

# ROYAL BOROUGH OF KENSINGTON & CHELSEA

## Commercial Property Study





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# 1 INTRODUCTION

1.1 The purpose of this study, commissioned by the Royal Borough of Kensington & Chelsea in July 2012, is to help the Borough Council develop policies that support business development and economic growth in the borough.

1.2 As noted in the Council's study brief, the study was prompted by recent central government measures comprising the National Planning Policy Framework (NPPF), the Localism Act and the business rates retention scheme. The NPPF highlights the importance of economic growth as a planning objective and encourages planning authorities to respond to market demand. The Localism Act introduces neighbourhood planning, which could provide new local opportunities to encourage business growth. The business retention scheme increases the rewards of growth, by allowing the Council to retain a proportion of its business rates – which previously went to the Treasury. All these measures raise the priority of economic development in the Council's agenda. Accordingly, the brief sets out the questions for the study as follows:

*'As we look to ensure that Kensington & Chelsea continues to provide and create jobs, we would like to understand whether there are gaps or blockages in the local commercial property market that currently hinder local economic growth... it is now vital that [the Council] have a good understanding of:*

- *The fitness for purpose of our commercial floorspace;*
- *The effectiveness of our employment land planning policies and actions to encourage enterprise and support growth;*
- *The opportunities to attract inward investment and enhance the quality and value of our commercial floorspace; and*
- *The requirements for business support for sectors where there is potential for growth.'*

1.3 As the brief also notes, the study is part of the evidence base that supports the Council's Core Strategy review. It was designed to fill gaps in the evidence already available – which included an Employment Land Review updated in 2009 – and accordingly should comprise three elements:

- i *An interview survey of local businesses, to investigate business perceptions of the borough and the Council, and hence what more the Council could do to support growth;*
- ii *A review of employment and floorspace projections, to assess the demand for employment space in Kensington & Chelsea over the long term, and see how far existing land allocations cater to that demand;*
- iii *A review of the borough's commercial property markets, to assess the balance of demand and supply.*

1.4 Below, we report these three pieces of research in turn. We begin in Chapter 2 with the review of future projections, which sets the context for the other two elements. Chapter 3 provides the business survey and Chapter 4 the property market analysis. In Chapter 5 we summarise our findings and draw the implications for Council policy.

- 1.5 In line with the study brief, this report focuses on land uses Classes B1, B2 and B8 of the Use Classes order, also known as the employment, B-class or business uses. These land uses cover offices, industrial space and warehousing – although, as we shall see, the last two of these descriptions are rather misleading in Kensington & Chelsea. Other than in relation to employment projections (Chapter 2) the report does not deal with other economic land uses, such as retail, leisure and education, which provide the majority of jobs in Kensington & Chelsea.

## 2 EMPLOYMENT GROWTH AND FLOORSPACE DEMAND IN THE LONG TERM

### Introduction

- 2.1 To assess future demand for employment space in the borough, we take as our starting point the employment forecasts and projections<sup>1</sup> produced by the GLA to inform the London Plan and boroughs' planning policies. Borough's planning policies are required to be in general conformity with the London Plan. But the Plan itself does not require the boroughs to provide land in line with the projections, indeed it does not include any quantitative targets for employment growth or employment land provision. Therefore the projections have the status of helpful information, not formal instructions.
- 2.2 The most recent projections found in three GLA documents:
- GLA Economics Working Paper 51 (December 2011) which looks at total job change in London by borough and sector
  - Industrial Land Demand and Release Benchmarks in London (2011) which considers industrial and warehousing demand
  - The recently updated London Office Policy Review (LOPR 2012), which focuses on the demand for offices
- 2.3 All these figures are relatively recent and so all take account of the recession. Like all forecasts and projections, they are of course surrounded by wide margins of uncertainty, being based on methods and assumptions that change over time. In drawing policy implications from the figures, we shall take account of these uncertainties.

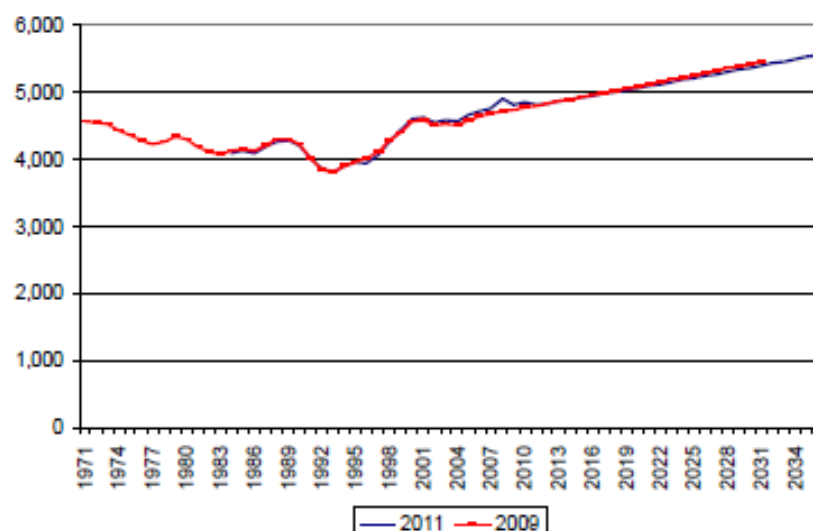
### London-wide employment change

- 2.4 WP 51 projects strong job growth in London, from a total of 4.5m jobs in 2011 to 5.4 million in 2031 and 5.5m in 2036 (Figure 2.1). As regards total employment, the figures have changed little from the previous version, published in 2009, which was used as evidence in the examination of Kensington & Chelsea's Core Strategy.

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<sup>1</sup> Some of the GLA figures are presented as forecasts and others as projections. In this report, for simplicity we call them all 'projections'

**Figure 2.1 Comparison of 2009 & 2011 GLA Projections, 000 jobs**



Source: GLA Economics, Working Paper 51

2.5 The table below breaks down the 2011 employment projections by activity sector:

**Table 2.1 Projected Job Change by sector 2011–36**

SIC	Projected Job Change
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	Wholesale -38% Retail 3%
I : Accommodation and food service activities	39%
L & M Professional, Real Estate, Scientific and technical activities	56%
Q : Human health and social work activities	10%
N : Administrative and support service activities	46%
J : Information and communication	46%
P : Education	17%
R : Arts, entertainment and recreation	25%
S : Other service activities	34%
H : Transportation and storage	-27%
O : Public administration and defence; compulsory social security	-20%
K : Financial and insurance activities	-12%
F : Construction	-5%
C : Manufacturing	-74%

Source: GLA Economics, Working Paper 51

- In percentage terms, the fastest growing sector is Professional, Real Estate, Scientific and Technical Activities, followed by Administrative and Support Service Activities and Information and Communication. These sectors, which are the main users of offices, in the projection grow by around 50% between 2011 and 2036.



- However two other office-using sectors are projected to decline, Public Administration etc by 20% and Financial and Insurance Activities by 12%.
- The greatest proportional losses are Manufacturing, which loses 74% of its employment, Wholesale Trade (38%) and Transportation and Storage (27%). Across London, these declining industries are the main occupiers of industrial / warehouse space.

2.6 Although total employment growth is unchanged since the 2009 projections, the performance of individual sectors has changed. For example:

- Business and Financial Services (FBS), roughly equal to the sum of groups K, L and M in Table 2.1, grows more slowly through most of the forecast period than the 2009 figures expected – though in the final years of the period it catches up. FBS is a very large sector, providing around 1.5 m jobs in London, and nearly all of it is based in offices. Therefore its growth has a major impact on office demand, as we shall see.
- Retail and Wholesale Trade are revised downwards, so in the latest projection Retail employment is broadly flat over the projection period and Wholesale employment falls steeply.
- In contrast, projections for Health and Education and Construction are revised upwards, so Health and Education grows faster in the latest projections than the previous ones, and Construction falls more slowly.

### Employment change by borough

- 2.7 Table 2.2 shows projected employment change by borough, for the 10 fastest-growing boroughs only. Owing to data limitations, these projections exclude the self-employed; the Borough has the highest self-employment rate in London. They are ‘trend-based’ projections, which broadly means that their distribution of jobs across London boroughs is driven by each borough’s sector mix and its past performance in each sector. These figures take no account of the land supply that may be available in each borough in the future.
- 2.8 The projection expects Kensington & Chelsea be the sixth fastest-growing borough. Between 2011 and 2031 its employment increases by 18,000 jobs, equal to 16% in total and 900 jobs per year.

**Table 2.2 Projected Job Change 2011–31, top 10 boroughs**

<b>Borough</b>	<b>Job change</b>
Tower Hamlets	50.0%
Southwark	36.3%
Islington	28.0%
Hammersmith and Fulham	26.2%
Hillingdon	19.2%
Kensington and Chelsea	16.4%
Richmond-upon-Thames	14.8%
Camden	13.1%
Hounslow	12.1%
Wandsworth	11.8%

Source : WP51

- 2.9 The table below shows how the GLA expects the sectors to perform London-wide, compared to the Kensington & Chelsea sector structure. For example we can see that accommodation and food service employment is projected to strongly grow its share of employment by 2036, and that this sector accounts for 16% of all the borough's jobs.

**Table 2.3 Projected job growth and sector structure in Kensington & Chelsea**

<b>SIC</b>	<b>Change 2011-36, London</b>	<b>% of RKBC employment 2011t</b>
G : Wholesale & retail trade; repair of motor vehicles and motorcycles	Wholesale -38% Retail 3%	2% 18%
I : Accommodation and food service activities	39%	16%
L & M Professional, Real Estate, Scientific and technical activities	56%	14%
Q : Human health and social work activities	10%	12%
N : Administrative and support service activities	46%	8%
J : Information and communication	46%	7%
P : Education	17%	6%
R : Arts, entertainment and recreation	25%	4%
S : Other service activities	34%	3%
H : Transportation and storage	-27%	3%
O : Public administration and defence; compulsory social security	-20%	3%
K : Financial and insurance activities	-12%	2%
F : Construction	-5%	2%
C : Manufacturing	-74%	1%

Source: GLA, BRES (Note excludes Primary Utilities – this data is suppressed in the BRES so not shown here)

- 2.10 The largest sector in Kensington & Chelsea is retail, which in 2011 accounted for 18% of the borough's jobs. For London as a whole, the projection for this sector is flat, with just 3% more jobs over the next 25 years. But the other large sectors in the borough are

growth sectors. Thus Accommodation & Food Service Activities, which provides 16% of the borough's employment, in the projection grows London-wide by 56%; Professional etc activities, whose share is 14%, grows London-wide by 56%.

- 2.11 At the other end of the scale, those sectors which are projected to decline London-wide are almost non-existent in Kensington & Chelsea. Thus, the two fastest-declining sectors, Manufacturing and Transportation and Storage, provide just 1% and 3% of the borough's jobs respectively. The third fastest-declining sector, Financial and Insurance Activities, provides 2% of the borough's jobs.
- 2.12 In summary, the table suggests that Kensington & Chelsea's sector structure is favourable to employment growth: in general the borough is well represented in those sectors which are expected to grow, and hardly represented in those sectors which are expected to decline. This explains why the borough is projected to grow so fast in the future (Table 2.2). It applies especially to B-class ('employment') land uses, because the one sector which looms large in the borough but is not expected to grow is Retail, which is not a B-class use.

## Industrial demand and supply

- 2.13 As noted earlier, the GLA provides forecasts of industrial demand in its Industrial Land Demand and Release Benchmarks (December 2011). As well as industry, the figures cover related uses, comprising warehousing and waste. For Kensington & Chelsea, the forecast demand for net additional space in 2011-31 is as follows:
  - Industrial -4.9 ha
  - Warehousing -2.4 ha
  - Waste +3.6 ha
  - Total demand -3.8 ha.
- 2.14 The industrial and warehouse figures are derived from employment forecasts, through sector-to-land-use mapping – a set of assumptions about the type of space occupied by different economic activities. The mapping assumes, for example, that manufacturing uses industrial space and wholesale distribution uses warehouse space; while many creative industries use office space, and hence do not enter into the industrial demand calculation.
- 2.15 The sector-to-land-use mapping is a broad set of assumptions, designed to fit London as a whole, or 'on average'. Our business surveys and property market analysis, discussed later in this report, show that these assumptions no longer apply to Kensington & Chelsea. As we show in Chapters 3 and 4 below, the great majority of 'industrial' units in the borough are now used as studios, by creative activities which in the standard mapping are associated with office or retail floorspace. Therefore we consider that the GLA figures above are not a robust indication of the demand for industrial space in the borough. This does not call into question the demand forecast as a whole, because Kensington & Chelsea is a very small market, accounting for just 0.4% of London's total industrial / warehouse space. In general the smaller the geography the less reliable any forecast or projection is

and in the Boroughs case the near unique nature of the small market means many standard London wide assumptions will not apply.

- 2.16 The GLA also provides policy guidance on industrial land, in its Supplementary Guidance (SPG) on Land for Industry and Transport (September 2012). In line with the report's recommendations, the SPG identifies Kensington & Chelsea as a 'restricted transfer' borough, which

*'[is] encouraged to adopt a more restrictive approach to the transfer of industrial sites to other uses and set appropriate evidence based criteria to manage smaller non-designated sites. This should not preclude the possibility of smaller scale release where boroughs have made adequate provision for industrial land in their DPDs in particular for waste management, logistics and for SMEs/creative industries.'*

- 2.17 The designation of Kensington & Chelsea as a restricted transfer borough is based on five criteria, of which one is the demand forecast discussed above and the other four are property market indicators, comprising commercial agents' views, the size of the floorspace stock, the industrial vacancy rate and industrial rents<sup>2</sup>. For reasons given above, we consider that the demand figure is not robust. But we also believe that the other four criteria are valid and relevant. Overall, the criteria work to recommend a restrictive approach in boroughs where the industrial property market is tightest – that is, where industrial land is most undersupplied, and therefore land availability is constraining economic activity. Our surveys and property market analysis amply confirm that this does apply to Kensington & Chelsea.
- 2.18 In summary, it is impossible to quantify the demand for industrial land in Kensington & Chelsea over the next 20 or 25 years. However, it is unlikely that this demand is negative, in line with long-established trends elsewhere. This is because, as shown later in this report, most space labelled as industrial in the Kensington & Chelsea now consists of studios occupied by creative industries. Contrary to the traditional industrial sectors, we expect that many of these activities will be growing over the long term. However the borough's supply pipeline does not provide any additional industrial space.
- 2.19 Our market analysis, discussed in Chapter 4 below, also suggest that demand for industrial space in the borough – more accurately described as studios - exceeds supply. Hence the economic activities that use that space are constrained by the availability of land, which in turn is restricted by competition from higher-value uses, especially housing. Later in the report we will draw the policy implications from this.

## Office demand and supply

- 2.20 The GLA's London Office Policy Review (LOPR) 2012, published last September, provides new forecasts of office demand across London and new estimates of the corresponding land supply. It updates the previous 2009 review, LOPR 2009, which was written after the credit crunch but before the full extent of the recession became apparent

<sup>2</sup> Industrial Demand and Release Benchmarks in London, p 143 et seq

- 2.21 For London as a whole, LOPR 2012 downgrades the forecast demand for office space. This is mainly due to the downgrading of expected growth in Financial Services and therefore the boroughs with most Finance jobs see the sharpest reduction in office demand. Thus, the 2012 forecast for Tower Hamlets, which includes the eastern part of the Central zone (CAZ) and Canary Wharf, is 25% below the 2009 forecast.
- 2.22 But Kensington & Chelsea is not one of these vulnerable boroughs. Finance accounts for fewer than 10% of the borough's office jobs compared to the London average of 25% (50% + in the City and Tower Hamlets). For most sectors the share of office employment in Kensington & Chelsea is similar to the London average, with a small bias towards media and other creative industries.
- 2.23 For Kensington & Chelsea, LOPR 2012 forecasts annual demand of some 6,500 sq m of net additional office floorspace in 2011-31, or some 6,800 sq m for the longer period 2011-36.
- 2.24 Unfortunately these figures are misleading, because of an error in the underlying data. Unlike the borough employment projections in Working Paper 51, discussed earlier, LOPR uses a 'triangulated' method, whereby future office growth in each borough depends not only on sector structure and past performance, but also on two other factors, the borough's planning pipeline and its transport accessibility. In effect, the triangulated projection is a policy-on projection, in which planning steers the location of development by making land available in certain places and not in others.
- 2.25 For Kensington & Chelsea, triangulation has a major impact on forecast growth, because its supply pipeline as shown in LOPR overstates the true position. The previous version of LOPR, published in 2009, showed the borough's planning pipeline as 55,000 sq m. In LOPR 2012, this has tripled to 165,000 sq m. Our research suggests that most of this increase is erroneous; indeed the true pipeline at 2012 is less than 2009.
- 2.26 One apparent error in 2012 is that the pipeline includes 55,000 sq m of offices in the strategic Earls Court development. This is wrong, because most of the development is in the neighbouring borough of Hammersmith & Fulham and only 10,000 sq m of its office element lies in Kensington & Chelsea. Other errors included failure to delete from the GLA database sites that are no longer being promoted for office development. Examples include the former TA centre at Warwick Road and the former Princes Louise Hospital, both of which have been transferred to residential development.
- 2.27 Because of this error we don't have a robust assessment of demand from the GLA (at least until a new version of LOPR is published, which is likely to be 2014). However in practice this is not a problem for planning in the Borough. The adopted LDF Core Strategy promoted a 'target' of 2,500 square metres of office space per year – significantly below the 6,500 sq m suggested in LOPR 2012. This target was based on the earlier LOPR which followed a similar method to LOPR 2012 but, as we noted above the supply input was much more limited.
- 2.28 To date the Council has been unable to provide any, net additional, office space despite the target to promote 2,500 square metres each year. Data from the Valuation Office

Agency show that the Borough has continued to lose stock of office space. The 2012 data shows the Boroughs stock has fallen to 81,000 square metres down from 87,000 in 2005.

- 2.29 So as a short term policy approach the Council needs to urgently address this on-going decline by seeking to at least maintain the stock, offsetting any further losses with new supply.
- 2.30 However what the '*triangulation*' does show is that there is scope for the Borough to attract additional footloose London wide demand if sites are promoted for new offices. So the evidence supports any aspiring developers who can identify sites and promote them for new offices. It would also support the Council seeing additional new office space in any redevelopment proposal arising. With this in mind there is no evidence to amend the Council's already aspirational target is 2,500 square metres a year, or to abandon efforts to secure new office space on new sites such as Kensal Gasworks (although as noted elsewhere this will need a new station).
- 2.31 But this figure is merely a broad indication, as any demand forecast for a single London borough is bound to be. Within London, and especially within central London, much of the demand will inevitably be footloose across borough boundaries: many occupiers, and consequently many developers, will be equally happy to locate in more than one borough. Planning policy can, and should, steer development to particular places to match supply capacity and policy objectives. This is why the LOPR figures are merely indicative and do not form targets in the London plan. It is also the rationale behind the triangulation, if the Borough has planning permission for a new large office development (as LOPR 2012 mistakenly thought) then this would be a strong indicator of demand for new space in the Borough.
- 2.32 On the supply side, the borough's planning and development pipeline for offices – once errors are corrected – amounts to some 30,000 net additional square metres at just four sites:
  - 10,000 sq m at Kensal Gas Works
  - 10,000 sq m at Earls Court
  - 5,800 sq m at Nicholas Road / Freston Road
  - 4,300 sq m at the Grand Union Centre
- 2.33 Kensal Gas Works site should be excluded from this list, because without the potential new railway station (which has yet to be approved) it is not commercially attractive for significant office development and is unlikely to come forward for that purpose, (at least until a potential new railway station is confirmed), as discussed in Chapter 4 below. This leaves a pipeline of 20,000 sq m, which against the very tentative demand estimate of 2,500 sq m p.a. would last for eight years. To meet the tentatively estimated demand over a 20-year plan period, the Council in due course would have to identify sites for an additional 30,000 sq m of additional office space.

