

Committee(s)	Dated:
Local Plans Sub (Planning and Transportation) Committee	20/06/2023
Subject: City Plan 2040 - Offices	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	1,2,3,5,6,7,8,9,11,12
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: Gwyn Richards, Planning & Development Director, Environment Department	For Discussion
Report author: Michelle Rowland, Environment Department	

Summary

The City Plan supports how the office market is growing and changing to 2040. The City is continuing to experience an increase in demand for high quality sustainable office space, including office space to meet the current needs such as co-working, flexible, and serviced.

Employment in the City of London is projected to continue growing, with the Greater London Authority forecasting jobs in the City to grow to 733,000 in 2041.

After the pandemic, office workers have adopted new patterns, with in person attendance levels highest on Tuesdays to Thursdays, and some Mondays. Office needs are changing with occupiers valuing different typologies, including agile working environments with meeting spaces for collaboration, quiet spaces for calls, and within amenity rich areas.

An evidence base report "Future of Office Use" was commissioned from ARUP to support the office policies review.

This report sets out how policies in the City Plan could be updated to ensure that there will be sufficient supply of offices to meet the future demand.

Recommendation(s)

Members are asked to:

- Advise on the proposed policy directions in relation to policies on offices.

Main Report

Background

1. In the NPPF, the purpose of planning is set out as contributing to the achievement of sustainable development. Local plans must demonstrate how the plans address economic, social, and environmental objectives. The NPPF emphasises the importance of planning for economic growth and productivity. Planning policies should set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth.
2. The London Plan supports creating and improving the quality, flexibility and adaptability of office space of different sizes. Policy SD5 states that residential development is considered inappropriate in defined parts of the City of London and should be given lower weight than CAZ strategic land uses in other parts of the City, reflecting the City of London's prominent role in providing capacity for world city business functions. This policy ensures that the current and future potential to assemble and deliver office development in these locations will not be compromised by residential development. Policy E1 of the London Plan identifies the unique agglomerations and dynamic clusters of world city businesses and other specialist functions of the central London office market, including the Central Activities Zone. The London Plan supports local authorities in protecting strategic office locations, such as the CAZ, including through the use of Article 4 directions to ensure that the areas are not undermined by office to residential permitted development rights. London Plan policy requires viability testing to support proposals for change of use from office space.
3. In October 2022, GLA Economics published interim employment projections for the whole of London and for individual boroughs, providing projections for the period up to 2051. The projections are based on historic productivity trends and assumptions about long term economic output. The methodology makes allowance for short term Covid-19 effects, but the longer term methodology remains the same as in previous projections. For the period 2020-2025, growth is assumed to align with the GLA's central projection of the impacts of Covid, with employment and output returning to pre-Covid levels by 2023-24. Beyond 2025, the GLA has taken a neutral position on any ongoing Covid impacts and has continued to use its long term trend-based methodology for the period 2025-2051.
4. The Business Register and Employment Survey (BRES) employment count for the City of London shows a consistent annual increase in employment through this period. BRES data reflects the number of workers employed in City registered businesses and not necessarily the numbers working in the City on a daily basis. It does, however, provide a good estimate of the overall scale of City employment.
5. BRES data suggests there were 591,000 workers registered with businesses in the City of London in 2021. Data provided by Arup suggests that 213,000 (36%) of jobs in the City of London are in the Financial Services sector. Traditional-

office based jobs are the dominant sector in the Square Mile, representing 59% (346,000) of all jobs in 2021, but emerging office-based firms (information and communication and professional, scientific and technical activities) are faster-growing consisting of 41,600 new jobs (+62% between 2015 and 2021). In 2023, 29% of take-up of office floorspace in the City of London was from “Media and Tech” firms, compared to 19% from “Financial” companies, indicating an increasing shift away from the dominance of financial services, and an increasing demand from new types of occupiers.

6. The City is experiencing a gradual return of its office-based workforce, with London Underground ridership into the City showing average levels around 68% of pre-pandemic levels and up to 75% in the middle of the week. This trend has been stable since January 2023. Tuesday, Wednesday and Thursday are the busiest days with growing attendance levels on Mondays.

