

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

HERTFORDSHIRE LONDON ARC JOBS GROWTH AND EMPLOYMENT LAND



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Final Report
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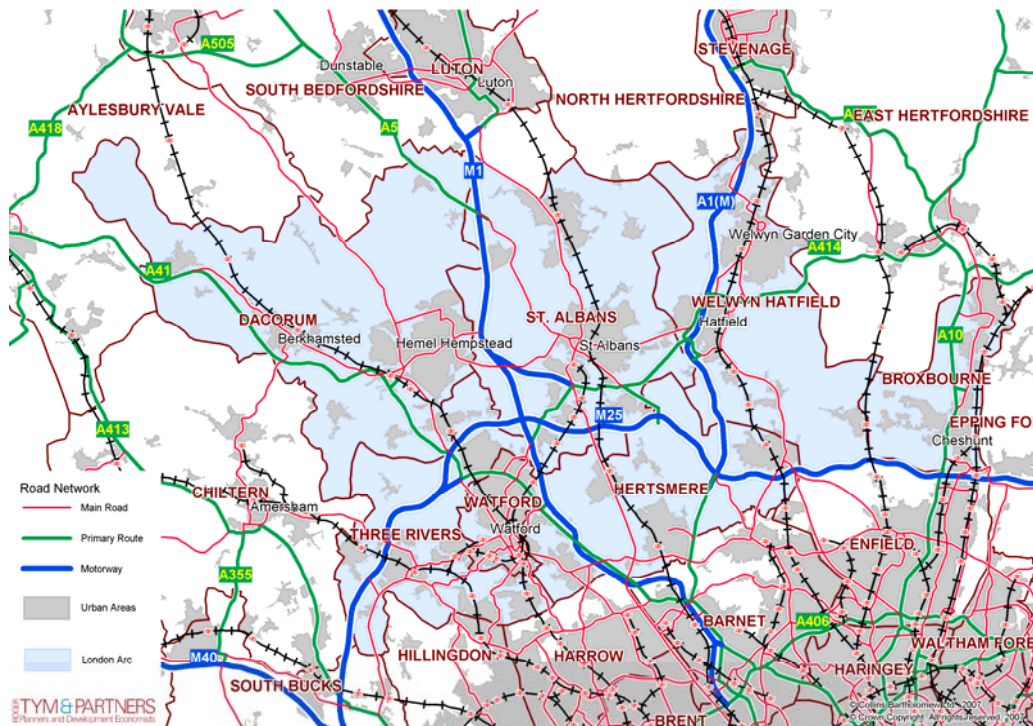
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1 INTRODUCTION

- 1.1 Roger Tym & Partners was commissioned to undertake this study in February 2008 by the district and borough councils of the Hertfordshire London Arc, comprising Broxbourne, Dacorum, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield. Together with Brentwood and Epping Forest in Essex, these local authority areas comprise the London Arc sub-region, as defined in the current Regional Spatial Strategy, the East of England Plan.

Figure 1.1 The Hertfordshire London Arc



Source: RTP

- 1.2 The study will form part of the evidence base for the seven districts' Local Development Documents. Its purpose is to provide a sub-regional overview of future requirements for employment land, comprising factories, warehouses and offices¹, in the plan period to 2026 and beyond. The seven authorities have already made such assessments through three employment land studies, carried out by Roger Tym & Partners and covering respectively:

- South West Herts (comprising the districts of Dacorum, Three Rivers and Watford), completed January 2005 (Dacorum partially updated January 2007 for proof of evidence);

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.

- Central Herts (Hertsmere, St Albans, Welwyn Hatfield), completed December 2006 (minor update February 2007),
 - The Borough of Broxbourne, completed in March 2008.
- 1.3 The present study partially updates these earlier studies and brings them together to provide a broad overview across the study area as a whole. It was commissioned partly in response to changes to the then emerging East of England Plan, which introduced the London Arc as a sub-regional entity and set a joint employment growth target of 50,000 net new jobs for its Hertfordshire section. As discussed in Chapter 2 below, the final version of the RSS has now been published and it retains the London Arc as a separate sub-region, though it no longer gives it a separate job growth target.
- 1.4 This study, like any employment land study, addresses three main questions:
- i) What new land, if any, should the planning authorities provide for these uses?
 - ii) What existing employment sites, if any, should be allowed to transfer to other uses?
 - iii) What other policy interventions, if any, are needed to bring forward employment land?
- 1.5 As a sub-regional overview, the 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 the position at 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 shortly.
- 1.6 Following this Introduction:
- The next four chapters review the present position, providing a baseline for the future analysis that follows. Chapter 2 sets out the current policy background, Chapter 3 profiles the sub-regional economy and Chapters 4 and 5 analyse commercial property markets, aiming to assess the current balance of supply and demand for employment space.
 - The next two chapters look ahead to the long term. Chapter 6 assesses the committed supply of employment land. Chapter 7 forecasts the demand for land to 2026, compares it to this supply and draws the policy implications.
 - Finally Chapter 8 provides conclusions and recommendations.
- 1.7 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.

2 POLICY CONTEXT

Introduction

2.1 In this chapter, we summarise:

- National and regional policies to which the districts' new Local Development Frameworks (LDFs) will be required to conform;
- Proposed policies in emerging LDFs.

National Policy

2.2 Planning Policy Guidance Note (PPG) 4, Industrial and Commercial Development and Small Firms, published in 1992, remains the core statement of national planning policy.

2.3 Key statements in PPG 4 include:

- "One of the Government's key aims is to encourage continued economic development in a way which is compatible with its stated environmental objectives.
- Policies should provide for choice, flexibility and competition.
- In allocating land for industry and commerce, planning authorities should be realistic in their assessment of the needs of business. They should aim to ensure that there is sufficient land available which is readily capable of development and well served by infrastructure. They should also ensure that there is a variety of sites available to meet differing needs.
- A choice of suitable sites will facilitate competition between developers; this will benefit end-users and stimulate economic activity.
- The locational demands of businesses are... a key input to the preparation of development plans. Development plan policies must take account of these needs and at the same time seek to achieve wider objectives in the public interest."

2.4 The Planning White Paper, Planning for a Sustainable Future, published in May 2007, promised shortly to replace PPG4 with a new Planning Policy Statement (PPS), part of a reformed planning system that will more positively support economic development. The new draft PPS 4 was published in December 2007. The Ministerial Foreword states the key objectives of the new guidance:

2.5 "This draft Planning Policy Statement aims to provide the tools for regional planning bodies and local planning authorities to plan effectively and proactively for economic growth. As a result of this new policy, regional and local planning bodies will support economic development by ensuring that they understand and take into account what their economies need to remain competitive [and that they are] responsive to

the needs of business and factor in the benefits of economic development alongside environmental and social factors.”

2.6 Paragraph 9 of draft PPS 4 states the same objective more succinctly: “The Government wants planning policy to support economic growth.”

2.7 To pursue this objective, the draft says that regional planning bodies and local planning authorities should:

- Use evidence to plan positively to meet current business needs and future changes, and in particular:
 - Undertake employment land reviews to assess the supply and demand for employment land;
 - Where possible, carry out these reviews at the same time as housing land assessments, to ensure that competing land uses are considered together;
 - Use a wide evidence base, including market information and economic data;
 - Plan to accommodate and support existing economic sectors, new or emerging sectors, clustering and knowledge-based and high-technology sectors;
 - Locate key distribution networks and freight-generating developments so as to minimise carbon emissions;
 - Aim to locate larger office developments in town centres or edge-of-centre sites, consistent with the sequential approach in PPS 6, except where offices are ancillary to other economic activities located elsewhere;
 - Where appropriate, collaborate with other authorities;
 - Where markets cross administrative boundaries, plan on a sub-regional basis;
- Recognise the needs of business, providing the flexibility to cater for varied and unforeseen needs; and in particular:
 - Use criteria-based policies to identify new employment sites and where necessary to safeguard existing employment sites from other uses;
 - Wherever possible avoid designating sites for single or restricted use classes;
 - Cater for start-up and SME accommodation as well as larger units and consider how the authority can deliver development, using interventions such as land assembly;
 - Avoid carrying forward existing allocations; if there is no reasonable prospect of a site being used for economic development during the plan period, it should be actively considered for other uses;
- Aim for effective and efficient use of land, in particular:

- Use market signals in plan-making and decision-taking: ‘planning authorities should take into account price differentials between land allocated to different use classes, when deciding on the most productive use of land’;
 - Prioritise previously developed land and encourage new uses for vacant and derelict buildings;
 - Take a constructive approach to change of use where there is no likelihood of demonstrable harm;
 - Set maximum parking standards for non-residential development at the local level.
- Secure a high-quality and sustainable environment, in particular:
 - Seek to ensure economic development is of high quality and inclusive design and addresses climate change and the natural and historic environment.
 - Take a positive approach to development control, in particular:
 - Where proposals do not have the specific support of plan policies, assess them using a range of evidence and consider them favourably unless there is good reason to believe that the economic, social and/or environmental costs of development are likely to outweigh the benefits;
 - Where proposals accord with the plan, they should normally be approved.
 - Ensure that development control decisions take full account of the benefits of development;
 - Hold early discussion with developers about major or controversial proposals;
 - When refusing planning applications, set out clear reasons why.
- 2.8 Employment land is also mentioned in Planning Policy Statement (PPS) 3, (November 2006). PPS3 at paragraphs 43-44 generally encourages re-use of previously developed land, and specifically states that local planning authorities should consider ‘whether sites that are currently allocated for industrial or commercial use could be more appropriately re-allocated for housing development’.

Regional Policy

The Regional Spatial Strategy

- 2.9 The current Regional Spatial Strategy (RSS), known as the East of England Plan², was published in final form in May 2008. The RSS is the top tier of the statutory Development Plan, which provides a consistent regional framework to guide lower-tier plans, strategies and programmes,

² Government Office for the East of England, East of England Plan, The Revision to the Regional Spatial Strategy for the East of England, May 2008

and Local Development Documents are required by law to be in broad conformity with it. The current East of England Plan covers the period to 2021 but its vision, objectives and core strategy are for the longer term, aiming to support sustainable development beyond 2021, with a requirement to review Green Belt boundaries to accommodate development to 2031 at Hemel Hempstead and Welwyn/Hatfield, where strategic reviews of Green Belt boundaries are needed.

- 2.10 Below, we summarise those provisions of the Plan which bear most directly on employment land, and comment on their implications for the Arc.

Objectives and Core Strategy

- 2.11 The first objective of the East of England Plan is to reduce the region's impact on climate change and its exposure to the effects of climate change. The means for achieving this include:
- Locating development so as to reduce the need to travel;
 - A major shift in travel away from cars towards public transport, walking and cycling.
- 2.12 The Plan's third objective is 'to realise the economic potential of the region and its people, by:
- Facilitating the development needed to support the region's business sectors and clusters in line with the Regional Economic Strategy;
 - Providing for job growth broadly matching increases in housing provision³ and improving the alignment between the locations of workplaces and homes;
 - Maintaining and strengthening... inter-regional connections by improving access to economic opportunities in London; and
 - Ensuring adequate and sustainable transport infrastructure'.
- 2.13 These objectives are taken forward into the core spatial strategy at Chapter 2 of the Plan. The strategy seeks to ensure that development maximises the potential for 'more sustainable relationships between homes, workplaces..., services and facilities and means of travel between them' (Policy SS1). To this end, it aims to concentrate new development in the region's major urban areas - where 'strategic networks connect and public transport accessibility is at its best and has the most scope for improvement' (Policy SS2). These focuses of development are the 21 Key Centres for Development and Change, of which Hatfield and Welwyn Garden City, Watford and Hemel Hempstead are in the Arc (Policy SS3). The text notes that the East of England is mostly made up of towns and cities surrounded by rural hinterlands, but the Arc is an exception, in that its urban areas are close together and closely linked to each other and to London by journeys to work, to services and to education.

³ Although it is important to note that an increase in household provision does not always lead to an increased need for jobs due to the prevalence of concealed households.

- 2.14 Another type of priority area, identified at Policy SS5 of the RSS, comprises Priority Areas for Regeneration, which are in two categories: areas with weak economic performance and significant areas of deprivation, and areas with significant areas of deprivation only. No part of the Hertfordshire London Arc is in the first category. The Lea Valley, which includes the main urban areas of the Borough of Broxbourne, is in the second category. LDDs and non-statutory plans should set out policies to combat deprivation in the areas listed and in other places with locally significant regeneration needs.
- 2.15 The RSS prioritises the use of previously developed land in and around urban areas and sets the target that 60% of development region-wide should be on previously developed land (Policy SS2).
- 2.16 A final element of the core spatial strategy relates to the Green Belt. The Plan seeks to maintain the 'broad extent' of Green Belts in the East of England, but considers that strategic reviews of Green Belt boundaries are needed in certain areas in order to accommodate development in sustainable locations (Policy SS7). Two of these areas are in the Hertfordshire London Arc: Hemel Hempstead and Welwyn Garden City/Hatfield. As well as land in Dacorum and Welwyn Hatfield districts, both may involve land in St Albans district. A more local review will be required in Broxbourne. Where reviews cover more than one local authority, they should be undertaken jointly or coordinated across districts.

Economic Development

- 2.17 In Section 4 of the East of England Plan, Economic Development, introductory text notes that the region is part of the greater South East, centred on London, which is the leading driver of the national economy. The text further stresses the mutually supportive relationship between the RSS and the Regional Economic Strategy (RES), which was published in September 2008. The two strategies share common objectives, including continued growth of the most dynamic areas, sectors and clusters and better alignment between homes and jobs. Local Development documents 'should take account of and facilitate delivery of the RES, putting in place complementary policies and proposals'.
- 2.18 The Plan at policy E1 sets out indicative job growth targets for the period 2001-21. These targets mostly relate to sub-regional groupings rather than individual districts and 'may be revised through the review of the RSS... or testing through development plan document preparation'. Supporting text adds that the evidence was not sufficiently robust to set more than indicative targets, and the RSS review should aim to produce more robust targets which can be readily monitored, and to express these at district level, albeit with a degree of flexibility.
- 2.19 As these caveats suggest, future employment change was among the most complex and controversial topics in the evolution of the RSS. It is also central to the present study, because employment growth drives the demand for employment land. We discuss it at length in Chapter 7.

- 2.20 Policy E2 states that ‘Local Development Documents should ensure that an adequate range of sites/premises (including sites in mixed-use areas and town/district centres) is allocated to accommodate the full range of sectoral requirements to achieve the indicative job growth targets of Policy E1, or revisions to those targets as allowed by that policy, and the needs of the local economy’.
- 2.21 In the previous version of the East of England Plan, the Arc authorities shared a sub-regional target of 50,000 additional jobs. In the final published version of the Plan, this target has been subsumed in a wider total of 68,000 net additional jobs for Hertfordshire as a whole.
- 2.22 Policies E2-E4 of the RSS provides qualitative guidance on the provision of employment land, around three main themes:
- i) *Sustainability*

LDDs should identify employment sites at locations which minimise commuting through better alignment of jobs and homes, maximise use of public transport, protect important wildlife and minimise or mitigate loss of social capital - which ‘will often mean’ giving preference to previously developed land and intensification of existing uses over greenfield development.
 - ii) *Strategic Sites*

LDDs should identify readily-serviceable strategic employment sites, ‘which meet the needs of business’. The RSS does not define what it means by strategic employment site but advises that such sites should be particularly but not exclusively at specified locations, of which two are relevant to the Arc;

 - Hemel Hempstead, ‘to assist regeneration and ensure growth in key sectors and clusters
 - Hertfordshire, ‘at [other] locations where this would support strong, continued growth of mature and emerging clusters and sectors or support regeneration of the Lee Valley’.
 - iii) *Sectors and Clusters*

LDDs should support the growth of regionally and locally important sectors and clusters. Regionally important clusters include multi-media ‘from London to Hertfordshire’. Locally important clusters and sectors are to be identified by local economic partnerships, working with local authorities and EEDA. LDDs should provide land for them, including sites for incubator units, grow-on space and larger facilities, sites close to key institutions close to universities and user restrictions to secure space for specific activities.
- 2.23 With regard to the process of preparing LDDs, the Plan stresses the role of Employment Land Reviews to identify the accommodation needs of businesses, and encourages joint working between districts ‘where development proposals and issues cross local authority boundaries’. Supporting text notes that EERA and EEDA have developed a consistent

evidence base and issued good practice advice on Employment Land Reviews⁴ and national guidance is also available.

The London Arc

- 2.24 The RSS defines the London Arc as the areas closest to and most strongly influenced by London, apart from the Essex Thames Gateway. As well as Broxbourne, Dacorum, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield in Hertfordshire, it covers Brentwood and Epping Forest in Essex.
- 2.25 The spatial strategy for the London Arc has two emphases:
- Retention of the Green Belt, except for the reviews proposed at Broxbourne, Hemel Hempstead, Welwyn Garden City and Hatfield;
 - Urban regeneration and greater sustainability, particularly through increased use of non-car modes of transport.
- 2.26 For the three Key Centres for Development and Change in the London Arc, the Plan provides specific guidance on employment land uses, as follows:
- Hemel Hempstead should provide for substantial employment growth, capitalising on links to Watford, major development proposals in neighbouring areas including Brent Cross/Cricklewood, regeneration of Maylands, reconstruction of Buncefield and creation of a more attractive and vital town centre;
 - Welwyn Garden City and Hatfield should also provide for substantial job growth, capitalising on links to Stevenage and central London and opportunities related to the University of Hertfordshire and improvements the two town centres. The Plan proposes new employment sites in Welwyn Garden City and Hatfield;
 - Watford should provide for continued employment growth, with restructuring of employment areas and parts of the town centre, high-quality redevelopment including mixed-use schemes and intensification, focus on the knowledge-based and health sectors and higher-order services, and enhancement of the town's role as a major public transport interchange.
- 2.27 We do not consider that Brentwood and Epping Forest compete directly with the Hertfordshire London Arc authorities, so we have not looked at the plans for those areas.
- 2.28 Policy H1 sets out minimum housing provision for the Hertfordshire London Arc authorities as follows.

⁴ East of England, Employment Land Review Guidance Manual, March 2008,
http://www.eastofenglandobservatory.org.uk/WebDocuments/Public/approved/user_9/EmploymentLandReview.pdf

Table 2.1 East of England Plan Housing Provision

Area/district	Net Additional Dwellings (per year in brackets)		
	Minimum to build	Of which already built	Minimum still to build
	April 2001 - March 2021	April 2001 - March 2006	April 2006 - March 2021
Broxbourne	5,600	1,950 (390)	3,650 (240)
Dacorum	12,000	1,860 (370)	10,140 (680)
Hertsmere	5,000	1,080 (220)	3,920 (260)
St Albans	7,200	1,830 (370)	5,370 (360)
Three Rivers	4,000	1,010 (200)	2,990 (200)
Watford	5,200	1,410 (280)	3,790 (250)
Welwyn Hatfield	10,000	2,730 (550)	7,270 (480)
Herts London Arc	49,000	11,870 (2,380)	37,130 (2,470)

Source: East of England Plan

Note

Any expansion of Hemel Hempstead into St Albans district is included in the Dacorum total.
Any expansion of Welwyn Garden City/Hatfield into St Albans district is included in the Welwyn Hatfield total.

2.29 In the period 2006-21 the seven districts are to provide land for some 37,000 net new dwellings, roughly 10% of the East of England total. The highest targets are for Dacorum (10,100 dwellings) and Welwyn Hatfield (7,300 dwellings). St Albans districts is to provide for 5,400 dwellings and the remaining Hertfordshire London Arc districts for around 3,000-4,000 each.

The Regional Economic Strategy

2.30 The Regional Economic Strategy (RES) for the East of England was published by the East of England Development Agency (EEDA) in September 2008. The stated vision is that by 2031, the region will be:

- internationally competitive with a global reputation for innovation and business growth
- a region that harnesses and develops the talents and creativity of all
- at the forefront of the low-carbon and resource-efficient economy.

and known for:

- exceptional landscapes, vibrant places and quality of life
- being a confident, outward-looking region with strong leadership and where communities actively shape their future.

2.31 The RES also sets a range of economic targets for the region, including targets for the growth of output (gross value added, or GVA).

Local Policy

Hertfordshire County Structure Plan Review 1991 - 2011

2.32 The Hertfordshire County Structure Plan Review 1991-2011 was adopted by the County Council on 30 April 1998 and became operative on that date. From 12 May 2008 (when the Regional Spatial Strategy was adopted) only a small number of policies are saved and continue to apply. Policy 15 regarding Key Employment Sites is one of these saved policies and applies to the following sites:-

- Leavesden Studios
- British Aerospace, Hatfield
- Essex Road, Hoddesdon
- Centennial Park, Elstree
- Three Cherry Trees Lane, Hemel Hempstead
- Park Plaza, Waltham Cross

2.33 The land at Three Cherry Trees Lane and Park Plaza are sites where priority will be given to specialised technological activities or other activities which are in the national or regional interest.

2.34 Through the Maylands Masterplan (adopted September 2007) and the Maylands Gateway Development Brief, Dacorum Borough Council is pursuing the relocation of the Three Cherry Trees Lane key site designation to a smaller but more prominent area of land adjacent to Breakspear Way (known as Maylands Gateway). This relocation has the support of both the Borough and County Councils and will be formalised through the Council's Core Strategy and East Hemel Hempstead Gateway Area Action Plan (to be prepared jointly with St Albans City and District Council).

Emerging Local Development Frameworks

2.35 The seven districts' adopted Local Plans are becoming out of date, with the most recent being adopted in 2005⁵. The seven district councils are working on their new LDFs and we discuss their emerging policies below.

Dacorum

2.36 Dacorum produced a Core Strategy Issues and Options document in July 2005 which then went to consultation, the consultation period ending in June 2006. The strategy sets out three key economic challenges for Dacorum. These are safeguarding enough land and ensuring a range of development opportunities for the Borough's long term economic needs; improving employment opportunities in Hemel Hempstead, thereby promoting confidence and supporting regeneration of the town; and

⁵ The previous employment land studies provide details of these current Local Plans.

finding a suitable use for allocated employment land which is not required for employment purposes.

- 2.37 A Supplementary Issues and Options paper relating specifically to Growth at Hemel Hempstead was prepared jointly by Dacorum and St Albans Councils for consultation in November 2006. This highlighted a number of potential locations for new and/or extended neighbourhoods around Hemel Hempstead. One location, to the east of Buncefield, was suggested as a potential location for new employment land, should additional provision need to be made to accommodate growth requirements to 2031.
- 2.38 The Site Allocations Issues and Options document (November 2006) identifies three large sites employment sites which are being considered for change of use:
- Nash Mills General Employment Area, which was previously occupied by Sappi Graphics who have recently moved. Although currently designated as employment land, the appropriate future use for the site must be established;
 - Bourne End Mills, considered an important source of employment land, partly due to good accessibility from the A41. However, two alternative uses have been suggested to the council - one for residential development retaining some employment land, and one for a care home for the elderly;
 - Apsley Paper Trail, currently employment land although trustees have requested re-designation of part of the site for residential development. Conscious of the concept for the site of 'a vibrant mix of uses and creating an exciting place to visit'⁶, the Council feels non-residential or other employment uses would be more appropriate, possibly including retailing.
- 2.39 The district has four unimplemented employment sites. Three fall within the Maylands business area, covered by the Maylands Master Plan (see below), and the fourth is Miswell Lane, Tring, falling within Ickneild Way General Employment Area, which is entirely allocated for B-space uses.
- 2.40 Sites in and around Hemel Hempstead town centre have been coming under pressure for residential use. An application to replace the Lord Alexander House building with residential was recently approved at appeal despite it being one of only a small number of town centre office sites. Office development in the town centre has recently proved difficult to let. An important question for the Borough is how to encourage town centre office development and whether live/work units or other types of mixed use development would be successful.
- 2.41 The East of England Plan recommends major growth at Hemel Hempstead, with the possibility that some of this will be to the east of the town, within St Albans' boundary. Dacorum and St. Albans produced a

⁶ Dacorum Site Allocations Issues & Options Summary, p11, Chapter 3, Issue 2

Core Strategies Supplementary Issues and Options Paper in 2006 looking at options for growth. The Maylands Business Area, together with any new development within St Albans will be the subject of an Area Action Plan.

- 2.42 The Maylands business area is the most important business area in Hemel Hempstead, and is an area of sub regional importance. The Buncefield Oil Depot explosion in 2005 has however dented confidence in Hemel Hempstead and especially Maylands.
- 2.43 Prior to the incident a vision was being developed for the area by the Maylands Task Force (now known as the Maylands Partnership), investigating how to make it a more attractive business location. The Maylands Master Plan, which will inform the Area Action Plan for the East side of Hemel Hempstead, is set to assist the economic recovery.
- 2.44 The Maylands Master Plan is a document produced by Dacorum Borough Council and its partners to guide regeneration of the Maylands business area - the introduction notes that the fire provides impetus to refresh the area but also that regeneration would have been necessary in any case. The purpose of the Plan is to 'unlock the potential that Maylands has to become the leading location for business in the East of England and beyond.'⁷
- 2.45 The Masterplan sets out several objectives for regeneration. These include improving the current business environment to protect occupiers as well as striving for higher quality in future development, focusing especially on technology related businesses. However, the Plan does not intend to concentrate only on a narrow range of business types, central to the document is the idea of 'Character Areas' - different zones within the business area, each with a distinct identity designed to attract a particular range of businesses, allowing links to develop between the zones.
- 2.46 The Masterplan notes that an obvious option, easily deliverable and appropriate to market conditions, would be to designate the prominent 'Gateway' area for warehouse development, but does not see this option as the best solution. Instead, the document recommends a business park of high-end office space, to boost the image of the town at this key entry point and assist with its wider regeneration. It therefore proposes the relocation of the Structure Plan Key Employment Site designation from its current site at Three Cherry Trees Lane to this more visible location fronting the A414, just off junction 8 of the M1. The aim is to create a new office-led business park containing a series of high quality, sustainable buildings within a quality landscaped setting. It will provide a range of building sizes suitable for key tenants in landmark buildings, including a higher education presence, HQ offices, conference facilities and a hotel. The Gateway development has the potential for around 130,000 sq m (gross external) of office space, equating to over 5,700 jobs.

⁷ Maylands Master Plan: The Gateway to a Greener Future, p1, para 1.1.1

- 2.47 “Hemel 2020 - Our Vision, Our Future” sets out the Council’s future policy direction for the town. A key element of this vision is the rejuvenation of the Maylands Business Area to achieve a vibrant, dynamic and premier business-led community and first choice investment location. Hemel 2020 has recently been updated to reflect the new growth agenda.

Three Rivers

- 2.48 The Three Rivers Core Strategy Issues and Options document came out in June 2006 and consultation ended in November of the same year. The Issues and Options paper discussed the possibility of releasing surplus employment land for housing. This was also raised in more site specific detail as part of the Core Strategy Supplemental Issues and Options Consultation between July and September 2007. There was public support to release some employment land for housing. The Site Allocations DPD will be published for public consultation in 2009.
- 2.49 An important question for Three Rivers is the surplus of office space and how to deal with this. Office accommodation at the recently developed Leavesden Business Park has not fully let.
- 2.50 Another critical issue is to find sufficient land for future housing within the District. The challenge is to retain sufficient employment land across the District to meet local needs and keep a check on out-commuting whilst at the same time minimise the land-take for housing within the Green Belt.
- 2.51 There is also a high demand for small business units. Those that have been supplied in the district are popular.

Watford

- 2.52 Watford Council produced a Preferred Options Core strategy in 2007, which went to consultation until April 2008. Policy BWP 2 on employment sets out four objectives:
- ‘To make the town a good place for business, skills and learning, ensuring that provision is made for an appropriate number of jobs to meet strategic requirements.
 - Ensure that employment growth is not hampered by congestion by ensuring that jobs are located in easily accessible locations.
 - Provide a range of business premises to meet the needs of the local economy, including flexible provision for SMEs.
 - Reinforce the area’s existing economic clusters: retail, printing, film, health and sustainable development’⁸.
- 2.53 The policy also intends to set a suitable job target up to 2021, consistent with the East of England Plan but paying close attention to the issue of congestion, which is a major one for Watford. It will also set out, in later stages, how much and what kind of employment land is needed as well as retaining and protecting existing uses.

⁸ Watford Borough Council Core Strategy Preferred Options, ch. 5.2, policy BWP 2

- 2.54 Changes of use of an employment area will only be appropriate where beneficial to the people of Watford - for example, for affordable housing, open space or mixed-use development with flexible low cost units. The policy also wishes to protect purpose built employment units outside employment areas, as they are seen as useful for SMEs and startup businesses.
- 2.55 Watford's Sites Allocation DPD is not yet out, the Council are undertaking a scoping exercise to collect details of sites to be included. There is no date set for release.
- 2.56 Watford is an urban district and so there are no greenfield sites for expansion, instead the focus is on redevelopment and regeneration. Watford is identified in the East of England Plan as a key centre for development and change, with a focus on retail, so an important question is how many retail and other non B space jobs will arise from town centre growth.

Hertsmere

- 2.57 Hertsmere's Core Strategy for Submission to the Secretary of State (December 2008) identifies four policies relating to employment land:
- Policy CS8 Scale and distribution of employment land;
 - Policy CS9 Local Significant Employment Sites;
 - Policy CS10 Land use within employment areas; and
 - Policy CS11 Promoting film and television growth in Hertsmere.
- 2.58 Policy CS8 promises to supply at least 100 ha up to 2021 of strategically designated employment land for B-class development. This land will be focussed on a Key Employment Site at Centennial Park, Elstree and on five designated Employment Areas:
- Elstree Way, Borehamwood;
 - Stirling Way, Borehamwood;
 - Cranborne Road, Potters Bar;
 - Station Close, Potters Bar; and
 - Otterspool Way, Bushey.
- 2.59 Limited release of any vacant or surplus employment land at Elstree Way may be permitted, for new housing-led and mixed-use development. Assessment criteria for any such release of employment land are set out.
- 2.60 Policy CS9 promises to provide small business units across the Borough. A supply of Local Significant Employment Sites will be identified, defined as 'economically viable business accommodation of 0.25 ha or more with satisfactory access, parking and environmental conditions, for B-class and other identified, employment generating uses'⁹.

