

Broxbourne, Dacorum, Hertsmere, St. Albans, Three Rivers, Watford and Welwyn Hatfield Councils

HERTFORDSHIRE LONDON ARC JOBS GROWTH AND EMPLOYMENT LAND



ROGER TYM & PARTNERS
Planners and Development Economists

Executive Summary
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ROGER TYM & PARTNERS

Fairfax House
15 Fulwood Place
London
WC1V 6HU

t (020) 7831 2711
f (020) 7831 7653
e london@tymconsult.com
w www.tymconsult.com

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INTRODUCTION

- 1 This study was commissioned by the seven district and borough councils of the Hertfordshire London Arc, comprising Broxbourne, Dacorum, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield, as part of the evidence base for their new Local Development Frameworks. Its purpose is to advise on the future provision of employment land, comprising factories, warehouses and offices¹, to 2026 and beyond.
- 2 The study partially updates earlier employment land studies carried out by Roger Tym & Partners in 2004-07 and brings them together to provide a broad overview across the study area. It was commissioned partly in response to the latest iteration of the then emerging East of England Plan, which introduced the London Arc as a sub-regional entity.
- 3 As a sub-regional overview, this study focuses on the broad spatial distribution of jobs and land and on the larger employment sites. It leaves many issues to be considered by districts individually, including land provision for individual settlements, the market potential of smaller sites, and development constraints/availability for all sites. These and other local issues are discussed in the earlier employment land studies. For Central Herts and Broxbourne, these earlier studies are recent and their findings should remain largely valid. The South West Herts study is older and is due to be updated in the near future.
- 4 This report was first drafted in summer/autumn 2008 and is based on data available at that time. It does not take account of the changes in macroeconomic and property market conditions which have occurred since that time.

POLICY CONTEXT

- 5 This section begins with a review of higher-level, strategic policies to which the seven districts' employment land policies are required to conform. At national level, relevant policies are mainly in Planning Policy Guidance (PPG) 4, Industrial and Commercial Development and Small Firms; this PPG is over 15 years old and will shortly to be replaced by Planning Policy Statement (PPS) 4, Planning for Sustainable Economic Development, which is currently in draft. The central principle in the draft PPS is that planning policy should actively support economic growth and prosperity. To this end, the draft encourages planning authorities to plan positively to meet business needs, provide the flexibility to cater for varied and unforeseen needs, respond to market signals and ensure that planning decisions take full account of the economic benefits of development.
- 6 The current Regional Spatial Strategy (RSS) is the East of England Plan, published in May 2008. The RSS's core spatial strategy aims to improve the alignment of jobs and

¹ These land uses, called employment or B-class uses, comprise classes B1-B8 of the Use Classes Order and physically similar sui generis uses. They exclude other land uses that provide jobs, such as retail, leisure, health services and education, which are planned for in other ways.

services with population and to concentrate new development in the region's major urban areas - the Key Centres for Development and Change (KCDCs). The KCDCs located in the study area comprise Hatfield and Welwyn Garden City, Watford and Hemel Hempstead. To accommodate development in the first two of these areas, the Plan proposes strategic reviews of Green Belt boundaries, which may involve land in St Albans district as well as Dacorum and Welwyn Hatfield. A more local Green Belt review is proposed for Broxbourne.

- 7 With regard to employment land, the East of England Plan at Policy E1 sets job growth targets for the period 2001-21, while stressing that these targets are merely indicative (due to lack of robust evidence) and may be revised through review of the RSS or the preparation of Development Plan Documents. Policy E2 of the Plan states that Local Development Documents should allocate sites and premises to achieve the indicative targets at policy E1 'or revisions to these targets as allowed by that policy and the needs of the local economy'.
- 8 In the previous version of the East of England Plan, the Hertfordshire London Arc authorities shared a sub-regional target of 50,000 net additional jobs in 2001-21. In the final published version of the Plan, Policy E1 subsumes the study area in a wider target of 68,000 net additional jobs for Hertfordshire as a whole. This figure, like all the E1 targets, is being revised as part of the RSS review currently in progress.
- 9 As well as national and regional policy, the report reviews the local policy context, summarising employment land allocations and other relevant policies in the seven districts' emerging LDFs. The study's conclusions and recommendations take account of these policies.

