

Article 4 Direction to remove permitted development rights for change of use from office (Class E(g)(i) to residential (Class C3) in the City of London

Evidence in support of Article 4 Direction

May 2021



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 (as amended), to remove permitted development rights for the change of use from offices (Class E(g)(i) to residential (Class 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 (Class E(g)(i) to residential (Class C3) within the City of London could lead to the loss of a significant number of existing office properties and economic activity, particularly resulting in the loss of space for SMEs and Start-ups. 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 covering the office element of the E Use Class is consistent with the City Corporation's existing Article 4 Direction which removed national permitted development rights for the change of use of offices under the 1987 Use Class Order B1(a) classification to residential use (Class C3), and which has been in force in the City of London since 31 May 2019. In turn this existing Article 4 Direction ensured a continuation of the national exemption from permitted development rights, which had operated in the City of London since May 2013. It is consistent with the London Plan 2021, the City of London Local Plan (January 2015) and the draft City Plan 2036. Policies CS1 and DM1.1 of the adopted Local Plan and policies S4 and OF2 of the draft City Plan 2036 seek to protect suitable and viable office floorspace. The protection of office floorspace was specifically endorsed by an independent planning inspector at the public examination into the Local Plan 2015.
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 (Class E(g)(i) to residential (Class 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'. The Global Financial Centres Index (Z/Yen Group)¹ consistently scores London as one of the top two leading financial centres globally. The City is a leading driver of financial, professional and business services in the London and national economies. In 2019, the City accounted for 48% of London's financial services employment, a sector that in 2018 generated 7% of the total UK Gross Value Added². Research undertaken by the GLA shows that output of the Central Activities Zone (CAZ), Northern Isle of Dogs (NIOD) and a 1km fringe around them stood at just under £228bn in 2017, accounting for nearly 53% of London's output and just under 13% of UK output. Westminster and the City of London were the local authorities with the highest output in London in 2017 (£62.5 and £59.6 billion, respectively)³.

6. 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 London⁴, while only accounting for 0.2% of the land.
7. 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 GVA⁵ 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.
8. 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

¹ Global financial centres index 29, Z/Yen and China Development Institute, March 2021

² City Statistics Briefing, City of London Corporation, February 2021

³ Source: GLA Economics, The Evidence Base for London's Local Industrial Strategy – Final report, February 2020

⁴ London Office Policy Review 2017, Ramidus Consulting Ltd for GLA, June 2017

⁵ Economic Evidence Base for London 2016, GLA

to the economy which outweigh the increased costs of doing business in central London⁶.

9. As a densely developed centre for international financial and professional services, the City provides employment for 541,000 people⁷. In contrast, it has a very small residential population, with only 7,600 permanent residents⁸ in 7,500 residential units⁹. Most economic activity is office-based, with over 9,300,000 square metres gross office floorspace in the City, which comprises a substantial proportion of all City floorspace (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.
10. 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 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.
11. The City provides an attractive business location for an increasing range of businesses. In 2019, there were 24,000 firms in the City of London, 99% of which are small and medium-sized enterprises. In 2020, there were around 818 new start-ups registered in the City¹⁰. At 31 March 2020, of the 1,589 office addresses in the City, 739 (46.5%) were under 1,000 square metres in area. The number of addresses below 1,000 square metres had increased by nearly 39% since 2011¹¹. 90% of SMEs occupy units of less than 2,000 square metres and over 50% occupy units of less than 500 square metres¹² (See Figure 4).
12. 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

⁶ Centre for Cities & Cambridge Econometrics, June 2015 (see footnote 3)

⁷ BRES 2019

⁸ GLA 2018 Housing-led population projections

⁹ City of London Housing Stock, March 2020, City of London Corporation

¹⁰ City Statistics Briefing, City of London Corporation, February 2021

¹¹ Office Floorspace in the City of London at 31 March 2020, City of London Corporation, September 2020

¹² Clusters and Connectivity: the City as a place for SMEs, Ramidus for the City of London Corporation and the City Property Association, March 2016

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, research has also highlighted a growing shortage of space attractive to SMEs (between 300m² and 1,000m²) and the sensitivity of SMEs to the price of suitable accommodation – rising costs being the factor most likely to drive SMEs out of the City¹³.

13. 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. The emerging draft City Plan 2036 seeks growth in office floorspace of 2 million square metres gross during the period from 2016 to 2036, in order to accommodate a projected increase of 103,000 additional office jobs¹⁴.

Impact of Covid-19 Pandemic

14. Much of the economic data presented above pre-dates the Covid-19 Pandemic and the significant short and medium term impacts that the Pandemic has had on economic activity, job growth and development activity. There is uncertainty over the medium to long term impacts of the Pandemic on the health and wellbeing of the UK’s population, its economy and the future growth and prosperity of the City of London. However, a number of economic reports have been published which look at the impacts of the Pandemic and prospects for economic recovery.
 - London’s Economic Outlook, Autumn 2020¹⁵ sets out growth forecasts for the London economy and includes projections for output and employment growth by sector. The forecasts suggest that, whilst there will be an adverse impact on the City’s economy in terms of both output and employment over 2020 and 2021, growth should return during 2022.

Year	2020		2021		2022	
	GVA	Jobs	GVA	Jobs	GVA	Jobs
Financial & Business Services	-5.0	-1.1	5.5	-5.0	6.1	3.4
Other Services	-15.3	1.7	5.7	-2.9	5.7	1.9

- The City Corporation has published two important strategies setting out a vision for recovery in the City and across the capital - London Recharged: Our Vision for

¹³ ibid

¹⁴ City of London Local Plan, City Plan 2036, Proposed Submission Draft, Topic Paper 1 – OFFICES; City of London Corporation, March 2021

¹⁵ London’s Economic Outlook: Autumn 2020, GLA Economics, December 2020

London in 2025¹⁶ and The Square Mile: Future City¹⁷. These strategies reaffirm the City's existing strengths and show that the City's future success will depend on collaboration, innovation and sustainability and the creation of a world class business ecosystem, supported by a vibrant cultural offer and outstanding environments. Effective management of the office stock and curation of opportunities for SMEs and start-ups will be an important element of achieving this future success.

