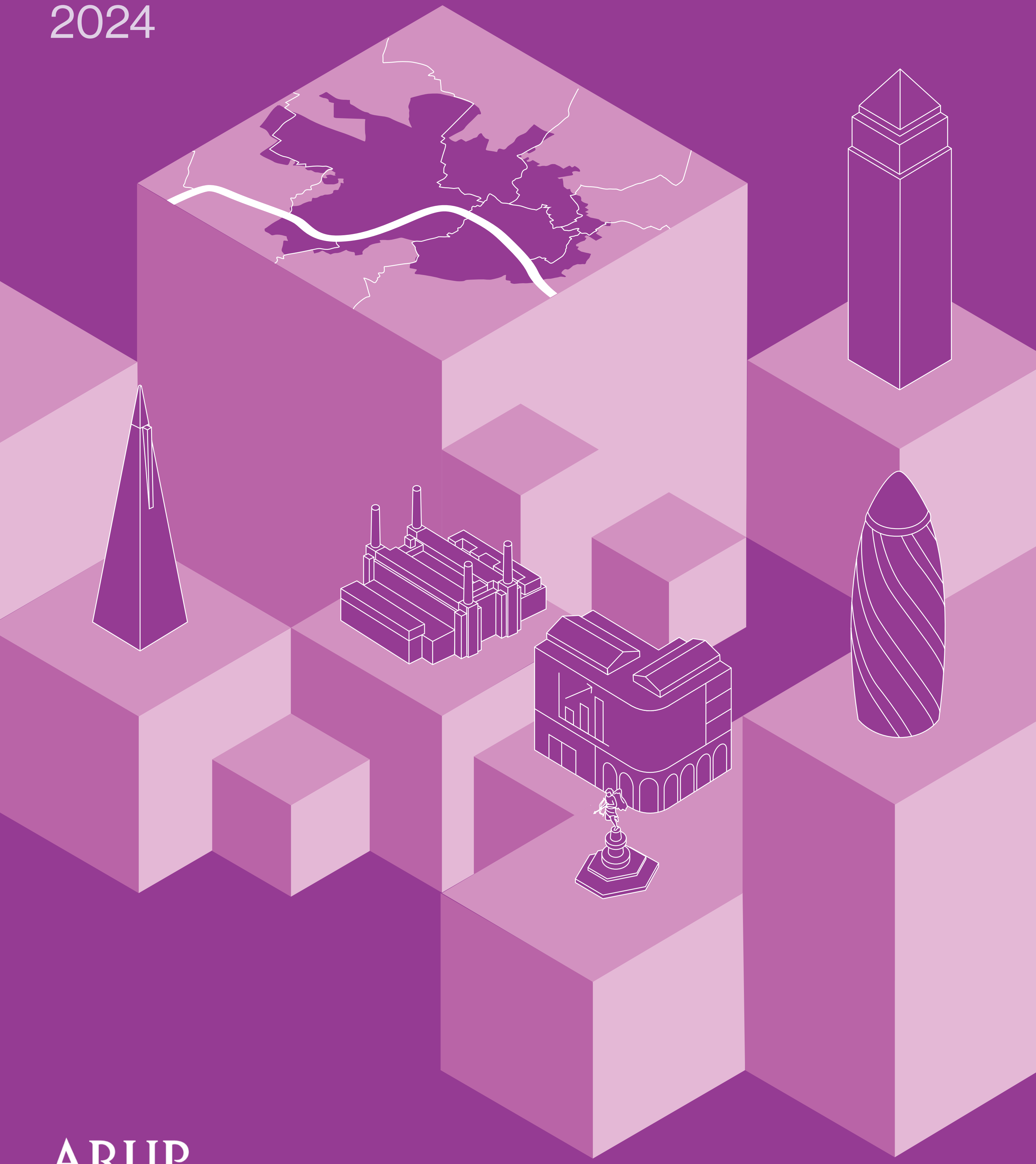
Good Growth in Central London

2024

London Property Alliance

WPA Westminster Property Association | CPA City Property Association



ARUP

About London Property Alliance

London Property Alliance (LPA) brings together the Westminster Property Association (WPA) and City Property Association (CPA) to provide a unified voice for the leading owners, developers, investors and professional advisors of real estate across central London.

Combined we represent over 400 members, ranging from FTSE 100 companies and the Great Estates, to affordable housing providers and boutique architectural practices. We are not-for-profit, and the only property industry body which represents London's Central Activities Zone (CAZ).

The Alliance delivers informative events, publishes innovative research and represents our members' interests to politicians and policymakers.

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Defining the CAZ+

This report considers three possible economic scenarios for London's Central Activities Zone and Northern Isle of Dogs, hereafter referred to as the CAZ+.

Central Activities Zone (CAZ)

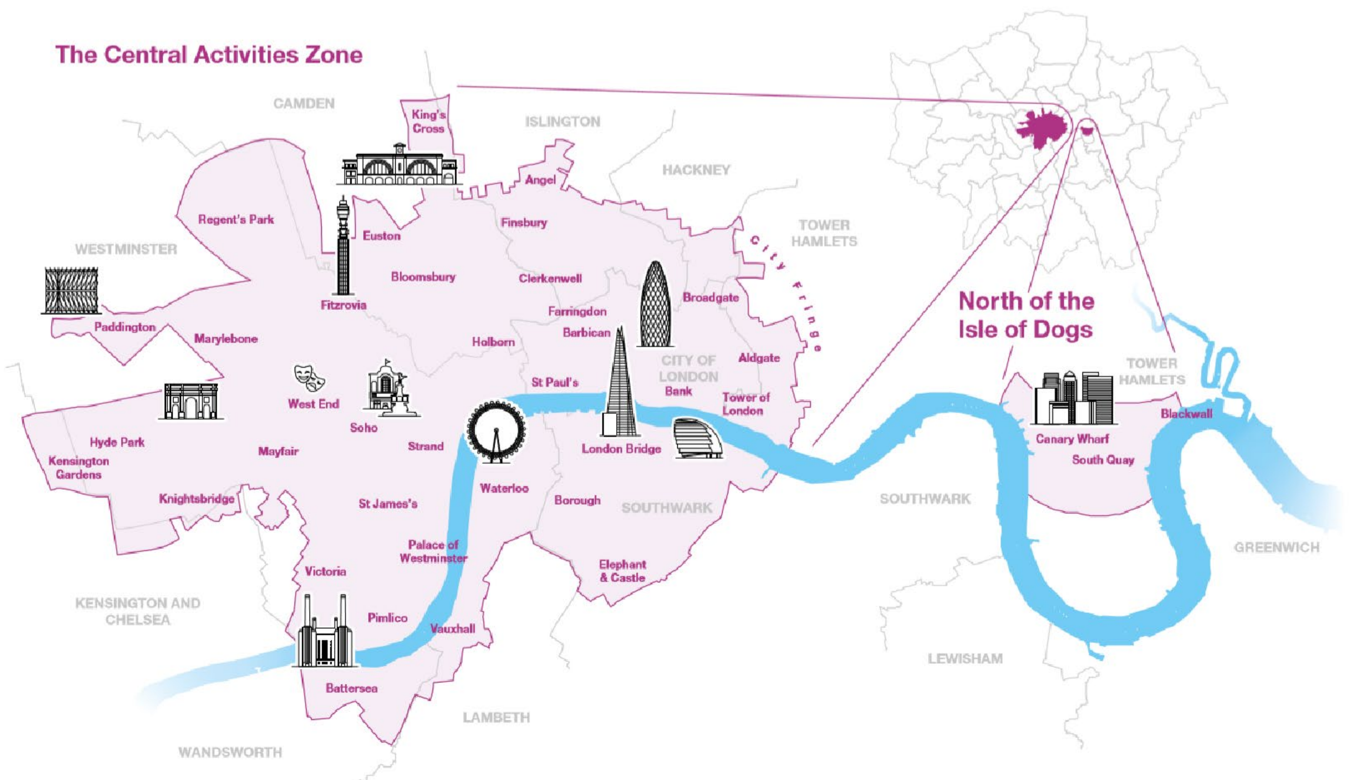
The Central Activities Zone refers to London's geographic, economic and cultural core and spans ten of it's boroughs:

- Camden
- City of London
- Hackney
- Islington
- Kensington and Chelsea
- Lambeth
- Southwark
- Tower Hamlets
- Wandsworth
- Westminster

Central Activities Zone and Northern Isle of Dogs (CAZ+)

Located within the borough of Tower Hamlets, the Northern Isle of Dogs comprises Canary Wharf, Blackwall and South Quay. It is geographically distinct from the CAZ, but the Northern Isle of Dogs' close functional ties to the CAZ, and the area's importance to global financial and business services, mean that it is often considered alongside the CAZ by economists and planners.

This report therefore includes the Northern Isle of Dogs in its analysis, with the combined area being termed the CAZ+.



Foreword

London is the best city in the world to live, work, visit and study. We must work hard to keep it this way, and to ensure all Londoners, in every part of the capital, can benefit from its success.

The Central Activities Zone (CAZ) is London's beating heart, pivotal not only to London's prosperity, but to the rest of the UK as well. It is an engine of jobs growth, providing employment opportunities that span beyond its borders to outer London and the South East. A 'cluster of clusters', it is home to world-leading industries – financial and professional services, digital and AI, creative industries, life sciences and climate tech – making it a critical hub for growth and a magnet for investors. This report estimates that the economic value of the CAZ is a staggering £315bn per annum, underscoring its significance as a national economic asset.

But the CAZ is more than a commercial hub. Every day, thousands of people are drawn to its thriving high streets, numerous cultural institutions, heritage sites, world-renowned universities and bustling nightlife spots. The CAZ boasts nine out of 10 of the capital's most visited attractions - the British Museum, Westminster Abbey, the Tower of London and more - but it is also a gateway for visits to the rest of London and the UK.

Yet central London is not without its challenges, and its success must not be taken for granted. The Mayor has worked hard in recent years to repair the damaging impact of the pandemic on the CAZ's economy – notably, with London & Partners delivering "Let's Do London" the largest tourism campaign the capital has ever seen.

But there is more work to be done, and as this report highlights, multiple growth pathways lie ahead. At the start of a new mayoral term, now is the time to outline a clear vision for good growth, set priorities, and ensure central London continues to compete with the central activities zones of other global cities like Paris and New York.

The London Growth Plan, which the Mayor committed to in his manifesto, is designed to support this vision. It will set out how we can work together with councils, businesses and trade unions, to deliver on the Mayor's pledge to create more than 150,000 good jobs by 2028. Maintaining central London's status and spreading the economic opportunities the CAZ offers to all Londoners will be a key part of the Growth Plan.

I am looking forward to continuing to champion the capital, and very much welcome the contribution this excellent report makes in building the case for good growth in central London.

Howard Dawber
Deputy Mayor of London for Business and Growth

Introduction

Central London is important for not only the capital itself, but for the whole country. It is a place full of instantly recognisable sights, from the Tower of London and Big Ben to red buses. People who have never been to the city will know it from countless films, books and televised Royal events set in central London. It is a 'shop window' for Britain, attracting investors and tourists from around the world.

It is also a remarkable ecosystem of mutually reinforcing economic activity. West End theatres employ actors who work in films, which supports post-production facilities, that attract directors, who spend money on filmmaking, which in turn attracts famous movie actors, who go on to act in the theatre, and so on. The same is true of dozens of other sectors and sub-sectors. It is this agglomeration of overlapping economic activity, and the high productivity levels which are associated with it, which would be impossible to replicate if the same activities were not all co-located in a densely packed city centre.

This report notes that the Central Activities Zone and Northern Isle of Dogs (CAZ+) generates 48 per cent of London's economic output and 41 per cent of its jobs in just over two per cent of its land area. Given that virtually everyone who lives and works in the city centre travels by public transport, bicycle or on foot, this concentrated economic activity is also environmentally benign, as the report also points out.

The economic health of central London is thus of concern not only to the local boroughs, but also to the London Mayor and Treasury. There are significant opportunities to further increase GDP and employment, but only if the right policies are pursued. Threats to growth include hybrid working, planning decisions and a failure to invest. Although there has been a marked return to the office following the pandemic, it has not fully restored daily employment and travel to 2019 levels. Planning statistics suggest fewer major applications were submitted in 2022 than a decade earlier, particularly in Westminster, although the whole CAZ+ is affected. Investment in transport has become less likely because of unhelpful changes in national Government policy towards London.

There is no doubt that the CAZ+ could accommodate significantly more economic activity and a higher residential population. The report suggests a stark choice for policymakers between a form of stagnation and the possibility of significant growth. The former outcome would be problematic because it would potentially discourage international investment in the UK, driving it to other cities in Europe and beyond. By contrast, a 'balanced growth' in floorspace, employment and homes would produce resources not only for the Exchequer but also, through developer contributions, for local councils.

Undoubtedly, the next government will need the tax revenue generated by central London to support its ambitions. It is most unlikely any government will have the resources to increase funding for local government in the coming decade, so the capacity to generate cash via development is an opportunity for the boroughs to control their own destiny.

It is in both London's and the nation's interest that environmentally sustainable growth occurs in the CAZ+. Any suggestion that the existing decision-making structures in central London are impeding rational development would inevitably start to raise questions about the governance of the area. For example, the balance of power between the boroughs and City Hall in London could be changed to reflect the city-wide importance of central London.

Elections at the city-wide and national level mean new policy options can be pursued. This report provides an opportunity to debate the future of the CAZ+ as a place to live and work.

Professor Tony Travers
Director
London School of Economics and Political Science

Contents

Executive summary

01

Executive summary

Key results

- This study explores possible economic futures for London's Central Activities Zone and Northern Isle of Dogs, hereafter referred to as the CAZ+, using three growth scenarios.
- The CAZ+ punches above its weight, contributing 48% of London's GVA and 41% of the capital's jobs, despite occupying just 2.2% of its land area.
- Employment in the CAZ+ has a low and improving level of environmental impact. Greenhouse gas emissions in CAZ+ boroughs reduced by 48% between 2005 and 2021. The City of London has the lowest emissions per job (0.3 tCO2e) of all CAZ+ boroughs, and indeed any local authority in England and Wales; at 2.5 tCO2e per job, the national level is around four times higher than the CAZ+ average.
- The **balanced growth** scenario supported by flexible planning and growth policies, investment in local infrastructure and business support could lead to substantially more jobs, GVA, homes, borough and mayoral CIL and S106 receipts, compared with the **business as usual** and **checks on growth** scenarios.
- By 2045, **balanced growth** would deliver an additional 407,200 jobs*, £101bn annual GVA, 50,700 homes and a cumulative £4.3bn borough and mayoral CIL and S106 contributions, when compared with 2023.

IMPACTS	BASELINE (2023)	BALANCED GROWTH		BUSINESS AS USUAL		CHECKS ON GROWTH	
		Change to 2045	CAGR	Change to 2045	CAGR	Change to 2045	CAGR
Floorspace (sq ft)	**314.7m**	**+55.7m**	**+0.6%**	**+29.4m**	**+0.4%**	**-0.8m**	**-0.0%**
Retail	30.7m	+4.8m	+0.7%	+1.7m	+0.2%	+0.8m	+0.1%
Office	218.3m	+40.7m	+0.8%	+21.3m	+0.4%	-5.9m	-0.1%
Hotel	41.9m	+6.5m	+0.7%	+3.4m	+0.4%	+3.5m	+0.4%
F&B	11.9m	+1.8m	+0.7%	+1.5m	+0.5%	+0.4m	+0.2%
Entertainment	12.0m	+1.9m	+0.7%	+1.5m	+0.5%	+0.3m	+0.1%
Jobs (FTE)	**2.2m**	**+407,200**	**+0.8%**	**+306,100**	**+0.6%**	**-27,400**	**-0.1%**
GVA (£m, 2023 prices)	**289,600m**	**+101,200**	**+1.4%**	**+55,900**	**+0.8%**	**+7,600**	**+0.1%**
Homes	**121,300**	**+50,700**	**+1.6%**	**+28,400**	**+1.0%**	**+37,100**	**+1.2%**
Borough CIL and S106 contributions* (£m, 2023 prices)		**+3,125** cumulative		**+1,710** cumulative		**+1,590** cumulative	
Mayoral CIL* (£m, 2023 prices)		**+1,170** cumulative		**+625** cumulative		**+175** cumulative	

Table 1: CAZ+ impacts of different futures. All figures approximate. Compound annual growth rate (CAGR) provided – Arup analysis

*Additional jobs estimated in this study are gross jobs, and do not consider additionality (e.g. leakage, displacement or multiplier effects).
**Approximative values, based on Gerald Eve analysis of historic Borough and Mayoral CIL and S106 contributions by type of space and £ per sqm (GIA) of new space developed.

Executive summary

Key results

- Adoption of **balanced growth** policies will contribute towards the jobs and housing targets outlined in the London Plan 2021-2041. In the other two scenarios these targets are at risk.
- **Balanced growth** would deliver around 407,000 jobs in the CAZ+ by 2045, on track to reach the 367,000 new office-based jobs set out for CAZ+ in the London Plan by 2041 and 41m sq ft of office space, above the 38m sq ft target set out in the London Plan. Much of this growth will be likely to occur in Opportunity Areas (OAs) located within the CAZ+, and areas with new developments.
- By 2045, **balanced growth** would exceed the target of new homes in CAZ+ with an estimated 2,300 new homes yearly in the scenario against targeted 1,700 new homes yearly to be in line with targets set in the London Plan.
- Other scenarios deliver lower levels of growth. The **Checks on growth** scenario could lead to a decline in office space and jobs, and stagnant GVA, while delivering around 37,000 new homes (below the London Plan targets and 30% less than **balanced growth**).

