MAYOR OF LONDON

Mixed Use Development and Affordable Housing Study

March 2004

GREATER**LONDON**AUTHORITY

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GREATER LONDON AUTHORITY

MIXED USE DEVELOPMENT AND AFFORDABLE HOUSING STUDY

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March 2004

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EXECUTIVE SUMMARY

1.0 INTRODUCTION AND PURPOSE OF REPORT

Issues of Principle

This report was commissioned by the Greater London Authority in May 2003. The research and report writing has been undertaken by London Residential Research, working with CBRE. The main purpose of the report is to explore whether draft London Plan policies to promote mixed use are likely to be effective in promoting new development of sufficient scale and quality to accommodate London's projected economic and population growth, including affordable housing, in a manner consistent with the principles of sustainability.

In particular, the consultants were asked to explore the possible market implications of mixed use policies designed to encourage office development, linked to planning obligations to secure housing from the office space and to draw out the policy implications for the Sub Regional Development Frameworks. In this context the key policy to be examined is 3B.5, which is reproduced below for ease of reference.

Policy 3B.5 Mixed Use Development

> *"Within CAZ and the Opportunity Areas, wherever increases in office floorspace are proposed, they should contain a considerable amount of residential floorspace. The relevant proportions will be defined in sub-regional frameworks"*

Policy 3B.5 is itself further explained in para 3B.26, which is also reproduced below.

> *"The policy (3B.5) will be developed in the sub-regional frameworks, taking into account the policy in Westminster's UDP (based on 50% office and 50% housing) and allowing for certain exceptions. These exceptions will concentrate on areas where such a mix would demonstrably undermine the strategic policy for other developments, including parts of the City and the Isle of Dogs. In such areas, off-site provision of housing elsewhere on redundant employment or other land will be required as part of a planning agreement".*

At the Examination in Public (EiP) into the draft Plan, it is fair to say that 3B.5 was strongly criticised by the office development and investment industry as being potentially counterproductive, by inhibiting rather than encouraging large scale office development, and being unpopular with occupiers.

Both LRR and CBRE, the latter being the largest firm of commercial property advisers in London, were acutely conscious of this criticism. Policy 3B.5 is based on the principle that new office development would only attract planning obligations for housing in respect of the gain to stock over the existing office space already on the development site. LRR and CBRE wish to stress from the outset that 3B.5 can only be effective if the redevelopment undertaken generates a significantly higher residual land value that the existing use value. In other words, any office-led mixed use redevelopment undertaken via policy 3B.5 would have to be significantly more profitable than the option of refurbishing the existing building and or undertaking a development which does not increase the existing office stock, so as to avoid mixed use planning obligations.

Methodology

Three main strands of works were undertaken:

- First, six case studies, examining various permutations of office and residential uses, including off-site housing provision, in different locations in central and outer London. The case studies were based on development appraisals undertaken by CBRE, using conventional development appraisal techniques. This work is presented in Chapter 2.
- Second, the critical issue of whether 3B.5 might “demonstrably undermine” strategic office development policy was explored in the context of the size and location characteristics of the office development pipeline in London, relying primarily on the London Office Policy Review 2002. This work is presented in Chapter 3.
- Third, the implications of 3B.5 for each of the five sub-regions, as a starting point for interpretation of 3B.5 for the purpose of Sub-Regional Development Frameworks (SRDF). This was done by analysing rents and capital values for office, private residential, retail and industrial for a range of locations in each borough. This work is presented in Chapter 4.

The research and report writing has been guided by a steering group, which has included the GLA, LDA, ALG and a private developer.

2.1 Case Study 1: City of London Major Office Development

These appraisals were based on a notional development in the heart of the City of London, in which an existing fully let office building of 200,000 sq ft was replaced by a 1 million sq ft office development. The appraisals undertaken were:

- A single use office building except for retail at ground, with no requirement for any housing, either private or affordable.
- Single use office building in the City of London, generating 400,000 sq ft of off-site (out of borough) housing, all affordable (70% social rented 30% intermediate), equivalent in size to 50% of the gain to stock in offices in the City of London.
- Single use office building in the City of London, generating 400,000 sq ft of off-site (out of borough) housing, comprising 200,000 sq ft private and 200,000 sq ft affordable (70% social rented, 30% intermediate).

Our main conclusion from these appraisals is that a rigid application of 3B.5 as refined by para 3B.26 would not be feasible.

Our initial policy findings from these appraisals are summarised in section 2.1.5 of the report as follows:

> “There are a couple of very clear messages from this first stage analysis for policy makers. The office market is cyclical and volatile. At certain boom times in the cycle, office development can support mixed use development including affordable housing. The present time is not a boom time, and basically the

market is not starting major speculative office development at all, never mind with affordable housing. Hence the need for a very sophisticated form of "Plan Monitor Manage".

Second, assuming the boom times will return, which seems increasingly likely, finding off-site locations in close proximity to the City to provide housing to match the gain to stock in offices will be very difficult, although not impossible in terms of a handful of situations. In terms of "bang for buck", an off-site solution further away from the City would be easier to find and to finance. The "proximity issue" for off-site delivery will have to be tackled early on".

2.1 Case Study 2: Vauxhall - CAZ Location, Weak Office Market, Strong Residential Market

These appraisals were based on a notional redevelopment of an existing riverside office building on the Albert Embankment, for a variety of uses and use mixes. The appraisals undertaken were:

- Single use office development of 200,000 net sq ft.
- Single use residential development, comprising 100,000 sq ft private, 70,000 sq ft social rented and 30,000 sq ft intermediate.
- Single use private residential of 200,000 sq ft on-site with nearby off-site development comprising 25,000 sq ft offices, 50,000 sq ft social rented and 25,000 intermediate housing.

Our main conclusion from these appraisals was that in a strong residential and weak office market, a single use, mixed tenure residential scheme is more financially attractive than single use offices, even with 50% affordable housing.

Our initial policy findings from the Vauxhall scenarios are presented in para 2.2.4 of the main report, and are summarised below:

"Perhaps the most important policy to emerge out of the Vauxhall scenarios is that in the currently depressed central London office market, private sector residential is by far the dominant use in terms of residual land value. Even with 50% on-site affordable, a pure residential scheme would be viable, significantly outbidding a pure office development. In seeking to pursue a strong mixed use and affordable housing policy on sites such as this, policy makers have to decide whether to risk the return of a stronger office market. If office rents here do return to £25-30 psf, less likely in the short to medium term due the Chancellor's ban on Government office lettings in London, but still possible, then an office refurbishment or pure office development might still prove to be the most acceptable course for the owner and or developer. Many potential office to residential conversions in London are not happening at present, because affordable housing policy tips the balance in favour of retaining offices, particularly now that office market sentiment is more positive. A mixed use development package on two sites, as in Scenario 3 is however an attractive development proposition".

2.3 Case Study 3: Royal Docks - Opportunity Area, Weak Office Market, Strong Residential Market

These appraisals were designed to reflect an important aspect of the mixed use agenda; that single use office and residential buildings in close proximity can create a mixed use place which is as effective in meeting policy goals as individual mixed use buildings. Two appraisals were undertaken:

- First, a single use residential building of 100,000 sq ft, comprising 65,000 sq ft private and 35,000 sq ft affordable (25,000 social rented and 10,000 sq ft intermediate)
- Second, a single use office building of 100,000 sq ft.

Our initial policy findings from these appraisals, are presented in para 2.3.3 of the report, as follows:

> "In order to create any kind of equal balance of uses on these two sites, there would have to be a substantial cross subsidy from the private residential to the offices. That cross subsidy would in all likelihood have to come at the expense of the size of affordable housing component. Pursuing mixed use on a site such as this, given the variety of commercial and other non residential uses being promoted in the Royal Docks would seem to us to be a policy difficult to implement".

2.4 Case Study 4: Croydon - Outer London Major Town Centre

These appraisals were designed to test one of the key strategic goals of the London Plan, the need for outer London town centres to generate economic growth and more housing, under the broad heading of "polycentricity". Three appraisals were undertaken:

- A single use office development of 100,000 sq ft, with no requirement for any housing.
- A single use residential development, entirely private sector. This appraisal was included to illustrate the huge difference in residual land values between offices and private housing, in favour of housing, if there is no intervention from the planning system.
- A mixed use mixed tenure development comprising 20,000 sq ft offices, 30,000 sq ft affordable housing and 50,000 sq ft private housing.

Our main finding from these scenarios is that in current market conditions, a single use office development is not viable. A mixed use residential led scheme including offices and affordable housing is unlikely to get built, since the cross subsidy required from the private residential to support both uses will depress the residual land value too much.

Our initial policy findings from the Croydon case studies are presented in the report at para 2.4.4, reproduced here in part:

> "Croydon has several very large and well located potential office sites, for which there are strong strategic and local planning factors which justify the protection

and promotion of those sites for primarily office use. However, there are a greater number of less well located potential office development sites in and around Croydon town centre, where protecting those sites for primarily office use is likely to be a formula for blight rather than regeneration.

These marginal office sites lend themselves to a mixed use approach combining offices or other commercial uses (retail, health club etc) on ground and lower floors, with residential above. Since both the office space and the affordable housing are likely to require a cross subsidy from the private residential, it is a political decision whether priority is given to employment space or affordable housing. As a general proposition, LRR would argue that private residential led mixed use on marginal office sites will not only help regenerate those specific sites, but improve the overall attractions of Croydon as a major office centre, thereby improving the prospects for large scale office led development in the most visible and accessible town centre sites".

2.5 Case Study 5: Whetstone - Outer London Local Centre

These appraisals look at one of the most common forms of "new mixed use" development, residential above large supermarkets, a form of development, which may be found in local and lager town centres throughout London:

- The first appraisal examines a 20,000 sq ft supermarket, with approximately 30,000 sq ft of residential above, split 65% private and 35% affordable.
- The second appraisal is similar to the first, but in this case with 50% affordable housing.

Our initial policy findings are reported at para 2.5.4 of the report, reproduced here in part:

"There are already enough recent examples of mixed use retail and residential developments to know that this is an important built form for many town centre and edge of town centre locations. A great deal of research has been undertaken and written on this subject, focussing on well known examples such as Tesco in Brook Green and Kensington and most recently J Sainsbury in Pimlico, where the 40,000 sq ft supermarket opened more than a year a year before the 160 residential units, including 50% affordable are due to complete.

This case study is designed to highlight the potential for "less glamorous" retail and residential schemes. It is also designed to highlight the latest ODPM thinking that single storey commercial development in town centres should be seen as "history". Even so, calibration of the affordable housing component has to be sufficiently fine tuned to ensure that single use, single storey is not a more attractive development proposition for both land owner and developer".

2.6 Wandle Valley Industrial Location - Under Utilised Industrial Estate

This case study is designed to reflect one of the more controversial planning policy challenges in London, one which has become increasingly topical. There is considerable pressure from residential developers to redevelop non-strategic industrial estates for housing, a trend which many boroughs view with caution. The Wandle Valley case study utilises two appraisals to explore the potential for mixed use, residential led redevelopment of an industrial estate:

- A single use industrial development to replace the existing 50,000 sq ft of B1 and B8 space with 100,000 sq ft of B8.
- A mixed use development to comprise 200,000 sq ft of residential, including 60,000 sq ft social rented and 20,000 sq ft intermediate, together with 25,000 sq ft B1, including B1©.

Our initial policy findings are reported at para 2.6.4 of the report, reproduced here in part:

> "The "scruffy underused industrial estate" is moving onto centre stage in terms of the strategic aim to increase housing land, without jeopardising the jobs and services which such sites currently provide. It is our strong view at LRR that where such sites are clearly under utilised and do not fall into the category of Defined or Strategic Employment Site in the UDP, the mixed use residential led option can deliver a triple win outcome. The triple win is very simple, more homes, more jobs, and a better urban environment offering more facilities for local residents".

3.0 THE UNEVEN PLAYING FIELD BETWEEN OFFICE AND RESIDENTIAL DEVELOPMENT

Chapter 3 of the report seeks to apply some of the findings of the case studies to the wider planning framework in which mixed use policy will have to operate. In particular, the report examines the crucial issue raised at the EiP, of whether policy 3B.5 might "demonstrably conflict" with strategic policies for employment growth. If policy 3B.5 were to result in substantially lower volumes of offices being built than would be the case without 3B.5, and if the existing office development pipeline appears insufficient to meet projected demand, then policy 3B.5 could well be in conflict with strategic office employment policy.

The report concludes that this is unlikely to be the case, for three main reasons:

- First, policies similar to 3B.5 already apply in Westminster and Camden, which together account for nearly half the central London office stock.
- Second, we recommend that for the City, City fringe locations in Islington, Hackney, Tower Hamlets and Southwark, and Isle of Dogs, an "off-site commuted payment" policy be applied, which can be calibrated through "Plan Monitor Manage", to ensure that office developers remain incentivised to build the largest possible office schemes, such that profitability increases with size, even with policy 3B.5 in place.
- Third, the existing office development pipeline is already large enough to accommodate a high proportion of projected demand to 2016.

These conclusions give full weight to the accepted need to provide all occupiers, international, national and local, with an acceptable range of choice of offices, in terms of size, quality, location and price.

An important factor in favour of commuted payments in appropriate circumstances arose during the course of the research. In November 2003, the Planning Minister, Keith Hill, introduced his Planning Obligations Consultation Paper. The optional charge suggested in the Obligations paper may have significant benefits in terms of the implementation of policy 3B.5. Not least, we suggest that “The Corporation of the City of London is uniquely well placed to effectively administer such a process. The Corporation has a long history of using its own money to provide development finance for affordable housing in other boroughs”.

Whilst the report makes clear that policy 3B.5 is only a legitimate policy if it does not hinder desirable development, the report also highlights a related, but entirely unsatisfactory situation. This is the situation, which is quite common in the City fringe, where sites with office permissions have remained derelict or under-used for literally decades. Although the extant office permissions cannot, for the foreseeable future be built out as offices, for viability and funding reasons, nor can they be built as residential, for which there would be strong demand. This is because affordable housing policy is depressing the residual land value below the level at which the owners would be prepared to sell. The absence of any significant planning obligations attaching to these office permissions is creating a serous market distortion, preventing any form of development at all.

4.0 COMPARISON OF VALUES BY USE BY BOROUGH – IMPLICATIONS FOR SRDF MIXED USE POLICY FORMULATION

Policy 3B.5 states that the "relevant proportions (of offices and residential) will be defined in sub-regional frameworks. Chapter 4 of the report compares use values for several locations in every London borough. An example of this process, for the London Borough of Camden is shown below.

Table Central Sub-Region 2 - Comparative Values by Use in London Borough of Camden

Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Holborn	Rent	£28-32	-	£90 High Holborn	No market
	Cap Value	£400-470 (6.5%)	£550-600		-
King's Cross	Rent	£20-27.50		£50 Euston Road	£10
	Cap Value	£270-370 (7%)	£450-500		
Camden Town	Rent	£15-20	-	£120 Camden High Street (north)	£12
	Cap Value	£180-240 (8%)	£500-550		
Kentish Town	Rent	£10-12	-	£45 Kentish Town Road	£8
	Cap Value	£125-150 (8%)	£350-400		
Hampstead	Rent	£15-20		£75 Hampstead High Street	No market
	Cap Value	£200-270 (7%)	£700-800		-
Source: London Residential Research, CBRE					

These borough tables and the accompanying analysis are designed to show the relationship between current office and residential values, where office development is currently viable, and where it is not. 3B.5 will only be capable of implementation in any meaningful way in locations where large scale speculative office development is currently viable, or is likely to be when the office market recovers and office rents start rising again.

Central Sub-Region

The central sub-region comprises seven boroughs; Islington, Camden, Westminster, Kensington & Chelsea, Wandsworth, Lambeth and Southwark. These boroughs currently operate very different office development policies. In Westminster and Camden, 3B.5 style policies already exist, and operate in a satisfactory manner, so there is clearly no need for change in order to create general conformity with the London Plan.

Islington, Lambeth and Southwark both have two main types of office market. They have “City-type” office markets in their immediate city and west end fringe locations, capable of supporting world scale office buildings, aimed at London’s global occupier community. In our opinion, these city fringe locations in Islington Lambeth and Southwark should be treated in the same manner as the City itself, as explained in para 3B.26. Islington and Southwark also support “creative style” office markets in locations like Clerkenwell and Bermondsey. Demand for this type of space is very volatile, and typically generates lower rents than City-type institutional office buildings. These “secondary” office locations will typically not be able to support substantial planning obligations for housing deriving from offices, and indeed residential values in these locations are much higher than for offices.

Kensington and Chelsea and Wandsworth both have a relatively small stock of offices, and they do not compete for large-scale global occupiers. Wandsworth’s mixed use policies are effective, but rely on high value residential development to deliver much lower value office space through planning obligations. Given that residential values in K & C are the highest in London (possibly the world), and far higher than offices, any policy designed to promote housing from office development would be largely irrelevant in market terms.

East Sub-Region

The East sub-region contains ten boroughs; the City of London, Tower Hamlets, Hackney, Newham, Redbridge, Barking and Dagenham, Havering, Bexley, Greenwich, Lewisham. As explicitly recognised in para 3B.26, the City of London and Isle of Dogs must be the focus of policy attention.

For the reasons explained in Chapter 3 of the report, LRR and CBRE are strongly in favour of the off-site approach to the implementation of 3B.5, as refined by para 3B.26. By far the majority of off-site situations would derive from office development within the City of London. Assuming that the City office market rebounds, there is scope for substantial volumes of commuted payment to be generated in all areas of The City, without threatening the viability of office development on a scale necessary to support projected employment growth. We envisage that the investment of commuted payments for housing would probably to be guided by the City Corporation working with the “receiving” boroughs and other stakeholders. The calibration of commuted payments could be adjusted regularly in the context of Plan Monitor Manage, to reflect market changes, but set at a level, which clearly encourages office development to proceed.

There is also scope for 3B.5 to be applied to the city fringe locations in Hackney and Tower Hamlets, particularly in view of the massive investment in these locations for the east London Line extension. On the Isle of Dogs, the off-site approach could be implemented either through commuted payments, or on existing designated employment land, which is unlikely to get built out.

The East sub-region contains two other types of borough. Newham and Greenwich both have very large mixed use proposals, for Stratford and Greenwich Peninsula. In both locations, at least 3 million sq ft of offices are planned. The market case for these new office centres is unproven, and in view of the mixed use nature of the schemes, there would be no case for applying 3B.5. In the remaining sub-region boroughs, the office markets are so small and so weak, that we again see no case for applying 3B.5.

West Sub-Region

The west sub-region comprises the boroughs of Hounslow, Hammersmith & Fulham, Ealing, Brent, Harrow, and Hillingdon. As such it contains some of outer London's most important office markets, in particular the Heathrow market in Hounslow and Hillingdon, and well-established "arterial" markets, most notably A4/M4 corridor starting in Hammersmith and Chiswick, going through the "Golden Mile" in Brentford to Heathrow and the high technology Thames Valley. Although we anticipate that these well-established, very international office markets will recover, we do not anticipate that rents will increase sufficiently to make the strict implementation of 3B.5 type mixed use policies feasible.

Rather, market pressures are still more in the direction of replacing office buildings and land with residential. It is our view that very high quality urban business parks capable of supporting a critical mass of at least one million sq ft should continue to be protected and promoted for primarily office use. These would include Chiswick Park, Park Royal, and Stockley Park. Other very large strategic employment sites such as Southall Gas works would be far more likely to succeed as genuine mixed use, but with private residential likely to be the main value driver.

South Sub-Region

The south sub-region covers the boroughs of Richmond-upon-Thames, Kingston, Merton, Sutton, Croydon, and Bromley. Croydon is the largest outer London office centre, but has struggled to generate new office development since the late 1980s. Richmond and Wimbledon are however two of the strongest outer London office markets, and speculative new office development is already viable.

The main strategic challenge for the south sub-region in terms of office development is to get Croydon moving again as an office location which can expand on the back of its excellent infrastructure and critical mass. We have made some suggestions in the context of the Croydon case study as to the appropriate policy initiatives. A more general issue in town centres in the south London sub-region is the extent to which market pressure for office to residential conversions should be resisted. Policy 3B.5 obviously has no applicability to these situations.

North Sub-Region

The north sub-region comprises four boroughs; Barnet, Enfield, Haringey and Waltham Forest. The two latter have a negligible private sector office stock, and we see no likelihood of that situation changing, either through market forces or through planning policy intervention. Enfield and Barnet have a number of local office centres, but again we detect no significant market pressure for growth. There is one major potential office park in the north sub-region, at Innova, near Enfield. Although its location close to the M25 would suggest it has large-scale office potential, the underlying demand for the large areas on undeveloped land still available is probably more for institutional quality sheds. Policy 3B.5 has little if any applicability for the north sub-region.

1.0 INTRODUCTION

1.1 Purpose of Report

This study was commissioned by the GLA in May 2003 shortly after the Examination in Public (EiP) into the draft London Plan, but before the Panel Report into the EiP was published. The main objective of the study, as set out in the project brief is summarised as follows:

> *"In extending the mixed use policy within the emerging sub-regional development frameworks, the GLA is interested to understand the opportunities and risks involved according to local office and housing markets. The objective of the study is therefore to evaluate the spatial implications of a range of mixed use options on commercial and residential development and to back this up with financial appraisal findings".*

Although the emphasis in the original brief was on office and residential development, the scope of the study was subsequently expanded to include retail and industrial uses.

The principal tasks defined for the study were stated as:

1. *Carry out a review of research and national policy, including recent ministerial statements, and successful and unsuccessful mixed use policies in development plans. Assess what additional national policy justification might be needed to support the London Plan mixed use policy.*
2. *Using the designation of CAZ and Opportunity Areas in the draft London Plan, select a robust set of case studies according to sub-region to evaluate the policy 3B.5 against.*
3. *Use development appraisals and econometric modelling or other selected approaches to test the impact of policy options, including varying proportions of commercial: residential: affordable housing, provision on site and off site, and use of commuted payments on economic viability and development potential. Apply sensitivity testing to take account of changing market conditions.*
4. *Examine the development constraints restricting mixed use development, including the lack of policy support, complexity of development process, finance, marketing and management, drawing on the views of developers, local authorities and property owners.*

Subsequent to completing development appraisals on a variety of land use configurations for six case studies, and exploring the policy implications, the brief was extended to examine property values for offices, residential, retail and offices in a number of locations in each London borough. The main purpose of this work was to examine development viability for different uses in different locations, in order to help better understand the market dynamics of mixed use developments within the SRDF context.

For ease of reference, policy 3B.5 of the raft London Plan is as follows:

Draft London Plan - "Policy 3B.5 Mixed Use Development"

> *"Within CAZ and the Opportunity Areas, wherever increases in office floorspace are proposed, they should contain a considerable amount of residential floorspace. The relevant proportions will be defined in sub-regional frameworks".*

1.2 Methodology and Reporting

After initial discussions with the study steering group, six case studies were selected to provide a focal point for the research methodology. These were:

- **CAZ – Strong office market in established high value office location.** The core area of the City of London was selected, because of its strategic importance to London's World City economic status, and its specific policy reference in 3B.5, amplified by 3B.26.
- **CAZ – Weak office market, strong residential market.** Vauxhall was selected as fitting the bill, being one of the few central London locations where office to residential conversions carried on throughout the office boom from 1998 to 2001.
- **Opportunity Area – Weak office market, strong residential market.** The Royal Docks was the chosen location, given its relatively high allocation of jobs in an entirely unproven office location, but already strong track record as a residential location.
- **Outer London Town Centres – Established but weak office market, strong residential market.** Croydon was chosen for fairly obvious reasons. Being the largest office centre in outer London, the local and strategic case for seeking to promote office development is clear. To what extent mixed use office and residential development might work in tandem, rather than in competition to drive regeneration is a crucial issue to test.
- **Outer London Town Centres – Small, weak office market, strong residential.** Locations like Whetstone don't often feature in this type of strategic planning study, being neither an opportunity area, nor an area for intensification. However, Whetstone does have substantial development capacity, and is typical of numerous low profile town centres throughout outer London, which will have to "do their bit" if employment and housing growth is to be accommodated in a sustainable manner.
- **Outer London – Under utilised, scruffy industrial estate in primarily residential area.** In order to contribute to the debate over the capacity of "surplus" or under-used industrial land to contribute both to economic and housing objectives, a semi derelict industrial estate in Merton was selected.

The case studies have been undertaken primarily around the development appraisals specified in Task 3. In describing office markets strong or weak, we are taking a medium and longer-term view, rather than current market conditions, which are almost universally weak.

The CBRE appraisals use their standard commercial development appraisal methodology. The data assumptions are designed to reflect current market conditions on the key variables of rents, yields, capital values, build cost, interest rates and affordable housing grant. Market conditions can change very rapidly, so the appraisals are designed to explore markedly different development packages, not to provide appraisals which analyse the minutiae of competing schemes.

