

Kensington and Chelsea Evidence for exemption from extension of permitted development rights

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EXECUTIVE SUMMARY

The Royal Borough of Kensington and Chelsea supports the Government's wider initiative to make the General Permitted Development Order more flexible. However, the borough has a very unusual set of economic circumstances. All the evidence demonstrates that the proposal to extend permitted development to allow offices to change to dwellinghouses would cause serious harm to major business clusters of national and international significance. Currently the borough's planning policies protect office floorspace. It is essential that this protection remains in place in the interests of the economic and social wellbeing of the borough, London and for the UK. Retaining control over changes of use will also help to protect the vibrant, mixed and sustainable character of the borough.

Much of the evidence comes from two recent reports commissioned by the Council: *A Commercial Property Study* (Roger Tym and Partners, 2012); and an *Assessment of Impact of Proposed Changes to the GPDO* (TBR, 2013). Evidence on the housing market comes from the Frost Meadowcroft *Market Commentary* and the associated case studies.

1. Special characteristics of Kensington and Chelsea

The office sector

The Borough's office sector is viable and vibrant. This is demonstrated by an exceptionally low office vacancy rate of 3.6%, which is less than half of the 8% level considered by the GLA to be healthy and to allow for natural churn. This indicates a tight market, with little available space, driving up rental values. The borough is projected to be the sixth fastest-growing borough in London in terms of office employment, assuming the necessary premises are available. It is home to some nationally important clusters of businesses. To meet this demand an additional 30,000 sq m of office floorspace will be required over the next twenty years. The borough does not have a reservoir of vacant office floorspace.

The housing market

Kensington and Chelsea contains much of London's prime housing market. There is a strong and seemingly insatiable demand for housing in the borough. This is driven in part by overseas investment in what is perceived as a safe haven. It is impossible to meet this demand in full. Other than the two strategic sites of Earl's Court and Kensal, the borough is fully and densely developed. However, the Council is meeting both its London Plan housing targets and the NPPF 20% buffer.

When new build market housing is provided, 70% of all purchases are to overseas buyers. 37% are used as a second home and 27% for investment purposes. If this trend continues only 40% of new homes will be occupied on a full time basis.

The value of housing and office floorspace

Despite the vibrancy of the office market, residential values far exceed office values. The strong desire for residential property in Kensington and Chelsea is reflected in values of between £750 - £2,500 per sq ft. These are increasing; there has been a 50% rise in residential prices since 2009, largely as a result of inward investment from overseas. In contrast, typical office rental values range from £400-£500 per sq m in the high value areas

of Kensington High Street and Knightsbridge to £150-£200 sq m in parts of the Latimer Road/ Freston Road Employment Zone and in Earl's Court.

The Council's consultants, TBR and Frost Meadowcroft, have calculated that residential values would only need to be 40% to 55% greater than existing office values to make a compelling case for residential conversion. A 30% uplift in value may be all that is required. In the borough, the residual value of buildings in residential use is considerably more than double that of buildings occupied by offices and in the highest value areas much more.

So in Kensington and Chelsea changes of use are driven by differential value between competing uses, not by a lack of demand, and without planning control there would be a strong financial incentive across most of the borough to convert office floorspace to residential use.

2. Nature and distribution of office uses

The office market in Kensington and Chelsea falls between the central London and west London markets. Kensington and Chelsea provides a mix of stock from small mews style office stock scattered across the borough to larger purpose built developments in the core commercial clusters.

The office stock in Kensington and Chelsea is occupied by a full cross section of business types, and the borough is particularly known for its music, fashion and creative businesses. Some of these are of national and international significance.

These clusters of creative industries influence much of the Royal Borough's office market. Outside the town centres, such occupiers have been attracted by the availability of interesting industrial style buildings as well as flexible hybrid space where the primary use is as offices, but with elements of ancillary storage or even production uses. Roger Tym and Partners (2013) recognise that this is a *"distinct commercial product, which may not be commonly found elsewhere in the Borough or in other employment zones around London."*

Therefore, whilst large floorplate buildings are centred in the commercial cores such as Kensington High Street, an important part of the office sector occupies a much wider area of the borough. This is illustrated in Figures 3.1 and 4.1.

3. Nationally and internationally important business clusters in Kensington and Chelsea

There are several industries of national and international importance.

Music publishing

This industry is centred in Kensington and Chelsea. The UK is the second largest exporter of recorded music in the world after the USA, with a market share of 12%. The borough has over 28% of employment for the sector in England and is home to all the four major record labels; Universal, Warner Music, Sony Music, and EMI, as well as over 400 associated independent studios and production facilities. Any loss of any of these businesses would represent a blow to the cluster and could undermine the strength of the industry to the UK

as a whole. The internationally famous music firms that are located in Kensington and Chelsea support many other related businesses across the borough.

Fashion and Design

Kensington and Chelsea is also a major centre for Fashion and Design. The borough is home to many international names: Stella McCartney; Monsoon Accessorize; Louise Blouin Foundation; Donna Ida Jeans; Cath Kidston; Col Art Group; Charlotte Olympia Shoes; Mario Testino Photography; Virgin Games; Tommy Hilfiger; Moncler; Manolo Blahnik; Joseph; the White Company; The Designers Guild and Innocent Smoothies.

Film, Television, and Video

In 2009 the UK film industry contributed over £4.5bn to GDP and £1.2bn to the Exchequer as well as supporting 100,000 jobs. The film sector is concentrated especially within a narrow wedge fanning out from Soho, through the Royal Borough, Hammersmith and Fulham, Ealing to Shepperton and Pinewood studios in the west.

Publishing

In 2011, the value of publishing's sales to the UK was £3.2bn, with an increasing contribution coming from the digital sales (8%). Publishing, particularly of newspapers, is strong within the Royal Borough. As of 2011, there were over 2,100 jobs associated with newspaper publishing, 560 with book publishing and a further 260 in publishing periodicals and journals.

In addition, Knightsbridge falls within the Mayor for London's Central Activities Zone (CAZ), a designation which recognises its importance to London as a whole.

4. Impact of the proposals on the economic base

Without planning control, the enormous difference in value between the office and residential sectors would exert a compelling force which would, in a short space of time, lead to the loss of a substantial part of the borough's office base. This would cause serious damage to the important business clusters in Kensington and Chelsea and the value to the national economy that is derived from them.

The 4,100 businesses which occupy the 2,100 office premises in the borough employ some 20,240 people and contribute some £ 66.2 million in business rates. They provide an estimated £1.4 billion, or 25% of economic output (GVA), and 30% of total turnover, at an estimated £5.8 billion.

Consultants TBR / Frost Meadowcroft have compiled up to date information about the value differences between residential and office floorspace across the borough, the length of the remaining leases and the format and configuration of the office accommodation. This information has been used to analyse the extent to which the office stock would be at risk from changes of use to residential without planning control. Businesses at risk are illustrated in Figure 4.2.

Convertible premises with three years or less of their leases to run are highly vulnerable to a change of use. TBR estimates that in the first three years 1,200 firms would be at be from

the highest risk from the proposals, employing some 7,000 people, with a GVA of £560 million. A further 1,100 firms employing 3,300 people with a GVA of £350 million lie in properties considered to be at a medium to high risk of conversion. (See table 8 of the TBR report).

In addition, 27,790 jobs would be at risk between 2013 and 2015, when one takes account of direct, indirect and induced employment.

The overall Gross Value Added at risk (including direct, indirect and induced) is estimated to more than be £1.1 billion.

The ingress of incompatible uses would further undermine the strength of the clusters. The differential in property values and the lack of developable land means that it is extremely unlikely that once offices are lost they will ever be re-provided.

The replacement of offices by housing would have a number of other economic effects. It is acknowledged that it would stimulate the construction industry in the short term. The experience of the borough strongly suggests that there would be additional pressure for basement development. However, the evidence indicates that perhaps less than half of the new dwellings would be occupied as first homes. Many would simply be bought as property investments in a safe haven. Those dwellings that were occupied might generate some local expenditure, but this would be a fraction of the value that would be lost through the removal of the borough's business base.

5. The effect on the character of the borough

Kensington and Chelsea's businesses are a core part of the character of the borough, bringing vibrancy and economic diversity. There is at the moment a sustainable and desirable pattern of mixed uses. Many owners and operators of businesses are able to walk to work and can travel easily to the West End and Heathrow. (Roger Tym and Partners 2013).

The comprehensive loss of office premises that would arise from this proposal would turn the borough into a residential dormitory. It would harm the town centres, because loss of offices will reduce their viability; and would destroy the special character of the environment through the loss of streets of special character like commercial mews.

6. Area to be covered by the proposed exclusion from the GPDO

The broad distribution of office premises and interlinked business clusters across Kensington and Chelsea (see figures 3.1 and 4.1) supports the case for an exemption for the whole borough. The borough is small in area, densely developed and there is a strong argument that the whole borough represents a vibrant, closely related set of interconnected business clusters. It can be seen from the map that there are bands where offices are more concentrated, such as along the high streets. However, business premises are also widely spread through the residential areas, for example within the commercial mews and in and near smaller local centres. Many of these have functional links to the nationally important clusters. Figure 3.1 demonstrates that the distribution of the fashion and music industries

follows a relatively dispersed pattern. Given the very high occupancy of the borough's office premises there would be potential for harm to these clusters if the area for exemption were more narrowly defined.

1.0 INTRODUCTION

- 1.1 This report sets out the justification for the Royal Borough of Kensington and Chelsea to be exempted from the forthcoming change in the General Permitted Development Order (GPDO) so as to allow offices (Use Class B1(a)) to change to residential (Class C3) without planning permission.
- 1.2 Much of the evidence comes from two recent reports commissioned by the Council: *A Commercial Property Study* (Roger Tym and Partners, 2013) and *Impact of proposed changes to permitted development rights for Kensington and Chelsea* (TBR, 2013). Evidence on the housing market comes from the Frost Meadowcroft Market Commentary and the associated case studies. These reports are appended.
- 1.3 Kensington and Chelsea supports the Government's wider initiative to make the General Permitted Development Order more flexible. However, in the borough, the proposal to extend permitted development to allow offices (Use Class B1(a)) to change to dwellinghouses (C3) would have a very harmful effect on major business clusters of national and international significance.
- 1.4 In Kensington and Chelsea, the office sector is viable and vibrant with extremely low vacancy levels. But residential property values are far higher than office values because the borough attracts strong investment in residential property from both home and overseas, and the gap is widening.
- 1.5 This creates a huge incentive to convert office floorspace to residential use. Currently offices are protected by Core Strategy policies. If this control were removed through the extension of permitted development rights, the borough would lose a substantial proportion of its office base.
- 1.6 This office base is home to a number of important clusters of businesses, several of which are of national importance. The internationally successful music and fashion businesses are clustered in the Royal Borough. The borough has nationally important clusters of film, TV, video, photographic and publishing businesses.
- 1.7 The research indicates that if the proposals were implemented there would be immediate risk to 2,300 firms employing 12,000 people and generating more than £900 million a year. In the longer term the direct and indirect impact would be much higher.
- 1.8 The housing gain would fall far short of compensating for this loss. A substantial proportion of the new housing would be bought by overseas investors who would not use it as their main home.
- 1.9 All the evidence set out in this report and in the appended reports demonstrate beyond doubt that there is a compelling case for exempting Kensington and Chelsea from the proposed change to the GPDO.

