

Impact of proposed changes to permitted development rights for Kensington and Chelsea

For the Royal Borough of Kensington and Chelsea





Impact of proposed changes to permitted development rights for Kensington and Chelsea

For the Royal Borough of Kensington and Chelsea

Prepared by TBR's Economic Research Team

Enquiries about this report can be addressed to:

Martin Houghton, Senior Associate

22 February 2013

Suite One Top Floor, Burgess House,
93-105 St James Boulevard,
Newcastle upon Tyne, NE1 4BW

Telephone: +44 (0) 191 279 0900
Fax: +44 (0) 191 221 2220
Email: martin.houghton@tbr.co.uk
www.tbr.co.uk



Document Information

Project Reference Number	PN00113R
File Name	Document1
Title	Impact of proposed changes to permitted development rights for Kensington and Chelsea
Version number	2-1
Last update	PN00113R_Significance&ImpactAnalysis_v2-1.docx
Name of Author	Andrew Rowell
Name of Reviewer	Martin Houghton
Document Status	Confidential
Review Status	Reviewed
Approval Status	Final

Table of Contents

1. INTRODUCTION	2
2. THE IMPORTANCE OF BUSINESSES BASED IN B1A PREMISES	3
2.1 SIGNIFICANT SECTORS IN RBKC.....	3
3. THE ECONOMIC IMPACT OF OFFICE CONVERSION	7
3.1 RISK CATEGORIES.....	7
3.2 PATTERNS OF LEASE EVENTS.....	8
3.3 OVERALL DIRECT IMPACT	9
3.4 OVERALL INDIRECT AND INDUCED IMPACT	12
4. CONCLUSIONS: OVERALL ASSESSMENT OF IMPACT	18
5. APPENDIX 1: TBR	21

1. Introduction

The Government proposes to amend permitted development rights to allow conversion of office buildings with a business use class of B1a to residential properties without the need for formal planning permission¹. The new right is due to come into force in spring 2013, and will be in place for a temporary period of three years. Exemptions for specific locations may be allowed, but only where the Local Authority can demonstrate that the proposed permitted development rights would have substantial adverse economic consequences.

This report focuses on two important implications of the proposed change to permitted development rights for the Royal Borough of Kensington and Chelsea:

- The importance of businesses that utilise B1a space in Kensington and Chelsea – to the local economy, the pan-London economy and the national economy.
- The likely impact of the proposed change, the effect on the office property stock in Kensington and Chelsea and the impact on the local economy.

The report has been developed in consultation with property experts Frost Meadowcroft.

¹ Associated external physical development will still require planning permission. There will also be restrictions in relation to transport, highways, flooding and land contamination.

2. The importance of businesses based in B1a premises

TBR has developed an analysis of the scale of B1a business premises in the Royal Borough of Kensington and Chelsea (RBKC) which are at risk from the proposed change in permitted development rights. Firms in the borough are assigned a business use class based on their UK Standard Industrial Classification (UKSIC) as recorded in TBR's own Trends Central Resource (TCR) database. This matching was validated with data on B1a premises in RBKC taken from the National Non-Domestic Rates (NNDR) and Valuation Office Agency (VOA) datasets. Our analysis identifies around 4,000 firms based in B1a premises in RBKC².

In 2012, firms in B1a premises are estimated to have contributed to the RBKC economy in the following ways:

- 23% of the stock of firms (an estimated 4,000 firms, from a total of 17,100)
- 17% of employment (an estimated 20,300 employees, from a total of around 118,000)
- 30% of turnover (an estimated £5.8 billion, from a total of £19.7billion)
- 25% of economic output (an estimated £1.5 billion Gross Value Added (GVA) per year, from a total of £5.6 billion)

2.1 Significant sectors in RBKC

This section provides an analysis of significant sectors in RBKC, focusing on those which have a national and international economic significance. The creative industries are known to have a significant presence in Kensington and Chelsea, and are our focus here (based on the DCMS creative industries definition).

The analysis in this section is based on sector definitions derived from the UKSIC codes. Such an approach is necessarily narrow, focusing on the core business activities within each sector. The approach does not fully reflect the inter-relationships between firms in each sector and their supply chains and distribution channels, which can span a range of sectors.

2.1.1 Music

The UK is the second largest exporter of recorded music in the world after the USA, with a global market share of 12%³. In 2009, the latest year for which there is detailed sector specific data, UK artistic originals generated GVA of £1.33bn⁴ together with a trade surplus of nearly £138m. Economically, UK music punches above its weight with businesses generating three times more global trade than the UK's trade in goods and 50% more than in services.

Music publishing is a resounding success in terms of international trade and RBKC represents the core of the UK's offer, with over 28% of employment for the sector in England. Kensington and Chelsea is home to all four major record labels (Universal, Warner Music, Sony Music and EMI), though the industry's significance extends far beyond these large, important businesses.

As of 2011, there were nearly 2,000 jobs in sound recording and music publishing in RBKC (SIC 59200) out of a total of 5,220 in London and 7,200 across the UK. Location quotients (LQs)⁵ demonstrate that

² A further 350 firms could potentially be classed as occupying B1a premises, but the precise nature of their premises are unclear. These firms are excluded from our analysis. Firms operating from residential premises (home businesses) are also excluded.

³ BPI Ltd. 'Support for the creative economy: written evidence submitted by BPI (British Recorded Music Industry) Ltd'. House of Commons Paper on Value of Music, November 2012.
<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcmds/writev/supprec/sce04.htm>

⁴ Intellectual Property Office. 'Copyright Industry adds an extra £3billion to national accounts'. June 2012.
www.ipo.gov.uk/about/press/press-release/press-release-2012/press-release-20120608.htm

⁵ Location Quotients are a standard measure used to compare the concentration of firms or employment in an area, relative to another area. An LQ greater than 1 represents a high concentration, while an LQ less than 1 represents a scarcity. For example, an LQ of 14 represents 14 times the concentration one would expect within London. An LQ of 1.25 or greater is regarded as significant.

The importance of businesses based in B1a premises

employment in the music industry is heavily concentrated in RBKC compared with London (an LQ of 14.3) and England (an LQ of 57.0). Firm LQs of 2.77 and 5.15 were recorded for London and England respectively.

