ROGER TYM & PARTNERS
Planners and Development Economists

Roger Tym & Partners
7 Soho Square
London W1D 3QB

t: 020 7028 7100
e: london@tymconsult.com
w: www.tymconsult.com

Greater London Authority/Royal Borough of Kensington and Chelsea/London Borough of Hammersmith and Fulham

Earl's Court West Kensington Opportunity Area: Office Market

Final Report | October 2011

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1 INTRODUCTION

The Brief

1.1 Roger Tym & Partners have been commissioned to undertake an office floorspace needs study to explore the potential for office provision, as part of the mix of uses, and to assist in determining the optimum office floorspace provision for the Earl's Court & West Kensington Opportunity Area (OA). This will inform the production of the planning framework for the Opportunity Area and form part of the associated evidence base.

1.2 The London Borough of Hammersmith and Fulham (LBHF), the Royal Borough of Kensington & Chelsea (RBKC) and the Greater London Authority (GLA) (the three public authorities) are collaborating to produce the planning framework for the Opportunity Area. This will be published as Supplementary Planning Guidance to the London Plan and as a Supplementary Planning Document to the core strategies of each borough.

1.3 The London Plan (2011) identifies Earl's Court & West Kensington as an Opportunity Area with capacity for at least 4,000 homes and 7,000 jobs. The strategic policy direction for the area indicates that a planning framework for the area, informed by a transport study, will determine the optimum development capacity which is likely to be significantly higher than these minimum figures. It also indicates that this framework should explore the potential for a strategic leisure, cultural and visitor attraction and strategically significant offices, together with retail, hotels and supporting social infrastructure.

1.4 As part of this brief we have been asked to test three options in terms of office quantum. These are set out in the table below. The range of options for all uses is set out in Appendix 1.

Table 1.1 Office Floorspace Options

Option	Office Floorspace
Option1	90,650 sq m
Option 2	142,450 sq m
Option 3	194,250 sq m

1.5 In order to assess the potential impact of office floorspace provision in the OA on other parts of London we agreed with the GLA a list of 12 boroughs which we might see as 'competitor' locations for demand. These were:

- Hillingdon
- Hounslow
- Ealing
- Brent
- Hammersmith & Fulham
- Kensington & Chelsea

- Barnet – *because of Brent Cross/Cricklewood*
- Westminster
- Camden
- Islington
- Wandsworth
- Lambeth

1.6 These boroughs would constitute the wider sub-region for review. With the exception of Barnet (which is included because of Brent Cross/Cricklewood), they either form part of the West London property market or the Central London property market which are potential sources of demand.

Study Tasks

1.7 This is a focussed piece of work based primarily on desk-research and existing data. There are four main strands of work:

- **Review of Policy and Evidence** - to establish the policy context and evidence base for the provision of office floorspace in the OA in support of the planning framework for the area.
- **Review of Competing Office Pipeline** – summary of outstanding consents and proposals for office space in Central and West London.
- **Quantitative Assessment of Office Floorspace need** – after assessing the balance between forecast demand for the sub-region and pipeline supply
- **Qualitative Assessment of Office Demand –** reviewing the types of office offer that occupiers are seeking and the relative merits of the OA as an office location.

1.8 This report sets out our findings under each of these workstreams and concludes with a recommendation as to an appropriate quantum and type of floorspace for inclusion in the SPD.

2 POLICY REVIEW

Introduction

2.1 This section reviews national, regional and local planning policy to identify the strategic fit of the potential office provision in the OA. In undertaking the office policy review we are seeking to draw out conclusions on four particular points:

- What it implies about the quantum of office space
- What it implies about size and type of office space
- What it implies about location of office space – either specific locations or locational attributes e.g. high PTAL
- What is implies about spatial balance in London – e.g. inner/outer, east/west etc

Central Government Guidance

2.2 Planning Policy Statement (PPS) 4: Planning for Sustainable Economic Development was published in December 2009. It brings together planning for all economic land uses and its key objective is to ensure that the planning system positively and proactively supports economic development.

2.3 Office development is included (para. 5) as a "main town centre use". Policy EC5.2 states that sites for main town centre uses should be identified through a sequential approach to site selection. Under the sequential approach, local planning authorities should identify sites that are suitable, available and viable in the following order:

a. locations in appropriate existing centres where sites or buildings for conversion are, or are likely to become, available within the plan period

b. edge-of-centre locations, with preference given to sites that are or will be well connected to the centre

c. out-of-centre sites, with preference given to sites which are or will be well served by a choice of means of transport and which are closest to the centre and have a higher likelihood of forming links with the centre

2.4 The southwest corner of the OA encompasses part of Fulham town centre, which is a major town centre. The remainder of the site lies between Earl's Court, a neighbourhood centre, and North End Road (West Kensington), a key local shopping centre. The whole of the OA is very well connected being close to three London Underground stations and one Overground station. The RBKC Core Strategy supports the establishment of a new centre in the heart of the OA.

2.5 Policy EC1.2 discusses the regional evidence base and states that when assessing the need for new office development, this should "take account of forecast future employment levels and assess the physical capacity of centres to accommodate regionally significant new office development, reflecting the role of such centres in the hierarchy". In London, employment forecasts and capacity have been considered as part of the Plan review process.

Draft National Planning Policy Framework

2.6 The draft NPPF was published in July 2011 and intends to help achieve sustainable development. It sets out the Government's reforms to the planning system in order to make it less complex and more accessible and to promote sustainable growth. It states that delivering sustainable development means planning for prosperity (an economic role), planning for people (a social role) and planning for places (an environmental role).

2.7 The draft NPPF includes a presumption in favour of sustainable development as follows

'At the heart of the planning system is a presumption in favour of sustainable development, which should be seen as a golden thread running through both plan making and decision taking. Local planning authorities should plan positively for new development, and approve all individual proposals wherever possible. Local planning authorities should:

- prepare Local Plans on the basis that objectively assessed development needs should be met, and with sufficient flexibility to respond to rapid shifts in demand or other economic changes
- approve development proposals that accord with statutory plans without delay; and
- grant permission where the plan is absent, silent, indeterminate or where relevant policies are out of date.

2.8 All of these policies should apply unless the adverse impacts of allowing development would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole.'

2.9 The draft NPPF also sets out specific policies on business and economic development and states that one of the Government's objectives is to plan proactively to meet the development needs of business and support an economy fit for the 21st century.

The London Plan

2.10 The London Plan was published in July 2011. Table 4.1 sets out office floorspace requirements for the period 2011-2031. For Inner London (which includes the London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea), demand is forecast to be 860,000 sq m. This compares to 770,000 sq m for Outer London and 3.07 million in the CAZ and North of the Isle of Dogs (Canary Wharf).

2.11 The London Plan Policy 4.2: 'Offices' states that the Mayor will and the boroughs and other stakeholders should consolidate and extend the strengths of the diverse office markets "by promoting their competitive advantages, focusing new development in viable locations with good public transport, enhancing the business environment including through mixed use redevelopment, and supporting managed conversion of surplus capacity to more viable, complementary uses".

2.12 The Plan identifies Earl's Court & West Kensington as a new Opportunity Area with capacity for at least 4,000 homes and 7,000 jobs. Annex 1 states that the area "presents a significant opportunity for regeneration comprising estate renewal and housing and employment growth. A comprehensive approach should be taken to planning the future of the exhibition complex, the Transport for London Lillie Bridge Road depot, the local authority housing estates and other sites in the vicinity. The potential for a strategic leisure, cultural and visitor attraction and strategically significant offices should be explored together with retail, hotels and supporting social infrastructure”. The strategic policy direction for the area indicates that a planning framework for the area, informed by a transport study, will determine the optimum development capacity which is likely to be significantly higher than these minimum figures. It also indicates that this framework should explore the potential for a strategic leisure, cultural and visitor attraction and strategically significant offices, together with retail, hotels and supporting social infrastructure.

Examination in Public

2.13 During the Draft London Plan’s EiP, Capital & Counties Plc made detailed representations suggesting that the Opportunity Area could provide up to 300,000 sq m of office floorspace. This is based on a detailed critique of the evidence base on office projections and an examination of market circumstances in this part of London.

2.14 They make the point that the West End is significantly under supplied with office space relative to forecast levels of demand growth, and so there is a need for sufficient long term capacity in suitable alternative locations. The OA is such a location, being highly suitable for office development due to its high level of accessibility and high economically active population within a 45 minute peak journey time by public transport. They also point to the need for a critical mass to realise the strategic potential of the site.

2.15 The GLA stated that the Opportunity Area Planning Framework, which will test scenarios and be informed by a transport study, will determine the optimum development capacity on the site.

London Office Policy Review 2009

2.16 The most recent London Office Policy Review LOPR (2009), informed the emerging London Plan. Its original figures were updated for the EiP.

2.17 For total employment, the highest 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 have the highest growth.

2.18 Forecast demand is derived from projections of growth in office based sectors. The Financial and Business services sectors are responsible for the vast majority of office demand and compared to the previous LOPR, the GLA’s forecast of growth in these sectors was lower. It stated, however, that the projections for the sectors do remain strong; they are just forecast to grow at a slower rate than has occurred in the recent past.

2.19 For the period 2007-2031, the updated office floorspace requirement for LBHF is around 377,000 sq m net and for RBKC is around 54,500 sq m net. These figures are set within the context of estimated demand for office based employment and floorspace in Inner London.

2.20 The review points out that “Other services” accounts for more than 30% of office employment in Hammersmith & Fulham and 25% in Kensington & Chelsea, reflecting the high levels of media employment in these Boroughs. The forecasts assumed that the share of each sector remained constant.

2.21 The policy review identified an under supply of offices in Hammersmith & Fulham. New office development on the Earl's Court / West Kensington site could therefore help to meet this demand.

Local Policies and Evidence

Kensington & Chelsea

2.22 The RBKC Core Strategy was adopted in December 2010.

2.23 The strategic policy 'Location of Business Uses' states an intention to restrict large scale business development to areas with good accessibility by public transport. Policy FV TP9 permits new office floorspace in higher order town centres and in highly accessible areas, except as a change of use of flats.

2.24 The LDF supports offices in town centres, the main cluster being Kensington High Street. These are not strategic London locations but offices are an important part of the town centre mix and town centres are a sustainable location for them.

2.25 Earl's Court is designated as a strategic site, and proposals for it are set out in Chapter 26. This states that "the aim of this site is to provide a mixed-use development which will include residential, employment and other uses".

2.26 The Chapter states that within RBKC it is anticipated the scheme will be residential-led, although the full development capacity and exact disposition of uses should be considered as part of the spatial planning for the Opportunity Area site as a whole, through the joint Supplementary Planning Document. There would be a minimum of 10,000 sq m of office floor space, but there is some flexibility for this office floorspace to be provided in LBHF in return for additional housing. There would be a minimum of 500 homes within RBKC. High density development is envisaged, along with regeneration and a possible neighbourhood centre.

2.27 The RBKC Employment Land Availability Study Update (October 2009) identifies the need for a net additional 23,000 sq m of office floor space up to the end of the plan period in 2028. This takes into account floorspace already in the pipeline, either being built / built out or where consent is already granted. RBKC has therefore allocated 10,000 sq m of this office floorspace to Earl's Court and 10,000 sq m to another strategic site – Kensal.

Hammersmith & Fulham

2.28 The LBHF Core Strategy was adopted on 19th October 2011.

2.29 The Core Strategy identifies five regeneration areas where the Council intends to encourage major growth. These are as follows: Park Royal Opportunity Area, White City Opportunity Area, Fulham Regeneration Area (Including, Earl's Court and West Kensington Opportunity Area), Hammersmith Town Centre and South Fulham Riverside. The principal areas where major office development will be directed are Hammersmith town centre and the White City Opportunity Area. It states that, *"the development of the Earl's Court West Kensington Opportunity Area, which has good accessibility, will provide further offices to meet any local shortfall in provision."* Elsewhere viable sites will be encouraged to be retained but there is unlikely to be significant growth.

2.30 The evidence base document for LBHF was published in September 2005 (the Hammersmith and Fulham Employment Land and Premises Study) and has been updated in 2010. The update provides information on policy change since the previous study, up to date information on regeneration and major development sites as well as reviewing the projected requirements and extending their time periods to 2031. The Council also published a Background Paper: Employment Land Assessment – Updating Statement, in May 2009, which quotes figures from LOPR and the GLA. This includes an assessment of the development pipeline and major development opportunities.

2.31 The borough's Economic Development Strategy has not been updated recently and is therefore more in line with the UDP than the latest version of the Core Strategy, referring to the 10 Employment Zones identified in the original UDP. Its main objectives are boosting job creation and tackling worklessness.

2.32 The EDS splits the borough into three areas, each with a different path for the future:

- Northern Renaissance thanks to White City and Park Royal / Willesden Junction;
- Town Centre Rejuvenation in the middle of the borough with Fulham, Hammersmith and Shepherd's Bush being the focus of delivery; and finally,
- Southern Consolidation (where the site is located) which is primarily focused on housing and retail. This is very much focused on protecting the wharves.

Surrounding Boroughs

2.33 **Hillingdon's** Core Strategy, which is at the Pre Submission Stage (February 2011), proposes designations for Locally Significant Employment Locations (LSEL) that have a light industrial, office and research role. The purpose of this is to ensure that new office development, which has a high trip generating capacity, is located where public transport accessibility is strongest, thereby reducing the need for car trip generation, and to ensure that the function of industrial areas are not compromised by 'sensitive' neighbouring uses.

2.34 Policy SO14 aims to provide 9,000 new jobs, in line with the Replacement London Plan. Most new employment, including office jobs, will be accommodated in the Heathrow Opportunity Area Airport and Uxbridge. More detailed work on location of jobs in the Heathrow Opportunity Area will form part of the evidence base for the Heathrow Area Development Plan Document.

2.35 **Hounslow** have produced an Employment DPD (2008). Policy EP1, Location of New Office-Based Employment, states that proposals for new office floorspace will be directed to the Borough's four town centres (Hounslow, Chiswick, Brentford and Feltham) and Chiswick Business Park.

2.36 The Borough's Core Strategy is at the Preferred Strategy Stage and the ELS is dated, having been undertaken in 2004, but it does not appear that office growth in the future will be high.

2.37 In **Ealing**, the 2026 Development Strategy, which was submitted to the Secretary of State for examination on 21 July 2011, states that 1.1m sq m of new employment floorspace will be required by 2026 to maintain Ealing as a successful borough at the heart of West London. Development of this space will be primarily concentrated in the Uxbridge Road /

Crossrail corridor (focused in town centres and around key stations) and the A40 corridor (focused around Greenford town centre, North Acton station, Park Royal and other industrial estates).

2.38 The recent ELR (2010) suggest a focus on Ealing Broadway for offices to capitalise on the opportunities presented by CrossRail.

2.39 **Brent's** adopted Core Strategy (2010) states that Brent's Employment Land Demand Studies of 2006 and 2008, and the GLA's Office Policy Overview publications, suggest that suburban outer London can recapture elements of the prime office market due to its proximity to commuter areas (i.e. workforce), relatively lower land values and good public transport accessibility to the City. The London Office Policy Review 2007 predicted that, in the Borough, jobs within the Financial and Business Services sector would increase by almost 10,000 to 2026.

2.40 The Council encourages office developments within the borough, but is concerned that the impact of high density employment with associated trip generation and local shopping and facilities requirements are mitigated. Apart from office development ancillary to industrial and warehouse uses, this means that the council requires that, generally, office development is located within the borough's town centres, and the Wembley Regeneration Area and First Central in Park Royal.

2.41 **Barnet'**s Core Strategy (submitted to the Secretary of State on 16th August 2011) – Direction of Travel (2009) states that Barnet has about 446,000 sq m of office floorspace focused in six major office locations (Edgware, Hendon, Golders Green, and Finchley Central town centres and The Hyde and North London Business Park). An analysis of office take-up shows most demand coming from small businesses and larger organisations already based in Barnet.

2.42 It is likely that the development at Brent Cross Cricklewood will meet a large part of future growth. Barnet's town centres will continue to play a role in supplying flexible and affordable office space to smaller businesses including home workers.

2.43 **Westminster**'s Spatial Strategy, adopted January 2011, states that the Borough will accommodate growth in employment of about 90,000 people between 2007 and 2021 and will continue to be one of London's most important office locations.

2.44 Policy CS19 states that new offices and other B1 business floorspace will be directed to appropriate locations within the Central Activities Zone, primarily the three Opportunity Areas at Paddington, Victoria and Tottenham Court Road, the Core Central Activities Zone, and to specified locations within Marylebone and Fitzrovia and the North Westminster Economic Development Area. This will be delivered in such a way that maintains Westminster's unique mixed use character within Central London, with approximately 50% of the floorspace across the whole of Core CAZ being office floorspace.

2.45 Policy CS3 states that the Paddington Opportunity Area is Westminster's most significant opportunity for large-scale regeneration and is the most appropriate location for large floorplate office space. As an area, it should continue to support businesses whilst building a thriving mixed-use sustainable neighbourhood and destination.

2.46 The Core Strategy states that because of the unique market pressures for office floorspace and long-term stability in provision, it is not considered necessary to provide a specific policy to protect offices.

2.47 Westminster Office Study - Impact of the Recession (December 2009) found that although the recession and subsequent downturn in economic conditions has hit the London office market hard, office jobs growth in Westminster is expected to emerge in 2011.

2.48 **Camden's** adopted core strategy November 2010 states at Policy CS8 that the Council will secure a strong economy in Camden, promoting the provision of office space. The high concentration of property, banking and service activities and the large number of publishing and media businesses in the Borough means that over 40% of Camden's jobs are in offices, with the majority of office stock in Central London, particularly in the area between the City and the West End.

2.49 The Camden Employment Land Review 2008 forecasts that the demand for offices will increase by 615,000 sq m between 2006 and 2026. To meet this demand, the Council will direct new business development to the growth areas of King's Cross, Euston, Holborn and Tottenham Court Road, elsewhere in Central London, the town centres (except Hampstead) and other accessible established office locations. The majority of demand will be met at King's Cross, where 444,000 sq m of new office space has been granted planning permission.

2.50 **Islington**'s Core Strategy, adopted February 2011, states that employment projections for the Borough, as set out in the Islington Employment Study Update 2008, provide a forecast for future job growth of around 35,000 to 45,000 jobs for the period up to 2027.

2.51 The redevelopment of commercial buildings will be encouraged to locate in areas with good access to public transport. The CAZ is expected to continue to be the most attractive location for increases in B-use floorspace, accounting for around 75% of total growth. In terms of the Key Area identified in the Spatial Strategy, Bunhill and Clerkenwell is expected to account for around 70% of the borough's new B-use floorspace, and King's Cross for over 15%, largely focused in the commercial-led corridors and primary employment locations identified in the Core Strategy. The other Key Areas are expected to account for over 10% of total growth, with less than 5% expected outside of Key Areas.

2.52 Islington's Employment Topic Paper June 2010 states that it is projected that 75% of the borough's B-use employment will be driven by the CAZ office market, in part because of increased levels of accessibility associated with the Thameslink upgrade and Crossrail line, both of which will meet at Farringdon.

2.53 The **Wandsworth** Core Strategy (adopted 2010) states that forecasts from the GLA predict that by 2021 the number of jobs in the borough could increase by up to 23,000 to a total of over 150,000 jobs (2007).

2.54 The Employment Land Study (December 2004) found that offices are concentrated in the town centres, in particular Putney, but much of the accommodation is from the 1960s and 1970s and in need of updating. Wandsworth is largely a small-firm economy, with 90% of firms employing fewer than ten people and new employment space should be designed to meet the likely future needs of Wandsworth's businesses, most of which tend to be very small companies, and of these companies a significant proportion grow and require properties within which to expand.

2.55 The Nine Elms/north-east Battersea area is the borough's largest existing employment area and will continue to provide significant employment opportunities. The town centres will continue to be the main focus for offices, in particular Putney, with improvements in the quality of the office stock sought. Mixed uses including employment floorspace will be sought on sites in the Wandsworth Thames Policy Area, in particular those well served by public transport and at focal points.

2.56 In **Lambeth**, the Core Strategy (adopted January 2011) states that the London Plan Opportunity Areas of Waterloo and Vauxhall present the most significant potential for commercial development and jobs growth in the borough, alongside their potential to provide new housing. Waterloo is a major office location, one of the capital's most successful tourist areas and an international centre for culture and the arts. Vauxhall is under-going rapid change linked to the wider regeneration of Battersea/Nine Elms. Both areas can make an even greater contribution to the central London economy than they already do, if they are planned and managed effectively as part of the London Plan Central Activities Zone, in partnership with key stakeholders.

2.57 Policy S3 supports the location of, and investment in, major office developments (over 1,000 sq m) in these areas, as well as the Central Activities Zone and Brixton and Streatham town centres.

