APPENDIX 2

Article 4 Direction to remove permitted development rights for change of use from office (B1(a)) to residential (C3) in the City of London

Evidence in support of Article 4 Direction

January 2018

CITY OF LONDON

Introduction

1. The City of London Corporation intends to use an Article 4 Direction (under Article 4(1) of the Town and Country Planning (General Permitted Development) (England) Order 2015, to remove permitted development rights for the change of use from offices (B1(a)) to residential (C3) within the City of London. The Article 4 Direction will apply to the whole of the administrative area of the City of London.

2. The City of London is at the heart of the United Kingdom's international financial and professional services sector. The City Corporation considers that application of national permitted development rights for change of use from office (B1(a)) to residential (C3) within the City of London would lead to the direct loss of a significant amount of existing office floorspace and economic activity. It would also introduce housing to parts of the City where it would be liable to undermine the strength of the commercial environment (through constraining both the activities of existing commercial occupiers and the ongoing commercial redevelopment needed to accommodate future economic and employment growth). These adverse effects would seriously damage the ability of the office-based cluster centred on the City of London to continue to operate and evolve as an international financial and professional services centre for the benefit of London and the country.

3. The City Corporation considers that this threat to existing and future economic activity in the City justifies the application of a non-immediate Article 4 Direction to remove the permitted development right across the administrative area of the City of London. The application of a non-immediate Article 4 Direction is consistent with the existing national exemption from permitted development rights, which has operated in the City of London since May 2013, and been extended to 30 May 2019, and which was granted by the Government in recognition of the national significance of the City of London's office cluster. It is consistent with the London Plan (March 2016), the Draft London Plan (December 2017), the Mayor's Central Activities Zone Supplementary Planning Guidance (March 2016) and the City of London Local Plan (January 2015). Policies CS1 and DM1.1 of the latter document seek to protect suitable and viable office floorspace and this protection has been specifically endorsed by an independent planning inspector.

4. This evidence sets out the economic and planning policy context of the City of London and summarises the key adverse effects that would arise if a national permitted development right for change of use from office (B1(a)) to residential (C3) were applied in the City. Reference is made to studies and reports prepared by outside bodies, which provide further evidence in support of the City Corporation's case.

Economic and Planning Policy Context of the City of London

Economic Context

5. The City of London, as one of the world's leading international financial and professional services centres, contributes significantly to the national economy and to London's status as a 'World City'. Rankings such as the Global Financial Centres Index (Z/Yen Group)[1] and the Cities of Opportunities series (PwC)[2] consistently score London as the world's leading financial centre. The City is a leading driver of the London and national economies, generating £48 billion in economic output (as

[1] Global financial centres index 22, Z/Yen and China Development Institute, September 2017
[2] Cities of Opportunities 7, PwC, 2016

measured by Gross Value Added), equivalent to 13% of London's output and 3% of total UK output. Over the next 10 years, the City's output is expected to grow by a further £16 billion[3]. Alongside this output growth, the City is a significant and growing centre of employment. In 2016, office employment in the City constituted 20% of all office jobs in London[4], while only accounting for 0.2% of the land.

6. The City of London plays a significant role in financial services in the UK. Financial services in 2016 generated £115 billion pounds to the UK's GVA, representing 7% of total UK output. The City of London generated 27% of this output, with London as a whole accounting for 51%[5]. The City is the home of many of the world's leading markets including the London Stock Exchange, London International Financial Futures and Options Exchange (LIFFE), Lloyds of London insurance market, the maritime Baltic Exchange and the London Metal Exchange. It is a centre for world class banking, insurance and maritime industries, which provide over 60% of the City's GVA[6] supported by world class legal, accountancy and other professional services and a growing cluster of technology, media and telecommunications (TMT) businesses, including Bloomberg, Amazon and Salesforce. In January 2016, the City Corporation launched the Green Finance Initiative in partnership with the Government, recognising the growing importance of green finance as a key element in addressing climate change and cutting carbon emissions.

7. These office-based economic activities have clustered in or near the City to benefit from the economies of scale and scope available there and in recognition that physical proximity to business customers and rivals provides a significant competitive advantage. This advantage arises principally because of the potential for knowledge spill-overs, with knowledge being best spread through face to face interaction which is more likely to occur over smaller distances and in dense areas where formal and informal meetings take place. The highly skilled, knowledge-based services typical of the City benefit from these interactions and the increase in productivity brings benefits to the economy which outweigh the increased costs of doing business in central London[7]

8. As a densely developed centre for international financial and professional services, the City provides employment for 483,000 people[8]. In contrast, it has a very small residential population, with only 8,300 permanent residents[9] in 7,000 residential units[10]. Most economic activity is office-based and offices form 70% of all City floorspace (nearly 9 million square metres gross) (Figures 1 & 2). This predominance of commercial property is a distinctive characteristic of the City, and provides City businesses with a competitive advantage due to potential agglomeration economies of scale and scope. Figure 3 demonstrates the low density of residential development in the City which arises from this office concentration.

9. Long term growth in London-based international financial and business services is at the heart of the City's economic vitality and there has been some expansion of these activities beyond the City of London boundaries (the 'Square Mile'). At the same time

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[3] The Future of the City of London's Economy, Centre for Cities & Cambridge Econometrics for City of London, June 2015
[4] London Office Policy Review 2017, Ramidus Consulting Ltd for GLA, June 2017
[5] Economic Development Office, City of London Corporation, January 2018
[6] Economic Evidence Base for London 2016, GLA
[7] Centre for Cities & Cambridge Econometrics, June 2015 (see footnote 3)
[8] BRES 2017
[9] 2015-based GLA projections
[10] Development Information, May 2017, City of London Corporation

office-based businesses in other developing sectors, including Fintech and TMT, continue to move into the City from other parts of central London to benefit from the City's affordable office rents, its improving range of retail, cultural and leisure uses, and its history, character and high quality public realm. A key component of further growth will be a continued increase in the supply of appropriate office space to meet demand.

10. The City provides an attractive business location for an increasing range of businesses. In 2017, there were 24,400 firms in the City of London, 99% of which are small and medium-sized enterprises[11]. Research undertaken for the City Corporation and the City Property Association[12] shows that SMEs are attracted to the City by several factors, including: its dense business cluster, which offers ready access to suppliers and clients; its historically rich urban environment and diverse office stock, and the sense of prestige attached to the location. The City is also well regarded for the competitive price of its office space. However, this same research also highlighted a growing shortage of space attractive to SMEs (between 300m^2 and 1,000m^2) and the sensitivity of SMEs to the price of suitable accommodation – rising costs being the factor most likely to drive SMEs out of the City.

11. The City's broad and enduring appeal for a diverse range of office-based businesses underpins the long-term growth potential of the City and emphasises the need to ensure that enough office stock can be delivered to achieve that potential. It is estimated that the total office stock in the City needs to increase by nearly 2 million square metres gross, 720,000 square metres net, during the period from 2016 to 2036, in order to accommodate the 62,000 additional office jobs projected in London Office Policy Review 2017[13] and the Mayor of London's draft London Plan December 2017.

