

City of London: Office viability review



Prepared for
City of London Corporation

March 2026

Contents

1	Introduction	3
2	Office protection policies in Policy OF2	6
3	Key factors determining office development viability	9
4	Impact of sustainability requirements	14
5	Review of the SPD requirements	17
6	Conclusions	21

Appendices

Appendix 1 - Illustration of appraisal of value reflecting increasing obsolescence	22
--	----

Anthony Lee MRTPI MRICS
Managing Partner
Quintic Advisory LLP

07919 693 406
anthony.lee@quinticadvisory.com
www.quinticadvisory.com

1 Introduction

Scope of the report

- 1.1 The City of London Corporation ('the Corporation') has commissioned Quintic Advisory to undertake a review of the key factors and market drivers that have a bearing on the viability of office development in the City of London.
- 1.2 Emerging City Plan 2040 Policy OF2 seeks to resist the loss of office floorspace in the City to maintain an adequate supply of space to meet demand. The policy requires that applicants seeking to change the use of an office site must demonstrate that:
- "a. The proposed development would not lead to the loss of office floorspace that is, or sites that are, of strategically important scale, type and/or location for the City;*
- b. The proposed development would not compromise the potential of office development on sites within the vicinity; and*
- c. there is no demand in the office market, supported by marketing evidence covering a period of no less than 12 months".*
- 1.3 This review will consider the issues that Policy OF2 raises in relation to long term use of sites for office floorspace. We will consider how market conditions, investor sentiment and planning requirements (notably those that relate to sustainability and design quality) are shaping the development landscape in the City. This includes consideration of the financial and technical challenges affecting the feasibility and viability of office developments, including the City policy approach of favouring retention and retrofitting of existing buildings in place of demolition and rebuilding. We also consider how development risk and incentives inform landowners' and developers' decision making.
- 1.4 As part of our assessment, we have considered the key underlying assumptions and performance metrics that inform viability of office developments, including construction/refurbishment costs, fitout costs, developer return, existing use value and the costs of meeting planning policy requirements.
- 1.5 Drawing on this evidence, we will review the scope and effectiveness of the viability requirements set out in the Office Use Supplementary Planning Document ('SPD') 2015 which the Corporation uses to test compliance of developments with emerging City Plan 2040 Policy OF2 which requires at part 2(a) that:
- 1.6 *"Proposed development will be required to demonstrate that the retention, refurbishment or re-provision of the office floorspace would not be viable in the longer term, demonstrated by a viability assessment".*

Quintic Advisory

- 1.7 Quintic Advisory is an independent firm of chartered surveyors, specialising in advice on development viability in planning. Its five partners were previously at BNP Paribas Real Estate's development viability team and have extensive experience of advising on a range of projects across the country, including assessments of viability appraisals submitted to the Corporation seeking to justify loss of office use.
- 1.8 Quintic Advisory has a wide ranging client base, acting for individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ('RPs').
- 1.9 The full range of services includes:

-
- Planning obligations and Section 106 Negotiation
 - Viability Appraisals
 - Disposal & Acquisition of S106 Affordable Housing
 - Expert Witness
 - CIL Viability Evidence Base Production and Advice
 - Local Plan Viability Evidence Base Production and Advice
 - Affordable Housing Policy Viability Testing
 - Masterplan Viability
 - Estate redevelopment
 - Enabling development for heritage cases
 - Option Appraisals
 - Valuation

- 1.10 This report has been prepared by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.
- 1.11 The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.
- 1.12 Anthony Lee was a member of the working group under the chairmanship of Sir John Harman that drafted '*Viability testing local plans: Advice for planning practitioners*'. He was also a member of the (then) MHCLG '*Developer Contributions Expert Panel*' which advised on the viability section of the 2019 PPG. He is a member of the RICS Working Group on the valuation of affordable housing.
- 1.13 In addition, we were retained by Homes England to advise on better management of procurement of affordable housing through planning obligations.

Report structure

- 1.14 This report is structured as follows:
- In Section two, we provide a brief summary of the policy backdrop relating to the City Plan 2040's objective of resisting the loss of office floorspace and the tests that the SPD sets for applicants seeking to justify the loss of offices;
 - In Section three, we assess the key factors, considerations and assumptions underpinning landowner and developer approaches to determining the viability of office development, including drivers for completed redevelopment, refurbishment/retrofitting and change of use;
 - In Section four, we consider the bearing that sustainability requirements in the emerging City Plan 2040 have on scheme viability. These requirements include energy efficiency targets; carbon reduction targets and environmental certification such as BREEAM, which all collectively have a bearing on construction costs but also upon the costs of operating the buildings when completed.
 - In Section five, having regard to the preceding sections, we consider the viability and marketing requirements in the 2015 Office Use SPD and identify areas for clarification and updating.

The status of our advice

- 1.15 In preparing this report and the supporting appraisals, we have given full regard to the RICS Practice Statement ('PS') '*Assessing viability in planning under the National Planning Policy Framework for England 2019*' (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and

development plan documents.

- 1.16 In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.
- 1.17 We are not aware of any conflicts of interest in relation to this assessment.
- 1.18 In preparing this report, we have not agreed any 'performance-related' or 'contingent' fees.
- 1.19 We address this report to the City of London Corporation only.

