

Committee	Date
Planning and Transportation	23 rd June 2015
Subject: City Development Trends Update: June 2015	Public
Report of: Director of the Built Environment & City Property Advisory Team	For Information

Summary

This report is the first of a proposed six-monthly series providing an update on City development trends. It summarises recent information derived from our monitoring of planning permissions granted, setting it in the wider strategic and Local Plan context. It looks forward to developments likely to proceed in the next few years. It provides an overview of current market sentiment and highlights some key schemes and trends to note.

The overview as at June 2015 suggests that the City development industry is broadly on track to deliver the growth in floorspace to 2026 indicated in the Local Plan. Office, retail and housing growth completed since 2011 or under construction will contribute significantly towards meeting the Local Plan targets but further schemes will need to be commenced in future years for the targets to be met in full. Market sentiment is that office floorspace availability will tighten in the next few years leading to rental rises that trigger further development schemes.

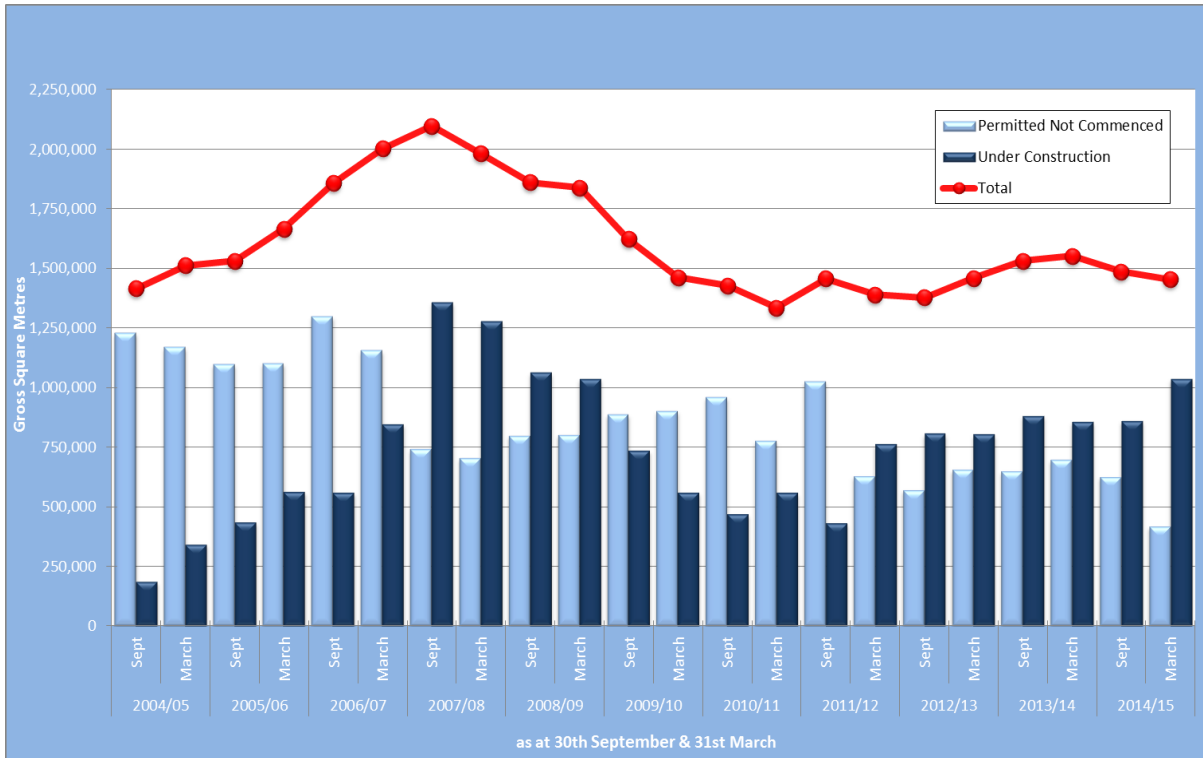
Recommendations

It is recommended that Members note the content of this report.

Main Report

Context: Current Development Overview

1. The six-monthly publication Development Monitoring in the City of London provides a regular snapshot of progress in delivering the development targets in the Local Plan. It is complemented by Development Schedules providing details on each planning permission and by topic monitoring and analysis papers all produced by the Monitoring and Information Team .
2. Total office floorspace under construction, 1,036,000 square metres gross (11,151,000 sqft), remains at its highest level since 2008 and it will deliver significant stock increase in the next three years.
3. Total office floorspace permitted not commenced, 417,400 sqm gross (4,493,000 sqft), remains below the 750,000 sqm gross (8,073,000 sqft) policy target in the Local Plan but this is in part due to the unusually high level of stock currently under construction.



