A Review of Office Accommodation in Norwich

Prepared for: Norwich City Council
By RAMIDUS CONSULTING LIMITED
Date: 6th July 2020

A Review of Office Accommodation in Norwich

Executive summary

The Norwich office market is in a fragile and vulnerable condition, and this is especially true in the city centre. It has under-performed comparator cities in recent years. It is also shrinking when the trend should be one of expansion.

Office occupiers are evolving rapidly Fundamental changes in the economy are bringing about major changes in the demand for property, particularly the office sector. Drivers are economic, business, technological and social, creating what is widely called the ‘knowledge economy’, typified by technology-enabled, knowledge-intensive businesses. This disruption is seen in the amount of space required; the nature of buildings; workplace design and workplace management. As firms adopt more agile, networked approaches, offices will become ‘less generic’ and less single purpose, and will work harder to provide choice and flexibility.

The Norwich office market is fragile The Norwich office market is small and vulnerable. It is half the size of Cambridge, and has been reduced by 30% in recent years due to implemented or consented conversions to residential use through Permitted Development Rights. The Prior Approvals process has exacerbated this to the extent that the very survival of the city centre office market is at risk.

Despite some recent rental growth induced by scarcity, new development remains unviable. The shrinking stock of remaining offices is ageing and vulnerable to further conversion activity. Take-up of space is comparatively low for a city the size of Norwich: between 2015 and 2019 there was an annual average of 11,000 sq m of lettings (mostly second-hand), in 39 deals averaging 280 sq m each. This compares with an annual average of 16,250 sq m over the past decade.

The cycle of decline in the office market needs to be broken The city centre is the most sustainable location for employment space; which means that the finite amount of employment land there needs to be protected – the mix of employment and residents has to be balanced if Norwich is to function as a modern urban centre. But the supply process is failing to meet this objective.

Norwich’s digital sector is small (2% of all employment and 6% of total business stock), but vital to the future health of the city’s economy. In the five years to 2015, digital employment in Norwich grew by c40% and the stock of digital business by c30% - substantially faster than the growth in the Norwich economy overall.

This report suggests that previous forecasts for the growth of Norwich’s office economy have been overtaken by events and now look optimistic. The report suggests a more modest growth pattern. But even within this, there is a need to promote new investment and to address market failure in terms of providing, for example, grow-on space for small businesses.

Offices are critical to Norwich’s future Office-based activities lie at the centre of most forecasts for growth in the economy and it is vital that progressive, competitive cities cater for such growth – or risk losing vitality and competitiveness. The office economy is capable of underpinning employment growth, driving economic output, generating Council income and providing a wide range of employment opportunities. The last of these feeds through to wider social benefits in terms of quality of employment, lifestyles and health and wellbeing.

Market failure needs to be addressed If Norwich is to overcome market failure two, cross-cutting sets of criteria need to be met – building and locale. First, there must be a range of building types. Digital firms do not require a single, definable building type – they can and do occupy anything from new Grade A space to converted 19th century industrial buildings. There must be choice, variety and character – all at an affordable price.

Regarding locale, an isolated secondary building will always be a second choice to one that is 'at the centre of things'. Small firms want to feel part of a business community – which is why large buildings with many occupiers work well – but they also require access to services and lifestyle.

The foregoing point to some form of market intervention, particularly in the area of grow-on space, for both digital and wider office economy small firms. The benefits of intervention include protection of the city centre vitality and being a catalyst to growth and expansion by attracting higher value jobs.

While one building (a digital hub) cannot change the fortunes of the whole office market, it is a step towards nurturing businesses at their most vulnerable stage – transitioning from start-up to established. The resulting job creation, directly and through multiplier, will bring wider economic benefits in terms of jobs, spending, wellbeing and training.

New development in Norwich is not viable Viability is the most challenging issue facing the Norwich office market, and dealing with it needs to avoid reacting only to *current* market signals. Longer term viability and rents will be dependent upon, and will follow, a thriving knowledge economy. First and foremost the City Council must place the discussion about viability in the context of the objectives of its *2040 City Vision* – and individual site decisions need to be seen through that filter.

To achieve anything like viability will require rents in the order of £22-23 per sq ft (a near 30% increase on today's top rents), which might not be achievable until after 2026. Conceivably, given the potential direct impact of COVID19 together with an associated recession, we could be looking at another decade of non-viability.

The message here is that the Council cannot wait for viability to catch-up. The unavoidable implication is that the Council must seek to 'change the game' and accept that any digital hub is not, in the first instance at least, a strictly commercial venture but an intervention to fill a market gap.

A digital hub should be created While a single building will not turn the market around, we support the creation of a 'digital hub' in the city centre to provide affordable, grow-on space for small businesses. Given the viability situation, any such initiative will require public subsidy. It must also be accompanied by the appointment of an experienced specialist operator at the outset to ensure its long-term viability and success. We recommend an institutional 'anchor' such as a University or key firm/sector.

Offices need to be promoted and protected The first pre-condition to growth infers the availability of development sites, and the Council has great influence here. To this end, there are a number of unconsented sites in the city, as well as the East Norwich Strategic Regeneration Area (ENSRA), with potential for redevelopment. It is critical to encourage development – new and refurbished, large and small, high spec and low spec – in the city centre to improve its offering, particularly to SMEs.

The ENSRA is proposed to be allocated within the emerging GNLP and will be informed by a masterplanning exercise. There is likely to be a role for office provision here, but it needs to compliment the city centre offer, not compete. In any case, it is unlikely that it will be able to replicate the provision of smaller, lower cost space that is available in the city core, but it might well be able to cater for 'corporate office' demand.

An Article 4 Direction is required, urgently Virtually any site that is not secured on a long lease should be considered under pressure for redevelopment as residential. The primary weapon in safeguarding offices is obviously an Article 4 Direction. This should be considered as an urgent requirement, both because of the low office values inherent in the Norwich market and because the COVID-19 pandemic may radically alter property owners risk analysis. If they think the case for building business space is weakened, then they are likely to consider switching to residential, precipitating a fresh glut of office-to-residential conversions.

This report proposes the A147 (the Norwich Inner Ring Road) as the main boundary to an Article 4 Direction, with an extension to encompass the business space around Carrow Road. This boundary would give Norwich sufficient control over office development, on the one hand allowing stock that is truly redundant to change use while, on the other hand, being able to protect space of strategic value.

COVID-19 will have a limited impact overall Much has been written about this, including the 'end of the office' narrative and observations suggesting long-term changes to behaviour around commuting, working patterns, office layouts and so on. In reality many of the changes being discussed have been a feature of the direction of travel in real estate over the past two decades. But the office has a key social function, not to mention areas such as training, mentoring, leadership, corporate ethos and so on. These needs have not disappeared. We do not foresee a structural change in the quantum of demand for offices in Norwich city as a direct result of COVID-19.

Recommendations

Norwich office market

- There is an urgent need to **strengthen Norwich's city centre office market** for its role in creating high value jobs and their multiplier effect in the economy.
- This translates into an equally urgent need to take measures to **protect** the city's remaining office stock.
- There is a **basic market need for choice** – old and new, high specification and low specification, large and small. Secondary space is as important as new buildings.
- We support the **introduction of an Article 4 Direction**, as soon as possible, to protect existing stock.
- **Softer initiatives** must also be put in place to nurture digital and wider office economy jobs: promotion, marketing, networks and so on.

- On a wider front, **Norwich must be more vigorously promoted** as a business location based on quality of life factors that can compete with the likes of Cambridge and Peterborough and further afield.

These recommendations are aimed at reversing the city's cycle of decline in its office market, and returning the city centre to development viability through growing demand and creating the right conditions for investor confidence.

Digital Hub proposal

- The underlying approach to the project should recognise the importance of the **long-term management function** as much as the short-term delivery of a capital asset. Service delivery is the key determinant of success.
- It is essential to have an **experienced operator** on board, at the design stage. It needs to be fully understood that the risk is front-end loaded, with significant capital expenditure.
- **Marketing** must be fully engaged with the idea of capturing demand from other centres.
- The scale of the project should **balance expectations of demand** from 'pure' digital companies with those from the wider office economy.
- The hub must **create a place and a community** – it is more than a building project. Long-term management of the centre needs to be a critical component of its development, not an afterthought.

The idea of piloting a digital hub at an existing, refurbished building, while a more permanent scheme is worked up for the City Hall site, should be fully considered. With regard to the City Hall site we can see the merits of an architectural competition to create a building that is environmentally and economically sustainable, easily reconfigured yet also in keeping with its locale.

To summarise the four main options (which may not be mutually exclusive).

- **City Hall**: highest risk (front-end cost), highest control; highest reward via multiplier.
- **Vantage House**: moderate risk, no control, high returns if secured.
- **Townshend House**: low risk, high control (already owned), lower returns (smaller building).
- **Carrow House**: low risk, high control (potentially owned); good potential as meanwhile space and 'stepping stone' to ENSRA.

These are the options that can be delivered on a reasonable timescale. The other sites should only come into play if none of the above prove practical.

Contents

Acronyms used in this report

EEFM	East of England Forecasting Model
EGi	Estates Gazette Interactive
ENSRA	East Norwich Strategic Regeneration Area
ESG	Enhanced Sector Growth forecast
FSM	Flexible Space Market
FTE	Full-time Equivalent
GIA	Gross Internal Area
GNLP	Greater Norwich Local Plan
JV	Joint Venture
KIBs	Knowledge Intensive Businesses
LEP	Local Economic Partnership
NIA	Net Internal Area
NPA	Norwich Policy Area
NPPF	National Planning Policy Framework
NUA	Norwich University of the Arts
ONS	Office for National Statistics
R&D	Research and Development
SIC	Standard Industrial Classification
SME	Small to Medium-sized Enterprise
UEA	University of East Anglia

1. Introduction

1.0.1 Norwich City Council (the Council) commissioned this study of the city's office accommodation in order to provide a robust evidence base of the issues driving the supply and demand for offices; to identify sites that might be able to meet potential demand; to provide evidence to support the preparation of business cases to invest in particular projects, and to inform future planning policy and assist in the consideration of an Article 4 direction.

1.0.2 The study has a particular focus on the needs of the digital sector. This sector is notoriously difficult to define and is becoming more so. Traditional SIC codes are updated infrequently and, as Tech Nation reports, there is a SIC for hunting, but not one for animation. Nevertheless, by Tech Nation's definition, there are around 1,750 digital sector jobs and 280 businesses in Norwich, accounting for perhaps 2% of all employment and 6% of total business stock. [1]

1.1. Context

1.1.1 The city is one of the largest centres of employment in Outer South East England. However, while a number of key planning documents (including the *Joint Core Strategy* [2] and the *Development Management Policies Plan* [3]) seek to promote the economy, safeguard existing employment sites and allocate enough land for employment development, there has been a sustained loss of office accommodation in the city centre (unless indicated otherwise, broadly defined as the area bounded by the A147 Inner Ring Road). Indeed, the loss has been very significant. The net overall reduction in office floorspace between 2008/09 and 2018/19 amounts to c105,000 sq m – almost 30% of the 2008 stock level.

1.1.2 Much of the reduction is accounted for by conversion of empty office blocks to residential properties via the prior approval process. In 2018-19, 437 dwellings were delivered through the prior approval process, from a total delivery of 1,084 dwellings. Thus 40% were prior approval applications, which compares to a national average of 6%, and is the second highest rate in the country.

1.1.3 In recent times there has been reduced developer appetite for new, large-scale office development, with low rental values making speculative development unviable. This in turn has led to reduced choice for occupiers which has meant that out of town space is often the only option for occupiers with larger requirements. In short, there is a market failure.

1.1.4 Nevertheless agents Bidwells reported that, overall, demand improved in 2019. And there is growing concern that the market might be unable to respond to a resurgence in demand. For example, many of Norwich's fast-growing digital businesses have expressed frustration that their growth is being artificially stifled by the inability to find grow-on space (500-1,500 sq m) in the city centre. There is a growing risk that these businesses could relocate to another city centre, restricting growth in knowledge economy jobs.

---

[1] Norwich City Council (2018) *Digital Economy and Growth* Paper to the Digital Innovation & Efficiency Committee 11th July 2018

[2] Greater Norwich Development Partnership (2014) *Joint Core Strategy for Broadland, Norwich and South Norfolk*

[3] Norwich City Council (2014) *Norwich Development Management Policies Local Plan*

1.1.5 The emerging *Greater Norwich Local Plan* (GNLP) argues that a key aspect to reversing this market failure will be to reverse the loss of office accommodation in the city centre and to ensure the supply of suitable sites and premises for the key city centre employment growth sectors, particularly digital and creative industries. [4] The New Anglia LEP's *Economic Strategy* [5] and *Draft Local Industrial Strategy* [6] suggest that there is an extant tech cluster in Norwich. It has recommended further work to create a digital hub in Norwich for the incubation of start-ups and accommodation of scale-up businesses. The Council is currently considering whether the public sector should step in to provide appropriate accommodation.

1.1.6 For the purposes of this study, a digital hub is a centre that provides entrepreneurs and micro and small businesses with accommodation on flexible terms, with access to supporting administrative, business and innovation support services and networks. The hub is available to digital businesses and other professional services firms, and has a focus on providing 'grow-on' space for firms seeking to take the next steps from start-up status.

1.2. Project scope

1.2.1 The Project Brief required that the project should utilise existing sources of knowledge and data rather than undertake primary research. Prior to the project starting, the Council had already prepared a Scoping Note to look at what evidence already existed. [7] The document summarised Norwich's economic standing and references the Norwich 2040 City Vision report, which highlights the city's ambition to "*be a place where entrepreneurs, social enterprises, national and global companies, choose to provide good jobs, prosperity and success*." [8]

1.2.2 The Scoping Note focuses on the state of the office market and housing supply. The former refers to research from Bidwells, Savills and JLL, all of which reported improving markets conditions that are likely to be constrained by the low availability of quality new premises. Savills reported that digital employment in the city grew by around 40% between 2011 and 2016, while the stock of digital businesses by around 30% - substantially faster than the growth in the wider Norwich economy. At the same time JLL reported that Norwich has among the lowest rents in the UK.

1.2.3 The Scoping Note goes on to highlight the potential for Article 4 Directions in the city. It does this in the context of discussing employment density in the city and the need to satisfy the critical need for businesses to cluster together in city centres, thereby increasing output. Finally, the Scoping Note refers to the market failure (above) and the suggestion that a purpose-built, city centre digital scale-up hub might be needed to accelerate tech businesses to new levels and to "*attract smart, ambitious entrepreneurs and companies to Norwich*".

---

[4] Greater Norwich Development Partnership (2020) *The Greater Norwich Local Plan Draft* Strategy Regulation 18 Consultation 29th Jan to 16th March 2020

[5] Norfolk & Suffolk Unlimited (2017) *Economic Strategy for Growth and Opportunity* November 2017

[6] Norfolk & Suffolk Unlimited (2020) *Local Industrial Strategy* Executive Summary Draft January 2020

[7] Norfolk City Council *Office Evidence: Scoping Note* Unpublished internal paper dated 13th February 2020

[8] Norwich City Council (2018) *Norwich 2040 City Vision*

1.2.4 It is clear from the evidence that the extension of Permitted Development Rights in 2012 to simplify office-to-residential conversions has had a negative impact on the supply of office space in Norwich, to the point where "*Norwich City Centre is now in a position whereby there is insufficient supply to meet demand*".

1.2.5 The Project Brief stated that this has resulted in some businesses moving to out-of-town locations or to other city centres. Research by GVA Hatch [9] identified a real danger that this process could result in a hollowing-out of the city centre, resulting in the critical mass of the business ecosystem beginning to break down.

1.2.6 With these stark factors in mind, the Council identified the need to prepare a robust evidence base on which to base spatial planning decisions. The project scope was designed to cover the following areas.

- **Supply-demand** The supply of office accommodation in Norwich city centre and how this relates to the current and likely future demand from particular sectors of the office market with a focus on the digital sector.

- **Sites** Identification of sites that are either currently available or might become available for office development; the barriers to the delivery of these sites; the office sector to which they might be best suited and potential operation and business models.

- **Planning policy** To inform future planning policy (both in the GNLP and any subsequent review of DM policies), the forthcoming Town Investment Plan and future investment decisions of both the public and private sectors.

- **Article 4** To inform a decision about whether or not to seek to introduce an Article 4 Direction to restrict office-to-residential conversions via Permitted Development Rights in any part of Norwich.

1.2.7 Given the amount of evidence already collated, this study has been scoped to build on existing evidence and data sources. It has not involved primary research such as survey work. In order to achieve this, the study team has reviewed an extensive list of sources, which are all fully referenced in the text, and listed in full at the end of the report.

1.3. This report

1.3.1 **Chapter 2 Office market trends** This chapter looks at trends in the office market beyond the specifics of Norwich. This is important because many of the factors influencing demand for space in Norwich are not specific to the city. And this should be recognised in policy responses and interventions.

1.3.2 **Chapters 3 and 4 Supply and demand for office accommodation** These chapters present summaries of evidence pertaining to supply and demand for office accommodation in Norwich.

1.3.3 This broad evidence base has been pulled together using the secondary sources referred to above, and has been organised in order to answer the specific

[9] GVA Hatch (2017) *Norwich Economic Analysis: A Dynamic, Resilient, Growth-oriented Economy*

questions outlined in the Project Brief. The latter were organised into four sections – A, B, C and D and are answered within the following chapters and sections.

Chapter 5 Market dynamics and Council intervention (Section A)

- 5.1 Provide a summary of the current office market, including rental values, vacancies, availability and demand (largely based on existing research).
- 5.2 Provide a forecast of likely future demand for offices and rental levels that could be achieved in the short-, medium- and long-term, to inform a business case for a potential new build office facility.
- 5.3 Make an assessment of digital businesses and an evaluation of what can be done to address the market failure and lack of suitable accommodation for digital businesses in the city centre.
- 5.4 Set out what the economic benefits would be if the Council intervenes.
- 5.5 Assess whether there are any other sectors where it has been identified that there is a problem with current demand and supply.
- 5.6 Assessment why B1(a) premises are vital to Norwich's economy.

Chapter 6 Case studies of digital hubs (Section B)

- 6.1 Case studies should be provided about relevant examples elsewhere.
- 6.2 Case studies should be used to identify and make recommendations on possible operational models.
- 6.3 Analysis should identify locations and sites that could meet this demand.
- 6.4 Sites should be assessed for short-, medium- and long-term suitability.

Chapter 7 Planning policy: promoting and protecting offices (Sections C & D)

- 7.1 The study should assess and make recommendations on the various options for safeguarding existing office space, including options relating to the location, size and grade of office accommodation to be protected.
- 7.2 This study should examine the scope for office provision in the East Norwich Strategic Regeneration Area and in particular help understand what the relationship is likely to be between the ENSRA and the city centre.
- 7.3 A summary of current supply of office space (including vacancies and pipeline development).
- 7.4 Identify the drivers influencing decisions to convert offices to residential compared to retention or refurbishment.
- 7.5 Identify the key office sites at risk from office to residential conversion based on residential capital values, office capital values, potential uplift and conversion cost.
- 7.6 An assessment of the likely effect that further office to residential conversions might have on meeting demand in the city centre.
- 7.7 If an Article 4 direction is proposed to be introduced, the geographical area for a targeted Article 4 direction should be identified.

Chapter 8 Conclusions and recommendations

Summary of overall findings and recommendations for action.

1.4. Consultations

1.4.1 During the preparation of the report we consulted a number of stakeholders and we would like to acknowledge their valuable assistance. Any interpretations of those views are our own.

Bidwells, William Jones	Roche, James Allen
Bradfield Centre, James Parton	TechEast, Tim Robinson
Brown & Co, Paul Clarke	UEA, Julie Schofield
Norwich Chamber, Chris Sargisson	

1.4.2 We would also like to acknowledge the help of the Norwich City Council client team, comprising: Joy Brown, Judith Davison, Gwyn Jones and Ellen Tilney.

1.5. COVID-19

1.5.1 The proposal to undertake this project was submitted on 30th March 2020, one week after the UK Government announced its first 'lockdown' guidelines to mitigate the impact of COVID-19. The whole project programme has therefore taken place within the pandemic lockdown. Inevitably, despite not being part of the original Project Brief, the report had to include commentary, albeit rather speculative, on what might be the impact of the COVID crisis on Norwich's office market.

1.5.2 There has been, since the start of the COVID crisis, an enormous amount written about its impact on the office market. The more extreme observations foretell 'the end of the office', certainly as we know it. Other observers suggest long-term changes to behaviour around commuting, working patterns, office layouts and so on.

1.5.3 Sifting through the many reports and articles, a number of themes emerge, and we highlight some of the more important below.

- **What has truly changed?** Surprisingly little, actually. While the infrastructure for remote working has been greatly upgraded in a very short time (for example, with the widespread take-up of MS Teams and Zoom meetings), the office economy was already well-advanced on the agile working agenda before the crisis and it was in fact remarkable how many office workers were able, with obvious caveats, to carry on with their work.

  If the pendulum moved from say 10% remote working pre-COVID-19 to say 90% during COVID-19, then the pendulum is likely to move in phases back the other way. But where will it settle? Socrates will again prove to be accurate and relevant: "*all things in moderation, including moderation*" and that it is reasonable to expect remote working to become the long-term norm as part of a blended workstyle including offices and homes.

- **We still need physical interaction** Workspaces are no more a simple collection of individual workers than they were before the crisis. They remain places where people exchange ideas informally as well as formally; they remain places where young staff members can receive training and mentoring; they remain places where a common ethos can be fostered, and they remain places where people make simple human connections. Enforced isolation has convinced many to drop the binary discussion about 'workplace versus home', and to consider the merits of a blended approach, in which the office, the home and other places provide a palette of settings for work. But the underlying need is for interaction.

- **But the office will look different** This is not to say that there will not be changes in the office. For some time heightened awareness of the need for workplace hygiene and social responsibility will persist and the impact at the micro level will be obvious. Cleaning regimes, the use of shared space, distancing between workstations and so on will all need addressing.

  However, re-purposing of office space takes time, investment and, to be done well, must be aligned with other support functions, including IT, HR and Operations. It requires significant planning, resource and investment effort to bring about change. While change will occur, it is likely to occur over a number of years, evolving along the way to changing circumstances.

- **Lower densities: more space** Paradoxically, the pandemic could lead to the need for more space, although in truth it is too early to 'call'. For more than three decades, the real estate industry has been increasing occupancy and utilisation rates, with hot desking becoming familiar in many offices. This could all now be turned on its head. Notions of touchdown space and hot desking may well be pushed aside at least until new and trusted methods of cleansing are developed. Where '7 sq m per desk and eight desks per ten people' was the norm, 12 sq m per desk and one desk per person could well become the new norm, at least until the likelihood of effective vaccines and other treatments becomes clearer.

- **Resilience** It is also possible that building regulations will be updated to reflect the need for resilience in the fact of outbreaks, and this may in turn drive more inventive ways of shaping space such that it can easily be closed down at short notice with minimal business disruption and reopened with the same ease.

1.5.4 These are all positive indicators for the future of demand. This is not to say that there are no threats.

- Owners on the supply side do not, as a matter of course, take a very long-term view. They may well see a new risk environment and conclude that it is time to bail out and the easiest route out will be to sell to residential builders.

- The impact of this will be determined by the scale of any exit. If it is modest then it will push up rents, possibly enough to make higher standards of refurbishment – if not redevelopment – viable. If it is substantial then the risk is that the city will lose critical mass and, as noted above, risk being demoted to the scale of a market town. We cannot see how this would be a welcome outcome for a city of the size of Norwich.

- If there is a growing acceptance of remote working that reduces demand for office space, then the financial opportunity will certainly not be lost on financial directors. Corporate real estate costs are typically 9-12% of a total company cost base and the majority of this cost is directly correlated with footprint. There is a potential over time for this benchmark to reduce to 5-6% for many corporates. This financial prize should not be under-estimated in terms of the potential positive benefit on both operating and capital cost.

1.5.5 In reality, none of the foregoing is new and most of it has been a feature of the direction of travel in real estate over the past two decades. However, the COVID crisis has served to show the importance of being prepared for rapid and severe disruption, and that new approaches to the use and management of offices are required. Seen positively, the recent crisis has forced change where entrenched attitudes and cultures were previously resistant to change. Many more people have now experienced a different way of working which presents major future opportunity to adapt to inevitable change. Three key lessons emerge.

- Employees can be productive anywhere not just at the office. Collaboration is at an all-time high and productive team collaboration has reached new heights using remote collaboration technology. Individual focus has remained strong: while working from home, employees continue to report the ability to focus when they need to be productive on individual tasks.

- In the rush to create new design solutions for the post-pandemic era, it is critical to recognise the heterogenous nature of employees. For example, the needs of a graduate setting out on a career path are entirely different to those of someone approaching retirement. The form and function of an office is not a singular point that can be addressed with sweeping statements.

- Flexibility and the demand for choice to work from anywhere is accelerating. Employees want flexibility and a variety of settings in which to interact. Personal connections and bonding are suffering during lockdown, impacting connection to corporate culture and learning. Enabling people to choose where to work as they need will enable them to both get their jobs done and build personal connections.

- The new normal will comprise a blend of settings in different locations, with experiences and functionality. Balancing the impact of social distancing on density with less office-based headcount demand will likely not affect the overall quanta of demand, and offices will continue to thrive but in new ways. The office has a key purpose: to provide a facility to nurture cultural connection, learning, bonding with customers and colleagues, and to foster creativity and innovation. This demand is not diminished.

1.5.6 For reasons that become clear in subsequent sections of this report, Norwich's office market has been structurally weak for a number of years. New development is not financially viable and demand has remained weak for a long period. But we do not expect the pandemic to result in a further structural weakening of the market. On the contrary, the city must begin to address the weaknesses and, literally, build for the future.

