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Making the Grade

The impact of office development on employment & city economies

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"The 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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The British Council for Offices' (BCO) mission is to research, develop and communicate best practice in all aspects of the office sector. It delivers this by providing a forum for the discussion and debate of relevant issues.

Executive summary

The structure of the UK economy has undergone huge change in recent decades, moving from a principally manufacturing based economy to a services based one. The continued patterns of globalisation mean that the UK is likely to continue to specialise in higher value, office-based employment. This makes the provision of office space very important for the future economic growth of our cities.

This report finds that, despite strong demand, some of our most successful cities have not seen large increases in the supply of office space. Despite having high rental values, signifying high demand, cities such as Reading and Cambridge have seen very low growth in office floorspace. Cities such as Blackburn and Bolton, on the other hand, have seen large increases in office floorspace despite having much weaker office markets. In summary, growth in the supply of office space has not responded to demand across our cities.

"A new approach to development is required in order to help smaller cities overcome the concerns developers have about their smaller size and boost speculative development"

This paper explores patterns of office development by looking at case studies of two large cities – Bristol and Manchester – and two small cities – Cambridge and York – to gain a better understanding of how the office development market differs in these places.

It finds that there is a bias toward larger cities in the office development industry. Despite their economic potential, generally the industry views smaller cities as too risky to invest in. This could limit their growth in the future and in response these smaller cities need to promote themselves as investment prospects to developers.

The sheer scale of larger cities means that they do not face this problem. However, these larger cities will need to be proactive about how they manage the supply of office space provision in order to minimise the obsolescence of office stock in their economies.

Recommendations

Smaller cities

- A new approach to office development is required to help smaller successful cities overcome the concerns developers have about their smaller size and boost speculative development.
- To maximise the choice for developers and businesses, cities should work closely with their neighbouring authorities on spatial planning issues.
- Cities should proactively work with their existing businesses to pre-empt growth where there is evidence that demand for office space is likely to rise.
- Smaller cities also need to raise their profile with national property agents.

Larger cities

- Large cities should maximise their scale advantage to maintain a stable supply of high quality office space.
- They should proactively manage their built environment in order to maintain an attractive business environment for all businesses.
- Large cities also need work with developers to effectively manage their office stock to avoid a structural build up of obsolete Grade B space.

All cities

- All cities should focus on attracting businesses by improving skills, infrastructure and the general business environment.
- All cities need to understand the office stock within their region in order to create a strong offer to businesses.

Developers, investors and agents

- Developers, investors and agents should look to smaller cities for opportunities as these cities are in a strong position to grow office and knowledge-based jobs.
- They should also work with all cities to help them better understand their office stock, business requirements and pre-empt structural obsolescence.
- Agents should collaborate in order to standardise rental value data definitions (for example geographical area and grading) beyond the core cities.

"Developers, investors and agents should look beyond the core cities for opportunities as these cities are in a strong position to grow office and knowledge based jobs"

Introduction

The structure of the UK economy has undergone huge change in recent decades, moving from a principally manufacturing based economy to a services based one. Continued patterns of globalisation mean that the UK is likely to continue to specialise in higher value, office-based employment. This makes the provision of office space vital for the future economic growth of our cities.

Office-based employment is becoming ever more important for the UK economy. In 1998 the number of employees working in office-based sectors in Britain was 5.1 million. By 2008 this figure had risen to 6.5 million.[1] Many of these jobs are located in our cities, particularly the more knowledge intensive office-based jobs that will be vital to future economic growth.[2] In 2010, 72 percent of Britain's employment in knowledge-based industries was in cities.[3]

"In 2010, 72 percent of Britain's employment in knowledge-based industries was in cities"

These trends suggest that ensuring a supply of appropriate office space in UK cities will be an increasingly important factor for future economic growth. This means that it is crucial that cities with the potential to support jobs and business growth are not restricted by a lack of suitable office space.

This report examines the patterns of office supply in our cities, and is split into two parts. Part one looks at the trends in the supply of office space across all of our cities (defined by their Primary Urban Area - see Box 1). It finds that there has been a mismatch in recent years between the demand for office space and supply of it, suggesting that the supply of office space is not supporting the expansion of some of our most successful cities.

Part two explores these patterns of office development in more detail by looking at case studies of two large cities – Bristol and Manchester – and two small cities – Cambridge and York – to get a better understanding of how the office development market differs in these places. The sheer scale of some of the UK's larger cities means they are better placed to attract office development, while the greater risk attached to supplying office space in smaller cities could be constraining the ability of these smaller places to grow.

Box 1: Defining a city

Centre for Cities uses the **Primary Urban Area** (PUA) definition, which defines places with continuous built-up land, and populations over 125,000 people. This means that some cities are made up of more than one local authority. For example, the Birmingham PUA is made up of Birmingham, Wolverhampton, Walsall, Sandwell, Dudley and Solihull. Generally, the office property industry focuses on defined market areas, for example Manchester might refer to Manchester City Centre, South Manchester, Manchester Airport and Salford Quays.

This report uses the PUA definition, unless it is stated to be using industry data sources.

1. NOMIS 2012, Annual Business Inquiry. Data not available for Belfast
2. Centre for Cities (2012) *Cities Outlook 2012*, London: Centre for Cities
3. NOMIS, BRES, 2010 data. Data not available for Belfast. Uses State of the English Cities "wide" definition of KIBs.

Uneven economic performance

Economic performance is uneven across British cities and cities which see the fastest growth in private sector performance are not always those with the largest workforces or economies.

Private Sector Cities set out how economic performance has varied from city to city between 1998 and 2008 (see Box 2).[4] Whilst the research found that big cities such as London, Manchester, and Bristol are important because of their size, it also found that many of the cities with the highest potential for growth were smaller and more dynamic.

"Cities which see the fastest growth in private sector performance are not always those with the largest workforces or economies"

As Table 1 shows, **despite having smaller populations, Cambridge, Oxford, Aldershot and Milton Keynes are some of the best performing cities in the country.** Of the top 10 performing cities only two, London and Bristol are amongst the UK's 10 biggest cities.

Table 1: Britain's buoyant cities

City	*Private Sector Cities* rank	Population and rank of 63 cities (2010)	
London	1	9,116,200	1
Milton Keynes	2	241,500	39
Cambridge	3	125,700	60
Reading	4	434,000	16
Crawley	5	246,200	38
Oxford	6	153,700	57
Aldershot	7	176,500	49
Bristol	8	706,100	9
Edinburgh	9	486,100	13
Brighton	10	320,400	27

Source: *Private Sector Cities* (2010). The 2010 analysis has been updated to include Scottish and Welsh cities using the same data sources.

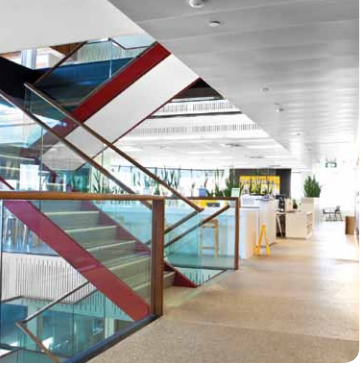
Box 2: *Private Sector Cities* typology

In *Private Sector Cities* (2010), Centre for Cities developed an evidence-based typology to categorise the economic performance of cities – buoyant, robust, stable, vulnerable and struggling – based upon a range of variables including population change, GVA growth, private sector jobs growth, house prices, benefit claimants and wages.

A list of cities and their classification can be found in the appendix.

The full *Private Sector Cities* report is available from: www.centreforcities.org/privatesectorcities

4. Webber C & Swinney P (2010) *Private Sector Cities: A new geography of opportunity*, London: Centre for Cities



Office-based employment matters to cities' economic performance

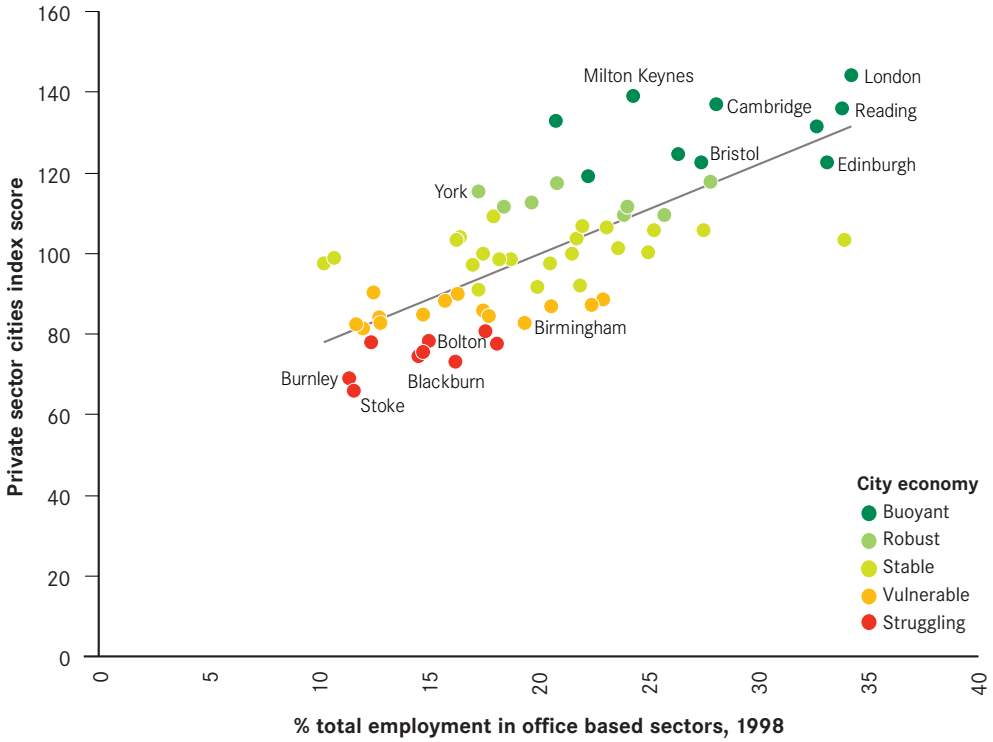
Office-based employment is increasingly important for city economies and for the UK economy as a whole. The shift in employment patterns over recent decades has seen a change in the way people work and a change in the types of buildings needed to accommodate economic activity. As with private sector performance, office-based employment (defined in Box 3) varies across different cities.

"Office-based employment is increasingly important for city economies and for the UK economy as a whole"

Cities which had higher rates of office-based employment in 1998 performed better over the subsequent decade across a range of economic indicators.[5] This variation in office employment is important because cities that are struggling to shift towards a more office and knowledge-based economy are likely to lag behind those cities that have already made that transition.

As Figure 1 shows, cities with larger, established service economies such as Reading, Edinburgh and Oxford were well placed to benefit from the national economic growth in the decade before the 2008 recession. However, cities such as Stoke, Burnley and Rochdale performed less well economically because their more industrial economies still need to adapt to long-term structural economic change – these cities had under 12 percent of employees working in office-based sectors in 1998.

Figure 1: Relationship between percentage of employment in office-based sectors in 1998 and *Private Sector Cities* index score



Source: NOMIS 2012, Annual Business Inquiry, employee analysis. Centre for Cities *Private Sector Cities* index 2010.

5. Indexed score using *Private Sector Cities* methodology based on: population change; GVA growth; private sector jobs growth; average house prices; JSA and incapacity benefit rate; and average wages.