City Office Floorspace Development Pipeline



City Office Floorspace Stock Estimate

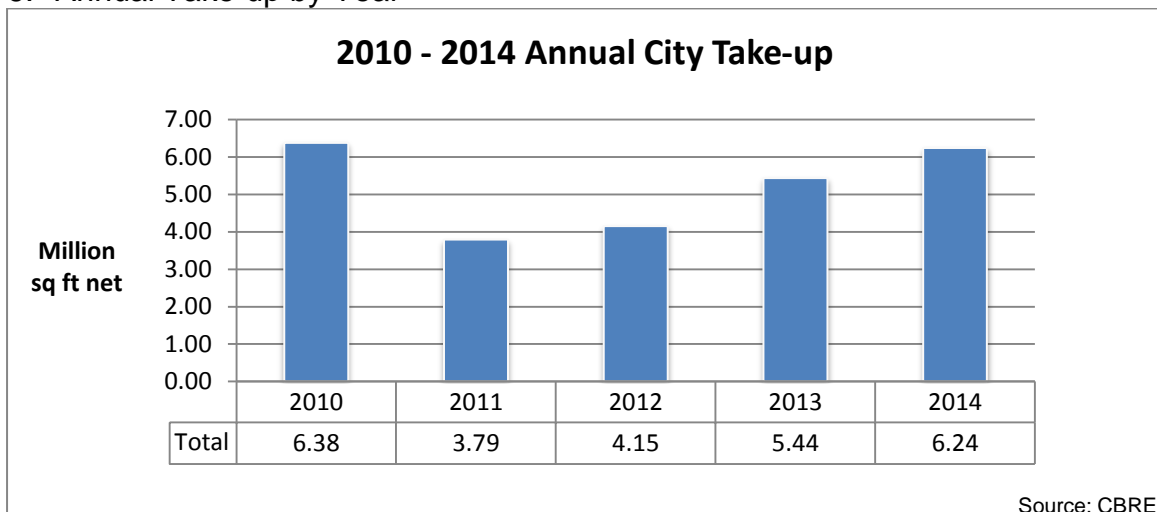
- Total office stock in the City was 8.74 million sqm gross (94.1 million sqft) in March 2015. This has reduced by 0.26 million sqm gross (2.8 million sqft) since 2011 as sites have been cleared for redevelopment. Total stock will rise quickly as sites currently under construction are completed. It is estimated that stock currently under construction will contribute about 70% of the Local Plan office floorspace indicative growth target of 1.15 million sqm gross (12.4 million sqft)

required during 2011-2026. Therefore the City development industry is making good progress but further schemes will need to be permitted and implemented in the years ahead. The scale of current pre-application discussions suggests that there is an appetite among developers for additional office projects in the City.

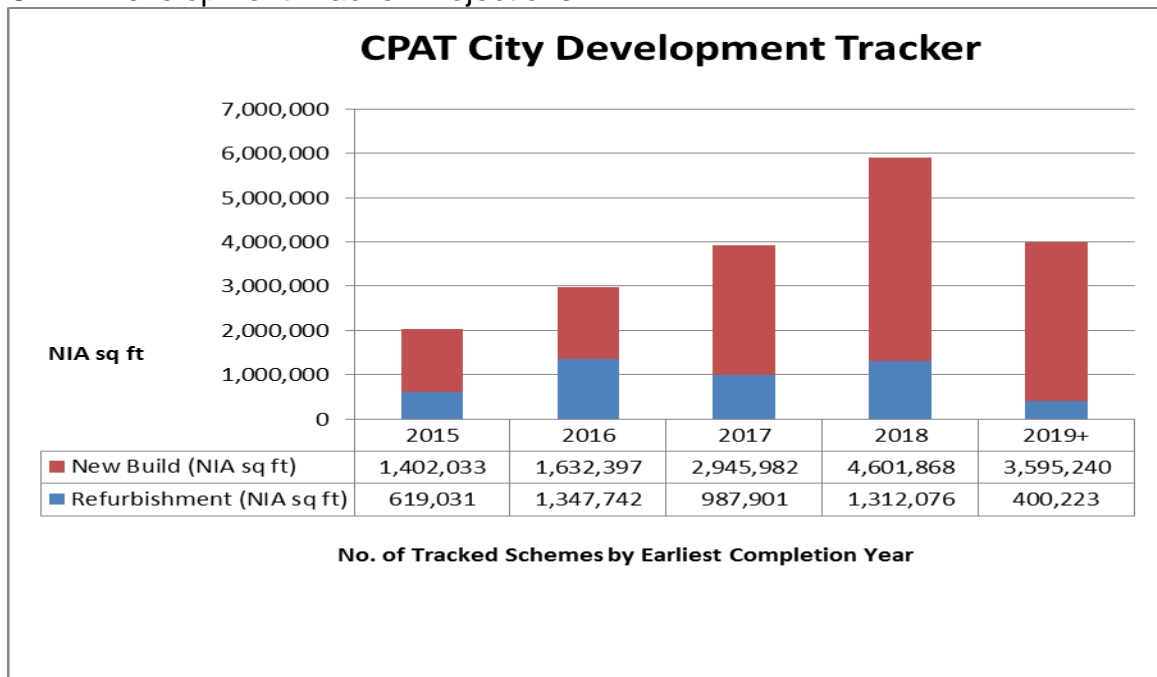
- The City forms part of the wider London development market and economy. Strong growth projections for London as a whole and the trend for a wider range of occupiers to see the City as a good business location means that existing Local Plan indicative growth targets will be kept under review and will probably need to be exceeded.

