Evidence to inform Article 4 Direction to restrict the future relaxation of planning regulations to allow changes of use from offices to residential

For The Royal Borough of Kensington and Chelsea

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Prepared by TBR's Economic Research Team

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1. Introduction

In 2013 the Royal Borough was granted an exemption to the changes to planning regulations which would ordinarily remove the need for planning permission for changes of use from offices (B1(a) uses) to residential (C3). This liberalisation was initially granted on a temporary basis until May 2016. However, in October 2015 the Government confirmed that the temporary permitted development rights were to be made permanent and that any exemptions granted would expire in May 2019. The Government stated that if a Local Planning Authority (LPA) wishes to continue to determine such planning applications they have until May 2019 to make the necessary Article 4 directions.

TBR, in association with property experts Frost Meadowcroft, have produced this report to demonstrate the economic importance of businesses utilising B1 space in Kensington and Chelsea. This report also assesses the likely impact of the proposed change on office stock in Kensington and Chelsea and the consequent impact on the local economy.

1.1 Method

Sectors of significance in RBKC were determined by assessing official employment and business count data. This analysis is based on sector definitions derived from the UK Standard Industrial Classification (UKSIC) codes. Such an approach is necessarily narrow, focusing on the core business activities within each sector. The approach does not fully reflect the inter-relationships between firms in each sector and their supply chains and distribution channels, which can span a range of sectors. Nonetheless, using official statistics provides a sound indication of activity in an area, and allows comparisons to be drawn against other boroughs, as well as regionally and nationally, and over periods of time.

TBR has analysed the economic impact of firms that occupy B1 business premises in the Royal Borough of Kensington and Chelsea (RBKC). All of these premises are at risk from the proposed change in permitted development rights. Firms in the borough were assigned to a land use class based on their UKSIC as recorded in TBR's own Trends Central Resource (TCR) database. This matching was validated by manual checks against business use at individual addresses. For the sake of thoroughness, we also considered B2 and B8 space and reviewed manually data on all such firms with 10 or more employees[1]. This resulted in some reallocation of firms in B2 and B8 to B1 classification, where the activity of firms at that specific location was assessed as office-based rather than being consistent with the general activity of the firm, which takes place elsewhere.

The market for B1 premises in RBKC was divided into sub-markets based on the commercial knowledge and understanding of Frost Meadowcroft. The uplift in value (per square foot) available through conversion from B1 to residential, including an amount to cover the cost of conversion, was calculated for each of the identified sub-markets (data presented in Table 11, page 10). The level of risk that office premises will be converted to residential is based upon the proportionate uplift available from conversion. This approach was carried out for each of the sub-markets. Where the risk factor exceeds 65%, B1 properties in that sub-market are considered to be at very high risk of conversion; where this is between 30% and 65%, the risk is high; where this is between 10% and 30%, the risk is medium; where this is less than 10%, the risk is low.

The analysis of the local economy occupying B-use space was undertaken using our TCR database. TCR is one of the most extensive bodies of information on UK enterprise. It contains data on 3.5 million live firms in the UK and their performance histories, meaning it can be used to understand the structure and dynamics of any part of the UK economy – any location (down to street level), and sector (down to specific products and services) and any size (from micro to conglomerate).

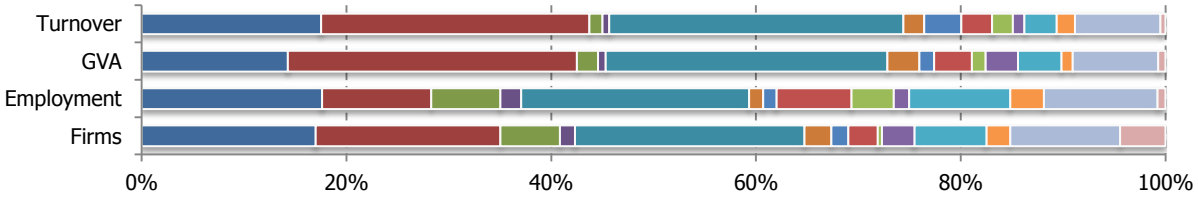
We use this unique dataset to add value to our research and analysis. It provides us with access to a high level of detail and focus on hard to reach areas of the economy such as small and micro businesses. It also allows us to identify businesses by their distinct activity, meaning we can create niche sector definitions and segment markets.

[1] TCR data identified 15 firms in B2 premises and 30 firms in B8 premises employing ≥10 people in 2014 (rounded to nearest 5).

2. The importance of businesses based in B1 premises

Analysis of TCR data indicates that 22% of all firms located in Kensington and Chelsea operate in B1 premises. Associated with those firms is 22% of employment, 28% of output and 29% of turnover generated in Kensington and Chelsea. The distribution of economic activity by land use class is presented in Figure 1.

Figure 1: Distribution of Economic Activity by land use class



	Firms	Employment	GVA	Turnover
A1	17%	18%	14%	18%
A2	18%	11%	28%	26%
A3	6%	7%	2%	1%
A4	1%	2%	1%	1%
B1	22%	22%	28%	29%
B2	3%	1%	3%	2%
B8	2%	1%	1%	4%
C1	3%	7%	4%	3%
C2	0%	4%	1%	2%
C3	3%	1%	3%	1%
D1	7%	10%	4%	3%
D2	2%	3%	1%	2%
Sui Generis	11%	11%	8%	8%
Unknown	4%	1%	1%	0%

Source: TCR 2014 (TBR Ref: W3/S2)

2.1 Significant sectors in RBKC

This section provides an analysis of significant sectors in RBKC, focusing on those which have a national and international economic significance. The creative industries (based on the DCMS creative industries definition) are known to have a significant presence in Kensington and Chelsea, and become our focus later in this section.

2.1.1 Overview of important industries in RBKC

Table 1 shows the industries which are significant[2] in the borough in terms of employment. The industry with the highest Location Quotient (LQ) is *06 Extraction crude petroleum and gas*. This is not matched by a proportionate number of firms in the industry and is likely to be explained by the presence of the headquarters of a small number of large firms. Similarly, the location of headquarters in the borough is likely to explain the high levels of employment in air transport, professional, scientific and technical, and head offices and management consultancy, for example Malaysia Airlines, Universal Music Group, and Talk Talk.

[2] "Significance" defined as a Location Quotient (LQ) above 1.3. Location Quotients are a standard measure used to compare the concentration of firms or employment in an area, relative to another area. An LQ greater than 1 represents a high concentration, while an LQ less than 1 represents a scarcity. For example, an LQ of 14 represents 14 times the concentration one would expect within London.

The other industries with high LQs demonstrate the importance of creative and cultural activities, and the tourism associated with being a cultural destination.

Table 1: Significant employment sectors in RBKC, 2014

SIC 2007	Industry	Employment 2014	LQ England
6	Extraction crude petroleum and gas	380	13.79
58	Publishing activities	4,460	7.06
91	Libraries, archives, museums	2,120	5.60
59	Film, video, television sound record	2,580	5.34
55	Accommodation	6,120	3.40
90	Creative, arts and entertainment	1,420	3.07
79	Travel, tour operator, reservation	1,130	2.73
51	Air transport	910	2.67
74	Other prof, scientific and technical	2,040	2.42
68	Real estate activities	5,500	2.34
56	Food and beverage service activities	13,090	1.86
47	Retail trade, except vehicles	23,250	1.85
96	Other personal service activities	2,360	1.83
70	Head offices; management consultancy	6,030	1.75
92	Gambling and betting activities	690	1.70
14	Manufacture of wearing apparel	230	1.50
94	Activities membership organisations	1,350	1.30

Source: BRES 2014 (TBR ref W1/S1). Figures rounded to nearest 10

When the significance of industries is assessed based on the LQ of firms, creative, media and fashion related industries appear prominently, as do financial, real estate and management/head office activities, all of which could potentially occupy B1 premises.

Table 2: Industries with significant numbers of firms in RBKC, 2014

Industry	Description	Local units 2014 (IDBR)	LQ England
90	Creative, arts and entertainment	555	3.55
59	Film, video, television sound record	405	3.44
15	Manufacture of leather and related	10	3.17
14	Manufacture of wearing apparel	55	2.87
58	Publishing activities	140	2.30
64	Financial ex insurance and pension	280	2.17
55	Accommodation	180	2.08
68	Real estate activities	1,035	2.06
73	Advertising and market research	250	2.06
74	Other prof, scientific and technical	705	2.04
79	Travel, tour operator, reservation	100	1.86
60	Programming and broadcasting	20	1.80
70	Head offices; management consultancy	1,395	1.74
51	Air transport	10	1.66

Industry	Description	Local units 2014 (IDBR)	LQ England
82	Office admin, support and other	550	1.42
96	Other personal service activities	455	1.34
47	Retail trade, except vehicles	1,875	1.33

Source: IDBR (TBR ref W1/S1)

The creative industries are known to have a significant presence in Kensington and Chelsea, and are the focus for the remainder of this section. Using the DCMS definition, the creative industries in RBKC employ over 15,000 people across over 2,500 firms. The LQ relative to England demonstrates the prominence of the creative industries in terms of employment and firms, but more so for employment (Table 3). Relative to London, the creative industries remain overrepresented based on employment, but underrepresented based on firm numbers (Table 3). This is explained by the borough being home to a number of larger than average creative businesses, such as Sony, EMI, and Associated Newspapers.

