

**MAYOR OF LONDON**

**Strategic evidence to support  
London borough Article 4  
Directions (commercial to  
residential)**

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**July 2021**

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enquiries 020 7983 4100

Minicom 020 7983 4458

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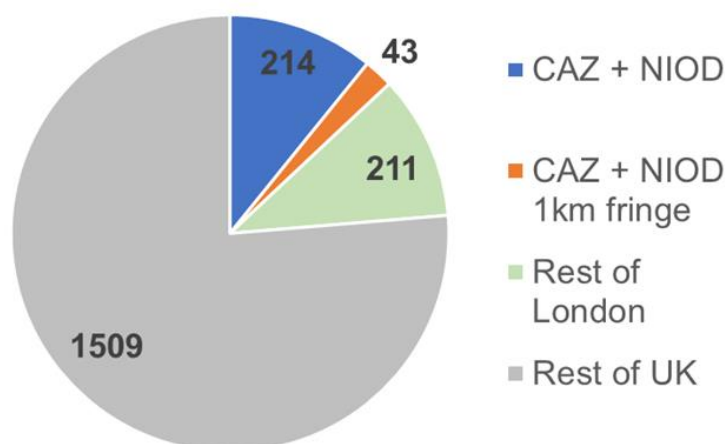
## Executive Summary

- E1. This report provides strategic evidence to support Class E commercial to residential Article 4 Directions by local planning authorities (LPAs) in London. LPAs may draw on this evidence and use it to supplement their own local evidence to support Article 4 Directions for specific locations in appropriate circumstances.
- E2. The revised (2021) **National Planning Policy Framework (NPPF)** indicates that the use of Article 4 directions to remove national permitted development rights (PDR) related to change from non-residential use to residential use should be based on robust evidence, apply to the smallest geographical area possible and be limited to situations where this is necessary to avoid wholly unacceptable adverse impacts.

### The Central Activities Zone and Northern Isle of Dogs

- E3. The **Central Activities Zone (CAZ)** is the vibrant heart and globally-iconic core of London. Its rich mix of world-class business, culture, night-time economy, tourism, shopping and heritage make it unique in both a London and national context. It requires different or tailored approaches to the application of national policy – including Class E to residential PDR - to address its distinct circumstances.
- E4. The CAZ and the Northern Isle of Dogs (NIOD) make an irreplaceable contribution to the output and prosperity of the nation. In 2019 the output of the CAZ and NIOD combined was £214 billion, accounting for almost half of London’s output and around 11 per cent of UK output (see Figure E.1).

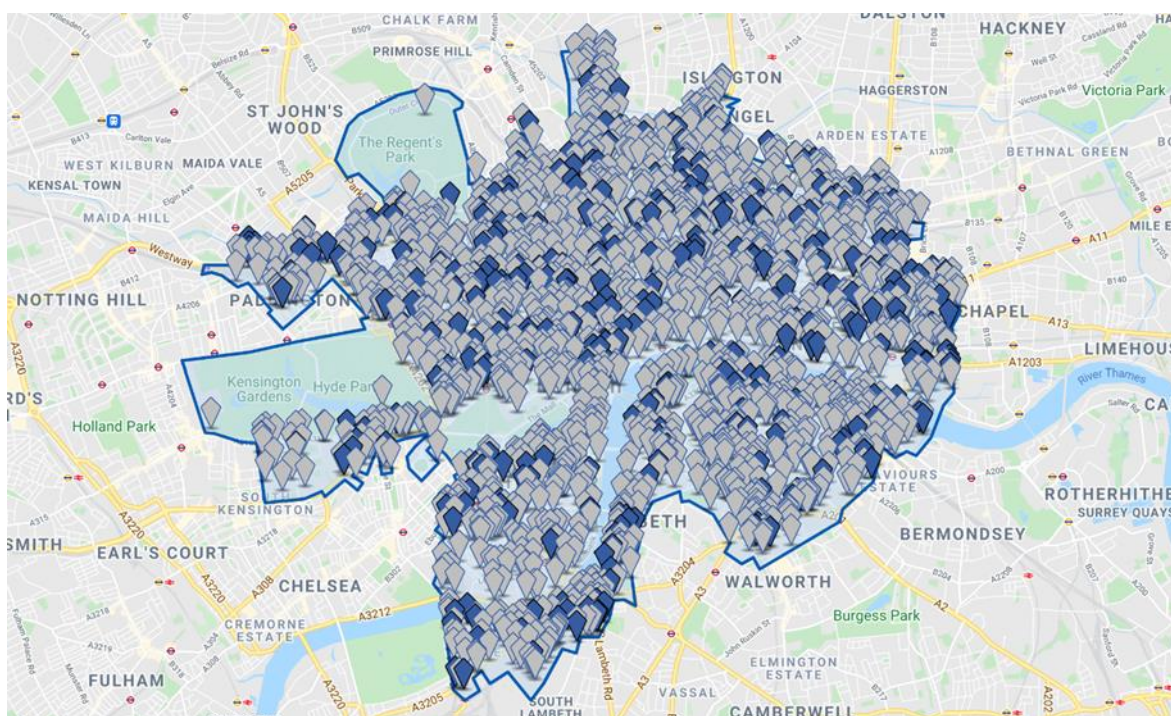
**Figure E.1 Relative contributions of the CAZ, NIOD and a 1km fringe to London and UK output, 2019 (£ billion)**



Source: ONS Regional GVA by local authority (income approach), ONS Business Register and Employment Survey, GLA Economics calculations.

- E5. The CAZ and NIOD are both internationally significant office locations. This was recognised by government when exemptions were granted to office to residential PDR when they were first introduced in 2013 and when the relevant London boroughs introduced office to residential Article 4 Directions for these areas when the exemptions were removed in May 2019.
- E6. The evolution and development of the CAZ requires careful management of the balance between its strategic functions (including uses within Class E) and residential development to ensure its success. In the absence of Article 4 Directions, the new Class E to residential PDR could threaten the future sustainability of the CAZ and NIOD. It is therefore vital that the strategic contributions made by the CAZ and NIOD to the economy, culture and identity of the capital are safeguarded.
- E7. Commercial, service and business uses are distributed widely across the whole of the CAZ (Figure E.2). The evidence presented in the report supports the introduction of Article 4 Directions to remove Class E to residential PDR across the whole of the CAZ and NIOD, being the smallest geographical area possible to avoid wholly unacceptable impacts in the terms of national policy. This will enable the CAZ and NIOD to flourish and to contribute to the recovery and the continued prosperity of the nation as a whole.

**Figure E.2 Distribution of commercial uses in the Central Activities Zone**

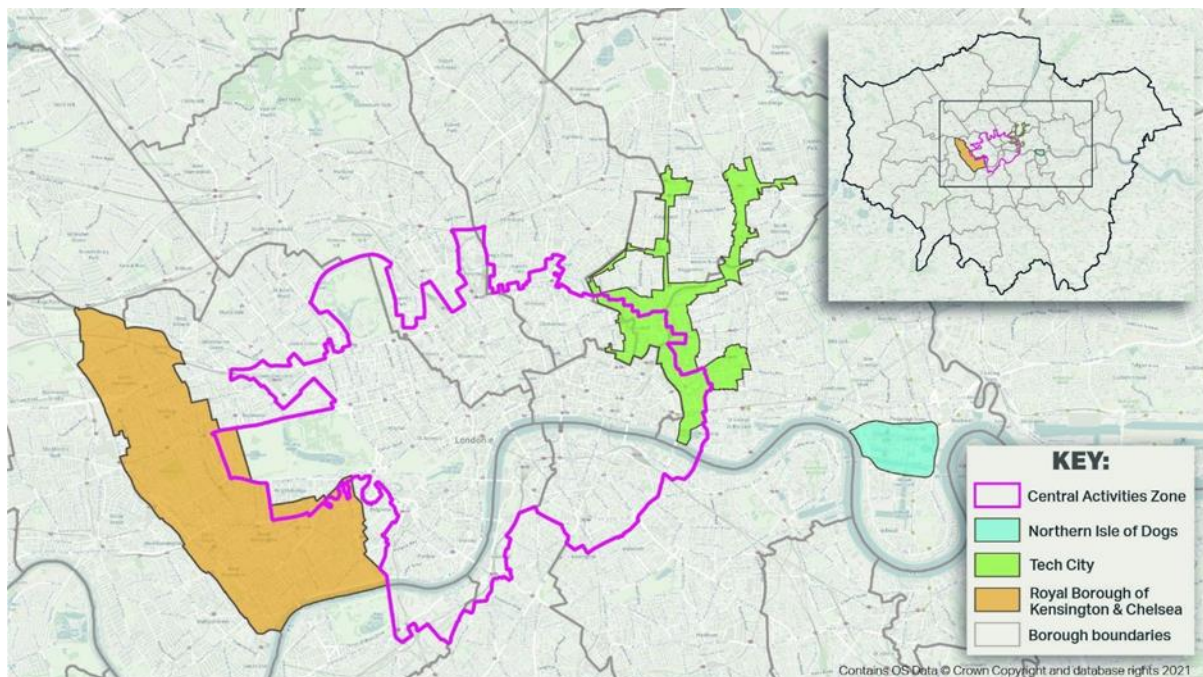


Source: CoStar (May 2021). Note that this Figure is illustrative and does not show all the commercial properties recorded in the CoStar database in the CAZ.

## Strategically significant office locations beyond the CAZ

- E8. Beyond the CAZ and NIOD the London Plan recognises other strategically significant office locations in the capital including Tech City, the Royal Borough of Kensington & Chelsea, town centres and urban business parks.
- E9. In terms of **Tech City** and the **Royal Borough of Kensington & Chelsea** the Government granted an exemption for these areas (along with the CAZ and NIOD) from office to residential PDR in 2013, and in May 2019 the relevant boroughs introduced Article 4 Directions to ensure that they continued to be safeguarded (see Figure E.3).
- E10. **Tech City**, located in the London boroughs of Hackney, Islington and Tower Hamlets, contributed almost £15 billion to London's GVA output in 2019 and is estimated to contain more than 190,000 workforce jobs. The **Royal Borough of Kensington & Chelsea** contains a vibrant mix of business clusters which in 2019 contributed more than £10 billion to London's economic output. The introduction of Article 4 Directions will continue to support the growth and expansion of these important business clusters and their contributions to the national and London economy.

**Figure E.3 London's nationally significant office locations**



Source: GLA. Boundaries based on the areas granted exemptions by government from office to residential permitted development rights under the category 'nationally significant office locations'.

- E11. The London Plan identifies **town centre office locations** beyond the CAZ and NIOD. These office locations complement the CAZ and NIOD and cumulatively are of strategic importance to London. Locally they provide an important source of employment and economic activity and contribute to the

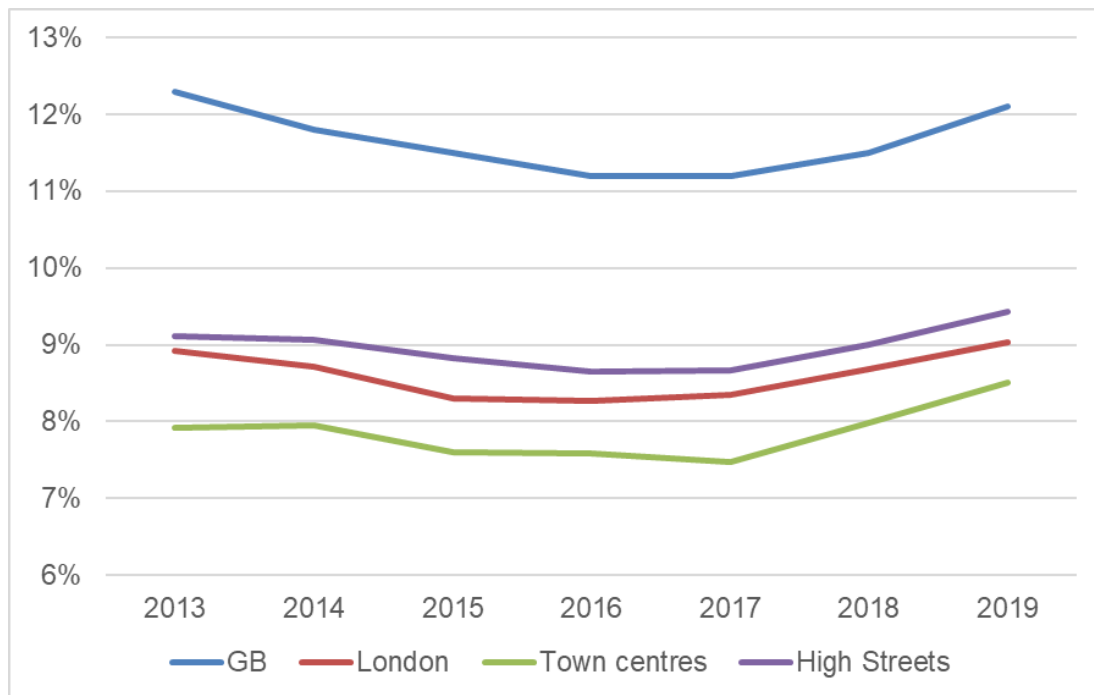
vibrancy and weekday spend of the town centres and high streets with which they are associated. The Mayor supports Article 4 Directions to remove Class E to residential PDR to safeguard the strategic office functions associated with these locations. These should be targeted accordingly drawing on more detailed local evidence.

- E12. London also contains several strategic office clusters located in **urban business parks** outside of town centres. The contribution of these business clusters to the economy and employment of outer London in particular could be reduced by Class E to residential PDR.

**Town centres and high streets**

- E13. London’s high streets and town centres have shaped the fabric of the capital. They are a focal point for London’s culture, communities and everyday economies.
- E14. Despite changes in consumer behaviour, technology and competition from out-of-centre development, they have shown their resilience by adapting and re-inventing themselves. They have diversified over time towards leisure uses and experiential, service retail uses. Vacancy rates in London’s town centres and high streets are typically well below those experienced in other parts of the country. In 2019 the London average shop vacancy rate was 9 per cent compared to an average of 12 per cent for Britain as a whole (see Figure E.4).

**Figure E.4 Shop vacancy rates in London’s Town Centres and High Streets compared to the London and Great Britain average 2013-2019**



Source: GLA Economics analysis of Local Data Company data



- 
- E15. To support London's economic and social recovery from the impacts of the pandemic, it is essential that there is space available for businesses to innovate, to start up and to create new jobs and this is central to the High Streets for All mission, part of the wider London Recovery Programme.
- E16. In some locations, the new PDR, in the absence of targeted Article 4 Directions, could undermine the adaptation of London's town centres and high streets as vibrant, successful locations for a range of business, culture, civic and community activities complemented by well-planned housing and mixed-use development.
- E17. With the right support and with concerted national, London-level and local action, town centres and high streets are well placed to recover from the impacts of the pandemic, and it is essential that these actions are not undermined by permitted development. There is a strong case for targeted Article 4 Directions to remove Class E to residential PDR to ensure that the social and economic functions of London's vibrant high streets and town centres are sustained and to support London's economic and social recovery.

### **Industrial areas and creative production space**

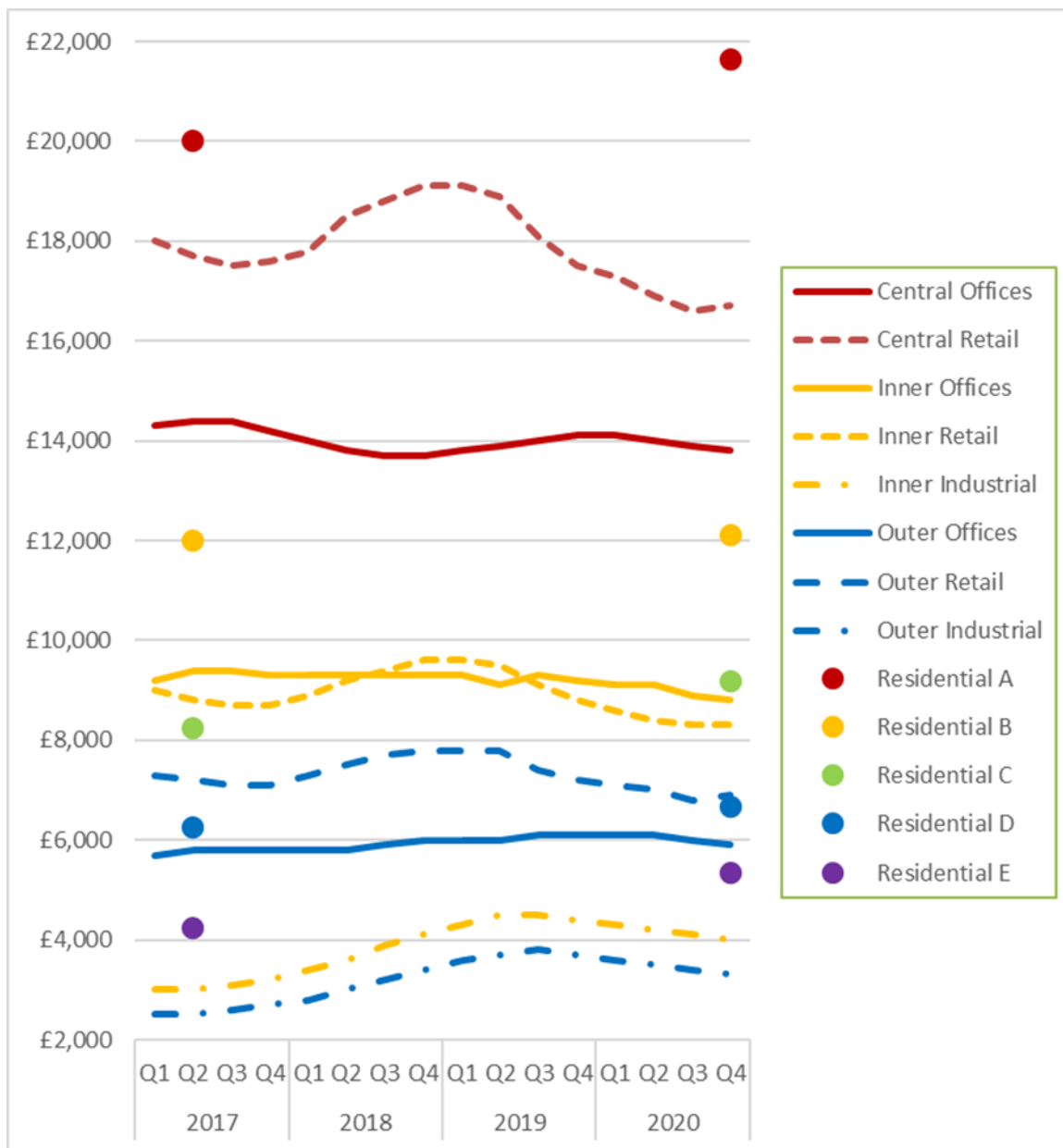
- E18. London's industrial capacity can be impacted by Class E to residential PDR both directly, through the loss of light industrial and creative production uses that fall within Class E, and indirectly, through the introduction of residential uses in industrial areas which can compromise the integrity or effectiveness of these locations in accommodating industrial-type activities and their ability to operate on a 24-hour basis.
- E19. The strategic evidence indicates there may be particular justification for the use of Article 4 Directions to safeguard these areas. Examples of the circumstances where Article 4 Directions might be particularly appropriate include:
- where local authorities may find it difficult to rely on clause MA.2.(2)(g) in the PDR legislation or where there is a high risk of land value speculation
  - where it is necessary to mitigate against the negative impacts of commercial to residential PDR on plan-led approaches to industrial intensification and co-location
  - where it is necessary to ensure that sufficient capacity for industry and logistics providing essential services to the CAZ and NIOD is not reduced by PDR, and

- 
- in Creative Enterprise Zones and similar areas where it is important to safeguard capacity for light industrial, maker space and culture-oriented creative production uses.

### **Commercial and residential values in London**

- E20. The difference between the value of offices, retail and light industrial properties relative to residential use in London, is such that the new Class E to residential PDR could see a significant loss of commercial uses to residential.
- E21. The strategic evidence (see Figure E.5) suggests that average residential values exceed average office and retail values in central London. In inner London, average residential values are typically greater than average office and retail values except in lower residential value band areas where the average values are broadly comparable. In outer London, average residential values typically exceed average office and retail values, except in lower residential value band areas where the average residential values are broadly comparable with average retail values, but marginally higher than office values. Average residential values currently exceed average industrial values in all parts of London.
- E22. The differential in value in residential use compared to commercial uses is such that PDR will impact all areas of London, including vibrant commercial areas, and not just areas of low commercial value.

**Figure E.5 Indicative comparison of average capital values in residential and non-residential use by value band (£ per square metre)**



Sources: GLA analysis of Three Dragons (2017) and Molior data (2020/21) for residential values and GLA analysis of CoStar market rent and yield data for commercial values (2017-2020).

Notes for Figure E.5

- 1: values for residential and non-residential capital values are derived from different sources.
- 2: the values are indicative averages - there could be significant local variations in residential and commercial values.
- 3: the values for inner and outer London offices are more likely to reflect higher value office locations especially in West and South London (where there are more transactions) - compared to lower value office areas in other parts of London.

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## Housing delivery and quality

- E23. The Mayor is committed to increase housing delivery in London and is using his funding and planning powers to unlock housing development opportunities and increase the supply of good quality homes that meet Londoners' diverse needs.
- E24. The London Plan contains policy to support the proactive delivery of housing in locations where the Mayor is providing strategic support for Article 4 Directions to remove Class E to residential PDR, including the CAZ, NIOD, town centres and high streets. There is a healthy housing development pipeline in these locations (see Figure E.6).

**Figure E.6 Housing pipeline in the CAZ/NIOD, town centres and high streets in London, 2019**

|                            | Number of dwellings in the planning pipeline | % of London total |
|----------------------------|--|-------------------|
| CAZ + NIOD                 | 36,918                                       | 13%               |
| Town centres               | 58,787                                       | 21%               |
| Town centres + 800m buffer | 108,260                                      | 39%               |
| High Streets               | 54,796                                       | 20%               |
| High Streets + 800m buffer | 77,014                                       | 28%               |
| London                     | <b>278,794</b>                               | <b>100%</b>       |

Source: Planning London Datahub data recorded on 28 May 2021. Pipeline subject to daily changes in permissions granted and lapsed and borough reporting. Note figures cannot be summed due to overlapping geographies.

- E25. In the context of the national housing crisis and constrained land supply, it is essential that all sources of supply – if appropriate for housing delivery – are used to best effect. Article 4 Directions can be a useful tool for ensuring that development capacity is optimised through site allocations, masterplans and town centre strategies, delivering better outcomes for housing delivery, housing quality and place-making.

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## 1. Introduction

### 1.1 Purpose of the strategic evidence report

- 1.1.1 In March 2021 government published legislation<sup>1</sup> in England to introduce new permitted development rights (PDR) for the change of use of properties in the Commercial, Business and Service use class (Class E) to residential from 1 August 2021, subject to a range of conditions and limitations. Under the transitional arrangements, where there is an existing Article 4 direction on 31 July 2021 in respect of the change of use from offices to residential, it will continue to have effect on equivalent development in respect of offices until 31 July 2022.
- 1.1.2 The purpose of this report is to provide strategic context and evidence to support commercial to residential Article 4 Directions<sup>2</sup> by local planning authorities (LPAs) in London<sup>3</sup>. LPAs may draw on this evidence and use it to supplement their own local evidence to support Article 4 Directions for specific locations in appropriate circumstances. The report is drawn up in the context of national policy and the 2021 London Plan.
- 1.1.3 The evidence in this report is not intended to be a comprehensive summary of all the potential impacts of commercial to residential PDR in London. Further details of the wider impacts of PDR are provided in the Mayor's response to the Housing, Communities and Local Government inquiry<sup>4</sup>.

### 1.2 Structure of the report

- 1.2.1 The report is structured as follows:
- Section 2 sets out the national policy context for the use of Article 4 Directions and the associated London Plan policy framework.
  - Sections 3 to 6 set out the strategic evidence to support the use of Article 4 Directions in the context of national policy and London Plan policy to:

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<sup>1</sup> [Statutory Instrument 2021 No.428. The Town and Country Planning \(General Permitted Development etc.\) \(England\) \(Amendment\) Order 2021](#)

<sup>2</sup> A tool used by local planning authorities to remove some or all permitted development rights that apply to a particular site or area

<sup>3</sup> There are 35 local planning authorities in London, comprising the 32 London boroughs, the City Corporation of London and two Mayoral Development Corporations

<sup>4</sup> [Mayor of London. Response to Housing Communities and Local Government inquiry: permitted development. May 2021](#)

- 
- safeguard London's nationally significant commercial, business and cultural districts including the whole of the Central Activities Zone (CAZ) and the Northern Isle of Dogs (Section 3)
  - safeguard strategically significant office locations outside of the CAZ and Northern Isle of Dogs (Section 4)
  - mitigate the impacts on London's vibrant town centres and high streets (Section 5)
  - mitigate the impacts on London's industrial areas and creative production space (Section 6).
- Section 7 of the report provides additional evidence with regard to relative capital values in residential use compared to a range of commercial uses in different parts of London.
  - Section 8 of the report provides additional evidence in relation to housing delivery and quality in London including in the areas where the Mayor would support Article 4 Directions.

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## 2. National policy and London policy context

### 2.1 Introduction

2.1.1 This section sets out the shared national and London objectives for protecting and creating jobs and the delivery of new housing. It then sets out the national planning policy and London Plan policy context for the use of Article 4 Directions.

### 2.2 Protecting and creating jobs and delivering housing

2.2.1 Protecting and creating jobs are objectives shared by the government, the Mayor and the London Recovery Board to build a strong and competitive economy and drive the recovery from the economic impacts of the COVID-19 pandemic.

2.2.2 The government's objectives, set out in 'A Plan for Jobs'<sup>5</sup>, highlight the need to protect jobs in the hard-hit hospitality and accommodation sectors by supporting demand for these businesses, and to create jobs with action to get the property market moving and to increase and bring forward infrastructure investment.