Changing nature of the office

7. In the post-Covid world, offices are increasingly seen as a place for socialising and collaboration. Tenants are seeking a new quality of space and quality of offer outside the ‘office door’ to encourage a return to the office, to differentiate themselves in a competitive labour market, and to increase utilisation. Employers are placing greater value on high-quality sustainable credentials, quiet spaces for phone calls or working, abundance of meeting spaces, good access to transport and food and beverage amenities as well as design which communicates the company’s brand and values. This is referred to as the ‘flight to quality’, with demand for new office space now largely concentrated around these qualities, expressed as ‘Best in Class’ space. The British Council of Offices published an update in 2022 to their densification, study and industry standards for office development which considers the impacts of the Covid-19 pandemic and changing working patterns. This study found that 10m² (Net Internal Area) per desk is suitable per worker. A higher density of 8m² should only be used when required by specific occupier groups. 16.7 m² per worker is suggested for core design elements—toilet provision and lift populations. Space utilisation in the BCO guidance is recommended to be reduced from 80% to 60% to reflect typical office usage rather than extreme usage.
8. Approximately one in five (22%) medium to large firms (50+ employees) in the City belong to the emerging office-based sector, increasing from 15% in 2015. Between 2015 and 2022, the total number of emerging office-based firms grew by 62% compared to a 35% growth for all firms. As emerging office-based firms tend to value different typologies of office spaces compared to traditional office-based firms, their growing number and size might imply a new shift in the market in terms of demand for best-in-class office spaces, with the fastest growing firms over-representing in the micro and small categories.
9. Grade B office take-up is predominantly by creative and emerging-office based firms who are interested in enhanced amenities. The protection of existing office space is important to ensure that there is a range of office stock to provide choice in terms of location and cost to potential occupiers. However, there are challenges facing Grade B office space. In 2022, take-up of second-hand Grade

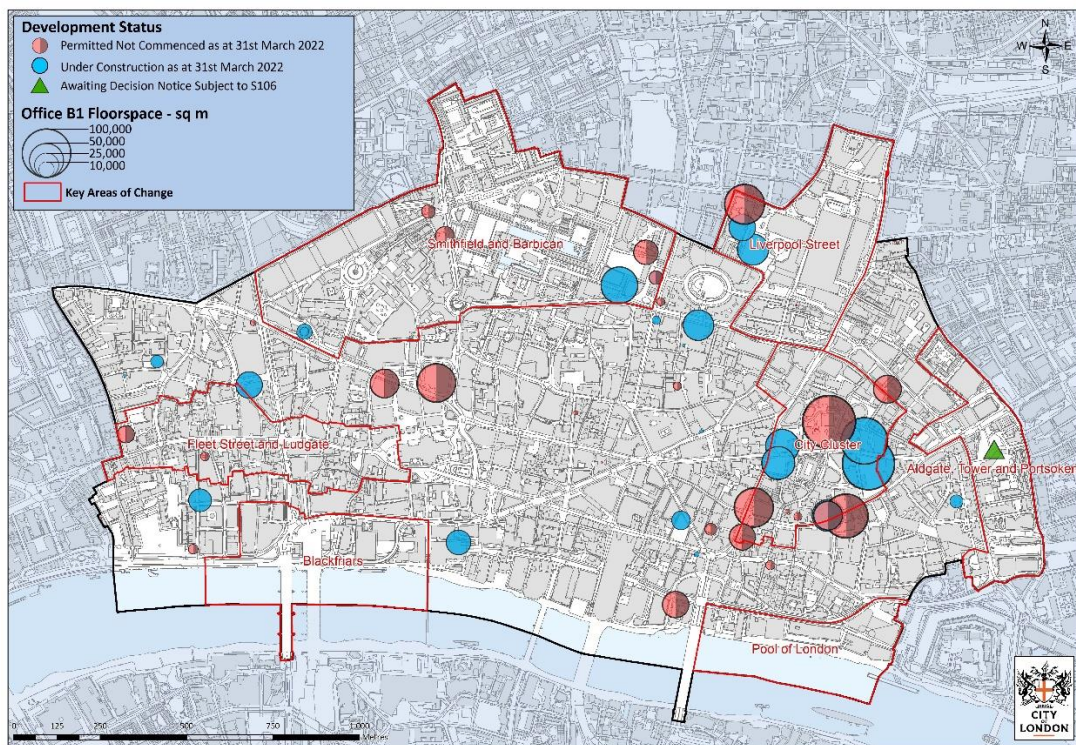
B space in the City was 10,000m², accounting for only 2.2% of all leasing market transactions in the City. Pre-pandemic, Grade B office stock provided an affordable workspace option for small businesses but this market area has not recovered after the pandemic. There are challenges for retrofitting Grade B space but there are successful examples in the City, including Millennium Bridge House, 81 Newgate Street and Ibex House.