In addition to case studies, the methodology also sought to maximise the market experience of the team. For research of this type to help deliver real and beneficial results, the research has to win the respect of the market, for its integrity and realism. At all times, LRR and CBRE have sought to draw on the market involvement, in CBRE's case as the largest commercial agent in London.

With regard to reporting procedures, the study has been guided by a Steering group, comprising:

- GLA - Debbie McMullen
- GLA - Duncan Bowie
- GLA - John Lett
- LDA - Ann Crane
- ALG - Roger Chapman
- Development Securities - Wally Kumar.

Interim reports were submitted to the steering group on July 2nd, July 30th and August 30th 2003. A major study comparing values by use, in various locations for every London borough was then undertaken during November and December 2003. This final report incorporates all the various written reports prepared by LRR, and the development appraisals and supporting analysis undertaken by CBRE.

1.3 Mixed use Precedents

There's nothing new about housing forming part of mixed use commercial and residential development. Just by way of a bit of background, we have been reviewing the LRR database for mixed use residential and commercial/community use configurations, which have actually happened since 1995 or are currently under construction or in the planning system. The list shows just how much progressive thinking and delivery there already is on the subject:

- Housing, including affordable housing above petrol stations; eg Vauxhall Bridge Road SW1, Wellington Road NW8, Hornsey Road, N4.
- Housing, including affordable housing above large-scale single occupier retail stores; eg J Sainsbury in Victoria, Tesco in Hammersmith and Kensington.
- Housing, including affordable housing above general retailing and showrooms – everywhere.
- Housing, including affordable housing above multi-storey car parking; eg Victoria SW1 and Seven Sisters, N15.
- Housing, including affordable housing above car showrooms and workshops; eg planned in Chiswick.
- Housing, including affordable housing above fire stations; eg Westferry Road, Isle of Dogs, E14.

- Housing, including affordable housing above ambulance stations; eg Victoria.
- Housing, including affordable housing above or alongside offices – everywhere, but including high value office locations such as Belgravia, Holborn and Euston.
- Housing above light industrial; eg Kentish Town.
- Housing, including affordable housing above self-storage/warehouse; eg Shoreditch.
- Housing, including affordable housing above retail which is in turn above railway and underground stations; eg Wembley.
- Housing above cinemas and theatres; examples in Mayfair and Soho.
- Housing, including affordable housing above GP practices; eg Hammersmith.
- Housing above (very noisy) bars, restaurants and health clubs; eg Marylebone.
- Housing, including affordable housing above schools; eg Marylebone, Dalston.
- Housing, including affordable housing, above university teaching space; eg King's Cross.
- Housing above (and below) hotels; eg Isle of Dogs.

And no doubt there are other examples of innovative mixed use development which could also significantly contribute to the goals of the draft London Plan.

2.0 THE CASE STUDIES

2.1 The City Of London Major Office Development Appraisal

2.1.1 The Scale of Development

For the City of London case study, we have deliberately chosen an “extreme situation”, on the grounds that if policy is robust in exceptional (but real) situations, it is likely to be robust for more routine situations. The appraisals are based on an existing 1970s “mini tower” of about 200,000 net sq ft offices with retail on ground. There has been press coverage of plans to redevelop the site with a 1 million net sq ft landmark tower, on about 50 floors. There are probably a maximum of half a dozen one million sq ft sites within the boundaries of the City Corporation, all of which would generate at least 500,000 net sq ft gain to stock. The Minerva Tower is a very recent example of this type of permission, where the gross office floorspace has increased from 10,700 sq metres to 135,931 sq metres. The detailed appraisals for scenario 1 prepared by CBRE are shown on pages 18-20.

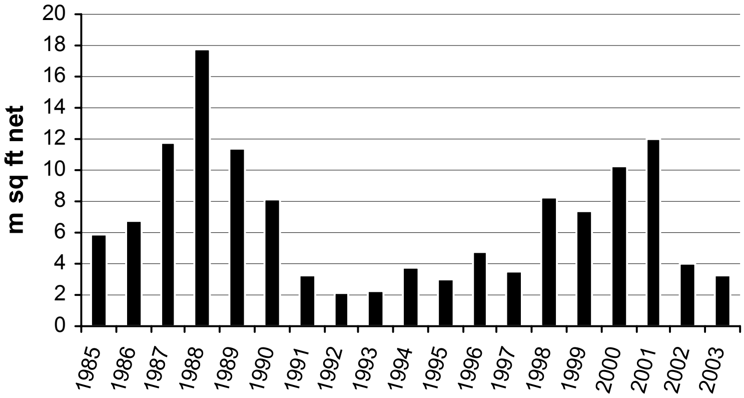
2.1.2 Scenario 1: Pure Office Development – No Housing Requirement

The key assumptions are:

- an existing, occupied, income producing office building of 200,000 net sq ft in a prime central City location is redeveloped to provide a 1 million sq ft office tower, with highly efficient 20,000 sq ft floorplates, including ground floor retail;
- the rental income in the existing building generates an existing value of around £87 million. This figure is crucially important. If any of the development appraisals throw up a land value of less than £87 million, there is no pointing the existing owner selling, or indeed redeveloping himself;
- the rent after redevelopment will be £45 psf, and the yield 6.75%;
- build costs are £175 psf;
- existing land value is about £100 million, above which the existing owner might be prepared to sell, or redevelop himself.

Against these parameters, the redevelopment will deliver an Internal Rate of Return (IRR) of about 14%. This figure is almost certainly too low to justify development, even without any significant planning gain requirement. This finding is not surprising. The London Office Policy Review 2002 showed how rents have collapsed from their 2000/1 highs, and that new office construction has slowed right down to very low levels in 2002/3, as shown in Figure 1.

Figure 1 - Central London Office Starts 1985-2003



City Scenario 1 - Offices with 1 floor of Retail/No Residential

Appraisal Date **24/06/2003**

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices	979,146	45.00	6.75%	627,127,046	
Retail	20,854	30.00	6.75%	8,904,431	
					636,031,478

Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
	-	-		0	
	-	-		0	
					0

Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
	-	-		0	
					0

Gross Development Value	**636,031,478**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*

Purchaser's Costs (3rd Party Purchase of GDV)	*4.0880%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*-*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*24.0*		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial		195				
Construction	1,176,471		229,411,765			
Private Residential	-	0	-			
Affordable Residential	-	0	-			
				6	36	229,411,764.71

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	11,470,588	6	36	
					11,470,588
Fees					
Professional Fees	12.50%	28,676,471	6	36	
Letting fees	7.50%	3,351,539			
Commercial Sale Fees	0.50%	3,180,157			
Residential Sale Fees	0.75%	-			
					35,208,167
Other Costs					
Section 106		5,000,000	1	1	
Promotion		500,000	36	1	
Demolition		2,000,000	3	2	
					7,500,000
Finance					
Cost Finance*	6.00%	63,862,120			

Site Value Interest	97,301,102	
		161,163,222
*Annual Nominal Rate		
Total Development Cost		**444,753,742**
Development Profit		
Developer's Profit	15.00%	82,960,628
Site Interest		**97,301,102**
GROSS SITE COST		108,317,108
Purchaser's Costs		5,901,689
NET SITE VALUE		**102,415,419**
IRR		12.61%
Site Value psf		£102

2.1.3 Scenario 2: Major City Office Development Generating Off-Site Housing, Where Affordable Equals 50% of Gain to Stock in Offices

For the purposes of this scenario and scenario 3, we have assumed that there are no political obstacles to providing off-site housing in a city fringe location close to the City Corporation boundary, say in Islington, derived from a City of London Corporation office development.

This is what might be described as the worst case scenario for a developer. We assume that the policy to be applied to the City of London would be in line with Westminster's COM2. In other words, the gain to stock in offices would have to be matched by housing. Only instead of Westminster's 30% affordable housing policy (25% social rented + 5% intermediate), we shall assume the Mayor's 50% affordable policy (35% social rented and 15% intermediate). For the sake of simplicity, the income from affordable housing has been calculated as entirely social rented for the time being, but on full grant.

This appraisal makes the assumption that the developer will be unable to find a site to accommodate 800,000 sq ft of housing in Islington, because we can't find one at present. In the short term, it might just be possible to identify one or two which could take 400,000 sq ft. Therefore, if the full force of affordable housing policy was to be applied, the developer would be stuck with doing 400,000 sq ft of affordable housing, split 70% social rented and 30% intermediate. This results in a residual land value for the City of London donor site of £64 million, too low to encourage the owner to sell, and an IRR for the two related developments of 11.82% too low to be fundable.

As a general policy position, this approach of off-site housing in close proximity to the City, matching the office gain to stock, would be untenable, since there are not enough city fringe sites to accommodate long term projected growth of the City office market.

City Scenario 2 - Offices with 1 floor of retail and Notional Affordable Residential Site in Islington

Appraisal Date **24/06/2003**

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices	979,146	60.00	6.75%	836,169,395	
Retail	20,854	30.00	6.75%	8,904,431	
					845,073,826
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
	-	-		0	
				0	0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
Intermediate Housing in Islington	121,817	300.00		36,544,950	
Affordable Housing in Islington	284,239	200.00		56,847,700	
					93,392,650
Gross Development Value					**938,466,476**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*4.0880%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*-*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*24.0*		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)
Construction Costs					
Commercial		195			

Construction	1,176,471		229,411,765			
Private Residential	-	150	-			
Affordable Residential	541,407	150	81,211,000			
				6	36	310,622,764.71
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	15,531,138	6	36	
						15,531,138
Fees						
Professional Fees		12.50%	38,827,846	6	36	
Letting fees		7.50%	4,453,079			
Commercial Sale Fees		0.50%	4,225,369			
Residential Sale Fees		0.75%	700,445			
						48,206,738
Other Costs						
Promotion			500,000	36	1	
Site Purchase – Islington			40,605,500	3	1	
Demolition			2,000,000	3	2	
						43,105,500
Finance						
Cost Finance*		6.00%	86,804,540			
Site Value Interest			147,541,557			
						234,346,097
*Annual Nominal Rate						
Total Development Cost						**651,812,238**
Development Profit						

Developer's Profit	15.00%	122,408,671
GROSS SITE COST		164,245,568
Purchaser's Costs		8,948,967
NET SITE VALUE		**155,296,601**
IRR		12.83%
Site Value psf		£110

2.1.4 Scenario 3: Major City Office Development Generating Off-Site Housing, Private and Affordable

In this scenario, we have assumed a negotiated “policy compromise”, reflecting the realities of site availability in City fringe areas like Islington. Instead of Westminster’s COM2, we have assumed the GLA and Islington planners would negotiate 400,000 sq ft of off-site housing, split 50:50 private and affordable. The key financial assumptions are:

- An existing, occupied, income producing office building of 200,000 net sq ft in a prime central City location is redeveloped to provide a 1 million sq ft office tower, with highly efficient 20,000 sq ft floorplates.
- That the development will trigger a planning gain requirement of 400,000 sq ft residential in a neighbouring borough (Islington), comprising 50% private, 35% social rented, at full TCI (assumed to be £200 per sq ft), and 15% intermediate.
- The rent, yield and build costs of the office tower remain the same as Scenario 1.

This scenario produces a higher site value of £82.7m but still too low to encourage the owner to sell. The IRR for the developer is only marginally worse than in scenario 1, at 12.4%. However, if City of London rents increase to £48.50, then the land value of the tower site increases to £102 million, at which point we assume the existing owner might sell. This is not a particularly optimistic position. Employment in the City of London appears to be increasing again, so the prospect of modest but sustained rental growth string in 2005/6 is realistic.

City Scenario 3 - Offices with 1 floor of retail and Notional Private/Affordable Residential Site in Islington

Appraisal Date **24/06/2003**

REVENUE

Commercial Sales

Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices	979,146	45.00	6.75%	627,127,046	
Retail	20,854	30.00	6.75%	8,904,431	
					636,031,478
Private Residential Sales	**Floor**	**Cap Val**			

	Area (sq ft)	(psf)			
				0	
	-	-			
Private Housing in Islington	203,028	400.00		81,211,000	
					81,211,000

Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
Intermediate Housing in Islington	60,908	300.00		18,272,475	
Affordable Housing in Islington	142,119	200.00		28,423,850	
					46,696,325
Gross Development Value					**763,938,803**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*4.0880%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*-*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*24.0*		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	1,176,471	195	229,411,765			
Private Residential	270,703	150	40,605,500			
Affordable Residential	270,703	150	40,605,500			
				6	36	310,622,764

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	15,531,138	6	36	
					15,531,138

Fees

Professional Fees	12.50%		6	36	

		38,827,846			
Letting fees	7.50%	3,351,539			
Commercial Sale Fees	0.50%	3,180,157			
Residential Sale Fees	0.75%	959,305			
					46,318,847
Other Costs					
Promotion		500,000	36	1	
Site Purchase – Islington		40,605,500	3	1	
Demolition		2,000,000	3	2	
					43,105,500
Finance					
Cost Finance*	6.00%	82,506,782			
Site Value Interest		78,652,446			
					161,159,228
*Annual Nominal Rate					
Total Development Cost					**576,737,478**
Development Profit					
Developer's Profit		15.00%			99,644,192
GROSS SITE COST					87,557,133
Purchaser's Costs					4,770,575
NET SITE VALUE					**82,786,557**
IRR					12.24%
Site Value psf					£59

SITE VALUE TARGET

Required Land Value (£s) 102,415,419

2.1.5 Initial Policy Finding

There are a couple of very clear messages from this first stage analysis for policy makers. The office market is cyclical and volatile. At certain boom times in the cycle, office development can support mixed use development including affordable housing. The present time is not a boom time, and basically the market cannot support major office development at all, never mind with affordable housing. Hence the need for a very sophisticated form of “Plan Monitor Manage”.

Second, assuming the boom times will return, which seems increasingly likely, finding off-site locations in close proximity to the City to provide housing to match the gain to stock in offices will be very difficult, although not impossible in terms of a handful of situations. In terms of “bang for buck”, an off-site solution further away from the City would be easier to find and to finance. The “proximity issue” for off-site delivery will have to be tackled early on.

Since preparing these scenarios in mid 2003, ODPM has reintroduced the concept of tariffs, instead of S.106 agreements. In LRR’s opinion, the tariff approach may well be a useful policy tool for the implementation of policy 3B.4. This issue is considered later in the report in section 3.

2.2 CAZ – Weak Office Market, Strong Residential Market, Vauxhall

2.2.1 Vauxhall Scenario 1: Single Use Office Redevelopment

Vauxhall is a location where residential values have continued to climb since the mid 1990s, whilst office rents and values have basically been declining since the end of 1980s boom. The value premium for riverside residential space has never applied to offices to anything like the same extent anywhere in London, including Vauxhall.

In Vauxhall scenario 1, we are looking at a single use redevelopment to provide a 200,000 sq ft office building. We have assumed a very low planning gain requirement of £5 psf, after arguments with LPA over viability. On basis of current net effective rents for Grade A space at Vauxhall, currently estimated at £20 psf, the redevelopment only works with a large negative site value of £10.8 m. Given that the appraisal is based on an existing income producing office of around 100,000 sq ft, with an existing use value of say £20 million, albeit declining as lease lengths shorten, there is clearly no incentive for the owner to sell or redevelop himself.

Vauxhall Scenario 1 - Office Redevelopment (200,000 sq ft) - Single Use

REVENUE					
Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices	200,000	20.00	7.00%	54,029,412	
		-	0.00%		
					54,029,412
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
	-	-		0	
	-	-		0	
					0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
	-	-		0	
	-	-		0	
					0
Gross Development Value					**54,029,412**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*12.0*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not			

applicable to Residential)		*24.0*				
EXPENDITURE						
	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	235,294	175	41,176,471			
Private Residential	-	0	-			
Affordable Residential	-	0	-			
				3	30	41,176,471
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	2,058,824	3	30	
						2,058,824
Fees						
Professional Fees		12.50%	5,147,059	3	30	
Letting fees		15.00%	600,000			
Commercial Sale Fees		0.75%	405,221			
Residential Sale Fees		0.75%	-			
						6,152,279
Other Costs						
Section 106			1,000,000	1	1	
Promotion			500,000	24	1	
Demolition			500,000	2	2	
						2,000,000
Finance						
Cost Finance*		6.00%	14,388,708			
Site Value Interest			-7,341,069			7,047,639
*Annual Nominal Rate						
Total Development Cost						**58,435,213**
Development Profit						
Developer's Profit			15.00%			7,047,315
GROSS SITE COST						-11,453,115
Purchaser's Costs						-624,026
NET SITE VALUE						**-10,829.08**

	9
Development Yield	8.51%
IRR	8.36%
Site Value psf	-£54

2.2.2 Vauxhall Scenario 2: Single Use Residential Development

In this scenario, we are following well established market trends, and replacing an office building with a residential building. Capital values for new residential, at around £600 per sq ft or higher on the river at Vauxhall are at least double the equivalent value for new offices. This scenario assumes the new planning policy framework for residential, of 50% affordable housing on-site, split 70:30 social rented (attracting grant at 90% of TCI) and intermediate, valued at £300 psf, to reflect at least 25% off open market rental values, capitalised at 6%. This single use, mixed tenure scheme is viable assuming the existing use value (EUV) continues to decline towards the net site value shown. If planners wanted commercial space, it would be valued similar to social rented housing, but below intermediate. There is therefore a straight policy choice between which is more desirable, employment space or social rented housing.

Vauxhall Scenario 2 - Single Use Residential Development

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
	-	-	0.00%	0	
		-	0.00%		
					0
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Private Resi	100,000	600.00		60,000,00 0	
	-	-		0	
					60,000,00 0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Affordable Residential Sales	70,000	219.00		15,330,000	
Intermediate Residential Sales	30,000	300.00		9,000,000	
	-	-		0	
	-	-		0	
	-	-		0	
					24,330,00 0

Gross Development Value				**84,330,000**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)		*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)			

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	-	0	-			
Private Residential	133,333	160	21,333,333			
Affordable Residential	133,333	160	21,333,333			
				3	30	42,666,667

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	2,133,333	3	30	
					2,133,333
Fees					
Professional Fees	12.50%	5,333,333	3	30	
Letting fees	15.00%	-			
Commercial Sale Fees	0.75%	-			
Residential Sale Fees	1.00%	843,300			
					6,176,633
Other Costs					
Section 106		-	1	1	
Promotion		500,000	24	1	
Demolition		500,000	2	2	
					1,000,000
Finance					
Cost Finance*	6.00%	3,647,120			
Site Value Interest		4,855,149			
					8,502,269
*Annual Nominal Rate					

Total Development Cost					**60,478,902**

Development Profit		
Developer's Profit	15.00%	10,999,565
GROSS SITE COST		12,851,533
Purchaser's Costs		700,219
NET SITE VALUE		**12,151,313**
Development Yield		0.00%
IRR		18.45%
Site Value psf		£61

2.2.3 Vauxhall Scenario 3: All Residential On-Site, Off-site Provision of Affordable Housing/Offices

It is important to remember when considering mixed use development, that mixed use places, which include single use buildings (ground floor usually excepted) is an entirely valid approach to the wider mixed use agenda. In this third Vauxhall scenario, we examine this approach to mixed use. This appraisal reflects the real world, by seeking to maximize the development potential of under used sites available on the south side of the railway viaduct at Vauxhall. Scenario 3 is designed to be a development package, which creates a mixed use place, but includes both single and mixed use buildings. The package comprises an entirely private sector residential scheme on the river, with a mixed use office, private and affordable residential building close by, but on the south side of the railway viaduct.

The value driver is the 100% private residential on the riverside. Residual site value for the riverside site now exceeds EUV. Developer's profit and IRR are acceptable. Off-site, no more than 200 yards from the donor site, provides equivalent of 50% on site "subsidised uses", including commercial, for which social rented housing could be substituted with no hit to viability. The offices have been valued off a very low rent of £10psf, at a yield of 9%. At these values, the space could be B1c light industrial, for which there remains a strong demand in fringe central London. The political decision is whether off-site affordable housing on wrong side of the tracks is acceptable. In terms of the quantum and type of space to be delivered, it is this scenario, which delivers most realistic prospect of securing the maximum amount of affordable housing, and a worthwhile amount of employment, and delivers the highest development profitability.

Vauxhall Scenario 3 - All Residential On-Site, Off-Site Provision of Affordable Housing/ B1

REVENUE

Commercial Sales

Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**
Offices - OFF Site	25,000	10.00	9.00%	2,626,430
		-	0.00%	

				2,626,430
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**		
Private Resi	200,000	600.00	120,000,000	
	-	-		
				120,000,000
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**		
Affordable Residential Sales – OFF Site	50,000	200.00	10,000,000	
Intermediate - OFF SITE	25,000	300.00	7,500,000	
			0	
	-	-		
				17,500,000
Gross Development Value				**140,126,430**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	-	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	-		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	29,412	0	-			
Private Residential	266,667	160	42,666,667			
Affordable Residential	100,000	160	16,000,000			
				3	30	58,666,667

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	2,933,333	3	30	
					2,933,333
Fees					
Professional Fees	12.50%	7,333,333	3	30	
Letting fees	15.00%	37,500			
Commercial Sale Fees	0.75%	19,698			
Residential Sale Fees	0.75%	1,031,250			
					8,421,782

Other Costs

Reverse Premium		-	6	36	
Promotion		500,000	24	1	
Site Purchase - Vauxhall Site		10,000,000	3	1	
Demolition		500,000	2	2	
					11,000,000
Finance					
Cost Finance*	6.00%	6,477,133			
Site Value Interest		9,418,768			
					15,895,901
*Annual Nominal Rate					
Total Development Cost					**96,917,682**
Development Profit					
Developer's Profit		15.00%			18,277,360
GROSS SITE COST					24,931,387
Purchaser's Costs					1,358,394
NET SITE VALUE					**23,572,993**
Development Yield					0.21%
IRR					17.64%
Site Value psf					£79

2.2.4 Initial Policy Finding

Perhaps the most important policy to emerge out of the Vauxhall scenarios is that in the currently depressed central London office market, private sector residential is by far the dominant use in terms of residual land value. Even with 50% on-site affordable, a pure residential scheme would be viable, significantly outbidding a pure office development. In seeking to pursue a strong mixed use and affordable housing policy on sites such as this, policy makers have to decide whether to risk the return of a stronger office market. If office rents here do return to £25-30 psf, less likely in the short to medium term due the Chancellor’s ban on Government office lettings in London, but still possible, then an office refurbishment or pure office development might still prove to be the most acceptable course for the owner and or developer. Many potential office to residential conversions in London are not happening at present, because affordable housing policy tips the balance in favour of retaining offices, particularly now that office market sentiment is more positive. A mixed use development package on two sites, as in Scenario 3 is however an attractive development proposition.

2.3 Opportunity Area – Weak Office Market Strong Residential Market, The Royal Docks Case Study

2.3.1 Royal Docks Scenario 1: Single Use Residential Building

Notwithstanding the arrival of the London City Airport in the 1980s, DLR Extension to Beckton, Excel Exhibition Centre in 2000, the first office phase of the Royals Business Park, facilities for the University of East London, and around 2,000 new homes since the mid 1990s, the Royal Docks still offers some of the largest tracts of undeveloped land in London. It is a focal point for regeneration in the Thames Gateway. As such, and in accordance with the strategic objectives of the London Plan, we would expect the creation of a mixed use commercial and residential community, including significant amounts of affordable housing to be high on the agenda.

Given the amount of land still available, we took the view that the most sensible scenarios would reflect single use residential and office buildings in close proximity, in the expectation of creating a mixed use place. Royal Docks Scenario 1 is a notional pure residential building of 100,000 net sq ft, of mixed tenure, comprising 65% private, 25% social rented and 10% intermediate tenure. The capital value of £400 per sq ft for the private reflects current pricing levels for riverside development in Silvertown. The appraisal assumes no existing use value - ie no income stream, so site value is residual from development appraisal. This appraisal assumes a vertical mixed tenure, single use residential building, similar to the residential buildings at Paddington Central, although they have retail on ground.

The residual site value from Scenario 1 is very low, at a little over £1 million, but at this level the pure residential development with 35% affordable does generate a satisfactory IRR for the developer. With fine-tuning of the resales values, build costs and so forth, this development would be viable.

