



GL Hearn

Part of Capita Real Estate

Elmbridge Commercial Property Market Study Update

Elmbridge Borough Council

Final Report

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

DATE

March 2017

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Limitations

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1 EXECUTIVE SUMMARY

Introduction

- 1.1 GL Hearn has been commissioned by Elmbridge Borough Council (2016) to provide an update to the Elmbridge Commercial Property Market Study (GL Hearn, August 2014).
- 1.2 This report provides an update to the 2014 study which covers the following key topics:
- Commercial property market review
 - Consultation with local businesses and stakeholders
 - Updated employment forecasting
 - Future employment land requirements
 - Conclusions on the local property market demand / supply balance

Commercial Property Market Review

- 1.3 Within the Borough, Brooklands at Weybridge continues to be the principal office location with a number of blue-chip companies and a good supply of both new buildings coming to the market and good quality secondary space. Beyond Weybridge, the availability of office space is limited, especially as new schemes such as the Aissela Building are now fully let.
- 1.4 Competition is increasing locally, with a number of schemes being developed in the adjacent Runnymede Borough, such as Aviator and The Bourne Business Parks, as well as 92,900 sq.m. (1m sq.ft.) of pre-let space at Longcross.
- 1.5 Permitted development rights are adversely affecting the borough and leading to a potential undersupply of second hand space useful for smaller businesses.
- 1.6 In terms of industrial, supply is focused at 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 not a prime market for industrial property however latent demand is considered to exist.

Consultation with businesses and stakeholders

- 1.7 Consultation has been conducted via telephone and online surveys with 35 businesses and a number of property agents, stakeholders and business organisations in Elmbridge. Key findings include a borough with a high quality of life, high house process and skilled labour, performing well in high growth sectors and a positive business outlook. However a lack of office stock in the town centre locations, due mainly to the impact of PD rights as well as traditional applications and conversions, is understood to be affecting smaller businesses, and more widely there is considered to be undersupply of both office and industrial space.

Experian Employment Baseline Forecast

- 1.8 According to the 2016 forecast, the long term increase in jobs is lower than the 2014 forecast – 6,600 jobs compared to 9,700 respectively to 2030. The key broad sectors with a decrease in growth trend are Wholesale and Retail and Professional and other private services.
- 1.9 This report has extended the jobs growth forecast to 2035. The Experian Baseline shows a total jobs growth of 10,100 jobs over the 20 year period 2015-35 – an annual average growth rate of 0.7%.

Commercial Property Historic Trends Scenario

- 1.10 Projecting forward trends for employment land take up from the last 6 years suggests a strong take up for office space and slower take up for warehouse space compared to the jobs based model. However, extracting one particularly significant scheme from the trend leads to strong alignment with the jobs based model for office space.

Other Scenarios

- 1.11 In accordance with Planning Practice Guidance, a range of scenarios have been considered. These include:
- Baseline scenario establishing the employment demand position identified by Experian;
 - Two completions trend scenarios, which project forward past trends in employment floorspace completions in the Borough, drawing on the Council's data since 2010; and
 - A Local Scenario which provides a synthesised scenario based on an adjusted Experian baseline to reflect the range of scenarios and contextual factors.

Future Employment Land and Property Requirements

- 1.12 The various forecasts are used to estimate the quantum of employment land which will be required in Elmbridge over the period form 2015-35. These result in a range of floorspace figures ranging from 41,500 sq m to 79,000 sq m (the two completions trend scenarios). The labour demand based scenarios result in floorspace figures between the two completions trend scenarios: The Experian Baseline shows a need for 69,000 sq m, while the Local Scenario shows a need for 58,100 sq m.

- 1.13 We conclude that the Local Scenario provides the most reasonable estimate of future floorspace need for Elmbridge. This shows a need for around 58,000 sq m of employment floorspace, which falls roughly in the middle of the two completions trend scenarios. In addition to this figure, a further level of replacement demand should be considered to provide for replacing office space which has been lost to alternative uses through permitted development.
- 1.14 We estimate the land required to support this growth in floorspace by using plot ratios which account for site requirements such as car parking and landscaping. This results in a need for around 16 ha of employment land over the period 2015-35. The majority of this is for office use, while around 7 ha is required for warehouse/distribution use. Conversely there is a forecast net loss of around 2 ha of industrial land and an additional net loss of around 1 ha of Sui Generis uses.
- 1.15 Baseline employment forecasts show demand for B8 particularly in transport, storage and distribution which is reinforced by the wider market evidence (locally and at the LEP level) and fuelled by a lack of provision of B8 space in adjacent boroughs. Whilst provision of additional B8 space is anticipated to support employment growth and respond to demand, there are known ongoing challenges in providing this floorspace considering historic trends, the constrained physical nature of the borough and a relatively low employment yield on floorspace. Demand is both for larger B8 distribution as well as small plots for construction and niche manufacturing.
- 1.16 The B1 environment is more complex given a strong supply in adjacent boroughs that may be leading to a lower rate of demand for Grade A space in the short to medium term, given that demand is unlikely to recognise borough boundaries within a functional economic area offering strong skilled labour, quality of life and network connections. In the longer term however these attributes are likely to ensure that Elmbridge and the Upper M3 remain areas of demand for office which are already experiencing erosion of existing stock.

2 INTRODUCTION AND CONTEXT

- 2.1 GL Hearn was commissioned by Elmbridge Borough Council in November 2016 to undertake an update to the Elmbridge Commercial Property Market Study (GL Hearn, August 2014).
- 2.2 The update will be part of the Council's planning policy evidence base relating to employment land and provides conclusions regarding the supply/demand balance for employment floorspace within the Borough.
- 2.3 The key objective of this update is to re-assess the forecast commercial floorspace requirements included in the previous Commercial Property Market Study. It considers the following issues:
- An overview of current market conditions for both the office and industrial markets in the local area;
 - Business and stakeholder engagement to capture local feedback;
 - Consideration of updated econometric forecasts to assess the level of future jobs growth;
 - An updated assessment of past floorspace trends based on past completions data;
 - Expected changes to the labour force based on the latest demographic growth projections;
 - Drawing these factors together to estimate the demand for future commercial floorspace and employment land requirements in the Borough to 2035;
 - Assessing this against the supply of commercial floorspace demand within the Borough to determine the ability of the existing stock to meet future needs.
- 2.4 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 1987¹.

National Planning Policy Context

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

National Planning Policy Framework

- 2.6 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.

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

2.7 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).

2.8 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.

2.9 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

2.10 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.

2.11 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.

2.12 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.

2.13 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).

2.14 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.

2.15 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.

2.16 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.

Local Planning Policy Evidence Base

2.17 This report will form part of the planning policy evidence base for the emerging Local Plan. Two other relevant documents of note providing background are the 2016 Elmbridge Functional Economic Area report and 2016 Property Study produced by the M3 Enterprise LEP for the whole of the LEP area. Key points from these are provided below for context.

2.18 The 2016 Elmbridge Functional Economic Area report produced by the Borough Council which considers property matters and looks more widely on the economic inter-relationships with surrounding areas. Key relevant matters identified in the report include:

- There are high levels of office stock in the boroughs surrounding Elmbridge.
- Around 252,900 sq.m of B1 space within the Borough (AMR 2014/15). This has remained largely stable with losses offset by new developments such as the Velocity Building in Brooklands. Over the last four years losses have come from lower grade office floorspace in town centres largely as a result of the changes to permitted development rights. Overall, Elmbridge displays similar levels of office space as neighbouring authorities; however it has not experienced the same rate of growth since 2012. Consultation with agents has revealed increasing interest, return of rental values and confidence that remaining space will be taken up.
- The AMR 2014/15 identifies 144,137 sq.m of B2 and 162,666 sq.m of B8 space in Elmbridge mainly provided by the Brooklands Industrial Estate. When compared to neighbouring authorities, Elmbridge shows higher levels of industrial stock. There is suggestion of low demand for industrial units in Elmbridge as demonstrated by the higher vacancy rates and availability of large warehouse units.
- Prominent economic sectors identified within the Borough are knowledge based such as professional, computing and information services. This is similar to Mole Valley, Runnymede, Woking, Guildford and Richmond upon Thames. There is evidence for some clustering of knowledge based sectors in these Boroughs.
- Distribution and warehousing have also showed prominence, reflecting the LEP area as a whole, and as a result of good transport linkages.
- There are clear similarities of the office and industrial market of Elmbridge with Spelthorne, Runnymede, Kingston and Richmond upon Thames. For industrial, Elmbridge demonstrates lower rents and lower level of demand compared to the other Boroughs and the wider LEP.
- Overall Elmbridge functions within a south west London / north Surrey economic area.

2.19 The 2016 Property Study produced by the M3 Enterprise LEP for the whole of the LEP area identifies Elmbridge is being encompassed within the 'Upper M3' sub area. Key findings include:

Office Market

- There has been a recent growth in office take up within the whole LEP, particularly in Upper M3, where a recovery in rental values has encouraged the development of new Grade A office space. This is increasingly a core requirement of most large investors and has seen the Upper M3 area attract a number of high profile HQs in the digital and professional services sectors.
- The Upper M3 is a high demand, established office location, which attracts some of the highest rental values in the Enterprise M3 LEP area. The area still has vacant space, including a large supply of Grade A, however recent trends in office take-up suggest that this may not last long, particularly given a growing trend of relocations out of London.
- Local agents and the council report a shortage of space and sites in Elmbridge, and growing pressure on sites as a result of PDR which is increasingly becoming a threat. The key obstacle to new sites coming forward in Upper M3 likely to be traffic congestion at M3 and M25 junctions.

Industrial Market

- Upper M3's industrial stock attracts the highest rental values in the Enterprise M3 area, offering access to the M25, M3 and the London market. Unlike the office market, there is very little high quality space available and only one site with planning permission. Agents reported strong demand for warehousing, manufacturing space and construction yards of smaller floorplates. Consultees report that new industrial sites were politically very unpopular and difficult to identify because of Green Belt constraints.

Report Structure

2.20 The report is structured as follows:

- Section 3 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 4 outlines the results of discussions with representative stakeholders;
- Section 5 contains updated baseline forecasts for additional employment growth;
- Section 6 resolves demand into a number of forecasts for employment floorspace and explores alternative scenarios;
- Section 7 provides overall conclusions on the Elmbridge commercial property market.

3 COMMERCIAL PROPERTY MARKET ASSESSMENT

National Economic Conditions

- 3.1 The Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook in November 2016. GDP growth increased to 2.3% in the year to Q3 2016, with growth remaining solid in the first quarters of 2016 with an average quarterly growth of 0.5% in 2016 to date. The GDP increased by 0.6% in the second quarter of 2016, following growth of 0.4% in Q1 2016. Output increased in two of the main industrial groupings within the economy in Q2 2016. Services increased by 0.5% and production increased by 2.1%. In contrast, construction decreased by 0.4% and agriculture decreased by 1.0%. A more subdued outlook for economic outlook is expected as the UK negotiates a new relationship with the European Union. GDP growth in 2017 has been forecasted to decrease from 2.2% to 1.4% on account of a weaker outlook for investment and therefore productivity growth.
- 3.2 The Office of National Statistics reported in November 2016 that the Consumer Price Index (CPI) fell to 0.9% in October having been 1% in September. Although the rate is slightly lower than September 2016, it remained higher than the rates otherwise seen since late 2014. The downward pressure on CPI was being driven primarily in the change in the rate of prices for clothing, university fees, overnight hotel stays, non-alcoholic beverages and certain games and toys. These were offset by downside pressure from rising prices for motor fuels air fares and furniture and furnishings. The broader Retail Price Index (RPI) was 2.00% in October 2016, which remains unchanged from September 2016.
- 3.3 The Bank of England base rate was reported in November 2016 to continue to remain at its historic low of 0.25%. The bank rate was cut in August to 0.25% from its already record low level of 0.5% the cut was the first time the Bank cut its base rate in seven years. Business activity and sentiment since August have recovered from the lows immediately following the referendum result and the preliminary estimate of GDP growth in Q3 was above expectations. In light of these developments the Bank announced that a further cut in the Bank rate was no longer an option. The bank announced that inflation is expected to rise to a rate above the 2% target, for an extended period of time, as a result of the depreciation of sterling that followed the referendum result. The Bank now expects inflation to hit 2.7% in 2017, an increase from the current rate of 1%.
- 3.4 It still remains to be seen how the recent Referendum vote will impact the residential market, although many commentators forecast either a lull or fall in values in the short term. However, during the month of September UK House prices increased by 0.3%, reflecting an improvement although the annual rate of growth reported was down upon August decreasing in the long term from 5.60% to 5.30% (source: Nationwide: House Price Index September 2016). The pick-up in

growth though does appear to be somewhat at odds with the reported slowdown in housing market activity, in particular with the number of new buyer enquiries dropping as a result of the introduction of the additional stamp duty rate on second homes, which was implemented in April, and the continual uncertainty surrounding the European Referendum result. The decline in demand though is more of a reflection in the lack of supply with the amount of stock currently being marketed for sale reported to be at a 30 year low.

- 3.5 The number of new homes built in England has increased, but is still insufficient to keep up with the high level of demand. In the four quarters to Q2 2016, 139,000 new homes were completed, which was 30% higher than the low recorded in 2010, but this still remains 14% below the average rate of building in the five years before the financial crises and 38% below the 225,000 new households projected to form each year over the coming decade.

Office Market Review

National Office Market

- 3.6 Concerns that the referendum result would lead to a sharp downturn in office activity have proven to be largely unfounded. After a sharp drop in July, business activity in the services sector rebounded strongly.

National Market Supply

- 3.7 Supply levels have continued to erode due a high absorption rate with an improving development pipeline, in particular in the volume of speculative developments in core cities. The market stock remains dominated by second hand space due to a limited supply of Grade A office space.

National Take-Up

- 3.8 Improving occupier sentiment and business confidence has led to take-up volumes increasing and demand for office space. This positive market sentiment has resulted in continued market activity with demand for quality Grade A. According to Savills the national office take-up for the end of year is expected to reach 10.5 million sq ft, which represents a 3% decrease recorded from 2015.

National Investment Market

- 3.9 The investment market remains healthy despite a decline in activity in recent months with JLL reporting that investment volumes reached £31bn during Q1 – Q3 2016, a 28% decrease on 2015. Investment volumes in offices showed a greater level of activity outside of London.

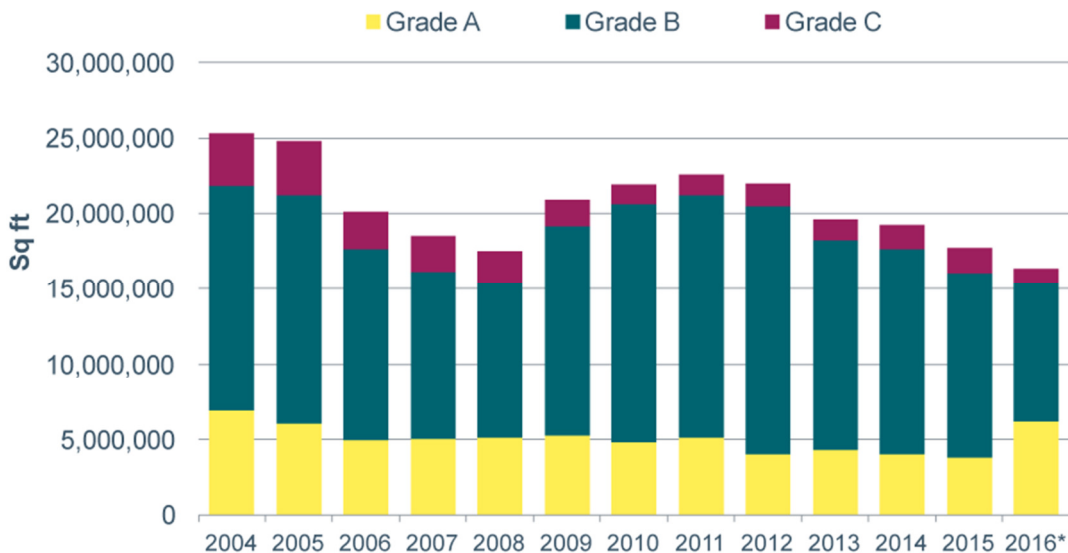
South East Office Market

3.10 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.

South East Market Supply

3.11 The majority of South East office sub-markets are characterised by a shortage of supply as permitted development continues to reduce stock from many markets. Savills reported that supply levels have continued to fall and currently stand at 16.3 million sq ft which is a 4% fall from 2015. The vacancy rate is 7.7% which is the lowest since 2001. This can be attributed to a reduction in grade B space from change to other uses and the current occupier preference for Grade A space. According to Knight Frank low level of supply remained a significant factor in Q3 2016, in particular in the North and South M25 regions where vacancy rates are unlikely to change significantly in the next 12 months. Speculative development remains muted in the south east with the exception of the Thames Valley area, with the first wave of new speculative developments due to come to market in Q4 2016.