Table 3: Creative industries in RBKC, 2014

	Category	RBKC	LQ London	LQ England
Creative Industries	Employment (BRES 2014)	15,000	1.27	2.70
	Firms (IDBR 2014)	2,505	0.13	0.65

Source: BRES and IDBR (TBR ref W2/S1)

Those creative subsectors which are significant to RBKC in terms of employment and/or number of firms, are presented in Table 4. Those likely to occupy B1 premises are analysed in greater detail in section 2.1.2 through to section 2.1.7. Visual and performing arts and museum and library activities are unlikely to be located in B1 premises, and therefore are not analysed further.

Table 4: Creative Industries sub-sectors in RBKC, 2014

Creative Sub-sectors	Employment		Firms	
	LQ London	LQ England	LQ London	LQ England
Advertising & Marketing	0.8	2.0	1.2	2.2
Architecture	1.1	2.1	1.4	2.0
Music & Publishing	3.9	9.0	1.9	3.4
Design: product, graphic & fashion	2.3	4.5	2.0	3.4
Film, TV, Radio, Video & Photography	0.7	2.2	1.1	2.7
IT, software & computing	0.3	0.5	0.5	0.7
Crafts	1.3	2.3	1.2	2.1
Visual & performing Arts	1.3	2.9	1.5	3.5
Museum & library activities	3.0	11.2	1.6	1.2

Source: BRES and IDBR (TBR ref W2/S1)

2.1.2 Advertising & Marketing

Advertising and marketing employs over 1,200 people in 275 firms within the borough, the majority of which are advertising agencies. Whilst RBKC is not a significant location for advertising and marketing activity when compared with London (LQs are 0.8 and 1.2 (Table 4) and below the 1.3 threshold[2]), it is significant in terms of both firms and employment when compared with England (Table 5).

Table 5: Employment and firms in advertising and marketing segments in RBKC, 2014

Segment	SIC sub-class	Employment		Firms	
		LQ London	LQ England	LQ London	LQ England
Advertising agencies	7311	0.8	1.8	0.4	2.3
Media representation	7312	0.4	1.1	0.3	1.7
Public relations and communication activities	7021	1.1	3.6	0.5	2.7

Source: BRES and IDBR (TBR ref W2/S7)

2.1.3 Architecture

Almost 700 people are employed in architectural activities in RBKC, in 145 firms, which are likely to be located within B1 premises. Whilst this is not significant compared to other London boroughs, it represents a concentration of architecture activity relative to England.

2.1.4 Music & Publishing

The increasing diversification of publishing firms and music firms in particular, means they are not all captured within the music publishing SIC. Sony, Universal and EMI are all recorded as 58190 'Other publishing activities', for example. Therefore estimates of employment and firms based solely on SIC 5920 do not capture the full economic impact of the sector; this SIC is likely to only capture activity linked to firms operating exclusively in music. Analysis has therefore considered music and publishing SIC codes together.

The emergence of digital media and technology is transforming the publishing sector. One of the defining characteristics has been the continuing decline in traditional print newspapers. In the book publishing sector, there has also been a decline in print sales to both UK domestic and export markets. Digital publishing, on the other hand, is a rapidly growing industry[3]. This activity is well suited to B1 premises. Digital publishing is an emerging sub-sector, with software publishing (5829) and computer games publishing (5821) accounting for employment of over 4,100 and nearly 500 firms across London. However, in RBKC software publishing employs just 85 and computer game publishing less than ten, in a very small number of firms. This is surprising given RBKC's significant strengths in the creative sectors, and could be due to the digital sub-sector emerging recently and consisting of many start-up firms who cannot afford the RBKC premises in which more established publishing firms are located.

The UK book publishing sector is defined by a mixture of large scale publishers such as Random House Penguin, and a large independent publisher sector, which together account for about 45% of the publishing market[4]. In 2011 the value of publishing's sales to the UK was £3.2bn, with an increasing contribution coming from the digital sales (8%)[5].

Table 6: LQs for Publishing activities and Sound recording & music publishing, 2014

Segment	SIC sub-class	Employment		Firms	
		LQ London	LQ England	LQ London	LQ England
Newspaper publishing	5813	9.71	19.14	1.16	1.42
Book publishing	5811	2.01	4.83	2.95	4.66
Sound recording and music publishing	5920	8.57	31.81	2.53	6.92

[3] Publishers Association. *Market Research and Statistics*. Publishing Association: London, 2012.
[4] The Guardian. 'Publishing industry: waving or drowning?' October 2012
http://www.guardian.co.uk/commentisfree/2012/oct/29/penguin-random-house-merger-editorial
[5] Publishers Association. *Market Research and Statistics*. Publishing Association: London, 2012.

Segment	SIC sub-class	Employment		Firms	
		LQ London	LQ England	LQ London	LQ England
Other publishing activities	5819	0.94	1.66	1.79	2.93

Source: BRES 2013 and TCR (TBR ref: W2/S4)

Our analysis also found that the publishing sector, particularly newspapers, is strong within RBKC. Overall publishing activities (SIC 58) comprised 196 firms, delivered £1.86 billion in turnover, and produced £648 million in GVA in 2014. As of 2014, newspaper publishing employment totalled over 3,300 (SIC 5813), book publishing 570 (SIC 5811) and other publishing activities nearly 380 (SIC 5819). Of particular significance was that in both firms and employment, newspaper publishing and book publishing were found to have strong LQ concentrations in RBKC in comparison to both London and England.

Of particular significance to RBKC is Music publishing. RBKC represents the core of the UK's offer, hosting over 18% of total employment in the sector across England. Kensington and Chelsea is home to all four major record labels (Universal, Warner Music, Sony Music, and EMI), though the industry's significance extends far beyond these large, important businesses.

Music businesses within RBKC demonstrate the classic characteristics of a cluster, with high LQs for both employment and firms, together with the presence of international leaders and independent small businesses. The loss of any of these businesses would represent a blow to the cluster and could undermine the strength of the industry to the UK as a whole. Although smaller, independent firms may be most vulnerable (first because they are less likely to own their office accommodation, and second because the pressure to accept a settlement will be more persuasive) these firms often provide the creative impetus that gives the major record labels confidence to remain in their current location. Despite the direct economic impact of smaller firms relocating being relatively small, the indirect impact that this precipitates could be more significant.

As of 2014, there were over 1,350 jobs in sound recording and music publishing in RBKC (SIC 5920), 22% of the total of 6,090 in London, the highest of all London boroughs, and 16% of the 8,500 across England (Table 7). LQs demonstrate that employment in the music industry is heavily concentrated in RBKC compared with London (an LQ of 8.57) and England (an LQ of 31.81). RBKC's share of London's music publishing employment has decreased from 28% in 2011, which could be partly explained by firms previously registered as music publishers widening their activities and, as a result, changing their classification. It is also likely that music employment has spread out geographically to other areas of London.

Table 7: Music publishing employment in London, 2014

Music Publishing and Sound Recording (SIC 59200)	Employees	Percentage
Kensington and Chelsea	1,350	22.17
Westminster	1,150	18.91
Camden	650	10.72
Hammersmith and Fulham	630	10.31
Islington	310	5.05
Ealing	280	4.56
Hounslow	270	4.38
Other London Boroughs combined	1,450	23.85
London total	**6,090**	**100.00**

Source: BRES 2014 (TBR ref: W2/S2). Figures rounded to nearest 10

2.1.5 Fashion, textile and design activities

The UK has a reputation as a global leader in fashion, design, and trendsetting. In 2010, the UK fashion industry was valued at £21 billion. The scope of the industry reaches far beyond fashion design, encompassing a complex web of materials, textile production, clothing design, manufacturing, wholesaling, marketing and retailing of a wide range of fashion products[6]. The DCMS Creative Industries definition of fashion, textiles and design activities includes only specialised design activities (7410). A number of businesses in other SIC codes which contribute to fashion and design are located with RBKC. A wider definition was used to understand the significance of fashion, textile and design activities in RBKC; this captured manufacturing of fashion items in addition to design.

Table 8: LQs for Fashion, Textile and Design Activities, 2014

Segment	SIC	Employment			Firms		
		n	LQ London	LQ England	n	LQ London	LQ England
Specialised design activities	7410	1,040	2.3	4.5	375	2.0	3.4
Manufacture of underwear	1414	20	3.0	2.3	*	-	-
Manufacture of outerwear	1413	150	1.0	1.9	35	1.7	3.4
Manufacture of other wearing apparel	1419	60	1.3	1.6	15	2.0	2.9
Manufacture of footwear	1520	10	2.3	0.7	5	3.5	4.6

Source: BRES 2014 and IDBR 2014(TBR ref: W2/S5). Employment figures rounded to nearest 10, firm counts been rounded to nearest 5 (* indicates number has been suppressed)

Our analysis shows that in terms of employment, specialised design activities (7410), Manufacture of underwear (1414) and Manufacture of other wearing apparel (1419) were prominent fashion industry SICs in RBKC. In addition, a significant number of firms who manufacture footwear (15200) are active in RBKC.

When examining absolute employment figures, it became clear that retail and wholesale of fashion and textiles are important to the borough, although unlikely to occupy B1 premises. Retail trade as a whole employs 23,250 in RBKC, of whom 4,840 are in retail sale of clothing in specialised stores (47710) and hundreds more in the retail and wholesale of textiles, footwear and other accessories and apparel.