## Employment change by ward

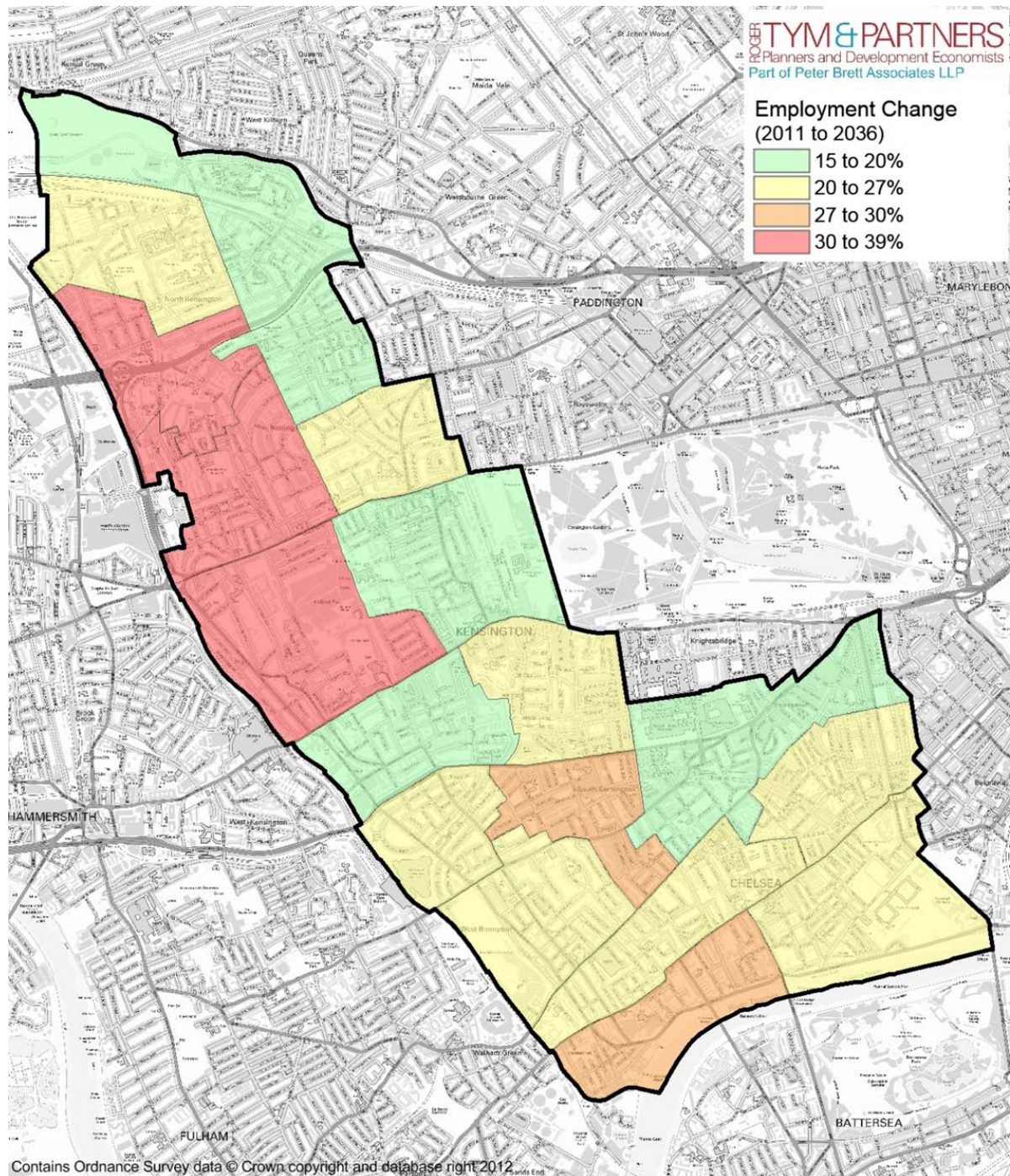
- 2.34 The Council have asked us to comment on potential employment growth in different parts of the borough, as an indication of the potential demand for space. For this, we use the trend-based projections in the GLA Economics paper discussed earlier. To the 2011 employment in each ward, we apply the growth rates shown in the paper. The resulting numbers provide only a rough initial idea of potential growth in each ward. At this fine-grained spatial level, any demand projection is bound to be only a broad approximation, because demand is even more footloose than between the London boroughs.
- 2.35 As well as total employment, we have projected employment in offices and also in the Accommodation and Food sector, which is both very large and very fast growing. We have not projected industrial employment, because as noted earlier we cannot establish reliable relationships between economic sectors and the occupation of industrial space.

## All jobs

- 2.36 Figure 2.2 below shows projected employment growth across wards in 2011-36. The fastest growth is on the western side of the borough. No ward is expected to lose employment.



**Figure 2.2 Projected change in total employment by ward, 2011-2036**



Source: GLA, PBA

## Offices

2.37 Figure 2.3 below projects the distribution of office employment, which is assumed to cover the following sectors:

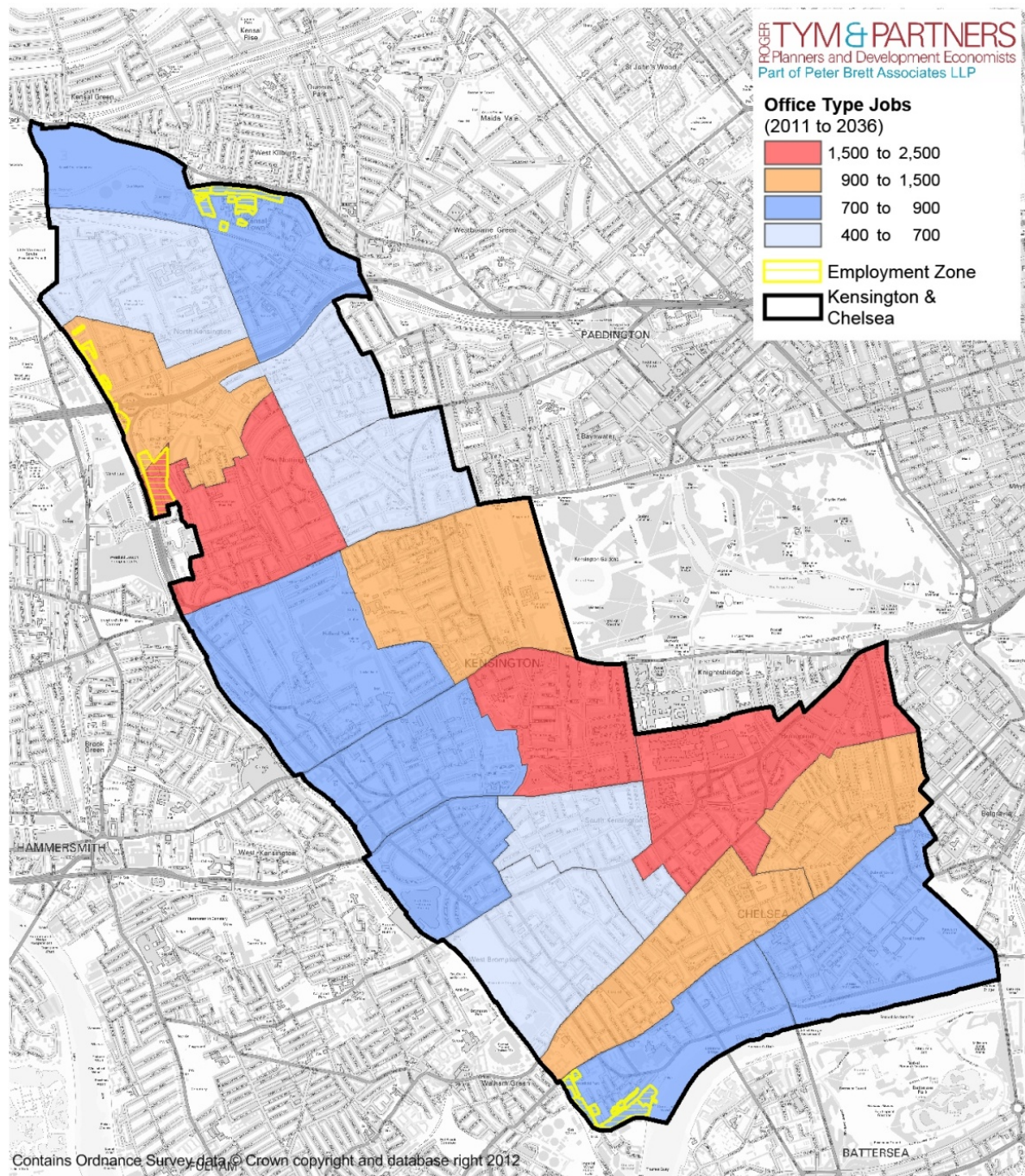
- Arts, Entertainment and Recreation
- Other Services



- Information and Communication
- Financial and Insurance Activities
- Professional, Real Estate, Scientific and Technical Activities
- Administrative and Support Service Activities

2.38 The above definition does not include public administration. The projection shows a total loss of 600 jobs in this sector, most of which is in two wards, Abingdon and Campden.

**Figure 2.3 Projected change in office jobs by ward, 2011-36**



Source: GLA, PBA

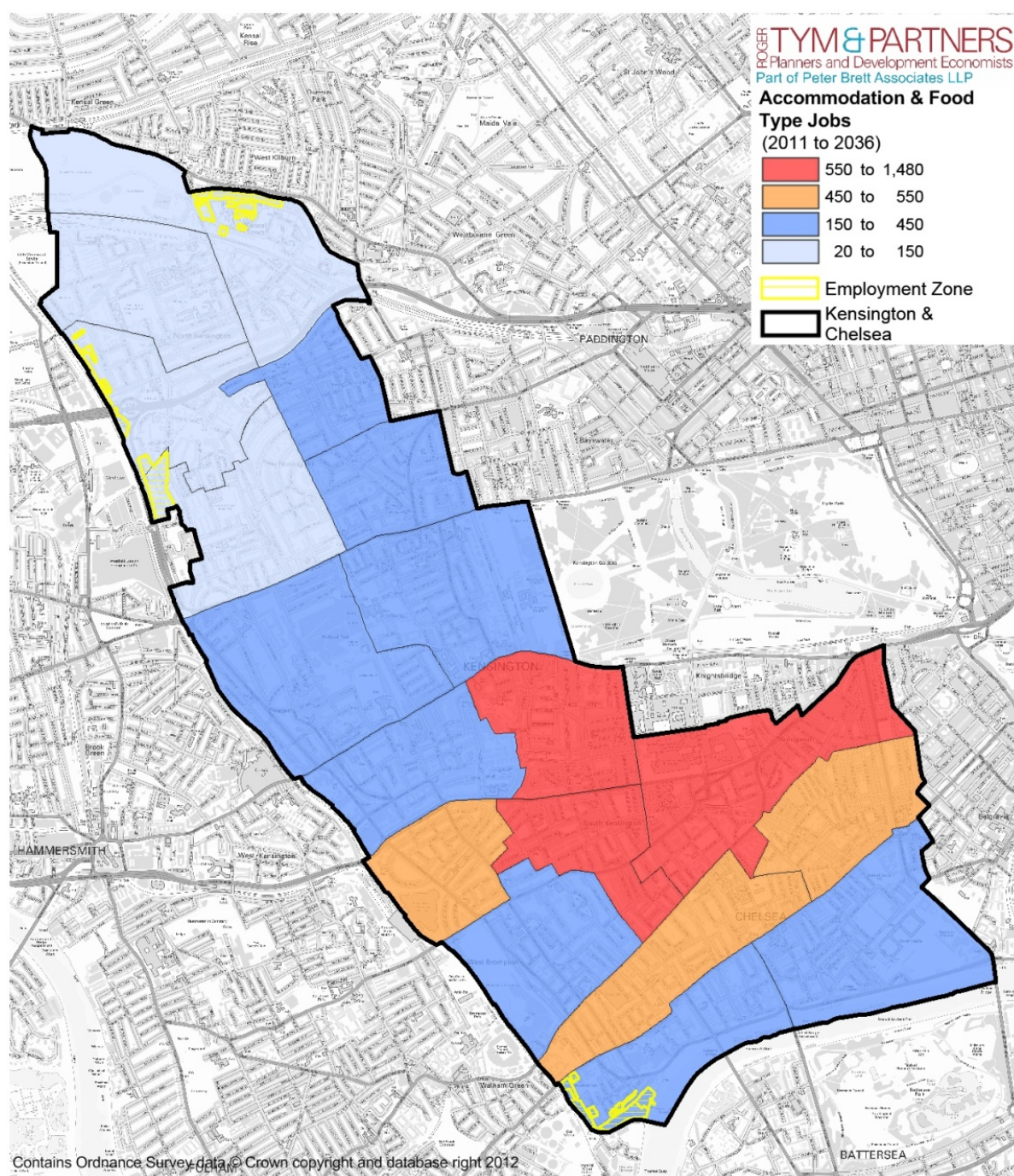
- 2.39 The projection shows especially strong growth in and around Knightsbridge and Kensington High Street, and around Freston Road / Latimer Road on the western boundary of the borough.
- 2.40 There is a loose correlation between growing office jobs and the main Tube stations (excluding the Kensington Olympia spur). This reflects the distribution of the existing office stock, which is clustered round these main stations. But all the wards in the borough show growth in office jobs.

### ***Accommodation and Food***

- 2.41 Accommodation and Food is one of the borough's main growth sectors. In the GLA projections, it provides more than 7,000 new jobs in 2011-36, nearly as many as the office-based sectors in total. The map below shows a rough estimate of how this growth may be distributed.
- 2.42 As we would expect at the ward level the growth is in the east of the borough, around Knightsbridge and Kensington, where the existing stock is concentrated. However this part of the borough one of its most constrained, with very limited development or redevelopment potential.



**Figure 2.4 Projected change in Accommodation and Food jobs by ward, 2011-36**



## Conclusion

2.43 Key findings from the above analysis are that:

- In the GLA's trend-based employment projections, Kensington & Chelsea between 2011 and 2031 gains 18,000 employee jobs – equal to 16% in total and 900 net new jobs per year.
- This makes Kensington & Chelsea the sixth fastest-growing borough in London.

- The bulk of the borough's projected office growth is in the office-based sectors and in the Accommodation and Food sector.
- Kensington's economic structure is favourable to growth. In general, the borough is well represented in those economic sectors which are expected to grow, and hardly represented in those sectors which are expected to decline. This explains why the borough is projected to grow so fast in the future.
- Our rough trend-based projections of employment by ward suggest that no ward in Kensington & Chelsea will lose jobs in 2011-36.
- The last robust assessment of office demand comes from the previous version of LOPR. In Kensington & Chelsea in 2011-31 is estimated at around 2,500 sq m of additional space per year. The planning and development pipeline for offices is just 20,000 sq m once we exclude Kensal Gas Works, which is unlikely to come forward for significant office development, unless the Council's ambitions of a Crossrail station in the Kensal area are achieved. To meet the tentatively estimated demand over a 20-year plan period, the Council in due course would have to identify sites for an additional 30,000 sq m of additional office space.
- Space labelled as industrial in Kensington & Chelsea is predominantly used as studios by the creative industries. We cannot forecast future demand for this space, because its occupier profile is very unusual and the stock is vanishingly small. However, we expect that there will be positive demand for additional 'industrial' floorspace, contrary to the general trend. But the borough's planning and development pipeline provides no additional space to meet this demand.
- All indications, whatever data source is used, point to growing demand for jobs and so space to accommodate them in the Borough. While there is lots of uncertainty surrounding data and sector to space mapping this broad conclusion endorses the long term view already taken in the Borough to protect employment space.

- 2.44 All this suggests that in the years ahead Kensington & Chelsea's land supply will act as a constraint on the growth of the B-space uses, as buoyant demand for space in the borough is pushed out to other parts of London or beyond.
- 2.45 We shall return to these issues later in the report. But first we provide the findings of our business surveys and property market analysis.

## 3 BUSINESS SURVEYS

### Introduction

- 3.1 As noted in the Introduction, this study among other things aims to help the Council understand why firms locate in the Borough, what they consider the area's strengths and weaknesses and how the Council can best support them.
- 3.2 In 2007 we undertook a telephone survey of local businesses, looking into the issues outlined above. As part of this study the Council have now asked us to update this survey but with two changes in approach. Firstly the survey should focus on the employment zones and Kensington High Street, as opposed to the borough as whole. Secondly the survey should be conducted face to face – which would allow closer questioning, backed up by a physical inspection of the respondents' property.
- 3.3 We interviewed 80 businesses in the employment zones.

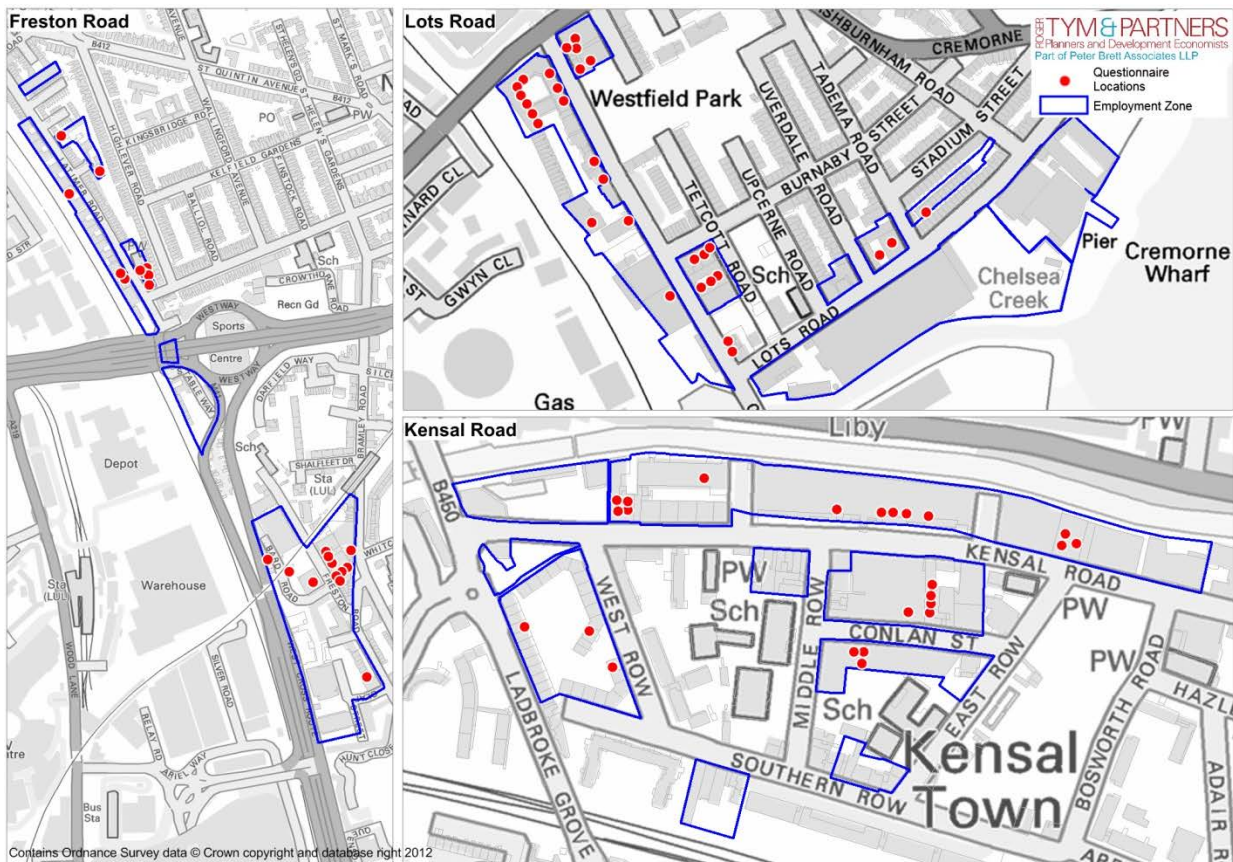
### The survey of employment zones

#### The sample

- 3.4 The sample size was 80 firms drawn from the borough's employment zones. To test how significant this sample is we have referred to the Experian database of local firms. This is a comprehensive dataset recording the details of most business units based in the borough.
- 3.5 The Experian data shows that the zones accommodate 762 firms of which 500 told Experian that they employed someone at their address within the zones. The 'missing' 262 are firms whose legal address is within the zones but don't physically take space within the borough; most are registered at the address of an accountancy practice at Kensal. So our sample of 80 represents 16% of the employers in the zones.
- 3.6 In terms of employment Experian records 4,814 workers across all 500 employers in the zones. Our sample of 80 firms reports 768 workers in the zones - 16% of the zones employment. So the average size of firms on the sample matches the Experian profile.
- 3.7 The maps below show the geography of the sample. (Some points have been slightly moved for confidentiality reasons). The sample is well spread across the zones.
- 3.8 In summary, our survey sample appears broadly representative of all business units in the employment zones.
- 3.9 Below, we summarise answers provided in the interview. A copy of the questionnaire is at Appendix 1 below.



