovery in 2010 and 2011. Others are *potentially* structural, while others are *actually* structural in nature, representing on-going, permanent change to supply-demand dynamics. Figure 5.13 summarises our thoughts on these, with explanatory text following.

Figure 5.13 Cyclical and structural change

Cyclical	Potential Structural	Actual Structural
Impact of recession	Financial supervision	Polycentric London
Rent and yield adjustment	London's reputation	Eastwards pull
Output-related demand fall	Threat from other centres	Marginal office centres
Development downturn	UK tax regime	Public sector demand
		Changing working patterns

Economic issues

5.8.2 The effects of the credit crunch and the following recession on the property market have been highly visible and well-recorded. The dramatic falls in asset values and rents testify to the scale of the impact. Consensus among market practitioners remains pessimistic over the prospects for property through to mid-2011.

5.8.3 Serious though circumstances are, the recession will ease. Despite the worst recessionary pressures of the post-war period, unemployment levels have yet to reach those of the early-1990s; the collapse of commercial and residential prices has begun to slow, and economic indicators are showing the early signs of stabilising. Additionally, London is not blighted in this recession with a huge oversupply of new space, except in the City of London.

5.8.4 Perhaps greater and longer-lasting implications lie in the damage that has been done to the UK's reputation for financial management. Part way through a £125 billion programme of quantitative easing we learn that public debt is likely to double over the next few years. And London's reputation as a global financial centre has been dealt a heavy blow.

5.8.5 While most commentaries express confidence in London's long-term future as a nexus of global finance, few come without significant caveats. The threats to London's global role are real. The UK's creditworthiness and reputation; proposed changes to the system of financial supervision, competitive threats from other centres and the UK's tax regime have all been highlighted here.

5.8.6 But London is more than a centre of finance: it is a truly global city. And recent data on foreign direct investment is encouraging: FDI levels have been maintained, and current trends show no hint of a structural change in the profile of demand.

Spatial pattern of demand

5.8.7 Moving away from the changes imposed by the recession, we turn to the spatial pattern of demand for offices within London. Recent evidence suggests a continuing confidence among global financial services firms in the City, with significant announcements on new investments by a number of global players.

5.8.8 There is some evidence of firms taking advantage of the cost differential between sub-markets, but there is always a trickle of firms moving from high cost to low cost locations within Central London. There is little evidence to suggest a more fundamental change in such moves.

5.8.9 One of the key influences on the spatial demand for space is the availability of high quality premises in off-centre developments, and London's evolution into a polycentric market. One of the key lessons of this change is that demand *can* be attracted from established markets to projects where suitable premises, for modern businesses, provide a more attractive alternative to traditional stock, and where large clusters of buildings (urban campuses) can create critical mass and support retail and other service activity, as well as large public realm spaces. The experience of certain key projects suggests that infrastructure provision is a crucial ingredient of "critical mass".

5.8.10 There is a long history of occupiers drifting westwards from Central London, with a much weaker drift to other Outer London centres. There is little reason, and no evidence at this stage, to assume that this historic pattern of dispersal, with a strong westward drift and not much elsewhere, will change the other side of the recession.

5.8.11 In the longer-term, the pull to the east will strengthen as infrastructure is established and as critical mass builds. It is important to remember, however, that such changes normally occur over at least two property cycles, and new locations need to establish distinctive demand profiles.

5.8.12 Setting aside the issue of drift from Central London to Outer London, there is the question of whether the pattern of demand *within* Outer London itself is changing. One of the key concerns here must be the role of "marginal" office centres: centres which lack critical mass, and which tend to benefit in very "hot" markets, but which lose favour when demand is "thinner".

Change in demand levels

5.8.13 There are two key structural issues here: changes to public sector demand and the influence of new working patterns. Over the coming years, the public sector could radically alter its occupation of offices. The current recession and the state of public finances will serve only to reinforce this trend. The

scale of public sector employment both in central government and also in many commercial centres throughout London, suggest the impact could be great.

5.8.14 In several Outer London areas, the public sector ranks among the largest of employers. As the public sector responds to the OEP agenda, there will be a reduction in the overall amount of space occupied, and this is likely to have a disproportionate impact in those locations which might be considered marginal in commercial terms.

New working patterns

5.8.15 Growing numbers of organisations are changing the way in which they occupy their office buildings. Trends in corporate management, the nature of organisations, the pervasive impact of technology, and evolving social attitudes towards work are all changing the demands placed upon the office. The outcomes are important for the London Plan. Organisations – both public and private – are using space more efficiently and more effectively. The bottom line is that they are using less space. This trend is not about "battery hen" planning office workers who will become disaffected, leading ultimately to a backlash and a return to the *status quo ante*.

5.8.16 What is happening is a structural shift in which the second highest cost for most organisations is managed far more efficiently than in the past. This meets both organisational cost objectives as well as other CSR obligations. Traditional assumptions about the growth of employment and the associated growth in employment space will need to be re-visited. Moreover, given the capital's commitment to carbon reduction, it would indeed seem odd not to encourage more prudent use of resources.

6.0 Update of prospects for non-CAZ office markets

6.1 Introduction

6.1.1 This Chapter updates earlier LOPR work and examines strategic options to rejuvenate, consolidate and re-position the offer of London's office markets beyond the Central Activities Zone, taking into account the locational typology set out in the London Plan. The earlier work identified four or five locations in each borough, summarising current office rents and capital values, and then made high level judgements, based on market experience, on the viability of speculative office development in the short- or medium-term.

6.1.2 We test the conclusions of LOPRs 04, 06 and 07 on the prospects for individual office markets, in the context of the guidance for implementation of pan-London policy set out in the SRDFs which drew on this research, including the office policy typology designations for suburban centres. Drawing on available data and limited primary research, we appraise how far the current development pipeline is likely to meet future sub-regional needs as expressed by current market sentiment, and as anticipated for the longer-term in the London Plan and the latest employment projections.

6.1.3 The output identifies those locations, in the light of changing market demand and new, replacement or consolidated provision, that could most effectively meet the objectives for offices. It also identifies locations where office capacity might be released to other uses to more effectively achieve the Mayor's wider objectives, especially for housing.

6.1.4 Given the recent focus on Outer London, we provide a brief overview of Inner London markets, with suggested updates from earlier LOPRs, and then a more detailed assessment of Outer London markets.

6.2 Inner London, non-CAZ assessment

6.2.1 Inner London's non-CAZ boroughs are diverse. Insofar as they have any unifying theme, it is that they sit on the periphery of a very large market – namely CAZ – and exhibit all of the pitfalls and potential of such areas.

6.2.2 They illustrate one of the contradictions of the London office market. On the one hand, the fall-off in values from the centre is often strikingly steep and the descent into fragmented ownership that makes site assembly problematic. On the other hand, there *is* a scatter of sites that need to be given proper consideration for their potential role in any emerging polycentric London. For example, White City, where a number of landowners are seeking to capitalise on a swathe of under-utilised land to the north of the recently completed regional shopping centre, and where the vacation of the BBC's Wood Lane studios will create further opportunities.

6.2.3 Figure 6.1 provides a centre-by-centre update of Inner London, non-CAZ, town centres, including our recommendations for office market policy options.

Figure 6.1
Inner London, non-CAZ, town centres: office market policy options

Borough/centre	LOPR 04	LOPR 09 update
Hackney		
Dalston	Promote residential-led mixed use	No change, remove from future monitoring
Hoxton	Promote residential or non-office commercial-led mixed use	No change, remove from future monitoring
Mare Street	Promote residential or retail-led mixed use	No change, remove from future monitoring
Stoke Newington	Promote residential or retail-led mixed use	No change, remove from future monitoring
Tower Hamlets		
Wapping (inland)	No purpose in promoting offices	Excludes News International site. No change, remove from future monitoring
Isle of Dogs Millennium Quarter	Consider revising policy to promote residential-led mixed use	Promote residential-led mixed use
Bethnal Green	No purpose in promoting offices	No change, remove from future monitoring
Camden		
Camden Town	Promote residential/non-office-led mixed use	Promote residential/non-office led mixed use
Kentish Town	Promote residential/non-office-led mixed use	Promote residential/non-office led mixed use
Islington		
Angel	Promote residential/non-office-led mixed use	Promote residential/non-office led mixed use
Holloway	Promote residential/non-office-led mixed use	No change, remove from future monitoring
Finsbury Park	Promote residential/non-office-led mixed use	No change, remove from future monitoring
Kensington & Chelsea		
Chelsea	No strategic necessity to promote offices	Promote residential/non-office-led mixed use

Borough/centre	LOPR 04	LOPR 09 update
Kensington	No strategic necessity to promote offices	Promote residential/non-office-led mixed use
Notting Hill	Promote residential-led mixed use	Promote residential/non-office-led mixed use
North Kensington	Promote residential-led mixed use	Promote residential/non-office-led mixed use
South Kensington	No strategic necessity to promote offices	Promote residential/non-office-led mixed use
Lambeth		
Kennington	No purpose in promoting offices	No change, remove from future monitoring
Brixton	No purpose in promoting offices	No change, remove from future monitoring
Streatham	No purpose in promoting offices	No change, remove from future monitoring
Southwark		
Surrey Quays	Promote residential-led mixed use	Promote residential-led mixed use
Hammersmith		
Sands End	Promote residential-led mixed use	Promote residential-led mixed use
Fulham	Promote residential-led mixed use	Promote residential-led mixed use
Hammersmith (town centre)	Promote offices on strategic sites, residential-led mixed use away from centre	Promote offices on strategic sites, residential-led mixed use away from centre
Shepherd's Bush	Promote residential-led mixed use	Promote residential/non-office-led mixed use
White City	Promote strategic office centre	Monitor closely as potential strategic office site
Wandsworth		
Battersea (riverside)	Promote residential/non-office-led mixed use	Promote residential/non-office-led mixed use
Wandsworth town centre	Promote residential/non-office-led mixed use	No change, remove from future monitoring
Putney (non-riverside)	Promote residential/non-office-led mixed use	No change, remove from future monitoring
Battersea (Clapham Junction)	Promote residential/non-office-led mixed use	Promote residential/non-office-led mixed use

Borough/centre	LOPR 04	LOPR 09 update
Haringey		
Crouch End	Promote residential or non-office-led mixed use	No change, remove from future monitoring
Muswell Hill	Promote residential or non-office-led mixed use	No change, remove from future monitoring
Wood Green	Promote residential or non-office-led mixed use	No change, remove from future monitoring
Tottenham Hale	Promote residential or non-office-led mixed use	No change, remove from future monitoring
Westminster		
Queensway, Westbourne Grove	No strategic necessity to promote offices	Promote residential/non-office-led mixed use

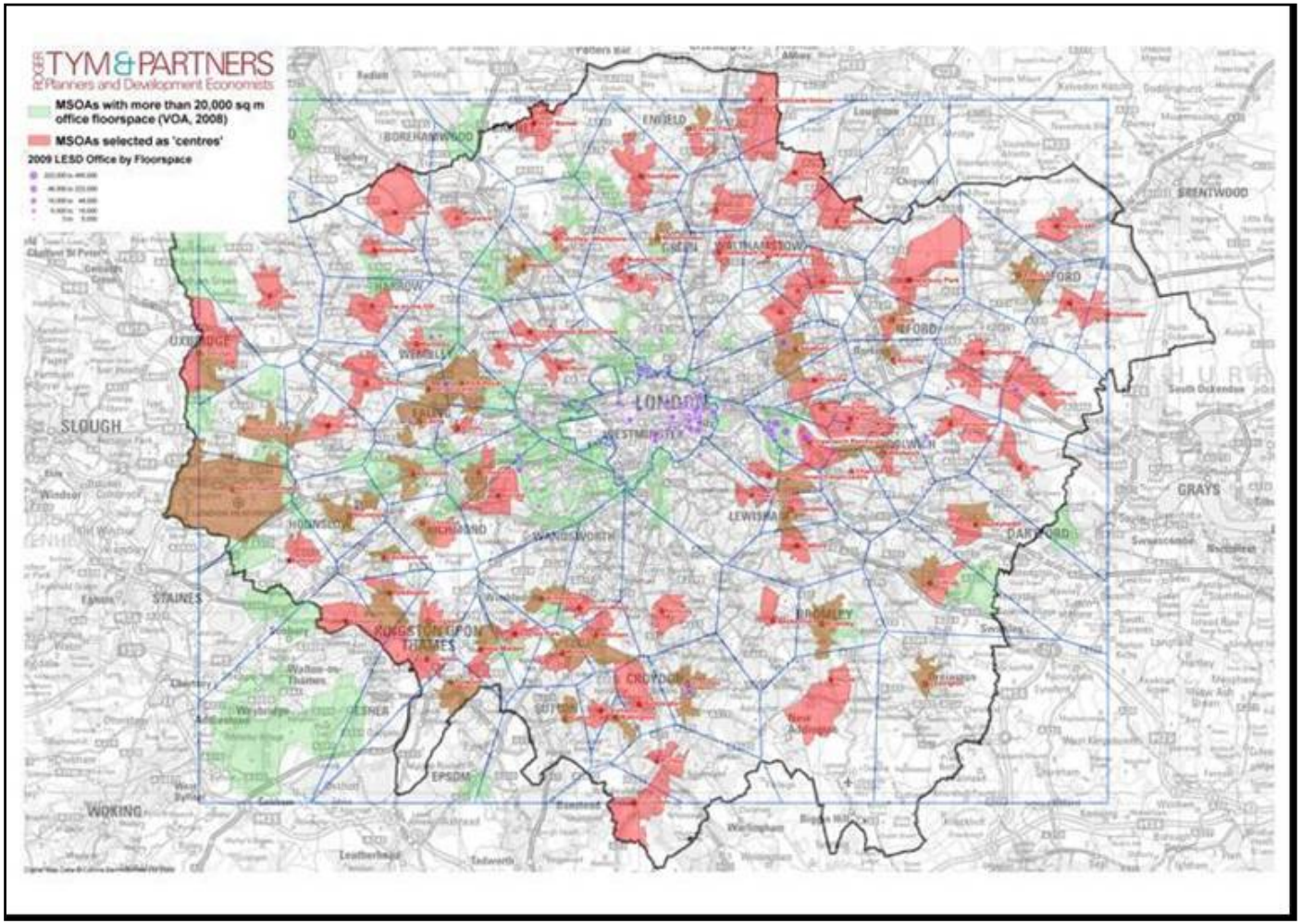
6.3 The Office Market Assessment Grid

6.3.1 Before getting into the detail of the Outer London centre-by-centre assessment, Figure 6.2 provides a map showing the distribution of the office centres monitored in previous LOPRs throughout Outer London. The map shows the extent of office floorspace in each location based on 2008 Valuation Office Agency Data, where green areas indicate stock over 20,000 sq m, red areas are the monitored centres and brown areas are where these overlap. Figure 6.2 also indicates the location of prospective office developments over 5,000 sq m.

6.3.2 The Office Market Assessment Grid (OMAG) offers a structured way to generate relative evaluations of existing and potential office markets. Our initial expectation was that two sets of grids would be generated, one dealing with short-term prospects and another with medium- to long-term prospects. It quickly became evident however that, in a period of generally subdued demand across the capital, the 'story' in the short-term was essentially the same and the strategic position of the centres was much more significant. Further, some of our test criteria were specifically designed to synthesise short- and long-term factors into a single set of indicators.

6.3.3 The scoring criteria are explained in Figure 6.3 and OMAG itself, complete with the assessment results, is reproduced in Figure 6.5.

Figure 6.2 Outer London office centres, based on 2008 VOA data, sq m



6.3.4 Each of the scoring criteria shown in Figure 6.3 is given a score of plus 1 (impact is positive for office market growth), minus 1 (impact is negative) or zero (impact is neutral).

6.3.5 It should be noted that scores are relative, assessing one centre against others and the "tone of the market". A negative score means negative as measured against the others, not in an absolute sense.

Figure 6.3 Office Market Assessment Grid

Criteria	Definition
Current Economic activity	*Assessment of the current economic well-being of the centre, including general economic vitality, large employers, employment levels, occupational structure and signs of growth.*
Cluster strength	*The presence of an economic cluster of office related activity that will support local growth, inward investment and employment prospects. Essentially: the availability of agglomeration benefits.*
Diversity	*An indicator of the breadth of the centre's economic base and therefore its employment prospects and resilience to industry-specific decline.*
Exposure to corporate retrenchment	*An assessment of the centre's exposure to the kinds of businesses that are likely to suffer from consolidation, outsourcing and off-shoring.*
Residential demand	*A judgement based on house price trends, quality of housing, perceived level of demand and level of attraction for residential growth.*
Growth prospects	*An overall assessment of the centre's ability to recover quickly from/ build upon its position, reduce vacant stock/pipeline and experience growth in job opportunities.*
Business centre prospects	*To what extent is the centre's strength as an employment centre changing as indicated by local economic indicators?*
Impact of infrastructure change	*How will changes to infrastructure provision, both locally and around London, impact the centre?*
Vacancy and pipeline	*An assessment of the weight of vacant property and development land, and its potential to act as a drag on confidence and property recovery within each centre.*
Strategic site availability	*An assessment of each centre's ability to deliver strategic site(s) that could lead to a step change in the prospects for the local economy. Typically, this will not be an existing office site and it might not be assembled.*

6.4 Recommendations for removal from monitoring

6.4.1 OMAG was applied to all of the Outer London boroughs considered in the office centre appraisal of LOPR 04. This entailed visiting each centre, and it quickly became evident that the reasons for including some centres were far from obvious. This in turn prompted us to ask a single searching question: for each centre, is there a realistic chance that it will become a significant office centre, support office-led development or benefit significantly from growth in office employment on any reasonably foreseeable timescale?

6.4.2 The results of this uncompromising thinking are striking: more than half of the centres included in this study have no case for inclusion in future LOPR research – indeed it is a puzzle why some were included in 2004 (Figure 6.4). Six other centres seem likely to be removed in the future and remain now only because undeveloped sites are theoretically available for office development, or the local authorities are considering regeneration options.

6.4.3 These conclusions were not reached lightly – in some parts of London, especially west London, the temptation to include centres "just in case" is very real. But it is a practical fact that planning is about resource choices, and it seems wasteful to include centres that have no realistic chance of having a policy role, and our choices reflect this.

Figure 6.4 Centres recommended for removal from monitoring

Immediate removal		Likely future removal
Acton	Leyton	Barking Reach
Barnes	Leytonstone	Feltham
Beckenham	Mitcham	Finchley
Canning Town	Morden	High Barnet
Catford	Newbury Park	Raynes Park
Charlton	New Cross	Southall
Chingford	New Malden	
Colliers Wood	Norbury	
Coulsden	Orpington	
Dagenham	Purley	
Deptford	Rainham	
Edmonton	Ruislip	
Erith	Sidcup	
Greenford	Silvertown	
Greenwich Town Centre	Thamesmead	
Hampton	Teddington	
Hanger Lane	Tolworth	
Harold Hill	Upminster	
Hayes	Wanstead	
Hendon	Willesden	
Hornchurch	Woodford	
Kilburn	Woolwich	

6.5 Outer London Assessment

Overall conclusions

6.5.1 One striking result, which became evident as the work progressed is that, in any one borough, there appears to be room for only one centre that tends to score strongly positive (or at least markedly outperforms is near neighbours). To a certain extent this is to be expected – it is consistent with much urban development theory about hierarchies. However, we took the decision to exclude scale or critical mass as a criterion for evaluation, expecting some smaller centres to score well, despite having no genuine prospect of becoming strategic centres.

6.5.2 This, on the whole has not been the case. Put simply, success seems to breed success. This is most clearly demonstrated in Croydon, where Croydon itself easily outscores other local centres.

6.5.3 The exceptions are notably concentrated to the west, except Lewisham.

EAST

6.5.4 **Barking & Dagenham** Barking & Dagenham in common with much of east London is shaped by the twin forces of de-industrialisation and sustained regeneration efforts. LOPR 04 noted the decline of Barking's low key, decentralisation-led office market. Little has happened to fundamentally alter this pattern.

Office stock (sq m)[70]	Office rent (£ sq m)[71]	House price trend (%)[72]
124,000	108	-17.60

6.5.5 Barking Reach has been evaluated in the past as a possible strategic location, but found lacking and since then development has been largely residential led. The matrix score comes out positive because of the nominal availability of sites (in fact likely to go to non-office uses) and the potential benefits of Crossrail. In line with the findings of LOPR 04, the other centres – Rainham and Dagenham – have no prospect of ever being major office centres.

6.5.6 Recommendation Remove Rainham and Dagenham from future consideration as potential office centres. Maintain Barking Reach until the next LOPR when it will likely also be removed. Maintain Barking in the context of residential-led mixed use development, as per LOPR 04.

6.5.7 **Bexley** In south east London, Bexley is a classic story of two halves – although the net result is much the same. Bexleyheath and Sidcup represent

[70] Source: NOMIS
[71] Source: Local property agent intelligence and various research reports
[72] Source: Land Registry. "House price trend" relates to the year to April 2009

classic inter-war and post-war suburbanism. Erith and Thamesmead represent the legacy of mis-conceived modernism, with much work to do to bring about wholesale regeneration.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
170,000	108	-7.00

6.5.8 The fact is that only Bexleyheath avoids a negative score, but it is not a large centre and lacks the capacity and track record to be seriously considered for office-led strategy.

6.5.9 Erith and Thamesmead – although having plenty of land – are simply not acceptable environments for modern office accommodation and seem unlikely to become so any time soon.

6.5.10 Recommendation Remove Erith, Thamesmead and Sidcup from further consideration as potential strategic office centres. Sidcup and Bexleyheath should be considered for offices in the context of mixed-use development.

6.5.11 **Greenwich** Greenwich town centre is too small and compact to be seen as a major potential office location and should not be considered as such in future. Along with Charlton it should be removed from future monitoring. Woolwich has seen, and is seeing, much mixed-use and especially residential-led regeneration and, indeed, LOPR 04 noted that it is a much better place for such development. It has, however, lost major office employers and it too should be removed from consideration for office-led development.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
200,000	108 town centre (c377 Greenwich Peninsula)	-14.40

6.5.12 This leaves Greenwich Peninsula, where 350,000 sq m of office space are planned over the next 15 years. A pre-let to Transport for London and a rumoured deal with Bouygues (probably as a base for its work in Newham) have kick-started this scheme. Close to a strong destination in the O2 Arena, and just one stop on the modern tube from Canary Wharf and three from Stratford, Greenwich Peninsula has started to take shape as a strategic office centre. It is possible to argue that the TfL let is not a truly market deal, but the fact is that compared to a potential rival centre at Stratford, Greenwich appears to have 'first mover' advantage. Its weaknesses include relatively poor road connections and relative distance from High Speed One.

6.5.13 This poses a strategic challenge for the London plan: the strong assumption of future concentration at Stratford faces direct challenge from a successful Greenwich Peninsula.

6.5.14 Recommendation Remove Greenwich town centre, Charlton and Woolwich from future consideration as strategic office centres. Closely monitor the progress of Greenwich Peninsula with particular attention to potential impact on the viability of future development at Stratford.

6.5.15 **Havering** East London is a highly polycentric area, slightly "squeezed up" by the legacy of the former London docks. Havering shows quite strongly, however, a definite hierarchy.

6.5.16 Romford is clearly the major centre in the area. It is bustling and has an air of prosperity and it is little surprise that it scores overall positive on OMAG. However, its negative scores are critical: there is little sign of vacancy and no evidence of strategic site availability.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
180,000	167	-10.20

6.5.17 In fact the area illustrates the classic problem with east London: with no established legacy of office development, and with much land long-since built out by competing uses, it is hard to see how the long-standing westward drift of London could be countered here, nor how a breakthrough scheme could find a foothold, other than in mixed-use schemes.

6.5.18 Havering's other centres offer no prospects at all for office development beyond meeting local demand.

6.5.19 Recommendation Promote office development in Romford only in the context of mixed-use schemes led by other uses. Remove Harold Hill, Hornchurch and Upminster from future consideration for office-led development.

6.5.20 **Lewisham** Lewisham is included, despite being an Inner London borough, because it neatly illustrates how structured scoring highlights apparent market anomalies. It scores well on OMAG, with no centre attracting a negative balance – and yet any visit to Lewisham would quickly reveal that there is almost no prospect of a strategic office centre developing there. The overwhelming weight of development is in residential, retail and leisure uses.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
184,000	129	-7.60

6.5.21 This is perhaps not entirely surprising: the area has been popular with workers on the Isle of Dogs, especially since the DLR was extended. Despite the essentially redundant Citibank building (in fact now disaster recovery space), the centre of gravity for office development, even at the sub-regional scale, has pushed it elsewhere.

6.5.22 It is included here because it neatly encapsulates where positive scores do not make outcomes inevitable.

6.5.23 Recommendation Remove Catford, Deptford and New Cross from future consideration. Maintain Lewisham in the context of mixed-use development led by other uses.

6.5.24 **Newham** Newham is at the epicentre of thinking about the development of new office centres in London. Since long before the Olympic bid, Stratford has been mooted as a location for a strategic office centre and the Stratford City proposal includes a 465,000 sq m office district. The Westfield Stratford City shopping centre is under construction and due to open in 2011.

6.5.25 With much of the rest of the site given over to temporary use for London 2012, this poses a potential problem. LOPR 04 – and indeed most conventional wisdom – cites Stratford as the most logical location east of Canary Wharf for a major office centre, a view that has prevailed for at least 15 years. Logically we see nothing to disturb this view and, indeed, OMAG scoring gives Stratford a significant edge over any other east London centre.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
285,000	215 (Stratford)	-20.50

6.5.26 The Olympics, however, mean that no large-scale office development will happen before 2012 and, in the meantime, Greenwich Peninsula may have secured 'first mover' advantage. A tension noted in LOPR 04 is now becoming critical and major strategic decisions will have to be taken as to the future scale of office content at Stratford.

6.5.27 Elsewhere in Newham the picture is more straightforward (though no less ambitious!). A major mixed-use development is proposed in Canning Town; but it is perhaps most telling that phase one of the Royals Business Park was sold to the London Borough of Newham for £75 million for back office operations. Other schemes around the area are mixed use, with residential a significant component.

6.5.28 Recommendation Obviously Stratford must remain central to strategic thinking for the provision of large-scale office space. However, we suggest that an urgent review is carried out to establish whether progress at Greenwich Peninsula has thrown a spanner into the works and, in effect, unbalanced strategy.

6.5.29 Canning Town can safely be removed from monitoring at a strategic level, as can Silvertown. The Royals are somewhat "on the cusp". Although the Royals Business Park has not progressed (the most recent proposals envisage hotel development dominating the next phase with a modest office component), and our "hunch" is that it is unlikely to do so, the sheer weight of

development in east London suggests that it should remain actively monitored at least until the next LOPR.

6.5.30 **Redbridge** Redbridge exhibits many of the same characteristics as other east London boroughs – low demand and low supply. Although there is evidence of vacancy in Ilford, the quality of the stock is uninspiring. None of the other centres in the borough show any indication of having what it takes to become an office centre, nor to benefit from office-led regeneration.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
195,000	129	-10.50

6.5.31 Recommendation There is no purpose in continuing to monitor Wanstead, Woodford or Newbury Park. Ilford should be kept on the radar, although it is highly unlikely that office development will take a lead role in regeneration of the area.

Figure 6.5 Office Market Assessment Grid

Centre	Current economic activity	Cluster strength	Diversity	Exposure to corporate retrenchment	Residential demand	Growth prospects	Business centre prospects	Impact of infrastructure changes	Vacancy and pipeline	Strategic site availability	Total assessment score
EAST											
Barking & Dagenham	-2	0	-1	-1	1	-3	-3	2	-1	2	-6
Barking	-1	-1	0	0	0	-1	-1	1	0	0	-3
Dagenham	-1	1	-1	-1	0	-1	-1	0	0	1	-3
Barking Reach	0	0	0	0	1	-1	-1	1	-1	1	0
Bexley	-2	-3	0	0	-2	-2	-3	2	-2	0	-12
Thamesmead	-1	-1	0	0	-1	0	-1	1	-1	0	-4
Erith	-1	-1	0	0	-1	-1	-1	1	0	1	-3
Bexleyheath	1	0	1	0	0	0	0	0	-1	-1	0
Sidcup	-1	-1	-1	0	0	-1	-1	0	0	0	-5
Greenwich	1	-2	-1	1	3	1	-1	2	-1	0	3
Greenwich town centre	1	-1	-1	1	1	-1	-1	0	-1	-1	-3
Greenwich Peninsula	1	0	0	0	0	1	1	1	0	1	5
Charlton	0	0	1	0	1	0	0	0	-1	-1	0
Woolwich	-1	-1	-1	0	1	1	-1	1	1	1	1
Havering	0	-2	-1	1	2	-5	-3	2	-1	-1	-8
Romford	1	0	-1	0	0	-1	1	1	-1	-1	-1
Rainham	-1	-1	0	0	0	-1	-1	1	0	1	-2
Harold Hill	0	-1	-1	0	1	-1	-1	0	0	-1	-4
Horncurch	1	0	1	1		-1	-1	0	0	-1	0
Upminster	-1	0	0	0	1	-1	-1	0	0	1	-1
Lewisham	-2	-3	-2	0	2	1	-1	4	2	2	3
Deptford	-1	0	-1	0	0	0	0	1	1	1	1
New Cross	0	-1	-1	0	1	0	0	1	0	0	0
Lewisham	-1	-1	0	0	1	1	-1	1	1	1	2
Catford	0	-1	0	0	0	0	0	1	0	0	0
Newham	-1	-2	0	0	0	-1	-1	1	-2	1	-5
Stratford	1	0	0	0	1	1	1	1	0	1	6
Canning Town	0	-1	0	0	0	-1	-1	-1	-1	-1	-6
Royal Docks	-1	-1	0	0	0	1	0	1	-1	1	0
Silvertown	-1	0	-1	0	0	-1	-1	0	0	1	-3
Plaistow	0	0	1	0	-1	-1	0	0	0	-1	-2
Redbridge	0	-2	0	0	1	-3	-1	-1	-1	-3	-10
Wanstead	1	0	0	0	1	-1	0	-1	-1	-1	-2
Woodford	1	-1	0	0	1	0	0	-1	-1	-1	-2
Ilford	-1	-1	0	0	-1	-1	-1	1	1	-1	-4
Newbury Park	-1	0	0	0	0	-1	0	0	0	0	-2

Figure 6.5 Office Market Assessment Grid (cont'd)

Centre	Current economic activity	Cluster strength	Diversity	Exposure to corporate retrenchment	Residential demand	Growth prospects	Business centre prospects	Impact of infrastructure changes	Vacancy and pipeline	Strategic site availability	Total assessment score
WEST											
Brent	**0**	**-1**	**0**	**0**	**2**	**1**	**0**	**1**	**-3**	**0**	**0**
Kilburn	-1	-1	0	0	1	-1	-1	0	-1	-1	-5
Willesden	-1	-1	0	0	1	0	0	0	-1	0	-2
Wembley	1	0	-1	-1	1	1	0	0	-1	1	1
Park Royal	1	1	1	1	-1	1	1	1	0	0	6
Ealing	**1**	**1**	**0**	**1**	**2**	**0**	**-1**	**0**	**3**	**-1**	**6**
Acton	0	1	-1	1	1	-1	-1	0	1	-1	0
Ealing	0	0	1	1	1	1	0	0	1	0	5
Hanger Lane	0	-1	0	-1	0	0	0	0	0	0	-2
Greenford	1	0	0	0	-1	-1	0	0	0	0	-1
Southall	0	1	0	0	1	1	0	0	1	0	4
Harrow	**0**	**0**	**2**	**0**	**2**	**-1**	**0**	**-3**	**0**	**-2**	**-2**
Harrow-on-the-Hill	0	0	0	0	1	0	0	-1	0	0	0
Wealdstone	0	0	1	0	0	-1	0	-1	0	-1	-2
Stanmore	0	0	1	0	1	0	0	-1	0	-1	0
Hounslow	**3**	**0**	**3**	**2**	**2**	**2**	**-1**	**-1**	**2**	**0**	**12**
Chiswick	1	1	1	1	1	1	1	0	0	0	7
Brentford	1	0	0	0	1	1	-1	-1	1	1	3
Hounslow	0	-1	1	0	1	-1	-1	0	0	-1	-2
Feltham	1	0	1	1	-1	1	0	0	1	0	4
Hillingdon	**-1**	**0**	**1**	**0**	**1**	**-1**	**-2**	**4**	**3**	**-1**	**4**
Uxbridge	1	0	1	1	1	0	0	1	0	0	5
Stockley Park	1	1	1	-1	0	1	0	1	1	1	6
Heathrow Perimeter	-1	1	0	-1	0	-1	-1	1	1	-1	-2
Hayes	-1	-1	-1	0	-1	-1	-1	1	1	-1	-5
Ruislip	-1	-1	0	1	1	0	0	0	0	0	0

Figure 6.5 Office Market Assessment Grid (cont'd)

Centre	Current economic activity	Cluster strength	Diversity	Exposure to corporate retrenchment	Residential demand	Growth prospects	Business centre prospects	Impact of infrastructure changes	Vacancy and pipeline	Strategic site availability	Total assessment score
SOUTH											
Bromley	**2**	**-2**	**0**	**-1**	**3**	**-1**	**2**	**0**	**-2**	**-1**	**0**
Orpington	1	-1	0	0	1	0	1	0	-1	-1	0
Bromley	1	0	0	-1	1	-1	0	0	0	1	1
Beckenham	0	-1	0	0	1	0	1	0	-1	-1	-1
Croydon	**0**	**-1**	**2**	**-1**	**4**	**1**	**-2**	**1**	**-3**	**0**	**1**
Coulsdon	0	-1	0	0	1	0	-1	0	-1	-1	-3
Purley	-1	-1	0	0	1	0	-1	0	-1	0	-3
Croydon	1	1	1	-1	1	1	0	1	0	1	6
Norbury	**0**	**0**	**1**	**0**	**1**	**0**	**0**	**0**	**-1**	**0**	1
Kingston	**3**	**-1**	**1**	**1**	**3**	**2**	**1**	**-1**	**-1**	**-3**	**5**
Kingston	1	1	0	1	1	1	1	-1	-1	-1	3
New Malden	**1**	**0**	**1**	**0**	**1**	**0**	**0**	**0**	**1**	**0**	4
Tolworth	0	-1	-1	0	0	0	-1	0	-1	-1	-5
Surbiton	1	-1	1	0	1	1	1	0	0	-1	3
Merton	**1**	**-4**	**1**	**2**	**5**	**-3**	**-3**	**-3**	**-4**	**-4**	**-12**
Wimbledon	1	0	1	1	1	1	1	0	0	0	6
Raynes Park	0	-1	0	1	1	-1	-1	0	-1	-1	-3
Morden	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Mitcham	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Colliers Wood	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Richmond	**0**	**-2**	**0**	**1**	**5**	**-3**	**-2**	**-3**	**-5**	**-5**	**-14**
Barnes	-1	-1	-1	0	1	-1	0	0	-1	-1	-5
Richmond	1	0	1	1	1	1	1	0	-1	-1	4
Twickenham	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Teddington	0	1	0	0	1	-1	-1	-1	-1	-1	-3
Hampton	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Sutton	**0**	**-3**	**1**	**0**	**3**	**-2**	**-3**	**-3**	**-3**	**-2**	**-12**
Sutton	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Carshalton	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Wallington	0	-1	0	0	1	-1	-1	-1	-1	-1	-5
Beddington	**0**	**0**	**1**	**0**	**0**	**1**	**0**	**0**	**0**	**1**	3

Figure 6.5 Office Market Assessment Grid (cont'd)

Centre	Current economic activity	Cluster strength	Diversity	Exposure to corporate retrenchment	Residential demand	Growth prospects	Business centre prospects	Impact of infrastructure changes	Vacancy and pipeline	Strategic site availability	Total assessment score
NORTH											
Barnet	**0**	**-1**	**0**	**0**	**4**	**0**	**-2**	**2**	**-2**	**-3**	**-2**
Cricklewood/Brent Cross	-1	0	0	0	1	-1	-1	1	-1	1	-1
Edgeware	0	0	-1	0	0	0	0	0	0	-1	-2
Hendon	0	0	1	0	1	0	0	1	0	-1	2
Finchley/Whetstone	0	0	0	0	1	1	0	0	0	-1	1
High Barnet	1	-1	0	0	1	0	-1	0	-1	-1	-2
Enfield	**1**	**-1**	**1**	**0**	**1**	**2**	**0**	**0**	**-1**	**-2**	**1**
Southgate	0	0	0	0	0	0	-1	0	0	0	-1
Edmonton	0	0	0	0	1	0	0	0	0	-1	0
Enfield Lock/Innova	1	0	0	0	-1	1	1	0	0	0	2
Enfield Town	0	-1	1	0	1	1	0	0	-1	-1	0
Waltham Forest	**-2**	**0**	**1**	**0**	**-2**	**-1**	**-3**	**1**	**-4**	**-4**	**-14**
Walhamstow	-1	0	1	0	-1	0	-1	0	-1	-1	-4
Leyton	-1	0	0	0	-1	-1	-1	1	-1	-1	-5
Leytonstone	-1	0	0	0	-1	-1	-1	1	-1	-1	-5
Chingford	1	0	0	0	1	1	0	-1	-1	-1	0

Key	
	Case for encouraging office led development in the next cycle
	Case for office-led mixed use in the next cycle
	No or minimal case for office led schemes in the next cycle
	To be removed from consideration

WEST

Brent

6.5.32 The largest concentration of office accommodation in Brent is at Park Royal – also a major centre for other business uses. Indeed there is evidence that at Park Royal non-office space is being used for purposes that would ordinarily be indistinguishable from offices.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
267,000	194	-3.90

6.5.33 There is potential to provide huge amounts of space at Wembley, if demand were there, but there is little evidence that speculative provision there would be viable, especially in the short term. Quintain's Wembley City proposal is to transform around 34 ha of land around Wembley Stadium as residential, retail, leisure and entertainment space, including a designer outlet shopping facility, one of the UK's largest cinemas and a prestigious Hilton hotel. The masterplan includes up to 63,000 sq m of 'office and commercial uses'. Development at Wembley seems likely to by driven by the area's traditional logistics base rather than office uses.

6.5.34 There remains no market in Willesden, and Kilburn is a local market.

6.5.35 Recommendation We concur with the conclusions of LOPR 04 in that future policy should seek to concentrate any office provision in Brent at Park Royal, although the First Central scheme has failed to capitalise on its first building occupied by landowner Diageo. Wembley should continue to be monitored, but Kilburn and Willesden can be removed from future consideration.

Ealing

6.5.36 LOPR 04 recommended that Ealing itself be promoted as a location for office development, and the prospect of Crossrail is likely to reinforce this conclusion. The potential for Ealing to become a significant hub cannot be discounted and, as inferred in LOPR 04, other locations in the borough are declining, which is reflected in our scoring. However, it is worth noting a 13,000 sq m office building in Ealing that is failing to let. One local agent argued that this is because it is "*too big and shiny*" for the market – one way of saying the market does not recognise Ealing as a prime office location.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
456,000	291	-4.20

6.5.37 One curious exception in our scoring is Southall, which scores very well as a business centre, largely off the back of a spirited and entrepreneurial community. However, it seems unlikely that it will develop the critical mass needed. LOPR 04 noted that it was too early "*to comment in the context of the gasworks scheme*" – and nothing seems to have changed.

6.5.38 Recommendation It is surprisingly hard to justify removing any centre in this area from future consideration although, despite its strong OMAG score, it seems unlikely that Southall will feature on any reasonable timescale. In the end, however, Hanger Lane, Acton and Greenford are declining office locations and efficient use of resources suggests that any effort in Ealing should be focused on Ealing itself. Remove Hanger Lane, Acton and Greenford from future monitoring.

Harrow

6.5.39 The centres in Harrow all have history as office markets, although none on an especially large scale. LOPR 04 noted the paucity of office applications coming forward and there is little evidence that this has changed in the interim. Indeed, Stanmore, Edgware and Wealdstone all have reasonably large office buildings with a distinct "overdue for refurbishment or redevelopment" look and feel.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
270,000	215	-13.50

6.5.40 This area is another that is likely to feel the impact of large-scale development at Brent Cross/Cricklewood, should it go ahead. Further, it is exposed to competition from more westerly centres and from Watford and Hemel Hempstead to the north.

6.5.41 Recommendation Efforts to concentrate office development in this area are unlikely to be fruitful and we reiterate the recommendation of LOPR 04 to concentrate on residential-led mixed use regeneration. Because of the possible Brent Cross effect, all centres should remain in monitor at least until the next LOPR.

Hounslow

6.5.42 Hounslow is that rare thing: a borough where nearly every centre scores positive on OMAG. It is, of course, a key part of the Western Corridor market. Further, it seems very likely that Chiswick and Brentford could face pressure for office development

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
779,000	355 (Chiswick)	-9.70

6.5.43 However, this is an area where office development (and indeed other types of commercial development) face stiff competition from residential developers. We would suggest that, at the very least, loss of office use should be resisted on the largest and most strategic sites, especially in Chiswick and Brentford.

6.5.44 Recommendation All centres in Hounslow need to stay in monitoring as strategic office centres, with particular attention paid to the impact of competing uses, especially residential. This is a "green light" area and every

effort should be made to protect all but the most marginal office locations. The sole exception may be Feltham where, as noted in LOPR 04, mixed-use regeneration might be more appropriate.

Hillingdon

6.5.45 Hillingdon is home to perhaps the most iconic business park in the UK at Stockley Park, for which the planning permission for Phase 3 was recently submitted for renewal. The borough highlights all of the key potential of west London – but also some key challenges.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
1,348,000	269	-7.40

6.5.46 One such challenge is illustrated well in Uxbridge, an area that was quite successful during the 1980s and 1990s, has a good level of built stock and so should be well set. However, by a boundary quirk, Uxbridge Business Park is over the border in South Bucks. To compete with it, many Uxbridge buildings are nominally due to be redeveloped. But to do so would mean losing historic parking ratios, in turn meaning that developers are opting to refurbish and retain generous parking allowances. Here a green agenda clashes directly with what the market sees as acceptable.

6.5.47 Elsewhere, our assessment of Heathrow Perimeter is skewed somewhat by current economic indicators, but in the absence of alternative uses it remains a viable office location.

6.5.48 Recommendation The three core areas of Stockley Park, Uxbridge and Heathrow Perimeter must obviously remain closely monitored and office development should be supported. Hayes and Ruislip are not significant office locations and can be removed from future monitoring.

