

## **ADDRESSING THE SCARCITY OF COMMERCIAL WORKSPACE IN GREATER ESSEX**

July 2017

### **SUMMARY OF KEY POINTS**

**UK market:** Both office and industrial markets in the UK are facing growing constraints and pressures. Strong take-up in office space between 2013 and 2016 contributed to an 18% drop in availability. Take-up was steadier in the industrial markets but availability slumped by 45% in the three years to 2015, due to insufficient supply of new space coming onto the market. There are issues not just around the quality of available space, but also the type of space and its flexibility, particularly for smaller businesses.

**Market in Greater Essex:** In Greater Essex the decline in availability of office and industrial space has been much steeper and more pronounced than for the UK as a whole. Industrial space availability as a multiple of annual take-up space slumped from 3.0 to 0.6 years between 2012 and 2016 and requirement for industrial space is at the highest on record at over 10m sq.ft. The equivalent multiple for office space also contracted from 6.5 to 1.6 years between 2012 and 2015 before picking up slightly to an estimated 2.6 years in 2016. Five centres – Chelmsford, Southend, Basildon, Colchester and Brentwood – account for 62% of office space. Despite shortages of quality space, prime rents for office and industrial space in Essex tend to be lower than many other centres in the south east, providing an opportunity to attract more business to the county.

With availability of both office and industrial space down to less than 5% of total stock, indications of the shortage and lack of quality of space are illustrated by:

- The limited supply of Grade A space is largely located in Chelmsford, and over 80% of office units are second hand Grade B accommodation.
- While 37 research and development (R&D) units were taken up between 2013 and 2016, only nine are currently available all in the Colchester area.
- Critical shortage of industrial space, with the exception of Thurrock where there are a larger number of sites and potential for sizeable developments at London Gateway Port.

**Challenges and potential constraints:** Opportunities to develop the market for new workspace face a number of challenges, including:

- Competition from other types of use, such as housing and retail, where higher and more secure returns for the developer can be secured over the long term
- A decline in lending to construction, including commercial premises, that is evident in recent years.
- Insufficient land allocated to commercial workspace.
- Land values that can be too high to justify construction of commercial workspace so housing may be the only viable development.

For grow-on space there may be additional challenges:

- Higher construction cost, based on requirement for multiple units.
- Mismatch of interests of occupier and developer: grow-on businesses may want short-term, flexible renting arrangements, while developers prefer larger tenants with long leases.

- Investors, such as pension funds, are also looking for long-term investments with stable secure returns.
- Rental values may be too low in some socially deprived areas to justify investment in a grow-on project.

**Futures strategy and options for development:** The paper considers a range of strategies and options for review and consideration:

***Avenues for large urban extensions:***

- Three proposed new settlements in North Essex to be taken forward.
- Opportunities for substantial extensions to cities should be reviewed.

***Types of development*** Particular types of development will need to maximise the benefits from the limited supply of available land, with a focus on creating new jobs as well as on new housing:

- *Mixed use residential and commercial development* should be considered given the pressure on land availability.
- *High quality regional offices* Development of high quality office space in the main cities and towns of Greater Essex with a sector focus where relevant. This would include flexible workspace where there is growing demand from start-ups and small businesses in particular.

***Public sector role***

- *Disposal of land* Allocation of commercial workspace to be a key consideration in disposal of land owned by public sector.
- *Delivery of Local Plans* Strengthening District councils' role in the monitoring and delivery of sites allocated to commercial workspace in Local Plans, so that such sites aren't allocated solely to residential by default.
- *Other interventions* need to be considered by the public sector in the development of grow-on space: covering infrastructure, planning frameworks for new communities; and allocating sites for specific use. Interventions with pension funds and agents may help to facilitate growing supply of commercial workspace.
- *Funding options* Options include applying direct and indirect forms of public sector funding such as rent guarantees and empty space rates relief; interest-free loans; gifting or underwriting land for new space; and direct funding of new sites to kick start development.

***New technology platform:***

- Developing modern technology platforms for the commercial real estate market.

## A. UK MARKET FOR OFFICE AND INDUSTRIAL WORKSPACE

**UK industrial and logistics space** UK take-up reached 99.2m sq.ft in the UK in 2016, up from 96.4m sq.ft. in 2015, according to LSH (Chart 1). Take-up has undulated over a number of years; most recently it fell from 103.3m sq.ft in 2014. Take-up of industrial space is evenly distributed across the UK, with take-up of 16m sq.ft in the West Midlands and 10 to 12m sq.ft in each of the South East, East Midlands, Yorkshire and Humberside, and North West.

The market for distribution centres is benefiting from the growth in online sales which have been rising year on year over the past decade: online sales are up from 3% of total retail sales in 2006 to 16% in 2016. Amazon's 2.2m sq.ft. pre-let at Tilbury made up 6% of the UK total for 2016. Further lettings by Amazon meant that it accounted for 20% of UK take-up altogether.

*Availability* of UK industrial and logistics space has declined steeply by 56% from 365m sq.ft in 2012 to 161m sq.ft. in 2016.

**UK Office space** UK take-up rose strongly in response to growing demand between 2012 and 2015 to reach a peak of 30.9m sq.ft before falling back by 15% in 2016 to 26.3m sq.ft. (Chart 2). Take-up initially fell back in the wake of the financial crisis in 2008 and 2009 and then again in 2011 and 2012. The office market is heavily dominated by London, where take-up has been rising but take-up is also up elsewhere, including in Essex.

