

REQUEST FOR DIRECTOR DECISION – DD2019

Title: London Office Policy Review 2016

Executive Summary:

Approval of expenditure of up to £85,000 is sought to procure and commission a consultancy study to undertake the London Office Policy Review 2016. The study will review office market trends and assess supply/demand dynamics in central, inner and outer London; assess the impact of office to residential permitted development rights; provide projections of office employment and office floorspace demand to 2041 and assess the future prospects for office development in viable locations outside central London and to consider relationships with the wider south east of England. The work will inform a full review of the London Plan and the preparation of Local Plans and Opportunity Area Planning Frameworks and support the co-ordination of office policy with the wider south east.

Decision:

The Executive Director of Development, Enterprise and Environment approves expenditure of up to a total of £85,000 to lead, procure and commission specialist technical services to undertake the London Office Policy Review 2016.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Fiona Fletcher-Smith

Position: Executive Director - Development, Enterprise & Environment

Signature:



Date:

1.7.2016

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The importance of informing the preparation of development plans with robust assessments of the existing and future demand of land available for economic development is set out in the Government's National Planning Policy Framework (NPPF)¹ and associated practice guidance².
- 1.2 The London Plan's approach to office policy is designed to be both informed by, and responsive to, changes in the demand and supply of office space. Through the London Office Policy Review (LOPR), the GLA has developed a series of independent reviews of market trends, involving robust monitoring benchmarks and associated time series data to illustrate key themes, market relationships and their bearing on policy. The 2016 London Office Policy Review (LOPR 16) will inform the Mayor's new London Plan and responds to other key issues facing the London office market.
- 1.3 The study will be led by the GLA Planning team in the Directorate of Development Environment and Enterprise in collaboration with the Regeneration team, Economic and Business Policy unit and Transport for London.

2. Objectives and expected outcomes

- 1.4 LOPR 16 contains three interrelated parts, details of which are provided in specification attached in Appendix 1:
- Part A: Review of office market trends and benchmarking
 - Part B: Office employment and floorspace demand projections
 - Part C: Future prospects for office development in viable locations outside central London and relationships with the wider south east of England.
- 1.5 The outputs of this study will inform the full review of the London Plan; preparation of Local Plans; work on Opportunity Area Planning Frameworks/ Area Action Plans and co-ordination with the wider south east of England. The study will also support the work of the GLA in addressing its growth and regeneration agenda.

3. Equality comments

- 3.1 No adverse equalities impacts are identified. The study supports the equalities objectives of the London Plan and will provide evidence to inform policy and guidance to improve London's economic base and sustainability, secure access to a range of employment opportunities and improve transport access. The release of surplus office space to other uses will support objectives to deliver housing, social infrastructure and where appropriate, strengthen town centres. The evidence assembled in this study will therefore contribute to wider equalities issues across these subject areas.

¹ Department for Communities and Local Government. National Planning Policy Framework. CLG, 2012, paragraph 161

² Department for Communities and Local Government. NPPG. CLG, 2014. ID:2a

4. Other considerations

a) key risks and issues

- 4.1 The contract will be managed in line with standard GLA risk management procedures.
- 4.2 If the study were not carried out it would:
- undermine the implementation of London Plan policies 4.1 and 4.2 which seek to promote the continued development of a strong, sustainable and diverse economy across all parts of London, ensuring the availability of sufficient and suitable workspaces in terms of types, costs and sizes including space for small and medium sized enterprises as well as larger occupiers
 - undermine the Mayor's evidence base to support examinations into a full review of the London Plan and work with boroughs on Local Plans and Opportunity Area Planning Frameworks as well as co-ordination of office development with the wider south east
 - risk sub-optimal investment to support London's strategically significant office locations, businesses and wider employment.

b) links to Mayoral strategies and priorities

- 4.3 The study will inform the implementation and review of the London Plan. It will support London boroughs in the preparation of Local Plans and partnership working by the GLA, boroughs and others on Opportunity Area Planning Frameworks. The study will inform collaboration and co-ordination with wider south east planning authorities and support regeneration and business policy initiatives including those associated with the London Enterprise Panel (LEP).

c) impact assessments and consultations

- 4.4 Impact assessments are carried out as part of the preparation of reviews and alterations to the London Plan. A separate impact assessment is not required for this research study. Consultation on the project specification has taken place within the GLA and with Transport for London (TfL). Further collaboration with London boroughs will take place during project implementation including sharing draft outputs for verification and presentation of findings.