Planning Policy

15. 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. 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.

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. “

¹⁶ London Recharged: Our Vision for 2025, City of London Corporation, Oliver Wyman and Arup, 2020

¹⁷ 2021 The Square Mile: Future City, City of London Corporation and Oliver Wyman, 2021

16. The adopted 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. The emerging draft City Plan 2036 takes forward this planning policy approach, seeking to continue to sustain and enhance the beneficial cluster of commercial office floorspace and activity in the City of London.
17. 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.
18. The London Plan 2021 recognises the City of London as a nationally important location for globally-oriented financial and business services. Policy SD4 requires that the nationally and internationally significant office functions of the Central Activities Zone (which includes the City of London) should be supported and enhanced, including the intensification and provision of sufficient space to meet the demand for a range of types and sizes of occupiers and rental values. Policy SD5 further indicates that new residential development should not compromise the strategic functions of the CAZ and, specifically, that residential development is not appropriate in defined parts of the City of London and Northern Isle of Dogs. Elsewhere in the CAZ, office and other CAZ strategic functions are to be given greater weight relative to new residential development. Policy SD5 also indicates that residential or mixed use development should not lead to a net loss of office floorspace and that local approaches to mixed use development should sustain strategically important commercial clusters and that local planning authorities should consider the potential to use land use swaps, credits and off-site contributions.
19. London Plan Policies SD5 and E1 support the introduction of Article 4 Directions by London boroughs and the City of London to remove office to residential permitted development rights across the whole of the CAZ, to ensure that London's nationally significant offices in and around the CAZ are safeguarded. The London Plan, Policy E1 and paragraph 6.1.5, support the provision of sufficient space to support the growth of new start-up companies and to accommodate SMEs, including lower-cost and affordable business space.
20. The GLA has prepared an evidence base¹⁸ to support borough applications for Article 4 Directions under this policy which provides further supporting evidence for a City of

¹⁸ Strategic evidence to support London borough Article 4 Directions in London's nationally significant office locations, Mayor of London, February 2018

London Article 4 Direction. The London Office Policy Review 2017¹⁹ shows that permitted development 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.

21. 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 Corporation will meet its London Plan 2021 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 5 and 6) and the evidence base prepared for the draft City Plan 2036²⁰ demonstrate that sufficient housing has been permitted and is likely to be completed to meet London Plan housing requirements at least until 2028/29. These figures also show that housing delivery in the City of London varies significantly on an annual basis, with housing delivery in some years being below the required London Plan target, whilst in others it is significantly above annual targets. 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 March 2020, 1,124 new dwellings were completed in the City of London; 1,838 new dwellings were permitted in the City of London, an annual average rate of approximately 260 dwellings. Just over 200 of the total number of new dwellings permitted were the result of 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, and housing completions in excess of London Plan targets.
22. The proposed Article 4 Direction will continue the existing retention of local planning control in the City of London established through the Article 4 Direction to remove permitted development rights for the change of use of offices (Class B1(a)) to residential (Class C3), which came into force on 31 May 2019. Maintaining this approach 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.
23. 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. The City Corporation's positive approach has helped to deliver iconic new office developments, contributing to a total office stock of 9.3 million square metres in 2020, with a further 1.3 million square metres either under construction or permitted but not

¹⁹ London Office Policy Review 2017, Ramidus Consulting Ltd for GLA, June 2017

²⁰ City of London Local Plan, City Plan 2036, Proposed Submission Draft Topic Paper 2 – HOUSING, City of London Corporation, March 2021

yet commenced²¹. This has been complemented by an increase from one to 43 hotels and apart hotels in the City at 31 March 2020 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 (Class E(g)(i)) to residential (Class 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 and Article 4 Direction

24. In May 2013, the City of London was granted an exemption to national permitted development rights for the change of use from offices (Class B1(a)) to residential (Class 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 and remained in force until 30 May 2019. The exemption was replaced on 31 May 2019 by a City of London Article 4 Direction which removed national permitted development rights for the change of use from offices to residential across the whole of the City. This Article 4 Direction was introduced as non-immediate Article 4 and subject to consultation with affected stakeholders and the wider public in February and March 2018. Only 4 responses were received to this consultation, all either supporting the proposed Direction or raising no comment. The Secretary of State did not comment on the draft Direction or following notification of the intention to bring the Direction into effect.

Key Adverse Effects of the Permitted Development Right for Change of Use from Offices (Class E(g)(i)) to Residential (Class C3) on the City of London

Adverse Effects on the Balance of Land Uses

25. As described above, meeting the projected long term economic and employment growth in the City is dependent on the delivery of 2 million square metres gross of office floorspace by 2036 to meet the growing needs of the current and future City occupiers.
26. Loss of existing office stock to housing through permitted development rights would make achievement of the office stock target more difficult in several 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

²¹ Development Information 2019/20, City of London Corporation, September 2020

and the introduction of long residential leases in commercial areas which can frustrate site assembly for redevelopment.