Planning Policy

12. The City Corporation's planning policies have played a key role in maintaining the City's position as one of the world's leading commercial centres through a long-standing policy, approved by successive Planning Inspectors and Secretaries of State, to exercise careful control over the location and prevalence of residential development. Most recently, the Inspector examining the 2015 Local Plan considered whether specific protection of office accommodation (through Local Plan policies CS1 and DM1.1) was necessary. His conclusions are set out below:

"Doubts have been raised by a few as to whether this strengthening of CS1 is sound and sufficiently justified. It is questioned whether CS1 and DM 1.1 would be sympathetic to varying levels of viability in redevelopment schemes across the City. However, on the basis of the evidence supporting the approach taken in the Local Plan, I find merit in its approach. The following factors are compelling, in my judgement. The City's leading finance, business and maritime role relies to a large degree on maintaining a critical mass of office floor space within a defined cluster of commercial activity. This is recognised and supported in the London Plan, and has been the basis of longstanding planning policy in the City of London. The current total office floor space in the City is 8.6 million sq. m. I agree with the City Corporation that any significant erosion of that critical mass and of the additional floor space expected over the Plan period, by changes of use away from offices, would be likely to undermine the City's ability to function as successfully as it has been doing to date.

[11] Economic Development Office, City of London Corporation, January 2018
[12] Clusters and Connectivity:
The City as a Place for SMEs, Ramidus Research for City of London Corporation and City Property Association, March 2016
[13] London Office Policy Review, Ramidus Consulting for GLA, 2017

The City Corporation has been granted a local exemption from permitted development rights to change from office to residential use. Evidence put forward by the City Corporation in support of that application demonstrated that some 18% of the City's office floor space could convert to residential use within five years without the exemption. This is underpinned by evidence from the GLA in its response to the Government's Technical Consultation on Planning that shows that across London, some 373,700 sq m of occupied office floor space has gained prior approval for a change of use since June 2013. The City Corporation, and the GLA, point to the much higher land values for residential as opposed to office use as one of the main drivers of this trend. I consider therefore that the City Corporation is correct to ensure that Local Plan Policies resist this trend in the City. Accordingly, Policies CS1 and DM 1.1, with the protection of existing office floor space they afford, are justified by the evidence. "

13. The Local Plan approach recognises the unique advantages which flow from having a commercial centre predominantly dedicated to business uses, and ensures that the 'critical mass' of diverse commercial activity and development which drives the success of the Square Mile can be sustained.

14. The special character of the City as a business district is firmly enshrined in the existing legal framework. Under reforms passed by Parliament in 2002, the City is the only area in the UK where businesses and their employees participate in the local electoral franchise, and this business franchise accounts for some three quarters of voting rights in the City. The City Corporation thus has a unique mandate to represent the interests of business in discharging its functions. This is reflected in the reduced planning powers of the Mayor of London to intervene in commercial development in the City in comparison to other areas: the Town and Country Planning (Mayor of London) Order 2008 sets a threshold for intervention in the City of 100,000 square metres of floorspace or 150 metres in height, compared to 15,000-20,000 square metres or 25-30 metres elsewhere in Greater London. This amounts to further recognition by the Government and Parliament of the legitimate commercial focus of the Square Mile.

15. The London Plan 2016 recognises the City of London as a strategic priority and stresses the need 'to sustain and enhance it as a strategically important, globally-oriented financial and business services centre' (policy 2.10). The general approach of the London Plan is to encourage office developments in the Central Activities Zone (of which the City is part) to include a mix of uses, including housing (policies 2.11 and 4.3). However, the Plan specifically acknowledges that this approach would not be appropriate in the City, when it says that exceptions 'should only be permitted where mixed uses might compromise broader objectives, such as sustaining important clusters of business activity, for example in much of the City' (paragraph 4.17).

16. The Mayor's Central Activities Zone Supplementary Planning Guidance (SPG), March 2016, provides supporting guidance on the implementation of the London Plan. The SPG supports the development of borough and City-level Article 4 Directions across the CAZ to remove permitted development rights for the change of use of offices to residential. The SPG sets out development priorities for the CAZ and for the City indicates (paragraph 1.3.7) that "residential development is considered inappropriate in the commercial core areas of the City of London". In other parts of the City, offices and other CAZ strategic functions should be given greater weight relative to residential. Although the London Plan promotes mixed-use development in the CAZ, within the City, the Plan and the CAZ SPG indicate that the priority should be the promotion of the cluster of globally orientated financial and business services and that the City is

exempt from the principle of providing residential development as part of mixed use development under London Plan policy 4.3a.

17. The December 2017 draft London Plan, which will replace the current London Plan from 2019, retains the emphasis on protecting and enhancing the City's cluster of internationally important businesses and the priority that office development should be given over residential (draft policy SD5). Policy E1 gives specific support for the development of Article 4 Directions to ensure the retention of existing viable office floorspace capacity. The GLA is preparing an evidence base to support borough applications for Article 4 Directions under this policy, which is expected to be published in January 2018 and will provide further supporting evidence for a City of London Article 4 Direction. The London Office Policy Review 2017[14] shows that PD rights have had a significant effect on the supply of office floorspace in those parts of London which do not benefit from an exemption or an Article 4 Direction. Since May 2013, over 1.6 million square metres of office floorspace has been given prior approval for change of use to residential. This represents 6% of London's office stock, with 55% of the affected floorspace being either wholly or partially occupied office space.

18. The City Corporation recognises the need to deliver more housing in London and is committed to playing its part in a manner which does not undermine the primary commercial function of the Square Mile. The City will meet its London Plan target for additional housing within the bounds of the City. Annual monitoring of housing completions in the City and the City's Housing Trajectory (Figures 8 and 9) demonstrate that sufficient housing has been permitted and is likely to be completed to meet and exceed the current 2016 London Plan housing targets of a minimum of 141 dwellings per year at least until 2026, and that there is sufficient capacity to meet the draft London Plan 2017 target of 146 dwellings per year. Analysis of housing delivery and planning permissions in the City since the introduction of the exemption from permitted development rights demonstrates that in the period between April 2013 and September 2017, 1,822 new dwellings were permitted in the City of London, an annual average rate of approximately 400 dwellings. Of this 1,822 units, 201 were permitted as a change of use (excluding redevelopment) of existing office accommodation. These figures show that, with retained planning control over the change of use from offices to residential in the City, the City of London has delivered new housing permissions in excess of London Plan targets. Furthermore, for the past decade, in place of requiring commercial developers in the City to provide housing on-site, the City Corporation has required them to contribute to the provision of affordable housing elsewhere in London through negotiated planning obligations. This approach has meant that, since May 2013, office-led commercial redevelopments in the City have not only boosted the City's commercial role but have also raised £16 million for affordable housing delivery in London.

19. The introduction of an Article 4 Direction would allow the City Corporation to continue to pro-actively direct residential development to specific areas of the City where a limited residential presence can be suitably accommodated. It will be able to do so in a way that minimises the risk of adverse effects on the City's business role. In accordance with the London Plan, the City's Local Plan policies guide new housing in the City to areas of existing housing where it is easier to provide and protect residential amenity without disrupting ordinary business activities or the commercial redevelopments that take place throughout most of the City.

20. The City's local planning policies are applied proactively in pursuit of sustainable growth and have brought about significant advancements in the City in recent years.

