
Strategic evidence to support London borough Article 4 Directions in London's nationally significant office locations

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MAYOR OF LONDON

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Executive Summary

In May 2013, Government introduced **permitted development rights (PDR)** to allow offices to be converted to residential without the need for planning permission¹. For defined locations the Government granted **exemptions from these rights** in recognition of their role as nationally significant office locations. In London these locations include:

- The whole of the Central Activities Zone (CAZ)
- Northern Isle of Dogs (NIOD)
- Tech City
- The Royal Borough of Kensington & Chelsea
- The Royal Docks Enterprise Zones

These exemptions are due to **expire in May 2019**.

This paper sets out a summary of the **strategic evidence** to support the relevant boroughs to introduce 'Article 4 Directions' which would remove the permitted development rights that would otherwise apply.

The Mayor's **strategic objectives** on this matter are:

- to safeguard, enhance and promote the **agglomerations of nationally significant offices** in the capital and their contribution to the London and UK economy
- to support a **co-ordinated approach** to the introduction of Article 4 Directions by the relevant boroughs for the areas currently exempt from office to residential permitted development rights
- to **optimise the potential for housing delivery** in appropriate locations that is of good quality and addresses London's housing needs including affordable housing
- to work with boroughs and other partners to deliver the **step change in housing supply** required through his London Plan and Housing Strategy.

The **evidence** to support the introduction of Article 4 Directions to remove the permitted development rights includes:

- **Safeguarding the contributions of London's nationally significant office locations to the London and national economy** - The output of the Central Activities Zone, Northern Isle of Dogs and a 1km fringe around them stood at just over £194 billion in 2015 accounting for over 50 per cent of London's output and around 12 per cent of UK output. It is essential for London and the UK as a whole that these areas are not undermined by office to residential permitted development rights.
- **Office floorspace stock** - The ten CAZ boroughs (incorporating much of London's nationally significant office space) contained almost 20 million sq m of office floorspace in 2016. This equates to about three quarters of London's total office stock and over a fifth of the total in England & Wales.

¹ Subject to prior approval and conditions set out in the Statutory Instrument 2015 No. 596 and 2016 No. 332.

- **Agglomeration benefits** – These arise from the unique concentration of large numbers of businesses in London’s nationally significant offices locations. The benefits include increased productivity (output per worker), access to a large pool of labour, fostering collaboration and transfer of knowledge, innovation and technology between business and sectors, and promoting competition, efficiency and London’s global competitiveness.
- **Employment growth** – Employment is projected to increase by 423,000 in CAZ, 86,000 in NIOD and 18,000 in Kensington & Chelsea between 2016 and 2041. Over the same period there is capacity for 51,000 jobs in the City Fringe/Tech City area and 55,000 in the Royal Docks Opportunity Area. The introduction of Article 4 Directions will help to ensure that sufficient office capacity is provided to accommodate the growth in projected employment.
- **Contributions to strategic infrastructure** - The introduction of Article 4 Directions to remove office to residential permitted development rights in the currently exempted area would enable financial contributions to be collected through conventional planning approvals towards the delivery of strategic transport infrastructure. This essential infrastructure will support the agglomeration of business functions in these areas and their contribution to London and UK output and employment.
- **Central London office market trends** - The 2017 London Plan Annual Monitoring Report concluded that the current level of office permissions is too low to provide adequate development supply, and suggests that policy attention should be directed to avoid an undue shortage of office capacity in the pipeline. This reinforces the importance of the current exemption of London’s nationally significant office locations from office to residential permitted development rights.
- **Office and residential values** - The difference between office and residential values in the currently exempted areas is such that office to residential permitted development rights would see significant loss of office stock and an irreversible change in the nature of the country’s commercial hubs.
- **Unintended impacts and consequences of PDR** – More than 1.6 million sq m of office floorspace has prior approval for office to residential conversion via PDR, about 6 per cent of London’s office stock. The greatest impact has been in West and South London and around the exempted areas in Central London. More than half of the office floorspace with office to residential PDR prior approval is either fully or partly occupied with particular impacts on London SMEs and new start-up businesses.
- **Delivery of housing** - The Mayor’s draft London Plan sets out ambitious ten-year housing targets for every borough, alongside Opportunity Area plans for longer-term delivery where the potential for new homes is especially high. These targets have taken into account the need to strike an appropriate balance between new housing and the strategic office functions within the CAZ, NIOD and the other nationally significant office locations. The draft London Housing Strategy sets out the Mayor’s proposals for working with boroughs and other partners to deliver the step change in housing supply required.

Drawing on this evidence the Mayor supports the relevant boroughs to introduce Article 4 Directions to remove office to residential permitted development rights for the currently exempted areas set out above prior to the expiry of these exemptions in May 2019.

1. Strategic objectives

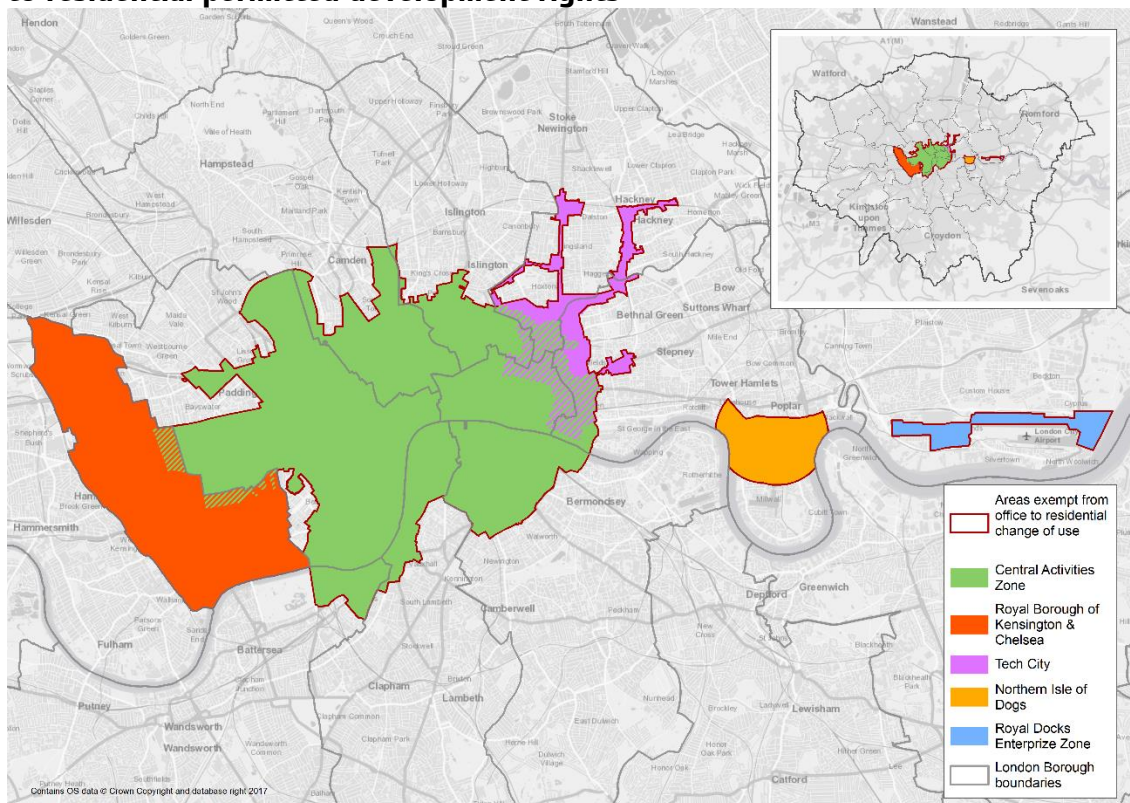
London’s Central Activities Zone (CAZ), the Northern Isle of Dogs, Tech City, the Royal Borough of Kensington & Chelsea and Royal Docks Enterprise Zones are **internationally and nationally significant office locations**. This was recognised in the exemptions to office to residential permitted development rights (PDR) that were granted by Government in 2013.

It is essential that the **agglomerations of offices** in these locations and their contribution to the London and UK economy **should continue to be safeguarded**. This is best managed through the planning system, rather than permitted development rights, to enable a careful balance to be struck between:

- (a) promoting the role of London’s **internationally and nationally significant office locations** and
- (b) optimising the potential for **housing delivery** in appropriate locations that is of good quality and addresses London’s housing needs including affordable housing.

The Mayor therefore supports a **co-ordinated approach** to the introduction of Article 4 Directions by the CAZ boroughs for the currently exempted areas (see Map 1 below) and for these to be in place before the exemptions expire in May 2019. This will ensure that London’s nationally significant offices in and around the CAZ are safeguarded. To support the Article 4 Directions, boroughs are encouraged to draw on the strategic evidence contained within this paper and its associated sources (see Appendix) as well as more local evidence.

