



GL Hearn

# Elmbridge Commercial Property Market Study

Elmbridge Borough Council

August 2014

## **Prepared by**

GL Hearn Limited  
20 Soho Square  
London W1D 3QW

T +44 (0)20 7851 4900  
F +44 (0)20 7851 4910  
glhearn.com



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## Quality Standards Control

The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator.

This document must only be treated as a draft unless it has been signed by the Originators and approved by a Business or Associate Director.

DATE  
August 2014

ORIGINATORS  
Paul McColgan  
Associate, Planning



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APPROVED  
Jon Pinkerton  
Director, Development Consultancy



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### Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

## 1 INTRODUCTION

1.1 GL Hearn was commissioned by Elmbridge Borough Council in December 2013 to carry out a Commercial Property Market Study, which will form part of the Council's Employment Land Review. A full Employment Land Review has not been commissioned by the Borough. The aim of this study is to review the Borough's commercial property market, assess future demand for employment use types from a market demand and employment needs perspective and provide a robust and defensible evidence base to inform the continued development of the Local Plan. It will support decision making on;

- the potential allocation of employment sites for redevelopment;
- the designation of key areas of commercial property as strategic sites that would protect them from any redevelopment to non-employment uses; and
- the possible implementation of article 4 directions.

1.2 The key objectives of the study were outlined in the study brief. These were to:

- establish the current status of the Borough's commercial property market providing an assessment of the loss, take up, demand for, and value of the different types and quality of employment floorspace;
- develop a market perspective of existing and long term vacancy of land that reflects the economic conditions and needs of business.
- assess the likely future demand for the different types, and different quality, of commercial property in the Borough, in particular assessing the impact of commercial developments in neighbouring Boroughs on the demand for office space;

1.3 This report sets out the policy context within which employment land and premises operate in Elmbridge. It provides a review of the national and local policies relevant to the development and safeguarding of employment land within the Borough.

1.4 During January/February 2014 a series of site visits to employment sites in the Borough were undertaken. The purpose of these was to ensure that the GL Hearn team had a good understanding of the employment stock and sites to help inform the commercial property market assessment and engagement with stakeholders.

1.5 A market review of the office and industrial property sectors has been undertaken from a national and regional level down to a settlement level within Elmbridge. Information has been drawn from published reports, Council data, industry databases, discussions with agents and GL Hearn research.

1.6 We have provided an overall assessment of the Borough's employment land and forecast demand for additional employment space. This will also evidence the Borough's Investment and Development Plans (ID Plans) and any update to the Core Strategy/Local Plan.

- 1.7 The focus of the study is employment within B-class and Sui-generis use classes. This is as defined by the Town and Country Planning Act (Use Classes) Order of 1987<sup>1</sup>.
- 1.8 A number of methods have been applied and a variety of paid for and freely available sources have been used to gather information. This has included a desktop assessment of available statistics from the ONS and VOA and targeted consultation with local commercial property agents and businesses operating within the Borough.

### **Structure**

The report is structured as follows:

- Section 2 provides an overview of the relevant national and local planning policies and documents in relation to the assessment of employment land;
- Section 3 provides an economic baseline for the Borough, reviewing employment levels, sectoral analysis and start up rates;
- Section 4 provides a property market review of the office and industrial property market sectors from a regional and national level down to an individual settlement level within Elmbridge;
- Section 5 outlines the results of discussions with representative stakeholders;
- Section 6 provides a commercial review of Elmbridge's portfolio of employment land;
- Section 7 contains our forecasts of demand for additional employment space;
- Section 8 considers the impact of permitted development rights for office to residential conversions on the Borough's stock of employment land; and
- Section 9 provides our conclusions.

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<sup>1</sup> <http://www.legislation.gov.uk/ukxi/1987/764/schedule/made>



## 2 CURRENT POLICY CONTEXT

2.1 This section reviews the policy context for employment land provision at a national and local level.

### NATIONAL PLANNING POLICY FRAMEWORK

2.2 The National Planning Policy Framework (NPPF) was published in March 2012 with the aim of making planning more streamlined and accessible. Through its publication the NPPF replaced the guidance set out in a number of Planning Policy Guidance and Planning Policy Statements. The NPPF sets out the Government's planning policies for England and how these are expected to be applied.

2.3 The purpose of the NPPF and the wider planning system is to contribute towards sustainable development. The policies in the NPPF set out the government's view on what sustainable development means in practice. There are three core dimensions to achieve this:

- **an economic role** – contributing to building a strong, responsive and competitive economy, by ensuring that sufficient land of the right type is available in the right places and at the right time to support growth and innovation; and by identifying and coordinating development requirements, including the provision of infrastructure;
- **a social role** – supporting strong, vibrant and healthy communities, by providing the supply of housing required to meet the needs of present and future generations; and by creating a high quality built environment, with accessible local services that reflect the community's needs and support its health, social and cultural well-being; and
- **an environmental role** – contributing to protecting and enhancing our natural, built and historic environment; and, as part of this, helping to improve biodiversity, use natural resources prudently, minimise waste and pollution, and mitigate and adapt to climate change including moving to a low carbon economy.

2.4 The NPPF requires local authorities to set a clear economic vision and strategy based on an understanding of the existing business needs, likely changes in the market and any barriers to investment. This understanding should be achieved through working with the local business community, neighbouring Local Authorities and the Local Enterprise Partnership (LEP).

2.5 Paragraphs 18 to 22 to the NPPF set out the Governments strategy to allow planning to build a strong competitive economy. This includes a requirement for local planning authorities to plan proactively to meet the development needs of businesses and support an economy fit for the 21st century. It also includes a requirement for local authorities, when drawing up local plans to:

- Set out a clear economic vision and strategy;
- Set criteria or identify strategic sites for local and inward investment;
- Support existing business sectors and where possible identify and plan for new or emerging sectors likely to locate in the area. Policies should be flexible enough to accommodate needs not anticipated in the Plan;
- Plan positively for the location, promotion and expansion of clusters or networks of knowledge driven, creative or high technology industries;

- Identify priority areas for economic regeneration, infrastructure provision and environmental enhancement; and
- Facilitate flexible working practices.

2.6 Paragraph 22 states that planning policies should avoid the long term protection of sites allocated for employment use where there is no reasonable prospect of a site being used for that purpose. Where there is no reasonable prospect of a site being used for the allocated employment use, applications for alternative uses of land or buildings should be treated on their merits having regard to market signals and the relative need for different land uses to support sustainable local communities.

### **NATIONAL PLANNING PRACTICE GUIDANCE**

2.7 The National Planning Practice Guidance (NPPG) was published in March 2014. This follows on from the NPPF and stipulates more direct guidance on assessing housing and economic development needs.

2.8 Two of the primary objective of assessing housing and economic development need are to:

- identify the future quantity of land or floorspace required for economic development uses including both the quantitative and qualitative needs for new development; and
- provide a breakdown of that analysis in terms of quality and location, and to provide an indication of gaps in current land supply.

2.9 Any assessment of need should be realistic in taking account of the particular nature of that area (for example geographic constraints and the nature of the market area). Plan makers should make an assessment of the likely growth in job numbers based on past trends and/or economic forecasts as appropriate and also having regard to the growth of the working age population in the housing market area.

2.10 In understanding the current market in relation to economic and main town centre uses, plan makers should liaise closely with the business community to understand their current and potential future requirements. Plan makers should also consider:

- The recent pattern of employment land supply and loss to other uses (based on planning applications). This can be generated through a simple assessment of employment land by sub-areas and market segment, where there are distinct property market areas within authorities;
- Market intelligence (from local data and discussions with developers and property agents, recent surveys of business needs or engagement with business and economic forums).
- Market signals, such as levels and changes in rental values, and differentials between land values in different uses;
- Public information on employment land and premises required;
- Information held by other public sector bodies and utilities in relation to infrastructure constraints;

- The existing stock of employment land. This will indicate the demand for and supply of employment land and determine the likely business needs and future market requirements (though it is important to recognise that existing stock may not reflect the future needs of business). Recent statistics on take-up of sites should be consulted at this stage, along with other primary and secondary data sources to gain an understanding of the spatial implications of 'revealed demand' for employment land;
- The locational and premises requirements of particular types of business; and
- Identification of oversupply and evidence of market failure (e.g. physical or ownership constraints that prevent the employment site being used effectively, which could be evidenced by unfulfilled requirements from business, yet developers are not prepared to build premises at the prevailing market rents).

2.11 The guidance states that employment land should be analysed through a simple typology of employment land by market segment and by sub-areas, where there are distinct property market areas within authorities. When examining the recent take-up of employment land, consideration should be made to projections (based on past trends) and forecasts (based on future scenarios) and identify occurrences where sites have been developed for specialist economic uses. Analysing supply and demand will allow Councils to identify whether there is a mismatch between quantitative and qualitative supply of and demand for employment sites.

2.12 Future needs should be based on current and robust data. Emerging sectors that are well suited to the area being covered by the analysis should be encouraged where possible. The available stock of land should be compared with the particular requirements of the area so that 'gaps' in local employment land provision can be identified. Plan makers should consider:

- sectorial and employment forecasts and projections (labour demand);
- demographically derived assessments of future employment needs (labour supply techniques);
- analyses based on the past take-up of employment land and property and/or future property market requirements;
- consultation with relevant organisations, studies of business trends, and monitoring of business, economic and employment statistics.

2.13 The increasing diversity of employment generating uses (as evidenced by the decline of manufacturing and rise of services and an increased focus on mixed-use development) requires different policy responses and an appropriate variety of employment sites.

### **ENTERPRISE M3 LOCAL ENTERPRISE PARTNERSHIP**

2.14 Local Enterprise Partnerships (LEP) replaced the Regional Development Agencies when the regional structures were abolished in 2012. The purpose of the LEP's play a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

2.15 The Enterprise M3 LEP includes 14 separate local authorities in Hampshire and Surrey. As the name suggests these Local Authorities are located along or near to the route of the M3 motorway.

Elmbridge is located in the far North East periphery of the LEP. It could be argued that Elmbridge is much closer linked to the London LEP area than for example the New Forest which is also in the M3 LEP.

2.16 The Draft Enterprise M3 Strategic Economic Plan (SEP) (December 2013) presents the vision, key objectives and investment strategy for the Enterprise M3 Local Economic Partnership (LEP) area for the next five years. This combines work to grow the economy through increasing the number, size and productivity of the businesses that operate from the area. The targets for this growth are to:

- increase GVA per head from 18% to 25% above the national average;
- Create 1,400 new businesses annually; and
- Increasing the employment rate from 77.4% to 80% thus creating 52,000 new jobs.

2.17 The LEP states that employment in the Enterprise M3 area will increase by some 59,000 jobs in the decade between 2010-2020 with accelerated growth after 2015 (Working Futures, UKCES). This is faster than the national rate of 0.5% per annum and much of the employment growth will increasingly be in higher skilled occupations.

2.18 The SEP set out over four priority routes to ensure their vision is met. These are:

- **Enterprise:** Maintain and grow the business base and its competitiveness. Removing constraints on growth and supporting development of start-ups and developing a culture of enterprise, closer relationship between larger businesses and SMEs but also new inward investment projects in high-growth sectors and new business ventures.
- **Innovation:** Achieve accelerated economic growth through productivity gains and positive action to promote innovation and growth in high value industries. The priority is to improve the connectivity across the LEP's local 'innovation ecosystem'. The aim is to support the impact of investment in these niche-sub sectors by helping better connect research to the local business community unlocking opportunities that would not otherwise be developed.
- **Skills and Employment:** The education and skills profile could be further strengthened to ensure that employment growth aspirations are met. Science Technology Engineering and Mathematics (STEM) sectors in particular are seen as drivers of productivity, innovation, and economic growth, and so they are particularly important in maintaining our global competitiveness.
- **Infrastructure and Place:** Promote further investment to alleviate constraints on business growth such as road and rail 'bottlenecks', capacity of the rail network, a shortage of housing for local workers, differential supply of reliable, high speed broadband, and access issues in relation to Heathrow and Gatwick airports.

2.19 The niche sectors identified in the LEP and that should be supported include:

- Satellite Technologies;
- 5G Mobile Communications Technologies;
- Cyber Security;
- Advanced Materials & Nano-technology;
- Photonics;

- Advanced Aerospace / Automotive Manufacturing;
- Animal Health; and
- Computer Games & Entertainment Technologies.

2.20 The SEP identified a number of Growth Centres and Step Up Towns which would either see investment or concentrated transformative action. However, none of the settlements in Elmbridge were identified as either Growth Centres or Step-Up towns.

### **LOCAL PLANNING POLICY FRAMEWORK**

2.21 There are a number of policy and evidence based documents which cover or are directly related to economic development in Elmbridge. A summary of each of these documents is outlined below.

#### **Core Strategy**

2.22 The Elmbridge Core Strategy was adopted by the Council on the 20th of July 2011. The document covers the period 2011 to 2026. The Core Strategy sets out 18 objectives for the Borough, these include maintaining a thriving economy by providing an adequate supply of land and buildings, in the right places, to support a diverse range of business and commercial activity. However this will not be to the detriment of the Green Belt and should improve sustainability by reducing the need for car journeys and in so doing, reducing congestion and pollution caused by traffic.

2.23 Policy CS1 of the Core Strategy states that any new development will be directed towards previously developed land within the existing built up areas, taking account of the relative flood risk of available sites, and the potential impact on Thames Basin Heaths Special Protection Area (SPA). Location, use and scale will need to take account of the existing characteristics, role and function of individual settlements and sites; access to existing or committed services and infrastructure; and the availability of developable land. Dependant on the nature of employment to be provided, economic growth will be focused within the Borough's town centres, strategic employment sites and in close proximity to the variety of visitor attractions the Borough has to offer.

2.24 Policy CS23 covers employment land provision in the Borough and includes the following statements:

*"The Council will:*

- *Protect Strategic Employment Land in order to make the most efficient use of land to support sustainable economic growth, and to satisfy the different location requirements of businesses that are not considered as main town centre uses. These uses must be suitable to the characteristics of the site and the surrounding area, and be in accordance with PPS4. Proposals for alternative uses will only be allowed where development does not result in an overall loss of employment provision and where a surplus of Strategic Employment Land is identified. The introduction of an alternative use should not detract from the integrity and function of the site for employment purposes.*

- *Retain other employment sites for employment uses unless redevelopment for other purposes provide wider benefits to the community;*
- *Encourage a greater diversity of use within town centres. Offices will be directed to the most sustainable locations within or on the edge of town centres, or close to public transport. Mixed use development, that includes office use, will be promoted where this makes a positive contribution to the character of the town, and does not reduce the provision of retail floorspace;*
- *Promote sustainable and flexible working practices through the provision of workspace as an integral part of residential development, where appropriate;*
- *Encourage employment uses that are more reliant on convenient access to the strategic road network to locate within Strategic Employment Land away from residential areas with good access to the strategic road network;*
- *Work in partnership with the Elmbridge Community Partnership and the business community to promote smart growth and ensure the necessary infrastructure, specifically communications technology, is provided to support business development;*

2.25 The Council had taken a sequential approach to B1 uses, as outlined in PPS4, that will require town centre and edge of centre locations to be unavailable before permitting less sustainable out of centre locations. PPS4 was replaced by the NPPF however the sequential testing approach to planning for town centres is ratified in the new guidance. Growth in B8 uses, such as the locally important distribution sector, is expected to be located closer to major arterial routes. This will ensure a more sustainable pattern of employment related development and reduce the negative impacts on local town centres and residential areas.

### Employment Land Review

2.26 The Elmbridge Borough Employment Land Review (ELR) (July 2008) identified a need for 8.3 hectares of additional employment land of which 3.9 Ha was for B1 offices, 4.4 Ha for B8 Warehousing and Distribution. There was no additional requirement for (B2) industrial land. The ELR also identified 5.6 Ha of developable land and a further 159,000 sq ft of potential additional office floorspace through intensification of existing sites. This resulted in an overall shortfall of 1.57 Ha of employment land in the Borough.

2.27 As a result five recommendations were put forward to the Council. These were to:

- Protect all designated Strategic Employment Land (SEL);
- 'Significant' employment areas to be protected for employment (B1, B2 and B8) uses only;
- Improved estate management at key employment areas, with the intention of intensifying B2/B8 land use and improving environmental quality;
- Encourage office (B1) development in Town Centres;
- Monitoring of employment land development.

2.28 The last of these recommendations ensure the correct type of land use comes forward and sufficient land is available for economic growth.

2.29 As a result of the recession, in March 2011 the Council produced an addendum update of the ELR. This showed decreased projections and higher vacancy rates. The updated forecasts within the addendum concluded that:

- The anticipated need to accommodate additional B1 floorspace had reduced;
- The need for additional B2 floorspace remained broadly the same; and
- The need for additional B8 floorspace remained broadly the same.

2.30 However, with increased vacancy rates, the pipeline supply and an adjustment for churn, the addendum update calculated that only 3,000 sq m of B2 and a further 3,000 sq m of B8 floorspace were required to be identified and the latter could be achieved through intensification of existing employment sites.

### Strategic Housing and Employment Land Availability Assessment

2.31 The Strategic Housing and Employment Land Availability Assessment (SHELAA) is an evidence base document published in December 2013. This assesses and quantifies the employment and housing land within the Borough.

2.32 Based on projections derived from 2010 Experian data and published in the Addendum to the ELR (March 2011), the SHELAA identifies a 4.4 Ha capacity shortfall for B8 employment land over the plan period. There is also an identified oversupply of B1 accommodation and a balance of B2 accommodation.

2.33 However, the SHELAA also identified through consultation with market professionals that there is high demand for office space of the right type locally, particularly on sites with high quality units with good transport links and parking.

### Investment and Development Plans

2.34 The Council has produced a set of eight draft Investment and Development Plans (ID Plans) for Elmbridge. These documents plan for investment and development within local areas in partnership with the local community. Part of this is to identify employment land that should remain as such because of its strategic importance and key sites for the delivery of housing, commercial and community development. Draft documents have been prepared for the following area:

- Claygate;
- Cobham, Oxshott, Stoke D'abernon and Downside;
- East and West Molesley;
- Esher;
- Hersham;
- Thames Ditton, Long Ditton, Hinchley Wood and Weston Green;
- Walton; and



- Weybridge.

2.35 Across these documents nine sites in employment use were proposed to have their Strategic Employment Land designation removed. This was not to say that employment uses should cease on these sites but rather long term protection of the sites is no longer necessary. These sites were:

- Claygate House, Claygate;
- 74-78 Portsmouth Road, Cobham;
- Imber Court Trading Estate, Molesey;
- Hersham Place Technology Park, Hersham;
- Riverdene Industrial Estate, Hersham;
- Kingston House Estate, Thames Ditton;
- The Pavilion, Thames Ditton;
- Walton Court, Station Avenue, Walton and
- Glaxosmithkline, Weybridge

2.36 A further five sites with employment uses have been identified as Potential Development or Opportunity Sites. In some cases the potential development is for a mixed used scheme. These sites are:

- 1-7 Holly Parade & 22a/22b High Street, Cobham - keep
- Unit A and B Sandown Industrial Park, Esher - keep
- Part of River Mole Business Park, Esher - keep
- Brassey House, New Zealand Ave, Walton - keep
- Crown House, High Street, Walton - keep

2.37 And a further three sites were identified as possible other sites that were suitable for further considerations. These are:

- Munro House, Portsmouth Road, Cobham;
- 34-40 High Street, Esher;
- Hampton Court Estate, Summer Road, Thames Ditton; and

2.38 Outside ground floor town centre/retail uses, a further site was identified as having commercial/employment potential:

- Elm Grove, Hersham Road, Walton – No recommendation was made on this site although three options were proposed. The first of these was to allocate the site mixed use development to include re-provision of community uses and residential provision. The second option was to allocate for a mixed use development to include offices and residential provision. The third option was for no allocation. This site is currently a Community centre with other Council services. The site had an approximated delivery period of 1-5 years.



- 2.39 The ID plans also identified the Sports Ground, Stompond Lane, Walton as having commercial and employment potential. This site now has planning permission for 30 units and 750sqm of B1(a) floorspace.
- 2.40 This document will inform the development of the ID Plans by recommending what employment land might be protected from redevelopment for alternative uses; where there might be opportunities for new employment development or intensification; and what sites (if any) might be considered for alternative uses. It is intended to provide a robust and defensible evidence base to support these decisions. This will be conducted in line with the policies and guidance set out in the NPPF and NPPG relating to how can employment land be analysed. This includes:
- Examining the recent take-up of employment land,
  - Reviewing projections and forecasts; and
  - Understanding the underlying requirements for office, general business and warehousing sites.

### **3 ECONOMIC BASELINE**

- 3.1 Elmbridge is located in North Central Surrey, surrounded by Spelthorne, Runnymede, Woking, Guildford and Mole Valley in Surrey and the London Boroughs of Kingston-upon-Thames and Richmond-upon Thames.
- 3.2 The Borough has excellent transport links with access to the M3 and M25 motorways, easy access to both Heathrow and Gatwick Airports and several South West train lines into London Waterloo. This coupled with the Borough's excellent quality of place makes it an attractive place to live.
- 3.3 A high percentage of the Borough residents seek employment in higher paid jobs in London. As a result the Borough is one of the most affluent in the country. The residents are also highly skilled and qualified which businesses are keen to exploit.
- 3.4 Our assessment of demand is informed by an understanding of the characteristics of the Borough's economy and labour market. This is benchmarked against past relative performance (pre- and through the recession). This provides a basis for considering future economic need for employment land in section 6.
- 3.5 This section focuses on the Borough's economic structure, issues related to enterprise and small business growth, key businesses, and which sectors have been performing well and have growth potential (and conversely those which are in decline and might require less employment land).
- 3.6 We have profiled how the economy has performed and identified underlying factors which may influence future performance. This includes an analysis of trends and benchmarking to adjoining / wider areas as appropriate. It provides a baseline picture, which has then been further interrogated through consultation to understand the real growth potential, risks and constraints to economic growth.

#### **Employment**

- 3.7 According to Experian data there were approximately 66,800 jobs located in Elmbridge in 2012. This equates to around 9.5% of all the jobs in Surrey. The Business Register and Employment Survey suggests employment in the Borough in 2012 was lower at 57,500 jobs, although this does not include self-employed businesses. We can therefore assume that the difference (or thereabouts) relates to self-employed in the Borough or around 9,300 people. There are other sources of this information which are outlined later in this section.

3.8 Approximately 4% of all employment in the Borough is classed as employed-owners. This is slightly higher than the rest of Surrey and the Enterprise M3 LEP area, and broadly in line with the wider South East and England figures.

**Table 1: Structure of Employment, 2012**

Area	Employees	Employed Owners	Full-time employees	Part-time employees
Elmbridge	96.0%	4.0%	67.7%	32.3%
Surrey	96.5%	3.5%	67.7%	32.3%
Enterprise M3	96.5%	3.5%	67.1%	32.9%
South East	96.1%	3.9%	66.9%	33.1%
England	96.1%	3.9%	67.4%	32.6%

Source: Business Register and Employment Survey 2013

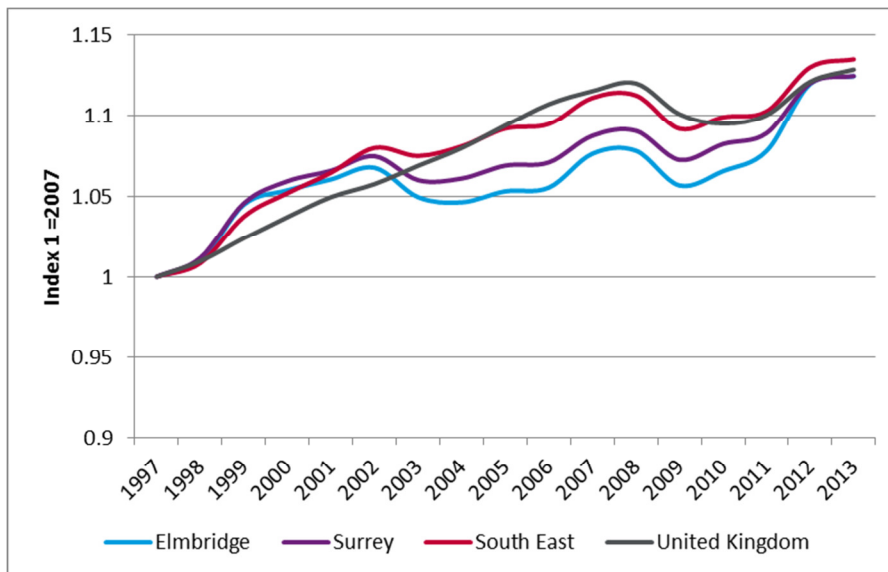
3.9 Of those employed in Elmbridge approximately 32% are in part-time roles. This is in line with Surrey but slightly below the other wider comparator areas. This suggests a slightly higher value of job and greater output than the national and regional comparisons.

### Employment Growth

3.10 The number of jobs in the Borough has increased by 7,400 since 1997. This equates to a growth of 12.4%. Over the same period jobs in Surrey increased at the same rate, however both were behind the national (12.8%) and regional levels of growth (13.5%). This is likely to partly be a function of commuting to London.

3.11 The highest single year of jobs growth was experienced between 2011 and 2012, when around 2,500 new jobs were created. This can be attributed to post recession recovery. The largest decline was between 2008 and 2009. At the height of the recession, over 1,200 jobs were lost.

