



REPORT

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Epsom & Ewell Borough Council

East Street Office Demand Study – Final Report

February 2013



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For and on behalf of GVA Grimley Ltd

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1. Introduction

Overview

- 1.1 GVA were appointed by Epsom & Ewell Council in September 2012 to undertake a study of Epsom Town Centre, and in particular East Street, to assess its future potential as an office (B1) and Non B Class employment location.
- 1.2 Epsom is a prominent market town with an attractive retail High Street and rail station which offers a direct service to London Victoria and Waterloo. It is also a recognised, albeit relatively small, office centre with occupiers including WS Atkins, AON and Towers Watson.
- 1.3 The majority of the office provision is centred on East Street which also includes a number of other uses such as bookmakers, a creative arts centre, student housing and a public house.

Purpose

- 1.4 Conscious of the increasing range of uses coming forward within the town centre Epsom and Ewell Borough Council commissioned GVA to carry out a study of East Street in Epsom Town Centre to:
- Establish Epsom's position as an employment centre in a local and sub-regional context;
 - Assess the prevailing commercial / economic conditions within Epsom that influence occupiers' decisions to locate in Epsom and the "South London Fringe";
 - Carry out an assessment of the commercial stock on East Street to determine its suitability for office and other employment generating uses;
 - Determine the future prospects for the office market in Epsom;
 - Identify strategies to strengthen the office sector in the Borough;
 - Develop a suitable planning policy to respond to the challenges of generating employment growth in Epsom; and
 - Give an opinion on whether the long term vision for East Street as the main business district for both Epsom and the wider borough, as set out in Plan E, is robust and valid.

This should include recommendations for safeguarding, viability of re-investment in the office stock and the market reality of seeking additional employment floorspace for East Street.

- 1.5 In order to do this GVA carried out a quantitative and qualitative assessment of East Street and Epsom in economic and commercial terms to provide direction for the future. This was achieved by reviewing property market data provided by CoStar¹ and EGi, undertaking a site assessment of office employment floorspace in East Street, talking with local commercial agents and seeking the advice of GVA's in-house property agents.
- 1.6 This information has been collated into a Strengths, Weaknesses, Opportunities and Threats matrix for commercial office stock in East Street. A series of conclusions and recommendations for Epsom Town Centre and East Street as an office employment location have then been drawn for the short, medium and long term.

Report Structure

- 1.7 Following the introduction, the report is structured as follows:
- **Chapter 2** reviews the planning policy environment within the Borough to determine the context of any future recommendations;
 - **Chapter 3** provides a detailed review of the Epsom office market compared to the wider sub-region to highlight its strengths and weaknesses;
 - **Chapter 4** gives detail on the physical condition of East Street office floorspace and sites commenting on the quality of buildings, levels of vacancy, distance from amenities and the mix of uses; and
 - **Chapter 5** provides a series of conclusions and recommendations for Epsom and East Street.

¹ Costar Group is a leading provider of information services to commercial real estate professionals in the UK. The data source is a recognised industry standard and represents a comprehensive database of availability and deals information.

2. Policy Context

Introduction

- 2.1 This Chapter provides the baseline for the project from a policy perspective. The purpose of the section is not to provide an exhaustive description of relevant planning policy, but to identify the critical policy context information relevant to the East Street office area.

National Planning Policy Framework (NPPF)

- 2.2 At a national level the National Planning Policy Framework (NPPF) published on 27 March 2012 provides the national planning policy guidance. The NPPF replaces previous national policy guidance contained in Planning Policy Guidance and Planning Policy Statement (PPS), including the former PPS4 which dealt with employment and economic development matters in particular.
- 2.3 The NPPF aims to streamline national policy into a consolidated set of priorities to consider when planning for and deciding on new development.
- 2.4 The principle of sustainable development is a central theme at the heart of the NPPF. It is to be achieved through:
- Protecting and enhancing the environment;
 - Promoting sustainable growth and prosperity; and
 - Planning for strong, vibrant and healthy communities.
- 2.5 The NPPF aims to encourage economic growth by placing a duty on local authorities to be positive and proactive in encouraging sustainable growth and addressing the barriers to investment. They should set a clear economic vision and strategy based on an understanding of business needs. Local councils should aim to meet the needs of businesses and make the economy fit for the future.
- 2.6 The NPPF requires Local Plans to be aspirational but realistic. They should address the spatial implications of economic, social and environment change and set out opportunities for development and clear policies on what will or will not be permitted and where.
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2.7 With respect to employment land the NPPF states the Government's commitment to securing economic growth in order to create jobs and prosperity at paragraph 18. It then sets out a series of measures that local authorities should take at paragraph 21, including:

- Set out a clear economic vision and strategy;
- Set criteria or identify strategic sites for local and inward investment;
- Support existing business sectors and where possible identify and plan for new or emerging sectors likely to locate in the area. Policies should be flexible enough to accommodate needs not anticipated in the Plan;
- Plan positively for the location, promotion and expansion of clusters or networks of knowledge driven, creative or high technology industries;
- Identify priority areas for economic regeneration, infrastructure provision and environmental enhancement; and
- Facilitate flexible working practices.

2.8 At paragraph 22, the NPPF is clear that planning policies should avoid the long term protection of sites allocated for employment use where there is no reasonable prospect of a site being used for that purpose. It supports regular review of the land allocations and the identification of alternative uses having regard to market signals and the relative needs for land.

2.9 The NPPF continues to recognise that the planning system is plan-led and therefore Local Plans, incorporating neighbourhood plans where relevant, are the starting point for the determination of any planning application. In line with the Government's aim to streamline the planning process, each authority should produce a single Local Plan for its area with any additional DPDs or SPDs to be used only where clearly justified.

2.10 In commissioning this report on the future of East Street's office floorspace, Epsom and Ewell Borough Council have recognised the implications of the NPPF, particularly paragraph 22 and are considering the potential for all employment uses throughout the Borough and in particular East Street. There is a strong local concern that there must be a current evidence base and rationale to underpin a systematic and coherent approach to the use/re-use of employment floorspaces and sites in the Borough. The un-controlled loss of employment floorspace could lead to a homogenised dormitory Borough that would not meet the Council's vision and corporate objectives. This review of Plan E in the next section demonstrates that provisions have already been made by Epsom and Ewell Borough Council that encompass many of the requirements of the NPPF.

Plan E

- 2.11 Plan E is an Area Action Plan (adopted, April 2011) produced as part of the Council's Local Development Framework (LDF), the precursor to the current Local Plan. It maps out the future development for Town Centre over the next 15 to 20 years, establishing a framework to show how change will take place and how it will be managed and delivered. Its over-arching objective is to secure a successful future for Epsom Town Centre in the face of significant competition from other locations in the wider Surrey and Kent sub-region. It establishes the baseline position for Epsom, identifying what currently exists, as well as the issues and challenges faced by the Town Centre.
- 2.12 As the main Town Centre in the Borough, Epsom plays a vital role in the community, being the focus for a range of services and activities including employment opportunities. It provides a significant number of jobs in the shape of office, retail and civic employment across the public, private and third sectors.
- 2.13 Although Epsom is a successful Town Centre, it faces a variety of challenges and pressures. There has been limited commercial and retail development in recent years indicating a wider lack of investment in both of these markets. The commercial office stock is mainly comprised of purpose built blocks (mainly built before 1970) and older stock located on the upper floors above the high street shops.
- 2.14 The borough-wide Employment Land Review from 2006 shows that there is an under-provision of suitable employment floor space within Epsom Town Centre, as much of the stock is ageing and may no longer meet modern occupier requirements. The report also suggested that there is currently little scope for large scale additions to the traditional location of office stock.
- 2.15 Only a very small proportion of the stock has been built since 1991, and while some of the stock is well maintained, other floorspace requires improvement. Some of the aging office stock above shops may no longer meet modern serviced office needs.
- 2.16 Policy E5 of Plan E sets out the policy to address the current problems with the existing office stock. It states that:
- New development will deliver around 6,000 sq m of new employment floor space within the Town Centre during the period until 2026;
 - Within the Town Centre boundary, as defined on the Proposals Map, the loss of existing employment floorspace will be resisted;

- Proposals that seek to redevelop aging upper floor office floor space for retail, other commercial A Class uses or non-commercial uses will be considered providing the following are demonstrated:
 - i. That there is a sufficient supply of high density employment floor space within the Town Centre to meet the needs generated by future population growth;
 - ii. That the proposal site is no longer fit for purpose as Town Centre office stock; and
 - iii. That the existing office use has been subject to an active marketing exercise lasting at least twelve months, prior to alternative uses being considered.
- New development will deliver around 6,000sq m of new employment floor space within the Town Centre during the period until 2026.
- Within the Town Centre boundary, as defined on the Proposals Map, the loss of existing employment floor space will be resisted.

East Street

- 2.17 As well as setting the overall approach for the Town Centre Plan E also sets out a future Vision for East Street, the main commercial office area in Epsom. The Vision is:

"Over the next 20 years East Street will establish itself as the main business district for both Epsom and the wider borough."

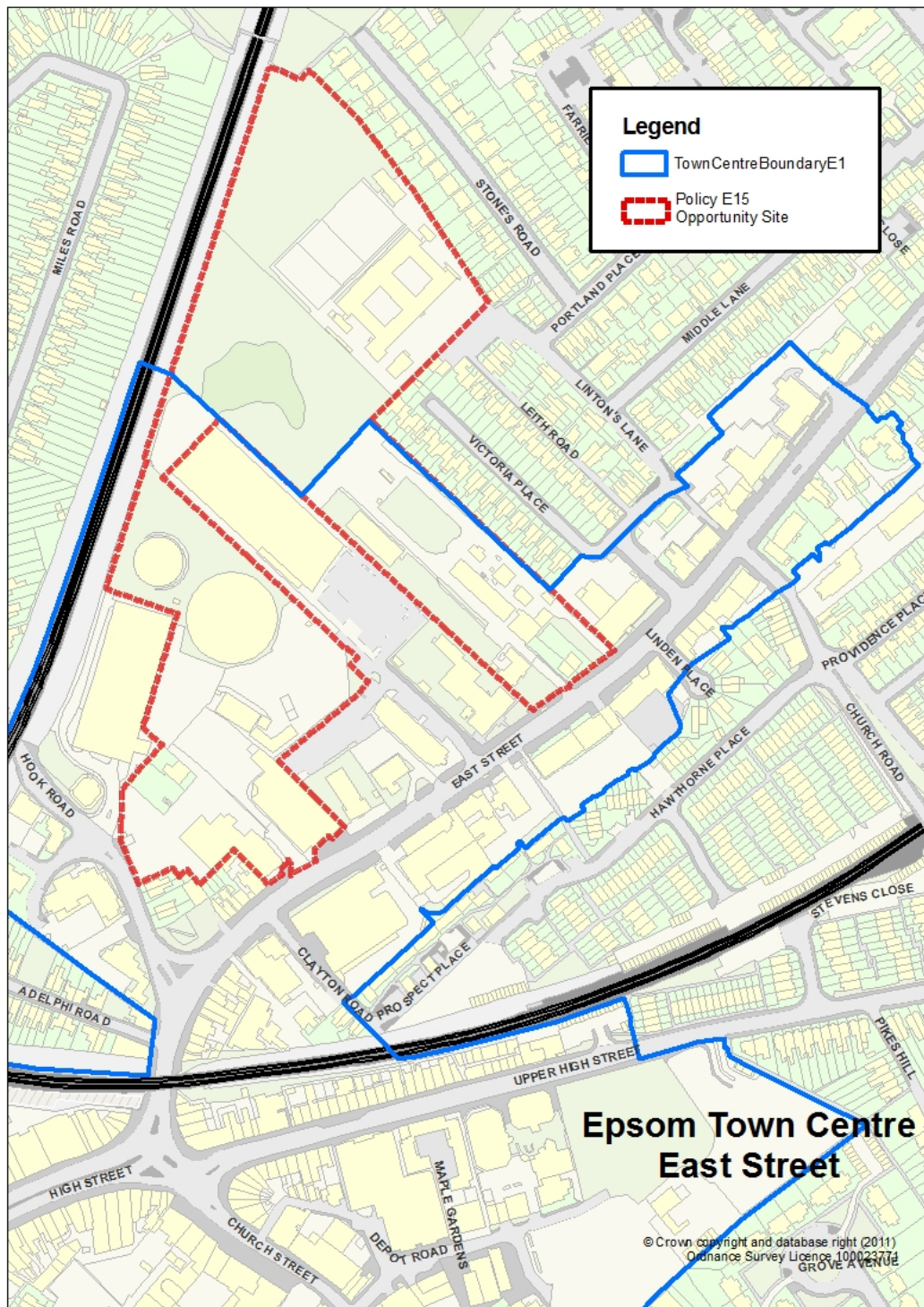
- 2.18 Within Plan E, Policy E1 sets out guidelines which relate specifically to East Street and the provision of office space. These guidelines are:

- Through the implementation of Plan E, the area's employment offer will be enhanced and protected through the application of its Town Centre boundary policies;
- The Council will work closely with the area's existing and future employers to ensure their retention within Epsom; and
- The emerging Town Centre management regime will also have a new role in attracting new employers to Epsom.

- 2.19 Plan E in policy E13 gives weight to the need to improve access. It identifies the need to investigate alterations to the highways network to reduce the impact of traffic passing through the town centre. The Vision for East Street itself states:

“Improvements to the transport network will make East Street a safe and pleasant environment that is easily accessible to the rest of the town centre by foot and cycle”.

- 2.20 As well as improvements to the road network there are plans for redevelopment to the north of East Street where there is a large site, primarily controlled by a number of utilities land owners including the National Grid, Scotia Gas and Thames Water.

Figure 1 East Street Area, Epsom

2.21 The comprehensive redevelopment of the site to the north of East Street will contribute towards the regeneration of this part of East Street providing leisure and commercial

floorspace which will create jobs for the Borough. It will also help to meet borough-wide housing and employment floor space targets.

2.22 Policy E15 outlines what will be delivered as part of the redevelopment of the site including:

- A minimum of 5,000 sq m of employment floor space as part of a mixed use development that also includes 0.24 ha of public space;
- New access arrangements on to the site from East Street as approved by the Highway Authority.

Other Relevant Policy and Planning Matters

Emerging Local Planning Policy

2.23 The Borough's Core Strategy was adopted in July 2007 and provides the spatial framework and objectives for Epsom Town Centre through policy CS14 and supporting text. This is aligned to the role of East Street defined in greater detail in Plan E described above.

2.24 The Council is working on both its Development Management Policies Plan (Draft, September 2012) and the Site Allocations Plan (which remain in preparation at the time of writing. The analysis and outcomes/recommendations arising from this report on East Street's office market may therefore be used in supporting the formulation of appropriate policy responses and/or site specific allocations in those emerging plans.

Permitted Development Rights and Conversion of Office Accommodation to Residential Uses

2.25 Part 3 of Schedule 2 to the Town and Country Planning (General Permitted Development) Order 1995 (as amended) grants a general permission for specified changes of use between some use classes in the Use Classes Order. It achieves this by classifying certain changes between the use classes as permitted development i.e. planning applications are not required.

