Building Blocks

The role of commercial space in Local Industrial Strategies

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June 2018

centreforcities

About the authors

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Acknowledgements

The authors would like to thank Capita Real Estate and Infrastructure for the support which made this research possible.

They would also like to thank West & North Yorkshire Chamber of Commerce, WeWork, The Media Centre in Huddersfield, Southampton City Council, Savills, Marketing Derby, Alex Plant, the University of Liverpool, Birchwood Park, Warrington&Co, Verdion, Ashurst LLP, Glenny LLP, Montagu Evans and Shakespeare Martineau LLP.

Special mentions go to the Local Data Company for generously providing us with city vacancy data and Sofia Hauck for constructing the data tool. Special thanks to Sarah-Beth Money and Hannah Morris from Holistic Group for organising several interviews. The authors would like to thank their colleague Hugo Bessis for his contributions to the analysis.

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01.

Executive summary

New buildings frequently capture the imagination of those tasked with economic development across the country. This is understandable – unlike upskilling a workforce, a new building has a visible and immediate impact. But despite this property focus, not enough is known about the supply of commercial space within and across UK cities and what this means for policy.

Property is an important factor in attracting and retaining high performing businesses, alongside other considerations such as skills, transport connections, and a network of similar firms. Any strategy designed to improve the economic performance of a city should consider the supply and quality of commercial space available in their area, what type it is and in which parts of the city this property is located.

In successful city centres, offices make up almost two-thirds of the commercial space and the average quality of this office space is better than in other cities. For example, in Bristol and Manchester, retail makes up about 18 per cent of overall commercial space, and performs well because the large numbers of office jobs provide footfall for retailers to sell to.

In poorly performing city centres offices account for less than a quarter of commercial space and the quality of this space lags behind that of more successful economies. In Blackpool and Newport, over 40 per cent of all commercial space is in retail, much of which is struggling. Their lack of office jobs limits footfall, leading to average vacancy rates of 16 per cent in weaker city centres, compared to 9 per cent in stronger city centres. Crucially, this means that these weaker centres will be hit harder by the continued shift to online shopping.

In suburbs industrial land is dominant. Over half of suburban commercial floor space is industrial, compared with only 11 per cent in city centres. There is a major challenge in suburbs for policy makers related to the declining demand for space from manufacturing, which leaves large, vacant sites in need of expensive mediation. On the other hand, ongoing changes in consumption are likely to increase demand for logistics space and sufficient supply will be required, especially on the outskirts of key logistics cities such as Northampton, but also within cities themselves to get deliveries from the depot to the final door.

The quality of office space is often higher in the suburbs than in city centres. Until recently, more attention has been given to improving the supply of office space in suburbs than city centres through policies such as enterprise zones and the subsidisation of business parks, but the challenge for some cities with regards to office space lies within their city centres instead.

As local areas pull together their Local Industrial Strategies, the barriers preventing businesses from locating in city centres need attention. When property is one of the problems facing a city, this will require improving the quality of city centre office space. This may mean reducing the overall supply of commercial space, especially retail and poor quality office space, within their city centres.

New buildings alone cannot change the economic performance of an area, particularly in areas where a lack of skills is the main barrier to business. The aim of this report is to better inform the decisions about property that local and national bodies take as part of wider economic growth strategies.

To ensure commercial property contributes to raising productivity levels, cities and government should implement the following policy recommendations:

- In cities where the private sector is not leading on office development, cities should consider intervening to supply small amounts of new office space to meet demand from productivity-driving firms.
- Cities with relatively high numbers of shops in their city centres should convert some of these into residential and office uses. In cities with very low demand for commercial and residential property, some demolition may be necessary to enable the land to be used to improve the public realm.
- Cities must release sufficient land for logistics so that supply meets demand.
- Government should reform business rates to conduct more frequent revaluations and allow for pooling across city regions, and use the Shared Prosperity Fund to finance interventions into commercial space at the city centre level for weaker economies.

02.

Introduction

Property has a special place in plans designed to boost the economies of cities across the country. Most economic strategies in recent decades have had some focus on property, be that the creation of a science park, the building of new office space or the restoration of a historic building, all with the aim of creating jobs in an economy.

Property will remain important in the current round of economic development plans – called Local Industrial Strategies – that Combined Authorities and Local Enterprise Partnerships have been tasked by the Government to produce. These plans are intended to address poor levels of productivity across the country, which are leading to very different wage levels and job opportunities between cities.

The challenge is that, despite the central focus that property development and redevelopment often takes, the composition of commercial space in cities across the country is poorly understood. This has limited the impact of the many public sector backed schemes that have taken place in recent years.

The report is split into three sections. Firstly, it looks at the supply of commercial space across city centres and suburbs. Secondly, it looks at what interventions cities have made in the commercial property market in order to improve their offer. Finally, it makes a series of policy recommendations for those writing Local Industrial Strategies, suggesting interventions which will ensure there is sufficient supply and quality of space, as cities look to attract, retain, and grow the types of businesses that will improve productivity, wages, and jobs in their areas.

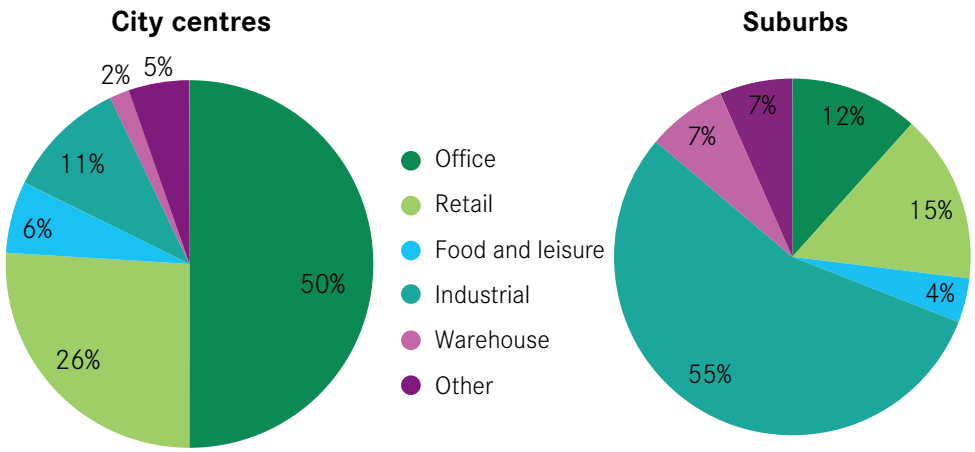
03.

How does the supply of commercial property vary across cities?

Office space dominates commercial space in city centres, accounting for half of all space, as shown in Figure 1. Retail also takes up a large share, accounting for a further quarter of all space, while food and drink accounts for 6 per cent.

In the suburbs, industrial space dominates, accounting for 55 per cent of the total floorspace. This is followed by retail (15 per cent), office (12 per cent) and warehouse (7 per cent).

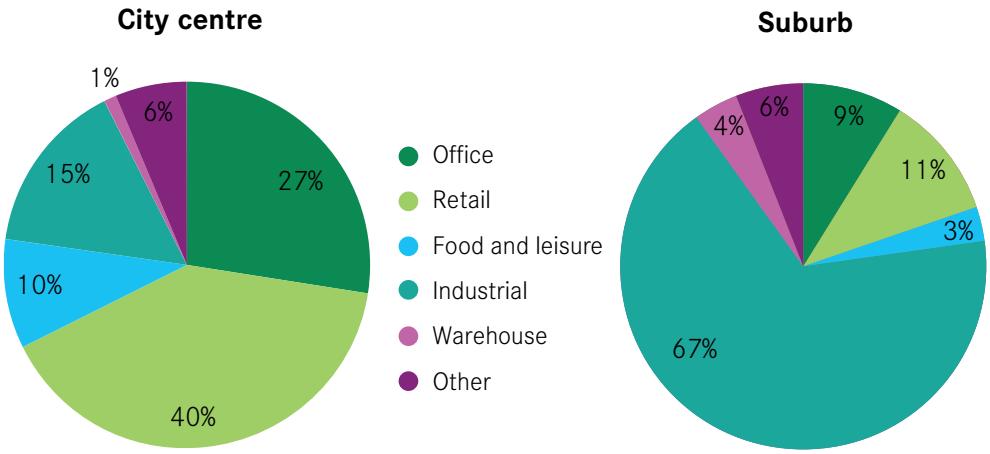
Figure 1: Composition of commercial floor space in city centres and suburbs, 2017



Source: Valuation Office Agency (2018)

This split plays out at the individual city level too. While the exact share of each type of property varies across cities, in most cases there is still a clear shift from office and retail in the city centre to industrial in the suburbs. In Leicester, for example, the city centre has more retail than the average, and more industrial than average in its suburbs. But the variation between the two parts of the city is similar to the pattern seen in Figure 1.

Figure 2: Composition of commercial floorspace in Leicester, 2017



Source: Valuations Office Agency (2018)

The property offers of city centres and suburbs are determined by their exporting base

The main explanatory factor behind these patterns is the different business investment city centres and suburbs receive. The occupiers of office and industrial space are predominantly exporting firms – those which sell to regional, national and international markets – who in theory could locate anywhere as they are not tied to any particular market. But in practice, different exporters have different location preferences.

High-skilled services exporters, in particular, show a clear preference for city centres – 25 per cent of England and Wales' high-skilled service exporter jobs were based in city centres in 2011, despite these locations accounting for just 0.1 per cent of land.[1] This is because of the benefits that successful city centres offer, namely access to lots of high-skilled workers and a network of highly-skilled businesses. City centres tend to be more expensive places to locate but these companies are willing to pay a premium to access these qualities.[2] As a result, city centres are dominated by office space.