2.58 For Lambeth, the GLA London Office Policy Review 2007 sets out potential demand for an additional 152,513 sq m during the period 2006 and 2026.

Conclusions

2.59 The southwest corner of the OA encompasses part of Fulham town centre, which is a major town centre. The remainder of the site lies between Earl's Court, a neighbourhood centre, and North End Road (West Kensington), a key Local Shopping Centre. The whole of the OA is very well connected being close to three London Underground stations and one Overground station. The RBKC Core Strategy supports the establishment of a new centre in the heart of the OA.

2.60 In accordance with PPS4, the London Plan review process considered employment forecasts and the capacity of sites. The area is now identified as an Opportunity Area in the London Plan (July 2011).

2.61 Office growth on the site is supported in principle by both Hammersmith & Fulham and Kensington & Chelsea in their respective Core Strategies, as part of a sustainable mixed use development.

2.62 Surrounding boroughs promote office growth in their town centres and in their own Opportunity Areas.

3 TRENDS IN OFFICE DEMAND

Introduction

3.1 This section builds upon work published in LOPR to try to identify patterns in types of demand that might be applicable to the OA. We look in particular to identify two factors:

- Is there a particular sub-regional demand for the OA
- Are there sub-sectors of the office market which might apply to OA

3.2 We have updated and re-worked data published in LOPR on the supply and demand for office space to assess the balance both for the twelve competitor boroughs as a whole and also for sub-regions of these boroughs.

3.3 Figure 3.15 from LOPR looked at the overall balance between projected demand and pipeline supply of office floorspace by London borough derived from the London Employment Sites Database (LESD). This showed that for London as a whole the identified supply was some 50% higher than projected demand. There was an identified supply of 8.1m sq m compared to a forecast increase in occupied stock of 5.3m sq m.

3.4 The table showed there were significant variations between boroughs. Individual borough projections need to be treated with some degree of caution as markets do not necessarily correspond to administrative boundaries. At a broader sub-region level the data will give a more robust picture of the balance of supply and demand.

3.5 If we re-work the table for the twelve competitor boroughs we are considering as part of this study the supply and demand are almost exactly in balance. Forecast office demand for these boroughs at 2.7m sq m is roughly half the forecast total for London as a whole.

Table 3.1 Office Supply and Demand Balance 2007-31: 12 Competitor Boroughs

	LESD	Office Fcsts	Supply/ Demand
Barnet	442,440	92,031	481%
Brent	171,050	79,913	214%
Camden	621,694	544,446	114%
Ealing	96,175	120,996	79%
Hammersmith and Fulham	274,491	401,094	68%
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%
Lambeth	270,168	82,196	329%
Wandsworth	192,573	55,900	344%
Westminster	239,237	633,728	38%
Total	**2,769,225**	**2,732,336**	**101%**

Source: LOPR

3.6 This table based on LOPR data shows balance across the 12 boroughs as a whole, though considerable variation between the boroughs.

Updating the Office Pipeline

3.7 To analyse this further we have first updated the London Employment Sites Database (LESD) used to inform the London Office Policy Review. For each of the twelve boroughs we have examined data on office completions and permissions from the London Development Database and consulted each of the boroughs on plans and proposal for office development in their borough. This exercise was carried out in December 2010.

3.8 Data from the update of the office pipeline suggests that the potential supply has increased. It is important to note that this database consists of potential schemes that may come forward and is an assessment of capacity. It is therefore not the same supply figure that might be derived during the course of an Employment Land Review (ELR) and will differ from figures used in Chapter 7 of this report which consider developments that are likely to come though during the plan period.

Table 3.2 Updated Pipeline

	LESD 2008	Update 2010
Barnet	442,440	468,881
Brent	171,050	184,572
Camden	621,694	824,636
Ealing	96,175	107,676
Hammersmith and Fulham	274,491	541,474
Hillingdon	62,345	76,605
Hounslow	202,767	233,983
Islington	139,385	161,075
Kensington and Chelsea	56,899	110,570
Lambeth	270,168	268,090
Wandsworth	192,573	340,861
Westminster	239,237	228,226
Total	**2,769,225**	**3,546,647**

Source: RTP

3.9 The update pipeline would suggest an increase in potential supply over the last two years. At first this may seem surprising given the point of the economic cycle but can be explained. With the property market stalled during the recession, schemes were not being built out and hence little of the pipeline at 2008 will have been consumed.

3.10 More importantly developers are looking to the long term and using this period to bring together proposals for major sites that will be developed over the long term and probably in part beyond the current London Plan period. This is most notable with very large scale schemes coming forward at Vauxhall/Nine Elms/Battersea, which lies mainly in Wandsworth but partly in Lambeth, and also the White City and Earl's Court West Kensington schemes in Hammersmith & Fulham. The borough also has some longer term aspiration for development at Old Oak Common Sidings and RBKC allocates Kensal for 10,000 sq.m. of office floorspace.

3.11 The expansion in supply derives primarily from expansion of large schemes on the CAZ fringe. This implies it is a response to Central London demand pushing out to the next available sites.

Vacancy Rates

3.12 The Mayor's note to the London Plan EiP[1] added a factor of 8% to the demand forecast to allow for frictional vacancy. In assessing the supply and demand balance it is important to take into account the current equilibrium. Ideally we would know the vacancy factor for each borough and add the divergence from the 8% rate to the supply (+/-). However this information is not available in any robust and consistent form across London.

3.13 The implicit assumption in the Mayor's note is that at the base year the vacancy rate is in equilibrium and therefore an additional 8% should be added to the demand forecasts to maintain equilibrium at the end point.

3.14 At 2011 most London Boroughs will probably still be carrying a lot of excess capacity as a result of the recession both in terms of labour and property markets. Vacancy rates for premises will be higher than optimal. However this excess vacancy will be offset, at least in part, due to the fact that employment will be below trend at 2011, and the GLA forecasts are produced on a trend basis.

Revised Balance

3.15 Combining the updated supply data with the demand plus vacancy rate produces a revised version of Table 3.1. This shows an excess of supply over demand for the 12 Boroughs as a whole, but as before there is a substantial difference between the boroughs.

3.16 The over-supply is most pronounced in Barnet due to the scale of the Brent Cross Cricklewood proposal. This contributes a high proportion of the overall 600,000 sq m surplus. Barnet is neither part of Central London nor of West London. But is has been included because of the large scheme proposed for Brent Cross/Cricklewood. The extent to which Brent Cross/Cricklewood could be seen as a direct competitor to the OA is addressed in subsequent chapters.

3.17 There is also an over-supply in Wandsworth and Lambeth due to the VNEB scheme, but this could be seen as needed to accommodate much of the under-supply in Westminster.

3.18 The other borough with significant under-supply is Islington, though here the demand is related to the city and more likely to be accommodated further east through, for example, the expansion of Canary Wharf to take in the Wood Wharf site.

[1] Draft Replacement London Plan Examination in Public Paper by the Mayor of London Matters 2E-2H and 4A-4F

Table 3.3 Updated Supply and Demand Balance

	Supply Update 2010	Demand Fcsts + 8%	Supply / Demand
Barnet	468,881	99,393	472%
Brent	184,572	86,306	214%
Camden	824,636	588,002	140%
Ealing	107,676	130,676	82%
Hammersmith and Fulham	541,474	433,182	125%
Hillingdon	76,605	147,082	52%
Hounslow	233,983	150,171	156%
Islington	161,075	419,788	38%
Kensington and Chelsea	110,570	62,724	176%
Lambeth	268,090	88,772	302%
Wandsworth	340,861	60,372	565%
Westminster	228,226	684,426	33%
Total	**3,546,647**	**2,950,894**	**120%**

Source: RTP

Sub-Regional Analysis

3.19 Again there are substantial differences between boroughs. We then re-work the table further and first consider the Earl's Court development as part of a central London sub-region. For this sub-region supply and demand are broadly in balance. But this is due to a huge excess supply in Wandsworth and Lambeth offsetting the deficit at Westminster where the supply is nearly 400,000 sq m below forecast demand. The Wandsworth and Lambeth excess supply is dependent on the VNEB scheme.

Table 3.4 Office Supply and Demand Balance 2007-31 Central London

	Supply Update 2010	Demand Fcsts + 8%	Supply/ Demand
Camden	824,636	588,001	140%
Hammersmith and Fulham	541,474	433,181	125%
Islington	161,075	419,789	38%
Kensington and Chelsea	110,570	62,724	176%
Lambeth	268,090	88,771	302%
Wandsworth	340,861	60,372	565%
Westminster	228,226	684,426	33%
Total	2,474,931	2,337,266	106%

Source: RTP

3.20 If we then consider the site as part of the West London market, then there is a surplus, and larger than for Central London. In this case the office supply is 124% of forecast demand or an implied shortfall of 240,000 sq m.

Table 3.5 Office Supply and Demand Balance 2007-31 West London

	LESD	Office Fcsts	Supply/ Demand
Brent	184,572	86,306	214%
Ealing	107,676	130,676	82%
Hammersmith and Fulham	541,474	433,181	125%
Hillingdon	76,605	147,082	52%
Hounslow	233,983	150,199	156%
Kensington and Chelsea	110,570	62,724	176%
Total	1,254,879	1,010,170	124%

Source: RTP

3.21 Using data from the Inner London Reports we can see change in the level of office stock and office completions for these two sub-areas. As at 2008 total office stock for this west London sub-area totalled 4.26m sq m, which represents 15% of the total London office stock. Kensington & Chelsea has seen small increase in stock over this period and Hammersmith & Fulham has seen a small decline.

Table 3.6 Office Stock West London

Office Stock Square metres (m2)(thousands)					
	2005	**2006**	**2007**	**2008**	**2005-08**
Brent	342	282	264	267	-75
Ealing	431	443	455	456	25
Hillingdon	1,439	1,448	1,498	1,348	-91
Hounslow	778	785	792	779	1
Hammersmith and Fulham	829	816	810	820	-9
Kensington & Chelsea	587	588	601	593	6
	4,406	4,362	4,420	4,263	-143

Source: GLA

3.22 If the boroughs are seen as part of our central London sub-area then this has a total 11.58m sq m or 40% of the London total. Both Hammersmith & Fulham and Kensington & Chelsea have a small proportion of this Central London stock.

Table 3.7 Office Stock Central London

Office Stock Square metres (m2)(thousands)					
	2005	2006	2007	2008	2005-08
Camden	2,186	2,223	2,179	2,171	-15
Hammersmith and Fulham	829	816	810	820	-9
Islington	1,374	1,332	1,323	1,325	-49
Kensington & Chelsea	587	588	601	593	6
Lambeth	653	679	679	658	5
Wandsworth	369	363	367	373	4
Westminster	5,656	5,616	5,592	5,640	-16
	11,654	**11,617**	**11,551**	**11,580**	**-74**

Source: GLA

3.23 Over the period 2000-08 office completions for the six west London boroughs averaged 46,600 sq m per annum, 7.7% of the London total. For the sub-region as a whole annual completions represent 1.1% of the 2008 stock though it has been half this rate for Hillingdon and twice this rate for Hounslow.

Table 3.8 Average Annual Office Completions West London Boroughs.

	Annual Average Completions 2000-08	As % of London Total	As % of 2008 Stock
Brent	3,742	0.6%	1.4%
Ealing	5,383	0.9%	1.2%
Hillingdon	6,971	1.1%	0.5%
Hounslow	16,098	2.7%	2.1%
Hammersmith and Fulham	9,113	1.5%	1.1%
Kensington & Chelsea	5,251	0.9%	0.9%
	46,558	**7.7%**	**1.1%**

3.24 If seen as part of the central London sub-market then office completions for this sub area have averaged 192,000 sq m per annum, with Westminster accounting for over half of this total. Annual completions for Central London represent 1.7% of total 2008 stock. Both Hammersmith & Fulham and Kensington and Chelsea are below this rate, being close to the west London average.

Table 3.9 Average Annual Office Completions Central London Boroughs

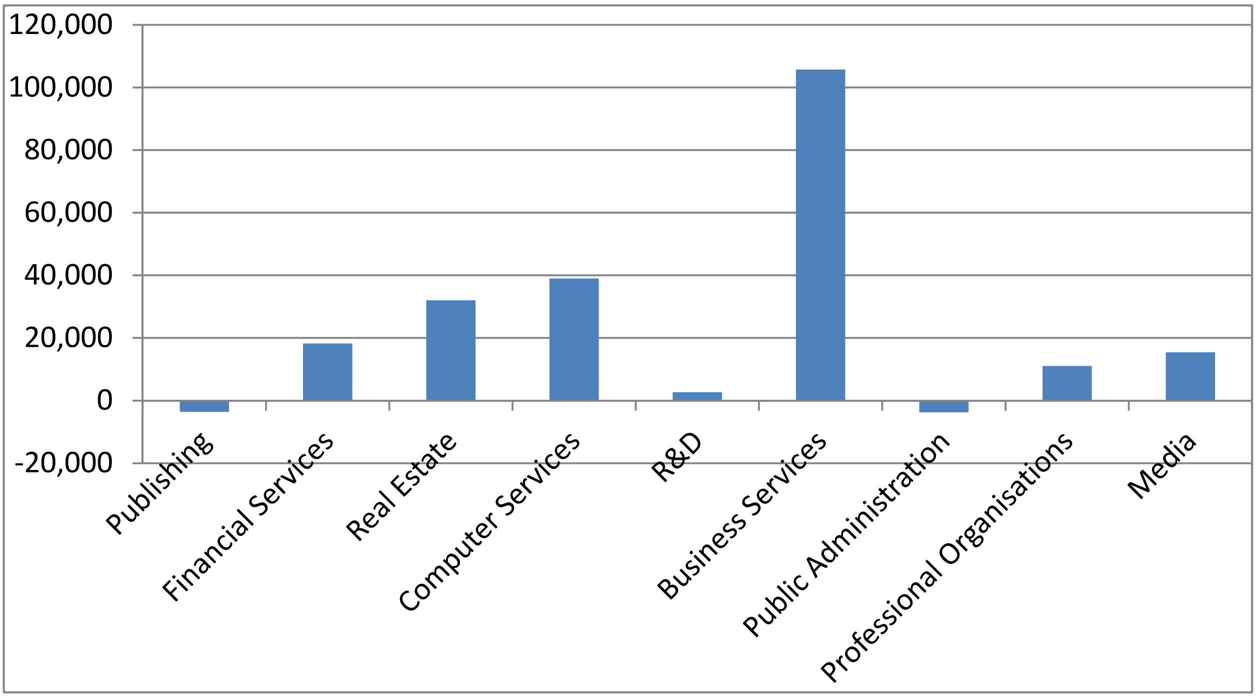
	Annual Average Completions 2000-08	As % of London Total	As % of 2008 Stock
Camden	32,992	5.4%	1.5%
Hammersmith and Fulham	9,113	1.5%	1.1%
Islington	25,545	4.2%	1.9%
Kensington & Chelsea	5,251	0.9%	0.9%
Lambeth	4,979	0.8%	0.8%
Wandsworth	5,681	0.9%	1.5%
Westminster	108,496	17.9%	1.9%
	192,056	**31.6%**	**1.7%**

Office Market Segments

3.25 Using the office employment definition published in Appendix A3.1 of LOPR we have examined which segments of the office market have grown in London generally and which are well represented in the Central and West London markets.

3.26 These can be broadly grouped into nine office sectors as set out in Figure 3.1 below which shows growth in employment by office sector between1998-2008. By far the largest growth sector with an increase of more than 100,000 jobs was business services. This includes services such as accountancy, law, architects etc. The next largest growth sector in terms of job numbers was computer services with just under 40,000, followed by real estate with around 30,000. Publishing and public administration both show a small decline in jobs, whilst all other sectors saw a modest increase.

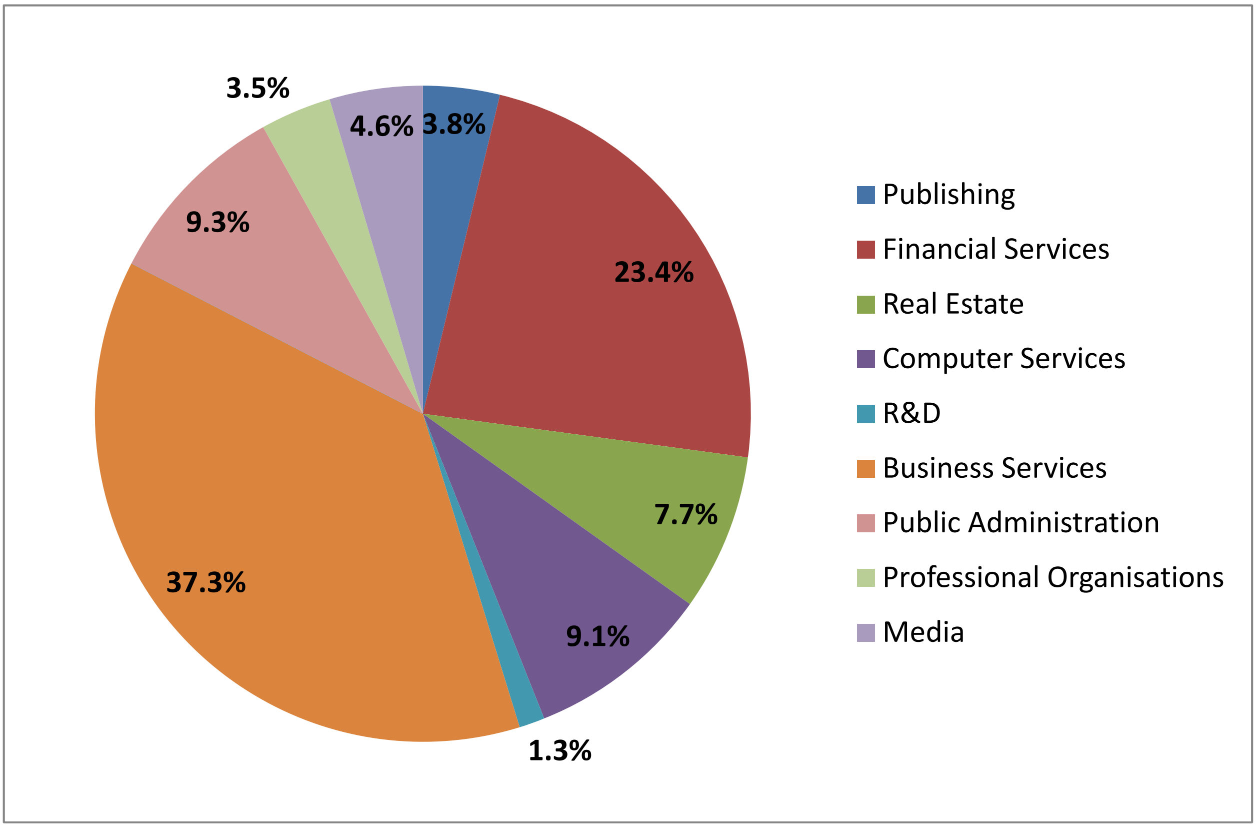
Figure 3.1 London Office Employment Growth by Sector 1998-2008



Source ABI/RTP

3.27 At 2008 Business Services accounted for 37% of office employment and Financial services for 27%. Public Administration and Computer Services each accounted for 9% of office employment with Real estate responsible for just under 8%.

