RESEARCH REPORT

RAMIDUS

CITY OF LONDON

Report prepared for the City of London Corporation
by Ramidus Consulting Limited
March 2013

Taking Stock:
The Relationship Between Businesses and Office Provision in the City

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City of London Economic Development
PO Box 270, Guildhall, London, EC2P 2EJ
www.cityoflondon.gov.uk/economicresearch

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Executive Summary

The strength and success of the City of London's economy has been extensively recorded elsewhere. It is one of the world's leading financial centres, and makes a disproportionate contribution to the UK economy given its small geographic size. The popular perception of the City as a finance-dominated area tends to mask a richness of activity that extends beyond the finance sector, and which includes a business ecology that is far more complex.

The results of our work here demonstrate that the City's functional dynamics are richer and deeper than its global finance role alone suggests. It is more diverse, in business terms, and it comprises an enormously dynamic range of business sizes, the vast majority of which are, in fact, quite small.

Project context - This project set out to quantify and describe the breadth and depth of the City's office stock, and to describe the stock's occupational profile and how this has changed over recent years. We also looked at some parts of the adjoining boroughs (here referred to as the 'City fringes') with the same objectives. For the City of London we examined records on 1,283 buildings, adding up to 69.8 million sq ft, and encompassing 3,627 occupational records. On the City fringes we analysed an additional 1,729 buildings, 36 million sq ft and 3,281 occupational records. These represented all buildings over 1,000 sq ft and all occupiers using more than 1,000 sq ft.

Built stock - Overall, the size of stock in the City of London has shifted towards larger units. Today, 65% of the City's total office stock is in units over 100,000 sq ft; but of the stock built since 1997, 79% is in this size band. This being the case, sub-divisibility is critical in larger buildings. Indeed, while most stock is in buildings over 100,000 sq ft, only one third of the occupied units exceed this size, indicating that around half of the larger buildings are split into smaller units.

The drift toward larger, higher specified buildings, and the types of occupiers these can support, is a key part of the City's global city role. But balance is crucial. A vital ingredient of the City's ability to adapt to change has been the pool of smaller, less highly specified and lower cost buildings available to smaller occupiers. In the City, smaller buildings are concentrated in Conservation Areas, and they tend to provide older, less flexible and lower quality accommodation compared to modern Grade A space. The post-Big Bang development boom was overwhelmingly an outer core phenomenon, while more recent construction, since 1997, was focused in the inner core. Through both phases of development, large numbers of small buildings have been lost.

A critical feature of the City fringe is that it contains a substantial reserve of relatively inexpensive space, with good access to the City. It should, however, be noted that a turnaround in values might tempt commercial developers to look at these areas for opportunities to create larger, Grade A space while, as things stand, the value of residential stock might prompt residential conversion pressure.

An indication of the role of this space in the City's ecosystem is given by the pattern of availability rates, where dips in availability are as pronounced for small units as they are for large ones, despite the far greater volumes of the small unit market.

Building occupiers - The occupier profile of the City is more diverse than might be assumed. Inevitably, the financial sector is the dominant group, accounting for almost half of all the occupied space. However, the other half of occupied space is spread between 11 key business sectors, which contain a wide range of business types.

Different businesses and sectors tend to occupy units of very different sizes and types, demonstrated by their being represented in occupational size bands in widely varying degrees. Thus, from the smallest (<5,000 sq ft) to largest (>100,000 sq ft) size band, the financial services share of occupation rises from 30% to 66%, while professional services rise from 14% to 23%. By contrast, on the same basis, electronics shrinks from 11% to 2%, while services shrinks from 14% to just 2%.

Not all smaller occupiers are small businesses: many are larger businesses, occupying small units of space. We call such occupiers SMOs: Small to Medium-sized Occupiers. Today, more than half of the City's occupiers (52%) are in units of less than 5,000 sq ft, and 72% in less than 10,000 sq ft (the picture would be even more marked if occupied units smaller than 1,000 sq ft had been included). By contrast, only 2% occupy units larger than 100,000 sq ft. The data also show that over time the share of total stock occupied in small units has increased while the share occupied by large units has decreased.

The fact that so many businesses occupy small units underlines the importance of the City providing a wide range of building types, specification and cost for the SMO economy. The picture in the City fringe is even more marked, in a market that is around one third of the size of the City by volume, although spread over a much wider area. On the City fringe, 69% of occupiers are in units of less than 5,000 sq ft, and 85% in units of less than 10,000 sq ft.

The use of stock - Available property provides a reservoir of space that can be quickly taken up by occupiers. It also includes obsolete buildings that can be re-developed to provide new space. Except in circumstances where a structural downshift in demand has occurred, the ebb and flow of the economic cycle will see demand follow a similar pattern. It is a good indicator of short-term demand but, on its own, availability is not a reliable indicator of medium to long-term demand. In other words, a high level of availability in an economic downturn is not necessarily an indicator of structural oversupply.

A sustainable level of availability is key, in part, to moderate rent levels but also to ensure that there is adequate choice of building types and sizes for those occupiers wishing to take space. The data show that availability dips below sustainable levels at certain times in the economic cycle. At these times there is a real risk that businesses locate elsewhere. London Office Policy Review uses 8% as the benchmark for a balanced market. In the City the rate has dipped below the benchmark three times since 1986 (1986-89, 1997-02 and 2006-08). The dips are evident for large and small units.

Business clustering - The City is a business cluster with, at its heart, the financial services industry, but there are other less iconic clusters. The evidence demonstrates clearly that clusters are by no means static: they come and they go; they morph and move in response to economic change (for example, the newspaper industry in Fleet Street). Two questions arise in terms of how the City cluster will change and develop in the medium to long-term. Firstly, will the current business cluster broaden into a more diverse set of land uses? Secondly, will the occupier ecology widen to lesser the dependency on financial services?

Different sizes and types of occupiers undertaking a range of activities are essential for the functioning of the City. The key issue as far as this work is concerned, is the maintenance of a diverse stock of business accommodation, including that suitable for firms that tend to favour lower specified, cheaper and more flexible space. The City has also seen a more diverse range of land uses in recent years. The expansion of its retail offer, together with restaurants and other leisure uses, complement its role as a business centre and serve the business community. However, there is a balance to be struck between diversifying land use and maintaining the integrity of the business cluster, with the agglomeration benefits that this brings.

Policy implications - The study has verified the scale of the SMO market in the City, and highlighted the need to continue to provide a range of building types – size, specification and cost – to accommodate this dynamic group of occupiers.

Our analysis of the City fringe demonstrates the critical role that the area performs in terms of providing smaller, cheaper and less highly specified units for firms that are economically linked to firms in the City.

Availability of stock is an important element in offering occupiers choice; it is not a precise indicator of the health of a market. Policy should recognise that a certain level of availability is important to the efficiency of the market.

The strength of the City cluster as a whole, and the sub-clusters within it, is very clear. As land use diversity in the City increases it will be crucial to maintain a balance between diversifying land use and maintaining the integrity of the cluster.

At the same time the occupier ecology of the City has begun to diversify, which is a trend that will bring greater economic resilience. To support further diversification, appropriate premises will need to be available.

Notes and definitions

(1) **Spatial definitions** - References to the City of London, or the City, refer to the area defined by the EC1-4 post codes. The northern fringe is defined as EC1, EC2 and E1 outside the City, while the southern fringe is defined as SE1-1, SE1-2 and SE1-9. The heat maps in Sections 2.0 and 3.0 show the exact boundaries as derived from the data.

(2) **Area measurement** - All square feet figures refer to net internal area (NIA) unless otherwise stated.

(3) **SMEs and SMOs** - Small and medium-sized enterprises (SMEs) refer to organisations employing less than 250 people, which is relevant given our focus here on small occupiers. However, not all small occupiers are small organisations (see for example branch or representative offices). We have therefore also adopted the term SMOs to refer to small- and medium-sized occupiers: those which occupy units of less than 20,000 sq ft.

(4) **Property size bands** - All properties are classified according to one of six size bands: 1,000-5,000 sq ft; 5,000-10,000 sq ft, 10,000-20,000 sq ft; 20,000-50,000 sq ft; 50,000100,000 sq ft and over 100,000 sq ft. By including properties of less than 5,000 sq ft, the analysis is more comprehensive than most research reports on the London property market, which generally start at 5,000 sq ft.

(5) **Property age band** - All properties are classified according to one of four age bands,: pre-1950; 1950-84; 1985-97 and post-1997 (see property grades below). We have chosen these size bands to reflect older property; post-war property through to Big Bang; the Big Bang generation and finally, more recent stock, including taller buildings.

(6) **Business sectors** - Businesses and organisations are classified by sector for the purposes of analysis. We have used twelve sectors which are statistically significant, shown in the following table:

Associations	Financial
Central & Local Government	Insurance
Construction	Media
Industry & Manufacturing	Professional
Education	Services
Electronics	Property

(7) **Occupied units** - The base data for this analysis is built up from occupied units, which are areas of space contained within a single commercial lease.

(8) **Ratio of occupied units to buildings** - In Section 2.4 we refer to the ratio of occupied units to buildings, a term that merits clarification. The manner in which stock is occupied is quite different to the picture given by the charts leading up to Section 2.4, because many are multi-occupied. There are about three times as many occupied units as there are buildings. In fact, around half of the buildings over 100,000 sq ft are split into smaller units of occupation.

(9) **Property grade** - When referring to current stock we use a four-grade system as follows:

A – Post-1997 (space that is within its first full lease cycle)
B – 1985-1997 (the first generation of Big Bang-style buildings
C – 1950-1984 (Pre-Big Bang building cycles)
D – Older buildings, mainly pre-War

Limitations on historical data mean that we use a three-grade system for time series derived from EGi classifications, as follows: new and refurbished (A), good second-hand (B) and poor second-hand (C).

(10) **Refurbished space** - A building is classified as having been refurbished when physical changes have been subject to a planning application.

(11) **Availability** - Available space is defined as that which is currently being marketed for occupation.

(12) **Heat maps** - We have made extensive use of 'heat maps' in this report. The maps show the density of occupiers/buildings compared to the sample being mapped, not relative to the entire city stock or occupier base. For example, the map 'Financial services below 10,000 sq ft' (Figure 6.6) shows where they are most concentrated, irrespective of where larger financial services are concentrated. Red areas show where there are greater concentrations and blue areas show where concentrations are lower/more dispersed. Uncoloured indicates where there were insufficient data points to interpolate a density.

(13) **Data sets** - All references to stock refer to 2012, and all references to occupied units refer to 2010, unless otherwise stated.

1.0 Introduction

Ramidus Consulting Limited was appointed by the City of London Corporation in December 2012 to undertake a study of occupied buildings in the City of London (the City). The study was commissioned to collate and analyse details of the City's office stock and occupational profile over the past ten years, and to prepare an evidence base with a particular focus on the occupational characteristics of Small and Medium-sized Enterprises (SMEs).

The main purpose of this study is to quantify and describe the breadth and depth of the City's office stock and how it caters for City occupiers, with an emphasis on SMEs. It also describes the occupational profile of the City and how this has changed over the years. It segments supply and demand in order to fully understand the capacity needed within the City to accommodate current and future needs of office occupiers.

1.1 Our approach

Our study describes and evaluates the City's range of building stock and occupier types. Much of the study focuses on the area within the City of London boundary, but the functional area of the City's local economy extends beyond that boundary, with economic dependencies and connections in the City fringe areas.

In order to understand and evaluate the City's provision of office space, we felt it was important to examine the stock and occupier base in these fringe areas in the same way and to make comparisons. For this reason, although the City of London Corporation does not have planning jurisdiction over these areas, we included within our analysis an area to the north and north east of the City and a second area to the south of the river, which we refer to as the northern fringe and southern fringe, respectively.

We believe that the base data set is comprehensive and reliable. The data has been collected by an independent, subscription-based organisation, called EGi, owned by Reed Business Information. The database is sold under subscription to most of the major property owners and consultancies in the industry, and many local authorities. It is therefore scrutinised continuously by experts who are in constant contact with building information and transactions. This acts as a self-regulating checking process in addition to EGI's internal checking procedures[1].

This database holds records on some 12,000 buildings in central London. Each record (on buildings >1,000 sq ft) includes details of its planning history, ownership, current lease terms, specification, size and letting history. For the City of London, it holds records on 1,283 buildings, adding up to 69.8 million sq ft, and comprising 3,627 occupational records. On the City's northern fringe we analyse an additional 1,378 buildings and 2,540 occupiers; while on the southern fringe we analyse 351 buildings and 741 occupiers. The total space analysed in the fringe areas amounted to 36 million sq ft.

[1] EGi London Offices Database is maintained by a team of researchers who check, verify and add to the database daily, using direct contact, site visits and published sources as well as the flow of information gathered by the team of journalists working for its online news service.

The data was analysed to gain insight into the composition of the stock and to create a base of knowledge against which to match the City's business occupiers and the types of business space that they choose to occupy. We also sought to highlight changes over time, in particular the past ten years. We undertook the same analysis for the City fringes to the north and south.

Choices made by occupiers are constrained by the stock on offer; however the analysis took this into account by looking for evidence of clusters and/or raised levels of availability for types of space and by creating as granular an analysis as was realistic for the data to which we had access.

The content of the EGi database is classified according to criteria that allow data to be segmented in a multitude of ways. The criteria we chose reflect the way that occupiers make property choices and are as follows:

- Size band
- Age band (as a proxy for quality)
- Location (using post codes)
- Combinations of these three criteria

In defining the size bands and particularly the age bands, we considered how occupiers have chosen to occupy space and our knowledge of preferences expressed in the market.

The size bands selected reflect those in common use in the market. The age bands are, where sufficient data are available, designed to reflect four periods of development in the City – historic; post-war reconstruction; "Big Bang" reinvention and contemporary space in its first lease cycle. Where sufficient data are not available we have used a three-tier breakdown of new, good second hand and poor second hand.

The data provided us with four figure postcodes from which we could derive sub-markets, but the heat mapping exercise revealed a more meaningful way of defining spatial clusters.

1.2 Land use planning

The City lies at the heart of London's role as a global city, a role which has been described in detail in the *London Office Policy Review* (2007, 2009 and 2012), undertaken by Ramidus for the Greater London Authority. Key to this role is the provision of sufficient office accommodation, of the right type, to accommodate the wide range of office occupiers engaged in international business.

The City of London Corporation faces an additional challenge. While it has traditionally had a diverse occupier base, during the 1980s and 1990s demand from the financial services sector was such that some occupiers were displaced out of the City, to the fringes and beyond. Developers responded with a building type (with large, open area floors) appropriate for the needs exemplified by the investment banking sector.

Since then, much building and rebuilding has taken place, with predominantly larger buildings designed to meet the needs primarily of the financial services sector. However, in very recent years, as financial sector usage has changed, other users have returned to the City core. For example, some insurance companies have returned from E1 to EC3, while Bloomberg has positioned itself on Queen Victoria Street.

While some parts of the financial sector have been losing jobs over the past few years, the sector remains a very significant employer. It is essential that the City is able to accommodate future needs of this key sector while continuing to retain and attract a broader spectrum of businesses. For this reason, the City of London has to meet the new challenge of offering a broad range of property types as well as affordability for a diverse range of businesses.

In line with most of central London, land values in the City are currently higher for residential use than for commercial use. This most likely reflects the enormous demand for residential accommodation in central London rather than a significant reduction in demand for commercial stock. However, in times of economic uncertainty, businesses are highly cost sensitive and generally reluctant to make decisions that involve substantial capital expenditure (such as relocations), or increased annual cost commitments (such as higher rents).

This raises the possibility that the City might be affected by national initiatives to rebalance the planning system in favour of residential development. While the political imperative to address housing shortages is obvious, there is a risk that such initiatives might fail to account for the unique position of the City as a business district. Of particular relevance is the imminent introduction of permitted development rights for commercial-to-residential conversion. This issue is further discussed in the concluding section.[2]

1.3 Statistical context

Within this report we refer repeatedly to numbers of people (workers), numbers of businesses and to business sectors. To provide some context to this data, we have reproduced here some official data that describe the total size of the City economy in terms of employees and businesses.

Figure 1.2 shows total employment, broken down by sector. There are some 368,000 people who work in the City, of which 154,000 work in the Financial and Insurance sector, and a further 86,700 work in the Professional, Scientific and Technical sector. Together these sectors provide make up almost two-thirds (65%) of all jobs in the City.

[2] See the Written Statement of the Secretary of State for Communities and Local Government, 24th January 2013

Figure 1.2 City of London employment by sector, 2011

Category	Sector	No jobs	% of jobs
B	Mining and quarrying	100	0.0
C	Manufacturing	900	0.2
D	Electricity, gas, steam and air conditioning	200	0.1
E	Water supply, sewerage, waste management and remediation	-	0.0
F	Construction	3,800	1.0
G	Wholesale and retail trade, motor vehicle repair	14,200	3.9
H	Transportation and storage	3,200	0.9
I	Accommodation and food service	16,000	4.3
J	Information and communication	25,200	6.8
K	Financial and insurance	154,000	41.8
L	Real estate	6,000	1.6
M	Professional, scientific, technical	86,700	23.5
N	Admin and support	38,400	10.4
O	Public admin, defence, compulsory social security	4,100	1.1
P	Education	4,000	1.1
Q	Human health and social work	3,100	0.8
R	Arts, entertainment, recreation	2,400	0.7
S	Other services	5,600	1.5
T	Households as employers	-	0.0
U	Activities of extraterritorial organisations and bodies	-	0.0
	All sectors	**368,200**	**100.0**

Source: Business Register and Employment Survey
Note: Numbers have been rounded to the nearest 100, Category A is excluded as disclosive.

Turning to the number of businesses in the City in 2012 as shown in Figure 1.3, the Finance and Insurance, and Professional, Scientific and Technical sectors account for almost two-thirds (61%) of enterprises.

Lastly, Figure 1.4 describes City enterprises by number of employees. The data show a dramatic scaling from large to small. Enterprises with 50 or more employees account for less than 6% of all enterprises. It is likely that a large proportion of the 0-4 category will be shell companies and self-employed people. Nevertheless, the data illustrates that the City is a rich tapestry of firm sizes.

Figure 1.3 City of London, number of enterprises by sector, 2012

Sector	Number
Agriculture, forestry & fishing	10
Production	165
Construction	305
Motor trades	10
Wholesale	375
Retail	275
Transport & storage (inc. postal)	150
Accommodation & food services	345
Information & communication	910
Finance & insurance	2,480
Property	715
Professional, scientific & technical	5,975
Business administration and support services	1,245
Public administration and defence	5
Education	110
Health	170
Arts, entertainment, recreation and other	525
All sectors	**13,770**

Source: Office for National Statistics
Note: enterprises defined as VAT and/or PAYE-based organisations

Figure 1.4 City of London, number of enterprises by number of employees, 2012

No employees	No enterprises
0 - 4	8,840
5 - 9	2,055
10 - 19	1,360
20 - 49	740
50 - 99	355
100 - 249	215
250 +	210
All employees	**13,775**

Source: Office for National Statistics
Note: enterprises defined as VAT and/or PAYE-based organisations

The EGi data used in this report covers 3,627 occupancies in 2010, all occupying at least 1,000 sq ft. This indicates that the overwhelming bulk of occupiers employing seven or more people are covered, but that sole traders, brass plate companies and shell companies tend to be excluded, along with a small number who have exhibited no market activity since records began, so have never needed a file opening. The coverage is therefore comprehensive, though not exhaustive.

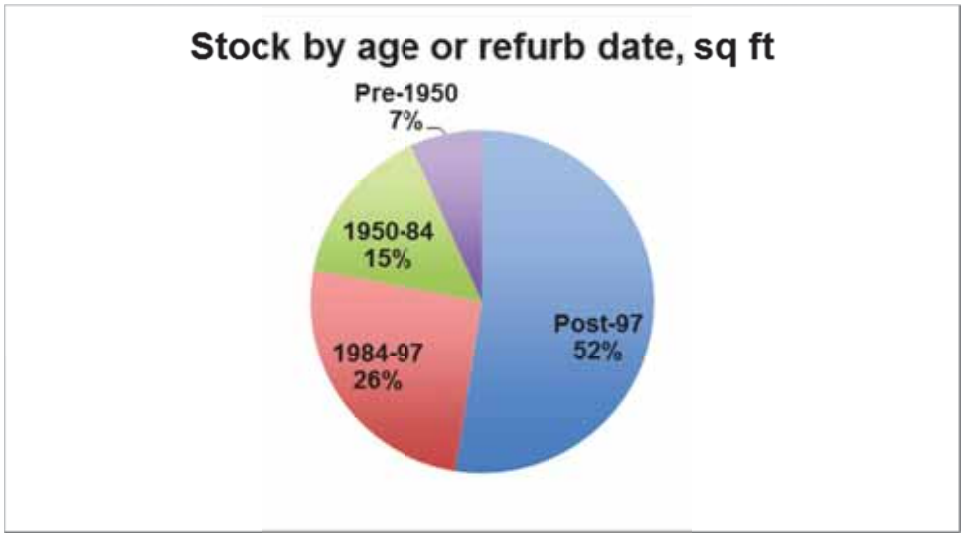
2.0 What does the City's office stock comprise?

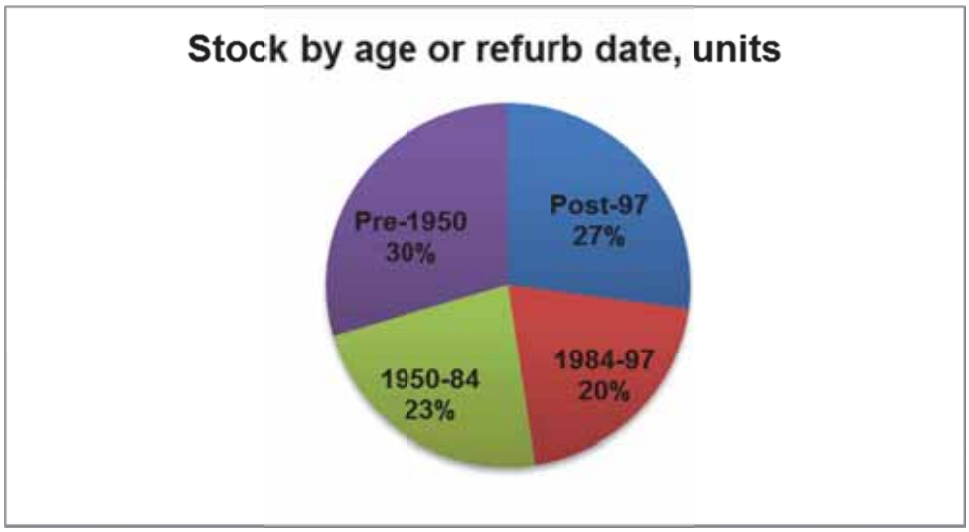
In this section we examine the City's stock of offices. We examine stock by age and size band, and then both combined. We look at the buildings and occupied space to determine the extent of multi-let buildings, and finally we produce a series of maps to show how the stock is organised spatially.

2.1 Stock by age

Figure 2.1 shows the age profile of the City's stock of buildings, both by volume (sq ft) and number of units. Over half of the City's stock has been built or refurbished[3] since 1997, and over three-quarters has been built or refurbished since the mid-1980s. These amounts are probably higher than is generally perceived, and demonstrate the City's ability to rejuvenate its stock and adapt to changing market conditions.