A city centre location is not ideal for most manufacturing and logistics operations. Instead, access to lots of land and good transport links has a heavier

1 Swinney P (2018), *The Wrong Tail* London: Centre for Cities

2 City centres are defined based on all the postcodes that fall within a circle from the pre- defined city centre point. The radius of the circle depends on the size of the residential population of a city and its size is as follows: London – radius of 2 miles, large cities – radius of 0.8 miles, medium and small cities – radius of 0.5 miles

weighting in their location decisions. This means they tend to set up in either the suburbs of cities or the hinterlands around them where land is cheaper and they can still access a large number of workers without the costs of a city centre location. This is why industrial space is much more dominant in the suburbs.

But there is a great deal of variation in the property composition across cities - no two city centres or suburbs look quite the same. Previous Centre for Cities research has shown that the ability of city centres and suburbs to attract high-skilled exporters varies across the country, as shown in Figure 3. The stock of commercial property in each city centre, and suburb varies depending on this ability.

Box 1: A typology of city centres and suburbs

Previous Centre for Cities analysis has categorised city centres and suburbs according to their ability to attract high-skilled exporters. Figure 3 plots the share of exporters against the proportion of these exporters that are high-skilled for all city centres and suburbs. It also splits cities into quadrants depending on whether they are above or below the national average.

Figure 3: The size and make-up of the exporting base in city centres and suburbs

City centres

Data covers cities in England and Wales

Source: ONS (2017), Business Structure Database, Census (2011)

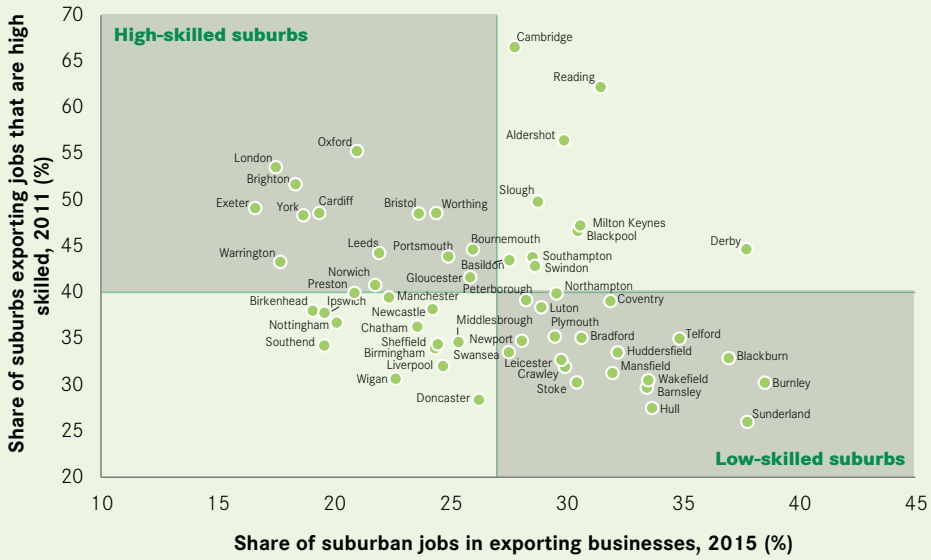
For the purposes of this report, we present our analysis for two of these four quadrants – strong and weak city centres – as this allows us to illustrate how trends play out in city centres at opposite ends of the scale. These two groups, based on how successful each city centre is at attracting exporters and skilled workers, are:

1. **Strong city centres** have a higher than average share of jobs in exporting firms, and a higher than average share of these exporting jobs are high-skilled.

2. **Weak city centres** have a lower than average share of jobs in exporting firms, and a lower than average share of these are high-skilled.

There are a few city centres which have different business investment patterns and do not fit these two groups. 'Moderately strong' city centres have a lower than average share of jobs in exporting firms, but a higher than average share of these being high-skilled. 'Moderately weak' city centres have a higher than average share of jobs in exporting firms, but a lower than average share of these being high-skilled.

Suburbs



Data covers cities in England and Wales
Source: ONS (2017), Business Structure Database, Census (2011)

The same analysis can be done for the suburbs. However, because exports and skills push in opposite directions for suburbs, they are instead referred to as high and low-skilled:

1. **High-skilled suburbs** have a lower than average share of jobs in exporting firms, but a higher than average share of these jobs are high-skilled.

2. **Low-skilled suburbs** have a higher than average share of jobs in exporting firms, but a lower than average share of these jobs are high-skilled.

Again, some suburbs do not fit the wider suburban pattern. Those in the top right quadrant have a higher than average share of jobs in exporting firms, and a higher than average share of these exporting jobs are high-skilled. Those in the bottom left quadrant have a lower than average share of jobs in exporting firms, and a lower than average share of these are high-skilled.

It is important to note that a city's centre and suburbs are often in different quadrants. For instance, Birmingham has a strong city centre but low-skilled suburbs, while Blackpool has a weak city centre but high-skilled suburbs. See Appendix 1 for a detailed list of these groups.

The ability of a city to attract exporting businesses – particularly highly-skilled ones – matters because it is these firms which lead productivity growth. The varying concentration of high-skilled exporting businesses in cities is leading to the very different levels of productivity. For cities to successfully raise productivity, they need to focus on attracting more high-skilled exporters.

Deindustrialisation and the growth of jobs in the services sector have increased the importance of city centres in the national economy. As the specialisation towards high-skilled activity continues, their economic role will strengthen further. **Possessing the right qualities to attract high-skilled exporters into city centres is becoming an ever greater priority for driving local and national economic growth.**

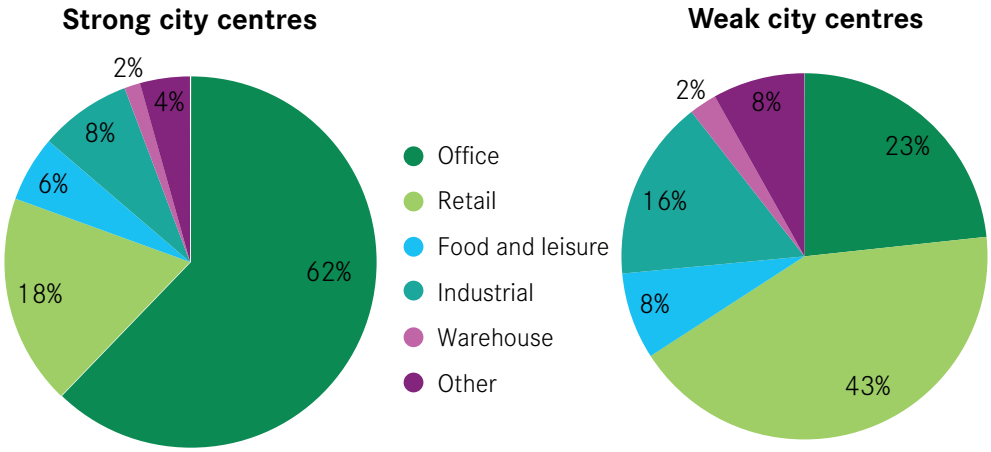
The question for cities is: are differences in patterns of commercial space use associated with economic performance, and if so, what does this mean for local industrial strategies as they aim to improve productivity in their areas?

Successful city centres are dominated by office space

The vast majority of exporting activities in city centres are office based. Given this, to attract such exporting businesses, city centres need to offer appropriate office space alongside the other qualities, such as skills and transport, these businesses look for.

In strong city centres, 62 per cent of all commercial space is occupied by offices, as Figure 4 shows. This is almost three times as much as the share of space given over to offices in weak city centres.

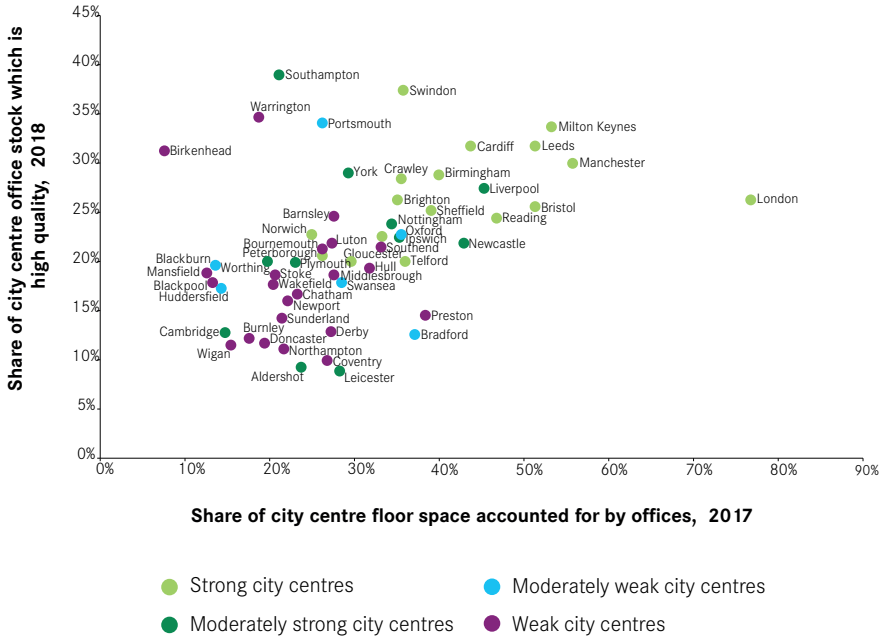
Figure 4: Composition of commercial floorspace in different types of city centre, 2017



Source: VOA (2018)

Not only do strong city centres have a larger share of office space, the quality of this space is also higher. Using the energy efficiency of offices as a proxy for quality (see Appendix 2 for details), 27 per cent of the offices in the most successful city centres can be shown to be of high quality, as in Figure 5, while in weaker city centres only 18 per cent of offices are of high quality. In combination with the lower share of city centres that is office space, this suggests there is a large gap between strong and weak city centres for high-quality office space.

