London’s Mega Schemes in Context

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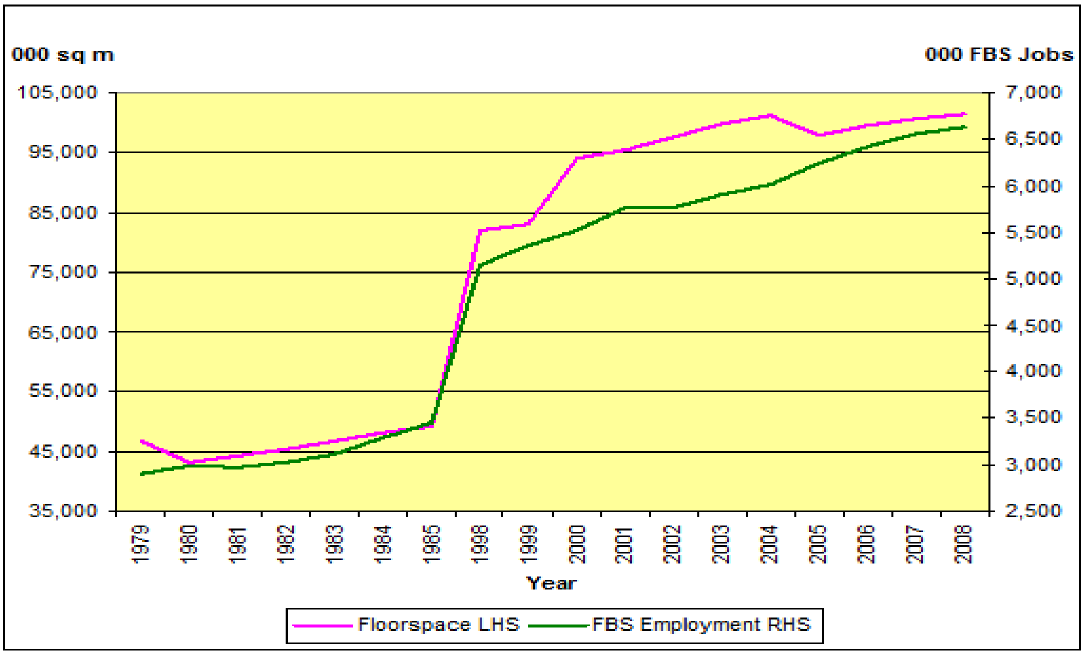
1.0 The office economy: 1984-2009

The history of London’s office market over the past quarter century mirrors the profound change in the wider economy over that period: the replacement of the industrial base by a service base, and the transformation of the UK to an office economy. Figure 1 shows a doubling of office floorspace in England and Wales between 1979 and 2008, from nearly 47 million sq m to 101 million sq m. The graph also shows how the growth in office space was mirrored by a doubling of Financial and Business Services employment over the same period, from just under three million to over six and a half million.

In London specifically, the already large stock of office space grew by 55% over the period 1984-2009, in round terms from around 18 million sq m to 28 million sq m, or a growth of some 10 million sq m over a twenty-five year period. Put another way, a simple long-term average growth rate of 400,000 sq m per annum.

Figure 1 Growth of office floorspace and FBS employment, 1979-2008



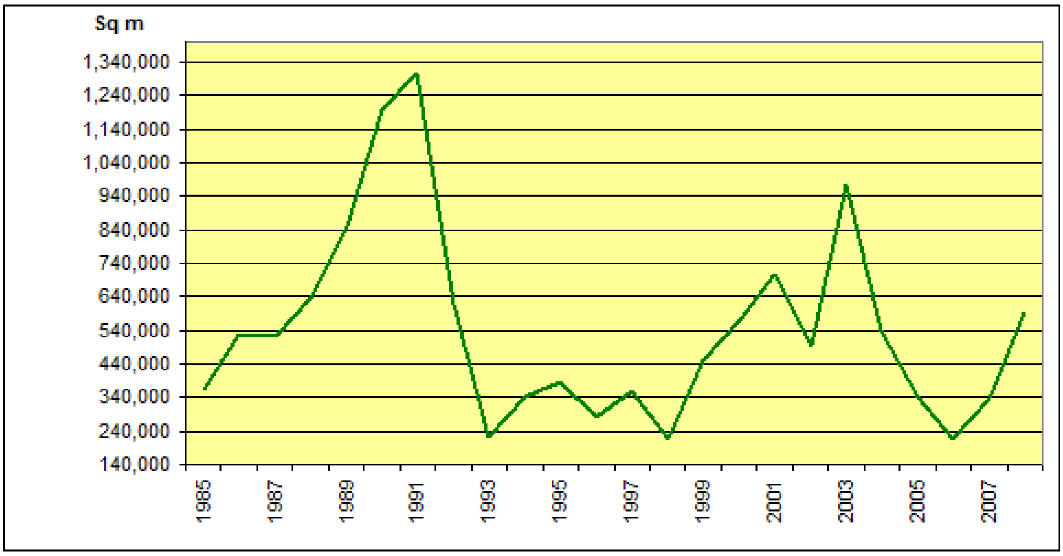
The extraordinary growth impetus delivered by the Information and Communications Technology (ICT) sector was a key factor in the rapid growth of offices in the 1980s, following the launch of the first IBM PC in 1981. It is no coincidence either that the growth followed deregulation of financial services both in New York and London in the mid-1980s, with the emergence of both cities as dominant global financial centres. These changes also drove a fundamental shift in what occupiers expected from offices, creating a huge new market for a whole new product type – large open floors, high specification and superior quality. Crucially, much of the existing stock could not meet this demand. A significant proportion of the new buildings were 100% additions to stock, having been developed on railway lands, former industrial sites and disused docks.