⁹ Hertsmere Borough Council Core Strategy for Submission to the Secretary of State, December 2008, p54, Policy CS9

- 2.61 Policy CS10 safeguards the designated employment areas identified in policy CS8 for B-class uses only and states that any new office development of 2,500 sq m or above will be limited to the Elstree Way employment area, subject to environmental criteria and relevant DPD/Local Plan Policies being met. It also makes provision for certain other uses being permitted within the employment areas - waste management; builders merchants; film and television studios and production (see Policy CS11); and car dealerships and trade counter operations under certain conditions.
- 2.62 Policy CS11 promotes the retention and growth of the film and television production industry in Hertsmere. The Council pledges support for proposals relating to the industry and to associated uses. The Council also intends to grant a Local Development Order on the principal studio sites, meaning small-scale changes directly related to film or television production will not require planning permission.
- 2.63 The Preferred Options Report for the Site Allocations DPD is scheduled to be published in 2009. This may include Green Belt land for housing in the form of potential future extensions to Borehamwood or Potters Bar.

St. Albans

- 2.64 The Council's May 2006 Local Development Framework consultation document notes in the introduction that "the Council is not yet in a position to identify potential sites to meet all the likely future needs". The only site allocation relevant to employment space is North East Hemel Hempstead (Buncefield area), the area damaged by the Buncefield oil depot fire, most of which falls under Dacorum's jurisdiction.
- 2.65 The St. Albans Core Strategy Issues and Options Consultation Document was published in July 2007 and the consultation stage ended in September 2007. Regarding the Core Strategy, the paper highlights three key questions for public consultation. Firstly, it notes that the district suffers from high out-commuting, largely due to insufficient employment development land, and outlines various options.
- 2.66 Secondly, it questions what to do with existing employment sites. There has been an increase in planning permissions for non-employment uses granted on employment land, and the paper gives two realistic options - to continue with this trend or to restrict this type of development on employment land. The paper adds that the latter option would result in the need to provide residential land elsewhere, possibly in the Green Belt.
- 2.67 Thirdly, the paper recognises that new employment land is necessary, giving four options for consultation - creating no new sites but redeveloping existing areas to create more floorspace; creating new employment sites within the St. Albans urban area; creating new employment sites within the Green Belt; or creating new employment sites outside the district, for example at Hemel Hempstead or Welwyn Garden City. The strategy suggests that sites in the St. Albans urban area should be given priority, however it also notes that opportunities are limited.

- 2.68 The July 2007 Core Strategy consultation document mentions the Radlett Aerodrome site as a significant site. While an attractive location for business, the Council does not favour this site for employment growth due to its location within the Green Belt, remoteness from main settlements and the associated traffic generation. An application for a rail freight terminal comprising 331,000 sq m of floorspace was refused at appeal in October 2008. It is expected that a fresh application with further supporting justification will be submitted in early 2009. The issue of a strategic rail freight interchange is still unresolved.
- 2.69 The strategic expansion of Hemel Hempstead will probably partly be in St Albans district. A critical issue is the Spencers Park site (Three Cherry Trees Lane) - whether it should be developed for housing or for mixed use.
- 2.70 In St. Albans, office vacancy is high, except in the city centre. An important question is whether the office market is likely to improve over the plan period. Even in the central office core, some office sites have been lost to housing, and there are very few further opportunities.
- 2.71 There are large employment sites surrounding the district - Hatfield Business Park, Leavesden Park and Watford - and out commuting may increase in the future if there is no new development in the district itself. So an important question is whether to provide a large new employment site in the Green Belt to mitigate the loss of employment sites. The July 2007 Issues and Options Paper includes eight Areas of Search for new development, four of which were considered to be suitable for some employment development.

Welwyn Hatfield

- 2.72 Welwyn Hatfield does not yet have an adopted Core Strategy or Site Allocations Development Plan Document. Issues and Options consultation for the Core Strategy is expected to take place in Spring 2009. Welwyn Hatfield has an up to date local plan - the Welwyn Hatfield District Plan (adopted April 2005). Most of the employment-related policies of District Plan have been saved. The District Plan has four key objectives for employment which are to:
- a) ensure that there continues to be enough employment land and floorspace available, in the right locations and of the right quality, to provide jobs for local people, maintain a diversity of employment uses and accommodate the requirements of local businesses and firms seeking to locate in the area;
 - b) to bring about a better balance between the levels and types of housing and jobs in the borough and between the skills of the local workforce and the skill requirements of the jobs created, in order to help in reducing commuter flows into and out of the borough and thereby reduce the need to travel;
 - c) to encourage the development of small businesses, in order to stimulate more stable, indigenous economic development and increase the potential for living and working locally; and

- d) to maximise the opportunity for a range of business and employment opportunities in the former BAe site at Hatfield, and throughout the borough, to meet local needs.
- 2.73 District Plan Policy EMP1 designates nine employment areas across the borough. The general thrust of the plan's policies is to maintain Class B employment uses within employment areas. The one exception to this is Policy EMP3 which identifies the Broadwater Road West site (part of the main Welwyn Garden City Employment Area) as an opportunity area of planned regeneration for mixed use development comprising primarily employment, housing, leisure and rail-related uses. A Supplementary Planning Document setting out a framework for the regeneration of the site is expected to be adopted by the end of 2008.
- 2.74 Welwyn Garden City and Hatfield are together identified in the East of England Plan as a Key Centre for Development and Change (KCDC). The East of England Plan states that a new employment area is needed in the borough, perhaps as part of a new urban extension.
- 2.75 There are several proposals for non B space uses on employment land in Welwyn Hatfield - such as crèches and churches.
- 2.76 One of the Council's main aims is the regeneration of Hatfield town centre and the enhancement of Welwyn Garden City centre so that it can maintain its place in the wider retail hierarchy.

Broxbourne

- 2.77 Broxbourne published a core strategy consultation document in November 2008 and site allocations options DPD is due in 2009. Critical issues for Broxbourne will be to retain employment sites and to focus opportunities around regeneration areas in the south of the Borough.

Parking Standards

- 2.78 All the Councils have parking strategies which set out maximum parking standards for different types of development. Generally, industrial and warehousing uses have more floorspace per parking space than offices, because they are less intensive uses than offices, using more floorspace per worker. In most of the districts, the ratio for industrial and warehousing uses is one space per 75 sq m, while for office uses it is one space per 30 sq m. The standards are shown in the table below.

Table 2.2 Maximum Parking Standards

	1 space per sq m gross floorspace						
	Dacorum	Three Rivers	Watford	Hertsmere	St. Albans	Welwyn Hatfield	Broxbourne
B1(a)	30	75*	30	30	30	30	30
B1(b)	35	75*	35	30	30	35	35
B1(c)	35	75*	35	25-40*	30	35	35
B2	50	75*	50	25-40*	50	50	50
B8	75	75*	75	25-40*	75	75	75
Business park	-	-	-	-	-	40	40

* Hertsmere: When applied for as separate uses, 1 space per 25 sq m where floorspace does not exceed 250 sq m, 10 spaces plus 1 space for every 35 sq m over 250 sq m where floorspace exceeds 250 sq m. When applied for on a 'flexible consent' basis, 1 space per 40 sq m.

Three Rivers: Maximum parking standard depends on which of three designated zones the development falls in - Zone A (75 sq m); Zone B (50 sq m); or Zone C (25 sq m).

Economic Development Strategies

The County

- 2.79 The Hertfordshire Economic Development Strategy (October 2000) expired in 2005. It has three priorities for business development in the County;
- to create a knowledge economy in a sustainable environment through the Bright Green strategy, which aims to encourage and promote a culture of entrepreneurship and support knowledge based business clusters
 - to enhance business competitiveness by supporting small and medium- sized enterprises, through the establishment of management development centres, promotion of skills for ICT and pharmaceutical sectors and support for business start ups and for tourism and cultural sectors, including the film and media sector
 - to develop environmentally responsible businesses.
- 2.80 In October 2006, the sub-regional economic partnerships for Hertfordshire Prosperity Ltd, along with EEDA, published the Final Draft Economic Development Strategy covering the period to 2011. The stated vision is 'to create a strong vibrant economy, responsive to economic and social change, ready to grasp opportunities and offering opportunities for all.'
- 2.81 The strategy notes that, while new development could offer opportunities to grow the economy and tackle existing problems such as a shortage of affordable housing, there are concerns that the amount of development proposed could adversely affect the quality of life and threaten the very factors that make Hertfordshire an attractive place to live and do business in.
- 2.82 A key objective of economic policy in Hertfordshire must be to ensure that any new housing development is accompanied by appropriate infrastructure and is developed sustainably.

- 2.83 The strategy states that it is important to make the best use of existing employment land and where appropriate to regenerate and redevelop sites so that they better meet modern needs.

The Districts

- 2.84 Of the seven districts, only Broxbourne has produced an Economic Development Strategy. Broxbourne's Strategy is for the period 2006-09. It highlights four 'Council Initiatives to support economic development':

- 'Opportunities for Education and Training;
- Providing Business Start-Up Counselling;
- Providing Premises for Small Businesses; and
- Addressing Local Crime & Disorder'.

- 2.85 In addition, Dacorum is in the process of drafting an Economic Development Strategy and St. Albans is in the process of drafting an Economic Development Action Plan.

3 THE ECONOMY

Competitiveness and Well-Being

- 3.1 The earlier employment land studies analysed the local economies in three ways. They first considered workplace economies - the businesses and jobs located in each district, secondly resident workforces - the economically active people who lived in each district - and thirdly travel-to-work flows, which link workplaces with resident workers. Their key conclusions were 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. On all these indicators, most of the Hertfordshire London Arc's districts are well ahead of national and East of England benchmark, and close to or above the South East region.
 - ii) Residents' economic well-being is similarly high, with high skills, high earnings, low unemployment and few deprived areas.
 - iii) Although in some of the districts many residents out-commute to other local authority areas, this does not seem to result in especially unsustainable travel patterns. On average the length of journeys to work is in line with national and regional benchmarks, as are numbers of people who drive to work (Table 3.1).

Table 3.1 Residents' Average Distance Home-Work, 2001

	km
Watford	9.0
Hertsmere	9.9
Welwyn Hatfield	10.4
Broxbourne	10.5
Three Rivers	10.9
Dacorum	11.4
St Albans	12.9
Herts London Arc	10.9
East of England	11.7
England & Wales	9.4

Source: Census 2001

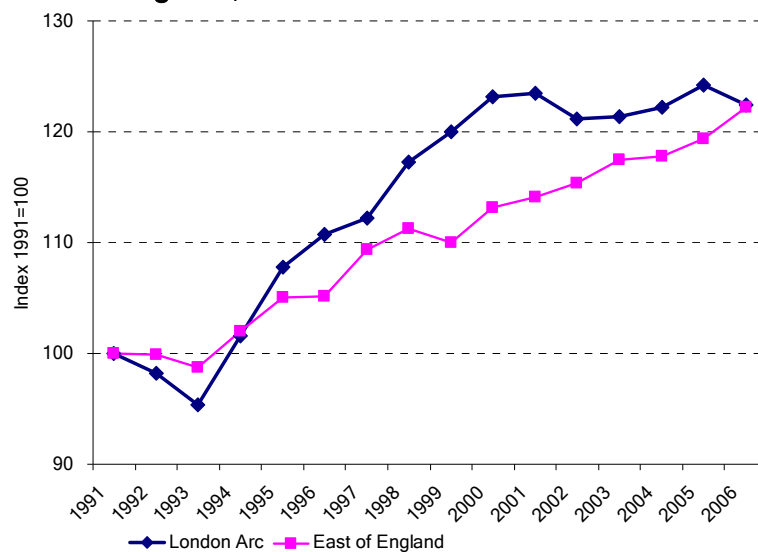
- 3.2 Broxbourne is a partial exception to the first two statements above. Compared to the other Hertfordshire London Arc districts and to the South East region, Broxbourne's workplace economy is relatively poor in high-value, knowledge-based activities, its earnings relatively low and its unemployment slightly higher. But compared to the East of England and the nation, Broxbourne against all these indicators is average or above-average. There is just one indicator where Broxbourne is below

national and East of England benchmarks: its resident workforce is comparatively low-skilled.

Employment Change

- 3.3 As well as the questions discussed above, the earlier employment land studies reviewed employment change across the Hertfordshire London Arc. They produced varying conclusions, depending on the district being considered and the date of the report. Below, we provide an updated analysis of employment change, using a dataset from Oxford Economics (OE). The OE data are based on and consistent with the official sources used in the earlier studies (latterly the Annual Business Inquiry (ABI)), but, unlike these sources, as well as employee jobs they include self-employment.
- 3.4 The ABI data for the Hertfordshire London Arc contain many apparent errors, especially for 2001. Working with the County Council and OE, we have tried to correct some of these errors as far as possible; it is the corrected data that is displayed below (details are at Appendix 1).
- 3.5 The chart below shows long-term change in total employment, from 1991 to 2006 (the last date for which figures are available).

Figure 3.1 Total Employment Change, Hertfordshire London Arc and East of England, 1991-2006



Source: Oxford Economics, RTP

- 3.6 Over the whole 15-year period, the Hertfordshire London Arc's total employment grew by 22%, exactly the same as the East of England region. But the period breaks into three quite distinct segments:
- In the final two years of the 1990s recession, 1991-93, the Hertfordshire London Arc lost jobs faster than the region.
 - From 1993 to 2000, employment increased steadily both in the region and the Hertfordshire London Arc, but growth in the latter was faster, both in total and in virtually each individual year. By the

year 2000, the Hertfordshire London Arc had 23% more jobs than in 1991, while the region had 13% more.

- From 2001 onwards, the position was reversed. In the region, employment continued to grow steadily. In the Hertfordshire London Arc, it fell fractionally in some years and increased fractionally in others, and by 2006 was just 3,500 jobs (1%) below its 2000 level.

3.7 This reversal is not due to just one or two districts. It reflects a general flattening of growth in most of the Hertfordshire London Arc, as demonstrated in the table below.

Table 3.2 Total Employment Change by district, 1991-2006

Districts	1991	2001	2006	% Change 91-06	% Change 91-01	% Change 01-06
Broxbourne	34,333	37,084	39,938	16%	8%	8%
Dacorum	62,693	74,341	68,866	10%	19%	-7%
Herstmere	40,467	53,989	48,342	19%	33%	-10%
St Albans	59,232	68,304	69,587	17%	15%	2%
Three Rivers	28,201	34,178	38,584	37%	21%	13%
Watford	47,945	64,082	57,146	19%	34%	-11%
Welwyn Hatfield	49,837	66,647	72,573	46%	34%	9%
London Arc	322,708	398,624	395,037	22%	24%	-1%
East of England	2,330,800	2,654,351	2,843,713	22%	14%	7%

Source: Oxford Economics, RTP

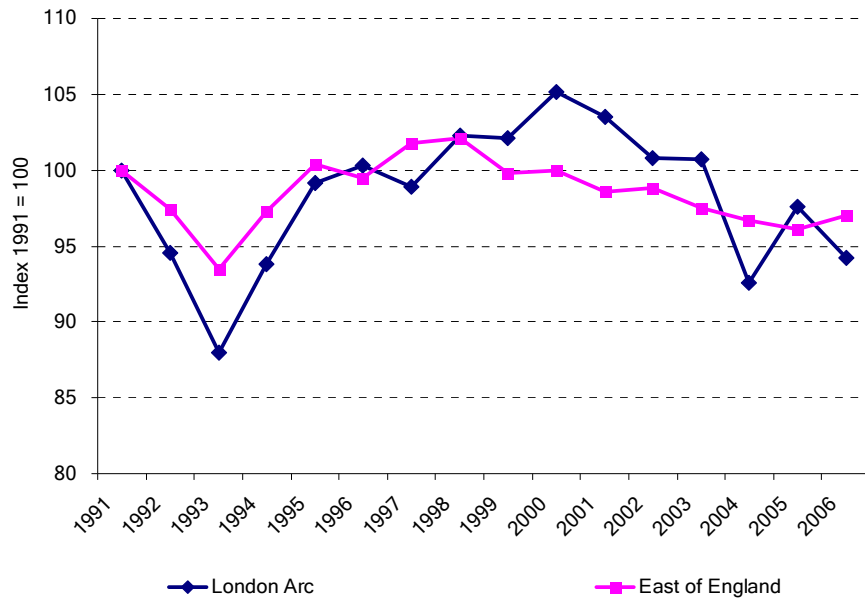
3.8 Between 1991 and 2001, all the Hertfordshire London Arc's districts gained jobs, and all but Broxbourne gained more jobs proportionally than the region. In contrast, between 2001 and 2006 five of the Hertfordshire London Arc's seven districts did worse than the region, including three which lost jobs. The two exceptions, where growth just kept pace with the region, are Welwyn Hatfield and Broxbourne. Broxbourne's growth speeded up, producing as many net new jobs in these five years as in the previous 10.

3.9 The general slowdown in the Hertfordshire London Arc is not associated with population change; official statistics do not show any reduction in the share of the region's population and workforce. Nor is the slowdown due to just one or two economic sectors, as is apparent from the charts below. In these charts, we split the economy into four broad sectors:

- Primary industries, mainly comprised of agriculture;
- Secondary industries, including manufacturing, construction, wholesale distribution and transport;
- Financial and business services (FBS);
- Personal and community services, including retail, leisure, education and health.

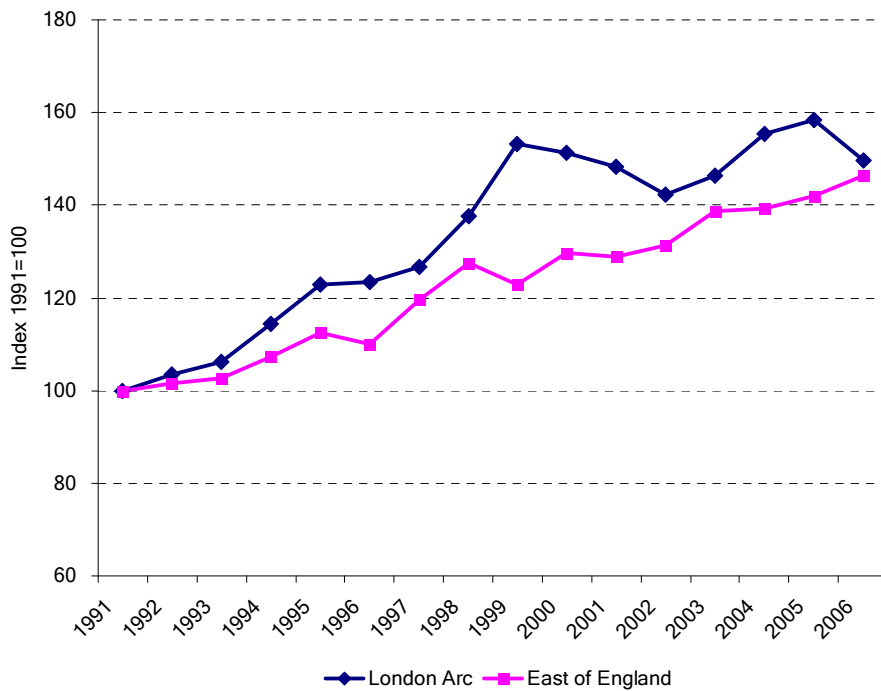
3.10 Primary industry is insignificant in the Hertfordshire London Arc, providing less than 2,000 jobs. Below, we show employment change for the remaining broad sectors, which in 2006 provided 109,000, 106,000 and 177,000 jobs respectively.

Figure 3.2 Employment Change, 1991-2006, Secondary Sector



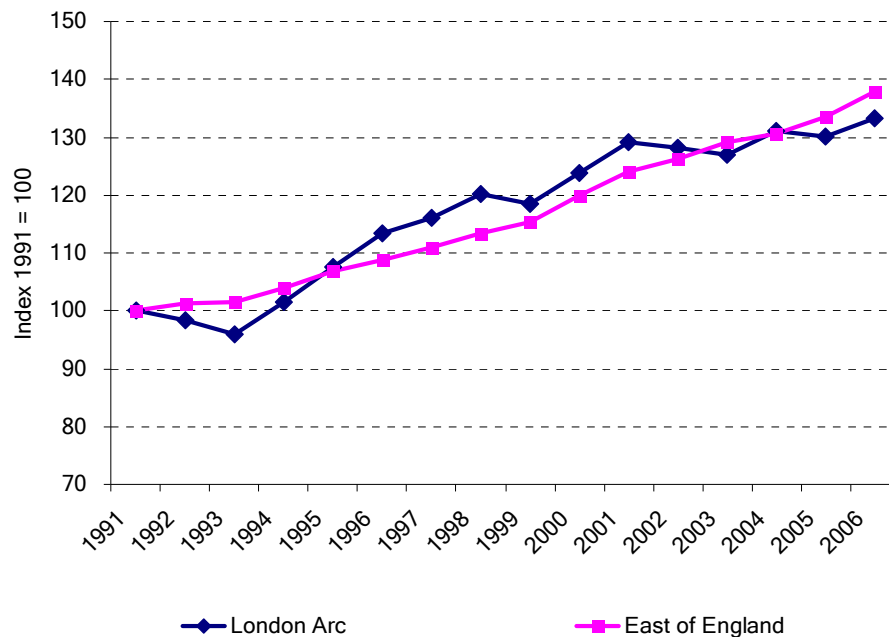
Source: Oxford Economics, RTP

Figure 3.3 Employment Change, 1991-2006, Financial and Business Services



Source: Oxford Economics, RTP

Figure 3.4 Employment Change, 1991-2006, Personal and Community Services



Source: Oxford Economics, RTP

- 3.11 In the secondary sector, the Hertfordshire London Arc's employment change broadly paralleled the region's, growing from 1993 to about the turn of the century and declining thereafter. In contrast, both FBS and personal/community services show roughly the same pattern as total employment. In both these sectors, the Hertfordshire London Arc's employment growth is similar to or faster than the region's up until a turning point around the turn of the century. After that turning point, which for FBS occurs in 1999 and for personal/community services in 2001, the region continues to grow at roughly the same pace, while the Hertfordshire London Arc's growth flattens.
- 3.12 The pattern is especially marked in financial and business services. In 1999, the sector's employment in the Hertfordshire London Arc was 53% above its 1991 level, while in the region its employment was just 23% about 1991. Thereafter, the region's FBS employment continued to grow steadily while the Hertfordshire London Arc's fluctuated. By 2006, both areas had FBS employment 50% above the 1991 level.
- 3.13 As mentioned earlier, the employment statistics for the Hertfordshire London Arc seem unreliable, especially for the early 2000s. We have corrected some large, obvious errors in the statistics, but there may be other errors, and they might conceivably account for the slowdown in employment growth. But in our view this is unlikely, because the slowdown is so pervasive, across districts, sectors and years.
- 3.14 Another possibility to be considered is that the slowdown is due to constrained land availability, perhaps due to the Green Belt, so that land supply fell short of demand and employment-generating uses were forced to grow elsewhere. With regard to industry, warehousing and

offices, we consider this possibility as part of the property market analysis in the next two chapters.

- 3.15 In summary, according to official statistics employment growth in the Hertfordshire London Arc turned down markedly around the turn of the century, in particular in financial and business services and personal and community services. Since then, the number of jobs in the study area has stagnated, while the regional total continued to grow, as it had been doing since 1993 and at much the same rate. The reasons for it are unknown but it is at odds, in the short term, with the East of England's focus on growth.

4 THE INDUSTRIAL/WAREHOUSING MARKET

Introduction

- 4.1 This and the next chapter analyse the Hertfordshire London Arc's sub-regional property market for industry/warehousing and offices respectively. For each market, we address two broad questions:
- i) The profile of the demand for space, to see what kinds of businesses seek space in the area, why they want to be there and what they are looking for.
 - ii) The current balance of the market, to compare demand and supply, and in particular to see if any kinds of space are under-supplied - which would suggest a need for new development, and hence for land.
- 4.2 As regards the second question, the market analysis in this chapter overlaps with the long-term demand-supply analysis in Chapter 7. This chapter provides a short-term analysis, focusing on the current demand and supply of *floorspace*, and using direct market indicators such as floorspace take-up, availability and rents. Chapter 7 looks forward 20-25 years, if focuses on the supply of *land* (today's land is tomorrow's floorspace), and it uses indirect measures, estimating future demand from employment forecasts and future supply from commitments.
- 4.3 Spatial planning by definition is about the long term, so in an ideal world the short-term market analysis might be considered irrelevant. But in practice this analysis is an essential complement to the long-term forecasts, partly because it provides a baseline or starting point for them (the long-term demand-supply calculation is all about change), but more importantly because the future is uncertain and we know little about it. One benefit from the market analysis is that it adds the qualitative dimension, considering what kinds of space are required, whereas the long-term forecasts provide only numbers. Another benefit is that it tests the forecasts against practical realities, helping us assess the risks and uncertainties surrounding these forecasts.
- 4.4 The nature of 'industry' has changed dramatically over the past three decades, as the national economy has restructured, and this has had a direct impact on the types of buildings required. One of the main underlying themes of this chapter is the continuing switch from production to service activities. Thus modern 'industrial' buildings, typically, accommodate 'cleaner' activities, often with a higher, value adding function, often with a high proportion of white collar workers, in buildings that are more similar to business parks than industrial estates. In assessing whether there is a shortage of industrial buildings, it is important to recognize these dynamics.

Background

- 4.5 The Hertfordshire London Arc comprises an area focused on the north western quadrant of the M25, stretching from Berkhamsted in the west to Cheshunt in the east. The area is traversed by the M1 and A1(M), and contains the contrasting styles of new towns at Hatfield, Welwyn Garden City and Hemel Hempstead, and the historic St Albans. It is well connected to central London by several rail lines into Euston, King's Cross, Marylebone, Moorgate, Liverpool Street and St. Pancras International.
- 4.6 Economically, Hertfordshire, and the Hertfordshire London Arc in particular, have a strong history in the defence, aerospace and engineering sectors and have acted as an over-spill destination for companies moving out of London. Allen and Hanbury's (now absorbed into GlaxoSmithKline), De Havilland, Shredded Wheat (later Nabisco) and Roche Products moved to the area before the last war. The area's economy continued to expand in the post-war period, particularly with the growth of the New Towns, attracting firms such as Smith Kline and French (another pharmaceutical company that was absorbed into GlaxoSmithKline), ICI, Hawker Siddeley, Kodak and Spirella. Like the national economy, the area suffered from severe structural decline in manufacturing during the 1970s and 1980s.
- 4.7 During the later 1980s the area made up some of the lost ground of the decline in traditional industrial sectors by capturing some of the growth in financial and businesses services and technology (mainly computer hardware and software). However the recession of the early 1990s had a major impact on the area, particularly when the continuing decline of manufacturing was exacerbated by the shrinkage of the defence and aerospace industries. The collapse of these strong industries affected economic growth, so that, for much of the 1990s, the area's GDP per capita fell relative to the national average. This was despite the rapid recovery in employment from 1993 onwards.

The Floorspace Stock

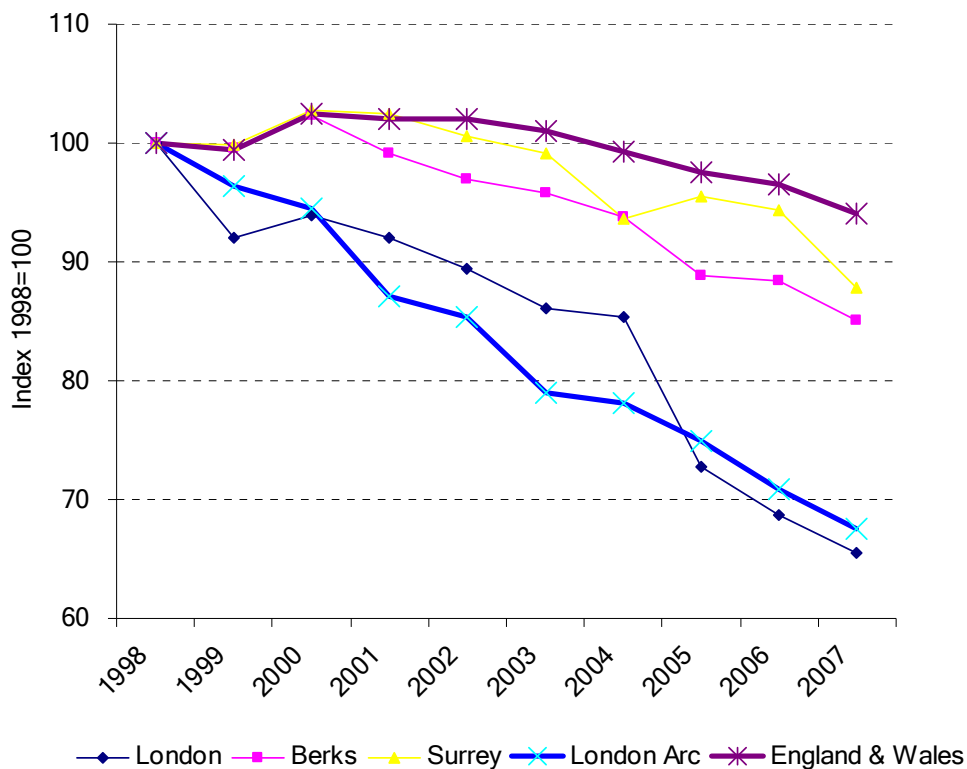
- 4.8 According to Government's statistics¹⁰ the Hertfordshire London Arc has an industrial floorspace stock of 3.47m sq m (37.3m sq ft), of which one third is factory space and two thirds is warehousing.
- 4.9 The graphs below show change in factory and warehouse floorspace since 1998 (the earliest date for which information is available), benchmarking the Herts London Arc against England and Wales, London, Berkshire and Surrey. All areas lost factory space over the period (Figure 4.1) - a manifestation of the structural shift from making goods to providing services. The study area lost one third of its factory stock in 1998-2007, similar to London but much more than Berkshire and

¹⁰ Found at: www.neighbourhood.statistics.gov.uk

Surrey (which both lost about 15%) or England (6%). The Hertfordshire London Arc's loss of factory stock was disproportionately concentrated in large units, so the average size of factories declined.

