Core Strategy Review: Enterprise

Issues and Options

November 2014
We are consulting on the Enterprise Core Strategy Issues and Options from 4th November to 16th December 2014.

You are encouraged to use the Council’s consultation portal to make any representations you may have. This can be accessed on the Council’s website, by clicking this link, or copying it in to address bar of your browser.

https://planningconsult.rbkc.gov.uk/consult.ti/EnterpriseIO/consultationHome

The Council would also welcome your comments by email. Please mark them Enterprise Issues and Options Response, and email them to planningpolicy@rbkc.gov.uk.

If you would like to send your comments to us as a hard copy you can do so by writing to

The Executive Director, Planning and Borough Development, f.a.o The Policy Team, The Royal Borough of Kensington and Chelsea, The Town Hall, Hornton Street, London W8 7NX
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1.0 INTRODUCTION AND SCOPE OF REVIEW

Review of the Core Strategy

1.1 The Council adopted its Core Strategy in December 2010. This is a document which looks ahead to 2028 and sets out where new development should be located, the nature of this development and what uses should be protected. It forms the basis for determining both planning applications and planning appeals.

1.2 Central to the planning system is the need for planning documents to be relevant and up-to-date. Accordingly, the Council is carrying out a partial review of a number of strands of its Core Strategy. The intention of this document is to start the review of those policies which relate to offices, light industrial and other “B Class uses”. It also considers how the Council will consider hotels and hotel bed spaces in the future. These policies are contained within Chapter 31 of the Core Strategy, Fostering Vitality and “saved policies” from chapter 6 the Council’s Unitary Development Plan. All the relevant policies have been included in Appendix A.

1.3 The Council intends to start the review of the boundaries of the Borough’s town centres in 2015.

1.4 The Council did publish an initial Issues and Options document for the Enterprise policies at the end of 2012. However, the review was put on hold at the beginning of 2013 when the Council learned that the Government would be consulting on re-writing planning regulations to allow offices to change to residential without the need for planning permission.

1.5 The review has re-commenced following confirmation that the Royal Borough gained an exemption from these changes. The Council has decided to draft a new Issues and Options paper so that it can reflect both the emerging evidence on these matters and the Council’s current thinking.

1.6 This consultation runs from 4th November to 16th December 2014. Details are available in the planning policy pages of the Council’s website.

1 RBKC, Unitary Development Plan, Adopted May 2002.
2 https://planningconsult.rbkc.gov.uk/consult.ti/EnterpriseReview/consultationHome
3 https://planningconsult.rbkc.gov.uk/consult.ti/EnterpriseIO/consultationHome
The purpose of this document

1.7 The purpose of the Issues and Options document is for the Council to set out what it considers to be the main issues which relate to the ‘enterprise’ policies and to ask how these may be effectively addressed.

1.8 Please note that the issues and options raised may not be exhaustive. Consultees are encouraged to raise any further comments as they see fit, and offer other alternative solutions.

1.9 In addition to this document, the other key documents which are being published as part of this consultation are:

- Commercial Property Study, Peter Brett Associates, 2013
- Office Market Review and Viability in RBKC, Frost Meadowcroft, 2014
- Sustainability Appraisal Stage A Scoping Report, Enterprise Review, RBKC, September 2014
- Initial Draft Sustainability Appraisal Stage B Report, Enterprise Review, RBKC, November 2014
- Initial Draft Equalities Impact Assessment (EqIA), Enterprise Review, RBKC, November 2014

Sustainability Appraisal and Duty to Cooperate

1.10 In September 2014, as part of ‘Stage A’ of the sustainability appraisal process⁴, the Council drafted a scoping report, setting out the scope and the level of detail to be included in the future sustainability appraisal. We consulted the “consultation bodies”⁵ on whether they agreed the scoping report was appropriate, or whether the process could be altered to make it more effective.

1.11 As part of this consultation, the Council also asked neighbouring local planning authorities and the “prescribed bodies”⁶ for the purposes of the Duty to Cooperate to comment on the scope of the review. In particular they were asked whether this Council should have regard to any particular plans or strategies; whether the review was a “strategic matter”; and whether the Council needs to carry out any joint consultations or prepare any joint plans. The intention was that the Council starts to consider its duty to “engage

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⁴ Paragraph 013, NPPG, SEA & SA, DCLG, March 2014
⁵ R4(1) The Environmental Assessment of Plans and Programmes Regulations 2004; paragraph 015, NPPG SEA & SA, DCLG, March 2014
⁶ S33A(1) Planning and Compulsory Purchase Act 2004 (as inserted by S110 Localism Act 2011)
constructively, actively and on an ongoing basis”⁷ at the very beginning of the process.

1.12 This ‘Stage A’ scoping report, including the requirements under the Duty to Cooperate can be viewed on the Council’s website.

1.13 The Council has also drafted an initial ‘stage B’ report as part of the sustainability appraisal process in conjunction with the drafting of this Issues and Options report. The intention is to “develop and refine alternatives and assessing effects.”⁸ This is also available on the Council’s website. This includes the assessment of a number of reasonable alternative options.

1.14 Any comments on either the scope (stage A of the assessment) or the stage B process are welcomed and may be considered as part of the SA report.

**Equalities**

1.15 The Council has also drafted an initial Equalities Impact Assessment (EqIA) which concludes that the Council’s ambitions for both business floorspace and hotels not have “a significant negative impact.” This will be explored in more detail as the options are narrowed down and a draft policy is published. Comments are also welcomed on this document which is available on the Council’s website.