Figure 3.2 London Office Employment by Sector 2008

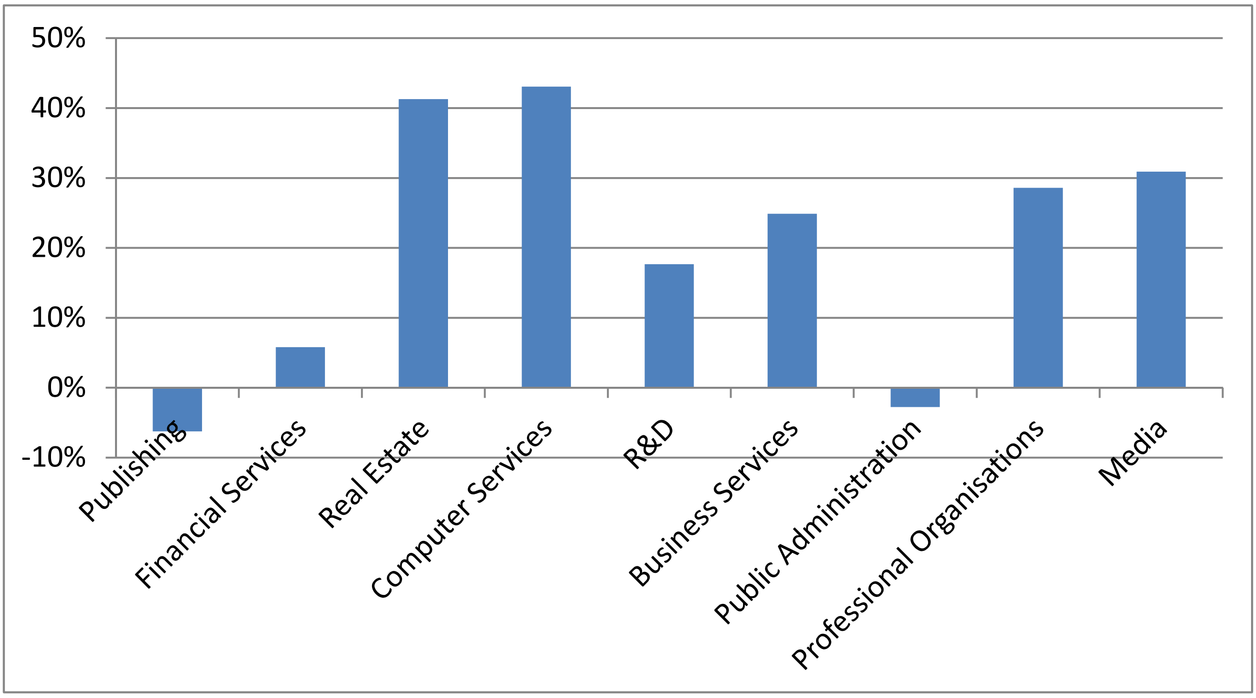


Source ABI/RTP

3.28 If we then examine the same data in terms of percentage growth the fastest growing sectors have been computer services and real estate, both of which have grown by just over 40%. These are followed by media and professional organisations, which have both grown by about 30%. Business services has grown by around 25%. Financial services by contrast has only grown by about 5%.

3.29 Whilst only a small proportion of the current office stock, these smaller sectors are growing rapidly and may be looking for different locations to the traditional market.

Figure 3.3 Percentage Growth in employment by office sector 1998-2008

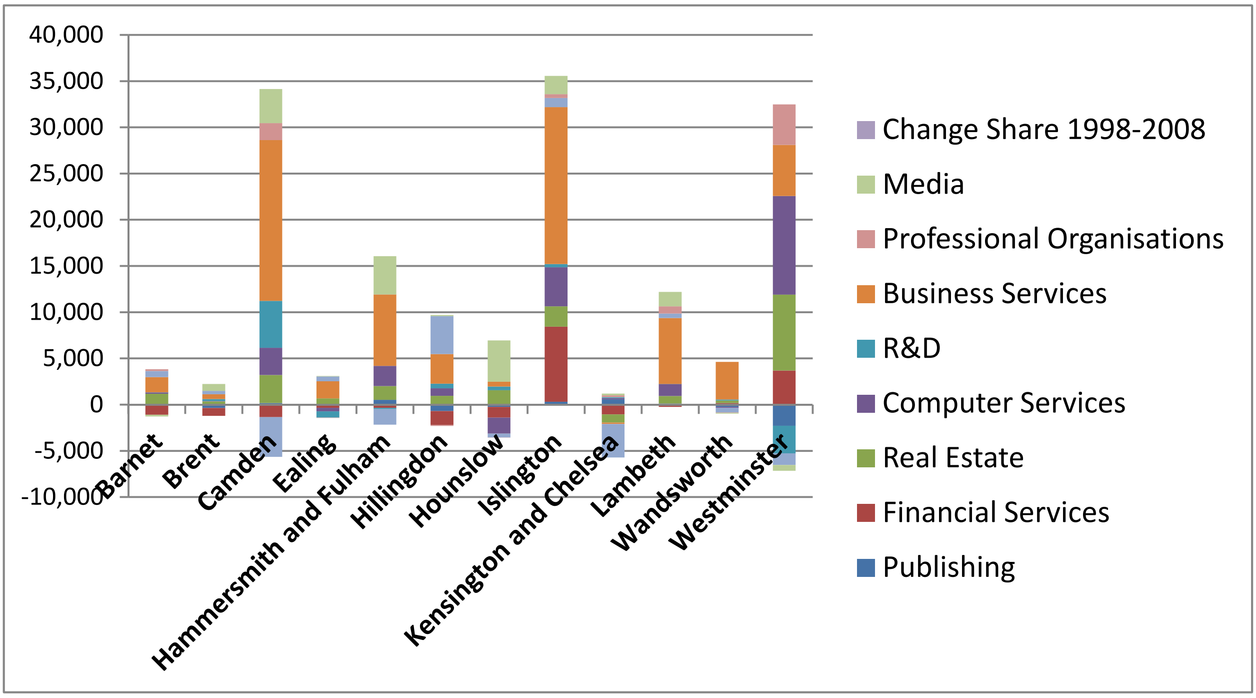


Source ABI/RTP

3.30 Looking at sector growth for each of our 12 Competitor Boroughs, three boroughs have seen the majority of growth in office employment: the central London boroughs of Camden Islington and Westminster. Each has seen a different profile of growth. Both Camden and Islington has seen substantial growth in business services. Whilst Camden has also seen good growth in R&D and media, Islington has experienced strong growth in financial services, due to its city fringe location and also, to a lesser extent, in computer services. For Westminster the largest segments of growth have been in real estate and computer services.

3.31 Hammersmith & Fulham was the fourth largest growing borough with just over 15,000 additional office jobs. Its main growth sectors were business services and media.

Figure 3.4 Change in Office Employment by Sector: 12 Boroughs

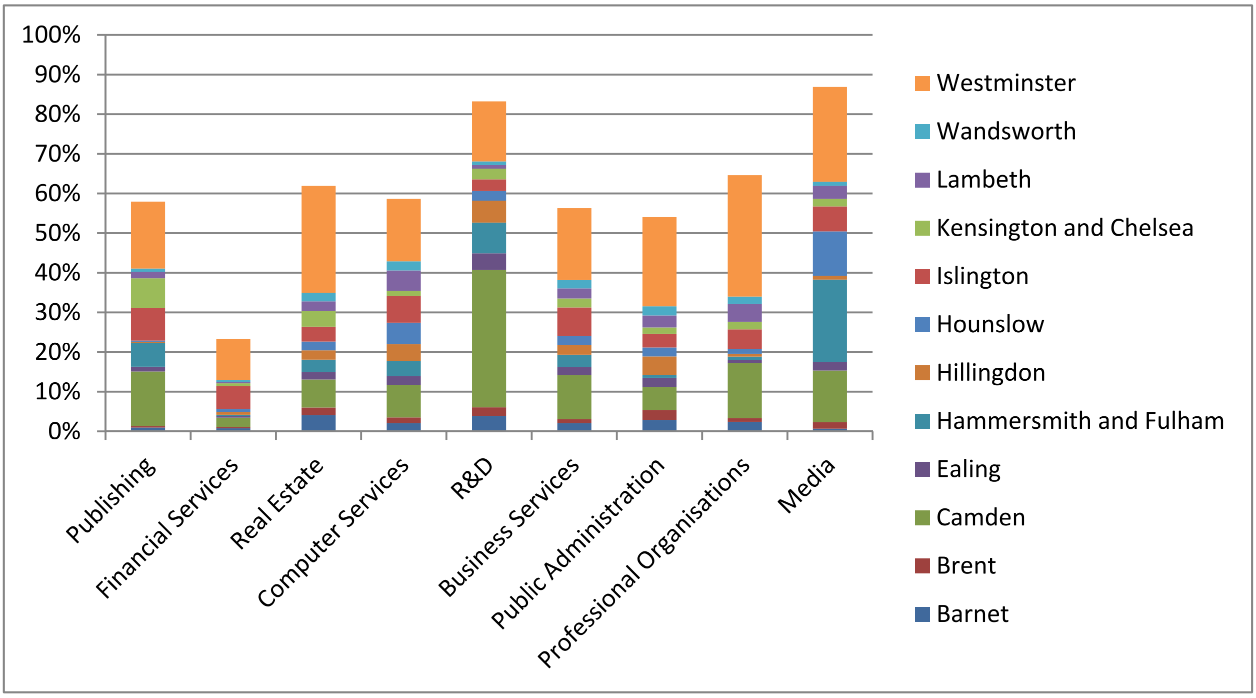


Source ABI/RTP

3.32 Figure 3.4 shows how well represented the 12 Boroughs are in terms of the London total. In media and R&D they account for more than 80% of total London employment. Camden dominates in terms of R&D employment, followed by Westminster. In the media sector Hammersmith & Fulham is the largest employer followed by Westminster.

3.33 By contrast these 12 Boroughs have only just over 20% of the financial services sector which is predominantly based in the City and Tower Hamlets.

Figure 3.5 Share of London Office Employment by Sector



Source ABI/RTP

Conclusions

3.34 We have analysed London office employment and stock data to identify if there is likely to be a sub-regional office demand that might expect to find the broad location of Earl's Court attractive.

3.35 Growth in Central London office employment has been strong. It has a very distinctive market profile to the financial services sectors which locate in the City and Canary Wharf. Whilst Westminster has accommodated a lot of this growth in the past, the current pipeline suggest that supply is limited whilst future demand will remain strong. There is likely therefore to be expansion from Westminster and perhaps further pushing back of the CAZ core. The market response to this can be seen in the number of schemes which are emerging and which we examine later.

3.36 Strategically there would appear to be sufficient demand at the Central London sub-regional level to accommodate any of the three office quanta being tested for the OA. Sectors such as real estate and computer services have been responsible for the fastest growing components of office demand. To date these have found a strong presence in Westminster but this borough is constrained in terms of future additional office supply.

4 REVIEW OF DEMAND FOR OFFICE FLOORSPACE

Introduction

4.1 In this section we review the demand for office floorspace at the London level. Our starting point is the 2009 London Office Policy Review. Whilst not constructing wholly new demand forecasts we examine the implications of the recession

4.2 In addition we also produce a further sensitivity test of the forecast office demand by looking at an alternative projection of employment with a different sectoral profile to that of the GLA forecasts.

Impact of the Recession on the UK economy

4.3 Recessions potentially inflict two sorts of economic costs. First, there are the ‘cyclical’ (or short-run) costs, such as the decline in employment that always goes hand in hand with a marked drop in output. If a recession is relatively mild (in terms of the decline of output it involves), and it lasts a relatively short period, and does not persist, then we might expect that these short-run costs will be the only costs and that the long term growth prospects of the economy will not be affected.

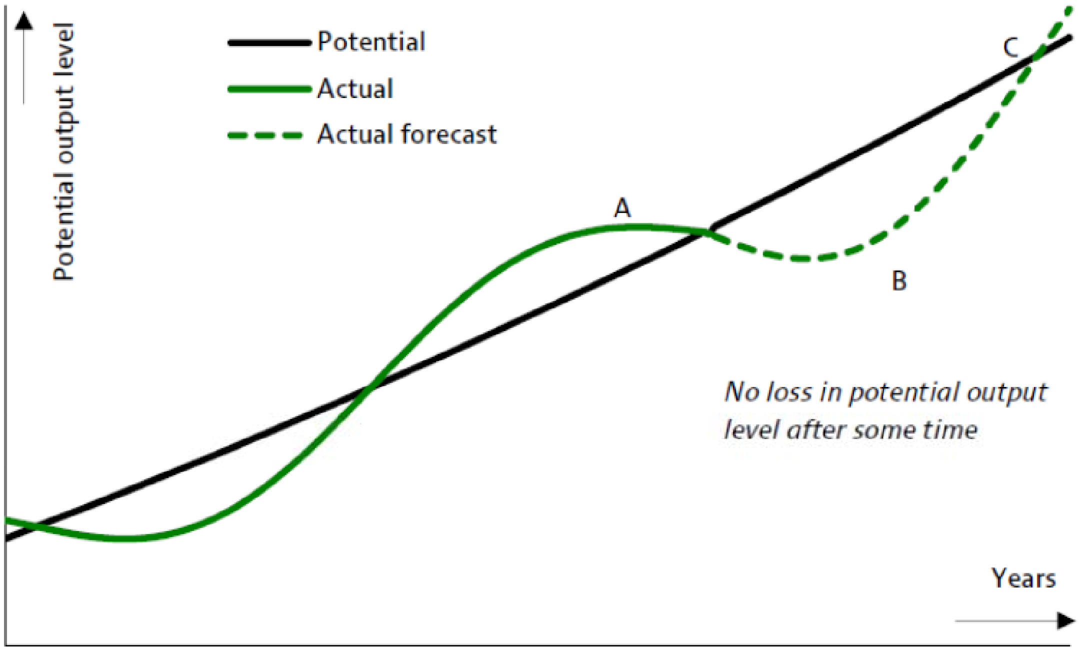
4.4 However as the recent recession involved a substantial loss of output then it may also have inflicted ‘structural’ (or long-run) costs on the underlying economic potential of the UK economy. These costs can be either a one-off fall in the level of potential output or a reduction in the growth rate of potential output. In the worst case, a recession could produce both kinds of adverse effect.

4.5 Economists use the term ‘potential output’ to mean the level of output that the economy can produce if there is full utilisation of both capital and labour. Hence it represents the total capacity of the economy to produce goods and services in a sustainable (non-inflationary) way. The growth in potential output thus represents the growth rate that the economy can sustain in the longer term without leading to rising inflation.

4.6 The case where the recession leaves potential output unaffected is shown in Figure 4.1. The actual level of output falls temporarily below potential as the recession bites. The UK economy moves from the peak of the boom at point A to the trough of the recession at point B. Over the subsequent economic recovery actual economic growth is faster than the growth in potential output and the difference between actual and potential output (which economists call the ‘output gap’) is closed, with the economy moving from point B to point C without suffering long-term (structural) loss of output. In the end the economy gets back the output and employment that it temporarily lost during the recession.

4.7 If we believed that the impact of the recent recession has been like this, then the experience of the recession would not by itself be a cause to reconsider previous assumptions for output (and employment) growth in the UK.

Figure 4.1 A recession with no long-run economic costs

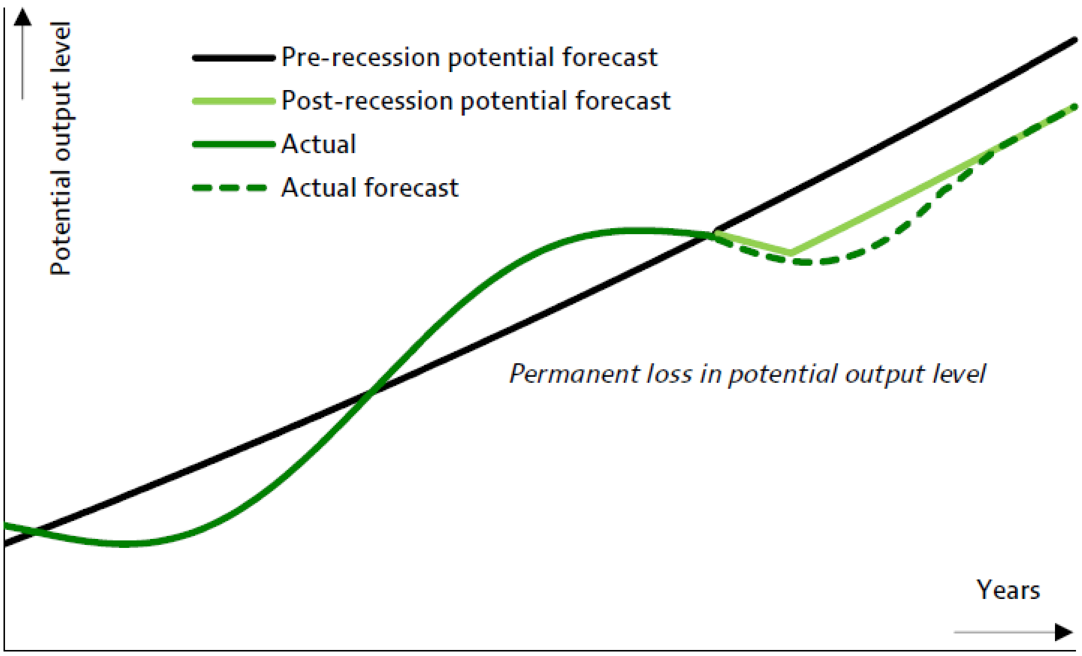


Source: IFS Green Budget 2010

4.8 Figure 4.2 shows the situation in which a recession, as well as generating short-run losses of output, reduces the level of potential output. Once the recession is ended the economy goes back to growing at its existing long-run rate of growth (rate of growth of potential output) but the one off loss of output caused by the recession is never recovered.

4.9 In this case, we would need to revise our assumptions for output (and employment) growth in the UK economy between a pre-recession year such as 2006 and a post recession year such as 2026 to take account of this permanent one-off loss of output and employment.

Figure 4.2 A recession causing a one-off permanent loss of output

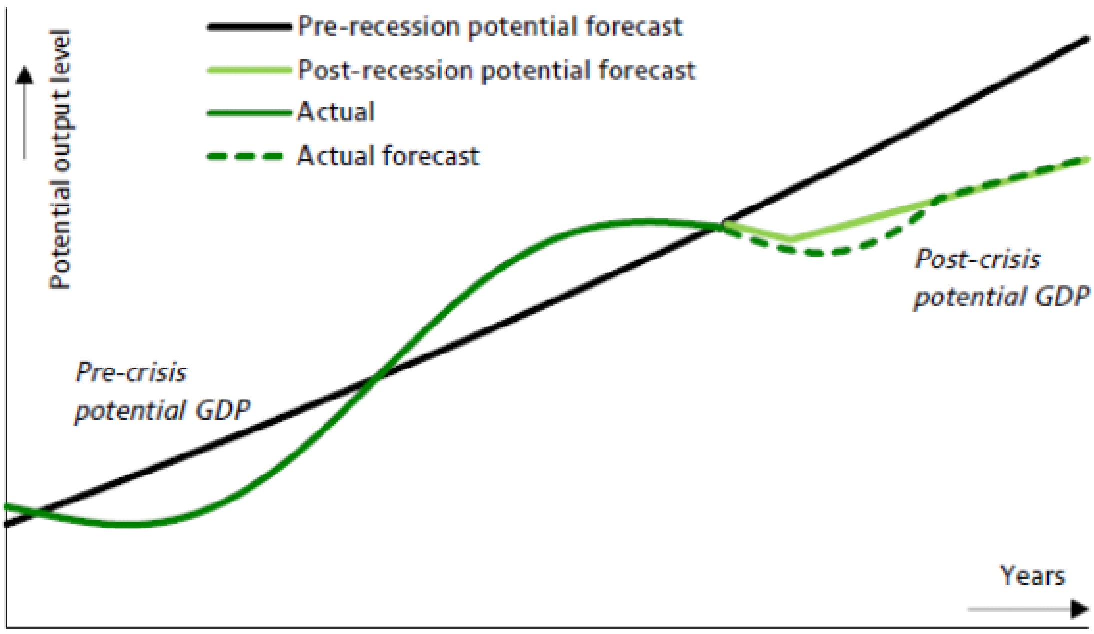


Source: IFS Green Budget 2010

4.10 The worst-case scenario is shown in Figure 4.3, where the recession causes both a one-off loss of output and a reduction in the long-run sustainable growth rate of the economy. Once the recession is ended the economy fails to go back to growing at its existing long-run rate of growth (rate of growth of potential output) and instead it now grows at a lower rate on average over the longer term. In addition there is also a one-off loss of output caused by the recession which is never recovered.

4.11 As the long-run rate of growth of the economy has fallen, the recession causes not just a constant loss of output but one that increases over time. In this case, we would need to revise our assumptions for output (and employment) growth in the UK economy between a pre-recession year such as 2006 and a post recession year such as 2026 to take account of both this permanent one off loss of output and the reduction in long-run output growth.

Figure 4.3 A recession causing both a one-off loss of output and a reduction in long-run economic growth



Source: IFS Green Budget 2010

Actual Impact

4.12 The Office for Budget Responsibility Report published in June 2010 suggested an output gap at 2009 of -4%, representing a one-off loss of output. It also downgraded trend rate of growth to 2.35% over the next three years slowing to 2.1% by 2014. However this is due to demographic impacts on labour supply rather than a recession impact.

The UK Economic Outlook to 2026

The short to medium run UK economic outlook

4.13 The latest consensus forecasts for medium term growth compiled by HM Treasury (May 2010) are set out in the table below. They are compared with those published by the OBR in its pre-Budget report (June 2010).

Table 4.1 Medium Term Forecasts for GDP

	Consensus % pa	OBR % pa
2010	1.2	1.3
2011	2.2	2.6
2012	2.4	2.8
2013	2.7	2.8
2014	2.5	2.6

The longer-term UK economic outlook

4.14 The Treasury sets out its longer-term economic assumptions in its long-term public finance reports. The 2009 report[2] assumes economic growth in the UK between 2019 and 2029 of 2½% per annum. These projections are based on assumptions for productivity and employment growth. Productivity is assumed to grow at 2% per annum – the average annual rate of growth experienced over the last 50 years in the UK - and employment is assumed to grow at ½% per annum, which is in turn derived from the Office for National Statistics (ONS) population projections.