Figure 1: South East Office Availability



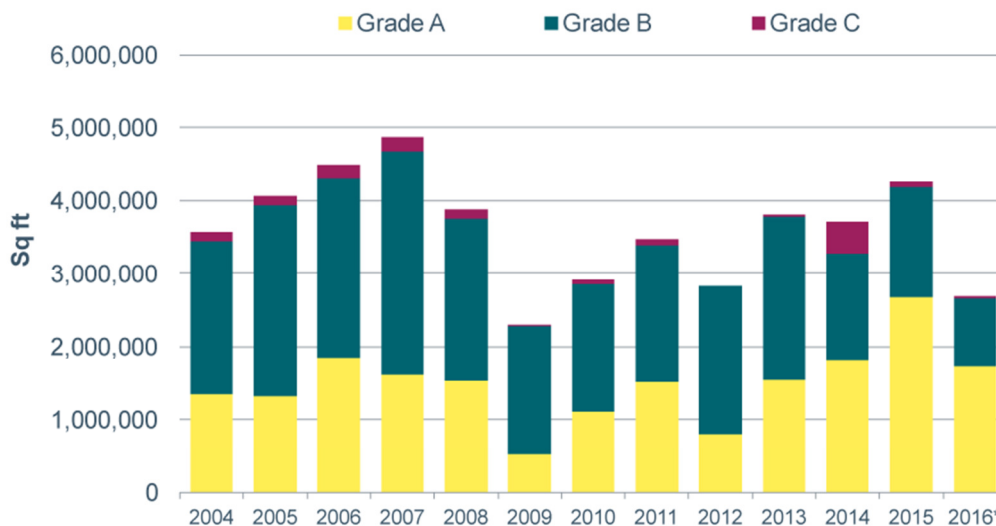
Source: Savills

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

South East Office Take-up

3.13 Occupational demand remains largely unaffected by the referendum result with the office market in the south east experiencing strong levels of take-up in Q3 2016. According to Savills, take-up in Q3 reached 755,640 sq. ft. with 335,991 sq. ft. currently under offer. The total take-up from the year is 2.69 million sq. ft. The southern sector accounted for the highest amount of leasing activity in Q3 with 315,349 sq. ft. transacted. This was driven by strong activity in Croydon. The manufacturing, business sector and pharmaceutical industry has been most active in the south east office market in 2016 accounting for 25% of all space transacted this year.

Figure 2: South East Office Take-up



Source: Savills

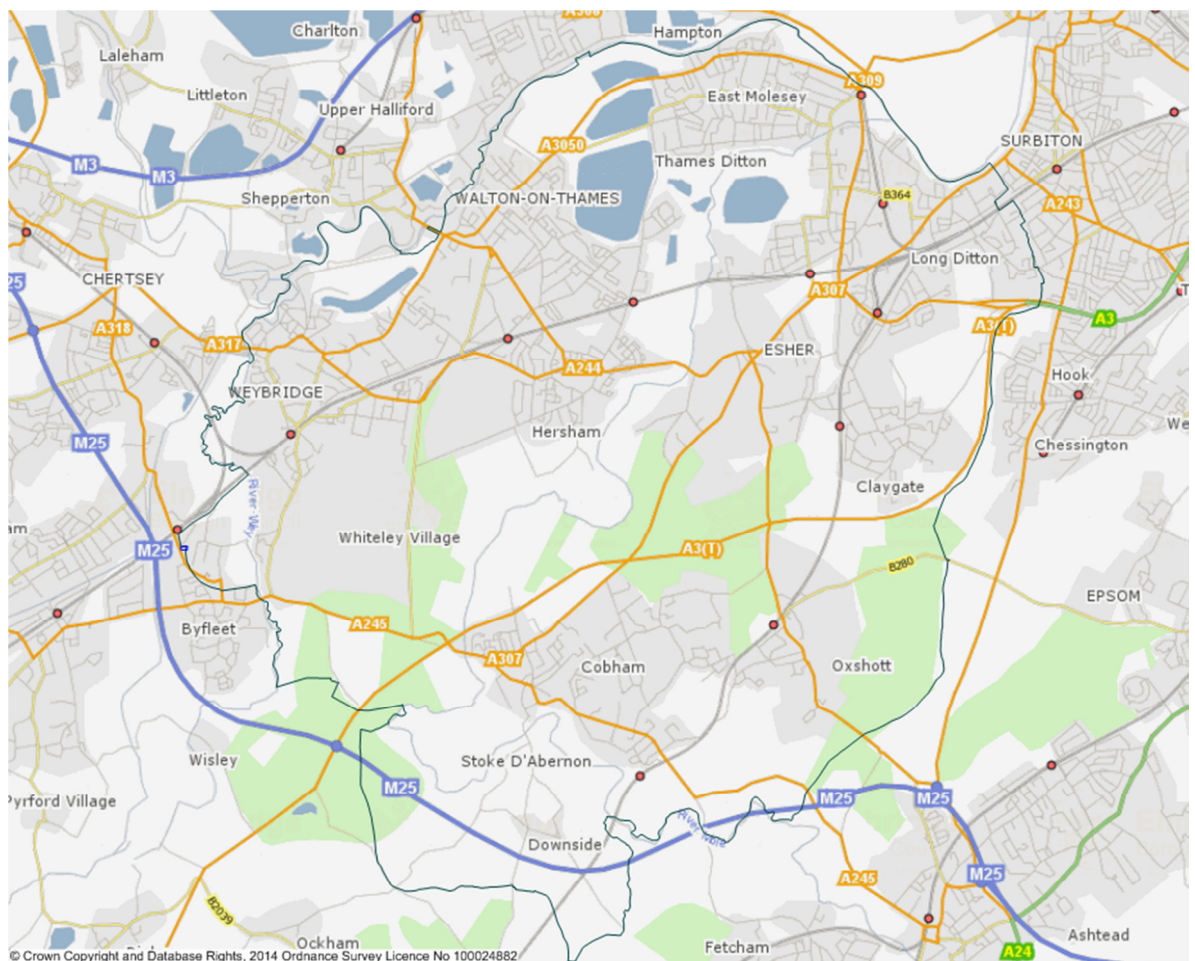
South East Office Investment Market

3.14 According to Knight Frank office take-up in the south east reached 7778,300 sq. ft. in Q3 2016 defying the post referendum predications of a sharp fall in occupier activity. The take-up for the year increased to 2.6 million sq. ft., on par with the long-term average for a nine-month period. BNP Paribas reported that from the year to September £1.67bn was transacted on south east offices with 4 deals making up 53% of the total market.

Elmbridge Office Market

3.15 Total business office (rateable value) stock in Elmbridge was 251,000 sq.m in 2015-16 according to the Valuation Office Agency (VOA) data. Between 2008-09 to 2014-15 the floorspace remained relatively unchanged fluctuating between 262,000 to 259,000 sq.m although this fell slightly in the last 12 months.

Figure 3: Elmbridge Borough



Source: EBC

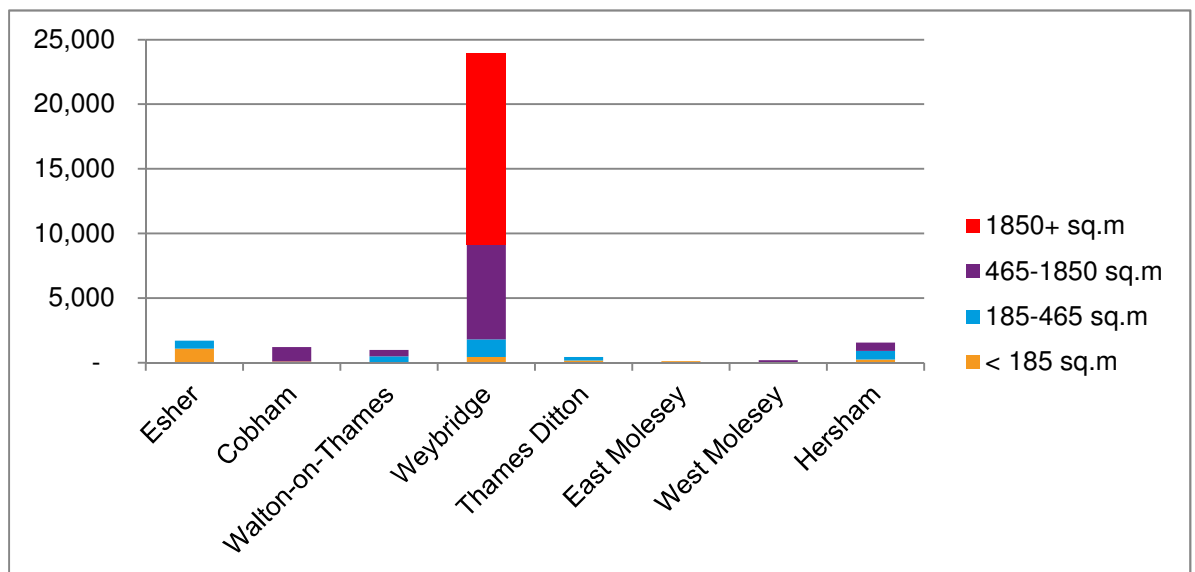
3.16 Elmbridge is made up of a series of sub-markets. Weybridge has the largest amount of employment floorspace in the borough mainly centred to the south of the settlement area. A large quantity of this space is at The Heights Business Park at Brooklands that accommodates a number of headquarter buildings of blue-chip international companies (Sony, Samsung, Proctor & Gamble). Beyond Weybridge, office stock can be found at Walton-on-Thames, which comprises second-hand smaller scale town centre offices, and at Esher which in recent years has experienced additional floorspace with the completion of the Aissela building in the town centre. Smaller clusters of offices can also be found in Cobham, Molesey, Hersham and Thames Ditton.

3.17 The area surrounding Elmbridge accommodates a large amount of office stock, which creates competition for space. In particular, at Addlestone to the west of Weybridge in the Borough of Runnymede, there are two newly completed business parks – Aviator Park and The Bourne Business Park. In addition, at Longcross (the former DERA site) has planning permission for 1m sq.ft. (92,00 sq.m) of offices with pre-let available for 60,000 sq.ft. (5,570 sq.m) or more. The other main office centres in the area include Leatherhead to the east, Staines and Egham to the west, Kingston to the north and Woking and Guildford to the south.

Elmbridge Market Supply

3.18 The graphs below and overleaf show the availability of office floorspace across the Elmbridge centres and the quality of the available floorspace. The information has been derived from CoStar and EGI, which compiles information property agent letting information.

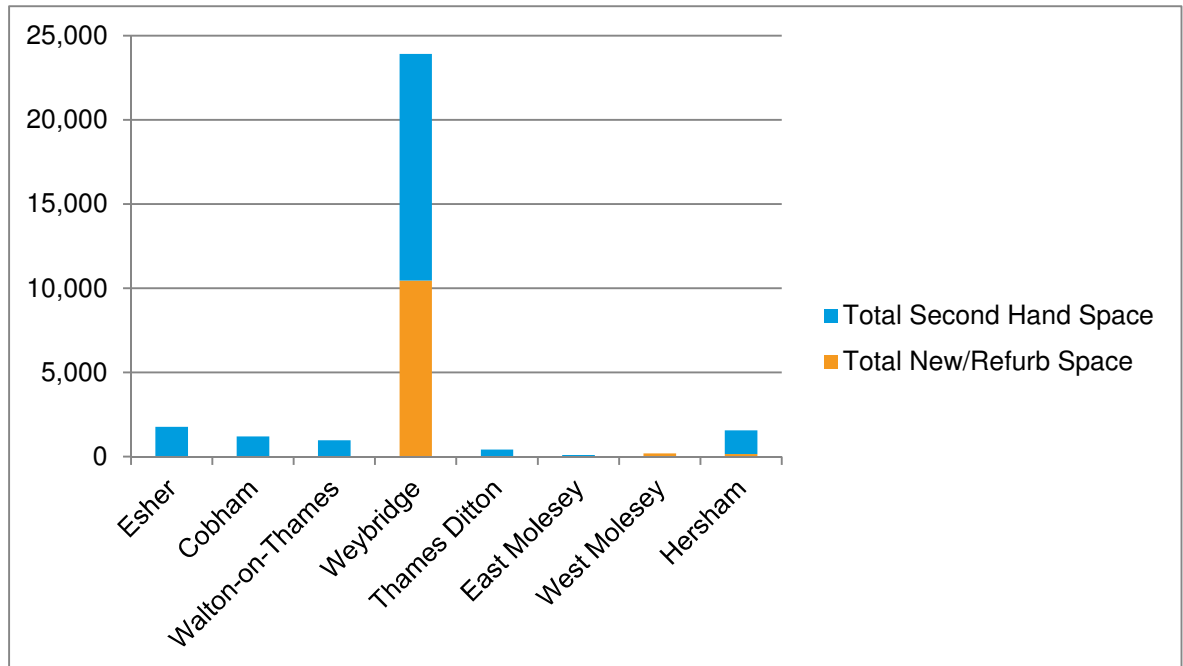
Figure 4: Total Office Availability in Elmbridge (sq.m)



Source: CoStar/EGI – December 2016

3.19 Total availability as at December 2016 is shown as 30,111 sq.m. Compared with overall office stock levels for the borough, mentioned above, of 251,000 sq.m, this equates to a vacancy level of 12%. In a healthy property market, it is considered normal for there to be 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 broadly in line with this optimal level. This compares to a vacancy level of 15% reported in the 2014 report and indicates that available stock has reduced over this period. This is due in part to a number of deals in Walton-on-Thames at locations such as The Quintet, Churchfield Road, and in part to the impact of Permitted Development Rights from B1 to C3 residential.

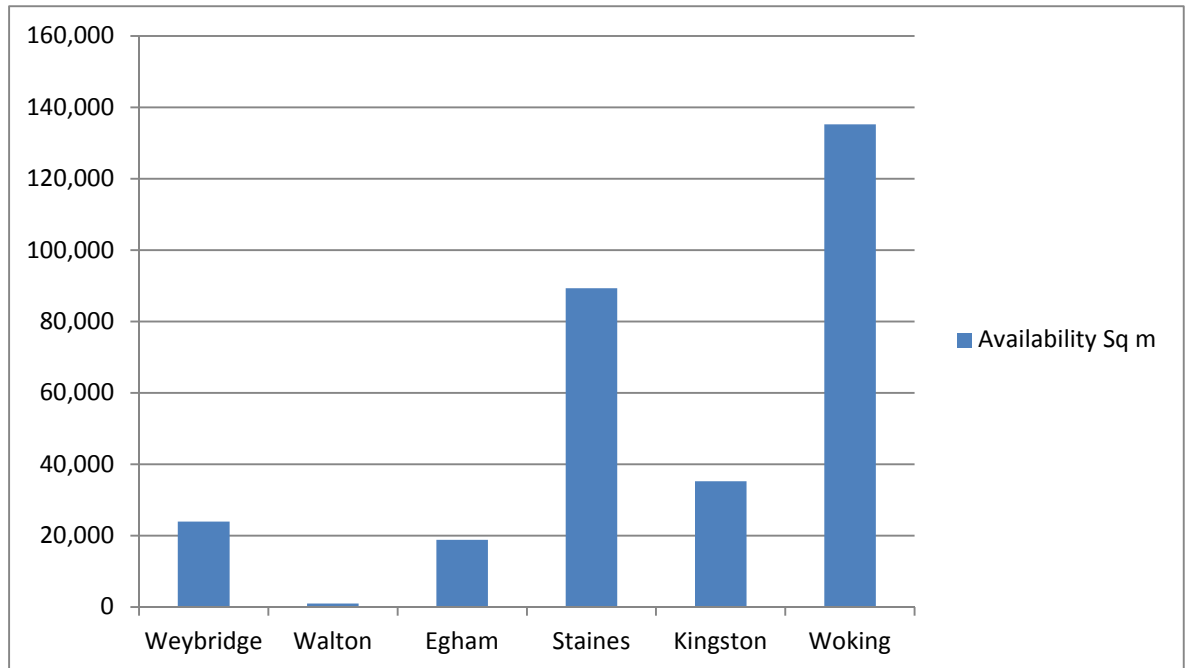
Figure 5: Quality of Available Office Space in Elmbridge (sq.m)



Source: CoStar/EGL – December 2016

- 3.20 The greatest level of availability is in Weybridge with slightly less than 24,000 sq.m of office space available. This is due to a large extent of the number of business parks located within the area which includes; Horizon Business Park, Brooklands Business Park, St Georges Business Park and The Heights. These locations account for the majority of the available office space within Elmbridge and also the largest individual units of office space available. The Heights has a total of 6,318 sq. m of office space available and Brooklands Business Park has 6,611 sq.m available within the area.
- 3.21 The majority of the available office space within Weybridge is good quality modern space. There are a number of speculative and refurbished developments in the pipeline with the largest being Dakota, a new 6,611 sq.m Grade A office development within Brooklands Business Park.
- 3.22 Figure 5 demonstrates the domination of the Elmbridge market by Weybridge which accounts for 79% of all the office space available within Elmbridge. The other markets contribute significantly less with 6,000 sq.m of available space in totality with the majority individually contributing less than 1,000 sq.m. Esher has the second largest supply available offering 1,710 sq.m of second hand space and Hersham with the third largest with 1,566 sq.m of primarily second hand space available.