[14] London Office Policy Review 2017, Ramidus Consulting Ltd for GLA, June 2017

The City Corporation's positive approach has helped to deliver iconic new office developments, contributing to a total office stock of 8.6 million square metres in 2017, with a further 1.7 million square metres either under construction or permitted but not yet commenced[15]. This has been complemented by an increase from one to 34 hotels and apart hotels in the City and the development of significant new retail facilities, including the One New Change shopping centre on Cheapside and new retail units across the City, principally at the ground floor level of office developments. An Article 4 Direction, removing permitted development rights for change of use from office (B1(a)) to residential (C3), would enable the City Corporation to continue this proactive policy approach, which encourages further sustainable development in the City for the benefit of London and the country.

Exemption from Permitted Development Rights from May 2013

21. In May 2013, the City of London was granted an exemption to national permitted development rights for the change of use from offices (B1(a)) to dwellinghouses (C3), in recognition of the importance of the concentration of economic activity, international businesses and jobs, the income generation from these activities and the contribution that this has made to national tax income. This was subsequently extended by the Government in 2016, with the exemption now running to 30 May 2019. Whilst there have been changes in the demand for both office and residential development since the original exemption was granted in 2013, the fundamentals underpinning the economic justification for the City of London's exemption have not changed. The following sections set out the key implications for the City of London and the wider London and national economies of an extension of national permitted development rights.

Key Adverse Effects of the Permitted Development Right for Change of Use from Offices (B1(a)) to Residential (C3) on the City of London

Adverse Effects on the Balance of Land Uses

22. As described above, meeting the projected long term economic and employment growth in the City is dependent on the delivery of nearly 2 million square metres gross and 720,000 square metres net of office floorspace by 2036 to meet the growing needs of the current and future City occupiers.

23. Loss of existing office stock to housing through permitted development rights would make achievement of the office stock target difficult in two ways:
    - it increases the total new stock that must be provided in order to replace existing office stock lost to housing;
    - it also makes it harder to provide such new office stock in the City through redevelopment due to the residential amenity considerations of the new residents and the introduction of long residential leases in commercial areas which can frustrate site assembly for redevelopment.

24. The City's existing office stock includes a wide range of buildings and units which meet the diverse needs of City occupiers (see Figures 5-7). The permitted development right could affect Grade B and Grade C office stock to a disproportionate extent yet this stock performs an important role in the City's economy and its redevelopment cycle:
    - it provides sites with commercial redevelopment potential in the medium and long term;

[15] Development Information, City of London Corporation, November 2017

- it provides cheaper office floorspace in the interim which is particularly suitable for occupation by start-up companies and by small and medium-sized enterprises that provide essential support for the City's larger employers[16].

25. Research undertaken by Ramidus 2015[17] has highlighted the impact of changing business needs and attitudes on the demand for office floorspace in central London. Buildings which were once secondary or low grade are becoming increasingly attractive to new occupiers, and areas once regarded as fringe areas are becoming prime or core areas. As a result, lower grade office accommodation is providing an important resource in enabling the City to meet future floorspace needs, and the supply of such accommodation needs to be carefully managed.

Adverse Effects on the Pattern of Land Uses

26. The City of London has a distinctive spatial pattern of land uses which enables major commercial activity to thrive without adversely affecting City residents who are clustered in specific areas mostly on the fringes of the City. The City's Local Plan identifies 10 such residential areas. This approach has been endorsed by Inspectors in relation to the current 2015 Local Plan, and the previous Core Strategy (2011) and Unitary Development Plan (2002).

27. Widespread conversion of offices to housing across the City would undermine existing planning policy which for decades has sought to cluster new housing in particular areas of the City where it is easier to protect residential amenity and to provide efficient services to residents without undue disruption to the commercial life of the locality.

28. The introduction of new housing to areas which are currently predominantly commercial in character would raise new residential amenity expectations which could not be delivered there without affecting current business operations or future commercial redevelopment potential. Uncontrolled conversion to residential in commercial locations would reduce the City's medium and long term ability to adapt to a changing commercial environment.

Adverse Impact on the City of London as a Business Centre

29. The adverse impact of the permitted development rights on the City of London would take more than one form. Most directly, it is expected that they would lead to a significant loss of existing employment space, with a consequential dilution of the economies of scale found in the City. At the same time, the uncontrolled spread of new housing across the City into previously commercial areas would have an adverse impact on the 24-hour international operations of many existing City businesses, and would make it unlikely that the City's ambitious programme of commercial development and redevelopment could be delivered (Figure 4).

30. The City Corporation has commissioned Jones Lang LaSalle (JLL) to consider the potential impact of a permitted development right on the City's office stock, in terms of those buildings which could be vulnerable to either residential conversion or residential redevelopment[18]. The study focusses on those office buildings with a lease event relating to the whole building in the five years from 2017 that would make them vulnerable to a change to residential use. This research is due to be completed by the end of January 2018 and detailed findings will be incorporated into this Evidence Base

[16] Clusters and Connectivity: The City as a Place for SMEs, Ramidus Consulting Ltd for City of London Corporation and City Property Association, March 2016
[17] Small Offices and Mixed Use in the CAZ, Ramidus Consulting Ltd, for GLA, August 2015
[18] JLL for the City of London Corporation, January 2018 - forthcoming

when available. However, early findings from the report suggest that, over the 5 year period 2017-2021, approximately 1.1 million square metres of office floorspace currently in the development pipeline could convert to residential if there were an unrestricted permitted development right. This figure represents 85% of the total office development pipeline and is of a similar scale to that estimated in an earlier study by JLL for the City Corporation[19], which suggested that up to 18% of the City's office stock, or 86% of the development pipeline (1.6m square metres gross) could viably convert to residential use within the 2011-2016 period in the absence of planning control. The estimated loss of 1.6 million square metres gross of existing office floorspace in the 2011 Study would have removed workspace sufficient to accommodate 100,000 City office workers. This scale of potential loss exceeded the 2015 Local Plan target to increase total office stock by 1.15 million square metres gross during 2011-26 to accommodate additional office-based workers in the City and would have resulted in a need to deliver 2.75 million square metres gross of additional new office stock by 2026 in order to offset the losses to housing. New office stock delivery on such a scale would be unprecedented, even within the context of growing office demand in the City.

31. The uncontrolled establishment of new residential units in the City would be doubly difficult; it would not only remove existing office stock but would militate against the delivery of new offices needed to make good the shortfall. The increased presence of new residents occupying under long leases and the amenity considerations of such residents would severely hamper a large-scale construction programme of new office buildings.

32. Furthermore, the presence of residents in hitherto commercially-focused areas would not simply affect the availability of office stock but also the activities conducted in and from them. The City's internationally-focussed firms and the micro, small and medium-sized enterprises supporting them operate 24 hours a day to meet tight deadlines and to deal in world markets. Meanwhile, ancillary services are most efficiently carried out outside of peak working hours. The City's Freight and Servicing Supplementary Planning Document (2018) provides support for out of peak hours servicing of office and other commercial buildings and, alongside night time and week-end working, generator testing and use, this could be a considerable source of disturbance to nearby new residents. This activity, essential to the City's commercial future, could not continue to the same extent if new residential neighbours were to have the level of amenity they would expect.