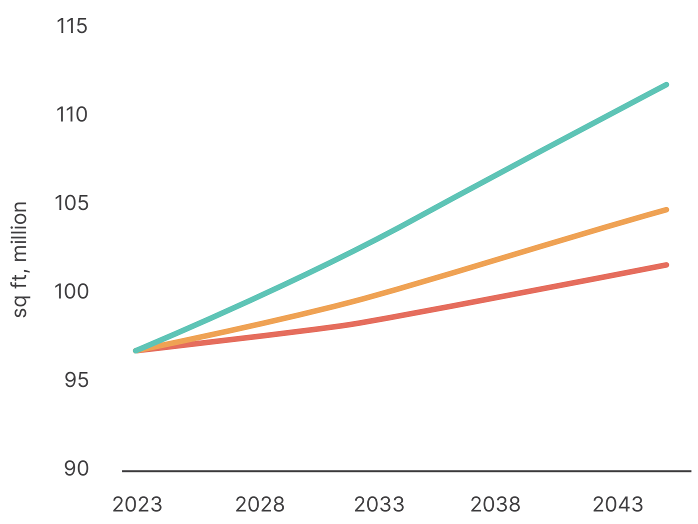


Figure 2: Total floorspace (excluding office) growth projections - Arup analysis

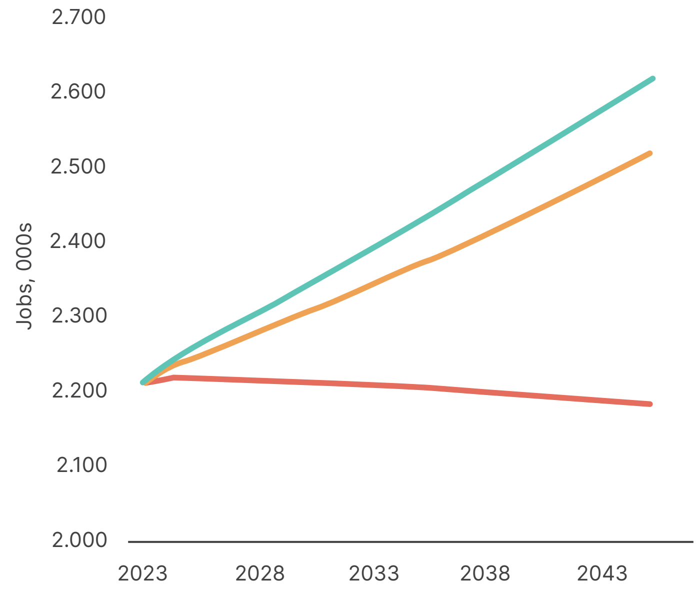


Figure 3: Employment growth projections - Arup analysis

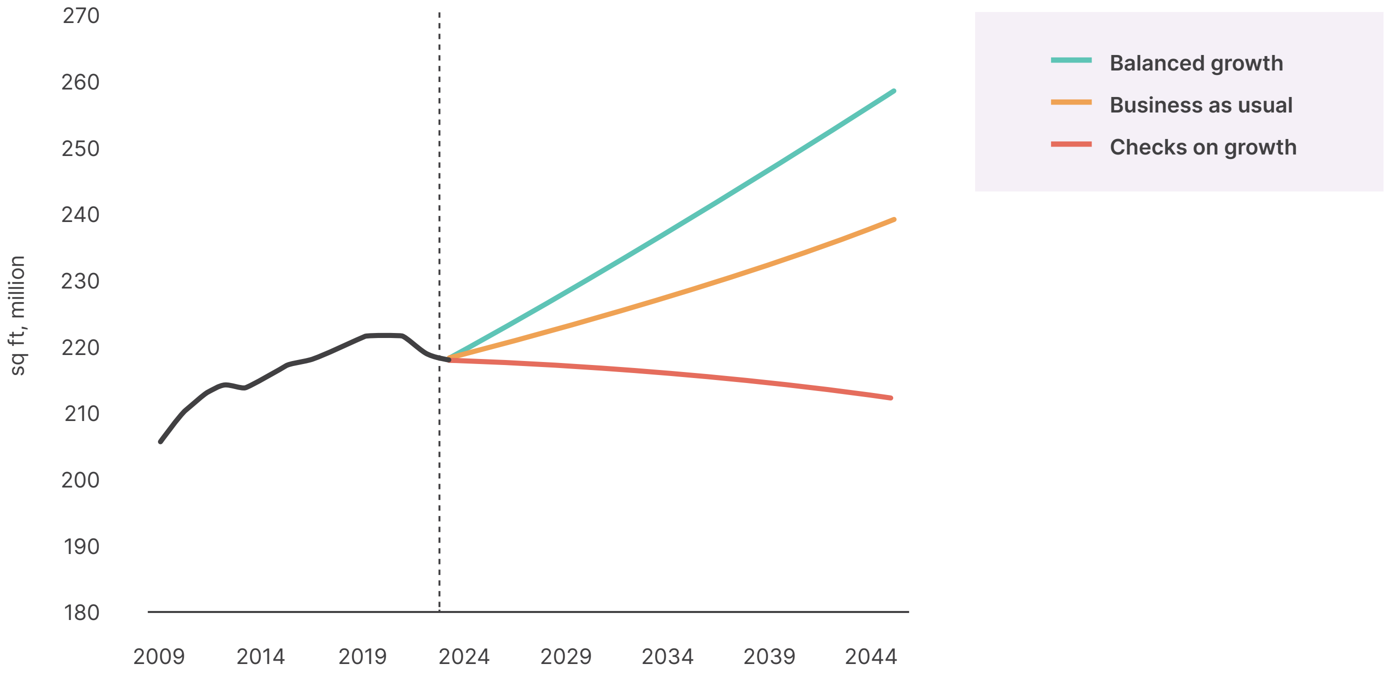


Figure 1: Office floorspace growth projections - Arup analysis, Valuation Office Agency, CoStar

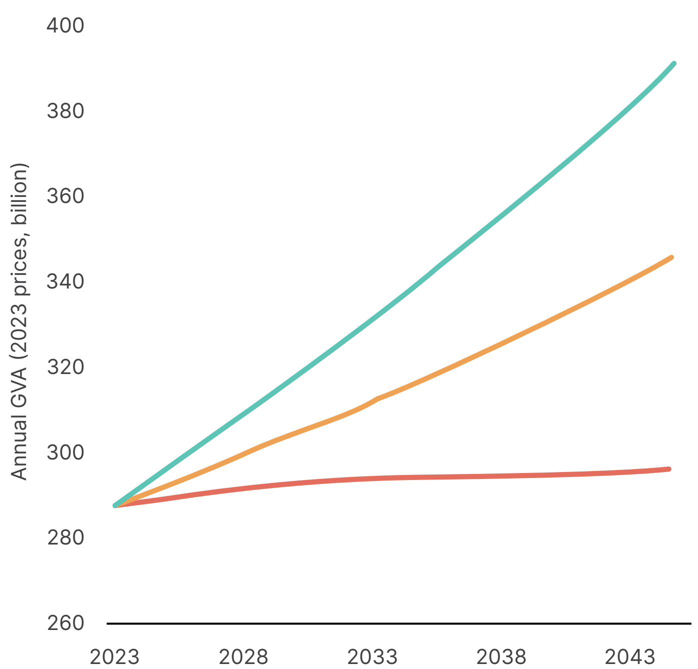


Figure 4: Annual GVA growth projections (2023 prices) - Arup analysis

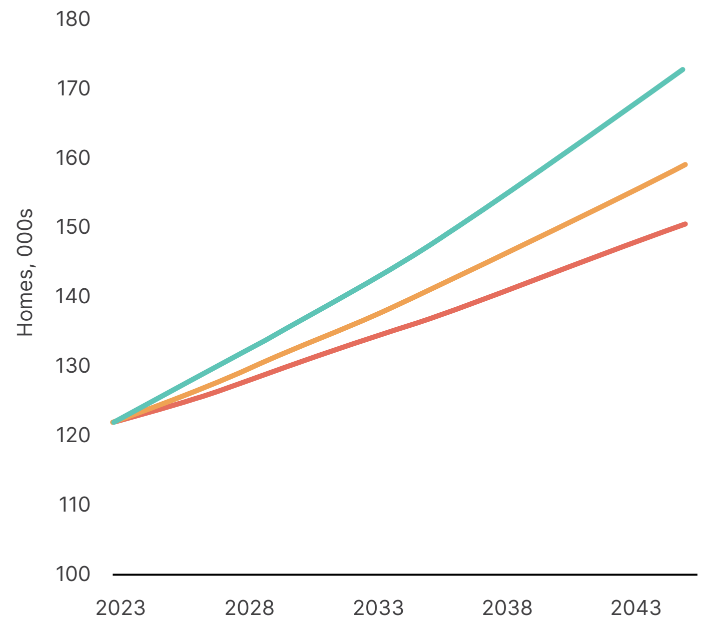


Figure 5: Total homes growth projections - Arup analysis

Executive summary

Conclusions and recommendations

Conclusions

1

Currently, the CAZ+ manages at least in part to achieve a subtle balance of the interests of workers, visitors and residents. This difficult balancing act needs to become more responsive in the era of retrofit, environmentally friendly building uses, demand for high quality office spaces, and more experiential retail and leisure. The London Plan 2021 is a positive attempt at combining spatial, economic, environmental and cultural aspects of planning and of the role boroughs can play in harnessing growth and attracting businesses while staying on track to deliver green and more sustainable growth.

2

Sectoral and land use policies in the CAZ+ can impact significantly on growth over time. The **balanced growth** scenario is the most appealing among the three modelled approaches and would support London in keeping its role as a major international business location. It would lead to positive impacts on job growth, fostering employment opportunities for residents, and increase borough CIL and Section 106 funds supporting the enhancement of public services. Furthermore, the scenario would contribute to housing provision, a key priority in the London Plan and subject to an intervention in March 2024 from the Secretary of State for Levelling Up, Housing and Communities to unlock faster homes delivery in London.

3

Nevertheless, in delivering **balanced growth** it may be necessary to ensure that more flexible planning policies do not lead to an unacceptable loss of historic assets or negatively affect the quality of development.

4

The **checks on growth** scenario on the face of it appears to have merit. It entails the preservation of historic assets and ensures limited but targeted developments of best-in-class only buildings. In the longer-term however, limited developer contributions and business rates may constrain the capacity to invest in public infrastructure leading to a progressive decline of the overall quality of the area. Compared with other scenarios, **checks on growth** entails lower housing levels, generates fewer jobs and a lower GVA. The jobs created may be more likely to be in face-to-face industries, or business services, as the CAZ+ would attract a larger relative share of visitors and residents over time, whilst slowly being eroded in its status as a primary business hub. Face-to-face industries traditionally employ individuals in lower paid roles.

Recommendations

There should be consideration of a **balanced growth** orientated approach in CAZ+ boroughs and in the future London Plan, particularly in relation to new high quality, sustainable development in business clusters in the area.

Implementation of this will require a pragmatic approach and joint working across borough councils, the GLA, business improvement districts (BIDs), investors, developers, the construction industry and local communities.

This should include a flexible approach to allow developers to both meet legitimate commercial requirements whilst fulfilling environmental objectives, and measures to ensure that the quality of new development is not compromised.

It is important that the case for economic growth in the CAZ+ is supported by the mayor and central Government, due to its major economic role for the London and the UK, as well as the essential national and international functions hosted in the area.

02

Defining the CAZ+

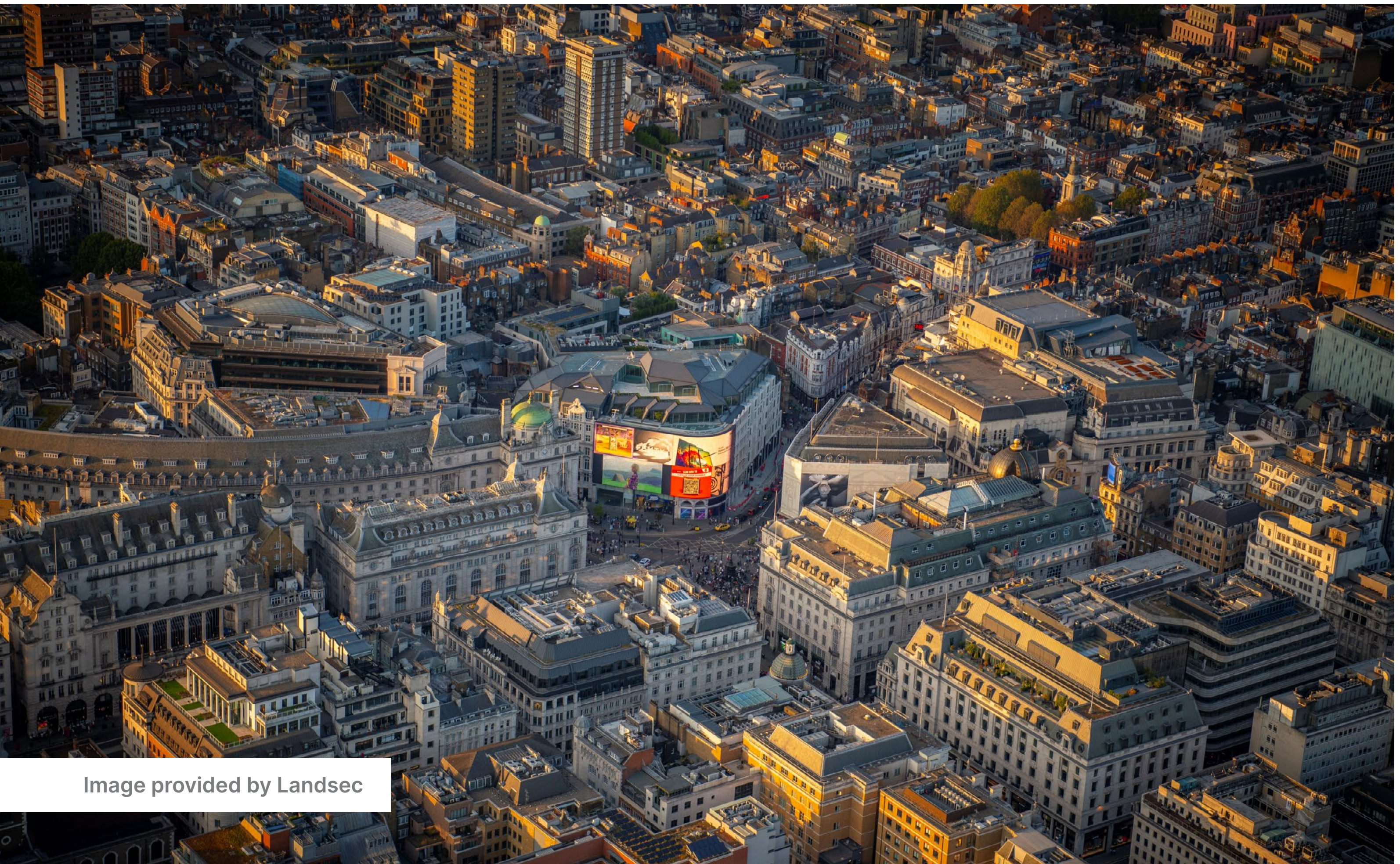
The area

The Central Activities Zone (CAZ) presents a unique economic landscape, encompassing various concentrations of predominantly service sector industries, cultural landmarks and residential areas.

Despite its geographical distinctiveness, the Northern Isle of Dogs (NioD) which includes Canary Wharf, maintains close functional ties with the CAZ, particularly concerning its role in global financial and business services.

Consequently, it is frequently considered alongside the CAZ by planners and economists when examining London's core, with the combined area being termed the CAZ+. Notably, London's centre spans across 10 different boroughs, a rarity among major cities. The largest portion of the CAZ+ belongs to Westminster (14.4 sq km) followed by Camden (4.2) and Southwark (4.0). The City of London is entirely included in the CAZ, while Hackney has the smallest area of overlap (0.5 sq km).

The methodology outlined in the appendix of this report accounts for the proportion of each borough that falls within the CAZ+ boundary. The CAZ Supplementary Planning Guidance (SPG) provides supplementary guidance on London Plan Policies around economy, culture, retail, environment and housing to ensure that the right balance is struck in different parts of the CAZ.



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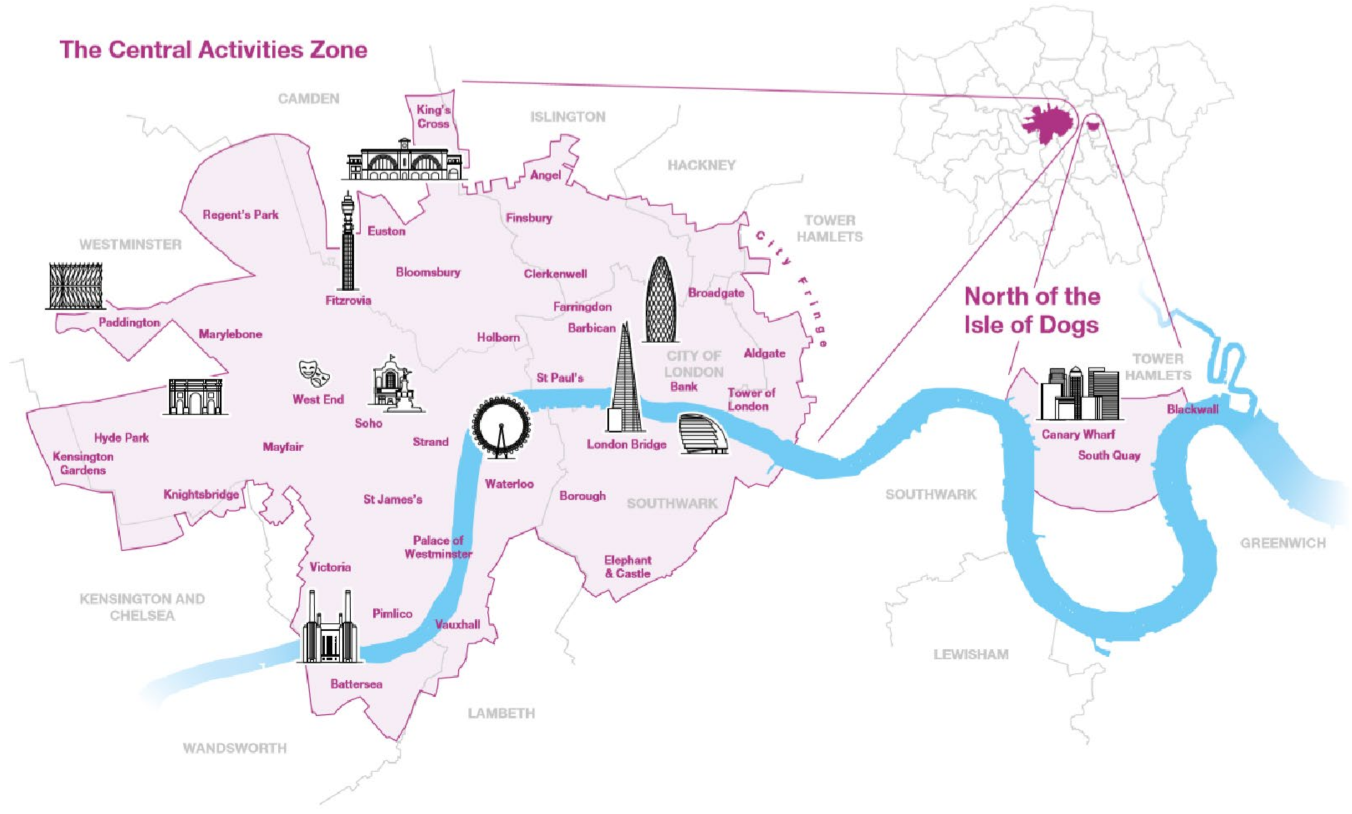


Area	Area of intersect (sq km)	Share within CAZ+
Westminster	14.4	67%
Camden	4.2	19%
Southwark	4.0	14%
City of London	2.9	100%
Tower Hamlets*	2.6	13%
Islington	2.4	16%
Lambeth	2.1	8%
Wandsworth	1.0	3%
Kensington and Chelsea	0.6	5%
Hackney	0.5	3%
CAZ+ total	**35.0**	

Table 2: CAZ+ area of intersect with London boroughs

*Figures for Tower Hamlets include the Northern Isle of Dogs

Defining the CAZ+

The global importance of the CAZ+

The CAZ+ area contributes to almost half (48%) of London's GVA and 41% of the capital's jobs, despite occupying just 2.2% of Greater London's land area.

The CAZ+ represents the vibrant heart and globally instantly recognisable core of London. The unique international, national and London-wide roles it performs are based on an agglomeration and rich mix of strategic functions and local uses. It is characterised by high levels of transport accessibility and connectivity, enabling access to a skilled and diverse labour supply pool from further afield. The distinct environment and heritage of the CAZ+ also contributes to its national and international role and reputation.

The area is home to 65% of all office floorspace within London while accounting for 33% of all commercial spaces, further underlining its position as the business and employment heart of the capital. This is in part due to the area's role as home to UK central Government and its attractiveness as a head office location to supporting industries, as well as financial services in the City of London and Canary Wharf. The CAZ+ hosts established creative industries in areas such as Soho, retail on Oxford and Regent Streets, and health and education clusters around the Euston Road and on the CAZ+ fringe at Whitechapel and White City. The West End is synonymous with London theatre, while the broader area includes South Bank/Bankside/London Bridge, the Barbican, King's Cross, and the South Kensington museum complexes, in addition to various smaller clusters and cultural establishments. Furthermore, it acts as a global destination for night-time offer, centered in Soho, Covent Garden, and Shoreditch.