**Next steps**

1.16 Following this consultation the Council will publish draft planning policies. The Council’s intention is that these will be consulted on in the spring of 2015. The Council will take account of representations received before drafting the ‘publication’ policies for ‘soundness’ consultation in summer 2015, which are intended to be submitted to the Planning Inspectorate for examination. This examination later in 2015. The timing of all the stages will be published on the planning consultation pages of the Council’s website in due course.

1.17 A full sustainability appraisal report will be prepared and consulted upon alongside the ‘publication’ policies.

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⁷ S33A(2)(a) and paragraph 001 NPPG Duty to Cooperate, DCLG, March 2014
⁸ Paragraph 013, NPPG, SEA & SA, DCLG, March 2014
2.0 BUSINESS USES: THE CURRENT SITUATION

Legislative and policy context

National

2.1 The National Planning Policy Framework (NPPF)\(^9\) states that, as part of sustainable development, the planning system has an “economic role” which involves “contributing to building a strong, responsive and competitive economy, by ensuring that sufficient land of the right type is available in the right places and at the right time to support growth and innovation...” (paragraph 7). The NPPF states that local planning authorities should “plan proactively to meet the development needs of business and support an economy fit for the 21\(^{st}\) century” (paragraph 19). Amongst other requirements, the NPPF states that “Policies should be flexible enough to ... allow a rapid response to changes in economic circumstances” and suggests that local planning authorities should “plan positively for the location, promotion or expansion of clusters or networks of knowledge driven, creative or high technology industries” (paragraph 21). The NPPF also states that “Planning policies should avoid the long term protection of sites allocated for employment use... Land allocations should be regularly reviewed” (paragraph 22).

2.2 National Planning Practice Guidance (NPPG) on Economic Development Needs Assessments\(^10\) and Economic Land Availability Assessment\(^11\) offer guidance to support local planning authorities on assessing the need for economic development. It recognises that need can be both qualitative and qualitative in nature, (paragraph 2) and stresses the importance of a robust, yet proportionate, evidence base (paragraph 5).

2.3 NPPG on Ensuring the Vitality of Town Centres\(^12\) states that local planning authorities should plan positively to support town centres to generate local employment,... and create attractive, diverse places where people want to live, visit and work” (paragraph 1). It supports a town centre first approach to all town centre uses. Whilst primarily the A class retail uses, these also include office and other business uses\(^13\).

\(^9\) NPPF, DCLG, March 2012
\(^11\) NPPG: Housing and Economic Land Availability Assessment, DCLG, March 2014
\(^12\) NPPG: Ensuring the Vitality of Town Centres, DCLG, March 2014
\(^13\) NPPF, DCLG, March 2012 (Annex 2)
2.4 The Government has recently finished consulting on its “Technical consultation on planning.” This is a wide ranging document suggesting a liberalisation of the planning regulations. Of direct relevance to the Enterprise Review is the suggestion that planning permission will no longer be required for changes of use from light industrial, warehousing and office uses to residential. This has the potential to have a fundamental impact on the ability of the Council to protect the business uses that it so values.

2.5 At this stage, the Council cannot second guess how the Government may react to concerns expressed with these proposals. An up-to-date and robust policy will, however, be essential for the three most likely scenarios:

- The Government may abandon the proposals, and a suite of relevant policies will be required as they are at present.

- The Government may replace the current need for planning permission with a system of “prior approval.” In essence the Council will only be able to assess the suitability of a proposal on certain criteria set out in the regulations. This may include the impact that the proposal has on strategic concentrations of business uses, as well as possibly local concentrations. Adherence to the newly-formulated Enterprise policy could form part of this assessment.

- The Government may liberalise the system and not include an adequate system of prior approval to allow a LPA to safeguard its employment land. In these circumstances, the Council may consider using Article 4 directions to remove the newly-created permitted development rights. These could potentially be used on a borough-wide or a more spatially-limited basis. The newly-drafted policies can both help shape the nature of any Article 4 directions as well as providing the policy framework for those applications which are received as a consequence of the Article 4 direction.

2.6 The nature of the Council’s emerging Enterprise policies will be shaped by the route that the Government and the Council chooses to take.

London

2.7 Chapter 4 of the London Plan sets out the policies by which the Mayor wishes to shape London’s economy. There are two main

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14 Technical Consultation on Planning, DCLG, August 2014
objectives: to ensure that London is a city that meets the challenges of economic and population growth; and that London remains an internationally competitive and successful city. Of particular relevance to this review are policies 4.1, 4.2 and 4.3. Boroughs are urged to “meet the distinct needs of the central London office market” (Policy 4.2: Offices) and to “promote and enable the continued development of a strong, sustainable and increasingly diverse economy, ensuring the availability of sufficient and suitable workspaces....” (policy 4.1: Developing London’s Economy).

2.8 These ambitions are reflected with the Further Alterations to the London Plan, currently being examined. The Mayor of London’s SPG concerning Land for Industry and Transport SPG, GLA, September 2012 also offers useful guidance on how Boroughs should consider making use of industrial land.

Local

2.9 Existing Core Strategy policies and relevant policies from the Unitary Development Plan are set out in Appendix A. These provide the basis by which a generally restrictive approach to the loss of business floorspace is taken.

Business uses within the Royal Borough

2.10 The Borough’s stock of business premises is under considerable pressure from residential uses, a pressure driven by the differential in value between business and residential uses. The vibrancy of the office sector, with low vacancy rates and healthy returns would mean little when compared to the opportunities to increase value through conversion to residential.

