



The need for new small business units In Welwyn Hatfield Borough

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1 INTRODUCTION & SUMMARY

- 1.1 PBA have been instructed to review the employment plan evidence for Welwyn Hatfield Council with particular regard to the provision of small business units; especially those suited to B1b firms.
- 1.2 Our review of the evidence suggests that there is a need for additional land to support the growing R&D sector, through the provision of small, high quality, flexible business units has been overlooked in the Councils evidence base so far.
- 1.3 We reach this conclusion for the following reasons. Firstly, while we find that the Council's evidence base correctly identifies a growing demand for office space related to R&D type activities it then makes a broad brush assumption that this market can be accommodated in B1 space which is then assumed to be B1a 'main office space'. In practice much of the R&D type activity is undertaken in small business units which share basic structural characteristics with small industrial units but tend to prefer higher quality environments. This is supported by our own market analysis which we also discuss in this report.
- 1.4 Regarding industrial space, which includes small business units, the evidence makes no positive provision because it assumes only B2 (manufacturing) occupies sites such as these and demand for industrial use is declining. The evidence especially fails to address the need for high quality, small business units that meet some of the need the Council's Employment land Review (ELR, Atkins, 2014) assumes is catered for in the main office supply.
- 1.5 Finally, it is our opinion that the ELR makes no adjustment for 'overspill' industrial space. As an increasingly large proportion of London's employment space is redeveloped for other uses, the city is expected to turn to the regions to accommodate this need. While the study identifies a strong commuting relationship between Welwyn Hatfield and London and the good transport links between the two, the study does not begin to consider accommodating London's employment floorspace particularly in the B1b, B1c and B8 sectors.
- 1.6 In the rest of this paper we first examine the approach taken in the Employment Land Review, highlighting why it may be underestimating the demand for employment land in the Borough and particularly the demand for good quality B1b or small business unit type space. We then move on to the market demand for additional R&D space and why this space cannot be provided on old, existing sites.

2 HOW MUCH EMPLOYMENT LAND IS NEEDED?

Introduction

- 2.1 In 2014 the Council published an updated assessment of how much employment land is needed over the next 20 years. The assessment was undertaken by Atkins and followed a reasonably standard method. Our analysis however suggests that the study may underestimate the demand for employment land for a number of reasons.
- 2.2 Firstly, the study under-estimates the demand for employment land because it relies on an out of date and now superseded Experian projection. This presents a much more pessimistic view of how much employment land is needed compared to the sub regional studies the report considers and also alternative forecast models.
- 2.3 Secondly, the study recognises the strong economic and property market links with London but makes no adjustment or allowance for potential displaced London demand to be accommodated in Hertfordshire.

The Employment Projections

Introduction

- 2.4 The approach used in the ELR considered a number of different employment projections and applied job density and plot ratio assumption to derive the amount of employment land needed.
- 2.5 We find that the assumptions used to arrive at the amount of office land and floor space does not conform to best practice and an apparent error in the calculations means that the study underestimated the demand for office land by up to 20%.
- 2.6 Our review also suggests that the selection of a 'preferred' job forecast is overly pessimistic and is not actually based on any sound evidence presented in the report.

Translation of Jobs into Floor space and Land

Employment densities

- 2.7 The ELR adopts a single employment density estimate for all office jobs, including general office but also R&D (B1b). The study adopts a density of 1:12 FTE which is attributed to the HCA Employment Densities Guide Second Edition.
- 2.8 Referring back to that guide, the 1:12 is quoted as a reasonable density what the HCA guide calls 'General Offices' in the B1a use class. This is lower than many older ELRs use for offices but is not unreasonable given that office densities have been increasing as firms seek to make ever more intensive use of their office space.
- 2.9 However the ELR applies the same ('tight') assumption across both B1a and B1b use uses. In this regard the source document (HCA Guide) does not suggest 1:12 is appropriate to apply to R&D (B1b) space so the use of this density for this type of space is unsupported by the source document.