Royal Docks Scenario 1 – Pure Residential 65% Private 35% Affordable Residential

REVENUE					
Commercial Sales					
Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
			0.00%	0	
	-	-			
			0.00%		
		-			
					0
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Private Resi				26,000,000	
	65,000	400.00			
				0	
	-	-			
					26,000,000
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Affordable Residential Sales				4,100,000	
	25,000	164.00			
Intermediate Residential Sales				3,000,000	4,100,000
	10,000	300.00			

Gross Development Value						**30,100,000**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	-	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	-		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	-	0	-			
Private Residential	86,667	160	13,866,667			
Affordable Residential	33,333	160	5,333,333			
				3	24	19,200,000

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	960,000	3	24	
					960,000
Fees					
Professional Fees	12.50%	2,400,000	3	24	
Letting fees	15.00%	-			
Commercial Sale Fees	0.75%	-			
Residential Sale Fees	0.75%	225,750			
					2,625,750
Other Costs					
Promotion		500,000	24	1	
Demolition			2	2	
					500,000
Finance					
Cost Finance*	6.00%	1,234,279			
Site Value Interest		418,006			
					1,652,285
*Annual Nominal Rate					

Total Development Cost		**24,938,035**
Development Profit		
Developer's Profit	15.00%	3,926,087
GROSS SITE COST		1,235,878
Purchaser's Costs		67,337
NET SITE VALUE		**1,168,541**
Development Yield		0.00%
IRR		21.92%
Site Value psf		£13

2.3.2 Royal Docks Scenario 2: Single Use Office Building

It is extremely difficult to undertake a development appraisal of a pioneering style of development such as new offices in a raw and unproven office location like the Royal Docks. The 227,000 sq ft first phase of the Royals Business Park is now nearing completion, and the market will deliver its verdict in due course. CBRE has seen fit to put a net effective rent of £15 psf into this appraisal of a notional office building, next door to the notional residential building in scenario 1. This single use office scheme is clearly unviable, throwing off a substantial negative land value to achieve even a low IRR. Given the choice, a developer would clearly do a residential scheme on this site.

Royal Docks Scenario 2 - Single Use Office Building

REVENUE					
Commercial Sales					
Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices	100,000	15.00	7.50%	18,910,294	
		-			
					18,910,294
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
	-	-		0	
					0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
				0	0
Gross Development Value					**18,910,294**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*24.0*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*12.0*		

EXPENDITURE	Floor Area	£psf	Absolute	Start (month)	duration (months)
Construction Costs					
Commercial Construction	117,647	135	15,882,353		
Private Residential		0			

	%	Absolute	Start (month)	duration (months)	
	-	-			
Affordable	0				
Residential	-	-			
			3	24	15,882,353
	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	794,118	3	24	
					794,118
Fees					
Professional Fees	12.50%	1,985,294	3	23	
Letting fees	15.00%	225,000			
Commercial Sale Fees	0.75%	141,827			
Residential Sale Fees	0.75%	-			
					2,352,121
Other Costs					
Promotion		500,000	24	1	
					500,000
Finance					
Cost Finance*	6.00%	5,005,269			
Site Value Interest		-3,014,281			
					1,990,988
*Annual Nominal Rate					
Total Development Cost					**21,519,580**
Development Profit					
Developer's Profit		15.00%			2,466,560
GROSS SITE COST					-5,075,846
Purchaser's Costs					-276,559
NET SITE VALUE					**-4,799,287**
Development Yield					9.12%
IRR					8.17%
Site Value psf					-£48

2.3.3 Initial Policy Findings

In order to create any kind of equal balance of uses on these two sites, there would have to be a massive cross subsidy from the private residential to the offices. There would be no physical problem to putting some office/commercial space on the ground and or lower floors of primarily residential buildings, but to do so would require cross subsidy. That cross subsidy would in all likelihood have to come at the expense of the size of the affordable housing component. Pursuing mixed use on a site such as this, given the variety of commercial and other non-residential uses being promoted in the Royal Docks would seem to us to be a policy difficult to implement.

2.4 Outer London Major Town Centre - Croydon Case Study

2.4.1 Croydon Scenario 1: Single Use Office Development

The London Plan introduces a new emphasis on "polycentricity", as a key element in promoting sustainable population and economic growth, which will only be achievable if outer London town centres "do their bit". Croydon is the largest office centre in outer London, and if polycentricity is to succeed, Croydon has to succeed as a successful and expanding office location. An immediate issue facing nearly every outer London town centre is low or no demand from developers to build new offices, but strong pressure for residential development, either through the conversion of existing "redundant" office buildings, or on land identified for office development. Since residential development is now recognised as a strong force for town centre regeneration, balancing the competing demands for land in town centres between offices and residential will be a critical issue for the London Office Policy Review (LOPR) 2004 to address.

Croydon scenario 1 is a pure office development of 100,000 net sq ft. In order to reflect current market conditions in Croydon, CBRE have assumed an existing "tired" office building of 50,000 sq ft, leased short term at £10 psf, valued off a yield of 11%. The pure office development scenario, based on a net effective rent of £16 per sq ft results in a very substantial negative land value, and would clearly be unviable. For an office development to happen on these numbers, an element of subsidy would be required from somewhere, which is unlikely to be forthcoming.

Croydon Scenario 1 - Single Use Office Development

REVENUE					
Commercial Sales					
Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices			7.50%	20,170,981	
	100,000	16.00			
					20,170,981
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
				0	
	-	-			
					0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
		-			
				0	
	-	-			
					0
Gross Development Value					**20,170,981**
Purchaser's Costs on Site Purchase	*5.7625%*		*Commercial Net/Gross Floor Area Ratio*		*85.00%*
Purchaser's Costs (3rd Party	*5.7625%*		*Private Resi Net/Gross Floor*		*75.00%*

Purchase of GDV)				*Area Ratio*		
Letting Void (Not applicable to Residential)		*24.0*		*Affordable Resi Net/Gross Floor Area Ratio*		*75.00%*
Rent Free Period (Not applicable to Residential)		*12.0*				

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	117,647	160	18,823,529			
Private Residential	-	0	-			
Affordable Residential	-	0	-			
				3	24	18,823,529

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	941,176	3	24	
					941,176
Fees					
Professional Fees	12.50%	2,352,941	3	24	
Letting fees	0.00%	-			
Commercial Sale Fees	0.50%	100,855			
Residential Sale Fees	0.75%	-			
					2,453,796
Other Costs					
Section 106		500,000	1	1	
Promotion		100,000	18	1	
Demolition		200,000	2	2	
					800,000
Finance					
Cost Finance*	6.00%	6,060,583			
Site Value Interest		-4,299,327			
					1,761,256
*Annual Nominal Rate					
Total Development Cost					**24,779,758**
Development Profit					
Developer's Profit		15.00%			2,630,997
GROSS SITE COST					-7,239,775
Purchaser's Costs					-394,461
NET SITE VALUE					**-6,845,314**
IRR					7.45%
Site Value psf					-£68

2.4.2 Croydon Scenario 2: Single Use Residential Building

In this scenario, we examine a 100% private residential development. Although the omission of any affordable housing is unrealistic in planning terms, we have prepared this scenario to facilitate a like for like comparison of offices and residential on a pure market basis. Planning obligations have been costed at £5 per sq ft. We describe this scenario as the developer's "dream ticket". At current values of around £350 per sq ft for private residential in central Croydon, an equivalent sized scheme to the office scheme in scenario 1 throws up a land value of £7.8 million, against minus £4.8 million for the offices. This figure of £7.8 million is well above EUV, so the development should happen. The main purpose of this scenario is to highlight the market pressures in outer London town centres for residential development to replace office space and or land.

Croydon Scenario 2 - Single Use Residential Development

REVENUE					
Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
					0
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
All Private Resi				35,000,000	
	100,000	350.00			
				0	
	-	-			
					35,000,000
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
		-			
				0	
	-	-			
					0
Gross Development Value					**35,000,000**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	-	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	-		

EXPENDITURE	Floor Area	£psf	Absolute	Start (month)	duration (months)
Construction Costs					
Commercial		0			
Construction	-		-		
Private Residential		110			

Affordable Residential	133,333 -	0	14,666,667 -			
				3	24	14,666,667
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	733,333	3	24	
						733,333
Fees						
Professional Fees		12.50%	1,833,333	3	24	
Letting fees		0.00%	-			
Commercial Sale Fees		0.50%	-			
Residential Sale Fees		0.75%	262,500			
						2,095,833
Other Costs						
Section 106			500,000	1	1	
Promotion			100,000	18	1	
Demolition			200,000	2	2	
						800,000
Finance						
Cost Finance*		6.00%	1,035,764			
Site Value Interest			2,806,239			
						3,842,003
*Annual Nominal Rate						
Total Development Cost						**22,137,837**
Development Profit						
Developer's Profit			15.00%			4,565,217
GROSS SITE COST						8,296,946
Purchaser's Costs						452,061
NET SITE VALUE						**7,844,884**
IRR						21.53%
Site Value psf						£78

2.4.3 Croydon Scenario 3: Mixed use Office and Residential Including Affordable Housing

Obviously in a mixed use, mixed tenure development, there are many permutations of uses that could be included. Scenario 3 assumes a mixed use scheme to replace the same 50,000 sq ft office building used in scenarios 1 and 2. The notional scenario 3 scheme would comprise 20,000 sq ft of offices, on ground and first floors, 20,000 sq ft of social rented housing (with 90% grant) on floors 2 and 3, 10,000 sq ft of intermediate housing on floor 4 and the and the remaining 50,000 sq ft private residential on floors 5-9. In functional terms, this is "doable", again being similar to the new residential blocks at Paddington Central. This use package would appear to be quite onerous in planning terms, since both the offices and social rented housing would require cross subsidy. Although the scenario does generate a positive land value, and an acceptable developer's profit, the land value is still below EUV, so development would be unlikely to happen. However, if social rented housing at full grant replaced the offices, then the land value would rise above EUV, increasing the prospect of the scheme being implemented.

Croydon Scenario 3 - Mixed use Office Private and Social Housing

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Offices 2 floors	20,000	10.00	9.50%	1,990,557	
					1,990,557
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
All Private Resi	50,000	350.00		17,500,000	
	-	-		0	
					17,500,000
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Intermediete	10,000	250.00		2,500,000	
Social	20,000	180.00		3,600,000	
					6,100,000
Gross Development Value					**25,590,557**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*85.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	-	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	-		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	23,529	130	3,058,824			
Private Residential	66,667	110	7,333,333			
Affordable Residential	40,000	110	4,400,000			
				3	24	14,792,157
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	739,608	3	24	
						739,608

Fees

Professional Fees	12.50%	1,849,020	3	24	
Letting fees	0.00%	-			
Commercial Sale Fees	0.50%	9,953			
Residential Sale Fees	0.75%	177,000			
					2,035,972
Other Costs					
Section 106		-	1	1	
Promotion		100,000	18	1	
Demolition		200,000	2	2	
					300,000
Finance					
Cost Finance*	6.00%	977,417			
Site Value Interest		861,219			
					1,838,636
*Annual Nominal Rate					
Total Development Cost					**19,706,373**
Development Profit					
Developer's Profit		15.00%			3,337,899
GROSS SITE COST					2,546,285
Purchaser's Costs					138,735
NET SITE VALUE					**2,407,550**
IRR					21.62%
Site Value psf					£24

2.4.4 Initial Policy Findings

Croydon has several very large and well located potential office sites, for which there are strong strategic and local planning factors which justify the protection and promotion of those sites for primarily office use. However, there are a greater number of less well located potential office development sites in and around Croydon town centre, where protecting those sites for primarily office use is likely to be a formula for blight rather than regeneration.

These marginal office sites lend themselves to a mixed use approach combining offices or other commercial uses (retail, health club etc) on ground and lower floors, with residential above. Since both the office space and the affordable housing are likely to require a cross subsidy from the private residential, it is a political decision whether priority is given to employment space or affordable housing. As a general proposition, LRR would argue that private residential led mixed use on marginal office sites will not only help regenerate those specific sites, but improve the overall attractions of Croydon as a major office centre, thereby improving the prospects for large scale office led development in the most visible and accessible town centre sites.

2.5 Outer London Local Town Centre - Whetstone

2.5.1 Whetstone Scenario 1: Retail With Residential Above, 35% Affordable

Whilst the office market in many, if most outer London town centres is weak, and office values correspondingly low, the retail market is much stronger. Even setting aside regional shopping centres in outer London such as Bromley, Kingston, Brent Cross, Ilford and Romford, smaller town centres still remain attractive for multiple retailers. We have deliberately chosen a prosperous local centre, like Whetstone, because it is very typical of a large number of town centres, which offer the potential for mixed use retail and residential development. We should stress that we see this mixed use potential as being in conformity with PG6; ie the development should be town centre or pass the sequential test. A retail development which fails PPG6 should not be granted permission simply because it generates housing, including affordable housing.

In Whetstone scenario 1, we assume a mid sized supermarket of 20,000 sq ft, let to a single occupier at a relatively low rent, but a "tight yield", with 3 floors of housing above, including 35% affordable, but at full TCI grant rate, rounded to £200 per sq ft. This scenario produces a low land value, but a viable development with an attractive IR of 23% based on a profit margin of 15%.

Whetstone Scenario 1 - Retail with Residential Above, 35% Affordable

REVENUE					
Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Retail Unit (supermarket)	20,000	14.00	6.50%	4,072,986	
					4,072,986
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Private Housing	21,938	350.00		7,678,125	
					7,678,125
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Affordable Housing	11,813	200.00		2,362,500	
					2,362,500
Gross Development Value					**14,113,611**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*100.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*-*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*9.0*		

EXPENDITURE	Floor Area	£psf	Absolute	Start (month)	duration (months)
Construction Costs					
Commercial		75			

Construction	20,000		1,500,000			
Private Residential	29,250	150	4,387,500			
Affordable Residential	15,750	150	2,362,500			
Additional Construction Cost			-	3	18	8,250,000.00
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	412,500	3	18	412,500
Fees						
Professional Fees		15.00%	1,237,500	3	18	
Letting fees		15.00%	42,000			
Commercial Sale Fees		1.75%	71,277			
Residential Sale Fees		1.75%	175,711			
						1,526,488
Other Costs						
Promotion			50,000	15	1	
Demolition			200,000	1	2	
						250,000
Finance						
Cost Finance*		6.00%	485,666			
Site Value Interest			355,277			840,943
*Annual Nominal Rate						
Total Development Cost						**11,279,931**
Development Profit						
Developer's Profit			15.00%			1,840,906
GROSS SITE COST		.				992,775
Purchaser's Costs						54,092
NET SITE VALUE						**938,683**
IRR						23.03%
Site Value psf						£17
SITE VALUE TARGET						
Required Land Value (£s)	92,577,952					

2.5.3 Whetstone Scenario 2: Retail With Residential Above, 50% Affordable

As is to be expected, by increasing the affordable housing to 50% of the total residential, the land value is significantly reduced, although at the low land value shown the development remains viable. In this situation however, the landowner would secure a higher land value by promoting a single use retail development.

Whetstone Scenario 2 - Retail with Residential Above, 50% Affordable

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Retail Unit (supermarket)	20,000	14.00	6.50%	4,072,986	
					4,072,986
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Private Housing	16,875	350.00		5,906,250	
					5,906,250
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Affordale Housing	16,875	200.00		3,375,000	
					3,375,000
Gross Development Value					**13,354,236**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*100.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	*-*	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*9.0*		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	20,000	75	1,500,000			
Private Residential	22,500	150	3,375,000			
Affordable Residential	22,500	150	3,375,000			
Additional Construction Cost			-			
Construction finance				3	18	8,250,000.00

	%	Absolute	Start (month)	duration (months)	
Contingency	5.00%	412,500	3	18	412,500

Fees					
Professional Fees	15.00%	1,237,500	3	18	
Letting fees	15.00%	42,000			
Commercial Sale Fees	1.75%	71,277			
Residential Sale Fees	1.75%	162,422			
					1,513,199
Other Costs					
Promotion		50,000	15	1	
Demolition		200,000	1	2	
					250,000
Finance					
Cost Finance*	6.00%	516,037			
Site Value Interest		176,747			
					692,784
*Annual Nominal Rate					
Total Development Cost					**11,118,483**
Development Profit					
Developer's Profit		15.00%			1,741,857
GROSS SITE COST		.			493,896
Purchaser's Costs					26,910
NET SITE VALUE					**466,986**
IRR					22.63%
Site Value psf					£9
SITE VALUE TARGET					
Required Land Value (£s)	938,683				

2.5.4 Initial Policy Findings

There are already enough recent examples of mixed use retail and residential developments to know that this is an important built form for many town centre and edge of town centre locations. A great deal of research has been undertaken and written on this subject, focussing on well known examples such as Tesco in Brook Green and Kensington and most recently J Sainsbury in Pimlico, where the 40,000 sq ft supermarket opened more than a year a year before the 160 residential units, including 50% affordable are due to complete.

This case study is designed to highlight the potential for “less glamorous” retail and residential schemes. It is also designed to highlight the latest ODPM thinking that single storey commercial development in town centres should be seen a “history”. Even so, calibration of the affordable housing component has to be sufficiently fine tuned to ensure that single-use, single storey is not a more attractive development proposition for both land owner and developer.

2.6 Outer London - Under Utilised, Scruffy Industrial Estate in Primarily Residential Area - Wandle Valley

2.6.1 Wandle Valley Scenario 1

This scenario derives from the recently published report “South London Office Capacity and Demand Study”, commissioned by the LDA and South London Partnership, and undertaken by London Residential Research and Kinston University. It reflects a common situation on the ground, but a controversial planning situation. Despite increasingly strong policy guidance from ODPM and the GLA, that there is a surplus of industrial land, much of which would be suitable for residential or mixed use residential and commercial development, many London boroughs are reluctant to see the rate of “attrition” of industrial land speed up.

Wandle Valley Scenario 1 is based on a run down industrial estate of about 4 acres, currently providing about 50,000 sq ft of B1 and B8 accommodation, in poor condition, in a primarily residential area of Mitcham, let on rents of about £5 psf, valued at 10%, to reflect short leases and poor covenant strength. As such, the site is underused in terms of its physical capacity, given current thinking on density in reasonably accessible outer London locations. Scenario 1 assumes that the site will not be released for residential or mixed use, and that the only option open to the landowner and developer is a new industrial development, creating a higher density than currently exists. A redevelopment of 100,000 sq ft of efficient new industrial space is envisaged, which would probably be occupied as a warehouse, generating low employment. This would produce a rent of £8 per sq ft, and bring the yield down to 8.5%, but would still not generate a residual land value in excess of the EUV. Thus, development would be most unlikely to happen. Any such development certainly wouldn’t happen as long as there's any hope value for residential or mixed use.

Wandle Valley Scenario 1 - Single Use Industrial Development

REVENUE					
Commercial Sales					
Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
Industrial			8.50%	8,898,962	
	100,000	8.00			
			0.00%		
		-			
					8,898,962
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
				0	
	-	-			
					0
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
				0	0

Gross Development Value						**8,898,962**
Purchaser's Costs on Site Purchase		*5.7625%*		*Commercial Net/Gross Floor Area Ratio*		*90.00%*
Purchaser's Costs (3rd Party Purchase of GDV)		*5.7625%*		*Private Resi Net/Gross Floor Area Ratio*		*75.00%*
Letting Void (Not applicable to Residential)		*-*		*Affordable Resi Net/Gross Floor Area Ratio*		*75.00%*
Rent Free Period (Not applicable to Residential)		*12.0*				
EXPENDITURE						
	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	111,111	35	3,888,889			
Private Residential	-	0	-			
Affordable Residential	-	0	-			
				3	12	3,888,889
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	194,444	3	12	
						194,444
Fees						
Professional Fees		12.50%	486,111	3	12	
Letting fees		15.00%	120,000			
Commercial Sale Fees		0.75%	66,742			
Residential Sale Fees		0.75%	-			
						672,853
Other Costs						
Section 106			300,000	1	1	
						300,000
Finance						
Cost Finance*		6.00%	439,288			
Site Value Interest			566,838			
						1,006,125
*Annual Nominal Rate						
Total Development Cost						**6,062,312**
Development Profit						
Developer's Profit			15.00%			1,160,734
GROSS SITE COST						1,675,916
Purchaser's Costs						91,313
NET SITE VALUE						**1,584,603**
Development Yield						10.34%
IRR						18.31%
Site Value psf						£16

2.6.3 Wandle Valley Scenario 2: Mixed Use, Private and Affordable Residential, and B1

This scenario represents what might best be described as a radical mixed use proposal, although it is a formula which has been followed extensively in Wandsworth for example, at least in terms of the mix of uses, if not the residential tenure balance. This package assumes a primarily residential scheme, with a commercial building designed to increase employment on site, and provide space for local creative industry type occupiers, on flexible terms, in line with EiP Panel's report findings. (Para 1.42.1). Scenario 2 seeks to make maximum use of the site area. The development as shown includes subsidised employment space, and 40% of the total housing as affordable. Despite these apparently "onerous" planning requirements, the scheme does throw up a site value significantly above EUV. We are comfortable that the configuration of uses shown can work satisfactorily in terms of residential amenity, and the requirements of the commercial occupiers, including light industrial and local service activities.

Wandle Valley Scenario 2 - Mixed use, Private and Affordable Residential, and B1

REVENUE

Commercial Sales Unit	**Floor Area (sq ft)**	**ERV £psf**	**Yield**	**Net Value**	
B1	25,000	10.00	8.00%	2,954,733	
		-	0.00%		
					2,954,733
Private Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
				0	
Private Residential	120,000	300.00		36,000,000	
					36,000,000
Affordable Residential Sales	**Floor Area (sq ft)**	**Cap Val (psf)**			
Social Housing	60,000	180.00		10,800,000	
Intermediete Housing	20,000	220.00		4,400,000	10,800,000
Gross Development Value					**49,754,733**

Purchaser's Costs on Site Purchase	*5.7625%*	*Commercial Net/Gross Floor Area Ratio*	*90.00%*
Purchaser's Costs (3rd Party Purchase of GDV)	*5.7625%*	*Private Resi Net/Gross Floor Area Ratio*	*75.00%*
Letting Void (Not applicable to Residential)	-	*Affordable Resi Net/Gross Floor Area Ratio*	*75.00%*
Rent Free Period (Not applicable to Residential)	*12.0*		

EXPENDITURE

	Floor Area	£psf	Absolute	Start (month)	duration (months)	
Construction Costs						
Commercial Construction	27,778	75	2,083,333			
Private Residential	160,000	110	17,600,000			
Affordable Residential	80,000	110	8,800,000			
				3	18	28,483,333
		%	Absolute	Start (month)	duration (months)	
Contingency		5.00%	1,424,167	3	18	
						1,424,167
Fees						
Professional Fees		12.50%	3,560,417	3	18	
Letting fees		15.00%	37,500			
Commercial Sale Fees		0.75%	22,161			
Residential Sale Fees		0.75%	351,000			
						3,971,077
Other Costs						
Promotion			250,000	11	1	
Demolition				2	2	
						375,000
Finance						
Cost Finance*		6.00%	860,595			
Site Value Interest			2,234,942			
						3,095,538
*Annual Nominal Rate						
Total Development Cost						**37,349,115**
Development Profit						
Developer's Profit			15.00%			6,489,748
GROSS SITE COST						5,915,871
Purchaser's Costs						322,328
NET SITE VALUE						**5,593,543**
Development Yield						0.58%
IRR						25.85%
Site Value psf						£27

2.6.4 Initial Policy Findings

The “scruffy underused industrial estate” is moving onto centre stage in terms of the strategic aim to increase housing land, without jeopardising the jobs and services, which such sites currently provide. It is our strong view at LRR that where such sites are clearly under utilised and do not fall into the category of Defined or Strategic Employment Site in the UDP, the mixed use residential led option can deliver a triple win outcome. The triple win is very simple, more homes, more jobs, and a better urban environment offering more facilities for local residents.

3.0 THE UNEVEN PLAYING FIELD BETWEEN OFFICE AND RESIDENTIAL DEVELOPMENT

3.1 Observations on the Examination in Public Panel Report Regarding Mixed use Development

In July 2003, during the course of this study, the Panel Report of the Examination in Public was published. In considering any major policy direction in the draft London Plan, the findings and recommendations of the Panel are clearly of vital importance. We have not sought to review every aspect of mixed use referred to by the Panel. Rather, we have sought to concentrate on policy 3B.5 "Mixed use Development", and explanatory paragraph 3B.26 in the draft London Plan.

Policy 3B.5 and its interpretation in paras 3B.25 and 3B.26 are a crucial element in the Mayor's ambitions to promote mixed use development, in a manner which supports employment growth, delivers more housing, and creates a vibrant and sustainable city. Mixed use must not be seen as planning dogma, but as a practical and profitable means to achieve the type and volume of development needed to accommodate London's projected employment and population growth. (The summer 2003 FPD Savills Report, "Investment in Mixed use" is particularly helpful in this respect). For ease of reference, we again reproduce below the relevant extracts from the draft London Plan and the EiP Panel Report.