The Economic Outlook for London to 2026

4.15 GLA Economics publish a regular Economic Outlook and have recently published their Spring 2011 edition[3]. This provides an update on the GLA's projections to 2013. This shows a forecast for London at 2012 of 4.73m jobs compared with a figure of 4.86m published in WP 39. To some extent the original GLA Economics Forecasts would have taken account of the recession as they are produced as a trend forecast which will even out fluctuations in the cycle.

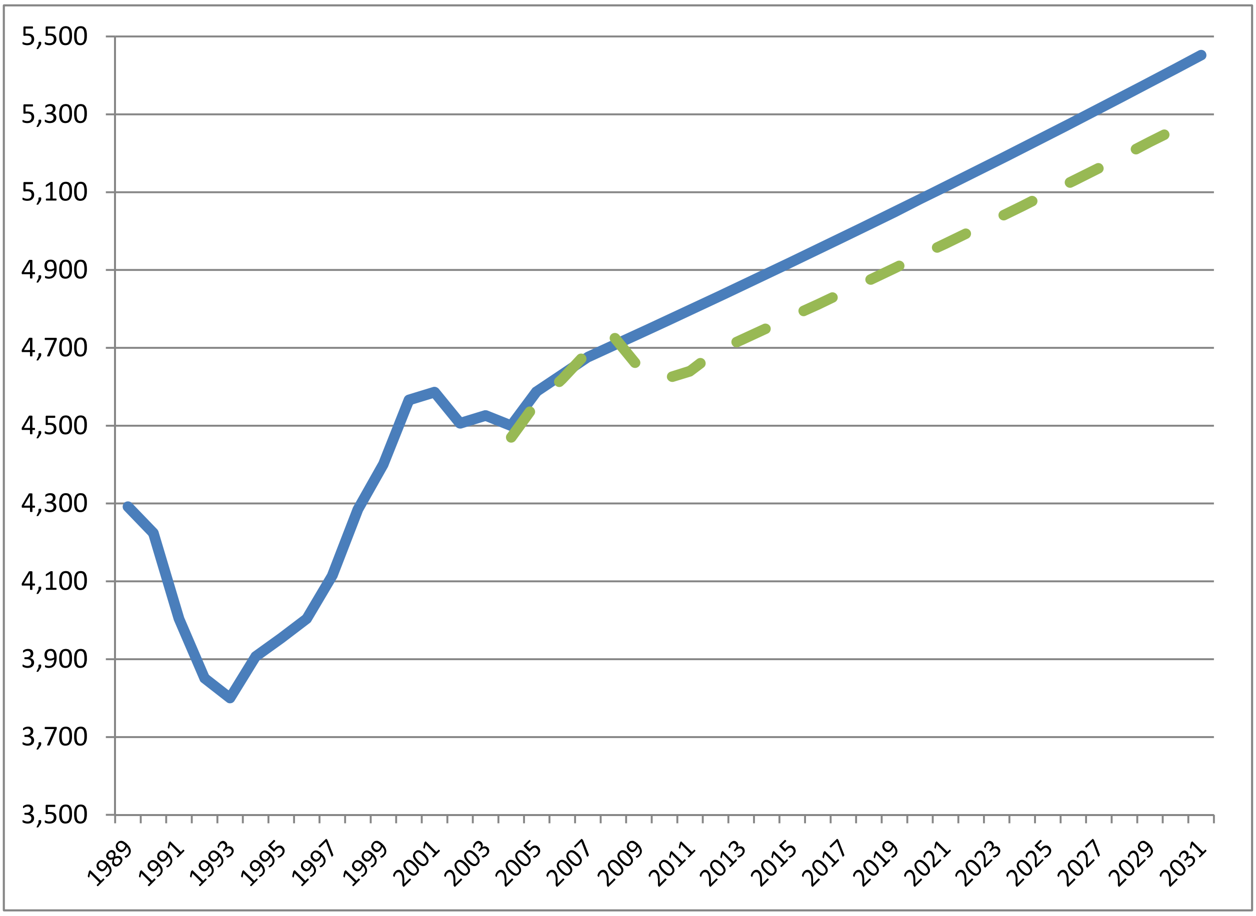
4.16 Our best estimate based on our analysis is that the recession has caused a one-off loss in output similar to the pattern of Figure 5.2 above. If we assume that London follows a similar pattern to the UK and that employment will follow a similar pattern to output, then we can use the GLA Spring 2011 forecast to produce an update that takes account of the recession impact. Broadly this produces an employment estimate that is 150,000 lower at 2010 and that remains 150,000 below the previous estimate over the forecast period.

4.17 In reality this is probably a downside projection for employment as even if there is a one-off loss in output employment will probably return to trend path in the long-term.

[2] HM Treasury, 'Long term public finance report: an analysis of fiscal sustainability', 2009.

[3] London's Economic Outlook: Spring 2011 – GLA Economics

Figure 4.4 Employment Forecast for London with Recession Impact



Source: GLA Economics/RTP

Jobs by Sector and Land Use

4.18 The forecast for office employment would also be affected if the sectoral composition of demand altered as a result of the recession. We do not have any evidence at this stage to suggest that for the trend period of the forecast that the office sector share of growth will have been disproportionately impacted by recessionary factors. In the previous GLA forecasts office employment with 386,000 jobs accounted for half of the forecast increase in total employment of 776,000. If the office forecast were scaled back pro-rata then office employment growth would be just over 300,000.

4.19 But in terms of short-term forecasts the outlook for the principal office sectors seems good. The latest GLA forecast for employment in both financial and business services sectors shows forecast growth in 2011 and 2012 well above the trend rate of growth used in the GLA forecast that informed LOPR. Recent commentary from GLA Economics noted that, “In 2010, London’s office market has bounced back as all submarkets are starting to show signs of recovery. Demand has increased steadily, while supply in all sub-markets is limited. Availability has tightened while vacancy rates fall."[4]

Table 4.2 Medium Term Forecast for Financial and Business Services

	2011	2012	2013	2007-31
Financial Services				
GLA Spring 2011	0.3	1.4	0.4	
GLA 2009 (WP38)				0.0
Business Services				
GLA Spring 2011	2.6	3.2	3.6	
GLA 2009 (WP38)				1.2
Financial & Business Services				
GLA Spring 2011				
Consensus Average	1.9	2.4	2.8	
Consensus Lowest	1.1	1.6	0.7	
Consensus Highest	2.4	2.9	4.6	
GLA 2009 (WP38)				1.0

Source: GLA Economics

4.20 On this basis a more plausible scenario might be for office employment to be returning to its previously forecast levels.

Sectoral Demand

4.21 A sensitivity test on the office employment projections can be is provided by looking at alternative sectoral employment forecasts for London. A submission to the London Plan EiP on behalf of the South London Partnership contained forecasts prepared by Oxford Economics. Projected total employment for London at 2031 was very similar in both forecasts at 5.4m. The GLA projected total growth over the period 2008-31 of 746,000, whilst OE projected total growth over the same period of 622,000. But whilst the OE total growth figure was lower it projected a higher growth for the financial and business services sectors which are key drivers of the office market. OE projected growth of 502,000 in financial and business services compared with growth of 401,000 in the GLA projection. In other words OE projected growth of 25% more jobs, or 100,000 additional jobs in FBS.

[4] Central London office market through the recession - GLA Economics Current Issues Note 27 (November 2010)

4.22 As a very crude approximation we might then factor up our forecast growth in office employment by 25% to act as an upper sensitivity test. This would give total office growth for London of 483,000 jobs over the period 2007-31.

4.23 It should also be noted that our definition of office employment does not equate with FBS. Some FBS sectors are not office sectors whilst there are significant numbers of office jobs based in non-FBS sectors. In the latter regard the professional organisations and media sectors form part of the 'other services sector' which has higher forecast growth in the GLA projections.

Table 4.3 London Sector Forecasts: GLA and Oxford Economics Compared

	GLA				OE		
	2007	**2008**	**2031**	**2008-31**	**2008**	**2031**	**2008-31**
Primary & utilities	29	28	12	-16	17	11	-6
Manufacturing	224	215	89	-126	225	115	-110
Construction	242	239	179	-60	230	249	19
Wholesale	215	214	191	-23	618	625	7
Retail	402	403	437	34			
Hotels & restaurants	305	313	540	227	319	343	24
Transport & communications	342	341	302	-39	352	372	20
Financial services	334	334	338	4	342	356	14
Business services	1,222	1,249	1,646	397	1,283	1,771	488
Public Admin	229	226	173	-53	223	209	-14
Health & education	731	733	785	52	753	823	70
Other services	400	411	760	349	408	517	109
Total	**4,676**	**4,706**	**5,452**	**746**	**4,779**	**5,401**	**622**

Source: GLA Economics/Oxford Economics

4.24 If we applied this sensitivity test to the sub-area being assessed in this study it would also imply the growth is uniformly distributed by borough in relation to our existing forecasts. The actual OE forecast also had a different geographical as well as sectoral split.

Conclusion

4.25 We have reviewed the forecast used to inform the LOPR forecasts. Since the forecast were produced the UK has experienced its deepest recession since the 1930s. As a result there has been a one-off loss in capacity to the UK economy. Applying downside sensitivity factors gives a low scenario for London of 300,000 additional office jobs over the period 2007-31

4.26 However the London office market in particular appears to have recovered well and we do not think this is the most likely outcome.

4.27 We have also undertaken a sensitivity test on the GLA forecasts using those prepared by Oxford Economics. These project higher growth in the business services sector which forms a key driver of demand for office employment. Applying this sensitivity factor to our forecast would give a growth in office employment of 483,000 over the period 2007-31. This compares with a central projection of 386,000 in LOPR09.

5 QUALITATIVE ASSESSMENT OF MARKET DEMAND

Introduction

5.1 This section assesses the likely demand for employment space from a more qualitative perspective. It addresses four particular questions:

- **Occupier:** what types of occupiers might be active in the London office market over next 20 years?
- **Location:** what type of occupiers might have a preference for this location relative to other locations?
- **Place:** what particular advantages/disadvantages does the Opportunity Area have from an occupier perspective?
- **Building:** what type of space are occupiers likely to want over the next twenty years? Might there be demand a new product?

5.2 We assess each of these points in turn. We seek to address the potential mix of different types of office floorspace provision and the associated typical floor space requirements for occupiers, and the desirable distribution and format of office floorspace provision in the OA.

Occupier

What types of occupiers might be active in the London office market over next 20 years?

5.3 The occupational market in London has undergone significant change over the past twenty years; and there is no reason to assume that the next twenty years will be any less changeable.

5.4 The main drivers of change have been the globalisation of financial and business services, and the all-pervasive impact of the information and communications technology revolution. These forces have caused significant growth in the number of people working in offices, and also in the way that offices are designed and managed.

Occupier drivers

5.5 The impact of these changes will continue, but going forward a number of features will characterise the occupier market.

- Cost constraint and much tighter corporate real estate management practices.
- Flexible working styles and the emergence of “spaceless growth”.
- Concentration on transport nodes and accessible town centres.
- A preference for high quality places with support services and amenity.
- Public sector property rationalisation.
- Adherence to corporate social responsibilities.

5.6 Among the more important priorities for occupiers are the need to become more agile and responsive to structural and consumer volatility; and the need to be more efficient and competitive in the face of the deflationary impact of technology.

5.7 These organisational drivers are having an increasingly profound bearing on the way in which the workplace is being designed and managed. Increasingly, the workplace must provide an environment with design and management solutions that support wider organisational objectives.

5.8 For example, the interiors of buildings are providing more space to support collaborative work, with less workspace allocated to individuals, and with technology supporting collaboration, connectivity and distributed working. Modern companies place greater emphasis on the look, feel, design and functionality of their workplace than was the case in the past, including the following.

- Technology-enabled flexible working.
- An environment that reinforces culture and change.
- An ergonomic and comfortable environment.
- Access to windows and natural light.
- Stylish design that facilitates rapid and simple change.
- Facilities for independent and group work.
- Social amenity.

5.9 Thus many organisations are using the new workplace to help improve their business performance; and they are being proactive in terms of how to best support their largest, most expensive, and most important asset, their people.

5.10 Given the timescales of the OA it will be important to reflect these drivers in the design process in order to present a competitive product to the market.

5.11 One of the most distinguishing features of the “new office” is the high level of worker mobility: between home and office; between office and other offices, and *within* the office. It is a fact that more and more people are mobile, to a greater or lesser extent. For many the office is becoming a hub, around which they interact with other organisations and back to which they return for collaborating, mentoring, socialising, training, etc. It seems inevitable that more and more people will spend larger amounts of their time either out of the office altogether, or moving around the office undertaking collaborative work.

5.12 As more flexible work environments spread, so desktop PCs will disappear, to be replaced by portable laptops, touchdown stations and wireless environments (Figure 1). This will have an impact on workstation requirements and configurations. Unified messaging technology has arrived, with combined email, fax and voice messaging accessible from an Outlook-type interface on laptops and PDAs. Voice messages will be accessed either as attached recordings or will be transcribed into text by voice recognition software. VOIP will spell the death of the telephone.

Figure 5.1 From factory to hub: the emergence of the new office

Workspace priorities

5.13 Design therefore must enable greater flexibility in the use of space by removing the "fixes" that frustrate change in the workplace. It must allow an organisation to change and evolve without having to make fresh commitments to new real estate. By enabling more people to work from less space, designers will allow organisations to achieve their "spaceless growth". And design must also encourage and enable interaction and collaboration with appropriate furniture and work settings. It must be effective in bringing people together to work, and to build a sense of community and common purpose.

5.14 Given the emerging demand for work environments that provide for diversity, with changing amounts and types of shared and individual settings, design should produce diverse settings appropriate to different kinds of work. The amount of common space should be higher than in a traditional building; and workers should be provided with a mix of different settings to suit different needs at different times, depending on work style and tasks.

5.15 As well as the more technical aspects of specification, the workplace is increasingly expected to reinforce an occupier's brand, or image. This is the notion that the design of the workplace can enhance, reinforce and support the brand both to those who visit the workplace as customers, partners and so on, as well as to the workforce itself: providing a strong sense of identity and purpose.

5.16 Until relatively recently, brand management did not feature on the workplace horizon, but in recent years this has changed substantially. Growing numbers of organisations refer to *brand management* and *branding issues* in the context to their real estate planning. There are several ways in which branding impacts on workplace design:

- the workplace must reflect the corporate social responsibility agenda;
- it must reinforce consistency with established brands in emerging markets;
- it can convey strong brand images to clients in visitor spaces (bar/cafeteria);
- it can reinforce the brand for footloose and dispersed workers, and
- it can help attract high calibre staff.

5.17 The overriding implication of these brand issues is that the workplace is coming to be used to reflect what an organisation is and how it thinks about itself. The workplace is no longer the inert backdrop to corporate activity, but part of the activity itself.

5.18 As mobility becomes more pervasive and as more people spend at least part of their working week away from the office, so it is increasingly important to consider the design and management of the workplace less as a static backdrop to solitary work, and more as a 'hotel' facility, where guests visit and demand a high level of service.

5.19 Such an approach requires a major upgrade in the nature of the support services provided to workers with a workplace appropriate to their requirements. Some of the features to be considered are listed below.

- High quality, intensive, responsive office management to maintain quality.
- A hotel culture, with services available on demand.
- Support to mobile staff beyond the office.
- Concierge services or help desks.
- Meeting facilities and access to corporate knowledge.
- Telephone or web based room booking systems.
- Good quality catering, vending, meeting and break-out areas.
- Cafe-style break out and meeting areas.

5.20 In most of London's new campus developments there are dedicated companies providing shared support services, with everything from concierge services to maintenance to public realm management.

5.21 The more productive, branded workplace will be one where service quality is high. Consequently, it is increasingly important to consider the design and management of the workplace from the perspective of the users rather than traditional supply-led criteria. Workplace design and management is increasingly used to create a value chain, where the place creates a desired destination in its own right; which creates value in the buildings to attract occupiers; and which create value in the workplace to attract and meet the needs of knowledge workers.

5.22 To summarise this section, the reason that these occupier characteristics and priorities are so important here is that the OA will need to integrate them into its building and public realm design and management in order to attract high quality, discerning and relatively footloose occupiers. Simply replicating the building design paradigm of the past twenty years will probably not be enough for a signature development going forward.

5.23 A subsidiary point is that the west London office market has been particularly strong in two umbrella occupier sectors, namely: creative and media services, and information and communications technology. The relevance of this point is that these two groups, above all others, have been the greatest adopters of the working practices described above and are now at the forefront of using technology to drive change in workplace design (see below).

Target occupier groups

5.24 While we have highlighted two major sectors above, it is nevertheless the case that the OA would be expected to attract quite a diverse occupier profile reflecting the history of the west London office market. It has good access to the West End and Heathrow; it will be more economical that traditional West End real estate and it has the potential to create critical mass. And while physically it sits between the West End and the current start of the west London office market at Hammersmith, it does sit within the geography of west London which is one of London's strongest demand poles.

5.25 Some of the potential target demand sectors for the OA are summarised below.

- **Advertising, marketing and PR** Kensington Village has already attracted a number of such firms, including CACI, Leo Burnett, Publicis and RDF Media. The site is well positioned to cater for this demand.
- **Broadcast media** Chiswick Park has been successful with firms like CBS, Discovery Channel, Paramount and Technicolor. Such firms could be attracted to Earl's Court given an appropriate offering.
- **Corporate HQs** The head offices of industrial groups and conglomerates are a strong occupiers sector. Hammersmith is already the location of several HQs Paddington has been successful in attracting the likes of Prudential, Statoil and Visa; while Regent's Place has attracted Balfour Beatty and Hodder Headline.
- **Energy and environment** Businesses involved in the supply of energy and management of the environment are interrelated, and likely to become more important in the future. While east London might have an edge with this sector, itself being a major regeneration area, there could be some potential here.
- **ICT** Technology-based companies have historically located further west, for example, Hounslow, Stockley Park and the Thames Valley. While the "big names" are unlikely to change their locational characteristics, newer businesses and in-comers (see below) might be less fixed in their site selection criteria.
- **Retail and consumer businesses** Paddington has attracted the likes of Kingfisher, Marks & Spencer and Prudential; and Regent's Place houses Capital One. As the core West End becomes more expensive, so it becomes less viable for such businesses.
- **Airport-related** West London's proximity to Heathrow inevitably brings demand from companies involved in transport – whether logistics or passenger. In recent years a number of airlines have established themselves in London, particularly around Hounslow and Chiswick. Two recent examples include Air Asia and Kingfisher Airlines.

5.26 As well as established businesses relocating within and between established office markets, the foreign direct investment market should be targeted specifically. Despite the travails of recent times, FDI has remained strong. For example, London FDI in the year to March 2009, saw 178 projects, creating 6,190 new jobs (a slight increase on the previous year)[5], including the following.

- 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.

5.27 A few recent examples illustrate the overall picture of FDI, particularly those relevant to the OA (we have excluded City and Canary Wharf type occupiers, and sought to include West End/West London type occupiers).

- Air Asia (Malaysia) established a European HQ in London.

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

- 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.
- India Infrastructure Finance Company (India) This Government-backed infrastructure fund chose to make its first overseas office in London.
- Kingfisher Airlines (India) set up in London to service its Heathrow-India business.
- M3 Mobile (South Korea) set up a European test bed for mobile solutions for PDAs.
- Microsoft (USA) chose London as the location for its new European Search Technology Centre, creating 160 new jobs.
- 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.

5.28 It should be emphasised that while all of the sectors described above are perfectly valid targets for the OA, the design and positioning of the scheme will have an enormous impact on its attractiveness to different types of occupier. Establishing the scheme's USPs, "ticking the site selection boxes" (accessibility; etc) and providing a coherent offering together with a clear and compelling master plan will be critical from the start.

5.29 This is not to say that design cannot evolve in response to changing occupier demand: it should. But it is critical to give early enquiries the assurance of the scheme's durability.