Map 1: London’s nationally significant office locations currently exempt from office to residential permitted development rights²



² Referred to collectively in this paper as the “currently exempted areas” or “nationally significant office locations”

2. National policy and London Plan policy

The **National Planning Policy Framework (NPPF)** sets out the Government's core planning principles including the need to *"proactively drive and support sustainable economic development to deliver the homes, business and industrial units, infrastructure and thriving local places that the country needs."* (paragraph 17).

It sets out a commitment to *"securing economic growth in order to create jobs and prosperity, building on the country's inherent strengths"* and that *"significant weight should be placed on the need to support economic growth through the planning system."* (paragraphs 18/19).

The **London Plan** and boroughs' **Local Plans** provide a practical framework for housing and economic development responding to the unique circumstances in the capital.

With respect to London's nationally significant office locations the **adopted London Plan** (March 2016) contains policy to:

"enhance and promote the unique international, national and London-wide roles of the Central Activities Zone (CAZ), supporting the distinct offer of the Zone based on a rich mix of local as well as strategic uses and forming the globally iconic core of one of the world's most attractive and competitive business locations" (Policy 2.10 Aa).

It also seeks to: *"sustain and enhance the City of London and, although formally outside the CAZ, the Isle of Dogs as strategically important, globally-oriented financial and business services centres"* (Policy 2.10 Ac)

The **Mayor's new draft London Plan** (published in December 2017) includes the following policies which provide the strategic context for boroughs' Article 4 Directions in the nationally significant office locations:

"The unique agglomerations and dynamic clusters of world city business and other specialist functions of the central London office market, including the CAZ, NIOD and other nationally-significant office locations (such as Tech City, Kensington & Chelsea and the Royal Docks Enterprise Zones), should be developed and promoted." (Policy E1 part C)

"The Mayor supports a co-ordinated approach to the introduction of Article 4 Directions by the CAZ boroughs before the exemptions expire in May 2019 to ensure that London's nationally significant offices in and around the CAZ are safeguarded. Boroughs are encouraged to draw on both strategic and local evidence to support these Directions" (paragraph 2.114)

The draft London Plan recognises the mixture of strategic activities and more locally-based and residential ones in the CAZ. This mixture is an important part of its dynamism. The introduction of office to residential Article 4 Directions will sustain the agglomerations of offices and other strategic functions in these areas whilst supporting the complementary provision of residential development.

3. Locations – the currently exempted areas

The Central Activities Zone and Northern Isle of Dogs

The Central Activities Zone (CAZ) is the vibrant heart and globally iconic core of London. It is one of the world's most attractive and competitive business locations. It accommodates **one third of London's jobs** and generates around **10 per cent of the UK's output**. It contains the seat of national government and is internationally-renowned for its culture, night time economy, tourism, shopping and heritage. It is also home to more than 230,000 residents.

The density, scale and mix of business functions and activities in the CAZ are unique and are underpinned by the connectivity provided by public transport, walking and cycling networks. This agglomeration results in **exceptional levels of productivity**, which cannot be replicated elsewhere in the UK, and provides national benefits. It requires different or tailored approaches to the application of national policy to address its distinct circumstances.

The CAZ has **strategically important clusters** in areas such as business, professional and financial services, tech, creative industries, arts and culture, health and life sciences, education and law. The removal of office to residential permitted development rights is essential to enable these sectors to continue to flourish and for small and medium-sized enterprises to fulfil their economic potential alongside larger businesses. These office functions and business clusters are spread throughout the CAZ and the Mayor supports the introduction of Article 4 Directions for the **whole of the CAZ** by the relevant local planning authorities³.

For the purposes of CAZ policies in the London Plan, the **Northern Isle of Dogs** is recognised as a CAZ 'satellite' location for world city office functions. The 2017 London Office Policy Review indicates that the CAZ and the Northern Isle of Dogs are projected to accommodate more than **367,000 additional office jobs** and a net increase of 3.5 million sq m (GIA) of office floorspace over the period 2016 to 2041, an average of 140,000 sq m per annum. The introduction of borough Article 4 Directions should ensure the provision of a range of office floorspace in terms of size, quality and cost. This will be supported through a combination of intensification, redevelopment and refurbishment.

Tech City

Tech City is recognised in the London Plan as a growing digital, creative and tech cluster and a **business hub of major international significance**. It lies within the City Fringe Opportunity Area and extends from the Old Street 'Silicon Roundabout' and Shoreditch to Whitechapel, Hackney Central and Dalston. Parts of the area lie within the CAZ and include development corridors leading to Dalston, Hackney and Whitechapel. The expansion of Tech City and continued business growth in the City Fringe was formally recognised by the (then) Prime Minister, David Cameron, as **strategically important to the economy of London and the UK**.

Tech City contains an agglomeration of business functions and significant additional office development capacity in relatively central areas. There is particular scope to support the expansion of diverse clusters of digital-creative businesses in this area as well as business and professional services.

³ Including Camden, City of London, Hackney, Islington, Kensington & Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth and the City of Westminster.

The key growth conditions that planning can affect in Tech City and the City Fringe are its:

- available, affordable, suitable business floorspace
- location and “creative vibe”
- dense, urban, collaborative environment
- connectivity
- mix of uses.

The introduction of Article 4 Directions for this area will continue to support the growth and expansion of this vital business cluster.

Royal Borough of Kensington & Chelsea

Kensington & Chelsea contains a vibrant mix of business clusters. In 2016 it was estimated to contain 473,000 sqm of office floorspace⁴ and more than 37,000 office jobs⁵. Over the period 2016 to 2041, office jobs are projected to increase by around 8,000 and office floorspace by around 87,000 sq m⁶. Offices are located in clusters spread throughout the borough and in recognition of this, Government granted the exemption to office to residential PDR for the whole area.

Royal Docks Enterprise Zones

London's Royal Docks is an expanding business district in East London, delivered by the Mayor of London as a major landowner, private sector partners and the London Borough of Newham. With 122 hectares of prime waterfront land it contains London's only designated Enterprise Zone. It has excellent transport links. The area has firm foundations for growth, with existing assets including the University of East London, Crossrail, Docklands Light Railway, the ExCeL Exhibition Centre and London City Airport. The regeneration of the Zone will create a centre for global trade, with thousands of jobs and new homes.

Boundaries and area definition

The responsibility for defining the boundaries within which the Article 4 Directions will apply lies with the relevant London boroughs. The Mayor supports the introduction of Article 4s for all the currently exempted areas set out above.

4. Contributions to the national economy

The currently exempted areas provide concentrations of office provision important at international, national and London-wide levels. It is estimated that the output of the Central Activities Zone, Northern Isle of Dogs and a 1km fringe around them stood at just over £194 billion in 2015 accounting for over 50 per cent of London's output and around 12 per cent of UK output⁷.

⁴ Source: VOA Business Floorspace statistics (2016)

⁵ Ramidus Consulting/CAG, London Office Policy Review 2017, GLA, June 2017

⁶ Ramidus Consulting/CAG, 2017 op cit

⁷ GLA Economics calculations using ONS Business Register and Employment Survey and ONS Regional GVA by local authority (income approach) data.

These figures were estimated by GLA Economics using the same methodology⁸ described in GLA Economics Working Paper 68⁹. Figure 4.1 shows the ONS estimates of GVA for the local authorities that contain elements of the CAZ, the NIOD and the fringes. And Figure 4.2 shows the GLA Economics estimates of GVA for the CAZ, the NIOD and the fringes themselves.

Figure 4.1: Calculations of London local authorities GVA(I) in 2015 (£ million rounded to the nearest £10 million) for those authorities that are within the CAZ, NIOD or an approximately 1km fringe of either area.

Local authority	GVA (£ million)	Local authority	GVA (£ million)
Camden	26,440	Hackney	7,260
City of London	46,720	Islington	17,040
Kensington and Chelsea	11,100	Lambeth	11,270
Wandsworth	9,500	Lewisham	4,910
Westminster	53,570	Newham	6,500
Southwark	14,940	Greenwich	4,640
Tower Hamlets	28,970		

Source: ONS Regional GVA by local authority (income approach)

Figure 4.2: Calculations of GVA(I) generated within the CAZ, NIOD, and their approximately 1km fringes in 2015 (£ million rounded to the nearest £10 million)

Area	GVA (£ million)
CAZ	139,600
CAZ 1km Fringe	34,270
NIOD	18,230
NIOD 1km Fringe	2,370
CAZ & NIOD	157,830
CAZ, NIOD & a 1km Fringe	194,470

Source: ONS Regional GVA by local authority (income approach), ONS Business Register and Employment Survey, GLA Economics calculations

Given that in 2015 London's GVA stood at £378,420 million¹⁰, these estimates would suggest that the CAZ accounted for around 37 per cent of London's GVA. They further suggest that the

⁸ This first involved identifying the local super output areas (LSOA) – a geographical classification used in official statistics – for the Central Activities Zone and Northern Isle of Dogs. Then the employment shares of these LSOAs are calculated as a percentage of the relevant local authority on an industry basis. These employment shares were then applied to gross value added (GVA) estimates for the local authorities and summed.