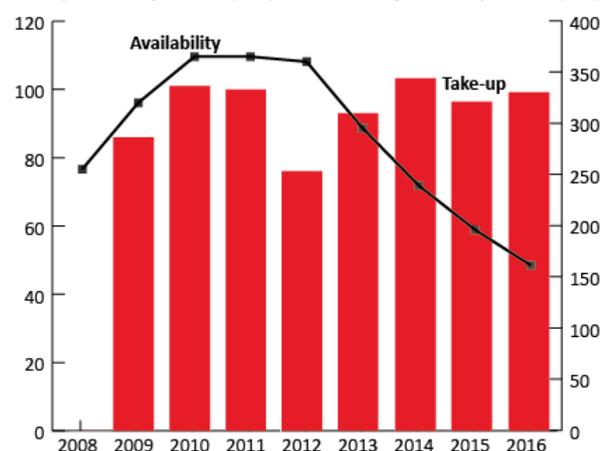
*Availability* The general rise in take-up of office space in the years up to 2015 has been matched by a steady decline in availability as supply struggles to keep up with demand. Available stock therefore fell by 22% from a peak of 68.3m sq.ft. in 2009 to 53.2m sq.ft in 2015 before picking up to 55.8m sq.ft in 2016.

**Flexible workspace** The high cost of business premises means that employers will want to use the workspace available more efficiently. However, many businesses are also placing more importance on the quality of space that they occupy, with a focus on staff welfare, and a means of communicating the value and culture of the organisation. With the prevalence of wireless communications technologies, workspace is being adapted to provide more informal space, including collaborative or quiet areas as well as provision of a wider range of amenities.

**Chart 1**

### UK industrial space: take up and availability

Take up, million square feet (bars)      Availability, million square feet (line)

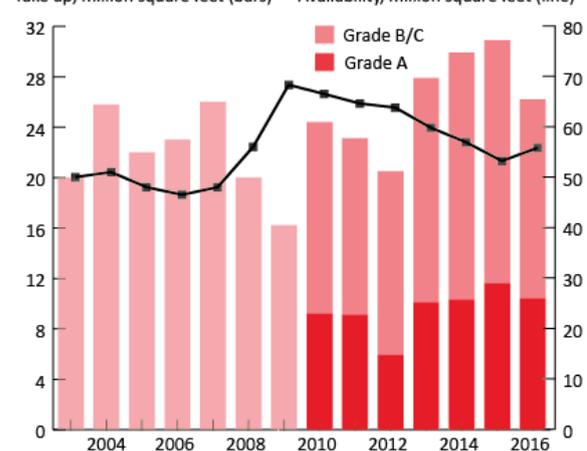


Source: Lambert Smith Hampton

**Chart 2**

### UK office space: Take up and availability

Take up, million square feet (bars)      Availability, million square feet (line)



Source: Lambert Smith Hampton

Many smaller businesses are looking for serviced offices with flexible workspace. Interest in service centres has been prompted by growth in self-employed to five million as well as the many start-ups which are looking for co-working spaces that facilitate open collaboration between individuals from different organisations who have complementary skill sets. This can involve shared workspace, but more commonly is based on conventional private office space with breakout areas where occupiers can meet.

The market place for serviced offices has been expanding rapidly with 2,939 centres identified in the UK in 2016 by The Instant Group. Nearly one third of these, 944, are in London with other serviced offices broadly spread around the rest of the UK. There are 421 in the south east, 285 in the North West and between 190 and 200 centres in each of Scotland, East of England, West Midlands, Yorkshire & Humberside and the South West. (See page 11 and Table 6 for more details on flexible workspace.)

## B. MARKET FOR WORKSPACE IN GREATER ESSEX

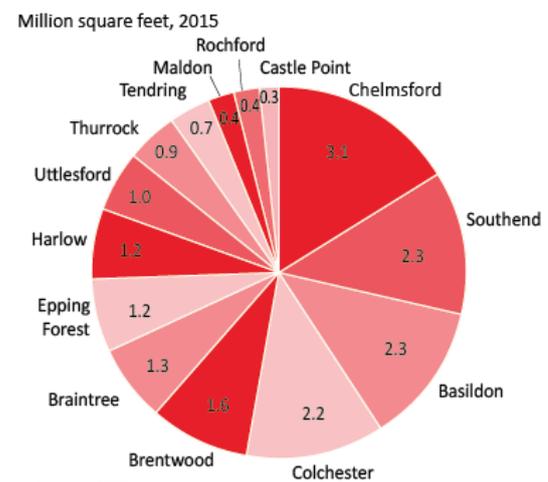
**Stock of office space** The office market in Greater Essex is centred in some of the larger major centres. CBRE reports that Chelmsford is the largest centre with 3.1m sq.ft., 16% of the total, followed by Southend, Basildon and Colchester each with 12% of the local office stock (Table 1, Chart 3). Brentwood, the next largest centre with 9% of office stock, has the most office space relative to local population. Taken together these five centres account for 62% of the Greater Essex total. Castle Point, Rochford, Thurrock and Tendring, have only half the volume of office stock relative to their share of the local population in Greater Essex. In some boroughs, particularly Thurrock, the lower volume of office stock is balanced by a large amount of industrial workspace.

