

LEICESTER AND LEICESTERSHIRE EMPLOYMENT LAND REVIEW 2012 UPDATE

Executive Summary

1 Introduction

1.1 The Leicester and Leicestershire Employment Land Study 2012 provides an update to the 2008 study.

1.2 The 2008 study – the first joint approach to employment land planning across the local planning authority areas (LPAs) in Leicester and Leicestershire recommended a new sustainable pattern of employment land with strategic scale allocations.

1.3 The new study was required to update the evidence base for employment land planning policies and deliverability in the context of the market downturn since the end of the last property boom in 2008.

1.4 The update identified two key findings. First, the local planning authorities and developers have put in place planning policies and proposals for a new pattern of sustainable development in broad support of the 2008 study recommendations. Second, development is currently focused on building out pre 2008 serviced sites and that market failure in long term investment in the advance infrastructure will need to be addressed to ensure the provision of new employment land. Following the replacement of the regional regeneration funding regimes and institutions with more limited funding and Local Enterprise Partnerships (LEPs), the public sector has a weaker hand to address this market failure.

1.5 The 2012 study concluded with six recommendations to the Leicester and Leicestershire Enterprise Partnership (LLEP) and local planning authorities to combine and innovate with their resources to stimulate investment in advance infrastructure.

2 The Employment Land Study 2008: Brief, Findings and Recommendations

2.1 In 2008, the local planning authorities recognised inter dependencies between districts in planning for jobs for their respective residents. Breaking new ground, the Leicester Shire Economic Partnership commissioned PACEC, Warwick Business Management Limited and Mather Jamie to undertake the first joint employment land study for Leicester and Leicestershire. The brief set out the need for:

- Joint employment land planning and delivery up to 2026;
- Employment land policies and allocations through Local Planning Authorities' Core Strategies; and
- Investment priorities and targets.

2.2 The methodology required:

- The review of the existing supply of employment land and premises through criteria based assessments;
- The review and critique of supply and demand forecasts for employment land and premises;
- The production of alternative demand scenarios;
- An estimation of the gap between supply and demand;
- A review of potential employment land allocations; and
- Advice on delivery of employment land

2.3 The study was undertaken through a policy lens which combined three dominant policy themes:

The market. To identify an adequate supply of sites of the right quality and in the right places at the right time to meet employment forecasts and safeguard and protect these sites from competition from other uses, particularly housing;

Sustainable development and climate change: To reduce carbon emissions arising from development through new construction standards, renewable energy generation and aligning homes with jobs and services and making the fullest possible use of sustainable modes of transport; and

Local distinctiveness: To address a narrative for creating a prosperous, enterprising and dynamic economy, characterised by innovative businesses and creative people.

2.4 The supply demand gap analyses identified areas of oversupply and gaps in the provision of new employment land across uses and districts for period 2007 – 2026 (see Table 6 below) and across Leicester and Leicestershire requirements for:

- i) 100,000 sq m of offices
- ii) 183 ha for light industrial and small scale warehousing
- iii) 50 ha for a road rail strategic distribution centre

2.5 To provide a Leicester and Leicestershire – wide planning framework for these requirements, the study recommended a new pattern of *sustainable* development highlighting the key roles of: in situ renewal; sustainable urban extensions; market towns; a strategic road – rail link and science parks.

Table 1 New Pattern of Employment Development Proposed in 2008 Study

Office and R&D	Light industrial and small warehousing	Strategic Warehousing
In situ renewal	In situ renewal	Road - rail
New Business Quarter,	Strategic Urban	

Leicester	Extensions	
Leicester Science Park	Market Towns	
Loughborough Science Park		
Strategic Urban Extensions		
Market Towns		

Source: PACEC 2008

2.6 In accordance with this framework, the study recommended new allocations as set out below.

Table 2, 2008 Study: Recommended Allocations Of Previously Undeveloped Employment Land to 2026

	Offices	Light industrial and small warehousing	Strategic warehousing
PUA			
Leicester City	60,000 sq m	9.3 ha	0
Charnwood North SUEs	20 ha		0
Charnwood South SUEs	0	50 ha	0
Blaby Blaby SUEs	0	24 ha	0
Oadby & Wigston	5,800 sq m	0	0
PUA total	65,800 sq m	103.3 ha	0
Rest of Leicestershire			
NW Leics Coalville SUEs	20 – 25 ha		0
NW Leics Rail - linked	0	0	50 ha
Hinckley & Bosworth	6 ha (34,000 sq m)	14 ha	0
Hinckley & Bosworth SUEs	20 – 25 ha		0
Harborough	5 ha		0
Melton	2 ha (500 sq m)	11 ha	0
Rest of Leicestershire	34,500 sq m	80 ha	50 ha
Total	Min 100,300 sq m	Max 183.3 ha	50 ha