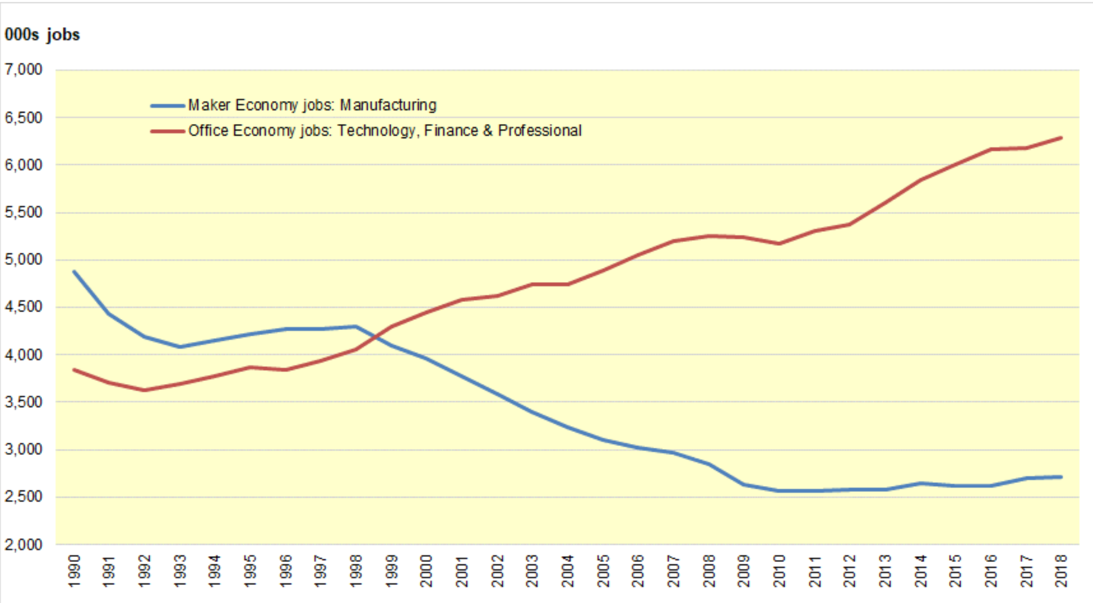
2. The evolving office market: lessons for Norwich

2.0.1 There are fundamental changes occurring in the economy that are bringing about major changes in the demand for commercial property, particularly in the office sector. While Norwich has lost a large proportion of its office stock in recent years, this is not a unique situation. In this section, we describe the broad nature of these changes and how they are expressing themselves in local markets in terms of demand and supply. We examine the emergence of different property 'products', the rise of SMEs and occupier trends. The chapter closes with a reflection on the lessons for Norwich.

2.1. From making to selling

2.1.1 In 1992, management guru Peter Drucker predicted that the traditional factors of production – land, labour and capital – would become secondary to knowledge. [10] The fulfilment of this prediction is summarised in the almost three decades of economic history shown in Figure 2.1. The chart shows that the number of manufacturing (or 'maker economy') jobs, has shrunk by 44% since 1990, from 4.87m to 2.72m. Over the same period, the number of 'office economy' jobs has grown by 64%, from 3.83m to 6.28m. [11] The economic switchover, from maker to service economy occurred in the late-1990s.

Figure 2.1 Economic switchover: from making things to selling services



Source: ONS (2018)

2.1.2 This fundamental restructuring of the national economy has seen, among other things, the emergence of what is widely referred to as the 'new economy' or 'knowledge economy'. This is typified by technology-enabled, knowledge-intensive businesses, or KIBs, which lie at the heart of the digital economy.

[10] Drucker PF (1992) The New Society of Organisations *Harvard Business Review* Sept-Oct pp95-104
[11] ONS (2018) *Jobs02: Workforce Jobs by Industry* December 2018

2.1.3 In order to enable statistical analysis we group the constituent parts of KIBs under the heading of 'office economy', encompassing the Standard Industrial Classification (SIC) headings of: Information & Communications (J), Finance & Insurance (K), Real Estate (L), Professional; Scientific & Technical Activities (M) and Administrative & Support Services (N). Collectively, these sectors form what we refer to as the 'office economy'.

2.1.4 Of course, the development of the office economy and the continuing impact of technology has recently become associated with the negative impact of artificial intelligence and robotics. Indeed, one of the single greatest threats to jobs today is the potential of artificial intelligence (AI) to automate great swathes of routine, and not so routine, jobs. Thus financial services jobs have been flatlining over the past twenty years and this is, in large part, caused by process automation. But this does not mean that new jobs will not be created. Indeed, the reverse has been the case.

2.1.5 Technology is thus both a destroyer and creator of jobs. For example, between 1998 and 2017 the combined number of jobs in Pension Funding, Life Insurance and Financial Leasing, fell by around four-fifths. These are all sectors that are highly susceptible to automation. By contrast, over the same period, jobs in computer programming, wireless communications and computer consultancy grew by a factor of nearly three. [12] Such changes underline the role of the internet, together with mobile technology, cloud computing, business intelligence and social media. In short, the latter illustrates the rise of the digital economy.

2.1.6 Most employment forecasts expect a continuing expansion of the workforce, and work will continue to play an important role in people's lives. Moreover, KIB jobs generally have greater autonomy over workstyles and workplaces and one scenario could be a continuing expansion of such work away from large corporate offices (see Section 2.3).

2.1.7 Indeed, the digital economy transforms business structures by, for example, enabling small firms to compete directly with large corporates for the same business, as barriers to entry are lowered. The corollary is that small teams from within large corporates can look and behave like start-ups, in order to compete for business and to attract and retain staff. At the same time this is driving small-firm formation, encouraging people to work from home while making use of flexible accommodation in urban centres.

2.2. The drivers of change and property products

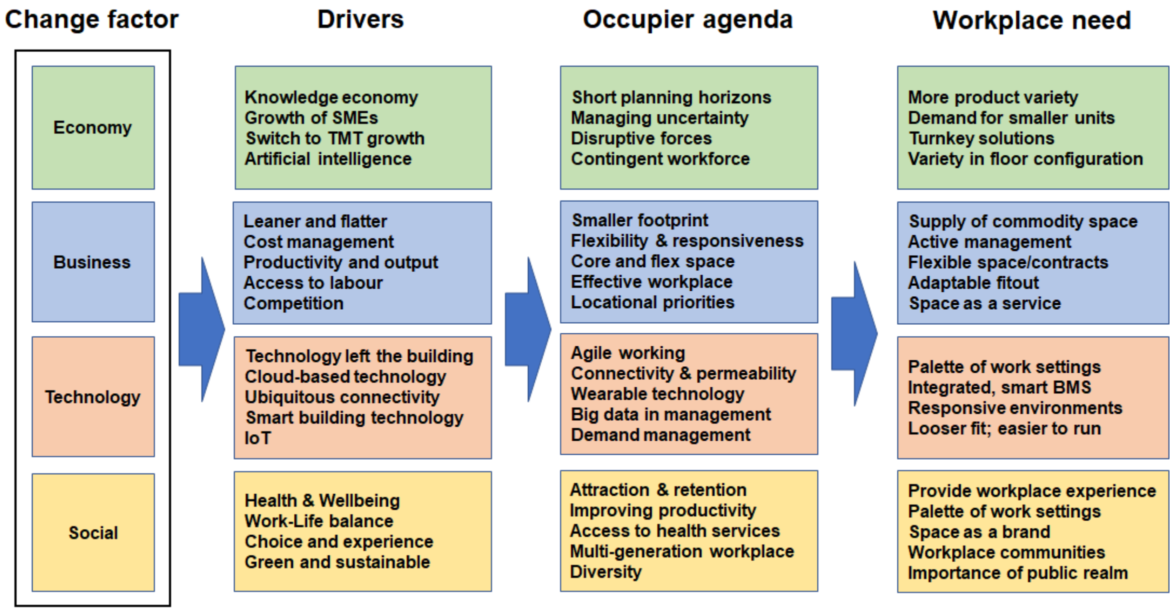
2.2.1 Figure 2.2 captures some of the meta trends, or change factors, within which more specific drivers help shape the property implications, or occupier agenda, which feeds through to workplace needs. The chart illustrates the direct relationship between things that are happening in the wider economy and their more specific workplace outcomes. This direct link between economy and workplace has major implications for Norwich. So, what will businesses require, in workplace terms?

2.2.2 For example, as businesses become leaner, cost conscious, and focussed on productivity and access to skilled labour, so they seek to search for flexibility, reduce their overall footprints, create a more effective workforce and shift their locational priorities. In turn, these have property implications in terms of the

[12] GLA Economics (2018) *More Detailed Job Series, July 2018 Update*

provision of commodity space, more active management of the workplace experience and an adaptable fitout.

Figure 2.2 Change factors, drivers and property implications



© Ramidus Consulting

2.2.1 For smaller businesses, people are making work-life choices in ways that they did not in the past. This is encouraging employers to provide different facilities in the workplace; to encourage agile working and to focus on town centres.

2.2.2 Figure 2.3 develops the thinking in Figure 2.2 and seeks to demonstrate the tangible links between changes in the economy and the emergence of demand for property products. For example, the emergence of knowledge work creates new jobs and new ways of doing 'old jobs' with new goods and services.

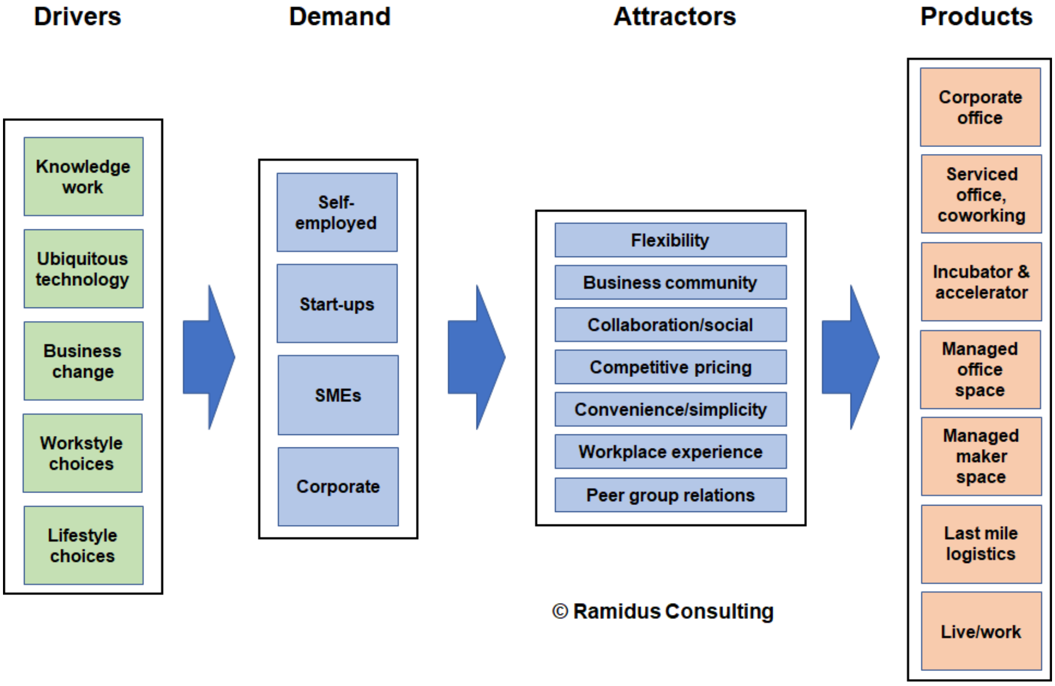
2.2.3 The companies that respond to these drivers cover a broad spectrum of types, ranging from self-employed, start-ups, SMEs and larger firms. These will, in turn, be influenced in their locational and premises choices by a range of factors, a sample of which are listed here as attractors. They then have available to them a range of 'property products'. The important point here is that, until relatively recently, the choice was much more limited.

2.3 The rise of SMEs

2.3.1 Small- and medium-sized enterprises (SMEs) comprise businesses employing fewer than 250 people. Across the national economy, SMEs make up 99% of all UK businesses; 60% of private sector jobs, and around 50% of total value-added. They have been described as "*a vital catalyst for technological diffusion, entrepreneurial achievement, competition promotion, and raising innovative capacity*". [13] The scale of the SME sector is often overlooked in the property market, where there is an emphasis on providing for the corporate sector.

[13] Llewellyn Consulting (2015) *Enhancing the Ability of UK SMEs to Export* The City UK

Figure 2.3 Drivers of change, demand, attractors and property products



2.3.1 One of the most visible symptoms of the evolving economy in recent years has been the explosion of small, independent businesses, particularly micro-businesses (fewer than nine jobs) and self-employed, one-person firms. Figure 2.4 shows both VAT registered and unregistered businesses with no employees. It shows that the number of such firms across the UK has grown by 82% since 2000, from 2.36m businesses to 4.28m businesses.

Figure 2.4 The growth of firms with no employees, 2000-2018, United Kingdom

Source: BIS, 2018 [14]

[14] Dept for Business, Energy & Industrial Strategy (2018) *Business Population Estimates for the UK and Regions 2018* 11th October 2018

2.3.2 The chart also belies the myth that the growth of small businesses was prompted by the economic fallout of the global financial crisis in 2008. The upward trends was well-established by then. There is also no definitive evidence yet that the prospect of Brexit has caused small firm formation to slow down.

2.3.3 The technological revolution that has seen the rise of the knowledge economy has acted as a spur to the growth of small businesses by stripping away many of the 'barriers to entry' that setting up a new business once implied.

2.3.4 Instead, it allows individuals to trade their intellectual capital using cheap and ubiquitous ICT infrastructure. While in the past new businesses "*used to face difficult choices about when to invest in large and lumpy assets such as property and computer systems*", today they can exploit new technology to enable them "*to go global without being big themselves*". [15]

> *Today they can expand very fast by buying in services as and when they need them. They can incorporate online for a few hundred dollars, raise money from crowdsourcing … hire programmers from Upwork, rent computer processing power from Amazon, find manufacturers on Alibaba, arrange payments at Square, and immediately set about conquering the world.*[16]

2.3.5 We should also distinguish here between what the media refers to as the 'gig economy' and the sub-sector of this relevant to the current study. The wider gig economy includes a whole array of (technology-enabled) jobs including, for example, internet based delivery and taxi firms and jobs associated with zero-hour contracts. The sub-sector relevant to this study comprises largely micro-businesses (below) in the professional services sector (media, IT consultancy, accounting, finance, built environment, management consulting, Third Sector, etc).

2.3.6 The fundamental role of technology in driving new business formation has been accompanied by a more human trait – the exercise of choice. The knowledge economy allows more people to choose how, when and for whom they work. "*Most people in the UK who start up a business do so because they view it as an opportunity rather than a necessity*". [17] Thus, greater numbers of people are choosing to control their own destiny by exploiting technology.

2.3.7 The critical point here is that large numbers of people are doing things differently. They are part of a growing, contingent, workforce that owes no allegiance to a particular employer or a particular place. This element of the economy could be a major influence on the nature of employment space provision in Norwich.

Micro businesses

2.3.8 A sub-set of the SME business population is that of micro businesses, those with 1-9 employees. There are today around 1.13m micro-businesses across the country, employing around 4.1m people.

2.3.9 Figure 2.5 shows Norwich's enterprise size profile. As can be seen, the city is home to just 175 firms employing more than 50 people, while 83% of enterprises are micro businesses employing nine or fewer people. While enterprise count gives

[15] The Economist (2015) Reinventing the Company *The Economist* 24th October 2015
[16] The Economist *Ibid*
[17] Lord Young (2013) *Growing Your Business: A Report on Growing Micro Businesses* HMG

a good sense of endogenous strength, we include local units (which adds in branch plants and multi-site local enterprises) for completeness.

Figure 2.5 Size break-down of enterprises in Norwich, 2019

Enterprise size band	Number	Per cent	Change 2010-19
Micro (0-9)	3,880	83.4	665
Small (10-49)	595	12.8	55
Medium (50-249)	140	3.0	25
Large (250+)	35	-	10
Total	4,650	100.0	745
Local unit size band			
Micro (0-9)	4,815	76.4	675
Small (10-49)	1,175	18.7	65
Medium (50-249)	275	4.4	30
Large (250+)	35	0.6	-5
Total	6,300	100.0	770

Source: NOMIS

2.4 Occupier trends: connected and agile

2.4.1 A combination of changing business structures and evolving workstyles is bringing about profound change in the nature of demand for commercial property. As noted in recent work for the Corporation of London: "*the role of the office is increasingly acknowledged as enabling people to interact and collaborate*"; it is "*expected to provide a wider range of settings in which individuals and groups [can] work in more dynamic ways compared with much of the more solitary work of the past*", and the office is "*becoming less a place to go to work on a set of prescribed tasks, and more somewhere to visit and interact with colleagues*". [18] The important point about these trends here is that they apply to large and small businesses similarly. COVID-19 may have a catalysing or retarding impact on these processes, determined at least in part, by how long effective treatments take to develop, but they will not go away.

Changing business relationships

2.4.2 One of the defining features of business today is the speed and ubiquity of change. Businesses must be capable of continuously adapting to changing market conditions, and this means that they must be fleet of foot. This is achieved through flatter, leaner and more agile organisational structures and business processes which, in turn, have been largely responsible for driving 'agile working', a workstyle that is more mobile and collaborative than in the past, and one which depends upon a high level of connectivity. The need for such adaptability and responsiveness is common to both large and small firms.

2.4.3 *The Economist* described an 'old model' in which workers tended to receive security, benefits and a regular salary 'for life', while employers in return received a stable workforce in which they could invest. [19] However, the 'old model' is being

[18] Ramidus Consulting (2015) *Future Workstyles and Future Workplaces in the City of London* Corporation of London
[19] The Economist (2015) Briefing: the Future of Work *The Economist* 3rd Jan 2015, pp13-16

redefined and Figure 2.6, adapted from recent work undertaken for the Corporation of London [20], summarises the main features of the 'new model'.

Figure 2.6 The evolving corporate landscape

Connectivity and access to knowledge is a defining feature of modern business and society; it will continue to redefine how and where work is accomplished. Connectivity will help change how businesses interact with each other, and the power of networks will be profound.

Knowledge workers are far more independent of 'place' than the traditional office workforce. They are also less driven by status, hierarchy and traditional rewards. More people spend less time working on the same set of tasks, in one place, simultaneously with the same set of colleagues.

Corporate structures will alter as the traditional employer-employee relationship evolves. Flatter, more agile organisations staffed by knowledge workers will expand; workers will have greater control over their work; and work will dovetail with home, leisure, health and educational needs.

Relationships between organisations will take precedence over the 'corporate island'. More commoditised and non-core activities will be undertaken collaboratively to create value and returns. More work will be undertaken by small companies.

Source: adapted from Ramidus Consulting (2015)

2.4.4 The critical nature of connectivity, changing structures, the priorities of knowledge workers and the reduced importance of the 'corporate island' in favour of more complex web of supply chain relationships are all altering the bedrock of demand for office space. To take one example of the increasing adaptability and flexibility of organisations: the growth of a 'contingent' workforce. In growing numbers of corporate organisations, an increasing proportion of the workforce is not directly employed; they are consultants, contractors, 'interims', part-timers and supply chain partners. How these staff are housed and managed raises important questions for demand planning within buildings.

2.4.5 Businesses today operate within short-term planning horizons, responding to an ever-changing economic landscape and seeking to maximize their flexibility to adapt. All this means a different approach to real estate: to minimize the commitment and cost, and to maximize the flexibility.

2.4.6 The interaction between evolving demand for space and the emerging flexible space market will be critical in determining the overall amount and type of workspace required in the long-term, especially given the drive to automation referred to above. If the latter involves the replacement of human knowledge-based work, as well as physical tasks, then there will need to be significant creation of new, office-based jobs to sustain demand levels.

Agile working

2.4.7 One of the most important implications of this emerging office landscape for our work here, and which is common to both large and small occupiers, is the spread of 'agile working'. Using technology as a key enabler, agile working involves

[20] Ramidus Consulting (2015) *Future Workstyles and Future Workplaces in the City of London* Corporation of London

a more mobile and collaborative workstyle; it involves working in a variety of settings: the office, at home, at client/partner premises and on the move. One of the consequences of agile working is a more efficient use of space through higher densities and higher utilisation.

2.4.8 Agile working is not a single workstyle: it is defined here as an approach that allows work to be undertaken where, when and in what kind of setting is most conducive to completing whatever tasks a worker has to undertake. For some, work might continue to involve sitting at the same desk in the same building for most of the typical day. But for growing numbers it means something different.

2.4.9 Laptops and smart phones in many organisations now barely distinguish between personal and business use, and in growing numbers of businesses there is a 'bring your own device' approach. Similarly with telephony: fewer and fewer workers have a traditional desk phone; and it is likely that this once indispensable piece of office equipment will disappear altogether during the coming decade.

The emerging office

2.4.10 There is no shortage of predictions about the future of workstyles and the workplace. The problem with many predictions is that they tend to paint a one-dimensional picture of the future: '*everyone will be working flexibly*'; '*the office as we know it will die*'. The current COVID-19 crisis has fed this narrative.

2.4.11 However, the office workplace is likely to continue to have an important role, albeit one that will change significantly. It is rapidly becoming more of a hub for an increasingly mobile workforce that also utilises a range of work settings. The office in this context provides a setting in which colleagues can come together for collaboration, knowledge sharing, mentoring and so on. From the employers' perspective it is a means of providing a common purpose, ensuring governance and for business process continuity. For micro-businesses, it is a means of creating and sharing in a 'business community'.

2.4.12 But the draw to the office remains strong: workers like to socialise and employers wish to create a common purpose. For many, the quality of public realm, access to shops, leisure and services, and office support in the form of nutrition and wellbeing, are often far superior in the office to that which is available in the home environment or locale. Moreover, the office is an increasingly actively curated environment, managed more like a hotel than a traditional office, with a rich palette of work and social settings, and a high level of service and experience for 'guests'.

2.4.13 These changes are likely to have a major disruptive influence on the traditional office market. The amount of space required; the nature of buildings; workplace design and workplace management are all evolving quickly and will alter the traditional profile of demand. As businesses adopt a more agile, networked approach, office buildings will become 'less generic' and less single purpose, and will instead work harder to provide choice and flexibility for the individual and the firm. Owners will have to work harder, and they will need to mirror the 'experience management' of the flexible space sector.

2.4.14 The future office will provide an interesting blend of business and domestic design attributes; a pleasant, welcoming atmosphere in which to collaborate, innovate, socialise and learn. A palette of work settings, will be provided in a highly connected environment, with a far more sophisticated, or smarter, management regime. Buildings will be greener and healthier; they will become more ‘mixed use’ with more public access, and have the ability to create experiences rather than simply static backdrops.

2.3. Summary: lessons for Norwich

2.5.1 Like many service-based economies, Norwich’s office economy is evolving rapidly, and it will need to respond to the changes outlined above. Experience also suggests that the office space needs of growth sectors, such as professional services and technology-based businesses, are not particularly differentiated, but focus consistently on addressing the following requirements.

- A shift from fixed, long-term leased space, to flexible, on-demand space.
- Less space, used more efficiently, and more effectively.
- Space being a medium for creating a business community and values.
- Design for continuous adaptability and diverse usage patterns.
- Activity-based workspaces providing for collaboration, concentration, communication, creativity, confidentiality and contemplation.
- Use of shared spaces as a means to facilitate collaboration.
- Provision of amenities (e.g. food, wellbeing, events etc.).
- A priority attached to a city centre location with its manifold support services.
- A growing importance attached to public realm.

2.5.2 Norwich will increasingly need to manage its whole business ecosystem – large and small – with a particular emphasis on nurturing the latter. Providing flexible, economic and ‘interesting’ accommodation will become critical to Norwich’s competitive advantage.

2.5.3 Above all else, the city must build on its strengths. As we see later in this report, Norwich has strengths in Advanced Manufacturing, Agri Tech, Clean Energy, Creative Arts, Education, Food Tech and Life Sciences. With hard infrastructure (buildings) and soft infrastructure (marketing, co-ordinating, promoting), Norwich must build a strong, diverse business community. The digital sector is important; but it is one component of the wider office-based business community.

3. Supply of workspace in Norwich

3.0.1 Norwich is a relatively small office market, comparable to centres like Exeter, York and Warwick. Office markets of this size do not have 'critical mass' in the way that larger centres do, and so do not generally attract occupiers simply because they are business centres in their own right. Typically, corporate businesses will be where they are for historic reasons or reasons related to servicing a sub-regional catchment, indeed:

> *Inward investment into Norwich from office occupiers has been limited … for many years, the office market has been characterised by ample availability, limited demand and minimal new development.* [21]

3.0.2 Inward investment by large firms is one thing. But critically important here is that the relatively low level of corporate activity does not encourage entrepreneurship and growing businesses.

3.0.3 This combination of a weak corporate market and a relatively small SME community (particularly in financial, professional and digital firms) leaves Norwich rather vulnerable and generates a need to look closely at its dynamics to identify the potential for intervention.

3.1. Context and recent history

3.1.1 When considering any property market a useful starting point is to consider two broad questions: in what way is it similar to markets in cities and towns of around the same size, and in what ways is it distinctive on the same comparison?

3.1.2 Norwich is similar to other centres in terms of the scale of the market and its broad structure. Like most non-metropolitan centres, there is a dominant occupier, but the bulk of the market is drawn from local, sub-regional and regional enterprises and from branches of national firms. As with many such towns and cities, Norwich also has a historic core with many conservation-worthy buildings, together with the challenges presented by historic street patterns and infrastructure.

3.1.3 But perhaps the most critical similarity is that for the past 20 years or so, commercial property values, and especially office values, have struggled to attain levels that would support speculative development. This in turn creates a legacy of old stock not well suited to either the requirements or the aspirations of many modern businesses. This is not to say that the buildings have no *use value*. It is incorrect to assume that 'cheap' means obsolete. The overwhelming majority of SMEs are driven by cashflow and consequently are hugely cost-conscious.

3.1.4 But when it comes to redevelopment – a key element of most regeneration plans – it can be challenging to get commercial partners interested. This is a familiar story in non-metropolitan towns and cities, and even in some larger ones.

3.1.5 And the widespread side effect of these factors, which has existed for at least two decades, is that old office space is vulnerable to pressure to redevelop for residential. This is true throughout southern and eastern England but, as will be shown later, has been especially sharp in Norwich.

[21] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

3.1.6 Norwich also has some important differences from other non-metropolitan English cities, and perhaps the primary one is its relative remoteness. It is hard to think of another English settlement that is as far from its nearest peer as Norwich is, with Cambridge and Peterborough both more than 90 minutes away by car. This in turn makes Norwich more self-reliant, and more dependent upon its hinterland, than many other places.

3.1.7 Even with modern infrastructure there is significantly less scope for what economists would call comparative advantage, letting a town or city specialise. Compare Norwich, for example, with the Buckinghamshire, Bedfordshire and Northampton boundary area where Northampton, Bedford and Milton Keynes are all within roughly 30 minutes of each other – all with more than 100,000 residents, but less than 300,000. Cambridge and Peterborough are closer to each other than either is to Norwich.

3.1.8 The practical effect of this comparison is a lack of investment to push values to self-sustaining levels that could drive speculative redevelopment to balance the loss of secondary space. And a very real physical impact is that Norwich has lost a strikingly high proportion of its office stock to residential.