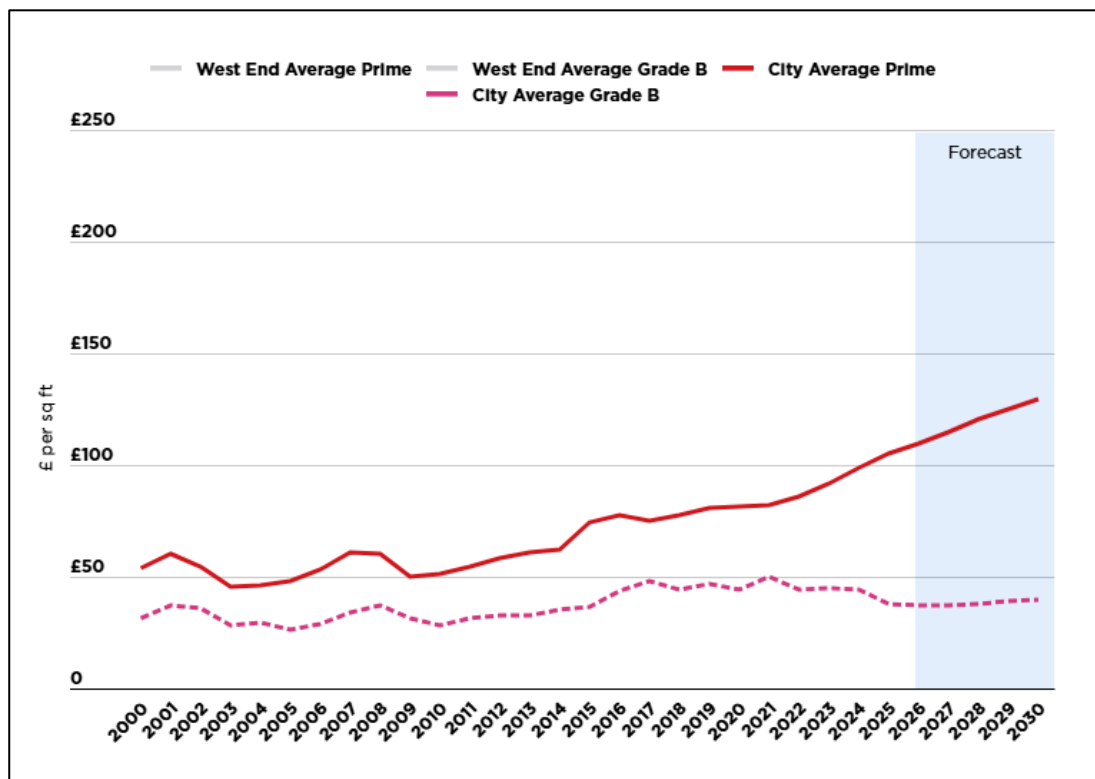
2 Office protection policies in Policy OF2

- 2.1 The City Plan 2040 was examined in 2025 and the City Corporation consulted on modifications to the submission version between 15 December 2025 and 6 February 2026. The Corporation expects to adopt the City Plan 2040 in Summer 2026.
- 2.2 Strategic Policy 1.2 ('Economic objective') identifies an overarching objective of delivering sustainable economic growth, a key part of which will be the delivery of a minimum of 1.2 million square feet of net additional office floorspace by 2040. Further, the City Plan 2040 sets a strategic objective of ensuring the new and refurbished office space meets the environmental, social and governance ('ESG') priorities and objectives of occupiers and their workers.
- 2.3 In order to ensure that office supply in the City meets demand, the City Plan 2040 therefore aims to seek that, as far as is practicable, new office supply during the period to 2040 results in a net addition to the stock of offices, rather than simply replacing existing stock. This will ensure that increases in demand for high quality stock are met through increases in supply, thus avoiding volatility in supply levels over the medium term. Strategic Policy S4 highlights this issue as follows:
- "The City Corporation will facilitate significant growth in office development of the highest quality to meet projected economic and employment growth by... protecting existing office stock from being lost to other uses where there is an identified need or where the loss would cause harm to the primary business function of the City".*
- In order to secure this objective, Policy OF2 indicates that *"the loss of existing office floorspace will be resisted unless it can be demonstrated that:*
- a. *the proposed development would not lead to the loss of office floorspace that is, or sites that are, of a strategically important scale, type and/or location for the City.*
 - b. *The proposed development would not compromise the potential for office development on sites in the vicinity; and*
 - c. *There is no demand in the office market, supported by marketing evidence covering a period of no less than 12 months".*
- 2.4 The Plan requires that all three of these conditions are satisfied before an applicant can move to a second stage. If they are seeking to bring forward to development that involves the loss of office floorspace and the three conditions above are satisfied, part 2 of the policy identifies four possible options for applicants:
- **Option 1** - submit a viability assessment to demonstrate that retaining, refurbishing or re-providing the existing office floorspace would not be viable *in the longer term*.
 - **Option 2** – applicants who retain the majority of the superstructure of a building and improve the environmental performance of the building in operation will be permitted to change the use to hotel use, cultural uses and/or educational uses without the need to submit viability evidence. The Plan does, however, encourage the retention of some office floorspace.
 - **Option 3** – applicants can convert or develop an office building for residential use when the site is immediately adjacent to residential areas that the plan identifies as residential.
 - **Option 4** – loss of office floorspace on ground and lower ground floors is permitted by the Plan, providing that new uses are complementary to continued office use of the floors above (e.g. retail and F&B).
- 2.5 There is an obvious challenge in some respects between the objective of maintaining a variety of stock (i.e. Grade A and Grade B) which can cater for different demands from occupiers over the medium to long term and maintaining an overall supply of office stock. As

a result of changing patterns of demand and a 'flight to quality', Grade B stock is becoming increasingly difficult to let, particularly in some peripheral locations in the City. While take up of this Grade B stock may improve in the long term, retaining such buildings would face issues of low demand, resulting in lower investment and a downward spiral of increasing obsolescence. The Policy therefore appears to accept that the City Corporation's preference is to avoid such scenarios and place less emphasis on a variety of stock and more emphasis on ensuring sites are recycled to other uses which can contribute towards the strategic objective of promoting economic growth.