- The application of the permitted development right to floorspace of under 1,500 square metres, means it will disproportionately impact on the supply of smaller office premises, most suitable to meet the needs of SMEs and new start-ups.
27. The City's existing office stock includes a wide range of buildings and units which meet the diverse needs of City occupiers (see Figures 4 & 7-9). The permitted development right would affect smaller and 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;
 - 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 employers²².
28. Research undertaken by Ramidus 2015²³ highlighted the impact of changing business needs and attitudes on the demand for office floorspace in central London, in particular the increased attractiveness of buildings that were once secondary or low grade to new occupiers. Areas that were once regarded as fringe areas have become prime or core areas. Although there is uncertainty over the impact of the Covid-19 Pandemic on the demand for smaller and lower grade office stock, the retention of such stock will play an important role in providing the flexibility and space for businesses and the economy to recover. The Article 4 Direction would provide the mechanism for this supply to be managed and that management to be adjusted in response to changing economic conditions and business demand and need.

Adverse Effects on the Pattern of Land Uses

29. 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 and emerging City Plan 2036 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).
30. 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.

²² Clusters and Connectivity: The City as a Place for SMEs, Ramidus Consulting Ltd for City of London Corporation and City Property Association, March 2016

²³ Small Offices and Mixed Use in the CAZ, Ramidus Consulting Ltd, for GLA, August 2015

31. 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, in particular of accommodation suitable for SMEs, 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

32. 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 loss of existing office space, with a consequential loss of the potential to retain and grow the City's employment base post Pandemic. 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 more difficult to deliver the City's ambitious programme of commercial recovery and growth (Figure 10).
33. In 2017, the City Corporation 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 redevelopment²⁴. The study focussed 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. The study discounted large floorplate buildings which would not be suitable for residential conversion and some listed buildings. Although this evidence looked at the potential for change of use of offices buildings of all sizes, it is likely that the lease events considered were more characteristic of the older and smaller office stock which is likely to be the focus of interest under the new Class E to Class C3 permitted development right. The research suggested that over the period 2018-2022, just over 1 million square metres of new and refurbished office floorspace in the development pipeline could have converted to residential if there were an unrestricted permitted development right. Although not all the stock lost would have been in smaller units there would still have been a significant reduction in small units available to meet the needs of SMEs.
34. 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 could severely hamper the construction of new office buildings.
35. 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

²⁴ Potential Impact of Use Classes Order Relaxation for Change of Use from Offices to Residential on City Office Stock, JLL for the City of London Corporation, February 2018

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.

36. Immediately prior to the Covid-19 Pandemic there was 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. Although the Pandemic has impacted on business activity in the City of London as office firms largely moved to remote working, there remains a strong demand for new office stock. At the end of Q1 2021, the average prime rent in the City stood at £82.50 per square foot, up 10% on Q1 2020 and was the second highest quarterly prime rent on record; average Grade A rents for the same period were £64.93, slightly down on the £65.30 figure in Q1 2020²⁵. Although rents have held up, vacancy rates in the City have increased in Q1 to 8.9%, above the long term average of 6.6%.
37. The City residential market has grown consistently over many years. Between January 2011 and January 2020, ONS data shows that average house prices rose from £442,000 to £774,000, an increase of 175%. The Covid-19 Pandemic has led to a fall in house prices, with average prices in January 2021 falling to £675,000, a reduction of nearly 13% over the year²⁶, probably as a result of the move to remote working by many City businesses over this period. With continuing demand for new office space, City workers are expected to return as the Pandemic eases and, alongside this return, house prices are expected to increase.
38. Research commissioned by the GLA²⁷ indicates that the balance between the viability of offices and residential is cyclical and volatile, with the economic advantages of residential being temporary. However, whilst office uses have traditionally had leases up to 25 years (although this is falling as firms seek greater flexibility), 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 viability 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 when the market favours them 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, volatile residential prices and the short term benefit to investors in seeking a change of use from office to residential continues to pose a threat to the stock of office floorspace in the City.

²⁵ City Office Market Watch, Savills, April 2021

²⁶ UK House Price Index, ONS

²⁷ Ramidus Consulting Ltd (see footnote 14)

Significance of the Adverse Impact at a National Level

39. 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 and renewal. This aim would be seriously compromised by a large-scale loss of small office space in the City suitable for SMEs, innovators, commercial operations and redevelopment.
40. To take financial services alone, PwC have estimated²⁸ that the sector employed 1.1 million people in the UK, 3% of total employment and paid £75.6 billion in total taxes in 2019/20, forming 10% of total UK government tax receipts. The City is a focus of financial services sector employment with 48% of London's financial services employment based in the City and almost 386,000 City jobs in 2019 in financial, professional and business services. 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.
41. 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 Council Tax payments related to housing. Research undertaken in 2011 for the City Corporation²⁹ 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.
42. Overall, the City generates £1.22bn in business rates, 5% of England's total³⁰. 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.

²⁸ The Total Tax Contribution of UK Financial Services: 13th Edition, PwC for City of London. 2020