2.2.3 The Mayor has made strong commitments<sup>6</sup> to protect and create jobs, support new and growing businesses, revive central London and enable town centres and high streets to thrive. The Mayor also wants to help hospitality, night-time, retail, culture and creative sectors to recover from the pandemic and ensure London continues to attract investment, trade and visitors from across the world.

2.2.4 The London Recovery Board<sup>7</sup>, chaired jointly by the Mayor of London and the Chair of London Councils, brings together leaders from across London's government, business and civil society, as well as the health and education sectors, trade unions and the police, to oversee the long-term recovery effort. Its aims are to:

- reverse the pattern of rising unemployment and lost economic growth caused by the economic scarring of COVID-19
- support London's communities, including those most impacted by the virus
- help young people to flourish with access to support and opportunities

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<sup>5</sup> [HM Government. A Plan for Jobs 2020](#)

<sup>6</sup> [Sadiq's Manifesto for London, 2021](#)

<sup>7</sup> <https://www.london.gov.uk/coronavirus/londons-recovery-coronavirus-crisis/london-recovery-board>

- 
- narrow social, economic and health inequalities
  - accelerate delivery of a cleaner, greener London.

2.2.5 From a spatial planning perspective, the protection of jobs and the realisation of future jobs growth is contingent on the careful management of development capacity and the balance of commercial uses with alternative land uses including housing. Targeted commercial to residential Article 4 Directions will be an important component in achieving this objective, protecting existing jobs and realising future jobs growth potential.

2.2.6 The Mayor also shares the government's objective to increase housing delivery and has identified a need for at least 66,000 new homes to be built per year in London, for at least the next 20 years. The Mayor's recently published London Plan 2021 sets out a strategic framework for providing over 52,000 homes per year, alongside the delivery of commercial development to support jobs and businesses across the capital. The Mayor is committed to utilising funding and planning powers to unlock housing development opportunities and increase supply of good quality homes that meet Londoners' diverse needs.

## **2.3 National policy related to Article 4 Directions**

2.3.1 The National Planning Policy Framework (NPPF) sets out the government's planning policies for England and how these are expected to be applied.

2.3.2 On 1 July 2021, government announced a new Article 4 Direction policy through a written ministerial statement<sup>8</sup> indicating that new paragraph 53 of the NPPF will read:

“The use of Article 4 directions to remove national permitted development rights should:

- where they relate to change from non-residential use to residential use, be limited to situations where an Article 4 direction is necessary to avoid wholly unacceptable adverse impacts (this could include the loss of the essential core of a primary shopping area which would seriously undermine its vitality and viability, but would be very unlikely to extend to the whole of a town centre)
- in other cases, be limited to situations where an Article 4 direction is necessary to protect local amenity or the well-being of the area (this could include the use of Article 4 directions to require planning permission for the demolition of local facilities)

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<sup>8</sup> <https://questions-statements.parliament.uk/written-statements/detail/2021-07-01/hcws145>



- 
- in all cases, be based on robust evidence, and apply to the smallest geographical area possible.”

## 2.4 The London Plan 2021

2.4.1 The London Plan 2021<sup>9</sup> is the Spatial Development Strategy for Greater London. It sets out a framework for how London will develop over the next 20-25 years and includes the Mayor’s vision for Good Growth<sup>10</sup>. The Plan is part of the statutory development plan for London, meaning that the policies in the Plan inform decisions on planning applications across the capital.

2.4.2 With regard to Article 4 Directions, the London Plan contains several policy provisions, set out below, which are directly relevant to this report.

2.4.3 In relation to **the Central Activities Zone (CAZ), Northern Isle of Dogs (NIOD) and London’s nationally significant office locations:**

“The Mayor will work with boroughs and support them to introduce Article 4 Directions to remove office to residential permitted development rights across the whole of the CAZ and the Northern Isle of Dogs (and those parts of Tech City and Kensington & Chelsea lying outside the CAZ).” (Policy SD5 E)

and

“The Mayor supports a co-ordinated approach to the introduction of Article 4 Directions by the CAZ boroughs [ ... ] to ensure that London’s nationally-significant offices in and around the CAZ are safeguarded. Boroughs are encouraged to draw on both strategic and local evidence to support these Directions” (Paragraph 2.5.6).

2.4.4 With regard to **offices:**

“Existing viable office floorspace capacity [...] should be retained, supported by borough Article 4 Directions to remove permitted development rights where appropriate, facilitating the redevelopment, renewal and re-provision of office space where viable and releasing surplus office capacity to other uses.” (Policy E1 E)

and

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<sup>9</sup> [Mayor of London, The London Plan. The Spatial Development Strategy for Greater London, March 2021](#). Unless otherwise stated, references in this report to the “London Plan” or “the Plan” are referring to “The London Plan 2021”.

<sup>10</sup> Good Growth refers to growth that is socially and economically inclusive and environmentally sustainable.

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“Boroughs should consult upon and introduce Article 4 Directions to ensure that the CAZ, NIOD, Tech City, Kensington & Chelsea and geographically defined parts of other existing and viable strategic and local office clusters (such as those in and around the CAZ, in town centres and other viable business locations [...]) are not undermined by office to residential permitted development rights.” (Policy E1 F).

2.4.5 In relation to **town centres and high streets**:

“Boroughs should [...] introduce targeted Article 4 Directions where appropriate and justified to remove permitted development rights for office, light industrial and retail to residential in order to sustain town centre vitality and viability and to maintain flexibility for more comprehensive approaches to town centre housing and mixed-use intensification” (Policy SD9 D).

2.4.6 With regard to **industrial capacity**:

“Boroughs should ensure that the need to retain sufficient industrial and logistics capacity is not undermined by permitted development rights by introducing Article 4 Directions where appropriate” (Policy E4 G).

2.4.7 The above London Plan policies and the national policy framework provide the context for the strategic evidence to support London borough Article 4 Directions set out in the following sections of this report.

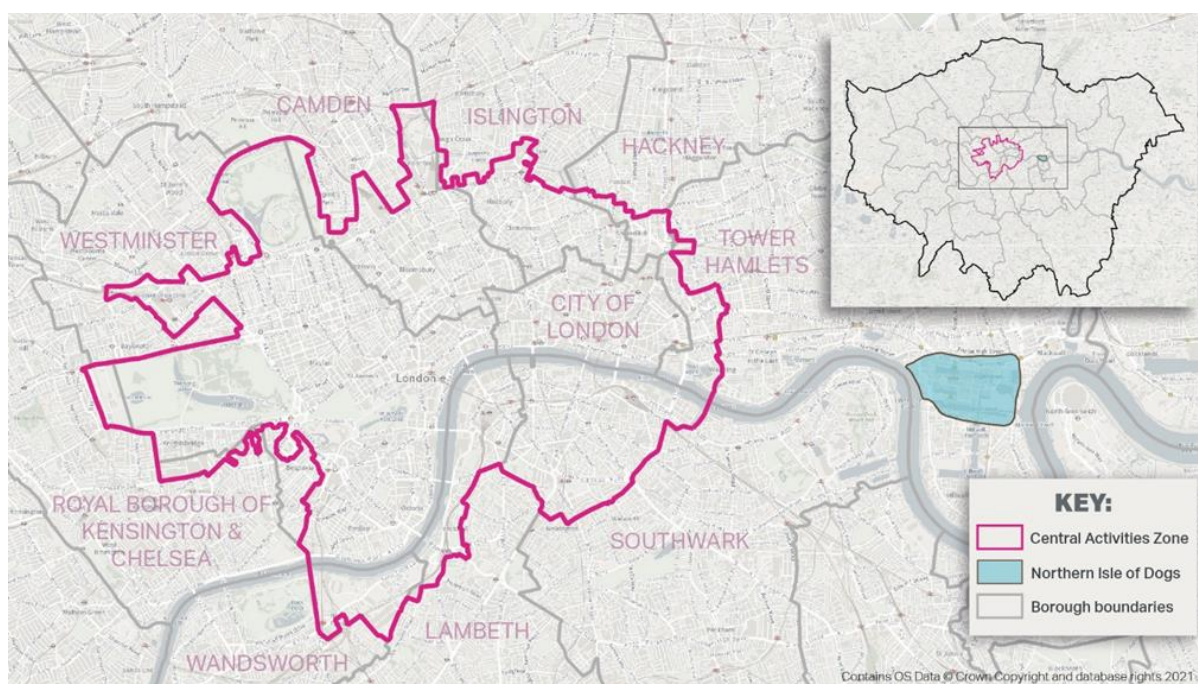
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## 3. The Central Activities Zone and Northern Isle of Dogs

### 3.1 Introduction

- 3.1.1 The Central Activities Zone (CAZ) is the vibrant heart and globally-iconic core of London. It contains the seat of national government and is internationally renowned for its commerce, culture, night-time economy, tourism, shopping and heritage. Complemented by the Northern Isle of Dogs (NIOD) it is one of the world's most attractive and competitive business locations. It is home to approximately 300,000 residents<sup>11</sup> and it comprises an area of only 13 square miles (34 square kilometres) or just 2 per cent of the Greater London area.
- 3.1.2 The density, scale and mix of business functions and activities in the CAZ and NIOD are unique and are underpinned by the connectivity provided by public transport, walking and cycling networks. This agglomeration results in exceptional levels of productivity, which is not replicated elsewhere in the UK, and provides national benefits. It requires different or tailored approaches to the application of national policy – including permitted development rights - to respond to its distinct circumstances.

**Figure 3.1 The CAZ and Northern Isle of Dogs**



Source: GLA (boundaries indicative)

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<sup>11</sup> Source: GLA analysis of [ONS Small Area Population Estimates](#)

3.1.3 The London Plan provides the strategic planning policy context for the CAZ and NIOD and co-ordinates planning for the Zone at the local level, which is the responsibility of ten local planning authorities, illustrated in Figure 3.1.

## 3.2 Contributions to the London and UK economy and employment

3.2.1 The CAZ and NIOD make an irreplaceable contribution to the output and prosperity of the nation. Figure 3.2 shows the ONS estimates of Gross Value Added (GVA) output for the local authorities that contain elements of the CAZ, the NIOD and their fringes. Together these ten local authority areas contributed £293 billion to the UK economy in 2019.

**Figure 3.2: Calculations of London local authorities GVA(I) in 2019 (£ billion) for authorities within the CAZ and NIOD**

| Local authority        | GVA (£ billion) | Local authority | GVA (£ billion) |
|------------------------|-----------------|-----------------|-----------------|
| Camden                 | 35.5            | Lambeth         | 13.1            |
| City of London         | 69.2            | Southwark       | 21.6            |
| Hackney                | 8.9             | Tower Hamlets   | 34.5            |
| Islington              | 19.7            | Wandsworth      | 7.9             |
| Kensington and Chelsea | 10.2            | Westminster     | 72.4            |

Source: ONS Regional GVA by local authority (income approach)

3.2.2 Figure 3.3 shows GLA Economics' latest estimates of GVA for the CAZ, the NIOD and the fringes themselves. The estimates indicate that the output of the CAZ alone was £197 billion in 2019 and the NIOD contributed a further £17 billion. Together these locations account for almost half (46 per cent) of London's output and around 11 per cent of UK output.

**Figure 3.3: Calculations of GVA(I) generated within the CAZ, NIOD, and their 1km fringe in 2019**

| Area                     | GVA (£ billion) | % London GVA | % UK GVA |
|--------------------------|-----------------|--------------|----------|
| CAZ                      | 197.1           | 42%          | 10%      |
| CAZ and 1km Fringe       | 236.5           | 51%          | 12%      |
| NIOD                     | 16.7            | 4%           | 1%       |
| NIOD and 1km Fringe      | 20.3            | 4%           | 1%       |
| CAZ and NIOD             | 213.8           | 46%          | 11%      |
| CAZ, NIOD & a 1km Fringe | 256.8           | 55%          | 13%      |

Source: ONS Regional GVA by local authority (income approach), ONS Business Register and Employment Survey, GLA Economics calculations

3.2.3 There is also a substantial amount of commercial activity just outside the CAZ boundary including other nationally significant office locations such as Tech City<sup>12</sup> and the Royal Borough of Kensington & Chelsea (see Section 4); other strategically significant office locations and town centres (Sections 4 and 5) and strategically important industrial capacity providing essential supporting functions to service the needs of the CAZ and NIOD (Section 6). In total, the output of the CAZ, NIOD and a 1km fringe around them stood at just under £257 billion in 2019 accounting for 55 per cent of London’s output and around 13 per cent of UK output. These figures were estimated by GLA Economics using the same methodology<sup>13</sup> described in GLA Economics Working Paper 68.<sup>14</sup>

3.2.4 The most recent data on employment<sup>15</sup> indicates that there were 2.2 million workforce jobs in the CAZ in 2019 and a further 165,000 in the NIOD. The combined total of 2.4 million represents 39 per cent of London’s total employment in 2019 and an increase of 13 per cent since 2015.

<sup>12</sup> Located within the London boroughs of Hackney, Islington and Tower Hamlets

<sup>13</sup> This first involved identifying the local super output areas (LSOA) – a geographical classification used in official statistics – for the Central Activities Zone and Northern Isle of Dogs. Then the employment shares of these LSOAs are calculated as a percentage of the relevant local authority on an industry basis. These employment shares were then applied to gross value added (GVA) estimates for the local authorities and summed.

<sup>14</sup> [GLA Economics. Working Paper 68: Work and life in the Central Activities Zone, the Northern Isle of Dogs and their fringes, August 2015](#)

<sup>15</sup> Source: GLA Economics analysis of 2019 BRES data

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3.2.5 Research by the GLA<sup>16</sup> indicates that the top five sectors of employment in this combined area are professional, scientific and technical; financial & insurance; information & communication; business administration and support services; and accommodation & food services. Employment in these sectors is typically accommodated in uses found within the commercial, business and service Use Class E.

### **3.3 Nationally and internationally significant office locations**

3.3.1 The London Plan identifies the CAZ and NIOD as nationally and internationally significant office locations.<sup>17</sup> These locations were also recognised as nationally significant office locations by government when exemptions were granted to office to residential permitted development rights when they were first introduced in 2013. The relevant London boroughs introduced office to residential Article 4 Directions for these areas when the exemptions were removed in May 2019.<sup>18</sup> The evidence presented in this report indicates that the underlying justification for Article 4 Directions to cover the whole of the CAZ and NIOD remains as pertinent today as it was in 2019 and indeed since 2013 when PDR was first introduced.

3.3.2 Current evidence continues to support the status of the CAZ and NIOD as internationally significant office locations. The ten CAZ boroughs (incorporating much of London's internationally significant office space) contained more than 20 million sq.m. of office floorspace in 2020.<sup>19</sup> This equates to more than three quarters of London's total office stock and approximately one fifth of the total in England and Wales (Figure 3.4).<sup>20</sup> It is estimated that the CAZ and NIOD together contain more than 1.3 million office jobs.<sup>21</sup>

3.3.3 Important economic sectors in the CAZ including tech, media, architecture, creative and life sciences can require complex and high specification offices, studios and lab space, which can take much longer to build (or retrofit) than a traditional office. It is imperative that such workspace (which sits within new Class E) is safeguarded from ad hoc conversions to residential through permitted development.

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<sup>16</sup> GLA Economics, *ibid*

<sup>17</sup> The London Plan 2021, *op cit*, paragraph 6.1.1

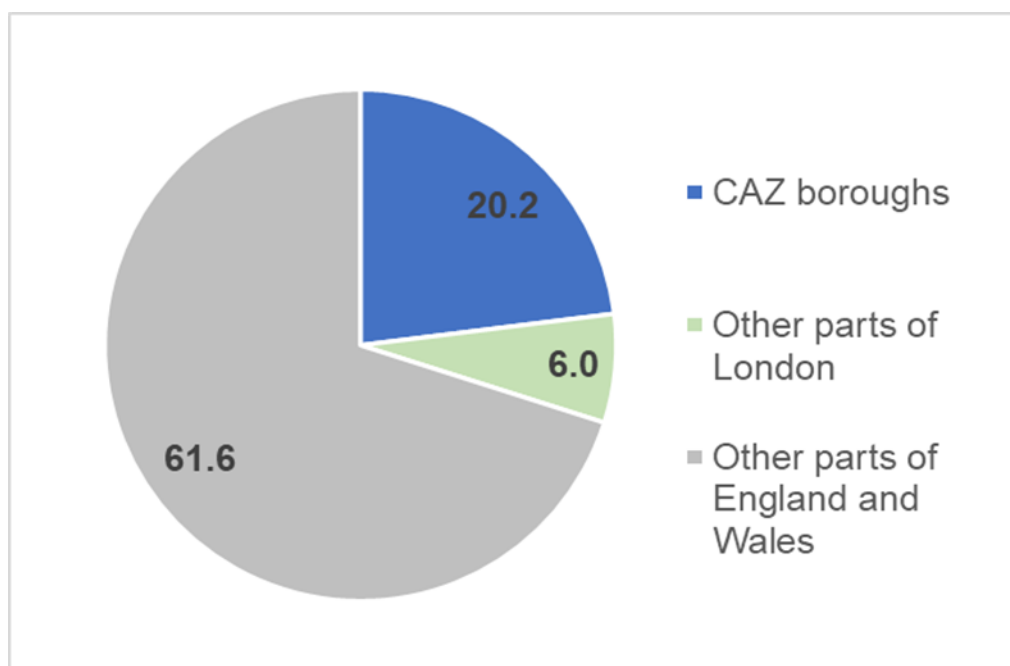
<sup>18</sup> The precise boundaries are contained in the Article 4 Direction made by each borough.

<sup>19</sup> Source: [VOA Non-domestic rating stock of properties 2020](#)

<sup>20</sup> Source: GLA analysis of VOA Non-domestic rating stock of properties 2020 *op cit*.

<sup>21</sup> Source: [Ramidus Consulting, London Office Policy Review, June 2017](#)

**Figure 3.4: Office floorspace stock in the CAZ boroughs relative to other parts of London and England and Wales, 2020 (million square metres)**



Source: VOA Non-domestic rating stock of properties 2020

- 3.3.4 Taking into account projected growth in office employment, employment densities and emerging trends in homeworking, research for the GLA in 2017 indicated that there is demand for around 3.5 million sq.m of office floorspace in the CAZ and NIOD combined over the period 2016-2041. The study included a series of sensitivity tests around the central employment-based forecast looking at different levels of employment growth, alternative employment density ratios and desk-sharing/homeworking ratios.
- 3.3.5 While there are emerging trends that could affect the nature of office working and the extent of remote working, as well as broader cyclical and structural shifts in demand for office space as a result of the pandemic, the extent of this and its impact on the need for office space in London has yet to emerge fully. However, the CAZ Economic Futures work undertaken by Arup, Gerald Eve and LSE<sup>22</sup> identified a wide variety of potential scenarios, including situations where office demand remains high. The potential impacts of the pandemic and the CAZ Economic Futures work is explored in more detail in Section 3.8.

<sup>22</sup> [Central Activities Zone \(CAZ\) Economic Futures Research, 2021](#)

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## 3.4 Strategic functions and clusters

- 3.4.1 The CAZ performs a unique mix of international, national and London-wide roles, based on an agglomeration and rich mix of strategic functions and local uses. Many of the strategic functions – such as those associated with business, professional and financial services, technology, law, health and life sciences, media, communications and centres of excellence for research – take place in offices (now incorporated into Use Class E).
- 3.4.2 Other strategic functions of the CAZ – such as leisure, entertainment, retail and tourism and specialist creative industries for example clothing, fashion, jewellery, printing, antiques, musical instruments, art and culture - are also accommodated in uses within Use Class E or could be impacted by Class E to residential PDR, including sensitive cultural venues and night-time economic activities such as theatres and music venues for example. The use of Article 4 Directions to remove permitted development rights from uses in Class E to residential is essential to enable these sectors to continue to flourish in the CAZ, both for the benefits that they provide in their own right as well as for the contribution that they make to the vibrancy of the CAZ itself.
- 3.4.3 Within the CAZ, there are several prominent clusters of strategic functions which include offices, research & development, retail and leisure uses in Class E. Several of these clusters are reflected in the London Plan CAZ Diagram (reproduced in Figure 3.5).
- 3.4.4 The **City of London** is a nationally important location for globally-oriented financial and business services. It is the home of many of the world's leading financial markets including the London Stock Exchange, London International Financial Futures and Options Exchange (LIFFE), Lloyds of London insurance market, the maritime Baltic Exchange and the London Metal Exchange. In 2019, the City is estimated to have contributed more than £69 billion in output, some 15 per cent of the London economy and 3.5 per cent of the UK economy<sup>23</sup>. In the same year, the City alone accounted for more than 677,000 workforce jobs.<sup>24</sup>

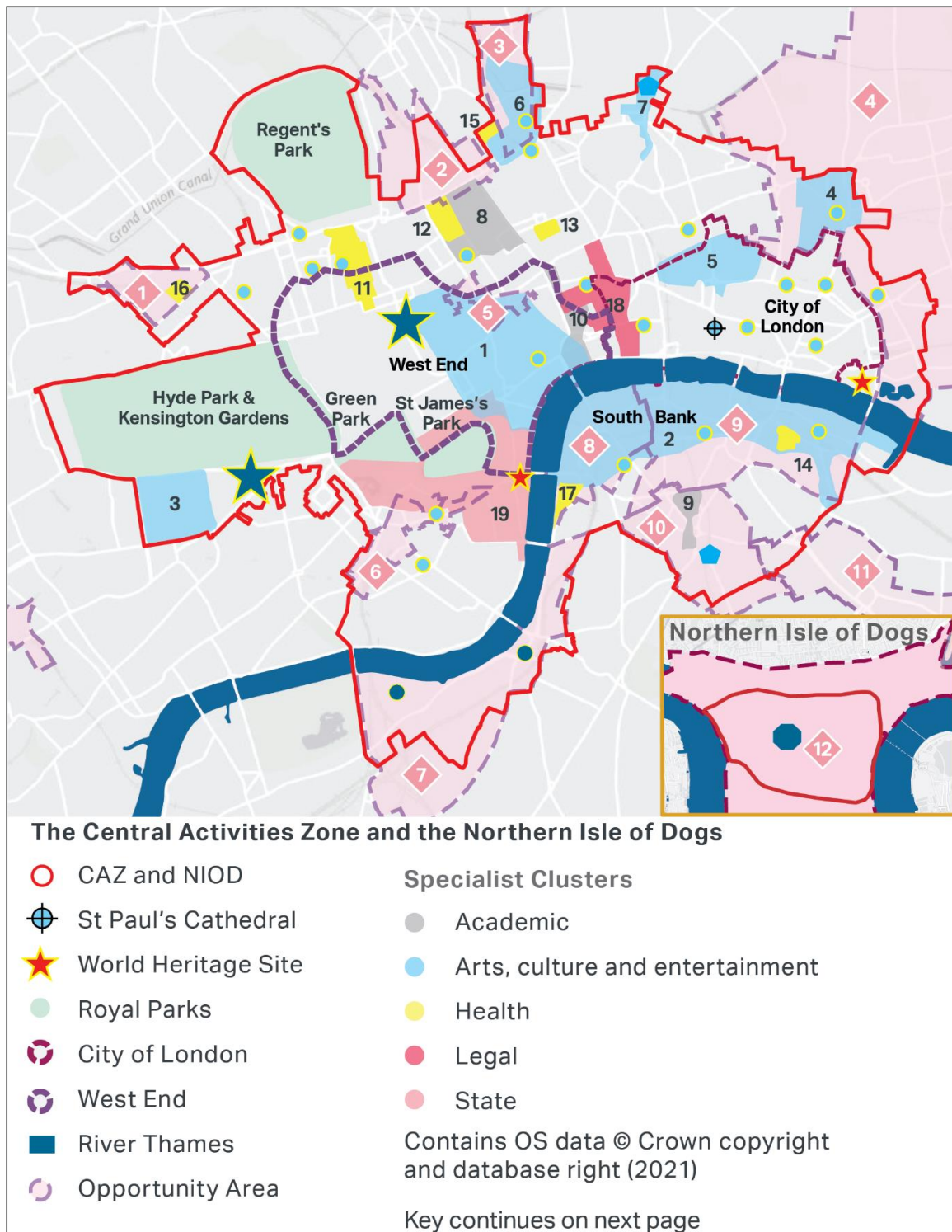
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<sup>23</sup> Source: GLA Economics analysis of 2019 ONS output data

<sup>24</sup> Source: GLA Economics analysis of 2019 BRES data








**Figure 3.5 The London Plan CAZ Diagram showing prominent clusters of CAZ strategic functions and specialist clusters**

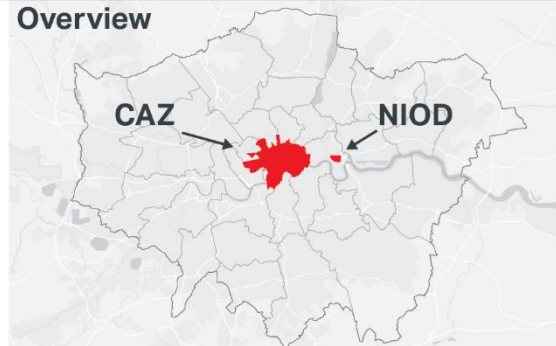


CAZ Diagram - Additional key

**Retail Clusters and Town Centres**

-  International
-  Metropolitan
-  Major
-  CAZ retail cluster
-  Potential CAZ retail cluster













**Overview**



**Specialist Clusters**

1. West End (including Soho / Covent Garden)
2. South Bank, Bankside and London Bridge
3. Royal Albert Hall / South Kensington Museums
4. Shoreditch
5. Barbican / Smithfield / Farringdon
6. King's Cross
7. Angel / Sadler's Wells
8. University College London / University of London
9. Southbank University
10. LSE / King's College London
11. Harley Street
12. University College Hospital
13. Great Ormond Street Hospital
14. King's College London Guy's Campus
15. Francis Crick Institute
16. St Mary's Hospital cluster
17. St Thomas' Hospital
18. Temple, Royal Courts of Justice, Inns of Court
19. Royal Palaces, Palace of Westminster and Whitehall

**Opportunity Areas**

-  1 Paddington
-  2 Euston
-  3 King's Cross
-  4 City Fringe / Tech City
-  5 Tottenham Court Road
-  6 Victoria
-  7 Vauxhall, Nine Elms and Battersea
-  8 Waterloo
-  9 London Bridge Bankside
-  10 Elephant and Castle
-  11 Old Kent Road
-  12 Isle of Dogs

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- 3.4.5 The **Northern Isle of Dogs** – along with the City of London – is a nationally-important location for globally-oriented financial and business services. The NIOD contains 165,000 workforce jobs<sup>25</sup> of which around 85 per cent are estimated to be office-related jobs<sup>26</sup>. Although it is geographically separate from the CAZ it is treated as part of the CAZ in London Plan policies and formally recognised as a CAZ ‘satellite’ location for world city office functions. With its excellent public transport connectivity and significant development site availability<sup>27</sup> it provides strategically important capacity for office demand that may not be accommodated within the CAZ itself due to its capacity constraints<sup>28</sup>. Canary Wharf, which lies at the heart of NIOD, is classified as a Metropolitan town centre in the London Plan, reflecting the scale and range of office, retail, leisure and complementary service uses present.
- 3.4.6 The **West End** is a vibrant mixed-use business location of international significance, a globally renowned shopping, cultural and visitor destination and home to several world-leading academic institutions. Westminster’s economy – the majority of which sits within the West End – made an estimated contribution of £72 billion to national output in 2019<sup>29</sup>, with the West End’s retail district alone seeing (pre-pandemic) sales at £9 billion<sup>30</sup>. In 2019, London accounted for 55 per cent of all inbound visitor spend to the UK<sup>31</sup>, with the shopping, leisure and tourism offer of the West End and Knightsbridge playing a significant role in the attractiveness of the capital to international visitors.
- 3.4.7 The CAZ contains a wide range of **specialist clusters of activity** which contribute towards the capital’s international and national roles including:
- Tech City (see Section 4)
  - The arts, cultural and creative clusters in Soho/West End, the South Bank, Shoreditch, Barbican, Smithfield, Farringdon, South Kensington, King’s Cross (including the Knowledge Quarter), Angel and London Bridge

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<sup>25</sup> Source: GLA Economics analysis of 2019 BRES data

<sup>26</sup> Source: [Ramidus Consulting, London Office Policy Review, June 2017](#)

<sup>27</sup> [Mayor of London. Isle of Dogs and South Poplar Opportunity Area Planning Framework, September 2019](#)

<sup>28</sup> [CAG Consultants. London Employment Sites Database, May 2017](#) ; [Ramidus Consulting, London Office Policy Review, June 2017](#)

<sup>29</sup> Source: GLA Economics analysis of ONS output data

<sup>30</sup> [West End Good Growth: Identifying future growth scenarios for Oxford Street and the West End, 2018](#)

<sup>31</sup> Source: Visit Britain <https://www.visitbritain.org/visitor-economy-facts>

- Centres of medical excellence and life sciences research linked to the Knowledge Quarter<sup>32</sup> around the Euston Road including the University College Hospital, the Wellcome Trust and the Francis Crick Institute (and just outside the CAZ at Whitechapel and White City)
- Academic clusters including for example UCL and the University of London in Fitzrovia, LSE and King's College around Temple, and the Southbank University cluster at the Elephant & Castle
- Legal clusters around Temple, the Royal Courts of Justice and the Inns of Court.