3.1.9 Another significant distinction for Norwich is its relative success in defending its city centre retail environment, referred to as:

> *an example of "best practice" for planning for town centres and has the highest percentage of retailing in its centre of any major city in the country. This is the result of the long-term policy approach of promoting a vibrant city centre, investment in pedestrianisation and public realm and restricting out-of-town development.* [22]

3.1.10 Protecting the vitality of town centres is a crucial element of keeping them attractive to business occupiers. But this serves to highlight a contradiction in Norwich. For example, the city's *Economic Strategy* cites a PricewaterhouseCoopers study in which:

> *Norwich is ranked 20/379 for overall competitiveness on the PwC Index. The economic dynamism of the city underpins the regional economy and, as such, its significance as an economic driver, attractor of investment and of skilled labour must not be underestimated.* [23]

3.1.11 This is a strong performance on a well-established index and, indeed, in a more recent edition Norwich has moved up to 14th place. [24] Further, the *Economic Strategy* goes on to cite a recent report by MasterCard, which named Norwich as one of the top three UK cities that have shown significant strides in using latest technology to drive growth and innovation. But, again, other indicators are more less positive:

> *In 2016 the rate of business "deaths" or closures in Norwich was also higher than average. Indeed, the number of business closures was greater than the number of start-ups, meaning that the number of businesses operating in Norwich has fallen.*

---

[22] Norwich City Council (2019) *Norwich Economic Strategy 2019-2024* August 2019
[23] Norwich City Council (2019) op cit
[24] PWC & Demos (2019) *Good Growth for Cities 2019*

3.1.12 Further, the business closure rate has increased markedly since 2014, more so than in the wider New Anglia LEP area, while job density has declined because the working age population has risen faster than the number of jobs. It is also clear that the city is faltering in terms of its office offer. For example,

> *there are a significant number of offices in the Norwich local authority area and in particular, the city centre, that are out-of-date and of poor quality – many of these are currently being converted to residential (predominantly student) housing. (ibid)*

3.1.13 The result is that medium and larger companies begin to migrate to edge-of-town business parks, while smaller enterprises are faced with deteriorating choice in a city centre where they are reluctant to pay any sort of premium for second-rate space, further supressing values. This familiar scenario was threatening enough before the Government extended Permitted Development Rights to allow the conversion of office space to residential use.

3.1.14 This 'hollowing out' point is noted by GVA Hatch, who observe that average office rents are higher in peripheral locations than in the city centre, suggesting the Broadland Business Park has higher quality buildings than that available in the city centre. "*This is the inverse of what should be true; city centre offices should always command a higher rate but there is a shortage of Grade A office space in the city centre*". GVA Hatch suggested that the shortage of Grade A had driven the relocation of several Professional and Financial Service businesses outside of the city centre. The implication, given expectations for strong jobs growth in Professional, Technical and Digital is that "*the office supply market needs to respond to avoid further hollowing out of the KIBS sector in the city centre*". [25]

3.1.15 SQW summarised the Norwich office market:

> *Historically, the Norwich office market has relied on organic growth from local businesses with robust levels of office enquiries and uptake from the public sector. Inward investment into Norwich from office occupiers has been limited …. the office market has been characterised by ample availability, limited demand and minimal new development, despite the availability of sites, including ones with planning consent.* [26]

3.1.16 This does not paint a picture of a vibrant office market.

3.2. Loss of office space

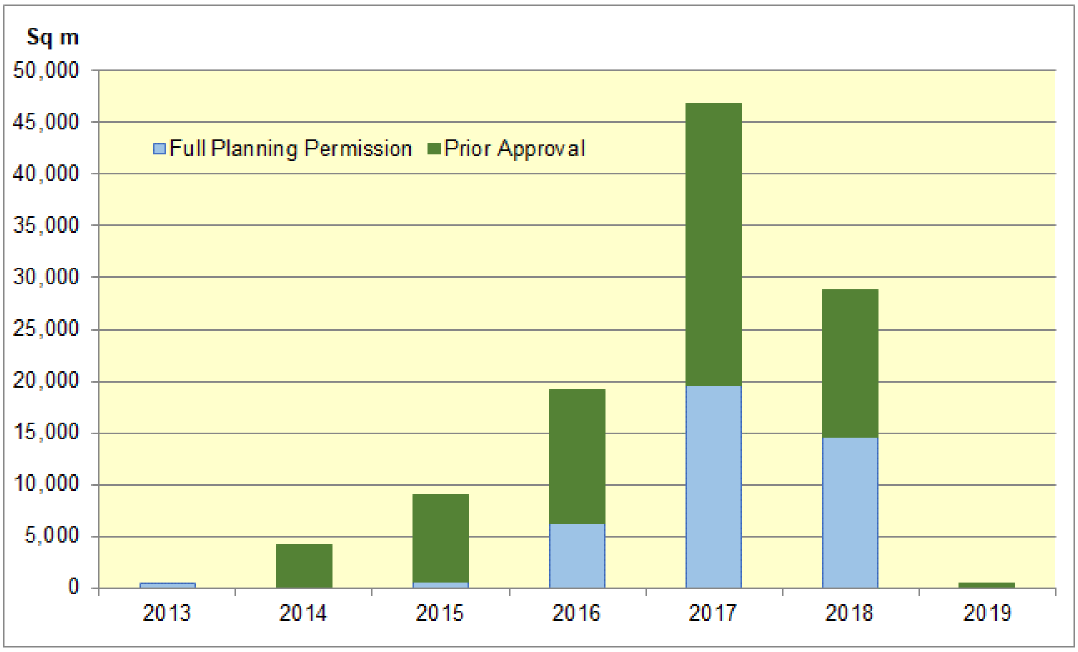
3.2.1 Since 2013, some 108,936 sq m of office space has secured consent for residential conversion, creating just under 1,700 flats in return for the loss of around 30% of Norwich's total stock of office space. Of this just under 66,000 sq m has been completed or started on site, the bulk of this in the NR1 postal code. Further, almost 65% of this loss happened in just two years, 2017 and 2018 (Figures 3.1 and 3.2). Almost no space was lost in 2019, as developers waited for flats and student residences from the 'low hanging fruit' to be absorbed.

---

[25] GVA Hatch (2017) *Norwich Economic Analysis: A Dynamic, Resilient, Growth-oriented Economy*

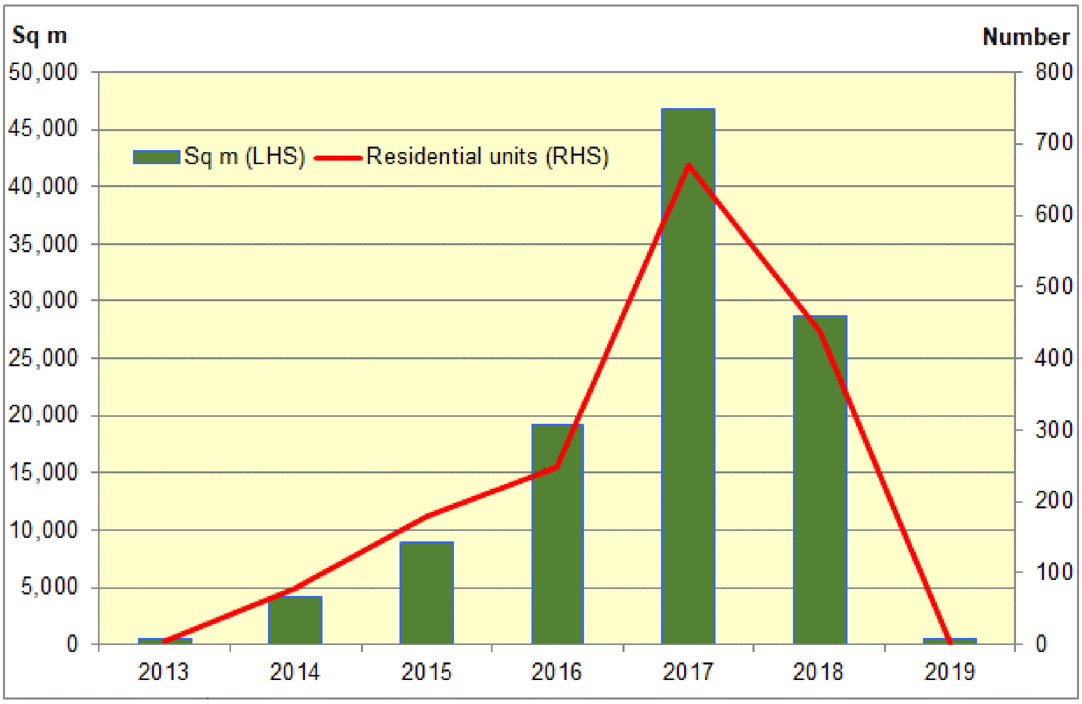
[26] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

Figure 3.1 Office space converted to residential



Source: Norwich City Council

Figure 3.2 Office space converted to residential and residential units gained



Source: Norwich City Council

3.2.2 Notably, only 60% of this total was lost in the form of Prior Approvals. Full Permission was still an effective route to secure change of use, but it is certainly true that Prior Approvals unlocked a significant level of demand for residential conversion. It is important to understand that this demand pressure was always present, but was encouraged by Government legislation. One local agent also noted that some office space has been lost to education uses, including the Norwich University of the Arts and a free school.

3.2.3 Another dimension to consider is where space has been lost, because different sectors and scales of enterprise have differing needs and room for manoeuvre in terms of location choice.

Where has space been lost?

3.2.4 Virtually all of the office space lost to Prior Approvals (Figure 3.3) was in the area designated as city centre in the GVA *Employment Land Assessment* [27], roughly that area along and within the A147 Inner Ring Road [28], as was nearly all (98%) space lost to Full Permissions (Figure 3.4).

Figure 3.3 Space lost to Prior Approvals, by location

Location	Total floorspace sq m	Average size sq m	Number of schemes
City centre	61,130	2,038	30
Non-City centre	6,082	1,769	9
Total	**67,212**	**3,807**	**39**

Source: Norwich City Council

Figure 3.4 Space lost to Full Permissions, by location

Location	Total floorspace sq m	Average size sq m	Number of schemes
City centre	40,908	3,147	13
Non-City centre	817	641	5
Total	**41,724**	**3,788**	**18**

Source: Norwich City Council

3.2.5 Many of these losses were on edge-of-centre locations (which would include Thorpe), around the Inner Ring Road, but a significant share are in the city centre on the axis from Norwich Station to Castle Quarter. In terms of post code area, as might be expected, NR1 has been hardest hit by Prior Approvals (Figures 3.5 and 3.6), with not far short of double the space lost compared to Full Permissions. This is despite the large St Stephen's Towers example being secured by Full Permission.

[27] GVA (2017a) *Greater Norwich: Employment Land Assessment* December 2017

[28] In the version of the report available to Ramidus, the map used by GVA to illustrate the city centre definition was very low resolution, so this report has adopted a conservative interpretation, whereby if something was not clearly in the city centre it was excluded. The overall impact is negligible: the overwhelming impact of office-to-residential conversions is in the city centre.

3.2.6 This pattern is typical of loss of office space in non-metropolitan centres: so called “off-pitch” locations are generally the first to be lost, with tired post-War stock being most vulnerable. This does not have to be a bad thing: shaking out non-viable space to fill another need can be beneficial. But in Norwich two features of this loss are striking. Appendix One shows a map of Norwich post code areas.

Figure 3.5 Space lost to Prior Approvals, by post code

Post code	Total floorspace sq m	Number of flats
NR1	44,622	621
NR2	9,650	131
NR3	12,940	228
Total	**67,212**	**980**

Source: Norwich City Council

Figure 3.6 Space lost to Full Permissions, by post code

Post code	Total floorspace sq m	Number of flats
NR1	25,778	381
NR2	799	58
NR3	15,147	325
Total	**41,724**	**764**

Source: Norwich City Council

3.2.7 First, is the sheer proportional scale of loss, as noted, amounting to some 30% of total stock in a two year period. As already discussed, Norwich is a small market when compared to similar towns and cities, so the loss of over 100,000 sq m is proportionally more significant than a simple shake-out of secondary space would be expected to generate.

3.2.8 Second is the average size of loss. This is just over 2,000 sq m in 30 Prior Approval schemes; rising to more than 3,100 sq m in 13 Full Permission schemes – although this falls to 2,200 sq m if the 14,000 sq m St Crispin’s House is excluded.

3.2.9 This is significant, and reinforces the point made above about the value of secondary space: this is the scale of building that can be let floor-by-floor to growing SMEs and other smaller enterprises for whom cost control is at a premium. To lose some of this space has been inevitable in every town and city in the UK for the past several years, but to lose so much of it in a critical size band and over a short period, is a source for concern because of its potential impact on the wider property market. That said, local agents are aware of practical reality. One said:

In some respects, it’s not a bad thing in taking out some of the rubbish.

Another, while agreeing with this in general terms said:

All that space taken out and as a result there’s not a lot of good stock.

3.3. The office market

3.3.1 Just over 55,000 sq m of space has been let in the three central Norwich post codes, in 200 deals, since 2015 (Figure 3.7). Obviously, the abnormally low 2020 figures reflect the virtual economic halt during the COVID-19 crisis. Nevertheless, the data show a very modest level of transactions for a city of Norwich's size, although it is interesting that the second busiest year, in terms of area, in that period was 2018, when large swathes of space were being converted to residential. This may be a consequence of remaining tenants being served notice in the properties to be converted.

3.3.2 However, in 2017 and 2018 there were fewer deals done than in either of the previous two years, and in 2019, the average deal size was markedly lower than in earlier years. Appendix One shows a map of Norwich post code areas.

Figure 3.7 Office deals in the NR1, NR2 and NR3 postcodes, 2015-20

Year	Deals Sq m	No of deals	Average size
2015	11,360	43	264
2016	14,887	50	298
2017	8,706	31	281
2018	13,137	41	320
2019	6,858	31	221
2020	430	4	107
Total	**55,378**	**200**	**277**

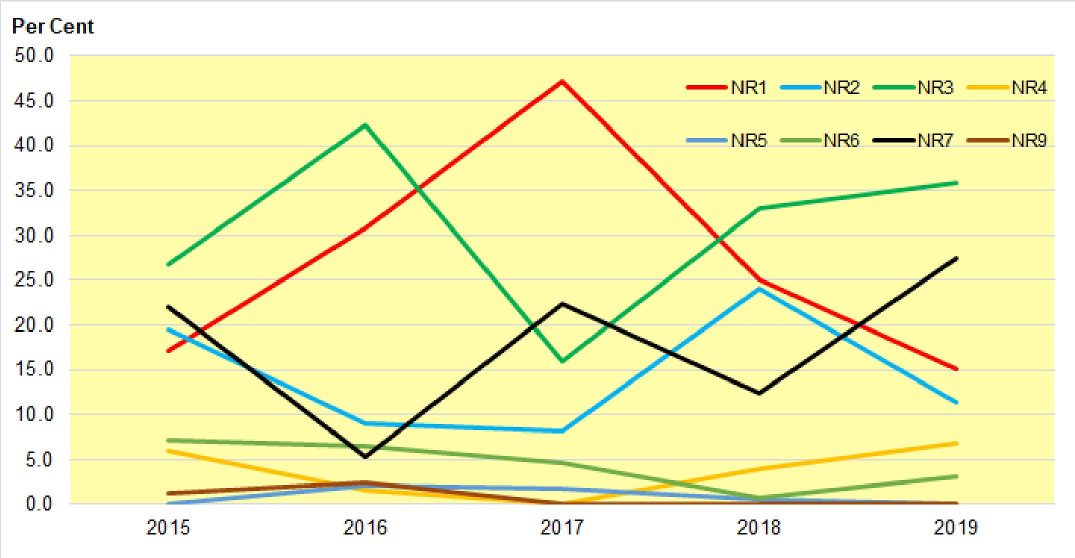
Source: EGi

3.3.3 Looking at the wider picture, nearly three quarters of transactions in all post codes occurred in the three central post codes, something that on the face of it conflicts with the prevailing narrative of the city centre being abandoned for the edge-of-town business parks. In detail, however the pattern is more striking and concerning (Figure 3.8).

3.3.4 When the share of deals are analysed it is clear that the city centre was holding its own as a destination when compared with the other post codes, even NR7 which contains many of Norwich's business parks. But after 2017 it is noticeable that lettings in NR1 and NR2 began to account for smaller proportion of all deals. Only NR3 held its own, with just three lettings – to Brandbank and KPMG at St James's Place and Regus at Stannard Place accounting for 85% of this NR3 deals in 2018. But the trend is for lettings in the business parks to be climbing with much of the inner area declining. This reflects findings in the Norwich *Economic Strategy*:

> *The city centre has a shortage of small-to-medium modern, flexible office accommodation suitable for growing businesses; this is a key challenge to overall city centre vitality.*

Figure 3.8 Percent share of office deals, Norwich post codes, 2015-2019



Source: EGi

3.3.5 Available space, as at May 2020, stood at just over 36,000 sq m in all post codes (Figure 3.9). It is noticeable that very little space is defined as newly built Grade A, and 48 of the 70 buildings are not classified. We would suspect that were these building considered Grade A the lessors would be highlighting this.

Figure 3.9 Available space by grade, May 2020

Grade	Sq m available	Units
New - New Build (existing)	579	1
New - Refurb (existing)	904	5
Second-hand (undisclosed)	138	1
Second-hand Grade A	5,017	1
Second-hand Grade B	3,802	14
Not Available	25,602	48
Total	**36,041**	**70**

Source: EGi

3.3.6 Another striking feature is that NR7 boasts the highest average unit size, when NR4 is discounted due to it being massively distorted by the 4,300 sq m Livestock Market building (Figure 3.10). Nearly all Grade A space is in NR7.

3.3.7 The mix of poor quality space, unevenly distributed, is what has left city centre offices so vulnerable to residential conversion. It is difficult to build any sort of critical mass to get a self-fuelling market going, and this is reflected in rents.

3.3.8 According to Bidwells prime rents in Norwich were just over £17 per sq ft (Figure 3.11) at the end of 2019, up only marginally on 2018. [29] Bidwells did not expect the £20 barrier to be breached by 2024 (Figure 3.12).

[29] Bidwells (2020) *Our view on Norfolk/Suffolk Offices* Spring 2020

Figure 3.10 Office availability, average unit size by post code

Post code	Average unit size
NR1	220
NR2	568
NR3	585
NR4	2,363
NR5	481
NR6	208
NR7	720

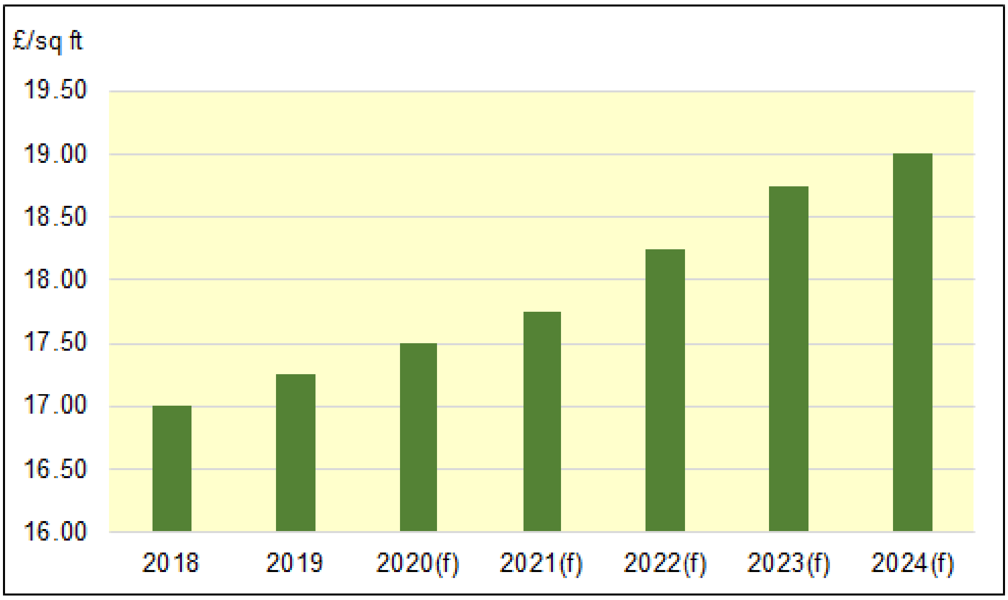
Source: EGi

Figure 3.11 Rental values in Norwich, 2020

Grade	Typical rent per sq ft
Prime	£17.25
Secondary good	£15.50
Secondary poor	£11.00

Source: Bidwells

Figure 3.12 Current and forecast rents, Norwich, December 2019



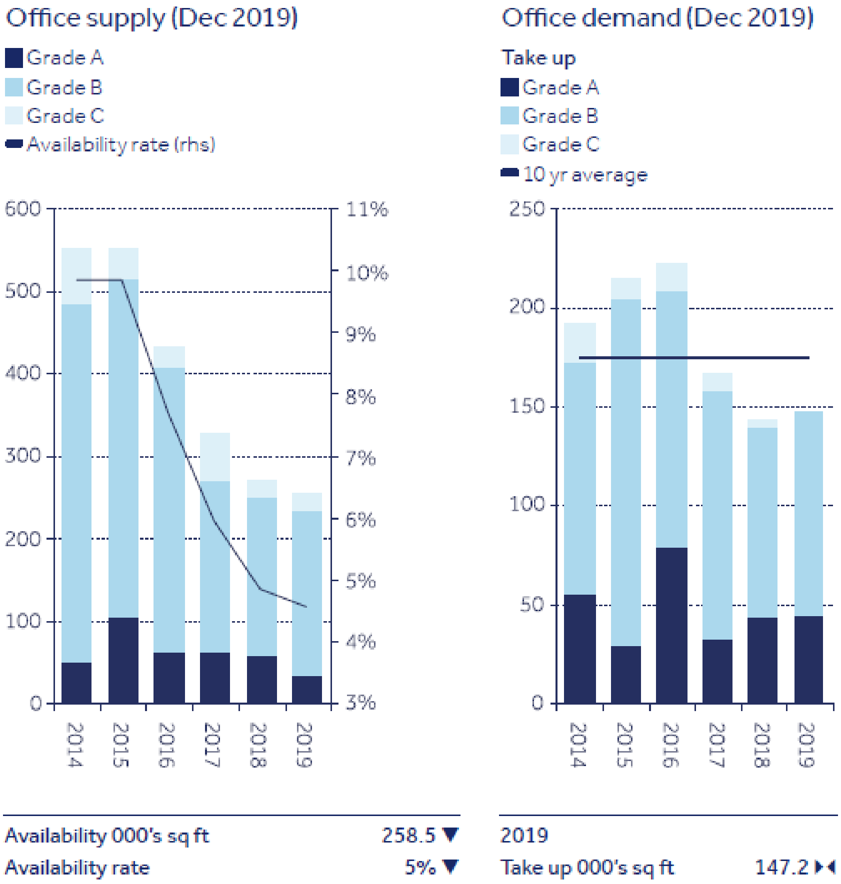
Source: adapted from Bidwells

3.3.9 Bidwells observed that

In total there were ten Norwich companies that made it onto the list as the region's most innovative and influential tech companies…[including] Pikl Insurance, Safepoint [and] CircuitBuilder.

3.3.10 This should suggest that the market is far from moribund and analysis in the first half of 2019 from Savills [30] claimed that there is potentially 20,000 sq m of unfilled demand in the market. However, by the end of the year, Bidwells was much more cautious, identifying only around 8,000 sq m of requirements, off the back of a year that they say saw 13,700 sq m of lettings in 2019 (Figure 3.13). The divergence in estimates of unfilled demand is likely to come from differing viewpoints about which occupiers would seriously consider Norwich, plus a proportion of Savills' identified demand being satisfied later in 2019, whether in Norwich or elsewhere. The reality is that both Bidwells and Savills were describing markets in which there is a degree of uncertainty and an absence of a clear driving force.

Figure 3.13 Supply and demand in Norwich



Source: Bidwells (2020)

3.3.11 But, more significantly, in a market where the largest letting in the first half of 2019 was 1,502 sq m and in the second half just 620 sq m, the overall take up rate is just 2.8%, which is roughly what we would expect to be accounted by lease expiries and the exercising of break clauses. There is no indication of any sort of

[30] Savills (2019) *Norfolk and Norwich Adapting for Change* Autumn 2019

head of steam in the market. It is worth noting that Bidwells identified less space available than EGi. This is most likely because some of the space on the EGi system has been vacant for so long that it is no longer being effectively marketed, so is not counted by them.

3.3.12 The picture of new supply is no more encouraging. According to SQW, completions peaked in 1990 at 235,000 sq ft (22,0000 sq m), with the completion of Aviva's purpose-built city centre office scheme, as well as the first phase of Norwich Business Park. However, over the 20 years to 2016, office completions averaged 71,000 sq ft (6,600 sq m) per annum, and have fallen in recent years. The last new office building to be developed was Flint Buildings in Bedding Lane, completed in 2016, while the recent scheme at 3 St James's Court has yet to be fully let on a long-term basis. We are not aware of any new space currently under construction.

3.3.13 This is perhaps why both Savills and Bidwells argued that demand was frustrated by absence of good quality stock, something reflected in how take up has, since 2017, run at less than its ten-year average. This argument carries some weight because the availability rate fell from more than 8% in 2016 to below 4.6% in 2019, according to Bidwells, with some impact on market rents. Savills noted:

> *Limited development provides an opportunity to capitalise on the rental growth in the market. Good refurbishments have been a viable option with buildings such as Norfolk Tower seeing rents rise from £10 per sq ft to £15 per sq ft post refurbishment.* (op cit)

Adding:

> *The implementation of permitted development rights has significantly affected the Norwich office market and it is estimated that over 700,000 sq ft has been converted to residential or other uses.* (op cit)

3.3.14 This square foot figure equates to 65,000 sq m which is consistent with the data from planning consents and prior approvals analysed above. Bidwells argued:

> *Space shortages have driven rental growth, with prime rents at an historic high. Businesses have been forced to look to other options, driving a 37.5% rise in secondary rents over the last three years.* (op cit)

While SQW observed:

> *In recent years, the office market in Norwich has been characterised by weak demand and a substantial supply of poorer quality stock. However, in quantitative terms, the 'gap' between supply and demand has been reduced through conversions to residential.* [31]

3.3.15 As noted, this type of space – not the top tier, by any means, but in good condition and suitable for a wide range of potential businesses – tends to be the lifeblood of a market, where expanding business feel comfortable growing into. Even if, after the loss of so much space, Norwich remains a relatively inexpensive place to occupy, a 40-50% increase in rents should cause pause for thought.

[31] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

3.3.16 It is difficult to avoid the conclusion that the loss of stock has had a direct impact on rents, making Norwich more expensive for local occupiers. Although residential conversion in 2019 was minimal, this is fairly typical in any market during periods when rules have been relaxed: the 'low-hanging fruit' is picked off quickly, to the point that the market (in this case the apartment market) risks being flooded, causing the brakes to be applied until the new supply is absorbed. That certainly does not mean that that demand for housing has been satisfied and that the threat to office stock has passed. But does this necessarily matter?

3.3.17 To put this question into a wider context, Lambert Smith Hampton [32] found that Norwich ranked very low among UK city markets in terms of total occupancy costs, with only Preston and Swansea cheaper This was true for both new space and 20 year old space (Figure 3.14).