- 2.6 If planning policies prevent the release of unwanted Grade B stock for other uses and there is no prospect of these sites being redeveloped for office use, one of the consequence would be an increasing mismatch between supply of and demand for Grade A stock, which would exacerbate existing trends of and increasing gap between prime and secondary rents (as shown in Figure 2.6.1).

Figure 2.6.1: City of London rents – average prime and Grade B rents



Source: Savills Central London Office Market watch Q4 2025

- 2.7 Demand is currently very location specific, with demand in the City Core area¹ high with low vacancy rates (reported by Savills in Q4 2025) to be at 5.7% compared to 8.2% in city fringe areas. This indicates that owners of Grade B offices outside the City Core are less likely to pursue redevelopments or refurbishments for continuing office use than owners in the City Core. This is reflected in recent trends in applications involving the loss of offices for conversion or redevelopment of other uses, which have been in more peripheral locations.
- 2.8 Beyond the confines of market dynamics of supply and demand, there are other factors that have a significant bearing on the ability of owners to retain office use on sites in the City. One of the primary drivers for loss of office use (regardless of location) is constraints resulting from listing or other heritage status which limits the extent of potential physical

¹ Roughly defined by city office agents parts of the City within close proximity to Liverpool Street Station and as the area within a 5 minutes walking radius from the Lloyds of London building.

alterations to bring spaces up to the physical standard that occupiers expect. The most significant example of this type of office building to date (in terms of scale) is Custom House, a Grade I listed building on the River Thames which contained a series of small offices which would have to be retained. This building was released from office use and has permission for conversion to a hotel.

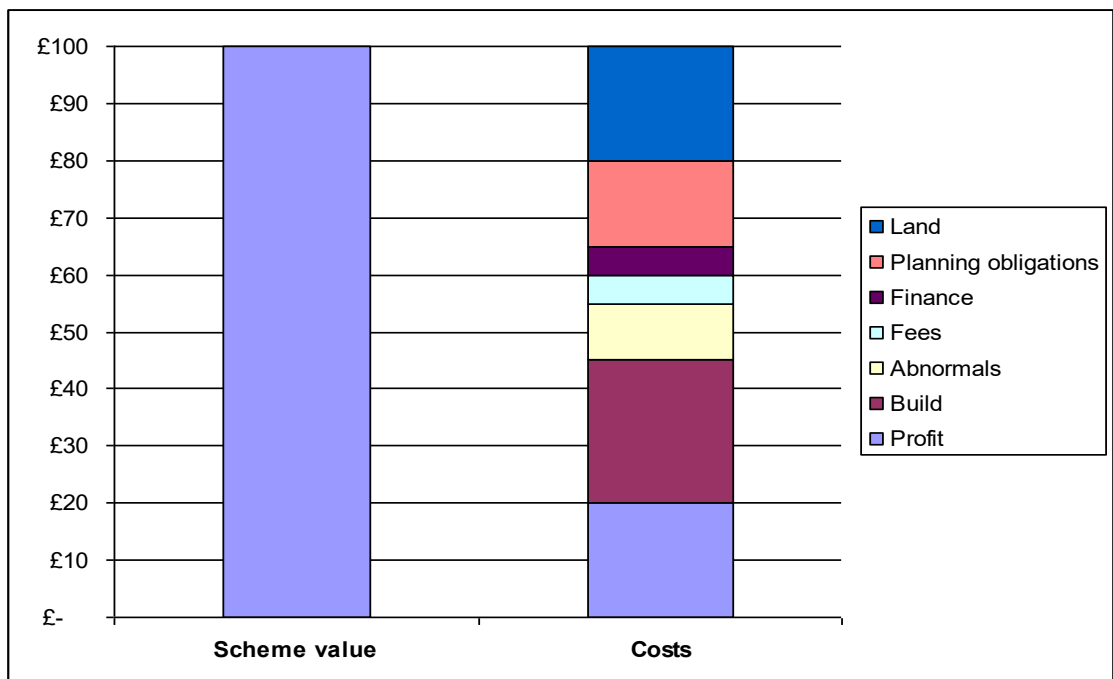
3 Key factors determining office development viability

3.1 This section outlines the key factors determining the financial viability of office developments in the City of London.

Residual valuation approach

3.2 In common with any development, developers will typically appraise a development opportunity through a residual valuation (see Figure 3.2.1), which identifies (a) the value of the completed scheme and (b) the costs of development, including a 'residual' amount that can be used to pay for the land. The costs will include the construction costs; professional fees; letting and disposal costs; finance costs, CIL and Section 106 obligations; and the developer's return.

Figure 3.2.1: Inputs to a residual valuation (£ million)



3.3 The value and cost elements of the residual valuation must always balance. So for example, if costs increase then the residual land value would fall. Alternatively, if the developer has purchased the land (so that this becomes a fixed cost in the appraisal) and construction costs increase, then the developer's profit would fall. The appraisal incorporates a range of both inputs and costs, and small movements can sometimes have a significant impact on the residual land value. This is because the residual land value is typically a very small proportion of overall value and cost. Developers need to maintain the delicate balance between costs and value from site acquisition to completion and occupation of the development, which can be a period of several years.