SOUTH

Bromley

6.5.49 Bromley office market today is most famously the base for Churchill Insurance, although it came onto the map when Bank of America moved its back office functions there in the early-1980s.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
334,000	215	-7.20

6.5.50 Bromley now shares a characteristic with many Outer London and OMA centres: being notable for one major occupier but never really building on that since the heady days of the 1980s. The core of Bromley's office market is healthy enough, but more peripheral streets show signs of vacancy, especially of older buildings, a pattern familiar throughout the south east.

6.5.51 Bromley is confronted with potentially massive competition from the emerging Ebbsfleet scheme set to evolve over the next 20 years. This key part of the Thames Gateway vision poses a direct challenge to Bromley's ability to attract and retain large-scale office users.

6.5.52 Recommendation Orpington and Beckenham can be removed from consideration as potential centres for office development. Bromley has the scale, such that monitoring should continue; but on marginal sites a pragmatic approach to change of use may be advised.

Croydon

6.5.53 Croydon itself is, of course, a very large and well established business centre, with the largest office stock outside the CAZ. However, since the early-1990s, its story has been somewhat one of stagnation with, more recently, sustained efforts to bring about a distinctly overdue upgrade to the built stock.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
749,000	221	-13.20

6.5.54 This does highlight a potential issue with London-wide implications: even in well established locations, with proven track record, it can be very difficult to bring about large-scale renewal of office stock. Notwithstanding this Croydon remains a key element of any plans for polycentric London.

6.5.55 Recommendation Indeed, Croydon is so dominant within its own borough that we see little point in continuing to monitor Coulsdon, Purley or Norbury as potential office centres. In Croydon itself, there should be a presumption in favour of office development, but with a pragmatic eye on the need to improve the vitality of the area with other "attraction" uses.

Kingston-upon-Thames

6.5.56 Although nominally scoring well on OMAG, Kingston and Surbiton are not significant office markets. Both are low demand, low supply markets. LOPR 04 suggested encouraging office development in 'efficient and accessible sites' and we see no reason to change this pragmatic stance.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
335,000	215	-11.90

6.5.57 Recommendation There is no purpose in continuing to monitor New Malden or Tolworth as potential office locations. Monitoring should be maintained on Surbiton and Kingston, while recognising competition from M3 centres.

Merton

6.5.58 Merton continues to be dominated by Wimbledon, a thriving business centre around a major railway station. Wimbledon is a successful and prosperous area and easily outscores all other centres in the borough on OMAG.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
284,000	323 (Wimbledon)	-19.30

6.5.59 Recommendation Wimbledon clearly has a potential role in terms of polycentricity and must continue to be monitored. There is little to gain by monitoring Mitcham and Morden. Raynes Park should be retained for now, although even this is marginal.

Richmond

6.5.60 Richmond itself dominates the borough in terms of OMAG scoring, and LOPR 04 noted that it was one of few areas in Outer London where office development had the potential to be viable. It is, in some ways, Kingston's 'big brother'. Although Twickenham has some "brand recognition", generally it did not score well on OMAG.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
379,000	323	-11.90

6.5.61 Recommendation Our general view is that Richmond and Twickenham should continue to be monitored as potential office centres, although Richmond is by far the most promising. Twickenham should be reviewed at the next LOPR. There is no purpose in continuing to monitor Barnes, Teddington or Hampton.

Sutton

6.5.62 In terms of pure office development Sutton is the poor relation of south London. It has no areas that score positively on OMAG, and we see nothing to counter the broad conclusion in LOPR 04 that "*standalone speculative development in unlikely to be viable anywhere in Sutton*", and in the short-term it is all but out of the question anyway.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
192,000	161	-10.50

6.5.63 Recommendation Only Sutton itself should continue to be monitored, and this to ensure essentially local needs are filled. There is no purpose in monitoring the other centres.

NORTH

Barnet

6.5.64 LOPR 04 questioned whether the development proposals for Brent Cross/Cricklewood, including a large element of office accommodation (then 345,000 sq m gross, now 450,000 sq m) would be viable, especially compared to Stratford. We would broadly concur with the LOPR 04 view that

Stratford is a more plausible location (notwithstanding any issues vis-à-vis Greenwich Peninsula).

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
446,000	161	-5.00

6.5.65 However, we note that statements from developer Hammerson mention that the scheme (which will not start before 2011, if then) will be delivered over a 20 year programme. This adds up to the scheme being 'market-led': there is no question of parachuting all the office space in and it is highly unlikely that much of the office content will go ahead in the absence of pre-lets. Further, it would not be surprising if, over the course of the development, some changes of use occur if the market does not deliver large office occupiers.

6.5.66 One significant risk, which must be monitored closely, comes from the sheer scale of the proposal: it is equivalent to the entire stock of Barnet and runs the risk of sucking the office economy life out of nearby centres (although it is unlikely that they will be comparable in rental terms).

6.5.67 The other centres in Barnet, although in varying degrees of economic health, are not really suitable as strategic office centres and there is no specific reason to promote office development for them other than in the context of mixed-use schemes.

6.5.68 Recommendation Obviously Brent Cross/Cricklewood must continue to be closely monitored. There is no purpose in continuing to monitor Hendon. However, with Brent Cross/Cricklewood potentially so dominant, the health of Finchley and High Barnet should be tracked at least until the next LOPR.

Enfield

6.5.69 Office development in Enfield has been very low in recent years. In fact, despite its rather suburban image, its major commercial land uses, and the bulk of it economic activity, stem from industrial and distribution uses, in common with OMA districts to the north.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
240,000	161	-3.50

6.5.70 The net result is that none of the commercial centres in the borough show any signs of real life and potentially the most promising scheme, Innova Park, is partially built out as an industrial/warehouse park. Further, Enfield's centres are likely to be as exposed to potential development at Brent Cross/Cricklewood.

6.5.71 Recommendation All centres, except Edmonton - where we concur with LOPR 04 that there is no purpose in promoting office development - should continue to be monitored, at least until progress or otherwise at Brent

Cross/Cricklewood becomes clearer. However, we do not anticipate high levels of office development anywhere in the borough.

Waltham Forest

6.5.72 Waltham Forest is very much the poor relation of Outer London boroughs when it comes to office markets, and its universally poor OMAG scores reflect this. There are no office markets to speak of in most centres, and if large-scale development proceeds at Stratford then even the hugely remote prospect of a market developing will end. Even without Stratford it is hard to see where demand would come.

Office stock (sq m)	Office rent (£ sq m)	House price trend (%)
136,000	108 (minimal market	-13.40

6.5.73 Recommendation There is no purpose in continuing to monitor Leyton, Leytonstone or Chingford. Walthamstow should be monitored at least until the next LOPR to see if its tiny market shows any signs of Olympic benefit.

6.6 The Outer London Commission's Interim Conclusions

6.6.1 In July 2009, the Outer London Commission (OLC) released its interim conclusions. Given the focus of LOPR 09 on Outer London and OMA, which was largely a response to the OLC's agenda, we felt that it would be appropriate to respond to some of the conclusions. We confine our comments to those OLC conclusions relating to the office market as that is our exclusive remit in this report.

6.6.2 **Consultation messages (slide eight)**

- OL competes only to a limited degree with Inner London and much more directly with OMA.
  We concur with this: IL-OL competition is *very* limited. There is an important interdependence, however, that might be breaking down – the pressure valve function that is being met by edge-of-CAZ office campuses, possibly to the detriment of OL (see Section 5.4).
- Growth should focus on successful areas and not start from scratch.
  Emphasis should be on ensuring the availability of economic and decent quality premises in existing, successful areas rather than cannibalising finite demand to new areas. Otherwise there is a real danger of seeking to spread demand too thinly across all London, especially as it is now widely recognised that investment in the public realm/place-making is critical to attracting demand.
- Planning regime is sometimes an inhibitor to development.
  This *can* be the case, but in our experience is not widespread. Most local authorities are receptive to realistic development opportunities. But specific national policies (eg parking standards and use classes) can inhibit activity.
- Need to release land for development (particularly public sector).
  We question whether this is an imperative for offices.

- Need to re-invent, re-brand and actively market parts of Outer London and its distinct offers.
  We strongly agree: OL has lost ground. But we emphasise *parts* – not everywhere can be a winner. Need to understand what makes branded locations succeed – look to overseas examples and build on body of research. They cannot be just a marketing phenomenon – more substance is needed than that.
- Potential for growth in "green" industries, creative industries, logistics, servicing the residential population, public sector & knowledge sector.
  We generally concur with this. We strongly believe that far too little attention has been paid (and far too little is understood) of the myriad small firms, many providing goods and services to larger firms in the central area, which form the backbone of demand in Outer London. This should be a priority area for research.
- Historic policy is perceived to have focused largely on financial and business services: the new Plan must recognise the wider economic base of OL, seek to enhance its strengths and so provide greater economic resilience for London as a whole.
  We concur with this, although greater recognition of the role of west London in supporting a vibrant corporate office community could help make that area more resilient. West London has provided an important and robust office market over the past twenty years, but it needs to be monitored to ensure that it does not suffer due to public intervention elsewhere: do not presume that it will simply "look after itself".

6.6.3 **Endogenous and exogenous growth (slide 15)**

Endogenous demand

- Office-based private sectors
  This is a hugely generic term, and if policy is to have any effect here, a finer-grained understanding of demand must be shown.
- Local/central government
  For reasons explained in Chapter 5.0, we believe this to be, at best, a static source of demand. More likely it will decline in importance.

Exogenous demand

- Central Government
  The horse has largely bolted. Also, the Lyons programme places restrictions on destinations, which explicitly exclude "elsewhere in London".
- Para-statal organisations
  We see this as highly unlikely given the increasing concentration of activities on mainland Europe.
- Outer Metropolitan Area offices
  Again we see this as highly unlikely. Something of very significant scale and quality (eg a Stockley Park) would be required to pull corporates from OMA towards a higher cost London address.

6.6.4 **Strategic Outer London Development Centres (slide 17)**

We support this initiative. We have tested a number as part of this report (see Chapter 7.0), and we would make just two observations.

- Media: White City; Park Royal (media, food related)
  There are a number of locations in and around London seeking to generate media clusters. We fear a *fashion* aspect to this and recommend deeper research into the location, size, prospects and plans of this important sector (as well as a disaggregation of its many parts and demand profile).
- Strategic office: Croydon/Stratford
  We concur with this aim. As noted in Chapter 5.0, Central London has, in recent years, become a polycentric market, with a number of very successful edge-of-centre office campuses. The lessons of this model should be transferred to the OL context. The timescale for Stratford to be realised as a major office location should not be under-estimated.

6.6.5 **More effective existing spatial structures (slides 21 and 22)**

Our work on the Outer London centres (see Chapter 6.0) has demonstrated the enormous variability in attractiveness and success of OL office markets. We therefore support the concept of a 'constellation' of the most important/competitive business locations in order to channel demand. In the context of a prolonged cyclical downturn, plus potentially structural negative changes on demand (see Chapter 5.0), it will be important to manage expectations for office growth in parts of OL.

6.6.6 **Interim recommendations – economy (slide 26)**

Offices

- Give appropriate recognition to strategic economic needs when considering local and environmental concerns.
  We concur with this, but recommend greater co-ordination between stakeholders and particularly those representing inward investment to ensure that OL gets an equal shout when opportunities arise.
- Focus on most competitive locations for future growth.
  We concur with this recommendation, but fail to see how these locations will be identified and supported in policy terms (given the rejection by the OLC of "super hubs"). Need to show (through research) how concentration in these locations benefits the wider London economy to reassure the other locations, perhaps through transferring benefits across borough boundaries.
- Stronger reflection of potential for mixed use 'swaps in competitive locations.
  We concur with this conclusion. This topic is considered in more detail in Sections 9.3 and 9.4.

Knowledge-based industries

- Clearly define 'knowledge', 'media', 'creative' based industries and specify how can best address specific needs.
  The office economy is fundamental to these sectors. Work we have done previously suggests that the institutional property market caters poorly for the needs of many companies in these (and other) sectors. As already mentioned, we recommend the development of a better

understanding of how policy can encourage catering for the “less sexy”, typically smaller businesses, many of whom occupy inappropriate premises because that is all that is available to them.

- Develop business support services for home-working.
  We believe that a more enabling role in the development of “neighbourhood offices”, or perhaps innovative uses of public buildings such as libraries or local authority stock would be helpful in this respect.
- More active public intervention may be required to develop science/innovation parks if viable markets can be identified – backed by long-term brand management.
  Such schemes have had a chequered history in London over the past twenty or more years (remember South Bank Science Park?). We believe that there is a more urgent need to provide quality, economic premises, in good environments (and town centres) into which such companies can be encouraged.

LORP Recommendations

6.6.7 In writing this response to the OLC’s Interim Conclusions we have been aware of the London Office Review Panel’s (LORP) conclusions on the same document. We concur with all of LORP’s main conclusions.

6.6.8 In particular, we concur that the new London Plan will need to be realistic concerning the ability of offices to drive Outer London growth hubs, and that office-based growth is much more likely to focus on the CAZ, including Canary Wharf. Consequently, we endorse a strategy where the Outer London focus is on improving the public realm and liveability factors which attract people to the area and also enhance the business environment.

7.0 Outer London Development Centres

7.1 Introduction

7.1.1 In this Chapter we consider the question: what is the most appropriate mix of uses in a selection of Development Centres (DCs) in Outer London? In particular, we examine the prospects for offices and what mix of uses might most effectively promote or support office development in these centres.

7.2 Context

7.2.1 DCs have been defined as: centres, or groups of centres, that achieve, or have the potential to achieve, above-average growth. There are more than 100 town centres in Outer London, most of which have a long history as independent settlements that have gradually been absorbed into the hinterland of London. The degree to which they have survived as thriving centres in their own right, varies. Within these 100 centres, there are a small number that stand out as successful local economies and a large number that suffer the negative effects of the powerful draw that Central London exerts over its hinterland.

7.2.2 The GLA and the Mayor have a particular policy concern that the Outer London economy should reach its full potential. The Outer London Commission (OLC) has been established to lead the initiative, and its specific focus is to 'encourage economic growth in Outer London'. In its first meeting the Commission reported that: "*While employment growth in London as a whole rose by 6% between the cyclical peaks of 1989 and 2001 ... employment in Outer London rose by only 1%*". It goes on to acknowledge that "*Outer London is far from homogenous and ... [some] Outer boroughs recorded strongly positive employment growth*". It also draws attention to the "*raft of others with lower levels of decline or, at best, only modest growth*".

7.2.3 At its first meeting, the OLC suggested that the London Plan's geographical structure for guiding investment in London, "*could usefully be supplemented by enhancing the competitive strengths of a small number of key hubs*". The hubs identified were: Stratford; Croydon; Heathrow and Brent Cross. Speaking at a conference in June 2009, the Mayor explained that his preferred vision was one of "*a spatial strategy for all the Outer London boroughs with a constellation of economic hubs*." Chairman of the OLC Will McKee confirmed that "*The star and cluster is the right format. It will be a constellation of heterogeneous hubs with some larger than others but all surrounding the sun of Central London"*. The concept of Development Centres (DCs) has arisen from this thinking.

7.2.4 In its interim report published in July 2009, the OLC defined Strategic Outer London Development Centres as "*existing business and other locations with greater than sub-regional reach in one or more strategic functions and particular attractions for 'exogenous' growth based on capacity to enhance existing strategic success".*

7.2.5 The concept of the constellation is probably best illustrated by the western sub-region – a highly successful office location as a sub-region but, within it, there are four distinct centres that stand out as being growth markets, each of which has its own individual identity. In between these centres there are areas where there is no recognisable office market and also areas which have been successful office locations in the past but are now in decline and experiencing a shift in their prime, or most valuable, function. The relative value of office development shifts with material changes in a location and with trends in the wider economy and property market.

7.2.6 The DCs are expected to exploit locational advantages, existing critical mass and market structure to attract businesses to underpin sustainable growth. To assess the prospects for office development, it is first necessary to revisit what conditions make office development economically viable – whether that is at a point in time, or in a geographical location or site.

7.3 Economics of office development

7.3.1 In the absence of intervention, office development will take place where and when it is profitable. The global economic recession being experienced at the time of writing is well-documented elsewhere in LOPR 09. It is enough to say that demand for office space throughout London is very subdued, rental values are in decline and supply is rising as businesses vacate surplus accommodation. Speculative office development is diminishing rapidly and most sources of development finance have dried up. The effects of recession on the individual DCs are reviewed later in this Section.

7.3.2 Economic viability for office development is a major inhibiting factor in Outer London at any time. Very few locations commanded rental values that rendered development viable, even at the peak of the cycle when investment yields were lower and rental growth was anticipated. Headline rental values have been falling since 2008 and by the middle of 2009 the only Outer London office market where headline rental values exceeded £323 sq m (£30 sq ft) was Chiswick. Figure 7.1 compares rental values in Outer London office markets in mid-2009. The premium attached to offices in west London is demonstrated by these rental values. Indeed, in 2008, headline rents in Uxbridge were still £323 sq m (£30 sq ft) and in Ealing £318 sq m (£29.50 sq ft) and, certainly at the top of the cycle, it is likely that the more optimistic developers would have forecast increases from those levels.

7.3.3 Figure 7.2 illustrates the impact of differentials in rental value and yield on the value of development land. These values are derived from ‘residual valuations’ which calculate the end capital value of a let building and deduct a range of costs, such as construction costs, finance costs, professional fees and a developer’s profit, to arrive at a ‘residual land value’. Other variables in the equation are the assumed length of time between completion and letting (the ‘letting void’) and the package of incentives dictated by the market conditions – expressed here as ‘rent free period’. Thus a positive residual land value indicates a viable development proposition.

Figure 7.1 Headline rents in selected Outer London centres, mid-2009

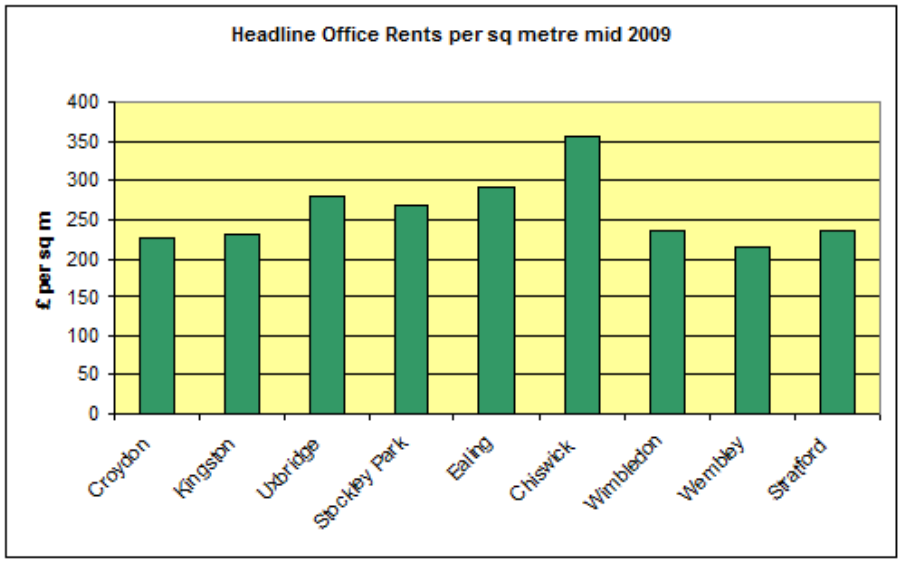


Figure 7.2 Impact of rent and yield shifts on office land values

Scenario	Rent (sq m)	Yield (%)	Rent free (mths)	Void (mths)	Residual land value (sq m)
Current secondary	£242	7.25	24	6	-£506
	£242	6.50	24	6	-£291
	£242	6.50	12	6	-£151
Current intermediate	£269	7.00	24	6	-£226
	£269	6.75	24	6	-£151
	£269	6.50	24	6	-£54
	£269	6.25	24	6	£28
	£269	6.00	24	6	£127
Current prime	£296	7.00	24	6	-£18
	£296	6.75	24	6	£68
	£296	6.50	24	6	£161
Assumed growth scenario	£323	6.50	24	6	£388
	£323	6.50	18	6	£474
Market peak assumptions	£377	6.5	18	6	£936
Market peak assumptions	£404	6.5	18	6	£1,076

7.3.4 With a rental value of £269 sq m (£25 sq ft), the investment yield would need to fall to 6.25% to create even a minimal value for the land. At £296 sq m (£27.50 sq ft) a yield of 6.75% would create a small positive residual value for

the land. Only when rents are predicted to reach £323 sq m (£30 sq ft) and with yields at 6.5%, does land have any substantial value. This rental level is not achievable throughout most of Outer London. Thus, office development is not viable in current market conditions.

7.3.5 At the peak of the last cycle in west London, sites (such as Chiswick Green) were sold with an implied land value of £1,076 sq m (£100 sq ft) of built office space, but for this price to be justified, the developer needed to assume rental values in excess of £404 sq m (£37.50 sq ft) and yields of 6.5%. There is no serious expectation of rental growth for the next two years in any Outer London market and yields generally move in anticipation of rental growth. At present, investment yields are around 7.5% in the established office markets of west London and 8% in other Outer London markets.

7.3.6 In reality, there is so little activity in the market that, as one agent put it: "*Land values are currently not provable*". In many Outer London locations therefore, speculative office development is not viable in the foreseeable future. The prospects for individual DCs are considered later in this chapter. As a general rule, only when the market is at or near the top of a cycle do the off-pitch locations in Outer London become viable – when they can attract demand that cannot be housed elsewhere or can compete on price when businesses are priced out of higher-value markets.

7.4 Rental values in Central and Outer London

7.4.1 When office rents in Central London rise towards cycle peaks, occupiers begin to consider alternatives as a way to reduce operating costs. At the peak of the previous cycle in 2007, Central London rents were more than double the values being projected in Outer London and, in parts of the West End, more than triple (mainly in the Hedge Fund sector). The onset of recession and decline in property markets has not only reduced the asking rents in Central London but, perhaps more importantly, has enabled occupiers with an impending lease break or expiry, who may have been tempted to look for a lower cost alternative, to negotiate very favourable terms to stay in their existing buildings.

7.4.2 Demand pressures on Central London, that may once have fuelled demand in Outer London, have also been relieved by the emergence of large campus-style schemes on the edge of London described in Section 5.4. These act as pressure valves for the Central London markets, by offering alternatives at significant discounts to rents in the core. In effect, they offer an alternative to businesses that may once have looked to Outer London to provide a lower priced office location with ready access to Central London, and cause far less disturbance to employees' journey-to-work patterns.

7.4.3 This is not the whole story however. If development finance is available, there are still three possible routes to office development viability.

- Attracting a pre-let, in which an occupier commits to a site and the value of its covenant, together with the absence of risk premium, improve the yield enough to create a viable proposition.
- Creating a specialist product that is not available elsewhere in the market and for which there is unsatisfied demand or, somehow affecting a material change in a location that creates a value premium.
- Leading development with alternative uses which mean that the office component is not relied upon to generate value but can be in a supporting employment generating role. Thus, flexibility on planning can be the key to future viability.

7.5 Alternative routes to development viability

7.5.1 **Pre-letting** requires a business to forward-plan over a relatively long timescale and enables it to consider a far broader range of sites than would be on offer from the stock of built and available property. It also removes the development risk for the developer. However, it is not strongly associated with a particular set of market conditions or geography and so is not further discussed here. The other two options are relevant in considering the future prospects of the DCs.

7.5.2 **Specialist product offer** It is possible to create or poach demand for office space in a new or off-pitch location if there is a large unsatisfied demand for a product that cannot be met in the existing stock elsewhere. The best example is Canary Wharf which drew demand from the City because it offered large unobstructed floorplates on a scale that was simply not available in any other location and has continued to do so.

7.5.3 In its heyday, Croydon offered a unique large-scale, low-cost but highly accessible alternative to Central London. It is no longer a unique offer however as alternatives have evolved close to the edge of Central London, as mentioned already. Although this phenomenon is described elsewhere in this report, it is relevant here because it undermines this particular rationale for large-scale office development in Outer London.

7.5.4 The opportunity to create a specialist product remains a possibility. As London's office stock has expanded and occupiers have been able to exercise more choice, the quality of external environment and the 'sense of place' has become a more important factor in location decision-making. A strong and distinct identity can draw demand where there was none and thereby create value. The specialist offer might be in the building specification, the quality of the external environment or in the 'brand' – a strong association with a style of workplace or a sector such as technology; education or media. Science Parks are an established example that do not currently exist in London. Hybrid office-residential or office-workshop buildings are another example. A third alternative, known as 'New Century Cities' (NCCs), is described by Michael Joroff in work from MIT. He defines

the New Century City as "*development with a deliberate vision to create a 'new' environment that blends digital technology into the physical fabric".*[73]

7.5.5 Joroff explains that "*NCCs share a common goal: to promote human and social capital in support of a particular industry, and to do so quickly. NCC projects seek to jump-start and drive development within a decade or two; many existing industry clusters, in contrast, have required scores of years to be realized".* He cites several examples around the world including the new BBC-led media development in Salford. These are often fabricated places that have not evolved but been planted and nurtured. *"Central authorities and master plans direct some NCC development, Seoul's Digital Media City being a prime example. Others, such as the area around the Massachusetts Institute of Technology (MIT), have taken shape over time, loosely guided by strategic visions, with different degrees of collaboration between institutions, local government, private developers, and R&D enterprises".*

7.5.6 Infrastructure changes can also be the catalyst for new demand. There are many examples of major infrastructure investment creating new markets or rejuvenating existing ones. It is no coincidence that so many property markets are defined or known by the name of their key transport connection – the 'Heathrow market', the 'M25 markets', or the M4 corridor markets to name a few. Crossrail has the potential to open up or revive several markets in Outer London as do the high speed rail connections to Europe in the east and improvements to underground services in to Central London.

7.5.7 **Alternative uses** Residential development has been the key to land value in many locations. It is likely to play a key role in releasing value in the DCs and has potential to support offices development in some cases. For this reason, we include here, a review of current and forecast conditions in the residential market. People are often ahead of commercial development in colonising a new location in anticipation of large scale regeneration. A new residential population can create demand for live work space or demand for small office units to service local markets.

7.5.8 In the long-term the demand for residential development in London is underwritten by the population and household growth, both of which are projected to be strong. London's population is forecast to grow by between 13.8% and 16.4% between 2006 and 2031, and the number of households by between 16.6% and 19.0%.

7.5.9 In the short-term however, the residential market is falling in value. JLL, in its May 2009 report[74], forecast that prime residential prices in Greater London will fall by between 15% and 17% in 2009. It goes on to predict that London will lead the house price recovery beginning in Q3 10 and strengthening in 2011-2012. It also acknowledged that the indicators became slightly more positive in Q2 09 but suggested that this could be accounted for by the

[73] Joroff M, Frenchman D, Rojas FM (2008) *New Century City Developments: Creating Extraordinary Value* Massachusetts Institute of Technology in association with the Urban Land Institute's European Trends Conference

[74] JLL *On point UK Residential Market Forecasts* May 2009

substantial reduction in interest rates (from 4.5% in October 2008 to the prevailing 0.5%), combined with the perennial spring fillip to the housing market, rather than the onset of a sustained improvement. The report concluded: "*the current housing market recovery is sentiment driven only and is hence both fragile and prone to relapse*". As seen in Figure 7.3, JLL predicts a tentative return to positive growth in Q3 10 in the London markets and, by 2011, their forecasts are comfortably positive at between 7% and 9% in Greater London.

Table 7.3 House price forecasts

Market	Per cent annual change				
	2009	2010	2011	2012	2013
UK	(12)-(14)	(1)-(3)	4-6	8-12	8-10
Prime Central London	(14)-(18)	0-2	8-10	9-11	6-8
Greater London	(15)-(17)	(1)-1	7-9	8-10	7-9

Source: JLL (2009) *UK Residential Market Forecasts*

7.5.10 Knight Frank's Residential Land Index confirmed that the falls were reflected in land values which fell by 50% across the UK in 2008 and by 40% in Outer London. Knight Frank predicts that this will cause a shift in ownership of development land and creates an opportunity for the public sector to increase its share of ownership "*It is clear that the conditions are being created for a large-scale transfer of development land, from house builders to private investors and landowners as well as the public sector, in the form of Housing Associations backed by funds provided by the Homes and Communities Agency".* The report expects land values to fall a further 10% in 2009 and then to stabilise.[75]

7.5.11 Land for residential development in Outer London boroughs, according to Knight Frank, now achieves around £1.09 million ha (£2.7 million acre); compared with prime office land in west London at the peak of the market in 2007 at around £0.40 million ha (£1 million acre), and prime inner London residential land at around £1.20 million ha (£3 million acre). Central London prime sites command a huge premium and can still reach £6.06 million ha (£15 million acre).

7.5.12 In other words, land value for residential uses out-prices office development in many Outer London centres. Figure 7.4 shows recent house price trends in the DCs under consideration. Of these, Stratford has experienced the steepest increase in house prices in the 10 years from May 1999 to May 2009 at 164%, reflecting the fundamental material changes in this area, and the prospect of the 2012 Olympics. Only Brent and Newham achieved growth in residential prices above the average for England and Wales over the 10 years (and Croydon by a very marginal 1%) although all of the centres benefited from the UK's strongly rising housing market in that period. Given the projections for population growth and household formation in Outer

[75] Knight Frank *Residential Development Land Index*

London, we can expect residential land values to continue to out price offices in most Outer London locations.

Figure 7.4 Land Registry house price data, 1999-2009

Market	Growth 1999-2009	Average house price (May 09)	Monthly Change (Apr to May 09)	Annual change to May 09
Croydon	113%	£231,360	(0.4%)	(17.8%)
Brent	146%	£287,730	1.8%	(11.3%)
Newham	164%	£218,965	(1.5%)	(15.2%)
Kingston	101%	£262,000	(0.2%)	(20.3%)
Ealing	107%	£282,746	(1.1%)	(16.3%)
England & Wales	112%	£152,497	(0.2%)	(15.9%)

Source: Land Registry House Price Index

7.5.13 **Summary** To sum up the foregoing analysis, the prospects for the DCs should be considered in the following context.

- Office rental values should be at, or forecast to reach, £323 sq m (£30 sq ft) to stimulate speculative office development.
- The barriers are lowered if an occupier agrees to a pre-let.
- There may be potential to create demand through the creation of specialist products and places.
- Infrastructure improvement creates demand.
- The Central/Outer London rent differential is critical in shifting demand.
- Residential values out-price office values in many locations in Outer London and demand is forecast to continue in the medium term.

7.6 Prospects for individual Development Centres

7.6.1 There follows a summary of the market in five DCs and a view on the prospects for office development in each. Figure 7.5 summarises our view of the appropriate mix of uses to support office development if and where it could be viable. We close with some suggestions of how policy might be adapted to promote the appropriate mix.

Croydon

7.6.2 Croydon is by far the largest single office centre in Outer London but the majority of its office stock dates from the 1960s and 1970s and is of very poor quality by contemporary standards. However, despite a general recognition that it would benefit from renewal and upgrading, there has been virtually no development activity in 20 years and rents have not kept pace with other, more successful centres. Current rents for the best space are around £226 sq m (£21 sq ft) which, despite some reasonable growth in 2007, is around the same level as 2002.

7.6.3 Average annual take up in Croydon is around 24,200 sq m, or between 3.5% and 4.0% of stock, but it is far from consistent. In 2000, over 46,500 sq m was let and then for the following five years it did not rise above 7,000 sq m. In the years 2006 to 2008, it hovered between 18,600 and 23,200 sq m. Croydon has a history of attracting major office occupiers from Central London, drawn by its relatively low cost base, and its ready accessibility to Central London by rail. Major employers include government departments; financial services companies such as AIG and Direct Line, and corporates such as Nestle.

7.6.4 Croydon's future as an office location is threatened, by its lack of good quality office stock and by the poor condition of its public spaces and town centre environment. Demand is threatened by changes to the government estate and retrenchment in financial services and it has a new competitor in prospect at Stratford which is likely to command similar rental levels and arguably better connectivity, office stock and amenity.

7.6.5 There are several major projects in the Croydon pipeline which, between them, could deliver nearly 200,000 sq m of offices, 93,000 sq m of retail and 3,000 new homes. Major proposals to regenerate the town centre have been under discussion for several years but not implemented. Croydon, unfortunately, has acquired a negative reputation because of a string of bold redevelopment plans that have never come to fruition. Developers remain interested however – the scale of the office market and its labour pool, together with the strength of its public transport connections into London, mean that it has some of the most important raw ingredients for successful development. And it retains its appeal for many businesses too. One agent reported: "*It is impossible to persuade occupiers to move out of Croydon*".

7.6.6 Croydon has a fast and frequent rail service to the West End and the City. East Croydon has routes into Victoria and London Bridge and Blackfriars with a travel time of 16 minutes. Croydon also has a Thameslink service directly to the City of London and beyond to King's Cross. From West Croydon there are some local connections to South London destinations. From 2010, the East London Railway (see Section 9.2) is scheduled to connect to Croydon, which will provide routes to south east London, Docklands and City airport.

7.6.7 Key findings from Croydon

- Lack of quality office space is a major obstacle to Croydon's ability to attract occupiers from other locations.
- Croydon has a critical mass of existing office occupiers, who seem to be loyal to the market, which can be re-circulated and create the potential for turnover demand.
- Croydon's public realm is poor and in need of investment.
- The review and restructuring of the government estate described elsewhere in this report could have a destabilising effect on the Croydon market as could retrenchment in the financial sector.

- Croydon's accessibility to London and its relatively low cost base make it well placed to accommodate back up offices if suitable stock is delivered. There are plenty of projects in the pipeline in Croydon but without substantial rental uplift, these are not economically viable.
- The market view is that a rent of £323 sq m (£30 sq ft) would need to be plausible to stimulate speculative development.

7.6.8 **In conclusion** To stimulate economic development in Croydon it is critical to revive the public realm and the office stock. Pent up demand from its own occupier base is large enough to justify some upgrading and renewal of stock but to justify the large scale redevelopment, attracting in-movers would be critical, particularly if there is a loss of existing occupiers. The threat of shrinkage in government and financial sectors will dampen the prospects of rental growth and depress viability for some considerable time. Planning flexibility is critical to try to stimulate value through the residential markets.

Brent Cross/Cricklewood

7.6.9 There is currently no significant office market in this location. Its office stock of 8,000 sq m represents only 0.15% of the stock in the 100 OL centres. Despite its lack of a track record there is a major development proposal which includes 370,000 sq m of office space.

7.6.10 The masterplan, for an area of 61 ha, aims to create a new 'urban quarter', focussed on the existing Brent Cross shopping centre but changing it from an inward looking out-of-town shopping centre surrounded by surface car parking, to an integral part of a new town centre. The plan incorporates a new office district linked to a new station on the Midland Main Line/Thameslink route and with approximately 370,000 sq m of office space, 7,500 homes, three schools, new health facilities, bars, cafes arranged around high quality parks and open spaces. The offices are envisaged to be provided in the later phases of a 20 year development plan. In September 2009 it was reported that the development team had made a commitment to provide a planning gain package worth £964 million, one of the largest ever agreed in the UK.

7.6.11 The plan includes major infrastructure investment, to the road, rail and bus network. There would be works to increase capacity at two major road interchanges - the Staples Corner and M1/A406 junction and the A41/A406 junction – as well as new road junctions and pedestrian bridges off the A41 and Edgware Road. The Midland Main Line/Thameslink railway, would link the Brent Cross/Cricklewood project to St Pancras and the High Speed One terminus as well as Luton airport. It would also benefit from greater frequency and capacity that Thameslink 2000 is expected to provide by 2012 across Central London and to Gatwick.

7.6.12 Already, Brent Cross has strategic road connections with the southern end of the M1, the A406 North Circular, A41 and A1 all nearby as well as south-westerly links via the A406 to the A40, A4 (to Heathrow) and easterly to the Lea Valley, the M11 and Thames Gateway.

7.6.13 The scale of demand required to create the critical mass needed to make this location work for offices is vast, as is pointed out by Maguire and Simmons: *"The proposed office component of the Cricklewood/Brent Cross element of the scheme is greater than the entire office floorspace demand projection for the whole sub-region to 2016".*[76] Any office demand projections must assume that there is potential to poach occupiers from other locations.

7.6.14 Added to the demand uncertainty, there are several large proposals around the Outer London region (see Chapter 4.0), some of which are closer to being realised. Stratford City and Croydon seem to have more realistic prospects, the former because of its proximity to Canary Wharf and vast public investment and the latter because it has a large base of existing office occupiers who could be persuaded to relocate to higher quality space. At the same time there is a large scale proposal at Wembley which would arguably have the advantage of being closer to West London and better connected by public transport with both linear and radial rail lines.

7.6.15 Key findings from Brent Cross/Cricklewood

- Brent Cross/Cricklewood has no existing office market of any significance.
- The residential market in Brent is relatively strong and has performed well above the average for Outer London.
- Brent Cross is a strong regional retail centre although it is potentially threatened by the draw of Westfield and improvement to its retail environment is vital.
- Brent Cross has some of the raw ingredients of a successful office location in that has a public transport connection to Central London.
- As a large-scale new office location it must compete with other centres that are more established or better equipped to attract in-movers.

7.6.16 **In conclusion** Without critical mass, material change to its public transport or demand pressure from other locations, it is hard to reconcile the demand expectations for Brent Cross/Cricklewood with the history of the area. Its existing occupier base is local and small scale. Currently, there is no rationale for expecting it to develop as a significant new office centre: there are other, better placed locations with those aspirations. It has a strong retail brand and retail improvement is important and its underlying residential market is strong.

Stratford

7.6.17 With 106,000 sq m of office stock, Stratford ranks alongside Wimbledon, Harrow or Hounslow in the scale of its existing centre. It serves a local demand from local government departments, housing associations, SMEs and associated businesses. A new 4,000 sq m development is being

[76] Maguire S & Simmons M (2005) *Cricklewood-Brent Cross: A Wider Vision?*

marketed at £253 sq m (£23.50 sq ft) but remains vacant. Rents achieved are far lower.

7.6.18 The Stratford City project is intended to transform Stratford into a new east London metropolitan city, based around Stratford International Station. The project was originally put together by Chelsfield, Stanhope and London & Continental Railways (LCR), and is now co-ordinated by Westfield, LCR and the Olympic Development Agency. It is being driven by the 2012 Olympics.

7.6.19 Stratford City includes 500,000 sq m of office development, 150,500 sq m of new shopping, leisure and social facilities, hotel rooms and over 4,500 new homes to be used as the Olympic Village and subsequently released for sale in the open market or as affordable housing. The shopping centre is under construction in Zone 1 and scheduled for completion in 2011, but the 100,000 sq m office component envisaged for Zone 1 will be driven by market demand and there are currently no plans to build speculatively. The rest of the office space falls within Zones 2 to 7 which are on land that will be used for Olympic facilities and therefore cannot be developed until after the Games finish.

7.6.20 Stratford is already a major public transport hub with an underground station on the Jubilee and Central Lines and the busy Stratford regional station which serves the North London Line, Lea Valley Line, Great Eastern Line and the DLR. Soon, Stratford International will also be fully operational. There are also several planned improvements to the public transport infrastructure including the following (see Section 9.2).

- High Speed One: will stop at Stratford International. Fastest London-Paris Eurostar journey times will be reduced to 140 minutes and London-Brussels to just 125 minutes.
- Olympic Javelin: a King's Cross to Stratford Shuttle service that will operate during the Olympic Games with a seven minute journey time.
- East London Line Extension: upgrade converting it into a metro-style train service with an improved north/south service between Dalston Junction, Hackney and West Croydon.
- There will also be upgrades to the Northern and Jubilee Lines.

7.6.21 Key findings from Stratford

- Stratford's existing office market is low grade and local.
- Stratford is very well served by public transport and there are significant improvements underway and planned.
- There is substantial public investment here, driven by the Olympics.
- The 150,000 sq m new shopping centre and the 2012 Olympics will enhance its visibility.
- Stratford is well placed geographically to act as a back up location for Canary Wharf if there is demand pressure.
- Stratford's most direct competitors on cost and accessibility are Croydon or Greenwich Peninsula.
- The new offices proposed in Stratford are of a particularly high quality.

- The residential market in Newham has outperformed much of the rest of Outer London and is likely to remain relatively strong through to 2012.

7.6.22 **In conclusion** Economic development in Stratford will be driven by public investment. It has the potential for transformation by virtue of being the focal point of major infrastructure improvements, adding to its already good connectivity, an enormous retail development and large scale regeneration associated with the Olympics.

7.6.23 In the current market, it is hard to see where the demand pressures will occur to create significant demand for offices in this untried location. If however, there is a demand for back up locations to Canary Wharf, then this seems to be the ideal location – it is accessible, low cost and has the sites available to produce the right product. Its high speed rail connections to mainland Europe set it apart from its competitor locations.

7.6.24 The shopping centre and Olympic Park will make it an attractive place to work. The prospect of creating a specialist product should also be considered in this location to attract a sector cluster because of its unique combination of transport connections, low cost and public investment. The volume of residential property being brought to market as part of the Olympic Village will balance demand in the short term but in the longer-term the head start provided by the public investment should drive demand in this location.

West London (Heathrow Area)

7.6.25 The West has the most mature, robust and secure offices market in Outer London. Values in west London have exceeded the £323 sq m (£30 sq ft) development-viability threshold and it has a diverse and large occupier base. It has been able to draw demand from Central London but is also recognised as the eastern end of the Thames Valley corridor. Proximity to Heathrow Airport is a major attraction for many companies. Investors are generally confident in this market. It is however threatened by high vacancy rates in parts of the market at present and has some exposure to retrenchment of US companies or the ICT sector.

7.6.26 Within west London, there are four key office markets each of which has its own identity and these are: Ealing, Chiswick, Stockley Park and Uxbridge. Stockley Park and Uxbridge tend to relate more closely to the Thames Valley market with a preponderance of ICT and US-owned occupiers. Canon Europe has recently selected Stockley Park as its European HQ in preference to mainland Europe. Chiswick has proved attractive to media and businesses relocating from Central London. Ealing currently has some media presence but at present its occupier base is predominantly local government and public sector type organisations with smaller requirements.

7.6.27 Adverse economic conditions have caused rising vacancy rates and falling rents here as in all other UK markets. The total office stock in west London is around four million sq m of which some 8.4% is currently vacant according to

data from JLL.[77] Average prime rents in west London were £318 sq m (£29.50 sq ft) in mid-2009, having fallen from a peak of £361 sq m (£33.50 sq ft) in 2007. Rents have followed a similar downward trajectory in all four key centres since 2007.