**Table 1**

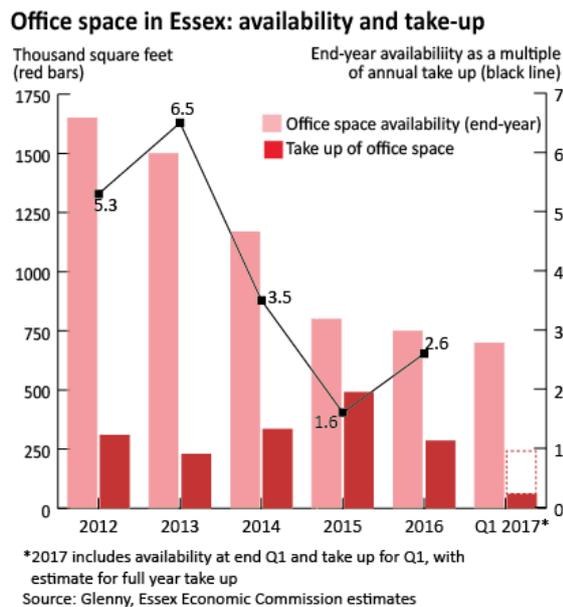
Office space in Greater Essex				
Million square feet, 2015				Office space
	Volume	% share of	% share of	relative to
		office space	population	populatrn.**
<i>Essex Haven Gateway</i>				
Colchester	2.24	11.9	10.2	117
Braintree	1.26	6.7	8.5	79
Tendring	0.68	3.6	7.9	46
<i>Heart of Essex</i>				
Chelmsford	3.07	16.3	9.7	169
Brentwood	1.61	8.6	4.3	201
Maldon	0.42	2.2	3.5	63
<i>West Essex</i>				
Epping Forest	1.19	6.3	7.3	87
Harlow	1.17	6.2	4.8	130
Uttlesford	1.00	5.3	4.7	112
<i>South Essex</i>				
Southend	2.33	12.4	10.0	123
Basildon*	2.31	12.3	10.2	121
Thurrock	0.85	4.5	9.2	49
Rochford*	0.40	2.1	4.8	44
Castle Point*	0.28	1.5	5.0	30
G. Essex	18.81	100.0	100.0	
Essex CC	15.63			
*Essex Thames Gateway				
**Index =100 where % shares are the same				
Source: CBRE				

**Chart 3**

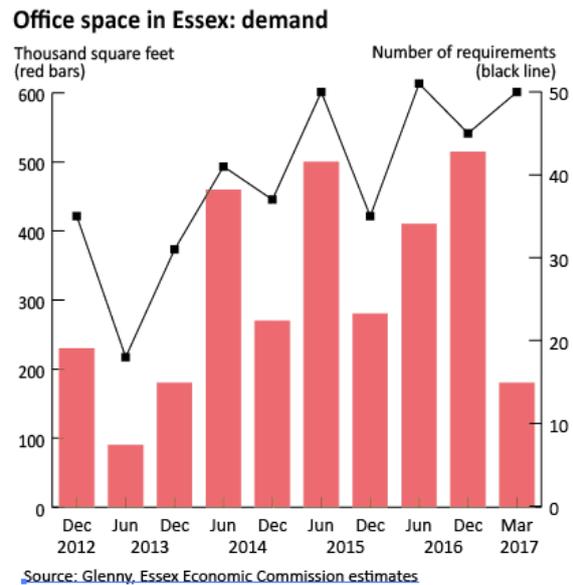
### Office stock in Greater Essex



**Chart 4**



**Chart 5**



**Office market** Glenny’s regular Data book reports that availability of office space in Essex has declined steadily over the past few years from nearly 1.7m sq.ft at end-2012 to a low point of 700,000 sq.ft. at end-March 2017 (Chart 4). Take-up of office space in Essex reached a high of 490,000 sq.ft in 2015 before falling back to 285,000 sq.ft. in 2016. Grade A accounts for 18% of the available stock, 90% of which is located in Chelmsford. Take-up from year to year has been uneven, but overall has run ahead of new supply contributing to the decline in availability. The multiple of annual take-up of office space to end-year availability declined from 6.5 in 2013 to a low point of 1.6 in 2015, although it picked up to 2.6 in 2016 with the decline in take-up. Availability of offices stands at less than 5% of total office stock.

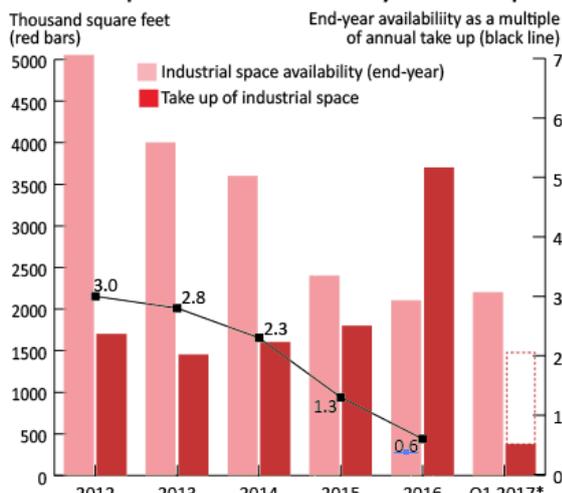
Demand for office space tends to be seasonal with demand much higher in June than December. Even so, demand has fallen sharply by 65% in the first quarter of 2017 as some larger requirements have either been satisfied or withdrawn from the market (Chart 5). Growth in demand for smaller offices has kept the number of requirements high at around 50.

**Industrial market** Requirements for industrial space tend to be much larger than offices given the considerable amount of space required for some distribution centres, warehousing and factories. Rents per square foot are commensurately lower. Take-up of industrial space reached 1.8m sq.ft. in 2015, the highest for eight years but even this doubled to 3.7m sq.ft. in 2016 mainly due to the Amazon pre-let of 2.2m sq.ft at Tilbury in Thurrock (Chart 6). The deal is the largest logistics pre-let in Europe and the first four storey distribution centre in Europe.