3.4.8 The erosion of capacity in the business, commercial and service use class would undermine the evolution and development of these clusters which require careful management of the balance between the CAZ strategic functions and residential development to ensure their success. In the case of the arts, cultural and creative clusters and activities, the introduction of ad hoc residential development can have significant impacts, particularly on cultural and night-time economic uses. This can result in the curtailment of such activities both directly through the loss of space and indirectly, particularly where residential uses compromise the operation of existing and future cultural activities, some of which operate late into the night and some on a 24-hour basis.

3.4.9 In addition to the specialist clusters there are several **CAZ retail clusters** which are distributed widely across the Zone. The most significant CAZ retail clusters are identified in the CAZ Diagram (see Figure 3.5). Evidence from the 2017 Town Centre Health Check<sup>33</sup> illustrates that the CAZ retail clusters are healthy and include a diverse range of commercial, business and service uses including retail, financial and professional services, cafes and restaurants, offices and night-time economy uses and serve residents, workers and visitors to the CAZ.

3.4.10 Furthermore, there are 12 **Opportunity Areas**<sup>34</sup> lying either wholly or partly within the CAZ (including NIOD). Together these Opportunity Areas contain development capacity for more than 262,000 additional jobs and 91,000 new homes (see Figure 3.6). There is a risk that the new Class E to residential PDR (in the absence of Article 4 Directions) could undo the careful work of years of master-planning and place-making in these Opportunity Areas which have brought forward a mix of both residential and employment in places well-connected to public transport. Offices and other commercial uses

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<sup>32</sup> <https://www.knowledgequarter.london/>

<sup>33</sup> [Mayor of London. 2017 London Town Centre Health Check Analysis Report. January 2018](#)

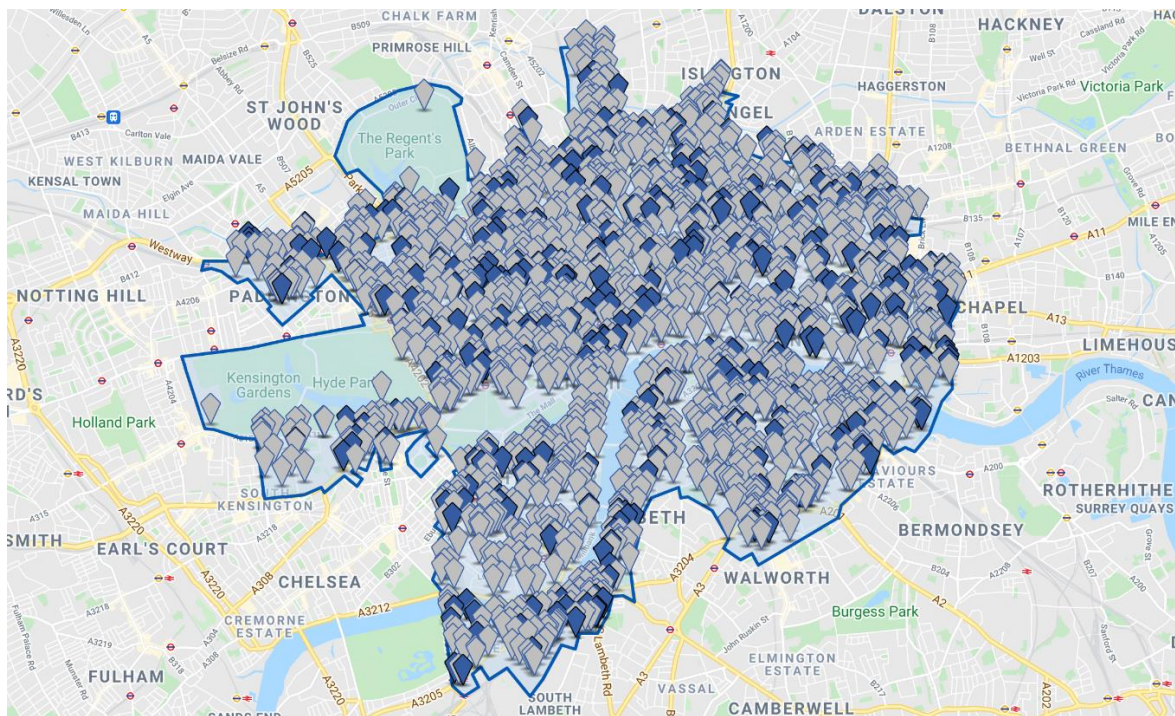
<sup>34</sup> London's principal opportunities for accommodating large scale development to provide substantial new employment and housing with a mixed and intensive use of land and assisted by good public transport accessibility. See 2021 London Plan (Policy SD1).

could be converted to residential use, undermining efforts to create vibrant mixed-use areas with high quality employment opportunities.

3.4.11 Commercial, Service and Business uses in the new E Use Class are distributed widely across the whole of the CAZ (with the exception of the Royal Parks), including areas of the Zone that are predominantly residential in nature such as Pimlico for example. Figure 3.7 provides an illustration of the distribution of commercial uses in the CAZ drawing on evidence from the CoStar commercial database.

3.4.12 In this section the evidence demonstrates that **the CAZ is more than the sum of its parts**. It is the rich mix of strategic and local functions distributed across the entire Zone and the scale and variety of interrelated and overlapping strategic clusters of activity, that make it unique in a London and national context. This strategic evidence supports a CAZ-wide approach to the introduction of Article 4 Directions by the relevant local planning authorities representing the smallest geographical area possible in the terms of national policy.

**Figure 3.7 Distribution of commercial uses in the Central Activities Zone**



Source: CoStar (May 2021). Blue diamonds are commercial properties for sale or to let. Grey diamonds are other commercial properties on the database. Note that this Figure is illustrative and does not show all the commercial properties recorded in the CoStar database.

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## 3.5 Agglomeration benefits

- 3.5.1 The concentration of offices and other types of commercial, business and service uses within the CAZ and NIOD give rise to what are termed economies of agglomeration. Agglomeration refers to the concentration of economic activity in a particular location or area.
- 3.5.2 Agglomeration benefits arise because firms increase their productivity levels by being located in close proximity to one another and by having access to a large pool of labour enabling businesses to attract and retain skilled labour. Clustering and agglomeration offer several other benefits including fostering collaboration and the transfer of knowledge, innovation and technology between business and sectors, and promoting competition which drives efficiency and London's global competitiveness.
- 3.5.3 It is the significant concentration of office-based activities combined with its character and global reputation for business, shopping, culture, tourism and heritage that make the CAZ unique in a London, national and international context. The connectivity of public transport in the CAZ is widespread, high frequency and high capacity. Prior to the coronavirus pandemic, the rail, underground, road, bus, river, walking and cycle networks facilitated around 3.5 million trips to, from and within the central London boroughs on a daily basis. Around 90 per cent of trips to the CAZ in the morning peak were made by public transport modes and rail-based transport accommodated 80 per cent of the 1.2 million trips to the CAZ in the morning peak.<sup>35</sup>
- 3.5.4 Whilst the global pandemic has led to widespread disruption and change to travel in London<sup>36</sup> and there remains uncertainty around the longer-term impacts of the pandemic on travel demand, it is expected that the transport connectivity and capacity provided by the rail network and TfL's tube, rail and DLR services will continue to play a primary role in facilitating employment in all of London's nationally significant office locations. In addition, the bus network plays an essential role in enabling lower income workers living in inner and outer London to access employment in the CAZ in activities which support the wider CAZ ecosystem including the hospitality sector for example.
- 3.5.5 These networks, complemented by active modes including cycling and walking, provide the concentrations of business activity in the CAZ with a huge labour market catchment across London and beyond. They also drive the agglomeration economics that benefit businesses there, allowing them to play a unique economic role within the UK. The connectivity and agglomeration benefits will be strengthened further with new infrastructure

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<sup>35</sup> Mayor of London. Central Activities Zone Supplementary Planning Guidance, March 2016

<sup>36</sup> [Transport for London. Travel in London report 13, 2020](#)

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including, for example, the Elizabeth line, Thameslink Programme, Northern Line Extension and the Underground investment programme.

### **3.6 Contributions to strategic infrastructure**

- 3.6.1 The Mayoral Community Infrastructure Levy (MCIL)<sup>37</sup> applies to CIL liable developments in London granted planning permission on or after 1 April 2012. MCIL raises money towards financing the Elizabeth line (currently being built by Crossrail Ltd) and is collected by the 35 local planning authorities in London on behalf of the Mayor.
- 3.6.2 On 1 April 2019, the Mayor's new charging schedule MCIL2 took effect. MCIL2 superseded MCIL1 and the Crossrail Funding Supplementary Planning Guidance (SPG) and applies to planning permissions granted from 1 April 2019. In addition to the London borough and Mayoral Development Corporation charge bands, there are specific MCIL2 charging rates for office, retail and hotel uses in central London and the Isle of Dogs. It should be noted that MCIL1 and Crossrail section 106 SPG obligations may continue to apply to some phased planning permissions granted before 1 April 2019.
- 3.6.3 Given the scale of office development in the CAZ and NIOD, the introduction of Article 4 Directions to remove Class E to residential permitted development rights in these areas would enable financial contributions towards the delivery of strategic transport infrastructure to be collected through conventional planning approvals. This essential infrastructure will support the agglomeration of business functions in these areas (see section 3.5 above).
- 3.6.4 By contrast, if Class E to residential permitted development were to apply in these areas it could encourage the conversion of commercial, business and service uses to residential rather than their redevelopment for new commercial space and reduce the potential contributions to support strategic infrastructure. This is because the local planning authority cannot secure planning obligations in respect of matters that are not subject of the prior approval process, including affordable housing for example. Also, while permitted development rights provide no exemption from CIL, in most cases the development will satisfy the in-use building test and therefore have a nil CIL liability.

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<sup>37</sup> <https://www.london.gov.uk/what-we-do/planning/implementing-london-plan/mayoral-community-infrastructure-levy#Stub-63731>

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## 3.7 Property market dynamics

- 3.7.1 Spatial planning provides an important mechanism to ensure that there is sufficient office capacity through the existing stock and the planning pipeline to maintain an appropriate level of choice for occupiers in terms of location, type of space and cost. This section of the report provides strategic evidence on property market dynamics in central London (and its sub-markets where data is available) including trends in the stock, rental growth, availability/vacancy and the relationship between development starts and the planning pipeline. Further details on average capital values in different types of commercial property relative to residential are provided in Section 7 of this report.
- 3.7.2 Given the unprecedented uncertainty associated with the impact of the COVID-19 pandemic, care must be taken when interpreting data on property market indicators at the present time. The analysis below is based upon a factual assessment of the available data and is not intended to be an assessment of the impact of the pandemic on the central London office market.
- 3.7.3 **Office Stock:** In 2020, the ten CAZ boroughs combined contained 20.2 million sq.m of office floorspace, which accounts for 77 per cent of the London total and 23 per cent of the total for England and Wales<sup>38</sup>. The stock of offices in the ten CAZ boroughs increased by 14 per cent since 2001 at an average rate of around 125,000 sq.m per annum.
- 3.7.4 **Office rental growth:** Figure 3.8 illustrates the fluctuations in office rental growth in the CAZ and NIOD across business cycles with strong rental growth in the early 'noughties' followed by a sharp downturn in rents following the 2008 global financial crisis. Rents then recovered strongly up to 2017 (notably in the West End and City Core sub-markets) followed by marginal declines in 2018. Since the unprecedented shock of the coronavirus pandemic and the subsequent recession, office rents in central London have declined on average by around 3 per cent between 2020 and 2021 (except for the City Core which CoStar data suggests has declined more modestly). Figure 3.8 illustrates however that in the context of the past two decades the recent decline in rents is not significant, particularly when compared with the aftermath of the 2008 global financial crisis. Recently, central London agents are reporting more positive signs for the central London office market.<sup>39</sup>

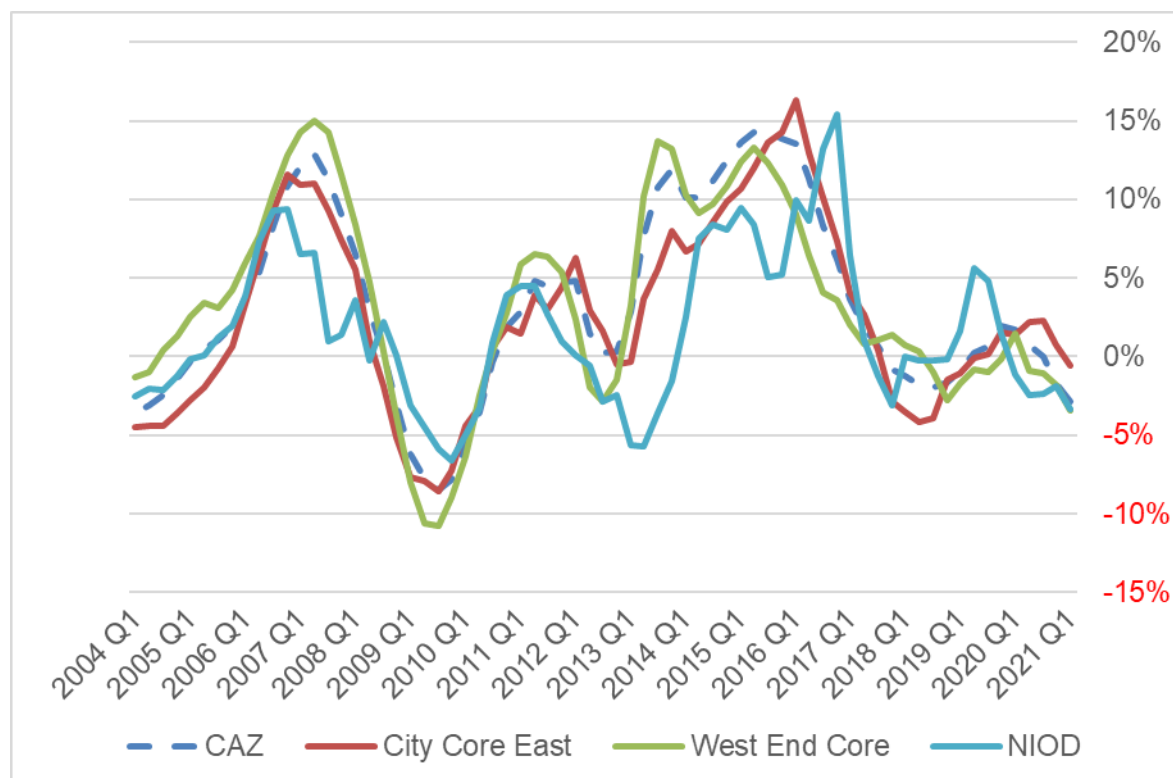
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<sup>38</sup> Source: [VOA Non-domestic rating stock of properties 2020](#)

<sup>39</sup> [Savills. West End investment watch May 2021.pdf](#) ; [Savills. City office market watch April 2021.pdf](#)



**Figure 3.8 Central London rental growth (year-on-year) 2004 – 2021**



Source: CoStar

3.7.5 **Office vacancy:** The planning process provides an important mechanism to ensure that there is sufficient office capacity (through the existing stock and the planning pipeline) to maintain an appropriate level of choice for occupiers in terms of location, type of space and cost. A vacancy rate of around 8 per cent in central London has been identified as an indication of the market being broadly in balance. When vacancy rates rise above 8 per cent it is regarded as offering occupiers a wider choice of accommodation, and a tendency for rents to fall, whereas vacancy rates below 8 per cent reflect a narrowing of choice for occupiers and rents tend to rise.<sup>40</sup>

3.7.6 Figure 3.9 shows the long-run trends in office vacancy rates in central London and selected sub-markets. There is an indication of rising vacancy rates since the onset of the pandemic, but seen in their historical context these rates do not appear excessive and are currently on par with the equilibrium benchmark of 8 per cent. For the CAZ as a whole, the current average vacancy rate of 7.9 per cent (based on CoStar data) is only marginally above the long-term average of 7.1 per cent (2003-2021). In the core West End sub-market vacancy rates have risen from recent lows of 4

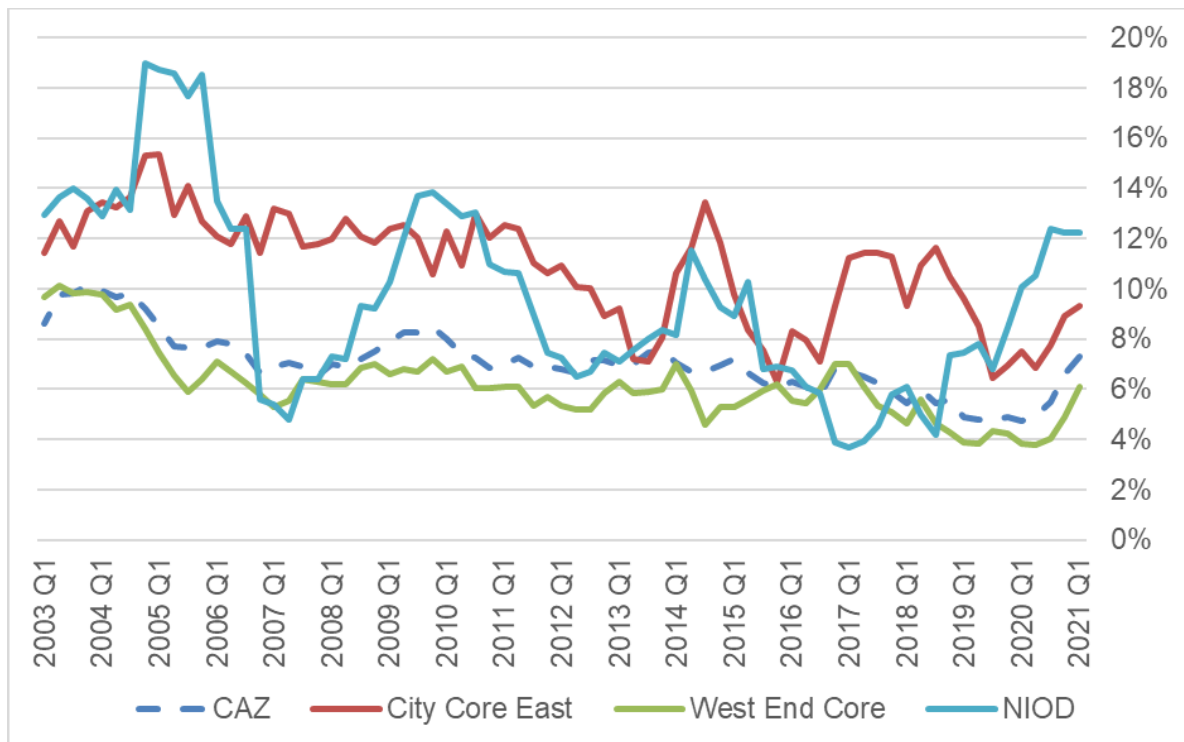
<sup>40</sup> Source: [Ramidus Consulting, London Office Policy Review, June 2017](#)

per cent and remain around the long-run average for this sub-market. In the City Core vacancy rates according to CoStar are around 9 per cent.

3.7.7 Vacancy rates in the NIOD have been fairly volatile, owing in part to the size of individual offices relative to the total stock and due to large amounts of space put back on the market in the wake of the ‘dot-com’ crash in the early 2000s and the Global Financial Crisis in 2008<sup>41</sup>. Illustrative of this volatility, the current (2021) vacancy rate is estimated at around 12 per cent (based on CoStar data), compared to only 4 per cent in 2018. The current NIOD vacancy rate however is lower than peaks witnessed in the past (for example 19 per cent in 2004 and 14 per cent in 2009). Within the NIOD the office vacancy rate for Canary Wharf is estimated at around 9 per cent according to a recent agent report<sup>42</sup> and lower than that suggested by CoStar for the NIOD as a whole. Over the past two decades the NIOD, just like the CAZ itself, has proved resilient and vacancy rates have fallen dramatically from previous peaks as illustrated in Figure 3.9.

3.7.8 As noted above considerable care must be taken when interpreting data on property market indicators including vacancy data at the present time given the unprecedented uncertainty associated with the impact of the pandemic.

**Figure 3.9 Central London office vacancy rates 2003 – 2021**



Source: CoStar

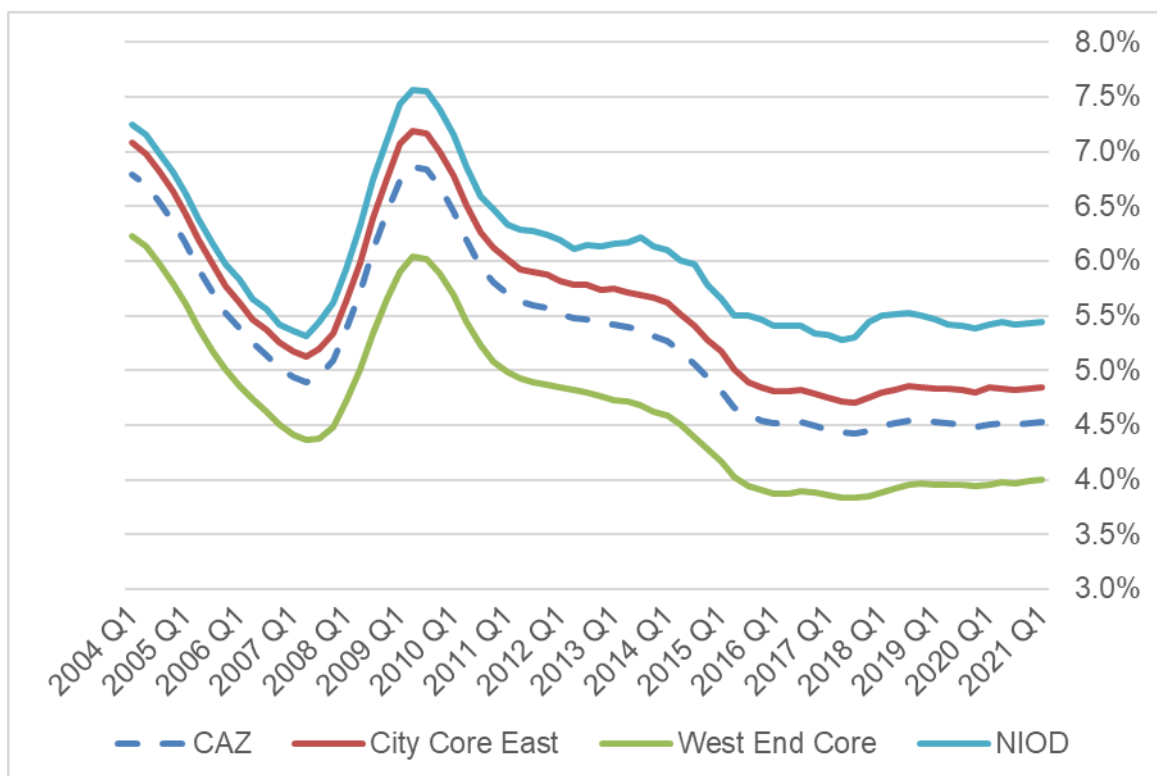
<sup>41</sup> Source: [Ramidus Consulting, London Office Policy Review, June 2017](#)

<sup>42</sup> [Knight Frank. London offices spotlight Q1 2021.pdf](#)

3.7.9 **Office market yields:** Figure 3.10 illustrates office market yields in central London over the period 2004 to 2021. Yields are a measure that reflects the annual rental income compared to the value of a property. Low yields tend to reflect greater investor confidence in an asset. The global financial crisis in 2008 had a marked impact on central London office yields rising from 5 per cent to around 7 per cent on average. Since then, central London office yields have fallen steadily averaging 4.5 per cent in the CAZ (on average) and 5.5 per cent in NIOD.