Table 1: Music publishing employment in London

Music Publishing and Sound Recording (SIC 59200)	Employees	Percentage
Kensington and Chelsea	1,990	38%
Westminster	850	16%
Hammersmith and Fulham	530	10%
Camden	390	7%
Hackney	210	4%
Southwark	210	4%
Other London boroughs combined	1,040	21%
Total	5,220	100%

Source: BRES 2011 (TBR ref: W3/S1)

Music publishing and the music business within RBKC demonstrates the classic characteristics of a cluster, with high LQs for both employment and firms together with the presence of international leaders and independent small businesses. The loss of any of these businesses would represent a blow to the cluster and could undermine the strength of the industry to the UK as a whole. Although smaller, independent firms may be most vulnerable (first because they are less likely to own their office accommodation, and second because the pressure to accept a settlement will be more persuasive) these firms often provide the creative impetus that gives the major record labels confidence to remain in their current location. Although the direct economic impact of smaller firms relocating might be relatively small, the indirect impact that this precipitates could be more significant.

2.1.2 Film, TV and Video

In 2009 the UK film industry contributed over £4.5bn to GDP and £1.2bn to the Exchequer, as well as supporting 100,000 jobs⁶. There is no equivalent data for TV.

The film sector is concentrated in the South East and especially within a narrow wedge fanning out from Soho, through RBKC, Hammersmith and Fulham, and Ealing to Shepperton and Pinewood studios in the west. The cluster is relatively tight-knit, with firms occupying a range of contemporary settings beyond traditional studios, reflecting the increasing use of digital technology in the industry.

Statistics for the sector are captured through the UKSIC elements: production (SIC 59111), postproduction (SIC 5912) and distribution (SIC 59131). All three subsectors have a presence in RBKC. Kensington and Chelsea is particularly strong in production and distribution. In addition, proximity to Soho, Hammersmith and Fulham, and Ealing together with transport links (the A40 Westway and the Piccadilly line) means that RBKC is home to businesses that are core to the sector.

Table 2 illustrates the overall significance of the sector to RBKC, with most subsectors demonstrating an LQ above 1.25 for both employment and firms.

⁶ Oxford Economics. *The Economic Impact of the UK Film Industry*. Oxford Economics: Oxford, 2010.

Table 2: LQs for Film, TV and Video

Segment	LQ London (Employment)	LQ England (Employment)	LQ London (Firms)	LQ England (Firms)
Film production (SIC 59111)	1.5	5.4	3.45	1.52
Post production (SIC 5912)	0.4	1.7	*	*
Film distribution (SIC 59131)	1.4	5.9	*	*
Video production (SIC 59112)	1.2	3.2	4.41	1.51
TV production (SIC 59113)	0.4	1.7	1.40	0.74

Source: BRES 2011 / TCR (TBR ref: W1/S3)

TV has many similar characteristics to the film sector and they share much of the same supply chain, such as props, special effects and postproduction. They differ most notably at the production and distribution/broadcast stages, though even here the boundaries are blurring with the development of new technologies. West London is particularly strong in TV with studios in Ealing and Park Royal and the BBC in White City.

While the key production facilities are likely to use premises classified as *sui generis* or B8, the proximity to firms that using B1a offices is important. This is a sector which is built on close working and social relationships and where minor dislocations can result in major disruption.

2.1.3 Publishing

Overall, the emergence of digital media and technology is transforming the publishing sector. One of the defining characteristics has been the continuing decline in traditional print newspapers. In the book publishing sector, there has also been a decline in print sales to both UK domestic and export markets. Digital publishing, on the other hand, is a rapidly growing industry⁷. This activity is well suited to B1 premises.

The UK book publishing sector is defined by a mixture of large scale publishers such as Random House Penguin, and a large independent publisher sector, which together account for about 45% of the publishing market⁸. In 2011 the value of publishing's sales to the UK was £3.2bn, with an increasing contribution coming from the digital sales (8%)⁹.

Table 3: LQs for Newspaper and Book Publishing

Segment	LQ London (Employment)	LQ England (Employment)	LQ London (Firms)	LQ England (Firms)
Newspaper publishing (SIC 58130)	6.72	10.64	1.91	3.07
Book publishing (SIC 58110)	1.99	5.22	3.27	2.08

Source: BRES 2011 (TBR ref: W1/S3)

Our analysis also found that the publishing sector, particularly newspapers, is strong within RBKC. As of 2011, there were over 2,100 jobs associated with newspaper publishing (SIC 58130), 560 with book publishing (SIC 58110) and a further 260 in publishing periodicals and journals (SIC 58142). Of particular significance was that in both firms and employment, newspaper publishing and book publishing were found to have strong LQ concentrations in RBKC in comparison to both London and England.

⁷ Publishers Association. *Market Research and Statistics*. Publishing Association: London, 2012.

⁸ The Guardian. 'Publishing industry: waving or drowning?'. October 2012
<http://www.guardian.co.uk/commentisfree/2012/oct/29/penguin-random-house-merger-editorial>

⁹ Publishers Association. *Market Research and Statistics*. Publishing Association: London, 2012.

2.1.4 Fashion, textile and design activities

The UK has a global reputation as leaders in fashion design and trendsetting. In 2010, the UK fashion industry was valued at £21 billion. The scope of the industry reaches far beyond fashion design, encompassing a complex web of materials, textile production, clothing design, manufacturing, wholesaling, marketing and retailing of a wide range of fashion products¹⁰.

To examine and understand the significance of fashion, textile and design activities found in RBKC it is important to recognise this wider definition of the fashion industry. For example, this means the inclusion of manufacturing activities in SIC divisions 14 (Manufacturing of wearing apparel), 15 (Manufacturing of leather and related products), and 74 (Specialised design activities). Our matching of firm data with data on B1a business premises confirms that firms with these SIC codes are operating in B1a premises in RBKC. It is likely that they relate to small-scale specialist manufacturing, with a heavy emphasis on design activities.

Table 4: Employment LQs for Fashion, Textile and Design Activities

Segment	Employment	LQ London	LQ England
Specialised design activities (SIC 74100)	840	2.32	5.32
Manufacture of women's outerwear, other than leather clothes and workwear (SIC 14132)	52	1.33	1.5
Manufacture of luggage, handbags and the like, saddlery and harness (SIC 15120)	24	1.29	2.14

Source: BRES 2011 (TBR ref: W1/S3)

Our analysis shows that in terms of employment, specialised design activities (74100), Manufacture of women's outerwear other than leather clothes and workwear (14132) and Manufacture of luggage, handbags and the like, saddlery and harness (15120) were fashion industry SICs significant to RBKC.