2.11 The threat to the Borough’s stock of business premises was quantified in 2013. Without any policy protection for business uses, the Council estimated that 1,200 firms would be at a high risk of loss. These firms employ some 7,000 people and have a Gross Value Added (GVA) of £560 million. A further 1,100 firms employing 3,300 people with a GVA of £350 million lie in properties considered to be at a medium to high risk of conversion.16

15 Land for Industry and Transport SPG, GLA, September 2012

16 Impact of proposed changes to permitted development rights for Kensington and Chelsea for RBKC, TBR, 2013
2.12 Given the differential in value across the Borough, the threat is not merely limited to a few central areas. The map showing properties at risk is reproduced in figure 2.1 below.

2.13 The existing office (B1(a)) floorspace is estimated to be approximately 718,000 sq m\textsuperscript{17}, some 4,000 firms, or 23% of the Borough’s stock. It employs an estimated 20,300 people, which represents 17% of all employment in the Borough\textsuperscript{18}.

\textsuperscript{17} Office Market Review and Viability in RBKC, 2014, Frost Meadowcroft
\textsuperscript{18} Impact of proposed changes to permitted development rights for Kensington and Chelsea, TBR, 2013
2.14 The office market in Kensington and Chelsea forms the western fringe of the West End Office market, part of the wider Central London market. Its profile varies across the Borough. It provides a mix of stock from small mews style office buildings to larger purpose built office developments or converted warehouses in the core commercial clusters.

2.15 The Borough has a full cross section of business types. However, in the same way as the City of London is known for its financial and insurance services, so Kensington is known for its music, fashion and creative businesses. Some of these are of national and international significance. The Borough is, for example, home to the four major record labels, some 400 associated independent studios and production facilities, providing an estimated 28% of all the country’s employment in the music publishing sector.\(^\text{19}\)

2.16 The light industrial and warehousing sector is much smaller in scale, estimated by the Valuation Office\(^\text{20}\) to be some 66,000 sq m. Much of this constitutes studios and hybrid workshop/office uses, rather than traditional factories, workshops or warehouses.\(^\text{21}\)

**Demand for offices, both current and future**

2.17 The attractiveness of the Borough as an office location is reflected by both the healthy rental levels achieved across most of the area, and by the extremely low levels of office availability. In the first quarter of 2014 the availability rate was just 3.4\(^\%\)\(^\text{22}\) (see Figure 2.2), lower than that of the West End at 3.6\(^\%\). This is less than half level usually considered to be accounted for by natural churn.

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\(^{19}\) *ibid*

\(^{20}\) Office Market Review and Viability in RBKC, Frost Meadowcroft, 2014. This is based on the most recently published figures from the VOA, from data collected in 2010

\(^{21}\) RBKC Commercial Property Study, Peter Brett Associates, 2013

\(^{22}\) Office Market Review and Viability in RBKC, Frost Meadowcroft, 2014
2.18 Macro forecasting carried out on behalf of the GLA\textsuperscript{23}, and fine tuned for this Borough\textsuperscript{24}, concludes that there is a demand for approximately 2,500 sq m of additional office floorspace per year over the plan period, or 50,000 sq m to 2031. On the supply side, the development pipeline for offices amounts to some 30,000 sq m leaving a further 20,000 sq m to be found through smaller windfall sites.

2.19 Whilst not a ‘target’ in the way that the GLA’s housing figures are, the Council recognises that there are considerable benefits associated with the creation of new business floorspace. As such the Council wants to see this demand met as far as is practicable.

2.20 Whilst the nature of both the office supply and the demand may change over time, the conclusions of subsequent studies remain consistent. There is not enough supply to accommodate the levels of demand.\textsuperscript{25}

The differential in value of housing and office floorspace

2.21 Kensington and Chelsea contains a significant proportion of London’s prime housing market, with a strong and seemingly

\textsuperscript{24} RBKC Commercial Property Study, Peter Brett Associates, 2013
\textsuperscript{25} Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
insatiable demand for housing across the Borough. This demand drives up the values that can be achieved for residential development, creating a notable differential in value between residential and almost all other uses.

2.22 If business uses were allowed to covert to residential without control, increases in the value of floorspace of more than 100% could be expected across the Borough. In many areas this uplift in value would be considerably higher. With an increase in value of just 40% making a “compelling financial case for residential conversion” a robust position must be taken if a large proportion of the Borough’s business space is not to be lost. However, there may be ways in which the differential in value may be turned to the area’s advantage; it may provide opportunities to increase the value of a site and to bring forward viable mixed used development which may otherwise not be forthcoming.

Viability

2.23 The Council remains committed to protecting its remaining stock of business premises. The NPPF is clear: protection cannot be supported for its own sake, but only when there is a realistic prospect of that land being used for what it has been safeguarded for (paragraph 22).

2.24 To inform this policy approach, the Council has commissioned two studies to consider the viability of the employment sector in different parts of the Borough. Both are available on the Council’s website.

2.25 Each takes a slightly different approach. The Council’s Commercial Property Study, undertaken by Peter Brett Associates (PBA) and published in 2013, considers each of the main office locations in turn; the amount of office floorspace provided, the vacancy rates and the rental levels achieved. A brief summary of the conclusions for each area is set out in Table 2.1 below.