Box 3: Definitions used

Office-based employment

There is no standard definition of office-based employment. This report uses a definition based on one developed by Roger Tym & Partners (RTP) for the GLA's London Office Policy Review (2007).

Previous studies of office-based sectors have generally taken a broad approach using Financial and Business Services (FBS) sectors. RTP identified issues with using this methodology because it includes certain activities, such as industrial cleaning, which are unlikely to use office space, whilst excluding services such as publishing and public administration.

The definition used in this analysis includes Financial and Business Services (excluding industrial cleaning) plus Publishing, Labour Recruitment and Administration of the State (based on 1992 Standard Industrial Codes).

Data is accessed from the Annual Business Inquiry on NOMIS. There is a break in the data between 2005-2006 as a result of changes to methodology. This has been accounted for within the report.

Using rateable values as a proxy for rental values

In order to compare rental values across all cities in a consistent and accurate way, we have used rateable values as the proxy. Every non-domestic property has a rateable value which is set by the Valuation Office Agency (VOA) and broadly represents the yearly rent the property could have been let for on the open market on a particular date.

We recognise that this data is only updated every five years but it is a more accurate and consistent source of data for comparison across cities than that of agent valuations which may have disparities within geographical property definitions.

Measuring the floorspace of offices

The most comprehensive source of data about office floorspace in England and Wales is the information collected by the Valuation Office Agency when it is assessing what business rates should be paid on particular properties. Revaluation takes place every five years, and in between valuations if major changes are made to a property or new property is built.

At present data is available for the period 1998-2008. There is, however, a discontinuity caused by the 2000 and 2005 revaluations. To account for this annual floorspace growth is estimated as an average of all years, but not including 1999/2000 and 2004/5.

The definition of offices used is the office bulk class category of rateable floorspace.

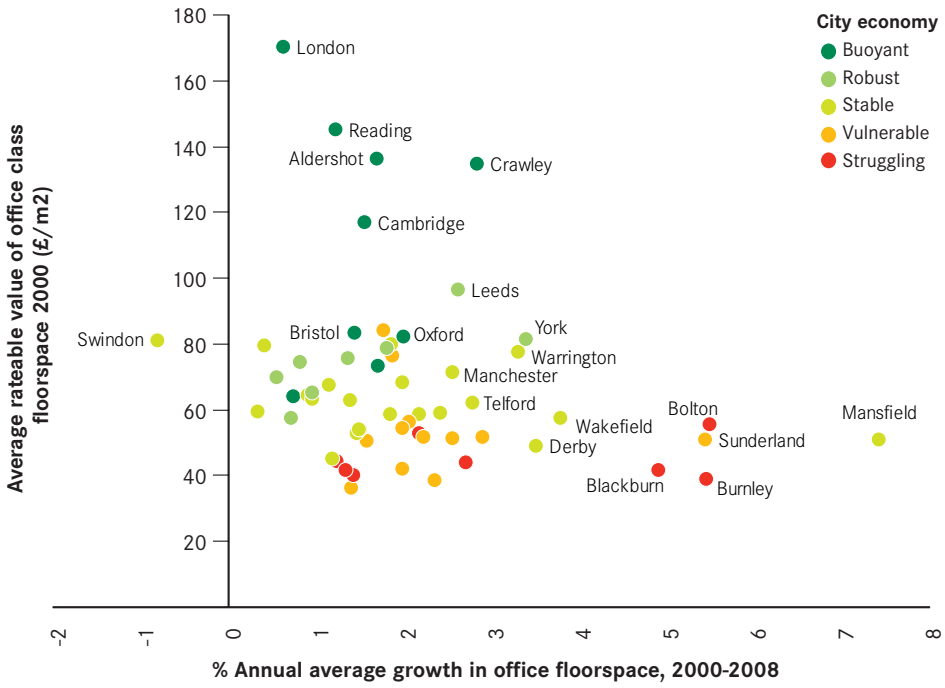
The supply of office space does not appear to have responded to demand

Economic theory would suggest that the provision of office space in cities would respond to where it is most valued. Yet despite the increasing importance of office-based sectors to economic performance, some of our most successful cities have not seen large increases in the supply of office space.

Figure 2 plots the rateable value of office space in 2000 (used as a proxy for rents, see Box 3) and the subsequent increase in office space between 2000 and 2008.[6] We would expect a positive relationship between these variables, so that places with high rateable values would see large subsequent increases in their office floorspace because developers can gain a clear return from this expansion, while those with low rateable values would see much lower subsequent increases.

"Despite the increasing importance of office-based sectors to economic performance, some of our most successful cities have not seen large increases in the supply of office space"

Figure 2: Rateable values of office space in 2000 and growth of office floorspace 2000 to 2008



Source: DCLG, Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008, own analysis

As can be seen, however, in reality there is no positive correlation between the two. The five cities which saw fastest growth of office floorspace - Mansfield, Bolton, Burnley, Sunderland and Blackburn – all had rateable values well below the average of £68 per square metre. Meanwhile cities such as Reading, Aldershot and Cambridge, despite having some of the highest rateable values and strongest economic performance, have seen much lower increases in office space.

London had by far the highest average rateable value at £170 per square metre in 2000. Its subsequent growth in total office floorspace, however, was only an average 0.6 percent each year – one of the lowest increases out of all cities. While noting

6. This data takes account of the discontinuity in the floorspace data between 2004 and 2005 by excluding growth between these two years.

that some of the capital's office space is likely to have been supplied by increasing employee density through refurbishment and replacement (an issue explored below), the capital would benefit from provision of office space responding to the high office rents indicating high levels of demand. If it does not, then the continued high rents in London could restrict the future growth of its economy.[7]

Reasons for the mismatch between economic performance and new office development

In order to support economic growth, building new offices in cities with expanding office-based employment would be the most efficient allocation of resources. As we have shown, however, this does not always happen. A number of issues change the dynamics of supply and demand of office space to varying degrees across UK cities. Some of these factors are briefly summarised below.

"In some cities large growth in office floorspace has been strongly influenced by demand for, and investment in, office space from the public sector"

1. Land supply and planning restrictions

The development market is restricted by the supply of land and the planning system. New office development is only possible where land is available and where local authorities will allow it. The most obvious effect of this is that developers are not always able to build additional office space in cities where there is economic growth potential and where occupier demand is highest.

The planning system, whilst providing the important role of arbitration between economic, social and environmental interests, impacts on prices of housing and commercial space.[8]

UK cities have some of the highest rental values in the world with six cities appearing in the top 30 most expensive cities in the world.[9] High office prices present a significant cost to business. For example, high prices could mean that companies are unable to establish operations in their preferred location or to expand their existing operations within a city. As a result, we need to ensure the planning system works to support development, particularly where there is high demand.

2. Public sector driven demand

In some cities the large growth in office floorspace has been strongly influenced by demand for, and investment in, office space from the public sector. There are many examples of the public sector subsidising the construction of commercial space but then finding it difficult to let it to the private sector and so renting it back to public sector organisations. This puts a strain on resources as it represents a double subsidy; first through the initial investment and then again for its ongoing use.[10]

Table 2 shows that between 1998 and 2008 Mansfield, Bolton and Sunderland saw the largest growth in office space despite having rateable values in 2000 at £10 per square metre below the average. Much of this is likely to have been driven by

7. London's West End is the most expensive office market in the world, while the City of London is seventh. These high office rents are likely to have a negative bearing on the location decisions of businesses. See Larkin K, Wilcox Z & Gailey C (2011) *Room for improvement,* London: Centre for Cities
8. Larkin K, Wilcox Z & Gailey C (2011) *Room for improvement,* London: Centre for Citiess
9. Larkin K, Wilcox Z & Gailey C (2011) *Room for improvement,* London: Centre for Cities
10. Webber C, Larkin K, Tochtermann L, Varley-Winter O & Wilcox Z (2010) *Grand Designs?* London: Centre for Cities

increased demand in the public sector. Over this decade the three cities saw an increase in public sector office jobs above the national average and public sector employment more than doubled in Bolton and Sunderland.

Table 2: Top 10 cities office floorspace growth and public sector office-based jobs growth

City	Office floorspace growth 1998-2008	Public sector office-based jobs growth 1998-2008
Mansfield	69%	60%
Bolton	51%	100%
Sunderland	51%	136%
Burnley	50%	-46%
Blackburn	47%	-35%
Derby	38%	0%
Wakefield	37%	20%
Warrington	36%	103%
Crawley	30%	6%
Blackpool	30%	-47%
City average	**20%**	**52%**

Source: DCLG, Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008, own analysis. NOMIS 2012, Annual Business Inquiry, employee analysis

"Whilst demand may be growing more strongly in smaller cities, the industry tends to focus on larger cities"

3. Conservative approach towards risk amongst institutional investors and developers

Investment in office development is driven by many of the same factors as investment in other commodities (see Box 4). Whilst demand may be growing more strongly in smaller cities, the industry tends to focus on larger cities. These cities usually offer a range of factors which reduce the risk of investment including: higher level of overall demand; a larger existing pool of potential occupiers; more occupier churn; and, higher rental values.[11] This preference for larger cities is illustrated by Table 3 which lists the non-London core markets according to four leading UK based property agents.

Table 3: Industry recognised core office markets outside London

GVA	CBRE	Savills	Jones Lang LaSalle
Birmingham	Birmingham	Birmingham	Birmingham
Bristol	Bristol	Bristol	Bristol
Cardiff		Cardiff	Cardiff
Edinburgh	Edinburgh	Edinburgh	Edinburgh
Glasgow	Glasgow	Glasgow	Glasgow
Leeds	Leeds	Leeds	Leeds
Liverpool	Liverpool		
Manchester	Manchester	Manchester	Manchester
Newcastle	Aberdeen, Southampton	Cambridge, Southampton, M25	West London and Thames Valley

Source: Based on each company's regional office summary publications

11. Centre for Cities interviews with industry experts

Larger cities can also accommodate bigger developments, which involve larger investment deals that can reduce transactional costs when compared with investing in several smaller developments. These cities are better known among foreign investors in a market where, in 2011, over half of the investment in UK regional offices came from overseas.[12]

However, the conservative approach to commercial investment and development can mean that smaller cities struggle to gain attention from institutional investors and developers, and from property agents.

"Larger cities are better known among foreign investors in a market where, in 2011, over half of the investment in UK regional offices came from overseas"

Box 4: The commercial property industry

The move of office development from the public sector to the private sector over the past 30 years has created a development investment market in its own right. This shift has allowed institutions to generate profit by assuming the risk on the development. Whilst this has had its benefits, such as generating higher levels of efficiency and innovation, it has also created a risk-averse conservatism for development.

As the development market is capital intensive, attracting funding from potential investors is key. This, however, hands over power to investors who have their own risk portfolio. Furthermore, viability of development is firstly based upon the build's rental value, R, divided by its yield (return), Y, to produce its capital value, C. If we rearrange this equation to look at yield, it becomes:

$$R / C = Y$$

Holding rental value constant, during economic growth, a higher demand will lead to larger capital value and thus decreasing the yield, reflecting a lower risk or an expectation of income growth. The same can be applied to a city. In a city with low overall demand for office space (as a result of many factors including the business attractiveness, skills etc) then the capital value of such a development will decrease which pushes up the yield, reflecting a higher risk.