2.1.5 Other photographic and film processing activities

Our analysis also shows that RBKC is home to a concentration of photographic and film processing businesses, which may be connected to other sectors such as publishing, advertising and fashion. In comparison to both London and England, the concentration of employment in the photographic and film processing industry is higher in RBKC than might be expected.

Table 5: Employment LQs for Other Photographic and Film Processing Activities

Segment	Employment	LQ London	LQ England
Portrait photographic activities (SIC 74201)	40	1.55	2.44
Other specialist photography (SIC 74202)	40	2.13	5.45
Film processing (SIC 74203)	40	1.46	2.80
Other photographic activities (SIC 74209)	170	2.10	4.43

Source: BRES 2011 (TBR ref: W1/S3)

¹⁰ Oxford Economics. *The Value of the Fashion Industry*. Oxford Economics: Oxford, 2010.

3. The economic impact of office conversion

In order to assess the potential impact of office properties being converted to residential use, TBR designed a methodology which links firms and the economic value they contribute (overall and within key sectors) with the premises they occupy and the risk associated with the conversion of these premises. Our approach is highly granular, and goes significantly beyond simple estimations of the size and scale of the likely impact to look in detail at likely outcomes.

Our analysis is based on linking data from the TCR database¹¹, the Valuation Office Agency and data on National Non-Domestic Rates (business rates). We use approved HM Treasury Green Book techniques to assess impact, including indirect and induced impacts, in order to generate evidence through a recognised, robust approach.

Our analysis of the likely impact of the proposed change to permitted development rights is based on the assumption that conversion rates are likely to be very high and rapid, because a very high proportion of properties in RBKC are highly suitable for conversion and are likely to be available immediately or within the next three years as the premiums are so high that they will allow owners to incentivise tenants to vacate. The assumptions underpinning our analysis have been tested with property experts.

3.1 Risk categories

We assign B1a business premises in RBKC to categories which describe the risk of them being converted from office to residential use. All but a few premises are considered to be at risk. Firms based in B1a premises are assigned to the same risk category as the premises they occupy.

Table 6: Risk categories

Risk category	Severity	Description
Risk Category 1	Very high to severe risk	Vacant office premises which are suitable for conversion to residential use
Risk Category 2	High risk	Occupied office premises, suitable for conversion, in areas with high residential premiums
Risk Category 3	Medium to high risk	Occupied office premises, suitable for conversion, in areas with lower residential premiums
Risk Category 4	Low risk	Other occupied office properties deemed unsuitable on the basis of floorplate or cost of conversion

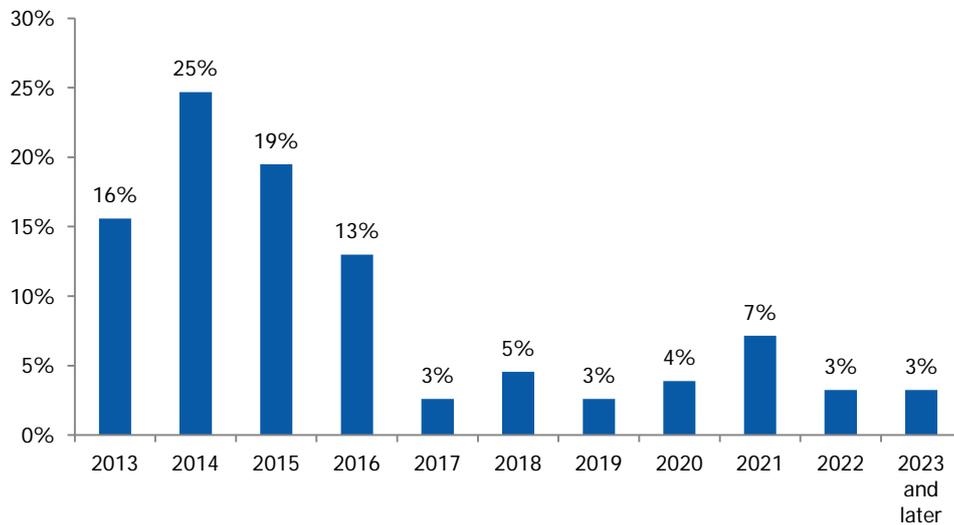
All premises identified as being vacant are regarded as being at very high to severe risk from the proposed change to permitted development rights (Risk Category 1). Premises identified as being unsuitable for conversion, mainly because of the size and shape of their floorplate, are all regarded as being at low risk (Risk Category 4). The remaining premises are regarded as being at high risk from the proposed change (Risk Category 2), or at medium to high risk (Risk Category 3), on the basis of their postcode. Premises located in areas with high residential premiums are regarded as being at high risk as they are more likely to be converted than premises in areas with low residential premiums – though there is still a significant risk attached to premises in Risk Category 3.

¹¹ See Appendix 1.

3.2 Patterns of lease events

The available data suggests that the current leases for most occupied B1a premises in RBKC will end in the next 3–4 years. 60% of leases are due to expire by December 2015¹².

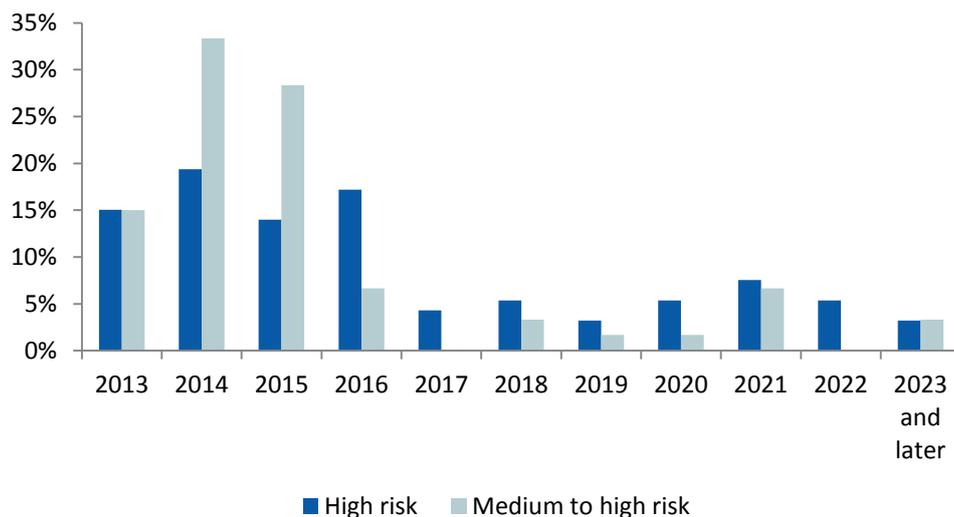
Figure 1: Lease ends in B1a premises by year