Context: Future Development Prospects

6. Annual Take-up by Year



CPAT Development Tracker Projections



Update: Market Sentiment

7. Figures are taken from trends reported by a range of City Agents. They are not directly comparable with planning permission monitoring data because they use different definitions of scheme commencement, include some City Fringe areas, and measure net floorspace which is typically 75% of gross floorspace.

City Market Trends As at Q1 2015

Take-Up	12 months % change	Total for last 12 months
Increases (CBRE)	+12.82	6.24 million sq ft



Vacancy Rate	Q1 2014	Q1 2015
Decreases (KF)	8.40%	5.70%



Under Construction	12 months % change	Q1 2015
Increases (KF)	+7.90	5.08m sq ft (NIA)



Availability	12 months % change	Q1 2015
Decreases (KF)	-31.50	6.83 million sq ft



Investment	12 months % change	Total for last 12 months
Increases (CBRE)	+38.00	£11.3 billion



Active Requirements (million Sq ft)	12 months % change	Q1 2015
Increases (KF)	+12.60	4.46 million sq ft



Headline Rent (£)	12 months % change	Q1 2015
Increases (KF)	+7.70	£65.00 per sq ft



Update: Investment Turnover

The Changing Leasing Market

8. The City office market has been subject to significant change with some 46% of current stock completed during the past 20 years to provide for the changing needs of occupiers. Allied to the major regeneration of much of the City's office stock are the 600 listed buildings and many historic buildings within the City's conservation areas (36% of the City by area) that have contributed to maintaining a range of different types of stock to suit tenant's needs.
9. The leasing market has adapted over this period to provide significant flexibility so as to respond to tenant demands. In part this has been in response to practices established in other parts of Europe and the world, where for example French leases have been traditionally structured on a 3, 6 and 9 year basis. In the 1990s many of the significant lettings in the City were on the basis of 25 year 'upward only' institutional lease. Over time the nature many of the leases have shortened to provide for leases of 10, 15 and 20 year period with breaks built in to allow a degree of flexibility for both landlord and tenant. In shorter leases of 1-5 years it was also possible to insert break clauses although this has significantly reduced from 28% of leases to 2% between 2010 and 2014. This is evidence of the growing demand for short term space from occupiers, meaning that landlords are under less pressure to be flexible with incentives.
10. City businesses have been the beneficiary of the significant redevelopment activity in the Square Mile as a consequence of property owners letting space on short flexible terms to align with redevelopment aspiration for sites which often incorporate a number of buildings with different lease horizons. In addition to this flexible and affordable space often becomes available when large businesses take a decision to move in advance of their lease expiry and will look to sublet on short flexible terms for the remainder of the lease term, or where businesses no longer need all the space they have let (particularly prevalent in times of recession).
11. The type of offer available to smaller businesses has also evolved significantly over the last 10 years. Recent research undertaken by the City Corporation looked particularly at the changing serviced office provision in the Square Mile. Serviced offices provide centrally managed fully fitted and furnished flexible space. Between 2003 and 2012 the number of firms in serviced offices had grown from 365 to 1,600 housing 18,000 workers. The number of serviced offices has more than tripled over the last two decades from 25 to 85, comprising 200,000sqm of office space. Around 70% of the City's serviced office space is occupied by SME's, with the remainder providing representative offices or flexible space for larger corporates.
12. The continuing attractiveness of the City will be in ensuring that there are opportunities for businesses of all sizes to thrive with space that can attract new firms to the City, as well as providing flexibility and choice for those already located here.

13. In the future a broader range of offers will emerge. It is likely that serviced office providers will continue to differentiate their offerings in terms of quality and style with a stronger tiered market emerging. In addition to serviced offices there is a broader flexible space market emerging with managed 'co-working' providers starting to occupy space in the City. Moorgate Place at 1 Fore Street has recently completed a 170,000sqft letting to We Work who has also taken space at 9 Devonshire Square and 199 Bishopsgate. We Work provide a managed community of businesses with flexible space from sharing a hot desk at the lowest entry point to taking a number of desks in your own room. This type of operator provides a range of community spaces and will facilitate connections between businesses / individuals within the building. This is a step change in how the needs of new businesses are being accommodated in the Square Mile and will become increasingly prevalent over the coming years and will help accelerate the diversification of the City's business base.

Background Papers

Development Monitoring in the City of London March 2015 at website link

<http://www.cityoflondon.gov.uk/services/environment-and-planning/planning/development-and-population-information/development/Pages/default.aspx>

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