Good growth in Central London

Standing still, or worse decline, is not an option if London is to deliver the homes and jobs required for the future say Alexander Jan and Victor Frebault

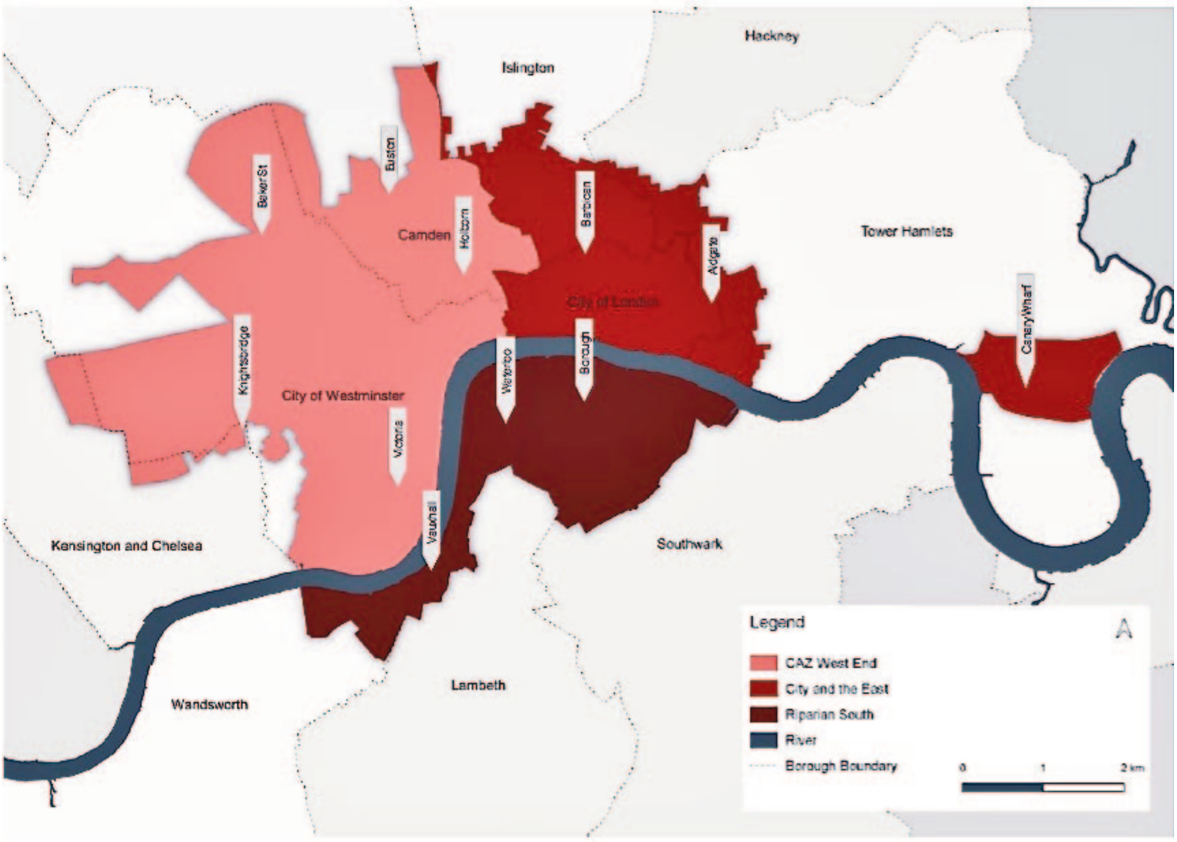
In early March of this year, Arup launched a report[1] that was commissioned by the London Property Alliance[2] on "good growth" (a broad set of measures of prosperity – also known as sustainable or inclusive growth) for the Central Activities Zone area of London along with the Northern Isle of Dogs (the CAZ+).

The economic crisis of Covd-19 was just in the process of developing into what might turn out to be the most dramatic economic shock to our economy (and those of other countries) since 1900. The report was focused on using a scenario- based approach to understand how different policy positions and wider economic headwinds (or tailwinds) towards development in central London might lead to changes in employment, economic activity, business rate revenues and so on. At the time of putting the report together, there was perhaps a pre-occupation with three challenges: firstly, how to ensure that central London's economy remains and becomes a source of prosperity and a reservoir of high quality of life for those with a stake in it – (hence the reference to "good growth"). Secondly, the ongoing arm-wrestle with central government over devolution and retention of financial resources in London. And finally, concerns about what a disruptive form of Brexit might mean for London at the end of the transition period, scheduled for 31st December 2020.