3.7.10 The West End Core office yield is currently 4 per cent according to CoStar data. It is notable that unlike after the 2008 financial crisis, central London office yields have not increased substantially following the onset of the coronavirus pandemic. There are indications that investor confidence in central London office sub-markets is growing<sup>43</sup> and take-up in the City in the first quarter of 2021 was the highest since the first lockdown in March 2020.<sup>44</sup>

**Figure 3.10 Central London office market yields 2004 – 2021**



Source: CoStar

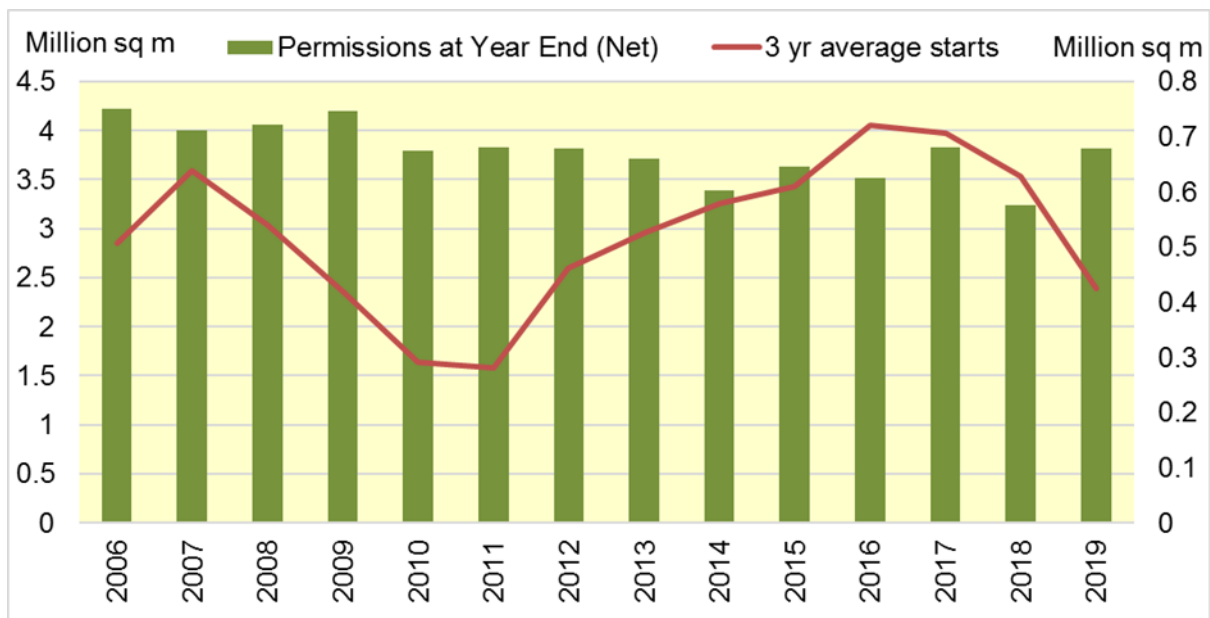
<sup>43</sup> [Savills. West End investment watch May 2021.pdf](#)

<sup>44</sup> [Savills. City office market watch April 2021.pdf](#)

3.7.11 **Office development starts<sup>45</sup> and pipeline<sup>46</sup>**: Figure 3.11 shows the level of starts since just before the global financial crisis, through to 2019. As can be seen, average three year starts fell sharply between 2008 and 2010 following the recession. Starts then lifted again in 2012, rising for four years. Since 2016 the three-year average has been falling and in 2019 it was at its lowest level since 2012. It is anticipated that the figures for starts in 2020 and 2021 will be impacted by the coronavirus pandemic.

3.7.12 Unimplemented office permissions at the end of 2019 totalled 3.8 million sq.m according to the EGi data (compared to 3.2 million sq.m at the end of 2018). The 2019 figure compares to a ten-year average of 3.7 million sq.m and a long run average of 3.5 million sq.m, putting the 2019 figure well above trend.

**Figure 3.11 Comparison of office planning permissions and three-year average starts, central London, 2006-2019\***



Source: Ramidus Consulting, EGi London Offices

\* Planning permissions - left hand axis; 3-year average starts right hand axis

3.7.13 Figure 3.12 illustrates the ratio between unimplemented planning permissions and three-year average starts in central London over the period 2004 to 2019. This ratio been used as a benchmark in London Plan Annual

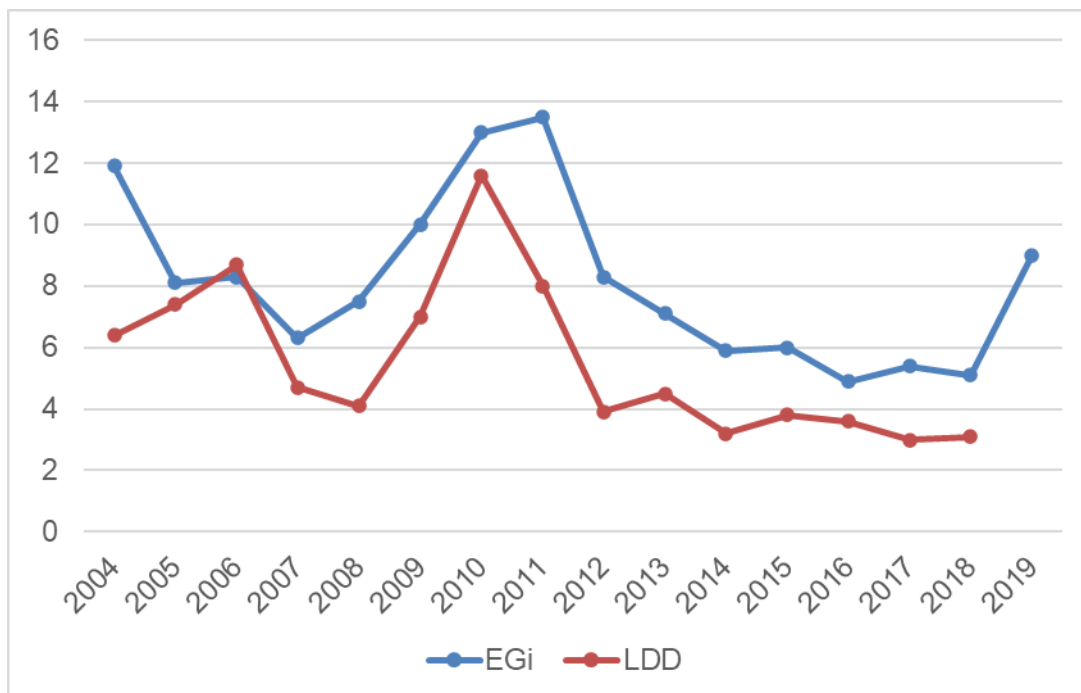
<sup>45</sup> Recorded when the planning permission is implemented and development 'starts' on site

<sup>46</sup> A measure of the stock of office floorspace in planning permissions not 'started'

Monitoring Reports<sup>47</sup> to ensure that there is sufficient development capacity in the office market. According to the EGi data, the ratio of the stock of office planning permissions granted to average three-year starts at end of 2019 rose to 9.1:1. This is the highest ratio since the peak years of 2009 to 2011, when it rose largely in response to the global financial crisis and a large number of scheme starts are assumed to have been delayed. It fell steadily thereafter, until 2019.

3.7.14 In the most recent set of comparable figures for the two databases, for 2018, the ratio of planning permissions to starts was 5.1:1 according to EGi and 3.1:1 according to LDD. These ratios are all above the monitoring benchmark of 3.0:0 indicative of a healthy planning pipeline in relation to average starts.

**Figure 3.12 Ratio of office floorspace planning permissions to three-year average starts in central London, 2004-2019**



Source: Ramidus Consulting, EGi London Offices, London Development Database

### 3.8 Impacts of the pandemic

3.8.1 The CAZ faces a significant challenge as a result of the pandemic and associated lockdown measures, characterised by a reduction in office workers commuting to their usual places of work, a sharp halt to domestic

<sup>47</sup> <https://www.london.gov.uk/what-we-do/planning/implementing-london-plan/monitoring-london-plan>

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and international tourism, and changes to how Londoners spend their leisure time.

- 3.8.2 In November 2020, the GLA appointed Arup, together with Gerald Eve and the London School of Economics, to carry out a piece of research looking at the different economic futures facing the CAZ. The study<sup>48</sup> developed a robust evidence base to help us understand the nature and extent of the medium and long-term economic transformation facing the CAZ and London and a whole.
- 3.8.3 The Interim Report<sup>49</sup>, published in February 2021, shows that the impact of the pandemic has been profound. The hospitality and accommodation sectors in the CAZ and NIOD have been impacted particularly hard by the pandemic and the associated lockdown measures, due to the reduction in the number of daytime office workers alongside the reduction in international and domestic visitors. London's important arts and cultural sectors, including the night-time economy, are particularly at risk. GLA Economics estimate a £10.9 billion loss in tourism expenditure in the CAZ (£3.5 billion domestic and £7.4 billion inbound) and a further £1.9 billion loss in expenditure from commuters to the CAZ (£1.4 billion of this expenditure is from commuters from London and £0.5 billion is from commuters outside of London).<sup>50</sup>
- 3.8.4 To attract domestic visitors to London the Mayor launched a new 'Let's Do London' campaign<sup>51</sup> which brings together the capital's world-leading hospitality, culture, nightlife and retail venues to promote all London has to offer. For overseas tourism the underlying fundamentals of London's attractiveness remain strong and, as coronavirus restrictions on international travel ease, we can expect this source of spend to recover over time.
- 3.8.5 Phase 2 of the CAZ economic futures work built three scenarios to test the scale of the economic impact on the CAZ over the medium and long-term. The Phase 2 report<sup>52</sup> concluded that in the long term, if the right action is taken, central London will be well placed to recover strongly. Its diverse ecosystem with a unique combination of world-leading business, retail, culture, government, education and other anchor institutions will continue to be the beating heart of London's and the UK economy.

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<sup>48</sup> [Central Activities Zone \(CAZ\) Economic Futures Research, 2021](#)

<sup>49</sup> [ARUP, Gerald Eve, LSE. The Economic Future of the Central Activities Zone. Phase 1 Report, February 2021](#)

<sup>50</sup> [GLA Economics. Lost worker vs. tourism expenditure in the Central Activities Zone, October 2020](#)

<sup>51</sup> [Mayor of London announces plans for biggest domestic tourism campaign](#)

<sup>52</sup> [ARUP, Gerald Eve, LSE. The Economic Future of the Central Activities Zone. Phase 2 Report, March 2021](#)

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## 3.9 Potential impacts of permitted development rights

- 3.9.1 In the absence of Article 4 Directions, the new Class E to residential permitted development rights could threaten the future sustainability of the CAZ and NIOD. It would cause unacceptable harm to their role as internationally significant office locations and cause irreparable damage to the contribution of these areas to the London economy and employment and the prosperity of the whole UK nation.
- 3.9.2 Small and Medium-Sized Enterprises (SMEs) play an important role in the CAZ business ecosystem. More than 99 per cent of business units in the Zone are in the SME size band 0 to 249 employees and in the NIOD the corresponding figure is 98 per cent<sup>53</sup>. The new Class E to residential permitted development rights includes a size limit of 1,500 sq.m which at an office employment density ratio of 10 sq.m per worker would equate to 150 employees. From a qualitative perspective, Article 4 Directions in the CAZ and NIOD would be particularly beneficial to safeguard business space and enable SMEs to flourish.
- 3.9.3 The new permitted development rights could also result in significant harm to the West End and other shopping, leisure and tourism destinations across the CAZ through uncoordinated piecemeal conversions of commercial uses to residential and undermine their contribution to the economic and social recovery of London and the UK.
- 3.9.4 In the absence of Article 4 Directions, the new PDR could result in the loss of substantial amounts of commercial floorspace, including in places like the West End and Knightsbridge which contribute significantly to the vitality of central London. While it is recognised that these areas will continue the ongoing shift to more experiential and service-based commercial activities, the new PDR would have the opposite effect, threatening the life-blood of the West End and Knightsbridge and their attractiveness to Londoners and national and international visitors, and undermining their contribution to the economic and social recovery of London and the UK.
- 3.9.5 For central London, the new Class E to residential PDR comes at a time of high risk, given how central London's economy has been severely impacted by the COVID-19 pandemic<sup>54</sup>. While there are emerging trends that could affect the nature of office working and the extent of remote working, as well as broader cyclical and structural shifts in demand for office space as a result of the pandemic, the extent of this and its impact on the need for office space in central London has yet to emerge fully. There are a wide variety of potential scenarios, including situations where office demand remains high,

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<sup>53</sup> [GLA Economics. Working Paper 68: Work and life in the Central Activities Zone, the Northern Isle of Dogs and their fringes, GLA 2015](#)

<sup>54</sup> [The economic future of the Central Activities Zone \(CAZ\), Arup/Gerald Eve/LSE, 2021](#)

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supported by a strong economic recovery and growth in emerging office-based sectors.

- 3.9.6 Central London has the highest residential property prices in the country<sup>55</sup>. The strategic evidence indicates that average capital values for residential use in the CAZ exceed average values for offices and other commercial uses (see Section 7 of this report). While there may be some limited localised exceptions where the opposite is the case, there is a degree of volatility in office rental values over time, illustrated earlier in Figure 3.8. It is likely therefore, that at different points on the business cycle, residential values could exceed office values in all areas of the CAZ within the foreseeable future.

### **3.10 Conclusions**

- 3.10.1 The CAZ is the vibrant heart and globally-iconic core of London and, together with the NIOD, makes a hugely significant contribution to the London economy and the UK economy. Its rich mix of world-class business, culture, night-time economy, tourism, shopping and heritage make it unique in both a London and national context. It requires different or tailored approaches to the application of national policy – including permitted development rights - to address its distinct circumstances.
- 3.10.2 It is vital that the strategic contributions made by the CAZ and NIOD to the economy, culture and identity of the capital are safeguarded. The success of the Zone is derived from a carefully balanced mix of commercial, cultural and residential uses. This requires the right planning context and careful land use management which is best undertaken collectively by the local planning authorities, the Mayor, Business Improvement Districts, landowners and other stakeholders.
- 3.10.3 London has a reputation as a global innovation hub. The emerging office sectors represented in the CAZ including tech, science, media, architecture, creative, communications and marketing were the fastest growing before the pandemic, and are well-placed to drive the recovery. The CAZ Economic Futures work, commissioned by the Mayor, concluded that in the long term, if the right action is taken, central London will be well placed to recover strongly.
- 3.10.4 The evidence presented here in this report supports the introduction of Article 4 Directions to remove Class E to residential permitted development

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<sup>55</sup> In England and Wales, seven of the top ten local authorities with the highest median house prices are wholly or partly within the Central Activities Zone (CAZ). All boroughs that are wholly or partly within the CAZ are in the top 17 local authorities with the highest median house prices.

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/medianhousepricefornationalandsubnationalgeographiesquarterlyrollingyearhpssadataset09>



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rights across the whole of the CAZ and NIOD (excluding the Royal Parks), being the smallest geographical area possible to avoid wholly unacceptable impacts in the terms of national policy. This is critical to enable the CAZ and NIOD to flourish and to contribute to the recovery and the continued prosperity of the nation as a whole.

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## 4. Strategically significant office locations beyond the CAZ

### 4.1 Introduction

4.1.1 Beyond the CAZ and NIOD the London Plan recognises other strategically significant office locations in the capital including:

- Tech City and the Royal Borough of Kensington & Chelsea
- Town centre office locations
- Urban business parks in outer London.

4.1.2 These office locations complement the CAZ and NIOD and cumulatively are of strategic importance to London. Locally they provide an important source of employment and economic activity and contribute to the vibrancy and weekday spend of the town centres and high streets with which they are associated.

### 4.2 Tech City and the Royal Borough of Kensington & Chelsea

4.2.1 Tech City and the Royal Borough of Kensington & Chelsea – which both lie partly within, and partly beyond the CAZ – are recognised in the London Plan as nationally significant office locations<sup>56</sup> (see Figure 4.1). Government granted an exemption for these areas (along with the CAZ and NIOD) from office to residential PDR in 2013 and in May 2019 the relevant boroughs introduced Article 4 Directions when the exemptions expired.

#### Tech City

4.2.2 Tech City is recognised as a digital, creative and tech cluster and a business hub of major international significance. It is strategically important to the economy of London and the UK and contains an agglomeration of business functions and commercial development capacity in relatively central areas.

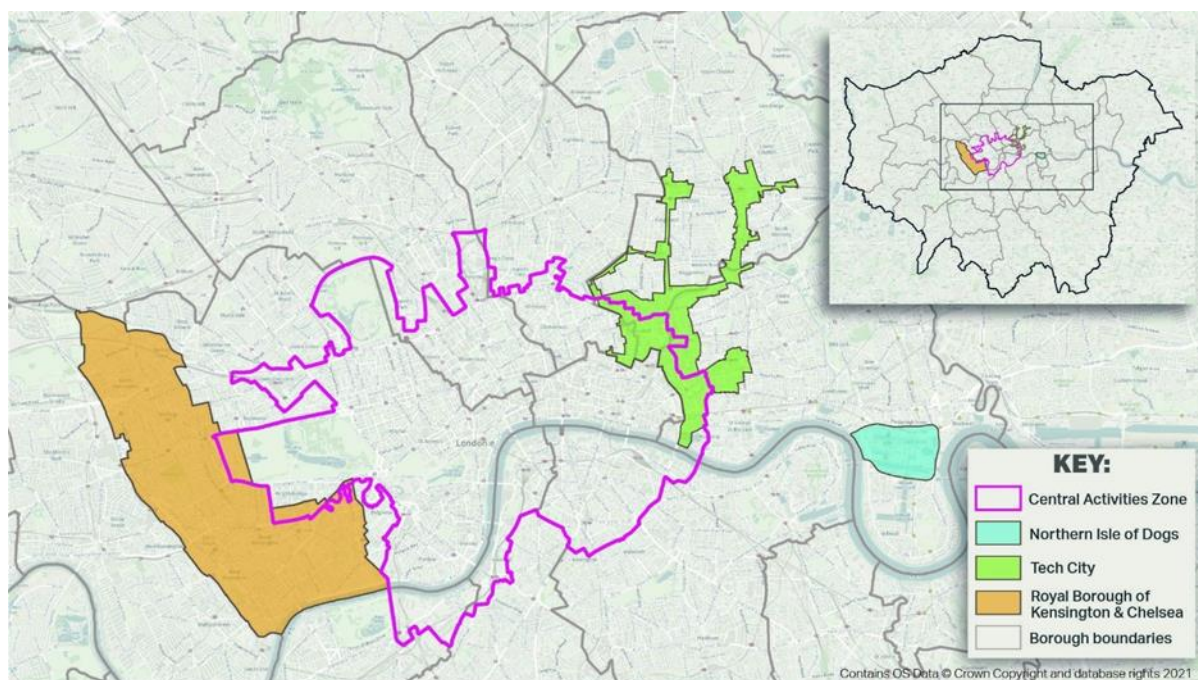
4.2.3 The area lies within the London boroughs of Hackney, Islington and Tower Hamlets and it comprises the core economic clusters within the wider City Fringe/Tech City Opportunity Area<sup>57</sup>. Parts of the area lie within the CAZ and it includes development corridors extending from the Old Street ‘Silicon Roundabout’ and Shoreditch to Whitechapel, Hackney Central and Dalston. Within Tech City there is scope to support the expansion of diverse clusters of digital-creative businesses in the area as well as business and professional services.

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<sup>56</sup> [Mayor of London. The London Plan 2021, March 2021](#) Policy E1 C

<sup>57</sup> [Mayor of London. City Fringe Opportunity Area Planning Framework, 2015](#)

Figure 4.1 London's nationally significant office locations<sup>58</sup>



Source: GLA

4.2.4 The City Fringe, of which Tech City is part, is among London's most significant areas for economic growth, whilst also containing some of the capital's most deprived neighbourhoods. The unique function and importance of Tech City for London's economic growth has been recognised for many years, including by different Mayors. The current Prime Minister, Boris Johnson, whilst serving as the Mayor of London, stated in 2015:

“The growth of Tech City represents a massive opportunity for London to consolidate its position as the unchallenged tech capital of Europe, whilst fuelling a growth engine that can drive regeneration in East London.”<sup>59</sup>

4.2.5 Since then, Tech City has continued to play an important economic role for the capital. The area contributed almost £15 billion to London's GVA output in 2019<sup>60</sup>. The Tech City area is estimated to contain more than 190,000 workforce jobs in 2019, approximately 25 per cent of total employment in the three boroughs.<sup>61</sup> In the City Fringe/Tech City Opportunity Area there is estimated capacity for an additional 50,000 jobs over the period 2016 to

<sup>58</sup> Illustration and boundaries are indicative

<sup>59</sup> [Mayor of London. City Fringe Opportunity Area Planning Framework, 2015](#) (Mayor's Foreword)

<sup>60</sup> Source: GLA Economics analysis of 2019 ONS output data

<sup>61</sup> Source: GLA Economics analysis of 2019 BRES data

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2041. Class E to residential PDR could temper the realisation of this potential growth in employment.

4.2.6 The area is increasingly the home of new and emerging sectors of the economy with particular clustering and accommodation requirements, including co-working, start-up and grow-on space, artist studio space and corporate office space. The Opportunity Area Planning Framework set out the key growth conditions that planning can affect in Tech City and the City Fringe including its:

- available, affordable, suitable business floorspace
- location and “creative vibe”
- dense, urban, collaborative environment
- connectivity
- mix of uses.

4.2.7 The availability of plentiful and relatively low-cost business space associated with the industrial legacy of the City Fringe has been one of the most significant factors in the rise of Tech City. Many of the old warehouses and printworks have now either been redeveloped or refurbished and competition for leases is increasing, as the core office market expands and more “traditional” City businesses look to locate in the area.

4.2.8 Furthermore, the increasing attractiveness of the City Fringe and the arrival of Crossrail mean that higher value residential can often outbid and displace lower value office and light industrial uses when new sites become available. Over time unfettered Class E to residential permitted development rights could contribute to the weakening and dissipation of the digital-creative cluster. This would be detrimental to London’s wider knowledge economy and the ambition to support a world leading digital creative business hub based around Tech City.

4.2.9 In conclusion, the introduction of Article 4 Directions for the Tech City area will continue to support the growth and expansion of this vital business and creative cluster and will help to ensure that sufficient commercial development capacity is provided to accommodate growth in employment and support the wider regeneration of the City Fringe Opportunity Area.

#### The Royal Borough of Kensington & Chelsea

4.2.10 Kensington & Chelsea (see Figure 4.1) contains a vibrant mix of business clusters which in 2019 contributed more than £10 billion to London’s economic output in 2019.<sup>62</sup> In recognition of its strategic contribution to

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<sup>62</sup> Source: GLA Economics analysis of ONS output data

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London's nationally significant office locations, government granted an exemption to office to residential PDR for the whole area in 2013.

- 4.2.11 In 2020 the borough is estimated to contain 457,000 sqm of office floorspace and 659,000 sq.m of retail and related food and beverage floorspace,<sup>63</sup> distributed in clusters across the area with particular concentrations in and around Knightsbridge, the King's Road and in other town centre locations. In Kensington & Chelsea - of which a small part lies within CAZ - employment is projected to grow by 18,000 over the period 2016-2041 or 12 per cent,<sup>64</sup> of which around 9,000 jobs are expected in offices.<sup>65</sup>
- 4.2.12 Residential values in the Royal Borough of Kensington & Chelsea are among the highest in London. In the 15 months to March 2021, the average new build residential value in the borough was more than £2,100 per square foot, second only to the City of Westminster (which averaged £2,400 per square foot) and significantly higher than the London average (£863 per square foot).<sup>66</sup> This makes existing viable commercial space in the borough particularly vulnerable to commercial to residential PDR.
- 4.2.13 The introduction of Article 4 Directions in Kensington & Chelsea will continue to support its vibrant mix of business clusters and their contribution to the national and London economy.