2.26 The Department for Communities and Local Government ran a consultation exercise between 8 April and 30 June 2011 on proposed changes to the Town and Country (General Permitted Development) Order 1995 (as amended) to make it easier to change the use of buildings from commercial to residential.

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- 2.27 The proposals were part of the Government's *Plan for Growth* announced at the Budget in March 2011. They were put forward as a means of helping to address the urgent need for housing in England, promoting the regeneration of underused commercial buildings and bringing empty buildings back into productive use.
- 2.28 The consultation paper sought views on making changes of use:
- From B1 use (business – offices, research and development premises and light industry) to C3 (dwellinghouses) permitted development i.e. to allow such changes to happen freely without the need for planning applications; and
 - From B2 (general industrial) and B8 (storage & distribution) to C3 (dwelling houses) permitted development.
- 2.29 The proposals relate only to change of use. Where a development would require any additional work to the exterior of an existing building or is a new build development, a planning application for this operational development would be required in the normal way.
- 2.30 In September 2012, a Written Ministerial Statement by Right Hon Eric Pickles Secretary of State re-emphasised the Government's intention to bring empty offices into use for residential purposes through changes to the Permitted Development Order. He stated "we have already undertaken a series of measures to make change of use easier, to help get empty buildings back into productive use. We will introduce permitted development rights to enable change of use from commercial to residential purposes, while providing the opportunity for authorities to seek a local exemption where they believe there will be an adverse economic impact. This common sense measure will help the regeneration of our towns and cities. Our high streets will benefit from a greater resident population, increasing footfall and supporting local shops".
- 2.31 DCLG has now confirmed the alterations to the Permitted Development Rights for change of use from commercial to residential in a letter from the Chief Planner on 24th January 2013. The letter confirmed that the proposed changes to permitted development rights for change of use from office to residential will come into force in Spring 2013.
- 2.32 The Chief Planner's letter identifies that exemptions to the changes in permitted development rights will be considered (if submitted to DCLG before 22nd February 2013) and will only be granted in exceptional circumstances where local authorities can demonstrate that the introduction of the permitted development rights in a particular area will lead to:
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- The loss of a nationally significant area of economic activity;
- Substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring.

- 2.33 The appendices to the Chief Planner's letter set out greater detail on what information is required to substantiate an exemption request and clearly identify the need for any exemption to relate to the smallest justifiable geographic area in light of the criteria above.
- 2.34 The Chief Planner's letter does also confirm that the opportunity for authorities to apply an Article 4 direction within the GPDO to remove the permitted development right remains available.
- 2.35 While the use of Article 4 directions to remove national permitted development rights should be limited to situations where this is necessary to protect local amenity or the wellbeing of the area, it is clear that in areas such as East Street, the ability to deliver Plan E's vision and objectives will be adversely affected by the change in permitted development rights for conversion of office stock. On this basis, the Council should swiftly consider whether an exemption case can be brought before DCLG and also review the opportunity available in terms of the use of an appropriate Article 4 Direction.

Energy Act 2011 – Energy Performance Certificates

- 2.36 The Energy Act 2011 contains a number of provisions which will affect the property industry. Probably most significant are the proposed Energy Performance Certificates (EPC) minimum standards requirements.
- 2.37 From April 2018, the proposed legislative changes would make it unlawful to let residential or commercial properties with an EPC Rating of F or G (i.e. the lowest 2 grades of energy efficiency). This could have very significant implications for landlords – and for occupiers who wish to assign or sublet space.
- 2.38 To address the implications of the proposed changes, landlords and occupiers will need to assess the status of their properties' energy efficiency. Thereafter, they will need to consider undertaking retrofits or refurbishments and possibly bringing forward properties for marketing prior to 2018 or re-gearing leases.
- 2.39 The Government's expectation is that the "Green Deal" will provide the finances to carry out the improvements. Landlords and subletting occupiers will have satisfied their

obligations once they have achieved an EPC “E” rating or have implemented the maximum package of works allowable under the Green Deal (even if they fall short of the “E” rating required). Future secondary legislation will be provided to allow the Secretary of State to exempt certain types of properties from the requirements (the secondary legislation has still yet to be published). Trading Standards teams at local authorities will enforce the rules for commercial properties, the level of fine being subject to the secondary legislation.

Conclusions

- 2.40 The NPPF requires local authorities to plan positively for economic growth with a degree of market realism and flexibility when deciding upon the most appropriate uses in particular areas. This should be allied with an overall strategy for economic growth and proactive engagement with indigenous and prospective businesses.
- 2.41 A review of Plan E shows that it is aligned with the NPPF’s guidance as it establishes a positive and proactive approach to employment land and securing opportunities for economic growth and inward investment within Epsom Town Centre and East Street in particular. The Plan has a degree of flexibility at its heart and recognises the need to consult with local businesses and create the right conditions locally for employment growth.
- 2.42 The overall approach in Plan E is that Epsom Town Centre should remain the focus for employment uses and maintain and enhance the attractiveness of its location to existing and potential businesses, resisting change of uses to Non B Class uses. Within Plan E, the role of East Street as an office employment area is well established and clearly identified as a critical location to support the Plan’s overall vision and objectives. The Council has applied the Plan E policies in a flexible manner in terms of the re-use of vacant employment sites, including Town Centre offices, for other commercial/employment uses including education, healthcare and employment generating community activities.
- 2.43 Other policies and regulatory changes are pertinent to the future role of East Street as an office location. The Government’s forthcoming changes to General Permitted Development rights to allow the conversion of B1 office stock to residential use without planning permission (where only internal alterations are required) may have a significant effect upon East Street’s office stock if a local exemption from this extension in permitted development rights is not put in place through either an application for exemption to DCLG (by 22nd February 2013) and/or through a local Article 4 direction for East Street.

The effect may be mitigated to a certain extent by the fact that many offices to residential conversions would need some form of exterior works, for which planning permission would then be required. Nevertheless, the relaxation of Permitted Development rights in this manner will not serve to support the employment role and function of East Street.

- 2.44 There is also the requirement of the Energy Act (2011) relating to Energy Performance Certificates that will, from 2018 onwards, affect whether commercial properties can be let if their environmental performance is poor. This legislation may have a profound effect on the ability of existing office stock in East Street to be let and may require the re-gearing of existing leases or disposal of property as the deadline for compliance comes closer.

3. Commercial Market Assessment

Introduction

- 3.1 This section establishes the commercial market positions for East Street and Epsom more widely. It analyses the commercial market within Epsom and compares it to the wider sub-region (defined as East Surrey and South London) and also considers wider market trends in the UK.
- 3.2 A review of deals, floorspace, availability, rental levels and qualitative market evidence from GVA's in-house and local commercial agents provides a strong basis for the market assessments. A number of publicly available sources of data are used to assess East Street and Epsom against competing centres, including Focus, EGi and PROMIS, to make an assessment of Epsom Town Centre and East Street. PROMIS has been used to benchmark East Street and Epsom against other office centres in the area to give an idea of where Epsom sits in a sub-regional context.
- 3.3 Economic forecasts data from publicly available PROMIS and NOMIS data sources for the area are also analysed and used as an indicator of likely future demand within the East Street and Epsom area.
- 3.4 In order to set this data in context we have also undertaken a review of the current conditions in the UK commercial property market. According to GVA's Office Agency division it will be these market-wide trends that principally define occupier activity in Epsom and Ewell Borough in the future. To support and confirm this analysis, local commercial property agents were also consulted during this process including:
- Quinton Scott;
 - Stiles Harold Williams;
 - Collins Lambourn; and
 - Bridger Bell.

UK Commercial Property Context

Rental Values and Sentiment

- 3.5 All property rental values fell slightly during the first eight months of 2012 and are now 0.3% lower than at the start of the year (IPD Monthly Index, August 2012). Behind the all property figure, the UK market remains polarised geographically. Average rental values for central London offices have increased by 2% (IPD Monthly Index, August) since the start of January and central London retail rents are an impressive 3.7% higher (IPD Monthly Index, August 2012).
- 3.6 This is in marked contrast to falling rental values across much of the rest of the mainstream UK commercial office market. Outside London and the South East/East of England, average shopping centre rental values are 2.5% (IPD Monthly Index, August 2012) lower than at the start of the year. Average office rental values are 1.2% lower and industrial rents have fallen by a similar 1% (IPD Monthly Index, August). Epsom and Ewell Borough sits within the middle of these two markets.
- 3.7 In the short term, rental values are likely to continue to fall at the UK all property level and GVA expect 2013 to see little change in the overall figures. In Central London, the rate of growth is likely to moderate next year but we forecast that rental values will be almost 15% higher than today by the end of 2016 (GVA Research estimate, Q4 2012).
- 3.8 In the regional markets outside Central London, office rental values will still be below their 2008 peak at the end of 2016 and are forecast to be only around 6% higher than current levels (IPD Monthly Index, August 2012). This has potential implications for the longer term attraction of commercial offices within Epsom and Ewell with a low returns forecast possibly discouraging investors and developers from building new floorspace, although supporting the ability for East Street to compete with other centres for occupiers whose main driver is low cost floorspace.

Commercial Property Asset Quality

- 3.9 In Q4 2012, the UK commercial property market is heavily polarised by asset quality. IPD figures reveal a stark contrast between the prime and more secondary ends of the commercial property market spectrum. For example, the highest quality 25% of UK shopping centres in the index saw rental values rise by 0.6% (IPD Monthly Index, August 2012) in the first half of this year. In contrast, the most secondary 25% saw a fall of 3.1% (IPD Monthly Index, August 2012). This is particularly pertinent to the Epsom office market

where, the stock is of a comparatively poorer quality than others in the sub-regional office market such as Croydon and Reigate.

- 3.10 These performance differentials are repeated across a range of sectors, though to varying degrees. Even in the central London office market, where overall rental growth is fairly strong relative to the UK market overall, rental values on secondary assets have fallen during the first half of the year.
- 3.11 The differentiation in performance by quality of commercial office is more likely to increase than decrease. The current low level of development activity means that shortages of quality space will become increasingly apparent as the economic recovery eventually gathers pace.
- 3.12 At the same time the quality of space will become more important, whether this is office occupiers demanding more flexible buildings or the need for retailers to adapt their offer in a world increasingly influenced by internet sales and data storage.
- 3.13 It will also become more difficult to let secondary commercial office stock. The April 2018 deadline after which it will not be possible to lease a building with an Energy Performance Certificate (EPC) rating below 'E' (on a scale of 'A' to 'G' where 'A' is the highest - see Section 2 previously), and the retrenchment of occupiers from secondary locations are just two reasons for this.

Recent Investment Market Performance

- 3.14 Strong overseas interest in the London market continues to buoy overall investor demand. During the first eight months of 2012 Property Data² has recorded transactions across the UK totalling £19.7 billion, slightly below the £21.9 million (Property Data) recorded for the same period in 2011. Transaction levels are still being held back by the scarcity of debt finance, the lack of quality product and by high levels of investor uncertainty.
- 3.15 So far 51% of transactions in 2012 by value (£10.2 billion) are accounted for by overseas investors, who increased their overall exposure to the UK market by £6 billion over the period.

² All of the information in this section is taken from Property Data <http://www.propertydata.com/>

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- 3.16 Average all property yields have now shifted upwards for ten consecutive months during 2012 (IPD Monthly Index, August 2012). Although this shift has been relatively modest at just under 20 basis points, the investment market now appears to be in a 'double-dip', at least at the all property level. But this time around the extent of the upward shift should be very limited, unlike the major upward yield shift seen in 2007 and 2008.
- 3.17 The all property figures do not reveal the whole picture and yields at the very prime end of the market in the West End and the City of London have held broadly steady in recent months. As a result the gap between prime and secondary commercial office property widened further. Given the lack of available prime office stock within Epsom and East Street in particular this does indicate that the long term outlook for investment in the area is limited.

Occupier Trends

- 3.18 The full impact and complexity of the constrained economic conditions on employment levels and the commercial market has become clearer in 2012. Whilst the South East Economy has fared relatively well economically compared to the rest of the UK the office space take up performance and new space requirements have been limited.
- 3.19 Limited take up has resulted from constrained business activity, with little or no investment by businesses in new premises and low demand for 'expansion' space as a business grows.
- 3.20 The limited demand for office space has been exacerbated by changing occupier trends, making more efficient use of space and increasing employment density within their current premises.
- 3.21 As a result of falling demand significant incentives have been offered across the region to secure tenants, particularly in new developments. Whilst headline rents may not always be reduced lease conditions and rent-free periods are generally adjusted to make stock more attractive.
- 3.22 There is limited commercial property finance for speculative development as a result of earlier banking exposure and evidence of limited space demand. As a result there is a limited supply of high quality Grade A space provision, exacerbated by a lack of development activity, and an increasing supply of lower grade office stock in circulation as a result of business restructuring;
- 3.23 Research by CBRE for their UK Regional Offices Viewpoint (Q1 2012) suggests that the office market across the UK is being squeezed by a limited supply of high quality Grade A
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space provision. This supply challenge is principally driven by a lack of speculative development activity.

3.24 Conversely, as a result of the recession there is an increasing supply of lower grade office stock in circulation as a result of business restructuring and the contraction of occupier activity within their existing properties.

3.25 Occupiers are increasingly sensitive to a range of influences and building trends which affect the efficiency and usability of the stock they occupy. This is driving shifts in the stock demanded by occupiers who place much more significance on:

- Environmental performance;
- Floorplate dimensions (businesses increasingly seek bigger sizes);
- Space flexibility – to provide space for independent and group work;
- ICT infrastructure – to enable flexibility and flexible working;
- Amenity and servicing – within the building and the surrounding area; and
- Enhanced working environment – with greater natural light penetrations and efficient ventilation.

3.26 Meeting these occupier demand requires significant ICT and servicing infrastructure from improved wiring to new air conditioning ducts, often it is difficult (if not impossible) to accommodate this infrastructure within older structures. The adaptability of older office stock is restricted by:

- The cost and viability of retro-installation and energy performance improvements required under the Energy Act legislation, particularly compared to achievable rents;
- The ability to install infrastructure and maintain an acceptable working environment given low floor-ceiling heights which prevent the installation of suspended ceilings or raised floors;
- The floorplate dimensions which prevent the penetration of natural light into the core;
- Location of servicing cores which reduce usable space.

3.27 Large occupiers are also increasingly seeking to occupy space that reflects and enhances their image and brand and acts as a key component in attracting new employees. Hence there has been an increased focus on the look, feel, design and functioning of property and a subsequent increased requirement for new 'bespoke' space.