One obvious question that this historic snapshot begs is: what will provide the engine of growth to replicate the historic expansion of the office economy over the *next* twenty-five years? However, the specific question here is: how is the current development pipeline responding to forecast demand. We seek to answer this question by reviewing current mega scheme proposals in the context of historic supply patterns, and then evaluating these against latest employment forecasts and their implications for demand.

2.0 Historic pattern of development

Figure 2 shows Central London development completions, between 1985 and 2008. The long-term annual average is 545,000 sq m, with sharp peaks and troughs.

Figure 2 Development completions, Central London, 1985-2008



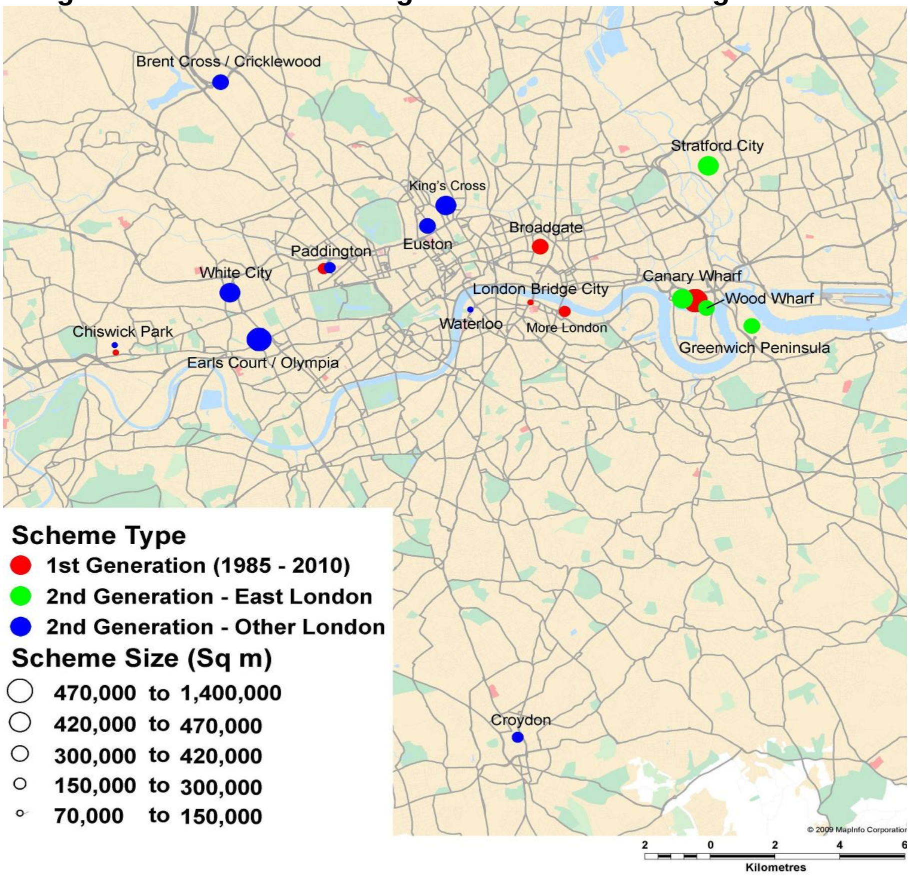
Even during the past twenty-five years the number of very large schemes in London was limited to a handful at any point in time. London Bridge City (first building completed 1986) dovetailed with Broadgate (first building completed 1986); which overlapped with Canary Wharf (first building completed 1991). Then came Chiswick Park (first building completed 2000); followed by Paddington (first building completed 2002) and More London (first building completed 2002). And now King's Cross and others emerging.