Location

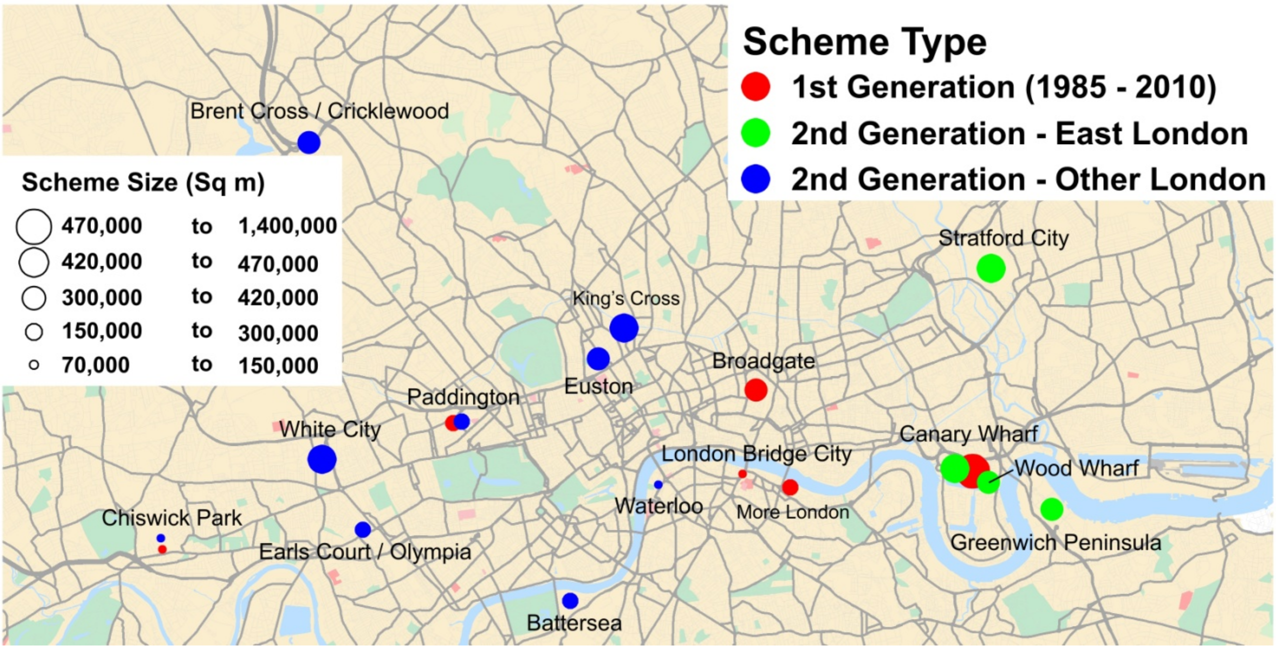
What locational advantage does this location relative to others?

5.30 There are two aspects to the consideration of location from a demand perspective. The first of these is to understand where the OA fits competitively in London's tapestry of campus schemes. The other is to consider the pros and cons of its immediate surroundings.

The OA as a campus scheme

5.31 During the past twenty-five years London's office market has changed very significantly, and one of the most distinctive changes has been the emergence of a polycentric market (Figure 5.2). A series of campus schemes around the core area has attracted a range of occupiers. For example, More London has become a focus for professional services, while Paddington has attracted a large number of corporate headquarters, and Chiswick Park has attracted a host of media organisations. The OA will similarly need to find a demand profile.

Figure 5.2 London's campus schemes



5.32 The six first generation schemes shown in the map provided, on average, 96,000 sq m per annum, 60% of which was in Canary Wharf. This long-term contribution equates to around 18% of the total Central London annual development completions of 545,000 sq m.

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

- Brent Cross/Cricklewood: c400,000 sq m of offices.
- Canary Wharf: 422,000 sq m at: North Quay (222,000 sq m), Heron Quays (155,000 sq m) and 25 Churchill Place (45,000 sq m).
- Croydon: various schemes proposed, totalling 200,000 sq m.
- Euston: more than 300,000 sq m of mixed use development.
- Greenwich Peninsula: up to 350,000 sq m.
- King's Cross: up to 25 office buildings, totalling c450,000 sq m.
- Paddington: further potential for 150,000 sq m.
- Vauxhall/Nine Elms/Battersea which includes 160,000 sq m of office space at Battersea Power Station and 200,000 sq m of mixed employment use elsewhere in the OA
- Stratford City: includes a proposed 465,000 sq m of office development.
- Waterloo: redevelopment of Elizabeth House will deliver 75,000 sq m.
- White City: which could deliver an additional 200,000 sq m of office space.
- Wood Wharf: promises to deliver 370,000 sq m.

5.34 These thirteen schemes, including Earl's Court West Kensington, have the capacity to add around four million sq m of office space to the London stock. This is almost double what was provided in the six first generation schemes over 25 years (2.3 million sq m), during a period of massive expansion in the London economy and in demand for high quality space.

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

5.36 Clearly, whatever the rate of growth in office employment over the coming period, there will be strong competition for occupiers. From a demand perspective, a number of conclusions and implications emerge from this analysis.

- The past twenty-five years saw a major economic structural change in demand (caused by the globalisation of financial and business services coupled with the revolution in information and communications technology). This 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 slower growth.
- If flexible working styles and a generally more efficient approach to space management 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.

5.37 On the final point, it seems likely that Battersea, Brent Cross, Paddington and White City will all be directly competing for occupiers with the OA. When this happens, supply conditions will be likely to test the attractiveness of the OA as a new office location. While Paddington and White City are established office locations, Battersea and Brent Cross are not. To compete with both, the OA will need a proposition that combines a convincing locational proposition with a highly attractive product offering.

5.38 It might also be the case that east London begins to compete more successfully with west London schemes. Although the east London office market has, for the past two decades, been dominated by Canary Wharf, in the future this might change. The policy focus on growth at Stratford, the “Olympics effect” and the area’s clear cost advantage could all conspire to make it a more attractive proposition.

5.39 In the future CrossRail may affect market dynamics through shrinkage of time increasing the attractiveness of out of centre locations such as Ealing that are served by a CrossRail station. However this effect is far from certain.

The locale

5.40 From an occupier perspective the OA locale is a relatively untested area, sitting as it does within a primarily residential location. To the east West Cromwell Road becomes Cromwell Road, eventually passing the Natural History Museum having negotiated the homes, hotels and local shops of inner west London. To the west, the nearest significant office building is The Ark, about a kilometre away, which marks the beginning of the Hammersmith town centre office market.

5.41 However, west London has a long tradition of accommodating West End overspill, and there is no *prima facie* reason why the OA cannot repeat history. The area is well located to accommodate those businesses looking for an off-centre pitch, with attendant savings in real estate costs.

5.42 The site is bounded by four roads. To the north is West Cromwell Road (A4) and to the south are Old Brompton Road (A3218) and Lillie Road. On the east lies Warwick Road, and to the west is North End Road, both of which have direct access onto the A4. Access is a key aspect to large campus schemes, and it will be important for these roads to provide good access to the commercial site. It will equally be important that the roads do not form a "hard" boundary to the site and minimise permeability.

5.43 The masterplan suggests a series of office buildings along the West Cromwell Road (A4) frontage. This gives very good prominence onto a main arterial route, but care should be taken to avoid this becoming and overly linear arrangement and ensure that office development in this area is integrated with the rest of the neighbourhood to the south. This will be important to ensuring that the office development in this area forms part of the new neighbourhood and does not develop as an isolated scheme.

5.44 Another aspect of access, of course, is public transport. This is critical given the large volumes of people arriving and departing at the beginning and end of the day. The OA has three tube stations: Earl's Court (District and Piccadilly); West Brompton (District, London Overground) and West Kensington (District). In practice, the last of these is likely to serve the commercial part of the scheme. The District line is not ideal, in terms of its speed, but it does provide quick and easy connection to the Piccadilly and Circle lines.

5.45 From a demand perspective, OA is at least as well connected as schemes such as Chiswick Park and Regent's Place. A further strong feature is the surrounding residential area with a labour profile including many of the skills that one might expect to be employed by the types of businesses that will locate here. This is likely to imply a prevalent use of public transport for travel to work, which is now a strong selling point for many occupiers.

5.46 While predominantly residential in character, the locale does have office space. Kensington Village is located immediately to the north of West Cromwell Road. This scheme comprises a mix of modernised Victorian depository buildings and new headquarters buildings in a campus setting. Occupiers within the scheme include CACI, Leo Burnett, Publicis and RDF Media. This establishes some precedent for the locale in office terms, but the scheme is on a much smaller scale than that planned for the OA.

5.47 There are two large commercial buildings within the OA. The first of these is Empress State Building, the largest commercial office building in the vicinity, at over 40,000 sq m. This 100m tall building was completed in 1961. It was designed as a hotel (its distinctive Y-shape maximises frontage). The building was occupied by the Admiralty and GCHQ. The latter vacated the building in 1994, and it was refurbished between 2001 and 2003, including the addition of three floors, to a design by Wilkinson Eyre. On completion of the works, the building was occupied by the Metropolitan Police and Transport for London. The building does therefore have an exclusively public sector history.

5.48 The other large office building in the OA is Ashfield House which sits at the northern edge on the A4 and is used by TfL for staff training.

5.49 Neither of these buildings, however, can be said to underpin a recognised office market, from an occupier perspective. Both are public sector buildings with specific uses and histories. The locale will have to establish its own office market identity through its masterplan and the quality of buildings that it provides, and its sense of place.

Place

What advantages/disadvantages does the OA have as a 'place'?

5.50 As noted above, the OA has strong boundaries, with West Cromwell Road and Old Brompton Road/Lillie Road to the north and south, respectively; and Warwick Road and North End Road on either side. Access is a key aspect to large campus schemes, and it will be important for these roads to provide good access to the commercial site and help to create a sense of place.

A sense of place

5.51 The defining feature of London's campus schemes is the intangible quality of a sense of place. Broadgate, More London, Paddington, Regent's Place and, most spectacularly, Canary Wharf, have all re-defined areas and created places that draw people in; provide high quality and well managed public realm; and create critical mass in terms of occupiers.

5.52 The scale of the OA provides the opportunity to create this sense of place. However, unlike the schemes listed above, there is a very large residential component here. The commercial element of the scheme will have to find a balance with the non-commercial elements, which will make the place-making agenda all the more critical.

5.53 If the OA is to provide a new business district as an alternative to the West End, there are four things that is must achieve *as a minimum* to build on its assets:

- **Scale** It must provide sufficient critical mass to stand as a place in its own right.
- **Quality** It must provide high quality spaces and buildings for discerning occupiers.
- **Range** It must provide a variety of building types to attract diverse occupiers.
- **Support** It must provide shops, leisure and support services.

5.54 One of the key reasons for this study being commissioned was the need to inform consideration of the scale of office development on the site.

5.55 For comparison, when complete, Chiswick Park will be nearly 200,000 sq m; More London 250,000 sq m; Paddington nearly 350,000 sq m, and Regent's Place around 150,000 sq m. These are all net internal area figures. The four signature projects are the most comparable to the potential scale of the opportunity at the OA.

5.56 It is anticipated that sites in the Opportunity Area will be developed comprehensively and on a phased basis over at least a twenty year period and that the office provision will be part of this. It will be important to establish the Opportunity Area as a new neighbourhood with a distinct sense of place for it to be attractive for office occupiers in terms of accessibility, amenity and the nature of office accommodation provided. This will take time to establish and is particularly important in terms of attracting larger office occupiers to the area as an alternative to the West End or other areas in London.

5.57 The indicative masterplans each development capacity scenario illustrate the way in which the area could be comprehensively redeveloped to create a new mixed-use neighbourhood which would be highly accessible and contain a range of supporting amenities including retail, leisure facilities and open space. This could provide an attractive location for office occupiers though it is clear that it will require several phases to be delivered before this is the case.

5.58 This is recognised in each of the indicative masterplans, which are contained in Appendix 2. These envisage that office floorspace provision in the early phases, to the south, will typically be small-scale units focussed on local need, especially small and medium-sized enterprises. This would include small office buildings and office floorspace in mixed-use buildings and be largely focussed along the new east-west and north-south routes and mixed with other uses. These locations would be well connected to Earl's Court and West Brompton stations and amenities as they were provided in the early phases.

5.59 The remainder, and most likely the bulk of the office floorspace, would be delivered in the later phases and will typically comprise larger units and discrete office buildings. This type of accommodation would be focussed in the north of the Opportunity Area fronting West Cromwell Road (A4). This could offer an attractive and high profile location for larger office occupiers provided that it is integrated within the new neighbourhood to the south, which would be established by the time the later phases are implemented. It would be highly accessible by public and private transport, being adjacent to West Kensington Station and within a five minute walk of a range of retail, leisure and open space provision.

Place and the OA

5.60 From an occupiers' perspective the OA will need to deliver on the issues outlined above: scale, quality, range and support.

- **Scale** With options as low as 90,000 sq m, the scheme would not meet the minimum requirement for an integrated campus schemes as an alternative to a West End location.
- **Quality** The commercial office component needs to have a sense of place: it needs a physical focus or central public realm. This is difficult to achieve on a linear site, particularly one which is bounded by such a strong feature as the A4. It is probably harder to achieve as discrete units than through creating the "place" characteristics of other campus schemes.
- **Range** It is important that the scheme provides for a range of office occupier types and sizes. The buildings should provide a range of different environments to suit different needs both in terms of specification (cost) and terms (lease arrangements).
- **Support** The site needs to have a range of integrated facilities: leisure, health, retail, business services. Public realm management is important. With nearly 200,000 sq m of space, there could be upwards of 15,000 workers on site. Green spaces for sitting in and relaxing during lunch, for example, are illustrated in the immediate vicinity. Corporate occupiers consider such features important to attracting and retaining staff.

5.61 Schemes such as Broadgate, More London and Paddington have all provided integrated environments Even London Bridge City, which is now over twenty years old, but also a linear development, very successfully integrated leisure and retail into its fabric.

5.62 The central question here is will the Opportunity Area provide a series of high quality office buildings and small office provision mixed with other uses or will it provide an integrated campus scheme with sufficient critical mass to form a market in its own right? There is no doubt that the site will face competition from others campus schemes and it will have to compete on equal terms if it is to succeed.

5.63 As already noted, the OA is an untested market for corporate occupiers. It will therefore have to work doubly hard to prove its merit and an attractive location. This could be achieved as part of a comprehensive approach to the development of the Opportunity Area but that this will take several phases of development to realise. It will mean providing modern facilities as well as modern buildings.

Building

What type of space are occupiers likely to want over the next twenty years, and might there be demand a new product?

5.64 As already suggested, the OA is a relatively untested office location. The scheme will therefore have to establish itself by creating buildings that have competitive advantage over those in more established locations. This might mean a combination of catering for both mainstream corporate demand and perhaps something a little different.

Multi- and singlet-let

5.65 The development is likely to require a blend of single occupier and multi let buildings in order to encourage a range of user types. This is important to underpin the diversity of the scheme. Smaller, more agile businesses are an established part of the economy now, providing high value-adding services in both B2B and B2C markets. This is particularly the case in the diverse activities that fall under the umbrella title of “media and creative services”, which might be expected to form a core target market at this scheme.

Floor size

5.66 The nature of organisations is such that there is no optimum floor size. Large financial and business services firms that seek to house, say, 2,000-3,000 staff in a single building, prefer larger, deeper floor plates (often in excess of 2,000 sq m) in order to maximise flexibility for business change and churn. Clearly, the same is not true of a business looking to accommodate, less than 100 staff.

5.67 The target market at the OA is likely to fall between these extremes, and floor sizes of, say, 1,000-2,000 sq m will be more appropriate. The key is that the market at the OA is likely to be quite diverse, and therefore variety and options will be crucial. Even when floor sizes of this size are provided, it will be important that they can be sub-divided (see below).

Configuration and depth

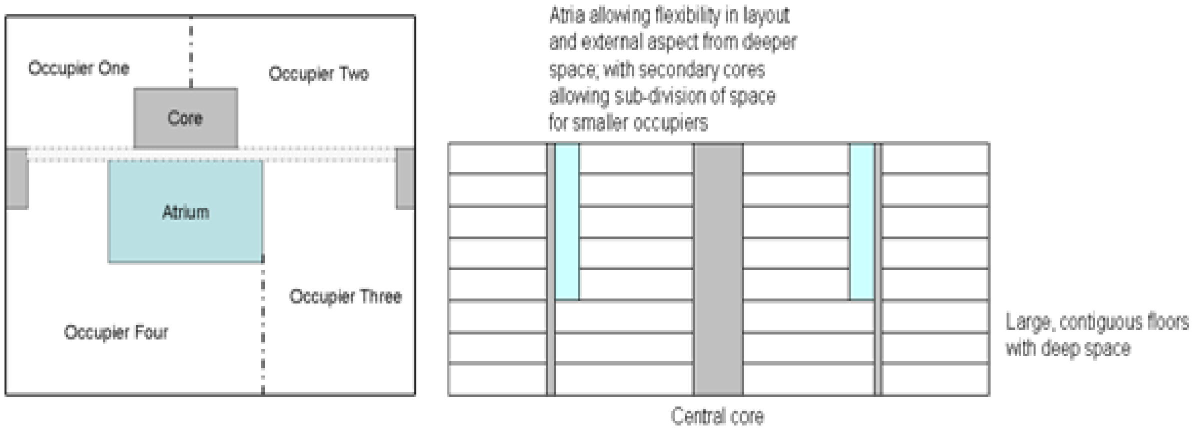
5.68 The most important aspects of floors are configuration and depth. These two features determine how a floor is occupied. The salient point here is that where a large floor plate is being constructed, it should be capable of being used in a variety of configurations, or formats, rather than just as a large, single plate. It should be contiguous, allowing for flexibility in layout, internal changes and the creation of distinctive zones. This is particularly important for occupiers involved in “modern” businesses, typified by, but not confined to, the creative and media services companies.

5.69 A rectilinear configuration, with centrally located core and atrium is a favoured option for its ability to provide a range of depths and a flexible environment in which to mix open and enclosed space. The main structural consideration here is the need to sub-divide space (illustrated in Figure 5.3). Here, four separate units are accessed from a single core and common corridor; while the lift lobby and two units look out onto an atrium.

5.70 The same principle applies to the vertical section of a building. The schematic shows how the first three floors provide large, contiguous floors for organisations wishing to bring large groups together, while floors four to eight provide space that can be broken down into either smaller areas, using secondary cores.

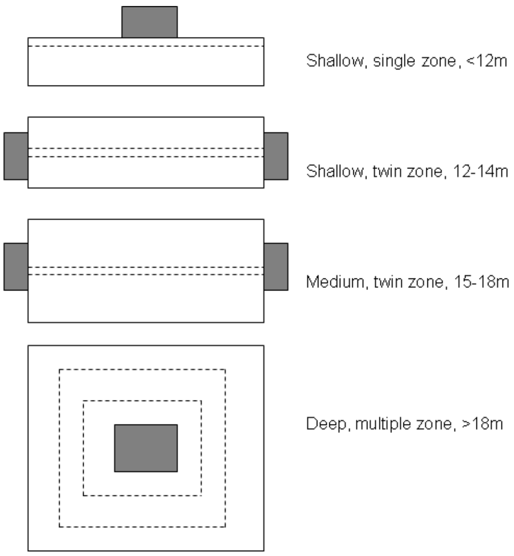
5.71 It will be important for the OA is to have clarity over its target market and to provide a blend of floor configurations to suit the different needs of businesses with a range of business characteristics.

Figure 5.3 A flexible floor plate allowing sub-division



5.72 Building depth is a measure of the distance between external window and building core, or window-to-window in shallower buildings where cores are placed at either end. There are three broad categories of depth: shallow (<14m); medium (14-18m) and deep (>18m). Depth determines whether there is single zone space (work area plus circulation route); double zone space (two work areas separated by a circulation route), or multiple zone space. Figure 5.4 shows schematic diagrams of each depth and their planning zones.

Figure 5.4 Floor depth and planning zones



- Shallower space provides for cellular planning; external views; individual control; natural ventilation; natural lighting; lower energy consumption; lower carbon dioxide emissions; lower running cost and higher capital cost. In indicative terms the shallow and medium twin zone space shown above is likely to be in greatest demand at the OA.
- Deeper floors provide for the needs of organisations wishing to bring large numbers together into single spaces. They can provide great flexibility in layout and zoning, but there is less individual environmental control, and they make greater demands on environmental services (air conditioning and lighting) to maintain a high quality work environment throughout the floor. There is unlikely to be demand for the type of deep space shown here at the OA.

- Specialist deep floors are mainly for financial services trading floors and other specialist uses where there is an operational need to co-locate perhaps several hundreds of people on single floors. This type of floor is very unlikely to be in demand at the OA.

5.73 It is important to remember that knowledge workers do not, typically, work in very large, undifferentiated groups. They more typically work in smaller groups, maximising the benefits of networking across organisations to achieve their objectives. In this sense, if a deep floor is to be provided, it must be capable of allowing fit-outs to provide diversity in work settings and discrete areas.

Design and management focused on user needs

5.74 Building design has changed immensely in recent years, driven largely by the increased servicing demands of technology, and lately by environmental concerns. Building architecture should, wherever possible, create flexible and efficient interior space which does not compromise the fit-out. Standardisation and repetition in specification not only reduce capital costs but also improve operability.