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- 3.28 Therefore whilst supply of second hand stock has increased, demand has fallen, creating a considerable imbalance in the market, reducing values and therefore the ability and viability of redevelopment/refurbishment. In their 2012 paper CBRE estimate that for every 1sqft of secondhand space taken 1.9sqft is available. This has meant that capital growth and rental growth of well located secondhand office stock is now below that of lower yielding 'prime' stock, making investment in refurbishment uneconomic even where it is achievable.
- 3.29 With current suppressed demand the inability of second hand stock to meet changing occupier requirements is exacerbated by increased incentivisation to take up new space. Headline rents for new space may be maintained however other incentives reduce the 'total cost' of occupying the highest quality space have been introduced such as increased rent free periods. Therefore firms which would traditionally be 'priced out' of Grade A now view it as more affordable and viable option.
- 3.30 Allied to changes in demand and as a result in falling capital and rental growth it is worth noting that in 'real' terms (i.e. adjusting for inflation) the cost of Grade A has actually fallen. This again reinforces the attractiveness of new space over second hand space to businesses seeking economically efficient properties.
- 3.31 These changes to occupier preference and demand are now well established trends within the market and therefore it suggests that, as demand recovers, occupiers will predominantly be seeking higher quality stock.

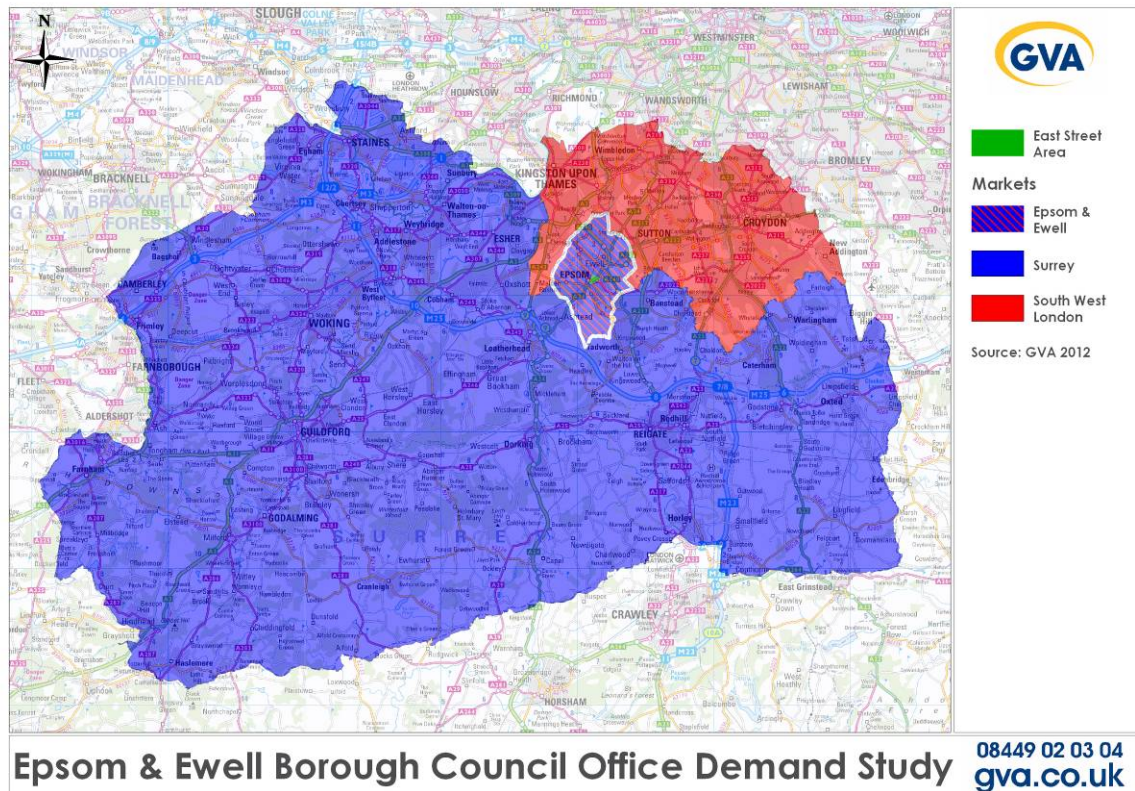
The Epsom Office Market

Overview

- 3.32 Epsom is an attractive 'market town' in south west London with an attractive retail High Street and rail station which offers a direct service to London Victoria and Waterloo.
- 3.33 It is a relatively small office centre, but has attracted a number of larger occupiers including BDO, Bunzl, Premium Credit, Towers Watson, AON and W.S Atkins. Epsom and Ewell Borough Council are also based in the town.
- 3.34 The Railway Station, which provides a frequent 30 minute service into London (Victoria and Waterloo), lies just to the north of the retail centre of Epsom. It is a 5 – 10 minute walk to the start of East Street, and a 10 – 15 minute walk to the eastern end of the Town Centre boundary.

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- 3.35 The office market in Epsom is mostly located in two areas of the Town. There is a cluster of buildings in Ashley Road, South Street and West Street, which are all close to the main retail centre and Station. These include the newly refurbished Epsom Gateway – an 80,000 sq ft office building originally built for WS Atkins, who have consolidated into one half. The remaining 41,000 sq ft wing is available at a quoting rental of £23.50 psf, which is the absolute top rental level in Epsom, reflecting the nature of this Grade A space.
- 3.36 The other main office location is East Street. As its name would suggest, East Street lies to the East of Central Epsom, and is the main arterial route in to the Town (A24) from the North. The various office buildings are situated on either side of the Street in a linear formation. They include small period residential buildings which have been converted, and purpose built office buildings constructed during each of the last five decades, with most activity undertaken in the 1980's.
- 3.37 In order to undertake a robust analysis of the property market within Epsom and Ewell Borough GVA have considered two specific functional commercial market areas: the local market in Epsom and Ewell; and a wider sub-regional area which includes the other office centres in Surrey and South West London. Major centres included within the sub-region are Croydon, Reigate, Leatherhead and Guildford. These are shown graphically in Figure 2.

Figure 2: Sub-Regional Commercial Property Markets



Source: GVA

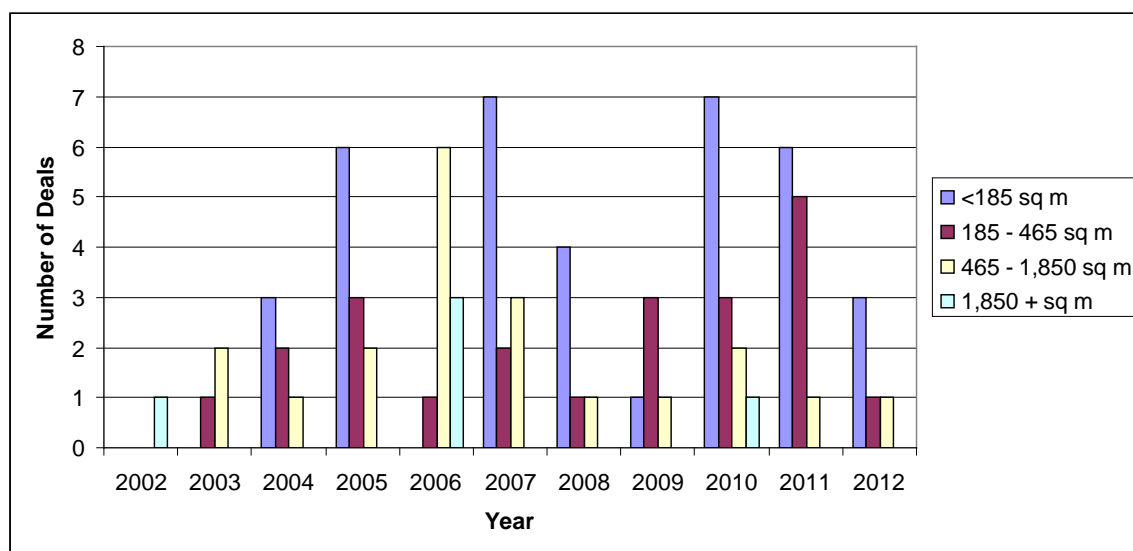
Office Floorspace Take up

- 3.38 An analysis of the deals that have taken place in the Epsom market shows that there has been a limited amount of activity between 2002 and 2012. As shown in Figure 3 the largest number of deals was for office units below 185sqm (1,990sqft) in most years. Figure 3 also shows the prominence of smaller office deals since 2007 and the almost complete absence of deals for large office floorplates (1850 sqm+) in this timeframe. This generally defines the market in Epsom as one local agent commented:

"In recent years the office market in Epsom has not seen much activity especially for large units. However, there does appear to be some pent up demand for smaller offices in the town centre. The stock does not align with this potential demand."

- 3.39 With 2007 generally regarded as the peak of the office market across the UK it is interesting to note that the level of deals in Epsom in 2010 and 2011 are broadly similar³ following a significant reduction in 2008 and 2009 as Figure 3 shows.

Figure 3: Office Deals in Epsom 2002 – 2012



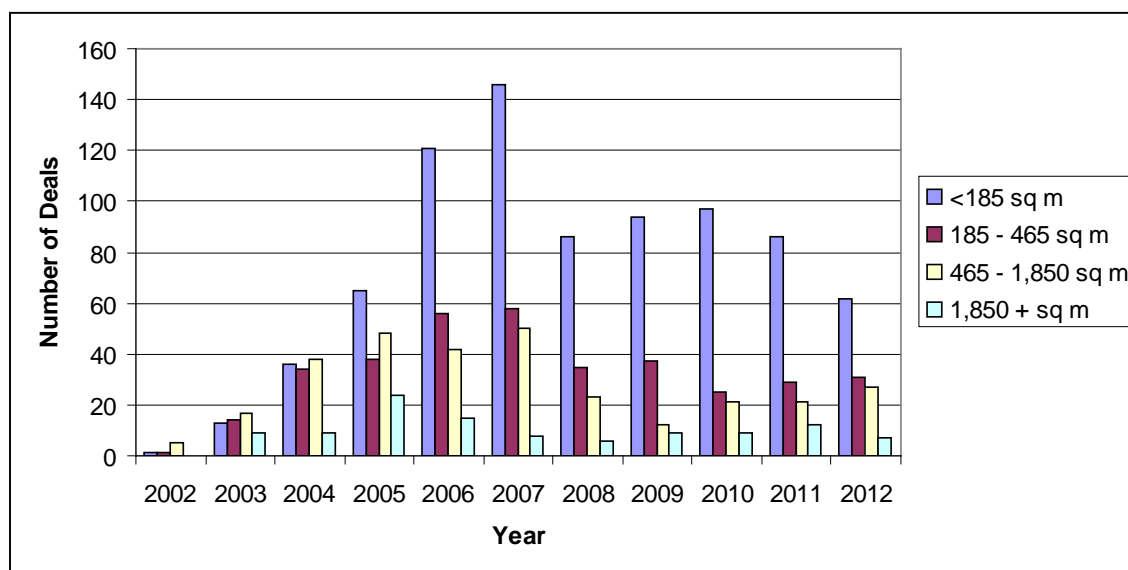
Source: EGi / Focus 2012

- 3.40 This pattern is confirmed by local agents who commented:

"The volume of deals reached its peak in 2007 but even then it wasn't a 'thriving' office market compared to other areas such as Leatherhead and Reigate which were able to attract more headquarters' etc. to the area."

- 3.41 An analysis of the number of deals in the sub-region demonstrates the difference in scale of the two markets with a peak of 262 deals in 2007 across the entire area. This is shown in Figure 4.

³ It should be noted that while this data includes the majority of commercial property deals it does not cover every deal. It is dependent on the deals reported by local agents so it is likely that some of the smaller transactions are not included in this commercial transaction data.

Figure 4: Number of Office Deals in the Sub-Region, 2002-2012

Source: EGi / Focus 2012

- 3.42 Figure 4 clearly shows the peak of the market in 2006 and 2007 in the sub-region and the subsequent decline in the number of deals of all sizes which is more pronounced than in Epsom. Though as local commercial agents have commented, Epsom was not a particularly strong office market even in the peak years.
- 3.43 A more detailed look at the nature of office deals in Epsom highlights the predominance of mid to large sized office floorplates deals within the Borough over the past ten years. This is shown in Table 1 below.

Table 1: Office Deals Epsom, 2002 - 2012

Floorspace Range	Absolute Take up (sq m)	Average Annual Take up (sq m)	% total
<185 sq m	4,268	427	13%
185 - 465 sq m	6,664	666	21%
465 - 1,850 sq m	13,646	1,365	43%
1,850 sq m	7,530	753	23%
Total	32,108	3,211	100%

Source: EGi / Focus 2012

- 3.44 The most significant size bracket of floorspace let in Epsom was 465 – 1,850 sq m with those units in the size category accounting for 43% of space let between 2002 and 2012. This lends itself towards to the low to mid sized units being the most attractive in the Epsom market with an absence of larger office floorplates.

- 3.45 In the sub-region the presence of those very large office units (1,850 sqm +) is more pronounced with units of this size accounting for 56% of the total amount of space taken up over the previous ten years. This is shown in Table 2 below.

Table 2: Office Deals Sub-Region, 2002 - 2012

Floorspace Range	Absolute Take up (sq m)	Average Annual Take up (sq m)	% total
<185 sq m	75,277	7,528	7%
185 - 465 sq m	102,754	10,275	10%
465 - 1,850 sq m	277,344	27,734	27%
1,850 sq m	569,586	56,959	56%
Total	1,024,961	102,496	100%

Source: EGi /Focus 2012

- 3.46 This trend was acknowledged through consultations with local agents who described the differing nature of the office market within Epsom and the wider sub-region:

“Epsom is not a recognised large office market and is in the shadow of areas such as Guildford which attracts a number of headquarter type office developments.”

- 3.47 This offers challenges to Epsom to define more clearly its “offer” in the sub-region.

Office Availability

- 3.48 Establishing the level and nature of availability of offices within the Epsom market allows for conclusions to be drawn on any mis-matches in stock compared to evident demand. According to Focus and EGi, 25,262 sqm of office space is currently available in Epsom, the majority of which is located on East Street in Epsom Town Centre. This is a substantial level of stock vacancy and therefore availability.
- 3.49 We can then compare this availability with the take up established in Table 1 and Table 2 to establish the notional years supply within Epsom and the wider sub-region.
- 3.50 Table 3 below shows that there is an adequate supply of office floorspace in the mid size (185 – 1850 sqm) category in Epsom. In order for a property market to demonstrate an acceptable degree of flexibility we would expect around three to six years of notional supply to allow for the right amount of choice in the market. This is the case in the mid size office market within Epsom.

- 3.51 It is notable that there is a significant number of years supply in the smallest (<185 sqm) and highest (1,850 sqm+) property categories. This suggests that there is a lack of market interest, for larger offices in particular within Epsom. This is shown in Table 3 below:

Table 3 Availability & Take Up Epsom, 2012

Floorspace Range	Available Floorspace sq m)	Average Annual Take up sq m)	Notional Years Supply
<185 sq m	3,362	427	8
185 - 465 sq m	4,303	666	6
465 - 1,850 sq m	6,977	1,527	5
1,850 sq m +	10,620	753	14
Total	25,262	3,373	7

Source: GVA / Focus / EGI

- 3.52 Commenting on the nature of the notional years supply both GVA's Office Agency division and local commercial agents consulted were of the view that while the large level of supply for large units was due to a lack of demand they believed it was the nature of the smaller office stock and the terms that were being offered that were prohibitive. This theme of tackling the nature of smaller office stock is considered further within the conclusions and recommendations to this report. As one agent commented:

"The nature of demand for smaller offices in the London Fringe market is for flexible office space which can be configured to specified sizes and for specific uses. This is not as readily available in Epsom Borough or East Street as elsewhere in the market such as Leatherhead."

