

## **MATTER 2: QUANTA OF DEVELOPMENT: OFFICES AND RETAIL SPACE**

### **A NOTE ON FORECASTING FLOORSPACE NEEDS FOR OFFICES AND COMPARISON RETAIL**

#### **KENSINGTON SOCIETY**

Models are always wrong, but they can still be useful in helping us explore and understand what could happen if we vary the assumptions.

Forecasting employment or comparison shopping 20 years ahead is bound to be “wrong”, which is why the testing and choice of alternative assumptions should be a central part of the exercise. It is extremely important to test assumptions against the real world and the direction in which change may take us over the next 20 years. There is no reason why the assumptions made over the past 20 years were “right” nor to believe that they are still appropriate when looking ahead 20 years.

#### **Why do consultants err on the side of caution/generosity?**

On the pretext of “consistency”, the forecasting industry likes to be “cautious” in making any change in assumptions and tends to be strongly rooted in the past (often distant past) rather than reviewing assumptions in the actual outturn performance over the last 20 years, let alone to look ahead to the likely direction of change over the next 20 years.

There is a strong emphasis on a “conservative” or “cautious” approach of sticking to the same assumptions used over the last 25-30 years in the case of rate of change in employment densities and comparison retail sales densities, rather than ask whether the outturn over the last 20 years would justify the assumptions and whether the direction of travel suggests that the outturn densities will be different from the assumptions that the consultancy industry has been using since the 1980s. This “conservative” or “cautious” approach has suited their commercial clients as this ensured that forecast floorspace needs erred on the “generous” side.

Retail planning consultants in particular appear to have been “cautious” and unwilling to break ranks by changing the assumption about retail sales densities (other than when they chose an even lower rate that was “promotional” to suggest that there was scope for even more floorspace).

There are two reasons for this. Firstly, most retail planning consultants work for a mixture of clients – private and public – and consistency in assumptions is important, so striking a balance between “promotional” assumptions and “realistic” assumptions, means that we have been left with an historic legacy

based on data from the 1970s for adopting an assumption of 1.5%pa improvement in sales density. This figure has been in use since 1986 when it was first promoted and has been used unquestioningly since then.

The second reason why retail planning consultants do not want to break ranks is that the 1.5%pa figure has entered the realm of “received wisdom” and no one wants to spend inquiry time at a planning appeal trying to explain the case for taking a different assumption, especially as the Inspector may be sceptical about support a departure from the received wisdom.

### **Forecasting Retail Need for Plan-Making**

Forecasting the need for comparison retail floorspace for the next 20 years for plan-making purposes is rather different than forecasting the “headroom” in the local market 5 years ahead for assessing development proposals. What may appear reasonable, acceptable or even robust for assessing a five-year period, may prove unreasonable, unreliable or even unrealistic when projected 20 years into the future. The best we can do is to revisit the assumptions and sensitivity test them to explore the range that the most likely outcome will fall in.

It is, therefore, essential that the assumptions are “realistic”. A single-shot estimate based on an assumption that has not been reviewed recently on the basis of hard evidence of past trends and for data specific to the area for which the forecasts are required (whether for Greater London or Kensington and Chelsea), is not justified. What is needed is up-to-date hard evidence to support the assumptions that is based on data for London or, in this case, the Borough.

### **Testing alternative assumptions**

In preparing the 2004 London Plan, the Greater London Authority hired Experian to undertake the first Retail Needs Assessment for London in which they explored the outturn rates for the previous 20 years. This showed that the growth in comparison retail expenditure in London had been absorbed by both existing retail floorspace and new floorspace and that this equated to an increase in productivity in the use of space of 2.2%pa.

In the second Retail Needs Assessment prepared for the latest Draft Replacement London Plan, “Consumer Expenditure and Comparison Goods Retail Floorspace Need in London”, March 2009, Experian produced comparison goods floorspace requirements figure by sub-region for 2011-2031, on the basis of three alternative assumptions for productivity growth – 1.5%pa, 2.2%pa and 2.8%pa. They explained their choice of these assumptions as:

“An assumption of productivity growth of 1.5 per cent per annum is commonly used in retail planning studies. However, we consider that this

figure is based on out-of-date information and that more recent data indicates underlying productivity growth of 2.2 per cent per annum since the mid-eighties. We have also run scenarios on a 2.8%pa productivity assumption as a higher case.” (page 14, para 1.24)

The DCLG PPS4 Practice Guide on Need, Impact and the Sequential Approach (December 2009) on page 77 warns that “retail capacity forecasts can be highly sensitive to the rate of growth in sales density assumptions” and stresses that “it is therefore very important that the assumptions are realistic”. This is essential if the eventual figures are to be robust.

## **Approach in the RBKC Core Strategy**

### **Comparison Retail Floorspace**

Nathaniel Lichfield and Partners have defended their choice of a 1.5% productivity improvement, but, despite requests from the Society, the Council declined to undertake sensitivity testing on 2.2% pa to make their Retail Needs Assessment comparable to the GLA Report.

The Society considers that given the 20-year timescale and the uncertainty about assumptions, the Council should at a minimum have undertaken sensitivity testing of a 2.2% pa productivity assumption and presented the comparison retail floorspace requirements as a range. Without such testing and exposure of the evidence, the comparison shopping floorspace requirements may be unsound.