In some ways Covid-19 made our analysis a little academic. The indications are that central London's economy might contract by 10 to 15 per cent over 2020. It could take months – more likely years – before tourism, investment, employment growth and even the use of the Tube start to resemble anything approaching what we thought of as normality. But at the same time, if the CAZ+ area is to make its full contribution to helping the UK return to growth quickly and restoring battered public finances, the recommendations in the report should probably be considered and adopted with a greater sense of urgency and enthusiasm. Now more than ever, London's economy will be needed to help return the UK economy to health. It is hoped that our "good growth" report still provides some ideas as to how that might be achieved despite the very different personal and economic circumstances we have all found ourselves in because of the Coronavirus.

The CAZ+ area is shown in Figure 1. Spanning ten London boroughs, it takes in the whole of some local authorities (such as the City) and just a tiny part of others such as Kensington & Chelsea. It is one of the world's most economically productive places accommodating nearly two million (full time equivalent) jobs – about a third of London's total – and generating almost

RIGHT:
Figure 1: Central London area[3]
Source: Arup



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ABOVE:
Figure 2: Employment and commercial floorspace total percentage change between 2000 and 2018

BELOW:
Figure 3: Potential scale for densification in the Central London area of Central London boroughs[4]

10 per cent of the UK's economic output (over £200 billion) as well as large tax surpluses that are spent elsewhere in the country. In business rates alone, we estimated some £4.6 billion per annum is raised (nearly 20 per cent of the total for England). Importantly central London is also home to more than 300,000 residents who often act as custodians of the area and apply pressure to ensure the delivery of quality public services.

The density, scale and mix of business functions in central London are unique and are underpinned by the high level of accessibility provided by public transport. This 'hyper-connectivity' allows regional labour supply to access the area. This agglomeration results in exceptional levels of productivity of national significance, which are not replicated anywhere else in the country.

Employment growth in the CAZ+ area has been robust. For example, in the period 2008-2018 it grew by 37 per cent. Indeed, employment has dramatically outpaced commercial real estate space growth. In some areas as shown in Figure 2, employment has risen even as real estate space has fallen.

This means that employment growth has been achieved by intensifying the use of existing space. In "good growth" terms this might be storing up problems. A continued trend of employment intensification may be difficult to sustain over the long-term if we are nearing the limit of what the market will accept in terms of employment-floorspace intensity. It is true that working patterns are changing (for example some people are commuting on fewer days of the week) – but with the advent of Crossrail and other schemes, there will be very substantial additional transport capacity made available in the CAZ+ zone (Crossrail alone delivers a 10 per cent of peak rail capacity in central

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London). This will generate the potential for tens if not hundreds of thousands more jobs to be located within the area. But where will they go?

The risk is that an increase in transport accessibility without any corresponding increase in commercial floorspace would put large-scale economic pressure on existing real estate assets. This in turn would damage London's employment ecosystem. For example, more very "high-end" activities, with low employment densities (think hedge funds) coupled to "mass market" products geared primarily to – say overseas tourists – might result.

Many of the things that visitors, workers and indeed residents value – boutique shops, family-owned businesses, the village-like feel of some of central London's neighbourhoods – alongside employment opportunities for people on modest earnings – could be lost. And the agglomeration benefits of deeper and wider labour markets that projects such as Crossrail are at least in part built upon might be undermined. These sorts of outcomes would be bad for Londoners, the wider economy and for the good growth agenda more generally. A "golden desert" would come to dominate parts of central London.

Of course, growth would not be without its challenges. The legitimate demands of existing residents and businesses need to be thought through alongside development. But because of the CAZ+ area's flexibility, productivity and accessibility by public transport, it can deliver remarkable levels of economic output with minimal environmental impact. As the report stated, additional development does not necessarily mean very tall buildings in all parts of central London. There is scope for further growth – particularly where some football-pitch sized stations are about to open as part of Crossrail. By way of illustration, Figure 3 below shows employment levels across the CAZ+ London for its three sub-areas (shown in Figure 1 as City and the East, CAZ West End and Riparian South). If each of these were to achieve the employment to land density of the top borough in each, an additional 2.2 million jobs could be accommodated. This is no more that illustrative. Indeed, in our preferred "good growth" scenario (see Figure 4, RIGHT), we project an additional 400,000 jobs by 2041 – just 18 per cent of 2.2 million.