Figure 2.1 Stock by age or refurb, sq ft and units



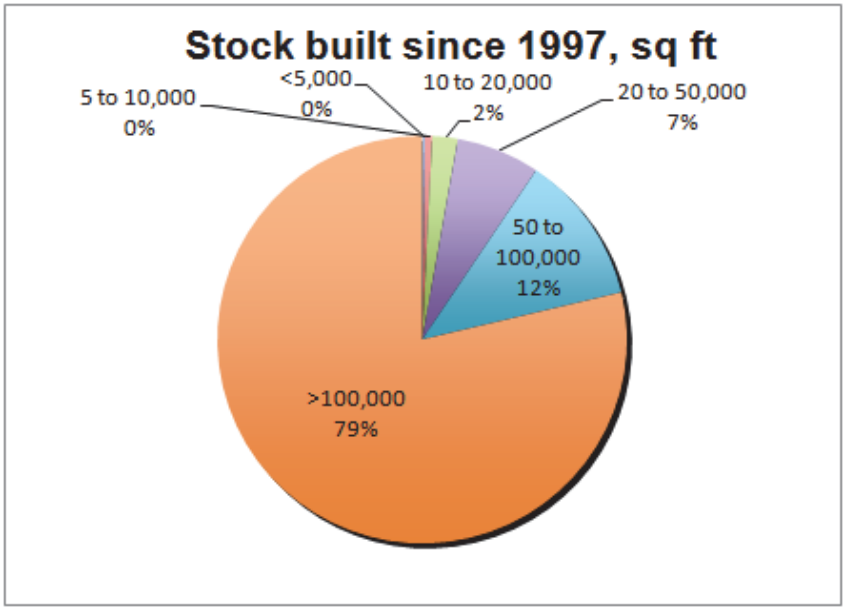


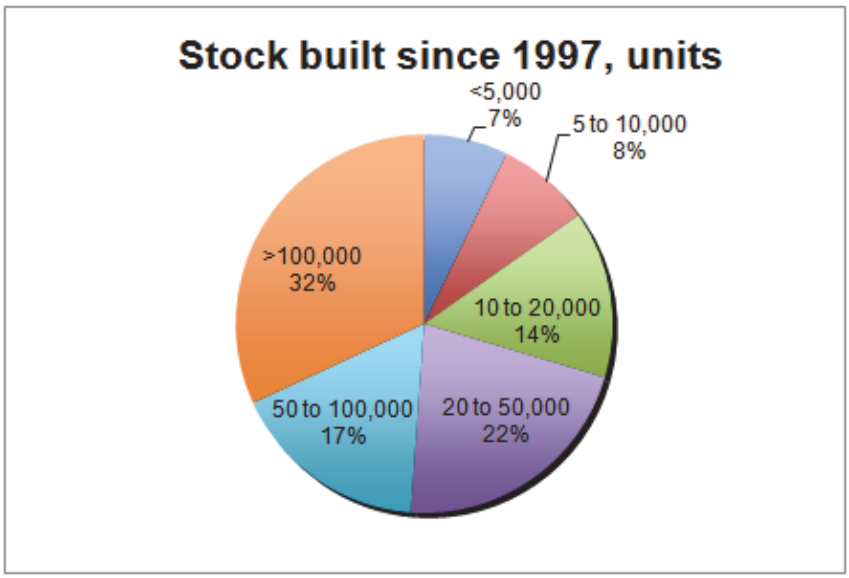
[3] A building is defined as refurbished when a planning application has been submitted and approved.

Figure 2.1 illustrates that a mere 7% of the City's stock by square footage, and 30% of the buildings, pre-date 1950, evidencing the fact that buildings from this period tend to be much smaller. Conversely, the post-1997 stock makes up half of the space in 27% of the buildings.

This is reinforced when we analyse the most recently built stock by size band. Figure 2.2 illustrates the size profile of new stock, i.e. stock built post 1997. Almost 80% of the square footage built since 1997 has been in buildings of over 100,000 sq ft; and this rises to 91% when the threshold is reduced to 50,000 sq ft. This point is expanded in Section 2.3.

Figure 2.2 Stock built post 1997, sq ft and units



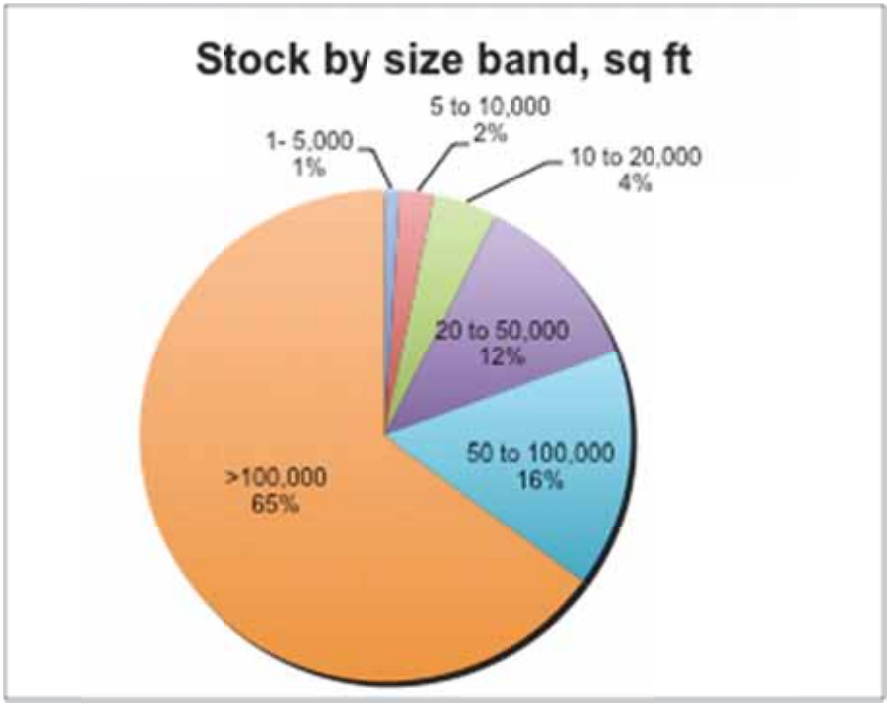


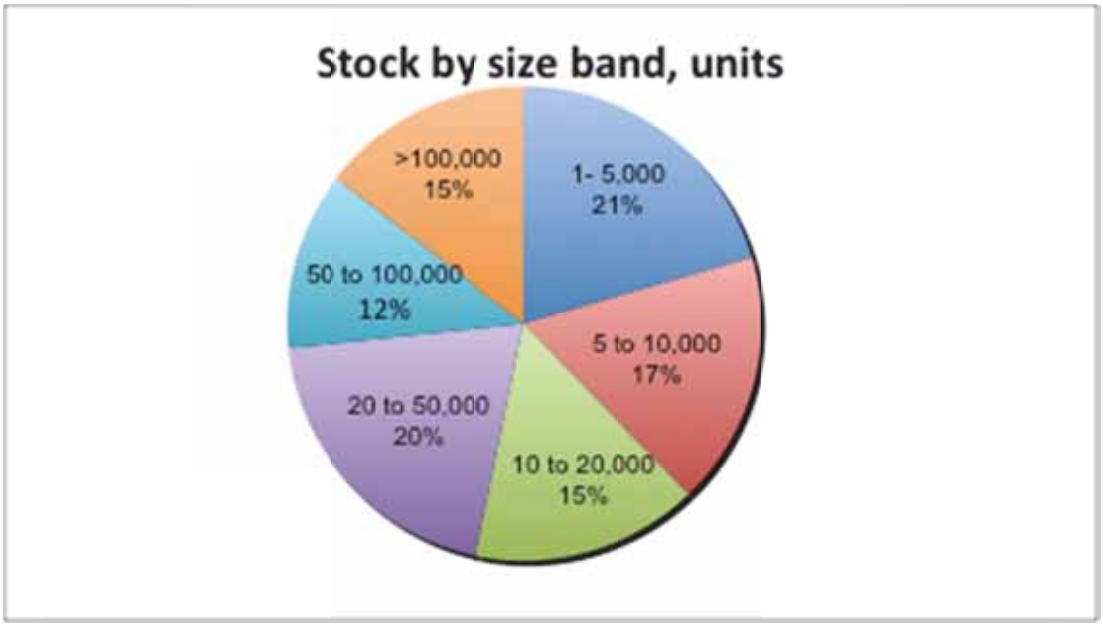
New stock by number of units illustrates a somewhat different pattern. For example, just under half the units built since 1997 have been over 50,000 sq ft. In fact, 29% of units built since 1997 have been less than 20,000 sq ft. This demonstrates well the vibrancy, and perhaps importance, of the smaller unit market. It also suggests that provision is being made for smaller occupiers in modern space but it is important to note that new space will generally be of high rental value. In other words, while this might satisfy the needs of small businesses that are willing or able to pay high rents, it does not address the needs of those that seek low cost space.

2.2 Stock by size band

The distribution of all buildings by size band, when measured by area (sq ft), is heavily skewed in favour of larger units. As Figure 2.3 shows, while 81% of the stock is in units of over 50,000 sq ft, only 3% is in units of less than 10,000 sq ft.

Figure 2.3 Stock by size band, sq ft and units





By contrast, the number of buildings in the City is distributed surprisingly evenly among the size bands, in a range from 12% to 21%. No single size band is dominant; there is a well-balanced distribution of building sizes.

Given that there are many more small businesses than there are large businesses this might, at first, seem surprising. However, as we see later, many of the large buildings are subdivided into small units of occupation and so the way the stock is used, rather than the way it is built, reflects the real size profile of occupiers.

Two thirds of the stock is in buildings over 100,000 sq ft, but only one third of the occupied units is at this scale (see Section 3.1). In other words there are a greater number of large buildings than there are large occupiers, indicating that around half of the buildings over 100,000 sq ft are split into smaller units of occupation.

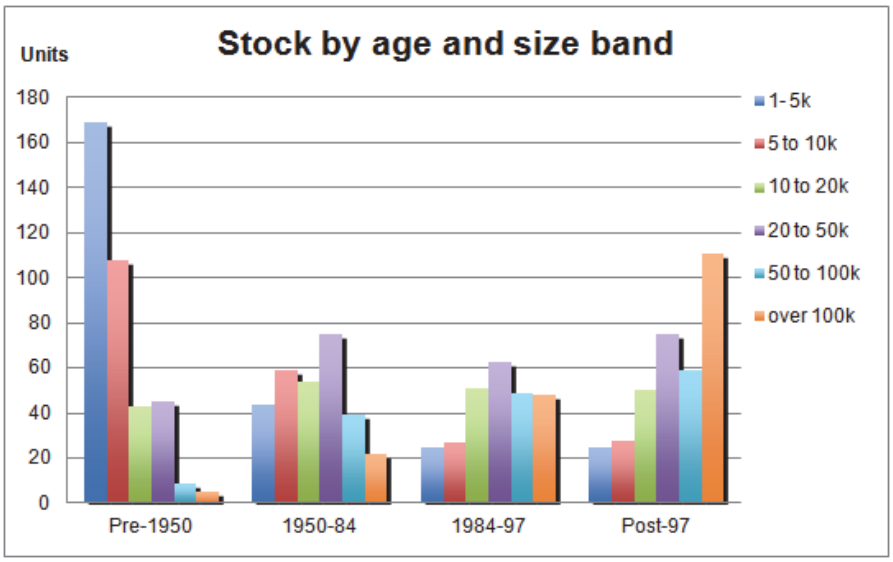
Large single occupiers are a critical feature of the City property market and it is essential that the City's building stock is capable of accommodating them. For occupiers on this scale, their options are limited by the building stock, unlike smaller occupiers, which have options to take single buildings or parts within multi-occupied buildings. To ensure that larger occupiers, which are critical to the economy of the City, can be accommodated, the City needs to provide an appropriate volume of large units to offer this required choice. Subsequently however, the ratio of buildings to occupiers will be skewed in favour of larger buildings. Occupiers on this scale have no flexibility to take an alternative unless they split their operations.

2.3 Stock by age and size band

Figure 2.4 shows the distribution of the City buildings by age and size band. What is most striking about this chart is the reversal that has taken place in the size profile of stock since the 1950s.

Of the stock remaining from this earlier time, by far the majority of buildings are less than 10,000 sq ft. The age profile in each subsequent time period shows the emergence and dominance of larger units of space.

Figure 2.4 Stock by age and size band

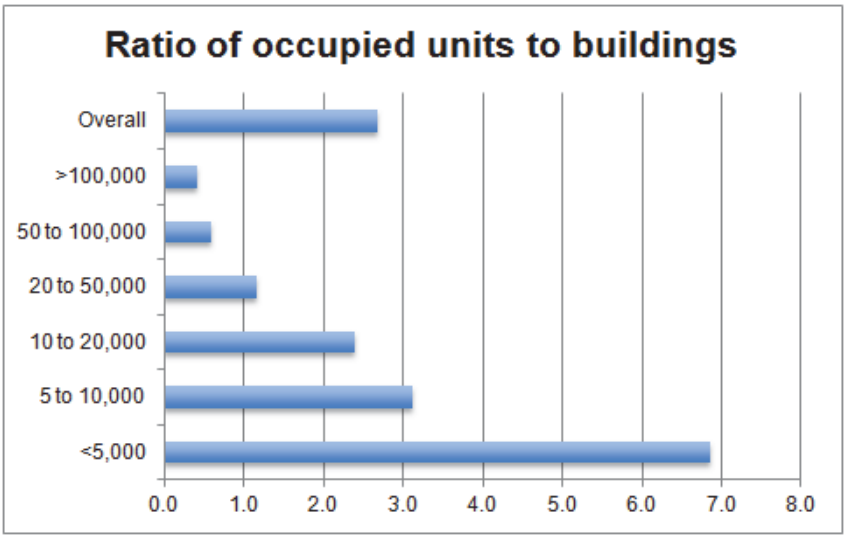


The data illustrates an important point in the context of our work. While large buildings now dominate, reflecting modern corporate structures, the *proportion* of smaller buildings today is greater than is the proportion of larger buildings surviving from the earlier period. In other words, smaller buildings continue to play an important role within the City economy. This is paralleled in our analysis of the occupiers in Section 3.1 onwards, where we note that small occupiers have increased as a proportion of the total number of occupiers.

2.4 Buildings and occupied units

The *way* that stock is occupied is quite different to the picture given by the charts in Section 2.3. This is because many of the City's buildings are multi-occupied, as demonstrated by Figure 2.5. In fact, there are approximately three times as many occupied units (3,627) as there are buildings (1,283). For the smaller size bands the ratio is far greater.

Figure 2.5 Ratio of occupied units to buildings



For units under 5,000 sq ft, there are almost seven times as many occupier units (1,802) as there are buildings (263). Put another way, while one fifth (20%) of the buildings are smaller than 5,000 sq ft, more than half (52%) of the occupied units are in that size band. It is clear that small units of occupation are more likely to be accommodated in parts of larger buildings, than they are to have exclusive occupation of small buildings.

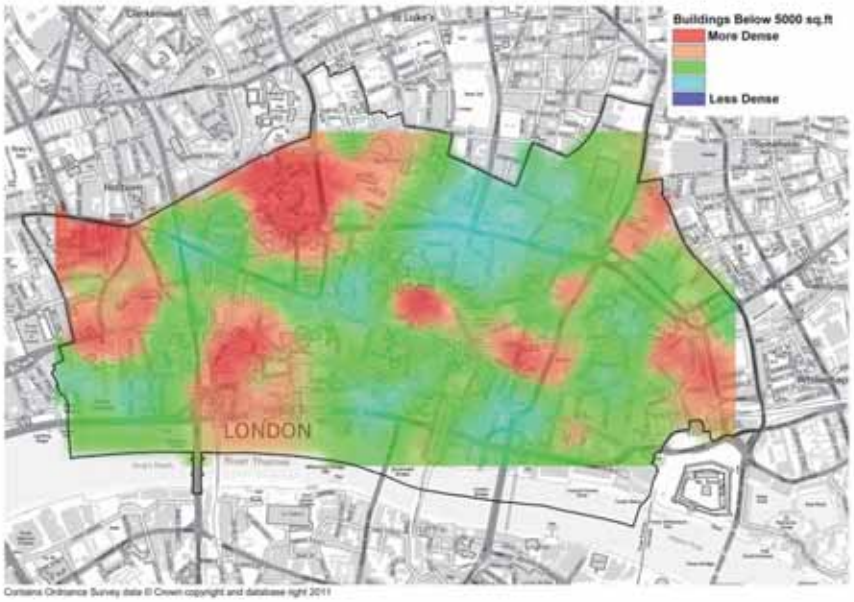
The curve of increasing ratio with diminishing occupied unit size is not surprising in a market where land values are so high. It is inevitable that owners will seek to maximise the amount of floorspace they can economically develop, which leads to larger building units.

2.5 Stock by location

We used GIS mapping to look for patterns in the distribution of stock types. Heat maps take each building as a central point, and calculate the number of buildings within a 50 metre radius and generate a measure of density. Thus a 'hotspot' (coloured red) shows that within that area there is a high density of buildings of the type mapped.

Size distribution - Figure 2.6 shows the distribution of small buildings (those under 5,000 sq ft). There is a high concentration of small buildings around Smithfield, south of St Paul's, and close to the Bank of England and Mansion House. These hotspots mirror the City's Conservation Areas reasonably closely. As we will see later, this also reflects some of the clusters of small occupiers.

Figure 2.6 Building stock: density of size band <5,000 sq ft



When we map buildings in the size band 5,000-10,000 sq ft, we find weaker patterns (Figure 2.7). These partly reflect the Conservation Areas, but their comparative weakness suggests that this size band has largely consolidated into larger units.

Figure 2.7 Building stock: density of size band 5,000-10,000 sq ft

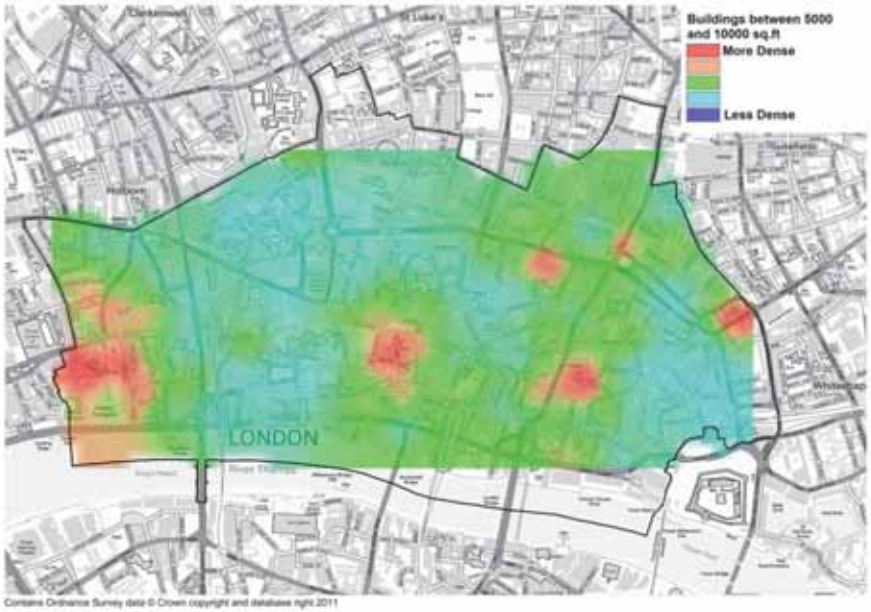
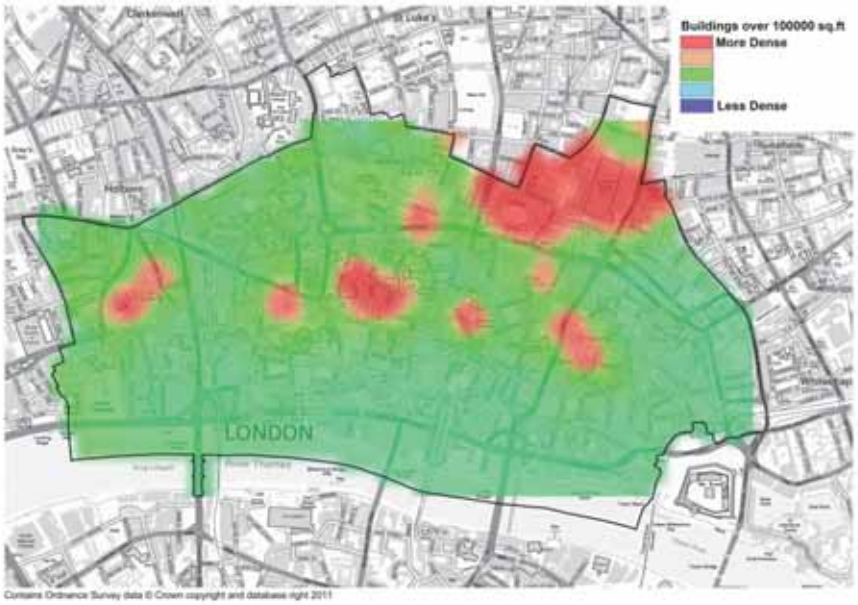


Figure 2.8 maps buildings over 100,000 sq ft to identify those parts of the City where large units dominate. The areas around Broadgate; Gresham Street; New Street Square, and Bishopsgate/Leadenhall Street/St Mary Axe all show clearly. There is however, no area where large units are not significant.

Figure 2.8 Building stock: density of size band >100,000 sq ft



Age distribution - Pre-1950 office stock is dominant around the edges of the City, especially to the west; in Clerkenwell and east of Bishopsgate (Figure 2.9). There are also pockets in the core around Lime Street, Bow Lane and King Street.

Figure 2.9 Building stock: density of pre-1950 buildings

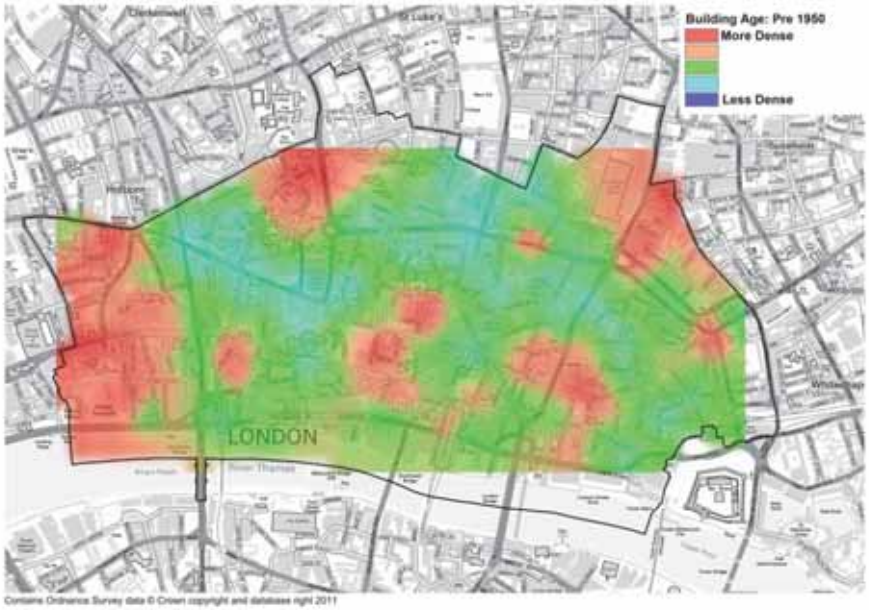
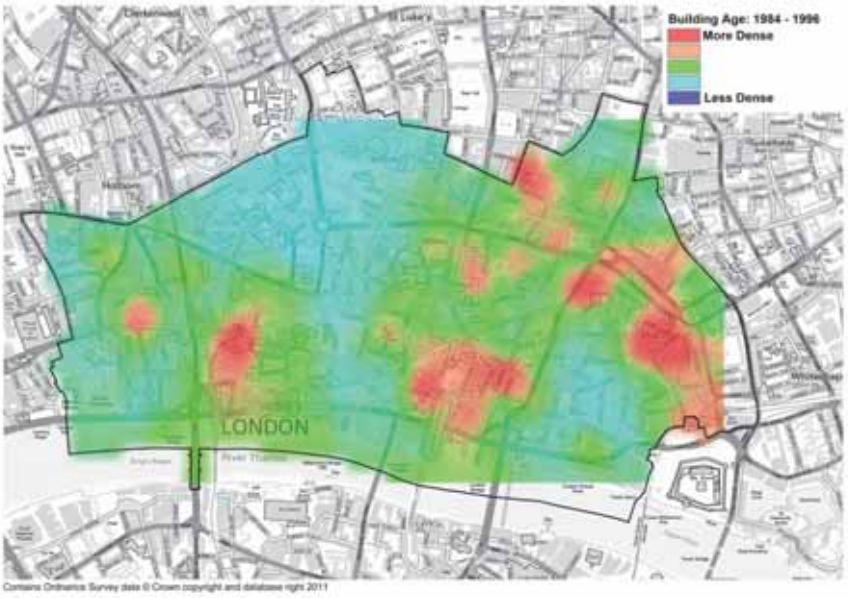


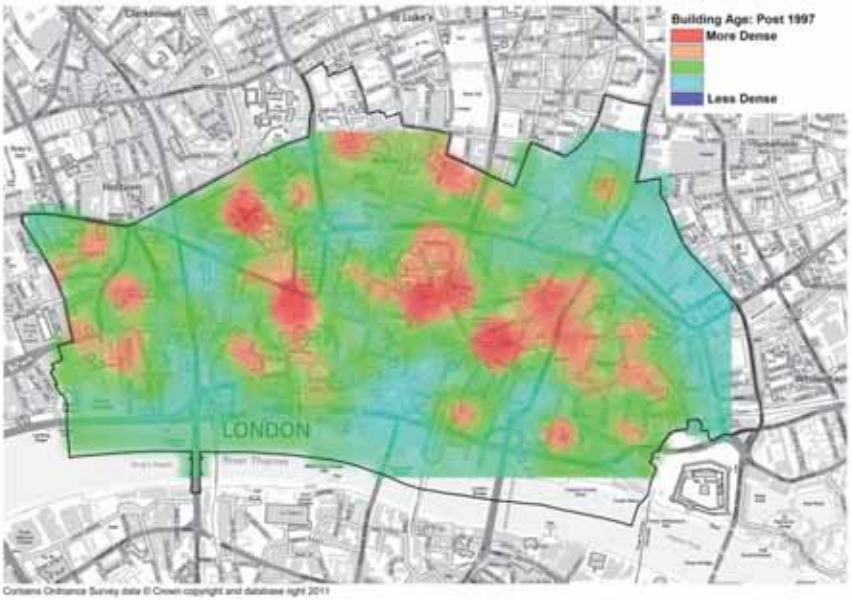
Figure 2.10 shows buildings dating from 1984-1997, highlighting two broad bands. These are south of Holborn Viaduct/Cheapside and on an axis from Finsbury Square along Houndsditch to Aldgate.