²⁹ 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

³⁰ City Statistics Briefing, City of London Corporation, February 2021

Likely Strategic and Long Term Adverse Economic Impacts

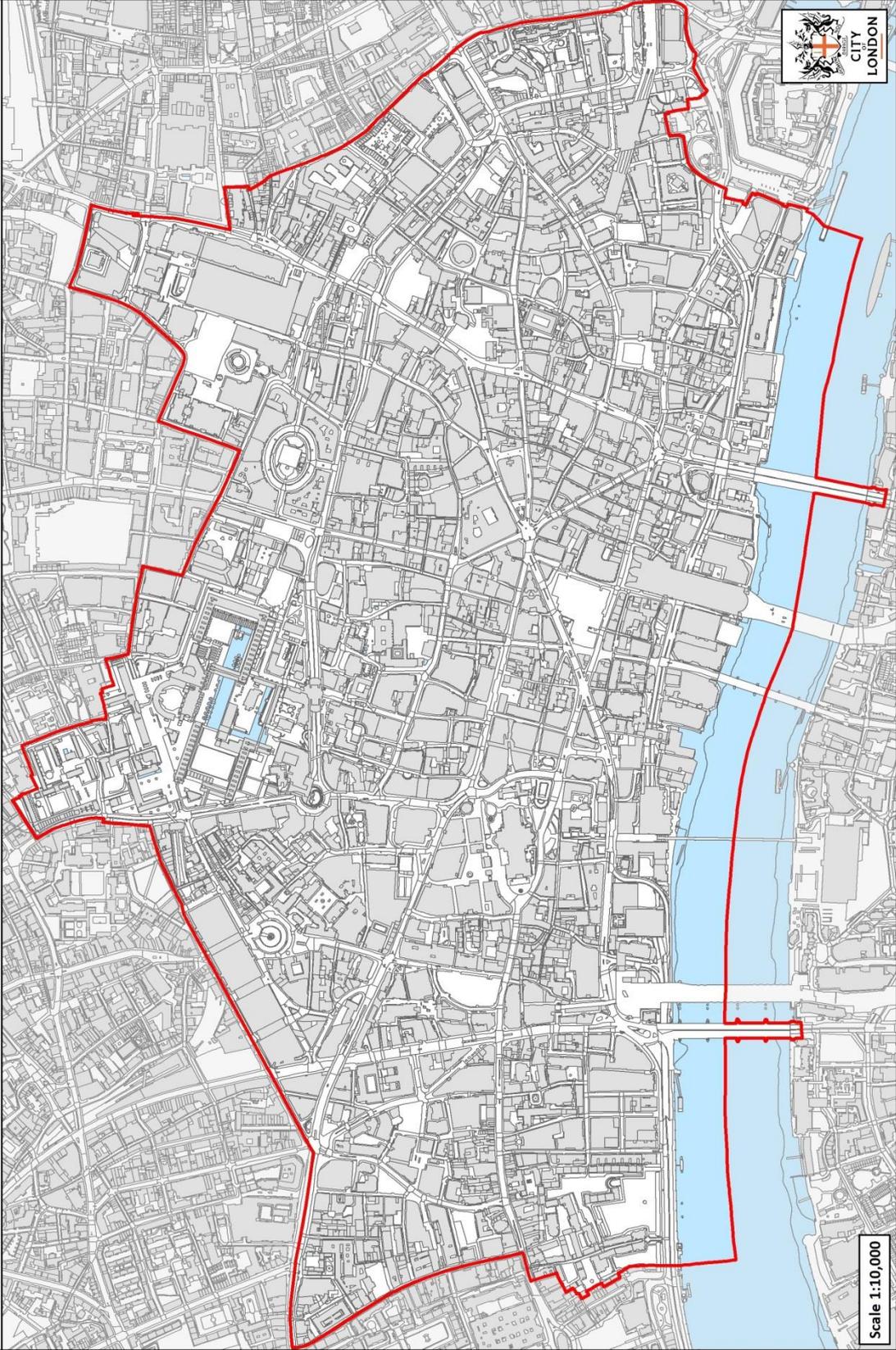
43. The strategic significance of the City of London to the national economy has already been explained. The adverse economic impact of the proposed permitted development rights would have strategic and long term consequences because it would change the balance and pattern of land uses in the City irreversibly. 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, shows the growing demand for flexibility in the commercial sector, flexibility that could be inhibited by longer residential leases.
44. City office occupiers providing international financial and business services are not typical office occupiers and the national assumption that 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.
45. The uncontrolled 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.
46. 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 the Elizabeth Line opens in 2022. The Elizabeth Line 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. The Line 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 London³¹, 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.

³¹ <http://www.crossrail.co.uk/route/wider-economic-benefits>

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

47. 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.
48. 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.
49. 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 11). 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 Figure 2, showing the City-wide land use distribution). 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 additional housing to be delivered in the City to meet Plan targets in a way that is compatible with continued large-scale commercial development, whilst contributing to meeting London's wider housing needs.
50. The Government's granting of a local exemption to permitted development rights for the whole of the administrative area of the City of London from May 2013 to May 2019 and the operation of an Article 4 Direction to remove office to residential permitted development rights in the City since 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.

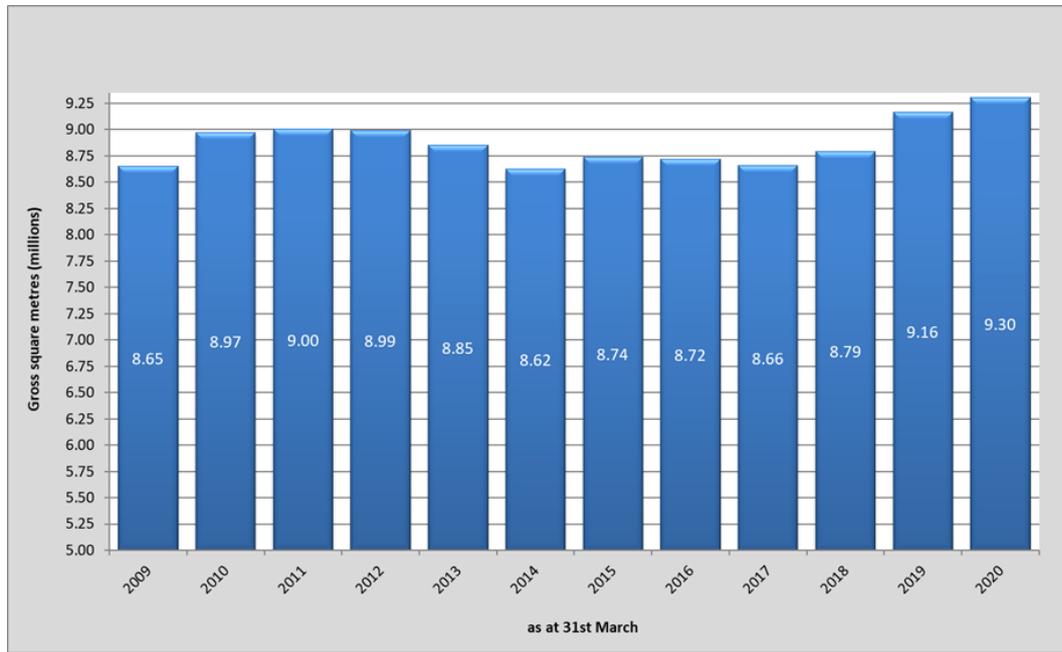
CITY OF LONDON PROPOSED ARTICLE 4 DIRECTION