**Figure 3.1 Survey geography**



- 3.10 For the analysis that follows we group the respondents, rather than report by sector. This is because as shown in table 3.1 below the businesses cross a wide range of sectors so any detailed analysis may be misleading.

### Questions and answers

#### Corporate status

- 3.11 60% of the firms we spoke to operate from a single address only. A further 20% operate from fewer than five addresses. The single-site firms are on average much smaller than those with more than one location. The single location firms on average employ six people each.
- 3.12 It is difficult to draw statistically significant conclusions given the small sample size of larger firms but the survey suggests the employment zones are abundant in smaller, single-site units. These make up the majority of the units and, excluding the few largest units, the majority of the employment.

#### What do you do?

- 3.13 We asked each respondent to describe what they did in their space and what type of space they thought they occupied (office, industrial etc).

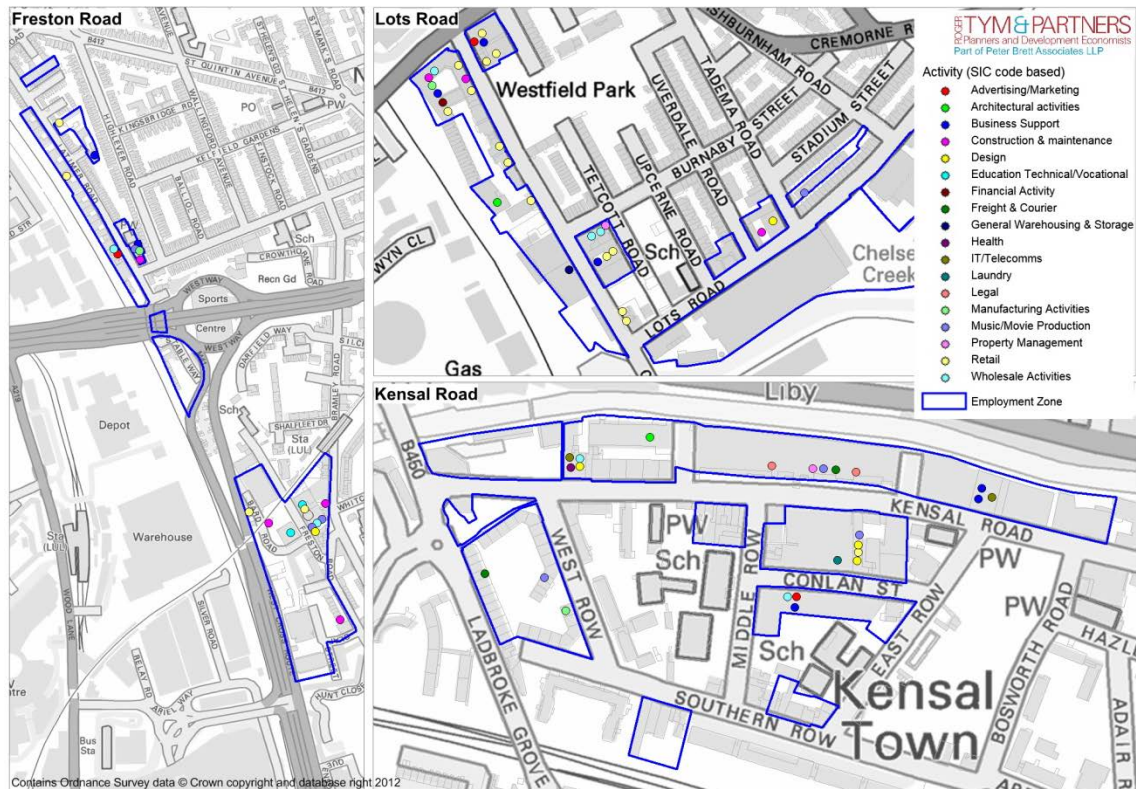
- 3.14 We have classified the business activity using the Standard Industrial Classification. The results can be seen on the table and maps below.

**Table 3.1 Business Activity**

Activity	Employees	%
Property management	103	13%
Retail	99	13%
Wholesale	66	9%
Music/film production	59	8%
Business support	49	6%
Advertising/marketing	42	5%
Construction & maintenance	41	5%
Design	32	4%
Legal	30	4%
Financial	25	3%
Architectural	23	3%
Manufacturing	22	3%
Education - technical/vocational	21	3%
IT/telecoms	14	2%
Freight & courier	9	1%
General warehousing & storage	2	0%
Health	1	0%
Other	130	17%
<b>Total</b>	<b>768</b>	<b>100%</b>

Source: PBA. Note we have grouped a number of firms into the 'other' category to protect their anonymity.

**Figure 3.2 Business activity**



- 3.15 This shows a wide selection of activities within the zones, with very little employment in traditional industrial activities such as construction or manufacturing.
- 3.16 This pattern of activity sets the boroughs employment zones aside from designated employment areas in other London boroughs. In these other boroughs, such as Camden or Tower Hamlets), we have found that many businesses in such areas serve the City of London, the West End. They accommodate industrial and warehouse occupiers who need to be close to central London and cannot easily operate from cheaper space elsewhere. Examples include data centres, small warehouses distributing 'just in time' products (e.g. office supplies, fresh flowers), building merchants and small manufacturing units specialising in short shelf life products (e.g. Sandwiches and Sushi).
- 3.17 This type of activity is mostly absent from Kensington's employment zones, with a few exceptions such as Travis Perkins at Freston Road or the Laundry at Kensal Road. Instead, many occupiers of Kensington & Chelsea's employment zones are part of the creative economy – defined by the GLA as covering advertising; architecture; arts and antiques; fashion; film and video; leisure software; music and the visual and performing arts; publishing; and radio and television
- 3.18 Of the 768 workers, around 156 fall directly into one of the sectors listed above. However this undercounts the importance of the creative industries to the zones. The GLA definition excludes retail, and in the zones most retail activity is connected with antiques or fashion, so it may be considered part of the creative sector. Much of the wholesale activity in the zones is also related to fashion and therefore could be considered part of the

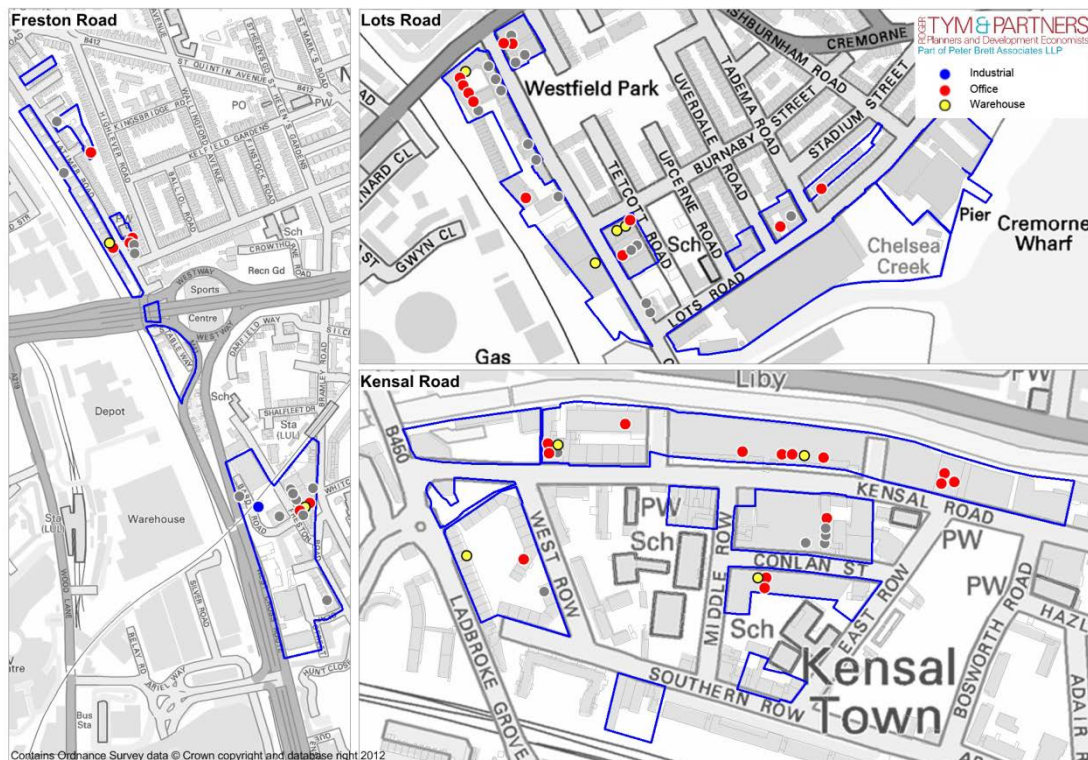


creative cluster.. If we include these in the creative sector, the sector accounts for around half of the sample's employment across the zones. Antiques are best represented in Lots Road, whereas Kensal and Freston Road accommodate music and fashion related firms. As we discuss in more detail below, these firm's main reasons for locating in Kensington & Chelsea include their desire to cluster and also the compromise between expensive West End space and a desire for an accessible space close to central London.

### *What type of space do you occupy and why?*

- 3.19 Most respondents describe their premises as an office, as does the Experian database. But our visual inspection of their properties found little office space. Most was converted from former industrial and warehouse uses and many units retained some industrial characteristics. In the official VoA classification, many of them may be labelled as industrial. Also many units included space used as showrooms to display goods for trade sale, so the offices share physical characteristics with retail property.

**Figure 3.3 What type of space do you occupy?**



- 3.20 We discussed with the occupants why they occupied the type of space they did, as rather than standard B1a space.
- 3.21 One reason frequently given was that occupiers valued industrial features because they provided operational flexibility. It is not uncommon to find units mostly used as an office but also some warehousing and some production. As small firms occupiers cannot afford three different units (office, warehouse, factory), they take one unit which can perform all three functions as and when needed. The resulting space is clearly compromised, but it is an acceptable compromise.

- 3.22 This type of hybrid space is especially attractive to the creative occupiers. It is noticeable that where 'clean' B1 space has recently been provided, at Network Hub on Kensal Road, the occupancy profile is more heavily weighted in favour occupiers outside the creative industries, such as the Council and the NHS.
- 3.23 Another feature that creative industries appear to favour is a high standard of design, with high floor-to-window heights and access to natural light. Although not all the units are of a high standard, for some firms the quality of the property is important to their image. As noted above, several of the firms in the sample operate showrooms from their property, and a good quality building is considered important for this purpose. Several media firms report being attracted by 'characterful' properties.
- 3.24 Therefore our survey would suggest that the zones are accommodating a distinct commercial product, which may not commonly found elsewhere in the borough or in other employment zones around London.
- 3.25 The borough's former industrial and warehouse occupiers have relocated to other parts of the London or beyond. But the properties they used to occupy have been retained because of the presumption against large scale residential uses in the zones. A new type of occupier, from the growing creative industry cluster, has moved in. These are predominantly office occupiers but they value the industrial characteristics of the some of the property on offer.

#### *Is your firm growing or shrinking?*

- 3.26 We also asked the firms whether they had grown their employment over the past two years and whether they expected to grow in the next two years.
- 3.27 In general our sample businesses have grown in employment over the past two years. In total, they estimate that they employ 675 people today, up from 612 two years ago<sup>3</sup>.
- 3.28 Our site visits suggest that this expansion is facilitated by the rolling availability of smaller units within the multi-occupancy buildings in the zones. This allows tenants to quickly expand their space to respond to market signals. One of the fastest growing firms (120% growth) now occupies six units within the same property. This flexibility means that few of the firms we spoke to reported that they over or underused their space; 75% said that their space was just right.

#### *Why are you here?*

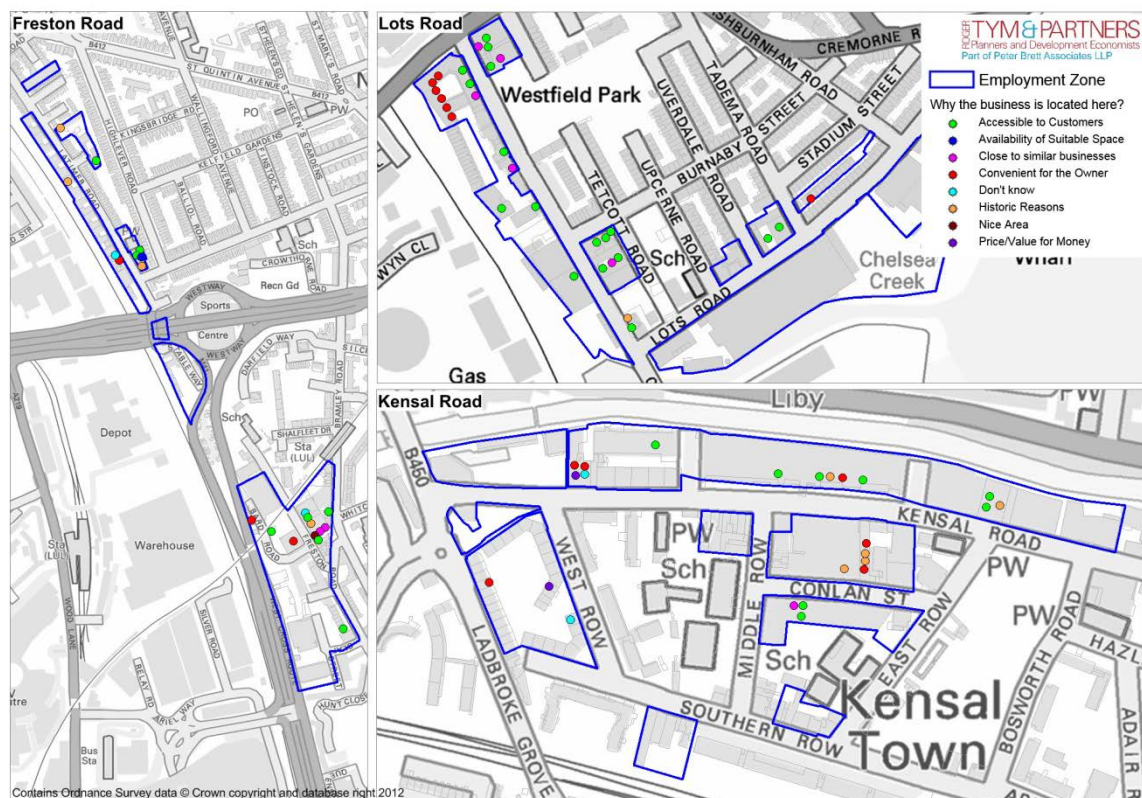
- 3.29 Answers to the question 'why are you here?' are as follows:
- Close to or convenient for customers 40%
  - Close to business owner/founder 35%
  - History (been here a long time) 25%
  - Close to similar businesses 20%

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<sup>3</sup> Of those who could say how many they employed two years ago.

- 3.30 When respondents were asked about the single most important reason, as opposed to listing several, the order above remained unchanged.
- 3.31 For most of the firms we spoke to the 'customers' are not members of the public. There is very little retail trade in the zones. Rather, customers are generally similar businesses that form part of a supply chain, or else wholesalers or retailers. For some firms the customers are individuals rather than firms. For example, two 'talent management firms' said that Kensington and Chelsea was a favoured destination, because the artists they managed liked to be close to upmarket hotels, the airport and music labels. One of these firms noted that an industrial area such as Kensal was also attractive because it allowed 24-hour operation, convenient for international clients, who might arrive or leave outside standard working hours.
- 3.32 Many firms choose their location because it is close to the owner's home. 35% of the firms we spoke to said it was a consideration and 21% said it was their main consideration. On closer questioning respondents suggested that the owners lived in the borough, were wealthy and were not overly price sensitive when it came to their property. Owners value accessibility to their firm's premises and are prepared to pay for it.

**Figure 3.4 Why are you here? (Main reason only)**



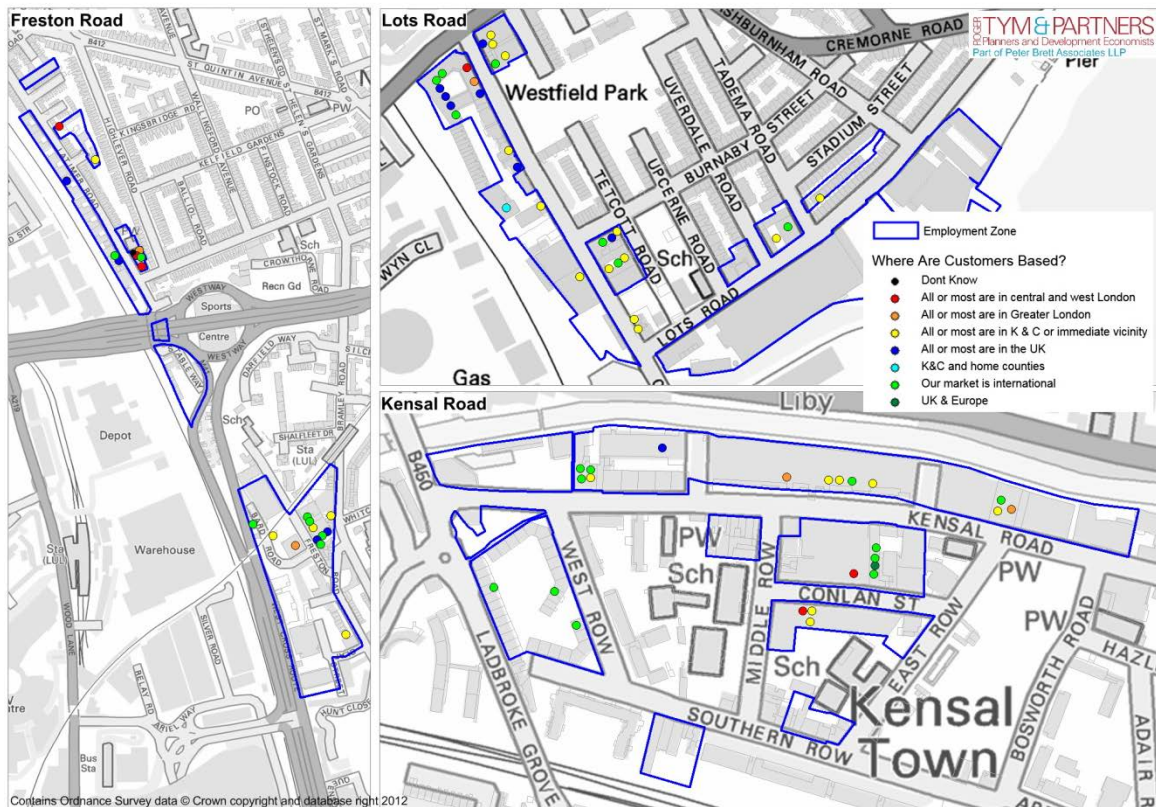
- 3.33 Very few firms locate in the borough for easy access to their workforce. It is difficult to draw definitive conclusions from this omission but it may suggest that few of the workers are local to the borough and commuting to work is to be expected. Given the specialist nature of most of the firms it is likely the workforce comes from a wide area. We suggest that the



Council looks closely at the commuting data when it emerges from the 2011 Census, to get a better idea of where the workers come from. What is your market area?