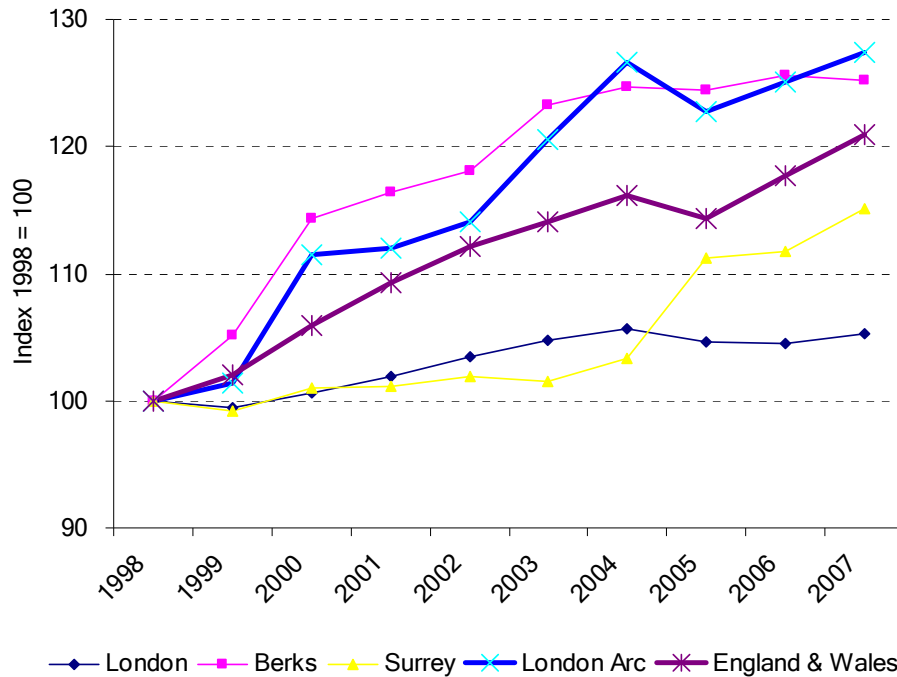
4.10 Figure 4.2 shows matching data for warehousing. All the areas shown gained warehouse space in 1998-2007. In the Hertfordshire London Arc, warehouse floorspace increased by 27% and the average size of warehouse units increased. Compared to other areas, the Hertfordshire London Arc gained roughly as much warehouse space as Berkshire and more than England and Wales (21%), Surrey (15) and London (5%).

Figure 4.1 The Stock of Factory Floorspace, 1998-2007



Source: Valuation Office Agency

Figure 4.2 The Stock of Warehouse Floorspace 1998-2007



Source: Valuation Office Agency

4.11 The table below shows factory and warehousing stocks by district within the study area. Between 1998 and 2007 factory floorspace fell significantly everywhere except Broxbourne; in Dacorum and Three Rivers it almost halved. Warehouse space increased in every district except Three Rivers; most districts gained more than 30%.

Table 4.1 Change in Factory and Warehouse Floorspace, 1998-2007

% Change	Factories	Warehouses	Factories and Warehouses
Broxbourne	-1%	32%	18%
Dacorum	-49%	37%	-8%
Hertsmere	-24%	34%	5%
St Albans	-40%	14%	-7%
Three Rivers	-45%	-2%	-28%
Watford	-25%	8%	-9%
Welwyn Hatfield	-34%	42%	1%
London Arc	-32%	27%	-2%

Source: www.neighbourhood.statistics.gov.uk

4.12 Taken together, the Hertfordshire London Arc's factory and warehouse floorspace remained almost stable between 1998 and 2007, at around 3.5m square metres. So across the Hertfordshire London Arc the loss of factory floorspace was offset by an equivalent amount of new warehousing space.

Industrial Areas

- 4.13 Hemel Hempstead is the main industrial concentration in South West Herts, catering for large-scale users, and is one of the main distribution centres around the M25 and southern part of the M1. Hemel Hempstead's main industrial area is around the Maylands Industrial Estate in North East Hemel Hempstead. Maylands is long-established, first growing significantly in the 1960s. However, buildings in the area are continually being churned (demolished and rebuilt), and there is now a large proportion of modern and purpose-built accommodation catering for a mix of small to medium sized local businesses and much larger, international companies. There is also a more recent incursion of distribution sheds.
- 4.14 Watford's industrial activity is concentrated around Watford Business Park and in the Colonial Way/Imperial Way area to the north of Watford Junction main line station. The area provides a mixture of old and modern industrial accommodation, including Helios Properties' Imperial Park scheme, which was built speculatively in 2001.
- 4.15 Three Rivers is a relatively minor industrial location, where the main industrial area comprises a number of industrial estates located off Tolpits Lane, including Dwight Road Industrial Estate, Moor Park Industrial Estate, Olds Approach and Vale Industrial Park.
- 4.16 The Central Herts market is dominated by Hatfield Business Park, which has been very successful in attracting a wide range of very large logistics facilities. The park is now nearing capacity and future expansion there will be limited. The area has also been popular with pharmaceutical companies, illustrated most recently by the inward investment of Eisai, a Japanese business.
- 4.17 Hertsmere's industrial market has declined rapidly in recent years, although it has gone some way to replacing lost manufacturing with warehousing and logistics, taking advantage of its easy access to motorways. Schemes such as Hertsmere Industrial Estate (Borehamwood) and Elstree Distribution Park have both proved popular with distribution businesses.
- 4.18 St Albans has a relatively small industrial market, and much of what exists comprises accommodation for smaller, more local businesses than for the kind of activity seen, for example, at Hatfield Business Park.
- 4.19 Industrial activity in Broxbourne is predominantly clustered around the Waltham Cross/Cheshunt area in the south, and the Hoddesdon area in the north. The Waltham Cross area has proved very popular in recent times with the distribution sector, although it caters for a broad profile of occupiers. The area around Lea Road and Britannia Road, in particular, has a heavy concentration of sheds, and there is evidence of churn with several large buildings that have clearly been constructed in recent times. To the north, the industrial market is dominated by Hoddesdon Industrial Estate. A little like Maylands in Hemel Hempstead, this estate is evolving and transforming itself with modern, purpose-built space. The

recently constructed Essex Road bridge across the railway line opened up a new area, which forms the focus of RD Park, a large distribution park comprising many new buildings.

- 4.20 The overriding theme in these concentrations of industrial stock is one of restructuring and modernisation, to provide more flexible buildings for more generic activities than the traditional industrial functions that they are replacing. In several cases 'B1 incursion' is visible as developers provide offices on formerly industrial sites, to maximise value and meet demand.

The Demand for Space

- 4.21 On the basis of data from earlier Employment Land Reviews (and with the caveat that the studies were undertaken at different times), the approximate average annual take-up across the Hertfordshire London Arc is in the order of 433,000 sq m (4.7m sq ft), and dominated by the South West Herts area.
- 4.22 In qualitative terms, occupier demand is diverse. New estates with large buildings attract high-value businesses, more often in distribution than manufacturing. RD Park in Hoddesdon is typical, attracting occupiers such as Arnaouti (bakery and food distribution), Cortland Fibron BX (distribution of cables) and OKITE (distribution of quartz work surfaces); while Hatfield Business Park has attracted Eisai, one of the world's top twenty pharma businesses, who in 2006 announced a £75m investment in a new European HQ facility at Hatfield Business Park. The base includes discovery research, clinical development, manufacturing and UK sales and marketing operations, and is expected to create more than 500 jobs, including 300 in R&D and manufacturing.
- 4.23 By contrast, other sites and estates meet demand for smaller units, catering for more local businesses. Impresa Park in Hoddesdon, for example, is a well established estate, providing smaller units, with occupiers involved in cleaning, distribution, electronics, flooring, printing, sign making and tool making. Further westwards in the Hertfordshire London Arc, Hatfield Business Park's 'io' Centre is a similar, new development, again catering for smaller businesses, involved in engineering, import/export, food and drink, motor trades, printing and tool making. SEGRO's Parkbury scheme in St Albans has a wide range of occupiers, including BMI Healthcare (health); BIMecc (nuts & bolts), Medirest (catering and cleaning), Ludwig (stationery supplies), Strax (mobile phone technology), Viglen (computers) and Zwilling JA Henckels (knives).
- 4.24 To make sense of this variety, it is helpful to distinguish three sub-sectors of demand as follows:
- **Logistics (Big B8 sheds):** As we have already noted, demand for warehouse space is growing relative to factory space, both across the UK, and in the Hertfordshire London Arc. Much of this demand is being driven by food, clothing and white goods retailers, who have been concentrating their distribution into ever fewer and larger

centres. These units are typically in excess of some 9,000 sq m (100,000 sq ft) on sites with plentiful parking and yard space; often featuring 20 or more dock levellers; cross docking facilities; over 12 m eaves height; 50k/N floor loadings and about 10% office content.

- **Smart sheds:** There is a growing number of developments that cater for medium-sized businesses undertaking a much richer range of activities. The common features of these buildings are high-quality external fabric, hybrid space (flexible production, warehouse and office), high ceilings (around seven metres), surface-level loading doors, floor loadings of 30-40 kN per sq m and generous service yards and parking; all provided within a good quality, managed development providing say 5-20 units in total. Many buildings in this sector range between 1,000 sq m (10,000 sq ft) and 5,000 sq m (50,000 sq ft). The sheds accommodate a large proportion of 'clean' space in a 'business park' environment. The activities they support are different from those that traditionally occupied industrial buildings, being service-based rather than production-based. They include a high-share of white-collar and distribution work as opposed to manufacturing, including 'white van' activity: small loads, frequent and bespoke to particular customers.
- **Secondary sheds:** The final category typically comprises smaller businesses, catering for more local markets, and undertaking more identifiably industrial activities. Such businesses are involved in cleaning services, distribution, electronics, engineering, flooring, food and drink, import/export, motor trades, printing, sign making and tool making and many other diverse activities. These lower-value, 'dirtier' activities can seldom afford modern, new accommodation and tend to be concentrated in secondary industrial estates, with older stock, less attractive environments and worse accessibility. This should not be misconstrued as a problem; many such businesses depend on 'trickle-down' property for their viability.

4.25 For the logistics (Big B8) sector, the three strategic motorways, the M25, M1 and A1(M) serving the London Arc give the area tremendous locational advantages, particularly attractive to those businesses requiring fast and simple access to markets and customers beyond the immediate area. The rapid growth of logistics businesses in recent years is obvious evidence of this. Hatfield Business Park is a prime example, whose locational benefits are listed in the scheme's leasing brochure as follows:

- Six motorways within 30 miles of the park.
- 80% of the UK's mainland population within a same day return journey.
- Heathrow and Stansted airports within 32 and 30 miles, respectively.

4.26 The park now provides large distribution facilities for, among others, Bay Trading, Booker, Computacenter, DHL, Ocado, Royal Mail and TK Maxx.

- 4.27 Much of the Big B8 demand is being driven by food, clothing and white goods retailers, who are concentrating their distribution into fewer and larger centres. Thus whilst Big B8 units are typically in excess of 9,000 sq m (as stated above), units in excess of 23,000 sq m (250,000 sq ft) are not uncommon.
- 4.28 The Broxbourne employment land study usefully discussed the growing importance of the distribution sector as a key driver of the demand market. The conclusions of this discussion are summarised below. They are applicable throughout the Hertfordshire London Arc:
- The restructuring of the UK economy towards service industries means that demand for distribution space will grow nationally. Growth of internet shopping and diversification of supermarkets into white goods will drive demand.
 - Provision for future employment land will have to take account of the extent to which the area would like to, and will be able to, attract strategic distribution requirements.
 - Retail distribution, driven by the likes of Tesco, Boots, Morrison and J Sainsbury, is the main driver of demand. These retailers are concentrating their distribution functions into fewer and larger centres. This trend is backed up by their expansion into non-food retailing, such as white goods and clothing.
 - Take-up levels are rising, particularly for large units of above 23,000 sq m (250,000 sq ft), while 'mega sheds' of 46,000 to 93,000 sq m (500,000 to 1 million sq ft) are becoming increasingly in demand.
 - Demand for flexible leases with break options has increased, as has that for freehold properties. At the larger end of the market, while the trend towards RDCs by food retailers continues, more demand is also coming from non-food retailers such as GAP, Next and others.
- 4.29 Key determinants of logistics occupiers' property decisions are:
- access to major markets;
 - accessibility to major road networks;
 - existing distribution networks;
 - availability of property/sites;
 - the presence of a skilled workforce;
 - property costs, and
 - a sympathetic planning regime.
- 4.30 The demand for Big B8 sheds needs to be placed in context. While in terms of floorspace this market is hugely important, in terms of numbers of units the greatest industrial/warehouse take-up has come, and will continue to come, from smaller units in the Smart Sheds' and 'Secondary Shed' categories. The 'Smart Shed' sector is very active and generating much of the demand for new space in the Hertfordshire London Arc, taking advantage of the area's locational advantages and providing

varied employment opportunities. In contrast, occupiers of Secondary Sheds can seldom afford modern accommodation and tend to be concentrated in secondary industrial estates, with older stock, less attractive environments and worse accessibility.

- 4.31 In the next section, we consider how the supply of space is responding to this varied range of occupier requirements.

Supply and Market Balance

Market Dynamics

- 4.32 Before looking at the market in detail, we comment on certain aspects of the property development process that have a bearing on the changing mix of industrial and warehousing space in the Herts London Arc.
- 4.33 As discussed in earlier employment land studies, there is a concern that the growth of logistics (Big B8) may result in a shortage of space for other businesses. If this shortage is real, as the Central Herts employment land study suggested, then it might be expected that developers will recognise an opportunity and correct the market balance with new supply for the Smart Shed and Secondary Shed sectors. However, the picture is a little more complex.
- 4.34 Developers respond, generally *en masse*, to direct market signals. And one of the clearest signals in recent times has been the growth of logistics, occupying ever larger buildings. A single large shed will often be more profitable than a multi-let industrial estate, because the two developments will generate comparable rents, but it is much easier and cheaper to provide the large shed, with a single management contract, than the multi-let estate.
- 4.35 Accordingly, many developers have turned to large sheds, while occupier demand which carries an 'industrial' label has become relatively neglected, except by specialist developers such as SEGRO and Brixton. How long this position will last, is difficult to say. But for the present, just as B1 business parks went through a 'honeymoon' phase in the 1980s, so it currently is with logistics.
- 4.36 Recent developments on Maylands at Hemel Hempstead are instructive here. This is a classic industrial estate going through a regeneration process, where industrial space here is being lost to a growing B1 component and to logistics sheds. The M1stral development of two sheds totalling over 40,000 sq m (430,000 sq ft) and Mammoth at 45,000 sq m (470,000 sq ft) are the most recent examples, and there are others in the pipeline. The same is happening in the Waltham Cross area (eg Henderson Global Investors' 16,500 sq m (180,000 sq ft) Magum 25 on Lea Road, and in Enfield (eg Morley/Gazeley's 360 at Link 25, a 33,000 sq m (360,000 sq ft) facility fronting the M25.
- 4.37 Apart from the large logistics market, there have been a number of recent developments that have catered for the Smart Sheds sector. Within this category, apart from Hoddesdon's Impresa and Hatfield's 'io' Centre already mentioned above, good examples include Chancerygate (Hemel

Hempstead), Mallow Park (Welwyn Garden City), Parkbury (Radlett), Vision (Hemel Hempstead) and Ventura (Radlett).

- 4.38 Thus, the supply market seems to be responding with zeal to the logistics sector. To a large degree, it is also responding well to the need for hybrid buildings for modern, service-based industrial occupiers. However, there is the possibility that space is in short supply for the secondary, lower-value market. Developers may provide little or no new space for this secondary sector, preferring to build either large, simple logistics buildings, or 'Smart Sheds' for clean, quasi-industrial occupiers willing to pay a higher rent for a better quality environment. Lower-quality second-hand space, on which secondary occupiers largely depend, is often lost in redevelopment for these higher-value industrial uses or through 'B1 Creep', where offices gradually invade an older industrial area, hiking up rent values and the attractiveness of the land to other developers. A classic of this type is the Valley Road industrial estate in St Albans where older, secondary buildings are being demolished for smart new offices.
- 4.39 As discussed at the consultation workshop, secondary industrial sites are also under pressure (or at least have been until recently) for residential development. Policy should protect some secondary industrial space in existing concentrations of employment activity, because these play an important role in the economy.

Availability and Rents

- 4.40 As well as the large-scale logistics buildings discussed earlier, the principal industrial schemes completed in recent years include:
- Brixton's **Vision** at Maylands Wood Estate (part of the Maylands GEA), Hemel Hempstead. Units from 600 sq m to 3,500 sq m (6,500 sq ft - 40,000 sq ft), providing general industrial, office and warehouse/distribution space. Space of 7.2m clear internal height, high quality first floor offices and a warehouse floor with 40kN/ sq m loading.
 - Brixton's **Ventura Park** at Radlett. Units available between 2,000 sq m and 6,000 sq m (20,000 sq ft - 60,000 sq ft) and a mix of office and warehouse space. Clearly targeted at smaller distribution businesses, the buildings provide eaves heights of 7m, surface level loading doors, ground and first floor offices and on-site management.
 - Segro's **Parkbury** - close to Ventura Park - which provides high quality hybrid buildings for industry/warehousing, with high office content. Phase 200 offered units of 1,200 sq m to 3,800 sq m (15,000 sq ft - 40,000 sq ft), while later phases are offering units of 4,000 to 10,000 sq m (45,000 sq ft - 100,000 sq ft).
 - Morley and Segro's **Centennial Business Park** at Elstree which combines high quality office buildings with industrial/warehouse buildings. In the latter category, the buildings currently being marketed are 2,000 sq m to 2,500 sq m (20,000 sq ft - 25,000 sq ft) buildings with 6 m clear eaves height and high quality office space on ground and first floors.

- 4.41 All of the available evidence suggests that these schemes have been viable and successful. They have attracted a wide range of user profiles and let quickly, achieving rents of £75-85 per sq m.
- 4.42 As regards vacancy rates, recent commentary on the supply of industrial space around the Hertfordshire London Arc, and in the north western M25 generally, has highlighted the dwindling supply of new space, and even potential shortages of appropriate space. For example, the recently-completed Broxbourne ELR, based on May 2007 data, noted that the total amount of available space in the area was just c26,000 sq m (c300,000 sq ft). Of this total c16,500 sq m (c180,000 sq ft) was available in one unit (Magnum 25 at Waltham Cross), and a further 4,500 sq m (50,000 sq ft), in two units, at the 10 Centre in Cheshunt. The overall vacancy rate for the district was reported as 4.8%, a low figure in most markets. Similarly, the Central Herts ELR (2006) noted that the market 'is somewhat under-supplied, given that the current vacancy rate is around 5.5%. There has been little new development in the area since to have changed this conclusion.
- 4.43 It seems, therefore, that industrial vacancy in the Hertfordshire London Arc is averaging 5-6%, subject to local variations, driven largely by the 'lumpiness' of space - the impact of large speculative sheds coming onto markets. This represents a relatively low level of vacancy by national standards. Research for this study has found no evidence of industrial buildings (or sites) sitting on the market for long periods, again suggesting that the market is relatively tight.
- 4.44 Within this generally tight market, there are variations between sub-sectors, which are difficult to quantify. For large logistics sheds, the demand is generally footloose across large distances, because the operators serve large delivery areas. Those who look for space in the Hertfordshire London Arc have areas of search which may extend along the M1 to the East Midlands or round the M25 to Essex and beyond. In the wider South East, there is a general shortage of large logistics sites. This suggests that demand for big sheds in the Hertfordshire London Arc is elastic; if planning authorities wish to provide more land for strategic distribution, the area could potentially attract a large volume of regional demand. One indication of this wider potential was the recent planning application for a rail freight terminal and distribution park at the former Radlett Aerodrome in the district of St Albans, which proposed 331,000 sq m of distribution space. This application was dismissed at appeal in October 2008.
- 4.45 For secondary industrial property, the balance of the market is especially difficult to assess, partly because there is very little data for this sector. Our many site visits for this study showed that there is some accommodation on offer, for example in the industrial estates in Hoddesdon, Hemel Hempstead and Waltham Cross. But whether there is *enough* space for secondary uses, and whether there will be enough in future, is difficult to say, especially given that the volume of demand, as well as supply, is falling. There is at least a danger of supply falling faster

than demand, so that lower-value industrial activity is being pushed out or priced out by higher-value uses.

- 4.46 Average industrial rents across the Hertfordshire London Arc are nudging £80 per sq m for new space, a situation that has changed little in recent years. This overall figure varies somewhat according to quality of product, the size of unit and the location. Smaller, higher quality, Smart Shed space can reach asking rents of £85 per sq m. For example, units have recently been marketed at Parkbury and Ventura Park, both in Radlett, at £85 per sq m. Viglen's transaction at Parkbury, involving 7,000 sq m, was concluded at £81 per sq m; while more recently sofa retailer SCS took 2,500 sq m (30,000 sq ft) at Ventura at £85 per sq m (on a three year lease). By contrast, larger units (say, over 10,000 sq ft) might fall to around £70 per sq m. For example, Octavian (part of CERT Group) recently pre-leased a c18,000 sq m (200,000 sq ft) distribution unit at the RD Park in Hoddesdon (see above), for which terms were agreed at £75 per sq m on a 15 year lease.
- 4.47 To compare the Hertfordshire London Arc with other areas, we use Colliers CRE's 2008 industrial rent map. This shows rents around the study area and competing areas as follows:

Table 4.2 Industrial Rents - Hertfordshire London Arc and Surrounding Areas

Market area	Prime (£/sq m)	Secondary (£/sq m)
Hemel Hempstead	91	78
Watford	94	80
Hatfield	83	67
Welwyn Garden City	86	73
Borehamwood	97	81
Maidenhead	113	80
Slough	113	97
Dunstable	83	67
Luton	83	67
Harlow	78	65
Enfield	91	75

Source: Colliers CRE¹¹

- 4.48 The table shows that the Hertfordshire London Arc (as represented by the first five rows), averages significantly lower rents than its M4

¹¹ Colliers CRE Logistics and Industrial 2008 Rents Map

counterparts in Maidenhead and Slough. By contrast, it is generally higher than markets to the north (Dunstable and Luton), or further east at Harlow and Enfield. The former reflect the 'Heathrow effect', while the latter reflects proximity to the strategically important M1.

Conclusions

- 4.49 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.
- 4.50 What, then, is the current balance of demand and supply? Despite the volume of new supply, there is some evidence that the market has been tightening, to the point where there may be shortages of certain products in certain areas. It seems that 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.
- 4.51 Within this generally tight market, different sub-sectors are driven by different dynamics.
- 4.52 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.
- 4.53 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. This increases the value of land generally, and on specific sites makes industrial development difficult. 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.
- 4.54 In summary, therefore, a critical issue that planning policy must consider is the balance of new space that is delivered in future. For the foreseeable future we may assume that developers will meet the logistics demand for big sheds, insofar as the 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. So, it may be necessary for the planning system to do this.

- 4.55 We will draw conclusions on this issue in Chapter 8, taking account both of the market analysis in this chapter and other strands of evidence. But first, in the next chapter we analyse the market for offices.

5 THE OFFICE MARKET

Introduction

- 5.1 Market perception and data suggest that the Hertfordshire London Arc's office market has under-performed competitor markets in recent times, in terms of new development, inward investment and growth. This chapter seeks to understand whether this under-performance is a fact and if so what caused it, whether it is likely to continue and how policy might change it.
- 5.2 We approach these questions in two ways.
- 5.3 First we consider the internal workings of the Hertfordshire London Arc's office market, using the same approach as the industrial analysis in the last chapter to draw a qualitative profile of demand for offices and to assess the balance of the market, providing a baseline and reality test for our forecasts of long-term change.
- 5.4 Second, the perspective broadens, to place the study area in its wider context and to consider factors extraneous to the area which have driven its office market in the past and may drive it in the future.
- 5.5 Most of our property market analysis below is based on past trends, using data up to the end of 2007 or the first half of 2008, and so does not directly take account of the current credit crunch and resulting economic downturn. But we do take account of the recent downturn in our discussion of national and global economic factors (paragraph 5.80 onwards). In effect, we assume that the credit crunch and its consequences are likely to materially affect office demand in the next 2-3 years, but not over the 20-year plan period which is the main subject of this report.

The Hertfordshire London Arc Office Market

Background

- 5.6 During the 1970s, 1980s and possibly into the 1990s, Hertfordshire, like other Home Counties, attracted a steady stream of occupiers relocating from central London to reduce the burden of rents and central London salary weightings. Towns such as Watford, particularly along the Clarendon Road, St Albans and Hemel Hempstead benefited from companies moving staff to lower-cost locations, while still maintaining physical proximity to head offices in London. St. Albans is especially rich in Financial and Business Services and has a number of corporate HQs, much of which originally came from central London.
- 5.7 Despite this pedigree, the Hertfordshire office market today is something of an enigma. It is as well connected as any area in the greater South East, with the M25 forming an east-west spine and the M1, A1(M) and A10 providing high capacity north-south links. Further, its rail links to both London and the north are excellent. The relocation of the Eurostar terminal to St Pancras brings it within 30-40 minutes of most of

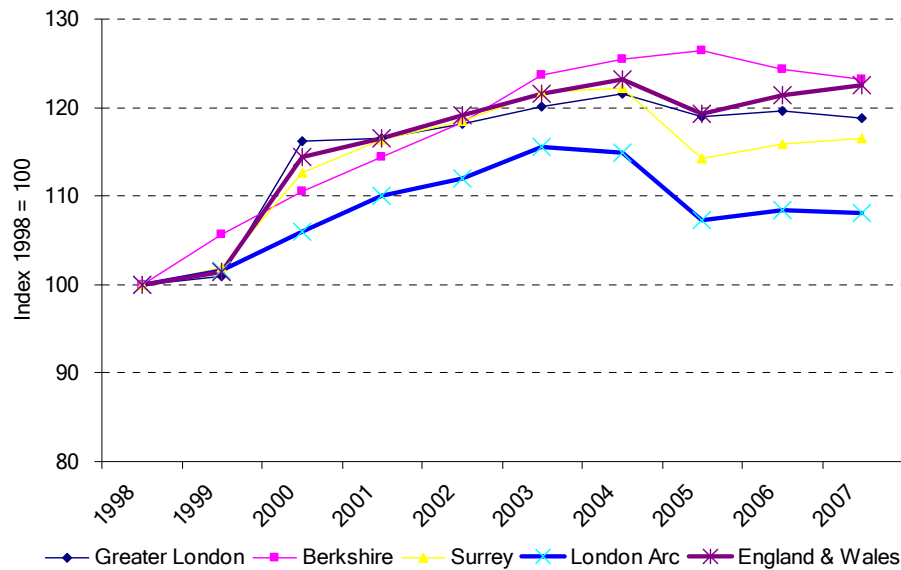
Hertfordshire. Heathrow is a 30 minute drive away, and Stansted and Luton both lie nearby in adjacent counties.

- 5.8 Similarly, there is no measure on which the study area can be considered disadvantaged. The workforce is highly educated and highly skilled. When St Albans' biggest employer, Marconi, left in the early-1990s, the town's economy barely skipped a beat. And while the new towns suffered industrial restructuring, there was not the major decline experienced in other parts of the country.
- 5.9 Thus, against most objective criteria, Hertfordshire should be considered an excellent business location. And yet:
- While historically the Hertfordshire London Arc was one of the crucibles of the UK's high technology electronics sector, huge swathes of this sector have now left the area.
 - Once a major centre for the UK aerospace industry the area has now been abandoned by this sector.
 - Unlike the Thames Valley, Hertfordshire has not developed a critical mass in the successor sectors to the first generation high technology sector. Indeed, one of the most famous names of this sector - Apple - left Hemel Hempstead for Stockley Park in the 1990s.
- 5.10 As a result, there is a market perception that the Hertfordshire London Arc's office market is under-performing. New inward investments to the area (including relocations from London) have been very few in number over recent years; new development is thought to be sluggish compared to other areas; and where new buildings have been built, the take-up has been slow (the Peoplebuilding in Hemel Hempstead is the most often cited example).

The Floorspace Stock

- 5.11 The perception that the study area's office market has been sluggish in recent years is borne out by Figure 5.1. Over the period 1998 to 2007, the area's stock of office floorspace grew by around 8%, bringing the total to around 1.6m sq m (17.2m sq ft). Berkshire's stock meanwhile grew by nearly a quarter, as did Greater London's and the national total. However, the office stock in Surrey, which is similar to Hertfordshire in its geography and occupier profile, after out-growing the Hertfordshire London Arc around the turn of the century, since 2001 has moved in parallel with it.

Figure 5.1 The Stock of Office Floorspace, 1998-2007



Source: National Statistics

- 5.12 Within the Hertfordshire London Arc, the highest growth was in Watford, where the office stock increased by 21%, followed by Three Rivers and Welwyn Hatfield where it increased by 16-17%. In Hertsmere and St Albans it grew by around 10%. Dacorum's office stock declined over the period and Broxbourne's remained static.

Table 5.1 Change in Office Floorspace, 1998-2007

% Change	
Broxbourne	2%
Dacorum	-10%
Hertsmere	9%
St Albans	12%
Three Rivers	17%
Watford	21%
Welwyn Hatfield	16%
Herts London Arc	8%

Source: www.neighbourhood.statistics.gov.uk

- 5.13 Dacorum's loss of stock appears to correlate with the Buncefield explosion, although the loss of the former Kodak building to residential-led mixed use has also contributed. Growth in stock at Welwyn Hatfield is most likely the result of development at Hatfield Business Park. The modest growth in St Albans may be explained by restricted land availability.

Office Areas

- 5.14 In Hertfordshire as a whole, there is a hierarchy of office markets. Watford historically has been considered the main office market, followed by St. Albans.
- 5.15 The main office markets in SW Herts are Hemel Hempstead and Watford, but they are quite different in character. Hemel Hempstead's office market is relatively dispersed: while the main activity is along Maylands Avenue, there are also substantial amounts of office accommodation on Boundary Way and other roads, in what is a largely industrial/distribution employment area. Moreover, Hemel Hempstead town centre does not have a clearly defined core office area, nor does it have an out of town office park.
- 5.16 In contrast, Watford has a clearly defined town centre office market, and a number of established business parks. The town centre market is concentrated along Clarendon Road, while the main business parks are Croxley Business Park and Watford Business Park, to the south west of the town centre, and Maple Court (Central Park) to the east.
- 5.17 Three Rivers' main town centre market is Rickmansworth, which includes some modern office buildings around the station; otherwise the main office locations are out of town, at Leavesden, Maple Cross and Wolsey Business Park.
- 5.18 In Broxbourne the majority of office space is concentrated in and around Waltham Cross and Cheshunt, typically comprising smaller, self contained suites of under 1,000 sq m (10,000 sq ft). The area is not an established office location, and the lack of critical mass means that the majority of take-up comes from local occupiers and those involved in back office activities.
- 5.19 The main office market in Central Herts is St Albans, which is generally recognised as the second most significant office market in Herts, behind Watford. St Albans is a very successful (albeit constrained) office market that has been particularly successful in attracting financial and business services firms. Rents in St Albans are also at a premium compared to other Central Herts markets (c£245 sq m compared to c£195 sq m).
- 5.20 In Hertsmere, the main office location is Borehamwood, where Elstree Way is the established office area. The recently built Centennial Park, adjacent to Junction 4 of the M1 at Elstree, provides high quality new premises, and Potters Bar is a smaller competitor. The area has been particularly successful in attracting ICT firms and, to a degree, media businesses.
- 5.21 Welwyn Hatfield's market is dominated by Hatfield Business Park and, to a lesser degree, by Shire Park. The former satisfied T-Mobile's consolidation requirement and has since attracted the inward investment of Japanese pharmaceutical business Eisai. Shire Park is a well-established business park, with a good profile of corporate occupiers.