2.0 SPECIAL CHARACTERISTICS OF KENSINGTON AND CHELSEA

2.1 Introduction

- 2.1.1 The seemingly insatiable demand for housing in this borough causes a chronic imbalance between residential and office property values. Although the office sector is vibrant and has very low levels of vacancy, it would not, in the absence of policy protection, stand a chance of competing with residential values. The result would be a rash of residential conversions at the expense of existing business premises.
- 2.1.2 This section quantifies the difference in value between residential and commercial uses; the level of demand and need for B1 office space within the borough, now and into the future; and assesses the impact that the “super-prime” nature of the borough’s residential market will have upon the nature of new housing created.

2.2 The value of housing and office floorspace

- 2.2.1 The Council has commissioned TBR and Frost Meadowcroft to explore the disparity in value between residential property and B1 office values in the Royal Borough. They conclude that:
- The borough’s residential property values are some of the highest in UK.
 - Office values will see an increase of over 100% in residual values if residential is permitted.
 - The financial incentive to convert office space to residential across the borough will be substantial.
 - It is largely existing planning policy which stops property owners from realising the uplift in value and using their office premises for residential.
- 2.2.2 With the exception of some parts of the north, the office hubs within the borough are within or adjacent to prime residential areas. The borough has one of the highest residential values in London, ranging from £750 - £2,500 per sq ft. Existing office values range between £350 - £750 per sq ft.

Residential Property values				
Area	Postcode	Flats	All properties	Average - All properties
RBKC	W8	£1,415,987	£2,202,433	£1,456,449
	W10	£445,018	£589,195	
	W11	£811,990	£1,434,154	
	SW3	£1,058,222	£1,774,059	
	SW5	£924,638	£1,042,364	
	SW7	£1,529,836	£1,872,917	

	SW10	£886,318	£1,280,020	
Westminster	W1	£1,106,099	£1,228,167	£1,213,618
	SW1	£967,069	£1,199,069	
Ealing	W5	£346,087	£547,763	£547,763
Wandsworth	SW18	£411,545	£590,799	£590,799
Camden	NW1	£551,534	£679,250	£679,250

Table 2.1: Residential property values (December 2012)

Source: Zoopla

- 2.2.3 The table above illustrates the very high residential values in the borough compared to other London boroughs. These differentials are increasing further with a 50% increase in residential values since 2009.
- 2.2.4 Building in the usual development costs associated with residential developments, TBR/ Frost Meadowcroft have calculated that residential values would only need to be 40-55% greater than existing office values to make a compelling case for residential conversion. In most cases, even assuming for higher costs for difficult conversions, there is still a compelling financial incentive to convert to residential. A 30% uplift in value may be all that is required to make a compelling financial case for conversion.
- 2.2.5 Frost Meadowcroft have carried out a number of case studies for different properties across the borough, in order to assess the likely uplift in value that would be obtain for use as residential rather than offices. The results are set out in table 2.2 below. The worked case studies, and the assumptions driving them are included in Appendix C.

	Existing Value (£)	Residual Value for Residential Conversion (£)	Percentage increase	Office value (£ psf)	Breakeven point (£ psf)
Phoenix Brewery, W10	£12,010,000	£25,250,000	110%	£396	£565
364 Kensington High Street, W14	£36,290,000	£76,070,000	110%	£542	£688
Lancer Square, W8	£49,000,000	£94,360,000	93%	£864	£989
Sydney Street, SW3	£11,320,000	£32,260,000	185%	£584	£963

Table 2.2: Summary of case study residuals

Source: Frost Meadowcroft

- 2.2.6 The potential profits to be gained will put extreme financial pressure on investors and property owners to obtain vacant possession of the buildings in order to convert within the initial 3 year period. With the substantial level of profits available, landlords will be in a position to offer significant payments to induce tenants to

break longer term leases earlier. With the already limited office stock in the borough, it is inevitable that these companies will be forced to move further afield to other areas in order to find suitable relocation. The possible impact is assessed in section 4.

2.3 High demand for offices with the Royal Borough: Low office vacancy rates and high rental levels

High office rents

- 2.3.1 Rental values are effective in assessing both market balance (the difference between office demand and possible supply) and the viability of maintaining existing offices. Roger Tym and Partners (RTP 2013 in Appendix D) note that for the Royal Borough, a rent of around £200 per sq m is typically required to maintain existing properties in a lettable condition. As a broad approximation, a rent of around £300 per sq m, combined with a good tenant covenant, is typically required to support viable new development. Clearly in this borough the large differential in value between residential and office floorspace means that very little office development will come forward. This is reflected in the low pipeline figures for office development in this borough. This is not to say that the office floorspace which does remain is not viable, were the Council able to protect it from changes of use to residential. Rental values achieved show that it is.
- 2.3.2 Typical rental values range from £400-500 per sq m in Kensington High Street and Knightsbridge, down to £150-200 sq m in parts of the Latimer Road/ Freston Road Employment Zone and in Earl's Court. This indicates a tight market, with little available space, driving up rental values. This is confirmed by Frost Meadowcroft who note that "*demand for offices in the Borough is strong and proven with recent transactions.*" Further details of these transactions are provided in Appendix C.
- 2.3.3 Rental values for the main concentrations of office floorspace are set out in table 2.3 below.

Area	Typical rent (per sq m)
<i>Town centres</i>	
Kensington High Street	£400
Notting Hill Gate	£270
Knightsbridge	£500
King's Road	£300-350
South Kensington	£400
Fulham Road	£400
Earl's Court	£200
Westbourne Grove	£300
<i>Employment Zones</i>	
Latimer/Freston Road	South £250-300 North £150-170
Kensal	£250-300
Lots Road	£285

Table 2.3: Typical rent for office floorspace, by area
Source RTP (2013)

- 2.3.4 Roger Tym and Partners (2013) carried out an analysis of the market conditions in each centre. They considered both vacancy rates and rental levels and supplemented this with discussions with local agents. A brief summary of the conclusions reached for each area are set out in table 2.4 below. This commentary was correct as of December 2012.

Area	Conclusions of market report
Employment Zone	
Kensal	Well occupied and financially viable.
Lots Road	Very well occupied, useful and financially viable. No indication that any of it is surplus to requirements.
Latimer/ Freston Road	The office market is tight, with high occupancy and high rents.
Town centre	
Kensington High Street	The area's office stock is well occupied and financially healthy.
Notting Hill Gate	Existing offices are in demand and viable
Knightsbridge	Knightsbridge is a tight office market ...The viability of both existing offices and new office development is high.
King's Road	The stock is financially viable, well occupied and suitable for the market it serves.
South Kensington	Vacancy is very low and rents are high. Maintaining the existing stock is financially viable.
Fulham Road	The market is tight and the existing space is financially sustainable. This space serves a useful function and form a commercial market perspective there is no reason why it should not be retained.
Earl's Court	Earl's Court is a very secondary office location. There is no huge demand for the current accommodation in this area as the location is marginal compared to others.

Table 2.4 : Conclusions of RTP 2013 market report
Source: RTP (2013)

- 2.3.5 Roger Tym and Partners conclude that, *"maintaining the existing office stock appears viable in nearly all of the Borough, except possibly for parts of the Latimer/ Freston Road Employment Zone and Earl's Court"*. This analysis notes that for both Knightsbridge and Notting Hill Gate the raised vacancy rate is misleading. It is the result of the fluctuation in a small market and the peculiarities of a given site rather than evidence of a more general malaise. Roger Tym and Partners note that *"in*

reality Knightsbridge is a tight market, as noted by agents... and confirmed by the very high rent levels.” Similarly the vacancies in Notting Hill Gate relate to just five office suites and an ambition to redevelop much of the centre in the near future.

Low office vacancy and strong demand for office floorspace

- 2.3.6 Whilst many outer London Boroughs may be currently experiencing high vacancy levels of redundant office space, the reverse is true in this Borough where vacancy levels are even below the West End market and demand is consistently strong.
- 2.3.7 Key features of the borough’s office market (as of December 2012) are:
- Very low vacancy rate of 3.6% (33% lower than the West End, 75% lower than the City)
 - Current availability of 15,989 sq m (172,042 sq ft) significantly less than annual take up
 - Total stock in the borough is 442,025 sq m (4,756,189 sq ft) across a total of 2,208 premises
 - Strong tenant demand demonstrated from recent transactions and active requirements
- 2.3.8 3.6% is an exceptionally low vacancy rate, less than half of the 8% level considered by the GLA to be ‘healthy’ and to allow for natural churn. The Roger Tym and Partners report (2013) is explicit in its conclusions, that the Royal Borough, “*has a tight office market, in which space is undersupplied.*” This is confirmed by Frost Meadowcroft who conclude that “*The loss of further office stock would restrict local employment, and inhibit the movement and expansion of existing occupiers, potentially forcing them to consider other boroughs to locate their businesses.*”
- 2.3.9 The Roger Tym and Partners 2013 report also considers spatial variation in demand, to establish whether the low Borough-wide figure hide significant local differences. Table 2.5 sets out the vacancy rates for office floorspace from the principal office locations.

	Office floorspace	Vacant floorspace (sq m)	Vacancy rate (floorspace)
Town centre			
Kensington High Street	130,000	2,831	2%
Notting Hill Gate	16,000	1,516	9.5%
Knightsbridge	20,400	1,900	9%
King’s Road	37,250	856	2%
South Kensington	40,000	348	1%
Earl’s Court	11,400	1,500	13%
Employment Zone			
Latimer/Freston Road	27,500	1,115	4%
Kensal	12,700	933	7.5%
Lots Road	32,000	640	2%

Table 2.5: Vacancy rate, Office floorspace, by area.

Source CoStar

2.3.10 The spatial variations in vacancy rate are shown in fig 2.1 below.

2.3.11 The conclusions are clear. Vacancy rates across the Borough, with the possible exception of the Earl's Court area, are low and either close to, or well below, a level which allows the market to operate in an efficient manner. The prospects of the Earl's Court area will also improve over the next few years as the major new housing and business scheme is constructed.