### **Office Floorspace**

The Roger Tym and Partners, Employment Land Update Note, July 2010 uses an “cautious” employment density assumption for new office space of 14.7sqm/employee (net) or 18 sqm/employee (gross), whilst the Draft Replacement London Plan uses a more “optimistic” figure of 12sqm/employee (net) and 13.8sqm/employee (gross) based on the London Office Policy Review (2009). The reason given for this more “cautious” approach is based on a judgement that the London-wide figure is more suited to large office developments in Central London and that some of the creative industries in the Borough might occupy space at the lower end of the density range. This judgement is not, however, based on local data for employment densities in Kensington and Chelsea – as a previous report show, the consultants have used “standard employment densities of 18 sqm per worker for offices” (Employment Land Study, January 2007. para 7.6).

Since the “cautious” figure has no local evidence basis it would be inappropriate to use it as the basis for forecasting the need for office floorspace for the next 20 years as it is likely to prove an overestimate. The figure in the Draft Replacement London Plan – 12sqm/worker (net)/13.8sqm/worker (gross) suggests that the real

figure is somewhere in the range between the two figures. This suggests a range figure should be used until we have better evidence of space utilisation in the Borough, including both small firms and large ones where modern space planning has been used.

### **Proposal:**

For both office and comparison retail floorspace forecasts:

- both the “cautious” and “realistic” assumptions should be used to test the sensitivity of the forecasts to the different assumptions;
- the two results for each use should provide a range from “generous” to “realistic” space requirements for the next 20 years;
- the outcomes need to be monitored including data that records employment densities; and
- the next review should secure more evidence about the space/worker densities for different firm sizes.

**The changes required would be to floorspace figures replacing a single figure with a range, in:**

	<b>Office Floorspace</b>	<b>Comparison Retail Floorspace</b>
<b>Strategy</b>	<b>Para 4.3.5 CP1 (2)</b>	<b>Para 4.3.6 CP1 (3)</b>
<b>Fostering Vitality</b>	<b>Para 31.3.31</b>	<b>Para 31.3.1</b>
<b>Monitoring</b>	<b>CP1 (2)</b>	<b>CP1 (3)</b>

## **Consumer Expenditure and Comparison Goods Retail Floorspace Need in London: A Report by Experian for the Greater London Authority, March 2009**

<http://www.london.gov.uk/archive/mayor/publications/2009/docs/consumer-expenditure/consumer-expenditure-report-p1.pdf>

### **Comparison Goods Floorspace requirements**

1.22 The projections of retail turnover for 5 year increments between 2006 and 2031 have been converted into actual need for additional comparison goods retail space identifying the 'gross total' need (including developments in the planning pipeline) and the 'net' additional need (over and above the planning pipeline). These estimates are based on a range of key assumptions regarding:

- the sales density of new floorspace
- the rate that sales densities increase (productivity growth)

1.23 **We find that the need for new floorspace is very sensitive to assumptions made about retail space productivity growth (i.e. the sustainable rate of increase of sales densities of both existing and new space) and to assumptions about sales densities for new space.**

- At one extreme, with productivity only growing at 1.5 per cent per annum and new space having a variable sales density related to the size and turnover of individual centres, there is an estimated gross total requirement within Greater London of an additional 1 million square metres gross in 2016. When developments in the planning pipeline are taken into account, the 'net' additional requirement is 0.48 million square metres gross in 2016 (See Appendix 11).
- At the other extreme, with 2.8 per cent productivity growth and where new space has a variable sales density related to the size and turnover of individual centres, there is an estimated requirement of only an additional 0.3 million square metres gross in 2016. When developments in the planning pipeline are taken into account, the 'net' additional requirement is 0.095 million square metres gross in 2016.

1.24 **An assumption of productivity growth of 1.5 per cent per annum is commonly used in retail planning studies. However, we consider that this figure is based on out-of-date information and that more recent data indicates underlying productivity growth of 2.2 per cent per annum since the mid-eighties.** We have also run scenarios on a 2.8 per cent productivity assumption as a higher case.

- With a variable sales density of new space and productivity growth of 2.2 per cent per annum, this produces an estimated need for some new space in every London borough and a gross total requirement of 2.9 million square metres in 2031 (including major projects that are already in the pipeline) or a 'net' additional requirement of 2.2 million square metres over and above major developments in the planning pipeline. With a productivity growth of 2.8 per cent per annum the gross total requirement including major projects in the pipeline decreases to 1.8 million square metres (See Table 4) or a 'net' additional requirement of 1.3 million square metres over and above major developments in the planning pipeline.
- Of the gross total requirement, over a third is in North London, a quarter is in the Central Activities Zone (CAZ) and the rest is approximately equally split between the remaining sub regions (see Figure 3).
- These space requirements ('gross total' and 'net' additional) all refer to gross floorspace; it should be noted that some studies refer to retail space in net terms (that is, sales area only); typically a conversion ratio of about 1.25:1 gross to net floorspace applies.

**Table 4: Gross total timeline comparison goods floorspace requirements by sub-region, 2011-2031**

**This table shows the effect of choosing different productivity growth assumptions**