2.1.6 Film, TV, Video, Radio & Photography

In 2009 the UK film industry contributed over £4.5bn to GDP and £1.2bn to the Exchequer, as well as supporting 100,000 jobs[7]. The economic impact of the UK film and TV industries is growing; combined, the TV and film industry is estimated to have generated £9.3 billion of GVA in 2013, an increase from £8.2 billion in 2008[8].

The film sector is concentrated in the South East of England and especially within a narrow wedge fanning out from Soho, through RBKC, Hammersmith and Fulham, and Ealing to Shepperton and Pinewood studios in the west. Statistics for the sector are captured in Table 9. Within film, video and TV: these activities are classified as production (SIC 5911), postproduction (SIC 5912), distribution (SIC 5913) and projection (5914). All four subsectors have a presence in RBKC. Kensington and Chelsea is particularly strong in production and distribution. In addition, proximity to Soho, Hammersmith and Fulham, and Ealing together with transport links (the A40 Westway and the Piccadilly line) means that RBKC is home to businesses that are core to the sector.

Table 9 illustrates the overall significance of the sector to RBKC, and significant subsectors demonstrating an LQ above 1.25 relative to England for either employment or firms, or both.

[6] Oxford Economics. *The Value of the Fashion Industry*. Oxford Economics: Oxford, 2010.
[7] Oxford Economics. *The Economic Impact of the UK Film Industry*. Oxford Economics: Oxford, 2010.
[8] DCMS (2015) Creative Industries Economic Estimates

Table 9: Location Quotients for Film, TV, Video, Radio & Photography

Segment	SIC sub-class	Employment		Firms	
		LQ London	LQ England	LQ London	LQ England
Film, TV, Video, Radio & Photography		0.7	2.2	1.1	2.7
Motion picture, video and television programme distribution	5913	1.0	4.4	1.9	5.9
Motion picture, video and television programme post-production	5912	0.3	1.1	0.8	2.2
Motion picture projection activities	5914	2.0	2.6	1.4	1.7
Photographic activities	7420	1.8	3.1	1.2	2.3
Motion picture, video and television programme production activities	5911	0.8	3.0	1.0	3.0
Radio broadcasting	6010	0.1	0.4	1.1	1.9
Television programming and broadcasting activities	6020	0.1	0.3	0.6	1.7

Source: BRES 2013 / IDBR 2014 (TBR ref: W2/S3)

While the key production facilities are likely to use premises classified as *sui generis* or B8, the proximity to firms that use B1 offices is important. This is a sector which is built on close working and social relationships and where minor dislocations can result in major disruption.

Our analysis shows that in comparison to both London and England, the concentration of employment in the photographic activities is higher in RBKC than might be expected. The numbers of firms is significant compared to both London and England but are not high in absolute terms (17 for Portrait photographic activities; 8 film processing; 2 other photographic activities and no specialist photography firms). It is possible that the high levels of employment comprise a number of self-employed / freelance individuals.

2.1.7 Crafts

The crafts sub-sector is comprised of the manufacture of jewellery and related articles. Over 50 people are employed in this, across 15 firms in the Borough, which is significant when compared to nationally. As these are mainly small firms, it is possible that much of this activity occurs in B1 premises.

3. The economic impact of office conversion

In order to assess the potential impact of office properties being converted to residential use, TBR designed a methodology which links firms and the economic value they contribute (overall and within key sectors) with the premises they occupy and the risk associated with the conversion of these premises. This method was first developed in 2013 to study the impact of proposed changes to permitted development rights for Kensington and Chelsea. The approach is highly granular, and goes significantly beyond simple estimations of the size and scale of the likely impact to look in detail at likely outcomes.

Our analysis was constructed by identifying firms and their contribution to the economy based on their location within each of the submarkets using TCR data[9] and supplemented by information from the Valuation Office Agency and data on National Non-Domestic Rates (business rates). This allowed us to establish the quantum of activity under the varying levels of threat should the premises in which these firms are based be converted to residential use. Subsequent analysis of indirect and induced effects was estimated based on HM Treasury Green Book techniques.

Our analysis of the likely impact of the proposed change to permitted development rights is based on the assumption that conversion rates are likely to be high and rapid, for the following reasons:

- Residential land values are consistently higher than commercial land values; the existence of this premium offers land owners and developers a direct incentive to pursue conversion.
- A high proportion of properties in RBKC are suitable for conversion.
- 53% of current leases are scheduled to end by the end of 2017 (Figure 4, page 12), and even tenants on long-term leases may find themselves incentivised to conclude their tenancy prematurely.

These assumptions have been tested with property experts.

3.1 Risk categories

We assigned B1 business premises in RBKC to categories which describe the risk of them being converted from office to residential use. All premises are considered to be at some level of risk; firms based in B1 premises are assigned to a risk category based upon the potential uplift in value from conversion that their current premises represent.

Table 10: Risk categories

Risk category	Severity	Description
Risk Category 1	Very high	Potential uplift in value, through conversion, of more than 65.00%
Risk Category 2	High	Potential uplift in value, through conversion, of between 30.01% and 65.00%
Risk Category 3	Medium	Potential uplift in value, through conversion, of between 10.01% and 30.00%
Risk Category 4	Low	Potential uplift in value, through conversion, of less than 10.00%

Previous work has suggested that an uplift of 40-55% is likely to be sufficient to provide a compelling financial case for conversion[10]; closer inspection of submarkets' uplift values confirms that all submarkets in the high risk category exceed 40% uplift. Therefore all submarkets in the very high and high risk category meet this previous benchmark and the (single) submarket in the low risk category does not.

Table 11 presents each of the ten property submarkets alongside the data that, in combination, lead to each being allocated to a risk category. The submarkets are presented in descending order of percentage uplift. These data begin with average values of office (B1) space and residential (C3) space in each of the submarkets. Residential land values are greater than office land values in each of the ten

[9] A detailed explanation of how TCR is constructed is appended to this report (section 5.2, page 24)
[10] Frost Meadowcroft (2013) *Office market commentary in Kensington and Chelsea*

submarkets. This is consistent with expectation; at £1.2million, median house values are greater in RBKC than any other London borough, and almost doubled in the five years 2009 – 2014[11]. This residential premium, whilst always present and sufficient to exceed the weighted cost of conversion, is not consistent across all ten submarkets. The net uplift in value (for premises converted from office to residential) varies between £988/sq ft (Chelsea) to £146/sq ft (Latimer Rd / Freston Rd Employment Zone). These uplifts are presented relative to office values, as these will form the basis for whether or not to convert. The percentage varies between 90% (Earls Court) and 16% ((Latimer Rd / Freston Rd Employment Zone).

Table 11: Submarkets' allocation to risk categories

Submarket	Value as office (per sq ft)	Value as residential (per sq ft)	Weighted conversion cost	Net uplift in value	Percentage uplift	Risk category
Earls Court	£ 597	£ 1,700	£ 300	£ 803	90%	Very high
Chelsea	£ 840	£ 2,200	£ 371	£ 988	82%	Very high
North Kensington	£ 520	£ 1,350	£ 250	£ 580	75%	Very high
South Kensington	£ 893	£ 2,200	£ 371	£ 936	74%	Very high
Kensington	£ 893	£ 2,050	£ 350	£ 807	65%	High
Kensal Rd EZ	£ 425	£ 1,000	£ 200	£ 375	60%	High
Notting Hill	£ 893	£ 1,850	£ 321	£ 636	52%	High
Lots Road EZ	£ 643	£ 1,300	£ 243	£ 414	47%	High
Knightsbridge	£ 1,260	£ 2,400	£ 400	£ 740	45%	High
Latimer Rd/Freston Rd EZ	£ 696	£ 1,050	£ 207	£ 146	16%	Medium

Source: Frost Meadowcroft (TBR ref: W8/S1)

Figure 2 presents the risk rating of the submarkets visually, suggesting that the highest risk of conversion is concentrated in the southern area of RBKC. Firms in B1 premises appear throughout the borough (Figure 2), including in areas assessed as being at high risk of conversion, and are not heavily concentrated in a particular area. The data source that informs Figure 3 is TCR; a detailed explanation of how TCR is constructed is appended to this report (section 5.2, page 24).

[11] Strategic Housing Market Assessment for the RBKC (December 2015) pp 11.