33. Since the introduction of the permitted development right nationally there has been strong demand for new office accommodation in the City, driven by the health of the London economy, the attractiveness of the City as a centre for international financial and professional services and increasingly the City's attractiveness as a location for technology and media companies, including Amazon and Bloomberg. At Q3 2017, prime City Grade A rents stood at £70 per square foot[20] , up from an average of £55 per square foot in 2011/2012. Vacancy rates remain low and, at Q2 2017 averaged 5.5%, below the 8% generally regarded as necessary for the efficient operation of the property market.

34. Alongside strong office demand, the residential market in the City has also grown, with signs of a slowdown only appearing in 2017. Research by PwC[21] suggests that

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[19] Potential Impact of Use Classes Order Relaxation for Change of Use from Offices to Housing on City Office Stock, JLL for City of London, October 2011

[20] London Office Market Update, Q3 – 2017, Carter Jonas, September 2017

[21] UK Economic outlook July 2017, PwC

average residential prices increased by 64% in the City between 2007 and 2014, slowing to 7% between 2014 and 2017 as the impact of Stamp Duty changes in 2014 and 2016 and economic uncertainty were felt. ONS data suggests that at Q3 2016, the median house price in the City was £800,000 and the ratio of median prices to median gross earnings was 14.4[22]. up to the end of 2016. Thus, despite high levels of demand in the office market, the fundamentals underpinning the relationship between the office and residential markets have not changed materially since 2011. Office demand remains high and vacancy rates remain close to historic low levels, highlighting the importance of maintaining the existing office stock to meet this demand.

35. Research commissioned by the GLA[23] indicates that the balance between the viability of offices and residential is cyclical, with the economic advantages of residential being temporary. However, whilst an office use may have a lease of up to 25 years, residential leases are considerably longer, normally over a minimum of 99 – 125 years, meaning that a change of use to residential is long term or even permanent, even though the economic case may only be short term. This is reflected in the attitudes of investors, with those looking at short term gains being attracted to residential uses and those looking for longer term gains, being attracted to office use. Thus, although demand for office space has been high, and rents rising, in recent years, so have residential prices and the short term benefit to investors in seeking a change of use from office to residential remains and continues to pose a threat to the stock of office floorspace in the City.

Significance of the Adverse Impact at a National Level

36. The local effects described above would directly translate into a significant adverse impact on the national economy and finances, due to the City's strategic importance as the UK's leading centre for financial and professional services. The City is one of the world's principal business centres, and is estimated to contribute 13% of London's GVA and around 3% of the UK's GVA. Maintaining the globally competitive position of the City as an international business hub will play a key role in securing national economic growth, particularly given the uncertainty posed by Brexit negotiations. This aim would be seriously compromised by a large-scale loss of employment space in the City and the inhibition of commercial operations and redevelopment.

37. To take financial services alone, PwC have estimated[24] that the sector employed 1.1 million people in the UK and paid £72.1 billion in total taxes in 2016/17, forming 11% of total UK government tax receipts. The City is a focus of financial services sector employment with nearly 15% of the UK's financial services employees (including a far higher proportion of senior management) based in the Square Mile, and the most significant contributor to the UK's income from financial services, contributing 27% of the £115 billion generated by this sector in 2016. Although there is not a direct relationship between financial services sector employees and tax receipts it is clear that the potential loss of workspace in the City could have a seriously adverse effect on total annual tax receipts. This financial loss would be compounded in future years if the permanent change in the pattern of land uses meant that the City could not deliver the extra floorspace in the City needed to accommodate projected economic and employment growth.

38. The conversion of offices to housing would have an adverse impact on property-related revenues as business rates relating to offices are generally greater than

[22] ONS Ratio of house price to workplace-based earnings (lower quartile and median), March 2017
[23] Ramidus Consulting Ltd (see footnote 14)
[24] The Total Tax Contribution of UK Financial Services: Tenth Edition, PwC for City of London. December 2017

Council Tax payments related to housing. Research undertaken in 2011 for the City Corporation[25] considered that office business rates payable in the City were in the region of £15 per square foot net compared with £3.40 for housing top band Council Tax. This would suggest that for every 1 million square feet net of office floorspace converted to housing there could be a net loss of over £11 million pa in lost business rates.

39. Most of the business rates payable in the City are currently redistributed to other parts of the country where the need is greatest. The scale of such redistribution would decrease significantly to the detriment of inner London and other areas if the conversion of City offices meant that existing offices' business rates were replaced with Council Tax from housing.

Likely Strategic and Long Term Adverse Economic Impacts

40. The strategic significance of the City of London to the national economy has already been explained. The adverse economic impact of the proposed permitted development rights would have strategic and long term consequences because it would change the balance and pattern of land uses in the City irreversibly. New residents would become established on long leases in previously commercial areas and their residential amenity expectations would hinder existing business operations and future commercial redevelopment potential. Residential development is normally let on 99 - 125 year leases whereas commercial floorspace typically has a much shorter lease period. Commercial lease terms, by contrast, have averaged 25 years, but have been reducing as landlords and, particularly occupiers, seek more flexible lease terms. The rapid growth of serviced office accommodation in the City in recent years, exemplified by the growing presence of WeWork in the City, shows the growing demand for flexibility in the commercial sector, flexibility that could be inhibited by longer residential leases.

41. City office occupiers providing international financial and business services are not typical office occupiers and the national assumption that B1(a) offices can mix satisfactorily with housing is not valid in the City. As described in detail above, the operational needs of a 24-hour, 7-day week business district could cause conflict with the level of amenity which new residential neighbours would expect. Residential amenity considerations, including daylight and sunlight expectations, would also add long term complications to commercial site assembly and redevelopment activity which is essential for the City's future growth.

42. The introduction of new residents to commercial parts of the City would seriously weaken the attractiveness of the City as a distinctive office-based business cluster offering economies of scale and scope to major international employers. It is incorrect to assume that if such firms were dissatisfied with the City of London as a business location they would simply disperse their activities to other parts of London or the UK, as these areas are similarly impacted by the proposals. Such firms have very high and precise expectations, are international in their focus and could easily relocate abroad and take jobs from the UK to competing world financial centres.

43. The City is already a highly sustainable employment location benefiting from being at the hub of an excellent public transport network that makes it possible for over 90% of City workers to travel to work by sustainable public transport, or other active modes of travel (such as cycling or walking). It will benefit from significantly improved public transport accessibility when Crossrail opens in 2018/19 as the Elizabeth Line.

[25] Relaxation of Planning Rules for Change of Use from Business to Residential: Implications for the City of London, Quod for City of London. November 2011

Crossrail will improve the City's links with other key parts of London's CAZ such as the West End and Canary Wharf, and enhance direct links with Heathrow airport. Crossrail is estimated to add 10% to London's existing rail capacity, and bring an extra 1.5 million people to within 45 minutes of central London[26], enhancing the City's ability to attract skilled staff from a large regional labour market. Such major infrastructure investment reinforces the role of the City as a sustainable employment location in the centre of London where additional office floorspace needs to be provided and used intensively and efficiently to promote economic growth.