As with the office market, a sustained high level of take-up has contributed in Essex to a fall-off in available industrial space between 2012 and 2016, with the multiple of annual take-up to end-year availability declining from 3.0 in 2012 to 0.6 in 2016. Availability edged up slightly in the first quarter of 2017 to 2.2m sq.ft. This reflects demand for industrial space more than halving from 10.6m sq.ft. to 4.9m sq.ft. (Chart 7). This drop is due to less requirement for larger spaces of more than 25,000 sq.ft., with the total number of requirements falling from 290 to 250. Availability of industrial space is also less than 5% of the total stock of industrial space.

**Chart 6**

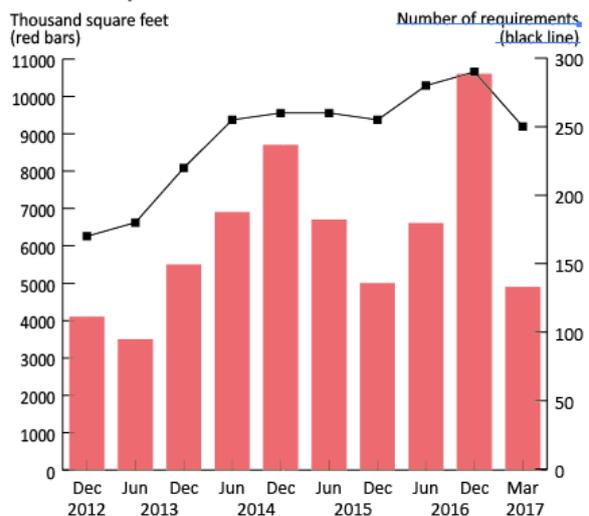
**Industrial space in Essex: availability and take-up**



\*2017 includes availability at end Q1 and take up for Q1, with estimate for full year take up  
Source: Glenny, Essex Economic Commission estimates

**Chart 7**

**Industrial space in Essex: demand**



Source: Glenny, Essex Economic Commission estimates

**Take-up and availability of sites by district** Analysis by BPP Regeneration for the Grow-On Space Feasibility Study provides further detail at the local authority level in Essex. Based on number of units taken up over three and a half years from 2013 to July 2016, the largest number, 140 units, were taken up in Basildon, followed by Colchester 72, Chelmsford 57, Braintree 56, and Uttlesford and Rochford both around 30 (Table 2). This left availability in July 2016 at a particularly low level in Basildon and Rochford of around 0.5 years supply of units and 1.0 years supply in Brentwood and Tendring.

**Table 2**

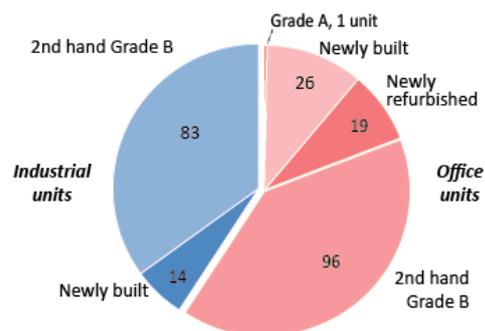
Grow-on space in Essex			
Take up and availability of grown-on space			
Number of units	Take up	Availability	Availability as
	2013-16	Jul-16	multiple of annual take-up
			2013-July 2016
<i>Essex Haven Gateway</i>			
Colchester	72	70	2.9
Braintree	56	36	1.9
Tendring	15	5	1.0
<i>Heart of Essex</i>			
Chelmsford	57	44	2.3
Brentwood	27	9	1.0
Maldon	10	7	2.1
<i>West Essex</i>			
Epping Forest	2	10	15.0
Harlow	21	19	2.7
Uttlesford	31	15	1.5
<i>Essex Thames Gateway</i>			
Basildon	140	23	0.5
Rochford	29	4	0.4
Castle Point	9	0	---
Essex total*	469	242	1.5

\*Analysis covers Essex County Council only so Thurrock & Southend are not included  
Source: SQ& & BPP Regeneration

**Chart 8**

**Quality and type of units available in Essex**

Number of units available, July 2016



Total units available in Essex - 239

Source: BPP Regeneration analysis of EGI (2016) data

**Table 3**

Pipeline of Grow-on space in Essex						
July 2016	Number of sites			Space '000 sq.ft.		
	Office	Industrial	Total	Office	Industrial	Total
Colchester	6	2	8	25.7	4.7	30.5
Braintree	2	1	3	5.4	1.7	7.1
Witham	---	1	1	---	6.3	6.3
Brentwood	2	---	2	4.9	---	4.9
Chelmsford	6	---	6	17.0	---	17.0
Maldon	2	1	3	4.2	2.8	7.0
Harlow	---	1	1	---	15.7	15.7
Basildon	2	1	3	2.6	1.7	4.3
<b>Total</b>	<b>20</b>	<b>7</b>	<b>27</b>	<b>59.8</b>	<b>32.8</b>	<b>92.6</b>