Figure 2: Risk ratings of RBKC submarkets

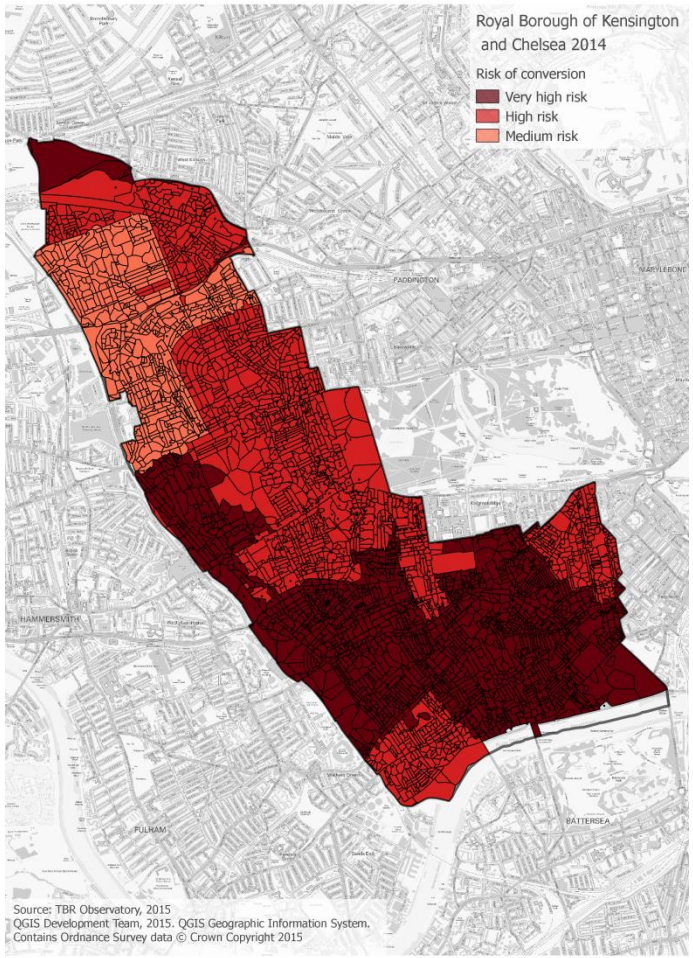
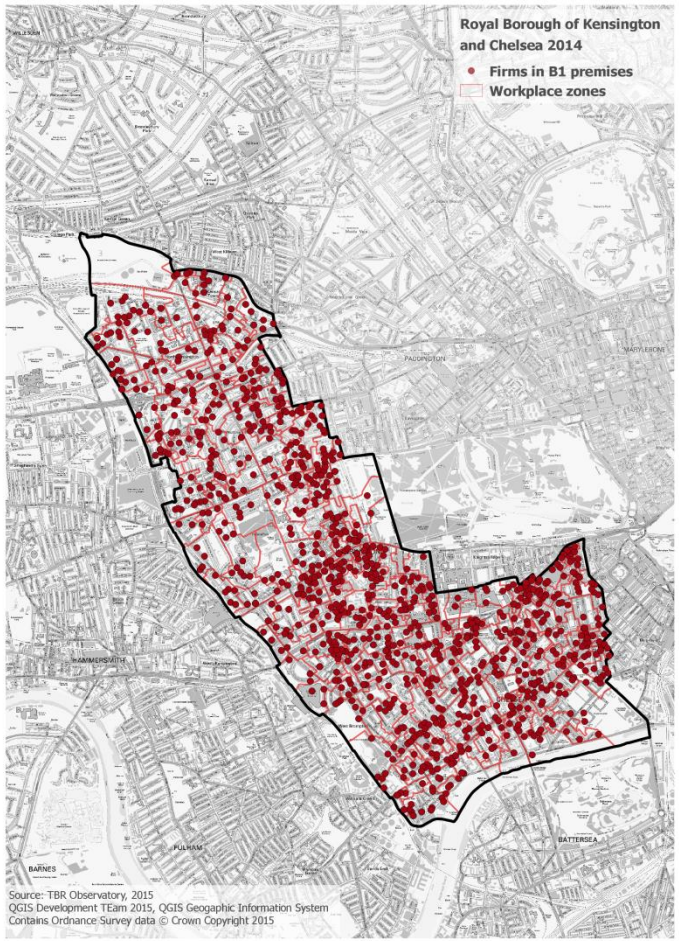


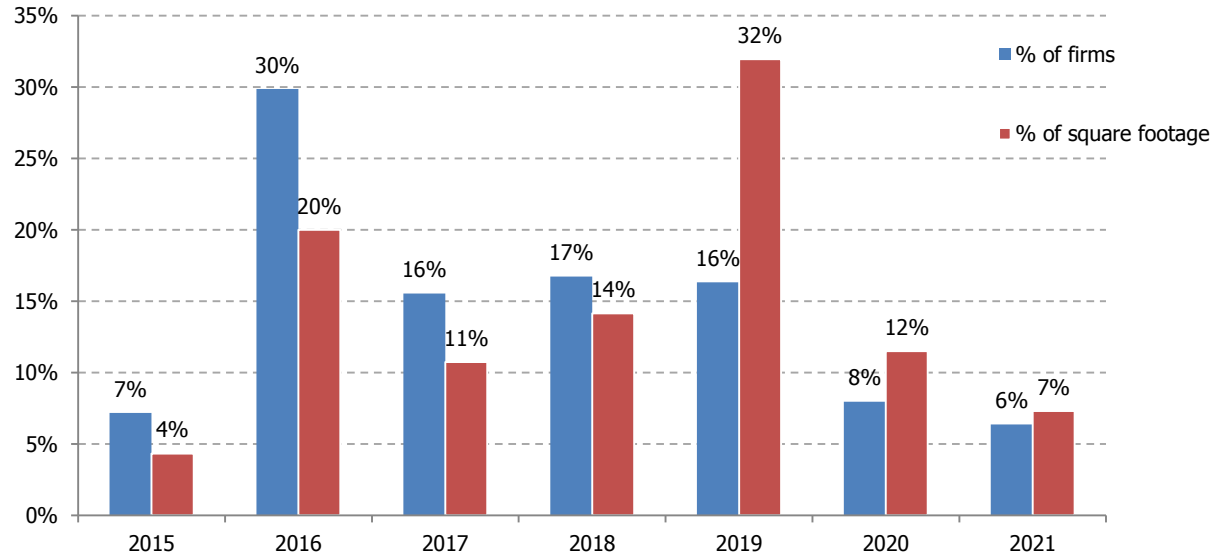
Figure 3: Location of firms in B1 premises, 2014



3.2 Patterns of lease events

Figure 4 illustrates the percentage of firms in B1 premises in RBKC, and the percentage of B1 office space in square feet, by the year that the current lease ends. Over a third of leases will end by the end of 2016. The data indicate that it is smaller firms whose leases are due to end sooner, with the 37% of firms ending by 2016 occupying just 24% of B1 space. In contrast, larger firms appear to have longer leases and therefore more stability, with over 50% of B1 space occupied by 30% of firms due to end in 5 to 7 years.

Figure 4: Percentage of B1 firms and square footage by year of lease end



Source: CoStar / Frost Meadowcroft (TBR ref: W4/S5)

3.3 Overall direct impact

We calculate the overall direct economic impact of the proposed change in permitted development rights by analysing the economic contribution made by firms based in office premises which are at risk of being converted in the future. We estimate that firms located in B1 premises in RBKC directly employ 35,080 people and generate economic output of almost £3 billion per year. The direct impact of the proposed change would threaten 35,000 jobs and almost £3 billion per year of economic activity.

Table 12: Firms, employment and GVA in B1 premises by risk category

Risk Category	Firms		Employment		GVA per year	
	n	%	n	%	£million	%
Very high risk	1,480	36%	10,040	29%	£1,085.5	37%
High risk	2,030	50%	19,830	57%	£1,501.2	51%
Medium risk	560	14%	5,210	15%	£372.1	13%
Low risk	-	0%	-	0%	-	0%
Total	**4,065**	**100%**	**35,080**	**100%**	**£2,958.8**	**100%**

Source: TCR 2014 (TBR Ref: W3/S1) Firm counts rounded to nearest 5, Employment counts rounded to nearest 10

Table 13: Firms, employment and GVA by sector in B1 premises

Sector	Firms	Employment	GVA per year (£million)
Mining & Quarrying (B)	15	140	£48.3
Manufacturing (C)	445	3,940	£250.8
Electricity, Gas, Steam 7 Air conditioning (D)	5	70	£14.4
Construction (F)	335	2,710	£495.2
Wholesale & Retail (G)	170	3,530	£188.2
Transportation & Storage (H)	5	30	£0.7
Information & Communication (J)	710	10,450	£753.2
Professional, scientific & technical activities (M)	1,605	8,990	£750
Administration & support service (N)	775	5,230	£457.9
Total	**4,065**	**35,080**	**£2,958.8**

Source: TCR 2014 (TBR Ref: W3/S3) Firm counts rounded to nearest 5, Employment counts rounded to nearest 10

Table 14 indicates that the sectors most at risk of losing office space in RBKC are professional, scientific and technical activities, administration and support services and information and communication. These three sectors combined in high or very high risk premises employ over 20,000 people and generate annual GVA of £1.68 billion.

Table 14: Firms, employment and GVA at risk by sector and risk category

Sector	Firms	Employment	GVA (£million)
Very high risk	**1,480**	**10,040**	**1,085.5**
Mining & Quarrying (B)	5	30	10.2
Manufacturing (C)	150	1,130	67.2
Electricity, Gas, Steam & Air Conditioning (D)	0	0	0.2
Construction (F)	135	1,030	275.5
Wholesale & Retail (G)	55	460	30.8
Transportation & Storage (H)	*	30	0.6
Information & Communication (J)	235	1,040	117.5
Professional, scientific & technical activities (M)	580	4,060	348.9
Administration & support service (N)	320	2,260	234.6
High risk	**2,030**	**19,830**	**1501.2**
Mining & Quarrying (B)	10	110	38.2
Manufacturing (C)	240	2,490	168.8
Electricity, Gas, Steam & Air Conditioning (D)	5	60	14.1
Construction (F)	160	1,400	178.2
Wholesale & Retail (G)	70	2,390	123.8
Transportation & Storage (H)	*	0	0.1
Information & Communication (J)	365	7,010	490.2
Professional, scientific & technical activities (M)	800	3,820	299.2

Sector	Firms	Employment	GVA (£million)
Administration & support service (N)	375	2,550	188.7
Medium risk	**560**	**5,210**	**372.1**
Mining & Quarrying (B)	0	0	0.0
Manufacturing (C)	55	310	14.9
Electricity, Gas, Steam & Air Conditioning (D)	0	0	0.1
Construction (F)	40	270	41.4
Wholesale & Retail (G)	45	690	33.7
Transportation & Storage (H)	*	0	0.0
Information & Communication (J)	110	2,400	145.5
Professional, scientific & technical activities (M)	225	1,110	101.9
Administration & support service (N)	85	410	34.6

Source: TCR 2014 (TBR Ref: W3/S3) Firm counts rounded to nearest 5, Employment counts rounded to nearest 10, * indicates suppression

3.3.1 Impact on the creative industries[12]

As discussed above, the creative industries are significant to RBKC, in terms of firm numbers and employment. Table 15 and Table 16 highlight that 305 creative industries firms, with associated employment of 2,400 and annual GVA of nearly £230 million, are located in B1 premises assessed as very high risk.