THE ECONOMY

Competitiveness and Well-Being

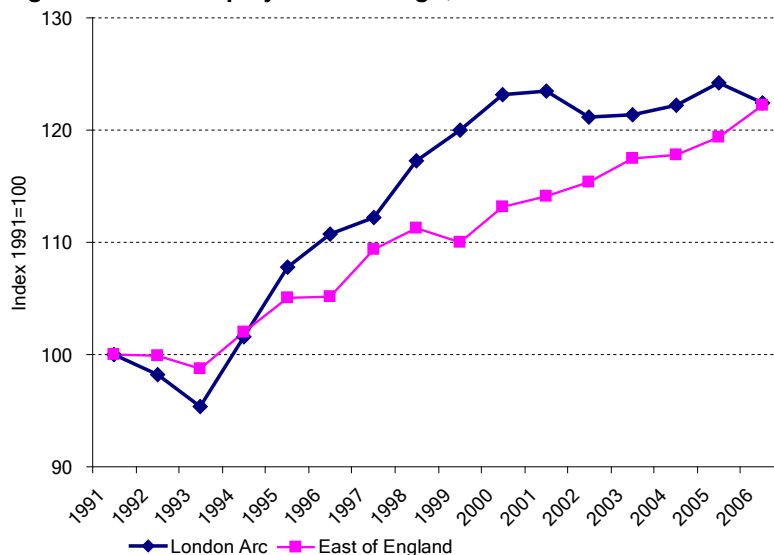
- 10 The earlier employment land studies concluded that:
 - i) In general, the Hertfordshire London Arc's workplace economies are highly productive and competitive, with high representation of high-value, knowledge-based sectors and high levels of entrepreneurship.
 - ii) Residents' economic well-being is similarly high, with high skills, high earnings, low unemployment and few deprived areas.
 - iii) On average, the length of residents' journeys to work is in line with national and regional benchmarks, as are proportions of people who drive to work.
- 11 Broxbourne is a partial exception to the first two statements above. Compared to the other Hertfordshire London Arc districts and to the South East region, Broxbourne's workplace economy is relatively poor in high-value, knowledge-based activities, its earnings relatively low and its unemployment slightly higher. But, if we compare it to the East of England and the nation, Broxbourne against all these indicators is average or

above-average. There is just one dimension in which Broxbourne is below national and East of England benchmarks: its resident workforce is comparatively low-skilled.

Recent Employment Change

- 12 According to official statistics, employment growth in the Hertfordshire London Arc turned down markedly around the turn of the century. Through most of the 1990s, the study area's employment grew faster than the East of England total. Since 2000-2001, the area's employment has stagnated, while the regional total has continued to grow, as it had been doing since 1993. The turndown applies to five of the seven districts (the exceptions are Broxbourne and Welwyn Hatfield). It is largely accounted for by Financial and Business Services and Personal and Community Services. The reasons for it are unknown.

Figure 1 Total Employment Change, 1991-2006



Source: Oxford Economics, RTP

THE INDUSTRIAL/WAREHOUSING MARKET

- 13 In this and the following section, we analyse the study area's commercial property markets, for industry/warehousing and offices respectively. The analysis has three main purposes: to draw a qualitative profile of the demand for business floorspace, to assess the current balance of demand and supply, and to consider the prospects for future growth. It aims to complement the longer-term demand-supply calculations presented later.
- 14 The industrial market across the Hertfordshire London Arc has been active in recent years. Occupier demand has generally remained buoyant and rents have been sufficient to make development commercially viable and attractive. Supply has responded with a variety of industrial schemes across the area, which have let well. While developers have concentrated on the logistics sector, there have also been a number of high-quality light industrial schemes.