5.75 The fundamental requirement from an occupiers' perspective is flexibility. The floor plan, the servicing infrastructure and the technology support should all work in concert to allow the business to adapt to change. Contiguous space is critical, to provide different layout options, and the planning grid and the interior grid should be in harmony and sympathetic to expected layout characteristics.

5.76 A key implication for the OA is the need for a clear understanding of the occupational profiles of the occupier businesses, and to be able to demonstrate flexible space that can provide different occupancy solutions, with highly responsive supporting infrastructure systems.

5.77 The workplace has been transformed from a process-based factory, to a knowledge environment. The focus of design has shifted from technical specification to issues such as people, performance, branding, interaction and flexible working. The knowledge economy workplace is a hub, around which individual and corporate networks evolve, and building design must reflect this. The OA has an opportunity to address these changing priorities.

5.78 The implications for workplace design and management are clear: workspace must be very highly flexible and responsive to change. Space that is overly complex and difficult to change will impede an organisation's ability to move quickly. Design should produce diverse settings appropriate to different kinds of work. The amount of common space should be higher than in a traditional space budget; and workers should be provided with a mix of different settings to suit different needs at different times. Consequently, environmental systems must provide for responsiveness, a degree of local control and guaranteed quality.

5.79 Workplace management goes beyond a discussion about what services are required and how are they delivered, to identifying areas where a step change in management philosophy can be developed. As the expectations of occupiers are changing, so they are placing much greater emphasis on management issues, rather than the detail of specification.

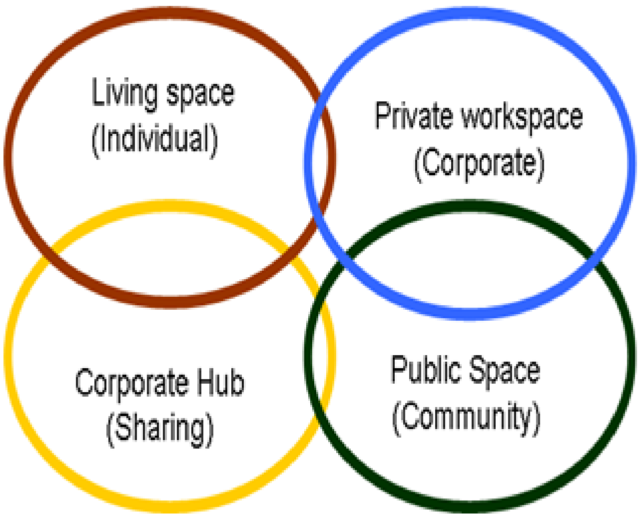
5.80 The new emphasis is in response to business change, the need to attract and retain knowledge workers. This is creating the opportunity for new developments such as the OA to make a step change in management philosophy and delivery. We provide an example below.

New produce types: integrated living and working

5.81 We have mentioned elsewhere the imperative for the OA to differentiate itself as a distinctive addition to London's business community. Given the scale of the OA, its location in the geography of London, the large residential component, and trends in work styles and work-life issues, there is perhaps an opportunity for the OA to provide something a little different to other campus schemes. This is to provide, as a component of the master plan, an element of accommodating 21st century knowledge workers.

5.82 This concept is more than the live-work proposals that have been mooted in the past, and revolves around providing a comprehensive business experience in a viable corporate environment that caters to the various needs of creative knowledge workers. The concept can be understood in terms of four different space domains (Figure 5.5).

Figure 5.5 Four potential space domains



5.83 Here four types of services are provided to these areas: Building Services, Business Services, Social Facilities/Services and Concierge Services. The service packages for each individual or company comprise two elements: what space is used and what services are consumed. For example, an occupier renting or hiring workspace will obviously benefit from Building Services, have use of Social Facilities and have the option to buy Business Services and Concierge Services.

5.84 Such an approach might tap into what is thought to be an emerging segment of demand, and is proposed here as an example of what might be required in terms of differentiation to help establish the OA as a place.

Conclusion

5.85 This section of the report has set out to answer four specific questions, all focused on the nature of demand for space at the OA. The supply context is assessed elsewhere.

5.86 We can evaluate the OA on its own merits, and we can discuss the nature of occupier demand within the London office market and the kinds of places and buildings that are appropriate. But the acid test will come when the scheme finds itself competing with Battersea, Brent Cross, Paddington, White City and other, smaller, schemes. At this point supply conditions will prove more significant than demand issues.

Occupier

5.87 We have described how occupiers are changing and some of their key drivers, with particular reference to the types of companies that might form the bedrock of demand at the OA. There is no doubt that modern businesses are evolving in the way they use space and the OA will need to reflect these trends if it is to be competitive.

5.88 It should be emphasised that occupational characteristics are often function related rather than sector related, and we recommend that the developers consider what kinds of buildings for what kinds of functions rather than the traditional sector-focused approach. Having said that, we have highlighted some specific target occupier groups and have referred to the FDI market, which is strong in West London.

Location

5.89 The OA has critical mass and is underpinned with good public transport, both with the London underground network and locally in terms of buses and travel to work. The area sits within a very established residential part of London with a significant economically active population.

5.90 However, the area must be seen within the context of other large campus schemes planned for London, particularly those in west London. These other schemes could provide stiff competition. The area is not an established office location, unlike White City and Paddington, and it will have to establish a clear competitive advantage and product offer. This was achieved at Paddington, More London and Regent's Place – all developed in "unfashionable" locales; it will be no less important here.

Place

5.91 Chapter 3 highlighted potential supply shortages in the West End and in neighbouring boroughs in order to consider the case for a larger commercial allocation on the site. Our remit is not to address supply conditions elsewhere, but it is relevant to emphasise that if development is to occur in the OA, then it needs to be *strategically significant*, as referred to in the London Plan. If it is to be a strategically significant office location, the development needs to have the critical mass, the sense of place and the market identity that has been described in this section. A development at the lower end of the emerging planning policy framework (i.e. around 100,000 sq m), in this location, will find it more difficult to secure market position than one with more critical mass. At this scale the OA would be looking at a different type of development solution.

5.92 As well as scale we have emphasised three further attributes that the OA must achieve, as a minimum. These are high quality spaces and buildings for discerning occupiers; a range of building types to attract diverse occupiers, and support services, shops and leisure.

Building

5.93 We have highlighted a number of strategic building specification and management issues. We recommend that these should all be examined in much greater depth in order to look for opportunities to create market advantage. It is entirely possible that the institutional style building which has been such a strong feature of the market over the past twenty years is ready for another round of evolution. The first developer to try something will gain the benefit.

5.94 We have also made one suggestion, by way of an example, for how the development might consider new ways of approaching the market in order to help secure a strong proposition. There are no doubt others which should be explored and tested on the occupier market.

5.95 In conclusion, if the office component of the OA becomes simply a collection of standard corporate office buildings with little coherence, little distinctiveness and little connection to what is a highly discerning market, then it is not likely to succeed in changing perceptions of this location and creating a new urban commercial quarter that is attractive to occupiers.

5.96 The OA will have a long delivery time, and the masterplan will need to respond to market changes in occupier demand and, no doubt, property market cycles. If developed as a major new office location the OA will require critical mass in order to be successful – to convince corporate occupiers and their advisors that this is a viable location in business terms – but it will also require a distinctive proposition, one that is shaped around market demand, today and into the future.

5.97 Alternatively if it aims to provide for more local demand then the requirement for a distinctive proposition is at least as strong but with a different focus in terms of distinguishing itself from, but not competing with, existing centres such as Hammersmith and emerging centres such as White City.

6 COMPARATIVE ASSESSMENT

Introduction

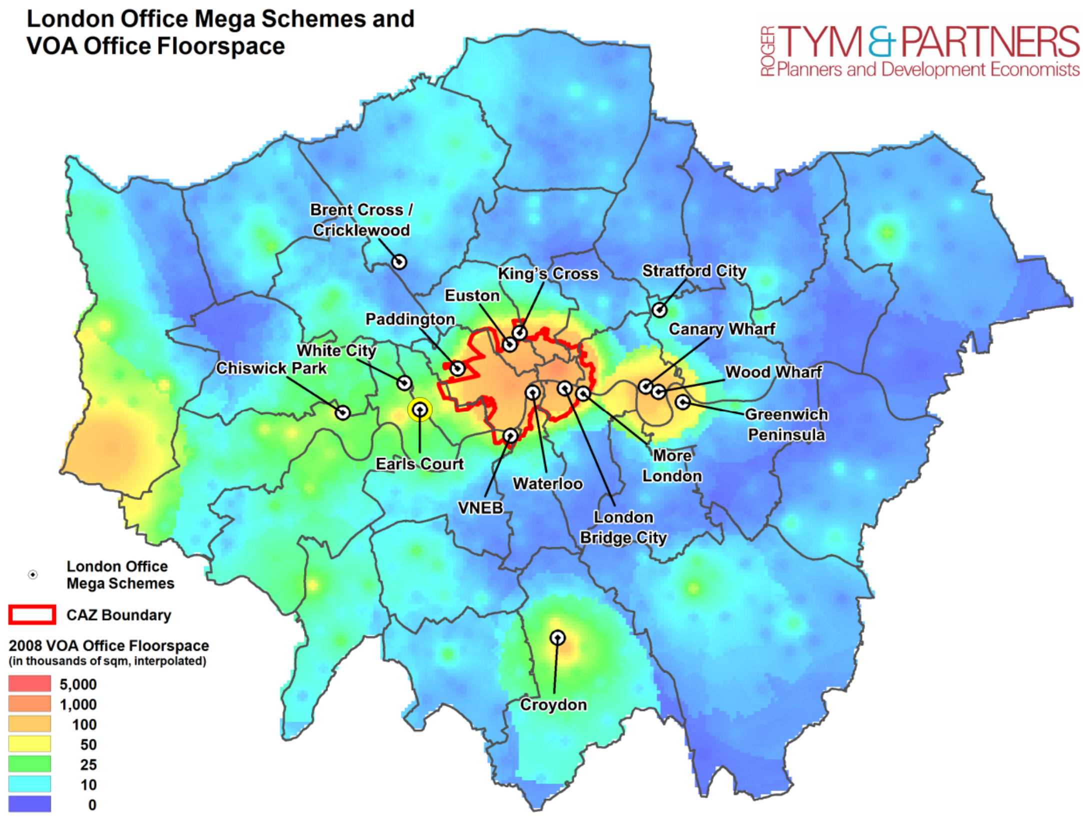
6.1 In this section we set out a comparative assessment of some of the larger office scheme proposals for London. Our purpose is not to choose or rank these schemes but rather to set out how the OA compares in relative terms across a range of criteria such as deliverability, strategic fit and market attractiveness.

The Schemes

6.2 One way is to look at how the schemes sit in relation existing concentrations of office space. Figure 6.1 shows existing office hot spots centred on CAZ, Canary Wharf and Heathrow. A high proportion of the mega scheme proposals are in or on the fringes of CAZ.

6.3 Whilst there is some gap between CAZ and the Earl's Court West Kensington Opportunity Area, it is the closest of the non-CAZ schemes. There is also a bleeding of office concentration west from CAZ towards the OA. Brent Cross/Cricklewood and Stratford City both seem a bit remote and isolated on this criterion.

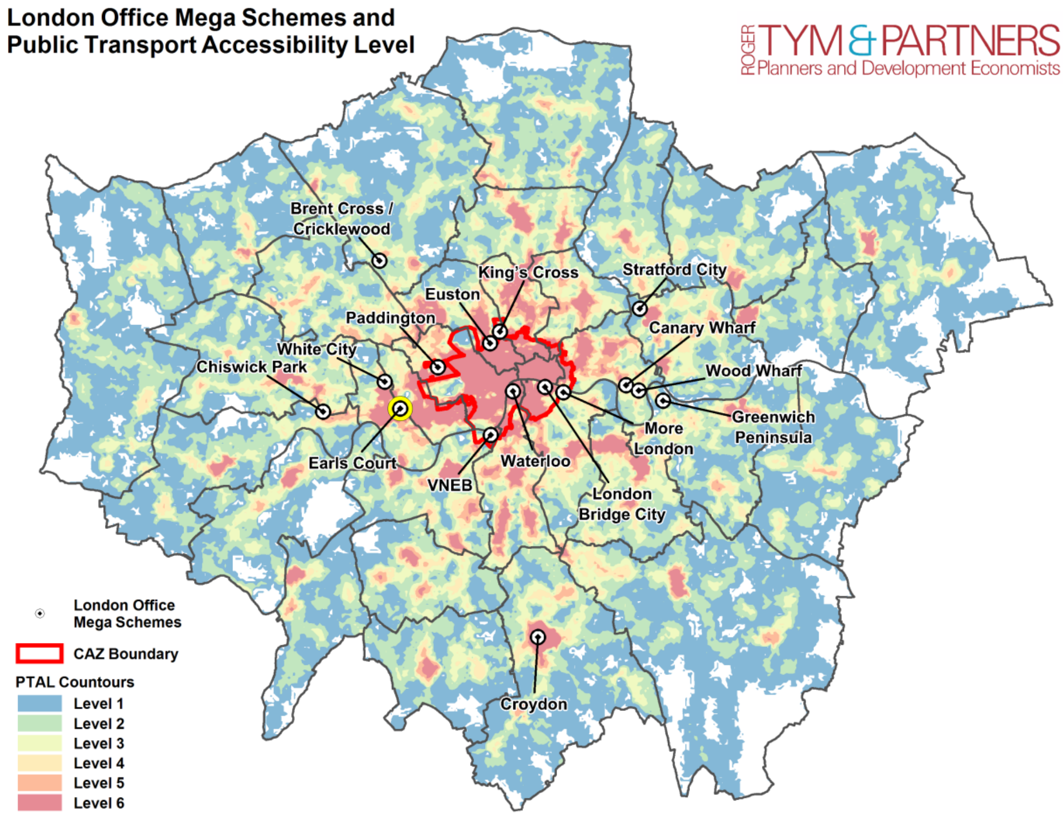
Figure 6.1 Mega Schemes and Existing Office Floorspace Concentrations



6.4 Whilst outside CAZ the OA does not suffer by comparison in terms of accessibility. Figure 6.2 shows it to be in the highest PTAL rated area and again highlights the isolation of the Brent/Cross Cricklewood scheme. Greenwich Peninsula and Wood Wharf score less well on this criteria.

6.5 With the exception of VNEB all the other central schemes are at or adjacent to mainline rail termini.

Figure 6.2



6.6 We do not see the schemes to the east of London as directly competing for the same product. We noted in previously in Chapter 3 the distinction in the profile of activity. Similarly further expansion of More London and London Bridge City will be more closely related to the profile of activity in the City.

6.7 The closest competing schemes for central London demand are Kings Cross, Euston, Paddington, VNEB and White City. Schemes for these sites are at different stages of development. To assess how Earl's Court might compare as a major office location against these other sites we have set out an assessment framework covering a range of criteria. These are:

- Outputs – sq m of floorspace
- Strategic Fit
- Market Attractiveness
- Deliverability
- Public Sector Cost

6.8 This is tabulated below drawing to a large extent on the Spatial Priorities Assessment of Opportunity Areas prepared for the LDA[6].

6.9 In terms of the outputs of the scheme the middle and upper development capacity scenarios for the OA are comparable with White City, Paddington and Euston, but substantially below what is planned fro Kings Cross and VNEB.

6.10 The Hammersmith & Fulham Core Strategy does not wish it to challenge the pre-eminence of Hammersmith & White City as office locations. It therefore scores less highly than other locations on Strategic Fit.

6.11 The OA is less established as an office location and as such it will depend on the product created. It is however, likely to be less attractive than established location such as Paddington and more central locations with greater critical mass such as Kings Cross.

6.12 On deliverability it scores highly due to its unified ownership and absence of any major constraints. Infrastructure constraints could still act as a barrier to large scale office development coming forward at location such as VNEB. Potential crowding and capacity issues remain potential constraints to other sites with high accessibility.

6.13 There is very limited public sector cost or risk associated with the development of the OA so again on this factor it compares favourably.

[6] Spatial Priorities – Opportunity Areas. Report for the London Development Agency (December 2010) prepared by GVA Grimley/Colin Buchanan/Urban Graphics

Scheme	Outputs	Strategic Fit	Market Attractiveness	Deliverability	Public Sector Cost
Earls Court	3 Development Capacity Scenarios 90,000 sq m 142,000 sq m 194,000 sq m	Core Strategy. London Plan designates it as OA to deliver 7,000 jobs	Untested market yet lies between established office markets. Current rents are below benchmarks but this is from very limited market. Vacancy levels are low	Large parts of the site in single ownership. There are some planned public transport capacity increases but the area currently suffers from over-crowding	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery
White City	Up to 150,000-200,000 sq m of additional floorspace	Core Strategy identifies it as are for 10,000 jobs and one of the two principal office locations Designated OA in London Plan seeking 10,000 additional jobs.	Current rents are roughly half those of Hammersmith	There is a fragmentation of land ownership, though most landowners are agreed on future direction. Transport accessibility high but currently network experiences delays in peak periods	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery
Paddington	Additional 150,000 sq m of office	Core Strategy supports further development. Designated OA in London Plan seeking 5,000 additional jobs.	Expansion of existing office centre with Office values are above locational benchmarks. Vacancies low CrossRail adds to attraction	Previous phases delivered. Established Partnerships. Land ownership not seen as presenting a problem. Infrastructure good	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery
VNEB	360,000 sq m of offices	Wandsworth Core Strategy recognises scheme. Lambeth has SPD for its part of the site. Designated OA in London Plan seeking 15,000 additional jobs.	Current market rents are below benchmarks but values in area generally are anticipated to be strong	Requires substantial investment in Infrastructure to increase capacity, notably Northern Line extensions.	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery

Scheme	Outputs	Strategic Fit	Market Attractiveness	Deliverability	Public Sector Cost
Euston	150,000 sq m of offices In Mixed Used development	Planning Framework SPD and Core Strategy in support. Designated OA in London Plan seeking 5,000 additional jobs	Market rents are currently below benchmarks but vacancy rates are low	British Land as development partner with Network Rail. Although transport accessibility is high there are capacity issues	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery
Kings Cross	450,000 sq m of offices in mixed use development	Local policy is supportive with a Planning and Development Brief Plans are in conformity with London Plan and are aligned with other strategic policies. London Plan designated OA seeking 25,000 additional jobs	Office rents are above benchmarks and vacancy rates are very low indicating strong market attractiveness despite being a bit off-pitch for most 'World City' uses.	Scheme is now under way with Argent as a major partner. High transport accessibility but potential for crowding to be an issue despite transport upgrades	LDA Spatial Priorities Assessment considers Third tier with limited intervention to secure delivery

7 THE LOCAL EMPLOYMENT MARKET

Introduction

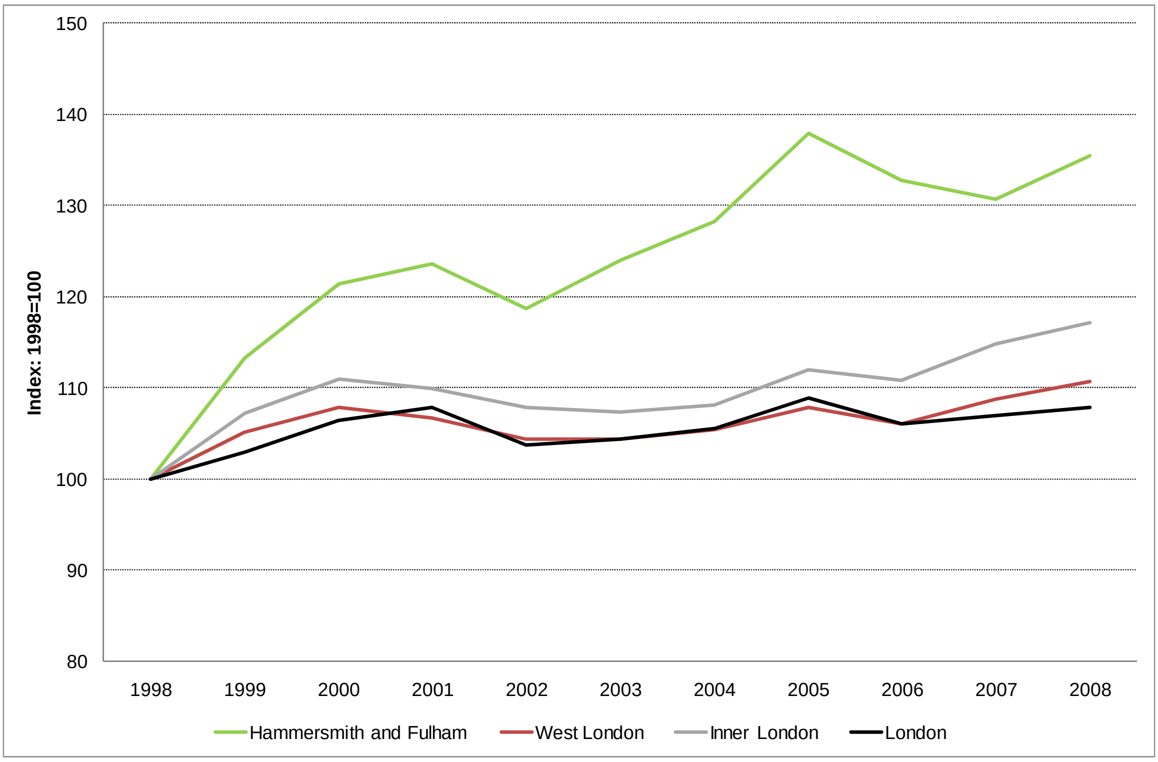
7.1 The previous chapter has assessed the scheme in terms of its strategic competition with other mega schemes in London. This is the appropriate comparison for the higher level options we have been asked to consider. At the lower end of the range 90,000 sq m is perhaps best assessed in the context of a local employment land review for the two boroughs. This is especially the case, if as in the light of emerging proposals, this is not one large office scheme but a combination including the provision of small workspace units.