These activities are supported by Special Policy Areas, put in place to sustain valued specialist clusters or functions identified as having a particular significance to London's unique identity, economic function or cultural heritage. Opportunity Areas act as targeted growth areas within the capital to further reinforce London's central role as a top destination to live, play and work.

The CAZ+ is also home to an estimated 350,000 residents, concentrated in Westminster, Camden, Islington and Southwark, meaning that it would be London's fifth largest borough in its own right (with a population similar to Newham). The diversity of communities living in the area, and demand for housing from elsewhere, also implies the need to provide a variety of housing while preserving and enhancing the unique character of these neighbourhoods.

Use		% of London
Commercial floorspace (sqft)		
Total	314.7m	33%
Office	218.3m	65%
Retail	30.7m	16%
Residential		
Population	350k	4%
Homes	121k	4%
Economy		
Enterprises	135.8k	26%
Jobs	2.2m	41%
Annual GVA (2023)	£315bn	48%

Table 3: CAZ+ socio-economic profile – Costar, Valuation Office Agency, BRES, Office for National Statistics, Arup analysis 2023

Defining the CAZ+

The London Plan sets out a framework for supporting the various CAZ+ strategic functions

The London Plan plays a key role in shaping future CAZ+ growth by encouraging agglomeration and the rich mix of strategic functions present in the area.

The relevant policy documents in the context of the CAZ+ include the London Plan and the relevant borough local plans (see also p.72, Appendix).

The *London Plan 2021* emphasised that the CAZ+ should be promoted and enhanced due to its unique international, national, and London-wide roles based on a rich mix of strategic functions and local uses. It also highlighted the importance of supporting and enhancing the nationally and internationally significant office functions of the CAZ+ by providing sufficient space for various occupier types and sizes, alongside sustaining and enhancing its distinct environment and heritage.

The London Plan set ambitious targets for office space provision. The delivery of 38m sqft of new office space in the CAZ+ was targeted by 2041 (or 1.5m sqft per annum) and creation of 367,000 office-based jobs by 2041.

Retail and hotel sectors were also targeted for growth. Around 4.0m sqm of additional retail space was projected, while the London City Plan targeted 58,000 hotel rooms in London by 2041, a large part of which likely to be in the CAZ+.

The London Plan also prioritised housing delivery, with approximate 16,900 new homes by 2029 in the CAZ+ (calculated using CAZ+ borough targets and apportioning these to current share of borough dwellings within CAZ+), including a 35% proportion designated as affordable.

The London Plan set out clear objectives to reduce greenhouse gas emissions in operation and minimising both annual and peak energy demand. Major development proposals must provide a detailed energy strategy outlining how they will achieve the zero-carbon target within the energy hierarchy framework. Additionally, a minimum on-site reduction of 35% beyond Building Regulations was mandated for major developments, with residential projects required to achieve a 10% reduction and non-residential developments a 15% reduction through energy efficiency measures.

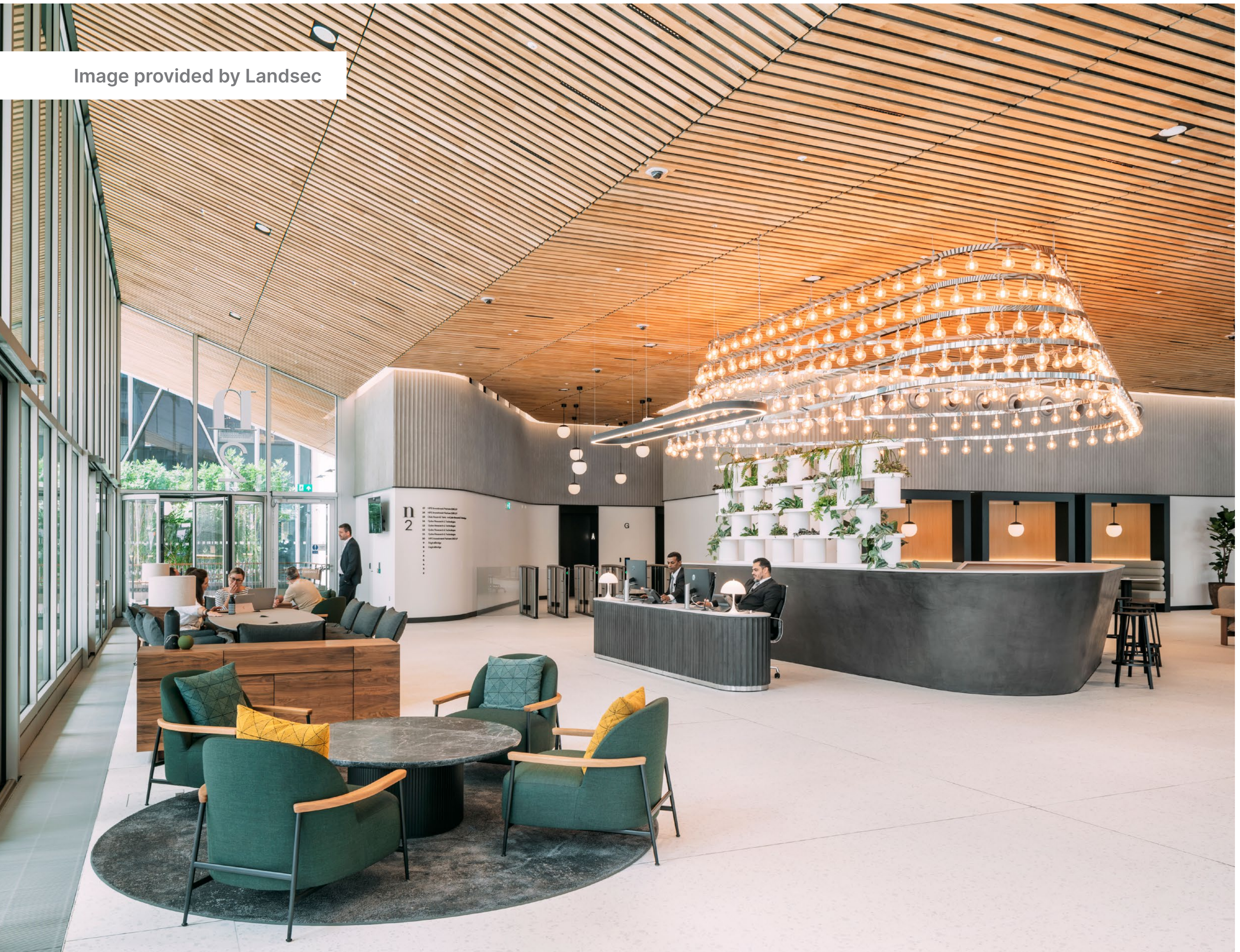
Defining the CAZ+

Employment

The CAZ+ hosts 2.2 million jobs, with business services, retail and accommodation the largest sectors.

In 2023, the largest share of jobs (35%) in the CAZ+ were in business service activities (Figure 7), followed by financial and insurance activities (14%) and distribution, transport, accommodation and food (14%). Information and communication was the fastest growing sector over the 2015-2023 period at a 4.9% Compound Annual Growth Rate (CAGR).

Since 2015, CAZ+ has outpaced the rest of London in terms of employment growth, experiencing a 24% increase as opposed to 15% growth of employment in London as a whole (figures for London include the CAZ+) (Figure 8).



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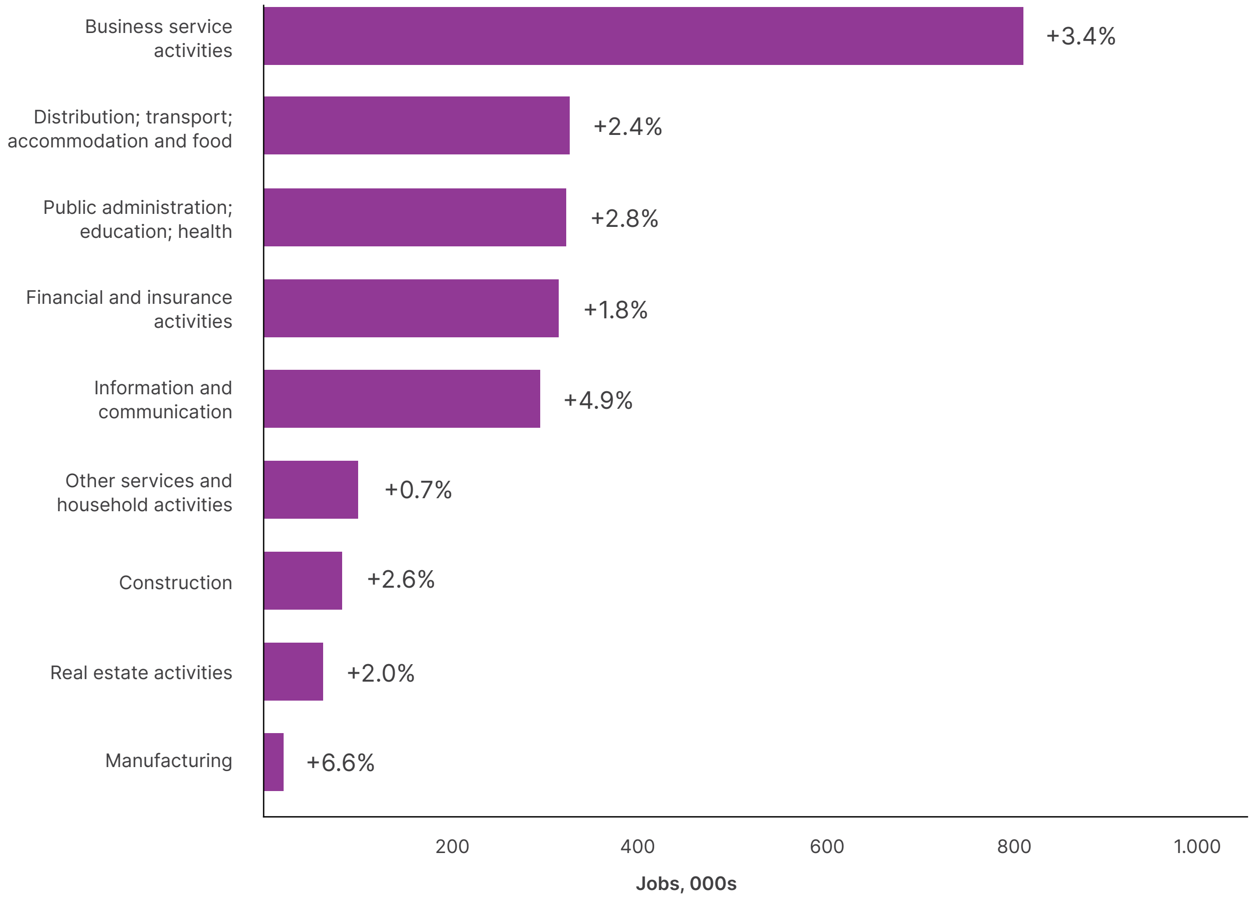


Figure 7: Employment by sector in the CAZ+ (2023); 2015- 2023 CAGR - BRES 2023, GLA 2023, Arup analysis

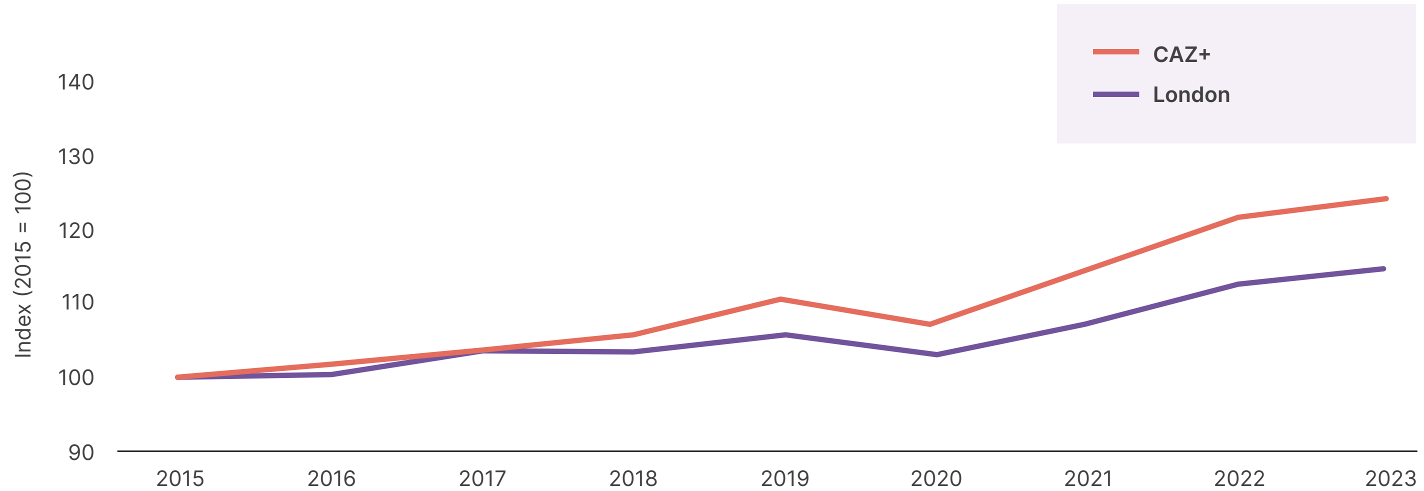


Figure 8: Employment growth, (2015=100) - BRES 2023, GLA 2023, Arup analysis

Defining the CAZ+

Productivity

The annual GVA of the CAZ+ stood at £315bn in 2023, representing 48% of London and 11% of the UK total.

This represents an increase of 36% compared to 2015 GVA levels (in constant 2023 prices). Financial and insurance activities and business service activities were the main contributors to the CAZ+ economy, accounting respectively for 31% and 24% of total GVA. Information and communication was again the fastest growing sector over the 2015-2023 period, with a 4.6% CAGR.

Productivity (measured as GVA/job in constant 2023 prices) increased at a 0.6% CAGR for office jobs between 2015-2023. This was mainly driven by financial and insurance activities (+1.8%), while productivity in information and communication, real estate activities and business services either shrunk or stagnated (-0.3%, -2.2% and +0.1% respectively).

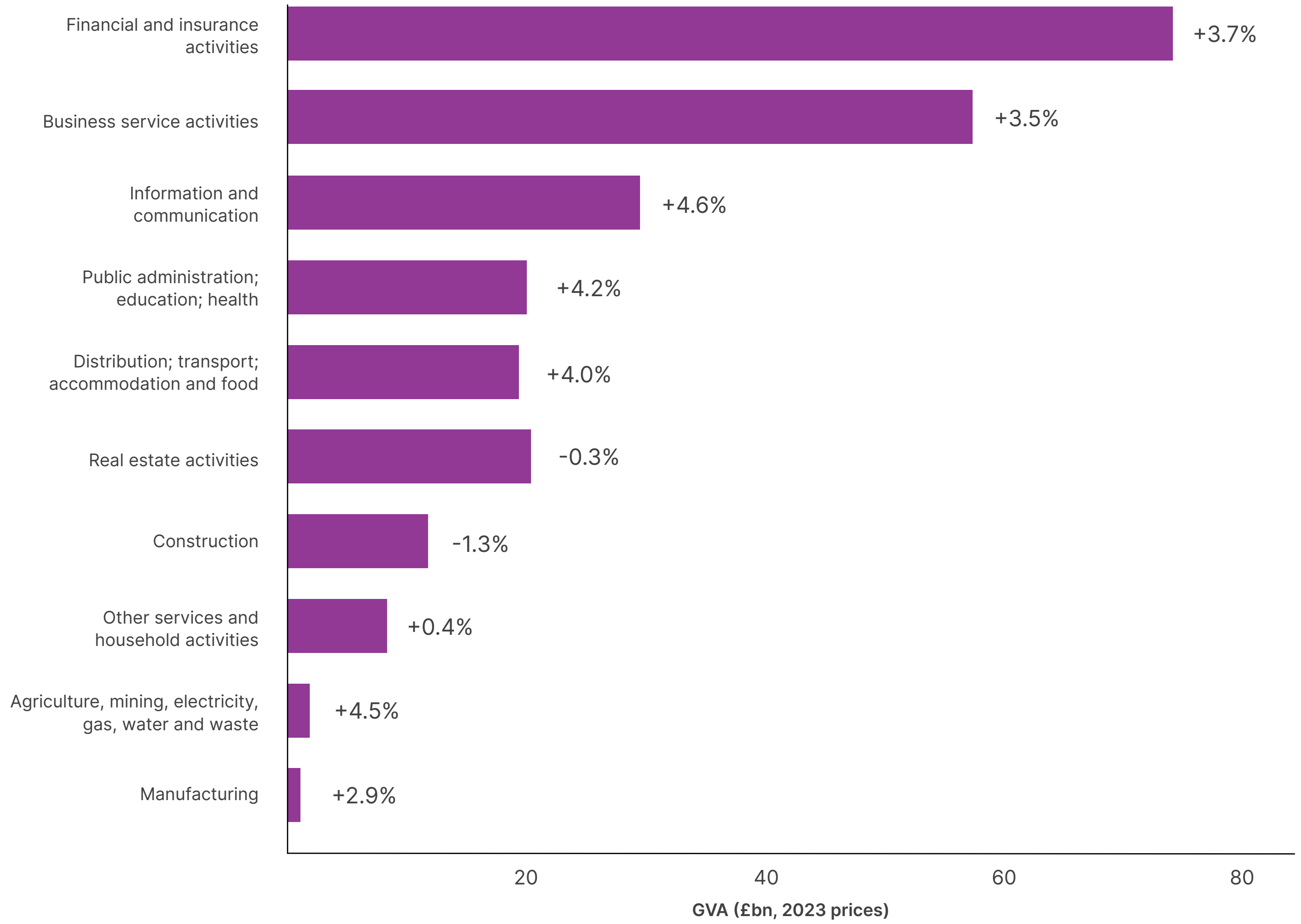


Figure 9: GVA by sector in the CAZ+ (2023); 2015- 2023 CAGR - ONS 2023, BRES 2023, GLA 2023, Arup analysis

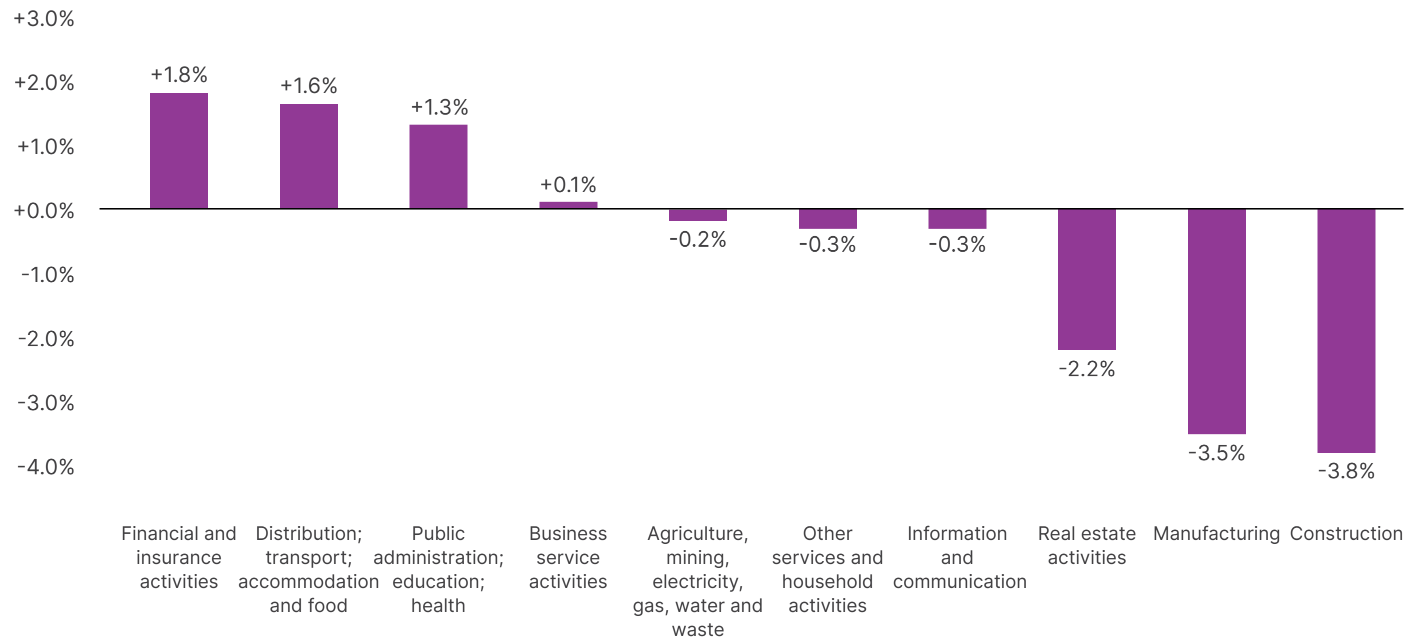


Figure 10: GVA/job change by sector in the CAZ+; 2015- 2023 CAGR - ONS 2023, BRES 2023, GLA 2023, Arup analysis

Defining the CAZ+

Office market

With around 218m sq ft of office space, the CAZ+ is home to 65% of London's total office space.