⁹ GLA Economics. Working Paper 68: Work and life in the Central Activities Zone, the Northern Isle of Dogs and their fringes, GLA 2015.

¹⁰ This figure has since been revised to £379,160 million. However, given that the ONS has not yet made this revision to the GVA by local authority estimates (i.e. Table 4.1), the previous unrevised estimate is reported here for consistency.

CAZ and NIOD accounted for around 42 per cent of London's GVA and the CAZ, NIOD and the 1 km fringe around these areas accounted for nearly **51 per cent of London's GVA**. UK GVA stood at £1,666,340 million in 2015¹¹ implying that the CAZ, NIOD and their fringes accounted for just over **12 per cent of UK GVA**.

The latest data¹² finds that the all sector average GVA per workforce job in London was £58,442 in 2015 (a value 36.1 per cent higher than the UK as a whole and 48.6 per cent higher than the UK excluding London). In nominal terms, for 2015, the all-sector average GVA per workforce job in London increased by 1.3 per cent. For the UK as a whole, the all sector average GVA per job was £42,918, and £39,339 for the rest of the UK (excluding London) – increases of 1.2 per cent and 1.5 per cent respectively.

In conclusion, the introduction of office to residential Article 4 Directions for the currently exempted areas will enable established policy to support office and other related activities that make an irreplaceable contribution to the **continued prosperity of the United Kingdom**.

5. Agglomeration benefits

The concentration of offices and other types of employment within the CAZ, NIOD and the other nationally significant office locations give rise to what are termed economies of 'agglomeration'. Agglomeration refers to the **concentration of economic activity** in a particular location or area.

Agglomeration **benefits** arise because firms increase their productivity levels by being located in close proximity to one another and by having access to a large pool of labour enabling businesses to attract and retain skilled labour. Clustering and agglomeration offer several other benefits including fostering collaboration and the transfer of knowledge, innovation and technology between business and sectors, and promoting competition which drives efficiency and London's global competitiveness.

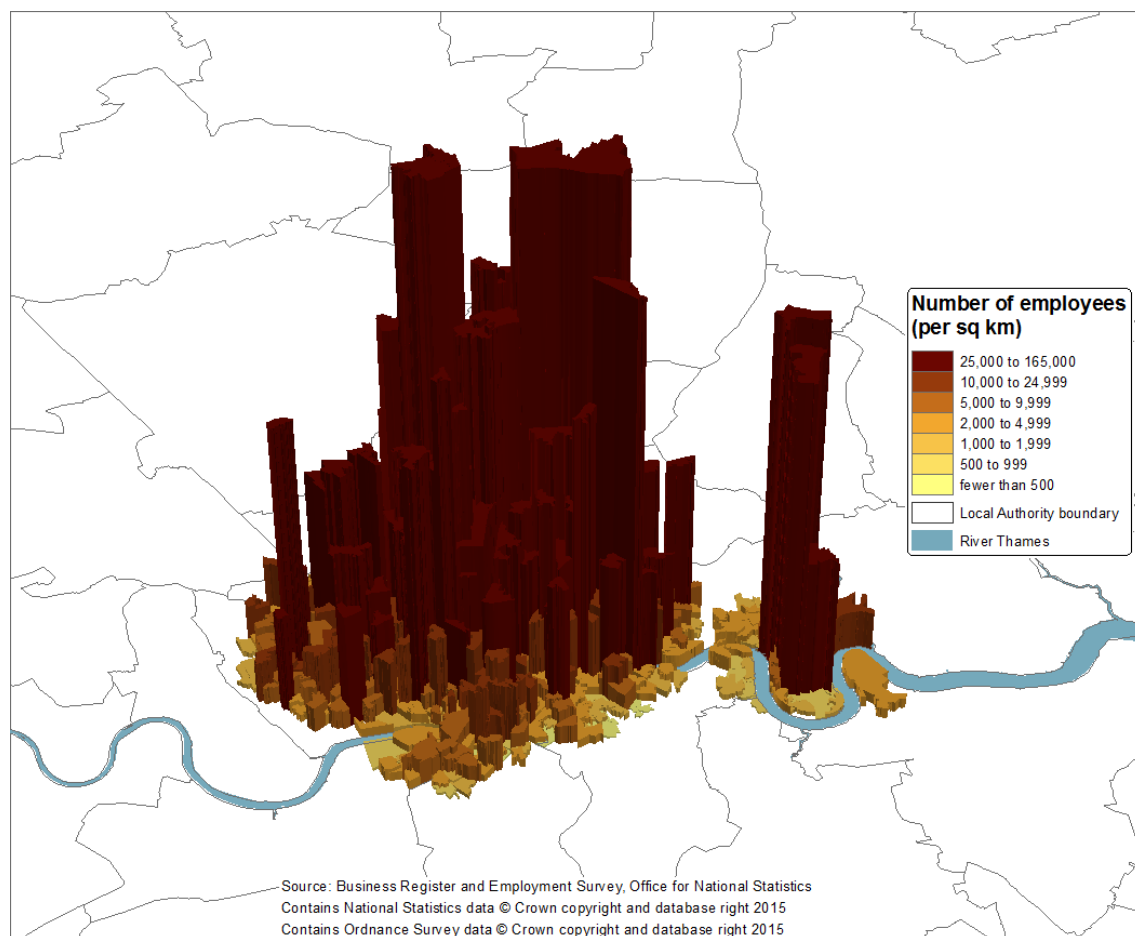
It is the significant concentration of **office-based activities** combined with its character and global reputation for business, shopping, culture, tourism and heritage that make the CAZ unique in a London, national and international context. The agglomeration of activities in the CAZ, NIOD and their surrounding areas is reflected in the large number of employees in these locations and illustrated in Figure 5.1 below.

The existing availability and connectivity of public transport in the CAZ is widespread, high frequency and high capacity. The **transport connectivity and capacity** provided by the rail network and TfL's tube, rail and DLR services play a primary role in facilitating employment in all of London's nationally significant office locations. These networks, complemented by active modes including cycling and walking, provide these concentrations of business activity with a huge labour market catchment across London and beyond. They also drive the agglomeration economics that benefit businesses there, allowing them to play a unique economic role within the UK. The connectivity and agglomeration benefits will be strengthened further with new infrastructure including, for example, the Elizabeth Line, Thameslink Programme, Northern Line Extension and the Underground investment programme. Further investment in strategic transport infrastructure is necessary to support the continued growth and success of the CAZ and in particular Crossrail 2 (see part 7 below).

¹¹ This figure has since been revised to £1,684,940 million, but the previous unrevised estimate is reported here for consistency.

¹² GVA per workforce job estimates for London and the UK, 1997 – 2015 (GLA Economics, 2017)

Figure 5.1. Number of employees per square kilometre in the CAZ, NIOD and an approximately 1km fringe around them.



Source: BRES/GLA Economics

6. Employment

Employment in the CAZ and NIOD combined stood at 2.2 million in 2016, a rise of 30 per cent on 2009, and accounted for around 35 per cent of London's employment¹³. The top five sectors of employment in this combined area in 2013 were Professional, scientific and technical; Financial & insurance; Information & communication; Business administration and support services; and Accommodation & food services¹⁴.

Employment is expected to continue to grow in the Central Activities Zone, NIOD, Kensington & Chelsea, Tech City and the Royal Docks. In the CAZ, total employment is projected to grow by 423,000 over the period 2016-2041 or 21 per cent¹⁵ of which around 290,000 jobs are expected to be in offices¹⁶. In NIOD, total employment is projected to grow by around 86,000 over the period 2016-2041 or 58 per cent¹⁷ with capacity for around 110,000 jobs in total¹⁸. A significant proportion of these jobs (85 to 90 per cent) are anticipated to be in offices.

¹³ GLA Economics. London Labour Market Projections 2017, GLA August 2017

¹⁴ GLA Economics. Working Paper 68: Work and life in the Central Activities Zone, the Northern Isle of Dogs and their fringes, GLA 2015

¹⁵ GLA Economics. London Labour Market Projections 2017, GLA August 2017

¹⁶ Ramidus Consulting/CAG. London Office Policy Review 2017, GLA June 2017

¹⁷ GLA Economics. London Labour Market Projections 2017, GLA August 2017

¹⁸ CAG. London Employment Sites Database, GLA 2017

In Kensington & Chelsea (of which a small part lies within CAZ) employment is projected to grow by 18,000 over the period 2016–2041 or 12 per cent, of which around 9,000 jobs are expected in offices. Employment projections are not available for the Tech City and Royal Docks Enterprise Zones. However recent capacity estimates¹⁹ suggest that the City Fringe/Tech City area and the Royal Docks Opportunity Area have the potential to accommodate around 51,000 jobs and 55,000 jobs respectively over the period to 2041.