Figure 3.14 Occupancy costs by centre, New and Old

City	£/workstation - New	£/workstation - 20 years old
Cambridge	9,350	8,384
Maidenhead	8,174	7,460
Reading	8,167	7,382
Staines	7,871	7,269
Edinburgh	7,870	7,180
Slough	7,860	6,540
Bristol	7,859	7,219
Brighton	7,857	7,471
Guildford	7,845	7,158
Oxford	7,828	6,896
Watford	7,812	7,683
St Albans	7,732	7,347
Manchester	7,714	7,415
Woking	7,615	6,853
Glasgow	7,374	6,968
Leeds	7,352	6,718
Birmingham	7,328	6,655
Southampton	7,265	6,619
Aberdeen	7,246	6,722
Milton Keynes	6,955	6,267
Maidstone	6,905	6,606
High Wycombe	6,890	6,298
Exeter	6,890	5,778
Cardiff	6,831	6,134
Bracknell	6,820	6,473
Portsmouth	6,792	5,958
Luton	6,777	5,808
Newcastle	6,746	6,345
Basingstoke	6,601	5,532
Sheffield	6,526	5,909
Bournemouth	6,397	6,000
Farnborough	6,389	6,151
Warrington	6,364	5,732
Nottingham	6,357	5,987
Belfast	6,341	5,919
Liverpool	6,196	5,945
Leicester	6,135	5,817
Northampton	6,112	5,435
Swindon	6,069	5,909
Norwich	6,015	5,408
Preston	5,551	5,055
Swansea	5,225	5,017

Source: adapted from Lambert Smith Hampton

[32] Lambert Smith Hampton (2019) *Total Occupancy Cost Survey*

3.3.18 So we have a low cost, low demand market in which rental growth is being spurred by the shrinking stock caused by extensive office-to-residential conversions. Crucially, that loss of stock has happened in the city centre, the area preferred by growing companies seeking both the ambience of the bars and coffee shops and the networking opportunities that city centres, including those very bars and coffee shops, present.

3.3.19 This presents a paradox. On the one hand, the loss of stock has driven up rents significantly, if not yet to levels that would attract speculative development, as evidenced by the modest level of investment spending in Norwich (Figure 3.15) with just 74,000 sq m changing hands over five years – including sales to residential developers.

Figure 3.15 Investment sales in Norwich 2015-20

Year	Investment sales	Sq M	No of deals
2015	9,440,000	12,148	11
2016	8,163,022	9,065	7
2017	18,244,000	31,101	9
2018	30,864,000	14,971	15
2019	5,870,000	3,235	3
2020	6,878,000	3,903	1
Total	**79,459,022**	**74,423**	**47**

Source: EGi

3.3.20 Using current rents and yields and reasonable assumptions about letting voids, rents would need to grow to at least £20 per sq ft before new development would be more than marginally viable. At current rents, even refurbishment is unviable, no matter how essential. In reality developer investors would need much more than marginal viability; conversion to residential is hard to resist given the opportunity.

3.3.21 On the other, that loss of stock risks diverting demand to areas that are able to fulfil occupier needs, meaning that rental growth does not get driven to sustainable levels, so reducing the incentive to develop.

3.3.22 This paradox is starkly illustrated with just two numbers: the more than 100,000 sq m of space lost to residential, contrasted with the 6,625 sq m of office approvals since 2016 – a figure which includes office space that is incidental to other uses.

3.4. Longer term viability

3.4.1 Policies DM17 and DM19 of the city's *Development Management Policies Plan* (adopted December 2014) allow for the loss of office accommodation where it can be shown, amongst other things, that the accommodation is neither fit for purpose nor viable for retention or upgrade. The NPPF at paragraph 121 (a) encourages local planning authorities to support proposals to use employment land for homes in areas of high housing demand, provided this would not undermine key economic sectors or sites or the vitality and viability of town centres. At paragraph 122, it encourages local planning authorities to support development that makes efficient use of land, taking into account local market conditions and viability, amongst other things.

3.4.2 In many markets, this issue often revolves around the 'fit for purpose' argument rather than the viability argument. But in Norwich there is a structural problem with viability: rental values are low and have been for several years, while development costs are not materially different to other cities, leading to a dearth of new office development for several years – and the attractiveness of converting commercial to residential.

3.4.3 Here we look at longer term viability in order to assist the Council with its decision making on proposed schemes, and to help it weigh up the risk of holding out for office development in order to achieve the long-term strategy rather than to focus on current viability.

Overall strategy

3.4.4 Viability is one of the most challenging issues facing the Norwich office market. But it is important at the outset to decide that the Council's response must rise above the direct evidence of current market dynamics and engage in a narrative about the future of the city and what its aspirations are. Longer term viability and rents will be dependent upon, and will follow, a thriving knowledge economy. First and foremost the Council must place the discussion about viability in the context of the objectives of its *2040 City Vision* – it must not be swayed from these in the context of more tactical decisions about individual sites.

3.4.5 If the Council holds firm on some of the issues discussed above (such as the 'preferred office location', the need to protect different premises typologies and the role of the city's regeneration area), then the arguments over individual sites and viability can be contextualised and won in the interests of the wider city vision.

Portfolio approach

3.4.6 Various studies (including this one) have painted a picture of potential future demand: there is a means of assessing, broadly, how much office space there needs to be. Within this 'portfolio' there is a need for a blend of space:

- new buildings coming through the pipeline;
- good quality 'new' stock with some availability to offer choice/suppress rents;
- secondary quality stock to meet affordability issues, and
- a range of building forms and configurations.

When the Council is assessing its options for any particular building, it is important to have this 'portfolio' approach in mind to ensure that a range of buildings (cost, specification and configuration) is maintained.

What is secondary space and what is obsolete?

3.4.7 Secondary space does not equal obsolete space. In any office market there is demand for space that is priced at a level that is affordable by lower margin businesses, smaller businesses looking for contract flexibility and for businesses taking early steps on the 'property ladder'. Typically, these are highly cost conscious enterprises that will expect to fund commitments from cashflow, not the balance sheet. It is very important for any sizeable office market to have a reservoir of such space in order to maintain choice and affordability.

3.4.8 However, it is also clear that space can be deemed to be obsolete. And where the line is between secondary and obsolete is a fine judgement. Sometimes this comes down to a question of quanta: do we have sufficient secondary space that we can afford to allow Building X to go; or do we perceive a tight market, in which case we should seek to retain Building X?

3.4.9 In other cases the judgement can be related to physical parameters. For example, the conversion of St Stephens Towers was to some degree inevitable, because the buildings are not only secondary, but also too large for subdivision for small units. It was a legacy building from the era of large corporate offices.

3.4.10 In yet other cases, there will be a financial question: can we upgrade Building X at a cost that will allow a market rent to be achieved. At the current time, this is a challenge for many buildings.

Market trends

3.4.11 Earlier in this chapter we saw that the loss of office stock in recent years has pushed rents up significantly, albeit not yet to levels that would attract speculative development. Indeed, rent levels would need to grow to at least £20 per sq ft before new development would be more than marginally viable. The fact that there have been just 6,625 sq m of office approvals since 2016 (including office space that is incidental to other uses) speak volumes about viability. At current rents, even refurbishment is barely viable, no matter how essential.

3.4.12 In reality developers and investors would need much more than marginal viability. Which means that the city will remain highly vulnerable to a second wave of office-to-residential conversions.

3.4.13 An added layer of complexity is that, as commercial land values play catch-up, land will be lost, forever, to other uses, thereby reducing the options for office development in the city centre. It is clear that the supply of office stock in the centre needs to be protected and nurtured.

3.4.14 Rents for prime space in Norwich are currently £17.25-£17.50 per sq ft. Earlier we cited Bidwells' forecasts suggesting that rents might reach £19.00 per sq ft by 2024. To achieve anything like viability will require rents in the order of £22-23 per sq ft (a near 30% increase on today's rents), which might not be achievable until after 2026. Conceivably, given the potential direct impact of COVID-19 together with an associated recession, we could be looking at another decade of non-viability. For comparison, current asking rents in Cambridge range from the high-£20s per sq ft to the mid-£30s per sq ft (with broadly similar development costs).

3.4.15 This situation is further evidenced by investment yields, which indicate expectation of income (ie rental) growth, either directly or relative to other investment classes. In Cambridge, for example, yields are consistently below 5% reflecting both better rental performance and the fact that business space is seen as a viable investment, even when competing with the same residential pressures as every other local authority area in the south and east of England. In Norwich, the scarcity of evidence speaks volumes, but what there is suggests yields at or around 6%. There is not enough "hope value" seen in office development.

3.4.16 To illustrate this we ran a series of appraisals to get an idea with what market levels would need to be to make a site viable in market terms. These are not in any way formal valuations, but estimates to examine viability. The results are summarised in Figure 3.16.

3.4.17 As a baseline we took the work already carried out for the Council when examining the possibility of a Digital Hub scheme on land behind City Hall. We assumed a 49,500 sq ft GIA building, attaining a rent of £16 per sq ft on 35,000 sq ft NIA and construction costs of £11m. Our analysis – a basic residual appraisal – estimates the site cost required for a development carried out on a commercial basis to be viable. The site cost needs to be positive for a site to be viable. For all of the scenarios we make more conservative assumptions on the length of letting voids than the Norwich analysis.

Figure 3.16 Development appraisal scenarios

Scenario	Rent	Build cost	Yield on sale	Site value (required grant size)
Scenario 1	£16 per sq ft	£11m	6%	-£5.8m
Scenario 2	£18 per sq ft	£11m	6%	-£5.1m
Scenario 3	£18 per sq ft	£11m	5%	-£3.6m
Scenario 4	£19 per sq ft	£11m	5%	-£3.2m
Scenario 5	£19 per sq ft	£11m	4.75%	-£2.7m
Scenario 6	£24.60 per sq ft	£11m	4.75%	£0

3.4.18 In every scenario the site value is negative, or unviable. Our baseline scenario is broadly in line with that already carried out for the Council, even allowing for our more conservative void assumptions. For context, the best recent yield achieved was the sale of an Aviva-occupied building on a business park, at 5.5%. Aviva is as solid a covenant as is imaginable and had 15 years unexpired on its lease. We then iterated rents and yields using reasonably foreseeable scenarios, and in all of them the site cannot be made viable, even if we assume yields typical of those found in Cambridge. The final scenario takes current investment yields in Cambridge of 4.75% and tests what rent would be needed to return a site cost of £0. The resulting £24.60 per sq ft is not, in our view, realistically attainable in the short-term.

3.4.19 Put simply, there is no credible route to a viable scheme at current rents and yields. This is true even if the site is already owned because rental income will take decades to cover build costs. Development will require subsidy.

3.4.20 We would note that the appraisal done for Norwich appears to assume a full fit out to the standards of a Grade A building. While this is appropriate when looking at new development in a general sense, it is less so when considering the viability of a lower specified building as might be the case with a digital hub. However, even if we reduce construction cost estimates by 20% we only see an improvement in site cost to negative £3.6m on Scenario 1.

Implications

3.4.21 The message here is that the Council cannot really wait for viability to catch-up. The gap is too great and will take too long, and the short-term risk of permanently diminishing the city centre office market too great. The unavoidable implication here is that the Council must seek to 'change the game' and accept that any digital hub is not, in the first instance at least, a strictly commercial venture but an intervention to fill a market gap.

3.4.22 On the supply side, resisting further losses alongside strict protectionist policies will help to push values upwards. Developers will see their 'hope value' for conversions reduced. Having certainty over land use allocations will encourage the office market.

3.4.23 On the demand side, the Council must improve the city's attractiveness to occupiers and growth businesses. Its immediate goal must be to help push demand back towards the 10 year average (16,000 sq m to end-2019) that the city has lagged since 2016.

3.4.24 A key to this is to turn the weakness noted above into a virtue: Norwich is inexpensive when compared to Cambridge and most other areas in the East of England and the south of the East Midlands. Further, Cambridge in particular, is a tight market with relatively high rents and low yields.

3.4.25 But Norwich should view its immediate target market much more widely than Cambridge. The whole of the East of England, many parts of which have rents on a par with Cambridge should be considered as potential sources of demand, The South East Midlands, including Peterborough and Northampton may, on cost terms, be less expensive than the East and South East, but Norwich could still exploit the many quality of life advantages that it offers

3.4.26 These advantages can be used to counter the friction of distance that could be perceived given the above average road travel times seen by prospective movers to Norwich.

3.4.27 To do any of this needs supply, and a key part of attracting demand is to be able to show that modern, well-planned space geared towards companies seeking to move on from the start-up phase is available. That is to say, Norwich needs grow-on space.

3.4.28 But as noted above, it is very difficult to envisage a scenario where this will come about through purely private sector action. There is only one substantial building with an outstanding consent, at the Barrack Street site, and it is likely this will require a substantial pre-let to go ahead.

3.4.29 This is where the concept of a publicly-funded digital hub tailored to grow-on companies comes into the discussion. This report concurs with the view that substantial, and unrealistic, increases in rents and yields would be needed to get it off the ground without a grant. This in turn points strongly to the need for a Town Deal grant to prime the pump of the development, which could then be used to fill a market need, significantly improving the opportunity that Norwich can present both within and beyond the city.

3.4.30 It must also be stated clearly that the story of Norwich is not all about overcoming weakness. That it is an attractive locale – that it is a cathedral city with historical streets and characterful locales is significant. Quality of life is a genuine concern for all strata of society and this need not only to be accommodated, but also built in. Strong measures to protect the character of the city centre and prevent it becoming a suburb-by-any-other-name are critical to the success of the city.

3.5. Summary: market failure?

3.5.1 Returning to our two opening questions, Norwich is similar to many non-metropolitan towns and cities in that the principal challenge facing its commercial property sector is competitive pressure from the residential market.

3.5.2 Where it is different from almost everywhere else is in its very low commercial property values, meaning that in the absence of measures to prevent it, the city remains highly vulnerable to any second wave of office-to-residential conversions.

3.5.3 Even if Norwich opted for a “stand still” strategy, content only to protect what it has in terms of office-based business it would need to take action. Failure to do so would push more occupiers away from the city centre as the quality of stock declines, even if the quantity is held. This could create a situation where rents for remaining good quality space get high enough to support new development, only to find that many occupiers had already decamped to better stock elsewhere and that the city centre market has been permanently shrunk. As the Norwich *Economic Strategy* rightly observes:

> *Small businesses, in particular, may be squeezed out of an area by housing due to the higher values it attracts.*

3.5.4 We would add: by the time values get to levels needed to drive development, there could be nowhere left to develop. The *Economic Strategy* states:

> *The city centre remains the most sustainable employment centre in the county and this has been supported by improvements to the public realm.*

Concluding, perfectly reasonably:

> *The finite amount of employment land in the urban area (especially in the local authority area) needs to be protected – the mix of employment and residents has to be balanced if Norwich is to function as a modern urban centre.*

3.5.5 But the supply picture at the moment does not have the right conditions to meet this objective, and nor is the stock of space sufficiently protected by market forces alone. There is currently market failure in the provision of space.

3.5.6 It is clear that the supply of office stock in the centre needs to be protected and nurtured. Most recent new development has been on the outskirts of the city, particularly in Broadland and Norwich Research Park. The challenge is to ensure that these more peripheral markets do not attract demand from the city centre. This is less the case, anyway, with Norwich Research Park, which provides mainly for research-related uses, requiring specialist office accommodation for research which will support the local economy.

3.5.7 It is a mark of how problematic the supply picture in the city centre has become that the agents we consulted with each stated, without prompting, that public sector intervention is needed. One said, referring to the gap between market values and the need to support development:

If the city centre is to be kept alive it needs public sector intervention to bridge the gap.

3.5.8 The Council must address the long-term viability issue: it must seek to 'change the game' and accept that any digital hub is not, in the first instance at least, a strictly commercial venture but an intervention to address the market failure. A strict protectionist policy such as an Article 4 Direction will help to push values upwards, as developers will see their hope value reduced. But such action is urgently needed, and the Council must also improve the city's attractiveness to occupiers and growth businesses.

4. Demand from Norwich's digital sector

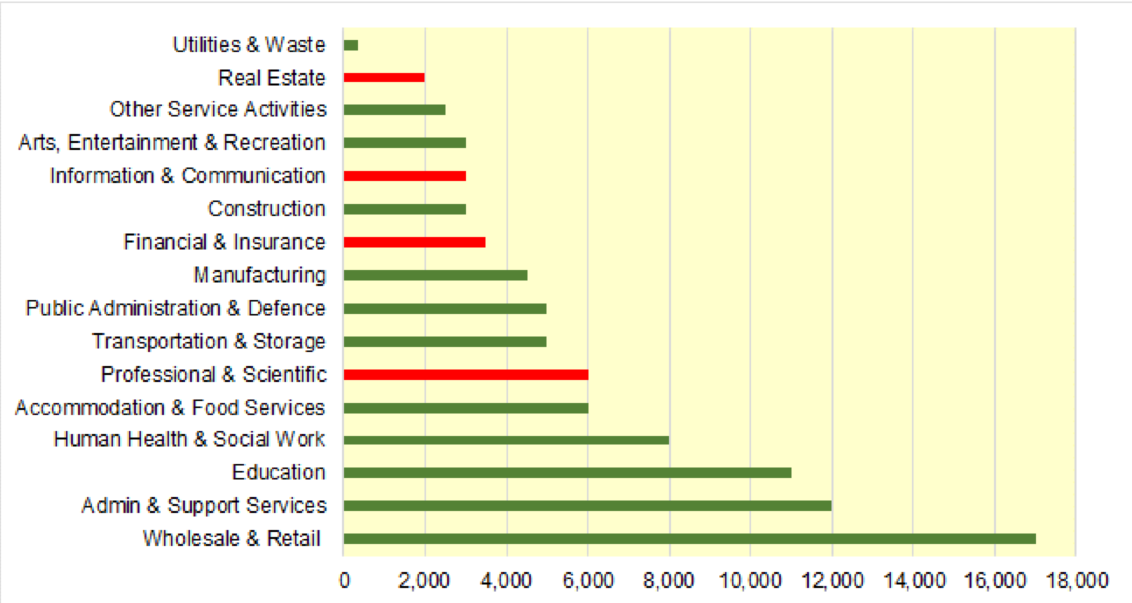
4.0.1 This chapter reviews the digital sector in Norwich. We seek to describe it, to quantify it and to address its growth dynamics. As with the remainder of this report, we draw upon a variety of source material, and this means that we are citing sources whose definitions of the 'digital' sector vary somewhat. However, the key question in this report revolves around whether there is sufficient accommodation for the digital sector. Here we refer back to Chapter 2, which described the accommodation needs of digital, creative and the wider KIB community, which substantially overlap. It is therefore possible to draw overall conclusions from subtly differently defined data. We begin the section with an assessment of Norwich's wider office economy.

4.1. The office economy in Norwich

4.1.1 We have already argued that the accommodation needs of the digital sector overlap substantially with the wider KIB community, together forming the office economy. To the extent that this wider group will generate similar demand for small units and grow-on space, here we quantify and describe Norwich's office economy, before addressing the digital economy specifically.

4.1.2 Norwich city has a working population of some 93,000 people, and the sectoral breakdown is shown in Figure 4.1. The core office economy sectors (Information & Communications, Finance & Insurance, Real Estate, Professional; Scientific & Technical and Administrative & Support Services) account for 14,500 jobs, or 15% of the total.

Figure 4.1 Employment by sector, Norwich



Source: NOMIS

4.1.3 Partly due to its historic association with Norwich Union (Aviva) Norwich has a strong representation in financial services and insurance. Despite a national slowdown in this sector, Norwich is maintaining its sector strength. Particularly with the growth of 'FinTech', the sector could continue to be a key area of digital-related growth in the future. Away from financial services, GVA Hatch note that

> *A particularly encouraging factor is strong growth in both Professional and Technical Services and Information & Communications. These have grown rapidly and Norwich needs to secure a bigger share of these high value services which are currently underrepresented so there is room to grow these sectors.* [33]

4.1.4 Norwich is currently home to blue chip companies (Aviva, Handelsbanken, KPMG, Marsh, Swiss Re and Virgin Money) together with a growing number of national and local companies with international reach (Alan Boswell Insurance, Grant Thornton, Mills and Reeve, Validus-IVC and Williams Lea). According to the *Norwich Economic Strategy*, these companies have shared service centres, contact centres and business process outsourcing centres, across a range of specialisms including sales and customer services, pensions and life administration, accountancy and finance and IT development and service support.

4.1.5 Like many sectors, finance and business services are experiencing significant change. Anti-growth pressures include regulation, automation and changing customer habits. Alongside these, there are growth pressures. For example, financial technology businesses (FinTech) are breaking the dominance of financial services' largest players in areas including online lending, money transfer, and credit ratings.

4.1.6 The *Norwich Economic Strategy* observes that changing customer needs and demographics are impacting on delivery channels, servicing, and technology. New channels are altering the way customers access financial services, and the strategy predicts that, over the coming decades, employment in financial services will decline, but employment in professional services and business services will grow.

4.1.7 GVA Hatch calculated that six key growth sectors (Figure 4.2) in the wider Norwich Policy Area (NPA) employ an estimated 40,000 people, including a substantial presence of KIBs. KIBs are often innovation active and graduate intensive, and typically invest more in business research and development. [34]

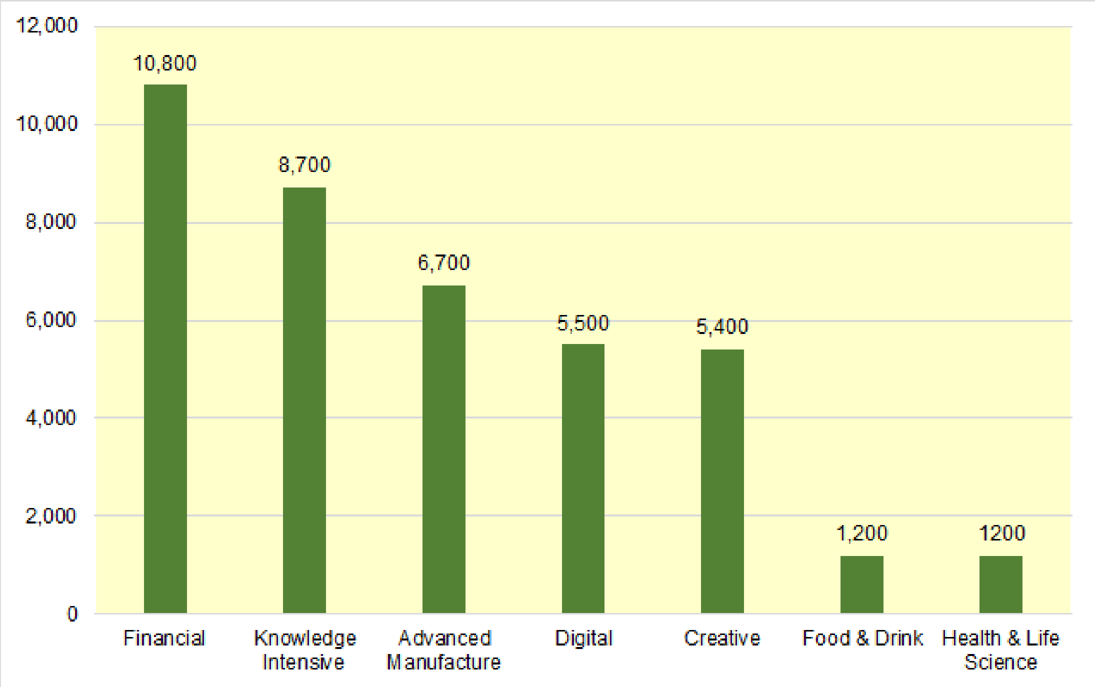
4.1.8 The same report observed that one in five employees in the NPA "*works in priority high value sectors*", which generally drive "*city competitiveness, fostering innovation, promoting knowledge diffusion and have the capacity to stimulate new start-ups and spin-outs*".

4.1.9 The NPA economy has an employment structure which is predisposed to growth, and the sectors shown in Figure 4.3 "*are expected to make up over 51% of total employment in 2045*".

[33] GVA Hatch (2017) *Norwich Economic Analysis: A Dynamic, Resilient, Growth-oriented Economy*

[34] It is important to qualify that the NPA is a policy construct – it is defined in the adopted JCS but not in the emerging GNLP.

Figure 4.2 Jobs in KIBs and growth sectors in the NPA, 2015



Source: GVA Hatch (2017)

4.1.10 Figure 4.3 shows changes in the numbers of key businesses between 2010 and 2016 across the NPA. As can be seen, significant positive changes have occurred in knowledge intensive sectors: six of the top ten are KIBs. Employment growth and specialisation analysis shows important opportunities in emerging high value sectors.

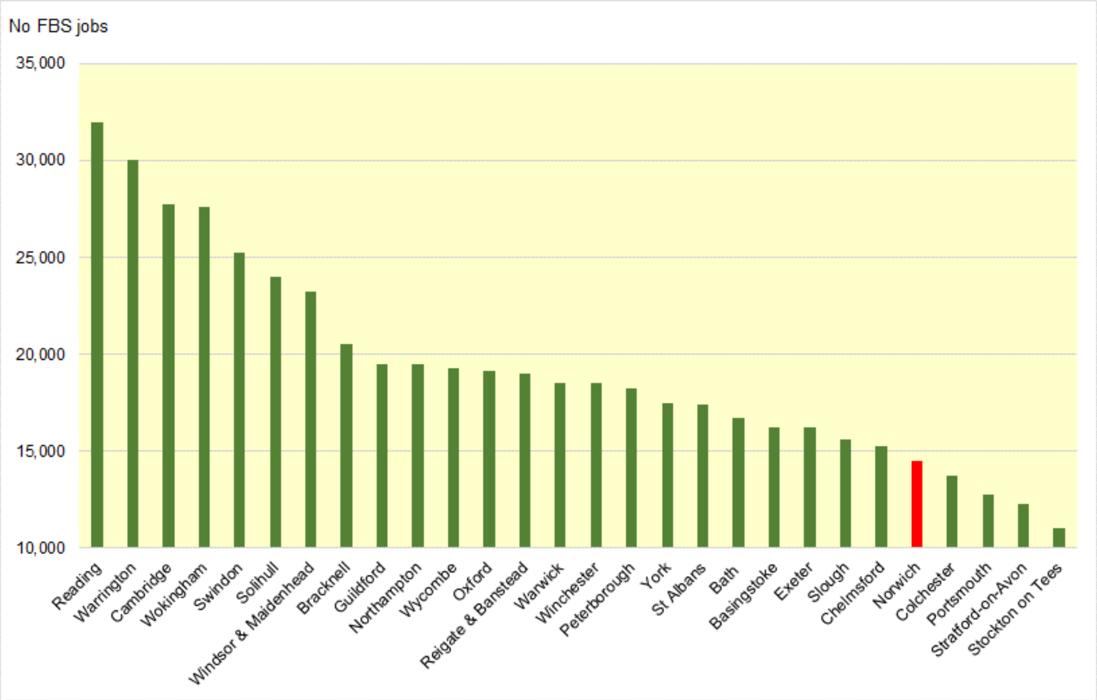
Figure 4.3 Growth in selected Norwich Policy Area businesses, 2010-2016

Industry		2010	2016	Change	
				Number	%
43	Specialised Construction	195	230	35	18
45	Wholesale & Retail	160	185	25	16
56	Food & Beverage	340	380	40	12
62	Computer Programming, Consulting	185	240	55	30
70	Head Offices, Management Consulting	185	260	75	41
71	Architectural & Engineering	130	165	35	27
74	Other Professional, Scientific, Technical	105	150	45	43
82	Office Admin & Support	130	165	35	27
85	Education	75	100	25	33
86	Human Health Activities	110	165	55	50

Source: GVA Hatch (2017)

4.1.11 Finally, it is important to provide some comparator data to illustrate the strength of Norwich's office economy. Figure 4.4 shows data for Norwich local authority area compared to other UK cities that have (a) at least 12,000 office economy jobs and (b) a population of between 120,000 and 230,000. As can be seen, Norwich's office economy, in these terms alone, is comparatively small, ranking 24th out of 28 cities.

