

City of London

# Office Use

## Supplementary Planning Document



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# City of London Office Use Supplementary Planning Document

## Objectives

1. The City of London Local Plan protects existing B1 office accommodation where there are strong economic reasons why the loss of this accommodation would be inappropriate. This approach accords with:
  - guidance in the National Planning Policy Framework (NPPF);
  - the national importance of the City's office market, reflected in the City of London's local exemption from national permitted development rights for the change of use from office to residential;
  - evidence which demonstrates that a range of office types and sizes are needed to maintain a robust office environment and ensure the City remains an attractive location for business investment.
2. The Local Plan requires that offices should be protected unless applicants can demonstrate that offices are no longer a suitable and viable use in the longer term. The key priority in the City is to maximise opportunities that promote sustainable economic growth and create jobs, serving both the immediate area and the wider economy of London.
3. This Supplementary Planning Document (SPD) provides further guidance on the evidence required by the City of London Corporation (the City Corporation) to support proposals resulting in the loss of existing office accommodation.

## Structure

4. This SPD:
  - summarises the planning policy approach to proposals involving the loss of office use;
  - summarises the office market and its importance within the City of London; and
  - sets out the evidence required by the City Corporation from developers in support of proposals for the change of use or redevelopment of offices to other uses.

## **National Planning Policy**

5. The National Planning Policy Framework (NPPF) sets out the government's planning policies for England and how these are expected to be applied. The NPPF establishes a presumption in favour of sustainable development, which is reflected within the City of London Local Plan and underpins the guidance in this SPD. The following paragraphs are particularly relevant to City of London office development policies and the achievement of sustainable economic growth and job creation.

### **NPPF Paragraph 21:**

"Investment in business should not be over-burdened by the combined requirements of planning policy expectations. Planning policies should recognise and seek to address potential barriers to investment, including a poor environment or any lack of infrastructure, services or housing. In drawing up Local Plans, local planning authorities should:

- set out a clear economic vision and strategy for their area which positively and proactively encourages sustainable economic growth; set criteria, or identify strategic sites, for local and inward investment to match the strategy and to meet anticipated needs over the plan period;
- support existing business sectors, taking account of whether they are expanding or contracting and, where possible, identify and plan for new or emerging sectors likely to locate in their area. Policies should be flexible enough to accommodate needs not anticipated in the plan and to allow a rapid response to changes in economic circumstances;
- plan positively for the location, promotion and expansion of clusters or networks of knowledge driven, creative or high technology industries;
- identify priority areas for economic regeneration, infrastructure provision and environmental enhancement; and
- facilitate flexible working practices such as the integration of residential and commercial uses within the same unit."

### **NPPF Paragraph 51:**

"They (local planning authorities) should normally approve planning applications for change to residential use and any associated development from commercial buildings (currently in the B use classes) where there is an identified need for additional housing in that area, provided that there are not strong economic reasons why such development would be inappropriate."

## **London-wide Planning Policy**

6. The London Plan forms part of the Development Plan for the City of London. Development proposals are considered in the context of the policies in the London Plan and the City of London Local Plan. The following policies are particularly relevant to proposals affecting office uses.

### **London Plan Policy 2.10 Central Activities Zone – Strategic Priorities**

“Strategic

A The Mayor will, and boroughs and other relevant strategic partners should:

- c sustain and enhance the City of London and, although formally outside the CAZ, the Isle of Dogs as strategically important, globally-orientated financial and business services centres.”

### **London Plan Policy 4.2 Offices**

“Strategic

A The Mayor will and boroughs and other stakeholders should:

- a support the management and mixed use development and redevelopment of office provision to improve London’s competitiveness and to address the wider objectives of the London Plan, including enhancing its varied attractions for businesses of different types and sizes including small and medium sized enterprises.
- b recognise and address strategic as well as local differences in implementing this policy to:
  - meet the distinct needs of the central London office market, including the north of the Isle of Dogs, by sustaining and developing its unique and dynamic clusters of ‘world city’ and other specialist functions and business environments, and
  - consolidate and extend the strengths of the diverse office markets....
- c encourage renewal and modernisation of the existing office stock in viable locations to improve its quality and flexibility.
- d seek increases in the current stock where there is authoritative, strategic and local evidence of sustained demand for office-based activities...”

## **London Plan Policy 4.3 Mixed Use Development and Offices**

“Strategic

A

- a Within the Central Activities Zone and the north of the Isle of Dogs Opportunity Area, increases in office floorspace should provide for a mix of uses including housing, unless such a mix would demonstrably conflict with other policies in this plan...

LDF preparation

B LDFs should

- b develop local approaches to mixed use development and office provision taking into account the contribution that ‘land use swaps’, ‘housing credits’ and off-site contributions can make, especially to sustain strategically important clusters of commercial activities such as those in the City of London ...”

7. Paragraph 4.17 of the London Plan indicates: “As a general principle, housing and other uses should be required on-site or nearby to create mixed use neighbourhoods. Exceptions to this should only be permitted where mixed use might compromise broader objectives, such as sustaining important clusters of business activity, for example in much of the City...”