Gross Development Value

3.4 The Gross Development Value ('GDV') of an office development is determined by the rents paid by occupiers; the extent of void periods prior to letting and occupation; rent free periods offered to tenants as an incentive; and the investment yield applied by an investor when purchasing the completed and let development. We discuss each of these elements in turn in the following sub-sections.

Rents

- 3.5 Rents are the most important factor in determining the GDV of an office development. Rents are determined by the quality of the space and its fitout/specification. Developers will almost always construct and fit out new offices to meet Grade A classification, which is the type of stock that is in most demand in the City and also attracts the highest rents. Grade A offices provide the highest quality of space in terms of building quality; occupier experience; sustainability credentials; digital infrastructure; and operational resilience (as summarised in Table 3.5.1).

Table 3.5.1: Features defining Grade A classification

Attribute	Grade A features
Building quality and design	<ul style="list-style-type: none"> • High-quality façade and materials — durable, low-maintenance, and architecturally coherent. • Efficient floorplates — typically large, regular, and column-free layouts enabling flexible fit-out. • Generous floor-to-ceiling heights — often 2.7m+ finished height to maximise daylight and openness. • High-performance glazing — solar control, acoustic insulation, and energy efficiency. • Premium common areas — double-height receptions, high-quality finishes, and secure access control.
Mechanical, electrical, and building services	<ul style="list-style-type: none"> • High-capacity HVAC with excellent air quality, filtration, and zoned control. • Raised access floors and suspended ceilings for flexible servicing. • High electrical load capacity to support dense occupation and technology use. • Resilient power with backup generation and UPS for critical systems. • Smart building systems enabling monitoring, optimisation, and predictive maintenance.
Sustainability and ESG performance	<ul style="list-style-type: none"> • BREEAM Excellent or Outstanding (or equivalent). • Low embodied carbon through material selection and structural efficiency. • Operational energy performance aligned with NABERS UK or EPC A/B. • Efficient plant and heat recovery systems. • Facilities for active travel — showers, lockers, drying rooms, secure cycle storage. • Green roofs, terraces, and biodiversity enhancements.
Occupier experience and amenities	<ul style="list-style-type: none"> • High-quality end-of-trip facilities. • On-site amenities such as cafés, gyms, wellness rooms, and event spaces. • Excellent acoustic performance for quiet working and meeting rooms. • Abundant natural light and views. • Flexible, divisible floorplates suitable for a range of occupiers. • High security standards including 24/7 staffed reception and CCTV.
Digital infrastructure and connectivity	<ul style="list-style-type: none"> • WiredScore Platinum or Gold connectivity. • Multiple diverse fibre routes for resilience. • 5G-ready internal infrastructure. • Smart access, occupancy sensors, and digital twin capability.
Operational resilience and compliance	<ul style="list-style-type: none"> • Robust fire safety and evacuation systems. • 24/7 building management and security. • High-speed lifts with redundancy. • Comprehensive maintenance regimes and FM standards. • Compliance with modern building regulations and accessibility standards.

-
- 3.6 At the present time, the highest rents are being secured in the City Core area with lower rents in peripheral locations. As development opportunities in the City Core are exhausted over time, it is likely that the 'Core' area is likely to expand to areas that are currently not favoured by occupiers.

Void periods and rent free

- 3.7 Developers will aim to pre-let as much of an office development as possible prior to commencement of construction to provide certainty to their funders and to reduce the risk of constructing an office and having long periods of vacancy. Unless a development is let in its entirety (which is relatively rare), there will be some periods after completion of construction and fitting out during which some floors will be vacant until vacant floors area let (i.e. void periods). During these periods, the developer will be responsible for paying any empty rates and may need to cross-subsidise parts of the service charge so that other tenants are provided a full service.
- 3.8 Tenants taking leases in new buildings will typically seek to negotiate a rent free period (typically 24 months of a 15 year lease will be rent free) which enables the developer to maintain a high headline rent, while at the same time providing sufficient incentive to make a new lease attractive for occupiers.

Investment yield

- 3.9 The final component in determining the GDV is the investment yield. The investment yield reflects the attractiveness of offices as an investment; the covenant strength of the occupiers; and investors' outlook in terms of supply and demand and long term rental growth.
- 3.10 In the appraisal, the yield determines how the capital value that an investor is prepared to pay relates to the annual rent. The capital value is a multiple of the annual rent and the yield determines the number of years of rent they will pay. So a yield of 5% results in a capital value that equates to 20 years' annual income (if one year's annual rent equals 5% of the capital value, then the total capital value equates to 20 years' rent). The more confident the investor is that the building will secure high levels of occupancy over a long period of time, the higher the number of annual rent they will be prepared to reflect in the amount they pay to acquire the completed building.

Development costs

Construction costs

- 3.11 Developments in the City tend to involve sites with constrained footprints, several basement levels and heritage constraints. As a result of their impact, tall buildings in particular are required to meet the highest reasonable design quality standards.
- 3.12 Developers now routinely design new office buildings in the City of London to meet or exceed BREEAM outstanding or excellent; seek to reduce embodied carbon; and achieve future EPC B requirements. Investors as well as occupiers will be looking to ensure that new developments meet these standards to future proof them for increasing regulatory requirements. In particular, all commercial buildings must achieve EPC B by 1 April 2030.