- 3.53 Comparing the notional supply in Epsom to the figures for the wider sub-region set out in Table 4 demonstrates a greater overall notional supply but less disparity between the various size brackets. For example, while there is an oversupply in the largest size category (1,850 sqm +) it is 9 years compared to 14 years in Epsom.

Table 4 Availability & Take Up Sub-region, 2012

Floorspace Range	Available Floorspace sq m)	Average Annual Take up sq m)	Notional Years Supply
<185 sq m	44,944	7,528	6
185 - 465 sq m	69,463	10275	7
465 - 1,850 sq m	170,235	27734	6
1,850 sq m +	527,634	56959	9
Total	812,276	102,496	8

Source: GVA / Focus / EGI

- 3.54 Local Commercial Agents were of the view that the levels of availability in the sub-regional market were more attributed to a lack of demand and that in Epsom's case this

was exacerbated by the lack of flexible stock for smaller offices. The conclusions and recommendations to this report signal how smaller businesses may be encouraged and the evident market for smaller floorspace supported through flexibility in the internal arrangement of floorspaces.

- 3.55 Significant rental decline was seen across the country following the onset of the global financial crisis. In Epsom, top rents declined by 16% from Q4 2008 to Q4 2010. Over this cycle, rents have declined less than during the recession of the early 1990s, when peak rental values declined by 50%.
- 3.56 These figures represent headline rents. Significant increases in incentives and reduced lease terms mean that effective rents have fallen much more significantly in many centres.
- 3.57 Despite the economy falling back into recession in the first half of 2012, top rents in most of the provincial Office PROMIS centres, including Epsom, have remained stable over the last 6 months. This is shown in Table 5 below:

Table 5: Top Rents £ psf (end-year), 2007 - 2012

Top Rents £ psf (end-year)						
	Epsom	£psf M25 West average	Office PROMIS avg (incl C London)	Epsom	%pa M25 West average	Office PROMIS avg (incl C London)
2007	21.50	25.96	24.35	4.9	6.6	7.7
2008	21.50	25.63	24.09	0.0	-1.2	-1.0
2009	20.50	23.65	21.87	-4.7	-7.7	-9.2
2010	18.00	23.06	22.04	-12.2	-2.5	0.8
2011	18.00	23.24	22.31	0.0	0.8	1.3
mid 2012 *	18.00	23.94	22.56	0.0	3.0	1.1
Record peak year	1989	2001	2007			
2011 as % of peak	60	84	93			
% let within 25% of top rent (five years to Q2 2012)	80	61	55			
Town centre rent (mid 2012)	18.00					
Out of town rent (mid 2012)	n/a					
Top achieved rent in last 9 months (deals of over 2,000 sq ft)	None reported					

Source: PROMIS

Comparative Analysis

- 3.58 In order to make a meaningful comparative analysis of Epsom and East Street compared to the wider sub-region we have used the property database PROMIS and its most up to date office market reports. The locations that have been chosen to act as comparators are based on proximity to East Street in Epsom and in terms of comparable data availability. The areas are:

- Leatherhead;

- Guildford;
- Woking;
- Reigate; and
- Croydon.

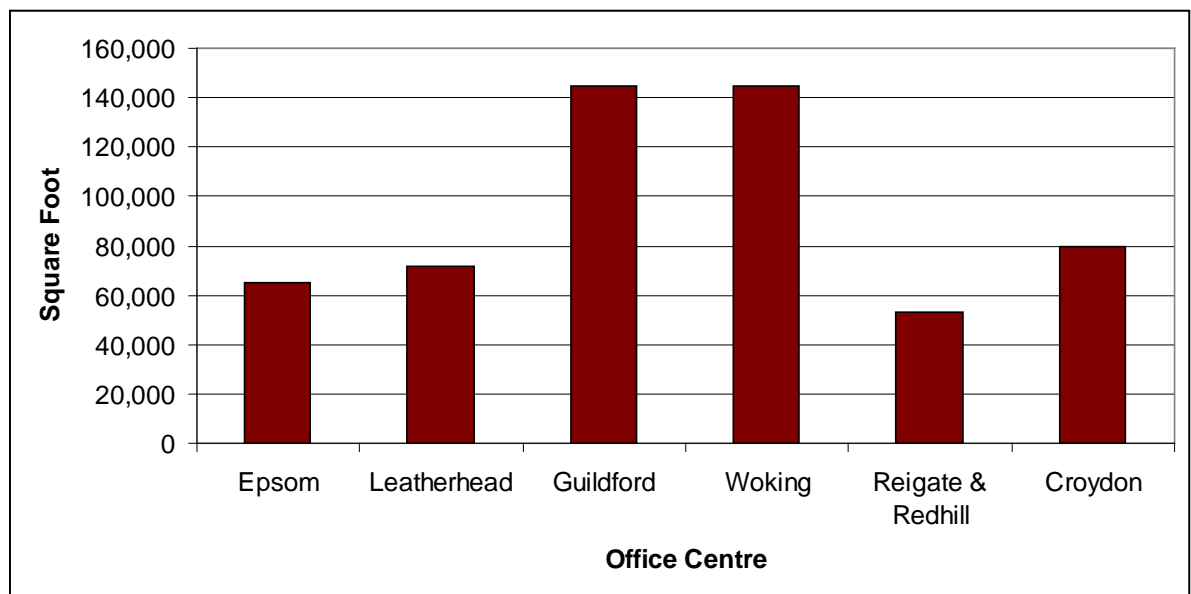
3.59 The factors that are assessed in order to ensure that a proper comparison can be carried out are:

- Take up;
- Completions; and
- Rents.

Take Up

3.60 Comparing the levels of take up across the various office centres in the sub-region demonstrates that Epsom, along with Reigate and Redhill have the lowest levels of take-up in 2011. This is shown in Figure 5 below:

Figure 5: Levels of Take Up (sqft) in Epsom and Competing Centres, 2011



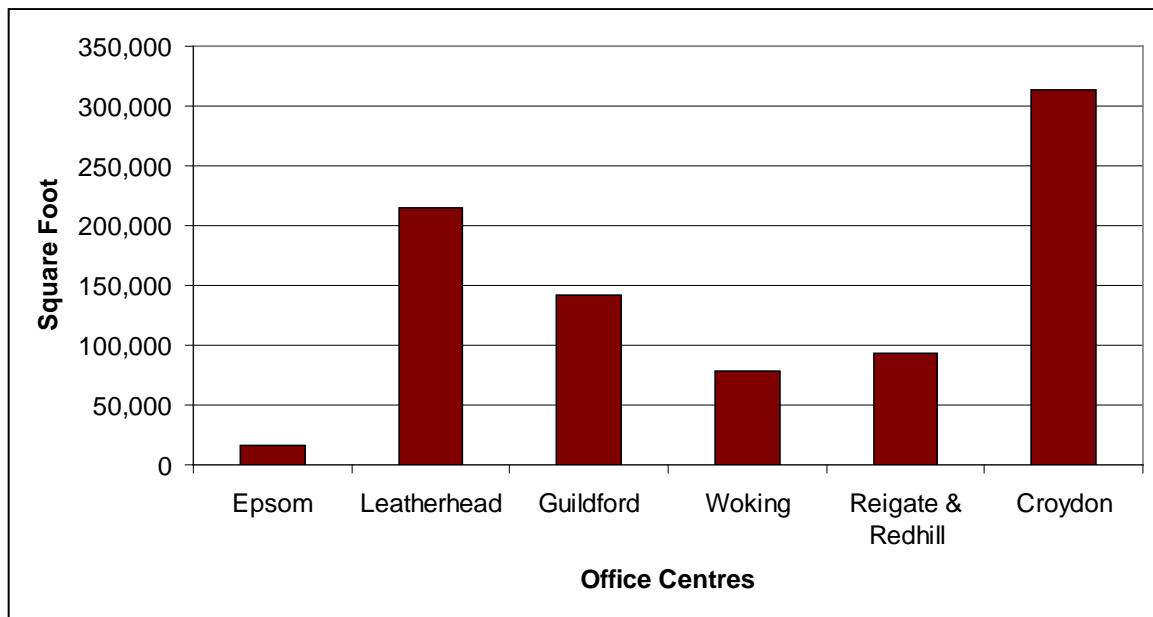
Source: PROMIS

3.61 The towns where the majority of take up has occurred in 2011 are Guildford and Woking indicating the difference in scale of these two markets to Epsom. Leatherhead and Reigate and Redhill are more comparable in scale to Epsom in terms of take up with Reigate and Redhill having take up rates of 53,000 sq ft compared to 65,000 sq ft in Epsom and 73,000 sq ft in Leatherhead.

Completions

- 3.62 In addition to the take up data the level of completions in each office centre give an indication of how attractive each location is for inward investment. The levels of completion between 2007 and 2011 are shown in Figure 6 below.

Figure 6: Completions (sq ft) in Epsom and Competing Centres, 2007- 2011

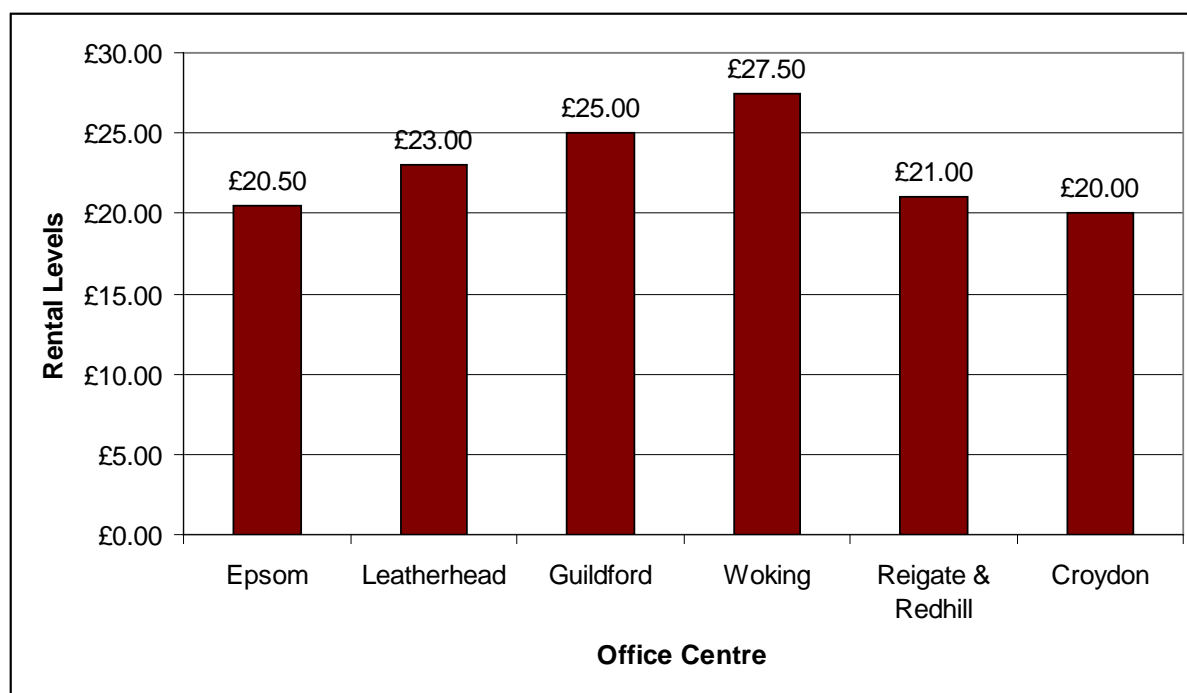


Source: PROMIS

- 3.63 The disparity between development activity in the Epsom office market and other office centres in the sub-region is shown in Figure 6. Between 2007 and 2011 there was a total of 16,000 sq ft of office completions in Epsom compared to Leatherhead which had 215,000 sq ft of office development in the same period. Reigate and Redhill also experienced a significantly higher amount of completions with 93,000 sq ft between 2007 and 2011. Croydon is significantly higher than the other office centres 313,000 sq ft of completions over the period.

Rents

- 3.64 The headline rental levels of different office centres in the sub-region gives an indication of the nature of the market within each of them. The different rental levels are shown in Figure 7 below.

Figure 7: Headline Rental Levels for Office Centres in the Sub-Region, 2011

Source: PROMIS

- 3.65 Figure 7 shows that Woking is the centre with the highest rental levels across the sub-region. The top rent achieved in Woking in 2012 was £27.50 psf with Guildford the second highest at £25 psf. The rental levels in Epsom are broadly in line with Reigate & Redhill and Croydon with the top rent of £20.50 compared to £21 in Reigate & Redhill and £20 in Croydon. These headline rental values mask the average rental values achieved and do not take account of the often generous lease terms, early break clauses and rent free and review periods offered to secure new occupier deals.
- 3.66 The differential in headline rental levels between the various centres is one reason why the development of new office floorspace in Epsom, including East Street has been at a much reduced level to that experienced in other competing centres. At £20 per square foot rental value it is difficult for commercial floorspace developers to construct and let new floorspace on a viable basis unless there is a pre-let tenant in position.

Economic Sectors

- 3.67 In addition to the demand patterns in the commercial property market the sectors that are major employers within Epsom are also important to consider. The property database company PROMIS has carried out analysis of the sectors present in Epsom and compared these to the sectors that are present in competing areas. This analysis shows that the office economy and office demand, the 'Financial & Business Services' sector (F&BS)

accounted for 26.6% of jobs in Epsom at 2010, below the M25 West Market Area average of 31.7%. In terms of jobs, employment in F&BS in Epsom stood at 7,100.

- 3.68 The largest F&BS subsector in Epsom is Professional & Business Services, accounting for 20% of total employment or 5,300 jobs. Epsom has an above average share of employment in Finance and has a below average share of employment in Computing, R&D & Telecoms than the M25 West average.
- 3.69 Whilst F&BS employment is an important driver of office demand, within Epsom, Public Services makes up the largest share of total employment at 34.1%.
- 3.70 The number of employees by office sector in the M25 West Average area and across the average of office centres is shown in below. The colour denotes the sectors that are 25% or more above or below the office market area average.