- 2.10 In many areas this oversight would not be significant; but here the ELR (and other strategic policy documents) highlight the importance the R&D (B1b) sector plays in the local economy. It is highlighted as a significant sector today but also one with strong growth potential. It is therefore vital that this sector is given the correct space to grow.
- 2.11 Unfortunately, the HCA provides no employment density for B1b R&D space. However from our experience space occupied by many R&D firms is used much less intensively than general offices. This is because many R&D properties include some space for laboratories and frequently some small manufacturing / workshop space. At the small end of the market; for new R&D SME firms, the type of space they require is more akin to small industrial units than standard HQ office space the ELR assumes they occupy.
- 2.12 So the use of the 1:12 density for both offices and R&D space appears wrongly referenced and sourced to the HCA. Given the characteristics of many R&D companies it is likely they do not use their space as intensively as main office occupiers.
- 2.13 In this regard the ELR may be under-estimating the amount of floor space required for both offices and R&D activities.

Plot Ratios

- 2.14 A further complication is that the ELR assumes all office floorspace, including that used for R&D activities, is accommodated at a plot ratio of 75%. We can find no evidence to support this assumption and from our experience it appears excessive. Older ELRs tended to assume offices were developed at a 40% plot ratio. This reflected the landscaped 'campus' style developments that gained popularity in the 1980s and are still in demand today.
- 2.15 There is still a market for this 40% plot ratio development but more recent ELRs tend to assume a denser form of development, including some multi-story parking and buildings 4 or 5 stories high. This allows for a 60% plot ratio assumption. Occasionally a higher assumption may be made for highly accessible sites where onsite parking is not required and the buildings can exceed 5 floors. Town centres are the most obvious example of this. On some select sites a density assumption above 60% may therefore be justified. But here most sites tend to be redevelopment options and yield little (or any) net additional floor space. In this context a blanket 75% plot ratio for both offices and R&D across the whole district area appears to be out of alignment with industry best practice.
- 2.16 Furthermore, close examination of the method also suggests an additional problem with the assumptions. The study appears to make no adjustment to translate the employment density, which is calculated on using assumptions based on Net Internal Floorspace into Gross Internal Floorspace which is used to calculate total building sizes and plot ratios.
- 2.17 As referenced in the HCA guide the 1:12 density applies to the Net Internal Area (NIA) and a 15-20% uplift is required to arrive at the total size of the building (Gross

Internal Area or GIA). This second, GIA, figure reflects the size or massing of buildings and is used to calculate plot ratios.

- 2.18 Paragraph 2.8 of the HCA provides a worked example of this which is reproduced below.

Use 15-20% as a general benchmark for converting gross to net areas in office and retail properties.

Worked Example 1 – Converting GIA to NIA

Example Development:	1,000m² GIA development of B1 General Office space
Appraisal:	<p>NIA is derived by applying benchmark:</p> <p style="text-align: center;">1,000m² x (100-15)% = 850m² NIA</p> <p style="text-align: center;">OR</p> <p style="text-align: center;">1,000m² x (100-20)% = 800m² NIA</p> <p>The figure used will be dependent on the level of space efficiency anticipated at the building. For more efficient buildings, use a lower conversion percentage of 15%.</p>

- 2.19 By omitting this translation the ELR may underestimate the demand for land by 15-20%. This means that 15%-20% more land is needed than the ELR assumes to accommodate the same number of jobs at a 1:12 (NIA) employment density.
- 2.20 Or, alternatively, that the actual developed plot ratio needs to be higher than the 75% assumed in the ELR. To accommodate all the jobs with no new land requires a plot ratio approaching 100%. Given that 75% appears optimistic a 100% (corrected) plot ratio looks exceptionally unrealistic and implausible.

The number of jobs to be accommodated

- 2.21 In summary, we found that the ELR may underestimate the amount of floor space required to accommodate any given number of jobs because it assumes both offices and R&D jobs can be accommodated at 1:12 NIA. We have then suggested that the amount of land needed is then underestimated because the study uses unrealistic plot ratio assumptions.
- 2.22 In this section we look at the total number of jobs the ELR seeks to accommodate. This analysis suggests the ELR may be providing too few jobs.