Figure 5: Office stock quality and quantity by city centre, 2017



Source: VOA (2018), Non-Domestic Energy Performance Register (2018)

The low share and quality of office space in weak city centres is due to the lack of private investment in the office market over recent decades. Private sector-led investment in these cities has been rare because of a lack of demand for office space. This is because these cities have a shortage of the characteristics which city centre exporting firms value, such as skills, agglomeration economies, and knowledge spillovers.

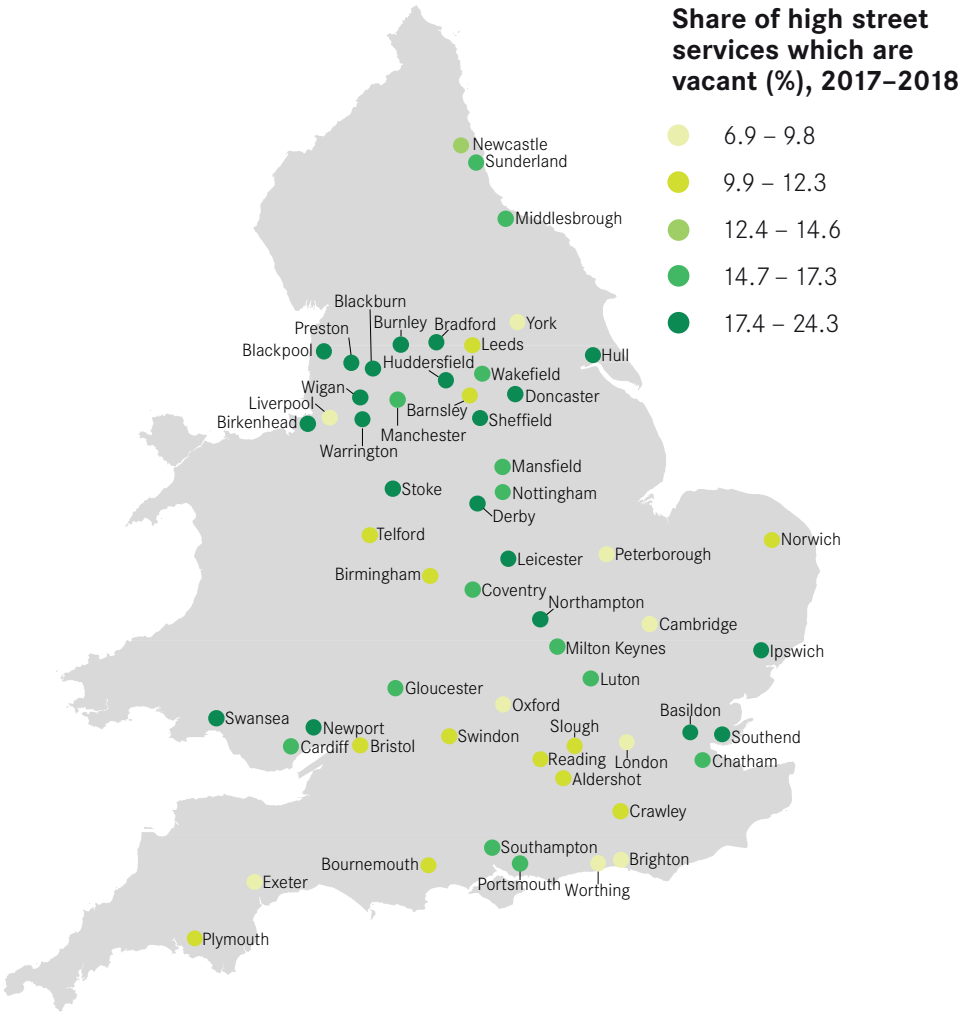
In some struggling city centres, improving economic performance may require the provision of more high quality office space alongside improvements to skills and transport.

Many weak city centres have too many shops

Retail space is much more dominant within weak city centres than strong ones, accounting for 43 per cent of floor space compared to 18 per cent, as shown in Figure 4. The ratio of office to retail space changes dramatically between these different city centres. For every square metre of retail space, there are 3.4 square metres of office space in city centres like London and Bristol. In weaker city centres like Doncaster and Sunderland, for every square metre of retail there is only 0.5 square metres of office space.

Weak city centres dominated by retail do not have enough demand to sustain all these shops which is why so many lie empty. Using data from the Local Data Company (LDC), Figure 6 shows the share of the high street services which are vacant in city centres across the country. For the purposes of this report, we group together retail, food and leisure properties to represent these high street services.

Figure 6: High street services vacancy rate for each city centre, 2017–2018



Source: Local Data Company (2017, 2018)

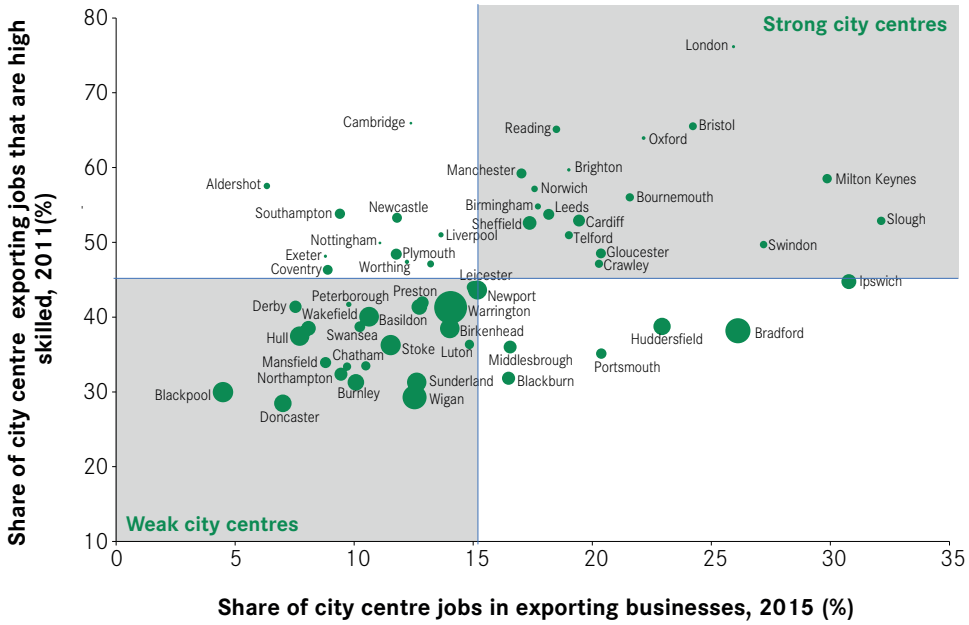
The share of high street services which are vacant ranges from 24 per cent in Newport to 7 per cent in Cambridge. City centres within the Greater South East – the most productive group of cities – on average have much lower vacancy rates than cities in other parts of the country. Cities in the East Midlands, Wales, and across the North tend to have higher vacancies. Retail vacancies drive this trend, accounting for 76 per cent of all vacancies but only 65 per cent of properties in the LDC data.

Previous Centre for Cities research has shown that in strong city centres, the dominance of office space provides greater footfall each day for their retailers and leisure businesses, such as restaurants and gyms. In contrast, city centres dominated by shops and with few exporting firms struggle to provide enough daily footfall to sustain the high street.[3]

3 Swinney P and Sivaev D (2013), Beyond the High Street: Why Our City Centres Really Matter, London: Centre for Cities

This is illustrated in Figure 7 which shows how a city centre's exporting base, as defined in Figure 3, determines its level of high street vacancies. The size of the bubbles represent the vacancy data in Figure 6. It can be seen that strong city centres in the top right have the lowest vacancies – 9 per cent on average – while weak ones in the bottom left struggle with the highest rates of empty properties – 16 per cent on average.

Figure 7: High street services vacancy rate, by type of city centre



Source: ONS (2017), Business Structure Database, Census (2011), Local Data Company (2017, 2018)

This is particularly concerning given the ongoing struggles of a number of high street retailers. But the national story about retail's troubles ignores how some cities will be hit more than others. Weak cities are particularly exposed to these changes. Not only do current retail vacancies already show their city centres are struggling, but ongoing structural changes in retail leaves them vulnerable considering how much of their city centre is given over to shops.

Reducing the reliance on retail will require both attracting in more city centre exporters and removing excess retail space. Retail units will either experience pressure from the private sector to be converted or city intervention may be needed to repurpose them for uses in higher demand or for improvements in the public realm.

Of course, strong city centres are also exposed to these structural changes. But retailers faced with a choice of which stores to close are unlikely to pick those in the most profitable locations, so they are less likely to pull out of the most successful cities. House of Fraser recently closed 31 shops in cities including

Doncaster, Birkenhead, Middlesbrough, and Telford, but they kept them open in London, Reading, Edinburgh, Glasgow, and Bristol.

Strong city centres have more diverse high street services

Not only do strong city centres house more exporters, they also support more food and leisure activities. In these city centres, 24 per cent of high street services are food and leisure, as Figure 8 shows, and the corresponding low vacancy rates show there is sufficient customer demand to sustain them. In weaker city centres only 15 per cent are in food and leisure, on average, but vacancy rates are higher.