After steadily increasing for a decade, office floorspace in the CAZ+ plateaued between 2019-2021, possibly as a combination of the global economic slowdown and delays in construction due to the pandemic, and decreased between 2021 and 2023 by 1.6% in two years (Figure 11). In comparison, office space across London increased at a slower pace between 2009-2019 and experienced a sharper decrease between 2021-2023 (-2.3%). Working from home and smaller space per employees has meant that less space can accommodate the same or higher number of workers, although real footfall of workers in the area is likely to be smaller than pre-pandemic, which might in turn impact related face-to-face industries and agglomeration related productivity.

The pandemic marked the beginning of an increase in vacancy rates which has now slowed down.

An increase in office vacancy rates is expected across CAZ+ submarkets (Figure 13). Much of this will be in below Grade B office space as best-in-class office spaces remaining in high demand and as white-collar employers right-size for hybrid working.

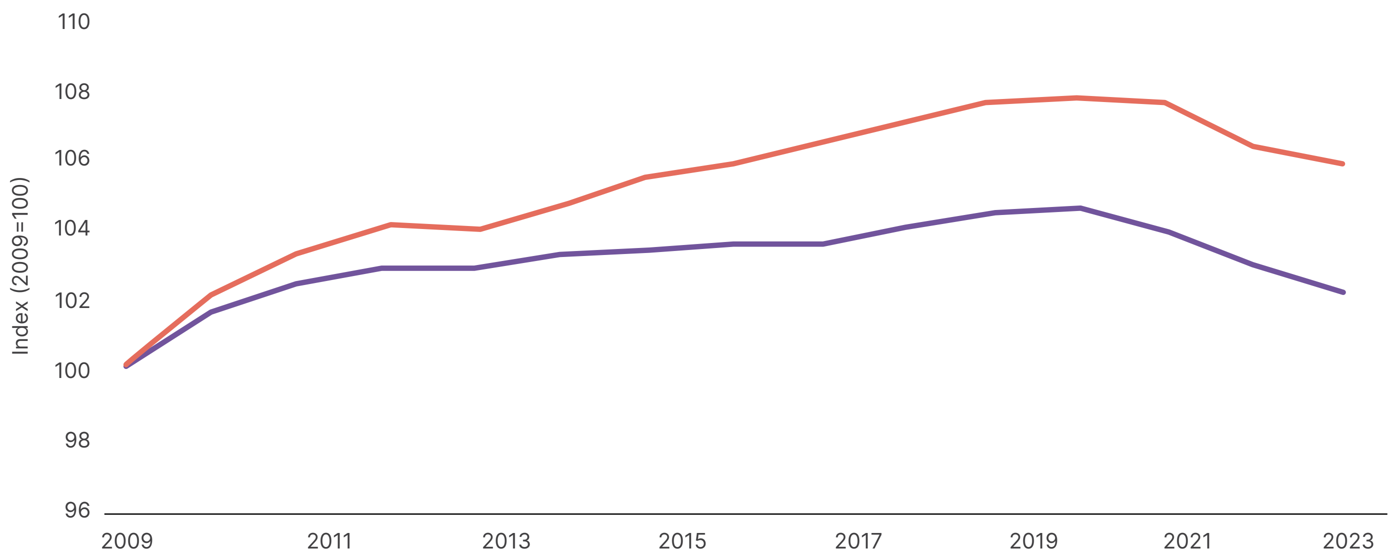


Figure 11: Office floorspace growth (2009=100) - Valuation Office Agency, CoStar, Arup analysis

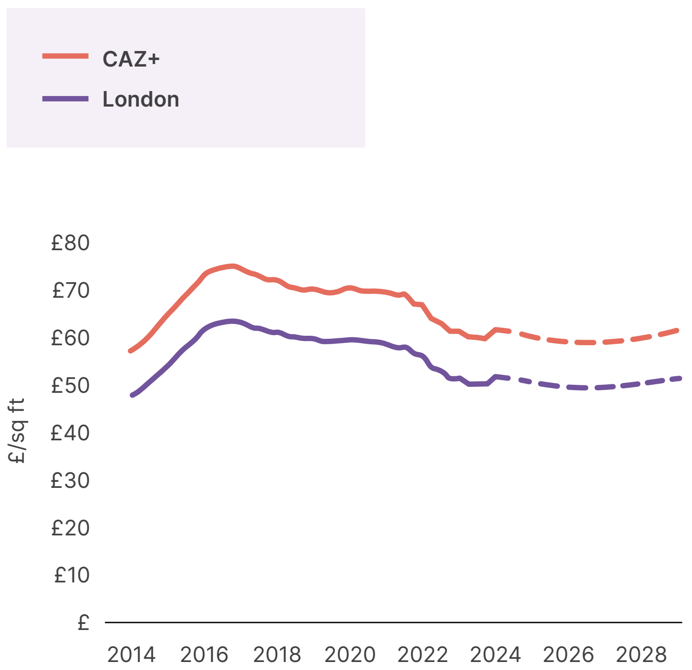


Figure 12: Office rent (2023 prices) - CoStar

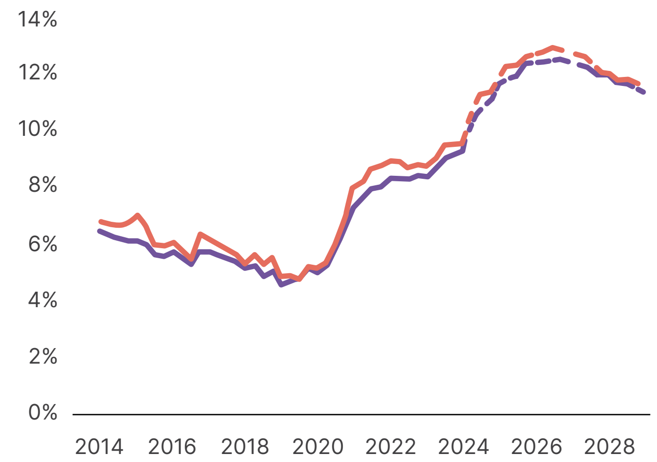


Figure 13: Office vacancy rate (%) - CoStar

Image provided by Landsec

Defining the CAZ+

Residential property market

The CAZ+ accommodates around 121,300 residential units, 31% of which are social rented.

This represents around 3.5% of London's total dwellings. The biggest share of dwellings (35%) is located within Westminster, while the Camden, Islington and Southwark parts of the CAZ+ represent a substantial share of the social rented housing (53%) in CAZ+. The area has a higher share of social rented housing (31%) than the London average (23%) or England average (17%). It also exceeds levels observed in Paris (21%, APUR, (2019)).

At the borough level, Hackney, Islington and Southwark have the highest share of social rented housing (40% for all three) while the existing level in Tower Hamlets is, coincidentally, in line with threshold levels of affordable housing for new developments set in the London Plan (36% vs. 35% target in London Plan) (Figure 14).

Tower Hamlets also has the largest residential pipeline, with around 23,000 net additional dwellings planned, followed by Wandsworth (16,900) and Southwark (15,300) (Figure 15), on track to meet borough-level 10-year targets set in the London Plan (see table 4 on p.35). However, none of the borough pipelines currently meet the 35% affordable housing target set out in the London Plan for new housing developments.

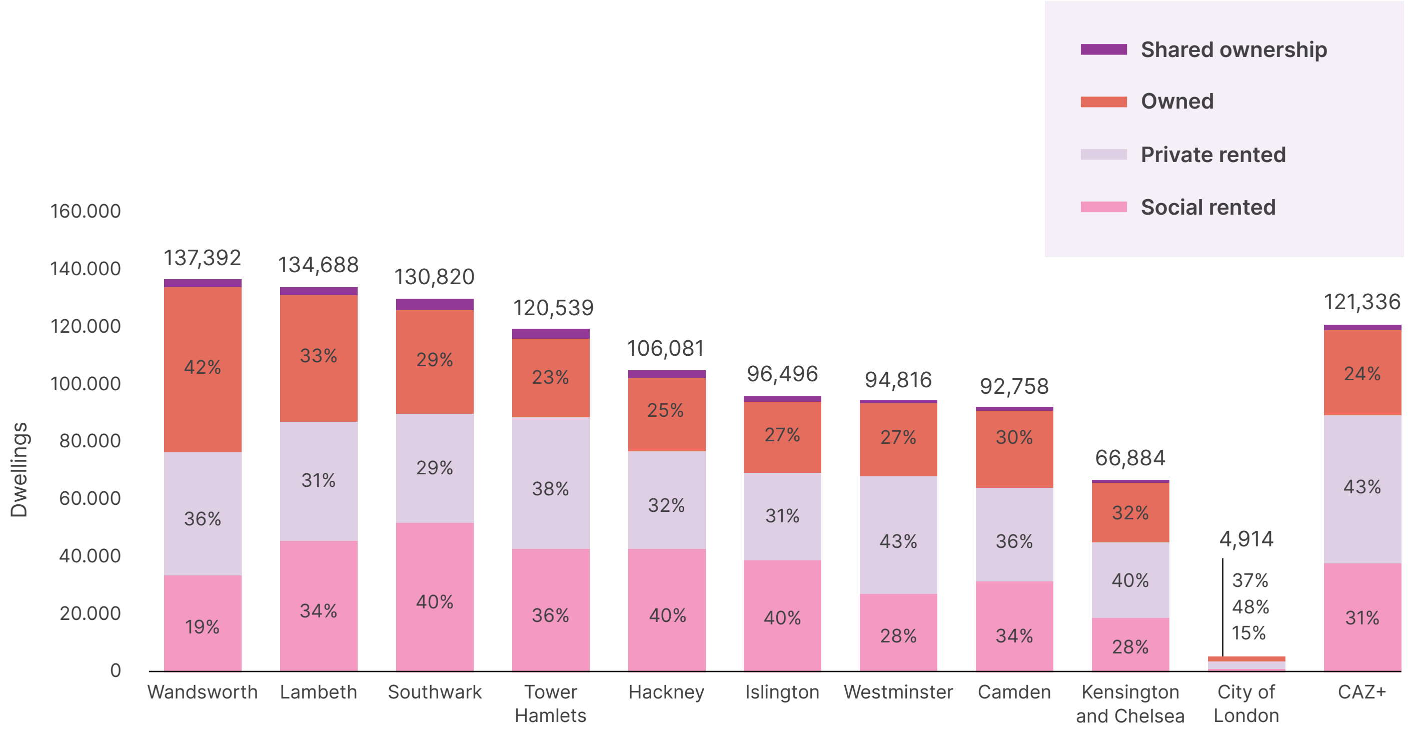


Figure 14: **Residential units by type of tenure within the CAZ+ boroughs and CAZ+ area** – ONS census 2021

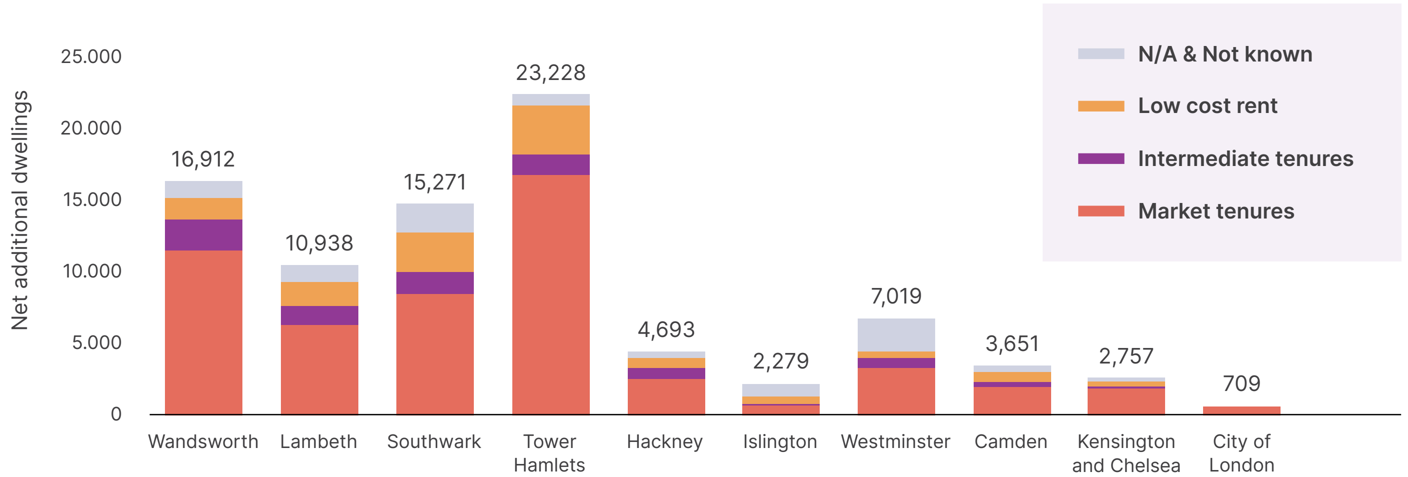


Figure 15: **Residential pipeline units by type of tenure within the CAZ+ boroughs** – GLA Residential pipeline, Arup analysis

Defining the CAZ+

Residential property market

Based on historic analysis of housing delivery, many CAZ+ boroughs will need help to accelerate the delivery of housing in order to meet 2029 targets set in the London Plan.

The London Plan set borough-level targets for housing delivery by 2029. When apportioned to the CAZ+ area baseline, this represented 1,700 new homes per year (Table 4).

Historic average growth rates for housing in CAZ+ boroughs are below London Plan targets, with the exceptions of the City of London and Islington. This led to an intervention from the Secretary of State for Levelling Up, Housing and Communities in March 2024, requiring further action from the Mayor of London to meet the London Plan's targets. Hackney, Lambeth and Westminster have performed well, and if new homes are delivered at a slightly faster rate than has been the case historically, it might be possible to achieve the *London Plan 2021* levels (Figure 16). As well as having the highest historic delivery rate (apart from the City), Tower Hamlets and Southwark have the most ambitious targets in the London Plan and will have to further accelerate housing delivery to meet their objectives by 2029. The 23,000 and 15,000 new homes respectively in their borough pipelines represents a significant contribution to these targets.

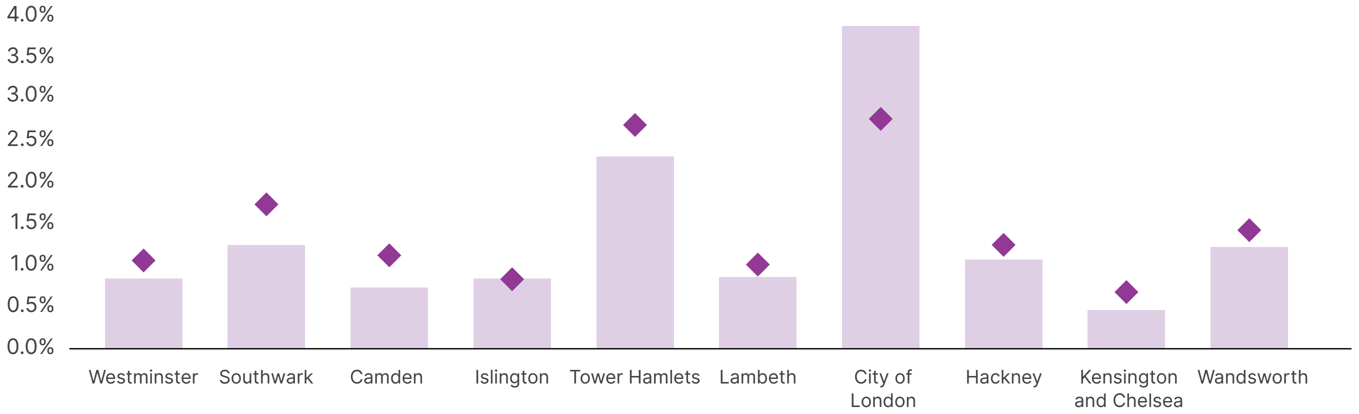


Figure 16: Historic growth in residential dwellings vs growth required to meet 2029 borough targets set out in London Plan, at borough level – ONS, GLA, Arup Analysis

Historic growth rate (CAGR, 2011-2022)

Growth rate (CAGR) required to meet London Plan target

CAZ+ Borough	Stock of dwellings in CAZ+ (2021)	Share of borough's dwellings in CAZ+ area	London Plan 10-year housing target (borough level growth)	CAZ+ annual equivalent homes required
Westminster	42,595	45%	9,850	443
Southwark	22,278	17%	23,550	401
Camden	15,056	16%	10.380	168
Islington	14,040	15%	7,750	113
Tower Hamlets*	9,877	8%	34,730	285
Lambeth	6,235	5%	13,350	62
City of London	4,910	100%	1,460	146
Hackney	2,370	2%	13,280	30
Kensington and Chelsea	2,020	3%	4,480	14
Wandsworth	1,956	1%	19,500	28

Table 4: Residential units by type of tenure within the CAZ+ – ONS, Arup analysis