The Demand for Office Space

- 5.22 The Hertfordshire London Arc covers a wide area and its office occupiers are highly diverse. However it is possible to make some generalisations. Like many other areas around the M25, the office occupiers include a wide variety of SMEs providing specialist goods and services, both to local customers and to the London economy. There are also head offices and branches of larger, national and multinational companies. Clarendon Road in Watford typifies this market, where major occupiers include Cadbury Schweppes, KPMG, Inland Revenue, TK Maxx and Total Oil. There are long-established businesses that have been in the area for many years - growing and changing - such as the DSG Group on Maylands Avenue; there are those that have grown rapidly in recent times, though much fewer in number, such as T-Mobile; and there is also a smattering of newcomers, fewer still, such as Eisai at Hatfield.
- 5.23 In Central Herts, St. Albans is considered the most prestigious office location, and has been successful in attracting financial and business service industries, including well known companies such as KPMG and PricewaterhouseCoopers. Hertsmere, where the main office location is Borehamwood while Potters Bar forms a smaller office centre, has been particularly attractive to high-technology industries. In Welwyn Hatfield, pharmaceuticals are an important part of the local economy and the recent decision by Eisai to locate their European facility at Hatfield Business Park is evidence of this.
- 5.24 Annual take-up in Central Herts has averaged around 28,900 sq m (311,000 sq ft) over the past five years. Take-up was unusually high in 2001, when T-Mobile leased 41,800 sq m (450,000 sq ft) at Hatfield. It is important to emphasise that this deal was a move internal to the Hertfordshire London Arc rather than an inward investment. Companies already based in the area have been the main source of demand, although in recent years there have been some large lettings. As well as T-mobile, these lettings have included Wanadoo, Signet and Vega.
- 5.25 Approximately two-thirds of all office lettings in Central Herts are less than 465 sq m (5,000 sq ft). In Reading and Bracknell, by contrast, where office demand has been largely driven by technology firms, around 40% and 11%, respectively, of the deals have been in this size band.
- 5.26 In SW Herts, take-up has been relatively subdued in recent times, not really recovering from the 'dotcom bust' lows until 2007 - and it remains to be seen the extent to which the credit crunch chokes off this growth. Hemel Hempstead, has seen several significant deals that - for the first time in a while - owe little or nothing to the legacy of Buncefield. These deals have included:
- Boston Scientific, taking 3,350 sq m (36,000 sq ft) at Breakspear Park. The pharmaceutical company signed a 10-year lease at just below £215 sq m (£20/sq ft) in the former BP headquarters. The letting to Boston was Hemel Hempstead's biggest of 2007 and left only 8,100 sq m (87,000 sq ft) vacant in the building.

- Stanhope and Morley, who have submitted a planning application for a 8,900 sq m (96,000 sq ft), four-storey office building at the Peoplebuilding site off Maylands Avenue following a deal with Northgate Information Solutions for a headquarters that it can buy freehold and move into by 2009.
- 5.27 As in Central Herts, the typical deal size in SW Herts is relatively modest. Some of the more significant deals are shown below.
- Sanyo pre-purchased a 2,230 sq m (24,000 sq ft) HQ building on Colonial Way for £5.9 million.
 - Citicorp Vendor Finance leased 2,250 sq m (24,200 sq ft) at Frogmore/RREE's Lucidus development on Clarendon Road on a 15-year lease at £250 sq m. Taylor Woodrow also leased 2,900 sq m (31,200 sq ft) on a 10-year lease in this building.
 - Coface UK Holdings leased 1,100 sq m (11,500 sq ft) at Anglo Lamron and Standard Life's Egale building on St Albans Road on a 15-year lease at £220 sq m.
 - Newsquest Media Group acquired the freehold of a 1,600 sq m (17,200 sq ft) building from Gazeley at Watford Business Park, paying a price in excess of £3 million.
- 5.28 Broxbourne is a relatively small office market. Its large office employers include Tesco, Sainsbury, Merck Sharp Dohme and Fitzpatrick. Tesco is a key player in the market and has its ancillary services and market research operations in the area. Merck Sharp & Dohme has its European R&D site on the edge of Hoddesdon. They have managed to survive the latest changes in the pharmaceutical industry and have recently expanded on the site. Fitzpatrick Contractors has its head office and plant depot in Hoddesdon.
- 5.29 A brief review of letting activity in Berkshire and Surrey helps to put the Hertfordshire London Arc's recent occupier activity into perspective. While by no means comprehensive, a quick search of press coverage shows the following letting deals in Surrey and Berkshire over the past eighteen months:
- Biogen (5,000 sq m), Maidenhead
 - PGS (7,200 sq m), Weybridge
 - Cerner (10,000 sq m), Chiswick
 - Reckitt Benckiser (20,000 sq m), Hayes
 - Gilead (4,000 sq m), Stockley
 - Stiefel Labs (5,000 sq m), Maidenhead
 - Jacobs Bابتie (13,000 sq m) Winnersh
 - Wyeth Labs (11,000 sq m), Reading
 - Paramount (5,000 sq m), Chiswick
 - Yell (20,000 sq m), Reading

- Petrofac (3,000 sq m), Woking.
- 5.30 Clearly competing locations to the west and south west are attracting more major corporate occupiers, taking much larger volumes of space, than the Hertfordshire London Arc. The reasons for this, and possible counter-measures, will be discussed later in this chapter.
- 5.31 As well as traditional office activities, demand for space in the Hertfordshire London Arc is driven by the film and TV sectors, which have a long tradition in Herts and are currently well represented at the Elstree and BBC studios in Hertsmere and Leavesden Studios in Three Rivers. Demand and supply in these small but important sectors is a specialist subject, which is not discussed in this report but which may merit specialist study by the two Councils.

Supply and Market Balance

- 5.32 In Central Herts, the major source of available office space recently has been in Hertsmere (specifically Borehamwood), where vacancy peaked in 2005 at 29.7%. Much of the space available then comprised the 18,580 sq m (200,000 sq ft) Imperial Place, vacated by T-Mobile following its relocation to Hatfield Business Park. Over two-thirds of this space is now let, to companies including Groupama Insurance, Pizza Hut and Signet. Despite these lettings, the office market in Central Herts remains oversupplied, with double-digit vacancy rates. However, in certain areas, such as St Albans, there is low availability of large floorplates.
- 5.33 Availability in SW Herts peaked in 2004 at around 138,215 sq m (1.5m sq ft), with Watford accounting for 39% of the total, followed by Dacorum (37%) and Three Rivers (23%). Responding to this overhang of vacant space, developers turned off the speculative development pipeline, and there was no new speculative office construction in Watford for several years. In 2007 Watford continued to suffer from high vacancy, c16%, although, as in Central Herts, the availability of Grade A space shrunk rapidly.
- 5.34 In Dacorum, The Peoplebuilding on Maylands Avenue in Hemel Hempstead was the largest new unit immediately available, offering 9,144 sq m (98,500 sq ft) of floorspace and is, arguably, the only truly modern building in the area. This building was vacant for a long time after completion in early-2003, only securing its first occupiers as a consequence of the Buncefield explosion. The scheme's phase two has recently been kick started with a pre-let for a new HQ for Northgate.
- 5.35 In Three Rivers, available space includes brand new buildings at Leavesden Park, comprising, c4,200 sq m (45,000 sq ft) and 6,050 sq m (65,000 sq ft), respectively. Otherwise, very little development activity was taking place.
- 5.36 The part-speculative Business Homes development at Centennial Park (Hertsmere) comprises 3,500 sq m (37,500 sq ft) in 14 business units and is due for completion in summer 2008.

- 5.37 In Broxbourne, available office space stands at 7,900 sq m (85,000 sq ft), representing a vacancy rate of 11%. Two-thirds of the available space is second-hand. The largest available properties are located at 55-59 High Road in Broxbourne where 1,500 sq m (16,000 sq ft) is vacant and at Turnford Place, Cheshunt, with two units totalling 1,200 sq m (13,000 sq ft). Besides these, only small units of fewer than 185 sq m (2,000 sq ft) are available.
- 5.38 Recent development activity includes a new science centre for Merck Sharp Dohme in Hoddesdon in spring 2006. In June 2006, Tesco Stores Ltd submitted an application for the development of a world-class training academy at Theobalds Park in Cheshunt.
- 5.39 In summary, recent office development in the study area has been relatively subdued. The figures reinforce the picture painted in Figure 5.1 which showed the Hertfordshire London Arc's stock of space increasing at a significantly slower rate than both regional and national trends. We need to consider whether this is due to low occupier demand, to lack of interest from developers or to a shortage of land.
- 5.40 On this key question, one important piece of evidence is the office rent. This evidence must be interpreted with care, because rent is highly susceptible to short-term fluctuations, and, even so, the real impact of growth and decline (especially decline) is often masked by the creative use of non-rent incentives. Nevertheless, over longer periods rental levels give an insight into supply-demand balance as well as the position in one area relative to another. Thus, if occupier interest was high relative to supply (ie demand pushing vacancy levels down), then one would expect to see upwards pressure on rents. However, this does not seem to be the case. The previous employment land studies showed the following levels for prime office rents.
- SW Herts: £210 sq m (£19.50 sq ft) in Hemel Hempstead, £231 sq m (£21.50) in Watford and £231 sq m (£21.50) in Rickmansworth.
 - Central Herts: £242 sq m (£22.50) in St Albans; £188 to £199 (£17.50 to £18.50) in Welwyn Hatfield.
 - Broxbourne: Generally between £156 sq m and £167 sq m (£14.50 to £15.50).
- 5.41 These rent levels are high enough to make office development generally viable. But the evidence suggests that they have not risen since the earlier studies were completed. It is telling that reports of recent deals in Hemel Hempstead make no mention of rental levels - something the landlords would be trumpeting if significant growth had been attained. As will be shown later in this chapter, rents elsewhere in the South East have performed better, and it is difficult to escape the conclusion that the Hertfordshire London Arc's office market is under-performing. Whether this is a short-term blip, or a longer-term structural problem will be discussed further in the next section, in the context of the wider office market.

Conclusions

- 5.42 There is no evidence of wholesale collapse in the office market, despite relatively high vacancy rates in Watford for example, but in the short term office space in the area is probably still oversupplied, although an active 2007 is likely to have tightened the market. But generally there is no real indication of falling rents - a sure sign of either too much space, or too much inappropriate space. Likewise, there is nothing to indicate the inflationary pressure that might be expected from a strong letting market, or marked shortages of space.
- 5.43 Thus, there is no evidence that office employment and office floorspace in the future will grow any faster than they have grown in recent years. And, as we shall see in the next chapter, this recent growth is far short of what would be required to meet the RSS growth targets for the Hertfordshire London Arc.
- 5.44 Moreover, low growth can be part of a vicious circle. The area's competitive position with other markets, and its ability to attract significant new inward investment could suffer. If stock is not being replenished with good quality modern buildings (and this seems to be the case), then footloose companies in the relocation market are unlikely to give the area a close examination. On this latter point, it is telling that the major deals reported over the past year or so - Northgate, Tesco, Three Valleys Water and T-Mobile - are all moves *within* the Hertfordshire market. The notable exception is pharma company Eisai, a brand new inward investor.
- 5.45 The office market in the Hertfordshire London Arc reflects the somewhat enigmatic nature of the area generally: it is not in crisis, yet can scarcely be considered a hive of activity; it serves its local market reasonably well and, although able to boast some high profile occupiers who tend to stay in the area, it only occasionally pulls in a large inward investor. As a market there is little incentive for significant speculative development, yet the bottom end of the market generally seems to serve the local occupier base well enough, with relatively few 'pinch points'.
- 5.46 Given the area's relative prosperity, access to London, and so on, it is therefore tempting to look for some supply-side constraint as an explanation of its otherwise lacklustre performance. Has there been a lack of sites coming through to the market? And has this been exacerbated by planning policy? Again this is something of an enigma.
- 5.47 Discussion of the Hertfordshire London Arc's office market often seems to cite Leavesden Park as evidence that the problem is demand, not supply. This excellently located, high-quality site, offering both ready-made space in speculative buildings and design-and-build opportunities, has been on offer for around five years, but since BT took Phase 1 in 2003 it has failed to attract further major occupiers. However, it might just be that this particular development is not favoured by occupiers - for whatever reason. Stakeholders suggested that the poor accessibility by public transport and poor parking provision deter potential occupiers. Alternatively or additionally, the costs of bringing forward the next phase

- of office development at Leavesden, which include large developer contributions towards highways, may be considered prohibitive.
- 5.48 Putting Leavesden to one side, there is very little other new space in the current pipeline in the form of high-end business park style developments for corporate office occupiers. Centennial Park at Elstree was completed some time ago. At Maylands, the Council has put forward a masterplan proposing a major new office/high-tech scheme known as Maylands Gateway, but it will be some time before this land comes forward for development. Hatfield Business Park has let well so far, but there are still 16.5 hectares of vacant employment land there.
- 5.49 So, if more land was more freely available, would it be built out as B1 space? The market has given its answer to this question in at least one important instance. The recent development of very large sheds for the logistics sector on Maylands demonstrates the market's perception of the demand picture in the Hertfordshire London Arc: it clearly believes that large sheds will achieve a better return than regenerating the older industrial stock with modern B1 office developments. This would be unlikely to happen on other such strategic sites around the M25.
- 5.50 There is no evidence to suggest that planning policy is having a constraining impact on office development: policy and site allocations are both encouraging of new development. Even though there is great pressure to accommodate residential development - and no doubt there are sites that have passed from B1 to residential use - the lack of office development activity in established areas and sites that are not threatened in such a way indicates that this is not a cause.
- 5.51 Overall therefore, it does not seem that land allocations or other supply factors are constraining office growth in the Hertfordshire London Arc. This leads to the rather difficult conclusion that there might be an underlying demand weakness. In the rest of this chapter, we consider how far this is the case and why, putting the Hertfordshire London Arc in its wider context.

The Wider Office Market

Introduction

- 5.52 In order to analyse this wider context in a coherent fashion, we have set out to answer two specific questions.
- Is the Hertfordshire London Arc in any way less attractive to office occupiers than similar areas around the greater South East and M25?
 - How will national and global economic factors impact on future demand for offices, in the Hertfordshire London Arc and elsewhere?
- 5.53 Of course planning policies must reflect long-term expectations. But to be delivered successfully they need also to take account of short-term fluctuations. The current turmoil in financial markets is a good example, with the investment market shrinking dramatically and finance for new

projects all but drying-up. These factors impact on our answer to the second question above.

The Hertfordshire London Arc v Competing Areas

- 5.54 To answer the questions posed above, we compare the Hertfordshire London Arc with competitor markets, considering in turn specifically, take-up, development, vacancy, rents and investor interest.

Take-Up

- 5.55 According to CB Richard Ellis, the northern sector of the M25¹² saw exceptionally strong take-up of space in 2007, at some 150,000 sq m (1.7m sq ft), and “well above the ten-year average”. Compared to 2006, “the level of transactions rose by 33%, resulting in the highest annual take-up for the last six years”. But, despite this positive picture, the largest lettings in the northern sector during H2 07 were at Shire Park in Welwyn Garden City, where Tesco took 3,900 sq m (41,600 sq ft), and at Breakspear Park, Hemel Hempstead where Boston Scientific took 3,200 sq m (35,500 sq ft).¹³ These are not very impressive ‘highs’ for a market the size of the whole M25 North and reinforce the concerns that the Hertfordshire London Arc is not attracting the level of occupier activity seen elsewhere.
- 5.56 CB Richard Ellis data show take-up for the Thames Valley and the M25 North sector (Table 5.2). The data show the strength of the Computers and Business Services sectors in the Thames Valley. While the data only relate to one half of one year, they do reflect a longer-term pattern in which the Thames Valley has benefited from sustained growth in the most dynamic employment sectors.

Table 5.2 Office Take-up by Sector, 2nd half, 2007

Sector	Thames Valley %	M25 North %
Banking and Finance	7	15
Business Services	23	12
Professional	9	3
Insurance	5	6
Computers & High Tech	23	13
Manufacturing, Industry, Energy	19	5
Public Sector	3	14
Total take-up	100	100

Source: CB Richard Ellis

- 5.57 The growth of technology-based companies and associated business services in the Thames Valley has led to an agglomeration effect (that is

¹² The northern sector is defined by CB Richard Ellis as a market band that stretches from the Thames in the east, around the M25 to the M40 in the west.

¹³ CB Richard Ellis Thames Valley and M25 Offices H2,2007

discussed below) with which the Hertfordshire London Arc finds it difficult to compete. Comparative take-up data illustrate the point: whereas total 2007 take-up in the northern sector was 150,000 sq m (1.7m sq ft), the Thames Valley saw 437,000 sq m (4.7m sq ft) transacted.

Development

- 5.58 The development market peaked in the early part of this decade following the dotcom boom of the late-1990s. Savills¹⁴ show that annual completions around the M25 ranged from 334,000 sq m (3.6m sq ft) to 427,000 sq m (4.6m sq ft) between 2000 and 2002, with the West sector accounting for the lion's share. Completions then fell away in 2003 to 149,000 sq m (1.6m sq ft), and in 2004 to a low of 37,000 sq m (0.4m sq ft). Recovery since has seen completions of 1.4m sq ft in 2007 (double the figure for 2006) and forecasts of 2m sq ft in 2008 and 2.5 m sq ft in 2009. Most of the recovery will have been pre-funded before the current credit crunch took hold.
- 5.59 The northern sector has held its own, just. However, recent data point to a fragile market that is under-performing. Thus, while the Savills data shows M25 development completions rising from around 130,000 sq m (1.4m sq ft) in 2007 to around 232,000 sq m (2.5m sq ft) in 2009, there are no completions shown in the northern sector for either 2008 or 2009. While this position has been superseded by Northgate's pre-let of c8,500 sq m (90,000 sq ft) of the second phase Peoplebuilding in Hemel Hempstead, it nevertheless suggests that within the context of low development levels by recent standards, the northern sector market is attracting less interest than either the western or southern sectors. This is borne out more specifically in the Hertfordshire London Arc region where the level of speculative development activity is known to be low.

Vacancy

- 5.60 Across the M25 vacancy continued to fall in recent times, reflecting strong occupier activity and relatively modest development activity. In the northern sector, the data show availability at the end of 2007 at 4.5% - the lowest level since 2001¹⁵. By comparison, vacancy levels were running at 7.8% in the southern M25, and 11% in the Thames Valley. Vacancy levels in the Hertfordshire London Arc do not appear to be noticeably higher than elsewhere, and if they reflect the North as a whole (which is very likely), then vacancy levels are noticeably lower than in competing areas.
- 5.61 While this is, superficially, a positive signal, when placed in the context of other indicators examined here, it is probably indicative of low developer interest rather than growing occupier demand.

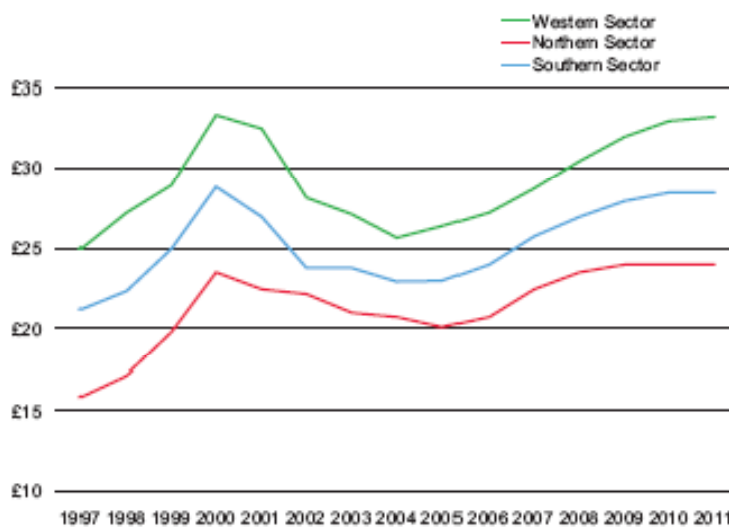
¹⁴ Savills *op cit*

¹⁵ CB Richard Ellis *op cit*

Rents

- 5.62 Reflecting the tightening market conditions of diminishing supply and sustained take-up, prime rental performance in the northern sector of the M25 was strong in 2007. CBRE data show the highest annual growth rate since 2001, at 5.4%. Some centres performed better than others with Watford and Stevenage, for example, seeing year-on-year growth of 7.5% and 6.7%, respectively.
- 5.63 Despite this strong showing, it is clear that the northern sector consistently under-performs relative to other sectors of the M25 office market. Figure 5.2 shows Savills data comparing the three main sectors. Clearly, over the long-term, the northern sector has underperformed not only the western sector (which might be expected with its focus on the likes of Chiswick, Reading and Bracknell), but also the southern sector (focused on the likes of Woking, Reigate and Sevenoaks). With prime rents in the western sector now at around £323 sq m (£30 sq ft), the northern sector's £247 sq m (£23 sq ft) is operating at a 23% discount.

Figure 5.2 M25 Office Rental Change, Actual and Forecast, 1997-2011



Source: Savills

- 5.64 While obviously not entirely discouraging developers and investors (clearly the rents are reflected in land values), such a graph will dampen demand for new schemes, especially when the wider market is fragile.

Investor Interest

- 5.65 The trends in rent levels, and the point about market fragility, are broadly reflected in recent investor interest. Thus CBRE note that investment in the northern M25 sector fell 50% in the second half of 2007: "During the second half of the year only three buildings were sold compared to 13 during the first half." By contrast investment interest in the Thames

Valley showed only “a slight decrease on the first half figure of £476m - a much less rapid decline than seen in other markets”.¹⁶

- 5.66 The fact that the northern sector can fall so dramatically compared to the Thames Valley reflects the inherent strength of the latter in terms of its size, diversity and track record in investment terms. The northern sector, by contrast, is a smaller market and, therefore becomes more marginal when uncertainty pervades the market.

Conclusions

- 5.67 The M25 office market is dominated by the western, or Thames Valley, sector, and the south western sector. The northern sector, of which the Hertfordshire London Arc is a large part, is much smaller. This fact is important to the market’s overall performance: when general conditions become more uncertain, as they currently are, smaller markets tend to suffer relative to larger, more established markets. We have seen that, relative to its larger, western neighbour, the northern sector of the M25 has a very thin pipeline; and that as the wider market turned down in the latter half of 2007, take-up and investor interest there fell sharply. Furthermore, the northern sector has consistently under-performed rival markets in terms of rental growth.
- 5.68 Based on these facts, it can be concluded that the northern sector of the M25 office market is, in some senses at least, less attractive in market terms than those markets focused on the M4 and M3. It is a smaller market, that is perhaps more vulnerable to market downturns. However, it is equally the case that, compared to markets in the north east and south east sectors of the M25, the Hertfordshire London Arc region is, in fact, a good deal more successful, and more attractive. There is thus a hierarchy of office markets around the M25, in which the Hertfordshire London Arc is positioned between much stronger and weaker office markets.
- 5.69 The data presented in this chapter demonstrates very clearly and consistently what the market perceives to be the case - which is that Hertfordshire, and the Hertfordshire London Arc in particular, has consistently underperformed neighbouring areas and the region, in terms of key market indicators such as take-up, new supply and rents. As outlined in the report, this is something of an enigma - the usual explanations of underperformance, such as poor transport/access; poor labour force; inappropriate stock; poor social infrastructure, etc, simply do not apply. On all these counts, the region is well placed. The fact that the Hertfordshire London Arc underperforms Surrey by such a margin is of particular interest in this respect because of the latter’s similarities to Hertfordshire.
- 5.70 The question therefore arises: in what way is the Hertfordshire London Arc disadvantaged? And can anything be done to correct the balance?

¹⁶ CB Richard Ellis *op cit*

- 5.71 At least part of the explanation can be traced back to the early competitive advantage that the M4-M3 market gained in the high technology sector, emanating from the developing defence industries - unlike Hertfordshire's continued reliance (until the 1990s) on engineering (eg BAE at Hatfield and Rolls Royce at Leavesden).
- 5.72 From this early competitive advantage grew an agglomeration of economic activity and area specialisation that has simply grown stronger with time. There are no inherent weaknesses in Hertfordshire's geography, infrastructure or economy that disadvantage it: perhaps merely an accident of history that has reinforced itself over time, particularly with the explosive growth of the software industries.
- 5.73 Once agglomerations establish themselves, it is very difficult for other areas to compete. Part of the contemporary reason for this is that staff are now more footloose than they were in the past. In the software industries, for example, staff are highly mobile between companies. And what is one company's lost member of staff is another's gain. Thus, apart from business-to-business activity, there is a cohesion about the M4-M3 office market that is more about attracting people than, for example, cost reduction. This is seen anecdotally in companies' search criteria for new premises, where proximity and ease of access to staff often features as the single most important criterion.
- 5.74 Related to the previous point there is the important question of inward investors and marketing. When say, a German, American, Indian or Japanese company considers locating in the UK (particularly in the South East office market), it will assess a range of locational factors, and high among these will be proximity to like companies - a feature of agglomeration economics. More specifically, the density of activity in the M4-M3 area will often be more attractive than the less well-established Hertfordshire London Arc.
- 5.75 There is one further aspect in which the Hertfordshire London Arc has lost some of its market opportunities. This is relocation from central London.
- 5.76 Like other markets in the Home Counties, Hertfordshire historically benefited from the steady relocation of businesses from London. Although data on the annual volume of relocations from London is no longer collected, there is anecdotal evidence to suggest that such moves are fewer and perhaps smaller than in the past. During previous times, relocation from London was driven by the cost differential between central London and the wider South East (mainly central London salary weightings, which are now much rarer, as well as rent differentials). The financial services sector formed a large part of such activity, underpinning the growth of office markets in towns like Watford, Redhill, Brentwood and Guildford.
- 5.77 There are several likely reasons for the falling volume of office relocations from central London. Thus, due to new technologies the large clerical workforces which typified many of the relocated back offices have become fewer in number; and those companies that still relocate have

probably become more footloose and less reliant on close proximity to head office in central London. This is most extreme among those companies which have off-shored functions from London to the Middle and Far East. Furthermore, in the last 20 years or so land-use strategies have shifted, aiming increasingly to accommodate more of London's growth within its own boundaries. The resulting policies, including the regeneration of Docklands and the loosening of planning constraints in the City, have provided large amounts of office floorspace in London, reducing the demand for overspill space. In future, the policy priority given to the Thames Gateway and other points east may continue to divert London's office growth away from Hertfordshire.

- 5.78 It might be considered that the shrinking of the relocation market should have affected other M25 markets as much as Hertfordshire. But this may not apply to the Thames Valley and M3 office market, because office growth in those areas has been largely driven by newer economic sectors, especially ICT, and demand generated by foreign inward investment or newly formed companies rather than central London overspill.

The Wider Economy

- 5.79 In this section, we focus on the current economic downturn and its impact on the office market over the next 2-3 years. We also comment briefly on the longer-term impact of new ways of working.

Global Drivers

- 5.80 The fall-out from the sub-prime crisis in the US continues to reverberate around global economies. Although official Q1 08 GDP data show economic growth remaining positive at 0.6% annualised, the housing market, factory output and inflationary pressure are all pointing to a more difficult scenario. Action by the Federal Reserve to cut interest rates to 2.0% (down from 5.25% since last September), has eased the situation, but apparently failed to stimulate the economy.
- 5.81 Although the sub-prime crisis and ensuing credit crunch has taken most of the headlines in recent months, economic performance elsewhere also remains uncertain. While the Indian and Chinese economies motor ahead with double digit growth, more mature economies (including those that form the backbone of inward investment into the UK) are struggling. For example, Germany's underlying growth for 2008 is predicted at little over one per cent, while Japan appears ever closer to a recession, with falling construction and housing activity.
- 5.82 In what is now such an inter-connected world, these circumstances are having a real and direct impact on the dynamics of the office property market in the UK. However, for practical purposes, we have to move towards a more local analysis. In moving on, we can observe that international turbulence has the potential to suppress demand for offices in the UK, at least through 2008 and 2009. In particular, given the exposure of the South East's office occupational market to US banking and technology companies, there could be a very direct and severe impact around the M25 office market.

National Drivers

- 5.83 Demand for office space in the Hertfordshire London Arc is, and will be, directly affected by national economic trends. Until very recently, UK economic indicators have been relatively benign. In the first quarter of 2008 the economy recorded its 63rd consecutive quarter of growth - a fact that has allowed the Bank of England to be more measured in its response to the credit crunch than the Federal Reserve, with two modest cuts, taking rates down to 5% (April 2008).
- 5.84 The positive picture of economic growth is reflected in employment and output data. The number of people in employment at the end of 2007 was very nearly 30 million, its highest since comparable records began in 1971. The unemployment rate in January 2008 was 5.25%, having recorded a 16th consecutive monthly fall; and there were 681,100 job vacancies in the three months to December 2007 - the highest figure since records began in 2001. Even in the manufacturing sector, trends are not negative: output remained flat in the fourth quarter of 2007, against an overall annual rise of 0.3%.
- 5.85 An element of uncertainty over growth prospects is provided by a persistent gap in the UK's trade in goods. Despite some improvements during 2007, recent evidence has not been strong and there are concerns that a more marked global economic slowdown could lead to the UK's external trade deteriorating further¹⁷, a situation that could be worsened by a weakening US economy. Certainly it looks set to act as a drag on the overall economy during 2008. The current account deficit for the third quarter hit a record high of £20bn, up from £13.7bn in the previous quarter - a level not seen since the 1980s boom.¹⁸
- 5.86 In the housing sector, continuing uncertainty is having a major dampening effect on demand, and on prices. The Halifax announced in January 2008¹⁹ that 2007 was only the second year since 2001 when prices had risen by less than the long-term average of 8%. They forecast that house price growth would be flat through 2008, protected from real falls by "Sound economic fundamentals and lower interest rates". However, by March the picture had changed. The Halifax recorded a further fall in house prices, and forecast a "modest (low single digit) decline in UK house prices this year". It argued, however, that the falls should be seen in context: "UK [house] prices have increased by 171% over the past ten years and by 51% over the last five years".²⁰ The main mortgage lenders have all now stopped providing 100% loans; while the number of mortgages taken out in March fell by nearly 50%, accompanied by a 30% fall in mortgage equity withdrawal. The impact of the credit crunch will constrain the amount that people will be able to

17 Capital Economics (2007) *UK Data Response: UK Trade* 11th September

18 Cooke H (2008) *Core Issues January 2008* GVA Grimley, London

19 Halifax (2008) *Regional House Prices, Fourth Quarter 2007*, 19th January

20 Halifax (2008) *House Price Index* March 2008

borrow and, as mortgage lenders have already tightened their lending policy, other finance providers will follow.