Figure 8: Supply of food and leisure space in city centres and vacancy rates of high street services, 2017 – 2018

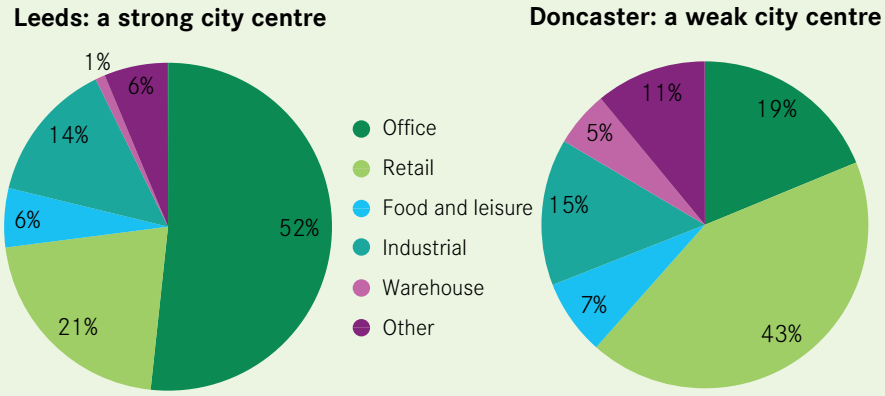
Type of city centre	Food and leisure as share of high street services (%)	Average high street services vacancy rate (%)
Strong city centres	24	9
Moderately strong city centres	17	11
Moderately weak city centres	12	17
Weak city centres	15	16

Source: VOA (2018), Local Data Company (2017, 2018)

While the nature of shopping will continue to evolve, other high street services such as restaurants and yoga classes are arguably less vulnerable to these structural changes. Strong city centres are better placed to respond to these challenges because the large exporting base from their office jobs is already consuming and supporting more diverse high street services that are less exposed to structural change.

Box 2: Commercial property in the city centres of Leeds and Doncaster

Figure 9: Composition of commercial floorspace in the city centres of Leeds and Doncaster, 2017



Source: VOA (2018)

Leeds and Doncaster are in opposite city centre groups and these economic differences in their industrial structure can clearly be seen in their commercial property. **While over half of Leeds city centre's commercial space is taken up by offices,** less than a fifth is in Doncaster. Doncaster's city centre has twice as many shops as offices, while Leeds has two and a half times as many offices as shops. The quality of Doncaster's offices is poorer – 12 per cent are high quality compared with 32 per cent in Leeds. Doncaster also has more industrial and warehouse space in the city centre than Leeds and food and leisure account for a greater share of Leeds' high street services than Doncaster's.

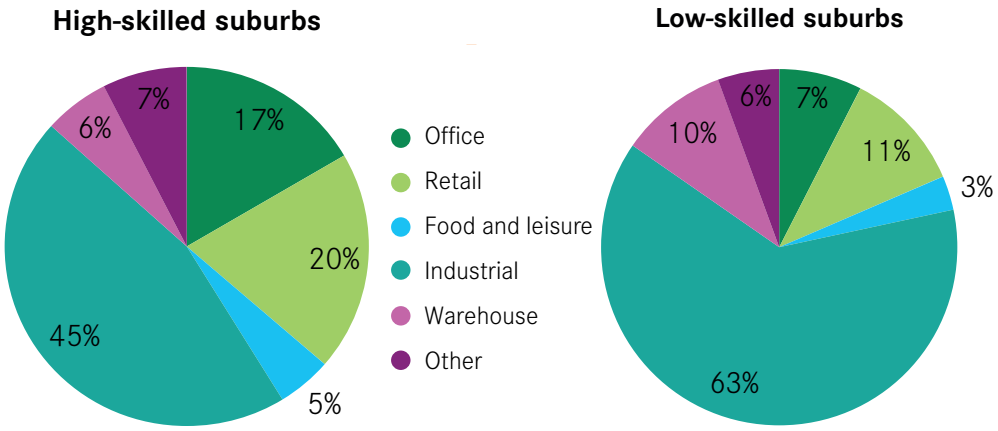
As a result, Doncaster city centre's dominant retail market is supported by a much smaller exporting base than Leeds. This contributes to Doncaster's high street vacancy rate of 18 per cent . A retail intervention such as building a new high-quality shopping centre would not change these underlying fundamentals, and at best will just move shops around the city. Improving the performance of Doncaster's city centre means getting more exporters into the city centre, to both improve headline productivity and better sustain high street services.

There is less variation in the make-up of suburban commercial space

Both high-skilled and low-skilled suburbs have much more industrial and logistics land than city centres.

Nevertheless, high-skilled and low-skilled suburbs are distinct, as shown in Figure 10. High-skilled suburbs have much more office space (17 per cent) than low-skilled suburbs (7 per cent), and less industrial space (45 per cent compared with 63 per cent in low-skilled suburbs). Low-skilled suburbs also have over twice as much warehouse space (10 per cent) than high-skilled suburbs (6 per cent).

Figure 10: Composition of commercial floor space in different types of suburb, 2017



Source: VOA (2018)

Suburbs tend to find that as they increase their exports, the skill level of their exports decreases. This results in suburbs tending to diverge between those with a high-skilled but small exporting base and those with a low-skilled but large exporting base, unlike city centres.

This trade-off between skills and exports in the suburban quadrants introduces a tension into the Local Industrial Strategy that was not present for city centres. As exports and skills pull in different directions, cities will find it challenging to increase the productivity and employment of suburbs at the same time.

Office quality is better in suburbs than in city centres, even though high-skilled firms preferring suburban office space are rare

Office space is much less common in suburbs than in city centres. But some offices are located in suburbs both as a result of some occupiers' preference for out-of-town locations, and policy interventions by cities to build business parks outside of urban areas.

As a result, **the quality of the offices of weaker city centres is worse than in their suburbs.** Looking across city centres, in strong city centres about 27 per cent of offices are high quality in both the centres and the suburbs of those centres. But in weak city centres, only 18 per cent of offices are high quality compared to 26 per cent of offices in their suburbs.

Figure 11: Office quality in city centres and suburbs, by type of city centre, 2018

Source: Non-Domestic Energy Performance Register (2018)

This will in part be a legacy effect of decisions made by some local authorities to permit out of town office parks rather than provide new office space in the centre. In practice, the record of such decisions has been disappointing for cities which have not been able to attract high-skilled firms which need suburban locations. Previous Centre for Cities research has highlighted that subsidised business parks in weak suburbs such as Newburn Riverside in Newcastle have tended either to be filled with firms engaged in low knowledge activity such as call centres or subsidised again through public sector occupancy.[4]

But some suburbs do have productive firms, and these high knowledge suburbs have more office floorspace as Figure 10 shows. This implies that not all work

4 Webber C, Larkin K (2010) Grand Designs London: Centre for Cities

that takes place in offices in suburbs is low value-added activity such as call centres, but that some are relatively high-skilled.

But **high knowledge firms that prefer suburbs are rare, and they appear to be distinct from other kinds of high knowledge employers** as Box 3 indicates. In cities like Cambridge and Warrington with strong suburbs, the commercial space they need is present, but it is unclear whether building offices in weak suburbs is enough to attract new high-skilled firms of this type, especially if they also require specialised skills.

Box 3: Why is some high knowledge work in the suburbs?

Previous research from Centre for Cities has shown that high knowledge firms in suburbs tend to need either a large amount of land and/or more control over their spillovers than other kinds of high knowledge firms. As an example, "technical" high knowledge jobs prefer to locate outside of Crawley city centre. This would include industries that are security conscious and land intensive, such as nuclear and forensics in Warrington and pharma and life sciences in Cambridge.

Spillovers do happen in business parks between these types of firms. Firms in the nuclear supply chain at Birchwood Park in Warrington have indicated that they all need to be within 5-10 minutes' walk from each other as they often do business with each and draw from the same skills in the labour market.

Another factor that emerged from interviews was that these location decisions may arise from demographic factors underpinning amenity preferences. While younger workers prefer city centre locations to enjoy available amenities, high knowledge industries with an older workforce such as nuclear may prefer more suburban amenities such as green space.

57 per cent of people in high-skilled occupations in city centres are aged between 35 and 75, compared to 67 per cent in suburbs. High-skilled occupation workers in city centres are younger than those in suburbs in every city in England and Wales except Crawley. If these are deliberate preferences by older workers, high-skill industries with disproportionately older workforces might prefer suburban locations as a result.

The average quality of offices in weak city centres is, therefore, lower than in their suburbs, and high knowledge firms that can drive growth in suburbs are rare. Improving productivity through interventions in the suburban office market is, therefore, more challenging than in city centres. The typical suburban office market has less need for new stock, and attracting high knowledge firms to suburban offices will be more difficult than in city centres due to their rarity.