Figure 4.4 The Norwich office economy compared



Source: NOMIS

4.1.12 In terms of regional comparisons, Cambridge has 27,750 office economy jobs, Peterborough has 18,250, and Chelmsford and Colchester have 15,250 and 13,750, respectively. The Norwich office economy appears to be relatively undeveloped.

4.1.13 The relatively small size of the Norwich office economy is being reinforced by market dynamics in recent years. On the one hand, low property values have discouraged new, speculative investment in refurbishment or new building, particularly when factoring in development costs. This has been identified by the Council as having stifled the growth of Norwich's digital businesses through restricting the supply of affordable grow-on space (Section 3.4 provides a more detailed examination of development viability).

4.1.14 On the other hand, there has been a reduction in the city's office jobs. The Norwich local authority area had the highest jobs density (1.24 jobs for every working age resident) of any local authority outside of five London boroughs in 2000; but by 2016 it stood at 1.07. The Norwich *Economic Strategy* recognises that there

> *has been a movement of jobs away from the Norwich local authority area to the urban fringe, which has led to some hollowing-out of the city centre. Much of this has been brought about by the provision of high-quality office space in out-of-town business parks in adjoining local authorities, while the city centre lacks available grade-A office space to attract employers.*

4.1.15 In addition, the relaxation of planning regulations has forced the loss of employment land for residential use.

4.2. Defining digital

4.2.1 What is a digital company? This is, increasingly, difficult to answer. Some companies sell digital solutions, products and services. Others rely heavily on digital technology in order to undertake their business – insurance would be a good example. SQW defined 'digital businesses' as those which "*generate most of their value from the exploitation of innovative digital technology*". [35]

4.2.2 Other definitions include those by Tech Nation and the Council. Both are based in the 2007 Standard Industrial Classification (SIC), and both include the core of computer programming, computer consultancy, data processing and web portals. However, the Tech Nation definition includes telecommunications and some manufacturing activities, while the NCC definition includes news agency and information services.

4.2.3 SQW recognised that there are firms using digital technology in *all sectors*, and so supplemented their analysis by matching data from web-based sources to build up a better picture of size and specialisms. Similarly, the New Anglia LEP definition of 'digital' recognises the primary job roles involved in digital tech industries (such as computer programming and digital games design), alongside the enabling role that digital tech occupations make in traditional (non-digital) industries- such as finance and culture and tourism.

4.2.4 There are thus different interpretations of 'the digital sector'. Our main purpose here is to examine the supply and demand dynamics of accommodation for the digital sector, and specifically the need for grow-on space, particularly in the city centre. With this in mind we are concerned with office space and not, for example, with the availability of large lab spaces, testing facilities, R&D facilities or wet labs. On this basis, we do not specifically address the growth sectors including Advanced Manufacturing, Agri Tech, Food Tech or Life Sciences. Most of these activities are located around Norwich rather than within it.

4.2.5 This is important because it helps define what we include within our definition of digital, and this is an amalgam of the SQW, Tech Nation and LEP definitions, in so far as they apply to *businesses appropriate for town centre office accommodation*.

4.3. The LEP digital economy

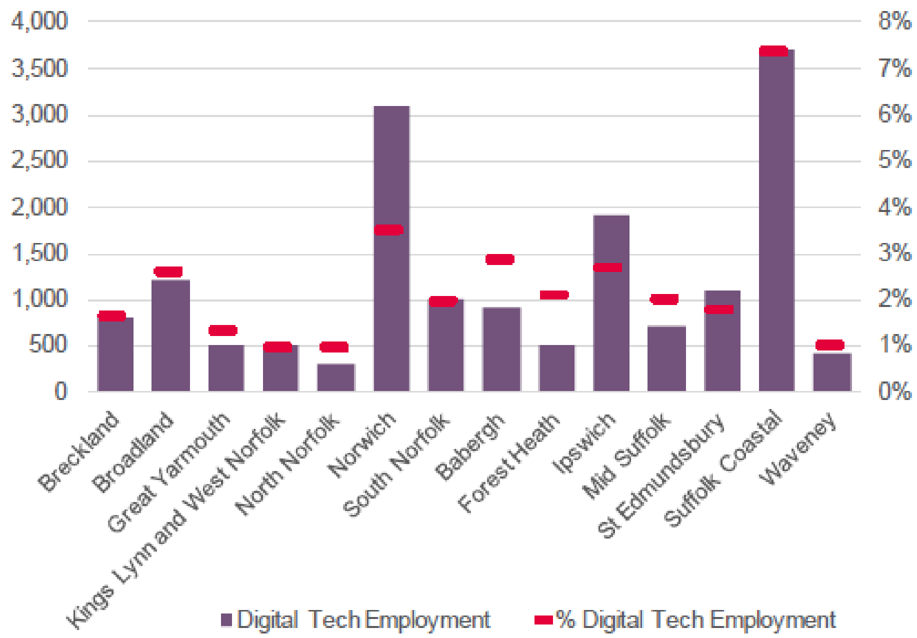
4.3.1 The New Anglia Local Economic Partnership (LEP) produced an analysis of the tech sector across the wider geography, which included some data and conclusions relevant to this Norwich-specific analysis. [36] Figure 4.5 shows the concentration of digital sector jobs across the LEP, and their concentration in Norwich, Suffolk Coast and Ipswich. The chart shows just over 3,000 jobs in Norwich, or 6% of all jobs.

---

[35] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

[36] New Anglia LEP (2017) *Digital Tech Sector Data Pack* Draft Version 2.2.1, 24th Mar 2017

Figure 4.5 Employment in the digital sector across New Anglia, 2015



Source: cited in New Anglia LEP (2017)

4.3.2 On this basis, the LEP draws the following conclusions regarding the role of the Digital Tech sector in the LEP economy.

- The LEP digital tech sector was worth c£1.3bn in 2015.
- This equates to 3.7% of the LEP economy; less than both LEP and national comparators, suggesting that the sector is underperforming.
- Digital tech accounts for 4.7% of firms, over 3,400 of the 72,900 businesses in the LEP. There were 385 digital businesses in Norwich in 2016.
- Growth in value in the sector has been in line with that nationally, but below that of comparator areas.
- 16,600 people were employed in the sector in 2015, c2.5% of the total workforce, which again is below LEP comparator areas and nationally.
- Digital tech sector employment in the LEP is concentrated in Suffolk Coastal, Norwich, and Ipswich.
- Growth in employment has again been solid but lagged its neighbours and nationally.
- The LEP's digital sector Location Quotient is below that of its two main comparator LEPs and has fallen since 2010.
- There are 3,425 digital firms in the LEP and, unlike employment, there is a good spread of these businesses across the area.
- Forecasts for employment growth in the sector are fairly flat.

4.3.3 It is noticeable that digital firms make a smaller contribution to the economy than in comparator areas; that growth in value in the sector has been below that of comparator areas; that fewer people were employed than in comparator areas and that growth in digital employment has lagged that of its neighbours and nationally.

4.3.4 Norfolk and Suffolk has recognised tech clusters centred on Norwich's fast-growing digital creative hub and the world-leading centre of innovation in communications technology at Adastral Park in Martlesham near Ipswich. With businesses at the forefront of digital innovation and strengths in telecoms, cyber security, quantum technology, Internet of Things and UX design, the sector is also a high value, fast-growing component of the Norfolk and Suffolk economy. [37]

4.3.5 The New Anglia LEP's evidence report summarises the 'ICT, Tech and Digital Creative' sector in Norfolk and Suffolk as comprising a workforce of 24,400, making a £1.4bn contribution to UK plc. It is, according to the report, "*also imperative in supporting productivity growth and technical innovation across all sectors, with notable linkages with agri, food and drink, life sciences and biotech and finance and insurance locally*". The report further estimates that an additional 35,000 digital technicians and engineers are "*active in such external industries*", more than doubling the size of the digital tech workforce. [38]

- **ICT** A highly specialised activity locally, with a workforce of c6,900, generating £0.7bn GVA, with a very high GVA per job of £95,600. Centred on Adastral Park in Martlesham, the cluster is home to BT Labs Global Research and Development HQ and a growing number of high-tech companies, including Huawei, Cisco, Ericsson and Tech Mahindra.
- **Tech consultancy and support** Two significant job creators and growth drivers, with c6,300 employees (up by nearly 2,000 since 2010). A nascent cluster.
- **Digital creative** Digital media and publishing and digital oriented film, television, music and sound recording are all growing, from c1400 in 2010 to 2,000 and creating jobs in the past five years (2,000 employees, +600 since 2010). Alongside this is a large digital design and advertising sector, employing 4,100.

4.4. The digital economy in Norwich

4.4.1 The following paragraphs summarise a 2018 paper on Norwich's Digital Economy and Growth, prepared for NCC. [39] Norwich is identified as one of the five fastest growing cities in the UK, and performs strongly on a range of economic indicators, including productivity and share of knowledge-based jobs.

In May 2017 CBRE included Norwich in its list of the top 25 creative locations outside London. In August 2017, the Digital Catapult ranked Norwich 19th overall out of 36 UK cities in the UK Tech Innovation Index. The city is ranked as the best place in the East of England and one of the best in the UK outside London in which to grow a business. [40] In 2011 Norwich was ranked 15th in the UK in terms of global connectivity. [41]

According to Tech Nation, the digital sector accounts for a relatively small proportion of the Norwich economy. By Tech Nation definitions, there are around 1,750 digital sector jobs and 280 businesses in Norwich, accounting for perhaps 2% of all employment and 6% of total business stock. The Norfolk & Suffolk Economic Strategy evidence base suggests 7,500 jobs

---

[37] New Anglia LEP (2017) *Economic Strategy Evidence Report* December 2017
[38] New Anglia LEP (2017) op cit
[39] Norwich City Council (2018) *Digital Economy and Growth* Report to Digital Innovation & Efficiency Committee 11th July 2018
[40] Start-up Cities Index: https://startups.co.uk/the-uks-top-25-citiesto-start-a-business/
[41] UK Cities in Globalisation 2011: http://www.lboro.ac.uk/gawc/rb/rb357.html

within the digital sector, and 13,411 tech jobs across all industries in Norwich.

Micro businesses account for 91% of the sector. This reflects the national picture and the fact that most businesses are relatively new. The Norwich study identified approximately 100 businesses in the city active in digital innovation, with sub sector specialisms including publishing of computer games, web portals and other ICT and computer service activities.

The New Anglia LEP evidence base lists Norwich's digital strengths in telecoms, cyber security, quantum technology, Internet of Things and user experience design. There is anecdotal evidence of a lack of grow on space for businesses wishing to scale from micro to small, and a need for flexible space to allow for growth for time limited project work. Alongside this, additional business support services appear to be required to nurture the growing business community. Access to local venture capital is an issue for the community.

The complementary strengths of UEA and Norwich University of the Arts (NUA) have been crucial to the strong development of the tech and digital creative sectors.

4.4.2 SQW undertook a detailed audit of Norwich's digital economy, and quantified Norwich's digital economy as shown in Figure 4.6. [42] The suggestion is that the digital sector accounts for around 2% of all jobs and 6% of firms. This in itself infers a high proportion of small firms. Overall it suggests a fairly small role for digital businesses in the Norwich economy.

Figure 4.6 The scale of Norwich's digital economy

Definition	No jobs 2016	No firms 2016
Tech Nation definition	1,750	280
… as % of total	1.9	6.3
NCC definition	1,250	265
… as % of total	1.4	5.8
No included in both	[1,165]	[250]

Source: SQW (2018)

4.4.3 The paper suggested that, in the five years from 2010-2015, digital employment in Norwich grew by around 40% and the stock of digital business by around 30% - substantially faster than the growth in the Norwich economy overall, (although broadly in line with the national average).

4.4.4 SQW noted that the trajectory of growth in digital jobs

presents an opportunity for Norwich, albeit one that needs to be nurtured. Specifically, the digital sector – whether measured in terms of jobs or enterprises and on both definitions – has grown more quickly than the city's economy as a whole over recent years.

[42] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

4.4.5 Figure 4.7 illustrates the growth in digital jobs and firms compared to all sectors. As can be seen, digital growth has been relatively rapid.

Figure 4.7 Growth in digital compared to all sectors, 2010-15

Definition	Annual growth rate in jobs, 2010-15	Annual growth rate in firms, 2010-15
Tech Nation definition	3.1%	5.3%
NCC definition	6.8%	5.3%
All sectors	1.2%	2.3%

Source: SQW (2018)

4.4.6 SQW draw attention to the fact that, within the digital sector, growth dynamics have been more variable. For example, computer consultancy activities, other information technology, computer service activities and computer programming activities have seen rapid growth, both absolutely and relatively (and hence location quotients have increased). However, there has been a really quite significant decline in job numbers in other telecoms activities and data processing, hosting and related activities.

4.4.7 Neither the job numbers nor the firm numbers hold any significance on their own. We do not know whether they are large or small. Thus SQW compare Norwich alongside comparator cities elsewhere in the UK. From this wider perspective, the strength of the overall narrative is more equivocal. It appears to suggest that Norwich's digital sector is comparatively small and its historic growth rate has generally been slower than elsewhere. Brighton & Hove and Cambridge in particular, have seen higher growth rates from higher starting points; and while Exeter's growth profile has been similar, its digital sector is relatively bigger (in terms of employment). In thinking about the future of Norwich's digital economy, there may well be lessons and insights to draw upon.

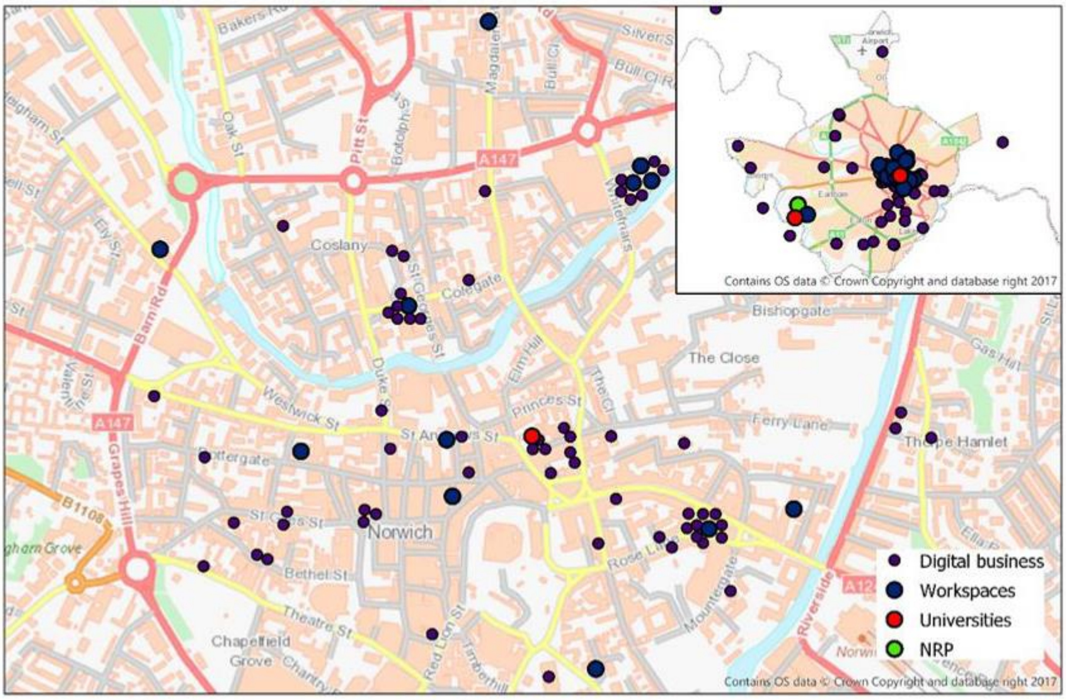
4.4.8 SQW make three further significant observations.

- Digital businesses are quite strongly concentrated in central Norwich (Figure 4.8). While there are some exceptions (such as Epos Now), the key 'focal points' for digital businesses are within the Inner Ring Road. The key digital sector-oriented workspace offer (encompassing St George's Works, St James's Mill, the Union Building and Fuel Studios) are all centrally located, having a preference for the city centre, partly driven by transport considerations and by the value of the 'urban buzz'.

- Digital growth has been underpinned by relatively small, but active, incubator facilities, offered both by the private sector (the now closed Whitespace at St James's Mill) and the universities (such as Norwich University of the Arts' Ideas Factory). Some of Norwich's larger digital businesses (including Rainbird) developed in their early years out of Whitespace, and the facility has offered an important base for events, networking and 'bringing the sector together'.

- Both of Norwich's universities make an important contribution to the local digital landscape, both in supporting entrepreneurship and in driving the supply of higher-level skills. The two universities have complementary strengths (Norwich University of the Arts in creative digital and areas such as visual effects (VFX); University of East Anglia in computer science and science with a substantial 'digital' component).

Figure 4.8 Location of digital firms in Norwich



Source: SQW (2018)

4.4.9 The SQW research demonstrated that the digital sector in Norwich is quite diverse. The largest SIC codes represented are in 'other IT and computer service activities', 'computer programming' and 'computer consultancy'; but there are also businesses that fall outside of the formal Tech Nation and NCC definitions, such as 'specialised design', 'video production' and 'motion picture production', as well as in retail and financial services-related activities. Broadly, the sector can be divided into two major areas of activity.

- **Product technology** businesses developing software and systems. Examples include Validus IVC, Epos Now and SessionCam; as well as Rainbird Technologies (an artificial intelligence platform with a customer base largely in the financial services industry); Thyngs (contactless services for mobiles) and Location Sciences (mobile location software, originally established in Norwich as Proxama).

- **Digital marketing, creative** and related activity, which accounts for a substantial share of the identified business base and covers a wide range of activities from user experience software to web design and development. Prominent companies in this segment include Foolproof and Fountain Partnership.

4.4.10 In summary, and depending on which definition is adopted, Norwich appears to have something in the order of 1,500 digital jobs, which account for c1.5% of all jobs. The digital jobs are growing faster than the wider economy, as might be expected. Hypothetically, and using the gross numbers here, Norwich's entire digital community could fit into a building of less than 20,000 sq m. For comparison, that would be a building a little larger than St Stephen's Towers.

4.5. Potential for growth

4.5.1 GVA undertook a detailed assessment of future demand for floorspace. [43] The following paragraphs draw out the more salient points from this work, including the forecasts for floorspace demand.

4.5.2 It should be noted that the forecasts are for Greater Norwich (Broadland, Norwich and South Norfolk) as a whole rather than Norwich city. Also, their base forecast used the East of England Forecasting Model (EEFM), which is well established. This describes the 'business as usual' scenario for Greater Norwich to 2036 across 31 economic sectors, presented as FTEs to allow for direct translation into floorspace needs. The baseline forecast employment growth would see approximately 34,300 FTE jobs created within Greater Norwich over the Plan Period (2014-2036), an increase of 13%.

4.5.3 Translating this growth at a sector level into major use categories for planning purposes shows that the highest level of growth proportionally (18%) is within office (B1a) activity, representing a significant 9,250 increase in jobs. As discussed previously these results are predicated on a combination of historic performance and national sector trends, alternate growth scenarios that draw on local characteristics are considered later in this section.

4.5.4 Using the employment density assumptions, these job creation forecasts are translated into additional floorspace requirements. Without making any allowances for windfall losses or churn, the base forecast estimates the 9,250 additional jobs translates to almost 111,000 sq m of demand for B1(a) space across the three districts of Greater Norwich. This is discussed further in Section 5.2.

Enhanced Sector Growth forecast for Greater Norwich

4.5.5 The alternative, ESG growth scenario, builds upon past economic performance, the strengths and weaknesses of the local economies, factors expected to influence future growth, and the wider macro-economic context for key economic sectors.

- **Life Sciences** The sector is likely to see an increase of at least 250 jobs over the next 20 years. Most of this growth will be underpinned by major

[43] GVA (2017a) *Greater Norwich: Employment Land Assessment* December 2017

institutional occupiers such as the Norwich Research Park Cluster, Institute of Food Research and Norfolk and Norwich University Hospital Foundation and the University of East Anglia.

- **Professional, Business and Finance Services** The sector will grow at a more conservative pace in Greater Norwich than nationally, but still greater than EEFM, at an average of 1.5% per annum. This equates to an increase of an overall growth of 15,000 jobs within this sector.
- **Advanced Manufacturing and Engineering** Forecast for creating an additional growth over 2% per annum within the identified sectors for the period up to 2036.
- **Creative and Tech** Publishing & broadcasting likely to see almost neutral growth and the ICT sector to show an increase by an additional 1,000 jobs.

Again we return to this forecast in Section 5.2.

4.5.6 The *Norwich Economic Analysis* undertaken by GVA Hatch highlighted seven key future growth sectors. Three of these (Life Science, Advanced Manufacturing and Food & Drink) are less relevant to the discussion regarding office accommodation in the city centre. The remaining four are as follows.

Financial Services Norwich is the largest general insurance centre in the UK, with commensurate support functions and supply chain. However the sector is being affected by regulation, a shift in technology and the way customers expect to access services. FinTech companies are breaking the dominance of the largest players, and as a result are one of the fastest-growing areas. The EEFM shows that in the NPA between 2016 and 2045: the finance sector will decline by 21%, despite the fact that it is presented by GVA Hatch as a ‘growth sector’.

Digital The world of digital is rapidly changing and the NPA has some key digital and technology strengths. It has seen 33% growth in digital employment; three times the national rate. The NPA is well positioned to attract high quality technology and digital related inward investment and research institutes exploiting digital technologies.

Creative Industries The NPA has a concentration of creative industries and a thriving digital creative scene with a cluster of digital arts companies located in the city centre in particular. Norwich boasts a number of organisations and festivals of national importance. The major trends of continued digitisation throughout the sector, fragmentation of audiences, changing user behaviours, convergence and cutting out the middleman – have all contributed to the emergence of a digital landscape of increased complexity. These trends are a historically high level of low-knowledge work.

KIBs Encompass a range of activities including computer services, research and development (R&D) services, legal, accountancy and management services, architecture, engineering and technical services, advertising and market research, among others. KIBs typically employ a greater proportion of highly-skilled workers than other sectors of the economy. The rise in business services employment has been particularly striking in recent decades.

4.5.7 These four sectors lie at the core of the 'office economy', which we refer to elsewhere. And it is the case that the four sectors overlap in terms of their accommodation requirements.

Constraints to growth

4.5.8 The current study focuses on office accommodation as a potential constraint for grow-on firms in Norwich, but there are other factors also acting as constraints. SQW highlighted a number of factors that might be constraining the growth of Norwich's digital economy. [44]

- Despite being a university city, workforce qualifications are relatively low. Within Norwich, the incidence of working age residents with at least degree-level qualifications is very close to the national average, but it is 15-20 percentage points lower than in comparator cities.

- Compared with other cities, Norwich has relatively few self-employed residents and a low incidence of people who work at, or mainly from, home. This is important as an indicator of propensity to entrepreneurship and freelance activity.

4.5.9 Despite such caveats, there are relatively high numbers of employees in digitally-related occupations, such as programmers and software development professionals and web design professionals. Not all of these will be working in the digital sector, but those working in digitally-related occupations form an important part of the talent pool for the sector.

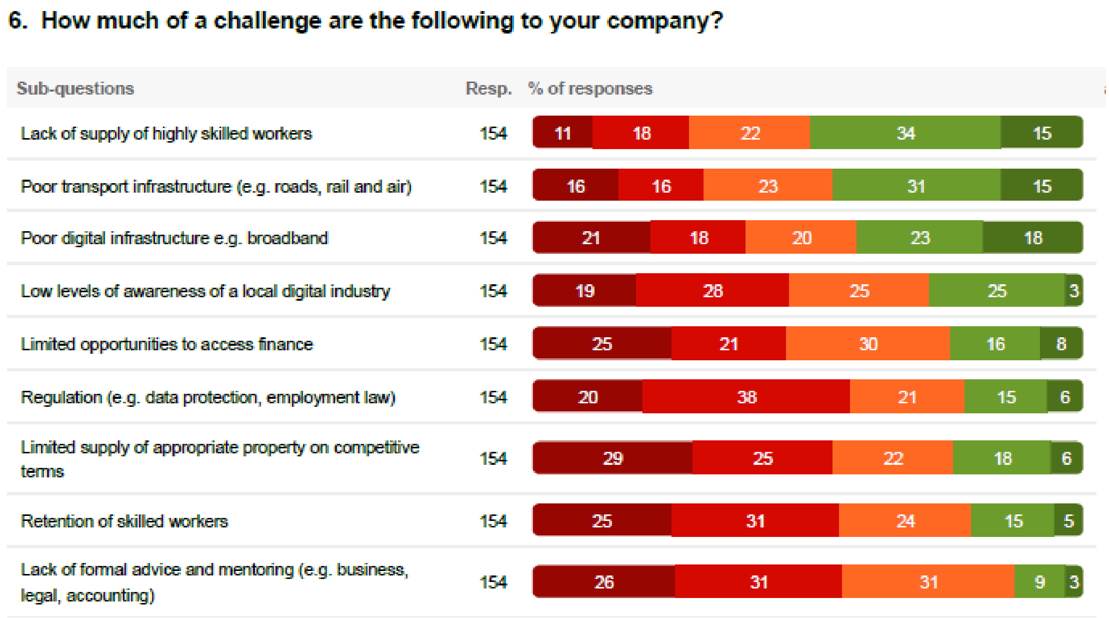
4.5.10 Figure 4.9 shows data extracted from a Tech Nation report, based on a survey in 2016 which received 251 business responses. [45] The colours on the chart range between 'not a challenge' (to the left) and 'a major challenge' (to the right). As can be seen, the greatest areas of challenge include access to skills, transport infrastructure and digital infrastructure. The supply of property on competitive terms is a comparatively less important factor.

4.5.11 The point about access to labour was reinforced in a New Anglia LEP report of 2017, which found a potential gap (driven by retirements) in the New Anglia Digital Tech sector workforce of 7,000 by 2024. [46] The LEP report cites UKCES Working Futures data forecasts, which suggested that, between 2014 and 2024, c311,000 people would leave the New Anglia workforce through retirement, occupational mobility and migration.