4. Level of existing office stock and more flexible use of space

Some cities, such as Wakefield, Blackburn, Bolton and Mansfield, had particularly low levels of existing office stock in 1998 and so as office jobs were created, new office accommodation was also built. In other cities such as Northampton and Milton Keynes, high levels of growth in office employment were accommodated within the existing office stock. These cities already had established service orientated economies, so existing levels of office stock were much higher and the volume of new premises built was much lower than in other cities. For example, between 1998 and 2008 around 58 new office premises were established for every 1,000 new office jobs in Blackburn, significantly higher than that in Milton Keynes (35 offices per 1,000 new jobs).[13]

12. CBRE (2012) *UK Regional Market Review*, London: CBRE
13. DCLG, Commercial and Industrial Floorspace and Rateable Value Statistics, 1998-2008, own analysis

In addition more modern office space is better able to respond to the changing requirements of businesses and employees, for example, temporary partitioning, open plan, 'hot-desking' and flexible working, to name a few. This has resulted in employee density increasing in many cities whilst overall floorspace has remained static.[14]

5. Domestic relocation and upgrading office accommodation

Not all demand for new office space comes from additional employment or economic growth. A significant part of the market involves businesses relocating within a city, often seeking higher quality accommodation and using the opportunity to consolidate several sites into one. For example, in 2010 take-up of new or refurbished office space in Manchester city centre was 650,000 square feet.[15] Over half of this was a new headquarters for the Co-operative Group,[16] one of the city's largest existing private sector employers.

"Factors such as public sector investment, domestic relocation, land supply and investment risk, can have an impact on supply and demand for office space in different cities"

The effect of domestic relocation and occupiers seeking better quality accommodation has been an increase in the supply of vacant second-hand offices in recent years, whilst the economic downturn has been constraining overall levels of demand. In larger office markets such as Edinburgh, Glasgow, Manchester, Liverpool, Leeds, Birmingham and Bristol, the availability of second-hand office space was considerably higher at the end of 2011 than it was in 2005.[17] Property experts have suggested that if trends continue, cities may have to deal with the increasing obsolescence of office stock, especially as less finance is available for refurbishment.[18]

Summary of key findings

- Office-based employment is already very important to the UK economy. Operating in an increasingly globalised market, the country's comparative advantage is likely to see further specialisation in industries which require office accommodation.
- The largest cities are not always the strongest performing. However, these cities are important because of the scale of their city economies. These cities are also attractive to investors and developers because their scale reduces investment risk.
- Some of the fastest growing economies are smaller cities such as Brighton and Milton Keynes, but the total amount of office space has not always grown in line with the development of these cities.
- Factors such as public sector investment, domestic relocation, land supply and investment risk, can have an impact on supply and demand for office space in different cities.

The first half of this report has aimed to describe the trends in office development across cities. The second half will now look at four case studies to conduct a more detailed analysis of office development in these cities.

14. Bedford M, King A & McLennan P (2009) *Occupier Density Study,* London: British Council for Offices
15. Square footage is the UK industry standard measurement
16. CBRE (2010) *Market View: Manchester Offices*, London: CBRE
17. CBRE (2012) *Regional Office Market Review*, London: CBRE
18. Centre for Cities interviews

Case study cities: Bristol, Manchester, Cambridge and York

The four case study cities have been chosen to highlight the different obstacles that large and small cities face: Bristol, a large, economically strong city with a stable office market; Manchester, the third largest city in the UK with a buoyant office market and a mid-ranking economy and; York and Cambridge, smaller cities with strong potential for economic growth which is being constrained by a variety of factors.

Summary

The key statistics for each of the four case studies are presented below for comparison. While these statistics are important in describing how these cities' office markets operate, it is also important to recognise that there are many factors affecting it.

"Bristol is one of the UK's top performing cities with a strong private sector"

Table 4: Case study summary table

City	Population 2008	Annual population growth 1998-2008	Private sector office jobs 2008	Private sector office jobs (% of total) 2008	Private sector office jobs growth 1998-2008
Bristol	679,000	0.8%	104,712	28%	36%
Manchester	1,797,600	0.2%	204,200	23%	40%
Cambridge	122,800	1.2%	22,277	25%	5%
York	195,400	1.0%	17,949	18%	43%

City	Average office rateable value (£/sqm) (2005)	Office rateable value growth 2000-2005	Office floorspace (000s sqm) 2008	Average annual office floorspace growth 2000-2008	*Private Sector Cities* typology
Bristol	114	37%	1,638	1.4%	Buoyant
Manchester	98	23%	4,393	1.9%	Stable
Cambridge	136	16%	479	1.6%	Buoyant
York	111	36%	393	3.4%	Robust

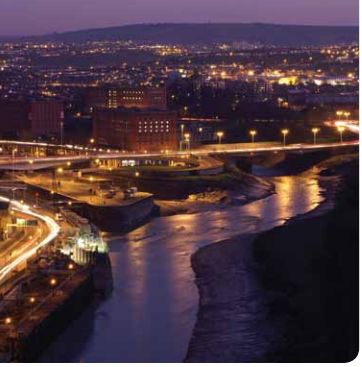
Source: Annual Population Survey (NOMIS), DCLG, Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008, own analysis. NOMIS 2012, Annual Business Inquiry, employee analysis NOMIS, *Private Sector Cities* 2010 (London: Centre for Cities).
Note: In order to maintain consistency across datasets a similar time period was ensured. Whilst data for population levels, for example, is available beyond 2008, as other datasets only have data available up to 2008 we have held the time period constant.

Bristol

Strong economy and a stable office market

Bristol is one of the UK's top performing cities with a strong private sector. The city performs a significant role within the South West accounting for 18 percent[19] of the region's Gross Value Added (GVA). It also has a higher than average GVA per capita of £24,600. Nearly 34 percent of the city's population hold high-level

19. Centre for Cities (2012) *Cities Outlook 2012*, London: Centre for Cities



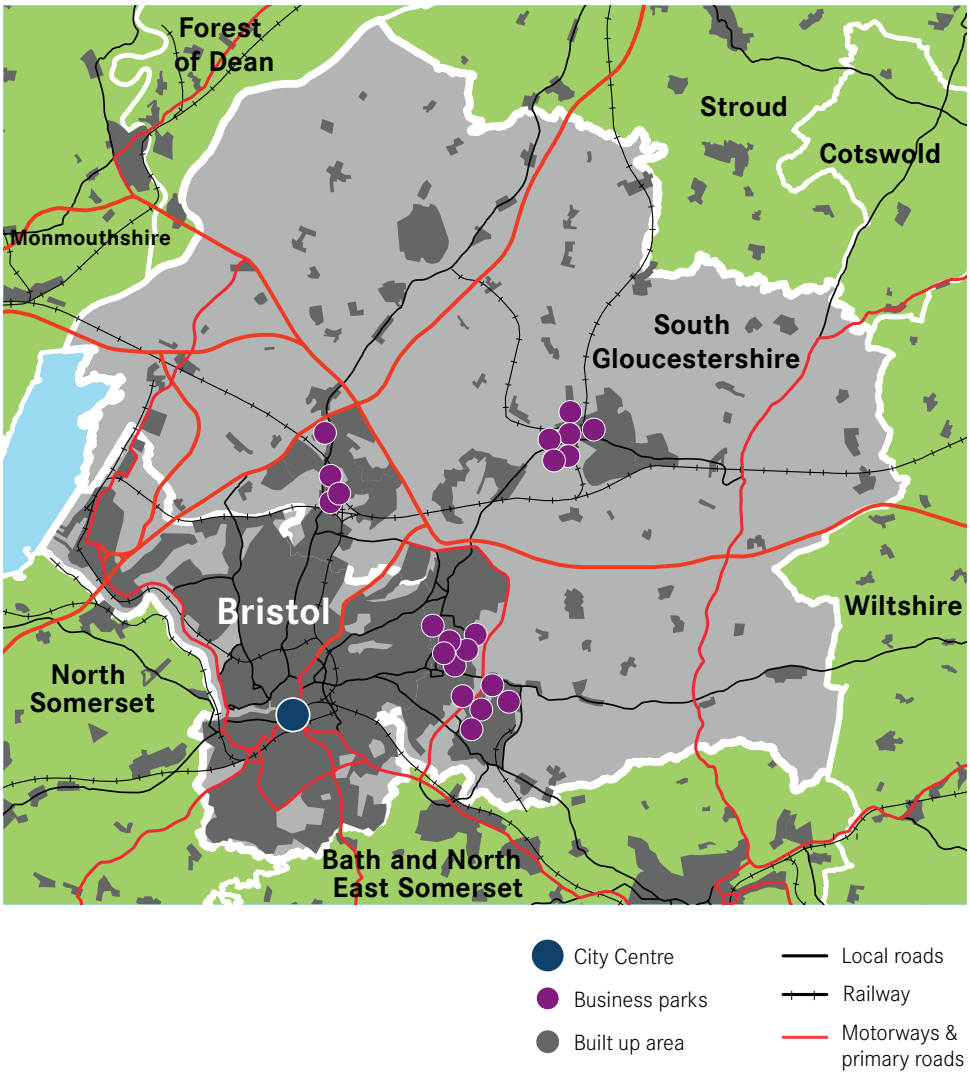
qualifications (NVQ4+) whilst employment in knowledge-based and office-based sectors is high at 20 percent[20] and 32 percent,[21] respectively.

Bristol benefits from its size and scale, which increases demand and decreases risk, making it attractive for office development. Between 1998 and 2008 there was an increase of 36 percent in private office-based employment and a decrease of just over one percent in public office-based employment. Furthermore, it saw an increase of 36 percent in private office-based businesses.[22]

Since 1998, despite the City of Bristol remaining the core market, much of the office space growth has actually taken place in South Gloucestershire. This reflects the fact that Bristol's built up area consists of the City of Bristol and South Gloucestershire local authorities (see Figure 3). As Table 5 shows, while the City of Bristol remains the core office market, South Gloucestershire saw a much larger increase in floorspace, much of it located in out-of-town business parks created on the border of the City of Bristol and South Gloucestershire.