NB May not sum due to rounding

Harborough potential additional requirement subject to monitoring

Source: Experian; PACEC 2008

3 Employment Land Study Update 2012: Brief, Findings, Recommendations

3.1 In 2012 the Housing, Planning and Infrastructure Group of the Leicester and Leicestershire LEP commissioned Lambert Smith Hampton, PACEC and Warwick Business Management Limited to update the Leicester and Leicestershire Employment Land Study 2008. The purpose of the study was to provide an up to date evidence base to inform emerging employment land policies in Local Plans.

3.2 The objectives of the study were to:

- Update forecasts of demand for office, industrial and warehousing development land at the district, PUA and Leicester and Leicestershire levels;
- Update data on the supply of offices, industrial and warehousing development land at the district, PUA and Leicester and Leicestershire levels;
- Undertake gap analyses to identify market areas of oversupply and gaps in the provision of office, industrial and warehousing development; and
- Make recommendations on the potential de – allocation of sites and allocation of sites and measures to bring forward development.

3.3 To address the objectives the study methodology provides for:

- A demand side assessment comprising two elements: a qualitative review of occupier trends in the take up of employment land since 2008 and job - based forecasts of office, industrial and warehousing land requirements for the period 2010 – 2031;
- A supply side assessment based on the deliverability of sites within the employment land pipeline;
- Gap analyses for office (B1 a + b), industrial (B1 c, B2 and small B8) and strategic warehousing (B8) uses at the district, PUA and Leicester and Leicestershire levels; and
- A report of the study findings and recommendations to address identified barriers to development.

4 The Demand Assessment: Occupier Trends

4.1 The demand assessment of occupier trends was based on an analysis of the take up of new employment land for the period 2008 – 2012.

4.2 This assessment found that demand for the period was shaped by:

- i) Tenure: Owner occupiers provided the key source of demand for new offices, industrial and warehousing schemes through either a) pre sold schemes or b) schemes on their own land; and
- ii) Uses: Occupier demand for large scale warehousing schemes (on sites along the M1 corridor) and purpose built offices.

Table 3 Large Pre Sold and Pre Let Developments 2008 – 2012

Schemes	Uses	Sq m
Marks and Spencer, East Midlands Distribution Park, Castle Donington	Rail linked distribution centre	93,000
Crown Crest (Leicester) plc, Desford	Warehouse	43,819
Santander, Carlton Park, Blaby	Data centre	31,569
George House, Magna Park, Harborough	Head Quarters	8,815
SportPark, Loughborough Science and Enterprise Park	Head Quarters	7,500

5 The Demand Assessment: Employment Forecasts

5.1 The second part of the demand assessment was provided through employment based forecasts of demand for new employment land for the period 2010 – 2031.

5.2 The forecasts for land requirements were based on the methodology set out in the ODPM Employment Land Reviews: Guidance Note (2004) as follows:

1. Employment forecasts by Standard Industrial Classification (SIC) which is a system for classifying business establishments by the type of economic activity in which they are engaged
2. Conversion of forecast jobs to full time equivalents and use class
3. Conversion of forecast full time equivalent jobs to office floorspace and industrial and warehousing land
4. Estimate of floorspace and land required for renewal
5. Estimate of floorspace and land required for development pipeline
6. Supply / demand gap for offices, industry (comprising B1, B2 and small B8) and strategic warehousing

5.3 The employment forecasts were derived from the latest forecasts for the UK economy published by HM Treasury, which presents the average of a comparison of 24 independent forecasts of GDP over the period 2012 -13 and 13 forecasts over the longer period 2012 – 2016.

6 The supply assessment

6.1 The assessment of the supply side was informed by: semi structured interviews with commercial property developers active in Leicester and Leicestershire; a review of the schemes completed during the period 2008 - 2012 and an assessment of the deliverability of sites in the development pipeline.