Table 15: B1 Creative industries at risk in RBKC by risk category

Risk Category	Firms	Employment	GVA per year (£million)
Very high risk	305	2,400	£229.9
High risk	465	7,810	£681.1
Medium risk	180	1,630	£136.8
Total	**955**	**11,840**	**£1,047.8**

Source: TCR 2014 (TBR ref: W3/S7) Firm counts rounded to nearest 5, employment rounded to nearest 10, GVA rounded to the nearest 10,000

Of the 305 creative industries firms at very high risk, the highest numbers are in advertising and marketing, design, architecture and music and publishing, with advertising and marketing alone employing over 1,000 in very high risk premises. At high risk are a further 465 firms and nearly 8,000 employees, over 5,500 of whom are employed in music and publishing, confirming the importance of this sector for the Borough.

[12] In this analysis of TCR data and land use, we have defined Creative Industries and sub-sectors according to the DCMS SIC-based definitions

Table 16: B1 creative industries subsectors at risk in RBKC by risk category

Creative subsector	Firms	Employment	GVA per year (£million)
Very high risk			
Advertising & Marketing	85	1,040	£101.8
Architecture	65	260	£12.7
Music & publishing	50	560	£41.9
Design: product, graphic and fashion design	80	420	£33.5
Film, TV, video, radio and photography	10	20	£13.9
IT, software and computer services	10	70	£20.0
Crafts	10	20	£6.1
High risk			
Advertising & Marketing	120	710	£51.2
Architecture	105	790	£38.0
Music & publishing	100	5,580	£500.4
Design: product, graphic and fashion design	110	540	£40.6
Film, TV, video, radio and photography	10	40	£16.3
IT, software and computer services	15	130	£26.6
Crafts	5	30	£8.1
Medium risk			
Advertising & Marketing	50	280	£21.5
Architecture	50	240	£11.4
Music & publishing	40	890	£66.5
Design: product, graphic and fashion design	30	190	£13.4
Film, TV, video, radio and photography	10	20	£23.4
IT, software and computer services	*	*	£0.3
Crafts	*	*	£0.3

Source: TCR 2014 (TBR ref: W3/S7) Notes: firms rounded to nearest 5, employment rounded to nearest to 10. Creative sub-sectors defined as per DCMS definition (in appendix), with the exception of 5920 Sound recording and music publishing, which has been allocated within publishing due to the crossover of firms in these SICs as discussed above.

3.4 Overall indirect and induced impact

This section begins by introducing the principles that underpin the established analytical methods to assess economic impact beyond direct economic activity. This explanation focuses first on the indirect and induced economic impacts that accrue as a consequence of original economic activity. It proceeds to recognise that, for local economic assessments, it is important to understand that not all of these indirect and induced benefits will be accrued within the local area and that a leakage factor will need to be applied to reflect this. These techniques are then applied to relevant data for RBKC in sections 3.4.2 and 3.4.3.

3.4.1 Explaining indirect and induced impacts

The economic impact of a particular sector is not confined to its direct contribution in terms of employment and output. Rather, the true economic value of a sector (or grouping of sectors) should be based not solely on an assessment of its direct economic impact, but on a measure that also includes its indirect and induced impacts, reflecting the contribution of supply chains and spending of those employed in the sectors. Indirect and induced impacts are calculated using multipliers attached to data on direct economic impacts.

A firm delivers *indirect* economic impacts through supply chain activity. A recording studio purchasing a microphone is an example of an indirect economic impact. The significance of these indirect impacts varies by sector and this leads to different sectors having different multipliers. For example, if a sector's annual economic output is £0.8 billion and it has an indirect (or type 1) multiplier of 1.25, then the additional annual benefit to the economy will be £0.2 billion, making £1 billion in total (£0.8bn x 1.25).

A firm also delivers *induced* economic impacts through the spending of its members of staff. A member of staff purchasing a DVD on the way home from work is an example of an induced economic impact. Again, the significance of these impacts varies by sector and this leads to different sectors having different multipliers. For example, if a sector's annual economic output is £0.4 billion and it has an induced (or type 2) multiplier of 1.2, then the additional annual benefit to the economy will be £0.08 billion, making £0.48 billion in total.

The multipliers used to estimate both indirect and induced effects have been transferred from previous research. However, not all indirect and induced impacts will be retained within RBKC. To extend the previous examples, our recording studio may order its microphone online, while their member of staff may buy the DVD when they arrive home, and not in the locality where they work. This phenomenon is referred to as economic leakage. TBR has drawn on previous research in the London Borough of Camden to model the leakage from both RBKC, and London as a whole. While there are some differences between the economic profiles of Camden and RBKC, the leakage factors were developed in 2012 and were based on a sample of 402 firms, so they are contemporary and can be expected to be reasonably robust at local authority level. However, the data do not differentiate between sectors, so the same leakage factor is applied to all firms. Additionally, the data do not differentiate between the leakage in indirect impacts and leakage in induced impacts, so the same factor is applied to both.

Our analysis of indirect and induced economic impacts is based on employment and output data that measure direct sectoral economic impact of firms located in B1 premises in RBKC. Applying indirect and induced impact multipliers and estimates of economic leakage to this data enables us to model the economic impact of converting B1 premises to residential use on both the RBKC economy, and the wider economy.

3.4.2 Indirect and induced impacts

As direct employment and economic output are concentrated in firms believed to be at high risk from any removal of the exemption to permitted development rights, indirect and induced economic impacts are also concentrated in these firms.

Table 17 considers employment. The direct employment of 35,080 people in B1 premises reflects previous analysis in section 3.3. However, a further 13,060 employees are estimated from indirect effects and 21,690 from induced impacts. Firms occupying B1 premises in RBKC therefore support the employment of an additional 34,750 people which, when combined with direct employment, totals almost 70,000 people.

Table 17: Direct, indirect and induced employment by risk category

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
Very high risk	10,040	3,650	5,880	19,570
High risk	19,830	7,540	12,740	40,110
Medium risk	5,210	1,870	3,070	10,150
Low risk	-	-	-	-
Total	**35,080**	**13,060**	**21,690**	**69,830**

Source: TCR 2014 (TBR ref: W5/S2) Employment counts rounded to nearest 10

As discussed in section 3.4.1, not all of this employment will be retained within the local authority area of RBKC. This is because of economic leakage. Table 18 suggests that 9,040 of the 34,750 jobs supported by indirect and induced economic activity associated with B1 premises in RBKC will be retained within RBKC. A further 11,470 will be located elsewhere in London and the residual 14,250 jobs will be located outside London. Although firms in B1 premises in RBKC support the employment of almost 70,000 people, only 44,120 of these jobs are retained within the RBKC local authority area. 12,520 of these are considered to be at very high risk should the exemption from permitted development rights cease, with a further 25,100 considered to be at high risk, and a further 6,490 at medium risk.

Table 18: Employment leakage by risk category

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
Very high risk	12,520	3,140	3,910	19,570
High risk	25,100	6,690	8,310	40,110
Medium risk	6,490	1,630	2,030	10,150
Low risk	-	-	-	-
Total	**44,120**	**11,470**	**14,250**	**69,830**

Source: TCR 2014 (TBR ref: W5/S5) Employment counts rounded to nearest 10

Table 19 explores Gross Value Added (GVA) and the additional economic impact of indirect and induced activity stimulated by firms occupying B1 premises in RBKC. Direct GVA of almost £3bn per year is established and discussed during section 3.3. This is supplemented by GVA of £1.134bn from indirect economic activity and a further £1.772bn from induced economic activity, providing a total economic impact of £5.865bn generated by firms occupying B1 premises in RBKC.

Table 19: Direct, indirect and induced GVA by risk category (£million)

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Very high risk	£1,085.5	£402.0	£635.0	£2,122.4
High risk	£1,501.2	£602.6	£926.9	£3,030.7
Medium risk	£372.1	£129.2	£210.4	£711.6
Low risk	-	-	-	-
Total	**£2,958.8**	**£1,133.7**	**£1,772.2**	**£5,864.7**

Source: TCR 2014 (TBR ref: W5/S2)

As with employment, not all of this additional £2.906bn of economic activity will be retained within RBKC. Table 20 demonstrates that £0.756bn will be retained within RBKC, with £0.959bn retained elsewhere in London and the residual £1.191bn being accrued outside London. Nonetheless, firms occupying B1

premises in RBKC support economic output of £3.714bn within the local authority area of RBKC. £1.355bn of this output is considered to be at very high risk should the exemption from permitted development rights cease, with a further £1.899bn considered to be at high risk, and a further £0.460bn at medium risk.