**Figure 1: Indexed Job Growth (1997 – 2013)**

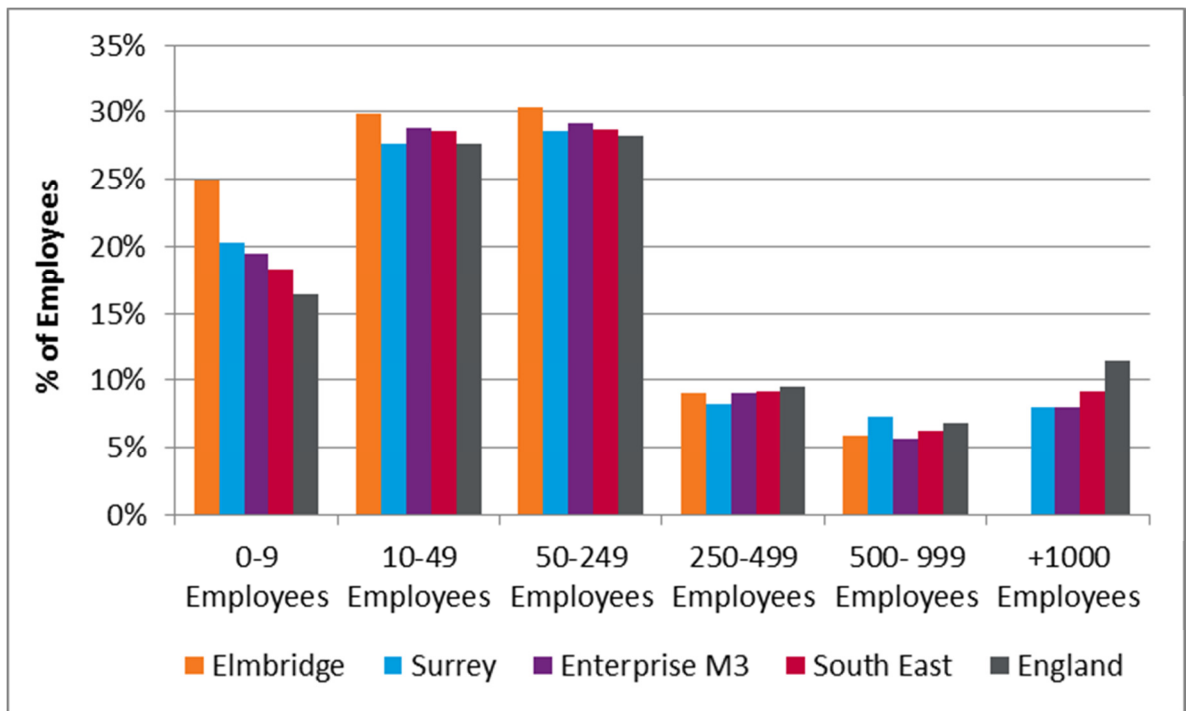


Source: Experian (2013)

### Company size

- 3.12 Elmbridge’s business base is focused on small and medium sized enterprises, with around 85% of employment in companies with less than 250 staff.
- 3.13 There are no companies that employ over 1,000 people all within Elmbridge. This compares to Surrey, where the largest companies with over 1,000 staff employ around 8% of employees. The other large employer brackets, 250-499 employees and 500-999 employees, employ 9% and 6% of the workforce respectively. This is broadly in line with the comparator areas although slightly below England as a whole.
- 3.14 The larger companies in the Borough include wholesale and retail trade operators, head offices activities and the manufacturing of chemicals and chemical products. Some of the larger employers include, Proctor and Gamble, GSK, JTI, Sony and Mercedes Benz.

**Figure 2: Employment by Business Size, 2013**



Source: Business Register and Employment Survey 2013

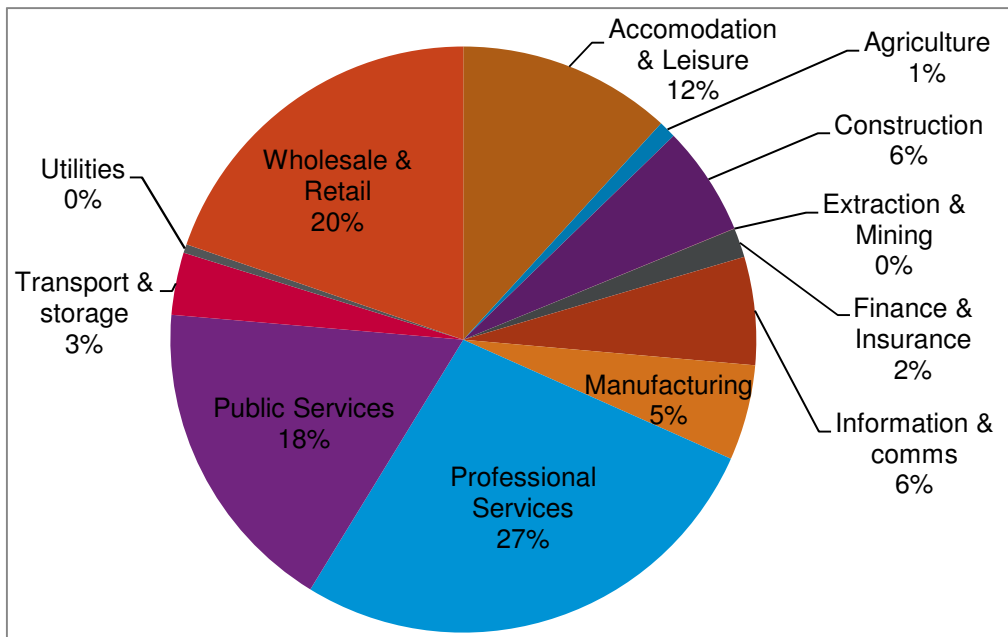
- 3.15 Conversely, Elmbridge has a much higher percentage of employment in micro businesses with 25% of employees in the Borough working for a company with less than 10 people. This indicates a strong, entrepreneurial employment base, albeit reliant on smaller, arguably more vulnerable companies and start-ups. The focus of the micro companies in Elmbridge is Retail, Consultancy Activities, Computer Programming and Food and Beverage service.

## ECONOMIC STRUCTURE

### Employment by Sector

- 3.16 The largest employment sector within the Borough is Professional Services (27% of jobs). This includes legal and accounting activities, advertising and marketing, head office activities, management consultancy and architecture. These are typically office-based, but employment numbers are likely to include some people working from home.
- 3.17 Other major employment sectors include Wholesale and Retail (20%), Public Services (18%) and Accommodation and Leisure, which includes food services and recreation (12%). Manufacturing only accounts for 5% of all employment within the Borough.

**Figure 3: Elmbridge Jobs by Broad Sector (2013)**

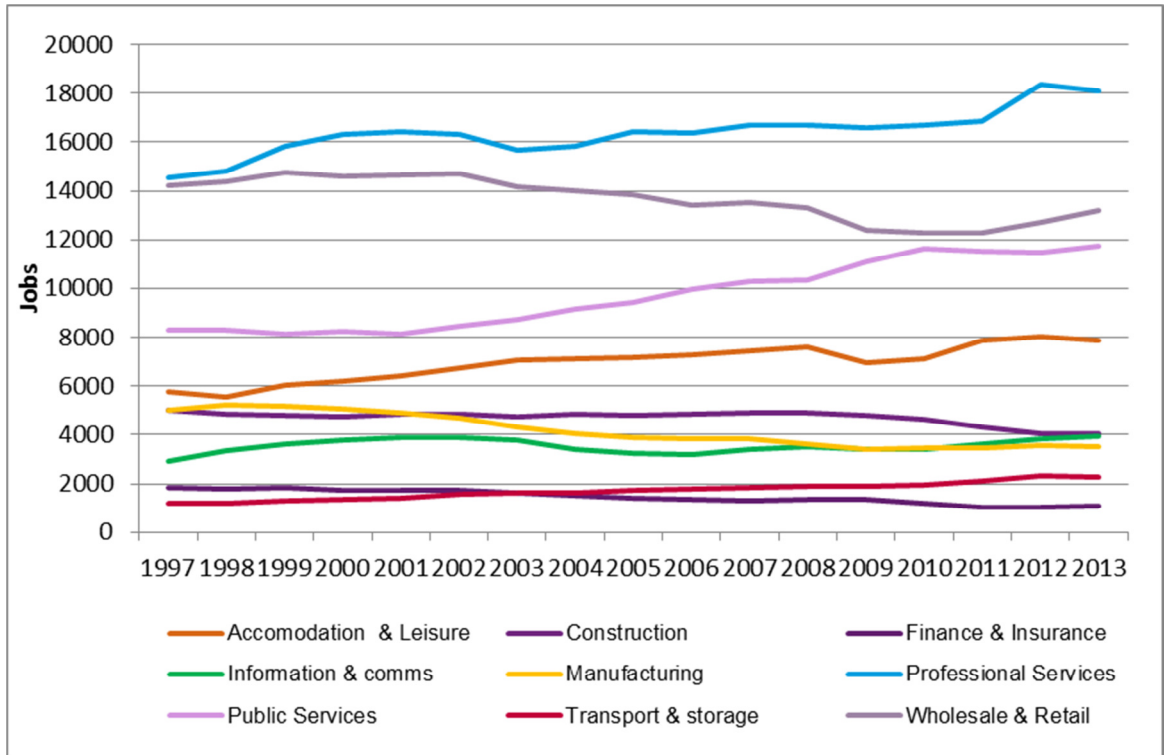


Source: Experian (2013)

### Sectoral Growth

- 3.18 In gross terms the largest growth since 1997 in Elmbridge has been in Public Services (3,500 jobs) and the Professional Services (560 jobs). However, the largest sector of employment is the Professional Services sector which provides 18,000 jobs. This sector is now by some margin the largest employer in the Borough.
- 3.19 Over the same period there was significant decline in the Manufacturing (-1,500 jobs), Construction (-1000 jobs linked to a decline in house building) and wholesale and retail (-1000 jobs) sectors. The last of which was in 1997, almost the largest employer in the Borough with over 14,000 jobs.

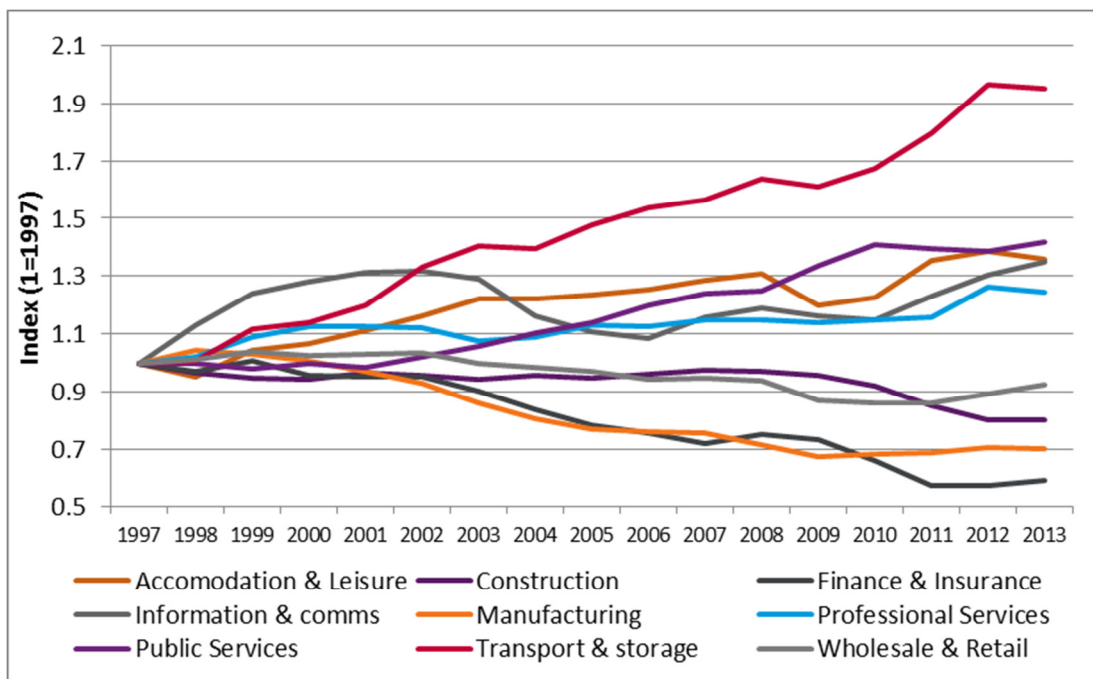
**Figure 4: Growth of Sectors Employing over 1,000 people (1997-2007)**



Source: Experian (2013)

- 3.20 However, in percentage terms the key sectors of growth were the transport and storage (95%), public services (42%), accommodation and leisure (36%) and information and communications (35%). agriculture (87%) also had the highest levels of growth, although the latter only employs around 600 people in the Borough.
- 3.21 In percentage terms, the finance and insurance industry declined by 40%, losing around 750 jobs. The manufacturing (30%, 1,500 jobs) and construction (20%, 1,000 jobs) sectors also lost a large percentage of employees.

**Figure 5: Indexed Growth of Sectors Employing over 1,000 people (1997-2007)**



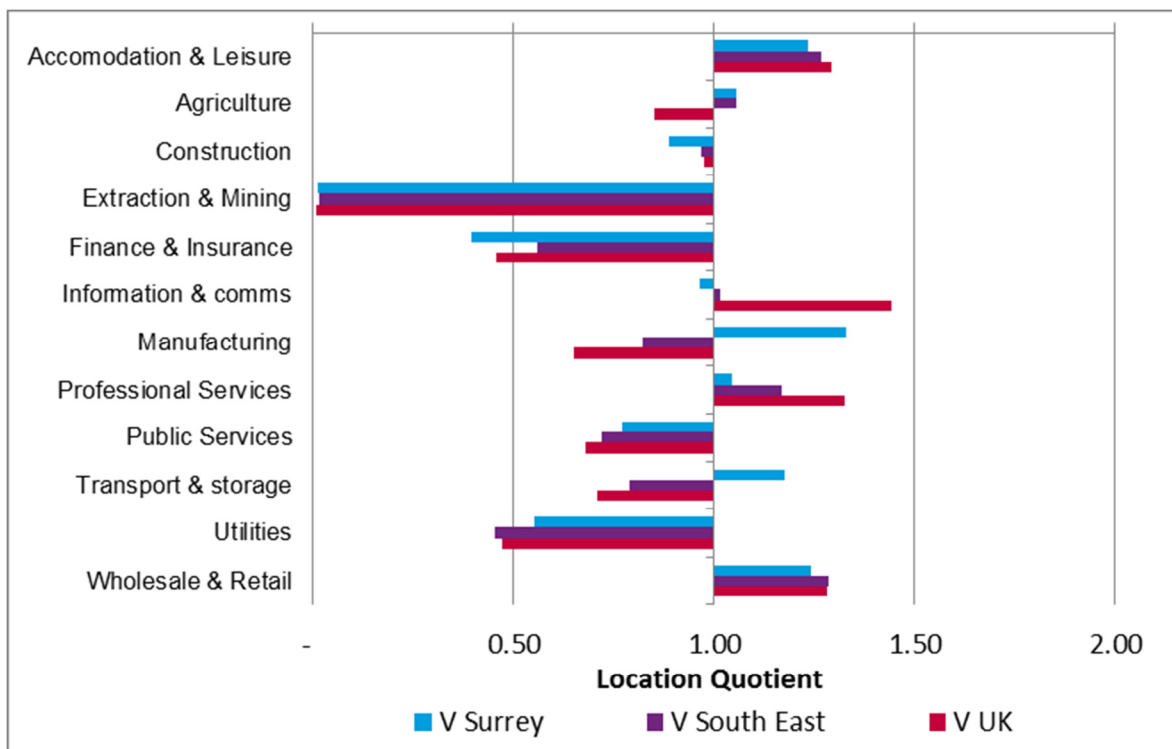
Source: Experian (2013)

### Location Quotients

- 3.22 Location quotients provide evidence of the relative strength of employment in each sector against wider comparators. Where there are particular sectors of strength but an overall national decline predicted this should be of concern as it would indicate significant vulnerability. Sectors of strength which are expected to grow nationally indicate areas where investment should be made to maximise opportunity in areas of current expertise.
- 3.23 In comparison to Surrey, the Borough's strongest sectors are Manufacturing, Wholesale and Retail, Accommodation and Leisure and Transport and Storage. When compared to the South East, Wholesale and Retail and Accommodation and Leisure are the strongest sectors in Elmbridge. However, against the rest of the UK the strongest comparative sectors are Information and Communications and Professional Services. The exclusion of Manufacturing and Wholesale and Retail as sector of strengths against the UK reflects the wider area's reliance on the Manufacturing and Wholesale and Retail sectors for employment.
- 3.24 There are a number of consolidation opportunities in the sectors which Elmbridge has a strong location quotient and are on an upwards trajectory. These are the information and communications, professional services, transport and storage and accommodation and leisure sectors.



**Figure 6: Location Quotient (2013)**



Source: Experian (2013)

- 3.25 The Borough has particularly weak Extraction and Mining, Finance and Insurance and Utilities Sectors. While the Extraction and Mining (0.2%) and Utilities sectors (1%) also have relatively low levels of employment nationally, the finance and insurance sector employs around 3.6% of the population. It is particularly strong in Surrey and as such could represent an opportunity for growth within Elmbridge.
- 3.26 The location quotient also provides a good indication of where there is opportunity for employment to grow into. These are shown as sectors with minor negative quotients in comparison to local or county level comparisons. These indicate that locational barriers are not the primary issues and that with the correct investment any under achievement could be corrected. The above tables suggest that this could be the Information and Communication and Construction sectors. While the construction employment has declined significantly since 2008, it was previously stable. The decline was also linked to the housing market. Therefore employment recovery can also be expected as the housing market improves.

### Employment by Sub Sector

- 3.27 Analysis at a sub-sector level provides more detailed information on employment in the Borough. As outlined in the table below, the top ten sectors are responsible for around 75% of the jobs in

Elmbridge. The equivalent figures for Surrey (65%), the South East, the UK (both 68%) are much lower. This indicates quite a narrow range to the economy within the Borough in comparison to elsewhere.

**Table 2: Top Ten Sub-Sectors of Employment in Elmbridge (2013)**

	Elmbridge		Surrey	South East	UK
	#	%	%	%	%
Professional Services	9,763	14.6%	12.8%	10.2%	8.0%
Retail	7,210	10.8%	8.7%	9.3%	9.8%
Wholesale	5,966	8.9%	7.2%	6.0%	5.6%
Education	5,427	8.1%	8.9%	8.8%	8.5%
Accommodation & Food Services	4,767	7.1%	6.1%	6.3%	6.4%
Administrative & Supportive Services	4,328	6.5%	7.7%	8.2%	8.0%
Residential Care & Social Work	3,544	5.3%	5.2%	5.1%	5.5%
Recreation	3,107	4.7%	3.4%	3.0%	2.7%
Computing & Information Services	2,954	4.4%	5.2%	3.9%	2.4%
Construction of Buildings	2,323	3.5%	2.7%	2.1%	1.9%

Source: Experian (2013)

- 3.28 Professional Services, Retail and Wholesale are again the largest employers in the Borough. The focus of Public Sector employment is in Education which contributes just over 8% of all jobs.
- 3.29 The Professional services sector has grown and will continue to grow as long as there is a growing cost differential with central London. Small employers will also be attracted to the area to improve their ability to recruit local high quality, local staff. As outlined earlier the construction industry is likely to see a recovery as the housing market upturns.
- 3.30 Although contributing 5% of all employment the Borough, the manufacturing sub-sectors of Food, Drink & Tobacco, Chemicals, Printing and Recorded Media are particularly strong in comparison to Surrey, the South East and the rest of the UK. This relates to employment at JTI, Proctor and Gamble and GSK.

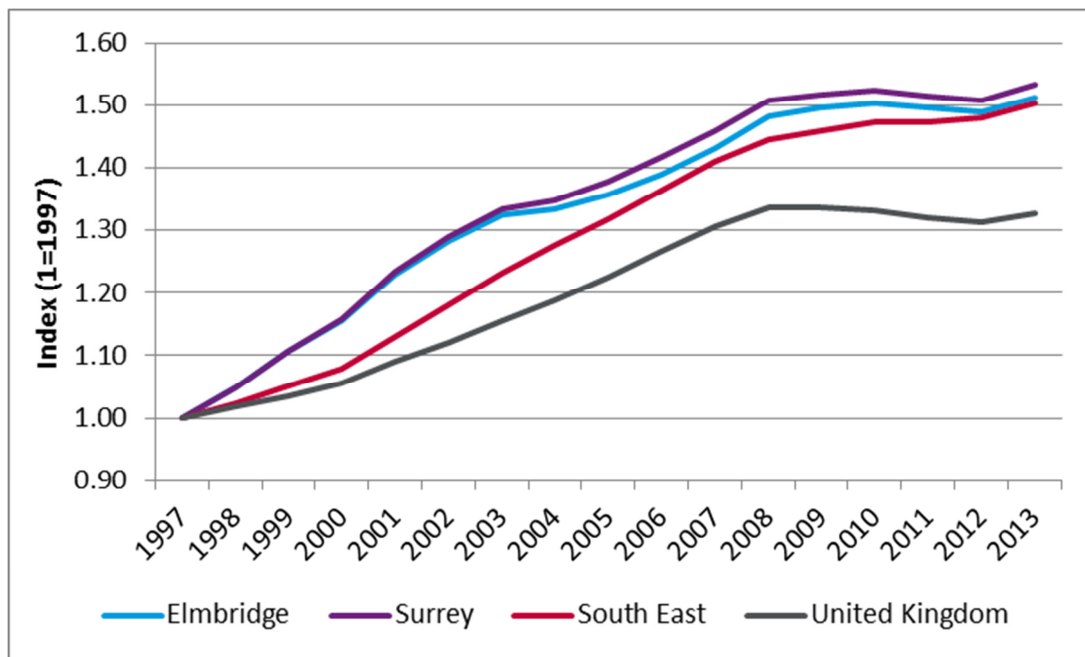
### GVA Growth

- 3.31 Gross Value Added is an economic measure of output based on the value of goods and services produced in an area or sector. In 2013, the gross GVA output from Elmbridge was £3.2bn. This equated to 10.4% of all output in Surrey, compared to 9.5% of jobs suggesting that productivity (GVA per job) is above average. Since 1997 output in Elmbridge has grown by around 50%. This includes a period of sustained growth between 1997 and 2008. Since that time output in the Borough has remained broadly static.

3.32 Between 1997 and 2003 growth in output in Elmbridge and Surrey ran in parallel. Since that time, growth in Elmbridge has tracked at a slightly lower rate than Surrey.

3.33 Despite lower growth in GVA between 1997 and 2007, longer term growth in output in the South East is similar to Elmbridge and Surrey. This has been largely aided by continuous growth throughout the recession and steep growth between 2000 and 2007.

**Figure 7: GVA indexed growth since 2007**



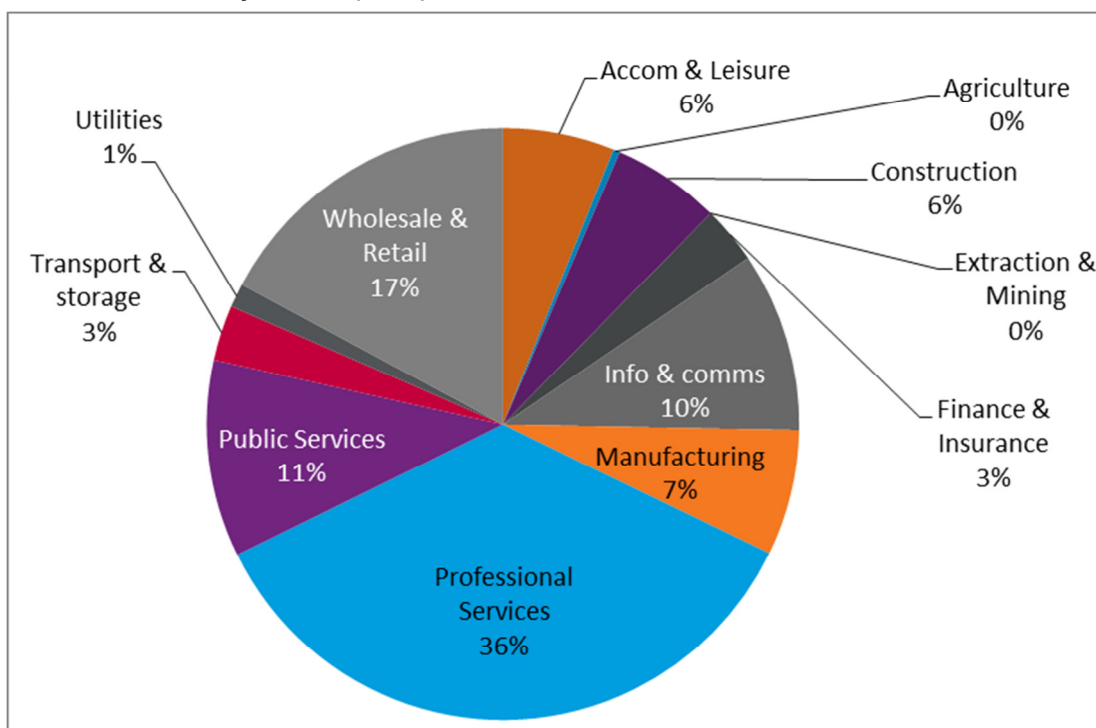
Source: Experian (2013)

3.34 At only 33% since 1997, growth in the rest of the United Kingdom has been consistently below Elmbridge, Surrey and the South East. Taking 2007 as a starting point, only the South East Region has recovered it's output to that level since.

### GVA by Sector

3.35 In terms of output, the Professional Services sector is significantly larger than any other in the Borough, generating over one third of the entire output. The sector is thus important to wealth creation locally. Three other sectors, Public Services, Wholesale and Retail and Information and Communications, all generate more than 10% of the Borough's output.