4.5.12 Taking into account growth rates and job openings as well as demographic change, the LEP projected a shortfall between 2017 and 2024 of close to 7,000 positions.

[44] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision*
[45] Tech Nation (2017) *Norwich*
[46] New Anglia LEP (2017) *Digital Tech Sector Data Pack* Draft Version 2.2.1, 24th Mar 2017

Figure 4.9 Challenges for digital companies in Norwich



Perception

4.5.13 According to the web site 'start-ups.co.uk', Norwich is ranked 24th of 25th as a favoured city for start-ups. [47] The web site argues that while Norwich will provide a good home for businesses in the energy, food and agriculture sectors, "*support for businesses in other mainstream industries is fairly limited*". The site notes that both traditional and green energy businesses are well supported through a variety of schemes, and that Norwich and its surrounds have always been closely associated with agriculture, being one of the last regions in the UK in which agriculture still thrives. Consequently, there are numerous support and growth initiatives to help firms in the farming and food sectors. The report then states that there "*is also a small but burgeoning tech scene*", with networks such as SyncNorwich working to build a technology community.

4.5.14 Norwich and the surrounding area have proved to be a remarkably stable environment for start-ups, as opposed to the more volatile conditions found in bigger cities (Figure 4.10). 535 businesses closed down in 2015 – the third lowest rate in the UK, just behind Oxford (480) and Cambridge (490). [48] But the Index goes on the state that

> *there is no getting away from the fact that Norwich is a fairly remote place. It is the only major city in the region and London is almost three hours' drive along the A11 motorway, which connects Norwich with London and the South East. Norwich International Airport is a short drive from the city centre, but almost all of the international destinations it serves are via Amsterdam – not ideal if you are a business that relies heavily on international trade.*

[47] Start-up Cities Index: https://startups.co.uk/starting-a-business-in-norwich/
[48] Start-up Cities Index: https://startups.co.uk/starting-a-business-the-uk-statistics/

Figure 4.10 Start-up survival rates, 2015

City	Business population	New start-ups	Business closures	Survival rate (%)
Cambridge	5,295	3,410	490	49
Aberdeen	10,230	1,090	1,055	46
Brighton	14,765	2,115	1,460	46
Oxford	5,265	685	480	45
Norwich	**5,110**	**620**	**535**	**44**
Bristol	19,225	2,795	1,825	43
Leeds	28,905	4,315	2,785	42
Plymouth	6,470	875	780	42
Sheffield	16,905	2,285	1,750	42
Milton Keynes	12,975	2,225	1,240	41
Cardiff	12,090	1,800	1,195	40
Leicester	11,860	1,915	1,275	40
Nottingham	9,485	1,400	1,075	40
Southampton	7,380	1,385	825	40
Coventry	10,520	1,865	1,045	39
Glasgow	20,235	3,185	2,335	39
Newcastle	8,695	1,260	930	39
Canterbury	5,560	700	545	38
Liverpool	14,055	2,435	1,560	38
Swansea	6,730	890	740	38
Belfast	10,590	1,165	800	37
Edinburgh	20,260	3,055	2,070	37
Birmingham	37,200	7,310	4,030	36
Hull	6,445	870	630	36
Manchester	21,815	4,190	2,675	36

Source: Start-up Cities Index

4.6. Summary: constrained demand?

4.6.1 Chapter 3 of this report demonstrated that Norwich is set to lose a third of its office stock if all existing consents are implemented. New office development has been unviable for several years; new supply has been meagre, and the majority of stock grows older. These are unusual market conditions for a city of Norwich's regional stature.

4.6.2 The fragility of the market is shown in some of the demand indicators reported in this chapter. For example, of a total job market of c93,000, the wider office economy employs around 14,500 – which is half the size of Cambridge. Furthermore, there are signs that the office economy, in terms of job numbers, is shrinking. The digital jobs are growing faster than the wider city economy, as might be expected, but the growth is no faster than the regional average.

4.6.3 Within the wider office economy, definitions of the digital sector vary widely according to the source used. But one estimate of Norwich's digital sector is that it comprises c1,750 jobs (2% of the total) in 280 firms (6% of the total). Digital businesses are quite strongly concentrated in central Norwich. Both of Norwich's universities make an important contribution to the local digital landscape, both in supporting entrepreneurship and in driving the supply of higher-level skills.

4.6.4 Office demand in Norwich is thus an amalgam of the wider office economy and the digital sector. For the purposes of understanding supply-demand dynamics, we can treat them as being one and the same.

4.6.5 Taking this wider grouping, it can be seen that there are certain constraints to growth in Norwich. The previous chapter set out the physical constraints, in terms of a shortage or premises and new development. But to this must also be added (a) the fact that workforce qualifications are relatively low (15-20 percentage points lower than in comparator cities) and (b) that Norwich has relatively few self-employed residents and a low incidence of people who work at, or mainly from, home. This is important as an indicator of propensity to entrepreneurship and freelance activity.

4.6.6 There can be little doubt that the digital economy, and the wider office economy, will have a greater role to play in the future if Norwich is to remain a growing and competitive city. It is therefore critical that every opportunity is taken to nurture and develop particularly small, growth businesses. But it is also critical to enhance Norwich's appeal to larger employers, which will require a raft of 'softer' measures including city marketing and a comprehensive property offer.

5. Market dynamics and council intervention

5.0.1 In this chapter, we weigh-up the evidence of the previous chapters and address the questions set out in Section 1.3. We summarise the market dynamics, revisit demand forecasts and examine market failure in the form of shortages in suitable accommodation. We address the economic benefits of Council intervention and outline the importance of the office market to Norwich's economy as a whole.

5.1. Current office market dynamics

5.1.1 Here we provide a summary of the current office market, with particular reference to the manner in which the issues discussed in the previous three chapters combine and impact on the availability and suitability of office accommodation for digital and wider office economy SMEs.

- Norwich city centre office market is a highly constrained, not to mention, shrinking, one. Having lost nearly one-third of its stock, choice available to occupiers is limited. Rents are higher out-of-town than in the city centre, a highly unusual situation having a big impact on the centre's prospects.

- The length of time some space has been on the market, combined with knowledge supplied by market actors, powerfully suggests that some of the space lost was effectively uninhabitable and therefore unlettable because it had been 'disabled' by the owners as a means of avoiding empty rates liability. We would expect such space to be already discounted in the marketplace, meaning its loss should have no impact on rents.

- However, the clear evidence from local agents is that rents for good quality second-hand space have increased by as much as 50% (from a low base). From this we infer that enough perfectly lettable space has been lost to cause rental growth, even if not enough to make new development an attractive proposition.

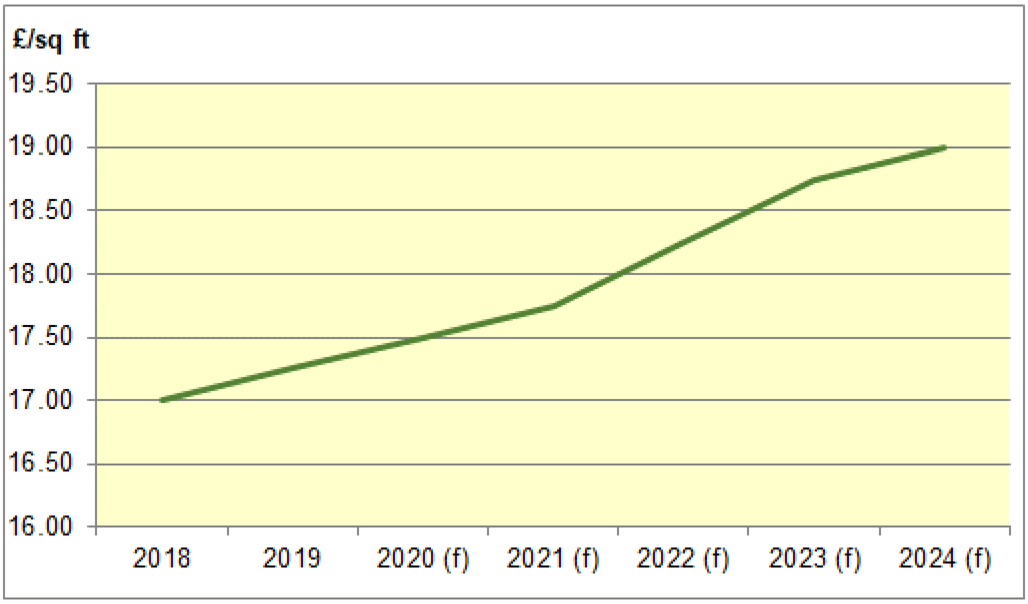
- Developer/investor interest is deterred both by low rents and rental growth prospects. Rents and values are not expected to rise sharply in either the short- or medium-term (Figure 5.1). While refurbishment is a more viable path forward, it is a simple truism that the more work a building needs to bring it up to acceptable standards, the less viable it is.

- In the absence of new development, the risk that existing stock will continue to age and deteriorate is a real one. This could have a negative impact not only at the building level, but at the level of the attractiveness of Norwich to business as a whole.

- As we saw in the previous chapter, Norwich's office economy is, in fact, quite small compared to similar cities. Official data suggest that the city's office economy jobs have shrunk in recent years, although it is not clear whether these are simply relocations nearby or absolute losses.

- While the 'digital sector' is present in the city centre, and analysts seem to rate it very highly in terms of dynamism and growth *potential*, there is little other than anecdotal evidence of pent-up demand awaiting suitable accommodation.

Figure 5.1 Forecast rents, Norwich, 2018-2024



Adapted from Bidwells (2020)

- This is not to say the demand is not there, and there is a reasonable argument that the lack of choice in the marketplace is causing occupiers to 'make do and mend' rather than actively search for property that they do not believe is available.

- Certainly, where older stock has been refurbished with an eye to the digital sector, such as at Union House, there is evidence of market demand.

- This study has found a very thin provision of 'flex space' (see Section 6.1) which, in most regional cities, has been the mainstay of growth over recent years. This is a worrying situation because, if it reflects operators' perceptions of potential demand, then market expectations are clearly low.

- Nevertheless, Norwich's fundamental problem remains that it is a small market with work to do if it is to attract inward investment, which is the gold standard for generating self-sustaining property markets.

Rental levels and viability

5.1.2 Potential rental growth will be the result of a matrix of interacting factors, but the key point here is that rents are structurally low in Norwich. Bidwells recent research suggested that prime office rents have reached £17 sq ft and that these could rise to £19 sq ft by 2024. [49] Irrespective of recent economic disruption caused by COVID-19, it seems that viability remains someway off.

5.1.3 Experience from office markets in comparable towns and cities suggests that for a site to be viable for redevelopment, rents need to be growing comfortably past the mid-£20s per sq ft range; and investment yields need to be falling below around 6.5%. That is to say there needs to be a track record of rental growth and the expectation of continued rental growth. We address the question of viability more

[49] Bidwells (2019) *Our View on Norfolk/Suffolk Offices* Summer 2020

fully in Section 3.4. With the best will in the world, there is little evidence that Norwich meets either of these criteria.

5.1.4 As seen in Figure 5.1, rents are forecast to grow from £17 sq ft to £19 sq ft over the five years from 2018 to 2024. Given prospects for local demand, not to mention wider economic conditions, viability might not be reached within the coming decade. Given such circumstances, provision of new space for office economy firms is unlikely to be forthcoming. As mentioned in Sections 3.4 and 3.5, this suggests that public intervention will most likely be required, and probably at more than a mere 'pump-priming' level. But the viability of such a move, of course, rests on the expectation that there will be sufficient demand to fill publicly-funded, or public-private funded, new space.

5.1.5 Given the non-viability of new development, then one strategy for easing the supply situation would be to encourage refurbishment of older space. This could be a more viable means of encouraging affordable space for smaller businesses.

5.2. Demand forecasts

5.2.1 This section seeks to provide a forecast of likely future demand for offices, and of rental levels that could be achieved in the short-, medium- and long-term.

Current demand forecasts

5.2.2 GVA's *Employment Land Assessment* calculated future demand for office space across the Greater Norwich area. [50] However, this modelling has been somewhat overtaken by events, with both the uncertain consequences of the Brexit referendum and the extension of Permitted Development Rights undermining core assumptions.

5.2.3 Nevertheless, given the statutory role of this document, it should be our starting point in answering the question. GVA translated the East of England Forecasting Model (EEFM) and Enhanced Sector Growth (ESG) model into future floorspace requirements, which are shown in Figure 5.2.

Figure 5.2 Greater Norwich office floorspace and land demand, 2014-36

Model	Jobs 2014-36	Floorspace (sq m) 2014-36	Land (Ha) 2014-36
EEFM			
Office B1	9,250	110,998	11
ESG			
Office B1	14,455	173,459	17

Source: GVA (2017a)

5.2.4 The report used the EEFM model to forecast that Greater Norwich will require almost 111,000 sq m (slightly more than it has lost since 2008) of additional B1(a) space to accommodate 9,250 additional office workers between 2014 and 2036. This is a jobs-growth calculated need. The more optimistic ESG model

[50] GVA (2017a) *Greater Norwich: Employment Land Assessment* December 2017

suggested a demand for an additional 173,000 sq m of workspace, based on a growth of 14,450 jobs.

5.2.5 The inclusion of 'windfall' and 'churn' demand, recognising that office space can be lost for reasons unrelated to job losses, increases overall demand significantly, as shown in Figure 5.3. The EEFM forecast above grows from c111,000 sq m to 278,000 sq m, while under the ESG forecast, demand jumps from c173,000 sq m to over 340,000 sq m.

Figure 5.3 Greater Norwich office floorspace and land demand, 2014-36

Model	Floorspace (sq m) 2014-36	Allowance for windfall losses (sq m)	Allowance for churn (sq m)	Change in floorspace (sq m)
EEFM				
Office B1	110,998	112,545	54,527	278,070
ESG				
Office B1	173,549	112,545	54,527	340,531

Source: GVA (2017a)

5.2.6 As already stated, these forecasts relate to the Greater Norwich area of Broadland, Norwich and South Norfolk and GVA do not provide disaggregated forecasts. However, we can make a crude attempt at disaggregating. Currently, employment land is distributed 29% in Broadland, 40% in Norwich and 31% in South Norfolk. If we assume for a moment that these proportions reflect the location of future demand, then it can be inferred that Norwich will experience c112,000 sq m of additional office demand under the EEFM (40% of 278,000 sq m) and c136,000 sq m of additional office demand under the ESG (40% of 340,000 sq m).

5.2.7 Assuming future demand will occur in proportion to existing employment land distribution is a crude assumption. Nevertheless it provides us with some insight into the potential scale of demand for office space in Norwich.

5.2.8 There are, however, four very important points to make about the GVA forecasts.

- The research for the GA report took place during the middle of 2017, and would not have benefited from knowledge of the impact of Permitted Development Rights, as discussed in Section 8.3 (around 66,000 sq m was lost in 2016 and 2017). The forecast does not take account of this very large loss of capacity.
- Secondly, it is now clear that the amount of new development that has occurred 2014-2020 is negligible – virtually no net increase in stock. So we have had six years (over one-quarter) of a 22 year forecast when no change has occurred.
- Thirdly, the GVA forecasts are unlikely to have been impacted by the Brexit discussions, and obviously could not have foreseen today's potentially damaging impact of COVID-19.
- Finally, according to ONS, Norwich has actually *lost* office jobs; its office economy has shrunk, and there is little sign of growth on the horizon.

Taking these four factors into account, the original GVA forecasts seem to illustrate the limitations of this commonly used method of forecasting.

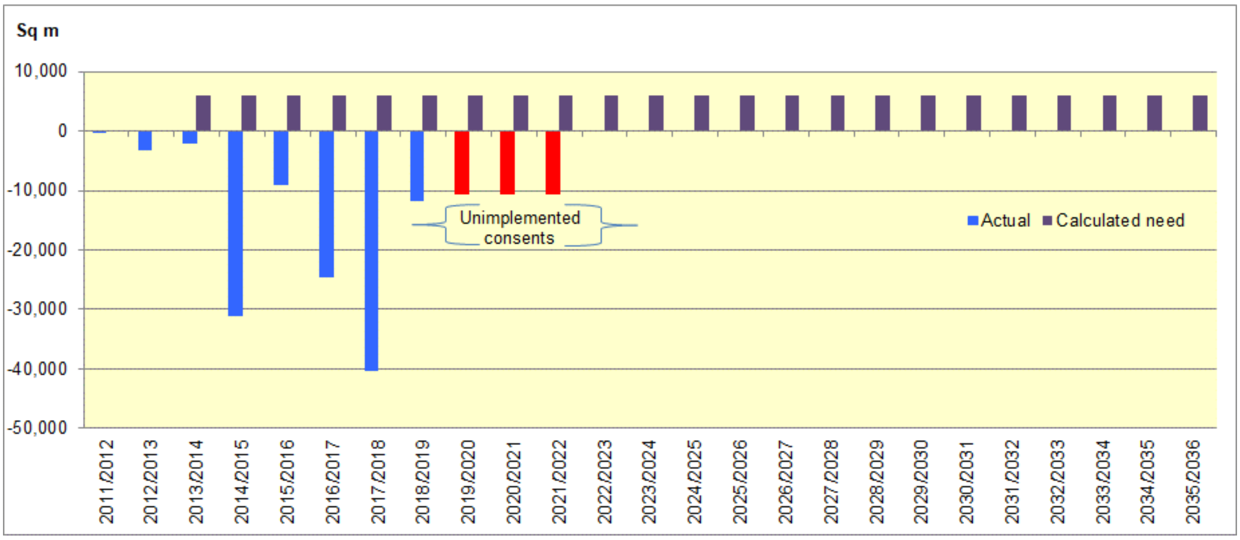
Revised demand forecasts

5.2.9 Based on a very simple occupancy ratio of 12 sq m per desk/person; the revised (40%) forecast for Norwich of 136,000 sq m suggests nearly 11,500 net additional office jobs being created within the city economy, 2014-2036. If we net this figure down to take account of the six lapsed years since the forecast, then those 11,500 jobs would need to be created in just 16 years, a rate of over 700 new jobs per year. Even on the EEFM model, 112,000 sq m of projected demand suggests nearly 9,500 additional jobs through to 2036, a rate of nearly 600 per year.

5.2.10 However, according to NOMIS, over the period 2015-2018, the key office economy sectors of Information & Communications, Finance & Insurance, Real Estate and Professional Services have in combination lost 1,300 jobs. So Norwich must turn around a net loss of office jobs before it can even begin considering adding to its office stock.

5.2.11 The starkness of this fact is illustrated by taking the pro-rata Norwich figure of 136,000 sq m and annualising over the period of the original needs estimate (ie 2014-36) and comparing with outturn to date (Figure 5.4). The annualised figure equates to a needs estimate of 5,910 sq m per year over the 22-year period. We distribute the unimplemented consents over three years, to when they would expire.

Figure 5.4 Actual versus needs estimate



Source: Ramidus Consulting, adapted from GVA and NCC [51]

5.2.12 The fundamental question, that has not been asked to date, is why so much space has been lost to residential. The needs estimates presented seem to rest on the implicit assumption that office-to-residential conversions will, of necessity, be replaced by new office stock. However, if this were the case, we would expect to see that reflected in rents and yields such that office development would be competitive with residential conversion. This, manifestly, is not the case.

[51] Norwich City Council et al *Joint Core Strategy for Broadland, Norwich and South Norfolk: Annual Monitoring Report 018-19* January 2020

5.2.13 The big question that remains is: if not 136,000 sq m of growth (or 112,000 sq m), then what?

5.2.14 This project has not involved undertaking a revised forecasting exercise. We can therefore only comment informally. But it seems that both the EEFM and ESG forecasts need to be revised downwards sharply. In Figure 5.5, we have reduced employment growth projections from 420 (EEFM) per annum to 300 and from 657 (ESG) to 400, We have assumed the same floorspace ratio; and simplified the windfall and churn assumptions.

Figure 5.5 Revised (informal) Greater Norwich office floorspace and land demand, 2020-36

Model	Jobs 2020-36	Floorspace (sq m) 2014-36	Allowance for windfall & churn (sq m)	Change in floorspace (sq m)	% of GVA
EEFM					
Office B1	4,800	57,600	50,000	107,600	38
Enhanced					
Office B1	6,400	76,800	50,000	126,800	37

Source: Ramidus Consulting

5.2.15 This reduces the Greater Norwich EEFM floorspace demand forecast from 278,070 sq m to 107,600 sq m; and the ESG forecast from 340,531 sq m to 126,880 sq m. Working these figures through on the 40% principal reduces Norwich city's forecast from 112,000 sq m to 43,040 sq m (under EEFM) and from 136,000 sq m to 50,720 sq m (under the ESG).

5.2.16 With demand potentially running at c43,000-c51,000 sq m, over a sixteen year period, this represents an annual demand (on a straight-line basis) of 2,700-3,200 sq m per annum.

5.2.17 Given that, between 2015 and 2019, there was an annual average of 11,000 sq m of lettings (mostly second-hand), in 39 deals averaging 280 sq m each, the revised demand forecasts appear more likely than those in the original GVA report. We would emphasise, however, that this report was not commissioned to formally revise the forecasts, and the re-workings presented are crude and meant for illustrative purposes only.

5.3. Market failure and lack of suitable accommodation

5.3.1 This section assesses what can be done to address the market failure and lack of suitable accommodation for digital businesses in the city centre.

5.3.2 At the outset, we would reinforce the point about modern businesses and the attractions of town centres. While business parks and other out-of-town situations suit certain kinds of activities (corporate HQ, life science, advanced manufacturing and so on), city centres are increasingly attractive to KIBs. As reported by SQW:

> *In consultation, businesses expressed a preference to remain in the city centre, partly for 'cultural' reasons (urban buzz, access to after-work activities …), partly for proximity to other digital businesses, and partly for*

practical reasons (such as access to public transport). Reflecting a combination of these factors, a city centre location is seen as important in terms of staff recruitment and retention. [52]

So, if there is a market failure in the provision of accommodation, then it will have an impact on growth.

5.3.3 Chapter 4 quantified and described Norwich's digital sector, and its wider office economy. The research demonstrated a number of key points that bear on market failure and the suitability of accommodation.

- The city's office economy, generally, is comparatively small and fragile. There are fewer office jobs than might be expected.
- Official statistics suggest that office jobs have shrunk in recent years.
- While the digital sector has transformative potential, it remains in a nascent state in Norwich.

5.3.4 There is also reported to be anecdotal evidence of a lack of grow on (500-1,500 sq m) space for businesses wishing to scale from micro to small, and a need for flexible space to allow for growth for time limited project work. [53] This is particularly the case in the city centre. There is a growing risk that these businesses could move away from the city, thereby further restricting growth in Norwich's KIB jobs.

5.3.5 According to Bidwells, the average ten year take-up rate for the whole Norwich office market to end-2019 was c175,000 sq ft (16,000 sq m). But in each of the past three years, this has been less than 150,000 sq ft (14,000 sq m). In 2019. The largest letting in H2 2019 was just 6,660 sq ft (620 sq m). Nevertheless agents Bidwells report that, overall, demand improved in 2019, and expressed growing concern that the market might be unable to respond to a resurgence in demand.

5.3.6 GVA found that Norwich had sufficient employment land overall, but that most of the supply was away from the city centre, ie, not in the preferred location for some growth sectors, such as the digital sector. [54]

5.3.7 This study has made extensive reference to secondary sources. But there is one report in particular that addresses the suitability of accommodation in Norwich. This was the study by SQW, which drew some important conclusions which merit being quoted in full for their critical bearing on the current study. [55] The key salient paragraphs are re-produced below.

The current offer for micro businesses appears to be sufficient, and offers diversity to the market – although there are some challenges in sustaining provision …

Generally, the available offer to micro and small businesses (co-working and hot-desking space and small 1-3 person offices) seems to be adequate. In

---

[52] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

[53] Norwich City Council (2018) *Digital Economy and Growth* Report to Digital Innovation & Efficiency Committee 11th July 2018

[54] GVA (2017b) *Greater Norwich: Employment, Town Centre & Retail Study Strategy Advice* December 2017

[55] SQW (2018) *op cit*

consultation, most businesses considered that the availability of space for micros was broadly satisfactory and had improved significantly in recent years.

However, there are challenges associated with the provision of incubator and co-working space, which may limit the ability of provision to keep pace with demand: in particular, the uncertainty associated with low and flexible rents in the absence of larger and more secure tenancies limits viability, as indicated in the demise of Whitespace (and the need for Ideas Factory to be subsidised by NUA).

There is an adequate supply of office space for larger businesses…

Despite the relative lack of quality stock, for businesses able to enter into longer-term leases, there appears to be a sufficient supply of space to expand: in quantitative terms, the supply is substantial.

… but there is a workspace challenge for businesses scaling up from micro to small …

The situation appears to be somewhat more challenging for businesses growing to ten or more staff. Broadly, the challenge is that as businesses expand, the need for confidentiality and security increases (as well as the need to accommodate increased staff numbers), so having clearly-defined premises (with an 'own front door') becomes important. However, in a sector which remains relatively new, the need to contract as individual projects come to an end is also an important consideration, reinforcing a need for flexible lease terms which are not always available within the conventional office market.

5.3.8 The picture is thus a little ambiguous. The following section examines the suitability of accommodation at a more detailed level.

Suitability of accommodation

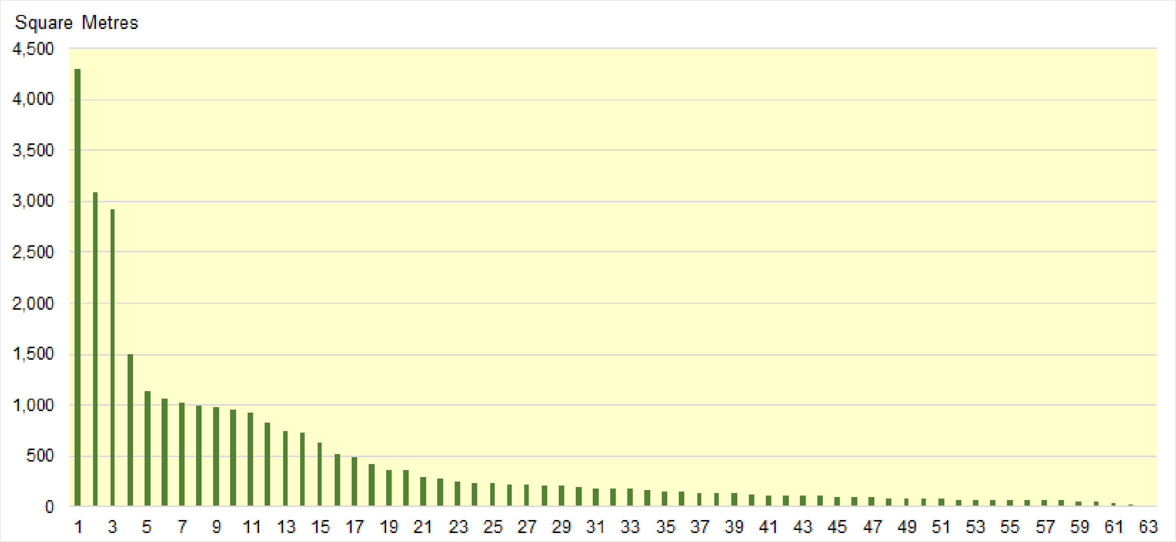
5.3.9 The market failure, or lack of suitable accommodation in the city, is partially evidenced by the availability data. The data show that in May 2020, there were just 63 units available, which is a small absolute number. Figure 5.6 shows the spread of the available units in terms of unit size.