Whether the Proposed Area of the Article 4 Direction is the Smallest Area Necessary to Address the Potential Adverse Impact of the permitted development right

44. The City Corporation considers that the particular circumstances of the City of London justify the application of an Article 4 Direction to the whole of the City.

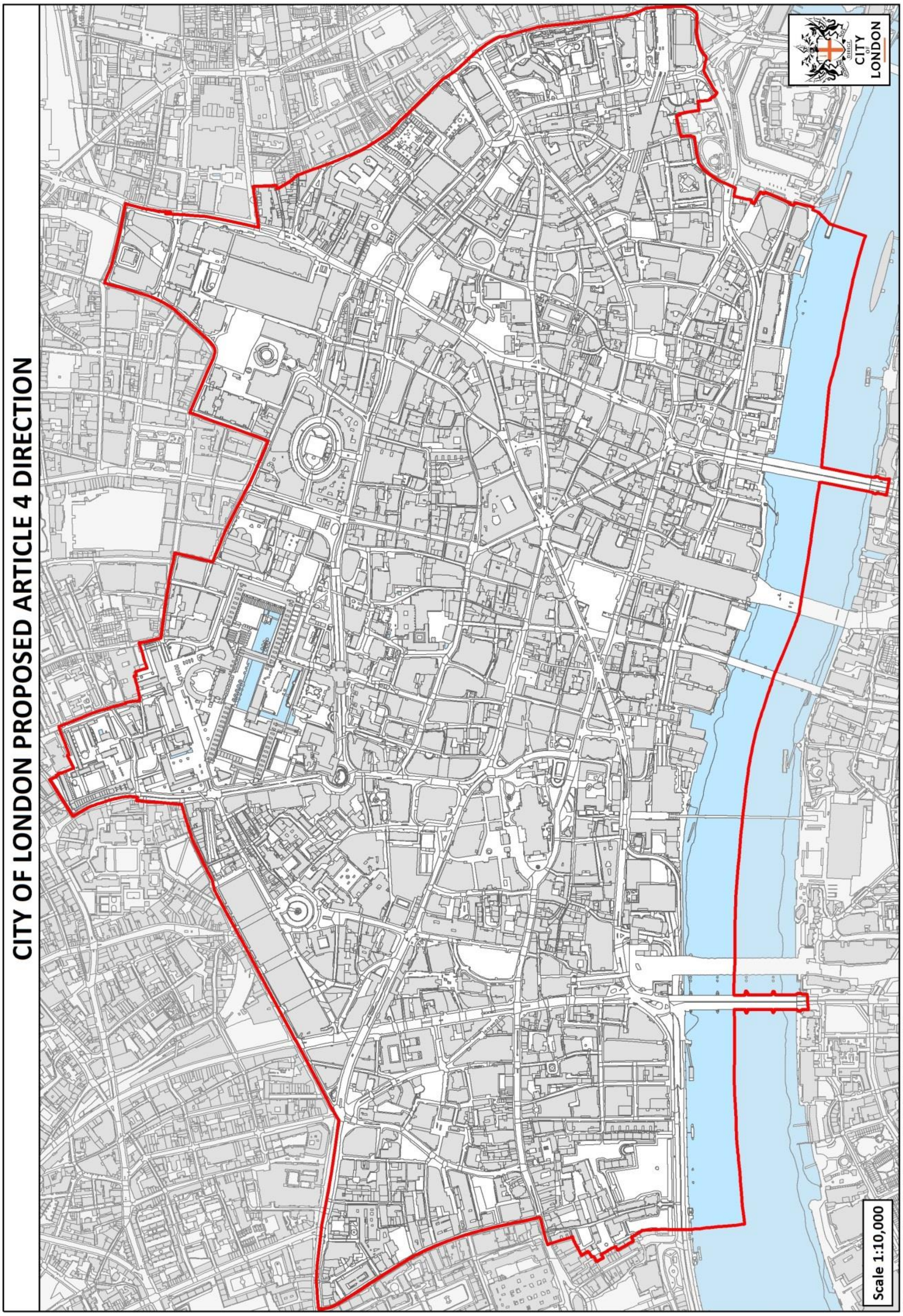
45. The City of London, being just over one square mile in size, is significantly smaller than all other local authorities and is similar in size to just one ward in typical local authority areas. The Square Mile is host to an intensive concentration of inter-connected and mutually supporting commercial activities which extend across virtually the whole of the City. Although individual sectors congregate in different sub-localities of the City, the essential character of the City is that of a unified and integrated business district.

46. Residential development in the City, where it is present in any significant volume, is largely concentrated in the Barbican and Golden Lane estates (on the northern edge of the City) and the estates on Middlesex Street and Mansell Street (in the east) (see Figure 3). Even where residential development is present at other locations, the small size of the City and the intensity of commercial development there mean that no part is more than a short distance from major existing commercial activities or potential redevelopment sites (see the planning pipeline (Figure 2) showing the City-wide distribution of recently completed or permitted office developments). In this context it is important that local planning controls are retained over change of use anywhere in the City to ensure that the wider commercial implications are taken into account when considering housing or commercial development proposals. The London Plan and the City of London Local Plan provide an appropriately flexible local planning policy context to enable a limited volume of additional housing to be delivered in the City in a way that is compatible with continued large-scale commercial development, whilst contributing to meeting London's wider housing needs.

47. The Government's granting of a local exemption to permitted development rights for the whole of the administrative area of the City of London in May 2013, and extension to 30 May 2019, indicates that the whole City is considered by Government to be an area of national importance economically, and this further supports the application of the Article 4 Direction to the whole of the City of London.

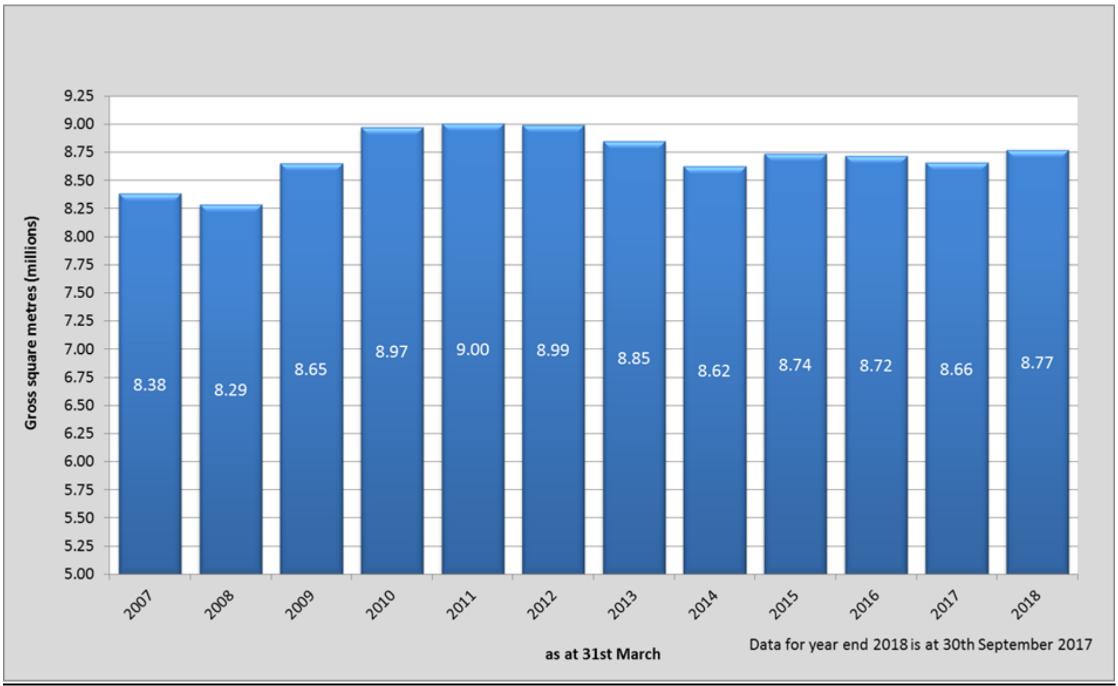
[26] http://www.crossrail.co.uk/route/wider-economic-benefits