Figure 6: Office Availability in Comparable Areas (sq.m)



Source: CoStar/EGI – December 2016

3.23 Figure 6 shows office availability in Weybridge and Walton compared with other centres in the area. This shows that whilst availability is greater than in Egham, it is significantly less than in Staines and Woking.

3.24 Woking has the largest availability of office space in the surrounding area with over 135,177 sq.m of available space. This comprises of a number of properties available with sizes ranging between 13,000 to 19,000 sq.m. For example, 18,866 sq.m of office space is available in Dukes Court on Duke Street and a pre-let opportunity in 11,417 sq. m of new office space in a development called Altura on Victoria Way.

3.25 Staines has over 89,000 sq.m of available space with a significant proportion of this totalling 26,490 sq.m available from the pre-let opportunity in buildings 2, 3 and 4 of the new office development Staines Central on London Road.

Elmbridge Office Rental Values

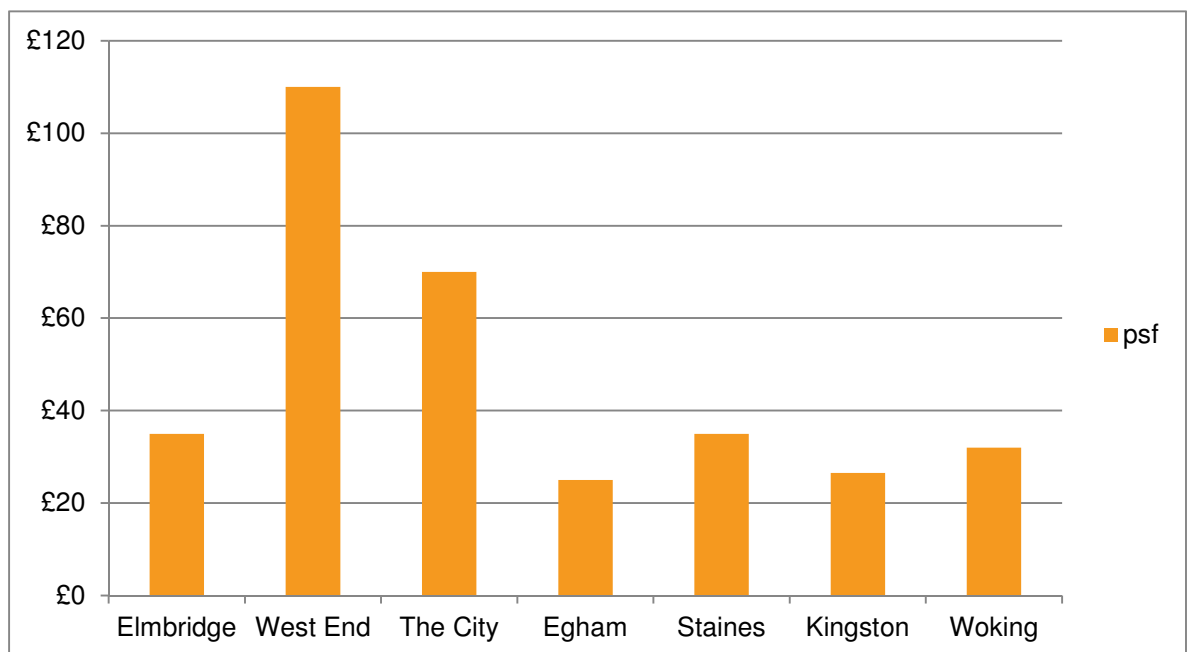
3.26 Rental values for prime office space vary across the Borough. In Weybridge deals transacted during 2016 equated to £31.00-£32.50 per sq.ft. Deals during 2015 were transacting at rents of £33.00-£34.00 per sq.ft. Quoting rents for available at The Heights are £33.50 per sq.ft.

3.27 Elsewhere, in Walton-on-Thames, rents can vary from £8.50 per sq.ft. for poorer quality offices up to £34 per sq.ft. for Grade A space at Ashley Park House, 42-50 Hersham Road. Grade B Second-hand space is currently being marketed for £25-26 per sq.ft.

3.28 In Esher, deals at the Aissela Building in 2014 were transacting at £35 per sq.ft. Space currently on the market in Esher is currently being quoted at between £30.00-£37.50 per sq.ft. with the top rents at the modern office buildings at Portsmouth Road (Thames Mews/Two Furlongs/Churston House).

3.29 Local agents report that the average length of time on the market for both Grade A stock and secondary accommodation is between 6-12 months.

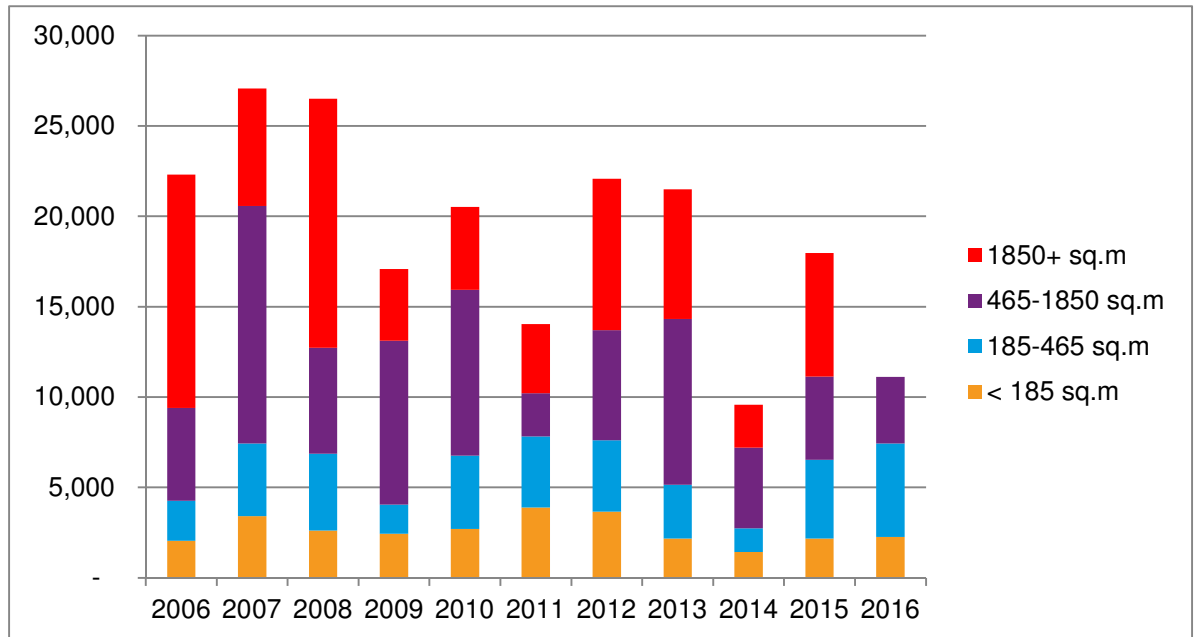
Figure 7: Office Rental Levels in Comparable Areas & London



Source: GL Hearn

3.30 Figure 7 shows prime office rents for Elmbridge in comparison with other centres. It can be seen that at £35 psf Elmbridge is comparable with Staines and is achieving higher rents than Egham and Kingston where prime office rents have not reached £30 psf. However, in comparison with Central London, where West End prime office rents are nearing £110 psf it can be seen that Elmbridge offers significantly better value.

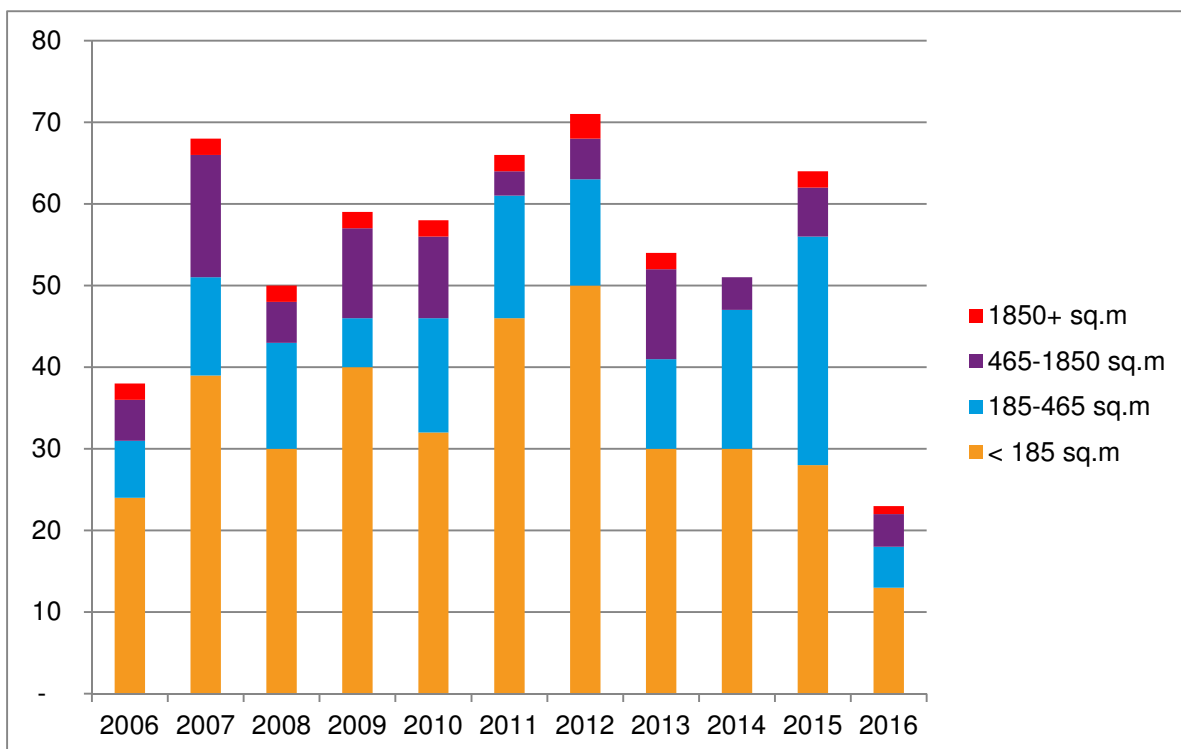
Figure 8: Office Take-Up in Elmbridge (sq.m)



Source: CoStar and EGI

- 3.31 Since 2013 office take-up in Elmbridge has dropped below its 10 year average and below its peak in 2007. The majority of the take has been second-hand offices and in the region of 465-1850 sq.m. The take-up of smaller size offices has increased over the last three years but no large offices have been let in 2016. The biggest letting in recent years has been 4,460 sq.m of office at Velocity at Brooklands Drive in Weybridge at a rent of £31psf.
- 3.32 Local agents report that take-up is from both local companies and Blue-chip companies based in London and the South East, looking for back office/administration or high-technology space. The sectors taking space include media, telecommunications, and oil.

Figure 9: Number of Office Transactions in Elmbridge



Source: CoStar and EGI

3.33 The number of office deals in Elmbridge during 2014 and 2015 has broadly been similar to preceding years. The take-up of offices under 185 sq.m have been relatively constant, and the take-up of offices in the size-band 185-465 sq.m was higher in 2015. However there has been a noticeable decline in the number of deals in 2016 with a total as of December 2016 of 23 according to our research.

3.34 Local agents indicate that there the key areas of demand are within the 465-929 sq.m. and 929-1,858 sq.m. size-band range. Agents also highlight the lack of stock available in the town centres locations, due mainly to the impact of PD rights. There is also a general lack of development sites for offices across the Borough.

3.35 Views on the impact of both the Heathrow expansion plans and Brexit are mixed from local office agents. They see the Heathrow plans are a potential positive impact for the office market, whereas the impact from Brexit may be more volatile, and is still too early to predict the outcomes.

Office Market Conclusions

3.36 Nationally, there is limited supply of Grade A stock with occupier sentiment and business confidence remaining relatively strong despite the Referendum result in June. Elmbridge is located

within the South East office market, and more specifically the M25 market where there are low levels of supply with good take-up.

- 3.37 Within the Borough, Brooklands at Weybridge continues to be the principal office location with a number of blue-chip companies and a good supply of both new buildings coming to the market and good quality secondary space. Beyond Weybridge, the availability of office space is limited, especially as new schemes such as the Aissela Building are now fully let.
- 3.38 Competition is increasing, with a number of schemes being developed in the adjacent Runnymede Borough, such as Aviator and The Bourne Business Parks, as well as 92,900 sq.m. (1m sq.ft.) of pre-let space at Longcross.
- 3.39 Rental values for Grade A space in the Borough are at £35 per sq.ft., which is comparable to Staines and Woking, but higher than Egham and Kingston.

Industrial Market Review

National Industrial Market

- 3.40 As of November 2016 the growth in the UK manufacturing sector has slowed on account of the weakening pound following the referendum result which has increased the costs for manufacturers. According to the UK's Manufacturing Purchasing Managers' Index the manufacturing sector growth decreased to 53.4 in November from 54.2 in October 2016.

National Market Supply

- 3.41 According to Cushman and Wakefield, during recent years the availability of industrial space has fallen with supply level now stabilising. This is partially due to an increase in levels of speculative development with Grade A availability increasing by 17%. Speculative developments particularly concentrated in the South East, Midlands and North West, where occupational demand has been the strongest. Despite the referendum result, the industrial market has remained strong due to the continued growth as online sales which have been driving occupier demand.

National Take-Up

- 3.42 Activity in the industrial sector held up strongly in Q3 2016, according to Cushman & Wakefield with take-up reaching 7 million sq.ft. due to robust levels of occupier and investor demand across most regions. Lettings increased from a slow start to the year, particularly the take-up of Grade A space, as occupiers capitalised on the new wave of development completions across the country. The Retail sector accounted for 59% of industrial sector take-up, with Logistics accounting for 28% and Manufacturing 13% respectively.

National Investment Market

- 3.43 Despite the economic and political uncertainty generated by the referendum result investment yields in Q3 were generally stable according to Cushman & Wakefield with demand for logistics assets remaining strong and overseas investment continuing. Buyers seeking higher yields have actively targeted the second-tier and secondary markets.

South East Industrial Market

South East Market Supply

- 3.44 Despite a recent increase in the level of supply, availability generally remains constrained with evidence of upward pressure on rents in core markets. According to Cushman & Wakefield that the availability of industrial by grade is 38% Grade A; 50% Grade B; and 12% Grade C.
- 3.45 According to the Enterprise M3 Commercial property Market Study 2016 there remains a persistent shortage of supply for industrial space and land with development potential in most market areas in the LEP. It is reported that there is very little high quality space available, with only one site with planning permission. As of December 2015 the vacant industrial space in the Upper M3 area is 6% and the future pipeline of space is very limited in the area with only Ten Acre Lane in Egham with planning permission for 9,000 sq.m.

South East Take-Up

- 3.46 London and South East industrial take-up has strengthened during 2016. Whilst lettings in Q1 2016 were conservative, letting activity in Q2 and Q3 has been in-line with the historic five year average. It appears that economic and political uncertainty has had a limited impact on transactional activity. Research suggests the e-commerce sector continues to constitute a significant proportion of occupational take-up in the South East.