The Preferred Scenario

- 2.23 The ELR adopts a "preferred scenario" which is significantly lower than any other scenarios considered by the study.
- 2.24 The preferred scenario is also described as the 'bottom up' Experian scenario. There is limited evidence to support this scenario; chapter 8 of the ELR provides no detail at how this scenario was developed beyond stating:

“Scenario 2 uses the Experian base scenario as its starting point but makes a series of different sector-specific growth assumptions. These assumptions were developed based on the feedback received from key stakeholders in November 2013”

- 2.25 This lack of evidence is surprising given the weight the study then places on this scenario. In summary the ELR provides no evidence to support its preferred scenario which leads us to question its validity; especially given it provides for only half the number of B class jobs as the baseline Experian model.
- 2.26 The downward revisions made in this projection are also contrary to many of the sub regional and strategic evidence base documents reviewed in the ELR; most noticeably the Local Enterprise Partnership (LEP) growth plans, the Hertfordshire Strategic Sites Study, and Hertfordshire Economic Outlook. Most strategic studies recognise that the office market is oversupplied with poor quality sites and stock but all highlight a high growth potential often centred on high value R&D actives. The strategic evidence base suggests new sites are needed to compete while older, previously developed sites (less attractive to the market) can be released for other uses.
- 2.27 These important findings do not appear to be translated in to the preferred scenario; office and R&D floor space demand is suppressed in this scenario and the Experian baseline reduced. When looking for sites the ELR suggests the remaining office demand can be accommodated on old sites including some former manufacturing sites; a contrary conclusion to that made in most of the strategic evidence base. In other studies the poor quality of the stock of sites vs what is in demand for growing sectors is cited as a significant local economic constraint.
- 2.28 There will always remain some uncertainty about projections and the scale of job growth expected. However, by purposely suppressing independent economic forecasts, and not providing the supply of land they suggest, the ELR can only constrain these alternative growth outlooks. By suppressing the amount of land for offices and R&D, the ELR makes the delivery of other stakeholders' more optimistic outlooks impossible to achieve.
- 2.29 A further concern is that the preferred scenario has fewer jobs than the baseline. But fails to examine where the workers Experian assumed would work in these baseline model will now work in the future.
- 2.30 As a headline figure the bottom up projection provides only 8,333 jobs whereas the Experian baseline provided 10,200. This means that 1,867 workers; who in the baseline would be working in the district, are no longer under the preferred scenario being provided with a job. The document is unclear whether these workers are now expected to commute elsewhere or the study expects unemployment and economic activity changes to flex and absorb these.

The Experian Baseline

- 2.31 As noted above the ELR used a September 2013 Experian Baseline projection as its starting point. Setting aside the alternative East of England Forecasting Model

(EEFM) projections (discussed below) this was the best available projection from Experian available at the time.

- 2.32 In summer 2014 Experian comprehensively revised their forecasting model to update it with new census and population projection data. The revision corrected a large number of now disproved assumptions (due to the census) and was also more optimistic about future economic performance given the improved economic outlook in 2014 compared to 2013. The extent of change for any given area varies across the UK. In some areas this revision was significant; in parts of Dorset (where PBA has supported the Councils) this revision increased the number of jobs in the projection by 300%.
- 2.33 Here we have checked the latest Experian Model run (Winter 2014) with that used in the ELR (September 2013).
- 2.34 For the baseline data Experian have now corrected the historic data; reflecting post census analysis. They are also more optimistic about future job growth than assumed in the ELR baseline.
- 2.35 For the past however, the new Experian data, including post census revisions, is much lower in 2013 than Atkins assumed. The ELR suggests 2013 total full-time equivalent (FTE) employment was 73,300 but the revised Experian data shows that 2013 employment was much lower at only 67,650.
- 2.36 For job growth the ELR baseline suggested FTE job growth of 10,200 jobs over 2013 - 2031 whereas the new Experian model shows 25% higher growth at 12,950 jobs. Job growth also varies by sector.

Table 2-1 Comparison Between Atkins 2013 and PBA 2014 Experian Forecasts

Sector	Atkins Experian Base Scenario (September 2013)		PBA Experian Base Scenario (Winter 2014)	
	FTE Job Change 2013-2031 ('000s)	% FTE Job Change 2013- 2031	FTE Job Change 2013-2031 ('000s)	% FTE Job Change 2013-2031
Professional Services	1,800	30%	2,710	41%
Administrative and Support Services	1,500	24%	2,080	27%
Retail	1,000	8%	890	8%
Wholesale	1,000	9%	2,660	30%
Telecoms	900	14%	290	-9%
Textiles & Clothing	-100	-98%	50	-42%
Printing and Recording Media	-100	-29%	70	-19%