10. As part of its strategy to improve the energy efficiency of the building stock, the Government has set targets for minimum levels, as measured by EPCs (Energy Performance Certificates). From 2026, restrictions will come into effect preventing the letting of commercial buildings that fall below EPC Grade C. This accounts for approximately 1 million sq m of office space in the City. Minimum EPC standards will continue to be updated. As a result, a number of City buildings will need to be refurbished or retro-fitted to ensure that they continue to meet required energy performance standards for letting, alongside new development to meet growing employment needs. Without improvement, there is potential for some existing buildings to become 'stranded assets' requiring either redevelopment or change of use to alternative uses. It should be noted, however, that these alternative uses will also be required to meet minimum EPC levels. In taking forward the City Plan, office floorspace targets are expressed as net gain, meaning that any loss of office floorspace through stranded assets will effectively increase the overall quantum of new floorspace required.
11. At previous Sub-Committee meetings in April and May, Members discussed the principle of a 'fast-track' approach to the consideration of certain planning applications, including those where the proposed use would retain much of the existing fabric and embodied carbon of a building and/or where the proposed use would meet other key City Plan or Corporate priorities, such as Destination City. Current Local Plan and draft City Plan policy protects suitably located and viable office floorspace, with marketing and viability evidence required to support proposals which result in a loss of office floorspace. This approach, supported by policy in the London Plan, has successfully protected the critical mass of office floorspace in the City, helping to maintain its primary office function. However, it is increasingly clear that occupiers are looking for greater variety in terms of land use, including the provision of a range of complementary facilities to provide attractive workspaces for employees. Developers and building owners are also looking for greater diversity in terms of rental income. There is an opportunity to develop policy in the City Plan which provides greater support for proposals which deliver a range of uses and facilities for City workers, residents and visitors and which makes City buildings much more open and welcoming to all.
12. A 'fast track' approach could help deliver this diversity and inclusivity of space by reducing the evidential requirements to support the loss of office floorspace and/or the change of use of all or part of an office scheme to other uses. Such uses should be those that are complementary to the City's primary business role and could include, on appropriate sites, hotel and visitor accommodation or cultural space, educational space, particularly for business related uses, new publicly accessible open space and space within buildings, including rooftop space and viewing galleries.

13. This approach would not remove the policy approach which protects suitably located office space, but would allow for more variety of uses. There are two main mechanisms through which this could be achieved –by removing the requirement for either viability evidence (which is currently used to assess whether ongoing office use would provide a reasonable return for an investor) or the requirement for marketing (which is currently used to establish whether there is interest from potential occupiers for the space). Officers consider that the marketing requirement should remain, in order to ensure that offices for which there is an occupier interest would not be excessively eroded through the new fast track. Members are asked for their views on such an approach.
14. An engagement event is being held on June 15 to discuss the Arup report. Officers will provide a verbal update on key points raised at the Sub-Committee meeting.

Scenarios for office growth

15. The City Corporation publishes annual City Plan monitoring reports setting out progress towards meeting office floorspace targets. The Local Plan 2015 office delivery targets up to 2026 are being met. The total office stock is currently 9.44 million m² (as measured by Gross Internal Area) as of 31st March 2022. The total amount of office stock is expected to increase to 9,968,000m² by 2025/26. The map below shows the location and development status of office development schemes either in the planning pipeline or awaiting s106, as at March 2022, showing that there is a healthy pipeline of future office development, principally located in the City Cluster.