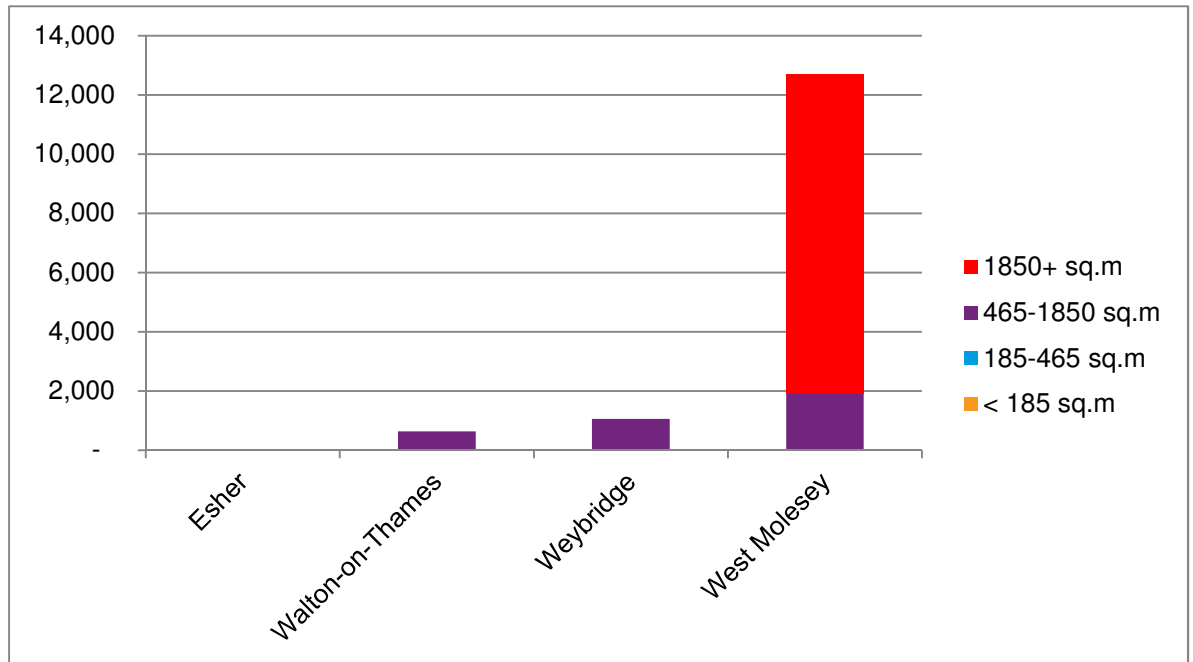
Elmbridge Industrial Market

Elmbridge Market Supply

- 3.47 The Elmbridge Annual Monitoring Report for 2014/2105 reported total B2 industrial space in the borough was 144,137 sq.m. and total B8 warehousing and distribution space of 162,666 sq.m. These two figures are closely correlated. Within Surrey, Elmbridge has one of the largest industrial stocks.
- 3.48 The industrial market supply in Elmbridge is largely provided at Brooklands Industrial Estate in Weybridge, and at Molesey Industrial Estate.

3.49 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. Two new build schemes that have come to the market, includes Molesey Trade Park at Island Farm Avenue.

Figure 10: Industrial Availability in Elmbridge (sq.m)

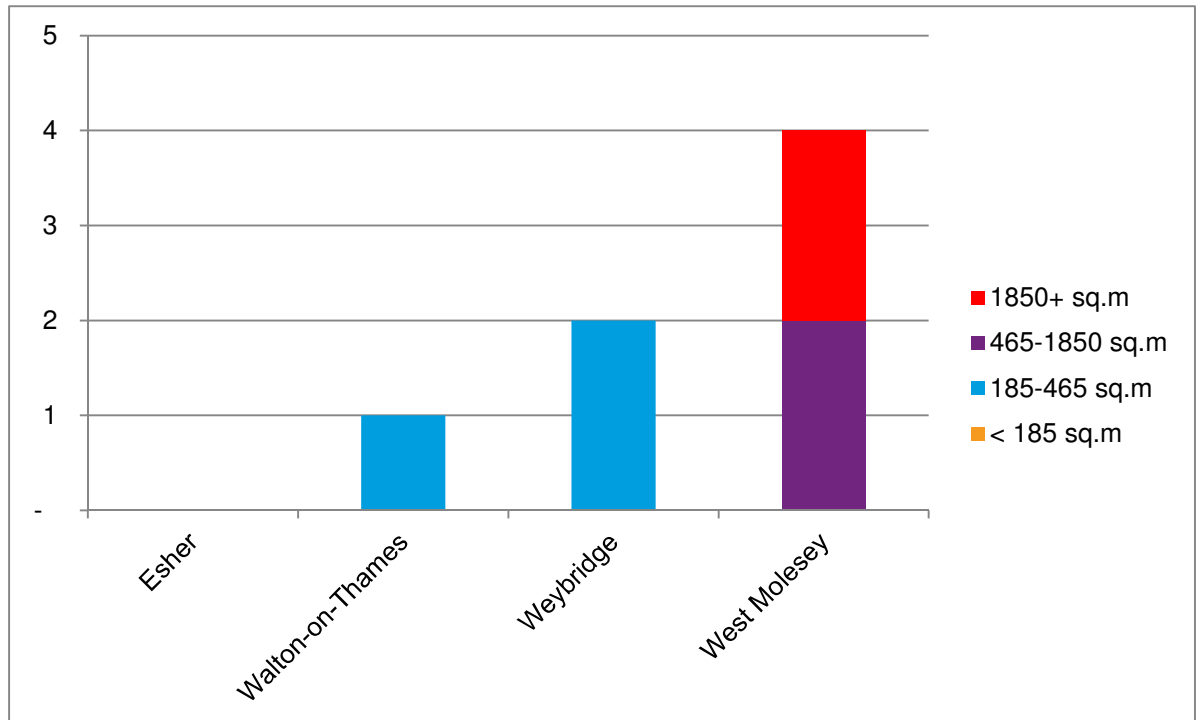


Source: CoStar/GL Hearn – December 2016

3.50 Figure 10 shows the availability of industrial floorspace across the Elmbridge centres. Total availability as at December 2016 was 14,376 sq.m. Compared with overall industrial stock levels mentioned above, of 306,803 sq.m, this equates to a vacancy level of 4.7%. 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 slightly lower than this optimal level.

3.51 The majority of the available supply is located in West Molesey, which has the two largest industrial space to let in West Molesey Industrial Park and Britannia House both situated on Pool Road.

Figure 11: Number of Availability Industrial Units



Source: CoStar/GL Hearn – December 2016

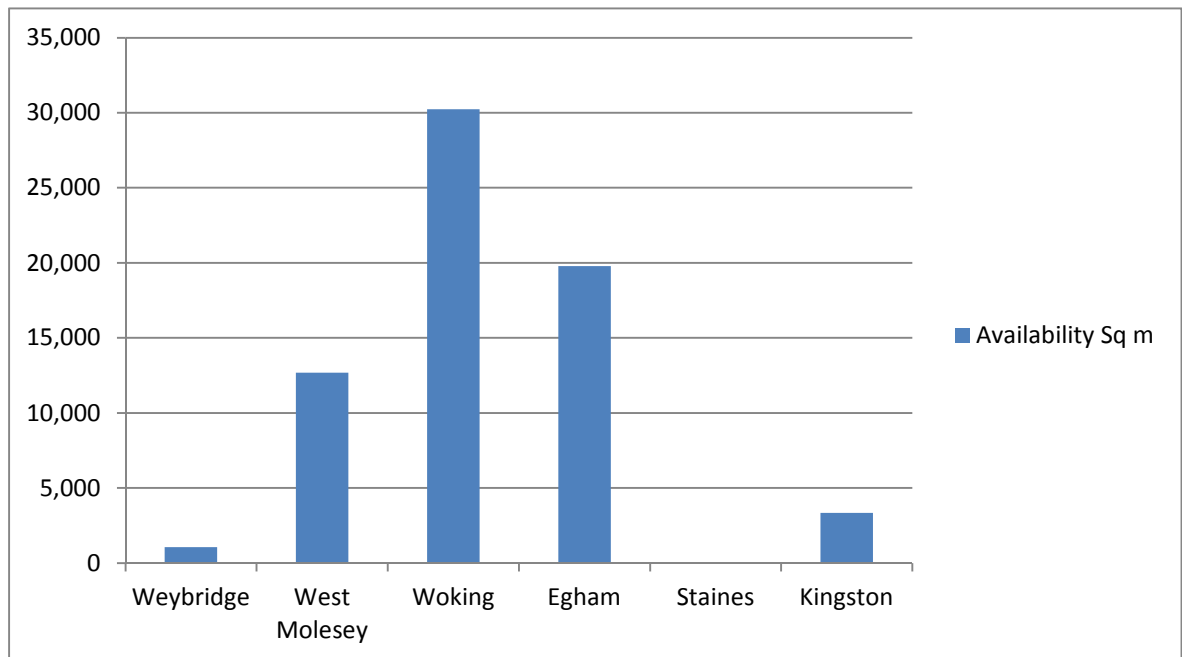
3.52 According to CoStar as of December 2016 there are only 7 industrial units available to let within Elmbridge. Walton-on-Thames has one unit available and Weybridge has two. West Molesey has four industrial units available with the two largest being 4,677 sq.m of space in Colombian House, West Molesey Industrial Park and 6,098 sq.m of space in Britannia House, Alderson Park. The majority of available stock is second-hand Grade B with the exception of Central Park Estate which is a 1,276 sq.m of new build space in West Molesey. This is a low level of availability, which restricts choice in the market place for occupiers.

3.53 Local agents also highlight the shortage of industrial units available in the Borough, and a general shortage of industrial land. Congestion on local roads is also highlighted as an issue deterring some potential businesses from locating in the area.

3.54 Figure 12 shows industrial availability for Elmbridge in comparison with other centres in the surrounding area. It can be seen that Woking and Egham have significantly higher industrial space than West Molesey. The total space of industrial stock in Woking is 30,277 sq.m with the majority of the stock concentrated in Sheerwater Industrial Estate and Monument Way West Industrial Estate. The majority of the stock is second-hand with the exception of 7,052 sq.m of new industrial space arranged over several units currently being constructed in Orchard Business Park. Egham has a total space of 19,776 sq.m of industrial stock available. All of the availability is located within Thorpe

Industrial Estate with the majority of the stock second-hand with the exception of 7,494 sq.m of new build space currently being constructed within the estate.

Figure 12: Industrial Availability in Comparable Areas (sq.m)

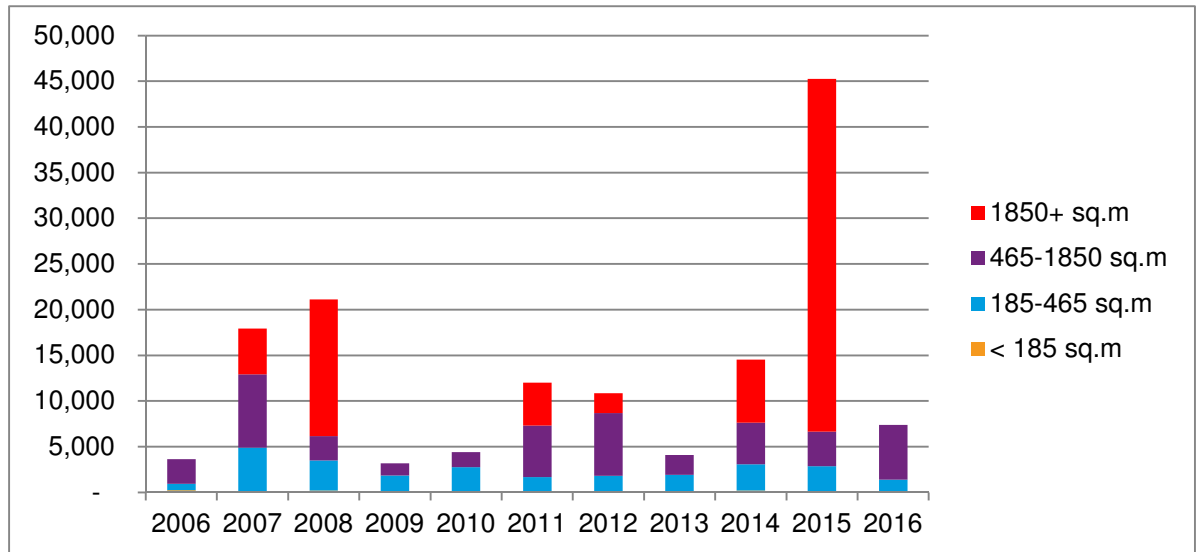


Source: CoStar/GL Hearn – December 2016

Elmbridge Industrial Rental Values

- 3.55 In 2016 the average rental value achieved from transactions analysed was circa £10 psf. Letting activity mainly took place on the West Molesey and Brooklands, Weybridge. The highest rents achieved in West Molesey during 2016 was circa £11.50 per sq.ft for new industrial space at Molesey Trade Park. Asking rents for new build industrial space in West Molesey at Central Park Estate is circa £14.50 per sq.ft. Poorer quality stock in the Borough is achieving rents of between £5.50-£7.50 per sq.ft, although agents suggest that rental values for good quality secondary stock are £8.00-£8.50 per sq.ft.
- 3.56 Due to the lack of availability, agents reports that all industrial stock is letting quickly - within 3 months of marketing launch.

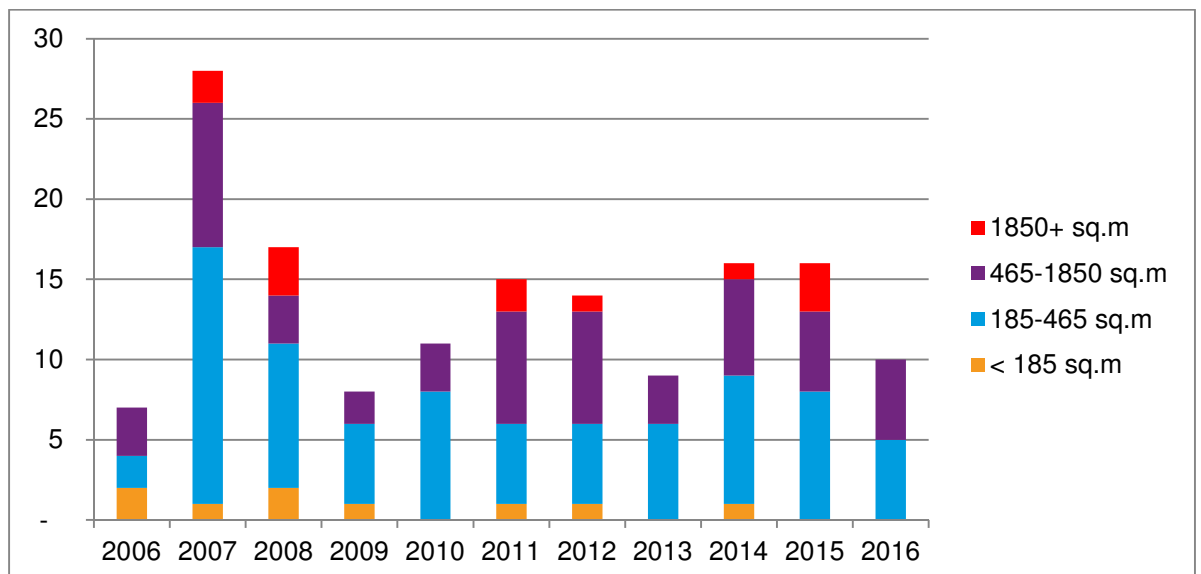
Figure 13: Industrial Take-Up in Elmbridge (sq.m)



Source: CoStar and EGI

3.57 Take-up increased in the years of 2014 and 2015 culminating in the largest letting over the last several years occurring in September 2015 with 28,312 sq.m of space let to Amazon at Vickers Drive North, Brooklands for an undisclosed rent. Over the last three year take-up of industrial space in the sizes of below 185 sq.m and 465-1850 sq.m has been broadly similar to previous years. So far in 2016, it is the only year since 2013 where there are no lettings transacted for space above 1,850 sq.m.

Figure 14: Number of Transactions in Elmbridge



Source: CoStar and EGI

- 3.58 The number of transactions in Elmbridge has increased since 2013, with 16 deals occurring in the years of 2014 and 2015. During the last three years there has been an increase in the proportion of transactions for all sizes except for units smaller than 185 sq.m. 3 deals for units above 1,850 sq.m occurred in 2015, which was the most since 2008.
- 3.59 Local agents report that the greatest area of demand is within the 93-929 sq.m. sizeband for companies seeking logistics and warehousing space.
- 3.60 Views on the impact of both the Heathrow expansion plans and Brexit are mixed from local industrial agents. They see the Heathrow plans are potential having limited impact as the market in Elmbridge is more local in nature and not based on large scale distribution, whereas the impact from Brexit may be more volatile, and is still too early to predict the outcomes.

Industrial Market Conclusions

- 3.61 The industrial market continues to be driven by the distribution and retail sector. This has led to a shortage of industrial stock in the South East and a lack of availability in Elmbridge.
- 3.62 Elmbridge's commercial property market in this area is dominated by the office sector, with the industrial sector playing a secondary role, with less stock.
- 3.63 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.
- 3.64 The market has experienced the take-up of several large warehouses, including Amazon taking space at Brooklands Industrial Estate. The take-up of smaller units shows a consistent pattern over recent years showing a good level of activity in the industrial market, although the availability of units is currently very low.

4 CONSULTATION WITH BUSINESSES AND STAKEHOLDERS

- 4.1 In preparing this report GL Hearn has engaged with a number of local businesses and stakeholders to better understand the local business environment and property implications. This included a number of local property agents; key stakeholders in relation to the property market and the local economy including the LEP, Elmbridge Business Network and Council economic development officers; and both telephone conversations and an online survey with local businesses in order to present a more robust evidence related to local business views and needs.
- 4.2 The business survey included a total of 50 responses of which 35 related to B Class use occupiers and an additional 15 responses (online) were reported by A Class use retailers. These have been excluded from the quantitative findings which focus on property and business performance) but included in terms of wider infrastructure issues. Of note we have sought views on: the positive and negative aspects of running a business in the Borough; barriers to further investment; the quality of the local workforce and services; and property needs.