Sector	Atkins Experian Base Scenario (September 2013)		PBA Experian Base Scenario (Winter 2014)	
	FTE Job Change 2013-2031 ('000s)	% FTE Job Change 2013- 2031	FTE Job Change 2013-2031 ('000s)	% FTE Job Change 2013-2031
Machinery & Equipment	-200	-44%	20	-6%
Metal Products	-300	-42%	20	-4%
Public Administration and Defence	-400	-12%	620	-20%
Total	10,200	14%	12,960	16%

2.37 When this comparison is broken down by sector we find that professional services and wholesale record a much higher rate of growth in the PBA Experian Projections than in the Atkins Projections. Similarly, the updated PBA projections show a marked decline in sectors including telecoms, Public Administration and Defence.

2.38 We have not compared this updated baseline projection with the 'preferred scenario' but we note that some of the office sectors, suppressed in the preferred scenario, still show strong growth in the updated baseline. Most noticeably professional services is now forecast to grow employment by 41%, compared to 30% in the older projection and we assume lower growth in the ELR 'preferred scenario'. The preferred scenario highlights health (52%); land transport, storage & post; and retail and warehousing as key growth sectors.

The EEFM models

2.39 The EEFM models were discussed in the ELR but were discounted in favour of a lower Experian baseline projection and then an even lower preferred scenario.

2.40 This is despite this model being used as the base case in several of the strategic studies; the Strategic Sites Study even noted the optimistic outlook for high value R&D sectors emerging from the EEFM.

2.41 The EEFM base projection is considerably higher than the Atkins base projections. According to EEFM, 16,354 new jobs are will be created in the District between 2013 and 2031. This is almost double (96%) the number of jobs quoted in the preferred "bottom up" Experian projection. Key growth sectors include business services; professional services and retail while the most notable declines are forecast for general manufacturing and public administration.

2.42 We would suggest that the EEFM should not have been so readily discounted in the ELR; especially given that it provides a common baseline for most of the Eastern Region and so a sound basis from which to work the Duty to Co-operate.

Table 2-2 EEFM Base Projection

Sector	EEFM Base Forecast	
	FTE Job Change 2013-2031 ('000s)	% FTE Job Change 2013-2031
Business Services	4,021	57%
Professional Services	3,208	61%
Retail	3,193	26%
Construction	1,225	41%
Hotels and Restaurants	1,167	40%
Chemicals	- 132	-19%
Metals	- 142	-26%
Education	- 179	-2%
General Manufacturing	- 200	-22%
Public Administration including Land Forces	- 205	-8%
Total	16,354	23%

London

- 2.43 London's growing space concerns are already well documented especially in relation to housing. This issue is also relevant to employment land. Emerging trends point to the fact that out of London authorities will increasingly be called upon to help support the capital in regards to both housing and employment land needs.
- 2.44 In this light it is strange to note that none of the scenarios considered in the ELR explored the growing need for districts outside of London to help accommodate some of London's potential employment land needs.
- 2.45 The London Boroughs' remaining industrial land stock is being released at a much faster rate than the GLA evidence envisaged (GLA Industrial Land Release Benchmarks, 2011). There is also ample market demand analysis, including that in this ELR which shows that Hertfordshire is accommodating a greater share of London's employment land demand.
- 2.46 This is most noticeable for warehouses and small business units which are being forced out of London but still need to be accessible to the Capital's population. In the

most recent GLA evidence, the 2011 Benchmarks study, the GLA assumed a proportion of the Capital's growing warehousing needs will (in the future) be accommodated outside of London. This type of displaced demand is not modelled in the economic forecasts (Experian or others) and would need some form of upward revision.

- 2.47 Setting the forecasts aside our experience, and that of most agents and reported in the ELR, is that across the 'edge of London' the small warehousing and business unit stock is full with very low levels of vacancy. This chronic London overspill demand is one reason for this.

