BUDGET PANEL: 12th JUNE 2012 AGENDA ITEM 4
Business Rates Retention
(Para 1.6 refers)

Watford's potential for Business Rate Growth to 2016/17

As at May 2012
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Background
Due to its strategic transport links and extensive labour pool, demand in the office market in Watford is varied, attracting companies from a wide range of sectors including; Financial and Professional Services, Public Administration and other back offices functions, Retail and Leisure. Watford is also home to many regional, national and global Headquarter functions including Weatherspoons, Vinci Plc, The Hilton Group, TKMax and Mothercare.

Evidence suggests that the Watford office market is experiencing a downturn at present and there is limited new demand for office development in the town. The effect of this limited demand is evident in the limited number of office, or even office dominant mixed use schemes, in the planning pipeline.

Local agents consider that the lower levels of office demand in Watford are not the product of businesses relocating to elsewhere, but are thought to be the result of waning demand for offices and a relative over-supply of offices in the local market following the higher demands of the dot com boom (pre-2001). Evidence suggests that demand for office units has been in decline for more than 7 years and this has only been exacerbated by the recession. In terms of context, between 2001 and 2009, Watford lost approximately 14,000 jobs.

The high levels of vacancy within Clarendon Road are noticeable and it is clear that there are significant variances in the quality of the stock available. While some of the more recent empty units are high quality stock, other, normally slightly older, are very poor and are unlikely to ever be occupied again. Many of these older units do not have sufficient ground to ceiling heights, lack air conditioning and are simply not suitable for modern business needs in terms of layout.

Location of Prime Office Space in Watford
The major focus of office stock in Watford is within Clarendon Road which includes Grade A stock and contain high profile occupiers such as TKMax and KPMG. Despite the difficulties with Clarendon Road as outlined above, it is still regarded as the prime office location in the Borough. There is increasing evidence, however, that out of town office demand is providing strong competition to the town centre offer. Developments at Croxley Green and Leavesden Park, which fall outside the borough, are now also providing a high quality offer and are achieving similar rental levels to that of Clarendon Road.