### 4.3 Town centre office locations

- 4.3.1 The London Plan identifies strategically significant office locations which are found in town centres beyond the CAZ and NIOD (see Figure 4.2). The Plan recommends specific approaches to offices in these locations informed by the London Office Policy Review<sup>67</sup> and borough evidence.
- 4.3.2 Town centres categorised 'A' in the London Plan (see Figure 4.2) are those centres considered to have the capacity, demand and viability to accommodate new speculative office development. Centres in this category include **Stratford, Old Oak, Croydon, Hammersmith, Chiswick, Uxbridge** and **Wimbledon**.
- 4.3.3 **Ealing, Richmond, Shepherd's Bush, Hounslow, Brentford, Angel** and the **Elephant & Castle** are also recognised as being centres with capacity, demand and viability to accommodate new speculative office development

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<sup>63</sup> Source: [VOA Non-domestic rating stock of properties 2020](#)

<sup>64</sup> Source: [GLA Economics, London long term labour market projections, 2017](#)

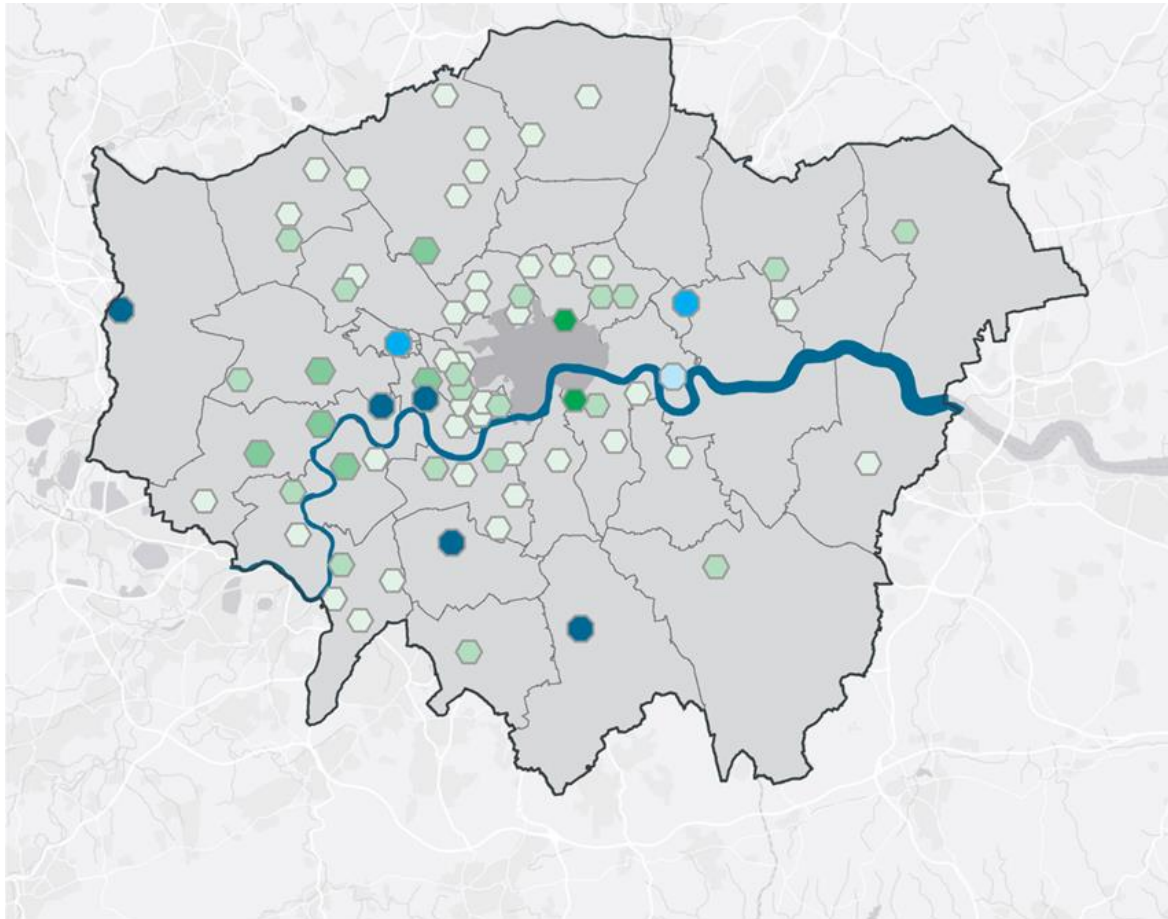
<sup>65</sup> Source: [Ramidus Consulting, London Office Policy Review, June 2017](#)

<sup>66</sup> Moliur London. Residential Development Research. Quarterly Analysis, April 2021

<sup>67</sup> [Ramidus Consulting, London Office Policy Review, June 2017](#) op cit

and as part of mixed-use development (categorised as 'A/B' in the London Plan – see Figure 4.2).

**Figure 4.2 Strategically significant town centre office locations in London**



**Town Centre Network  
Office Guidelines**

- |  |                           |  |     |
|--|---------------------------|--|-----|
|  | A/ CAZ Satellite          |  | B   |
|  | A/potential CAZ satellite |  | C   |
|  | A                         |  | CAZ |
|  | A/B and part CAZ          |  |     |
|  | A/B                       |  |     |

Source: GLA Planning

Contains OS data ©  
Crown copyright and  
database right (2017)

A: Centres with speculative office development potential

B: Centres with mixed-use office development potential

C: Centres with demand for existing office functions and need to protect small office capacity

- 
- 4.3.4 **Stratford** and **Old Oak** are also recognised in the London Plan as a CAZ office ‘satellites’ with capacity to accommodate CAZ-related office functions. Stratford is an emerging office centre with an estimated inventory of around 250,000 sq.m of office floorspace.<sup>68</sup> It already shares the hyperconnectivity of the CAZ and this will be enhanced further when Crossrail is fully operational. Old Oak is set to be transformed by the late 2020s with the opening of Old Oak Common Station, which will connect the Elizabeth line and National Rail services to the newly built High Speed 2 line. A Local Plan has been published<sup>69</sup> which recognises the huge regeneration potential of the area and sets out a clear strategy for how redevelopment should help to optimise economic growth and regeneration potential, create a new town centre and bring tangible benefits for local communities and Londoners.
- 4.3.5 **Croydon** is identified in the London Plan as a strategic outer London office centre in recognition of the scale of its office function (estimated to be in the region of half a million square metres<sup>70</sup>) and its excellent public transport connectivity. London Trams has transformed travel opportunities in the area and provides the potential for further growth in homes and jobs. The centre has been undergoing a transformation supported by improvements to the quality of the public realm and its attractiveness as an office location is reflected in year-on-year growth in average office rents in recent years from around £13 per square foot in 2013 to £27 per square foot in 2019.<sup>71</sup> More recent evidence suggests that prime rents in Croydon reached £35 per square foot in 2020.<sup>72</sup> Vacancy rates had also fallen significantly over this period from around 18 per cent in 2013 to less than 5 per cent in 2019.<sup>73</sup> The potential development pipeline of more than 130,000 sq.m is also a healthy indication of the centre’s prospects.<sup>74</sup>
- 4.3.6 The London Plan also categorises strategic town centre office locations with the capacity, demand and viability to accommodate new office development, generally as part of mixed-use developments including residential use (Category ‘B’ in Figure 4.2) and town centres where it is particularly important to protect small office capacity (Category ‘C’ in Figure 4.2) where there is demand for existing office functions, generally within smaller units.<sup>75</sup>

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<sup>68</sup> Source: CoStar database (0.4 mile radius from Stratford rail/underground station)

<sup>69</sup> [OPDC Local Plan. Second Revised Draft for Regulation 19 \(2\) Consultation, 2018](#)

<sup>70</sup> Source: Estimate based on [VOA Non-domestic rating stock of properties 2020](#) and [Mayor of London. 2017 London Town Centre Health Check Analysis Report. January 2018](#)

<sup>71</sup> Source: CoStar database

<sup>72</sup> [Avison Young. South East Offices Q3 2020](#)

<sup>73</sup> Source: CoStar database

<sup>74</sup> [Knight Frank. The next chapter 2021-the M25 and south east office market report, 2021](#)

<sup>75</sup> See Annex 1, Table A1.1 of [The London Plan 2021](#) for a list of these centres

4.3.7 Understandably, as with the CAZ and NIOD, the coronavirus pandemic and associated lockdowns have affected the outer London office market but it remains too soon to appreciate the impacts fully. Recent evidence from agents illustrates the continued strengths of strategic office locations beyond the CAZ and NIOD, notwithstanding the impacts of the pandemic, with prime rents in several centres exceeding £24 per square foot in the third quarter of 2020 and several locations exceeding £40 per square foot (see Table 4.3). Agents are reporting a pick-up in enquiries with demand in the market returning quicker than may have been anticipated at the height of the first lockdown.<sup>76</sup> Agents also report that that investor confidence in the longer-term prospects for the market remained robust.<sup>77</sup>

**Figure 4.3 Prime office rents in selected strategic office centres outside the CAZ and NIOD, Q3 2020**

| Office location | Prime office rent<br>£ per square foot | Office location | Prime office rent<br>£ per square foot |
|-----------------|--|-----------------|--|
| Hammersmith     | 58                                     | Uxbridge        | 35                                     |
| Wimbledon       | 54                                     | Croydon         | 35                                     |
| Chiswick        | 54                                     | Brentford       | 28                                     |
| Richmond        | 52.50                                  | Bromley         | 24                                     |
| Ealing          | 45                                     |                 |  |

Source: Avison Young

4.3.8 London is a global innovation hub and strategic office centres beyond the CAZ and NIOD may also emerge strongly, if afforded the opportunity to do so. Taking into account factors important for innovation including the infrastructure, quality of life and the strength of the grassroots, entrepreneurial community, Knight Frank have identified Richmond, Uxbridge, Kingston and Twickenham as among the top-15 innovation-led locations in the M25 and South East property market area, with Bromley and Brentford highlighted as ‘up and coming centres’.<sup>78</sup>

4.3.9 It is anticipated that further evidence associated with the strategically important town centre office locations in London will be available in due course through the 2021 London Town Centre Health Check.

<sup>76</sup> [Savills. Market in Minutes: Greater London & South East Offices, November 2020](#)

<sup>77</sup> [Avison Young. South East Offices Q3 2020](#)

<sup>78</sup> [Knight Frank. The next chapter 2021-the M25 and south east office market report, 2021](#)



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## 4.4 Urban business parks in outer London

- 4.4.1 London also contains several strategic office clusters located in urban business parks outside of town centres such as Chiswick Park, Stockley Park and Bedfont Lakes for example. Chiswick Park prime office rents have been reported recently at well in excess of £50 per square foot and business parks in the vicinity of Heathrow were averaging £35 per square foot.<sup>79</sup>
- 4.4.2 The London Plan recognises the role that these locations play in contributing to the economy and employment in outer London whilst ensuring that steps are taken towards greater transport sustainability of these locations. As with town centre strategic office locations, the contribution of these outer London business parks to London's economy and employment could be significantly reduced by Class E to residential permitted development rights.

## 4.5 Conclusions

- 4.5.1 London contains several strategic office locations which complement the CAZ and NIOD. Some of these locations have been identified as nationally significant, including Tech City and the Royal Borough of Kensington & Chelsea, and others are strategically important to the London economy and its contribution to the UK economy. Locally they provide an important source of employment and economic activity and contribute to the vibrancy and weekday spend of the town centres and high streets with which they are associated.
- 4.5.2 New Class E to residential permitted development rights could threaten the vibrancy and economic contribution of these locations to the London and UK economy and to the local economies in which they are situated and lead to significant missed opportunities for growth. The Mayor supports Article 4 Directions to remove Class E to residential permitted development rights to safeguard the strategic office functions associated with these locations. These should be targeted accordingly drawing on more detailed local evidence. Where relevant, Article 4 Directions for these areas should also have regard to the wider potential impacts of Class E to residential PDR on the vibrancy of town centres of which they are part (see Section 5 of this report).

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<sup>79</sup> [Avison Young. South East Offices Q3 2020](#)

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## 5. Town centres and high streets

### 5.1 Introduction

- 5.1.1 Town centres and high streets are at the heart of local communities, providing access to a range of shops and services, employment opportunities, culture and social contact, and information and support. Some town centres have specialist functions and play international, national and regional roles, whilst others perform local roles, meeting the day to day needs of Londoners. Over the years, town centres have absorbed change and new technologies. To continue to thrive they will need to evolve and diversify their commercial, cultural and community functions in response to current and future economic trends, technological advances, consumer behaviours, and the development of the 24-hour city.
- 5.1.2 The COVID-19 pandemic has had a significant economic and social impact on London's town centres and high streets. The GLA and London Councils have recognised this, making high streets the focal point for recovery planning. Article 4 Directions to remove the new Class E to residential PDR would aid recovery efforts and help maintain London's vibrant town centres and high streets.
- 5.1.3 This section of the report sets out the strategic importance of town centres and high streets in London and contextual evidence to support the introduction of Article 4 Directions to remove Class E to residential PDR in appropriate circumstances.

### 5.2 Strategic importance of town centres and high streets in London

- 5.2.1 The London Plan promotes **town centres**<sup>80</sup> as strong, resilient, accessible and inclusive hubs with a diverse range of uses that meet the needs of Londoners, including main town centre uses, night-time economy, civic, community and social infrastructure and appropriately planned residential uses. It seeks to strengthen their role as an important focus for Londoners' sense of place and local identity in the capital and it promotes their adaptation and diversification supported by ambitious and innovative strategies at the local level.
- 5.2.2 The Plan also recognises the importance of London's **high streets** as one of London's most characteristic urban features which play an important role in terms of local economic and social infrastructure, providing employment

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<sup>80</sup> See [The London Plan 2021, March 2021](#) Policies SD6-SD9

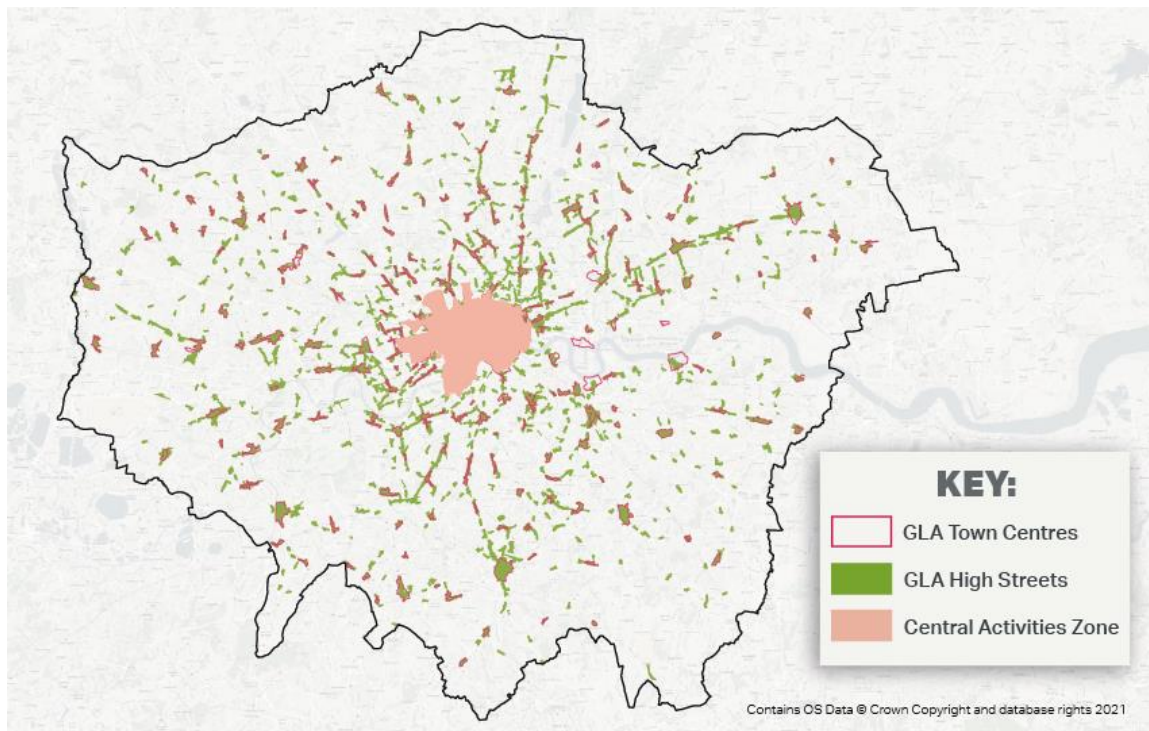
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opportunities and promoting community and cultural exchange. In London, high streets are defined as:

“...complex and dynamic mixed-use urban corridors [which] ensure easy pedestrian access to everyday goods and services, places of work and leisure. They are typically characterised by a variety of premises that accommodate non-residential uses to support the wider neighbourhood.”<sup>81</sup>

5.2.3 High Streets play an important role in civic and community life and are vital for London’s economic success. They are linked to and sometimes synonymous with town centres. The GLA has identified more than 600 high streets in London (see Figure 5.1). Many high streets extend beyond the town centres identified in the London Plan and several are closely linked to Neighbourhood and Local centres defined in borough Local Plans.

**Figure 5.1 London’s town centres and high streets**



5.2.4 It is estimated that 90 per cent of London’s population live within a ten-minute walk of a town centre or high street.<sup>82</sup> Almost half of all businesses outside central London are on a high street and 1.45 million employees work on or within 200 metres of a high street.<sup>83</sup> Research shows how much

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<sup>81</sup> [Mayor of London. High Streets and Town Centres Adaptive Strategies, January 2019](#)

<sup>82</sup> [We Made That, LSE Cities. High Streets for All, September 2017](#) and [High streets and town centres in the context of COVID-19](#)

<sup>83</sup> [We Made That, LSE Cities. High Streets for All, September 2017](#)

Londoners value them as places to meet, socialise, access services, shop, work and live.<sup>84</sup> These vital public places boost wellbeing and benefit many different communities, making them some of London’s most important spaces.

### 5.3 Strategic evidence – supply, demand and vacancy trends

#### Supply-side trends

- 5.3.1 A diverse range of commercial, business and service uses is fundamental to town centre and high street vitality. In contrast to wider concerns about the decline of high streets nationally, the total number of retail and leisure outlets in London’s town centres and high streets increased by 0.1 per cent and 0.5 per cent respectively over the period 2015 to 2019<sup>85</sup> (see Figure 5.2).
- 5.3.2 The overall growth in town centre and high street outlets was driven mainly by growth in service retail, leisure and convenience outlets. By contrast, comparison goods retail shops are showing signs of gradual decline in town centres and high streets by around 1 per cent per annum between 2015 and 2019. It is likely that the growth in e-commerce has been a key factor behind these trends. The decline is not universal across all categories of comparison goods however, and some categories of shop which have previously faced decline in numbers such as books and music shops have stabilised over the same period.<sup>86</sup>

**Figure 5.2 Annual growth rate of shops 2015-19 by category of shop**

|              | Convenience retail | Comparison retail | Service retail | All retail | Leisure | All retail & leisure outlets |
|--------------|--------------------|-------------------|----------------|------------|---------|------------------------------|
| London       | 1.1%               | -0.2%             | 2.2%           | 0.9%       | 1.7%    | <b>1.1%</b>                  |
| Town centres | 0.3%               | -1.2%             | 1.0%           | -0.2%      | 0.9%    | <b>0.1%</b>                  |
| High Streets | 0.4%               | -1.0%             | 1.5%           | 0.3%       | 1.2%    | <b>0.5%</b>                  |

Source: GLA Economics analysis of Local Data Company data

- 5.3.3 Leisure activities are increasingly being favoured by households and leisure outlets have been growing at a faster rate in the capital than retail shops, at 1.7 per cent a year between 2015 and 2019. Leisure outlets<sup>87</sup> are growing

<sup>84</sup> [We Made That, LSE Cities. High Streets for All, September 2017](#)

<sup>85</sup> [GLA Economics. The retail sector in London and impact of coronavirus trends, March 2021](#)

<sup>86</sup> GLA Economics, March 2021 op cit

<sup>87</sup> Leisure outlets include uses such as cafes, restaurants, pubs, hot food takeaways, leisure attractions and hotels.

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faster than retail shops in both town centre and high street areas – a sign of the adaptation, diversification and resilience of these locations in London.

- 5.3.4 Offices and light industrial uses in Class E also contribute to the range of uses in town centres and high streets alongside retail and leisure uses. Offices can make up a significant proportion of total commercial floorspace in town centres some of which are identified as strategically significant office locations in the London Plan (see Section 4 of this report). Other town centres and high streets in London support local office-related functions, making an important contribution to the vitality and viability of these centres, providing a source of local employment and contributing to footfall and spend during the day and into the evening. As noted in previously in this report, while there are emerging trends that could affect the nature of office working and the extent of remote working, the extent of this and its impact on the need for office space has yet to emerge fully.

#### Demand-side trends

- 5.3.5 On the demand side, significant growth in London's population coupled with high levels of employment have driven strong growth in overall consumer expenditure by Londoners.<sup>88</sup> Retail goods output is growing at a faster rate in London (by 3.7 per cent a year between 2010 and 2018) than it is nationally (2.2 per cent per annum). Around a third (34 per cent) of consumer expenditure by Londoners is on commodities which correspond broadly to the retail sector and almost a quarter (23 per cent) is on leisure activities.<sup>89</sup> London is also witnessing an increased share of consumer expenditure on leisure activities (several of which fall within Use Class E), alongside increased retail spending. Mirroring the supply-side trends this is an important factor in explaining the resilience of London's town centres and high streets and their adaptation and diversification towards experiential and leisure uses. Trips to essential shops and amenities are the most common reason to visit the high street and the majority of shopping and personal business trips have a journey time of under 15 minutes.<sup>90</sup>
- 5.3.6 Prior to the pandemic approximately 20 per cent of spend on comparison goods retail in London was from international tourists, domestic tourists and day-time commuters from outside London and all of these sources of spend are projected to grow strongly (around 4 per cent per annum for international

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<sup>88</sup> [Experian Business Strategies. Consumer Expenditure and Comparison Goods Floorspace Need in London, October 2017](#)

<sup>89</sup> Source: [GLA Economics analysis](#) of ONS Family Spending

<sup>90</sup> GLA Economics, March 2021 op cit, Figure 4.8, based on TfL analysis of the London Travel Demand Survey

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tourist spend, 3 per cent per annum for domestic tourist spend and 2 per cent per annum for commuter spend).<sup>91</sup>

- 5.3.7 Whilst the pandemic has had an immediate impact on spend from these sources in London's town centres and high streets in 2020 and in 2021, they are anticipated to recover from the lows of 2020 as lockdown measures ease. To attract domestic visitors to London the Mayor launched a new 'Let's Do London' campaign<sup>92</sup> which brings together the capital's world-leading hospitality, culture, nightlife and retail venues to promote all London has to offer. As noted in Section 3, for overseas tourism, the underlying fundamentals of London's attractiveness remain strong and, as coronavirus restrictions on international travel ease, we can expect this source of spend to recover over time.
- 5.3.8 E-commerce is broadly based and expanding and it remains both a challenge and an opportunity for London's town centres and high streets. The growth in households in Britain with internet access has risen steadily over the last 20 years and growth is now easing off as over 90 per cent of households have access.<sup>93</sup> Prior to the onset of the coronavirus pandemic the proportion of retail goods sales via the internet had been rising steadily and was averaging over 19 per cent of sales in 2019.<sup>94</sup>
- 5.3.9 During the pandemic, retail sales via the internet as a proportion of all retail sales reached highs of 36 per cent in November 2020 (attributed in part to the coronavirus restrictions at the time and in part to the annual 'pre-Christmas' spike in internet sales) and it reached a similar figure in January 2021 (following full lockdown measures introduced from December) before falling back to 29 per cent in April as lockdown measures eased. The rising overall trend in the proportion of sales via the internet remains an ongoing risk to high streets and town centres but many retailers have either established or strengthened their internet presence to complement their physical stores and drive overall sales. This is helping to support the ongoing viability of high street outlets.

#### Vacancy rate trends

- 5.3.10 Vacancy rates in London's town centres and high streets are typically well below those experienced in other parts of the country. To provide some perspective, in 2019 the London shop vacancy rate was 9.0 per cent, which is more than three percentage points lower than the rate for Britain (12.1 per

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<sup>91</sup> Long-term projections 2015-2041, source: [Experian Business Strategies. Consumer Expenditure and Comparison Goods Floorspace Need in London, October 2017](#)

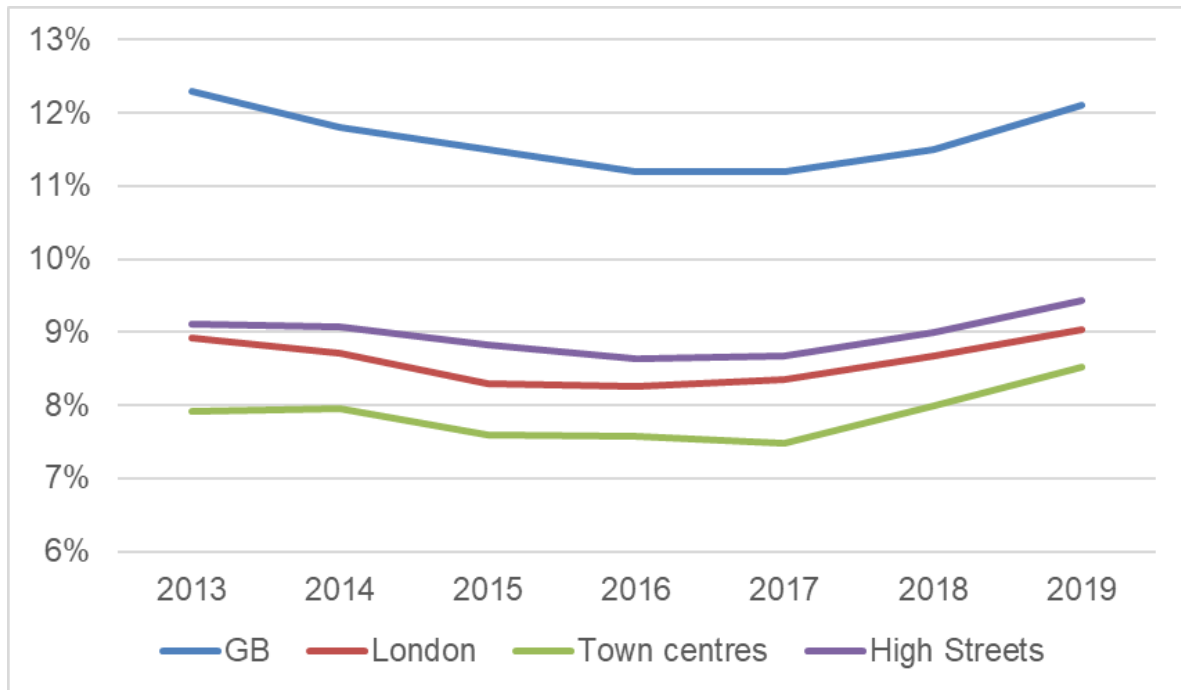
<sup>92</sup> [Mayor of London announces plans for biggest domestic tourism campaign](#)

<sup>93</sup> Source: [GLA Economics analysis](#) of ONS internet access – households and individuals

<sup>94</sup> Source: ONS. Retail sales index internet sales (Released 21 May 2021)

cent)<sup>95</sup> (see Figure 5.3). The average vacancy rates for town centres and high streets were 8.5 per cent and 9.4 per cent respectively which translates to 3.6 and 2.7 percentage points lower (respectively) than the average vacancy rate for Britain.