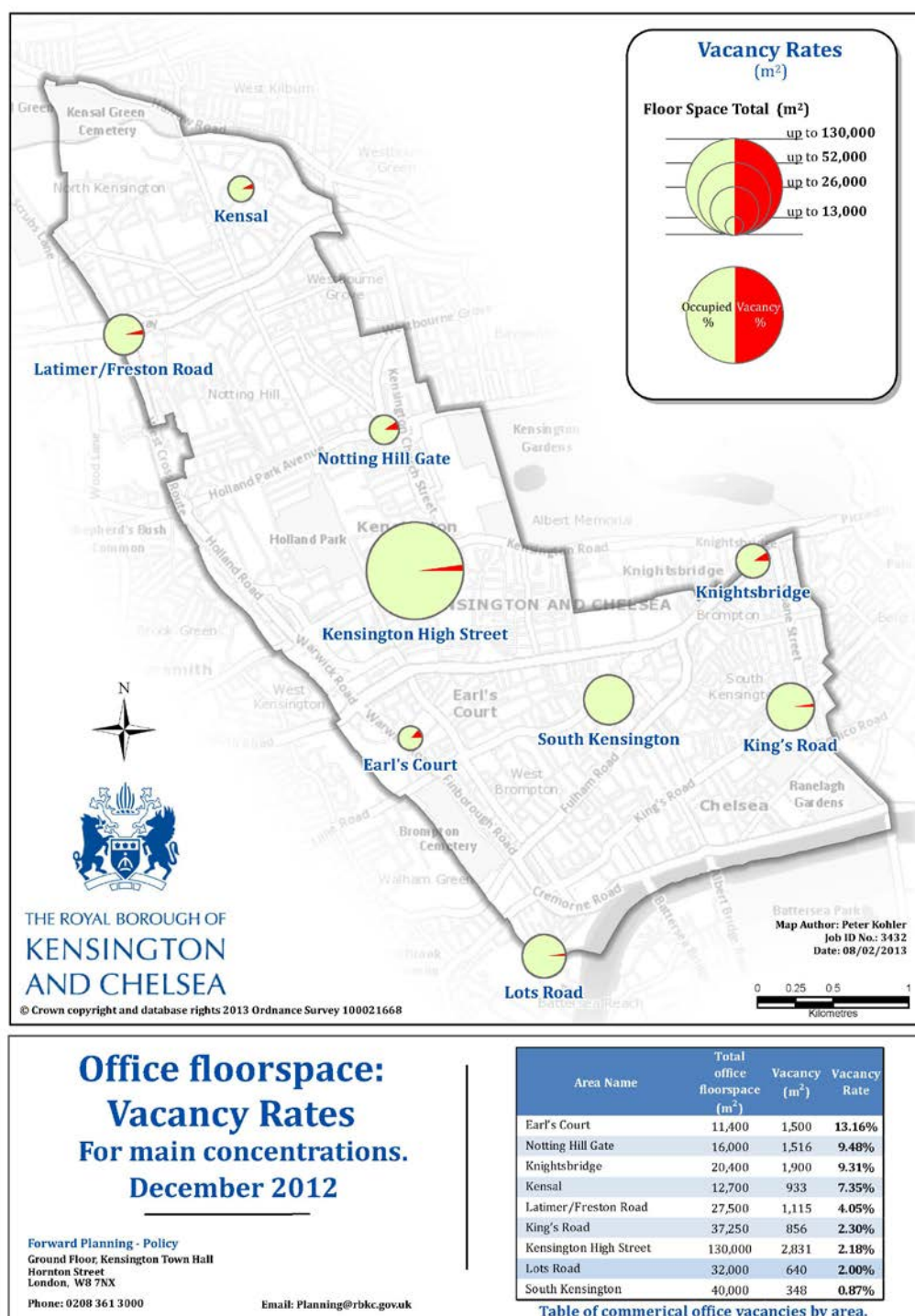


Figure 2.1: Vacancy rates in Kensington and Chelsea (Dec 2012) by area
Source: CoStar, RTP 2013.

2.4 Employment levels and sources of local employment growth

- 2.4.1 Borough-wide forecasting shows that there is, and will be, a continued demand for office floorspace within the Borough over the next twenty years. However, given the differential in land values it is extremely unlikely that this need can be fully met, even under current regulations. The rapid denudation of the existing office stock likely to occur were the proposals to GPDO apply to this Borough would render the meeting of the identified need impossible. This would be extremely regrettable given it is essential that business floorspace is provided if London is to retain its competitive position, and the Borough is to continue to benefit from a diverse and vibrant economy.

Key features

- GLA trend based employment projections. Between 2011 and 2031 the Borough is anticipated to gain 18,000 employee jobs, or 16% of the total. The majority of these jobs will be in the office sector.
 - Roger Tym and Partners (2013) have projected a need of 50,000 sq m of additional office floorspace to 2032.
 - There is a need to provide 30,000 sq m of office floorspace to 2031, over and above that in the pipeline, if the demand for office floorspace is to be met in this Borough
 - Land supply will act as a constraint on the growth of B class uses, as buoyant demand for space in the Borough cannot be met.
- 2.4.2 The Council endorses the thrust of the NPPF in that “planning policies should avoid the long term protection of sites allocated for employment use where there is no reasonable prospect of a site being used for that purpose.” Indeed an understanding of need is, and always has been, central to effective planning. There is little value in safeguarding land for a particular use, when there is no realistic prospect of that use being operating successfully.
- 2.4.3 For the Royal Borough, the evidence is clear: there is not a stock of office floorspace standing empty, putting a brake on residential development in the borough. On the contrary, economic forecasting paints a positive picture for the need for additional office stock across the Royal Borough. It will be extremely challenging to meet this need and to reap the benefits of a vibrant and diverse office sector. The proposed changes to the GPDO will increase this challenge further.
- 2.4.4 Subsequent studies and borough-wide employment forecasts have shown that the borough needs to provide additional floorspace, rather than preside over its loss. This was confirmed at EIP into the 2010 Core Strategy, when the Inspector had regard to the then current employment studies recognised that existing floor space should be protected were the Council to meet the long term forecasts of growth.
- 2.4.5 In essence, these studies (Roger Tym and Partners 2009 and 2010) shared the conclusion that, *“there is limited known supply of new office floorspace to meet any positive demand requirement. The Borough must continue to protect its existing stock (because it cannot easily be replaced) and seek additional windfall development where possible”* and that *“both property market analysis and the*

demand/supply calculations show that demand can only be met if no existing sites are lost." This endorses the conclusions made elsewhere, that the liberalisation of the GPDO will result in a loss of floorspace which will harm the borough's ability to meet its needs.

- 2.4.6 Mindful of the requirements of the NPPF, the Council was in the process of further reviewing the policies within the Core Strategy relating to employment uses, when the revisions to the GPDO were announced. Once again Roger Tym and Partners were appointed to review the need for office floorspace in this borough, and once again the conclusion is that the protection of business premises is necessary if the borough is to meet the scale of office need set out within the Mayor for London's London Office Policy Review (2012) and supported by the GLA's trend-based employment projections.
- 2.4.7 The GLA working paper 51 projects strong growth in London, from a total of 4.5 million jobs in 2011 to 5.4 million in 2031 and 5.5 million in 2036. (Figure 2.2) In percentage terms, the fastest growing sectors are those well represented with this Borough, and in particular the "Professional, Real Estate, Scientific and Technical Activities" and, "Information and Communication" sectors. These sectors, which are the main users of offices in this Borough, have projected growth of around 50% between 2011 and 2036.

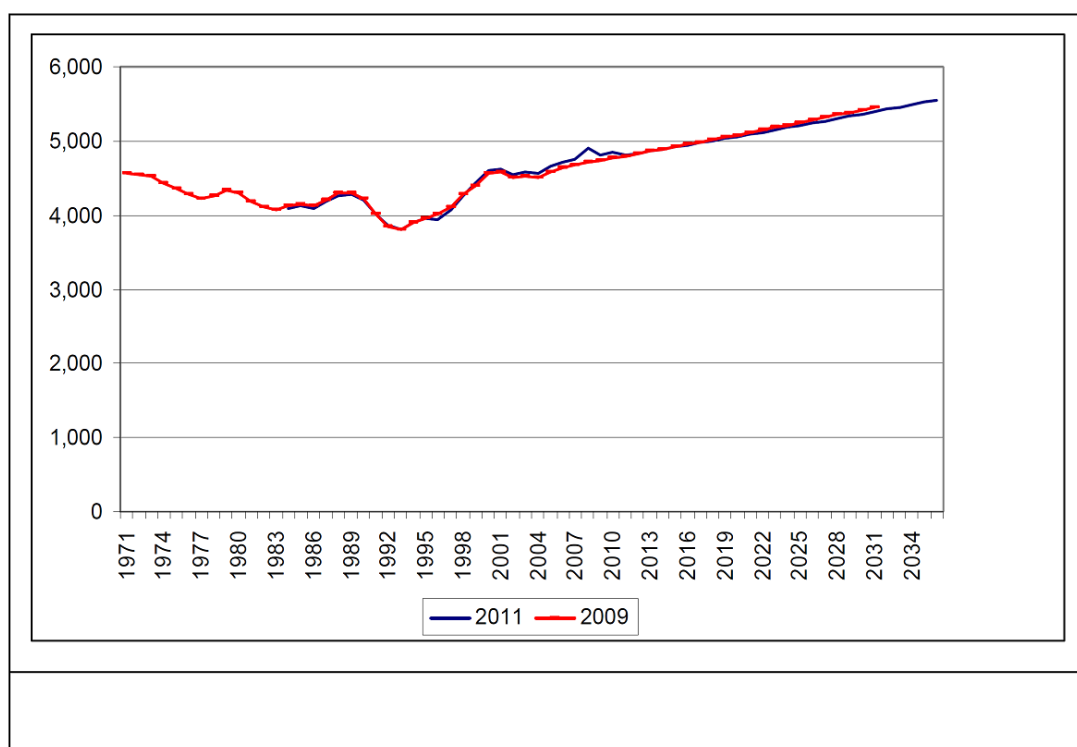


Fig 2.2: Comparison of 2009 and 2011 GLA Projections, 1000 jobs
Source: GLA Economics, Working Paper 51

- 2.4.8 The 'trend based' projections with WP51 expected Kensington and Chelsea to be the sixth fastest-growing borough in the Capital, with between 2011 and 2031 an

employment increase of 18,000 jobs, or 16% of the total. The majority of these jobs are likely to be in sectors occupying office premises. This growth reflects the Borough's economic structure, well represented in sectors expected to grow and hardly represented in areas expected to decline. For example, the London wide average of "finance and accounts" (a declining sector) stands at 25%, compared to just 10% in this borough.