Table 6: Employment Structure, Epsom and M25 West Sub Region, 2010 (latest figures)

Sector	Epsom	Epsom	M25 West average	Office PROMIS average
	employees	% of total employees		
Finance	1,300	4.9	3.4	5.4
- Banking & Finance	700	2.5	1.8	3.6
- Insurance	600	2.3	1.6	1.8
Professional & Business Services	5,300	20.0	21.8	19.2
- Professional Services	4,300	16.1	17.1	14.8
- Property & Renting	1,000	3.9	4.7	4.4
Computing, R&D & Telecoms	500	1.8	6.5	4.0
- Computing, R&D	400	1.6	5.1	3.0
- Telecoms	100	0.2	1.4	1.0
Public Services	9,100	34.1	24.0	30.0
Other Services	8,200	30.5	32.7	29.4
Other	2,300	8.7	11.6	12.1
F&BS employees	7,100	26.6	31.7	28.6
Total employees	26,800	-	-	-

Source: PROMIS / Office for National Statistics

- 3.71 This pattern was considered to be accurate by GVA's Office Agency Division as well as by local commercial agents, with one stating:

"The issue in Epsom is the lack of traditional 'office' occupiers that are present within the town. It needs a unique offer to attract new and especially larger occupiers."

- 3.72 All sub-sectors have experienced job losses between 2000 and 2010. Of particular importance to the Epsom office market is the performance of Professional & Business Services and Finance which have both seen job losses during the past decade. The reasons for such losses are likely to be as a result of corporate restructuring, off-shoring of services and, in the latter part of the decade, due to the contraction of those sectors during the sustained national recession. Over the decade, the largest change has been in Professional and Business Services which has declined by 10.3% per annum to 5,300 jobs.

Table 7: Epsom and M25 West Sub-region Employee Change, 2000 - 2010

Sector	Epsom	M25 West average	Office PROMIS average	Epsom	M25 West average	Office PROMIS average
	2000-2010			2010-2016		
Finance	-6.6	-2.1	-2.1	-0.8	-1.5	-1.0
- Banking & Finance	-4.6	-1.9	-1.2	-	-	-
- Insurance	-8.2	-1.5	-3.8	-	-	-
Professional & Business Services	-10.3	-0.1	1.2	1.0	1.0	1.2
- Professional Services	-10.3	-0.1	1.2	-	-	-
- Property & Renting	-21.2	0.0	2.1	-	-	-
Computing, R&D & Telecoms	-5.2	-2.0	-0.7	0.2	0.8	0.5
- Computing, R&D	-5.9	-1.3	0.8	-	-	-
- Telecoms	2.4	-3.7	-3.5	-	-	-
Public Services	1.3	1.6	1.9	-	-	-
Other Services	-0.4	-0.3	0.3	-	-	-
Other	-0.8	-2.8	-3.0	-	-	-
F&BS employees	-9.5	-0.7	0.4	0.6	0.8	0.8
Total employees	-3.5	-0.4	0.2	0.3	0.5	0.1

Source: PROMIS / NOMIS

- 3.73 This presents fundamental problems of how East Street can thrive as an office location, particularly in the short term, when the traditional sectors have been in decline in the area during the recession.

Future Sectoral Demand

- 3.74 In order to analyse the nature of future office demand within Epsom and East Street it is useful to analyse the likely increase in Financial & Business Services employment up to 2016. This gives an indication of how the sub-regional market may change in future years. PROMIS provides a good benchmark to assess this with a forecasted increase in Finance and Business Services employment up to 2016. This analysis is shown in Table 8 below.

Table 8: Projected Increase in FBS employment, 2010 - 2016

Office Centre	Projected FBS Employment Increase 2010 - 2016
Epsom	0.6%
Leatherhead	1%
Guildford	1%
Woking	0.4%
Reigate & Redhill	0.2%
Croydon	0.4%

Source: PROMIS

- 3.75 As is shown in Table 8 the projected increase in FBS employment in Epsom is around the mid-range compared to other centres. Epsom is projected to see an increase of 0.6% in FBS employment up to 2016 with only Leatherhead and Guildford projected to be higher

than this. This suggests that there is a future for Epsom's office market provided the right quality and size of office floorspace stock is available.

Conclusions

- 3.76 The full impact of the constrained economic conditions on employment levels and the commercial market has become clearer in 2012. Office space take up performance and new space requirements have been limited. Limited take up has resulted from constrained business activity, with little or no investment by businesses in new premises and low demand for 'expansion' space as a business grows.
- 3.77 The limited demand for office space has been exacerbated by changing occupier trends, making more efficient use of space and increasing employment density within their current premises.
- 3.78 In short occupiers are demanding offices with high specifications in terms of modern ICT infrastructure, air conditioning, fixtures and fit out, high environmental and sustainability credentials, and the flexibility of floorplates to configure and reconfigure space to meet their needs.
- 3.79 It has become increasingly difficult to accommodate these demands within second hand stock (particularly that which was developed pre-1990) even if the stock has been extensively refurbished. As such, for major and corporate occupiers new floorspace has become increasingly attractive.
- 3.80 The Epsom commercial office property market is comparatively small in the context of the wider sub-regional market. Areas such as Leatherhead, Dorking and Richmond are the nearest competitors in terms of size but they have a significantly larger amount of existing office stock contained within them, much of which is of higher specification and quality to that available in Epsom and particularly in East Street.
- 3.81 PROMIS cites Epsom as being the smallest office centre that this dataset covers, indicating its lack of prominence as an office market in overall terms. Local commercial agents agree that the offer is comparatively small when comparing it to the wider sub-regional market that it is part of.
- 3.82 It is noted that the Epsom market is characterised by an absence of large floorplate units (1,850 sqm +) particularly compared to the wider sub-region where towns such as Woking and Leatherhead have seen much higher rates of large scale office development (see **Figure 6**). It is also acknowledged by local agents that there is a lack of suitable supply of smaller office accommodation to meet the nature of the demand in the economy.

-
- 3.83 It is clear that the Epsom and East Street office market's future is dependent on ensuring that the supply profile meets the nature of demand. The evident demand, both from quantitative analysis and drawing on the qualitative analysis and commentary from commercial agents suggests that this is for smaller office floorplates with greater flexibility in terms of size, ability to sub-divide and adapt space and with respect to lease lengths. As shown in [Table 8](#) there is a projected increase in FBS employment in Epsom, which is higher than a number of other office centres in the sub-region suggesting an opportunity for East Street should the right office floorspace stock options be available.
- 3.84 While the office market hit its peak in 2007 in Epsom the decline has been less marked than that experienced in the sub-region. This flat market is expected to continue based on recent trends and future prospects of the wider UK economy as well as the absence of major occupiers seeking office space in the sub-region.
- 3.85 The rental levels within Epsom are in line with some of the competing centres such as Reigate & Redhill and Croydon but £1.50 psf below the nearest competing centre Leatherhead and £7 psf less than has been achieved in Woking. This serves to demonstrate that those markets are in greater demand and can command a greater rental value premium. In many instances this is due to the nature and quality for the office stock available. It is important that Epsom uses the Plan E strategy and potentially preparing a Development Brief specifically on the Utilities Strategic Opportunities Site to focus on resolving this gap in the future if it is to ensure a sustainable office market in the Town Centre and East Street in particular.
- 3.86 The nature of the sector profile in Epsom shows the dominance of the public sector and this is in retrenchment. It does also show that compared to other centres in the sub-region there will be some increase in FBS employees which creates opportunities for the East Street office market in the future. This creates a need to identify other sectors to fill a still likely demand gap in order to ensure that it meets the Council Objectives as set out in Plan E. How this is achieved is the subject of the concluding sections of the report.
- 3.87 In summary:
- There is a lack of a Grade A Stock offer on East Street with competing centres having a more attractive stock profile for investors;
 - Completions for office stock have been particularly low within Epsom and within East Street within the last decade;
 - Rental levels for office stock hold up well in comparative terms in Epsom but the centre does lag behind the top rents achieved elsewhere. Headline rentals mask an
-

underlying lower rental value achievable for second grade stock, much of which is within East Street;

- There is a lack of flexibility in unit sizes and lease lengths that are available for units on East Street;
- There is an opportunity to develop a suitable stock offer based on the projected increase in FBS employees in Epsom in the future as well as a greater emphasis and focus on meeting the needs of locally based smaller businesses and those connected to the creative industries.

4. East Street - Site Assessment

Introduction

- 4.1 The previous chapters set out the planning policy and commercial market conditions within Epsom. It is important to now assess the commercial stock on East Street to determine the Borough's future employment potential based on current conditions.
- 4.2 As part of this GVA undertook detailed site assessments during October 2012 and assessed the stock on the following criteria:
- Quality / Age of Stock;
 - Vacancy Levels;
 - Major Employers;
 - Use Classes Present.
- 4.3 The results of this assessment are detailed below and are used to formulate appropriate strategies and planning policy responses for the future of East Street.

Quality of Stock

- 4.4 The external site assessment showed that the majority of office stock on East Street is classified as "good quality" by the GVA / ODPM definition. The full description of "good quality" stock is :
- "The exterior of the building is clean, modern and the surrounding grounds are in a reasonable state. There may be small areas where paint has come off but overall the building is in adequate, attractive condition."*
- 4.5 At this site level while the stock does appear to be "good" the key point is that an internal inspection of the office stock has not been undertaken. Qualitative evidence from discussions with local commercial agents indicates that the internal layout of much of the East Street stock, particularly that constructed before the mid 1990's does not provide sufficient physical flexibility now required to meet occupier demands and expectations in terms of modern air conditioning, environmental performance, ICT and working spaces. Specifically, the lack of smaller office footprints and inability to sub-divide and adapt floorspace available on East Street means that much is relatively unable to satisfy existing demand for smaller stock.

- 4.6 A typical example of such a building is Derby House which is shown in Figure 8 below.

Figure 8: Derby House, East Street, Epsom



- 4.7 The most recent development on East Street is Newplan House which was completed in 2005 creating 23,000 sq ft of Grade A space. It has been available with vacant possession as a whole since the beginning of 2012, on either a freehold or leasehold basis and is shown in Figure 9 below.

Figure 9: Newplan House, High Street, Epsom

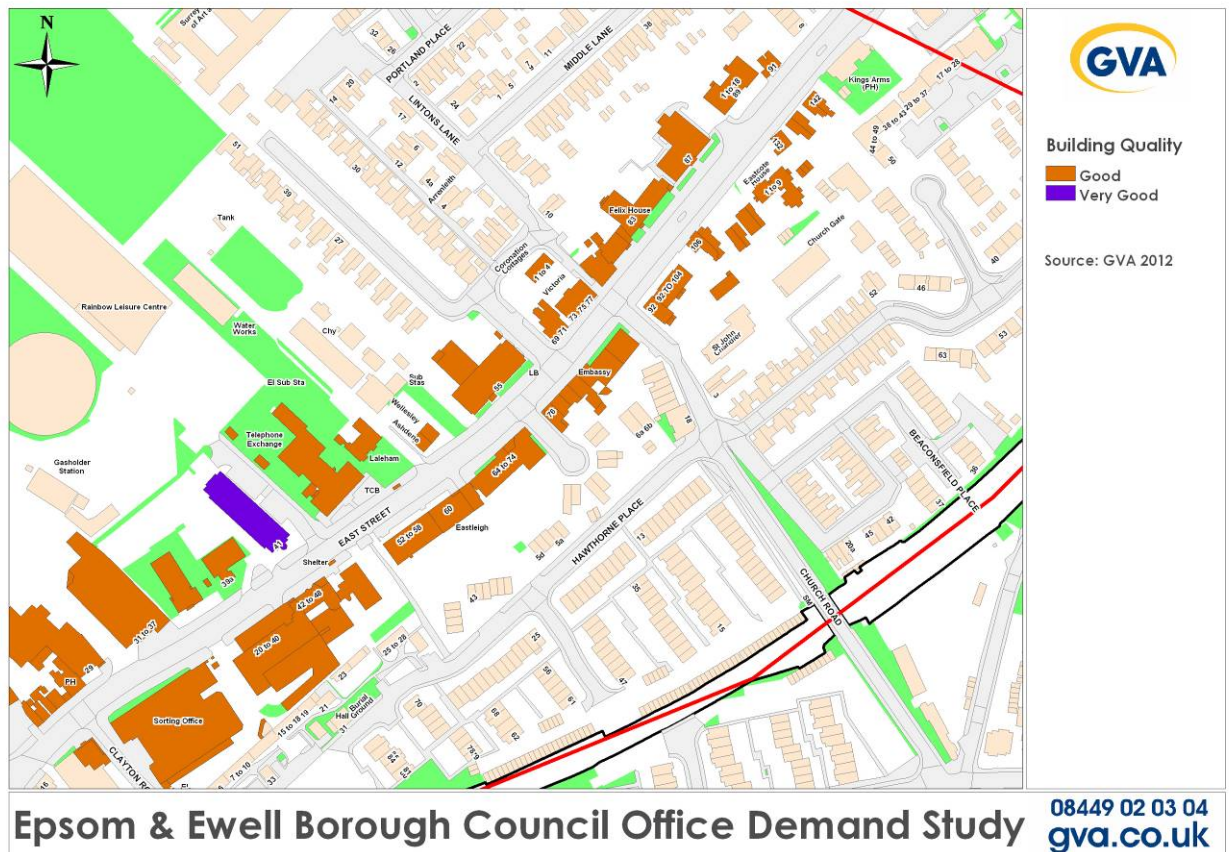


- 4.8 Our site survey identified that Newplan House is the only Grade A unit on East Street and can be described as “Very Good” by GVA’s definition:

“The exterior of the building is clean, modern and the surrounding grounds are in a state of excellent repair. There are no signs of wear and tear and overall the building is in good, extremely attractive condition.”

- 4.9 When this is compared to competitor office locations such as Leatherhead and Guildford which have seen a number of recent new office completions, the lack of a Grade A offer in Epsom and particularly in East Street compared to other competitor locations becomes clear.
- 4.10 The quality of stock is shown in the Figure 10 below. Other than Newplan House, the rest of the office building stock in East Street dates from the 1980’s and while in relatively good external condition, the internal specification (air conditioning, IT trunking and ability to create breakout and meeting spaces) and the general layout of these buildings do not readily meet occupier expectations and demands.