16. The methodology used to establish targets in the adopted Local Plan was used to produce office floorspace targets for the City Plan 2036 which was subject to

consultation in 2021. This established a target of 2 million m² net increase in office floorspace to meet projected employment growth over the period 2016 to 2036. Using this same methodology for the period up to 2040 and re-basing to a start date of 2021, a minimum of 1 million m² net additional floorspace would be required, phased as follows:

- 2021 – 2026 500,000m²
- 2026 – 2031 250,000m²
- 2031 - 2036 125,000m²
- 2036 – 2040 125,000m²

17. The apparent significant reduction compared with the previous target is largely due to significant office floorspace completions in the 2016-2021 period, totalling 835,000m². However, as Members will be aware, there is a significant development pipeline at present and significant development interest in new office floorspace, with 370,000m² of flexible office floorspace including affordable workspace approved in 2022. Employment based targets should therefore be seen very much as a minimum, with flexibility required to allow for market fluctuations. This approach is in line with the NPPF, which requires planning policies to help create the conditions in which businesses can invest, expand and adapt. This approach also recognises the connectivity of the Square Mile, in particular the extent of the labour market to which the area is easily and quickly accessible by sustainable transport.
18. Additional technical work is underway to better understand not just the potential demand for office floorspace, but the capacity to accommodate additional floorspace, having regard to other policy constraints including strategic and local views protection and heritage assets. Officers will provide a verbal update at the Sub-Committee meeting.
19. The projection of a minimum of 1 million m² of office floorspace is based purely on GLA employment projections for the City of London which, in turn assume a return to long term trend data in the mid 2020s, following Covid. The Arup study has considered whether the impacts of the Pandemic result in different and longer term impacts on working patterns and the likely need and demand for office floorspace.
20. The “Future of Office Use” evidence base produced by ARUP outlines three plausible scenarios for the demand of office floorspace in the City. The scenarios consider different hybrid working patterns and the changing office characteristics such as the focus on quality of space and amenities.