7.2 We look at this in the context of each Borough's Employment Land review in turn.

Hammersmith & Fulham

7.3 In 2008 there were 117,823 jobs in Hammersmith & Fulham[7]. The borough has been expanding as an employment location over the past 10 years. As Figure 7.1 below shows, total employment in Hammersmith & Fulham has grown by 36% since 1998 compared to 8% in London as a whole, 11% in West London and 17% in Inner London.

Figure 7.1: Total Employment Change (Index: 1998=100)



Source: ABI

7.4 This has been driven by fast growth in business services both in absolute and relative terms. The sector generated 16,100 new jobs between 1998 and 2008, a rise of 73%

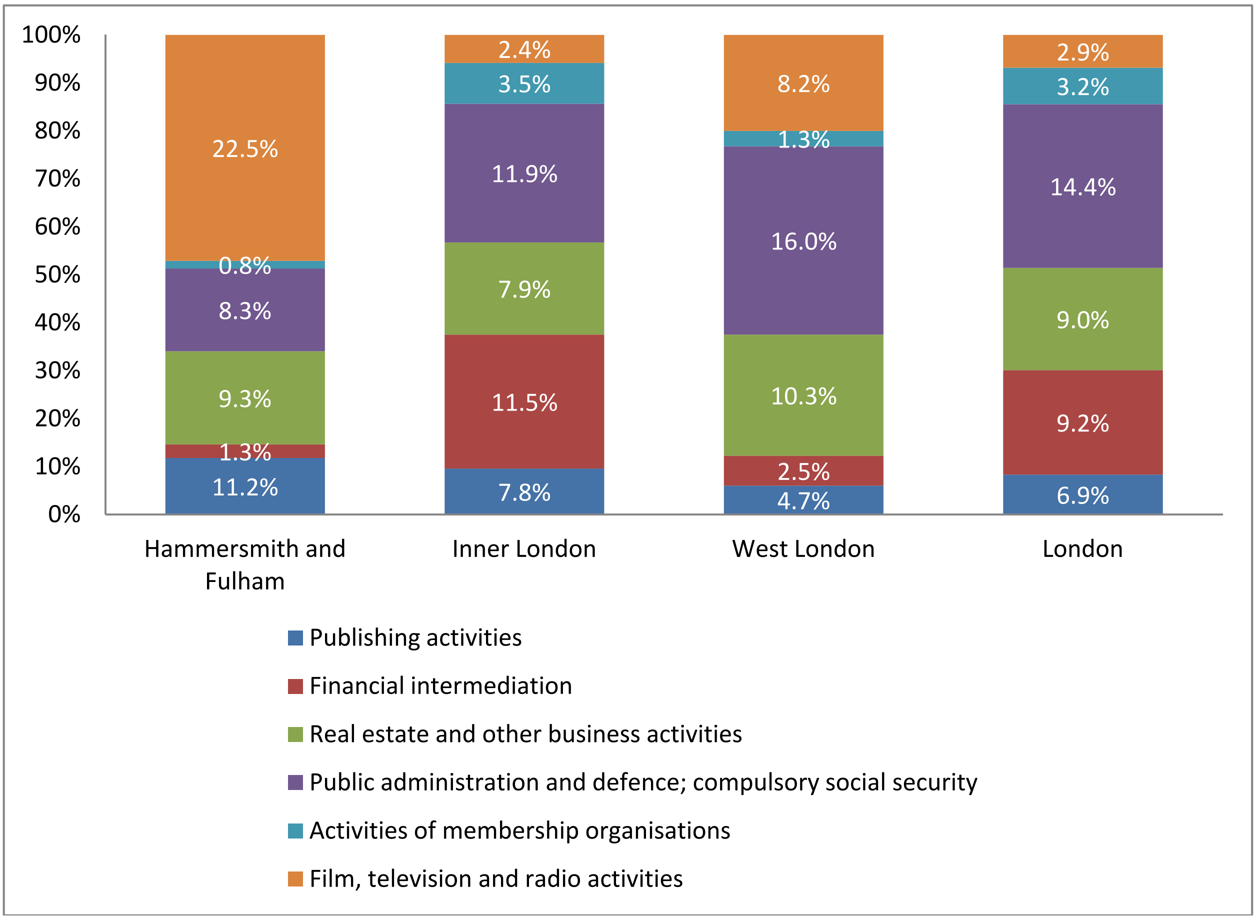
[7] Annual Business Inquiry - excludes self-employment

compared to 14% in West London and 28% in London. The other sectors which have created the most jobs over this period are: recreational, cultural and sporting activities; health and social work; wholesale and retail.

7.5 The borough is also characterised by the strong presence of knowledge-based activities, including R&D and creative industries.

7.6 We estimate office jobs in Hammersmith & Fulham at approximately 51,700 in 2008, or 44% of total employment. This presents a very different profile to West London where they account for 28% of total employment. It is also higher than the proportion for London which is 75%. It reflects the strength of Hammersmith town centre as an office location.

Figure 7.2 Structure of Office-Based Activities (2008)



Source: ABI

7.7 The chart highlights the weight of creative industries: publishing and film, television and radio activities account for a third of all office jobs in the borough compared to 13% in West London and 10% in London. The figures are of course skewed by the presence of the BBC but do reflect a strong media cluster. On the other hand, financial services are practically absent and public administration is under-represented.

7.8 The 2005 ELR[8] noted a high requirement for small B1 premises for key sectors in the borough i.e creative and cultural industries, I.T and new media and other business services. A more recent study is unavailable but our analysis of jobs by sector and size in the borough does not suggest any dramatic change in the structure of the local economy. Therefore, it is likely that the main segments of demand remain broadly the same.

Market Area

7.9 Hammersmith & Fulham is an integral part of the recognised West London sub-region and its commercial property market. Along with centres such as Acton, Chiswick, Ealing and Hounslow, it forms an axis of commercial activity stretching from the West End, through the West London boroughs to Heathrow, and beyond into the Thames Valley.

7.10 The sub-region is a popular office location as rents are cheaper than in central London and the quality of business parks meets investors' requirements. In particular, it has attracted a cluster of IT companies, including some of the world-leading companies in this sector. The ability to continue to offer the right premises to investors and start-ups alike is critical to the sub-region's competitiveness.

7.11 West London also includes major manufacturing and warehousing hubs, largely due to its location near Heathrow and the M25. Indeed it has Europe's largest industrial estate at Park Royal.

7.12 As other parts of the country, West London has been hit by the recession although its diverse economic structure, locational advantages and comparatively low reliance on public sector employment puts it in a better position to recover faster than other parts of the country.

7.13 The borough of Hammersmith & Fulham has a stake in not one, but two key office property sub-markets. On the one hand it is situated at the extreme western edge of the Central London market, as acknowledged by the LOPR. In this role it provides a less expensive location for companies moving away from the core area: rents in Hammersmith have traditionally run at around half those in the core West End market. On the other hand, it sits at the head of the western corridor, looking west to Heathrow and the Thames Valley beyond.

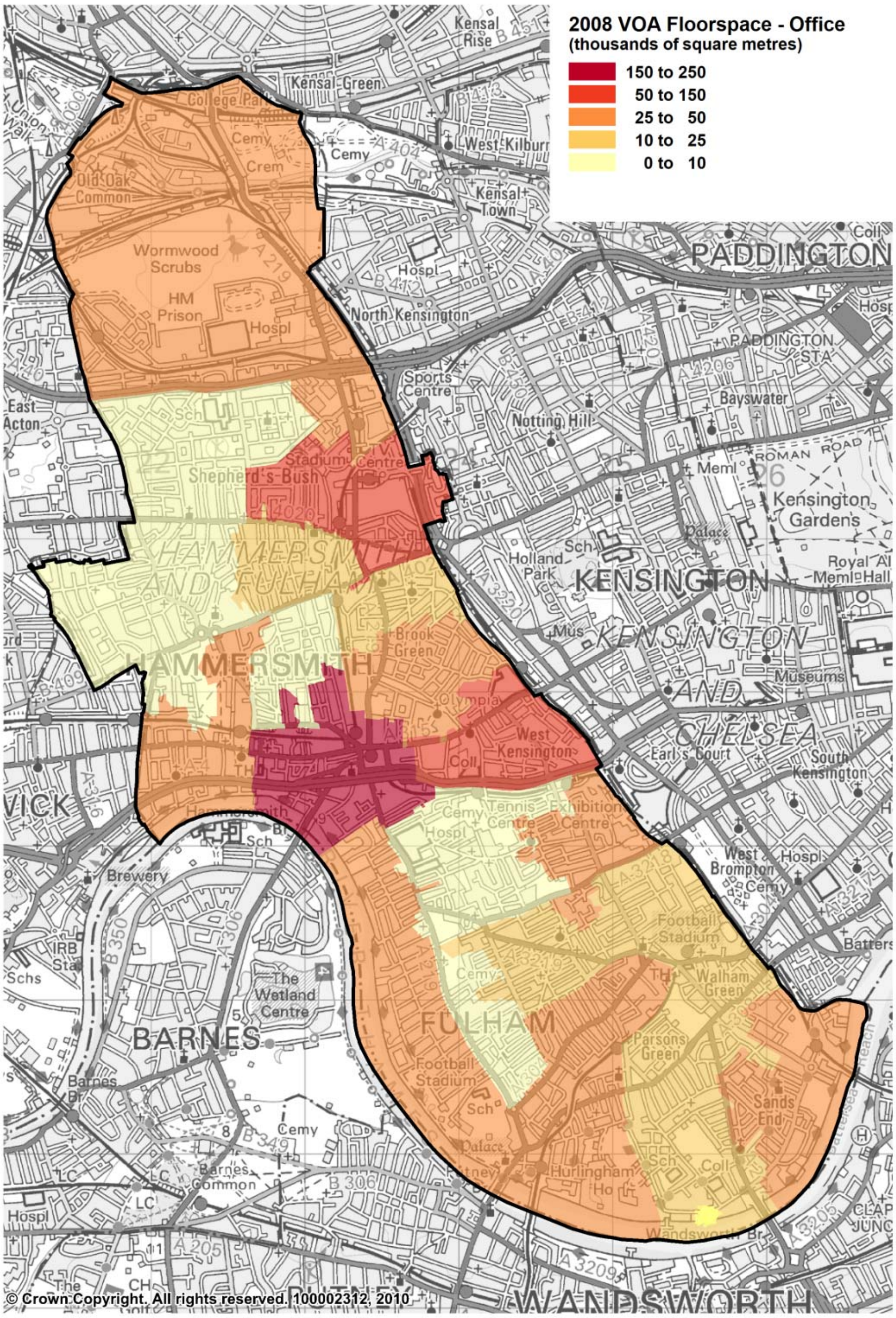
7.14 Over the years, this privileged location has supported Hammersmith town centre's growth into an important sub-regional office centre.

Stock

7.15 According to the latest data from the Valuation Office Agency, there were 820,000 sqm of offices in Hammersmith & Fulham in 2008. Office floorspace accounts for half of all commercial floorspace in the borough. This is higher than the London average. As illustrated below and mentioned earlier, the main concentration is in Hammersmith Town Centre.

[8] Atkins (2005) *Hammersmith & Fulham Employment Land and Premises Study*

Figure 7.3 Office Floorspace



Take-up and demand

7.16 As expected the recession has led to a drop in demand for office space. At Western Corridor level[9], total take-up dropped from 1,038,000 sq ft in 2008 to 644,000 sq ft in 2009. It is worth mentioning that second hand offices were less affected than Grade A or new offices, as occupiers look to reduce their costs.

[9] Knight Frank, Western Corridor Office Market Report – Autumn 2009

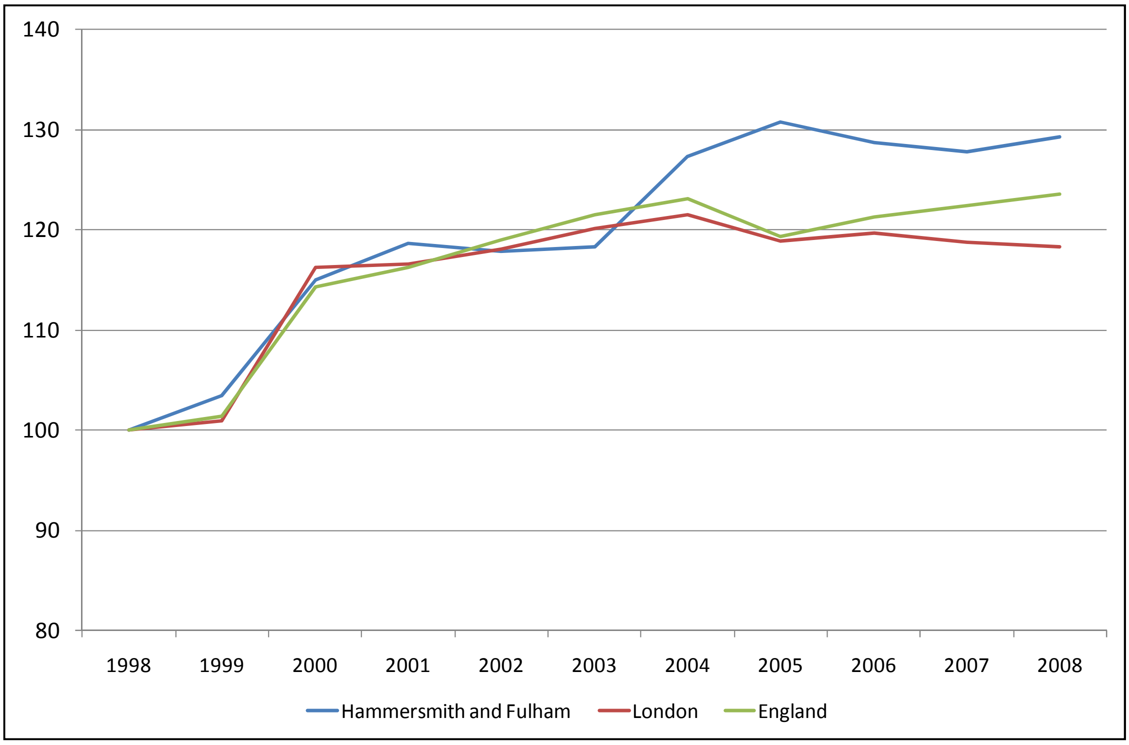
7.17 The Western Corridor Office Market Report does not provide a breakdown of data by borough. However, there is a section on Hammersmith and Chiswick which shows these centres experienced a similar trend to the sub-region, with take-up dropping in 2008 and 2009. This research suggests that the effect of the recession is compounded by a reduced differential in rents between these locations and the West End. This has reduced the number of occupiers looking for more cost efficient space in West London.

7.18 More recently, Knight Frank[10] noted that five centres outperformed their historic average during the recession, with Hammersmith, Chiswick, Crawley, Gatwick and Staines showing better take-up in the last 12 months compared with the annual average, pre-recession.

Supply

7.19 Between 1998 and 2003, the stock of office space in Hammersmith & Fulham grew in line with London and England. The rate of growth accelerated until 2005 and since then the borough has experienced a larger contraction in supply than in London.

Figure 7.4 Change in Floorspace Stock



Source: Valuation Office Agency

7.20 After experiencing a contraction however, supply has risen again in 2008. This is reflected by the figures for additional gross employment floorspace in the latest Annual Monitoring Report. It recorded an additional 28,623sqm in 2007/08 and 8,537sqm in 2008/09. This equated to 5,038 net new employment floorspace, 85% of which was offices and the rest B2.

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[10] May 2010

7.21 The growth in floorspace continues to be in single larger schemes located outside of town centres where the overall net increase is reduced by the loss of floorspace in many smaller schemes. The losses were predominantly to residential use and the gains have been on sites not previously in Class B use or previously sui generis.

7.22 The AMR data on office developments under construction presents the picture of a relatively flat market with little offices under construction. The vast majority is in the North of the borough.

Table 7.1 Office Developments under Construction at January each Year, 2000-08

Centre	Number of sites	Area (sq m)
2000	5	20,288
2001	13	46,040
2002	15	108,779
2003	10	110,736
2004	7	45,414
2005	4	4,453
2006	2	3,185
2007	2	3,283
2008	3	4,745

Source: LBHF[11]

7.23 At June 2010 there were 20 B1 developments with outstanding planning permissions but where construction had not started[12]. The total B1 space involved is 162,173 m2 (gross) on sites totalling some 7.1 hectares (Table 3). The principal developments listed on the schedule are:

- a further phase of Centre West
- Imperial Wharf, the outstanding space allowed under Stage 1
- a further phase of the Hammersmith Embankment scheme
- the Hammersmith Palais redevelopment
- further space at the BBC
- development of the car park adjacent to the Hammersmith & City Line station, Hammersmith Grove

7.24 The majority of new office schemes and planning commitments have comprised of prime office space with relatively large floorplates. These have the potential to serve the inward investment market including national and international HQs and high value service activities. They do not, however, meet the needs of the numerical majority of Hammersmith's office occupiers, who require smaller, more flexible and, possibly, more

[11] LBHF (2008) *Office/B1 Developments in Hammersmith and Fulham, 2008 Report*
[12] LBHF (2010) Background paper: Employment Land Assessment – Updating Statement

economic premises. Indeed the AMR points to the loss of small offices hidden by the net growth in office floorspace.

7.25 In contrast to other centres and despite the refurbishment of the Ark and the recession, available space in Hammersmith and Chiswick remained tight, broadly unchanged from the end of 2008[13]. Overall vacancy rates stood at 5.9% of which Grade A supply comprised the majority; it accounted for 71% of supply, reflecting a Grade A vacancy rate of 4.2%.

7.26 More recent and detailed data on vacancy levels across segments of the market is not available. The 2005 ELR reported that half the vacant office floorspace was concentrated in a small number of large buildings over 10,000 sq m (>100,000 sq ft) and that the vacancy rate for small premises under 100 sq m was lower.

7.27 Since 2008, the falling demand has driven rents downwards. In Hammersmith town centre, they have fallen to £35.00 per sq ft in 2009. From their peaks in September 2008, this is a drop of 10%.

7.28 However, the drop in rents was faster in the West End meaning that the differential with the borough has reduced making it comparatively less competitive on cost.

7.29 These are issues experienced throughout London and for this reason, we feel it is likely that the findings of the 2005 Atkins report would still be valid. This report noted a shortfall in supply for small businesses, exacerbated by the differential between residential and commercial land values. The key gaps in provision identified in the report included "small service-based businesses serving local communities; niche sectors requiring flexible and affordable premises (e.g. media and creative industries); and new and young businesses seeking affordable small offices and/or workspace with favourable lease or licence conditions". We have no reason to believe that the situation has changed since 2005.

Office Forecasts

7.30 According to the LOPR forecasts, employment in office-based activities in London is set to rise from 1,616,900 in 2007 to 2,002,773 in 2031, an increase of approximately 303,380 jobs. Over the same period Hammersmith & Fulham is expected to generate an additional 22,685 jobs, a rate of increase roughly double the London average. According to the LOPR forecast this translates into a demand for 401,094 sq m of office space.

Supply and Market Balance

7.31 LOPR 2009 states that the existing pipeline, including under construction, shows significant under-supply and would represent only about 68% of anticipated demand to 2031.