Office to Residential Conversions

- 2.48 Changes to the Town and Country Planning (General Permitted Development) (Amendment) (England) Order came into force in May 2013. The new rules permit amongst other things the conversion of B1 office space to C3 residential without the need for planning consent. Over the last 12 months six prior notifications were submitted to the Council resulting in the proposed conversion of office space into 193 dwellings.
- 2.49 While it is difficult to estimate the exact loss of employment floorspace, we note that the PDR is likely to have a significant impact on the Borough's employment floorspace particularly low density, campus style office developments and town centre office blocs. In particular, the conversion of three buildings formerly belonging to Xerox Business park into 133 dwellings is an example of a significant loss of high quality B1a and B1b floorspace. While the ELR acknowledges the impact of the PDR in the Borough, the loss of floorspace is not taken into account in its projections.
- 2.50 If these losses are significant the ELR ought to make a allowance for new land to replace this space.

Summary

- 2.51 The ELR adopts a very pessimistic outlook when looking to estimate future employment land demand.
- 2.52 The 'preferred scenario' is not supported by robust evidence and appears to be contradictory to the strategic evidence base documents reviewed in Chapter 8 of the ELR.
- 2.53 Furthermore, the ELR is based on an Experian model which was comprehensively updated and revised in 2014. A new Experian baseline is much more optimistic about the area's job growth potential even before any detailed London related adjustment is considered.
- 2.54 The pessimism in the preferred scenario is particularly acute to the office and R&D sectors. Contrary to the strategic evidence base documents the ELR provides very limited new land for offices and R&D sector and instead suggests what limited demand is forecast can be accommodated on the same sites the Borough has struggled to promote in the past.

- 2.55 Despite R&D being identified as a growing sector the ELR makes no positive land provision for it; instead grouping it with the poorly performing main office market.
- 2.56 While there is always a degree of risk and uncertainty in any evidence base document, it is obvious that unless the evidence base plans for and makes provision for some degree of aspiration the land will never be available to accommodate higher levels of aspirational growth and this poor performance then becomes a self-fulfilling prophecy.

Conclusions

- 2.57 The analysis above suggests that for office sectors the ELR is exceptionally optimistic about both the job densities to be achieved but also the plot ratios space can be delivered at. At the core our concern is that R&D, a locally important and growing sector, is omitted from the calculations and instead the ELR only provides for land at inappropriate 'general office' employment densities and plot ratios only applicable to exceptional accessible town centre sites.
- 2.58 Turning our attention to projected job growth, we also find that the analysis is also exceptional pessimistic about the growth potential of the area. Baseline job projections are revised downwards with no consideration as to what that means for 'missing workers' who are no longer assumed to take up jobs in the district. We also highlight a concern that this downward revision could become a self-fulfilling prophecy; unless the right sites are provided for the growing sectors (most noticeably R&D) these jobs can only be displaced elsewhere.
- 2.59 In the next chapter we look at the qualitative demand and supply of new business space in the borough.

3 MARKET DEMAND FOR ADDITIONAL R&D RELATED SPACE

Introduction

- 3.1 The main conclusion from our above analysis is that the ELR may be underestimating the need/demand for new space to cater for higher value research and development type activities. However we need to acknowledge that this sector is very difficult for any planning evidence base to make provision for because of the specialist nature of the space.
- 3.2 In this section we look at the more qualitative demand and supply for small business units, including those types of property we know from past experience are attractive to R&D type market.
- 3.3 We highlight how and why the more traditional property market struggles to provide to meet this need and why more specialist developers, with clearly designated sites, have a role to play in meeting this positive provision.
- 3.4 We start by summarising the strategic evidence base document; looking at what that says about R&D type sectors.
- 3.5 We then move on to look at the supply and market balance for property in the WH area.

Strategic policy review

- 3.6 A number of strategic documents referenced in the ELR make explicit reference to the growing importance of the R&D sector. Below we have summarised key passages relating to the R&D sector in the relevant strategic documents.

The Hertfordshire Strategic Employment Sites Study (2011)

- 3.7 The Hertfordshire Strategic Employment Sites Study (2011) suggested there was a lack of strategic employment sites in Hertfordshire. The study recommended that Hertfordshire and partners should seek to realise the EEFM Forecast Growth Scenario. The forecasting model indicated that 79,000 jobs will be required by 2031 in priority sectors including software, digital, life sciences, advanced manufacturing, creative and media, green industries, logistics, professional and banking and finance.