**Figure 8: GVA by Sector (2013)**



Source: Experian (2013)

3.36 Both the Professional Services and Information and Communication sectors have output significantly higher than their employment contribution. These are higher value-added sectors. Despite employing 12% of the Workforce, the Accommodation and Leisure sector only produces 6% of the Borough’s output. Similarly Public Services account for 18% of employment but 11% of output. This is perhaps unsurprising given that the latter is generally not run for profit.

### GVA by Sub-Sector

3.37 At a sub-sector level Professional Services are again the highest contributor to output (14.7%). Real Estate and Wholesale both contribute more than 10% of output. All three are substantially higher than the comparative figure for Surrey, the South East and the UK.

**Table 3: Top Ten Sub-Sectors by GVA in Elmbridge (2013)**

	Elmbridge	Elmbridge	Surrey	South East	UK
	£Mil	%	%	%	%
Professional Services	467	14.7%	12.6%	9.1%	7.5%
Real Estate	435	13.7%	10.7%	7.1%	10.0%
Wholesale	319	10.0%	8.0%	7.7%	5.7%
Retail	227	7.1%	5.7%	5.4%	5.7%
Education	179	5.6%	6.1%	6.5%	6.3%
Computing & Information Services	178	5.6%	6.9%	5.2%	3.0%
Administrative & Supportive Services	147	4.6%	5.4%	6.0%	5.2%

Construction of Buildings	132	4.1%	3.3%	3.0%	2.4%
Accommodation & Food Services	104	3.3%	2.7%	2.9%	2.7%
Finance	98	3.1%	5.7%	4.5%	7.5%

Source: Experian (2013)

3.38 Despite being in the top ten contributors to GVA in Elmbridge, Education, Admin and Support services and Finance all have a lower percentage of output compared to the wider comparator areas.

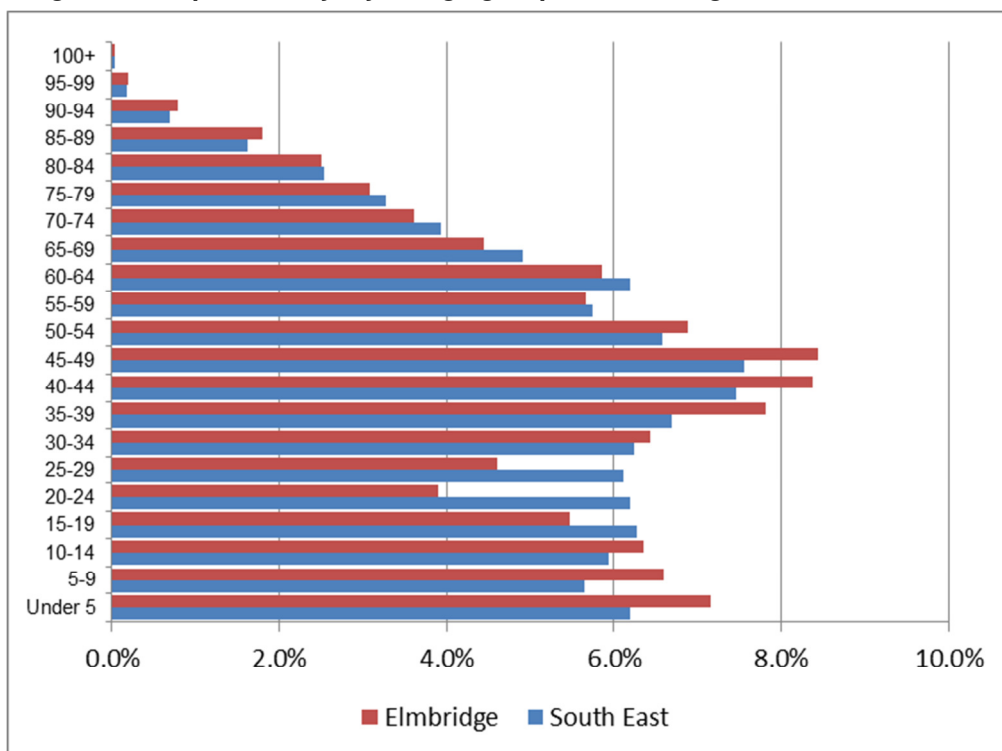
### LABOUR MARKET CHARACTERISTICS

#### Age Structure

3.39 The Population of Elmbridge is just over 130,000 people. This comprises around 12% of the Surrey population. 62.3% of the Elmbridge population is of a working age (16-65). This is slightly lower than Surrey (63.5%), the South East (63.8%), and England and Wales (64.7%).

3.40 As illustrated by Figure 10, Elmbridge has a low percentage of 15-29 year olds compared to the South East. This is likely to be directly linked to both the lack of Further Education facilities which forces people to leave the Borough and the high cost of living which precludes new graduates from returning.

**Figure 9: Population by 5 year age groups in Elmbridge and the South East, 2011**



Source: Census (2011)

3.41 The largest age groups are on the 30-54 and children under 14. This would indicate a high level of working families with children. While the Borough also has a comparatively high percentage of those over 85, overall it has lower levels of retirement age population.

### Economic Activity

3.42 Economic Activity Rates in Elmbridge (79.9%) are broadly similar to those in Surrey (81.1%), the Enterprise M3 LEP area (81.2%) and the South East (79.9%) but above those for England (77.6%). Economic Activity in the Borough is largely driven by a high percentage of economically active Males (88.2%). Female economic activity is below average.

**Figure 10: Economic Activity Rates**



Source: Annual Population Survey (2013)

3.43 The Borough Employment Rate (77.7%) is slightly higher than Surrey (76.8%) and the LEP area (76.9%) and significantly higher than the South East (74.8%) and England (71.4%). Again this is driven by very high levels of Male employment (87.2%), which is over 10 percentage points higher than the national figure.

3.44 Employment rates are likely to be lower in areas where there is a university. Such areas generally have lower employment rates but as students remain economically active the difference for the latter measure is less.

**Figure 11: Employment Rate (2013)**



Source: Annual Population Survey (2013)

3.45 The Annual Population Survey indicates a high percentage of self-employment and conversely a low percentage of employees within Elmbridge<sup>2</sup>. The job quality among Elmbridge’s employees is also better with a higher proportion of 16-64 year olds working in full-time employment than in the comparator areas.

**Table 4: Type of Employment (2013)**

% of 16-64 Year Olds	Employees	Self Employed	Full-Time	Part-Time
Elmbridge	81.4%	18.0%	78.7%	21.3%
Surrey	82.6%	16.8%	74.9%	24.8%
Enterprise M3	84.2%	15.2%	74.0%	25.9%
South East	84.8%	14.6%	73.6%	26.1%
England	85.6%	13.7%	74.0%	25.5%

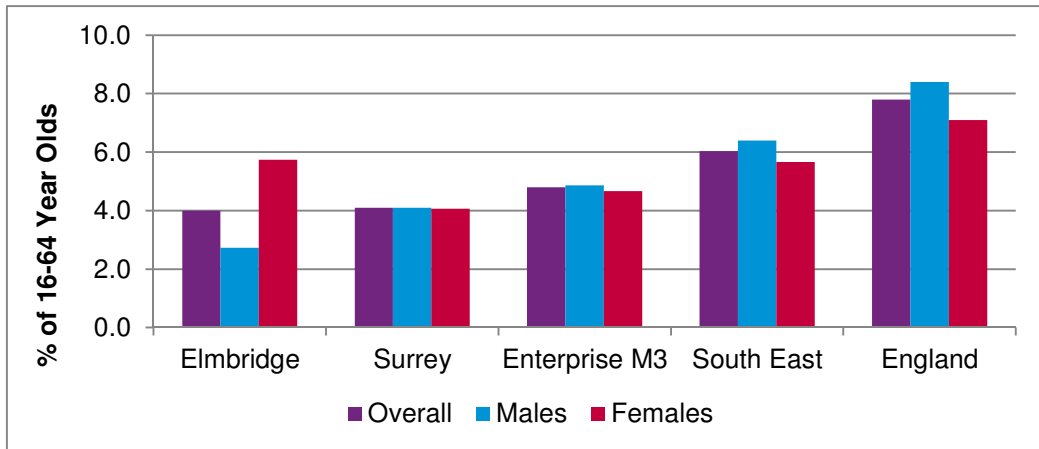
Source: Annual Population Survey. *\*Numbers may not add due to rounding*

## Unemployment

3.46 Since 2009, unemployment in the Borough has been significantly lower at 4.0% compared to the wider comparators, particularly the South East (6.0%) and London (7.8%). Using average figures over a longer term reduces the effect of short term growth or decline.

<sup>2</sup> The Annual Population Survey is statistically robust but does rely on a small sample survey size.

**Figure 12: Unemployment Rate (Average 2009 - 2013)**



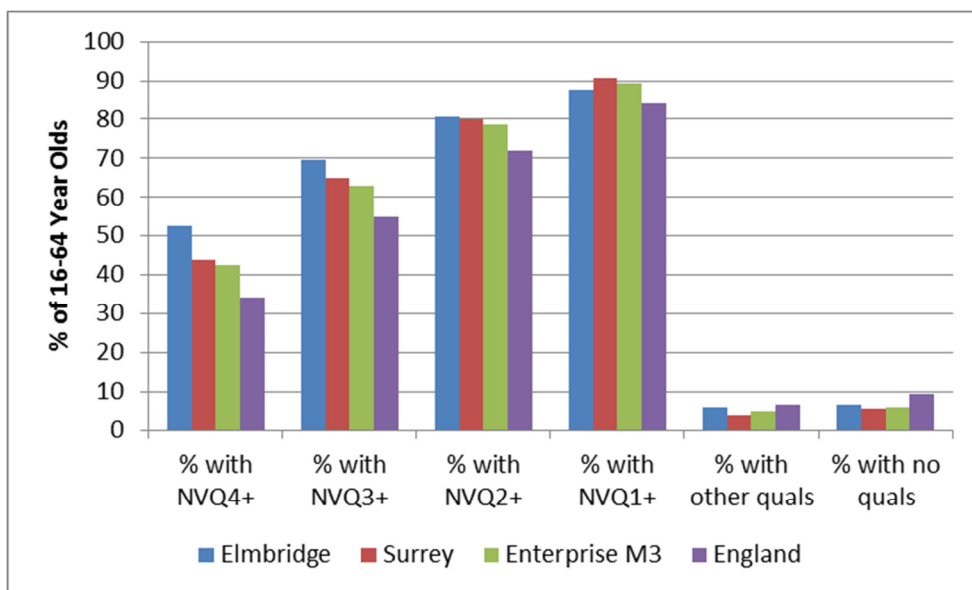
Source: Annual Population Survey (2013)

3.47 In line with the rest of the country, unemployment in Elmbridge’s female population (5.7%) is higher than that for males (2.7%). The female unemployment figure in Elmbridge is higher than the equivalent figure for Surrey (4.1%), the LEP (4.7%) but in line with the South East and lower than England (7.1%).

### Skills and Qualifications

3.48 Elmbridge has a highly qualified population with over half (52.5%) of 16-64 year olds residents educated to at least NVQ level 4. This is the equivalent to obtaining a diploma, Foundation degree, nursing or teaching qualification. In comparison, the England figure is just (34.2%).

**Figure 13: Qualification Level of Residents**



Source: Annual Population Survey (2013)



- 3.49 At the other end of the scale, 6.5% of the working age population in Elmbridge have no qualifications. This is slightly higher than the rest of Surrey (5.4%) and the LEP Area (5.9%) but lower than the national figure of 9.8%.
- 3.50 The high qualification levels are reflected in the occupation level of the employed residents. 63.8% of the Borough is employed in the highest level Managerial and Professional occupations. This includes directors and senior officials and technical occupations. This is significantly higher than the equivalent figures for Surrey (53.7%), the Enterprise M3 LEP area (51.5%) and the South East (47.9%) and England (44.3%).

**Table 5: Occupation Level**

% all in employment	Elmbridge	Surrey	Enterprise M3	South East	England
Managers & Professionals	63.8%	53.7	51.5	47.9	44.3
Skilled	22.6%	28.8	28.8	29.8	30.3
Unskilled	13.6%	17.2	19.4	21.9	24.8

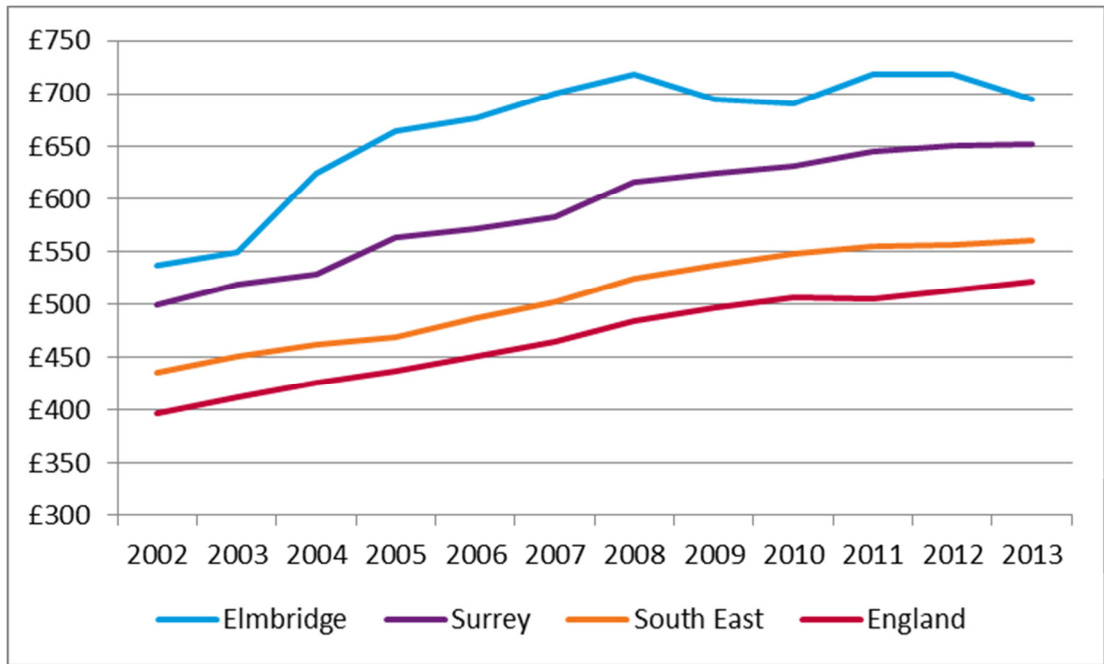
Source: Annual Population Survey (2013) \*Numbers may not add due to rounding

- 3.51 Conversely the percentage of workers in unskilled occupations including, sales and customer service occupations, process, plant and machine operatives and elementary occupations is much lower in Elmbridge (13.6%), than elsewhere.

## Earnings

- 3.52 According to the Annual Survey of Hours and Earnings, median residents' earnings in Elmbridge (£695 gross per week) are one of the highest in the country. They are approximately 34% higher than the equivalent figure for England (£521) and 24% higher than the South East (£560).
- 3.53 While wages in Surrey, the South East and England have continued to rise since 2002, earnings in the Borough have stagnated since 2007. Despite this median earnings in the Borough have still grown by around 27% in the last 10 years, which is broadly in line with the rest of the country. However, mean average earnings have increased 39% over the same period, significantly higher than the rest of the country (26%) and region (24%). This indicates that the earnings of wealthier households, continued to grow as average earnings stagnated.
- 3.54 Workplace earnings (£576 gross per week) in the Borough are significantly lower than residents' earnings. The gap between resident and workplace earnings is also growing as workplace earnings only grew by 20% since 2003. This reflects the quality of employment in the Borough and also reaffirms the Borough's status as a location for commuters to higher paid jobs in Central London.

**Figure 14: Median Gross Weekly Earnings**

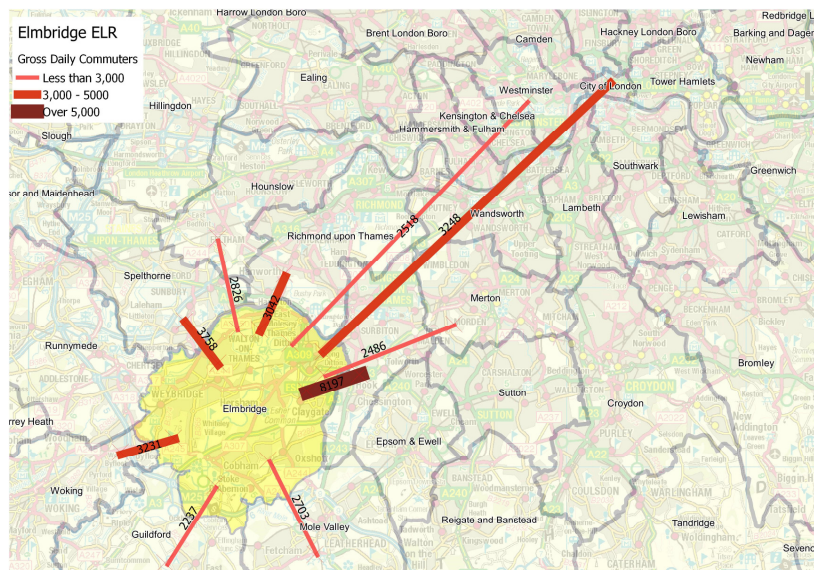


Source: Annual Survey of Hours and Earnings, 2013

### Commuting Patterns

3.55 Just under 40% of the Borough's residents also work in Elmbridge. Approximately 38% of the Borough's employed residents work in London, with the highest numbers travelling to Kingston, the City and Westminster. This reflects the Borough's location within the Surrey commuter belt.

**Figure 15: Major Gross Commuting Flows**



3.56 In terms of gross flows Elmbridge’s strongest links are with Kingston upon Thames, Spelthorne and Woking. This provides a good indication of the functional employment area the Borough operates within. There are also significant gross flows to the City, however, this is all in one direction. This information is taken from survey data therefore it cannot be relied upon as being 100% reliant and is subject to quirks in the responses.

**Table 6: Commuting Flows with Elmbridge**

Gross Flows	Flow	Net In	Net In Flow	Net Out	Net Out Flow
Kingston upon Thames	8,197	Runnymede	988	City of London	3,248
Spelthorne	3,758	Woking	962	Westminster	2,070
City of London	3,248	Winchester	944	Tower Hamlets	1,408
Woking	3,231	Surrey Heath	868	Spelthorne	1,321
Richmond upon Thames	3,042	Epsom and Ewell	838	Hillingdon	1,278
Hounslow	2,826	Hart	784	Southwark	1,016
Mole Valley	2,703	Ealing	742	Kingston upon Thames	920
Westminster	2,518	Dacorum	484	Lambeth	861
Merton	2,486	Stevenage	444	Richmond upon Thames	860
Guildford	2,237	West Berkshire	418	Islington	833

Source: Annual Population Survey 2013

3.57 In terms of net flows, Elmbridge receives almost 1,000 workers per day more from Runnymede, Woking and as far afield as Winchester than they send to those local authorities. The majority of the net recipient Boroughs are in London, although Spelthorne also receives around 1,300 more employees from Elmbridge than it sends to the Borough.

**BUSINESS BASE**

**Business by Size**

3.58 There are approximately 7,300 businesses operating in Elmbridge across 8,230 local units. Enterprises are classified as an overall businesses, made up of all the individual sites or workplaces. A Local Unit is an individual site (for example a factory or shop) associated with an enterprise. It can also be referred to as workplace. This information is taken from the UK business count data produced by ONS and as such the sector definitions differ from those used by Experian.

3.59 The vast majority (92%) of the enterprises based in Elmbridge are micro businesses that employ less than 10 people. This is slightly higher than the comparator areas, which reflects the scale of the location as well as the enterprise type. By contrast there is a low percentage (8.1%) of Small to Medium Enterprises (10-250 employees) based in the Borough.

**Table 7: Enterprises by Size, 2013**

Enterprise Sizeband	Elmbridge #	Elmbridge %	Surrey %	Enterprise M3 %	South East %	England %
0-9 Employees	6,730	91.6%	90.4%	89.4%	89.1%	88.3%
10-49 Employees	500	6.8%	7.7%	8.6%	8.9%	9.6%
50-249 Employees	95	1.3%	1.5%	1.6%	1.6%	1.7%
250-499 Employees	10	0.1%	0.2%	0.2%	0.2%	0.2%
500- 999 Employees	5	0.1%	0.1%	0.1%	0.1%	0.1%
+1000 Employees	5	0.1%	0.1%	0.1%	0.1%	0.1%

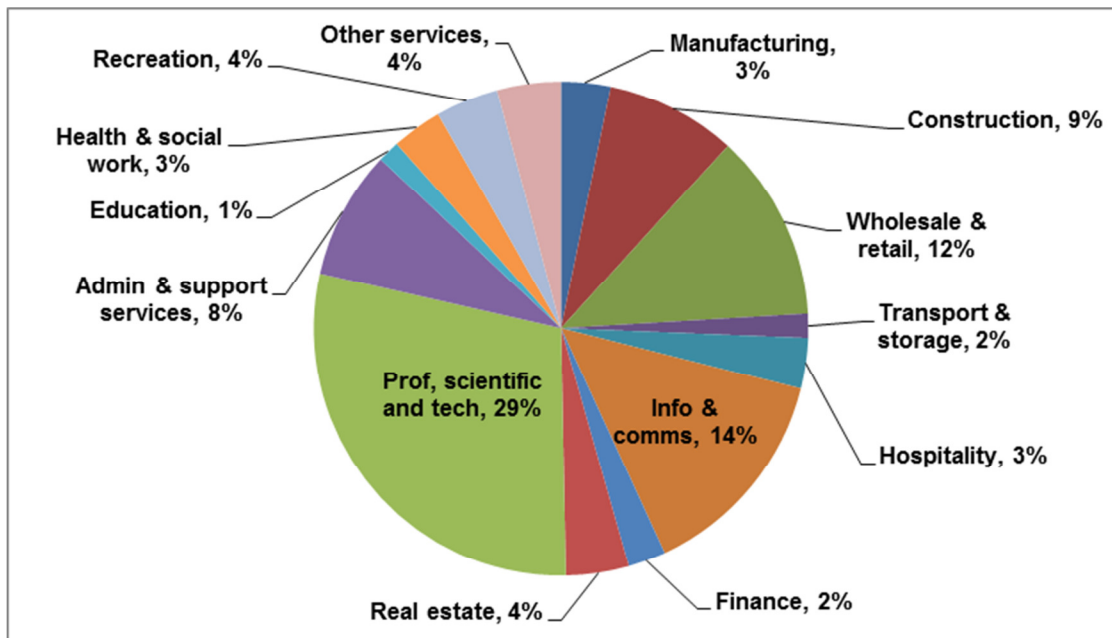
Source: UK Business Counts, Nomis 2013

3.60 The percentage of larger companies that are based in the Borough (+500 employees) is broadly in-line with the wider comparator areas. There are five enterprises based in the Borough which employ over 1,000 people, although not all necessarily in the Borough. There are also five workspaces at which between 500-999 employees are located.

### Sector Analysis

There are over 2,100 professional, scientific and technical activity enterprises operating from Elmbridge. This equates to 29% of all enterprises in the Borough. The second largest number of enterprises are in the Information and communication sector, with just over 1,000 in total (14%).

**Figure 16: Major Sectors by Enterprise Count in Elmbridge, 2013**



Source: UK Business Counts, Nomis 2013

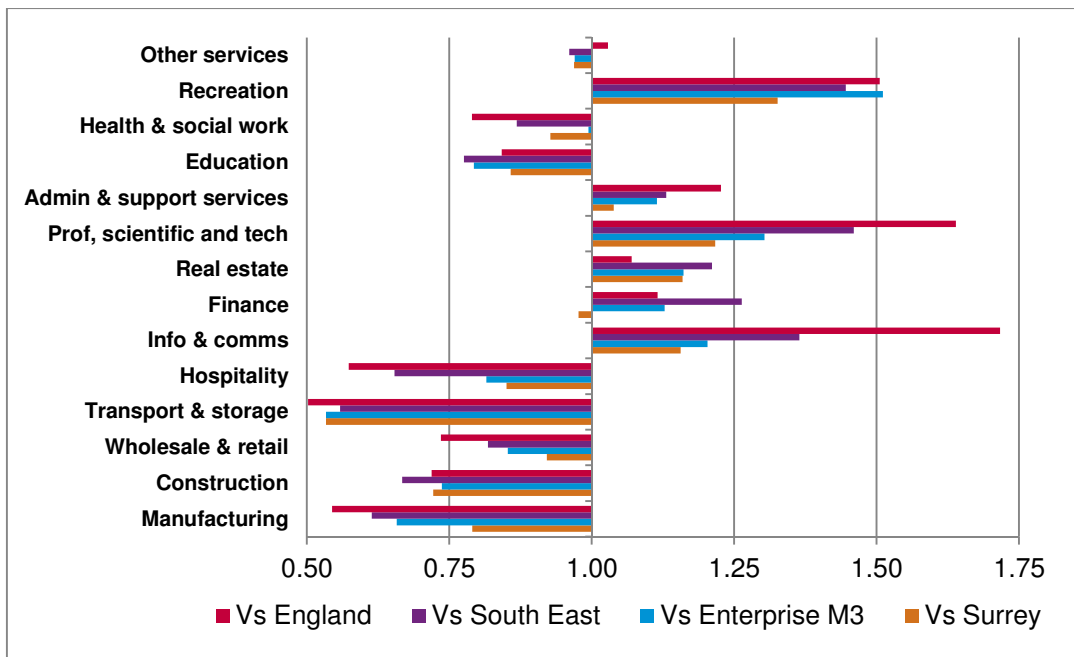
3.61 The only other sector which comprises over 10% of all enterprises is the Wholesale and Retail trade. Including individual retailers there are approximately 900 wholesale and retail enterprises based in the Borough.