Figure 2.10 Building stock: density of 1984-1997 buildings



The final map in this series highlights parts of the City that have been renewed in the most recent phase, post-1997 (Figure 2.11). Much of this stock has been added to the core of the City and the City's tower cluster is becoming evident.

Figure 2.11 Building stock: density of post-1997 buildings



2.6 Conclusions on building stock

- Small buildings are concentrated in Conservation Areas as, unsurprisingly, are older buildings, showing the influence of Conservation Area policy.
- The post-Big Bang (in 1986) development boom was overwhelmingly an outer core phenomenon, while more recent construction has been focused in the inner core.
- The number of buildings is fairly evenly distributed between the size bands, within a range between 156 and 263 units. However, we had expected to find a stronger bias in favour of smaller units, whilst the actual findings suggest a squeeze on this segment of the market.
- There has been a progressive loss of small unit stock and a major shift to larger units.
- Post-1997 buildings are far more likely to be large units. 80% by volume of this stock is in units over 100,000 sq ft.
- Two thirds of the stock is in buildings over 100,000 sq ft, but only one third of the occupied units is at this scale. In other words there are a greater number of large buildings than there are large occupiers, indicating that around half of the buildings over 100,000 sq ft are split into smaller units of occupation.
- Small buildings tend to be in older age bands/lower quality bands.
- If left to market forces the building stock will likely tend toward larger, more efficient (in space planning terms) units, in response to demand from well resourced, corporate occupiers that need the proximity of support and service businesses.
- If the building stock is tending towards larger units while the occupier base remains varied, then it follows that sub-divisibility is critical in larger buildings.
- The transition to larger buildings, however, risks compromising the flexibility that has been a key ingredient of the City's ability to adapt to change.
- A viable critical mass of small buildings is a critical part of flexibility and it should not be assumed that all small buildings can be readily given up to short-term market forces.

3.0 How is the City's office stock used?

In this section we turn our attention away from building stock to occupied units. The base data for the analysis in this report is built up from occupied units, which are areas of space contained within a single commercial lease. A business might have several occupied units in the City and these would be counted separately.

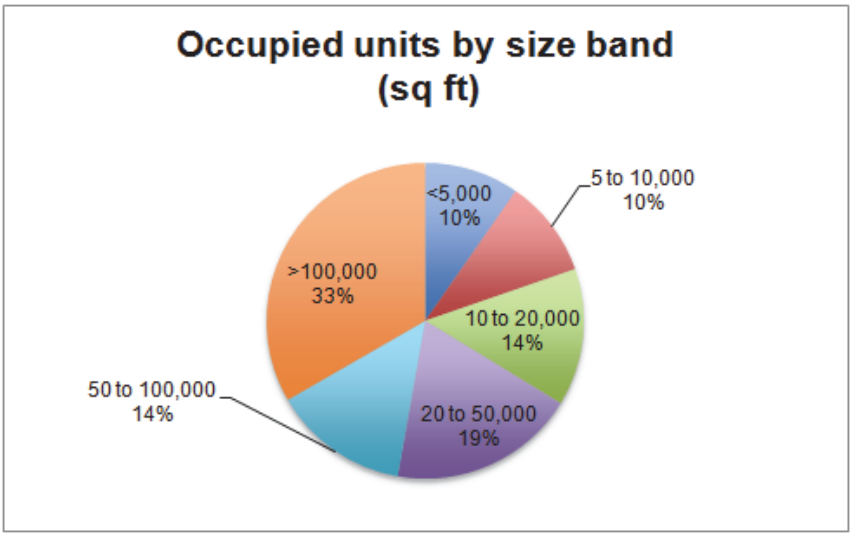
This analysis helps us to understand how the stock is used and to infer what occupiers want and need from the built stock of the City. We examine occupied units by size band and by business sector and then we analyse the data spatially.

3.1 Occupied units by size band

There are 3,627 occupied units in our database, all over 1,000 sq ft. Together they add up to 69.8 million sq ft. We analysed the occupier database using the same size bands as we used to analyse the stock database so that we could compare the two (Figure 3.1).

One third of the total occupied floorspace is occupied in units of less than 20,000 sq ft; a further third is in units of between 20,000 and 100,000 sq ft, and a final third is occupied in units of more than 100,000 sq ft. This is very different from the distribution of size bands in the stock, (where just 7% is in units less than 20,000 sq ft) and reminds us that there is little correlation between the number of small occupiers and the number of small buildings because so many small occupiers have space in multi-let buildings.

Figure 3.1 Occupied units by size band, sq ft



When we analyse the same database by number of units (rather than sq ft), it is inevitable that the distribution looks quite different (Figure 3.2). In this case, more than half of the 3,627 occupied units are less than 5,000 sq ft; 72% are less than 10,000 sq ft and only 2% are units larger than 100,000 sq ft. The chart shows the distribution by number of units in each of the size bands.

We then examined the data to find out whether there had been any significant change in the size distribution over time, and it revealed a small but surprising shift towards smaller units of occupation (Figure 3.3).

Figure 3.2 Occupied units by size band, units

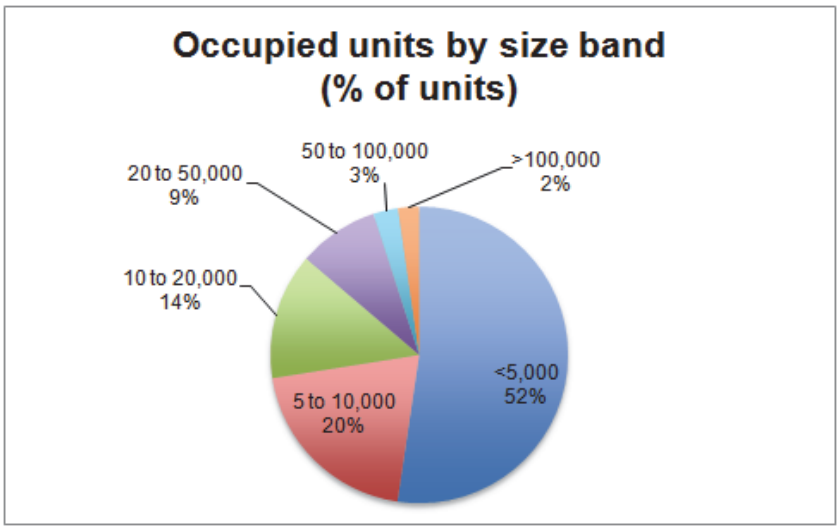
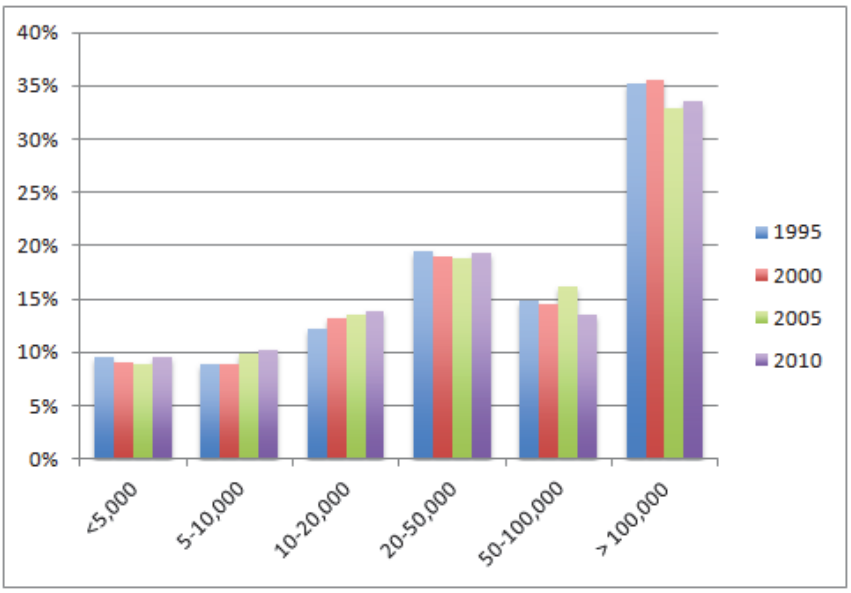


Figure 3.3 Occupied units by size band (as % of total sq ft): 1995 to 2010



The proportion of occupiers in the smaller size bands has increased while the proportion in larger size bands has decreased. The mid-range band has been broadly stable. This is the opposite trend to that noted in the unit sizes of the stock (Section 2.0), which had shifted markedly towards larger units over the same period. The small reduction in occupiers in the largest size band (over 100,000 sq ft) could be explained by the relocation of one or two large occupiers to other developments such as Canary Wharf, but this would not account for the upward trend in the smaller size bands, nor even the downward trend in the 50,000-100,000 sq ft band.

This might be caused by increased floorspace densities, meaning that the same number of employees can be housed in smaller areas by open plan layouts, desk sharing, telecommuting and flexible work styles. It might also be a side effect of the recession yielding efficiency gains, as well as landlords offering buildings in smaller units to secure at least a partial letting.

Some analysis of the number of units sheds further light on this issue (Figure 3.4). The number of occupiers with more than 100,000 sq ft fell from a peak of 93 in 2000 and was just 85 in 2010. That is a loss of eight large occupier units. The number of small occupiers fell, following the dot com bubble, from 1,937 in 2000, and was 1,568 in 2005. However by 2010, it had regained its peak volume. The number of occupiers in the size bands below 20,000 sq ft was higher in 2010 than it had been in any of the earlier years sampled. Given that the data underestimates the number of small occupiers (due to the 1,000 sq ft data threshold and the alternative of serviced office space) these findings are particularly striking.

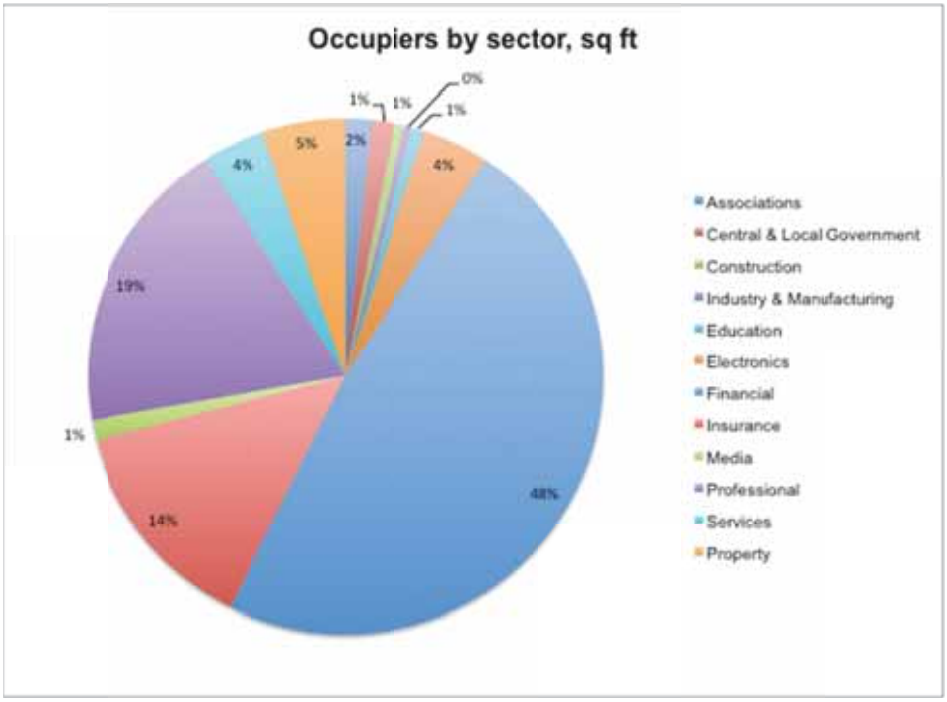
Figure 3.4 Number of occupied units by size band and year

Year	Number of units by size band, square feet						
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000	Total
1995	1,892	517	355	254	85	76	3,179
2000	1,937	639	475	301	104	93	3,549
2005	1,568	660	450	284	106	79	3,147
2010	1,878	748	499	321	96	85	3,627

3.2 Occupied units by sector

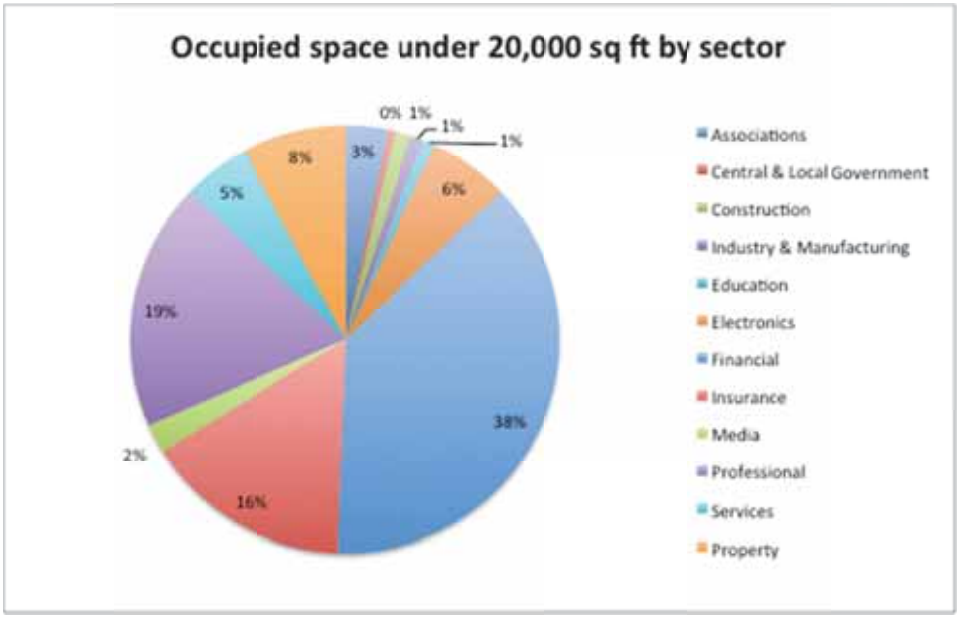
The occupier profile of the City is more diverse than is generally assumed (Figure 3.5). The global financial community is the dominant group, accounting for almost half of all the occupied space. But the other half of occupied space is spread between 11 business sectors, which contain a wide range of business types. For instance, the service sector, which accounts for 4% of the occupied space, comprises six business types.

Figure 3.5 Occupiers by sector, sq ft



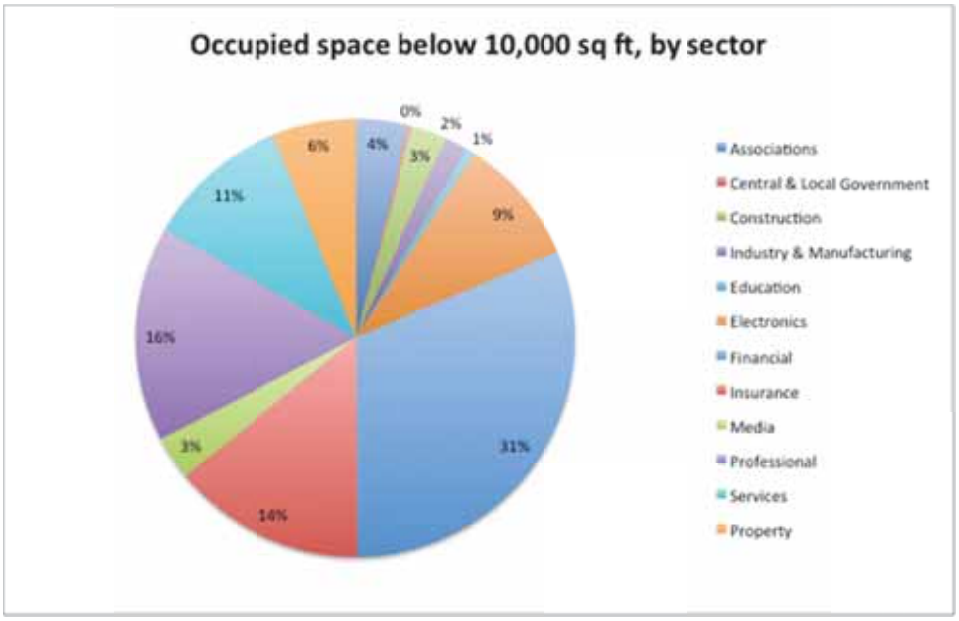
There is a far broader distribution of occupier sectors amongst smaller occupiers (Figure 3.6). For example, financial services make up 48% of all space occupied but only 31% in units below 10,000 sq ft. Figure 3.6 shows sectoral occupation in units of less than 20,000 sq ft.

Figure 3.6 Occupiers by sector, units under 20,000 sq ft



It is evident that, even below 20,000 sq ft, the Financial, Insurance and Professional Services sectors remain important, accounting for three-quarters of space occupied. Even below 10,000 sq ft these combined sectors account for 61% of occupied space (Figure 3.7).

Figure 3.7 Occupiers by sector, units under 10,000 sq ft

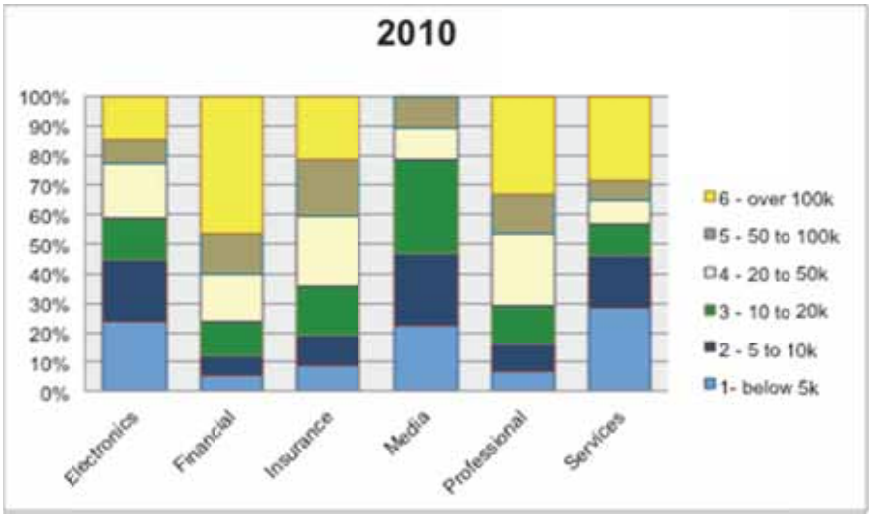


These are the very size bands that are needed by the myriad support and supply companies that 'oil the wheels' of the City: computer consultants, technical support and so forth, where proximity is a key issue. There is a price issue here too: the service sector and support businesses are more likely to seek low cost property.

3.3 Occupied units by size band and sector

There are huge variations in the scale of space occupied by different business sectors. Figure 3.8a shows a sample of occupier groups segmented by size band in 2010.

Figure 3.8a Occupier sectors by size band, 2010



The blue and green tones are units below 20,000 sq ft. Three occupier groups are biased towards small units: Electronics, Media and Services. These are sectors that need and use small units of space. We have looked at these more closely in Section 6.2.

One of the more interesting aspects to this finding, within the context of this study, is that each of these three sectors can perform a supporting role to the City's Financial Services market. They illustrate the interconnectedness of economic activity, and the importance of providing a diversity of accommodation types and sizes to suit different user types.

The graphs for historic snapshot dates (Figures 3.8b to 3.8d) show that, since 2000, there has been relatively little shift in the overall patterns. However since 1995, the Electronics sector has shown an apparent shift to smaller units, although this is most likely to be the result of large occupiers relocating, rather than structural change. Since 2000, one large media occupier has returned to the City.

Figure 3.8b Occupier sectors by size band, 2005

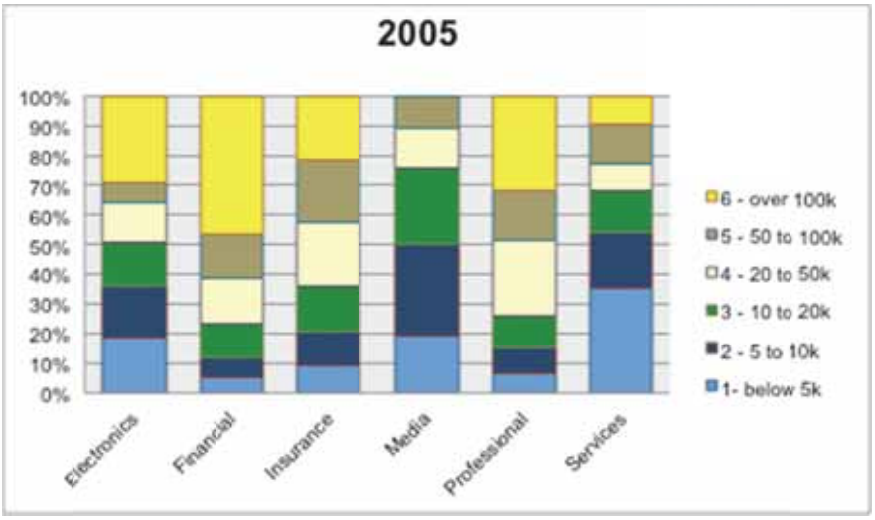


Figure 3.8c Occupier sectors by size band, 2000

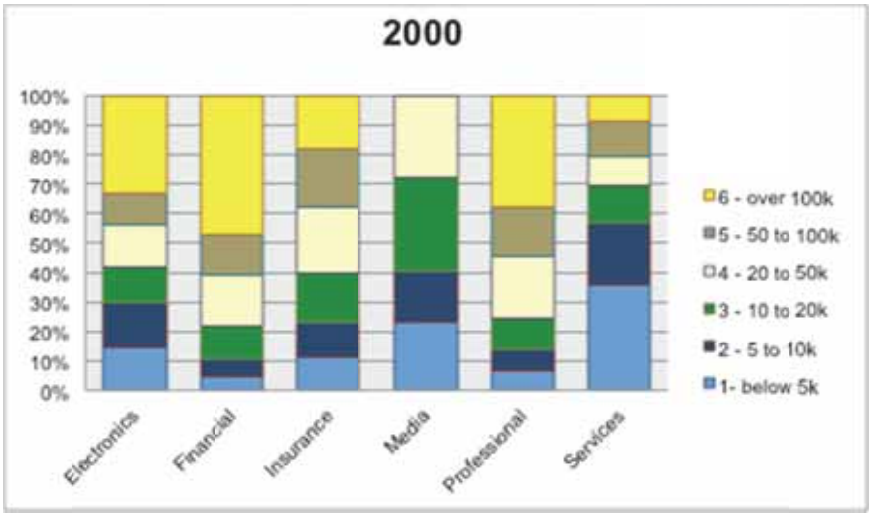
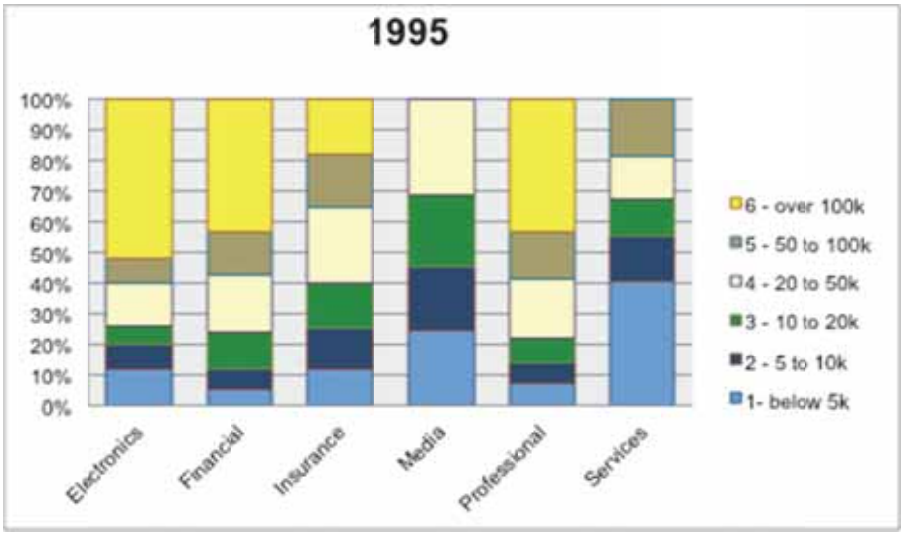


Figure 3.8d Occupier sectors by size band, 1995



It is worth highlighting, however, that although the Financial and Professional Services sectors occupy most space in large units, they are also very significant users of small space. Financial, Insurance and Professional users are represented across all size bands but are of rising significance as the unit size band increases. Figures 3.9a-d show the sectoral composition of each size band in the same time snapshots.