**Figure 5.3 Shop vacancy rates in London’s Town Centres and High Streets compared to the London and Great Britain average 2013-2019**



Source: GLA Economics analysis of Local Data Company data

- 5.3.11 Recent data from the Local Data Company<sup>96</sup> suggests that average shop vacancy rates in London increased from 9 per cent in the first half of 2020 to 10 per cent in the second half of 2020 - largely attributed to the pandemic and associated lockdowns - but these vacancy rates for London remain well below the national average (which was over 13 per cent in the second half of 2020) and lower than in any other region of the UK.
- 5.3.12 The 2017 London Town Centre Health Check<sup>97</sup> provides vacancy data for individual town centres in London and it is anticipated that further data will be available in due course as part of the GLA’s next London Town Centre Health Check.

<sup>95</sup> [GLA Economics. The retail sector in London and impact of coronavirus trends, March 2021](#)

<sup>96</sup> Source: Local Data Company. 23rd Retail and Leisure Trends Summit, 24 March 2021

<sup>97</sup> [London Datastore: London Town Centre Health Check 2017 - Technical Annex](#)

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## 5.4 Recovery from the impacts of the pandemic

- 5.4.1 Economic restructuring brought about by shifts in consumer behaviour and related property investment models have been accelerated by the COVID-19 pandemic. In response, leaders from across London's government, business and civil society, as well as the health and education sectors, trade unions and the police, have come together to oversee the long-term recovery effort to help shape an inclusive approach to the recovery and renewal of town centres and high streets in the capital.<sup>98</sup>
- 5.4.2 Town centres and high streets are at the heart of one of the nine 'missions' that comprise the London Recovery Programme, designed to address the economic, social and health impacts of the pandemic, to restore confidence in the city, minimise the impact on the most vulnerable communities and rebuild the city's economy and society.<sup>99</sup>
- 5.4.3 The High Streets for All mission sets out a clear intent to work with London's diverse communities to establish new, innovative and experimental uses across London's high streets and public spaces (see Figure 5.4). The programme seeks to create thriving, inclusive and resilient high streets and town centres, within easy reach of all Londoners. It aims to bring vacant and underused buildings into productive use, promoting local employment and near home working.
- 5.4.4 The GLA is also piloting a new data service<sup>100</sup> with the aim to provide organisations ongoing access to good quality high street and town centre data at low cost. The objective is to enable partner organisations to develop data-driven solutions to support thriving town centres and high streets and inform locally-based strategies produced in partnership with local communities.
- 5.4.5 The data includes insights related to footfall and spend in high street locations. Analysis of the London-level data shows how retail and eating out transactions (see Figures 5.5 and 5.6 respectively) in London's town centres and high streets were impacted heavily by the coronavirus pandemic as places to eat out and non-essential shops closed and Londoners followed the 'stay at home' guidelines during lockdown periods. In March 2020 retail transactions in London's town centres and high streets were impacted less than eating out transactions as essential retailers such as food shopping and pharmacies remained open.

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<sup>98</sup> <https://www.london.gov.uk/coronavirus/londons-recovery-coronavirus-crisis/london-recovery-board>

<sup>99</sup> <https://www.london.gov.uk/coronavirus/londons-recovery-coronavirus-crisis/recovery-context>

<sup>100</sup> <https://data.london.gov.uk/high-street-data-service/>



Figure 5.4 London Recovery Programme – High Streets for All mission

## HIGH STREETS FOR ALL

### Mission Leads, Organisations and Approach



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#### Mission

*Deliver enhanced public spaces and exciting new uses for underused high street buildings in every Borough by 2025, working with London's diverse communities.*

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#### Mission Co-leads: London Borough of Enfield / GLA

**Lead by locally defined partnerships** - involving property interests, businesses, diverse community groups and local anchor institutions, supported by London Boroughs, London Councils and the GLA group and a newly formed multi sector / diverse interest advocates group.

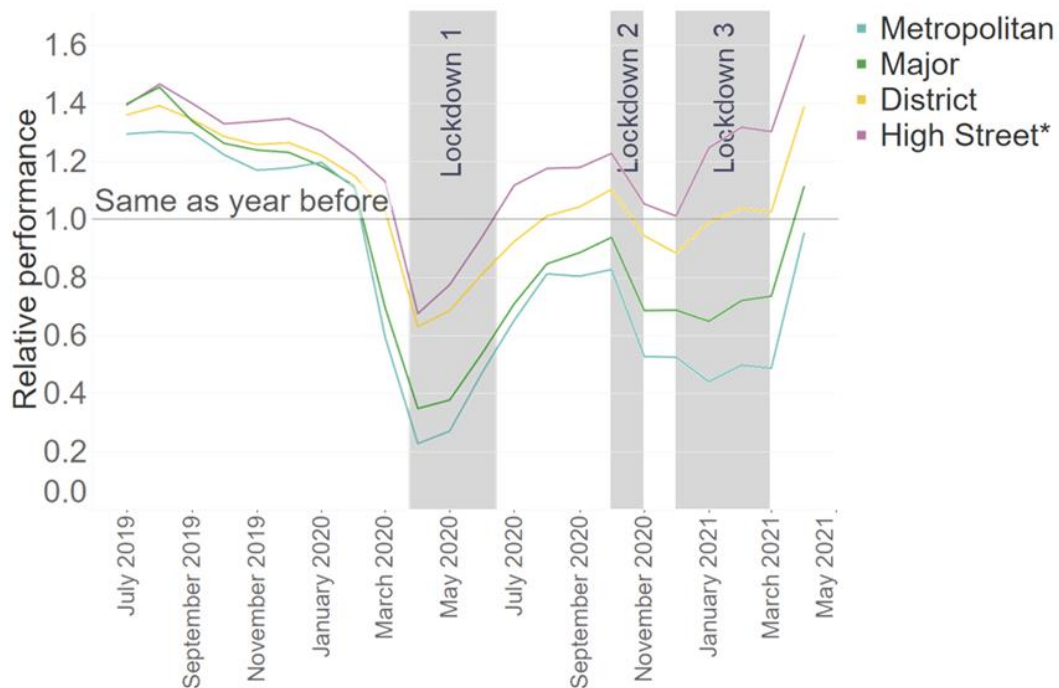
#### Approach

**We propose to achieve the mission** by fostering local engagement, partnership formation and a culture of ideas, experimentation and invention across the city to deliver inclusive, exemplar High Street projects in every borough.

This will be supported by enabling funds, expert advice and best practice sharing. We will develop tools that respond to recent planning and licensing changes and plan for, safeguard and directly deliver a diverse, resilient and thriving mix of High street and town centre activity within easy reach of all Londoners and at all times of day and night.

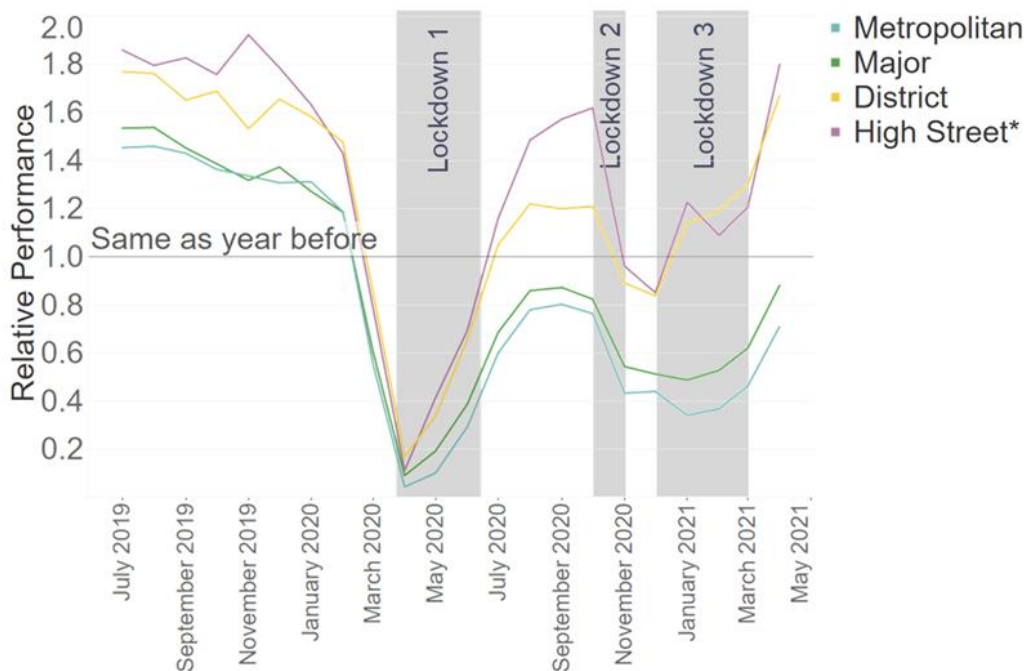
Source: London Recovery Programme

**Figure 5.5 Monthly count of retail transactions in London's town centres and high streets compared to the same month in the previous year (2019-2021)**



Source: GLA analysis of Mastercard data. Chart shows transaction count as a proportion of the previous year. \* High streets located outside of town centres

**Figure 5.6 Monthly count of eating out transactions in London's town centres and high streets compared to the same month in the previous year (2019-2021)**



Source: GLA analysis of Mastercard data. Chart shows transaction count as a proportion of the previous year. \* High streets located outside of town centres.

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- 5.4.6 Figures 5.5 and 5.6 illustrate that Metropolitan and Major town centres were impacted to a greater degree on average, in part due to their greater reliance on worker and visitor spend and because they typically capture London resident spend from wide catchment areas.<sup>101</sup>
- 5.4.7 By contrast the smaller District town centres and local high streets beyond town centres witnessed a lower reduction in year-on-year retail transactions during each period of lockdown and recovered more strongly as each subsequent period of lockdown was eased. This reflects how people began to connect even more with their local town centres and high streets during the pandemic.<sup>102</sup>
- 5.4.8 Figures 5.5 and 5.6 also illustrate that as each period of lockdown was lifted or eased, Londoners began to return in increasing numbers to the larger town centres as well as the smaller centres and high streets. This is a very positive and encouraging sign. It suggests that town centres and high streets in London, with the right support and with concerted national, London-level and local action, are well placed to recover from the impacts of the pandemic. Targeted Article 4 Directions can help to ensure that these actions are not undermined by Class E to residential permitted development.

## 5.5 Potential impacts of permitted development rights

- 5.5.1 There is strong cross-party support for actions to mitigate the impacts of Class E to residential PDR on the economy and ecosystem of high streets in London. The London Assembly Regeneration Committee<sup>103</sup> highlighted its concerns related to the impact of PDR in January 2021 and more recently the London Assembly Economy Committee<sup>104</sup> presented views on the actions that should be taken to help London's high streets in the city's recovery from COVID-19. These actions included ensuring that the potential challenges of any changes to the PDR regulations are being properly considered and to ensure that commercial districts including town centres and high streets are not threatened by inappropriate residential development.

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<sup>101</sup> [Experian Business Strategies. Consumer Expenditure and Comparison Goods Floorspace Need in London, October 2017](#)

<sup>102</sup> London Boroughs can draw on further details of trends in footfall and spend for individual town centres and high streets which has been made accessible through the [GLA High Street Data Service](#)

<sup>103</sup> [London Assembly Planning Committee response to MHCLG consultation PDR Class E to residential, January 2021](#)

<sup>104</sup> [London Assembly Economy Committee, High Hopes. Supporting London's high streets in the economic recovery from COVID-19, March 2021](#)

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- 5.5.2 The evidence set out in Section 7 of this report shows that average capital values in residential use exceed average capital values in the range of commercial uses in Class E in almost all parts of London. Active commercial uses and the jobs they support will be at risk of being turned into higher value housing use. The new PDR, in the absence of targeted Article 4 Directions, could impact the adaptation of London's town centres and high streets to be (and remain) vibrant, successful locations for a range of business, culture, civic and community activities complemented by well-planned housing and mixed-use development.
- 5.5.3 The introduction of piecemeal residential development on the ground floor in thriving areas could lead to sterile and incoherent high street frontages, impacting on their sense of place, natural surveillance and weakening their function, resilience and attractiveness as places to visit, work and interact. The piecemeal loss of commercial will reduce overall footfall, depriving other businesses and potentially driving the loss of a far more significant number of premises than those who chose to convert commercial to residential.
- 5.5.4 While town centres and high streets can benefit from additional homes in the area, this should be well planned and should not come forward at the expense of successful commercial and community uses. Residential uses have different characteristics to commercial, business and service uses. Once conversions to residential occur the inherent flexibility of high street premises in commercial and community uses is lost, undermining the ability of the high street to adapt to future circumstances.
- 5.5.5 Thriving neighbourhood and local centres are as much at risk as larger town centres and loss of essential services will have a disproportionate equalities impact on Londoners who rely on local access to services in walkable distance from where they live. Too much erosion of commercial and community services via PDR in town centres and high streets could also create dormitory areas where residents must travel further afield to get to shops and places of work, undermining efforts to support walking and cycling and the creation of a more sustainable city.
- 5.5.6 There is a strong case for targeted Article 4 Directions to remove Class E to residential PDR and ensure that the social and economic functions of London's high streets and town centres are sustained and to support London's economic and social recovery.

## **5.6 Conclusions**

- 5.6.1 The new Class E to residential PDR, in the absence of targeted Article 4 Directions, could impact London's vibrant town centres and high streets and risk undermining the recovery efforts.
- 5.6.2 London's high streets and town centres have shaped the fabric of the capital. They are a focal point for London's culture, communities and everyday

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economies. Their distinctive ethnic offer meets the needs of London's diverse communities whilst also attracting visitors from far beyond the capital. Town centres and high streets in London also support the most sustainable models of living and working, including active travel and shorter commutes.

- 5.6.3 Despite changes in consumer behaviour, technology and competition from out-of-centre development, they have shown their resilience by adapting and re-inventing themselves. They have diversified over time towards leisure uses and experiential, service retail uses. Vacancy rates in London's town centres and high streets are typically around 3 per cent lower than in other parts of the country and the evidence shows that footfall is increasing strongly as pandemic restrictions are eased. To support London's economic and social recovery from the impacts of the pandemic, it is essential that there is space available for businesses to innovate, to start up and to create new jobs and this is central to the High Streets for All mission, part of the wider London Recovery Programme.
- 5.6.4 The underlying fundamentals of London's growing population, the Mayor's commitment to protecting and creating jobs and London's attractiveness to domestic tourism and (when inbound overseas travel restrictions are lifted) to international tourism, remain strong.
- 5.6.5 Given the right spatial planning environment, town centres and high streets in London will be able to adapt to the challenges and opportunities they face, just as they have done in the past.
- 5.6.6 The strategic evidence presented here supports targeted Article 4 Directions to remove Class E to residential PDR in London's high streets and town centres. How this should best be achieved will vary from place to place. Local planning authorities and the businesses and communities in their areas have specific knowledge and intelligence related to their town centres and high streets. They are therefore well placed to identify which will be impacted most adversely by the new permitted development rights and where targeted Article 4 Directions will be appropriate.

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## 6. Industrial areas and creative production space

### 6.1 Introduction

- 6.1.1 London depends on a wide range of industrial, logistics and related uses that are essential to the functioning of its economy and for servicing the needs of its growing population, as well as contributing towards employment opportunities for Londoners. This includes a diverse range of activities such as food and drink preparation, creative industry production, maintenance and repair, storage and distribution, waste management, utilities, transport functions and a range of emerging activities such as data centres, renewable energy generation and clean technology.
- 6.1.2 Over the period 2001 to 2015, more than 1,300 hectares of industrial land was released to other uses<sup>105</sup> and this far exceeded previously established London Plan monitoring benchmarks. Research for the GLA indicates that there will be positive net demand for industrial land in London over the period 2016 to 2041,<sup>106</sup> mostly driven by strong demand for logistics to service growth in London's economy and population.
- 6.1.3 The 2021 London Plan contains policy to ensure that a sufficient supply of land and premises is provided and maintained in different parts of London to meet current and future demands for industrial and related functions.<sup>107</sup> To achieve this objective and to support planning for industrial capacity at the local level the London Plan identifies three categories of industrial land (illustrated in Figure 6.1).
- 6.1.4 The Plan seeks to ensure that provision is made for the varied operational requirements of different types of industrial uses. It also promotes innovative concepts including the intensification of industrial activities and, in appropriate circumstances, the colocation of industrial uses with other non-industrial uses and the substitution of industrial capacity to achieve greater efficiency in the use of land.<sup>108</sup>
- 6.1.5 The intensification of industrial land in SIL and LSIS can also be used to facilitate the consolidation of a SIL or LSIS through a Local Plan or masterplan process to support the delivery of housing and other uses, such as social infrastructure, or to contribute to town centre renewal. For LSIS,

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<sup>105</sup> [AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#)

<sup>106</sup> [CAG Consultants. London Industrial Land Demand Study, October 2017](#)

<sup>107</sup> [The London Plan 2021](#) : Policy E4

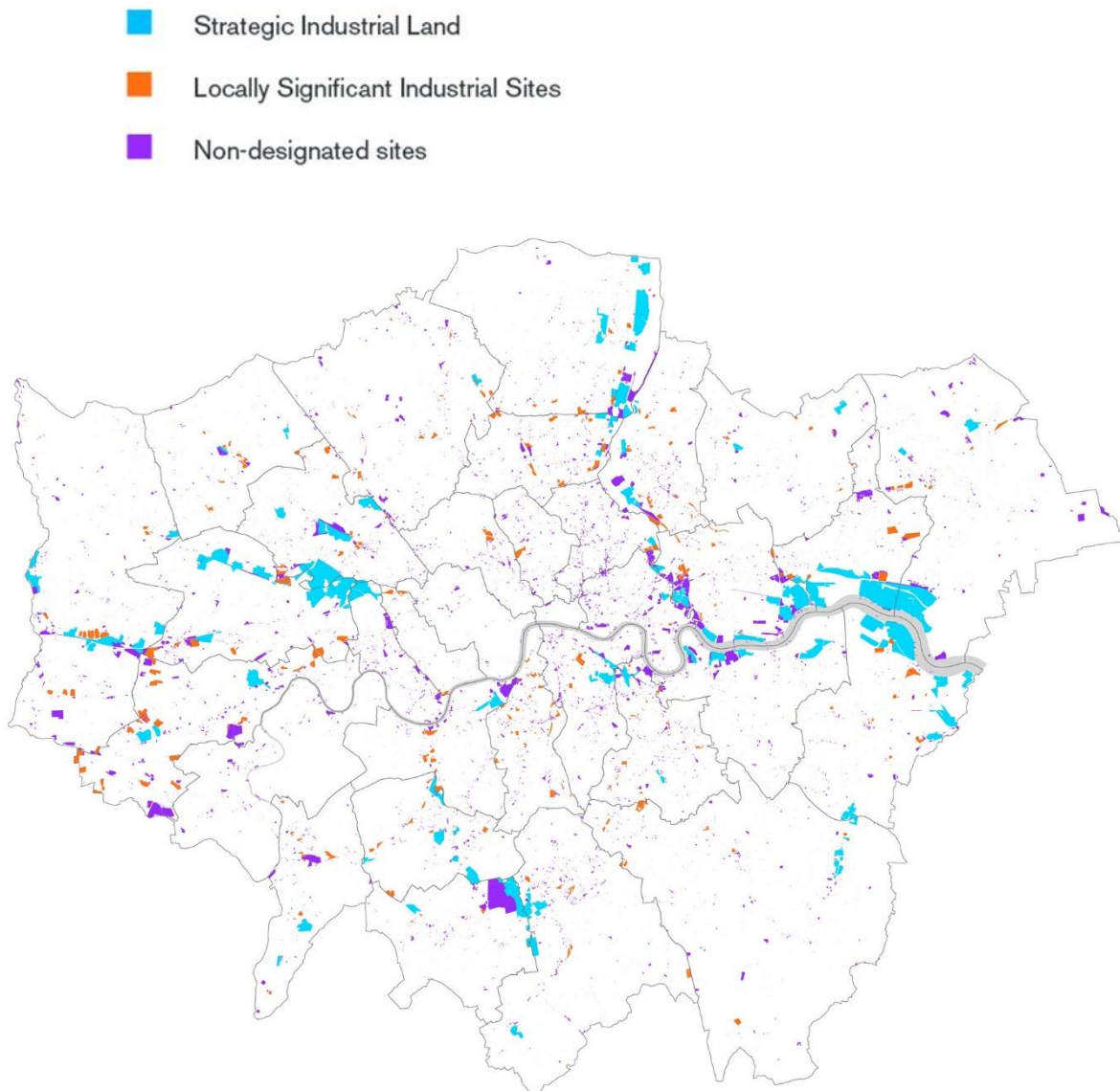
<sup>108</sup> [The London Plan 2021](#) : Policy E7; and see [We Made That, Savills, Feasibility. Industrial Intensification and Co-location Study. October 2018](#)

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boroughs can bring forward policies in their Local Plans setting out the range of industrial uses to be provided for.

6.1.6 The Plan urges boroughs to ensure that the need to retain sufficient industrial capacity is not undermined by permitted development rights by introducing Article 4 Directions where appropriate. This section of the report provides strategic context and evidence to support boroughs considering Class E to residential Article 4 Directions for this purpose.

**Figure 6.1 London's industrial capacity by category**



Source: AECOM, We Made That. London Industrial Land Supply and Economy Study, 2016

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## 6.2 Strategic Industrial Locations and Locally Significant Industrial Sites

- 6.2.1 The London Plan sets out strategic policy for Strategic Industrial Locations (SIL) and Locally Significant Industrial Sites (LSIS).<sup>109</sup> Local authorities are responsible for defining the detailed boundaries of these areas. In 2015 there was an estimated 3,900 hectares of land in SIL and 1,200 hectares of land in LSIS (just 2.4 per cent and 1.3 per cent of the area of Greater London respectively).<sup>110</sup> Together these areas accommodated almost two-thirds of London's industrial land in 2015.<sup>111</sup>
- 6.2.2 London's industrial capacity can be impacted by Class E to residential PDR in two principal ways:
- directly - through the loss of light industrial and creative production uses that fall within Class E; and
  - indirectly - through the introduction of residential uses in areas that contain a range of industrial uses (including uses outside of Class E) which can compromise the integrity or effectiveness of these locations in accommodating industrial-type activities and their ability to operate on a 24-hour basis.
- 6.2.3 SIL and LSIS are particularly suitable for accommodating a range of industrial and related uses which, by virtue of their scale, noise, odours, dust, emissions, hours of operation and/or vehicular movements, can raise tensions with other land uses, particularly residential development. This is recognised by government in the legislation<sup>112</sup> related to Class E to residential permitted development which includes a clause (MA.2.(2)(g)) that allows consideration of the impact on intended occupiers of the development of the introduction of residential use in an area that a local authority considers to be important for general or heavy industry, waste management, storage and distribution, or a mix of such uses.