Despite the average annual Central London completion figure of 545,000 sq m, the contribution played by Central London mega schemes in meeting demand was relatively modest.

- London Bridge City: 75,000 sq m
- Broadgate: 400,000 sq m
- Canary Wharf: 1,400,000 sq m
- Paddington: 150,000 sq m
- Chiswick Park: 100,000 sq m
- More London: 175,000 sq m
- **Total: 2.3 million sq m**

The schemes have provided, on average, 96,000 sq m per annum. And 60% of this space has been in Canary Wharf. This long-term contribution of the six schemes equates to around 18% of the total Central London annual development completions of 545,000 sq m. Figure 3 shows these, "first generation" mega schemes.

Figure 3 First and second generation London mega schemes



2.1 Polycentric London

The first generation of mega schemes set the precedent for "off-centre" developments. When Broadgate was mooted, half a mile from the Bank of England, it was revolutionary. Now, building in Waterloo, King's Cross and Paddington is mainstream. It is accepted now that it is possible to re-engineer the geography of Central London as long as access to the heart of City and West End by public transport is good, and also that the scheme is large enough to create its own public realm and sense of place.

3.0 Current proposals

Set against this historic pattern of supply, there are now a relatively large number of mega schemes, scattered throughout London, at various stages of development – from inception through to part-delivered.

There are three key issues with these proposals:

- the scale of development in east London,
- the scale of the east London and other mega schemes combined,
- the competitive position of the various schemes.

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3.1 East London mega schemes

One of the key issues for the east London office market is the question of where new office growth will be most highly concentrated. Apart from the myriad sites and schemes involving one or two buildings that are scattered throughout the area, there are four mega schemes lined up to deliver very large amounts of office space. These are summarised below.

- **Canary Wharf:** still has **422,000 sq m** of permitted development at North Quay (222,000 sq m), Heron Quays (155,000 sq m) and 25 Churchill Place (45,000 sq m), to develop.
- **Greenwich Peninsula:** this Quintain scheme is set to provide around **350,000 sq m**.
- **Stratford City:** includes **465,000 sq m** of office development.
- **Wood Wharf:** an eastwards extension of Canary Wharf, promises to deliver **370,000 sq m**.

These schemes could, together, deliver just over 1.6 million sq m of office space. To give a sense of scale, together they are:

- equivalent to 14 HSBC towers;
- equivalent to the amount of space completed within east London at Canary Wharf 1991-2009;
- equivalent to 70% of already completed space within London Bridge City, Broadgate, Canary Wharf, Paddington, Chiswick and More London combined; or
- enough to house 115,000 workers (at the LOPR central density assumption of 13.9 sq m per worker).

Outside of the Canary Wharf complex, east London has so far failed to attract any significant corporate occupier interest.

3.2 Other London mega schemes

As well as the competitive position of the schemes in east London, there is of course the wider question of whether the east London schemes will be competing for occupiers with other mega schemes emerging at the same time, elsewhere in London. There are a number of such schemes on the horizon, and the key projects are summarised below.

- **Brent Cross/Cricklewood** Plans include **c400,000 sq m** of offices.
- **Chiswick Park** There is **75,000 sq m** of permitted development on three plots at the north of the site.
- **Croydon** Various schemes proposed (E.g.: Cherry Orchard Road, Chroma, Odalisk and Ruskin Square) Total **200,000 sq m**.
- **Earls Court/Olympia** Includes **600,000 sq m** of offices.
- **Euston** The 6 ha site has potential for more than **300,000 sq m** of mixed use development, including office, retail and residential.
- **King's Cross** Up to 25 office buildings, totalling **c450,000 sq m**.
- **Paddington:** there is further potential permitted development totalling **150,000 sq m.**
- **Waterloo** Redevelopment of Elizabeth House on York Road will deliver two office towers totalling **75,000 sq m**.

- **White City** The umbrella scheme, Creative London, totals **450,000 sq m** of office space.

These schemes total 2.63 million sq m. Clearly, many of the proposals are at early stages of formulation; some are more certain than others, and the precise office content of each will respond to market signals. Furthermore, the timescale of the schemes will stretch over at least two decades. However, they do signal a very large addition to stock.