5.3.10 The chart clearly shows a few 'large' units (of 3,000 sq m +), and a long tail of very small units. Even at the 'larger' end of the spectrum, there are just four units larger than 1,500 sq m which, from a wider office economy perspective, represents very poor choice.

5.3.11 In terms of grow-on space for the digital sector, Figure 5.7 shows available space by size band. The smallest size band, <100 sq m is not appropriate for grow-on space, as this is capable of supporting a maximum of only around 6 people. By contrast, the 100-300 size band can support between 6 and 20 people and is therefore more suitable. As can be seen, there were 24 units available in this size band.

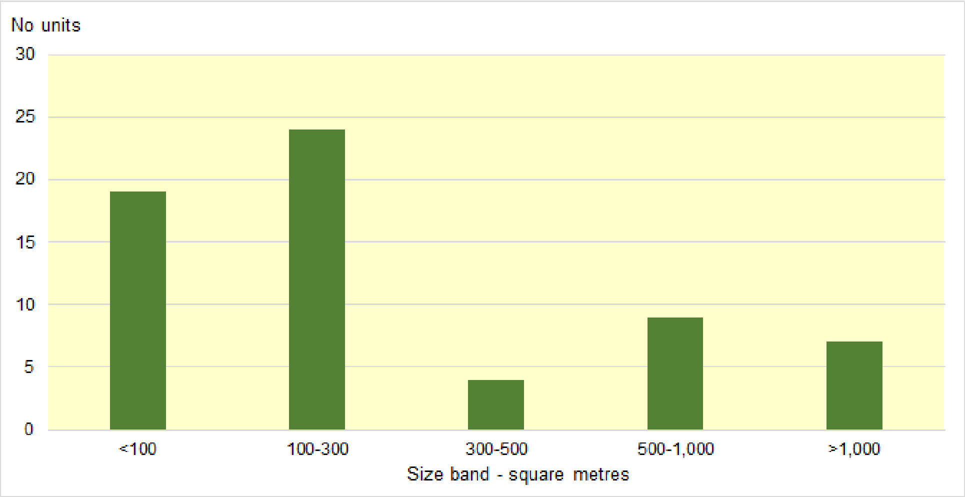
5.3.12 Both of these charts are indicative of market failure showing, as they do, very restricted choice in the market.

Figure 5.6 Available units, Norwich city, by unit size, May 2020



Source: Ramidus Consulting/EGI

Figure 5.7 Available units, Norwich city, by size band, May 2020



Source: Ramidus Consulting/EGI

5.3.13 We reviewed the available units in central Norwich, in the 100 sq m to 300 sq m size band in more detail. Figure 5.8 shows images of most of the buildings. What is apparent is the wide diversity of building types: size, age, condition, number of floors and so on. Many of the buildings lack character or proximity to restaurants, bars, etc. They stand alone and isolated. A few are non-descript converted residential properties. The quality of natural lighting in some must be poor.

5.3.14 The only buildings in the selection that might be remotely attractive to (the stereotypical) digital firm looking for grow on space are: Upper King Street, Seebohm House and St Vedast House.

5.3.15 If Norwich is to overcome market failure in the supply of suitable space, then the choice of space simply has to be more extensive. Older, secondary stock is perfectly acceptable, given an appropriate location. There is also the need for critical mass and the prospect of building a business community around a good quality service offering. Brand new buildings being marketed at top city rents will not be appropriate because they will be unaffordable to the key drivers of demand, ie, smaller businesses. Somehow, secondary or good quality refurbished stock needs to be found and brought to the market. A good example of such is Union House.

Figure 5.8 Available units, central Norwich, 100-300 sq m, May 2020

	
25-27 Surrey Street	**13-15 Cathedral Street**
	
10-14 Plumstead Road	**3-5 Orford Place**
	
Nedeham House, St Stephen's Rd	**Bridge Court, 1 Fishergate**

Figure 5.8 (Cont'd)Available units, central Norwich, 100-300 sq m, May 2020

	
Delft Way	**5 Recorder Road**
	
13-15 St George's Street	**19 Upper King Street, NR3**
	
111 Queen's Road	**123-129 Queen's Road**
	
Seebohm House, 2-4 Queen St	**St Vedast House, St Vedast St**

Flexible space market

5.3.16 In addition to analysing space being marketed on conventional leases, we also assessed the flexible space market in Norwich to help identify further capacity for grow-on space appropriate to the digital sector.

5.3.17 We were able to identify just twelve flex space centres (Figure 5.9). This is many less than we had expected to find. Several of the buildings were clearly obsolete 1970s/1980s corporate office buildings that have been re-purposed. Some are small, old and, essentially, not fit for purpose. Some appear to be landlord strategies for managing potential voids. There appears to be just one ‘brand’ operator present in the city.

Figure 5.9 The flexible market in Norwich, May 2020

Centre	Comments
5 Queen Street, NR2	Period building. Few units. 15-250 sq m.
17 Palace Street, NR3	3-storey Georgian building.
18-20 Prince of Wales Road, NR1	Period building; small ground floor unit.
25-27 Surrey Street, NR1	1970s offices above retail. Three storeys. Whole let?
Capitol House, Heigham St, NR2	
Cavell House, Stannard Place, NR3	IWG/Regus. Grade A, modern office building.
Diamond House, Vulcan Road, NR6	1970s corporate office building, 20 units of 11-170 sq m.
Fuel Studios, Pottergate, NR2	Refurbished 1970s building. Three units available. Good grow-on space.
Kiln House, Pottergate Street, NR2	Large 1980s spec office building.
Riverside Business Centre, 61-63 Riverside Road, NR1	
Rouen House, Rouen Road, NR1	NWES. 12 units of 300-500 sq m.
Sackville Place, 44-48 Magdalen Street, NR3	Large 1970s spec office building.
St George’s Works, 51 Colegate, NR3	Historic building in the city’s ‘creative quarter’. Includes accelerator Techvelocity Ltd.
Union Building	Refurbished 7,000 sq m 1970s NU building.

5.3.18 SQW identified 12 managed workspace locations suitable for digital sector SMEs (in addition to further facilities at UEA and Norwich Research Park), recognising also the imminent closure of Whitespace. SQW included Epic Studios (Magdalen Street), Space Studios (Swan Lane) and Ideas Factory (St Andrew’s Street) among their twelve units. We have not included these here because they specialise in the creative arts sector and do not provide suitable grow-on space for digital businesses. SQW described the flex space offer at the time as “quite fragmented”, and as being “diverse”, which seemed to imply a relatively poor quality offering.

5.3.19 Significantly, SQW's consultations with occupiers emphasised the importance of centre management: "*several businesses commented on the different workspaces that they considered before choosing those that met their needs, noting that the main locations … have different cultural feels and management styles*".

Incubators and accelerators [56]

- TechVelocity is a digital/tech accelerator based at St George's Works, 51 Colegate in Norwich. Accelerators seek something scalable on the customer side, to accelerate growth and to structure the business to prepare it for the next level of funding. They also consider products that will have a social impact, particularly in social housing.

- The Innovation Centre at Norwich Research Park offers 30 high quality office and laboratory units on flexible lease terms. Its offices and laboratories provide follow-on space for existing small companies that need room to expand as well as SME and start-up businesses Its science and research accelerator offers office space and a high-spec lab. The accelerator gives access to both on-site business mentoring and an angel network.

5.3.20 It should also be noted at this point that Norwich's only city centre incubator closed in 2018. Whitespace, based in St James Mill in Whitefriars, acted as incubator to several start-ups, including: Proxama (location marketing), Rainbird Technologies (AI) and Ubisend (chatbot-maker). The not-for-profit venture, including co-working space, opened in 2014. Whitespace also offered desks on a monthly basis to larger organisations, including Barclays Eagle Lab, the SyncNorwich networking group and tech accelerator TechVelocity.

5.3.21 The operator stated that: "*the city has become more competitive and we haven't had the support we wanted from public bodies and big businesses*." [57] SQW suggested that "*high running costs associated with the historic building in which it is based and some loss of tenants to other locations as they have required additional space (notably St George's Works), has impacted on viability*". [58]

Summary

5.3.22 At the time of our search, there were just 24 units being marketed, with conventional leases, in the 100-300 sq m size band – suitable for grow-on space. These were found within larger buildings that have little character, tend to be isolated and have a low specification. We identified just twelve centres offering flex space. Availability was low and some of the stock is quite old and not well refurbished.

5.3.23 The solution to the market failure lies in two, cross-cutting sets of criteria – building and locale. First, there must be a range of building types. The digital sector does not require a single, definable building type – they can and do occupy anything

[56] Incubators are managed centres that offer support to firms during their start-up phase, with the aim of actively enabling business growth. Accelerators focus on start-ups that have high growth potential, with intensive development and mentoring programmes.
[57] Eastern Daily Press *Incubator Which Helped City's Tech Scene to Thrive Announces it Will Close* 2nd June 2018
[58] SQW (2018) *Norwich Digital Research: Understanding Norwich's Digital Economy and the Opportunities for Future Workspace Provision* June 2018

from new grade A space to converted 19th century industrial buildings. There must be choice, variety and character – all at an affordable price.

5.3.24 It cannot be emphasised too much, that the building itself is a secondary factor to the management regime and the 'feel' of the work environment. Many flex spaces fail to reach their potential because landlords are seeking to minimise voids, and approach the situation from a 'space filling' perspective rather than one which puts customer management at the forefront.

5.3.25 The second set of criteria relate to the locale. An isolated secondary building will always be a second choice to one that is 'at the centre of things'. Small firms want to feel part of a business community – which is why large buildings with many occupiers work well – but they also require access to services and lifestyle.

5.3.26 Thus, in addition to the building characteristics, there are other key priorities for digital and office economy occupiers, including the following.

- Public realm – a sense of place, curation, community
- Food & beverage – a good range of cafes and restaurants
- Connectivity – public transport, bus and rail
- Venues and culture – cinemas, theatres and so on

5.3.27 It is the combination of choice of building and the wider externalities that will provide an attractive offering to office economy and digital economy firms, particularly those in the SME and growth sectors. Norwich city centre is replete with the externalities, mainly within easy walking distance from anywhere within it, but very short on choice of premises.

5.4. Economic benefits of Council intervention

5.4.1 This section addresses the economic benefits of Council intervention in the provision of space for the digital economy.

5.4.2 A thriving digital sector is an essential ingredient in most modern, service-based city economies. Traditional office jobs are in decline (as automation and other technologies make them obsolete), and the economy is becoming ever-more dependent upon digital technologies. Norwich is no exception to these general trends, and it is inconceivable that the Council's growth strategy should not include a strategy for the digital sector.

5.4.3 So most fundamentally, the benefits of public sector intervention are (a) to protect the city's economic vitality for the future; (b) to kick-start the process of growth and expansion and (c) to provide the means and mechanisms whereby private sector investors and developers might be encouraged to take a positive view on the city's prospects in this respect.

5.4.4 An expanding digital sector will increase the quality of the city economy. It will bring more, higher value job opportunities for local people; it will enable Norwich to remain a competitive city and it will discourage small, growing companies from leaving. These benefits are true also of the wider office economy, and this section addresses both of these interlinked sources of economic benefit.

Contributing to the City Vision

5.4.5 The themes of the Norwich *2040 City Vision* [59] are to create a city that is creative, liveable, fair, connected and dynamic. Council intervention to encourage to digital sector will help achieve these objectives in the following ways.

- **Creative** By increasing the diversity of employers, and enabling it to become more entrepreneurial. Promoting regeneration and the animation of public realm. Helping to attract and retain ambitious young people.
- **Liveable** Council intervention will provide living accommodation, alongside employment space, to enhance the liveability of the city.
- **Fair** Intervention will catalyse developments that ultimately will provide for lifelong learning, training and upskilling opportunities for those who live and work here.
- **Connected** A growing and successful digital and wider office economy will encourage the provision of leading edge telecommunications infrastructure which will improve connectivity not only within the city, but between the city and elsewhere.
- **Dynamic** By contributing towards an inclusive economy and growth; attracting and generating more investment in and support of independent businesses; increasing the number of multi-national businesses to complement the independent sector; maximising growth industries; shaping economic development to create more higher paid local jobs, and making Norwich a place for ambitious young people.

5.4.6 The Council's *Corporate Plan 2019-2022* projects that business rates will fall from £6.7m in 2019-20 to £6.1m in 2023-24. [60] In this context it is vital to seek ways to increase income. The Plan seeks to address this in Part 4, '*Inclusive Economy*'. The plan's overall aim in this respect is to continue to develop Norwich as "*a strong, vibrant and inclusive economy which is the key driver of growth and prosperity regionally, and one in which the benefits of economic activity are shared by all*". To this effect, the Council will work with Partners to

- mobilise activity and investment that promotes a growing, diverse, innovative and resilient economy;
- address barriers to employability and enhance social mobility, and
- improve the quality of jobs, particularly in low pay sectors.

5.4.7 The Council will present itself as open for business and investment and will work with the local businesses and universities to ensure that local young people have the opportunity to benefit from that growth.

The wider city and region

5.4.8 It should also be noted that the office economy in the centre of the city has a wider role in supporting the wider city and, indeed, the region. Intervention in the centre, therefore, will see economic benefits ripple outwards. For example, we concur with the emerging *Greater Norwich Local Plan* when it makes the point that the city centre has a key role to play in providing the employment needed to support the housing growth proposed across the Greater Norwich area, through significant employment generation in the city centre.

---

[59] Norwich City Council (2018) *Norwich 2040 City Vision*
[60] Norwich City Council (2019) *Corporate Plan 2019-22*

Evidence shows that Norwich's economic dynamism underpins the regional economy; if Norwich's economy flourishes, it will benefit the adjoining rural settlements in the county and beyond.

5.4.9 It therefore follows that a key part of retaining and growing employment in the city centre will be to reverse the loss of office accommodation there. Council intervention in the office market will lead to wider economic benefits in this sense. Without such intervention, and the potential for multipliers that it would bring, it is very difficult to see a future for the city centre much beyond that of a market town.

Broader range of objectives

5.4.10 Council intervention will ensure that employment opportunities are created as part of a wider package of objectives to meet social as well as economic objectives. Thus, as well as providing the physical infrastructure to unlock economic growth, Council intervention will also address the following.

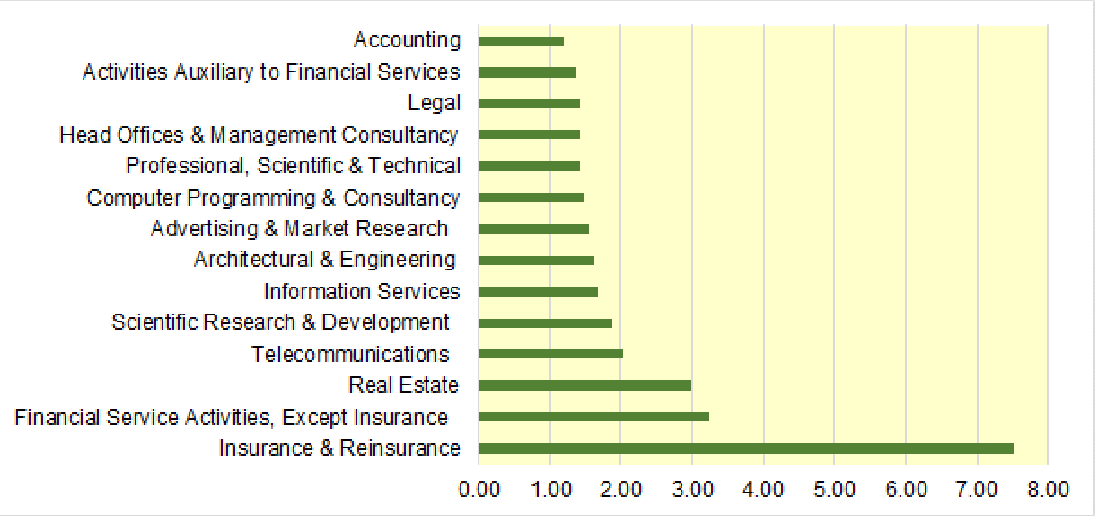
- Growing the local economy in a sustainable way to support jobs and inclusive economic growth.
- Attracting jobs and services to support a growing population and develop Greater Norwich's role as the engine of the regional economy.
- Supporting key growth sectors and help increase the proportion of higher value, knowledge economy jobs; while ensuring that opportunities are available for development that can support all types and levels of jobs in all sectors of the economy and for all the workforce.
- Investment strategies that focus on overcoming constraints to the release and development of key employment sites.
- Raising the profile of the city as a high quality city in which to invest, to conduct business, to live and to enjoy life.
- Investing in growth sectors to drive the competitiveness of the city and its economy, which will improve productivity and nurture further growth.
- Ensuring that local people have access to the education and training that will equip them to take up the opportunities of an expanding economy.

It is also the case that by encouraging the office economy in the city centre, the Council will counter-balance less sustainable development on the city's periphery.

Multiplier impact

5.4.11 It is well understood in economic regeneration that creating employment leads to multiplier effects, most notably further jobs. Thus any intervention by the Council in protecting/creating office economy jobs will have the additional economic benefit of a multiplier. Figure 5.10 shows Government estimates of employment multiplier effects by sector. As can be seen, for example, most office economy sectors create between one and two jobs for each office job. [61]

Figure 5.10 Multiplier effect of FTE jobs by sector



Source: ONS (2020)

Summary

5.4.12 Office markets are an integral element of most successful cities' economies today. However, it is clear from earlier sections of this report that Norwich's office economy is fragile. It is therefore important that there is a long-term commitment to nurturing the office economy, perhaps through public intervention in the form of creating a digital hub to ensure that there is physical capacity for small firms to grow and remain in the city.

5.4.13 One building, such as a digital hub, cannot change the fortunes of the whole of the office economy, but it is a step towards nurturing future growth businesses at their most vulnerable stage – transitioning from start-up to established. And if pursued in conjunction with indirect measures (such as an Article 4 Direction and other spatial policies), then the conditions can be created in which growth can be encouraged. The result ought to be a positive impact on job creation, both directly and through multiplier, which will bring wider economic benefits in terms of jobs, spending, wellbeing, training and so forth.

5.5. Other sectors

5.5.1 Here we assess whether there are any other sectors where there is a problem with current demand and supply.

5.5.2 It has been established that Norwich's key growth sectors comprise financial services, digital and creative industries, life sciences, advanced manufacturing and food & drink. We also established earlier in this report that digital businesses do not

[61] ONS (2020) *Provisional estimates of Type I UK employment multipliers and effects by SU114 industry group and sector* https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/articles/inputoutputanalyticaltables/methodsandapplicationtouknationalaccounts

have unique premises needs; they share many of their needs with the wider office economy.

5.5.3 With this in mind it is worth citing GVA's *Employment, Town Centre and Retail Study*, which suggested that there were a number of locations across Greater Norwich which presented different opportunities for particular types or scales of development. They set out a broad pattern of locational opportunities and activity types which lead to particular development typologies potentially being required.

- Large business/science parks – corporate/back office, R&D.
- Trunk road sites – logistics/distribution, large scale production/engineering.
- Standalone/isolated locations – specialist research and product development, specialist manufacturing.
- City centre – corporate/shared offices, coworking, mixed use and live-work.
- Local centres – smaller, professional services.[62]

The question regarding 'other sectors' can be addressed in these terms.

5.5.4 The question of demand and supply dynamics can therefore be broken down into two areas: those that require premises across Greater Norwich and those that require offices in the city centre. These break down, very broadly into the following two groups.

- **Out-of-centre and business park**: Life Sciences, Advanced Manufacturing, Food & Drink.
- **City centre**: Financial & Insurance; Professional Services, Creative and Digital Services.

5.5.5 In very broad terms, supply of space out of town is not in short supply, and so the relevant sectors are not constrained; while supply of space in the city centre is in short supply, and so the relevant sectors are constrained.

Out-of-centre office activity

5.5.6 Taking the Greater Norwich group first, this study understands and concurs with the policy position that, while a drift of general B1(a) office space to the outer city area is not seen as desirable in terms of connectivity, public transport, sustainability and the vitality of the city centre, there are office activities appropriate to these locations. And these include the life sciences, advanced manufacturing and food and drink growth sectors identified above.

5.5.7 For example, Norwich Research Park supports research-related uses with specialist accommodation, and does not therefore constitute a threat to the city centre. And there is a large stock of unimplemented B1(a) office consents at Broadland Business Park and other areas including north of the airport and at Rackheath. The research for this study has not revealed any problems with under-supply across the greater Norwich area.

City centre office activity

5.5.8 Within the city centre we group the needs of all B1(a) occupiers (digital and other) together on the basis that their requirements for space are broadly similar in

[62] GVA (2017b) *op cit*

terms of location, specification and cost. There are, nevertheless, a few subtle variations where supply and demand issues are important.

- There is a negligible supply of larger new buildings for large corporate occupiers. Even in the absence of a proven pent up demand for such buildings this will in the medium-term act as a constraint on the market as more older buildings become ‘tired’ and in need of refurbishment. Should a large requirement present itself (windfall opportunity), there is very little choice of available space and a (potentially prohibitive) delay in delivery of new space.

- The previous point implies that there is market constraint in terms of the availability of large buildings subdivided for multiple-occupancy by smaller occupiers. Whether new, refurbished and second-hand, there is a dearth of large buildings providing a pool of small units for smaller occupiers.

- Related to the previous point, there is a small and shrinking reservoir of cheaper secondary space, whether in large multi-let buildings or elsewhere.

- The flexible space market (FSM) in Norwich is small. The research for this study could find only twelve centres, and these did not in combination seem to have very much available space. The FSM provides small businesses with a step onto the commercial property ladder, as well as more important, softer issues, such as building communities of interest.

5.5.9 SQW made the point that *“Norwich city centre is not an easy proposition for the nascent digital sector in property market terms – although the challenges it is facing are in no way unique.”* This study concurs that there are problems with supply-demand, but they are shared by both the digital sector and the wider office economy – particularly and especially for small businesses seeking to grow.

5.5.10 SQW expanded on their point by stating that

> *small digital firms are seeking the agglomeration benefits that a city centre can provide, but they are also often (in their early stages) precarious enterprises with uncertain revenue streams and they need relatively inexpensive property on a flexible basis*.

5.5.11 As Norwich’s stock of space continues to shrink, so the needs of the digital, and wider small business, sector become more acute.

5.5.12 On the basis of this analysis, and accepting that digital companies form part of the wider office economy in terms of premises needs, then there are no other sectors where we can identify market failure. However, there are particular issues in terms of, for example, shortages of economic (affordable) space, flexible space and secondary quality space.

5.6. Importance of B1(a) premises to Norwich’s economy

5.6.1 Here we seek to summarise why B1(a) premises are vital to Norwich’s economy. Chapter 1 of this report set out clearly the dynamics of change in the national economy, particularly with respect to the rise of the office economy. The transformation in the economy over recent decades means that today somewhere in the region of 12m workers (one-third of the workforce) now attends an office workplace. In this sense alone, B1(a) premises are critical to the national economy.

5.6.2 Chapter 2 set out clearly the dynamics of the rapidly evolving office economy and how it is driving demand for different kinds of office product. Norwich is not exempt from these dynamics. The chapter underlined the importance of space to meet the demands of small firms generally (not just digital sector) and the importance of economy and flexibility.

5.6.3 Office-based activities lie at the centre of most forecasts for growth in the economy and it is vital that progressive, competitive cities cater for such growth – or risk losing vitality and competitiveness. The chapter also emphasised the relationship between office work/office occupiers and their desire for good public realm, support services, food and beverage and cultural attractions

Offices as a key component of economic vitality

5.6.4 It is implicit within this statement that B1(a) premises are a critical component of city economies, at least, among those cities seeking to be competitive in the office economy. It is a fact that the office economy is capable of underpinning employment growth, driving economic output, generating Council income and providing a wide range of employment opportunities for residents. The last of these feeds through to wider social benefits in terms of quality of employment, lifestyles and health and wellbeing.

5.6.5 Despite these observations, we saw in Chapter 4 that Norwich does not have a particularly strong office economy, measured in terms of absolute employment. We presented data that showed Norwich ranking 24th out of 28 cities that have (a) at least 12,000 office jobs and (b) a population of between 120,000 and 230,000. Compared to Norwich's 14,500 office jobs, Cambridge has 27,750, Peterborough has 18,250, Chelmsford has 15,250. The Norwich office economy appears to be relatively undeveloped.

Offices and city centres

5.6.6 A very clear trend in cities across the UK in recent years has been the growth of office jobs in city centres. Out-of-town and edge-of-centre business parks are now less favoured than city centre locations. The new economy businesses, the KIBs, have an overall preference for being located in proximity to other firms, support services, a good food and beverage offer, cultural attractions, public transport and so on. In other words offices are becoming a more important component of city centres rather than less so. For this reason, the availability of suitable offices is vital to Norwich's economy.

5.6.7 The GVA *Employment Town Centre and Retail Study* found that Norwich had sufficient employment land overall, but that most of this supply is out-of-centre, ie, not in the preferred location for some growth sectors. The report highlighted the importance of locations that offer a broader range of services to employees (the city centre), and the "*rise in new start-ups in the creative and media sector in particular … fuelling demand for space in specific locations that allow for greater interactions and allow small businesses to feel part of a bigger economic network*". [63]

---

[63] GVA (2017b) *op cit*

5.6.8 The emerging GNLP rightly suggests that if this demand is not met in the town centre it might drift to less sustainable locations, with "*serious impacts on the vitality of the city centre and undermining policies to encourage modal shift. Therefore, it is essential that this plan ensures that high density employment uses are concentrated in highly accessible locations in particular the city centre, and that loss of existing floorspace in the city centre is resisted*". [64]

5.6.9 This study fully concurs with the findings of the GVA study and the conclusion drawn in the emerging GNLP.

5.6.10 The Norwich *Economic Strategy 2019-2024* makes clear that clusters of interacting sectors are "*well recognized as drivers for city competitiveness*" which "*foster innovation, promote knowledge diffusion and have the capacity to stimulate new start-ups and spin outs*". Norwich's cluster comprises both digital firms and the wider KIB community. And it is this cluster that can and should "*create high value, high productivity employment and the potential to accelerate the city's economic competitiveness*".

5.6.11 The *Strategy* also makes clear that KIBs account for a higher share of the business base in Norwich than is the case in the LEP area and regionally; their share of the business base has increased over the period 2012 to 2017. Given that B1(a) premises largely support the KIBs community then it is clear that they have a critical role in the success of Norwich's economy.