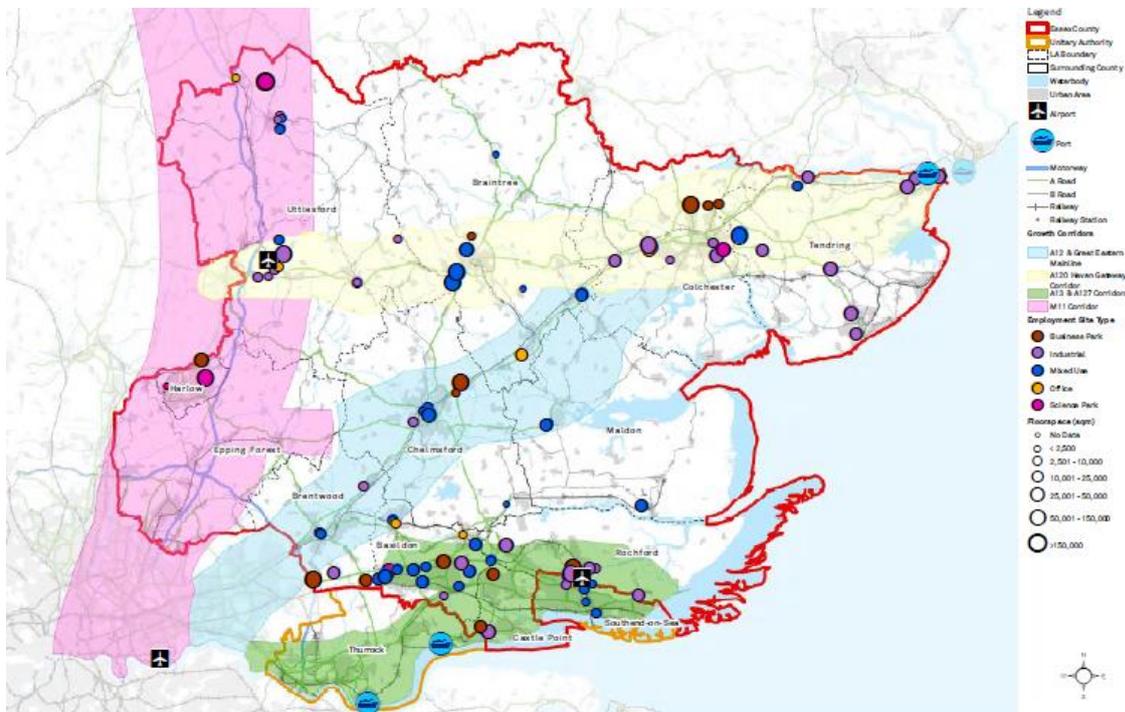
Source: BBP Regeneration analysis of Egi data

It is not just the quantity of space that is lacking but also the quality and types of space. Key BPP Regeneration observations were that:

- The majority of units are offices, with only 1 Grade A unit, and three quarters of office units are second hand grade B accommodation (Chart 8).
- Nine Research & Development units are available, all in Colchester, but this compares with total take-up of 37 such units in the 2013 to 2016 period.
- Acute shortage of supply in the market for industrial space.

Some of this shortage can be addressed through the pipeline of new space that is being constructed as well as by development sites. These are reviewed in the following section.

**Map 1 Identified Employment Sites and Capacity over 1,000 sq.metres in Growth Corridors\***



\*Sites could subject to change in future following review of planning policy documents

Source: Greater Essex Growth and Infrastructure Framework, based on local authority sources

Development sites in Essex		
July 2016, Thousand square feet		
Centre	Space	
Rochford/southern	Airport Business Park	1000
Brentwood	St Modwen	910
Braintree	East Link	750
Harlow	Enterprise Zone	500
Colchester	Northern Gateway	300
Colchester	Essex Uni. Parkside	60
Colchester	Essex Uni. Innovation Centre	40
Stansted	TriSail Towers	90
<b>Total space in development sites</b>		<b>3650</b>

Source: Invest Essex & BBP Regeneration

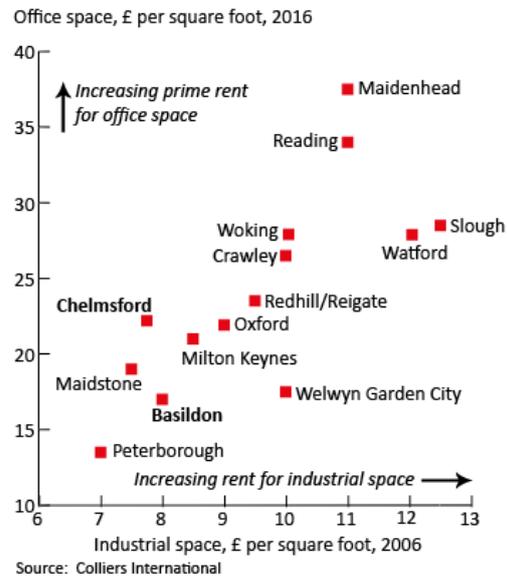
**Table 4**

**Location of available workspace sites** Research conducted by Aecom for the Greater Essex Growth and Infrastructure Framework has indicated how workspace is distributed across the region. Workspace is heavily clustered near main road routes, major centres and international gateways throughout the county (Map 1). This includes the major arterial routes through the county M25, M11, A12, A13, A127, as well as the major transport hubs: the airports Stansted Airport and Southend Airport and the ports, principally Tilbury Port and London Gateway International Port.

The pipeline of grow-on space under construction as well as development sites can partly address the shortage of workspace. The projects and developments, detailed in the SQW/BBP Regeneration Feasibility Study, show that there were 27 projects in the pipeline in July 2016. Collectively, these account for less than 100,000 sq.ft. (Table 3). The new office space would add around 10% to office space available in 2016. Most of these projects are relatively small with only four of the 27 planned to be more than 5,000 sq.ft.. Half of the pipeline sites are located in Colchester and Chelmsford. Three quarters, 20 out of 27 pipeline projects, are for office space. Sites identified for future development tend to be larger, notably the Airport Business Park adjacent to London Southend Airport, the St Modwen development in Brentwood, East Link in Braintree and Harlow Enterprise Zone. In total all these projects would eventually add 3.6 million sq.ft. of space. (Table 4).