Draft London Plan - "Policy 3B.5 Mixed Use Development"

> *"Within CAZ and the Opportunity Areas, wherever increases in office floorspace are proposed, they should contain a considerable amount of residential floorspace. The relevant proportions will be defined in sub-regional frameworks".*

Draft London Plan - Para 3B.26

> *"The policy (3B.5) will be developed in the sub-regional frameworks, taking into account the policy in Westminster's UDP (based on 50% office and 50% housing) and allowing for certain exceptions. These exceptions will concentrate on areas where such a mix would demonstrably undermine strategic policy for other developments, including parts of the City and the Isle of Dogs. In such areas, off-site provision of housing elsewhere on redundant employment or other land will be required as part of a planning agreement".*

Para 6.9 of the EiP Panel Report states that:

> *"We recommend **(R 6.3)** that Policy 3B.5 is amended to align it more with the explanatory paragraphs"*

Recommendation R 6.3 is:

> *"Within CAZ and the Opportunity Areas, wherever increases in office floorspace are proposed the development should provide for a mix of uses including housing, unless such a mix would demonstrably conflict with other policies of this*

> *Plan. Sub-regional frameworks (see Section 2B) will give further guidance on the relevant proportions of housing and other uses to be sought".*

Two main issues arising from the EiP Panel Report were considered at the July 29th steering group. First, the possibility that the Mayor's commitment to securing housing out of office led planning agreements negotiated in The City and Canary Wharf could be weakened by such a redraft. Second, that although the commitment to mixed use benefits deriving from office development was still intact, housing would be relegated from top priority to just one of any number of other non-residential uses.

The consultants were also concerned about a possible danger from recommendation 6.3 to policy 3B.5, and its interpretation in para 3B.26 from the phrase, *"where such a mix would demonstrably conflict with other policies of this Plan".* We need to be entirely clear where and how 3B.5 and 3B.26 might demonstrably conflict with other policies of the Plan, which is weaker than the original wording of 3B.26, being *"demonstrably undermine strategic policy for other developments"*. We also need to consider whether the omission of the word "strategic" from the EiP recommendation R6.3 would also water down 3B.5, to the extent that office developers could conjure up a wide range of policies from within the Plan which mixed use office policy would be in conflict with.

Although it is not the purpose of this report to revisit the evidence presented to the EiP and the Panel's response, it is useful to highlight where such conflicts might arise, in both a theoretical, and then a more practical sense. The most succinct objection from the development industry to policy 3B.5 was presented by London First, summarised at Section 6.8 of the Panel's Report:

> *"London First (LF) and a number of others found the draft Plan's approach to be simplistic and inflexible. They were particularly concerned that Policy 3B.5 appeared to require every office development in the (Central Activities Zone) CAZ to contain mixed uses on a building by building basis. This was felt to ignore the practicalities of providing and managing mixed use approach which allowed a mix of uses in separate buildings was preferable".*

The Panel responded by saying that:

> *"While rigid and over-prescriptive policies are to be avoided, if the policy is too broad and allows various exceptions, it is unlikely to achieve its purpose. Draft Plan paragraphs 3B.25 and 3B.26 clearly contemplate a degree of flexibility which is not in the wording of Policy 3B.5".*

The technical issue we have to address is whether the Panel report recommendations added clarity or would increase the potential for misinterpretation. In order to begin to understand the complexity of the issue, we have compiled Table 1. This looks at each of the boroughs which are generally seen by the market as comprising the central London office market (irrespective of SRDF), the office stock, existing office policy with regard to mixed use, and future policy as guided by the dLP.

Table 1 - CAZ and Inner London Opportunity Area Boroughs – Summary of Office and Mixed use Development Policies				
Borough	**Existing Office Stock (Net Sq Metres Millions)**	**Current (UDP) Office Development Policy**	**Draft London Plan Proposed Office Development Policy**	**Comment**
Camden	2.2	As per Westminster – match office increase with residential increase	As current	Policy appears to be effective in terms of permissions, very little implementation
City	6.0*	Very low level of planning obligations for office development ***	Off-site provision acceptable in principal	City Corporation very active and innovative in promoting affordable housing in other boroughs, but not (yet) through commuted payments from office development.
Hackney	0.5	Very low level of planning obligations for office development	As per Westminster	Could both "export" housing from office development in south Shoreditch and "import" off-site requirements from City Corporation and LBH itself
Hammersmith & Fulham	0.7	Very low level of planning obligations for office development	As per Westminster	The boroughs well known "Exceptions" policy effectively prevents employment land being released for private residential, except in exceptional situations like Imperial Wharf
Islington	0.8	Very low level of planning obligations for office development	Off-site provision acceptable in principal	Could both "export" housing from office development in City fringe location, and "import" off-site requirements from City Corporation and LBH itself
Kensington & Chelsea	0.3	Very low level of planning obligations for office development	As per Westminster	Office permissions in high value locations usually part of mixed use schemes. In lower value areas of North Ken, single use offices or offices with affordable housing in Defined Employment Areas (eg Freston Road) have been granted.
Lambeth	0.7	Very low level of planning obligations for office development	As per Westminster	Very low levels of office development since 1980s, even in Waterloo area. Largest new offices since 1980s at St George Wharf (Effra), part of residential led scheme.

Southwark	1.2	Very low level of planning obligations for office development	As per Westminster	Very similar situation to Hackney, in terms of a small (riverside) area being viable for large scale offices, and other locations may be suited for taking "off site" from City.
Tower Hamlets	1.8		Off-site provision acceptable in principal	Major office permissions both in City Fringe (Spitalfields/Aldgate) and Canary Wharf have not had significant planning obligations in respect of housing.
Wandsworth	0.4	In effect no planning gain	As per Westminster	Wandsworth has one of the most effective borough policies in terms of releasing industrial/employment land for housing, but requiring offices as subsidiary use to be built as planning gain.
Westminster	8.5**	Match office increase with residential increase	As current	Effective both in terms of policy and implementation. Their whole commercial/mixed use approach recently endorsed at UDP Inquiry. For outcomes see table 3
Sources. Office Stock Table A3.1 from Focus on London 2003. *Have upgraded City to adjust from 2001/3 net completions. **Have upgraded Westminster to adjust for 2001/3 net completions *** see City of London draft SPG on Planning Obligations July 2003. Para 16. £70 per sq m of additional gross floorspace				

From Table 1, we can see that in terms of the existing stock, roughly half (49%) of the office market in central and inner London, (Westminster and Camden) will enjoy no effective change in policy. (Both these boroughs are in the central sub-region). Seven "fringe boroughs" will be required to shift from "no planning gain" for offices, to the Westminster model. (Five of these are in the central sub-region, one in the east sub-region and one in the west sub-region). These boroughs currently account for 3.8 million net sq metres, or 16% of the stock. The two remaining boroughs, City and Tower Hamlets represent about 35% of the stock. (Both are in the east sub-region).

Current stock is only part of the story in terms of strategic policy to promote office development and employment growth. We also need to look forward, at which boroughs are expected to contribute most to strategic office development policy. Table 2, taken from London Office Policy Review 2002 summarises the office supply situation at mid 2001 (effectively the starting point for dLP FBS/office employment projections), with current and future supply.

Table 2 - Supply And Demand In London By Borough by Sub Region 2001 To 2016 The Big Picture

Borough	Floorspace Need Based on Employment Projection Sq Ft 000s		Committed Gain to Stock Sq Ft 000s			Committed Gain To Stock as % of Projected Demand to 2006	Committed Gain To Stock as % of Projected Demand to 2016
	To 2006	To 2016	Under Construct-ion Mid 2001	Permissions	Total		
Central sub-region							
Camden	1,305	4,477	1,344	1,130	2,474	190	55
Islington	792	2,070	785	620	1,405	177	68
K & C	304	836	135	250	385	127	46
Lambeth	586	2,220	-	1,100	1,100	188	50
Southwark	619	4,025	1,057	2,300	3,357	542	83
Wandsworth	313	859	21	800	821	262	96
Westminster	3,420	10,348	3,061	2,450	5,511	161	53
Sub Total	***7,339***	***24,835***	***6,403***	***8,650***	***15,053***	***205***	***61***
East sub-region							
Barking & Dagenham	76	247	-	-	-	-	-
Bexley	264	802	-	-	-	-	-
City	6,466	15,070	3,581	7,800	11,381	176	76
Greenwich	301	1,485	12	345	357	119	24
Hackney	506	1,793	294	1,031	1,325	262	74
Havering	121	348	-	400	400	330	115
Lewisham	250	634	150	32	182	73	29
Newham	557	3,226	-	2,200	2,200	395	68
Redbridge	132	396	-	-	-	-	-
Tower Hamlets	6,117	15,181	8,191	10,557	18,748	306	123
Sub Total	***14,790***	***39,182***	***12,228***	***22,365***	***34,593***	***230***	***88***
West sub-region							
Brent	531	1,549	187	1,350	1,537	289	99
Ealing	448	1,476	100	450	550	123	37
Hammersmith & Fulham	750	2,028	255	1,575	1,830	244	90
Harrow	129	468	25	-	25	19	5
Hillingdon	428	2,239	180	1,200	1,380	322	62
Hounslow	1,132	2,727	1,116	1,399	2,515	222	92
Sub Total	***3,418***	***10,487***	***1,863***	***5,974***	***7,837***	***229***	***75***
North sub-region							
Barnet	204	888	90	170	260	127	29
Enfield	250	825	24	-	24	10	3
Haringey	127	561	-	-	-	-	-
Waltham Frst	97	271	-	-	-	-	-
Sub Total	***678***	***2,545***	***114***	***170***	***284***	***42***	***11***

Table 2 - Supply And Demand In London By Borough by Sub Region 2001 To 2016 The Big Picture

Borough	Floorspace Need Based on Employment Projection Sq Ft 000s		Committed Gain to Stock Sq Ft 000s			Committed Gain To Stock as % of Projected Demand to 2006	Committed Gain To Stock as % of Projected Demand to 2016
	To 2006	To 2016	Under Construct-ion Mid 2001	Permissions	Total		
				South sub-region			
Bromley	223	614	-	246	246	110	40
Croydon	423	1,108	40	320	360	85	32
Kingston	173	527	-	13	13	8	2
Merton	228	675	-	90	90	39	13
Richmond	176	505	15	183	198	112	39
Sutton	142	553	12	163	175	123	32
Sub Total	***1,365***	***3,982***	***67***	***1,015***	***1,082***	***79***	***27***
London Total	**27,590**	**81,031**	**20,675**	**38,174**	**58,849**	**213**	**73**
Source: London Property Research							

One point needs to be stressed at this juncture. Central London as a whole already had enough development capacity (in terms of gain to stock) at mid 2001 to meet 82% of its projected demand to 2016. Between mid 2001 and end 2003, provisional data from the London Office Policy Review 2004 indicates that approximately 20 million sq ft has been completed since mid 2001, and that over 25 million net sq ft of office permissions has been granted, representing a further gain to stock over the mid 2001 position of at least 35 million sq ft, allowing for demolitions and change of use conversions. At end 2003, there was about 18 million net sq ft of office applications awaiting determination.

Thus, subject to one major proviso over what happens to unimplemented permissions on renewal (see below) policy 3B.5, para 3B.26 and EiP recommendation R6.3 will not “demonstrably conflict” with strategic office employment and development policy, even if it slows down the rate of office development. The pipeline is already full enough. We now look briefly at each of the main office boroughs in central and inner London, according to their policy on mixed use office development.

3.2 Current Office and Mixed use Development Policies in Central London Boroughs

3.2.1 Westminster & Camden

By virtue of the Westminster and Camden office/mixed use policies (COM2 and RE5 respectively) already being in place, we can begin to see whether these policies are being implemented, and whether we can identify opportunity costs to set against the supposed benefits, and whether there is a demonstrable conflict with other policies. (Westminster’s offices and mixed use policy has been endorsed once again. In November 2003, in the Inspector’s report into Westminster’s Revised UDP). Table 3 lists office permissions granted in Westminster since the start of 2000, and the mixed use outcomes.

Table 3 – Office Permissions in Westminster Since 2001 Generating Residential Uses

Location/Developer	Date of PP	Offices (Gross Sq Metres)		Residential (Units)		Other Uses (Gross Sq Metres)		Comment
		Existing	Proposed	Existing	Proposed	Existing	Proposed	
427-429 Harrow Road, W10	8/1/04	1,303	1,030		28 (including 8 affordable + 12 live-work)		202 A3	Residential led scheme
York House, 24-30 Edgware Road, W2 (British Land)	12/11/03 (renewal of 1999 PP)	8,259	10,782	5	22	1,820 retail 1,045 casino	700 retail 1,315 casino	Offices vacant
39-40 Portman Square, W1 (Delancey) See also 39-42 Portman Square	16/10/03	7,135	12,028	10	20	262 A2	Nil	Increase in office floorspace matched by net residential units
43-55 Mortimer Street, 20-34 Great Titchfield Street, W1 (Great Portland Estate)	17/7/03	13,365	15,097	-	13	628 retail 2,835 wholesale 697 education	600 retail 451 A3 2,844 wholesale	Existing office building still occupied
112-130 Edgware Road, 136-138 George Street W2 (London & Leeds Business Centres)	10/7/03	2519	4,467	8	22			
Crown House, 51-53 Aldwych WC2 Schildvinl BV	Comm-ittee 10/7/03 decision pending	19,762	20,256		12	1,318 retail	1,342 retail	12 to offset the increase in commercial floorspace
13-17 New Burlington Place, 185-191 Regent Street, W1 (Crown Estate)	1/7/03	5,335	5,946	-	14 off-site	875 retail 52 nightclub	1,705 retail 377 restaurant	Off-site mainly in Great Portland Street area
Selfridges, 400 Oxford Street, W1 Stanhope Plc	Comm-ittee 5/6/03 Pending decision	7,083	31,020	5 off-site	18 off-site	103,126 retail, 295 hotel rooms	111,586 retail, 366 hotel	Shortfall of 39 units =£3.081m in commuted payment
Film House 142 Wardour Street W1	2/5/03	12,401	12,128		6	1,432 Business units	402 retail 2,087 Business units	6 flats to offset against increase in commercial floorspace
21-29 Maddox Street, W1/Morley Property	3/4/03	2,297	2,957		7	564 retail	182 retail	7 to match increase in office floorspace (660 sq m)
185-191 Regent Street,	27/2/03	5,336	5,946			875 retail	1,705 retail	14 flats (off-

W1 Crown Estate								site) to offset against increase in commercial floorspace
Abbott House, 229-233 Regent Street, W1 London House Ltd	31/10/02	11,535	13,063		10	4,398 retail	5,136 retail	10 flats to offset increase of 1,528 sq m in office floorspace. Under construction
15-18 Golden Square, W1 Benchmark Group	27/9/02 Committ ee 8/11/01	4,862	5,396	1	4	1,426 retail	1,246 retail	Under construction
74-85 St James's Street, SW1 HSBC	5/7/02 Committ ee 13/12/01	12,000	14,307		7			Increase in commercial floorspace matched by off-site residential. Completion 2003
Cardinal Place (Esso House), Victoria Street. SW1 (Land Sec)	31/5/02	55,971	68,200		93 of-site (including 28 affordable)	8,301 retail	13,570 retail	Off-Site at Neville House, Page Street, JV by LS and Berkeley. Cardinal Place and Neville House both under construction.
39-40 Portman Square, W1/Delancey & Co	23/5/02	7,135	12,028	10	20			Increase in office floorspace matched by net residential units
C&A Store, 200 Oxford Street, W1/Brador Properties	9/5/02	Nil	1,600		10	3,600 retail	2,265 retail	Under Construction
39 Wigmore W1 CIT Group	4/4/02	7,809	8,842	12	23 (No affordable)	2,929 retail	2,958 retail	Construction complete 2003
9-13 Grosvenor Street, W1 Grosvenor + Hammerson	28/9/01 Committ ee 8/3/01	4,497	7,580		18 off-site (No affordable)		962 retail	Increase in Office floorspace to be offset against 18 private resi units. provided at 24-26 Gilbert Street
Belgrave House, 76 Buckingham Palace Road SW1 Grosvenor + JER	21/9/01 Committ ee 18/5/01	28,268	32,365		36 (including 9 affordable)	Nil	1,505 retail	Under construction
The 21st, 13-27 Davies Street W1	12/9/01 Committ	845	1,649		14	142 retail	116 retail	Construction complete 2003

Capital & Comet Ltd	ee 22/2/01							
Tachbrook Street Triangle, 179-209 Vauxhall Bridge Road SW1 WCC (For Sale)	28/6/01 Final decision pending	2,100	3,654		43 (including 11 affordable)		1192 retail	Far better site for resi + retail instead of offices.
New Palace Place, 2 Marsham Street SW1/Galliard Homes	14/6/01 Committ ee 15/2/01	82,879	60,330		131		2,787 retail	New Home Office HQ. 98 private + 33 AH
NCP Car Park Site, Carrington Street W1/Edencross Construction Ltd	27/3/01 Committ ee 28/9/00		2,946		34	3,500 car park	3,600 car park	£516,100 commuted payments
Davis House, 129 Wilton Road SW1/Stow Securities Plc	6/4/00	1,864	4,831		17		870 retail	£131,000 for 2 AH units. Site vacant for at least 2 years
London Residential Research								

The evidence from Table 3 is in our opinion unambiguous. The policy is working. It is delivering a significant increase in offices. It is delivering more housing than would otherwise be the case. In terms of numbers of "policy compliant" permissions, on-site provision is in the majority. However, in terms of numbers of housing units generated, off-site provision is more effective. Off-site provision is far more effective in terms of providing affordable housing. The mixed use policy is not stopping office development, although it is decreasing the volume of offices which would otherwise get built in Westminster.

We could seek to calibrate whether this decrease in output is sufficient to push up office rents, which would be contrary to strategic office policy. Our untested conclusion is that it is only one factor amongst many determining office rents, and that as such it is having little or no impact upon top rents. Nor can we find any evidence that the policy conflicts with other policies, in relation for example to transport patterns, retailing, tourism or heritage.

Thus, in terms of EIP Panel recommendation R6.3, we find that the Westminster policy and its Camden equivalent does not "demonstrably conflict with other policies of this Plan".

3.2.2 City of London and Canary Wharf

Tables 1 and 2 showed very clearly that The City and Tower Hamlets are the two single most important boroughs in London in terms of providing capacity for future office development and employment growth. Both are projected to require an additional 15 million sq ft by 2016. If policy 3B.5, para 3B.26 and EiP recommendation R6.3 prevent these two boroughs from achieving their office development capacity, the policies would be in conflict with "other policies of the plan", notably employment growth to protect and enhance London's world city role.

As at mid 2001, in combination, there was already the Gain to Stock capacity to deliver this 30 million sq ft additional offices, with The City at 76% of necessary capacity, but Tower Hamlets at 123%. It could therefore be argued straightaway that the introduction of mixed use policies could not conflict with other policies of the plan. The reality is not so simple. There is always the issue of whether permissions represent the right space in the right place, although it is highly unlikely that any part of the City or Canary Wharf and its immediate hinterland is the wrong place. A more challenging issue is that in current market conditions, many if not most of the existing permissions will not be implemented before their 5 year expiry. Across central London and Docklands as a whole, the volume of unimplemented permissions at end 2003 for office developments over 50,000 net sq ft we estimate to be not less than:

- Granted in 1998 – 3.9 million net sq ft - including City 1.1m, and TH 1.1m
- Granted in 1999 – 3.0 million net sq ft - including City 1.0m, and TH nil
- Granted in 2000 – 7.1 million net sq ft - including City 1.3m, and TH 1.1m
- Granted in 2001 – 7.8 million net sq ft - including City 2.1m, and TH 2.5m
- Granted in 2002 – 8.7 million net sq ft - including City 3.8 m, and TH 2.0m
- Granted in 2003 – 8.2 million net sq ft - including City 1.5m, and TH 0.4m

On this basis, and given our expectation of very low start levels until 2005 at the earliest, getting on for 12 million sq ft of unimplemented permissions in central London would be coming up for renewal or revision over the next 1-2 years, including at least 5 million sq ft in the City and Tower Hamlets.

From a planning law standpoint, renewal of an existing permission should reflect material changes of policy since the original permission was implemented. 3B5, 3B.26 and R.6.3 certainly represent a material change in policy, which should in theory open up renewals to the full force of mixed use policy.

If this did happen, it would cause major distortions in the City and Canary Wharf office markets. In our opinion, a significant proportion of office permissions coming up for renewal in the City would struggle to comply with mixed use policy, both in terms of viability and practicality. Office values are lower than when they were granted. In accordance with para 3B.26, the great majority of City office developers would seek to provide the housing off-site, and they would find it very difficult to secure the necessary volumes of land in adjoining city fringe locations. That leaves four main policy options:

- grant renewals without imposing mixed use policies;
- grant renewals where only the Gain To Stock to the existing permission was subject to mixed use policy;
- allow and or encourage off-site provision to go to lower cost locations well beyond the City Fringe and other high value locations in Zones 1 and 2.
- go for a non-site specific commuted payment policy, the proceeds to be spent in a coordinated manner to be guided by the GLA/boroughs/Housing Corporation. (We recognise that there is no statutory basis for doing this at present).

The crucial difference between the City and Westminster is that the gain to stock in Westminster from office development is typically quite small, whereas in the City and at Canary Wharf, the gain to stock is very large. (The main exception to this picture in Westminster is Paddington, which is a genuine mixed use complex).

The simple fact is that the larger the gain to stock, and the greater the value difference between offices and residential (in favour of offices), the more onerous mixed use policy would become. The City of London most precisely meets this situation, especially, if, as the market generally believes, City rents will rise again by about 2005. This lead us to conclude (prior to the publication in November 2003 of the ODPM's Planning Obligations

Consultation Paper - see section 3.4 below) that a “one size fits all” mixed use policy for the whole of CAZ would be difficult to implement. Our preliminary thoughts were that a non-site specific commuted payments policy would stand most chance of being robust in the long-term, and capable of establishing early precedents in the short term. In other words, 3B.26 is “about right”.

The basis of the evidence given by LRR at the Camden UDP Inquiry on this issue in 2002 was that for the policy to be effective, any development which was subject to mixed use policy would have to throw up a significantly higher residual land value than the option of refurbishment or replacing “like with like”, and thereby not attracting any planning gain. In other words, and has been stated many times before, 3B.5 is a policy founded on the market realities of the commercial benefits of higher densities more than outweighing the planning gain “clawback”. A developer confronted with a policy, which results in more (space) but less (profit) will obviously do nothing to increase the built space to the maximum site capacity.

In summary, we feel that mixed use policies can be legitimately applied to the City and Tower Hamlets, but that calibration of policy will have to be more sensitive to short term market fluctuations than the Westminster 50:50 gain to stock approach, and that renewals will have to be approached with a “light touch”, to establish precedents. Just as important, there is no reason not to start to apply policy 3B.5 to new applications. To fail to do so would establish negative precedents, at just the time when successful precedents already exist in Westminster, and the EiP Panel has broadly endorsed the policy. Given that both the City and Canary Wharf are in the east sub-region, this might make the technicalities of a different policy for the City and Canary Wharf easier.

3.2.3 Central London Fringe Boroughs

We now have to ask whether circumstances in the 7 “fringe boroughs”, which would shift from “very low planning gain for offices” to “Westminster style policy” are sufficiently different to Westminster, to the extent that Westminster’s policy would either not work, or indeed conflict with other dLP policies. Clearly there are differences:

- Westminster is very high value, both for offices and residential, as well as retail and hotels, to the extent that residential values are typically on a par with office values in prime locations (Mayfair/StJames’s/Knightsbridge), and on a par with or above office values in secondary locations (Fitzrovia/Paddington);
- Westminster’s high value office and residential markets exist side by side, so off-site solutions in close proximity are attainable;
- land ownership patterns in Westminster, characterised by the historic great estates and very large modern day investor/development companies like Land Securities make land use swaps easier to achieve than in locations with more fragmented ownerships.

Probably the single biggest difference between Westminster and the fringe boroughs is the land ownership pattern. Although it is our view that there is still a significant amount of under used (but rarely totally redundant) employment land in the fringe boroughs capable of delivering off-site solutions, deals will be far more difficult to do than where a single owner of both sites is involved, or where planning policy is to retain employment uses, even if demand for such land is weak and pure commercial development unviable.

There is another important factor to take into account, and that is what happens to the local office markets in these boroughs if they become the recipient boroughs for off-site housing in connection with office developments in the City and Tower Hamlets/Canary Wharf. Actually, we only need to consider the “export” of housing from the City of London, since there’s plenty of redundant employment land in the near vicinity of Canary Wharf and Aldgate, Tower Hamlets other main office location.

As a crude policy proposition, if we assume gain to stock from office permissions in the City had to be matched by housing on redundant employment land in adjoining city fringe locations, it would not work. Even decent quality existing and future office permissions in the fringe boroughs would have to be “sacrificed” for housing led schemes. What is much more plausible is that commuted payments from the City could tip marginal office sites in the city fringe into residential. Even this process would not however deliver anything like enough land to provide the volume of housing to match offices gains to stock in the City. There are already strong market forces working in favour of residential on office sites in the fringe locations, where almost without exception residential values are higher than office values, before allowing for affordable housing policy, as shown in the respective borough tables in Chapter 4.

In concluding this section on City fringe boroughs, we do need to make reference to the unsatisfactory situation which exists on a number of large sites, where an extant office permission has remained unimplemented for two decades or more, but housing is effectively rendered unviable due to the impact of affordable housing policy on residual land values. It is in these situations where planning policy creates “uneven playing field” in favour of offices, and against housing, which leads to no development happening at all.

