

<b>Committee(s)</b>	<b>Dated:</b>
Planning & Transportation	26/04/2016
<b>Subject:</b> Clusters and Connectivity: Research Report on the City as a Place for SMEs	<b>Public</b>
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### Summary

This report advises Members of a significant new research report on small and medium enterprises in the City that was launched at the recent property conference Mipim. The report was jointly commissioned by the City Corporation and the City Property Association.

This research examines the benefits that small and medium enterprises (SMEs) gain from being based in the City and their perceptions of its offer as a location. It also looks at some of the challenges arising from pressures on space, with a current vacancy rate of 3.9%, the lowest since 2001. The report finds that SMEs place a high value on being based in the City. Proximity to clients and customers was rated as the most important benefit, with access to good transport links and skilled staff also cited as advantages of a City location.

A substantial increase in flexible space in recent years has helped diversify the office space on offer to SMEs and start-ups, while the City's mix of heritage and modern buildings adds to its appeal as a location for business.

Perceptions about the City vary, with the City Core seen as corporate/finance dominated; although the presence of other sectors in the City is growing (there has been 45% growth in Technology, Media and Telecommunications jobs since 2010). Over a third of SMEs surveyed were also positive about the City's amenities. The increasing lack of suitable space for SMEs in the range of 300 – 1,000 sq m – often regarded as move-on space required for growing firms – presents an opportunity for developers to further diversify their provision of office space to growing firms.

### Recommendation

Members are recommended to note the findings of the research report 'Clusters and Connectivity: The City as a Place for SMEs' and its implications for planning policy in the City.

## **Main Report**

### **Background**

1. In recent years the City Corporation has sponsored a series of research papers on the City property market and City occupiers as part of our ongoing commitment to understand current trends and plan for future change. These reports are normally launched at the Mipim property conference held in March in France. The latest report launched at Mipim focussed on the role of SMEs in the City in recognition that they are an important sector of all occupiers with distinctive and changing needs. The report was prepared by Ramidus Consulting Limited and was jointly commissioned by the City Corporation and the City Property Association.
2. The latest report, focussing on small and medium enterprises, complements the 2015 report (Future Workstyles and Future Workplaces) which focussed on how the needs of large firms were changing. All these reports are available on the City Corporation's website.
3. The 2016 Clusters and Connectivity report is available at:  
<http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Clusters-and-Connectivity.aspx>

### **Key Findings**

4. The report focussed on the 16,000 City firms with fewer than 250 employees (SMEs) who collectively employ about half of the City workforce. It investigates the factors that draw SMEs to the City, the benefits that a City location offers, and how the physical infrastructure – in particular the office stock – underpins this.
5. The research findings show that the SMEs here – both new and established – strongly value the City's offer as a place to do business. In particular, many singled out the connectivity, both in terms of the links to other businesses and the dense transport network; the ease with which they could attract skilled staff was also highly rated. Whilst some agents reported a perception that the City Core was very corporate, firms appreciated the more varied offer of the wider City and neighbouring areas, and the amenities available – retail and entertainment – were highly regarded.
6. The report finds that the City's population of SMEs spans a wide range of sectors. As well as obvious strengths in Finance and related industries, there is good representation in Professional Services; Insurance; Admin and Support; Wholesale, Retail and Consumer, as well as Technology, Media and Telecommunications (TMT).
7. The report demonstrates the City's ability to adapt to new sectors and changing business requirements. The last few years have seen the strong growth of the Technology, Media and Telecoms (TMT) sector in the City, a 45% growth in these jobs since 2010. In addition to rating the business and transport

connectivity highly, this sector felt particularly strongly that a City location helped to attract the right staff, and appreciated the building amenities here.

8. The report also finds that SMEs are widely distributed across the Square Mile, and that they play a significant role in influencing the shape of the urban form. The City's financial core, where many of its large corporations are based, is the centre of gravity for SMEs in the financial sector, but many of those in other industries are scattered more widely. Notably, many SMEs in the TMT sector are clustered in parts of the Square Mile adjacent to Shoreditch, Clerkenwell and Farringdon. This has led to parts of the City acquiring a look and feel similar to these tech hubs, characterised by small and serviced offices in historic, formerly industrial, buildings.
9. Flexible workspaces and serviced offices have quadrupled over the last twenty years and continue to grow, providing a new type of space, from which many smaller SMEs have benefitted. Yet this growth has not come without challenges. Vacancy rates in the City are at 3.9%, their lowest level since 2001, illustrating the pressures on space. This pressure is particularly marked for floorspace of 300-1000 sq m, often regarded as move-on space for growing firms.

## Corporate & Strategic Implications

10. In order to consolidate and build on the City's success as a location for SMEs, the report makes four main recommendations:
  - a. **The City must maintain its cost competitiveness.** Whilst the City's office stock is good value compared to other parts of Central London, the research indicates that the factor most likely to drive SMEs out of the City is increasing cost. If actions are taken to keep prices competitive, this would serve to encourage resident SMEs to remain and may bolster the City's attractiveness.
  - b. **There is a growing shortage of space between 300 and 1000 sq m that must be countered.** The increasing scarcity of this space may become a deterrent to SMEs that would otherwise have considered locating to the City. Boosting its availability would address this emerging challenge.
  - c. **The perception of the City must be addressed.** Impressions of the City as corporate and finance-dominated may deter some SMEs, in particular if they associate this with high cost. Promoting the area beyond the core where a more fluid landscape accommodates a diverse range of enterprises could improve the image of the City as a location for SMEs.
  - d. **Digital infrastructure must be improved.** The City's businesses depend on high quality, high speed connectivity but do not always receive a consistently good service. Efforts are underway to address this, and must be continued.

11. Planning policies and land ownership strategies can be updated and implemented as appropriate to address the key findings and main recommendations of the report. In particular the report highlights the need to continue to protect existing viable business space in the City and to permit new development in the City to address SME and other business needs. The Local Plan contains policy to protect viable business space and the Local Plan Review that has recently commenced provides an opportunity to update our policies where justified by this report and other evidence.

## **Conclusion**

12. This report provides clear evidence that the City is an attractive location for many SMEs and that they contribute to its business success. Implementing the key recommendations will ensure that the City continues to be a thriving place for a wide range of businesses both large and small.

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