6.2 The developers reported the high water mark of the last commercial property boom as 15th September 2008, the day Lehman Brothers filed for Chapter 11 bankruptcy protection. Since this event, the market has been characterised by weaker demand from occupiers, limited credit and lower investment values for completed schemes. Under these conditions, developers have adopted new business models through which they have:

- i) Suspended investment in advance infrastructure required to bring forward new employment land for development;

ii) Suspended speculative development; and

ii) Limited development to 'design and build' schemes on pre - 2008 serviced plots for freehold purchasers and in some cases leaseholders where there is a 10 – 15 year commitment and a good covenant.

6.3 Turning to recent completions, the large owner occupier led schemes (shown in Table 3 above) and new Council offices at Hinckley and Melton were complemented by light industrial and warehousing developments on fifteen other sites. These sites which were serviced and under development before 2008 include: Grove Park and LE3 in Blaby; Interchange, Watermead Business Park and The Warren in Charnwood; Airfield Farm, Riverside and Compass Point in Harborough; Tungsten Park in Hinckley; and Westminster Estate, Interlink, Ivanhoe Business Park and Willow Farm in North West Leicestershire.

6.4 The assessment of sites in the development pipeline considered: emerging land allocations; allocations in adopted plans; windfall sites and sites under construction. The assessment showed that local planning authorities and developers had progressed planning policy frameworks and proposals for schemes respectively as follows:

1) Sustainable Urban Extensions with employment land allocations at:

- i) Lubbethorpe, Blaby;
- ii) West Loughborough, Charnwood
- iii) North East of Leicester in Charnwood;
- iv) Earl Shilton, Hinckley and Bosworth;
- v) Barwell, Hinckley and Bosworth;
- vi) Coalville in North West Leicestershire.

2) Strategic road – rail – air linked logistics and distribution scheme of 555,740 sq m, adjacent to East Midlands Airport, North West Leicestershire

3) Science Park Phase 4, Loughborough, Charnwood;

6.5 In parallel developers had promoted three large scale schemes as follows:

- i) Glenfield, Blaby: a consented 97,680 sq m B1/2/8 scheme;
- ii) Lounge, Ashby, North West Leicestershire: a consented 78,000 sq m B8 scheme;
- iv) MIRA Technology Park, Hinckley and Bosworth, a consented 132,000 sq m scheme for mostly research and development office based activities along with Enterprise Zone status.

6.6 Developers reported that economies of scale, carbon credits and growth in internet shopping are combining together to create demand for super size and road – rail linked warehousing in the 'Golden Triangle' which includes Leicestershire's M1 corridor.

6.7 During the period 2008 – 2012, there were no examples of developers having invested in advance infrastructure required to bring forward new employment sites into development. Two planned investments in advance infrastructure – at Logix 2,

Hinckley and Glenfield, Blaby – highlighted this market failure as both investments relied on public sector interventions. In the first case, the investment was funded following the change of use of part of the site for housing and, in the second case, the investment will be subsidised through a loan from the Growing Places Fund.

6.8 In this context, the pipeline sites were classified as:

Tier 1: Land available for immediate development;

Tier 2: Land with one or more of the following land development issues: planning; advance infrastructure and the 'liquidity trapped' sites where funding was also required for advance infrastructure.

6.9 Sites not available to the open market were excluded from the supply. These include sites held by occupiers for their occupation and sites subject to specific 'gateway' policies (for example at Loughborough Science and Enterprise Park).

7 Gap analyses

7.1 Under the final step of the study, the balance was calculated between the demand for new employment land (arising from employment forecasts, renewal, pipeline and vacancies) and the supply of new employment land.

7.2 The supply/demand balance shown in Table 4 below highlights a shift from Leicester and Leicestershire wide requirements in 2008 for new employment land for the period 2007 – 26 to Leicester and Leicestershire wide surpluses in 2012 for the period 2010 - 2031.

Table 4 Comparative Requirements 2008 (2007 – 26) and 2012 (2010 – 31)

	2008 Study (2007 – 26)	2012 Study (2010 – 31)
Offices	- 100,000 sq m	13,190 sq m
Industrial	- 183 ha	27.22 ha
Warehousing	- 50 ha	52.87 ha

7.3 This shift reflects three developments since 2008:

- i) The overall downgrading of forecast employment growth;
- ii) Falling office floorspace requirements per worker (from 16.3 sq m in 2001 to 6 – 10 sq m of office floorspace) due to new ways of working; and
- iii) Local planning authorities and developers bringing forward proposals for new employment land, most notably within proposals for Sustainable Urban Extensions and at the proposed road – rail – air linked distribution centre adjacent to East Midlands Airport.