- 15 At present, the balance of the property market is relatively tight, to the point where there may be shortages of certain products in certain areas. Vacancy rates are relatively low and void periods short - though this has not resulted in significant rent increases, perhaps because demand is footloose (price-elastic), with many occupiers preferring to go elsewhere rather than pay more.
- 16 Within this generally tight market, different sub-sectors are driven by different dynamics.
- 17 In the 'big sheds' (logistics) market, developers are responding readily to occupier demand. This demand is potentially very large, because there is probably a large total of regionally footloose requirements. At least in the short term, therefore, it may be that demand for practical purposes is indefinite, and the volume of development is bound to be constrained by planning policy.
- 18 In the market for smaller, light industrial buildings, comprising both 'smart sheds' and 'secondary sheds', there are actual or potential shortages of space, because developers in recent times have been focusing on large sheds, and because industrial land in the study area is generally under pressure from both the office and residential sectors. In the smart sheds sector, it seems that developers are willing to provide new space, but suitable sites may be competed away by these higher-value uses. For secondary sheds, new development may be unviable even at normal industrial land prices, so much of the demand is likely to be met in second-hand space.
- 19 In summary, therefore, a critical issue for planning policy is the mix of industrial/warehouse space. For the foreseeable future we may assume that developers will meet the logistics demand for big sheds, insofar as planning authorities provide enough suitable land. But the market may not deliver an adequate supply of smart sheds and it may not safeguard enough of the existing older industrial estates for secondary sheds. The concluding section will consider how policy can correct these problems.

THE OFFICE MARKET

- 20 The study area's office market is something of an enigma. While the area's social and economic profile suggests that demand for offices should be high, key indicators suggest otherwise. Floorspace growth has been sluggish, with only modest activity from developers. Property take-up, although diverse, has been low key, and very largely from existing occupiers churning space rather than from new arrivals.
- 21 Closer analysis fails to find supply-side constraints, such as lack of land or office-unfriendly planning policies. This suggests that the slow growth of office employment and floorspace in recent years has been due to weak occupier demand. This is at least partly borne out when looking at the Hertfordshire London Arc's competitive position. On the key market indicators of take-up, rental levels and investor interest, the area appears to have under-performed national benchmarks and surrounding areas over recent years. The level of speculative development activity - a key indicator of developers' confidence in the volume of demand - is extremely low.

- 22 The Hertfordshire London Arc is a secondary office market when compared to its main competitor, the Thames Valley, where there is a larger critical mass of stock and an agglomeration of high-tech and business service occupiers, which generates activity from its own strength. The Hertfordshire London Arc lacks these attributes.
- 23 Going forward, the study area's weaknesses could be reinforced by a number of factors. The current fragile state of the property market will subdue development activity for quite some time, making it more difficult to attract developer interest to the area. Moreover, the office market around the M25 is unlikely to grow at the same rate going forward as it has in the past: the relocation market is much smaller today and, arguably, some of the technology and business service sectors have passed through their peak growth period. One further potential market dampener could be the Government's emphasis on regeneration in Thames Gateway, which might be bought at the expense of new investment further west, or at least attract overspill from the Thames Valley that might otherwise have gone to the Hertfordshire London Arc.
- 24 It will not be easy to the Hertfordshire London Arc to attract more demand for offices than it has done in recent years. If the study area is to avoid losing ground, it will need to provide new stock and market itself more compellingly. If they wish to encourage growth and take advantage of positive market conditions when they occur, planning authorities should provide an encouraging policy backdrop and an attractive land supply for office development.
- 25 On the land supply side, the Thames Valley has, historically, been extremely friendly towards the development of the campus- style buildings beloved of high technology businesses, starting with the iconic Stockley Park in the late 1980s. Although in more recent years vacancy rates in the Thames Valley have climbed, the M4 corridor remains the first port of call for high tech firms. In the Hertfordshire London Arc there are many fewer examples of this style of development.
- 26 This suggests that, in spite of low developer interest resulting from a perception of weak demand, to maximise its office potential in the long term the Hertfordshire London Arc should provide at least one major site where a high quality business park environment can be created. Footloose occupiers have a wide choice of locations, so to attract them requires a product of the highest quality, able to compete with the best sites in the wider South East. While demand is currently an issue, it is important for policy to provide capacity, so "poor land availability" is not added to the list of reasons for not developing and locating in the Hertfordshire London Arc.

