RBKC Core Strategy EIP
Representations to Matter 7: Fostering Vitality (CF1, CF2, CF3, CF5, CF8)
On behalf of Chelsfield (179625)

Is CF5 too restrictive in protecting office uses?

1.0 Chelsfield's representations

1.1 This Written Statement is submitted by Chelsfield and is supported by the following documents (which are in draft), which form appendices I and II to this Statement:

- Review Of Planning Policy Basis For Existing Office Accommodation (Montagu Evans, June 2010)
- Strategic Review for Office Use (Jones Lang LaSalle, July 2010)

1.2 This Statement follows representations submitted at the Submission Stage of the Core Strategy in December 2009. At this stage representations were submitted to Policy CH3, which dealt with locations considered to be appropriate for residential development across the Royal Borough. In these representations it was considered that Policy CH3 was unsound as:

- It was unduly restrictive and that the draft Core Strategy should return to the policy presumption of residential development on suitable sites;
- the Core Strategy should refer to other important London Plan and national policy considerations which set out the agenda for a sustainable approach including the promotion of more efficient use of land though higher density, mixed use development and the use of suitably located previously developed land and buildings;
- The support for a mix of uses should be focussed on existing centres and should, where appropriate include residential use;
- The wider priority for the borough should remain in favour of residential use. Indeed, this priority is requested under London Plan policies.

1.3 It was also requested that the policy be amended as follows so as to strike a more appropriate balance between residential use and employment uses.

<u>Residential use is the priority land use in the Borough, and</u> the Council will ensure a net increase in residential accommodation

c) … *permit new residential use and floorspace everywhere except <u>unless exceptional circumstances can be demonstrated:</u>*

i. at ground floor level of all town centres,
ii. where replacing existing retail uses across the borough,

iii. *where replacing an existing light industrial use across the Borough,*
iv. *within the Kensal, Latimer Road and Lots Road Employment Zones,*
~~v. *where replacing an arts and cultural use*~~
vi. *where replacing a social and community use, which predominantly serves, or provide significant benefits to, borough residents (unless as part of an enabling development); or*
vii. *where replacing offices within a higher order town centre;* ~~*a large or medium office in a highly accessible area (PTAL 4 or above); or a very small or small office use across the Borough.*~~

1.4 As part of the Pre Inquiry changes, resulting from Regulation 27 Consultation, the above draft section of Policy CH3 was deleted and cross reference was made instead to Policy CF5. The representations submitted in respect of Policy CH3 have therefore been transferred to CF5 and the position that this policy, as currently drafted, is unsound is maintained.

1.5 It considered that draft Policy CH3 is unsound for three reasons; that the policy is not justified; effective; nor consistent with national policy. This is explained further below.

2.0 Reasons why Policy CF5 is not Justified

2.1 The wording of Policy CF5, in respect of the protection of office floorspace above all other uses, and the restriction against the delivery of residential floorspace on sites currently in office use has not been a clear objective throughout the Core Strategy process. For instance:

- At the Towards Preferred Options Stage (2008) the indicative policy direction at Box 5.2 stated that '*The Council will protect office uses of all sizes within town centres which will be retained within this plan period unless future demand changes.'* There was no indication that office uses outside of town centres or employment zones would be protected.

- At the Preferred Options stage in July 2009, Policy CF5 stated that '*The Council will consolidate large scale business uses in areas of high public transport accessibility*.' The housing policies within the draft Core Strategy at this stage did not make reference to locations where residential development may or may not be appropriate. However it was stated at Paragraph 35.4.1 that '*The evidence on housing provision shows that we need to have a policy to address maximising housing provision and to meet the London Plan housing target.'*

2.2 It was therefore not clear during the plan process that the emerging policy position would shift entirely from a presumption in favour of residential development across the Borough to one seeking to protect all office and employment uses, resisting residential development in such locations. This suggests that the current drafting of policy CF5 is heavily influenced by the findings of the Employment Land Review Update carried out by Roger Tym at a relatively late stage in the LDF process in October 2009.

2.3 Even the Employment Land Review Update comments at Chapter 6 on the draft LDF policy. This states at Paragraph 6.11 that '*With regard to office [sic], the LDF proposes protecting these depending on their location and size. This is with the aim of restricting large scale offices to employment zones and town centres, which are the most accessible locations and have amenities for office workers. This is a sensible approach*.' This rationale however is not reflected within the wording of the current drafting of Policy CF5, which states that the Council will *'protect…large offices in Higher Order Town Centres* ***and*** *other accessible areas (our emphasis).'*

2.4 The extension of protection of other areas (re outside town centres and employment zones) was added at a late stage in the plan meeting process. The justification for this is summarized in paragraphs 31.3.29 – 32 of the Core Strategy which state that:

- There is a forecast demand for 15% growth of office jobs over the plan period;
- This equates to a net addition of 69,200 m2 (750,000 ft^2) of office floorspace;
- On the supply side, office floorspace under construction and outstanding permissions provide a net addition of 46,000m2 (500,000 ft^2);
- The Council therefore proposes that a further 23,000 m2 of office floorspace should be developed within the Borough, within the plan period for the predicted need to be met;
- The Council has allocated 20,000m2 (215,000 ft^2) of business floor space within the Strategic Site Allocations for the Earl's Court and the Kensal Gasworks sites;
- Any remaining need (3,000 sq.m) would be likely to be met by other smaller windfall sites, particularly by very small and small office developments across the Borough;

Against this forecast of demand and supply, the Core Strategy concludes that it is important to protect all existing office buildings (whether located within the town centres or employment zones or elsewhere).

2.5 However, more recent forecasts of demand reveal quite a different picture. Appendix I, 'Review Of Planning Policy Basis For Existing Office Accommodation', carried out for Chelsfield by Montagu Evans, highlights that:

'3.3 A month after the Roger Tym & Partners report for RBKC was published, the Greater London Authority published its own London Office Policy Review (prepared by Ramidus Consulting and including input from Roger Tyms) as part of the evidence base of the draft Replacement London Plan. The London Office

Policy Review is based on the latest November 2009 employment projections, prepared by the Greater London Authority, as well as recent research into changing employee/floorspace ratios.

3.4 The limitations of RBK&C's Employment Land Review Update was in fact signalled in the Roger Tym & Partners report at paragraph 5.3, which states: "for this update we anticipated a more up-to-date version of the GLA forecasts would be available. However, due to data errors these employment forecasts are yet to be released by the GLA. Hence the latest employment forecast available for the Borough is the version produced by the GLA for the 2007 Examination in Public which use a base date of 2004. ***These forecasts are dated and fail to take account of recent economic conditions****" [emphasis added]*

3.5 As a "temporary measure", Roger Tym & Partners adjusted the 2004 projections downwards (Scenario C, paragraph 5.4). However, even their adjustment was not sufficient and was in turn overtaken by the subsequent publication of more up-to-date projections.'

2.6 The key conclusion of the London Office Policy Review is that only 50,503 sq m net additional office floorspace is required in the Royal Borough by 2031, three years after the end of the draft Core Strategy plan period. It is noted that the reduction in floorspace demand can be attributed in part to the different time period for the projections, however it is considered that this should be a factor in the preparation of the Core Strategy as this figure is approximately 18,500 sq m lower than planned for in draft Core Strategy policy CF5.

2.7 In relation to supply, the Montagu Evans report considers in addition to the 46,000m^2 of committed space.

- The quantum of office space coming forward at Kensal Gasworks, and in particular at Earl's Court, will exceed the Royal Borough's assumptions and can be conservatively estimated at 40,000m^2.

- It would be reasonable to plan for windfall office provision (ie. currently unforeseen developments) of circa 5,000m^2 per annum (by contrast to the Borough's underestimate of 2,000m^2 per annum). This would give a total of 80,000m^2 over the plan period.

2.8 On this basis, overall supply is forecast at 166,000m^2 – more than twice the assumption in the Core Strategy.

2.9 In this conclusion, the latest demand figures are for 50,503m^2 of office space over the plan period. Realistic estimates of supply indicate a pipeline of 166,000m^2 of offices – for outstripping the forecast requirement. For context, it should also be noted that a further 700,000 to 800,000m^2 of offices is expected to come forward just across the Borough boundary at major sites at Earl's Court and White City.

2.10 It is also considered that given the historic delivery of office floorspace across the Borough through windfall sites, of circa 10,000 sq.m annum, the current projection of 3,000 sq.m of office floorspace to come forward on windfall sites across the overall plan period is extremely unrealistic.

2.11 For these reasons it is therefore clear that there is no requirement for a blanket protection of all office floorspace within the Borough and that as currently drafted <u>Policy CF5 is unsound as this is not in accordance with the up to date and more realistic evidence base</u>.

3.0 Reasons why Policy CF5 is not sufficiently flexible

3.1 It is considered that the current wording of the policy is <u>unsound as it is not sufficiently flexible.</u> As currently drafted the policy allows for no instances in which existing office floorspace can be redeveloped. This brings the prospect of existing employment sites being prevented from changing to other uses even where they might perform little beneficial economic role or may even be subject to long term vacancies. Since it is clear from section 2.0 above that the identified need for new office floorspace can easily be met, and exceeded, by forecast supply it is considered essential that the wording of the policy should be amended to allow reasonable flexibility for some elements of existing office floorspace and sites to be lost where it can be demonstrated that these are unviable in the long term and the replacement use would meet the other objectives of the Core Strategy.

3.2 In particular, and as acknowledged during the early stages of the LDF process, the key areas for economic growth will be the Borough's Town Centres and Employment Zones. Whilst there may be merit in protecting and consolidating offices in these locations, the same cannot be said of the few office buildings which currently exist in scattered and isolated locations elsewhere in the Borough. Appendix II, Strategic Review for Office Use', carried out by JLL for Chelsfield concludes that the quantum of office property affected by the emerging policy which falls outside of the Town Centre and Employment Zones and their immediate environs is less than 3.9% of the Borough's total stock of large offices. It is therefore considered that the suggested change to the wording of the policy, removing the protection to large offices in accessible areas, would not undermine the Core Strategy and would assist in the delivery of the Strategic Objectives.

3.3 Added flexibility would also deliver other plan objectives. The draft Core Strategy anticipates that a minimum of 3,500 homes should be provided between 2007/8 and 2016/7 (350 units per year) within the Royal Borough. However, following the recent conclusions of the London-wide Strategic Housing Land Availability Assessment (SHLAA) this may increase, and it is stated at Paragraph 35.3.1 that the Core Strategy will plan for 600 new residential units per year. The target within the draft Replacement London Plan (2009) is 585 new homes per annum (Annex 4). This target is informed by the London wide SHLAA.

3.4 It is stated within the draft Core Strategy that this will be achieved primarily through the delivery of new housing on Strategic sites, such as Kensal Gas Works, which are anticipated to deliver 5,400 new dwellings over the next 18 years. The rest of the units are anticipated to come forward from windfall sites. Whilst the soundness of this policy is not considered here, the delivery of 1885 new homes from windfall sites is relevant to Policy CF5.

3.5 The London Plan Annual Monitoring Reports from 2005 to 2010 outline the net housing completions for all London Boroughs, and these summarised below for RBKC:

	Completions		**Target**	**Percentage**
	Total	**Conventional Supply***		
2008/09	-501	102	350	-143.1%
2007/08	122	73	350	34.9%
2006/07	152	163	540	28.1%
2005/06	233	211	540	43.1%
2004/05	541	281	540	100.2%
2003	514	452	540	95.2%

**excluding non self contained and vacancies returning to use*

3.6 The Royal Borough has indicated in its supporting information to the Government Office for London (18 March 2010) and in its response to Inspector's questions (dated 25th May 2010) that it assumes an annual average of 130 dpa from windfall sites. However the historic performance of windfalls is indicated to be in the order of only 91 per annum. The assumption adopted for the new plan period therefore requires an increase by 40% to achieve the target of 130 dpa from windfall sites.

3.7 This is considered to be an extremely 'optimistic' approach and is in contrast to the delivery of new office floorspace across the Borough where a cautious and unrealistic approach has been taken to the delivery of new floorspace from windfall sites.

3.8 It is therefore clear that under current planning policy, which has a stronger presumption in favour of residential development across the Borough, RBKC has struggled to achieve its annual housing targets. Furthermore, the historic delivery of new dwellings through windfall sites has been below the quantum required in order to achieve the housing targets for the Borough across the forthcoming plan period, over and above those identified as strategic allocations.

3.9 The Royal Borough's proposed shift in policy approach away from the presumption in favour of residential development across the Borough (and towards greater restrictions on the loss of employment space) does not support the approach set out elsewhere within the Core Strategy in delivering new housing. The current drafting of Policy CF5 does not allow any flexibility nor outline circumstances where residential development may be preferable over the retention of an existing office building.