- 5.87 A further indicator of the state of the economy is the performance of the retail sector. In recent times, retailers have been consistent in expressing their concerns over weak trading conditions. Both the BRC and the CBI have pointed to fragile retail sales growth. To some extent the fears were fulfilled in January 2008, when official figures showed that month-on-month sales were 0.4% down in December, followed by a trickle of companies going into administration. In April the BRC announced that “UK retail sales fell 1.6% on a like-for-like basis, compared with March 2007, when sales were up 3.9%. The decline was the worst since July 2005”. Some have also argued that sales growth has been maintained recently through heavy discounting, although there is little data available to prove this either way.
- 5.88 In terms of the economic outlook, the official version is summarised in Table 5.3. This shows slowing GDP growth in 2008 and 2009, with modest pick-up through to 2010, and rising unemployment through the period. Other forecasts show significant variation on the official line, with some significantly more bearish.

Table 5.3 Key Economic Forecasts, 2007-2011²¹

UK Indicators	2007	2008	2009	2010	2011
GDP	3.0%	2.1%	2.3%	2.6%	2.6%
Inflation (CPI)	2.3%	2.1%	2.1%	2.1%	2.2%
Unemployment	0.88m	0.91m	0.95m	0.94m	0.96m

Source: HM Treasury

- 5.89 So what do the economic indicators mean for the office market? We now summarise prospects from three perspectives: occupational, development and investment activity.

The Occupational Market

- 5.90 The occupational market until the turn of the year maintained a good level of activity, as shown by data on take-up levels for 2007 in key bell wether markets²² such as central London and the M25 markets. JLL’s central London data showed a slight fall in take-up from 1.12m sq m (c12m sq ft) in 2006 to 1.04m sq m (c11.2m sq ft) in 2007²³; while Knight Frank’s M25 data saw an increase from 1.00m sq m (10.8m sq ft) to 1.28m sq m (13.8m sq ft), over the same period.²⁴
- 5.91 However, these overall figures mask the beginnings of a potentially significant correction in the market. While take-up for 2007 generally was sustained, the final quarter of 2007, when the credit crunch began to

²¹ HM Treasury (2007) *Forecasts for the UK Economy No 247* Found at: www.hm-treasury.gov.uk

²² Those at the forefront

²³ Jones Lang LaSalle Central London Market Report Q4 07

²⁴ Knight Frank M25 Offices Q4 07

emerge, was generally more subdued, and early 2008 data suggest that the occupational market is now responding to the uncertainty in the money markets. In the M25, Knight Frank observed that Q1 08 take-up was 7% down on the previous quarter and “10% below the long-term average”. Some long-awaited deals have been postponed or cancelled altogether. In the former category, and in the Thames Valley/M25 market, Reckitt Benckiser has put on hold a search for a replacement 18,600 sq m (200,000 sq ft) headquarters, while in the latter category, construction giant Bovis Lend Lease has shelved its search for a new 9,300 sq m (100,000 sq ft) building. Similarly, in central London JLL commented that leasing volumes “in the six months to March fell 28% compared with the six months to September. We expect take-up to be subdued over 2008”. In May, investment bank Morgan Stanley was quoted as forecasting that West End rents could fall by 37%, from £1200 sq m to £750 sq m, on the back of weakening demand.²⁵

- 5.92 In a further sign of weakening occupational demand the latest, bi-annual CBI/GVA Grimley Corporate Real Estate Survey of May revealed fewer firms expanding their property portfolios and growing numbers planning to reduce their property portfolios.²⁶ The survey reported that 20% of firms in the sample - across all sectors - were “planning to reduce their property space - a marked increase on the 12% of firms contracting their property in the past six months”.

The Development Market

- 5.93 One of the features that distinguishes the current economic uncertainty from the previous downturn in the early-1990s is that, this time, there is not a large overhang of new supply in the market. New supply over the past few years has been modest by historic standards, and Grade A vacancy levels have remained generally low. As a result there is little prospect that the office sector generally will suffer significant oversupply as current uncertainties work themselves through. The one notable exception to this generalisation is the City of London, where supply will peak in 2009-2010.
- 5.94 A change of sentiment in the investment market means that it is now virtually impossible to fund commercial development without pre-lets: capital for speculative office projects has virtually dried up. It is difficult to envisage any kind of return to the easy access to capital that was the case in the few years leading up to last Autumn. Latest figures from De Montfort University’s annual survey of bank lending show that the value of loans outstanding to commercial property on the balance sheets of banks grew to £200bn at the end of 2007.²⁷ However, “the figures bear out the considerable anecdotal evidence in the industry that new lending has dried up to all but the equity rich” and “Some developers report that banks are asking for as much as 300 basis points above LIBOR on

25 Cited in Estates Gazette Week *Bull run hits the buffers in the West End* 24th May 2008, p29

26 CBI/GVA Grimley *Corporate Real Estate Survey* May 2008

27 Cited in Property Week *A fate worse than debt* 23rd May 2008, pp32-33

typical deals”, demonstrating that they have, in effect, ceased new loans to commercial property.²⁸

The Investment Market

- 5.95 The investment market responds quickly to changing economic circumstances, and the final quarter of 2007 witnessed a major change of sentiment as the scale of the US sub-prime crisis began to emerge. Coming as this did on the back of continuing concerns over the general health of the US economy, it was inevitable that the impact would feed through to the UK property sector, where the headlines through the final quarter of 2007 and into 2008 have continued to be stark.
- 5.96 IPD figures showed the biggest ever monthly fall, -4.2%, in December, with a 10% drop in values over the year (all of which came in the last quarter). The IPD Annual Index showed a total return of -3.4% for 2007, the biggest fall in the index since 1990, and the Investment Property Forum has predicted that the 2008 total return will be -2.6%, dropping from the prediction of 0.9% made three months ago.
- 5.97 In line with the IPF’s prediction, commercial property values continued their slide in March. CBRE data show that all property returned -3.2% in the first quarter of the year, compared to -9.2% in Q4 2007²⁹. Within this all property figure, industrial property was the worst performing sector, with values falling by 5.8%, while offices fell -3.8%. When annualised, the office performance results in a downgrade of 14.4% for the sector. Central London offices saw sharper falls, while Outer London/M25 offices were the strongest performers.
- 5.98 Mirroring the trends in performance, investment activity has fallen dramatically. Atisreal noted that the downturn in the UK commercial property market was fully felt in Q4, with the “rapid change in sentiment amongst investors ... reflected by a sharp turnaround in purchasing activity within Central London”³⁰. The research highlighted that within the four core central London markets, investment volumes peaked in Q3 when just over £6.1bn of office stock was purchased. Volumes then fell dramatically in the final quarter to just £1.05bn, the lowest quarterly total since Q1 2003.
- 5.99 It can be reasonably expected that the volume of transactions will continue to fall further into 2009, and that the investment market generally will weaken further before any recovery.

New Ways of Working

- 5.100 It is worth raising one further question about the future, longer-term prospects for growth in the office market. During the past 30 years, the national stock of office space has roughly doubled in size. This growth in

28 Cited in Property Week, *op cit*

29 CBRE UK Monthly Index April 2008

30 Atisreal *London Office Market* Quarter 4, 2007

office space has mirrored the growth in Financial and Business Services (FBS) employment which has also doubled to just over six million. The question is now: given the growing impact of technology on work processes and working patterns, and given the much more sophisticated manner in which corporate organisations manage their occupational space with greater efficiency, will the next three decades see a further doubling of office floorspace, even if employment continues to grow at the same rate?

- 5.101 In other words, we need to consider the possibility that floorspace per worker in offices may fall significantly in the future. In the last 10-15 years, such falls have often been predicted, but the evidence indicates that floorspace per worker has not changed *on average* - though it has undoubtedly fallen in some occupier sectors and some areas. In the future, a growing body of anecdotal evidence suggests that this may change, as more and more organisations adopt tighter space standards and new technology reduces space requirements (e.g. flat computer screens need less desk space; mobile technology helps people work away from the office).

Conclusions

- 5.102 The consensus among market analysts is pessimistic over the prospects for property over the next two years at least. While a full-blown property crash seems unlikely at this point, we are clearly witnessing a significant “correction”, in which activity - both supply and demand - subsides for a period. However, the UK’s mature and liquid property market will remain attractive to overseas investors, albeit perhaps at something less than the frenzied levels of the past two years.
- 5.103 To answer the question posed at the outset of this section, it is possible to project that trends in the wider office market are likely to result in a lessening of demand for office space in the Hertfordshire London Arc at least for the next two years. Weakening occupational demand in the face of economic uncertainty will reinforce the fragility of the development and investment markets, and lead to a quiet period for the office sector. The latest Investment Property Forum survey forecasts no capital growth before 2010, and “rental growth sharply down across all sectors for the next five years”³¹. The Hertfordshire London Arc office market will - like the wider M25 region - suffer from these national trends. Apart from the occasional pre-let, there is unlikely to be any significant new development in the short term.
- 5.104 In the longer term, new ways of working, partly in response to fast-improving technology, may impact on office demand by reducing floorspace per head. Chapter 7 below will briefly consider the quantitative impact this might have in the study area.

³¹ Reported in Estates Gazette, 7th June 2008 p46

Conclusions

- 5.105 This chapter began by outlining the enigmatic nature of the Hertfordshire London Arc's office market. While the area's social and economic profile suggests that demand for offices should be high, key market indicators suggest otherwise. The growth of stock has been sluggish with only modest activity from developers; while demand, although diverse, has been low key, and very largely from existing occupiers churning space rather than from new arrivals.
- 5.106 Closer analysis fails to find supply-side constraints, such as lack of land or office-unfriendly planning policies, suggesting 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. Thus, the evidence suggests that demand weakness is a key problem for the Hertfordshire London Arc rather than supply-side constraints.
- 5.107 There is no doubt that the Hertfordshire London Arc is a secondary office market when compared to its main competitor, the Thames Valley. Here there is a larger critical mass of stock and an agglomeration of high-tech and business service occupiers in particular that generates activity from its own strength. The Hertfordshire London Arc lacks these attributes, and there is no evidence to suggest this has ever been otherwise in terms of offices.
- 5.108 These identified weaknesses could be reinforced going forward by a number of factors. The current fragile state of the property market generally will subdue development activity for quite some time, making it more difficult to attract developer interest to the Hertfordshire London Arc. There is also the prospect that the size of 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.
- 5.109 It will not be easy to the London Arc to attract more demand for offices than it has done in recent years. The number of proposals for large new schemes around Reading and Slough demonstrate the advantage afforded by critical mass, and if the Hertfordshire London Arc is to avoid losing ground, it will need to provide new stock and a more compelling 'marketing' campaign.

- 5.110 However, it is difficult to see the Hertfordshire London Arc's office market growing at a consistently faster pace than its main competitor in the Thames Valley, because of the latter's comparative advantage in the critical occupier sectors and its undoubted critical mass. Equally, it might be that the employment projections are ambitious in terms of office employment. If it wishes to encourage office growth, the area needs to concentrate on maintaining its position: keeping existing occupier, taking advantage of positive market conditions, as they occur, to attract new investors (as with Eisai), and providing an encouraging policy backdrop and land supply for those developers willing to provide new B1.
- 5.111 On the supply side, one potential threat is that for the foreseeable future the area will come under intense pressure to provide large-scale housing. Two large areas of potential commercial development have already been proposed for residential development (Hatfield Business Park and land North of Buncefield) although they are only broad directions of growth at this stage and have not yet been examined through the Local Development Framework process.
- 5.112 On a wider horizon 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 have climbed - to the extent that residential parts of the huge Green Park scheme at Reading have been prioritised over office development - 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. Centennial Park is a recent example, but even that has a mix of uses.
- 5.113 Thus, 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 (this should be kept under review) where a high quality business park environment can be created. Footloose occupiers have a 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 in order that "poor land availability" is not added to the list of reasons for not developing and locating in the Hertfordshire London Arc. We attempt to quantify this capacity in the next chapter.

6 EMPLOYMENT SITES AND AREAS

Introduction

- 6.1 This chapter provides a qualitative assessment of the planned supply of employment land - comprising the sites identified by the planning system to accommodate changes in employment uses. These assessments feed into Chapter 7, which compares this supply with the forecast demand, and into the conclusions and recommendations in Chapter 8.
- 6.2 The next section provides a brief discussion of existing, occupied employment sites and areas. The assessments for these areas are carried over from the South West Herts, Central Herts and Broxbourne local employment land studies - they have not been re-visited.
- 6.3 The following section discusses development sites allocated, permitted or under construction for B-class development at 31st March 2007. We have assessed only larger sites providing 4,000 sq m of floorspace or more.
- 6.4 Our assessment method is described in the previous employment land studies. Briefly, the assessment relates to *market potential* - the likelihood that, if a site were vacant and offered to the market for employment use, it would be taken up for that use, either through re-letting of existing buildings or through development of new buildings. We rate sites as poor if in our view they would be unlikely to be taken up (they are not necessarily secondary sites - these are often popular). We rate sites as good if we believe they would be likely to be taken up. Sites rated as average may or may not be taken up.
- 6.5 The assessment assumes that the wider market is reasonably balanced and that sites are free of development constraints or abnormal costs. In drawing up their plans, each Council will wish to assess its own sites with regard to constraints and deliverability. For the Central Herts area and Broxbourne, the previous employment land studies should still be up to date in this regard. The South West Herts study is due to be updated.

Existing Employment Areas

- 6.6 The overview of existing employment areas below is based on our earlier employment land reviews. For this study, we have not revisited our assessments, but we have deleted those sites which have been lost to employment use since those studies.
- 6.7 The previous assessments of existing sites are reproduced at Appendix 2.
- 6.8 Most of the current employment sites in the Hertfordshire London Arc are of good or average quality. In our previous studies we assessed some sites as poor and recommended that they be released to other uses. Much of this advice has been taken up.
- 6.9 In the districts with a New Town history - Welwyn Hatfield and Dacorum - there are large concentrations of employment uses. Examples are

Welwyn Garden City employment area (assessed as a mixture of good and average) and Maylands Business Area. These large areas tend to have the advantages of being separated from sensitive residential use and are usually strategically located with good road access.

- 6.10 In the other districts, employment sites are more scattered but there are still good quality locations, for example Stirling Way and Elstree Way in Hertsmere, the Alban Park/Acrewood Way/Lyon Way area in St. Albans, Hoddesdon Industrial Centre in Broxbourne and Croxley Business Park in Three Rivers.
- 6.11 Watford is a wholly urban district and many of its employment areas suffer from relatively poor access because they are embedded within the built-up area on congested streets. The best locations are in Imperial Way/Colonial Way in North Watford for industrial and warehousing and Clarendon Road in Central Watford for offices.
- 6.12 Several of the other town centres are also important office locations. Watford is the most popular office location in the Hertfordshire London Arc, followed by St. Albans. The previous studies recommended that office accommodation in town centres should be monitored, and only be considered for release to other uses or mixed use where it is no longer suitable for employment uses and its redevelopment for such uses would not be commercially viable. This approach accords with Draft PPS4 (2007), which supports the role and importance of offices in town centres.
- 6.13 Smaller settlements in the Hertfordshire London Arc provide important locations for small businesses, because they provide cheaper accommodation. These small sites are often constrained and would be costly to redevelop, but are well used.
- 6.14 Many of the districts also have 'Major Developed Sites in the Green Belt' such as Bovingdon Brickworks in Dacorum and Clare Hall in Hertsmere. These, although they often serve the lower end of the market and if they become vacant may not be attractive to developers, are established estates which in their present state seem well occupied.
- 6.15 Across the Hertfordshire London Arc there are also sites which are under-utilised, constrained by surrounding residential uses or have poor accessibility, and the previous studies recommended release of some of these sites.
- 6.16 In the tables below, we show those sites which earlier studies recommended be considered for release, which are one hectare or above, and which at 31st March 2007 were still in employment use.

Table 6.1 Industrial/Warehouse Sites to be considered for Release, 31 March 2007

Site	LA	Sq m	Ha	Consider Release to
Oakridge Lane	Hertsmere	61,160	15.3	Non- B Use
Great North Rd	Welwyn Hatfield	20,360	5.1	Non- B Use
Cardiff Road	Watford	30,640	7.7	Mixed Use
Nash Mills	Dacorum	16,400	5.0	Mixed Use
Frogmore	Dacorum	16,400	4.1	Mixed Use
Sandown	Watford	13,480	3.4	Mixed Use
Total		158,440	41	

Source: Roger Tym & Partners

- 6.17 For many of these sites, the floorspace is unknown, so we have estimated it assuming a 40% plot ratio (4,000 sq m of floorspace per hectare of land area). This is appropriate for existing sites³².
- 6.18 The Cardiff Road site, which we recommended be considered for mixed-use redevelopment, was granted outline permission for such redevelopment in May 2008. The permitted scheme is a health campus and will include some employment uses, of which details are not known at this stage. Therefore it is listed both as an existing employment site to be considered for release and (in the next section) as a development site.

Table 6.2 Office Sites to be considered for Release, 31 March 2007

Site	LA	Sq m	Ha	Consider Release to
Doolittle Meadow	Dacorum	36,400	9.1	Mixed Use
Total		36,400	9.1	

Source: Roger Tym & Partners

- 6.19 As stated in the previous employment land reviews, sites should only be released if a) this does not result in a deficit of employment land or b) they are replaced with sites which are as good or better, both in terms of market potential and policy merit.

Development Sites

Introduction

- 6.20 In this section we consider committed development sites. Other components of supply can include:
- Existing vacant employment space. We have no comprehensive data on vacant space and so we assume that the market has a 'natural' or 'equilibrium' vacancy rate which is necessary for smooth operation of the market.

³² In the case of offices we would expect new developments to be built at higher plot ratios.

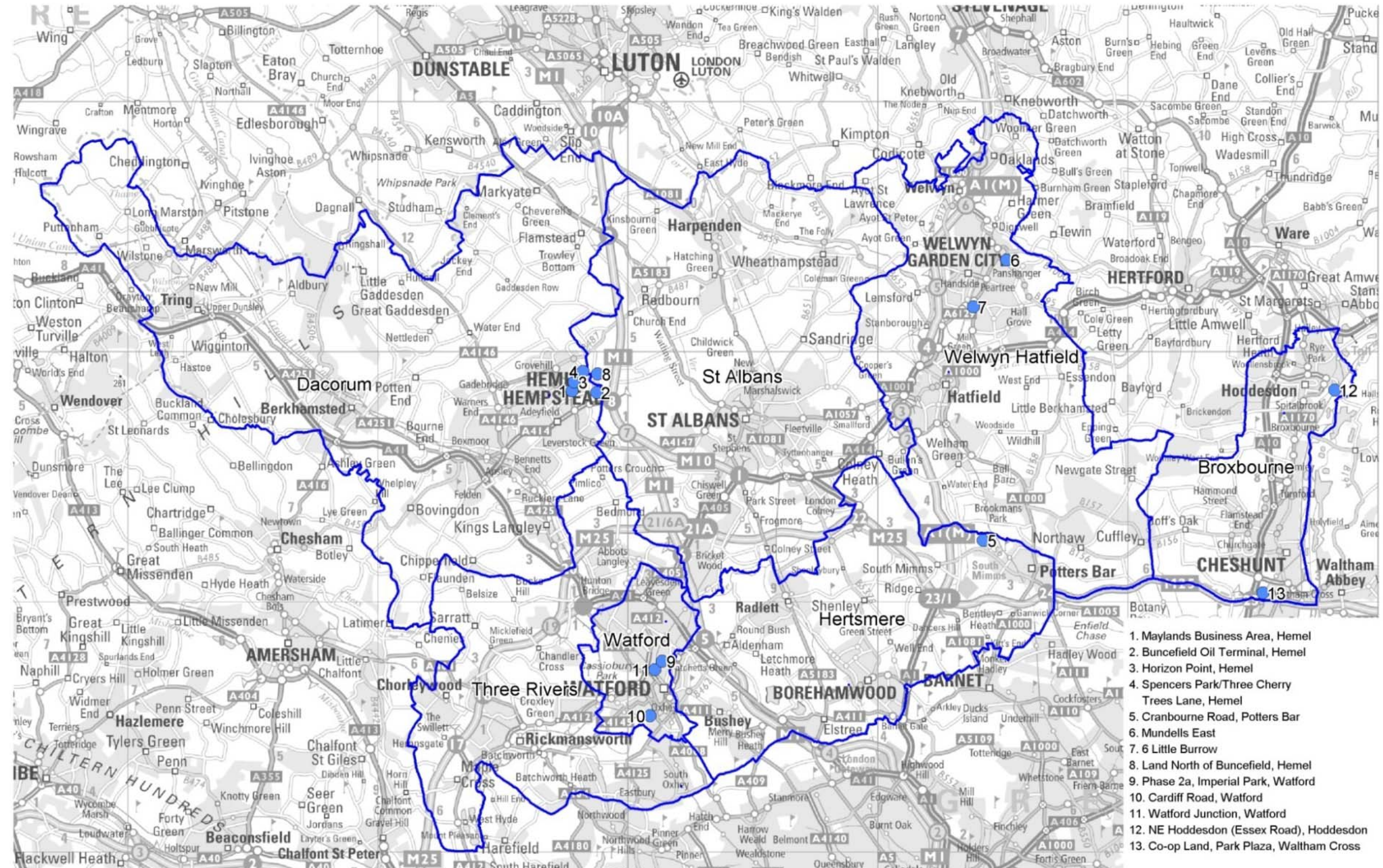
- Existing employment space in use, which in the future might accommodate additional jobs if densities increase either due to greater site coverage, or changing worker/floorspace ratios. This is very difficult to quantify and so we have not included it in our analysis.
- 6.21 Committed development sites comprise developments under construction and outstanding permissions and allocations.
- 6.22 For this study, we have updated the list of these sites to the survey date of 31st March 2007, removing sites which have been developed and adding those which have been added to the list since the previous studies. The calculations at Chapter 7 are based on this new list, which is at Appendix 3.
- 6.23 For sites which would provide 4,000 sq m of floorspace or more, we provide site assessments, listed in Tables 6.3 and 6.4, below. These are not necessarily strategic sites or the most important, just the largest. The assessments relate to the land uses (industry/warehousing or offices) for which sites have planning permission or are allocated. Where allocations or permissions are not specific, we make a judgement as to which land use sites are most suitable for and assess them accordingly. Where sites are suitable for either office or industrial uses, we count them in the tables as industrial/warehousing.
- 6.24 We do not assess sites which would provide less than 4,000 sq m of floorspace. Conclusions on small sites from the SW Herts, Central Herts and Broxbourne Employment Land Reviews remain relevant and should be carried forward (see Appendix 2), as should conclusions on specific settlements.

Table 6.3 Industrial/Warehousing Development Sites (Floorspace Capacity 4,000 sq m or above) at 31st March 2007

District	Site name / Employment Area	Town	Gain use class*	Development o/s sq m	Status	Market Potential	Market Sector
Dacorum	Maylands and Maylands Avenue	Hemel Hempstead	B2	43,883	Under construction	Good	Smart/secondary
Dacorum	Buncefield Oil Terminal	Hemel Hempstead	B8	31,738	Under construction	Good	Big B8
Dacorum	Horizon Point, Swallowdale	Hemel Hempstead	B8	14,901	Permission	Good	Smart
Hertsmere	Cranborne Road	Potters Bar	B0	9,700	Allocation (Long-Term/Safeguarded)	Average	Smart/secondary
Welwyn Hatfield	6 Little Burrow	Welwyn Garden City	B0	4,102	Permission	Average	Secondary
Welwyn Hatfield	Hatfield Business Park	Hatfield	B0	34,383	Permission	Good	Big B8/smart
St. Albans	Land North of Buncefield	Hemel Hempstead	B8	14,800	Allocation	Good	Big B8
Watford	Phase 2a, Imperial Park	Watford	B0	4,021	Permission	Good	Big B8/smart
Watford	Cardiff Road	Watford	B2/B8	Unknown	Permission	-	?
Watford	Watford Junction	Watford	B2/B8	Unknown	Allocation	Good	Smart
Broxbourne	NE Hoddesdon (Essex Road)	Hoddesdon	B8	74,726	Permission/under construction	Good	Big B8/smart
Broxbourne	Park Plaza: Co-op Land	Waltham Cross	B0	32,650	Permission	Good	Big B8/smart
	Batching Plant	Waltham Cross	B2	3,751	Permission	Good	Smart
	Printworks	Waltham Cross	B2	83,164	Under construction	Good	Smart
TOTAL				351,819			

Source: District Councils, County Council, RTP. **Structure Plan Key Sites are shown in bold.** *B0 refers to open B Class use (i.e. where B1, B2 or B8 has not been specified), we have put all such sites into the industrial/warehousing category.

Figure 6.1 Industrial Sites



Source: RTP

Industry and Warehousing

Individual Site Assessments

- 6.25 Table 6.3 shows the development sites which are suitable for industrial/warehouse use and expected to provide floorspace of 4,000 sq m or more. As well as brief facts about the site and our assessment of market potential, the table shows the market sector for which each site is suitable or is being developed. There are three such market segments, as discussed in Chapter 4 above:
- Big B8 (logistics) sheds
 - Smart sheds
 - Secondary sheds.
- 6.26 Dacorum's largest employment area, the Maylands Business Area, is proposed for comprehensive regeneration, for which Dacorum Borough Council has published a masterplan. The area is split into five General Employment Areas: Maylands, Maylands Avenue, Buncefield, Swallowdale and Breakspear Park. There is also one new employment land designation at North East Hemel Hempstead. Each of the GEAs are discussed below, except Breakspear Park which is occupied and therefore not a development site. North East Hemel Hempstead is an office site and so is discussed in the next section.
- 6.27 Maylands and Maylands Avenue are good quality areas, with excellent strategic accessibility and relatively unconstrained by sensitive neighbouring uses due to the planned nature of the town. They are thriving areas with a mix of employment uses. Around 44,000 sq m of new industrial floorspace, in small to medium units, is under construction at the Former Dupont Works and at Boundary Way.
- 6.28 Buncefield is located to the east of Maylands Avenue and has similar qualities. A single large warehouse unit is under construction there.
- 6.29 Swallowdale forms the northern edge of Maylands and benefits from proximity to this established employment location. Around 15,000 sq m of warehouse floorspace has planning permission there.
- 6.30 The land at Cranborne Road is safeguarded in the Hertsmere Local Plan for employment use in the long term, if required. It would form an extension to the Cranborne Road Industrial Estate, Potters Bar. The site is of average quality, due to traffic and parking problems. As part of a transportation strategy for Potters Bar and South Mimms, the Council may decide to provide a new link road, which would alleviate some of these problems and improve the commercial viability of the site.
- 6.31 The 6 Little Burrow site, also in Welwyn Garden City, is constrained by poor local infrastructure, which makes it suitable only for infill developments. It has outline planning permission for around 4,000 sq m of employment floorspace.
- 6.32 Hatfield Business Park has been very successful in attracting large, logistics activities. Commercial property agents at the consultation

workshop highlighted Hatfield Business Park as a good example of mixed use development. The remaining land at the business park is identified for 34,000 sq m of employment space, together with leisure and sui generis development. The records show the site as being under construction, but we believe that this related to non-B development, and that the employment element of the scheme has not yet started. Due to the proximity of other uses, this employment element may comprise Smart Sheds rather than Big B8.

- 6.33 The land North of Buncefield, which forms Employment Area 7 in the St Albans District Plan Review, lies in a highly accessible location close to the M1. The eastern part of the area has already been developed. The remaining three hectares seems ideally suited for logistics, but we rate its market potential as average because its future may be affected following the Buncefield explosion. A planning application is expected to be submitted shortly to rebuild the adjoining destroyed oil tank, and if this is approved it may rule out further development on the site, because the Health and Safety Executive's revised policy regarding development close to major oil depots establishes a 'Development Proximity Zone'. Within the zone, which extends 150 metres from the edge of petrol storage areas, HSE will advise against any developments other than those 'not normally occupied'.
- 6.34 Phase 2a, Imperial Park is a good-quality site, which currently has planning permission for around 4,000 sq m of employment floorspace. The site is well established and has good access to the M1.
- 6.35 Cardiff Road is an existing employment site which was recommended for release in the previous study (see Table 6.1 above). As noted earlier, it will now be redeveloped for a health campus, which has outline permission for mixed use including some employment uses. As an existing site we rated Cardiff Road as poor, due to its poor access and layout and conflicts with residential uses nearby. As a redevelopment site, we have not assessed it, because we are not clear about the extent of proposed employment uses or their place within the wider scheme.
- 6.36 Watford Junction is an important development site and includes the St. Albans Road area. We assess it as good because of its high accessibility. A development brief has been adopted which proposes improved rail passenger facilities and mixed use development. However, whilst the redevelopment this may include residential use, retail and offices, it is not likely to include a significant element of industrial/warehousing space.
- 6.37 At North East Hoddesdon, there is planning permission for almost 75,000 sq m of warehouse use, some of which is under construction. The new development comprises a major extension to the existing good-quality industrial estate and has been made viable by the new Essex Road bridge across the railway line.
- 6.38 The Co-op land at Park Plaza, Waltham Cross, is a good quality site adjacent to the M25. It has outline consent for around 32,500 sq m of open B-class (B1/B2/B8) use. In our view, the site would be particularly

attractive for warehousing; it could accommodate two or possibly three large distribution users.

- 6.39 Also at Park Plaza, a printworks (83,200 sq m) is now completed (but is shown as under construction in the table, which has a base date of 31st March 2007) and consent has been granted for a batching plant (3,750 sq m).

Overview

- 6.40 Our assessment of market appeal 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 - and no site is poor.
- 6.41 However, as well as assessing sites individually, we must consider them collectively, to see how they are distributed spatially and how far they meet the full range of occupier requirements.
- 6.42 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 (although 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.
- 6.43 To answer the second question, we need to consider how the pipeline at Table 6.3 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 precise form of development is not yet known, several are suitable for both the Big B8 and Smart Shed sectors. Bearing in mind that, as discussed at Chapter 4, developers prefer large-scale warehousing, many of these sites might be developed for such warehousing, leading to a shortage of Smart Shed space.
- 6.44 Secondary sheds hardly appear, confirming that lower-value demand will be largely met in existing, second-hand floorspace, and perhaps small infill sites which are below our 4,000 sq m threshold and do not appear in Table 6.3.

Offices

Individual Site Assessments

- 6.45 Table 6.4 shows the larger development sites which are proposed or suitable for office use.
- 6.46 Maple Cross is a small, but apparently successful, business location, boasting several international businesses as occupiers. There is planning permission there for 11,600 sq m of new floorspace.