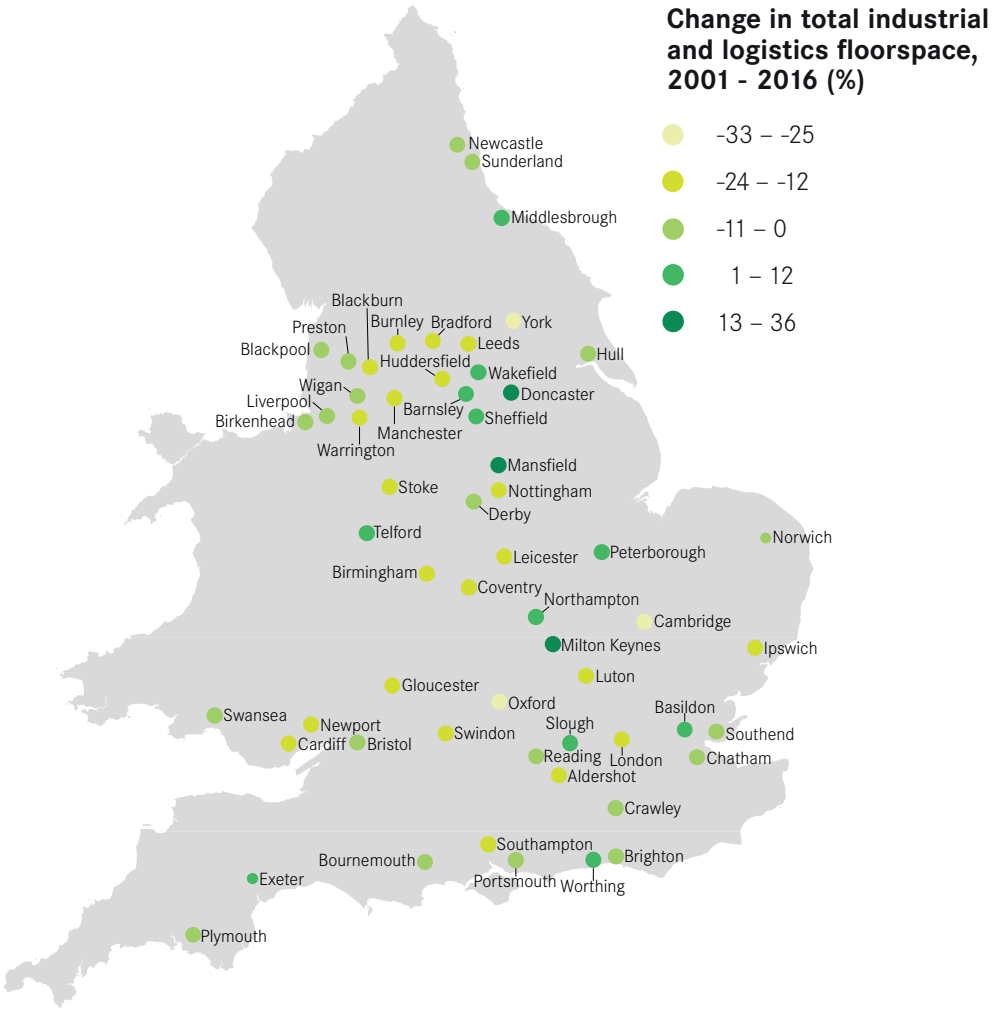
As city centres are likely to grow in economic importance in the future due to agglomeration economies and the continued shift towards high-skilled service jobs, the office challenge for most cities will be how to improve the appeal of their city centres.

Industrial space is in decline but logistics is becoming more important

In contrast to retail, the logistics market has strengthened, as the trend towards online commerce drives growth for logistics space. This is in contrast to long-term trends in falling amounts of industrial space due to deindustrialisation.

In cities, total industrial and logistics floorspace has fallen by almost 12 per cent since 2001. In contrast, the total amount of industrial and logistics floorspace fell by 4 per cent in non-cities, according to the Valuation Office Agency data on uses in commercial property shown in Figure 12.

Figure 12: Change in total industrial and logistics floorspace, by city, 2001 - 2016



Source: Valuation Office Agency (2018)

In cities such as York and Oxford almost a third of industrial and logistics space has been lost. Large cities such as London, Leeds, Birmingham, and Manchester have also each lost just under 20 per cent of their industrial and logistics floorspace. Manufacturing employment has fallen, and much industrial land in stronger economies will have been reallocated to uses in higher demand, including residential.

Cities which have seen much smaller falls such as in the North West or the Sheffield City Region may though not be experiencing enough growth to encourage landowners to take on the risk of changing these plots to more productive uses. In these cities, **interventions to remediate brownfield land may be necessary, especially in or near city centres.** However, there are a few cities where the total amount of industrial and logistics land has increased. Doncaster, Milton Keynes and Northampton have seen an increase since 2001 in their total industrial and logistics floorspace, but also now have some of the greatest amounts of warehouse space in their suburbs of all cities.

This suggests that the growth in demand for logistics floorspace has been especially strong in a few cities. These tend to offer excellent transport connectivity, for instance, the famous 'Golden Triangle' for logistics in the Midlands including Northampton and Milton Keynes has strong motorway links and can reach over 90 per cent of the UK's population in four hours. 'Big sheds' are placed in the suburbs of these cities to serve the national market.

Every city will need logistics space, if only for 'last mile' deliveries which account for nearly 30 per cent of total logistics market costs. While the big sheds in the Midlands serve the UK market, serving individual city markets requires logistics space in each city. The largest costs facing firms for last mile logistics is that of land – particularly in larger cities with big populations and a complex delivery market.

Although logistics space is in high demand and appears likely to remain a source of modest jobs growth in the near future, automation has the potential to change its employment potential over the longer term.

Cities Outlook 2018 noted how elementary storage occupations represent 7 per cent of all the jobs in cities that are likely to be automated through to 2030, with Northampton and Wakefield seeing 12 and 18 per cent respectively of their workforce in this sector at risk.[5]

As a glimpse of what this would look like, Ocado's highly automated warehouses are receiving increased attention and experiments with drone deliveries are continuing with mixed success.[6] For now, progress is slow, but these types of innovations will likely reduce the logistics industry's ability to provide future employment growth.

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5 Centre for Cities (2018) Cities Outlook 2018 London: Centre for Cities

6 Vincent, J (2018) Welcome to the automated warehouse of the future London: The Verge https://www.theverge.com/2018/5/8/17331250/automated-warehouses-jobs-ocado-andover-amazon?mc_cid=b177ec2979&mc_eid=c37b96585d Accessed 14/06/2018; (2018) The Russian Postal Service's first drone delivery crashes almost immediately Riga: Meduza https://meduza.io/en/shapito/2018/04/02/the-russian-postal-service-s-first-drone-delivery-crashes-almost-immediately Accessed 14/06/2018

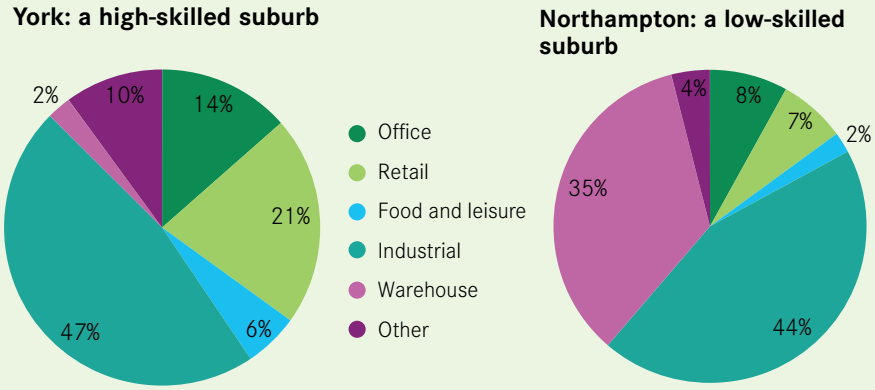
For cities that are overly reliant on logistics for jobs growth, this context of high logistics demand combined with forthcoming structural change has specific implications.

A few cities will remain dominated by logistics because of their physical advantages from infrastructure and access to the national market, but demand for smaller sites and uses will continue to grow in most cities.

As part of the Local Industrial Strategy, releasing more land in suburbs for large sheds will be appropriate for cities with the physical advantages and the demand that logistics need. Over the longer term, delivering prosperity in cities will require supplying commercial space to meet every kind of demand.

Box 4: Commercial property in the suburbs of York and Northampton

Figure 13: Composition of commercial floorspace in the suburbs of York and Northampton, 2017



Source: VOA (2018)

York and Northampton are in the opposite suburban quadrants, and these differences are reflected in their commercial property offerings. Like most suburbs, both have almost half of their suburban commercial space in industrial land, and offices are less common than in the city centre. But the rest of the commercial space is allocated quite differently. York as a high-skilled suburb has more office (14 per cent) and retail and food and leisure (21 per cent and 6 per cent) while Northampton, as a low-skilled suburb, has much less in each of these categories (8 per cent, 7 per cent, and 2 per cent respectively), and has 35 per cent of all suburban commercial space as warehouse, compared to York on 2 per cent.

This indicates the particular strengths and weaknesses of each city. While York is relatively high-skilled, it has also lost the second most absolute amount of industrial and logistics land of any city – a 30 per cent decrease. While it may have been successful at recycling brownfield land in the centre, a combination of a tight green belt and

low logistics space suggests that York may be beginning to experience pressure for releasing some green belt land for logistics uses. In contrast, while Northampton has clear strengths in logistics, a weaker skills base remains a challenge. The city should make the most of its advantages in logistics, but recognise that continuing to drive economic growth will require some additional attention to the city centre.

Summary of findings

- Strong city centres have more and higher quality office space than weak city centres.
- Weak city centres are frequently over-reliant on retail and do not have enough exporting activity to support their high street services.
- Suburbs tend to be dominated by industrial space. Earlier attempts to drive economic growth in the suburbs of weaker cities through business parks have achieved success in only a few cities which possess high knowledge suburban firms.
- A reallocation of land away from industrial and logistics uses has occurred in almost all cities, especially those with stronger economies.
- Logistics is increasingly important in those suburbs with good infrastructure links, but a sufficient supply will be needed in small amounts in all cities to serve the local logistics market.