5. Financial comments

- 5.1 Approval is being sought to procure and commission specialist technical services to undertake the London Office Policy Review.
- 5.2 The estimated total cost of this work is up to £85,000. The costs will be met from the 2016-17 London Plan Programme Budget and will be complete in 2016-17.

6. Legal comments

- 6.1 The proceeding sections of this report indicate that:
- 6.1.1 the decisions requested of the Director (in accordance with the GLA's Contracts and Funding Code) fall within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to, the promotion of the economic development and wealth creation;

6.1.2 in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- pay due regard to the principle that there should be equality of opportunity for all people (further details on equalities are set out in section 3 above) and to the duty under section 149 of the 2010 Act to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not³;
- consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
- consult with appropriate bodies.

6.2 The services required must be procured by TfL Procurement who will determine the detail of the procurement strategy to be adopted in accordance with the Authority's Contracts and Funding Code.

Officers must liaise with TfL Procurement in this regard and to ensure all necessary contract documentation is put in place and executed between the successful bidder and the GLA before commencement of services.

7. Planned delivery approach and next steps

Activity	Timeline
Procurement of contract	July/August 2016
Delivery Start Date	August 2016
Interim Report Date	October 2016
Delivery End Date	December 2016
London Plan AMR update	January 2017
Final evaluation and Project closure	February 2017

Appendices and supporting papers:

Appendix 1: Specification

³ The protected characteristics and groups are: age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation and marriage/ civil partnership status.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason:

This Director Decision includes the overall project budget for appointing consultants to prepare the London Office Policy Review. It is important that this information is not made public until after the consultants are appointed and a price and scope for works have been agreed and contracts exchanged. If a total project budget is made public in advance of this it could lead to consultants providing inflated prices to complete works. This information should not be made public until after the consultants have been appointed.

Until what date: 31 August 2016

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Gerard Burgess has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

Stewart Murray has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

M. D. Ollie

Date

1. 7. 16

APPENDIX 1 – Specification

Summary of Study and Objectives

The Greater London Authority (GLA, the client) seeks to commission a suitably qualified consultant team to undertake the 2016 London Office Policy Review (LOPR 16).

The **objectives** of LOPR 16 are:

1. To undertake a review of office market trends and assess the short-, medium- and long-term office supply/demand dynamics in central, inner and outer London;
2. To assess the impact of office to residential permitted development rights;
3. To review the changing nature of work and workspace and to consider the implications for the London office market and broader metropolitan economy of the Chancellor's Productivity Plan and recent legislation;
4. To provide projections of office employment and office floorspace demand to 2041 including premises of different sizes;
5. To assess the future prospects for office development in viable locations outside central London and to consider relationships with the wider south east of England.

The study will be framed within the wider policy context of the London Plan and the Government's National Planning Policy Framework. The work will inform a full review of the London Plan and the preparation of Local Plans/Opportunity Area Planning Frameworks and support the co-ordination of office policy with the wider south east.

1. Background and Policy Context

- 1.1 The London Plan's approach to office policy is designed to be both informed by, and responsive to, changes in the demand and supply of office space. Through the London Office Policy Review (LOPR), the GLA has commissioned a series of independent reviews of market trends, involving robust monitoring benchmarks and associated time series data to illustrate key themes, market relationships and their bearing on policy. The 2016 London Office Policy Review (LOPR 16) will inform the Mayor's new London Plan and responses to other key issues facing the London office market.
- 1.2 LOPR 16 contains three interrelated parts, details of which are provided in section 2 of this brief:

Part A: Review of office market trends and benchmarking
Part B: Office employment and floorspace demand projections
Part C: Future prospects for office development in viable locations outside central London and relationships with the wider south east of England.
- 1.3 The outputs of this study will inform the full review of the London Plan; preparation of Local Plans; work on Opportunity Area Planning Frameworks/ Area Action Plans and co-ordination with the wider south east of England. The study will also support the work of the GLA in addressing its growth and regeneration agenda.

2. Project Requirements

Part A: Review of office market trends and benchmarking

Task A1: Analyse the short-, medium- and long-term office supply/demand dynamics in central, inner and outer London.