- 3.34 Answers to this question are polarised. Respondents either said that their market area was very small, restricted to the borough and its immediate surroundings (some of the zones are on the edge of the borough) or their markets were international. Almost none serve a wider London, South East or national market.

**Figure 3.5 What is your market area?**



- 3.35 This endorses a conclusion we reached earlier. Space in the employment zones is generally not used to service the City, the West End or the local population. Instead, customers are either part of a local business supply chain or cluster, or they are based overseas. For these firms the borough is well located between the City and West End and Heathrow Airport.

#### *How long have you been in your property?*

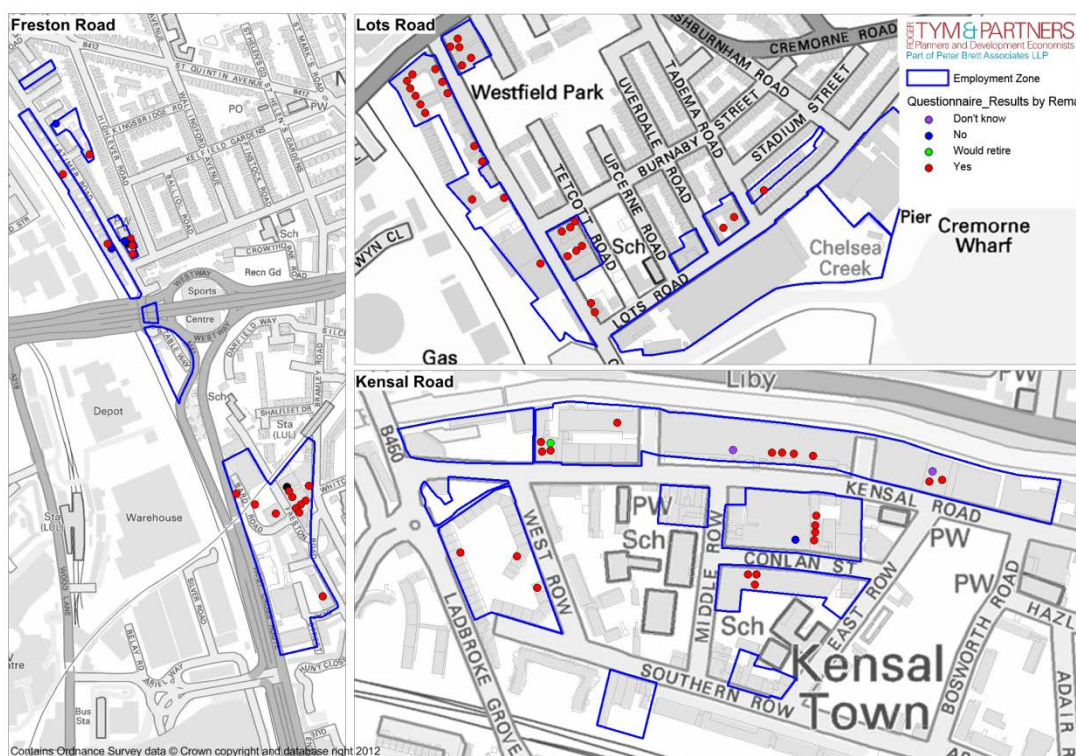
- 3.36 53% of the firms we spoke to have moved into their space since 2008. The remaining 47% have been in their property longer.
- 3.37 This high level of business turnover is partly a function of some of the types of space available. Bus Space and Workspace in Kensal both offer 'easy in and out' tenancies.

#### *What was or would be your area of search for property?*

- 3.38 This question was asked slightly differently dependent on how long they had been in their property.

- 3.39 For the 53% of firms who moved into the employment zones since 2008 we asked what their area of search was when then looked. Longer term businesses were asked where they would look if made to move.
- 3.40 Almost all the businesses said that they require space in the very local area of Kensington & Chelsea or its immediate surroundings. 39 of the 42 recent movers only looked within this small area. Of the longer-term occupiers, very few said they would look outside the borough if forced to move.

**Figure 3.6 Would you remain the area if you had to move?**



- 3.41 Although most firms do not serve the local population, there is a very small minority who do, and whose area of search is limited by this. Thus, a number of the new units north of Kensal Road are occupied by the public sector including the NHS (Kensington & Westminster Wheelchair Services), The Job Centre and the borough's Tenant Management Organisation. It seems that these units were attracted to the zones by the availability of cheap office space.

### *Finding accommodation*

- 3.42 For those respondents who had recently moved (since 2008) we asked how easy it was to find accommodation. Answers suggested that there was little property available, and finding property was challenging. This was confirmed by our site visits, which found very little space available to let in the employment zones.
- 3.43 We also asked respondents who owned their buildings. Almost 100% of the property was rented. In our sample we found only two owner-occupied properties, one of which, in Freston Road, was provided as part of a land swap to facilitate redevelopment of the

businesses former site elsewhere. The other is one of the few remaining industrial buildings in Kensal Road, whose owners are planning to move because the building is no longer fit for their operations, being too small and unsuited to modern machinery.

### Drawbacks

- 3.44 We asked our respondents to describe 'bad things' about their current location. Many of the replies are specific to particular zones or smaller areas. For example, a number of the respondents in Kensal are concerned about safety and security, particularly related to the (unlit) canal-side towpath, which is used to access the local train station. They also complained about the slow pace of cleaning up after the Notting Hill Carnival, although they were supportive of the carnival itself.
- 3.45 At Freston Road and Latimer Road safety was again raised as an issue, with a number of the properties being 'off the beaten track' with little activity on evenings and weekends. Businesses feel that this encourages criminal activity. At Lots Road, respondents complained about the nearby school and nuisance from school children.
- 3.46 Parking is a borough-wide and London-wide issue and has had its profile raised in the minds of many businesses because of a recent increase in on street parking charges. However, with higher charges the availability of spaces has increased. This means that if someone wanted a space and was willing to pay it was more likely that one was available.
- 3.47 A number of businesses complained that the Council's parking policy was not business friendly because you were not allowed to 'feed the meter'. Therefore if meetings overran people could not simply pay for more time, even if they were willing to pay the charge. They also noted a reduction in off street parking as nearby plots were redeveloped and contract parking reduced.
- 3.48 A common theme amongst the creative industries is a desire to see their areas improved physically, for example through additional lighting and public realm improvements. They think that this will improve security and encourage the gentrification of the areas, bringing with it increased local services such as high quality cafes.
- 3.49 Detailed concerns are listed in the table below. Only 51 of our 80 respondents reported any negative aspects of their current location. Most issues relate to access, parking or safety/security.

**Table 3.2 Employers' concerns about their location**

<b>Traffic , Access &amp; Parking (First Reason)</b>
Not very accessible
Space/traffic is restricted too much
Not close enough to our chocolate shop
Insufficient parking
Insufficient parking, hard to get parking permits and space, the location is far from public transport
Difficult to get to
Insufficient parking, rates
Insufficient parking

Insufficient parking
Insufficient parking, property expensive
Insufficient parking, property expensive, nightclub downstairs
Insufficient parking, property expensive
Insufficient parking
Sometimes difficult for customers to park
Poor tube links
Lack of public transport
Hard for staff to get here sometimes
Quite far from tube to walk
Traffic congestion, Insufficient parking, property expensive, high rates
Traffic congestion, unattractive area, bad environment etc
Insufficient parking
Insufficient parking
Insufficient parking
Insufficient parking
No loading area- bad for us good for traffic wardens
Not very close to a tube station
Traffic congestion, Insufficient parking, no loading bays for antiques deliveries, problems with traffic wardens
<b>General Environment</b>
Property expensive, unattractive area, bad environment etc, several attempted robberies
Unattractive area, bad environment etc, high rates/taxes
Unattractive area, bad environment etc, high rates/taxes
Lack of lunch spots
Ladbroke Grove is not safe at night
Burglary is a problem
Lack of places to eat. Roads are a bit dangerous for cyclists
Burglary is a problem
Unattractive area, bad environment etc, no facilities
Security
Unattractive area, bad environment etc, no facilities
Traffic congestion, unattractive area, bad environment etc
Noisy traffic
Amenities - no restaurants
<b>Others</b>
Expensive services
Chelsea Academy causes the internet to slow down during term time
Residential neighbours
Finding a suitable office is limited with these high prices



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Don't get a lot for your business rates

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Need more storage space to buy

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Constant building work in the Canalot studios building

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- 3.50 In a sense, many of the firms are slightly ahead along the 'gentrifying curve', or too upmarket for the physical environment around them. So common concerns are that the physical environment (especially lighting and urban realm) is not ideal and that high quality services ('Starbucks culture') are not yet established. Related to this, a number of respondents reported concern about staff safety related, because they thought that walking routes from the zones to Tube stations (especially Kensal) were poorly lit.
- 3.51 Very few respondents complained about the cost of their accommodation. There is a widespread understanding that property in Kensington & Chelsea is more expensive than many other parts of London. Locating in this expensive place is an educated cost/benefit decision.

#### *Residential neighbours*

- 3.52 We also asked whether firms objected or would object to being in close proximity to residential uses. The results were mixed and sometimes surprising. Very few of our respondents have residential neighbours, presumably because the employment zones which have in the past been safeguarded from residential.
- 3.53 Of the 26% who do have residential neighbours, a quarter consider these neighbours a problem. Of the firms that do not have residential neighbours at the moment, just 10% think that that residential neighbours could cause problems, if they were allowed. These potential concerns included:
- Noise, both from residential neighbours during the working day but also a risk of them disturbing neighbours.
  - Access and parking; a number of firms reported problems with nearby residential neighbours occupying spaces reserved for businesses or obstructing access to their property.
  - Antisocial behaviour: there was a mistrust of residential neighbours and a potential fear of crime.
- 3.54 Noise is a particular issue for media and music firms, because they consider themselves likely to disturb residential neighbours. They noted that they often worked unusual hours to meet the needs of their international clients and therefore sometimes played music in the early hours. In some of the buildings we entered the music noise was very noticeable - although when we questioned the tenants they did not consider this a nuisance, just a feature of their cluster.
- 3.55 Therefore the survey suggests that in the main the occupiers are content to mix with residential neighbours. This mainly reflects the fact that the employment zones are dominated by office and studio space, which by definition is more compatible with residential uses.



- 3.56 The detailed reasons why some businesses would not like residential neighbours are given below:

**Table 3.3 Why are (could) residential neighbours (be)a problem for you**

They block parking spaces
Throwing things out of window, council housing residents causing the problem
Due to the noise from the business - we chose to locate here because there were no residential neighbours
Security issues
Too many children close to industrial machines plus lorries.
Complaints about noise. (extractor fans & lorries)
Noise - from them during working day
We play music 24 hours and have visitors 24 hours
Noise during working day
Block access - needed for wheelchairs (access is a critical issue)

#### *Broadband*

- 3.57 We asked people whether they had a broadband connection, how fast it was and also whether it met their needs in terms of quality and reliability. Almost all the firms we spoke to have broadband installed and two thirds are happy with it.
- 3.58 Very few respondents know the speed of their connection. However only 20% suggested they would like a faster connection (none differentiated between up and down speeds). Only two respondents have approached their provider to request a faster connection. This suggests that, in the main, firms are broadly happy with the speed available.
- 3.59 Where problems or speed issues are reported, it is difficult from our survey to identify the source of the problem. In many buildings landlords manage the internal cabling and sometimes switches and respondents are unsure whether any problems were internal to the building or external. Therefore, even when respondents suggested they were not happy with their connection, it was hard to tell whether the issue related to the ISP service provider or the landlord.

#### *The Council*

- 3.60 We asked each of the respondents whether they had recently had any contact with the Council (regulatory and business support functions) and how the Council could potentially support them better in the future.
- 3.61 Few of our respondents recall having dealings with the Council. A small number have contacted Parking Services to report illegally parked cars blocking access to their properties and are pleased by the response they received.
- 3.62 When asked about how the Council could support them better in the future, respondents made no suggestions beyond lower rates and cheaper parking. These are general points which arise in all surveys of this kind.

- 3.63 The respondents are generally content with the Council, its policies, plans and strategies. Importantly, the Council is not viewed as a constraint to their growth or business performance.

## Conclusions

- 3.64 Key findings from the survey of employment zones are as follows:

- The zones have a distinctive occupier profile, quite different from other designated employment areas in London. Their distinctive feature is the concentration of firms in creative and related industries.
- The main factors that tie firms to their locations are access to customers and similar firms, and convenient access to owners' homes. Typically these customers are either part of a local business supply chain or cluster, or they are based overseas.
- Occupiers value the space provided in previous industrial buildings, because it mixes office and industrial features and because it is aesthetically pleasing.
- Those located in managed workspaces also value the flexibility of easy-in-easy-out tenure, allowing them to expand or contract at short notice.
- Although they recognise that Kensington & Chelsea is an expensive location, businesses do not consider this a disadvantage. Rather, they accept it as the cost of a location that is valuable to them.
- Other than parking and traffic, which attracts complaints everywhere, the perceived disadvantages of the employment zones relate mostly to physical features, including the quality of the environment, safety and security, amenities and pedestrian access to Tube stations. These concerns are mutually related; for example, it is suggested that better lighting and public realm improvements will encourage amenities like cafes. In short, many respondents would like to see the employment areas become more gentrified.
- There is no evidence that insufficient broadband speeds are a serious concern.
- Our respondents have no complaints about the Borough Council. Aside from the desire for physical improvements mentioned earlier, and routine grumbles about parking and the rates, they offer no suggestions about how the Council could serve them better.

- 3.65 Before drawing policy implications from the survey findings, in the next section we look at the borough's commercial property markets. These two pieces of research are complementary. The surveys tell us about what occupier businesses want. The property market analysis extends across the whole borough, and as well as what occupiers want it also tells us what landowners and developers are able to provide for them.

## 4 THE COMMERCIAL PROPERTY MARKET

### Introduction

- 4.1 Successful planning policy needs to be informed by market realities. In order to decide what sites it should provide for employment development, the Council needs to know where there is effective demand for new employment space. In order to decide if and where it should release existing employment sites, it needs to know if and where there are sites surplus to market requirements.
- 4.2 In this chapter we aim to provide this knowledge, and translate it into realistic policy options. But first, to set the context, we need briefly to discuss the housing market.
- 4.3 Kensington & Chelsea is centrally located, lying directly to the west of the City of Westminster. It includes some of the most attractive areas of London. It is also well connected. Its transport networks include the A315 and A4 linking the West End to the M4 and Heathrow, many Underground stations providing ready access to London's main railway termini, and the London Overground and Southern railway through West Brompton and Kensington Olympia.
- 4.4 These features make Kensington and Chelsea a highly attractive location for housing, not just commercial uses. For many years housing has generated the highest land values in the borough, followed by retail. Values for employment uses are far lower, resulting in severe market pressure to replace employment with housing.
- 4.5 The pressure is increasing as housing values rise. The website Zoopla reports that the top five most expensive postcode areas in Britain are in Kensington & Chelsea in the most expensive area, W8, the average is in excess of £1.8m.

**Table 3.1 Britain's most expensive postcode areas, June 2012**

Rank	Postcode	Average price all dwellings
1	W8, Kensington,	£1,873,866
2	SW7, Knightsbridge,	£1,430,863
3	SW3, Chelsea,	£1,425,385
4	W11, Notting Hill,	£1,302,763
5	SW10, West Brompton,	£1,140,593

Source: The Independent/Zoopla<sup>4</sup>.

- 4.6 The borough's housing market has followed a different trajectory from the national market, partly because it is seen as a safe haven for overseas investors. Thus, despite the global economic downturn, house prices in Kensington & Chelsea are

<sup>4</sup> The Independent, 21 June 2012

now above the peak of the UK housing market of 2007. House prices in the borough bottomed out in May 2009 at £709,000 and since then have risen by more than 50%, to £1.082 million (December 2012)<sup>5</sup>.

- 4.7 This competition from housing is a decisive feature of Kensington and Chelsea's property markets. It explains much of what is happening in the office and industrial markets and it limits the options available to the Council in planning for employment uses.
- 4.8 Employment space in Kensington and Chelsea is concentrated in three employment zones, designated in the borough's Core Strategy, and eight higher-order town centres, designated in the London Plan. Following the Council's instructions, our property market analysis focuses on these areas, which according to the official statistics account for 85% of the borough's office space and 66% of its industrial space. There are, however, significant amounts of office space elsewhere in the borough, within mews, or scattered in otherwise residential areas.
- 4.9 Below, we provide overviews these two markets for the borough as a whole, and then consider the employment zones and higher-order town centres one by one. For each area and market sector, the analysis is focused on the two questions set out earlier:
  - Where is there viable demand for development to provide new employment floorspace?
  - Where are there existing employment sites which are no longer in demand and viable?
- 4.10 In answering the first question we focus on employment only or employment led schemes. Mixed use developments, in which other uses cross subsidise the employment elements may be viable. Such schemes will be site specific and we cannot include all the options in our analysis. But in these cases the Council needs to consider the merits of the mixed scheme and the potential (net) loss of employment space.
- 4.11 In the relation to individual areas, we translate the analysis into practical policy, setting out the options open to the Council.

## The borough as a whole

### Offices

#### *The stock*

- 4.12 According to Valuation Office figures, Kensington and Chelsea's office stock amounts to some 405,000 sq m –under 2% of London's office floorspace. Table 4.2 estimates the geographical distribution of this total. These figures are approximations; we have derived them from Valuation Office Agency (VoA) data, aiming for the best possible fit to the boundaries of designated employment zones and town centres. Kensington High Street is by far the largest concentration of office space, with almost one third of the borough total. Among the remaining employment zones and town centres, the largest amounts of office space are in South Kensington, the King's Road and Latimer Road / Freston Road.

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<sup>5</sup> Land Registry data

**Figure 3.1 Upper Floor Offices and EMI office Wright Lane, off Kensington High Street**



- 4.13 The quality of the borough's office accommodation is mixed. The stock includes modern purpose-built accommodation, such as Notting Dale Village in the Latimer Rd / Freston Road employment zone; offices on the upper floors of retail premises in Kensington High Street and other town centres; and converted industrial buildings, mainly in the employment zones. Most of the higher-order town centres provide a high-quality setting for offices, offering good public transport, a wide range of amenities in a safe and attractive environment and a critical mass of similar businesses. The same applies to the Lots Road employment zone and latterly to the southern part of the Latimer Rd / Freston Rd zone, close to Shepherd's Bush Underground and the Westfield shopping centre. The rest of Latimer Rd / Freston Rd and the Kensal employment zone at present do not enjoy the same advantages, as discussed later in this report.