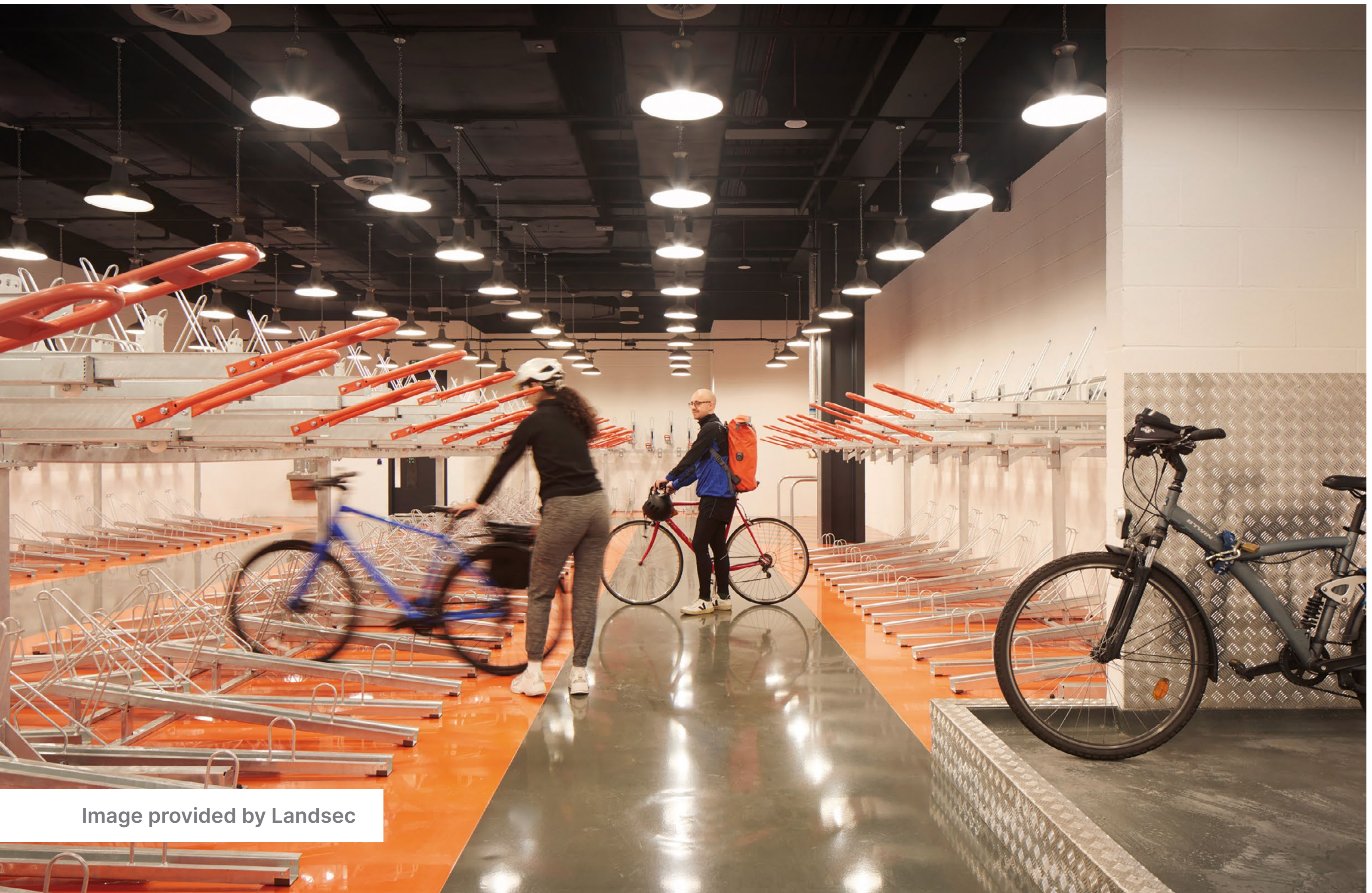
*Figures for Tower Hamlets include the Northern Isle of Dogs

Sustainability

Total greenhouse gas emissions in CAZ+ boroughs reduced by 48% between 2005 and 2021, with emissions from commercial activities being cut by more than 75%.

The biggest decrease occurred in the City of London (-63%) and Westminster (-54%) (which also have the highest overlap with the CAZ+ area), while Lambeth and Southwark saw the slowest decreases (Figure 17). For all boroughs, this was driven by a reduction in commercial emissions, itself driven by decarbonisation of the grid and a switch away from gas, as well as lower consumption of energy caused by usage policies and works such as insulation.

During the same period, employment increased, leading to an even larger reduction in commercial emissions per job in the area, from 3.5 to 0.6 tCO2e per job between 2005-2021 on average in CAZ+ boroughs, with the City of London having the lowest emissions per job (0.3 tCO2e per job). CAZ+ boroughs enjoy the lowest levels of emissions per job across England and Wales. In comparison, the average level in England and Wales is 2.5 tCO2e per job, around 4 times higher than CAZ+ average (Figure 18).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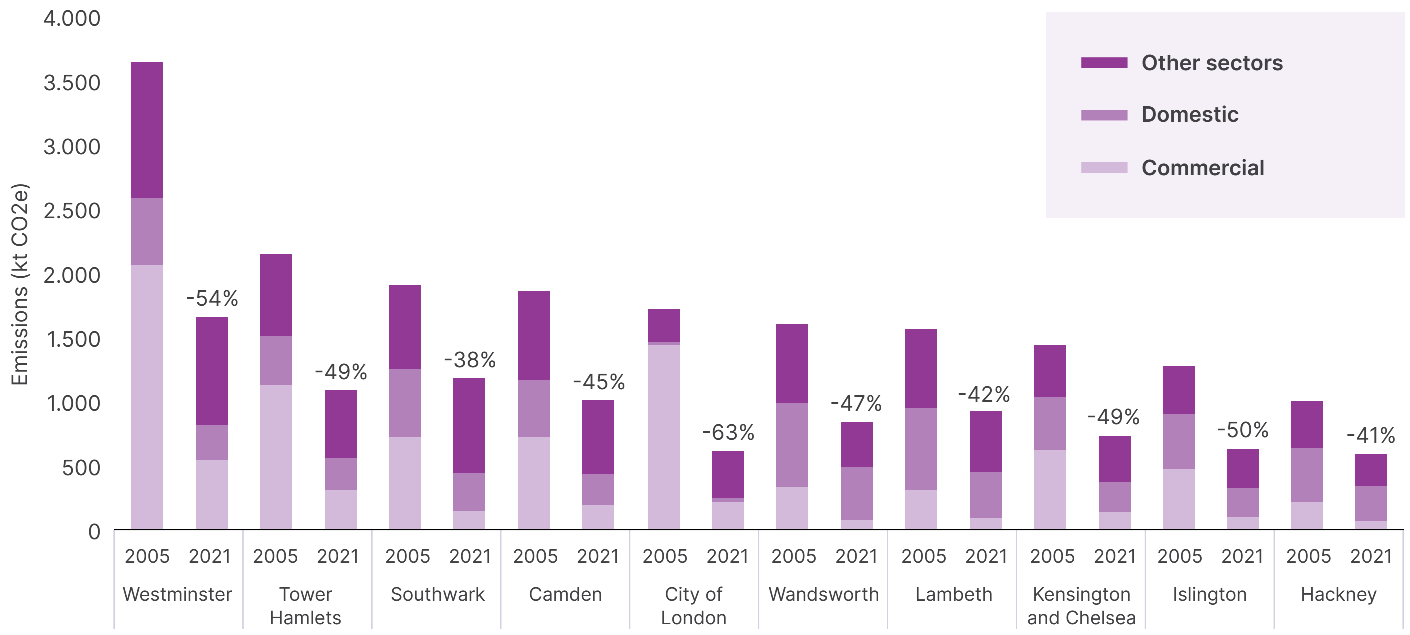

Figure 17: Greenhouse Gas Emissions by sector in CAZ+ boroughs - Department for Energy Security and Net Zero, Business Register and Employment Register, Arup analysis

*Other sectors are composed of industry, public sector, transport, agriculture, waste management and land use, land use change and forestry (LULUCF).

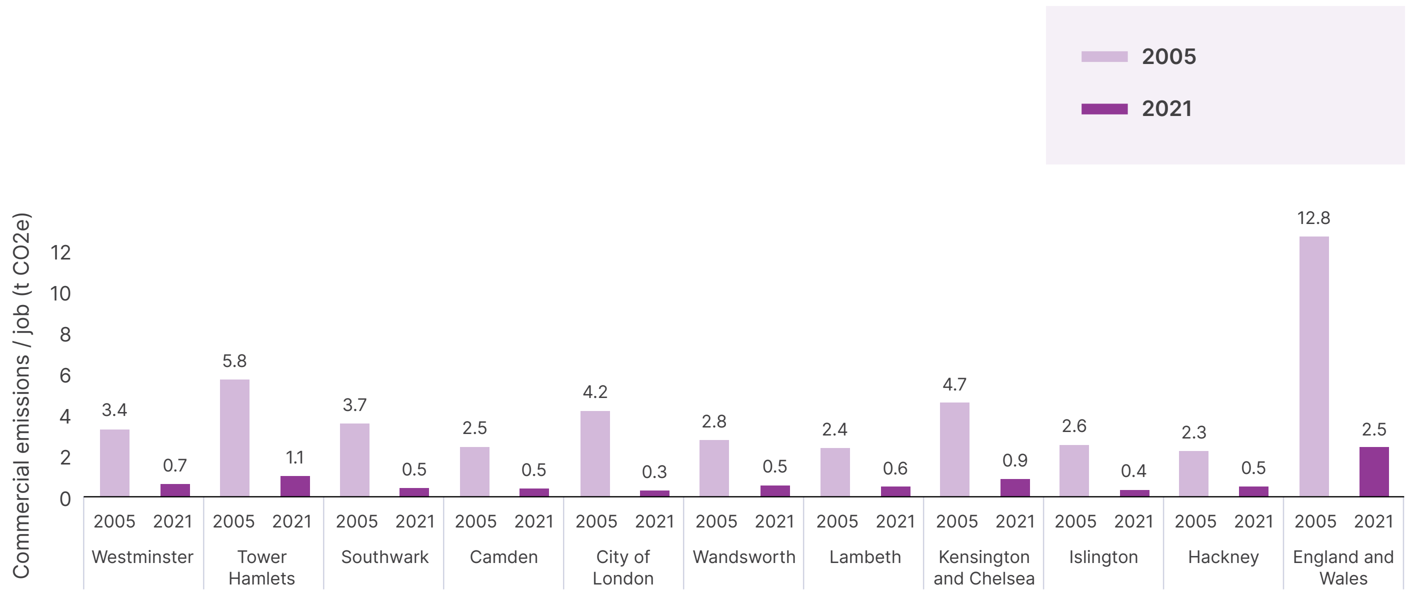

Figure 18: Commercial emissions by job in CAZ+ boroughs - Department for Energy Security and Net Zero, Business Register and Employment Register, Arup analysis

Defining the CAZ+

Sustainability

49% of EPC certificates awarded in CAZ+ boroughs in 2023 were grade B+.

Energy Performance Certificates (EPC) of non-domestic properties data showed that 49% of non-domestic buildings in CAZ+ boroughs that were certified in 2023 were rated B or above, compared to only 4% in 2009 (Figure 21). The City of London registered the highest share of EPC B+ registered in 2023 (61%) (Figure 20), which was probably a result of high investment and flexible planning policies. This data is representative of EPC certificates issued only (normally to buildings sold, let or constructed), and not of the entire building stock.

Regulations are expected to mandate Minimum Energy Efficiency Standards requirements and Energy Performance Certificates (EPC) Rating C by 2027, and EPC Rating B by 2030. This has put increased pressure on poor-energy performing buildings to undergo conversion or retrofitting to comply with regulations. Currently, across London, approximately 140m sq ft of office space has an EPC rating below grade C (51% of total office floorspace), with the West End having an even higher rate of EPC below C (60%) likely due to the number of heritage buildings and the difficulty to upgrade these. The highest proportion of office space rated below grade C being Docklands (70%), Knightsbridge/Chelsea (68%) and Victoria (67%) (Knight Frank, 2023).

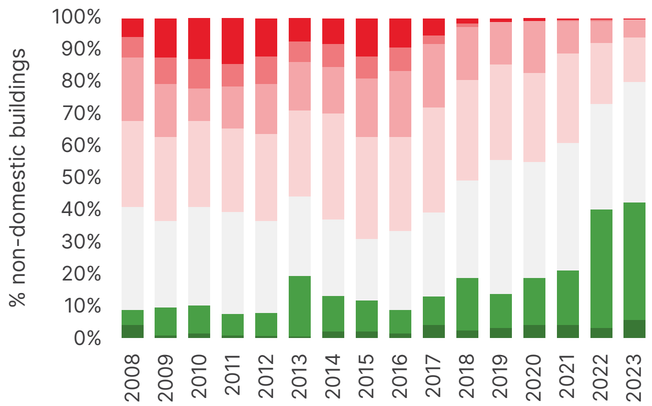

Figure 19: Share of EPC rating of non-domestic properties in Hackney 2008-2023 - Department for Levelling Up, Housing and Communities (DLHUC)

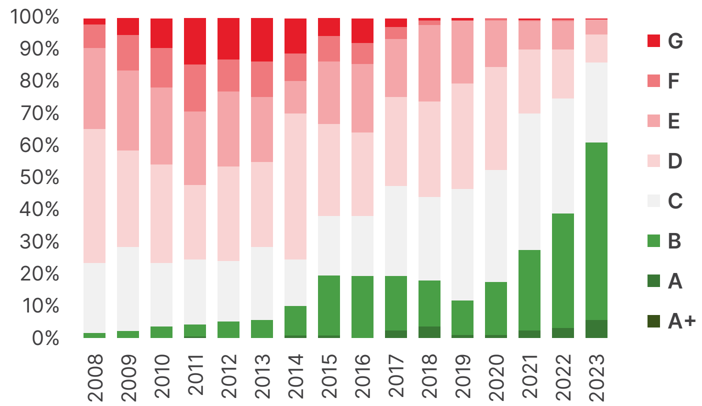

Figure 20: Share of EPC rating of non-domestic properties in City of London 2008-2023 - DLHUC

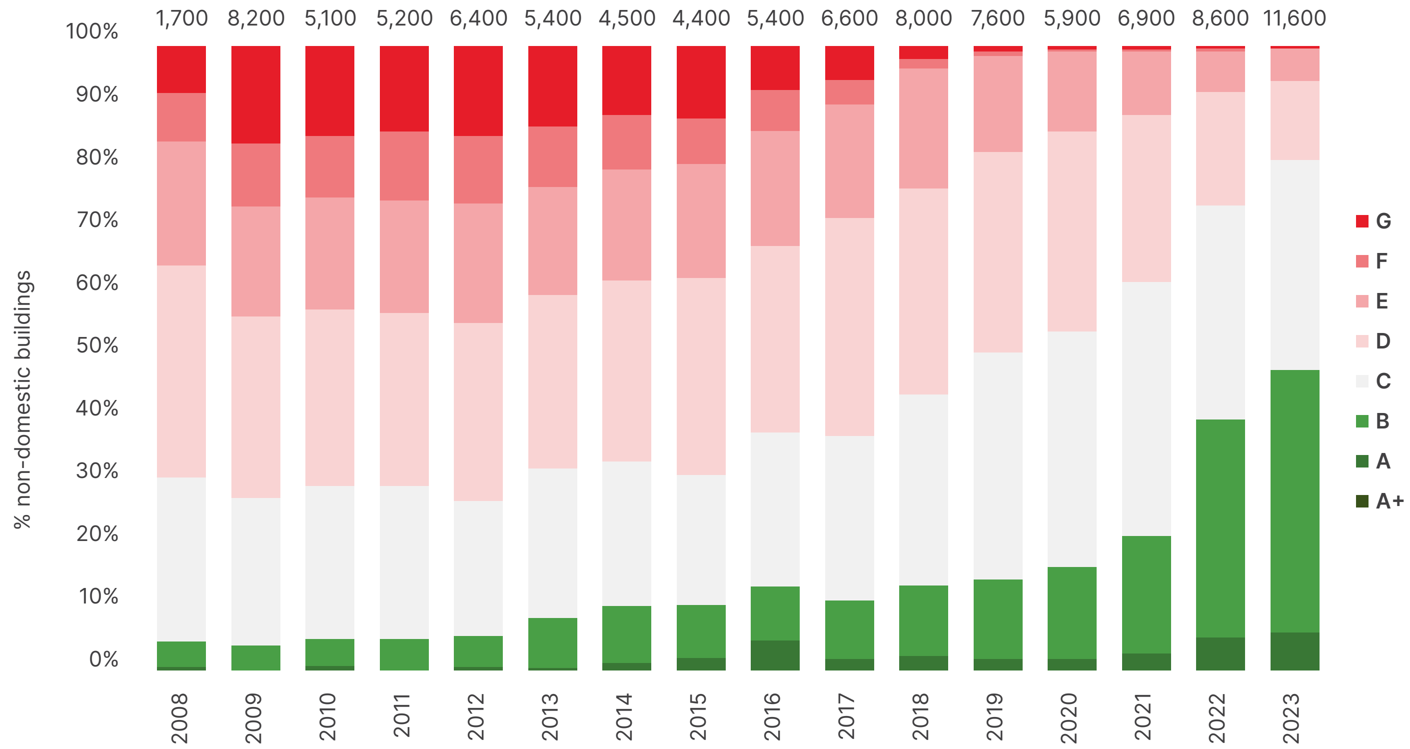

Figure 21: Volume of EPC rating of non-domestic properties in CAZ+ boroughs 2008-2023 - DLHUC

Defining the CAZ+

Planning and spatial strategy

The volume of major applications determined decreased by 54% between 2013 and 2023 in CAZ+ boroughs.

There has been a marked slowdown in major (classed as over 1,000 sqm) planning applications decided in CAZ+ boroughs, with levels down by 54% compared to 2013 (Figure 22). Volumes of major applications represent a good proxy for development activity which can be further correlated to future economic growth.

While Westminster remains one of the busiest planning authorities in the country in volumes of applications received (4,689 in 2023), it also experienced the biggest relative decrease in total application numbers, especially for major ones (-75% between 2013 and 2023). Most of its application volume is driven by minor applications which have limited impact on future growth perspectives.
The City experienced a slower decrease in major applications, with 26 developments of 75m + height either under construction, with consent, or likely to be given consent (Evening Standard, 2024) and illustrated by Figure 23.

Overall, 230 high-rise projects have been granted detailed consent since 2017 in London, including 76 in the past two years (Glenigan, 2024). Most of these will be located within the CAZ+ area marking sustained planning activity and appetite from the market for best-in-class developments.

The rate of new developments is important to boroughs' finances because of the link to S106 and CIL receipts.