Stakeholder and Business Summary

- 4.3 A summary of discussions with stakeholders, agents and businesses resulted in the following key findings:

Strengths

- The quality of life in the borough provides for highly skilled employees.
- The area is attractive to businesses for inward investment and those seeking to relocate out of London, given the local workforce and transport network connections.
- Strong performance in the knowledge / technology sectors.
- Potential for the distribution sector given the location.
- Positive outlook on business growth potential from local businesses.
- Additional Heathrow runway would benefit business.

Challenges

- Lack of stock available in the town centres locations, due mainly to the impact of PD rights which affects smaller businesses and start ups through a reduced provision of smaller and cheaper accommodation.
- General lack of development sites for offices across the Borough.
- Congestion both at a local and wider level – notably the M25 / M3 / A3.
- Existing employment areas are largely at capacity.
- An undersupply of both office and industrial space but particularly industrial.
- Housing prices a disincentive and barrier to attracting young professionals.
- Concerns over Brexit.

Business survey results

- 4.4 The consulted businesses are representative of various industry sectors which use office and industrial use classes, including: Information & Communication; Manufacturing; Professional, scientific & technical; Property; Business administration and support services; Arts, entertainment, and recreation; Construction; Transport and storage; and Motor trades.
- 4.5 Below we identify the key findings for each topic area. An appended web print of the online responses supplements this commentary.

Business Activity and Profile

- In terms of **turnover**, 30 responses were received distributed 23% at 0-£100k, 20% at £100k-£1m, 33% at £1m-£10m and 23% at £10m+.
- In terms of **employment**, 32 responses were received. The majority were small businesses with 43% having 1-10 employees and 44% 10-250 employees. A further 6% or 2 businesses had more than 10,000 employees.
- In terms of **market distribution**, respondents could select multiple responses. Out of 30 responses, 70 % identified local markets, 60% identified local and national and 53% international.

Premises

- In relation to the **type of premises** that businesses occupy, there were 27 responses in total, and the results showed 63% occupy offices and 19% occupy industrial units.
- In terms of **size of premise**, 50% out of 24 claim that their premise is less than 1,000 sq.m, while 29% have responded that they have a premise between 1,000-5,000 sq.m and 16% have replied that their premise is between 5,000-10,000 sq.m
- The survey indicates that the majority of the businesses reside within 15+ years old premises (77% out of 25), Only one business has indicated a premise which is between 1-5 years old.
- Around 90% out of 28 say the **premises are adequate for their needs**, where only 3 businesses have noted that they are not happy with the quality of their premise.
- General comments on **commercial properties in the Borough** include issues such as overall undersupply, largely based on PDR conversions, and also concerns regarding increasing business rates.

Relocation

- When asked whether they would consider **relocating** within the next 5 years, 28 businesses replied, of which 75% said they will stay in Elmbridge, while 25% said they consider moving location.
- In terms of **preferred premises** 10 businesses replied. Out of these, 40% require premises less than 1,000 sq.m and 50% between 1,000-5,000 sq.m. One business said they would need a premise between 5,000-10,000 sq.m. These were a mix of 35% freehold 65% leasehold.
- In terms of a key **factors to consider when moving**. A total of 12 businesses replied, 9 said strategic road network is a key factor for them. Rental cost was chosen by 8, and quality of premise and supply were chosen by 7 companies, while labour supply and infrastructure supply were chosen by 4 and 3 respectively.

Growth Potential / Plans

- When asked whether they expect to **expand** in the near 1-2 years, 70% of 19 respondents claimed that they expect an increase in staff number by 1-10%, and around 60% claim the same for increase in turnover. Additionally, 15 out of 28 businesses indicate they consider themselves to be in a growth sector.

Drivers of Growth

- Businesses have highlighted the following reasons behind **growth expectations**: strength of overall economy, buoyant business in area, new owners driving business in Elmbridge, quality of services which attract customers from Europe, demand for services they offer is great, high net worth individuals within companies.
- In terms of impact of **Heathrow expansion** on their business, out of 25 responses, 15 consider it to be a good thing for their business, 5 say it is not, 5 are neutral. General comments include that it will provide good connections with Europe, it might have positive impact on Elmbridge and businesses as long as they have the means to reach it, and overall it could help expand the South East and UK economy.

Barriers to Growth (including Brexit)

- When asked what the biggest restrictions and **barriers to business** operation are in the Borough, around 64% out of 14 identified car parking. Other recognised restrictions are congestion and public transport issues.

- Additionally, the **impact of Brexit** was seen by 20 respondents as negative out of 25 that replied. Three have said it will potentially be a good thing and 2 are neutral about. Generally there are overarching concerns regarding the influence on exchange rates, connections with Europe and the EU as there would be a loss in business with EU, energy costs might increase, potential loss of workers and questions over who will replace staff losses, concerns over inflation and making the UK market more expensive and less attractive when compared to international competitors such as India and the US and a resulting loss of customers.
- In terms of **infrastructure barriers**, 16 out of 19 say the biggest issue is the road network. As the question allowed for different choices to be included, 12 businesses added public transport as a barrier and 7 included supply and quality of premises. Businesses are generally happy with train services (esp. to Hampton Court), however some have commented there is a lack of parking next to train stations, which makes cars park on streets to the disadvantage of shoppers and retailers. Generally the road network struggles to handle the amount of traffic, which leads to congestion issues.
- In terms of quality of premises, **commercial property** is reportedly under invested in, with very little actual supply as a result of being sold for residential. Respondents reported they would like to buy commercial property however there is none that is appropriate:
“There's a lack of dedicated small affordable (quiet!) professional office space in Elmbridge.”
- In terms of **staffing issues**, 6 out of 11 businesses have said they have issues with recruitment and retention rates. When enquired further, general issues included affordability of housing in the area which makes it unattractive for young professionals and also lack of appropriate public transport means it is hard to get to work for a substantial number of staff. Local skills were highlighted by 4 businesses as a staffing issue in the Borough.

Supply Chains

- There is a fairly even distribution of supply chain for local businesses, with local and regional having 7 responses for each and 8 out of 23 companies reporting a mix of national/international supply chain.

Retail responses

- We have considered separately the opinions of 14 retail businesses regarding local infrastructure and impacts of Heathrow expansion and Brexit
- Retail businesses identify **car parking** as the single most important barrier to growth in Elmbridge. This is especially discussed in relation to Molesey and Bridge Road, where it is hard for customers to access shops due to roads being taken up by parked cars. Additional issues

arising from this include congestion and accessibility. Some businesses have also identified the issue with broadband in the area, saying it is very unreliable. Additionally, two businesses have raised the issue of increasing business rates as a major concern for them.

- In terms of **Heathrow expansion** around 5 businesses claimed it will have a negative impact on their business, it is not an appealing feature for customers as it is too noisy. Two businesses claimed it will have no effect on their business and one remarked it will have a positive impact
- In terms of **Brexit impact**, 4 businesses have highlighted that the exchange rates have had a very negative impact for their business. Additionally, customers have reduced their spending habits, which also contribute to overall discontent with Brexit. A comment from one company highlights that Brexit will reduce the opportunities for business expansion and will impact their income significantly "*Brexit could put us out of business*".

5 EMPLOYMENT FORECASTING

5.1 This section provides an up to date assessment of forecast future jobs growth in Elmbridge over the period from 2015-35. It reviews up to date employment forecasts produced by Experian, dated 2016. These provide a baseline 'projection' of economic performance for the Borough's economy to 2035 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.

5.2 This section also briefly compares the 2016 Experian Forecasts against the 2014 based Experian forecasts which were used to inform the 2014 Commercial Property Study. The 2014 forecast covered the period to 2030 whilst the 2016 forecast reaches 2035.

Experian 2016 Baseline Forecast

Forecasting Methodology

5.3 Experian provide the following summary commentary for the forecasts applicable at the national level:

5.4 *"The outlook for the next two years for the UK economy has weakened significantly following the Brexit vote... There is likely to be some gains from the more competitive exchange rate, but with global demand remaining weak we expect this to be heavily outweighed by the fall in domestic demand, despite looser monetary and fiscal stances. Consumer spending and retail sales volumes will decelerate sharply from strong pace of 2016 as real household incomes are squeezed by rising inflation and a slowdown in job creation.*

5.5 *The strong performance of the past four years means that the UK economy has recovered ground lost during the 2007/08 recession more quickly than seemed likely a few years ago. But the repercussions of the recession and the implications of the EU referendum vote are set to hamper economic progress for a few years. Much will depend on the outcome of trade negotiations and terminating involvement with the EU. These negotiations could take several years to conclude and, in the meantime, uncertainty over the final deal is expected to constrain business confidence and investment plans. The baseline forecast assumes that a deal will eventually be struck that includes some form of access to the single market.*

5.6 *From 2020 onwards, investment is projected to rebound as the uncertainty clears, resulting in a bounceback period where GDP is propelled back above the 2% mark. For the 2019-23 period overall, GDP growth is expected to average 2.3% per annum, against 2.6% from 1981 to 2008. The EU referendum vote has created major uncertainties regarding the long term outlook for the UK economy. Its performance over period 2024-35 will depend on the terms of new economic relationship between the EU and UK. The baseline forecasts assume that by this point, negotiations with the EU will have been concluded and the UK will continue to have access to the single market under the new arrangement. However, it is unlikely that the new terms will be as*

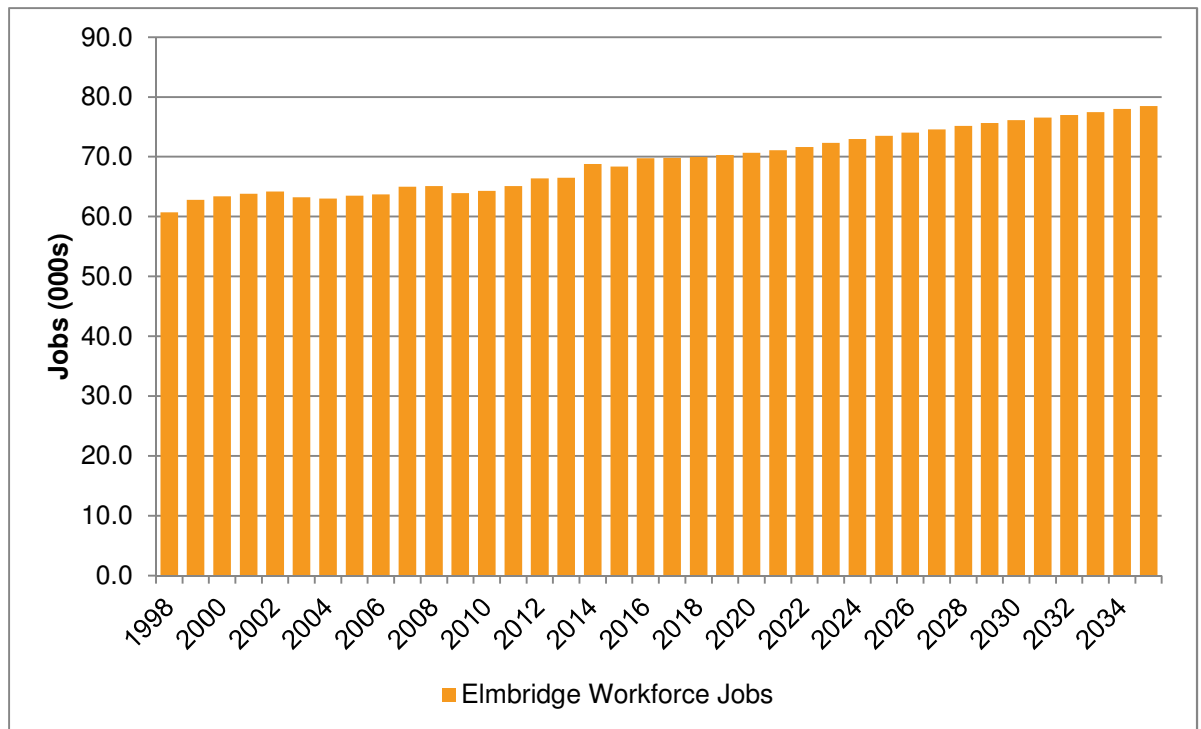
favourable as full EU membership, which is reflected by a small downgrade in our long term projections for trade, investment and GDP. For the period 2024-35, GDP growth is projected to average 2%, which is below the historic long-term trend growth of 2.3%“

- 5.7 Experian’s econometric model takes a ‘top-down’ approach to produce forecasts at the regional and local authority level. At all stages, the national macroeconomic forecast is the main control, followed by the regional forecast.
- 5.8 Experian’s local model is based on the resolution of demand and supply for labour and takes account of ONS’s Sub-National Population Projections, economic activity rates, commuting patterns, and labour demand.
- 5.9 The model estimates demand for labour at an industry level by linking job growth in a local area to growth in the same industry at the regional level and then constraining demand for jobs by industry to demand for jobs for the same industry at the regional level.
- 5.10 Commuting flows act as a balance between the demand and supply of labour within a region. The inflow and outflow of workers across the regional boundary is shared out between local areas according to their historic commuting patterns.
- 5.11 In Elmbridge, the Experian Baseline model shows a modest improvement in the economic activity rate of the Borough’s population (aged 16+) at 63.9% in 2015, which is forecast to fall to 61.5% by 2035. This reflects the aging population structure – a trend seen nationally – as the number and proportion of the Borough’s retired population grows.

2016 Baseline Forecast in Elmbridge

- 5.12 Experian’s 2016 Baseline forecast shows the total number of workforce jobs in Elmbridge growing from 68,400 in 2015 to 78,500 by 2035. This is a total forecast growth of 10,100 jobs over the 20 year period – an annual average growth rate of 0.7%.

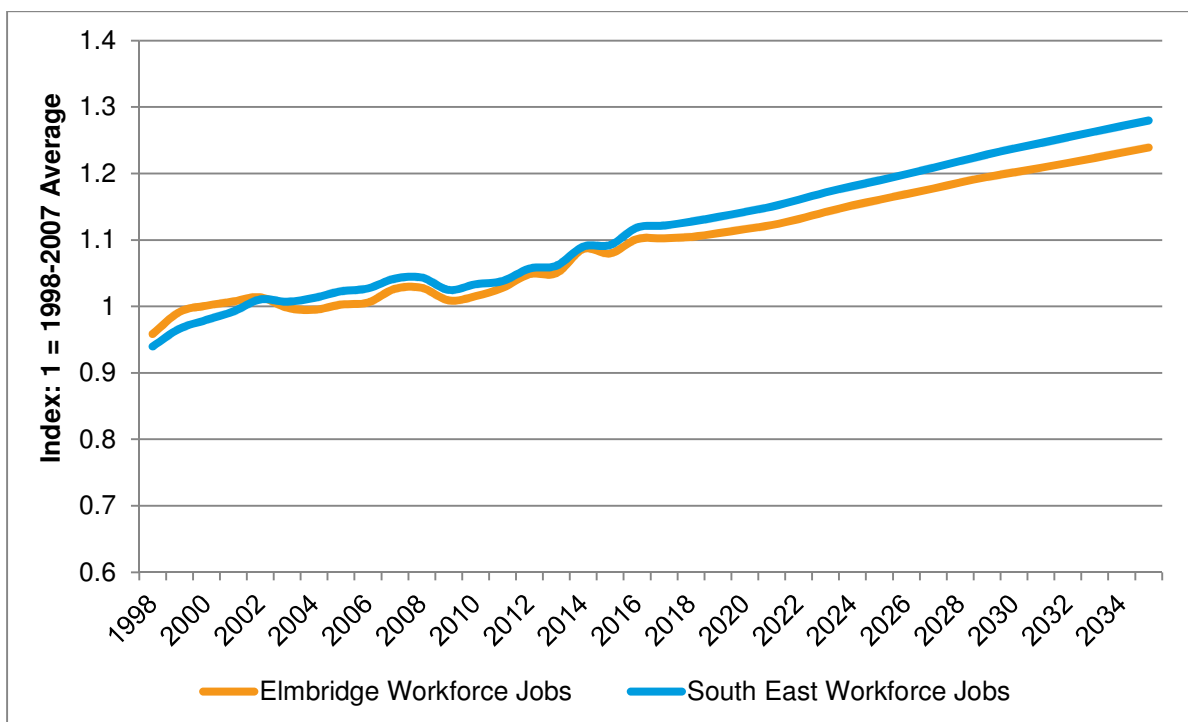
Figure 15: Elmbridge Workforce Jobs Growth, 1998-2035



Source: Experian 2016

5.13 Figure 16 shows the growth of workforce jobs in Elmbridge compared to the growth across the South East region. The figures are indexed against an average of the pre-recession decade (1998-2007). This shows Elmbridge to have a slower jobs growth rate than the regional average. In Elmbridge, total workforce jobs are forecast to have grown by 24% by 2035, compared to the South East as a whole where the figure is 28%. The South East's annual average growth rate over this period is 0.8% compared to 0.7% in Elmbridge.