3.10 For these reasons it is considered that the current drafting of Policy CF5 for blanket protection of all office floorspace is unsound since it is not sufficiently flexible and does not allow potentially beneficial changes of use, particularly of sites which may play little or no positive role in the Borough's economic profile.

4.0 National Policy

4.1 Finally it is considered that the current emphasis within Policy CF5 to protect large offices within accessible locations, but outside of Higher Order Town Centres, is unsound since it is not consistent with national policy, and in particular PPS4.

4.2 Office uses fall within the definition of town centre uses as set out within PPS4. Policy EC5, and elsewhere within the document, places the emphasis on town centre uses first being located within a town centre, by followed an edge of centre location and finally out of centre locations with good public transport accessibility. The benefits of this approach of focusing new economic growth and development of main town centre uses in existing centres is to create sustainable and prosperous communities as well as vital and viable town centres.

4.3 On this policy basis, should a new large office be proposed within the Borough outside of a defined centre it would be necessary to carry out a sequential site search to demonstrate that the proposed location was the most appropriate. The same rationale should apply in considering the merits of existing large offices outside the Borough's Town Centres and Employment Zones. The Core Strategy seeks to protect all existing large offices with good public transport accessibility. Given its position close to Central London, the vast majority of the Royal Borough has 'good' public transport accessibility. However, this alone does not make for a successful office location. Other important factors will include, for instance, the presence nearby of other commercial and supporting uses.

4.4 As currently drafted policy CF5 places blanket protection on all large office buildings, even those in isolated locations where changes to other priority uses would be beneficial. This is unsound since it has insufficient regard to the objectives of national policy in PPS4.

5.0 Recommendations for changes to the policy

5.1 In order to address the issues set out above, and ensure that policy is made sound, the following changes are in the first instance, requested to the current drafting of

Policy CF5.

'a. protect very small and small offices (when either stand alone or as part of a larger business premises) throughout the Borough; medium sized offices within the Employment Zones, Higher Order Town Centres, ~~other accessible areas~~ and primarily commercial mews; large offices in <u>Employment Zones and</u> Higher Order Town Centres ~~and other accessible areas~~, except where:

- *i. the office is within an employment zone and is being replaced by a light industrial use, workshop or other use which directly supports the character and function of the zone;*
- *ii. the office is within a town centre and is being replaced by a shop or shop floorspace;*

5.2 In the second instance, and if the Inspector is not inclined to recommend changes to Core Strategy as set out in 5.1 above, we request that the policy be amended to allow sufficient flexibility. This should focus on the protection to be extended to large offices which currently exist in locations outwith the Town Centres and Employment Zones.

5.3 By this secondary approach, it is requested that a third qualification be added to the policy, as follows:

<u>iii the office is located outside of any employment zone, or town centre and it can be demonstrated: that it has no long term viability as an employment site; and that the introduction of new uses to the site would meet other plan policies and objectives including an improved visual appearance, enhancement of the local environment, meeting the agenda for sustainability and serving local needs.</u>

5.4 We also understand that further clarification note is being prepared by Roger Tym to address the issue of the discrepancy between the RBKC Employment Study of October 2009 and the GLA London Office Policy Review document of November 2009. These representations have been prepared without the benefit of this report, and we reserve the right to respond to this document and amend or supplement the above representations accordingly.

DRAFT

FOR ‘FINNIGAN SARL’

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REVIEW OF PLANNING POLICY
BASIS FOR EXISTING OFFICE
ACCOMMODATION

June 2010

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1.0 SUMMARY FINDINGS

1.1 Finnigan Sarl, the applicants in respect of the subject site, have instructed this report from Montagu Evans LLP, Chartered Surveyors.

1.2 This report considers the emerging employment policy in the Borough – specifically draft Core Strategy policy CF5.

1.3 Our client is looking to redevelop 205 Holland Park Avenue, an existing c.1980s office development which consists of 2,795 sqm NIA of accommodation (Class B1). The proposed development is seeking to demolish the existing building and construct a new mixed-use scheme comprising 53 residential units and c. 500 sq m of affordable workspace along with associated hard and soft landscaping.

1.4 This report has been prepared to review the planning policies affecting the above development. It concludes that these proposals should be acceptable in planning policy terms, taking into account all relevant emerging development plan policy and it's supporting evidence bases.

1.5 Accordingly we have investigated the evidence base supporting this policy and the intention behind the policy. We have assessed the quality and location of the accommodation as part of this process.

1.6 We have also considered the Greater London Authority's London Office Review Policy prepared as part of the evidence base for the emerging London Plan. Significantly, this evidence base supersedes that relied on by the Borough in preparing its emerging Core Strategy policy on employment, CF5. This more recent evidence base and consequent policy revises down the Borough's employment requirements, and these revised figures provide a significant changed context for the application of CF5.

1.7 The London Office Policy Review concludes that only 50,503 sq m net additional office floorspace is required in the Royal Borough by 2031, three years after the end of the draft Core Strategy plan period. This figure is approximately 18,500 sq m lower than planned for in draft Core Strategy policy CF5. As a result, having regard to the GLA evidence base, the Borough now has a significant surplus of office floorspace provision (as detailed below) in the Core Strategy plan period. We expect that this issue would be considered during the forthcoming Examination in Public, and CF5 revised accordingly.

Discussion

1.8 Submission Core Strategy policy CF5 seeks to protect offices across the Borough, including in all town centres and 'accessible' locations, without regard to the qualities of individual sites or individual premises. It does this because the evidence base, the

RBKC Employment Land Review Update, October 2009, concluded that the need for additional offices in the Borough was greater than the likely supply, and that, therefore, no existing offices should be lost.

1.9 A month after the RBKC report was published, the Greater London Authority published its own London Office Policy Review (as part of the evidence base of the draft Replacement London Plan), based on the latest November 2009 employment projections, as well as recent research into changing employee/floorspace ratios.

1.10 The London Office Policy Review concludes that only 50,503 sq m net additional office floorspace is required in the Royal Borough by 2031, three years after the end of the draft Core Strategy plan period. This figure is approximately 18,500 sq m lower than planned for in draft Core Strategy policy CF5. On the basis of the figures set out in this report, and having regard to the more up-to-date evidence base prepared by the GLA, the Borough will have a surplus of office floorspace provision **of at least 115,500 sq m office floorspace** in the Core Strategy plan period (even disregarding the substantial office developments proposed nearby in Hammersmith and Fulham).

1.11 Even if windfall sites are discounted, then the amount of existing permissions together with allocations at Kensal Green and Earl's Court, would still exceed the total office floorspace requirements up to 2031.

1.12 Therefore, it would not compromise the employment land objectives of the Royal Borough for some poorly located, poor quality office sites to be permitted to change to other uses, particularly residential and where this would support other planning objectives.

1.13 To put these figures in the context of the site, **205 Holland Park Avenue represents only 2,795 sq m** of the Borough's existing office stock.

Future Provision of New Offices in the Royal Borough

1.14 There is going to be a substantial supply of offices serving the Royal Borough during and beyond the Core Strategy period. This substantial supply will be a result of major office schemes coming forward, especially White City and Earl's Court, together with Core Strategy allocations, permissions and, importantly, a continuation of the past trend of a significant amount of windfall provision. Thus, there is likely to be:

- at least 80,000 sq m windfall development, i.e. sites not currently with planning permission or proposed to be allocated; plus
- 46,000 sq m of existing planning permissions; plus
- at least 40,000 sq m within the Royal Borough at Core Strategy allocations at Kensal Gasworks and Earl's Court; plus

- up to a further 700,000 to 800,000 sq m on the border of the Borough at Earl's Court and White City.

1.15 Thus, within the Borough, the total forecast provision of new office floorspace in the Core Strategy period will be at least **166,000 sq m** (with up to a further 860,000 sq m on the doorstep).

The Type of Offices Required to Serve the Royal Borough's Requirements

1.16 The studies underpinning the draft Core Strategy and draft Replacement London Plan (which are detailed later in this report – see paras **X)** have concluded that the following are required in the Borough:

- consolidation of existing stock, retaining and renewing town centre accommodation which serves an important role in underpinning the local economy in contrast to stand-alone, large office buildings outside town centres or business quarters, such as 205 Holland Park Avenue;

- retention, enhancement and expansion of small office units, for which 205 Holland Park Avenue is completely unsuitable for conversion; and

- creation of new office campuses (such as proposed at White City and Earl's Court) which have critical mass, supporting retail and complementary services, arranged around attractive public realm, offering grade A offices at a rental discount to central London.

The Contribution of 205 Holland Park Avenue to Employment Provision in the Royal Borough

1.17 205 Holland Park Avenue is no longer suited to occupier requirements in terms of design, infrastructure or services. It is not viable to refurbish the building to renew its services and infrastructure. Neither is it viable to redevelop the building for new offices, due to its location isolated from other offices and supporting uses.

1.18 The building thus faces a future of steady decline and vacancy. Our assessment is that in these circumstances the building will not be in a position to make a contribution to employment provision in the Royal Borough.

1.19 The location of 205 Holland Park Avenue is significant in this regard, and explains why it does not meet either planning or occupier requirements for ongoing major employment provision. The building is physically and perceptually isolated from other commercial uses. It is not in a town centre or business area. It is separated from Shepherd's Bush by Holland Park Roundabout, which creates a barrier.

1.20 The following report explores these findings in further detail, and explains why we have concluded that in this case, bearing in mind the evidence base and policy statement prepared by the GLA, the change of use proposed would not compromise the Borough's employment requirements as expressed in the emerging Core Strategy policy.

2.0 INTRODUCTION, OVERVIEW AND PLANNING POLICY

2.1 This report has been prepared by Montagu Evans LLP on behalf of Finnigan Sarl, to review the planning policies affecting the redevelopment of 205 Holland Park Avenue, London W11. The report has been written by partners in the planning and development department who have considerable experience in analysing employment protection policies and the evidence that underpins them. In preparing it we have sought agency advice.

2.2 The purpose of this report is to explain how the proposed redevelopment of 205 Holland Park Avenue, which would involve the loss of the existing office accommodation on the site, accords with the objectives of planning policy for the area.

2.3 In particular, this report explains why the proposal complies with Draft Kensington & Chelsea Core Strategy policy CF5, which seeks to protect existing office accommodation. This conclusion is based on analysis of the draft policy itself (read in conjunction with other policies) and, perhaps more importantly, the evidence that underpins the policy, taking into account the particular characteristics, circumstances and location of the application site and the contribution that it makes, and could make, to meeting the Council's employment objectives.

The Site

2.4 205 Holland Park Avenue is a five storey office building constructed in 1981. It contains 2,795 sq m (30,087 sq ft) net internal office accommodation. The building is located on Holland Park Roundabout at the corner of Holland Park Avenue and Holland Road. The main entrance is from Holland Park Avenue, with vehicular access to the small car park from Clearwater Terrace to the rear.

2.5 The proposed development entails the demolition of the existing building and its replacement with residential apartments together with commercial incubator units at ground floor. Thus, the proposal would change the use of the land from office to mixed use.

Planning Policy

2.6 The **statutory development plan** for the site comprises:

- London Plan 2008; and
- RBKC Unitary Development Plan (UDP) 2002, saved policies.

2.7 **London Plan** (2008) policies 3B.2 and 3B.3 promote new employment development (mixed with other uses) within the Central Activities Zone and strategically specified locations, none of which include 205 Holland Park Avenue. The policies encourage the consolidation of employment uses into the Central Activities Zone and the strategically specified locations.

2.8 **UDP** policy E1 resists large-scale business uses on sites such as 205 Holland Park Avenue, especially if the site is otherwise suitable for housing.

2.9 The **Emerging Development Plan** for the site comprises:

- Draft Replacement London Plan 2009; and
- RBKC Submission Core Strategy 2010.

2.10 **Draft Replacement London Plan** policies 4.2 and 4.3 replace policies 3B.2 and 3B.3 and they signal a change in emphasis, reflecting the much-reduced forecast need for additional office accommodation across London and the objective of focussing and retained offices at strategically specified locations. 205 Holland Park Avenue is not within a strategically specified location and therefore its change of use is supported (policy 4.3(A)(b) and paragraphs 4.11 and 4.12).

2.11 **Submission Core Strategy** policy CF5 and paragraphs 31.3.27-37 explain the need to protect existing offices, based on the evidence of the Employment Land Review, October 2009, prepared by Roger Tym and Partners. Offices in higher order town centres or locations with a public transport accessibility level of 4 or above are protected, which would include 205 Holland Park Avenue.