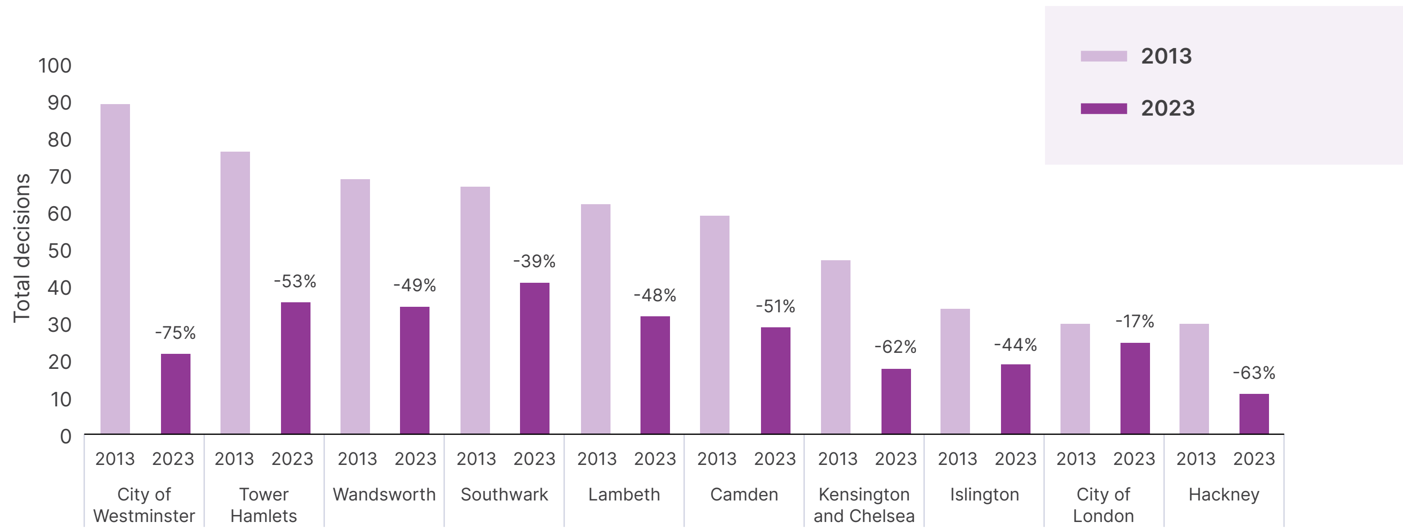

Figure 22: Major planning applications (>1,000 sqm) decided in CAZ+ boroughs and 2013-2023 percentage change - DLUHC Planning Application Statistics, City of London Corporation for City of London data points

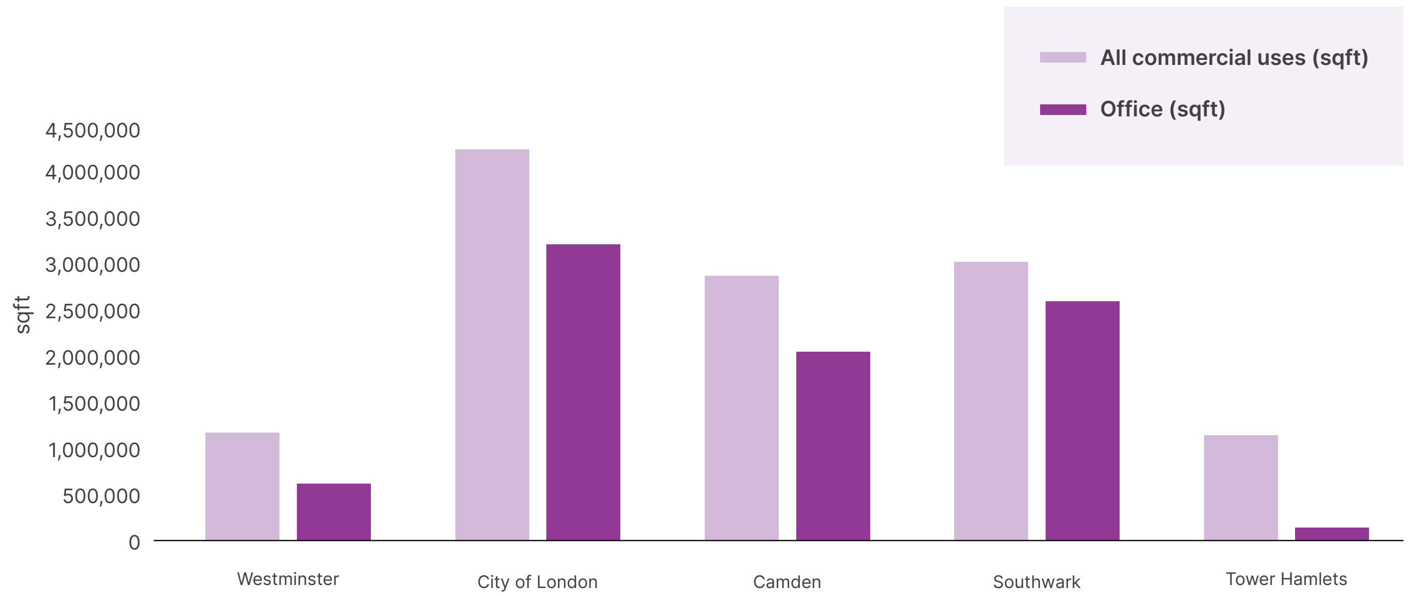

Figure 23: Major planning applications (>1,000 sqm) for office and total commercial floorspace (sqft) receiving resolution to grant at committee, January 2023-May 2024 - Borough Planning Committee reports, Gerald Eve analysis

03

Good growth in the CAZ+

Driving trends

Future growth in the CAZ+ will be driven by a number of trends shaping the way existing and new space will be used and developed.

The main place shaping trends identified include:

Evolution of working patterns

This affects office occupiers' requirements for space, worker footfall in the area, and agglomeration benefits associated with business and financial services as well as face-to-face industries. The ability of the market to respond to the increased demand for Grade A and best-in-class space, and adapted to hybrid ways of working will drive land use evolution and the return of workers to the area. Failure to do so could slow the return to the office, result in business moves to other areas or impact wider office-related industries.

Evolution of consumer culture

Including changing customer expectations, on/off-line retail, desire for experiential, visitor audiences targeted for the area and increasing competition with other areas across London. A property market more adaptable to the way visitors, tourists and workers shop and experience places would lead to higher rents and increased revenues from footfall.

Local planning policy

This can affect speed of development, type of development, size, new build vs retrofit, and ultimately the amount, type and cost of space available for different uses. Retrofit first policies can influence the amount of new space brought forward. Depending on flexibility and complexity of these policies and requirements a range of outcomes can come from additional space through infill developments and extensions to increased conservation and conversion of spaces.

Urban environment and infrastructure

This includes expectations in terms of quality of public realm, walking and cycling infrastructure, air quality and safety. The urban environment, curation policy, and local infrastructure improvements can lead to high quality hospitality, retail, leisure and experience. All this further encourages workers to attend the office more often and leads to agglomeration benefits.

External macro-factors

This includes economic and geo-political events. These are outside of the area's control and treated as neutral for this exercise. As such, we have assumed baseline GLA forecasts in each scenario.

Future growth will depend on these trends, and each trend is somewhat interconnected. For instance, planning policies fostering development would attract additional workers to the area. This, in turn, would support the face-to-face sectors. A different policy with more conservative planning policies may instead promote conversion and conservation, which together with a reduction in office space may, in time, increase the area's appeal to non-business visitors. There will then be growth in sectors catering to visitors which would lead to an economic shift of the area to generate more jobs in face-to-face industries.

Good growth in the CAZ+

Future scenarios

Three scenarios of growth for the CAZ+ were developed based on feasible combinations of place shaping trends, that, over years, translate into different land use outcomes for the area.

The **business as usual** scenario assumes a continuation of current trends in the area, with no major change in planning or economic conditions.

In this scenario, there will be high occupancy levels as the return to the office continues. Planning policies will remain focused on retrofit first, with low levels of redevelopment. Consequently, the amount of commercial space will rise marginally but will fall short of the **balanced growth** scenario. Due to constrained supply, the price point will be likely to remain high. There will be slower adaptation to occupier requirements. The CAZ+ will remain a central place for doing business nationally and for retail and Arts, Culture and Entertainment (ACE), maintaining the area's position as a key destination for visitors.

In the **balanced growth** scenario, the flight to quality continues, and there are high occupancy levels. These flexible planning policies help unlock growth by encouraging retrofit whilst also facilitating best in class new developments with low operational carbon footprints. This translates into a higher volume of commercial space for service-sector employers, and a potential for emergence of new clusters of activities such as life science hubs in Canary Wharf or health clusters in Whitechapel or Euston. The market would be able to respond to occupier requirements in terms of quality of space, supporting return to the office which positively impacts face-to-face sectors in the ACE industries. Flexible planning policies also mean a greater volume of housing delivery. The CAZ+ reinforces its position as a main international business hub.

In the **checks on growth** scenario the CAZ+ focuses on limiting development of the area. Planning policies encourage upgrade and conservation of buildings, but whilst the CAZ+ remains desirable, in time the higher quality, better value accommodation in competitor cities such as Amsterdam, Paris or New York means that the area becomes less attractive. In turn, this leads to increased conversion of traditional office spaces to uses such as residential, increasing housing supply, or accommodation for visitors lowering the economic capacity of the CAZ+.

Retail, food and beverage and arts, culture and entertainment grow as a result of higher tourist footfall, but lack of revenues from businesses constrains investment in transport and infrastructure improvements, leading to worsening environments.

	TRENDS			
	NEW WORKING PATTERNS	PLANNING POLICY	EVOLUTION OF CONSUMER CULTURE	URBAN ENVIRONMENT AND INFRASTRUCTURE
BALANCED GROWTH	High occupancy levels and "flight to quality"	Encourages retrofit and development through flexible policies	Transition to experience economy	Greener and cleaner
BUSINESS AS USUAL	High occupancy levels – slower adaptation to occupier requirements	Focuses on retrofit and intensification of existing space	Transition to experience economy	Greener and cleaner
CHECKS ON GROWTH	Current occupancy levels (lower on Fridays, ~75% of pre-pandemic)	Encourages conservation and conversion	Targeting tourists and leisure visitors	Targeted on specific heritage areas

Figure 24: The trends driving each scenario

Good growth in the CAZ+

Translating trends into impacts

Assuming labour and capital are available to allow businesses to invest, and that demand from employers is present, the provision of additional space in the CAZ+ area will translate into new jobs, economic output and additional tax contributions.

This depends on the sector. Growth in floorspace for service industries such as finance, technology and innovation and healthcare can provide a wide range of job opportunities across skill levels, from entry-level positions to specialised roles. The presence of higher-qualified jobs can also lead to investments in education and training programmes through coordinated programmes and, more recently, social value clauses in major schemes and contracts (Local Government Association (2022), *Work Local: Unlocking talent to level up)*.

The shift towards a greener economy, including investments in renewable energy, retrofit, sustainable buildings and environmental conservation, can also drive job creation - from energy-efficient construction to environmental consulting - while enhancing the area's resilience to climate change.

Urban environment and infrastructure improvements can have a positive impact on a local economy by raising the attractiveness of an area to visitors, workers and residents. This supports higher footfall in the area, which in turn improves business prosperity. This will drive investment by businesses in the creation of additional floorspace (if there is space and a policy environment to support expansion), consequently accommodating more jobs and greater economic activity in the area.

In turn, the broader ecosystem of workers, visitors and residents encourages a diversification of offer, with a stronger focus on the quality of the spaces and experiences provided, eventually attracting further footfall and creating new opportunities for residents in a virtuous circle.

Our model assumes that intensification of uses leads to positive economic impacts at a local scale through agglomeration, which include additional jobs, an increase in Gross Value Added (GVA) and in tax collection through borough and mayoral Community Infrastructure Levy and Employment and Skills contributions as part of Section 106.

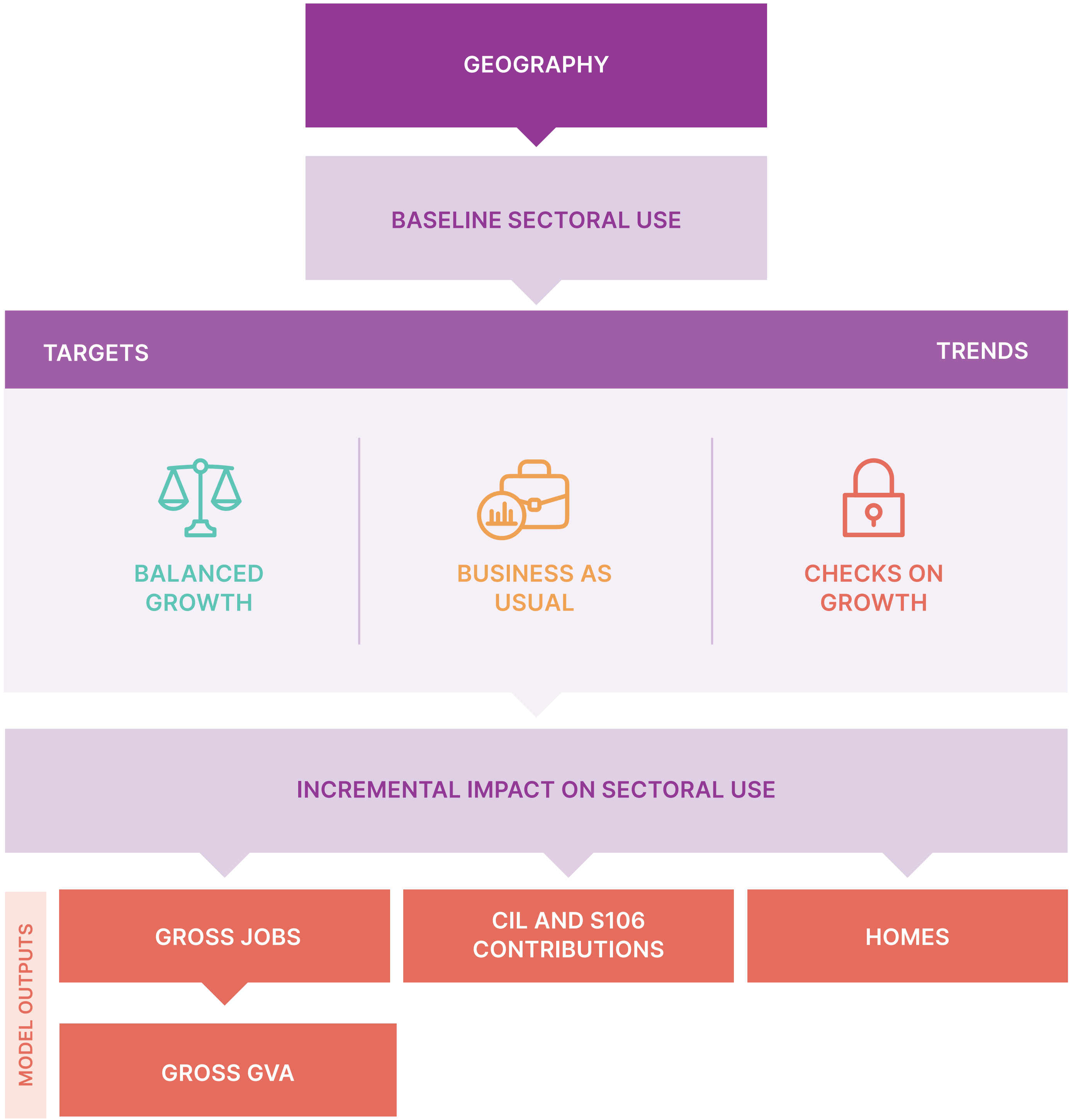

Figure 25: Model methodology map

Scenario results

Business as usual

The continuation of current trends in the CAZ+, with no major change in planning and economic conditions would lead to a marginal increase in jobs, economic outputs and taxes generated by 2045.

The area would see a 9% floorspace growth over the next two decades, with office space growth in line with the CAZ+ area historic trend (Figure 26). This level of growth would translate into low office vacancy rates, higher rents and the accommodation of high **value added** sectors. Additional floorspace could accommodate around 306,000 new jobs (below the target set in the London Plan, around 367,000 of office jobs), potentially polarised into highly qualified functions accommodated in high-end offices, and lower-skilled activities in face-to-face industries.

There would be a modest increase in revenues associated with property development, and although there would be a risk that this would restrict the ability to invest in local infrastructure, the strains on that infrastructure would be less.

In this scenario around 28,400 homes would be delivered in the CAZ+ area through conversions and new developments (of which 9,900 would be affordable if London Plan affordable housing targets are respected), the lowest of the three scenarios.

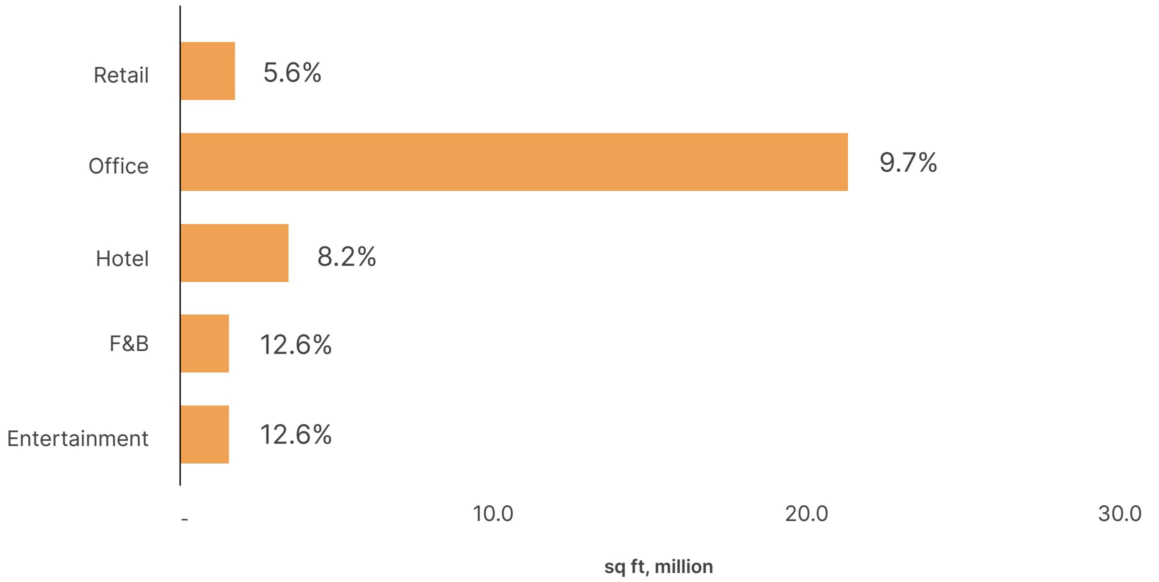

Figure 26: Net change in floorspace (sq ft, million) in Business as usual scenario; 2023-2045 growth (%)

Impacts	2023	2045	2023-2045 Change	
			Absolute	CAGR
Floorspace (sq ft)	**314.7m**	**344.2m**	**+29.4m**	**+0.4%**
Retail	30.7m	32.4m	+1.7m	+0.2%
Office	218.3m	239.6m	+21.3m	+0.4%
Hotel	41.9m	45.4m	+3.4m	+0.4%
F&B	11.9m	13.3m	+1.5m	+0.5%
Entertainment	12.0m	13.4m	+1.5m	+0.5%
Jobs (FTE)	**2.2m**	**2.5m**	**+306,100**	**+0.6%**
GVA (£m 2023)	**289,600**	**345,600**	**+55,900**	**+0.8%**
Homes	**121,300**	**149,700**	**+28,400**	**+1.0%**
Borough CIL and S106 contributions (£m, 2023 prices)	**68**	**86**	**+1,710** cumulative	

Table 5: Impacts of Business as usual scenario

Scenario results

Business as usual – results by CAZ+ boroughs – 2023 to 2045

IMPACTS	Westminster	City of London	Camden	Tower Hamlets	Islington	Southwark	Lambeth	Hackney	Kensington and Chelsea	Wandsworth	CAZ+
Floorspace (sq ft)	**+9.4m**	**+7.8m**	**+3.5m**	**+2.7m**	**+2.0m**	**+2.1m**	**+0.9m**	**+0.7m**	**+0.3m**	**+0.1m**	**+29.4m**
Retail	+0.8m	+0.3m	+0.2m	+0.1m	+0.1m	+0.1m	+0.1m	+0.0m	+0.1m	+0.0m	+1.7m
Office	+6.2m	+7.0m	+2.3m	+2.1m	+1.5m	+1.4m	+0.3m	+0.4m	+0.1m	+0.0m	+21.3m
Hotel	+1.3m	+0.3m	+0.6m	+0.3m	+0.2m	+0.3m	+0.3m	+0.1m	+0.1m	+0.0m	+3.4m
F&B	+0.6m	+0.2m	+0.2m	+0.1m	+0.1m	+0.2m	+0.1m	+0.1m	+0.0m	+0.0m	+1.5m
Entertainment	+0.5m	+0.1m	+0.3m	+0.1m	+0.1m	+0.2m	+0.2m	+0.0m	+0.1m	+0.0m	+1.5m
Jobs (FTE)	**+92,600**	**+93,100**	**+33,900**	**+29,300**	**+21,500**	**+20,300**	**+6,400**	**+6,700**	**+1,700**	**+600**	**+306,100**
GVA (£m 2023)	**+16,900**	**+17,900**	**+6,300**	**+6,000**	**+3,600**	**+2,600**	**+1,000**	**+700**	**+200**	**+100**	**+55,900**
Homes	**+10,000**	**+1,100**	**+3,500**	**+2,300**	**+3,300**	**+5,200**	**+1,500**	**+600**	**+500**	**+500**	**+28,400**
Borough CIL and S106 contributions (£m, 2023 prices)	**+774** cumulative	**+162** cumulative	**+146** cumulative	**+63** cumulative	**+165** cumulative	**+229** cumulative	**+84** cumulative	**+18** cumulative	**+40** cumulative	**+28** cumulative	**+1,712** cumulative

Table 6: Impacts of Business as usual scenario by borough – 2023 to 2045

Note: these outputs are apportioned from the aggregated CAZ+ area wide results, meaning the driving trends have been determined area-wide and that borough level results should be treated with caution. The model does not explore, for instance, the relative attractiveness of different boroughs for new office developments. Local trends and growth allocation may vary in reality, depending on local specific contexts.