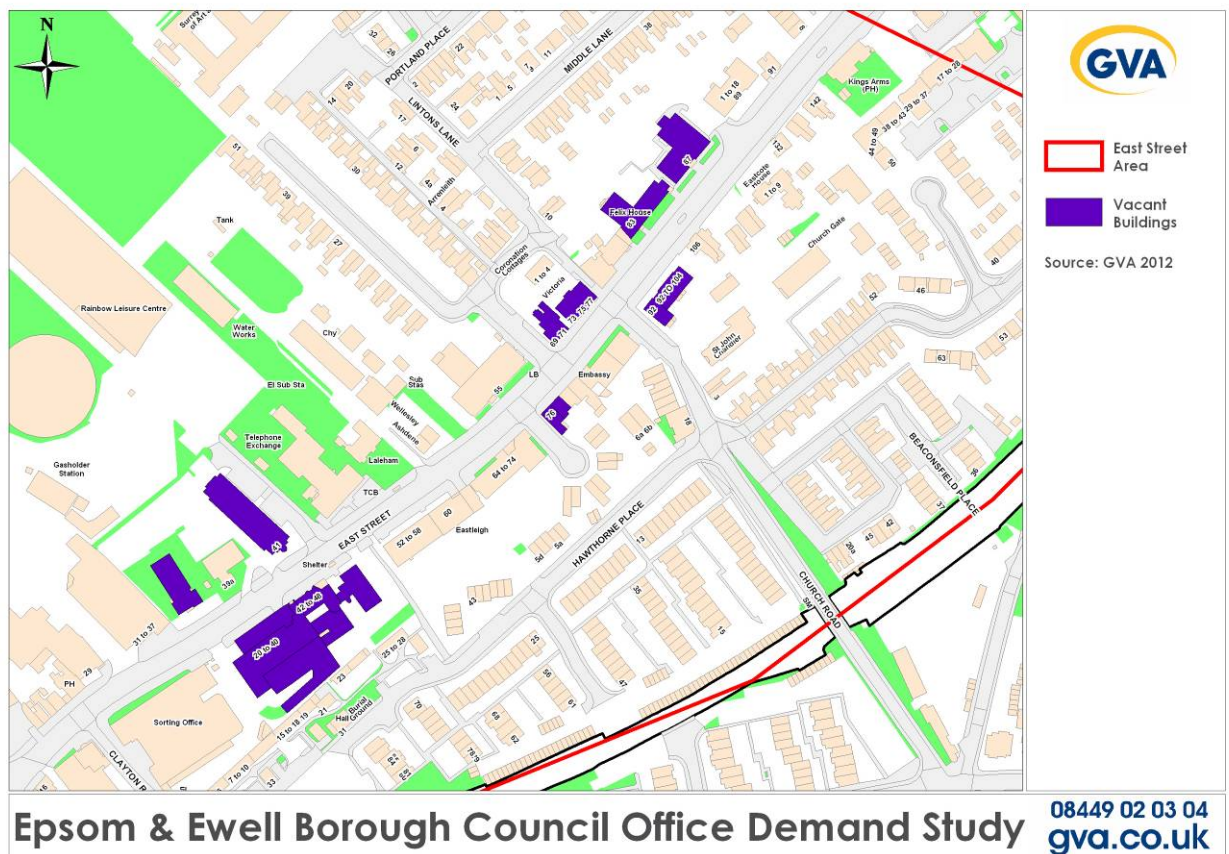
Figure 10: East Street Quality of Stock from External Site Survey



Source: GVA External Site Survey, October 2012

Office Vacancy Levels

- 4.11 The current office floorspace vacancy rate is in excess of 40% of the total office stock in East Street. This high level of vacancy has been sustained in East Street for a considerable period, with an extended letting period for available office floorspace stock and little activity recorded in terms of new letting deals. This can be correlated with the availability to let of existing stock as set out in the previous chapter. The level and extent of vacancy is significant given that East Street represents the principal office location within Epsom Town Centre and within the Borough as a whole. Major office developments such as Newplan House and Felix House are vacant and the patterns of vacancy are shown in Figure 11 below.

Figure 11: Current Office Floorspace Vacancy On East Street, Epsom

- 4.12 As is shown in Figure 11 there are concentrations of vacancy at both ends of East Street although the number of vacant units increases at the eastern end of the street. The fact that there are substantial office stock vacancies along the length of East Street, regardless of the age or quality of the stock itself, both towards the Town Centre area as well as further away suggest that there is a systemic problem with the type and nature of the office stock on offer to the occupier market and the visibility/marketing of such stock to potential occupiers, particularly smaller businesses where there has been evident demand for floorspace in Epsom.

Major Employers

- 4.13 While the vacancy levels are significant in East Street there are also a number of high profile occupiers and employers located here. The professional services firm Towers Watson have a presence. Unfortunately, the accountancy firm BDO formerly had a significant presence in East Street, but have recently re-located this office to Gatwick. The former BDO offices in East Street are shown in Figure 12 below.

Figure 12: Former BDO Offices, East Street



- 4.14 Other employers present on East Street include Premium Credit. Other major employers including WS Atkins and AON are located elsewhere in the Town Centre.
- 4.15 The presence of major employers and occupiers in East Street is beneficial to the business characteristics and ambience of the Street as a whole. However, there is an insufficient number, dominance or cluster of such employers evident in the Street at the current time to effectively re-inforce its business character. The location of the major employer occupiers towards the western end of East Street, closest to the Town Centre itself, also emphasises the increasingly peripherality of the eastern end of East Street.

Mix of Uses

- 4.16 While office activities are predominant in East Street. The site survey identified a number of other land uses in East Street beyond just B1 Use Class offices. The site survey identified the following non-B Class uses were present:

Retail (A1 – A5)

- A scheme occupied by Staples and Majestic, which makes no use of its frontage to East Street.
- Dagenham Motors with a 1960's office building above;
- A small secondary retail parade and a Tyre Fitting Centre at the eastern end of East Street close to the junction with Kiln Lane and Dirdine Gardens.

Leisure (D1 and D2)

- Two Bars / Public Houses.
- The Rainbow Leisure Centre.

Other Uses

- The Laine Arts Theatre Academy;
- BT Telephone Exchange;
- Royal Mail Sorting Office and Depot;
- Former Epsom County Court (now vacated);
- JCP – Job Centre Plus;
- A small number of residential dwellings.

4.17 A number of the non B1 office uses in East Street are beneficial to the existing mix of activities. For example, the Rainbow Leisure Centre represents a positive and high profile addition to the Street re-inforcing the benefits of this location within the Town Centre for employers. The bars/public houses also offer a benefit to East Street helping to support opportunities for food/drink retailing. Other activities such as the BT Telephone Exchange offer less to East Street as they have no active frontage and are not, in land use terms, offering complementary uses/activities to support the business environment's vitality and viability.

4.18 An example of the residential uses present on East Street is shown below in Figure 13. Residential uses comprise both detached and semi-detached dwellings of a sub-urban character, residential units above existing retail premises and larger blocks of apartments towards the far eastern end of East Street.

Figure 13: Residential Uses in East Street, Epsom



- 4.19 The presence of other land uses in East Street does not overly dominate or detract from the nature and character of the Street as an office location per se. Nevertheless the current quality and location of non-office uses do not, when taken together, positively benefit the role and function of the Street as an employment location. This is a theme further explored later in this chapter and within the report's conclusions and recommendations.
- 4.20 The wider mix of uses is not especially aligned to the type of ancillary services and facilities that business occupiers would typically expect to find in close proximity to the office. There is a lack of nursery/crèche and child care facilities. Gym and leisure / health club facilities are provided by the Rainbow Leisure Centre and need continued promotion of the services/activities available to East Street employees. There is an under-provision in terms of cafes, restaurants, hotel and bars of sufficient quality.
- 4.21 While it is acknowledged that many of these facilities are available elsewhere within Epsom Town Centre, it is the immediate access to such services and facilities adjacent to the office accommodation in East Street that contributes to the poor perception of the

Street as a location for business and certainly acts to the detriment of East Street in competition with other office locations and business environments in the sub-region.

- 4.22 If East Street is to successfully support the Plan E vision then the mix, choice and quality of uses, supportive to such a major business environment must be addressed. The relaxation of East Street office safeguarding policies, particularly within the eastern end of East Street would help to address this, by allowing a greater mix of uses and activities to underpin the rejuvenation of the Street in a manner that is complementary to the role of Epsom Town Centre. Nevertheless, to retain and promote the character of East Street as a business environment, the comprehensive re-development of sites purely for residential purposes would not be beneficial.

Quality of the Public Realm

- 4.23 The quality of the physical environment is a secondary issue to many business occupiers, but often a differentiating factor in deciding where to take up floorspace.
- 4.24 While we have not surveyed the public realm in detail, it is important to note our observations on the ambience and quality of the physical environment in East Street. Overall the Street has a hard traffic dominated character. It has the appearance and feel of a busy through route to Epsom Town Centre (which is indeed one of the Street's functions).
- 4.25 The pedestrian environment, including quality and maintenance of paving materials, availability of clear way-finding signage and the lack of soft-landscaping or incidental open spaces present further challenges.
- 4.26 The level of traffic movement, width of the Street, lack of pedestrian crossing points and poor quality of the pedestrian environment combine into an unwelcoming environment overall. Opportunities for improvement and enhancement of the physical environment and public realm should be taken forward if Plan E is to be realised in East Street. This does not necessarily mean major and capital finance intensive enhancements to the public realm are required given resource constraints, but the current level of quality does need to be addressed over time.

5. Conclusions & Recommendations

Introduction

- 5.1 In this section the conclusions and recommendations of the study are drawn together with a focus on the future potential for East Street as a commercial employment location.
- 5.2 In the preceding sections, the study has reviewed the existing planning policy 'landscape' relevant to East Street in Epsom including the National Planning Policy Framework, the Borough's Local Plan and Plan E which sets out the future vision and objectives for Epsom Town Centre. This has sought to set the current policy and corporate objective context within which the future office market in East Street, Epsom will operate.
- 5.3 The study has examined the dynamics and trends in commercial office stock demand including factors such as floorspace take-up, availability and rental levels. This has been assessed at a variety of scales from a UK perspective through to the Epsom, Reigate, Leatherhead, Guildford, Croydon and Woking sub-regional market as well as within the Borough itself.
- 5.4 The current office floorspace and employment site stock in East Street has been appraised through a site survey undertaken in October 2012. The survey has revealed the current state, mix of uses and characteristics of the office stock in East Street and confirmed the extent of vacancies and the exterior condition and quality of individual buildings.

Summary Conclusions

- 5.5 National planning policy set out in the NPPF and supported by a number of Ministerial Statements clearly identifies the need for economic growth as part of sustainable development. The NPPF establishes a pragmatic and proactive approach to the allocation of employment land to foster economic growth and inward investment in order to support market interest and ensure flexibility is maintained to allow for future economic sectors and inward investment to come forward.
- 5.6 Plan E, encompasses and aligns with the guidance set out in the NPPF. It clearly identifies the importance of East Street in Epsom Town Centre as forming a key part of the office employment accommodation for the Borough and sets out the objectives to ensure its sustainability and growth in the long term. The Plan E vision that "Over the next 20 years East Street will establish itself as the main business district for both Epsom and the wider

borough” remains therefore a wholly valid position for Epsom and Ewell Borough to take in light of current national planning policy.

- 5.7 Market demand is changing. Evidence suggests that Epsom, and East Street in particular, has suffered during the last decade, as footloose companies have sought locations in London or closer to the M25 in towns such as Leatherhead (its closest competitor), or in larger office centres, such as Wimbledon or Richmond. As the recession has affected headline rental levels and increased stock vacancy in the West End and the City of London opportunities for larger business occupiers to secure floorspace in London has grown at a reduced occupation cost to those businesses. A good example of this is the relocation of Nokia from its campus in Farnborough to Paddington in Central London to take advantage of proximity to the City and to international connections at Heathrow.
- 5.8 Few occupiers have been expanding especially as the recessionary economic effects have been felt and this has led to a number of office buildings which have been vacant and available for a considerable time in East Street and elsewhere in the Borough.
- 5.9 The assessment of market demand and supply also demonstrates that the office market in Epsom is small in comparison with surrounding and competing centres such as Guildford, Leatherhead and Reigate; and particularly so when compared more widely with Croydon, Woking, Richmond, Kingston upon Thames and established office areas in the West End, City and Isle of Dogs in London. There has been little commercial office activity in terms of take-up, new development or expansion in the Epsom market, including East Street, over recent years with the exception of some downsizing by major occupiers. What is striking when comparing East Street to the wider sub-regional market is the absence of occupier demand for very large (1,850 sqm+) floorspace units. Other locations in the sub-region such as Leatherhead, Guildford, Croydon and Woking have seen activity for this type of unit but East Street in Epsom has not.
- 5.10 This suggests that the market does not currently look towards Epsom as a major office location. Nevertheless, the occupier market in Epsom and in East Street itself has continued to show resilience and an appetite for small-medium office floorspace accommodation, especially on a flexible lease / rental basis, to allow for future changes to their operating environment. Take-up of smaller office floorspace has remained evident within the local market during the recession. Coupled with a comparatively high increase projected for Financial & Business Services employment and the nascent opportunity to stimulate creative industry sector business start-ups linked to higher and further education institutions including the University of the Creative Arts, we conclude that Plan E’s vision and objectives for East Street to be supported and to grow as an office location can be achieved with a different type and nature of occupier and office stock
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emerging that seeks to better meet the needs of smaller businesses rather than large, single occupier units.

- 5.11 This is predicated upon a number of policy actions to protect floorspace, allow new stock to come forward through site amalgamations and office internal refurbishments, but also make an allowance for a greater flexibility for mixed use developments at the eastern end of East Street to support the office role and function overall.
- 5.12 The Plan E vision will need to be further supported through a proactive and positive economic development programme led by the Council with the Local Enterprise Partnership's support. This will involve targeted work to provide greater and focused in landlord and business occupier support in East Street; a programme of promotion and marketing activities; and targeted physical improvements to the quality of East Street's public realm environment.
- 5.13 Together we believe that these mechanisms can act as a powerful catalyst for change and revitalisation of East Street within the Town Centre in the longer term.

Summary SWOT Analysis

- 5.14 A summary SWOT (strengths, weaknesses, opportunities and threats) is set out below serving to highlight the driving forces and key factors supporting the conclusions and recommendations drawn.

Strengths

- 5.15 Epsom and Ewell Borough demonstrates a number of economic strengths. There is an established, albeit small, office market; good levels of accessibility to occupier markets and skilled labour supply and close proximity to central London and national markets. The quality of life and strength of the mix and choice in the local housing market are further attractions for business occupiers and investors. In more detail, the key strengths are:
- **High Quality Employers** – Major companies such as Towers Watson, BDO Stoy Hayward and WS Atkins are present on East Street or in Epsom Town Centre. The levels of accessibility to core markets, international and national, air, road and rail gateways and quality of life are key factors contributing to this strength.
 - **Highly skilled population** – the resident population of Epsom and Ewell is, overall, characterised by high skills and qualification attainment levels. Quality of life, value and employment opportunities are significant contributing factors.

- **Close proximity to London markets** – has been identified as a key strength and deciding factor for many businesses to locate and stay within the Borough. The role of London in supporting the economic success of the Borough is clear and the proximity factors by both rail and road are critical requirements to ensure that this continues in the future.
- **Strategic location with good access to Gatwick and M25** – accessibility to Gatwick Airport and to the M25 motorway have been identified as strengths for the Borough by local commercial agents and GVA's own Agency Division. The relationship of business to the air and road gateways is critical for both B1 office-based businesses as well as those in non-B Use Class employment sectors (such as retail, health, leisure). Accessibility to national markets coupled with a range of local accessibility alternatives for employees to reach their place of employment are clearly identified strengths. The patterns of accessibility are variable across the Borough, nevertheless, the overall level of accessibility and proximity to major transport infrastructure is well recognised. East Street's location within Epsom Town Centre benefits from this level of accessibility.
- **Good relationship between the Council and local businesses** – the Borough Council's relationship with local businesses has been highlighted as a positive strength of the Borough. The proactive and sustained programme of outreach and support to business is welcomed in fostering an attractive, business friendly environment.
- **Established corporate objectives and planning policy** – Epsom and Ewell has established corporate objectives and planning policy that are conducive to economic growth and development. This includes Plan E that lends significant weight, direction and evidence of commitment from the local authority to supporting economic growth, utilising the East Street office area to provide the principal location for economic development in the future and establishing a long term vision for a successful Epsom Town Centre.