"Since 1998 despite the City of Bristol remaining the core market, much of the office space growth has actually taken place in South Gloucestershire"

Figure 3: Map of Bristol



Source: Contains Ordnance Survey data © Crown copyright and database right 2012; business parks researched on Google maps

20. Centre for Cities (2012) *Cities Factbook 2012,* London: Centre for Cities
21. NOMIS 2012, Annual Business Inquiry, employee analysis. Own analysis
22. NOMIS 2012, Annual Business Inquiry

Table 5: Floorspace and change in private office employment growth in the City of Bristol and South Gloucestershire

	Office floorspace (000s sqm) 2008	Office floorspace growth 1998-2008	Change in private office employment growth 1998-2008	Private office employment growth 1998-2008
City of Bristol	1,199	9%	10,223	16%
South Gloucestershire	439	25.7%	17,667	122%

Source: DCLG: Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008. Accessed 2012 and ABI, Nomis

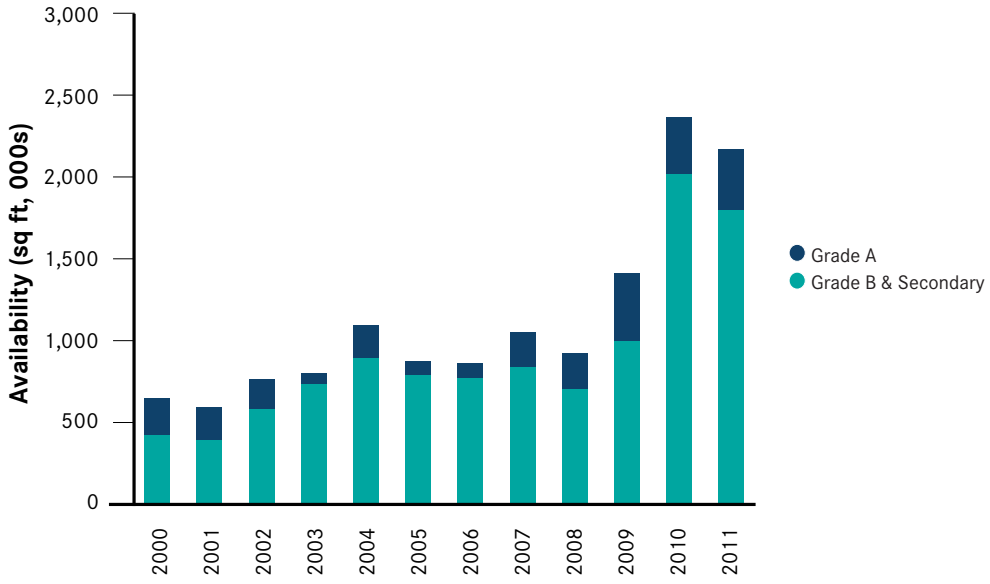
"This strong mutual relationship emphasises the need for the City Council to work with its neighbouring authorities, particularly South Gloucestershire"

The growth in office supply and employment in South Gloucestershire is related to the economic strength of Bristol. This strong mutual relationship emphasises the need for the City Council to work with its neighbouring authorities, particularly South Gloucestershire, to produce joint economic and land-use strategies. This will increase scale and open up choice for office developers and occupiers, both of which are important for attracting developers and investors to the city.[23]

Scale advantages and speculative development

Bristol benefits from its scale and size. Its high level of office demand is reflected in its high prime rental value of over £27/sqft which exceeds the value at which speculative development becomes viable.[24] These high values combined with the ready availability of pre-downturn finance, resulted in a large increase in Grade A development between 1998 and 2008. Figure 4 shows the increase in availability (see Box 5) of Grade A development, of which a significant proportion will be speculative, and has been driven by key development sites at Temple Quay and, in the near future, the Enterprise Zone.

Figure 4: Availability of office space in Bristol City Centre



Source: CBRE

23. Centre for Cities interviews
24. Data supplied by CBRE

Box 5: Office definitions

Availability refers to the supply of office space available for rent or is being brought forward to the market within the next 12 months (after building or refurbishment and not tenants whose leases are expiring). It is determined locally and, as such, relies on their knowledge of the local market. Availability is always measured at a fixed point in time, so annual availability would simply reflect what was available on the last day of the year.

Take-up refers to the amount of space taken by businesses at the point contracts are exchanged at a specific moment in time. The only exception to this rule is one that rarely happens: the premises for which the take-up contract concerns must have planning permission for CBRE to count it. If planning permission is required, the data for take-up is not recorded until permission is granted.

Prime rents are an estimate of the rental value achieved on the best available property within the city and are based on property of at least 5,000 square feet on a 10 year lease. Furthermore, in most major cities they have an agents' local forum which discusses and shares information on deals to come up with more accurate statistics on rents.

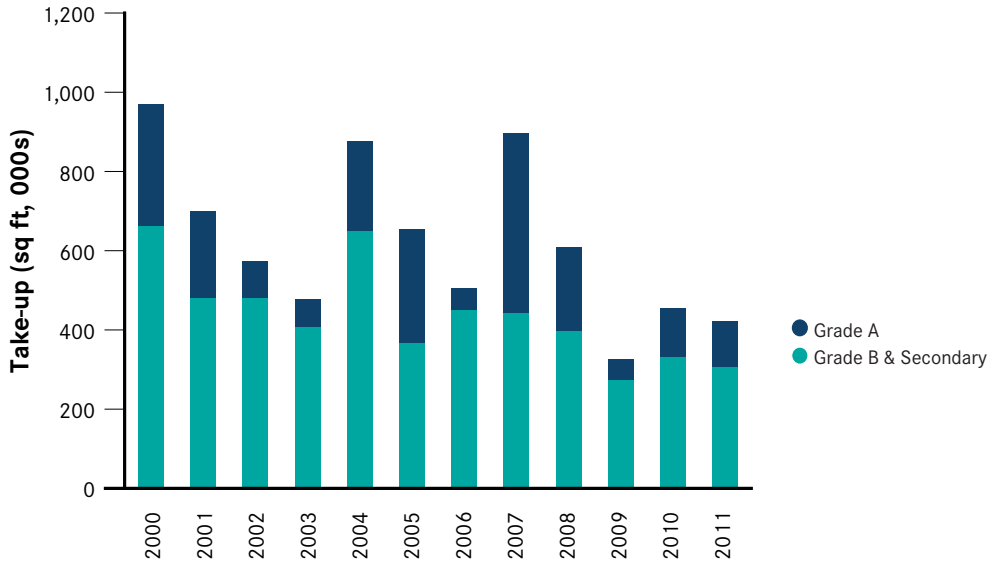
"Bristol, as is the case with all large cities with large development markets, faces the challenge of obsolete office space"

It has been suggested that Bristol now has two to three years' worth of Grade A (see Box 6) office space which should allow firms to locate (or relocate) in Bristol with relative speed and allows the city to compete for new clientele and boost growth.[25]

Dealing with obsolescence

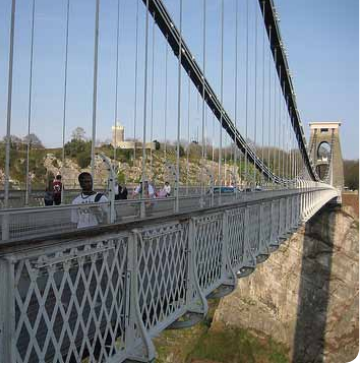
Bristol, as is the case with all large cities with large development markets, faces the challenge of obsolete office space. As shown in Figure 5, the development of Grade A office space has been met with a low take-up of Grade B office space shown by a significant increase in availability.

Figure 5: Take-up of office space in Bristol City Centre



Source: CBRE

25. Centre for Cities interviews



As the economy improves, the degree to which currently available space becomes structurally obsolete will be determined by developers' willingness to refurbish the space, as well as the city's willingness to support change of use. Ultimately if developers and investors do not refurbish vacant Grade B office space or cannot find alternative uses for it then space will need to be removed before it degrades the overall appeal and value of the city's built environment.

Summary

Bristol is a large, high performing economy with large office demand and a large amount of occupancy churn. Investors value such economic credentials for investment and this is reflected in the prime rental value of office property. However, whilst this investment in high grade office space in both the city centre and out-of-town enables Bristol to compete with other cities for business and grow its existing business base, it also runs the risk of creating a large amount of obsolete low grade space which could degrade the overall built environment.

"Bristol is a large, high performing economy with large office demand and a large amount of occupancy churn"

Box 6: Office grading

There is no industry standard definition for the varying grades of office space and, as such, data analysis between agents has comparability issues. This report uses a single data source (CBRE) and uses broader definitions as to accommodate grouping by grading and quality.

Grade A / new: This refers to 'new' (or 'newly completed') high-quality office stock which has never been previously occupied; or to stock which has previously been occupied but has undergone high-specification renovations between tenants.

Grade B / second-hand: This refers to office stock which has been previously occupied and is of lower quality, without any recent renovations or refurbishments. This may include lower-grade new stock which some agents refer to as Grade C.

Manchester

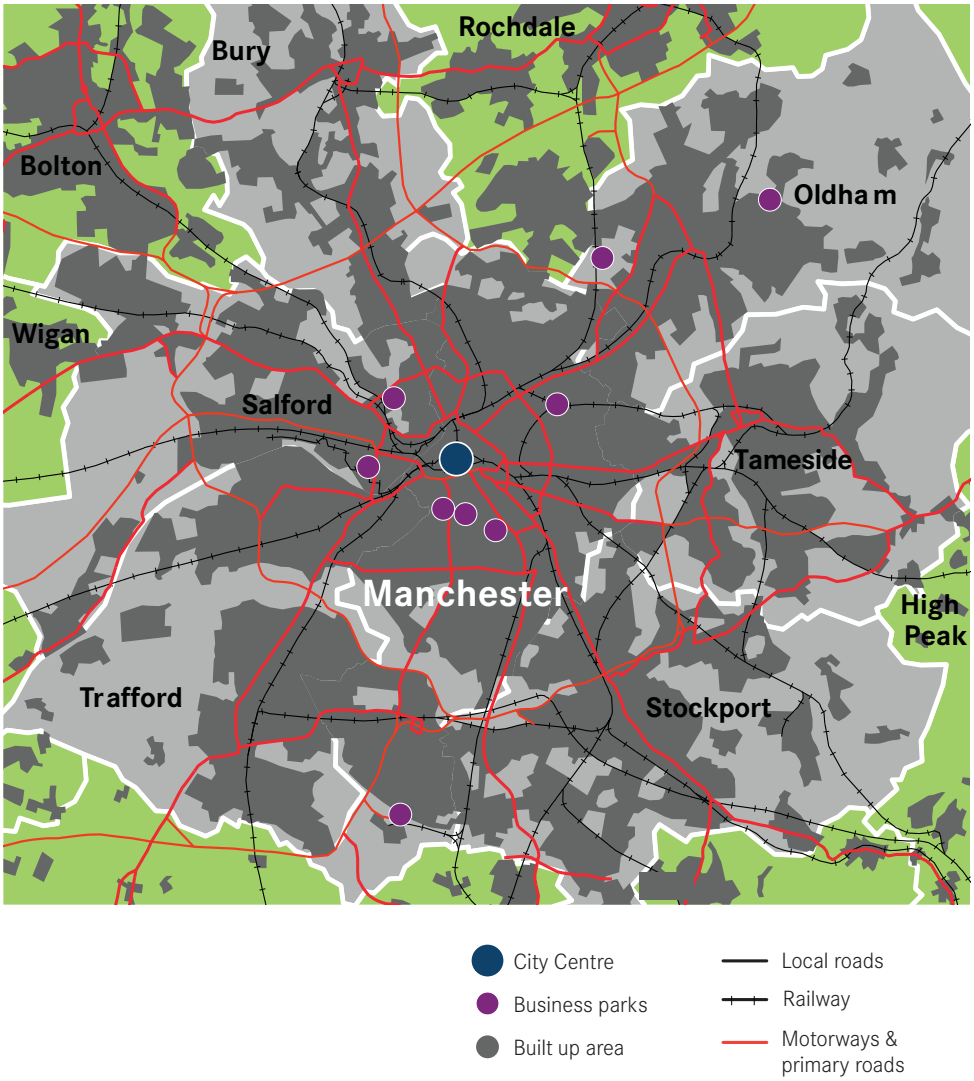
Manchester is the third largest city in the UK and has a mid-ranked economy. It has a relatively large number of business start ups (37.6 per 10,000 in 2010) and a relatively strong proportion of jobs in knowledge-based sectors (16 percent in 2010).[26] While Manchester has a strong reputation amongst commercial investors and developers, its economic performance tends to be mid-ranked on economic indicators such as GVA per capita, unemployment and the proportion of people with no formal qualifications.

Manchester's built-up area consists of seven local authorities – Bury, Manchester, Oldham, Salford, Stockport, Tameside and Trafford – and their collaboration has led to improvements to the business environment and has increased the choice for business and developers to invest in the area (see Figure 6).