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<sup>109</sup> Policies E5 and E6 respectively

<sup>110</sup> Source: GLA

<sup>111</sup> [AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#)

<sup>112</sup> [Statutory Instrument 2021 No.428. The Town and Country Planning \(General Permitted Development etc.\) \(England\) \(Amendment\) Order 2021](#) Clause MA.2.(2)(g)



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- 6.2.4 When interpreting the generic phrase in the legislation: “*general or heavy industry, waste management, storage and distribution*” in a London context, it is considered that these uses include:
- a) general industrial (Use Class B2)
  - b) storage and logistics/distribution (Use Class B8) including ‘last mile’ distribution close to the CAZ and the Northern Isle of Dogs, and consolidation centres
  - c) secondary materials, waste management and aggregates
  - d) utilities infrastructure (such as energy, water supply and wastewater)
  - e) land for transport functions (including intermodal freight interchanges, rail and bus infrastructure), and
  - f) wholesale markets.
- 6.2.5 Figure 6.2 illustrates the proportion of land in the heavier industrial uses discussed in paragraph 6.2.4<sup>113</sup> on SIL, LSIS and Non-Designated Industrial Sites, in London’s five industrial property market areas (PMA - see Figure 6.3). It shows that for SIL, the average proportion of land in heavy industrial uses varies from 78 per cent in the Wandle Valley PMA to 89 per cent in the Lea Valley PMA. For LSIS, the proportions are lower, varying from 56 per cent in the Wandle Valley PMA to 82 per cent in the Lea Valley PMA.
- 6.2.6 This evidence, reflecting the London Plan policy approach, indicates that SIL and LSIS should be considered as *areas that are important for heavy industry, waste management, storage and distribution, or a mix of such uses* (in the terms used in clause MA.2.(2)(g) in the legislation).
- 6.2.7 With regard to light industrial uses, given the blurring in practice between these uses and those which are general industrial, storage or distribution activities, the estimated proportions of SIL and LSIS in light industrial use in Figure 6.2 are likely to be an under-estimate.
- 6.2.8 It should also be noted that the analysis in Figure 6.2 is based upon the average for the whole PMA and there will be a greater variation in the proportion of heavy industry, waste management, storage and distribution uses at the level of individual SIL and LSIS. There may be circumstances where it may be more problematic for local authorities to draw on clause MA.2.(2)(g) in the legislation, such as where a sub-area of a SIL or LSIS has a mix of industrial uses at the lighter end of the spectrum, or where parts of a SIL or LSIS are being considered for consolidation as part of a plan-led or masterplan process. Article 4 Directions in these areas may be particularly

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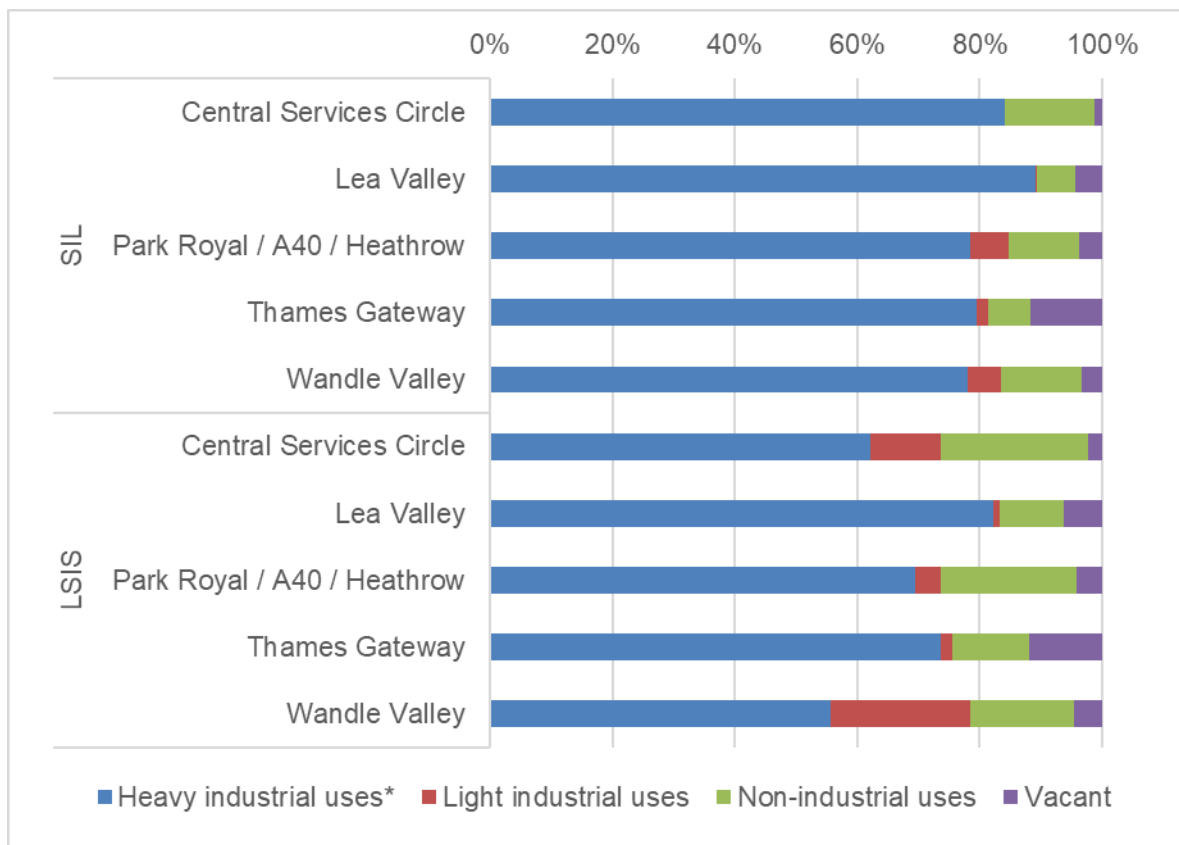
<sup>113</sup> Collectively referred to hereafter in this paper as “*heavy*” industrial uses

appropriate. This matter is discussed further below and in the concluding sub-section 6.5.

6.2.9 Figure 6.2 includes data on the average proportion of vacant land in SIL and LSIS recorded in 2015. Since 2015 a significant amount of vacant industrial land has either been brought back into active industrial use or has been transferred to other non-industrial uses, particularly in the Thames Gateway.<sup>114</sup>

6.2.10 The GLA is currently updating the industrial land baseline in London. Emerging estimates suggest that vacancy rates are significantly lower than they were when the 2015 baseline study was undertaken. It is anticipated that the study will be published on the GLA website in the autumn of 2021.

**Figure 6.2 Average proportions of land in heavy, light and non-industrial uses in SIL and LSIS in London’s industrial property market areas**

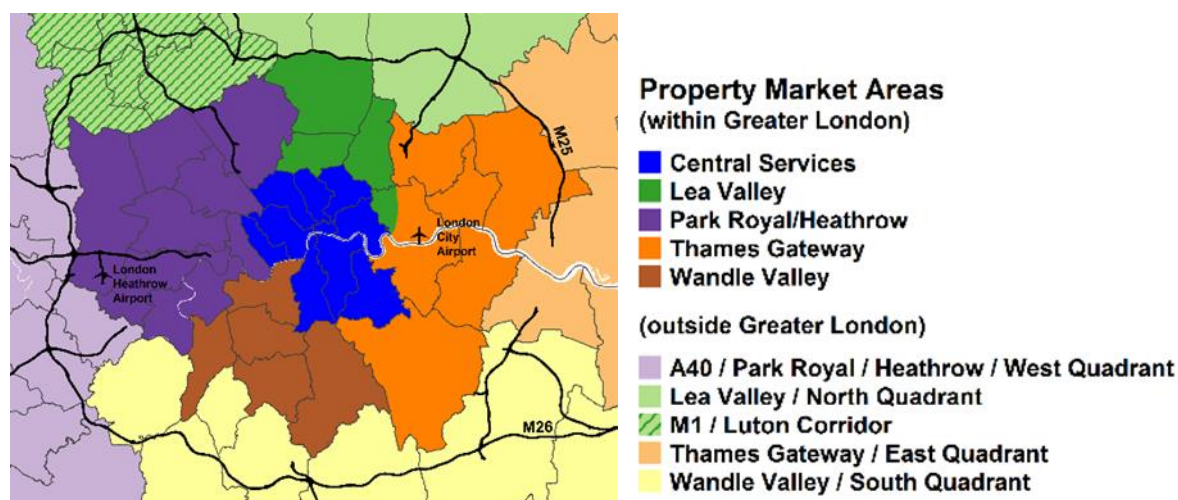


Source: AECOM. London Industrial Land Supply and Economy Study, 2016 / GLA analysis

\* 'Heavy industrial uses' include general industrial, storage and distribution uses, waste management, utilities, land for transport functions and wholesale markets (see paragraph 6.2.4).

<sup>114</sup> The [Newham Local Plan](#) adopted in 2018 for example managed the transfer of significant amounts of industrial land previously identified as vacant to other non-industrial uses.

**Figure 6.3 Industrial property market areas\* in London**



Source: CAG Consultants. London Industrial Land Demand Study, October 2017 / AECOM, We Made That. London Industrial Land Supply and Economy Study, 2016 / GLA analysis.

\* Property Market Areas are indicative for use in data analysis.

### Class E uses in SIL and LSIS and potential impacts of PDR

6.2.11 Light industrial is one of the various sub-categories of use within Use Class E and is directly affected by the new PDR. Light industrial uses include a range of activities that are important to servicing the wider London economy including the day-to-day needs of other businesses and residents. They also provide relatively low-cost accommodation supporting SMEs, including creative production uses and new business start-ups.

6.2.12 Estimates suggest that 99.8 per cent of all industrial businesses in London employ less than 250 employees and that 90 per cent of those businesses are micro-businesses employing less than 10 people.<sup>115</sup> Despite the size limit of 1,500 sq.m, Class E to residential PDR will have a direct disproportionate impact on industrial SMEs in addition to the indirect impacts on industrial businesses (of any size) located in proximity to PDR conversions.

6.2.13 Class E also contains a wide range of other non-industrial uses including offices, research & development, shops and some community services, all of which could potentially be converted to residential via the new PDR (subject to the limitations in the legislation). Strategic evidence<sup>116</sup> shows that within two years of the introduction of office to residential PDR in 2013, more than 83,000 sq.m of office floorspace located within London's industrial areas

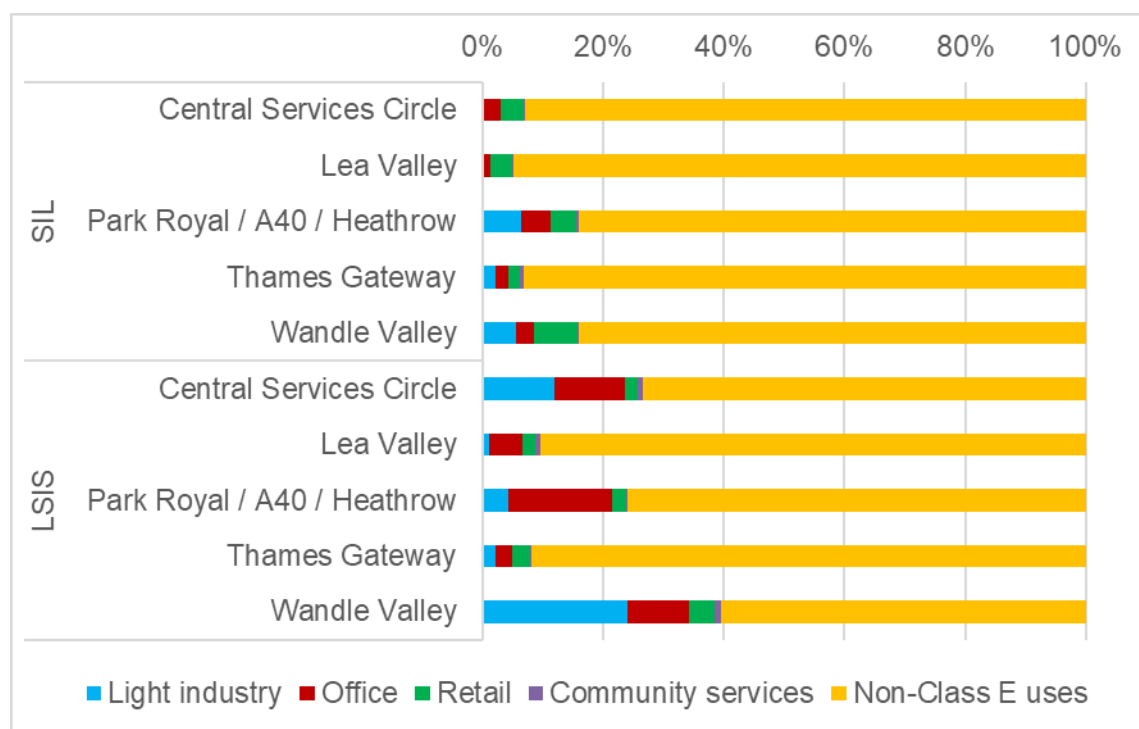
<sup>115</sup> [AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#)

<sup>116</sup> [AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#) Table 2-11 and Figure 2-25

gained prior approval for conversion to residential. Several boroughs responded with Article 4 Directions to limit the impact of further conversions.

6.2.14 Figure 6.4 illustrates the average proportion of occupied industrial land in Class E uses in SIL and LSIS in each of London’s PMAs. For SILs, the average proportion of occupied industrial land in Class E uses ranges from 5 per cent in the Lea Valley PMA to 16 per cent in the Park Royal / A40 / Heathrow and Wandle Valley PMAs. For LSIS, the average proportions are higher, ranging from 8 per cent in the Thames Gateway and Lea Valley PMAs to 40 per cent in the Wandle Valley PMA. For reasons noted in paragraph 6.2.7, the estimated proportions of SIL and LSIS in light industrial use in Figure 6.4 are likely to be an under-estimate.

**Figure 6.4 Average proportion of occupied industrial land in Class E uses and Non-Class E uses in London**



Source: AECOM, We Made That. London Industrial Land Supply and Economy Study, 2016 GLA analysis / GLA analysis

6.2.15 In principle therefore, both SIL and LSIS could be vulnerable to Class E to residential PDR conversions. As discussed in paragraph 6.2.8, there is some uncertainty about the practical interpretation of the clause in the legislation regarding areas that a local authority considers to be *important for general or heavy industry, waste management, storage and distribution, or a mix of such uses*. This uncertainty could lead to speculation and a risk of rising values or ‘hope’ value, in anticipation of the potential to convert to residential via PDR, potentially making the land uncompetitive for lower capital value

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industrial uses. Given this uncertainty and the potential for land value speculation, it could be appropriate for local authorities to adopt a 'belt and braces' approach and introduce Article 4 Directions for SIL and LSIS where this is necessary and supported by local evidence.

#### Impacts of PDR on plan-led co-location of industrial and residential in LSIS

- 6.2.16 The London Plan encourages boroughs to define the range of appropriate uses in their LSIS having regard to the different operational requirements of various industrial uses and strategic and local evidence of supply and demand for industrial uses. The Plan also allows boroughs to consider whether their LSIS, in full or in part, could be intensified for industrial uses and whether there is scope for co-locating industrial with residential and other uses in LSIS, to be managed through a Local Plan or masterplan process.<sup>117</sup>
- 6.2.17 Where a borough has indicated that an LSIS is suitable for industrial intensification with residential co-location, there is a risk that such locations could be particularly vulnerable to Class E to residential PDR conversions as it may be more difficult in such circumstances to rely on clause MA.2.(2)(g) in the legislation. The ad hoc nature of PDR conversions in these locations could undermine the industrial activities in an LSIS and fail to optimise the industrial and housing development capacity that could otherwise have been delivered through Local Plan-led and masterplan processes. Article 4 Directions would therefore be appropriate to mitigate against negative impacts on industrial occupiers and to fully allow for opportunities for industrial intensification and co-location with housing in LSIS to be realised.

#### Impacts of PDR on industrial capacity servicing the CAZ and NIOD

- 6.2.18 The nationally and internationally significant agglomerations of commercial, cultural, leisure and hospitality functions in the CAZ and NIOD rely on an efficient supply of essential supporting functions. These functions include sustainable distribution and logistics; 'just-in-time' servicing such as food service activities, printing, administrative and support services, office supplies, repair and maintenance, construction, waste management and recycling, and land to support transport functions.
- 6.2.19 In the high-value land market within the CAZ there is very limited remaining industrial and logistics capacity<sup>118</sup> and many of these essential support functions to the CAZ and NIOD are provided by businesses occupying industrial land typically (though not exclusively) lying in close proximity to the

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<sup>117</sup> See London Plan Policy E7 B

<sup>118</sup> [AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#)

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CAZ and NIOD – and commonly found in LSIS and in Non-Designated Industrial Sites.

- 6.2.20 Section 7 of this report highlights the differentials between industrial and non-industrial land values in London which puts immense pressure on sites in industrial use for conversion to non-industrial uses.<sup>119</sup> To address this issue the London Plan includes policy<sup>120</sup> to ensure that sufficient capacity for industry and logistics is identified and protected, including last mile distribution, freight consolidation and other related service functions within or close to the CAZ and NIOD to support the needs of businesses and activities within these areas.
- 6.2.21 Given the importance of industrial capacity providing essential support functions to the CAZ and NIOD, the use of Article 4 Directions to remove Class E to residential PDR will be particularly relevant for industrial sites performing this function.

### **6.3 Non-Designated Industrial Sites**

- 6.3.1 Non-Designated Industrial Sites (illustrated in Figure 6.1) comprise around one-third of London's industrial capacity and cumulatively of strategic importance to London. They include a diverse range of industrial uses (some of which fall within Use Class E) and they range from single sites to clusters of sites in industrial use.
- 6.3.2 As noted in paragraph 6.2.11, light industrial is one of the various sub-categories of use within Use Class E and so directly affected by the new PDR. In addition to essential services to support London's businesses and residents, light industrial uses also include small scale maker spaces and culture-oriented creative production uses such as artist workspace, fashion design and rehearsal space for example.
- 6.3.3 Light industrial uses in Non-Designated Industrial Sites are often found in non-prime locations such as back-of-town centre and high street locations, contributing to their vibrancy and providing access to relatively low-cost workspace suitable for new start-up businesses. As residential development tends to command higher capital values than such uses (see Section 7), they have been particularly vulnerable to conversion to residential use in recent years.<sup>121</sup> The risk of closure of existing artists workspace remains high and 24 per cent of sites (57 in total) providing artists' workspace are at risk of closure within the next 5 years. This because so few organisations

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<sup>119</sup> [CAG Consultants. London Industrial Land Demand Study, October 2017](#)

<sup>120</sup> Policy SD4 M

<sup>121</sup> [We Made That. Artists' Workspace Study - Report and Recommendations ; AECOM, We Made That. Industrial Land Supply and Economy Study, March 2016](#)

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own the freehold to sites (around 13 per cent).<sup>122</sup> Article 4 Directions to remove Class E to residential PDR could be appropriate to safeguard important capacity in Non-Designated Industrial Sites for maker spaces, artists' workspace and other culture-oriented creative production uses (see also sub-section 6.4 below).

- 6.3.4 In theory, 'heavy' industrial uses (which fall within the Use Classes B2 and B8 or classified as *sui generis*) would not fall within Class E to residential PDR. When considering Article 4 Directions for specific Non-Designated Industrial Sites boroughs should have regard to the blurring between uses which are light industrial in nature (falling within Class E) and those which are general industrial, storage or distribution in nature (and classified in the B2 or B8 Use Class). Boroughs should also have regard to whether conversions of Class E light industrial uses could undermine neighbouring industrial uses (in any Use Class) in Non-Designated Industrial Sites that comprise clusters of sites in industrial use.

## 6.4 Creative Enterprise Zones

- 6.4.1 Creative industries play an important role in London's economy and its cultural offer and as a sector they are growing at a faster rate than any other area of the economy. As part of his support for the creative industries, the Mayor is committed to working with boroughs and other relevant stakeholders to identify and set up Creative Enterprise Zones (CEZs).
- 6.4.2 CEZs support the provision of dedicated small industrial and creative workspaces and seek to address issues of affordability and suitability of workspaces for artists and creative businesses. They adopt a range of policy levers including, but not limited to planning, to stimulate and ensure the growth of creative industries in geographically targeted areas. They help to support an important but fragile part of London's economy and culture, and they can help boost the local economy of more deprived areas and support their regeneration.
- 6.4.3 Article 4 Directions to remove Class E to residential PDR may be particularly appropriate in CEZs to ensure that suitable business space and affordable workspace is available for existing creative businesses and for new start-ups.

## 6.5 Conclusions

- 6.5.1 Industrial land in London provides vital capacity for industrial, logistics and related uses that are essential to the functioning of its economy and for servicing the needs of its growing population. The 2021 London Plan seeks to retain sufficient capacity for these uses in appropriate locations and

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<sup>122</sup> [We Made That. 2018 Artists Workspace Study Data Note, August 2018](#)

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introduces innovative new concepts including industrial intensification, co-location and substitution which are designed to meet the needs of industrial businesses whilst securing opportunities in appropriate locations to deliver housing through proactive plan-led and masterplanned development.

6.5.2 The strategic evidence, reflecting the London Plan policy approach, indicates that SIL and LSIS should be considered as areas that are '*important for heavy industry, waste management, storage and distribution, or a mix of such uses*' (in the terms used in clause MA.2.(2)(g) in the legislation).

6.5.3 Notwithstanding the clause MA.2.(2)(g) in the legislation, the strategic evidence supports a 'belt and braces' approach to the introduction of Article 4 Directions in SIL and LSIS to ensure that they are not undermined by Class E to residential PDR. Examples of the circumstances where Article 4 Directions might be particularly appropriate include:

- where the SIL/LSIS, or parts of the SIL/LSIS, contain a greater proportion of lighter industrial activities and/or where local authorities may find it difficult to rely on clause MA.2.(2)(g) in the legislation
- where there is a high risk of land speculation resulting in the SIL/LSIS becoming less competitive for lower value industrial uses
- where it is necessary to realise opportunities for commercial to residential PDR via plan-led approaches to industrial intensification and co-location in SIL and LSIS
- where it is necessary to ensure that housing delivery on sites identified for industrial and residential co-location is optimised and that the industrial uses can continue to operate efficiently
- where it is necessary to ensure that sufficient capacity for industry and logistics providing essential services to the CAZ and NIOD is not undermined by commercial to residential PDR
- in Creative Enterprise Zones, to ensure that suitable business space and affordable workspace is available for existing creative businesses and for new start-ups.

6.5.4 The above list of circumstances is not intended to be exhaustive and there may be other local justifications for Article 4 Directions to remove Class E to residential PDR in SIL/LSIS.

6.5.5 For Non-Designated Industrial Sites, Article 4 Directions would be particularly appropriate to safeguard important capacity for light industrial, maker space and culture-oriented creative production uses and to safeguard industrial activities that comprise clusters of sites in industrial and related uses.



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## 7. Commercial and residential values in London

### 7.1 Introduction

- 7.1.1 The difference between the value of offices, retail and light industrial properties relative to residential use in London, is such that the new Class E to residential permitted development rights could see a significant loss of commercial uses to residential. This could result in significant negative impacts on the CAZ and NIOD, other strategically important office locations, town centres, high streets and industrial areas.
- 7.1.2 This section presents more detailed evidence on the value of property in residential use and assesses these against values in the new Business, Commercial and Service use (Class E) including offices, retail and light industrial use in different parts of London.

### 7.2 Residential values

- 7.2.1 The London Plan Viability Study (LPVS)<sup>123</sup> and Addendum Report<sup>124</sup> included an assessment of average capital values in residential use in different parts of the capital. The studies collated average values of new build residential development based upon a sample of transactions in various 'value bands'. The LVPS defined value bands based on postcode districts, illustrated in Figure 7.1, where 'A' represents the highest value band and 'E' the lowest value band.
- 7.2.2 Figure 7.2 presents average capital values for residential use in 2017 for each value band (A to E). These values are based upon the provision of 100 per cent market housing which is appropriate for comparative purposes here given that residential units created through Class E to residential PDR conversions do not have to provide affordable housing under the government regulations.
- 7.2.3 A recent report from Molior<sup>125</sup> recorded an average residential capital value of £863 per square foot (£9,289 per square metre) for new build transactions between January 2020 and March 2021. Using the Molior data disaggregated at borough level, the GLA has calculated the corresponding average capital values for residential value bands A to E. The results are presented in Figure 7.3.

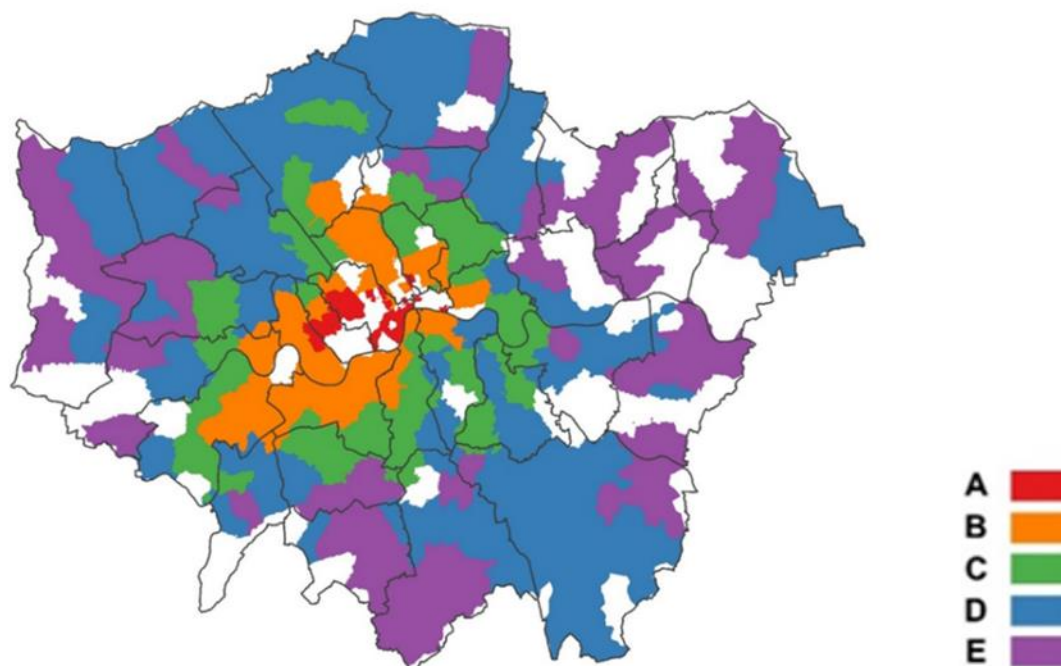
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<sup>123</sup> [Three Dragons et al. London Plan Viability Study, December 2017](#)

<sup>124</sup> [Three Dragons et al. London Plan Viability Study Addendum Report, November 2018](#)

<sup>125</sup> Molior London. Residential Development Research. Quarterly Analysis, April 2021

**Figure 7.1 Indicative value bands for residential**



Source: Three Dragons

**Figure 7.2 Indicative average capital values in residential use in 2017 by value band (£ per square metre) derived from the London Plan Viability Study**

|        | A       | B       | C      | D      | E      |
|--------|---------|---------|--------|--------|--------|
| Jul-17 | £20,000 | £12,000 | £8,250 | £6,250 | £4,250 |

Source: GLA analysis of Three Dragons

**Figure 7.3 Indicative average capital values in residential use in 2020/21 by value band (£ per square metre) derived from Molior data**

|                        | A       | B       | C      | D      | E      |
|------------------------|---------|---------|--------|--------|--------|
| Jan 2020 to March 2021 | £21,648 | £12,113 | £9,179 | £6,670 | £5,343 |

Source: GLA analysis of Molior London. Residential Development Research. Quarterly Analysis, April 2021 (one significant outlier scheme in Value Band A excluded)

7.2.4 Over the next five years, residential capital values are forecast to increase. Figure 7.4 presents a range of forecasts from agent research and indicates that values are projected to increase on average by around 3 per cent per annum over the period 2021 to 2025.