The Professional sector accounts for 17% of the occupied units below 20,000 sq ft and 18% of the space in units of over 100,000 sq ft. The Financial sector accounts for 36% of the occupied units below 20,000 sq ft, including 30% of units below 5,000 sq ft. It comprises 66% of the units over 100,000 sq ft. Insurance accounts for 14% of the occupied units below 20,000 sq ft, only 8% of the units over 100,000 sq ft, but 19% of units between 50,000 sq ft and 100,000 sq ft.

The Services sector in the City includes a significant number of recruitment consultants. They represent 4% of the occupied space overall, but of the space below 5,000 sq ft, they represent 14% and for space between 5,000 sq ft and 10,000 sq ft, they represent 8%. In other words, they are a significant sector in the small unit segment of the market.

Figure 3.9a Occupied units by size band and sector, 2010

Sector	Sq ft					
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000
Associations	4%	4%	3%	2%	0%	0%
Government	1%	0%	1%	1%	4%	2%
Construction	3%	2%	1%	1%	0%	0%
Electronics	11%	9%	4%	4%	2%	2%
Financial	30%	35%	41%	42%	46%	66%
Insurance	13%	15%	16%	16%	18%	8%
Media	4%	3%	3%	1%	1%	0%
Professional	14%	18%	19%	23%	19%	18%
Property	6%	6%	8%	9%	7%	1%
Services	14%	8%	4%	2%	2%	4%
Total	100%	100%	100%	100%	100%	100%

The Insurance sector is one of the most consistently represented across all the size bands, ranging from 13% to 18% in all bands up to 100,000 sq ft. For the largest size band, Insurance is less prominent. Electronics is a sub-division of TMT, a very broad sector encompassing print media, film and TV production, design, software and hardware, advertising and information technology among others. It makes up just 4% of the total occupied space, but in units under 5,000 sq ft, it makes up 11%.

Financial Services are the most represented sector in all size bands. However, below 20,000 sq ft they are not as strongly represented as dominant with 70% of square footage occupied by non-financial sector users.

Even with the Financial Services sector broadening to include the Insurance and Professional Services sectors, 40% of users are still in other sectors. This further emphasises that the small end of the market includes a substantial cohort of non-financial sectors, which may arguably be more price sensitive than financial organisations.

This analysis can be compared with the official employment and enterprise data shown in Section 1.3. This showed the dominance of Financial and Professional Services employees (65% of total jobs), and Financial and Professional businesses (62% of all businesses), as well as the skewed nature of business size, with just 6% of all businesses employing more than 50 people.

Once again a look at the historical data suggests that changes have been relatively marginal, although the changes to the electronics sector are evident when comparing 1995 with later data, as is the arrival of some larger media occupiers.

Figure 3.9b Occupied units by size band and sector, 2005

Sector	Sq ft					
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000
Associations	4%	4%	3%	3%	0%	0%
Government	1%	0%	1%	1%	5%	2%
Construction	4%	2%	1%	1%	0%	0%
Electronics	11%	9%	5%	3%	2%	4%
Financial	29%	34%	43%	40%	43%	66%
Insurance	16%	17%	17%	16%	19%	9%
Media	3%	5%	3%	1%	1%	0%
Professional	16%	17%	15%	25%	20%	18%
Property	5%	5%	8%	8%	7%	0%
Services	12%	5%	3%	1%	2%	1%
Total	100%	100%	100%	100%	100%	100%

Figure 3.9c Occupied units by size band and sector, 2000

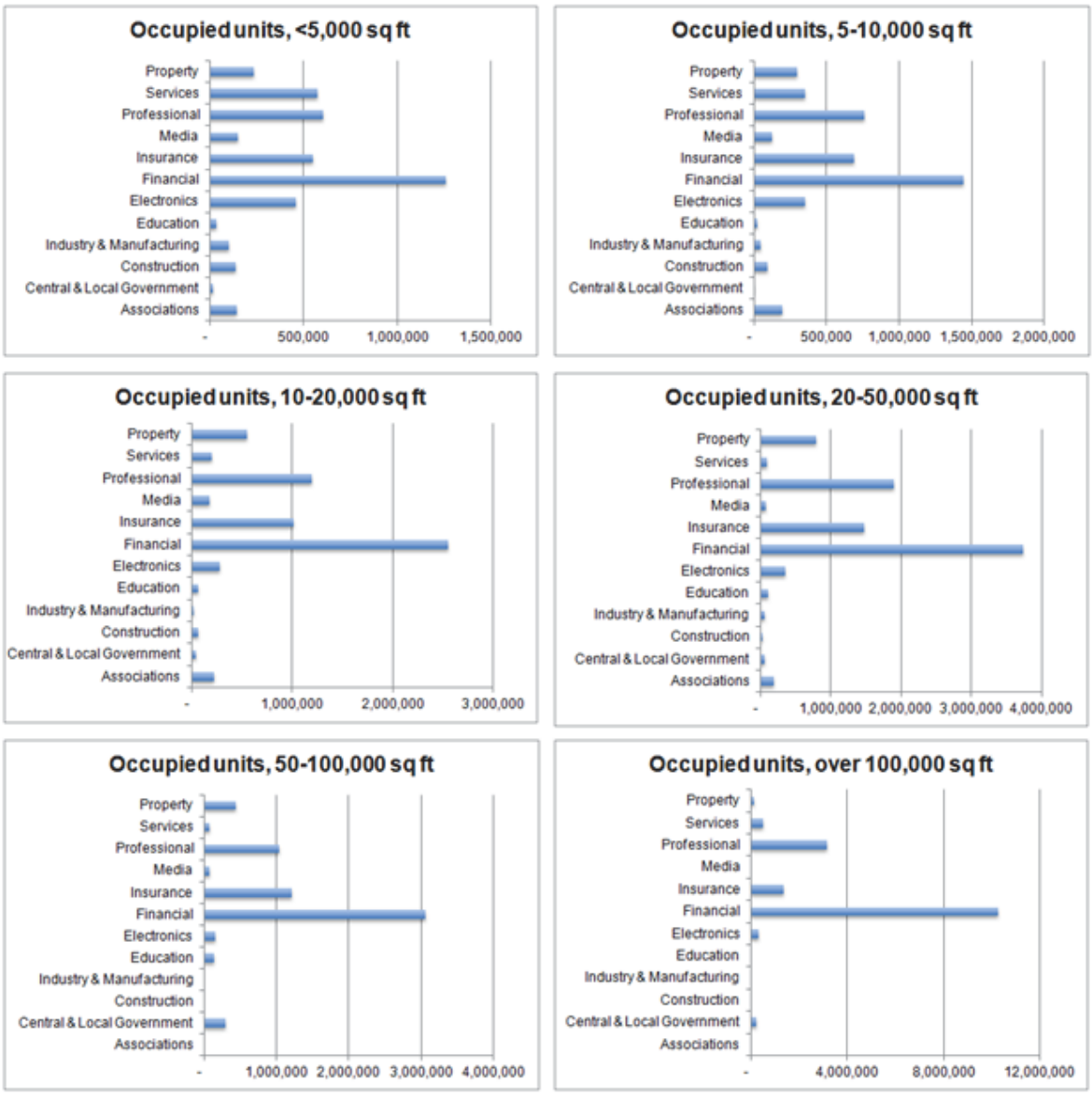
Sector	Sq ft					
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000
Associations	4%	5%	3%	2%	2%	0%
Government	1%	1%	1%	1%	4%	2%
Construction	4%	2%	1%	0%	0%	0%
Electronics	11%	10%	5%	4%	4%	5%
Financial	31%	37%	46%	49%	48%	68%
Insurance	17%	18%	17%	15%	17%	6%
Media	4%	3%	3%	2%	0%	0%
Professional	13%	13%	13%	18%	19%	17%
Property	4%	5%	7%	7%	3%	0%
Services	12%	7%	3%	2%	2%	1%
Total	100%	100%	100%	100%	100%	100%

Figure 3.9d Occupied units by size band and sector, 1995

Sector	Sq ft					
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000
Associations	4%	4%	3%	3%	3%	0%
Government	1%	1%	2%	1%	5%	3%
Construction	4%	3%	0%	0%	0%	0%
Electronics	8%	5%	3%	4%	3%	8%
Financial	32%	42%	52%	51%	50%	63%
Insurance	20%	22%	18%	18%	17%	7%
Media	3%	3%	2%	2%	0%	0%
Professional	13%	11%	10%	15%	16%	18%
Property	5%	5%	7%	3%	4%	0%
Services	11%	4%	2%	2%	3%	0%
Total	100%	100%	100%	100%	100%	100%

Figure 3.10 illustrates how different sectors are represented in the various size bands. There is a more even distribution in the smaller size bands though Financial Services are the dominant use of space in each of the size bands.

Figure 3.10 Occupied units by sector and size band

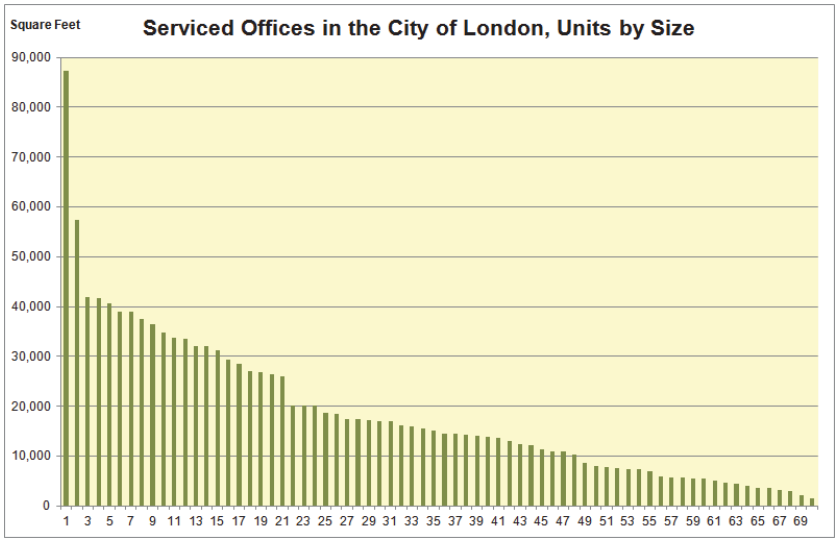


3.4 Serviced offices in the City

One aspect of the City's stock of space that has changed significantly over recent years has been the growth of the serviced office market. This is now an established sub-sector of the property market and a recognised means of providing for the needs of SMOs. We undertook an analysis of the market, both in the City core and the City fringe.

Figure 3.11 shows our analysis of serviced offices in the City. We identified 72 units, ranging in size from almost 90,000 square feet to under 2,000 square feet. The total area covered by the centres amounts to 1,312,835 square feet. This represents almost 2% of the total stock of space we have analysed in this report.

Figure 3.11 Serviced offices in the City



The sector is biased toward smaller units. Almost 470,000 sq ft (36%) is in units of less than 20,000 sq ft, which accounts for 46, or 66%, of units. Similarly, 117,550 sq ft (9%) is in units of less than 10,000 sq ft, which accounts for 22, or 31%, of units. Only five units exceed 40,000 sq ft, accounting for 20% of the space.

The units range from high specification buildings such as New Broad Street House, Broadgate Tower and Procession House, to refurbished older stock, such as Citypoint and Tower 42, to older buildings such as Providian House and St Clements House

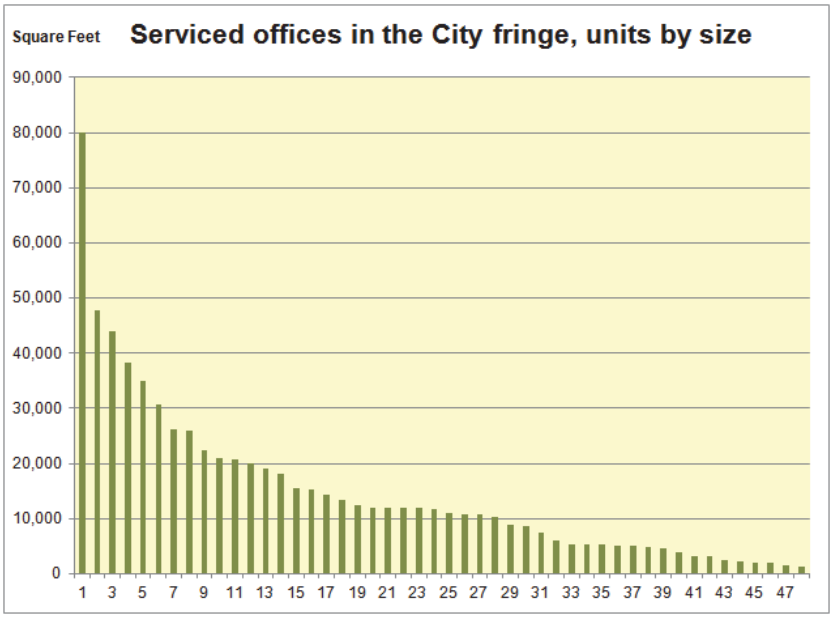
We undertook the same analysis for the City fringe (Figure 3.12). This yielded at total area of 709,897 sq ft in 48 units. The size distribution was even more skewed towards smaller units than in the City.

Around 318,000 sq ft (45%) is in units of less than 20,000 sq ft, which accounts for 37, or 77%, of units. Similarly, 88,275 sq ft (12.5%) is in units of less than 10,000 sq ft, which accounts for 20, or 20%, of units. Only three units exceed 40,000 sq ft, accounting for 24% of the space.

The buildings used as serviced offices in the City fringe tend (though not exclusively) to be more economically priced and of a lower specification than those in the core.

The common theme, across both City and fringe areas is the availability of small, flexible units of space at a range of prices, catering for typically SMEs, whose accommodation requirements can change sharply in relatively short space of time. This has become a vital resource in the City's ability to respond to the SME sector with appropriate space (appropriate in terms both of specification, pricing and flexibility of lease terms).

Figure 3.12 Serviced offices in the City fringe



The nature of use in serviced offices makes it very difficult to know how many workers are supported. However, if we assume a desk density of 130 sq ft per desk, and if we assume a desk to person ratio of 0.8 (i.e. eight desks supporting ten people), then the serviced office described above would support close to 20,000 workers, largely SMEs. On this basis, when considering the stock of space from a policy perspective, it will be important to remember the role played by the serviced office sector in supporting the City's occupier ecology.

3.5 Conclusions on occupation

- The evidence presented here verifies that the City provides for a diverse base of occupiers.
- One third of the space is occupied in units of under 20,000 sq ft; a further third is between 20,000 and 100,000 sq ft.
- In terms of the number of units, more than half of occupiers are in less than 5,000 sq ft; 72% occupy less than 10,000 sq ft and only 2% occupy units larger than 100,000 sq ft. This finding really underscores the importance of the SMO economy, and the on-going need to provide a broad base of unit sizes.
- While the amount of space occupied in units over 100,000 sq ft fell slightly from 35% of the total in 2005, to 33% in 2010, the amount of space occupied in units below 20,000 sq ft rose from 31% to 34% over the same period.
- This finding is in contrast to that noted in the analysis of unit size of stock, which has shifted markedly towards larger units over the same period. Again these findings underscore the importance of the SMO economy.
- There is a far broader distribution of occupier sectors among smaller occupiers. For example, financial services make up 48% of all space occupied but only 31% in units below 10,000 sq ft.

4.0 How fully is the City's office stock used?

This section examines how fully office stock is utilised in the City. First however it is worth noting that availability rates ebb and flow with the economic cycle, and therefore availability at a point in time is not an effective indicator of the overall long-term health of the City office market.

Nonetheless, availability serves two important purposes from a market efficiency perspective. First, it provides 'slack' which can be taken up by expanding/changing organisations looking for a choice of different types of properties. Secondly, it provides obsolete buildings, which can be re-developed to provide new space for the market. It should not therefore be taken out of context at a point in time and viewed as the stock being unnecessary.

4.1 City availability

Figure 4.1 demonstrates headline availability in the City, by size band, between 2003 and 2012. The data evidence the falling levels of availability in the period of growth up to the Credit Crunch (2007), and the higher levels of availability that have emerged since.

Interestingly, the pattern of availability since the Credit Crunch does not show the traditional consistent upward curve, but something rather more complex.

Figure 4.1 City availability, 2003-2012, by size band

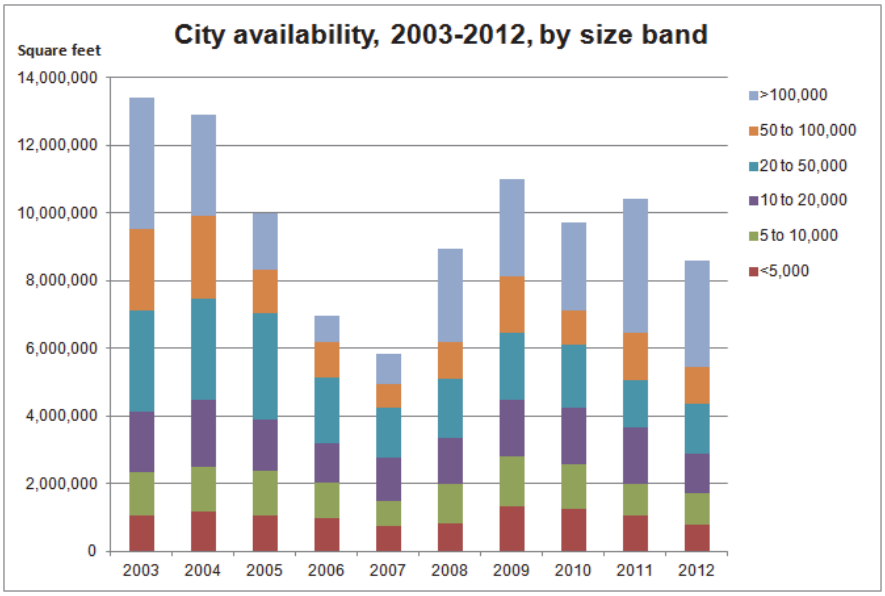


Figure 4.2 shows the fluctuations in immediate availability of units over 100,000 sq ft. The profile of the line is seen to be quite volatile, as there are relatively few units of this size (just 12 in 2012) and they take longer to deliver, so when demand peaked in 2006-7, the supply dropped to levels that may not have been sustainable (were it not for the sharp change in the economy). This is important because it shows why the market has to be able to provide a steady flow of large units with a relatively long lead time.

What is perhaps more surprising is that the availability of small units also fluctuates dramatically. This fact is often lost in the overall floorspace statistics because large units make up most of the square footage. Figure 4.3 shows the steep decline between 2004 and 2007, followed by an equally steep increase. Many of these small units offered to let will be part of larger buildings and it makes sense that, when the availability of large buildings falls, fewer will be offered in small units.

Equally, as the letting market becomes more subdued, or as the economy forces occupiers to focus on costs, more small units are offered in the market. The important point here is that the availability of large and small units are not counter cyclical to each other – the pressure points occur in the same timescales.

Figure 4.2 Availability of units more than 100,000 sq ft

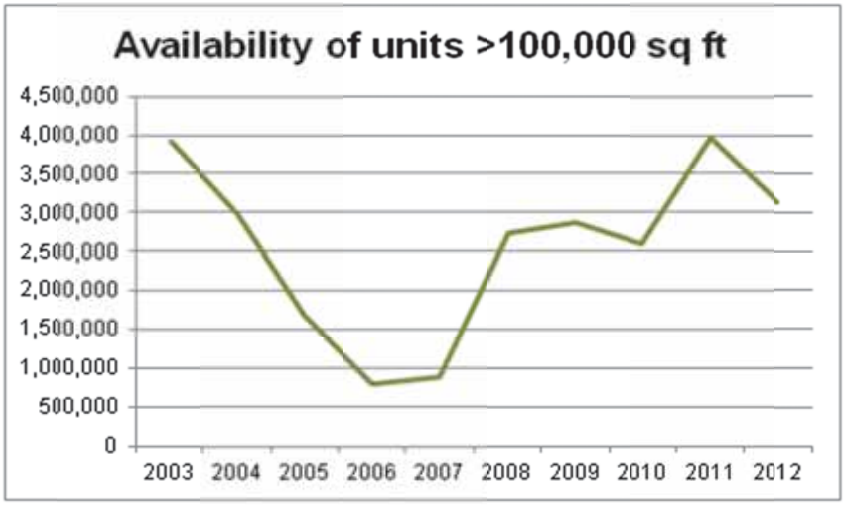
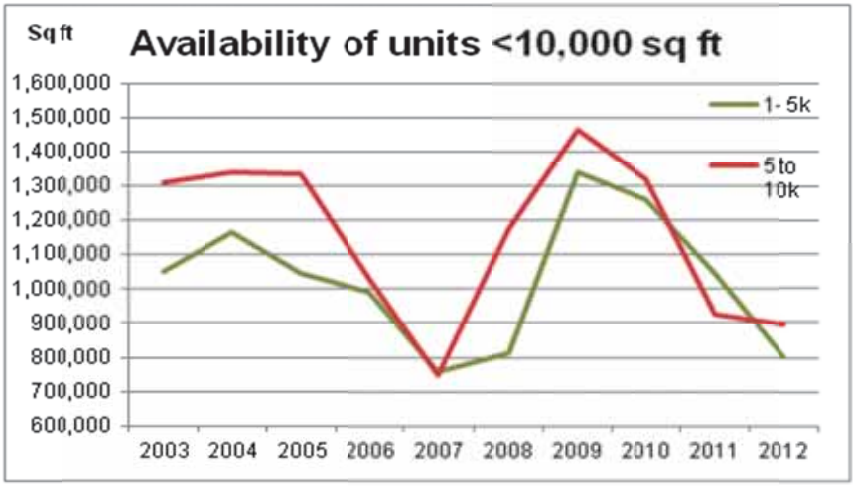


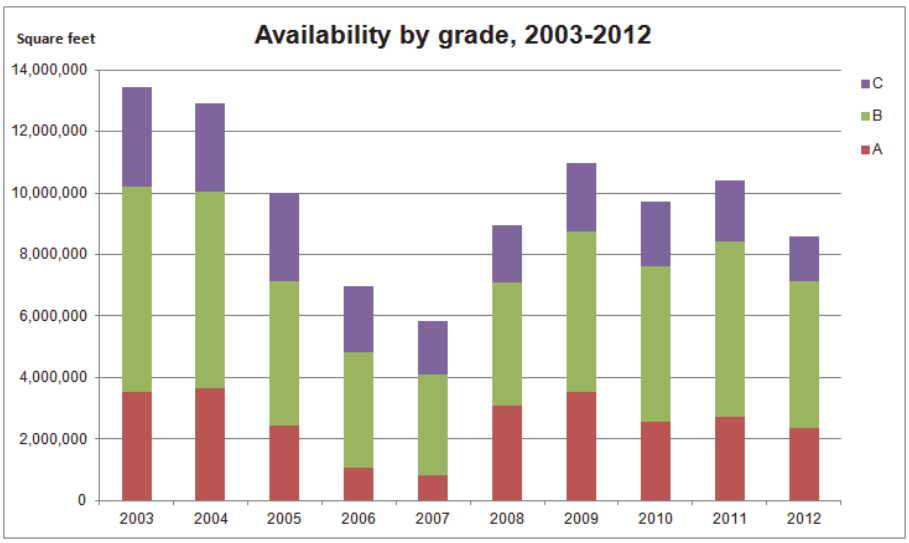
Figure 4.3 Availability of units less than 10,000 sq ft



4.2 Availability by grade

Availability by grade of building shows that the availability of Grade A space is more volatile than either Grade B or Grade C space (Figure 4.4). This is explained by higher rates of turnover and the fact that more of Grade A space is new development and therefore fluctuates with the development cycle.