Results may not sum due to rounding.

Zero due to rounding – marginal change

Scenario results

Balanced growth

More flexible and balanced planning policies lead to growth of a wider range of uses in CAZ+, reinforcing the area's mix of activities and leading to higher levels of job creation and housing delivery.

Under this scenario, the CAZ+ would see a 18.6% floorspace growth - around 40.7m sq ft of additional office space (Figure 27). This additional space means that a higher number of new and growing businesses can be accommodated, providing more jobs, and a wider range of employment and learning opportunities across a wider range of skills levels. It would be necessary to ensure that more flexible planning policies are managed effectively and do not lead to a loss of historic assets or risk compromising the quality of development.

The presence of office workers would boost accommodation, culture and creative industries in the area. The blend of footfall across residents, workers and visitors would encourage a mixed offer and reinforce the CAZ+'s reputation internationally, which whilst not being as immediately appealing to tourists as the **checks on growth** scenario, could help sustain tourism in the long term.

Higher levels of CIL and S106 development related contributions will allow for more investment in infrastructure, but the strain on that infrastructure will be higher than in other scenarios.

Because of the more flexible approach to planning, the number of homes delivered in the area would be broadly in line with targets set out by the London Plan, while the scale and quantum of development may allow for greater provision of affordable housing (an estimated additional 17,800 units if London Plan targets are reached).

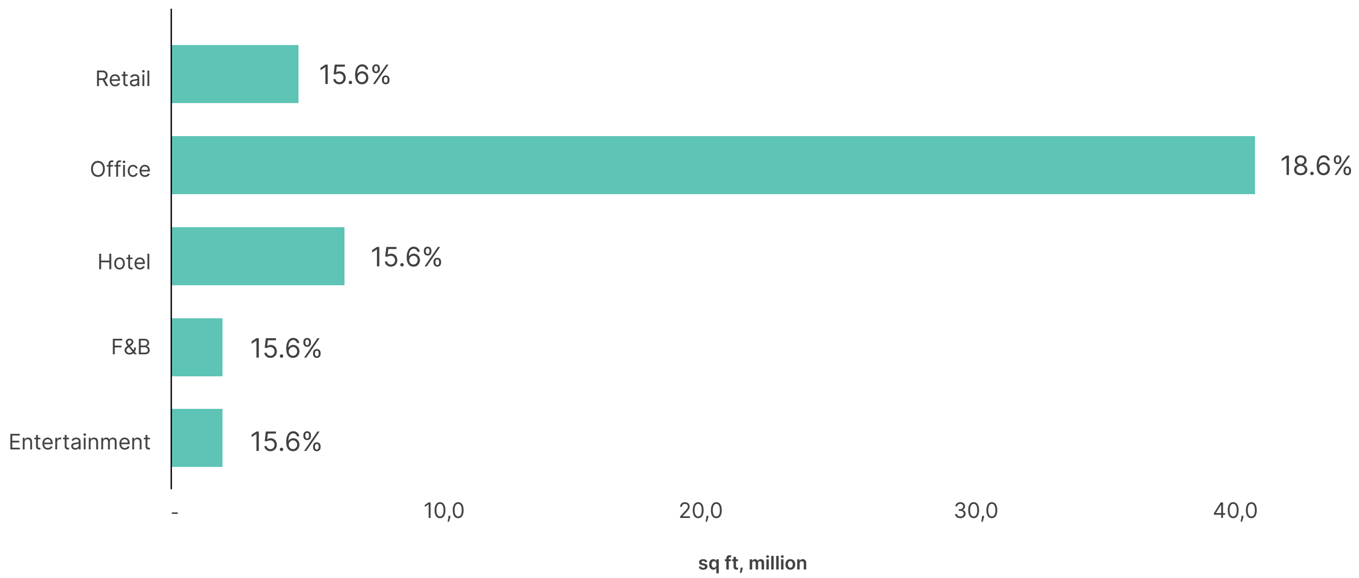

Figure 27: Net change in floorspace (sq ft, million) in Balanced growth scenario; 2023-2045 growth (%)

Impacts	2023	2045	2023-2045 Change		% change over Business as Usual scenario by 2045
			Absolute	CAGR	
Floorspace (sq ft)	**314.7m**	**370.5m**	**+55.7m**	**+0.6%**	**+7.6%**
Retail	30.7m	35.5m	+4.8m	+0.7%	+9.5%
Office	218.3m	259.0m	+40.7m	+0.8%	+8.1%
Hotel	41.9m	48.4m	+6.5m	+0.7%	+6.8%
F&B	11.9m	13.7m	+1.8m	+0.7%	+2.7%
Entertainment	12.0m	13.8m	+1.9m	+0.7%	+2.7%
Jobs (FTE)	**2.2m**	**2.6m**	**+407,200**	**+0.8%**	**+4.0%**
GVA (£m 2023)	**289,600**	**390,900**	**+101,200**	**+1.4%**	**+13.1%**
Homes	**121,300**	**172,000**	**+50,700**	**+1.6%**	**+14.9%**
Borough CIL and S106 contributions (£m, 2023 prices)	**124**	**162**	**+3,125** cumulative		**+83%**

Table 7: Impacts of Balanced growth scenario

Scenario results

Balanced growth – results by CAZ+ boroughs – 2023 to 2045

IMPACTS	Westminster	City of London	Camden	Tower Hamlets	Islington	Southwark	Lambeth	Hackney	Kensington and Chelsea	Wandsworth	CAZ+
Floorspace (sq ft)	**+17.8m**	**+14.9m**	**+6.5m**	**+5.2m**	**+3.8m**	**+3.8m**	**+1.6m**	**+1.3m**	**+0.6m**	**+0.2m**	**+55.7m**
Retail	+2.1m	+0.7m	+0.4m	+0.4m	+0.3m	+0.2m	+0.1m	+0.1m	+0.3m	+0.1m	+4.8m
Office	+11.8m	+13.3m	+4.4m	+3.9m	+2.9m	+2.6m	+0.7m	+0.8m	+0.1m	+0.0m	+40.7m
Hotel	+2.5m	+0.5m	+1.0m	+0.6m	+0.4m	+0.5m	+0.5m	+0.3m	+0.1m	+0.0m	+6.5m
F&B	+0.7m	+0.2m	+0.2m	+0.2m	+0.1m	+0.2m	+0.1m	+0.1m	+0.0m	+0.0m	+1.8m
Entertainment	+0.6m	+0.1m	+0.3m	+0.1m	+0.1m	+0.3m	+0.2m	+0.0m	+0.1m	+0.0m	+1.9m
Jobs (FTE)	**+125,600**	**+120,400**	**+45,100**	**+38,800**	**+28,400**	**+26,700**	**+9,000**	**+8,900**	**+3,100**	**+1,000**	**+407,200**
GVA (£m 2023)	**+31,900**	**+31,100**	**+11,200**	**+10,600**	**+6,500**	**+4,600**	**+2,000**	**+1,200**	**+700**	**+100**	**+101,200**
Homes	**+17,800**	**+2,100**	**+6,300**	**+4,100**	**+5,900**	**+9,300**	**+2,600**	**+1,000**	**+800**	**+800**	**+50,700**
Borough CIL and S106 contributions (£m, 2023 prices)	**+1,410** cumulative	**+307** cumulative	**+268** cumulative	**+115** cumulative	**+300** cumulative	**+412** cumulative	**+151** cumulative	**+33** cumulative	**+73** cumulative	**+50** cumulative	**+3,125** cumulative

Table 8: Impacts of Balanced growth scenario by borough – 2023 to 2045

Note: these outputs are apportioned from the aggregated CAZ+ area wide results, meaning the driving trends have been determined area-wide and that borough level results should be treated with caution. The model does not explore, for instance, the relative attractiveness of different boroughs for new office developments. Local trends and growth allocation may vary in reality, depending on local specific contexts.

Results may not sum due to rounding.

Zero due to rounding – marginal change

Scenario results

Checks on growth

The focus on conservation and conversion means that less commercial space is created which, in time, leads to a marginal decline in higher value office jobs. In turn, the lower economic activity could become relatively more appealing to leisure visitors and wealthier residents. Local tax generation would inevitably be lower as a result of lower economic activity. However, some lower valued added face-to-face industries may grow faster.

Historic and many non-historic assets would be preserved as a priority. Nevertheless, the challenges of redeveloping existing offices into the Grade A and best-in-class desired by the market would result in a stagnation of commercial space in the CAZ+ by 2045 with office spaces potentially turned over to alternative uses in parts. Conversions and investments in heritage and public spaces gradually transform business districts into destinations with offers better suited to tourists and residents but lower levels of economic output.

The loss of face-to-face revenue from office workers and business travellers would be offset by increased visitor activity, resulting in growth in the hotel, retail and arts and culture industries that cater to visitors and international tourism. In time, this may affect the quality of the offer.

The CAZ+ would remain the core national economic centre but in time, its international economic significance would diminish. Limited increase in revenues from property development may restrict the ability to invest in key modern infrastructure and services to the community.

Housing delivery may be aided through the lack of competition over space, and an increased number of conversions from office to residential, although below London Plan targets and 30% less than balanced growth projections.

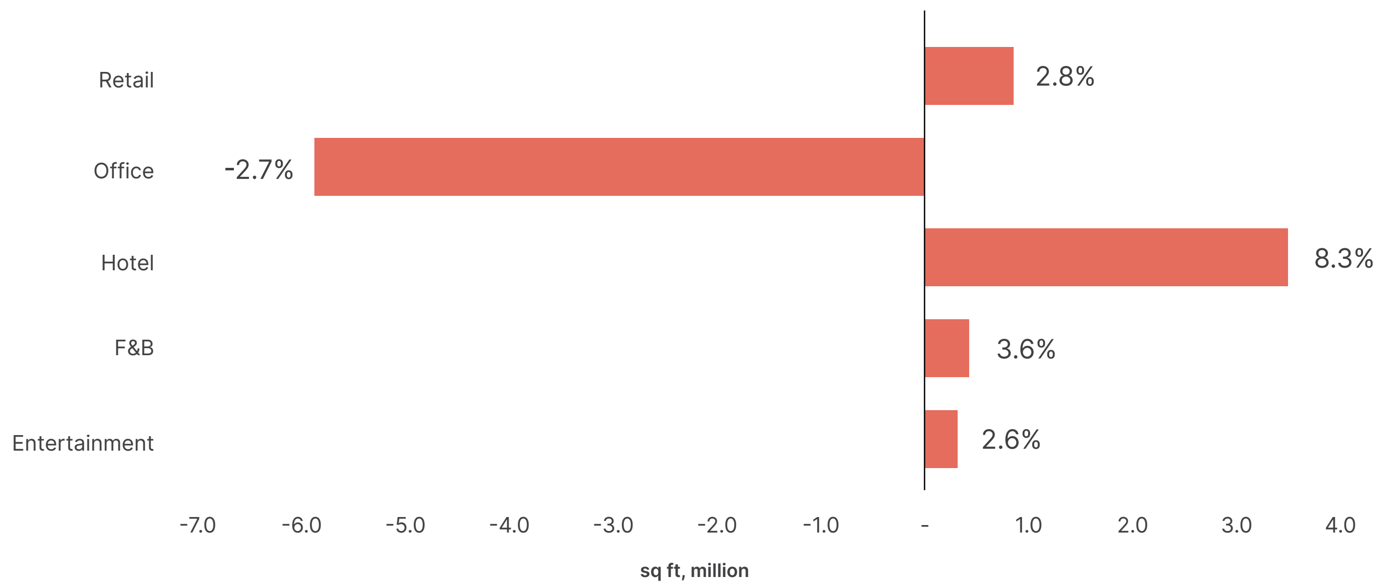

Figure 28: Net change in floorspace (sq ft, million) in Checks on growth scenario; 2023-2045 growth (%)

Impacts	2023	2045	2023-2045 Change		% change over Business as Usual scenario by 2045
			Absolute	CAGR	
Floorspace (sqft)	**314.7m**	**313.9m**	**-0.8m**	**-0.0%**	**-8.8%**
Retail	30.7m	31.6m	+0.8m	+0.1%	-2.7%
Office	218.3m	212.4m	-5.9m	-0.1%	-11.3%
Hotel	41.9m	45.4m	+3.5m	+0.4%	+0.1%
F&B	11.9m	12.3m	+0.4m	+0.2%	-8.0%
Entertainment	12.0m	12.3m	+0.3m	+0.1%	-8.9%
Jobs (FTE)	**2.2m**	**2.2m**	**-27,400**	**-0.1%**	**-14.0%**
GVA (£m 2023)	**289,600**	**297,300**	**+7,600**	**+0.1%**	**-11.0%**
Homes	**121,300**	**158,400**	**+37,100**	**+1.2%**	**+5.8%**
Borough CIL and S106 contributions (£m, 2023 prices)	**62**	**81**	**+1,590** cumulative		**-8%**

Table 9: Impacts of Checks on growth scenario

Scenario results

Checks on growth – results by CAZ+ boroughs – 2023 to 2045

IMPACTS	Westminster	City of London	Camden	Tower Hamlets	Islington	Southwark	Lambeth	Hackney	Kensington and Chelsea	Wandsworth	CAZ+
Floorspace (sq ft)	**+0.3m**	**-1.4m**	**+0.1m**	**-0.1m**	**-0.1m**	**+0.0m**	**+0.3m**	**+0.1m**	**+0.1m**	**+0.0m**	**-0.8m**
Retail	+0.4m	+0.1m	+0.1m	+0.1m	+0.1m	+0.0m	+0.0m	+0.0m	+0.1m	+0.0m	+0.8m
Office	-1.7m	-1.9m	-0.6m	-0.6m	-0.4m	-0.4m	-0.1m	-0.1m	-0.0m	-0.0m	-5.9m
Hotel	+1.3m	+0.3m	+0.6m	+0.3m	+0.2m	+0.3m	+0.3m	+0.1m	+0.1m	+0.0m	+3.5m
F&B	+0.2m	+0.1m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.4m
Entertainment	+0.1m	+0.0m	+0.1m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.0m	+0.3m
Jobs (FTE)	**-5,600**	**-13,700**	**-2,500**	**-2,800**	**-2,100**	**-1,600**	**+500**	**-300**	**+500**	**+100**	**-27,400**
GVA (£m 2023)	**+2,800**	**+1,800**	**+900**	**+700**	**+400**	**+400**	**+300**	**+100**	**+100**	**+0**	**+7,700**
Homes	**+13,000**	**+1,500**	**+4,600**	**+3,000**	**+4,300**	**+6,800**	**+1,900**	**+700**	**+600**	**+600**	**+37,100**
Borough CIL and S106 contributions (£m, 2023 prices)	**+750** cumulative	**+32** cumulative	**+98** cumulative	**+68** cumulative	**+179** cumulative	**+265** cumulative	**+92** cumulative	**+18** cumulative	**+52** cumulative	**+35** cumulative	**+1,590** cumulative

Table 10: Impacts of Checks on growth scenario by borough – 2023 to 2045

Note: these outputs are apportioned from the aggregated CAZ+ area wide results, meaning the driving trends have been determined area-wide and that borough level results should be treated with caution. The model does not explore, for instance, the relative attractiveness of different boroughs for new office developments. Local trends and growth allocation may vary in reality, depending on local specific contexts.

Results may not sum due to rounding.

Zero due to rounding – marginal change

Looking ahead

04

Looking ahead

As such, adoption of **balanced growth** policies would contribute most towards the jobs and housing targets outlined in the London Plan 2021-2041. In the other two scenarios these targets are more at risk.

Balanced growth would deliver around 407,000 jobs in the CAZ+ by 2045, on track to reach the 367,000 new office-based jobs set out for CAZ+ in the London Plan by 2041 and 41m sq ft of office space, above the 38m target set out in the London Plan. Much of this growth will be likely to occur in Opportunity Areas (OAs) located within the CAZ+, and areas with new developments.

By 2045, **balanced growth** would exceed the target of new homes in CAZ+ with an estimated 2,300 new homes yearly in the scenario against targeted 1,700 new homes yearly to be in line with targets set in the London Plan.

Other scenarios deliver lower levels of growth. The **Checks on growth** scenario could lead to a decline in office space and jobs, and stagnant GVA, while delivering around 37,000 new homes (below the London Plan targets and 30% less than **balanced growth**).