Weaknesses

- 5.16 Despite the strengths of the Epsom and Ewell economy there remain some concerning weaknesses that affect the demand for office accommodation and development of new floorspace in East Street. These range from a dependence on public sector employment to drive the local economy; a lack of appropriate, high quality modern office employment floorspace in East Street that can readily fit with current and future demands; a legacy of vacant office space that has a damaging perception of the state of the local economy and the appearance of East Street as a business location; and the extended distance between public transport nodes and the eastern extent of East Street's current

office stock. The weaknesses lead to a series of potential economic threats. The major areas of weakness are:

- **Dependence on the public sector to drive the economy** –the Borough has an over-reliance on the public sector to drive the economy. There are inherent risks in a skewed economy that has an over-reliance on the public sector to provide employment particularly with the current programme of public expenditure reduction being implemented by the Government. The dependence on the public sector reflects historical successes, but must be balanced against efforts to bolster small and medium sized private sector enterprise growth which in turn will drive a greater demand for appropriate office floorspace in East Street as well as elsewhere in the Borough.
- **Office stock not fully meeting the needs of businesses** – the quality and mix of office floorspace available within the Borough and particularly in East Street is not aligned to the expectations and needs of the sub-regional or local market. Business occupiers, both existing, and new inward investment, requires a good choice of premises in terms of quality fit out standards, environmental performance, and flexibility in terms of accommodation size and the lease terms available. There is a clear gap between these expectations and the current provision in East Street, the result of which is evident in the significant and sustained levels of stock vacancy; the under-utilisation of available floorspace and rental levels that are achievable in comparison to other competing centres.
- **Limited Range of Supporting Services and Facilities in East Street** – many business occupiers look for a range of supporting services and facilities (food retail, restaurants, cafes, crèche/childcare and gym) to be available in close proximity to their office accommodation. While it is recognised that East Street is within Epsom Town Centre where there is a good range of supporting services and facilities available, the extended, linear nature of East Street and its lack of facilities/services provided in the street means that for much of the office accommodation, access to services and facilities is more remote and would in reality involve travel by public transport or car.
- **Out-commuting.** There is a marked daily out-flow of highly skilled individuals to work outside the Borough (mostly to London), suggesting that the opportunities to retain and expand the resident workforce who are living and working in the Borough is not working sufficiently. While full self-containment is unachievable given the strength of London's employment market, the daily-outflow of highly skilled workers indicates a positive strength in the Borough's quality of life, value in the housing market and access to services, but a relative weakness in the direct links between Borough employment opportunities and the resident population.

- **Poor transport links compared to other centres** – while the Borough enjoys a relatively good level of accessibility to road, rail and air transport, it is considered by national and local agents to have worse levels of accessibility than centres such as Reigate particularly from the M23. The perception of relative accessibility levels is a weakness, albeit one that through the improvement of other economic ‘choice’ factors such as land and property supply and business support mechanisms can be overcome.
- **Quality of the physical environment in East Street** – as the site survey identified, the current quality of the physical environment of the public realm in East Street does not positively support the perception or role and function of the Street and a premier business location. To meet the Plan E vision and objectives for East Street, the quality of the environment, including reducing the traffic dominated feel needs to be addressed. This is particularly important in relation to the quality of the business environment and town centre improvements evident in other competing centres in the wider sub-region.

Opportunities

5.17 The future for Epsom holds some exceptional opportunities for economic growth. The role and function of Epsom aligned to the future of Gatwick Airport within the wider Gatwick Diamond area offers a strong potential economic driver. Opportunities to enhance the role and function of Epsom via the improvement of office accommodation in East Street and support for a wider mix of uses that support the business environment, coupled with enhanced links between the local authority, education providers and occupiers/employers will further support new economic opportunity and help deliver sustainable investment and growth to the benefit of achieving Plan E. The principal opportunities are:

- **Economic Growth catalysed through the Gatwick Diamond** – the Borough as a whole can benefit from the growth arising from the implementation of the Gatwick Diamond concept and economic strategy. Greater alignment with the opportunities presented by the Gatwick Diamond, especially taking a proactive role in developing the concept and spatial articulation of the Diamond in terms of providing adequate employment space represents a significant opportunity for the Borough to continue to place East Street firmly within the overall employment floorspace offer within the Diamond.
- **Refinement of planning policy** - to protect and safeguard the best of East Street’s office accommodation from loss to other uses, while also allowing a greater flexibility

to respond to market demand for more flexible and modern office accommodation and the provision of ancillary services and facilities that occupiers would expect to find in a town centre office environment. Policy can also be updated to re-define the extent of the safeguarded office floorspace area of East Street. This will assist in reducing the level of vacant stock overall, focusing office employment activities into a more defined area in close proximity to the heart of the Town Centre and allowing opportunities for mixed use re-development (including employment floorspace) to be brought forward towards the eastern end of East Street where such a mix can cross-subsidise the supply of office floorspace and enhance the range of ancillary facilities and services available in East Street to better meet occupier expectations.

- **Re-positioning of the East Street office offer** – there is an existing stock of office accommodation in Epsom and Ewell Borough. However, vacancy levels are significant and sustained, particularly in East Street. To make better use of existing office floorspace there is an opportunity to allow greater physical flexibility for refurbishment and sub-division of office accommodation in order to support and stimulate smaller and medium sized business requirements locally (fitting with evident data on demand and take-up) and to better fit with emerging economic sectors, especially the provision of workspaces that closely align to the creative industries sector led by the University of Creative Arts in this area. This will help to develop a unique employment floorspace cluster in East Street that supports employment generation and wider benefits for Epsom Town Centre.
- **Improved Foresight Research and Intelligence** – there is a distinct opportunity for Epsom and Ewell Borough Council to enhance its foresight, research and intelligence functions in relation to the commercial property market. The role of improved foresight, research and intelligence is to enable the Council to manage and monitor its policy implementation, understand the factors that affect businesses (both existing and those that may choose to locate in the Borough) and better understand the nature of external economic driving forces.

Threats

- 5.18 The threats to Epsom's future economic success are numerous. There are risks attached to an over-reliance or comfort based on past economic success and especially the strength of representation from the public sector in the area. Threats arising from worsening transport accessibility to markets and for employees; physical limits for economic growth leading to lack of choice; and increased competition from other urban centres in the South East (Guildford, Leatherhead, Reigate) through their regeneration and investment programmes must be seriously considered. The main threats identified are:

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- **Competing Centres** - competition from other town centres and business locations in the South East is particularly fierce. Every local authority with significant economic growth plans and established business locations is actively engaged in economic, social and physical regeneration programmes aimed at enhancing the quality of life and place. In so doing, there is an inherent threat to Epsom and to East Street that other locations will prove attractive for existing businesses to remain for footloose or expanding occupiers to be attracted as new inward investment opportunities arise. Epsom need to ensure that there is a consistent and concerted business retention programme coupled with support for the rejuvenation of East Street's office offer through Plan E to provide the appropriate mix and choice of employment space.
 - **Broadening range of sub-regional competitors** – alongside the 'traditional' locations that compete with Epsom for inward investment (as identified in previous sections) the future is likely to expose Epsom to new centres seeking to attract a similar occupier profile. The introduction of new infrastructure such as Crossrail, an extended Tramlink and the maturing of High Speed 1 services will all enhance the accessibility of major towns around the southern M25 ring. If not proactively responded to this could erode the current competitive advantage of Epsom and further weaken the prospects of office-based employment growth in East Street.
 - **Failure to align with the Gatwick Diamond** - while the Gatwick Diamond economic concept is still emerging there is an inherent risk and threat arising from not engaging with the opportunity. The Diamond has a regional level focus and Epsom and Ewell must ensure it is effectively engaged in shaping the priorities for the Diamond that will otherwise accrue to surrounding and competing areas.
 - **Transport capacity constraints** – both rail and road capacity constraints are likely in future given the growth in passenger numbers predicted and increasing vehicle distances travelled. The capacity constraints are exacerbated by lack of new infrastructure investment programme in the strategic road and rail network, with behavioural change identified as the key mechanism to deal with capacity issues. Lack of transport capacity, whether real or perceived, is a threat to Epsom's ability to attract and retain businesses, as well as to ensure the sustainable connection of local residents to their jobs.
 - **Environmental Performance of existing office stock** – Much of the existing office stock in East Street, while of good outward appearance drawing on the evidence from our site survey (in accordance with former ODPM definitions of quality) is likely to become harder to let within the next five years as the ability of landlords to do so will be increasingly constrained by the requirements of the Energy Act, 2011. The Act contains a number of provisions that will affect commercial office properties and
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employment land supply, particularly the Energy Performance Certificate (EPC) minimum standards. From April 2018, the proposed legislative changes would make it unlawful to let commercial properties with an EPC Rating of F or G (i.e. the lowest two grades of energy efficiency currently affecting about 20% of the UK's commercial property stock). This could have very significant implications for landlords and for occupiers who wish to assign or sublet space as it will require investment in retro-fitting of energy efficiency systems. In advance of 2018, the expectation is that commercial properties likely to be affected by the EPC minimum standards will see lease re-gearing and / or extensive attempts for sale and disposal. Without detailed internal surveys of the office floorspace in East Street it is not possible to conclude the extent to which the current stock will be affected by this, but given the stock age and quality it is likely that a significant proportion will require energy performance retrofit and refurbishment measures in order to remain lettable space.

- **Use of Permitted Development rights leading to ad hoc and un-coordinated changes of use** – there is a strong threat to East Street through the loss of current office stock and employment sites on a piecemeal basis, with permanent changes of use into residential or other activities without office floorspace replacement or improvement. This could lead to a 'gap tooth' effect in East Street over time and there is already evidence of such a process beginning with the submission of planning applications recently for the re-development of office floorspace for student accommodation and for residential purposes. The Government's proposed changes to Permitted Development rights through proposed changes to the Town and Country (General Permitted Development) Order 1995 (as amended) re-confirmed in a Written Ministerial Statement (6th September 2012) would make it easier to change the use of buildings from commercial to residential to support the conversion of out-dated office stock to residential uses (if it is ultimately adopted) raises the real risk of such office stock losses and consequent dilution of the office environment character and role and function of East Street.
- **Empty Buildings Commercial Rates** – The Government's imposition of business rate charges on existing vacant commercial premises has been widely evidenced across the country to have an adverse effect and pose a threat to the retention of existing office floorspace. The business rate costs, while vacant are borne by the landlord and coupled with the lack of rental revenue streams and planned and unplanned maintenance costs result in a combination of costs that make the retention of vacant floorspace un-economic and redevelopment for employment purposes increasingly unviable. Evidence of demolition and clearance of empty commercial stock is increasingly common and while this has yet to occur in East Street, there is a threat that empty property rate costs may exacerbate the drive by owners and head

leaseholders to re-develop existing office stock for alternate, more viable and profitable uses.

Study Recommendations

- 5.19 Drawing from the summary conclusions and the SWOT analysis set out above, the following areas of recommendation are made concerning planning policy and regulation; redefining and safeguarding the East Street office area; stimulating market demand for office accommodation; a wider economic development and strategy initiatives that could help support the Plan E vision for East Street within the Borough context.

Planning Policy

- 5.20 Planning policy does however require the continued review and monitoring of the performance of policies as they are implemented and this is critical with regard to the ability of East Street to continue to perform its employment function. The NPPF is clear that employment land floorspace and allocations should not be retained where there is no evidence to support the need for such space and sites. In the case of East Street, it is concluded that there is a need to retain and safeguard the office employment activities currently found there, but also to recognise that market demand signals demonstrate a need to amend the extent of the office floorspace and employment sites available and to provide opportunities for a more mixed use approach to be created in order to support office activities in the longer term.

- 5.21 We therefore recommend that:

R1: Safeguarding Office Floorspace and Employment Sites from Loss

- 5.22 It is common for Local Plan policies regarding employment land allocations to include a 'demand test' caveat protecting the site from loss to other uses if it could (in market terms) come forward for employment use instead. Often these policies include a requirement to market the site or floorspace for employment use for a period of (for example) six or twelve months in advance of the planning application for an alternative use. If no 'realistic' response is made to the site through the marketing process then Epsom and Ewell Borough Council have a basis to assume that it is not 'required' or 'appropriate' for employment use / development.
- 5.23 It is recommended that the inclusion of such a demand criteria policy within Epsom and Ewell's Development Plan could help to ensure that the Council do not retain employment land unnecessarily where there is no demand for out-dated poor quality

space in the long term. However, through simply allowing a basic 'demand test' it may be open to loss of office employment sites in East Street that can otherwise make a key contribution to delivering the identified economic development priorities over the plan period.

- 5.24 It is therefore recommended that the Council seek to adopt a policy that protects it from employment land loss in the future by virtue of a lack of requirements to demonstrate a compelling 'commercial case' for the redevelopment of employment land to non-employment use.
- 5.25 A criteria based approach to such a policy, assessing the loss of employment land to alternative uses, could be promoted in this context. The onus should be on applicants in demonstrating a compelling case for a site to be considered for alternative uses, making full account of all reasonable steps that have been taken to retain and develop a site in East Street or floorspace for employment uses. The approach of market testing is as an effective method for assessing the market viability of sites, and in Epsom and Ewell's case would enhance the existing policy provision.
- 5.26 Specifically it is recommended that:
- Applicants should be required to prepare and submit site development appraisals demonstrating that redevelopment for employment use is financially unviable. The role of the public sector (the Council and its LEP partners) should then be considered in terms of its ability to remove barriers which constrain the site or floorspace from being developed on a commercially viable basis.
 - Applicants proposing a change of use should be required to demonstrate that all 'reasonable' attempts have been made to market and dispose of the site or let the office floorspace on the open market. Evidence should be submitted to demonstrate that the site has been marketed for a reasonable period of time (for example 18 months to 2 years) at a competitive market price (in the local context) which does not embody "hope value" associated with the proposed change of use. In wording the policy the Council has the opportunity to stipulate the specific media / publications in which sites are required to be marketed, and evidence / examples of such marketing.