- 6.47 Leavesden Park is a potentially very large and strategically significant business park, but it has been slow to get off the ground. To a degree this reflects the post-dotcom market into which it was launched, but other areas seem to have recovered more robustly; and the lack of visible progress is something of a puzzle. Early stages of the development comprise the BT complex and two speculative buildings, where some space is still vacant. There is an outstanding allocation for a further 91,000 sq m, comprising offices and a modern film studio³³, to replace the existing Leavesden Studios, now operating in a former aircraft hangar. This allocation has been outstanding for some years but has not come forward. As discussed in Chapter 5, this may be because the site is not favoured by occupiers - for whatever reason - or because of the costs of bringing forward the next phase of office development at Leavesden, which include large developer contributions towards highways, may be considered prohibitive.
- 6.48 The Pilling Motor Group site is in the Two Waters Industrial Estate, located on London Road in Boxmoor. The estate has good strategic and local access and good commercial prominence, overlooking a main junction approach to Hemel Hempstead. This site would be a good for industrial use but it has planning permission for a new 6,900 sq m office building. The lack of amenities and services in the area makes it an average office site.
- 6.49 As discussed earlier, Maylands and Maylands Avenue are good quality employment areas. The development sites in these areas have good market potential for new office floorspace, benefiting from excellent strategic accessibility and being relatively unconstrained by sensitive neighbouring uses due to the planned nature of the town. Currently, over 78,000 sq m has planning permission for offices, while 10,000 sq m is under construction and a further 11,000 sq m remains allocated.
- 6.50 The Maylands Masterplan proposes a high-quality business park just off M1 Junction 8, to be known as Maylands Gateway, to provide an estimated 130,000 sq m of office space. This site has good market potential and would compete effectively in the wider region. Maylands is easily accessible by car from the M1 and from nearby towns such as Watford and St. Albans, but the poor access by public transport to parts of the area will need to be improved if the site is to attract enough developer/occupier interest. Such major public transport improvements are part of the masterplan, whose proposals include a regular, reliable bus link, a park and ride and improved pedestrian and cycle links.
- 6.51 Dacorum and St. Albans Councils propose that the Maylands Gateway site replace the Structure Plan allocation North East Hemel Hempstead, a greenfield site also known as Spencers Park and Three Cherry Trees Lane. The site is mainly in Dacorum, although over 5 hectares are in St

³³ Film studios in planning terms are a B1a (office) use, but they are not included in the floorspace statistics as offices (being a 'special' or 'non-bulk' category, and hence excluded from the statistics) and they are not covered by our analysis of the office market. On balance, therefore, we consider that film studios are not an office use. The planning allocation of 91,000, covering both offices and a studio of unknown size, with regard to offices should be considered a maximum.

Albans District. Structure Plan Policy 15 calls the site Three Cherry Trees Lane and shows it as a Key Employment Site, where priority will be given to specialised technological activities. Although formally Spencers Park is still an employment allocation identified for a high-technology Park, we do not include it in our list of office sites, because we understand that Dacorum and St. Albans consider Maylands Gateway as the better location for major employment development. We have also left the site out of our calculations in Chapter 7 and included the Maylands Gateway figure instead.

- 6.52 Centennial Park in Elstree is a modern development in a planned environment with good road communications. Although it was initially slightly remote in terms of public transport, this problem was rectified once the location became established. It has struggled to let and has diversified its base of uses as a result of this. There is currently around 5,500 sq m of office development under construction at Centennial Park.
- 6.53 At two sites in Hertsmere - Clare Hall and the NISBC site, the existing users have planning permission for extensions to their research laboratories. Such extensions are appropriate, however the sites are rated as average because they are in the Green Belt and would be unlikely to be taken up if they became vacant and were on the market.
- 6.54 The Pinnacle Insurance site is close to the established, good quality employment area at Elstree Way. It is well located for local facilities and the rail station and has excellent access to the A1 and the motorway network. The site has planning permission for redevelopment to provide 15,000 sq m of office space (7,825 sq m net).
- 6.55 Shire Park is the best office location in Welwyn Hatfield. It provides a planned environment in walking distance of the rail station and town centre and road communications on a par with the remainder of the town's main employment area. There is an allocation of around 7,800 sq m of new floorspace for Phase 3.
- 6.56 On Hatfield Business Park, around 32,400 sq m of new office space is under construction at Mosquito Way. Hatfield Business Park is a good site, well located and suitable for a range of employment uses.
- 6.57 The Frythe at Digswell Hill is another rural site with a single occupier. The occupier is GSK, who have planning permission for an extension of 8,000 sq m. This was not assessed as a development site in the previous study. It is remote with relatively poor access. It is an appropriate site for an extension of the existing use, but in the event that GSK moves away, it is unlikely that the site would continue in a Class B employment use.
- 6.58 Mundells East, Welwyn Garden City is a good-quality site, located in the Welwyn Garden City Employment Area, which is well planned and has good access. It is now under construction for an 18,500 sq m data centre. An earlier permission for a large distribution centre, the Garden Shed, was not implemented.
- 6.59 Park Plaza fronts onto the A10 dual carriageway, and has good visibility. It sits just to the west of the News International printworks. Road access

to the site is good, in so far as it is close to both the A10 and junction 25 of the M25. However, local access is more difficult as there is no direct access to the site from the northbound A10 (northbound vehicles travel up to the junction with the B198/B121, and return south). The site does not sit within an established office location, and the office offer in Waltham Cross is secondary. There is planning permission for 25,000 sq m of office floorspace at Park Plaza, but the site does not have sufficient scale to become a successful office location in its own right. There is a new hotel to the north of the site, but this does not materially change its attractiveness to corporate occupiers.

Table 6.4 Office Development Sites (Floorspace Capacity 4,000 sq m or above) at 31st March 2007

District	Site name	Town	Gain use class	Development outstanding sq m	Status	Market Potential
District	Site name	Town	G			
Three Rivers	Witney Place, Adj Hertford Place	Maple Cross	B1	11,611	Permission	Good
Three Rivers	Leavesden Park	Leavesden	B1	91,000	Allocation	Good
Dacorum	Pilling Motor Group, London Road	Boxmoor	B1	6,908	Permission	Average
Dacorum	Maylands Gateway (1)	Hemel Hempstead	B1	78,513	Permission	Good
			B1	10,160	Under construction	Good
			B1	141,200	No status	Good
Hertsmere	Centennial Park	Elstree	B1	5,582	Under construction	Good
Hertsmere	Clare Hall, Blanche Lane	Ridge	B1b	8,295	Permission	Average
Hertsmere	NIBSC Site, Blanche Lane	Ridge	B1b	4,904	Permission	Average
Hertsmere	Pinnacle Insurance	Borehamwood	B1a	15,000	Permission	Good
Welwyn Hatfield	Shire Park Phase 3	Welwyn Garden City	B1	7,785	Allocation	Good
Welwyn Hatfield	Hatfield Business Park - Mosquito Way	Hatfield	B1	32,371	Under construction	Good
Welwyn Hatfield	GSK, The Frythe	Welwyn	B1b	8,095	Permission	Good
Welwyn Hatfield	Mundells East	Welwyn Garden City	B1a	18,508	Under construction	Good
Broxbourne	Park Plaza		B1a	25,000	Permission	Average
Broxbourne	Merck Sharp Dohme, Hertford Road	Hoddesdon	B1a	14,694	Permission	Average
TOTAL				479,626		

Source: District Councils, County Council, RTP. Structure Plan Key Employment Sites are shown in bold.

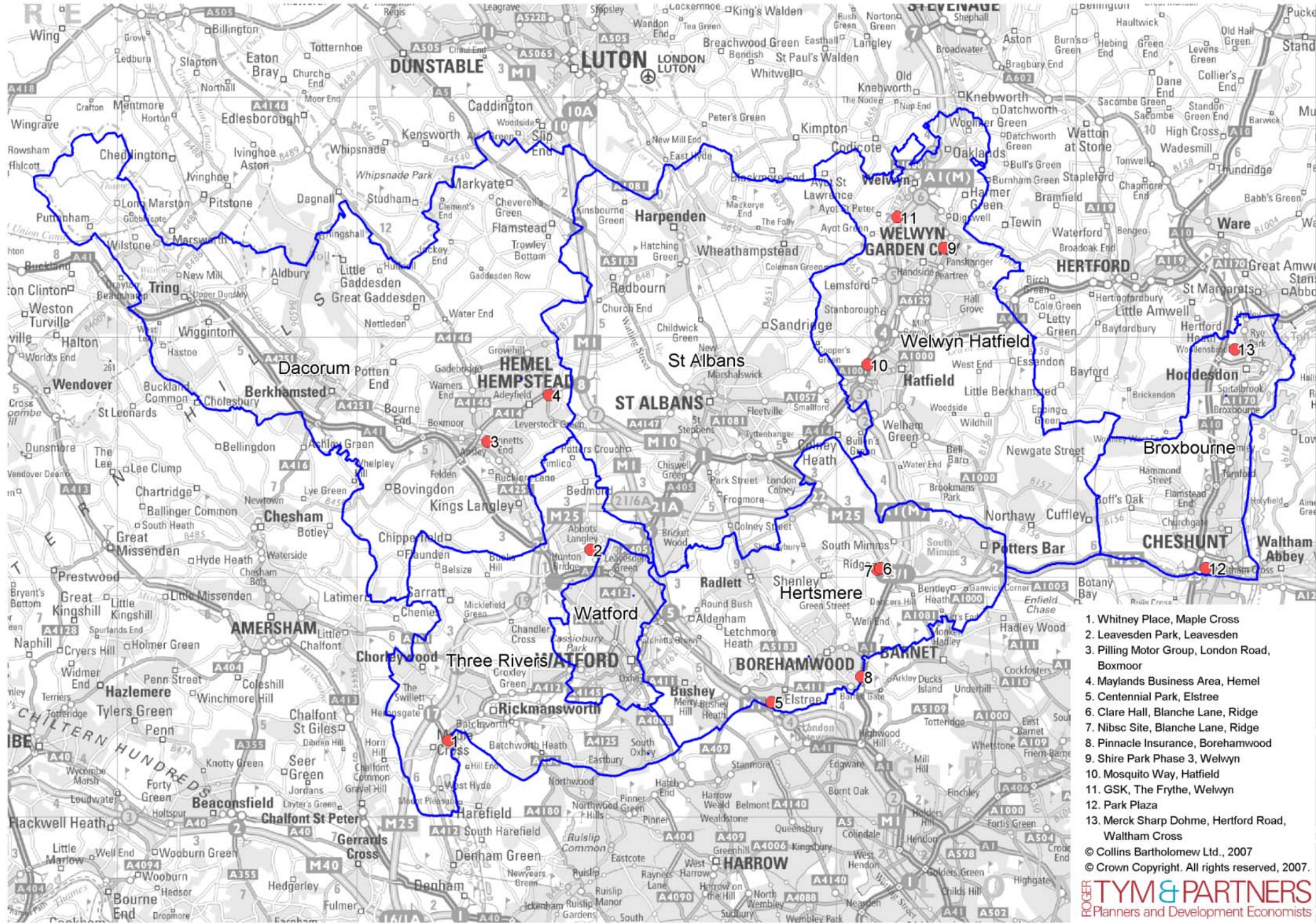
(1) Dacorum and St. Albans Councils propose that this site replace the Structure Plan allocation North East Hemel Hempstead. The latter site is therefore excluded from the table.

- 6.60 The Merck Sharp Dohme site at Hertford Road, Hoddesdon, has planning permission for 14,900 sq m of new office development. This site is assessed as average because it is not part of an established employment area and has residential surroundings.

Overview

- 6.61 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.
- 6.62 Geographically, the greatest concentration of office sites is in Three Rivers (due almost entirely to Leavesden) 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.
- 6.63 The market analysis at Chapter 5 suggested that, to maximise its office potential, the study area should provide at least one strategic high-quality business park (which could include some industrial as well as office uses). People who attended the consultation workshop concurred with this view.
- 6.64 A prestige business park, once mature, as a minimum should provide around 80,000-100,000 sq m and 5,000-6,000 jobs.
- 6.65 There are two sites already identified which could provide such a development. They are the Maylands Gateway and the remaining land at Leavesden Park. Our earlier analysis has suggested that Maylands Gateway has excellent market potential; but that Leavesden Park's potential is uncertain, given its disappointing performance to date.
- 6.66 Further possible locations for a new business park may include:
- In St Albans district, in one of potential new development areas identified in the emerging LDF, to the east or south east side of St Albans city (London Colney seems an especially attractive location);
 - In Welwyn/Hatfield district, to the west side of Hatfield,
- 6.67 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, to avoid an undue level of competition.

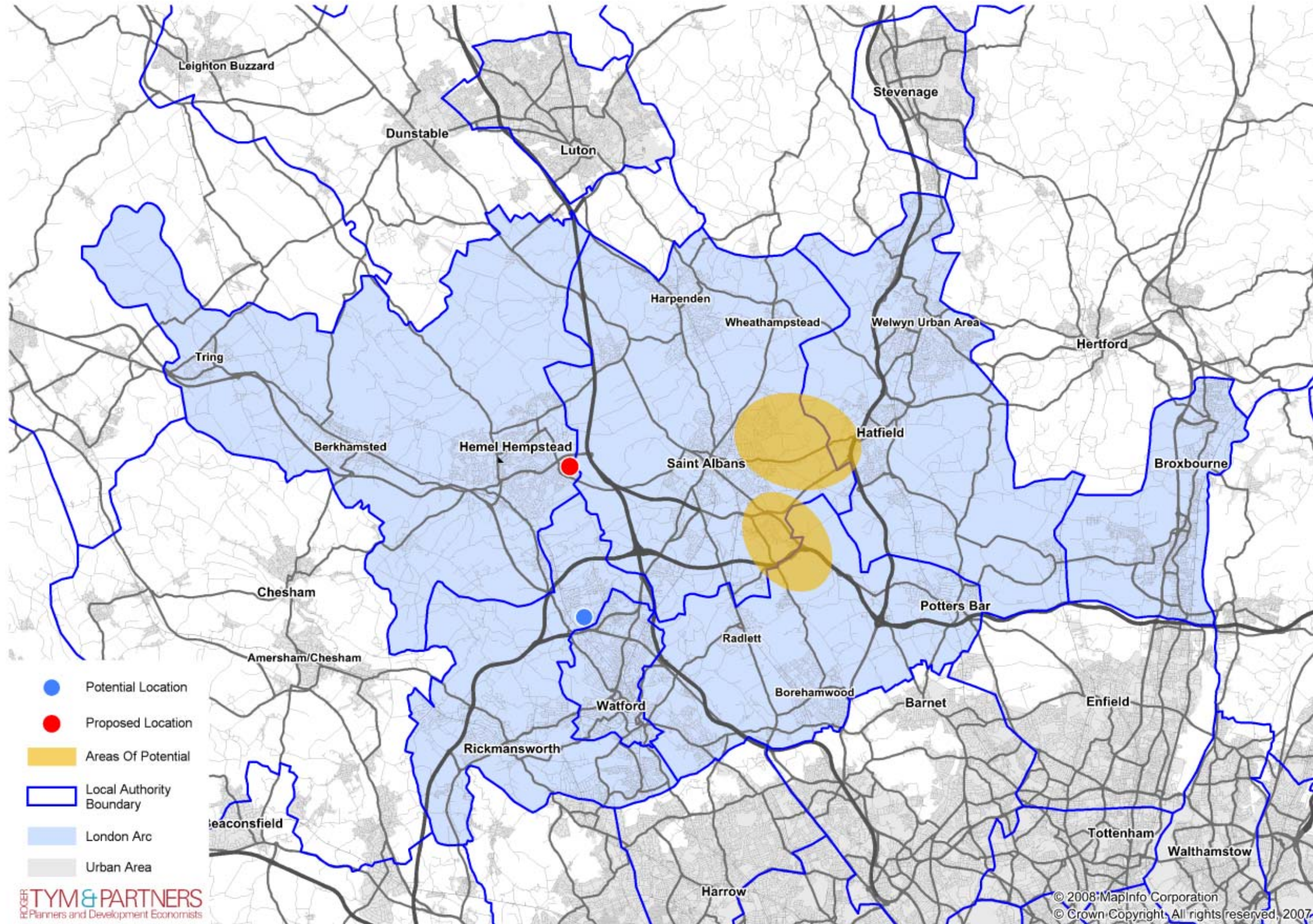
Figure 6.2 Office Sites



1. Whitney Place, Maple Cross
 2. Leavesden Park, Leavesden
 3. Pilling Motor Group, London Road, Boxmoor
 4. Maylands Business Area, Hemel
 5. Centennial Park, Elstree
 6. Clare Hall, Blanche Lane, Ridge
 7. Nibsc Site, Blanche Lane, Ridge
 8. Pinnacle Insurance, Borehamwood
 9. Shire Park Phase 3, Welwyn
 10. Mosquito Way, Hatfield
 11. GSK, The Frythe, Welwyn
 12. Park Plaza
 13. Merck Sharp Dohme, Hertford Road, Waltham Cross
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- TYM & PARTNERS**
Planners and Development Economists

Source: RTP

Figure 6.3 Possible Business Park Locations



Source: RTP

- 6.68 Figure 6.3, above, shows possible business park locations.
- 6.69 The quantitative assessment in the next chapter will consider how many of the above sites may be needed in the plan period. Any potential new business park locations would need to be fully tested through the LDF process.
- 6.70 Any new large sites would need to be phased. At the consultation workshop, it was noted that to attract office occupiers to an edge-of-centre or out-of-centre location, it would be necessary to provide some mixed use development, i.e. retail and leisure uses for employees. Such services need at least 100,000 sq m of office floorspace to sustain them. The Maylands Gateway is at an advantage in this respect because there is some service provision there already, but it is lacking in public transport provision. As discussed, the masterplan sets out a range of improvements to transform the area and make it a more sustainable and attractive location. The stakeholders mentioned that many companies have “green” initiatives in place and are keen to become more sustainable so public transport is very important. Parking is also important and the current parking allowance for new developments is seen as low. In addition, the new sites will need to be marketed to potential occupiers.
- 6.71 One important gap in the planning and development pipeline is a lack of office development opportunities in town centres. Town centre sites are highly sustainable and are preferred by some occupiers. If the Hertfordshire London Arc is to meet the actual and potential demand for office uses as fully as possible, more office development opportunities should be provided in town centres, perhaps by redrawing town centre boundaries to include appropriate sites and seeking to include office space in mixed use town centre developments.
- 6.72 It is not necessary to provide additional office sites in every town centre. But, subject to market conditions and practical feasibility, it seems important to do so in Watford. Given the town’s status as a Key Centre for Development and Change, it seems wrong that there should be no large office development opportunities there. It may be possible to create such opportunities at the Watford Junction allocation, which is identified for mixed uses including employment. The employment element at Watford Junction is currently identified for B2/B8 uses, but part of all of it may be more suitable for offices.
- 6.73 Hemel Hempstead, as another Key Centre, is another town centre where office development opportunities should be considered, to complement the out-of-town proposals at Maylands.
- 6.74 However, at the third Key Centre, Welwyn Hatfield, as we understand it there are no opportunities for town centre office development.

7 LAND DEMAND AND SUPPLY 2006-26

Introduction

- 7.1 In this chapter, we first forecast the future requirement (demand) for industrial, warehouse and office space. We then compare demand with the planned and potential land supply discussed in the last chapter, to see if more (or indeed less) land should be identified for employment.

Employment Forecasts

Alternative Scenarios

Methods

- 7.2 As discussed in Chapter 2, the Regional Spatial Strategy at Policy E1 provides 'indicative' employment growth targets and says that these targets should be used by local authorities as guidance, but may be tested and revised in the process of preparing LDFs. These forecasts, with minor variations, have survived through successive versions of the emerging RSS. The earlier Hertfordshire London Arc employment land studies expressed reservations about the E1 figures, but found that there was no convincing alternative, and therefore used these figures to forecast land demand - except in Broxbourne, where the study suggested that the E1 figures were not credible, and we used a trend-based scenario as a stop-gap.
- 7.3 In the intervening period, an alternative economic forecast has emerged, through the Joint Modelling study commissioned jointly by EERA and EEDA. The project will both feed into the early review of the RSS (which has started just weeks after final publication of the current RSS) and inform the review of the Regional Economic Strategy. It was carried out by the consultancy Oxford Economics (OE) and has produced an integrated model that generates consistent forecasts and scenarios for the economy, demography and housing to 2031³⁴. To provide an alternative to the E1 targets, we commissioned from OE a set of forecasts for the Hertfordshire London Arc based on this model.
- 7.4 The OE model is described in the report quoted earlier. Appendix 1 summarises this description, focusing on the district-level forecasts. In summary, OE have developed a fully specified model of the national economy, which provides future jobs by sector for the UK as a whole. To generate employment for the East of England region and for districts³⁵, OE first splits economic sectors into three categories:
- i) Personal and community services, which in broad terms are consumed by the local resident population;

³⁴ Oxford Economics, Arup, East of England: Joint Modelling for the RES and RSS, Final Report, Revised August 2008.

³⁵ OE use the same 'step-down' approach to derive regional from national figures and to derive district from regional figures. Here, we describe the latter calculation.

- ii) Business services, which on the whole are consumed by businesses;
- iii) 'Export' or economic base sectors - mainly manufacturing and agriculture - whose outputs in general are consumed in wider markets.

7.5 The district forecasts are driven by two sets of ratios, employment-based and population-based ratios:

- For the latter two groups of sectors, each district's employment is forecast by projecting forward an employment-based ratio - the district's past share of the regional total. Thus, if a district has a high share of the region's employment, other things being equal it will gain a high share of the region's future growth. But if the district's share has been falling in the past, the forecast will show it falling further in the future.
- For personal and community services, such as retail, health and education, the forecast is driven by a population-based ratio - employment per head of resident population. As before, each district's past ratio is projected into the future. Thus, if a district's population is expected to grow, other things being equal its employment in these services will also grow. But if employment per head has been falling - for example because a rising proportion of residents' retail spend is leaking out to centres in other areas - then it will continue to fall in future.

7.6 Although we do not have much information about the Experian model that generated the E1 target³⁶, we know that its method is broadly similar. However, there are differences between the two, of which three are especially important.

7.7 Firstly, the Experian scenario was driven by the key objective of an earlier Regional Economic Strategy, that the East of England should be among the top 20 regions in Europe in terms of output (GVA) per head. The scenario boosted output and employment in selected sectors to show what the region would have to do in order to meet this objective, which is no longer current. In contrast, the OE Figures are not affected by any economic objective or target (though they do take account of the RSS housing targets, as discussed earlier); they simply aim to show what is likely to happen.

7.8 Secondly, Experian's assumptions about districts' resident population are unknown, but are probably taken from ONS population projections and almost certainly take no account of planned housing provision. In contrast, the OE scenarios discussed here assume the level of housing provision proposed in the East of England Plan. These assumptions are important, because as discussed earlier resident population affects workplace employment, most directly through local people's consumption of local services such as retail and education.

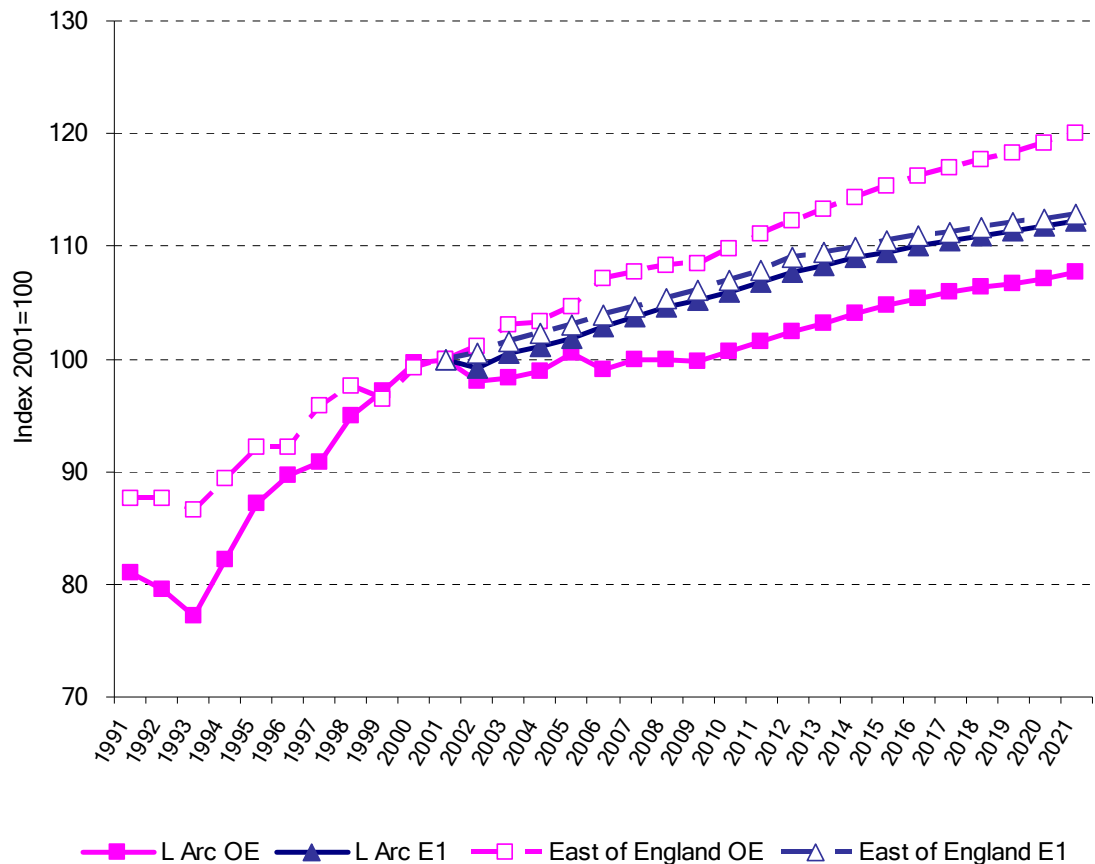
³⁶ Bone Wells Associates, RES Sub-Regional Studies, Stage 1, July 2002

- 7.9 Thirdly, the OE scenario is more up to date, being generated in May 2008 based on data up to 2006. The Experian figures underlying E1 were produced in 2002, based on 2001-2002 data. This also makes a large difference, because, as we have seen, around 2000 the area's employment growth flattened.
- 7.10 Beyond these differences, one thing the two models (and all economic forecasts) have in common is that they are subject to major limitations and caveats. In general, forecasts are more robust the larger the area being considered, and at the level of individual districts can be only indicative. One particular problem is that, to predict a district's share of the region's employment, the forecasts carry forward past trends in that share. In a district like St Albans, where growth in the past has been constrained by land supply, the forecasts are likely to underestimate potential future demand.
- 7.11 Because of these limitations, we will use the district forecasts only as an initial indication of the distribution of demand across districts, rather than the definitive answer. A further and related reason for not taking the district forecasts literally is that planning policy has the power to redistribute demand across district boundaries, to match land availability and policy objectives. We will return to these issues later in the report. For the moment, we discuss the district forecasts as forecasts of potential future demand (what the market will want), without making any assumptions about their implications for policy targets (what the planning authorities should choose to provide).

Results

- 7.12 The chart below compares total employment change in the E1 and OE scenarios. The comparison runs to 2021, the end date of the E1 scenario. In this and later analyses, the OE scenario shows actual change until 2006 and forecasts thereafter. The E1 figures are all forecast.

Figure 7.1 Total Employment Change, Hertfordshire London Arc and East of England, 1991-21, Alternative Scenarios



Source: Oxford Economics, Experian, RTP

- 7.13 In the original E1 scenario, the Hertfordshire London Arc’s employment increases steadily, at the same rate as the East of England. Over the E1 forecast period, 2001-21, this produces a gain of some 49,300 jobs³⁷. In the first five years of the period, it seems that reality did not follow the forecast. While the region’s total employment grew faster than E1 expected, the Hertfordshire London Arc’s, contrary to E1, did not grow at all. According to the official statistics (with obvious errors corrected as far as possible) it lost an insignificant 3,600 jobs. So, to catch up with the E1 target in the plan period to 2021, the Hertfordshire London Arc between 2006-21 would have to gain some 52,900 jobs.
- 7.14 Oxford Economics has an important advantage over E1: as mentioned earlier, it ‘knows’ the actual employment statistics for the period 2001-06. In this period, the region’s employment growth was considerably above the E1 scenario, but the Hertfordshire London Arc’s growth was considerably below it. The OE scenario partially carries forward this underperformance into the future. Accordingly, it shows considerably slower growth than E1, with 30,600 net new jobs from 2001-21 and 34,200 net new jobs from 2006-21 (Table 7.1).

³⁷ Numbers in the text are rounded in the nearest 100.

- 7.15 The table below shows a more detailed comparison of the two scenarios, splitting total employment into four broad activity sectors: primary (such as agriculture, fishing, mining), secondary (such as manufacturing, utilities and distribution), financial and business services and personal and community services (such as education, health and retail).

Table 7.1 Total Employment Change by Broad Sector, Hertfordshire London Arc, 2001-21, Alternative Scenarios

Jobs	2001-06	2006-21	2001-21
E1			
Primary	-710	-591	-1,300
Secondary	-4,342	-6,806	-11,148
FBS	6,140	22,795	28,935
Personal/Community Services	10,463	22,326	32,789
Total	11,551	37,724	49,275
OE			
Primary	-325	-622	-947
Secondary	-10,702	-4,620	-15,322
FBS	901	33,362	34,263
Personal Services	5,533	5,897	11,430
Total	-3,587	34,170	30,583

Source: Oxford Economics, Experian, RTP. In the OE scenario, change in 2001-06 is actual.

- 7.16 One difference between the two scenarios is that OE expects more growth than E1 in the mostly office-based FBS sector, offset by less growth in personal and community services - which mostly operate in non-B space. Therefore, although in total OE shows 19,000 fewer jobs than E1, in the FBS sector - which accounts for the bulk of office demand - OE shows more jobs, by 5,300. In the secondary industries, which account for most of the factory/warehouse demand, OE shows faster losses, so by 2021 there are 4,200 fewer secondary-sector jobs in OE than E1.
- 7.17 As regards the distribution of jobs across districts - there are also major differences between the scenarios (Table 7.2).