- 2.1 LOPR 16 must build on the GLA's historic time series of central London office market data up to the end of 2015 and extend it to incorporate trends in other parts of inner and outer London. From this it will outline trends in the demand and supply of office space across the different geographical parts of the London office market. The analysis will include the following.
- Highlight in particular trends in the central London office market and those in inner and outer London, taking account of changing demands among different types and sizes of occupier
 - Take-up, availability and (subject to data) vacancy
 - Completions
 - Construction starts
 - Under construction
 - Unimplemented planning permissions and applications
 - Permitted development rights prior approvals outside the currently exempted areas (see also Task A3)
- 2.2 LOPR 16 should cover, for different parts, types and qualities of the London office market, rents and land values⁴ relative to other land uses, especially residential, retail, industry and leisure. As far as possible this information should be presented at borough level and for the Central Activities Zone (CAZ).
- 2.3 This task should include an investigation of permitted/proposed large scale office schemes in different parts of London and implications for the spatial geography of London's office location policy (see also Part B).
- 2.4 The analysis should distinguish the following.
- Speculative and pre-let, refurbished and new floor space for development proposals, applications, under construction and vacant new space.
 - Vacant second hand space by size, age, type and condition, differentiating as far as possible between marketed space, vacant un-marketed space and 'hidden' vacant space, indicating that which is/is not likely to be developed for offices and their potential for development in other uses, especially housing.
 - Take-up of new and second hand space by size, occupier type and cost, the relationship between this and net stock absorption and the implications of both for future demand including costs.
 - Office development sites and mixed-use sites with an office component (specifying site area as well as floorspace capacity), distinguishing those which are/are not identified as proposals/applications above, those which are/are not likely to be developed for offices and

⁴ This could build on recent evidence, for example: *AECOM, Cushman & Wakefields, WeMadeThat and Maddison Graphics: London Industrial Land Supply and Economy Study 2015*. GLA, March 2016

their potential for development in other uses, especially housing. The consultant will also be required to test the GLA's London Development Database against commercial data sources.

- 2.5 Considerable investment has been made by London government in establishing and up-dating the office market database which has informed the LOPR series. It is essential that the evidence base to be used in preparing the present LOPR is consistent and comparable with the established database. If this is not to be directly extended, consultants must demonstrate that they will authoritatively calibrate their replacement sources with it and show that, when compared with the original time series, these reflect bona fide structural/cyclical rather than statistical differences.

Task A2: Review and update the established office supply/demand Monitoring Benchmarks for office supply and demand in central London.

- 2.6 The LOPR Monitoring Benchmarks have been running since 2001. They provide the GLA and boroughs with a useful tool for monitoring the changing relationship between supply and demand in central London. For example, they inform policy makers about whether they should be encouraging the provision of additional capacity or, on the other hand, whether existing or proposed office sites could "safely" be permitted to change to other uses without detracting from London's long-term office supply.
- 2.7 Summary versions of the LOPR Monitoring Benchmarks are given below.
- 1) *The stock of permissions (measured as net lettable space) should be at least three times the average rate of starts over the preceding three years.*
 - 2) *When central London availability is moving in a direction such that the 8% level seems likely to be crossed, particularly close attention should be paid to other market indicators, and the level of office supply should be reviewed.*
 - 3) *Up to 50% of annual starts being comprised of pre-lets and owner-occupier schemes can be regarded as a normal and healthy market.*
 - 4) *Planning policy should seek to ensure that office development occurs in a range of established office locations which have good public transport, such that new office space should be available in non-prime locations at no more than 50% of top rents in central London.*
 - 5) *Planning policy should seek to ensure that there is at least 3.25 years' supply of new office space in the development and planning pipeline.*
- 2.8 LOPR 16 should undertake a review of these benchmarks and assess the market dynamics described in paragraph 2.1 against them. It should highlight any significant changes, particularly in the light of recent economic trends.
- 2.9 In addition, provision of output on the London Plan office monitoring benchmark (1) should also be provided by the end of January 2017 to inform preparation of the Annual Monitoring Report in February 2017. This should include:
- (i) An update to the ratio of office planning permissions to three year average starts in the central London boroughs to the end of 2015 using data from the EGi database, providing the updated Table of ratios (2004-2016) and the Figure illustrating the long-run data (1985-2016)
 - (ii) A comparable set of ratios back to 2004 using data from the London Development Database (supplied by the GLA)
 - (iii) Expert commentary on the data and market sentiment as provided in previous London Plan Annual Monitoring Reports for KPI8 (Offices).