7.6.28 There are some fears that long term oversupply in parts of the market could impede rental growth prospects. Overall, west London would benefit from the continuous loss of obsolete office space to other uses. For instance, several hotels have already replaced obsolete offices along the Bath Road adjacent to Heathrow airport where planning flexibility has allowed the market to respond to changes in demand. Through the same process, opportunities have been created for residential development. In west London, the former Gillette building on the A4 has become a hotel; the site of the new Smith Kline Beecham headquarters was previously in industrial use and the company's old headquarters (in Brentford) has been used for residential development. Change of use is generally a healthy way to adjust the supply of commercial property over time and could help to address the current imbalances in many of the Outer London markets.

7.6.29 **Uxbridge** has an office stock of around 205,000 sq m, making it the fourth largest concentration of offices in Outer London, behind Croydon, Heathrow perimeter and Brentford. Headline rental values in mid-2009 are £280 sq m (£26 sq ft), significantly lower than the £334 sq m (£31 sq ft) achievable in 2007. Uxbridge established itself as a key office centre in the 1980s providing new high quality office stock to large corporates, easily accessible to Heathrow and to the affluent 'MD' territory of south Bucks. It remains popular and, despite a lack of quality stock available in the centre of town, the business park on the edge has allowed the town to retain its premium rental levels. Parking ratios have reduced since its early success and today a development would have a ratio of 1:46.5 sq m (1:500 sq ft) compared with the historic ratios attached to existing buildings of 1:23.2 (1:250 sq ft). The Uxbridge Business Park, which is on the edge of town but located in South Bucks, has more generous parking ratios. Uxbridge has the theoretical advantage of town centre amenity with public transport but lacks sites.

7.6.30 **Stockley Park** has an office stock of 175,000 sq m, so it too, is one of the largest concentrations of office space in Outer London. It is an out of town business park location which was established in the 1980s and has continued to expand since. Headline rental values in mid-2009 are £269 sq m (£25 sq ft), down from £307 sq m (£28.50 sq ft) in 2007. It has created its own market dominated by the ICT sector and US-owned companies. It competed head-to-head with the 'M25 towns' – ie those outside Greater London and within the Thames Valley. From its early days Stockley Park was able to offer high quality office space in an edge of London location to car-based commuters, and critically, close to Heathrow airport which proved persuasive to US owned businesses. Stockley Park operates with a high vacancy rate compared to the other markets, currently 18.5% and in 2005 it was over 30%.

[77] Personal communication

7.6.31 **Chiswick** has emerged as a key west London location with the construction of the business park on brownfield land (the former bus garage), and which has successfully attracted predominantly media businesses from Central London. Office stock in Chiswick is 100,000 sq m with 75,000 sq m proposed. Headline rental values are the highest in this part of London at £355 sq m (£33 sq ft) in mid-2009, down from £393 sq m (£36.50 sq ft) in 2007, according to data from JLL. In line with all markets, activity was low in the first half of 2009 but vacancy has remained low at just under 6%.

7.6.32 **Ealing** has been tipped as a growth market over the last decade because it fits the profile of a town centre location with retail and restaurant amenities and good public transport connections. It has an office stock of around 124,000 sq m, making it substantially smaller than the other west London centres and comparable with Wimbledon. Its occupier base is predominantly local government and public sector bodies, and smaller media businesses attracted by the proximity of Ealing Studios. The most active demand in Ealing has been for units of around 2,000 sq m and headline rents are still around £291 sq m (£27 sq ft), according to JLL. Ealing Cross, a new 12,100 sq m development, has proved difficult to let and is considered by the agency community to be "*too big and shiny for this market at present*". Frogmore's Point West 5 on the other hand – a refurbishment of an old block with 750 sq m floors - has proved to be right for this market.

7.6.33 Developer Glenkerrin has plans for a £400 million town centre redevelopment in Ealing that was given consent by Ealing Borough Council, and subsequently called in by the Secretary of State over the "*consideration of the character or appearance of a conservation area*". The plan includes a 24 story tower with 577 flats and the redevelopment of the tube station as well as 25,000 sq m of renewed retail space. Local pressure groups are concerned at the prospect of a further increase in Ealing's population and the consequent pressure on the infrastructure, and believe that Ealing will lose retail spend to Westfield and so the focus of the scheme should be shifted from retail to leisure and culture.

7.6.34 Key findings from west London

- West London has a strong and strategic office market focussed on the four key centres of Uxbridge; Stockley Park; Ealing and Chiswick.
- Uxbridge and Stockley Park tend to cater for 'M4 occupiers' and in particular the ICT sector, or US-owned companies, while Chiswick and to a lesser extent Ealing are more focussed on Central London occupiers, particularly media.
- Ealing and Chiswick are well served by public transport to Central London and both have town centre amenities.
- Stockley Park is only accessible by road while Uxbridge can offer both.
- Uxbridge is compromised by its restricted parking ratios when compared with competing centres outside Greater London.

- Building owners are reluctant to give up the historic parking ratios attached to existing buildings in Uxbridge and this actively discourages stock renewal in the town centre.
- Office stock is of high quality in Stockley Park and Chiswick while both Ealing and Uxbridge are short of good quality stock.
- Office values normally exceed alternative uses in the core parts of these markets and once the market recovers, they will be viable as office locations without the driver of mixed use policies. Residential markets are strong in Chiswick and Ealing however and present opportunities for live work developments in parts of the market.

7.6.35 **In conclusion** Land values for office space will out-price alternative uses in west London, and in the four established centres of Uxbridge; Stockley Park; Ealing and Chiswick, in all but the most negative economic conditions. Outside of those centres other uses take precedence such as hotel uses around the airport and residential in much of the area. An open approach to changes of uses would support office values by encouraging the loss of office stock in obsolete locations. There would be no value in promoting office development outside of the four centres.

7.7 Mixed use development and policy in Development Centres

7.7.1 Figure 7.5 summarises the prospects for differently-led mixed use schemes in each of the DCs. West London is and will remain the primary location for office development in Outer London in our view, and in the medium-term, it is the only location that can support office development without a significant change in market conditions. For this reason, it is the only DC where we suggest office-led development in the medium-term.

Figure 7.5 Development mix analysis

Development Centre	Appropriate mix of uses in selected Development Centres			
	Retail-led	Residential -led	New Century City?	Office-led
Croydon	Medium-term	Medium-term	No	Possible long-term
Brent Cross/ Cricklewood	Important medium-term	Medium-term	No	No
Stratford	Short-term	Medium-term	Possibly consider ICT	Possible long-term
West London	No	No	No	Medium-term

7.7.2 In the longer-term, however, we consider that office-led development may be viable in Stratford and in Croydon. Both of these centres have the raw ingredients to offer a low priced, readily accessible alternative to a Central London location if, and only if, there is demand pressure. Stratford is the more accessible of the two from Canary Wharf and has the momentum of substantial regeneration to propel it beyond the 2012 Olympics. Its public realm and office stock will both be of a high quality. Croydon has the advantage of an existing occupier base, labour pool and critical mass.

7.7.3 At Brent Cross/Cricklewood, should the scheme proceed, we consider that its strengths as a residential and retail location will be the main drivers of development in the medium-term, out-weighing its prospects as an office location. In the longer-term, office-led development is considered unlikely in the context of office employment growth rates and competing schemes.

7.7.4 There are other centres in Outer London that have not been discussed in this Section, but which have the potential to grow as office centres. These are Kingston (which has the attraction of a university, but severe issues with traffic congestion and quality of existing office stock); Wimbledon (which has a small but active market), and the area around Park Royal (which we consider has potential as a centre for hybrid office-workspace-industrial floorspace). Because the thinking about DCs is only just emerging during the production of LOPR 09, and because the brief confined the commentary to the four centres discussed, these and other centres have not been considered here, but they are considered, anyway, as part of the office centre assessment in Chapter 6.0.

Policy implications

7.7.5 There are certain policy adjustments that would enable the DCs to evolve in the most appropriate way and these are discussed in the next and final Section of this Chapter.

7.7.6 Office value is clearly not evenly distributed through Outer London, nor is it consistent over time. It is possible to create and shift value through material changes to an area. It may be possible to create a mechanism that can respond more effectively to these shifts in value, perhaps with some form of 'swap', whereby land that has been allocated to one use can be traded with another location without any net loss of either use. This would require cooperation between local authorities particularly where one market straddles a borough boundary such as Chiswick or Uxbridge. It is also conceivable that non-neighbouring boroughs could co-operate across longer distances to their mutual benefit if they have complementary markets.

7.7.7 Transport infrastructure is critical in adding value to these centres. Policy to encourage or promote improvement to the infrastructure can help to support office demand in these centres.

7.7.8 Technology infrastructure to support other specialisations and branding of locations should be encouraged and perhaps supported with public investment. Planning flexibility may also be the key to enabling branded locations to emerge.

7.7.9 The implications of parking ratios should be considered for their impact on land value and demand for office space. Again, perhaps a swap arrangement is possible in which parking ratios are transferred between sites and even between boroughs, in order to encourage office development in areas where it is most viable but potentially restricted by policy.

8.0 Relationship between Outer London and OMA

8.1 Introduction

8.1.1 The GLA is aware of views that the recent performance and prospects for office markets in Outer London (OL) might be significantly poorer than for those in the Outer Metropolitan Area (OMA). It is even thought that many OL centres could be facing structural stagnation or decline. This Chapter sets out to test this proposition based on economic and market evidence of the relative employment growth in OL and OMA office locations as well as the possible reasons for any differences in performance.

8.1.2 In order to undertake the comparative exercise, we have selected ten pairs of OL/OMA centres (Figure 8.1). Each pair is considered, *a priori*, to share certain economic and market characteristics (eg employment profile, locational factors and market activity).

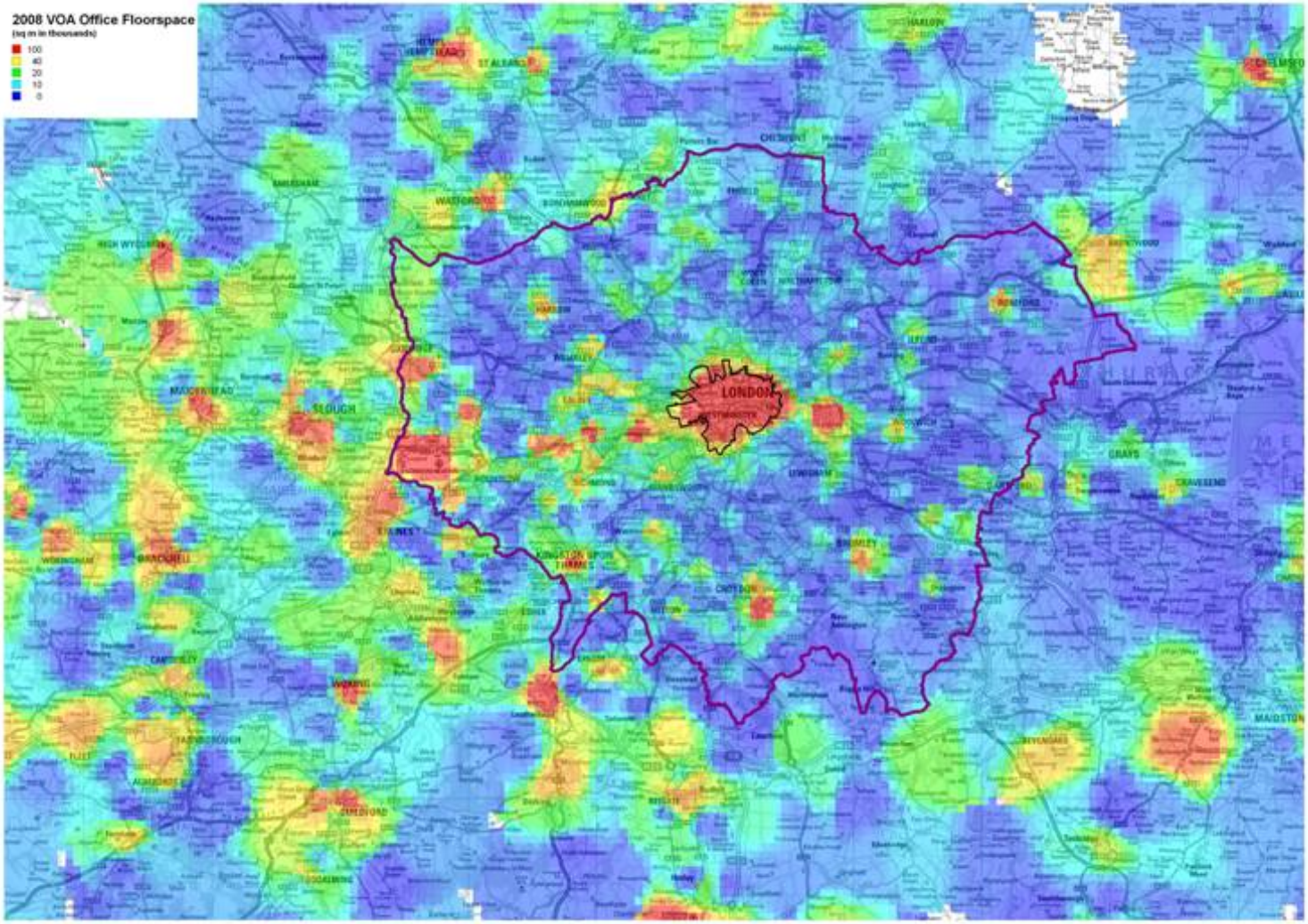
8.1.3 Appendices A8.1 and A8.2 provide maps showing the Inner/Outer London boundary and the OMA region, respectively.

Figure 8.1 Outer London and Outer Metropolitan Area pairings

Outer London Centres	Outer Metropolitan Area Centres
Brent Cross	Watford
Bromley	Sevenoaks
Croydon	Reigate
Enfield	Harlow
Hounslow	Bracknell
Kingston	Guildford
Romford	Brentwood
Stratford	Chelmsford
Uxbridge	High Wycombe
Wembley	Hemel Hampstead

8.1.4 Before looking in detail at the performance, Figure 8.2 provides a map showing the distribution of office space in Greater London and the South East and East of England. This data was used as a basis for the selection of the pairings.

Figure 8.2 Office floorspace, 2008, London and OMA



8.2 OL/OMA comparison by economic performance indicators

8.2.1 In examining the locations as business centres we have defined their boundaries accordingly, focusing on the areas with significant concentrations of office floorspace. Specifically, the centres are defined according to Super Output Area (SOA) boundaries (the smallest geographical level for which data is available) using GIS.

8.2.2 Where data is not available at SOA level (eg skills levels, etc), we have created a ward-level definition of the centres. This allows us to include a wider range of economic indicators in our analysis.

8.2.3 Finally, when describing the labour market that each of the centres draws upon, we extend beyond the narrow definition presented above to reflect travel-to-work patterns and 30 minute drive time catchments.

OL/OMA comparison by economic performance indicators

8.2.4 In order to help determine the relative performance of the centre pairings, and the possible drivers of this performance, we have considered a number of economic indicators, including: employment performance, scale, concentration of office-based activities, labour market dynamics, property stock and accessibility.

8.2.5 We must however stress the need for caution when reading the trend analysis in employment levels. The data come from the Annual Business Inquiry which has experienced significant changes over the past few years. Geographical changes mean that we cannot look at historical trends prior to 2003. More importantly, a number of changes to data collection techniques have generated significant discontinuity between 2005 and 2006 data. The main consequences are: total employment for 2006 is under-estimated creating a significant decrease from 2005; and the seasonal employment changes between September and December are not captured although this mostly impacts on retail and hotels and restaurants.

8.2.6 The availability of 2007 data somewhat mitigates this issue of discontinuity and we have also checked our findings against district level trends for the 1998-2007 period. We found the following.

- For most centres, the employment change trend over 2003-07 is similar to the district (except in Kingston, Wembley, Brent Cross and Enfield).
- For most centres, the office employment change trend over 2003-07 is similar to the district (except in Hounslow, Uxbridge and Wembley).
- The centres' share of total district employment has held steady over 2003-07 in most districts. The largest change saw Kingston reduce its share of the district employment from 47% to 42%.
- The centres' share of office employment in the districts is more unstable due to the smaller sample the data is based on and should therefore be treated with more caution.

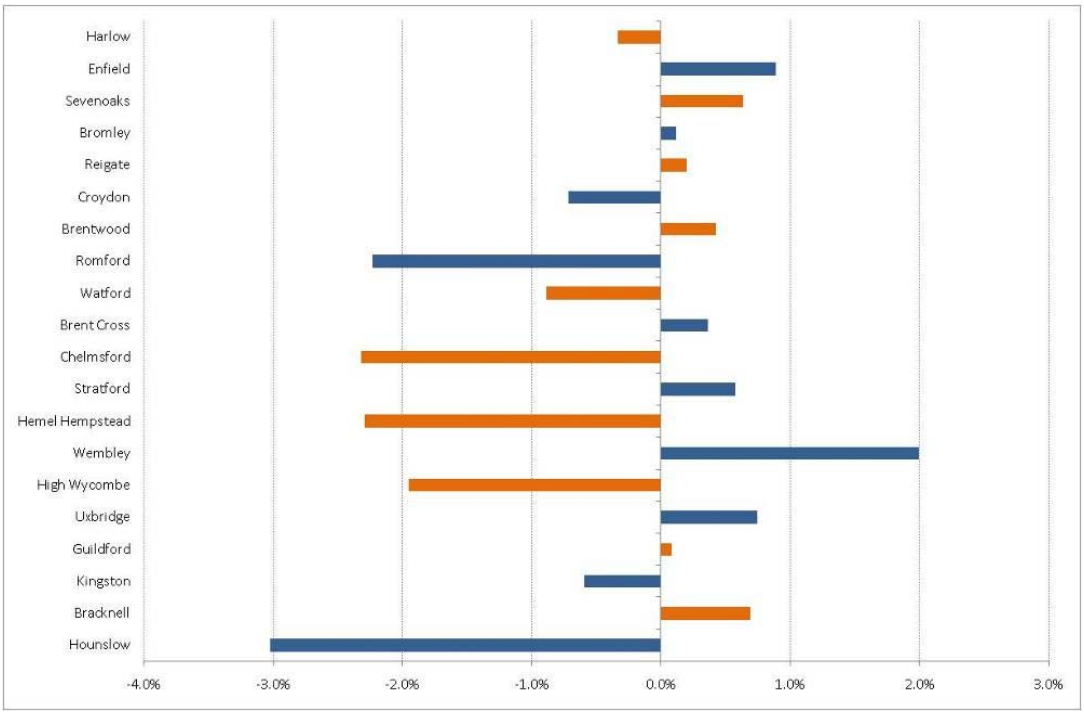
8.2.7 These findings mean that the Figures in this Section should be read as indicators of trends rather than as precise records of change.

Recent employment performance

8.2.8 We start by looking at recent employment performance as it will directly tackle the perception that OMA office centres have been performing better than OL office centres in recent years.

8.2.9 As illustrated by Figure 8.3, there is no clear sign that this has been the case in the recent past with regards to total employment growth. In fact, six OL centres have experienced growth in total employment compared to five OMA centres. In this chart, as in those following, OL centres are blue and OMA centres are orange.

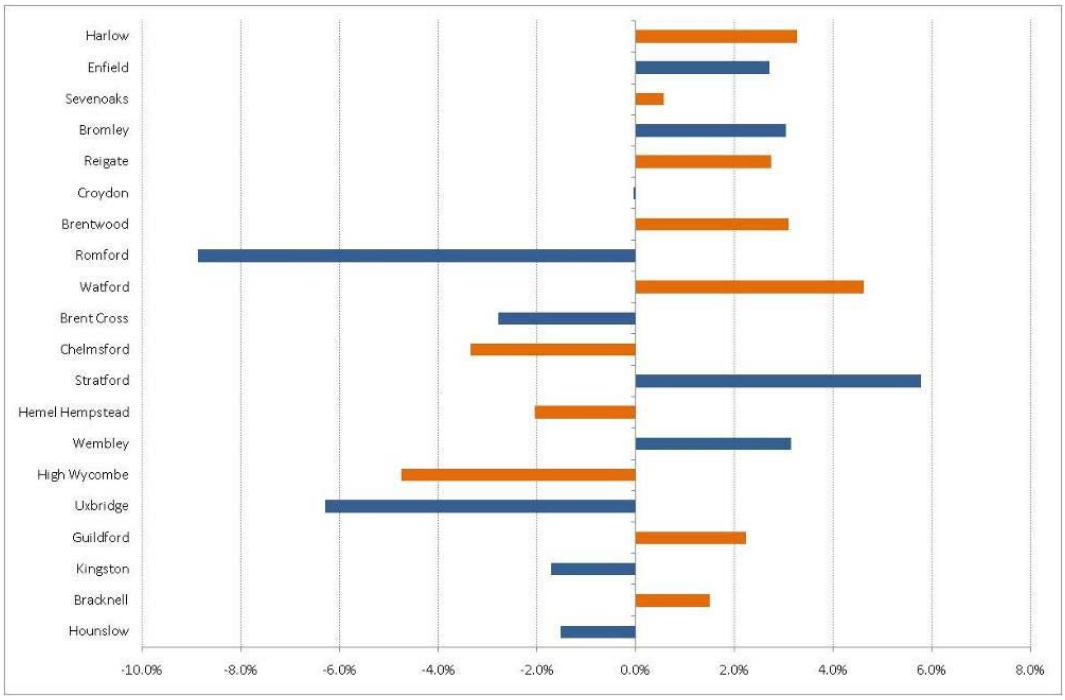
Figure 8.3 Average annual employment growth rate, 2003-2007



Source: ABI 2008

8.2.10 When looking at office-based employment specifically (Figure 8.4), the performance of OMA centres is marginally stronger but, again, the range of growth rates across the two types of centres precludes any definitive and over-arching conclusions. The strongest growth is, in fact, recorded in OL, in Stratford, as is the strongest decline, which occurred in Romford.

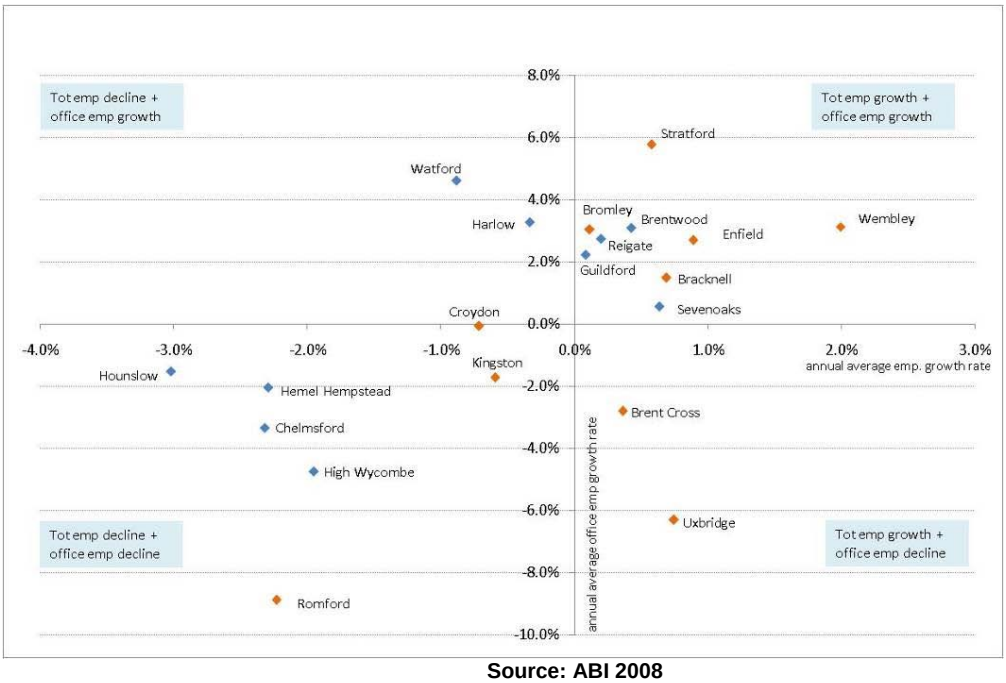
Figure 8.4 Average annual office-based employment growth, 2003-07



Source: ABI 2008

8.2.11 Figure 8.5 combines the findings from Figures 8.3 and 8.4, and further emphasises the lack of clear patterns across OMA and OL centres.

Figure 8.5 Total and office employment, 2003-2007



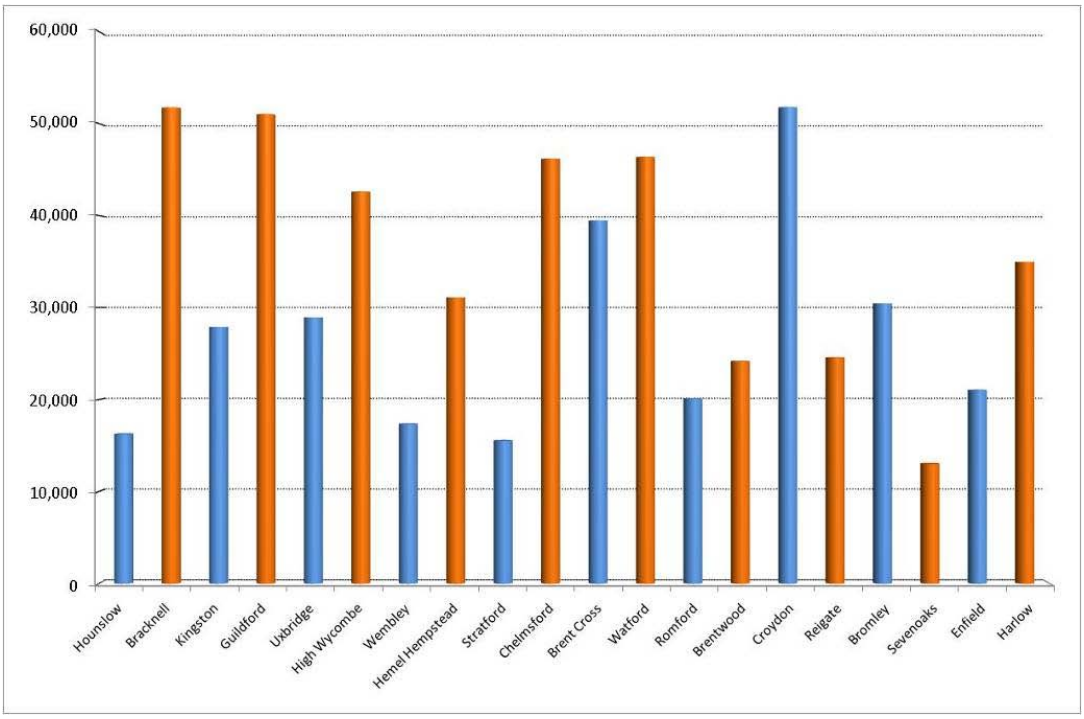
Source: ABI 2008

8.2.12 The data simply point to the correlation between office-based and total employment growth, reflecting the key role of office-based activities as an economic driver in recent years. However, this is true regardless of whether the centres are located in Outer London or beyond, in OMA. There are no clear patterns either when grouping centres according to their location to the north, south, east or west of London. This is not surprising as economic performance is determined by a range of complex and inter-related factors, besides geographical location. We explore a number of them in the remainder of this Section.

Scale

8.2.13 Aside from Croydon/Reigate and Bromley/Sevenoaks, OL centres tend to be considerably smaller employment centres than their OMA counterparts (Figure 8.6).

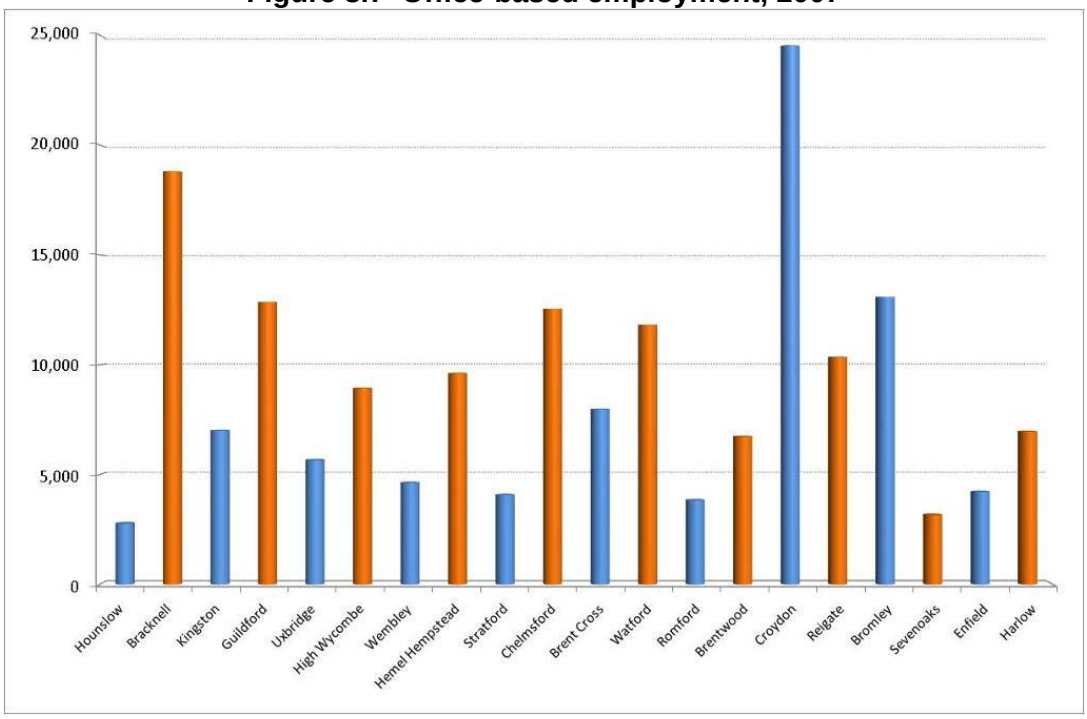
Figure 8.6 Total employment, 2007



Source: ABI 2008

8.2.14 If we focus on office-based employment specifically, the findings are the same (Figure 8.7). Croydon is a significant outlier: it is in fact the largest office centre in terms of employment in our selection with almost 25,000 office-based jobs.

Figure 8.7 Office-based employment, 2007



Source: ABI 2008

8.2.15 This general difference in scale between OL and OMA centres might be due to a combination of proximity to Central London (for the OL centres), historical factors and constraints on office development.

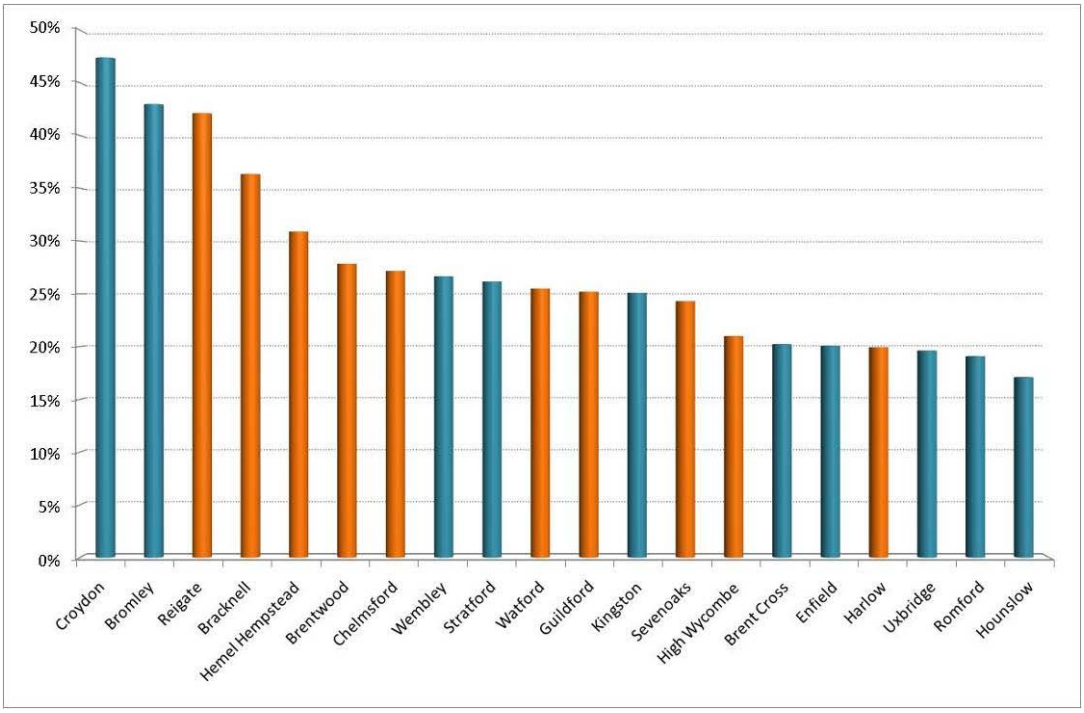
8.2.16 More importantly in terms of our analysis, there is no evidence that scale (in terms of employment or floorspace) has had an impact on recent employment performance. Croydon is a case in point: the largest centre in our selection experienced no growth in office-based employment between 2003-07.

Sectoral structure: office-based sectors

8.2.17 As shown in Figure 8.8 below, our selection encompasses a wide range of profiles from centres such as Croydon, Bromley and Reigate where office-based employment accounts for more than 40% of all jobs, to Uxbridge, Romford and Hounslow where it contributes less than 20% of all jobs.

8.2.18 Again, there is no discernable pattern between OL and OMA centres. Taken as a group, the latter rely on office-based activities for 28% of their employment compared with 29% in the former. What differs, however, is the nature of these office-based activities.

Figure 8.8 Office-based employment as % of total employment, 2007



Source: ABI 2008

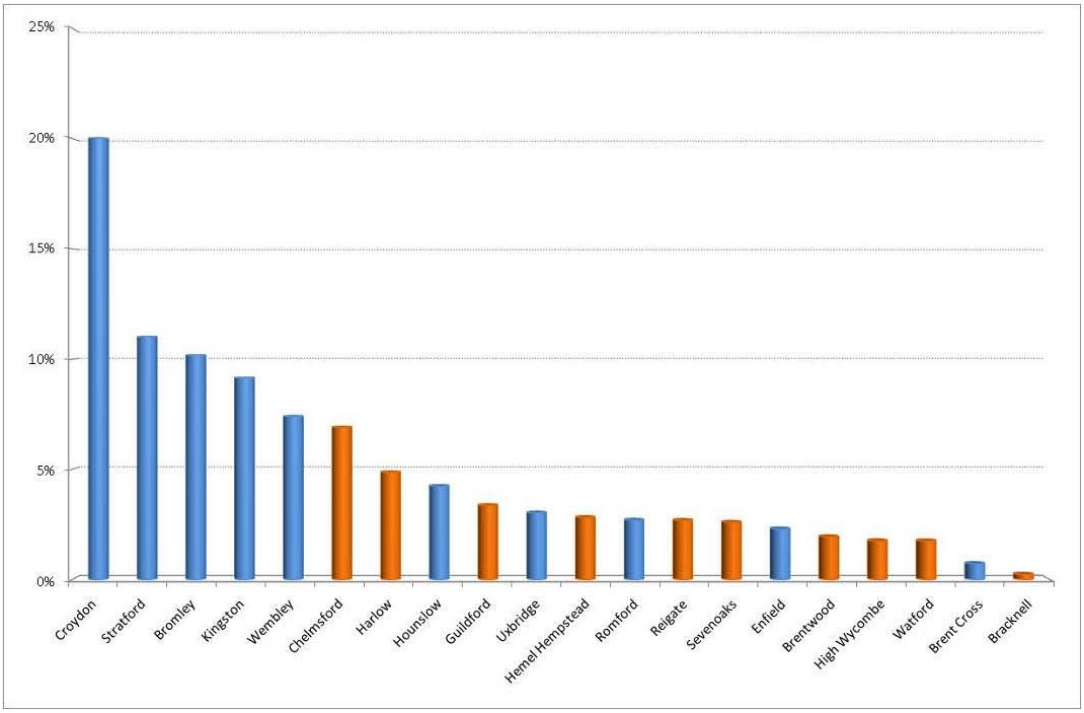
8.2.19 Office-based activities cover both commercial sectors (financial intermediation and business services mostly) and public sectors (public administration and social services). The breakdown between these two broad categories of activities is important to understand as it has implications for the office market in terms of floorspace requirements and prospects. OL and OMA centres do tend to present a different profile with regards to the office-based activities they accommodate.

8.2.20 There is a strong distinction between OL and OMA centres in terms of **Public Administration**. Across the former, on average, 8% of total employment (and 28% of office-based employment) is in public administration (SIC 75.1 and 75.3) compared to 3% (and 10% of office-based employment) across OMA centres. This is illustrated in Figure 8.9: the five centres with the highest proportion of employment in public administration are in OL (and 7 out of the top 10).

8.2.21 Figure 8.9 also highlights that Croydon and Bromley's high proportion of office-based employment is heavily boosted by the presence of public sector organisations.

8.2.22 Contrary to public administration, employment in **Financial Intermediation** does not show any strong location patterns between OL and OMA centres. The main feature is its strong presence in Reigate (22% of total employment), Bromley (18%) and Croydon (11%).

Figure 8.9 Proportion of employment in public administration



Source: ABI 2008

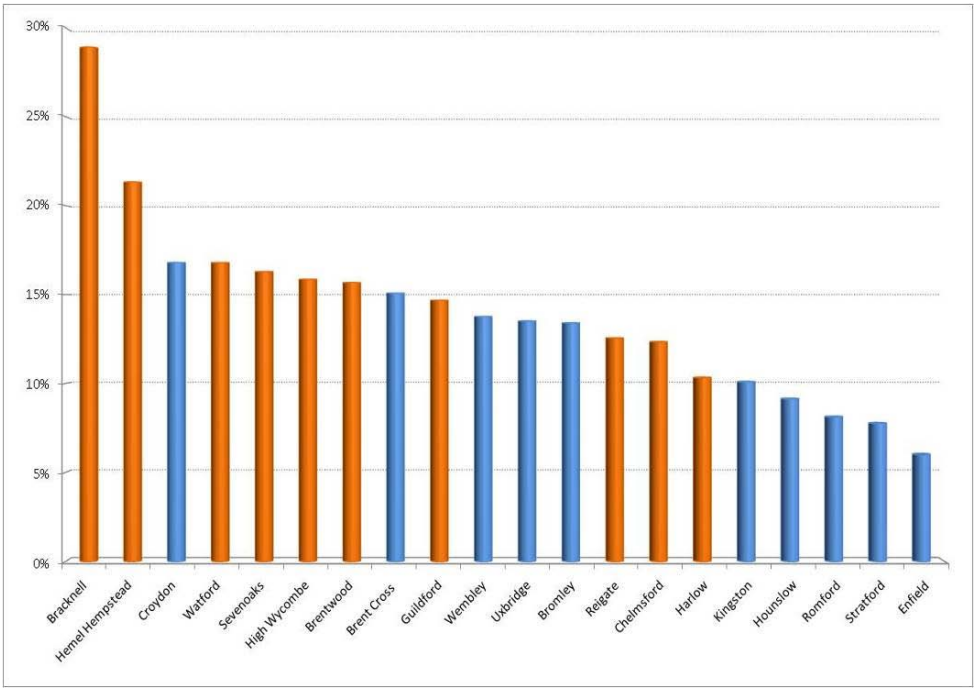
8.2.23 **Business Services** however, are more present in OMA centres. The broad sector includes real estate activities, computer-related services, accounting, R&D and architecture, amongst others. It is a sector of strategic importance in view of its past and projected employment growth as well as its high value added. In 2006, it accounted for 30% of London GVA[78], 28% in the South East and 25% in the East of England.

8.2.24 Business Services account for 17% of total employment in OMA centres compared to 12% in OL centres. The pattern is clearly shown in Figure 8.10, with only Croydon representing OL among the top employment centres for Business Services.

8.2.25 Overall the stronger representation of business services in OMA might have been expected to translate into a clear advantage in terms of employment growth for OMA centres compared to OL, given the sector's role as a driver of recent growth. However, as we have seen, the picture is more murky. For instance, Hemel Hempstead (with the second highest proportion of business services) recorded an average annual 2% decline in office-based employment and 2.3% decline in total employment between 2003-07. Other centres such as High Wycombe, Brent Cross or Uxbridge have also experienced a decline in office jobs.

[78] National Statistics, Regional Accounts, 2006. Estimates of regional GVA are on a residence basis, where the income of commuters is allocated to where they live rather than where they work. This significantly underestimates the value of Business Services to the London economy.

Figure 8.10 Proportion of employment in business services



Source: ABI 2008

8.2.26 This means that the implications are not clear for the future growth prospects of OMA versus OL centres.

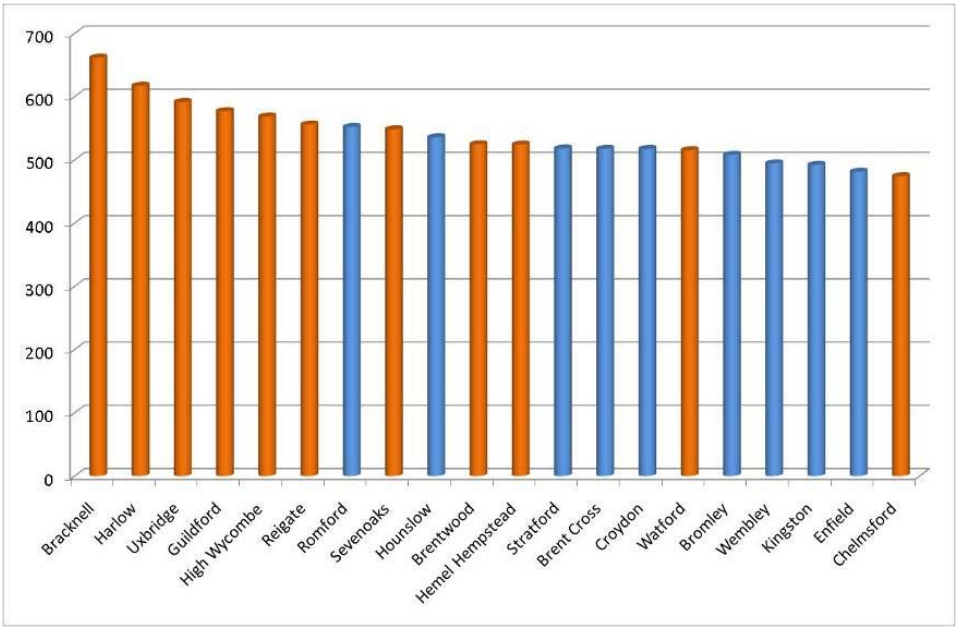
8.2.27 Overall the sectoral mix in OMA is of higher value than in OL centres, as seen in the workplace wage ranking below. The presence of higher value activities, such as Business Services, in OMA translates into better average pay for workers (Figure 8.11).