The realisation of these job estimates is contingent on the careful management of development capacity and the balance with alternative land uses including housing. This evidence supports the case for office to residential Article 4 Directions in the above areas that are currently exempt from these permitted development rights.

7. Contributions to strategic infrastructure

The Mayor's current Community Infrastructure Levy (MCIL1) was introduced in 2012 to help finance the Elizabeth Line (Crossrail), the major new rail link that will connect central London to Reading and Heathrow in the West and Shenfield and Abbey Wood in the East.

On 26 June 2017 the Mayor published for public consultation the Preliminary Draft Charging Schedule (PDCS) for an MCIL2²⁰. It is intended that MCIL2 will be levied from April 2019, and will supersede MCIL1. MCIL2 will contribute to the funding of Crossrail 2.

Crossrail 2 is a proposed new railway serving London and the wider South East. It connects the National Rail networks in Surrey and Hertfordshire via a new tunnel and stations between Wimbledon, Tottenham Hale and New Southgate, linking in with London Underground, London Overground, the Elizabeth Line, and national and international rail services.

Like Crossrail, Crossrail 2 will address major emerging pressures on the transport network. Population and employment in London and the South East are forecast to grow strongly – by a further 20 per cent over the next 15 years. Without action to relieve crowding, boost connectivity and unlock new housing, London and the wider South East will struggle to grow sustainably in coming decades.

The intention is that from April 2019 MCIL2 will supersede the current Mayor's Community Infrastructure Levy (MCIL1) and the associated planning obligation/S.106 charge scheme applicable in central London and the Northern Isle of Dogs. MCIL1 and the S.106 scheme are being used to contribute to funding for Crossrail. MCIL2 will be used to contribute to funding for Crossrail 2.

The PDCS sets out the proposed charging rates:

- (1) for all development in Greater London (apart from the proposed rates for office, retail and hotel in Central London and the Isle of Dogs, and for health and education in all of Greater London) – in three bands comprising the administrative areas of the London boroughs and the Mayoral Development Corporations; and
- (2) for office, retail and hotel in Central London and Isle of Dogs.

¹⁹ CAG. London Employment Sites Database, GLA 2017 and work on Opportunity Area Planning Frameworks

²⁰ Mayor of London Community Infrastructure Levy 2 Preliminary Draft Charging Schedule, GLA, June 2017

In addition to MCIL there is the flow of business rates to consider. Under the business rates retention scheme, funding from this source will play an important role in providing resources including for infrastructure related development. The loss of existing office space would likely reduce the flow of funding from this source.

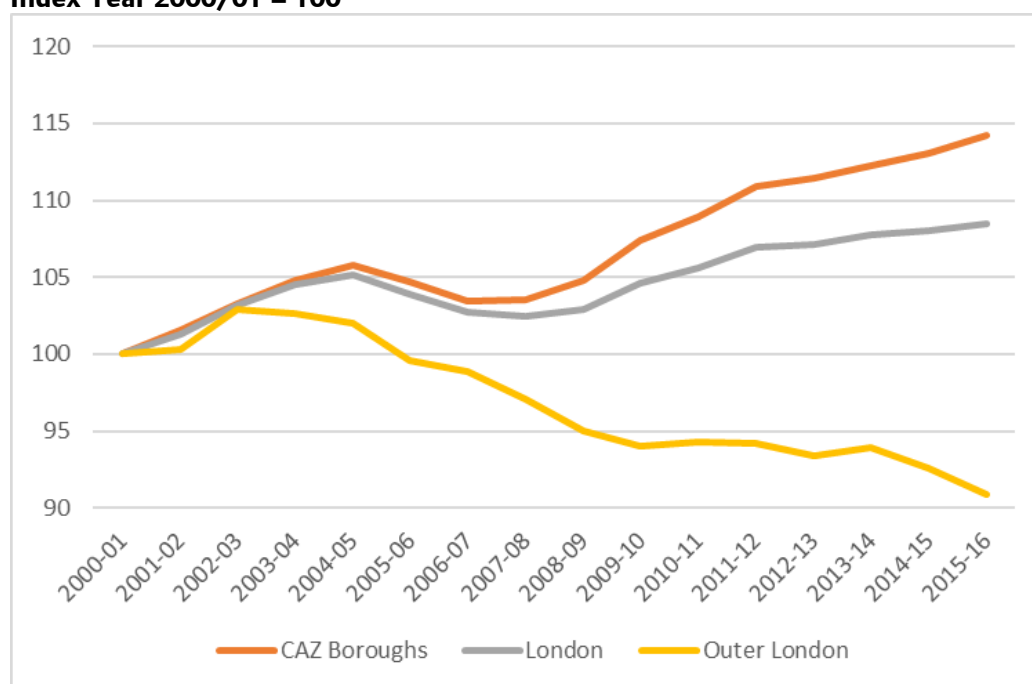
Given the scale of potential new office development in the CAZ, NIOD and the other nationally significant office locations (see section 3 above) the introduction of Article 4 Directions to remove office to residential permitted development rights in these areas would enable financial contributions towards the delivery of strategic transport infrastructure to be collected through conventional planning approvals. This essential infrastructure will support the agglomeration of business functions in these areas (see section 5 above). By contrast, if office to residential permitted development were to apply in these areas it could encourage the conversion of offices to residential rather than their redevelopment for new commercial space and undermine the potential contributions to support strategic infrastructure.

8. Central London office market trends

Stock

According to data from the Valuation Office, the ten CAZ boroughs²¹ (incorporating much of London’s nationally significant office space) contained almost 20 million sq m of office floorspace in 2016. This equates to about three quarters of London’s total office stock and over a fifth of the total in England & Wales. Figure 8.1 below illustrates the trends in the office stock in the CAZ boroughs compared to London as a whole and with outer London. It illustrates the fluctuating but generally growing trend in office floorspace in the CAZ boroughs over the period 2000 – 2016 compared to a declining trend in outer London.

Figure 8.1. Trends in office floorspace stock in London, CAZ boroughs and outer London. Index Year 2000/01 = 100



Source: VOA, GLA

²¹ Camden, City of London, Hackney, Islington, Kensington & Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth and Westminster

Availability

The overall Central London availability rate²² rose from 6.2 per cent in 2006 to over 8 per cent in 2009 before steadily falling until late 2015 to around 2.5 per cent. Figures 8.2 and 8.3 indicate the long-term relationship between availability rates and rental change in the City and West End. At the end of 2016, availability rates were 5.2 per cent in the City and 4.4 per cent in the West End. Although these rates represented an increase on 2015 levels they remain at historically low levels. Typically, when availability rates fall below 8 per cent there is a narrowing of choice for occupiers and rents tend to rise as illustrated in Figures 8.2 and 8.3 below. The planning process provides an important mechanism to ensure that there is sufficient office capacity (through the existing stock and the planning pipeline) to maintain an appropriate level of choice for occupiers in terms of location, type of space and cost.