**Table 3.2 Office floorspace and rents, 2012**

Area	Total floorspace sq m	Share of RBKC total	Typical rent £ / sq m
<b>Town centres</b>			
Kensington High Street	130,054	32%	£400
Notting Hill Gate	16,114	4%	£270
Knightsbridge	20,378	5%	£500
King's Road	37,269	9%	£300-350
South Kensington	39,951	10%	£400
Fulham Road	10,102	2%	£400
Westbourne Grove	5,739	1%	£300
Earls Court	11,409	3%	£200
<b>Employment areas</b>			
Latimer Road / Freston Road	27,427	7%	South £250-300 North £150-170
Kensal	12,777	3%	£250-300
Lots Road	18,079	4%	£285
<b>Other</b>			
Remainder of the borough	76,092	19%	
<b>Kensington &amp; Chelsea</b>	<b>405,391</b>	<b>100%</b>	

Source: Valuation Office Agency, PBA

### *Demand*

- 4.14 Over the last five years office take-up in Kensington and Chelsea has averaged some 29,000 sq m per year. As one would expect given the small size of the market, the figure has fluctuated markedly from year to year, so we cannot discern a trend over time.
- 4.15 Demand for offices in Kensington & Chelsea is primarily driven by the creative sector, as it has been for many years. The borough does not have the traditional corporate occupiers that are found in London's West End and City, such as finance and professional service companies. Rather, the borough's largest corporate occupiers are in fashion (e.g. Tommy Hilfinger and Monsoon) and music (e.g. EMI and Sony Music Entertainment). Among smaller occupiers the creative industries also play a large role, as do a variety of professional, personal and financial services, often serving the local community and / or owned by local residents. There are many residential estate agents, selling property in the borough to a global market.
- 4.16 Creative industries typically do not like standard office buildings, and one important factor that attracts them to the borough is the availability of interesting or quirky accommodation. Part of the reason why the office development at Notting Dale Village has been successful



is that it offers imaginative architecture, but also modern purpose-built offices and large floorplates, which occupiers also like. This is an unusual combination. Most modern commercial offices have a more generic image, which does not help creative businesses establish a distinctive identity.

- 4.17 Other key features of Kensington and Chelsea that make it an attractive office location are the critical mass of creative industries, which has been established over a long period of time; its central location, high accessibility and attractive environment; the convenience of the many business owners who live in the borough; and the concentration of high net worth residents and high-value housing. But, as discussed in our detailed analysis of local markets below, these advantages are not evenly spread across the borough.

#### *Supply and market balance*

- 4.18 To assess office availability in the borough, we have combined the CoStar database with vacancies advertised on business centre websites in Kensal. The resulting total (December 2012) equals 16,171 sq m. Against the average annual take-up of around 29,000 sq m, this provides just six and half months supply. Against the estimated stock of some 405,000 sq m, it represents a vacancy rate of 4.0%. For the borough as a whole, these indicators point to a tight office market, in which space is undersupplied and one would expect viable demand for new development. However, there are marked variations between local areas, as we discuss in detail later.
- 4.19 To assess market balance and potential opportunities, we also need to look at rental values. Office rents in Kensington & Chelsea vary widely. Typical values range from £400-500 per sq m in Kensington High Street and Knightsbridge down to £150-200 in parts of Latimer Road / Freston Road and Earls Court. In between these extremes lie the higher-order town centres, with rents from £270 upwards, and the new offices in the south of the Latimer Rd/ Freston Rd zone.
- 4.20 These rents measure different areas' attractiveness to occupiers, confirming the hierarchy we described earlier. At the top of the scale, Kensington High Street and Knightsbridge, followed by the town centres, are the most popular. In the lower sections of the scale, where the business environment and the property offer are poorer, rents have to be discounted to attract tenants.
- 4.21 Rental values also measure the viability of developing new offices and maintaining existing ones. This is important, because as noted earlier planning policy must have regard to the market demand for land, and the driver of that demand is viability. A development site will be taken up if, and only if, it is viable to develop. An existing employment site will continue in its existing use if, and only if, it is viable to maintain in that use.
- 4.22 As a broad approximation, a rent of around £300 per sq m, combined with a good tenant covenant, is typically required to support viable development in Kensington & Chelsea. At rents below £200 or so, it may not even be viable to maintain existing property in a lettable condition, especially if there is pressure to redevelop it for higher-value uses.
- 4.23 Based on the rents quoted earlier, maintaining the existing office stock appears viable in nearly all of the borough, except possibly for parts of the Latimer / Freston zone and Earl's

Court. As regards new development, from a demand perspective the greatest market potential is obviously in Kensington High Street and Knightsbridge. There may also be potential in the south of the Latimer / Freston zone, judging from the performance of the two new developments in that area:

- Rents at Notting Dale Village are lower, at circa £250-270 per sq m. This we would deem low for new build offices in central London. However, this low rent was needed to be offered at the time to attract large corporate tenants to the building in an unproven location. Now that the market has been established, agents believe that rents could move up to £300 per sq m. This rent level, combined with a good tenant covenant, would support viable development.
- The Phoenix Brewery, a converted industrial building that offers smaller office suites, is already commanding these higher rents of £300 per sq m.

4.24 The opportunities to fulfil this market potential are extremely restricted. At present the office development pipeline is very small: the only significant land allocation is at Kensal Gas works. Hence, to meet the demand for land, new sites would have to be identified for development – more specifically for redevelopment, since the borough is almost entirely built up. This will be difficult, owing to the borough's tight land supply and the competition from housing, which are particularly severe in and around the highest-value office areas. It would be especially difficult to replicate the features that have made Notting Dale Village successful – large floorplates and modern specification combined with interesting architecture. There seems to be no realistic prospect of a large enough site coming forward in the borough's prime office areas. Close to Notting Dale Village there is land that may be physically suitable, at the Travis Perkins and Shurguard sites, but this is unlikely to come forward for redevelopment owing to high existing use value (see paragraph 4.56 below).

#### *Competition*

- 4.25 So far we have discussed Kensington & Chelsea's office market in isolation. Before summarising our findings, we briefly consider the wider London market, to identify any factors external to the borough that might alter these findings. For this, we need to look at those areas that compete most directly with the borough for office occupiers and office development.
- 4.26 The closest such competitor is the neighbouring borough of Hammersmith & Fulham, which is similarly attractive to creative industries. Current office rents in Hammersmith and Fulham average some £325 psm, significantly below Kensington & Chelsea's prime office locations, indicative of a relatively lower-quality offer. But this could change as a result of two strategic mixed-use development proposals, at Earl's Court and Imperial West.
- 4.27 The Earls Court scheme straddles the boundary separating Kensington & Chelsea from Hammersmith & Fulham, but the bulk of it is in the latter borough. It proposes over 200,000 sq m of office, hotel, retail, leisure, medical, education, community and cultural uses. The share of offices in this total is not known at this stage, though permission has been granted for a maximum of 98,000 sq m of B1 business floorspace. The majority of this will be within Hammersmith and Fulham. The scheme has the potential to create its own environment



and it is well located, with close links to existing creative clusters in both boroughs. If its buildings are architecturally interesting, it could become a destination for fashion, media and other creative industries, similar to what has been achieved at Notting Dale Village. But the size and timing of the scheme are uncertain. In the present economic climate, it would need a substantial pre-let to a good covenant to be financially viable.

- 4.28 The Imperial West scheme relates to redevelopment of the BBC Television Studios, which includes some listed buildings. Phase 1, consisting of student accommodation, has been completed. Phase 2 comprises a 42,000 sq m office-type development, described as a 'research and translation hub', which promises to accommodate 3,200 jobs. BBC Worldwide will be anchor tenants, leasing office and entertainment space expected to complete in 2014/15. The scheme, including the anchor, would provide critical mass in the area. It could potentially increase office demand in the Latimer Road employment Zone, which is adjacent.
- 4.29 In summary, both Earls Court and Imperial West are potentially significant competitors to Kensington & Chelsea. Both could be highly attractive to the creative industries, the same sector that drives the borough's office demand. Their offer is not identical to RBKC's but for some occupiers it may be superior, in that it could provide the modern buildings with large floorplates that are sought by corporate occupiers in the creative sectors.
- 4.30 A number of other areas in the Central London fringe are attracting creative industries, such as Camden, Hoxton, Shoreditch and Bankside. These emerging areas are not close competitors to Kensington & Chelsea. They are some distance from the borough and have a different occupier profile, attracting a younger market with more emphasis on technology, most evident at Old Street's 'Tech City'<sup>6</sup>. They also provide quite different environments (see photo in Figure x below) and lower costs than Kensington & Chelsea's prime office areas. Rents in Hoxton and Shoreditch, for example, range between £175 and £275 psm. These rents are far below Kensington High Street, but above the cheapest parts of Kensington & Chelsea.

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<sup>6</sup> See for example *Computer Weekly* 6<sup>th</sup> December 2012, <http://www.computerweekly.com/news/2240173954/David-Cameron-confirms-50m-for-Tech-City-regeneration-in-Old-Street>

**Figure 3.2 The-Silicon-Roundabout, Old Street**



Source: Guardian Pictures

### Conclusion

- 4.31 Our property market analysis set out to answer two main questions: where is there viable demand for office development, and where is there office space surplus to market requirements? The borough-wide overview above begins to answer these questions, suggesting that:

#### *Opportunities for development*

- There is viable demand for additional space in the borough's prime office locations, especially Kensington High Street, and for buildings that replicate the combination of modern large floorplates and interesting architecture provided at Notting Dale Village.
- There is very little or no capacity to meet that demand in those parts of Kensington & Chelsea which are currently most attractive and most popular. A key reason for that is the competition from residential development, which generates much higher land values.
- However, there is large-scale capacity that would potentially meet the same profile of demand immediately outside the borough, at the Earls Court and Imperial West regeneration schemes in Hammersmith and Fulham.

#### *Unwanted space*

- In the north of the Latimer Rd / Kensal Road employment zone and at Earl's Court there may be existing office space which is not viable to maintain, and hence surplus to market requirements.

- 4.32 To see how planning policy might respond to this market situation, we need a more detailed look at individual local areas. But first in the next section we provide a borough-wide overview of the Kensington & Chelsea's industrial market.

## *The industrial / studio market*

### *The stock*

- 4.33 The official VOA statistics indicate that there are some 77,000 sq m of industrial / warehouse<sup>7</sup> space in Kensington & Chelsea. This is a very small stock, only 0.4% of the London total and the smallest of any London borough, fractionally behind the City. It is also qualitatively different, consisting mostly of studios rather than traditional factories, workshop or warehouses. Only two large industrial / warehouse sites remain in Kensington & Chelsea, both in the Latimer Road / Freston Road employment zone: Travis Perkins builders' merchants and Shurguard storage, with adjoining light industrial units. This type of property is the exception rather than the norm for RKBC. The rest of the space classified by VOA as industrial consists of small studio units, generally occupied by creative industries such as fashion and photography. In recognition of this, we refer to the whole sector as 'industrial / studio space'.
- 4.34 Kensington & Chelsea's industrial / studio stock is concentrated in the employment zones, which account for half of the borough total. In the higher-order town centres there is very little industrial / studio floorspace, the largest total, 4,300 sq m, is in Notting Hill Gate around Portobello Road.
- 4.35 Owing to the borough's constrained land supply and the pressure from higher value uses, there has been no significant industrial / studio development for many years.

### *Demand*

- 4.36 Over the last five years industrial / studio take-up across Kensington & Chelsea has averaged some 1,500 sq m. Take-up 2012 was above average, but this is due entirely to one large transaction, concerning a 1,200 sq m unit at Crowthorne Road. As for offices but on a much smaller scale, the demand for industrial / studio space in the borough is driven by the creative industries, attracted by the borough's long-established clusters and its central position within London.

### *Supply and market balance*

- 4.37 To assess property availability in Kensington & Chelsea, we have combined information from the CoStar database and the websites of business centres in Kensal (which are not covered by CoStar). The resulting total for the borough (December 2012) is 1,938 sq m, a vacancy rate of just 2.5%.
- 4.38 This recorded vacancy figure may be misleading, because the borough's industrial / studio sector is not part of the mainstream property market and vacancies may not be advertised on CoStar. But our own site inspections in August 2012 confirm that, the business centres aside, vacancy is very low and premises are very well maintained. Because the stock is so small, what little there is in high demand. We have already seen traditional industrial uses priced out of the borough, and those remaining tenants who have secured an industrial

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<sup>7</sup> Defined by VOA Special Category Codes 268 and 96.

property tend to stay put. Therefore there are few transactions; when a unit does fall vacant, agents tell us that it is quickly re-let.

- 4.39 Industrial / studio rentals in RKBC are very difficult to assess, because there are few lettings, and this marginal market is not covered by the usual data sources. For lettings in the year to September 2012, CoStar shows an average of £90 psm. But this is based on few transactions, so it does not allow us to distinguish between different parts of the borough, and as a borough-wide average it may not be robust.
- 4.40 As an alternative, in Table 1.3 we have estimated industrial / studio rents in different parts of the borough from VOA rateable values. These values relate to the last revaluation at 1 April 2008 and they average £149 per sq m – much more than the CoStar average. If we exclude Kensal, where rents are unusually high because units tend to be very small, the average is still £144 per sq m.

**Table 3.3 Industrial floorspace and rents**

Area	Total floorspace sq m	Share of RBKC total	Typical rent £ / sq m)
<b>Employment areas</b>			
Latimer Rd / Freston Road	15,081	20%	£130
Kensal	11,176	14%	£200
Lots Road	7,605	10%	£155
<b>Town centres</b>			
Kensington High Street	3,084	4%	£190
Notting Hill Gate	4,312	6%	£185
Knightsbridge	924	1%	£110
King's Road	839	1%	£190
South Kensington	0	0%	
Fulham Road	1,217	2%	£105
Queens Way / Westbourne Grove	930	1%	£115
Earls Court	1,281	2%	£90
<b>Other</b>			
Remainder of the borough	30,779	40%	£170
<b>Kensington &amp; Chelsea</b>	<b>77,228</b>	<b>100%</b>	

Source: VOA, Roger Tym & Partners. Rents are estimated from current rating list, which have a valuation date of 01 April 2008.

- 4.41 Industrial / studio uses in the borough are under pressure for residential redevelopment, as the price differential is extreme. But in their own right, these uses are financially sustainable. Occupancy rates are high and landlords do not have to offer substantial

incentives to attract tenants, as there is little competition and high demand. In our professional opinion and bearing in mind these factors, £90 per sq m is a sustainable industrial / studio rent, which normally allows owners to make a reasonable return, and attract a decent covenant tenant on favourable lease terms. This allows landlords in the borough to maintain properties in lettable condition. If rents are in fact higher, as suggested by the VoA data, units will produce a higher return.

### Competition

- 4.42 RBKC's competitors are much the same in the industrial / studio market as in the office market. The closest is neighbouring Hammersmith & Fulham, which attracts similar creative industries. More distant competitors are central London fringe areas such as Camden, Hoxton and Shoreditch. In all these areas markets are undersupplied as industrial / studio uses being pushed out by housing pressure. Across central and inner London, the market is getting tighter as previously industrial areas are replaced by housing-led redevelopment, for example at Nine Elms Battersea and Kings Cross<sup>8</sup>.

### Conclusion

- 4.43 The indications are that the remaining industrial / studio stock in Kensington & Chelsea is economically sustainable. Leaving aside the Kensal business centres, which we consider in detail later, there is no evidence that the size of the stock exceeds market demand. On the contrary, the evidence points to a tight market, in which industrial / studio occupiers are being squeezed out by higher-value uses in Kensington & Chelsea, as in the rest of central and Inner London. But the process has gone further in Kensington and Chelsea than elsewhere, so the borough's remaining industrial / studio stock is vanishingly small.

### Key issues

- 4.44 Based on the above analysis, there are two strategic questions that planning for employment uses in Kensington & Chelsea needs to address:
- For offices, if and how the demand for new space can be met in the borough, given the lack of capacity in the most attractive locations;
  - For industrial / studio space, how much existing space should be safeguarded and where, against the strong market pressures to redevelop sites for higher-value uses.
- 4.45 We aim to answer these questions through the local market analysis below, which looks at the borough's employment zones and higher-order town centres one by one. In relation to the employment zones we consider offices and industrial / studio space separately. In the town centres there is no significant industrial / studio space, so we only discuss office markets.

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<sup>8</sup> See for example Roger Tym & Partners and Grant Mills Wood for London Borough of Camden, *Business Premises Study*, March 2011.



## Latimer Rd / Freston Rd

### *The area*

- 4.46 Latimer Rd / Freston Road form a single employment zone in the north of the borough. The area comprises a mix of (mostly social) housing, modern purpose-built offices, older offices and industrial / studio units. It is served by Latimer Road Underground station, just two stops from Paddington station.
- 4.47 The area's physical environment impacts adversely on its commercial prospects. At its Southern end the area is attractive, close to the Tube station and Westfield shopping centre and well provided with amenities. But moving northwards, part of the zone sits under the intersection of the A40 Westway and A3220 West Cross Road, creating a physical barrier and a potentially intimidating environment. North of the Westway the environment deteriorates, business uses are more thinly spread and there is a general lack of amenities.

### *The office market*

#### *The stock*

- 4.48 The employment zone is marked by contrast. In the south, the quality of office accommodation has greatly improved in recent years, with the Notting Dale Village development and the refurbishment of the Phoenix Brewery. But further north there has been little new development and the stock is much more marginal.
- 4.49 As mentioned earlier, Notting Dale Village has created the critical mass to create a new office environment in the south of the zone. The buildings have been designed in an architecturally interesting way so as to attract the creative industries but deliver large floor plates which modern occupiers desire. In addition the area has good links to the Tube and the nearby Westfield Shopping centre as well as on-site amenities. The conversion to offices of the nearby Phoenix Brewery has also been successful. This too delivers an architecturally interesting building, though with smaller suites, and has similar links through to the Tube station.
- 4.50 Towards the north of the employment zone, office buildings are older and lower quality. The occupier profile is mixed, without the same emphasis on creative industries.

#### *Demand*

- 4.51 Office take-up in recent years in this employment zone has been dominated by Notting Dale Village and Phoenix Brewery. These schemes help generate office take-up of 9,200 sq m in 2009 and 8,000 sq m in 2011, far above the level of other years. As mentioned earlier, Notting Dale Village combines striking design with the large floorplates that suit modern working practices. In the Yellow Building the typical floor provides 1,700 sq m. We understand that there are proposals to extend the Village now that critical mass has been established.
- 4.52 At Notting Dale Village, the Yellow Building has become Monsoon's headquarters. Monsoon subsequently leased out part of the building to Stella McCartney, Talk Talk occupy the 'White Building' and the smaller 'Studio' building is multi-occupied, with tenants

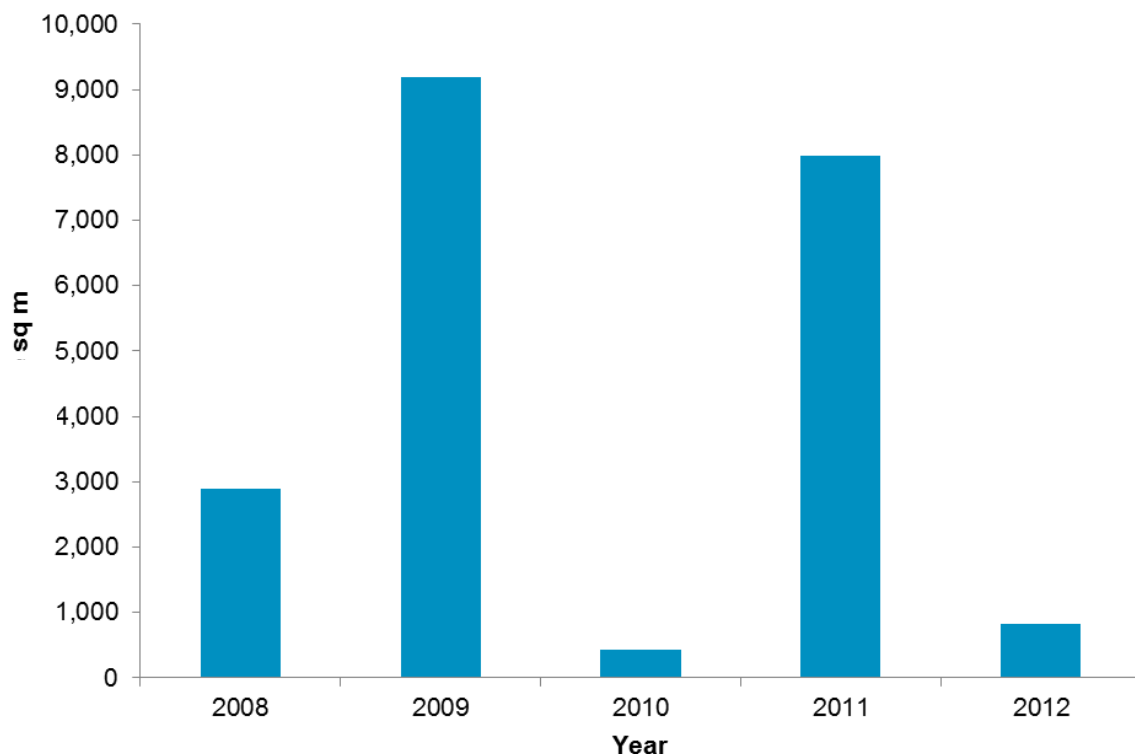
such as ColArt. The Phoenix Brewery has attracted tenants such as Live Nation, Clearpoint Media and BMG Chrysalis.