Task A3: Analyse the impact of office to residential conversions arising from permitted development rights (PDR) and through planning approvals

- 2.10 Office to residential permitted development rights (PDR) were introduced in May 2013. Government granted exemptions for London's nationally significant offices in the Central Activities Zone, northern Isle of Dogs, Tech City, the Royal Borough of Kensington & Chelsea and the Royal Docks Enterprise Zones. PDR has now been made permanent and the current exemptions will cease at the end of May 2019. Outside the exempted areas, current GLA monitoring suggests that around 1.5 million sqm of office floorspace could potentially change to residential use through PDR.
- 2.11 LOPR 16 will undertake an overview of PDR trends across London drawing on data from the GLA's London Development Database and bring together evidence (to be supplied by the GLA in collaboration with the boroughs) on existing and proposed Article 4 Directions to remove the development rights in specific locations. Using LDD data, LOPR16 should consider matters such as the number of PDR proposals, the scale, type and occupancy status of floorspace affected and its spatial distribution across London, along with analysis on the impacts on strategic and local office markets.
- 2.12 LOPR 12 identified the potential scale, suitability and distribution of surplus office buildings and sites for redevelopment in other uses, and in particular, the increment this might represent to housing output at borough, sub-regional and London-wide levels. LOPR 16 will update this work combining potential additions to housing capacity through PDR with formal planning permissions. LOPR 16 should identify the scope for release of surplus office capacity in different parts of London and quantify the potential additional homes from this source without compromising objectives to meet the needs of the London office market. This will inform the forthcoming London SHLAA.
- 2.13 Finally on this task, LOPR 16 will provide advice on strategic approaches to meet objectively assessed demand for office floorspace (see Task B2) and the consolidation / redevelopment of surplus office space to other uses in a PDR context.

Task A4: Review the changing nature of work and workplaces

- 2.14 LOPR 16 will investigate the implications for the London office market and broader metropolitan economy of the Chancellor's Productivity Plan and recently proposed legislation on Planning & Housing, Enterprise and Devolution. It will explore how these might bear on the office based sectors' contribution to the national Exchequer, the operation of London's labour market including housing needs and its productivity relative to other UK centres and world city competitors.
- 2.15 With rapid changes in technology the nature of work and workplaces has changed significantly over the past decade. This task will investigate trends in working practices and the implications for the supply of and demand for different sizes and types of workspace (including for example serviced offices, open workspaces, start-up/incubator space, move-on/grow-on space, R&D/laboratory space, hybrid space, 'affordable workspace' and live-work). Consideration should also be given to the extent to which traditional B1a office accommodation is occupying land in designated industrial areas. The analysis should draw on a range of existing evidence as well as offering new insights. LOPR 16 will investigate the need / demand for each of the above types of space in different parts of London; current borough approaches to policy; the evidence used to support policy; and practical issues associated with implementation.

Part B: Office employment and floorspace demand projections

Task B1: Produce office employment forecasts to 2041

- 2.16 LOPR 16 will provide projections of office employment to inform the new London Plan. The revised estimates will be based upon the very latest GLA Economics sector and borough level employment projections for London to 2041 which will be supplied to the consultant at the award of contract.
- 2.17 Given that the GLA does not produce sector forecasts at borough level, the consultant will need to produce borough level sector forecasts for offices. This will include a reconciliation of the sector forecast at the London level and the borough forecasts. It will also include a review of disaggregated levels of activity (from the SIC) and an assessment the proportion of these that are related to 'industry' and 'other' non-office based sectors. The results for the three groupings of 'offices', 'industry' and 'other' non-office based sectors should be presented at borough level. A summary should also be provided for the London Plan geographies including: London total, Central Activities Zone (CAZ), the northern of the Isle of Dogs, Inner London (excluding CAZ and the north of the Isle of Dogs), Outer London and the London Plan sub-regions. The results should be provided for the history (annual periods 1984-2014) and projections (2014-2041).

Task B2: Review the methodology and produce London, CAZ, northern Isle of Dogs and borough level office floor space need estimates to 2041.