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26 Office market commentary in Kensington and Chelsea, Frost Meadowcroft, 2013
27 ibid
28 RBKC Commercial Property Study, Peter Brett Associates, 2013
<table>
<thead>
<tr>
<th>Town Centre</th>
<th>Office floorspace (sq m)</th>
<th>Vacancy rate</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kensington High Street</td>
<td>130,000</td>
<td>2%</td>
<td>The area’s office stock is well occupied and financially healthy.</td>
</tr>
<tr>
<td>Notting Hill Gate</td>
<td>16,000</td>
<td>9.5%</td>
<td>Existing offices are in demand and viable</td>
</tr>
<tr>
<td>Knightsbridge</td>
<td>20,400</td>
<td>9%</td>
<td>Knightsbridge is a tight office market. The viability of both existing offices and new office development is high.</td>
</tr>
<tr>
<td>King’s Road</td>
<td>37,250</td>
<td>2%</td>
<td>The stock is financially viable, well occupied and suitable for the market it serves.</td>
</tr>
<tr>
<td>South Kensington</td>
<td>40,000</td>
<td>1%</td>
<td>Vacancy is very low and rents are high. Maintaining the existing stock is financially viable.</td>
</tr>
<tr>
<td>Earl’s Court</td>
<td>11,400</td>
<td>13%</td>
<td>Earl’s Court as a very secondary office location. There is no huge demand for the current accommodation in this area as the location is marginal compared to others.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Zone</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latimer/Freston Road</td>
<td>27,500</td>
<td>4%</td>
<td>The office market is tight, with high occupancy and high rents.</td>
</tr>
<tr>
<td>Kensal</td>
<td>12,700</td>
<td>7.5%</td>
<td>Well occupied and financially viable.</td>
</tr>
<tr>
<td>Lots Road</td>
<td>32,000</td>
<td>2%</td>
<td>Very well occupied, useful and financially viable. No indication that any of it is surplus to requirements.</td>
</tr>
</tbody>
</table>

Table 2.1: Nature of office market in The Royal Borough of Kensington and Chelsea


2.26 PBA concludes that “the bulk of the space provided in the Employment Zones and town centres is fit for purpose .... the space is well occupied and well maintained and achieves sustainable rent levels.” It does, however, point to two exceptions, the north of the Latimer Road/ Freston Road Employment Zone and the existing offices at Earl’s Court. They were of the view that as of March 2013, the Latimer Road area required further investment if viability was to be ensured.

2.27 A second report, an Office Market Review undertaken by Frost Meadowcroft, was published in August 2014, a year further into the economic recovery, concentrates on the viability of bringing office premises up to modern standards. It looks at the various sub-

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29 Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
markets with the borough and the different types of property within these sub areas. It then makes an assessment as to the viability of the business uses using an “investment value appraisal”. This assessment concludes that in all the properties assessed, the “property benefitted from a net increase in asset value after allowance for associated costs”, were the business floorspace to be brought up to modern occupier standards.

2.28 The study also considered the viability of the investment required in cash terms to bring the property up to the necessary standards. The investment was taken to be viable where the uplift in value was likely to be greater than 10% of the capital employed. A summary of the conclusions are included in table 2.2 below.

<table>
<thead>
<tr>
<th>Mixed use</th>
<th>Purpose built (under 3,000)</th>
<th>Purpose built (over 3,000)</th>
<th>Converted buildings</th>
<th>Warehousing/light industrial</th>
<th>Serviced offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Kensington</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
<td>Viable</td>
<td>Viable</td>
</tr>
<tr>
<td>Notting Hill</td>
<td>Marginal</td>
<td>Marginal</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>Kensington</td>
<td>Viable</td>
<td>Marginal</td>
<td>Marginal</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>Earl’s Court</td>
<td>Viable</td>
<td>N/A</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>South Kensington</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>Knightsbridge</td>
<td>Viable</td>
<td>Marginal</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>Chelsea</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
<td>Marginal</td>
</tr>
<tr>
<td>Latimer EZ</td>
<td>N/A</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
<td>Viable</td>
</tr>
<tr>
<td>Lots Road EZ</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Viable</td>
<td>N/A</td>
</tr>
<tr>
<td>Kensal EZ</td>
<td>Viable</td>
<td>Viable</td>
<td>N/A</td>
<td>Viable</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 2.2: Summary of viability of B class uses in RBKC
Source: Office market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014

2.29 Each study reaches the same broad conclusion, that the office market is vibrant and there is no reason to believe that the Borough’s main office locations are intrinsically unviable for continued office use. There are, however, small pockets within the Borough where the market is less robust or where encouragement is needed if future refurbishment is to come forward.

2.30 The Council does, however, recognise that these studies are intended to give an broad overview. They do not presume to take a definitive view on the viability of each individual property across the Borough.
3.0 B CLASS BUSINESS USES: THE ISSUES AND OPTIONS

3.1 The differential in value between business and residential uses will be the key issue which must be considered when drafting a suite of policies which relate to business uses. It is this differential in value that both drives the pressure on existing business uses and which puts a break on the provision of any new business floorspace, but could also provide opportunities for mixed use development.

3.2 Within this context, the Council has identified three key questions to start to inform a future policy:

- What planning policies should the Council adopt which will help to bring forward new business development?
- What planning policies should be adopted which will protect the premises used by the business sector and improve the nature of the premises available?
- What, if any, spatial policies should the Council adopt in respect of business use?

3.3 Each will be considered in turn. The Council has identified a number of possible answers, or options. These may not be exhaustive, and consultees are encouraged to identify others where appropriate. The possible options are not necessarily mutually exclusive.

Q1 What planning policies should the Council adopt which will help to bring forward new business development?

3.4 Whilst the Borough is home to a vital and vibrant business sector the Council recognises that it has proved a challenge to bring forward the floorspace that would be needed if the Borough is to play its full part within the regional economy. Despite the introduction of a more positive approach with the Core Strategy, the Council continues to fall behind its nominal ‘target’ of providing 2,500 sq m of additional business floorspace each year.\(^3^0\) The net change of floorspace granted permission since 2010 is set out in table 3.1 below.

\(^3^0\) Policy CP1 of the Core Strategy sets a nominal target of the provision of 60,000 sq m of additional office floorspace between 2010 and 2028, or 2,500 sq m pa.
Q1.1 Option one: The Council should require business floorspace to be provided as part of new large scale residential developments.