### **City of London Policy – City of London Local Plan**

8. The City of London Local Plan reflects the approach in the London Plan and seeks to sustain the City’s strategically important business clusters by encouraging office development and resisting the loss of suitable offices that are viable in the longer term. The Local Plan seeks to meet and exceed London Plan housing targets. Evidence from the London-wide Strategic Housing Land Availability Assessment demonstrates that there is sufficient capacity within the City of London to meet London Plan housing targets up to 2026 alongside the policy approach of protecting existing office accommodation.
9. Key policies are CS1: Offices, DM1.1: Protection of office accommodation and DM1.5: Mixed uses in commercial areas.

### **Core Strategic Policy CS1: Offices**

“5) Protecting existing office accommodation where there are strong economic reasons why the loss of offices would be inappropriate, including losses that would prejudice the primary business function of the City, and the variety of accommodation required by the business City.”

### **Policy DM 1.1 Protection of office accommodation**

“To refuse the loss of existing (B1) office accommodation to other uses where the building or its site is considered to be suitable for long-term viable office use and there are strong economic reasons why the loss would be inappropriate. Losses would be inappropriate for any of the following reasons:

- prejudicing the primary business function of the City;
- jeopardising the future assembly and delivery of large office development sites;
- removing existing stock for which there is demand in the office market or long term viable need;
- introducing uses that adversely affect the existing beneficial mix of commercial uses.”

10. Paragraph 3.1.8 of the Local Plan further states: “Proposals for change from offices will normally be refused if the building or site is considered to be suitable for long-term viable office use. Applicants seeking an exception will need to show robust evidence relating to the current and long term unsuitability of the site for office use and that the proposed change would not adversely affect the existing beneficial mix of commercial uses in the area nor prejudice the primary business function of the City. Exceptionally, the loss of individual office developments to other commercial or infrastructure uses may be acceptable, where the proposed alternative use meets the wider objectives of the Local Plan.”

### **Policy DM 1.5 Mixed uses in commercial areas**

“To encourage a mix of commercial uses within office developments which contribute to the City’s economy and character and provide support services for its businesses, workers and residents.”

11. Paragraph 3.1.20 recognises the importance of complementary commercial activities in supporting the City’s office base. Complementary uses include retail, leisure, education and health facilities. Paragraph 3.1.21 recognises that such complementary uses can be particularly beneficial at street level. In considering proposals for complementary uses at street level, the nature of the proposed development, the existing characteristics of the surrounding buildings and area, the impact on tranquil open spaces and the impact on heritage assets will be considered.

## Office Stock and Market Trends in the City

12. Annual monitoring by the City Corporation shows that, in 2013, the total office floorspace stock was 8,850,000m<sup>2</sup>. There has been a progressive loss of smaller office units in recent decades, with the result that the majority of current office stock is in modern, larger buildings. Large single occupiers are a critical feature of the City property market and it is therefore essential that the City's existing and future building stock is capable of accommodating them and provides a reasonable choice for large single occupiers.
13. There is also a strong demand for smaller units and to meet this around half of the larger modern buildings are subdivided into smaller units to provide prestigious accommodation of various sizes. In addition the City's older office stock generally offers smaller unit sizes and a lower specification of accommodation in a prestigious location at a lower cost.
14. Research undertaken by the City Corporation (*Taking Stock, the relationship between businesses and office premises in the City of London, 2013*) and evidence from property transactions show that the size and type of new occupiers coming to the Square Mile appears to be changing. Requirements are significantly smaller, with a particular increase in small lettings of 50 – 300 square metres, with strong demand from the Technology, Media & Telecommunications (TMT) sector. The range of sectors moving into the City is also changing, with interest not only from the TMT sector, but also, for example, from recruitment firms and consulates of foreign governments that have until recently preferred a West End location. Small and Medium Sized (SME) businesses play a significant role in the City's success, providing a range of professional, business and other essential services to the City and wider business community. 98.5% of businesses in the City are SMEs (defined as those with not more than 50 and 250 employees respectively).
15. Not all the occupiers of smaller offices in the City are SMEs. Many are subdivisions of larger businesses such as representative offices of overseas banks, ensuring a presence in the City to attract investment. The fact that so many occupiers are in small units underlines the importance of the City providing a wide range of office building types, specification and cost.
16. Alongside a diversification of business activities in the City, the use of serviced offices is increasing, with around 2,400 businesses using them in the City in 2012, compared to 700 in 2003. Over 22,000 people are now employed within serviced offices, with an economic output estimated at £2.1bn.

17. Office demand can vary significantly through the economic cycle as can the relative value of office development when compared with other uses, particularly residential. It is important to ensure that the office stock is maintained during periods of downturn to enable the City of London to accommodate growth and new jobs during upturns. Appropriate protection of office accommodation by the City Corporation's planning policies provides a means of responding to current and future changing economic circumstances and ensuring that future opportunities for growth can be realised.