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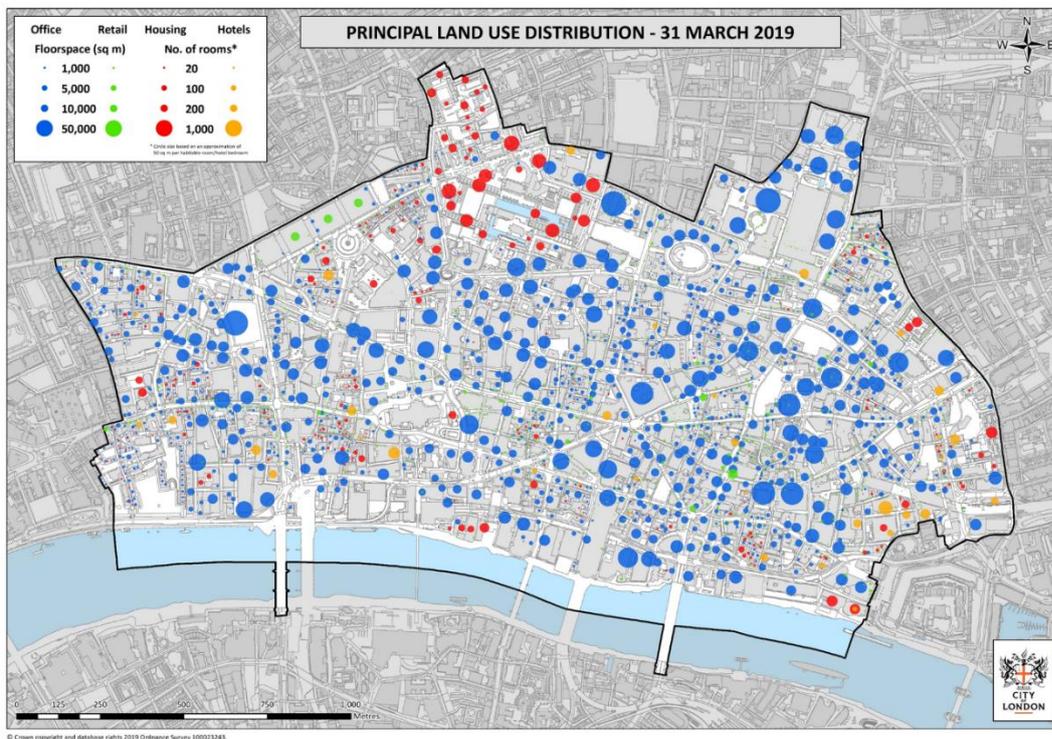
Appendix 1: Illustrative Figures

Figure 1: City of London Office Stock Growth 2009-2020



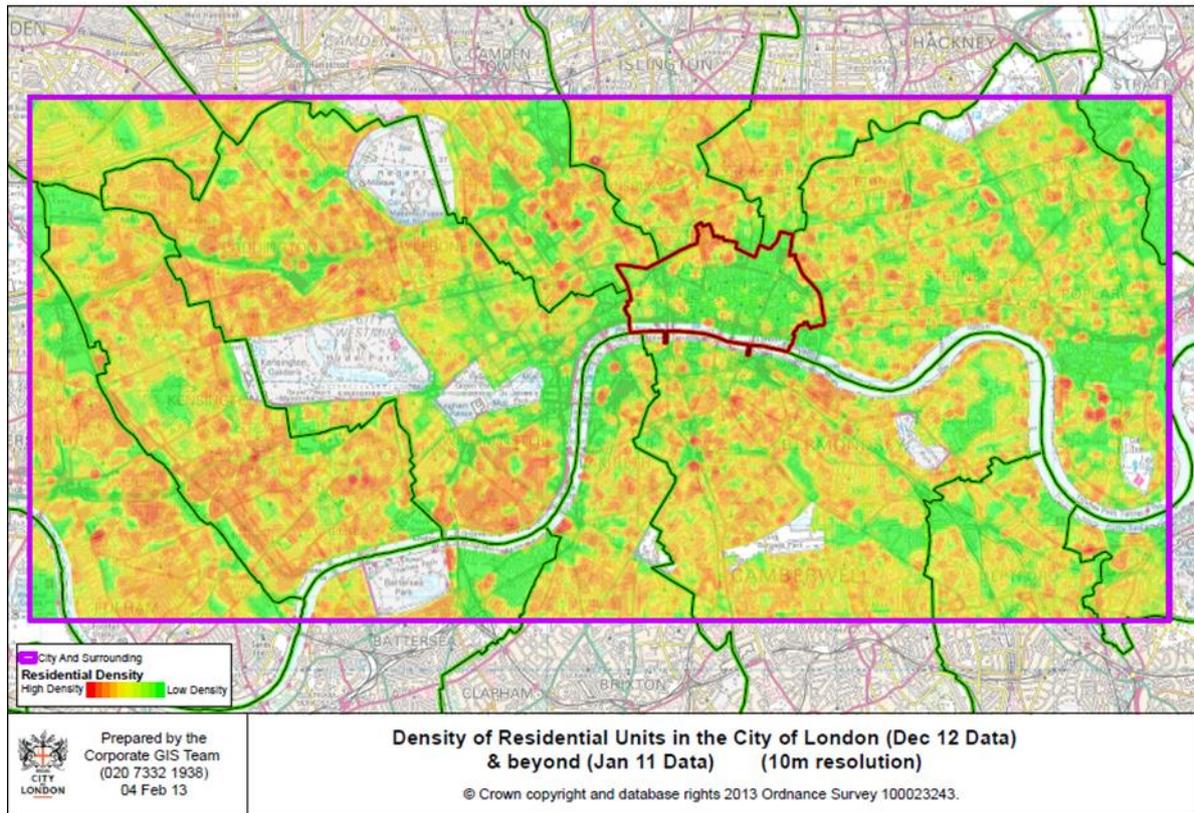
Source: Development Information, City of London Corporation, Department of the Built Environment, September 2020