Timing of construction

- 3.13 Timing of construction will vary between developments, depending on a range of factors including the extent of demolition and site preparation; the extent of basement excavation required; the height of the building; and the extent and specification of fit out. An issue that is common to almost all sites in the City of London is that sites tend to be tightly constrained with very little (or no) distance between neighbouring buildings which requires party wall agreements with adjacent owners. All of these factors can result in variable lengths of development period between sites.

Developer's returns – profit on cost, profit on GDV, IRR based return

- 3.14 Developers will incorporate a target return into their appraisals to reflect a risk-adjusted reward for undertaking a development. The level of return required reflects a range of factors, including (but not limited to) general market sales risk; unforeseen costs (beyond those accounted for by the contingency); programme risks; planning risks (particularly on outline developments); and risks associated with heritage assets that are to be incorporated into developments, which can be difficult to establish prior to works commencing.
- 3.15 Profits are typically incorporated into appraisals on the basis of a percentage of Gross Development Value ('GDV'), or a percentage of costs. The Planning Practice Guidance ('PPG') on viability indicates that the profit margin on private housing should be applied in the range of 15% to 20% of GDV, but that different rates may apply to other forms of development. For office developments, developers typically seek a target return of 15% of GDV.
- 3.16 Profit on GDV and profit on cost do not reflect the time over which a Developer invests its resources into a development and, consequently, on longer term developments, profits are sometimes expressed on the basis of IRR. IRR enables developers to measure the return generated by a development taking account of the length of the development period. This enables a comparison with other forms of investment (for example, a comparison of a residential development against other developments (to reflect different risk profiles), or against other forms of investment that carry less risk).
- 3.17 Clearly, the return that any rational person would require on an investment over a single year would differ considerably in comparison to the return required on an investment in which the return is not received until many years into the future. This is because money received today or in a year's time is worth far more than the same sum received in ten years' time. There are two factors that must be considered in such a situation; the first is that inflation will erode the value of money received in the future; and the second is the money could have been invested in other opportunities over the same period (and there is therefore an 'opportunity cost'). Testing the performance of any potential investment using IRR will reflect the time over which the investor needs to wait until they receive their return.
- 3.18 The impact of discounting of returns from a development is illustrated in Figure 3.18.1, which shows investment in a project for the first four years, after which time the building is complete and starts to generate rental income. Although the cash value of the income appears to be far in excess of the costs over the first four years, the *present* value is much lower. The IRR measure of return takes account of the impact of time to enable a comparison between different forms of investment to be made.

Existing use values

- 3.19 A final factor that will have a significant bearing on viability of office development is the existing use value of the Site, which will have a bearing on the current landowner's expectations of value. The existing use value is established using the same approach outlined in Section 3.2 in relation to GDVs of new developments. The existing building's actual or potential rental roll will be the primary driver to establishing the value. This can be informed by comparable evidence of leases of other similar buildings, or of recent leases of the subject building itself. The capital value of the existing building is established by applying an appropriate investment yield to the rental roll. The yield is likely to be higher (resulting in a lower capital value) for existing buildings which are secondary/Grade B stock, as they are unlikely to attract occupiers with the highest covenant strength (as these occupiers are much more likely to prefer to occupy Grade A buildings).

Figure 3.19.1: Cash returns and discounted (real) returns from an investment



- 3.20 Existing use values may also need to reflect the need for refurbishment or upgrading works (e.g. to achieve the necessary EPC rating to ensure that the building can continue to be let over the medium term).
- 3.21 The worse the condition of the building (and the more capital expenditure that is required) the more likely a landowner will perceive it as a 'non-performing asset', resulting in a decision to redevelop or undertake significant refurbishment or reconfiguration.

Relationship between existing quantum of space and potential quantum of space

- 3.22 A key driver towards redevelopment will be the relationship between the height of existing buildings on a site and the potential height of a new building, which will be determined by the site's context, view management corridors and other relevant planning policy requirements. Sites which have potential for a significant change in the quantum of floorspace (typically as a result of demolishing the existing building which is relatively low compared to neighbouring buildings) are more likely to be redeveloped than sites where there is limited scope for an increase in height.
- 3.23 This is largely driven by viability. A development opportunity needs to generate sufficient value to cover the costs of construction, the developers margin and other costs, as well as generating enough value to pay to acquire the land. The value than an owner would expect to receive for the land would need to be *at least* the value of their existing building on the site. The greater the difference between existing and potential quantum of floorspace, the more likely it is that the developer will be able to offer a land value that exceeds existing use value plus a premium to incentivise the landowner to sell.
- 3.24 If sites are constrained by heritage assets, then a developer's ability to significantly increase the quantum of space is likely to be limited. In these circumstances, there is less pressure for redevelopment, but at the same time, landowners may not be attracted by the proposition of retention of office use due to increasing difficulties maintaining high levels of occupancy due to changing occupier requirements.

4 Impact of sustainability requirements

- 4.1 The emerging City Plan 2040 incorporates a suite of policies which seek to enhance the sustainability of offices and other forms of development in the City.
- 4.2 Policy DE1 encourages a 'retro-fit first' approach favouring refurbishment and retro-fitting of existing buildings over demolition and rebuilding. For new developments, policy DE1 requires that developers achieve BREEAM 'excellent' or 'outstanding' and that they meet London Plan carbon emission and air quality/climate change requirements on site, or through offsetting. In addition, Policy OS2 requires that developments achieve an urban greening factor ('UGF') of 0.3 as a minimum.
- 4.3 It should be noted that, although these requirements are to be sought through planning policies, they also largely reflect the requirements of potential occupiers with office requirements in the City and these standards are reflected in the rents that can be secured and the yields applied. A new building that does not meet the standards that occupiers expect is likely to take longer to let; achieve lower rents than competing offices which offer higher sustainability credentials; and will be of less interest to investors. Market forces are therefore pulling developers in the same direction as the emerging policy.