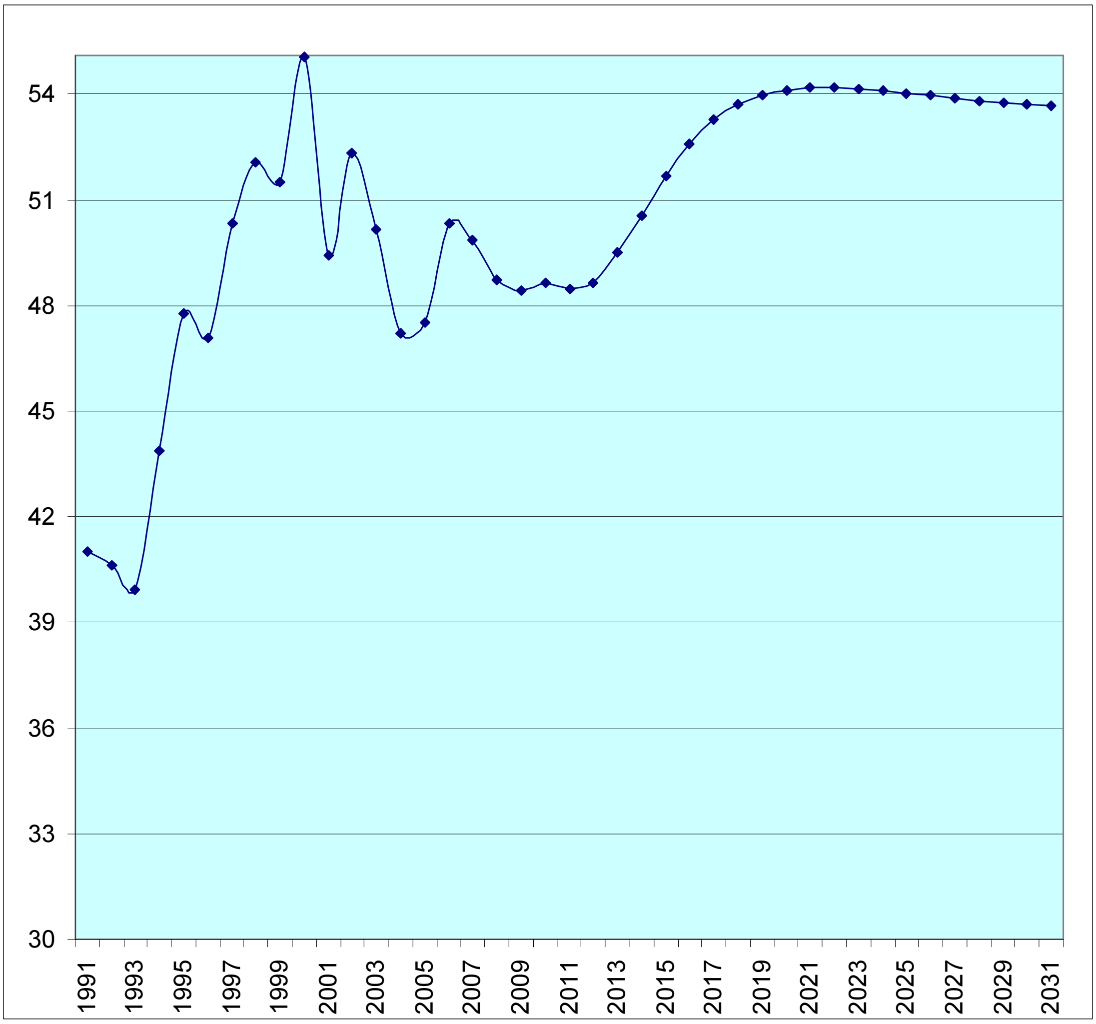
Potential Future Changes

a.) The East of England Forecasting Model (EEFM)
The East of England Forecasting Model is considered the most robust econometric model on the local economy and has been used extensively to inform the Local Development Framework. The model was formerly operated by the East of England Development Agency (EEDA) and is consistent across the regions and indeed nationally. The model projects a wide range of parameters, however for the purposes of this work, we are looking specifically to projections on Total workplace employment.

NB:/ Total employment fails to take account use class i.e. office or industrial, or the potential future changes in proportion of home working etc.

NB:/ It is also important to note that the EEFM does not take into account any of the forthcoming major projects such as Croxley Rail Link and Watford Health Campus.

Figure 1 – EEFM, Total Workplace Employment to 2031



The above graph shows that Watford employment heyday was between 1999 and 2001. While the model suggests that employment growth will stabilise and grow steadily from 2011/2012/2013 onwards, this is somewhat simplistic. However, the overall conclusion was that even by 2031, Watford would still not exceed the level of employment provided by the town in 2001.

b.) Watford Employment Land Review 2010

The LDF evidence base suggests potential for job growth ranging from 4,000 to over 10,000 additional jobs between 2006 and 2031. These would generally be located within Special Policy Areas and existing employment areas. Job potential at each of the SPA's is as follows-

Location	Jobs potential	Delivery
Wider town centre (SPA1) - Clarendon Road offices	**1,100-2,000**	2012 onwards
Town Centre (SPA1) -Comparison Retail	**2,100**	Some by 2015
Watford Junction (SPA2) – mixed uses	**1,350-2,350**	By 2025
Health Campus (SPA 3) – mixed uses	**1000 -1,900**	2014 onwards
Western Gateway (SPA6) - Watford Business Park – employment uses	**700-2000**	2016 onwards
Other existing employment areas	**500**	2012 onwards
Town Centre and identified SPAs – convenience retail	**250**	Some by 2015
Total	**7,000 – 11,100**	

c.) Watford Retail Capacity Assessment, 2010

Watford's retails capacity assessment suggests the scale and timing of increased retail provision within the Borough. And the results are outlined below-

	2015 (sqm net)	2020 (sqm net)	2025 (sqm net)	2031 (sqm net)
Comparison Goods	1,645	18,035	35,808	39,564
Convenience Goods	2,835	3,468	4,354	4,502

d.) Watford's Major Projects

Watford has a number of major projects currently in the pipeline which will directly seek to provide additional employment floorspace. These are:

Watford Health Campus
Providing c25,000sqm of employment space as well as c15,000sqm of hotel, leisure and supporting retail uses, delivered in phases from 2014 onwards.

Charter Place
Delivering 10,000 additional sqm of retail space, commencing 2013

Ascot Road
While currently still in the planning phase, we would expect initial development to comprise 6,000sqm Net of convenience retail space to come online as early as late 2013. Other uses, including commercial, hotel and leisure facilities are unlikely to be developed until CRL infrastructure is in place i.e. c2016. The scale and nature of the future elements is still unknown.

Watford Business Park
Watford Business Park is considered to have potential to cater for an additional 20,000sqm of employment space. Given the range of other developments happening in the town, it is unlikely this would be realised until c2020 and beyond.