Figure 2: City of London Principal Land Use Distribution, 31 March 2019



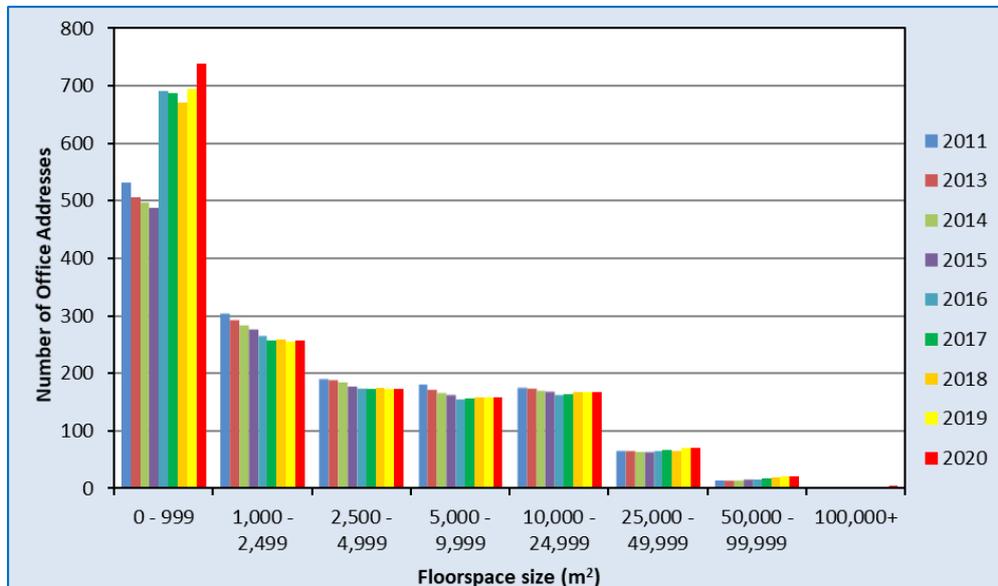
Source: City of London Corporation, Department of the Built Environment, City of London – Principal Land Use Distribution, July 2019

Figure 3: Central London Residential Density Distribution



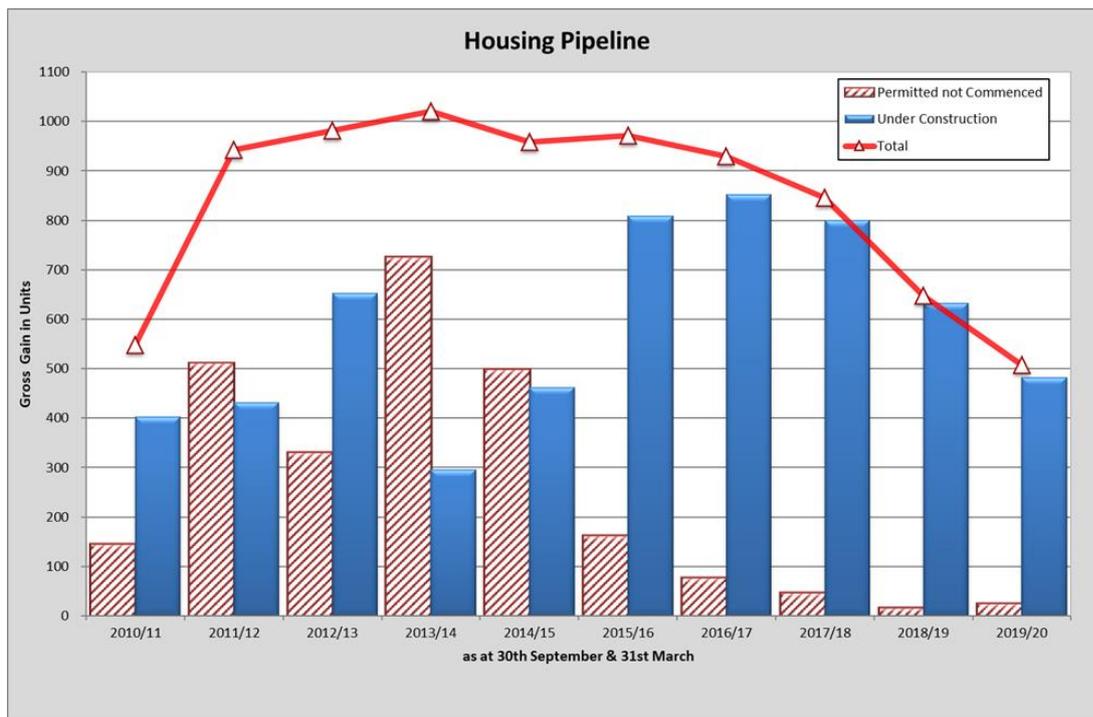
Source: City of London Corporation, Department of the Built Environment