Source: CoStar / Frost Meadowcroft (TBR ref: W6/S2)

A similar number of leases on high risk premises are due to end in each of the next four years, and conversions of these premises are likely to have an ongoing and cumulative effect. In comparison, there is a particular concentration of lease end dates in medium to high risk premises in 2014 and 2015, and the immediate impact of conversions of these premises is likely to be most acute in in these years and into 2016.

Figure 2: Lease ends in B1a premises by year, by risk category



Source: CoStar / Frost Meadowcroft (TBR ref: W6/S2)

¹² CoStar / Frost Meadowcroft. Data includes leases on B1a premises expiring by end 2033. Property experts estimate that the CoStar database covers between 50% and 75% of all leases.

3.3 Overall direct impact

We calculate the overall direct economic impact of the proposed change in permitted development rights by analysing the economic contribution made by firms based in office premises which are at risk of being converted in the future. We estimate that firms located in B1a premises in RBKC directly employ 19,530 people and generate economic output of almost £1.5 billion per year. The direct impact of the proposed change may therefore be the loss of jobs for 19,530 people and the loss of £1.5 billion per year to the economy.

We recognise, of course, that it is limiting to look simply at the direct impact of the proposed change. The industries important to RBKC (and because of their scale and local specialism, to the UK economy) represent a set of inter-related activities across supply chains which operate to add value by working together – as clients, suppliers, intermediaries, distribution channels, etc. Firms in the value chain operate from premises across a range of business use classes, and the office-based activities of any sector are not isolated or distinct from activities which rely on different types of premises. We develop an analysis of indirect economic impacts below, which helps quantify this. However, there are a range of intangible benefits of co-location for strong economic clusters, which lead to the high productivity and competitiveness that strong clusters enjoy. Disrupting the existence of key sectors within RBKC – and potentially other links in the value chain – may have wider implications than we can quantify.

Simple economic arguments suggest that a reduction in the availability of office accommodation in any locale will increase the market value of the remaining accommodation in that market and put prices (e.g. rents) up. This may incentivise the conversion of properties from other use classes into B1a, as owners see this as a route to the ultimate goal of converting to residential use, or because market conditions for office accommodation are more favourable than, say, some form of studio or warehouse space. This does not mean one can be relaxed about the impact on key sectors, of course. Such a process may negatively affect the supply of other types of accommodation that a particular sector relies on (such as rehearsal or studio space for the music industry) to be competitive at local and national scales. While we identify the quantitative impacts the proposed change in permitted development rights is likely to have, there will be other market impacts which are likely to further undermine the local and national performance of key sectors.

3.3.1 Vacant premises

Premises which are currently vacant are most obviously at risk from the proposed change in permitted development rights. An estimated 4% of B1a floorspace in RBKC (17,500m² from a total of around 442,000m²) is vacant¹³, suggesting a tightness of the property market for B1a premises in Kensington and Chelsea.

It is difficult to quantify the economic impact of converting vacant premises – because they are vacant, no data is available on employment or output associated with the firms that occupy them. It is clear, however, that there is a significant opportunity cost to converting vacant premises, and that this is likely to impact in the short term rather than the longer term. We estimate that the vacant B1a premises in RBKC have the potential to support more than 800 jobs, generating economic output of £60 million per year¹⁴.

Just over half the vacant B1a floorspace in RBKC is in premises that if occupied, would be regarded as at high risk. Unoccupied, these premises are likely to be under immediate threat of conversion. The remaining vacant B1a floorspace is in premises that if occupied, would be regarded as at medium risk. Unoccupied, the risk to these premises is likely to be increased.

¹³ CoStar / Frost Meadowcroft / NNDR. Vacant premises include those recorded as available or under offer.

¹⁴ Our estimates apply average employment and GVA per m² in occupied premises to vacant floorspace.

3.3.2 Other risk categories

Our analysis identifies around 2,000 firms in B1a premises in RBKC which are regarded as being at high risk from the proposed change in permitted development rights, and a similar number in premises which are regarded as being at medium to high risk. We have identified few firms in premises at low risk, reflecting the small number of addresses assigned to this category¹⁵.

Firms believed to be at high risk from the proposed change directly employ an estimated 11,800 people (58% of total employment in B1a premises) and generate economic output of more than £929 million per year (61% of economic output generated by firms in B1a premises in RBKC). Firms regarded as at medium to high risk directly employ an estimated 8,200 people (40% of total employment) and generate economic output of over £586 million per year (38%). There are clearly significant risks to the economy of RBKC should the premises occupied by these firms be converted for residential use.

Table 7: Firms, employment and GVA in B1a premises by risk category

Risk Category	Firms		Employment		GVA per year	
	n	%	n	%	n	%
High risk	2,000	51%	11,800	58%	£929,100,000	61%
Medium to high risk	1,900	48%	8,200	40%	£586,300,000	38%
Low risk	20	0%	300	2%	£14,000,000	1%
Total	4,000	100%	20,300	100%	£1,529,400,000	100%

Source: TCR (TBR ref: W1/S3)

In all risk categories, firms whose lease expires within the next three years outnumber those with longer term leases. Clearly, the change in permitted development rights presents immediate risks to the RBKC economy, as well as longer term risks. For example, our analysis identifies 1,200 firms in B1a premises with a lease due to expire in the next three years. We estimate that these firms directly employ more than 7,000 people and generate economic output of more than £557 million per year.