What does this mean for cities looking to increase productivity through the industrial strategy?

- If weak city centres are to attract the high-skilled exporters who drive productivity they need to be able to offer more high-quality offices.
- Alongside this, they need to reduce their reliance on retail because they have more shops than they need for their level of customer demand, especially when it is space that could be providing offices or other uses.
- Suburbs are not the priority for interventions in office space in most cities.
- Cities with weak economies may need to intervene to accelerate the conversion of low-demand industrial land to other uses, while stronger cities may need to protect industrial and logistics land where it is scarce.
- But cities need to be aware that employment in logistics activity is at risk of automation in the longer term, meaning they should not rely on this space for future jobs growth.

04.

What are cities currently doing?

Many cities are taking active steps to improve their office stock

Where city centre space is in high demand, some cities are using planning to allocate office employment in city centres both to respond to demand for city centre locations and to support high street services. The MK Futures 2050 plan for Milton Keynes incorporates the specific recommendations of the CMK Alliance Plan 2026 for Milton Keynes' centre including planning for 180,000 m^2 gross floor area for offices and 5,000 new homes, partly to strengthen Milton Keynes' retail offer.[7]

In cities with weaker city centres, the city has had to step in. The absence of private-sector led office development combined with the poor quality of existing office space in weak city centres is prompting cities to either directly deliver new office space or work together with local partners to do so.

Case Study 1: Firms choosing to move back into Bradford city centre

Bradford is one example of where an intervention was needed to provide quality office space. But rather than the city council stepping in, it was Business & Enterprise Finance, a subsidiary of West & North Yorkshire Chamber of Commerce who did this. In 2013 they opened Bradford City Hub, a high-quality office set within a refurbished warehouse in Little Germany.

Their motivation came from the lack of high-quality offices in the city centre. Low office rents (£5-8 per square foot) prevented the private sector from delivering space directly. It was often more profitable to convert properties into residential buy-to-lets, and the use of Permitted Development Rights meant the council could not restrict these changes of use despite a stronger need for offices.

7 Milton Keynes Futures 2050 Commission (2016) *Making a Great City Greater*

Despite the apparently weak market, the Chamber believed there was sufficient occupier demand to make a success of a speculative office development. A combination of European Regional Development Funds (ERDF), Bradford Council and equity funds made the scheme possible.

The success of the Hub suggests they were right. The 7,000 sq. ft. Grade A space contains 19 offices and 5 meeting rooms, and occupancy rates have been consistently high since opening. The high quality means they are able to collect higher rents (£16-17 per square foot). The original target occupiers were start-ups and young companies but a number of more established firms have now been attracted in, highlighting the wider appeal of city centre space.

Interestingly, several professional services firms have since moved from the city's business park into the Hub, citing the city centre's rail links, amenity offer and the Hub's co-location opportunities as particular attractions. On the flip side, several firms have relocated from the Hub to the business park. These were less knowledge-based and so did not benefit from the spillovers on offer in the city centre.

The Chamber considers Bradford's next challenge to be the lack of grow-on space for those who have expanded beyond the City Hub's scale. Currently, firms are forced to migrate to business parks, but many would prefer larger, flexible city centre premises so they can continue to reap the benefits of a central location. As a result, Business & Enterprise Finance is now considering City Hub 2 to meet this demand.

Cities are keeping up with changing demand for office space

Qualitatively the preferences for city centre exporting space are also changing with the arrival and expansion of collaborative space such as with WeWork across London and Manchester. This kind of space is not just flexible but also aims to facilitate knowledge spillovers within office buildings. If high-skilled exporters increasingly want innovations in commercial space such as flexible offices like WeWork, then weaker city centres will struggle to attract the high value exporters that they need to increase productivity unless this space is available in their city centres.

For example, Bristol's Engine Shed houses SMEs, start-ups and researchers within 30,000 square foot, including both co-working and more conventional office space. The project was a collaboration between Bristol City Council, the University of Bristol and the West of England Local Enterprise Partnership aimed at improving the city's offering of quality, flexible business premises which enables partners to work together easily in a central location.

It is just one part of the Temple Quarter Enterprise Zone, a large mixed-use city centre development which will provide the city with several new commercial properties such as Grade A offices, a new university campus and studio space for creative firms.

Cities are using lots of small interventions to ensure there is a variety of city centre office space available

Many cities regard the lack of 'grow-on' space for expanding start-ups as a barrier for economic growth. For instance, Derby Council has heard from firms in the city's strong suburbs such as in Pride Park that they would prefer city centre locations. In response, they have established seven office sites for start-ups in the city centre as part of the Connect Derby network, and are looking to add more, larger space.

A series of small interventions aim to reduce the risk of oversupplying offices relative to local demand and give cities the flexibility to alter their proposals as circumstances change.

Case study 2: Flexible occupier criteria key to office success in Huddersfield

The Media Centre in Huddersfield was set up 23 years ago to stimulate knowledge-intensive creative and digital industries in the city. The initial office building was fully occupied straight away, and this success led them to develop two more properties next door, part-funded by the ERDF. Combined, the Centre's three offices provide 62,000 square foot of space.

While the first and second building found plenty of creative industry demand, it was more difficult to find tenants for the third. A decision was made to open the space to businesses in complementary and supportive sectors who also prized a city centre location. This both improved occupancy and benefited the creative and digital industries already present, as co-location across industries created knowledge spillover benefits.

The space is also used by start-ups who have out-grown Huddersfield University's innovation centre. Three firms a year, on average, migrate into The Media Centre from the innovation centre.

Some cities have partnered with city institutions to deliver more high quality office space

Cities are increasingly working with institutions such as Chambers of Commerce and universities both to unlock sites for development and to understand what needs to change about the city's commercial property offer.

Universities in particular are beginning to play a role in commercial property in city economies. Universities frequently own large estates in cities and improving city economies and amenities is an important part of attracting students to attend universities at the start of their adult life and of their careers. Increasing the returns on university assets and improving the appeal of city centres are motivating universities to work together with city councils in order to provide new city centre office space.

Case study 3: Using the University of Liverpool's estate to deliver research space

The University of Liverpool owns 93 acres freehold, amounting to 130 buildings, in the centre of Liverpool. In addition, they own the veterinary school on the Wirral, botanical gardens and the university's London campus.

They have used these assets to contribute to the city's Knowledge Quarter development in Liverpool Paddington, where 30 acres will provide 1.8m square foot space for the University and science, technology, education and health sectors.

In conjunction with the Mayoral Devolution Fund, the University aims to spend £800 million over the next 15 years on its estate. The long-term goal of this direct involvement in city property development is to create a cluster of high knowledge businesses in Liverpool city centre, in order to attract both academics and students to work in the city and collaborate with the University.

The Royal College of Physicians has agreed to pre-let 70,000 square foot of the new development. Liverpool International College will use 35,000 square foot to accommodate 250 students and the Rutherford Cancer Centre North West will house a proton beam cancer treatment hospital on the site.

Less is being done by cities to reduce reliance on retail

In stronger city centres, demand is high enough to repurpose vacant retail units into new uses. While outside city centres, large housing schemes are being planned on former retail parks in Uxbridge and on Old Kent Road in London.

In contrast, **there does not seem to be much evidence yet of cities intervening to reduce or repurpose retail in city centres in response to structural problems of oversupply.** The choices for retail in weaker city centres are starker because there may not be the market interest in order to facilitate conversions, and instead retail will sit vacant in the absence of an intervention. Instead, retail's problems are still often understood as arising from the quality of existing space, but even in strong city centres attempts to address these factors have not been as successful as hoped.

Case study 4: Retail scheme success difficult even in Oxford's strong city economy

Oxford's Westgate Centre opened 800,000 square foot of retail, food and drink space in 2017, having been in development since 2010. The city was identified as having a weak retail offer for a city of its economic standing, so the council was keen to pursue new development.

Oxford was unusual in having pent-up demand for high street services, but despite this, the effect of the new Centre on the city's retail market has been mixed. Some new businesses have been attracted into Oxford due to the new Centre, such as John Lewis and Uniqlo and restaurants Shoryu and Breakfast Club, but most have relocated from elsewhere in the city. As a result, these other retail areas are considered to have declined in quality as Westgate has become more attractive.

Despite footfall exceeding expectations of 15 million a year, the scheme's development yield has been disappointing. This highlights how sensitive the retail market is at present even for such a strong scheme. Westgate serves as a caution to cities which lack Oxford's combination of a strong economy and weak existing retail offer, where it would be difficult for a scheme of the same scale to attract in new high street businesses.

Cities are supporting their high-skilled suburbs and strengthening their city centres

Where high knowledge firms currently exist in suburbs, cities are supporting their needs for suburban commercial space. But due to the distinct needs of suburban and city centre high-skilled firms, cities which have high-skilled suburban firms can strengthen the office market of their city centre without weakening their suburbs.

Case study 5: **Warrington's high-skilled suburban business park**

Warrington is an example of a city whose economic strengths lie in its suburbs, which are home to many high-skilled firms.

The city was chosen by the government to house the civilian nuclear industry in the 1950s, and continuous experiments have been running in the suburban research park from then until the present day. Today the occupancy of the now-named Birchwood Park is more diverse, with nuclear accounting for a third of occupants along with the forensics, engineering and logistics industries. Over 6,000 people are employed on the site.

Currently, the Park's 1 million square foot of commercial space (60 per cent of which is office, 40 per cent is industrial) is 98 per cent occupied and includes the highest grade offices in Warrington. In response to changes in occupier demand, the Park is including co-working elements in new developments. Warrington Council bought Birchwood Park in 2017 for £200 million to achieve a £10 million rent through the council's development arm Warrington & Co.