Perfectly Placed for Business: A Strategy for Smart Economic Growth in Hertfordshire 2013-2030 (2013)

- 3.8 The study identified that at a glance the Hertfordshire economy is performing well compared to elsewhere, although it is suffering from relative decline. Hertfordshire LEP outline the bodies desire to pursue a strategy of 'smart growth', growth based on knowledge and innovation.

Hertfordshire Local Enterprise partnership Strategic Economic Plan (2014)

- 3.9 The SEP singled out BioPark as a model R&D facility geared towards the biotech sector. According to the SEP, BioPark had become a hub for small biopharmaceutical, contract research and medical technology businesses. The facility also offered R&D space on flexible terms and has strong links to the University of Hertfordshire. The SEP described facilities like the BioPark as "invaluable for small, new and growing knowledge-based firms". The SEP emphasises the regions strategic location in relation to London which has seen significant investment in bioscience. Welwyn is therefore well placed to accommodate any R&D overspill from London.

Summary

- 3.10 Our review of the strategic policies indicates that the R&D sector is of growing importance to the local economy. High technology, science and innovation are seen as high growth areas in the district. The documents seek to boost Welwyn's strategic position in relation to the Golden Triangle research hubs.
- 3.11 However, the Borough's emerging Local Plan hinges on attracting large pharmaceutical to the Borough firms rather than providing small research units to meet local demand. We consider this approach to be unsustainable especially considering that it does not accommodate growing sectors of the local economy.

What we think the market wants?

- 3.12 The Atkins ELR assumes that most R&D activity is undertaken in B1 office space. This may be broadly true of the large, corporate market. It may also be the case for small and micro businesses who may start from serviced offices. However, this is not the case for all R&D firms.
- 3.13 As many smaller firms grow from their micro stage they start demanding flexibility in their property. As they grow they may need to use the same property as an office, laboratory, workshop and warehouse at different stages in their business cycle. Because they require this flexibility a standard office building, without the necessary flexible characteristics, is not attractive to this market.
- 3.14 But an old industrial building, on an industrial site, is also not suitable. Although occupiers may want to use their space flexibility they still seek a good quality physical environment akin to high quality office sites.
- 3.15 This market distinction is one reason for the separation of the B1 use class into three distinct sub classifications including B1b for research and development uses and B1c for some light industrial (which may also be used for R&D).
- 3.16 However, there is very limited supply of this type of space, sharing both the characteristics of small flexible business units but also on high quality sites. As we discuss below despite R&D activities being a local priority there is no space available on the market which meets this criteria. The bulk of the small office availability is in subdivisions of larger offices, with no industrial characteristics. There are a few small

workshop/warehouses on the market but these are all poor quality with asking rents below £10 sq/ft.

- 3.17 However, Gascoyne Cecil Estates have experience in successfully delivering high quality, small, flexible business units. This is evidenced by the fact that average rents range from £17 to £21 sq/ft, so well in excess of that achieved by standard industrial property and most secondary office space on the market; highlighting that this is a distinct market sector with specialist property needs.
- 3.18 The strategic location of the proposed development site next to the railway affords easy connections to leading centres of research in London including the Francis Crick Institute and UCL as well as the Royal Veterinary Clinic facilities in Camden. Looking North, Welwyn Garden City and Cambridge are within commuting distance. Work has recently commenced on the reinstatement of the East West Railway which will ultimately complete the Oxford, Cambridge London triangle. This will be completed within the Local Plan period and place Marshmoor at the heart of this important growth region.

Demand and Supply of Space for R&D

- 3.19 Above we have suggested that both strategic evidence and also our Clients' own experience suggests a high demand for small, self-contained, property which can appeal to growing R&D sectors.
- 3.20 Before confirming if more space is needed we first briefly review the existing supply; if only to confirm our Clients' opinion that there is little stock matching these criteria currently available on the market.

Space Available

- 3.21 To quantify the scale and quality of stock currently available on the market we undertook an analysis of Co-Star/ Focus data in early March 2015. Focus is a well-respected and widely used source of property market data.
- 3.22 The search showed that there was currently 100,000 square metres of floorspace on the market within the postcode areas of AL6 - AL10. This is slightly lower than the 114,000 identified in the ELR and likely to reflect the fact that some space will have been taken up between that study and our search.
- 3.23 Around half of the space available is for B1 offices, 32,000 for general industrial and 15,000 for B8.