Figure 16: Indexed Growth in Workforce Jobs, 1998-35



Source: Experian 2016

Comparison between the 2014 and 2016 Baseline forecasts

5.14 The table overleaf provides a comparison between the 2014 and 2016 Experian baseline forecasts. Key trends identified between the 2014 and 2016 forecasts are set out below (2014 forecasting was to 2030 therefore this is the reference year to enable comparison).

- According to the 2016 forecast, the total increase in jobs to 2030 is notably lower than the 2014 forecast – 6,600 jobs compared to 9,700 respectively.
- According to the 2014 data, the highest amount of job growth was forecast within Professional & Other Private Services at around 3,300. This has significantly fallen to growth of around 1,000 jobs in the 2016 projection.
- The second highest job growth sector according to the 2014 forecast was within Wholesale & Retail at 1,500 jobs. The 2016 projection identifies almost zero growth within this sector by 2030.
- According to the 2016 projections, Professional & Other Private Services and Wholesale & Retail show the most significant fall in job growth compared to the 2014 scenario. However, other sectors show an increased performance. Transport and Storage; and Accommodation, Food Services & Recreation; are both set to increase their growth by around 800 jobs.
- Public Services remain an employment driver with around 2,000 additional jobs under both projections. This notably incorporates growth in healthcare and social work expected to be linked to the requirements for an ageing population.

Table 1: 2016 and 2014 Experian Employment Forecasts Comparison, Workforce Jobs (000s), 5 year periods

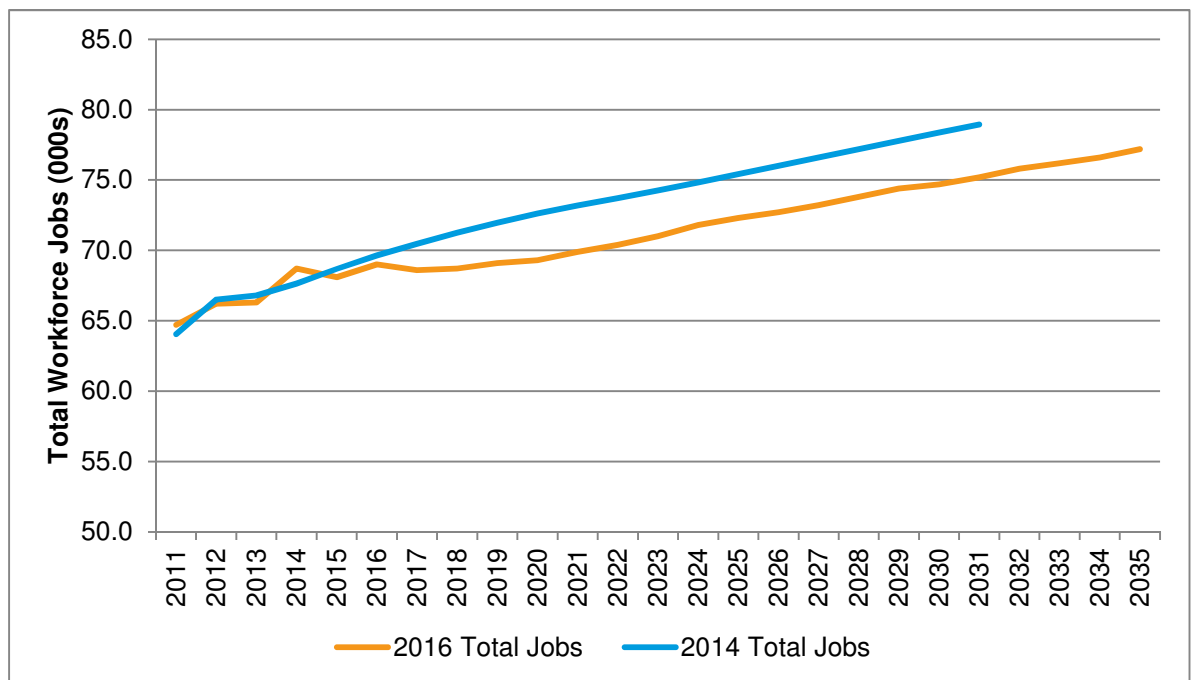
	2015			2020					2025					2030					2035	
	2016 jobs	2014 jobs	change	2016 jobs	2014 jobs	2016 growth	2014 growth	change	2016 jobs	2014 jobs	2016 growth	2014 growth	change	2016 jobs	2014 jobs	2016 growth	2014 growth	change	2016 jobs	2016 growth
Accommodation, Food Services & Recreation	8.20	8.12	0.08	8.50	8.60	0.30	0.48	-0.18	9.30	8.92	1.10	0.80	0.30	10.10	9.20	1.90	1.07	0.83	11.00	2.80
Agriculture, Forestry & Fishing	0.00	0.66	-0.66	0.00	0.64	0.00	-0.01	0.01	0.00	0.63	0.00	-0.03	0.03	0.00	0.60	0.00	-0.05	0.05	0.00	0.00
Construction	5.20	4.20	1.00	5.50	4.59	0.30	0.40	-0.10	5.70	4.73	0.50	0.53	-0.03	5.80	4.82	0.60	0.62	-0.02	5.80	0.60
Extraction & Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance & Insurance	1.20	1.13	0.07	1.10	1.21	-0.10	0.09	-0.19	1.00	1.25	-0.20	0.13	-0.33	0.90	1.28	-0.30	0.15	-0.45	0.80	-0.40
Information & communication	4.40	4.19	0.21	4.20	4.50	-0.20	0.31	-0.51	4.40	4.60	0.00	0.40	-0.40	4.50	4.68	0.10	0.49	-0.39	4.60	0.20
Manufacturing	2.60	3.49	-0.89	2.50	3.31	-0.10	-0.18	0.08	2.40	3.32	-0.20	-0.16	-0.04	2.30	3.60	-0.30	0.11	-0.41	2.20	-0.40
Professional & Other Private Services	19.30	18.84	0.46	19.60	20.21	0.30	1.37	-1.07	20.00	21.21	0.70	2.37	-1.67	20.30	22.17	1.00	3.33	-2.33	20.70	1.40
Public Services	12.20	11.76	0.44	12.50	12.34	0.30	0.59	-0.29	13.60	13.08	1.40	1.32	0.08	14.50	13.88	2.30	2.12	0.18	15.30	3.10
Transport & storage	2.60	2.42	0.18	2.80	2.56	0.20	0.15	0.05	3.20	2.63	0.60	0.22	0.38	3.70	2.70	1.10	0.28	0.82	4.20	1.60
Utilities	0.30	0.33	-0.03	0.40	0.36	0.10	0.02	0.08	0.40	0.38	0.10	0.04	0.06	0.40	0.40	0.10	0.06	0.04	0.50	0.20
Wholesale & Retail	12.10	13.56	-1.46	12.20	14.28	0.10	0.73	-0.63	12.30	14.68	0.20	1.12	-0.92	12.20	15.05	0.10	1.49	-1.39	12.10	0.00
Total	68.10	68.69	-0.59	69.30	72.62	1.20	3.93	-2.73	72.30	75.42	4.20	6.73	-2.53	74.70	78.37	6.60	9.68	-3.08	77.20	9.10

Source: Experian 2014 and 2016

5.15 The jobs growth forecasts reflect the past economic performance of an area and this will feed in to, alongside other factors including national trends such as Brexit, the analysis of the future forecast needs. The lower jobs growth shown in the 2016 forecast also partly reflects the level of jobs growth in Elmbridge between 2014 and 2016 which was lower than the level expected in the 2014 forecast.

5.16 The total workforce growth of the 2014 and 2016 forecasts is shown in the graph below. The 2014 forecast shows an expected jobs growth from 2014-16 of 960 jobs. However, the 2016 forecast records an actual growth of 300 jobs over this period. This is reflected in the 2016 forecast trajectory up to 2031 and beyond which is more conservative than the 2014 forecast.

Figure 17: Comparison Between 2014 and 2016 Forecasts – Total Workforce Growth (000s)



Source: GLH analysis of Experian data

5.17 Table 2 provides a comparison between the two forecasts for the period between the base dates of the forecasts (2014 and 2016). It shows the jobs growth in Elmbridge over these two years, as expected in the 2014 forecast, and as recorded in the 2016 forecast.

5.18 This shows that over this period there has been a higher growth in jobs in three sectors – Construction; Transport & Storage; and Utilities – than was forecast in the 2014 forecast. However, there was a lower level of jobs growth in the Professional & other private services sector, and a reduction in the number of jobs in four sectors which were forecast growth – Accommodation, Food Services & Recreation; Information & Communication; Public Services; and Wholesale & Retail.

The result is a lower level of total jobs growth over this period than was forecast in the 2014 forecast.

Table 2: 2014 and 2016 forecasts comparison– Jobs Growth (000s), 2014-2016 period

Sector	2014 Forecast	2016 Forecast	Difference
Accommodation, Food Services & Recreation	0.12	-0.10	-0.22
Agriculture, Forestry & Fishing	0.00	0.00	0.00
Construction	0.10	0.80	0.70
Extraction & Mining	0.00	0.00	0.00
Finance & Insurance	0.02	0.00	-0.02
Information & communication	0.10	-0.20	-0.30
Manufacturing	-0.03	-0.20	-0.17
Professional & Other Private Services	0.31	0.10	-0.21
Public Services	0.09	-0.20	-0.29
Transport & storage	0.04	0.20	0.16
Utilities	0.01	0.10	0.09
Wholesale & Retail	0.19	-0.20	-0.39
Total Jobs	0.96	0.30	-0.66

Source: GLH Analysis of Experian data

- 5.19 In addition, the 2016 forecasts also take into account wider macro-economic influences. The most notable occurrence since the publication of the 2014 forecast was the decision for the UK to leave the EU. Experian take the view that this has significantly weakened the UK's economic outlook for the next two years as there is likely to be a slowdown in job creation, a fall in domestic demand, consumer spending and retail sales volumes as real household incomes are squeezed by rising inflation. This is reflected in the lower jobs growth in the 2016 forecast.
- 5.20 Table 3 summarises the comparison between the 2014 forecast and the 2016 forecast in terms of total jobs growth over the period 2015-30. There is a clear relationship between the growth sectors in Table 3 and the growth sectors in Table 2 above. There are two sectors in which growth has been significantly downgraded in the 2016 forecast:
- Professional & Other Private Services: forecast to grow by around 1,000 jobs in the 2016 forecast compared to a growth of 3,330 jobs in the 2014 forecast – a difference of 2,330 fewer jobs;
 - Wholesale & Retail: forecast to grow by around 100 jobs in the 2016 forecast compared to 1,490 in the 2014 forecast – a difference of 1,390 fewer jobs.
- 5.21 Conversely, the Accommodation, Food Services & Recreation sector is forecast a larger growth in the 2016 forecast: 1,900 jobs instead of 1,070 in the 2014 forecast. Similarly, the Transport & Storage sector is forecast a growth of 820 jobs in the 2016 forecast instead of 280 in the 2014 forecast.

5.22 However, overall the 2016 forecasts provide a more conservative estimate of future jobs growth than the 2014 forecast in light of local and national economic trends. The 2016 forecast shows a total jobs growth of 6,600 jobs – 3,000 fewer than the 2014 forecast.

Table 3: 2014 and 2016 Forecasts Comparison– Jobs Growth (000s), 2015-2030 period

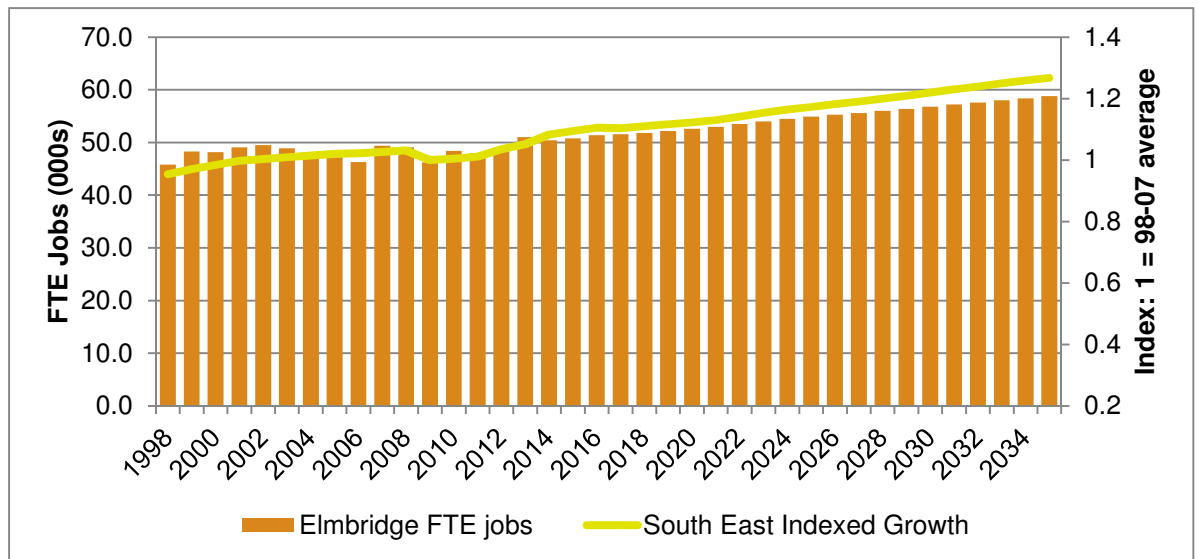
Sector	2014 Forecast	2016 Forecast	Difference
Accommodation, Food Services & Recreation	1.07	1.90	0.83
Agriculture, Forestry & Fishing	-0.05	0.00	0.05
Construction	0.62	0.60	-0.02
Extraction & Mining	0.00	0.00	0.00
Finance & Insurance	0.15	-0.30	-0.45
Information & communication	0.49	0.10	-0.39
Manufacturing	0.11	-0.30	-0.41
Professional & Other Private Services	3.33	1.00	-2.33
Public Services	2.12	2.30	0.18
Transport & storage	0.28	1.10	0.82
Utilities	0.06	0.10	0.04
Wholesale & Retail	1.49	0.10	-1.39
Total	9.68	6.60	-3.08

Full Time Equivalent Jobs Growth

5.23 Full Time Equivalent (FTE) jobs provides a measure of jobs which accounts for the number of full- and part-time jobs. The number of FTE jobs in Elmbridge is lower than the number of total jobs as one part-time job will count for less than one FTE job. In 2015 there were 50,800 FTE jobs in the Borough.

5.24 Figure 18 shows a forecast growth of 8,050 FTE jobs in Elmbridge to 2035, by which time the number of FTE jobs in the Borough is forecast to reach 58,850. Also shown is the forecast South East growth rate indexed to a comparable level which again shows a growth rate slightly above that forecast in Elmbridge.

Figure 18: FTE Jobs Growth, 1998-35



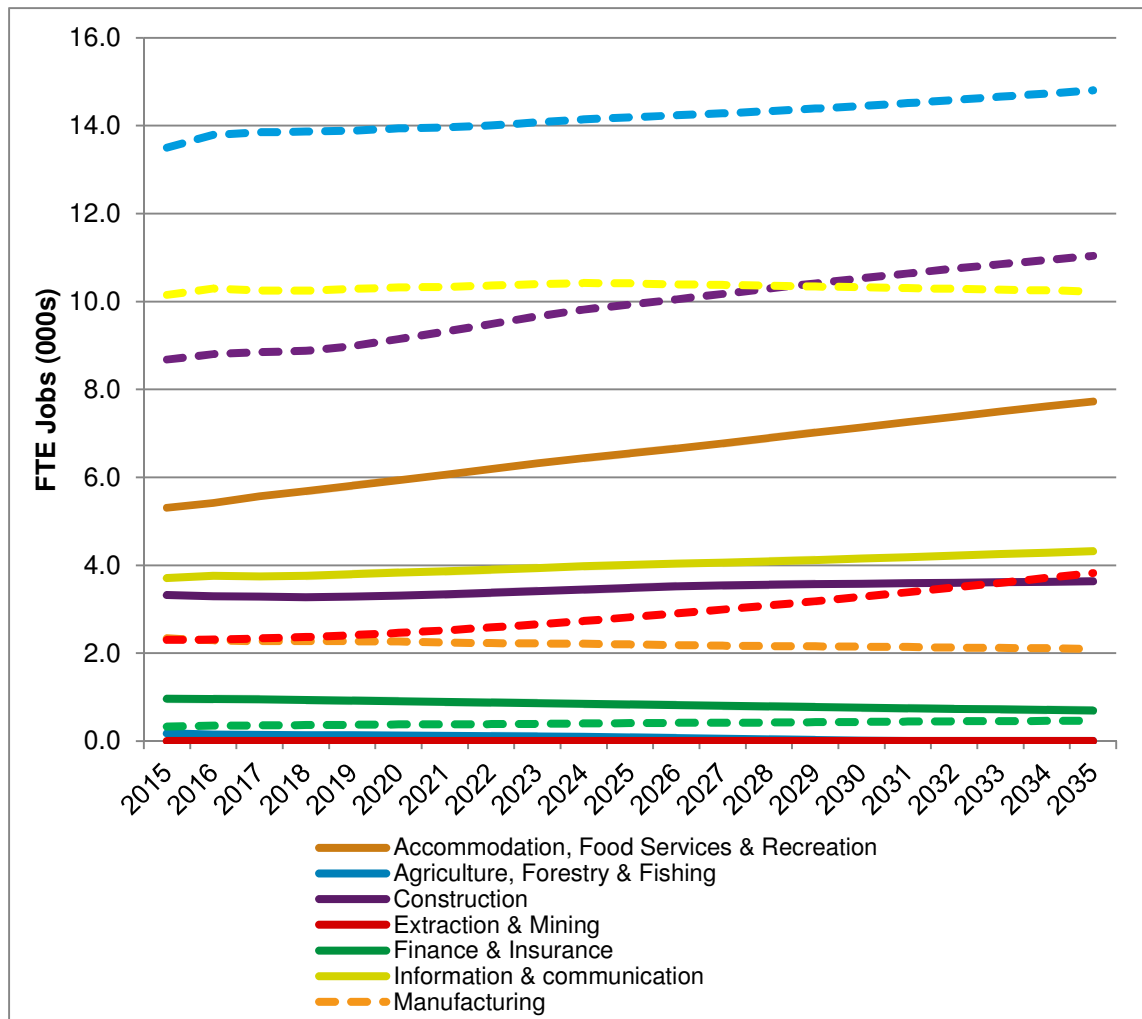
Source: Experian 2016

5.25 Figure 19 shows the forecast FTE jobs growth in Elmbridge by sector, over the period to 2035. The sectors with the largest forecast growth are:

- Accommodation, food service and recreation (2,400 FTE jobs)
- Public services (2,400 FTE jobs)
- Transport and storage (1,500 FTE jobs)
- Professional and other private services (1,300 FTE jobs)
- Information and communication (600 FTE jobs)

5.26 Conversely, there is a forecast net reduction in Finance and Insurance (-300 FTE jobs); Agriculture, forestry and fishing (-200 FTE jobs); and Manufacturing (-200 FTE jobs).