Table 8: Firms, employment and GVA in B1a premises by risk category and lease period

Risk Category	Firms		Employment		GVA per year	
	Lease ending within 3 years	Lease ending after 3 years	Lease ending within 3 years	Lease ending after 3 years	Lease ending within 3 years	Lease ending after 3 years
High risk	1,200	800	7,100	4,700	£557,460,000	£371,640,000
Medium to high risk	1,100	800	4,900	3,300	£351,780,000	£234,520,000
Low risk	12	8	200	100	£8,400,000	£5,600,000
Total	2,400	1,600	12,200	8,100	£917,640,000	£611,760,000

Source: CoStar / Frost Meadowcroft / TCR (TBR ref: W1/S3)

The sectoral pattern of firms believed to be at high risk from the proposed change is similar to those regarded as at medium to high risk. The Professional, Scientific and Technical sector and Administrative and Support Services are slightly over-represented among firms at high risk. Similarly, the Information and Communication sector and Arts, Entertainment and Recreation sector are slightly over-represented among firms at medium to high risk.

¹⁵ Our analysis does not identify firms in vacant premises in Risk Category 1, of course.

Table 9: Firms at risk by sector and risk category

Sector	Risk Category	
	High risk	Medium to high risk
Manufacturing	50	50
Construction	200	200
Information and Communication	400	500
Financial and Insurance	50	0
Professional, Scientific and Technical	850	650
Administrative and Support Services	350	200
Arts, Entertainment and Recreation	50	200
Other Services	100	100
Total	2,000	1,900

Source: TCR (TBR ref: W1/S3). Data rounding obscures firms in Risk Category 4, which are not shown.

A majority of firms in the Professional, Scientific and Technical sector, the Administrative and Support Services sector and the Financial and Insurance sector are based in premises regarded as being at high risk. Conversely, a majority of firms in the Information and Communication sector and the Arts, Entertainment and Recreation sector are in premises at medium to high risk.

Table 10: Firms, employment and GVA by sector

Sector	Firms	Employment	GVA per year
Manufacturing	100	600	£37,400,000
Construction	450	2,000	£113,500,000
Information and Communication	900	5,200	£422,900,000
Financial and Insurance	50	200	£14,300,000
Professional, Scientific and Technical	1,500	7,400	£665,500,000
Administrative and Support Services	550	2,900	£182,700,000
Arts, Entertainment and Recreation	250	800	£69,100,000
Other Services	150	1,000	£22,500,000
Total	4,000	20,300	£1,529,400,000

Source: TCR (TBR ref: W1/S3)

There is a clear risk to the RBKC economy in relation to the Professional, Scientific and Technical sector, given its importance in terms of both employment and output. Similarly, the loss of firms in the Information and Communication sector would be significant.

3.3.3 Impact on the creative industries

Our analysis of significant sectors in RBKC showed the importance of the creative industries in Kensington and Chelsea. Most firms in RBKC which operate in the creative industries are based in premises regarded as being at medium to high risk from the proposed change in permitted development rights. Employment and output, however, are to some extent concentrated in premises believed to be at high risk.

Table 11: B1a Creative industries at risk in RBKC by risk category

Risk Category	Firms	Employment	GVA per year
High risk	450	3,900	£350,100,000
Medium to high risk	800	3,400	£237,900,000
Total	1,250	7,300	£588,000,000

Source: TCR (TBR ref: W1/S3)

This is true in most creative industries subsectors, with the exception of Music and the Visual and Performing Arts¹⁶, and the Film, TV and Video sector where employment and output is more highly concentrated in premises regarded as being at medium to low risk. The Publishing sector, meanwhile, is spread relatively evenly between premises regarded as being at high risk and premises believed to be at medium to high risk.

Table 12: B1a creative industries subsectors at risk in RBKC by risk category

Creative subsector	High risk			Medium to high risk		
	Firms	Employment	GVA per year	Firms	Employment	GVA per year
Advertising	100	1,200	£126,000,000	100	300	£23,400,000
Architecture	70	500	£60,100,000	110	500	£21,000,000
Designer Fashion	30	300	£22,700,000	40	100	£3,900,000
Digital and Entertainment Media	0	100	£11,900,000	10	0	£1,800,000
Music and the Visual and Performing Arts	70	400	£25,700,000	210	600	£54,200,000
Publishing	110	1,100	£89,000,000	80	1,100	£79,000,000
Radio and TV	0	0	£0	10	100	£3,500,000
Video, Film and Photography	80	300	£14,800,000	240	700	£51,100,000
Total	460	3,900	£350,100,000	790	3,400	£237,900,000

Source: TCR (TBR ref: W9/S2)

The Publishing subsector may represent the greatest risk for RBKC, given its overall contribution to the economy in terms of both employment and output, and the pattern of lease end dates by risk category over the next few years. The loss of firms operating in the Advertising, Music and the Visual and Performing Arts, Architecture or the Video, Film and TV subsectors would also be significant.

3.4 Overall indirect and induced impact

3.4.1 Explaining indirect and induced impacts

The economic impact of a particular sector is not confined to its direct contribution in terms of employment and output. Rather, the true economic value of a sector (or grouping of sectors) should be based not solely on an assessment of its direct economic impact, but on a measure that also includes its indirect and induced impacts. Indirect and induced impacts are calculated using multipliers attached to data on direct economic impacts.

A firm delivers *indirect* economic impacts through supply chain activity. A recording studio purchasing a microphone is an example of an indirect economic impact. The significance of these indirect impacts varies by sector and this leads to different sectors having different multipliers. For example, if a sector's

¹⁶ Our impact analysis uses a broader definition than our analysis of significant sectors in RBKC.

annual economic output is £0.8 billion and it has an indirect (or type 1) multiplier of 1.25, then the additional annual benefit to the economy will be £0.2 billion, making £1 billion in total.

A firm also delivers *induced* economic impacts through the spending of its members of staff. A member of staff purchasing a DVD on the way home from work is an example of an induced economic impact. Again, the significance of these impacts varies by sector and this leads to different sectors having different multipliers. For example, if a sector's annual economic output is £0.4 billion and it has an induced (or type 2) multiplier of 1.2, then the additional annual benefit to the economy will be £0.08 billion, making £0.48 billion in total.

Sectoral estimates of both indirect and induced multipliers have been transferred from previous research. We apply these estimates on a firm by firm basis, to firms that occupy B1a premises in RBKC.