- 2.18 Office employment forecasts have traditionally been converted into demand for office floorspace through the application of employment density ratios and an allowance for frictional vacancy⁵. Further work undertaken in 2014⁶ compared borough level office employment based floorspace projections with those derived from extrapolation of trend rates of growth. In LOPR 16 the consultant will review these methodologies and assumptions on employment densities⁷, including the scope to increase employment densities in existing office stock. The analysis should include a review of existing empirical evidence on densities, and consideration of the trends in occupation densities and implications of this for office floorspace demand in new and existing stock.
- 2.19 Once the methodology has been agreed with the client, the consultant will produce projections of office floorspace demand to 2041 including premises of different sizes. Results should be provided for same geographies listed in paragraph 2.17 including at borough level.
- 2.20 LOPR 16 will update the pipeline of office supply identified through the planning system and compare this against the forecast demand for floorspace by the same geographies as above.
- 2.21 LOPR 16 will analyse the extent to which the CAZ and northern Isle of Dogs will be able to accommodate projected growth in office employment and development in fulfilling their role as nationally significant office locations, and provide an indication as to the scope for intensification and/or selective expansion of these locations and/or the potential for non-central locations to accommodate some of London's world city office functions in the future – such as at Stratford or Old Oak Common for example (see also Task C1).

⁵ See LOPR 12

⁶ Peter Brett. London Office Floorspace Projections, GLA 2014

⁷ This can draw on recent work on the London Employment Sites Database (CAG Consulting) to be published in due course by GLA Economics.

Part C: Future prospects for office development in viable locations outside central London and relationships with the wider south east of England

Task C1: Review the range of viable office locations beyond CAZ and northern Isle of Dogs in inner and outer London

- 2.22 Since 2004 a high level review of centres across London has been undertaken through the LOPR series to assess their prospects for office development. The 2012 review informed the office guidelines in Annex 2 of the London Plan. LOPR 16 should review the office guidelines in Annex 2 to test whether they are still robust, recommending amendments where appropriate. The review should also include an assessment of the current London Plan strategic office centres (Stratford and Croydon), potential new strategic office centres (such as Old Oak Common), mid-urban and conventional business parks, science and innovation parks, and appraise the scope for office development in other Opportunity Areas (such as the Royals and Brent Cross).

Task C2: Relationships with the wider south east of England

- 2.23 Some previous LOPRs have addressed the relative roles of London's office sub markets, and especially the relationship between those in outer London and those associated with central/inner London and the wider south east of England. LOPR 16 will draw out the current relationships and how are they expected to evolve in the future. This task should also consider the implications for the achievement of broader objectives, especially for the outer London economy; retention of adequate office capacity in terms of quantum, quality and cost; encouragement of new capacity; and for other land uses, particularly housing. The review should consider whether any positive measures could be taken to improve the prospects of office locations in outer London to improve their competitive strengths relative to locations in the wider south east, for example in relation to public transport accessibility, relative car parking standards and qualitative enhancements.

3. Methodology

- 3.1 Within the budget, it is for the consultants to suggest the most effective methodology for achieving the objectives, tasks, issues and outputs outlined in this brief. It is anticipated that details of the final methodology will be agreed by the client and successful consultant at the project inception meeting. However, in responding to the brief, it would be appreciated if the consultant would address the following points, demonstrating that:
- the data, analysis and recommendations will be sufficiently robust to support practical implementation across London and to withstand scrutiny;
 - it will draw upon the GLA's demographic and employment projections, as well as market-based, quantified and referenced data;
 - any case studies will be selected on a transparently representative basis, and
 - literature and other reviews are comprehensive and/or transparently representative.
- 3.2 LOPR 16 will work with the geographies of the CAZ^B, northern Isle of Dogs, boroughs (including the Mayoral Development Corporation areas where data allows), inner and outer London definitions and the current London Plan sub-regional definitions.

^B GIS layers for CAZ and northern Isle of Dogs will be supplied by the GLA

4. Project Outputs

- 4.1 **An interim presentation** to the project steering group of the draft findings (Parts A, B and C)
- 4.2 **A final report** that includes the final results of the study fulfilling the requirements of this specification (Parts A, B and C) including an Executive Summary and all tabulated outputs and report maps.
- 4.3 The **Annual Monitoring Report update** outputs (see paragraph 2.9).
- 4.4 **An electronic database** of all tables in the report and an electronic, internally consistent, update of the long-term time series of office development trends. This can be in the form of Excel spreadsheet(s).
- 4.5 **Presentations** at two seminars (including one with borough planning officers).