3.5 Whilst the planning system should not place so many demands on a proposal as to render it unviable there may be an opportunity to use some of the uplift in value associated with residential development for the wider public benefit. The Council could choose, for example, to require the provision of an element of business floorspace within any new large residential scheme.

3.6 Whilst such an approach would not be appropriate in all circumstances, there is no reason in principle why a large mixed use residential led proposal cannot function effectively. This is a common and a successful model across the capital.

3.7 The provision of business floorspace will have an impact on the overall viability of a scheme and as such the Council will have to decide upon its priorities. Would it rather see a scheme make a full contribution to affordable housing, or to provide for the needs of the business sector? Should different approaches be taken for different parts of the Borough?
Q1.2 Option two: The Council should support the loss of employment floorspace in one building as long it is being re-provided elsewhere in the Borough.

3.8 Although small in size the value of land does vary considerably across the Borough. There are, therefore, opportunities for value to be released by freeing up a land use within a high value area and re-providing it elsewhere.

3.9 There are benefits associated with this approach. The release of value can help deliver development which would otherwise be unlikely to come forward. A flexible “off-setting” approach could see increases in both the quantum and the quality of the business floorspace and could help enable the provision of premises of the type and a scale that meets the particular needs of the Borough’s market.

3.10 Such an approach would not be without its costs. Much of the strength of the Borough’s business sector lies in its diversity – diversity in terms of its location and in terms of the range of premises available. Support for a programme of relocation would be likely to reduce this diversity. It would be likely to result in a migration of business uses from the high value, accessible town centre locations to the lower value peripheral areas.

Q1.3 Option three: The Council should be prescriptive and require the provision of those particular types of unit which would meet the specific demands of the Borough’s office sector.

3.11 Supporting the Borough’s business sector can go beyond merely retaining floorspace and premises. It can also include helping shape the nature of the new premises that are provided.

3.12 Local agents have looked at the Borough’s office requirements in some detail. There is a need for all sizes of premises. Whilst the most common requirement size is 200-500 sq m (38% of all potential occupiers) the larger premises are also in great demand. 28% of potential occupiers seek premises of more than 1,000 sq m. In terms of volume this equates to some 68% of all the floorspace required.31 These conclusions would be supported by PBA who noted in 2013 that the “greatest opportunities [within the business sector for the Borough] would result from development of iconic buildings with large footplates that can attract creative corporates.”32

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32 RBKC Commercial Property Study, Peter Brett Associates, 2013
3.13 Two approaches can be taken to this. The Council can either rely on the market to provide the right type of premises in the right location; or it can be more prescriptive and try to second guess the sector’s requirements.

3.14 The Council has been taking a light touch to try to encourage the creation for any new office floorspace, and has rarely been prescriptive as to the nature of new business floorspace which has been provided. Perhaps unsurprisingly, where new business floorspace has been built it does tend towards the large units. These are the units which are normally of the highest value and which command the highest rents. These units have been successfully let (in some case pre-let) and now support the businesses which contribute to the Borough’s economy.

Q2 What planning policies should be adopted which will protect the premises used by the business sector and improve the nature the premises available?

3.15 With the exemption to the government’s freeing-up of planning regulations the Council still has the ability, through its planning policies, to protect the Borough’s business premises. Notwithstanding the future uncertainty associated with additional reform, the Council must ask whether a future policy should be concerned solely with the quantum of floorspace being provided or with its nature and its quality?

Q2.1 Option One: The Council should take a flexible approach and allow changes of use between the B class uses.

3.16 Currently the Core Strategy protects both office and industrial uses and, where planning permission is required, will resist changes of use from one to another as well as to non-business uses.

3.17 This approach reflects the value traditionally given to light industrial uses in providing for the employment needs of the less skilled. This is an approach supported by the GLA’s classification of Kensington and Chelsea as a “restricted transfer borough” for industrial land. This encourages the Borough to “adopt a more restrictive approach to the transfer of industrial sites to other uses…”

33 Under the provisions of the General (Permitted Development) Order, planning permission is not normally required for changes of use between light industrial (Class B1c(c)) and office (Class B1(a)) uses. Similarly permission is not required for changes of use of general industrial uses (Class B2) to any Business (Class B1) use.

34 The London Plan, Policy 4,4Bc and Land for Industry and Transport SPG, GLA, September 2012
3.18 However, the various B class uses are becoming increasingly difficult to distinguish from each other. Very few general industrial uses remain, whilst little of the B1(c) floorspace which does remain is light industrial in the traditional sense. It is more often occupied as flexible studio or hybrid space used by the creative industries.

3.19 The Council could support a more liberal approach to changes of use between the different B classes. This would allow the market to provide the type of business use as it sees fit, but with a presumption against the loss of any B1 floorspace. Such an approach would protect B class uses from changing to residential, (the main pressure) but would directly support the NPPF’s ambition for policies to be flexible in response to changes in economic circumstances.

3.20 Such a more liberal approach would allow owners to increase the value of property, and therefore be more likely to bring development forward.

Q2.2 Option two: The Council should seek to protect warehousing within the Borough.

3.21 There may be pressure on some of our stock of smaller offices through a transitional use as a warehouse (Class B8 use). The Government recently raised the threshold by which changes of use from B1 business to B8 warehousing may take place without planning permission, from 235 sq m to 500 sq m. The Core Strategy currently has no policies which explicitly resist the change of use from B8 to residential. Consequently the Government’s change has created a route by which premises can move from B1 business to residential use.

3.22 The Council recognises that there will be an erosion of both the Borough’s B8 and the wider B class stock if its policies remain silent on the matter.

Q2.3 Option three: The Council should support a loss of business floorspace on a site where that which remains is of a better quality, or of a nature better suited to the local market.