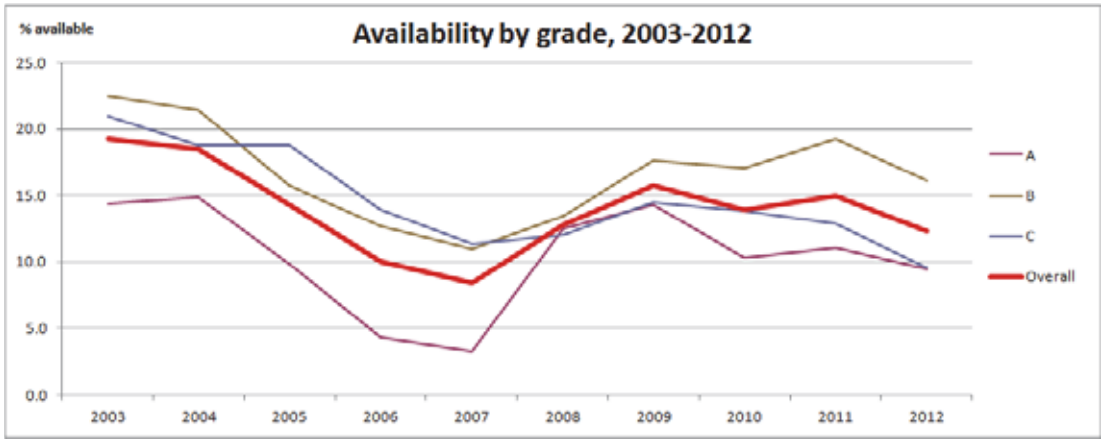
Figure 4.4 Availability by grade, 2003-2012



The EGi data have allowed us to calculate true availability rates within grade ranges, so the availability of Grade A, for example, is shown as a proportion of the Grade A stock, not total stock, and so on, while the overall rate is the rate against all stock (Figure 4.5). It is notable that Grade C availability rates have fallen from around 21% to less than 10%, dipping below the overall rate at around the time the economic recession began. This coincides with the time Grade A supply rises, suggesting that one factor might be occupiers reining in ambitions. It might also be that Grade A space is simply not being marketed since it is of such poor quality in a struggling market, or indeed that developers are taking a longer term view and holding the stock for development at a future, more profitable time[4]. Whatever the reason, the trend suggests a potential pinch point on the availability of Grade C space in the City.

[4] It should be noted that Grade C might be left deliberately vacant while earmarked for redevelopment. As such it also forms pipeline space, and so might shrink as development/demolition begins.

Figure 4.5 Availability rate by grade, within grades, 2003-2012



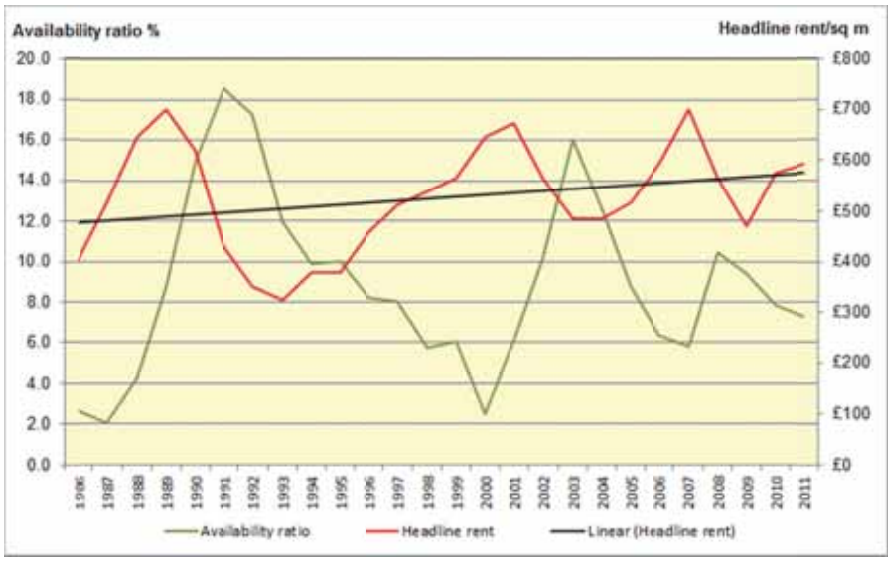
The London Office Policy Review (LOPR) monitors availability, and uses a benchmark of 8% as a measure of market efficiency. An availability rate above 8% offers occupiers a wider choice of accommodation with the tendency for rents to fall, especially when availability is rising and wider choice is anticipated. If availability rates are below 8%, and falling, then there is a tendency for rents to rise, reflecting a narrowing choice of accommodation.

LOPR 2012 analysed the City, and noted that the availability rate rose from 6% at the end of 2006 to 10.5% by the end of 2008 (Figure 4.6). The impact of rising availability can be seen on headline rent levels which fell from peak levels of £700 per sq m (£65.00 per sq ft) during 2007 to £565 per sq m (£52.50 per sq ft) at the end of 2008. This proved to be something of a spike, with availability falling steadily to just over 7% at the end of 2011[5].

The overriding point here is the need for a level of availability to be maintained to moderate rent levels but also to ensure a choice of buildings types and sizes for those occupiers wishing to take space within the City.

[5] Note that the definitions used in LOPR reports are derived from DTZ market data, not EGi data. For example, DTZ collect data on buildings above 5,000 sq ft. This makes comparison across datasets problematic.

Figure 4.6 City availability ratio versus headline rent, 1986-2011



Source: DTZ research cited in LOPR 2012

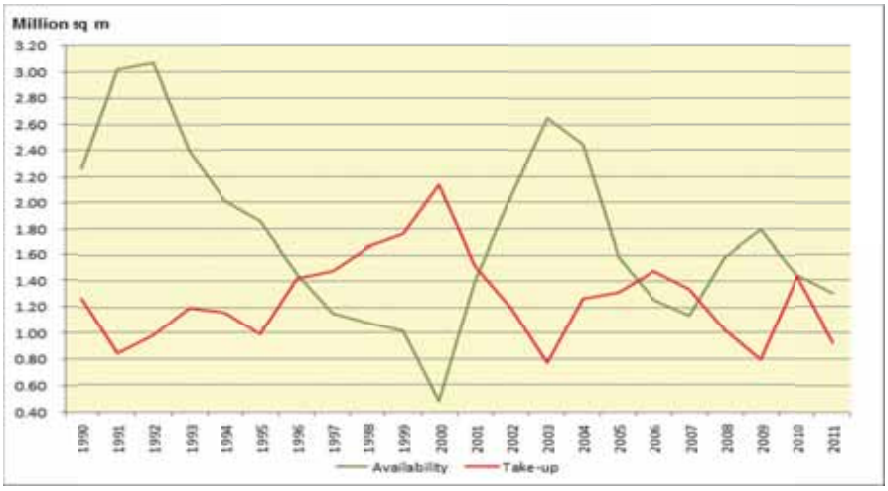
4.3 The bigger picture

We emphasised at the start of this section that availability at a point in time is not a good indicator of the overall long-term health of the City office market. Here we extend the period of analysis back to 1990 to illustrate this point. The data presented here have been extracted from LOPR 2012.

Figure 4.7 illustrates availability and take-up, across central London, between 1990 and 2011. As a consequence of late-1980s overbuilding, London was left with a huge over-supply of space in the early-1990s, which declined steadily over the next decade. Supply rose again in response to the dotcom demand 'bubble' and although it fell sharply after that bubble burst, despite relatively modest take-up, it remained higher than for much of the previous decade.

The key point here is that the level of availability at any point in time is not a good guide to the overall long-term health of the market. Sharply rising availability is clearly not a positive economic signal; the reservoir of vacant stock is normally reabsorbed over the following growth cycle.

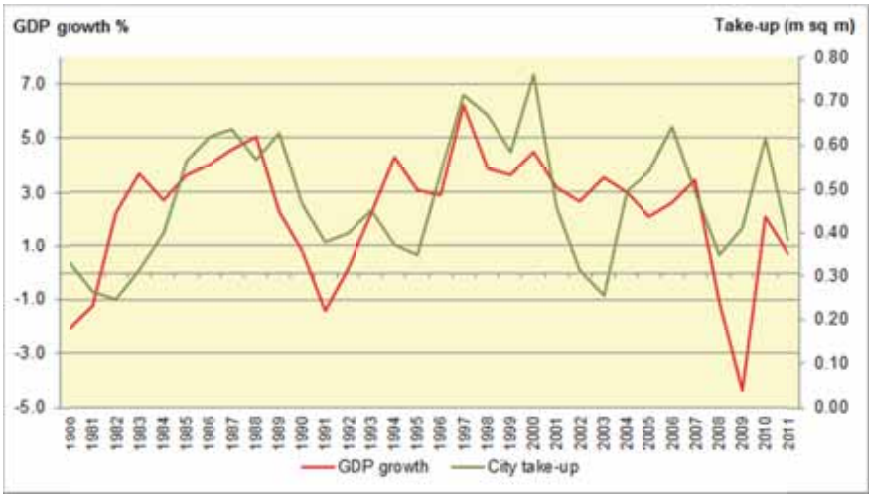
Figure 4.7 Availability and take-up, central London, 1990-2011[6]



Source: DTZ research cited in LOPR 2012

Figure 4.8 helps to verify this conclusion. It shows the relationship between national GDP growth and City take-up levels. That property is a derived market, where the property cycle follows the economic cycle, is illustrated here. The pattern of office property following the economic cycle has held up consistently with regard to the volume of activity in the market.

Figure 4.8 National GDP growth and City take-up, 1980-2011



Source: DTZ research; OECD cited in LOPR 2012

[6] Office take-up is based on the total amount of space leased, and does not take into account the release of existing space. It is not a measure of net demand, otherwise known as "net absorption".

The main message here is that the availability rate *per se* is not a good indicator of medium to long-term demand. Unless, of course, it can be demonstrated that a structural shift in demand is making a swathe of property obsolete on a permanent basis. Otherwise, the general economic cycle ebbs and flows, and demand for property follows a broadly similar pattern. It is not therefore appropriate to target a high availability rate during times of economic challenge, and conclude that the property is surplus to demand.

The message from this section is that while there are clearly pinch points in an economic cycle, there is continuing demand for all types and sizes of stock. Grade C space faces particular issues in terms of competitive land use, and it is here where policy should seek to ensure the continuing availability of economic space for certain types of occupier.

4.4 Conclusions on use of stock

- Available property provides 'slack' which can be taken up by expanding or changing companies looking for a choice of different types of properties, and it provides obsolete buildings, which can be redeveloped to provide new space for the market.
- The availability of small as well as large units fluctuates wildly, but this fact is often lost in statistics because large units make up most of the square footage. Many smaller units offered to let are parts of larger buildings and, when the availability of large buildings falls, fewer will be offered in small units.
- Equally, as the letting market becomes more subdued, or as the economy forces occupiers to focus on costs, more small units are offered in the market. The important point here is that the availability of large and small units are not counter cyclical – the pressure points occur in the same timescale.
- Availability by grade of building shows that the availability of Grade A space is more volatile than either Grade B or C space. This is explained by higher rates of turnover and the fact that more of it is new development and therefore fluctuates with the development cycle.
- This point is illustrated by reference to the recession of the early-1990s, when much space in the City core was perceived to be outdated, and high levels of availability prevailed. Had this space been targeted for conversion to other uses, the effect might have been to weaken the business cluster with something akin to a doughnut effect. However, 15 years on, most of it has been reabsorbed, redeveloped, and repurposed. The lesson is that short-term market conditions are not an accurate guide to long-term demand. As we contemplate the future structure of the City's stock of offices we should consider the profile of demand from the SMO sector, as well as the potential for new or returning groups of occupiers.
- The overriding conclusion from this analysis of availability patterns is that, on its own, availability is not a reliable indicator of medium to long-term demand. Except in circumstances where a structural downshift in demand has occurred, the ebb and flow of the economic cycle will see demand follow a broadly similar pattern. It is not therefore appropriate to target a high availability rate in the depths of an economic downturn, and conclude that the property is surplus to demand.

5.0 The City fringe

This study focuses largely on the area within the City of London boundary. However, the functional area of the City's local economy extends beyond that boundary, with economic dependencies and connections in the City fringe areas. For this reason, we undertook a parallel analysis (of all buildings over 1,000 sq ft) so that we could provide the most comprehensive picture of City activities and understand the interdependencies between these areas and the area within the City of London boundaries.

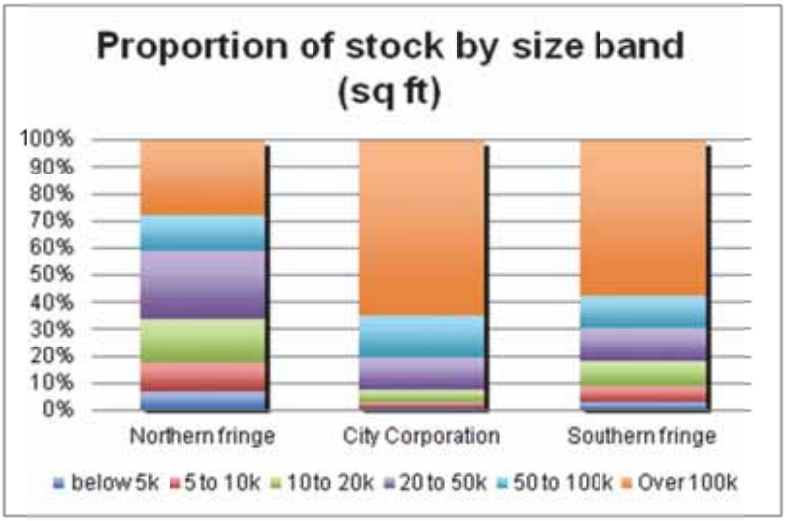
The area to the north is bounded by Pentonville Road, taking in Shoreditch, Hoxton, Whitechapel and Mile End to the East. It comprises 23 million sq ft of office stock. The area to the south is bounded by the river to the north and Bermondsey Square and Borough Road to the south, and comprises 13 million sq ft of office stock

5.1 What does the City fringe office stock comprise?

Figure 5.1 compares the composition of the office stock in each area by unit size. It shows clearly that the northern fringe is structurally very different, and dominated by small units, while the City and southern fringe are skewed towards large units.

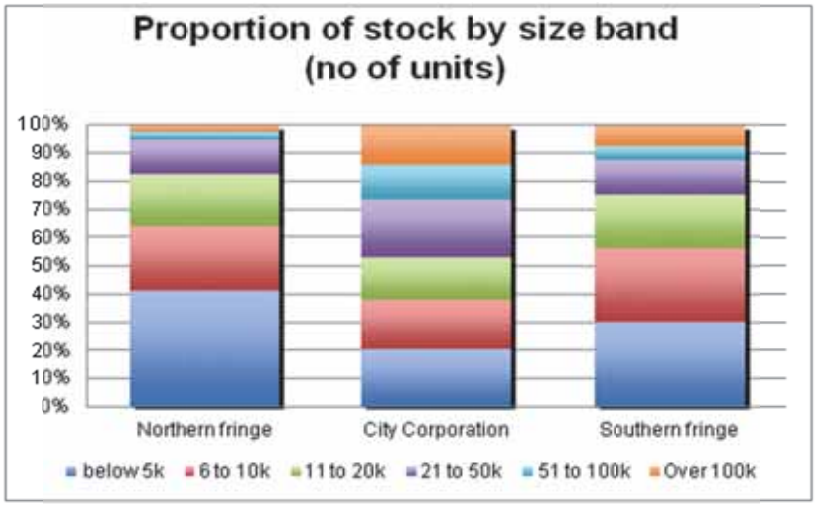
In the case of the southern fringe, this difference is particularly sharp because of a small number of very large units fronting on, or close to, the river. The southern fringe is a significantly more polarised market than the City, with 20% of its stock below 20,000 sq ft, compared with 7% in the City.

Figure 5.1 Proportion of stock by size band, sq ft



When we look at the composition of the fringe stock by number of units, the bias on the southern fringe is highlighted (Figure 5.2). Units over 100,000 sq ft make up 58% of the stock by sq ft, but they are only 7% of the units (7.5m sq ft in just 31 units). Units below 20,000 sq ft make up 53% of the City's buildings, 83% of the northern fringe and 75% of the southern fringe.

Figure 5.2 Proportion of stock by size band, units



The City provides a smaller proportion of small unit stock than the City fringe areas. Clearly, there are strong functional linkages between the smaller occupiers in the fringe areas and their typically larger neighbours within the City. This underlines the wider economic ecology and the interdependencies between the City and its fringe areas, with businesses locating where they can find appropriate space, and clusters crossing boundaries.

As well as working closely with planning authorities in neighbouring boroughs, it seems imperative that the City does not lose the stock of smaller offices that it currently has, and which accommodate smaller companies with similar accommodation requirements to those in the fringe areas.

Figures 5.3 and 5.4 show the distribution of Grade C and Grade D space in the City fringes. It is clear that there are swathes of low quality space along the South Bank and in a large area to the north of the City. We saw in Section 3.0 that the dense areas of low grade space reflect closely the distribution of certain sectors in the City fringe, particularly Services, Electronics and Media.

Figure 5.3 shows particular hotspots of Grade C space in the fringe beyond Broadgate, to the south of More London and London Bridge City. Figure 5.4 reinforces this image with a large area of dense low quality space to the north and north west of the City but with stark 'cold spots' (i.e. much less of the poorest space) on the South Bank, probably because it is a more recently developed market.

While the northern fringe is contiguous with the City, the south bank is physically separated from it by the river, the strip of large offices on the river front and the railway lines. This seems to have led to the area's stock of low grade, small unit buildings being less dense.

Figure 5.3 Distribution of Grade C space in the City fringes

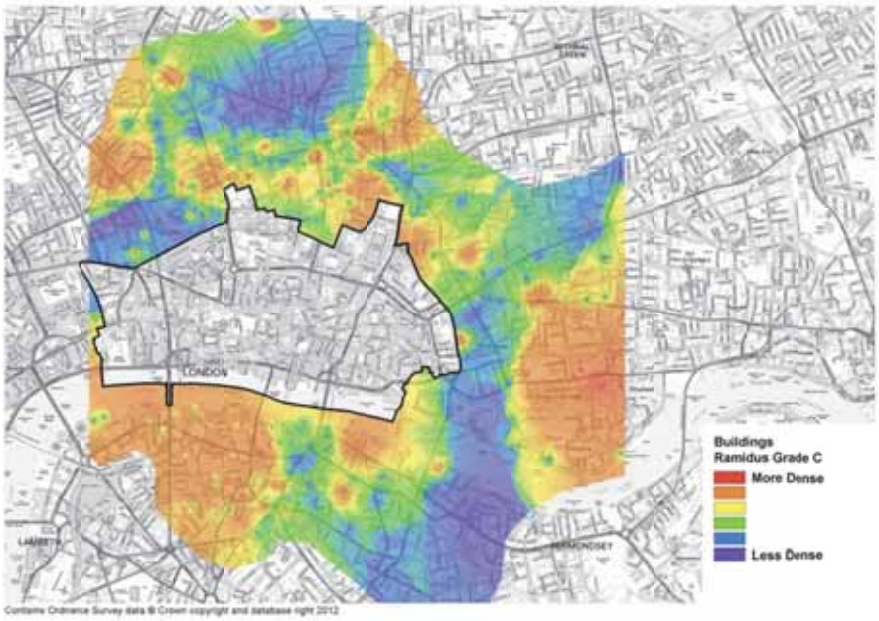
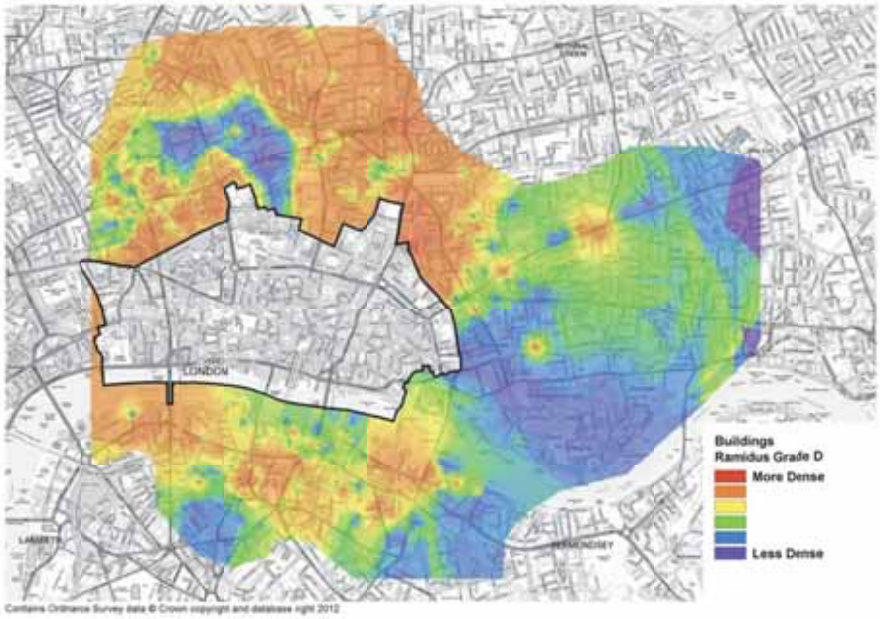


Figure 5.4 Distribution of Grade D space in the City fringes

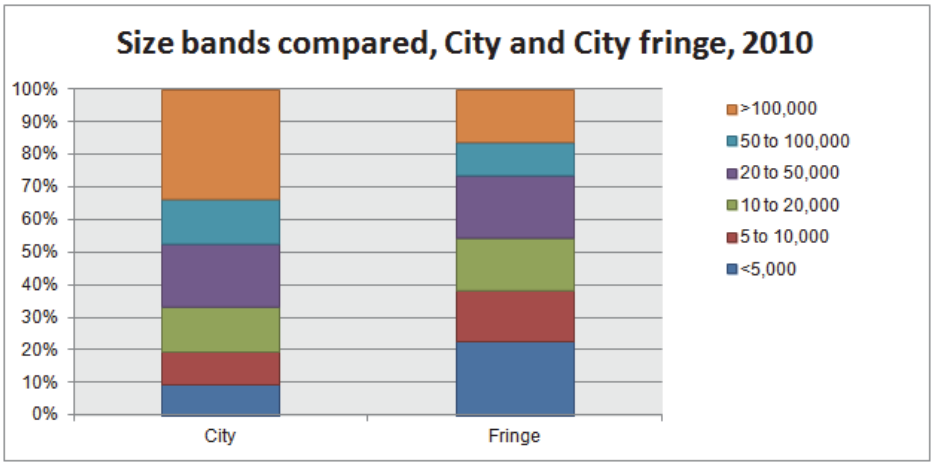


There is an issue related to this discussion that is worth noting. EGi was set up to serve the property industry and it has recently reviewed and extended the boundaries of its data collection in response to calls from its client base. The original area defined as the central London office market has been expanded to incorporate streets further to the north and south. This suggests an increasing interest, and levels of activity, in commercial space in the wider City fringe and we sense that the interest is particularly in low rental space in these areas.