**Rents** Comparison of rental levels across selected centres in the South East of England indicates that centres in Greater Essex are clustered in the lower half of centres based on prime rents for office space and rent for small sheds. Figures from Colliers International show that seven of the eight centres in the South East with the highest office rents between £23.50 and £37.00 per sq.ft are also in the top eight for highest industrial rents for small sheds, where the range is £9.50 to £12.50 per sq.ft. (Table 5, Chart 9). The seven centres at the higher end of these rankings are Maidenhead, Reading, Cambridge, Slough, Woking, Crawley and Redhill/Reigate. Cambridge is the remaining location listed with the highest office rents but no data is published for rents on small industrial sheds there.

**Prime rents office & industrial space in S.East**



**Chart 9**

**Table 5**

Prime rents for office space				Industrial rents for small sheds			
£ per sq. ft.				£ per sq. ft.			
<i>Grade A</i>	<b>2012</b>	<b>2016</b>	<i>Change</i>		<b>2012</b>	<b>2016</b>	<i>Change</i>
Maidenhead	29.00	37.50	8.50	Slough	11.00	12.50	1.50
Reading	30.50	34.00	3.50	Watford	8.50	12.00	3.50
Cambridge	30.00	34.00	4.00	Reading	8.50	11.00	2.50
Slough	21.00	28.50	7.50	Maidenhead	9.50	11.00	1.50
Woking	22.00	28.00	6.00	Welwyn Gdn. Cy.	7.00	10.00	3.00
Watford	20.00	27.50	7.50	Woking	8.50	10.00	1.50
Crawley	20.00	26.50	6.50	Crawley	7.50	10.00	2.50
Redhill/Reigate	22.00	23.50	1.50	Redhill/Reigate	7.50	9.50	2.00
<b>Brentwood</b>	<b>18.50</b>	<b>23.00</b>	4.50	Oxford	7.00	9.00	2.00
<b>Chelmsford</b>	<b>22.00</b>	<b>22.00</b>	---	<b>West Thurrock</b>	<b>7.00</b>	<b>8.50</b>	<b>1.50</b>
Oxford	20.00	22.00	2.00	Milton Keynes	6.75	8.50	1.75
Milton Keynes	21.00	21.00	---	<b>Basildon</b>	<b>6.75</b>	<b>8.00</b>	<b>1.25</b>
Maidstone	18.00	19.00	1.00	<b>Harlow</b>	<b>7.00</b>	<b>8.00</b>	<b>1.00</b>
Welwyn Gdn. Cy.	17.00	17.50	0.50	<b>Chelmsford</b>	<b>7.50</b>	<b>7.75</b>	<b>0.25</b>
<b>Basildon</b>	<b>17.00</b>	<b>17.00</b>	---	Maidstone	6.50	7.50	1.00
Peterborough	13.50	13.50	---	Peterborough	6.00	7.00	1.00
				<b>Colchester</b>	<b>7.00</b>	<b>6.50</b>	<b>-0.50</b>

Source: Colliers International

Brentwood and Chelmsford come next in the office rent ranking, both at £23.00 per sq.ft. with rents in Brentwood having risen from £18.50 since 2012 while rents in Chelmsford have been static. Prime office rents in Basildon are £17.00, ahead only of Peterborough in this listing.

The five locations in Greater Essex included in rankings of industrial rents are all in the lower half of the table of rents for centres in the South East. West Thurrock is highest ranked of centres in Greater Essex, at £8.50 per sq.ft., followed by Basildon and Harlow (both £8.00 per sq.ft), and Chelmsford (£7.50). Colchester rents for small sheds are the most competitive in this listing at £6.50 per sq.ft.

### **C. CHALLENGES AND POTENTIAL CONSTRAINTS TO WORKSPACE DEVELOPMENT**

Opportunities to develop the market for new workspace, particularly grow-on space face a number of challenges, including:

- The introduction of Permitted Development Rights in May 2013 which allowed for offices to be converted to residential use. While obsolete buildings have been replaced with housing, it is unclear the extent to which opportunities to convert buildings to modern business premises are being overlooked in favour of housing or retail space. Local authorities could be given the opportunity to opt out of any requirement to convert from offices to residential, in order to pave the way for development of new business premises.
- A decline in lending to construction in general and to commercial premises in particular, that is evident in recent years.
- Competition from other types of use, such as housing and retail, where higher and more secure returns for the developer can be secured over the long term.
- Development of business premises and housing are different processes and face differing requirements. Balancing these interests may not favour commercial development.
- Meeting the demand for flexible workspace.
- Shortage of available land.
- Land values that can be too high, partly because of restricted supply, which means alternative uses such as housing may be the only viable development.

For grow-on space there may be additional challenges:

- Higher construction cost, based on requirement for multiple units.

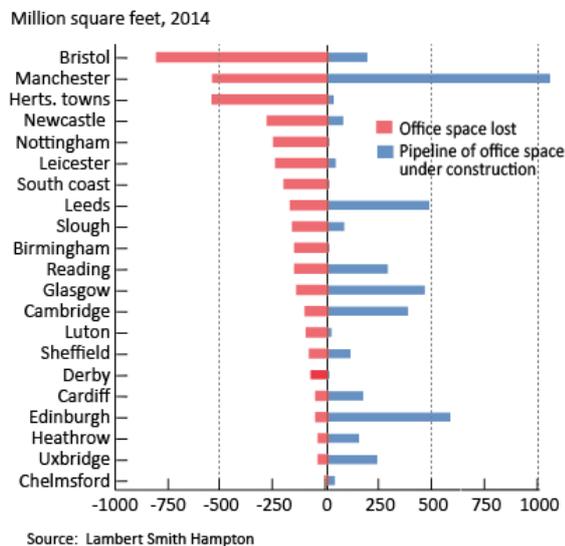
- Mismatch of interest of occupier and developer: grow-on businesses typically want short-term, flexible renting arrangements, while developers prefer larger tenants who take out long leases.
- Investors, such as pension funds, are also looking for long-term investments with stable secure returns.
- Rental values may be too low in some socially deprived areas, such as Tendring, to justify investment in a grow-on project.