26. Centre for Cities (2012) *Cities Factbook 2012,* London: Centre for Cities

"Manchester also saw an increase of 43 percent in office-based businesses whilst 23 percent of jobs were in the private office market"

Figure 6: Map of Manchester



Source: Contains Ordnance Survey data © Crown copyright and database right 2012; business parks researched on Google maps

Manchester saw strong private sector growth between 1998 and 2008. Private sector office-based employment increased by 40 percent and public sector office-based employment decreased by 3.5 percent. Manchester also saw an increase of 43 percent in office-based businesses with 23 percent of jobs in the private office market in 2008, of which some were high value-added jobs.[27]

Manchester city centre saw a 36 percent increase in private office-based employment and a 20 percent growth in its floorspace but the relationship between the two is less clear in other Greater Manchester local authorities. As shown in Table 6, Salford and Oldham saw the largest growth of office employment of 95 percent and 83 percent, respectively, but Salford saw no annual floorspace growth while floorspace in Oldham grew by 36 percent.

27. NOMIS 2012, Annual Business Inquiry

Table 6: Floorspace growth and proportion share across Manchester PUA's local authorities

		Office floorspace change 1998-2008		Private office employment change 1998-2008	
	Office floorspace (000s sqm) 2008	Percent change	Percentage point change	Employment change	Percent change
Oldham	223	36.4%	0.74	4,757	83%
Bury	148	29.0%	0.41	-311	-5%
Stockport	473	17.3%	0.66	4,582	23%
Tameside	180	15.5%	0.16	2,866	48%
Manchester	2,264	19.8%	-0.86	23,932	36%
Trafford	578	14.6%	-0.55	6,413	30%
Salford	527	00.0%	-0.56	12,808	95%
Manchester PUA	4,393	17.1%		55,047	40%

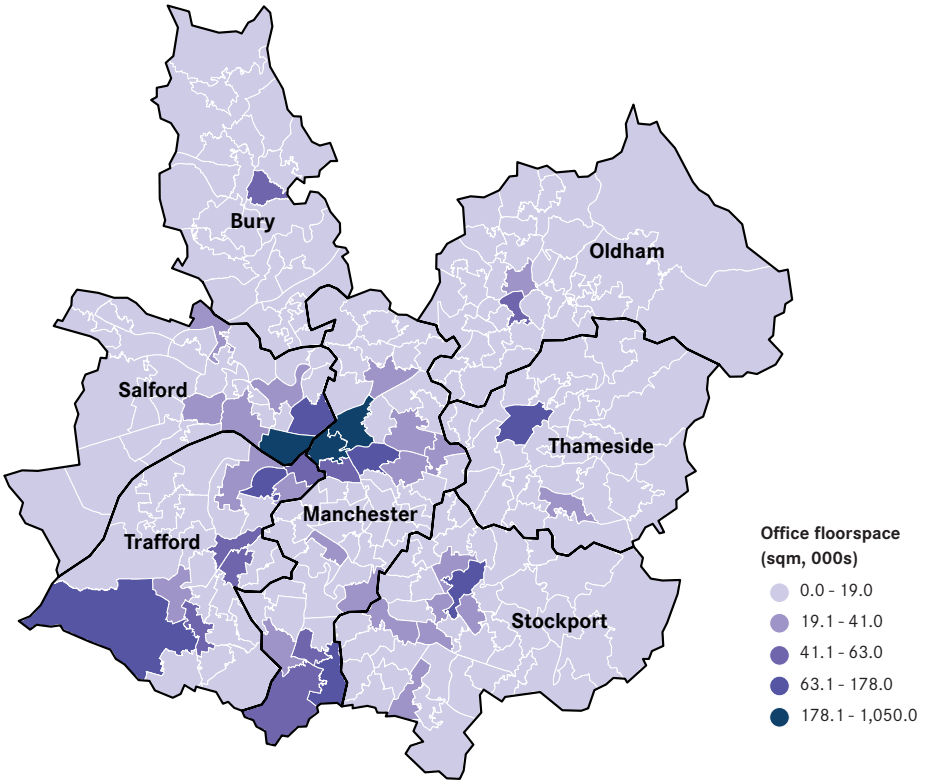
Source: DCLG: Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008. Accessed 2012.

"Manchester has been able to take advantage of its scale and high demand in attracting development and investment to the city"

Making the most of its size

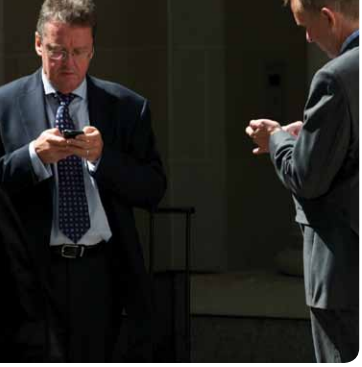
Manchester's key office area spans across local authority boundaries. As Figure 7 shows Manchester city centre is the core office market which is reflected in high prime rental values of around £30/sqft.[28] There is, however, a large amount of office space in the neighbouring authorities of Trafford and Salford.

Figure 7: Office market in Manchester



Source: Contains Ordnance Survey data © Crown copyright and database right 2012; DCLG, Commercial and Industrial Floorspace and Rateable Value Statistics, 2008, own analysis

28. Data supplied by CBRE



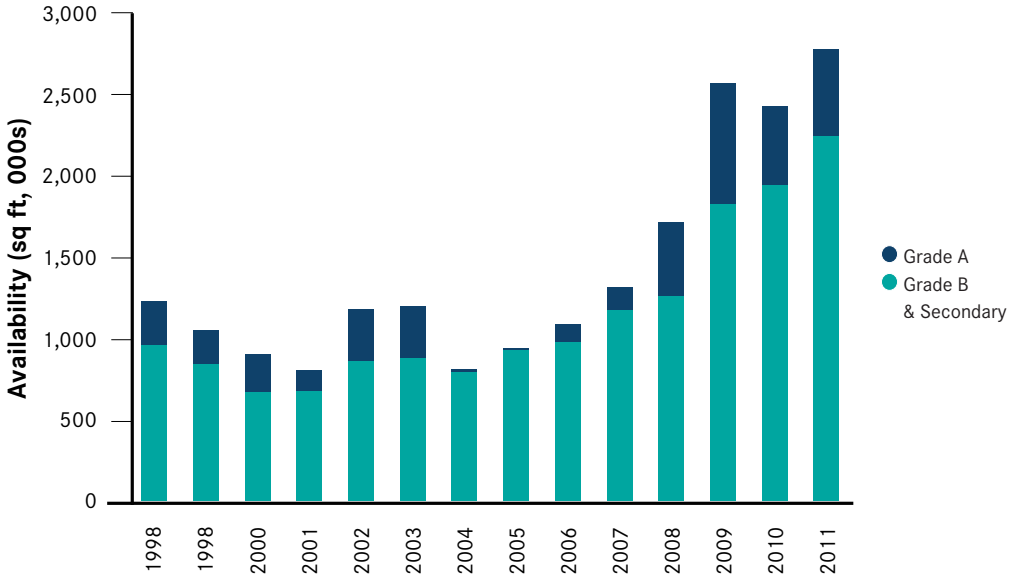
Manchester has been able to take advantage of its scale and high demand in attracting development and investment to the city. As shown in Figure 8, there has been a significant and consistent increase in office space availability in Manchester city centre since 2004. The availability of high grade office space attracts business (and therefore boosts the economy) as it can relocate immediately to the city as opposed to having to wait for a pre-let development to be built.

The city centre has a large rateable value because of the key benefits it offers businesses. Comparing Manchester city centre with its out-of-town locations our research shows that only 35 percent of office space is found in the centre and it commands £25/sqm higher rental value (£115/sqm).[29]

"The balancing act for Manchester is to support the flow of readily available, high grade office space whilst ensuring that the city overall doesn't experience chronic over-supply of space"

Investors have suggested that the high rental price in central Manchester also reflects the shortage of upcoming supply in the near future, as development has fallen since the economic downturn.[30] As occupiers see supply falling there is a 'flight to quality' in order to upgrade as soon as possible rather than waiting two or more years for a pre-let deal and to avoid stiff competition when leases expire.[31] If supply of Grade A space is constrained over the next few years and Grade B is not a good substitute, Manchester may find it difficult to attract businesses that only want Grade A office space.

Figure 8: Office availability in Manchester City Centre



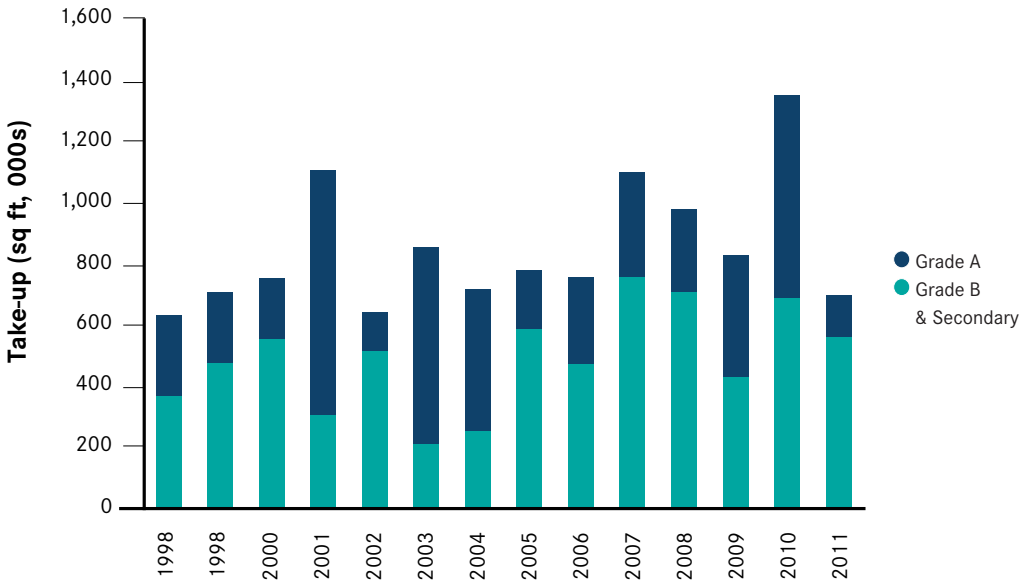
Source: CBRE

Dealing with obsolescence

The challenge for the city is to effectively manage the growth of office supply. As Figure 9 shows, the increase in availability has not been met by take-up which poses a problem for Manchester. The balancing act for Manchester, as it is for other large cities, is to support the flow of readily available, high grade office space whilst ensuring that the city overall doesn't experience chronic over-supply of space and the subsequent obsolescence issues.

29. DCLG, Commercial and Industrial Floorspace and Rateable Value Statistics, 1998-2008, own analysis
30. Centre for Cities interviews
31. Centre for Cities interviews

Figure 9: Office take-up in Manchester City Centre



Source: CBRE

"Manchester's office market benefits from the advantages associated with size, scale and demand, political collaboration across local authorities and a high profile with investors"

In addition there are several business parks to the south of the city centre which have had mixed success and have been predominantly propped up by public investment.[32] Agents have suggested that if businesses located in these parks begin to move back into the city centre because access to infrastructure and amenities makes employee retention easier, this could lead to an obsolescence problem within these parks.[33]

Collaboration across the city-region

The Greater Manchester Combined Authority, building on the work of its predecessor AGMA, has facilitated cross boundary collaboration. It has allowed the city-region to attract business and investment and worked to ensure that all authorities within the city-region benefit. The Combined Authority has been able to increase the number of potential development sites it can offer developers and potential businesses, thus giving them greater choice in where to set up. There is, however, a requirement to match office supply with jobs growth. The creation of a combined pot for funding on collaborative projects around business and investment will allow Manchester to further invest in this area.[34]

Summary

Manchester's office market benefits from the advantages associated with size, scale and demand, political collaboration across local authorities and a high profile with investors. This has enabled Manchester to maintain a strong office development market.