APPENDIX 2


CITY OF LONDON PROPOSED ARTICLE 4 DIRECTION
CITY OF LONDON
Scale 1:10,000

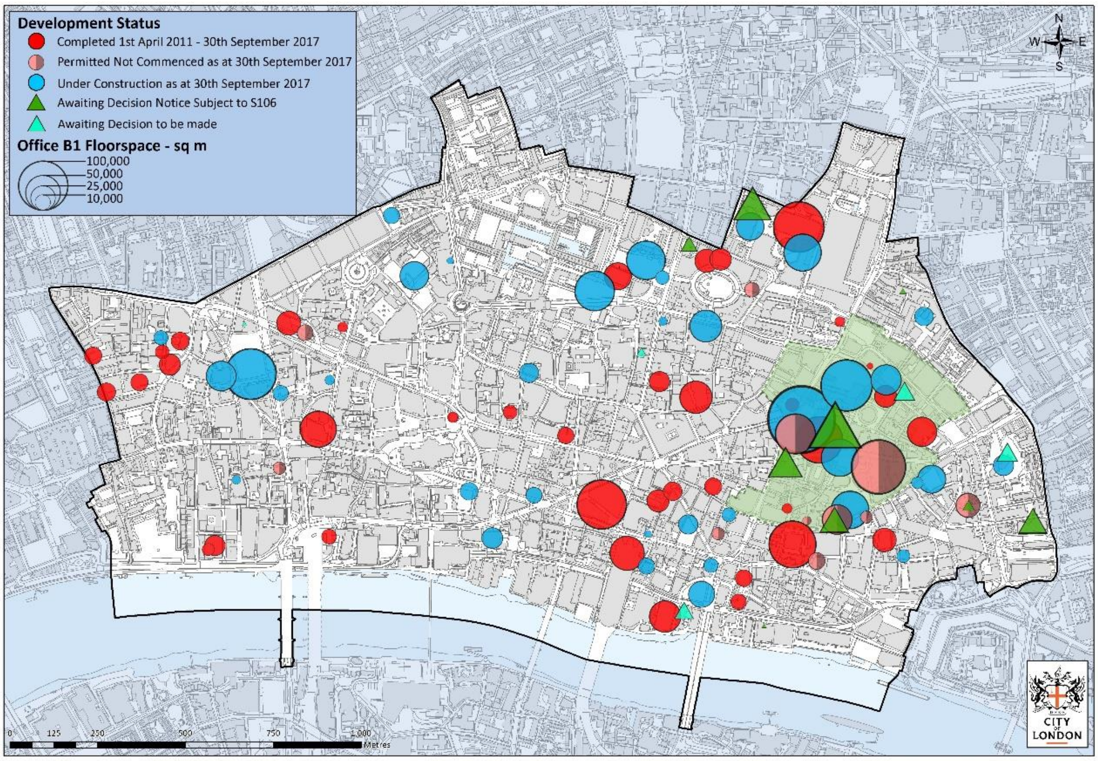
Appendix 1: Illustrative Figures

Figure 1: City of London Office Stock Growth 2006 - 2017



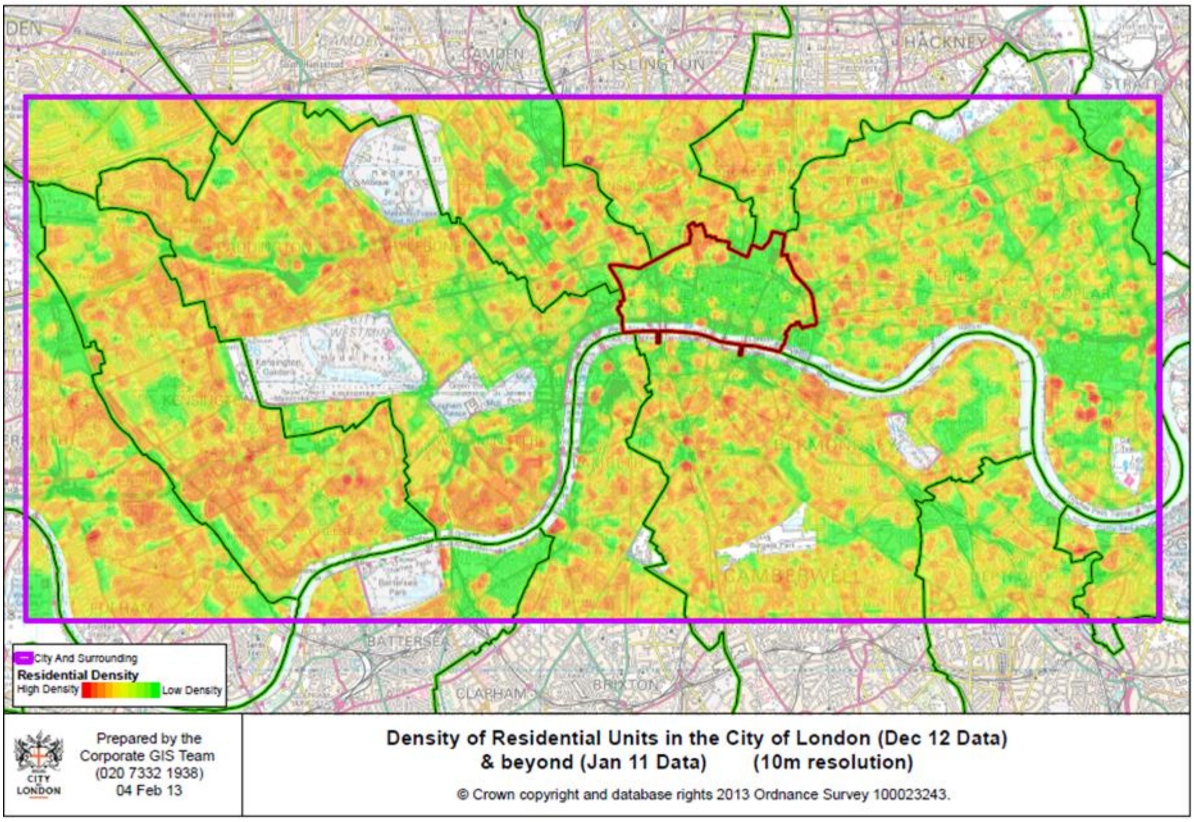
Source: Development Information, City of London Corporation, Department of the Built Environment, November 2017