3.0 NEED FOR ADDITIONAL OFFICES IN THE ROYAL BOROUGH

3.1 Submission Core Strategy policy CF5 seeks to protect offices across the Borough, in town centres and accessible locations, without regard to the qualities of individual sites or individual premises. It does this because the evidence base, the RBKC Employment Land Review Update, October 2009, prepared for the Council by Roger Tym & Partners, concludes that the need for additional offices in the Borough is greater than the likely supply, and therefore no existing offices should be lost.

3.2 This chapter considers whether the need for office accommodation in Kensington & Chelsea is significantly lower than estimated by Roger Tym & Partners, because their estimate was based on 2004 London-wide employment projections that have since been updated.

3.3 A month after the Roger Tym & Partners report for RBKC was published, the Greater London Authority published its own London Office Policy Review (prepared by Ramidus Consulting and including input from Roger Tyms) as part of the evidence base of the draft Replacement London Plan. The London Office Policy Review is based on the latest November 2009 employment projections, prepared by the Greater London Authority, as well as recent research into changing employee/floorspace ratios.

3.4 The limitations of RBK&C's Employment Land Review Update was in fact signalled in the Roger Tym & Partners report at paragraph 5.3, which states:

> *"for this update we anticipated a more up-to-date version of the GLA forecasts would be available. However, due to data errors these employment forecasts are yet to be released by the GLA. Hence the latest employment forecast available for the Borough is the version produced by the GLA for the 2007 Examination in Public which use a base date of 2004.* ***These forecasts are dated and fail to take account of recent economic conditions****"* [emphasis added]

3.5 As a "temporary measure", Roger Tym & Partners adjusted the 2004 projections downwards (Scenario C, paragraph 5.4). However, even their adjustment was not sufficient and was in turn overtaken by the subsequent publication of more up-to-date projections.

3.6 As a result, the evidence base for Kensington and Chelsea's draft Core Strategy policy CF5 has been superseded – the policy is based on employment forecasts that have been overtaken by more recent and comprehensive research, contained in the London Office Policy Review. Policy CF5 therefore needs to be rewritten to take this new and very different evidence into account. We anticipate that this revision would take place at the forthcoming EiP.

New GLA Forecasts

3.7 The London Office Policy Review, November 2009, by Ramidus Consulting Ltd for the Mayor of London, establishes the need for additional office accommodation in London (and is thus the evidence that underpins draft Replacement London Plan policy 4.2). The Review also establishes the need for additional office accommodation in each Borough, including Kensington & Chelsea.

3.8 The need for additional office accommodation in each Borough, as set in the London Office Policy Review, is based on the latest November 2009 employment projections prepared by the Greater London Authority.

3.9 The revised projections reduce the annual rate of office employment growth across London by 40% when compared with the previous projection used in the RBKC Core Strategy evidence base. Office employment growth across London is thus forecast to be just 16,000 jobs per annum to 2031, compared to the previous forecast of 26,750[1]. This revised forecast is the basis of Replacement London Plan policy 4.2 and table 4.1.

Changes in Occupier Patterns – Reduced Floorspace per Worker

3.10 The London Office Policy Review, like the RBKC Employment Land Review Update before it, translates projected employment growth into physical floorspace requirements by use of employee/floorspace ratios.

3.11 The London Office Policy Review includes updated research into working and occupier patterns and changes in density ratios. It concludes, emphatically, that:

> *"Organisations – both public and private – are using space more efficiently and effectively. Trends ... are all changing the demands placed upon office space.*
>
> *"The bottom line is that they are using less space. What is happening is structural change in which [employees] the second most expensive cost for most organisations is managed far more responsibly than has typically been the case in the past.* ***Traditional assumptions about the growth of employment and the associated growth in employment space will need to be re-visited."***[2] [emphasis added]

3.12 The Replacement London Plan (paragraph 4.10) incorporates the conclusion of the London Office Policy Review (paragraph 3.1.4), that the average worker/floorspace ratio is now reduced to 12 sq m per worker net. By contrast, the RBKC Employment Land Review Update uses a ratio of 14.7 sq m per worker.

[1] London Office Policy Review 2009, page x

[2] London Office Policy Review, November 2009, by Ramidus Consulting Ltd for the Mayor of London (evidence base for Replacement London Plan), page vi.

3.13 The reduction in the amount of space occupied by each office worker in London means that both existing and new offices are accommodating more employees than they would have previously. The result is that, even though total office employment is growing, total office floorspace does not need to grow as much as previously in order to accommodate them. In effect, existing and new areas are being used far more efficiently.

Comparison between GLA and RBKC Forecasts

3.14 New employment projections, which reduce forecast employment growth, combined with reducing space per worker ratios, results in the future growth of office floorspace being significantly lower than stated in the RBKC Employment Land Review Update.

3.15 Kensington and Chelsea's Submission Core Strategy, paragraph 31.3.31, explains that its emerging policy CF5 is predicated on the forecast need for a net addition of **69,200 sq m** office floorspace by 2028.

3.16 The London Office Policy Review, figure 3.14, combines the employment forecasts for each Borough with the worker density explained above, and concludes that, in RB Kensington & Chelsea, only **50,503 sq m** net additional office floorspace is required 2007-2031.

3.17 This is a significant reduction in floorspace requirement, from the 69,200 sq m by 2028 in the draft Core Strategy, to 50,503 sq m by the later date of 2031 according to the London Office Policy Review. Because the latter, lower figure is based on more up-to-date employment projections and floorspace occupation ratios, the former, higher figure should, we believe, be disregarded, partially because the authors of the report which supported CF5 themselves recognised that their figures would likely be resolved in light of changes in the intensity of the use of employment land. Thus, there is no dispute between authorities on which figure is correct.

Conclusion

3.18 The latest and most accurate forecast for office floorspace requirements in RB Kensington & Chelsea is found in the London Office Policy Review, which was published a month after, and supersedes, the RBKC Employment Land Review Update. The London Office Policy Review concludes that only 50,503 sq m net additional office floorspace is required in the Royal Borough by 2031, three years after the end of the draft Core Strategy plan period. This is nearly 18,500 sq m less floorspace than planned for in draft Core Strategy policy CF5.

3.19 As a result, the Royal Borough will have a surplus of office floorspace provision, of at least **18,500 sq m** (using its own figure for existing commitments and the conservative supply figures in draft Core Strategy paragraph 31.3.32 – relating to Kensal Gasworks, Earl's Court and windfall sites). Taking into account the more realistic, but still conservative, supply figure set out above in paragraph 4.15 of this report, of 166,000 sq m, the Borough will have **a surplus of at least 115,500 sq m office floorspace** in the Core Strategy plan period. (Percentage of office supply citation to be added here).

3.20 Therefore, it would not compromise the growth of employment in Kensington & Chelsea for some poorly located, poor quality office sites to be permitted to change to other uses, particularly residential.

3.21 **205 Holland Park Avenue represents only 2,795 sq m** of the Borough's existing office stock. This report, together with separate evidence from Jones Lang LaSalle, has demonstrated that the building is one of the poorest quality in the Borough in one of the worst locations for office development – isolated from other business and services. Change of use to residential would not harm the Borough's employment or development strategy, and in fact would offer the opportunity to create a more attractive gateway to Holland Park, while providing affordable housing.

3.22 It is thus our conclusion that it would be in the interests of good planning to allow the change of use of the 205 Holland Park Avenue site to residential, taking account of the evidence on employment need and supply that has been published since the Submission Core Strategy, as outlined in this report.

4.0 FUTURE PROVISION OF NEW OFFICES IN THE ROYAL BOROUGH

4.1 This chapter explains the forthcoming provision of new offices in or very near to Kensington & Chelsea, to demonstrate that there is going to be a substantial supply of offices serving the Royal Borough during and beyond the Core Strategy period. This substantial supply will be a result of major office schemes coming forward, especially White City and Earl's Court, together with Core Strategy allocations, permissions and, importantly, a continuation of the past trend of a significant amount of windfall provision.

Existing UDP Provision and the Emerging Planning Policy: Windfall Sites

4.2 The Unitary Development Plan only protects offices in special circumstances, where they are small (less than 100 sq m) and located in principal shopping centres, not on the ground floor (policy E3). Otherwise, new offices are discouraged (policy E1), in favour of housing, given the largely residential nature of the Borough, and the general pattern of in-commuting and thus large offices not providing local employment.

4.3 It is worth considering whether this policy context, which has generally encouraged the conversion of existing office sites to residential uses (and has discouraged the creation of new office sites), resulted in a gradual reduction in the amount of office accommodation in the Borough, in favour of residential. The answer is no and the evidence is as follows:

- a considerable quantity of new offices is built in the Borough each year – an average of 10,500 sq m per annum in the period 2004-2008[3];
- This is greater than the smaller quantity which is lost each year to other uses.

4.4 Thus, despite Unitary Development Plan policy, the stock of office accommodation in the Royal Borough has risen steadily: between 2004 and 2008 the net gain in office accommodation was 9,000 sq m.

4.5 The forthcoming change in Borough planning policy, from the Unitary Development Plan to the Core Strategy, which will shift from discouraging to encouraging new offices, will result in an increase in office development, including windfall sites. It would therefore be reasonable to plan for windfall office provision (i.e. currently unforeseen developments) of circa 5,000 sq m per annum. We consider this is a conservative estimate. In the event, this estimate alone would provide for circa **80,000 sq m** of new office floorspace in the period 2012-2028, which would be in addition to existing permissions, allocations and other major schemes.

[3] Source: RBKC Employment Land Review Update, October 2009, paragraph 4.49.

4.6 The draft Core Strategy (paragraph 31.3.32) includes provision for only 3,000 sq m of windfall office development in the entire Core Strategy period. We consider this estimate is too low.

Existing Permissions

4.7 The Submission Core Strategy (paragraph 31.3.32) states that the existing supply of new offices in the Borough (under construction or with planning permission) equates to a net addition of **46,000 sq m**.

Core Strategy Allocations

4.8 The Submission Core Strategy allocates a further 20,000 sq m of office floorspace at Earl's Court and Kensal Gasworks (10,000 sq m each).

4.9 At Earl's Court, the landowners have submitted representations to both the draft Core Strategy and draft Replacement London Plan seeking at least a threefold increase in employment provision, to create a new quarter with 300,000-450,000 sq m office accommodation. Although much of this will be just over the Borough boundary in Hammersmith & Fulham, a significant element will be within the Royal Borough, and all of it will in effect serve the Borough.

4.10 It is therefore reasonable to conclude that the 10,000 sq m suggested as a minimum in the draft Core Strategy will be exceeded by a considerable margin and that a minimum of 30,000 sq m office floorspace at Earl's Court within the Royal Borough would provide a sound basis for the plan.

4.11 Thus, the total Core Strategy site allocations office provision should be at least **40,000 sq m**.

White City

4.12 The White City scheme being promoted by Helical Bar, Land Securities, Morley and the BBC, on land to the north and west of Westfield (to be called Creative London) will provide around 450,000 sq m of office space. This is of course outside the Royal Borough, but will serve Kensington & Chelsea and, like Earl's Court, have an impact on the Borough's office market.

4.13 Both the Earl's Court and White City proposals illustrate the conclusions of the London Office Policy Review, namely that major campus/quarter developments, which supplement good transport with quality public realm, supporting facilities and clusters of high-quality occupiers, are both viable, attractive and the future of office provision in inner-west London. In other words, isolated office developments which are not in town centre locations – as 205 is one such – are not going to be favoured.

The consequence will be, we believe, a steady decline in the subject building's desirability for employment use.

Conclusion

4.14 The future provision of new office accommodation for Kensington & Chelsea in the Core Strategy plan period will comprise:

- at least 80,000 sq m windfall development, i.e. sites not currently with planning permission or proposed to be allocated; plus
- the 46,000 sq m of existing planning permissions; plus
- at least 40,000 sq m within the Royal Borough at Kensal Gasworks and Earl's Court; plus
- up to a further 860,000 sq m on the border of the Borough at Earl's Court and White City.

4.15 Thus, within the Borough, the total forecast provision of new office floorspace in the Core Strategy period will be at least **166,000 sq m** (with a further 860,000 sq m on the doorstep).

5.0 THE TYPE OF OFFICES REQUIRED TO BETTER SERVE THE ROYAL BOROUGH

5.1 Not all offices are the same. They vary in size of unit, size of building, location, age, condition and lease terms. Each type of office makes a greater or lesser contribution to the needs of the Royal Borough. These needs have been well-studied in the last year, in the preparation of the RBKC Core Strategy and the Replacement London Plan. These studies have come to very specific conclusions about what is needed from the offices of the future (both new and retained) in the Royal Borough:

- consolidation of existing stock, retaining and renewing town centre accommodation and allowing change of use/redevelopment of stand-alone large office buildings outside town centres or business quarters;
- retention, enhancement and expansion of small office units; and
- creation of new office campuses, such as at White City and Earl's Court.