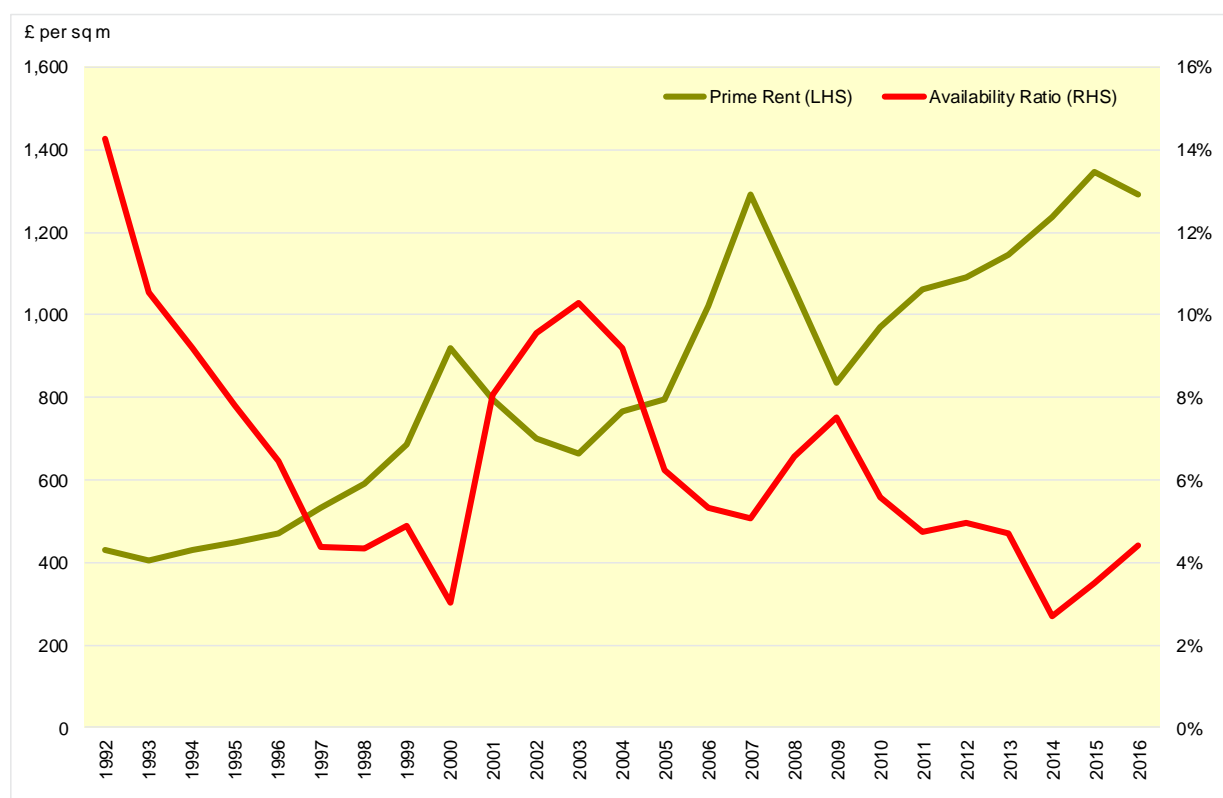
Figure 8.2 City availability rate vs headline prime rent, 1986-2016



Sources: Cushman & Wakefield, Ramidus Consulting

²² Measured as available office space relative to stock

Figure 8.3 West End availability rate vs headline prime rent, 1986-2016



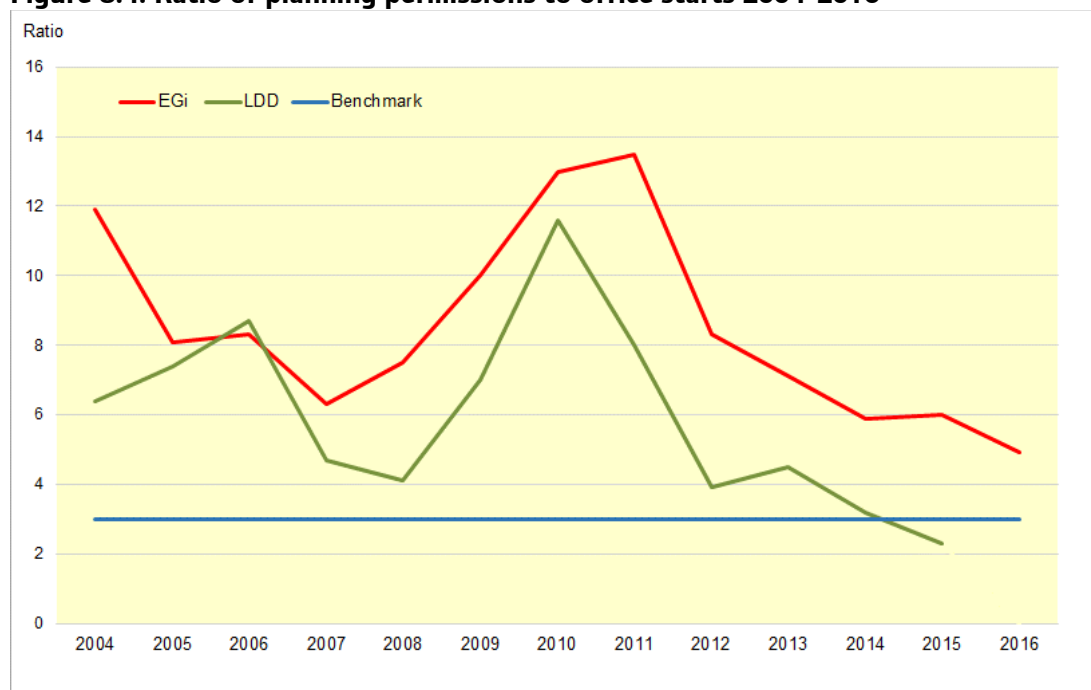
Sources: Cushman & Wakefield, Ramidus Consulting

The development pipeline - ensuring sufficient capacity in the London office market

The London Plan contains a key performance indicator (KPI) to support the implementation of office policy to ensure sufficient capacity in the London office market. The KPI states that the stock of office planning permissions should be at least three times the average rate of starts. In the most recent London Plan Annual Monitoring Report (2017) this measure was showing an amber warning due to rising development intensity outstripping replenishment by new permissions. The ratio that is based upon data from the London Development Database (LDD) has decreased below the threshold ratio for the first time since monitoring began (see Figure 8.4 below). The trend in the ratio based on data from EGi has likewise declined to a point not seen since the early-2000s. Looking forward, the expected reduction in development starts can be expected to prompt an uplift in the ratio as long as fresh applications for planning permission continue to come forward.

The 2017 AMR report concluded that the current level of office permissions looks to be too low to provide adequate development supply, to judge by past performance. This suggests that policy attention should be directed to avoid an undue shortage of office capacity in the pipeline. It also reinforces the importance of the current exemption of London's nationally significant office locations from office to residential permitted development rights.

Figure 8.4. Ratio of planning permissions to office starts 2004-2016



Sources: EGi, LDD, Ramidus Consulting

In 2015 the GLA commissioned Ramidus Consulting to investigate the challenges faced by the small office market in and around CAZ. Figure 8.5 analyses the data to isolate the specific impact of residential schemes in contributing to the loss of office space. It shows the contribution of Canary Wharf in Tower Hamlets, and King’s Cross in Camden, to expanding office supply outside the City of London, but generally only Westminster stands out for suffering large-scale, residential driven loss of office space. This is arguably to be expected – residential development chases the best value as with any other asset class and at the time of this report a great concern was so-called Prime Residential and its inflationary impact on residential values.

Figure 8.5 Residential schemes given planning consent 2005-15, with a net gain or loss of B1 in CAZ boroughs

Borough	No residential element		Residential element		All schemes	
	No. schemes	Net B1 gain/loss	No. schemes	Net B1 gain/loss	No. schemes	Net B1 gain/loss
Camden	479	-48,822	520	392,447	999	343,625
City of London	223	1,186,136	436	-209,997	659	976,139
Hackney	190	10,372	327	92,782	517	103,154
Islington	337	128,619	382	-57,496	719	71,123
RBKC	91	-27,506	139	-65,335	230	-92,841
Lambeth	163	28,509	243	-49,434	406	-20,925
Southwark	76	255,270	259	-68,418	335	186,852
Tower Hamlets	64	620,775	245	446,931	309	1,067,706
Wandsworth	46	-1,443	303	85,884	349	84,441
Westminster	252	19,567	2062	-846,446	2314	-826,879
Total	1,921	2,171,477	4,916	-279,082	6,837	1,892,395

Source: Ramidus Consulting (2015)

The 2017 London Office Policy Review notes that pervasive pressure for new residential development is unlikely to go away on any reasonably foreseeable time scale. The introduction of PDR has changed the landscape bringing housing land and employment land into much more direct conflict. By contrast, conventional planning approaches can ensure that both economic and housing objectives are achieved by encouraging and enabling higher density mixed use intensification.

9. Office and residential values

The difference between office and residential values in the currently exempted areas is such that office to residential permitted development rights would see significant loss of office stock and an irreversible change in the nature of the country's commercial hubs.

The fundamental dynamic underlying the Mayor's concerns over the potential impact of PDR is the relationship between the value of land in housing and office use, even within the nationally important office locations. While they are attractive as places to do business they are also very attractive places to live, particularly for high earning individuals. Striking the right balance, and avoiding the kind of market failure that leads to large-scale negative effects because of the cumulative impact of a number of uncontrolled individual conversions, is one of the main justifications for planning – and particularly vital in London's nationally significant office locations.