### Location Quotient

3.62 How the enterprises in Elmbridge are comprised has been analysed against the wider comparator areas. The analysis is illustrated in Figure xxx. The analysis indicates a very distinct breakdown of businesses in the Borough compared to elsewhere with all major sectors having a very strong or very weak showing in comparison to the wider areas.

3.63 This shows that Elmbridge has a relatively high percentage of Information & communications, real estate, professional, scientific and technical and recreation enterprises, compared to the wider areas.

**Figure 17: Location Quotient of Major Sectors in Elmbridge, 2013**



Source: UK Business Counts, Nomis 2013

3.64 The weaker sectors in terms of enterprise numbers include Manufacturing, Construction, Transport & storage, Hospitality, Education, Health & social work.

### Growth of Registered Businesses

3.65 Since 2011, 345 additional businesses have been registered in Elmbridge, a growth of around 5%. This compares to 55 in Surrey and 4% in the LEP, South East and England and Wales. The majority of which occurred between 2011 and 2012. All of the growth has been within Private Sector

companies. The number of sole traders in the Borough has declined by around 10%. Only five Public Sector enterprises exist in Elmbridge. This has remained unchanged since 2011.

- 3.66 Of the major sectors, the number of Financial & insurance enterprises operating in Elmbridge has grown the most since 2011 (20%). This is despite overall job losses in the Finance and Insurance sector. This reflects the recessionary trend of people moving from or losing jobs in larger companies and setting up as self-employed.
- 3.67 Other notable sectors of growth include, Property (13%) and Information and Communication (14%). The largest decline in enterprise numbers have been in the Transport & storage (-15%) and Wholesale (-6%) although employees in the latter are growing. This would suggest a consolidation within the industry.

### Summary

- 3.68 Elmbridge is a commuter-belt area to London, with notable out-commuting from the Borough to higher paid jobs in Central London. Linked partly to this, it has a strong skills base, a high level of residents employed in managerial/ professional roles and high employment rates (particularly male). Self-employment is also strong. The economy is focused towards small and medium-sized enterprises.
- 3.69 The strong skills base supports the Borough's attractiveness as a business location; alongside a cost differential for property relative to London and accessibility to the M25 (and through this to Heathrow and Gatwick Airports).
- 3.70 There are a number of key higher value-added sectors which are well represented in the Borough and are growing, particularly professional services and information and communications. Other key sectors which the evidence suggests have growth potential include transport/ storage (which may be influenced by accessibility to the M25), and accommodation/leisure (where in part resident population and earnings growth are demand drivers). The evidence suggests that the construction sector has been affected by the recession, but as the housing market and wider economy improves, so should construction-based employment.
- 3.71 Overall the local economy looks well positioned to grow. Whilst this may be supported by 'commuting claw-back' if higher paid jobs are created locally and potentially by growth in female employment; there are some risks that labour supply and recruitment of staff could be restricted by the availability of staff or that these issues induce longer-distance commuting or wage increases.

## 4 COMMERCIAL PROPERTY MARKET ASSESSMENT

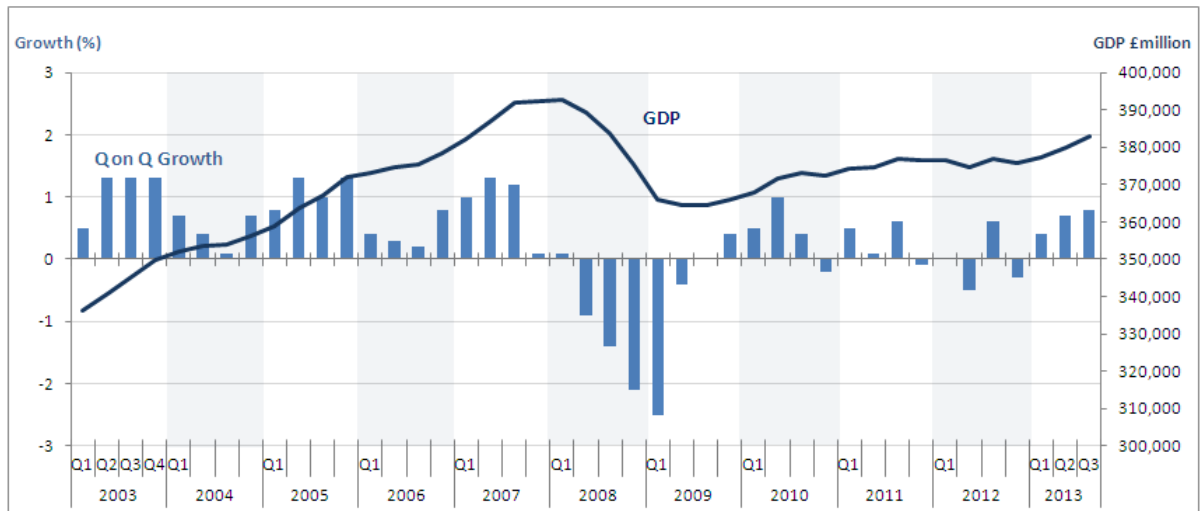
### National Economic Conditions

- 4.1 The Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook in December 2013. GDP growth was revised upwards to 1.4% for 2013, having been previously forecast at 0.6% and expected growth in 2014 was increased from 1.8% to 2.4%. The surprising level of growth in the latter half of 2013 has been attributed to spare capacity in the economy rather than indicating stronger underlying growth potential. Consumer confidence, credit conditions and the housing market have all improved since March 2013 but productivity and real earnings growth has remained weak. For the economic recovery to be sustained productivity and real earnings growth needs to be realized – the unexpected strength of private consumption in 2013 has largely come from lower savings, not higher income.
- 4.2 The Office of National Statistics reported in January that the Consumer Price Index (CPI) fell to 1.9% in January having been 2% in December 2013 – this is the first time in more than four years that the rate of inflation has fallen below the Bank of England's target rate of 2%. The Retail Price Index (RPI) increased slightly from 2.7% in December 2013 to 2.8% in January. The slowing rate of inflation is seen as a positive; for the past few years rising energy and food prices have resulted in a high level of inflation which coupled with stagnant wage growth has squeezed the levels of disposable income but it is now expected that wage growth in the latter part of 2014 will exceed inflation.
- 4.3 The Bank of England base rate continues to remain at its historic low of 0.5%. Forward guidance provided by the Governor of the Bank of England in August 2013 stated that a rise in the base rate would not be considered until the rate of unemployment fell below 7%. It was expected that this level would not be reached until 2016 but unemployment levels are presently a fraction above this level. The Governor has recently announced that it would be too early to increase the base rate even if the official level of unemployment fell below 7%, expressing concerns that the official unemployment level is different to reality as the level has dropped due to more people have entered into part-time rather than full-time employment.
- 4.4 Growth in house prices has been supported by an improvement in the availability and a reduction in the cost of credit, partly as a result of the Government's 'Funding for Lending' and 'Help to Buy' schemes. Consumer confidence has increased significantly in recent months with signs that the UK economy is gathering momentum following consecutive quarters of GDP growth (Q1 2013: 0.3%, Q2 2013: 0.7%, Q3 2013: 0.8%, Q4 2013: 0.7%). The services sector, which represents three quarters of economic output, grew by 0.7% and is now operating at 0.4% above its pre-crisis peak



in Q1 2008. In volume terms Q3 GDP was estimated to be just 2.5% below the peak experienced in Q1 2008, having largely recovered the 7.2% fall from peak to trough experienced in 2009.

**Figure 18: GDP Growth**



Source: ONS

4.5 This level of consumer confidence has been seen in the housing market. The number of transactions in the UK has increased to circa 72,000 per month, an annual increase of 22% reinforcing the view that this is as a result of growth across the sector as opposed to a sharp rise in the number of higher value transactions skewing the market. This sales rate is still substantially below the peak experienced in 2007 before the credit crunch and economic downturn which was between 100,000-120,000 transactions per month.

### Office Market Review

4.6 In this section of the report, we provide a review of the national and regional office market context before focusing on the local market characteristics within Elmbridge. In respect of the local market characteristics, our analysis focuses on the following;

- The key locations;
- Market Conditions;
- Rental Values and transactions; and
- Emerging and competing developments.

### NATIONAL OFFICE MARKET

4.7 The national office market has strengthened on the back of the revival of the economy. The up-turn in the economy is providing occupiers with increased confidence to not only increase their headcounts but also to pursue their relocation plans.



## Market Supply

- 4.8 Supply has continued to decline in 2013 due to stronger take-up, little speculative development and loss of office space to residential conversion. The market stock remains dominated by second hand space with a limited supply of Grade A space resulting in availability levels falling more drastically as take-up increases.

## Take-Up

- 4.9 Improving occupier sentiment and business confidence has led to take-up volumes increasing and demand for office space at its highest level since 2008. This positive market sentiment has resulted in continued market activity with demand for quality Grade A or refurbished Grade A space. Total national office take-up reached 8.6 million sq ft for 2013, according to CBRE, which represents a 21% increase from 2012.

## Investment Market

- 4.10 The investment market also saw a radical change in 2013 due to limited purchasing opportunities and increasing levels of cash. “Investors are certainly responding to improving economic conditions with capital flows into UK commercial property likely to exceed £42bn for 2013, a 25% increase on 2012” – CBRE.

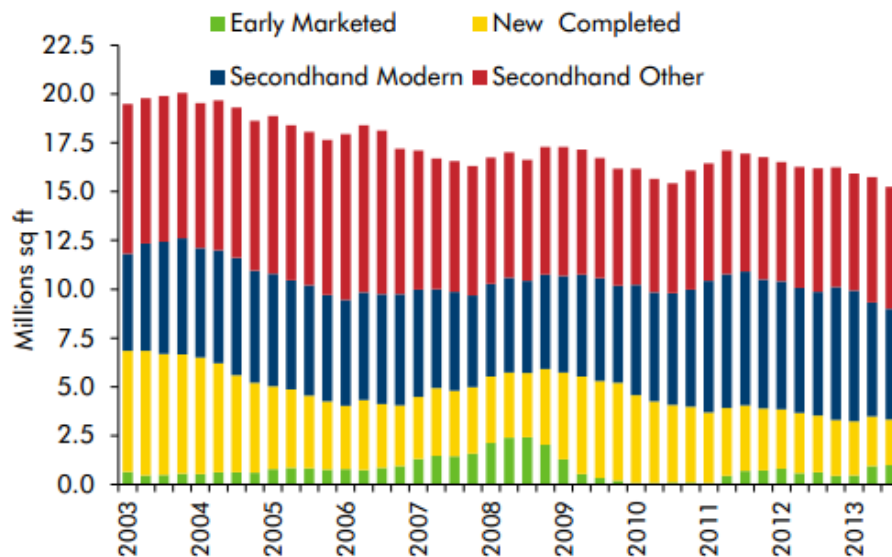
## **SOUTH EAST OFFICE MARKET**

- 4.11 Elmbridge is positioned in the South East and is included within the south west quadrant of the M25 office market which is a key market within the UK. The south east office market is split into three main markets, the M25 North, the M25 South and the Thames Valley.

## Market Supply

The availability of grade A space has declined in all sub-markets of the South East office market. The up-surge in take-up has resulted in a reduction in market supply which has been accentuated due to the limited speculative development that has taken place. CBRE reported that overall supply of office space was 3% down in Q3 from Q2 and 6% down from the start of 2013. Furthermore they stated that newly completed grade A space or space under construction accounted for only 22% of available space. This marks a 5% fall over Q3 to just 3.32 million sq ft. According to Knight Frank this has left vacancy rates at a four year low, falling from 7.8% to 7.4% during Q3 2013. Vacancy levels are expected to steadily fall given the relatively minimal speculative development.

**Figure 19: South East Office Availability (Thames Valley & M25)**



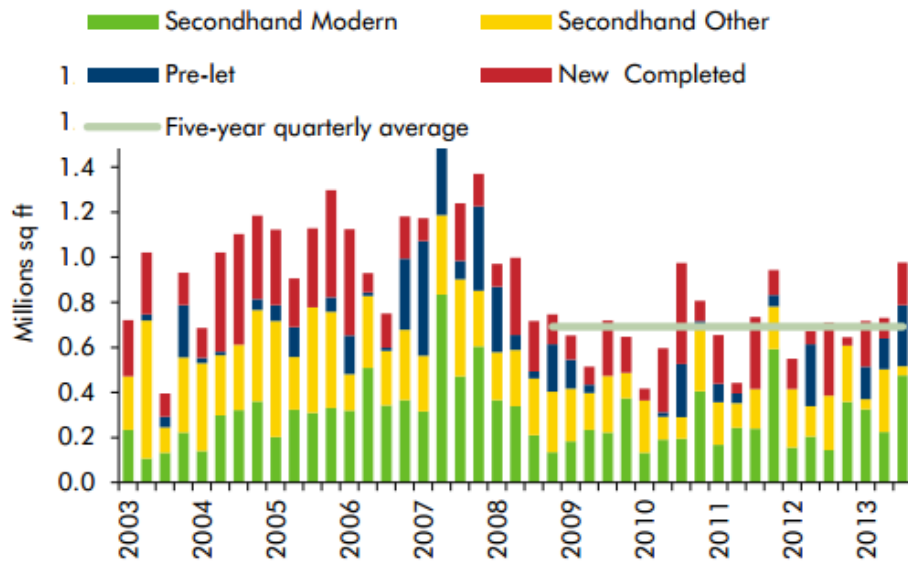
Source: CBRE

4.12 The above graph shows the breakdown of available space in the south east Thames Valley and M25 office markets over the last ten years. It illustrates that overall availability is at the lowest point for a decade with the lack of speculative development resulting in a particular reduction in the availability of newly completed office space.

### Take-up

4.13 The office market in the south east experienced strong levels of take-up in Q3 of 2013. According to Knight Frank, M25 take-up in Q3 was 696,981 sq ft, its highest level since Q4 in 2011. 80% of this was made up from new or good quality Grade A space. This increase in take-up was largely due to three sectors; retail & transport, technology media & telecommunications and manufacturing & fast moving consumer goods. At the back end of 2013 with 650,000 sq ft known to be under offer, forecasts estimated total take-up to be around 2.5 million sq ft for both the M25 markets in 2013; this is the highest annual figure since 2008. During Q3 however none of the poorer quality grade buildings were under offer.

**Figure 20: South East Office Take-up (Thames Valley & M25)**



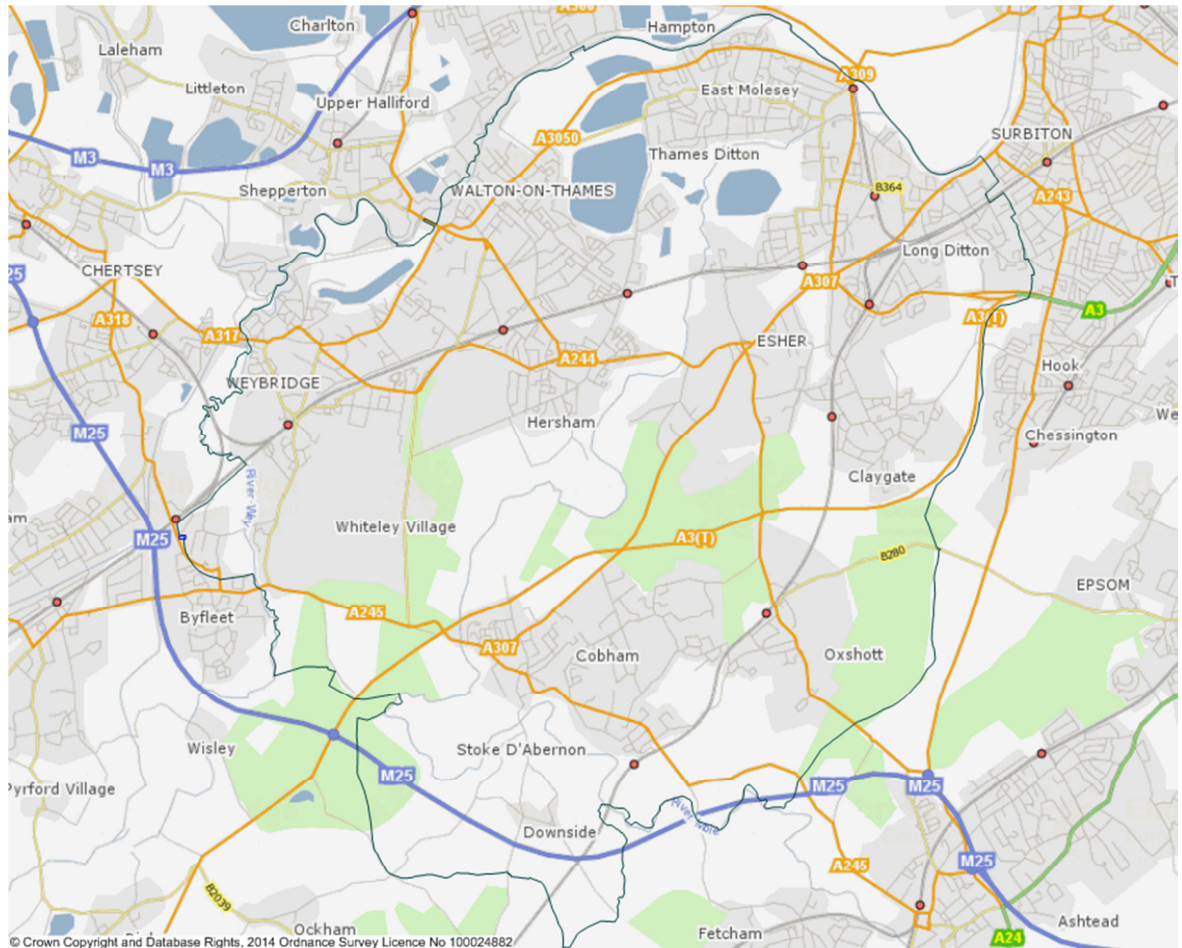
Source: CBRE

### Investment Market

- 4.14 CBRE reported that the total South East office investment turnover in 2013 was £3.26 billion from 118 transactions. In the M25 markets Knight Frank stated that transaction volumes reached £773 million in Q3 2013 which is 80% above the 10 year average. This stemmed from the highest number of deals (32) since Q3 in 2007. With the lack of stock there is likely to be significant pressure on pricing however the south east still represents good value for money in comparison to London. 2013 also saw a reduction in yields from 6.25% down to 5.75% for prime space for the South East and regional office markets. It is expected that the south east office market has the best prospects for total returns over 2014-15 in the UK.

## ELMBRIDGE OFFICE MARKET

Figure 21: Map of the Borough



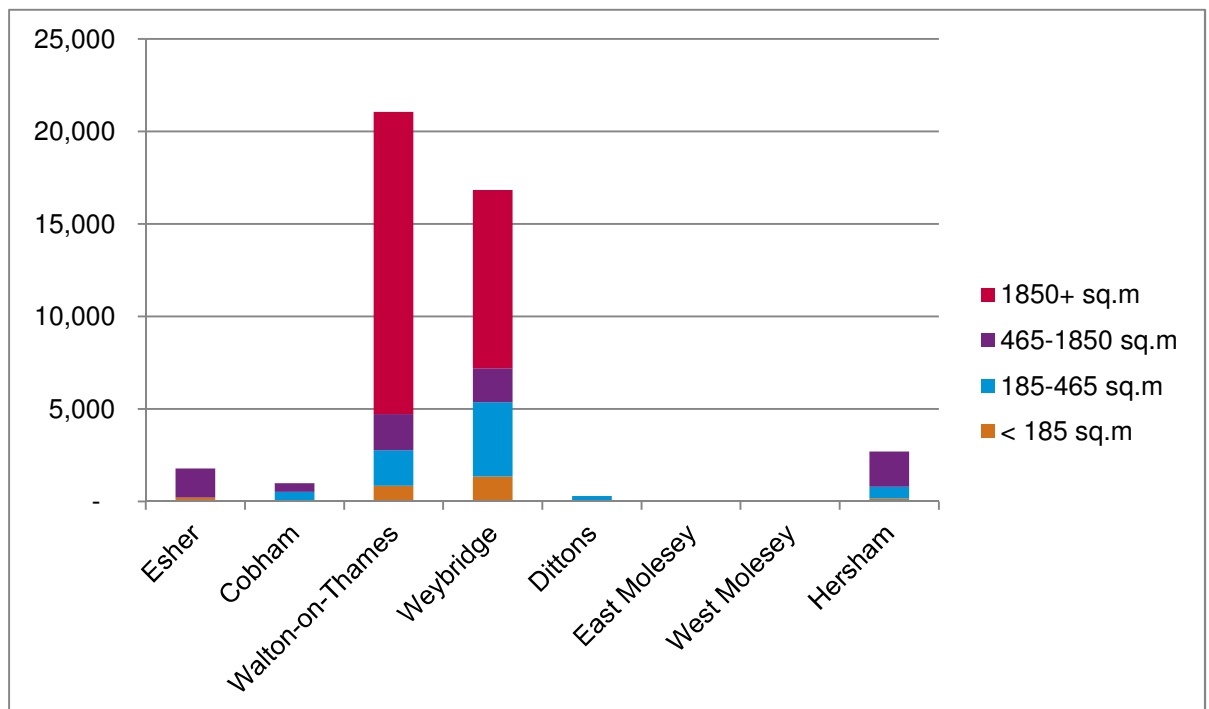
Source: Elmsbridge Borough Council

- 4.15 Total office stock in Elmsbridge was 292,000 sq. m according to Valuation Office Agency (VOA) data, although it should be noted that the most recent published data dates from 2008.
- 4.16 Elmsbridge is made up of a series of sub-markets. Weybridge has the highest amount of employment floorspace in the borough mainly centred around the south of the settlement area. A large quantity of this space is at The Heights Business Park which houses a number of headquarters offices of blue-chip international companies. The other significant office market supply in Elmsbridge is located in Walton on Thames which comprises of a large number of second hand smaller scale town centre offices. Esher has recently increased its capacity with the completion of the Aissela building, however the remaining supply is primarily smaller scale units in the town centre. Cobham, Molesey, Hersham and Thames Ditton make up the rest of the office supply which is again mainly smaller scale office space.

4.17 The area surrounding Elmbridge Borough houses a large office stock which poses competition to the market within Elmbridge. In particular Addlestone, situated just to the west of Weybridge in the borough of Runneymede has two recently completed business parks namely Aviator Park and The Bourne Business Park. Chertsey also has planning permission for a significant amount of commercial space at the former DERA site just off Chobham Lane. Other main office centres in the area are Leatherhead to the east, Staines and Egham to the west, Kingston to the north and Woking and Guildford to the south.

### Market Supply

**Figure 22: Total Office Availability in Elmbridge (sq.m)**



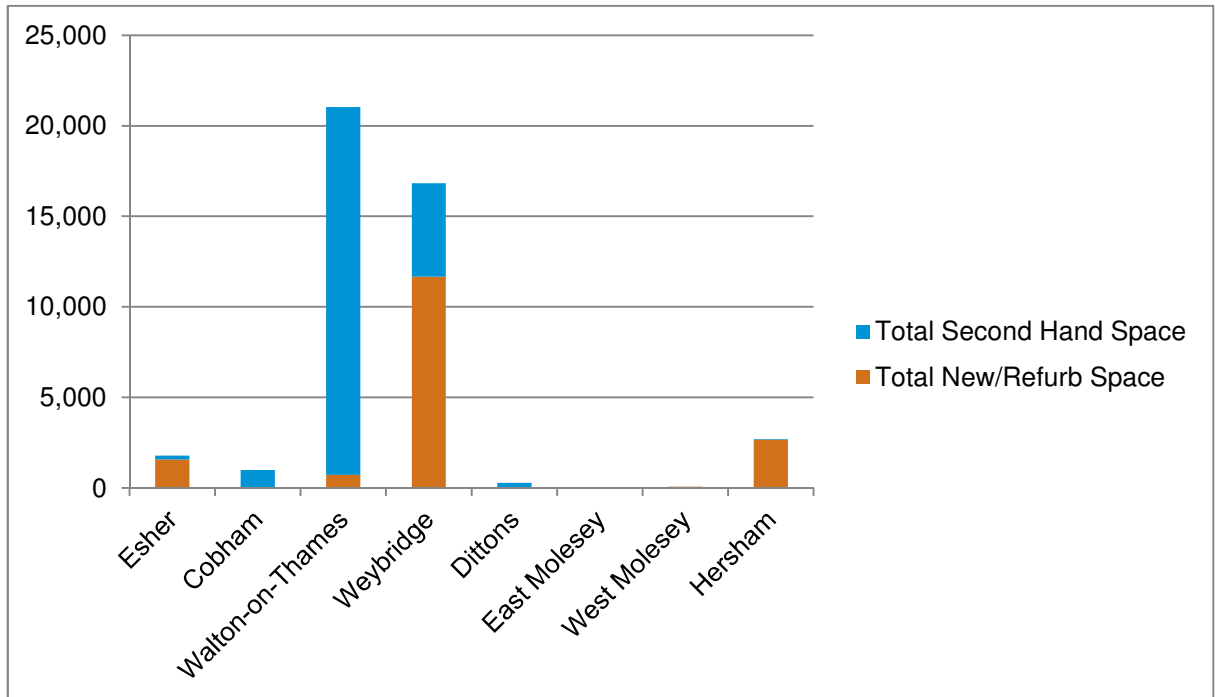
Source: EGI/GL Hearn – January 2014

4.18 The graphs above and below show the availability of office floorspace across the Elmbridge centres and the quality of the available floorspace. The information has been derived from the Estates Gazette Interactive (EGI) property database, which compiles information property agent letting information.