- 4.53 To the north of the area, the office accommodation is less popular. The area does offer low-cost offices, but the general quality of the environment and the poor links through to the Tube station deter potential tenants, and these units are harder to let.

#### *Supply and market balance*

- 4.54 As shown at earlier, the total recorded availability in the employment zone is 2,880 sq m, a vacancy rate of 11%. Of this total, however, 1,765 sq m relates to one suite at the Yellow Building, which is still being advertised although agents indicate that terms have been agreed. If this suite is excluded, availability falls to 1,115 sq m, a vacancy rate of just 4%. As Notting Dale Village and the Phoenix Brewery are now fully occupied, all this vacant space is in the north of the area.

**Figure 3.3 Latimer Rd / Freston Rd office take-up**



Source: CoStar, PBA

- 4.55 So far, office rents at Notting Dale have been affordable at around £250-270 psm. In our judgment this is too marginal to support viable new office development. But agents advise that this low rent was an initial offer, considered necessary to attract corporate tenants to an unproven location. Now that critical mass has been established, the agents consider that a viable rent of £300 should be achievable. At Phoenix Brewery this threshold has already been crossed, as suites are smaller and rents between £280-312 psm.

- 4.56 For the oldest office stock in the north of the area, viability is marginal, with quoting rents just under £180 per sq m. Going forward, these rents may not be enough to sustain the existing stock. They are certainly not enough to support new development.

*Conclusion: The scope for new development*

- 4.57 From a demand perspective, the key opportunity for this area is further office development similar to Notting Dale Village. The natural way to do this would be to redevelop the low-density Travis Perkins and Shurguard sites to the north of the Village. However, in this current market will be difficult. We expect that both these operators are happy to pay a premium for this location. Therefore, there is not a sufficient price differential between office and the existing use, or enough market confidence, to facilitate redevelopment.

*Conclusion: The existing stock*

- 4.58 As we have seen, the offices to the north of the zone are not well occupied and command low rents. The root of the problem is the area's poor environment and difficult access, and the lack of a critical mass of office property.
- 4.59 If this does not change, these offices may not be an economically sustainable land use in the long term. It has been suggested that mixed-use redevelopment, providing offices on the ground floor with housing above, would provide a financially viable solution. In our view this is not the case. Offices that are part of mixed-use buildings may work once or twice to attract tenants, but they are generally unattractive to occupiers, and especially to Kensington & Chelsea's core market. The Network Hub at Kensal Road, for example (see paragraph 4.77 below), has attracted tenants such as the Council and the Jobcentre, but it has not captured the creative industries that generate the bulk of office demand in the borough. Analysis of mixed use schemes in other central London fringe areas indicate that ground floor office stock is generally difficult to let. Occupiers prefer upper floor accommodation, because on the ground floor they have security concerns and their office space is visible from outside; if blinds are put up to prevent this, they also stop daylight coming in. Furthermore, under large residential buildings, the resulting large floorplates are difficult to sub-divide while retaining natural light, meaning the space is not flexible to respond to market requirements.
- 4.60 In an alternative scenario, there would be major environmental improvements in the north of the zone, and especially on the route from the Tube station. This could make the area significantly more attractive to office occupiers. In the short term, it should reduce vacancy, raise rents and creating more critical mass. In the long term it could potentially support new office development. Agents have indicated that they regularly receive enquiries for the current vacant office stock at Latimer Road/Freston Road. However, it is only when the parties view the premises and realise how isolated it is, it deters them from taking the space. The agents indicate the poor connectivity rather than the quality/type of space on offer is the deciding factor in the poor take-up. Existing requirements received by agents for the stock is from the typical K&C creative industries. If the environment could be improved the remaining vacant units could be occupied by K&C existing tenant profile (rather than

expecting to attract a new type of tenant) who wish to be in the borough and require relatively affordable accommodation.

### *Policy options*

- 4.61 In planning for office uses in the north of the zone, the Council has two broad options. It could introduce a programme to upgrade the office environment in the north of the area, with major improvements to the environment, public realm and access, focusing on the route from the Tube station. This should raise the zone's profile as a creative location, a low-cost alternative to the borough's prime locations and a more effective competitor to the emerging areas in the central London fringe.
- 4.62 This active strategy should reduce vacancy, raise rents and creating more critical mass, making it more viable to retain existing office properties. It would be combined with planning policy that safeguards existing offices and resists pressures for housing redevelopment. The strategy would not be without risk, because it cannot be guaranteed that the market would improve sufficiently to make the safeguarding policy effective.
- 4.63 Under the alternative option, where there is no initiative to upgrade the area, we expect that it would be increasingly difficult to safeguard existing offices. Owners seeking change of use or redevelopment for housing could potentially argue that continued office use is not viable, citing the high vacancy rate, low rents and poor covenants.
- 4.64 If the Council adopts this do-minimum option, therefore, it should consider relaxing the policy that safeguards existing offices the north of the zone. As a result, Kensington & Chelsea would lose some office space and some jobs – probably to other emerging areas in the central London fringe.
- 4.65 It may be argued that there is a third policy option, in which office properties may be redeveloped for mixed use, so the old office space is replaced and residential is added on upper floors. As explained above, in our view the resulting office space would not be attractive to occupiers. The likely consequence is a supply of unwanted office space, which would either remain vacant or in due course be converted to housing.

### *The industrial / studio market*

#### *The stock*

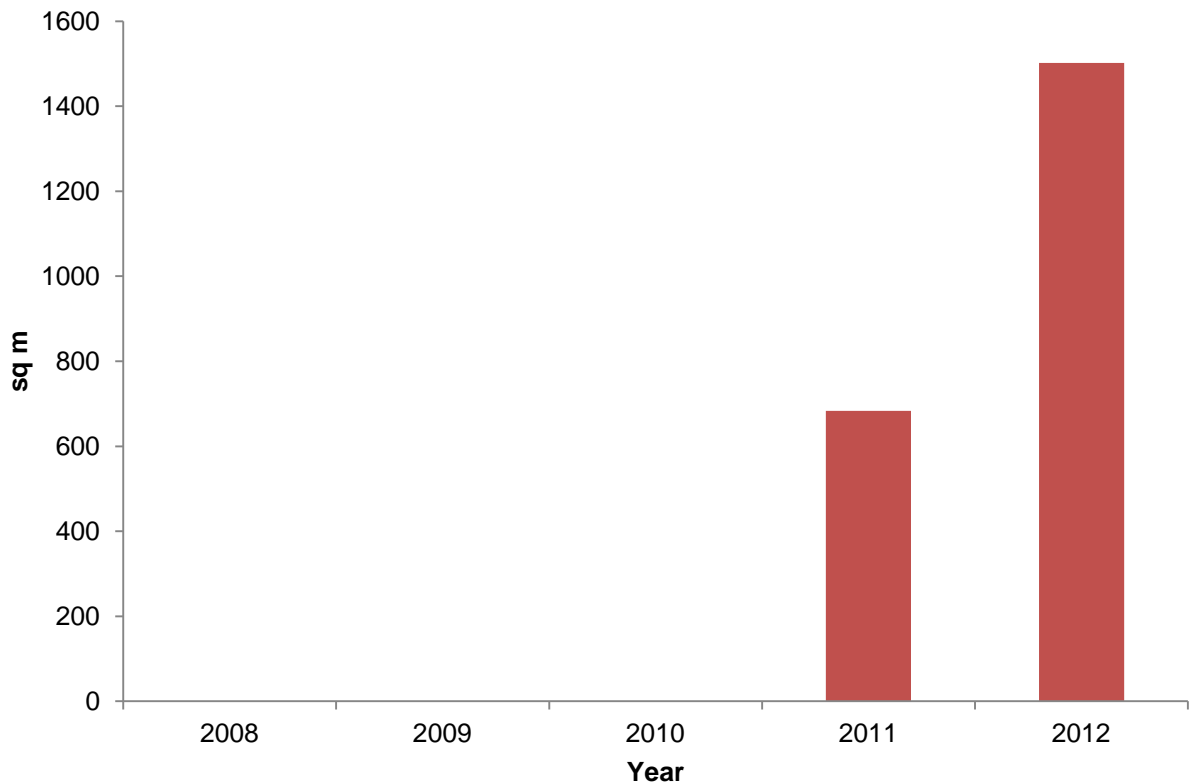
- 4.66 The Latimer Road / Freston Road zone, along with Kensal Road, is the largest concentration of industrial space in the borough. The two zones are different in character. Whereas in Kensal Road most of the space is in business centres, in Latimer Rd / Freston Rd it is in light industrial units. In the north of the zone, around Latimer Road, some of these units are used by creative industries, for example as photographic studios; others house some of the few remaining traditional employment uses in the borough. In the south, around Freston Road, there are two large traditional occupiers, Shurguard Storage and Travis Perkins, but most of the stock is used as studios.



### *Demand*

- 4.67 The recorded floorspace take-up over the last five years is very low, as shown in the graph below. This reflects a tight market, in which occupiers who have secured space are keen to keep it, so there is little churn.

**Figure 3.4 Latimer Rd / Freston Rd industrial take-up**



Source: CoStar, PBA

- 4.68 Demand is both from creative industries and traditional light industrial / storage uses. In recent years it is likely that much of this demand has been frustrated, given that very little space has become available for letting.

### *Supply and market balance*

- 4.69 The industrial stock in the zone is well occupied. Current vacancy is limited to two units, located at Latimer Road and the Westway Centre and providing a total of 6,100 sq m. The area has not seen any new significant development in recent years; this is due to the pressure of development of higher value uses in particularly residential.
- 4.70 As discussed earlier, there are no robust data on industrial rental values in Kensington & Chelsea. As we have seen, VOA data for 2008 showed an average of £130 psm (Table 3.6). Local market evidence suggests that the average is higher, around £150-170. This is easily enough to support retention of the existing units, but of course provides far lower returns than redeveloping sites for housing.

### Conclusion

- 4.71 There is no effective demand for new industrial development in Latimer Rd / Freston Rd, owing to the market pressures for residential development. But the evidence suggests that the policy of safeguarding the existing stock remains perfectly sustainable. In general, the best or only argument open to owners seeking residential redevelopment will be that industrial space is not financially sustainable. But this case should be very difficult to make in the zone, because the market is tight, with high occupancy and high rents.
- 4.72 Alternatively, the Council of course may consider that housing has higher priority than industrial / studio uses, and therefore it could relax the policy that safeguards these uses. If this option were chosen, it would contribute to the squeezing out of industrial and quasi-industrial uses that is occurring throughout central and Inner London.
- 4.73 As for offices, it may be suggested that competing priorities be reconciled through mixed-use intensification, where sites are redeveloped for industry / studio use with residential above. In our view this is not advisable, because residential and commercial uses are generally incompatible. Proximity to housing exposes the industrial occupier to contingent liabilities or at least being classified as an inconsiderate neighbour. Residents generally object to the noise, vibration, vehicle movements, parking, loading/unloading, smells etc generated by industrial operations, and industrial business do not want to operate in places where such objections will arise. Therefore the industrial / studio element of the scheme would not be attractive to end users.

## Kensal Road

### The area

- 4.74 The Kensal employment zone is located to the very north of the borough. It is physically constrained through the Grand Union Canal bordering to the north, gas works and cemetery to the west, and the Great Western train line to the south. Access to the area is provided to the south east by way of the A4207 Great Western Road and to the west by B450 Ladbroke Grove. Westbourne Park station provides the nearest Underground access with the Overground available from Kensal Green station which is located to the North West. As a business location, the area is considerably less accessible and less attractive than more southern areas of Kensington and Chelsea.
- 4.75 The bulk of the employment space in Kensal is managed workspace, delivered in business centres that provide both offices and industrial / studio space. Although the space is advertised as a separate uses in practice some of the accommodation is flexible enough to be used for either type of use. In relation to this zone, therefore, although there are separate discussions of the office and studio markets there is only one section on policy options.

## *The office market*

### *The stock*

- 4.76 Most of the zone's office space is in three business centres, created in old buildings which have been converted and refurbished. The Grand Union Centre and Canalot Studios, part of the Workspace Group, provide a mixture of offices and studios. The Saga Centre, previously a headquarters and production facility for Saga Records, also offers music studios and self-storage units. The centres provide affordable accommodation in interesting buildings on flexible terms, occupied mainly by the creative industries. They offer mostly small units, catering to start-ups and micro-enterprises.
- 4.77 In the north of the area, the canalside Portobello Dock development provides higher-quality offices, together with apartments, retail and leisure, in an iconic 'campus' setting. Office occupiers include Innocent Drinks and a range of creative businesses.
- 4.78 The remaining office space in the zone is at the Network Hub in Kensal Road, which was completed around 2003, and as mentioned earlier provides modern accommodation of more standard corporate design, with a small portion (11%) built as live/work units. Unlike the business centres, despite being marketed as a creative space it has attracted traditional tenants, mostly from the public sector, such as the Council and the Jobcentre as well as a dental practice. This is because the majority of creative industries that choose to locate at Kensal Road prefer quirky space and are happy to compromise on location to benefit from flexible terms and lower rents. Most of the space at the Network Hub does not match this profile.

### *Demand*

- 4.79 Over the last five years take up of office space in the business centres at Kensal Road has been mainly for small suites, ranging from just 8 sq m to 206 sq m, with the vast majority of office take-up for suites of less than 50 sq m. These unit sizes are typical for small companies, as they are able to accommodate up to five people.
- 4.80 The business centres at Kensal Road attract the creative industries. Tenants that have taken office space over the last few years include Orlebar Brown, designer swimwear; Fromental, makers of handmade wallpapers and fabrics; Timothy Hatton Architects, and Lulu Guinness Ltd (clothes designer). Given the nature of accommodation provided most tenants stay for a period of time and then move onto more traditional office accommodation. The agents do indicate that office space can be difficult to let at Kensal Road due to the distance from the Underground and Overground stations.

### *Supply and market balance*

- 4.81 As shown in table 3.7 below, the Kensal zone has a relatively high office vacancy rate when benchmarked against the borough average of just 4.0%. Some of the analysis is slightly misleading, because the large total at Canalot Studios is made up of just two suites. The larger centres of Saga and Network Hub have highest quantum of suites available, but in percentage terms some of the lowest vacancy rates.

**Table 3.4 Office availability, Kensal**

	Total office space sq m	Availability sq m	Vacancy rate %
The Grand Union Centre	1,392	178	12.8%
Canalot Studios	745	164	22.0%
The Saga Centre	1,679	113	6.7%
Network Hub	6,500	478	7.4%
Other units	2,461	0	0.0%
Total	12,777	933	7.3%

Source: VOA, CoStar, PBA

- 4.82 As the type of accommodation at Kensal Road is small managed suites on flexible terms which attract smaller/start-up companies we would expect a higher churn of tenant and hence vacancy when compared to traditional office stock found elsewhere in the borough. Overall we do not believe the current vacancy figure is a concern, because it only covers a small number of suites and will fluctuate throughout the year.
- 4.83 Rental values in the business centres for the small office suites range from £250-350 psm. These rents incorporate a premium associated with managed accommodation and are sufficient to support retention of the space.
- 4.84 At Network Hub, the current asking rent is around £215 per sq m. This is too low to support free-standing office development, although the real driver for value in this mixed use scheme was the residential element, at this level the rent is an acceptable return to cover costs but little more.

*Conclusion: the scope for new development*

- 4.85 The evidence suggests that there is little or no scope for new office development in the Kensal zone. The bulk of the area's office occupiers are accommodated in business centres, a specialist type of provision that almost by definition uses second-hand space. Typically these businesses would not want new offices, nor could they afford to pay viable rents for such offices.
- 4.86 Nor do we think there is market potential for development to replicate the Network Hub, which does provide new space. The scheme is nearly fully occupied, but the profile of the majority of tenants it has attracted is not typical of the bulk of enquiries that seek office accommodation in Kensington & Chelsea. While the borough is a location of choice for the creative industries, Network Hub has relied primarily on the public sector, which is a limited market. If more space of a similar nature were provided in the Kensal zone, we expect it would be difficult to let.
- 4.87 For the same reasons, we consider that in the short to medium term there is little scope for office development as part of the Kensal Gas Works redevelopment. In the earlier borough-wide overview, we concluded that there was viable demand in the borough for new office buildings, combining architectural interest with large floorplates, to accommodate high-



value, corporate creative businesses. From a supply perspective, Kensal Gas Works has the capacity to provide such buildings. But its location and surroundings and lack of accessibility would not attract the kind of occupier that Notting Dale Village has attracted. In our view, therefore, significant office development at the Gas Works would not be in demand or financially viable. However this could change in the long term if a Crossrail Station is provided at the site. The viability of office development at the Gas Works will also depend on the extent of abnormal costs and the funds available to pay for such works, as the site is likely to be heavily contaminated.

#### *Conclusion: the existing stock*

- 4.88 Kensal's existing office stock is well occupied and seems financially viable. The business centres in particular play a worthwhile role in the economy, providing affordable space on flexible terms to new and small businesses.
- 4.89 However, the scope to expand the offer is limited despite the development opportunity created by the Gas Works, because the area lacks connectivity and local amenities. (Although this may change if a new station is approved). The business centres create their own community which helps limit some of the impact of isolation but this would not be the case with larger free standing units. Furthermore, rents would need to be at a lower level to attract tenants to this unproven office location, which would render development unviable.

#### *The industrial market*

##### *The stock*

- 4.90 Like Kensal Road's office stock, most of its industrial stock is provided in the three business centres, and offered on flexible short term leases on a managed basis.
- 4.91 The quality of industrial accommodation on offer at the business centres is good. In some instances, as shown in the images below, it is difficult to distinguish between industrial / studio space and offices. This suits the creative industries, providing flexible space which can be used for either studio or offices. Like the area's offices, its industrial stock attracts the creative industries, with tenants such as The Scratch Map, Jill Scholes Interior Design Ltd and Photoplan Ltd.

##### *Demand*

- 4.92 Over the last five years take-up of industrial space in the business centres has been for relatively small units with an average unit size of 135 sq m, capable of accommodating 3 to 4 employees. This size profile is typical of the stock as a whole.

**Figure 3.5 Office and studio space at Canalot Studios**



Source: Work Group

**Figure 3.6 Industrial and office space at Saga Centre**



Source: Saga Centre

### *Supply and market balance*

- 4.93 As shown in the table below, industrial vacancy in the Kensal Road zone is higher than the borough average. However, in real terms the actual number of vacant units is small and spread across just seven units. We do not see the vacancy figure as a concern, given that it is not concentrated in one particularly centre. In any case, we would expect vacancy in managed workspace to be higher and fluctuate more than in traditional properties.