Labour market indicators

8.2.28 While smaller in scale, OL centres can draw from a much larger pool of labour than OMA centres as a result of better accessibility and being located in more densely populated areas. This is illustrated in Figures 8.12 and 8.13: overall OL centres' travel-to-work areas and 30 minute drive catchment areas reach a significantly larger number of economically active residents.

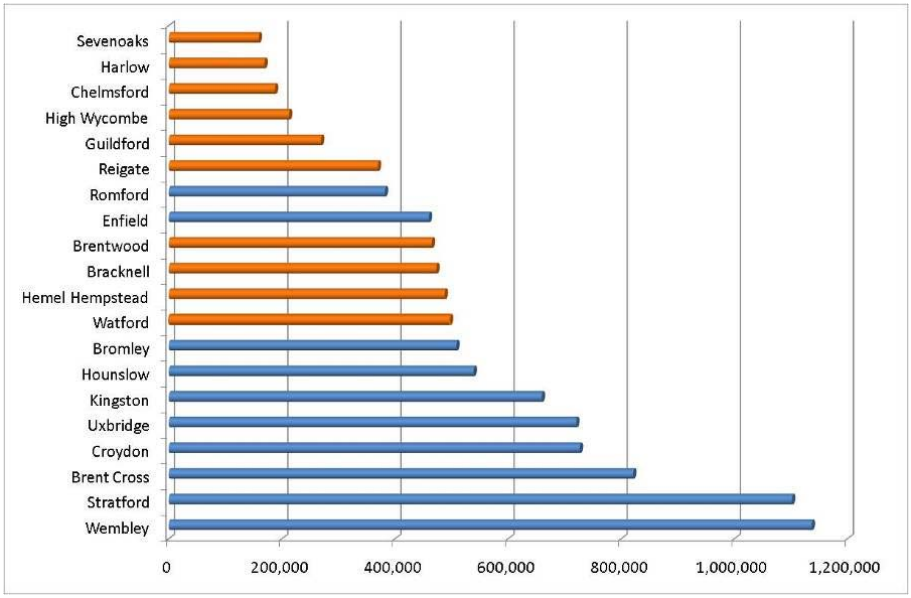
8.2.29 The characteristics of the labour market accessible to OL centres reflect the contradictions of London's economy: on the one hand, the proportion of highly qualified individuals exceeds that in OMA; but the unemployment rate is also consistently higher in OL centres. According to the Annual Population Survey (Jan-Dec 2007) for the centres' travel-to-work areas, 34% of the economically active in OL centres have NVQ4+ qualifications compared to 31% in OMA centres; while unemployment in OL centres is 6% compared to 4% in OMA centres.

Figure 8.11 Average weekly workplace wage (£)



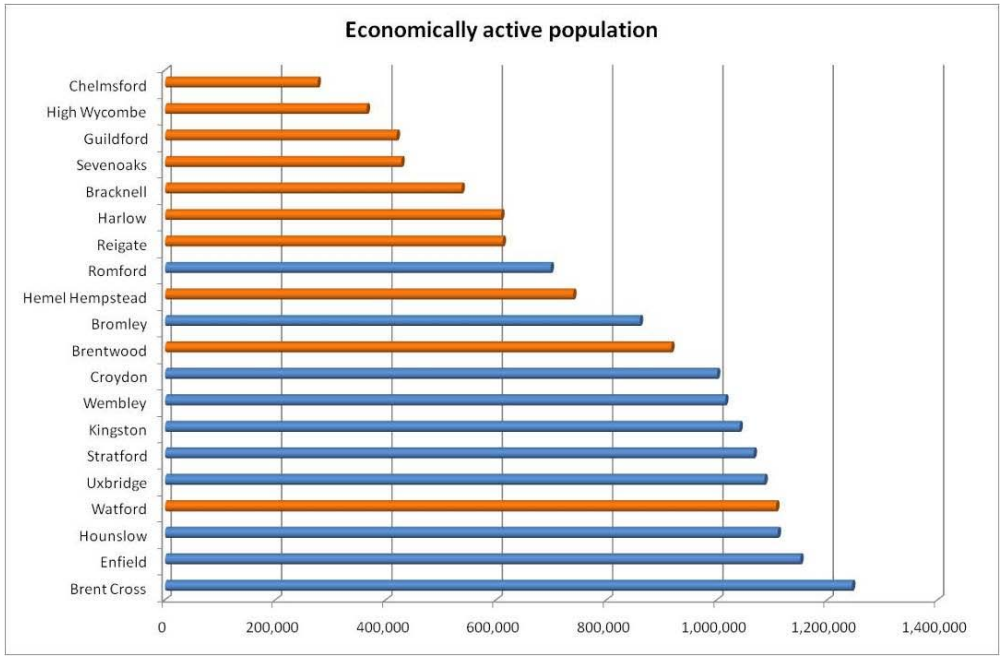
Source: Annual Survey of Hours and Earnings

Figure 8.12 Number of economically active people in the travel-to-work-areas



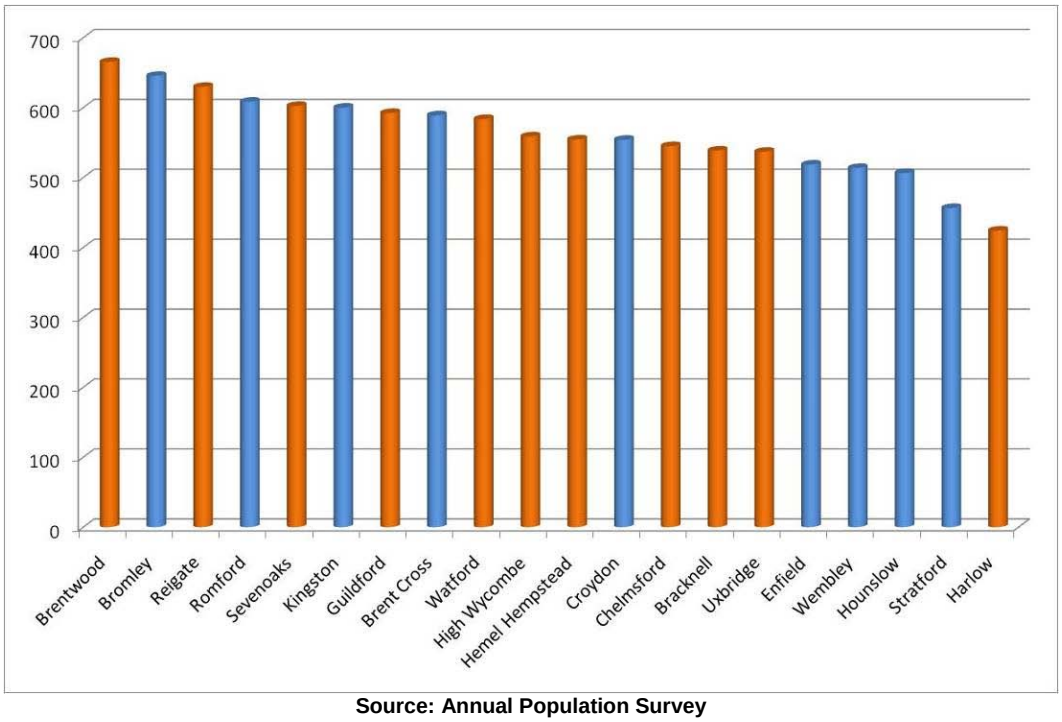
Source: Annual Population Survey

Figure 8.13 Number of economically active people within 30 minute drive time



Source: Census 2001

Figure 8.14 Average weekly resident wage (£)



Source: Annual Population Survey

8.2.30 While workplace wages show the higher value sectoral mix present in OMA, there is no clear pattern when it comes to residence-based wages, as shown in Figure 8.14. There is no pattern either when considering east versus west or north versus south.

8.2.31 We also checked districts where workplace wage was superior to resident wage compared to those where the opposite was true. This did not highlight any clear pattern across OMA or OL either, reflecting the complexity of the districts' economic relationships with their surrounding and their roles in the regional economy.

8.3 OL/OMA comparison by market performance indicators

8.3.1 This Section assesses each OL and OMA pair in terms of their market performance. We reproduce here the concluding, comparative part from each assessment; the full assessments are provided in Appendix A8.4.

Brent Cross and Watford

8.3.2 Brent Cross/Cricklewood has no established office market, and proposals for a large-scale office development as part of a comprehensive plan for the area will not start before 2011, and according to the developer are likely to be in the later phases of a twenty year plan. The proposed large-scale scheme will compete with similar schemes around London and could suck demand from smaller centres around north London.

8.3.3 Although it is unlikely to compete directly with OMA towns this cannot be ruled out, and highlights a key office provision issue. In the end, the market requires choice and at the moment a hypothetical company choosing between Watford and Brent Cross/Cricklewood does not have a choice. Should the Brent Cross/Cricklewood scheme come forward then occupiers will have a real choice. There is still no guarantee that such an occupier would select Brent Cross over Watford, but the fact is that at the moment the option is not there.

8.3.4 Watford is a popular town and it is possible that tight supply will finally push values to the level where stock can be renewed, so it must be emphasised that competing centres will not stand still.

Bromley and Sevenoaks

8.3.5 Bromley and Sevenoaks are very different centres. Bromley is a big market, catering for larger occupiers and larger buildings; Sevenoaks is one-fifth the size, with a predominantly small built stock, catering largely for established, small business services. One "*wholesale*", the other "*retail*". And just as with the wholesale and retail model, Sevenoaks attracts a rent premium: around £247 sq m (£23 sq ft) compared to around £183 sq m (£17 sq ft) in Bromley – a major cost differential.

8.3.6 Sevenoaks' small scale and location reinforce its prosperous image, while "bold and brash" Bromley's image suggests an underperforming OL centre.

8.3.7 In terms of whether Sevenoaks is outperforming Bromley, as per the hypothesis here, it is certainly the case that Bromley has more vacant space and lower rents; but is this sufficient to deem it as underperforming? It is five times the size of Sevenoaks, and boasts a larger number of major occupiers. It also has site availability. By contrast "better performance" in Sevenoaks appears to be driven more by restrictive planning policies than by its attractiveness to corporate office occupiers.

8.3.8 As a location for offices, there is no question that Bromley is the stronger centre with greater potential to absorb growth in the future. The question is whether Bromley is more attractive than competing centres such as Croydon and Lewisham, both of which are planning major regeneration projects. On balance, Bromley's performance is probably better measured against Croydon rather than its OMA partner.

Croydon and Redhill & Reigate

8.3.9 Redhill & Reigate, in some senses, exemplify the "leafy suburb" stereotype of Home Counties towns: affluence, low unemployment, good jobs, good social infrastructure and a relatively comfortable population. Croydon, by contrast is altogether grittier: higher density, a broader socio economic profile with more poverty, unemployment and its fair share of social problems.

8.3.10 Such a superficial contrast would serve to reinforce the hypothesis that we are examining here: that OMA office centres outperform their counterparts in Outer London. However, in office market terms, this is not the case.

8.3.11 Setting aside the question of Croydon's scale (which is a big set aside), it is clear that the OMA market is under-performing on several levels: on-going growth; development interest, and economic diversity. In addition, Croydon is attracting new interest with major regeneration projects planned.

8.3.12 This is not to suggest that Croydon is very successful: it too is suffering from over-concentration in relatively declining sectors and its image has declined sharply in recent years. But it is not being out-paced by its OMA counterpart. Both are suffering from similar structural problems, and have been hard hit by the specific causes of recent economic events.

8.3.13 If Croydon can address its image problems, and if a number of key schemes are brought forward soon to provide high quality space for modern businesses, there is every likelihood that it will outperform its OMA counterpart in the years ahead.

Enfield and Harlow

8.3.14 Enfield and Harlow are very similar centres, sharing an industrial heritage and experiencing the economic restructuring in recent years that such a shared history implies. Both centres have found it difficult to attract new office occupier interest, and both markets have underperformed over recent years.

8.3.15 Neither centre established itself as a strong office market during previous growth cycles – despite a number of high profile occupiers in Harlow. New speculative development in both centres has been very low.

8.3.16 It is certainly not the case that the OMA centre is outperforming its OL counterpart. Visible decay in the quality of the urban fabric, combined with a lack of available modern premises suggest that both centres will continue to underperform, in a regional context, in what is likely to be an increasingly competitive market to attract large corporate occupiers.

Hounslow and Bracknell

8.3.17 Hounslow is a very mixed borough but it is a simple fact that prospective occupiers have real choice if this is the area in which they need to be. Although Brentford especially is clearly facing pressure from competing uses and mixed-use schemes, it is likely that the area will remain a major centre for office employment for the foreseeable future.

8.3.18 Bracknell is very much a first generation new town and has all of the potential and pitfalls associated with that status. It faces very direct competition form nearby centres and as such our conclusion is that, just as Hounslow's principal competition comes less from OMA than adjoining boroughs, so Bracknell is in a local dogfight rather than a regional one.

Kingston and Guildford

8.3.19 In the case of the Kingston and Guildford pairing, it does appear that the OMA centre possesses many of the attributes to which the OL centre aspires. Already twice the size of Kingston in terms of its employment base and office stock, Guildford has expanded as an office centre over the past decade while Kingston has marginally declined. Kingston is quite rightly seeking to use its higher education campus to stimulate business activity, where Guildford already has a 25 year track record at the Surrey Research Park.

8.3.20 Kingston is undeniably a successful and vibrant centre in its own terms, but has been unable to take advantage of its location within Greater London and close to Central London. Arguably Guildford, twice the distance from Waterloo, has better accessibility by public transport with its frequent high-speed services.

8.3.21 This is reflected in the recent performance of the office market. Kingston has had no significant new office development for almost twenty years and is exposed to the potential loss of one or two larger occupiers. Top rents in the low £200s sq m (low £20s sq ft) are attractive to certain occupiers but are insufficient to stimulate new stand-alone office development. Kingston has strong competition from Wimbledon and Richmond, where rents are higher and office development remains viable.

8.3.22 Guildford has recently experienced a modest level of office development although, as in Kingston, there has been significant high density residential development in the centre. The underlying strength of the office market has allowed Guildford to pursue a planning policy to strongly resist the loss of office space and to promote significant new office development. In the Guildford context that looks a reasonable approach.

8.3.23 Kingston's policy to promote new office space through mixed-use development and to promote the refurbishment of tired stock is a pragmatic approach for a low demand-low supply environment.

Romford and Brentwood

8.3.24 When comparing Romford and Brentwood, it quickly becomes evident that they are very different; but that Romford, although just over the M25 from Brentwood, is not facing its main competitor there.

8.3.25 Brentwood is a classic Home Counties business centre with several large employers but a host of constraints, not least the Green Belt. Romford is a secondary suburban centre (in office terms, it is much stronger for retail) whose main competition is highly unlikely come from Brentwood or any other Essex town.

8.3.26 Instead, Romford's crunch will come from facing large-scale development in east London, especially after the 2012 Olympics. The vast pipeline of schemes at Stratford, Wood Wharf and Greenwich mean it is highly unlikely

that a case can be made for strategic scale office development in Romford and, indeed, that Brentwood may even run into the same problem.

Stratford and Chelmsford

8.3.27 These two centres were never likely to have been competitive. What drove their respective performances in the office market were entirely different. It is therefore inappropriate to ask whether the OMA centre does better because it is an OMA centre: of course this is true. But Stratford has not attracted any significant occupier or developer interest because it is not recognised as an office centres. To overturn that perception will not only take a lot of new infrastructure (which it is getting), but also a lot of time to shift mindsets.

Uxbridge and High Wycombe

8.3.28 If any pairing can explode the myth that OMA centres fare better than OL centres, this is the one. Despite the similarities, Uxbridge has developed a far more successful office market than its OMA counterpart. It has attracted a raft of corporate headquarters occupiers and, while it is difficult to make a direct comparison of rents in the current economy, its headline rents are a good 30% higher than in High Wycombe. Uxbridge has been able to succeed and prosper as an office centre by providing large high quality buildings, which High Wycombe has failed to produce.

8.3.29 In very recent years High Wycombe has acquired a new shopping centre and a university – strengthening the parallels between these two centres. Although much of Uxbridge's success predates the opening of The Chimes retail centre in 2001, it has reinforced its appeal, and The Eden Centre has the potential to do the same for High Wycombe. Today, both markets have a shortage of good quality space in their respective town centres, at a time when town centre locations are in demand. In Uxbridge the situation has been relieved by an edge of centre business park, whereas in Wycombe the demand has shifted further out of town to Marlow, Wooburn Green and Bourne End. The lack of opportunity to build in the town centre – on going in Wycombe and new to Uxbridge – together with traffic management and parking issues, is threatening the future of both centres.

Wembley and Hemel Hempstead

8.3.30 Both these centres have a strong industrial heritage and remain centres of production and distribution. Wembley is located in a deprived urban environment while the area around Hemel is rural and affluent although its centre has pockets of deprivation. Neither centre has a buoyant office market although Hemel probably has the better prospects - it has some high quality office space and a base of office employers while Wembley has hardly begun.

8.3.31 Both have declining public realm and have plans for improvement. Wembley's vision is on a far grander scale and its strong internationally-recognised 'brand' has the power to transform the area (as and when the funds are available) as a destination for leisure and entertainment, which will bring supporting office functions. As an office centre however, Hemel

probably has the better credentials – although it has yet to prove itself. This is not a case of OMA out-performing OL – more of OL having the vision to play to its strengths. Not all OMA centres have it easy and Hemel is one that has not found it easy to establish itself as an office centre, and the current economic climate will probably stifle its prospects for some time longer.

8.4 Do OL and OMA centres compete/perform differently?

8.4.1 Our assessment shows that the relationship between Outer London and the Outer Metropolitan Area is far more complex than the simple "perception" that OL is “underperforming” OMA suggests. Perhaps more significantly, the assessment has exposed a number of myths.

8.4.2 The relationship between OL and OMA has structurally changed over the past twenty years. For example, the degradation of Central London salary weightings together with the decimating impact of technology on back office functions has led to a massive reduction in the relocation market to these areas – thereby reducing their base competitive position. Our review confirmed this to be the case. What’s left of the relocation market today mainly seeks low cost regional centres, or moves offshore.

8.4.3 The analytical data at the head of this Section show that on many different economic performance measures there is no clear pattern of out-performance between OL and OMA. This counter-intuitive finding begins to make sense when consideration is given to the nature of OMA towns. Many are highly constrained by the Metropolitan Green Belt and other conservation measures.

8.4.4 Similarly, several apparently "green and pleasant" areas, both in OL and OMA are in fact major hubs for the distribution industry – the assumption that office-based work is the foundation of the local economy is just that: an assumption, not supported by evidence.

8.4.5 Further, where office-based work is in evidence, a very typical pattern around OMA is for any given town to have only a handful of very significant employers. These skew perceptions but leave towns potentially vulnerable to restructuring. This is especially the case away from the Western Corridor. Note that this pattern is essentially the same in OL.

8.4.6 This is not to say that the playing field is universally level, but the pattern of spatial competition is complex. For example, in the east we believe that Romford’s major source of competition will be development at Stratford and possibly Wood Wharf, rather than its OMA counterparts in Essex.

8.4.7 There are potential lessons for OL. It is readily observable, for example, that typical OMA towns present a more pleasant public realm than many OL centres (although, again, this is far from universal). Typically, office occupiers place significant emphasis on quality of environment in decision making; and the conclusion is that OL centres must improve their public realm and quality of stock if they are to attract significant occupiers.

8.4.8 One practical finding is the importance of parking: Uxbridge, for example, illustrates one of the legacies of historic parking ratios. Because older buildings have more generous parking allowances than new buildings, space is being refurbished rather than redeveloped. There may be no simple solution to this problem in town centres and in the face of the green agenda.

8.4.9 Another practical lesson is related to business parks. Many OMA (and, indeed, some OL) centres are familiar with managed business parks that create a high quality and secure working environment, together with support services and, most importantly, high quality buildings. Many are not on greenfield sites: Chiswick Park in west London and Woking Business Park offer OL and OMA examples of parks that are integral to the urban fabric. If OL centres are to compete successfully for modern office occupiers, then such opportunities should be sought out.

8.4.10 Our overall conclusion is that a simple "Suburbs vs Home Counties" rivalry, in which the former universally underperforms the latter, is not supported by the evidence. In practice, Hounslow competes as directly with Hillingdon or Brent as it does with Maidenhead or Bracknell. Romford is likely to come under pressure from Stratford before it will from the Essex towns.

8.4.11 The fundamental issue of competition between east and west is probably the much more significant issue and strategic challenge, and the proper subject for policy formulation.

9.0 Other issues

9.1 Introduction

9.1.1 This Chapter brings together a number of issues which will have a significant long-term impact on the London office market, and which we believe deserve a particular focus. The issues that we consider here include the following.

- Transport infrastructure and improvements
- The conversion of surplus offices to other uses
- The options for mixed use policy
- Climate change considerations

9.2 Transport infrastructure and improvements

9.2.1 LOPR 07 provided an outline of the main transport infrastructure proposals current at the time which we perceived were sufficiently strategic to have a potential long-term impact on the London office market (see Section 5.4 of LOPR 07). Here we start with an update on some of those proposals mentioned which since have progressed, and then we take account of proposals that have emerged since.

Update from LOPR 07

9.2.2 Since LOPR 07 two very significant events have occurred which will bring major long-term benefits to London, together with impact on the office market.

- **High Speed One (CTRL)** This has now opened (November 2007), and is expected to underpin not only the success of the immediate area (including Argent's King's Cross proposals), but also act as a strategic benefit to London.

- **Crossrail** In October 2007 the Government approved this £17 billion scheme, with a plan that will see the first trains running in 2017. Crossrail will enable suburban rail services to run through the centre of London, linking Shenfield in Essex with Maidenhead in Berkshire. The line will have 38 stations, with new stops at Canary Wharf, Farringdon and Bond Street. Heathrow to Tottenham Court Road will take 31 minutes, with a further 12 minutes to reach Canary Wharf in Docklands.

  While no firm statements have been made, rumours abound that Crossrail could fall victim to public spending cuts, irrespective of which political party wins the next General Election. This would be a major setback to London's on-going development as a world city, in terms of the potential to rejuvenate a number of key areas and to provide additional passenger capacity, particularly at peak times.

Bus and light transit schemes

9.2.3 A number of bus and light transit proposals are being developed along corridors within Outer London. The planned Thames Gateway Transit in East

London is a bus-based network of routes, which will improve orbital travel in east London. The first major part of the network, to be operational in 2010, will be the first phase of the **East London Transit** between Ilford and Dagenham Dock, via Barking. The second phase of East London Transit has secured funding of £18.5 million for a service from Barking town centre to Dagenham Dock, via Barking Riverside, due to start construction in 2011 and commence services in 2013. A second component, the **Greenwich Waterfront Transit**, was cancelled by TfL in April 2009.

9.2.4 The **DLR** now carries 45 million passengers every year. The recent extensions involving London City Airport, North Woolwich, Woolwich Arsenal, Stratford International and Barking and Dagenham are improving access to the benefit largely of London City Airport and the Royal Docks.

9.2.5 DLR is expanding into Stratford, and will provide a key connection for the 2012 Olympic Games. The Stratford International extension will involve four new stations at Stratford International, Stratford High Street, Abbey Road and Star Lane. The DLR will replace the former North London line service, and offer a more regular service, with trains arriving every six minutes during peak periods. The extension is due to open by mid-2010.

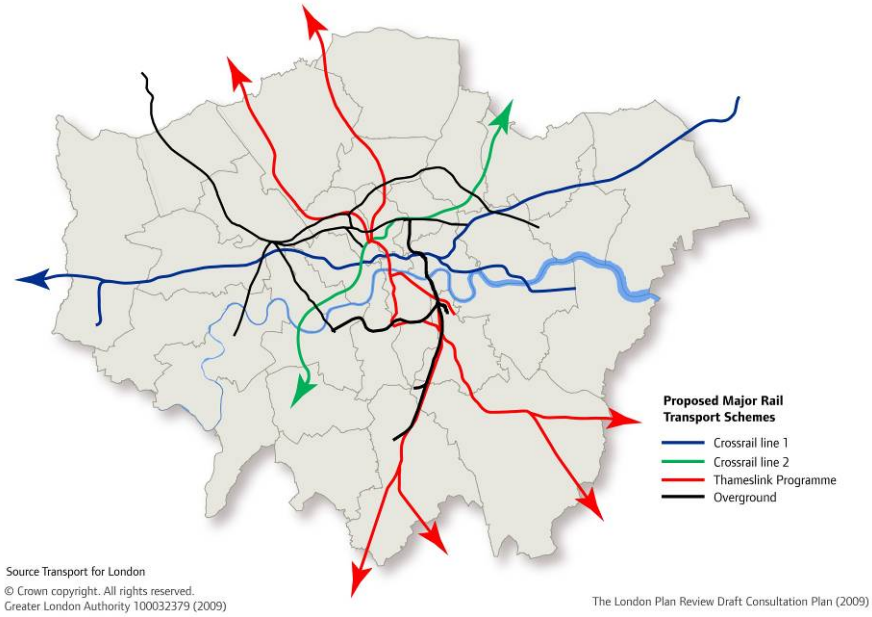
Major rail infrastructure

9.2.6 Figure 9.1 shows the major rail infrastructure proposals: Crossrail, the Thameslink scheme, overground improvements, including the East London line and the possible Crossrail line 2. Crossrail and Thameslink will serve substantial parts of Outer London.

9.2.7 The much delayed **Thameslink** investment would improve cross-London links with travelling benefits across the South East. The number of trains travelling between St Pancras and Blackfriars will increase three-fold to 24 each hour. The scheme will benefit the King's Cross-Farringdon area (reinforcing the impact of Crossrail and High Speed One). While construction is now underway, the project is unlikely to be completed before 2012.

9.2.8 A key new piece of infrastructure is now nearing completion, and due to open in 2010. **East London Railway** is a new North-South link, running from Dalston Junction in the north, to New Cross, Crystal Palace and West Croydon in the south. By February 2011 it will be extended to Highbury and Islington. There are also plans to extend the line west from Surrey Quays to Clapham Junction. The line will help to unlock the potential of Bishopsgate Goods Yard, which it crosses, and access between Croydon and the City and E14 will improve.

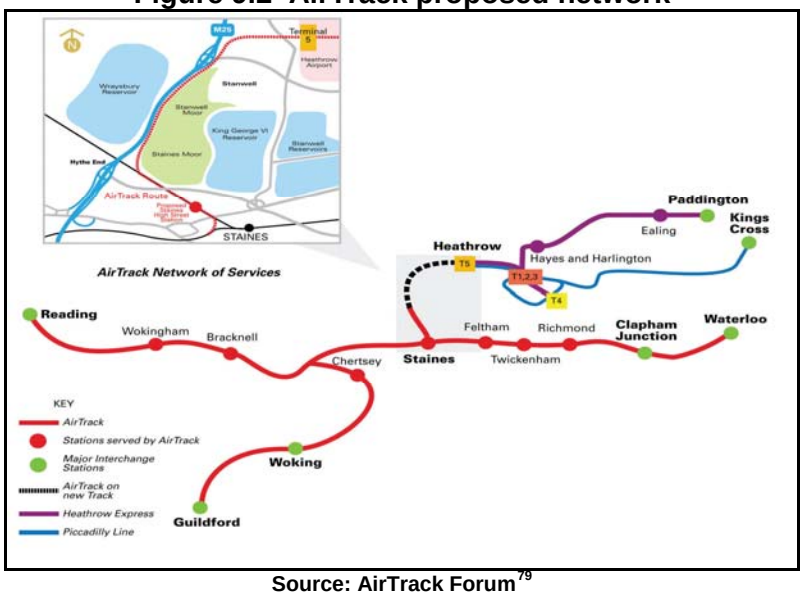
Figure 9.1 Proposed major rail transport schemes in London



Source: Draft Replacement London Plan

9.2.9 To the west and south west of London and beyond, proposals for a significant rail improvement scheme, linked into Heathrow, are taking shape. Involving the construction of four kilometres of new track across Staines Moor, **AirTrack** is a major initiative designed to provide public transport access to Heathrow Airport Terminal 5 from the south and west, with new direct links from South London and centres such as Guildford, Woking and Reading (Figure 9.2).

Figure 9.2 AirTrack proposed network



Source: AirTrack Forum[79]

[79] AirTrack Forum (2008) www.airtrack.org

9.2.10 AirTrack will offer an alternative to car travel in a congested area of west London. The construction of four kilometres of new railway and the new station at Staines will create a significant number of new journey opportunities for rail passengers, particularly given further connections from key interchange stations such as Reading and Guildford.

9.2.11 The **Heathrow Hub** proposal involves a new domestic and international rail station in South Bucks. The new transport interchange would link Heathrow into the main rail network and a high speed link to St Pancras, and would be the first step in creating a country-wide high speed network. The key linkages to national and local infrastructure are shown in Figures 9.3 and 9.4. The Secretary of State announced a new company – High Speed 2 – to consider the case for new high speed rail services from London to Scotland. As the first stage, a company has been formed to develop a proposal for an entirely new line between London and the West Midlands, enabling faster journeys to other destinations in the North of England and Scotland using both existing lines and a new high speed rail network.

Figure 9.3 The rail network around the proposed Heathrow Hub

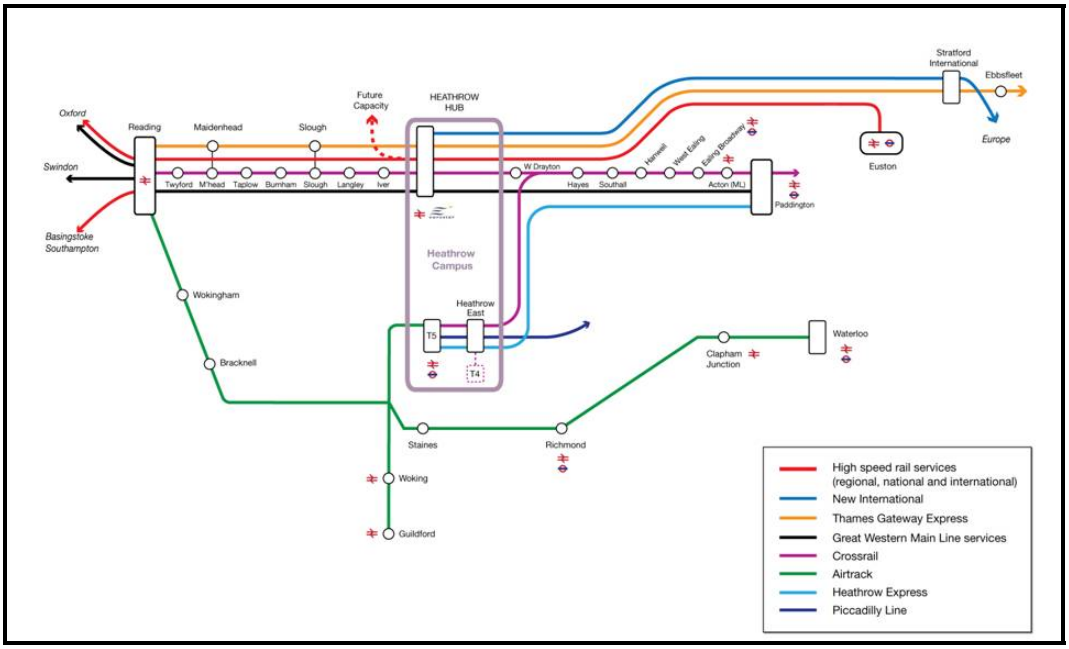
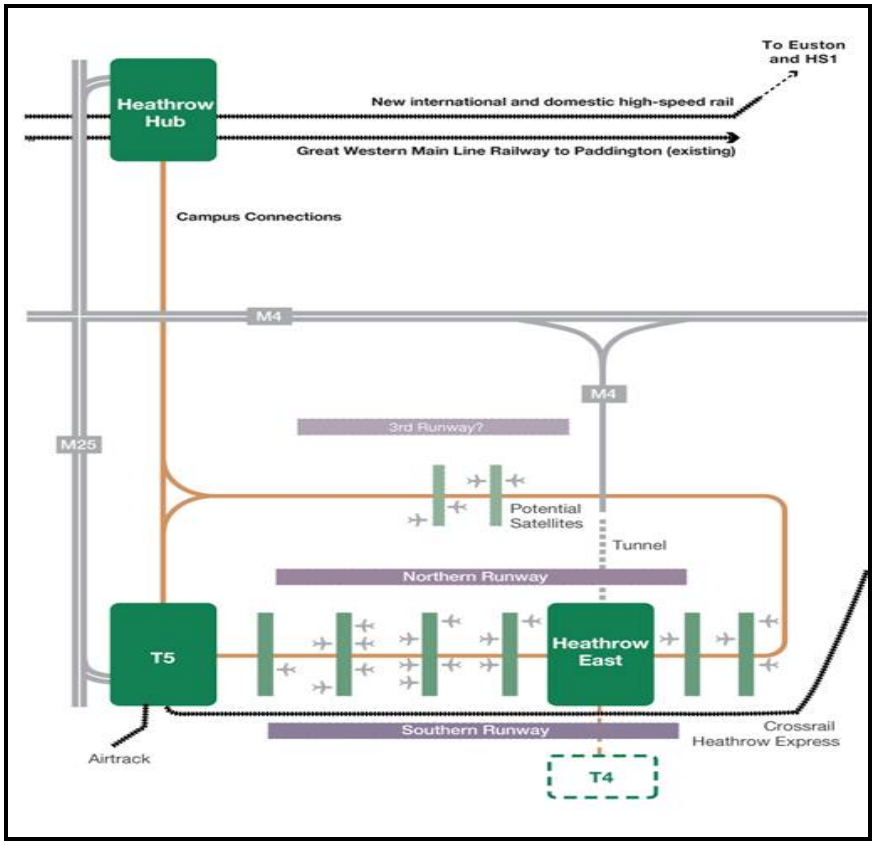


Figure 9.4 Heathrow Hub and terminals



9.2.12 The new station would be located on the Great Western Main Line, in the West Drayton-Iver area. The Hub proposal will provide easier, quicker access to the airport for larger numbers of air passengers, as well as the opportunity for UK residents and incoming long-haul passengers to make efficient rail connections to UK destinations and the continent.

9.2.13 It is also suggested that the Hub proposal would result in some substitution of rail journeys for domestic and short-haul air flights from Heathrow. The proposals are not contingent on the third runway.

Conclusion

9.2.14 From this brief review of new transport infrastructure, there are clearly a number of initiatives that will bring significant potential benefits to London's office market. Some of these are small scale, but important: various bus and light transit schemes will bring benefits to Outer London office centres, helping to underpin their attractiveness through improved accessibility.

9.2.15 Others are of a much more strategic scale. For example, Crossrail and Heathrow Hub are potentially very important for key office areas (eg Farringdon and Tottenham Court Road on Crossrail). The focus on east

London is important in terms of the potential for new transport to help make the case for private sector investment there. Stratford, for example, will benefit from DLR, High Speed One *and* Crossrail, making it a highly accessible location.

9.3 The conversion of surplus offices to other uses

9.3.1 In an economy that has become increasingly service-based, with financial and business services as key drivers, the appropriate provision of office space has become a cornerstone of planning policy. To paraphrase various policy statements, the London Plan seeks to ensure that London has sufficient office space of the right quality in appropriate locations. The LOPR series has attempted to identify whether these conditions are being met as the London economy and property market goes through long-term structural change and short-term cycles.

9.3.2 Given the cyclical nature of the market, London or some of its many sub-markets can at times be undersupplied, placing restrictions on companies' growth patterns and leading to high rents driven by competition for limited space. On the other hand, during and after expansionary phases, London can be glutted with offices, with high rates of vacancy leading to low rents and near cessation of development and regeneration activity. In some locations, imbalances in supply and demand can also be structural, where even the ups and downs of the office cycle appear to have little impact on the demand for space.

9.3.3 The conversion of "surplus" office space to other uses could, therefore, be seen to be primarily an issue of rebalancing supply and demand for offices in times of *cyclical* oversupply or in places of *structural* oversupply.

9.3.4 In practice, however, the process is also mediated first, by the differential in values between offices and various other uses and second, by planning policy and individual development control decisions. Although a high proportion of office space which is converted to other uses could be seen as "surplus", experience since the mid-1990s indicates that local authorities also permit change of use from offices in locations which are not either cyclically or structurally oversupplied, where this meets other planning objectives.

9.3.5 The Mayor's initial proposals for the new London Plan explicitly addressed the management of surplus office capacity and change of use.[80] It noted:

> *[The Plan] will also set out the basis for addressing surplus office capacity in parts of outer London while encouraging renewal and modernisation in viable locations, informed by recommendations of the Outer London Commission. The new plan will support the conversion of surplus offices to other uses as part of local plans and strategies to manage change and promote mixed use development.*

[80] Mayor of London (2009) *A New Plan for London: Proposals for the Mayor's London Plan*

9.3.6 The development of planning policy for offices in London over the past fifteen years (in line with national planning policy) has been to move away from strict zoning towards a more sensitive approach. Blanket protection of offices and land with office permission ("employment generating land") was often a recipe for vacancy and dereliction – commonly in fringe locations, but also in core areas during market downturns.

9.3.7 In the mid-1990s some parts of London experienced "deglomeration" of their office markets due to a combination of cyclical downturn and structural change. LOPR 97 examined two such locations, Holborn and Millbank, where an exodus of major occupiers (particularly Government) led to widespread vacancy.[81] In the 1990s, change of use to residential and hotel led to the rejuvenation of these areas, promoting resurgence in the office market in the recovery phase.

9.3.8 In the period since the early-1990s, the changing nature of demand has created requirements for residential and other developments in locations where offices and other commercial space were dominant. These requirements for uses such as residential, hotel, student accommodation and teaching space reflect other important roles for London as a world city. The evidence of change of use resulting from real development control decisions based on local, regional and national policies indicates that a diversity of development is being promoted across London under more sensitive planning regimes.

9.3.9 For the sake of clarification, it is worth noting that the change of use process is not just about "conversion", which can imply the retention of the built fabric in a new use. Change of use can equally occur through the demolition of office buildings and their replacement with brand new buildings in other uses. In either case, it is possible that some office space will be retained in the new scheme, but with a net loss of space.

9.3.10 Change of use from offices is actually happening throughout a wide range of office locations in London. Calculating the precise quantum is outside the frame of reference of this report, but we have undertaken an examination of recent development starts for non-office development where the previous use was offices, in order to give an indication of the scope of change of use in London as the market entered the downswing of the latest cycle.

9.3.11 Appendix A9.1 includes a selection of 23 schemes where construction work commenced in 2008 and the first half of 2009, indicating the type of scheme, the net loss of office space and the new uses to which buildings and sites are being put. Whereas significant office development is, as we saw in Sections 1.5 and 1.6, occurring in a limited number of locations, the loss of office space is occurring in almost all locations across London.

[81] London Property Research (1997) *London Office Policy Review* 1997 LPAC

9.3.12 Based on the sample of developments in Appendix A9.1, we can identify schemes where the loss of office space has been permitted in the following "generic" locations.

- West End locations where "super prime" residential values eclipse office values, and where there is also demand from hotels and educational uses. It is difficult to justify that offices are "surplus" given that West End rents are amongst the highest in the world and a recent sharp rental spike in 2006-2007. Examples of office space lost through recent construction starts include the demolition of offices and a cinema at the Swiss Centre in Leicester Square and its replacement with a new hotel, casino and leisure scheme with no office content. The largest implementation of a change of use in the West End over the period has been the construction start on a new hotel and apartments in two major former Government offices at Metropole House, Northumberland Avenue and 10 Whitehall Place. In another prospective redevelopment, 56 flats and a much reduced office content are set to replace an office building at 10 Rochester Row, where the developer announced that deposits had been taken on 50% of the private units in August 2009. There are many examples in the West End of small-scale office to residential conversion – often these are as a result of land use swaps deriving from mixed use development policy.
- City locations where there is pressure in some parts to change major offices to hotel use, a situation which the City of London is closely monitoring. At Mariner House, Pepys Street, for example, a major office building of over 10,000 sq m has been demolished and is being replaced by a 600 bedroom hotel. There is also continued evidence of change of use of small traditional offices, where local planning policy deems the insertion of residential use to be acceptable. Shield House, New Street, for example is a 14 unit scheme being converted from a low grade office building.
- Non-prime office locations on the outer edges of the CAZ and within Inner London where office values are marginal, but where until the recent collapse in residential values, housing prices were typically double those of offices. Sometimes these schemes are being applied with a very significant increase in height and/or density. At the Strata scheme in Elephant & Castle, for example, a low quality 1960s office tower with retail podium has been demolished to be replaced by a 43 storey residential tower.
- Stand-alone office buildings on radial routes out of London such as the A4, where major offices have been abandoned by corporate occupiers and where, as stand alone buildings, they do not have critical mass. Residential and hotel conversions have taken place in these locations. At the start of the A4 corridor, for example, the former Warwick House office building on Warwick Road, is being replaced with a 330 bedroom apart hotel and private flats.
- Outer London town centres, where there is low demand for aging stock, often in the form of mid-rise and high-rise towers and where conversions can take advantage of the existing height of the buildings,

often adding a few penthouse floors. Recent starts include the Dakota House refurbishment in Croydon for social housing; the conversion of offices at Wheatfield Way in Kingston into a budget hotel, and the re-use of two office blocks above The Pavilions Shopping Centre in Uxbridge for a scheme of 160 flats known as The Heights.

9.3.13 There are three principal uses to which former office buildings and sites are being put.

- **Residential** Principally in the form of one and two-bedroom apartments directed at both the owner-occupier and investment markets. Led by private housing, in most cases private residential development triggers affordable housing requirements according to thresholds, delivered either on-site, off-site or through commuted payments. The requirement for affordable housing has a significant impact on viability.
- **Hotels and apart-hotels** In locations where there is existing or emergent demand for hotel accommodation, including the range from luxury to budget and apart-hotels, office sites can offer developers and hotel operators the scale required. There has been particularly strong demand in traditional locations including the West End and Midtown, but also in locations such as the City of London and the South Bank, and in Outer London town centres with good transport links. From a planning perspective, hotels do not normally require the provision of affordable housing, which can increase viability against residential schemes (although other forms of planning gain are usually required). As a commercial use, a hotel also offers the possibility in the future of a return to offices if demand patterns alter.
- **Student accommodation** In central locations with good public transport and/or proximity to teaching campuses, purpose-built student accommodation blocks have become increasingly common as a means to re-use existing office buildings and sites. Aside from the decade of strong growth in London student numbers, recent developments have been fostered by the emergence of specialist providers alongside universities and colleges. These have actively sought out development opportunities, often on office sites where office development is seen to be marginal. As with hotel development, there is normally no requirement for affordable housing.