Viability impact of sustainability requirements

- 4.4 Within the context of an alignment of market requirements with the policy objectives outlined above, we have tested the impact of emerging sustainability requirements on the viability of office developments in the City.
- 4.5 As outlined at Section 4.9 of the 'City of London: Planning Obligations Viability Assessment (March 2026)', the cost of achieving net zero carbon emissions on-site equates to 3 to 4% of construction costs for high-rise office developments.
- 4.6 Achieving UGF of 0.3 through green roofs (as one option) would add an additional £126 per square metre of roof space, as noted at Section 4.19 of the Planning Obligations Viability Study.
- 4.7 Air quality contributions secured on developments in the City range from an equivalent per square metre of £0.74 to £5.39 (as noted in Section 4.18 of the Planning Obligations Viability Study).
- 4.8 Using consistent appraisal inputs with the remaining items outlined in Section 4 of the Planning Obligations Viability Study, we have tested the specific impact of these sustainability requirements on the viability of office development in the City.
- 4.9 Table 4.9.1 summarises the residual land values generated by each development typology used in the Planning Obligations Viability Study and the extent of change that occurs. Where a residual value is shaded green, this indicates that the residual value is higher than the benchmark land value and is therefore viable. Where the residual is shaded orange, it is within 10% of the benchmark land value and therefore on the margins of viability; and where the result is shaded red, this indicates that the residual is 10% or more below the benchmark land value.

Table 4.9.1: Impact of emerging City Plan sustainability requirements

LP Ref	Site	BLV	Base residual	Residual after sustainability requirements	Residual with sustainability requirements as % of original residual
1	Office	£11,735,659	£22,071,923	£17,388,187	79%
2	Office	£5,663,504	£33,519,827	£27,162,884	81%
3	Office - heavy refurb	£28,100,168	£48,125,835	£46,288,825	96%
4	Office	£14,193,043	£18,071,988	£14,702,157	81%
5	Office	£9,018,506	£9,418,235	£6,674,214	71%
6	Office	£6,831,316	£7,983,834	£6,589,600	83%
7	Office - heavy refurb	£53,483,837	£112,609,604	£108,569,152	96%
8	Office	£21,682,296	£25,306,526	£20,952,623	83%
9	Office	£1,028,535	£1,431,102	£1,082,343	76%
10	Office - light refurb	£34,284,511	£55,951,498	£53,808,830	96%
11	Office - light refurb	£62,968,699	£99,467,814	£95,624,722	96%
12	Office	£1,645,657	£1,574,703	£1,179,152	75%
13	Office	£411,414	£350,300	£257,940	74%
14	Office	£40,885,294	£49,448,366	£41,247,947	83%
15	Office	£39,884,700	£35,365,957	£29,239,881	83%
16	Office	£191,993	£2,470,328	£1,614,355	65%

Note: The base outputs reflect other City Plan 2040 policies relevant to commercial development, including affordable housing commercial contribution; employment and training contribution; security contribution; culture contribution; Section 106 monitoring; and carbon offset at £114 per tonne. The sustainability requirements that are added to the base position are Net Zero Carbon construction cost uplift; air quality contribution; and UGF.

- 4.10 As can be noted, although the residual land values reflecting all the sustainability requirements are lower (as would be expected), the reduction is relatively modest in most cases. The worst case scenario across the typologies tested is a reduction to 65% of the original residual land value.
- 4.11 The topic of sustainability requirements needs to be considered in the round and in the context of achievable rents and impacts on yields and void periods of *not* providing a new office with high sustainability credentials. To illustrate the potential impact of not meeting these standards, if rents were assumed to fall² by 5% (compared to a building that meets all the standards) then the residual values would be as shown in Table 4.11.1.

Table 4.11.1: Office residual valuations – sustainability credentials not met, 5% reduction in rent

LP Ref	Site	BLV	Base residual	Residual after sustainability requirements	Residual with 5% lower rent as % of original residual
1	Office	£11,735,659	£22,071,923	£11,016,178	50%
2	Office	£5,663,504	£33,519,827	£18,561,932	55%
3	Office - heavy refurb	£28,100,168	£48,125,835	£40,972,059	85%

² This percentage is adopted for illustrative purposes only. It is difficult to provide an accurate percentage differential between a new office building with and without high sustainability credentials as there are so few examples of new developments that do not meet the requirements. Furthermore, there are other locational and height impacts that will influence rent levels.