Table 3-1: Properties on the Market

Use	Sum of Sq M Available	No. of Properties
B1 (business)	52781	39
B2 (general Industrial)	31894	9
B8 (storage And Distribution)	14864	1
Grand Total	99539	49

- 3.24 Looking at the qualitative make up of this available supply the data suggests most of the office supply is in older office buildings which have on occasion been subdivided into smaller units. Very little, if any of the office space available could be considered suitable for small R&D occupiers who are seeking flexible space, ideally self-contained and on good quality sites. The sub-divided office space is incapable of being used flexibly and so does not appeal to many R&D type firms.
- 3.25 The B2 availability schedule shows a very small number of self-contained business units; around 5 units are being marketed totalling 3,049 sqm. But all of these units are second hand (non-refurbished) and in general poor quality. Advertised rents are around £8 per square foot.



Available Employment Stock

- 3.26 In summary there is no supply of good quality, self-contained and flexible property on the market today. The only small business units available are poor quality and this is reflected in the low asking rents.

Space Taken Up

- 3.27 We have also used Focus to look at the space taken up since 2011. Over 220,000 square metres of space was taken up between 2011 and 2014.
- 3.28 The analysis shows very little of this space was for B1a offices, despite the large stock available. This confirms the ELR conclusion that the main office market is oversupplied with space.
- 3.29 But the data shows buoyant demand for industrial and warehousing space especially at the smaller end of the scale. In the four years 22 units were taken up below 1,000 square metres. Most of this was on poor quality sites although this is likely to only reflect the fact there is no higher quality stock available.
- 3.30 What the data suggests is that there is high demand for small units regardless of their quality. It confirms the analysis in the ELR which at paragraph 4.5 suggested that light industrial and warehouse properties were in short supply.

Table 3-2 Floorspace taken up 2011-2014 (sq.m)

Use	New or Refurbished	Quality Not Disclosed	Second Hand	Under Construction	Grand Total
B1 OFFICE/BUSINESS	7594	6414	33416		41010
DISTRIBUTION WAREHOUSE		15062			0

GENERAL INDUSTRIAL			677	21866	78284
INDUSTRIAL/WAREHOUSE	718	459	6701		7419
LIGHT INDUSTRIAL			243		243
SERVICED OFFICES			43		43
WAREHOUSING	9616	3519	59630		69246
Grand Total	17928		100710	21866	196245

- 3.31 144 units were taken up over the last 4 years. Of these the majority were small units (less than 1,000 square metres). Of small industrial and warehouse units only 5 were small, self-contained properties.

Table 3-3 Number of units taken up 2011-2014 (sq.m)

Use	New or Refurbished	Quality Not Disclosed	Second Hand	Under Construction	Grand Total
B1 OFFICE/BUSINESS	10	8	60		78
DISTRIBUTION WAREHOUSE		1			1
GENERAL INDUSTRIAL			4	1	6
INDUSTRIAL/WAREHOUSE	3	1	16		20
LIGHT INDUSTRIAL			2		2
SERVICED OFFICES			1		1
WAREHOUSING	8	8	64		80
Grand Total	21	18	147	1	188

Why can this space not be provided on older sites?

- 3.32 As noted above the ELR makes no positive provision for new sites and makes the basic assumption that new sites are not necessarily required because "...the majority of office floorspace supply would come from vacant / underutilised land identified in the existing employment areas." This includes reusing sites formerly identified for main office uses for new growing sectors but also former manufacturing sites as those sectors continue to decline.
- 3.33 This is a common approach and one which is potentially valid for some uses. But it is not a viable delivery mechanism for small, high quality business units which may be attractive to R&D type occupiers. Looking at why most office sites cannot be used, estate agents note that this switch, from main office into small business units is rarely, if ever, viable.
- 3.34 The main reason is that the land formerly used or promoted for offices will carry a value which assumes a much higher development density than is commonly secured on small business unit schemes. The benchmark plot ratio for a 'main' office site is

now around 60%. This means that a 1 hectare site with planning permission (or allocation) for main office uses is valued on the assumption it will deliver at 6,000 square metres of lettable space per hectare. Whereas a development of small, high quality, business units may only achieve a 40% plot ratio delivering about 4,000 square meters. With this office value built in to a developer's assumptions (and values) it is not realistic for most developers to write down the 50% floorspace and accept a lower density small business scheme.