There is also some evidence of office buildings being acquired by universities and colleges for teaching space.

9.3.14 The collapse of the housing market in London since the middle of 2007 will have a significant impact on the viability of residential development in place of offices. This is particularly significant as office buildings have often been replaced by, or converted to, one and two-bedroom flats with a strong emphasis on the investment market, especially buy-to-let. There is at present no debt market to support first-time buyers, non-equity purchasers and investors. Hence one of the main alternatives to offices in redevelopment schemes has, for the time being at least, been closed off. Although the

housing market will eventually recover, it is very unlikely to be fed by the same wall of money from the banks: funding institutions are likely to show much greater caution.

9.3.15 It is probably also the case that recessionary conditions will have an impact on the viability of hotel development in some locations. The one sector that seems to be immune from the downturn is higher education. These institutions typically operate counter-cyclically, waiting for periods when the investment market is weakest to expand property portfolios in the vicinity of their campuses. Sometimes that entails buying office buildings and converting them to teaching space (eg Stewart House, Kingsway for LSE). Specialist student accommodation providers are also implementing significant schemes, for which there continues to be demand and planning gain requirements are modest.

9.3.16 In Chapter 3.0 of this report we considered employment projections which indicate the need to expand the London office stock by some 4.6 million sq m over 2007-2031. Given the importance of offices to the London economy, now and in the future, does it matter that stock is being lost on individual sites and certain generic areas? It seems that the answer is no, as long as there is capacity to expand the stock on other sites and locations where there is either strong demand for new and refurbished office space or where offices can viably contribute to regeneration. These locations include the CAZ (including the Areas for Intensification and Opportunity Areas), the Isle of Dogs and some other locations in Inner and Outer London where demand is strong. In the past ten years, during which time there has been significant change of use from offices, the VOA records that the overall stock of commercial offices in London has increased by 18%.

9.3.17 There does seem to be a question mark, in a strategic sense, over change of use from offices in the core of the West End. This is a location where demand for offices remains strong but where, for a variety of reasons including planning policy, it is difficult for the office stock to expand. Rents have risen in real terms over the past twenty years with successively higher cyclical peaks. With the heat taken out of the office market for the time being and rents having fallen by 20-30% since the beginning of 2008, this appears to be less of a concern.

9.3.18 It could also be argued that limitations in the provision of office stock in core locations can have wider benefits, helping to promote office-led regeneration schemes in lower value locations.

9.3.19 Overall, the interplay of market forces and the planning system since the downturn of the early-1990s has led to a more sensitive approach to property development and planning. In some locations the office stock has grown significantly to accommodate the expansion of key occupier sectors. In other locations offices have made way for diverse uses in new and refurbished buildings which have contributed to the revitalising of whole quarters. In a strategic sense change from offices to other uses appears not to have

inflicted serious damage on the office market and provided significantly wider benefits to London through diversity.

9.4 The options for mixed use policy

9.4.1 Strategic policies to support mixed-use development in different locations in London were included in the London Plan 2004, and refined in the consolidated version of the London Plan published in 2008. The wording in the 2008 London Plan is as follows.

> *Within the Central Activities Zone and the north of the Isle of Dogs Opportunity Area, wherever increases in office floorspace are proposed they should provide for a mix of uses including housing, unless such a mix would demonstrably conflict with other policies in this plan. In strategically specified locations identified in Para 3.148 beyond these areas, mixed use development and redevelopment should support consolidation and selective rejuvenation of office provision in line with Policy 3B.2 and broader objectives for suburban renewal.*

9.4.2 Para 3.148 identifies seven generic types of location beyond the CAZ where there is potential for consolidation of office development, including strategic office centres, mid-urban business parks, town centre office quarters, conventional business parks, science parks, linear office locations and local service centres. Policy 3B.2 includes provision, alongside increasing, renovating and renewing the existing office stock, for managing and consolidating the office stock outside the CAZ.

9.4.3 In practical terms, mixed use policy is mediated through local plan policies and associated development control decisions. At the broadest level there is a distinction to be drawn between locations in CAZ and the Isle of Dogs, where there is pressure to increase the office stock on individual sites, and locations beyond CAZ, where redevelopment schemes with significant increases in office stock are less common.

9.4.4 Within CAZ there have been two different approaches which have led to different outcomes in terms of office development. The so-called “50:50” mixed-use policy which is utilised by Westminster and Camden requires any increase in office floorspace to be matched by an equal increase in residential floorspace. In Westminster the threshold for increase is set at a very low 200 sq m – enough space to accommodate around a dozen office workers at an average density or provide for two two-bedroom flats.

9.4.5 The need for developers to take account of mixed use policy and to provide housing can require complex resolution. If an increase in office floorspace leads to an amount of residential development over either Westminster’s or Camden’s affordable housing thresholds, it will trigger the need for affordable as well as market housing. There is a sequential preference for housing, including affordable housing, to be provided on-site, then off-site, or through a commuted payment. For housing to be provided off-site or through a commuted payment must be justifiable in terms of the development – that on-

site housing is not either physically or economically viable. Quite often, especially in Westminster and also in Camden, off-site provision is provided through the change of use of office buildings in the vicinity, tending to neutralise the increase in the office stock.

9.4.6 If residential use is to be provided within the primary site, there are implications for the design and layout of the development in terms of separate access and servicing. There are also implications for the value of sites and their ability to be redeveloped in the future. Generally developers prefer to separate the housing use "horizontally" to occupy a discrete building or part of a site, simplifying servicing and access arrangements (as distinct from "vertical" separation where different floors within a single building are used for different purposes). This also enhances the values of the office and other commercial uses on the site which can be traded without the encumbrance of residential use.

9.4.7 On large-scale sites, the application of the 50:50 approach appears to work reasonably well. At the Central St Giles scheme (Camden), the development occupies an entire island site incorporating a major office building, retail and residential. The office building occupies the most efficient part of the site, the eastern three-quarters, while the residential occupies the western quarter of the site. This configuration enabled the primary developer of the site to pre-sell the market housing development to a specialist private housing developer and the affordable housing plot to a Registered Social Landlord.

9.4.8 Sites like this are relatively rare in the West End which is characterised by smaller plot sizes. Developers seeking to redevelop office buildings or to refurbish them incorporating additional floorspace may in some cases be deterred due to the requirements of the mixed use policy. Office development continues to occur in Westminster and Camden, but probably at a lower quantum than would be the case without mixed use policy.

9.4.9 The tariff approach which is being utilised in the City of London and in some of the surrounding boroughs is less a mixed-use policy and more a means of standardising planning gain packages. In the City of London, for example, the Planning Obligations SPG sets out the development thresholds where the SPG will apply as well as a standard "tariff" of £70 sq m of additional commercial development. The threshold is set for a minimum size of development of 10,000 sq m (gross) commercial and a minimum increase of 2,000 sq m (gross) commercial. The tariff is then intended to be utilised to provide benefits under the following average distribution: local community facilities and environment (50%); affordable housing (30%); transport (15%) and training and skills provision (5%).

9.4.10 Neighbouring boroughs such as Tower Hamlets have adopted a similar approach. In the planning permission for Canary Wharf's Riverside South, for example, an office development with a massive gain of 342,000 sq m (one of the largest office consents in London), there was a planning gain package of £11.8 million. None of it, however, related to the provision of housing.

9.4.11 This approach has enabled the development of major office buildings over significant areas of the eastern side of the CAZ and in the Isle of Dogs, without their viability being hampered by the provision of housing use. This appears to be in accordance with Policy 3B.3 which explicitly states that a mix of uses including housing will be required where development increases the office stock "*unless such a mix would demonstrably conflict with other policies in this plan*".

9.4.12 Looking beyond the CAZ, the implementation of mixed use policy in relation to office development occurs in a different range of circumstances. To some extent we can further distinguish Inner London from Outer London schemes.

9.4.13 As we saw earlier in Section 9.3, modest amounts of office development are occurring in mainly residential-led developments, peppered across Inner London. These typically arise from planning policies which have relaxed the protection of employment sites in the face of structural change to allow high density residential development. Very often local planning policy requires the inclusion of offices (and/or other commercial uses) within these developments – often on the ground floor of housing blocks or, less commonly, as separate stand-alone office buildings. Some are let on conventional leases, but in some parts of Inner London there is an active market from small firms for long-leaseholds and effective freeholds of such units.

9.4.14 In some locations, especially at times of economic downturn, there can be low demand for this type of office space. Vacant ground floor units can detract from the overall appearance of developments and attract vandalism. In other instances, these lower cost workspaces can foster start-up businesses and expanding occupiers. Occupancy levels would give an indication of the success of the office elements of these mixed-use schemes.

9.4.15 In Outer London, as indicated in Chapters 7.0 and 8.0, there are some locations where office development is viable resulting in developments which expand or enhance the local office stock. There are many Outer London locations, however, where structural changes in demand for office space suggest that future development could involve a net loss of offices. Such losses could, in some markets, be mitigated through the inclusion of an office component within a mixed use development that provides wider benefits in terms of regeneration.

9.4.16 This issue was considered by the OLC in its Interim Conclusions report.[82] Among its interim recommendations for offices were the following.

- Give appropriate recognition to strategic economic needs when considering local and environmental concerns.
- Allow some development where greater economic potential exists.
- Focus on competitive locations for future growth.

[82] Outer London Commission (2009) *The Mayor's Outer London Commission: Interim Conclusions* GLA, London

- Stronger reflection of potential for use of “swaps” in competitive locations.

9.4.17 Although the concept of “Super Hubs” was rejected, there is no doubt that, in terms of future development, some Outer London locations will perform better than others – in terms of the office market and in the broader sense. The concept of land-use swaps could be useful in this regard. Essentially, the idea of swaps would be to transfer the potential office content in locations where office development is less viable and pool this potential floorspace in locations where office market performance indicators (such as rent levels and recent rates of development) suggest that offices are more viable.

9.4.18 This fits in with the concept of “constellations” where weak office centres could transfer capacity to stronger centres. In the process, there is the potential to increase the viability of non-office development such as residential, leisure and retail in the centres and locations where offices are less likely to be viable.

9.4.19 Focussing office development in better office locations in Outer London might seem to hark back to a zoning based approach. In practical terms, office development within stronger centres is still likely to involve a mix of uses, to some extent within individual developments, and also across the wider area.

9.4.20 To summarise, national and regional strategic policies to promote mixed-use development, incorporating offices, are being interpreted and implemented in different ways across London. This involves the interplay of strategic policy, local versions of mixed use policy and the ability of developers to work within the confines of policy in terms of viability. In other words, policy is being applied, but not consistently.

9.4.21 In eastern CAZ and the Isle of Dogs, the provision of major office buildings without “a mix of uses including housing” can be justified in terms of not compromising London’s role as a world financial and business services centre. Even if office developments are going ahead without a mix of uses, however, these areas have become more mixed in any case though the change of use of many office sites and buildings in core City and fringe City locations to housing, hotels and retail.

9.4.22 In western CAZ, local mixed use development policies have an impact on the economics of development, in some cases rendering new and refurbishment/extension schemes for offices unviable – especially where there is an insistence on on-site housing provision. The result for some office buildings: “do little” (refurbishment within the existing confines of the building) or “do nothing” (re-let). “Do a lot” in some cases could mean losing the offices altogether in a change of use development. There are implications for both the quantity of office stock and maintaining a level of quality suitable for changing business requirements.

9.4.23 In Inner London, mixed use development, the former quantum of industrial floorspace is being reproduced in new schemes as economical office space, suitable to be located underneath or alongside housing. This is creating low-grade commercial offices thinly spread across Inner London, providing local opportunities for business and employment in some cases. Some schemes can be a long way from local public transport and support services, raising issues, for example, of car-borne commuting and staff safety. Another side-effect can be vacant ground floor commercial units amidst residential blocks.

9.4.24 Whatever the localised short-comings of mixed-use policy as applied to individual sites, when combined with a more enlightened approach to the change of use of office buildings and land, the overall effect has been a more flexible planning regime. As a regime that is more attuned and responsive to the property market, it has allowed a greater diversity of development, including housing, offices, retail, leisure and other uses in a variety of locations. In contrast, a more strictly zoned "predict and provide" approach had in the past ossified parts of London by pre-judging the outcome of development, through development plans that took so long to prepare their evidence base was dated even before they were adopted.

9.5 Climate change considerations

9.5.1 The need to adapt to and mitigate the effects of climate change in the London office markets was addressed in some detail in LOPR 07, Chapter 6.0. Since then, it has remained high on the economic social and political agendas and is an important Mayoral concern. In this section of LOPR 09, we highlight some of the changes and additions to the body of advice, regulation and legislation that have emerged since the publication of LOPR 07 and suggest areas where climate change considerations are likely to influence the design and value of commercial property.

9.5.2 It is generally accepted that the UK climate will continue to become warmer and wetter in future years and, as a consequence, will be more prone to flooding, drought and overheating. The latest UK Climate Projections 2009 (UKCP09) suggest that London could,

- by the 2020s, see an increase in summer mean temperature of 1.5 degrees Celsius, a decrease in mean summer rainfall of 6% and an increase in mean winter rainfall of 6%, all from a 1961-1990 baseline;
- by the 2050s, see an increase in mean summer temperature of 2.7 degrees, an increase in mean winter rainfall of 15% and a decrease in mean summer rainfall of 18%; and
- by the 2080s, see an increase in mean summer temperature of 3.9 degrees, an increase of 20% in mean winter rainfall and a decrease in mean summer rainfall of 22%.

Central Government initiatives and legislation

9.5.3 The importance attached to tackling the causes and consequences of climate change by the government is illustrated by the creation of the Department for Energy and Climate Change (DECC), in October 2008. It was formed to

bring together energy policy – previously with BIS (Business Innovation and Skills) and mitigation policy – previously with DEFRA (Environment Food and Rural Affairs). One of its key aims is to bring about international agreement on climate change in Copenhagen in December 2009. Two key pieces of legislation have been enacted during its tenure: the Energy Act 2008 and the Climate Change Act 2008.

9.5.4 In addition, codes for the sustainable building or sustainable refurbishment of commercial buildings are currently being produced by government. The EU Energy Performance and Buildings Directive, which introduced Energy Performance Certificates (EPCs), is thought to have been a success and is now under review to consider, amongst other things, whether to reduce the size threshold for buildings that need to display certificates.

9.5.5 The Buildings Energy Efficiency Programme (BEEP), for public buildings and the Better Buildings Partnership (BBP) for commercial buildings are currently working to encourage energy efficiency measures into commercial and public buildings across London.

9.5.6 As part of the Climate Change Act 2008 the government has established a target to reduce the UK's greenhouse gas emissions by 80% by 2050. The government has proposed carbon budgets as a means to work towards this UK target and expects all regional and local authorities to put policies in place to deliver the budgets on the trajectory towards 2050.

9.5.7 Under the EU Climate and Energy package, which was formally agreed in April 2009, the government has a target to derive 15% of all UK energy requirements from renewable sources by 2020. The government's vision as to how this target will be met over the next decade is set out in the Renewable Energy Strategy launched in July 2009. Currently around 1.5% of the UK's energy is from renewable sources, so a 10 fold increase is an ambitious target in the timescale.

9.5.8 The Greater London Authority Act 2007 imposed a statutory duty on the Mayor and all London Assemblies to report on climate change.

The London Response

9.5.9 In fact, the Mayor had chosen to publish an Energy Strategy in 2004, long before the 2007 GLA Act. Under the Act, the Mayor also has a duty to contribute towards the mitigation of, and adaptation to, climate change in the UK. This means in effect that the adaptation and mitigation issues will be mainstream components of all plans and strategies in future. The Mayor has already produced a draft strategy for Climate Change Adaptation and a draft strategy for Climate Change Mitigation and Energy will be published in Autumn 2009.

9.5.10 The revised London Plan, scheduled to go out to consultation in October 2009, addresses climate change considerations primarily through policies on: new building design and construction and moves towards more sustainable

energy sources but, as the Plan states: "*the biggest challenge for London is to improve the contribution of the existing building stock (80 per cent of which will be still standing in 2050) to mitigating and adapting to climate change*".

9.5.11 In April 2009 a meeting of the London Climate Change Partnership considered the climate change considerations that bear on commercial property and the proceedings of that meeting have been considered in this section of LOPR 09.

9.5.12 To reiterate, climate change considerations fall under two broad headings – Mitigation and Adaptation. Mitigation covers measures designed to address the *causes* of climate change and adaptation covers measures to adapt to the *effects* of climate change. Thus mitigation policies include controls on emissions, while adaptation policies devise ways to manage the risks of flooding, overheating and drought through, for instance, building design.

Mitigation

9.5.13 The Mayor seeks to achieve an overall reduction in London's carbon dioxide emissions of 60% (below 1990 levels) by 2025. According to the Plan, it is recognised that the most substantial savings will be made from initiatives to decarbonise London's energy supply and to reduce emissions from the existing building stock. In addition, however, the Mayor does expect all new development to fully contribute towards the reduction of carbon dioxide emissions.

9.5.14 **New Buildings** In line with central government's commitment to carbon neutrality in all new commercial buildings by 2019, it is written into the London Plan that, as a minimum, all major development proposals should meet the following targets for carbon dioxide emissions reduction in buildings. These targets are expressed as minimum improvements over the Target Emission Rate (TER) outlined in the national Building Regulations leading to zero carbon non-domestic buildings from 2019.

Non-domestic buildings	
Year	**Improvement on 2006 Building Regulations***
2010 - 2013	44%
2013 - 2016	55%
2016 - 2019	As per building regulations requirements

9.5.15 In addition, all major development proposals should include a detailed energy assessment to demonstrate how the minimum targets for carbon dioxide emissions reduction are to be met. Boroughs are also encouraged to require energy assessments for other development proposals where appropriate.

9.5.16 The Plan also acknowledges that some developments, including offices, generate significant emissions from electrical equipment and portable

appliances and the assessment will include advice on managing such sources. Energy assessments should also include a design Energy Performance Certificate (EPC) for the development.

9.5.17 Where it is demonstrated that the specific targets for carbon dioxide emissions reduction cannot be fully achieved onsite the shortfall may be provided offsite.

9.5.18 **Sustainable Energy Sources** The Plan seeks to reduce the emissions of carbon dioxide by supporting the development of sustainable energy infrastructure that will produce energy more efficiently and exploit the opportunities to utilise energy from waste. This includes the use of decentralised energy systems, low carbon and renewable energy sources where possible.

9.5.19 The Mayor expects 25% of the heat and power used in London to be generated through the use of localised decentralised energy systems by 2025. The scale of opportunity can vary from CHP systems on specific development sites, to town centre wide district energy projects such as Elephant and Castle and the Olympic Park/Village schemes, to connecting into large-scale infrastructure such as the LDA-led London Thames Gateway Heat Network.

Adaptation

9.5.20 The Plan states that all development should make the fullest contribution to London's adaptation to climate change and should be designed for the warmer, wetter winters and hotter, drier summers that the city will experience in the future, and to withstand possible natural hazards (such as heat waves, floods and droughts) that may occur.

9.5.21 In accordance with sustainable design and construction principles, development proposals should maximise opportunities to orientate buildings and streets to minimise summer and maximise winter solar gain; use trees and other shading; increase green areas in the envelope of a building, including its roof and environs; maximise natural ventilation; expand green networks across London and wherever possible incorporate a range of public and/or private outdoor green spaces.

What does it mean for the London office market?

9.5.22 Climate change considerations have also moved up the property market agenda. There are issues of compliance with legislation and planning policy and, increasingly, a recognition that the failure to respond to climate change could have a detrimental effect on the desirability of a building to an occupier and ultimately on its rental and investment value. Building owners also have their own CSR priorities to meet.

9.5.23 The London Climate Change Partnership has outlined the potential cost, value and legal implications of not adapting to climate change, for London's

commercial building stock. Its key messages to London's commercial property sector are as follows.

- London will experience hotter drier summers, and warmer wetter winters – with increased risk of extreme events such as surface water flooding from intense rainfall, and summer heat waves.
- Climate change adaptation should be a fundamental part of the design and refurbishment of buildings and in business continuity planning.
- "Adaptive capacity" should be incorporated into building systems, facades and services, so that they have the ability to cope with the effects of projected changes in weather and climate.
- Mixed mode ventilation enables low energy, low carbon, natural ventilation whenever possible, with the ability to switch to mechanical cooling when external temperatures are too high.
- Low cost quick wins should be considered, such as green roofs and louvres for existing buildings in the short-term. Also, more strategic interventions such as changes to mixed mode ventilation and cooling systems and well insulated facades if major refurbishment or a move to new premises is planned.
- Address adaptation and mitigation in parallel: improvements made in water and energy efficiency will have a direct financial benefit to the business through reductions in both water and energy bills, plus the ability to report the associated carbon emission reduction.
- Include adaptation in finance decision-making - there is a growing responsibility to ensure that reasonable and appropriate account is taken of climate risks, when a property is offered as security for a loan In ascribing market value, valuers are required to reflect on such risks and, either make a quantitative adjustment (if that is accepted market practice) or provide some form of qualitative comment.
- Consider adaptation in market value assessment - practices must evolve to take account of risks (climate-based or otherwise) that are conveyed and expressed qualitatively, alongside the purely financial measures.
- Incorporate adaptation in post insurance rebuild. For example, following an insurance claim, properties and assessors should seek opportunities to rebuild with climate change adaptation in mind (ie. increased flood resilience). A more significant opportunity for adaptation arises after a major event such as a windstorm or flood.
- Adaptation has increasing relevance in commercial property law. Legal duties already imposed on local government and voluntary organisations in relation to climate change, are likely to be "pushed down". Companies are likely to become progressively more concerned with occupying well adapted buildings.
- Embed adaptation in property sector contracts - as the negative consequences of climate change become more apparent, we are likely to see increasing focus in contracts on the need for adaptation in the design, building and occupation of buildings.

9.5.24 The Association of British Insurance (ABI) has made a Statement of Principle that says they will no longer guarantee to insure properties against flood risk. Under the current agreement, the ABI guarantees to offer insurance to any building that has a flood risk of less than 1 in 75 years (according to the EA), but that guarantee will no longer be in place after 2010/11.

9.5.25 In March 2009, Ernst & Young reported on research undertaken for the LDA in a publication entitled *Prospectus for London, the Low Carbon Capital.* In it they examine how well London is placed to capture investment in low carbon projects and to become a 'low carbon capital'. The report concludes that London has the potential to become a leading centre of expertise in low carbon economy.

9.5.26 There is a review of Transport Strategy currently in production and the Mayor's Draft Transport Strategy was published for consultation on 12th October 2009.

Conclusion

9.5.27 The message from this array of initiatives, legislation and policy is that climate change is being taken very seriously and is likely to become an accepted component of decision-making for occupiers and owners. Over time it is likely to have a quantifiable impact on rent and capital values, although the mechanisms are not yet in place for this to be standardised in the investment valuation process.

Appendices

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Appendix A1.1 Office lettings and sales, over 5,000 s m, Central London, 2008

Occupier	Sector	Sq m	Address	Post code	Type	Pre-let Yes/No	Country of origin
JP Morgan	Investment Banking	176,500	Riverside South, Canary Wharf	E14	New	Yes	USA
Moody's Investor Services Ltd	Financial Services	15,300	One Canada Square	E14	Secondhand Grade A	No	UK
Marks & Spencer	Retail	14,800	Carmine Building, Merchant Square, Harbet Road	W2	New	Yes	UK
Cancer Research UK	Charity	11,900	The Angel Building, 403 St John Street	EC1	New/Refurb.	Yes	UK
Standard Bank London Ltd	Investment Banking	11,100	20 Gresham Street	EC2	New	No	RSA
Crossrail Ltd	Transport	10,800	25 Canada Square	E14	Secondhand Grade A	No	UK
Addleshaw Goddard	Law	10,500	Milton Gate, Chiswell Street	EC1	Refurb.	No	UK
KPMG LLP	Accountancy	8,700	10 Upper Bank Street	E14	Secondhand Grade A	No	Swiss
Vodafone Ltd	Telecomms	8,500	1 Kingdom Street	W2	New	No	UK
Lockton International Ltd	Insurance Broker	7,850	St Botolph's House, 138-139 Houndsditch	EC3	New	Yes	USA
Halcrow Group Ltd	Engineering	7,800	EMI House, 43 Brook Green	W6	Secondhand Grade A	No	UK
Moore Stephens & Co	Accountancy	7,400	150 Aldersgate Street	EC1	Secondhand Grade A	No	UK
DTZ	Property consultant	7,100	125 Old Broad Street	EC2	New	No	UK
Holman Fenwick & Willan	Law	6,100	Friary Court, 61-65 Crutched Friars	EC3	Secondhand Grade A	No	UK
Institute of Ismaili Studies	Education	5,800	210 Euston Road	NW1	Refurb.	No	N/K
Mitsui Sumitomo Insurance	Insurance Broker	5,200	The Willis Building, 51 Lime Street	EC3	New	No	Japan
Royal Bank of Scotland	Clearing Bank	5,100	Cutler's Exchange, 123 Houndsditch	EC3	Secondhand Grade A	No	UK

Source: EGi London Office Database

Appendix A1.2 Take-up by location and quality, in 2008 and change on 2007 (sq m)

Post code / sub-market	New & refurbished	Good second-hand	Poor second-hand	Total	Change on 07 take-up (%)
EC1	26,840	14,417	60,099	101,356	+33%
EC2	52,544	31,324	27,949	111,817	-41%
EC3	33,935	49,633	8,064	91,632	+1%
EC4	12,074	18,657	13,591	44,322	-67%
City	**125,393**	**114,031**	**109,703**	**349,127**	-29%
Change 07-08	-39%	-37%	+3%	-29%	
E14/Docklands	**200,708**	**66,813**	**2,720**	**270,241**	+180%
Change 07-08	+234%	+122%	-58%	+180%	
E1	7,265	8,400	12,829	28,494	-41%
SE1	12,849	7,072	29,265	49,186	-73%
South & East Fringe	**20,114**	**15,472**	**42,094**	**77,680**	-66%
Change 07-08	-85%	-61%	-24%	-66%	
WC1	7,042	12,116	11,787	30,945	-34%
WC2	15,144	8,038	13,448	36,630	-40%
Midtown	**22,186**	**20,154**	**25,235**	**67,575**	-37%
Change 07-08	-31%	-57%	-15%	-37%	
W1	45,786	30,643	45,355	121,784	-50%
SW1	10,310	21,381	22,252	53,943	-53%
West End	**56,096**	**52,024**	**67,607**	**175,727**	**-51%**
Change 07-08	-59%	-48%	-43%	-51%	
NW1	7,387	6,088	8,148	21,623	-21%
SW3	432	0	2,325	2,757	-73%
SW7	376	0	4,418	4,794	+119%
W2	35,830	771	6,752	43,353	+133%
North & West Fringe	**44,025**	**6,859**	**21,643**	**72,527**	**+24%**
Change 07-08	+232%	-64%	-17%	+24%	
Central London	**468,522**	**275,353**	**269,002**	**1,012,877**	**-24%**
Change 07-08	-20%	-34%	-21%	-24%	

Source: DTZ Research

Appendix A1.3 Availability by location and quality, end-2008 and change on 2007 (sq m)

Post code / sub-market	New & refurbished	Good second-hand	Poor second-hand	Total	Change 07-08	Availability Rate (%)
EC1	71,439	28,992	40,783	141,214	+78%	10.1
EC2	222,038	113,721	32,471	368,230	+117%	14.4
EC3	53,623	98,725	13,685	166,033	+44%	7.8
EC4	56,790	57,683	21,201	135,674	+36%	8.1
City	**403,890**	**299,121**	**108,140**	**811,151**	**+75%**	**10.5**
Change 07-08	+214%	+39%	-10%	+75%		
E14/Docklands	**15,551**	**48,632**	**11,432**	**75,615**	**-13%**	**8.4**
Change 07-08	-9%	-17%	+1%	-13%		
E1	48,687	15,487	55,945	120,119	+42%	19.2
SE1	19,588	10,054	27,727	57,369	-30%	3.1
South & East Fringe	**68,275**	**25,541**	**83,672**	**177,488**	**+7%**	**7.2**
Change 07-08	+183%	-39%	-17%	+7%		
WC1	7,683	26,907	26,295	60,885	+65%	6.8
WC2	11,445	26,219	12,301	49,965	+18%	3.4
Midtown	**19,128**	**53,126**	**38,596**	**110,850**	**+40%**	**4.7**
Change 07-08	-9%	+123%	+12%	+40%		
W1	71,729	78,014	77,870	227,613	+32%	7.7
SW1	25,222	30,804	72,928	128,954	+24%	5.5
West End	**96,951**	**108,818**	**150,798**	**356,567**	**+29%**	**6.6**
Change 07-08	+188%	-1%	+13%	+29%		
NW1	2,736	6,506	16,943	26,185	-41%	5.3
SW3	98	464	3,883	4,445	-20%	3.5
SW7	356	194	3,116	3,666	-1%	1.7
W2	2,545	2,373	2,047	6,965	-38%	2.3
North & West Fringe	**5,735**	**9,537**	**25,989**	**41,261**	**-36%**	**4.8**
Change 07-08	-42%	-49%	-28%	-36%		
Central London	**609,530**	**544,775**	**418,627**	**1,572,932**	**+38%**	**7.6**
Change 07-08	+160%	+17%	-4%	+38%		

Source: DTZ Research

Appendix A1.4 Office development starts, >500 sq m NIA, Central London, 2008

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
Camden – 21,475 sq m							
New Brook Buildings, 14-20 Great Queen Street	WC2	CAZ	9,125	0	Refurb & Extension	Yes (877 A4 pub/bar)	Refurbishment and extension of 1960s offices between Covent Garden and Holborn, 4,518 sq m let to Fladgate Fielder during construction 07/08
Arup Phase 2&3, 2-8 Fitzroy Street	W1	CAZ	7,897	7,897	New	No	3rd phase of new development pre-let to Arup
The Henson Building, 30 Oval Road	NW1	Inner London	2,005	0	New behind façade	Yes (52 private resi, 24 social resi)	Mixed-use development of 76 flats and offices
Bloomsbury House, 74-77 Great Russell Street	WC1	CAZ	1,314	0	Refurb & Extension	No	Refurbishment and extension of period building, let to publisher Faber 11/08 during construction at £40psf
Stables Market, Chalk Farm Road	NW1	Inner London	1,134	0	New	Yes (789 B1c, 4,370gsm A1, 495 gsm A3, 1,508 gsm storage, 1,842 D1)	Genuine mixed-use redevelopment of part of Camden market. Retail (A1/A3) led, the scheme also includes offices, light industrial/workshop, storage/distribution, an exhibition hall, crèche.
City –131,533 sq m							
Heron Tower, 106-126 Bishopsgate	EC2	CAZ	40,874	0	New	Yes (2,010 gsm A1)	Major new 46 storey office tower granted on Appeal in 2002, due for completion 2011
Riverbank House, 2 Swan Lane	EC4	CAZ	37,748	37,748	New	No	Major new office building on site of Ebbgate House fronting the Thames. Pre-let to Man Group at £45 psf October 2006, sub-letting 100,000 sq ft
Bank Buildings, 1 Lothbury	EC2	CAZ	10,735	0	Refurb & Extension	No	Refurbishment and extension of former Bank of England offices
Princes House, 93-95 Gresham Street	EC2	CAZ	8,633	0	New behind façade	Yes (819 A use)	New offices behind retained façade to be known as 95 Gresham Street
Langbourne House, 10 Fenchurch Street	EC3	CAZ	6,513	0	Refurb & Extension	Yes (720 A1)	Former DkW offices vacated for 30 Gresham Street
60 New Broad Street	EC2	CAZ	5,300	0	Refurb	No	Internal refurbishment of offices

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
10 St Bride Street	EC4	CAZ	4,603	0	New behind façade	Yes (465 gsm A1)	New office building at the apex of Farringdon Street and St Bride Street
10 Lime Street	EC3	CAZ	3,995	0	New	Yes (1,154 A use)	New office building with two retail units, 21,000 sq ft let to SCOR June 2009
155 Fenchurch Street	EC3	CAZ	3,257	0	Refurb	Yes (619 A1)	Refurbishment of former Munich Re offices
50 St Mary Axe	EC3	CAZ	3,018	0	New	No	Brand new office building replacing office building half the size formerly occupied by Nat Bank of Greece
48-49 Chancery Lane	WC2	CAZ	2,488	0	Refurb	Yes (480gsm A3)	Refurbishment of modest office building on the east side of Chancery Lane, letting floor-by-floor £51 psf late 2008, £47.50 psf 03/09
2 Copthall Avenue	EC2	CAZ	2,336	0	Refurb & Extension	Yes (410 gsm A1/3)	Refurbishment and extension to office building formerly linked to Angel Court tower
11 Ironmonger Lane	EC2	CAZ	2,033	0	Refurb & Extension	No	Refurbishment and extension of small office building very close to Bank
Hackney – 14,835 sq m							
Eagle House, 159-189 City Road	EC1	CAZ	2,789	0	New	Yes (206 private resi, 70 social resi, 1,271 A1, 1,108 D2, 447 A3)	Major new residential-led development on the north side of City Road, but where construction has ***stopped*** in 2009
4-6 Sheep Lane	E8	Inner London	1,880	0	New	Yes (29 private resi, 16 social resi)	Mixed-use development with offices on basement and ground and 45 flats on upper floors
Oak Wharf, Timberwharf Road	N16	Inner London	1,576	0	New	Yes (27 private resi, 48 social resi, 2,338 gsm school)	New mixed-use development incorporating residential space and secondary school. Some or all of the workspace conditioned to be affordable
85 Great Eastern Street	EC2	CAZ	1,449	0	Refurb & Extension	No	Refurbished warehouse building on the northern City Fringe, marketing targeted at designer-type occupiers
100 East Road	N1	Inner London	1,404	0	New	Yes (165 student rooms)	Self-contained offices in Bevenden Street as part of this brand new student housing development

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
Cosmopolitan, 2-16 Phipp Street	EC2	CAZ	1,391	0	New	Yes (12 private resi)	Mixed-use development on site vacant since 1973 with offices on basement and ground and 12 flats above
Kinetica, 15 Ramsgate Street	E8	Inner London	893	0	New	Yes (43 private resi, 23 social resi, 893 D1)	Residential-led new development with minor office component
341-345 Old Street	EC1	CAZ	801	0	Refurb	Yes (4 private resi, 156 gsm A1)	Mixed-use refurbishment of warehouse style building on north side of Old Street west of the railway bridge
Paradise Park, 142 Lea Bridge Road	E5	Inner London	754	0	New	Yes (77 private resi, 55 social resi)	Residential-led new development with minor office component
Indigo, 11-23 Downham Road	N1	Inner London	680	0	New	Yes (24 private resi, 26 social resi, 320 gsm A use)	Residential-led development with offices and retail
110-112 Curtain Road	EC2	CAZ	660	0	Refurb	Yes (9 private resi)	Residential-led refurbishment with offices on 1st and 9 residential units above
Shaibern House, 28 Scrutton Street	EC2	CAZ	558	0	New	Yes (8 private resi)	New mixed-use building with offices on ground and 1st and 8 residential units on 2nd-4th
Hammersmith & Fulham – 0 sq m							
Islington – 36,686 sq m							
Angel Building, 411 St John Street	EC1	CAZ	22,972	12,960	Refurb & Extension	Yes (1,250 A uses)	Major office reconstruction and extension of former BT offices on SW corner at Angel. Half pre-let to Cancer Research UK
33-39 Bowling Green Lane	EC1	CAZ	4,294	0	Refurb & Extension	No	Refurbishment of former Emap offices
37-42 Compton Street	EC1	CAZ	2,590	0	Refurb & Extension	No	Modest refurbishment of industrial building in Clerkenwell
151 Rosebery Avenue	EC1	CAZ	2,323	0	Refurb & Extension	No	Refurbishment and extension of 1980s office building, let during construction to Momentum Activating Demand
Pullman House, 91 Goswell Road	EC1	CAZ	1,283	0	Refurb	Yes (361 A1)	Refurbishment of small office building for office and showroom use

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
67-69 Turnmill Street	EC1	CAZ	1,144	0	New	Yes (13 private resi)	New mixed-use development with offices fronting Turnmill Street and resi units in separate building to rear
76-78 Clerkenwell Road	EC1	CAZ	1,132	0	Refurb	No	Refurbishment of Clerkenwell office building, let in July 2008 to Alexander McQueen
8-10 Bowling Green Lane	EC1	CAZ	948	0	New	Yes (13 private resi)	New mixed-use building with offices on ground and basement and 13 flats above. Offices let to Double Take during construction 11/08
Kensington & Chelsea – 3,159 sq m							
Basil Street Hotel, Basil Street	SW3	CAZ	3,159	3,159	Refurb & Extension	Yes (295 gsm retail)	Former hotel developed as offices and retail after pre-let to MWB in June 2007
Lambeth – 9,818 sq m							
The Quadrant, 15 Stockwell Green	SW9	Inner London	6,124	0	New	Yes (105 private resi, 185 social resi, 430 gsm A1, 660 gsm A3,	Major residential-led development, but with significant B1 component
British Gas site, 141-157 Acre Lane	SW2	Inner London	1,632	0	Refurb	Yes (6470 gsm B8)	Former BG offices, converted to self-storage facility, but with 25% office space
Park Place, 164 Clapham Park Road	SW4	Inner London	780	0	Refurb & Extension	Yes (9 private resi)	Office to residential conversion with offices retained on ground, mezzanine and 1st
17-19 Stockwell Road	SW9	Inner London	722	0	New	Yes (6 resi, 104 gsm A1)	Mixed-use scheme with offices and resi, where larger residential only scheme history of refusals
Former South Bank University, 202 Wandsworth Road	SW8	Inner London	560	0	Refurb & Extension	Yes (173 private resi, 57 social resi, 2,048 A uses)	Major residential-led refurbishment and extension to former built environment faculty of South Bank Uni. Includes modest B1 element
Southwark – 8,929 sq m							
46-58 Bermondsey Street	SE1	Inner London	3,600	0	New & Refurb	No	Mixed new and refurbished scheme creating new courtyard office development. Asking £32.50 psf mid-2009

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
The Terrace, 155-173 Tooley Street	SE1	CAZ	1,443	0	Refurb & Extension	No	Proposed small-scale refurbishment within More London scheme. Let to Red Bull June 2009
Railway arches, 5-6 Burrell Street	SE1	CAZ	996	0	Refurb	No	Conversion of two railway arches to offices
Printworks, Amelia Street	SE1	Inner London	921	0	New	Yes (88 private resi, 76 social resi)	Residential-led London-wide initiative development by English Partnerships
284-302 Waterloo Road	SE1	CAZ	780	0	New	Yes (39 private resi, 21 social resi)	New residential-led development at the southern end of Waterloo Road with ground floor office space
84-88 Great Suffolk Street	SE1	CAZ	632	0	New & Refurb	No	Another example of Network Rail creating office space under the arches
44-46 Borough Road	SE1	CAZ	557	0	New	Yes (24 private resi, 16 social resi)	New residential-led development with ground floor commercial, which has option of A uses also
Tower Hamlets – 11,361 sq m							
112-120 Whitechapel High Street	E1	CAZ	6,744	0	New	Yes (142 private resi, 75 social resi, 2,122 A1)	New mixed-use development with substantial office and retail component, but main element 217 apartments. Construction ***stopped*** (frame at 11 storeys) 11/08 after failure of Landisbanki fund
Nido Spitalfields (ex Rodwell House), 100 Middlesex Street	E1	CAZ	4,617	0	New	Yes (1,204 student rooms, 2,266 A1, 180 D2)	This is a major mixed-use redevelopment on site of 1960s Rodwell House with 33 storey student block and a self-contained 5 storey office block in front. Application to use for B1 or D1 May 2009
Wandsworth – 0 sq m							
Westminster – 126,783 sq m							
Carmine Building, Merchant Square, North Wharf Road	W2	CAZ	24,356	14,808	New	No	Self-contained major new office building in the six-building Merchant Square development north of Paddington Basin. 14,808 G-7th pre-let to M&S whose HQ is next door
2 Kingdom Street, Paddington Central	W2	CAZ	23,033	0	New	No	New office building in the 2nd phase of Paddington Central, in the middle of the site backing onto Westway motorway. Astra Zeneca rumours 07/09

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
157-197 Buckingham Palace Road	SW1	CAZ	14,922	14,922	Refurb	No	Refurbishment by the National Audit Office of its offices alongside Victoria Station. NAO thought to be re-occupying
The Quadrant, 74-90 Regent Street	W1	CAZ	12,484	0	New behind façade	Yes (5,238 gsm A1)	Part of major phased renewal of Regent Street as it curves into Piccadilly Circus.
1 Kingsway	WC2	CAZ	12,431	0	New behind façade	Yes (7 private resi, 264 gsm A1, 1,149 gsm A3)	Major new office development behind retained façade, with residential on 9th and 10th. Completion not until 2011
101 New Cavendish Street	W1	CAZ	8,370	0	Refurb & Extension	Yes (1,205 A1, 9 private resi)	Refurbishment and extension of former Collingwood House
St Martin's Courtyard, Long Acre	WC2	CAZ	6,354	0	New & Refurb	Yes (6,038 nsm A1, 2,694 nsm A3, 37 private resi)	Major new and refurbished development to renew western Mercers' site on north side of Long Acre. Includes 4 office buildings, but raison d'être shopping and dining
Charlotte Building, 16-19 Gresse Street	W1	CAZ	4,391	0	New	Yes (11 private resi)	New office building to replace BDP's former offices with separate residential to be provided in refurbished 7-8 Rathbone Place
44-48 Dover Street	W1	CAZ	3,281	0	New	Yes (2 private resi)	New office building with 2 residential units on 6th and thought to be some off-site residential too
1-11 Hay Hill	W1	CAZ	2,833	0	New behind façade	Yes (818 gsm A1, 1 private resi)	New behind façade office development with retail and minor residential component
Marshall Street Leisure Centre site, Marshall Street	W1	CAZ	2,805	0	New	Yes (37 private resi, 15 social resi)	New development in the heart of Soho including renewal of marvellous 1930s swimming pool
Swan House, 17-19 Stratford Place	W1	CAZ	2,570	0	Refurb & Extension	No	Refurbishment and additional floor of offices. 7th floor let to Pacific Basin Shipping at £78 psf 11/08.
66 Porchester Road	W2	CAZ	2,439	2,439	Refurb	No	Former rail building which was used for storing records, pre-let to Hamiltons Architects in 2007 and refurbished in 2008
53-55 New Bond Street	W1	CAZ	1,959	0	New behind façade	Yes (retail)	New development behind retained façade