Table 20: GVA leakage by risk category (£million)

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
Very high risk	£1,355.1	£342.2	£425.1	£2,122.4
High risk	£1,898.9	£504.7	£627.1	£3,030.7
Medium risk	£460.4	£112.0	£139.2	£711.6
Low risk	-	-	-	-
Total	**£3,714.3**	**£959.0**	**£1,191.4**	**£5,864.7**

Source: TCR 2014 (TBR ref: W5/S5)

Table 21 profiles the distribution of direct, indirect, and induced employment by sector. Induced employment is greater than indirect employment, to varying degrees, across all sectors. The introduction of multipliers does not have a discernible impact on the composition of employment; the proportion of employment that each sector accounts for through direct employment is similar to the proportion it accounts for once indirect and induced employment have been added.

Table 21: Direct, indirect and induced employment by sector

Sector	Direct employment	Indirect employment	Induced employment	Total employment
Mining & Quarrying (B)	140	170	230	530
Manufacturing (C)	3,940	1,920	2,910	8,760
Electricity, Gas, Steam & Air conditioning (D)	70	50	90	200
Construction (F)	2,710	1,090	1,900	5,690
Wholesale & Retail (G)	3,530	1,530	2,230	7,300
Transportation & Storage (H)	30	10	20	60
Information & Communication (J)	10,450	3,960	6,650	21,060
Professional, scientific & technical activities (M)	8,990	2,720	4,740	16,450
Administration & support service (N)	5,230	1,610	2,920	9,760
Total	**35,080**	**13,060**	**21,690**	**69,830**

Source: TCR 2014 (TBR ref: W5/S3) Employment counts rounded to nearest 10

Table 22 profiles the distribution of direct, indirect, and induced GVA by sector. The addition of indirect and induced GVA does not have a discernible impact upon the relative significance of each of the sectors listed.

Table 22: Direct, indirect and induced GVA by sector (£million)

Sector	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Mining & Quarrying (B)	£48.3	£64.6	£60.0	£172.9
Manufacturing (C)	£250.8	£115.0	£169.6	£535.4
Electricity, Gas, Steam & Air conditioning (D)	£14.4	£10.6	£17.2	£42.2
Construction (F)	£495.2	£197.5	£290.9	£983.6
Wholesale & Retail (G)	£188.2	£95.3	£146.9	£430.4
Transportation & Storage (H)	£0.7	£0.3	£0.5	£1.4
Information & Communication (J)	£753.2	£287.2	£410.0	£1,450.4
Professional, scientific & technical activities (M)	£750.0	£227.8	£422.3	£1,400.2
Administration & support service (N)	£457.9	£135.3	£254.9	£848.2
Total	**£2,958.8**	**£1,133.7**	**£1,772.2**	**£5,864.7**

Source: TCR 2014 (TBR ref: W5/S3)

3.4.3 Indirect and induced impacts on the creative industries

Section 2.1 (page 2) introduces the importance and prominence of the creative industries within the RBKC economy. Table 23 and Table 24 impose the employment multipliers (Table 23) and leakage rates (Table 24) to employment within the creative industries.

In addition to the 11,840 jobs in creative firms occupying B1 premises in RBKC, the creative industries support a further 4,310 jobs through indirect activity and a further 7,330 jobs through induced activity. Within the borough 2,400 of these creative jobs are considered to be at very high risk should the exemption from permitted development rights cease, with a further 7,810 considered to be at high risk, and a further 1,630 at medium risk.

Table 23: Direct, indirect and induced employment in the creative industries by risk category

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
Very high risk	2,400	790	1,380	4,570
High risk	7,810	2,940	4,950	15,700
Medium risk	1,630	590	1,000	3,210
Low risk	-	-	-	-
Total	**11,840**	**4,310**	**7,330**	**23,480**

Source: TCR 2014 (TBR ref: W5/S4) Employment counts rounded to nearest 10

Of the 11,640 jobs that are additional to direct employment, 3,030 are located within the local authority area of RBKC. 3,840 are located elsewhere in London and a further 4,780 are outside London.

Table 24: Employment leakage related to the creative industries, by risk category

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
Very high risk	2,960	720	890	4,570
High risk	9,860	2,600	3,240	15,700
Medium risk	2,040	520	650	3,210
Low risk	-	-	-	-
Total	**14,870**	**3,840**	**4,780**	**23,480**

Source: TCR 2014 (TBR ref: W5/S5) Employment counts rounded to nearest 10

Table 25 and Table 26 follow the same process and generate indirect and induced GVA estimates for the creative industries occupying B1 premises in RBKC. The direct GVA of the creative industries has already been estimated at £1.048bn (Table 15, Page 14). This is supplemented in Table 25 by £0.382bn indirect economic output and £0.589bn induced economic output.

Table 25: Direct, indirect and induced GVA in the creative industries by risk category (£million)

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Very high risk	£229.9	£73.6	£127.2	£430.7
High risk	£681.1	£260.3	£385.0	£1,326.4
Medium risk	£136.8	£48.0	£77.2	£262.0
Low risk	-	-	-	-
Total	**£1,047.8**	**£381.9**	**£589.4**	**£2,019.1**

Source: TCR 2014 (TBR ref: W5/S4)

Table 26 demonstrates that, of the £0.971bn GVA that is additional to direct GVA, £0.253bn is retained within the local authority area of RBKC; this is a slightly greater proportion than the equivalent figure for the whole economy. £0.321bn is retained elsewhere in London and a further £0.398bn is accrued outside London.

Table 26: GVA leakage related to the creative industries, by risk category (£million)

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
Very high risk	£282.1	£66.3	£82.3	£430.7
High risk	£848.9	£212.9	£264.6	£1,326.4
Medium risk	£169.3	£41.3	£51.3	£262.0
Low risk	-	-	-	-
Total	**£1,300.3**	**£320.5**	**£398.2**	**£2,019.1**

Source: TCR 2014 (TBR ref: W5/S5)

Table 27 profiles the distribution of direct, indirect, and induced employment by creative subsector. As with the overall economy, induced employment is greater than indirect employment, to varying degrees, across all creative subsectors. The introduction of multipliers does not have a discernible impact on the composition of employment; the proportion of employment that each subsector accounts for through direct employment is similar to the proportion it accounts for once indirect and induced employment have

been added, although Music & publishing, already a leading subsector, becomes slightly more prominent following the application of indirect and induced multiplier effects.

Table 27: Direct, indirect and induced employment in the creative industries by subsector

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
Advertising & Marketing	2,020	620	1,100	3,740
Architecture	1,300	400	700	2,390
Music & publishing	7,030	2,830	4,700	14,560
Design: product, graphic and fashion design	1,150	350	630	2,130
Film, TV, video, radio and photography	80	20	40	150
IT, software and computer services	200	70	140	410
Crafts	50	20	30	100
Total	**11,840**	**4,310**	**7,330**	**23,480**

Source: TCR 2014 (TBR ref: W5/S4) Employment counts rounded to nearest 10

Table 28 profiles the distribution of direct, indirect, and induced GVA by creative subsector. The addition of indirect and induced GVA does not have a discernible impact upon the relative significance of each of the sectors listed although, similar to the observation made in relation to employment, Music & publishing also accounts for a slightly greater proportion of GVA once the multipliers have been applied.

Table 28: Direct, indirect and induced GVA in the creative industries by subsector (£million)

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Advertising & Marketing	£174.5	£51.3	£97.2	£322.9
Architecture	£62.1	£18.3	£34.6	£115.0
Music & publishing	£608.7	£250.3	£348.2	£1,207.2
Design: product, graphic and fashion design	£87.4	£25.7	£48.7	£161.8
Film, TV, video, radio and photography	£53.6	£15.8	£29.9	£99.2
IT, software and computer services	£47.0	£14.9	£23.4	£85.3
Crafts	£14.5	£5.7	£7.5	£27.7
Total	**£1,047.8**	**£381.9**	**£589.4**	**£2,019.1**

Source: TCR 2014 (TBR ref: W5/S4)

4. Conclusions: overall assessment of impact

Removing the exemption from permitted development rights in the Royal Borough of Kensington and Chelsea (RBKC) is likely to have a considerable impact upon the local economy.

- 3,500 firms would be at significant risk of having their current premises converted from their current commercial use into residential dwellings.
    - Almost 1,500 of these premises have been classified as being at very high risk;
    - A further 2,000 have been classified as being at high risk;
- The impact on employment in RBKC would be to place almost 30,000 jobs directly at risk within the local authority area. This figure increases to over 44,000 once the indirect and induced economic impacts are modelled. There would be:
    - A very high risk of 12,500 jobs being lost.
    - A high risk of a further 25,000 jobs being lost.
- The impact upon economic output (measured in Gross Value Added [GVA]) would be to place over £2.5billion of direct economic activity at significant risk; a figure which rises to £3.25billion once indirect and induced economic impacts have been applied, but then reduced to reflect the local authority area.