- 3.35 Furthermore, few developers are willing to deliver small business schemes. This is because of the added risk of void periods and high management costs when compared to a larger scheme.
- 3.36 The 'ideal' model tenant for any developer's office scheme is a single corporate occupier on a long lease. This guarantees the building owner an income at minimal management effort. Small units are however much more complex to provide, manage and carry added risk because few tenants have strong financial balance sheets. The risk of 'voids' is therefore much higher, and the management of many small occupiers more complex and costly.
- 3.37 This problem applies both to office sites but also the potential redevelopment of manufacturing sites. As identified in the ELR warehousing is in high demand in the Borough. Experian also projects significant growth in the sector to 2031. Agents tell us that where sites are potential candidates for redevelopment their advice is normally to promote either housing as a first option but failing that medium to large warehouse schemes. Rarely do they advise the provision of small business units; despite there being demand for both warehouses and small business units.
- 3.38 Their reason is that warehouses are much cheaper to build when compared to small business units. Warehouses do not require the same standard of site (landscaping, higher parking requirements etc.) and are also easier to manage being larger units with fewer potential tenants. This means that few developers are willing to promote new small business unit developments on existing sites. Even on new sites, few developers will seek such schemes; in this regard the owner here is unusual.
- 3.39 Agents note that even in areas well known for small business units, built to appeal to R&D occupiers such as Cambridge or Oxford, the main providers are often the universities themselves or (formerly) supported by the Regional Development Agencies. These had an added incentive to provide such space to secure their R&D supply chains.

Summary

- 3.40 In summary, our review of strategic, evidence base documents points to the importance of the growing innovation, biotech and engineering sectors. It is our opinion that the Borough's biotech and innovation strategy should underpinned by the provision of small, high quality R&D space. Our review of the market suggests that demand for good quality R&D space is high as evidenced by the premium rents they command, when these facilities are made available, as they have been in other locations in and around the Borough, by our Client Gascoyne Cecil Estates. In our

research we found that the market has generally provided poor quality B1, B2 and B8 units, most of which would be unsuitable for R&D units. Furthermore, we do not consider the Council's approach to redeveloping brownfield land a viable mechanism to the delivery of R&D units as the market is more likely to deliver more lucrative and profitable developments such as housing or large warehouses rather than R&D units. Finally, changes to the Government's legislation on Permitted Development Rights will continue to have an impact on the Borough's employment floorspace which so far remain unaddressed.

4 CONCLUSION

- 4.1 Our review of Atkins' Economic Study points to significant oversight in the provision of small, high quality R&D units. While the report highlights that employment in the R&D sector is set to grow over the proposed plan period (2031) the report makes no quantitative or policy based recommendations on how this need should be met. In any case recent economic forecasts by both Experian and EEFM offer an optimistic economic outlook for the District with job numbers projected to grow more than previous estimates. Furthermore, the ELR fail to consider the impact of the loss of London's employment space on the surrounding region. More recently, Permitted Development Rights have resulted in a significant loss of employment floorspace to residential use. This too has not been addressed in the ELR.
- 4.2 From our analysis of Welwyn's property market we found that small, high quality B1b floorspace is in high demand and short supply. This is evidenced by the fact that there is a quick turnaround on B1b properties that come onto the market. High quality spaces in particular have achieved fairly high rents reflecting their value and relative scarcity on the Welwyn Hatfield property market.
- 4.3 That being said, there is reluctance by developers to provide this sort of accommodation, as they prefer to supply straightforward employment floorspace including offices, manufacturing and warehouses as yields are higher, potential tenants are more likely to sign long leases and the cost of managing them is far lower.
- 4.4 Thus there is an acute under provision of small, high quality B1b spaces. We have identified that there is a market for this type of floorspace which is set to grow over the plan period. While the Economic Study expects this provision to fall under the general B1 uses, we have discussed exactly why this is not possible. Moreover, redevelopment of poor quality industrial and office floorspace is would not viably deliver small R&D spaces due to the lower yield they command.
- 4.5 If the Council wishes to promote the growth of small, SME R&D type firms, one legitimate policy response is to provide new land to allow the development of new, high quality, small business units. This approach does not appear to have been fully considered in the evidence so far.