Address	Post code	Location type	Sq m	Pre-let (sq m)	Type	Mixed use?	Comment
3-4 Bentinck Street	W1	CAZ	1,199	0	New	No	New office building to replace existing office and residential. Was a land use swap with resi being provided on another site
25 Queen Anne Street	W1	CAZ	1,188	0	Refurb	No	Refurbishment of period office building which also had consent for new behind façade development. Let to Ki Health £59 psf March 2009
43-45 Queen Anne Street	W1	CAZ	1,100	0	Refurb	Yes (resi)	Refurbishment of period office building and includes some residential in the mansard
3-7 Portman Mews South	W1	CAZ	1,068	0	New	Yes (122gsm D1 medical, 461 gsm A3	New office development with retail and restaurant space on ground and basement

Source: EGi London Office Database, London Residential Research, CCR

Appendix A1.5 Office permissions, >5,000 sq m NIA, Central London, end-2008

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
King's Cross Central – King's Cross Railway Lands, York Way, NW1 1UR	NW1	30-May-04	09-Mar-06	Camden	New Build	0	364,408
Regent's Place - (North East Quadrant), Hampstead Road, Drummond Street, NW1 3BG	NW1	25-Jun-07	24-Apr-08	Camden	New Build	7,148 (Demo 2009)	37,734
Canal Reach, 3-6a St Pancras Way, NW1 0PB	NW1	17-Jul-03	05-Mar-04	Camden	New Build	22,116	24,618
Africa House, 64-78 Kingsway, WC2B 6BD	WC2	10-Aug-07	08-Nov-07	Camden	Refurbishment	12,013	13,644
Chichester House, 278-282 High Holborn, WC1V 7ER	WC1	07-Aug-07	29-Nov-07	Camden	New Build	6,340 (Demo 2008)	9,297
Elizabeth Garrett Andersen Hospital, 144 Euston Road, NW1 2AP	NW1	14-Sep-07	28-Feb-08	Camden	New Build	0	8,418
The Pinnacle, 24 Bishopsgate, EC2N 4BQ	EC2	13-Dec-06	15-May-07	City of London	New Build	28,923 (Demo 2008-09)	116,810
Trinity 1, 2, 3, (Latham House), 15-16 Minories, 62, 73-78 Aldgate High Street, EC3N 1AN	EC3	06-Jan-07	11-Dec-07	City of London	New Build	21,924	91,082
Bucklersbury House, Walbrook Square, Bucklersbury, EC4N 8EL	EC4	16-May-06	17-Jul-07	City of London	New Build	27,871	81,741

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
100 Bishopsgate, EC2N 4DQ	EC2	07-Sep-06	23-Apr-07	City of London	New Build	7,399	75,715
Leadenhall Building, 122 Leadenhall Street, EC3V 4SL	EC3	11-Feb-04	26-Oct-04	City of London	New Build	16,965 (Demo 2008)	54,614
Fleet Building, 70 Farringdon Street, EC4A 4AP	EC4	06-Apr-04	20-Jul-04	City of London	New Build	33,166	45,333
21 Moorfields, EC2Y 9DP	EC2	06-Jun-03	05-Oct-04	City of London	New Build	12,356	44,395
S G House, 41 Tower Hill, EC3N 4DU	EC3	29-Sep-00	03-Sep-01	City of London	New Build	17,661	42,889
International House, 26-28 Creechurch Lane, EC3A 5EH	EC3	10-Oct-03	26-Jul-05	City of London	New Build	14,556	37,765
Land bounded by 120 Fenchurch Street, Fen Court and Fen Ave. EC3M 5BA	EC3	14-Feb-08	16-Sep-08	City of London	New Build	15,876	36,336
78 Cannon Street, EC4N 6HH	EC4	19-Jul-04	18-Jan-05	City of London	New Build	19,956	35,872
30 Old Bailey, EC4M 7HS	EC4	10-Apr-07	22-Apr-08	City of London	New Build	26,437	35,520
Plumtree Court, 42 Shoe Lane, EC4A 4HT	EC4	30-Oct-07	13-May-08	City of London	Refurbishment	23,522	31,648
60 St Mary Axe, EC3A 8JQ	EC3	23-Jul-08	09-Dec-08	City of London	New Build	10,166	30,256
78 Fenchurch Street, EC3M 4BT	EC3	26-Aug-08	09-Dec-08	City of London	New Build	?	25,588
Telephone Exchange, Moor Lane, 72 Fore Street, EC2Y 5DA	EC2	24-Jul-07	18-Jan-08	City of London	New Build	9,422	24,856
Chatsworth House, 66-70 St Mary Axe, EC3A 8BD	EC3			City of London	New Build	3,252	22,297
Mermaid House, 2 Puddle Dock, EC4V 3DS	EC4	03-Aug-01	19-Nov-03	City of London	New Build	3,413	19,722

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
Bath House, 52-60 Holborn Viaduct, EC1A 2FD	EC1	05-Dec-06	23-Apr-07	City of London	New Build	7,990 (Partial demo 2008)	18,806
Stone House, 128-140 Bishopsgate, EC2M 4HX	EC2	20-Feb-04	20-Jul-04	City of London	New Build	?	18,627
Tenter House, 45 Moorfields, EC2Y 9TH	EC2	03-Aug-06	21-Nov-06	City of London	New Build	8,167	17,652
64-66 Mark Lane, EC3R 7HN	EC3	14-Dec-06	15-May-07	City of London	New Build	6,000	16,884
New Court, 1-10 St Swithin's Lane, EC4N 4DU	EC4	10-Oct-06	20-Mar-07	City of London	New Build	6,954 (Demo 2008)	16,794
1 London Wall Buildings, EC2M 5PG	EC2	07-Sep-01	15-Nov-01	City of London	Refurbishment	13,639	13,639
Becket House, 81-90 Cheapside, EC2V 6AY	EC2	19-Jul-06	12-Dec-06	City of London	New Build	4,181	11,761
11-15 Monument Street, EC3R 8JU	EC3	18-Jun-07	20-Nov-07	City of London	New Build	5,616	11,086
Fur Trade House, 25 Little Trinity Lane, EC4V 2AA	EC4	17-Nov-06		City of London	New Build	12,448	10,972
40-43 Chancery Lane, WC2A 1JQ	WC2	27-Jul-07	26-Feb-08	City of London	New Build	6,039	10,513
37-41 Gracechurch Street, EC3V 0BY	EC3	18-Jan-02	09-Apr-02	City of London	New Build	7,919	10,219
67 Lombard Street, EC3P 3DL	EC3	15-Nov-06	27-Feb-07	City of London	New behind facade	10,844	8,687
1-2 Serjeant's Inn, EC4Y 1NT	EC4	02-Mar-05	04-Aug-05	City of London	Refurbishment	7,641	8,547
Lonsdale Chambers, 25-32 Chancery Lane, WC2A 1PA	WC2	04-Jul-07	18-Sep-07	City of London	New Build	8,192	8,540
120 Moorgate, EC2M 6TS	EC2	24-Nov-06	26-Jun-07	City of London	New Build	5,697	7,729

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
St Marys Court, 20 St Mary at Hill, EC3R 8LE	EC3	27-Sep-02	22-Jul-03	City of London	New Build	3,372	7,160
98 Fetter Lane, EC4A 1EP	EC4	04-Mar-08	13-May-08	City of London	New Build	5,252	6,383
St Clements House, 27-28 Clements Lane, EC4N 7AP	EC4	12-Mar-08	24-Jul-08	City of London	Refurbishment	5,007	5,567
101 Moorgate, EC2M 6SB	EC2	02-Apr-97	30-Sep-99	City of London	New Build	3,456	5,203
30-32 Lombard Street, EC3V 9BQ	EC3	28-Sep-06	09-Oct-07	City of London	New Build	3,479	5,110
12-20 Paul Street, EC2A 4JH	EC2	20-Jun-04	14-Mar-05	Hackney	New Build	3,298	21,496
New Gotch House, 32-38 Scrutton Street, EC2A 4RQ	EC2	06-Oct-08	03-Dec-08	Hackney	New Build	2,000	7,713
151-157 City Road, EC1V 1JH	EC1	14-Aug-02	23-Apr-03	Hackney	New Build	0	6,793
Hammersmith & City LT station car park site, Hammersmith Grove, W6 0EA	W6	10-Aug-07	31-Oct-07	Hammersmith and Fulham	New Build	0	39,141
Waterfront Phase 2, Chancellors Road, W6 9SF	W6	17-Nov-06	09-Mar-07	Hammersmith and Fulham	New Build	0	37,610
Bedford House, 69-79 Fulham High Street, SW6 3JW	SW6	04-Jul-07	18-Sep-07	Hammersmith and Fulham	New Build	9,996	12,035
Hammersmith Palais (Po Na Na), 242 Shepherds Bush Road, W6 7NL	W6		10-Jul-01	Hammersmith and Fulham	New Build	0	5,853
Imperial Wharf (Block D), Townmead Road, SW6 2RE	SW6		12-May-00	Hammersmith and Fulham	New Build	0	5,760

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
Charter House (also Known as Caxton Hse), 2 Farringdon Road, EC1M 3HN	EC1	22-May-08	08-Dec-08	Islington	New Build	3,763	18,576
Royal London House, 22-25 Finsbury Square, EC2A 1DS	EC2	04-Dec-07	18-Mar-08	Islington	Refurbishment	10,000	15,366
70-100 City Road, EC1Y 2BJ	EC1	28-Jun-06	28-Oct-08	Islington	New Build	11,024	10,721
Finwell House, 26 Finsbury Square, EC2A 1DS	EC2	22-Aug-07	03-Sep-07	Islington	Refurbishment	6,355	8,844
Maple House, 37-45 City Rd, EC1Y 1AT	EC1	13-Apr-05	20-Jun-05	Islington	New Build	5,268	7,759
Aberdeen House, Aberdeen Lodge & Aberdeen Studios, 22-24 Highbury Grove, N5 2EA	N5	29-Oct-07	24-Jan-08	Islington	New Build	4,485	6,813
The Turnmill, 63 Clerkenwell Road, EC1M 5NP	EC1	17-Sep-07	06-Dec-07	Islington	New Build	2,819	5,373
43 Bard Road, W10 6TP	W10	15-Jul-04	21-Sep-04	Kensington and Chelsea	New Build	0	6,300
Becket House, 1 Lambeth Palace Road, SE1 7EU	SE1	28-Feb-08	23-May-08	Lambeth	New Build	10,591	35,678
Shell Centre, 2-8 York Road, SE1 7NA	SE1	29-Aug-01	01-Apr-04	Lambeth	New behind facade	0	22,400
Freemans Catalogue site, 131-143 Clapham Road, SW9 0HP	SW9	23-Jun-06	03-Oct-06	Lambeth	New Build	3,900	9,304
London Bridge Tower (Shard Of Glass), 32 London Bridge Street, SE1 9SG	SE1	01-Apr-01	19-Nov-03	Southwark	New Build	19,510 (Demo 2009)	53,885

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
New London Bridge House, 25 London Bridge Street, SE1 9SG	SE1	13-Jan-06	03-Jul-07	Southwark	New Build	22,560	41,000
Kings Reach Tower, Stamford Street, SE1 9LS	SE1	22-Feb-05	03-Mar-06	Southwark	Refurbishment	24,155	38,359
20 Blackfriars Road, SE1 8NY	SE1	13-Feb-07	22-Jan-08	Southwark	New Build	11,148	20,615
240 Blackfriars Road, SE1 8NW	SE1	15-Sep-06	27-Mar-07	Southwark	New Build	2,196 (Demo 2008)	16,217
Lumina, 135 Park Street, SE1 9EA	SE1	03-Oct-02	18-Feb-04	Southwark	New Build	3,222	8,617
Wedge House, 30-40 Blackfriars Road, SE1 8PB	SE1	03-Oct-07	18-Dec-07	Southwark	New Build	4,180	7,748
National Art Collections Centre, 7-14 Mandela Way, SE1 5SR	SE1		13-Aug-08	Southwark	New Build	0	6,028
Wood Wharf, Preston's Road, Cartier Circle, E14 9SF	E14	20-Jun-08	09-Oct-08	Tower Hamlets	New Build	0	368,691
North Quay (Formerly Shed 35), Aspen Way, E14 9	E14	13-Mar-03	14-Jul-05	Tower Hamlets	New Build	0	222,036
Riverside South (RS1, RS2, RS3), Westferry Circus, E14 8RL	E14	20-Oct-08	19-Feb-09	Tower Hamlets	New Build	0	185,283
Heron Quays - Western End, Heron Quays, E14 4JB	E14	22-Nov-07	13-Mar-08	Tower Hamlets	New Build	6,503	154,540
1 Park Place, E14 4HJ	E14	28-Mar-08	27-Aug-08	Tower Hamlets	New Build	3,344	95,755
Aldgate Place, 1,2,3, Aldgate Union, Buckle St, Braham St, E1 8DX	E1		14-Sep-06	Tower Hamlets	New Build	0	74,752

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
Aldgate Union-Aldgate Tower, Whitechapel High Street, E1 8DX	E1	23-Dec-98	20-Jan-04	Tower Hamlets	New Build	0	69,386
DLR site, Royal Mint Street, E1 8LG	E1	10-Mar-03	12-Feb-04	Tower Hamlets	New Build	0	55,500
Arrowhead, Marsh Wall, E14 9SJ	E14	15-Feb-00	10-May-07	Tower Hamlets	New Build	0	48,431
London Millharbour (Phase 1), 4 Millharbour, E14 9NG	E14	19-Sep-00	21-May-01	Tower Hamlets	New Build	0	42,773
25 Churchill Place, E14 9	E14			Tower Hamlets	New Build	0	34,838
United Standard House, 2-20 Middlesex Street, E1 7EP	E1	19-Apr-05	13-Mar-08	Tower Hamlets	New Build	2,787	33,089
London Millharbour (Phase 2), 4 Millharbour, E14 9NG	E14	19-Sep-00	21-May-01	Tower Hamlets	New Build	0	28,222
Hertsmere House, Hertsmere Road, E14 4AJ	E14	07-May-03	18-Mar-04	Tower Hamlets	New Build	4,366	24,387
Pura Foods, Orchard Place, E14 0JH	E14	17-Jul-06	10-May-07	Tower Hamlets	New Build	0	13,256
Tower House, 38-40 Trinity Square, EC3N 4DJ	EC3	29-Oct-02	10-Dec-03	Tower Hamlets	New Build	4,140	8,727
The Campus (Fmr Business Village), 3-9 Broomhill Road, SW18 4JQ	SW18	06-Jun-07	13-Sep-07	Wandsworth	New Build	0	8,400
Former Thames Water Riverside site, Cringle Street, SW8 5BX	SW8	11-Apr-06	22-Jun-06	Wandsworth	New Build	0	5,960
Paddington Station - Span 4 Site, Praed Street, W2 1RH	W2	30-Jun-00	01-Aug-03	Westminster	New Build	0	55,741

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
55-65 North Wharf Road, W2 1LA	W2	30-Jul-03	10-Jan-08	Westminster	New Build	7,803	30,026
Noho Square (Middlesex Hospital main site), Mortimer Street, W1T 3AA	W1T	05-Feb-07	06-Sep-07	Westminster	New Build	0	26,887
Site at Arundel Street, 190 Strand, WC2R 1DX	WC2	25-Apr-05	24-Nov-05	Westminster	New Build	21,363	23,226
Merchant Square - Building B, Harbet Road, W2 1JU	W2	08-Feb-06	07-Jun-07	Westminster	New Build	0	17,996
Park House, 116 Park Street, 467-471 Oxford Street, W1K 6NR	W1	31-Aug-07	07-Feb-08	Westminster	New Build	14,118	17,688
Merchant Square - Building C, Harbet Road, W2 1JU	W2	08-Feb-06	07-Jun-07	Westminster	New Build	0	15,416
10-11 Babmaes Street, SW1Y 6HD	SW1	16-Feb-07	28-Jun-07	Westminster	Refurbishment	12,000	14,078
1-7 Howick Place, SW1P 1BH	SW1	07-Jul-08	18-Dec-08	Westminster	New Build	3,252	12,542
79-97 Wigmore Street, 21-35 Duke Street, W1U 1QG	W1	03-Aug-07	20-Dec-07	Westminster	New Build	7,000	8,112
French Railways House, 178-180 Piccadilly, W1J 9AN	W1	15-May-07	02-Aug-07	Westminster	Refurbishment	5,270	6,417
Ham Yard (bounded by) 5-10 Denman Street, W1D 7HE	W1	31-May-07	11-Oct-07	Westminster	New Build	0	6,405
8 Grafton Street, W1S 4EN	W1	28-Aug-06	03-Apr-07	Westminster	New Build	5,316	6,350
Grosvenor Gardens House, 35-37 Grosvenor Gardens, SW1W 0BS	SW1	04-Nov-03	18-Mar-04	Westminster	New behind facade	6,682	6,341

Address	Post code	Application date	Permission date	Borough	Type of development	Existing/ previous offices (sq m)	Proposed offices (sq m)
Development site at, 74-90 Regent Street, 11-15 Air Street, W1B 5HL	W1	18-Apr-08	15-Jul-08	Westminster	New behind facade	N/K	5,553
5-17 Baker Street, W1U 8LT	W1	07-Aug-06	29-Mar-07	Westminster	New Build	3,718	5,145

Source: EGi London Offices

Appendix A2.1

The Benchmarks defined

The five benchmarks are described below.

- *The stock of permissions (measured as net lettable space) should be at least three times the average rate of starts over the preceding three years.* Monitors the relationship between development capacity as approved by local planning authorities and the demand for construction capacity by developers.

- *When the Central London availability rate is moving in a direction such that the 8% level seems likely to be crossed, particularly close attention should be paid to other market indicators, and the level of office supply should be reviewed.* Monitors the relationship between supply and demand in the "current" market.

- *Up to 50% of annual starts being comprised of pre-lets and owner-occupier schemes can be regarded as a normal and healthy market, provided the overall volume of starts is consistent with strategic policies to maintain London's World City role, as defined in Strategic Benchmark 1.* Monitors the relationship between speculative new supply and that pre-committed to occupiers.

- *In seeking to promote worthwhile choice for office occupiers, planning policy should seek to ensure that office development occurs in a range of established office locations which have good public transport, such that new office space should be available in non-prime locations at no more than 50% of top rents in Central London.* Monitors office costs in a range of "acceptable" office locations.

- *Across Central London as a whole, strategic planning policy should seek to ensure that there is at least 3.25 years' supply of new office space in the development and planning pipeline. This strategic benchmark is not to be applied to small areas where capacity constraints effectively prevent significant gains to the office stock, but should be applied with a view to expanding the office development pipeline in locations with good public transport and substantial land capacity.* Monitors the relationship between historic demand for new office space and short-term (completed), medium-term (under construction) and long-term (permitted) capacity.

Appendix A3.1

The RTP definition of office activities

Office sectors (incl. R&D)	SIC (1992)	Activities
Some Other Business Activities	74.60, 74.83, 74.84, 74.1, 74.2, 74.3, 74.4	Investigation and Security Activities Secretarial and Translation Activities Other Business Activities Accounting/Bookkeeping Activities, etc Architectural/Engineering Activities, etc Technical Testing and Analysis Advertising
Some Social and Personal Services Activities	91.11, 91.12, 91.20, 91.32, 91.33, 92.11, 92.12, 91.20, 91.32, 91.33, 92.11, 92.12, 92.20, 92.40	Activities of Business/Employers Organisations Activities of Professional Organisations Activities of Trade Unions Activities of Political Organisations Activities Other Membership Organisations Motion Picture and Video Production Motion Picture and Video Distribution Radio and Television Activities News Agency Activities
Administration of the State	75.1, 75.3	Administration of the State and the Economic and Social Policy of the Community Compulsory Social Services Activities
Publishing	22.1	
Financial Intermediation	65, 66, 67	Financial Intermediation, Except Insurance and Pension Funding Insurance and Pension Funding, except Compulsory Social Security Activities Auxiliary to Financial Intermediation
Real Estate and Business Activities	70, 72, 73	Real Estate Activities Computer and Related Activities Research and Development
Labour Recruitment (Share)	74.5	Labour Recruitment and Provision of Personnel

Appendix A3.2 Office employment projections by borough 2007-2031 (RTP constant office employment definition)

Borough	Number				%
	2007	2011	2031	2011-31	2011-31
Barking and Dagenham	5,433	5,714	6,974	1,261	22.1
Barnet	34,105	35,721	40,774	5,054	14.1
Bexley	9,367	9,511	10,993	1,481	15.6
Brent	19,905	21,054	25,696	4,641	22.0
Bromley	27,401	27,418	29,583	2,165	7.9
Camden	133,069	142,606	172,521	29,915	21.0
City	270,794	297,449	342,122	44,673	15.0
Croydon	44,037	43,196	44,771	1,576	3.6
Ealing	30,786	31,794	39,554	7,760	24.4
Enfield	19,145	19,445	22,453	3,008	15.5
Greenwich	12,683	12,805	14,264	1,459	11.4
Hackney	27,758	29,147	35,251	6,104	20.9
Hammersmith and Fulham	58,603	64,982	87,668	22,685	34.9
Haringey	16,834	17,768	20,858	3,089	17.4
Harrow	20,161	20,565	22,915	2,350	11.4
Havering	9,977	10,010	11,498	1,489	14.9
Hillingdon	38,436	39,754	48,304	8,550	21.5
Hounslow	37,199	38,008	47,277	9,269	24.4
Islington	88,337	95,439	116,503	21,064	22.1
Kensington & Chelsea	37,289	37,922	41,498	3,576	9.4
Kingston upon Thames	20,145	19,882	20,816	934	4.7
Lambeth	34,717	35,842	40,673	4,831	13.5
Lewisham	12,716	13,003	14,232	1,229	9.5
Merton	19,188	20,238	22,708	2,470	12.2
Newham	15,855	17,305	22,174	4,869	28.1
Redbridge	13,699	13,525	15,415	1,890	14.0
Richmond upon Thames	32,396	32,125	33,566	1,441	4.5
Southwark	80,059	87,854	103,981	16,127	18.4
Sutton	16,130	16,044	17,123	1,080	6.7
Tower Hamlets	117,508	122,838	165,931	43,093	35.1
Waltham Forest	8,714	8,906	10,229	1,323	14.9
Wandsworth	26,544	27,067	30,594	3,528	13.0
Westminster	277,931	284,456	323,854	39,398	13.9
London	**1,616,922**	**1,699,393**	**2,002,773**	**303,380**	**17.9**

Appendix A5.1

List of stakeholder interviews

Company	Contact
Argent	Robert Evans
British Land	Paul Burgess
DTZ	Martin Davis
Farebrother	Alistair Subba Row
Green Street Advisors	Steve Frankel
JLL	John Izett
PRUPIM	Russell Bradman
Sellar Group	John Davies
Stanhope	Charles Walford

Appendix A8.1

Map of Inner and Outer London boroughs

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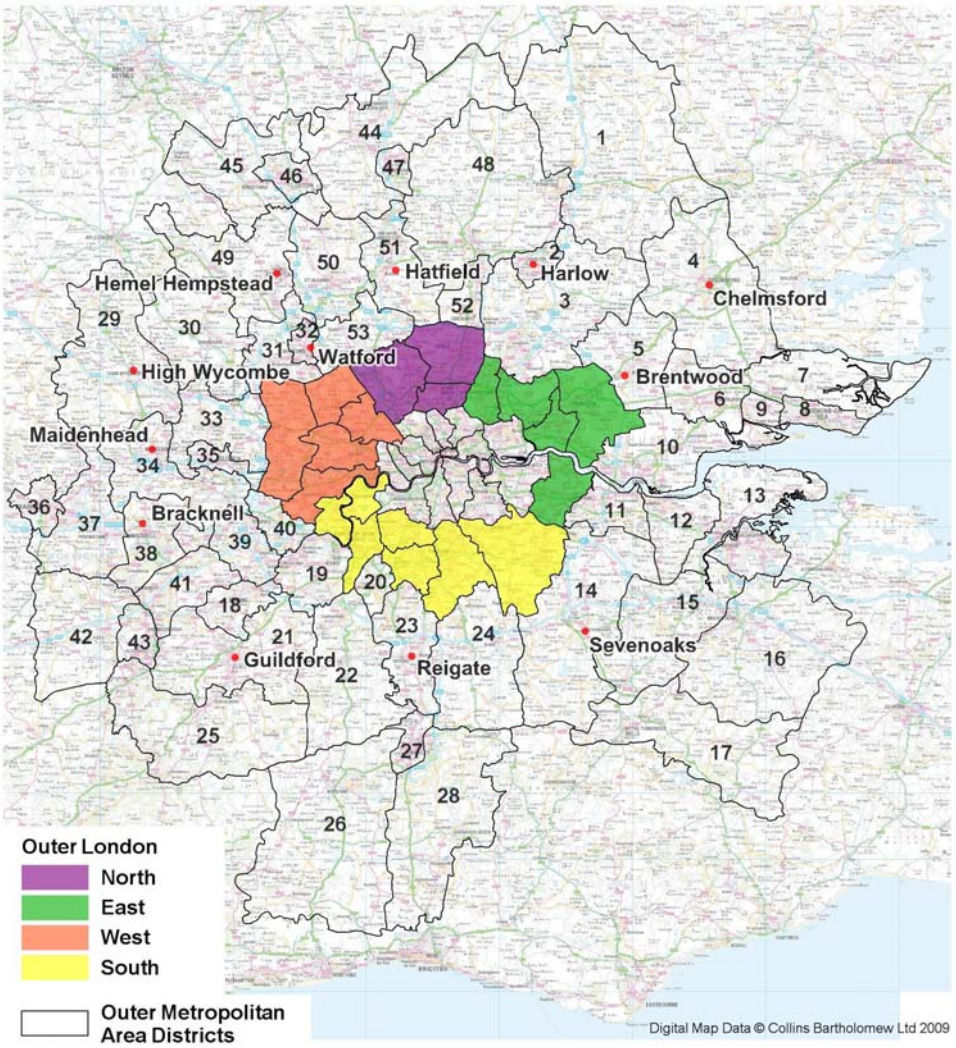
Greater London Authority 100032379 (2009)

The London Plan Review Draft Consultation Plan (2009)

Appendix A8.2

Map of Outer London and OMA



1 Uttlesford
2 Harlow
3 Epping Forest
4 Chelmsford
5 Brentwood
6 Basildon
7 Rochford
8 Southend-on-Sea
9 Castle Point
10 Thurrock
11 Dartford
12 Gravesham
13 Medway Towns
14 Sevenoaks
15 Tonbridge and Malling
16 Maidstone
17 Tunbridge Wells
18 Woking
19 Elmbridge
20 Epsom and Ewell
21 Guildford
22 Mole Valley
23 Reigate & Banstead
24 Tandridge
25 Waverley
26 Horsham
27 Crawley
28 Mid Sussex
29 Wycombe
30 Chiltern
31 Three Rivers
32 Watford
33 South Buckinghamshire
34 Windsor & Maidenhead
35 Slough
36 Reading
37 Wokingham
38 Bracknell Forest
39 Runnymede
40 Spelthorne
41 Surrey Heath
42 Hart
43 Rushmoor
44 North Hertfordshire
45 South Bedfordshire
46 Luton
47 Stevenage
48 East Hertfordshire
49 Dacorum
50 St Albans
51 Welwyn Hatfield
52 Broxbourne
53 Hertsmere

Appendix A8.3

Outer London and OMA comparisons

1.0 Brent Cross and Watford

1.1 Overview

Brent Cross/Cricklewood, straddling the North Circular Road, is an area dominated by the Brent Cross Shopping Centre and seemingly acres of retail warehouse and cash and carry style operations. Most significantly, it is the subject of a major urban regeneration initiative to create a new town centre including large-scale office provision. Watford, by contrast, is a well established business centre in south Hertfordshire that has struggled somewhat in recent years to avoid standing still. But it remains the principal office centre for that area.

1.2 Brent Cross

The Brent Cross/Cricklewood area, which is subject to a major regeneration scheme involving a potential 400,000 sq m of office space, lies at the southern end of the London Borough of Barnet. Barnet has the highest stock of office space of the boroughs in its immediate area, which seems surprising at first glance, since the borough is not generally associated with office development – indeed the very commercial-led trade press only sporadically covers north London as a whole.

In fact the borough contains several significant office clusters, most notably Edgware, but also including High Barnet and Finchley. The Brent Cross/Cricklewood area itself has no established office market. That could all change, if proposals come to fruition.

Office stock in Barnet and adjoining boroughs

Borough	Office Stock, sq m
Barnet	446,000
Enfield	240,000
Harrow	270,000
Brent	267,000

Source: NOMIS

There is one major scheme proposed for the area. Brent Cross Cricklewood Development Partners, a partnership between Hammerson, Standard Life and Brookfield Europe, has submitted plans for the comprehensive regeneration of a 151 ha site. The site is bordered by Brent Cross Shopping Centre in the north; the A41 (Hendon Way) in the East; Cricklewood Lane in the South and the A5 (Edgware Road) in the West.

The phased development will include a new town centre based around Brent Cross and Cricklewood. A rapid transport system will link old and new railway stations in Cricklewood, along a new high street, to an enhanced Brent Cross Shopping Centre, and tube station. Brent Cross will be extended on a 6.6 ha site adjacent to the original

1970s shopping centre. The proposals include 55,000 sq m of comparison retail accommodation, 11,000 sq m of leisure, two hotels and up to 850 homes.

On the adjacent Cricklewood site, Hammerson and its partner Brookfield Europe will create a mixed-use urban centre including 20,000 sq m of neighbourhood retail, around 7,500 new homes, a hotel and 400,000 sq m of offices. The development is expected to create 27,000 jobs, and be developed over 20 years, with work likely to begin no sooner than 2011.

Ultimately the key to this scheme is the competitive environment it will face. Its key strength is that it is not simply an office scheme but involves the creation of a new town centre. However, with office content equivalent to the entire stock of Barnet, and with similar scale centres at Stratford and Greenwich Peninsula we remain concerned over supply in the bigger picture (see Chapter 4.0).

Office Market Assessment Grid: Brent Cross/Cricklewood	
Current economic activity	The area scores negatively for the simple reason that it has no significant market to speak of. This means it has no momentum or critical mass.
Cluster strength	In the absence of established markets, matters of cluster strength are essentially redundant. The hunch would be that in future an established, modern office market would attract corporate HQ and back office style functions which would tend to be considered neutral.
Diversity	Similarly, diversity is not currently a factor (although the general area is economically diverse).
Exposure to corporate retrenchment	Corporate retrenchment is also not a short-term issue. As the scheme develops there is a potential risk that the kind of rapidly restructuring firms that might be attracted could equally rapidly restructure away. Overall, neutral.
Residential demand	The residential market in Brent is relatively strong and has performed well above the average for Outer London.
Growth prospects	In the short-term, office market growth prospects in Brent Cross/Cricklewood are non-existent. In the longer-term the timescales that developers are operating on suggests a very cautious approach.
Business centre prospects	Given the above, again business centre prospects do not exist in the short-term and we must be sceptical about the longer-term.
Impact of infrastructure changes	One definite positive – even excluding the proposed new station – is that infrastructure changes, especially Thameslink upgrades, will add to the already excellent communication links in the area.
Vacancy and pipeline	There is no real market to speak of and little available of good quality space should short-term demand emerge.
Strategic site availability	Clearly, given the scale of proposed plans, strategic sites are a positive factor.

Certainly the cautious approach by the developers, with a lengthy development programme – almost certainly led by pre-lets – and a commitment to creating 'the environment' has echoes of the approach adopted at Greenwich, and is to be welcomed. However, our principal concern is the impact of the scheme on nearby centres: there seems a strong likelihood that it could 'suck in' users from more established markets.

1.3 Watford

Watford is the principal business centre in South West Hertfordshire and, although not physically the largest, is generally seen as the area's major office market. Dacorum (including Hemel Hempstead) has greater office stock, but its lack of a single clear office centre, and the co-mingling of much of its stock with other commercial uses, has led it to be seen as a secondary to Watford.

Watford office stock, 000 sq m, in context

SW Herts	2005	2006	2007	2008
Dacorum	390	330	330	337
Three Rivers	170	174	165	171
Watford	265	271	270	255

Source : NOMIS

Historically, Watford - in common with other Home Counties towns - attracted a steady stream of occupiers relocating from Central London, seeking to reduce the burden of rents and Central London salary weightings. As recently as the turn of the 21st century, Watford attracted French energy business TotalFinaElf from London's West End to the much-favoured Clarendon Road.

Watford's main office market is concentrated along Clarendon Road, running away from Watford Junction Station, with other markets found on mixed commercial parks such as Croxley Green. Technically not part of Watford, Leavesden Park is generally considered to be part the Watford office market system.

Watford has excellent communications links, being close to the M1 and M25 as well as the A41, with a major railway station and yet the recent history of its office market has been, to put it mildly, patchy. Top rents have stagnated in the low £200s sq m (£20s sq ft) for several years and, even at these levels, few deals have been done. One notable recent deal was Medtronic's 3,000 sq m at Croxley Park in November 2008. Top rents are £247 sq m (£23 sq ft) not having grown above this for some years. Unsurprisingly, the lack of rental growth means that there is no speculative development underway.

It is worth noting that Knight Frank's latest M25 Office Market report, which reported sharp declines in rent through the region also found that Watford had fallen less than most other markets, with 10% decline compared with, say, 30% in Slough. This may reflect the relative lack of stock in Watford.

Two major schemes may be considered instructive when assessing Watford. Leavesden Park, the redevelopment of the former Rolls Royce site on the outskirts of the town, is a modern campus style development close to the A41 and with good access to

the wider transport system. It is generally cited as the example in the area of good modern office space.

Office Market Assessment Grid: Watford	
Current economic activity	As with most other places, short-term prospects for economic activity are muted. Recent data suggest that unemployment generally trends slightly higher than Hertfordshire as a whole. In the medium- to longer-term, Watford's main constraint appears to be a lack of readily available stock, suggesting that potential growth may be diverted elsewhere.
Cluster strength	Historically Watford was closely associated with the printing industry. Although Mirror Colour Print remains one of the town's largest employers, there is not really a single cluster of the kind that might generate self-sustaining inward investment.
Diversity	Watford is diverse, with large employers ranging from civil engineering to retail. It also has a thriving SME community with an active Chamber of Commerce.
Exposure to corporate retrenchment	Although hit by the radical restructuring of the printing industry in the late-1980s, Watford's current diversity offers the town some robustness in the event of dramatic change in any one sector or group of sectors. The town's generally flat performance, however, suggests that this lack of exposure to retrenchment is only neutral in effect rather than positive.
Residential demand	Average semi-detached house prices in Hertfordshire decreased between Q3 07 and Q3 08, with the largest decrease of £42,486 in Watford. In line with most areas, Watford's house prices peaked in 2007 and have since fallen back to around 2005 levels. Sales volumes have fallen by around 50-55% since late-2007.
Growth prospects	The major constraint on Watford is likely to be physical capacity. Although Watford's overall performance as an office market has been flat for some years, immediately prior to the credit crunch it had been showing signs of growth. It is possible that, when combined with tight supply, any returning pressure could drive the market forward, but we would be cautious in this assessment.
Business centre prospects	There are no immediate threats to Watford as a business centre that are not common to the entire South East economy.
Impact of infrastructure changes	Changes to infrastructure are on balance neutral to negative for Watford. The current widening of the M25, while providing welcome capacity, is unlikely to materially impact the town if experience of similar widening schemes is any guide. Further, improvements to public transport -especially Thameslink and Crossrail – have potential to draw traffic away from the town.
Vacancy and pipeline	Supply is tight and there is relatively little in the pipeline. On the one hand, this has the effect of limiting the town's ability to respond. Paradoxically it may provide a medium-term benefit by putting upward pressure on rents and making development viable.
Strategic site availability	Watford is not over-endowed with sites that can in anyway be described as strategic, other than Watford Junction.

And yet, since is inception off the back of pre-lets to BT in the early-2000s Leavesden has been notable mainly for its lack of progress. Despite, on any objective measure, being highly quality and well-located, Leavesden has simply not taken off.

Meanwhile, in central Watford, Redrow Regeneration is in discussion with fellow stakeholders to consult on the future of its Watford Junction site and present new proposals for the stalled scheme. This scheme was to include 15,000 sq m of offices.

The Watford office market has struggled somewhat in recent years. It is not especially well placed to respond quickly to tenant demand increasing; Despite good transport links it does not appear to have any overwhelming advantages over any north London centre.

1.4 Brent Cross and Watford compared

Brent Cross/Cricklewood has no established office market, and proposals for a large-scale office development as part of a comprehensive plan will not start before 2011. The proposed large-scale scheme will compete with other schemes around London and runs the risk of sucking demand from smaller centres around north London.

Although it is unlikely to compete directly with OMA towns this cannot be ruled out, and highlights a key office provision issue. In the end, the market requires choice and at the moment a hypothetical company choosing between Watford and Brent Cross/Cricklewood does not have a choice. Should the Hammerson scheme come forward then occupiers will have a real choice. There is still no guarantee that such an occupier would select Brent Cross over Watford, but the simple fact is that at the moment the option is not there.

Watford is a popular town and it is possible that tight supply will finally push values to the level where stock can be renewed, so it must be emphasised that competing centres will not stand still.

2.0 Bromley and Sevenoaks

2.1 Overview

Bromley and Sevenoaks present an interesting comparison. One is a large, vibrant, suburban London centre that grew rapidly during the 1970s and 1980s; the other is a much longer established, Home Counties centre, which has sought to protect its local feel and social cachet. One “bold and brash”, the other “solid and select”.

Superficially, the two centres might be prime candidates to reinforce the perception that Outer London centres are underperforming their OMA counterparts but, as with so many of the pairings here, the real picture is a little more complex.

2.2 Bromley

Bromley is a major sub-regional business and retail centre in south east London, with an apparently successful economy and relatively comfortable population. A large number of the working population commute into Central London for work each day. The town is about 17 km from the City and West End; it is close to the M25, and Gatwick is located approximately 40 km south of Bromley. The main competing centre is Croydon, five miles away; but Bluewater and Lewisham are also competitive, particularly for shopping.

Overall, employment in the decade up to 2007 rose by almost a quarter. The largest sectors are Banking, Finance & Insurance; Public Administration; Education & Health, and Distribution, Hotels & Restaurants. Together these account for nearly 80% of employment, with BFI employment accounting for over 28% alone. On the overall index of deprivation among south London boroughs, Bromley ranks alongside Sutton and Kingston, and is half the level of Lambeth, Greenwich and Southwark.

Office Market Assessment Grid: Bromley	
Current economic activity	Bromley is a large sub-regional town, with a major retail centre. The profile of economic activity is of a relatively small number of major employers – with few large corporate occupiers – and a high proportion of employees involved in banking and finance, and the public sector.
Cluster strength	Bromley has a surprisingly weak cluster strength. While it has a high proportion of BFI employment, much of this is serving local needs.
Diversity	Bromley has a fairly diverse economic base, but banking and finance, the public sector and retail account for a large proportion of employment.
Exposure to corporate retrenchment	Bromley is exposed to corporate retrenchment. While it does not have a large concentration of employers in a single sector, it does have a relatively small number of large employers. Thus, if one or two shrunk/relocated, there would be a disproportionate impact.
Residential demand	Bromley is a very popular Outer London centre for commuters into the West End and City, and residential demand has been strong - a fact reinforced by the strong retail and leisure offering in the town centre.
Growth prospects	Bromley's own local authority Area Action Plan recognises the inherent weaknesses in Bromley's economy (including both retail and office), suggesting that remedial action will be required if the centre's growth prospects are not to be harmed further. In terms of offices, the town does not have a ready supply of good quality stock with which to attract occupiers. Unless this changes, it is unlikely to grow as an office location.
Business centre prospects	Just as "success breeds success" so the reverse is true. Bromley enjoyed a period of success and growth, which has somewhat stagnated through the late-1990s and into this decade. If Bromley starts to lose some of its existing office activity, it could soon be in a declining position as far as being a significant Outer London office market is concerned.
Impact of infrastructure changes	There are no known infrastructure schemes that are likely to impact on Bromley's office market in the near future.
Vacancy and pipeline	Bromley is in the position of having a rising vacancy and a falling pipeline. There is a lack of development interest here even though empty buildings are coming available. While recent events have exacerbated this, the concern is that the situation reflects a more structural problem.
Strategic site availability	Bromley is capable of providing a range of good town centre redevelopment sites, and the local authority is aware of the need to do so.

The borough's economic activity rate (ie the proportion of working age residents who are in work), is one of the highest in London (81.3%, compared to the London average of 74.8%) and the highest in South London.

However, despite these positive signals, there are signs that Bromley's economy, and its office economy in particular, are not as strong as might be expected. Thus GVA growth per employee between 1992 and 2006 underperformed London and the South East. While employment grew well over the decade up to 2007, the period from 2003 was flat lining. Bromley is a major retail centre with a relatively high proportion of its total commercial floorspace devoted to retail (38.6%). But there was a reduction in retail floor space of 7.5% between 2003 and 2007; and the borough's recent *Area Action Plan* (June 2009) recognises that the town centre "*needs to improve if it is to continue to compete with Bluewater, Croydon and Central London*".

The Bromley office market is quite small in comparison to Croydon. However it has a significant concentration of stock in an around Bromley South train station, and there are a number of large office occupiers located at the lower end of the High Street. The main concentration of office activity is east of the High Street on Elmfield Road and Elmfield Park. Large employers include Churchill Insurance, Archers Direct and Bromley Mytime; but there is not a large presence of international, or even national, companies that might be expected from the town's status as a sub-regional centre.

Bromley is not seen as a prime office location and demand for office space there is, and has been for some time, quite low. This is reflected in development activity. Less than 10% of Bromley's office stock has been built since 1990; and in 2008, there was over 18,000 sq m of vacant space. Even during the growth period leading up to 2007, new development was scarce.

The draft *Economic Development & Employment Land Study* (March 2009) has highlighted the importance of reinforcing the role of the office sector and the quality of accommodation: "*there have been few recent developments and the stock profile is dominated by ageing stock of questionable quality and appropriateness for use by dynamic emerging sectors"*. The limited stock of good quality office space is seen as an obstacle to the growth in non-service employment opportunities.

2.3 Sevenoaks

Sevenoaks town centre offers a wide range of services and facilities: it is successful in a local context, although it lacks the larger stores and outlets characteristic of centres lying outside the district (eg Bromley, Tunbridge Wells and Bluewater). While the town centre benefitted from the development of the Blighs Meadow development in 2007, these other centres pose significant competition.