Figure 2: City of London Office Developments Completed 2011-2017, Under Construction and Permitted as at 30 September 2017



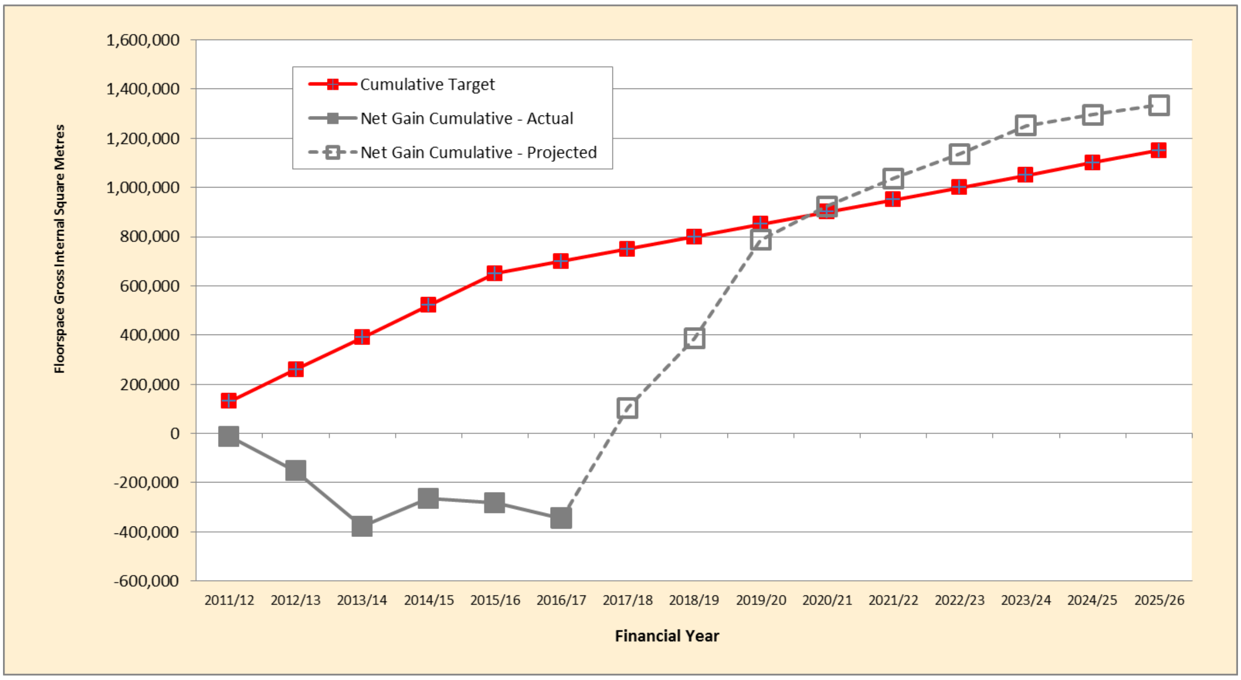
Source: City of London Corporation, Department of the Built Environment, January 2018

Figure 3: Central London Residential Density Distribution



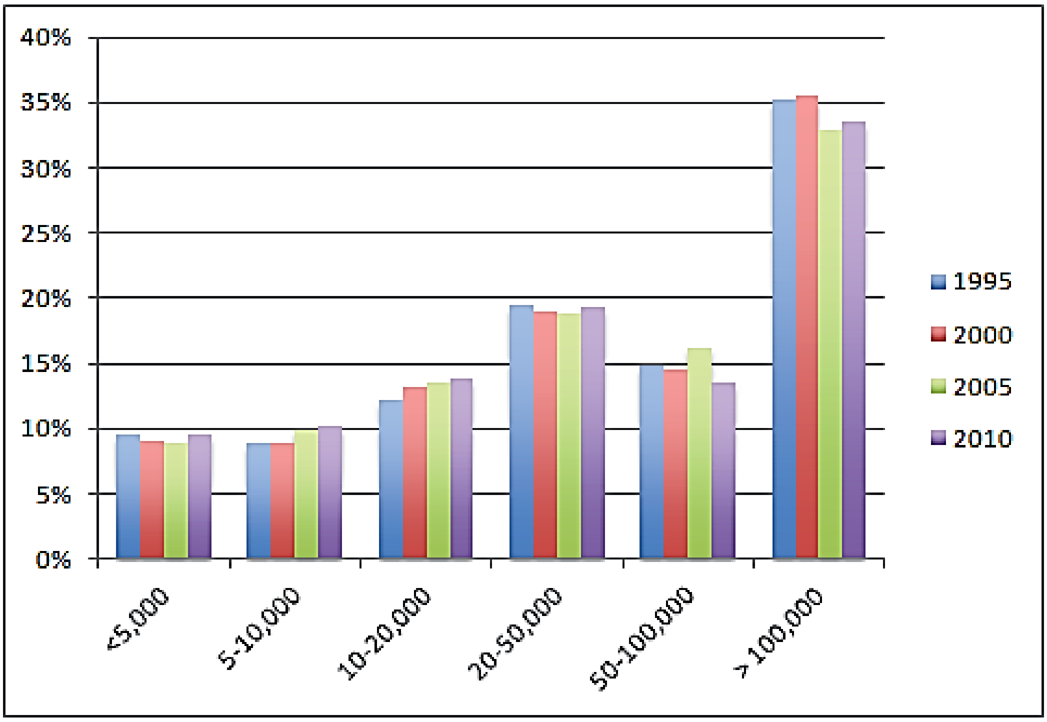
Source: City of London Corporation, Department of the Built Environment

Figure 4: City of London Office Stock Trajectory, 2011-2026



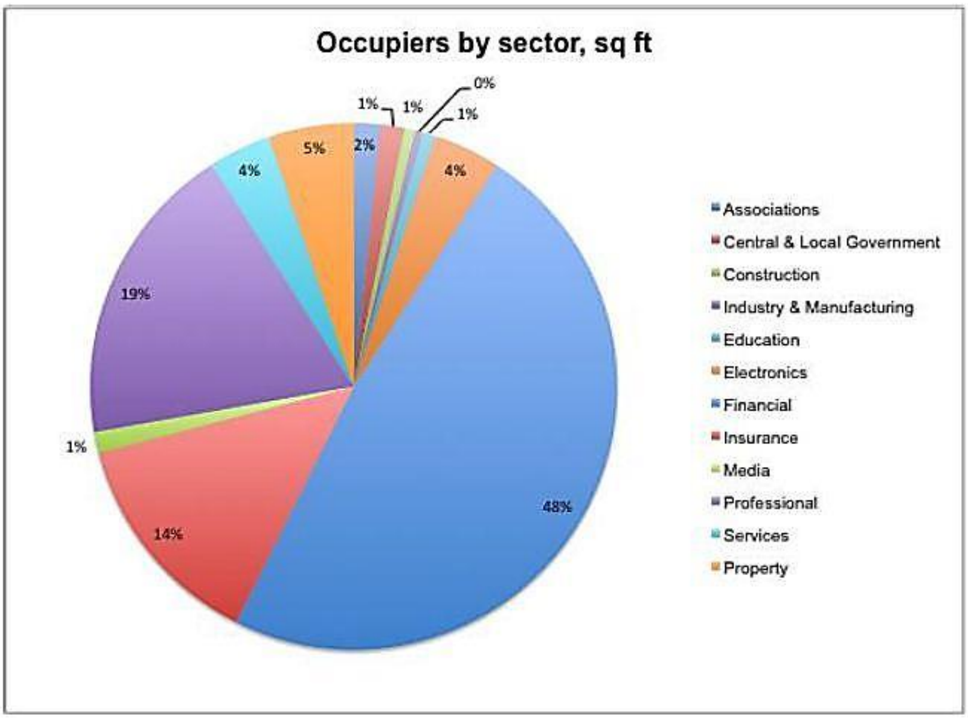
Source: Local Plan Monitoring Report - Offices, City of London Corporation, Department of the Built Environment, August 2017