### **Exemption from Permitted Development Rights: Change of Use from Office to Residential**

18. In May 2013, the Government introduced new permitted development rights, allowing the change of use of B1(a) offices to C3 residential without the need for planning permission, for a period of 3 years. In recognition that there were parts of the country where such permitted development rights might have an adverse impact on the retention and delivery of office space, the Government allowed local planning authorities to bid for exemption from these new rights. The City of London, along with the adjacent 'Tech City' area and the rest of the Central Activities Zone in London, has been granted a local exemption on the grounds that it is a nationally significant area of economic activity. This exemption supports the policy approach outlined in the Local Plan of seeking to resist the loss of suitable and viable office accommodation. Within the City, therefore, planning permission is required for a change of use from office to residential and applications will be determined within the context of the Local Plan and other material considerations.

### **Evidence Required to Support Change of Use or Loss of Offices**

19. Paragraphs 5 to 11 outline the national, London and City Corporation policy approach to the provision of office floorspace and its protection from inappropriate loss. This section outlines the additional information that the City Corporation will require from developers in support of a planning application where a loss of existing offices or office floorspace is proposed. Where a development would result in a smaller quantum, but a higher quality, of office floorspace, this will need to be justified through a planning statement, and the need for detailed viability and marketing evidence will be considered by the City Corporation on a case by case basis.
20. In accordance with Policies DM1.1 and 1.5, where an applicant proposes a change of use of part or all of a building to a use which provides activities which are complementary to the City's business function, the

City Corporation may not require the provision of the additional supporting information set out below. Paragraph 3.1.20 of the Local Plan defines such complementary uses as including retailing, leisure, education and health facilities.

21. Submission of the viability and marketing information required by this SPD will not on its own be sufficient to justify a proposed loss of offices. Where an applicant provides the required viability and marketing information and the City Corporation concludes that a valid technical case has been made in support of the loss of office accommodation on that site, the proposed development will be considered in the context of the other policies in the Local Plan.
22. The Local Plan identifies 10 residential areas which provide an appropriate environment for housing development. New residential development will be guided to locations within or near these areas. Where a loss of an office within or near one of these residential areas has been justified within the terms of the Local Plan and this SPD and accepted by the City Corporation, the City Corporation will consider the potential for change of use to a residential use.
23. Applicants should discuss their proposals and required evidence with City Corporation officers prior to the submission of a planning application. Evidence should be submitted with the planning application to enable the City Corporation to assess the suitability of the evidence and determine the application within statutory time limits.
24. To meet the requirements of Core Strategic Policy CS1 and Policy DM 1.1, applicants proposing the loss of office accommodation will need to provide robust evidence to demonstrate that the building has depreciated such that office use is not viable or suitable in the long-term. Evidence will need to address the physical state of the building and its functional and locational obsolescence and should include a forward looking viability assessment in support of this evidence.
25. Evidence provided in support of planning applications should take into account the potential for the building to meet a variety of office needs including, where appropriate, the potential for sub-division to provide smaller office suites, the potential to provide accommodation suitable for start-ups or move-on accommodation and the potential for comprehensive redevelopment to re-provide office floorspace. The potential for redevelopment should be a matter for discussion with City Corporation officers at an early stage prior to formal submission of a planning application.

26. The City contains a large number of heritage assets, including over 600 listed buildings, 26 conservation areas and 48 scheduled ancient monuments. These heritage assets can impose additional constraints on development, particularly in terms of additional costs and limitations on the potential to deliver modern office requirements, whilst at the same time conserving or enhancing the significance of the heritage asset. The City Corporation will take these additional constraints into consideration when assessing proposals for the loss of office accommodation within such assets.
27. Applicants proposing a change of use are advised to contact the City Corporation's City Property Advisory Team (CPAT) prior to submission of the planning application. CPAT can provide advice on options for continued office use and help to match current vacant space with prospective tenants looking for suitable accommodation in the City.

### **Viability and Market Evidence**

28. Viability evidence submitted with an application should include a report including general and specific market information related to the existing use of the building and the proposed alternative use. Evidence should include:
  - Site specific information about the building;
  - The total costs of maintaining the building both now and in the future;
  - The costs and practicalities of refurbishing or redeveloping the building for office use;
  - Information on rents and capital values;
  - Information on current and recent levels of occupation;
  - Target rates of return (internal rate of return or other appropriate measure);
  - Evidence of the marketing of the building for continued office use having regard to the use, condition, quality and location of the building. Information should be provided setting out:
    - the length of time the property/site has been marketed;
    - the number and details of enquiries received, such as the number of viewings, the proposed uses and comments from prospective purchasers or tenants (including as to the suitability of continued office use).
  - A valuation of the building in its existing use, ignoring the hope value of an alternative use;
  - Sensitivity testing to support the robustness of the report conclusions.

29. Where an applicant submits viability and market evidence, the City Corporation will normally appoint an independent and suitably qualified individual or company to review the evidence and provide independent advice to the City Corporation. The City Corporation will expect the applicant to meet the cost of this independent assessment. The City Corporation will have regard to the recommendations of this independent assessment when determining the planning application.