However, not all indirect and induced impacts will be retained within RBKC. Our recording studio, for example, may order their microphone online, while their member of staff may buy the DVD when they arrive home, and not in the locality where they work. This phenomenon is recognised as economic leakage. TBR has drawn on previous research in the London Borough of Camden to model the leakage from both RBKC, and London as a whole. While there are some differences between the economic profiles of Camden and RBKC, the leakage factors were developed in 2012 and were based on a sample of 402 firms, so they are contemporary and can be expected to be reasonably robust at local authority level. However, the data do not differentiate between sectors, so the same leakage factor is applied to all firms. Additionally, the data do not differentiate between the leakage in indirect impacts and leakage in induced impacts, so the same factor is applied to both.

As we might expect, the leakage from RBKC is higher than the leakage across London. This is partly because London is simply a larger geography, and partly because of its economic coherence. Different areas of the capital specialise in offering different goods and services which, taken in totality, cater for a full spectrum of business and consumer demand.

Our analysis of indirect and induced economic impacts is based on employment and output data that measure direct sectoral economic impact of firms located in B1a premises in RBKC. Applying indirect and induced impact multipliers and estimates of economic leakage to this data enables us to model the economic impact of converting B1a properties to residential use on both the RBKC economy, and the wider economy.

3.4.2 Indirect and induced impacts

As direct employment and economic output are concentrated in firms believed to be at high risk from the proposed change in permitted development rights, indirect and induced economic impacts are also concentrated in these firms.

Table 13: Direct, indirect and induced employment by risk category

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
High risk	11,800	5,500	9,400	26,700
Medium to high risk	8,200	4,600	6,300	19,100
Low risk	300	100	200	600
Total	20,300	10,200	15,800	46,300

Source: TCR (TBR ref: W1/S7)

Our analysis suggests that the conversion of B1a premises regarded as being at high risk from the proposed change will impact on direct employment of 11,800 people in firms based in those premises in RBKC, and indirect and induced employment of 14,900 people in other types of premises or in other locations. The conversion of B1a premises regarded as being at medium to low risk will impact on direct employment of 8,200 people in firms in B1a premises in RBKC, and indirect and induced employment of 10,900 people in other types of premises or in other locations. A total of 45,700 jobs are at risk from the proposed change. A further 600 jobs – 300 directly associated with B1a premises in RBKC, and 300 in

other types of premises or in other locations – would be at risk should B1a premises believed to be at low risk be converted.

Table 14: Employment leakage by risk category

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk	15,700	4,900	6,100	26,700
Medium to high risk	11,000	3,600	4,500	19,100
Low risk	400	100	100	600
Total	27,100	8,600	10,700	46,300

Source: TCR (TBR ref: W1/S8)

Most of the jobs at risk are located in RBKC, of course. Reflecting the significance of key industries in Kensington and Chelsea, around 8,600 jobs located elsewhere in London and 10,700 jobs outside London are also at risk.

Table 15: Direct, indirect and induced GVA by risk category

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
High risk	£929,100,000	£316,300,000	£523,900,000	£1,769,300,000
Medium to high risk	£586,300,000	£244,400,000	£359,200,000	£1,189,900,000
Low risk	£14,000,000	£4,700,000	£7,600,000	£26,300,000
Total	£1,529,400,000	£565,500,000	£890,800,000	£2,985,700,000

Source: TCR (TBR ref: W1/S7)

Similarly, our analysis suggests that converting B1a premises which are believed to be at high risk from the proposed change will impact on direct economic output from firms in B1a premises in RBKC of more than £929 million per year, and indirect and induced economic output from firms in other types of premises or in other locations more than £840 million per year. The conversion of B1a premises regarded as being at medium to high risk will impact on direct economic output from firms in B1a premises in RBKC of more than £586 million per year, and indirect and induced economic output from firms in other types of premises or in other locations of almost £637 million per year. Total direct economic output of almost £3 billion per year is at risk. A further £26 million per year would be threatened if B1a premises believed to be at low risk were to be converted.

Table 16: GVA leakage by risk category

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
High risk	£1,147,552,000	£277,266,000	£344,482,000	£1,769,300,000
Medium to high risk	£743,236,000	£199,188,000	£247,476,000	£1,189,900,000
Low risk	£17,198,000	£4,059,000	£5,043,000	£26,300,000
Total	£1,908,038,000	£480,579,000	£597,083,000	£2,985,700,000

Source: TCR (TBR ref: W1/S8)

Most of the economic output at risk – more than £1.9 billion per year – is generated by firms located in RBKC. Economic output of almost £5 million per year generated by firms elsewhere in London, and output of almost £6 million per year generated by firms outside London, is also at risk.

Table 17: Direct, indirect and induced employment by sector

Sector	Direct employment	Indirect employment	Induced employment	Total employment
Manufacturing	600	300	400	1,300
Construction	2,000	1,700	3,400	7,100
Accommodation and Food Services	100	0	0	100
Information and Communication	5,200	3,000	4,200	12,400
Financial and Insurance	200	100	200	500
Professional, Scientific and Technical	7,400	2,900	4,600	14,900
Administrative and Support Services	2,900	1,100	1,800	5,800
Arts, Entertainment and Recreation	800	800	800	2,400
Other Services	1,000	300	500	1,800
Total	20,300	10,200	15,800	46,300

Source: TCR (TBR ref: W1/S7)

The greatest indirect and induced impacts on employment and economic output are seen in those sectors where direct employment is most significant, of course. Our analysis confirms the particular risk to the economy, both in RBKC and beyond, of conversions to B1a premises that lead to the evictions of firms in sectors such as Professional, Scientific and Technical services, and Information and Communication.

Table 18: Direct, indirect and induced GVA by sector

Sector	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Manufacturing	£37,400,000	£18,200,000	£26,500,000	£82,100,000
Construction	£113,500,000	£41,700,000	£58,600,000	£213,800,000
Accommodation and Food Services	£1,500,000	£400,000	£600,000	£2,500,000
Information and Communication	£422,900,000	£182,500,000	£246,000,000	£851,400,000
Financial and Insurance	£14,300,000	£4,000,000	£8,200,000	£26,500,000
Professional, Scientific and Technical	£665,500,000	£197,300,000	£371,700,000	£1,234,500,000
Administrative and Support Services	£182,700,000	£53,700,000	£101,700,000	£338,100,000
Arts, Entertainment and Recreation	£69,100,000	£58,100,000	£61,800,000	£189,000,000
Other Services	£22,500,000	£9,600,000	£15,500,000	£47,600,000
Total	£1,529,400,000	£565,500,000	£890,800,000	£2,985,700,000

Source: TCR (TBR ref: W1/S7)

3.4.3 Indirect and induced impacts on the creative industries

Our analysis suggests that converting B1a premises regarded as being at high risk from the proposed change in permitted development rights will impact on direct employment of 3,900 people in creative industries firms in B1a premises in RBKC, and indirect and induced employment of 4,400 people in other types of premises or in other locations. The conversion of B1a premises regarded as being at medium to high risk from the proposed change will impact on direct employment of 3,400 people in creative industries firms in B1a premises in Kensington and Chelsea, and indirect and induced employment of 5,300 people in other types of premises, other sectors or other locations. A total of 17,000 jobs related to the creative industries in RBKC are at risk.