The most recent example of the uneven playing field, is Ropemaker Place, EC2 in Islington, where permission was granted in November 2003 for a 720,000 gross sq metre office building, where the total planning obligations package was £3.5million, with nothing for housing. (The existing 300,000 gross sq ft office building was built in 1985, such is sustainability in offices). Ropemaker Place is an appropriate location for a very large office building, but the permission is clearly not in keeping with the spirit of policy 3B.5 and 3B.26. If the same site was proposed for housing, including 35% affordable valued at £200 per sq ft, then the decrease in end value would be over £50 million, based on open market residential values of £500 per sq ft.

3.3 Possible Implications of ODPM Planning Obligations Consultation Paper November 2003

The ODPM's Obligations Paper was published after all the working papers for this study had been submitted to the GLA steering group. However, we felt it important to include it in our research, since it opens up important policy options in the context of the Mixed use and Affordable Housing Study. It is particularly relevant in the context of City of London office development, as in draft London Plan policy 3B.5, as amplified by para 3B.26. The reason for our enthusiasm for the proposals in the Planning Obligations Paper is simple. By introducing the principle of commuted payments (tariffs), the delivery of affordable housing from office development planning gain would be simplified.

Para 3B.26 allows for off-site provision, but there has been a general presumption (at least by LRR) that the receiving site would have to be explicitly linked through the S.106 agreement to the donor site in the City. Let us assume that the City of London office developer did not wish to be the off-site developer of housing (of whatever tenures) generated by his office scheme. (Very few large office developers in London willingly undertake residential development - private or affordable). Thus, the off-site residential development would in all likelihood be undertaken by a residential developer, private and or RSL.

This kind of off-site deal would involve the following parties:

- the City of London office developer, who would have to agree a commuted payment, to be used on the receiving site;
- the City of London Corporation (Planning and Housing Departments);
- the owner and or developer of the receiving site - who in return for receiving cash from the City of London office developer would have to commit to build the S.106 housing according to an agreed timescale, quality and nomination procedures;
- the Planning and Housing Departments of the receiving borough;
- GLA - depending on size of development;
- Housing Corporation - depending on availability of ADP grant, if any.

Although we believe that such deals are "doable", they would clearly be complicated, the equivalent of a lengthy and unpredictable house buyers' chain.

In his press release launching the Obligations Paper, the "optional charge" proposed was described by Keith Hill, the Planning Minister, as:

> *"an optional charge, which developers could choose to pay instead of negotiating a conventional section 106 agreement. Local authorities could spend this money on new community facilities, infrastructure improvements of affordable homes, including key workers."*
>
> *"Under the proposal local authorities must set out details of the charge (e.g. £ per unit of housing or sq. m of retail floorspace) in their local development plans. This would ensure that all parties involved would know the cost of the charge before the application is submitted".*

Quite why the Minister sees retail as more bountiful than offices in generating affordable housing is not stated, nor does it appear to be the case that the optional charge would be ring fenced for affordable housing. Within the Paper itself, there are various sections of direct relevance to City of London office development, some of which are reproduced below (bold sections highlighted by LRR):

> *"29. The new policy could also encourage voluntary pooling of planning obligation contributions. If we proceed with this option, local planning authorities would be asked to consider when the needs of new development and the surrounding community can best be met by pooling contributions.* ***Pooled contributions from more than one development could be used within the local planning authority area or, where all parties agree, across two or more authorities. This approach could be used to make the best use of available contributions to a range of areas, including affordable housing and local transport infrastructure.*** *Local planning authorities should also consider preparing joint Local Development Documents (LDDs) where there are significant regional issues that could be addressed though pooling".*
>
> *34. However, although some have suggested that a system of securing contributions without negotiations would be preferable, some developers and local planning authorities are concerned about the loss of the right to negotiate the scale and form of their contributions: the benefit of flexibility vs speed and certainty. To balance these concerns, we will introduce a new <u>optional</u> charge.* ***Where a developer would prefer the greater speed and certainty of a non-negotiated planning obligation they will have the option of paying a fixed charge.*** *But where they would prefer to negotiate the scale and form of their contribution, developers will continue to have the right to negotiate a conventional negotiated planning obligation.*
>
> *43. Local planning authorities could consider whether* ***pooling a proportion of the planning charge contributions they receive with neighbouring authorities provides an opportunity to better meet the needs of new development and the local or regional community.*** *Where this is the case, a statement of when contributions will be pooled and how they will be used could be included in the development plan. Local planning authorities should consider preparing joint Local Development Documents (LDDs) where there are significant regional issues that could be addressed by pooling.*

We (LRR) are particularly attracted by the ideas of a fixed charge and pooling, as these issues are uniquely well suited to office development in the City of London.

Fixed Charge

The City of London Office Market is remarkably homogeneous in terms of rental levels for new offices. Over the years, historic definitions of "prime" and "secondary" locations have been eroded by "fringe" developments such as Broadgate, which in the mid 1980s introduced a new era whereby rental levels are determined as much by building efficiency as location. Generally speaking, large new office developments anywhere in the City of London are priced at £40-45 psf (asking). There is then a strong case for having a single, totally unambiguous rate per sq ft charge. If the dLP employment forecasts are broadly correct, then the City needs an additional 15 million net sq ft by

2016, or in gross terms say 20 million sq ft. Discount say 5 million gross which might start from existing permissions, and that leaves 15 million gross sq ft, which even at a very low figure of £20 psf on the gain to stock is a handy £300 million, or not less than £25 million a year.

We could undertake calculations to arrive at a level, which the various stakeholders might jointly feel would not deter office development, but maximise funds for affordable housing. Our “gut feel” at LRR is that £20 psf at present on the gain to stock would be seen as de minimis by developers, particularly as the payment would (presumably) not be made until construction started, or later, by which time confidence in rental growth is likely to be much stronger. The approach taken to applying Affordable Housing Policy through Circulars 3/96, 6/98, and now the draft London Plan is to start low, establish precedents, and then apply a progressively tougher policy, until such point that policy becomes unviable. Tarriffs would be much easier to adjust (upwards or downwards) than the full package S.106.

Pooled Contributions and Cross Border Delivery of Affordable Housing

The Corporation of the City of London is uniquely well placed to effectively administer such a process. The Corporation has a long history of using its own money to provide development finance for affordable housing developments in other boroughs. (LRR has undertaken various studies for the Corporation helping to identify key worker housing acquired by the Corporation).

City Fringe Boroughs

For “city type” office locations in fringe boroughs, such as Finsbury Square, Aldgate and London Bridge, the Fixed Charge should also work perfectly well. In these boroughs, we would expect the monies raised to be spent within the borough.

Circular 1/97 – The Necessity Test

Although 3B.5 and 3B.26 appear to assume that it is legal to seek to secure housing planning gain from City of London offices, we should still be mindful of the Necessity Test deriving from Circular 1/97. The Obligations Paper summarises the Necessity Test as follows:

> *“14. The Circular advises that the local authority should not seek a contribution through a planning obligation unless it is:*
>
> *necessary;*
>
> *relevant to planning;*
>
> *directly related to the proposed development;*
>
> *fairly and reasonably related in scale and kind to the proposed development; and*
>
> *reasonable in all other respects.*
>
> *This policy has become known as the 'Necessity Test'”.*

There is a strong case for arguing in favour of key worker housing as best meeting the conditions of the Necessity Test, but if the City Corporation chose to provide finance for social rented housing, it would make no difference to the City office developer.

4.0 COMPARISON OF VALUES BY USE, BY BOROUGH BY SUB-REGION

4.1 Background

This section of the Report focuses on the implementation of mixed use policy in the context of sub-regional development frameworks (SRDF), and in particular the viability of various mixed use configurations on a borough and sub-regional basis. As stated earlier, the main emphasis of the analysis is on offices and residential, and the implementation of policy 3B.5 as refined by para 3B.26. We should state at the outset that both LRR and CBRE have reservations about using “headline” rental and or capital values as an input to viability negotiations, even as ranges. The problems go far deeper than the most obvious issue of rental/value variations within boroughs being as wide if not more than between boroughs.

Other methodological issues to consider include:

- The value of an **office building** is hugely affected by the occupier profile and covenant strength of the occupier(s), which will be uncertain in the case of a speculative development. Office rents are also extremely volatile. The rental values quoted are estimates only. In some areas it may be difficult to accurately estimate rental levels and/or there may be very little evidence to support these estimates. Additionally, in the current market, “net effective” rental values may actually be considerably lower when the value of rent-free periods and or other tenant incentives is discounted.
- In a **residential building**, values can vary by as much as 100% within a building, depending on position, height and aspect. We have not put residential rents in the tables, since the residential letting market is not sophisticated enough to deal on a £psf basis.
- **Retail** is probably the most difficult use in terms of making like for like comparisons. Retail rents are typically quoted as Zone A, which is normally calculated as the first 20 foot depth from the street frontage. The next 20 foot depth is normally 50% of Zone A rent, and the next 20 feet 50% of that. In terms of upper floors, first floor sales areas rents are typically 10% of ground floor, and ancillary/storage space very low indeed. In prime retail locations, purpose built retail is being developed on upper floors, but in secondary retail locations, the upper floors will typically be office or residential, which will achieve full values for those respective uses.
- For **industrial**, should we differentiate between light industrial and large, high bay warehouses? Many “sheds” in inner city locations are in effect offices + workshop/studio. Again, we have not sought to include capital values in the tables, although yields are typically in the range of 7-9% for decent quality space, being heavily influenced by the same factors as offices, namely lease length, covenant, quality of space, location, expectations of rental growth and redevelopment potential.

Having stated our “health warning”, the borough tables are designed to provide reasonably robust comparative data.

In comparing use values for the purpose of understanding pressures (or lack of) for development, the crucial issue to get at is the residual land value. Setting aside the impact of the planning system, the use or uses which will actually get built on any site will normally be that or those which generate the highest residual land value. By way of a further introduction to this section of the report, it is worth restating very briefly the characteristics of each use, and how they determine the residual land value, examples of which have been illustrated in the case studies. Of the four uses analyses in this report, offices, residential, retail and industrial, we have focussed most attention on offices and residential.

Offices:

Offices not only throw up very high rental and capital values in the most sought after office locations, they also tend to generate the highest ratio of buildable space to site size. Offices can of course be built in conjunction with other uses, both in terms of vertical split and horizontal split. Offices are frequently found above retail, and increasingly beneath residential. As explained in Chapter 3, the planning regime for offices in London has for the most part been highly supportive, with very low requirements in the City and City fringe for any forms of “planning gain”, which could impact on residual land prices. In many situations, the “uneven playing field” of planning obligations between offices and residential favours offices.

Residential:

At end 2003, there were very few locations anywhere in London where private sector residential did not generate the highest capital values for built space on upper floors. On ground and occasionally first floors, retail will generate higher capital values in established shopping locations. In terms of competing uses, the biggest single factor which impacts on residual land values for residential apart from build cost and end value is the affordable housing requirement, and the availability of grant for social rented housing.

Retail:

In terms of values for built space, Zone A retail invariably throws up by far the highest figure. However, as we pointed out above, the calculation of Zone A rents and hence lower value space means that capital values for a retail investment cannot be calculated simply by applying the yield to the Zone A rent. For this reason, we have not presented retail capital values in the borough tables. As a general principle however, a mixed use development with a retail component in an established retail location should be able to outbid a single use office or residential building.

Industrial:

Industrial typically throws up the lowest values for built space, and because of the relatively low ratio of built space to site size, also combine to generate the lowest residual land values. In many industrial locations however, there would be no demand for offices, so competition from that quarter would not be forthcoming. Where residential is allowed to compete with industrial in planning terms, residential will normally win, except in environmentally challenged and inaccessible locations.

4.2 Central Sub-Region

4.2.1 Overview of Central Sub-Region

Tables “Central Sub-Region 1-7” provide more detail on individual boroughs, to highlight variations in value between and within the boroughs by use. The boroughs are covered in the same order as they appear in Table 2A.1 of the draft London Plan, page 48. Although we seek to focus the short commentaries on themes affecting each borough within its own SRDF borough grouping, the wider picture must of course be looked at. For example, the Islington office market is hugely influenced by market conditions in the City of London. In terms of economic linkages and geography, Islington has far closer links with The City and several East sub-region boroughs than it does with Kensington & Chelsea and Wandsworth within its own SRDF.

4.2.2 Islington

The main competition for land in Islington is between offices and residential. New speculative office development is marginally viable in the Finsbury Square area, although no new starts have been recorded in 2003. Speculative office refurbishment, especially “funky” low cost high image is also just about viable in the trendier areas of Clerkenwell”. Elsewhere in the borough, office development is unlikely to be viable, unless as a cross subsidised use in a residential scheme. The planning regimes applying to offices and residential are very different, and the impact of these differing policies is actually to hinder rather than encourage both office and residential development in the city fringe locations at the present time. (See page 65 above).

Table CSR 1 shows that with the exception of Finsbury Square and its immediate vicinity, including Chiswell Street, residential values in Islington are far higher than offices. Our preliminary data for 2003 shows that there were only 3 office starts in 2003, of which 2 were residential led mixed use schemes, and the other a minor refurbishment. The office market in “edgy” locations like Clerkenwell is extremely volatile, and rents/values can change rapidly. In the late 1980s office boom, office rents touched £40 psf in St John Street, EC1, collapsing to £10 or so in the early 1990s, getting back to £30 psf in 2000, and back to sub £20 by mid 2003.

Table Central Sub-Region 1 - Comparative Values by Use in Islington

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Finsbury Square	Rent	£25-30		£80 Finsbury Pavement	No market
	Cap Value	£360-440 (6.5%)	No market		
Clerkenwell	Rent	£15-20		£45 Cowcross Street	£8-10
	Cap Value	£190-250 (7.5%)	£450-500		
Angel	Rent	£12-17.50		£110 Upper Street	£8-10

Table Central Sub-Region 1 - Comparative Values by Use in Islington					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
	Cap Value	£150-220 (7.5%)	£500-550		
Holloway	Rent	£10-12		£50 Holloway Road	£7-9
	Cap Value	£110-160 (9%)	£340-380		
Finsbury Park	Rent	No market		£30 Seven Sisters Road	£6-8
	Cap Value	-	£300-350		
Source: London Residential Research, CBRE					

However, this volatility encourages developers to hope that office rents/values will rise sharply again. The impact of affordable housing policy on land values is such as to deter office developers from switching to residential, whilst the hope of office market recovery persists. In town centre locations away from the city fringe, like The Angel, Holloway Road/Seven Sisters Road, retail is by far the most valuable use at ground and possibly first floors, with residential generating highest values on upper floors. There are relatively few large, strategic industrial estates in Islington, but a large number of small industrial enclaves. Many of these smaller industrial premises are under pressure for change of use to residential.

Student accommodation is also an important sector in Islington at present. Student accommodation can generate a residual land value of at least £120 per sq ft in locations like Pentonville Road, N1. At this level, students can outbid offices, where residual land values are below £100 per sq ft, and also outbid residential, when the implications of affordable housing are factored into the calculations. In November 2003, a major application was submitted to convert 180,000 sq ft of long vacant offices on Pentonville Road to provide student accommodation, together with university teaching space, retail, private residential and affordable housing.

4.2.3 Camden

Camden is more obviously split than Islington between a central London, Zone 1 area, and the rest of the borough north of Euston Road. Despite the overwhelmingly commercial/university/tourism and cultural feel of the borough south of Euston Road, there is a large amount of affordable housing in this area. Table CSR 2 shows that capital values are currently somewhat higher for residential than offices in Holborn, Bloomsbury and Hatton Garden, but this could easily change when the office market recovers.

Table Central Sub-Region 2 – Comparative Values by Use in London Borough of Camden					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Holborn	Rent	£28-32	-	£90 High Holborn	No market
	Cap Value	£400-470 (6.5%)	£500-5500		-
King's Cross	Rent	£20-27.50		£50 Euston Road	£10-12
	Cap Value	£270-370 (7%)	£400-450		
Camden Town	Rent	£15-20	-	£120 Camden High Street (north)	£10-12
	Cap Value	£180-240 (8%)	£500-550		
Kentish Town	Rent	£10-12	-	£45 Kentish Town Road	£7-9
	Cap Value	£125-150 (8%)	£350-400		
Hampstead	Rent	£15-20		£75 Hampstead High Street	No market
	Cap Value	£200-270 (7%)	£700-800		-
Source: London Residential Research, CBRE					

Speculative new office development is marginally viable in Holborn and Fitzrovia at present, but there have been no new build starts in 2003. There have however been several significant refurbishment starts in 2003. The largest is Metropolis House, approx 100,000 sq ft, in Tottenham Court Road, W1, a full-scale high specification development. There have also been interim refurbishments starting on sites, which have permission for new build schemes, such as Whittington House, Alfred Place, WC1. In the rest of the borough, including King's Cross and north of Euston Road, speculative new office building is not viable at current rental levels.

Hotels have also competed strongly for development land with office and residential since the mid 1990s. Camden's recently adopted UDP policy RE5, by seeking to require the gain to stock in an office development to be matched by residential is beginning to generate results, in terms of office permissions generating housing, although this has yet to translate into construction starts.

King's Cross is by far the most important development opportunity over the next 10 years or so. In our opinion, a mixed use scheme driven by offices closest to the transport interchange, and housing further north and west on the site is the most likely market based outcome, so the mixed use approach being adopted by LB Camden is consistent with underlying market forces. Around the edges of the King's Cross railway lands are significant stretches of industrial uses, mainly in the form of rather tired, post war sheds and warehouses. This land is likely to come under pressure for residential.

North of the Euston Road and King's Cross, residential is far more valuable than offices in both town centre locations such as Camden Town, and of course in non commercial locations. Camden Town has recent examples of retail on ground and residential on upper floors. As with other boroughs throughout London, we expect to see major mixed use projects to redevelop and intensify supermarkets with residential above the store and car park, another example of market driven mixed uses being encouraged by the planning system.

4.2.4 Westminster

The CAZ areas of Westminster are probably the ultimate examples of mixed use urban living, working and playing in London. Table CSR3 shows that within the prime west end locations of Mayfair and Victoria, office and residential values are about level pegging. Given that offices produce a better site cover than housing, office values will still tend to edge out residential in CAZ in current market conditions. New speculative office development remains viable in most areas of CAZ, as evidenced by starts in 2003 in Victoria, Mayfair and Soho. Paddington has become marginal for speculative office development, with no starts in 2003, but there has been a major residential start.

Table Central Sub-Region 3 - Comparative Values by Use in The City of Westminster

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Victoria	Rent	£40-42.50		£200 Victoria Street	No market
	Cap Value	£580-610 (6.5%)	£600-650		
Mayfair	Rent	£55-62.50		£475 (Oxford Street – west of Oxford Circus)	No market
	Cap Value	£870-980 (6%)	£1,100 - £1,300		
Paddington	Rent	£30-35		£45 Praed Street	No market
	Cap Value	£440-510 (6.5%)	£550-600		
Queen's Park	Rent	No market		£30 Harrow Road	£8-10
	Cap Value		£400-450		
St John's Wood	Rent	No market		£90 St John's Wood High Street	No market
	Cap Value		£800-900		
Source: London Residential Research, CBRE					

In prime shopping locations, the most favoured route by developers is retail on ground and one or two upper floors, with offices above that. Retail is far more valuable than offices on the lower floors in these situations. Institutional investors are more comfortable with this package of uses than retail with residential.

Probably the best comparison between values in Westminster away from the prime retail locations is at Paddington. There, the planning strategy is to create a mixed use place, comprising mainly single use office or residential buildings, except for “A” uses at ground floor. Table CSR 3 shows that offices and residential have similar values at Paddington, which again allows the planners to push a strategy which broadly follows market trends. Paddington has also seen the development of major hotels over the past 3 years or so.

Away from CAZ and Paddington, there is no effective office market, and residential is by far the most valuable use, except for ground floor retail frontages, such as St John’s Wood High Street. Westminster has very little industrial stock, except for occasional builders yard type premises in locations like Paddington..

4.2.5 Kensington & Chelsea

In comparison to Westminster and Camden, Kensington & Chelsea has very little office stock. There is therefore only limited competition between residential and offices in the borough. Where there are offices and residential in the same location, Table CSR 4 shows that residential is far more valuable. The main commercial uses in the borough are retail and hotels. In the super-prime retail pitches of Sloane Street, Brompton Road, and King's Road, residential and retail complement each other as very high value uses. There have also been speculative new office starts in 2002/3 in the fashionable hotspots such as Sloane Square, High Street Kensington and Knightsbridge, usually as part of retail led mixed use schemes. There is competition between hotels and residential.

Table Central Sub-Region 4 - Comparative Values by Use in Kensington & Chelsea

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Chelsea	Rent	£25-30	-	£300 King's Road	No market
	Cap Value	£360-440 (6.5%)	£1,000 - £1,200		
South Kensington (SW7)	Rent £psf	£25-30	-	£90 Old Brompton Road	No market
	Cap Value £psf	£360-440 (6.5%)	£900 - £1,000		
Kensington (W8)	Rent £psf	£30-35		£250 High Street Kensington	No market
	Cap Value £psf	£410-470 (7%)	£1,100 - £1,300		
Notting Hill	Rent £psf	£15-20		£90 Notting Hill Gate	No market
	Cap Value £psf	£190-250 (7.5%)	£700-900		
North Kensington	Rent £psf	£10-15		£100 Portobello Road	£10-12 (Latimer Road)
	Cap Value £psf	£125-180 (8%)	£400-450		

Source: London Residential Research, CBRE

Perhaps surprisingly, for the UK's highest value residential local authority, there is still a significant amount of operational and even derelict industrial land, mainly to the north of the Westway, in North Kensington. Latimer Road, Freston Road (Frestonia) and to a smaller extent Kensal Road, all still have low rise, low intensity light industrial and warehousing uses. These buildings are however under intense pressure for redevelopment, not least for affordable housing. The most interesting example in the context of this study is 248-300 Kensal Road, W10, being developed as 74,000 sq ft of offices and B1© on lower floors and 108 affordable flats on upper floors. These flats are the off-site affordable housing in relation to the single use development of 288 private flats at 552 King's Road. This is an exemplary scheme in terms of a mixed use development including offices, social rented and shared ownership housing.

There are other examples of off-site affordable housing being directed at industrial sites in the north of the borough. The combination of affordable housing above B1 is in itself an interesting model with wide applicability in London, although some commentators worry about the social polarisation which goes with encouraging new affordable housing into the lowest (but not low) value areas. The forthcoming Peabody development at the former Kensal Gasworks will be an important test of genuine mixed use new build in the borough. Lots Road is also a genuine mixed use project, but so much uncertainty hangs over the planning situation that we do not comment further here.

4.2.6 Wandsworth

Wandsworth is the first of the boroughs in the central Sub-Region, which does not in effect have an office market which is contiguous with the main City of London and or West End office markets. The nearest offices to the West End are at the western end of Vauxhall Cross, and the Marco Polo building on Chelsea Bridge Road. Table CSR 5 shows that residential values far outstrip office values in all locations in the borough. This is as true of riverside locations as inland. It is also relevant to point out the old adage, in the context of Clapham Junction, that excellent public transport is a pre-condition for successful office markets, but not a guarantee. With the possible exception of "Norman Foster Land", at the south end of Battersea Bridge, there is nowhere in the borough where speculative office development is currently viable as a stand-alone single use development.

Table Central Sub-Region 5 - Comparative Values by Use in Wandsworth

Location	**Value Measure**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Battersea (Riverside)	Rent £psf	£15-20		No market	£10-12
	Cap Value £psf	£190-250 (7.5%)	£700-800		
Wandsworth Town Centre	Rent £psf	£15-20		£100 Wandsworth High Street	£8-10
	Cap Value £psf	£190-250 (7.5%)	£400-450		
Putney (Town Centre, Non Riverside)	Rent £psf	£15-20		£110 Putney High Street	No market
	Cap Value £psf	£190-280 (7.5%)	£450-500		
Battersea (Clapham Junction)	Rent £psf	£10-15		£85 St John's Road	£8-10
	Cap Value £psf	£120-180 (8%)	£400-450		
Tooting	Rent £psf	No market		£60 Tooting High Street	£7-9

	Cap Value £psf		£300-350		
Source: London Residential Research, CBRE					

Despite the value gap between offices and residential, there is an active office development programme, entirely due to planning policies which encourage residential on formerly employment (industrial land) but also require offices to be built as part of those developments. As at mid 2003, there was 150,000 net sq ft offices under construction in 8 developments, all of them residential led. There was an interesting debate at the London Plan EiP as to whether this office space, for which there is low demand, might better be built as housing, including affordable housing.

Table CSR 5 also shows that retail is the most valuable use in town centres, but as is normally the case, retail sits happily with residential. Despite the large-scale redevelopment of the Wandsworth riverside, primarily for housing, the borough still has large areas of industrial land, primarily in the Wandle Valley. Recent newspaper reports about a possible redevelopment of the 5 acre Young's Brewery site in Wandsworth town centre will be another test of Wandsworth's progressive and effective policies to release industrial land for mixed use residential and modern employment space.