The town has a relatively highly skilled workforce, and sits within the prosperous commuter belt, enjoying very low unemployment rates, a generally high standard of living and a high quality environment. It has good rail links into London and sits close to the M26 and M25. Employment between 1995 and 2005 grew by 19.5%; which is significantly less than either the Kent or South East level. This suggests some constraints to economic growth. During this time business services grew by 55%, while financial services shrunk by 17%.

Office Market Assessment Grid: Sevenoaks	
Current economic activity	Sevenoaks has a strong, vibrant mix of occupiers and a healthy and vibrant economy. It is, however, a "local" market. It is not a strategic centre in market terms, and it does not provide too many attractors for larger corporate occupiers. Recent employment growth has been less than the county and regional benchmarks.
Cluster strength	There is virtually no cluster strength in Sevenoaks. Even the business services community, which might be expected to be large, is under-represented compared to the South East.
Diversity	Sevenoaks scores well on diversity. Its local businesses provide a wide range of services albeit, as already mentioned, they lack depth in terms of range of sizes.
Exposure to corporate retrenchment	There is little prospect of an exposure to corporate retrenchment for the reasons already hinted: there is little corporate activity.
Residential demand	Sevenoaks is an extremely popular area and this is reflected in house prices which well outpace comparable areas. The strength of the demand for housing is one of the factors that has, until recently, been hampering the growth of the office market, as change of use has been common.
Growth prospects	Growth prospects are limited, not for any structural economic reason, but mainly due to planning policies. As noted in the *Employment Land Review* (2007): "*Sevenoaks District lies entirely within the Green Belt. This has important consequences for the future development of Sevenoaks District. Green Belt policy is present throughout the Local Plan with the intention of inhibiting urban sprawl by keeping land permanently open*".
Business centre prospects	Sevenoaks' business centre prospects are good, but limited. It has a solid base, that meets strong local demand, but it seems unlikely that it will experience any significant growth, certainly not in terms of large new inward investment.
Impact of infrastructure changes	There are no known proposals to make any significant changes to basic infrastructure, and Green Belt and tight planning policies in and around Sevenoaks are unlikely to allow any to happen.
Vacancy and pipeline	The vacancy level in Sevenoaks has been consistently low in recent years (with the exception of the two years when BT were marketing a building there, which they re-occupied), and largely because of the pressure and demand for new housing the office pipeline has also remained very modest.
Strategic site availability	Sevenoaks is not well endowed with strategic sites that will allow it to respond to major interest from inward investors.

2.4 Bromley and Sevenoaks compared

Bromley and Sevenoaks are very different centres. Bromley is a big market, catering for larger occupiers and larger buildings; Sevenoaks is one-fifth the size, with a predominantly small built stock, catering predominantly for established, small business services. One "*wholesale*", the other "*retail*". And just as with the wholesale and retail

model, Sevenoaks attracts a rent premium: around £247 sq m (£23 sq ft) compared to around £183 sq m (£17 sq ft) in Bromley – a major cost differential.

Sevenoaks is a relatively small office centre with a stock of just 100,000 sq m. The office market is highly concentrated spatially, and the stock comprises mainly small buildings. Economically the town is characterised as a highly localised market, comprising predominantly established business services firms. The strength of this local occupier base is shown by the fact that rents have been steady at £247 sq m (£23 sq ft).

Sevenoaks is a highly localised market with little in the way of "corporate occupiers". This fact is reflected in the development pipeline which has seen very little significant activity over the past ten years. In 2007 the development pipeline comprised just 3,300 sq m of space. Similarly no space has been available, over this time, in excess of 1,000 sq m, with the exception of a BT building which was vacated, marketed and then re-occupied.

Average quarterly availability runs at around just 2,200 sq m (compared to Bromley's 9,200 sq m), although between 1998 and 2006, leasing transactions in the town averaged just 600 sq m.

Sevenoaks is situated within the Green Belt and there are severe restrictions on its future growth as an office centre. This is further compounded by the pressure for housing, and the town has seen much change of use in recent years; to the point where B1a space has actually shrunk. And this is compounded by local planning policies which seek to protect the character of the town.

Sevenoaks' small-scale and location reinforce its prosperous image, while "bold and brash" Bromley's image is suggestive of an underperforming Outer London centre.

In terms of whether Sevenoaks is outperforming Bromley, as per the hypothesis here, it is certainly the case that Bromley has more vacant space and lower rents; but is this sufficient to deem it as underperforming? It is five times the size of Sevenoaks, and boasts a larger number of major occupiers. It also has site availability. By contrast "better performance" in Sevenoaks appears to be driven more by restrictive planning policies than by its attractiveness to corporate office occupiers.

As a location for offices, there is no question that Bromley is the stronger centre with greater potential to absorb growth in the future. The question is whether Bromley is more attractive than competing centres such as Croydon and Lewisham, both of which are planning major regeneration projects. On balance, Bromley's performance is probably better measured against Croydon rather than its OMA partner.

3.0 Croydon and Redhill & Reigate

3.1 Overview

Both Croydon and Redhill & Reigate are well-established office centres, with their modern roots in the decentralisation of financial services and corporate activity from London during the 1960s and 1980s. Both have witnessed a tailing off of new inward office investment in more recent times; indeed, Croydon has slipped into a net loser of office employment over the past couple of years.

Both markets are very dominant in their respective areas, and both benefit from good communications infrastructure. Equally, both towns are exposed to key sectors at the core of the recent economic trauma – financial services.

3.2 Croydon

Croydon is London's largest metropolitan centre, with nearly twice as much shop floorspace as Lakeside, and the very distinctive tall building skyline betraying its large corporate office community. Over three million people live within a 16 km radius of Croydon town centre, and the town's economy supports c750,000 sq m of office floorspace – the large concentration outside the City, West End and Canary Wharf.

Croydon's local authority is very active in terms of seeking to ensure Croydon's success and should be considered as enabling and encouraging in terms of its approach to the office market generally. The town has a strong residential market and, despite recent travails in housing generally, it has a large number of new schemes coming through.

Croydon's office market is concentrated in three main areas: around Croydon East Station; to the south on the High Street and Scarbrook Road, and to the north around West Croydon Station and Wellesley Road. The vacancy rate in Croydon currently runs at around 55,000 sq m, reflecting recent retrenchment among a number of large occupiers.

Croydon has a very strong development pipeline, albeit recent events have changed the economics of several. The largest include the Cane Hill Hospital site (100,000 sq m) and Ruskin Square (100,000 sq m). Large schemes are also planned at Aurora, Central One, Centrum Place, Cherry Orchard Road, Chroma, Odalisk and Whitgift Centre.

Rents were running at around £237 sq m (£22 sq ft), although recent evidence suggests a market adjustment, as elsewhere. Some of the older available stock, such as Apollo House and Lunar House, previously occupied by the Government, have been available at around £129 sq m (£12 sq ft).

The key negative trend for Croydon is the recent diminishing of its overall image. It is fair to say that Croydon lacks the sparkle that it once had – certainly in terms of the office market – and the local authority will need to work hard to win it back. The town lacks significant representation in "growth" sectors, such as software, health, green and business services. Instead its office market carries some hallmarks of "old industries".

Office Market Assessment Grid: Croydon	
Current economic activity	Croydon is a large and very well-established regional centre. While subject to the same current economic forces as other centres, its critical mass is likely to offer it some protection. Croydon's economy is heavily weighted towards services and its retail offering is very strong. Its socio-economic profile is strong, and it has a large number of major employers. Croydon continues to attract new development interest which suggests a good level of confidence in its longer-term future.
Cluster strength	Historically Croydon has been closely associated with the government, financial services and corporate occupiers, with its sheer size ensuring strong cluster strength in all three areas.
Diversity	Croydon has a diverse economic base, with high representations of large multi-national companies, as well as a strong SME community. It does however have a high proportion of workers in the public sector.
Exposure to corporate retrenchment	The strong concentrations of government and financial services activity in Croydon have left it vulnerable to recent trends. The Government's Lyons relocation programme has resulted in a shrinkage of activity, although the UK Border Agency remains a large employer. Companies like AIG and Bank of America have, for example, suffered badly; and BT, another large employer, has shrunk in recent times.
Residential demand	Croydon provides a large and diverse housing market and, until the recent residential trauma, was very strong. House prices provide a discount over London as a whole, and there is plentiful choice. Demand has been very strong helping to underpin strengths in retail and leisure provision. As the housing market improves, there is no reason to assume Croydon's strong position will change.
Growth prospects	One of Croydon's features over the years has been its ability to grow and accommodate new economic activity. Having said this, its image in recent times has lost some of its polish. The local authority is working hard to re-position the town and to attract new occupiers. If the image can be improved, the growth prospects must be very strong.
Business centre prospects	As already hinted, Croydon is vulnerable to corporate contraction, a trend that can develop into a vicious cycle of decline. The town has all the necessary ingredients for good business centre prospects, but is at risk.
Impact of infrastructure changes	Croydon is very well connected, particularly importantly, into Central London, with fast rail links into London Bridge and London Victoria. There is also the East London Railway currently being built, which will connect West Croydon mainline to Dalston and Highbury & Islington in the north.
Vacancy and pipeline	Vacancy rates were increasing before recent economic events in response to corporate and government re-organisation; while there has remained a strong pipeline of schemes.
Strategic site availability	Croydon has a good stock of sites available. This should not be a constraint on the town's ability to grow.

3.3 Redhill & Reigate

The Surrey towns of Redhill and Reigate are about two miles apart, and lie within the borough of Reigate and Banstead. While they retain their separate characters, they operate as a single property market. Redhill is the larger of the two: it is more functional and less picturesque, and has an established reputation as a commercial hub with a bigger town centre, more retailers and larger office occupiers.

Office Market Assessment Grid: Redhill & Reigate	
Current economic activity	Redhill & Reigate are relatively small centres, but with a high concentration of corporate activity, particularly in financial services. Both centres are relatively prosperous, with low unemployment and a highly skilled workforce. Both centres have failed to grow significantly in recent years, however, and new investment has been perhaps poorer than might be expected given the underpinning of existing economic activity.
Cluster strength	Redhill & Reigate have a very strong cluster of financial services activity. Take up from this sector has accounted for upwards of half the total in several recent years.
Diversity	It is fair to say that Redhill & Reigate do not convey the features of a particularly diverse economy. There is a strong reliance on office employment, and within that, on a few particular sectors.
Exposure to corporate retrenchment	Because of its narrow economic base the Redhill & Reigate economy is greatly exposed to corporate retrenchment. This is particularly the case in recent times as the financial services industry has gone through a turbulent time. Redhill in particular is vulnerable because of its dominant profile of back office functions rather than headquarters and customer-facing activity.
Residential demand	The area is relatively affluent, with very low unemployment and a predominant office economy. Nearly 40% of the working population are in professional and managerial occupations. House prices operate at a premium to the South East as a whole, and the area is very popular with people commuting into London.
Growth prospects	Both centres have considerable locational advantages and are well-placed for growth. However, this has not proved to be the case in recent years, and growth has been muted. Reigate in particular spurns large-scale commercial growth. The Green Belt further limits growth options.
Business centre prospects	As already stated, the office market here is vulnerable to corporate contraction. There is a narrow economic base, with an affluent population. However, its business centre prospects are not great.
Impact of infrastructure changes	There are no new infrastructure projects or proposals that will significantly alter the fortunes of these tow towns.
Vacancy and pipeline	Stock of space is predominantly older, and vacancy rates have been increasing in recent years – even before the effects of the credit crunch and recession were felt; although the pipeline has remained modest.
Strategic site availability	Being in the Green Belt, the stock of strategic sites for future use is limited, acting as a further constraint on the area's growth prospects.

Both towns are prosperous commuter belt centres, enjoying low unemployment rates. Both also benefit from considerable advantages in terms of transport, being close to Junction 8 of the M25 and M23; only 11 km (10 minutes) from Gatwick airport and around 32 km from London. Redhill is located on the A23 and has a main station on the London-Brighton railway line, with a fast and frequent 30 minute service to the capital.

Redhill & Reigate are dominated by the office economy and in particular by the financial and business services (FBS) sector. Many of these firms have relocated there over the years, often from Central London and Croydon.

Offices in Redhill are concentrated around the train station and the retail core, with additional offices on the roads radiating out to the north, south and west. The main office stock in Reigate is concentrated to the north of the retail centre and the castle grounds, along Reigate Hill, London Road and Castlefield Road.

Redhill & Reigate's stock of offices has nearly doubled over the past twenty years, and now stands at almost 300,000 sq m. The market has been heavily influenced over the years by occupier-led development. However, in recent times, growth has slowed dramatically: annual take-up has shrunk, availability has been on the increase and new development has been minimal. The development pipeline peaked in 2001 at an historically high level.

Redhill & Reigate presents an unusual office market. The market is very self-contained, it is smaller than many other M25 centres, and it has a peculiarly high concentration of FBS employment. In the town centres, the market is typified by relatively small office buildings. The larger buildings are located on a number of out of town developments. There has been limited new supply in recent years; and while vacancy rates remain relatively modest, they show signs of structural increase.

On these bare facts, the medium- to long-term prospects for Redhill & Reigate's office market are uncertain. The greatest threat is on-going retrenchment and off-shoring in financial back offices which could weaken the market's position further still.

3.4 Croydon and Redhill & Reigate compared

Redhill & Reigate, in some senses, exemplify the "leafy suburb" stereotype of Home Counties towns: affluence, low unemployment, good jobs, good social infrastructure and a relatively comfortable population. Croydon, by contrast is altogether grittier: higher density, a broader socio economic profile with more poverty, unemployment and its fair share of social problems.

Such a superficial contrast would serve to reinforce the hypothesis that we are examining here: that OMA office centres outperform their counterparts in Outer London. However, in office market terms, this is not the case.

Setting aside the question of Croydon's scale (which is a big set aside), it is clear that the OMA market is under-performing on several levels: on-going growth; development interest; growth capacity and economic diversity. In addition, Croydon is attracting new interest with major regeneration projects planned.

This is not to suggest that Croydon is very successful: it too is suffering from over-concentration in relatively declining sectors and its image has declined sharply in recent years. But it is not being out-paced by its OMA counterpart. Both are suffering from similar structural problems, and have been hard hit by the specific causes of recent economic events.

If Croydon can address its image problems, and if a number of key schemes are brought forward soon to provide high quality space for modern businesses, there is every likelihood that it will outperform its OMA counterpart in the years ahead.

4.0 Enfield and Harlow

4.1 Overview

Both Enfield and Harlow carry an industrial heritage through to the present day. While Enfield grew up over a long period as a market town, Harlow was designated a New Town in 1947. Neither centre has really succeeded in attracting major office activity over the past twenty years. While Enfield sits just south of J25 of the M25, Harlow is 26 km away, off Junction 7 of the M11. Both are well located and are in many respects similar.

4.2 Enfield

Enfield town is the main retail, commercial and administrative centre of the borough of Enfield. The most recent change has been the addition of the Palace Exchange Shopping Centre in 2006. The town's history is one of a market town, and today much of the area is designated as a conservation area. The borough contains one of the largest concentrations of industrial activity in London.

The recent history of Enfield is that most office activity is generated locally, with little new, significant inward investment. Thus most of the activity – eg professional and business services – is meeting the demands of other local businesses. The recent *Employment Land Study* by Halcrow (2006) noted that there are few areas within Enfield that could be defined as office "zones".

The report notes that, within Enfield Town itself, there are a number of individual multi storey office buildings at River Front and Southbury Road, but that these are of mixed age (varying from 1960s construction up to mid-1980s) and that the majority would not meet the specification required for Grade A office occupiers. Hinting at the kind of restructuring that has been happening the report notes that the majority buildings were originally occupied by single companies as head office or similar, but that due to change in businesses across the region most are now multi-let on a floor or part floor basis.

Development has, in recent years, been at a very low level. The most recent building to be built is the 3,000 sq m Innova House in Mollison Avenue, which was completed in 2001. The low level of demand for good quality office space has diminished confidence in speculative development – even before the current economic and property market travails. The Halcrow report referred to above, was able to state in 2006 that "*There are currently no specific requirements for office occupiers in excess of 10,000 sq ft in the borough. The majority of demand comes from smaller office occupiers (sub 1,000 sq ft) and more specifically for self contained office space which has lesser outgoings in terms of service charges …*".

Office Market Assessment Grid: Enfield	
Current economic activity	Enfield is primarily an industrial centre – one of the largest in London – and is experiencing the symptoms of economic adjustment inherent in such a legacy. The area was struggling before the current economic problems, and the situation can only have worsened since. Enfield is, essentially, a low value economy and, in the period of growth leading up to the credit crunch, was losing employment.
Cluster strength	There is no discernible cluster activity in Enfield. The industrial base that dominates the local property market does not show any specialisation.
Diversity	The local economy's lack of diversity is evidenced by the impact of the economic restructuring that has been taking place for some years now. The office economy in the area is diverse, but very thin.
Exposure to corporate retrenchment	Enfield's exposure to corporate retrenchment in the office economy is low in so far as it has very little corporate activity. However, in Enfield's case this is not necessarily good news. If one of its few large corporates (such as SKB or Nortel) did retrench, then the impact would be great.
Residential demand	Enfield is a physically constrained market (Green Belt and M25) and it is a high density town. Taken together with its industrial heritage, it has therefore not experienced such demand pressure as other London suburban towns.
Growth prospects	Enfield's growth prospects must be questioned given the double whammy of the current recession coupled with the structural decline that it was already experiencing beforehand.
Business centre prospects	Enfield's business centre prospects challenging: average weekly wages, GVA and skilled jobs are low compared to London benchmarks; and Public Administration and Distribution, Hotels and Restaurants account for 56% of employment.
Impact of infrastructure changes	There are no known major infrastructure changes in the pipeline that are likely to have a significant impact on Enfield's office market prospects.
Vacancy and pipeline	Enfield's office vacancy has been creeping upwards in recent times which is cause for concern given the poor quality of much of the stock. There is further concern that the lack of occupier demand and low, stagnating rents makes development unviable (irrespective of the wider economic and property market situation).
Strategic site availability	Given the amount of economic restructuring taking place and the relatively generous supply of surplus industrial land there is adequate strategic site availability. The issue is a lack of demand.

The lack of significant occupier activity has depressed rents. The best quality space, before the recent market adjustment (evidence since is virtually non-existent), reached only £161 sq m (£15 sq ft). Such activity and return means that speculative development is not viable.

4.3 Harlow

Harlow was designated a New Town in 1947 and developed in the post-war years largely as an industrial centre. This legacy is evident today in the town's socio-economic structure. Although superficially Harlow is a reasonably successful Home Counties town it is, on deeper inspection, suffering.

Office Market Assessment Grid: Harlow	
Current economic activity	Harlow has an industrial heritage dating back to its designation as a New Town soon after the last war. Despite attracting some big ticket service based occupiers over the years, it has retained much of this heritage. It is now struggling to reinvent this past. Despite some relatively positive socio-economic indicators the town does, in fact, suffer a relatively high level of disadvantage. The current recession looks set to reinforce the more negative aspects of Harlow's position.
Cluster strength	Harlow does not hold any cluster strength in terms of the office market.
Diversity	The local authority has recognised the need for Harlow to diversify its economic base which is currently quite narrow. There is a level of breadth to diversity here, but the problem is that it lacks depth. A higher density of employment is also required.
Exposure to corporate retrenchment	Harlow is vulnerable to corporate retrenchment. This is related to the point made above: that while there is not a single cluster that might suffer at some point, there is a small number of large service-based organisations, and if only one or two retrenched, then the impact could be serious.
Residential demand	Turnover of property to meet indigenous demand before the credit crunch in Harlow was reasonably strong, but only in the sense that everywhere was. Significantly the town was not under the pressure that some centres were to cope with growth. The housing market is characterised by an ageing stock and a high proportion of council ownership.
Growth prospects	It must be concluded that Harlow's prospects for growth, at least in terms of the office market, are quite limited. There is little critical mass from which to grow, and given the socio-economic profile of the town, it is unlikely to be on the search radar of too many footloose corporate occupiers.
Business centre prospects	Harlow's previous position in the retail rankings has changed dramatically and the town's physical assets are showing strong evidence of decline. These are serious symptoms and business centre prospects are poor.
Impact of infrastructure changes	The local authority is clearly aware of the town's physical and economic problems and is seeking to address these through regeneration. If such plans materialise, then the impact could be significant.
Vacancy and pipeline	Vacancy has risen in recent times, although it has historically been low. The pipeline is poor and new development is minimal.
Strategic site availability	The Local Plan notes that "*As there is no suitable previously developed land within the existing built up area, in non employment use, that can be re-used,… a release of green field land is required…*". This clearly points to a market constraint in terms of the performance of the property market.

Despite locational advantages and some highly visible household name companies (eg Smith Kline Beecham and Nortel Networks), the economy is underperforming. The town centre itself has been in decline for some time and has fallen dramatically down the retail hierarchy. Additionally, Harlow sits within the top quartile of social and economic deprivation in the country. Unemployment has leapt up during the current recession; and while the town maintains a large number of manufacturing firms, their demands for labour are falling.

Again reflecting its industrial heritage, Harlow also has a greater proportion of persons with no qualifications than similar towns such as Basildon and Stevenage. Statistics from the annual population survey suggests a skills gap in the town as the number of persons qualified to NVQ levels 1 and 2 is lower in Harlow than elsewhere.

The council's Adopted Replacement Harlow Local Plan (July 2006) states that "*Harlow is a Priority Area for Economic Regeneration (PAER), due to its high levels of social deprivation, low education, training and skill levels, decline of manufacturing, and the need for renewal of the urban fabric*". Essentially, the economy was stagnating before the current recession, and is now in danger of significant decline. This trend is clearly evident in the property market where the town has been failing to attract replacement business.

As long ago as 2005, the *Harlow Regeneration Strategy* report prepared by PACEC and Halcrow Group stated that "*Harlow's economic potential is undermined by its decaying urban fabric*", and that "*with the exception of Harlow Business Park, the existing stock is both outworn and constrained in terms of size and availability*". This is damning commentary from an independent source, painting a picture of an office market that is singularly failing to meet the image of prosperous OMA centres that this analysis sets out to test.

The local authority's regeneration strategy involves the allocation of land to allow capacity for new development to occur. Around 50 ha of land has been available, though take-up has been limited. A further issue is the lack of land in the town centre. Green field sites are therefore being earmarked.

4.4 Enfield and Harlow compared

Enfield and Harlow are very similar centres, sharing an industrial heritage and experiencing the economic restructuring in recent years that such a shared history implies. Both centres have found it difficult to attract significant new office occupier interest, and both markets have underperformed over recent years.

Neither centre established itself as a strong office market during previous growth cycles – despite a number of high profile occupiers in Harlow. New speculative development in both centres has been very low.

It is certainly not the case that the OMA centre is outperforming its Outer London counterpart. Visible decay in the quality of the urban fabric, combined with a lack of available modern premises suggest that both centres will continue to underperform, in a

regional context, in what is likely to be an increasingly competitive market to attract large corporate occupiers.

5.0 Hounslow and Bracknell

5.1 Overview

West London and the Thames Valley have been the nearest the UK has to a Silicon Valley since the 1980s. One effect of this is that, whereas the comparison of Romford with Brentwood is, for example, in effect a comparison of Havering with Brentwood (Romford being the sole centre of significance), the same pattern is not evidenced here. Hounslow is a mini-constellation of centres and Bracknell is also part of such a mini-constellation.

5.2 Hounslow

Hounslow's main employment locations comprise its town centres, including Hounslow, Chiswick, Feltham High Street and Brentford and, outside them, a series of definable industrial and other commercial areas, notably stretches of the A4.

The borough also has a number of Strategic Employment Locations (as identified in the London Plan) including the Preferred Industrial Locations of North Feltham Trading Estate and Brentford, and an Industrial Business Park: Great West Road.

Other notable office locations include the Great West Road, Chiswick Business Park and Bedfont Lakes. These locations are included within the 100 or so commercial areas in the borough.

Much of the employment development in the borough has taken place away from the town centres in areas which lack adequate public transport infrastructure to support the workforce and which are heavily reliant on the use of the private car.

Like much of the M25 market, rents in and around Hounslow have suffered and demand for office property has plummeted, according to Knight Frank and CB Richard Ellis, to the lowest level since 2003 and well below long-term averages.

Also, waves of corporate restructuring have lead to changes in the geography, especially at Brentford. The fortune of the Great West Road has varied over the past 20 years, and a large number of former employment sites have become vacant and subject to development interest for mixed-use proposals in recent years.

Office Market Assessment Grid: Hounslow	
Current economic activity	Hounslow is one of the most positively scored boroughs in our OMAG assessment, reflecting its position in one of the most important areas of the London economy.
Cluster strength	Hounslow has strong clusters, including ICT and media; and is also in a position to benefit from nearby clusters.
Diversity	Unsurprisingly, given its proximity to Heathrow, Hounslow is also diverse, with just about any business activity found and even recently attracting a corporate HQ (Harvey Nichols) to Gunnersbury.
Exposure to corporate retrenchment	Hounslow is one of relatively few areas where serious exposure to corporate retrenchment is unlikely to be a factor in the short-term (although it remains vulnerable to general economic problems.
Residential demand	House prices in Hounslow have fallen 7.4% in the past year, placing it firmly in the middle of the London house price league, but perhaps more to the point also in the mid-range of *outer* London boroughs.
Growth prospects	In the short-term, Hounslow remains susceptible to the trials and tribulations of the credit crunch economy. However, in the longer-term, its location is one of the strongest in the region.
Business centre prospects	Proximity to the airport and a central location on the M4 corridor means that, so long as this very successful region remains on its game, then prospects for Hounslow are strong.
Impact of infrastructure changes	Crossrail will run along the north of the borough and, although in general such investment is likely to be beneficial, there is a possibility that the "centres of gravity" of the borough may be shifted.
Vacancy and pipeline	As the success in attracting Harvey Nichols illustrates, on a reported rent of £161 sq m (£15 sq ft), Hounslow seems able to accommodate even cost conscious occupiers. However, in common with other M25 centres, Hounslow faces the challenge of preventing loss of employment land to residential and other uses.
Strategic site availability	The common story of competition from competing uses but in absolute terms the borough is not short of potential sites.

5.3 Bracknell

Bracknell is a former New Town, between the M3 and M4. The town is at the heart of the western M25 high-tech region, not just because of its location, but also because its economy is dominated by the high-tech sector. It has office stock of around 440,000 sq m. Its strong concentration of high-tech industries has enabled Bracknell to prosper economically through the 1990s, but also exposed the town to the high-tech slowdown early in this decade.

Bracknell lies 40 km west of London, at the heart of the Thames Valley, with a population of about 111,000, which has grown rapidly in recent times. The borough has good road and rail links with direct access to the M3 and M4 motorways and good links to the region's airports, in particular Heathrow. Bracknell has direct rail connections to Reading and London Waterloo.

A well educated labour force, a good quality environment and the self-reinforcing agglomeration of high-tech companies in the area have acted as key attractors to large numbers of corporate occupiers, many involved in technology, and many multi-national.

Despite the concentration of modern industries and its strong socio-economic profile, Bracknell has been looking "tired" for sometime, and its town centre in particular has suffered. However, the centre is due for a major make over under plans by Bracknell Forest Council and Bracknell Regeneration Partnership (including Schroders and Stanhope). Outline planning permission was granted in December 2006 for a development that will transform the town's retail, office, residential and leisure provision. The new town centre will deliver a mixed use development, including leisure and retail facilities, cafes and restaurants and transport improvements.

Despite a persistently high vacancy rate, take-up by corporate occupiers in Bracknell was strong in the run up to the credit crunch. According to LSH, take-up in Bracknell during 2006/7 was up by 53% compared to 2005/6, and the highest since 2000. The 06/07 figures included the c9,000 sq m pre-let by Gmac at Arlington Square.

Bracknell's exposure to the multi-national corporate occupier market, particularly the technology sector, has exposed it somewhat to corporate retrenchment, and a number of large occupiers have shrunk or relocated in recent years. Thus, for example, against a picture of high but falling vacancy rates, one of its largest employers, Siemens, recently announced large-scale job cuts.

And in the commercial development market messages are mixed. On the one hand, the first phase of Terrace Hill's urban business park, Maxis, reached practical completion in June. Its two buildings, which total 16,700 sq m, will be formally launched in September.

On the other hand, Own Your Own Developments, a joint venture between Surbiton-based developer Ravenbourne Securities and Prupim, has bought a 1.3 ha site on Western Road in Bracknell for an undisclosed sum from RREEF. Significantly, while the site is amid office developments, the developer is planning 6,000 sq m of industrial and warehouse space. Average industrial rents in Bracknell are £129 sq m (£12 sq ft).

A spokesman for Haslams, which advised Own Your Own, said: "*It would not have been financially viable to develop offices in the current market conditions, and industrial occupiers can now benefit from the development when it is complete"* (Property Week, 1st May 2009).

Office Market Assessment Grid: Bracknell	
Current economic activity	Bracknell has felt the impact of the credit crunch as much as any town in the Thames Valley, and its rents have fallen in much the same way as nearby towns.
Cluster strength	Bracknell does have good cluster strength in high technology firms and in financial and business services.
Diversity	The town also has reasonable diversity, with clusters in other sectors, including general industrial.
Exposure to corporate retrenchment	However, many of the sectors are going through significant structural change and Bracknell is potentially vulnerable (as Siemens' moves illustrate).
Residential demand	Although Bracknell's house prices fell by over 10% last year, in the most recent quarter they posted increases in the top ten of UK towns.
Growth prospects	Bracknell's growth prospects are constrained not so much by the physical limitations of the town, but by the sheer number of competing centres. Provided that it can bring about the needed regeneration, however, prospects should be sound.
Business centre prospects	There is no immediate threat to Bracknell's status as a business centre. Indeed, agents are suggesting that ready supply of space might make the town an early beneficiary of an upturn.
Impact of infrastructure changes	Most infrastructure changes – especially the widening of the M25 have already been implemented. The main concern might be that Crossrail shifts the local centre of gravity northward to Maidenhead and Slough.
Vacancy and pipeline	High vacancy, together with some redevelopment, makes Bracknell one of the better equipped centres to respond to any upturn.
Strategic site availability	Bracknell, potentially, has a good supply of strategic sites, although other uses are often competitive with offices.

5.4 Hounslow and Bracknell compared

Hounslow is a very mixed borough, economically and in land use terms, but it is a simple fact that prospective occupiers have real choice if this is the area in which they need to be. Although Brentford especially is clearly facing pressure from competing uses and mixed-use schemes, it is likely that the area will remain a major centre for office employment for the foreseeable future.

Bracknell is very much a first generation new town and has all of the potential and pitfalls associated with that status. It faces very direct competition form nearby centres and as such our conclusion is that, just as Hounslow's principal competition comes less from OMA than adjoining boroughs, so Bracknell is in a local dogfight rather than a regional

one. The planned regeneration of Bracknell town centre could, of course, shift this balance over the medium-term.

6.0 Kingston and Guildford

6.1 Overview

Linked by the A3, Kingston and Guildford are 29 km apart. Kingston is an old market town on the east bank of the Thames which developed into a major retail, commercial, administrative and educational centre. Its role as a metropolitan town centre in terms of retail is especially important, ranked 17th nationally in 2005. In terms of employment, Guildford is roughly twice the size of Kingston. It is also a market town which has benefitted over the past few decades from its excellent road and rail links to London, the South East region and beyond.

Office-based employment accounts for around 25% of total employment in each centre and Kingston, with its dual role as a London borough and location of Surrey County Council has a higher weight in public administration. On the face of it Guildford is the more successful, with annual employment growth of 2% over the past few years, set against annual employment loss of 2% in Kingston.

6.2 Kingston

Kingston is one of London's ten designated Metropolitan Town Centres, located in south west London, with a strong emphasis on retailing in an attractive Thames-side setting with a riverside walkway. Although it is only twelve miles from the West End, rail access to Central London (Waterloo) is infrequent, relatively slow at 30 minutes and with frequent stops. Kingston has an affluent population, a significant proportion commuting into Central London. The town has good road connections to the M25 via the A3 and is only 16 km south east of Heathrow.

Although it remains a significant and vibrant town centre, recent evidence in terms of employment and land use indicates that Kingston has been in a state of retrenchment in recent years. The overall rate of employment change 2003 to 2007 has been -0.6% per annum, while for office-based employment the rate of loss was significantly higher at -1.8% per annum (ABI). In 2007 office-based employment accounted for 7,000 jobs out of a total of 28,000.

The VOA data for Kingston borough as a whole indicates a commercial office stock in 2008 of 262,000 sq m, with a reduction of 4% since 1998. According to Kingston's own Office Survey (2005) the stock within Kingston town centre was just over 80,000 sq m in that year. At that time just over 13,000 sq m was vacant, representing a relatively high vacancy rate of 16%. The report noted office rents of £108 sq m (£10 sq ft) to £251 sq m (£23 sq ft), with average rents around £183 sq m (£17 sq ft), similar to rent levels in 2009 (market surveys indicate top rents in 2009 of £215 sq m (£20 sq ft). Significantly, the survey noted that the last major office development had taken place in 1992 (this remains the case four years later). Rents in neighbouring Richmond and Wimbledon are reported to be £323 sq m (£30 sq ft) with some office development underway.

Note that there has also been no major retail development either since the mid-1990s. Development has been focussed on high density housing, with 1,400 units completed 1995-2008, mainly in four schemes: Charter Quay, Royal Quarter, Skerne Walk and

Avante (Kingston Town Centre Area Action Plan). There have also been developments since 2000 to meet the expansion of Kingston University and Kingston College.

Office Market Assessment Grid: Kingston	
Current economic activity	Kingston is a major centre for retail, education and public administration, but total and office-based employment has declined in recent years.
Cluster strength	Kingston has no discernable business cluster in commercial offices.
Diversity	Kingston is a diverse town centre, however, with a significant range of retail floorspace catering for metropolitan, sub-regional and local needs and strong presence of both public administration and higher education.
Exposure to corporate retrenchment	Kingston does not have a concentration of major private sector office employers, but it is nonetheless exposed to corporate change strategies amongst the larger employers. The loss of an employer of 500 staff would have a significant impact in the context of around 7,000 office jobs.
Residential demand	Kingston is an affluent area with house prices to match, with an attractive suburban hinterland. The town centre itself has attracted high density residential development fronting the Thames in recent years.
Growth prospects	Kingston's Action Area Plan indicates potential demand for enhanced retail floorspace, based on survey data indicating loss of shoppers to other locations, leading to proposal to expand comparison shopping by 50,000 sq m. There is also concrete evidence of expansion in third-level education, with the University and College having built new space in the past five years and actively seeking premises.
Business centre prospects	Prospects for offices appear to be rather more hopeful - "attracting creative and knowledge based businesses", according the Plan. In terms of implementation, however, the Plan is realistically predicated on new office space within mixed-use development and the upgrading of existing offices. This does not imply significant growth in the office stock.
Impact of infrastructure changes	There are no known infrastructure schemes that are likely to impact on Kingston's office market in the near future, but there is lobbying for incremental improvements to rail services.
Vacancy and pipeline	The current borough vacancy rate is reported to be 12% and there is in effect no office development pipeline in Kingston town centre.
Strategic site availability	Kingston is a tightly defined town centre bounded by mature residential areas and the river, but opportunity sites for development exist within the boundary.

Apart from the public sector there are few major private sector office occupiers in Kingston – indeed none of the stock of commercial offices exceeds 8,000 sq m. The 2005 Office Survey noted the presence of London General Holdings Insurance Group (450 staff), Unilever (450 staff) and TUI Travel (400 staff). In 2008 TUI relocated at least 300 staff from Kingston to Crawley Business Quarter, in the OMA.

The borough recognised the need to plan for the future of Kingston town centre in 2001 and prepared an Action Area Plan known as K+20 which was adopted in July 2008. On the office market, the Plan comments, *"Kingston's status as an office centre is weak, much of its office stock is poor quality and its rail services and connection are relatively poor, which has led to low office demand and low office rents. Measures are needed to enhance its attractiveness to commercial office based businesses, especially in the growing creative, knowledge and information sectors".* The Plan envisages that office prospects could be enhanced by the burgeoning Kingston University, linked to incubator schemes and flexible office/studio/workspace to provide space for start-ups and young growing companies.

6.3 Guildford

Guildford town centre offers a very wide range of retail facilities and other services. It is the major retail centre in Surrey. Guildford is located on the A3, 13 km south west of junction 10 of the M25. The A3 passes through the town, on the north side of the centre. The town has excellent rail links, including fast services to London Waterloo, which typically take 40 minutes but can be as short as 34 minutes. It is well placed to access both Heathrow and Gatwick, which are virtually equidistant to the north and east.

89% of the borough lies within the Green Belt which restricts growth outside Guildford town: Guildford Business Park is on the northern edge of the town centre for example and the Surrey Research Park is on the west side of the town, adjacent Royal Surrey County Hospital. The town has a flexible labour market with very high rates of employment (81% in 2001) and very low unemployment. Although it is a significant retail centre, there has been little new development in recent years. There are plans, however, for a significant addition, with a tripling in size of Westfield's and Hermes's Friary Shopping Centre, but the scheme is currently on hold.

The number of employee jobs in Guildford increased by 50% from 47,700 in 1995 to 71,500 in 2007 (NOMIS). Over the same period banking, finance and insurance jobs increased 86% from 9,472 to 17,600. In line with this trend ABI data shows that overall employment increased by 0.7% per annum 2003-2007, but that office-based employment growth showed a higher rate of increase at 2.2% per annum. In 2008 the participation rate was very high at 83.2%, considerably above the South East average of 78.5%.

There are strong linkages between the University of Surrey and the local enterprise. The University's Surrey Research Park is a 28 ha science campus established in 1983 and home to 110 companies and which accommodates around 2,750 workers in knowledge-based industries. Annual turnover per employee at £100,000 is reported to be substantially higher than the regional average. Guildford has also attracted regional government over recent years including SEEDA and GOSE, and the south east regional office of English Heritage.

Guildford has experienced significant expansion of its office stock over the past decade. According to the VOA, the stock of commercial offices at 2008 for the borough as a whole was 317,000 sq m, an increase of 36% on the figure of 233,000 sq m in 1998. In terms of the current market, reports indicate that the office market is broadly "in balance" in spite of the recession. Office rents at March 2009 were reported by Knight Frank to

be £274 sq m (£25.50 sq ft) with rent free periods of 21 months, but expected to fall a further 10% by the end of 2009. According to Knight Frank, rents peaked in the late-1990s at £355 sq m (£33 sq ft), but reached only £296 sq m (£27.50 sq ft) in 2007, before falling.

Office Market Assessment Grid: Guildford	
Current economic activity	Guildford is a thriving town – a strong centre for retail, business services, health, education and public administration which has shown strong growth trends over the past decade. It is vulnerable to overheating in times of economic expansion.
Cluster strength	Guildford's office stock of 317,000 sq m gives it critical mass. The successful initiative of the Surrey Research Park gives it a strong cluster in science and knowledge-based occupiers – one which is continually reinforced with new start-ups and expanding companies.
Diversity	Guildford has a diverse economic base in retail, distribution and the service sectors.
Exposure to corporate retrenchment	Guildford has a strong and diverse base of corporate occupiers an is not particularly exposed to corporate retrenchment.
Residential demand	Guildford combines a strong local economy and good commuter links to London in a reasonable time with an attractive town centre environment and a hinterland of villages in the Green Belt. House prices reflect this and are in line with the average for the Surrey commuter belt.
Growth prospects	Overall prospects for growth look positive given Guildford's existing attributes, with the caveat that during periods of strong economic growth the labour market and housing markets have a tendency to overheat.
Business centre prospects	Guildford's prospects are good, building on the foundation of a broad range of sectors. Diversity of sectors is a strength in commercial offices and the presence of a strong public sector element gives stability in the current downturn.
Impact of infrastructure changes	There are no known significant infrastructure proposals affecting Guildford town centre. Infrastructure needs for future development are to be dealt with on a site-by-site basis.
Vacancy and pipeline	The vacancy rate in Guildford has increased over the past two years in line with wider trends in the market. The planning pipeline is reasonable and the latest Local Development Framework policies promote office development within the town centre and resist the loss of offices to other uses.
Strategic site availability	The Town Centre Area Action Plan highlights 11 major redevelopment opportunities within the town centre, the largest of which is a comprehensive development of the station and railway tracks, with offices as one of the primary uses.

2009 has seen one new completion in the Guildford office market, Standard Life's 2,900 sq m 65 Woodbridge Road. Completed in January 2009, the building was still available in August 2009 at a quoting rent of £312 sq m (£29 sq ft). According to Knight Frank this was one of only half a dozen recent completions in the south west quadrant of the M25.

Although there have been no major lettings in the town during 2009, there is an active market for small units sub-300 sq m, and there are active requirements over 3,500 sq m such as law firm Stevens & Bolton.

6.4 Kingston and Guildford compared

In the case of the Kingston and Guildford pairing, it does appear that the OMA centre possesses many of the attributes to which the OL centre aspires. Already twice the size of Kingston in terms of its employment base and office stock, Guildford has expanded as an office centre over the past decade while Kingston has marginally declined. Kingston is quite rightly seeking to use its higher education campus to stimulate business activity, where Guildford already has a 25 year track record at the Surrey Research Park.

Kingston is undeniably a successful and vibrant centre in its own terms, but has been unable to take advantage of its location within Greater London and close to Central London. Arguably Guildford, twice the distance from Waterloo, has better accessibility by public transport with its frequent high-speed services.

This is reflected in the recent performance of the office market. Kingston has had no significant new office development for almost twenty years and is exposed to the potential loss of one or two larger occupiers. Top rents in the low £200s sq m (low £20s sq ft) are attractive to certain occupiers but are insufficient to stimulate new stand-alone office development. Kingston has strong competition from Wimbledon and Richmond, where rents are higher and office development remains viable.

Guildford has recently experienced a modest level of office development although, as in Kingston, there has been significant high density residential development in the centre. The underlying strength of the office market has allowed Guildford to pursue a planning policy to strongly resist the loss of office space and to promote significant new office development. In the Guildford context that looks a reasonable approach.

Kingston's policy to promote new office space through mixed-use development and to promote the refurbishment of tired stock is a pragmatic approach for a low demand-low supply environment.

7.0 Romford and Brentwood

7.1 Overview

Romford and Brentwood are something of an archetypal pairing, with Romford very much part of the built fabric of Greater London and Brentwood the M25 town. Romford was not seen as strategically significant to the London Plan in the detailed considerations of LOPR 04, but the impending arrival of Crossrail has raised attention to the possibilities of the area. Brentwood meanwhile is at the heart of the response to another impending arrival: the Olympics.