5.2 How is the City fringe office stock used?

The total area occupied by the fringe sample is 36 million sq ft, half the comparable amount of occupied space in the City[7]. Given the stock analysis in the previous section, it is unsurprising that large occupiers are less significant in the fringe area than within the City and, conversely, that small occupiers are much more prominent (Figure 5.5).

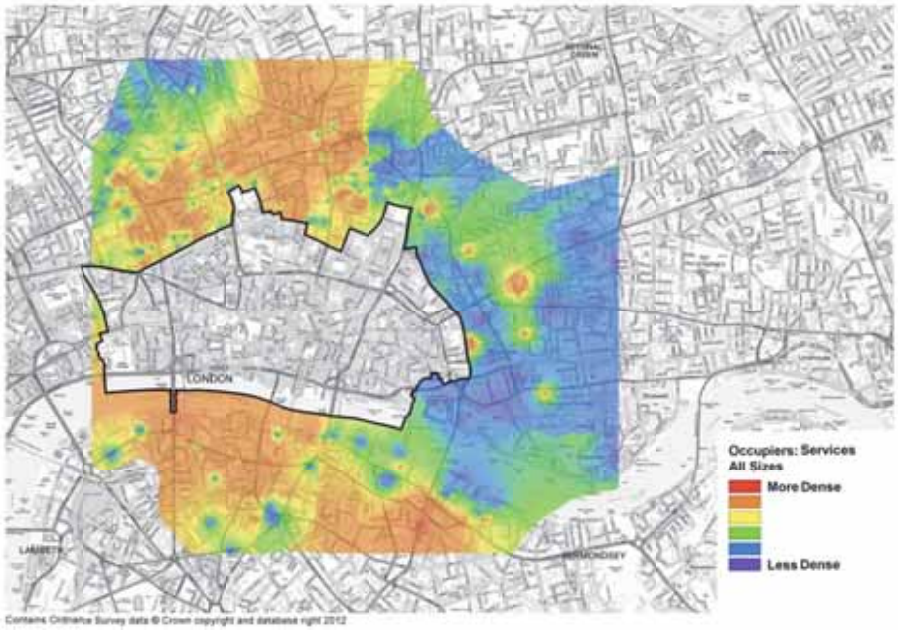
Figure 5.5 Occupiers by size band, City and City fringe



Figures 5.6 – 5.9 show the distribution of sectors that are associated with the small secondary space, namely Services, Electronics and Media. Figure 5.6 shows the density of service sector occupiers. It strongly reflects the patterns displayed in the maps of Grade C space (Figure 5.3), underlining the association – Service sector businesses tend to occupy low grade space in the City fringe.

[7] Total stock in the City is 68 million sq ft, according to EGi. The EGi database records occupancies above 1,000 sq ft, generating total occupancy records of 50 million sq ft. The difference between the City total stock and the EGi database is largely accounted for by vacancy and the 1,000 sq ft threshold in the latter.

Figure 5.6 Distribution of Service sector occupiers in the City fringe



In mapping the Electronics and Media sector we distinguished between occupiers below 20,000 sq ft and those above (Figures 5.7 and 5.8). The smaller occupiers are distributed in similar areas to the Service sector – in other words, low grade, low cost and in this case, small units.

For the larger Electronics and Media occupiers, the pattern shifts to tighter clusters around Gray's Inn Road and Blackfriars Road. These areas are almost certainly explained by some large space users; ITN for example, has a large presence in Gray's Inn Road and UBM and the Financial Times are both located close to Blackfriars Road. There is also the London Television Centre on Upper Ground.

Figure 5.7 City fringe Media and Electronics occupiers, <20,000 sq ft

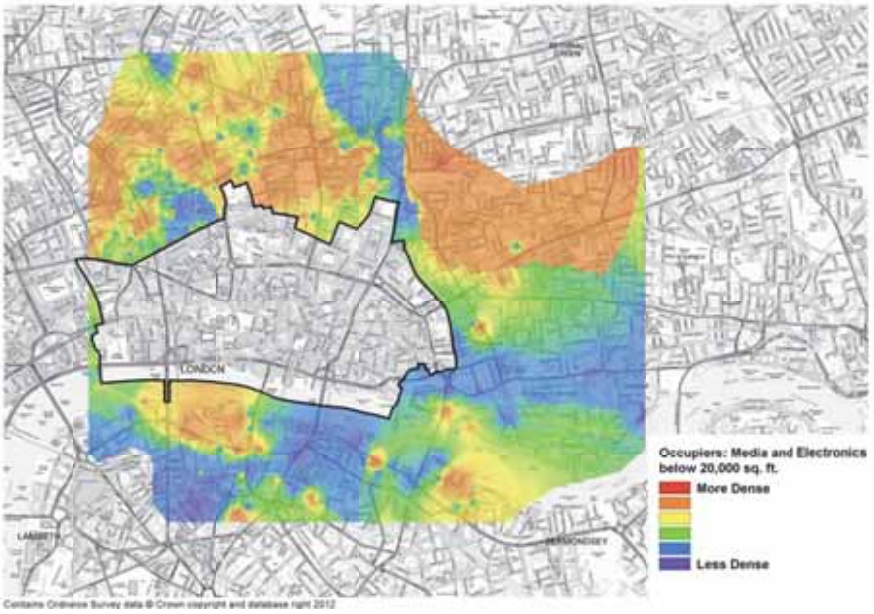
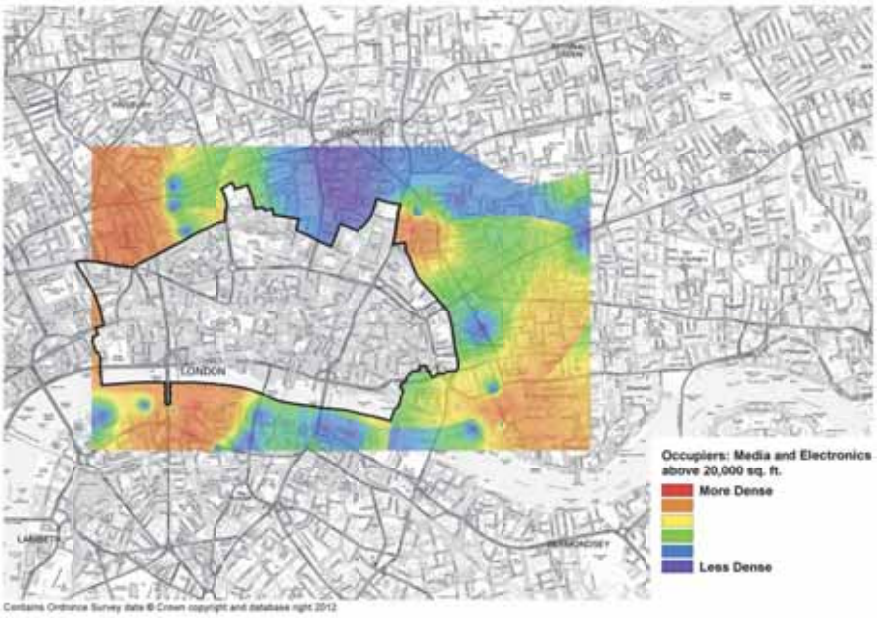


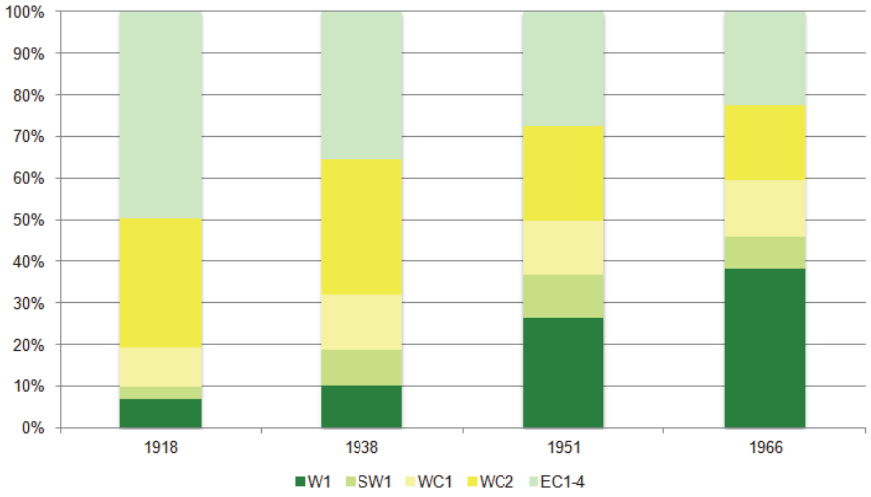
Figure 5.8 City fringe Media and Electronics occupiers, >20,000 sq ft



Advertising agencies - There has been much coverage in recent times of the growth of TMT (technology, media and telecoms) businesses, and some of this discussion has focused on fringe areas such as the area around Old Street roundabout. A longer term historical perspective shows how such clusters change over time.

Figure 5.9 illustrates the number of advertising agencies in London post codes in the period from 1918 - 1966. It shows how the proportion of agencies in W1 post codes grew, while the number in the EC1-4 post codes shrank progressively over this period. This is a post code analysis and not all of the EC1-4 postcodes would be within the City of London boundary. Nevertheless, most of the advertising agencies were in the EC4 post code which is entirely within the City of London. In any event, the data show a very distinct shift in the cluster from the east to the west of central London.

Figure 5.9 Distribution of advertising agencies in central London, 1918–1966



Today, there are virtually no advertising agencies left in the City of London. However, just beyond the City boundary, in the area defined by EGi as 'City fringe', there is a cluster of around 100 small agencies, occupying just 494,000 sq ft between them. These are predominantly in the Clerkenwell area to the north and north west of the City, with an EC1 post code. Virtually all of them (92%) occupy units below 10,000 sq ft and are located in secondary accommodation. In fact, 76% of them occupy units of less than 5,000 sq ft. The big agencies may have relocated to the west and attracted dozens of smaller businesses in their wake, but as the cost of occupying property in the West End has risen, a new cluster has evolved around Clerkenwell. Figure 5.10 shows the emergence of this cluster between 1995 and 2010.

Figure 5.10 Advertising agencies located in the City fringe, 1995 and 2010

Locality	1995		2010	
	sq ft	units	sq ft	units
Barbican	3,541	2	19,015	2
Clerkenwell	48,391	16	244,199	45
Hatton Garden	10,834	4	56,378	12
Shoreditch	29,335	15	104,505	31
Smithfield	33,072	5	24,030	8
St Katharine's Dock	8,306	1	24,451	2

While it can only be regarded as anecdotal at this stage, there is potentially some evidence of the City reestablishing its attraction to larger media companies. It has recently been announced that advertising agency Ogilvy and Mather has short listed four properties for a new 250,000 sq ft headquarters. Three of these are City sites: the London Fruit & Wool Exchange, in Spitalfields; the City of London Corporation's Norton Folgate, and Zeloof Partnership's Old Truman Brewery site. The fourth, significantly given Google's recent UK headquarters announcement, is Argent's King's Cross development.

5.3 How fully is City fringe office stock used?

Availability in the City fringes exhibits a very different pattern to that within the City (Figures 5.10, 5.11 and, for comparison 5.12). Unsurprisingly, and especially in the southern fringe, what Grade A space is available, is in the form of existing (or, more commonly, proposed) large buildings.

Figure 5.10 Availability by grade, northern and southern fringes, sq ft

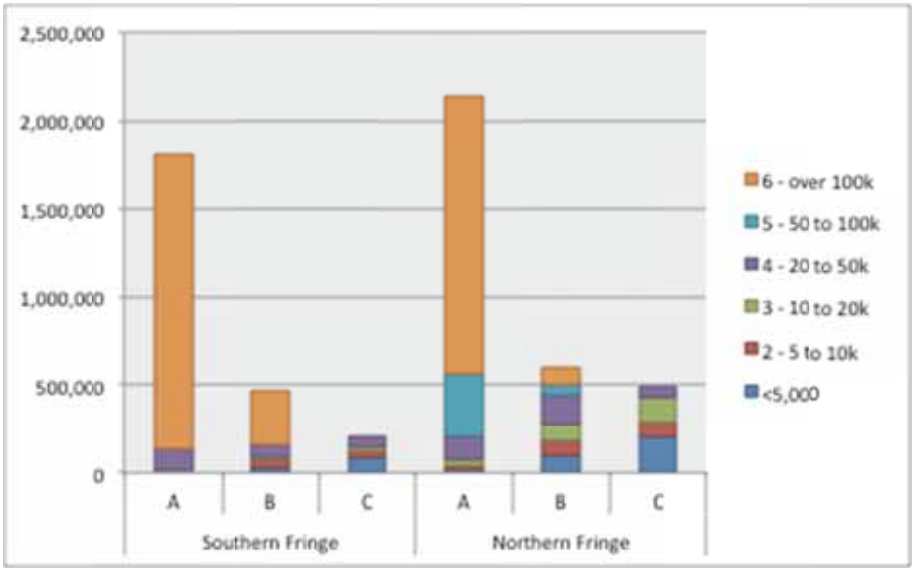


Figure 5.11 Availability by grade, northern and southern fringes, units

Grade	Number of units by size band, square feet						
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000	Total
Southern fringe							
A	0	0	1	3	0	4	8
B	7	7	1	3	0	2	2
C	35	5	2	2	0	0	44
Units available	**42**	**12**	**4**	**8**	**0**	**6**	**72**
Total units	**128**	**112**	**82**	**53**	**22**	**31**	**428**
Northern fringe							
A	6	4	2	5	5	5	27
B	33	10	8	6	1	1	59
C	90	12	12	2	0	0	116
Units available	**129**	**26**	**22**	**13**	**6**	**6**	**202**
Total units	**608**	**330**	**269**	**181**	**44**	**32**	**1,464**

The southern fringe is also highly polarised; there is, for example, not a single unit of 20-50,000 sq ft available. This is consistent with the southern fringe's development history (essentially it did not exist prior to the mid-1980s) and, very broadly speaking, space is either high quality or poor quality, with little variance in between.

Figure 5.12 Availability by grade andunits in the City

Grade	Number of units by size band, square feet						
	<5,000	5-10,000	10-20,000	20-50,000	50-100,000	>100,000	Total
A	3	3	8	6	14	25	59
B	95	69	49	24	8	4	249
C	57	16	6	5	2	1	87
Units available	**155**	**88**	**63**	**35**	**24**	**30**	**395**
Total buildings	**263**	**222**	**198**	**258**	**156**	**186**	**1,283**

The much larger northern fringe exhibits a similar dearth of large units – there are only 12 over 100,000 sq ft. But the northern fringe is unquestionably the land of utility space: over half the units are <5,000 sq ft and two thirds of those are Grade C.

It is not surprising that the occupier analysis shows this to be the area where Services and Technology sector firms are concentrated, reflecting the balance between the need for proximity to the City and the need for inexpensive space. The northern fringe is the area where the great post-Big Bang expansion never quite entrenched itself, and where it is only with the emergence of Tech City and other clusters that the property market is beginning to look seriously at the potential of the area.

In terms of understanding the demand dynamics of this area, it is worth noting that increased activity by the Property sector, through refurbishment of older buildings and some creation of new stock, is likely to push prices upwards and ultimately change the property profile of the area. This might then have an impact on its occupier base in terms of the availability of economic, flexible and sometimes 'quirky' space.

5.4 Conclusions on the City fringe

- The fringe has a much greater proportion of its stock in small and low grade units; 30% of the stock on the northern fringe is in units below 20,000 sq ft, compared with just 7% in the City. Expressed in terms of number of buildings, 80% of buildings on the northern fringe are less than 20,000 sq ft compared with around 50% in the City.
- The picture in the City fringe is more marked than the City core, with smaller occupiers, most probably the more price sensitive non-financial support users, dominating a market area that is around one third of the size of the City, although spread over a much wider area.
- It is in the fringe that office uses most often face competition from residential conversions. This is because the lower values there (including those parts that lie within the City boundary) make redevelopment as offices less economically valuable and redevelopment as residential more attractive. Consequently, smaller, non-financial support users that are squeezed out of the City core are then potentially also squeezed out from the fringe.

- The critical feature of the City fringe, both northern and southern, is that it contains a substantial reserve of relatively inexpensive space, which has good access to the City. This is reflected as much here, in examining available space, as it is in the total stock figures considered elsewhere in this report. The southern fringe illustrates that, given the right circumstances, whole new quarters can be created, as does Spitalfields, but in the end the northern fringe especially provides vital utility to the City.
- It should, however, be noted that a turnaround in values might tempt commercial developers to look at these areas for opportunities to create larger, Grade A space. Recent activity also demonstrates the area's attractiveness to residential developers. It is also worth remembering that neighbouring boroughs are under very similar commercial pressures to the City, so it cannot be assumed that the City fringe will continue to provide economical space for the service-oriented SMOs, with strong links to the City.

6.0 Business clusters and occupier diversity

The City of London is the physical expression of a business cluster with, at its heart, the financial services industry. It is by no means the only cluster in London, and there are clusters within clusters. Moreover, clusters change over time, and therefore the cluster characteristics of the City today should not be regarded as something necessarily permanent. In this sense it is important to look back to see how things were, before looking at how things are today. The comparison clearly demonstrates the mutability of clusters.

6.1 Historic business clusters

In 1971 Dunning and Morgan produced perhaps the most comprehensive study of the City and its physical and economic structure and history[8]. Their paper contained a chapter on the layout of business activities in the City, which examined business clusters. Figure 6.1, extracted from this study, shows examples of the empirical work, identifying highly localised clusters.

Figure 6.1 City business clusters in 1970

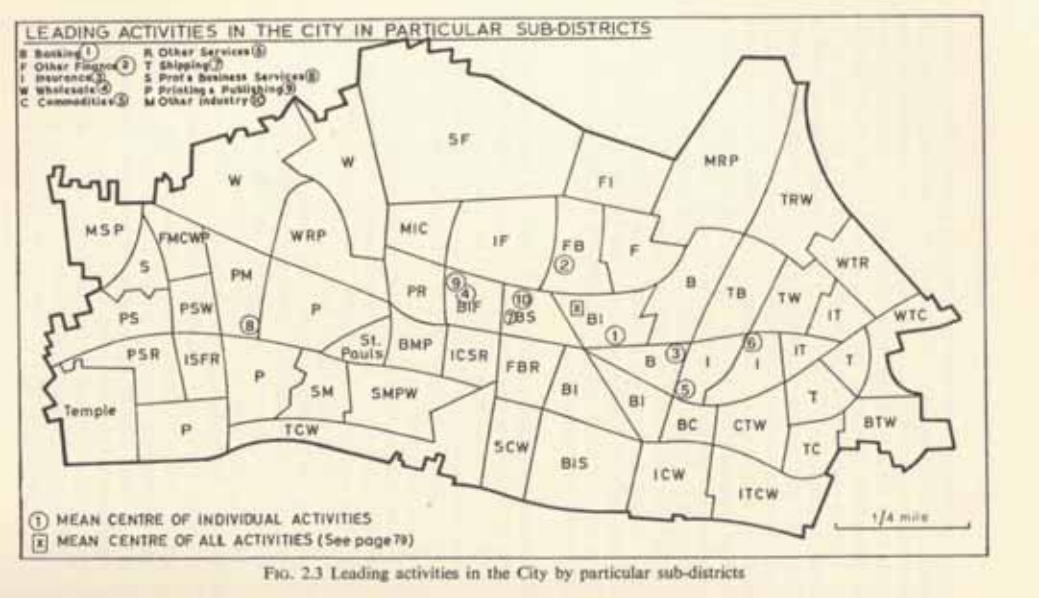


FIG. 2.3 Leading activities in the City by particular sub-districts

Notable aspects here include the relatively small presence of Professional and Business Services, the presence of wholesale markets around the fringe, and the tight cluster of banks around the Bank of England.

Even before the Dunning and Morgan study, academic John Goddard had been plotting the geography of businesses in central London[9]. Figure 6.2 shows an extract featuring the City's first TMT cluster (at least the "M" part), namely publishing and advertising agencies. In 1966, 31% and 22% of these industries, respectively, were located in an EC post code.

[8] Dunning JH and Morgan EV (1971) *An Economic Study of the City of London* George Allen & Unwin

[9] Goddard JB (1967) Changing Office Location Patterns within Central London *Urban Studies* V4 pp 276-285

The results of these two studies come from a time when there were virtually no shops or hotels in the City; but when there was what would be recognised today as industry. The City was pre-Big Bang, and the businesses there were typically small scale (by today's standards).

Figure 6.2 The City's first TMT cluster

TABLE I

DISTRIBUTION OF PUBLISHERS 1918-66

	1918		1938		1951		1966	
	No.	%	No.	%	No.	%	No.	%
W.1	42	6·7	56	7·3	150	17·5	203	25·7
S.W.1	31	5·0	51	6·7	71	8·3	52	6·5
W.C.1	62	9·9	141	18·5	163	19·0	133	16·7
W.C.2	149	23·9	155	20·3	173	20·1	141	17·7
E.C.1	24	3·8	26	3·4	35	4·1	48	6·0
E.C.2	26	4·2	24	3·1	33	3·8	23	2·9
E.C.3	22	3·5	13	1·7	19	2·2	7	0·9
E.C.4	257	41·2	273	35·7	198	23·0	168	21·1
S.E.1	11	1·8	25	3·3	17	2·0	19	2·4
Total	624	100	764	100	859	100	795	100
Fringe*	6		17		52		69	
Rest of London	5		24		52		112	
Total	635		805		963		981	
% in Centre	98·3		94·9		89·2		81·0	

TABLE II

DISTRIBUTION OF ADVERTISING AGENCIES 1918-66

	1918		1938		1951		1966	
	No.	%	No.	%	No.	%	No.	%
W.1	24	6·7	48	10·1	97	40·9	151	38·0
S.W.1	11	2·8	40	8·4	38	8·1	30	7·6
W.C.1	33	9·2	63	13·2	47	14·6	54	13·6
W.C.2	110	30·8	153	32·1	83	19·2	71	17·9
E.C.1	15	4·2	17	3·6	10	3·8	14	3·5
E.C.2	30	8·4	29	6·1	18	4·1	15	3·8
E.C.3	20	5·6	11	2·3	6	0·5	2	0·5
E.C.4	110	30·8	111	23·0	67	15·7	58	14·6
S.E.1	4	1·1	5	1·0	3	0·5	2	0·5
Total	357	100	477	100	369	100	397	100
Fringe*	8		3		12		33	
Rest of London	10		20		27		43	
Total	375		500		408		473	
% in Centre	95·2		95·4		92·0		83·9	

* Fringe—S.W.3, S.W.7, W.2, N.W.1, N.1, E.1, E.2.

6.2 Contemporary business clusters

Today, in central London, clustering remains a strong force in business ecology and this is reflected in the City. Here we illustrate this point with a brief review of the spatial characteristics of four business sectors: Media and Electronics, Services, Financial and Advertising.

Media and Electronics - Figures 6.3 and 6.4 show the distribution of Media and Electronics businesses in the City, the first showing units over 20,000 sq ft and the second showing units of less than 20,000 sq ft. The two maps show distinctly different distributions. It seems likely that the distribution of large units reflects the legacy of telephone exchanges and users closely associated with Fleet Street.