3.23 For an owner of a commercial property, to spend the money necessary to refurbish that property to a modern standard suitable for the tenant market, the return on the capital employed must be
such that it is worthwhile. This “trigger” has been taken to be a gross yield of 10%.\(^{35}\)

3.24 The “viability” of refurbishment will vary by area and by the type of property. This has been considered in more detail in section 2 above. This concludes that in most circumstances there is no reason to believe that a reduction in the amount of business floorspace (and the associated introduction of higher value uses) will be necessary for the ongoing upkeep of a property.

3.25 This is not to say that it would not be appropriate for the Council to choose to take a more flexible approach. It could, irrespective of viability, support proposals which result in the creation of better quality accommodation, even if this is at the expense of the amount of floorspace being provided.

Q2.4 Option four: The Council should promote the creation of new districts - to attract innovative, creative, and growing businesses. If so, where would they be most appropriate and what policies could enable them?

3.26 Rather than supporting the piecemeal creation of new business floorspace, the Council could take a more ambitious approach and to promote clusters of business hubs and offices mixed in with retail, leisure and residential uses.

Q2.5 Option five: The Council should normally resist the replacement of floorspace in basements and other sub-optimal areas.

3.27 Under the current provisions of the Core Strategy, proposals for the redevelopment of buildings which include existing business floorspace have to include the re-provision of this floorspace. This provides an opportunity to tailor the provision to meet the needs of the local market. However, there has been a tendency to see some of the re-provision to be within newly-created basements and within other less than optimal locations.

3.28 In larger self-contained buildings or where occupiers have multiple floors in a building, basement accommodation can offer a cost effective solution for the location of archiving, IT and server rooms, meeting or presentation rooms that do not require natural light. However, this will not be the case in most circumstances for smaller occupiers. Restrictions on access, on natural light and the flexibility

\(^{35}\) Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
of floor plates can make basement offices significantly harder to let than premises on the ground or the upper floors. Many occupiers will decline to consider offices on basement level even if they are well specified. Rental values reflect these difficulties, usually being between 40% and 60% of that provided on the upper floors.

3.29 The Council may take the view that the replacement of existing business floorspace with such “sub-optimal” floor space is not appropriate.

Q2.6 Option six: the Council should allow the loss of office floorspace when the loss is to a social and community uses and/or to affordable housing, or where the uplift in value is used to gain other significant local benefits.

3.30 Whilst the Council intends to maintain the provision of the premises required by its business sector, this review offers the Council the opportunity to question whether it remains appropriate to support the protection of business accommodation above all other uses.

3.31 The practicalities of the Borough’s property market means that little non-market residential development comes forward unless required by planning policy. This is to the detriment of the Borough as it is such development which can add to its diversity, its interest, and to the effective functioning of the area. As such a policy relaxation which supports changes of use from offices to other uses with a similarly sub-optimal financial value could have considerable benefits.

3.32 In practice there are two principal uses which could fall into this category; social and community uses and affordable housing. The Council could develop a policy which allows the creation of these uses even if is at the expense of business floorspace.

3.33 Similarly, the Council could take an approach whereby it could support the loss of business floorspace if the uplift in value associated with its loss were used to finance, for example, improvements to the public realm and/or local infrastructure.

Q2.7 Option seven: The Council should allow the loss of business floorspace when lying within otherwise residential buildings.

3.34 The Council currently protects office floorspace irrespective of the nature of the property in which it lies. This approach is intended to recognise the potential that any floorspace has to make a positive contribution to the Borough’s economy.
3.35 Whilst there is no evidence to suggest that businesses premises in any type of property are inherently unviable the Council could take the view that better use could made of business premises in certain buildings. For example, would it be appropriate to allow changes of use of small office premises when these lie within otherwise residential properties?

3.36 Such “hidden” uses add little to the character of an area and have the potential to contain activity one would not expect within a residential block. In addition, the benefits to the Borough’s housing stock of allowing the loss of such units would not be insignificant. Would these benefits outweigh the negative impact upon the local economy?

3.37 This expands the position within the Core Strategy which already sets out a number of circumstances where loss of office floorspace may be acceptable.

Q2.8 Subject to changes to national legislation proposed by the government, should the Council seek to require planning permission for changes of use from business uses to residential uses? If so, are there any particular areas or business sectors this should consider?

3.38 The Government’s “Technical consultation on planning” proposes permitted development rights for changes of use from business uses to residential uses (i.e. removing the need for planning permission in most circumstances). This would mean the Borough’s current exemption from such permitted development rights would no longer apply. However, the consultation document states “if there are local concerns in respect of amenity and the wellbeing of the area, local planning authorities can consult with the community about whether there are circumstances that merit the withdrawal of permitted development rights in an area, using Article 4 directions” (para.2.21).

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36 Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
37 The Frost Meadowcroft report, 2014, notes that 16,800 sq m of office floorspace lies within mixed use office/residential buildings, or just 2.6% of the total. However, as only commercial properties with a floorspace greater than 300 are considered this is likely to be an underestimate. It is the smaller units which often lie in otherwise residential properties.
38 The exceptions are set out in Core Strategy CF5. They include larger offices in less accessible areas; changes of use to retail and other town centre uses when within a town centre; and when lying within an Employment Zone to a use which supports the function of that zone.
Q3 What, if any, spatial policies should the Council adopt in respect of business use?

3.39 The Council may wish to take a different spatial approach to its business uses. It may wish to release employment land in those areas where ongoing office uses may be marginal, and support retention in those areas of greatest demand. It may wish to direct different types of business floorspace to different areas.

Q3.1 Option one: The Council should take a different approach for business uses within town centres than elsewhere.