The challenge for Manchester is to continue to manage its office supply growth by encouraging strong speculative development, while ensuring the growing amount of Grade B office space does not become obsolete.

32. Centre for Cities interviews
33. Centre for Cities interviews
34. Greater Manchester Call for Projects (March 2012) www.agma.gov.uk, Accessed May 2012

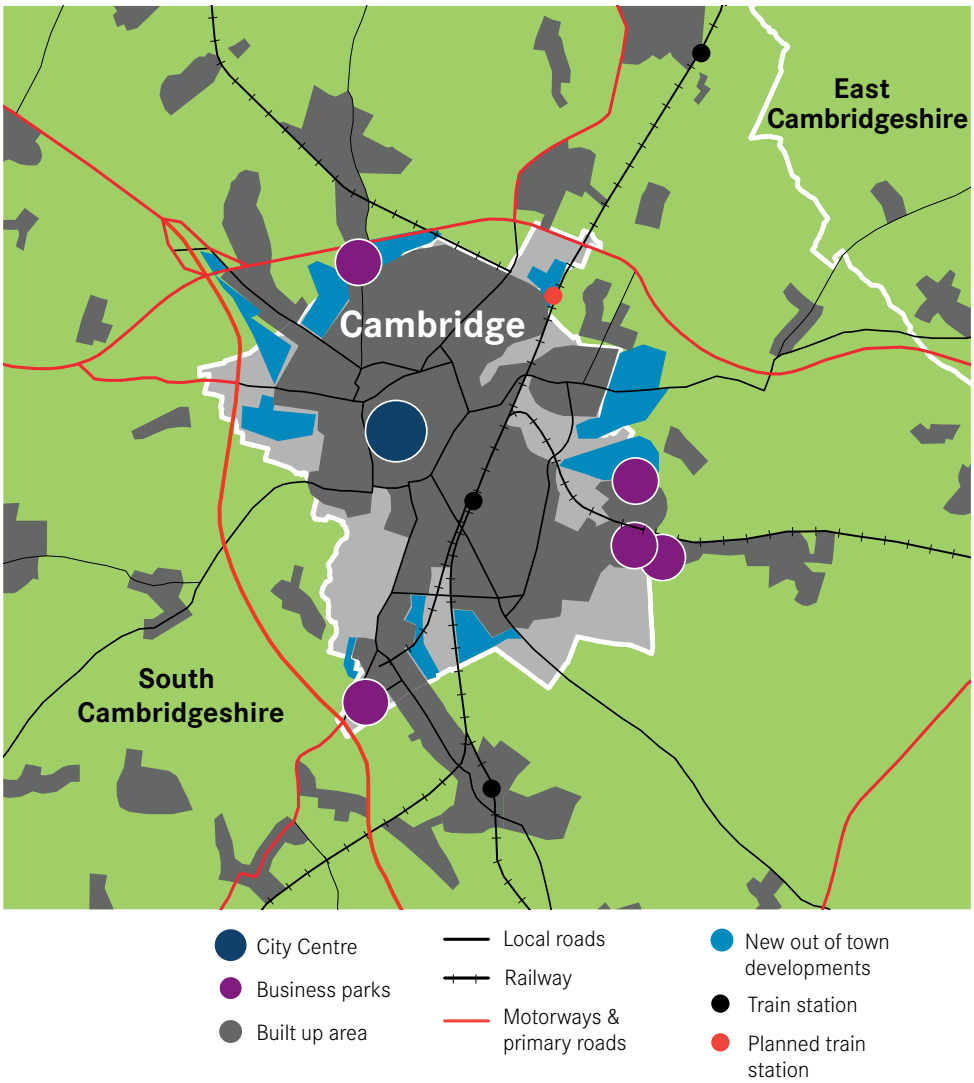
Cambridge

Cambridge is one of the most successful city economies in the UK. It has the second largest percentage of people with a high level qualification, the largest number of patents per 100,000 (113 in 2010) and the lowest rate of unemployment. The strong knowledge-based economy linked to a globally recognised university has driven its success and has produced a high GVA per capita of £33,000, all of which provides and excellent base from which to grow.[35]

Cambridge, as shown in Figure 10, is a small local authority and it sits in the middle of another authority, South Cambridgeshire. Given the size of Cambridge, and its proximity to its neighbouring authority, it is unsurprising to find that out-of-town developments tend to be located in South Cambridgeshire.

"Despite being a high performing economy Cambridge has seen only a small increase in private office-based employment of five percent between 1998 and 2008"

Figure 10: Map of Cambridge



Source: Contains Ordnance Survey data © Crown copyright and database right 2012; business parks researched on Google maps

35. Centre for Cities (2012) *Cities Factbook 2012,* London: Centre for Cities

Despite being a high performing economy Cambridge has seen only a small increase in private office-based employment of five percent between 1998 and 2008, and a large decrease of public office-based employment of 25 percent. However, Cambridge has seen an increase of 44 percent in private office-based businesses and has a significant proportion of private office employment as a percentage of total employment (25 percent).[36]

"Cambridge has seen an increase of 44 percent in private office-based businesses"

The growth of office space has mostly been located in the neighbouring local authority of South Cambridgeshire. Table 7 shows that there are similar volumes of office floorspace in Cambridge and South Cambridgeshire. Between 1998 and 2008 South Cambridgeshire saw growth of over 80 percent in its total floorspace in an attempt to respond to the growth in its private office employment of 28 percent. These trends highlight the inter-related nature of the Cambridge and South Cambridgeshire economies.

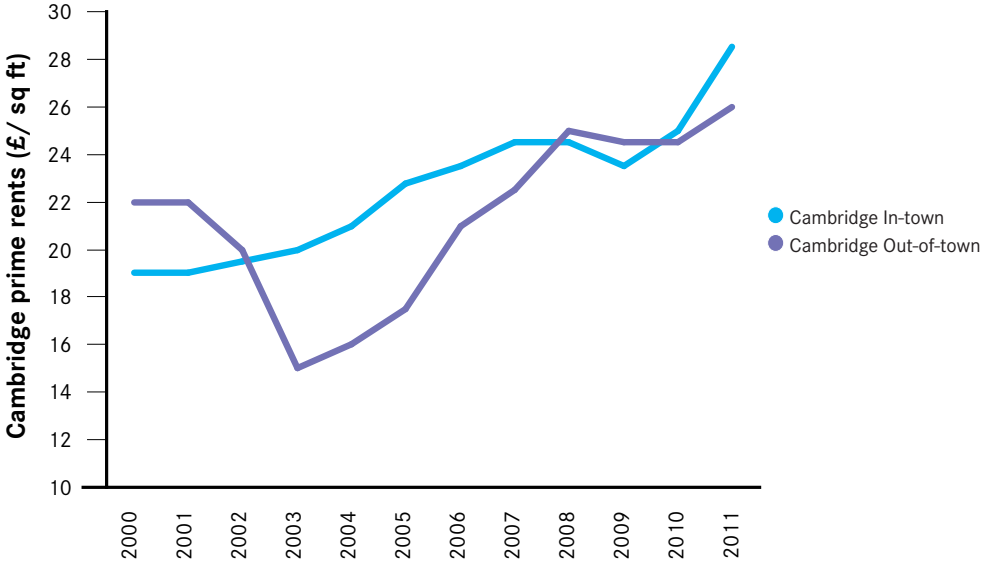
Table 7: Floorspace in Cambridge and South Cambridgeshire

	Office floorspace (000s sqm) 2008	Office floorspace growth 1998-2008	Change in private office employment growth 1998-2008	Private office employment growth 1998-2008
Cambridge	479	16.4%	840	5%
South Cambridgeshire	495	83.9%	3,100	28%

Source: DCLG: Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008. Accessed 2012.

Cambridge has high rental values in both out-of-town locations and the city centre as can be seen in Figure 11.

Figure 11: Prime rental value in Cambridge



Source: CBRE
Note: Due to the relative small size of Cambridge, this data also includes the out-of-town areas which are often found in South Cambridgeshire

36. NOMIS 2012, Annual Business Inquiry

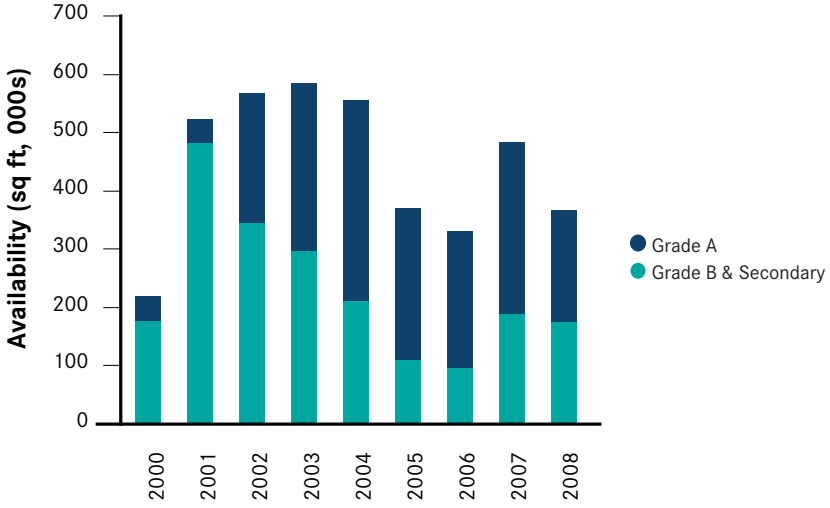
The rise in out-of-town areas is a reflection of the city economy's strength and the benefits of proximity to the university. The rise in city centre rental values is likely to be a reflection of demand outstripping supply because of the constraints on developing in the city centre, extensive university-owned properties and important heritage buildings and sites.

Cambridge is unable to attract speculative development. Despite the high prime rental value which exceeds the threshold for speculative investment, Cambridge lacks the scale and, therefore the aggregate demand, in order to decrease the risk for potential speculative investors and developers.

New office space within the city has been relatively limited. Availability of lower grade office space within the city is relatively low when compared with large cities with most high grade office space found in out-of-town locations (see Figure 12). Until the two pre-let developments this year of Microsoft moving from an out-of-town location to the station and Mills and Reeve to Botanic House, agents have noted that there had been no Grade A developments within the city centre for over a decade.[37]

"Until the two pre-let developments this year, agents have noted that there had been no Grade A developments within the city centre for over a decade"

Figure 12: Office availability in Cambridge



Source: CBRE
Note: Due to the relative small size of Cambridge, this data also includes the out-of-town areas which are often found in South Cambridgeshire

Moving the centre?

More recently Cambridge has adopted a more pro-growth approach. As Figure 10 shows, a number of sites have been allocated for development across the local authority. However, these sites are spread across the city and risk missing the economic opportunities that agglomeration and density can bring for both businesses and workers. Furthermore, the dispersed nature of these sites means new infrastructure and accessibility solutions have to be developed for each site, which is likely to increase the costs of development for developer, occupier and the city.