Table 7.2 Total Employment Change by District, Hertfordshire London Arc, 2001-21, Alternative Scenarios

Districts	E1			OE		
	2001-06	2006-21	2001-21	2001-06 (actual)	2006-21	2001-21
Broxbourne	-56	2,552	2,496	2,854	2,014	4,868
Dacorum	3,233	7,208	10,441	-5,475	9,239	3,764
Hertsmere	3,364	8,245	11,609	-5,647	5,821	174
St Albans	-1,549	7,469	5,920	1,283	865	2,147
Three Rivers	1,756	2,184	3,940	4,406	2,125	6,531
Watford	1,915	5,296	7,211	-6,935	4,448	-2,487
Welwyn Hatfield	1,915	5,296	7,658	5,927	9,659	15,586
London Arc	10,577	38,250	49,275	-3,587	34,170	30,583
East of England	98,708	232,317	331,025	189,362	341,294	530,656

Source: Oxford Economics, Experian, RTP

7.18 From 2001-21:

- Welwyn Hatfield shows much more growth in OE than E1. In the OE scenario, it gains 15,000 jobs, over twice as many as any other district.
- Hertsmere, Watford and Dacorum show much less growth in OE than E1. In OE, Hertsmere's employment is virtually unchanged over the period, Watford's falls by 2,500 and Dacorum's grows by 3,800.

7.19 These differences partly reflect the actual change recorded in 2001-06. Welwyn Hatfield's employment grew fast in this five-year period, while Hertsmere, Watford and Dacorum all lost jobs.

Choosing the Preferred Scenario

7.20 All forecasts are of course uncertain. This applies especially to the employment forecasts discussed in this report, for three reasons: official statistics for the study area are known to be subject to errors, its employment trend in recent years has changed direction for unknown reasons, and macroeconomic conditions have changed greatly in recent months. Despite these uncertainties, we must choose a forecast on which to base LDF policies, while accepting that, in line with Plan Monitor and Manage principles, future reviews might change that forecast.

7.21 In making this choice, we limit our choice to two options: firstly the E1 scenario built into the current RSS and secondly OE forecasts produced by the Joint RES/RSS Joint Modelling project.

7.22 As an attempt to predict the most likely economic future, and hence the potential market demand for land and premises, in our opinion OE's scenario is more credible than E1, because:

- E1's method and assumptions are not transparent, partly because the Experian forecast that underlies E1 was prepared more than five years ago.

- In particular, we do not know the population and housing assumptions on which E1 rests and we have no reason to believe that they accord with the housing provision proposed in the RSS.
- In contrast OE's population assumptions reflect the housing targets in the current RSS.
- E1 is based on very old data and is disproved by actual data for the period 2001-06.
- E1 is policy-driven, based on a regional economic target which has since been abandoned
- E1 only runs to 2021, whereas the Councils in their LDFs aim to look to 2026 and beyond.

7.23 The OE model, in contrast, is transparent in its method and assumptions. Most important, these method and assumptions have been accepted by the regional partners as the basis for future planning, and so should provide a strategic framework that is consistent across the region. The OE scenario used here is based on the most recent data now available, and the OE model can be rerun in the future as new data come out. OE is not driven by any economic policy targets; it simply aims to predict the future most likely to result from market forces, RSS housing supply and (implicitly) a continuation of existing policies. Finally, OE extends to 2031.

7.24 So, of the alternatives available, the OE forecast seems more convincing as a prediction. But is it also acceptable as a target? This depends on a fundamental question: in deciding on how many jobs to aim for in a given geographical area, what objectives is planning policy aiming to serve? Unfortunately, neither national nor regional policy provides an answer to this question (to say that land provision should 'meet need' of course begs the question). Drawing inferences from what policy does exist and general principles, we would suggest two central objectives:

- i) *Meet market demand*, for the sake of economic growth and prosperity;
- ii) *Balance (align) jobs with population*, for the sake of quality of life and sustainable travel between homes, jobs and services.

7.25 These objectives need not be mutually exclusive and they may be combined in various ways. For example, a district or sub-regional spatial plan may aim to meet market demand, but only up to a ceiling set by population and labour supply. If the market demands jobs above this ceiling, the plan's land provision would aim to undershoot that demand, so that some businesses who would ideally like to locate in the area will not be able to find space and will have to locate elsewhere.

7.26 The Hertfordshire London Arc seems to be in the opposite position. The RSS targets 49,000 net new dwellings for the area in 2001-21 and a new jobs/new dwellings ratio of 0.82 for the region as a whole³⁸. If this ratio is

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accepted as a definition of the correct home/job balance for the study area, the 30,600 new jobs shown in the OE forecast are insufficient, because they would provide only 0.62 new jobs per new house³⁹. To achieve a ratio of 0.82, the study area ought to gain some 40,200 net new jobs - roughly 9,600 more jobs than the market is expected to deliver. For the B-class uses, the estimated job deficit would probably be around half of the total, almost certainly less than 5,000 jobs.

- 7.27 If the study area's planning authorities take these calculations literally, and if they are determined to maintain the 0.82 ratio, they should aim to attract more jobs than the market would deliver. This would need economic development interventions to stimulate demand, not just planning policies that supply the necessary land. To see how much land would be required for different uses, they would build a higher-growth scenario that splits the additional jobs into activity sectors. To create a credible scenario would need a robust model - which in practice means using a variant of the existing OE scenario, using their model but flexing some of their assumptions. These new assumptions would need to show which sectors can be encouraged to grow faster, in which places, depending on the potential of these sectors and places and the interventions that will be used to realise that potential.
- 7.28 In practice, we consider that this approach would be unhelpful in the present study. Given that both the demand forecasts and the correct balance of homes and jobs are uncertain, it seems to us that an estimated deficit of 5,000 B-space jobs over 20 years is well within the margin of error. The effort required to construct a robust higher-growth scenario would be highly disproportionate.
- 7.29 It seems far preferable for land provision targets to be based on the existing OE scenario, whose method and assumptions are coherent across the region and vindicated by the regional partners, while policy may also note that growth slightly above the scenario would be welcome. To ensure that such growth is not stifled by lack of land, the authorities could allow a margin, or buffer, by planning always to provide land for some years ahead, rolling forward the targets at regular intervals.
- 7.30 Further to discussion, the study's client group has agreed that the study should use the OE May 2008 scenario as a preferred forecast⁴⁰. We present this scenario in the next section.
- 7.31 It is important to note that this scenario, whilst taking some account of the East of England Plan's housing distribution, does not take account of other aspects such as the focus on growth in the Key Centres for Development and Change. This should be borne in mind when interpreting the study.

³⁹ If the job per house calculation were based on the total stock of houses and jobs rather than change occurring at the margin, the gap between 0.82 and 0.62 would shrink considerably. In practice, it is this stock-based ratio that measures the true balance of the labour market.

⁴⁰ Later in 2008 OE generate a further scenario, using the same model but incorporating different judgments, which was used in the Hertfordshire Spatial Growth Options and Hertfordshire Infrastructure and Investment studies. The steering group for the present study discussed this alternative scenario but decided not to use it in this study.

- 7.32 We also note that a slightly different set of forecasts, known as Scenario C, has been generated by the EEDA model for the Hertfordshire Infrastructure and Investment Study and Hertfordshire Spatial Options Study. This could be used in future if the authorities wish to model the employment land implications of higher employment growth, closer to the standard 0.82 jobs per house. But first the authorities would have to consider if they are happy with the geographical distribution of jobs in Scenario C.

Employment Change in the Preferred Scenario

Total Employment

- 7.33 Below we present OE's total employment forecast for the study area and its districts. The base year is 2006, the last year for which we have actual employment data. Our comments focus on 2026, which is the seven Councils' minimum planning horizon. However, the tables also show figures to 2031 where possible, because Green Belt releases around the Key Centres for Development and Change need to be planned to this date.

Table 7.3 Total Employment, 2006-31, London Arc, Preferred Scenario

Jobs	2006	2021	2026	2031	Change 06-26	% Change 06-26
Broxbourne	39,938	41,952	42,170	42,399	2,232	6%
Dacorum	68,866	78,104	82,146	87,014	13,280	19%
Hertsmere	48,342	54,163	56,677	59,748	8,335	17%
St Albans	69,587	70,452	69,947	69,408	360	1%
Three Rivers	38,584	40,709	40,962	41,246	2,378	6%
Watford	57,147	61,595	63,564	65,852	6,416	11%
Welwyn Hatfield	72,573	82,233	85,981	90,315	13,408	18%
London Arc	395,037	429,208	441,445	455,981	46,408	12%

Source Oxford Economics

- 7.34 For the Hertfordshire London Arc as a whole, the forecast shows 46,400 net new jobs over the period, a growth of 12%. Among the districts, most of the growth is concentrated in Welwyn Hatfield (13,400 jobs) and Dacorum (13,300 jobs) - which are two of the Key Centres identified in the East of England plan. The remaining districts - including Watford, the study area's third Key Centre - gain fewer than 8,500 jobs. St Albans gains 360 jobs - in effect no change.
- 7.35 In proportional terms, the three districts of Dacorum, Hertsmere and Welwyn Hatfield show the most growth, around 20%. Hertsmere shows high growth because the figures are based on previous trends - Hertsmere saw high levels of growth in the past although it is not expected that such high rates will be sustained in the future.

B-Space Employment

- 7.36 Our next step is to identify those jobs which are likely to occupy B-class space, comprising offices, factories, workshops and warehouses. We then multiply these forecasts of B-space employment by standard

floorspace/worker ratios to arrive at estimates of the change in occupied space.

- 7.37 To identify B space jobs we use a mapping of sectors into employment land uses, based on the Standard Industrial Classification, (SIC 1992) which is set out in Appendix 4.
- 7.38 Broadly, we assume that industrial/warehouse space is occupied by Manufacturing, plus certain parts of the Construction, Motor Repairs/Maintenance and Sewage/Refuse Disposal. Warehousing is occupied by a variety of transport and distribution activities which are widely spread across the Standard Industrial Classification. Office sectors are as defined by the ODPM in 2004 as part of research on town centres, plus selected parts of Public Administration and Defence and an adjustment for Labour Recruitment and Provision of Personnel⁴¹.
- 7.39 The Oxford Economics forecast, like all employment forecasts, is too coarse-grained to match these definitions. For example, we count as a B-space activity only part of the Construction industry (SIC 45.3 and 45.4), while the forecasts only provide the total for the whole of Construction (SIC 45). To estimate future employment in 'sub-sectors' which are not identified separately in the forecast we assume the future share of each sub-sector's employment in the larger Oxford Economic sector of which it forms part remains constant. Therefore, if in the base year, SIC 45.3 and 45.4 accounts for 40% of all Construction jobs, we assume it will continue to account for 40% of Construction jobs throughout the forecast period.

Table 7.4 Industrial Jobs, 2006-31, Hertfordshire London Arc

Jobs	2006	2021	2026	2031	Change 06-26	% Change 06-26
Broxbourne	6,535	5,353	5,053	4,795	-1,482	-23%
Dacorum	7,074	5,170	4,931	4,817	-2,143	-30%
Hertsmere	4,752	3,799	3,656	3,569	-1,096	-23%
St Albans	4,693	3,590	3,404	3,292	-1,289	-27%
Three Rivers	3,778	3,684	3,573	3,485	-205	-5%
Watford	6,529	5,649	5,509	5,408	-1,020	-16%
Welwyn Hatfield	6,160	4,701	4,552	4,511	-1,608	-26%
Herts London Arc	39,521	31,946	30,678	29,877	-8,842	-22%

Source: Oxford Economics, RTP

- 7.40 Industrial employment in the Hertfordshire London Arc falls in 2006-26 by 8,800, approximately one fifth. Most of the districts show broadly similar losses, around 1,000-2,000 jobs and 20-30%.

⁴¹ SIC 74.5 covers people employed in temporary jobs via agencies. It is excluded from the ODPM definition of town centre offices. In our definitions, we distribute the industry's jobs across all types of space in proportion to the shares of each type of space in the economy as a whole (excluding SIC 74.5 itself). Thus, we assume that some of the industry's jobs are based in offices, factories and warehouses while others are in non-B including shops, hospitals and so forth.

Table 7.5 Warehousing Jobs, 2006-31, Hertfordshire London Arc

Jobs	2006	2021	2026	2031	Change 06-26	% Change 06-26
Broxbourne	4,020	4,106	4,123	4,142	103	3%
Dacorum	8,235	7,783	7,813	7,910	-422	-5%
Hertsmere	4,733	4,941	5,085	5,267	352	7%
St Albans	5,709	187	4,632	4,310	-1,077	-19%
Three Rivers	3,305	3,255	3,229	3,202	-76	-2%
Watford	4,675	337	4,005	3,923	-670	-14%
Welwyn Hatfield	10,553	10,660	10,862	11,143	309	3%
Herts London Arc	41,229	31,271	39,749	39,897	-1,480	-4%

Source: Oxford Economics, RTP

- 7.41 Warehousing jobs in the Hertfordshire London Arc fall fractionally by 1,500 jobs, or 4%. Across the districts, the pattern of warehousing employment change comprises small gains offset by larger losses. St Albans shows the largest loss, at 1,077 jobs (19%) and Watford the second largest at 670 jobs (14%). In all other districts, change is in both directions, but always insignificant, well under 500 jobs and 10%.

Table 7.6 Office Jobs, 2006-31, Hertfordshire London Arc

Jobs	2006	2021	2026	2031	Change 06-26	% Change 06-26
Broxbourne	5,914	7,719	8,221	8,751	2,307	39%
Dacorum	14,454	21,094	23,752	26,826	9,298	64%
Hertsmere	10,483	13,493	14,660	16,010	4,177	40%
St Albans	19,503	21,656	22,036	22,391	2,532	13%
Three Rivers	7,615	9,057	9,463	9,910	1,849	24%
Watford	12,976	16,789	18,400	20,250	5,425	42%
Welwyn Hatfield	11,517	15,899	17,468	19,243	5,951	52%
London Arc	82,462	105,708	114,001	123,381	31,538	38%

Source: Oxford Economics and RTP

- 7.42 Office jobs from 2006-26 in the Hertfordshire London Arc, increase by 31,600 (38%). The largest gains, both absolute and proportional, are in the RSS Key Centres: Dacorum (9,300 jobs), followed some distance behind by Welwyn Hatfield (6,000) and Watford (5,400). Hertsmere gains 4,200 jobs and the remaining districts around 2,000 each.

Non B Employment

Table 7.7 Non-B Employment Change, 2006-26

	Broxbourne	Dacorum	Hertsmere	St Albans	Three Rivers	Watford	Welwyn Hatfield	Herts London Arc
Agriculture & Extration	-101	-141	-46	-245	-54	-1	-200	-788
Utilities	-36	-71	-72	-165	-54	0	-278	-676
Non B Construction	137	909	1,085	679	375	279	1,255	4,719
Non B Wholesale & Dist	-106	-137	36	-106	-132	-315	4	-756
Retailing	-554	-353	-64	-742	-104	-1,707	890	-2,634
Hotels & Catering	108	1,776	300	1,034	109	464	1,005	4,797
Non B Transport & Comms	190	-631	-378	-307	315	459	-360	-710
Non B Business Services	1,160	2,155	2,551	655	98	3,212	2,056	11,887
Non B Public Admin	35	36	-108	-59	314	-84	-1	135
Education	514	1,239	978	287	293	1,056	1,424	5,791
Health	251	1,871	1,178	-212	165	-312	2,229	5,169
Other Services - Misc	-296	-107	-557	-625	-516	-371	731	-1,741
Total Non B	1,304	6,546	4,902	193	810	2,681	8,755	25,192

Source Oxford Economics, RTP

- 7.43 Non-B jobs - those that are not based in factories, warehouses or offices ('employment space') across the study area increase by 25,200, accounting for 55% of total employment growth. In terms of sectors, the greatest increase, 12,000 jobs, is in 'non-B Business Services' - mostly comprised of Labour Recruitment, which as discussed earlier covers workers employed through agencies, so their actual workplaces are likely to be widely spread across other sectors. Education, Health, Hotels and Catering and non-B Construction come next, with roughly 5,000-6,000 net new jobs each.
- 7.44 Welwyn Hatfield, Dacorum and Hertsmere show the largest change in non-B employment, at 8,800 jobs, 6,500 jobs and 4,900 jobs respectively. All other districts gain fewer than 2,500 jobs. St Albans yet again shows the least growth at 183 jobs - in effect no change.
- 7.45 The forecast distribution of non-B jobs across districts is not a robust prediction, partly because it is based on past trends. For example, although Watford shows a loss of around 1,700 jobs in retailing, it is likely that this is due to past closures in the town centre; the Watford Retail Study (2005) states that a number of units in the Harlequin Centre had recently become vacant due to national closures by some multiples, including Allders department store⁴². In reality, it is not expected that such losses will occur in future, especially given Watford's regional town centre role in the East of England Plan.

The Demand for Employment Space

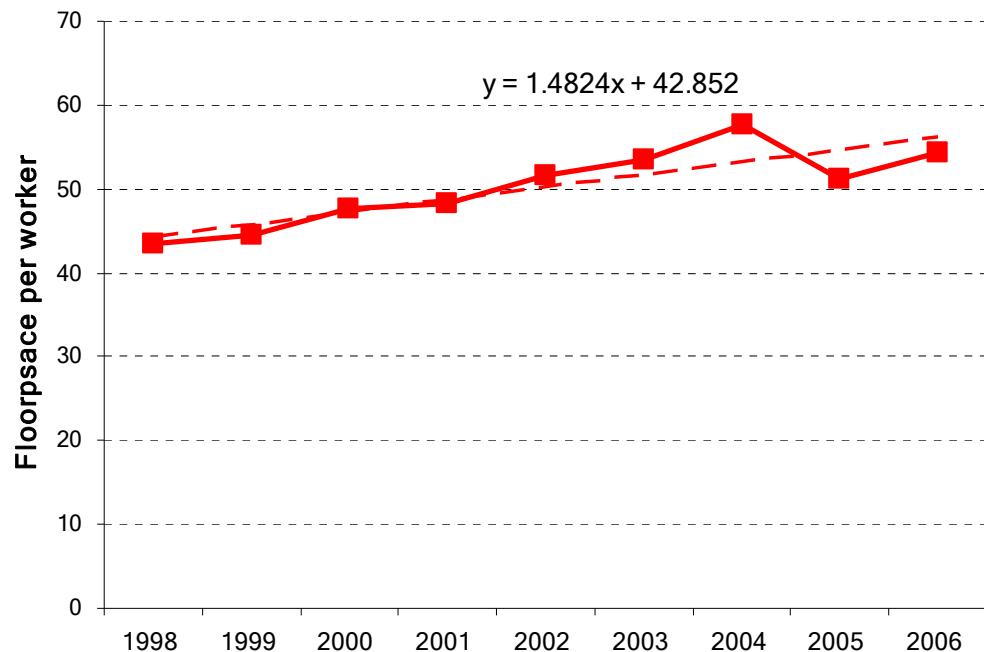
Method and Assumptions

- 7.46 To translate jobs into floorspace, as a starting point we use standard floorspace per worker ratios of:
- 18 square metres per worker in offices

⁴² Watford Retail Study (2005), Watford Borough Council, para. 6.25

- 32 square metres per worker in industrial space.
- 7.47 These densities are taken from a 1997 study by Roger Tym & Partners for SERPLAN (Roger Tym & Partners for SERPLAN, The Use of Business Space: Employment Densities and Working Practices in South East England, 1997). A 2004 study with the same title, by PEIDA for SEERA, concluded that there had been no significant change in the intervening period. The government's Guidance Note on Employment Land Reviews commends these figures, noting that the RTP study 'remains one of the most comprehensive data sources for London and the South East'. There are no such studies for other regions.
- 7.48 The above density assumptions are also broadly supported by evidence for the London Arc. Dividing the area's different kinds of B-space employment, as defined earlier, by its 2006 floorspace from the CLG statistics, produces ratios of 20 sq m per worker for offices and 32 sq m per worker for industry.
- 7.49 For warehousing, it is more difficult to choose density assumptions. Average floorspace per worker is generally believed to be around 90 sq m for strategic logistics - big sheds of 10,000 sq m or more - and around 40 sq m for other warehouses. The study area's actual figure, estimated across all warehouses for 2006, is 54 sq m. But in the present study, using fixed densities may not produce credible results.
- 7.50 Since the employment forecast shows a fractional fall in warehouse employment over the plan period, with unchanged employment densities the resulting demand for warehouse space would be fractionally negative. But in the past period 1998-2006 (the most recent and longest period for which data are available), the area's warehouse floorspace increased by approximately 30%, while its estimated warehouse employment was virtually unchanged (41,252 jobs in 1998 and 41,229 jobs 2006). The likely explanation is that smaller warehouses, where floorspace per head is lower, were being replaced by larger warehouses, where floorspace per head is higher.
- 7.51 The graph below estimates the impact of this shift. The study area's average floorspace per head in warehousing rose steadily from 43 sq m in 1998 to 54 sq m in 2006, at a trend rate of some 1.5 sq m per year. Only in one year, 2005, was the increase interrupted.

**Figure 7.2 Estimated Warehouse Floorspace per Worker, Hertfordshire
London Arc, 1998-2006**



Source: Oxford Economics, National Statistics

- 7.52 We cannot be certain how far the trend towards larger warehouses may continue in the future or how far planning policy may accommodate that trend. Therefore we have built two demand scenarios for warehousing, bracketing the range of reasonable expectation.
- In Scenario A, floorspace per head stays fixed in future, at 55 sq m per worker.
 - In Scenario B, floorspace per head continues to grow, but at just half the rate of the previous seven years. By 2026, average floorspace per worker in warehousing is 70 sq m.
- 7.53 Scenario B is market led. If future planning policy relating to warehouse development is reasonably permissive, broadly in line with recent years, it will be a realistic scenario. But if policy tightens, scenario A will be closer to the truth.
- 7.54 If the employment forecasts are correct, demand should be between these two bookends.

Industry and Warehousing

Scenario A

Table 7.8 Industrial and Warehousing Land Demand, 2006-26, Hertfordshire London Arc, Scenario A

Net Floorspace Change sq m	Industrial Sq m	Warehousing Sq m	I & W Sq m
Broxbourne	-47,439	5,674	-41,765
Dacorum	-68,562	-23,212	-91,774
Hertsmere	-35,083	19,345	-15,737
St Albans	-41,255	-59,229	-100,484
Three Rivers	-6,546	-4,177	-10,723
Watford	-32,629	-36,837	-69,465
Welwyn Hatfield	-51,444	17,013	-34,432
Herts London Arc	-282,958	-81,423	-364,381

Source: Oxford Economics, RTP

- 7.55 Translating the industrial and warehousing forecasts into space, Scenario A shows a loss of 364,400 sq m of industrial and warehouse space across the study area, most of which is due to industry; warehousing space also falls, by 81,000 sq m. Among the districts, the largest industrial and warehousing losses are in Dacorum (91,800 sq m) and St Albans (100,500 sq m). Other districts show losses of less than 60,000 sq m.

Scenario B

Table 7.9 Industrial and Warehousing Land Demand, 2006-26, Hertfordshire London Arc, Scenario B

Net Floorspace Change sq m	Industrial Sq m	Warehousing Sq m	I & W Sq m
Broxbourne	-47,439	67,521	20,082
Dacorum	-68,562	93,979	25,417
Hertsmere	-35,083	95,613	60,530
St Albans	-41,255	10,253	-31,002
Three Rivers	-6,546	44,262	37,716
Watford	-32,629	23,244	-9,385
Welwyn Hatfield	-51,444	179,942	128,497
Herts London Arc	-282,958	514,813	231,855

Source Oxford Economics, RTP

- 7.56 In contrast, in Scenario B, the total demand for industrial and warehouse space is positive at 231,900 sq m - the net outcome of industrial losses more than offset by warehouse gains.
- 7.57 Welwyn Hatfield shows by far the largest increase at 128,500 sq m; its industrial losses are similar to most other districts', but its warehouse gains, at 180,000 sq m, are almost twice as high as any other district's.

Offices

Table 7.10 Office Land Demand, 2006-26, Hertfordshire London Arc

Net Change	Sq m
Broxbourne	41,529
Dacorum	167,368
Hertsmere	75,185
St Albans	45,581
Three Rivers	33,275
Watford	97,642
Welwyn Hatfield	107,112
London Arc	567,692

Source: Oxford Economics and RTP

- 7.58 For offices, the area's total floorspace increases by 567,700 sq m. As we already know from the employment figures presented earlier, the greatest increase is in authorities which contain Key Centres for Development and Change, with Dacorum (167,400 sq m), followed at some distance by Watford and Welwyn and Hatfield, with around 100,000 sq m each.

Supply and Market Balance 2006-26

Introduction

- 7.59 Below, we compare the demand for employment space estimated above with the outstanding land supply, which was discussed in the last chapter. The base date (starting point) for the demand forecasts is December 2006 - the date of the latest employment data. Given that land supply can only be calculated once a year, we equate this with 31st March 2007, the date to which the land supply figures relate. As requested by the study's client group, the comparison runs to 2026, (demand forecasts to 2031 are at Appendix 5).
- 7.60 To avoid excessive complications, we have not added to the forecast requirements a frictional margin to account for land which at any one time is in the planning and development pipeline. If, for example, the average site spent two years in the pipeline, the margin would 'sterilise' two years land supply, so that the 20-year forecast requirement in practice would last only 18 years. Over the long plan period we are considering, to allow for this would make little difference to our findings.
- 7.61 Land supply comprises sites which, at the base date, were under construction, had planning permission or were allocated for new employment development.
- 7.62 A further component of supply is existing vacant employment space, over and above the 'natural' or 'equilibrium' vacancy rate which is necessary for smooth operation of the market. We have no comprehensive data on vacant space and so assume that it is at the equilibrium rate. Over a 20-year planning horizon, we believe this does not materially affect our findings.

- 7.63 Committed losses are existing employment sites which, at the base date, were under construction, had planning permission or were allocated for other uses.
- 7.64 The 'currency' used in our demand-supply analysis is floorspace. In relation to committed employment gains or losses, this means the floorspace capacity as provided by the District and County Councils.

Industry and Warehousing

Scenario A

- 7.65 The tables below summarise the long-term balance of demand and supply for industry and warehousing. We begin with Scenario A, in which employment densities are fixed over the plan period, and so both industry and warehousing show negative demand (the market requirement is for a falling stock of space).
- 7.66 As discussed later, we believe that this scenario is unrealistic in practice. But it is important to understand it, if only as proof that the 'normal' method of forecasting demand, applied to the OE forecast, does not produce a credible result.
- 7.67 The commentary below follows the final column of Table 7.8, which relates to the Hertfordshire London Arc as a whole.
- For industry and warehousing together, the net demand for 2006-26 amounts to minus 364,400 sq m⁴³ - the sum of 283,000 sq m of industrial losses and 81,400 sq m of warehousing losses.
 - Net committed supply - the change in employment space implied by outstanding planning applications and permissions - is positive at 314,100 sq m. This is the net outcome of committed gains of 474,200 sq m and committed losses of 160,100 sq m.
 - The forecast market balance over the plan period, equal to committed supply less forecast demand, is positive at 678,500 sq m.

⁴³ Figures quoted in the text are rounded.

Table 7.11 Industrial and Warehousing Market Balance, Hertfordshire London Arc, 2006-26, Scenario A

<i>Floorspace Change, sq m</i>	Broxbourne	Dacorum	Hertsmere	St Albans	Three Rivers	Watford	Welwyn Hatfield	London Arc
FORECASTS								
Forecast demand								
Net change	-41,765	-91,774	-15,737	-100,484	-10,723	-69,465	-34,432	-364,381
Committed supply								
Committed gross additions	196,440	111,309	13,803	19,630	7,364	19,958	105,723	474,227
Committed losses	-798	-74,192	-12,687	-17,667	-13,020	-12,329	-29,450	-160,143
Committed net change	195,642	37,117	1,116	1,963	-5,656	7,629	76,273	314,084
Market balance								
Supply less demand	237,407	128,891	16,853	102,447	5,067	77,094	110,705	678,465

Source: Herts CC, local authorities, RTP. Sites classified as industrial/warehousing are those with a planning permission or allocation for B1c, B2, B8 or open B Class use.

- 7.68 Thus, if Scenario A were a correct prediction of demand, the study area over the plan period would be seriously oversupplied with industrial/warehouse land. In strictly quantitative terms, none of the development sites committed for industrial/warehouse development would be required, but the area could also lose 204,000 sq m at existing industrial/warehouse sites, in addition to the losses already implied by current commitments, while still meeting market demand in full.
- 7.69 In the qualitative appraisal at Chapter 6, we recommended that, in addition to the losses already committed, Councils consider for release to other uses existing sites providing an estimated floorspace of 142,000 sq m. (Table 6.1). If all these sites did come forward for redevelopment and were actually lost in the Plan period, as well as all committed losses going ahead and none of the positive commitments coming forward, the market at 2026 would be roughly in balance, with an insignificant oversupply of 62,000 sq m.
- 7.70 In summary, therefore, if the scenario outlined in this table were correct, it would suggest that over a 20-year plan period the planned supply of industrial/warehouse space will greatly exceed demand, and there is considerable scope for transferring existing and committed industrial/warehouse sites to other uses.
- 7.71 As a prediction of future demand, we feel that Scenario A is unrealistic, for two related reasons: it conflicts strongly with the market analysis at Chapter 6 above, and it is based on the assumption of constant employment densities in warehousing, which seems inconsistent with recent trends (see Figure 7.2).
- 7.72 However, even if Scenario A is not convincing as a demand forecast, planning authorities may choose to adopt it as a policy target, if they wish severely to restrict warehousing development in their areas. Depending on the reasons behind it, this choice may be difficult to defend, since national policy emphasises that planning should respond to market requirements and positively support economic growth.

Scenario B

- 7.73 We go on to consider Scenario B, which as a prediction of market demand is more convincing than Scenario A, and if adopted as a target would imply that authorities wish to meet market demand, or at least not constrain it any more than they have done in the past. In Scenario B (Table 7.12):

Table 7.12 Industrial and Warehousing Market Balance, Hertfordshire London Arc, 2006-26, Scenario B

<i>Floorspace Change sq m</i>		Broxbourne	Dacorum	Hertsmere	St Albans	Three Rivers	Watford	Welwyn Hatfield	London Arc
FORECASTS									
Forecast demand									
Net change		20,082	25,417	60,530	-31,002	37,716	-9,385	128,497	231,855
Committed supply									
Committed gross additions		196,440	111,309	13,803	19,630	7,364	19,958	105,723	474,227
Committed losses		-798	-74,192	-12,687	-17,667	-13,020	-12,329	-29,450	-160,143
Committed net change		195,642	37,117	1,116	1,963	-5,656	7,629	76,273	314,084
Market balance									
Supply less demand		175,560	11,700	-59,414	32,965	-43,372	17,014	-52,224	82,229
SUGGESTED POLICY TARGETS									
<i>Calculations</i>									
<i>Share of net demand</i>		9%	11%	26%	-13%	16%	-4%	55%	100%
<i>Share of net supply</i>		62%	12%	0%	1%	-2%	2%	24%	100%
<i>Weight - demand</i>	0.25								
<i>Weight - supply</i>	0.75								
Suggested target, net change		113,337	26,904	15,750	-6,664	6,298	1,878	74,353	231,855
Committed supply less target		82,305	10,213	-14,634	8,627	-11,954	5,751	1,920	82,229

Source: Herts CC, local authorities, RTP. Sites classified as industrial/warehousing are those with a planning permission or allocation for B1c, B2, B8 or open B Class use.