R2: Redefining the East Street Office Employment Area Boundaries

- 5.27 Refining the office employment safeguarding area within East Street will be beneficial in reducing unnecessary vacancies and in more closely supporting the office characteristics and role and function of East Street aligned to market demand. It will also serve to allow the amalgamation of individual office block sites into larger scale sites where this is more attractive and viable to the market in developing office employment floorspace as part

of mixed use schemes in the appropriate part of East Street. A more mixed use policy approach to the eastern end of East Street (farthest from the Town Centre) is appropriate in order to support an enhanced quality of environment, remove out-dated office stock that is distant from the Town Centre area facilities and services and to foster a more cohesive, focused cluster of office accommodation at the western end of the Street. To be clear, it is not envisaged that the Council allow pure residential developments at the eastern end of East Street. There is a need to maintain and support the business and town centre characteristics of East Street. Residential development in this area should therefore demonstrate how it fits as part of a mixed use approach and particularly how it helps facilitate the delivery of improved office accommodation.

- 5.28 The broad areas where the differing characters could be adopted are shown in Figure 14 below based on our site survey and analysis.

Figure 14: Proposed Zones for Future Uses on East Street, Epsom



- 5.29 In order to ensure that the mix of uses contribute to employment growth we recommend that each planning application pertaining to East Street sets out the employment potential of the scheme in order to maintain economic growth within the Borough overall. This recognises the importance of employment growth while not limiting it to "B Class" when the market context and occupier demand may not support it, particularly in the

shorter term. It may be appropriate to allow “employment generating” schemes within both the office and mixed use areas of East Street.

- 5.30 The advantage of allowing a continued mixture of uses in East Street, is that it will ensure that dated office buildings will be regenerated and re-used, reducing vacancy and increasing the sense of business activity and vibrancy to this important arterial route. This approach will also serve to support and focus workspace for creative industries and serviced offices for smaller and medium sized businesses in accordance with other recommendations made in this report.

R3: Conversion of Offices to Residential – Permitted Development Rights and Local Article 4 Direction

- 5.31 Proposed changes to the Town and Country (General Permitted Development) Order 1995 (as amended) will make it easier to change the use of buildings from commercial to residential using permitted development rights. The changes proposed included the change of B1 use (offices, research and development premises and light industry) to C3 (residential) by way of permitted development (i.e. without requiring planning permission). Where a development proposal requires any additional work to the exterior of an existing building or is a new build development, a planning application for this would be required in the normal way.
- 5.32 In September 2012 the Government re-confirmed via a Written Ministerial Statement its intention to introduce changes to Permitted Development rights, but has indicated that it will allow the opportunity for authorities to seek a local exemption where they believe there will be an adverse economic impact. The Use of an Article 4 direction (within the Town and Country Planning (General Permitted Development) Order 1995 provides the planning mechanism by which this can be achieved.
- 5.33 DCLG through a letter from the Chief Planner (24th January 2013) has now confirmed the alterations to the Permitted Development Rights for change of use from commercial to residential. The letter confirmed that the proposed changes to permitted development rights for change of use from office to residential will come into force in Spring 2013.
- 5.34 The Chief Planner’s letter identifies that exemptions to the changes in permitted development rights will be considered (if submitted to DCLG before 22nd February 2013) and will only be granted in exceptional circumstances.
- 5.35 On this basis, it is recommended that Epsom and Ewell Council swiftly consider whether an exemption case can be brought before DCLG with respect to East Street given that unnecessary and/or uncontrolled erosion of the business function of the Street forms a
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central component to the long term economic role and function of the Borough; the mix of uses in Epsom Town Centre; and in supporting the East Street Vision.

- 5.36 It is recommended that the Permitted Development Rights that would allow the conversion of B1 office space to residential use in East Street should be withdrawn by use of an Article 4 direction to this effect. The Direction should apply to the whole of East Street (both within and outside the re-defined office safeguarding area) in order to:

- Protect and support the Plan E vision for East Street;
- Ensure that the Council can retain control of the overall character of the Street principally as a business and town centre environment; and
- Reflect the local adverse economic impact arising of uncontrolled and unplanned changes of use from office to residential activities with the further, consequent loss of commercial office stock on a permanent basis.

R4: Refurbishment and Sub-Division of Existing Office Floorspace

- 5.37 In order to ensure that existing office stock is both fit for purpose in terms of its environmental and energy performance and with regard to encouraging a closer match with evident market demand for smaller floorspace units on more flexible lease terms, and the opportunity to create more managed workspaces it is recommended that the Council actively support the refurbishment, sub-division and re-use of existing office stock where planning or building control consents are required for such works.

R5: East Street Public realm, Signage and Way-finding Definition

- 5.38 Improved quality of public realm, way-finding and legibility are important to support East Street as the principal office location in Epsom Town Centre and within the Borough. The current state and quality of the physical environment needs to be addressed and improved to support the provision of an enhanced streetscape and public realm quality and in better signage and way-finding aimed at businesses, the creative industry activities already evident in East Street and as part of wider town centre improvements. This could ultimately start to develop into an East Street office market location brand.
- 5.39 It is recommended that a rolling programme of public realm enhancement is undertaken drawing in available funding together with S106 contributions from new development schemes in East Street or more widely within the Town Centre area. Funding could also be secured over time through the use of CIL and through the capture and re-use of a proportion of business rates retained locally. or the use of CIL funding in future

Stimulating and Supporting Market Demand for Office Stock

5.40 The assessment does identify a small market demand for mid size units in Epsom meaning that any future demand is most likely to be in the 465 – 1,850 sqm category. It also identifies a strong opportunity to build a unique offer to the market based on a Creative Workspace Hub driven by the presence of the Laine Theatre Arts Centre.

5.41 We therefore recommend the following:

R6: Raising the Visibility and Profile of the East Street Office Market

5.42 Raising the visibility and active marketing of East Street office accommodation and floorspace is essential. It is clear that vacant floorspace and properties are identified for let already. However there is more that could be achieved through a sustained and more co-ordinated approach that sets out an explicit occupier focused prospectus for East Street within Epsom Town Centre as part of a suite of actions to deliver Plan E. It is recommended that the Council convene a regular commercial agent and landlord forum to establish and maintain an occupier prospectus and co-ordinated, updated list of vacant available office floorspace to let. This recommendation links to the further recommendations for establishing a wider economic development initiative set out below.

R7: Encouraging Lease Flexibility and Managed Workspace Opportunities

5.43 In any successful local economy, including Epsom Town Centre, the attraction and retention of larger businesses must be counter-balanced with a thriving and innovative start-up and small business sector which is reliant on creativity, innovation, deployment of intellectual property and drive to succeed. The entrepreneurial and small business asset base needs to be fostered as part of the overall future economic growth strategy for Epsom and Ewell within the Gatwick Diamond.

5.44 In order to help achieve this, making better use of the East Street office stock through more flexible floorspace letting and lease arrangements is recommended. Specifically, the Council should work with existing office owners/landlords to explore ways in which floorspace can be sub-divided for letting on a more flexible basis. The Council should also consider how landlords could be encouraged to offer more flexible lease terms in order to bring vacant floorspace back into beneficial economic use.

5.45 There is a clear opportunity here in relation to the nascent creative industries and arts sector already in East Street to start to do so. However it is important that this sector's requirements are understood in greater detail and that the commercial market can respond positively. It is recommended that the Council convene a working group to examine the creative industries sector floorspace requirements in greater detail as part of

broadening the sectoral mix and to include within this group representatives from the local agency and landlords/owners of office stock in East Street.

- 5.46 The provision of managed workspaces is an increasingly important part of the solution to providing greater flexibility for smaller businesses and those wishing to expand and grow in uncertain economic trading conditions. The Council is recommended to make direct approaches to a range of managed workspace providers (including Workspace Group, Regus, Basepoint, Capital Enterprise Centres, Flexspace) to actively engage in dialogue in order to secure the interest in an existing office block or site for such a facility in East Street. The Council may also wish to consider its own development of managed workspace in East Street as there are examples from other local authorities such as in LB Greenwich of this approach being taken.

R8: Cross-Subsidising New Office Floorspace from Residential, Retail and Other Uses

- 5.47 In those parts of East Street where a more mixed use approach to future development may be encouraged (see Recommendation R2 above) there is a particular opportunity to support future office floorspace provision through cross-subsidy arising from receipts from residential or retail development as part of the same scheme. Caution is however needed in this respect given the market difficulties and fragility in securing viable residential and retail developments in their own right and ensuring that any cross-subsidy does not mean that the scheme as a whole is unviable when other S106, condition and potential CIL contributions are also taken into consideration.
- 5.48 On this basis, it is recommended that the Council positively consider applications for new development in East Street where new office floorspace can be provided as part of a wider mix of uses through a cross-subsidy approach. Viability assessment and its independent review by the District Value Service will be necessary in order to ensure that the overall scheme is viable and appropriate conditions/S106 obligations agreed to ensure that the office floorspace is constructed in tandem with or before other uses are completed on the site as part of an integral development proposal.

Other Approaches – Establishing a Wider Economic Development Initiative

- 5.49 Fostering economic growth in Epsom and Ewell will help support the overall objectives of Plan E and particularly provide a positive approach to making the best use of office employment floorspace in East Street.
- 5.50 While not a requirement of our brief or strictly within remit, we set out here in summary further thoughts and recommendations on the priorities necessary to establish an economic development strategy designed to deliver the Plan E vision and objectives.
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5.51 These recommendations would of course require further work, testing and consultation with stakeholders including the LEP and other potential delivery partners before further development into a detailed action plan (including prioritisation, risk and mitigation).

5.52 A number of cross-cutting / strategic priorities are identified for inclusion within an Economic Development Strategy. These include:

- **Promotion and marketing:**

1. Promoting Epsom and Ewell and especially East Street as a good place to do business;
2. Developing a marketing proposition and strategy linked to specific key growth sectors and small businesses centred on the East Street office area but more widely applicable to Epsom town centre and the Borough as a whole.

- **Aftercare and business support services:**

3. Continue to provide and extend support for local business to grow and move into higher value / knowledge driven activities through targeted business support, business networking development and support to grow stronger links between growth sectors, including creative industries and educational institutions in the Borough.
4. Formalise and target aftercare service with key businesses already in East Street and those that are considered key within the Borough (defined by sector, including small, medium, and large businesses), monitor liaison (frequency, nature of issues), and co-ordinate the Council's response.

- **Economic and Social Cohesion to Support Job Creation and Employment:**

5. Increasing opportunities for those in more deprived areas of the Borough to access employment opportunities already available in East Street and those employers that occupy floorspace there in the future.
6. Continue to work with partners to remove barriers such as childcare, low skills and low aspirations. This should be cross-linked with the provision of childcare facilities in East Street to support the office business environment as recommended above as part of ensuring there is a wider mix of uses and business activities in the East Street area.

Research Foresight and Intelligence - Measuring Performance in East Street

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- 5.53 Review and monitoring of the success of implementing Plan E in East Street must be based on core management themes of 'Foresight', 'Property Demand and Supply Research', and 'Commercial Market Intelligence'.

R11 – Developing a systematic research, foresight and intelligence approach for East Street

- 5.54 A systematic approach to measuring performance and successes in achieving the Plan E vision for East Street is recommended:

- **Foresight** - is essential in anticipating any changes to the position of office accommodation and its future use in East Street as part of Epsom Town Centre as the focus for Plan E. It is critical that Plan E's objectives and programme are reviewed and any delivery / development programme is profiled and refined on a regular basis. This will ensure that the Council are well prepared to secure appropriate contributions and planning benefits for East Street in support of the Plan E vision and objectives; and in doing so are well positioned to ensure that contributions for East Street are well evidenced.
- **Property Demand and Supply Research** - is an essential, ongoing part of supporting Plan E to achieve its vision for East Street. It is necessary to collate and update property demand and supply information on *inter alia*: commercial and town centre property market changes; commercial occupier trends and development costs in the East Street context. Working in conjunction with the LEP is essential to secure the necessary time and revenue resources to establish such a research support base for East Street.
- **Commercial Market Intelligence** - is the final part of the jigsaw which is making sure that records are kept up-to-date and that any appropriate potential external funds are identified and applied for in relation to Plan E as it relates to East Street. The intelligence theme is also concerned with regularly ensuring that there is capacity within the Council's resources (and those of other partners) to deliver projects that successfully secure capital funding from the Council or from external sources in future given the long term nature of the Plan E vision. It is also concerned with ensuring that the Council's Elected Members are kept fully informed of progress and successes in East Street.

- 5.55 Monitoring through foresight, research and intelligence will allow Epsom and Ewell Council to assess the ongoing deliverability of Plan E, the identification and implementation of any contingencies, and critically as far as this study is concerned, the contribution and progress made in East Street towards its economic revival and physical rejuvenation as a key part of the Plan.

Timeframes to achieve the East Street Plan E Vision

- 5.56 The Study Brief asks for advice on a realistic timeframe to achieve the Plan E vision for East Street. Our conclusion is that achieving the Plan E vision is achievable by 2020 with the combination of planning and regulatory changes, market interaction and positive, proactive Council support outlined and recommended above.
- 5.57 This conclusion is based on the following overall short (2013), medium (2013 – 16) and longer term (2016 – 20) timelines which anticipate an economic and investment recovery aligned with the implementation of the recommendations and actions identified above:

Short term (2013): re-positioning and refinement of policies in the short term while the economic and investment conditions remain fragile and challenged.

- R1 - Revision of planning policy to include criteria based approach to loss of employment floorspace
- R2 – Re-definition of East Street Office Employment boundaries and policy updating to allow mixed use development at the eastern end of East Street
- R3 – Imposition of local Article 4 direction with respect to Permitted Development rights changes affecting the change of use from office to residential land use
- R7 – Encouraging lease flexibility and managed workspace opportunities, including detailed work with potential managed workspace providers and further analysis of the linkages and requirements of the creative industries sector with East Street office accommodation opportunities.

Medium term (2013 – 16): detailed discussions and agreement on marketing, profile development and supporting work with landlords and occupiers in terms of creating managed workspaces and refurbishment and enhancement of stock, including meeting Energy Act EPC requirements. The economy and commercial market demand and investment confidence will start to see a more sustained recovery during this period.

- R4 – encouraging the refurbishment and sub-division of existing office floorspace
- R5 – East Street public realm, signage and way-finding improvements rolling programme
- R6 – Raising the visibility and profile of the East Street office market, including establishing the local agents and landlords/owners/occupiers forum/working group
- Continuation of R7 – Encouraging lease flexibility and managed workspace opportunities, including detailed work with potential managed workspace providers

and further analysis of the linkages and requirements of the creative industries sector with East Street office accommodation opportunities.

- R8 – Cross-subsidy of new office floorspace from other uses in mixed use developments. The timeframe to deliver this is essentially linked to a wider economic and development market recovery anticipated to see positive growth from the end of 2013 onwards.
- Other approaches – establishing a wider economic development initiative. The potential actions and initiatives grouped under this recommendation will require extensive Council involvement with the LEP and other public partners. The work can and should commence in 2013, but is likely to be ongoing into the medium term and potentially beyond into the longer term period.

Long term (2016 – 2020): Continued roll out of short and medium term recommendations and the continued improvement of the physical realm in East Street as funding and development contribution allows. The economic recovery should be completed and current public expenditure financing squeeze reduced or removed during the longer term period to 2020.

- Continuation of R5 – East Street public realm, signage and way-finding improvements rolling programme.