5.2 Each of these is explained and referenced below, with the conclusion that 205 Holland Park Avenue makes no contribution to these objectives.

Consolidation

5.3 The Draft Replacement London Plan encourages (policies 4.2 and 4.3) consolidation and targeted growth of London's office stock, with a variety of types of office accommodation in mixed use developments/locations. The Plan does not seek the retention of all office accommodation, but rather encourages good new development in the right locations, and release of older stock in locations that no longer fit with long-term needs. The right locations for new or retained offices are set out in paragraph 4.11, which, in Kensington & Chelsea, are limited to town centres and (in the future) mid-urban business parks/quarters. The Plan recognises that older, larger office blocks that sit in shopping parades or neighbourhood locations in inner and outer London are declining in viability and demand, and would be suited to redevelopment/conversion to other uses. Thus, the retention of 205 Holland Park Avenue as a large office block would not meet London Plan objectives.

5.4 The London Office Policy Review, November 2009, by Ramidus Consulting Ltd for the Mayor of London (which is part of the evidence base for the draft Replacement London Plan), concludes (page ix) that the ongoing change of use of existing office stock to housing, hotels, etc, has not damaged London's office market but rather in many instances has contributed to regeneration and increased vitality. By contrast blanket protection of offices has often been a recipe for vacancy and dereliction, commonly in fringe locations (such as 205 Holland Park Avenue), but also in core areas during market downturns.

5.5 The RBKC Submission Core Strategy refers (paragraph 31.3.28) to the lack of London Plan strategic office locations in the Borough, and goes on to highlight locally-important concentrations of offices (town centres, employment zones and commercial mews). However, 205 Holland Park Avenue is outside of any of these concentrations.

5.6 Core Strategy paragraph 31.3.33 explains that large and medium-scale offices in town centres are important to support vitality and enable public-transport access to employment. However, retention of offices at 205 Holland Park Avenue would not support town centre vitality.

5.7 The Roger Tym/RSM report omits 'accessible locations' (see para 6.11), preferencing town centre locations. This is a move away from public transport accessibility as a desirability criterion (a simple numerical calculation), towards a qualitative approach which preferences town centres. This focus is consistent with recent national planning policy guidance as set out in PPS4: Planning for Sustainable Economic Growth (2009) which highlights the importance of focusing such developments on town centres (see para 9 inter alia) in the interest of sustainability.

Small Units

5.8 Core Strategy paragraphs 31.3.35-36 explain the rationale for protection of small offices and business premises:

- small premises are in the greatest demand in the Borough;
- smaller business units provide disproportionately more jobs for local people than larger units;
- smaller units offer flexibility and scope for expansion in situ (into a neighbouring unit for example);
- the creation of large-scale single-occupier offices would be detrimental to small business premises;
- small units contribute to diversity of uses.

5.9 Submission Core Strategy paragraph 31.3.30 explains that the average business unit in the Royal Borough is 230 sq m, less than half the London average of 425 sq m. A high proportion of units are less than 100 sq m. Paragraph 31.3.31 states that most take up of office accommodation is for units of 45-75 sq m.

5.10 The RBKC Employment Land Review Update (October 2009, Roger Tym and Partners, paragraphs 3.32, 3.35, 4.16-17) explains that the only recent large-scale development in the Borough, Notting Dale Village (at around 25,900 sq m), is a significant exception to the general trend, where the majority of demand is for much smaller, sub 300 sq m, units.

5.11 Protection of office use at 205 Holland Park Avenue, which is unsuitable for conversion to small business units, would do nothing to contribute towards these objectives.

5.12 Core Strategy policies CF6 and CF7 protect and promote creative, culture and arts uses. Protection of 205 Holland Park Avenue will do nothing to assist this.

Major Campuses

5.13 The London Office Policy Review explains (page ix) that the development in the last 20 years of large off-pitch office campuses, in places such as Paddington, has provided a more attractive alternative to traditional office stock (such as 205 Holland Park Avenue). These large clusters of office buildings (described as urban campuses) create critical mass, with supporting retail and complementary services, arranged around attractive public realm. They offer grade A offices at a rental discount to central London.

5.14 This trend will clearly continue, with the London Office Policy Review referring to the large high-quality office/mixed use developments that will come forward at White City and Earl's Court.

5.15 These major schemes, together with smaller units, will provide for employment needs going forward, allowing for the release of outdated, unviable and poorly-located 205 Holland Park Avenue.

6.0 THE CONTRIBUTION OF 205 HOLLAND PARK AVENUE TO EMPLOYMENT PROVISION IN THE ROYAL BOROUGH

6.1 Built in 1981, 205 Holland Park Avenue is ageing poorly. Like many office buildings of its era, it is no longer suited to occupier requirements in terms of design, infrastructure or services. This is explained in more detail in the report prepared by Jones Lang LaSalle.

6.2 It is not viable to refurbish the building to renew its services and infrastructure. Neither is it viable to redevelop the building for new offices. It is isolated from other offices and supporting uses. The building thus faces a future of decline and vacancy.

6.3 The location of 205 Holland Park Avenue does not meet either planning or occupier requirements for ongoing major employment provision. The building is physically and perceptually isolated from other commercial uses. It is not in a town centre or business area. It is separated from Shepherd's Bush by Holland Park Roundabout, which creates an inhospitable barrier that is both lengthy (in time and distance) and unpleasant to traverse, due to the indirect crossings, traffic volumes, and lack of frontage development and shelter. As a result of all this, Holland Park Roundabout is not in any way an established office location. The building is a development that was the result of a proposed West Cross Route urban motorway which was never realised. This explains its isolated position, removed from the town centre.

6.4 The London Office Policy Review 2009, which forms an important part of the evidence base for the Replacement London Plan, explains (paragraph 5.7.19) the clear and accepted criteria for a successful office building outside central London or an established office centre. These are set out below, with commentary in relation to 205 Holland Park Avenue.

London Office Policy Review Criteria	**Examples from London Office Policy Review**	**Commentary on 205 Holland Park Avenue**
Good transport	*"The failure of the Royals Business Park to take-off beyond its first phase. ... The masterplan for the scheme was for a 150,000 sq m mid-urban, mid-rise business park ... . The scheme's relative remoteness and lack of transport infrastructure probably played a major role in its lack of success" (para 4.5.5).*	The site numerically has good transport, but is in fact isolated and cut-off by Holland Park Roundabout.
Amenities	*"Even having an anchor tenant, access to public transport and locational advantage is no guarantee of success. FirstCentral at Park Royal, developed by landowner Diageo, has a masterplan for nine office buildings totalling just over 100,000 sq m. ... no other occupiers have been attracted to this scheme, where the immediate context is the Park Royal industrial estate, in the subsequent seven buoyant years" (para 4.5.6).*	The site does not benefit from local amenities to support and serve office occupiers. Westfield or Shepherd's Bush Green are too far to carry a hot cup of coffee – which is the standard expected. There are few other business occupiers nearby, to create critical mass. There are few business support services nearby. The public realm around the site lacks amenities for workers or the attractiveness to attract occupiers.
Capability to attract corporate occupiers, not just local businesses	*The concept of the constellation is probably best illustrated by the western sub-region – a highly successful office location as a sub-region but, within it, there are four distinct centres that stand out as being growth markets, each of which has its own individual identity. In between these centres there are areas where there is no recognisable office market and also areas which have been successful office locations in the past but are now in decline" (para 7.2.5)*	Corporate occupiers go to established town centre or office centre locations, or new major campuses, or central London. 205 Holland Park Avenue is remote from the nearest established centre at Hammersmith. It would not be considered suitable by a corporate occupier.
Long-term investment	*"A steady release of land into the office market over the last 20 to 30 years, through increases in plot ratios, changes of use and the embracing of new areas as acceptable office locations, means that ... the London office market can no longer be considered to be inherently supply constrained. For this reason, successful development must rely on an in-depth understanding of the type and quantity of office space that will be needed and where it is best located" (para 5.7.9).*	There is no prospect of long-term investment at 205 Holland Park Avenue as an office or business building. It is simply not financially viable.

6.5 Our conclusion is that 205 Holland Park Avenue, both in terms of the building and its location, does not meet the needs of the market or planning criteria for the future, with the possible exception of proximity to public transport. Even public transport access is poor in terms of the quality of public realm and the severe severance effect of Holland Park Roundabout. Furthermore, public transport access alone is a not a sufficient reason for retention – a building or location needs to meet the other criteria if it is to make a positive contribution to future employment in the Royal Borough. The examples of FirstCentral and the Royals Business Park illustrate the pitfall of office development that does not meet all or most of the criteria for success – both of these locations have failed to provide the employment envisaged for their Boroughs, despite looking promising at the time on paper and in planning terms. They illustrate that planning for employment will not generate or retain employment if the locations or buildings do not fit what employers look for.

6.6 Therefore, in the particular circumstances of 205 Holland Park Avenue, the building does not need to be protected under emerging Core Strategy policy CF5, because it will not in fact provide for the future employment needs of the Royal Borough (which is the objective of the policy).

Real value in a changing world

205 Holland Park Avenue
London, W11

Strategic Review for Office Use

for Finnigan Sarl

16 July 2010

Contents

Executive Summary

1. Introduction

205 Holland Park Avenue is an office building of c.30,000 sq. ft. (net) constructed in 1981. It is located at a gateway site to the Royal Borough of Kensington & Chelsea. The building is dated in specification and appearance, and requires significant investment in the building fabric and services.

This report assesses, from a commercial real estate market perspective, the prospects for the viable continued use of the property at 205 Holland Park Avenue in office use.

It considers this assessment in the context of emerging planning policy (Policy CF5 of the Proposed Submission Core Strategy) which seeks to safeguard against the loss of any office space in locations outside of Town Centres and Employment Zones but within locations of high transport accessibility (>PTAL level 4).

The report considers:

- the competitive environment for the property relative to the West London and localised office markets;
- an assessment of the property in physical terms to meet modern office occupier requirements;
- the potential for further investment in the property (through redevelopment or refurbishment); and
- specifically, an analysis of the emerging planning policy CF5 and its relevance to the Property.

2 The Competitive Context for Continued Office Use of the Property

The recent economic recession has significantly impacted occupational demand for offices across all types of space in the office hierarchy. Office take up in the western corridor is the lowest for 15 years. The economic recovery is fragile and we expect continued consolidation in the corporate market which is likely to increase the supply of Grade B accommodation; however, this supply is likely to be superior to the subject property.

The predominant and increasing demand in the Western Corridor market is for properties within town centre locations and for larger units with larger floor plates. Emerging office development locations in inner-West London are increasingly based on creating large scale destinations with large buildings and floor plates to meet modern occupier demand, for example the proposals for White City and Earls Court.

RBKC forms part of the West London office market and is overshadowed by locations such as Hammersmith and Chiswick. The premium locations for offices in RBKC are focused on other areas of the Borough - High Street Kensington, Cromwell Road, Kings Road/ Sloane Square – the majority of which are the Borough's town centre locations.

The office market in RBKC is characterised by smaller office occupiers (the average size of business unit in RBKC is less than half the London average) and has a relatively high representation in the image and specification conscious media related industries.

3. Meeting Modern Office Occupier Requirements

Over the longer term, office occupational demand will be driven by key factors including Corporate consolidation and globalisation; Sustainability and Corporate Social Responsibility; improvements in technology and work practices; and work place strategies. Corporate occupiers:

- are increasingly including objectives for their real estate portfolios that relate to CSR;
- continue to re-engineer their business processes to drive efficiencies and cost optimisation. Corporate consolidation will continue to drive cost cutting until a sustained recovery occurs;
- continue to seek locations that provide access to high quality labour and modern specification buildings which enable them to deliver efficiencies, including;
  - larger buildings and larger floor plates (>10,000 sq. ft.)
  - flexibility in occupation and capacity to accommodate appropriate technology;
  - town centre locations and a high quality building and environment;

Within the RBKC market, smaller occupiers have some similar requirements but in particular place emphasis on a town centre environment where they can access competitive goods and services that they cannot provide in-house. In particular, for the media sector, building image and quality of environment are considered key in attracting and retaining the best staff.

3.1 Does the Property Fulfil Modern Office Occupiers' Criteria?

The property performs poorly against modern office occupiers requirements, in particular it suffers;

- poor visual impact at a key gateway site and a challenging immediate environment (noise and pollution)with no amenity space for staff; and
- from significant obsolescence and the specification is poor by modern standards;
  - small floor plates, in a configuration which limits occupational flexibility, and overall building size;
  - limited floor to ceiling heights (restricting potential for raised floors);
  - building services that are close to the end of the economic life and require substantial investment to meet modern standards (where this can be achieved);
  - progressive regulatory demands in terms of sustainability and in CSR will accelerate the rate of the property's obsolescence.