3.40 The larger town centres remain the focus for office development across the Borough. This reflects the historic pattern of office uses being concentrated in otherwise commercial areas within the most accessible parts of the Borough.

3.41 Whilst the nature of the office stock does differ by town centre it generally commands rental levels which allow for the long term viability of the premises. Refurbishment as a business use will normally be viable without a need to introduce a higher value use. As such the Council does not intend to promote a wholesale release of business floorspace within our town centres. Other ‘town centre’ uses will be supported when these will not be provided at the expense of the existing business floorspace.

3.42 This approach reflects both the value of the symbiotic relationship between offices and office workers and town centres and the sustainability of locating the highest trip-generators in the areas best served by public transport.

3.43 The Council could take the view that the benefits of a town centre location are such that new large-scale offices should be directed to such locations and such locations alone. Such an approach may run counter to the market, and as such may discourage new office development coming forward.

39 Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
40 All of the 29,300 sq m of office development identified as being in the development pipeline as of 2013, and the only permission granted in 2014 which has resulted in a net gain of more than 1,000 sq m, does not relate to a town centre location.
Q3.2 Option two: The Council should take a different approach to the protection of business floorspace in Earl’s Court than that taken elsewhere in the Borough.

3.44 Whilst most town centres are attractive office locations, this is not necessarily the case across the Borough. In 2012, the vacancy rate for offices in the Earl’s Court area was 13%, the highest in the Borough with PBA\textsuperscript{41} describing Earl’s Court as “a very secondary office location [where] there is no huge demand for the current accommodation and this location is marginal compared to others.” Two years on, and on a rising office market, Frost Meadowcroft\textsuperscript{42} confirm that the Earl’s Court submarket still commands the lowest rental values, and the business premises have the lowest capital values. They do not, however, conclude that the returns that can be achieved through the refurbishment of office buildings in Earl’s Court are not of a sufficient level to allow an adequate “return on capital employed”.

3.45 Notwithstanding ongoing viability, the Council may wish to recognise the relative weakness of the Earl’s Court submarket and take a more relaxed approach to the retention of business floorspace in this area.

Q3.3 Option three: The Council should continue to take a different approach to development within the Employment Zones than elsewhere in the Borough.

3.46 Outside the town centres, the Borough’s Employment Zones remain the principal concentrations of business premises. They contain nearly 25% of all the business floorspace in the Borough, employing some 5,000 people, although it should be noted that this is only 5% of the Borough’s employment.\textsuperscript{43} They have, however, changed markedly in character since their initial designation in the 1980s. They no longer primarily provide job opportunities for a less-skilled local workforce. They now contain clusters of the creative businesses, businesses which play a significant contribution to both the local and the regional economy.

3.47 The function of the Employment Zones reflects the Council’s restrictive approach towards allowing non-business uses within them. Resisting the ingress of housing has kept land values lower

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\textsuperscript{41} RBKC Commercial Property Study, Peter Brett Associates, 2013
\textsuperscript{42} Office Market Review and Viability in the Royal Borough of Kensington and Chelsea, Frost Meadowcroft, 2014
\textsuperscript{43} RBKC Commercial Property Study, Peter Brett Associates, 2013
\end{flushright}
and has ensured that the largely commercial character of these areas has remained.

3.48 Does this approach remain appropriate, or should the Council allow the introduction of higher value uses – and in particular housing - as long as existing business floorspace is retained? Can the introduction of housing with the associated uplift in value, offer incentives for further investment and provide the impetus needed to bring sites forward for development?

3.49 In a market where the provision of any new business floorspace is rare, should the Council be encouraging the creation of any business floorspace, regardless of size, even if this is at the expense of the smaller premises traditionally favoured by the start up business or by the home worker looking to expand?

3.50 Are the policies associated with the Employment Zone designation too restrictive, or is designation an opportunity to allow the Council to take a more proactive approach to development? Can it be used to require the expansion of the premises which would meet the business needs of the future?

\textit{Q3.4 Option four: Should the Council develop policies tailored to the character of each Employment Zone?}

3.51 Whilst the Borough’s Employment Zones each contain concentrations of business uses, each is different in character. Each has a different profile of occupiers; can achieve different rents and has different levels of vacancy. This has implications on ongoing viability for business uses.

3.52 This review provides an opportunity for the Council to take stock and to decide how it would like these areas to develop. What uses should be encouraged to allow the Employment Zone to thrive? Should different approaches be taken within each of the Employment Zones, or different parts of Employment Zones?
4.0 HOTELS

Legislative and policy context

National

4.1 It should be noted that general guidance on tourism, which covers a wider topic area than just hotels, is available within the National Planning Practice Guidance (NPPG) on Ensuring the Vitality of Town Centres (paragraph 007).

London

4.2 Policy 4.5 of the London Plan considers London’s visitor infrastructure. It notes that boroughs should, “support London’s visitor economy” and “seek to achieve 40,000 net additional hotel bedrooms by 2013.” As such LDFs should, “promote a facilitate a range of visitor accommodation”.

Local

4.3 Existing Core Strategy policies relating to hotels and hotel bedspaces are set out in Appendix A.

The Borough’s tourist economy

4.4 The Council recognises that tourism is one of the Borough’s key economic drivers. In 2008 it was estimated that £3.1 billion was spent by tourists in the Borough, a quarter of this spend relating to stays in hotels. The Royal Borough is one of London’s main providers of visitor accommodation, containing an estimated 15,280 “serviced rooms”. Only the boroughs of Westminster and Camden have a greater supply.