7.32 The monitoring work undertaken for the latest Annual Monitoring report to be published in 2010 shows a significant pipeline for new B1a) and B1b) permissions including under construction. As at June 2010 this was 162,173 sq.m. in schemes over 1,000 sq.m.(Appendix 1). This represents approximately 40% of the required gross office floorspace to 2031 (London Office Policy review, 2009). However, not all of the approved schemes will be implemented and some approvals in mixed use schemes may be subject

[13] Knight Frank, Western Corridor Office Market Report – Autumn 2009

to variation. A few sites such as that at Hammersmith Palais within the town centre have already seen permissions expire. There could also be a significant reduction in the pipeline if, as seems likely, the approved scheme at Hammersmith Embankment for 48,370 sq.m. does not proceed. The outstanding pipeline is considered to provide sufficient floorspace for a five year supply even if some schemes are not implemented. In the medium and longer term a substantial amount of office floorspace is anticipated as part of the White City Opportunity Area, currently estimated to be about 180,000 sq.m., and within Hammersmith Centre.

7.33 In other areas there is scope for office floorspace as part of the wider housing led regeneration of the area. Further longer term growth could occur at the Old Oak Common Sidings site, subject to improvements in accessibility as a result of proposals for a west London hub for High Speed 2 at this site.

7.34 The monitoring information shows that there has been very little new office development with the exception of the office component of the housing led mixed use scheme at Larden Road. It shows that there continues to be a steady loss of secondary employment sites that reduce the overall growth in business floorspace. The pipeline information and other areas of expected growth to meet the estimated need of 400,000 sq.m. is summarised in Table 1.

Table 1: Planning pipeline for Class B development as at June 2010 including under construction (sites with planning permision) and other expected growth

Class B use	Floorspace (Square metres)
Pipeline for B1 permissions/u/c	162,173
Estimate for White City OA	180,000
Estimate for Hammersmith Centre *	30,000
Total excluding Earl's Court	**372,173**

* excludes sites with planning permission

7.35 These supply figures do not take into account what is available in the borough through the re-use of vacant land and intensification of development.

Conclusions

7.36 Overall, Hammersmith & Fulham's office market is in a better position than other places around the country to ride out the recession and recover more quickly. It is an attractive business environment, with good accessibility to Heathrow and a diverse economic structure with the presence of some growth sectors.

7.37 However, while supply has hardly changed, demand has slowed down, there is no speculative development and rents are down. Competition with Central London and the Thames Valley as a chosen location by investors and occupiers is ever more intense.

7.38 Hammersmith & Fulham's market fundamentals indicate that, other things being equal, it will remain attractive to occupiers and continue to grow. There is a focus on investor demand / inward investment / new occupiers but there is little intelligence on the needs of start-ups and small companies. These are essential to the stability and dynamism of the local economy. They can be a way for local residents to work in the borough, they also are less likely to leave the borough with huge job losses as a multinational might do.

7.39 However, it is this offer which is most vulnerable to pressure from other uses, in particular housing, as the 2009 AMR highlights.

7.40 Updating the supply data suggest that excluding any office development in the OA there would be a shortage of 29,000 sq m at 2031.

Kensington & Chelsea

7.41 The Kensington & Chelsea ELR stated that the market for business space in the Royal Borough comprises three sub-markets, or types of use:

- Standard offices
- Low-cost offices/studios/business units
- Light industry and warehousing, which are not considered here.

7.42 *Standard offices* are concentrated in the south and centre of the Borough around Kensington High Street and South Kensington. However, this market extends throughout, albeit in smaller quantities, all of the three employment zones. The Borough is not a well known office location in the context of the overall London market, operating as a secondary and in some cases 'overspill' market relative to more central London office market locations.

7.43 *Secondary offices/studios/business units* are possibly the Borough's main business market and can be found in all three employment zones and in the town centres, in particular High Street Kensington and South Kensington. They are typically occupied by creative industries such as architects, fashion and interior designers, and film and music producers. Many of these occupiers are small or start up companies who do not need a conventional office, but rather a studio space with maybe a small office area. The small, relatively low cost space available in buildings such as Network Hub and Canalot Studios in Kensal and Worlds End Studios in Lots Road, offer these occupiers the space they need on a flexible basis and at a budget they can afford. The success of the Workspace Group, who have four buildings in the Kensal area, demonstrates that there is a good demand for small studio space in the area. The Worlds End Studio in the Lots Road area, which also caters to this market, enjoys 97% occupancy. This type of occupier is unlikely to move to areas such as Mayfair or Hammersmith, where rents are higher and there is a shortage of small (sub 300 sq m) studio space.

7.44 Although business floorspace is located across the Borough, there are concentrations in:

- Three designated employment zones: Kensal Road, Latimer Road/Freston Road and Lots Road;
- Kensington High Street, along with South Kensington.

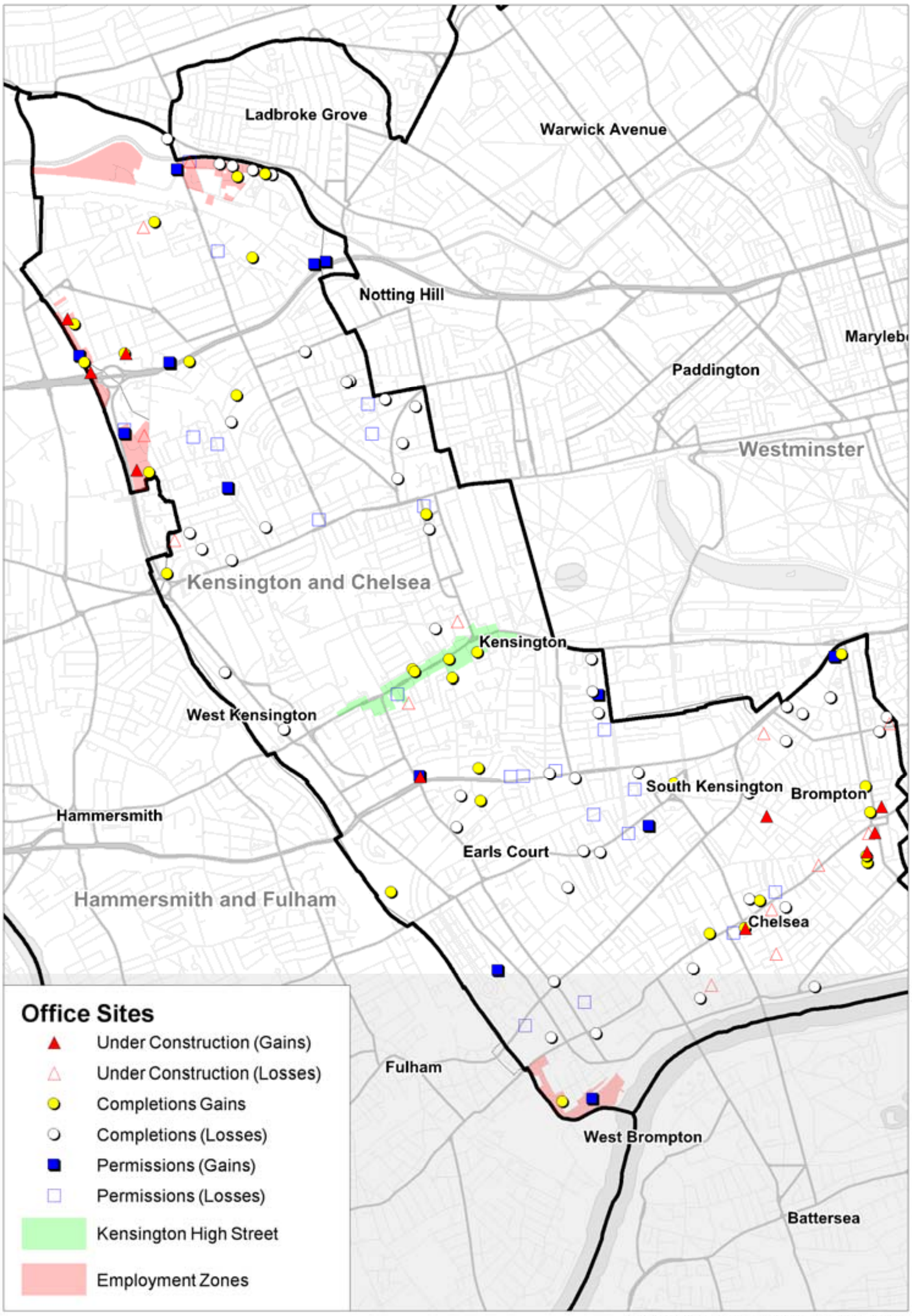
7.45 Between 2004 and 2008, completions in the Borough resulted in an insignificant net gain of around 9,000 sq m of office floorspace.

7.46 Sites which were under construction at 31st March 2008 totalled 24,000 sq m net of office floorspace. The largest building under construction for a gain of office space was the approximately 25,900 sq m Notting Dale Village The next largest site under construction for offices in an employment zone was around 1,200 sq m.

7.47 Around 14,400 sq m net had outstanding planning permission for office development. In the Latimer Rd/Freston Rd employment zone there was a large permitted gain: 6,900 sq m at 40-46 Bard Road. There was also a permitted gain of 4,900 sq m at the Former Lots Road Power Station. There were no large office gains in Kensington High Street.

7.48 Overall, the Council's employment land policies directing new employment development to the employment zones and protecting existing employment development in these Zones, have been working.

Figure 7.5 Office sites completed, under construction or with unimplemented planning permission (at least 200 sq m gain or loss)



7.49 In the four years to 2008, the net growth in office space has been just 9,000 sq m[14] - some 2% of the total stock and providing space for an estimated 600 people. Gross

[14] Numbers quoted in the text are rounded.

changes consist of 42,000 sq m of offices were developed over the period and office sites providing 33,000 sq m were lost to other uses, generally residential.

7.50 Office space under construction provides a net addition of 24,000 sq m. This is more than accounted for by the 26,000 sq m Notting Dale Village off Freston Road. If this exceptional scheme is excluded, developments under construction involve slightly greater gross losses than gross gains of office space.

7.51 Outstanding permissions provide a net addition of 14,000 sq m, the net outcome of 29,000 sq m of gross gains and 14,000 sq m of gross losses.

7.52 The ELR suggested a zero contribution from allocated sites not yet permitted.

Forecast Demand

7.53 For offices, the Borough shows an increase in office demand of 69,200 sq m from 2004-2026. Comparing this forecast demand with the supply estimated earlier, the outstanding office supply of 46,000 sq m, excluding any of the allocations not yet permitted, would last until 2017. This would leave a shortfall of 23,000 sq m.

7.54 These calculations of course assume that there are no future windfall losses or gains of employment land, over and above current planning commitments. If there are such windfall developments, and if windfall losses exceed windfall gains, then if the forecast demand is to be met in full additional land would have to be identified to replace the resulting net loss.

7.55 Forecast demand shows positive demand for office floorspace over the plan period to 2026, requiring a net addition of 69,000 sq m (15%) to the floorspace stock. The market analysis confirms that, leaving aside the current recession, the Borough has experienced healthy demand for offices. This applies both to mainstream occupiers – for whom the Borough operates as a peripheral part of the central London market – and to creative and media industries – a niche market in which Kensington and Chelsea has a key role.

7.56 On the supply side, space under construction and outstanding permissions provide a net addition 46,000 sq m. If the forecasts are correct, this would meet office demand until 2017. In the particular circumstances of Kensington and Chelsea, where there are no greenfield sites to be opened up and no policy requirement for major strategic employment schemes to be planned, there is probably no need to identify office developments many years in advance. Eight years supply of planning permissions seems more than reasonable, even if we bear in mind that around half of that supply is at one single scheme, Notting Dale Village off Freston Road.

7.57 If the forecast demand for offices, and the real demand demonstrated by market analysis, are to be met, the Council will need to control losses of office sites to other uses. In recent years the Borough has lost nearly as much office space as it has gained; for the future, permitted gains outweigh permitted losses, but not overwhelmingly so. The main reason why the outstanding supply pipeline shows a net gain of office space is a single and untypical scheme, Notting Dale Village at Freston Road.

7.58 In future, as the existing supply of office commitments is taken up, the Borough will need to renew that supply. It may be that the market will deliver enough sites thorough spontaneous planning applications (more Notting Dale Villages), but we cannot rely on this. If it does not, and if the Council wishes to see office growth in line with GLA forecasts and market demand, new plan-led allocations may be needed in future.

7.59 The ELR concluded that how important this is, and what particular type of office provision should be safeguarded and encouraged, depends of course on wider policy objectives. From the discussion in Section 2 above, key strategic and local objectives are that:

- Planning should support rather than constrain economic growth;
- London planning's key contribution to the economy is to support a healthy supply of offices, but Kensington and Chelsea is not one of the major strategic locations that will deliver this supply;
- Kensington and Chelsea should nurture its specialist strengths: vitality and quality of life.

7.60 All this suggests that policy to safeguard office sites, and perhaps to identify more office sites in future, should focus particularly on the creative/media sectors, hence on small-scale, value-for-money, flexible provision, especially in the north of the Borough.

Conclusions

7.61 Updating the ELRs for the two boroughs gives a provisional assessment that there might be a shortfall of office space of 29,000 sq m in Hammersmith & Fulham and of 23,000 sq m in Kensington & Chelsea. Office development in the OA could make a significant contribution to meeting this shortfall.

7.62 Both boroughs have identified the need for smaller flexible workspace to meet local demand and as such the provision of smaller units as part of the overall mix of office floorspace provision will be important to address this need.

8 CONCLUSIONS

Demand

8.1 Provisional findings suggest that there may be sufficient office demand in the central London market to justify allocation of additional sites for offices within the OA. There has continued to be strong growth in London in a number of office based sectors. This includes sectors such as media, real estate and computer services that have a higher propensity to locate in Central and West London locations. This area is also attractive to FDI investor across a range of sectors.

8.2 The expansion of the City and its financial and business services base has been accommodated at Canary Wharf and there is plentiful supply in the pipeline to accommodate further expansion of this segment of the market. But the pipeline for the Central London and West End market is more limited.

8.3 There are a number of emerging schemes that are seeking to accommodate this anticipated growth. Examples of these which are at different stages of development include:

- Paddington Basin, which is now an established location with plans for further expansion
- Kings Cross, which has been consented and is in the early stages of construction
- Battersea, which is still a proposal and still needs to establish itself as a location
- White City, which in terms of geography and scale is close to Earl's Court

8.4 At the local and sub-regional level there is also some evidence of supply shortage, which suggests that some additional provision can be made without compromising existing centres in either borough.

Location

8.5 Whilst strategically a good and widely known location Earl's Court is not an established office market and would need to create a sense of place. This is probably easier at the higher end of the development capacity scenarios that we have considered, but could be achieved by a comprehensive redevelopment of a sufficiently high quality. In order to compete effectively with existing established locations and other proposed schemes it would need develop some form of competitive advantage and distinctive product offer. To do this it needs to identify the types of functions it seeks to attract.

8.6 The workspace itself should be highly flexible in order to provide different occupancy solutions and be responsive to change in occupier requirements.

8.7 There is a need for the offices to be fully integrated in the surrounding development and to provide good public realm and access to amenities to be attractive to the office occupier market. It is clear that all three development capacity scenarios would make a significant contribution towards, or realise in their own right, the indicative employment capacity for the OA.

Development Capacity Scenario 1

8.8 Development Capacity Scenario 1 at 90,650 sq m of office space could serve local demand but would be less able to accommodate significant demand from the sub-region, particularly central London overspill. Local demand could perhaps account for a substantial proportion of the office space under this option and would be accommodated by a mix of provision incorporating small offices, workshops, and medium-sized offices along new east-west and the north-south routes offering good connections to the wider area. It would provide for any shortfall identified in the local Employment Land Reviews of RBKC and LBHF. It could seek to become a location providing small units to meet the needs to creative and similar sectors which find this a good quarter in which to live and work.

8.9 At an employment density of 13.8 sq m per worker as used in LOPR this would accommodate 6,600 jobs or 6,200 at the alternative density of 14.7 sq m per worker. It is thus close to the OA target of 7,000 jobs if supplemented with complementary jobs in other sectors such as leisure and retail.

8.10 This scenario would not readily allow larger office units to be accommodated in a campus format and it is difficult to see in such a scenario that large units would serve much purpose as they would be isolated and difficult to establish as a prime office location. it is unlikely that under this scenario that the area would develop in this way. This scenario could provide office provision to meet local shortfall primarily in smaller units integrated with the overall development. It would enable a well integrated variety of small employment uses without the area becoming a large scale office cluster of the type that would compete in the longer term with the established centres of Hammersmith Town Centre and White City.

Development Capacity Scenario 2

8.11 Development Capacity Scenario 2 at 142,450 sq m is probably the minimum that could be put forward to achieve an office cluster in the OA that had a good prospect of establishing itself in the market place. This would accommodate around 10,000 jobs. At this scale it may however find it hard to find a niche differentiating itself from White City or Hammersmith Broadway and it may begin to undermine the local policy preference for office development to be directed to each of these locations. It would be important to ensure that office development would be phased to ensure that these locations maintained and developed their current market position prior to the OA emerging as an alternative.

Development Capacity Scenario 3

8.12 Development Capacity Scenario 3 at 194,250 sq m has the scale to create and establish the OA as a strategically significant and identifiable office cluster in London. The policy expectation for job creation would be readily achieved with circa 14,000 workers. The nature of the area is likely to be transformed from one that is predominantly residential at present to one that is mixed but takes on more of the characteristics of an employment location.

8.13 The OA could accommodate a mix of provision incorporating small offices, workshops, and medium sized offices in the southern part with large office units along the West Cromwell Road frontage. As with other options it is unlikely that the area would be attractive to these large tenants until it was established as a location and the office provision in the early phases should therefore focus on local demand.

8.14 There is greater potential for competition with Hammersmith Broadway and White City and consequentially a greater likelihood that this scenario would begin to undermine the local policy preference for office development to be directed to each of these locations. It would be important to ensure that office development would be phased to ensure that Hammersmith Broadway and White City maintained and developed their current market position prior to the OA emerging as an alternative. The majority of this office floorspace, which would likely comprise the larger office buildings, should therefore come in the later phases. This approach would dovetail with the need to establish this as a location through the early phases.

Replacement Floorpsace

8.15 The above development scenarios are assumed to be net additional employment. If existing office employment floorspace were lost through, for example, the redevelopment of Empress State, then replacement space would need to be factored in to derive the net addition. Certainly for Development Capacity Scenario 1 replacement floorspace would be needed if the OA target of 7,000 additional jobs were to be achieved.

APPENDIX 1

Office Floorspace Development Capacity Scenarios

Option	Housing capacity *	Residential floorspace **	Resident population ***	New Jobs ****	Total commercial / non-residential floorspace *****	Office floorspace	Retail floorspace	Hotel	Leisure (includes cultural) floorspace	Other non-residential floor	Total floorspace
Option 1	4000	364,000 sq.m.	9,600	7000	129,500 sq.m. (1,393,420 sq.ft.)	90,650 sq.m.	12,950 sq.m.	12,950 sq.m.	10,360 sq.m.	2,590 sq.m.	493,500 sq.m. (5,310,060 sq.ft.)
Option 2	6000	546,000 sq.m.	14,400	11,000	203,500 sq.m. (2,189,660 sq.ft.)	142,450 sq.m.	20,350 sq.m.	20,350 sq.m.	16,280 sq.m.	4,070 sq.m.	749,500 sq.m. (8,064,620 sq.ft.)
Option 3	8000	728,000 sq.m.	19,200	15,000	277,500 sq.m. (2,985,900 sq.ft.)	194,250 sq.m.	27,750 sq.m.	27,750 sq.m.	22,200 sq.m.	5,550 sq.m.	1,005,500 sq.m. (10,819,180 sq.ft.)

Notes:

* Housing capacity for Option 1 is new (net additional) homes. Options 2-3 may include redevelopment and replacement of existing dwellings in the area, such as the 746 dwellings on the West Kensington & Gibbs Green Estates that LBHF has indicated may be included.
** GEA based on 70 sq.m. per dwelling plus 30% allowance for net to gross. The allowance for net to gross is intentionally generous and is expected t be revised down through master planning.

*** Based on the London-wide average figure of 2.4 persons per dwelling. This represents an upper 'worst case' estimate given the LBHF figure of 2.22 and the RBKC figure of 2.0.

**** All jobs figures are new (net additional) jobs.

***** GEA based on a figure of 18.5 sq.m. per work space which includes an allowance for net to gross. The subsequent break down of this figure into broad land use categories is based on the following proportions of this total: office (70%); retail (10%); hotel (10%); leisure (including cultural) (8%); and other non-residential uses (2%). All are indicative working figures and will need to be refined through master planning, transport capacity modelling and topic based studies on floorspace requirements and impact. This will include refinement of the area figure per workspace for each use category beyond the broad figure used at present.

APPENDIX 2

Development Capacity Scenarios

Development Capacity Scenario 1 – Illustrative masterplan

Development Capacity Scenario 2 – Illustrative masterplan

Development Capacity Scenario 3 – Illustrative masterplan