To ensure the city centre's property offering can complement that of the suburbs, the council is also involved in office development in more central areas. It has developed 50,000 square foot of incubator space, named The Base, which received £7 million from the council and £1.5 million from the ERDF and opened in 2016. Currently, it is 51 per cent occupied and on track to meet the target of 75 per cent by the end of next year. An additional 60,000 square foot of grow-on office space (made up of 11 to 12,000 square foot units) is soon to be developed. This will provide firms with a choice of location, with those favouring city centre amenities and spillovers able to access this while those who benefit most from larger suburban premises able to remain in the business park.

New office space in city centres allows firms currently in suburbs to relocate if they wish to. For example, in addition to the Bradford and Derby examples earlier,

Microsoft Research moved away from the West Cambridge business park where they located in 1997 towards a much more central location in 2013 close to the train station. Likewise, the Francis Crick Institute – a large life sciences research centre – relocated from Mill Hill in suburban north London to Kings Cross in 2016.

Brownfield land is being remediated

Some cities are intervening to clean up brownfield land and make it suitable for private sector use. For instance, Newcastle City Council is partnering with Newcastle University in a 50-50 joint venture to develop 500,000 square foot of commercial space as a science centre on land it owns on the edge of the city centre that was previously a brewery and before that a colliery.[8] These aim to reduce the risk for the private sector from taking on the unknown costs of remediation, which discourage investment even if there is demand in the private sector for property development.

Cities are allocating land in suburbs for logistics space

Demand for logistics land is strong, and land has been released on the outskirts of cities for big sheds recently including the Omega development in Warrington and Harworth Estates Logistics North in Bolton, Greater Manchester. Partly this is because the devolution and current structure of business rates incentivise cities to allocate commercial space to large floorplate activity like warehouses, factories, and retail parks over higher value but smaller uses such as offices. [9]

Urban logistics problems resulting from a shortage of land appear to be at their sharpest in London, where the total amount of industrial and logistics space has fallen by 16.5 per cent since 2001. The Draft London Plan has recently proposed protecting industrial space in Strategic Industrial Locations.

Some cities are directly intervening to provide industrial and logistics space. Measures such as Knowsley Borough Council's £4 million subsidy of speculative warehouse space or Middlesbrough Borough Council's £12.5 million grant to provide speculative industrial space aim to remediate brownfield land and provide new employment and growth.[10] While intervening to remediate brownfield land addresses a market failure, new suburban speculative logistics and industrial land does not possess the same public good elements. Even if successful, there are two major differences from intervening in city centre offices. Logistics and manufacturing activity experiences weaker agglomeration economies as it experiences fewer knowledge spillovers. Furthermore, new jobs

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8 Jeffrey, S (2017) *Delivering Change: How City Partnerships Make the Most of Public Assets* London: Centre for Cities

9 Louise McGough and Hugo Bessis, "Beyond Business Rates: Incentivising Cities to Grow," 2015, http://www.centreforcities.org/wp-content/uploads/2015/12/15-12-14-Beyond-Business-Rates.pdf.

10 Speculative Knowsley scheme secures £9.4m funding: Manchester, Place North West https://www.placenorthwest.co.uk/news/speculative-knowsley-scheme-secures-9-4m-funding Accessed 14/06/2018; White S, Gilmore S, Wright I, (2017) Tees Advanced Manufacturing Park – Delivery and Investment Enablement Executive Report Middlesbrough: Middlesbrough Borough Council

created by this public investment risk replicating low-skilled patterns of work which left cities vulnerable to economic change and automation in the past.

Logistics and industrial land is being used in innovative ways

Cities with stronger economies and competition for space between logistics and other uses are seeing more creative uses of land. For instance, Gazeley in Silvertown in London has proposed the UK's first three-storey warehouse – not mezzanine flooring, but three storeys of warehouse space that lorries and vans can drive up to access. This is a solution to restricted land supply issues common in East Asia where Gazeley's owners GLP operate. Another example is the Port of Salford which is the first tri-modal inland port in the UK allowing freight transfers between road, rail, and sea.

A combination of a scarcity of employment land and changing consumer preferences also appears to be encouraging specialisation of industrial space. For example, Costa Coffee opened the biggest coffee roasting plant in Europe for £38 million in Basildon last year, and in 2015 Premier Foods opened Europe's largest cake factory in Barnsley.[11,12] More complex and specialised outfits are, in part, a way to achieve more efficient uses of increasingly expensive land.

Former retail parks have been identified as a promising source of land to accommodate the growth in demand for logistics.[13] Combining these through mixed-use residential and light logistics 'beds and sheds' is still largely unknown in the UK, but alongside a prominent example of student accommodation block atop a Travis Perkins distribution centre at Kings Cross, others include a BDM Kesslers warehouse adjacent to apartments in the Royal Albert Basin, and a council depot below housing in Kensington and Chelsea.[14]

Minimising the congestion caused by logistics' growth

Managing the congestion caused by increases in logistics transport is also a growing concern in many cities. Congestion is a brake on economic activity, and white van traffic, as the fastest growing segment of transport, has increased by 71 per cent since 1996.[15] In response, the Greater London Authority (GLA) has proposed a ban on deliveries to offices, and is attempting to consolidate deliveries into fewer journeys. Working with warehouses and recipients to reduce deliveries to a smaller number of journeys to retailers has been achieved on Regents' Street by the Crown Estate in conjunction with Clipper Logistics.

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11 Hough, K (2017) *Inside Costa Coffee's £38m roastery plant which finally fires up today*: Basildon: Essex Echo *Accessed 14/06/2018*

12 Fritz, V (2015) *Europe's longest cake production line in action* London: BBC *Accessed 14/06/2018*

13 Naumann, M (2017) *European Urban Logistics: When, Where and How* Cologne: Deutsche Bank

14 Norman, P (2017) *The Savills/CoStar logistics debate - Beds and Sheds and the need for Industrial led mixed use*: London: CoStar; Muir F, Kerimol L (2017) *Industrial Intensification Primer* London: Greater London Authority

15 Linton C,Fuller R, Bray J (2018) *White Van Cities - Questions, Challenges, and Options on the Growth of Urban Van Traffic* London: Urban Transport Group

05.

What role should the public sector play in delivering this commercial space?

Where market failures are currently limiting economic growth, interventions by the public sector are justified to ensure quality commercial space is provided in cities. But the supply of new commercial property alone will not raise productivity. These interventions should be viewed as one tool within the broader Local Industrial Strategies.

This implies roles for local government in city centres and suburbs, and national government on the policy level, as part of a wider industrial strategy encompassing skills, transport, and housing.

Policy recommendations for national government

The Government should acknowledge that within the Local Industrial Strategy, there is a limited role for the public sector in improving city centres' commercial property offer.

1. Use the Shared Prosperity Fund (SPF) to assist the redevelopment of city centres

The ERDF has played a prominent role in supporting new commercial space in UK cities. When this is no longer available, the SPF should be used to provide similar support. Cities themselves are asking for this – the Greater Manchester Combined Authority has stressed the importance of the ERDF for the supply of recent new commercial space in Manchester including Citylabs, MediaCityUK, Logistics North and the Cotton Building.[16]

The SPF's role will be particularly important in weak city centres due to the market failure which limits office development despite their lack of supply and the poor quality of existing office space. The SPF's commercial property objectives

16 Gordon A (2018) *Funding for Strategic Projects Post-2020* Manchester: Greater Manchester Combined Authority

should be to ensure that every city has a sufficient supply of high quality office space in the city centre to better meet demand, and to assist in the conversion of excess retail to other uses.

2. Prioritise commercial space in city centres and offering exemptions for permitted development rights

The Government should put more emphasis on and better protections for city centre office space.[17] Permitted Development Rights (PDR) have increased the supply of housing in unaffordable cities, but partly through an unsustainable loss of central office space. A combination of prioritising planning in city centres around office space and reducing restrictions to more and denser housing in suburbs would alleviate these pressures.

3. Business Rates should be reformed to help cities develop city centre offices

Government should implement business rates reforms called for in previous Centre for Cities research to encourage cities to allocate more space in city centres to offices.[18] These include more frequent revaluations of commercial property to increase certainty for business and make the property supply more responsive to market demand; removing the cap on total yield generated to allow local authorities to capture land value growth; and pooling of business rates across city regions to allow the benefits of strong city centres to be felt across the wider economic area that they rely on. Combined, these changes would encourage cities to drive economic development in their city centres and meet the demand for office space in them.

Policy recommendations for city centres

Supporting high-skilled exporters should be the purpose of any Local Industrial Strategy intervention in city centres' commercial property. Exporters not only drive increases to city-wide productivity, they also support high street services such as retail in city centres. Barriers to city centre exporters such as skills,transport, and commercial property should be identified and addressed by cities and local partners.

1. Weak city centres should be remodelling their city centres to become more attractive to productivity-driving exporters

City centres in weaker economies tend to have fewer, and poorer quality offices than strong city centres of the high quality space that high-skilled firms need is the immediate constraint on growth. The private sector is not delivering the higher quality offices required by productivity-driving firms in these city centres because the market is not proven, and office rents are too low to make private sector-led development viable. Interventions should start small and improve

17 McDonald R, Bessis H (2018) *City Space Race* London: Centre for Cities

18 Bessis H (2017) *Business Rates: Maximising the Growth Incentive across the Country* London: Centre for Cities

office space step-by-step in order to keep pace with demand and avoid oversupply.