- 2.4.9 Roger Tym and Partners have projected change in office jobs by ward to 2036 and have concluded that, assuming that the premises remain available, no ward in the Borough will lose office jobs in this period.
- 2.4.10 They have also translated the trend based analysis within WP51 and the projections for the borough within the GLA's London Office Policy Review (2012) into an office demand across the borough to 2031 of approximately 50,000 sq m. This is a correction from an overestimation within the LOPR. This equates to 2,500 sq m per year. However, given a planning development pipeline of just 20,100 sq m of office floorspace, it is recognised that it is going to be extremely challenging to meet this demand, with the pipeline lasting for just eight years. If the borough were to meet this demand, the Council would have to identify sites for an additional 30,000 sq m of additional office floorspace to 2031. Given the differential in value between residential and office floorspace it is unlikely were even a fraction of this space to be provided.
- 2.4.11 The conclusion is clear, that land supply will act as a constraint on the growth of B class office uses, as buoyant demand for office floorspace cannot be met.

2.5 The housing market

- 2.5.1 The analysis of differential land values, and the associated risk assessment, (see section 4) indicates that the proposed change to the GPDO will increase the amount of housing developed within the borough. This may have benefits both in terms of meeting a long term need and the more immediate benefits associated with construction.
- 2.5.2 However, the Council is concerned that any benefits will be outweighed by the harm to the borough's economy and to its character. In particular:
- The Council's Monitoring Report shows that the Council is meeting its targets for both a five-year housing land supply and the additional 20% buffer required by the NPPF.
 - The housing likely to be provided is unlikely to be of the mix or nature required to meet the particular needs of the borough. In this Council's experience the market provides the type of unit which maximises returns. This does not necessarily equate to the units most needed.

- A substantial proportion of the new housing provided is likely to be unoccupied, bought either for investment purposes only, or as a second home. This is a reflection of the near unique position of Kensington and Chelsea within the extraordinary returns that can be achieved through “super-prime” residential development.

In February 2012, Savills produced a report entitled *The World In London*. In this report, sales in ‘prime central London’ were analysed. The relevant area is shown on fig 2.3 below. It includes all but the very north of the Royal Borough. The report concluded that 70% of all the purchases of new build homes and 59% of all other purchases in this area were to overseas buyers. Nearly half of the properties bought were used as the main residence. 37% are used as a second home and 27% for investment purposes and not lived in. Were this trend to continue, this would equate to only 40% of new homes actually being occupied on a full time basis.

- 2.5.3 This pattern is supported by the St Edward Homes redevelopment of the former 45,000 sq m office building, Charles House. 60-70% of the sales have been to overseas investors off plan.

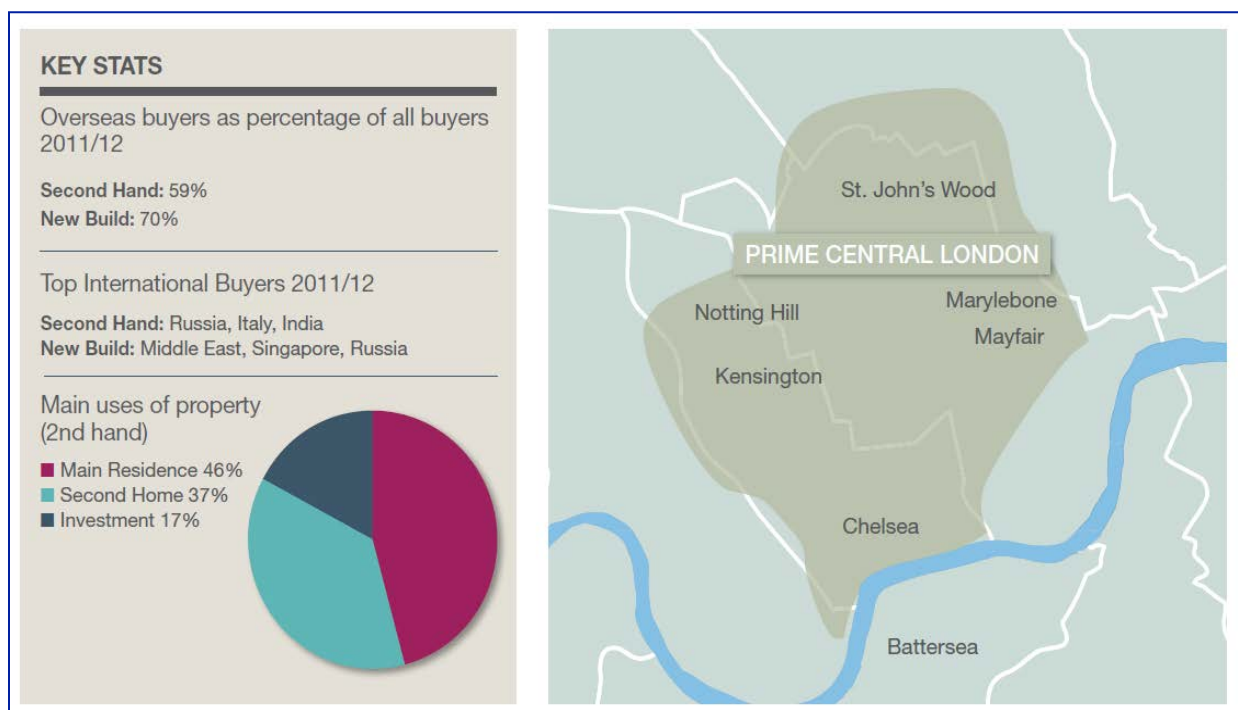


Figure 2.3: Prime Central London
Source: *The World In London*, Savills 2012.

2.6 Little opportunity to develop new offices in the future

- 2.6.1 The loss of office floorspace to residential is of particular significance in this borough given once lost it is extremely unlikely ever to be replaced. Unlike the majority of other Boroughs, there is very little land that is likely to come forward in the future for new office development. This is a function of the differential in property values

from offices and residential, and of the simple geography of the borough. Those parts of the borough that can be built on, have been. The lack of opportunity is illustrated by the extremely small pipeline for offices (just 20,100 sq m) as set out above.

3.0 NATIONALLY AND INTERNATIONALLY IMPORTANT BUSINESS CLUSTERS IN KENSINGTON AND CHELSEA

3.1 Introduction

3.1.1 The borough is home to businesses which, collectively, are of national or international economic significance. These include music publishing; film, television and video; publishing; and the photographic sectors. These are all sectors which rely heavily on the benefits of associated with proximity to other such businesses, and therefore, their loss is likely to be permanent and far reaching.

3.1.1 Whilst there are some concentrations of these firms within, or close to our town centres, and with the Employment Zones, they are well distributed across the borough. As such the clusters are best regarded as being borough-wide than defined by individual small areas.

3.2 Music Publishing

3.2.1 The UK is the second largest exporter of recorded music in the world after the USA, with a market share of 12%. In 2009, the last year for which there is detailed sector specific data; UK artistic originals generated GVA of £1.33bn together with a trade surplus of nearly £138m. Economically, UK music punches above its weight with businesses generating three times more global trade than the UK's trade in goods and 50% more than in services.

3.2.2 Music publishing is a resounding success in terms of international trade and this borough represents the core of the UK's offer, with over 28% of employment for the sector in England. Kensington and Chelsea is home to all four major record labels (Universal, Warner Music, Sony Music and EMI), though the industry's significance extends far beyond these large, important businesses. Table 3.1 below (See table 1 TBR report in Appendix B) also illustrates the importance of employment in music publishing in the Royal Borough, relative to the other London boroughs:

Music Publishing and Sound Recording (59200)	Employees	Percentage
Kensington and Chelsea	1,991	38%
Westminster	854	16%
Hammersmith and Fulham	531	10%
Camden	385	7%
Hackney	209	4%

Music Publishing and Sound Recording (59200)	Employees	Percentage
Southwark	207	4%
Other London boroughs combined	1,043	21%
Total	5,220	100%

Table 3.1: Music publishing employment in London
Source: BRES 2011

- 3.2.3 As of 2011, there were nearly 2,000 jobs in sound recording and music publishing in Kensington and Chelsea (SIC 59200) out of a total of 7,200 across the UK and 5,220 in London. Kensington and Chelsea demonstrated employment Location Quotients (LQs) of 14.3 against London and 57.0 against England and Firm LQs of 2.77 and 5.15 were recorded for London and England respectively. (See section 2.1.1 of TBR report in Appendix B.) An employment LQ of 57 suggests that the concentration of employment in music publishing is 57 time greater than one would expect for England as a whole. A LQ of 1.25 is considered statistically significant.
- 3.2.4 Music publishing and the music business within the borough demonstrates the classic characteristics of a cluster, with high LQs for both employment and firms together with the presence of international leaders and independent small businesses. Any loss of any of these businesses would represent a blow to the cluster and could undermine the strength of the industry to the UK as a whole. Although it might be the case that smaller, independent firms would be most vulnerable (first because they are less likely to own their office accommodation and second because the pressure to accept a settlement will be more persuasive) these firms often provide the creative impetus that gives the major record labels confidence to remain in their current location. Although the direct economic impact of smaller firms relocating might be relatively small, the indirect impact that this precipitates could be more significant.
- 3.2.5 Whilst associated studios and labels are spread across the borough, the four major record labels, Universal, Warner Music, Sony Music, and EMI are all located within, or close to Kensington High Street. Further details on the “big four” is provided in a report prepared by Frost Meadowcroft, “Kensington record labels”, included in Appendix E.

3.3 Film, Television, and Video

- 3.3.1 In 2009 the UK film industry contributed over £4.5bn to GDP and £1.2bn to the Exchequer as well as supporting 100,000 jobs. There is no equivalent data for TV.
- 3.3.2 The film sector is concentrated in the South East and especially within a narrow wedge fanning out from Soho, through Kensington and Chelsea, Hammersmith and Fulham, and Ealing to Shepperton and Pinewood studios in the west. The cluster is relatively tight-knit, with firms occupying a range of contemporary settings beyond traditional studios, reflecting the increasing use of digital technology in the industry.

- 3.3.2 Statistics for the sector are captured through the UKSIC elements: production (SIC 59111), postproduction (SIC 5912) and distribution (SIC 59131). All three subsectors have a presence in the borough. Kensington and Chelsea is particularly strong in production and distribution. In addition, proximity to Soho, Hammersmith and Fulham, and Ealing together with transport links (the A40 Westway and the Piccadilly line) means that borough is home to businesses that are core to the sector. Table 3.2 illustrates the overall significance of the sector to the borough, with most subsectors demonstrating an LQ above 1.25 for both employment and firms. (See section 2.1.2 of the TBR report in Appendix B)

Segment	LQ London (Employment)	LQ England (Employment)	LQ London (Firms)	LQ England (Firms)
Film production (59111)	1.5	5.4	3.45	1.52
Film distribution (59131)	1.4	5.9	*	*
Video production (59112)	1.2	3.2	4.41	1.51
TV production (59113)	0.4	1.7	1.40	0.74

Table 3.2: LQ results for film SICs

Source: BRES 2011 and TBR Data Observatory 2012

- 3.3.4 TV has many similar characteristics to the film sector and they share much of the same supply chain, such as props, special effects and postproduction. They differ most notably at the production and distribution/broadcast stages, though even here the boundaries are blurring with the development of new technologies. West London is particularly strong in TV with studios in Ealing and Park Royal and the BBC in White City.
- 3.3.5 While the key production facilities are likely to use premises classified as sui generis or B8, the proximity to firms that using B1a offices is important. This is a sector which is built on close working and social relationships and where minor dislocations can result in major disruption.