Figure 6.3 Distribution of Media and Electronics, >20,000 sq ft

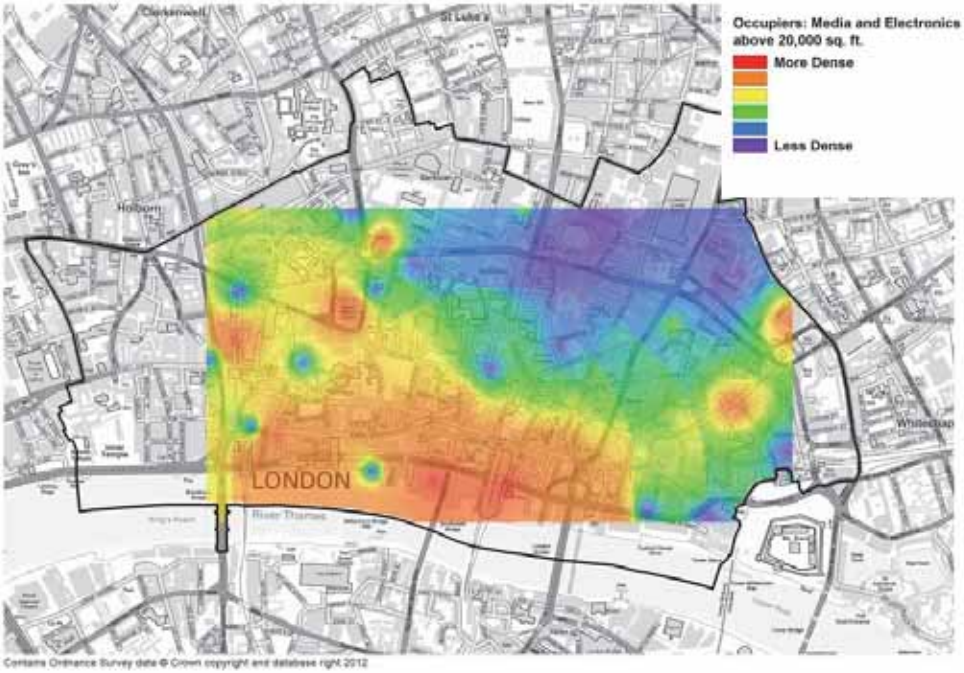
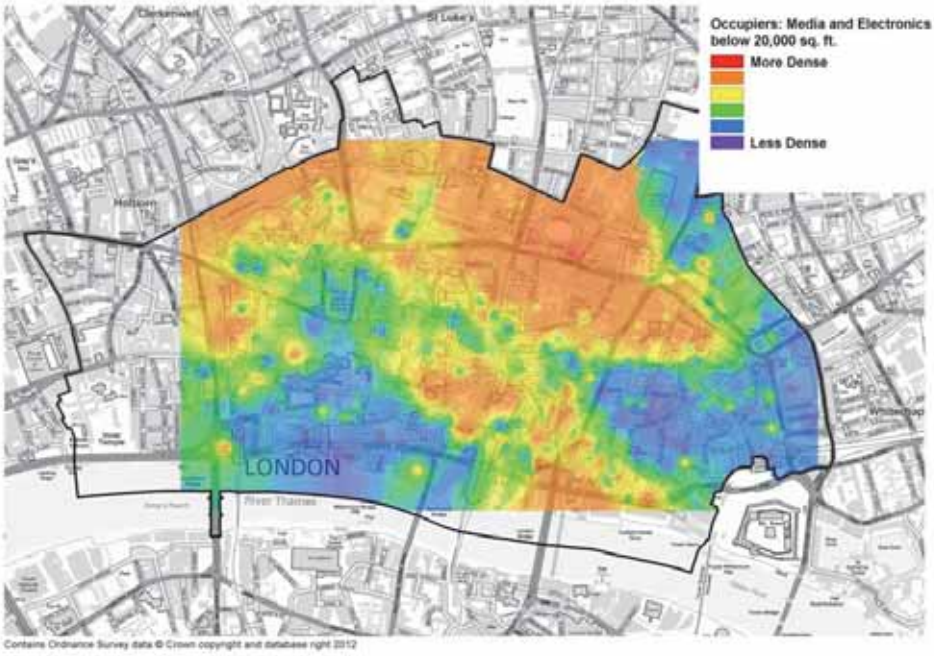


Figure 6.4 Distribution of Media and Electronics, <20,000 sq ft

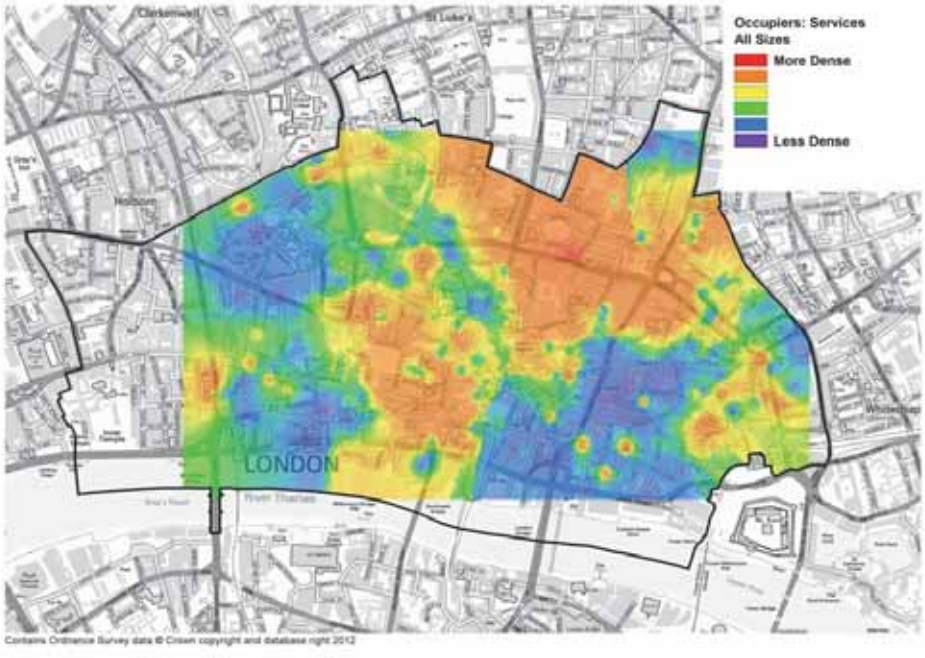


Smaller units cluster where we would have expected, pushing towards Clerkenwell and Tech City. The working hypothesis here is that there will be a larger concentration of creative technology in this area rather than service technology.

Another dimension to this cluster is that many of the businesses in the sector will be closely tied to the Financial sector, possibly involved in critical fast response services, creating a need for physical proximity to the client base.

Service sector - The Service sector comprises predominantly smaller occupiers: the largest single occupier is just 26,000 sq ft. The vast majority are below 5,000 sq ft, and the median size is 3,300 sq ft (note that this dataset does not include anything less than 1,000 sq ft). The sector's cluster (Figure 6.5) reflects the availability of smaller building stock, and is concentrated either in large multi-tenanted buildings in places like Finsbury Circus and or in "character" locations such as Queen Street and Bow Lane.

Figure 6.5 Distribution of services, <20,000 sq ft

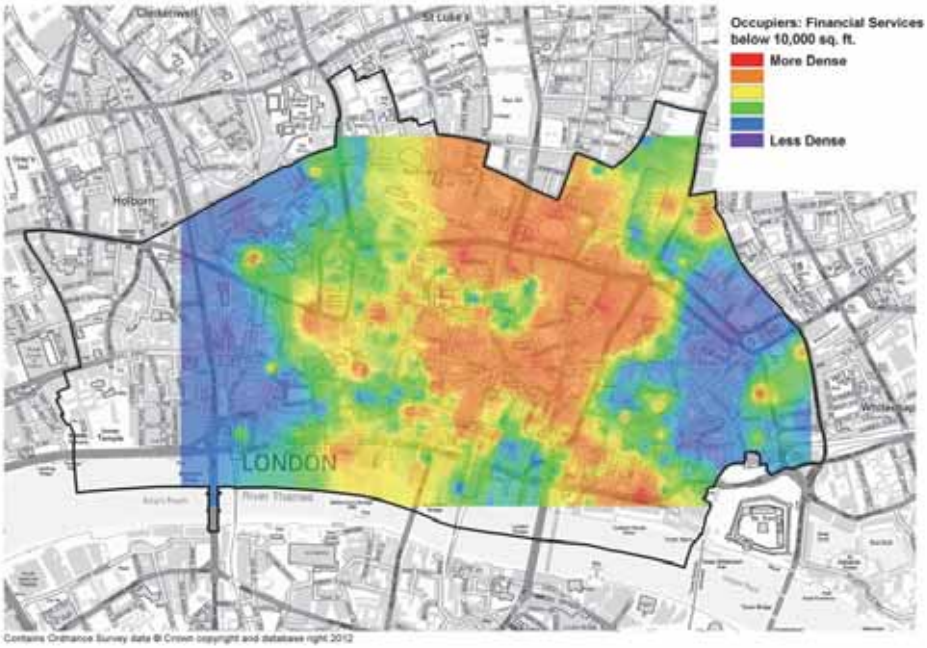


Even when the larger occupiers are added back in, the pattern concentrates somewhat, but does not radically alter. The most significant sub-sector within this grouping is Recruitment and Employment services and it is, perhaps, to be expected that a sector where personal networks are as critical as client contact, will form strong clusters close to the client base.

Financial Services - Figure 6.6 shows financial occupiers in units of less than 10,000 sq ft. It demonstrates that they are strongly concentrated in the traditional core of the City and it is possible to isolate individual towers with high density of small financial occupiers such as City Tower and Tower 42.

It is evident that, despite the demise of floor-based trading and the removal of the need to be close to the Bank of England, the preference for clustering remains powerful in the Financial sector. Even where segments of the industry have moved to other locations, they still exhibit tendencies to cluster. Obvious examples are the hedge fund and private banking clusters in Mayfair.

Figure 6.6 Distribution of Financial Services, <10,000 sq ft



6.3 The changing City

What does this analysis of the historic and contemporary business clusters tell us about the City today and for the future? What are the lessons?

Firstly, the analysis demonstrates strong clustering tendencies. More importantly, it demonstrates very clearly that clusters are by no means permanent: they come and they go. Today there are virtually no publishers or advertisers in the City, and there is no industrial activity in the traditional sense. One of the most iconic ex-clusters, of course, is the newspaper industry at Fleet Street. By contrast, professional services are much stronger, and the TMT sector is building on the fringe.

Experian's recent work for the City of London Corporation[10] demonstrated the Square Mile's concentration of SMEs in a number of key sectors (see also Section 1.3 of this report) and also showed how smaller businesses in particular fields tend to locate close to each other, generating economies of scale and competitive advantages. Some of these clusters are long established, but new clusters are emerging too – Tech City just outside the City, and focused around Old Street roundabout, is the obvious example. The message from the Experian study seems to be the importance of providing appropriate space across the City.

Secondly, the analysis demonstrates how the City was, within a working life ago, more diverse in office-based business than in recent times. While the popular stereotype of the City as a banking monoculture has always been somewhat unfair, its physical and economic structure became very concentrated on Financial Services during the 1980s and 1990s. A return to a more diversified base would therefore be a return to a tried and tested economic ecology.

[10] City of London, *Mapping SMEs in the City*, July 2012

Thirdly, the evidence suggests that the City can be seen as akin to a living organism: it has a life of its own, it changes over time, and its responds to external (economic) signals. As we contemplate the City's future, a demand-led evolution of the economic structure of the City should not be thought of as a revolutionary step, but merely the latest stage in its long-term role as an economic hub.

At the same time as we begin to contemplate a more diverse City economy, it will also be important to acknowledge the public face of the City. The Square Mile is renowned among the general public, and has a global status as a world-leading financial centre; financial services remains a core part of the City's occupier base.

The Square Mile will continue to evolve, however. While continuing to accommodate an evolving Financial Services sector, the City could also attract a wider occupier base, and these trends combined could help lead fresh thinking in the types of buildings required. Both existing core occupiers and constituencies might well have different styles of living and working, and these could well lead to a demand for different living and working environments.

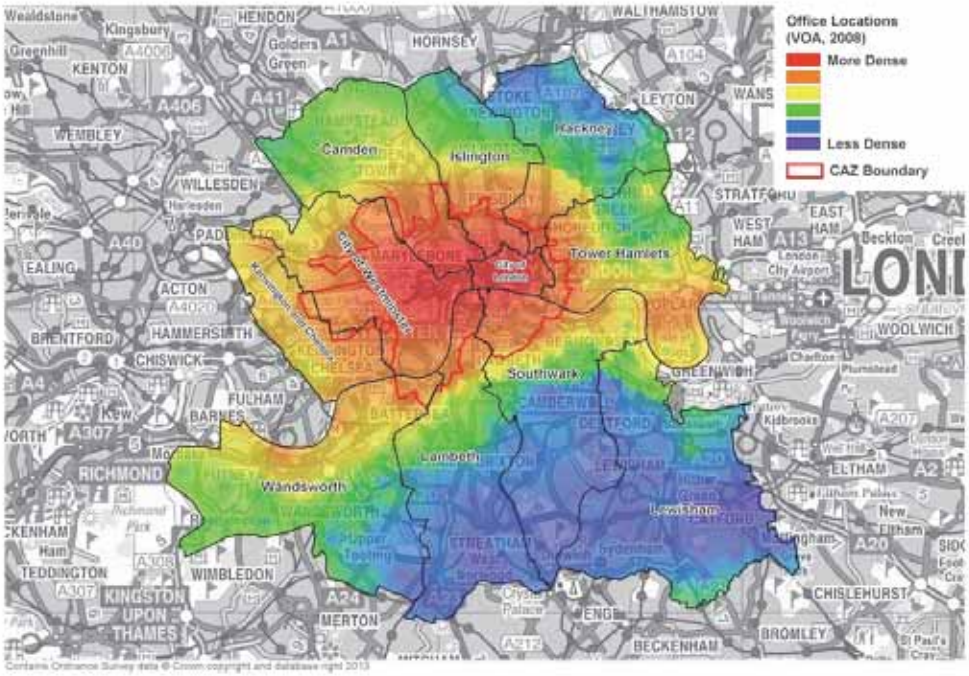
Finally, the strength of the City's business cluster, and its sub-clusters, demonstrates that the City is foremost a business environment. Figure 6.9 illustrates for example the low density of housing within the City[12].

Figure 6.9 Density of housing in central London

Similarly, Figure 6.10 illustrates how central the City is to the London office universe – even within the CAZ (Central Activities Zone) a distinct bias towards the City is visible. The City is dominated by office use. This is not necessarily a bad thing; the City is after all a small physical space surrounded by immense diversity. However the question of diversity becomes relevant when considering the City's future.

[12] City of London Corporation, ONS Crown copyright material used

Figure 6.10 Office density in central London and the CAZ



Despite the high concentration of office-based business activity, there is diversity in business use. Moreover, the City seems to be undergoing a new phase of demand-led evolution, a phase featuring a broadening of the economic base.

6.4 Benefits of diversity

Two questions arise from the foregoing discussion in terms of how the City might function in the future. First, will demand encourage the high density of office-based land use to yield to a more diverse set of uses? Secondly, will the office occupier ecology broaden, thereby lessening the strong focus on financial services? These two questions are addressed below.

A more diverse set of land uses? Over the past 25 years the skyline of the City has changed dramatically. Big Bang resulted in a new building agenda, with large floorplate buildings, designed around the needs of the investment banking sector; and more recently tall buildings have sprung up. Within this physical change there has also been a growing diversity in land use.

One of the key drivers in this process has been a change of outlook within the property and development sector. It is a fact that before Broadgate (and lingering thereafter) the prevailing wisdom was that offices and shops could not work within single investment units. It was therefore difficult, for example, to build offices with retail use on the ground floor. A major shift in thinking has allowed retail to prosper.

Of course property and development generally responds to trends rather than sets them. A more critical driver in a diversifying land use has been the changing demographics of City workers. For example, younger workers with disposable income, have helped to drive demand for retail and leisure services.

The retail sector has grown significantly since the 1990s. Perhaps the single, most iconic change was the opening up of the first (clothing only) Marks & Spencer store in Leadenhall Street in the early-1990s, followed by a full store on Moorgate a few years later. In terms of larger, multi-unit schemes, Broadgate and Royal Exchange set the pace, leading to the most recent addition of Land Securities' One New Change on Cheapside. The principal retail offers are now clustered around Fleet Street, Cheapside, Moorgate, Liverpool Street and Leadenhall Market.

City of London Corporation data shows that total retail units grew from 1,766 to 1,900 just in the period 2005 to 2012[13]. Over this period retail floorspace grew by 13.5%, from 5.45 million sq ft to 6.18 million sq ft.

London's global role has also helped to create demand for hotels and restaurants from business and leisure visitors, and this is no less so in the City. Total visitors to the City grew steadily from 3.9 million in 2001/02 to 6.4m in 2009/10 (well into the economic recession)[14]. City of London Corporation data records that, as at 31st March 2011, there were 15 hotels in the City, 14 more than in 1999, when the only hotel was the Great Eastern Hotel on Liverpool Street. In March 2011, the 15 hotels provided 3,246 hotel rooms, and there were nine hotel schemes in the pipeline, set to provide a further 1,283 rooms[15].

The overriding picture is of a diversifying City. The City has evolved from an area that largely closed after working hours and during weekends in the 1980s, to one that performs similarly to the remainder of central London – whilst retaining a very strong business cluster. This latter point that is crucial, because there is a balance to be struck between diversifying land use and maintaining the integrity of the cluster.

A more diverse office occupier ecology? The City's 'office occupier ecology' is vital to its long-term health. As with any ecosystem, diversity is a critical indicator of ability to withstand threats. Different sizes and types of occupiers undertaking a range of activities are essential for the overall functioning of the City. To succeed in this, the City must provide an appropriate quantum and range of accommodation types.

Section 5.0 explored building and occupier typologies, and here in Section 6.0 we have illustrated with maps some of the City's business clusters, noting along the way the clusters morph and move over time.

The City's occupier ecology is characterised in popular psyche by the banking sector and, in particular, the larger investment banks with household brand names. Of course the truth is very far from this, and Section 3.0 of this report described and quantified in some detail the diversity of occupiers. The Financial Services sector is diverse, with occupiers ranging from large global investment banks to small representative offices, picking up a range of specialist financial firms along the way.

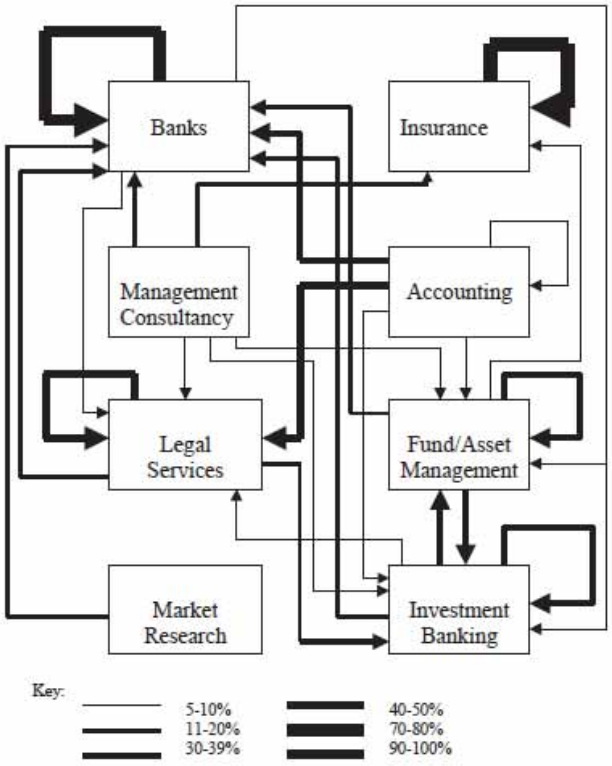
[13] City of London Corporation, *Retail Information,* October 2012
[14] City of London Corporation, *Annual Monitoring Report,* 2011
[15] City of London Corporation, *Hotel Information,* July 2011

While Financial services form the kernel of the City cluster, they are surrounded by associated businesses. The largest such group is Professional Services, encompassing lawyers, accountants, management consultants, real estate advisors, and so on. Then there are Recruitment, Technology, Public Relations, Media and countless other areas of business that help the City economy function efficiently. Our analysis elsewhere in this report (Section 3.2) demonstrated that within the less than 20,000 sq ft property size band, 40% of the activity was something other than financial services.

Figure 6.11 is extracted from a report prepared for the City of London Corporation looking at the structure of the City clusters[16]. The diagram shows the strength of linkages between sectors. The report highlighted the role of banks at the hub of the cluster, the high incidence of intra-sector relationships, and that some sectors, most particularly accounting, appear to be more dependent upon other sectors than have other sectors depend upon them.

It should be noted that the schematic focuses exclusively on Financial, Insurance and Professional sectors and does not incorporate the support sector or any of the technology businesses which expanded only after the dotcom bubble.

Figure 6.11 Cluster relationships between and within sectors



[16] City of London Corporation, *Financial Services Clustering and its Significance for London,* February 2003

The message behind the diagram is the interrelatedness of businesses within the City: there is genuine business ecology, with strong dependency relationships. The message in the context of this work is that the matrix of relationships must be encouraged and supported through the provision of a wide variety of property types, in terms of size, configuration, price and so on, so that the many different types of firms can find appropriate accommodation.

Having noted the importance of maintaining the diversity benefits of the existing cluster, the question arises of the potential to increase the diversity of the cluster. The principal means of achieving this is for the City location to be attractive to a wider occupier base, increasing proportionately the size of non-financial services companies.

However, the obvious question is: what other occupier types might find the City attractive as a location? We have already demonstrated that the City's occupier profile is in fact a good deal more diverse than is commonly perceived. The sector that is most commonly cited is the TMT sector. This very broad sector (print media, film and TV production, design, software and hardware, advertising, among others) is currently being closely analysed across London for its ability to drive growth in the coming years.

One of the most visible manifestations of the TMT phenomenon is Tech City, focused on Old Street roundabout, in the City fringes. Could the City be attractive to greater representation from this diverse sector? The short answer is yes – provided that there is provision of appropriate stock. It is well known that Canary Wharf is seeking to create a tech cluster in the Wood Wharf area focused on those companies whose specialism and main client base is the financial sector.

Broadening as well as deepening the City's occupier ecology is a positive step in terms of making it less vulnerable to economic challenge. The key issue as far as this work is concerned, is to maintain a diverse stock of accommodation. The types of companies widely referred to in discussions about broadening the City's occupier base tend to favour the kind of property that does not fall into what is elsewhere referred to in this report as Institutional Grade A space (with the implications for specification and price). Rather, they tend to favour lower specified, cheaper and more flexible space, at least while they are SMOs. This is not true for all, but a representative generalisation.

It is important therefore, for the City of London to maintain an appropriate stock of space. While continuing to provide high specification space for global companies, it is an important policy consideration to ensure that building diversity is maintained as well as occupier diversity.

As we note in Section 6.1, there has been a noticeable, and necessary, increase in the provision of large buildings designed to cope with the scale and servicing demands of large occupiers. Football pitch-sized floors have been more or less *de rigueur* in order to appeal to a particular occupier market. However, as occupier types and needs evolve, there will likely be a need to consider the balance of built stock and to ensure continued provision of buildings appropriate to the emerging occupier market.

6.5 Building and occupier typology

Elsewhere in this report we have used official standard definitions of occupier types, or sectors. However, while useful for understanding the local economy of the City and its interconnections, this definition is not necessarily a good indicator of the type of property they choose in which to conduct their business. For that reason we have created an occupier and building typology that we believe more closely reflects how buildings are used and which will be more helpful in exploring the question of how consistently stock is used.

The point here is that knowing that a sector is growing or changing does not help us to understand what type of property the market needs to provide, unless there is a strong direct link between business sector and property type.

We have found from experience that occupier types group in ways that differ from the SIC codes and are more closely related to the nature of their work than to the sector to which they belong. Issues such as frequency of face to face contact, time spent at a desk, demographic profile of employees and frequency of client interaction, all correlate more closely than business sector. This will help us to more accurately estimate the demand for types of building.

The question of diversity in the City, as used here, revolves around the notion that its business ecology comprises a variety of occupier types (different business activities) and occupier profiles (company size and building specification requirements), which require a variety of accommodation options: large and small, low and high specification, prime rent and secondary rent, and so forth.