EMPLOYMENT SITES AND AREAS

- 27 In this report, we assess the market potential of the larger development sites currently identified for employment uses, classifying them into good, average and poor. This assessment relates to planning commitments (space under construction, allocations and permissions) with a capacity of 4,000 sq m of floorspace or more that were outstanding at 31 March 2007 and it updates our earlier employment land studies.

Industry and Warehousing

- 28 Our assessment of market potential suggests that the larger sites in the industrial/warehousing pipeline are mostly good. Only three sites are assessed as average - of which one is subject to special circumstances due to the Buncefield explosion and another may be improved by future infrastructure improvements. No site is poor.
- 29 As well as assessing sites individually, we have considered them collectively, to see how they are distributed spatially and how far they meet the full range of occupier requirements.
- 30 The first question has a simple answer. Future development opportunities are heavily concentrated in the three Key Centre districts of Dacorum, Welwyn Hatfield and Watford (though one of Watford's main sites, Watford Junction, is unlikely in reality to be developed for industrial/warehousing use). There is also a large pipeline in Broxbourne, but most of it is already under construction. Hertsmere and St Albans have little land in large development sites and Three Rivers has none.
- 31 To answer the second question, we need to consider how the development pipeline is split between market sectors:
- Nearly all current and future development is in the big B8 and smart sheds sector, with big B8 probably dominant.
 - Of the sites where the form of development is not yet known, several are suitable for both the big B8 and smart shed sectors. Bearing in mind that, developers prefer large-scale warehousing, many of these sites might be developed for such warehousing, leading to a shortage of smart shed space.
 - Secondary sheds hardly appear, confirming that lower-value demand will be largely met in existing, second-hand floorspace, and perhaps small infill sites.

Offices

- 32 In assessing the market potential of individual office sites, our conclusions are positive. Most sites are good, a few are average and none are poor. The largest sites by far, in terms of development capacity going forward, are Maylands Gateway in Dacorum district and Leavesden Park on the boundary of Three Rivers and Watford districts. We assess Maylands Gateway's market potential as good but Leavesden Park's as average, because its performance to date has been disappointing - though to explain why this is, and whether it is likely to change in future, would need closer study.
- 33 Geographically, the greatest concentration of office sites is in Three Rivers (due almost entirely to Leavesden Park) and in Dacorum (due largely to Maylands). There are no large office development sites in Watford, although the Leavesden site in Three Rivers adjoins that district's boundary with Watford.

LAND DEMAND AND SUPPLY 2006-26

Employment Change and the Demand for Space

- 34 To predict the market demand for employment space to 2026, we start from an Oxford Economics (OE) employment scenario, produced in May 2008 for the RSS review which is currently in progress. The study's client group, on Roger Tym & Partners' advice, chose this scenario over the E1 forecast shown in the current RSS, partly because it is more up to date and its assumptions on future population reflect the housing provision targets in the current RSS.
- 35 In the OE scenario, total employment growth in the study area in 2006-26 grows by 46,400 jobs². Splitting this total by type of space (land use), we estimate that industrial jobs (those that occupy factories and workshops) fall by 8,800, warehouse jobs fall by 1,500, office jobs grow by 31,600 and jobs based in other kinds of space ('non-B jobs') grow by 25,200.
- 36 With regard to the B-class land uses, we further estimate that this employment change will result in demand for net floorspace growth of 231,900 sq m of industrial/warehouse property and 567,700 sq m of offices. (Industrial/warehouse floorspace increases despite falling employment, because we assume that floorspace per worker in warehousing continues to increase in future, as it has in the past).
- 37 The report discusses the merits and limitations of these demand forecasts and concludes that they should be adopted as indicative land provision targets for the Hertfordshire London Arc as a whole. The evidence suggests that the office forecast may prove to be a considerable over-estimate, but nevertheless it seems a good target, because policy should err on the generous side, to ensure that planning does not constrain the growth of knowledge-based, high-value activities.