4.19 Total availability as at January 2014 is shown as 43,844 sq. m. Compared with overall office stock levels for the borough, mentioned above, of 292,000 sq. m, this equates to a vacancy level of 15%. In a healthy property market, it is considered normal for there to a level of vacancies as businesses move, buildings are developed or refurbished and lettings take place. The optimal level of

vacancies is generally accepted to be 5-10%. The Elmbridge office vacancy level is higher than this optimal level. However, it is significantly better than the vacancy level of 27% reported in the Enterprise M3 Commercial Property Market Study 2013, although lower than the 7.6% vacancy level reported in the 2008 Elmbridge Borough Employment Land Review.

**Figure 23: Quality of Available Office Space in Elmbridge (sq.m)**



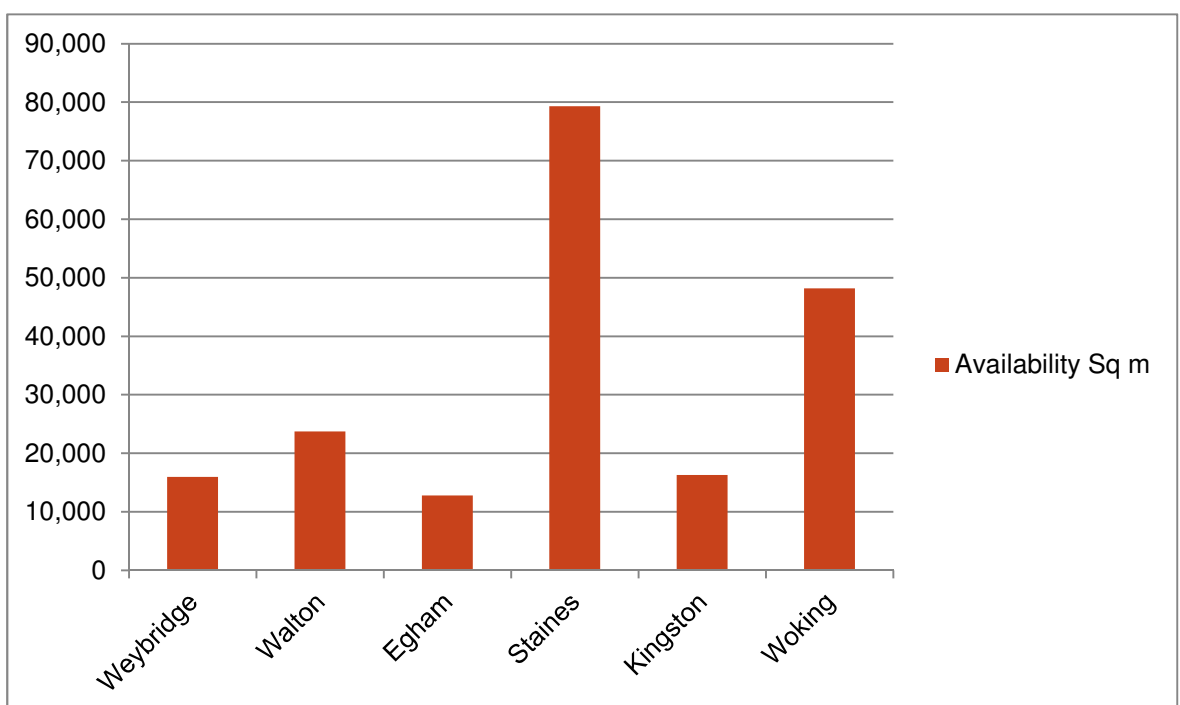
Source: EGI/GL Hearn – January 2014

4.20 The greatest level of availability is in Walton on Thames. This is due a large extent to the Walton Court office building (former Birdseye HQ) which has been vacant for several years and represents 16,319 sq m of the total available space of the 21,044 sq m available in Walton. Without this figure, available space in Walton on Thames would be 4,725 sq m. The graphs demonstrate the domination of the Elmbridge market by Weybridge and Walton, the other markets barely contributing 2,000 sq m of available space with the exception of Hersham which contributes 2,712 sq m of total available floorspace, made up mostly by Hersham Place.

4.21 In Weybridge there is over of 16,000 sq m of available office space but this figure is largely made up of the two detached five storey office buildings called Velocity at Brooklands which total 11,246 sq m. A large proportion of the office market supply in Weybridge is made up of the Velocity buildings and the remaining vacant unit at the Heights. We have spoken to a number of local agents who are not aware of any speculative development that is happening in Weybridge to increase the levels of supply.

- 4.22 Therefore, it can be seen that of the 43,844 sq m of vacant office space across the Borough, 27,546 sq. m (63%) is made up of 2 vacant buildings – Walton Court and Velocity. Occupation of one or both of these buildings would have a significant impact on the overall office vacancy level.
- 4.23 In Walton on Thames, the rest of the supply is mainly second hand stock and with exception of Walton Court, the majority of this is spread evenly across a number of units, the most sizeable being Geneva House, Walton Lodge, The Quintet, 336 Molesey Road and 6 Heathfield Road. A large quantity of the supply available in Walton involves smaller, poorer quality accommodation located above retail units. With regard to Walton Court, this comprises 175,000 sq ft of second hand office stock in need of refurbishment in a listed building. The building is being actively marketed and we understand that the landlord is looking for a commitment from a potential tenant before undertaking the refurbishment.
- 4.24 Esher has the fourth largest supply available with the new Aissela building on Esher High Street recently completed and offering 1,638 sq m of new grade A space split over three floors. From discussions with agents we are not aware of any pipeline development.
- 4.25 Cobham also has around 1,000 sq m of available second hand space. The majority of this can be found on Portsmouth Road. 475 sq m of this is within the Munro House building on Portsmouth Road. The first floor has been let and the ground floor remains available and is currently under offer. The other notable space is at Cedar House, also on Portsmouth Road, which currently has 445 sq m of available space.

**Figure 24: Office Availability in Comparable Areas (sq. m)**





Source: EGI/GL Hearn – January 2014

- 4.26 Figure 24 shows office availability in Weybridge and Walton compared with other centres in the area. This shows that whilst availability is greater than in Egham and Kingston, it is significantly less than in Staines and Woking. Staines has approaching 80,000 sq. m of available space. A significant proportion of this, nearly 20,000 sq m, is made up from the recently completed Staines Central office building.
- 4.27 Just outside Weybridge, into the borough of Runneymede is Aviator Park and The Bourne Business Park in Addlestone. The Bourne Business Park, when finished, will offer 20,343 sq m of grade A office space. Currently 10,648 sq m has been completed in phases 1 and 2. The remaining Delta building, which is to be built, is available as a pre-let and comprises around 8,500 sq m. Aviator Park is another recent completion currently offering over 14,000 sq m of available space.
- 4.28 Near Chertsey the former DERA site off Chobham Lane now has planning permission for up to c.1,000,000 sq ft of office floorspace. The scale of the potential office space in this location may have an impact on the Elmbridge office market.

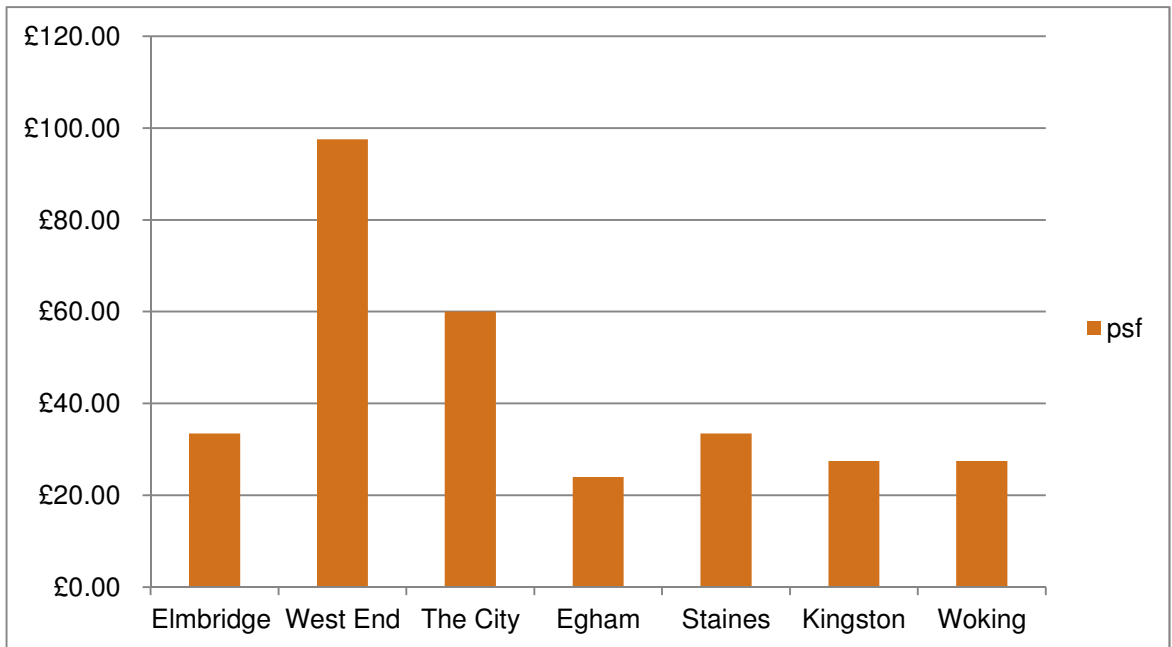
## Rental Values

- 4.29 Weybridge has a larger stock of purpose built large offices in contrast to the rest of Elmbridge which mainly accommodates smaller office suites above retail units. The Heights scheme is a good measure of demand; it was built during the last 12 years and now has only one remaining unit available, comprising just over 1,000 sq m, at a quoting rent of £31.50 psf. The Velocity building has 11,246 sq m of available space and is quoting a rent of £33.50psf. After discussions with agents we have been informed that although no leases are about to be signed, occupier interest has been good.
- 4.30 Walton is not considered to possess as good quality office space in comparison to Weybridge. According to agents, grade A space is achieving high twenties and refurbished space is in the lower twenties. With the exception of a few recent deals, rental levels for secondary and tertiary space range between £12 and £20 psf. Rental figures are however increasing slowly and lease terms achieved are lengthening whilst lease incentives reducing. Landlords are now finding themselves in stronger positions than in recent years and as such are reducing the incentives and granting leases of around 5 years as opposed to previous years where 1-3 years was common with a greater level of incentives on offer. Lease lengths are increasing as landlords are now taking advantage of the market demand. Walton Lodge was recently let for £21.50 psf within 2 months of the previous tenant vacating. Quoting rents for the available floorspace at Hersham Technology Park are £17.50 psf while the vacant Walton Court is asking £25 psf.



4.31 In Esher, the Aissela building, a new 17,640 sq ft. office development in Esher High Street, above retail space, recently completed in 2013 and the top floor of 5,133 sq ft has just been let on a 10 year lease to Haines Watts Accountants achieving £35 psf. The other two floors remain available at a quoting rent of £33.50 psf. From conversations with agents, demand is robust and rental levels are increasing. Top rents previously were around £27.50psf for grade A space and demand in the area has previously been for smaller suites however the Aissela building bucks that trend. The £35 psf figure demonstrates that rental values are increasing because not only is demand returning, but supply of grade A office accommodation is in short supply.

**Figure 25: Office Rental Levels in Comparable Areas & London**

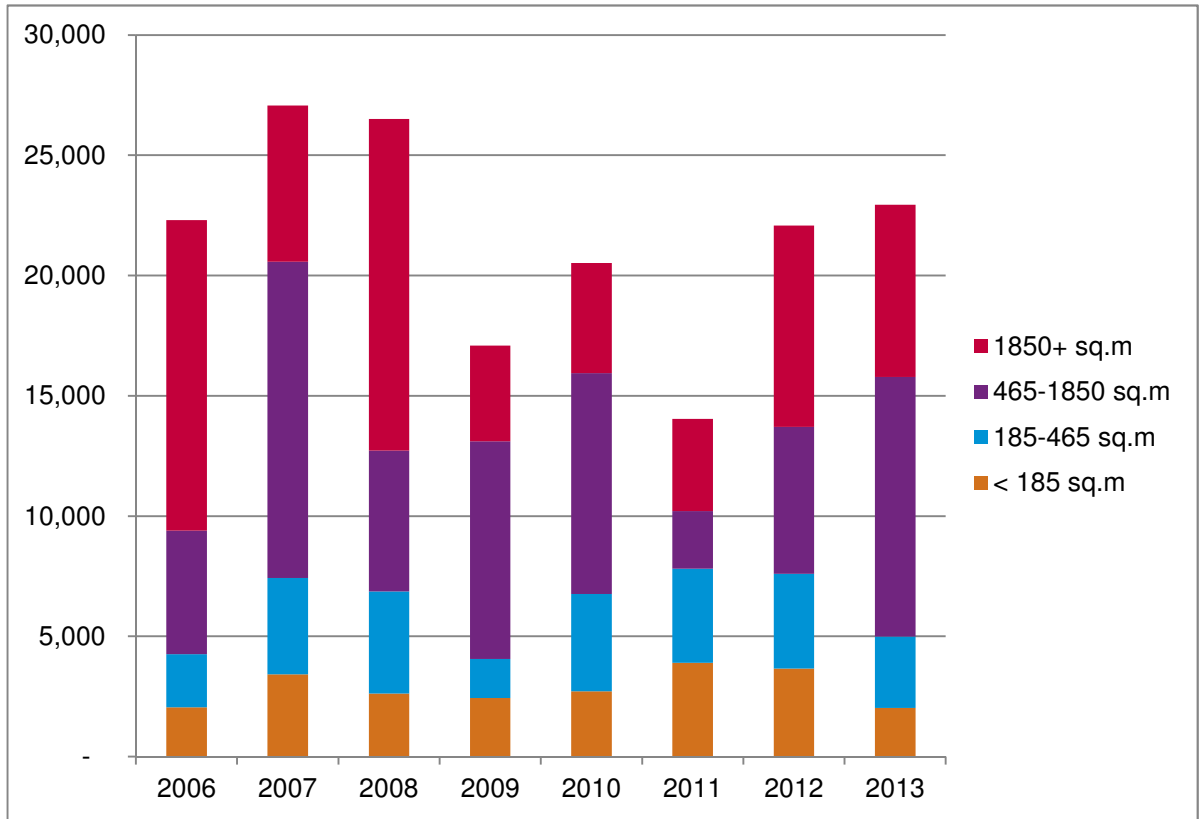


Source: GL Hearn

4.32 Figure 24 shows prime office rents for Elmbridge in comparison with other centres. It can be seen that at over £30 psf Elmbridge is comparable with Staines and is achieving higher rents than Egham, Kingston and Woking where prime office rents have not reached £30 psf. However, in comparison with Central London, where West End prime office rents are nearing £100 psf it can be seen that Elmbridge offers significantly better value.

## Take-Up

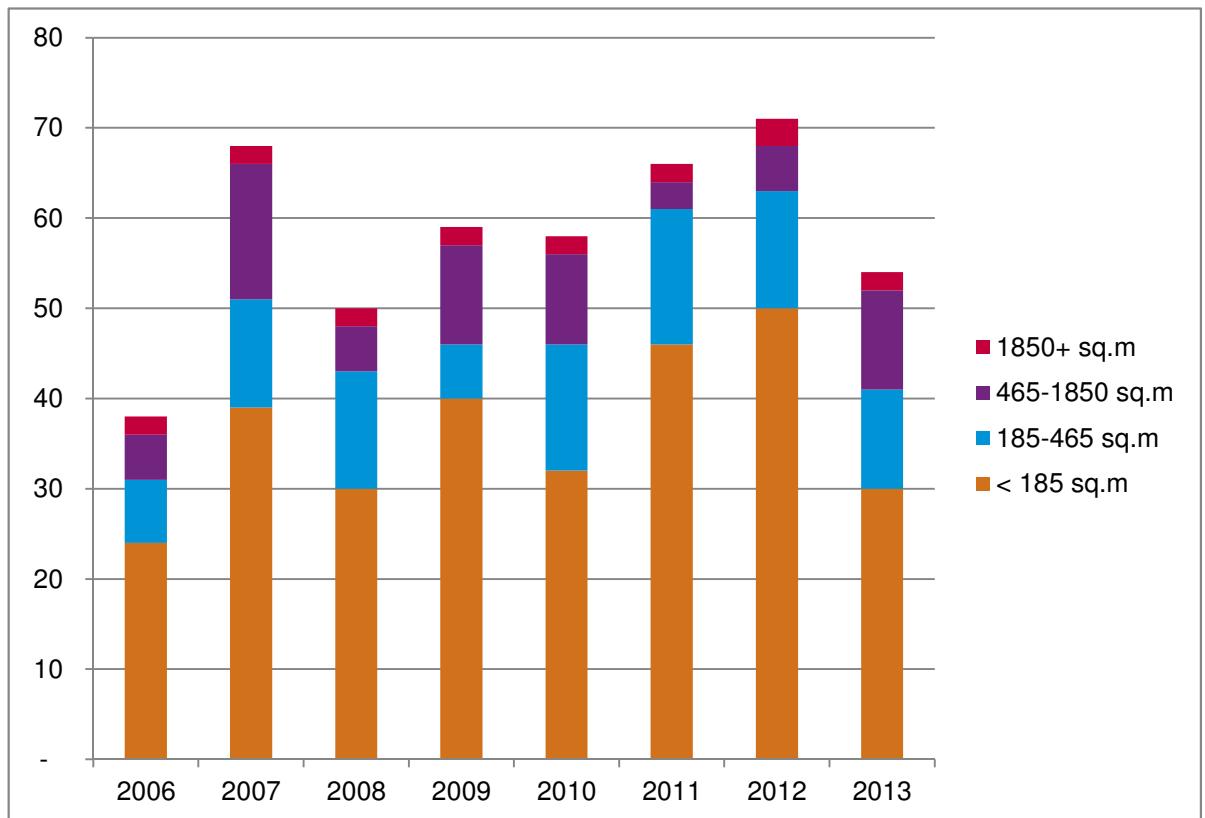
**Figure 26: Office Take-Up in Elmbridge (sq.m)**



Source: EGI and Focus

- 4.33 Take-up peaked in 2007 at just over 27,000 sq m. When the recession hit take-up levels dipped significantly during the 2009-2011 years especially of space more than 1850 sq m.
- 4.34 Although take-up is heavily dictated by supply and these trends react to the development market and the quality of vacant space available, it is a good indicator of market demand. Take-up levels at the end of 2013 have not quite yet reached the levels of the pre-recession years however if quality grade A stock becomes available, these should be surpassed. As office rental levels in London climb, more companies are looking to the M25 markets offering good quality, cheaper space.

**Figure 27: Number of Office Transactions in Elmbridge**



Source: EGI and Focus

4.35 The number of office deals in Elmbridge also demonstrates a similar pattern to that of the take-up. There is a clear decline in the number of deals done during the recession years however this picked up in 2011 while the vacant stock enabled the market to respond to increased demand. In 2013 there has been a decline in the number of deals, although this has been mainly relating to smaller units of less than 185 sq m. The number of deals for the larger sized units has remained fairly consistent.

### Office/Residential Conversion

4.36 The changes to Permitted Development rights introduced by the government in 2013, allowing change of use from B1 offices to C3 residential, has led to a significant number of conversion applications. Estates Gazette has reported that more than 2,250 notifications were submitted to Councils across England to change offices to homes in the first six months following the introduction of the new PD rights. Activity has been particularly focussed on London and the South East.

4.37 By February 2014 the Council had received and granted prior approval to 11 PD right applications. In total, these conversions would result in the loss of c 5,000 sq. m of B1 office accommodation and

the creation of c. 70 residential units. These are mainly small scale upper level conversions of secondary or tertiary office accommodation located above retail uses. They are distributed around the Borough, but there is a concentration in Walton.

- 4.38 Elmbridge benefits from a very strong residential market, with some of the highest values outside of London. It is therefore, reasonable to expect that the Borough is likely to receive a continued high number of PD office to residential conversion applications. However, as outlined above, the Borough also has a generally healthy office market, with good demand and strong rental levels for good quality office accommodation.
- 4.39 Analysis indicates that the focus for office to residential conversion applications is likely to be for poorer quality, lower value office accommodation and that better quality accommodation achieving rental values of £25 psf upwards will not be economic to convert. This analysis would seem to be borne out by the applications which the Council has received to date.

## **CONCLUSIONS**

- 4.40 This office market review indicates that improving economic conditions nationally during 2013 have led to improved business confidence and increasing demand for office space. The office market upturn has been particularly focused on London and the South East. The M25 South office market, which includes Elmbridge, has shown a decline in available office space to the lowest levels in the last 10 years.
- 4.41 Within Elmbridge, Weybridge and Walton-on-Thames are the main office centres. Weybridge provides the main Grade A stock at The Heights Business Park. The Walton office stock tends to be older secondary and tertiary accommodation. Esher and Cobham town centres also provide levels of office accommodation.
- 4.42 Take-up levels have been increasing and availability decreasing, particularly amongst grade A stock. Vacancy levels have reduced recently. This has led to increasing rental levels with top rents now being achieved in excess of £30 psf and has driven the recent return to speculative office development/ refurbishment. Of particular note is the new Aissela development in Esher Town Centre, which has recently achieved its first letting at £35 psf.
- 4.43 Availability levels are higher for poorer quality secondary and tertiary stock. There is a reasonable amount of this type of accommodation in the Borough's town centres which is proving difficult to let as it does not suit occupiers accommodation requirements. This accommodation has also been the focus of office to residential PD right applications.

4.44 Discussions with agents and businesses indicate that Elmbridge offers the following attributes as an office location:-

- Good local skills base
- Good quality office stock (now reducing)
- Good value compared with central London
- M25/M3 accessibility
- Heathrow and Gatwick accessibility

### Industrial Market Review

4.45 In this section of the report, we provide a review of the national and regional industrial (B2 and B8) market context before focusing on the local market characteristics within Elmbridge. In respect of the local market characteristics we will be focusing on the following;

- The key locations;
- Market Conditions;
- Rental Values and transactions; and
- Emerging and competing developments.

### **NATIONAL INDUSTRIAL MARKET**

4.46 Whilst UK manufacturing finally returned to growth in the second half of 2013, it has continued to lag behind the rest of the economic recovery with growth of 2.5% in 2013, compared with 2.8% for the wider UK economy. The distribution and retail sector, conversely, has been one of the key drivers of the recovery with growth of 4.7% in 2014.

### Market Supply

4.47 According to Knight Frank, there is a shortage of supply of warehouse and distribution floorspace across all size categories, leaving occupiers with a lack of choice and good quality space. According to Knight Frank, new supply of units above 100,000 sq ft now stands at 5.2 million sq ft which is 82% down on the peak levels experienced in Q1 2008, when availability stood at c 28 million sq ft. There is currently only around one year's supply of stock available. Rental growth returned to the industrial sector in 2013 after five years of decline. The strength of the market has led to a return to speculative development.

### Take-Up

4.48 Jones Lang Le Salle reported that occupier demand rose significantly in 2013 with 18 million sq ft of take-up in units over 100,000 sq ft compared with 11.4 million sq ft in 2012. The national industrial market has generally followed the progression of the economy over the last year. The distribution

sector has benefitted from the steady growth of e-commerce with internet sales increasing. In November 2013 internet sales were at their highest levels of 11.9% of total sales, this figure is estimated to rise to 20% by 2020.

### Investment Market

- 4.49 The industrial sector has seen the largest reduction in yields for prime space. According to IPF, industrial is the lead performing UK property market sector. The market is under supplied and capital and rental levels are expected to grow. Yields have improved across the board in 2013, not only for prime logistics sites but also for secondary industrial estates.

## **SOUTH EAST INDUSTRIAL MARKET**

### Market Supply

- 4.50 The area of the regional industrial market within which Elmbridge sits is different from the office market area. The industrial market area relates more closely to the Enterprise M3 LEP area. It spans Surrey and Hampshire, extending south along the A3 and M3 corridors.
- 4.51 The regional south east industrial market supply position reflects the national picture. There is a real shortage in prime space generally. As at February 2013 there was only one speculative scheme under construction which was in Theale totalling 47,000 sq ft.
- 4.52 The Enterprise M3 Commercial Property Market Study 2013 reported on the breakdown of industrial floorspace available across Surrey and Hampshire. Total industrial floorspace available in the LEP area amounted to 478,098 sq. m compared with 856,103 sq. m of office floorspace. When occupation density (sq. m/person) is also taken into account the dominance of office supply over industrial supply in the sub-region is clear. Within Surrey itself 72% of employment floorspace available is office, with 28% industrial.
- 4.53 The focus of industrial floorspace in the LEP area is around Basingstoke and Andover with 157,608 sq m of availability. 52% of the industrial floorspace available was made up of second hand space.