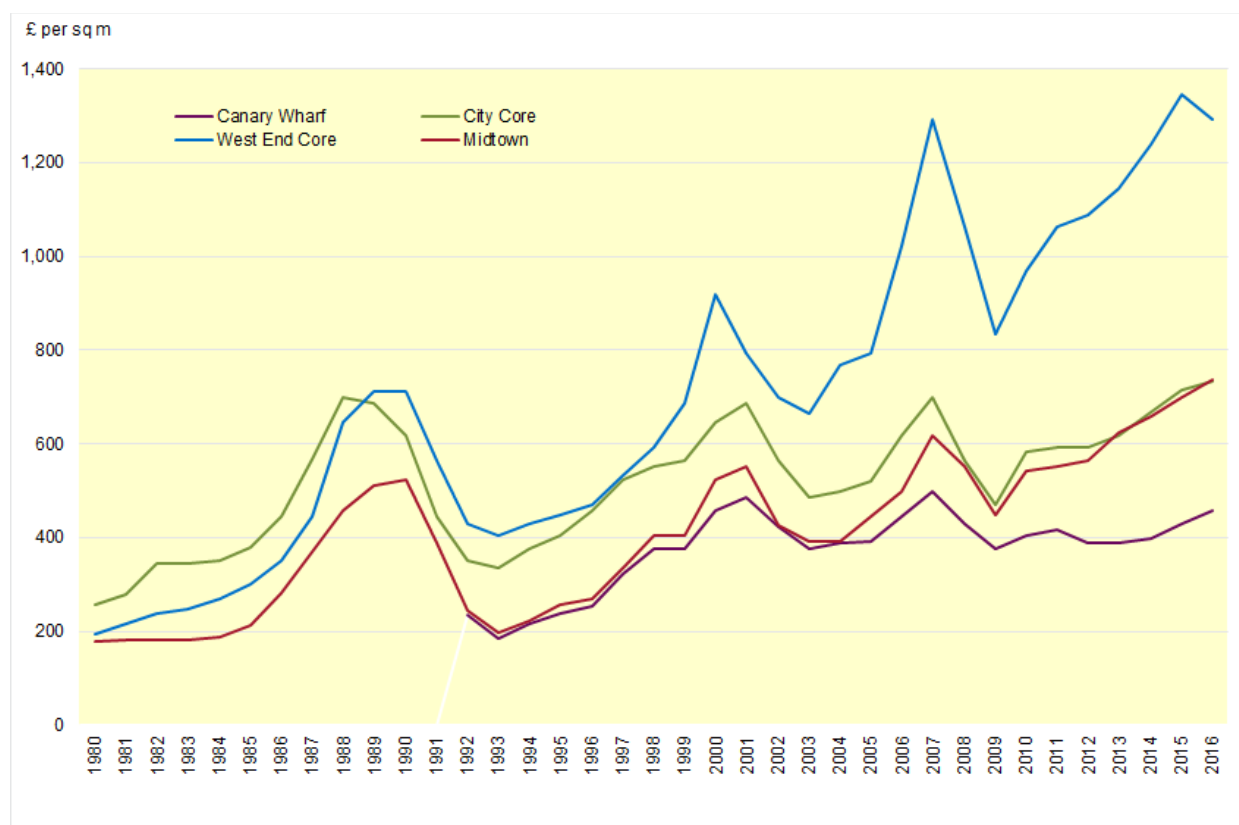
There is no shortage of evidence for the Mayor's concerns. Prior to the introduction of PDR Jones Lang Lasalle reported that in the City of London residential prices were likely to be stronger than offices in the economic conditions prevailing at that time²³. JLL also found that in the particularly vibrant West End residential market, the differential against the office average was even greater²⁴ (even though office rents are significantly higher than in the City). They concluded that the price differential means that "if the potential to convert exists then such conversion to residential use will inevitably be a viable option for any property".

More recent evidence suggests that whilst office rental values have been growing in the City, West End and other Central London office sub-markets since 2011 (see Figure 9.1 below) the underlying trends are cyclical and the relative value of offices to residential can change over the business cycle. In the other nationally important office locations office rents tend to be lower than in the CAZ for example Northern Isle of Dogs £480 per sq m (£45 per sq ft) and the Royal Docks around £320 per sq m (£30 per sq ft) whereas average office rents in parts of Tech City and Southbank are now approaching City rents of £750 per sq m (£70 per sq ft). When converted to capital values, similar or greater differentials between residential and offices as those recorded in the City are likely to remain because of the attractiveness of these areas for housing.

²³ Jones Lang Lasalle Potential impact of Use Classes Order relaxation for change of use from offices to housing on City office stock (City Corporation of London, 2011)

²⁴ Jones Lang Lasalle. Permitted development rights for change of use from commercial to residential (GLA, 2013)

Figure 9.1. Prime rental growth in Central London sub-markets, 1980-2016



Source: Cushman & Wakefield, Ramidus Consulting

The London Plan Viability Study²⁵ provides further evidence on the relative values of office and residential in different parts of the capital. The assessment collated average values of new build residential and office development in various ‘value bands’ illustrated in Figure 9.2 and 9.3 below. Calculations of average capital values based upon a sample of recent transactions are provided in Figure 9.3 for each of the value bands. The residential values set out below are based upon the provision of 100 per cent market housing which is appropriate for comparative purposes here given that residential units created through office to residential PDR conversions do not have to provide affordable housing under the Government regulations²⁶.

The data in Figure 9.4 is derived from average capital values used in the Viability Study. It suggests that in very broad terms, average residential values exceed average office values in most parts of London including substantial areas with the CAZ and the other nationally significant office locations. There are some localised exceptions where average office values appear to be on par with or exceed average residential values. However, as Figure 9.1 illustrates there is a degree of volatility in office rental values over time and across business cycles. It is very likely therefore that at different points on the business cycle, residential values could exceed office values in all parts of London, including within the CAZ.

²⁵ Three Dragons et al. London Plan Viability Study, GLA 2017

²⁶ There is however a caveat that the values presented here are for new build residential and build costs for conversions may be less than those for new build.

Figure 9.2 Value bands used in the London Plan viability study for residential

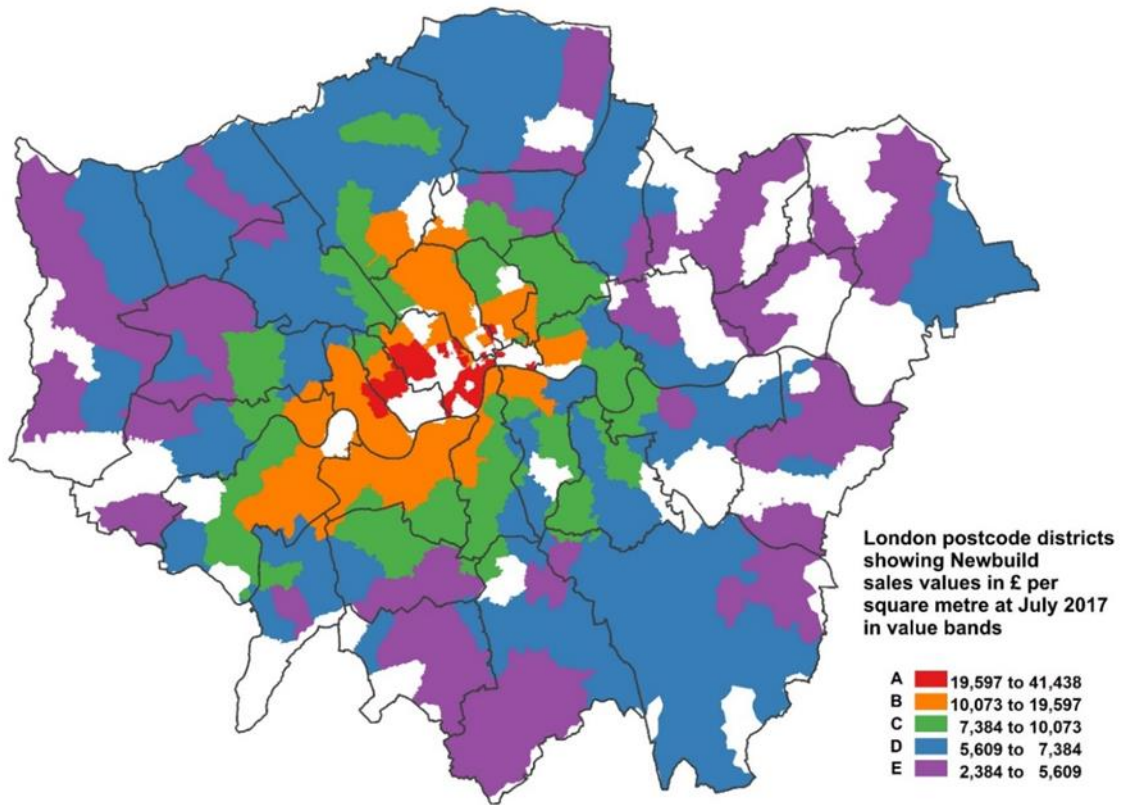


Figure 9.3 Value bands used in the London Plan viability study for non-residential (including offices)