Figure 4: Office addresses in the City of London by floorspace size band



Source: Office Floorspace in the City of London, 31 March 2020, City of London Corporation, September 2020

Figure 5: City of London Residential Development Pipeline 2010-2020, 31 March 2020



Source: Development Information, City of London Corporation, Department of the Built Environment, September 2020

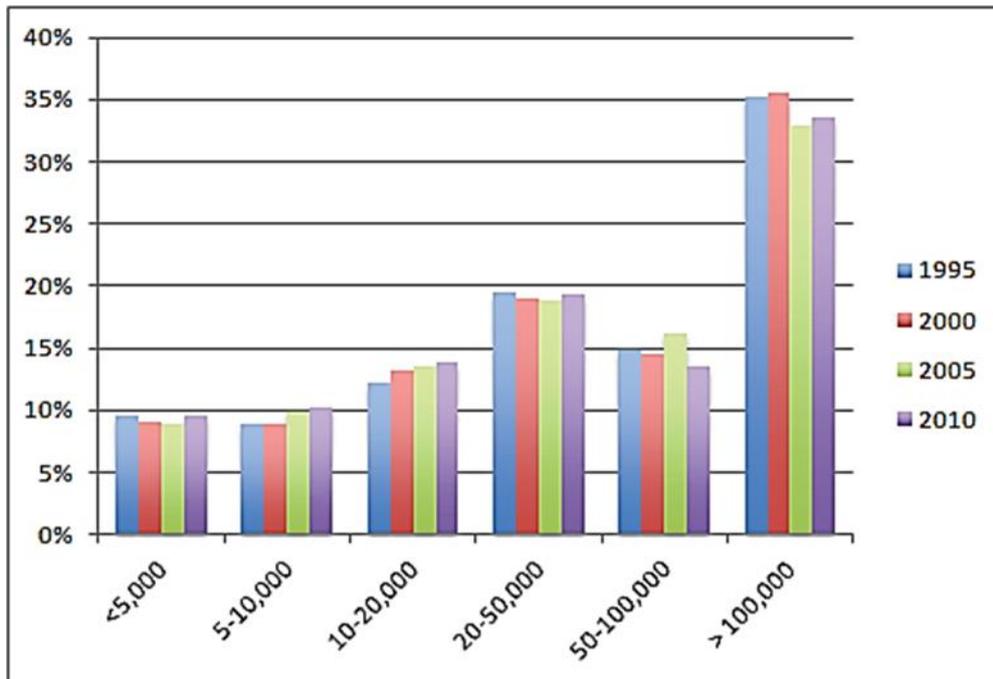
Note: This table excludes 619 student bedrooms under construction at 31/03/2020, which will deliver an additional 248 residential units using the methodology set out in the Housing Delivery Test that student accommodation can be counted at a ratio of 2.5 student flats: 1 residential unit

Figure 6: City of London Housing Delivery 2020



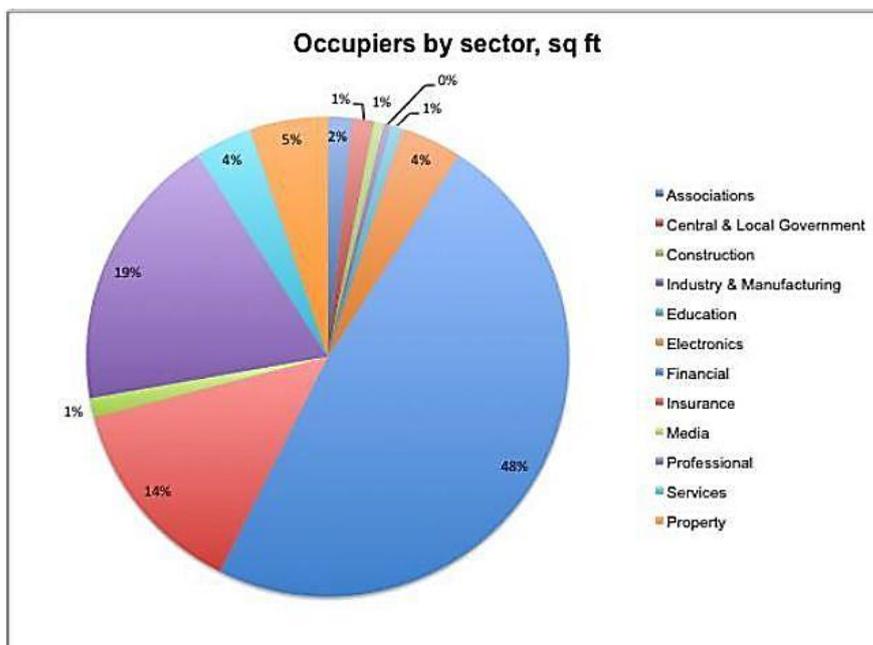
Source: Local Plan Monitoring Report – Housing, City of London Corporation, Department of the Built Environment, March 2021

Figure 7: City of London Office Stock Size Diversity 1995-2010: Occupied Units by Size Band (% of sq ft)