The city centre is shifting eastwards. The city's response to increasing requests from businesses to be located close to the city centre and to overcome

37. Centre for Cities interviews

limited site availability in the historic centre has been to prioritise new development on the east of the city centre. The original station will sit at the heart of an expanded commercial and residential area and will be anchored by important tenants including Microsoft which has moved from its out-of-town location. In addition a new rail station is being built, Cambridge Science Park, in North East Cambridge which will have quick links from the university science park to London Kings Cross.

Greater collaboration is needed. If the centre of Cambridge shifts eastwards, the city will increasingly need to work closely with South Cambridgeshire in order to effectively manage this process and ensure they can offer sufficient choice to developers and investors for both employment and residential land. Whilst a degree of collaboration through joint planning committees and working groups has been achieved in the past, the demise of the East of England Development Agency, the Greater Cambridge Partnership and the decision to prepare separate Core Strategies raises issues about the strength and appetite for greater levels of collaboration in the future.[38]

"The Cambridge economy is one of the strongest and most dynamic in the UK and has significant potential for further economic growth"

Summary

The Cambridge economy is one of the strongest and most dynamic in the UK and has significant potential for further economic growth. In spite of this potential the city's office market has been constrained and has received relatively little interest from national developers and investors. This has restricted the type of new developments required by larger occupiers. However, expansion eastwards should help create a new commercial centre around the train station where development sites could be available.

York

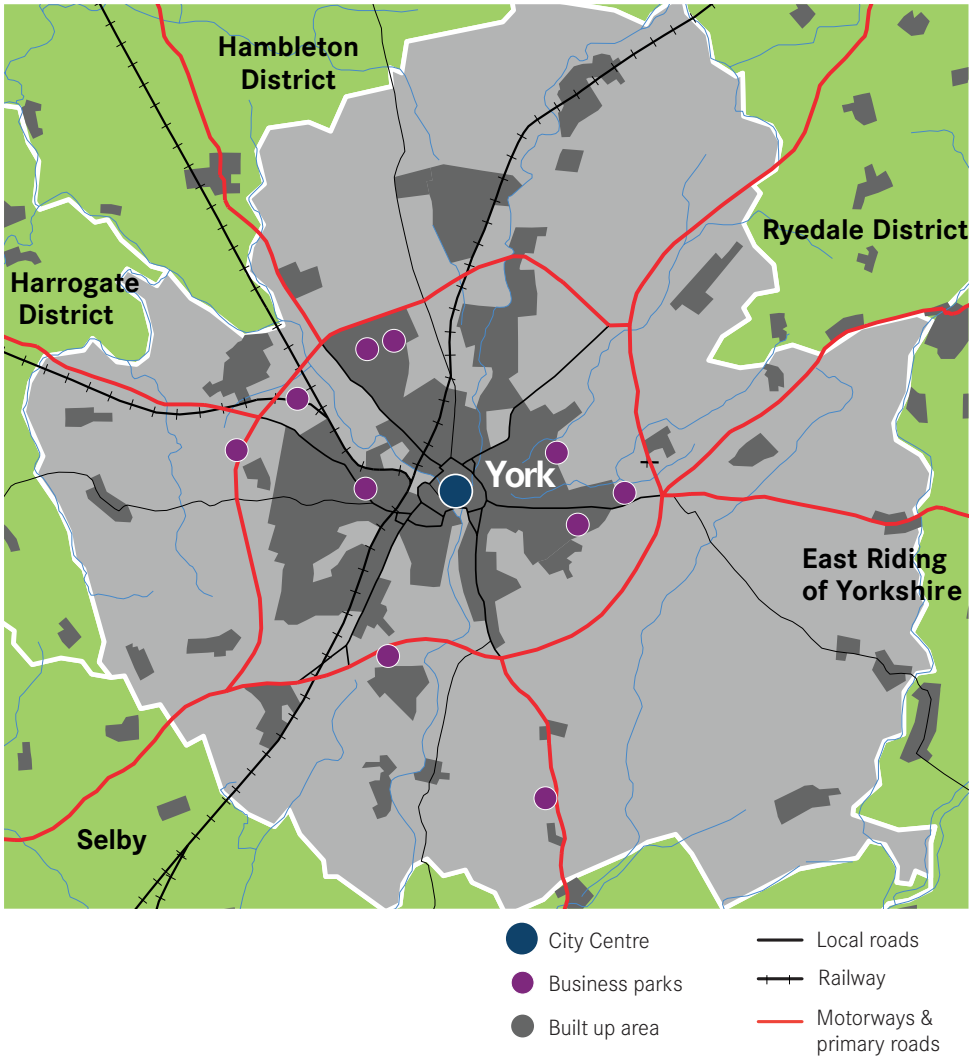
York is a strongly performing city with potential for further economic growth. The workforce is highly skilled with almost 40 percent of workers holding a high level qualification and it has a large proportion, 16 percent, working within the knowledge-based economy producing over £20,000 GVA per capita.[39] However its office market is small in scale and has low prime rental values, which means it finds it difficult to attract Grade A office development which would allow it to attract and retain larger businesses.

York is a large, unitary authority which borders five neighbouring authorities. As Figure 13 shows, the built-up area is surrounded by green belt land which restricts expansion. With large amounts of available space for development in the out-of-town areas, business parks have been created.

38. Centre for Cities interviews
39. Centre for Cities (2012) *Cities Factbook 2012,* London: Centre for Cities

"Floorspace growth between 1998 and 2008 in York was one of the largest in the UK at 29 percent"

Figure 13: Map of York



Source: Contains Ordnance Survey data © Crown copyright and database right 2012; business parks researched on Google maps

Strong, out-of-town floorspace growth and large office employment growth

York's office market is small but has seen strong floorspace growth. York experienced a 43 percent increase in private office-based employment and a 74 percent increase in private office-based businesses between 1998 and 2008.[40] Whilst this growth is strong, private office employment only accounts for 18 percent of total employment. This suggests low overall levels of demand and is one reason why the city has received little attention from national developers.

Supply has responded to demand. Floorspace growth between 1998 and 2008 in York was one of the largest in the UK at 29 percent. Whilst part of this can be attributed to the low starting base of office provision in 1998, it nonetheless shows that the supply of office space increased to meet the growing demand.

40. NOMIS 2012, Annual Business Inquiry

The majority of office floorspace is located in out-of-town areas. As Table 8 shows, 55 percent of office floorspace is situated in out-of-town areas which also have higher rateable values. This reflects both the development site constraints within the city centre due to its small, medieval street patterns, and the high quality provision and proximity to infrastructure on offer in out-of-town areas. However, agents have suggested that given a choice, many businesses would prefer to be located within the city centre in order to take advantage of the city's high quality amenities.[41]

"York will have to rely on the pre-let market which slows growth and restricts York from competing with other cities for new occupiers"

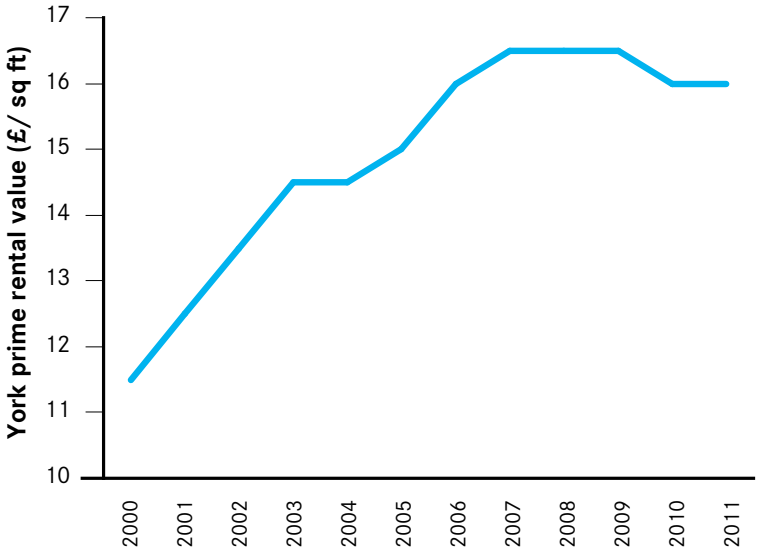
Table 8: Floorspace and rateable value in York

	Office floorspace (000s sqm 2008)	Average rateable value (£, sqm 2005)
City centre	174	104
Out-of-town	216	109
Percent city centre	44.6%	

Source: DCLG: Commercial and Industrial Floorspace and Rateable Values Statistics, 1998-2008.

The prime rental value in York is close to the threshold at which speculative Grade A development is financially viable. York has seen the prime rental value increase since 1998 which shows a growing demand for office space within the city (see Figure 14). However, it remains relatively low when compared to the other case study cities and is just at the point at which speculative development is viable. This means York is unlikely to attract speculative high grade development which would attract new occupiers, and will have to rely on the pre-let development market. Furthermore, the reliance on pre-let development may mean that existing businesses which are growing and looking to upgrade their premises may be forced to move to other cities.

Figure 14: Prime rental value in York



Source: CBRE

41. Centre for Cities interviews

Improving Infrastructure

Improving transport routes and inter-changes is a key issue for York. The ring-road around York, for example, is a single carriageway and suffers from congestion. A potential upgrade is made more difficult because of its proximity to green belt land. Addressing these issues is critical if York is to become more attractive for businesses to set up and for investors and developers to consider.

Collaboration with neighbours

As part of improving its business environment, York should continue to collaborate with its immediate neighbouring authorities and with Leeds City Region authorities on issues including infrastructure and housing in order to boost demand and attract businesses. In working with its neighbours in a strategic way, improvements to infrastructure are more likely to provide mutual benefits for collaborative authorities. This is being addressed through new mechanisms such as Local Enterprise Partnerships (LEPs), of which York is in both the Leeds LEP and the North Yorkshire and East Riding LEP, and the Growing Places Fund.

" The proximity of a large city, Leeds, means York needs to be strategic with its partnerships in order to attract businesses and inward investment"

Summary

York is an economically high-performing city with a growing and highly skilled population. The council recognises that in order to grow its economy it needs to address its infrastructure issues, which are stifling demand and development. Without improving the business environment, York will have to rely on the pre-let market which slows growth and restricts York from competing with other cities for new occupiers. The proximity of a large city, Leeds, means York needs to be strategic with its partnerships in order to attract businesses and inward investment.

Key Findings

The re-emergence of the city centre as a preferred location

This report and other recent studies suggest that car-only locations are no longer the preferred choice for many office-based businesses and workers.[42] Whilst the 1980s and 1990s saw an increase in business parks which supplied large floor plate office space and large amounts of car parking availability, increasingly the city centre is emerging as a preferred location for both occupiers and developers.[43]

Being able to offer a range of modern office space within mixed-use areas which include other amenities such as restaurants, shops and gyms and is well served by public transport will become ever more important as high skilled jobs and businesses increasingly concentrate in city centres.[44]

"Cities need to be more proactive in managing their built environment"

Large cities, because of their scale, are better placed to provide this broader offer whilst smaller cities are likely to find it more difficult. Furthermore, if businesses currently located in out-of-town locations around smaller cities choose to move to a city centre location, those smaller cities that do not have an appropriate offer risk losing these businesses to other cities.