3.4 Publishing

- 3.4.1 Overall, the emergence of digital media and technology is currently transforming the publishing sector. One of the defining characteristics has been the continuing decline in traditional print newspapers. In addition, there has also been a decline in the sales of books in within the UK and exported international. Such contemporary features of the publishing sector could potentially act as contributing factor publishing companies located in B1 offices to transforming them to residential.
- 3.4.2 The UK book publishing sector in the UK is defined by a mixture of large scale publishers, such as Random House Penguin and a large independent publisher sector, which has about 45% of the publishing market. In 2011 the value of

publishing's sales to the UK was £3.2bn, with an increasing contribution coming from the digital sales (8%).

- 3.4.3 The analysis carried out by TBR also found that Publishing, particularly of newspapers, is strong within the borough. As of 2011, there were over 2,100 jobs associated with newspaper publishing (SIC 58130), 560 with book publishing (SIC 58110) and a further 260 in publishing periodicals and journals (SIC 58142). Of particular significance was that in both firms and employment, newspaper publishing and book publishing were found to have strong LQ concentrations in this Borough in comparison to both London and England:

Segment	LQ London (Employment)	LQ England (Employment)	LQ London (Firms)	LQ England (Firms)
Newspaper publishing (58130)	6.72	10.64	1.91	3.07
Book publishing (58110)	1.99	5.22	3.27	2.08

Table 3.3: Newspaper and Book publishing
Source: BRES 2011

3.5 Fashion, textile and design activities

- 3.5.1 The UK has a global reputation as leaders in fashion design and trendsetting. In 2010, the UK fashion industry was valued at £21 billion. The scope of the industry reaches far beyond fashion design, encompassing a complex web of materials, textile production, clothing design, manufacturing, wholesaling, marketing and retailing of a wide range of fashion products.
- 3.5.2 To examine and understand the significance of fashion, textile and design activities found in the borough it is important to recognise this wider definition of the fashion industry. For example, this means the inclusion of manufacturing activities in SIC divisions 14 (Manufacturing of wearing apparel), 15 (Manufacturing of leather and related products), and 74 (Specialised design activities). Our matching of firm data with data on B1a business premises confirms that firms with these SIC codes are operating in B1a premises in the borough. It is likely that they relate to small-scale specialist manufacturing, with a heavy emphasis on design activities.

Segment	LQ London (Employment)	LQ England (Employment)
Specialised design activities (SIC 74100)	2.32	5.32

Manufacture of luggage, handbags and the like, saddlery and harness (SIC 15120)	1.29	2.14
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Table 3.4: Employment LQs for Fashion, Textile and Design Activities
Source: BRES 2011

- 3.5. Our analysis shows that in terms of employment, specialised design activities (74100), Manufacture of women's outerwear other than leather clothes and workwear (14132) and Manufacture of luggage, handbags and the like, saddlery and harness (15120) were fashion industry SICs significant to the borough.

3.6 Other Photographic and design activities

- 3.6.1 In addition to music publishing, film and TV and general publishing (e.g. newspaper and books) the analysis also found the borough is home to a concentration of photographic and design businesses. The table below illustrates that both in terms of London and England; the concentration of employment in the selected SICs is higher than what would be expected. (See section 2.1.5 of the TBR report in Appendix B.)

Segment	LQ London (Employment)	LQ England (Employment)
Specialised design activities (74100)	2.32	5.32
Portrait photographic activities (74201)	1.55	2.44
Other specialist photography (74202)	2.13	5.45
Film processing (74203)	1.46	2.80
Other photographic activities (74209)	2.10	4.43

Table 3.5: Design and photographic activities
Source: BRES 2011

3.7 Distribution of firms in the creative sector

- 3.7.1 The distribution of the premises occupied by the creative industries is included in fig 3.1 below. The creative industries including the following subsectors: advertising, architecture, designer fashion, digital and entertainment media, music and the visual and performing arts. Publishing, radio and TV and video, film and photography. These have been mapped to postcode area. It should also be noted that given the nature of the data it is not possible to accurately map the location of every business of each specific sector. Notwithstanding these caveats, it is clear that the creative industries follow very much the same pattern of other offices in the borough, namely concentrations in and close to the larger town centres and employment zones, but

are also significant elsewhere. This pattern is shadowed by premises occupied by those in the fashion and music industry.

3.8 Conclusions

- 3.8.1 Section 4.4 and table 4.6 quantifies the impact that the loss of these sectors is likely to have upon the Borough's economy. TBR confirm that, "the loss of firms operating in the Advertising, Music and the Visual and Performing Arts, Architecture or the Video, Film and TV subsectors would also be significant." The impact will be felt on the local economy, as well as on the national, and even international scale. These are businesses which rely on existing linkages and clusters and cannot simply relocate to areas with lower residential land values with no cost.

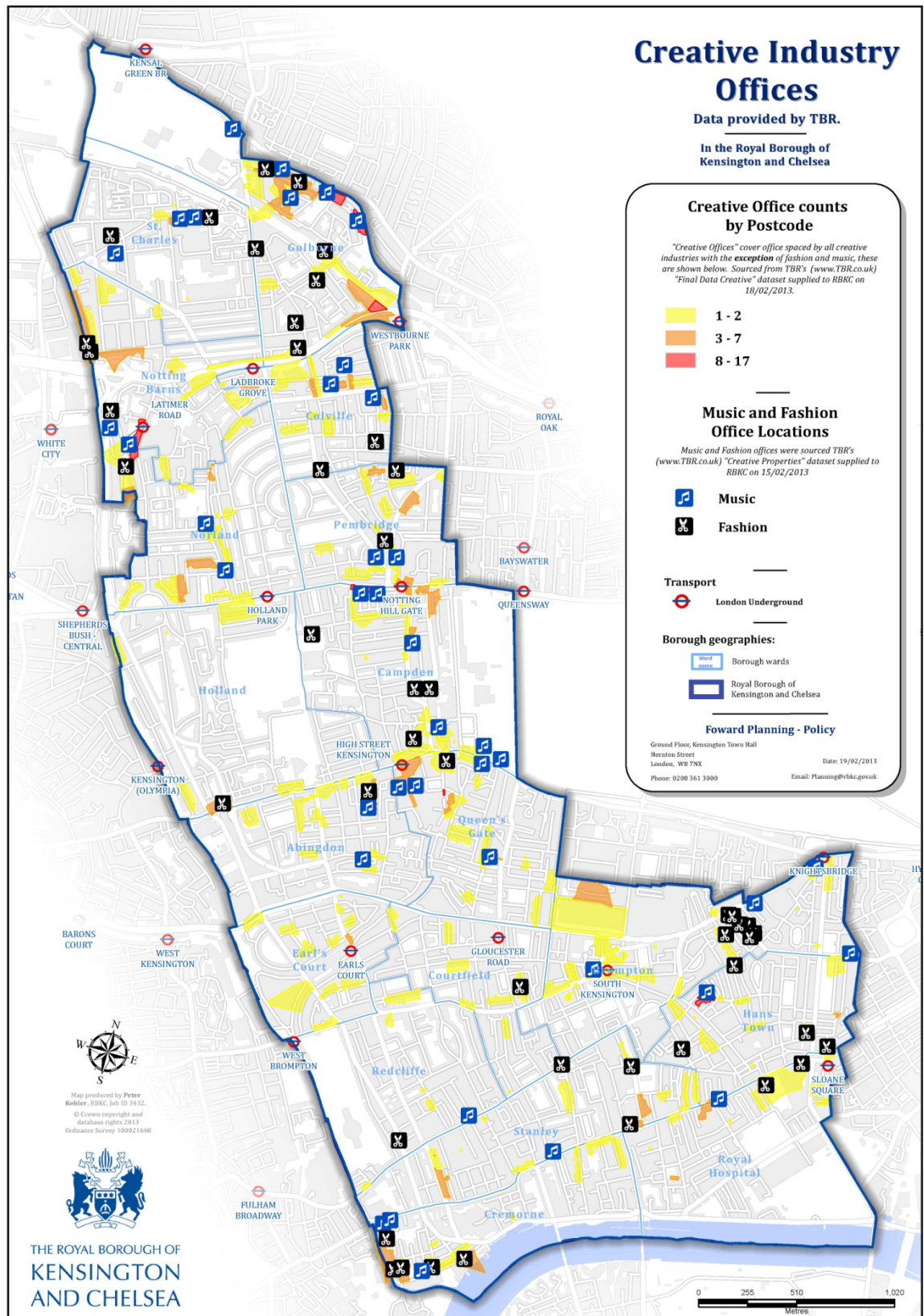


Fig: 3.1: Distribution of creative industries within the Royal Borough of Kensington and Chelsea
Source: TBR

4.0 ECONOMIC IMPACTS

4.1 Introduction

- 4.1.1 The Council has commissioned TBR and Frost Meadowcroft to quantify the likelihood, or 'risk' of the borough's office premises converting to residential were the proposed changes to the GPDO to take place in this borough. The impact is likely to be dramatic given the extraordinary differential in value between offices and residential. It is estimated to equate to the direct loss of 12,100 jobs between 2013 and 2015, or a GVA of £906 million. This would rise to a loss of 27,800 jobs or £1.75 billion GVA (per year) when one takes the indirect and induced employment (both within and outside the borough) and GVA into account. (See section 4 of the TBR report in Appendix B).
- 4.1.2 The impact is, however, likely to be wider still, and to harm the viability of our town centres, the character of our otherwise residential areas, and the viability of the existing clusters of creative uses. This section addresses each in turn.

4.2 Distribution of the Royal Borough's stock of office accommodation

- 4.2.1 The borough's stock of office floorspace currently stands at some 420,000 sq m (Valuation Office 2012), or just 2% of London's office floorspace. Whilst this is not large in absolute terms when compared to that of some of our neighbours, the Borough's office sector is a vibrant sector which plays an essential role in contributing to both the local economy and nationally significant areas of economic activity.
- 4.2.2 In 2012, firms in B1a premises are estimated to have contributed to the borough's economy in the following ways:
- 23% of the stock of firms (estimated 4,100 firms of 17,100)
 - 17% of employment (estimated 20,000 employees from 118,000)
 - 25% of economic output (Gross Value Added [GVA]) (estimated £1.4 billion of £5.6billion)
 - 30% of turnover (estimated £5.8 billion of £19.7billion).
- 4.2.3 A significant proportion of these businesses will be at threat were the premises in which they currently operate from were too be lost to residential.
- 4.2.4 The Council has mapped the distribution of this floorspace in Figure 4.1 below. Whilst there are concentrations in or close to the borough's larger town centres and with the designated Employment Zones, there is a significant number of premises that do not lie in these locations and which are scattered throughout the rest of the borough.