Table 29: Firms, employment and GVA in B1 premises by risk category

Risk Category	Firms		Employment		GVA per year	
	n	%	n	%	£million	%
Very high risk	1,480	36%	10,040	29%	£1,085.5	37%
High risk	2,030	50%	19,830	57%	£1,501.2	51%
Medium risk	560	14%	5,210	15%	£372.1	13%
Low risk	-	0%	-	0%	-	0%
Total	**4,065**	**100%**	**35,080**	**100%**	**£2,958.8**	**100%**

Source: TCR 2014 (TBR Ref: W3/S1) Firm counts rounded to nearest 5, Employment counts rounded to nearest 10

Table 30: Modelled economic impact (restricted to RBKC)

Risk Category	Employment		GVA per year	
	n	%	£million	%
Very high risk	12,520	28%	£1,355.1	36%
High risk	25,100	57%	£1,898.9	51%
Medium risk	6,490	15%	£460.4	12%
Low risk	-	0%	-	0%
Total	**44,120**	**100%**	**£3,714.4**	**100%**

Source: TCR 2014 (TBR ref: W5/S5) Employment counts rounded to nearest 10. GVA rounded to nearest 10,000

Previous evidence supports the assertion that 40% represents a level of uplift in value beyond which the case for residential conversion becomes compelling. On this basis all submarkets, with the exception of the Latimer Rd/Freston Rd Employment Zone, are fit for inclusion within an application for an Article 4 direction to prohibit residential conversion when the temporary exemption from this policy, which currently covers the Royal Borough of Kensington and Chelsea in its entirety, expires in May 2019. If current trends are maintained, the differential between commercial office values and residential values

will further diverge between now and 2019, which suggests that potential uplifts will only get larger. The risk of conversion is greatest in the submarkets of Earls Court, Chelsea, and North and South Kensington. The risk is lesser in Knightsbridge principally because current office values are 40% higher than any other submarket.

Table 31: Submarkets' allocation to risk categories

Submarket	Value as office (per sq ft)	Value as residential (per sq ft)	Weighted conversion cost	Net uplift in value	Percentage uplift	Risk category
Earls Court	£ 597	£ 1,700	£ 300	£ 803	90%	Very high
Chelsea	£ 840	£ 2,200	£ 371	£ 988	82%	Very high
North Kensington	£ 520	£ 1,350	£ 250	£ 580	75%	Very high
South Kensington	£ 893	£ 2,200	£ 371	£ 936	74%	Very high
Kensington	£ 893	£ 2,050	£ 350	£ 807	65%	High
Kensal Rd EZ	£ 425	£ 1,000	£ 200	£ 375	60%	High
Notting Hill	£ 893	£ 1,850	£ 321	£ 636	52%	High
Lots Road EZ	£ 643	£ 1,300	£ 243	£ 414	47%	High
Knightsbridge	£ 1,260	£ 2,400	£ 400	£ 740	45%	High
Latimer Rd/Freston Rd EZ	£ 696	£ 1,050	£ 207	£ 146	16%	Medium

Source: Frost Meadowcroft (TBR ref: W8/S1)

Modelling the outstanding period remaining on existing leases presents an indication of just how rapidly these economic impacts could materialise. Whilst it appears that larger firms tend to occupy premises with longer leases remaining (on the basis that the number of leases expires more quickly than the total square footage) the proportion of leases expiring before the end of 2017 is 53%, nonetheless. Even if the current exemption remains in place, property owners may decide either to renew leases only long enough to coincide with the cessation of current exemption in 2019, or discontinue the lease and leave the premises empty until that time. If even a small proportion of a niche subsector planned to relocate, this could disrupt the ecology of that subsector and have a significant impact upon local economic activity.

5. Appendices

5.1 About Trends Business Research Ltd (TBR Ltd)

TBR is an economic development and research consultancy with niche skills in the use of economic data to clarify the dynamics of local, regional and national economies, sectors, clusters and markets. Much of our research has focused on the characteristics and performance of high growth SMEs and the factors which drive their growth, including relevant research for BIS, NESTA and UKTI. We also maintain TCR, the largest longitudinal dataset of UK businesses.

5.2 About TCR

5.2.1 What is TCR?

TCR - Trends Central Resource - is one of the most extensive bodies of information on UK enterprise. It was developed by TBR following original research undertaken over 25 years ago to demonstrate the important job creation role of small firms. It contains data on over 3 million live firms and organisations in the UK, together with historical information on a further 5 million organisations going back to the 1970s.

TCR is incredibly rich. It contains, for each firm on the database, details on size and performance, business activity, ownership structures, executives, type of entity, start-up year and a host of other descriptors. This information is held as a seamless time series making data access and retrieval an extremely efficient process.

TCR embodies the breadth and depth of the UK economy over the last 30 years. It is large, it is detailed, it is unique and it is longitudinal. With it TBR can add value to economic statistics by generating greater detail than that which is provided through government statistics. It allows us to shed light on issues of economic strength and weakness that otherwise remain hidden and tell our clients things about their sectors and local or regional economies that they cannot discern from traditional economic data sources.

5.2.2 Coverage

TCR represents the whole UK population. Unlike other data sources it includes firms below the VAT threshold, branch sites, and the self-employed. As such TCR is a fuller, more complete picture of a local economy or market. It enables our clients to capture their subject of focus and make relevant comparison.

TCR contains more detail on a greater range of firm characteristics than other data sources. TCR identifies the precise location, size, performance, activity, age, and ownership of a specific firm and can cross-reference any of these characteristics.

TCR offers the flexibility required to analyse the key relationships, which drive economic growth. TBR tracks the outputs of the Annual Business Inquiry (ABI) as well as the outputs of the Business Register & Employment Survey (BRES) from ONS at the regional and sector level in order to ensure alignment with information that is shared broadly across the public sector research agenda.

5.2.3 Where does the data come from?

TCR is built from biannual data feeds from Dun & Bradstreet (D&B). TBR has been working with D&B since the 1980s and we maintain a long standing and highly productive working relationship with them.

D&B collect data through four key activities;

1. Direct daily data feeds from Companies House,

2. Large call centre operations which collect, validate and update data records on an ongoing basis,
3. Reference to corporate journals, court circulars and news feeds,
4. Data exchange relationships with 'directory' businesses such as Thompsons.

5.2.4 Estimating the missing tier

Whilst TCR has superior coverage when compared to official sources such as the Inter-Departmental Business Register (IDBR)[13], it is not a census of all businesses operating across the UK. As such, the Observatory team carries out a "gap-filling" exercise on TCR in order to produce a view of the whole economy. The only statistics available that attempt to cover the whole of the economy (and can therefore be used to understand the gap) are the Business Population Estimate (BPE) statistics produced by the Department for Business, Innovation & Skills (BIS).[14] These statistics are only available at the level of two-digit SIC code and for Government Office Regions, and as such cannot be used for detailed sectoral analysis.

TCR represents a "near census" of UK business activity for those businesses employing five or more people. However, there is a "missing tier" of businesses: the zero class and micro (or non-VAT) enterprises[15]. This gap is to be expected. Many very small businesses do not appear regularly on private sector monitoring databases as a) they often have low turnover and therefore are not required to register for VAT[16] and b) they are not required to submit full accounts to Companies House.[17] This requirement to understand this missing tier drives the need to estimate.

In order to deliver the estimation, all firms on TCR are allocated an employment size band, which allows figures to be weighted to the BIS SME statistics through a grossing procedure. To produce the estimate for the missing tier, given the near census nature of TCR, it is assumed that records which do not have an employment figure generally fall into the zero class category.

The businesses with missing employment data that are placed in this zero class category are assigned an estimate of employment based on their legal status. If a business is registered as a partnership, limited partnership or limited liability partnership, it is generally given an employment figure of 2. For other legal statuses, businesses are given an employment figure of 1.

This procedure allows the comparison of TCR against the SME statistics for each two-digit SIC code across all size bands and then determines the relationship between the business counts of each dataset. This relationship is calculated as a grossing factor, which is then used to weight the businesses on the TCR dataset that are in a particular SIC or size band so that TCR is more like the SME statistics and more representative of the **whole** economy.

For example, if TCR had one business in a certain SIC and size band, but BIS SME statistics showed five businesses in the same SIC and size band, then the grossing factor would be five (i.e. five divided by one) because the TCR number should be five times higher. Given the "near census" flag, it is only the smaller companies on the TCR dataset that are weighted, namely the zero class (or non-VAT enterprises). Once this process has been completed, the TCR dataset is then ready to carry out analysis across all industries and geographies.

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13 The IDBR only covers VAT and PAYE registered businesses, which means that a significant proportion of sole traders and micro businesses are not covered within these statistics.
14 https://www.gov.uk/government/collections/business-population-estimates
15 These non-VAT enterprises are generally self-employed sole traders or partnerships but can also be self-employed people operating under a limited company legal status.
16 http://www.hmrc.gov.uk/vat/start/register/when-to-register.htm
17 http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1073791254&type=RESOURCES

TCR contains site employment both for branches and HQs. Therefore large multisite firms have their employment distributed appropriately, with only HQ site employment being recorded at the HQ location (rather than total company employment). This removes the potential for any double counting.

5.2.5 Output of firms – Gross Valued Added

To identify the financial contribution of a firm, TCR contains information on a company's output (i.e. GVA) and how this changes over time. We then sum the output of individual businesses and obtain an understanding of the performance of larger economic components (e.g. regions, industries, UK economy…).

Another significant benefit of TCR in is its ability to provide reliable estimates of economic output and productivity for bespoke sector definitions. Official estimates of Gross Value Added (GVA) are published at broad sectoral and geographical levels which do not allow specific focus on the niche business activities that matter most to local economies. Because TCR is built up from detailed firm-level data, it allows a flexibility in analysing very specific sectors' contribution to local economies that is not available from official sources.

5.2.6 Our general approach to calculating output (GVA)

Output (GVA) is used in the estimation of Gross Domestic Product (GDP) which is a key indicator of the performance of the whole of an economy. As a measure, GVA is the contribution of each individual producer within the economy, which can then be grouped together to consider the contribution of a particular industry or sector.