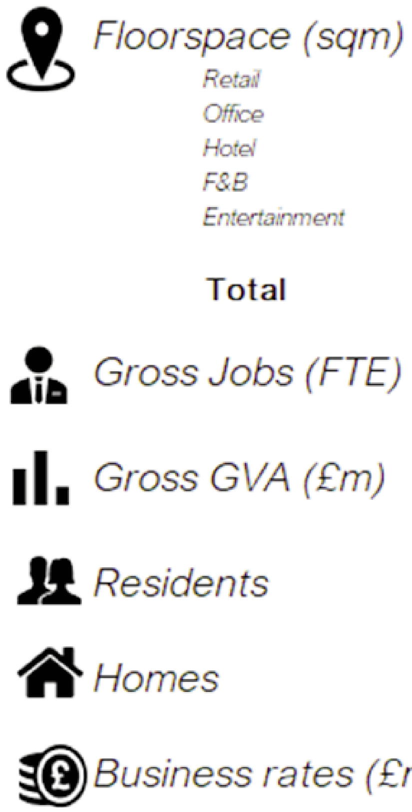
On housing, our report envisages that an increase of around 28 per cent by 2041 is desirable. This is in line with the (draft) London Plan's numbers. Nevertheless, it is an ambitious figure which is why our "Good Growth" and "Planned Growth" scenarios are the same for this measure and population growth. The projections by scenario for the indicators we looked at are shown in the table below (Figure 4).

Figure 4: Summary of results for growth scenarios for the CAZ+ area to 2041 (all monetary results are in 2019 prices)

In preparing these scenarios, we considered the options available to deliver significantly intensified uses of existing land and buildings or alternatively, futures where central London grows only modestly or even declines somewhat. With the right sets of pro-growth policies, the CAZ+ could continue to thrive and prosper and make an important contribution to the regional and national economy. To do so would not be without its challenges. The report makes ten recommendations around governance and leadership, finance and incentives, transport infrastructure and housing and quality of life. In my mind, the top four are as follows:

• Improve collaboration between a range of CAZ+ stakeholders, including the GLA, Boroughs, business improvement districts (BIDs), investors, the construction industry and neighbourhood forums, to respond quickly to emerging disruptive factors

• Consider whether new and/or existing revenue streams could be used more effectively to help resource activities



tackle the externalities of success. The aim of this recommendation would be to secure long-term sustainable funding of city management services for the CAZ+ area

• Make the best use of new transport capacity that will benefit the CAZ+ to facilitate growth in employment and where practicable, housing for the benefit of those who wish to work or live in the CAZ+

• Strengthening the enforcement and management of construction sites, utility activities, road works and anti-social behaviour to mitigate the negative impacts of built environment activities on local neighbourhoods.

In conclusion, other major cities in the UK and overseas compete for talent and investment. The centre of London can be allowed to develop and grow in such a way that makes it attractive and competitive, adaptable to disruptive trends, deliver better buildings and provides homes for more residents. Or it can go into reverse.

Economic and population growth in the centre of a thousand-year-old city requires sensitive and proactive planning policies. Handled well and with the right policy moves, London government would be in a position to reap substantial rewards and public support, not least by being able to improve the quality of its streets, buildings and open spaces. Given central government's desire to 'level up' the economy of the Midlands and the North of England, London authorities will inevitably find themselves driven more towards raising their own resources locally.

Central London looks different than it did in 1990. By 2050 it will be different again. Good growth can provide resources to deliver better streets and services. Standing still, or worse decline, is not an option for any part of this critically important area if it is to deliver the homes and jobs required for the future. Choices face the central boroughs and the Mayor. How they respond will determine the future success of London and indeed, the rest of the country.

FOOTNOTES
1 The full report can be accessed here: https://drive.google.com/file/d/1p3Kjw0Wu0wA35HP_SqKZ95bxM-Bq9Q0D/view
2 See https://www.london-propertyalliance.com/ for more details
3 Source: Arup, based on the London Plan (GLA)
4 Source Arup and Business Register Employment Survey

		Good growth		Planned growth		Decline of sorts	
	Baseline level in 2020	Change to 2041	% increase compared to 2020	Change to 2041	% increase compared to 2020	Change to 2041	% increase compared to 2020
	2,041,900	157,200	7.7%	55,500	2.7%	-220,800	-10.8%
	20,644,000	2,785,600	13.5%	795,700	3.9%	-1,259,100	-6.1%
	2,903,000	263,300	9.1%	74,100	2.6%	-103,100	-3.6%
	1,016,700	167,000	16.4%	27,600	2.7%	-36,100	-3.6%
	1,172,600	192,600	16.4%	45,200	3.9%	-25,500	-2.2%
	27,778,200	3,565,700	12.8%	998,100	3.6%	-1,644,600	-5.9%
	1,934,800	391,933	20.3%	232,675	12.0%	-121,800	-6.3%
	211,000	96,550	45.8%	55,736	26.4%	-28,400	-13.5%
	309,740	87,110	28.1%	87,110	28.1%	11,940	3.9%
	153,720	43,230	28.1%	43,230	28.1%	5,930	3.9%
m)	4,640	730	15.7%	206	4.4%	-350	-7.5%