**Table 3.5 Industrial vacancy rates, Kensal**

	Total industrial space sq m	Availability sq m	Vacancy rate %
The Grand Union Centre	2,991	288	10.0%
Canalot Studios	1,866	229	12.0%
The Saga Centre	679	229	33.0%
Other units	5,640	0	0.0%
Total	11,176	746	7.0%

Source: VOA, CoStar, PBA

- 4.94 The businesses centres command a rental premium when compared to more traditional industrial premises. This reflects the quality of accommodation provided (more studio type space rather than ‘traditional industrial’, flexible lease terms, and managed environment). Rents typically achieved at the business centres range from £130 per sq m to £165 per sq m. Rents at this level could support standard industrial development, but probably not new business centres – which involve higher management costs, higher risk and need higher architectural quality to attract creative industries. In any case, the price differential between industrial and residential is so large that developer appetite to bring forward this type of development in the area will be virtually zero.

*Conclusion: the scope for new development*

- 4.95 For the above reasons, we think there is little potential to provide new industrial / studio space in the Kensal zone.
- 4.96 As previously mentioned in the Latimer Road/Freston Road section, we do not believe that integrating residential with industrial uses is a viable solution to new development. The two uses are not compatible. Therefore we would not recommend this approach.
- 4.97 In our view there is no market potential for site intensification as seen at Network Hub. The resulting commercial space is unlikely to attract Kensington & Chelsea core business users and the scope to attract more of the traditional office users to the area is very limited.

*Conclusion: the existing stock*

- 4.98 The industrial accommodation at Kensal Road performs an important function to both Kensington & Chelsea market and the wider London market – providing cost-effective space for start-ups and small businesses within a creative cluster.
- 4.99 The area may be vulnerable because so much of its business stock is dependent on the start-up / managed workspace market. If vacancy rates start to increase across all the centres, this would start to indicate that they area is failing. If one particular centre starts to empty, it may not survive. At present, however, there is no sign of this happening and we believe that both the office and industrial stock are in demand and financially sustainable.

### *Policy options*

- 4.100 In our view, Kensal does not have the potential to add significantly to the borough's employment space, either for offices or industrial / studio space. Promoting the Gas Work site for large-scale commercial space may appear logical. But in our view it would be extremely risky, as the development at this unproven location would likely be unviable and market interest will be low. As noted earlier, this could change in the long term if a Crossrail station is provided at the site.
- 4.101 On the other hand, the existing employment space in the zone is useful and seems financially sustainable. It should be safeguarded against redevelopment for higher-value uses, subject to market tests and to the Council's wider priorities.

### **Lots Road**

#### *The area*

- 4.102 On Lots Road, the area located closest to Kings Road is characterised by a concentration of antique traders and auction houses which occupy refurbished industrial buildings. At this end of the employment zone (Kings Road and Lots Road) the only purpose-built office accommodation is found on the upper floors of the Plaza building.
- 4.103 As you make your way south, and then east, along Lots Road, the buildings are characterised by a small number of larger warehouses, and then turning into high value residential. Towards the very end of Lots Road is Chelsea Wharf which provides a mix of office and studio accommodation in a converted building. The only other significant amount of office space in the area is found off Lots Road around Chelsea Harbour, in the neighbouring borough of Hammersmith and Fulham.
- 4.104 Although the employment area is relatively small, it is a popular location; because the Kings Road provides good amenities and the area is surrounded by high-value residential properties; whose residents use the commercial space.
- 4.105 Development opportunities in the area are restricted by the physical constraints of the River Thames to the south, A308 to the north, and the gas works to the west. However, the Borough Council's property department is promoting mixed use redevelopment of a site it owns at Cremone Wharf, west of Chelsea Wharf. The planning application includes the creation of 80 apartments and a commercial uses on the ground floor, creating some 90 jobs. A much larger scheme currently in the pipeline is the residential-led, mixed-use redevelopment of Lots Power Station, which started on site in December 2012 after being stalled for over six years and is expected to include office space alongside housing, retail and leisure.

#### *The office market*

##### *The stock*

- 4.106 Much of the office stock at Lots Road is in two large buildings, Plaza Building and Chelsea Wharf. Much of the stock is in small suites of less than 100 sq m. The largest suite in the area, at the World's End Studio on Lot's Road, provides 2,000 sq m.



- 4.107 The only purpose built offices are those at Plaza Building which provide modern open plan office suites. Tenants include Oliver Morgan Architects, Development Partners International LLP, and DOT Group. The area is popular with smaller creative businesses, as it provides high-quality, architecturally interesting yet affordable space, cheaper than other parts of Kensington & Chelsea.

*The market*

- 4.108 The office vacancy rate at Lots Road is low at 4%, pointing to a tight market. The little space which is available is found at Plaza Building (total 185 sq m) and six studios in the refurbished Chelsea Wharf totalling 550 sq m. It is these two buildings that have generated the majority of the transactions over the last five years, which indicates that office tenants within the smaller suites are more transient than the industrial tenants.
- 4.109 Achieved rents for office accommodation in the area are circa £285 psm. At this rent level it is financially viable to maintain the existing stock, but new development would be marginal, especially as buildings would have to be architecturally interesting to appeal to the creative industries.

*Conclusions: the scope for new development*

- 4.110 The physical characteristics of the Lots Road area, combined with the much higher residential values, limits the opportunity for new office development. However, there is scope for office development at the Cremone Wharf and Power Station developments mentioned earlier.

*Conclusion: the existing stock*

- 4.111 The existing stock is very well occupied, useful and financially viable. There is no indication that any of it is surplus to requirements.

***The industrial market***

*The stock*

- 4.112 The largest industrial units around Lots Road are found at Chelsea Reach, used by creative industries as showroom and design space, and Access Self Storage. Other industrial-type accommodation comprises the antique traders, auction houses and small studio spaces. The studio space is found in Chelsea Wharf; it is high quality and architecturally interesting.

*The market*

- 4.113 Evidence of availability in Lots Road is limited, because the industrial market is very small and not well covered by the usual data sources. However our site visit found no vacancy, which indicates a very tight market. There also appears to be very low churn, suggesting that once occupiers are settled in the area they do not wish to relocate.
- 4.114 Industrial rents are difficult to determine at Lots Road due to the lack of transactional evidence but VOA data suggests that rental values could be around £155 psm. This rental level is sufficient to maintain the buildings in a viable state for industrial uses, but not to develop new space, especially given the pressure for residential development.

### *Conclusion: the scope for new development*

- 4.115 There is little or no potential for new industrial development in Lots Road, partly because the area is physically constrained and partly due to competition from housing. Moreover new development may not be attractive to Lot Road's core market. The factors that attract creative industries to the zone are the interesting buildings, flexible space on offer and the central location. The first feature, and possibly the second, would be difficult to replicate in new buildings.

### *Conclusion: the existing stock*

- 4.116 The industrial /studio stock is very well occupied and commercially viable. There is no suggestion that any of it is surplus to requirements.

### *Policy options*

- 4.117 Both the office and industrial / studio space in the Lots Road zone is very well occupied and financially healthy, and it supports the borough's creative cluster. The features that attract these creative industries would be difficult to replicate in new buildings, making the existing space all the more valuable. It should be safeguarded from higher-value uses, unless the Council's wider priorities indicate otherwise.
- 4.118 Site intensification in the area should be resisted, since as noted earlier schemes which re-provide commercial accommodation on the ground floor in a modern form are generally not attractive to tenants, especially the creative industries.
- 4.119 In the interests of economic development the proposed commercial development at Cremone Wharf should be supported. If possible it should be designed to appeal to creative industries, which means architecturally interesting buildings and separating commercial from residential uses.

## **Kensington High Street**

### *The stock*

- 4.120 As noted earlier Kensington High Street is Kensington & Chelsea's leading office location, with almost one third of the borough's total office space. The area is well connected: the A315 links London's West End to the M4 and Heathrow, and High Street Kensington Tube station is just two stops from Paddington station. It is an extremely attractive part of London, with a fashionable image, upmarket retail and other amenities, and close to some of the most expensive housing in the world.
- 4.121 Most of the office accommodation along the High Street is located on upper floors above retail premises, so there is no entrance lobby and the offices are hard to identify at street level. This type of accommodation is not popular with corporate occupiers. The office stock also includes modern, purpose-built offices on the High Street and mews developments behind the High Street, which have been refurbished to a high standard. These mews offices have proved popular, being close to the High Street's amenities but away from the retail frontage.

- 4.122 Office occupiers are predominantly creative industries, for which Kensington High Street long been a favoured location. In particular, the area has been very successful in attracting fashion labels and the music industry (the four major record labels, Universal, Warner Music, Sony Music, and EMI all have headquarters in or close to Kensington High Street). There are also a number of holiday tour operators just off the High Street. One example is on Wright's Lane, where STAT Travel shares a building with EMI. Trailfinders is also located nearby, with offices split across several sites – an illustration of the scarcity of large offices in the area. Alongside such corporate occupiers there are many small businesses including start-ups, who may be tied to the area by supply-chain linkages or the convenience of owners who live nearby. The area is also home to professional service firms, largely serving a local market and including many residential estate agents.

### *The market*

- 4.123 Over the last five years annual office take-up in Kensington High Street has averaged 4,800 sq m. Key transactions included the fashion company Mulberry taking 3,000 sq m in 2010 and The White Company, taking 2,000 sq m in 2011. At the other end of the scale there is a constant churn of much smaller companies. Take-up in 2012 was far below average at around 9,000 sq m, perhaps an indication of the constrained supply.
- 4.124 Current office availability is 2,831 sq m, of which nearly half is at 99 Kensington High Street. Against the stock of 130,054 sq m this represents a vacancy rate of 2%. At the average take-up rate of the last five years the vacant stock would last for just seven months. These indicators point to an extremely tight office market.
- 4.125 Based on the last two years' transactions office rents average some £400 psm – similarly indicative of a tight market and a highly attractive business location. These rents are among the highest in Kensington & Chelsea, though lower than Knightsbridge (£500) and the West End (St James and Mayfair £515). They would support highly viable office development, if it were not for the much higher values produced by housing.

### *Conclusions*

#### *The scope for new development*

- 4.126 As noted in our borough-wide overview earlier, from a demand perspective Kensington High Street offers great opportunities for office development. The market would readily absorb additional office space, especially if it provided the large floorplates which modern occupiers need and which are particularly scarce in the area. But in practice the prospects for significant office development seem limited, because the area is physically constrained and the residential market offers much higher returns.

#### *The existing stock*

- 4.127 The area's office stock is well occupied and financially healthy. There is no reason to think any of it is no longer in demand.

### **Policy options**

- 4.128 If economic growth in the borough were its main objective, the Council should aim to safeguard the existing office space in Kensington High Street, subject to the usual market testing. It should also do all it can to encourage additional office development – which would need to be architecturally interesting to attract creative tenants, and ideally should provide large floorplates, which are especially undersupplied. However, in Kensington High Street offices are in sharp competition with housing for a very constrained land supply. Which of these land uses takes priority is for the Council to decide.

### **Notting Hill Gate**

- 4.129 Like Kensington High Street, Notting Hill Gate / Portobello Road provides office accommodation in a predominantly residential and retail environment. The key to the area's success as an office location is the Tube station; with increasing distance from the station commercial interest falls off steeply. Much of the office accommodation is of dated 1950s style.
- 4.130 Also like Kensington High Street the area attracts fashion, media and other creative industries - though on a much smaller scale and at much lower cost. The predominant architectural style does not match these firms' ideal requirements for quirky buildings. Nevertheless the area does fulfil a valuable function, providing an affordable alternative to Kensington High Street and a follow-on location for occupiers moving on from business centres in the employment zones.
- 4.131 The office space available in the area is recorded as 1,516 sq m, around 9% of the total stock. This is not a worryingly high vacancy, bearing in mind that it represents just five suites. Rents are considerably lower than in Kensington High Street, at some £270 psf. At these rental levels the viability of new development is marginal, especially as the quality of tenant covenant is also likely to be lower than in more expensive parts of the borough, and there is acute competition from residential uses. But rents and tenant quality are sufficient to maintain existing offices.
- 4.132 In our view, there is little opportunity in Notting Hill Gate to provide additional office space. But the existing offices are in demand and viable. Therefore this existing stock should be safeguarded, subject to the usual market testing, unless the Council accords higher priority to residential development.

### **Knightsbridge**

- 4.133 Knightsbridge town centre is on the borough's eastern boundary, adjoining the City of Westminster. It is on the main route from the West End to the M4 and Heathrow and served by Knightsbridge and Hyde Park Corner Underground stations on the Piccadilly Line, providing a direct link to St Pancras International and Kings Cross Stations.
- 4.134 Knightsbridge is best known for its very high-value residential market and high-end fashion stores. Offices are a less important land use. Most of the area's office space is in small suites above retail units, along side turnings such as Raphael Street. One of the area's few

modern purpose-built office developments is 1 Knightsbridge Green, which was completed over 10 years ago and provides large floorplates, unlike the additional stock.

- 4.135 The profile of office occupiers is quite different in Knightsbridge from the rest of the borough. Rather than creative industries, the typical occupier is in financial services. Locating in Knightsbridge puts those firms close to the high net worth individuals who live in the area.
- 4.136 Annual office take-up in Knightsbridge in the last five years has averaged some 5,000 sq m. It spiked in 2010 at 8,000 sq m, owing to two large suites being taken up, both by financial services firms. At the other side of the scale there is a constant churn of small suites of around 50 sq m.
- 4.137 Current office availability is approximately 1,900 sq m, representing three office suites of which two are at 14 Basil Street. The relatively high vacancy rate of 9% is misleading, just the result of random fluctuation in this small market. In reality Knightsbridge is a tight office market, as noted by the agents we consulted and confirmed by the very high rent levels, typically £500 psm. In terms of rents, as well as occupier profile, Knightsbridge is more similar to London's West End, which it adjoins, than to other office markets in Kensington & Chelsea.
- 4.138 The viability of both existing offices and new office development is high. But, like other high-value areas of Kensington & Chelsea, Knightsbridge has limited potential for office development, because it is densely built up already and residential development produces much higher returns.
- 4.139 Planning policy for the area depends on the Council's priorities. From a commercial market perspective, it would be feasible and reasonable to safeguard offices against competing land uses. From a policy perspective, the Council might consider that housing and retail have higher priority than offices in this physically constrained area. If offices are displaced by other land uses, the activities which are displaced will be typically financial services, rather than part of the borough's creative cluster.

## King's Road

- 4.140 King's Road, in the south of the borough, became world-famous for its association with the fashion industry in the 1960s and remains a popular retail centre. Like many other parts of the borough, it is also a high-value residential area. Although the King's Road accounts for 8% of the borough's office space, offices are not a primary function of the town centre.
- 4.141 The King's Road office stock is on upper floors above retail premises and is concentrated in the north east of the area, around Sloane Square. There is little significant purpose-built office buildings in the area and therefore the average office suite is quite small, at some 200 sq m. Occupiers are a mixture of creative industries and local professional services.
- 4.142 Although it is not a strategic office location, the King's Road is a successful one, with low vacancy (currently 856 sq m) and rents typically between £300 and £350 psf. The existing office stock is financially sustainable and new development would be viable, but seems unlikely given that the area is fully built up and residential values are far higher.



- 4.143 In terms of planning policy, our market analysis provides no reason why the existing stock should not be safeguarded. That stock is financially viable, well occupied and suitable for the market it serves. Whether pressures to replace offices with housing should be resisted depends on the Council's wider priorities.

### South Kensington

- 4.144 Like the King's Road and other town centres in Kensington & Chelsea, South Kensington is mainly an upmarket retail and residential location, in which offices are not a primary function. There are no significant offices buildings in the area and the office stock is mostly above retail units. Suites are small, 175 sq m on average, and occupiers are a mixture of creative industries and local services. Vacancy is very low, currently 348 sq m, and rents are high at a typical level of £400 psm. Maintaining the existing stock is financially viable and new development would be viable, except that the area is fully built up, and where development opportunities do come up housing will deliver much higher returns.
- 4.145 In terms of policy options, South Kensington is similar to the King's Road. From a commercial market perspective, there is no reason why the existing stock should not be safeguarded. Whether pressures to replace offices with housing should be resisted depends on the Council's wider priorities.

### Fulham Road

- 4.146 Fulham Road, in the south of the borough, is a popular residential area, with retail serving mainly local residents. Its stock of business space is very small and serves a local function. The area has some 10,000 sq m of offices and 1,000 sq m of studios. Most of the office space is dated, located on upper floors on Fulham Road or Bury Road, and the average suite is just 160 sq m. Studios are located in the same area and similarly small, with an average size of 240 sq m. Business space occupiers are predominantly services supporting the local community.
- 4.147 Vacancy figures for Fulham convey no meaningful information, because the market is so small. Agent's comments and current rent levels, at £400 psm for offices, suggest that the market is tight and the existing space is financially sustainable. This space serves a useful function and from a commercial market perspective there is no reason why it should not be retained.

### Westbourne Grove

- 4.148 Westbourne Grove has even less business floorspace than Fulham Road and it is not a recognised commercial area. Small office suites and studios are spread across the area, with no particular concentration of business space. Office rents, at some £300 psm, are sufficient to maintain the existing stock. But we do not expect any new business development, given the lack of development capacity in the area and the high house prices.
- 4.149 As with Fulham Road, there seems to be no reason why the business space should not be retained, unless housing is considered more important. But there is no scope in the area to create additional office space on a significant scale.

## Earl's Court

- 4.150 Earl's Court is currently considered a very secondary office location, within a residential and retail environment. The majority of the office stock here is located on upper floors above retail.
- 4.151 This area of the borough doesn't particular attract the creative industries. The majority of tenants are there to service the local community. Take-up of office accommodation is general slow, with CoStar recording only five lettings since 2008. The current vacancy rate is high at approximately 14 per cent, this being spread over five office suites. The area has some of the lowest rent in the borough, set at £200 psm to try and attract tenants. If rents get lower, the existing accommodation maybe economically unviable to keep.
- 4.152 In general terms there is not a huge demand for the current accommodation in this area as its location is marginal compared to others. It lacks any real critical mass and any significant future take-up will be likely captured through the proposed strategic development at the Exhibition Centre – which mostly lies across the boundary in the borough of Hammersmith & Fulham. This scheme would create its own office environment.
- 4.153 Recently there has not been any new office development in this area. However, as previously mentioned, strategic development is proposed at the Exhibition Centre. This scheme would create it is own office environment and could be a threat to the existing office properties.
- 4.154 The future options for the existing offices in Earl's Court Road are limited by the proposed development and the already marginal nature of the stock. Over the medium to long term it may be necessary to allow redevelopment for housing.

## Conclusions

- 4.155 In this chapter we have addressed two main questions: the scope for new development and the sustainability of existing business space.
- 4.156 In regard to the first question, we have found that there is viable demand for additional space in the borough's prime office locations, especially Kensington High Street, and for buildings that replicate the combination of modern large floorplates and interesting architecture provided at Notting Dale Village. But there is little or no capacity to meet that demand in those parts of Kensington & Chelsea which are currently most attractive and most popular. This is partly because the borough is densely built up. But also, where there are opportunities for redevelopment or intensification, office development is trumped by housing, which creates especially high land values in Kensington & Chelsea.
- 4.157 There is no obvious way to overcome this obstacle. Safeguarding sites for new office development is considerably more difficult than safeguarding existing offices. Planning policy could perhaps identify certain sites for office development and safeguard them severely against competing uses. But such policy may be open to challenge, because office development opportunities are over-supplied across London as a whole, and neighbouring strategic schemes at Earls Court and White City offer alternative accommodation to the creative industries which are Kensington & Chelsea's special market.