LP Ref	Site	BLV	Base residual	Residual after sustainability requirements	Residual with 5% lower rent as % of original residual
4	Office	£14,193,043	£18,071,988	£10,267,869	57%
5	Office	£9,018,506	£9,418,235	£3,565,145	38%
6	Office	£6,831,316	£7,983,834	£4,894,704	61%
7	Office - heavy refurb	£53,483,837	£112,609,604	£97,001,365	86%
8	Office	£21,682,296	£25,306,526	£14,901,033	59%
9	Office	£1,028,535	£1,431,102	£618,173	43%
10	Office - light refurb	£34,284,511	£55,951,498	£47,497,035	85%
11	Office - light refurb	£62,968,699	£99,467,814	£84,835,090	85%
12	Office	£1,645,657	£1,574,703	£696,741	44%
13	Office	£411,414	£350,300	£171,455	49%
14	Office	£40,885,294	£49,448,366	£34,815,643	70%
15	Office	£39,884,700	£35,365,957	£21,383,577	60%
16	Office	£191,993	£2,470,328	£1,299,711	53%

4.12 As can be noted, the falls in residual land value resulting from a 5% reduction in headline rent are far higher than the falls resulting from reflection of the suite of sustainability measures. The most significant reduction is typology 5, which falls to 38% of its original residual value. On balance, therefore, developers are far more likely to actively apply high sustainability credentials to their developments to improve prospects of achieving pre-lets and other lettings as quickly as possible and maximising rent levels, even if this comes at the expense of marginally higher build costs.

5 Review of the SPD requirements

- 5.1 The City Corporation's *Office Use SPD (January 2015)* identifies the evidence that applicants seeking to justify the loss of office use must submit. Our interpretation of the various scenarios outlined in the SPD is summarised in Table 5.1.1.

Table 5.1.1: Supporting evidence required to justify loss of office use

Proposal	Form of justification	Viability evidence	Marketing evidence
Total loss of office floorspace	Mandatory viability and marketing evidence	Required in all cases	Required in all cases
Change of use from offices to a use which provides uses which are complementary ³ to the City's business function	Justified through a planning statement	May not be required	May not be required
Reduction in quantum of office floorspace but replacement by a higher quality of office floorspace	Justified through a planning statement	Considered on a case-by-case basis	Considered on a case-by-case basis
Loss of office use to residential where the site is adjacent to one of the defined residential areas in the City	Residential use would be considered acceptable, subject to demonstrating that long term office use is unviable	Required in most cases	Required in most cases

- 5.2 The SPD specifically acknowledges the specific constraints associated with listed buildings and other heritage assets which may limit the potential to upgrade them to meet contemporary occupier requirements, whilst conserving and/or enhancing the significance of the heritage asset.

Viability evidence requirements in the SPD

- 5.3 The SPD indicates that in order to justify the case for loss of office on a particular site, developers will need to submit a report "including general and specific market information related to the existing use of the building and the proposed alternative use". It states that the report should include the following:
- *"Site specific information about the building;*
 - *The total costs of maintaining the building both now and in the future;*
 - *The costs and practicalities of refurbishing or redeveloping the building for office use;*
 - *Information on rents and capital values;*
 - *Information on current and recent levels of occupation;*
 - *Target rates of return (internal rate of return or other appropriate measure);*
 - *A valuation of the building in its existing use, ignoring the hope value of an alternative use;*
 - *Sensitivity testing to support the robustness of the report conclusions."*
- 5.4 We would suggest that this is expanded to provide more detailed guidance on the contents of report submitted to justify loss of office use, as summarised in Table 5.4.1.

³ Defined by the adopted Local Plan as retail, leisure, education and health

Table 5.4.1: Suggested amendments to loss of office reporting requirements

Current requirement in 2015 SPD	Suggested amendment	Additional supporting evidence
Site specific information about the building	Site specific information about the building, including physical constraints in terms of listing or other heritage constraints, other physical constraints that would prevent reconfiguration; and constraints on the site that would prevent redevelopment.	The assessment should also describe and evidence and locational-specific features of the Site that have a significant bearing on occupier demand and investor appetite.
The total costs of maintaining the building both now and in the future	The costs of refurbishing the existing building to bring it up to (and maintain it in) a lettable condition, including the costs of meeting the minimum energy efficiency standards ('MEES'). If a building is listed, then the assessment should incorporate any additional costs that arise from this status.	The SPD should suggest that, at a minimum, the viability assessment should include a development appraisal of the following scenarios: (a) Minimum necessary refurbishment (b) Refurbishment to Grade A (c) Redevelopment and potential extension to reflect the building envelope of the Applicant's proposed development.
The costs and practicalities of refurbishing or redeveloping the building for office use	The costs and practicalities of refurbishing or redeveloping the building for office use. This assessment should identify specific physical attributes of the existing building and/or of the Site which would prevent limitations being overcome by a refurbishment or redevelopment.	Costs should be supported by a detailed cost estimate provided by a qualified quantity surveyor.
Information on rents and capital values	Information on rents and capital values of similar office buildings to the subject and comparable evidence of refurbished and new build offices.	-
Information on current and recent levels of occupation	No change.	Information on current and recent levels of occupation, including a summary of current tenancies, rent paid, and tenancy periods.
Target rates of return (internal rate of return or other appropriate measure)	The assessment should assess each option against a range of target returns (profit on GDV, profit on cost and IRR).	The report should assess each option as both (a) a speculative development by a developer (with a target return on cost or GDV) and (b) as a long term hold by an investor, tested against a target IRR.
A valuation of the building in its existing use, ignoring the hope value of an alternative use	Benchmark Land Value should be assessed on the basis of a valuation of the existing building assuming a 'do nothing' scenario moderated by the values per square foot achieved on transactions of similar buildings.	Applicants should also cross-check their benchmark land value against a valuation of the building assuming increasing levels of obsolescence over time.
Sensitivity testing to support the robustness of the report conclusions	Sensitivity testing of main appraisal inputs (rents, yields and costs) to support the robustness of the findings.	-

Marketing evidence requirements

- 5.5 In addition to viability evidence, the SPD indicates that applicants should demonstrate that the existing building has been widely and openly marketed for continued office use. The specific requirements in the SPD are as follows:
- *‘Evidence of the marketing of the building for continued office use having regard to the use, condition, quality and location of the building. Information should be provided setting out:*
 - *the length of time the property/site has been marketed;*
 - *the number and details of enquiries received, such as the number of viewings, the proposed uses and comments from prospective purchasers or tenants (including as to the suitability of continued office use)’.*
- 5.6 In addition to the points above, we suggest that applicants should provide the following specific information in relation to marketing:
- Specific marketing activities including details of websites, brochures, inhouse marketing particulars; mailshots; and meetings with agents;
 - Details of information packs made available to the market
 - Social media activity;
 - A timeline of marketing activities providing a summary of activities at each point in the marketing campaign.