The property's current occupational profile reflects a diminished position from the original tenants, which included significant corporates, and reflects the current status of the building in meeting modern occupier demand. Evaluation of options for redevelopment and refurbishment demonstrate insufficient investment performance compared to existing use. It is not currently feasible or realistic proposition for any significant improvement in the building to take place. We therefore anticipate that the property will suffer from continued under investment, sufficient only to implement a reactive maintenance programme. The likely outcome will therefore be one of continued decline and obsolescence, with the resultant negative impacts on the local environment and residents manifested through the visual degradation of the building and its surrounds with time.

4. Analysis of Emerging Planning Policy (CF5) and its relevance to the Property

We have analysed the potential impact of emerging policy CF5. Our approach is based on an assessment of the properties identified relative to their proximity to a Town Centre or Employment Zone. We consider this to be an appropriate interpretation relative to RBKC's economic development objectives since it reflects an occupier's approach to evaluating buildings and locations.

We conclude that the impact of the emerging policy for large office buildings outside of, but proximate to Town Centre and Employment Zones affects only 10 properties or 3.9% of total office stock in RBKC. The subject

Property is located furthest from a Town Centre or Employment Zone of any of the properties identified and, as such, we consider it does not reflect the characteristics of a town centre location and should therefore be regarded as an exception to the emerging planning policy objectives.

5. Summary Conclusions and Recommendations

We have undertaken a detailed review of 205 Holland Park Avenue to assess its viability in continued office use. We conclude that: the property;

- does not meet modern office occupier requirements being isolated away from office clusters and in a poor environment;
- suffers from significant design, specification and obsolescence issues; it requires significant investment but;
- the financial dynamics of redevelopment or refurbishment in the current market are such that an investor is not likely to make the required level of investment; and
- is therefore likely to suffer from continued under-investment and increasing obsolescence.

We assessed the quantity and range of office properties affected by emerging policy CF5. We conclude that

- the quantum of office property affected by the emerging policy which falls outside of the Town Centre and Employment Zones and their immediate environs is less than 3.9% of the Borough's total office stock; and
- that the subject property represents an anomaly to the objectives of the emerging planning policy – it is the most distant from a Town Centre or Employment Zone of any of the properties identified.

We therefore conclude that the transfer of 205 Holland Park Avenue from office to another use would have no effect on the fundamental objective of planning policy to provide for predicted economic growth.

1 Introduction

1.1 Purpose of this Report

The purpose of this report is to review the continued viability of 205 Holland Park Avenue in office use.

The report also specifically reviews the property's prospects for long term viable office use in the context of emerging planning policy for offices in the Royal Borough of Kensington & Chelsea (RBKC/ the Borough).

1.1.1 Emerging Planning Policy Context for Offices in RBKC

Existing planning policy for RBKC focuses on protection of offices in selected areas. The proposed new approach (policy CF5 of the Proposed Submission Core Strategy) promotes:

'protect…large offices in Higher Order Town Centres and other accessible areas…' (where accessible areas are defined as those with a PTAL of 4 and above).

The background to the policy position is addressed in a separate report prepared by Montagu Evans (Justification for Removal of Existing Office Accommodation, June 2010).

1.2 Background

1.2.1 The Property and its Environment

The property is located at the western end of Holland Park Avenue, London W11 (shown circled in red on the plan at Figure 1 below). The property is situated on a prominent site fronting the gyratory system and forms a gateway site to the Borough.

The subject property was built in 1981 and comprises:

- a site area of 0.17 hectares. The site is irregular in shape and has relatively high site coverage. The site is outlined in red on the plan at Figure 2 below.
- Total net floor space of c. 2,787 sq. m. (30,000 sq. ft.) on ground and four upper floors with 12 car spaces.
- Open plan space with floor plates of c. 557 sq. m. (6,000 sq. ft.).
- Suspended ceilings and perimeter power trunking & air conditioning units (plus some limited ceiling void mounted air circulation system);
- Floor to underside of structural beam of 3.05 m;
- Two eight person passenger lifts;
- Male and Female toilets on each floor.
- Both main elevations are brick with aluminium framed centre-pivot windows.

Photographs of the property are included at appendix E.

Figure 1: Location Plan

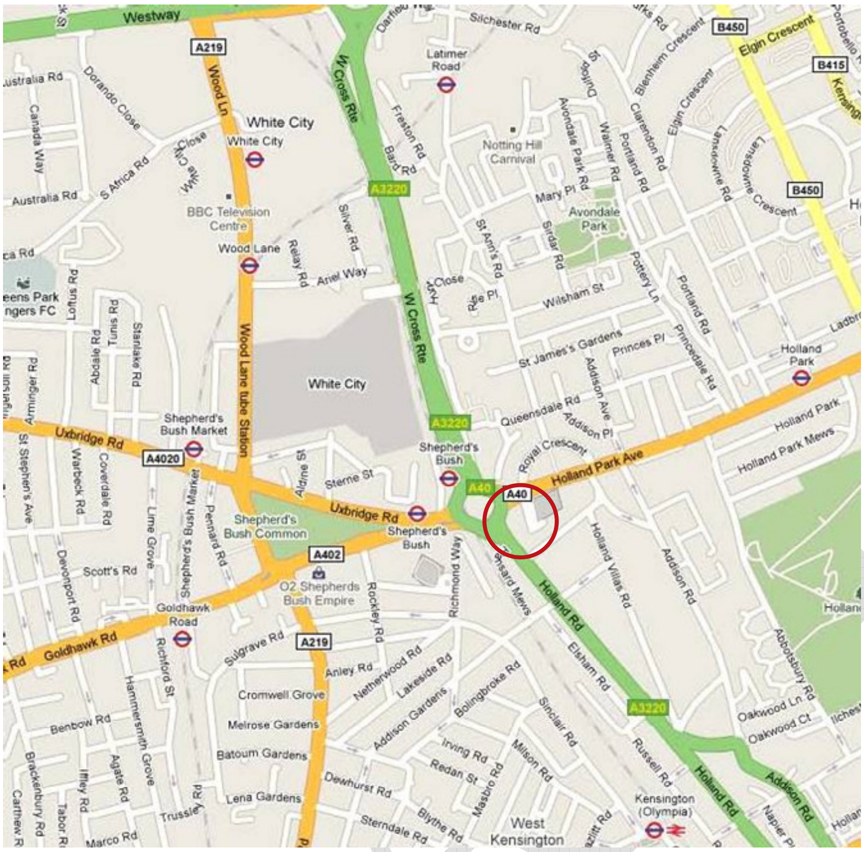


Figure 2: Site Plan

205 Holland Park Avenue is outlined in red above.

1.3 Structure of Report

Our assessment of the property in terms of its commercial viability for sustainable office use is structured as follows:

- Section 1 – Introduction and context;
- Section 2 - the competitive environment for office use at 205 Holland Park Avenue, including the long term strategic drivers to office demand;
- Section 3 - an analysis of the physical attributes of the property relative to the prospects for its continued use as offices to meet modern occupier demands, including the potential for redevelopment or refurbishment;
- Section 4 - analysis of the location of offices in RBKC with regard to the emerging policy CF5; and
- Section 5 - our conclusions and recommendations.

2 The Competitive Environment for 205 Holland Park Avenue in Office Use

2.1 Introduction

A comprehensive assessment of the prospects for sustainable office use for the 205 Holland Park Avenue (also 'the Subject Property') needs to be informed by a clear understanding of its competitive positioning both now and in the future.

We have therefore examined:

- the economic context and its impact on real estate markets;
- the current office markets in:
  - Central London;
  - West London;
  - and in RBKC.
- in terms of current demand and future supply; and
- the future drivers of demand for offices;

and we relate this to:

- the suitability of 205 Holland Park Avenue to satisfy demand for offices in RBKC.

Our analysis of the office markets draws on market data and analysis prepared by Jones Lang LaSalle as we regularly monitor the core office markets across London including West London. The key issues identified by our analysis are summarised at appendix D.

We have also reviewed two key reports:

- Employment Land Review Update, October 2009 - Roger Tym & Partners with Lambert Smith Hampton (prepared on behalf of RBKC); and
- London Office Policy Review, November 2009 - Ramidus Consulting with Roger Tym & Ptns report (prepared on behalf of the GLA).

These reports provide a view of the demand and future supply requirements for offices at a pan-London level.

2.2 The Economic Context for Real Estate Markets

The recession has significantly impacted occupational demand for new office accommodation across all types of space in the office hierarchy. We anticipate the economic recovery will be relatively slow, returning to trend growth not until 2012.

- Unemployment levels hit a 15 year high in February 2010. Employment remains suppressed with only limited recruitment in selective sectors (banking and financial services focused in Central London).
- The recovery is fragile; corporates and other business occupiers remain cautious.
- The emphasis is therefore currently on cost containment and reduction.

- Lending to property remains very restricted and private equity is focused on high quality locations, products and covenant strength.

2.3 Forecast Office Demand for London

The Employment Land Review Update (October 2009) and London Office Policy Review (November 2009) prepared for RBKC and the Mayor respectively, provide contradictory forecasts of demand for office accommodation across the capital. Neither report identifies RBKC as strategic location for offices.

The report for RBKC acknowledged that its base date (of 2004) should be replaced by up to date figures. These were subsequently available for the report for the GLA, which was prepared one month later – its updated office employment forecasts are reduced by 40% compared to the report for RBKC. Consequently, the GLA report estimates a substantial reduction in the overall provision of new office stock.

2.4 Central London Office Market

Central London markets are experiencing some limited improvement in vital statistics but in part this is driven by an increasingly limited supply of Grade A space (given the reduction in development pipeline over the past two years).

Despite the impact of short term supply restrictions, the predominant characteristics are of continued subdued demand. Where unsatisfied demand does lead to occupiers seeking alternative decentralised positions this is likely to be for more established premium office locations and building types reflecting a higher quality than the subject property.

2.5 Western Corridor Including West London Office Market

The office take up in 2009 in the Western Corridor was at its lowest volume for 15 years.

The predominant and increasing demand (63%) was for town centre locations (compared to 56% in 2006-2008). Average size of demand has also increased with occupiers seeking larger units (occupiers seeking units over 5,000 sq. m. increased by 29%).

We anticipate that subdued levels of take up will persist and those occupiers that do seek to relocate will seek prime space but at reduced costs.

Consolidation in the corporate market is likely to increase the supply of Grade B space which will provide a drag on the market. However, this space is on the whole likely to be of superior quality to the subject property.

2.6 RBKC's Office Market

RBKC forms part of the West London office market but is overshadowed by locations such Hammersmith and Chiswick. The predominant locations for premium offices within RBKC are focused on other areas of the Borough - High Street Kensington, Cromwell Road, King's Road/ Sloane Square – the majority of which are provided within the Borough's town centres.

Historically, and as reflected in the original letting profile of the subject property (in 1983), occupational demand for major corporate occupiers reflected both smaller overall buildings sizes and floor plates. As detailed in section 3.3 (Modern Office Occupier Requirements), major corporate occupiers now seek larger overall building size and floor plates and therefore gravitate to office locations which provide this type of accommodation. The recent office development at Notting Dale Village, London, W11, located to the north of the subject property and providing in excess of 200,000 sq. ft. of new office space, are to some degree indicative of this type of development.

Emerging office development locations in the inner-West London market, such as Earls Court and White City will provide substantial new office development (3.0 -4.5 m sq. ft. and 4-5 m sq. ft. respectively) suitable to modern office occupier requirements i.e. large buildings likely to provide 15,000 sq. ft. plus floor plates. It is these locations that will provide the primary areas of attraction to larger scale occupiers, amongst other established town centre locations within RBKC.

By comparison with Central London markets (using the City as a proxy for Central London) the profile of businesses in RBKC is weighted toward smaller occupiers (94.73% in RBKC compared with 89.96% in the City of London), as indicated by the analysis in Table 1.

Table 1: Comparison of Business size: RBKC and City of London

Number of Employees	City of London	RBKC	% City of London	% RBKC
1-24	13,956	12,461	89.96	94.73
25-49	679	357	4.38	2.71
50-99	368	199	2.37	1.51
100-199	245	79	1.58	0.60
200-299	85	24	0.55	0.18
300-399	46	13	0.30	0.10
400-499	32	7	0.21	0.05
500+	102	14	0.66	0.11
Total Number of Employees	15,513	13,154		

Source: Annual Business Inquiry Workplace Analysis SIC 2007, ONS

This situation is confirmed in the RBKC Submission Core Strategy (paragraph 31.3.30) which identifies that the average business unit size in the Borough at 230 sq. m. is less than half the London average at 425 sq. m.