One option is for cities to develop offices themselves, such as Warrington's intervention in The Base. This gives the city control over design, construction and tenants, but also involves significant risks. Cities should avoid large schemes in order to minimise this risk. Barnsley's 96,000 square feet Gateway Plaza building opened in the city centre in the immediate aftermath of the financial crisis, and the council ended up having to occupy 78,000 square feet of the building.[19] This results in a double subsidy for office development from the public sector – once for construction, and again for occupancy – and fails to attract in the high knowledge firms needed to increase productivity which would be the purpose of any such intervention.

Cities should partner with universities, Chambers of Commerce and other local institutions to deliver new commercial space. As Liverpool and Newcastle have shown, they are also an important way cities can take a leadership role of their city and its growth in the LIS.[20]

Applications should be made to the Shared Prosperity Fund to finance future commercial property schemes in city centres. The European Regional Development Fund has played an important role in supporting cities engaged in city centre office interventions. The Transforming Cities Fund and other sources of funding such as the Strength in Places Fund may also be appropriate for specific schemes. The metro mayors can help unlock this funding for the cities that have them.

Cities with lots of low quality, vacant office should intervene to reduce this space. Occupiers are becoming more discerning about the quality of office space, and increasingly expecting features such as co-working and flexibility. Low quality office in city centres with weak demand will not be able to drive the growth in exporters that these cities need – instead they drag down rents and cities' amenity offer. Permitted Development Rights have flipped some of this poor quality office to residential in some cities,[21] but if the private sector is not refurbishing or converting this space, then the city should step in.

Weak city centres should reduce their reliance on retail. In the long term, the retail solution for these city centres is the same as the office solution – attracting more high knowledge exporters in the city centre will produce more customers for the shops. But if they have too much retail space, achieving this may require some cities to intervene to repurpose their high streets.

In some circumstances, the replacement of buildings with new structures to fit new uses will be needed. Some retail units are easier to convert than others, as for example Victorian promenades are easier to convert

19 Webber C, Larkin K (2010) *Grand Designs* London: Centre for Cities

20 Jeffrey, S (2017) *Delivering Change: How City Partnerships Make the Most of Public Assets* London: Centre for Cities

21 McDonald R, Bessis H (2018) *City Space Race* London: Centre for Cities

into flats and office space than steel sheds or modern retail units which would need to first be knocked down.[22] In the suburbs of some of these cities, this may include switching retail parks to uses like residential and logistics, or mixed uses for these high demand spaces.

But in the weakest city centres, repurposing vacant or poor quality retail for improved public realm such as playgrounds and parkland may be the best option. Where demand for uses other than retail is also low it may not be plausible to convert all retail into new uses and risks swapping vacant shops for merely other kinds of vacancies.

2. Stronger city centres should respond flexibly to changing occupier demand

Stronger city centres are much more likely to have an office offer which suits productivity-driving firms and where improvements are needed the private sector is often incentivised to deliver these. As a result the role for the public sector in property development in these cities is to shape city centres rather than delivering new space.

Previous Centre for Cities research has shown that competition for space is squeezing commercial property in many of these city centres, as demand for housing grows. **These city centres should ensure they balance high quality offices with residential space,** given the commercial importance of these central areas.[23]

Stronger cities should facilitate the shift of city centres away from retail and towards food, drink and leisure uses through local plans and reallocating space. A structural shift in high street services away from shops and towards services appears to be taking place. The most successful city centres are already well placed to adapt to and benefit from this, but can only do so if they respond to changing demand on the high street services rather than attempting to sustain an oversupply of retail.

Policy recommendations for suburbs

1. Cities should ensure there is sufficient space for logistics and distribution to match demand

In many cities, the demand for logistics is growing. Supporting this growth and allowing these developments to benefit cities requires a leadership role from cities.

Stronger cities need to allocate and reserve land to logistics uses in their local plan. Large depots will also be needed on the outskirts of cities, including on green belt land next to key infrastructure. But larger cities are

22 Federation of Master Builders (2017) *Homes on Our High Streets*

23 McDonald R, Bessis H (2018) *City Space Race* London: Centre for Cities

experiencing increasingly tight competition for space for logistics inside urban areas, and it is important that sufficient land is provided for last-mile delivery activities. Measures such as the GLA's protection of strategic industrial space may not currently be necessary outside of London, but larger cities should carefully watch London's experience with this policy and compare it to their own.

Cities should experiment with innovative uses of logistic space. Multi-storey logistics and mixed-uses between residential and other innovations as in Silvertown and Kings' Cross can ensure land is used as efficiently as possible.

Cities should not subsidise the supply of logistics sector property. Demand for logistics space is high and it drives private sector activity in this market. In weaker cities, the private sector will look for prime plots of land with exceptional transport links to meet a broader demand for logistics from the UK economy as a whole. Direct subsidy to entice logistics space will rarely be able to change these characteristics.

Weaker cities should be cautious about relying on logistics as a strategy to increase productivity. While logistics firms will bring jobs and investment, and automation may eventually raise the productivity of a small number of those jobs, weaker cities relying heavily on logistics space risk replicating low-skilled patterns of work. If automation becomes more prevalent, then it could replace many newly created logistics jobs if cities are unable to improve their skills base in the meantime.

2. Cities need to manage the de-industrialisation of land

Some cities will need to take the lead in remediating brownfield land. In many cities industrial floorspace has fallen over the past 20 years in response to a decline in manufacturing employment. However, some cities, especially those with weaker economies, have seen much lower falls. In these cities in particular, private developers are reluctant to decontaminate old brownfield land as the returns on development are too low. Land remediation led by local government is especially appropriate in order to correct for blight and unlock new land in city centres that is appropriate for dense office spaces, as in Newcastle. The new Brownfield Research and Innovation Centre in the West Midlands will be an important source of expertise for cities, and national funds such as the Home Builders' Fund are intended to support development of residential property on brownfield land.

Appendix 1: A detailed typology of city centres and suburbs

City Centres

1. Strong city centres - top right quadrant of Figure 3.

   This group includes the following city centres: Reading, Slough, Milton Keynes, Swindon, London, Oxford, Brighton, Cardiff, Leeds, Bournemouth, Norwich, Gloucester, Crawley, Telford, Manchester, Birmingham and Sheffield.

2. Weak city centres - bottom left quadrant of Figure 3

   This group includes the following city centres: Blackpool, Derby, Basildon, Warrington, Peterborough, Northampton, Luton, Newport, Leicester, Swansea, Mansfield, Wakefield, Stoke, Burnley, Barnsley, Hull, Sunderland, Preston, Birkenhead, Chatham, Southend, Wigan and Doncaster.

3. City centres in the top left quadrant of Figure 3 – 'moderately strong'

   This group includes: Cambridge, Aldershot, Southampton, Exeter, York, Worthing, Coventry, Plymouth, Newcastle, Nottingham and Liverpool.

4. City centres in the bottom right quadrant of Figure 3 – 'moderately weak'

   This group includes: Portsmouth, Bradford, Huddersfield, Blackburn, Ipswich and Middlesbrough.

Suburbs

1. High-skilled suburbs – top left quadrant of Figure 3

   This group includes: London, Oxford, Brighton, Bristol, Cardiff, Leeds, Bournemouth, Norwich, Gloucester, Exeter, York, Worthing, Portsmouth and Warrington.

2. Low-skilled suburbs – bottom right quadrant of Figure 3

   This group includes: Crawley, Telford, Coventry, Plymouth, Bradford, Huddersfield, Blackburn, Peterborough, Northampton, Luton, Newport, Leicester, Swansea, Mansfield, Wakefield, Stoke, Burnley, Barnsley, Hull and Sunderland.

3. Suburbs in the top right quadrant of Figure 3

   This group includes: Reading, Slough, Milton Keynes, Swindon, Cambridge, Aldershot, Southampton, Blackpool, Derby and Basildon.

4. Suburbs in the bottom left quadrant of Figure 3

   This group includes: Manchester, Birmingham, Sheffield, Newcastle, Nottingham, Liverpool, Ipswich, Middlesbrough, Preston, Birkenhead, Chatham, Southend, Wigan and Doncaster.

Appendix 2: Notes on data sources

Valuation Office Agency (VOA) data

The VOA collects data on commercial property as part of its activities in valuing properties so that business rates can be levied on them. This data captures around 80 per cent of all properties in England and Wales. The floorspace of some categories of commercial property are not included. This includes:

2. Pubs and clubs that are primarily taxed through licensing rather than floorspace

3. Hospitals, schools, and other buildings which pay business rates and have been valued by the VOA, but these valuations are not provided in the dataset because they have not received a Summary Valuation from the VOA

Energy Performance Certificate Data

Energy Performance Certificates (EPCs) grade commercial property on their energy efficiency, and these grades can be used as a proxy for buildings that have been built or refurbished recently. Using the Non-Domestic Energy Performance Register, the number of offices that are high quality in city centres can be estimated from looking at all of those with EPCs A, B and C. These are the most energy efficient buildings in the B1 building class, and are presumably the newest and therefore highest quality office space.

Unfortunately, the EPCs grade the entire building (so for example the entire floorspace of Wakefield One, the council headquarters, library, and museum, is counted as an office building when only a small amount of the floorspace is actually let out for commercial use) and the B1 building class combines office buildings with workshops, which tend to have larger floorplates and do not exist in the same market as conventional office space. As a result, the office quality data in Figure 6 looks at units rather than floorplates as a whole, unlike the rest of the report.

About Centre for Cities

Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

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June 2018

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