There are different methods for calculating GVA, and often the approach has to find a balance between an ideal approach and pragmatism. For example, GVA can be calculated from focusing on income rather than production[18]. In addition, the method of calculation either takes an approach that is top-down, bottom-up or mixture of the two. We believe we have found the balance of an ideal and practical approach, where we use TCR and a bottom-up approach to measure business output.

To calculate the output of individual businesses we consider three specific components: profitability, wages and depreciation. Combining these three components, we are able to make an accurate judgement on the level of the economic output of those businesses.

However, this financial information is generally only available for larger firms, who submit full accounts to Companies House. As such, the Observatory team again carries out a gap-filling exercise to populate the information for those businesses where it is missing. This approach makes use of official output per employee estimates from the Annual Business Survey at the 5-digit SIC level, which are then scaled using the information that does exist on TCR to take regional variation into account.

These 'regionalised' output per employee figures are then multiplied by the employment of the business to arrive at an estimated output figure. Once every record has an output figure associated with it (either real or estimated) we can then aggregate to measure output of larger economic units (e.g. regions, industries, LEPs, etc.).

There are two key differences between official sources and TCR estimates:

1. Our calculation of output does not take into account tax revenues.

[18] An income approach would take into account sum of all income from employment, self-employment, and other income generated by the production of goods and services (i.e. operating surplus).

2. Official sources often use aggregated data (often from business surveys[19]), whereas TCR uses firm-level data.

The result is that from using TCR we get a more 'bottom-up' method of calculating output, which begins with individual producers and then pieces together individual components to give rise to the overall economy. Official methods prefer a 'top-down' approach, where data sources (often business surveys) are used to calculate regional proportions, corresponding to industry. As such, they start with the whole (i.e. national economy) and work down to consider GVA of the sub-components of the economy (i.e. regions and industries).

Furthermore, official sources have the issue of using a number of different sources to calculate total output of the UK economy. The Annual Business Survey does not cover all sections in the Standard Industrial Classifications (SIC). For example, agricultural output data is provided by DEFRA and the Annual Survey of Hours and Earnings (ASHE) is the source for industries with significant public sector element. TBR do not have this problem of needing to achieve consistency and reliability from different sources because we have one main source: the financial returns of businesses themselves.

5.2.7 Quality procedures

TBR can call upon its 25 years of experience to design and implement routines and data improvement programmes that ensure it maintains the most effective business database for economic research purposes. There are three key stages to our quality procedures:

1. Data import: Each data record is checked for appropriate field structure and format. Our routines also check for changes in certain key fields compared to data already held for each specific record. This allows us to identify unexpected or unlikely changes and contradictory data so that such issues can be investigated and eradicated.

2. Ongoing data improvement: We run an ongoing programme of data enhancement and quality improvement. This is primarily focused on elements of the database that can produce skews, such as large businesses, extensive corporate hierarchies, businesses that employ a model based on a distributed branch network, and records that report very high levels of some key indicators (e.g. employment, turnover per head, GVA per head).

3. Project-specific quality checks: For each bespoke project that we run, we undertake a process of data validation and cleaning which focuses on similar principle as the ongoing data improvement procedures above. However, we also focus in on specific issues associated with, for example, sector definitions and classifications. In addition, whenever a client-derived definition or segmentation is to be applied, we take the opportunity to cross check SIC allocations and to triangulate our data analysis with other sources (e.g. national statistics) to ensure that the required consistency is achieved.

5.2.8 Site ownership & organisation ownership

TCR's database stores key details on branch and headquarter networks, meaning it is easy to determine if a particular industry or geography is dominated by independent single sites or by branches of larger organisations (e.g. Tesco, Asda). TCR holds information on three different site types against each business record:

Single Site: A business that is located in one location, and has no operational relation to any other organisations, for example TBR Ltd. They set their own targets and do not need to report to anyone else.

[19] The principle data source for ONS GVA is the Annual Business Survey.

Headquarters: This type of organisation controls and maintains one or more other organisations that usually operate under the same trading name. The most common example of this relationship is retail, where you have an overall headquarters, for example Tesco, which then opens subsequent locations of the same business. Local Authority councils also fall under this banner, with the main council office being the HQ and the subsequent services it provides, schools, waste collection, etc. being listed as branches.

Branch: This is an organisation that is controlled and maintained by another organisation (a HQ). They are generally sites of a larger organisation that operate under the same trading name. However, this is not always the case for example local authority services are listed as branches that report to the main council office as their HQ.

These different site types can then be owned by an ultimate parent organisation (where they would be known as subsidiaries) or they could remain independent. A parent organisation is an organisation that owns over 50% of the shares of a business (whether they be a single site or a headquarters). They generally don't have any operational influence over the business in the way that a Headquarter has over its Branches. TCR holds information on ultimate parents for each business record on TCR and they can generally be categorised as follows:

Foreign: A business that has an ultimate parent that is based overseas from the UK.

UK Owned: A business that has an ultimate parent that is based within the UK's borders.

Independent: A business that has no ultimate parent whatsoever.

These different organisation types can then be analysed to produce really useful and interesting analysis of foreign investment within a specific geography or industry. Combining this with the other key variables information stored within TCR such as Gross Value Added or Turnover, opens up a wide array of possibilities.

5.2.9 Comparison with other sources

In terms of flexibility, TCR is the best choice for niche activity baseline studies as it can negotiate the issues that other datasets typically have, such as limited industry detail or poor coverage of non VAT/PAYE businesses.

5.2.10 Keyword searching

One of the core benefits of TCR's granular nature is the ability to go below SIC level. This ability is made possible through the business activity description associated with each business record. TBR can perform keyword searches on these descriptions to identify and analyse niche activities that can't usually be understood through official datasets, such as the Night Time Economy or Technical Textiles.

The general approach of a keyword search is as follows:

1. Develop a list of 'keyword search terms' and relevant SIC codes (if required) to be searched for in TCR to create a 'first cut' of data.

2. Manually review (or 'clean') the database in order to identify and remove any irrelevant records. Crucially, this must create a set of consistent 'cleaning rules' that can be used to refine the keyword search terms for future iterations of the study. In addition to identifying cleaning rules, the manual review may also provide an additional set of 'keyword search terms' that can be used to identify additional businesses.

3. Apply any additional 'keyword search terms' identified in the previous step to TCR to identify additional records, apply the 'cleaning rules' too to remove irrelevant records and then perform

an additional manual review to check for any outstanding irrelevant records. Once complete add any identified removals to the 'cleaning rules'

4. 'Sign-off' of database and proceed with analysis.

Once the database for the niche activity in question has been identified, analysis covering the period of 1998 to present can be performed with relative ease.

In addition to identifying niche activities, the keyword search approach above can also be used to place data in to bespoke segments (these can be below SIC level and equally it can forego SIC altogether). Basically a list of 'keyword search terms' needs to be developed and applied for each of the segments of interest and then the steps 2 through 4 are applied in the same fashion.

5.2.11 Combining with official sources

Whilst TCR can be used as a standalone database to provide statistics on firms, employment, financials and much more, it can also be combined with other official data sources. The main two reasons for this are to:

1. Use TCR's detail to extract information from official sources via a coefficienting process
2. Use another data source's additional information (on, for example, demographics) to provide further insight in to TCR data.

With regards to the first point, this is where the preference is to use official data sources but the task at hand requires sub-SIC analysis in order to understand a niche activity. To solve this problem, keyword searches are used on TCR to identify the niche activity in question. We then determine the proportion of each SIC(s) that the niche activity makes up in terms of firms, employment and turnover. This proportion becomes the coefficient used to extract the niche activity from the total of the SIC(s) in the official data source.

With regards to the second point, this is where we use another data source to provide insight about a particular industry that is not normally available through TCR, such as occupational and qualification breakdowns or splits by age range, etc. For the most part the key data source used for this task is the Annual Population Survey (APS). The approach is to understand distributions across the chosen variable (e.g. age, occupation, etc.) for each SIC and calculate it in terms of percentages. Once this distribution has been calculated for each SIC, it is simply a matter of applying the percentages from the APS to the total from TCR for the SIC of interest.

5.3 Creative industries definition

Sub-sector	SICs
Advertising and marketing	7021 PR and communication activities 7311 Advertising agencies 7312 Media representation
Architecture	7111 Architectural activities
Crafts	3212 Manufacture of jewellery and related articles
Design: product, graphic and fashion	7410 Specialised design activities
Film, TV, video, radio and photography	5911 Motion picture, video and TV production activities 5912 Motion picture, video and TV post-production activities 5913 Motion picture, video and TV distribution activities 5914 Motion picture projection activities 6010 Radio broadcasting

Sub-sector	SICs
	6020 TV programming and broadcasting activities 7420 Photographic activities
IT, software and computer services	5821 Publishing of computer games 5829 Other software publishing 6201 Computer programming activities 6202 Computer consultancy activities
Music & Publishing	5811 Book publishing 5812 Publishing of directories and mailing lists 5813 Publishing of newspapers 5814 Publishing of journals and periodicals 5819 Other publishing activities 7430 Translation and interpretation activities 5920 Sound recording and music publishing activities
Museums, galleries and libraries	9101 Library and archive activities 9102 Museum activities
Performing and visual arts	8552 Cultural education 9001 Performing arts 9002 Support activities to performing arts 9003 Artistic creation 9004 Operation of arts facilities