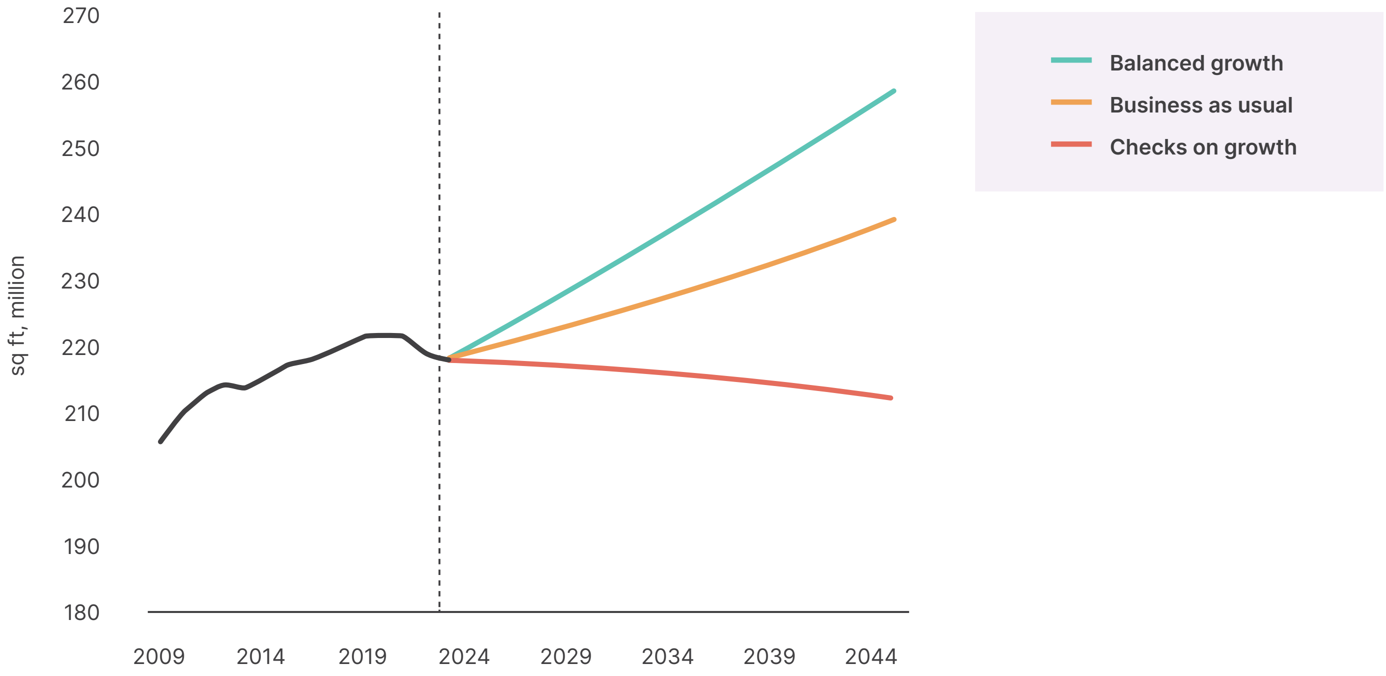

Figure 29: Office floorspace growth projections - Arup analysis, Valuation Office Agency, CoStar

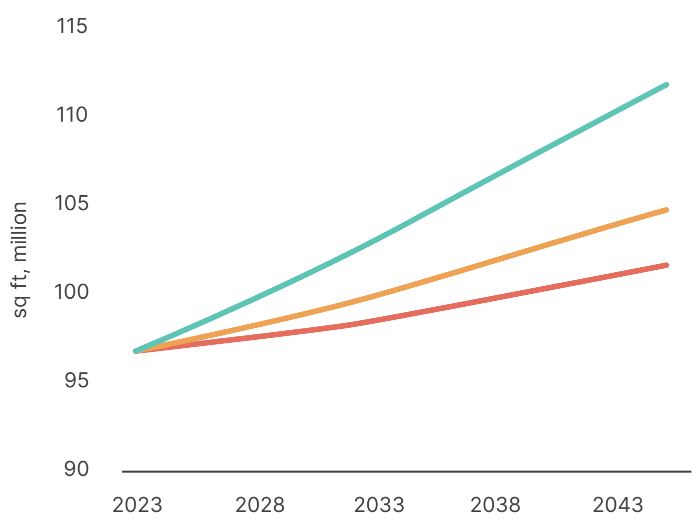

Figure 30: Total floorspace (excluding office) growth projections - Arup analysis

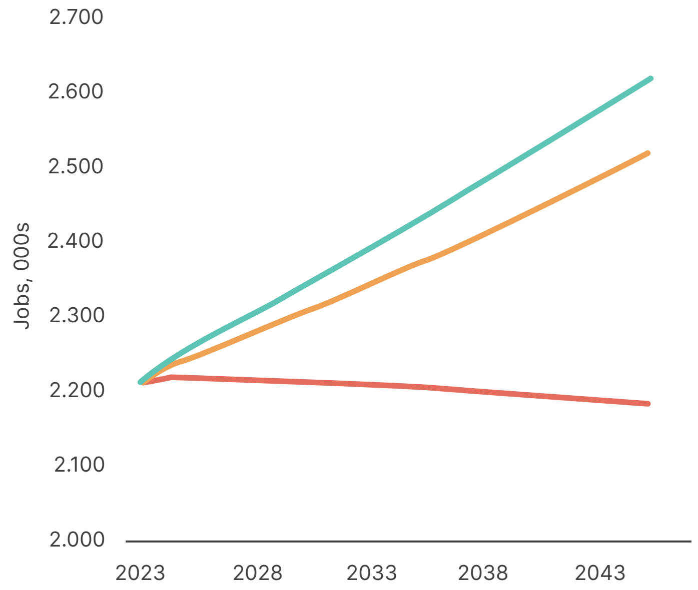

Figure 31: Employment growth projections - Arup analysis

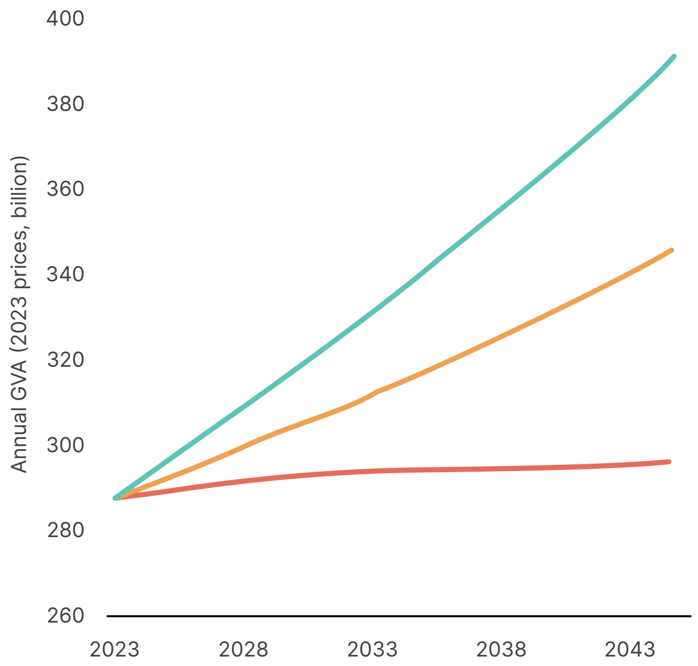

Figure 32: Annual GVA growth projections (2023 prices) - Arup analysis

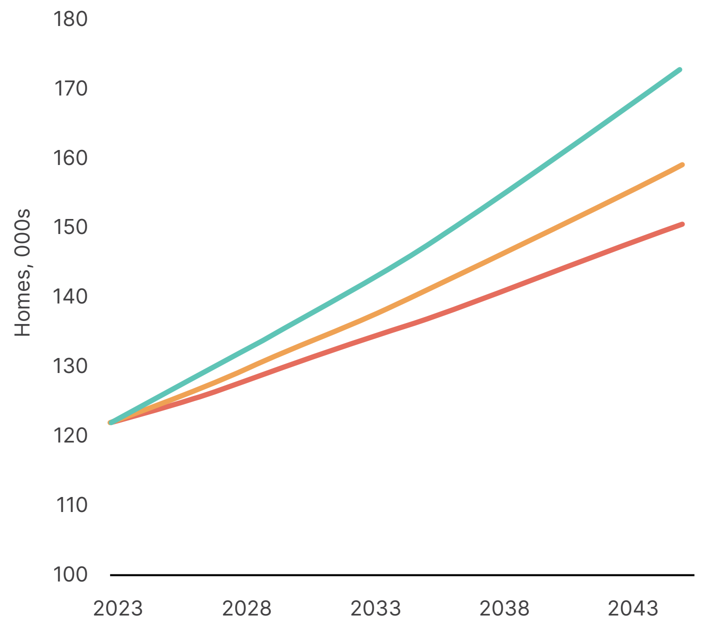

Figure 33: Total homes growth projections - Arup analysis

Looking ahead

Conclusions and recommendations

Conclusions

1

At the moment, the CAZ+ manages to at least in part achieve a subtle balance of the interests of workers, visitors and residents. This difficult balancing act needs to become more responsive in the era of retrofit, environmentally friendly building uses, and demand for high quality office spaces and more experiential retail and leisure. The London Plan 2021 is a positive attempt at combining spatial, economic, environmental and cultural aspects of planning and of the role boroughs can play in harnessing growth and attracting businesses while staying on track to deliver green and more sustainable growth.

2

Sectoral and land use policies in the CAZ+ can impact significantly on growth over time. The **balanced growth** scenario is the most appealing among the three modelled approaches as it leads to positive impacts on local employment, housing provision (a key priority in the London Plan and subject to an intervention in March 2024 from the Secretary of State for Levelling Up, Housing and Communities to unlock faster homes delivery in London), and borough CIL and Section 106 funds (which fund public realm and social infrastructure). Consequently, this can foster employment opportunities for residents and contribute to the enhancement of public services. This scenario would support London in keeping its role as a major international business location.

3

Nevertheless, in delivering **balanced growth** it may be necessary to ensure that more flexible planning policies do not lead to an unacceptable loss of historic assets or negatively affect the quality of development.

4

The **checks on growth** scenario, on the face of it, also has merit. It entails the preservation of historic assets over and above the protection afforded by listed status, as well as less desirable non-historic development. It does allow for some limited new developments of best-in-class only buildings. In the longer-term however, limited developer contributions and business rates may constrain the capacity to invest in public infrastructure leading to a progressive decline of the overall quality of the area. Compared with other scenarios, **checks on growth** entails marginally lower housing levels, generates fewer jobs and a lower GVA. The jobs created may be more likely to be in lower value added face-to-face industries, as the CAZ+ would attract a larger relative share of visitors and residents over time, whilst slowly being eroded in its status as a primary business hub. Face-to-face industries traditionally employ individuals in lower paid roles.

Recommendations

There should be consideration of a **balanced growth**-orientated approach in CAZ+ boroughs and in the future London Plan, particularly in relation to new high quality, sustainable development in business clusters in the area.

Implementation of this will require a pragmatic approach and joint working across borough councils, the GLA, business improvement districts (BIDs), investors, developers, the construction industry and local communities.

This should include a flexible approach to allow developers to both meet legitimate commercial requirements whilst fulfilling environmental objectives, and measures to ensure that the quality of new development is not compromised.

It is important that the case for economic growth in the CAZ+ is understood and supported by the mayor and central Government, due to its major economic role for the London and the UK, as well as the essential national and international functions hosted in the area.

Appendix

05

Appendix

Existing policy targets and strategic priorities

Sector	Key recommendations and targets
Office	• 37.7m sq ft of new office floor space by 2041 in CAZ+ and NIOD, an average of 1.5m sq ft per annum (London Plan)
Retail/Hotel	• **4m sq ft of net additional retail floorspace** by 2041 in the CAZ+ • 58,000 rooms of serviced accommodation in London by 2041 (2,230 rooms p.a.) (London Plan)
Jobs	• 367,000 additional office jobs in CAZ+ and NIOD (London Plan)
Homes	• **Estimated 1,700 homes per annum** to be delivered in CAZ+, with 35% affordable

Table 11: Existing policy targets

Appendix

Driving trends

We have used a **'morphological' method of scenario development to translate assumptions across the five categories of trends (planning policy, new working patterns, evolution of consumer culture, urban environment and infrastructure, and external macro-factors) into different land use outcomes.**

Morphological analysis is a method for rigorously structuring the total set of relationships in inherently non-quantifiable socio-technical problems. The method is carried out by developing parameters of the place shaping factors to be investigated, here defined as the five categories of trends, and defining relationships between the parameters on the basis of internal consistency. For example, the method begins by identifying and defining a trend, such as planning policy, and assigning it a range of relevant parameters e.g. "encourages development to respond to new occupier demand", or "mostly allowing growth through intensification" rather than densification.

	TRENDS			
	NEW WORKING PATTERNS	PLANNING POLICY	EVOLUTION OF CONSUMER CULTURE	URBAN ENVIRONMENT AND INFRASTRUCTURE
PARAMETERS	High occupancy levels and "flight to quality"	Encourages retrofit and development through flexible policies	Transition to experience economy	Greener and cleaner
	High occupancy levels – slower adaptation to occupier requirements	Focuses on retrofit and intensification of existing space	Slower adaptation to occupier requirements	Maintained at present level
	Current occupancy levels (lower on Fridays, ~75% of pre-pandemic)	Encourages conservation and conversion	Targeting tourists and leisure visitors	Targeted on specific heritage areas

Figure 34: The parameters behind the driving trends

Appendix

Model methodology

The economic impacts model calculates the potential outcomes of plausible futures defined by the scenarios in terms of land use changes, employment, taxes and Gross Value Added (GVA).

The methodology is based on analysing the land use in the CAZ+ area and how the identified trends might impact it, then deriving specific outcomes for the three identified scenarios.

The main assumptions driving the model is that the realisation of identified trends and scenarios will impact:

Amount and use of floorspace

Mainly depending on planning policies and working patterns, resulting in gain or loss of space. Impacts of trends on specific types of spaces in the area either encourages diversification or intensification of uses.

Supported jobs and GVA

Converting the quantity and typologies of commercial floorspace influenced by the trends into jobs using standard industry densities and GVA using corresponding GVA/job.

Value of tax contributions

Using projected volume and typology of spaces and historic £ / sq ft contribution to borough and mayoral CIL and S106 for new space developed to estimate tax contributions in the area.

Homes

Depending on how trends and strategies are expected to influence the delivery of new homes.

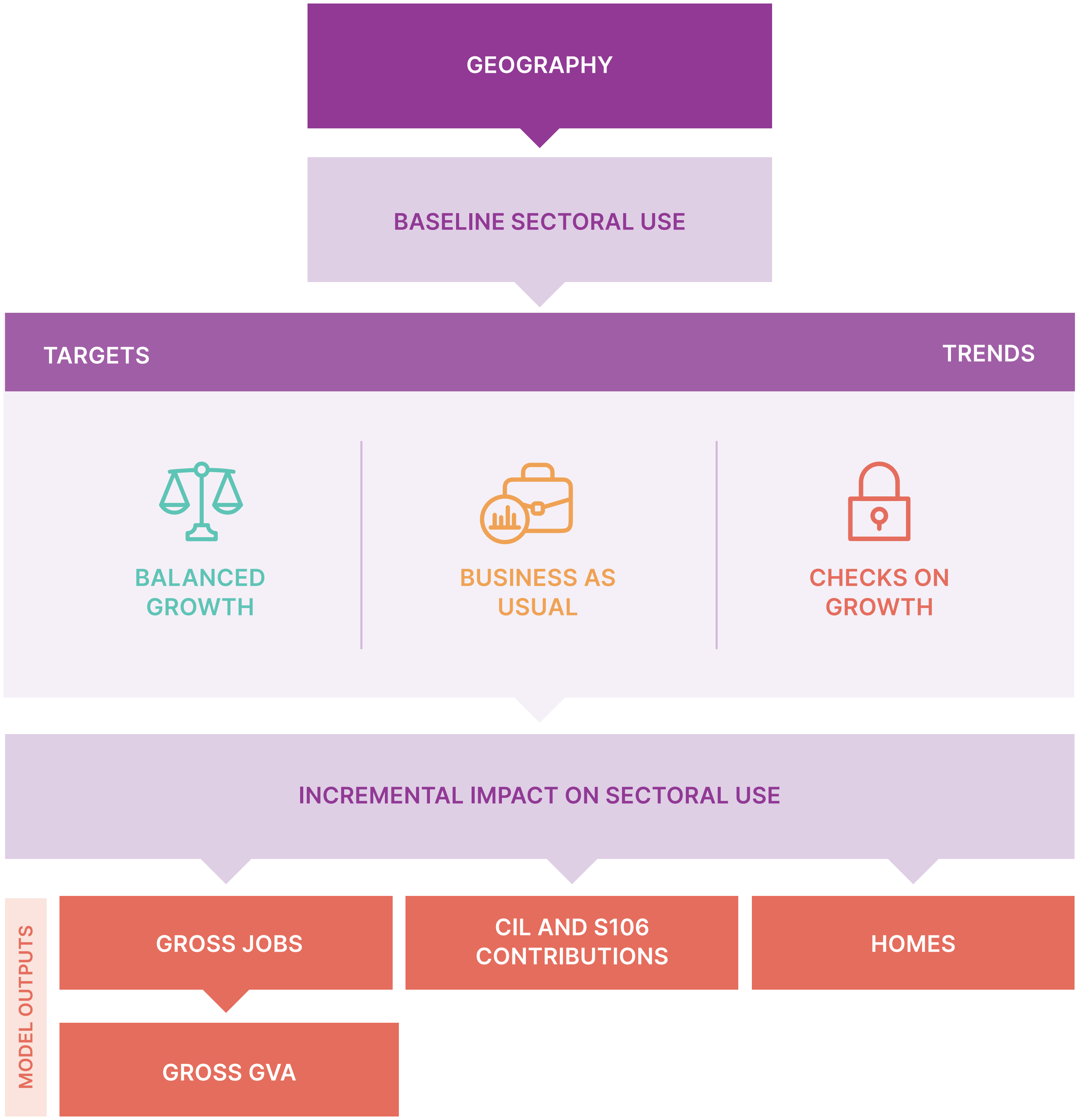

Figure 35: Model methodology map

Appendix

Economic impacts

This section describes how each of the outputs were calculated.

- **Local economic impact (GVA).** To estimate the GVA in each scenario, we first calculated GVA per job associated to each sectoral use (i.e. retail, office, hotel, F&B, entertainment). This required collecting GVA by SIC02 level in CAZ+[1] first. SIC02 codes were then matched and regrouped according to the following use classes: retail, offices, hotels, F&B and entertainment.

- **Jobs.** Employment data was sourced from the 2021 Business Register and Employment Survey[2] (BRES), and then projected to 2024 by applying the growth rates included in the latest *"London's Economic Outlook"*(GLA Economics, December 2022). In the **Balanced Growth** scenario, we obtained an average GVA per job until 2040 by applying the CAGR over the 2009-2024 period, which ranged between 0.8% and 1.0% for each sector. For the **Business as usual** and **Checks on growth** scenarios, we applied London historic growth rate of 0.2% to project GVA per job to 2045. This was expressed in 2023 prices. Gross GVA in the study area was eventually calculated by multiplying total gross jobs by GVA per job.

- **Borough and Mayoral Community Infrastructure Levy (CIL) and Section 106 contributions.** Estimates of Mayoral, Borough CIL and S106 (Employment and Skills) contributions for CAZ+ boroughs were obtained using inputs from Gerald Eve on historic contributions paid (£)/sqm of Gross Internal Area (GIA) for new developments. Average costs were provided by types of uses (office, hotel, retail/food and beverage and residential), type of contribution (borough CIL and S106) and value areas (for CAZ+ values for Prime and Core areas were considered). The average cost/sqm and use type was applied on net additional floorspace for each scenario to project an estimate of contributions in years until 2045. Where the costs were based on units (hotel bedrooms or residential units) a nominal unit size of 35sqm (hotel bedrooms) and 80sqm (residential) was assumed to get back to a £/sqm rate.

- **Homes.** The number of residential dwellings in the study area was obtained from the Census 2021 (ONS)[4], serving as our baseline. Subsequently, growth rates relating to housing, informed by the underlying trends driving each scenario, were applied to forecast the number of homes until 2045.

[1] Office for National Statistics (2023) – Regional gross value added (balanced) by industry: all ITL regions Available at: https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry

[2] BRES (2023). Available at: https://www.nomisweb.co.uk/datasets/newbres6pub

[3] Valuation Office Agency (2023) - Non-domestic rating: stock of properties including business floorspace, 2022. Available at: https://www.gov.uk/government/statistics/non-domestic-rating-stock-of-properties- 2022

[4] ONS (2021) – RM204 – Number of Dwellings. Available at: https://www.nomisweb.co.uk/datasets/c2021rm204

Notice

ARUP

This report has been prepared specifically for and under the instructions and requirements of the London Property Alliance, under an appointment dated 22 January 2024 in connection with analysing possible economic futures of the Central Activity Zone + (with Northern Isle of Dogs) area. The work was conducted between March and April 2024.

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