4.5 GLA Economics have considered the future need for hotels, assessing both the domestic and international market. Their “best estimate” suggests an annual pan-London need for just under 1,800 net new serviced visitor rooms per year between now and 2036. This is not insubstantial, and the draft policy within the Further

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44 Study of the Visitor Economy, Acorn, 2009
45 Working Paper 58, Understanding the demand for and supply of visitor accommodation in London to 2036, GLA Economics, 2013
46 Working Paper 58, Understanding the demand for and supply of visitor accommodation in London to 2036, GLA Economics, 2013

24 | Page
Alterations to the London Plan maintains the GLA’s robust position on the protection and provision of hotel accommodation.\(^{47}\)

### 4.6 As with offices, despite high levels of demand, much of the Borough’s hotel stock is under pressure from higher-value residential use. In order to maintain the remaining stock the Core Strategy includes a policy that seeks to protect hotels across the Borough (CF8 Hotels). The only exception is within Earl’s Court, an area which has traditionally been seen as suffering from an over-concentration of hotel accommodation.

**The options**

**Q4.1 Option one:** The Council should support the creation of new hotels and hotel bed spaces, across the Borough, where they can be shown to support the function of that area.

**Q4.2 Option two:** The Council should allow the loss of hotels and hotel bed spaces to residential uses

**Q4.3 Option three:** The Council should differentiate between Earl’s Court Ward and the rest of the Borough.

**Q4.4 Option four:**

4.7 As a “town centre use” with the potential for traffic generation and to cause disturbance to neighbours, new hotels will generally be directed to within, or close to, the larger town centres. The Council does, however, recognise that a hotel located within or close to another commercial area could serve a valuable role.

**Q4.5 Option five:**

4.8 Allowing the loss of hotels and hotel bed spaces will be contrary to the ambitions of the Mayor, reducing diversity of uses and may result in a loss of economic activity. However, such an approach would not be without its benefits, not least the contribution it could have on the Borough’s housing supply. This may include a significant amount of affordable housing given that hotels have in the past been used as the ‘donor sites’ to provide the affordable housing required by other residential developments.

**Q4.6 Option six:**

4.9 Given the particular concentration of hotels within the Earl’s Court ward, the Council has taken an approach where hotels can be lost within this ward, and this ward alone. This may have a positive effect on the character of this area, allowing the reversion of properties built as housing to their original use, yet retain the benefits associated with hotels elsewhere in the Borough.

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\(^{47}\) Policy 4.5 London’s Visitor Infrastructure, Draft Further Alterations to the London Plan, GLA, 2014
Appendix A: Adopted Policies

Policies within the Core Strategy (2010)

Policy CF 5
Location of Business Uses

The Council will ensure that there is a range of business premises within the Borough to allow businesses to grow and thrive; to promote the consolidation of large and medium offices within town centres; support their location in areas of high transport accessibility; and protect and promote employment zones for a range of small and medium business activities which directly support the function and character of the zone.

To deliver this the Council will, with regard to:
Offices

a. protect very small and small offices (when either stand alone or as part of a larger business premises) throughout the Borough; medium sized offices within the Employment Zones, Higher Order Town Centres, other accessible areas and primarily commercial mews; large offices in Higher Order Town Centres and other accessible areas, except where:
   i. the office is within an employment zone and is being replaced by a light industrial use, workshop or other use which directly supports the character and function of the zone;
   ii. the office is within a town centre and is being replaced by a shop or shop floorspace, by a social and community use which predominantly serves, or which provides significant benefits to, Borough residents; or by another (not residential) town centre use where this allows the expansion of an adjoining premises;

b. permit very small offices anywhere in the Borough save for ground floor level of town centres;

c. permit small office developments anywhere in the Borough; require medium-sized office developments to be located in town centres, in other accessible areas, in Employment Zones and in commercial mews; require large office developments to be located in higher order town centres and other accessible areas, except where the proposal:
i. results in shared communal residential/business entrance;

ii. results in the net loss of any residential units or floorspace; or

iii. in the case of a town centre, harms the retail function of that centre;

d. permit business centres at upper floor levels of higher order town centres, within accessible areas and within Employment Zones;

e. require all new business floorspace over 100sq m to be flexible, capable of accommodating a range of unit sizes;

*Light Industrial*

f. protect all light industrial uses throughout the Borough;

g. require new light industrial uses to be located within Employment Zones, predominantly commercial mews and other areas where amenity is not harmed;

h. require the provision of a mix of unit sizes suitable for the creative and cultural businesses, as appropriate;

*Employment Zones*

i. protect light industrial uses, workshops, very small, small and medium offices, and business centres;

j. require there be no net loss of business floorspace unless to uses which directly support the function and character of the zone;

k. resist large office developments except when consisting entirely of very small, small or medium units;

l. resist residential uses including for student housing or any form of living accommodation;

m. promote employment zones as locations for small businesses and for workshops (whether stand alone or part of large business centres);

n. to restrict, through the use of s106 planning obligations, the amalgamation of small and very small business units.

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**Policy CF 6**

*Creative and Cultural Businesses*

The Council will promote and protect the work-spaces needed to support the creative and cultural industries across the Borough.
Policies within the Unitary Development Plan (2004)

E8
To resist the loss of those existing general industrial uses where they have no significant adverse effect on residential amenity.

E11
To encourage the provision of premises for the start-up and expansion of small businesses, particularly small light industrial businesses, in appropriate locations.

E12
To encourage the refurbishment of existing office and industrial buildings, particularly where this would involve conversion into small units.

E13
To encourage the provision of premises, and improvement of existing premises, for small locally-based service industries and offices.

E15
To seek the provision of light industrial premises as part of appropriate business development in North Kensington.
E19
Normally to refuse to release conditions which limit premises in North Kensington to industrial use.

E22
Normally to refuse to release conditions which limit premises in the Employment Zones to industrial use.