Much of the demand for smaller scale offices in the north west area of the Borough, including the area surrounding the subject property, has been driven by media and retail organisations and those providing ancillary services. These organisations tend to be highly image conscious and this will be a strong factor in their selection of occupational property; they also seek locations with an excellent modern amenity/ service provision, most suited to town centre locations, to attract and retain their staff.

2.6.1 Forecast Office Demand in RBKC

Applying the London Office Policy Review revised forecasts for RBKC produces a requirement for 50,503 sq. m. of new office space for the period 2011 to 2031. Comparing this to current and development pipeline supply, this indicates that the Borough already has sufficient allocations to meet this demand to 2030.

3 Assessment of the Property to Meet Modern Office Occupier Requirements

3.1 Introduction

In this section we examine:

- the current trends and longer term drivers to modern office occupier demand; and
- with reference to the location and physical attributes of the subject property how this is likely to impact the future office demand for 205 Holland Park Avenue.

3.2 Long Term drivers to Office Demand

We identify below a series of strategic demand drivers that will influence the way that corporate occupiers behave in relation to their real estate requirements and business relocations over the longer term. This includes the following:

- corporate consolidation and globalisation;
- sustainability and CSR (Corporate Social Responsibility);
- improvements in technology and resultant working practices; and
- work place strategies.

In summary, we believe that the key drivers to medium to long term future office demand will continue to include advances in technology, corporate consolidation, globalisation and specifically for RBKC the Western Corridor's economic role in the national and regional/sub-regional markets:

- Office demand does already, and will increasingly, include objectives related to CSR. This will be in the face of the increasing likelihood of a regulatory framework that could also include financial/ fiscal measures to incentivise sustainable business location choices (and penalise less sustainable choices).
- Occupiers will continue to re-engineer business processes to drive business efficiencies and seek locations that offer good accessibility to markets, to skilled labour and to deliver economies.
- Corporates have been severely impacted by the recession. As a result, cost cutting has become the key priority for many corporates over the past 18 months. This behaviour will continue to be dominant until sustained recovery occurs; and indeed many corporates are likely to continue a focus on cost efficiencies after the downturn has eased; demonstrating value for money will continue to be a key priority.
- Alongside reductions in headcount undertaken by many companies (with the resultant impact on real estate requirements), cost-cutting measures demonstrated by corporates include:
  - taking fully fitted 'plug-and-play' space in order to minimise up-front costs;
  - ensuring their estate is 'right-sized' - exiting or mothballing space as appropriate;
  - pushing through changes in workplace strategy that increase occupational density; and
- accordingly, they require modern space that can accommodate these requirements.

3.3 Modern Office Occupier Requirements

3.3.1 Large Office Occupiers

Modern large office occupier requirements favour buildings and locations of a nature which are characterised by the following:

- **Building Specification -** High quality specification, specifically:
  - Larger floor plates (at least 10,000 sq. ft. and ideally above this);
  - Larger buildings – which drive efficiency in operation and cost;
  - Maximum flexibility of internal environment in order that an occupier can change and reconfigure their occupation within buildings over time, which require efficient arrangements of cores and services;
  - Capacity to accommodate appropriate technology and to adapt to changing patterns and future requirements.
- **Cost effectiveness** – at this point in the economic cycle, occupiers are particularly seeking accommodation that meets their requirements in terms of cost as well as quality. This means modern, efficient office space which is flexible to manage costs more effectively over time.
- **Town Centres -** town centre locations (63% of demand in the Western Corridor market in Q1 2010 was for town centre locations). The majority of the remaining demand was for out of town office parks;
  - Locations offering a competitive choice of goods and services, and high quality amenity (which will attract and retain skilled staff);
- **Quality of Environment** – Major occupiers are attracted to established business locations that offer both quality of accommodation and environment. They also favour properties situated in high quality public realm, thereby creating an image and perception which is consistent with that of the brand of the occupier.
- **Sustainability -** CSR is an increasingly important factor for corporate and other business occupiers. Future legislation is only likely to heighten the importance of sustainability standards in occupiers' selection of buildings and locations.

Potential occupiers will evaluate individual properties against these criteria. We set out below our evaluation of the subject property relative to these requirements.

3.3.2 Smaller Office Occupiers

Smaller office occupiers will have some similar requirements to larger occupiers - cost effectiveness; quality of environment and sustainability, etc but may well place different weightings on these search criteria than major corporate occupiers (as organisations in different business sectors may also do).

In particular, we would expect these smaller occupiers to have a preference for town centre locations where they can access a competitive set of services and goods which they cannot replicate within their own businesses for reasons of scale; and ease of accessibility.

For the media sector, which represents a significant proportion of the current demand in RBKC market, they will require:

- Appropriate building technology infrastructure (as facilitated by raised floors);
- Buildings of modern appearance and specification which align with their corporate brand and image;
- Local amenities providing a vibrant mixed use environment as found in town centre locations.

3.4 How Does the Property Measure Against these Criteria?

We consider that 205 Holland Park Avenue underperforms across each of these criteria and we consider that this will impact the ability of the property to attract tenant demand. In particular, the subject property underperforms in relation to the following:

3.4.1 Situation

- The Property's location is overshadowed in market profile terms by a number of superior competing office centre locations including Hammersmith town centre, Chiswick Park, Brentford and town centres locations within the Borough;
- The property is situated at the western end of Holland Park Avenue. It occupies a gateway site to the Borough and currently presents a poor visual image being an outdated design with dated materials and elevations;
  - The contrast between the visual impact of the subject property and modern office buildings as generally demanded by occupiers is marked as demonstrated by the images in Figures 3 below:

Figure 3: Image of Modern Office Buildings and of 205 HPA

<u>Modern Office Building: Chiswick Park</u>

<u>205 Holland Park Avenue</u>

<u>Modern Office Building: 60 Sloane Avenue</u>

<u>Modern Office Building: Yellow Building, Notting Dale</u>

- The property fronts directly on to a major gyratory road system which gives rise to a challenging environment;
  - The immediate environment is poor in terms of– there is no quality amenity space for office workers within the site;

– access to the property from immediately surrounding areas is via a network of significant and busy road crossings which are not conducive to a positive perception of the property by prospective businesses and their staff.

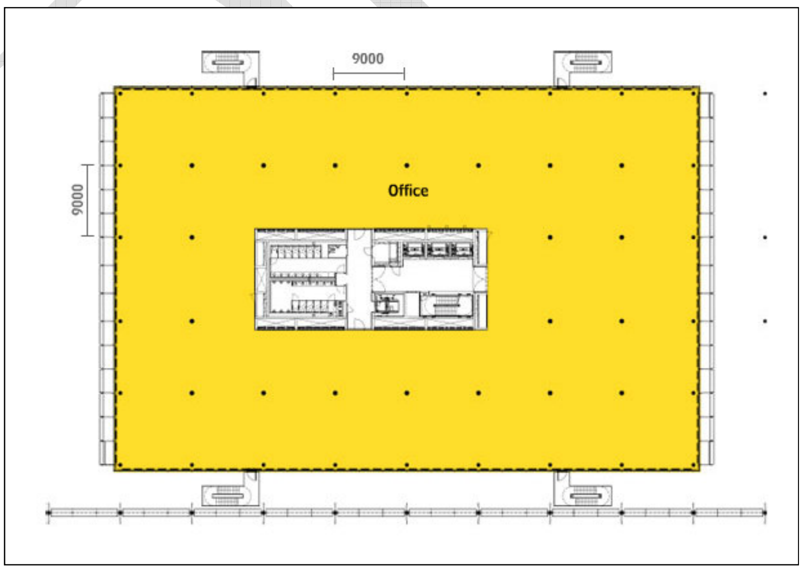
- The immediate road environment means that the property has to be accessed by vehicles from the rear via Clearwater Terrace, a small residential side road, which is not consistent with a high grade modern office building;
- The immediate neighbours are predominantly residential, with a hotel a short distance to the east of the property.

3.4.2 The Building

The property is a purpose built office building constructed in 1981 and now suffers from significant obsolescence.

- The specification is poor, elements of the building structure and services have reached the end of their economic life;
  - Current trends for increasing occupational densities are not well suited to the buildings services and configuration;
- The air conditioning, cladding and fenestration are major items of expenditure but their specification is critical given the exposed nature of the building and the ventilation and acoustics requirements;
- in relation to perimeter air-conditioning and power trunking (there is limited potential to introduce raised floors) is restricting in terms of occupational flexibility;
- Floor to ceiling heights are below the ideal metrics for modern occupier requirements on refurbishment;
- The floor plates are significantly smaller than the optimum for flexible and efficient use for modern occupiers;
  - For example we show at figures 4 and 5 the floor plates for a modern office building and the subject property respectively;
  - Modern buildings offer greater flexibility in occupational layout due to the configuration of the core relative to office floor space, for example enabling greater divisibility and generally efficiency in use.

Figure 4: Floor Plan of Typical Modern Office Building



Typical Modern Office

- More efficient floor plate
- More regular layout
- Service core at centre of building
- Enables greater divisibility of occupation; and
- Efficiency in use.

Figure 5: Floor Plan 205 HPA

205 HPA

- Less efficient floor plate
- Rectangular layout
- Service core at end of building restricts divisibility and efficiency of use

- The building presents a dated image in terms of its design and materials. It is rather dull and unremarkable in its appearance, although it is typical of speculative office developments of its period (early 1980's). It does not present well aesthetically, is not a landmark building and is, therefore, not well suited to a gateway location (as shown in the photo image at Figure 3 above).
- The increasing emphasis on CSR for corporates will drive demand for buildings that can most effectively support then in demonstrating these standards. Importantly, the building is likely to have a low EPC rating which is also likely to impact adversely on prospective occupiers perception of the property;

A survey of condition report by Arup identifies that very significant investment is required to address the current issues with its condition in order to sustain the building in long term office use.

From an investor prospective, the decision to make future investment in the property will be driven by evaluation of the property based on the above criteria. The key characteristics affecting an investor's assessment of the property would include:

- The property was let on institutional term leases from the early/ mid 1980s (following its completion). These leases expired in 2008. Since that time the building has suffered from vacancies and leasing has proved challenging.
- The property is currently only partially tenanted with a current deficit holding costs.
- The prospects for achieving viable lettings remain more challenging whilst the building is in its current state:
  - A significant proportion of demand that has been satisfied in the immediate and wider area is from media and retail organisations or those serving them who are highly image conscious and the property does not present well relative to these types of occupiers;
- Technical reports on the property identify that significant investment will be required in order to sustain the economic life of the building.
- Significant investment at risk would be required to attract any new demand and/ or to retain any existing occupiers.

3.4.3 Failure of the Property to Meet Modern Occupier Demand

For the reasons outlined above, we consider that the property does not meet the requirements of either large or small scale modern occupiers.

- The property is situated in a poor and challenging environment and presents a poor image visually at this gateway site.
- The building suffers from significant design, specification and obsolescence issues which make it both significantly less attractive to prospective occupiers and means that it requires very substantial investment at risk in order to achieve even partial mitigation of those issues which are capable of being physically addressed (which is not all of them).
- The profile of occupier within the subject property reflects a reduction in status of corporate occupier, the original tenants including the likes of HSBC, British Standards Institute and Petrofac (an oil company), where as more recent lettings have been to lower order business functions and, in part, organisations of lesser covenant.

3.5 Existing Value of the Property and the Potential for Redevelopment and Refurbishment

Our assessment of the value of the property in its existing condition and use is based on our market knowledge and analysis of recent transactions for office buildings of a similar nature. We attach at appendix D a list of transactions of comparable properties. These transactions reflect an average capital value per sq.ft. of c. £250.

We have considered this comparable evidence and assess the subject property to be inferior in both location to some of the comparable properties and, in particular, in specification and condition compared to all comparables. Our assessment of the value of the subject property is therefore at a reduced level (in a range from £133 to £166 per sq.ft.) from that of the comparable properties.

Accordingly, we consider that the property has a value in its existing condition and use of c. £4.0m - £5.0m.

Since the prospects for the property, in its current condition, remaining in long term viable office use are challenging, we have examined the viability of redevelopment and refurbishment for offices. We have undertaken financial appraisals to test the viability of these options and detail our findings below.

3.5.1 Refurbishment

We have considered three options for refurbishment of the property which reflect varying standards of specification and therefore market positioning.

- Scenario 1 – Full Refurbishment
- Scenario 2 – Partial/ Low Cost Refurbishment
- Scenario 3 – High density Occupation but Low Cost Refurbishment.

Scenarios 1 and 2 assume that the property provides a similar floor area on refurbishment i.e. c. 30,000 sq. ft.

Scenario 3 assumes that the property is fully refurbished but is ultimately fitted out to provide for multiple occupations per floor. This is in response to the potential demand from occupiers requiring small amounts of accommodation (for example 500 sq. ft. to 1,000 sq. ft. plus). This scenario also assumes a reduction in the net floor space reflecting the loss of net floor space primarily through the provision of access for multi-occupation.