4.3 The nature of the office market

- 4.3.1 The office market in the Royal borough falls between the central London and west London markets. These markets are inextricably linked with the ebb and flow of tenants across the boundaries and therefore the general central London trends are reflected in the local market. In the Borough, local areas can be identified with specific features of demand and tenant profile. As with all markets, Kensington and Chelsea provides a mix of stock from small mews style office stock scattered across the Borough to larger purpose built developments in the core commercial clusters. The Borough has a full cross section of business types, and as the City of London is known for its financial services, so Kensington and Chelsea is known for its music, fashion and creative businesses. Some of these are on national and international significance, others less so.
- 4.3.2 These clusters of creative industries have been in existence for some time, and are now driving much of the Royal Borough's office market. Outside the town centres, such occupiers have been attracted by the availability of interesting industrial style buildings as well as flexible hybrid space where the primary use is as offices, but with elements of ancillary storage or even production uses. Roger Tym and Partners (2013) recognise that this is a *"distinct commercial product, which may not be commonly found elsewhere in the Borough or in other employment zones around London."* They go on to estimate that the creative sector accounts for about half the employment across the Borough's Employment Zones. There will be a similar proportion outside the areas, and as set out below, a significant presence on our larger town centres.

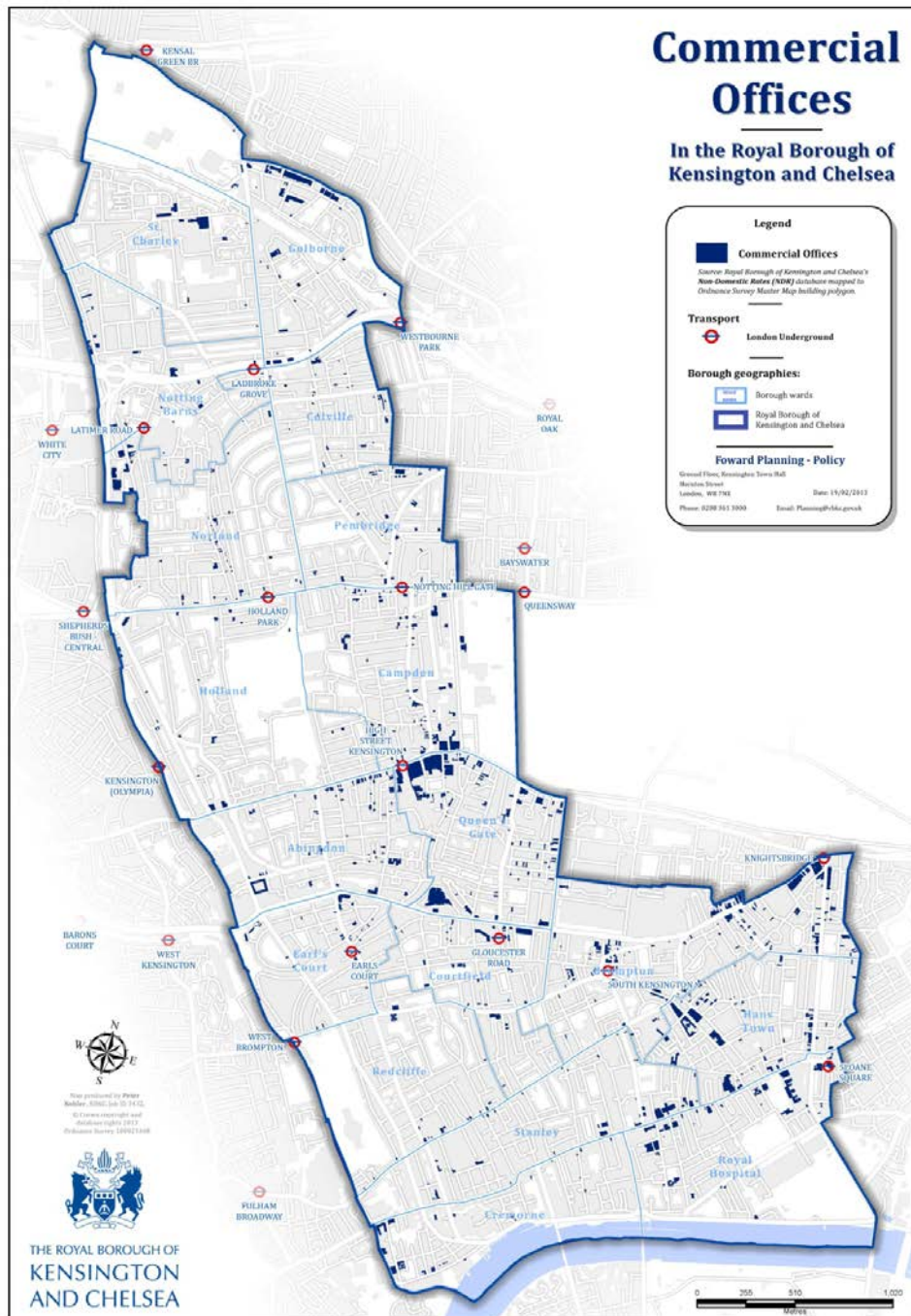


Figure 4.1: Distribution of offices
Source: RBKC

4.3.3 Frost Meadowcroft have identified four principal office hubs within the Borough; what they term “Nottingdale”; “Golborne”; “Kensington High Street” and “Knightsbridge and Chelsea”. The character of these hubs are set out below.

Hub: Nottingdale**Profile: Fashion and Media (TMT)****Features**

This hub features some of the larger and newer office buildings in the area and home to some notable companies in the Fashion & Design sectors (Stella McCartney, Monsoon Accessorize, Louise Blouin Foundation, Donna Ida Jeans, Cath Kidston, Col Art Group, Charlotte Olympia Shoes, Mario Testino photography, Virgin Games).

The larger floor plates and higher specification offices available in this location have attracted larger companies such as Talk Talk, Stella McCartney and Cath Kidston.

Public transport is good with close proximity to the underground station at Latimer Road and also within easy walking distance of Westfield London shopping centre and Shepherds Bush underground and overground station. The area is also close to all the amenities of Notting Hill and Holland Park and the associated high residential values.

Hub: Golborne**Profile: Small creative & Design****Features**

This hub is characterised by buildings let on short term leases to very small and start-up companies notably in the creative industries and design. There is also a greater prevalence of the lighter industrial style business, attracted by the lower rental values and the availability of more studio style workspace. Buildings include Camelot Studios, Pall Mall Depository, Grand Union Centre and Westbourne Studios.

This hub is further from public transport facilities in this area and is therefore less accessible being a 15 minute walk from Ladbroke Grove and Westbourne Park stations. This is a further feature that will inhibit larger occupiers and higher rental values.

These areas provide a valuable incubation accommodation for small businesses that grow and then relocated to better hubs in the borough. The Phoenix Brewery building in the Latimer hub has been a recipient of several of these growing tenants.

Residential values are also approximately half of those in the more prime areas of the borough.

Hub: Kensington High Street**Profile: Music Industry****Features**

The office market around Kensington High Street has become the centre of the UK's music industry with all the 3 major international record labels located in this hub. (See separate report in appendix x)

Other occupiers include larger corporates, PR, marketing and travel industries and financial. (Mark Warner, Trailfinders, Associated Newspapers, Mind Gym, The White Company).

99 Kensington High Street offers the largest floorplates in the borough. Other more recent developments such as 5 Young Street and 37 Kensington High Street provide Grade A offices with rents ranging from £45- £50 per sq ft.

Very good transport facilities and local amenities make this a sought after location and a realistic option to many companies considering the traditional West End market. Many company directors either live locally or in west London due to the quality of residential accommodation and choose not to commute to central London.

The surrounding areas are also the borough's highest residential values.

Hub: Knightsbridge and Chelsea**Profile: Marketing & PR, financial, High end fashion and retail companies****Features**

The proximity of this hub to the West End makes Knightsbridge an extension to the Mayfair and St James' office markets. All sectors of property in this area are generally at the top of the capital value range.

There are good transport facilities throughout the area and the predominance of high class retailing encourages the associated offices of these retailers to be located close by. Notable occupiers include Tommy Hilfiger, Moncler, Manolo Blahnik and Joseph. Prime rents in this hub exceed £60 per sq ft.

The sub 1,000 sq ft market

- 4.3.4 In addition, an important feature of the borough's market is the small office market occupying properties such as ex light industrial, stables, garages, coach houses, and mews around the borough amongst the existing residential stock. There is more of a prevalence of this type closer to the hubs and they create a diversity of occupier in these areas which is valued by local occupiers and sought after by owner occupiers and tenants.
- 4.3.5 As discussed in section 4 below premises within the entire borough will be at threat from the large uplift in value associated with a change of use to residential.

4.4 Likely impact of the change to the GPDO on the borough's office sector

- 4.4.1 In order to assess the potential impact of office properties being converted to residential use, the Council's consultants, TBR has designed a methodology which links firms and the economic value they contribute (overall and within key sectors) with the premises they occupy and the risk associated with the conversion of these premises. Further details are provided in section 3 of the TBR report, included in Appendix B.
- 4.4.2 TBR have calculated the overall direct impact of the proposed policy exemption by analysing the economic contribution made by firms based in office premises which are at risk of conversion in the future. They have estimate that firms located in B1a premises in the borough directly employ 19,530 people and generate economic output of almost £1.5 billion per year. The direct impact of the proposed changes to planning regulations may therefore be considerable.
- 4.4.3 TBR have assigned all of the borough's B1a business premises to one of four risk categories. These describe the risk of a property being converted from office to residential use. Category 1 is at the highest risk, and category 4 is at the lowest risk:

Risk category	Description
Risk Category 1	Vacant office premises which are suitable for conversion to residential use
Risk Category 2	Occupied office premises, suitable for conversion, in areas with high residential premiums
Risk Category 3	Occupied office premises, suitable for conversion, in areas with lower residential premiums
Risk Category 4	Other occupied office properties deemed unsuitable on the basis of floorplate or cost of conversion

Table 4.2: Risk categories

- 4.4.4 All premises identified as being vacant are assigned to Risk Category 1. Premises identified as being unsuitable for conversion, mainly because of the size and shape of their floorplate, are all assigned to Risk Category 4. The remaining premises as assigned to Risk Category 2 or 3 on the basis of their postcode. Premises located in areas with high residential premiums are assigned to Risk Category 2, as they are more likely to be converted than premises in areas with low residential premiums, which are assigned to Risk Category 3. Firms based in B1a premises are assigned to the same risk category as the premises they occupy. It should be noted that the residual values are such that all suitable properties will be at risk from conversion. This includes those assigned to risk category 3 as well and 1 and 2.
- 4.4.5 Fig 4.2 illustrates office premises by their risk category. Categories 1 and 2 have been combined on the figure for clarity. In essence properties "at risk" lie across the borough; in or close to town centres, within Employment Zones and within

otherwise residential areas. This reflects the high differential in land values between B1 and C3 uses across the Borough. Whilst premises in areas with the greatest residential value being are the greatest risk, all properties which are suitable for conversion are also at a real risk of conversion. This is quantified in more detail below.