Taking the four east London schemes outlined in Section 4.4.1 together with the nine other schemes in London listed above, the mega-scheme pipeline has the capacity to add 4.23 million sq m of office space to the London stock in the future. This is almost double what was provided in the six existing mega-schemes over 25 years (2.3 million sq m), during a period of massive expansion in the London economy. At the completion rates in mega schemes over the past 25 years (average 96,000 sq m pa), the total of 4.23 million sq m equates to 44 years of supply.

4.0 Competition

Having quantified the scale of mega scheme proposals, we turn now to the question of competition. Clearly, whatever the rate of growth in office employment over the coming period, there will be a level of competition for occupiers. Two key questions emerge:

- to what extent will east London schemes compete with each other?
- to what extent will they compete with others in London?

4.1 Competition within east London

The four mega schemes will potentially bring a large amount of office space to the market simultaneously (accepting that little will be built-out speculatively for the next few years). On the assumption that the weight of potential space (and land) outweighs demand, the schemes will compete for occupiers. It could even be argued that this is already happening in the competition for pre-lets for those schemes that are being actively marketed (Canary Wharf and Greenwich Peninsula).

The exception to the simultaneous push will be Stratford, which will not be "pushed" as an office development until after the Olympics. There is thus the possibility that it will be disadvantaged among the four in market terms (even with its superior transport links).

There seems little doubt that the four schemes will be competitive: how could they not be? The key issues are as follows.

- As already noted, the east London market beyond Canary Wharf is an untried office market in terms of attracting corporate occupiers. Levels of demand might therefore be expected to "slow burn", increasing the competitive pressure on each scheme.
- Stratford currently lacks critical mass: this is a fact. It is a "new starter", despite transport advantages. But it has huge public investment and profile and unusually good public transport. Stratford will need to create an identity

and a compelling case if it is to compete successfully with its more established competition to the south.

- Related to the previous point, there is the question of whether the established and mature office centre of Canary Wharf provides North Quay and Wood Wharf with an unassailable advantage over both Greenwich and Stratford.

It is worth bearing in mind in this regard the failure of the Royals Business Park to take-off beyond its first phase. The first building, of 22,000 sq m, was completed in 2004 and eventually occupied by LB Newham. The masterplan for the scheme was for a 150,000 sq m mid-urban, mid-rise business park, and was first mooted in the mid-1980s by developer Rosehaugh Stanhope. The scheme's relative remoteness and lack of transport infrastructure probably played a major role in its lack of success.

However, even having an anchor tenant, access to public transport and locational advantage is no guarantee of success. FirstCentral at Park Royal in west London, developed by landowner Diageo, has a masterplan for nine office buildings totalling just over 100,000 sq m. Diageo occupied its 14,400 sq m headquarters building in 2002. Billed as "*London's new international business destination*", no other occupiers have been attracted to this scheme, where the immediate context is the Park Royal industrial estate, in the subsequent seven buoyant years.

4.2 Competition between east London and other mega schemes

There is little doubt that the east London schemes will be competing with the other mega schemes planned elsewhere; the key issues are as follows.

- What is the compelling offer in east London that will break down strong allegiances, and the practicalities of agglomeration economics, to encourage a west-east drift of large occupiers?
- Given that Stratford might already be struggling to compete with future phases of Canary Wharf and Wood Wharf, will it also struggle to compete with King's Cross, which has many of the transport advantages boasted by Stratford?
- Is it possible that, in a zero sum game, the competition will dilute occupational demand to the detriment of the market overall?

The potential competition is illustrated by CapCo's plans at Earls Court, where they claim their scheme will "*create a west London urban quarter to rival Canary Wharf and King's Cross*". Behind the marketing angle, there is a strong message.

4.3 Impact on Inner/Outer London market dynamics

Three further points merit consideration.