Speculative Grade A office development tends to occur in large cities

As speculative office development happens where there is less risk and fewer constraints, a larger provision of Grade A space is located in larger cities. Larger cities have higher overall demand, a high level of occupier churn, a greater number of development sites available and a higher rental value which will decrease the risk on investment. As a result, office investment and development is concentrated in larger cities, whilst many smaller cities experience under-investment.

The current office development model supplies these larger cities with the necessary office space in order to sustain their economic performance and drive national growth. If some of our smaller, strongly performing cities are to grow and maximise their economic potential, however, then finding new ways of ensuring that the supply of office space is able to pre-empt demand will be critical.

Need for more proactive approaches to managing the built environment

The risk for larger cities is that, as businesses look to upgrade to Grade A office space, they leave an increasing amount of Grade B space unoccupied. Aligning the incentives for developers, investors and the council to respond to changes in office markets is crucial to managing issues around obsolescence.

If developers can see the potential returns associated with refurbishing existing space or the council can change its use then the cyclical nature of the property market will continue to follow the business cycle. However, if this space cannot

42. Corney G et al (2012) *Change for the good,* London: British Council of Offices
43. Volterra & CoCreate (2011) *The challenges for the office sector over the next decade and beyond,* London: British Council of Offices
44. Clayton N, Smith R & Tochtermann L (2011) *Access all areas: Linking people to jobs,* London: Centre for Cities

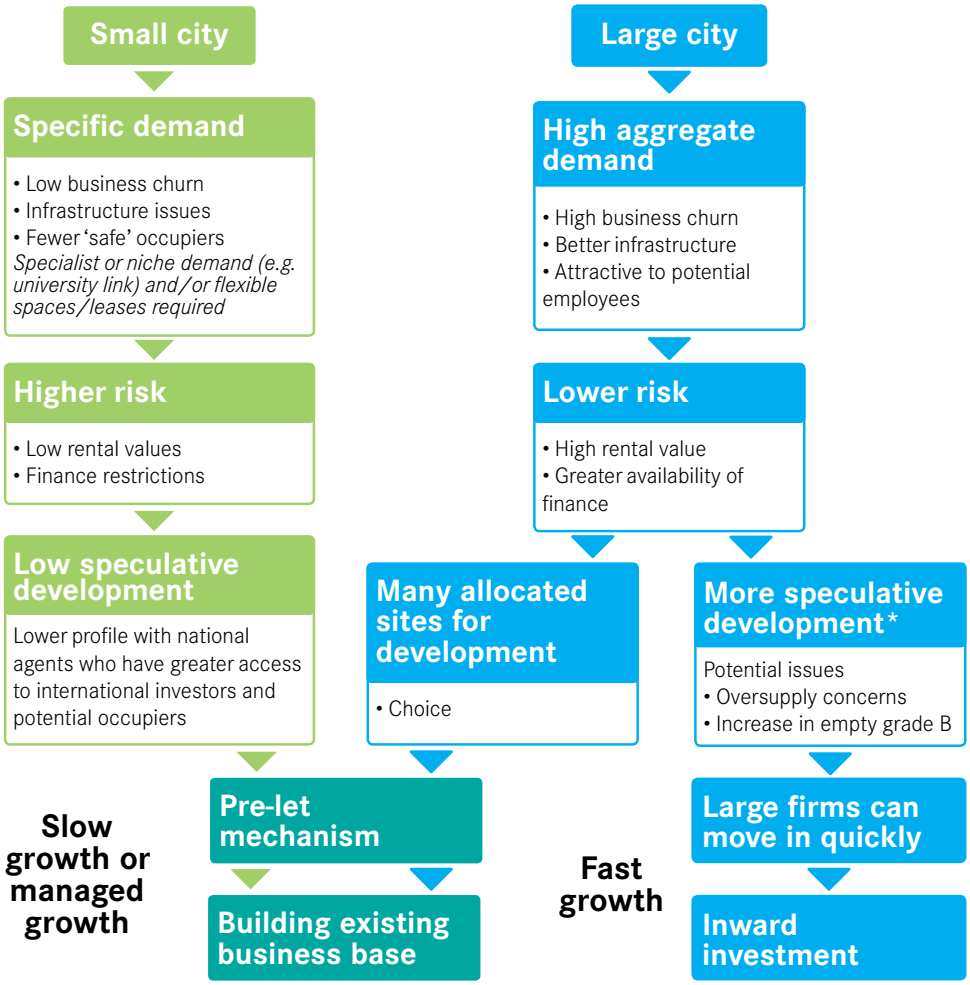
be refurbished or alternative uses found then the city will face an ever increasing number of obsolete offices which, if not dealt with, will retard the quality and value of the built environment, making it less attractive to businesses, workers and residents.

In addition, policy changes relating to the growing low carbon agenda are likely to impact on how cities manage their Grade B office space stock. For example, the upcoming Energy Act will make it unlawful to let premises that do not reach a minimum level of energy efficiency, meaning cities in collaboration with developers and investors will have to decide how to deal with these buildings.[45]

These policy and market trends suggest that dealing with obsolescence will become an ever greater issue for large cities (who have a large amount of occupier movement) and small cities (who have a large and stable amount of Grade B stock as fewer Grade A properties are available). Designing more flexible approaches to upgrading existing premises, including changing its use, and removing redundant stock and space will be required.

"Designing more flexible approaches to upgrading existing premises, including changing its use, and removing redundant stock and space will be required"

Figure 15: The current development model for small and large cities



*Only when finance is available. Post-financial crash, finance is restricted. Anticipated future supply decreases so present demand increases ('flight to quality') and so rents increase.

45. Estates Gazette (2012) 'Feeling the heat', March 24 2012, p80

Cross-boundary collaboration is increasingly important

For cities strategically working with neighbouring local authorities will continue to be important in order to support growth. However, cross boundary collaboration between authorities is often patchy and ad-hoc and has often relied upon policy initiatives such Regional Spatial Strategies or bodies such as Regional Development Agencies, both of which have been abolished. This raises questions as to how collaboration will adapt under the new 'localist' agenda.

Effectively using Local Enterprise Partnerships, the Localism Bill's 'Duty to Co-operate' and government funding (e.g. Growing Places Fund) to underpin and progress joint-working between cities and their neighbours on strategic planning for both residential and commercial land will be important.

"For smaller cities, a new approach to development is required in order to address the challenges associated with lacking the scale to make them attractive development prospects"

Recommendations

Smaller cities

For smaller cities, a new approach to development is required in order to address the challenges associated with lacking the scale to make them attractive development prospects.

To maximise the choice for developers and businesses, cities should work closely with their neighbouring authorities on spatial planning issues. Cross boundary collaboration can bring benefits of economies of scale to help attract inward investment and can boost their national profile and create a greater choice of potential sites for both residential and commercial development. It will also create more efficient infrastructure planning in order to give people access to new jobs and create a larger pool of labour for businesses. This should lead to the city becoming less dependent on the pre-let market which slows growth.

Cities should proactively work with existing businesses to pre-empt growth. The key here is to understand what space existing businesses are likely to need as they expand and work with developers to respond this.

Smaller cities also need to raise their profile with national property agents. National agents have access to a large number of potential occupiers and investors which cities would like to accommodate.

Larger cities

Large cities should maximise their scale advantage.

They should proactively manage their built environment. This means responding to demand for Grade A office space whilst managing the overall office market to avoid chronic oversupply and ultimately an increase in obsolescence.

Large cities also need to effectively manage their office stock. As their high grade office supply increases there will be either a cyclical increase in Grade B space, which can be refurbished or re-used, or a structural increase in Grade B space creating obsolescence, detracting from the built environment.

All cities

All cities should focus on attracting businesses by improving skills and the general business environment. This means focusing on improving transport, housing and other infrastructure provision, as well as improving lower level workforce skills. Partnerships and collaborations should also concentrate on pooling resources and coordinating policies – particularly around planning and transport – to maximise their impact.

Furthermore, spatial planning across a functional economic area would enable cities to promote development for both housing and commercial purposes. The Local Enterprise Partnership would be a viable structure to coordinate economic and planning strategy across boundaries to facilitate growth and opportunities.
All cities need to understand the office stock within their region. This will allow cities to work with agents in developing and incentivising office space which potential occupiers would want.

"Developers and investors need to work with cities to help them better understand their current office stock and the needs of existing and potential businesses"

Developers, investors and agents

Developers and investors need to look beyond the core office markets and towards cities which have high potential for economic growth. These smaller, more dynamic cities are well placed to generate economic growth from their office and knowledge-based economies and will need to be supplied with suitable office space.

Developers and investors also need to work with cities to help them better understand their current office stock and the needs of existing and potential businesses. As demand for the type, flexibility and location of office space changes, developers and investors need to recognise these shifts in order to supply the cities with required office space.

Developers and investors need to effectively manage their office stock in order to pre-empt structural obsolescence and be able to react to changes in occupier demand and Government policy.

National and local agents need to collaborate in standardising rental value data definitions (for example geographical area and grading) across cities. To a certain extent, this already occurs within the larger markets and cities but it would be helpful to extend this to the non-core, dynamic cities.

Appendix: *Private Sector Cities* typology

Private Sector Cities introduced a new typology of city economies that captures the performance and trajectory of different cities. Using six key economic indicators - GVA growth, private sector job creation, population growth, houses prices, benefit claimant rate and wages - the typology identifies three main types of city economy: buoyant, stable and struggling.

Buoyant cities perform strongly on most economic indicators. They tend to be experiencing above average population growth and have dynamic private sector economies. The stories for cities in the **stable** category vary quite widely, with some having more **robust** economies, while others are **vulnerable**. **Struggling cities** tend to be characterised by population stagnation, low or negative private sector jobs growth and residential property prices well below the UK average. *Private Sector Cities* is available from www.centreforcities.org/privatesectorcities

Table A1: List of *Private Sector Cities* classifications

City	Classification	City	Classification
Aberdeen	Stable	Luton	Stable
Aldershot	Buoyant	Manchester	Stable
Barnsley	Struggling	Mansfield	Stable
Birkenhead	Struggling	Medway	Stable
Birmingham	Vulnerable	Middlesbrough	Struggling
Blackburn	Struggling	Milton Keynes	Buoyant
Blackpool	Vulnerable	Newcastle	Stable
Bolton	Struggling	Newport	Stable
Bournemouth	Robust	Northampton	Robust
Bradford	Vulnerable	Norwich	Stable
Brighton	Buoyant	Nottingham	Stable
Bristol	Buoyant	Oxford	Buoyant
Burnley	Struggling	Peterborough	Robust
Cambridge	Buoyant	Plymouth	Stable
Cardiff	Stable	Portsmouth	Robust
Coventry	Vulnerable	Preston	Stable
Crawley	Buoyant	Reading	Buoyant
Derby	Stable	Rochdale	Vulnerable
Doncaster	Vulnerable	Sheffield	Stable
Dundee	Struggling	Southampton	Robust
Edinburgh	Buoyant	Southend	Stable
Glasgow	Stable	Stoke	Struggling
Gloucester	Stable	Sunderland	Vulnerable
Grimsby	Vulnerable	Swansea	Stable
Hastings	Vulnerable	Swindon	Stable
Huddersfield	Vulnerable	Telford	Stable
Hull	Struggling	Wakefield	Stable
Ipswich	Stable	Warrington	Stable
Leeds	Robust	Wigan	Vulnerable
Leicester	Stable	Worthing	Stable
Liverpool	Vulnerable	York	Robust
London	Buoyant		

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