Looking in more detail at some of these issues: change in use; availability of finance; developing flexible workspace; and differences between construction of commercial workspace and housing.

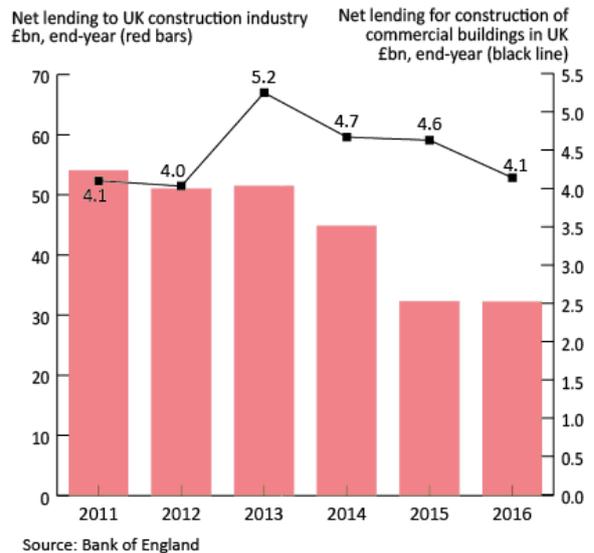
**Change in use** The introduction of Permitted Development Rights in May 2013 allowed for offices to be changed to residential use. Around the UK this has led to the replacement of obsolete building with housing. Data available for 2014 shows that much of this has taken place in larger cities such as Bristol in the south west; Manchester and Leeds in the north; Newcastle in the north east; Birmingham, Leicester and Nottingham in the midlands; and Glasgow in Scotland (Chart 10). In some of these centres, particularly Manchester, Reading and Glasgow, the volume of new investment in offices substantially exceeds the space that has been lost.

Areas in the south and south east to have lost larger amounts of workspace include the south coast, Slough, Reading, Cambridge, and the Hertfordshire towns of Watford, St Albans and Hemel Hempstead. Of these centres, Reading and Cambridge are now seeing new investment exceed space

**Office space: supply lost vs new pipeline**



**Bank lending to construction industry**



**Chart 10**

**Chart 11**

lost but this is not the case for other places mentioned. Greater Essex does not feature so much on this indicator.

**Availability of finance** The ability to access finance for speculative developments poses a significant challenge for developers. Total net bank lending to UK construction industry has declined steeply by

40% in the five years to end-2016 (Chart 11). Lending directed for construction of commercial buildings has also declined from £5.2bn at end-2013 to £4.1bn at end-2016, although there was an uptick in lending during 2013. (Data on lending for construction of commercial buildings were not broken out before 2011)

CBRE in its Real Estate Market Outlook for 2017 reports a general move to de-risk. Regarding banks and debt finance it notes that 'speculative commercial development finance is harder to fund without a very strong investment proposal. Certain funders are willing to take speculative development risk but price it accordingly.' CBRE sees these trends continuing for 2017. Furthermore, equity finance is also challenging as pension funds are increasingly risk averse, with CBRE noting that pension funds are focused on core strategies that deliver stable cash flows and income growth in line with inflation expectations. Pension funds are therefore concerned about the risks associated with falling commercial property prices.

**Meeting the demand for flexible workspace** An increasingly important segment of the office market is demand for flexible workspace. This type of office includes conventional space, with common areas and space available for meetings, generating opportunities to network, socialise and develop business. Even more flexible are serviced offices providing collaborative space where hire is based on rates for individual workstations. The market for serviced offices in the UK has grown by 11% from 2,631 in 2013/14 to 2,923 two years later in 2015/16 (Table 6).

**Table 6**

UK Flexible workspace				Average
	Serviced offices			workstn. rate
	Number	Number	% share	£ per month
	2013/14	2015/16	2015/16	2015/16
London	814	944	32	613
South East	386	421	14	300
North West	264	285	10	228
Scotland	187	202	7	284
East of England	179	197	7	274
West Midlands	180	196	7	229
Yorks. & Humbers.	175	191	7	231
South West	174	191	7	251
East Midlands	146	162	6	207
North East	66	74	3	189
Wales	37	37	1	231
N. Ireland	23	23	1	281
Total	2631	2923	100	

Source: Instant Group

London accounts for 32% of serviced offices and the rest of the South East 14%, with a broad spread of such offices around the rest of the UK. Workstation rates are £613 per month in London, more than double the £300 in the South East and between £189 and £284 on average in other regions.

**Differences in development and construction of commercial workspace and housing** Housing and commercial developments differ in a number of broad ways:

- Building codes in commercial developments tend to be more stringent: this would include disability access, egress requirements, and fire safety.
- Higher specification in commercial, relating for example to electrical and mechanical systems, and fireproofing.

- More decision makers in commercial, including architect, engineer, and client's building committee.
- More administration in commercial buildings.

Combination of building codes, specification, and higher quality materials result in costs of commercial building being around 25% higher than residential.

#### D. RECOGNISING GROWTH POTENTIAL OF ESSEX

Focus of national policy in recent years has mainly been on development of large metropolitan centres: as well as building on London's position as Europe's global city this has also extended to the Northern Powerhouse and the Midlands Engine. The development of a new industrial strategy designed to capitalise the opportunities throughout the UK needs to build on these important initiatives but also recognise the potential of a multi-centred economy such as Greater Essex.