Supply and Market Balance

Industry and Warehousing

- 38 To assess the long-term balance of the market, we compare the forecast demand for land with the planned land supply, comprising the development capacity provided by all outstanding planning commitments (space under construction, allocations and permissions) that involve either losses or gains of employment space³. For the study area as a whole, in strictly quantitative terms these calculations suggest that the planned supply of industrial/warehouse space exceeds forecast demand by 82,200 sq m. This oversupply equals 2% of the study area's floorspace stock and around 21 ha of site area. For the Hertfordshire London Arc as a whole, and bearing in mind that we are

² Numbers in the text are rounded.

³ The supply figures exclude windfalls, potential sites which may be under consideration for development but are not formally identified by the planning system, and vacant floorspace.

looking at a 20-year plan period, it is insignificant. The sub-regional market is roughly in balance over the plan period.

- 39 As well as the sub-regional position, the client group asked us to advise on land provision targets for individual districts. We have provided a first-draft suggestion for such targets, which takes account of OE's employment forecasts for individual districts, planned land supply and our understanding of current policies. These suggested targets, and their relationship to current planned supply, are shown in the table below.

**Table 1 Suggested Provision Targets and Committed Supply
Industry and Warehousing, 2006-26**

Net floorspace change, sq m	Provision target (demand)	Committed supply	Over (under)supply (supply less demand)
Broxbourne	113,337	195,642	82,305
Dacorum	26,904	37,117	10,213
Hertsmere	15,750	1,116	-14,634
St Albans	-6,664	1,963	8,627
Three Rivers	6,298	-5,656	-11,954
Watford	1,878	7,629	5,751
Welwyn Hatfield	74,353	76,273	1,920
London Arc	231,855	314,084	82,229

Source: RTP

- 40 Like any strategic, top-down guideline, these suggested targets need to be tested against local knowledge and policy objectives in an iterative process. In this process, the Councils may choose to alter the targets. (Such changes should preferably offset each other, so sub-regional totals do not change.) Final targets should be agreed in face-to-face discussion involving all seven districts. The aim should be to arrive at a distribution of development which is both desirable, given Councils' policy priorities, and realistic, given the demand forecasts, market analysis and land supply position.

Offices

- 41 For offices, forecast demand for the 20-year planning period exceeds the land supply currently committed by 205,300 sq m. Assuming that take-up is distributed evenly over time, in strictly quantitative terms this existing land supply would last roughly until 2020.
- 42 As well as the study area as a whole, we provide first-draft provision targets by individual district, shown in the Table 2 below. As noted earlier in relation to industry and warehousing, our suggested targets are only a starting point, which Councils may choose to alter in the light of local knowledge and policy priorities.

Table 2 Suggested Provision Targets and Committed Supply, Offices, 2006-26

Net floorspace change, sq m	Provision target (demand)	Committed supply	Over (under) supply (supply less demand)
Broxbourne	44,198	41,429	-2,769
Dacorum	121,906	99,588	-22,318
Hertsmere	36,677	31,664	-5,013
St Albans	78,158	-1,842	-80,000
Three Rivers	105,691	103,472	-2,219
Watford	7,949	-5,071	-13,020
Welwyn Hatfield	173,113	93,113	-80,000
London Arc	567,692	362,353	-205,339

Source: RTP

CONCLUSIONS

- 43 Our conclusions and recommendations about quantitative land provision targets are provided in the previous section. Below, we focus on qualitative and site-specific issues.