Determining Benchmark Land Value for a loss of office viability assessment

- 5.7 The Planning Practice Guidance on viability indicates that the primary approach for determining benchmark land value for a viability assessment is the Site’s existing use value, plus a reasonable premium to bring it forward for development having regard to the other options available.
- 5.8 If following this approach to the letter, a conclusion that one could draw is that *any* positive residual generated by an office retention scheme (i.e. a do nothing scenario or a light-touch refurbishment scenario). This approach then becomes circular, as it is possible in most cases that a do-nothing option or a light-touch refurbishment would generate at least *some* positive value, even if that value is just £1.
- 5.9 The likely consequence of applying this approach is that secondary offices which have no demonstrable long term use as offices would ‘limp on’ for a period of time, with increasing obsolescence and increasing levels of vacancy. This is unlikely to result in a settled position in relation to the long term use of such buildings but merely defer a decision on a change of use into the future. This issue is particularly prevalent for listed buildings and other heritage assets which will need to be re-used rather than demolished but which have limited scope for reconfiguration to meet contemporary office occupiers’ requirements. In these cases, applying a ‘hard-line’ PPG approach is likely to frustrate the potential re-use of buildings in a manner which makes a more positive contribution to the growth of the City’s economy.
- 5.10 It is important to note that the 2015 SPD specifically indicates that the applicants are required to demonstrate that offices are unviable *in the longer term* rather than just the immediate short term. This indicates that an approach to establishing benchmark land value must avoid an outcome where office use is found to be viable but only in way that disregards long-term viability. Benchmark land values that facilitate a finding that office use is viable, simply because there is a positive residual land value, but fails to take account of increasing obsolescence would not comply with the objective of the SPD.
- 5.11 As noted in Table 5.4.1, we have suggested that applicants should reconcile (a) their assertion that that the subject building has declining demand and high costs of refurbishment with (b) a positive benchmark land value by providing a ‘do nothing’ or ‘do minimum’ assessment showing declining levels of occupancy over time. An illustration of this

approach is attached as Appendix 1. This will help to provide the City Corporation with further assurance that the benchmark land value is not inflated by hope value of change of use in the transactional data that applications rely upon.

6 Conclusions

- 6.1 The City Corporation has had a longstanding policy of seeking to resist the loss of office use on sites unless it can be demonstrated that their loss would not adversely affect the core business function of the City. Preventing the loss of existing office space will assist the City Corporation of meeting one of the core strategic aims of the emerging City Plan 2040 of increasing the net volume of office floorspace by 1.2 million square metres over the plan period.
- 6.2 However, the coronavirus pandemic has reshaped how many businesses use office floorspace and there is an accelerating trend in the City towards a 'flight to quality' with occupiers seeking to take leases in the best possible quality space to encourage high levels of in-office working. As a result, Grade A rents in the City have started to increase and are projected to increase further over the next few years.
- 6.3 In contrast, rents for Grade B offices have remained flat and are forecast to remain flat, resulting in real terms falls (i.e. after the impact of inflation is taken into account). Consequently, owners of Grade B offices will face increasing pressure to undertake extensive refurbishment or redevelopment, or face declining returns (both in terms of static rents but also declining take-up of space over time). Many such Grade B buildings will be redeveloped as offices, but there are others where this will not be a feasible option, most notably offices in heritage assets which cannot be demolished and cannot be reconfigured to meet contemporary occupier requirements. Policy OF2 in the emerging City Plan 2040 seeks to balance the need to resist the loss of office floorspace with the objective of avoiding the emergence of 'stranded assets' which cannot be recycled for other (non-office) uses, yet at the same time failing to fulfil the potential of the site for uses that contribute towards economic growth.
- 6.4 Over the plan period, there are likely to be other challenges beyond the quality of secondary stock that landlords and occupiers will need to address:
- Adaptability of office spaces to cater for changing occupier requirements;
 - The impact of ESG requirements and Minimum Energy Efficiency Standards;
 - How demand and supply will interact in different sub-markets within the City over the plan period;
 - The impact of Artificial Intelligence on occupier demand; and
 - Changing trends in other types and range of uses that may be required to support the City's economy.
- 6.5 The 2015 Office Use SPD provides a framework for applicants seeking to demonstrate a case for release of sites from office use for other uses. This is relatively light-touch in terms of specific evidential requirements and Section 5 of this report identifies where this might be strengthened, including:
- Identifying the minimum requirements in terms of office retention scenarios to be tested;
 - Testing the impact of statutory requirements upon office retention options; and
 - Reconciling an argument that a site has no long term future in office use with the valuation of the site in office use through an exercise that demonstrates increasing obsolescence over time.

Appendix 1 - Illustration of appraisal of value reflecting increasing obsolescence