Figure 5: City of London Office Stock Size Diversity 1995-2010: Occupied Units by Size Band (% of sq ft)



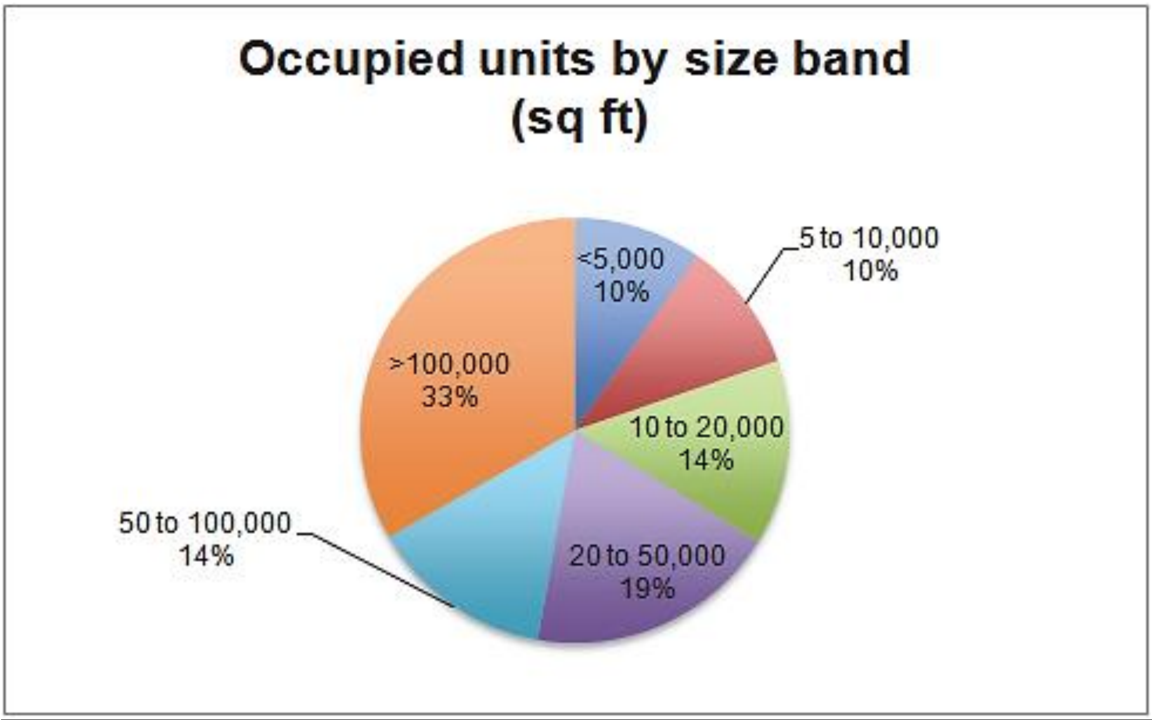
Source: Ramidus Consulting Ltd, for the City Corporation, 'Taking Stock: the relationship between business and office provision in the City', March 2013

Figure 6: City of London Office Occupier Diversity



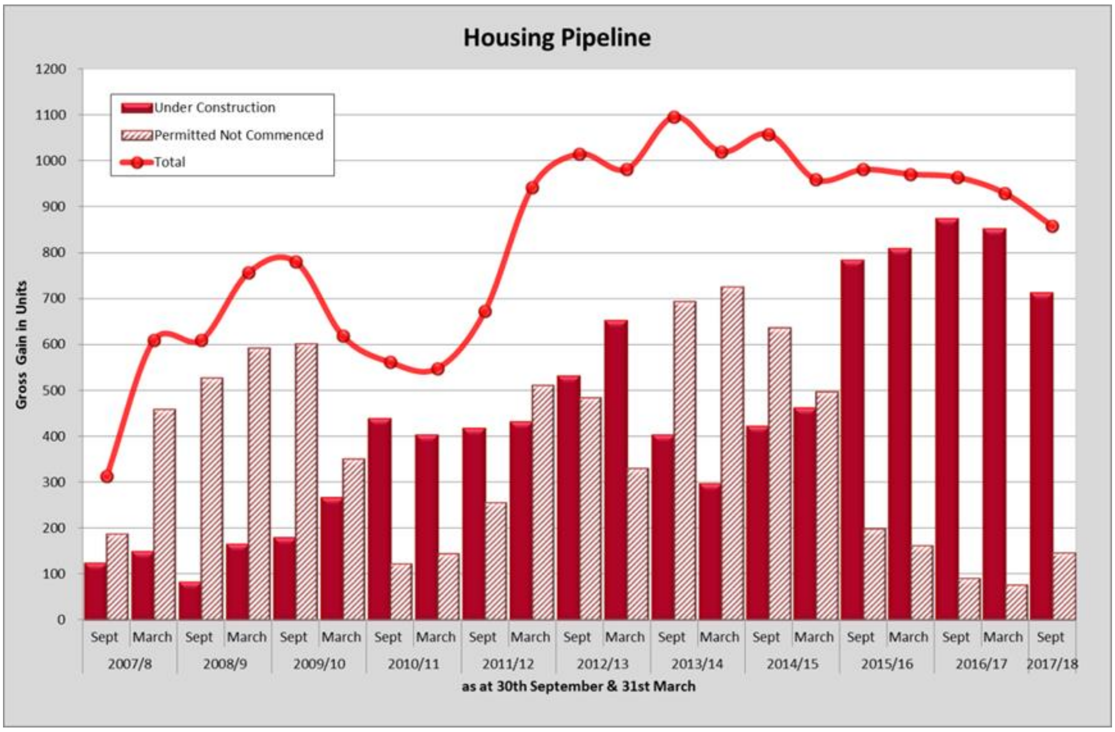
Source: Ramidus Consulting Ltd, for the City Corporation, 'Taking Stock: the relationship between business and office provision in the City', March 2013.

Figure 7: City of London Occupied Office Units by Size Band



Source: Ramidus Consulting Ltd, for the City Corporation, 'Taking Stock: the relationship between business and office provision in the City', March 2013

Figure 8: City of London Residential Development Pipeline Constructed 2007-2017, as at 30 September 2017



Source: Development Information, City of London Corporation, Department of the Built Environment, November 2017

Figure 9: City of London Housing Delivery 2017

Source: Local Plan Monitoring Report – Housing, City of London Corporation, Department of the Built Environment, January 2018