7.4 However, **a supply/demand balance based on deliverable Tier One sites shows that overall shortfalls in new employment land have not improved significantly since 2008.**

Table 5, 2012 Study: Supply (Tier One Sites) / Demand Balance: 2010 - 31

	Forecast requirements	Tier One supply	Requirements
Offices	210,800 sq m	132,565 sq m	- 78,235 sq m
Industrial	163.6 ha	63.345 ha	-100.255 ha
Warehouses	129.3 ha	58.03 ha	- 71.0 ha

7.5 The district by district Tier One supply / demand balances, identify shortfalls of deliverable land in three specific sub markets:

i) Leicester City Centre and PUA office markets: The analysis identified a shortfall in planned provision of 74,885 sq m in offices across the PUA. Measures to bring forward sites for Grade A office schemes in Leicester city centre are set out in the recent, 'Leicester Office Market Review.'

ii) Leicester and PUA light industrial / small warehousing markets: The analysis identified a shortfall in planned provision of 47.29 ha to accommodate demand from mostly Leicester based firms, for light industrial and small warehousing uses. Measures will need to focus on bringing forward strategic scale sites close to the city boundaries to meet this forecast demand.

iii) M1 Corridor Strategic Warehouses: A further shortfall relates to the supply of sites to accommodate super size and road - rail linked warehouses. This shortfall reflects a national demand for warehousing and distribution centres in the 'Golden Triangle' which includes Leicester's M1 corridor. Whilst a large scale road – rail – air linked scheme is the subject of a developer led proposal, planning for future provision needs to set in the context of a warehousing employment land review for the 'Golden Triangle' area.

The three sub markets are highlighted in bold in the Table 6 below

Table 6 Supply / Demand Balances: 2008 and Tier One Sites 2012

	Offices sq m		Industrial ha		Warehousing ha	
	2007 - 26	2010 - 31	2007- 26	2010 - 31	2007 - 26	2010 - 31
PUA						
Leicester	-16,028	- 33,270	-39.3	-33.76	-29.4	- 19.2
Blaby	19,523	- 9,688	-11.8	-10.24	-12.0	- 1.3
Charnwood	47,129	- 26,727	10.6	0.81	-11.5	- 11.2
O & Wgston	-11,522	- 5,200	-3.2	- 4.1	0	0
Sub mkts		- 73,885		- 47.29		
Leics						
Harborough	14,705	29,780	7.7	-12.175	-32.9	- 38.05
H & B'worth	32,515	- 7,930	-4.0	- 5.1	-8.6	9.69
Melton	-3,980	3,700	-3.9	- 7.3	-7.0	0
NW Leics	4,318	-29,400	41.4	- 26.84	- 0.5	- 22.41
Sub mkt iii						- 71.87

Source: PACEC

8 Findings, Conclusions and Recommendations

8.1 The Supply Side

8.2 Since the end of the last property boom in 2008, developers have adopted new business models to adjust to conditions of lower demand and capital values and limited credit facilities. Through these models, developers have:

- i) Switched from purchasing land outright to arrangements such as options and draw down agreements under which the developer will only commit funds once there is certainty over the development of a scheme;
- ii) Focused investment in land development activity on bringing forward mostly housing led mixed use sites for planning applications;
- iii) Suspended investment in advance infrastructure required to bring forward new employment land except in cases where there is some form of public sector subsidy;
- iv) Suspended speculative development due to lack of credit and weaker tenant demand (characterised by rising tenant incentives and shorter leases with more frequent break options); and
- v) Responded to the more limited demand for pre sold / let 'design and build' schemes for owner occupiers and leaseholders (providing a 10 – 15 year commitment and a good covenant)

8.3 To fund such schemes *cash rich* developers have used their own resources subject to securing returns on internally determined investment hurdle rates whilst *cash poor* developers have entered into forward sale agreements with investors.

8.4 To make viable such scheme, both *cash rich* and *cash poor* developers have built out schemes on pre - 2008 serviced sites in some cases at a marginal developer's profit.

8.5 As the supply side adjusts to new market conditions and opportunities, the market may become characterised by:

- i) A growing dominance of (globally) well funded, large scale developers focused on the most profitable forms of development on the most prime sites, for example in Leicester and Leicestershire, large scale warehouses on sites with immediate access to the motorway, as these developers will be required by their investors to achieve pre determined investment 'hurdle' rates;
- ii) A continuing but lesser role for smaller developers building out their land banks and operating in non - prime locations;
- iii) A need for the public sector to work much more closely with both the large and small scale developers as a catalyst for innovations in planning, regeneration and development finance to fund advance infrastructure required for large scale schemes and 'liquidity trapped' sites.