4.2.7 Lambeth

Lambeth has suffered a greater attrition of its office stock to residential and hotel conversions than any other central London borough. This process continued even through the late 1990s office boom, when it virtually ceased elsewhere in central London. By the end of 2004, the Albert Embankment and Vauxhall Cross will have more residential stock than offices. Until 1995, we believe that this area had just one flat, that of Lord Archer. Table CSR 6 illustrates why residential is sweeping offices aside in Vauxhall. The only new office start in Vauxhall in 2002/3 is part of St George Wharf, the mainly residential redevelopment of the "Effra site", which had been vacant since 1953.

Table Central Sub-Region 6 - Comparative Values by Use in Lambeth

Location	**Value Measure**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Waterloo	Rent £psf	£25-30		£50 Lower Marsh	No Market
	Cap Value £psf	£380-450 (6.5%)	£550-600		
Vauxhall (Riverside)	Rent £psf	£20-25		No market	£7-9
	Cap Value £psf	£275-350 (7%)	£650-750		
Kennington	Rent £psf	£10-15		No market	£6-8
	Cap Value £psf	£125-175 (8%)	£350-400		
Brixton	Rent £psf	No market		£95 Brixton High Street	£6-8

Table Central Sub-Region 6 - Comparative Values by Use in Lambeth					
Location	**Value Measure**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
	Cap Value £psf		£325-375		
Streatham	Rent £psf	No market		£55 Streatham High Street	£6-8
	Cap Value £psf		£300-350		
Source: London Residential Research, CBRE					

As our case study of Vauxhall showed, new speculative office development is unlikely to be viable at Vauxhall at present. Waterloo is marginally viable for new office development, but only one small new speculative office development has started in Waterloo since 2001, and that was the first one since the 1980s. There is a more active office refurbishment programme at Waterloo, and institutional investors have been buying office buildings in close proximity to the station, with a view to major refurbishment or redevelopment in 2-3 years time. Elsewhere in the borough, there is very little office stock, and speculative offices tend to be unviable. There has been a continuing process of office to residential conversions in town centre locations like Brixton.

Despite a lot of negative publicity, retail in major town centres like Brixton and Streatham remains buoyant, and throws up by far the highest values. We are now seeing a significant trend towards residential above new retail space in these centres, most notably by Tesco. Lambeth retains large volumes of industrial stock, including the Council's own portfolio, which was recently sold to Workspace. Intense competition for this portfolio reflects the strong demand for inner city industrial land, both for continuing employment uses, which provide a decent "running yield" of around 7% or more, and the development potential for mixed use and or residential development.

4.2.8 Southwark

Table CSR 7 shows that in every location within Southwark, including the immediate vicinity of London Bridge station, residential values currently outstrip office values. However, due to the higher site cover and build densities achievable for offices, and the impact of affordable housing policy on residential land values, large scale office development is still the preferred route for a number of blue chip developers with major sites close to London Bridge and the new Southwark underground station. Speculative new build office development is marginally viable around London Bridge, but there have been no new build starts during 2003. However, there are a couple of major pre-lets in prospect, and if these happen, that will encourage speculative office development to return.

Table Central Sub-Region 7 - Comparative Values by Use in Southwark					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
London Bridge	Rent	£25-35		£65 Borough High Street	£8-10
	Cap Value	£360-510 (6.5%)	£550-600		
Bermondsey	Rent	15-20		£75 Surrey Quays	£8-10
	Cap Value	£170-220 (8.5%)	£400-450		
Elephant	Rent	12-15		£35 Elephant Centre	£7-9
	Cap Value	£150-180 (8%)	£350-400		
Peckham	Rent	No market		£60 Rye Lane	£6-8
	Cap Value		£259-300		
Dulwich	Rent	No market		£45 Lordship Lane	
	Cap Value		£300-350		
Source: London Residential Research, CBRE					

In the rest of the borough, speculative office development is not viable. There have been 15 office starts in the London Bridge and Bermondsey areas during 2002/3, of which 11 have been residential led mixed use schemes, and the remaining four all refurbishments. Stand-alone speculative office development may become viable again in Bermondsey in the next cycle for offices, particularly for low specification, creative type space. There are no other locations in Southwark where we envisage stand-alone new office development being viable for at least a decade, and that includes Elephant and Castle and Canada Water.

Southwark still contains large areas of low rise, shed based industrial and warehouse space, not least in and close to the highest value residential locations in the north of the borough. There is massive market pressure for residential led redevelopment in places like Walworth Road and Old Kent Road, with developers seemingly prepared to accept continuing employment use on ground floor with residential above. We are aware of proposed mixed use schemes of this type where the housing will be entirely affordable, albeit intermediate rather than social rented. In the “inland” town centres, retail throws up the highest values, again with the potential for residential above.

4.3 East Sub-Region

4.3.1 Overview of East Sub-Region

In terms of extremes of values, the East sub-region probably contains the widest range of any of the five SRDFs. Despite the woes of the office market since 2001, the City of London is still a very high value location, as is Canary Wharf. According to the London Office Policy Review 2002, (based on the RTP study), the East sub-region requires an additional 39 million sq ft of offices, to meet employment growth projections to 2016. This is 48% of the entire volume of additional offices required in London by 2016. Over the same period, there is a need for an additional 142,000 residential units, representing 31% of London's total.

Although these statistics may give the impression that there will be intense competition for afinite amount of land between offices and residential, in practice this is unlikely to be the case. Office development will be concentrated in a small number of "big locations", including of course The City, Canary Wharf and possibly Stratford, depending on market conditions. There is already enough office development capacity in the development pipeline, including well known pre-application sites such as Bishopsgate Goodsyard, to accommodate the additional 39 million sq ft. Office land and buildings in marginal office locations are likely to remain under considerable pressure for residential and university related uses.

4.3.2 The City of London

Speculative office development has in theory remained viable in all locations in the City of London, except possibly the Aldgate area on the eastern boundary. Table ESR 1 shows that (headline) rents remain high enough to justify construction, and office capital values for the most part exceed residential. However, over-supply of existing new stock, and high levels of availability of high quality post 1985 second hand stock has limited new speculative starts in the City to less than 200,000 net sq ft in 2003, and no pre-let or owner occupier new starts. (In February 2004, FPD Savills Research report that net effective rents in the City are actually £22.50 psf, which would render speculative development totally unviable).

Although there has been renewed market interest in office to residential conversions in the City in 2003, including post 1980s buildings, the City office development and investment community has become more optimistic about an upturn in demand in 2004 and possibly rental growth by 2005. Taking these various factors into account, offices will continue to be the dominant use in The City, with only a small number of "difficult" office sites and buildings likely to go residential or hotel.

Table East Sub-Region 1 - Comparative Values by Use in The City of London					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
EC1 (eg. Smithfield)	Rent	£20-25		£45 Long Lane	No market
	Cap Value	£270-340 (7%)	£525-575		
EC2 (eg. Moorgate)	Rent	£40-45		£100 Moorgate	No market
	Cap Value	£560-6300 (6.75%)	No market		
EC3 (eg. Leadenhall Street)	Rent	£40-45		£150 Leadenhall Market	No market
	Cap Value	£560-630 (6.75%)	No market		
EC4 (eg. Cheapside)	Rent	£40-45		Cheapside	No market
	Cap Value	£560-630 (6.75%)	£500-550		
E1 (eg. Aldgate)	Rent	£25-30			No market
	Cap Value	£315-380 (7.5%)	£400-500		
Source: London Residential Research, CBRE					

Retail and leisure uses on ground and lower floors has become part and parcel of City office development over the past decade or so, creating higher values for the space devoted to “A” uses, as well as making The City a more attractive working environment. Essex girls can now stay on late after work to have fun, without having to bail out to Billericay.

4.3.3 Tower Hamlets

Table ESR2 shows that residential and office values are finely balanced on the immediate eastern city fringe at Spitalfields and at Canary Wharf. On the Spitalfields market site itself, the higher intensity of development achieved by offices compared with residential generates higher land values for offices. Similarly at Canary Wharf, residential values are significantly higher than current office values. However, expectations of an upturn in the office market, and the potential to provide world scale offices means that offices with ancillary retail and leisure remains the preferred use in market terms.

Apart from the immediate eastern city fringe and Canary Wharf itself, new speculative office development is unlikely to be viable in Tower Hamlets during the next up-cycle. The Millennium Quarter, less than half a mile south of Canary Wharf is a case in point. “Oven ready” planning permissions for very large office schemes of up to 750,000 sq ft have not been built, and the owners of these sites are all reviewing their options. They are not optimistic about an early return of office demand, given the huge development potential still at Canary Wharf itself.

Residential is very much viable in the Millennium Quarter, but the impact of affordable housing policy on land values, and an uncertain planning situation with regard to “loss of employment” has also prevented new housing schemes superseding the office permissions. Student accommodation is being actively considered on several Millennium Quarter office sites, and financially challenged students bundled together at very high density may well deliver the highest land values and most viable development option, as has been the case on and off in marginal central London office sites since the early 1990s.

Elsewhere in the borough, speculative office development is not viable, and nor is it likely to be within any foreseeable time frame. The possible development of a new HQ for the LBTH at Bethnal Green would not be a market driven development. Operational industrial and distribution land is still to be found on the Isle of Dogs, most obviously Billingsgate market, which in due course will presumably succumb to office and or residential pressures. Small scale industrial sites away from the river have been a major source of residential land for many years, a process which continues.

Table East Sub-Region 2 - Comparative Values by Use in Tower Hamlets

Location	Value Measure	Offices	Residential	Retail (Zone A)	Industrial
Spitalfields (Market Area)	Rent	£30-35		£50 Brick Lane	£8-10
	Cap Value	£450-550 (6.5%)	£375-425		
Wapping (Inland)	Rent	£10-15		No market	£7-9
	Cap Value	125-175 (8%)	£400-450		
Canary Wharf (River or Dockside)	Rent	£30-35???		£150 Canary Wharf	No market
	Cap Value	£450-550?? (6.5%)	£550-600		
Isle of Dogs Millennium Quarter	Rent	£15-20		£50 Marsh Wall	£8-10
	Cap Value	£200-250 (7%)	£450-500		
Bethnal Green	Rent	No market		£50 Roman Road	£6-8
	Cap Value	-	£300-350		

Source: London Residential Research, CBRE

4.3.4 Hackney

Residential values currently exceed offices in all locations in Hackney, even though in central London terms (speaking in terms of Zone 1 rather than SRDF classification) Hackney is by far the “cheapest” borough for residential. Table ESR 3 shows than even in Shoreditch, private residential currently generates values up to 50% higher than offices. This is a situation which we must assume will change, and that sites such as “Northgate”, with permission for 822,000 net sq ft and which is in effect another piece of the Broadgate complex, will eventually get built. Elsewhere in the South Shoreditch area, there are applications and permission for over 1 million sq ft of new offices in stand-alone schemes, and the viability of these schemes must be questionable even during the next up-cycle for the City office market.

Table East Sub-Region 3 - Comparative Values by Use in Hackney

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Shoreditch	Rent	£20-25		No market	£7-9
	Cap Value	£250-325 (7.5%)	£400-450		
Hoxton	Rent	£15-20		£25 Hoxton Street	£7-9
	Cap Value	£200-250 (7.5%)	£375-425		
Dalston	Rent	No market		£50 Kingsland High Street	£6-8
	Cap Value		£325-375		
Hackney	Rent	No market		£50 Mare Street	£6-8
	Cap Value		£300-350		
Stoke Newington	Rent	No market		£35 Stoke Newington Church Street	£6-8
	Cap Value	-	£250-300		

Source: London Residential Research, CBRE

Paradoxically, more office space is getting built in the cool peoples’ enclave of Hoxton and its vicinity, half a mile north of the City of London, than in the immediate City fringe. During 2002/3, around 150,000 sq ft of office space has started in residential led mixed use schemes, in locations north of Old Street and Hackney Road, and up Kingsland High Road to Dalston. This outcome is entirely due to planning policies which have given priority to employment uses. Live-work development has been a major feature of development in South Shoreditch, Hoxton and Dalston, but LB Hackney now recognises this process to have been a planning scam, producing few jobs, but allowing residential developers to neatly avoid employment and affordable housing policies.

An issue which needs to be considered is whether the East London Line extension to Dalston, due to arrive in 2008, will push office values up sufficiently to make offices viable in their own right. The line should provide a major boost to South Shoreditch office development, but moving north along the Kingsland corridor, the answer is probably no. We do not see Dalston town centre as an office centre of the future, although the value of small scale, studio type space will increase. The new line will have an equal if not greater impact on residential values, leaving offices still producing far lower values than residential. Retail is by far the most valuable commercial use in town centres such as Dalston, Hackney Central and Stoke Newington.

In the northern and eastern parts of the borough, the Olympics programme is likely to be the most important influence on relative land values by use. The pressure on extensive tracts of underused industrial land in the Lower Lea Valley is already a major strategic issue. We would just comment that the problems arising from the displacement of bad neighbour industrial users from the Lower Lea Valley would not be practically or satisfactorily resolved by moving those activities to the myriad small scale industrial locations in the borough, which provide a major source of land for residential and associated clean employment uses.

4.3.5 Newham

Newham is one of the most interesting boroughs to study in the context of mixed use development and competing land values. Table ESR 4 suggests that stand-alone speculative office development is unviable anywhere in the borough. Nevertheless, expectations of future transport infrastructure, FBS employment growth and the general “Gateway Effect” have already created an office development pipeline (permissions and applications) in excess of 7 million sq ft. 4 million of this is at Stratford, a further 2 million or so in the Royal Docks, and the bulk of the remainder on the Silvertown riverside. It is worth looking in a little more detail at each of these three locations.

Stratford became an established office centre in the 1960s, based on back office operations for the City, including Manny Hanny (which ended up as part of JP Morgan Chase) and JP Morgan in its pre-merger form. Those functions closed down in the 1990s, providing the impetus for office to residential conversions. The 4 million sq ft of offices proposed for “Stratford City”, the Stratford railway lands, is a response to the imminent arrival of CTRL, and expectation of FBS employment growth generally, as projected in the dLP. For the time being, Stratford remains a residential “hotspot”, but the proposed office space is perhaps best characterised as “strategic reserve”, since there is no guarantee that Stratford City will provide a compelling offer for occupiers of any description. If Stratford does succeed as a 21st century office location, it will be the first outer London town centre to reinvent itself as a major office location.

Whereas Stratford has seen no significant speculative office starts since the 1980s, the Royal Docks had 237,000 net sq ft of high quality offices under construction at end 2003, as phase 1 of the Royals Business Park. This is the only pure business park style office space under construction anywhere in London at end 2003. The total office component of the Royals Business Park is 1.6 million sq ft. The space is currently unlet, and due for completion by mid 2004. If rents in excess of £20 psf (after incentives) are achieved, which is optimistic but possible, then the viability of the Royals as a major low rise office campus with high parking provision would seem to be assured. For the time being, residential is higher value and lower risk than offices in this location.

On the Silvertown riverside, we see large-scale office proposals on locations such as Peruvian Wharf as being unviable now for offices, and likely to remain so, even during another office market up-cycle. It is interesting to note that the January 2004 application for Silvertown Quays includes 5,000 homes, and about 400,000 sq ft of commercial space, but only 130,000 sq ft of that is for offices. Residential has become well established in Silvertown, North Woolwich and Beckton, including non-riverside or waterside sites.

Retail, as always, throws up the highest values in town centres on lower floors, particularly in conjunction with residential on upper floors. Newham still has large swathes of industrial land, much of it providing modern, well serviced shed type accommodation. Strategic industrial sites in Newham are still capable of attracting institutional finance for long-term investment and development. Smaller non-strategic industrial locations, especially around Canning Town underground station are coming under increasing pressure for residential development.

Table East Sub-Region 4 - Comparative Values by Use in Newham

Location	Value Measure £paf	Offices	Residential	Retail (Zone A)	Industrial
Stratford	Rent	£10-15		£85 The Broadway	£7-9
	Cap Value	£150-200 (7%)	£325-375		
Canning Town	Rent	No market		£50 Barking Road	£6-8
	Cap Value		£250-300		
Royal Docks	Rent	£15-20		No market	£7-9
	Cap Value	£200-250 (7.5%)	£350-400		
Beckton	Rent £psf	No market		£25 Galleons Reach	£6-8
	Cap Value		£275-325		
Plaistow	Rent	No market		£40 Green Street	£6-8
	Cap Value	-	£225-275		

Source: London Residential Research, CBRE, Strettons

4.3.6 Redbridge

Redbridge has received many plaudits for its ambitious plans for the regeneration of Ilford town centre. As the Redbridge website puts it (including apostrophe violations):

> *"Ilford Town Centre is relatively prosperous and currently has a catchment population of nearly ¾ of a million people. A population surge is expected in the next ten years due to its strategic position within Thames Gateway. It is vital it expands it's services and enhances it's status accordingly. New housing will be especially important. Development of 250 residential units in the town centre is already underway and additional development of some 180 units per year is foreseen for the next 15 years".*

The borough is, in our view, absolutely right to recognise that offices will have a relatively minor role to play. There has been no new office development in Ilford since the 1980s.

Table East Sub-Region 5 - Comparative Values by Use in Redbridge

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Wanstead	Rent	No market			
	Cap Value		£275-325		
Woodford	Rent	No market			£6-8
	Cap Value		£325-375		
Ilford	Rent	£8-10		£130	£6-8
	Cap Value	£100-120 (8%)	£250-300		
Newbury Park	Rent	No market			£5-7
	Cap Value		£300-350		

Source: London Residential Research, CBRE, Strettons

Table ESR 5 shows that speculative office development is currently unviable anywhere in the borough, including Ilford town centre. Ilford town centre only has a small stock of offices occupied by the private sector, and one of the largest recent residential schemes in the town centre is an office tower conversion, further eroding the critical mass and credibility of Ilford as an office centre for occupiers other than local service providers. In contrast to its office market, Ilford plays a sub-regional role as a retail centre, with only Romford achieving higher Zone A rents in the outer north east London boroughs.

Confirmation that the regeneration of Ilford town centre is likely to be driven by residential and retail comes in the form of an announcement by Redbridge Council on 11/11/2003, that:

> *"Redbridge council has selected Capital & Counties and Countryside Properties to redevelop 6.4 acres (2.6ha) of central Ilford in Essex. The £120m scheme will comprise 118,400 sq ft (11,000 sq m) of retail and leisure amenities, 488*

residential units, including affordable housing, 16,100 sq ft (1,500 sq m) of community facilities and 300 car parking spaces".

4.3.7 Barking and Dagenham

In the 1970s and 1980s, Barking town centre had an active, if low key office market, which had a number of successes. The shipping, insurance and construction sectors all moved office jobs from the City of London to Barking during this period. Since then, the office market has been in retreat, with minimal lettings to the private sector, other than local services. Office conversions in the town centre have started, reflecting the much higher values for residential over offices. This is even more remarkable, since residential values in the borough of Barking and Dagenham are amongst the lowest in London. Excellent communications to central London make Barking "a natural" for outer London town centre residential development.

Table ESR 6 shows that Barking town centre residential values are in the £250-£300 per sq ft range, easily double any (notional) value for new or fully refurbished offices. Offices are clearly likely to be unviable on this basis, a situation we do not expect to change during the next office up-cycle. There are no other town centre or out of town locations in Barking and Dagenham which have sufficient stock to be described as an active office market. Even when the Dagenham car plant was in full scale production, Ford preferred to locate its office operations at Brentwood.

Table East Sub-Region 6 - Comparative Values by Use in Barking and Dagenham

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Barking	Rent	£8-10		£60 Ripple Road	£6-8
	Cap Value	£100-120 (8%)	£250-300		
Dagenham	Rent	No market		£55 Heathway	£6-8
	Cap Value		£200-250		
Beacontree	Rent	No market		£30	
	Cap Value		£200-250		
Rainham	Rent	No market			£5-7
	Cap Value		£200-250		

Source: London Residential Research, CBRE

Barking Reach and Dagenham Dock are of course two of the most important strategic development locations in the Thames Gateway. In Dagenham, the competition for land seems to be not so much "between" uses as "within" uses. There are strong market pressures to develop very large B8 distribution facilities, but the planners favour R & D and manufacturing. "Industrial uses" as broadly defined are clearly viable, and residential is probably still not viable due to lack of physical and community infrastructure. "No frills" residential development is viable at Barking Reach already, as evidenced by the drip feed of schemes, which have come through over the last 5 years or so. However, design and community led mixed use "Poundbury style" residential may still be a little too ambitious in market terms.

4.3.8 Havering

Havering, like Redbridge, and Barking and Dagenham, has only one town centre office market of any substance, Romford. Table ESR 7 shows that even in Romford, office rents are way below viability levels, and only half the capital value of residential, even though Romford is a relatively cheap residential location. Again, like Ilford and Barking town centres, Romford has very good public transport to central London, but this has not been enough to generate any office development since the late 1980s.

However, rather like Ilford and Barking, Romford town centre is achieving significant market led regeneration, but not based on offices. The "Romford Revival" programme is very much retail and leisure driven, with a major refurbishment by Hammerson of its 500,000 sq ft Liberty shopping mall, and a 510,000 sq ft retail and leisure led redevelopment of the former brewery, on the edge of the town centre. Zone A retail rents in Romford are reported to have achieved £190 per sq ft, and Romford has become the 10 largest retail centre in London. Residential has played a relatively minor role in Romford Revival this far. As the LB Havering website quite properly states, this is a major achievement in the context of ferocious out of town competition from Lakeside (Thurrock) and Bluewater.

Table East Sub-Region 7 - Comparative Values by Use in Havering

Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Romford	Rent	£8-10		£185	£6-8
	Cap Value	£100-120 (8%)	£200-250		
Harold Hill	Rent	No market			
	Cap Value		£250-300		
Hornchurch	Rent	No market		£40	£6-8
	Cap Value		£225-275		
Upminster	Rent	No market			£6-8
	Cap Value		£250-300		

Source: London Residential Research, CBRE

4.3.9 Bexley

The two main office centres in the London Borough of Bexley are Sidcup and Bexleyheath. The main private centre office location in the borough is Sidcup, but as with so many other small and mid sized office centres in outer London, it has failed to generate new development since the mid 1980s. Indeed, Sidcup has suffered the rare indignity of one of its major occupiers, Veritas, moving back to central London in the early 1990s. The London Borough of Bexley is based in Bexleyheath. Bexley is one of the few London boroughs, which has not had any significant office to residential conversions. Table ESR 8 confirms that office development is not viable anywhere in the borough, residential values are far higher, despite being amongst the lowest in London.

In terms of commercial development, the LB Bexley has seen recent speculative industrial development, at the Five Arches Business Estate on Maidstone Road in Sidcup, a location with substantial amounts of vacant offices. The riverside areas of the borough are one of the few remaining areas of heavy industry in London. Although large residential schemes have been taking place on former industrial land in the borough, including Chandlers Wharf, the former VI Components Industrial Park in Erith, industrial uses can still compete for land in market terms in the major industrial locations. Institutional investors and developers are very active in the Crayford and Bexley industrial markets, which are seen as part of the “hot” south east M25 sector.

Table East Sub-Region 8 – Comparative Values by Use in Bexley

Location	Value Measure £paf	Offices	Residential	Retail (Zone A)	Industrial
Thamesmead (Inland)	Rent	No market	£175-225	No market	£6-8
	Cap Value				
Erith	Rent	No market	£200-250	£35	£6-8
	Cap Value				
Bexleyheath	Rent	£8-10	£250-300	£120 Broadway	£6-8
	Cap Value	£100-120 (8%)			
Sidcup	Rent	£8-10	£250-300	£50	£6-8
	Cap Value	£100-120 (8%)			
Crayford	Rent	No market	£200-250		£6-8
	Cap Value	-			

Source: London Residential Research, CBRE

In terms of town centre regeneration, retail and residential are the value drivers, as evidenced by plans for Erith town centre, reported in May 2003. Rockcliffe Developments and Deutsche Property Asset Management plan to “more than double the size of the decaying 1960s shopping centre, to a total 150,000 sq ft. The retail scheme, renamed Riverside Shopping Centre, will comprise 14 remodelled shops and be anchored by Matalan and Wilkinson, which have prelet 40,000 sq ft and 28,000 sq ft respectively. The scheme will also include 44 residential units”.

4.3.10 Greenwich

Greenwich has strong parallels with Newham, in terms of being a Gateway borough with a huge development pipeline of both residential and commercial space. Just like Newham, the market case for large-scale residential development in town centre, riverside and brownfield sites is proven. The viability of office development is far more uncertain. The current office development pipeline in Greenwich is around 3.5 million sq ft, of which 2.8 million sq ft is the Greenwich Meridian Delta permission at the Dome site. Of the remaining 0.7 million sq ft, 0.5 million is in residential led mixed use schemes.