A Grant Thornton 2014 report 'Where Growth Happens' indicated that the London-Essex growth corridor is one of only nine substantive growth corridors in England, six of which are linked directly to London (Map 2). To maximise the potential of these growth corridors, Grant Thornton emphasises the importance of supporting entrepreneurial activity and promoting the corridor to drive inward investment.

**Map 2: Growth Corridors in England**



Source: 'Where growth happens', 2014, Grant Thornton

#### E. FUTURE STRATEGY AND OPTIONS FOR DEVELOPMENT

The requirement to find solutions to development of workspace is not straightforward. It is an issue that is challenging regions and larger metropolitan areas, particularly in the south east of England. A range of solutions need to be considered. Part of the solution starts with a recognition locally and nationally of Greater Essex growth potential. A review of strategic options looks at how shortages of commercial space can be addressed and the nature of developments to be considered. Plans for

employment land in local economic plans are crucial to provision of workspace. New residential developments should take account of the principle of creating one job for each new home so that new jobs are created locally and residents aren't automatically commuting to other locations.

### **1. Seeking avenues for major new developments**

**Major urban extensions** Colchester, Braintree and Tendring District Councils, and Essex County Council are collaborating in the promotion of up to three new settlements in North Essex. These schemes could be new settlements or large urban extensions developed in accordance with Garden City Principles, which would feature in emerging local plans for each district. Taking these plans forward will require agreement on local infrastructure investment well as understanding how local landowners will work with the local authorities.

### **2. Progressing suitable types of development**

**i. High quality regional offices with focus on key sectors** Development of high quality office space in the main cities and towns of Greater Essex should build on progress made and should where relevant have a sector focus. So, Chelmsford is an established regional centre for insurance and this could open other opportunities in the insurance sector. Harlow is to benefit from the establishment of Health England which should foster related investments. Savills indicates that the regional cities are more defensive to Brexit than London. Key centres in Essex are within 30 to 40 minutes of London and represent a potential location for businesses looking for ready access into the capital.

**ii. Flexible workspace** Demand has been growing for service centres offering flexible workspace, which are particularly popular with start-ups and small businesses. Developing flexible workspace needs to be taken account of in local plans.

**iii. Mixed use residential and commercial developments** Pressure on land availability has caused many places around the UK to develop mixed use developments. This is happening in large cities such as Glasgow, while in Birmingham, Manchester and Leeds it is linked partly to the development of HS2. On the M27 growth corridor, examples of mixed use include potential development of Royal Pier in Southampton involving offices, shops and apartments; another example is the Tipner-Horsea Island site in Portsmouth involving new homes and manufacturing space.

### **3. Galvanising the public sector**

The Grow-On Space Feasibility Study presented a range of options for public sector interventions, which involved shaping development to ensure requirements were met or through different forms of funding, directly or indirectly. While these proposals were made in the context of grow-on workspace, they could in practice apply to the development of many different types of commercial workspace, whether they be start-ups, grow-on or larger units. Some of the options around public sector actions and funding include:

**i. Utilising disposal of surplus public land for commercial workspace as well as housing** Public sector agencies, notably local authorities, the Ministry of Defence and the National Health Service, hold land that is becoming surplus to requirements. Strengthening the district councils' role in the monitoring and delivery of sites allocated to commercial workspace, so that such sites don't become residential by default.

**ii. Public sector funding** Various direct and indirect forms of public sector funding could include:

- Rent guarantees from the local councils, or empty space business rates relief, to enable developers to plan for stable returns, at least in the early years of a development.
- Interest-free loans, most likely to be deployed with start-ups or firms moving to grow-on space.
- Gifting or underwriting land to developers to build new space, where land is owned directly by the local authority.
- Direct funding of development of sites to kick start development.

**iii. Other public sector interventions** Key opportunities for developing new workspace also arise in the context of:

- Improving infrastructure, particularly interchanges that enhance the flow and movement of traffic.
- Allocating employment land for specific use by start-ups and/or grow-on workspace. This could include a range of sites, from small scale sites up to business parks and government-approved enterprise zones.
- Building into the planning framework for developments of new communities. This would take account of all business premises requirements including start-up space; grow-on space and larger space.
- Identify the main pension funds which own commercial space in Greater Essex and identify the lead agents. Interventions with pension funds and agents may help to facilitate growing supply of commercial workspace.

#### **4. Developing modern technology platforms**

In commercial real estate, technology platforms have not kept pace with modern business requirements and need to be upgraded. While housing is well served by a range of web-based and mobile technologies, allowing access to data and facilitating informed decisions, technology underpinning commercial real estate is less customer focused with lack of web-based or mobile applications. This limits the capability of business customers to identify and access the premises that they may require, as well as constraining CRE businesses from managing their activities effectively.

#### **F. FOLLOW UP ACTIONS REQUIRED OF LOCAL AUTHORITIES**

Plans for employment land in local economic plans are crucial to development of workspace. The Essex Economic Commission would like local authorities to demonstrate how plans for employment land are taking account of the following issues:

- How do office and industrial workspace feature in plans to allocate employment land both in the short term and in the long term?
- How do plans capture the span of required workspace for office and industrial workspace, including sector specific, service centres and flexible workspace?
- How can plans for residential and commercial developments be dovetailed to take account of the principle of one job for each home built?
- How are district councils planning to deploy land surplus to requirements to deliver more commercial workspace as part of their Local Plans? How pro-active are district councils in the monitoring and delivery of those Local Plans?
- What plans are being put in place by local authorities to take forward various funding options and other interventions outlined in this working paper?

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