8.6 The Demand Side

8.7 Since the slowdown in economic growth, businesses have become more cautious about committing to new premises. However, some businesses are addressing growth markets and have requirements for new build premises. Given the constraints on credit, demand for new build schemes is limited to:

- i) 'Covenant led' purpose built 'design and build' developments for purchase or lease by businesses with strong balance sheets and records of profitable trading; and
- ii) Owner occupier - led schemes where businesses acquire sites for their own development or develop on their existing sites

8.8 Turning to the office market, a recent study, GVA (2011) 'What will influence UK occupier requirements in the next decade?', concluded that three factors may result in a decrease in the total UK stock of offices in the decade 2011 – 2021; as follows:

- Lower employment growth in the financial and business services sector (at the rate of 1.5% pa against a 3% growth rate for the period 1993 – 2007);
- Higher employment densities as more efficient, large floorplates accommodate office workers within less floorspace; and finally a
- Lower rate of development due to lack of bank finance, lower capital values and lower demand

8.9 In addition, the Office of Budget Responsibility has forecast that employment will fall in the public sector by 300,000 jobs over the four years to 2014/15. In the East Midlands, the Civil Service is planning to reduce its head count by 20% and its office estate by 40 - 50% due to consolidation into larger offices, typically in Birmingham and Nottingham.

8.10 In the logistics and distribution sector, demand is being shaped by economies of scale: carbon credits and the growth in internet shopping. These drivers are combining together to create demand for super size, road – rail linked warehouses in the 'Golden Triangle' which includes the Leicestershire M1 Corridor

8.11 Schemes at DIRFT in Daventry (for a total of 1.3m sq m of warehousing with 15,000 jobs and adjacent to East Midlands Airport (for 0.55m sq m of warehousing and 6,000 jobs) dwarf the rest of the commercial property. Such schemes are set to become the dominant source of activity in employment land planning, development and job creation in the 'Golden Triangle' during the plan period.

8.12 Conclusions

8.13 Since 2008, the employment land market in Leicester and Leicestershire has been transformed on the supply side by crises in the credit markets and on the demand side by growth in the market for super size road – rail linked warehousing and decline in the overall demand for offices.

8.14 In the early stages of the plan period, developers will build out their pre - 2008 serviced sites to meet demand from occupiers with the financial strength to secure 'design and build' schemes through either freehold purchase or lease. Whilst developers are investing to bring forward planning applications for housing - led mixed use schemes, there is a clear market failure to invest in advance infrastructure required to bring forward new employment land. In this context the LLEP and the Leicester and Leicestershire LPAs have already granted been granted a loan from the Growing Places Fund to enable a developer to invest in advance road works for an employment site.

8.15 However, the scale of development needed requires further innovations in planning, regeneration and development finance. For example, the LLEP and LPAs are well placed to leverage investment in advance infrastructure for housing - led mixed use schemes to bring forward the strategic employment sites within the Sustainable Urban Extensions.

8.16 The super - size warehousing market is the subject of substantially more significant occupier and property developer and investor pressures. A more detailed study of this market is required to enable the LLEP and LPAs to form a considered approach to manage the inevitable development pressures and impacts and opportunities arising.

8.17 Recommendations

The LLEP and the LPAs to:

- i) Identify priority geographical sub - areas where investment in advance infrastructure is required to bring forward new employment land;
- ii) Leverage all development opportunities to bring forward investment in and phased development of new employment land, most notably in the proposed SUEs;
- iii) Establish policy frameworks for and viability of funding regimes for innovations in planning, regeneration and development finance to fund advance infrastructure in and phasing the development of new employment land;
- iv) Review the potential supply of offices in the context of forecast decline in overall demand and supply side constraints on renewal and upgrading of the stock;
- v) Strengthen the evidence base for employment land planning for supersize warehouses through:
 - a) A sector based research study into the market drivers as well as the economic, employment and environmental impacts; and
 - b) A 'Golden Triangle' wide Employment Land Review
- vi) Consider establishing a shared approach to collecting employment land monitoring data with a view to strengthening the evidence base at the LPA and HMA levels and publishing an Employment Land Annual Review in partnership with the Commercial Property Forum.