### Take-Up

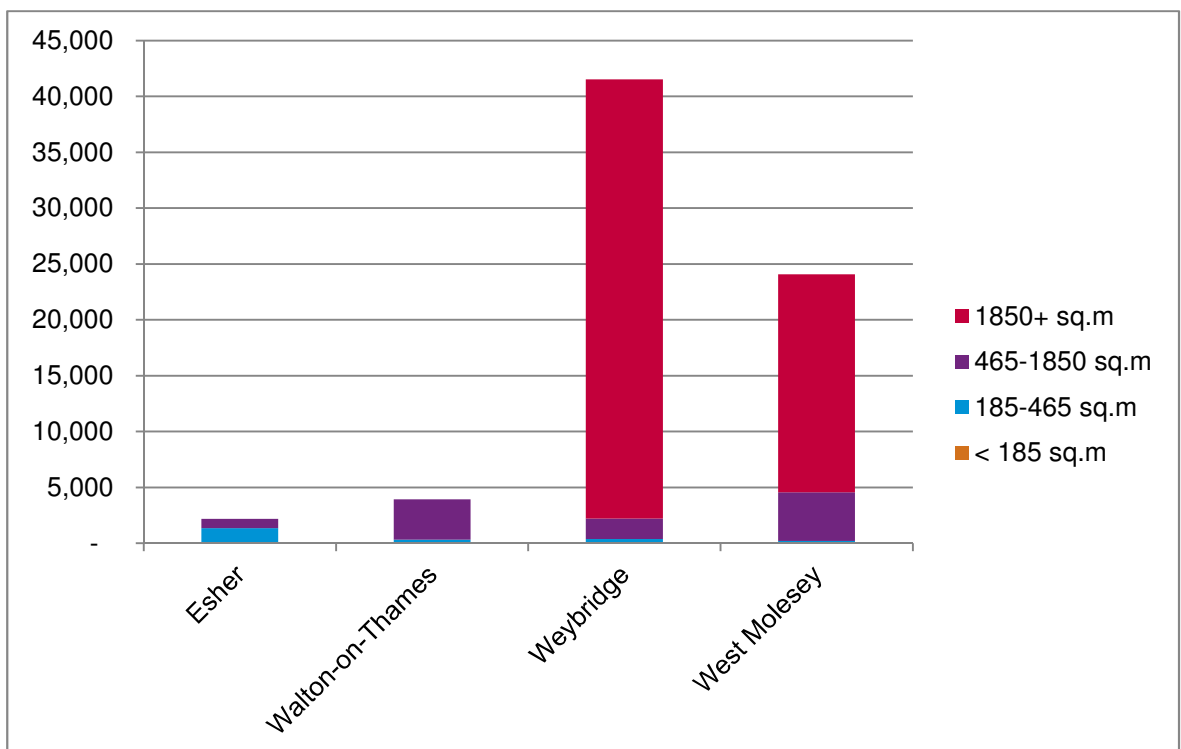
- 4.54 South east industrial take-up has strengthened during 2013 with demand levels returning as the economy recovers and firms bring back their turnover levels. Research suggests that the demand for industrial space is much less volatile than the office market. Industrial vacancy rates across the LEP area averaged 8%, which is within normal healthy market levels.

## ELMBRIDGE INDUSTRIAL MARKET

### Market Supply

- 4.55 Total industrial stock in Elmbridge was 377,000 sq. m (B2-154,000 sq m, B8-223,000 sqm) according to Valuation Office Agency (VOA) data, although it should be noted that the most recent published data dates from 2008. The Elmbridge Annual Monitoring Review for 2013 reported total B2 industrial space in the borough was 158,470 sq m and total B8 warehousing and distribution space of 224,098 sq m. These two figures are closely correlated. Within Surrey, Elmbridge has one of the largest industrial stocks.
- 4.56 The total quantum of industrial floorspace in Elmbridge exceeds the total quantum of office floorspace (292,000 sq. m).
- 4.57 The industrial market supply in Elmbridge is largely provided at Weybridge and West Moseley which house the majority of the industrial stock at the Brooklands Industrial Estate and Molesey Industrial Estate. Esher also has a reasonably significant floorspace made up from largely industrial space at Sandown Industrial Estate and the River Mole Industrial Estate.
- 4.58 The majority of the space on offer within Elmbridge is second hand with a lack of grade A space or refurbished space available. There has been a lack of speculative development in recent times.

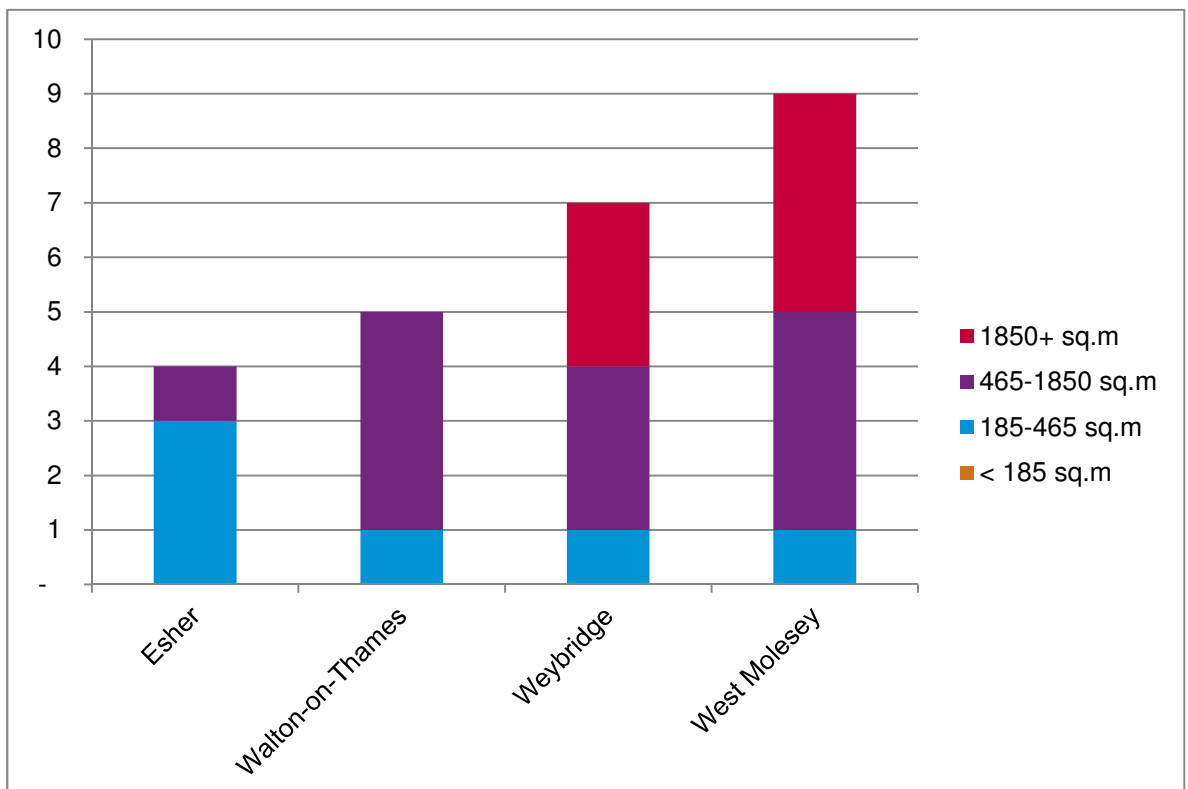
**Figure 28: Industrial Availability in Elmbridge (sq.m)**



Source: EGI/ GL Hearn – January 2014

- 4.59 Figure 28 shows the availability of industrial floorspace across the Elmbridge centres. The information has been derived from the Estates Gazette Interactive (EGI) property database, which compiles information property agent letting information.
- 4.60 Total availability as at January 2014 is shown as 71,698 sq. m. Compared with overall industrial stock levels for the borough, mentioned above, of 377,000 sq. m, this equates to a vacancy level of 19%. In a healthy property market, it is considered normal for there to a level of vacancies as businesses move, buildings are developed or refurbished and lettings take place. The optimal level of vacancies is generally accepted to be 5-10%. The Elmbridge industrial vacancy level is higher than this optimal level. It is significantly higher than the vacancy level of 7% reported in the Enterprise M3 Commercial Property Market Study 2013, and the 3.3% vacancy level reported in the 2008 Elmbridge Borough Employment Land Review.
- 4.61 However the majority of this available supply is made up of a single warehouse unit, Unit A100 at Brooklands Business Park, which came available in November 2013 and is 28,888 sq m in size. This was previously let to Tesco who gave up the unit in November but now occupy 80,000 sq ft of space at the back of the building. If this building is excluded from the available supply then the availability reduces to 41,474 sq. m which represents a vacancy rate of 11%, which is broadly in line with normal market levels.

**Figure 29: Number of Availability Industrial Units**

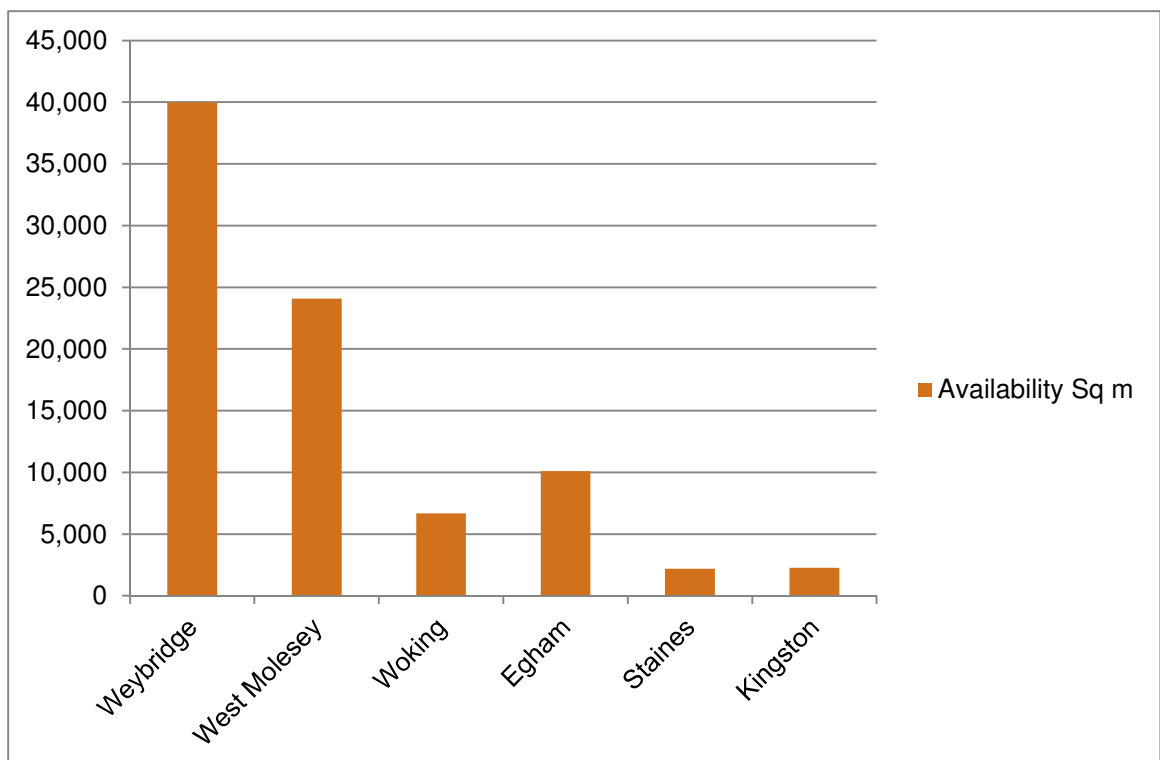




Source: EGI/GL Hearn – January 2014

- 4.62 Weybridge houses a very different type of stock to West Moseley with much larger units as well as medium sized stock currently let by more established companies such as John Lewis and TNT. The two major units available are the A100 and A400 buildings on the Brooklands Industrial Estate. The A400 unit, like the A100, is second hand space but offers just shy of 7,000 sq m.
  
- 4.63 The West Moseley supply of B2 and B8 space is mostly much smaller scale dated 50's/60's stock with low eaves heights. The stock is largely made up of supply at the Moseley Industrial Estate and Imber Court. Access to these areas is poor which is off-putting to prospective tenants. Both industrial areas are close to residential areas. There is good quantity of supply available at Central Avenue and other notable spaces available are Imperial House, Britannia House and Columbian House.
  
- 4.64 Esher has a number of smaller units available in the River Mole Business Park and Sandown Industrial Estate. Sandown Industrial Estate currently has three vacant units in D4, D5 and D6, offering a total of 1,350 sq m of floorspace. In addition to this a further three units are currently under refurbishment that were due to be completed at the end of 2013. In total these units, C2, C3 and C4 offer 1,380 sq m which are not included in the total available floorspace figure as they are not currently available to let. The River Mole Business Park has 833 sq m of available floorspace at the vacant unit 4. This leaves the total vacant B2 floorspace in Esher at 2,183 sq m.

**Figure 30: Industrial Availability in Comparable Areas (sq. m)**



Source: EGI/GL Hearn – January 2014

4.65 Weybridge heavily dominates the available supply in the surrounding area, although as mentioned above, this largely stems from the current availability of two large distribution units at Brooklands Business Park.

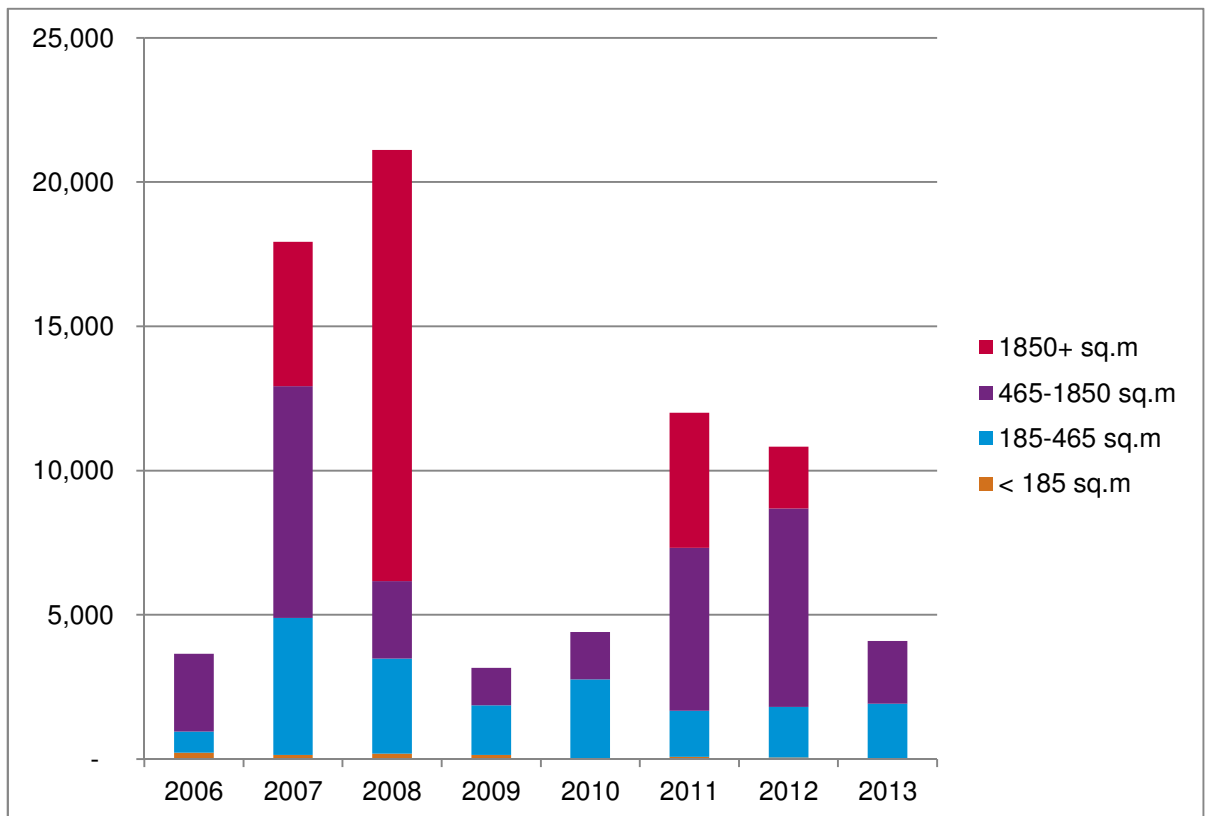
### Rental Values

4.66 In 2013 the average rental value achieved from transactions analysed was £7.36 psf. Letting activity mainly took place on the Molesey and Esher industrial estates. Larger units available at the Brooklands Industrial Estate are quoting around £10 per sq ft but smaller units are achieving between £12 and £13 at the top end of the market.

4.67 In West Molesey the more modern units built in the 80's and the older units where the roofs have been replaced are achieving rental levels at best of between £8.50 and £9.50. The older stock is of a poor quality and has been beneath these rental levels.

### Take-up

**Figure 31: Industrial Take-Up in Elmbridge (sq. m)**

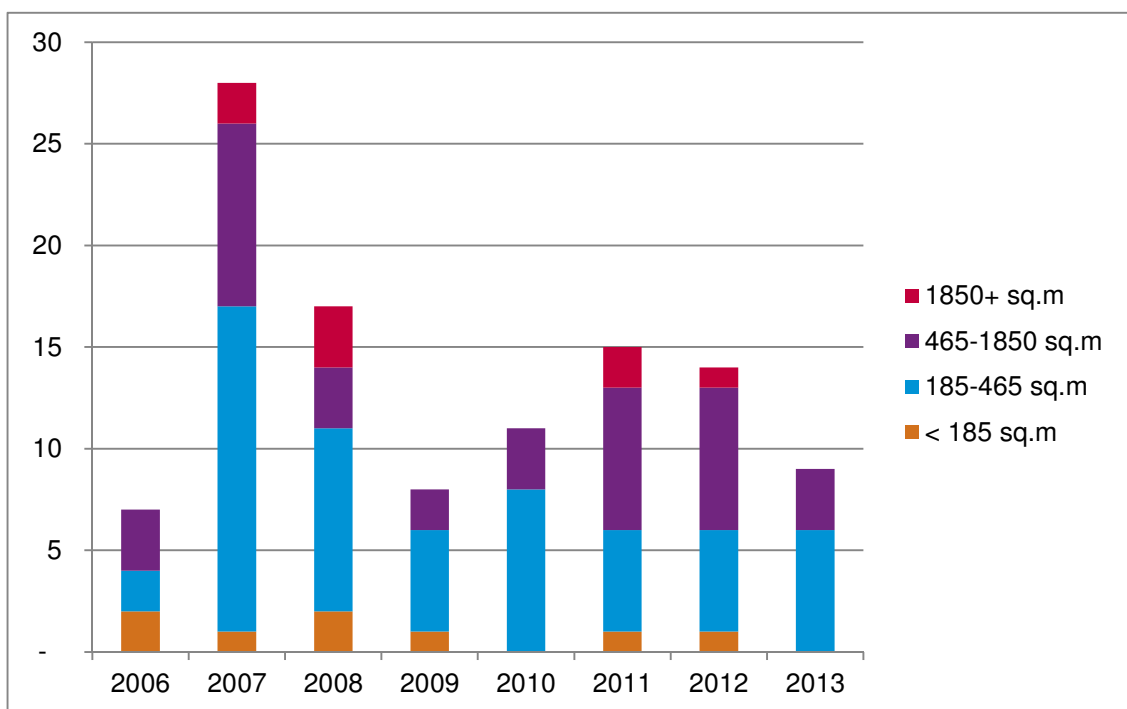


Source: EGI and Focus

4.68 Similar to the theme displayed by the office market, Figure 31 demonstrates that total industrial take-up in Elmbridge declined significantly after peaking in 2008 before the recession. Take-up picked up in 2011 and 2012 at over 10,000 sq m for each of these years, but has tailed off in 2013 with only c.4,000 sq. m of take-up. This fall in take-up for 2013 has mainly been down to the very small number of transactions for units of more than 465 sq. m.

4.69 Figure 32, showing the number of transactions, conveys a similar message with the exception of the peak experienced in 2007. It also shows that the take-up of over 1850 sq m units in 2008 was from 3 deals.

**Figure 32: Number of Transactions in Elmbridge**



Source: EGI and Focus

4.70 After discussions with agents we would expect demand levels and take-up to equal or increase on the 2013 levels for 2014. Take-up will also increase with more speculative developments coming forward. Demand for Unit A100 at Brooklands Industrial Estate for example has been relatively strong, we have been informed that a number of smaller companies have expressed interest in taking a proportion of the building rather than the whole unit given the scale of the unit at 28,888 sq m. and it is likely that this very large unit will be broken up into smaller units.

## **CONCLUSIONS**

- 4.71 The recovery in the industrial market has been driven by the distribution and retail sector. This has led to a shortage of large warehouse stock in the South East and Midlands and a return to speculative development.
- 4.72 Elmbridge sits within an industrial property market which relates to the A3 and M3 corridors. The commercial property market in this area is dominated by the office sector, with the industrial sector playing a secondary role, with less stock.
- 4.73 Within Elmbridge itself, supply is focused on two main industrial areas, Brooklands Industrial Estate and Molesey Industrial Estate. Brooklands Industrial Estate provides modern, large warehouse accommodation benefiting from good accessibility for HGVs to the strategic road network. Other industrial areas in the Borough serve a more local market and are constrained to a greater or lesser extent by their accessibility and quality of stock. Overall the borough is however clearly not a prime market for industrial property.
- 4.74 Availability and take up rates in the Elmbridge industrial market are skewed by the impact of a small number of very large warehouses. Underlying demand for smaller industrial units is more consistent and shows strong demand and take up over the last few years.

## 5 SELECTED CONSULTATION WITH KEY BUSINESSES

5.1 The analysis in Sections 3 and 4 has been based on review of qualitative evidence from employment statistics and commercial databases, coupled with consultation of local agents/surveyors. To add depth to the analysis of property and economic dynamics we have sought to undertake a number of selected consultations with key businesses or business organisations to understand relevant current issues affecting businesses in the Borough. This analysis is not intended to provide a comprehensive survey of issues affecting businesses, but to add depth to the wider analysis by highlighting some issues facing businesses in the Borough.

5.2 In preparing this report we have engaged with the following businesses/ organisations to understand the views regarding the positive and negative aspects of running a business in the Borough; barriers to further investment, the quality of the local workforce and services:

- Charles Austen Pumps
- Mundays
- Colour Zone
- Pepper's Ghost
- M-tec
- Ansett Aircraft Parts
- Dula UK Ltd
- Crane Associates
- Hersham Technology Park

5.3 From this we have created a SWOT analysis (considering strengths, weaknesses, opportunities and threats) affecting businesses in the Borough.

### Strengths

5.4 The majority of respondents were keen to highlight the excellent transport links in the Borough particularly access onto the M25. This was particularly important to companies that manufacture and distribute goods.

5.5 The Borough's location in relation to Central London and Heathrow Airport is seen as a major strength, as is the proximity to Gatwick. Many of the respondents suggested the Borough's location part-way between Gatwick and Heathrow was a major strength.

5.6 The rail network was also praised particularly for those involved in the service industries as it allowed them to visit clients in Central London and vice versa.

5.7 The suburban setting was also seen as a positive as it allowed employees to travel by car as there was plenty of parking. It also provided a pleasant environment in which to work. The towns and

villages of the Borough also had plentiful amenities and services. Many of which are also used as part of larger companies supply chain.

- 5.8 The qualification and skills level is also a major strength particularly for higher value service sectors.

### Weaknesses

- 5.9 The high quality of the local workforce means that businesses are often competing with Central London for their employment. There is also conversely a lack of potential low skilled local employees. This means recruiting to lower skilled jobs can be difficult as they often have to travel from further afield locations, such as Staines.

- 5.10 Constrained public transport provision also impacts on the ability of non-drivers and the low paid getting to their place of work. Buses are not reliable as they are either too infrequent or are caught up in traffic. While the train network is seen as good for some parts of the Borough the frequency of the trains are poor.

- 5.11 Broadband availability is also a concern particularly with service industries that rely on a good internet connection. The roll out of this service needs to be hastened in order to ensure efficiency for businesses.

- 5.12 Perhaps as a result of the good connectivity and ability to drive to work, congestion has been highlighted as a particular weakness. It is extremely bad on occasions when the M25 has issues. When this occurs, traffic is forced through the Borough, which is not equipped to deal with it.

### Opportunities

- 5.13 The business owners consulted believe there is a plentiful supply of business accommodation in the Borough, most of which is good quality. This provides the opportunity to market the area for further high quality business growth.

- 5.14 With business rents in London reaching unaffordable levels, there is an opportunity to exploit the potential from companies who are seeking cheaper accommodation outside the Central Activities Zone.

- 5.15 The area is also developing a hi-tech industrial cluster around the Information and Communication Sector. If this can be marketed correctly then, as a growing high value sector opportunity exists to rapidly expand employment and output from this sector.

## Threats

- 5.16 If property prices in London continue to rise, this may result in difficulties recruiting staff or paying them a sustainable wage so that they are attracted to working in the Borough. There is also a general issue with paying staff the high wages they demand and could achieve in Central London.
- 5.17 The road network in the Borough is reaching capacity and congestion is increasingly becoming an issues. The Borough should also seek to improve traffic management at times when there is an issue on the M25.
- 5.18 The recent floods have also highlighted a concern among local business owners, with some fearing it may not be possible to insure their premises. As a result some may seek to move to a lower flood risk area outside of the Borough.

## 6 SUPPLY OF SITES

6.1 This section of the report provides a review of the supply of employment land within Elmbridge. It does not represent a full site assessment of all employment land within the borough, but focuses on the main employment sites – SEL, larger sites and sites with identified intensification/redevelopment potential. The Council has been undertaking its own full site assessments which we have had regard to but not replicated.

6.2 The review has involved site inspections, which have focused on commercial aspects including the market attractiveness, suitability and quality of sites and premises. We have reviewed the development potential of sites, the potential for intensification of use and potential for extension of existing sites.