Patterns of lease events

- 4.4.6 The Council recognises that the pattern of leases will have an impact upon the risk of a given premises moving out of a property. Clearly it is easier for an owner to take advantage of the uplift in value if there is no tenant in their building.
- 4.4.7 The available data suggests that the current leases for most B1a premises in the borough will end in the next few years. 60% of leases are due to expire by December 2015. Further details are provided in section 3.2 of the TBR report (see Appendix B).
- 4.4.8 It should also be recognised that the uplift in value may mean that it is worthwhile a landlord buying an existing occupier out of his lease, to take advantage of the proposed relaxation of the GPDO.

Vacant units

- 4.4.9 Premises which are currently vacant are most obviously at risk. This are classed as Risk Category 1) An estimated vacancy rate in the borough of less than 4% suggests a tightness of the property market for B1a premises. TBR estimate that premises which are currently vacant have the potential to support more than 800 jobs, generating an economic input of £60 million. (Section 3.3.1 of the TBR report).

Other Risk categories

- 4.4.10 TBR analysis identifies around 2,000 firms in B1a premises in the Royal Borough which are regarded as being at high risk from the proposed change in permitted development rights, and a similar number in premises which are regarded as being at medium to high risk. More than one firm may occupy a single premises.

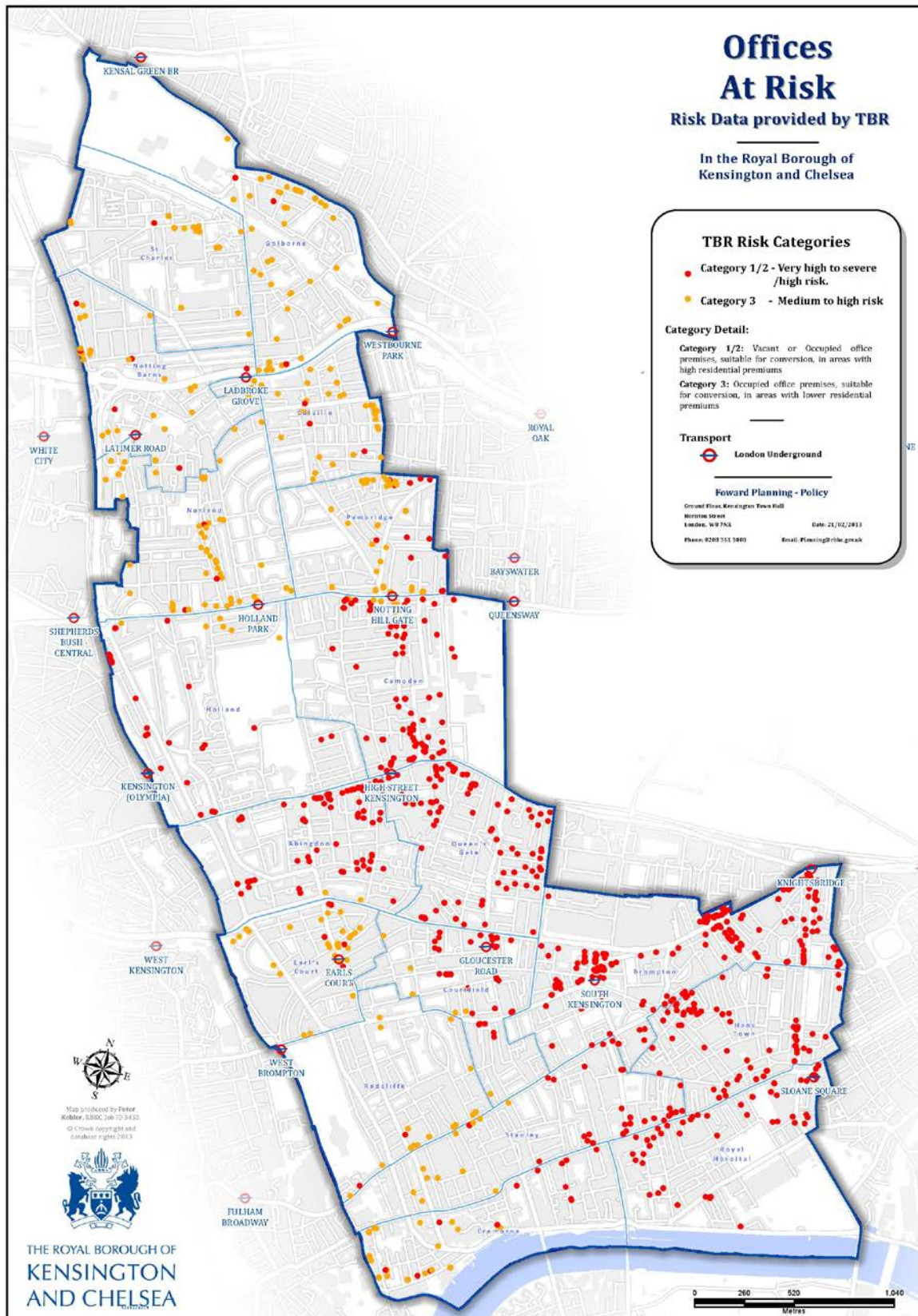


Fig: 4.2: Offices at Risk
Source: TBR

4.4.11 Firms believed to be at high risk (risk category 2) from the proposed change directly employ an estimated 11,800 people (58% of total employment in B1a premises) and generate economic output of more than £929 million (61% of economic output generated by firms in B1a premises in the borough). Firms regarded as at medium to high risk (Risk Category 3) directly employ an estimated 8,200 people (40% of total employment) and generate economic output of over £586 million (38%). There are clearly significant risks to the economy of the borough should the premises occupied by these firms be converted for residential use. This is set out in table 4.3 below.

Risk Category	Firms		Employment		GVA per year	
	n	%	n	%	n	%
Risk Category 2: High risk	2,000	51%	11,800	58%	£929,100,000	61%
Risk Category 3: Medium to high risk	1,900	48%	8,200	40%	£586,300,000	38%
Risk Category 4 Low risk	20	0%	300	2%	£14,000,000	1%
Total	4,000	100%	20,300	100%	£1,529,400,000	100%

Table 4.3: Firms, employment and GVA in B1a premises by risk category
Source: TBR

4.4.12 In all risk categories, firms whose lease expires within the next three years outnumber those with longer term leases. Clearly, the change in planning regulations presents immediate risks to the borough's economy, as well as longer term risks. For example, TBR's analysis identifies 1,200 firms in B1a premises, at the highest risk of changing to residential, with a lease due to expire in the next three years. TBR estimate that these firms directly employ more than 7,000 people and generate economic output of more than £557 million. Properties at a medium to high risk of changing (still likely given the residential property values) equate to a further 5,000 people and an economic output of £350 million.

Risk Category	Firms		Employment		GVA per year	
	Lease ending within 3 years	Lease ending after 3 years	Lease ending within 3 years	Lease ending after 3 years	Lease ending within 3 years	Lease ending after 3 years
Risk Category 2: High risk	1,200	800	7,080	4,720	£557,460,000	£371,640,000
Risk Category 3: Medium to high risk	1,140	760	4,920	3,280	£351,780,000	£234,520,000
Risk Category 4	12	8	180	120	£8,400,000	£5,600,000

Low risk						
Total	2,400	1,600	12,180	8,120	£917,640,000	£611,760,000

Table 4.4: Firms, employment and GVA in B1a premises by risk category and lease period

Source: TBR

Impact on the creative industries and upon those sectors within the Borough which are of national and international significance

4.4.13 TBR's analysis of significant sectors in the borough showed the importance of the creative industries in Kensington and Chelsea. Most firms in the borough which operate in the creative industries are based in premises regarded as being at medium to high risk from the proposed change in permitted development rights. Employment and output, however, are to some extent concentrated in premises believed to be at high risk.

Risk Category	Firms	Employment	GVA per year
High risk (Risk category 2)	450	3,900	£350,100,000
Medium to high risk (Risk category 3)	800	3,400	£237,900,000
Total	1,250	7,300	£588,000,000

Table 4.5: B1a Creative industries at risk in the Royal Borough of Kensington and Chelsea by risk category

Source: TBR

4.4.14 TBR have also considered the subsectors within the creative industries (section 3.3.3 of the TBR report in Appendix B) and conclude that the Publishing subsector may represent the greatest risk for the borough, given its overall contribution to the economy in terms of both employment and output, and the pattern of lease end dates by risk category over the next few years. The loss of firms operating in the Advertising, Music and the Visual and Performing Arts, Architecture or the Video, Film and TV subsectors would also be significant. See table 4.6 below.

Creative subsector	High risk			Medium to high risk		
	Firms	Employment	GVA per year	Firms	Employment	GVA per year
Advertising	100	1,200	£126,000,000	100	300	£23,400,000
Architecture	70	500	£60,100,000	110	500	£21,000,000
Designer Fashion	30	300	£22,700,000	40	100	£3,900,000
Digital and Entertainment Media	0	100	£11,900,000	10	0	£1,800,000
Music and the Visual and Performing Arts	70	400	£25,700,000	210	600	£54,200,000
Publishing	110	1,100	£89,000,000	80	1,100	£79,000,000
Radio and TV	0	0	£0	10	100	£3,500,000

Video, Film and Photography	80	300	£14,800,000	240	700	£51,100,000
Total	460	3,900	£350,100,000	790	3,400	£237,900,000

Table 4.6: B1a creative industries subsectors at risk in Kensington and Chelsea by risk category

Source: TBR

Overall indirect and induced impact

4.4.15 The economic impact of a particular sector is not confined to its direct contribution in terms of employment and output. Rather, the true economic value of a sector (or grouping of sectors) should be based not solely on an assessment of its direct economic impact, but on a measure that also includes its indirect and induced impacts. Indirect and induced impacts are calculated using multipliers attached to data on direct economic impacts. Details of the modelling used are to calculate the wider impact is set out in section 3.4 of TBR report, (Appendix B). TBR note that not all indirect and induced impacts will be retained within the borough.