- Due to rising floorspace per worker, the demand for warehousing space is now positive, for a net increase of 514,800 sq m. Set against a net loss of 283,000 sq m of industrial space, for industry and warehousing together, this produces a positive net requirement of 231,900 sq m.
- Net outstanding supply, as before, is 314,100 sq m.
- Oversupply over the plan period - the difference between committed supply and forecast demand - is just 82,200 sq m, which at the standard plot ratio of 40% would amount to 21 ha of site area.

7.74 This oversupply amounts to just 2% of the study area's industrial/warehousing floorspace stock. For the Hertfordshire London Arc as a whole, and bearing in mind that we are looking at a 20-year plan period, it is insignificant. In Scenario B, to all intents and purposes the sub-regional market is in balance.

7.75 For the study area as a whole, we suggest the Councils adopt the forecast net demand of 231,855 sq m as an indicative land target for the plan period.

Policy

7.76 In interpreting the above demand-supply calculations, it is important to bear in mind that they exclude windfall supply, comprising any new sites that might be proposed for B-class development in future as well as loss of existing employment land over and above the committed losses we have recorded. Our reason for excluding windfalls is that by definition they are unknown. More fundamentally, one reason why windfalls are unknown is that they depend on future planning policies and planning decisions, and to inform these policies and decisions is the purpose of the present study.

7.77 Turning to the substance of the calculations, of the two demand scenarios above we consider that Scenario B - in which demand is positive due to structural change in the use of warehouses - is the better guide to future requirements. However, much uncertainty remains.

7.78 One problem is that logistics demand, for Big B8 sheds, on the evidence of recent years may be even higher than the B forecast. This may be because market demand in the past has been frustrated by lack of planned supply, so that the OE forecast - which as explained earlier is based on actual past change - understates market requirements. Moreover, it may be that market pressures for big sheds in the Hertfordshire London Arc reflect wider demand across the South East, which is regionally footloose and regionally frustrated by lack of planned supply, as many planning authorities resist what they consider a land-hungry, low-value land use.

7.79 If these interpretations are correct, it may be that, for a period at least (and leaving aside the current cyclical downturn), demand for Big B8 in the study area is to all intents and purposes indefinite - the market will absorb as much land as planning authorities are willing to provide. But, even if this is true, it is hard to believe that it will remain true in the long

term. We should especially bear in mind that the growing centralisation of warehousing into fewer, larger units in the last 20 years has been partly driven by falling transport costs. In contrast, transport costs over the next 20 years may be expected to be high and rising, which may slow or reverse the centralising trend.

- 7.80 Based on this reasoning, we suggest that Scenario B, showing a net requirement of 231,855 sq m of industrial/warehouse land to 2026, be adopted as an indicative land provision target for the study area as a whole.
- 7.81 As well as a sub-regional land provision target, the client group has asked us to advise on targets for individual districts. In our view the district-level forecasts shown in the tables do not make good targets, for various reasons which we have discussed earlier: data and forecasting techniques for small areas are not robust, demand is footloose across administrative boundaries, and the forecasts do not take account of supply-side factors such as land availability and infrastructure - which in turn depend partly on planning policy.
- 7.82 Within limits set by the market, planning authorities have considerable power to decide how jobs and development will be distributed across the sub-region. In the lower half of Table 7.12, headed 'Targets', we provide an initial suggestion of the distribution they might aim for.
- 7.83 In this suggested scenario, each district's share of the sub-regional total is a weighted average of:
- The district's share of the study area's forecast demand, as shown in the OE scenario;
 - Its share of the area's committed land supply.
- 7.84 We have allocated 25% of the total requirement according to forecast demand and 75% according to committed supply. This approach represents our best estimate of what is realistic with regard to market demand and consistent with the authorities' land supply and policies. In particular:
- The OE demand forecast, being based on past trends, is a rough indication of market demand - where occupiers and developers might wish to go. But in our view this demand is flexible, because as discussed earlier many businesses are footloose, the study area is relatively small and the different districts are well connected. Up to a point, therefore, occupiers and developers may be expected to go where good-quality land is provided.
 - Shares of committed land supply are an indication both of what is feasible and what local planning authorities consider desirable.
- 7.85 In the suggested target scenario:
- The largest land requirements are in Broxbourne and Welwyn Hatfield, where net floorspace increases are 113,400 and 74,400 sq m respectively.

- For Broxbourne, this reflects the district's very large committed supply - most of which at the 2007 survey date was permitted and under construction, and much of which by now is completed and occupied. Of the total supply of 195,600 sq m, almost half is accounted for by the News International printworks.
- For Welwyn Hatfield, the target results from high OE-forecast demand - in turn reflecting high growth in recent years - together with outstanding supply which is relatively high, though less than half of Broxbourne's.
- In the remaining districts, net growth is modest (Dacorum) or insignificant (everywhere else). This of course does not imply that planning need not worry about industry and warehousing. On the contrary, to maintain a roughly constant stock they will need to protect employment sites against higher-value uses, and to provide stock of the right quality they will need to encourage continuing redevelopment and renewal at existing sites.

7.86 The last row of the table compares the currently committed land supply with the target requirement:

- In six of the seven districts, supply and requirements are broadly in balance. If the suggested targets are accepted, in purely quantitative terms there may be no need to alter existing commitments.
- However, it is important to remember that our calculations do not take account of windfalls, either positive or negative. Thus, if existing sites are lost, or if outstanding commitments do not come forward - due to poor market potential or other factors - more land should be found to replace these losses.
- In the seventh district, Broxbourne, committed supply exceeds requirement by 82,200 sq m - coincidentally, the size of the News International printworks.

7.87 Broxbourne in its LDF may wish to stay with the net growth target we have estimated, and absorb the oversupply of 82,200 sq m through losses at existing sites. Alternatively, it may choose a higher target, to allow for the exceptional development that is News International. At the regional scale, this would be a small adjustment and we see no reason to oppose it.

7.88 Our suggested target scenarios are intended as a first approximation only. Like any strategic or top-down guideline, they 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, either by changing the formula we have used (paragraph 7.84), or making ad hoc changes for particular districts (such changes should preferably offset each other, so that London Arc 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

Demand and Supply

- 7.89 Like the tables in Chapter 6, our figures on office land supply exclude North East Hemel Hempstead but include Maylands Gateway and Leavesden.
- 7.90 The table below analyses demand and supply for office sites in the plan period 2006-26.
- The forecast demand to 2026 is for a net gain of 567,700 sq m of office space.
 - Committed supply is for a net gain of 362,400 sq m.
 - Thus, there is an undersupply of office land of 205,300 sq m over the plan period. Assuming that gains and losses are distributed evenly over the plan period, the planned supply would last for some 70% of the plan period, roughly until 2020.
- 7.91 The above calculations assume fixed employment densities (floorspace per head) in offices throughout the plan period. If changing working practices reduce floorspace per head, demand for offices will be less and the market balance will improve. For example, a fall in average floorspace per head from 18 to 16 sq m would reduce demand across the study area by 63,100 sq m, delaying by around two years the date when land runs out.

Policy

- 7.92 In summary, if the OE demand scenario is correct, and if the planning authorities wish to meet this demand in full, more land should be identified for office development in the plan period, to provide a further 205,000 sq m of floorspace, over and above existing commitments (which include major business park developments at Maylands Gateway and Leavesden Park). But this additional land will not be required until the later years of the plan period, from 2020 onwards or later.
- 7.93 Furthermore, these figures are surrounded by uncertainty. If the demand forecasts prove too high, for example due to rising employment densities, less than 205,000 sq m will be required. Conversely, if the remaining land at Leavesden Park does not come forward, more than 205,000 sq m of additional capacity will be required.
- 7.94 So there is a potential gap in supply, which could be filled by one or two new business park sites. In chapter 6, we have suggested two potential locations, in St Albans and Welwyn Hatfield. We have also suggested there should be smaller-scale office development opportunities in selected town centres.
- 7.95 In the lower part of Table 7.13, we suggest district-level quantitative targets which reflect this strategy. Like the earlier industrial/warehousing targets, these figures are intended as an initial suggestion, a starting point for Councils' own thinking.
- 7.96 In this first-draft target scenario it is assumed that:

- The net floorspace change associated with outstanding commitments is delivered in each district (though not necessarily at the sites listed).
- Two new business parks are delivered in St Albans and Welwyn Hatfield respectively, providing 80,000 sq m each to 2026 (development of these sites would likely continue beyond 2026).
- The remaining requirement is delivered in town centre schemes, and distributed in proportion to:
 - The OE demand forecast - an indication of where occupiers and hence developers may wish to go
 - A set of weights representing likely policy priorities and land availability:
 - Watford and Dacorum (Hemel Hempstead) are weighted 2, because they are Key Centres and have aspirations and for development opportunities in town centres.
 - Broxbourne, Hertsmere and Three Rivers are weighted 1.
 - St Albans and Welwyn Hatfield are weighted zero (no additional town centre sites), on the assumption there are no significant opportunities for net office growth in these town centres.

7.97 Again, this is our best estimate of what is realistic with regard to market demand and also reasonably consistent with the authorities' land supply and policies. The scenario shows the most office growth in Welwyn Hatfield, followed by Dacorum, Three Rivers and St Albans, in this order.

7.98 The least office growth, just 8,000 sq m, is in Watford, reflecting the lack of development sites in that district. If Watford wishes to encourage more office development and is prepared to identify more land for the purpose, this target should be increased to claw back some or all of the forecast demand which Watford in our scenario 'exports' to other places. How much demand may be clawed back in this way, will depend on the quantity and quality of office sites that Watford may be able to provide - a fact on which we have no information at this stage and cannot make any judgment.

7.99 The large target for Three Rivers and the smaller target for Broxbourne assume delivery of the existing strategic commitments at Leavesden and Park Plaza respectively. If the market potential of these sites proves disappointing and they do not come forward, in order to meet the sub-regional target they will have to be replaced; these replacement sites may be in different districts, in which case the target figures for districts will change. In particular, if Watford is able to provide more land, it could potentially accommodate much of the demand at present earmarked for Leavesden.

7.100 The last figure of Table 7.13 compares our first-draft targets with currently committed land supply. Other than the 80,000 sq m business park sites proposed for Welwyn Hatfield and St. Albans, there are modest requirements for additional land in Dacorum (to accommodate 22,300 sq

m) and Watford (13,000 sq m). The latter requirement could be met in whole or in part at the Watford Junction site, which is allocated for mixed use including employment but whose capacity has not yet been assessed, so is not included in our committed supply. Other districts are in balance.

- 7.101 Like the industrial/warehouse figures discussed earlier, our figures on office supply are entirely based on outstanding planning commitments. They exclude all future windfalls, whether positive or negative.
- 7.102 Also like the industrial/warehouse targets discussed earlier, the targets suggested above are only a starting point. Councils may wish to change these targets in the light of local knowledge and policy priorities. As discussed earlier in relation to industry and warehousing (paragraph 7.88), targets could be changed by amending our suggested formula (paragraph 7.96) and/or by ad hoc changes to the actual targets. Final targets should preferably be agreed by all Councils in face-to-face discussion.

Table 7.13 Office Market Balance, Hertfordshire London Arc, 2006-26

<i>Floorspace Change sq m</i>	Broxbourne	Dacorum	Hertsmere	St Albans	Three Rivers	Watford	Welwyn Hatfield	London Arc
FORECASTS								
Forecast demand								
Net change	41,529	167,368	75,185	45,581	33,275	97,642	107,112	567,692
Committed supply								
Committed gross additions	42,370	143,231	42,495	9,412	112,830	4,205	102,732	457,275
Committed losses	-941	-43,643	-10,831	-11,254	-9,358	-9,276	-9,619	-94,922
Committed net change	41,429	99,588	31,664	-1,842	103,472	-5,071	93,113	362,353
Market balance								
Supply less demand	-100	-67,780	-43,521	-47,423	70,197	-102,713	-13,999	-205,339
SUGGESTED POLICY TARGETS								
Calculations								
<i>Committed supply, net change</i>	<i>41,429</i>	<i>99,588</i>	<i>31,664</i>	<i>-1,842</i>	<i>103,472</i>	<i>-5,071</i>	<i>93,113</i>	<i>362,353</i>
<i>New business parks, net change</i>				<i>80,000</i>			<i>80,000</i>	<i>160,000</i>
<i>New town centre sites, net change</i>								<i>45,339</i>
<i>Share of forecast demand</i>	<i>7%</i>	<i>29%</i>	<i>13%</i>	<i>8%</i>	<i>6%</i>	<i>17%</i>	<i>19%</i>	<i>100%</i>
<i>weights</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>0</i>	<i>1</i>	<i>2</i>	<i>0</i>	
<i>Share of new town centre sites</i>	<i>6%</i>	<i>49%</i>	<i>11%</i>	<i>0%</i>	<i>5%</i>	<i>29%</i>	<i>0%</i>	<i>100%</i>
<i>New town centre sites net change</i>	<i>2,769</i>	<i>22,318</i>	<i>5,013</i>	<i>0</i>	<i>2,219</i>	<i>13,020</i>	<i>0</i>	<i>45,339</i>
Suggested target, net change	44,198	121,906	36,677	78,158	105,691	7,949	173,113	567,692
Committed supply less target	-2,769	-22,318	-5,013	-80,000	-2,219	-13,020	-80,000	-205,339

Source: Herts CC, District Councils, RTP

The Geographical Distribution of Jobs

- 7.103 The table below shows the geographical distribution of employment change across districts implied by the land/floorspace targets suggested earlier. We provide these job numbers for reference purposes. At district level they are not policy targets in their own right, but implications derived from floorspace targets. In the logic of sub-regional planning, it would not be helpful to start from employment growth targets for individual districts, because in relation to employment growth and the alignment of jobs and workers district boundaries are largely irrelevant.
- 7.104 For instance, the table shows very few new office jobs in the borough of Watford - because, as mentioned earlier, the borough has no land supply for offices. However, for the Watford *urban area* our scenario shows nearly 6,000 new office jobs, largely reflecting the large supply of land at Leavesden Park - a large office site which is on the edge of Watford's built-up area and has a Watford postal address, but happens to be in Three Rivers District.

Table 7.14 Total Jobs Change Implied by Suggested Floorspace Targets, 2006-26⁴⁴

	I & W	Offices	Total B jobs	Non B jobs	Total jobs
Broxbourne	522	2,455	2,978	1,304	4,282
Dacorum	-2,537	6,773	4,235	6,546	10,781
Hertsmere	-1,572	2,038	465	4,902	5,367
St Albans	-1,915	4,342	2,428	193	2,621
Three Rivers	-911	5,872	4,961	810	5,771
Watford	-1,455	442	-1,013	2,681	1,668
Welwyn Hatfield	-2,219	9,617	7,398	8,755	16,153
London Arc	-10,086	31,538	21,452	25,192	46,644

Source RTP

⁴⁴ In this table, total employment change across the London Arc is slightly different from the employment forecasts at Table 7.3 above. The difference is due to rounding error and is insignificant (c 200 jobs).

8 CONCLUSIONS⁴⁵

The Quantity of Land

- 8.1 In planning for employment uses, the first decision that planning authorities need to consider is to set land provision targets. In the present economic climate this is a difficult decision everywhere, because the recession swamps longer-term trends. In the Hertfordshire London Arc it is especially difficult, because demand is especially hard to forecast: recent employment trends are hard to understand and the future of office employment is unclear, as economic forecasts predicting dynamic growth are contradicted by recent history and market signals.
- 8.2 Despite these difficulties, in a plan-led system planning authorities should set long-term targets for the numbers of jobs they aim to accommodate and the amount of employment land they aim to provide. These targets must reflect long-term expectations and policy objectives, but to be delivered successfully they must also take account of short-term market conditions.
- 8.3 Land provision targets are often confused with demand forecasts, but the two are not the same thing. A good target should be:
- i) Feasible (deliverable) in practice;
 - ii) Desirable, given prevailing policy objectives and spatial vision for the area.
- 8.4 Demand forecasts are helpful in setting targets because they aim to show what is likely to be *feasible* - that is, how much land the market may be expected to take up (develop and occupy), should the authority provide that land. A planning authority may choose to ration land, setting provision targets below this expected demand. But a target that provides land too far above the market requirement would not be a good target, because it would not *deliver* the corresponding volume of development; the surplus land would simply stay vacant.
- 8.5 Demand forecasts also help decide what is *desirable*, in the broad sense that a planning authority that meets market requirements will be contributing to the nation's economic growth and efficiency (competitiveness). This broad principle is increasingly emphasised in existing and emerging Government policy, including the PPS 4 consultation draft. But it is no more than a broad principle. In particular cases it should be balanced against other policy objectives, which may require that less land be provided, or (preferably) that land be provided in different places, from what the market would ideally like. In the Hertfordshire London Arc, such objectives include protection of the

⁴⁵ The conclusions in this chapter apply across the whole study area unless otherwise stated.

Green Belt, more sustainable travel - especially through the alignment of jobs and housing - and the promotion of higher-value, higher-skilled economic activities.

8.6 As an indication of future market demand (what may be feasible), our analysis suggests that the May 2008 Oxford Economics scenario set out in the last chapter is the best available⁴⁶. Nevertheless, as discussed earlier, it may understate the demand for industrial/warehouse space, and especially for Big B8 (logistics) sheds. It may also overstate the demand for offices, almost certainly over the next 2-3 years and possibly in the long term as well; our market review suggests that it will not be easy for the study area to attract strategic demand, given the stiff competition from the Thames Valley in particular. Moreover, even if the growth in office jobs is in line with the forecasts, if employment densities rise then floorspace requirements will be below the forecast. If the Hertfordshire London Arc is to avoid losing ground against these competitors, it will need to market itself effectively, as well as providing the right sites.

8.7 With regard to what is *desirable*:

- An apparent problem with the OE scenario is that it may provide rather fewer jobs than would be required to meet RSS targets regarding the alignment of housing and jobs. Over the period 2001-21, the forecast shows 30,600 net new jobs in the Hertfordshire London Arc, whereas the RSS ratio of 0.82 would require 42,200 new jobs. But only about half of this 'job deficit' is attributable to the B-class ('employment') land uses which are the subject of this study.
- With regard to offices, we need to bear in mind that future demand is uncertain, and that growth of office-based activities contributes to the economic objectives of a higher-value, more knowledge-based economy. It seems reasonable, therefore, to err on the generous side, to ensure that planning does not constrain office growth and no market opportunities are missed - so that 'poor land availability' is not added to the list of reasons for not developing and locating in the Hertfordshire London Arc. If the area's planning authorities adopt the OE forecast as the basis of office provision targets, this is what they will be doing.
- Even if it understates market demand for Big B8 space, the forecast may provide a broad indication of the volume of such space that may be desirable. In deciding on this desirable level of provision, planning authorities will wish to balance the economic benefits of logistics against its possible drawbacks. Too much Big B8 development, especially if it displaces industrial/warehouse activities in the Smart Shed and Secondary Shed sectors, may go against the alignment of workers and jobs, because on average it provides fewer jobs per

⁴⁶ Later in 2008 OE generated a further scenario, using the same model but incorporating different judgments, which was used in the Hertfordshire Spatial Growth Options and Hertfordshire Infrastructure and Investment studies. The steering group for the present study discussed this alternative scenario but decided not to use it in this study.

hectare than these competing activities. Too much B8 may also go against the objective of upgrading the area's industrial mix towards higher-value, higher-skilled economic activities.

- 8.8 How much logistics is too much, or indeed enough, is ultimately a value judgment. But the OE scenario may provide useful guidance, because it broadly shows a 'business as usual' future, in which the area's share of the sector's national and regional growth follows its earlier trend.
- 8.9 Based on the above argument, we suggest that the authorities adopt the net demand forecasts set out in the last chapter, and the OE employment growth scenario on which they are based, as indicative targets for future land provision. Thus, the authorities over the plan period 2006-26 would aim to provide land for:
- Net growth in office space of 567,700 sq m
 - Net growth in industrial/warehouse space of 231,900 sq m.
- 8.10 These targets should be interpreted flexibly and kept under review. This review should be informed by regular updates of the employment forecasts and monitoring of supply data and market information, as discussed later in this chapter.
- 8.11 It is more difficult to recommend provision targets for individual districts. In Chapter 7 above we suggest a first-draft set of targets, which, like any strategic or top-down guideline, 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, either by changing the formulas we have used or making ad hoc changes for particular districts. 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.
- 8.12 For the study area as a whole, comparing the proposed provision targets with the supply currently identified and proposed, we estimate that:
- The industrial/warehouse market over the 20-year planning period is reasonably balanced, on the assumption that there are no future losses of existing sites over and above the committed losses we have recorded. If there are further losses, and the target is still to be met, additional land will have to be provided to replace them.
 - With regard to offices, the analysis suggests that supply will fall short of the target, but only in the later years of the plan period, perhaps after 2020.
- 8.13 It is important to note that the forecasts were made prior to the current economic downturn. Therefore, it is likely that actual job growth will fall behind the forecasts over the next few years. However, this is a long-term study and over the 20 year time period the impact of the current downturn may not be significant.

- 8.14 Finally on the question of employment forecasts, we note that around half of all net new jobs in the plan period are expected to be in non-B sectors such as education and health. The non-B sectors are not covered by this study, because they do not use 'employment space'. If planning is to support prosperity and jobs, it needs to provide enough land and the right land for them, just as it does for the B sectors.

Industrial/Warehouse Sites

- 8.15 Our calculations suggest that, if the planning authorities safeguard all existing employment sites other than the committed losses, and if all the permitted and allocated supply comes forward, the industrial/warehouse market over the plan period should be close to balance.
- 8.16 An alternative option would be to relax the safeguarding of existing employment sites and to offset these losses by identifying new sites for industry and warehousing. But this option has two major drawbacks. Firstly, it risks displacing Secondary Shed occupiers, who, as demonstrated by our market analysis, are largely dependent on the second-hand stock of older properties in less desirable locations. Secondly, given the generally constrained land availability in the study area, it may be difficult to identify new land for industry.
- 8.17 We conclude 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.
- 8.18 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 provide 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.
- 8.19 Whether new industrial/warehouse sites will be required over the plan period, will depend on the success of safeguarding policies and on whether the sites already identified come forward in practice (in this strategic study, we have not considered development constraints or phasing). It will also depend how far the planning authorities wish to accommodate the demand for Big B8, which requires especially large sites.
- 8.20 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 and going against economic and alignment objectives as discussed earlier.

- 8.21 It is very difficult to put forward quantitative targets for the mix of Big B8, Smart Sheds and Secondary Sheds that planning should aim for. We know that Secondary demand is probably declining, but we cannot quantify how fast, and hence how much land should be safeguarded for and for how long. 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 that Big B8 development is threatening 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.

Office Sites

- 8.22 Our market balance calculations suggest that, if the OE demand scenario is correct, and if the planning authorities wish to meet this demand in full, more land should be identified for office development in the plan period, to provide a further 205,000 sq m of floorspace, over and above existing commitments (which include major business park developments at Maylands Gateway and Leavesden Park⁴⁷). But this additional land will not be required until the later years of the plan period, from 2020 onwards or later.
- 8.23 In qualitative terms, the market analysis at Chapter 5 suggested that, to maximise its office potential, the study area should provide one or more strategic high-quality business parks (which could include some industrial as well as office uses) up to 2026. Participants at our consultation workshop (see workshop notes at Appendix 6) generally concurred with this view.
- 8.24 To fill the gap in supply, therefore, we have suggested that one or two potential business park sites might be identified, in St Albans and 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 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.
- 8.25 Any potential new business park sites of course would need to be fully tested through the LDF process.

⁴⁷ As noted earlier, our office supply figures exclude North East Hemel Hempstead.

- 8.26 To fill the possible quantitative gap in office supply, as well as qualitative deficiencies, we 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 to include appropriate sites. 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.
- 8.27 Our initial district-level quantitative targets (Table 7.13) reflect this strategy. These first-draft targets take account both of the forecast demand and supply capacity for each district. Their derivation and their limitations are discussed in detail above, at paragraph 7.95 onwards. In particular, we note that in our target scenario the smallest net growth in office space, just 8,000 sq m, is in Watford, reflecting the lack of development sites in that borough. If Watford chooses to encourage more office development and is prepared to identify more land for the purpose, this target should be increased to claw back some or all of the forecast demand which Watford in our scenario 'exports' to other places. In particular, if Watford is able to provide more land, it could potentially accommodate much of the demand at present earmarked for Leavesden.
- 8.28 Our market balance calculations also suggest that, if supply is to meet the forecast demand, then 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, and our site assessments and market testing should be used to identify those sites that do not meet this test.

Individual Districts

- 8.29 In this section, we comment briefly on the implications of our analysis for individual districts. These comments are limited, because this strategic study has focused on the study area as a whole. To develop policy for individual districts, Councils will wish to consider their local economies and land supply in more detail than we have done here, especially with regard to qualitative issues.

Broxbourne

- 8.30 In the industrial/warehouse market, Broxbourne has exceptionally high land supply, due to the Key Sites at North East Hoddesdon and Park Plaza. Most of the development at these sites was already permitted or under construction at the 2007 survey date and much of it by now will be completed and occupied. Accordingly, in our first-draft supply targets (Tables 7.12 and 7.13) Broxbourne shows the highest net growth in industrial/warehouse space, at 113,400 sq m. Even so, Broxbourne's actual supply exceeds the suggested target by 82,200 sq m - equal to the floorspace of the News International printworks at Park Plaza. It may be advisable for Broxbourne in its LDF to lift its target to take account of this

one-off development. This would have no adverse effects for the rest of the sub-region.

- 8.31 For offices, Broxbourne is not an established location, but it does have one major development site proposed for an office park, at Park Plaza adjoining the printworks. Our qualitative assessment classes the site's market potential as average. If it is not successful in attracting office development over the next few years, the Council may reconsider its future.

Dacorum

- 8.32 Reflecting the quantity and quality of its land supply and Hemel Hempstead's status as a Key Centre for Development and Change, our suggested land provision targets show high levels of development in Dacorum. Much of this development is for offices and includes the prestige business park development proposed at Maylands, as part of an ambitious regeneration strategy. We also propose there should be opportunities for office development and redevelopment in Hemel Hempstead town centre, to complement the out-of-town proposals at Maylands.

Hertsmere

- 8.33 Hertsmere's committed land supply provides modest net growth for offices and no growth for industry/warehousing. Our first-draft targets show modest growth in both sectors. If these targets are accepted, Hertsmere should provide a few hectares of net additional land for industrial/warehouse growth, so that it does provide some scope for the expansion of existing firms. However, the shortfall is small and could be considered as part of the margin of error.

St Albans

- 8.34 St Albans has identified virtually no land for net growth in employment uses. For offices, the district has no significant development sites and the outstanding supply in small sites is almost exactly offset by committed losses at existing sites. For industry/warehousing, yet again committed gains and committed losses are virtually equal; moreover virtually all of the positive commitments total is at one site, North of Buncefield on the Dacorum boundary, whose development may be ruled out by the Health and Safety Executive.
- 8.35 Recognising the physical and conservation constraints that affect St Albans, we have not recommended any industrial/warehouse growth in the district, nor any office growth in the city centre. But we do suggest a possible out-of-town business park in St Albans district to the east or south-east of St Albans city, in one of the potential development areas. 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.

Three Rivers

- 8.36 Three Rivers has no identified capacity for industrial/warehouse growth (its net planning commitments are fractionally negative). It has a large pipeline of over 100,000 sq m, nearly all at Leavesden Park - a prestige business park site which has attracted little demand, for unknown reasons. Our initial provision targets suggest that Three Rivers find a few hectares of additional land for industrial/warehouse development, to allow for some growth of its local businesses. As regards offices, we propose closer study of the reasons for Leavesden Park's disappointing performance and future potential. Depending on the outcome of this, the site may be released for mixed development, combining smaller-scale office provision with other uses. If this happens, then in the long term the lost office development capacity should be replaced, but not necessarily in Three Rivers District.

Watford

- 8.37 Watford has identified virtually no capacity for net growth in either offices or industry/warehousing. For offices, no significant sites have been identified, despite Watford's status as a Key Centre for Development and Growth. We propose that Watford create opportunities for town centre office development/redevelopment, including as part of mixed-use schemes and possibly at the Watford Junction site. This would improve the quality of the office stock but is unlikely to produce net additional growth on a large scale.

Welwyn Hatfield

- 8.38 Welwyn Hatfield, also a Key Centre for Development and Growth, has seen a high volume of development in recent years and still has a large land supply outstanding - mainly at Hatfield Business Park, where there are sites both for offices and industry/warehousing. Partly reflecting these factors, our suggested targets show substantial growth in the district. We also suggest Welwyn/Hatfield for a possible out-of-town business park, which would be located between Hatfield and St Albans city, so it both employs workers from Hatfield's proposed housing developments and benefits from St Albans' popularity as an office location.

Implementation, Monitoring and Review

- 8.39 If this study's analysis and recommendations are accepted, LDF policies and development control decisions in the Hertfordshire London Arc should be guided by:
- The general principles and approaches set out earlier in this chapter;
 - The site-specific assessments and recommendation provided in Chapter 6 above and (subject to updating) in the earlier, more detailed employment land studies.
- 8.40 Our quantitative demand-supply calculations should be regularly updated in future, so that they help guide both policy reviews and day-to-day development control decisions. For this, 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. Our supply data should be updated continuously, using the development monitoring systems already operated by the County and district councils. This system should record all losses and gains of employment floorspace, both in terms of completions (change that has occurred) and commitments (change implied in planning allocations and permissions, including space under construction). These monitoring data will of course include windfalls as well as the implementation of development plans. The data should be used for an annual review of the demand-supply balance, and adjustment of policies if required.

- 8.41 Finally, we have shown that, to make and defend robust planning decisions, the authorities need to collect market data as well as planning data. Most important, they should collect information on floorspace take-up and (especially) vacancies, so they can calculate vacancy rates and years supply ratios, which are key measures of the supply-demand balance, showing where supply falls short of demand. For 'softer' market information, the authorities should consider establishing a property market forum that brings together property agents, developers, investors, landowners and occupiers. This would serve as an information exchange and sounding board on the industrial and commercial property market.