Table 19: Direct, indirect and induced employment in the creative industries by risk category

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
High risk	3,900	1,800	2,600	8,300
Medium to high risk	3,400	2,400	2,900	8,700
Total	7,300	4,200	5,500	17,000

Source: TCR (TBR ref: W9/S2)

We estimate that 9,800 jobs related to the creative industries are located in RBKC, and are at risk from the proposed change to permitted development rights. A further 3,200 jobs related to the creative industries in RBKC are at risk in London, while 4,000 jobs related to the creative industries in RBKC are at risk outside London.

Table 20: Employment leakage related to the creative industries, by risk category

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk	5,000	1,500	1,800	8,300
Medium to high risk	4,800	1,700	2,200	8,700
Total	9,800	3,200	4,000	17,000

Source: TCR (TBR ref: W9/S3)

Our analysis suggests that converting B1a premises which are believed to be at high risk will impact on direct economic output of creative industries firms in B1a premises in RBKC of more than £350 million per year, and indirect and induced economic output from firms in other types of premises, in other sectors or in other locations of almost £352 million per year. The conversion of B1a premises regarded as being at medium to high risk will impact on direct economic output of creative industries firms in B1a premises in RBKC of almost £238 million per year, and indirect and induced economic output from firms in other types of premises, other sectors or other locations of almost £305 million per year. Total economic output of more than £1.2 billion per year related to the creative industries in RBKC is at risk.

Table 21: Direct, indirect and induced GVA in the creative industries by risk category

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
High risk	£350,100,000	£138,200,000	£213,400,000	£701,700,000
Medium to high risk	£237,900,000	£136,400,000	£168,500,000	£542,800,000
Total	£588,000,000	£274,600,000	£381,900,000	£1,244,500,000

Source: TCR (TBR ref: W9/S2)

We estimate that economic output of almost £760 million per year is generated by firms located in RBKC which are related to the cultural industries, and is at risk from the proposed change to permitted development rights. Economic output of almost £217 million per year generated by firms located elsewhere in London, and output of almost £270 million per year generated by firms located outside London, is related to the creative industries in Kensington and Chelsea and is also at risk.

Table 22: GVA leakage related to the creative industries, by risk category

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
High risk	£441,516,000	£116,028,000	£144,156,000	£701,700,000
Medium to high risk	£317,174,000	£100,617,000	£125,009,000	£542,800,000
Total	£758,690,000	£216,645,000	£269,165,000	£1,244,500,000

Source: TCR (TBR ref: W9/S3)

Indirect and induced employment in the creative industries are, broadly, at least as significant as direct employment. Indirect and induced employment are particularly significant in relation to the Music, Visual and Performing Arts sector and the Video, Film and Photography sector.

Table 23: Direct, indirect and induced employment in the creative industries by subsector

Creative subsector	Direct employment	Indirect employment	Induced employment	Total employment
Advertising	1,500	500	900	2,900
Architecture	1,000	400	600	2,000
Designer Fashion	400	200	200	800
Digital and Entertainment Media	100	100	100	300
Music and the Visual and Performing Arts	1,000	900	1,000	2,900
Publishing	2,200	1,000	1,500	4,700
Radio and TV	100	100	100	300
Video, Film and Photography	1,000	1,100	1,000	3,100
Total	7,300	4,200	5,500	17,000

Source: TCR (TBR ref: W9/S2)

Analysis of indirect and induced GVA confirms the importance of the Music, Visual and Performing Arts and Video, Film and Photography sectors to the economy beyond RBKC. Compared with direct output, indirect and induced economic output is also significant in the TV and Radio sector. The proposed change to permitted development rights presents particular threats to the economy in relation to these sectors.

Table 24: Direct, indirect and induced GVA in the creative industries by subsector

Creative subsector	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
Advertising	£149,400,000	£43,900,000	£83,200,000	£276,500,000
Architecture	£81,100,000	£23,800,000	£45,200,000	£150,100,000
Designer Fashion	£26,600,000	£13,000,000	£20,700,000	£60,300,000
Digital and Entertainment Media	£13,600,000	£4,300,000	£6,800,000	£24,700,000
Music and the Visual and Performing Arts	£79,900,000	£62,100,000	£67,900,000	£209,900,000
Publishing	£168,000,000	£69,100,000	£96,100,000	£333,200,000
Radio and TV	£3,500,000	£2,900,000	£3,100,000	£9,500,000
Video, Film and Photography	£65,900,000	£55,400,000	£58,900,000	£180,200,000
Total	£588,000,000	£274,600,000	£381,900,000	£1,244,500,000

Source: TCR (TBR ref: W9/S2)

4. Conclusions: Overall assessment of impact

We use data on lease end dates to calculate the overall impact of converting B1a premises to residential use on the RBKC economy and the wider economy over the next three years (2013–2015 inclusive), and the subsequent seven years (2016–2022). This analysis takes account of firms based in premises believed to be at high risk or at medium to high risk. We assume that premises regarded as being at low risk will not be converted over this timescale, on the basis that other, more attractive opportunities are available to developers.

The most immediate risk from the change in permitted development rights, of course, is to vacant B1a premises. It is difficult to quantify the economic impact of converting vacant premises – because they are vacant, no data is available on employment or output associated with the firms that occupy them. It is clear, however, that there is a significant opportunity cost to converting vacant premises, and that this is likely to impact in the short term rather than the longer term. We estimate that vacant B1a premises in RBKC have the potential to support more than 800 jobs, generating economic output of £60 million per year.