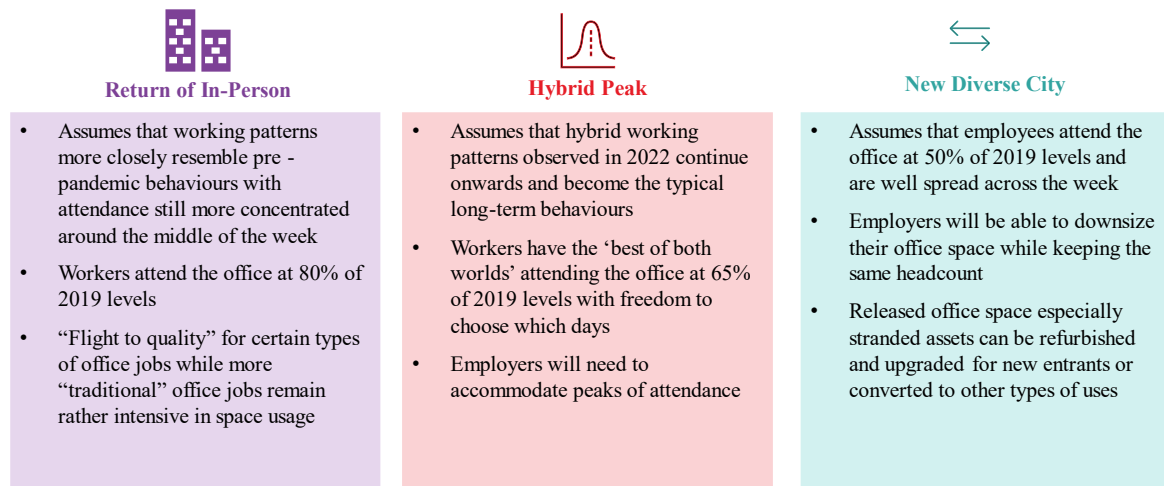


Figure 1 Scenarios for the economic model

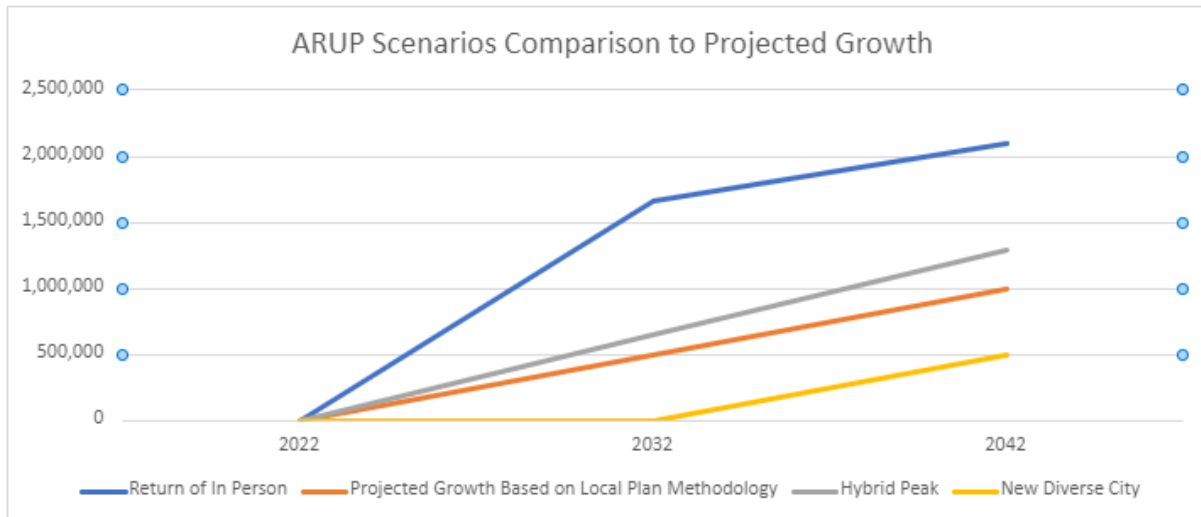
21. The three scenarios are:

- Return of In-Person assumes that pre-pandemic working habits resume, with most of workers coming back to the office (at 80% of 2019 levels), with a slight preference for mid-week days. Projected employment from this scenario aligns with GLA projections.
- Hybrid Peak sees office workers coming around 2.5 days a week (65% of 2019 levels) with a high concentration between Tuesday and Thursday and rather empty offices the rest of the week. Again, projected employment growth aligns with GLA projections.
- The New Diverse City scenario projects lower attendance (50% of 2019 levels) but with a more even dispersion of workers throughout the week, allowing for optimization of office space and space in excess being taken over by new entrant firms. This greater utilisation of the office stock would allow for a growth in employment of 147,000 jobs by 2042. This diverges significantly from GLA projections and would have significant implications for transport and ways of working.

22. In terms of office floorspace requirements, the three scenarios require different amounts of office space by 2042:

- Return of In-Person requires 1.8 million m² (20 million ft²)
- Hybrid Peak requires 1.2 million m² (13 million ft²)
- New Diverse City requires 550,000 m² (6 million ft²)

23. The graph below compares potential floorspace requirements for the three scenarios, with the projected floorspace using the previously adopted methodology for office floorspace calculation in the City Plan.