Industry and Warehousing

- 44 Our analysis suggests that existing industrial/warehouse sites should continue to be safeguarded, and in areas where such safeguards are weak authorities may consider strengthening them. However, as stated in the previous employment land reviews, sites can be released if a) this does not result in a deficit of employment land or b) they are replaced with suitable provision elsewhere.
- 45 Safeguarding should not apply to sites which are no longer suitable and viable for employment use (this does not necessarily mean sites which are in secondary employment uses - such sites are often well used). Our detailed site assessments, provided in earlier employment land studies, give an initial view on which sites do not meet this criterion. In addition, safeguarding should be subject to a market test, whereby sites can be transferred to other uses if the applicant can demonstrate that the site is not suitable or viable for employment use and removing it from the employment stock would have no adverse effect on the balance of the market.
- 46 Whether new industrial/warehouse sites are required over the plan period will depend on the success of safeguarding policies and on whether the sites already identified come forward in practice. It will also depend on how far the planning authorities wish to accommodate the demand for big B8, which requires especially large sites.
- 47 Where development sites are coming forward for industry/warehousing uses, the authorities may wish to control the mix of development that takes place. Within the industrial/warehouse market, we have identified three kinds of demand, or market segments, comprising logistics (big B8), smart sheds and secondary sheds. We have suggested that uncontrolled market forces, in the short term at least, are likely to deliver big B8 in preference to other kinds of space, pushing out or pricing out much of the demand for smart and secondary sheds, which would go against policy objectives relating to economic development and labour market balance.

- 48 It is not possible to put forward quantitative targets for the mix of big B8, smart sheds and secondary sheds that planning should aim for. Therefore, policy action to control the mix can only be based on local knowledge and monitoring of market indicators. Where and when vacancy rates, years supply ratios and letting periods are low, suggesting an undersupply of land for the smart and secondary sectors, the authorities may wish to limit the development of big sheds, through planning conditions that set ceilings to the size of B8 units. A suitable ceiling might be around 9,000 sq m. If such policies are to be defended successfully through the planning process, they need to be based on robust market evidence.

Offices

- 49 To fill possible future gaps in supply, we suggest that one or two new business park sites might be identified, in St Albans and/or Welwyn Hatfield. We suggest these locations because they are close to St Albans city - which from a market perspective is the study area's most attractive office location - and to the Welwyn Hatfield Key Centre for Development and Change - one of the places where regional policy aims to concentrate both employment and housing growth. They are also far from the proposed business park at Maylands, and therefore would not compete closely with it. Any potential new business park sites of course would need to be fully tested through the LDF process.
- 50 We also suggest that the planning authorities consider providing more good-quality opportunities for office development and redevelopment in town centres. This may involve including office space in mixed use town centre developments and/or redrawing town centre boundaries. Not every town centre can or should provide additional office sites, but some centres should, otherwise some occupiers will not find the kind of location they wish for, and development will be less sustainable than it could be.
- 51 Our analysis also suggests that, if supply is to meet the forecast demand, existing office sites should be safeguarded for offices. Alternatively, if any existing sites are lost, they should be replaced. Yet again, only those sites which are suitable and viable for office use should be safeguarded. Our site assessments and market testing should be used to identify those sites that do not meet this test.

Implementation, Monitoring and Review

- 52 To help guide both policy reviews and day-to-day development control decisions, the forecast demand scenario we have used should be updated at regular intervals, perhaps every 3-5 years (more often in case of economic shocks) or as dictated by the RSS review cycle, using the OE model. The supply data should be updated continuously, using the development monitoring systems already operated by the county and district councils. In addition to these planning data, the authorities should monitor market data as well as planning data, including data on floorspace take-up and (especially) vacancies, so they can assess the balance of supply and demand. They should also

consider establishing a property market forum to serve as an information exchange and sounding board.