4.158 Turning to existing floorspace, we have found that in most employment zones and higher-order town centres it is financially viable to maintain the stock of offices and industrial / studio space. One possible exception are the offices in the north of the Latimer Rd / Freston Rd Employment Zone. In that area the Council needs to make a choice. It could intervene actively to upgrade the business environment, which should improve office demand and values. Otherwise it may have to consider relaxing the policy that safeguards existing offices, because that stock may become unviable. Another exception is the existing offices within the Earl's Court town centre, which may become economically marginal, especially if the strategic scheme at the wider opportunity area goes ahead.

Other than these vulnerable areas, our analysis suggests that the existing stock of employment space is in demand and economically viable. Therefore it should be feasible for the Council to safeguard that stock against redevelopment for alternative uses, should the Council choose to take this approach.



## 5 CONCLUSIONS

- 5.1 In this final chapter, we aim to provide concise answers to the Council's questions, which were listed at paragraph 1.2 of the Introduction above.

### **Where are there gaps and blockages in the local commercial market that currently hinder local economic growth?**

- 5.2 As discussed in the last section, the main gap or blockage is the lack of opportunities for significant office development in the borough's prime office areas. This hinders the amount of economic growth that takes place in Kensington & Chelsea. But it is unlikely to constrain economic growth in London as a whole, because there are compensating development opportunities elsewhere, especially in the neighbouring borough of Hammersmith & Fulham.

### **How fit for purpose is the borough's commercial floorspace?**

- 5.3 The bulk of the space provided in the employment zones and town centres (we have not looked at other areas) is fit for purpose. We know this because the space is well occupied and well maintained and achieves sustainable rent levels. The exceptions are the offices in the North of the Latimer Rd / Freston Rd Employment Zone and the existing offices at Earl's Court. Latimer Road / Freston Road would benefit from an initiative to improve the environment, as discussed in the last section. The offices in the Earl's Court town centre and its immediate hinterland may have poor prospects, especially if the strategic development at the Exhibition Centre goes ahead.

### **How effective are the Council's planning policies for employment land?**

#### ***The employment zones***

- 5.4 A key question is whether the updated development plan should continue to safeguard the employment zones for employment uses. This is a matter for the Council to weigh up, given competing pressures for land.
- 5.5 The Experian data suggest that the employment number is around 5,000, less than 5% of the borough's total employment. But qualitatively the original rationale for safeguarding the employment zones was partly that they provided jobs for residents of local disadvantaged communities. We suspect that this is no longer the case, because there are few employers of non-specialist workers remaining in the zones. However the creative industries that have replaced them are likely to employ more highly qualified workers, sourced from a wide catchment area and fostering these jobs are a GLA priority.
- 5.6 Instead, a valid rationale for safeguarding the employment zones is threefold:
- The employment zones contain nearly 25% of all business floorspace in the Borough and businesses which employ some 5,000 people within a variety of sectors
  - They house significant creative clusters, which cannot be dismembered without damaging the success and competitiveness of their various industries. This would go



against wider economic development objectives, because creative industries are a priority for all three tiers of government.

- They provide an opportunity for business owners living in the borough to work close to home.

### **The town centres**

5.7 Outside the employment areas, the Council will also wish to consider whether office space in the higher-order town centres should be protected. The possible case for on-going protection would rest on two arguments:

- All the town centres we have reviewed house office-based services for local residents, though sometimes on a very modest scale.
- The larger and more popular of them, especially Notting Hill Gate and the Kings Road, contribute to the creative clusters discussed earlier. If commercial markets in these areas lose critical mass, these clusters will be threatened.

### **What are the opportunities to attract inward investment and enhance the quality and value of the borough's commercial floorspace?**

- 5.8 Opportunities for inward investment are associated with the creative sectors which are the borough's specialist market. The greatest opportunities would result from development of iconic buildings with large floorplates that can attract creative corporates. As we have seen, there is demand for such development, but the borough has little capacity to meet that demand in the places where it exists.
- 5.9 As the survey has shown the main local concerns relate to a shortage of space but also parking and urban realm. There is scope to improve the physical environment which would be supported by local firms. Any net increase in parking provision is very unlikely to be secured but any loss (including that used for servicing) should be resisted.
- 5.10 There is also potential to increase the provision of supporting services such as cafes and small shops to meet every day needs. This may help reduce the feeling of isolation many firms have reported.

### **What are the requirements for business support?**

- 5.11 Our business surveys suggest that businesses are broadly satisfied with the Council and did not suggest anything further that the Council should do to support them. This of course does not mean that there is no scope for particular initiatives to support specific sectors or firms. But we see no obvious case for general interventions, for example to improve broadband speeds (serious dissatisfaction on that count is rare) or to subsidise property costs (our survey respondents think that the benefits of their location justify its costs) or to provide dedicated accommodation for homeworkers (they seem happy working from home). In broad terms, the business surveys suggest that the Council does its jobs well.
- 5.12 However the caveat to this is that the Borough does not have a supply of inexpensive space and so any survey of the existing businesses would by definition not include tenants whose business future is dependent cheap space. If a business requires inexpensive space they would need to locate elsewhere.

**APPENDIX 1**

SURVEY QUESTIONNAIRE

Kensington & Chelsea Business Premises Study

Intro Script TBC.

FIRST IDENTIFY THE EXPERIAN RECORD

If in Experian record ref in other

- ☐ Cannot find in Experian
- ☐ Other:

Contact Details

Business name \*

Respondent's name \*

Respondent's job title \*

Note: The person should be in a position to answer questions about the firms location and business activity. If not ask for someone else

Business address \*

Postcode \*

Confirm correct building is marked on site map / plan \*

(dont forget to mark and reference the firm on the map)

- ☐ Business occupies all this building (as shown on the map)
- ☐ Business occupies part of this building

If part of building

If part of the building please describe to help us identify the VOA record

e.g. floor number, suite number or unit number

About your business

About Your Business

Are you part of a larger firm that operates from more than one address? \*

Prompt

- ☐ No - we only have this address
- ☐ Yes - 1-4 different addresses
- ☐ Yes - 5 or more different addresses
- ☐ Other:

What type of space does your business occupy at these premises? \*

Interviewer probe and decide. If mixed code main use or use other and describe.

- ☐ Office (Desks and odd photocopier)
- ☐ Factory (B2 manufacuring unit. May have some office space. Ideally seperated from resi)
- ☐ Workshop (Normally a small unit but not aways, used for light manufacuring. Unlikley to cause resi problems)
- ☐ Warehouse
- ☐ Retail
- ☐ Leisure
- ☐ Other:

What is the main activity of your business at this address? \*

Answer must be specific to this address and not the firm in general. Be specific: the answer must include a verb. Cross-check against data.

- 
- Do you have residential neighbours at the moment. In the same building or adjoining you? \*
- ☐ Yes
- ☐ No
- ☐ Don't know
- ☐ Other:

Page title  
(optional)

Already have residential neighbours?

Description  
(optional)

Done

- Does having residential neighbours cause you any problems?
- i.e. would it be preferable if another firm similar to you was there instead?
- ☐ Yes - my neighbors are a problem
- ☐ No - working next to homes is fine
- ☐ Don't know or cannot say

Don't have residential neighbours at the moment

- Would having residential neighbours cause you any problems
- i.e. if someone built flats above you or next to you would this cause you problems?
- ☐ Yes
- ☐ No
- ☐ Don't know / not sure
- ☐ Other:

Problem Neighbours

Why are they or would they be a problem for you?

[Comment on previous question]

Employment

How many people work for your firm at this address? \*

Simple headcount, to include regardless of fulltime, part time, contract, freelance, working owners or partners etc. Please include anyone whose main base is here, even if they work off site (e.g. van drivers) . If density looks odd, probe for explanation and write under Comments below

Any comments on density

e.g. note lots of people work off site driving vans etc

**Is the space at this address.... \***

Prompt

- ☐ Under-occupied - i.e. we have lots of spare space
- ☐ Over-occupied - i.e. space is tight and we could do with more
- ☐ About right
- ☐ Other:

**In the past 2 years has your employment at this address grown, shrunk or stayed the same? \***

- ☐ Grown
- ☐ Shrunk
- ☐ Stayed the same
- ☐ Other:

**In the next 2 years do you expect your employment at this address to grow, shrink or stay the same? \***

- ☐ Grow
- ☐ Shrink
- ☐ Stay the same
- ☐ Don't know or won't say
- ☐ Other:

**Your location**

The Council wants to encourage existing and new business in Kensington and Chelsea. So it wants to know what businesses like and don't like about the borough.

**Where are your customers based? \***

Please tick the smallest area that fits. Prompt if needed.

- ☐ All or most are in Kensington and Chelsea or the immediate vicinity
- ☐ All or most are in central and west London
- ☐ All or most are in Greater London
- ☐ All or most are in London and South East England
- ☐ All or most are in the UK
- ☐ Our market is international
- ☐ Other:

**Why are you here? Please give all the main reasons \***

Do not prompt. If needed ask what makes it a good place to be.

- ☐ Accessible to customers (for them to visit or firm to visit them)
- ☐ Close to similar businesses
- ☐ Convenient for the owner / decision-maker
- ☐ Convenient for the workforce
- ☐ History - we've been in this building or area a long time etc
- ☐ Close to previous location or parent company
- ☐ Price/value for money/we could afford it etc
- ☐ Availability of suitable space
- ☐ Nice area, attractive environment etc
- ☐ Other:

**Of these factors, which single one is the most important? \***

Refer to previous list - identify the most important

- ☐ Accessible to customers
- ☐ Close to similar businesses
- ☐ Convenient for the owner / decision-maker
- ☐ Convenient for the workforce
- ☐ History - we've been in this building or area a long time etc
- ☐ Close to previous location or parent company
- ☐ Price/value for money/we could afford it etc
- ☐ Availability of suitable space
- ☐ Nice area, attractive environment etc
- ☐ Other:



What are the bad things about operating at this location? Please list all the important things. \*

Do not prompt

- ☐ Traffic congestion
- ☐ Insufficient parking
- ☐ Property expensive
- ☐ Physical environment
- ☐ Staff/labour difficult to recruit or keep
- ☐ Unattractive area, bad environment etc
- ☐ Too close to residential or other uses
- ☐ None
- ☐ Other:

Broadband

The Council is keen to see that the Boroughs broadband service meets the needs of local businesses

Do you have a broadband internet connection, and do you need one? \*

(note if they dont have but would like record in other - along with why they cannot get Broadband)

- ☐ Yes, do have a connection
- ☐ Don't have and don't need
- ☐ Don't have but would like

Yes I have Broadband

If you do have a connection, are there any problems with it?

- ☐ Too slow
- ☐ Too expensive
- ☐ Poor reliability
- ☐ No, we have no problems
- ☐ Other:

Would like broadband but do not have

Why have not got a connection?

Free text - say why they have not been able to get a connection. Whose fault is it, provider, landlord or other?

How long have you been at this property?

When did your firm first take up space in this property? \*

Prompt

- ☐ 2007 or earlier
- ☐ 2008 or later
- ☐ Other:

If 2008 or later

In looking for a property, what was your area of search at that time? \*

Please tick the smallest area that fits

- ☐ Within Kensington and Chelsea and immediate surroundings
- ☐ Within central London
- ☐ Within west London
- ☐ Within Greater London

- ☐ Within London and South East England
- ☐ Within the UK
- ☐ International
- ☐ Other:

Was it easy to find suitable property in K&C that you could afford?

Prompt

- ☐ We had no problems - it was easy
- ☐ Some difficulty
- ☐ Lots of difficulty - it was really hard to find something
- ☐ Other:

IF HAVE BEEN IN THIS PROPERTY SINCE 2007 OR EARLIER

(Inc firms formed post 2007)

If you had to move property tomorrow, is it likely that your would remain in this area?

- ☐ Yes
- ☐ No
- ☐ Don't know
- ☐ Other:

Finally

What, if anything, should the Council do to make the borough a better place for businesses like yours? \*

Do not prompt. (We will make a longer list based on people's replies)

- ☐ Reduce business rates
- ☐ Other financial incentives / grants
- ☐ Improve parking (cheaper, more of it)
- ☐ Provide affordable space
- ☐ Improve urban realm
- ☐ Don't Know
- ☐ None / Nothing
- ☐ Other:

Thanks and follow up

Final script..... TBC

If we need to come back to you to clarify anthing at a later date can we please take a phone number?

Not needed if they dont want to give us one

And maybe an e-mail address?

## **APPENDIX 2**

### **LANDOWNERS AND AGENT**

KENSINGTON & CHELSEA MAIN COMMERCIAL OWNERS AND AGENTS

Address	Details	Owners	Purchasers Agent
<b>Kensington High Street</b>			
62 - 74 Kensington High Street, W8 4PE	Ground floor retail (including Pizza Hut and Ladbrokes) upper floors have planning consent for resi	BLACKIE LIMITED - A private middle eastern investor ASPECT PROPERTY GROUP LTD (tel 020 8416 0055) & BLACKIE LIMITED	
149 - 153	The property is let to Pret a Manger .Tenants include Natura Ltd, Ecco Shoes Ltd, Ann Summers Ltd and Vodafone Ltd.	BLACKIE LIMITED - A private middle eastern investor	STRUTT & PARKER - Simon Knights tel - (0)20 7629 7282
100 - 106 Kensington High St			
26 - 40 Kensington High St, W8 4F 201 - 207 Kensington High St, W8 6BA 240 - 280 Kensington High St, W8 6ND	Tenants include TK Maxx, Urban Outfitters, Wagamama and Virgin Active Tenants include Robert Dyas, Sony Centre and JD Sports Auction sale	KHOO TECK PUAT UK FOUNDATION Maxicorp tel (0)1481 723 950	STRUTT & PARKER - Simon Knights tel - (0)20 7629 7283
Kensington Arcade, 123 - 125 Kensington High St, W8 5SF 94 Kensington High Street, W8 4SJ 98 Kensington High St, W8 4SG	Boots, Hutchinson 3G and National Basketball Association HSBC C & J Clark International Ltd	Meadow Partners LLP through the Meadow Real Estate Fund LLP SDB GUERNSEY LTD BLACKIE LIMITED - A private middle eastern investor	H2SO - 020 7788 8950 Knight Frank 020 7861 1211 CLIVE KEMP & CO - 020 7499 4770
<b>Knightsbridge</b>			
21 Knightsbridge 243 Knightsbridge 100 Knightsbridge, SW1X 7XH 100 Knightsbridge, SW1X 7XH	let on short term leases to 8 tenants in total including sports TV channel Box Nation, Coffee company AMT  The property is let to Lancaster Plc trading as McLaren London Rolex Store	Lancer Estates Lancer Estates BLACKIE LIMITED - A private middle eastern investor Grigory Guselnikov, Williston Properties	Maria Panayi at HMC 020 7439 1500 Naomi Charlton at DTZ - 020 3296 4623  Nightingale Partners Limited - James Turner 020 7399 0640
<b>Kings Road</b>			
Atlantic Court, 73 -77 Kings Rd, SW3 4NX  84-88 Kings Road, SW3 4UG  Royal Avenue House, 35 - 47 Kings Road, SW3 4NB  55-59 Kings Road, SW3 4ND 53 Kings Road, SW3 4ND	The property is let to Holland & Barrett, Everything Everywhere (T-Mobile), Benihana and Michael Aukett Architects   Monsoon, H Samuel, Hawes & Curtis and Sole Trader This was as part of a deal comprising 55 King's Road and the adjoining 57-59 King's Road. A Jones & Sons is the tenant at both 57 & 59 King's Road	BLACKIE LIMITED - A private middle eastern investor  Cadogan Estates - 020 7730 4567 Ignis Asset Management, Ignis UK Property Fund - contact Gary Hutcheson 0845 60 50 444  The Cadogan Estate - tel 020 7730 4567 BLACKIE LIMITED - A private middle eastern investor Consulco Capital Real Estate, Hermes Properties Limited (020 89987923)	Colliers International - 020 7344 6707      Michael Elliott LLP - 020 7493 8184
<b>442 Kings Road, SW10 0LQ</b>			
<b>Fulham Road</b>			
196 - 200 Fulham Road, SW10 9PN	The property is let to Savills Residential subsidiary, Savills Land and Property Limited The property is let to Central and North West London NHS Foundation Trust	Mayfair Capital Investment Management, on behalf of its MC Property Growth Fund No.2. Tel - 020 7495 1929	
Chelsea Chambers, 264 Fulham Road, SW10 9EL		Servite Church	Cluttons LLP - 020 7262 2226
<b>Notting Hill Gate</b>			
Gate Hill Court, Notting Hill Gate Ivy Lodge, Notting Hill Gate Campden Hill Towers, Notting Hill Gate United House, Notting Hill Gate Coronet Cinema, Notting Hill Gate David Game House, Notting Hill Gate Astley House, Notting Hill Gate		William Pears Group 020 7433 3333 William Pears Group 020 7433 3334 William Pears Group 020 7433 3335 William Pears Group 020 7433 3336 William Pears Group 020 7433 3337 William Pears Group 020 7433 3338 William Pears Group 020 7433 3339 Brockton Capital Fund II LP, Development Securities plc - Lucy Grimble 020 7828 4777	
Newcombe House, 45 Notting Hill Gate, W11 3LQ	let to Orange Ltd, Ryman Ltd, Boots Opticians Professional Services (t/a Dollond & Aitchison), The Book Warehouse Limited and Coral Estates Ltd. Ten self-contained residential flats occupy the upper floors, seven of which are let on ASTs.	Enstar Capital, Princeton Investments Plc 0207 4934191	
<b>72-74 Notting Hill Gate, W11 3HT</b>			
<b>Earl's Court Road</b>			
	Tenants include Nandos Chickenland Ltd on the ground and basement floors, and a sublet by Nandos to Kensington Car Service and PhilRem Ltd on the first floor.	BLACKIE LIMITED - A private middle eastern investor	Crowson Bellman Gill Adams (CBGA) - 02074956838
<b>204 Earl's Court Road, SW5 9QF</b>			
<b>Freston Road/Latmier Road</b>			
Phoenix Brewery Units 1-6 & 7-10 Latimer Road Industrial Estate Big Yellow Building, 1 Nicholas Road, Notting Dale Village Studio Building, Nicholas Road, Notting Dale Village The White Building, Notting Dale Village Park House, 206-208 Latimer Road Latimer Clockhouse, 220 Latimer Road	Former Chrysalis Music Freehold of units were sold mid 2011	Cubemaker Partnership - Jonathan Lawes 0845 262 5544 Not known Monsoon Accessorize Ltd Monsoon Accessorize Ltd  Not known Not known	Hanover Green LLP Ashley Brudenell at Boston Gilmore 020 7603 1616 David Rosen at Pilcher Hershman & Partners. 020 7399 8600 David Rosen at Pilcher Hershman & Partners. 020 7399 8601 David Rosen at Pilcher Hershman & Partners. 020 7399 8602 Simon Kibble at Frost Meadowcroft 020 8748 1200 Roger Painter at Bective Leslie Marsh 020 7221 0330
<b>Kensall Road</b>			
Network Hub, Kensall Road Canalot Production Studios Kensall House Saga Centre		Workspace Group Plc 020 7138 3300 Derwent London Plc Saga Centre - 0208 960 0916	Damian Lambourn at Colins Lambourn Tel: 020 7563 1791  David Rosen at Pilcher Hershman & Partners. 020 7399 8600
<b>Lots Road</b>			
The Plaza, Lots Road Chelsea Wharf, Lots Road 92 Lots Road		Managed by Commercial Estates Group Bedford Estates - 020 7636 2885 Thermoengage Ltd	HNG 020 32050200 Boston Gilmore, Granby Martin Ltd Boston Gilmore - 020 7603 1616