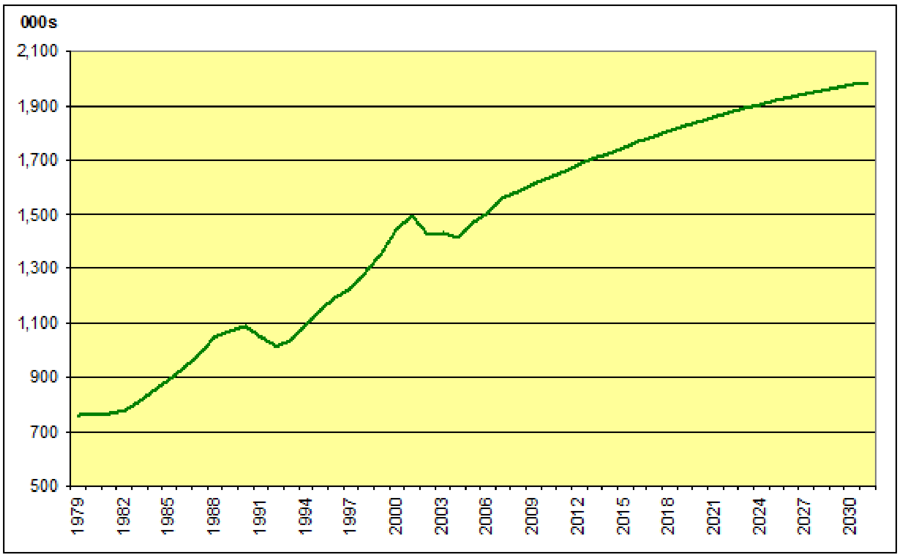
- First, is there also an impact on the core Central London market to be considered? To become a boutique office market?
- Secondly, will the mega schemes further denude the viability of outer London office markets?
- Thirdly, London must also look beyond its boundaries. At Ebbsfleet, for example, Land Securities is planning a mega scheme containing several hundred thousand square metres of commercial space.

5.0 Employment growth forecasts

New forecasts of employment growth in London have just been released. By focusing on the data for Financial and Business Services (FBS) employment as a proxy for office employment, we are able to gain a useful insight into the expected *rate of change* in the demand for offices in the future.

Figure 4 shows both historic and forecast FBS employment in London. Starting from 757,000 in 1979, FBS employment grew to a pre-Big Bang 891,000. Thereafter, it grew quickly, reaching 1,046,000 in 1991 (just prior to the onset of recession), and 1,356,000 in 1999. Over the next ten years, apart from a hiccup around the burst of the Dotcom bubble, FBS jobs grew steadily, reaching 1,608,000 in 2009.

Figure 4 FBS employment, London 1979-2009, and forecast 2009-2031



In terms of the forecasts, these show steady grow from 2009 to 2031, although at a slower rate than in the past. Overall forecasts show FBS jobs growing to 1,984,000 by 2031, representing a 23% increase over the 22 year period. If we cast back 22 years (1987-2009), the growth rate was 63%.

In other words, forecasts for a key indicator of overall demand for offices (FBS employment) are showing a *growth rate* over the coming period a little more than one-third that over the previous period.

6.0 Overview

Comparing one period's mega schemes with those of a subsequent, future period is not a very "scientific" method of looking at the development pipeline. However it does provide a very useful, and graphic, baseline against which to view the scale of proposed development in mega schemes for London.

A number of conclusions and implications emerge from this analysis.

- The mega schemes of the past 25 years delivered c96,000 sq m per annum (two thirds in Canary Wharf), or around 18% of the total Central London annual development completions of 545,000 sq m.

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- There is nearly twice the space in the mega scheme pipeline (4.23 million sq m) as there was in the previous period (2.3 million sq m).
- The proposals represent 44 years of supply at the previous period’s completion rates. This is a very, very large pipeline.
- And, of course, this ignores large schemes elsewhere in the capital (eg Bucklersbury, Heron Tower; News International site; Shard; Victoria).
- The first period saw a major economic structural change (the rise of the office economy); which is unlikely to be repeated in the future.
- On the contrary, there is credible evidence to suggest that this will not be the case. FBS employment forecasts suggest slower growth.
- If FWS and a generally more efficient approach to space management are added to the mix, then future take-up levels could be quite different to historic trends.
- Not all the mega schemes can succeed (in terms of office provision). East London schemes will compete with each other; west London schemes will be competitive; and east will compete with west.
- The mega schemes might depress development viability, and could further weaken prospects for Outer London office markets.

The timescales of mega-schemes is measured in decades in terms of securing ownership and/or development agreements, masterplanning, providing infrastructure, the phased construction of buildings, letting and selling, and management and place-making. Timing is crucial. Some schemes which have “missed” or “failed” in one cycle have “hit” or “succeeded” subsequently. Others have fallen by the wayside, it seems, even where a start has been made and an anchor occupier found.

While it does seem that there is a potentially very large over-supply contained within the mega schemes, we recognise that, in reality, market signals will determine how much is actually built, and the office components of schemes will respond to changing demand circumstances, including the shifting profile of employment and new jobs.

However, given the most recent and more subdued forecasts for office employment, together with the transport infrastructure implications, we suggest that the potential impact of the mega schemes on London’s structure is monitored carefully.