Figure 19: Elmbridge FTE Growth by Sector, 2015-35



Source: Experian 2016, GL Hearn analysis

5.27 Table 4 shows the sectoral FTE growth in Elmbridge in absolute terms and in terms of an average annual growth rate. For comparison, the average annual growth rate for the South East is also shown. This shows that the rate of forecast growth is higher in Elmbridge for the Accommodation, Food Services & Recreation sector, the Information & communication sector, the Transport and Storage sector, and the Public Services sector. Conversely, the Borough is forecast a lower growth in the Professional and Other Private Services sector and a negative growth in the Finance and Insurance sector compared to a positive growth at regional level.

Table 4: FTE Growth by Sector, 2015-35

	Elmbridge		South East
	FTE Jobs Growth	Growth Rate	Growth Rate
Accommodation, Food Services & Recreation	2,400	1.9%	1.5%
Agriculture, Forestry & Fishing	-200	-18.0%	-0.9%
Construction	300	0.5%	0.7%
Extraction & Mining	0	0.0%	-0.8%
Finance & Insurance	-300	-1.6%	0.7%
Information & communication	600	0.8%	0.4%
Manufacturing	-200	-0.5%	-0.6%
Professional & Other Private Services	1,300	0.5%	0.7%
Public Services	2,400	1.2%	1.0%
Transport & storage	1,500	2.6%	1.1%
Utilities	100	1.7%	0.8%
Wholesale & Retail	100	0.0%	0.5%

Source: Experian 2016

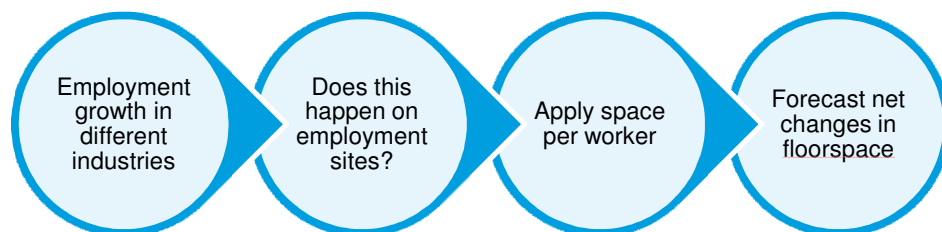
6 FUTURE EMPLOYMENT DEMAND

6.1 This section identifies the future floorspace requirements for employment uses in Elmbridge over the period from 2015 to 2035. This section firstly considers the implications of the 2016 Experian jobs growth forecast (labour demand). Next, it sets out a scenario based on the trend of past completions in Elmbridge since 2010. Thirdly, drawing upon these scenarios and integrating data on known planned developments in the Borough, we have developed a 'Local Scenario' which reflects the most reasonable forecast level of future employment floorspace need in Elmbridge to 2035. Finally, this section considers the amount of employment land which would be required to support the floorspace demands of each scenario, and assesses the quantum of office floorspace which has been lost to alternative uses through permitted development rights.

Labour Demand Scenario

6.2 This scenario models the need for employment floorspace based on the 2016 Experian jobs growth forecast. The main stages for converting jobs growth to floorspace requirement is outlined in the figure below:

Figure 20: Converting Jobs Growth to Employment Floorspace



6.3 This assessment uses a consistent set of modelling assumptions as those established in the 2014 Commercial Property Market Study. These draw on local evidence which is considered more relevant to Elmbridge and Surrey compared to more general national guidance.

Relating Jobs by Sector to B-Class Uses

6.4 Using the FTE jobs growth from the Experian forecast (shown in Table 4) the next stage is to calculate the level of expected growth in each sector which will typically occur in employment by B-class premises. 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.

- 6.5 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.
- 6.6 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.
- 6.7 A 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.

Relating Jobs and Floorspace

- 6.8 The next step converts the employment growth projections for B-class employment into a need for employment floorspace. The analysis uses 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;
- 6.9 These figures are consistent with those used in the 2014 Commercial Property Market Study. 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 used an office density of 14 sq.m per employee, which is consistent with the HCA Employment Densities Guide 3rd Edition (HCA, 2015). 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.
- 6.10 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. The projected floorspace requirements for Elmbridge Borough for the period between 2015-2035 are presented in Table 5.
- 6.11 The analysis indicates that the additional floorspace need for Elmbridge is 69,120 sq.m, or 73,830 sq.m when discounting projected losses of Sui Generis uses. A five year buffer has been applied which is based on the net annual trends in order to provide sufficient flexibility and choice to meet market demands.

Table 5: Experian Baseline Floorspace Forecast for Elmbridge (2015-2035) (sq.m)

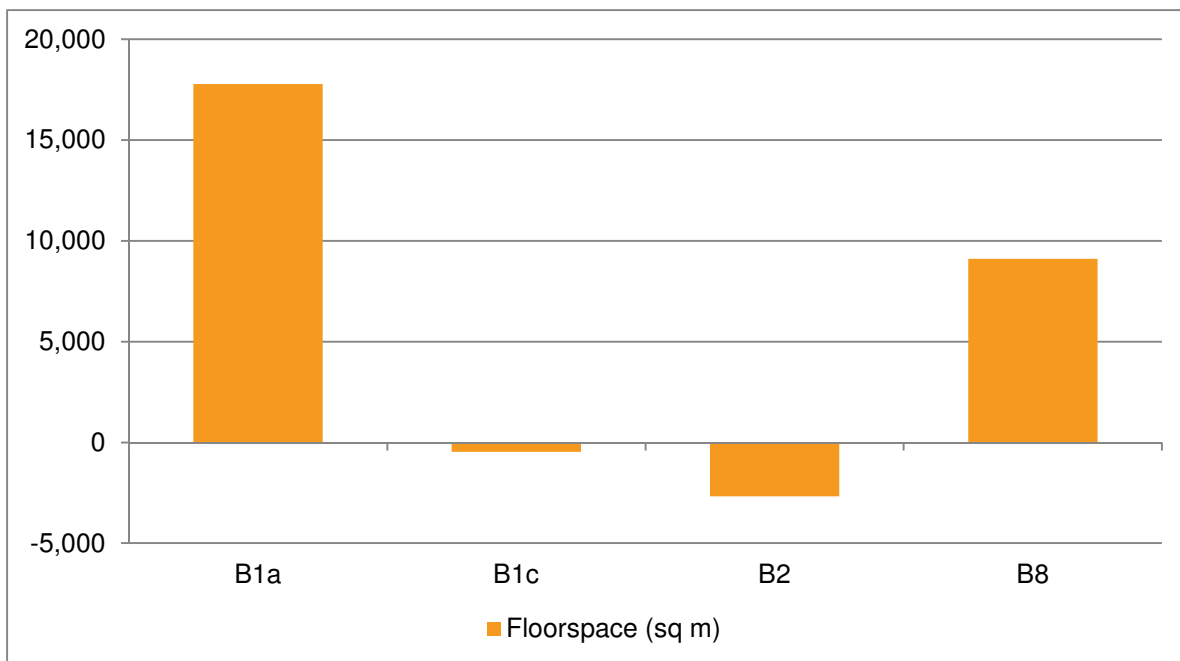
Use Class	2015-2020	2020-2025	2025-2030	2030-2035	Total	Total inc. 5 year buffer
B1a/b: Office & R&D	7,160	5,800	4,790	6,410	24,150	29,580
B1c/B2: Industrial	-2,350	-1,530	-1,080	-690	-5,650	-8,270
B8: Warehouse & Distribution	5,310	11,420	12,860	15,350	44,940	52,520
Sui Generis Uses on Employment Sites	-30	-470	-2,070	-2,130	-4,700	-4,700
Total	10,090	15,210	14,490	18,950	58,740	69,120

- 6.12 The forecast shows a need for 29,580 sq.m of B1a/b office space. This reflects the levels of jobs growth forecast in the Professional & other private services sector (1,300 FTE jobs growth) and the Information and communications sector (600 FTE jobs growth).
- 6.13 There is a forecast demand for a net loss of 8,270 sq.m of industrial (B1c/B2) floorspace. This reflects the net reduction of jobs in manufacturing sector (-200 FTE jobs).
- 6.14 For warehouse and distribution (B8) uses, there is a forecast demand for 52,520 sq.m of additional floorspace. This reflects a considerable growth of jobs in the Transport and storage sector (1,500 FTE jobs) and also reflects the high amount of floorspace per employee (employment density) required for this type of use.

Completions Trend Based Forecast Land Requirements

- 6.15 An alternative approach to modelling future floorspace demand is based on projecting forward past trends in employment floorspace completions. This draws on completions data since 2010. We have used net changes in floorspace rather than gross demand to reflect the constrained nature of the Borough's land and the ability to recycle some existing B class floorspace to meet an element of requirements.
- 6.16 Since 2010 there has been a net gain of 17,800 sq.m of office (B1a) floorspace in Elmbridge, a net gain of 7,600 sq.m of warehouse (B8) floorspace, and a net loss of 3,100 sq.m of industrial (B1c/B2) floorspace.

Figure 21: Net Employment Completions in Elmbridge, 2010-2016



Source: Elmbridge Borough Council

6.17 Forecasting forward based on the past completions trend shows a demand for employment floorspace for the 2015-2035 period amounting to a total 79,000 sq.m. The majority (59,240 sq.m) of the total forecast need is for B1a/b use while 30,330 sq.m is for B8 use. The forecast shows a future reduction of -10,480 sq.m of B1c/B2 use.

Table 6: Completions Trend Based (net) Floorspace Forecast (2015-2035) (sq.m)

Use Class	Annual demand	20 year demand
B1a/b	2,960	59,240
B1c	-80	-1,550
B2	-450	-8,930
B8	1,520	30,330
Total	3,950	79,090

Source: Elmbridge Borough Council / GL Hearn analysis

6.18 There is one significant scheme that we consider to be an outlier to the trend: Planning Application Number 2011/0628 representing the development of open land to two five storey office buildings resulting in office floorspace of 11,264 sq.m. This represents a development which, given the scale of other completions in the Borough, could be considered unlikely to be repeated regularly on such a scale. We have therefore considered a revised scenario – one which excludes this scheme – which may present a more realistic demand picture. Table 7 demonstrates that without the above

scheme, the total demand for employment floorspace for 2015-2035 in Elmbridge amounts to around 41,540 sq.m with B1a requirements reduced by two thirds.

Table 7: Revised Completions Trend Based (net) Floorspace Forecast (2015-2035) (sq.m)

Use Class	Annual demand	20 years demand
B1a	1,080	21,700
B1c	-80	-1,550
B2	-450	-8,930
B8	1,520	30,330
Total	2,080	41,540

Source: Elmbridge Borough Council / GL Hearn analysis

Local Scenario

- 6.19 Drawing the various strands of the above analysis together, GL Hearn with Experian have developed a 'Local Scenario' which adjusts the labour demand forecasting to take account of completions trends and planned development in the Borough. This is a common approach which allows for tweaking the jobs growth forecasts to respond to local dynamics and employment growth drivers which may deviate from past trends.
- 6.20 The Experian baseline forecast shows the growth rate in the Professional and Other Private Services sector in Elmbridge is 0.8% per annum, which is lower than the South East average of 1.0%. However, given the high quantum and quality of the office offer at Brooklands, which is home to a large number of blue chip occupiers, it would be reasonable to consider the implications of a growth rate for this sector in line with the regional average.
- 6.21 While the majority of Brooklands is now built out, the Dakota Weybridge scheme will provide 35,346 sq.ft of new Grade A office space at Brooklands due to be delivered over 2017/18. This development should be considered as contributing to the supply to meet the future forecast need. In terms of the labour demand forecast, this development will support meeting the additional jobs growth of the uplifted Professional and Other Private Services sector.
- 6.22 Conversely, the Experian baseline forecast also shows a relatively large growth rate in the Transport and Storage sector in Elmbridge of 2.5% per annum, compared to the South East regional growth rate of 1.1% per annum for this sector. Given the existing composition of the Borough's economic structure as a higher value location, historic trends in employment as well as take up of warehouse and distribution sites, it is reasonable to consider the implications of using the regional growth rate to the jobs growth in this sector.

6.23 We have therefore considered a sensitivity scenario which applies these sectoral adjustments - 'Local Scenario'. The Local Scenario adjustments are set out in the table below. This results in a jobs growth of 50 FTE jobs fewer than in the Experian Baseline.

Table 8: Local Scenario Adjustments – FTE Growth, 2015-35

	Experian Baseline	Local Scenario	Difference
Professional Services	1,295	1,720	425
Land Transport, Storage & Post	1,407	934	-475

Source: Experian / GL Hearn

6.24 The result of this adjustment, in terms of employment floorspace and land requirements is an increase in the need for office space and a decrease in the need for warehouse/distribution space. As the employment densities for warehouse/distribution jobs is much lower than for office jobs, this results in an overall lower need for employment land than the Experian baseline scenario.

Table 9: Local Scenario Floorspace Forecast for Elmbridge (2015-2035) (sq.m)

Use Class	2015-2020	2020-2025	2025-2030	2030-2035	Total	Total inc. 5 year buffer
B1a/b: Office & R&D	5,840	8,600	7,530	8,260	30,230	35,650
B1c/B2: Industrial	-2,350	-1,530	-1,080	-690	-5,650	-8,270
B8: Warehouse & Distribution	7,310	7,630	6,020	6,940	27,900	35,480
Sui Generis Uses on Employment Sites	-30	-470	-2,070	-2,130	-4,700	-4,700
Total	10,770	14,230	10,390	12,390	47,770	58,150

Source: Experian / GL Hearn

6.25 As with the Experian based scenario and the past completions trend forecast, the Local Scenario forecasts a net loss of industrial (B1c/B2) floorspace.

Employment Land Needs

6.26 Having identified the quantum of floorspace required to accommodate employment (and related Sui Generis) uses for the various scenarios, the final stage is to estimate the amount of land which would be required to meet the identified floorspace need. We can estimate the land required to support this growth in floorspace by using plot ratios which account for site requirements such as car parking and landscaping. The following plot ratios have been used:

- For office uses (use classes B1a/b) we have assumed floorspace will comprise 30% of site area;
- For industrial uses (use classes B1c and B2) we have assumed floorspace will comprise 40% of site area;

- For warehouse/distribution uses (use class B8) we have assumed Warehouse floorspace will comprise 50% of site area;
- For Sui Generis uses we have assumed Warehouse floorspace will comprise 50% of site area.