7.2 Romford

The London Plan classifies Romford as one of eleven Metropolitan Centres in Greater London. In 2003/4 Management Horizons Europe ranked Romford fourth of the Metropolitan Centres in London; above Ilford, and the highest ranking centre in east London. It is a bustling commercial centre and a major retail location.

Office Market Assessment Grid: Romford	
Current Economic Activity	Romford is a bustling centre although it is mainly the retail scene that gives this impression.
Cluster strength	Havering as a whole has no strong cluster. Employment in construction showed the strongest growth in the most recent (2006) Employment Land Review, although it would be stretching it somewhat to impute cluster strength to this.
Diversity	The borough as a whole shows a significantly higher than average concentration of administrative and secretarial employment, probably reflecting the area's role as a commuter base for the City. It is under-represented in "senior" employment.
Exposure to corporate retrenchment	Romford is not especially exposed to corporate retrenchment. The Employment Land Review data (rather outdated) suggest a growing number of SMEs at the expense of larger employers has already worked through the system.
Residential demand	Resident employment data indicate that the borough as a whole is a popular base with those working at service levels in the City, and there is no particular evidence that Romford is any different.
Growth prospects	As an office centre it is difficult to see significant growth prospects in Romford, despite the warm words of the Romford Action Plan: with nearly one million sq m of space proposed at Stratford, Wood Wharf and Greenwich it is hard to make a case for Romford, despite Crossrail.
Business centre prospects	Having said that, Romford is a thriving centre, driven by retail-led regeneration. If some diversity can be delivered to the office quarter, the local SME community could well find a pleasant home there.
Impact of infrastructure change	Crossrail is coming to Romford and this is very unlikely to be a negative thing. Although it is doubtful that its office market will feel much benefit, the overall beneficial effect has to be reflected in the scoring.
Vacancy and pipeline	Romford has minimal stock of new of refurbished space and the parlous rent noted above somewhat reflects this.
Strategic site availability	Similarly, there is an absence of sites suitable for office development and, even is they existed it is arguable whether this would be best use for them.

Romford is an important office location in the context east London, with a clear office quarter bounded by Western Road to the north; Mercury Gardens to the east; Chandlers Way to the west and the railway line to the south. This office quarter has a number of vacancies due to recent closures. The most recent Romford Area Action Plan reported that local firms have reported difficulties recruiting and retaining high quality staff due a number of factors, including the lack of peak hour express trains to and from Liverpool Street, and the quality of the local environment.

The Havering Employment Land Review (2006) suggested that Romford has the potential to reverse this trend and consolidate its importance as a suburban satellite office centre. The study suggests that the local office market is likely to begin to experience an upturn and that demand for office space in Romford could be bolstered further by the proposed implementation of Crossrail. The study identifies an annual demand for land for offices of 1.6 ha by 2018. However, it also notes that only 5% of Romford's office space is new or refurbished. Notwithstanding Crossrail, the study's findings fell foul of the credit crunch.

Office employment in Havering was projected to rise 36.9% between 2006 and 2026 from 19,700 to 26,900. As a relatively high employment density activity it is important to accommodate this growth in sustainable locations, especially town centres. Therefore the Area Action Plan encourages more intensive development within the Romford office quarter to enable existing floorspace to be renewed.

Market evidence is sketchy, although a recent deal saw Scientifics, a testing and analytical firm, pay £118 sq m (£11 sq ft) for around 250 sq m at Falcon Business centre.

Romford has done exceptionally well to continue to thrive as a location in the face of ferocious competition from regional shopping centres. But, as this implies, office development is not at the heart of this fight-back and it is doubtful of it ever will be.

7.3 Brentwood

Brentwood is part of the Mid-Essex group of councils which co-commissioned research into their economic well being. Famously, Brentwood was, until recently, home to Amstrad, but it is also the UK base for the Ford Motor Company. Brentwood has a very high level of both in- and out-commuting. Greater London is the main draw, accounting for almost two-fifths of resident workers, the other most frequent destinations being Basildon and Chelmsford.

Commuting flows are, of course, two-way and there are large movements of workers into Brentwood, particularly from the neighbouring districts of Havering, Basildon and Chelmsford.

Firms in Mid-Essex show average productivity compared with UK as a whole, but as part of the London Arc, companies are 8% more productive than might otherwise be expected. Brentwood firms are the most productive in Mid-Essex. In terms of employment structure, Brentwood is strong in financial and business services with, all of Mid-Essex relatively strong in distribution, government, health and education. Brentwood's employment growth of the past five years is well above the national average. The main expanding job sectors are business and professional services, health and social work, postal and telecommunications, education, hotels, restaurants and construction. Brentwood has a tight labour market with high employment and low unemployment rates.

Office and retail space dominate the stock of commercial premises, both in terms of properties and floorspace.

The green belt status of the whole of the borough has a profound effect on many of these factors, and local economic development initiatives. Brentwood's strategic accessibility and closeness to London suggest that pressures for development will remain. Perhaps the most significant development, however, has been the move of Amstrad from Brentwood to Loughton and the conversion of Amstrad's Brentwood House HQ into a hotel.

Office Market Assessment Grid: Brentwood	
Current Economic Activity	There are no specific indications of economic problems beyond those associated with the current downturn
Cluster strength	Brentwood indicates some cluster strength insofar as it has a notably higher concentration of employment in the financial and business services than other Mid-Essex towns, although it is doubtful that this is potent enough to generate agglomeration benefits.
Diversity	Brentwood is as diverse as most M25 established (ie not New Town) centres and should be reasonably robust against sectoral downturns.
Exposure to corporate retrenchment	Brentwood is highly vulnerable to corporate retrenchment, as Amstrad has already shown; and Ford could demonstrate at any time, given the travails of the US car industry.
Residential demand	Brentwood house prices fell nearly 15% in the last year, putting it in the bottom half of the Essex league table in terms of price drops. Even on shorter-term scales, its place in the table stays much the same, although falls have moderated.
Growth prospects	The principal constraint for Brentwood is physical – in common with many areas on OMA it is hemmed in by Green Belt.
Business centre prospects	In the short-term Brentwood, in common with many other Essex centres, seems set to be dominated by servicing the Olympics and leisure is likely to be at the forefront. Early evidence is that this counts against office development in favour of hotels and tourism.
Impact of infrastructure change	Brentwood is near the eastern end of Crossrail, but it seems more likely that this will make the town a more attractive commuter base rather than serve to attract new office development.
Vacancy and pipeline	Brentwood is forecast to experience difficulty in adequate land to meet demand (uniquely in Mid-Essex) according to The Mid-Essex Economic Futures Assessment.
Strategic site availability	Rapid employment growth through Mid-Essex has resulted in land shortages.

7.4 Romford and Brentwood compared

When comparing Romford and Brentwood, it quickly becomes evident that they are very different; but that Romford, although just over the M25 from Brentwood, is not facing its main competitor there.

Brentwood is a classic Home Counties business centre with several large employers but a host of constraints, not least the Green Belt. Romford is a secondary suburban centre (in office terms, it is much stronger for retail) whose main competition is highly unlikely to come from Brentwood or any other Essex town.

Instead, Romford's crunch will come from facing large-scale development in east London, especially after the 2012 Olympics. The vast pipeline of schemes at Stratford, Wood Wharf and Greenwich mean it is highly unlikely that a case can be made for strategic scale office development in Romford and, indeed, that Brentwood may even run into the same problem.

8.0 Stratford and Chelmsford

8.1 Overview

Stratford and Chelmsford are starkly different places historically: one inner city (and all that goes with that) and the other green belt suburbia (and all that goes with that). It is unlikely that they ever competed with each other for corporate offices: for a start, Stratford barely has an office market. The focus on urban regeneration in Stratford is seeking to overturn its market disadvantage with an entirely new offer.

8.2 Stratford

Stratford sits at the centre of public efforts to re-invigorate east London. It is earmarked as the strategic growth centre for office development in east London and is currently undergoing major investment in new transport and urban regeneration. Of course, the Olympics in 2012 give efforts a certain focus n term of meeting objectives.

With over 100,000 sq m of office stock, Stratford is already a large office centre, although it does not really come onto the search radars of footloose corporates looking around London. Once a significant “back office” and support services centre for the City of London, its recent history as an office market has seen a loss of office stock to housing and higher education. The existing market serves a local demand from local government departments, housing associations and SMEs. Rents achieved are significantly lower than the £253 sq m (£23.50 sq ft) often being quoted by agents.

The proposals for Stratford – so integral to its future prospects – are discussed elsewhere in this report (see Section 6.6), but in summary: Stratford City includes 500,000 sq m of office development, 150,500 sq m of new shopping, leisure and social facilities, hotel rooms and over 4,500 new homes to be used as the Olympic Village and subsequently released for sale in the open market or as affordable housing. The shopping centre is under construction, but the office component will be driven by market demand and there are currently no plans to build speculatively.

Here we are more concerned with what Stratford is today, and what it has been in the past, and whether these factors help account for its performance relative to OMA.

Stratford is already a major public transport hub with an underground station on the Jubilee and Central Lines, the busy Stratford regional station and a DLR terminus. Soon, Stratford International will also be fully operational (see Section 6.6). However, Stratford has in the past been poorly connected and this has played a major part in its

lack of favour with developers. In this sense it could not hope to compete with Canary Wharf which had first mover advantage and, later, critical mass and momentum.

Office Market Assessment Grid: Stratford	
Current economic activity	Stratford has, historically, been an office backwater: for those not wanting to be in the City, the logical solution is to leap frog such places and move out of London. Stratford is, however, billed as the great hope for east London. As such it will probably continue not competing with places like Chelmsford, but for a greater slice of the London pie.
Cluster strength	None, although dependency on public sector.
Diversity	Stratford has diversity, in a local sense, but has no track record in larger-scale diversity.
Exposure to corporate retrenchment	Currently none
Residential demand	Stratford's population barely increased between 2001 and 2007 which suggests a comparatively sluggish residential demand pressure.
Growth prospects	Stratford's growth prospects are excellent in terms of the public sector commitment to regeneration, the Olympics and so on. Purely in terms of an office market, it sits in an untried location and is surrounded by competition that is, arguably, more advanced in terms of delivery. This adds uncertainty to prospects.
Business centre prospects	Ditto
Impact of infrastructure changes	These should be enormous: Stratford is being "put on the map". High Speed One; Crossrail, Olympic Javelin; East London Railway; DLR improvements, and others will bring major accessibility benefits.
Vacancy and pipeline	Vacancy is irrelevant given the difference between the existing market and the aspiration; and the pipeline is, in effect, limitless.
Strategic site availability	Huge.

Furthermore, Stratford's existing office market is generally low grade and local. It has failed to attract significant occupier interest and, in a vicious cycle, has failed to attract developers. It is, however, well placed geographically to act as a back up location for Canary Wharf if there is demand pressure. Stratford's most direct competitors on cost and accessibility are Croydon or Greenwich Peninsula.

There is no real evidence to suggest that Stratford competes with a centre like Chelmsford – each caters for a different demand profile. The new infrastructure, and the new office stock (the new offices proposed in Stratford are of a particularly high quality) could tip market favour in its direction. One issue is the continuing uncertainty caused

by the Olympics preparation: when will the office development process deliver product for occupiers to consider?

Economic development in Stratford will be driven by public investment. It has the potential for transformation by virtue of being the focal point of major infrastructure improvements, adding to its already good connectivity, an enormous retail development and large scale regeneration associated with the Olympics.

In the current market, it is hard to see where the demand pressures will occur to create significant demand for offices in this untried location. If however, there is a demand for back up locations to Canary Wharf, then this seems to be the ideal location – it is accessible, low cost and has the sites available to produce the right product. Its high speed rail connections to mainland Europe set it apart from its competitor locations (except King's Cross).

The shopping centre and Olympic Park will make it an attractive place to work. The prospect of creating a specialist product should also be considered in this location to attract a sector cluster because of its unique combination of transport connections, low cost and public investment. The volume of residential property being brought to market as part of the Olympic Village will balance demand in the short term but in the longer-term the head start provided by the public investment should drive demand in this location.

8.3 Chelmsford

Chelmsford town centre is the county town of Essex. It is a regional shopping destination and a historic market town. Chelmsford town centre contains a broad range of services and facilities and is a key centre in the East of England region. The resident population is relatively highly skilled, and the town sits in the prosperous commuter belt, enjoying low unemployment, a relatively high standard of living and a good environment. It has good rail links into London and sits close to the M25.

Chelmsford has the sixth largest workforce in the region, and the second largest in Essex, behind Basildon. It has some of the highest levels of economic activity (83-84%) when compared to local and national levels; and unemployment levels have been consistently low. Housing demand has, until recently, remained good, although prices have underperformed surrounding areas, perhaps indicating strong capacity. The town has an office stock of some 186,000 sq m – indicating its importance as a regional office centre.

The borough has a well qualified workplace population, and the workforce rose from 63,734 in 1998 to 79,575 in 2003 (+24%). The largest absolute rise in this period was in Banking, Finance and Insurance – up by 6,500, or 59.2%. Chelmsford residents earn more than the workplace population and are more highly skilled, indicating a high level of out-commuting, and strong links with Central London. Over 40% of the borough's workers leave Chelmsford daily to work, and London is the main destination for these commuters.

Despite the generally positive economic indicators, it should be noted that there is a strong weighting of public sector employment in Chelmsford. Large public employers

include Chelmsford Borough Council, Essex County Council, Essex Police and Broomfield Hospital. The Employment Land Review also highlights "*a concern that the local economy is highly dependent upon businesses or organisations that employ more than 200 people*". One third of the workforce work within such organisations.

Office Market Assessment Grid: Chelmsford	
Current economic activity	Chelmsford is an historic market town with a strong history in attracting high quality office employers – many relocating from central London. However, this source of demand has lessened in more recent times, and there is need for a "re-branding" of the town's office market.
Cluster strength	The town has cluster strength in its strong reputation as an attractive location for financial and business services. It is, however, significantly dependent upon the public sector to provide a large proportion of its office jobs.
Diversity	Chelmsford has a long history and has evolved over a considerable time. It has in-built diversity and its population is well-skilled and prosperous. However, diversity will need to be improved.
Exposure to corporate retrenchment	The town is highly vulnerable to a downturn in the financial services sector. It is also potentially vulnerable to reorganisation within this sector resulting in technology replacing jobs and off-shoring.
Residential demand	Chelmsford has a strong and vibrant residential market, with a good proportion of high quality stock and the capacity to meet further growth through brown field sites and town centres sites in close proximity to public transport.
Growth prospects	Growth prospects must be described as good. Chelmsford has a strong history and a relatively prosperous present. There is a good base of employers, although this needs to be strengthened with new companies in sectors other than financial services.
Business centre prospects	Business centre prospects are good for Chelmsford, but they are at least partly dependent upon repositioning the town's offer. And this means creating new stock of a quality that will attract corporate occupiers. The current office market is too constrained in terms of choice.
Impact of infrastructure changes	There are no known major infrastructure improvements planned, although the local authority is active in promoting the renewal of the town centre through its Area Action Plan.
Vacancy and pipeline	There is a growing level of vacancy within Chelmsford which is of concern. In addition there has been relatively little new development and developer interest, irrespective of recent events, has been modest. The office stock is dating and there is a need for renewal.
Strategic site availability	Opportunities in at Central Campus, the former Marconi factory, Essex County Council car park, BAE Systems car park, the Civic Centre and Coval Lane/Rainsford Road. Opportunity for campus offices with the on-going expansion of Anglia Ruskin University.

Turning to the office property market, performance in recent times has been unspectacular. Although there have been a steady stream of developments (eg at Chelmsford Business Park, Coval Wells, Hedgerows Business Park and Regina Road),

the average annual completions between 2001 and 2005 ran at c5,000 sq m – little more than one building for a significant corporate occupier. And despite a comparatively healthy land supply, including potential for c30,000 sq m of offices in the town centre, take-up has been very limited (all this prior to the market turnaround in 2007).

The office stock is mainly located within the town centre and is of a reasonable quality. The main out-of-centre sites are Chelmsford Business Park and Hedgerows Business Park. The town has a large number of financial services employers, reflecting its history as a favoured location for back office relocations from London. However, the most significant property sector in the early-2000s has been warehousing.

In recent times, the office market has been rather weak and there is a shortage of new stock, in larger buildings, coming through the pipeline. The Borough's Town Centre Area Action Plan notes that "*the majority of office space is in pre-1980 buildings, the town centre lacks modern category A office space and there are limited conference and hotel facilities*". The plan is positive: "*the quality of office accommodation needs to be high. Based on the record of office take-up in the town centre … the strategy is to direct half the office take-up over the next 15 years to new office stock and half to existing stock. It is anticipated that the town centre can accommodate at least an additional 25,000 sq m of offices over this period*".

8.4 Stratford and Chelmsford compared

As already noted these two centres were never likely to have been competitive. What drove their respective performances in the office market was entirely different. It is therefore inappropriate to ask whether the OMA centre does better because it is an OMA centre: of course this is true. But Stratford has not attracted any significant occupier or developer interest because it is not recognised as an office centre. To overturn that perception will not only take a lot of new infrastructure (which it is getting), but also a lot of time to shift mindsets.

9.0 Uxbridge and High Wycombe

9.1 Overview

Uxbridge and High Wycombe make an interesting pair. Superficially they are similar towns – both with an industrial heritage, both in affluent residential territory, both with good access to the motorway network and public transport into Central London and both on the eastern edge of the dynamic Thames Valley property market. But, despite these similarities, the stories of their office markets follow different paths.

9.2 Uxbridge

Uxbridge has an office stock of around 205,000 sq m, making it the fourth largest concentration of offices in Outer London. Headline rental values in mid-2009 are £280 sq m (£26 sq ft), significantly lower than the £334 sq m (£31 sq ft) achievable in 2007. Uxbridge established itself as a key office centre in the 1980s providing new high quality office stock to large corporates, easily accessible to Heathrow and to the affluent 'MD' territory of south Bucks.

Uxbridge's success can, in large part, be attributed to the quality and variety of the office stock available to prospective employers. This is reflected in the long list of 'big names' located in the town such as ParExel, Nexen Oil, EDS, and Xerox. Hertz Corporation

occupies 6,400 sq m; Price Waterhouse Coopers has a 7,200 sq m unit in the Atrium alongside Insight, Mitsubishi Electric and Anadar KB. In Arlington's Uxbridge Business Park, pharmaceuticals group Amgen took 7,900 sq m in 2005 and a year later Bristol-Meyers Squibb leased 5,600 sq m.

Office Market Assessment Grid: Uxbridge	
Current economic activity	Uxbridge is a star of the Outer London office markets. It has attracted major corporate occupiers, commands premium rental values and developers compete for the opportunity to add to its stock.
Cluster strength	There is cluster strength in Uxbridge of pharmaceuticals, ICT and US owned businesses.
Diversity	Although Uxbridge benefits from clusters, it has several of them, in addition to a relatively broad base of local government and business service functions. It has therefore a healthy diversity.
Exposure to corporate retrenchment	The fact that Uxbridge has clusters of large occupiers means that it is exposed to some extent to corporate retrenchment although there is no disproportionate reliance on a single occupier.
Residential demand	Residential demand is strong throughout Outer London and Uxbridge is no exception, although it has no unusually strength in this market.
Growth prospects	The local economy is robust and can be expected to continue to grow, although Uxbridge is constrained by lack of opportunity for new development.
Business centre prospects	Uxbridge has a vibrant local economy and a strong retail centre. It has a large community of knowledge workers and support businesses.
Impact of infrastructure changes	The proximity of Heathrow has helped to create Uxbridge's success and the planned refurbishment of the existing terminals as well as the proposal for a third runway and sixth terminal will drive growth in this local economy in the longer-term. Crossrail stations at Iver and West Drayton would enhance its connectivity
Vacancy and pipeline	Poor availability of good quality stock in the centre, although the business parks have relieved the pressure on supply.
Strategic site availability	Very little opportunity in the centre.

Uxbridge remains attractive to office occupiers and, although there is a lack of quality stock available in the centre of town, the business park, built on the edge of town in South Bucks, has enabled the town to retain its premium rental levels. There is a problem however with parking ratios in the town centre. The existing office buildings have much better car parking provision than new buildings. Historic car parking ratios allow one space for every 2,691 sq m (250 sq ft) compared with a town centre development today that would be given a ratio of 1:5,382 sq m (500 sq ft). The business park has more generous parking, but the town centre ratios discourage renewal of the built stock and favour refurbishment to retain the historic ratios.

The London Borough of Hillingdon Employment Land Study 2009, included a survey of business occupiers which questioned businesses intending to leave the borough within two years. Among the reasons given the report states: *'Parking and road use was frequently mentioned as a problem especially in Uxbridge and Springfield Road, South Ruislip".*

Uxbridge is well connected by road and underground rail, being close to the A40/M40, easily accessible to the M4 and M25 and with an underground stop on the Piccadilly line into London. Its town centre is lively and has a wide retail offer in the Chimes Centre which was opened in 2001. Uxbridge is also home to Brunel University with its strong technical and engineering connections.

9.3 High Wycombe

High Wycombe lies on the north eastern edge of the Thames Valley, adjacent to the M40, which connects it to the M25 and M4 and is thereby accessible to London, Heathrow, Oxford and the West Midlands as well as having a fast and efficient rail service to London. Despite all this, it has never established itself as a mainstream Thames Valley location. Nearby Marlow, Maidenhead and Uxbridge have all attracted major corporate headquarters but High Wycombe has been constrained by its inability to provide large, prestigious office buildings in accessible sites. It has also been hampered by severe congestion on the approach roads to the town centre.

Total stock in the district is around 440,000 sq m, with an annual take-up of offices (mostly out-of-town) ranging from 10,000 sq m to 30,000 sq m. The Marlow area, albeit some distance from High Wycombe town centre, has emerged as an important office location. Three sites have been developed adjacent to one another: Globe Park, Globeside and Marlow International Park. Other business parks in the Wycombe District include Mercury Park and Glory Park at Wooburn Green, eight kilometres to the south east of the town. There is over 100,000 sq m in the development pipeline but almost all of it is out of town.

Much of Wycombe's office stock was developed in the 1980s and is would now struggle to achieve rents of £150 sq m (£14 sq ft). Nearby out-of-town developments meanwhile, in Marlow and Wooburn Green, have commanded headline rents of around £235 sq m (£22 sq ft), suggesting that there is potential for demand if the right product could be provided. There has been virtually no new development in the town centre since 2000 and, today, agents agree that the town is adversely affected by a lack of grade A space.

High Wycombe's higher education facility has recently acquired university status (Bucks New University) making High Wycombe a university town. Its centre has also been greatly improved by the completion of The Eden Centre – opened in 2008 and anchored by House of Fraser. Another boost to the local economy has been provided by the recent announcement of Pinder Fry and Benjamin's purchase of a 20ha site at Saunderston, with plans to develop a 79,000 sq m data centre hub.

Wycombe has a broad-based economy without any over-reliance on a single economic sector or activity. Traditional manufacturing industries remain important to the local economy. Out-of-town locations have been successful in attracting knowledge-based industries such as ICT, life sciences and biotechnology. Both Globe Park and Marlow

International suffered high vacancy after the dotcom crash of the early-2000s. Blue chip occupiers on these parks include BT Cellnet, Volvo, Altana and Icon Clinical Research.

Wycombe is an affluent area with a high proportion of its residents in managerial and professional occupations. It has a low unemployment rate and generally a low incidence of deprivation although this hides pockets of relatively high unemployment.

Office Market Assessment Grid: High Wycombe	
Current economic activity	High Wycombe is on the periphery of the Thames Valley but has not lived up to the promise of its locational advantages - adjacent to the M40, readily accessible to the M25, M4 and with good rail connections to Central London. The town centre office stock is dated and generally in small units of less than 1,000 sq m.
Cluster strength	There is no particular cluster strength in High Wycombe, although the potential exists to form a high tech cluster related to the university and to attract knowledge industries from elsewhere in the Thames Valley.
Diversity	High Wycombe has a diverse occupier base, albeit serving a relatively small and local community.
Exposure to corporate retrenchment	In the past High Wycombe has suffered from the loss of some major employers in the manufacturing sector, particularly in the furniture making sector but these have gone and today there are no major employers to threaten the economy with their demise.
Residential demand	High Wycombe is at the heart of an affluent residential region with strong demand for housing, reinforced by its sought after grammar schools, although the town itself has pockets of deprivation.
Growth prospects	The recently-opened Eden centre, and new university are both potential growth drivers in High Wycombe as is the prospect of a giant data centre hub just outside the town centre. The Employment Land Study of 2004 also highlighted leisure and tourism as potential growth sectors. Congestion and the poor quality of the existing office stock and lack of opportunity to improve the stock act in opposition to growth.
Business centre prospects	Material changes to the centre could attract inward investment. The Employment Land Study highlighted a need to provide land for new high quality office uses. Its relatively low property costs, high quality of life and environment, strategic location, and access to a highly qualified workforce all reinforce its growth potential.
Impact of infrastructure changes	No public transport infrastructure is planned, but improvements have been recommended to Handy Cross roundabout and routes around and into High Wycombe.
Vacancy and pipeline	The vacancy level in High Wycombe is low and, partly because of the pressure and demand for new housing, the office pipeline has also remained very modest.
Strategic site availability	There are out-of-town sites available on former industrial land, but the town centre remains constrained.

9.4 Uxbridge and High Wycombe compared

If any pairing can explode the myth that OMA centres fare better than OL centres, this is the one. Despite the similarities highlighted in the introduction to this piece, Uxbridge has developed a far more successful office market than its OMA counterpart. It has attracted a raft of corporate HQ occupiers and, while it is difficult to make a direct comparison of rents in the current market, its headline rents are a good 30% higher than in High Wycombe. Uxbridge has been able to succeed and prosper as an office centre by providing large high quality buildings, which High Wycombe has failed to produce.

In very recent years High Wycombe has acquired a new shopping centre and a university – strengthening the parallels between these two centres. Although much of Uxbridge's success predates the opening of The Chimes retail centre in 2001, it has reinforced its appeal, and The Eden Centre has the potential to do the same for High Wycombe. Today, both markets have a shortage of good quality space in their respective town centres, at a time when town centre locations are in demand. In Uxbridge the situation has been relieved by an edge of centre business park, whereas in Wycombe the demand has shifted further out of town to Marlow, Wooburn Green and Bourne End. The lack of opportunity to build in the town centre – on going in Wycombe and new to Uxbridge – together with traffic management and parking issues, is threatening the future of both centres.

10.0 Wembley and Hemel Hempstead

10.1 Overview

Once again there are strong parallels between these two centres. Both have strong industrial heritages and continue as distribution centres but Hemel's affluent and rural hinterland is in stark contrast to the deprived urban setting of Wembley.

10.2 Wembley

Wembley is, first and foremost, a successful and dynamic distribution centre, with a still active industrial market. Offices are very much secondary to these functions. In the decade to 2005, take-up of commercial floorspace in the borough of Brent ran at around 64,500 sq m per annum, of which only about 16,000 sq m was office space. It is a relatively deprived area and its public realm is generally of poor quality. Employment in Brent is generally low-skilled as described in the employment land study, it has "*a higher proportion of people employed in elementary occupations. [than the rest of London]….There are proportionally less people in Brent educated to a degree level when compared to London as a whole and proportionally more people maintain no skills or training at all*". Just to emphasise the point - unemployment is above the London average and household incomes are only two thirds of the London average. Some wards in Brent rank among the 10% most deprived in the UK.

Wembley is, however, an internationally recognised 'brand' as the home of English football, and the new National Stadium, designed by Foster & Partners architects and completed in 2007, has the potential to drive growth. Quintain is a major landowner in Wembley with grand plans for regeneration that are shared by the council. Quintain has already restored and re-orientated Wembley Arena which now faces into the heart of the regeneration area and overlooks a new Arena Square.

Office Market Assessment Grid: Wembley	
Current economic activity	Wembley has a strong and successful distribution economy. It has suffered from the general UK-wide decline in manufacturing but this has been replaced by its logistics function.
Cluster strength	Wembley has a strong distribution cluster and it is also strongly associated with sport and leisure via the Stadium and Arena.
Diversity	The office market is small and disproportionately represented by local government.
Exposure to corporate retrenchment	Wembley's economy relies on distribution into the markets of Central London and it is thereby vulnerable to retrenchment in consumer spending in shops and restaurants.
Residential demand	There is demand for residential property in Wembley, and probably the strongest demand is from young singles or couples seeking an urban lifestyle and affordable homes.
Growth prospects	Wembley Stadium and Arena are strong growth drivers for the local economy if there is substantial investment to improve the public realm and create new places.
Business centre prospects	The business centre is more likely to grow on the back of leisure and entertainment with associated retail, than office property. Any major retail facility will compete with Westfield but it does have the advantage of large visitor numbers forming a captive market.
Impact of infrastructure changes	No substantial transport infrastructure is proposed but investment in the public realm and new facilities could transform Wembley.
Vacancy and pipeline	There is a small, poor quality office market but it meets the needs of its local occupiers.
Strategic site availability	The Wembley City masterplan has provision to deliver huge quantities of office space if there is demand.

Quintain's Wembley City proposal is to transform 34.4 ha of land around Wembley Stadium as residential, retail, leisure and entertainment space, including a designer outlet shopping facility, one of the UK's largest cinemas and a prestigious Hilton hotel. It has outline planning permission for stage one, covering 17 ha. Masterplanned by the Richard Rogers Partnership, the scheme is focussed on three new public spaces linked by a boulevard the length and width of Regent Street. The development could eventually include 3,727 new homes, (1,400 affordable), 28,500 sq m of leisure and entertainment facilities, 47,000 sq m of retail, restaurants and bars, 52,000 sq m of hotel and 63,000 sq m of office and commercial uses.

Growth sectors in the Brent economy are primarily related to its more traditional industrial economic base - wholesale and transport and communications. There is potential for new demand from waste and recycling facilities and it could possibly build on its proximity to the remaining BBC studios at White City in the creative sector.

Brent has the lowest absolute office floorspace level in west London, and most of that is on the periphery of the borough near Harrow and in the industrial areas of Greenford and Park Royal. Wembley has a few office blocks that provide affordable accommodation occupied by local government and some business services. The Wembley Masterplan acknowledges that "*The lack of markets for suburban office locations has been well documented by the GLA*" and concedes that the office space provided for in stage one should perhaps be shifted to a more appropriate location so that the most commercial uses can be progressed first.

Wembley is well served by public transport - the Metropolitan, Jubilee and Bakerloo underground lines all run from Wembley Park and Wembley Central; and national rail services from Wembley Stadium run into Central London in as little as 13 minutes. Although the road network is a key component of its appeal for distribution functions, traffic congestion is a serious problem in and around Wembley on event days.

10.3 Hemel Hempstead

Hemel Hempstead is one of the main distribution locations around the M25 and southern end of the M1 which is, perhaps, its problem as an aspiring office centre - it does not have a clearly defined office area and, despite the high quality new stock that has been built in the Maylands area, Hemel has struggled to reach its potential as an office centre.

The town lies in the north London arc some 40 km from Central London and is surrounded by open countryside. It has excellent links to London and the Midlands, via the M1 and M25 motorways, and the recently upgraded West Coast Main Line provides a rapid rail link with London in 26 minutes. Heathrow and Luton airports are both within a 30 minute drive.

Hemel Hempstead was developed as a New Town in the early-1950s and 60s. Its population grew from 54,000 in 1960, to 82,100 in 2001. The expansion of Hemel Hempstead and its accessibility to London and the M1, led to larger companies such as Kodak and BP relocating their head offices to the town centre and to the establishment of a new industrial estate at Maylands to the east of the town. Its historic town centre, became known as the Old Town and was later designated a conservation area. Hemel has long established links with the paper making industry and before its new town expansion, John Dickinson's Apsley Paper Mill was the dominant employer in the town. Its site was redeveloped in the 1990s as retail warehousing.

More recently the Maylands area has become the focus of office development with several business park-style developments including Breakspear Park – BP's former HQ – the People Building, Hemel One and Zodiac Park. Maylands Business Park is the largest area of employment land in the East of England and provides around 16,500 jobs. Businesses located there include 3COM, Affinity, ASOS.com, DSG International, Epson, Kodak, Northgate Information Systems, Steria and Toshiba.

The fire at the Buncefield oil depot in 2005 created havoc for many occupiers in the Maylands area, but also created demand for office space among the displaced occupiers. Software house Northgate and Fujifilm were among the companies affected. Owner-occupier 3COM sold its damaged headquarters building to developer RO and relocated to the People Building in December 2005. In 2009 Maylands applied

for status as a 'Business Improvement District' which could raise a potential £800 million per year to upgrade the environment.

Office Market Assessment Grid: Hemel Hempstead	
Current economic activity	Hemel Hempstead is primarily an industrial and distribution centre, but it has had some limited success in attracting large office occupiers. The Buncefield oil depot fire created a short-term increase in demand.
Cluster strength	There is a small cluster emerging of businesses in the pharmaceutical sector in Hemel Hempstead.
Diversity	Hemel could be said to have a reasonably diverse occupier base but there is no large office community.
Exposure to corporate retrenchment	Hemel does not have a large single occupier or a sector that would leave it particularly exposed to corporate retrenchment – although it has suffered in the past from decline in the furniture production industry.
Residential demand	Residential demand is strong in this, as other OMA locations. Hemel has been identified in the south east area plan as a location for residential development to meet a wider need.
Growth prospects	Hemel has a number of natural advantages – its road connections, land availability and proximity to high quality residential but it seems to lack a well defined 'place' and this hampers its growth prospects.
Business centre prospects	The proposed regeneration of the town centre would deliver a long overdue improvement to the public realm in Hemel and would enhance its appeal as an office centre, if it materialises.
Impact of infrastructure changes	There are no significant transport improvements in prospect.
Vacancy and pipeline	The office market in Hemel has been sluggish but the Buncefield explosion absorbed some of the surplus accommodation.
Strategic site availability	Hemel has an enormous stock of strategic sites at Maylands.

Hemel's town centre is tired and unattractive. It has two shopping centres, The Marlowes and Riverside, and a civic area where there is a cluster of business services. A regeneration scheme is planned, known as Waterhouse Square, including new civic facilities, a performing arts venue, a bus station, residential, shops and restaurants.

Headline office rents are around £231 sq m (£21.50 sq ft). Property and Construction group BAM announced in February of this year that is would take 2,000 sq m for its new HQ in Breakspear Park, relocating from Colindale in North London at a rent rumoured to be close to £231 sq m (£21.50 sq ft). Regus opened a centre within Breakspear Park in early 2009 and claims to have tapped into a market for small high quality units in Hemel. The People Building, conceived as a high quality business park comparable to Chiswick Park, and built by Morley Fund Managers and Stanhope, perhaps represents the state of the market in Hemel – the first building of 10,000 sq m

was built speculatively and let in 2005, after the Buncefield disaster, but the remaining five buildings in the masterplan have not been developed.

On paper Hemel has all the attributes of a successful OMA centre – good motorway connections, fast trains to Central London, attractive surrounding environment and residential areas and a stock of strategic sites - Maylands claims to have 'the largest area of development land within an hour's drive of London' - but it is perhaps let down by the immediate environment and the quality of its nearby town centre. So far, the high quality office development has proved to be "A step too far for Hemel Hempstead".

10.4 Wembley and Hemel Hempstead compared

Both these centres have a strong industrial heritage and remain centres of production and distribution. Wembley is located in a deprived urban environment while the area around Hemel is rural and affluent although its centre has pockets of deprivation. Neither centre has a buoyant office market although Hemel probably has the better prospects - it has some high quality office space and a base of office employers while Wembley has hardly begun.

Both have declining public realm and have plans for improvement. Wembley's vision is on a far grander scale and its strong internationally-recognised 'brand' has the power to transform the area (as and when the funds are available) as a destination for leisure and entertainment, which will bring supporting office functions. As an office centre, however, Hemel probably has the better credentials – although it has yet to prove itself. This is not a case of OMA out-performing OL – more of OL having the vision to play to its strengths. Not all OMA centres have it easy and Hemel is one that has not found it easy to establish itself as an office centre, and the current economic climate will probably stifle its prospects for some time longer.

Appendix A9.1

Selected "change of use from office" schemes, Jan 08-July 09

Address	Location type	Borough	Development type	Offices lost (sq m net)	Residential units created		Other uses	Comment
					Private	Afford-able		
Nido Spitalfields, (ex Rodwell House), 100 Middlesex Street, E1	CAZ	Tower Hamlets	New	3,000	-	-	1,204 student rooms, 5,404 gsm offices, 2,266 gsm retail	Replacement of 10 storey 1960s tower and podium offices with remarkable 35 storey student tower and self-contained offices – net loss of offices.
Lloyds Court, 1 Goodman's Fields, E1	CAZ	City of London	Refurb.	3,020	-	-	5,776 gsm hotel	Refurbishment with two additional storeys of aesthetically challenged 1970s offices on eastern City Fringe – now a Travelodge.
Kinetic House, 44 Hatton Garden, EC1	CAZ	Camden	Refurb.	900	10	-	337 gsm retail	Typical small-scale conversion with units set to avoid affordable housing policies. Scheme sold out quickly on completion.
Eagle House, 159-189 City Road, EC1	CAZ	Hackney	New	4,800	206	70	1,700 gsm retail, 1,108 D2	27 storey residential tower with offices and retail replacing former LBH offices and car park. Construction stopped.
Shield House, 16 New Street, EC2	CAZ	City of London	Refurb.	2,323	14	-	4 retail units	Low grade office building in narrow street between Bishopsgate and Cutlers Gdns. Had permission for office refurb. But proceeding as small-scale resi conversion.

Address	Location type	Borough	Development type	Offices lost (sq m net)	Residential units created		Other uses	Comment
					Private	Afford-able		
Frobisher Crescent, Barbican, EC2	CAZ	City of London	Refurb.	5,230	69	-	-	Curious conversion of offices which had been originally intended as residential in 1970s but occupied by London Business School. Commuted payment of £3.49m for affordable housing.
Mariner House, Pepys Street, EC3	CAZ	City of London	New	10,309	-	-	602 bed hotel	Replacement of former HSBC offices with 12 storey hotel. Had permission for office redevelopment since 1980s.
10 Cornwall Terrace, NW1	CAZ	Camden	Refurb.	743	8	3	-	Change of use of long-standing British Land HQ in stucco Nash Terrace to 11 residential units.
Strata (ex Castle House), 2-20 Walworth Road, SE1	CAZ	Southwark	New	8,000e	310	98	668 gsm retail	Major new residential tower on 43 storeys which will be briefly highest in Southwark until The Shard. Replaces awful 1960s office tower with retail podium.
10 Rochester Row (ex Emmanuel House), SW1	CAZ	City of West-minster	New	4,379	39	17	1,188 gsm offices	Replacement of office building and car park with 56 residential units and reduced office component. Demolition completed October 2008, start due. 50% reserved August 2008.
Swiss Centre, 10 Wardour Street, W1	CAZ	City of West-minster	New	4,697	-	-	220 bed hotel, 5,000 gsm retail/leisure, 1,331 gsm casino	Replacement of Swiss Centre (offices and cinema) with new hotel, casino and retail/leisure scheme.
17-20 Shillibeer Place, W1	CAZ	City of West-minster	New	492	6	-	-	Replacement of small office building with new residential scheme below affordable threshold and where asking prices from £925,000 to £2.25m.

Address	Location type	Borough	Development type	Offices lost (sq m net)	Residential units created		Other uses	Comment
					Private	Afford-able		
19-29 Woburn Place, WC1	CAZ	Camden	Refurb. & Extension	9,410	-	-	463 student rooms	Refurbishment and change of use of government offices in Bloomsbury into student accommodation for University of the Arts.
Metropole Building, Northumber-land Avenue and 10 Whitehall Place, WC2	CAZ	City of West-minster	Refurb. & Extension	20,000e	13	-	297 bed hotel, 1,487 gsm spa, 382 gsm A3	Conversion of former Government offices into luxury hotel and private residential – land use swap to compensate for loss of hotel in Regent Street.
100 Park Village East, NW1	Inner London	Camden	New	1,968	22	19	-	10 storey new residential development by RSL replaces Victorian warehouse style offices formerly Policy Studies Institute.
Osborne House, 111-113 Bartholomew Road, NW5	Inner London	Camden	Refurb. & Extension	600	-	-	54 student rooms, 445 gsm offices	Conversion and extension of 4 storey office building in off-pitch location on Camden Road by Unite for students – retention of offices on ground.
1 Glyn Street, Kennington Lane, SE11	Inner London	Southwark	New	2,000e	-	69	1 retail unit	New social housing scheme replaces low grade, two storey office just outside CAZ boundary.
427-429 Harrow Road, W10	Inner London radial route	City of West-minster	New	4,000e	36	11	1,030 gsm mixed commercial	Replacement of 1970s four storey red brick office building between the Harrow Road and the canal, with RSL scheme where 36 of the units are private. Residual commercial use.
West Kensington Apartments (ex Warwick House), 181-183 Warwick Road, W14	Inner London radial route	Royal Borough of Kensing-ton & Chelsea	New	4,000	7	-	331 bed apart hotel	Office building and petrol station backing onto Olympia rail lines being replaced by 11 storey apart hotel and 7 flats.

Address	Location type	Borough	Development type	Offices lost (sq m net)	Residential units created		Other uses	Comment
					Private	Afford-able		
Dakota House, 7-21 Mayday Road, Croydon	Outer London town centre	Croydon	Refurb.	5,000e	-	88	None	Four storey offices sold in 2007 to Berkeley; permission for 51 private/52 social, superseded by 88 social (56 social rent, 10 intermediate rent, 22 shared ownership).
Spirit of Stratford (ex Warton House), 150 High Street, E15	Outer London town centre	Newham	New	5,000e	426	229	153 bed hotel, 4,682 gsm mixed commercial	Replacement of former Yardley offices with high-rise (43 storey) mixed use scheme led by resi. and hotel. Demolition completed, construction started but now on hold.
International House, Wheatfield Way, Kingston, KT1	Outer London town centre	Kingston-upon-Thames	Refurb.	5,000e	-	-	102 bed hotel	Conversion of challenging office building along Kingston's relief road for 102 bed Travelodge.
The Heights, Pavilions Shopping Centre, High Street, Uxbridge, UB8	Outer London town centre	Hillingdon	Refurb.	10,000e	106	54	-	Conversion of two five storey 1960s office blocks on top of the shopping centre for 160 flats. Some sales in 2007 and 2008, but residual units going for rental market in 2009.

Source: London Residential Research

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Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاھتے ھیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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