3.5.2 Redevelopment

We have assumed that the property is redeveloped to provide the same quantum of accommodation to the existing building i.e. c 30,000 sq. ft. and constructed over ground and four upper floors.

We set out below the cost and value assumptions used in each of the scenarios for refurbishment and for redevelopment.

3.5.2.1 Refurbishment Cost Assumptions

These scenarios are based on cost and specification report (June 2010) provided by Davis Langdon (Cost Consultants) and which are summarised as follows:

- Light Refurbishment (excluding replacement of M&E) cost of £26 psf
- Full Refurbishment (including replacement of M&E plus other items) Cost of £109 psf

3.5.2.2 Redevelopment Cost Assumptions

We have assumed a cost of £160 psf to reflect a grade A building specification. This assessment is based on our market knowledge of office development and reflects the location and specification of the assumed redevelopment scenario.

Both refurbishment and redevelopment scenarios assume that the building cannot be naturally ventilated due to the adverse noise levels associated with the building's proximity to the gyratory road system.

3.5.2.3 Refurbishment and Redevelopment Value Assumptions

The property market is cyclical and therefore at various points in the market cycle refurbishment or redevelopment will be more or less viable as rental and capital values change relative to development costs. Currently market conditions are such that rental values are subdued and incentives offered to tenants to lease property are extensive; accordingly, development is more challenging in terms of financial viability.

Our financial appraisals of the property are however, based on an assessment of the longer run rental values, rather than the immediate market which reflects depressed rental levels in this location. We have therefore assumed the following rental values for each option:

Table 2: Refurbishment & Redevelopment Estimated Rental Values

Scenario	Type of Refurbishment	Estimated Rental Values (£/psf)
1	Light Refurbishment	£19
2	Full Refurbishment	£25
3	Multi-Occupation/ floor	£20
Redevelopment	Grade A	£30

3.5.3 Results of Financial Viability Analysis

We have undertaken residual development appraisals for each of the refurbishment and redevelopment scenarios outlined above to reflect the residual value of the property after an allowance for the costs of refurbishment or redevelopment and a reasonable level of return to the developer/ investor for the development risk (assumed at 15% of total development/ refurbishment costs).

Table 3: Assumptions and Results of Financial Appraisal

Scenarios	Type Refurbishment	Values (£psf)	Costs (£psf)	Floor Space (net sq. ft.)	Residual Site Value	Site Value £ per sq ft net
Refurbishment	1 Full	25.00	109.00	30,000	£2.5m	£83
	2 Light	19.00	26.00	30,000	£4.0m	£133
	3 Multi-occupation per floor	20.00	26.00	25,500	£1.4m	£47
Redevelopment		30.00	160	30,000	£1.7m	£57

An assessment of the subject property based on the analysis of comparables in Appendix D reflects a capital value of between c. £4.0m - £5.0m (see 3.5).

Whilst this comparable evidence is an excellent benchmark in establishing the value of the building today, in the longer term the building would decline markedly without significant investment. As none of the above scenarios for refurbishment or redevelopment show a return in excess of the value of the property in its existing state and use and whilst such a value gap continues, investors and funders are unlikely to commit to undertaking capital expenditure on an increasingly obsolete building with no prospect of an improved financial outcome.

This is further demonstrated by the very low site values on a £ per sq ft basis. In the redevelopment scenario above, site value at £57 psf is not only significantly lower than much existing Grade B office space but also below that of some storage and light industrial property within RBKC.

This building is therefore facing a future without significant investment, increasingly transient tenants and the degradation of its condition and physical appearance. All these outcomes would result in the prospect of a building suffering increasing obsolescence, creating an unwelcoming local environment, increasingly poor visual amenity for local residents and the potential for elevated levels of risk around building security arising from an obsolete building.

With regard to specific refurbishment and redevelopment options we comment further as follows:

- **Refurbishment** - Scenario 3 - in particular, the prospects for viable refurbishment under scenario 3 are challenging due to the loss of net floor space and associated conversion costs required to accommodate multiple occupation per floor are greater than the capital value achieved.
- **Redevelopment** – the Site size and configuration means that it is not possible to accommodate a building of the required floor plate (10,000 sq. ft. plus) in a regular configuration which would meet occupier requirements.

We conclude, therefore, that there is limited incentive for the owner to invest significantly in the property. Even in improved market conditions, the risk considerations for an investor will be:

- finding occupiers for the property in its current state, until the market improves viability, but even then
- risks associated with refurbishment by:

- strength of letting/ occupational demand;
- achieving a viable rent;
- securing funding at all, or, on reasonable terms; and

- the prospects for a long term structural shift to better locations within the Borough or its boundary with the LB of Hammersmith & Fulham which can accommodate appropriate scale modern offices.

4 An Analysis of the Emerging Policy and its Relevance to 205 HPA

We have analysed the office market in RBKC relative to the definition of offices under the proposed policy CF5 for large scale offices in the Proposed Submission Pre-EIP Core Strategy, which seeks:

'protect…large offices in Higher Order Town Centres and other accessible areas…' (where accessible areas are defined as those with a PTAL of 4 and above).

4.1 Analysis of Impact of Emerging Policy

We have mapped and analysed the properties that fall within this definition (see appendix A and B respectively).

We conclude that:

- the majority of the buildings captured by this definition, are in fact within or very close to the Town Centres or Employment Zones and are in effect served and characterised by these respective environments. Consequently, they should be regarded as having the characteristics of a Town Centre or Employment Zone environment;
- those properties that are similarly located to the subject property i.e. distant from a Town Centre or Employment Zone as defined by RBKC, are very limited in number.
  - 205 Holland Park Avenue is situated the furthest from a Town Centre In RBKC than any of the properties;
- One single building (Charles House, 375 Kensington High Street) in our analysis comprises 30,000 sq. m. and therefore represents a very significant proportion of the overall accommodation analysed. Whilst currently in office use, this property has a planning consent for change of use to residential and should therefore be excluded from this analysis;

Accordingly, we calculate that the number and total quantum of office space not within or located proximate to a town centre or employment zone, is very limited at:

- ten properties providing c. 22,825 sq. m (net).; or
- Less than 3.9% of total stock (total office stock for the Borough is 587,000 sq. m.).

Our approach is based on an assessment of the properties identified relative to their proximity to a Town Centre or Employment Zone. We consider that this approach to analysing RBKC's large office stock is more realistic in terms of the properties' ability to meet future occupier demand since we know that occupiers generally have a preference to be located close to town centres. Therefore, we believe that it is those properties located close to Town Centres and Employment Zones that should be regarded as having the greatest potential to contribute to achieving the economic strategy behind policy CF5.

We therefore consider that the subject property is differentiated from the significant majority of properties in our analysis. As such, the transfer of this property from office use to another use would have no effect on the fundamental policy objective to provide for planned economic growth in RBKC.

5 Conclusions and Recommendations

5.1 Conclusions

We have undertaken a detailed review of 205 Holland Park Avenue and conclude that the property will continue to be significantly challenged in terms of its long term viability for office use, both for large and smaller scale occupiers.

In the event that the property must remain in office use, we consider that it is likely to be characterised by an increasing level of under-investment and obsolescence.

Our conclusions are based on a range of key findings which we summarise below.

5.1.1 Trends in occupier demand

At a pan-London level, forecast demand has been adjusted in the London Office Policy Review (November 2009) to reflect substantially less growth than had previously been estimated. Predicted growth up to 2031 is already met by existing office allocations in RBKC. There is also substantial new growth proposed at the Borough boundaries in Earls Court and White City.

We evidence a range of characteristics of modern occupier demand which are not consistent with the attributes of the subject property, including:

- a preference for established office locations particularly town centres;
- larger buildings including larger floor plates;
- buildings presenting a modern image which align with business occupiers' corporate image and strategies for attracting and retaining staff.

We forecast that in the short to medium term occupiers will continue to consolidate and are likely to release further second hand space. This will continue to provide a drag on the market, and we anticipate that this space could in many instances be of superior quality to 205 Holland Park Avenue.

As a result and occupiers will be focused on existing quality locations and properties which can still be procured at a competitive cost, putting further pressure on the viability and risk associated with development of poor quality second hand accommodation such as the subject property.

For the foreseeable future, for the relatively modest levels of office demand in the West London sub-market we therefore see a focus for occupier demand on good quality, efficiently configured, available, modern office properties located in town centre locations. We consider that these basic office occupier criteria are not competitively served by 205 Holland Park Avenue.

The Property's Obsolescence and Potential for Future Investment

The property suffers from a significant level of obsolescence - the building fabric and services have largely reached the end of their economic life and significant investment is required to bring the building in to a condition to satisfy basic modern office occupier requirements.

We have therefore considered the potential for either refurbishment or redevelopment. We conclude that neither option is currently viable as an investment proposition. This means that the property is likely to suffer from:

- a pattern of under-investment which is likely to be limited to reactive maintenance; and therefore
- an increasing and accelerated level of obsolescence and that this is likely to be exacerbated by:
  - an increasing emphasis on both CSR and sustainability legislation which will only increase standards and make it more difficult (technically) and costly to improve older buildings

We consider that such a pattern would, in particular, be unsuitable for this highly visible property at a gateway site to the Borough.

Emerging Policy CF5 and its Impact on 205 Holland Park Avenue

We assessed the quantity and nature of large office properties affected by emerging policy CF5. We conclude that the quantum of office property affected by the emerging policy which falls outside of the Town Centre and Employment Zones and their immediate environs is less than 3.9% of the Borough's total office stock.

We have plotted the properties on map and it can be seen the 205 Holland Park Avenue is an anomaly in terms of the emerging policy, as it falls outside of the cluster of offices within the emerging policy classification.

We therefore conclude that the transfer of the subject property from office to another use would have no effect on the fundamental objective of planning policy to provide for predicted economic growth in RBKC.

APENDICES

APPENDIX A

Table of Large Buildings Complying with Policy CF5 of Proposed Submission Core Strategy (Outside of Town Centres within PTAL Rating 4)

Appendix A

Table of Buildings Impacted by Policy CF5 of Proposed Submission Core Strategy (Outside of but Proximate to Town Centres within PTAL Rating 4)

Property Number	RBKC?	PTAL	Town Centre'	JLL_CODE	BuildingName	No	Street	Postcode	Egi Market	Total stock (net sq m)	Total stock (net sq ft)	SUBMARKET	MARKET
4	Y	5	no	JLL5045		364-366	Kensington High Street	W14 8NS	West Central	5,850	62,975	Kensington Chelsea	West End
13	Y	6A	no	JLL2381	Gloucester Park	95	Cromwell Road	SW7 4ES	West Central	3,085	33,207	Kensington Chelsea	West End
12	Y	6A	no	JLL2387		247-249	Cromwell Road	SW5 9GA	West Central	2,787	29,999	Kensington Chelsea	West End
14	Y	6A	no	JLL2384		114A	Cromwell Road	SW7 4ES	West Central	2,415	26,000	Kensington Chelsea	West End
7	Y	5	no	Focus deals		346	Kensington High Street	W8 6NW		1,951	21,000		
1	Y	4	no	JLL4772		1a	Holland Park	W11 3TP	Outer	1,750	18,837	Kensington Chelsea	West End
15	Y	6A	no	JLL2388	Scout Association 52a Cromwell Road	52a	Cromwell Road	SW7 5BE	West Central	1,465	15,771	Kensington Chelsea	West End
11	Y	6A	no	JLL2162		5	Collingham Gardens	SW5 0HR	West Central	1,394	15,000	Kensington Chelsea	West End
35	y	4	no	JLL5038	M E I C House	344	Kensington High Street	W14 8NS	West Central	1,106	11,900	Kensington Chelsea	West End
36	y	6a	no	JLL7542		30	Queen's Gate Terrace	SW7 5PH	West Central	1,022	11,000	Kensington Chelsea	West End