Table ESR 9 suggests that stand-alone office development is unlikely to be viable anywhere in the borough for a considerable period of time. Residential values are far higher in all locations. In terms of a possible market "pecking order" for major new office locations, the Greenwich Peninsula would in our view come some way behind Stratford City, by virtue of its isolation, total absence of any office support services, and possible capacity problems on the JLE, its only public transport link. Whereas the case for Stratford as a "Strategic Reserve" of office development land is strong, the same force of argument does not in our view apply on the Greenwich Peninsula.

Table East Sub-Region 9 - Comparative Values by Use in Greenwich

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Greenwich (Town centre)	Rent	£10-15	£425-475	£75 Church Street	
	Cap Value	£125-175 (7.5%)			
Greenwich Peninsula	Rent	£15-20	£325-375		
	Cap Value	£200-250 (7.5%)			
Charlton	Rent	No market	£200-250	£30	£7-9
	Cap Value				
Woolwich	Rent	£8-10	£275-325	£85 Powis Street	£7-9
	Cap Value	£100-120 (8%)			
Eltham	Rent	No market	£250-300	£65	
	Cap Value	-			

Source: London Residential Research, CBRE

Although most of the attention in Greenwich is focussed on the Peninsula, Woolwich town centre also throws up important lessons for mixed use development and competition for land. The Royal Arsenal development is an unusual, but very important example of a major mixed use regeneration scheme comprising mainly residential and light industry as the main commercial use. In this case, the light industry and storage uses, to the east of the complex, are actually viable in their own right, and not receiving cross subsidy from the residential developer. Pure (B1a) offices on the commercial part of the Royal Arsenal site would not be viable.

Across the road in Woolwich town centre, office to residential conversions have been the principal source of residential development "land". As a result the office employment base has been badly eroded, but we do not believe the office occupiers could have been kept in Woolwich through the operation of the planning system to protect office employment. Retailing in Woolwich town centre is strong and improving, and the increasing residential population, mainly in mid price housing should further assist the performance of the local retail market, which a few years ago was perceived as being in serious decline.

4.3.11 Lewisham

Lewisham, like Hackney, has become a trendy borough for artistic and performing people, but they are not great consumers of conventional office space. The much acclaimed and prize winning Laban dance centre in Deptford highlights the role of contemporary culture in urban regeneration, although its immediate vicinity remains hostile and depressing, not least the thick wire mesh security fence around Laban. The London Borough of Lewisham needs "alternative" uses to drive regeneration on the employment front, because as an office location it has very limited growth potential. Table ESR 10 indicates that there is no location in the borough where speculative office development is viable, and that only Lewisham town centre has any sort of established office market.

Table East Sub-Region 10 - Comparative Values by Use in Lewisham

Location	Value Measure £paf	Offices	Residential	Retail (Zone A)	Industrial
Deptford (Non riverside)	Rent	No market		£40 Deptford High Street	£6-8
	Cap Value		£300-350		
New Cross	Rent	No market		£35 New Cross Road	£6-8
	Cap Value		£200-250		
Lewisham	Rent	£8-10		£120 Molesworth Street	£7-9
	Cap Value	£100-120 (8%)	£300-350		
Catford	Rent	No market		£55 Rushey Green	£6-8
	Cap Value		£250-300		
Hither Green	Rent	No market			£6-8
	Cap Value	-	£250-300		

Source: London Residential Research, CBRE

Although Lewisham and Deptford have both benefited from the arrival of the DLR extension, we see no prospect of either town centre supporting speculative office development in the next up-cycle. Residential development is viable, both in town centres and on former industrial land, both in the newly cool locations like Deptford, and in the less fashionable areas like Hither Green. Both small and large-scale industrial sites are under increasing pressure for residential development. Several town centres, including New Cross clearly have the capacity for mixed use intensification, including redevelopment of extensive supermarket sites.

One of the main challenges for Lewisham will be its very large riverside sites, most notably Convoys Wharf. Assuming the issues of protected wharves is overcome, the site would generate substantial land value for residential. We would not however expect office space to be viable as a stand-alone commercial proposition, however iconic the architecture might be. Small scale studio and light industrial units would generate demand, but are unlikely to generate significant profits.

4.4 West Sub-Region

4.4.1 Overview of West Sub-Region

Since the 1980s, the West sub-region has been by far the most successful office market in outer London - if Hammersmith & Fulham can live with that tag. London's only established major office parks are in this region, at Stockley Park, Chiswick, and Bedfont Lakes. All three generated large scale, high quality speculative development during the last cycle, up to 2001. The West sub-region also supports successful "arterial" office development, most notably on the Great West Road in Brentford, and Bath Road on the north side of Heathrow. Speculative development has been more limited in these arterial locations, although the new GSK head office at Brentford has become a landmark. Town centre office development has been limited. Uxbridge town centre has generated institutional style speculative office development, and media style office space has been developed in Hayes and Ealing.

Of all London's office markets, the West sub-region has been the most prone to "Boom and Bust " in recent years, even more than The City and Canary Wharf. The M4 corridor, on both sides of the London boundary was the UK epicentre of the technology, media and telecommunications (TMT) bubble, resulting in acres of shiny new glass clad office buildings springing up all the way from Chiswick to Reading and beyond from 1999 to 2001, most of which remain unlet. The West sub-region faces the strongest competition of any sub-region from office space across the border, in the home counties. Despite the massive economic strength of the area, and potential for further strong growth driven by expansion of Heathrow and the existing economic base, there is now considerable pressure for office to residential redevelopment, even on very large office sites. The demand for housing in the West sub-region remains very strong.

4.4.2 Hounslow

As Table WSR 1 shows, Hounslow has at least five established office markets. These comprise both conventional town centre markets, such as Hounslow and Chiswick, as well as bespoke "mid urban business parks", such as Chiswick Park and Bedfont Lakes, and car based arterial road markets, such as the Great West Road in Brentford, sometimes known as the "Golden Mile". From an office development standpoint, the gold has been a bit elusive over the past couple of years, and there have been no new build speculative office starts in Hounslow since 2001. Residential values are significantly higher than offices in all the locations shown in Table WSR1.

Table West Sub-Region 1 - Comparative Values by Use in Hounslow					
Location	**Value Measure £paf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Chiswick	Rent	£20-25		£80 Chiswick High Road	£10-12
	Cap Value	£270-340 (7%)	£425-475		
Brentford	Rent	£15-20		£50 Brentford High Street	£10-12
	Cap Value	£190-250 (7.5%)	£450-500		
Hounslow	Rent	£15-20		£80 psf (Treaty Centre, High Street)	£8-10
	Cap Value	£200-250 (7.5%)	£325-375		
Feltham	Rent	£10-15		£45 Longford Shopping Centre, High Street	£8-10
	Cap Value	£140- 200 (7%)	£275-325		
Hatton	Rent	No market			£10-12
	Cap Value		£300-350		
Source: London Residential Research, CBRE					

Although we would expect the office market to rebound in the borough within the next year or two, sufficient to push rents up to a level to justify a new round of speculative development in the best office locations, the development industry remains very cautious. So cautious in fact, that one of the largest and most prominent office development sites on the A4, the Akeler "Equinox" site, was reported in November 2003 to have been sold to Barratt for a primarily residential development. This site currently comprises 400,000 sq ft of offices, formerly occupied by Smith Kline (GSK). According to the EG report:

> "GSK had been trying to sell the site for several years but commercial developers were reluctant to bid".

The London Borough of Hounslow's submission to the EiP included a very useful schedule of land standing office permissions which have not been implemented.

Hounslow industrial space attracts some of the highest industrial rents in London, provide the space is of very modern design and capacity, and has excellent road transport access. "Non strategic" industrial sites are under strong pressures for residential and mixed use development, including key worker housing above commercial space in very accessible locations like Chiswick roundabout. Mixed use development including residential and retail are viable, but major town centre mixed use schemes involving a large office component, like the Blenheim Centre in Hounslow appear to have stalled.

4.4.3 Hammersmith & Fulham

Table WSR2 shows that Hammersmith & Fulham, like Hounslow also has a wide geographic spread of established office markets, which also fall into distinct generic types. Hammersmith itself is a conventional town centre market, although it has a mid urban business park within a short walk, at the Hammersmith Embankment Office Park in Chancellor's Road. This 600,000 sq ft riverside site which is still less than half built out, despite being in the planning pipeline since the 1980s.

Hammersmith centre has always been able to attract international occupiers, and although there has been only one small new office start in Hammersmith centre during 2002/3, there is every reason to suppose that speculative development will become viable again, and construction will resume. Sands End (Imperial Wharf and Chelsea Harbour) will provide new offices as part of Imperial Wharf. Fulham is mainly now a local market. Shepherds Bush and White City are primarily dependent on the BBC for their office base. We are less convinced that the very large office schemes planned for White City (M & S and Unigate) will be viable as speculative developments in the next up-cycle, but in the long term they may well provide a new office location with the critical mass to attract major occupiers.

The office schemes which have started over the past couple of years provide an interesting backdrop to the viability of offices in the borough, and the competition for land between offices and other uses:

- The largest start has been the new 800,000 net sq ft White City complex, all but about 50,000 sq ft being for the BBC. This is in effect a PFI deal, with no housing of any tenure.
- Refurbishment of the 400,000 sq ft Empress State Building, a 1960s office tower in Lillie Road started in late 2001, after Land Securities decided not to implement a hotel permission. Land Securities appears to have missed the market, with the entire building still available at December 2003, despite being offered on flexible leases.
- At Fulham Broadway, a more modest 10,000 sq ft offices was started as part of a mainly residential and retail scheme.
- At Imperial Wharf, 22,000 sq ft of offices has started in a single mixed use building which includes retail, offices and residential on the top floors.

In other words, although the office development market has remained active in the borough, the relatively high volumes of starts since late 2001 does reflects special circumstances.

Although Table WSR2 suggests that residential is far more valuable than offices in all the locations shown except Hammersmith centre, this has not resulted in a significant volume of residential starts in the form of either office to residential conversions, or new build residential on sites previously with an office permission. This situation is almost entirely due to the borough's "exceptions policy", which has successfully prevented the loss of employment land to housing, unless the housing is affordable. The same policy applies to industrial land, which is also strongly protected against private sector residential development. If the "exceptions policy" were to be eased, the volume of new housing, both private and affordable being delivered in the borough would in our opinion increase dramatically.

Table West Sub-Region 2 - Comparative Values by Use in Hammersmith & Fulham

Location	Value Measure £paf	Offices	Residential	Retail (Zone A)	Industrial
Sands End	Rent	£20-25		£25 Imperial Wharf	£10-12
	Cap Value	£250-320 (7.5%)	£600-650		
Fulham	Rent	£15-20		£100 Fulham Broadway	No market
	Cap Value	£200-250 (7.5%)	£500-550		
Hammersmith Centre	Rent	£25-30		£100 King Street	No market
	Cap Value	£325-375 (7.5%)	£450-500		
Shepherds Bush	Rent	£15-20		£70 Shepherds Bush Green	£8-10
	Cap Value	£200-250 (7.5%)	£350-400		
White City	Rent	£15-20		No market (yet)	£8-10
	Cap Value	£200-250 (7.5%)	£350-400		

Source: London Residential Research, CBRE

4.4.4 Ealing

Given its excellent strategic location, it is perhaps surprising that Ealing has only one significant office market, which is Ealing town centre itself. The other locations shown on table WSR 3 either have very low values, making any prospect of viable speculative office development remote in the extreme, or have no office market at all, except for local services "above the shops". Business park style locations like Gypsy Corner at Park Royal, have so far failed to take off for offices, although they are viable for hotels and high office content warehousing. From a strategic planning standpoint, industrial property is more important in Ealing than offices. Industrial sites like the Great Western Centre and Scott's Road in Southall are regarded as being of prime institutional quality in the industrial sector.

Table West Sub-Region 3 - Comparative Values by Use in Ealing					
Location	**Value Measure £paf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Acton	Rent	£10-15		£50 High Street	£8-10
	Cap Value	£125-175 (7.5%)	£300-350		
Ealing	Rent	£20-25		£160 Ealing Broadway	£8-10
	Cap Value	£275-350 (7%)	£450-500		
Hanwell	Rent	No market			£6-8
	Cap Value		£250-300		
Southall	Rent	No market		£80 The Broadway	£8-10
	Cap Value		£250-300		
Greenford	Rent	£10-15			£8-10
	Cap Value	£125-175 (7.5%)	£275-325		
Source: London Residential Research, CBRE					

That said, Ealing town centre should become a viable office development centre again, especially when the Heathrow Express starts to call at Ealing Broadway in 2004. The halo effect of HEX is already starting, if press reports are to be believed. In July 2003, the Estates Gazette reported on July 12 2003 that:

> “HBG Properties has secured a pre-let for its 84,400 sq ft Ealing Gateway, 26-30 Uxbridge Road, Ealing. British Market Research Bureau - advised by Rogers Chapman - is taking 45,000 sq ft on a 15-year lease, paying £25 per sq ft, with a two-year rent-free period. The building is due to be completed in the fourth quarter of 2004, which will coincide with the opening of a new Heathrow airport rail link that will stop at Ealing Broadway”.

Pre-lets often happen when underlying demand is strong, but the speculative market lacks the confidence to proceed without a pre-let. There has also been strong demand from the media industry for Manhattan Lofts’ redevelopment of the former Ealing Studios. Notwithstanding the very positive indicators for the Ealing town centre office market, there have been a high volume of office to residential conversions in the borough, in Ealing itself, but also in Acton and Greenford.

Perhaps the most interesting major site in the borough, in terms of the potential for mixed use and the competition for land between offices, industrial and residential is the former British Gas site in Southall. The site will be familiar to all rail travellers coming into Paddington. It is a short distance west of the station on the north side of the tracks, instantly recognisable by endless rows of parked cars, many new and awaiting distribution - a serious challenge for fence climbers and graffiti artists. Property Week (18/1/2002 page 2) reported that Lattice Property had appointed Castlemore as its development partner. "Castlemore had beaten off a JV between Prologis and Berkeley to clinch its biggest ever project. It plans to build 5 and 10 million sq ft which could include offices, residential and leisure as well as industrial".

4.4.5 Brent

Wembley is a famous name by any standards, but it's not famous enough to have established any successful office centres in the borough. Table WSR4 shows that there are no locations in the borough where stand alone speculative offices would be viable at present, and that residential values are higher in every location. Even in locations such as Harlesden, with an image of being "edgy", mainstream residential developers such as Berkeley are prepared to build, targeting the lower end of the trendy inner city market.

Table West Sub-Region 4 - Comparative Values by Use in Brent

Location	Value Measure £paf	Offices	Residential	Retail (Zone A)	Industrial
Kilburn	Rent	£10-15		£90 Kilburn High Road	£7-9
	Cap Value	£125-175 (8%)	£350-400		
Harlesden	Rent	No market			£6-8
	Cap Value		£275-325		
Willesden	Rent	No market			£6-8
	Cap Value		£300-350		
Wembley	Rent	£12-18		£75 High Road	£7-9
	Cap Value	£150-200 (7.5%)	£325-375		
Park Royal (Guinness)	Rent	£15-20			£8-10
	Cap Value	£200-250 (7.5)	£275-325		

Source: London Residential Research, CBRE

Nor do we have any confidence that the twin impacts of the new Wembley stadium and a new office up-cycle will push rents up sufficiently to encourage speculative office development. This opinion may seem somewhat pessimistic in view of the recently unveiled plans for around 600,000 sq ft of offices in Quintain's proposed Wembley arena development, and the extant 1 million sq ft permission for an office park at the Guinness site at Park Royal.

Wembley town centre has been experiencing a slow decline in its office market since the 1980s, with a series of conversions to student accommodation, hotel and residential. The Wembley arena scheme, together with the new stadium will provide a huge boost to the actuality and image of Wembley, which does have excellent public transport. However, in view of the intense competition from more established town centre and business park locations in west London, we are far from convinced that the Wembley market will have sufficient impetus to support speculative office development on a stand-alone commercial basis.

One of the most interesting opportunities to watch in Brent, as in Ealing, will be the continuing emergence of the Indian community as a major economic force. Just as Southall has become a speciality retail centre of European significance for the Indian community, so Wembley is also emerging as a highly entrepreneurial and influential business community. It will be important to research whether mixed use development can make a targeted contribution to the growth of the Indian business community, and other ethnic groups, as well as meeting huge demand for mid and low cost housing in the borough.

4.4.6 Harrow

Harrow is an excellent example of an outer London borough whose office market has “lost its lustre” to a major degree. It is clear from Table WSR 5 that residential is far more valuable than offices throughout the borough. This has happened, even though the office market fundamentals appear to be strong. The main office centre is Harrow town centre, which has excellent public transport from Harrow on the Hill. Large-scale office development happened through until the 1980s, and the town centre has a visual image of critical mass and coherence as an office and retail centre. Harrow is also a famous name, the sub-regional economy is very strong and the hinterland is prosperous.

Table West Sub-Region 5 – Comparative Values by Use in Harrow

Location	Value Measure Psf	Offices	Residential	Retail (Zone A)	Industrial
Pinner	Rent	No market	£325-375	£60	£7-9
	Cap Value				
Harrow on the Hill	Rent	£15-20	£350-400	£130 St Ann’s Road	
	Cap Value	£190-250 (7.5%)			
Wealdstone	Rent	No market	£300-350	£45 High Street	£7-9
	Cap Value				
Stanmore	Rent	£10-15	£400-450	£50 The Broadway	
	Cap Value	£130-190 (7.5%)			
Edgware	Rent	£10-15	£325-375	£40 High Street	£6-8
	Cap Value	£130-190 (7.5%)			

Source: London Residential Research, CBRE

Despite these apparent advantages, there has been no speculative new build office development in Harrow since the 1980s, and only one mid sized owner-occupier scheme, for a local pharmaceuticals company. There have been some minor refurbishments in South Harrow. In contrast, there have been major office to residential conversions in Harrow town centre, the edge of the town centre, and also in Stanmore. It is clear from Table WSR 5 that residential is far more valuable than offices throughout the borough. We see little prospect of standalone speculative office development becoming viable again in the borough during the next up-cycle. Harrow has to face fierce competition from both town centre and business park schemes in Watford and the North West M25 sector.

4.4.6 Hillingdon

Hillingdon is home to Britain's most prestigious office campus, Stockley Park. Despite its pivotal Heathrow location, excellent "brand image" and blue chip occupier profile, Stockley Park is still not fully built out, 20 years after it was first mooted, and over 15 years since the first buildings were completed. Construction of the last 500,000 sq ft phase of Stockley Park has been stalled for about 3 years, hit by the "Telecomms, Media and Technology" (TMT) downturn since 2001. The TMT "bust" has savaged office demand in the western corridor, just when a supply surge driven by dotcom fever has brought huge amounts of new space to the market in Heathrow and M4 markets. Despite the weak office market since 2001, table WSR6 shows that being a high value office location, and a relatively low value residential borough, office values can match or exceed residential values in various locations.

Table West Sub-Region 6 - Comparative Values by Use in Hillingdon

Location	Value Measure £sf	Offices	Residential	Retail (Zone A)	Industrial
Uxbridge	Rent	£20-25		£85 Chimes	£10-12
	Cap Value	£270-340 (7%)	£300-350		
West Drayton (Stockley Park)	Rent	£25-30			£10-12
	Cap Value	£340-410 (7%)	£275-325		
Heathrow (Perimeter)	Rent	£20-25	No market	Turnover rents Terminals	£10-12
	Cap Value	£270-340 (7%)	£250-300??		
Hayes	Rent	£10-15		£40 Hayes Bridge Retail Park	£8-10
	Cap Value	£125-175 (7.5%)	£275-325		
Ruislip	Rent	No market		£55 High Street	£8-10
	Cap Value		£325-375		

Source: London Residential Research, CBRE

Table WSR 6 shows that in Uxbridge, office and residential values are similar, giving offices the advantage in the competition for land. We would expect speculative office development to become viable again in Uxbridge and at Stockley Park by 2005. In other less established locations with major development potential, such as Hayes, we are less optimistic about the prospects for speculative office development on any significant scale. Creating "new" town centre office locations in outer London, as has been tried at Hayes is extremely ambitious, to say the least.

In considering mixed use policy at a strategic level in Hillingdon, Heathrow is clearly the dominant factor. Whereas in most locations with a very strong, high added value employment base, residential values are also high, Heathrow is obviously a significant minus in terms of residential amenity and hence values. The strategic imperative to service Heathrow's long term expansion in terms of industrial, office and hotel property presumably takes precedence over the general presumption for mixed use development.

4.5 South Sub-Region

4.5.1 Overview of South Sub-Region

A recent major study of the South London Office market, “South London Office capacity and Demand Study” was completed in August 2003 for the LDA and South London Partnership. That study highlighted the intense pressure, which nearly all south London town centres are under for residential development, against a backdrop of weak office demand. There is even greater pressure for redevelopment of industrial land for employment in much of south London. The Report considered various ways in which mixed use development might square the circle, of using residential development be the main value driver for regeneration, without compromising employment potential for both office and light industrial sectors.

The South Sub-Region contains a wide variety of policy contrasts on office development and town centre regeneration. The London Borough of Croydon has probably the strongest policies to support office and commercial development of any outer London borough, but very little new office development has happened since the late 1980s. The London Borough of Richmond on the other hand is taking a strongly conservation led approach to additional employment in Richmond town centre. Both boroughs are pursuing affordable housing policies,which make mixed use office and residential development, including affordable housing difficult to make viable. One of the major challenges for the SRDF approach will be to explore whether unmet demand in high value locations like Richmond can be “transferred” to lower value locations like Croydon, which has all the ingredients for a successful office centre, except perhaps image.

4.5.2 Richmond upon Thames

Richmond town centre is one of the few locations anywhere in outer London where speculative office development may again become viable within 2-3 years, if as we expect the London office market recovers generally. In all other locations in the borough, Table SSR 1 shows that residential values far outstrip office values, in both town centre and out of centre locations. Town centre retailing is viable, particularly with residential or possible offices above in most town centres in the borough. As with the whole of outer south and west London, there are huge pressures for change of use from industrial to residential, where the value gap between the highest value use (residential) and the lowest value use (industrial) can be over £300 per sq ft on the built space.

Table South Sub-Region 1 - Comparative Values by Use in LB Richmond					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Barnes	Rent	No market		£45 Church Road	No market
	Cap Value		£500-550		
Richmond	Rent	£25-30		£90 George Street	£6-8
	Cap Value	£350-400 (7%)	£500-550		
Twickenham	Rent	£15-20		£60 King Street	£8-10
	Cap Value	£200-250 (7.5%)	£450-500		
Teddington	Rent	£10-15		£40 Broad Street	£7-9
	Cap Value	£125-175 (7.5%)	£400-450		
Hampton	Rent	£20-25			£8-10
	Cap Value £45	£250-300 (7.5%)	£400-450		
Source: London Residential Research and CBRE					

Small scale speculative office development has been happening over the past two years in the borough, but only as part of residential led mixed use development. Richmond's main problem in terms of office development is land availability. The submission of the LBRUT to the draft London Plan Examination in Public (in respect of Topic 3d West London) was fairly blunt in this respect:

> *"It is increasingly evident that the area has reached its capacity and that further growth will lead to deterioration in the environment, in the local economy and in the quality of people's lives".*

We would suggest from our research that although Richmond town centre is "nearly full", Twickenham town centre does still have significant office development capacity, in addition there is some development capacity in the Lower Mortlake Road area. Twickenham may well become viable if the office market upturn is strong and sustained. Recent events in Sydney will also improve the image as a commercial location.

4.5.3 Royal Borough of Kingston upon Thames

Although Kingston town centre shares many of the attractions of Richmond in terms of strategic location, affluent residential population, thriving shopping centre and attractive built environment including river frontages, it is far less successful as an office location. Richmond's far superior public transport is probably the major factor accounting for this situation. Retail, and increasingly university activities are the dominant non-residential activities in Kingston town centre. Kingston now commands the highest retail rents in London outside the West End, with £245 per sq ft Zone A the most recently reported "high". Despite the quiet state of the Kingston office market, speculative high quality refurbishment may become viable in the reasonably near future, particularly if undertaken in conjunction with retail. The prospect of Crossrail at some point, means that speculative new build offices are also a realistic possibility in the medium to longer term. Table SSR2 shows that, for the time being, residential generates significantly higher values than offices in all the town centres in the borough.

Table South Sub-Region 2 - Comparative Values by Use in RB Kingston					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Kingston	Rent	£15-20		£245 Wood Street	£10-12
	Cap Value	£2225-275 (7%)	£375-425		
New Malden	Rent	£10-15		?	£7-9
	Cap Value	£125-175 (7.5%)	£300-350		
Tolworth	Rent	£15-20		Tolworth Tower	£7-9
	Cap Value	£200-250 (7.5%)	£300-350		
Surbiton	Rent	£10-15			No market
	Cap Value	£125-175 (7.5%)	£350-400	Victoria Road	
Source: London Residential Research and CBRE					

The current weakness of the office market is highlighted by “Kingsmill”, a 42,000 sq ft B1 and light industrial space scheme, where the light industrial space has let well, but pure offices very slowly, implying higher land values for light industrial than pure offices in a low rise development. The largest office development over the past two years has been the refurbishment of part of the Tolworth tower, a 1960s Seifert landmark, where asking rents are £19.75, implying that residential values would be significantly higher. Post was office buildings in New Malden have been attracting keen interest from residential developers, if the planning system facilitates change of use.