4.4.16 TBR have estimated that the total employment at risk from the proposed changes equates to 27,800 employees to 2015. This potential loss is divided between premises at high and medium to high risk of change. 16,200 of these jobs will be the borough. They also consider the overall impact of employment between 2016 -2022, a period which would be relevant were the proposed changes to be made on a permanent basis. This would equate to a further loss of some 16,000 jobs, 9,700 of which will be in the Borough. A more detailed breakdown is provided in tables 4.7 and 4.8 below, taken from section 3.3.4 of the TBR report.

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk (Risk category 2)	7,700	2,400	3,000	13,100
Medium to high risk (Risk category 3)	8,500	2,800	3,400	14,700
Total	16,200	5,200	6,400	27,800

Table 4.7: Overall impact on employment by geography, 2013–2015

Source: TBR

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk (Risk category 2)	7,500	2,300	2,900	12,800
Medium to high risk (Risk category 3)	2,200	700	900	3,800
Total	9,700	3,100	3,800	16,600

Table 4.8: Overall impact on employment by geography, 2016–2022

Source: TBR

4.4.17 TBR have also considered the potential economic contribution per year (GVA) lost due to changes in use. They estimate that over the next three years almost £910 million direct economic output per year generated by firms located in B1a premises in the borough, and a further £876 million per year indirect and induced output generated by firms in other types of premises or in other locations, are at risk from the proposed change.

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
High risk (Risk category 2)	£455,259,000	£154,987,000	£256,711,000	£866,957,000
Medium to high risk (Risk category 3)	£451,451,000	£188,188,000	£276,584,000	£916,223,000
Total	£906,710,000	£343,175,000	£533,295,000	£1,783,180,000

Table 4.9: Overall impact on GVA, 2013–2015

Source: TBR

4.4.18 TBR estimate that economic output of more than £1.1 billion per year generated by firms located in the borough is at risk over the next three years. Economic output of almost £290 million per year generated by firms elsewhere in London, and output of almost £360 million per year generated by firms outside London, is also at risk from the conversion of B1a premises in the borough.

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
High risk (Risk category 2)	£562,300,500	£135,860,300	£168,796,200	£866,957,000
Medium to high risk (Risk category 3)	£572,291,700	£153,374,800	£190,556,500	£916,223,000
Total	£1,134,592,200	£289,235,100	£359,352,700	£1,783,180,000

Table 4.10: Overall impact on GVA by geography, 2013–2015

Source: TBR

4.4.19 The impact of the loss will continue from 2016, were the proposals to be extended, with TBR estimating the loss of a further 9,700 jobs within the Borough 2016 to 2022, and a further 6,900 jobs lost elsewhere (see table 30 of the TBR report in Appendix B.) TBR estimate that economic output of almost £700 million per year from firms located in the borough is at risk over the period 2016–2022. Output of over £170 million per year from firms located elsewhere in London, and output of almost £215 million per year from firms outside the capital, is also at risk over this period. (Table 32 of the TBR report in Appendix B)

4.4.20 TBR conclude from their analysis that *“The proposed change to permitted development rights clearly poses a substantial risk to the RBKC economy in the short to medium term, with potentially significant impacts on the economy beyond Kensington and Chelsea. Our estimates assume that the conversion of any B1a premises is most likely at the point at which leases expire. If owners were to incentivise tenants to vacate premises before the end of their lease in order to convert them to residential use, the impacts will be felt even sooner than our analysis suggests.”*

4.5 Harm to existing clusters due to the ingress of incompatible uses

4.5.1 The borough’s occupier survey shows that many of the occupiers of the borough’s office premises have chosen to locate where they have in order to take advantage of relationships with others in the area. By locating close to one another businesses benefit for agglomeration economies – the external benefits that arise when economic activity takes place in a concentrated space. If offices are allowed to convert to residential, as has been shown to be extremely likely to occur, the very reason of the borough’s competitive advantage for businesses will be threatened.

4.5.2 The harm is likely to take two forms. First, there is the immediate physical effect of the building no longer being able to be used for an office use, diminishing the opportunities for increased agglomeration. Secondly, there is the impact that the initial office to residential conversion has on the potential for future office development. Regardless of the merits of any case, residential uses often perceive office and light industrial uses as un-neighbourly, associated with traffic deliveries, unsocial operating hours and, in the case of light industrial operations, noise and disturbance. Complaints to environmental health teams and objections to new planning applications can drive out existing uses. This negative domino effect can be further exacerbated by the increasing house values for remaining commercial uses associated with new residential properties.

4.6 Value of office floorspace in maintaining the vitality of the area and its character

Importance of mix of uses: character of the Royal Borough

4.6.1 Despite having the highest residential property values in the country, successive development plans have contained planning policies that have allowed the Council to protect valued uses and to ensure that Borough still contains a finely-grained mix of uses, uses such as shops, businesses and arts and cultural uses. It is this mix that makes the Borough the special place that it is and not simply an expensive residential dormitory for the rest of the capital. The Council recognises that office premises can add interest and character to an area as they introduce people into areas which otherwise would be largely empty throughout the day.

4.6.2 Whilst important, the contribution of offices is more than simply that of bringing people into an area. That building’s use itself can contribute to the character of an

area and help create a sense of place. The scatter of these incidental mixed uses punctuate the street scene, offer variety and can “surprise and delight”. Their loss will diminish the character of the townscape and the cherished local scene.

- 4.6.3 Map 4.1 (above), shows the existing distribution of offices, and highlights that whilst there are clear concentrations in the Employment Zones and some of our larger town centres, they are widely scattered amongst the largely residential parts of the Borough. All these premises add to the diversity and the interest so encouraged by the Council. The loss of office premises across the Borough will have serious impact upon this character.

Sustainable patterns of development

- 4.6.4 Maintaining a wide distribution of office premises across the Borough, whether in the Town Centres, the Employment Zones or across otherwise residential areas, plays a central role in achieving a sustainable pattern of development.
- 4.6.5 To inform the Core Strategy, RTP (2007) analysed travel to work patterns for office occupiers in order to establish whether the assumption that small business units (of which the Borough is well represented) provide more jobs for local residents than other units. It found that the smallest business units, employing fewer than 10 people, have a higher proportion of their employees living locally than the larger units. One can infer that the provision of such premises promotes patterns of development which allow quick and easy commuting. The loss of such offices will, therefore, be likely to disrupt existing patterns, forcing people to move out to other office locations further from their homes, with implications upon traffic generation and pressure on the existing public transport infrastructure.
- 4.6.6 Those town centres with the greatest concentrations of office floorspace are the areas in and around Kensington High Street, South Kensington, the King’s Road and to a lesser degree, Knightsbridge. Together these account for some 50% of all the Borough’s office floorspace. These are all town centres within the Mayor’s Town Centre Hierarchy, centres with a London Underground Station at their core, and each has been as identified by Transport for London as being highly accessible by public transport. They are all highly sustainable in terms of ease of access.
- 4.6.7 This distribution is supported by efficient transport infrastructure. Proposals which would encourage the replacement of offices in these accessible locations will disrupt this sustainable pattern of development, with office floorspace relocating to lower value locations in outer London or beyond.

Loss of office workers’ expenditure

- 4.6.8 The importance of maintaining office floorspace within the Borough’s larger town centres goes beyond that of efficient transportation. Expenditure by office workers plays an important role in maintaining the vitality of these centres. Offices add to daytime retail trade, business spending and evening socialising in bars and restaurant.

- 4.6.9 Whilst those who live in newly created residential accommodation (if indeed it is occupied) will spend within the town centres, office floorspace has a significantly higher density of occupation than the residential floorspace that it replaces. The London Borough of Wandsworth has carried out work on this subject, based on occupier surveys, which estimates that office workers spend around £80 each/ week with the town centre that they are located. They have estimated that the personal (non-business) spending by the employees of a large local employer (in their case with 250 employees) can be in excess of £1 million pounds a year. This spend is increased when taking local business spending into account.
- 4.6.10 Removing office space reduces the number of workers, leading to less trade, harming the viability of town centre businesses and increasing shop vacancy rates.

5 THE EFFECT ON LOCAL CHARACTER

- 5.1 Offices have been protected in the Borough since 1995. This protection was increased in 2010 with the adoption of the Core Strategy. The Core Strategy includes policies which seek to protect offices in what are considered to be appropriate sustainable locations, but allow their loss in others. As such, the Borough's remaining office stock can assist the Council in achieving its central vision which is, *"to develop the strong and varied sense of place of the Borough"*. This is an approach that has been developed through our Members and stakeholders and examined and explored in a transparent manner through the Core Strategy examination.
- 5.2 The proposed change to the GPDO will mean that the policies within the Core Strategy cannot be taken into account in assessing applications for changes of use from business to residential. It will negate the well-justified local policy choices in the Borough's development plan and, contrary to our vision, result in the Borough become increasingly homogenised, a mere manifestation of differential land values.
- 5.3 As such the proposal will result in an outcome that is diametrically opposed to local ambitions for a Borough that is not an inner London residential dormitory but a vibrant area containing a diverse mix of uses where new development is of the highest quality, tailored to meet the needs of the Borough. The proposal is, therefore, considered to run counter to 'localism' as it will remove local people from the decision making process, rather than making them central to it.

6 AREA TO BE COVERED BY THE PROPOSED EXCLUSION FROM THE GPDO

- 6.1 The broad distribution of office premises and interlinked business clusters across Kensington and Chelsea (see figures 3.1 and 4.1) supports the case for an exemption for the whole borough. The borough is small in area, densely developed and there is a strong argument that the whole borough represents a vibrant, interconnected set of closely related business clusters. It can be seen from the map that there are bands where offices are more concentrated, such as along the high streets. However, business premises are also widely spread through the residential areas, for example

within the commercial mews and in and near smaller local centres. Many of these have functional links to the nationally important clusters. Figure 3.1 demonstrates that the distribution of the fashion and music industries and the other creative industries also follows a relatively dispersed pattern. Given the very high occupancy of the borough's office premises there would be potential for harm to these clusters if the area for exemption were more narrowly defined. This is the case for both those offices which are "locally significant" and those that are "nationally significant".

- 6.2 For all the above reasons, the Council is requesting a Borough-wide exemption for both the nationally and locally significant areas of activity. The associated exclusion maps are included in Appendix A.

APPENDICES

Appendix A: Proposed Exclusion Maps

Appendix B: *Impact of proposed changes to permitted development rights for Kensington and Chelsea*. TBR. 2013

Appendix C: *Market Commentary* and the associated case studies. Frost Meadowcroft (2013)

Appendix D: *Commercial Property Study* (Roger Tym and Partners, 2013)

Appendix E: *Kensington Record Labels*, Frost Meadowcroft (2012)