Watford Junction
While still in the negotiation stage, it is highly likely the scheme would deliver significant employment space provision in the region of c25,000-30,000sqm, including other leisure and supporting retail uses. It is unlikely, however, that this project will be commenced prior to 2016/17.

Other employment Areas
The remainder of Watford's primary employment areas were considered to have the potential to deliver an additional c20,000sqm of additional employment space provision. This is largely predicated on private sector investment in their own estate. While some of this may occur naturally through renewal, given the difficulties in the wider economic climate, it is highly unlikely much of this increased potential will be realised within the next 5 years.

Croxley Rail Link
While not delivering any commercial space in itself, Croxley Rail Link is likely to improve strategic connections to key external attractors, such as central London, and make a positive contribution to the overall attractiveness of Watford as a business location. While it may help attract tenants to some currently vacant buildings, given the wider issue outlined previously in the paper that much of Watford's vacant stock is unlikely to ever be brought into commercial use again unless redeveloped, it is difficult speculate on its impact on the commercial market.

Other Issues
In the past number of months, increasing numbers of business have expressed concerns about the level of their existing NNDR. This has been a particular issue for town centre businesses and retailers.

Retailers of primary locations have stated that NNDR is now constituting a payment equivalent to 75% of their annual rent which is considered excessive.

While further investigation is required, initial assessments have concluded that this is primarily to do with the fact that rental values have fallen considerably over the past 3 years. Prior to the recession, Watford had reported the 3rd highest retail rents in the country, comparable to Covent Garden, the new Westfield Centres and Brent Cross. These have fallen considerably in recent years due to wider market conditions and the impact of increased local competition on footfall. It is therefore considered that the current NNDR values for particular areas of the town centre are based on rental values that are no longer achieved and therefore are an excessive strain on many retailers, particularly independents.

It is important the implications of such high current rates and any potential for re-evaluation prior to the new BRR system commencing are understood.

Conclusions

While Watford's somewhat steady decline in employment numbers from the 2000's has eased, future projections on employment space take-up is difficult as it relies as much on macro economic issues as it does on micro-economic issues i.e. national, rather than local.

Planned provision of employment space does also not guarantee its take-up/use. For this reason, most developers are reluctant to commit to speculative office development without secured tenants or 'pre-lets' before commencement.

Watford is, however, still very attractive as a business location, subject to the availability of suitable property solutions. Private sector companies continue to strive to find efficiency savings, particularly those with high property costs in central London. Through the Council's work with Watford & West Herts Chamber of Commerce on Inward Investment, the past 6 months have seen a number of major companies express interest in Watford as a potential area for relocation. On more than one occasion, however, this has not materialised due to the lack of suitable property solutions.

While Watford has a range of major infrastructure and regeneration projects currently in the pipeline, analysis has shown that future job growth is largely contained within these specific sites, with some additional potential delivered by a small number of other existing employment areas. It is also concluded that for reasons outlined previously, these existing areas are unlikely to realise their full potential until greater confidence returns to the property market and economic climate as a whole.

With regard to the issue of currently vacant ,more aged units, this is a major issue for Watford going forward.   It will be difficult to encourage any major redevelopment by private sector partners until both the property market improves and the remaining more modern ‘slack’ is brought into use.

It is recognised that in order to successfully deliver the wide range of major projects and occupy their proposed commercial floorspace, it is important the strategic advantages of Watford are communicated to potential occupiers beyond Watford, including regionally, nationally and internationally.

It is concluded that Watford’s economic decline has levelled off, with potential for some speedy delivery of additional floospace as part of its forthcoming regeneration projects. It will be important that this new space brings new tenants to Watford and does not just result in simply relocating existing businesses to elsewhere in Watford.

If the currently vacant units were all brought into use, Watford would see significant uplift in both job numbers and NNDR, given that many are orientated towards B1 uses following dot com. Unfortunately, however, this is unlikely to happen.

It is the Officer’s view that Watford’s business base is likely to show some growth over the next 5-7 years, however this will largely be contained within the major regeneration sites.   Watford does, however, continue to hold potential for significant job growth, particularly in B1 office development, subject to improvements in the wider property market.

It is therefore likely that NNDR receipts will show some growth until 2016/17 (more likely from 2015 onwards), however it is unlikely they would recede unless a major occupier were to enter administration or relocate elsewhere.

Andrew Gibson
8th June 2012.