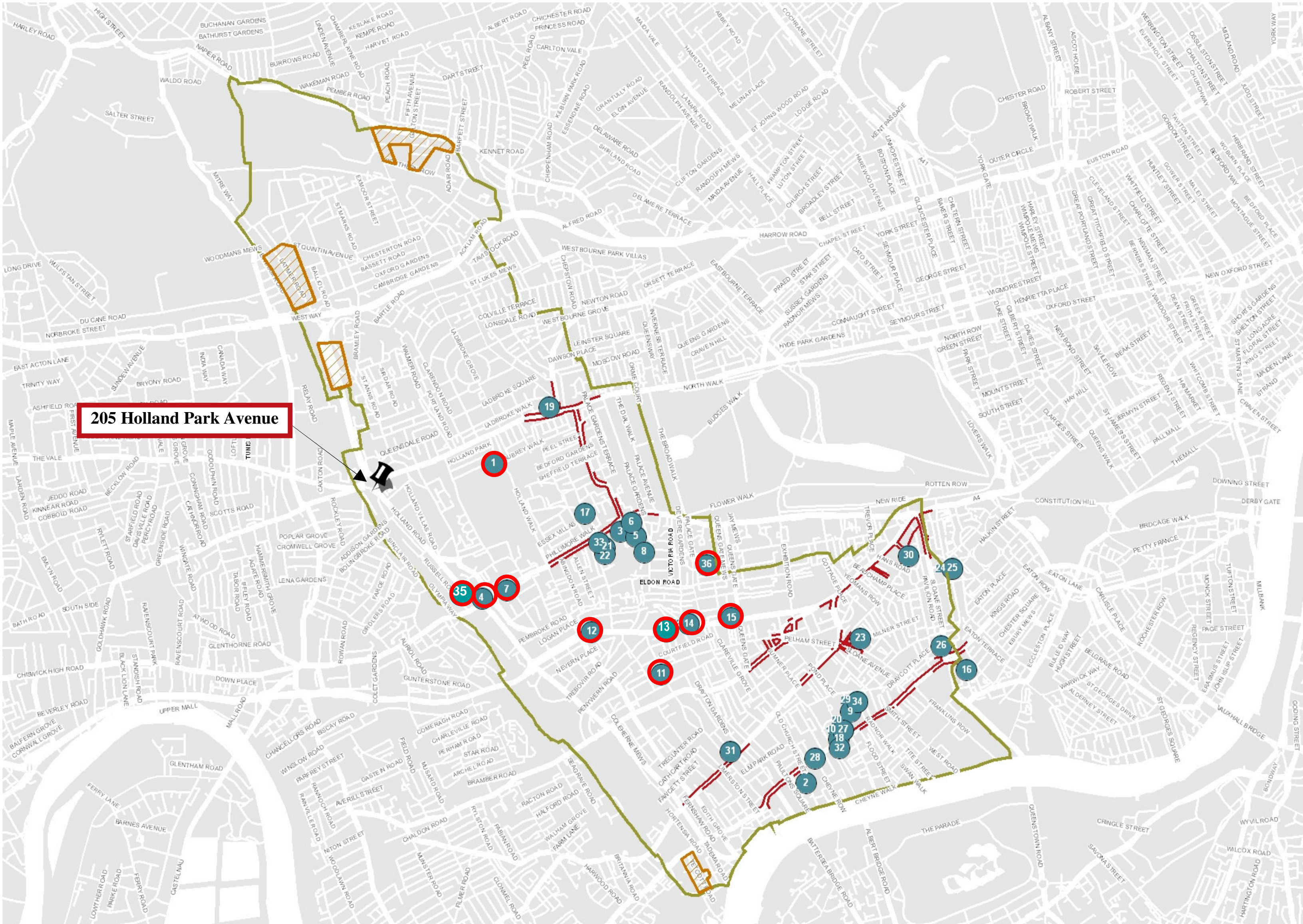
Number of Properties	**10**
Total Net Floorspace (sqm)	**22,825**

Source: Jones Lang LaSalle Building Stock Database 2010, Focus

APPENDIX B

Map of Large Office Buildings Affected By Emerging Policy CF5

Map: Emerging Policy CF5 - Large Office Properties Relative to RBKC Town Centres



Legend

- Non Town Centre Large Office Properties
- Buildings Impacted by Policy CF5 of Proposed Submission Core Strategy

Appendix C

Overview of Office Markets in London, Central London, West London and RBKC

Overview of Office Markets in:
- Central London, West London and RBKC

1. Introduction

In order to understand the competitive environment for the subject property to compete now and continue to compete as offices we have reviewed the principal markets for offices which have a bearing on demand for the property. Specifically we address the key market characteristics for the offices in:

- Central London;
- Western Corridor, including West London; and
- the Borough of RBKC.

We have analysed:

- the current supply of offices and profile of demand;
- Future potential supply of offices (which provides the context for competition over the longer term); and
- Values in these locations, since this informs our assessment of the financial viability of continued use of the subject property.

2. The Central London Office Market

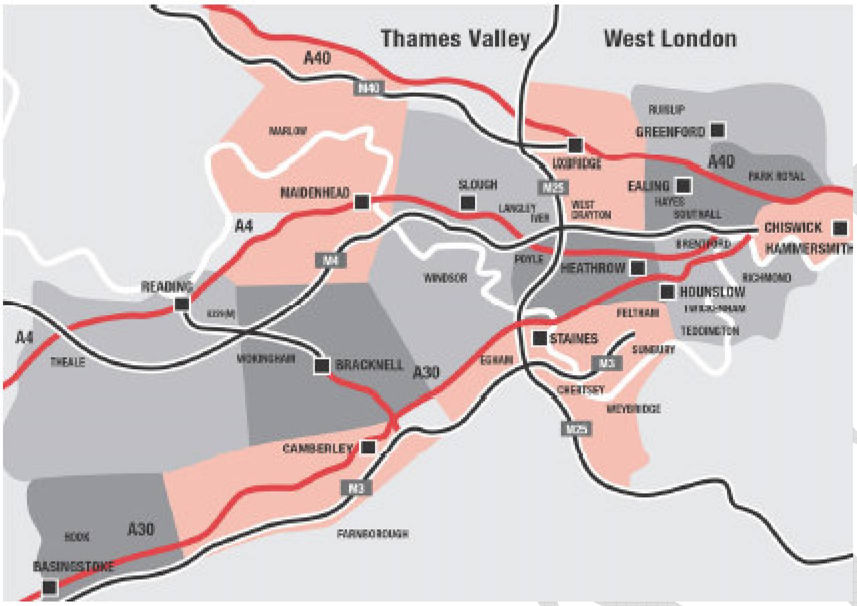
We have reviewed the market for offices in Central London (Jones Lang LaSalle, Central London Offices Report, 1st Quarter 2010) as the dynamics of this market place has some bearing on the nature and timing of demand for offices in the West of London and wider Western Corridor markets. Currently the key influences can be summarised as:

- Take up increased, primarily due to the closure of a few large scale deals (>100,000 sq. ft.) in the City of London. Although the conversion of demand to take up did improve, satisfied demand has not been replaced
- A tightening in the overall supply and in particular the supply of Grade A space has increased the pressure on occupiers seeking new space. We expect supply to continued contraction in supply as the funding markets has been restricting the development pipeline over the past two years.
- This contraction in supply has given rise to a reduction in incentives and limited rental growth in selective submarkets.
- Despite the affects of short term supply restrictions, the predominant characteristics are of expectations of continued subdued demand in the short term. Occupier behaviour will continue to be driven by cost containment and reduction measures and new space requirements are likely to result from structural demand (lease expiries and breaks) where they are likely to benefit from attractive proposals for landlords keen to retain their tenants.
- Anticipated changes to the current dynamic – a continued shortage of supply and a slowly improving economy, has led to some speculation that certain occupiers seeking a reduced cost base may decentralise to the Western Corridor. However, we believe that for Central London occupiers they will continue to seek high quality buildings providing appropriately specified and configured accommodation in town centre or prime out of town locations where they can still secure a reduction in cost from existing property costs.

3. Office Market in West London and the Western Corridor

We highlight below the key characteristics of the Western Corridor office market. The Market comprises three core areas – West London, Thames Valley and key sub-markets in the wider Western Corridor.

Chart 1: Map of Western Corridor Office Market Showing West London



The focus of our analysis is on the West London market, of which RBKC forms a part, as this forms the immediate geographic context for office demand in the Borough.

3.1. Occupier Take-Up

- The annual take up of offices in 2009 was the lowest volume for 15 years and a reduction of 605 on 2008.
- The occupier preference for town centre locations persists (with 63% of deals done being town centre locations compared to 56% in 2006-08).
- Manufacturing, IT and technology were the top sectors driving demand, the latter two sectors in particular demanding modern office accommodation of larger floor plates.

3.2. Occupier Demand

- Total demand across the market has returned to 2006 levels with most demand, like take-up, focused on town centre locations.
- The average requirements size has also increased, with demand for units over 50,000 sq. ft. increasing by 29%in comparison with Q3 2009.

3.3. Existing and Pipeline Supply

- Overall vacancy rates have increased although in West London the disparity from the 10 year average is less pronounced due to lower levels of development activity and vacancy rates for Grade B space are higher than for Grade A.

3.4. Rents and Capital Values

- Prime rents have fallen over the second half of 2009 and this is more pronounced for the secondary office market and with incentives increasing this is further depressed net effective rents (1 21% decline from the peak in Q4 2007).making development and refurbishment more challenging.
- Investment volumes have been significantly down from 2008 and 2007 (cumulatively 25% and 60% progressively). Despite the rental falls and yield compression has occurred as a result of the continued differential between property yields and equities and gilts.

3.5. Forecasting for 2010 and Beyond

- We anticipate that economic recovery will be relatively slow, with 'on-trend' growth not expected until 2010.
- Lease renewals and re-gears are likely will be preferable to relocating as these tend to have a more immediate positive impact on the balance sheet without the need for capital expenditure.
- Subdued levels of take up will persist and for those that are need to relocate they will be seeking prime space in reduced cost locations.
- Consolidation in the corporate market may increase the supply of Grade B space in 2010 and we expect the levels of Grade B space to act as a drag in the market As a result landlord's will continue to remain under pressure to reduce empty property costs and are therefore likely to continue to cut aggressively the rents on secondary property in order to retain and attract occupiers.
- Many occupiers have reduced staff numbers are therefore underutilising their existing accommodation – grey space. It is likely that as the economy recovers and employment increases they will need to full this grey space before seeking new premises.
- Finally, we expect investors to continue to focus on prime/ good quality properties.

4. The Office Market in RBKC

4.1. Overview

The office market in RBKC forms part of the wider West London Office market comprising the key centres of Hammersmith, Ealing, Hayes, Chiswick, Brentford, Staines, Hounslow.

The key locations for clusters of offices in the Borough are within the town centres such as Cromwell Road around Kensington High Street tube station and Kings Road/ Sloan Square and Cromwell Road.

The office market is RBKC can be characterised as follows:

- Total office stock in the order of 6.0 m sq. ft. (Source: Proposed Submission Core Strategy);
- The majority of this stock (some 81**%**) is provided within town centres (as defined by the Borough in the Proposed Submission Core Strategy).
- The Borough includes some areas of significant, high value real estate and a number of significant corporate office occupiers. However, it does not have a significant single premium office location of critical mass (which is a feature of some neighbouring Boroughs within the West London market such as Hammersmith (Hammersmith town centre), Chiswick (Chiswick Park), and Hillingdon (Stockley Park).

4.2. Competitiveness of Office Stock in RBKC

Of the total office stock in the Borough, we estimate that some 22,825 sq. m. in 10 buildings would fall within a practical interpretation of the definition of the emerging i.e. which are located outside of Town Centres and Employment Zones but within areas of high PTAL rating (See section 3).

Our analysis indicates that:

- In the event that Proposed Submission Core Strategy was rescinded and all of this office stock was subject to applications for change of use from office use this would represent a loss of only c. 3.9 % of office stock within the Borough;
- none of this stock is new Grade A accommodation;
- many of the buildings comprising this stock are of some age and are likely to remain secondary/ Grade B accommodation;
- therefore, in economic development terms a more productive strategy would be to identify town centre locations where a premium office location and product can be created which is best able to compete with alternative locations within the Western Corridor that provide such modern accommodation.

Appendix D

Schedule of Comparable Evidence for Recent Office Building Freehold Disposals

Appendix D - Schedule of Comparable Evidence for Recent Office Building Freehold Disposals

Recent Freehold Office Disposals in West & Non Central London Locations
June 2010 - Prepared by Jones Lang LaSalle

Property Name	Location	Date of Sale	Building Size	Disposal Price	Price £/psf	Comments
Sovereign House	Richmond	May-10	22,000	£5.5m	£250	
Eyot Gardens	Hammersmith	May-10	28,218	£7.0m	£249	Limited initial income - reflects NIY of 2.38%
317-325 Putney Br Rd	Putney	Jan-10	16,146	£4.25m	£263	
Grove House, 1 The Grove, W5	Ealing	Currently on Market	20,819	£5.2m	£250	Understood interest at £4.2-£4.8m reflects £201 to £230 psf

Appendix E

Building Photographs

Appendix D

Building Photographs

External Elevation Looking West

View of Property Looking South-West

Internal View of Ground Floor

Internal View of First Floor

Internal View of Ground Floor

View of Tenants Improvised Power Trunking (building has no raised floor)

Internal Views of Typical Building Toilet

Internal View of Typical Tenant Kitchen Facilities (for vacated space)

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