Our analysis suggests that over the next three years, around 12,100 jobs in firms in B1a premises in RBKC, and a further 15,700 indirect and induced jobs in firms in other types of premises or in other locations, are at risk from the proposed change to permitted development rights.

Table 25: Overall impact on employment, 2013–2015

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
High risk	5,800	2,700	4,600	13,100
Medium to high risk	6,300	3,500	4,900	14,700
Total	12,100	6,200	9,500	27,800

Source: TCR (TBR ref: W1/S7)

Most of the jobs at risk over the next three years are located in RBKC, of course. Reflecting the significance of key industries in Kensington and Chelsea, however, around 5,200 jobs located elsewhere in London and 6,400 jobs outside London are also at risk over this time period.

Table 26: Overall impact on employment by geography, 2013–2015

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk	7,700	2,400	3,000	13,100
Medium to high risk	8,500	2,800	3,400	14,700
Total	16,200	5,200	6,400	27,800

Source: TCR (TBR ref: W1/S8)

We estimate that over the next three years almost £910 million direct economic output per year generated by firms located in B1a premises in RBKC, and a further £876 million per year indirect and induced output generated by firms in other types of premises or in other locations, are at risk from the proposed change.

Table 27: Overall impact on GVA, 2013–2015

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
High risk	£455,259,000	£154,987,000	£256,711,000	£866,957,000
Medium to high risk	£451,451,000	£188,188,000	£276,584,000	£916,223,000
Total	£906,710,000	£343,175,000	£533,295,000	£1,783,180,000

Source: TCR (TBR ref: W1/S7)

Conclusions: Overall assessment of impact

We estimate that economic output of more than £1.1 billion per year generated by firms located in RBKC is at risk over the next three years. Economic output of almost £290 million per year generated by firms elsewhere in London, and output of almost £360 million per year generated by firms outside London, is also at risk from the conversion of B1a premises in RBKC.

Table 28: Overall impact on GVA by geography, 2013–2015

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
High risk	£562,300,500	£135,860,300	£168,796,200	£866,957,000
Medium to high risk	£572,291,700	£153,374,800	£190,556,500	£916,223,000
Total	£1,134,592,200	£289,235,100	£359,352,700	£1,783,180,000

Source: TCR (TBR ref: W1/S8)

Over the period 2016–2022, we estimate that some 7,300 jobs in firms located in B1a premises RBKC, and a similar number in firms in other types of premises or in other locations, are at risk from the proposed change to permitted development rights.

Table 29: Overall impact on employment, 2016–2022

Risk Category	Direct employment	Indirect employment	Induced employment	Total employment
High risk	5,700	2,600	4,500	12,800
Medium to high risk	1,600	900	1,300	3,800
Total	7,300	3,500	5,800	16,600

Source: TCR (TBR ref: W1/S7)

We estimate that 9,700 jobs located in RBKC are at risk over the period 2016–2022. A further 3,100 jobs in London and 3,800 jobs outside the capital are threatened by the conversion of B1a premises in RBKC over this period.

Table 30: Overall impact on employment by geography, 2016–2022

Risk Category	Employment in RBKC	Employment elsewhere in London	Employment outside London	Total employment
High risk	7,500	2,300	2,900	12,800
Medium to high risk	2,200	700	900	3,800
Total	9,700	3,100	3,800	16,600

Source: TCR (TBR ref: W1/S8)

We estimate that over the period 2016–2022 direct economic output from firms in B1a premises in RBKC of more than £563 million per year, and a further indirect and induced output of more than £524 million per year from firms in other types of premises or in other locations, is at risk.

Table 31: Overall impact on GVA, 2016–2022

Risk Category	Direct GVA per year	Indirect GVA per year	Induced GVA per year	Total GVA per year
High risk	£445,968,000	£151,824,000	£251,472,000	£849,264,000
Medium to high risk	£117,260,000	£48,880,000	£71,840,000	£237,980,000
Total	£563,228,000	£200,704,000	£323,312,000	£1,087,244,000

Source: TCR (TBR ref: W1/S7)

We estimate that economic output of almost £700 million per year from firms located in RBKC is at risk over the period 2016–2022. Output of over £170 million per year from firms located elsewhere in

Conclusions: Overall assessment of impact

London, and output of almost £215 million per year from firms outside the capital, is also at risk over this period.

Table 32: Overall impact on GVA by geography, 2016–2022

Risk Category	Economic output (GVA per year) in RBKC	Economic output (GVA per year) elsewhere in London	Economic output (GVA per year) outside London	Total economic output (GVA per year)
High risk	£550,825,000	£133,087,700	£165,351,400	£849,264,100
Medium to high risk	£148,647,200	£39,837,600	£49,495,200	£237,980,000
Total	£699,472,200	£172,925,300	£214,846,600	£1,087,244,100

Source: TCR (TBR ref: W1/S8)

The proposed change to permitted development rights clearly poses a substantial risk to the RBKC economy in the short to medium term, with potentially significant impacts on the economy beyond Kensington and Chelsea. Our estimates assume that the conversion of any B1a premises is most likely at the point at which leases expire. If owners were to incentivise tenants to vacate premises before the end of their lease in order to convert them to residential use, the impacts will be felt even sooner than our analysis suggests.

5. Appendix 1: TBR

TBR is an economic development and research consultancy with niche skills in the use of economic data to clarify the dynamics of local, regional and national economies, sectors, clusters and markets. Much of our research has focused on the characteristics and performance of high growth SMEs and the factors which drive their growth, including relevant research for BIS, NESTA and UKTI. We also maintain TCR, the largest longitudinal dataset of UK businesses.

5.1.1 Our data: TCR

Our core data resource, TCR, is one of the most extensive bodies of information on UK enterprise. It contains data on 3.5 million live firms in the UK and their performance histories, meaning it can be used to understand the structure and dynamics of any part of the UK economy – any location (down to street level), and sector (down to specific products and services) and any size (from micro to conglomerate)

We use this unique dataset to add value to our research and analysis. It provides us with access to a high level of detail and focus on hard to reach areas of the economy such as small and micro businesses. It also allows us to identify businesses by their distinct activity, meaning we can create niche sector definitions and segment markets. Hence we work extensively in sectors like the creative and cultural industries and renewable energy, where the traditional tools to map and profile a sector do not work.

For more information on TCR, see <http://www.tbr.co.uk/pages/tbr-observatory/tcr-database.php>