4.5.4 Merton

Merton’s office market is dominated by Wimbledon town centre, although there are minor centres in several other locations. Table SSR3 indicates that residential values are higher in all locations, but when allowing for site cover and affordable housing policy, offices would be likely to outbid residential for development land in Wimbledon town centre. Small scale speculative office development has taken place in Wimbledon over the past two years, but the big office success story is the pre-let of the 60,000 sq ft development on the site of the former Odeon Cinema on The Broadway to CIPD, an expanding local organisation. Residential developers were also after this site. A major 50,000 sq ft speculative scheme is also likely to start in 2004 at Worple Road.

Table South Sub-Region 3 - Comparative Values by Use in LB Merton					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Wimbledon	Rent	£25-30		£120 Broadway	£10-12
	Cap Value	£325-375 (7.5%)	£400-450		
Raynes Park	Rent	£10-15			£8-10
	Cap Value	£125-175 (7.5%)	£350-400		
Morden	Rent	£8-10 £100-125 (7.5%)		£50 London Road	£8-10
	Cap Value		£275-325		
Mitcham	Rent	£8-10		£45	£7-9
	Cap Value	£100-125 (7.5%)	£300-350		
Colliers Wood	Rent	£8-10		£20 Priory Retail Park	£8-10
	Cap Value	£100-125 (7.5%)	£300-350		
Source: London Residential Research and CBRE					

Elsewhere in the borough, the office marker is far weaker, and stand-alone new build would not be viable, unless subsidised by a higher value use, typically residential, but possibly retail. The most prominent office building in the borough is the Brown & Root tower at Colliers Wood, which has been subject to an application for conversion to residential. However, the building does still attract office occupiers, albeit at rents of £10 per sq ft or below, which would prohibit any significant investment in the building as offices. The South London Office Capacity did identify strong demand from small businesses for pure office and B1c activities in a wide range of locations, but not at rents sufficient to justify stand-alone new build.

As authors of the “South London Office Capacity Study”, along with Kingston University, we offered certain opinions on the contentious issue of the competition for land between industrial and residential uses on “non strategic, under used scruffy industrial sites in residential areas”. We suggested that policy framework for determining the future of these sites should not be seen as an “either or” situation, but as a potential “win win”, through mixed use development. Private sector residential development generates sufficient land values to deliver cross-subsidised uses, which would typically be either low cost B class employment space, and or affordable housing. We remain convinced that the win win outcome is deliverable.

4.5.5 Sutton

The weakness of the office market throughout the borough was neatly summarised in the evidence given by the London Borough of Sutton to the EiP:

> 3.4. There are opportunities for redevelopment and intensification, particularly regarding the older office stock in Sutton Town Centre. There are a number of vacant office blocks which are now obsolete because of their age and design. Their locations are also shown on the Map in Annex 3. Together these sites represent a significant potential for office redevelopment as they currently range from 3 storeys to 13 storeys in height (the 13 storey building has 14,210 sq m of office space). There could be opportunity for further intensification as these units are within the high building zone.
>
> 3.5 The buoyancy of the Sutton market is demonstrated by the redevelopment of the Chalk Pit site for a B&Q Superstore (7,339 sq m retail warehousing and 11,538 sq m garden centre) and the development of the Police Headquarters (11,000 sq m) at the NCP Car Park site. Furthermore the rental value of office floor space in Sutton has recently increased from £96.84 per sq m (1996) to £140 per sq m (2000) (Source: Sutton Employment Land Study, CB Hillier Parker (2000). This equates with the kind of office floor space envisaged by the LDA in its Economic Development Strategy in order to provide choice and geographical spread in the Office market.

Unfortunately at these rental values, speculative new build office is unviable, and refurbishment also unlikely, except by a distressed landlord or lessee. It is clear that in Sutton town centre, retail is viable. One of the major office blocks referred to by LBS now has permission for a primarily residential conversion. Table SSR 4 shows that elsewhere in the borough, residential values far outstrip offices, where indeed there is an active office market.

Table South Sub-Region 4 - Comparative Values by Use in LB Sutton

Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Sutton	Rent	£10-15		£110 High Street	£7-9
	Cap Value	£125-175 (7.5%)	£300-350		
Carshalton	Rent	£8-10		£40	£7-9
	Cap Value	£100-125 (7.5%)	£300-350		
Wallington	Rent	£8-10		£40	£7-9
	Cap Value	£100-125 (7.5%)	£300-350		
Hackbridge	Rent	No market			£7-9
	Cap Value		£250-300		
Beddington	Rent	No market			£8-10
	Cap Value		£200-250		

Source: London Residential Research and CBRE

The main conflict for land in Sutton is between industrial and residential. As with Merton, the South London Office Capacity Study did identify active demand from small businesses for pure office, R & D and B1c activities in a variety of out of centre locations, but not at rents sufficient to justify stand-alone new build. Our conclusion for Merton, that in accessible, but out of town centre locations, private sector residential development generates sufficient land values to deliver cross subsidised uses, which would typically be either low cost B1 and light industrial employment space, and or affordable housing, also applies to Sutton.

4.5.6 Croydon

Croydon's history as outer London's largest and best-known office market is well documented. The creation of Croydon as a "mini Manhattan" was largely a local authority inspired vision in the 1960s, underpinned by market forces, which came to fruition. New office development, including very high quality large-scale buildings continued intermittently until the early 1990s, when the 175,000 sq ft "Prospect West", 85 Wellesley Road and the 92,000 sq ft Lansdowne Building were completed. Since then, the story has been generally disappointing. Although demand has been steady, rents have slid back to mid 1980s levels.

Table SSR5 shows that even in Croydon town centre, rents for Grade A office space are almost certainly below £20 per sq ft, rendering new build offices unviable, and refurbishment marginal, although there have been two office starts in Croydon over the past three years. The first, Metro Point, Sydenham Road, is a 40,000 sq ft pure office development, immediately let on completion in 2002 to the Home Office, Croydon's largest office employer. The second, at "Point Central", 33 Dingwall Road, is an office the residential conversion, retaining 9,000 sq offices on lower floors. Croydon epitomises the challenges facing most, outer London town centres in terms of bringing a positive impetus back into office employment and development.

Table South Sub-Region 5 - Comparative Values by Use in LB Croydon

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Coulsdon	Rent	No market	£325-375	£45	
	Cap Value				
Purley	Rent	£10-15	£325-375	£45	
	Cap Value	£125-175 (7.5%)			
Croydon	Rent	£15-20		£150	£8-10
	Cap Value	£200-250 (7%)	£300-350		
Thornton Heath	Rent	No market	£250-300	£45	£6-8
	Cap Value				
Norbury	Rent	£8-10	£300-350	£45	£6-8
	Cap Value	£100-125 (7.5%)			

Source: London Residential Research and CBRE

In terms of other uses, Croydon town centre is highly regarded by retail and leisure, and increasingly residential developers. The 800,000 sq ft Centrale shopping centre opened its first phase in 2003. A major leisure centre was opened on the “Grants Site” about 2 years ago, and over 1 million sq ft of retail is planned for Park Place, replacing office space. Residential development in the town centre hitherto has been on a far smaller scale than retail. Despite Croydon’s poor image as an office location, we believe it has an excellent future, in which office, retail and residential development can all complement each other to consolidate Croydon’s sub-regional and even national role as an employment centre, whilst accommodating very substantial residential growth.

4.5.7 Bromley

In the early 1980s, Bank of America made big news in the London office market, by leasing over 100,000 sq ft for a back office operation in Elmfield Road, Bromley. The next big office story was Churchill Insurance, which was established in Bromley in 1989 with 60 staff, located on London Road. Churchill has of course become a household name, expanding to 1,000 staff by the mid 1990s with further expansion right up to 2003. We should perhaps also refer in passing to a recent 40,000 sq ft office acquisition by Churchill, in Delhi, and to the takeover by RBS in June 2003. Churchill is to be integrated with Direct Line, which may have implications for Croydon and or Bromley.

Bromley, is by far the most important office centre in the borough, but there has very little new office development since the 1980s. A small speculative scheme at Newman Place has been very slow to let at an asking rent above £20 psf. That would be consistent with the evidence of table SSR6, which suggests that new build speculative development in not currently viable in the borough. Residential values are significantly higher than offices in all the locations shown in Table SSR6, although retail is clearly the highest value use in Bromley. However, there is a reasonable prospect of offices being able to compete with residential in Bromley in the future, albeit perhaps not in the next cycle, since the town centre is a very well connected and coherent commercial centre.

Table South Sub-Region 6 - Comparative Values by Use in LB Bromley					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Chislehurst	Rent	No market			No market
	Cap Value		£325-375		
Orpington	Rent	£10-15		£50	NK
	Cap Value	£125-175 (7.5%)	£300-350		
Bromley	Rent	£15-20		£170 The Glades	£7-9
	Cap Value	£200-250 (7.5%)	£300-350		
Beckenham	Rent	£10-15		£55	£7-9
	Cap Value	£125-175 (7.5%)	£250-300		
Sydenham	Rent	No market		£35	£7-9
	Cap Value		£250-300		
Source: London Residential Research and CBRE					

Elsewhere in the borough, office buildings in secondary town centre locations such as Beckenham are under serious pressure for conversion to residential. Likewise, many non-strategic industrial sites will also go to residential, if not protected by the planning system, or redeveloped as mixed use commercial and residential schemes.

4.6 North Sub-Region

4.6.1 Overview of North Sub-Region

Two of the four boroughs, which comprise the north sub-region, Haringey and Waltham Forest have very small office markets, which primarily provide local services. These two boroughs have not generated any new build speculative offices since the 1980s or earlier. Barnet and Enfield have more active office markets, but there is no single town centre or out of town office centre, which could be regarded as having strategic significance. In terms of commercial development, retail (Brent Cross) and industrial (North Circular and Lea valley) are of much greater local and strategic importance.

4.6.2 Barnet

Barnet has a scattered office stock, primarily located in high street or town centre locations, including High Barnet, New Barnet, Whetstone, Finchley, Hendon, Golders Green, Brent Cross, Colindale and Edgware. There are no modern out of town office campuses in the borough, although the new 90,000 sq ft Pentland Group HQ in Finchley is an out of town centre scheme, which in October 2003 won the British Council for Offices award of the "Best of the Best" new office building. Despite this major accolade, Table NSR 1 shows that speculative new build offices is not viable anywhere in the borough at present. Residential values are typically at least 50% higher than office values. For the time being, and during the next up-cycle, speculative office development is only likely to become viable again in town centres as part of mixed use retail or residential led development, as is the case with the small office component at the Tally Ho @ N12 development in Finchley.

Table North Sub-Region 1 - Comparative Values by Use in Barnet

Location	Value Measure £psf	Offices	Residential	Retail (Zone A)	Industrial
Cricklewood/ Brent Cross	Rent	£10-15		£250 Brent Cross	£8-10
	Cap Value	£125-175 (7.5%)	£250-300		
Hendon	Rent	£10-15		£40 Broadway	£7-9
	Cap Value	£125-175 (7.5%)	£300-350		
Finchley/ Whetstone	Rent	£15-20		£60 Finchley High Road	£7-9
	Cap Value	£200-250 (7.5%)	£325-375		
High Barnet	Rent	£10-15		£55 High Street	
	Cap Value	£125-175 (7.5%)	£325-375		

Source: London Residential Research, CBRE

Notwithstanding the low levels of office rents throughout the borough, the development consortium at Cricklewood railway lands has included proposals for 345,000 gross sq metres of business use, including a 40 storey tower, as part of the 12 million sq ft mixed use commercial and residential project. The Mayor was not impressed by the original design of the scheme, but the key issue in the context of a mixed use study is whether 3 million sq ft or more of office and quasi office use will ever be viable in this location. Our initial reaction is to conclude that Cricklewood is a far less plausible location for a new strategic office centre than Stratford, and there is no guarantee that Stratford will generate sufficiently high rents to facilitate development in the next up-cycle.

By far the highest land use in Barnet is of course retail, by virtue of Brent Cross, which still has (physical) development potential. There have now been some small-scale examples of residential being built above retail in the traditional town centres, most recently in Whetstone, a trend which should offer plenty of further opportunities. Barnet also has a large number of car showrooms, especially in Colindale (east side of Edgware Road), and we anticipate mixed use redevelopment of many such sites to provide housing above the car showrooms, including affordable housing.

4.6.3 Enfield

Enfield has a very suburban image, but this is misleading. It contains huge industrial areas on the A10, A1055 and North Circular, which are strategically important distribution and manufacturing centres, but have also yielded major residential sites such as Enfield Island Village, the former Royal Ordnance complex. Town centre locations such as Edmonton present large scale urban renewal challenges. The west and north of the borough is however characterised by affluent and well connected town centres, such as Southgate, Winchmore Hill, Palmers Green and Enfield itself. There is no single dominant office location in the borough. Table NSR2 also shows that there are currently no locations where speculative office development is viable. Enfield town centre has already seen its most prominent office building converted to residential, and there are similar pressures in Southgate.

The industrial market in Enfield deserves particular attention, especially the 100 acre Innova Business Park. Whilst even small scale speculative offices have been slow to let, large industrial units have generated strong demand. Innova House is a 30,000 sq ft speculative office building which was completed in 2001 and remains unlet. In contrast, industrial space at Innova has achieved prime institutional quality. Estates Gazette reported in August 2001 that:

> “ProLogis and Kennet Properties, advised by FPDSavills, have sold Innova Park in Enfield to Prudential Property Investment Managers for around £18m. Home to Londons largest speculative industrial building, Innova has another 5.2ha (13 acres) left to develop into offices. Meanwhile, Gazeley Properties has sold its Delta Park scheme in Enfield into its joint venture with British Land. The BL Gazeley jv paid £13.5m for the park, which is London’s second-largest industrial park. Delta covers 8.9ha (22.1 acres) and 46,450 sq m (500,000 sq ft) is planned for the site”.

Innova specifically and Enfield more widely could well prove to be a borough where high quality industrial property is more valuable than pure offices,

Table North Sub-Region 2 - Comparative Values by Use in Enfield					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Southgate	Rent	£10-15		Chase Side	
	Cap Value	£200-250 (7.5%)	£350-400		
Edmonton	Rent	£5-10		Edmonton Shopping Centre	£7-9
	Cap Value	£50-100 (8%)	£225-275		
Enfield Lock	Rent	£10-15		(Southbury?)	£7-9
	Cap Value	£125-175 (7%)	£250-300		
Enfield Town	Rent	£10-15		Church Street	£7-9
	Cap Value	£125-175 (7%)	£300-350		
Cockfosters	Rent	£10-15		Cockfosters Road	
	Cap Value	£125- 175 (7%)	£350-400		
Source: London Residential Research, CBRE					

One aspect of competing land uses which we have not addressed earlier in this report is retail versus industrial, for the obvious and simple reason that planning policy has been strongly against out of town centre retailing for some town now, thereby protecting industrial land, as well as protecting and promoting town centres. However, the recent decision by the Deputy Prime Minister to grant permission for a 280,000 sq ft IKEA in Edmonton does show that this issue may still arise. On the basis of the supermarket chain's ability to provide residential above their stores, maybe there's scope for IKEA to do the same.

4.6.4 Haringey

Table NSR 3 shows that Haringey has a small office market, with only two centres worthy of mention. Crouch End is arguably the trendiest town centre in the borough, but even here offices are being converted to residential. This is scarcely surprising when residential values are at least three times higher than offices. Wood Green is a larger office centre than Crouch End, but has failed to generate any speculative development since the 1980s. There is no location in Haringey where speculative office development would be viable on a stand-alone basis. Nor do we see any prospect of any location in the borough becoming a viable speculative office location.

Table North Sub-Region 3 - Comparative Values by Use in Haringey					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Crouch End	Rent	£10-15		£50 Broadway	
	Cap Value	£125-175 (7.5%)	£400-450		
Muswell Hill	Rent	No market		£50 Muswell Hill Broadway	
	Cap Value		£400-450		
Hornsey	Rent	No market			£6-8
	Cap Value		£375-425		
Wood Green	Rent	£10-15		£125 High Road	£6-8
	Cap Value	£125-175 (7.5%)	£250-300		
Tottenham	Rent	No market		£40 Tottenham High Road	£6-8
	Cap Value		£225-275		
Source: London Residential Research, CBRE					

Retail and leisure development is viable at Wood Green, and in Crouch End, retail provision has been greatly improved by the letting of the ground floor of "The Exchange" residential development to Marks & Spencer. The Exchange is a conversion of a BT Exchange and offices to provide 55 private and 29 affordable housing units. The only location we are aware of in the borough where offices are proposed as part of a mixed use scheme is the British Gas site at Mayes Road, Hornsey, but this scheme appears to have stalled. Offices in this location would need a substantial cross subsidy from residential and retail uses.

4.6.5 Waltham Forest

According to the VOA, Waltham Forest had the smallest stock of offices of any London borough in 2000, at just 153,000 sq metres. Table NSR4 shows that only Walthamstow has an office market worth the name, although the EG did report in August 2003 that:

> "The last two office buildings at Lee Valley Estates' Uplands Business Park, E17, totalling 46,500 sq ft (4,319 sq m), have been let to the London Borough of Waltham Forest in Walthamstow's largest ever office letting. The council has signed two 10-year leases at an annual rent of close to £400,000".

If we interpret this report to mean rents of about £8 per sq ft, it is immediately clear why speculative office development in the borough is not viable. We see no reason why this situation should change. In terms of commercial property, Waltham Forest is primarily an industrial borough, with retail of course in town centres.

Table North Sub-Region 4 - Comparative Values by Use in Waltham Forest					
Location	**Value Measure £psf**	**Offices**	**Residential**	**Retail (Zone A)**	**Industrial**
Walthamstow	Rent	£5-10		£45	£6-8
	Cap Value	£ (7.5%)	£225-275		
Leyton	Rent	No market		£35 Lea Bridge Road	£6-8
	Cap Value		£200-250		
Leytonstone	Rent	No market		£45 High Road	£6-8
	Cap Value		£200-250		
Chingford	Rent	No market			£6-8
	Cap Value		£325-375		
Source: London Residential Research, CBRE					

5.0 CONCLUSION

This has been a long report, which has sought to explore a wide range of issues regarding mixed use development, and the extent to which mixed use development can contribute to the provision of affordable housing. There are a number of recurring themes which are worth repeating:

- Mixed use is neither radical nor new. Many areas of London, and not just the central areas, have evolved a mixed use urban fabric entirely through market forces. Housing above shops, including affordable housing is perhaps the most obvious mixed use configuration.
- Mixed use is not an end in itself. It is a means to an end that end being the promotion of a city, which is vibrant, sustainable, efficient and competitive.
- a policy emphasis in favour of mixed use does not preclude single use buildings; rather it promotes mixed use places. If a global corporation or Government Department wishes to occupy a single use office building, the office development policy framework in the London Plan is designed to allow them to do so.
- Mixed use is a planning framework designed to maximise the value of land and property, in a way, which balances the competing demands of economic and community objectives.

The opportunity for greater emphasis on mixed use arises from the London Plan's commitment to sustainable economic growth, delivered through "intensification" of under used land, in highly accessible locations. This report has throughout attempted to be "market friendly", by assuming that any development which was subject to mixed use policy would have to throw up a significantly higher residual land value than the option of replacing "like with like", and thereby not attracting any planning gain.

The principal focus of this report has been on the office and housing markets. Within the office development and investment industry, there is a concern that the London Plan is seeking to impose mixed use in general and affordable housing in particular on a very successful industry which simply want to be left alone to look after its customers, who represent the engine room of London's current and future economic success. Within the residential development industry, there is deep frustration that office development appears to escape lightly when it comes to S.106 planning obligations, whilst the house-builders have to shoulder the entire burden of London's affordable housing crisis, along with a host of other community needs. This report has sought to explore how mixed use policies can be applied in an even handed manner, so that economic and community objectives can be pursued in a complementary manner.

With regard to offices, it remains a fundamental tenet of the London Plan, that the planning system should at all times facilitate the construction of enough offices to give a reasonable choice to international, national and local occupiers, topped up by a "strategic reserve". The London office market has historically been characterised by "boom and bust", albeit within a context of falling real rental costs since the 1970s. As at end 2003, London is once again at the bottom of a down cycle. In central London and Docklands there is already sufficient office development capacity in the planning pipeline to meet projected demand to 2016, and leave sufficient vacant space to prevent rents rising too fast.

The issue for central London is not whether mixed use might damage the competitiveness of London's office sector, but to what extent mixed use can generate the "win win" outcome of sufficient offices to meet demand, but more housing to meet both demand and need, including key workers to support the London economy, and social rented hosing for those in greatest need. In Westminster and Camden, mixed use office policies which aim to match any increase in offices with an increase in housing appear to be working effectively. The London Plan proposes through policy 3B.5 and para 3B.26 to adopt similar policies for the whole of central London. Our report concludes that in principle, 3B.5 and 3B.26 are entirely justified from both an economic and community perspective. However, in the City of London and at Canary Wharf, the most sensible way forward is through commuted payments, designed to deliver off-site housing. The calculation of these commuted payments should reflect current market conditions for offices, and be adjusted subsequently in line with the market.

There are very few other locations in London where current or even future office development is likely to be sufficiently profitable to support planning obligations to support any significant cross subsidy, either to housing or any other use. Indeed, in some of the new mixed use mega schemes which we are now seeing, such as Stratford, North Greenwich, Cricklewood and Wembley, the large scale residential development proposed is clearly viable, including up to 40% affordable housing, but the market case for the offices is by no means assured. For the time being, these locations should be seen as part of the offices strategic reserve.

The relationship between offices and housing in outer London town centres is crucial to promoting town centre regeneration and "polycentricity". Even in established office locations like Croydon, there is far more pressure for residential development than offices. Pure office development is not currently viable, and there is no certainty that it will become so in the next up-cycle, from say 2005/6. Mixed use residential led development is viable, and can be a major contributor to town centre regeneration. New offices in town centres will let, but not at rents sufficient to justify construction. As a general principle, our study concludes that private residential in town centres can support cross subsidy to either offices or affordable housing, but not both. There is often a clear choice between offices and affordable housing, and that choice is a policy choice, which should be informed by the locational typology for offices outside Central London set out in para 3B.24 of the draft London Plan.

In contrast to the poor outlook for offices to generate housing through mixed use in outer London, there is scope for mixed use retail led development. There is now sufficient evidence to suggest that whereas new retail development with housing above was a comparative rarity until a couple of years ago, it is now becoming the norm. Tesco and Sainsbury's now have completed schemes, with more in the pipeline, and Asda and Safeway also announcing proposed mixed use development including affordable housing. These schemes are viable at up to 40% affordable housing, depending on grant and affordable housing tenure. The era of the single storey commercial building, except for large industrial boxes on industrial estates appears to be drawing to a close.

The reverse side of large scale retailing supporting housing is of course large scale housing development might support local retailing, to the benefit of the neighbourhood, consistent with PPG3; ie not as a back doorway to secure planning permission for out of town retailing.

One of the most interesting areas of potential for mixed use and affordable housing is the redevelopment of non-strategic industrial estates. (The precise definition of non-strategic or surplus industrial sites remains to be clarified through various studies currently being undertaken by the ODPM, GLAS and LDA). For the time being, sites which correspond to our categorisation of "under utilised, scruffy industrial estate in primarily residential area" are common throughout London. By virtue of being low density operations at present, which can be replaced with high density, residential led, mixed use, we see the scope for a huge increase in housing, including affordable housing, but also increasing employment through the provision of space designed for local businesses, especially B1C.

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Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नम्बर पर फोन करें अथवा दिये गये पता पर सम्पर्क करें।

Vietnamese

Tiếng Việt
Nếu bạn muốn bản sao của tài liệu này bằng ngôn ngữ của bạn, hãy gọi điện theo số hoặc liên lạc với địa chỉ dưới đây.

Bengali

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

Greek

Αν θα θέλατε ένα αντίγραφο του παρόντος εγγράφου στη γλώσσα σας, παρακαλώ να τηλεφωνήσετε στον αριθμό ή να επικοινωνήσετε στην παρακάτω διεύθυνση.

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہِ کرم نیچے دیئے گئے نمبر پر فون کریں یا دیئے گئے پتہ پر رابطہ قائم کریں.

Turkish

Bize telefon ederek ya da yukarıdaki adrese başvurarak bu belgenin Türkçe'sini isteyebilirsiniz.

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، الرجاء الاتصال برقم الهاتف او الكتابة الى العنوان

Punjabi

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

Gujarati

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

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