24. The NPPF requires Local Planning Authorities to plan positively for economic growth, whilst the London Plan highlights the importance of office growth in the City of London. Economic development in the City of London is a driver both nationally and internationally. The City Corporation needs to be planning positively for future economic growth so as not to limit any potential economic opportunities.
25. Current office occupancy and movement trends are showing a middle ground between the Return of In-Person and Hybrid Peak, with a central pattern of in-person on Tuesday, Wednesday, Thursday. Current trends have been influenced by industrial action (rail and education strikes) and bank holidays, which have tended to reduce time in the office in person. Occupancy and movement trends have begun to show a move towards a 4 day in person work week.
26. These two scenarios are broadly aligned with the draft City Plan 2040 targets in regard to net office space required. This indicates that future office floorspace requirements in the City are likely to be significant, with little evidence of long term adverse impacts on growth as a result of the pandemic.
27. Members are asked to provide guidance on an appropriate strategy for meeting longer term office growth in the City Plan. On the basis of the Arup report and its assessment of current working patterns and current City planning pipeline trends, officers advise that City Plan should establish floorspace targets aligned with the Return of In-Person scenario, in order to ensure that the City Corporation are planning positively in accordance with the NPPF. Alternatively, an approach based on the Hybrid Peak, or a combination of the two, could be taken forward, with a clear indication that this is a minimum level to be planned for and that additional capacity would normally be supported.

Monitoring and implementation

28. Irrespective of which option is taken forward, the City Plan will continue to:

- a. Support investment and improvements in amenity within the City, for example public transport and active travel accessibility, public realm, parks and open spaces, cultural spaces and attractions, and office-supporting sectors – including food and beverage.
 - b. Monitor the take up of office space, identifying any emerging trends and/or risk around the use of Grade B space and potential stranded assets. A flexible approach to Grade B and alternative uses, including a ‘fast track’ approach to change of use from office to appropriate uses (subject to Member approval) will be used to manage the future of Grade B stock.
29. These policy directions will continue to enhance the City as a location to do business and as an attractive location for people to work and socialise. Alongside other City initiatives, particularly Destination City, the Plan will provide the framework for workers to return to the City.

Corporate & Strategic implications

30. The preparation of the City Plan is informed by and will contribute to the implementation of the Corporate Plan (2018-23). The City Plan will support the delivery of key Corporate priorities, along with proposals to ensure a sufficient supply of business space and complementary uses to meet future needs. Preparation of the revised City Plan is being undertaken alongside the review of the Transport Strategy and the revised end date of the City Plan (2040) will align with the key net zero target in the Climate Action Strategy.

Financial implications

31. None.

Staff Resource implications

32. Preparation of the revised pre-submission Regulation 19 City Plan is being carried out in-house by the Development Plans Team, working alongside and supported by Development and Design colleagues in the planning service and by other services as appropriate.

Legal implications

33. There are no specific legal requirements, other than the ongoing requirement to ensure that all relevant statutory processes are complied with during production of the City Plan.

Equalities implications

34. Preparation of the City Plan has been informed by an Integrated Impact Assessment. A separate Equality Assessment is also being undertaken. Any material changes to the Plan will be subject to further Equality Assessment.

Risk implications

35. The December 2021 report to the Grand Committee identified the risks associating with preparing a revised pre-submission Regulation 19 City Plan as compared to submitting the current version for examination. The Grand

Committee agreed to revise the City Plan and officers will continue to monitor and report back on any changes to the risk assessment as the project progresses.

Climate implications

36. The City Plan is one of the key mechanisms for achieving those targets in the Climate Action Strategy which relate to the Square Mile rather than the City Corporation's own operations, in particular the net zero target for the Square Mile by 2040. The inclusion of policies that seek to prioritise and incentivise the retention of existing buildings, including for offices, will further strengthen alignment with the Climate Action Strategy.

Security implications

37. There are no direct security implications.

Conclusion

38. There is an increase of 85,000 jobs projected for the City of London up to 2040. After the Covid-19 pandemic, the de-densification of office space has meant a shift in typologies of office spaces to include spaces that foster collaboration and socialisation. Occupiers are seeking high quality sustainable office space with a focus on amenities to attract the best talent and employees back to the office.

39. Standard office floorspace projections for the draft City Plan 2040 project that a minimum 1 million m² of office floorspace will be required to 2040 to support the demand.

40. More detailed and comprehensive research by Arup suggests an increase in workers returning to the City as a place of work, with potential for up to 1.8 million m² of new office floorspace required.

Background Papers

- None

Appendices

- Executive Summary of the Future of Office report by ARUP, 2023

Report author

Michelle Rowland
Planning Policy Officer

T: 07702 908 0293

E: michelle.rowland@cityoflondon.gov.uk