The fundamental question is whether the City is providing a suitable pool of accommodation options to ensure the efficient functioning of the business ecology. As with any ecosystem, diversity is a critical indicator of ability to withstand threats. Different sizes and types of occupiers undertaking a range of activities are essential for the overall functioning of the City, both now and in the future.

To succeed in this aim, the City must offer an appropriate quantum and range of accommodation types. Figure 6.12 shows a simple building typology for the City, with a range of building types, suitable for different occupier profiles. The key point is that within any business sector (as officially defined) there will be occupiers for which different building types will be appropriate.

Figure 6.12 City of London building typology

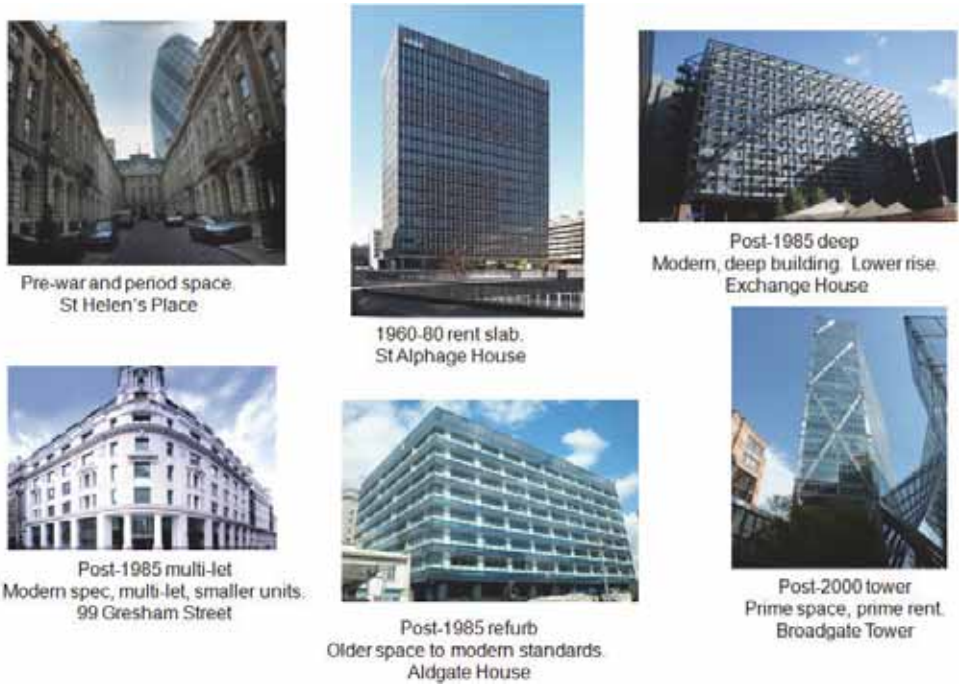


Figure 6.13 describes each of the generic building types in Figure 6.12 in a little more detail. Pre-war and period buildings continue to contribute to the urban character of the City and reflect its history, no small achievement. They are an essential ingredient of the property offer, and can be cost effective. Rent slabs typified construction in the 1960s and 1970s. London Wall's Seven Sisters were iconic of this genre. As these buildings reach the end of their economic lives, destruction or conversion are the only two viable options.

Figure 6.13 City of London building typology explained

Category	Description
Pre-war, period	Older buildings typically with small floor plates and inefficient space by contemporary standards. Often low specification and without air conditioning, but quality space, often well located.
1960-80 rent slab	Classic, mostly 1960s and 1970s, buildings built to economic specification. Range from medium rise (Baynard House) to high rise (St Alphage). A shrinking 'resource'.
Post-85 deep	What might be termed "a Broadgate building" – the large buildings designed for large financial and professional services firms, often with provision for dealing floors.
Post-85 multi-let	These are large buildings that are designed for multi-occupancy use rather than single occupiers. The building footprint might be large but the configuration of space will allow sub-division.
Post-1985 refurb	This category captures typically older buildings, from throughout the post-war period that have undergone extensive refurbishment to meet modern standards of occupation.
Post-2000 tower	Recognising the increasing number of tall buildings emerging in recent years. Typified by the Heron Tower and Broadgate Tower; and the emerging Cheesegrater and Walkie Talkie.

Having created a building typology, we can consider occupiers in a similar way. Figure 6.14 is an illustration of how this can be done. The typology accepts that occupier needs change over time, and describes occupiers according to their locational, cost and specification requirements.

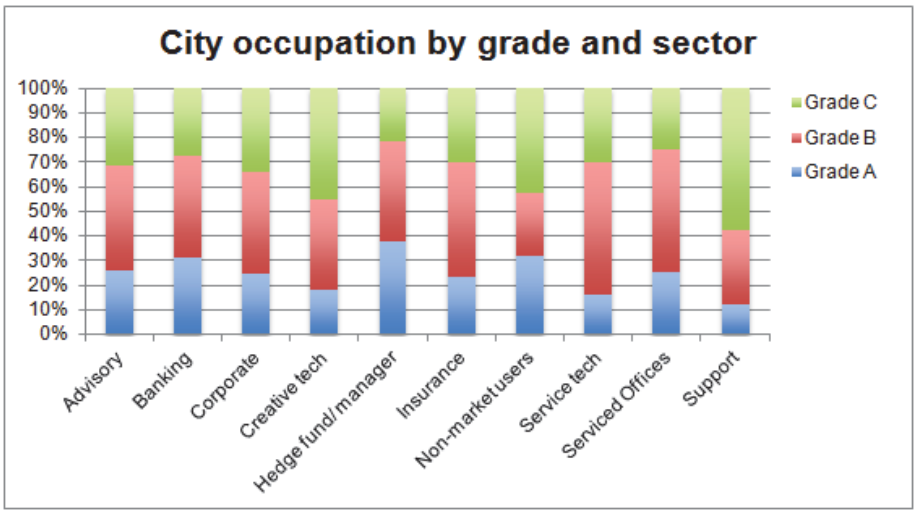
Figure 6.14 Occupier typology

SME type	Location	Rent	A/C	Raised floor	Finish	Property age profile			Volume space	Cluster .	City required
						New	Modern	Old Period			
Advisory	Core-fringe	Mid	Maybe	No	Mid	Yes	Maybe	Yes	No	Preferred	Req
Rep office/foreign bank	Core	High	Yes	No	High	Yes	No	Yes	No	Required	Req
Hedge fund/investment manager	Core	High	Yes	No	High	Yes	No	No	No	Preferred	Indifferent
Corporate	Core-fringe	Mid	Maybe	No	Mid	Maybe	Yes	Maybe	No	Indifferent	Indifferent
Creative tech	Fringe	Low	No	No	Low	No	Yes	No	Yes	Required	Indifferent
Service tech	Core-fringe	Mid	No	No	Low	Maybe	Yes	Maybe	No	Indifferent	Indifferent
Support	Edge of fringe	Low	No	No	Low	No	Maybe	Yes	Yes	Indifferent	Indifferent
Insurance	Core	Mid-high?	No	No	Low	Maybe	Maybe	Maybe	No	Required	Required
Non market users	Need driven	Low	No	No	Mid	Maybe	Maybe	Maybe	No	Indifferent	Context determined

The typology gives a more flexible description of the occupier market than fixed SIC codes. For example, the typology illustrates some of the differences within the Financial Services sector between insurance, fund and hedge fund managers and representative banks which are significant in the way they use office space.

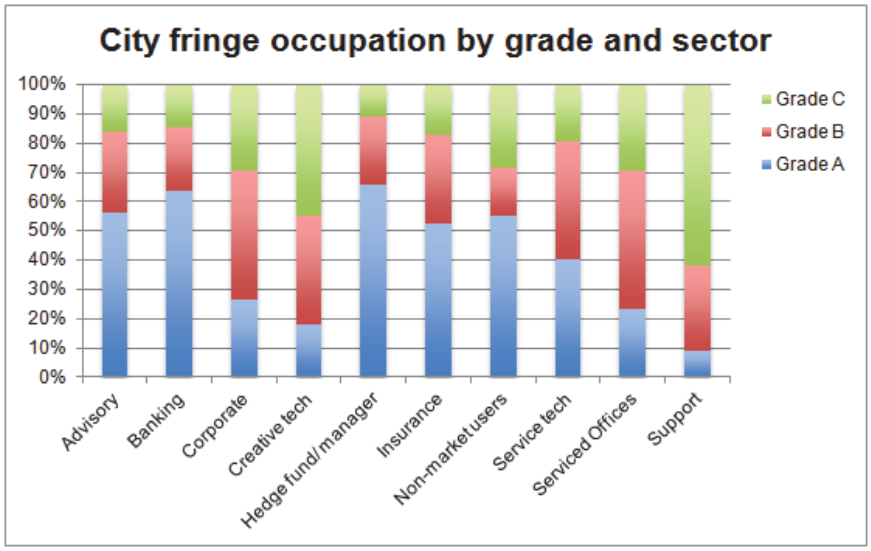
We then took this more dynamic means of describing occupier types, and applied it to the same data that we have used elsewhere in this report. Figures 6.15 and 6.16 show an analysis of the occupier typology by grade of space occupied, and compare the City with the City fringe. The results are quite striking.

Figure 6.15 City occupation using the occupier typology



The patterns have some similarities, but also some obvious differences. The differences suggest, for instance, that banks will compromise quality or location but not both. In fact the same is true for most sectors – they are far more likely to be in Grade A space on the fringe where rental values are lower. The exceptions are support sector and creative tech which consistently choose Grade C stock, underlining the fact that these are highly price sensitive.

Figure 6.16 City fringe occupation using the occupier typology



Overall, the data demonstrate price sensitivity which, in turn, underscores the need for the City to constantly renew its stock and ensure an availability of different building types to ensure that occupation costs are kept relatively low.

6.6 Conclusions on clusters and diversity

- The City was, in previous years, more diverse than in recent times. A return to a more diversified base would not be a step into the unknown, but a return to a tried and tested understanding of what makes a business centre work.
- There is a balance to be struck between diversifying land use and maintaining the integrity of the business cluster.
- The work here demonstrates clearly that clusters are by no means permanent: they come and they go; they morph and move. One of the most iconic ex-clusters, of course, is the newspaper industry from Fleet Street.
- Two questions arise in terms of how the City will function in the future. First, will the current business cluster evolve to a more diverse set of land uses? Secondly, will the occupier ecology be broadened to a higher proportion of non-financial services?
- The City's pattern of land use has broadened in recent years. The overriding picture is of a diversifying City. The City has evolved from closing in the evenings and weekends to performing similarly to the remainder of central London – whilst retaining a very strong business cluster.
- Policies must seek to find a balance between the positive aspects of diversifying land use and maintaining the integrity of the business cluster.
- Broadening as well as deepening the City's occupier ecology is a positive step in terms of making it less vulnerable to downturn in a key sector. The key step,

as far as this work is concerned, is to maintain a diverse stock of accommodation.

- It is important above all, therefore, for the City of London to offer an appropriate stock of space. While continuing to provide high specification space for global companies, it is an important policy consideration to ensure that building diversity is maintained to support occupier diversity.

7.0 Conclusions and recommendations

This work has three main aims. First, to quantify and describe the breadth and depth of the City's office stock and how it caters for City occupiers, with an emphasis on smaller occupiers. Secondly, to describe the occupational profile of the City and how this has changed over recent years. Thirdly, to segment supply and demand in order to fully understand the capacity needed within the City to accommodate the needs of smaller office occupiers.

Recognising the critical economic linkages between firms located in the City of London and those just beyond the boundary in parts of the adjoining boroughs – the City fringes – we examined stock and occupiers there in the same way.

For the City of London we examined records on 1,283 buildings, adding up to 69.8 million sq ft, and comprising 3,627 occupational records. On the City's fringes we analysed an additional 1,729 buildings, 36 million sq ft and 3,281 occupational records. Not all smaller occupiers are small businesses: many are much larger businesses, occupying small units of space. We have referred to these occupiers in this report as SMOs: small- to medium-sized occupiers.

7.1 Main findings

Building stock - Smaller buildings in the City are concentrated in Conservation Areas as, unsurprisingly, are older buildings. These are often less flexible, lower quality buildings compared to modern Grade A space. The post-Big Bang development boom was overwhelmingly an outer core phenomenon, while more recent construction, post-1997, was focused in the inner core.

The number of buildings is evenly distributed between the size bands. As it is more normal to find a higher proportion of smaller buildings, this suggests a squeeze on smaller units. Over time the building stock has shifted towards larger units. Today, 65% of the City's office stock is in units over 100,000 sq ft, but of the stock built since 1997, 79% of it is in this size band. This reflects a response to market forces, with prevailing demand from large financial and professional services firms driving supply in a particular way.

Market forces are likely to continue to drive the building stock toward larger, more efficient (in space planning terms) units, in response to demand from well resourced, corporate occupiers. This being the case, and given the evidence in the report where the occupier profile is seen to be dominated by smaller occupiers, it follows that sub-divisibility is critical in larger buildings. Indeed, while overall two-thirds of the City's stock is in buildings over 100,000 sq ft, only one third of the occupied units exceed 100,000 sq ft, indicating that around half of the larger are split into smaller units of occupation.

The movement toward larger, more highly specified buildings, and the types of occupiers that they support, is a key part of the City's global role. But balance is crucial. And a vital ingredient of the City's ability to adapt to change has been the pool of smaller, simpler and lower cost buildings available to occupiers whose business models demand a more diverse stock of buildings.

A critical feature of the City fringe, both northern and southern, is that it contains a substantial stock of relatively inexpensive space with good access to the City. It should, however, be noted that a turnaround in values might tempt commercial developers to look at these areas for opportunities to create larger, Grade A, space. Recent activity also demonstrates the area's attractiveness to residential developers. Thus neighbouring boroughs experience similar commercial pressures to the City, and it cannot be assumed that the City fringe will continue to provide economic space.

Occupation - On the occupational side, we analysed twelve business sectors with significant presence in the City. The data verify that the occupier profile of the City is more diverse than is generally assumed. Inevitably perhaps, the global financial community is the dominant group, accounting for almost half of all the occupied space. But the other half of occupied space is spread between 11 business sectors, which contain a wide range of business types.

The business sectors are represented in occupational size bands in widely varying degrees. Thus, from the smallest (<5,000 sq ft) to largest (>100,000 sq ft) size band, the financial services share of occupation rises from 30% to 66%, while professional services rise from 14% to 23%. By contrast,electronics and services represent11% and 14% respectively of the smallest size band and 2% and 4% of the largest size band (see table 3.9a).

Further, there is a far broader distribution of occupier sectors amongst smaller occupiers. For example, financial services make up 48% of all space occupied but only 32% in units below 10,000 sq ft.

The statistical evidence presented here has described and quantified the City's diverse base of occupied units. One third of the City's floorspace is occupied in units of under 20,000 sq ft; a further third is between 20,000 and 100,000 sq ft.

Today, more than half of the City's occupiers (52%) are in less than 5,000 sq ft; 72% occupy less than 10,000 sq ft, and 86% occupy less than 20,000 sq ft (the picture would be even more marked if occupied units of less than 1,000 sq ft were included). By contrast, only 2% occupy units larger than 100,000 sq ft. This finding underscores the importance of the SMO economy. This comprises small and medium-sized occupiers (these might include small occupations by much larger organisations such as representative offices of overseas banks). The fact that so many occupiers are in small units of space underlines the importance of the City providing a wide range of building types, specification and cost.

While the amount of space occupied in units over 100,000 sq ft fell slightly from 35% of the total in 2005, to 33% in 2010, the amount of space occupied in units below 20,000 sq ft rose from 31% to 34%. This contrasts with the analysis of unit size of stock, which has shifted markedly towards larger units over the same period. Again these findings underscore the importance of the SMO economy and the possible squeeze on the type of space they need.

Whether the slight but perceptible shift to smaller units of occupation between 1995 and 2010 becomes a permanent feature of the market will become clear over time. Possible explanations include the moves of several large occupiers to Canary Wharf, but that would only explain the fall in the number of large units, whereas the fall was evident across all size bands. Alternative explanations are the potential impact of flexible working styles and higher occupational densities. It should be noted that the growth of the serviced office market might be disguising the number of smaller occupiers, which would mean that the shift might be greater than shown.

The picture in the City fringe is even more marked, with smaller occupiers dominating a market that has around one third of the floorspace of the City, although spread over a much wider area. It is in the fringe that office uses are most likely to come into conflict with other uses. This is because the values in the fringe (including those parts of it within the City boundary) make redevelopment as offices less economically appealing. At the same time values on the fringe currently attract the more price sensitive non-financial support users.

The use of stock - Property availability is not of itself a sign of market failure. It provides a reservoir of space that can be quickly taken up by occupiers, and it provides obsolete buildings which can be re-developed to provide new space for the market.

The availability of small as well as large units fluctuates wildly, but this fact is often lost in statistics because large units make up most of the square footage. Many smaller units offered to let are parts of larger buildings, and when the availability of large buildings falls, there will also be fewer smaller units offered.

Equally, as the letting market becomes more subdued, or as the economy forces occupiers to focus on costs, more small units are offered in the market. The important point here is that the availability of large and small units is not counter cyclical – the pressure points occur in the same timescale.

The availability of Grade A space is more volatile than either Grade B or Grade C space. This is explained by higher rates of turnover and the fact that more of it is new development and therefore fluctuates with the development cycle.

Availability in the City is currently running at around 12%, which is higher than the LOPR benchmark of 8%, below which rents tend to begin to rise. An availability rate above 8% offers occupiers a wider choice of accommodation and tempers rental growth pressure.

The conclusion from this analysis of availability patterns is that, on its own, availability is not a reliable indicator of medium- to long-term demand. Except in circumstances where a structural downshift in demand has occurred, the ebb and flow of the economic cycle will see demand follow a broadly similar pattern. It is not therefore appropriate to identify a high availability rate in the depths of an economic downturn, and conclude that the property is surplus to demand.

This point is illustrated by reference to the recession of the early-1990s. At this time the inner core of the City was perceived to be largely outdated with its many old banking halls and small quirky buildings, and experienced high levels of availability. In today's market, much of this space might have been targeted for conversion to other uses. This then could potentially have greatly weakened the business cluster with something akin to a doughnut effect. However, fifteen years on, most of it has been reabsorbed, redeveloped, and repurposed. It is important therefore to recognize that short-term market conditions are not an accurate guide to long-term demand. So, as we contemplate the future structure of the City's stock of offices we should consider the profile of demand from the SMO sector, as well as the potential for new or returning groups of occupiers.

The overriding point here is the need for the City to maintain a level of availability both to moderate rent levels but also to ensure the availability of a choice of buildings types and sizes for those occupiers wishing to take space within the City. There is a strong and continuing demand for all types of stock (given caveats over short-term rises in availability due to economic circumstances), including Grade C stock. Growing pressure on office stock in the City and City fringe (and elsewhere in CAZ) from residential developers will therefore raise the need to address the availability of affordable office stock through planning policy rather than leave it entirely to the market.

Business clusters and diversity - The City of London is the physical expression of a business cluster with, at its heart, the financial services industry. It is by no means the only cluster in London, and there are clusters within clusters. Moreover, clusters change over time; a key message here is that the cluster characteristics of the City today should not be regarded as something static and unchanging.

Within the City's finance-dominated economy there is diversity in business use. As we have shown, the City was previously more diverse than in recent times. A more diversified base in the future would not be a step into the unknown, but a return to a tried and tested economic ecology. However, there is a balance to be struck between diversifying land use and maintaining the integrity of the business cluster.

Two questions arise in terms of how the City cluster will change and develop in the medium to long-term. First, will the current business cluster broaden into a more diverse set of land uses? Secondly, will the occupier ecology widen to lesser the dependency on financial services?

The City's pattern of land use has broadened in recent years, and a critical driver in this process has been the changing expectations of City workers. Higher levels of disposable income, younger workers, and a more equal gender balance, have all driven demand for retail and leisure services. The City has evolved from closing in the evenings and weekends to one that performs similarly to the remainder of central London – whilst retaining a very strong business cluster. And it is this latter point that is crucial, because there is a balance to be struck between diversifying land use and maintaining the integrity of the cluster.

The City's office occupier ecology is vital to its long-term health. As with any ecosystem, diversity is a critical indicator of ability to withstand threats. Different sizes and types of occupiers undertaking a range of activities are essential for the overall functioning of the City. To succeed in this, the City needs to provide an appropriate quantum and range of accommodation types.

Broadening as well as deepening the City's occupier ecology is a positive step in terms of making it less vulnerable to downturn in a key sector. The key issue as far as this work is concerned, is the maintenance of a diverse stock of accommodation. The types of companies widely referred to in discussions about broadening the City's occupier base tend to favour lower specified, cheaper and more flexible space, at least for SMOs. This is not true for all, but a representative generalisation.

7.2 Residential Development

This study comes at a time of important reforms to the local planning system, one of the objectives of which is to address the persistent under-supply of housing in London and the South East. One such measure which is potentially of high relevance to the future of the City's office stock is the forthcoming introduction of permitted development rights for the conversion of offices into housing (subject to an opportunity for local planning authorities to apply for an exemption on the basis of the exceptional circumstances), as set out in a Written Statement by the Secretary of State on 24th January 2013.

Given the high residential values currently seen throughout central London, the extension of these rights to the City would give rise to a real possibility that the City would see some shift from commercial stock to residential use, restricting its ability to make provision for a changing occupier base and provide for future growth.

Further, any reduction in supply will lead to pressure for rental growth. To create and nurture a diverse and dynamic business ecosystem, the City needs to expand its property offer without causing unsustainable price (rental) inflation.

The most likely outcome of relaxed change of use rules is that residential land values will exceed other uses in the absence of planning control for a period of time until commercial land values are driven upwards by the loss of employment space. At this stage, it will not be possible to reclaim commercial land use from residential. Once in residential use, it is difficult to revert because single residential developments are generally being sold to multiple individuals who will buy leases of 99 years or more.

Figure 7.1 shows data, published in the London Office Policy Review 2012, summarising the loss of London office floorspace to residential use between 2009 and 2012. Over 1,100 schemes were completed and/or started, leading to the loss of almost 11 million square feet of office floorspace. The raw data evidence the pressure of market forces in recent years expressed as demand for residential stock. By extension, the data also point to the need for planning to encourage a balance in market activity such that supply and demand do not work to the short-term detriment of any particular sector.

Figure 7.1 London office floorspace losses, 2009-2012

Stage	No of sites	B1 floorspace losses (sq ft)	Residential units
Completed	767	5,444,431	11,400
Started	379	5,544,536	13,200
Not started	1,019	7,047,190	14,400
Total	2,165	18,036,158	39,000

Source: London Development Database, cited in LOPR 12

This study has provided data illustrating the heterogeneous and interlocking nature of the City's business ecology, and the diverse range of office stock supporting this. The data has also illustrated the extent to which smaller and lower grade stock is an integral part of this eco-system, underpinning the viability of the City as a business centre. If, for any reason – including a shift to residential use – there were to be a disproportionate loss of a particular type of office stock in the City, this would have an impact throughout the broader business ecology, for example by reducing the diversity and adaptability of the market.

7.3 Policy implications and recommendations

We summarise below a number of high level policy implications to emerge from our analysis.

- The study has verified the scale of the SMO market in the City. The evidence has brought into sharp focus the need to continue to provide a range of building types in terms of size, specification and cost, to accommodate this dynamic group of occupiers.
- Our analysis of the City fringe demonstrates the critical role that the area performs in terms of providing smaller, cheaper and less highly specified units for firms that are economically linked to firms in the City.
- Availability of stock is an important element in offering occupiers choice and developers new opportunities; it is not a precise indicator of the health of a market. Policy should therefore recognise that a certain level of availability is important to the efficiency of the market, and for providing opportunities for occupiers for whom economic space is an important operational need.
- The strength of the City cluster as a whole, and the sub-clusters within it, is very clear. There is little evidence to suggest that this will change in the medium-term. As land use diversity in the City increases it will be crucial that a balance is struck between diversifying land use and maintaining the integrity of the cluster.
- At the same time the occupier ecology of the City has begun to diversify and this is a welcome trend in terms of bringing the City greater economic resilience. To support a wider range of occupiers, appropriate premises will need to be available for a wide range of occupier needs.