6.3 Sites have been assessed on a settlement by settlement basis in line with the Council's Investment and Development Plans. The sites reviewed are listed below;-

**Table 8: List of Employment Sites Reviewed**

ID Plan Area	Site
<b>Claygate</b>	Claygate House
	BT Telephone Exchange
<b>Cobham</b>	Munro House
	Portsmouth Road
	Knowle Hill Park
<b>E/W Molesey</b>	Imber Court Trading Estate
	Molesey Industrial Estate
<b>Esher</b>	River Mole Industrial Estate
	Sandown Industrial Estate
	Town Centre Offices
<b>Hersham</b>	Hersham Place Technology Park
	Riverdene Industrial Estate
<b>Thames Ditton</b>	Kingston House Estate
	The Pavilion
	BT Telephone Exchange
	Hampton Court Industrial Estate
	Ferry Works
<b>Walton</b>	Hersham Trading Estate
	Walton Court
	Walton Halfway



	Walton Town Centre Offices
<b>Weybridge</b>	Brooklands Industrial Estate/Wintersells Road
	The Heights/Locke King Rd
	Velocity House, Brooklands
	Glaxo Smithkline
	Horizon Business Village
	Weybridge Town Centre Offices
	Queens Road Offices

**Review of Existing Main Employment Land Locations in Elmbridge**

Site Ref.	Site Name & Settlement Area	Site Area & Floorspace	Summary Comments
	Claygate House, Claygate	1.5 ha (ex. Grounds) 1,548 sq. m	<p>SEL.</p> <p>Large purpose built HQ office building (B1), occupied by Dairy Crest. 3 storey building dating from 1960/70s set in substantial landscaped grounds with surface car parking. Located on edge of settlement surrounded by low density high value housing and open fields (Green Belt). Reasonable car accessibility to A3. Remote from local services, public transport and other business occupiers.</p> <p>Site is currently fully occupied by Dairycrest. Potential for intensification of use on site. If site becomes surplus to current occupier requirements then suitability for continued employment use should be reviewed. Residential redevelopment would be highly attractive to market. Support proposed removal of SEL designation due to bespoke single occupier nature of this site.</p>
	BT Telephone Exchange, Claygate	0.72 ha 4,922 sq. m	<p>2 storey telephone exchange and surface car parking (Sui generis). Located on a large site immediately to west of railway line, Claygate station and local centre. Open fields to west and south (Green Belt). Reasonable car accessibility to A3. Close to local services and public</p>

			<p>transport. Vehicle access onto Hare Lane is constrained.</p> <p>Site is currently in operational use by BT but has been put forward for residential development in the SHELAA. If site becomes surplus to current occupier requirements then suitability for continued employment use should be reviewed. Residential redevelopment would be highly attractive to market.</p>
	Munro House, Cobham	<p>1.37 ha</p> <p>4,789 sq. m</p>	<p>Good quality 1990's 2 storey office campus type development (B1). Surface car parking. Located in attractive landscaped setting adjacent to Cobham Rugby Cub and low density high value housing on northern edge of settlement. Reasonable car accessibility to A3. Remote from local services and public transport.</p> <p>Occupied by a small number of professional services type occupiers. Property is well let with a vacancy level of c.10%. Rental levels £25/sqft according to the agents. Limited scope for intensification on car parking areas and landscaped area to front of site.</p>
	74/78 Portsmouth Road, Cobham	<p>1.2 ha</p> <p>3921 sq.m</p>	<p>SEL</p> <p>2 adjacent major office buildings (B1). 3 storey building to front of site constructed within last 10 years with slightly older building to rear. Surface car parking. Located on edge of settlement surrounded by a mix of uses, including playing fields, medium density housing and commercial/retail uses. Good car accessibility to A3. Reasonable access to local services. Remote from public transport.</p> <p>Buildings are occupied by Munday's Solicitors, Hexagon (computer software), Axa and Swiftcover (insurance). Appear fully occupied although there may be a small amount of space remaining. Very limited scope for intensification.</p> <p>Support proposed removal of SEL designation due to</p>

			relatively small size of this site, although expect employment use to continue long term.
	Knowle Hill Park, Cobham	18.2 ha  4365 sq m	<p>Large purpose built HQ office building (B1). Unable to inspect site due to security restrictions, but understand comprises a high quality 3 storey building constructed c 1990 set in substantial landscaped grounds with surface car parking. Located on edge of settlement surrounded by low density high value housing and open fields (Green Belt). Reasonable car accessibility to A3. Remote from local services, public transport and other business occupiers.</p> <p>Site is fully occupied by single occupier, Cargill, an international conglomerate. Limited potential for intensification of use on site. If site becomes surplus to current occupier requirements then suitability for continued employment use should be reviewed. Residential redevelopment would be highly attractive to market.</p>
	Imber Court Trading Estate, East Molesey	3 ha  16,600 sq m.	<p>SEL</p> <p>Medium sized industrial estate. Comprising 7 medium/large industrial/warehouse (B2/B8) units. Surrounded by Green Belt to east, south and west. Met Police Imber Court Sports Ground adjoins to east and south. River Ember runs along western boundary of site. Access via Orchard Lane, a residential street. Access to strategic road network is fairly poor. Remote from local services, public transport and other business occupiers.</p> <p>The site has a high vacancy level (c 50%) and is in fairly poor condition. The layout is poor with limited car parking and constrained for HGV movement. Site has been put forward for residential development in the SHELAA. Residential redevelopment would be highly attractive to market. Support proposed removal of SEL designation due to unsuitability for continued employment use.</p>

	<p>Molesey Industrial Estate, West Molesey</p>	<p>15 ha 81,263sq m</p>	<p>SEL Large industrial estate originally dating from the 1930s. Located between Molesey, Hersham and Walton. Largest employment area in the north of the borough, serving a strategic purpose. Comprises a mixed office, industrial and warehouse area (B1, B2 and B8). Surrounded by medium/high density residential, mainly social housing. Access to strategic road network is fairly poor. Reasonable proximity to local services, public transport and other business occupiers.</p> <p>The environmental and building quality is mixed. There are vacancies, particularly amongst poorer quality buildings, with an overall vacancy level of c. 30%. Agents report reasonable letting activity. Rental levels are the most affordable in the borough. Some residential redevelopment pressure around the fringes of the estate. Employment redevelopment/intensification potential. Retain SEL status.</p>
	<p>River Mole Industrial Estate, Esher</p>	<p>0.53 ha 30,18sq m</p>	<p>Small 1990s light industrial estate (B1c/B2). 6 medium sized units. Large Council depot to rear. Good quality buildings. Surrounded by medium/high density residential, mainly social housing. Adjoins Green Belt. Access via residential streets. Access to strategic road network is poor and very constrained for HGVs by height restricted railway bridges. Fairly remote from local services, public transport and other business occupiers.</p> <p>Site has high level of vacancies of c 50%. No intensification potential. Site does offer redevelopment potential with adjoining depot and Sandown Industrial Estate (see below). Identified in ID Plans as having potential for residential/traveller use.</p>
	<p>Sandown Industrial Estate,</p>	<p>1.29 ha</p>	<p>Fairly large development of 14 medium sized industrial units dating from the 1980/90s (B2) with large, older</p>

	Esher	10,361sq m	<p>distribution warehouse to rear (B8). Reasonable quality buildings. Surrounded by medium/high density residential, mainly social housing. Adjoins Green Belt. Access via residential streets. Access to strategic road network is poor and very constrained for HGVs by height restricted railway bridges. Fairly remote from local services, public transport and other business occupiers. Parts of site in Flood Zone 2 and 3b.</p> <p>Site has high level of vacancies of c 50%. Some intensification potential. Site does offer redevelopment potential with adjoining depot and River Mole Industrial Estate (see above). Part of site (the larger distribution warehouse) Identified in ID Plans as having potential for residential or smaller business units use.</p>
	Town Centre Offices, Esher		<p>Esher town centre provides a range of office accommodation. This is mainly located along the High Street. It comprises standalone office buildings such as St Andrews House and Hardy House at either end of the High Street and office accommodation above ground floor retail use such as Windsor House, Westgate House. Esher town centre provides good car accessibility to A3 and good proximity to local services and public transport.</p> <p>St Andrews House provides the UK HQ for engineers Keltbray. Other occupiers are small businesses with a predominance of professional services firms. Vacancy levels are low. Main vacancies are in the recently completed Aissela development, where the top floor has recently let at £32.50 psf to a law firm. This indicates that there is a strong demand for good quality office accommodation in this area. The adjoining Windsor House is also vacant although this provides more basic office accommodation and is proving more difficult to let.</p>

	<p>Hersham Place Technology Park, Hersham</p>	<p>4.21 ha  17,000sq m</p>	<p>SEL Former 3/4 storey HQ office building dating from the 1960/70s recently converted into serviced office accommodation. Surface car parking. Located in the centre of Hersham. Café and gym on site. Surrounded by residential and commercial uses. Fairly good car accessibility to A3 and good proximity to local services and public transport.</p> <p>The site is home to c 30 small businesses with very limited vacancies. It provides evidence of strong demand for small serviced office space in the area. Potential for intensification through development on the large car parking area.</p> <p>The ID Plan proposes removal of the SEL designation for this site, due to its size. We would suggest that this proposal is reviewed, as due to the type of business this site supports we consider that it does have strategic importance.</p>
	<p>Riverdene Industrial Estate, Hersham</p>	<p>1.17 ha  5,527sq m</p>	<p>SEL A small 1930s industrial estate (B1/B2) located in the centre of Hersham. Basic standard of accommodation. Constrained layout and limited car parking. Surrounded by residential and commercial uses. Fairly good car accessibility to A3 and good proximity to local services and public transport.</p> <p>The site is well occupied with a range of light industrial occupiers. Very limited vacancies, demonstrating strong demand for small affordable light industrial accommodation. The ID Plan proposes removal of the SEL designation for this site, due to its size and also proposes the site as redevelopment opportunity for residential or residential/employment development. Support proposed removal of SEL designation due to</p>

			small size of this site, although would highlight its current success as an employment location.
Kingston House Estate, Thames Ditton	3.61 ha 10,226sq m		<p>SEL</p> <p>A mixed employment site containing self storage, car repair, offices and hotel uses (B1, B2, B8 and other). There has been significant recent redevelopment and investment in the site. It is located in the north of the borough less than 2 miles from Kingston town centre. The site fronts the Thames and is surrounded on other sides by medium/high density housing. It has good access to services and public transport.</p> <p>The site is occupied by major occupiers – Holiday Inn, Shurguard, Honda and Guy Salmon. Vacancy levels are c 15%. It is intensively developed with no prospect of further intensification. The ID Plan proposes removal of the SEL designation for this site, due to its size and limited strategic role. Support proposed removal of SEL designation.</p>
The Pavilion, Atwell Place, Thames Ditton	1 ha 1,665 sq m		<p>SEL</p> <p>Large purpose built HQ office building (B1). Comprises a high quality 3 storey building constructed in the 1990s with surface car parking. Railway line to south, with surrounding medium density residential development. Reasonable car accessibility from Portsmouth Road. Reasonable access to local services and public transport, but remote from other business occupiers.</p> <p>Site is fully occupied by single occupier. No potential for intensification of use on site. The ID Plan proposes removal of the SEL designation for this site, due to its size and limited strategic role. Support proposed removal of SEL designation.</p> <p>Premises are fully occupied, modern office accommodation without any significant constraints and therefore suitable for continued employment use.</p>

	<p>BT Telephone Exchange, Portsmouth Road, Thames Ditton</p>	<p>0.9 ha</p>	<p>2 storey telephone exchange and surface car parking (Sui generis). Located immediately to west of railway line. Claygate station and local centre. Green Belt to north and west. Reasonable car accessibility from Portsmouth Road. Reasonable access to local services and public transport, but remote from other business occupiers.</p> <p>Site is currently in operational use by BT but has been put forward for residential development in the SHELAA. If site becomes surplus to current occupier requirements then suitability for continued employment use should be reviewed. Residential redevelopment would be highly attractive to market.</p>
	<p>Hampton Court Industrial Estate, Thames Ditton</p>	<p>1 ha 3,447sq m</p>	<p>Small industrial estate (B2) located immediately south of Hampton Court station. Site is very narrow and lies between the railway line to the east and the main Hampton Court Way to the west. Buildings are single storey basic industrial units in poor condition. Car parking and access are constrained. Good access to local services, public transport and other business occupiers.</p> <p>The site has a high vacancy level and is in need of investment. The ID Plan proposes the site as redevelopment opportunity for residential or mixed use development. It has been included in the SHELAA and has been the subject of pre-application enquiries for mixed use development. We consider that the site has poor suitability for residential use would suggest that the Council seeks to encourage redevelopment of this site for employment purposes – for small business offices and workshops, which would benefit from the site’s sustainable location.</p>
	<p>Ferry Works, Thames Ditton</p>	<p>0.59 ha 6,377sq m</p>	<p>Victorian riverside warehouse and boatshed buildings converted into small office accommodation. Located in Thames Ditton village fronting the Thames. Mixed commercial/residential area. Limited on-site car parking. Remote from main road network and public transport but</p>



			<p>good access to local services.</p> <p>Successful small office development in a very attractive environment. Fully occupied, mainly by professional services firms. Demonstrates strong demand for this type of accommodation.</p>
	Hersham Trading Estate, Walton	<p>7.16 ha</p> <p>36,357sq m</p>	<p>SEL</p> <p>Large industrial estate originally dating from the 1930s. Located in Hersham. Query why considered Walton ? Comprises a mixed office, industrial and warehouse area (B1, B2 and B8). Surrounded by a variety of uses, including some residential, an aggregates depot, and open land. Access to strategic road network is fairly poor. Reasonable proximity to local services and other business occupiers and immediately adjacent to Hersham station.</p> <p>The environmental and building quality is mixed. There are some vacancies, particularly amongst poorer quality buildings. Some residential redevelopment pressure around the fringes of the estate. Employment redevelopment/intensification potential. The site performs a strategic employment purpose. Support the ID Plan recommendation to retain SEL status.</p>
	Walton Court, Station Avenue, Walton	<p>3.33 ha</p> <p>8,456 sq m</p>	<p>SEL</p> <p>A large 3 storey HQ office building constructed in the 1960/70s. The site is located immediately north of Walton Station. It is a large site with landscaped grounds and surface car parking. Medium density housing is located opposite and there are further office buildings to the north. Access to strategic road network is reasonable. Good proximity to local services and other business occupiers and immediately adjacent to Walton station.</p> <p>Formerly the HQ of Birdseye, this listed building has been vacant for several years. Attempts to market it to a new</p>

			<p>single occupier for refurbishment have so far proved unsuccessful. The ID Plan proposes removal of the SEL designation for this site, on the basis that it is no longer considered of strategic importance and redevelopment is being considered by the owners. We would suggest that this proposal is reviewed, as with the improving economy and market and limited availability of other large offices in the borough we consider that Walton Court may be considered to have strategic importance.</p>
	<p>Station Avenue/Hersham Way, Walton</p>	<p>1.45ha 5500sqm</p>	<p>Part SEL</p> <p>Three modern 3 storey office buildings located in the Halfway Green area of Walton, on the south side of Hersham Road. These buildings are located immediately north of Walton Court considered above. Surface car parking. Located in a mixed commercial area. Access to strategic road network is reasonable. Good proximity to local services and other business occupiers and close to Walton station.</p> <p>One building is wholly occupied by Kia, and another by KBC Technologies. Vacancy levels in the KBC building are c 44%.</p>
	<p>Walton Town Centre Offices</p>		<p>Walton town centre provides a range of office accommodation. It comprises standalone office buildings such as Walton Lodge but is mainly made up of office accommodation above ground floor retail use. Offices reviewed include St George's House, Crown House, Case House, Bridge House, Walton Lodge, Walton Reach and Brassey House. Walton town centre provides good accessibility to local services and public transport.</p> <p>Office vacancy levels in Walton town centre are high. There are several premises such as Bridge House and Crown House which are completely vacant. These buildings are low quality. Better quality offices, on the other hand, such as Walton Reach are well occupied.</p>

			Occupiers are mainly small businesses with a predominance of professional services firms.
	Brooklands Industrial Estate, Weybridge	36.27 ha 160,000sq m	<p>SEL</p> <p>The Borough's largest industrial estate comprising a range of industrial accommodation (B2/B8). Comprises two main industrial areas - Brooklands and Wintersells Road. Brooklands provides a mix of large distribution warehouses, including the largest distribution warehouse in the area (27,780 sq m) which was recently vacated by Tesco, and medium sized industrial units. It has a strategic, regional role. Wintersells Road is located to the west and is a smaller, more traditional mixed industrial area. The surrounding area is a mixed commercial and residential area. The area provides good access for HGVs and is well connected with the strategic road network. There is limited access to local services and public transport.</p> <p>Brooklands Industrial Estate is of strategic significance with national occupiers including Tesco, TNT and John Lewis. There are some vacancies, the most significant being the recently vacated Tesco unit. We support the ID Plans recommendation to retain SEL status.</p>
	The Heights/Locke King Road, Weybridge	30 ha 55,000sq m	<p>The Heights is a modern high quality office business park of regional significance. It provides modern and new large floorplate offices in an attractive landscaped setting. Car parking is surface or decked. The surrounding area is a mixed commercial and residential area. The area provides good access for cars and is well connected with the strategic road network. There is limited access to local services and public transport.</p> <p>There are very few vacancies at the Heights and prime rents exceed £30 psf. International occupiers include Sony, JTI and Proctor and Gamble. There are no remaining development plots. We support the ID Plan recommendation to retain SEL status.</p>
	Velocity House,	1.6 ha	Velocity House is a brand new 5 storey office building

	<p>Brooklands, Weybridge</p>	<p>11,264sq m</p>	<p>which has recently been completed. Located at Brooklands adjacent to Mercedes Benz World and Brooklands Industrial Estate. Surface car parking. Not part of the Heights development. The surrounding area is a mixed commercial and residential area. The area provides good access for cars and is well connected with the strategic road network. There is limited access to local services and public transport.</p> <p>Infinite</p> <p>Velocity House was a speculative development and is currently vacant. It is being marketed at a rent of £33.50 psf and agents report good interest from potential occupiers.</p>
	<p>Glaxo Smithkline, St George's Avenue, Weybridge</p>	<p>2.58 ha 7352 sq m</p>	<p>SEL.</p> <p>Large purpose built office/R&amp;D building (B1), occupied by GSK.2 storey building dating from 1960/70s set in substantial landscaped grounds with surface car parking. Located on edge of settlement surrounded by low density high value housing and woodland (Green Belt). Reasonable car accessibility to A3. Remote from local services and other business occupiers. Close proximity to Weybridge station.</p> <p>Site is currently fully occupied by GSK. Limited for intensification of use on site. If site becomes surplus to current occupier requirements then suitability for continued employment use should be reviewed. Residential redevelopment would be highly attractive to market. Support proposed removal of SEL designation due to bespoke single occupier nature of this site.</p>
	<p>Horizon Business Village, Brooklands Weybridge</p>	<p>1.38 ha 5,885sq m</p>	<p>Good quality modern small business park of c 12 medium sized 2/3 storey office suites. Surface car parking. Located in the south eastern part of the Brooklands area. Adjoining uses residential and woodland. Adjacent builders yard. The area provides good access for cars and is well connected with the strategic road network. There is limited access to local services and public</p>

		<p>transport. Flood Zone 2/3</p> <p>Fairly well occupied, although there appear to be a couple of vacant units. Potential for expansion into builders yard area to west of existing site.</p>
	<p>Weybridge Town Centre Offices</p>	<p>Weybridge town centre provides a range of office accommodation. It comprises standalone office buildings such as Idis House, but is mainly made up of office accommodation above ground floor retail use. Offices reviewed include Bridge House, 68 High Street, Nicholson House and Idis House. Walton town centre provides good accessibility to local services and public transport.</p> <p>Vacancy levels are low. In common with the other town centres in the Borough vacancies appear to be highest in basic, older office accommodation located above retail.. Better quality offices,are well occupied. Occupiers are mainly small businesses with a predominance of professional services firms.</p>
	<p>Queens Road offices, Weybridge</p>	<p>In addition to the town centre there is another concentration of offices along Queens Road. There are three office buildings, Clive House, Caradon House and 1 Princes Road. These purpose built offices are 3-5 storeys in height and are of varying age, from the 1970s to date. The area is a mixed commercial/residential area. There is good accessibility to local services and public transport.</p> <p>The offices appear well let, with limited vacancies. Clive and Caradon House are divided into small office suites, 1 Princes Drive is let to a single occupier.</p>

## 7 FORECASTING FUTURE DEMAND

7.1 This section considers and quantifies the future demand for employment land/floorspace in the Borough. We consider the type, size and quality of premises needed and how (based on market characteristics) this might vary across the Borough.

7.2 The analysis considers two alternative approaches for forecasting future demand:

- Labour demand/ economic forecasts – forecasts of future growth in employment taking account of past growth in employment by sector and expected future performance of different sectors of the economy;
- Trends in net change in floorspace – projections of future trends in levels of net floorspace based on trends over the last decade.

7.3 There are inherent limitations of each approach: the economic forecasts assume that the different sectors in the Borough's economy will perform as well as they have in the past in comparison to the region/ UK. At a local authority level there a range of factors which may mean that these trends do not hold true including the impact of individual business investment/ disinvestment decisions. In contrast trends in net changes in floorspace can be affected by the availability (and quality) of land and sites for employment development, or (which is perhaps more relevant to Elmbridge) the loss of employment land in the past. This would be projected forwards.

### Labour-Demand Forecasts

7.4 This section firstly reviews employment forecasts produced by Experian. These provide a baseline 'projection' of economic performance for the Borough's economy based on:

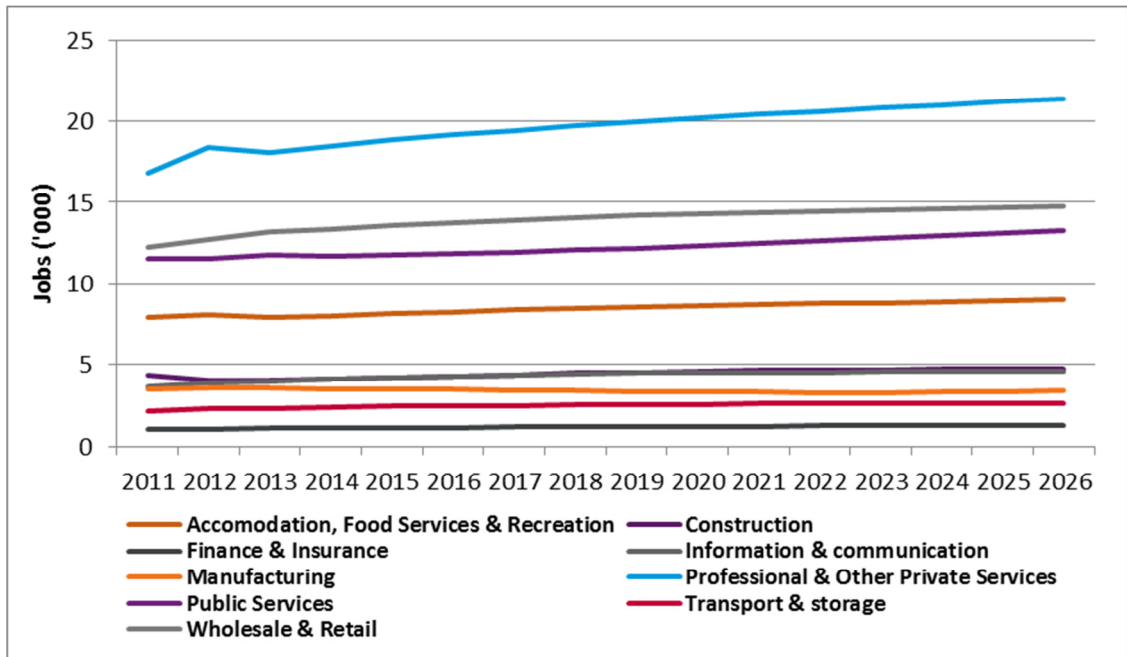
- Expectations of future performance of economic sectors at a national and regional level, taking account of macro-economic factors;
- Historical relationships between relative performance of economic sectors between the Borough and the region holding true moving forward.

7.5 The Experian Forecasts suggest a total net growth of 11,900 jobs in Elmbridge between 2013 and 2026. This equates to 13.8% growth at an annual rate of 790 jobs. This is a significantly higher rate of growth than experienced in the 13 years previous of 5.9%.

7.6 On the one hand, this forecast 'feels' optimistic set against both past performance and the level of growth in labour supply which me might expect. However the 13.8% growth expected is similar to that forecast more widely across Surrey (13.4%).

7.7 In terms of total job growth the most successful sectors between 2011-2016 are expected to be Professional and Other Private Services (4,500 jobs) Wholesale and Retail (2,500 jobs), Public Service (1,700 jobs), Accommodation, Food Services & Recreation (1,100 jobs).