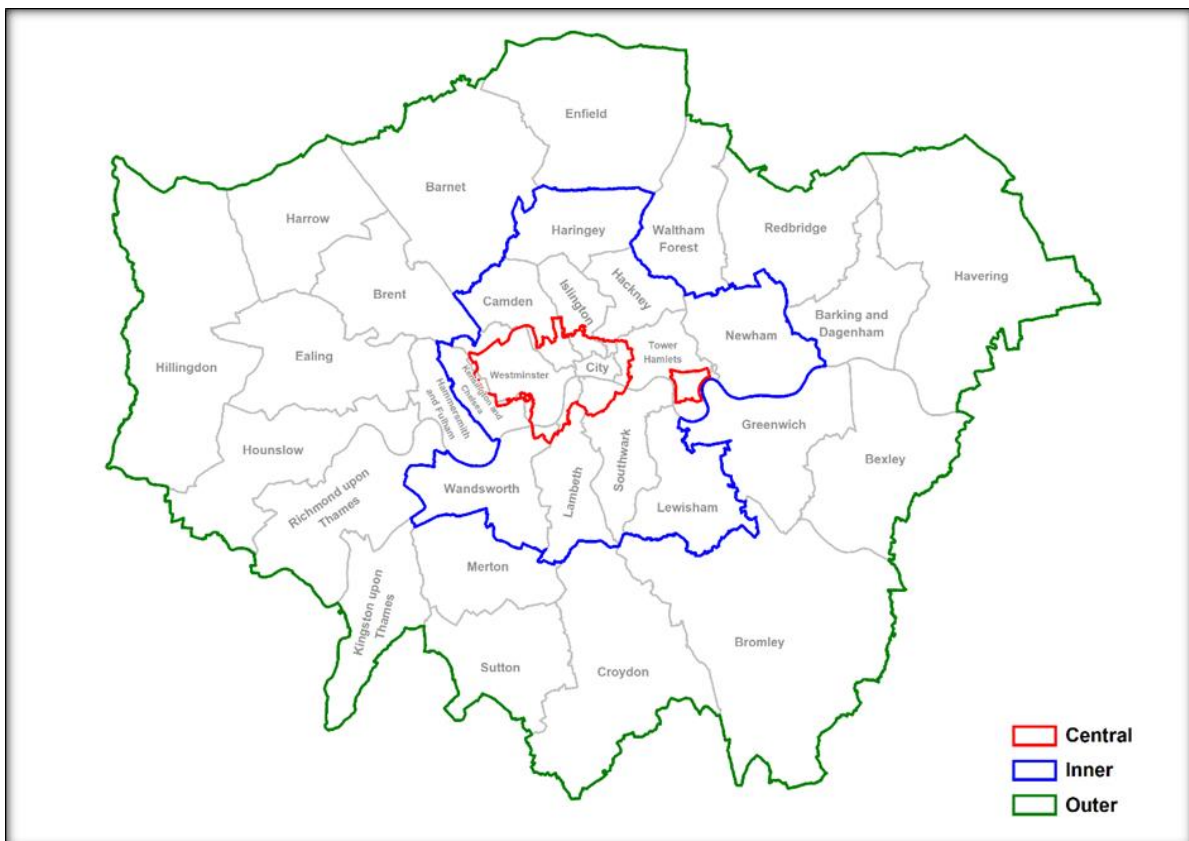


Figure 9.4 Average capital values in residential and office use by value band

Value Band	Band A	Band B	Band C	Band D	Band E
Resi £ psm	£20,000	£12,000	£8,250	£6,250	£4,250
Resi £ psf	£1,860	£1,110	£770	£580	£390

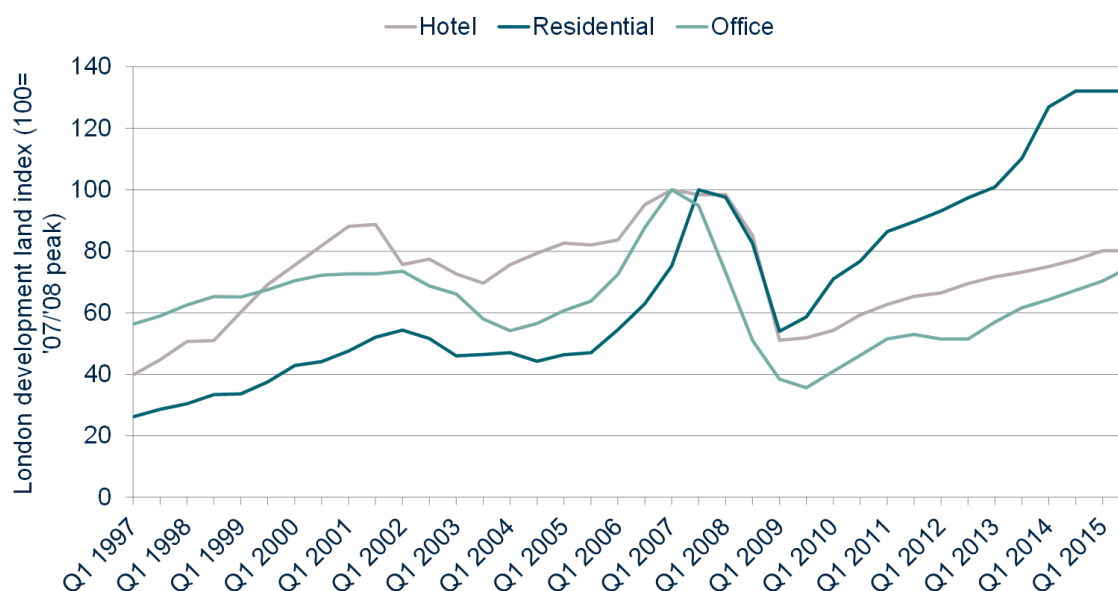
Value Band	Central	Inner	Outer
Office £ psm	£13,700	£8,200	£4,000
Office £ psf	£1,270	£760	£370

Source: Three Dragons using data from Land Registry and CoStar

Savills' land development index, which mostly covers central London, shows that since 2008 the price of residential land has grown at a faster pace than land for offices and hotel developments (see Figure 9.5). Land for residential development now exceeds its pre-financial crisis peak by more than 30 per cent. This further illustrates the increasing pressure on commercial space in central London areas as a result of rising residential land values²⁷.

Ramidus Consulting also highlighted in LOPR 2017²⁸ that "...office rental growth has not, generally, kept pace with inflation. Its performance has been very different from the rise in residential values, which have consistently exceeded rising prices over the last 25 years". So notwithstanding the recent cooling in parts of London's housing market this suggests that there remains a real risk to office capacity in London's nationally significant office locations if they were to be subject to office to residential PDR.

Figure 9.5 Savills land development index, prime London



Source: Savills

²⁷ GLA Economics. Economic Evidence Base for London, GLA 2016

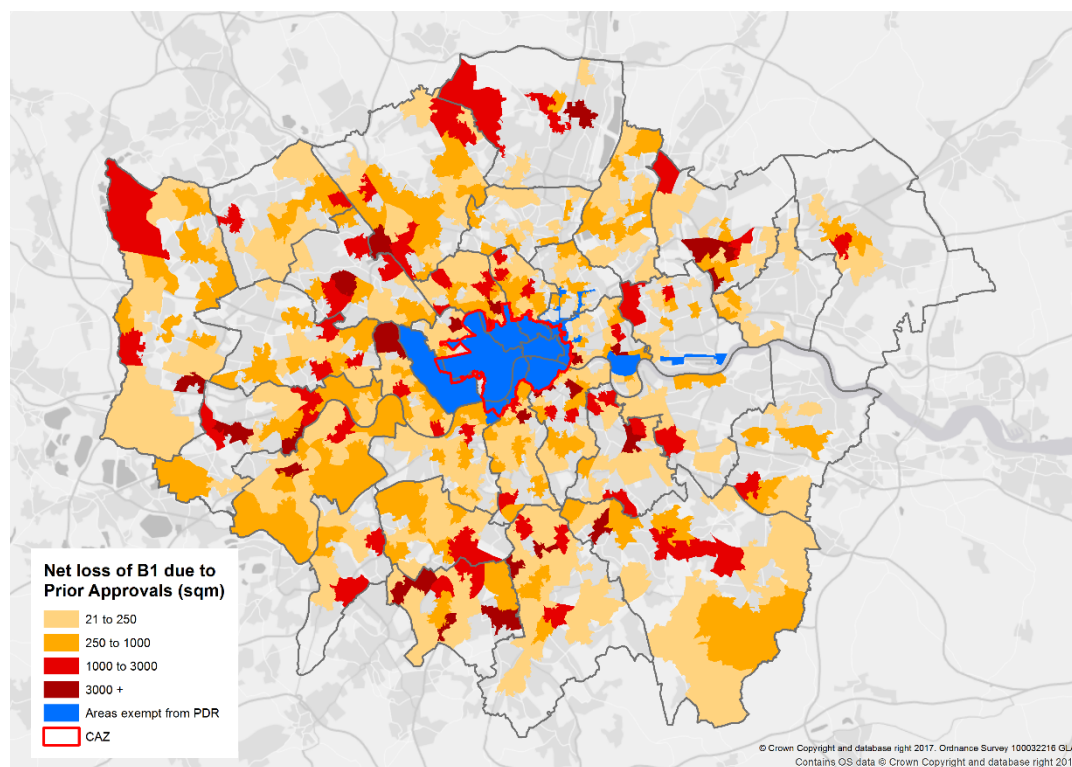
²⁸ Ramidus Consulting/CAG. London Office Policy Review 2017, GLA, June 2017

10. Impacts and unintended consequences of PDR

According to GLA and London borough monitoring, more than 1.6 million sq.m of office floorspace has prior approval for office to residential conversion via PDR, about 6 per cent of London's office stock²⁹. Figure 10.1 below illustrates that the impact of PDR in terms of the potential loss of office floorspace has been greatest in locations in West and South London and around the exempted areas in Central London.