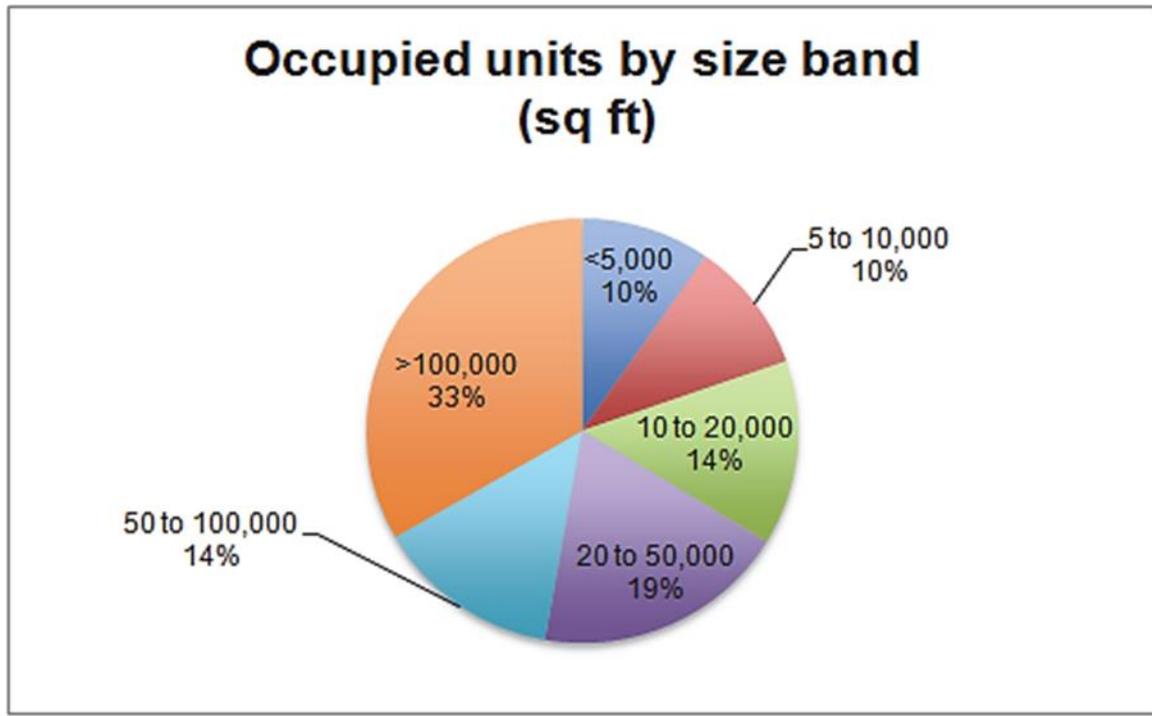
Source: Ramidus Consulting Ltd, for the City Corporation, 'Taking Stock: the relationship between business and office provision in the City', March 2013

Figure 8: City of London Office Occupier Diversity



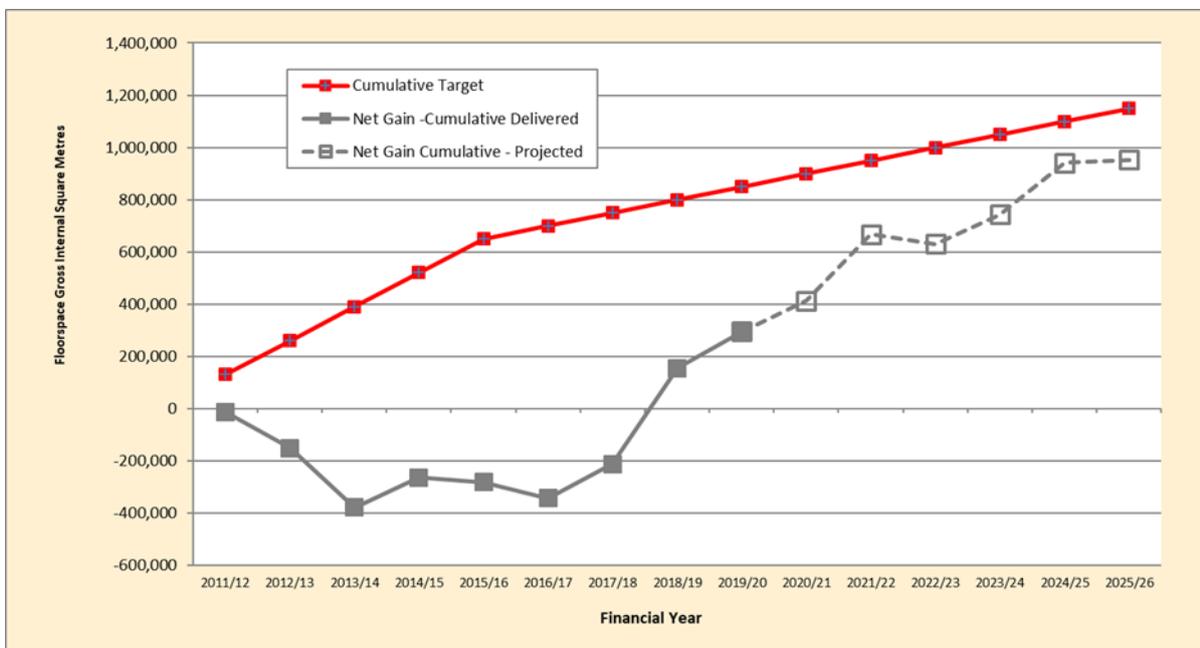
Source: Ramidus Consulting Ltd, for the City Corporation, 'Taking Stock: the relationship between business and office provision in the City', March 2013.

Figure 9: 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 10: City of London Office Stock Trajectory, 2011-2026



Source: Local Plan Monitoring Report - Offices, City of London Corporation, Department of the Built Environment, March 2021

Figure 11: City of London Residential Areas



Source: City of London, Proposed Submission Draft City Plan 2036