6.27 This identifies a total need for between 10.7 ha and 23.2 ha of employment land to support economic growth. This is broken down by use class in the table below:

Table 10: Employment Land Requirement for Elmbridge (2015-2035) (ha)

Use Class	Labour Demand (Experian)	Completions Trend	Revised Completions Trend	Labour Demand (Local Scenario)
B1a/b: Office & R&D	9.9	19.7	7.2	11.9
B1c/B2: Industrial	- 2.1	- 2.6	- 2.6	- 2.1
B8: Warehouse & Distribution	10.5	6.1	6.1	7.1
Sui Generis Uses	- 0.9	0	0	- 0.9
Total	17.4	23.2	10.7	16.0

Permitted Development Rights

6.28 The changes to Permitted Development rights introduced by the government in 2013, allowing change of use from B1 offices to C3 residential (amongst others), have 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. Statistics from DCLG (2016) indicate that for October – December there 9,200 applications for prior approval nationally, a decrease of 9 percent on the previous year. This may partially reflect cooling in the housing markets and a reduction in the most readily available stock for conversion.

6.29 Since 2013, there were 10 prior approval applications which were completed in Elmbridge Borough (data until end of 2015). The majority of prior approval completions were made for properties in Walton-on-Thames, with a few individual completions at Cobham, Esher and East Molesey. In total these conversions would result in the loss of approximately 2,658 sq.m B1a office floorspace and the creation of approximately 49 residential units, around 1% of the total office stock. There have been no B8 conversions recorded in the Borough.

6.30 An example of a conversion is the purchase of Munro House by the Education Funding Agency, approximately 1,108 sq.m of office space, to be converted into educational premises through the prior approval process. Munro House is currently occupied by companies including construction

specialists Willmott Dixon, technology firm Crestron UK and IT company Advanced Computer Software.

Table 11: Employment to Residential Conversions since 2013-2016 (sq m)

Use Class	Completions	Under Construction	Outstanding Permissions	Total
B1	2,658	3,640	5,509	11,800
B8	0	0	470	470
				12,270

Source: Elmbridge Borough Council / GL Hearn analysis

- 6.31 We have considered the prior approval applications which are under construction and which have current outstanding permission. The amount of B1 office floorspace conversions which are under construction is 3,640 sq.m, and there are no B8 conversions registered. Together completions and those units under construction account for around 2.5% of the total office stock. Including for outstanding permission schemes, the amount of B1 office floorspace which is expected to be converted is 5,509 sq.m, while the B8 conversion are expected to be 470 sq.m. In total, the amount of potential floorspace lost to conversions amounts to 12,270 sq.m and if pursued from permission to completion would represent around 5% of the total stock in the Borough but likely to be a much higher proportion of Grade B stock.
- 6.32 Permitted development reflects prior approval applications however a much greater total of office is being converted to other uses through the traditional route of applications. Apart from residential conversions, education is also exercising constraints on the commercial property market in Elmbridge. Between 2010 and 2016 a total of 37,000 sq.m of commercial space was converted of which the majority (33,000 sq.m) was B1a. Permitted development accounts for around one third of conversions and indicates the wider trend of pressure of commercial stock.
- 6.33 We recommend that a level of employment floorspace that is lost should be re-provided for, given that the feedback of stakeholders indicates a tight office market particularly in town centres of second hand smaller stock likely to be constraining businesses and growth (discussed further below). Using the same plot ratio assumptions as set out earlier in this chapter, full re-provision would require additional provision of 3.9 ha of B1 office use, and 0.1 ha of B8 use.

Conclusions on Employment Demand

- 6.34 This section has considered a range of approaches to forecasting employment floorspace demand in Elmbridge to 2035:
- A demand approach based on Experian's job growth forecast;
 - Two approaches extrapolating from past completions data; and

- A 'Local Scenario' which considers sensitivities to sectoral growth rates in Elmbridge.

6.35 The Local Scenario provides local sensitivities to the labour demand scenario – which is a commonly used approach to critically interrogate the top down labour demand forecasts. It is based on the Experian Baseline forecast but takes account of more locally specific past trends in Elmbridge as well as responding to local dynamics and employment growth drivers which may see the future growth within the Borough deviating from past trends.

6.36 The results of the forecasting approaches are shown in Table 12. The scenarios provide a range of total employment floorspace needs in Elmbridge over the period 2015-35, ranging between 41,540 sq.m and 79,090 sq.m – resulting from the two completions trend scenarios – with the two labour demand scenarios falling within this range, including a 5 year buffer of flexibility.

Table 12: Comparison of Employment Land Forecasts (2015-2035) (sq.m)

Use Class	Labour Demand (Experian)	Completions Trend	Revised Completions Trend	Labour Demand (Local Scenario)
B1a/b: Office & R&D	29,580	59,240	21,700	35,650
B1c/B2: Industrial	-8,270	-10,480	-10,480	-8,270
B8: Warehouse & Distribution	52,520	30,330	30,330	35,480
Sui Generis Uses	-4,700	-	-	-4,700
Total	69,120	79,090	41,540	58,150

6.37 The need for office floorspace (B1a/b) ranges from 21,700 sq.m to 59,240 sq.m. This range is based on the two completions trend scenarios and reflects the impact that a single large development can have on this forecasting approach. It would seem appropriate that a figure within this range would likely be the most appropriate – the two labour demand approaches both resulting in figures within this range with the Local Scenario marginally higher reflecting more optimistic assumptions regarding growth in the Professional services sector.

6.38 All of the scenarios show a similar level of reduction in the need for industrial floorspace (B1c/B2) of between -8,270 sq.m (labour demand scenarios) and -10,480 sq.m (completions trend scenarios).

6.39 For warehouse and distribution (B8) uses, the Experian forecast results in the need for 52,520 sq.m which is considerably higher than the need shown in the completions trend data (30,330 sq.m). This suggests a significant departure from past trends but may also represent an element of constraint in the completions trends forecasts. The Local scenario considers the implications of an adjusted growth rate in the Land Transport, storage and postal sector in line with the regional rate. This results in a mid position forecast floorspace need.

- 6.40 Considering all of the scenarios together we conclude that the Local Scenario provides the most reasonable assessment of future employment floorspace for Elmbridge. This shows a need for 62,860 sq.m of employment (B-Class) floorspace over the period 2015-35. However, it also forecasts a net loss of 4,700 sq.m of Sui Generis uses at employment sites over this period. This results in a total need for 58,150 sq.m.
- 6.41 As noted, permitted development data shows that there has been 12,270 sq.m (5% of all stock) of employment floorspace either lost to residential uses or with extant permission to do so and 2.5% of total stock completed or under construction for residential. It is recommend that a level of employment floorspace that is lost should be re-provided for, given that the feedback of stakeholders indicates a tight office market particularly in town centres of second hand smaller stock likely to be constraining businesses and growth. However it is recognised that some losses will have been for accommodation not desirable to the market, and furthermore that replacing cheaper and older stock with Grade A space will not support those businesses affected by prior approvals. It may be more appropriate to re-provide a lower rate of stock seeking to specifically support smaller businesses.
- 6.42 Converting the floorspace figures to employment land needs, the Local Scenario identifies a need for 16.0 ha of employment land. Taking a similar approach to calculate re-provision for the employment floorspace lost through conversions to alternative uses shows an additional need for up to 4.0 ha (under a full re-provision assumption), almost all of which is for office uses.

Table 13: Employment Land Requirement for Elmbridge (2015-2035) (ha)

Use Class	Employment Land Need (Local Scenario)	Re-Provision of PD Losses (full)
B1a/b: Office & R&D	11.9	3.9
B1c/B2: Industrial	- 2.1	-
B8: Warehouse & Distribution	7.1	0.1
Sui Generis Uses	- 0.9	-
Total	16.0	4.0

7 CONCLUSIONS

- 7.1 The Elmbridge commercial property market performance review reflects a highly desirable place to do business across the office and industrial warehouse stock, taking advantage of skilled local labour and strong transport network connections to London and the South East.
- 7.2 Elmbridge has a greater provision of warehousing than surrounding boroughs and supply has reached low vacancy levels which are sub optimum and are considered to be restricting market performance. This is also reflected at the wider LEP level with identified undersupply in the Upper M3 area. Past trends in take-up are likely to have been slowed by limited supply however it is recognised that within Elmbridge there are significant competing demands for land and development.
- 7.3 The Grade A office market in Elmbridge continues to perform well albeit having slowed in the last 12 months. There is a strong supply in neighbouring boroughs which have a number of significant opportunities coming to the market. In Runnymede this amounts to in excess of 120,000 sq.m of office across Aviator and The Bourne Business Parks as well as Longcross (a longer term development with permission for over 90,000 sq.m of office with a number of pre-lets).
- 7.4 In the short - medium term, neighbouring boroughs which form part of the functional economic area will afford choice to incoming or growing businesses in and around Elmbridge, particularly as business will have little regard to borough boundaries and generally be seeking a general rather than specific location. However with a potential lack of 'grow on' space for business in Elmbridge there may be some out migration. New developments tend to attract and target higher value occupiers rather than SMEs. Overall there is now limited office space available in the borough itself and little pipeline of new development.
- 7.5 Permitted development is reported to have considerably affected the local market particularly smaller second hand offices in town centres. This is an issue affecting the wider functional market area (and south east) with effects on Elmbridge considered to be adverse and affecting choice for smaller businesses. The pipeline of prior approvals is equal to that of sites already completed or under conversion, which overall could total some 5% of stock if pursued. Replacement of stock should be considered to an extent and is likely to require market intervention to ensure provision for smaller businesses. Prior approvals are considered to account for around one third of conversions of commercial stock indicating a wider erosion of supply.
- 7.6 Updated employment forecasts for the Borough reflect a slow down in growth compared with 2014 partly based on underperformance in the interim and partly on changes to the macro economic climate such as Brexit. According to the 2016 projections, Professional & Other Private Services

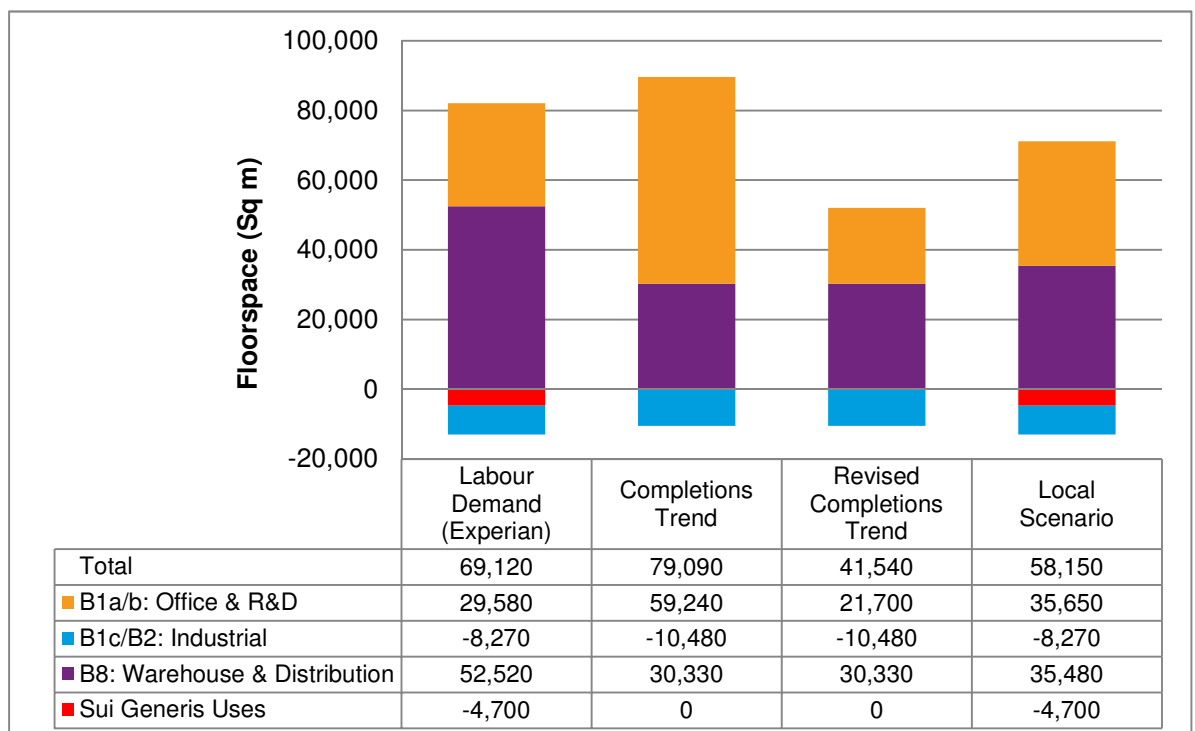
and Wholesale & Retail show the most significant fall in job growth compared to the 2014 scenario. However, other sectors show an increased performance. Transport and Storage, and Accommodation, Food Services & Recreation are both set to increase their growth by around 800 jobs.

7.7 In terms of future floorspace needs, this report has considered a range of employment forecasting methodologies to estimate the future employment land requirement in Elmbridge over the period from 2015 to 2035. These result in a range of floorspace figures ranging from 41,500 sq.m to 79,000 sq.m (based on the two completions trend scenarios). The labour demand based scenarios result in floorspace figures between the two completions trend scenarios: The Experian Baseline shows a need for 69,000 sq.m, while the Local Scenario shows a need for 58,100 sq.m.

7.8 The differences in the scenarios reflect the differences in forecast growth in the office (B1a/b) and warehouse/distribution (B8) sectors. The Experian Baseline shows a relatively large forecast need for B8 floorspace, which isn't reflected in the completions trend scenario or wider contextual evidence. Conversely, the scale of forecast office growth in the Experian Baseline is smaller than suggested in the Completions Trend Scenario (but higher than the Revised Completions Trend Scenario). The Local Scenario makes adjustments to the Experian Baseline to reflect this.

7.9 All of the scenarios show a similar scale of loss for industrial (B1c/B2) floorspace. The labour demand scenarios also show a need for a small net loss of Sui Generis uses.

Figure 22: Employment Forecasts Summary (2015-35) (sq.m)



- 7.10 Taking all of the analysis into account we conclude that the Local Scenario provides the most reasonable estimate of future floorspace need for Elmbridge. This shows a need for around 58,000 sq.m of employment floorspace, which falls roughly in the middle of the two completions trend scenarios. Converting the floorspace figures to employment land needs, the Local Scenario identifies a need for 16.0 ha of employment land.
- 7.11 The Local Scenario includes a buffer, based on a 5 years' worth of completions, in order to provide sufficient flexibility and choice to meet market demands. The Scenario does not include provision for replacing employment (predominantly office) floorspace lost through permitted development nor other commercial premises losses. As noted this should be considered carefully in light of local business needs.
- 7.12 The Experian baseline forecasts show strong demand for B8 particularly in transport, storage and distribution which is reinforced by the wider market evidence (locally and at the LEP level) which suggests latent demand, albeit being a sector with a relatively low employment yield on floorspace. Accurately forecasting demand for this sector needs to some extent to reflect the past trends and the constrained physical nature of the borough, as tempered and reported in the local scenario. Accordingly, while provision of additional B8 space is anticipated to support employment growth and respond to demand, there are known ongoing challenges in providing this floorspace. Demand is both for larger B8 distribution as well as small plots for construction and niche manufacturing.
- 7.13 The B1 environment is more complex given a strong supply in adjacent boroughs that may be leading to a lower rate of demand for Grade A space in the short to medium term, given that demand is unlikely to recognise borough boundaries within a functional economic area offering strong skilled labour, quality of life and network connections. In the longer term however these attributes are likely to ensure that Elmbridge and the Upper M3 remain areas of demand for office which is seeing some erosion of existing stock. With ITC and Professional Services forecast as key drivers for future office demand there is likely to be a need for some larger floorplate high quality Grade A stock with suitable ancillary services, albeit that this may come later in the plan period given the supply rate in adjacent boroughs. In the short to medium term demand is likely to be greater for smaller and medium sized suites being less than 1,000 sq.m or between 1,000-5,000 sq.m. As noted there also needs to be consideration of providing for SMEs and start ups looking for flexible small workspace at lower rents that have traditionally occupied second hand space in town centres.

APPENDIX A: Implications of the 2015 HCA Employment Density Guidance

7.14 The 2014 Elmbridge Commercial Property Market Study identified 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;

7.15 As identified in the 2014 report, the majority of these densities 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.

7.16 The recent 2015 HCA Employment Density Guide has provided a more detailed breakdown of what densities should be assumed for B1a uses and it has provided the following densities for this use class:

- Corporate- 13 sq.m per employee;
- Professional Services-12 sq.m per employee;
- Public Sector-12 sq.m per employee;
- TMT-11 sq.m per employee;
- Financial and Insurance-10 sq.m per employee;

7.17 Additionally, the HCA guidance proposes new densities for for B1c/B2 , B8 and Sui Generis use classes as follows:

- B1c/B2- 36-47 sq.m per employee;
- B8- 70-90 sq.m per employee;
- Sui Generis- 180+ sq.m per employee;

7.18 Evidently the latest guidance provides for much lower densities than considered to be the local norm in Elmbridge. Applied to the forecasts, a considerable increase in B8 and greater B1c/B2 losses would be identified. However, local research is considered to provide a clearer picture of anticipated trends than national figures.

APPENDIX B: PRINT OF ONLINE SURVEY RESPONSES