Drawing on evidence from the London Development Database, LOPR 2017 found that the impact of office-to-residential has not been uniform and it has had many unintended consequences including loss of occupied business space (55 per cent of office floorspace with office to residential PDR prior approval is either fully or partly occupied business space) and loss of secondary business space serving the needs of cost-conscious small and medium-sized enterprises (SMEs) and new start-up businesses.

Figure 10.1. Prior approvals under PDR, May 2013 to March 2016

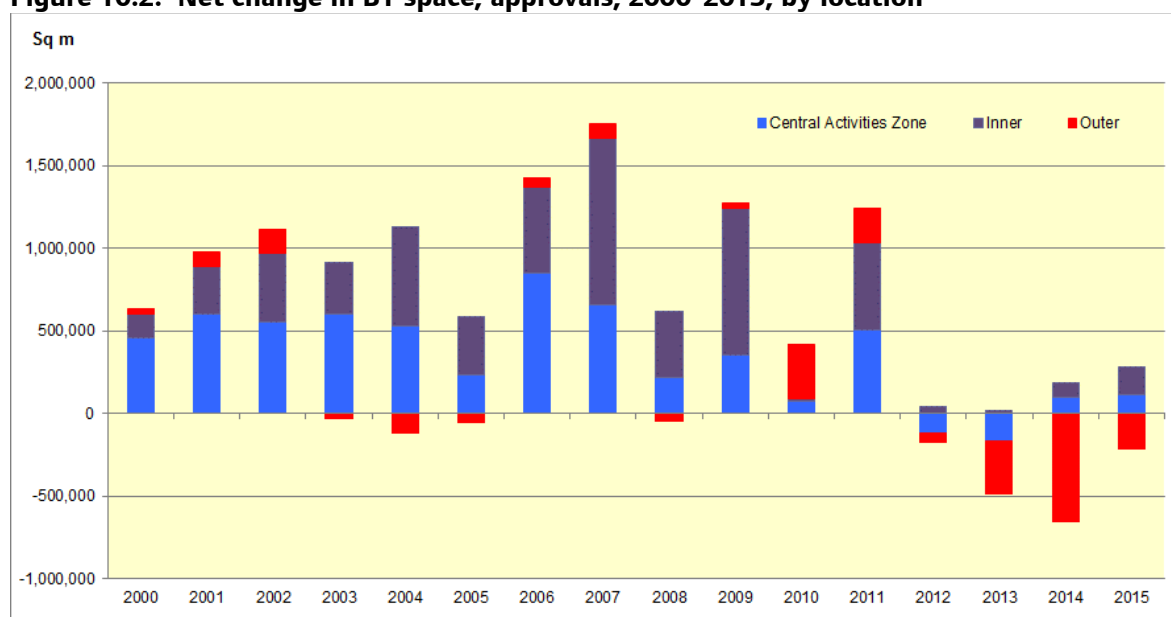


Source: GLA

Figure 10.2 below illustrates net change in office floorspace in planning approvals (including PDR prior approvals) over the period 2005-2015. Post 2013 it illustrates the notable impact of office to residential PDR in outer London where almost a quarter of the office floorspace stock could potentially be lost. Since 2013 net gains to stock in planning approvals in the CAZ have been modest, mainly because losses in Westminster have offset gains in other locations such as the City, Camden and Tower Hamlets. This reinforces the importance of Article 4 Directions to remove office to residential PDR in the CAZ, Northern Isle of Dogs and the other exempted areas when the exemptions expire in 2019.

²⁹ Ramidus Consulting. London Office Policy Review, GLA, 2017 – based on London Development Database monitoring.

Figure 10.2. Net change in B1 space, approvals, 2000-2015, by location



Source: London Development Database

11. Housing delivery

The lack of supply of the homes that Londoners need has played a significant role in London’s housing crisis. The 2017 London Strategic Housing Market Assessment has identified a significant overall need for housing, and for affordable housing in particular.

London needs 66,000 new homes each year, for at least twenty years and evidence suggests that 43,500 of them should be genuinely affordable if the needs of Londoners are to be met, supporting a strategic target of 50 per cent of all new homes being genuinely affordable. 270,000 homes are in the planning pipeline, but delivery is not keeping pace.

The draft London Plan³⁰ looks across the city to plan for the housing needs of all Londoners, treating the London as single housing market in a way that is not possible at a local level. In partnership with boroughs, the Mayor has undertaken a Strategic Housing Land Availability Assessment to identify where the homes London needs can be delivered.

Ten-year housing targets have been established for every borough, alongside Opportunity Area plans for longer-term delivery where the potential for new homes is especially high. These targets have taken into account the need to strike an appropriate balance between new housing and the strategic office functions within the CAZ, NIOD and the other nationally significant office locations.

The draft London Housing Strategy sets out the Mayor’s proposals for working with boroughs and other partners to deliver the step change in housing supply required, through:

- proactive intervention in London’s land market to unlock and accelerate housing delivery, including on public land and through compulsory purchase and other forms of land assembly

³⁰ The London Plan. The Spatial Development Strategy for Greater London. Draft for public consultation (Mayor of London, 2017)

- increased and better-targeted investment to de-risk development and maximise opportunities from new transport infrastructure
- diversification of the housebuilding industry through increased Build to Rent development, more support for small and medium-sized builders, and more supply from councils and housing associations
- tackling the construction skills gap and modernising construction methods.

The introduction of office to residential Article 4 Directions by the relevant boroughs will promote and safeguard London’s internationally and nationally significant office locations alongside the Mayor’s draft London Plan policies and Housing Strategy which will drive up the complementary delivery of new, better quality and affordable housing across London as a whole. This will include housing within parts of the exempted areas which will be managed proactively through the London Plan and boroughs’ Local Plans to ensure that new housing does not compromise the agglomerations of offices and other strategic functions within these nationally important business locations.

Appendix: References and source documents

The strategic evidence to support the introduction of Article 4 Directions for London’s nationally significant office locations is presented in detail in the following sources:

1. The London Plan. The Spatial Development Strategy for Greater London. Draft for public consultation (Mayor of London, 2017)
2. London Office Policy Review (Ramidus Consulting, 2017)
3. London Labour Market Projections (GLA Economics, 2017)
4. London Employment Sites Database (CAG, 2017)
5. London Development Database (GLA, 2017)
6. GVA per workforce job estimates for London and the UK, 1997 – 2015 (GLA Economics, 2017)
7. London Plan Viability Study (Three Dragons et al, 2017)
8. London Plan Annual Monitoring Report (GLA, 2017)
9. Mayor of London Community Infrastructure Levy 2 Preliminary Draft Charging Schedule (GLA, 2017)
10. London Strategic Housing Market Assessment (GLA, 2017)
11. London Strategic Housing Land Availability Assessment (GLA, 2017)
12. London Housing Strategy (GLA, 2017)
13. Valuation Office Agency (VOA) Business Floorspace Statistics (2016)
14. Economic Evidence Base for London (GLA Economics, 2016)
15. Work and life in the Central Activities Zone, the Northern Isle of Dogs and their fringes (GLA Economics, 2015)
16. Small offices and mixed use development in CAZ (Ramidus Consulting, 2015)
17. City Fringe Opportunity Area Planning Framework (GLA, 2015)
18. Permitted development rights for change of use from commercial to residential (Jones Lang Lasalle, 2013)
19. Potential impact of Use Classes Order relaxation for change of use from offices to housing on City office stock (Jones Lang Lasalle, 2011).

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Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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