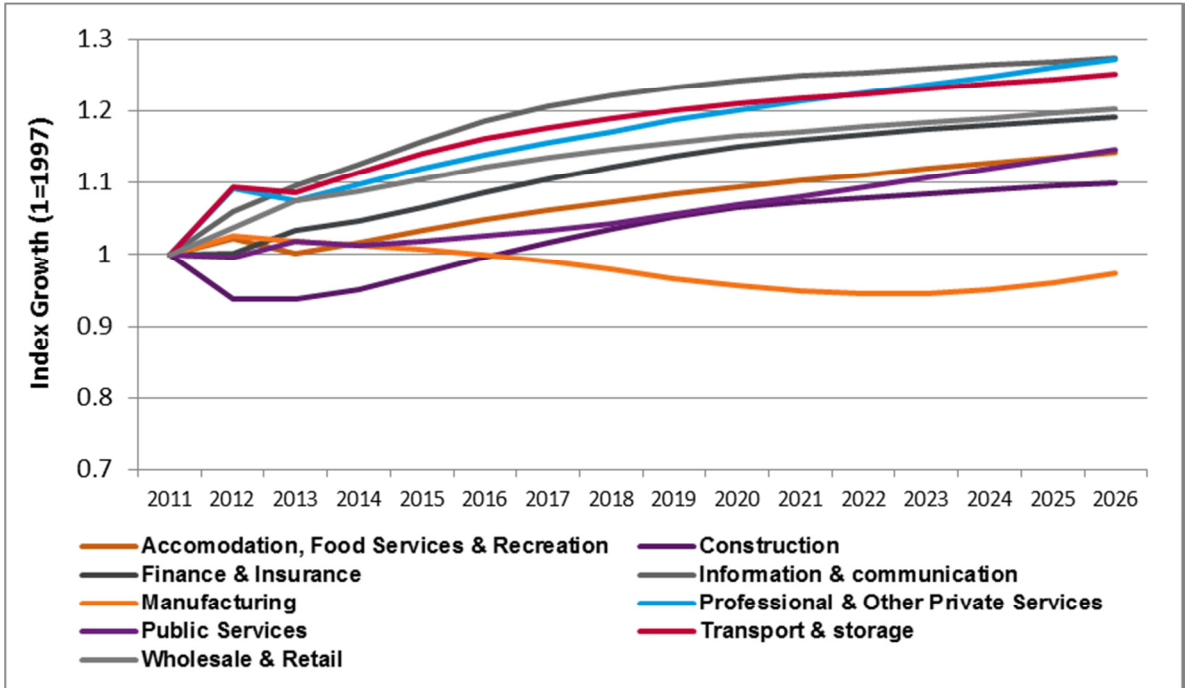
**Figure 33: Job Growth in Major Employment Sectors in Elmbridge (2011-2026)**



Source: Experian 2013

- 7.8 In percentage terms, the largest growth is expected to be in the Information and Communications and Professional and Other Private Sectors, both of which are expected to grow by around 27% between 2011 and 2026. The level of growth expected for each of these sectors significantly exceeds that experienced over the previous 13 years.
- 7.9 Transport and Storage (25%) and Wholesale and Retail (20%) are both expected to grow significantly over the same period. This follows a period of significant growth of the former and a decline in the latter over the last 13 years.
- 7.10 There is expected to be continued and significant decline in the manufacturing sector.

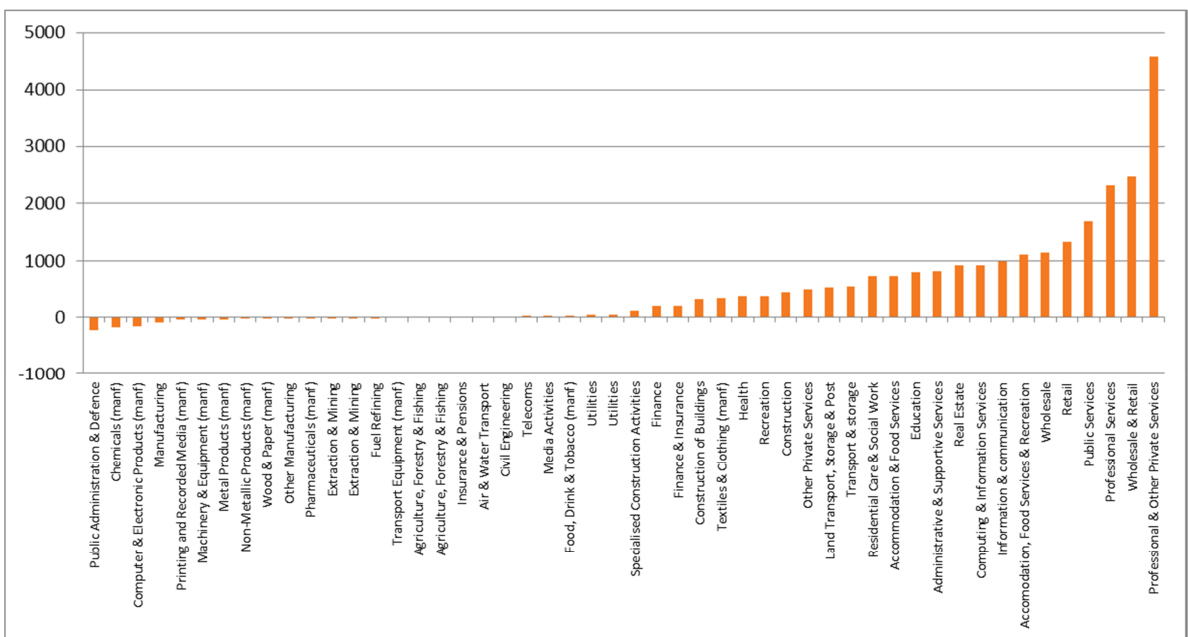
Figure 34: Indexed Growth in Major Employment Sectors (2011 – 2026)



Source: Experian 2013

7.11 More detailed sectoral analysis shows that public admin and defence is also expected to see a net reduction in jobs. Of the other sub sectors in decline ten of the top eleven are some form of manufacturing. This suggests declining demand for B2 space, although some manufacturing businesses may see a decline in jobs which does not translate directly through to floorspace.

Figure 35: Gross Job Change in Sub Sectors in Elmbridge (2011 – 2026)



Source: Experian 2013



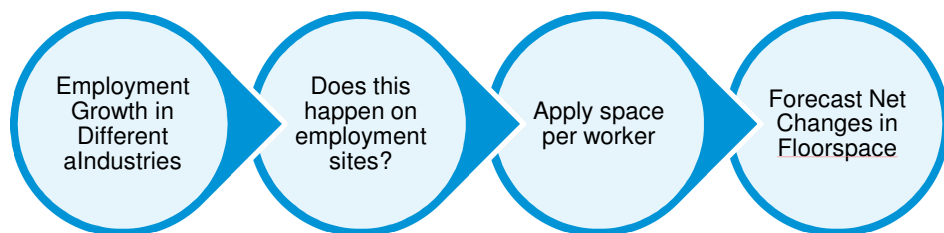
7.12 There are seven sub-sectors in Elmbridge which are expected to grow by at least 1,000 jobs between 2011-2031. These are:

- Accommodation, Food Services & Recreation (1,100 jobs);
- Wholesale (1,200 jobs);
- Retail (1,300 jobs);
- Public Services (1,600 jobs);
- Professional Services (2,300 jobs);
- Wholesale & Retail (2,500 jobs);
- Professional & Other Private Services (4,600 jobs)

### Forecasting Need for Employment Land

7.13 The main stages of our calculation of the future need for employment floorspace in Elmbridge are outlined in the figure below.

**Figure 36: Converting Employment to Floorspace Forecasts**



7.14 A key issue is how use classes will be related to floorspace demand. We have produced standard forecasts of B-Class employment floorspace (segmented by use B1, B2, B8 use-class) based upon our standard model which relates sectors to use classes.

### Converting Employment Forecasts into FTE Employment

7.15 The employment forecasts indicate a total number of jobs for each sector. However this does not differentiate between full and part time employment. The first stage of the modelling therefore takes the forecasts for total jobs and converts the growth to a Full Time Equivalent (FTE) figure.

7.16 This is required to firstly review the employment projections for each sector on a like for like basis. It is also required in order to apply employment densities consistent with the Homes and Communities Agency guidance (Employment Densities Guide, 2nd Edition, 2010).

- 7.17 Our conversion takes into account the ratio of full to part time employment in each of the sectors using locally derived evidence taken from the Business Register and Employment Survey. Full time Equivalent Employment levels for each sector are calculated by assuming the following:
- Two part time jobs are the equivalent of one full-time job;
  - A self Employed Job is the equivalent of a single full-time job.
- 7.18 For example, there may be 150 employed in a given sector, 75 are of are full time employees and 50 are part time. We have assumed that the remaining 25 people are self-employed. By adding half of the part-time roles and including all the full time and self-employed roles the full time equivalent is calculated as 125.
- 7.19 For 57,500 jobs within Elmbridge, approximately 65% are full-time employees, 31% part time and 4% are self-employed. This translates to a FTE equivalent of approximately 48,500 jobs or 84% of the total.

#### **Relating Jobs by Sector to B-Class Uses**

- 7.20 This study is interested in forecasting demand for B-class employment uses. The next stage is therefore to take the figures for forecast growth in FTE employment and to calculate the expected growth in employment by B-class use.
- 7.21 For some sectors 100% of employment is assumed to be in B-use class premises. For others, only a small proportion may be in B-use class properties.
- 7.22 For each 2-digit SIC code we have approximated the percentage of employment that takes place in B-Class or Sui-Generis uses (such as waste or recycling) which commonly take place on employment sites. This is based on analysis of the composition of employment in each sector.
- 7.23 We have estimated for each of the 38 Experian sectors the proportion of FTE employment which is expected to occur in premises in the B1a/b, B1c/B2 or B8 use classes and in sui generis activities which typically take place on employment sites.
- 7.24 A further working example in Elmbridge is for Administrative and Support services where we have assumed 40% would be in offices, 20% in factories and 10% in warehouses. The remaining 30% would be located in non-B class accommodation. Any growth in this sector is therefore apportioned to these uses classes.
- 7.25 The resultant estimates of job growth by sector over the period to 2026 are shown below.

**Table 9: Job Growth in Elmbridge by Use Class (2013-2026)**

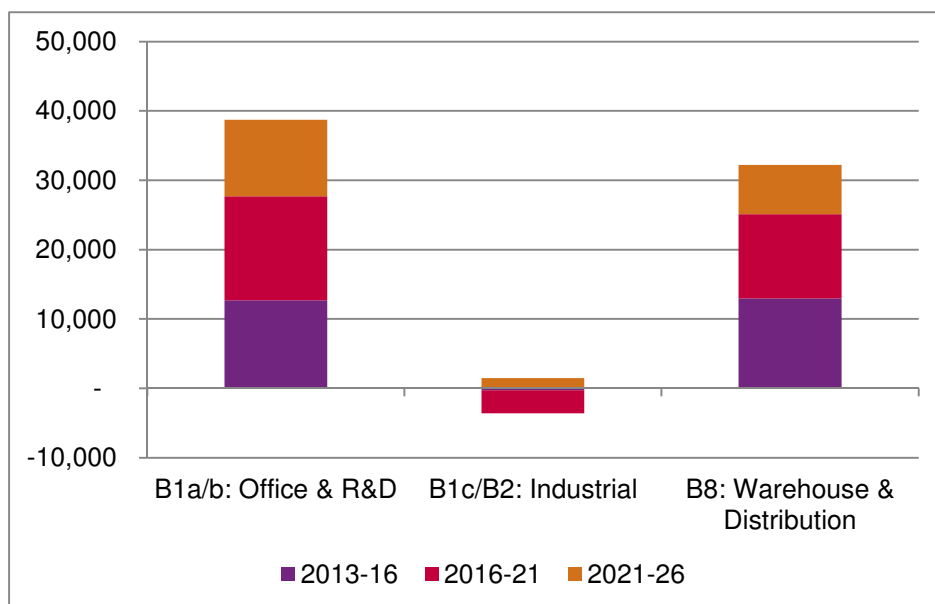
Use Class	2013-16	2016-21	2021-26
B1a/b: Office & R&D	905	1,071	791
B1c/B2: Industrial	- 10	- 123	55
B8: Warehouse & Distribution	360	338	198
Sui Generis Uses on Employment Sites	126	150	81
<b>Total</b>	<b>1,381</b>	<b>1,436</b>	<b>1,124</b>

Source: GL Hearn and Experian, 2014

### Relating Jobs and Floorspace

- 7.26 The final step converts the employment growth projections for B-class employment into a need for employment floorspace. This step uses the guidance on employment densities produced by the Homes and Communities Agency (Employment Densities Guide, 2nd Edition, 2010) to model a need for employment floorspace for the different types of B-class employment spaces.
- 7.27 The Employment Densities Guide provide an single figure as well as a range of densities for each uses classes. The range used is determined on the type of stock in each use category. For example office employment densities range from 8 sq m per employee in Call Centres to 47 sq m per employee in IT/Data Centres. We have used the following densities:
- B1a/b – 14 sq m per employee;
  - B1c/B2 - 27 sq m per employee;
  - B8 - 36 sq m per employee;
  - Sui Generis - 40 sq m per employee;
- 7.28 The majority of those densities used are taken from Surrey level evidence as outlined in the Guildford Employment Land Assessment (2013). The only exception is to the density used for offices. We have assumed the 12 sq metres per employee NIA, based on general office space as outlined in the national employment guide. This is on the basis that there are very few of the lower density data centres in the Borough. We also assume an additional 20% to translate from NIA to GEA.
- 7.29 These figures were then used to forecast need for employment floorspace by multiplying the FTE employment forecasts in each of the B-class and Sui-generis space typologies by the relevant employment density. This resulted in a growth forecast in floorspace for each of the B-class typologies. The result of this calculation is outlined in Table 10 below.

**Figure 37: Projected Floorspace Requirement for Elmbridge (2013-2026)**



Source: GL Hearn, 2014

7.30 There is expected to be a decline in demand for B1c and B2 industrial units. However, this is more than offset by growth in demand for B1a/B1b and B8 use classes. Overall the additional employment floorspace need for the Borough between 2013 and 2026 is 68,871 sq metres. In addition there is expected to be a growth of 14,261 square metres of Sui Generis uses on Employment sites which may need to be compensated for.

**Table 10: Projected Floorspace Requirement for Elmbridge including Sui-generis (2013-26)**

Use Class	2013-16	2016-21	2021-26	2013-2026
B1a/b: Office & R&D	12,677	14,998	11,072	38,746
B1c/B2: Industrial	-283	-3,327	1,497	-2,113
B8: Warehouse & Distribution	12,971	12,153	7,114	32,238
Sui Generis on Employment Sites	5,029	6,009	3,223	14,261
<b>Total</b>	<b>30,394</b>	<b>29,832</b>	<b>22,906</b>	<b>83,132</b>

Source: GL Hearn, 2014

7.31 Past trends in employment indicate notable growth in professional services and information and communications, which underlie the forecast demand for B1a/b accommodation. The decline in manufacturing employment underpins the modest fall in need for B1c/B2 space. Growth in the

transport/storage sector in particular underlies the forecast need for B8 space (alongside the lower employment density in this sector).

- 7.32 However these figures should be viewed cautiously due to the way the Experian Forecasts are distributed from national forecasts down to a local level based on current distribution. Experian assume that sectoral growth will occur primarily at locations where there is already a presence of that particular sector. The B8 based sectors are expected to grow nationally and as there is a noticeable presence of B8 employment in the Borough. Experian have therefore apportioned a level of growth in these sectors to Elmbridge. However, it does not take account of capacity or local demand.
- 7.33 Discussions with the Local Enterprise Partnership suggest that the demand for B8 uses is likely to be limited due to the high cost of land in the area. Instead they believe the market within the LEP for this type of property will be in Hampshire.
- 7.34 Furthermore the Council's own data suggests that there has been little activity in the way of market activity for this type of accommodation. Since 2010 there have only been two notable applications for new B8 space with no other applications or pre-applications received. Furthermore the Council have received no challenges on lack of allocated land for B8.
- 7.35 Overall, taking account of the findings of the market analysis, we consider that in particular the forecast demand for B8 based on the Experian model is at the extreme upper end of demand which we might expect for the Borough.

### Projections of Net Changes in Floorspace

- 7.36 To provide an alternative means of considering future need, and to 'sense check' the Experian figures; we have additionally modelled a demand scenario based on projecting forward past net trends in employment floorspace drawing on data on industrial and office floorspace as provided by the Valuation Office Agency.
- 7.37 We have reviewed the total industrial and office floorspace in Elmbridge, Surrey and the South East, since 2002 and how this has changed on a per annum basis over the last five and ten years. Industrial floorspace in this case covers both B2 and B8 uses. These per annum figures are then applied to the baseline level of employment floorspace in Elmbridge to project future need to 2026.
- 7.38 For office floorspace, the shorter term (5 year) trend which covers the recessionary period shows a per annum decline of 1.2%. This equates to a decline of around 40,000 square metres. However, this is contrary to modest growth trends in the South East and Surrey office stock. We do not

consider that it would be prudent to project forward 5-year trends in which the office market has been relatively depressed over the period to 2026.

- 7.39 The longer term (ten year) trend in office floorspace trends suggest a per annum growth of 0.7%. This would result in a total net need for office floorspace of around 25,000 sq metres by 2026 in Elmbridge. This is slightly more modest than the Experian forecasts; however Experian forecasts stronger growth in employment in key office-based sectors moving forward in the Borough than has occurred historically (in the absence of floorspace or labour supply constraints).

**Table 11: Floorspace Trend Based Forecasts (2013-2026)**

	Office		Industrial	
	5 Year Trend	10 Year Trend	5 Year Trend	10 Year Trend
Elmbridge		24,997	- 55,311	- 19,847
Surrey	11,197	19,249	- 15,161	- 19,373
South East	23,347	26,767	- 9,589	2,087

Source: VOA and GL Hearn, 2014

- 7.40 Both the longer and shorter term industrial floorpace trends suggest decline in the demand for B2 and B8 floorspace. The shorter term, recessionary trends indicate a decline of around 55,000 sq metres could be expected in Elmbridge by 2026 (-1.3% per annum). Whilst the Borough has a secondary market for industrial space, this feels unduly pessimistic. The longer term trends suggests a less severe decline at 0.5% per annum. This would result in a decline in demand of around 20,000 square metres in Elmbridge.
- 7.41 While acknowledging that this also includes B2 floorspace ,which the Experian data also suggests will decline, it would indicate that based on past delivery trends the B8 growth Experian predicts may be over-estimated. Whilst we have seen notable growth in employment in transport and storage (based on Experian figures), the market evidence does not point towards the scale of demand indicated.

### Labour Supply

- 7.42 A third potential dimension which could be considered in demand forecast is labour supply. ONS 2010-based Sub-National Population Projections indicated that the population aged 15-64 was expected to increase by 2,100 persons over the 2013-26 period. However we would expect the actual growth in the workforce to be potentially more limited than this given the expected supply of new housing. Taking into account current commuting dynamics, we would consider it likely that labour supply would generally represent a downward risk to the economic-based forecasts taking account of the current commuting dynamics. This said, the labour market is quite dynamic and

there are notable cross-boundary commuting flows with adjoining areas, and it is difficult to be precise regarding the potential degree of risk associated with labour market constraints.

### Conclusions on Future Need for Employment Floorspace

- 7.43 Bringing together the market evidence with the two alternative forecast approaches, the evidence points towards the following scale of demand for employment floorspace over the 2013-26 period:
- B1a/b (Office and R&D): Demand for an additional 30,000 to 40,000 sq.m net;
  - B1c/B2 (Industrial): Surplus of 2,000 to 3,000 sq.m net;
  - B8 (Warehouse): Demand for an additional 20,000 to 30,000 sq.m net.
- 7.44 We consider it likely that there would be some industrial sites redeveloped to provide B8 floorspace. It is difficult to disaggregate the 72,000 sq.m of industrial and distribution floorspace in the Borough. However, we are aware that there is a single vacant distribution unit covering approximately 29,000 square metres. The use of this site would make a significant contribution to reducing the need for additional B8 floorspace in Elmbridge.
- 7.45 Demand for warehouse accommodation may be to some degree supply-led. We understand that the largest unit (the former Tesco distribution unit on Vickers Drive) has the flexibility to meet a single large distributor's demand or can be sub-divided as the market dictates.
- 7.46 The B1a/b floorspace requirement is higher than that indicated by the Council's previous ELR, however this is consistent with the upturn in the office market. Again, there is vacant supply in the Borough to reduce the need for additional B1 floorspace in Elmbridge, as well as significant vacant floorspace in adjoining centres such as Staines and Woking.
- 7.47 As identified above, labour supply represents a potential downside risk to the forecasts; however we would consider that the labour market is relatively dynamic.

## 8 CONCLUSIONS

- 8.1 This report provides a commercial property market study of Elmbridge which is intended to form part of the Council's updated Employment Land Review. The focus of the study has been to review the Borough's commercial property market, assess future demand for employment use types from a market demand and employment needs perspective and provide a robust and defensible evidence base to inform the continued development of the Local Plan.
- 8.2 The Borough's principal employment area is Brooklands, Weybridge. This contains Brooklands Industrial Estate and The Heights Business Park. Between them they make up approaching half of the Borough's employment land. The Heights is a strategic, regional business park providing national HQ offices for international companies. Brooklands Industrial Estate is a strategic sub-regional industrial and distribution warehouse estate with national as well as more local occupiers. The remainder of the Borough's employment land portfolio provides a more local function for regional and local occupiers.
- 8.3 Performance of this portfolio is generally good. Whilst vacancy levels appear initially high, further analysis shows that these are skewed by three large single vacancies at Unit A100 Brooklands Industrial Estate (former Tesco unit), Velocity at Brooklands and Walton Court, Walton. Once these three specific vacancies are stripped out, overall vacancies across the Borough are around normal levels.
- 8.4 We would highlight the following employment sites for their strong performance;-
- Hershams Place Technology Park – This former HQ office building has been converted to serviced office accommodation and is home to c 30 small businesses with very limited vacancies. It provides evidence of strong demand for small serviced office space in the area.
  - Ferry Works, Thames Ditton – Historic Thames side warehouses converted to good quality serviced office accommodation. No vacancies. Provides further evidence of strong demand for small serviced office space in the area.
  - Aissela, Esher – New, recently completed high quality Grade A office development above retail space in Esher town centre. Strong demand and rental levels illustrate demand for high quality office space in attractive, accessible town centre locations.
  - The Heights, Weybridge – Very limited space remaining at this high quality office business park illustrating demand for high quality larger office floorplates in prestigious location.
- 8.5 However, performance across the portfolio is not consistently strong and we would highlight the following sites in this regard;-



- Imber Court Trading Estate, East Molesey - Medium sized industrial estate. The site has a high vacancy level (c 50%) and is in fairly poor condition. The layout is poor with limited car parking and constrained for HGV movement. Support proposed removal of SEL designation due to unsuitability for continued employment use.
- Molesey Industrial Estate, West Molesey - Large mixed industrial area. Access to strategic road network is fairly poor. The environmental and building quality is mixed and there are vacancies, particularly amongst poorer quality buildings. Rental levels are the most affordable in the borough. Employment redevelopment/intensification potential. Retain SEL status.
- River Mole/Sandown Industrial Estates, Esher – Two adjoining industrial estates. Whilst the quality of buildings is good overall, vacancy levels are high (c 50%). Access to strategic road network is poor and very constrained for HGVs by height restricted railway bridges.
- Hampton Court Industrial Estate - Small industrial estate located immediately south of Hampton Court station. Buildings are single storey basic industrial units in poor condition. Car parking and access are constrained. The site has a high vacancy level and is in need of investment.
- Walton Court, Walton - Large 3 storey HQ office building located immediately north of Walton Station. Formerly the HQ of Birdseye, this listed building has been vacant for several years. Attempts to market it to a new single occupier for refurbishment have so far proved unsuccessful.
- Walton town centre offices - Office vacancy levels in Walton town centre are high. There are several premises such as Bridge House and Crown House which are completely vacant. These buildings are low quality, typically comprising dated, unrefurbished accommodation above retail. Better quality offices, on the other hand, such as Walton Reach are well occupied.

8.6 With regard to the portfolio of employment accommodation available and how this relates to demand and expected future needs, we consider that there are two main areas of deficiency. Firstly, there is a need for more good quality small business accommodation. The Elmbridge economy is focused towards small and medium sized businesses in the professional services and information and communications sectors. Market evidence such as the success of Hersham Technology Park and conversely, the poor performance of unattractive tertiary office accommodation in places such as Walton town centre, indicates that the demand is for good quality accommodation in an attractive environment. Additionally, there is a clear lack of provision of good quality small light industrial accommodation.

8.7 Secondly, the stock of larger Grade A office stock is low. There are high occupancy levels in this type of accommodation across the Borough. There is little remaining stock at The Heights, the Velocity Building at Brooklands is receiving strong occupier interest and the new Aissela development in Esher town centre has generated very strong occupier interest and market leading rental levels.

- 8.8 There are also areas where there are surpluses of current provision. There is a substantial stock of vacant poor quality office accommodation above retail in town centre locations, particularly Walton. This stock is not meeting market needs and has been the focus of office to residential conversion applications. It requires substantial upgrading and investment to make it market attractive. The Aissela development in Esher town centre demonstrates that office development above retail in town centre locations in the Borough can be successful. However, this is a new build scheme rather than refurbishment and Esher is a particularly attractive town centre due to its accessibility. The business case justification for this investment may not be present in other locations such as Walton and conversion to other uses, such as residential, may be considered appropriate.
- 8.9 We have identified through site inspections and mentioned above poorly performing industrial areas. The type and quality of stock in these locations is not meeting market needs and is frequently constrained by access restrictions and neighbouring residential uses. These areas would benefit from investment, refurbishment, sub-division and/or redevelopment. In certain locations, we have highlighted where we consider sites to be potentially unsuitable for continued employment use.
- 8.10 We generally support the Council's proposals to reduce the number of sites designated as SEL. It is clear that a number of the sites previously designated could not be considered to be of strategic importance. We have queried the proposed removal of SEL designation in two instances. In relation to Hershams Place Technology Park, we consider that this site could be considered as performing a strategic role due to its success as a major location for small businesses in the Borough and its potential for further expansion.
- 8.11 With regard to Walton Court, the removal of the SEL designation has been proposed to allow greater flexibility in the future use of this site. We would recommend that the Council reviews this proposal in the context of the reducing level of stock of larger Grade A offices in the Borough, the expected growing need for B1 office space and the attractiveness of this location. In addition, we would recommend that the Council reviews the SEL boundary designation here. There is an existing cluster of offices around the adjacent Halfway Green area and we would recommend that consideration is given to extending the Walton Court SEL designation boundary to include this area.
- 8.12 The updated forecasting of future employment needs indicates a need for further provision of employment floorspace in the Borough for the period to 2026. In considering how these identified needs can be addressed, we would recommend that the Council consider the following three main options:-
- Intensification on existing sites;
  - Allocation of additional land; and
  - Working with neighbouring authorities