**Figure 7.4 Summary of agent forecasts for growth in residential capital values, 2021–2025**

| Research                     | Date    | Region           | 2021 | 2022 | 2023 | 2024 | 2025 | Average       |
|------------------------------|---------|------------------|------|------|------|------|------|---------------|
| CBRE                         | Q3 2020 | UK               | 1.0% | 3.0% | 4.5% | 4.3% | --   | <b>3.2%</b>   |
| Savills                      | Mar-21  | All Prime London | 2.5% | 6.0% | 3.5% | 2.0% | 3.0% | <b>3.4%</b>   |
| JLL                          | Nov-20  | Greater London   | 0.0% | 2.5% | 5.0% | 6.5% | 5.0% | <b>3.8%</b>   |
| Knight Frank                 | Jan-21  | Greater London   | 1.0% | 2.0% | 3.0% | 3.0% | 4.0% | <b>2.6%</b>   |
| Overall average next 5 years |         |                  |      |      |      |      |      | <b>c.3.2%</b> |

Source: GLA analysis of agent research

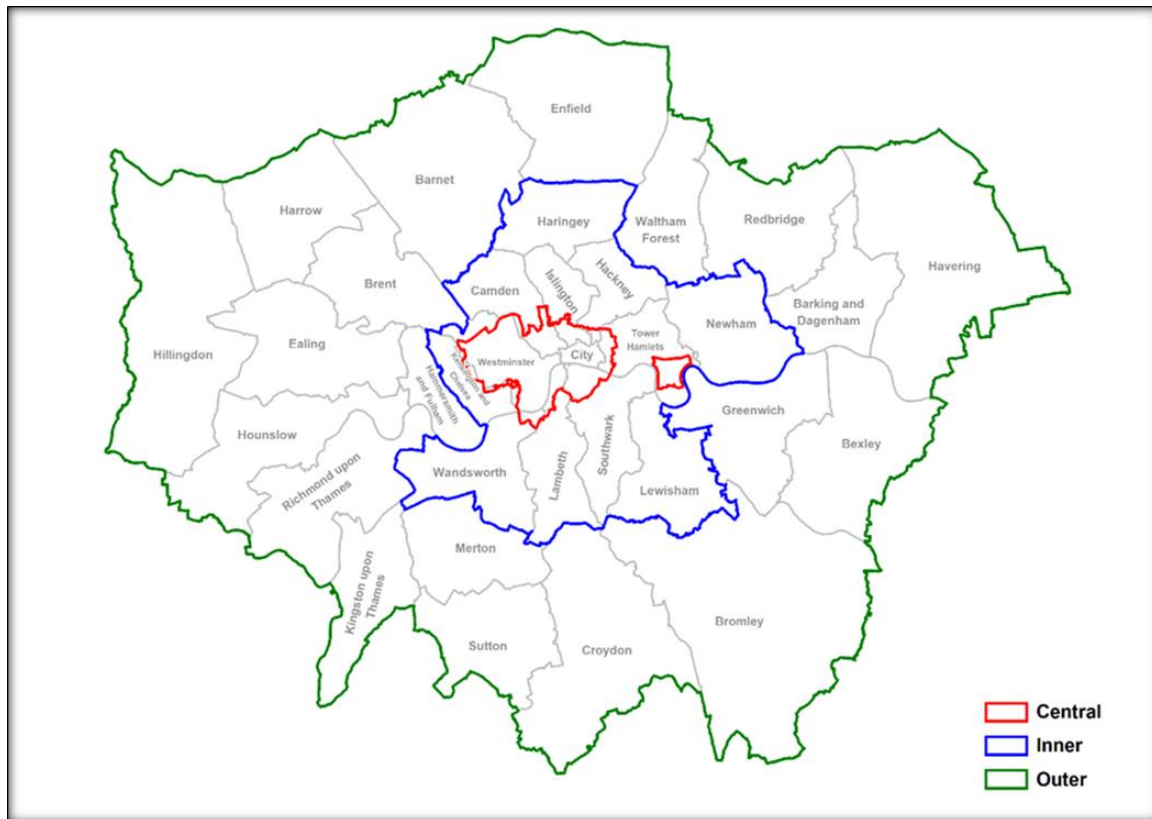
## 7.3 Commercial values

7.3.1 For commercial uses the value bands used in the London Plan Viability Study have been adopted for this report for consistency and these are illustrated in Figure 7.5.

7.3.2 Indicative average capital values in office, retail and industrial<sup>126</sup> use have been derived from CoStar market rent and market yield data for each of the commercial use value bands. The outputs of this analysis are presented in Figure 7.6.

<sup>126</sup> Note: Industrial values in this section refer to all industrial uses combined including light industrial (Use Class Eg(iii)), general industrial (Use Class B2) and storage and distribution (Use Class B8).

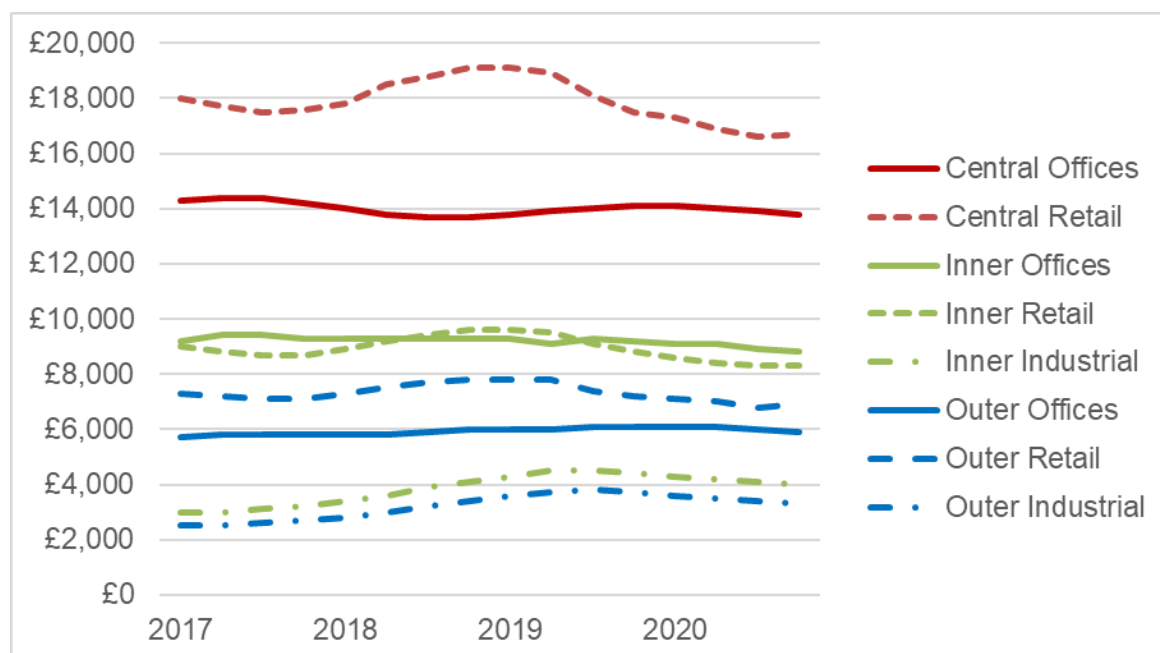
**Figure 7.5 Value bands for Class E (non-residential) uses**



Source: Three Dragons

Note: Whilst these bandings cover all of London, the commercial uses and the values associated with them will be derived from specific locations and clusters within them, for example the CAZ, town centres, industrial areas and other business clusters.

**Figure 7.6 Indicative average capital values in non-residential use by value band (£ per square metre)**



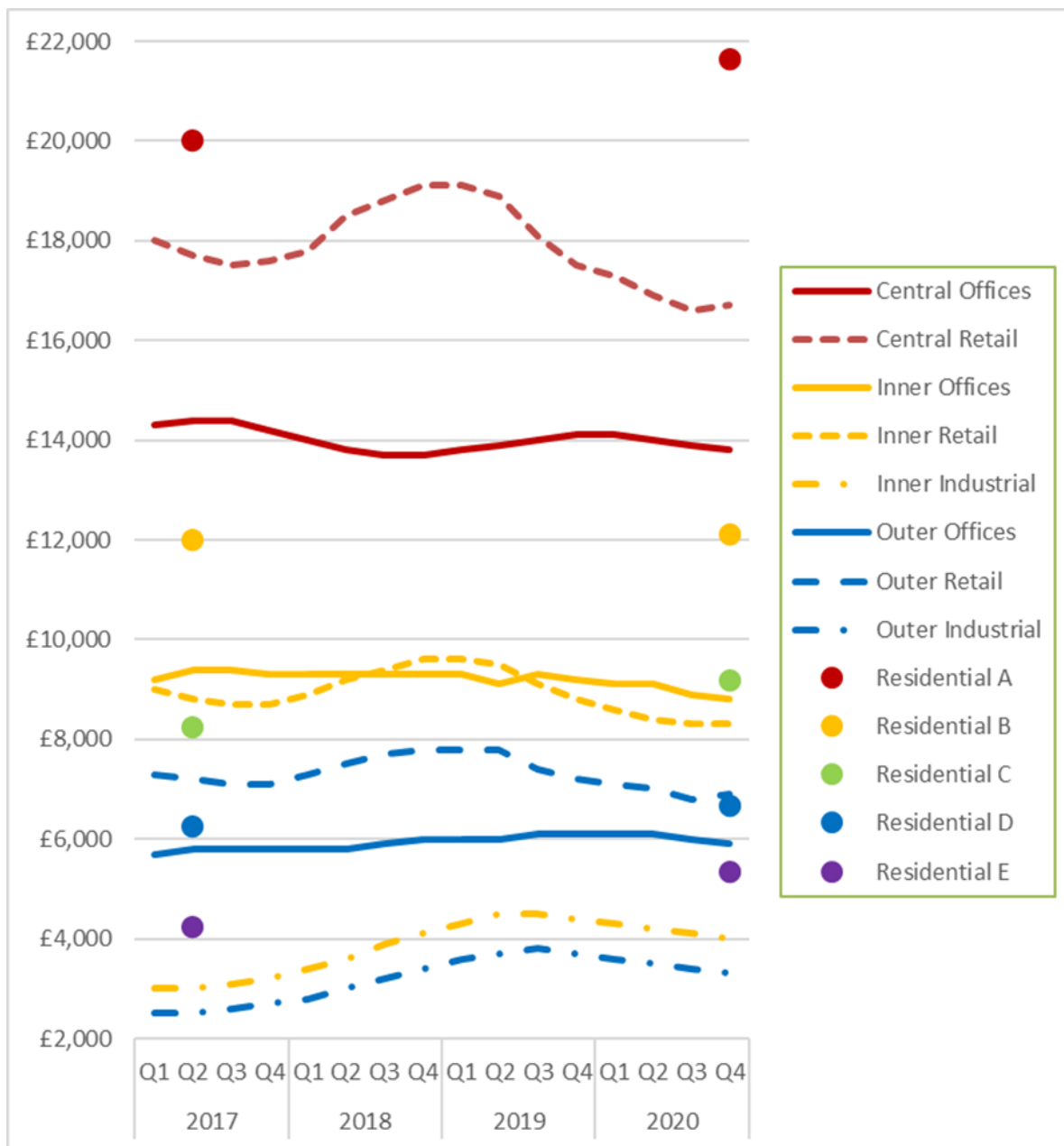
Source: GLA analysis of CoStar market rent and yield data. There are insufficient records for 'Industrial' in the Central value band, hence no data for this use. The values presented are based on indicative averages for the commercial value bands. Actual values will vary locally.

7.3.3 Figure 7.7 presents an indicative comparison of average capital values in residential and non-residential use by value band over the period 2017 to 2020. It should be noted that the values for residential and non-residential capital values in Figure 7.7 are derived from different sources. Furthermore, the values presented in Figure 7.7 are averages, so there could be significant local variations in residential and commercial values.

7.3.4 With these caveats in mind, Figure 7.7 presents some interesting findings:

- 1) Average values in Residential Band A (central London) are typically greater than average central London office and retail capital values.
- 2) Average values in Residential Band B (inner London) are typically greater than average inner London office and retail values.
- 3) Average values in Residential Band C (inner London) are broadly comparable to average values for inner London offices and retail.
- 4) Average values in Residential Band D (outer London) are now broadly comparable with average values in outer London retail and marginally higher than average outer London office values (note caveats below).
- 5) All Residential value bands, including average values in Residential Band E are typically greater than average industrial values in inner and outer London.

**Figure 7.7 Indicative comparison of average capital values in residential and non-residential use by value band (£ per square metre)**



Sources: GLA analysis of Three Dragons (2017) and Molior data (2020/21) for residential values. GLA analysis of CoStar market rent and yield data for commercial values (2017-2020).

Notes for Figure 7.7

- 1: values for residential and non-residential capital values are derived from different sources.
- 2: the values are indicative averages - there could be significant local variations in residential and commercial values.
- 3: the values for inner and outer London offices are more likely to reflect higher value office locations especially in West and South London (where there are more transactions) - compared to lower value office areas other parts of London.

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## 7.4 Conclusions

- 7.4.1 The dynamic underlying the Mayor's concerns over the potential impact of Class E to residential PDR is the relationship between the value of land in housing and the various types of commercial use within Use Class E.
- 7.4.2 The evidence presented here suggests, that in broad terms, average residential values exceed average office, retail and industrial values in most parts of London.
- 7.4.3 Whilst there may be some localised exceptions, there is a degree of volatility in commercial rents and yields over time and across business cycles (see for example Figures 3.8 and 3.10 in Section 3 of this report). It is very likely therefore that at different points on the business cycle, residential values would exceed commercial values in all parts of London, including within the CAZ.
- 7.4.4 The difference between the value of offices, retail and light industrial properties relative to residential use in London, is such that the new Class E to residential permitted development rights could see a significant loss of commercial uses to residential. The differential in value in residential use compared to commercial uses is such that PDR will impact all areas of London, including vibrant commercial areas, and not just areas of low commercial value.
- 7.4.5 Striking the right balance between commercial and residential uses is important to avoid the kind of market failure that leads to large-scale negative impacts arising from uncontrolled individual conversions. Having regard to the evidence on commercial and residential values presented here, targeted Article 4 Directions to safeguard London's vibrant commercial, business and cultural districts would be supported in appropriate circumstances (see Sections 3 to 6).

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## 8. Supporting housing delivery and quality

### 8.1 Introduction

- 8.1.1 The Mayor is committed to increasing housing delivery across the capital. The 2021 London Plan sets out ambitious ten-year housing targets for every local planning authority, alongside Opportunity Area indicative capacities for longer-term delivery where the potential for new homes is especially high. Providing a range of high quality, affordable, well-designed, accessible homes is important to delivering Good Growth and ensuring that Londoners of all means and backgrounds can play their part in community life.
- 8.1.2 The need to optimise housing delivery in London, given the city's unique context, must remain a priority to address issues associated with the housing crisis. Permitted development rights could in some instances result in a failure to optimise site capacities, hampering London's overall delivery. Article 4 Directions to remove Class E to residential permitted rights may instead provide opportunities to optimise delivery in a way that permitted development cannot and even with Article 4s in place, a wide range of development options for housing delivery would remain. This section of the report provides supporting context and evidence on these development options and the development pipeline.

### 8.2 The London Plan and Housing Strategy

- 8.2.1 The Mayor has identified a need for **at least 66,000 new homes** to be built per year in London, for at least the next 20 years. To ensure that the ten-year housing targets are achieved, the London Plan provides a framework for delivery-focused Development Plans at borough level to allocate an appropriate range of sites and to optimise the potential delivery of housing on all suitable and available brownfield sites.<sup>127</sup> At the same time, boroughs are urged to establish ambitious and achievable build-out rates and help ensure that homes are built quickly. To meet the housing needs of Londoners and to maintain the function and resilience of the city as a whole, the Mayor has set a **strategic target of 50 per cent** of all new homes delivered across the capital to be affordable.
- 8.2.2 This paper provides strategic support for targeted Article 4 Directions to remove Class E to residential permitted development rights in the CAZ, NIOD, strategically significant office locations beyond the CAZ, town centres and high street and industrial areas. **The London Plan** contains policy to support the proactive delivery of housing in these locations.

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<sup>127</sup> [Mayor of London. The London Plan 2021, March 2021](#), Policy H1



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- 8.2.3 In the **CAZ**, the London Plan supports carefully planned housing in ways that complement the strategic functions of the Zone - including its internationally renowned commerce, culture, tourism, shopping and night-time economy – whilst delivering new quality homes. It is vital that housing delivered in the CAZ and NIOD does not compromise the agglomerations of office and other commercial development nor undermine the current and future potential to assemble and deliver office and other commercial development sites to accommodate future growth. This underlines the importance of Article 4 Directions in these locations.
- 8.2.4 Section 3 of this report illustrated the particular role of the 12 CAZ Opportunity Areas for their potential to deliver more than 91,000 homes. The Mayor will provide the support and leadership to ensure Opportunity Areas deliver their growth potential for Londoners and to realise their capacity to accommodate new housing, commercial development and infrastructure (of all types), linked to existing or potential improvements in public transport connectivity and capacity.
- 8.2.5 The NIOD is part of the much wider Isle of Dogs Opportunity Area, which could accommodate more than 30,000 new homes. So far, an Isle of Dogs and South Poplar Opportunity Area Planning Framework (OAPF) has been published<sup>128</sup> which demonstrates how - through careful planning - the area can increase housing delivery to take the borough beyond London Plan housing targets and fully realise the opportunities for large scale growth. In terms of delivery, the Mayor and the London Borough of Tower Hamlets has also established a partnership board for the area, to take forward recommendations around infrastructure in the OAPF, developing strategies to ensure infrastructure doesn't act as a barrier to growth.
- 8.2.6 The London Plan identifies **town centres and high streets** as locations for mixed-use or housing-led intensification to optimise residential growth potential, securing a high-quality environment and complementing local character. Where office and other commercial space is proven to be genuinely surplus to requirements, London Plan policies ensure that this is re-purposed or redeveloped for other uses including good quality market and affordable housing, and supporting infrastructure.
- 8.2.7 Alongside his planning powers, the Mayor is committed to using funding and other measures to unlock housing development opportunities and increase the supply of good quality homes that meet Londoners' diverse needs.

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<sup>128</sup> [Mayor of London. Isle of Dogs and South Poplar Opportunity Area Planning Framework, September 2019](#)

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8.2.8 The **London Housing Strategy**<sup>129</sup> sets out the Mayor's proposals for working with boroughs and other partners to deliver the step change in housing supply required, through:

- proactive intervention in London's land market to unlock and accelerate housing delivery, including on public land and through compulsory purchase and other forms of land assembly
- increased and better-targeted investment to de-risk development and maximise opportunities from new transport infrastructure
- diversification of the housebuilding industry through increased Build to Rent development, more support for small and medium-sized builders, and more supply from councils and housing associations
- tackling the construction skills gap and modernising construction methods.

8.2.9 The **COVID-19 Housing Delivery Taskforce**<sup>130</sup> chaired and convened by Deputy Mayor for Housing and Residential Development Tom Copley, brought together leaders from across London's housing delivery sector including councils, construction, unions and housing associations. The Taskforce considered specific support needed to maintain housing supply and provide confidence in the market, as well as what can be achieved by collaboration between the Mayor, councils and the housing delivery sector working in partnership.

### 8.3 Housing delivery and pipeline

8.3.1 There is evidence of a rising trend in housing delivery in the CAZ, NIOD, town centres and high streets. Figure 8.1 shows that annual average housing completions in the CAZ and NIOD increased from around 2,600 per annum during the four-year period April 2012 to March 2016, to over 4,700 per annum over the four-year period April 2016 to March 2020, an increase of around 80 per cent. This uplift was delivered entirely through conventional planning approvals since office to residential PDR does not apply in the CAZ and NIOD due to the original exemptions and recent Article 4 Directions (see Section 3).

8.3.2 Housing delivery in town centres and high streets in London also increased over the period April 2012 to March 2020, despite office to residential Article 4 Directions being introduced for several town centre locations. Figure 8.1

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<sup>129</sup> <https://www.london.gov.uk/what-we-do/housing-and-land/tackling-londons-housing-crisis>

<sup>130</sup> <https://www.london.gov.uk/what-we-do/housing-and-land/increasing-housing-supply/covid-19-housing-delivery-taskforce>

illustrates the particular importance of edge-of-centre town centre and high street locations for housing delivery.

**Figure 8.1 Annual average housing completions in the CAZ/NIOD, town centres and high streets in London, April 2012 – March 2020**

|                            | Annual average<br>April 2012 – March 2016 | Annual average<br>April 2016 – March 2020 |
|----------------------------|---|---|
| CAZ + NIOD                 | 2,649                                     | 4,732                                     |
| Town centres               | 5,627                                     | 8,939                                     |
| Town centres + 800m buffer | 18,372                                    | 22,683                                    |
| High Streets               | 8,834                                     | 10,662                                    |
| High Streets + 800m buffer | 14,874                                    | 17,846                                    |

Source: Planning London Datahub. Note figures cannot be summed due to overlapping geographies.

8.3.3 There is also a healthy housing development pipeline in the CAZ, NIOD, town centres and high street locations where the Mayor supports Class E to residential Article 4 Directions (see Figure 8.2). In the CAZ and NIOD alone, there are 37,000 dwellings in the planning pipeline (13 per cent of the total pipeline). Within London's town centres there are more than 58,000 dwellings in the pipeline, or 21 per cent of the London total. When sites within 800 metres of a town centre are included, the pipeline rises to over 108,000 dwellings, almost 40 per cent of the London total.

**Figure 8.2 Housing pipeline in CAZ/NIOD, town centres and high streets in London, 2019**

|                            | Number of dwellings in the<br>planning pipeline | % of London total |
|----------------------------|---|-------------------|
| CAZ + NIOD                 | 36,918  | 13%               |
| Town centres               | 58,787  | 21%               |
| Town centres + 800m buffer | 108,260   | 39%               |
| High Streets               | 54,796  | 20%               |
| High Streets + 800m buffer | 77,014  | 28%               |
| London                     | <b>278,794</b>                                  | <b>100%</b>       |

Source: Planning London Datahub data recorded on 28 May 2021. Pipeline subject to daily changes in permissions granted and lapsed and borough reporting. Note figures cannot be summed due to overlapping geographies.

8.3.4 Figure 8.2 includes housing developments with planning permission that are either under construction or not yet started on site. Based on evidence in the Strategic Housing Land Availability Assessment (SHLAA) almost 30 per cent of London's housing capacity on large sites is located within or on the edge of a town centre – providing capacity for 197,000 homes over the first 10 years of the new 2021 London Plan. This demonstrates that in London, the planning system will continue to deliver sustainable development and respond to the needs of the market – both commercial and housing – by

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ensuring sufficient space for commercial uses in town centres and high streets whilst delivering high quality, housing and mixed-use development.

## **8.4 Use of Article 4 Directions to support greater levels of housing delivery**

- 8.4.1 In London, housing needs are high, and issues of affordability and homelessness are acute. This coupled with constraints to land supply, including significant green belt, means that it is essential that every parcel of available land appropriate for housing development, is optimised.
- 8.4.2 Class E to residential PDR allows for existing buildings to convert to residential use utilising an existing footprint, scale and layout. Whilst this may deliver some homes in the very short term, inevitably this could result in missed opportunities for significant housing delivery where sites have already been identified for redevelopment for residential or residential-led mixed-use (in some instances including the existing on-site uses), or that may become suitable for such development over time. Following the permitted development route may not realise a site's optimum potential benefit. This can best be achieved through masterplans or design considerations that would account for site features and context and enable appropriate higher density development.
- 8.4.3 It is also important to recognise that because PDR development does not include affordable housing, this creates a 'cliff edge' for investment decisions. It is likely to be the case that for some developments the financial hurdle of the affordable housing requirement from full planning permission cannot be overcome by the additional value generated by comprehensively redeveloping the site. This results in permitted development schemes that fail to deliver the amount of development a site is capable of accommodating because it is not cost effective to go down the planning application route. Overall, PDR inflates land values which is a disincentive to requiring and redeveloping land comprehensively.
- 8.4.4 In London, scarce land supply means that finding new sites elsewhere that could make up for under delivery caused by PDR is extremely challenging. Optimising all sites that are suitable for housing development therefore is essential.
- 8.4.5 Article 4 Directions can also be a useful tool for ensuring that development capacity is optimised, particularly where comprehensive redevelopment is planned. They may be appropriate for large housing or mixed-used sites, including sites safeguarded for strategic infrastructure. Article 4 Directions can also support the realisation of housing targets for the Opportunity Areas and the wider implementation of Opportunity Area Planning Frameworks and masterplans.

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- 8.4.6 Article 4 Directions could be used in situations where a more holistic approach to development and site assembly is needed in and around town centres. This can support both a greater quantity and better quality of housing and new commercial development (where there is demand) compared to ad hoc conversions through the PDR route.

## **8.5 Conclusions**

- 8.5.1 The Mayor is committed to increase housing delivery in London and continues to use his funding and planning powers to unlock housing development opportunities and increase the supply of good quality homes that meet Londoners' diverse needs.
- 8.5.2 The London Plan contains policy to ensure the proactive delivery of housing in locations where the Mayor is providing strategic support for Article 4 Directions to remove Class E to residential permitted development rights, including the CAZ, NIOD, town centres and high streets. There is also a healthy housing development pipeline in these locations.
- 8.5.3 In the context of the national housing crisis and constrained land supply, it is essential that all sources of supply – if appropriate for housing delivery – are used to best effect. Article 4 Directions can be a useful tool for ensuring that development capacity is optimised through site allocations, masterplans and town centre strategies, delivering better outcomes for housing delivery, housing quality and place-making.