Large and small offices

5.6.12 It is common practice in market commentaries of local property and economic dynamics to focus on the influence of larger employers. And there is a critical point for Norwich here. B1(a) occupiers are mostly small businesses, not large employers. As we saw in Chapter 4, Norwich has 3,880 enterprises with less than 10 employees [65], and just 175 [66] with more than 50 employees. While this is not particularly unusual, it does point very clearly to where the potential for growth lies.

5.6.13 Moreover, it suggests that the Council needs strategies to nurture both large and small firms. And from this flows a critical point. Whilst large businesses can, generally afford 'the going rate' for rents on high quality space, smaller businesses need alternative solutions. In short, small businesses require affordable space, which mean one of two solutions: either secondary quality space or flexible space.

5.6.14 It is however a fact that Norwich has lost almost one-third of its office stock since 2008, much of which provided exactly the kind of secondary space required by small businesses. No doubt, some of the lost space was irretrievably obsolete, but large proportions was suitable for smaller occupiers, but more valuable to the owners as converted residential stock. This process potentially leads to the hollowing out of economic activity in the city centre.

---

[64] Greater Norwich Development Partnership (2020) *The Greater Norwich Local Plan Draft* Strategy Regulation 18 Consultation 29th Jan to 16th March 2020

[65] There are 4,815 local units with less than 10 employees, but we believe the enterprise count gives a stronger indication of endogenous strength by excluding the 'branch plant' economy.

[66] 310 local units

Affordable space

5.6.15 The Norwich *Economic Strategy 2019-24* refers to the growing number of offices "*that are out-of-date and of poor quality*", and the importance of improving the quality of stock available to counter a drift towards "*less sustainable patterns of extensive office development on the urban fringe*". It also states that much of "*the outdated office stock requires substantial refurbishment to bring it up to A-grade standard*". [67]

5.6.16 While the sentiment of the *Economic Strategy* must be right, this report encourages caution in terms of the specific needs of the digital sector, for two reasons. First businesses want to feel part of a business community not part of a residential setting. Secondly, the re-provision of space has to be at prices that are affordable. New development will generally, not be affordable; and refurbishment does not have to be of Grade A standard to attract occupier interest.

5.6.17 The *Economic Strategy* is right to point out that the "*city centre remains the most sustainable employment centre in the county and this has been supported by improvements to the public realm as part of an overall package of public transport, walking and cycling improvements*". And B1(a) premises are an integral part of this offer that needs, first, to be protected and second to be enhanced with new and refurbished space that is affordable.

5.6.18 Attractive and vibrant city, SQW made the point that the city centre offers the scope for higher value jobs that both rely on and attract workers who are typically well qualified, entrepreneurial and – often – young. Although it is still quite small, the importance of the digital sector extends far beyond its current economic impact and it signals something really quite important in terms of what Norwich might become. Given that Norwich's resident working age population is less well qualified than that in either Brighton & Hove or Exeter, there is a critical role in attracting high value employers. SQW stated that the city centre

> *is an attractive environment for digital businesses. It offers a vibrant, urban buzz and access to transport and services, and is seen as a place where digital entrepreneurs, freelancers and employees want to be. Most (although not all) of the digital business stock is located there, as are most of the digitally-oriented workspaces.*

5.6.19 To achieve its potential in these respects, it is critical that the city centre is able to offer a suitably wide range of offices that provide the kinds of jobs to which aspirational and well-qualified young people are attracted

5.6.20 Overall, B1(a) premises accommodate the kinds of businesses that will drive the city's wider growth. In this sense they are critical to the economic health of the city. This is nowhere more the case than in the city centre. High quality educational institutes (including University of East Anglia, City College Norwich and Norwich University of the Arts), cultural and leisure facilities, extensive retail services and an attractive and historic public realm create a milieu of activity that supports a skilled labour force and economic growth.

[67] Greater Norwich Development Partnership (2014) *Joint Core Strategy for Broadland, Norwich and South Norfolk*

5.7. Summary: the importance of offices

5.7.1 As already stated in several places of this report, Norwich's office economy is fragile; and within this, its digital economy is quite small. While rents have risen recently, they remain stubbornly low; and while they do, new development remains unviable. Moreover, it is possible that viability might not return for at least a decade. Earlier forecasts for a growth in demand appear to have been optimistic, and revised expectations suggest that demand for additional space might be less than half what has been proposed.

5.7.2 The solution to the market failure lies in two, cross-cutting sets of criteria. First, there must be a range of building types available: there must be choice, variety and character – all at an affordable price. The building itself is a secondary factor to the management regime and the 'feel' of the work environment. Secondly, there is the question of locale. Small firms want to feel part of a business community, but they also require access to services and lifestyle, including public ream, food and beverage, connectivity and culture.

5.7.3 A very clear trend in cities across the UK in recent years has been the growth of office jobs in city centres. New economy businesses have an overall preference for being located centrally. In other words offices are becoming a more important component of city centres rather than less so. For this reason, the availability of suitable offices is vital to Norwich's economy.

5.7.4 It is the combination of choice of building and the wider externalities that will provide an attractive offering to office economy and digital economy firms, particularly those in the SME and growth sectors. Norwich city centre is replete with the externalities, mainly within easy walking distance from anywhere within it, but very short on choice of premises.

5.7.5 Office-based activities lie at the centre of most forecasts for growth in competitive cities. The office economy is capable of underpinning employment growth, driving economic output, generating Council income and providing a wide range of career opportunities for residents. The last of these feeds through to wider social benefits in terms of quality of employment, lifestyles and health and wellbeing.

5.7.6 Given such a setting, then some form of public intervention might be appropriate to nurture small and potentially growing businesses. This might, for example be through refurbishing older space or creating a new facility. One building, such as a digital hub, cannot change the fortunes of the whole of the office economy, but it is a step towards nurturing future growth businesses at their most vulnerable stage.

6. Case studies and potential sites and potential sites

6.0.1 In this section we review a number of case studies in order to gather lessons for Norwich's potential digital hub. We begin with a brief review of the wider flexible space market, which seems to be particularly constrained in Norwich. We then review the key themes from eleven case studies and draw out the key learnings. The section closes with a review of a number of key sites in Norwich which might host a digital hub.

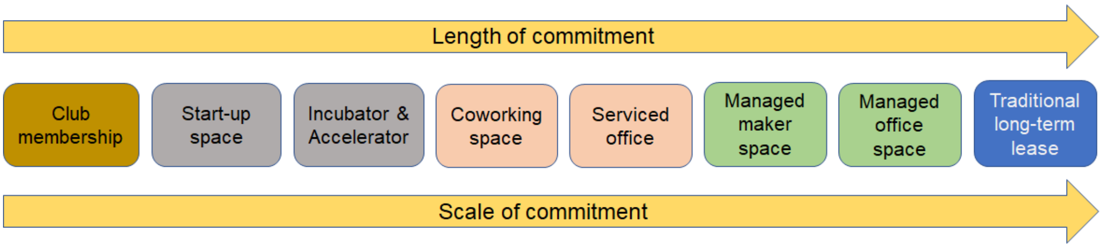
6.1. Flexible space and the market response

6.1.1 One of the most visible signs of change in the commercial property market in recent years has been the rise of the flexible space market. Co-working spaces, serviced offices, managed offices and incubators are all part of a revolution in the traditional property supply chain.

6.1.2 Smaller occupiers have been limited to lower quality space. This is partly due to cost constraint, but also to the reluctance of landlords to let space to smaller occupiers who were perceived to lack covenant strength and to require more intensive management. This has begun to change and the flexible space market has emerged to provide small occupiers with better quality space on terms that suit their business needs. Indeed, even traditional landlords have begun to include some form of flexible space allocation in their new developments.

6.1.3 Flexible space is provided in a number of different formats. Figure 6.1 shows a schematic representation of property products ranging from 'club membership' through to traditional leases. In simple terms, the gradation from left to right reflects increasing levels of commitment in terms of size and term – although, in reality, the relationship is not a simple, linear one.

Figure 6.1 Flexible space typology



6.1.4 **Club membership** offers high quality, high service space often associated with another function such as an institution, hotel or leisure facility. Touch down space is available on a fixed monthly or annual fee, combining costs for desk, business rates, services and support. Examples include hotel group Ennismore and serviced operator IWG's brand, No18 Club. The market is growing and is likely to diversify further in the future.

6.1.5 **Start-up, incubators and accelerators** Start-up space is, generally, affordable space in secondary spaces made available to small firms seeking to become established in formal property. Incubators and accelerators involve the additional provision of mentoring, advice and business support, and occupiers are encouraged to enter into formal growth programmes.

6.1.6 Start-up facilities include: Bathtub 2 Boardroom; Bootstrap; Camden Collective; Chocolate Factory and Cockpit Arts. Incubators and Accelerators include: Barclays Accelerator; Digital Enterprise; Edtech; Impact Hub; QMB Innovation Centre and Warner Yard. Sometimes these are sector-based such as the London BioScience Innovation Centre (veterinary science); Dephna (food industry) and Fab Lab (digital manufacturing).

6.1.7 **Serviced offices** form the largest component of the flexible space market, and their growth underlines the attraction of flexible space. The serviced office sector offers ‘easy-in, easy-out’ terms, and allows small businesses to avoid the capital costs normally associated with establishing a new office, including fit out, furniture and fixings. Businesses in serviced offices combine their buying power for services such as a reception; ICT; security; telephony and meeting rooms.

6.1.8 Serviced offices allow small businesses to avoid the cost of expansion space which might be needed at a future date, and for space that it uses only occasionally such as large meeting rooms or conference facilities. They gain flexibility and the opportunity to have a presence at the heart of their market cluster, on terms that suit their business models. [68]

6.1.9 **Co-working** The serviced office market has been complemented recently by the rise of the co-working market, which offers, primarily small businesses, spaces that encourage interaction and collaboration. This market provides a ‘less corporate’ style of space than serviced offices, and responds to “*technology enablement, the growth of the tech, online and creative industries … and an increase in micro businesses and independent workers*”. [69] It provides “*clubs where members can work alone or interact with like-minded people on a pay-as-you-go basis*”. [70]

6.1.10 Co-working involves the sharing of workspace, typically but not exclusively, by self-employed people, very small firms and start-ups. Large organisations also use co-working spaces for project teams and ad hoc requirements, as well as for start-up operations. Also, providers of more traditional serviced/managed office space (such as Regus, The Office Group and Workspace Group) are allocating more of their buildings to co-working environments.

6.1.11 The co-working workplace is largely shared rather than segregated for different firms, and designed to encourage collaboration, interaction and knowledge sharing among members with cafes, informal seating areas shared workspace. A number of developers have announced new schemes in London that incorporate co-working space. This combination of individual independence and group sharing is what makes co-working so attractive to so many people around the world.

6.1.12 **Managed** In addition to serviced offices, there are managed spaces which are similar to serviced offices in terms of flexible occupation, but which also provide for larger occupiers and for more specialist users. For example, some occupiers require specialist equipment or support services. These centres provide businesses with flexibility, they reduce start-up costs and they support small scale (technology dependent) manufacturing and product prototyping that is otherwise unaffordable.

[68] Ramidus Consulting (2016) *Clusters and Connectivity: the City as a Place for SMEs* Corporation of London
[69] DTZ (2014) *The Co-working Revolution* DTZ
[70] Aecom (2014) *See Further: the Next Generation Occupier Issue* Aecom

6.1.13 The flexible space market will also provide further agility and flexibility for larger corporate organisations that wish to take temporary, or project space, on less onerous terms than those offered by traditional leases. Over the next decade, most large, corporate organisations will migrate towards some form of networked, "hub and spoke" model. The largest occupiers will maintain at least one corporate headquarters in a key city to provide a 'corporate hub', to bring employees and clients together, nurture the corporate culture, encourage collaboration and learning, and to instil a sense of 'shard purpose'. Elsewhere, they will occupy flexible space which will afford them the ability to change their occupational footprint speedily and cost effectively.

6.1.14 Figure 6.2 sets out the most common configuration, license and payment structures used in such workspaces. [71] The diagram illustrates the spectrum of space, ranging from fully-shared to dedicated.

Figure 6.2 configuration, licenses and payment structures

More Shared ⟷ More Dedicated

Flexible co-working	Full time co-working	Hot desking or day rental	Fixed desk or workbench	Office, studio or workshop
Shared workspace	Shared workspace	Allocated workspace	Allocated workspace	Private workspace
Time-limited access to shared desks or workbench	Unlimited access to shared desks or workbench	Day access to dedicated desks or workbench	Unlimited access to dedicated desks or workbench	Unlimited access to dedicated office studio or workshop
£/month	£/month	£/hour	£/month	£/ sq ft
1 month minimum	1 month minimum	Pay by the hour	1 month minimum	3-6 month minimum
Limited storage	Limited storage	No storage	Allocated storage	Private storage
Limited access to communal facilities	Access to communal facilities	Limited access to communal facilities	Full access to communal facilities	Full access to communal facilities

Source: Capital Enterprise (2015)

6.2. The case studies

6.2.1 In this section we review the wider experience of 'digital hubs' in order to understand what lessons might be learned in Norwich. We have cast the net widely across the UK, with a concentration on provincial cities. A number of London case studies are included because, from a practical perspective, that is where the bulk of shared experienced has been accumulated. The case studies were selected on the basis that they were seeking to achieve broadly similar aims to those of the proposed digital hub in Norwich.

6.2.2 For the purposes of this study, we have adopted the following definition of a digital hub.

[71] Capital Enterprise (2015) *Creating Open Workspaces* Mayor of London

A digital hub is a centre that provides entrepreneurs and micro and small businesses with accommodation on flexible terms, with access to supporting administrative, business and innovation support services and networks.'

6.2.3 In theory, this definition includes (at least aspects of) incubators and accelerators, coworking spaces, maker spaces, lab spaces, serviced offices and managed spaces.

6.2.4 We have scoped our review bearing in mind the following points.

- Within Norwich, there is a healthy supply of start-up space, but an identifiable shortage of grow-on space. In light of this, the following section focuses on evidence for, and lessons learned, regarding the latter.
- For reasons given elsewhere, we have adopted an inclusive definition of 'digital' (office economy businesses) in order to capture centres, and their lessons, that cater for businesses with similar workspace needs and facing the same pressures.
- Following the previous points, it is worth emphasising that many centres cater for a range of occupiers – different sectors, different stages of growth, different cultures – because (a) their physical/service needs are similar and (b) this is necessary from a commercial perspective.
- We have included lessons derived from published case studies, and these are referenced where appropriate.

6.2.5 With this is mind we have reviewed the following case studies.

- Bradfield Centre, Cambridge
- Brickfields in Hoxton and Ink Rooms in Clerkenwell
- Digital Hub, Dublin
- Enterprise and Innovation Hub, Bracknell
- Innovation Birmingham Campus
- One St Aldates, Oxford
- Round Foundry, Leeds
- Sharp Project, Manchester
- Techspace, Aldgate East, London
- The Base, Warrington
- Toffee Factory, Newcastle-upon-Tyne

6.2.6 The following section summarises the main themes from the case studies; while the full text of each is to be found in the separately bound *Norwich digital Centre Case Studies* file.

6.3. Overall themes

6.3.1 The following sets out a series of messages, or themes, emerging from the amalgam of case studies and our wider experience.

Location

6.3.2 Digital hubs can be made to work in a variety of locations. As the case studies show, they appear in city centres, out-of-town office campuses, and within established industry clusters. However, there is a clear trend among occupiers prefer to be 'at the heart of things', given the chance ie, in a town/city centre with proximity to support services, leisure (gyms), retail, food and beverage, and like-minded businesses. This is in large measure a reflection of the demographics involved: typically younger workers looking for a blend of work and social/cultural opportunities.

6.3.3 Assuming a town/city centre, then proximity to public transport is preferred, and easy access to shops, services and leisure are all key. Business parks are acceptable and workable locations, but not preferred. The centres we examined were situated in a wide variety of locales.

Building typology

6.3.4 The case studies have demonstrated, very clearly, that there is not a single type of building that is favoured. Brand new buildings, refurbished 1960s/1970s buildings, converted industrial buildings, historic buildings and civic buildings all feature in our case studies and there is no evidence that any is failing (or succeeding) *because* of the building.

6.3.5 Most digital hubs have an interior that reflects a 'stripped back' quality – bare or whitewashed bricks and ceilings, wooden floors, exposed services and so forth. There is an element of 'fashion' around this, which means that demands might change in the future, but so long as the interior is capable of being dealt with in this manner, then it is potentially appropriate.

6.3.6 Multiple levels are almost inevitable, but floorplates should be contiguous and open (ie flexible). Shallow floorplates (long and narrow) are not suited to collaboration, nor conducive to creating a sense of community. Similarly very deep space (say, over 18m), can result in space with little or no aspect and reduced natural light.

6.3.7 The key ingredient here is flexibility: normally rectangular, contiguous space that is capable of being quickly and efficiently re-arranged to suit the changing needs of occupiers. If the building has an atrium or courtyard, this is an advantage in terms of space planning options.

Building features

6.3.8 Having said that building typology is a secondary consideration to management, there are important aspects of specification that must be considered. Again, it must be stressed that there is no 'perfect' solution and that most centres compromise in one aspect or another – mainly because so many use existing stock, with its inherent characteristics. Key features include:

- naturally ventilated office workspace;
- a combination of shared open plan floorspace and sub-divided space;
- shared facilities such as meeting/break out spaces, toilets, kitchenettes;
- shared reception and services, and
- proximity to public transport, leisure services, shops, restaurants and cafes.

6.3.9 There are a number of detailed specification issues to consider. No site or building will be perfect on all of them, but the aim should be to get as close as is reasonably possible.

- **Finished floor to ceiling height** Can range from 2.9m-4.4m, but more generally around 3.5m. An absence of raised floors/drop ceilings can help with this issue.
- **Space configuration** Floor plan should be regular and depth should allow for daylight and be relative to volume. For example, a floor depth of 2.5 times finished height is optimal. Single aspect offices should be no deeper than 7m. Dual aspect, open plan offices, can be arranged around a central, shared circulation without wall division, with an ideal overall depth of 12m.
- **Daylight** This is a critical issue and must be maximised, with natural daylight penetration to spaces through tall windows, and through dual aspect where possible.
- **Servicing** Natural ventilation is strongly preferred, supplemented with perimeter heating, or something similar, for less clement periods. Alternatively, heating can be via blow air heaters per unit. Water supply can be per unit or at a shared kitchenette.
- **Finishes** Tend to be basic, to reduce costs. Finishes tend to leave all soffits and structural columns as exposed fair-faced polished concrete or plastered and pointed, with internal walls plastered and painted.
- **Frontage** The building should have a 'strong' frontage, with primary street presence. If the space is arranged around a shared courtyard or atrium then this is an additional benefit.
- **Access** Entrance is typically a shared reception area, with receptionist. Ground floor frontage is preferred. Cycle access is critical. Provision for intermittent car/van delivery access, with occasional 7.5 ton vehicle access.

6.3.10 Several of the case studies involved old, converted industrial buildings and these seem to be favoured for the 'character' they offer. But the breadth of case studies also shows that other solutions are perfectly acceptable.

Unit size and layout

6.3.11 The needs of businesses vary widely in terms of the layout of the work environment. Generally speaking the smallest firms occupy coworking spaces which, by definition are open, in order to encourage interaction and collaboration between those working there. There is sometimes a requirement for enclosed meeting/project areas in order to provide discrete space for group discussions but most of the space is open plan. Within this the workspace provision includes a range of options, including individual drop-in desks (first-come, first-served), dedicated desks, group tables, soft furnishing and meeting areas. Coworking spaces are generally designed to create the sense of a community. The role of the provider/manager varies but often this will include encouraging the community aspects of the centre, including orchestrating events and networking opportunities within the space. They are often based among the occupiers in order to enhance the sense of community.

6.3.12 For slightly larger, perhaps grow on businesses, there is a demand for a variety of work environments, but most frequently, floors are broken down into discrete units in which companies work largely in isolation with minimal interaction with other businesses. The businesses might involve themselves in the social side of the centre but their work activities (perhaps due to Intellectual Property requirements) remain behind closed doors. In other situations there is a more open and flexible approach to layouts. Where companies grow to perhaps four or more people then centre operators will often seek to allocate an area of the office (sometimes with partitions) to their exclusive use. This is particularly helpful when it comes to using video conferencing facilities or company meetings (both of which can be disruptive to others). Otherwise centres tend to be open.

6.3.13 There is no optimum size range, unless the centre is seeking to attract a specific type of firm (eg start-ups or micro-businesses). Most centres offer a range of units sizes to increase market attractiveness. Having said that, it is possible to consider ranges. Assuming one desk per person and allowing around 8 sq m per desk (usable, and net of shared kitchens, reception, break out space and so on), then five people would require c40 sq m, 10 people, 80 sq m, and so on. [72] Thus, if providing grow-on space , then the need will be to accommodate between, say, 10-20 people, in 80-160 sq m of usable space.

Terms

6.3.14 Terms tend to be most flexible for start-up and grow-on space, and some centres already offer space by the hour via a credit card payment. Having said that, current market practices involve terms as short as one or two month licences, rolling, with retrospective payment. As occupiers grow and mature, licenses tend to lengthen, to six months, to one year, and more.

6.3.15 Terms involve, typically, an all-in, unitary charge. This will include the equivalent of rent, rates and service charge, together with utilities, connectivity, some vending and meeting space. Prices are normally quoted in terms of £ per desk per month. Fees vary in terms of location, quality of space on offer, intensity of the management regime and so on. Given these caveats, typical prices among those centres that we reviewed included the following.

- Dedicated space: £250-500
- Dedicated desk in open/co-working environment: £175-225
- Shared desk in co-working environment: £100-150

6.3.16 The centres that we reviewed offered a wide range of space solutions from on-demand coworking space through to managed units for 10-50 people. This will be a function of the level of demand, competition, scale of building and floorplate, and so on. The terms vary according to the offer, with greatest flexibility for ‘drop-in’ space.

Centre management

6.3.17 The single most important determinant of the success of a digital hub is the management regime. Based on the case studies reviewed for this study, wider experience of the digital sector, and understanding of the broader flexible space market (serviced, managed, coworking, incubator and so on), the nature and quality of centre management is pivotal. It is responsible for ‘setting the tone’ of the centre; for curating the business community and for ensuring the quality of the offer.

- **Front-of-house** Just like in hotel and other leisure environments, the front-of-house role is critical. An uncommunicative receptionist who works minimum hours and has no other skills is insufficient. Centres must provide a real welcome and, where there is critical mass, add-on services such as concierge and service support.

[72] These ratios are subject to change should social distancing become a longer-term phenomenon

- **Community** It can become clichéd, but young, modern digital and other knowledge intensive businesses desire to be 'somewhere cool'. Whether or not there is a great level of inter-firm trade, whether or not there is inter firm social intercourse, a sense of being part of a community is a real need.

- **Curated ground floor** Again, depending upon the size of the centre, it is not sufficient to run a sterile, grey ground floor reception. It must be well appointed and curated. Cafes and coworking spaces are often used to animate these areas, as well as providing a private-public interface with passing through security access to the remainder of the building.

- **Mentoring, business support, networking** The centre management can create a really positive spirit in a centre through its approach to nurturing businesses. Without the formality of, say, incubator programmes, centres often offer programmes of event, opportunities for partnerships, access to business partners, and so on.

6.3.18 Some of the case studies included public access in their offering. Where there is full or partial public sector funding for schemes, and where schemes are in the city centre, this can be a means of engaging with the wider community and even of sourcing additional streams of income.

Operating model

6.3.19 The operating models of the case studies varied widely. These come in a number of guises. The following are common examples.

- **Owner-operator** Where the building owner and the management function are part of the same legal entity. This tends to be more successful where the owner also specialises in flex space provision, rather than being a general landlord.

- **Operator on traditional lease** This works more like the serviced office model where the operator takes an FRI lease and then breaks the space up into smaller units for 'retailing'.

- **Operator on profit share lease** Similar to above except that the base rent is reduced in exchange for a share of income/profit. Clearly, the operator is incentivised to produce profit.

- **Local authority owned** Typically these models involve the use of under-utilised publicly-owned assets, but sometimes involve third-party (eg EDRF) funding of purpose-built facilities.

- **Local authority + 3rd party partnership** This typically involves some form of JV between the local authority and a provider.

6.3.20 The chosen operating model has an enormous influence on the commercial parameters within which a centre must work. For example, where an owner takes a long-term view on a building as an asset, there might be some degree of freedom on commercial terms. By contrast, some centres are provided as part of a landlord strategy to mitigate the losses associated with a void. These centres tend to be less successful, not least because adequate time and resource is not invested in the creation of a community.

6.4. Key lessons

6.4.1 From the case studies, supported by wider experience, there are a number of key lessons for Norwich, as the Council considers the potential for a digital hub.

- A successful digital hub **will be part of a community**, not a stand-alone building. It will need to be connected to the wider innovation community, to institutions (eg University), to business and to networks beyond. It is a part of an ecosystem and must be managed as such; it is not a distinct business. It should also be 'knitted in' to the city centre so that it is part of the fabric.

- Most small and/or start-up enterprises are not particularly profitable and property costs can be significant. A digital hub **must be affordable** if it is to have its intended impact.

- Depending upon the size of the building, consideration should be given to **mixing grow-on space** for digital businesses with that for wider office economy firms. Similarly, consideration should be given to the role of an 'anchor' such as a key business or an institution such as the university.

- The **management of the community will be fundamental** to success, much more so than the building form. A specialist operator should be sought as part of the building selection and/or development process to provide early input. One Norwich agent encapsulated this succinctly: "*Getting an experienced operator is key*".

6.5. Potential locations and sites

6.5.1 A number of potential sites have been proposed for a digital hub in Norwich. Here we assess the site options for their suitability. Photographs were taken in June 2020 by Ramidus Consulting Limited and maps in this section are sourced from the Ordnance Survey.

6.5.2 In visiting these sites during partial lockdown – while observing social distancing at all times – and at times of the day when there would be few people around even under normal circumstances, we are acutely aware that we did not witness the 'buzz' of a fully-functioning Norwich city centre. We have strived to take this into account in our assessments.

6.5.3 It is worth noting that where we refer to a site being 'remote' this is very much a relative notion. Norwich city centre is very compact by the standards of similar sized towns and cities, with a firmer sense of boundary than is usual. Thus 'remoteness' is less so than it might be elsewhere.

6.5.4 One other note is highly qualitative and offered on a very much 'for what it is worth' basis. Norwich is a very pleasant place but – subject to the caveats noted above – the city centre is perhaps starting to show early signs of under-investment. It is very difficult to give concrete examples, but it is perhaps reflected in the city's parking arrangements, which feel rather antiquated with, for example, no smartphone payment systems of the sort common elsewhere. Individually such things are minor, but too many can undermine a city's investment appeal.

(1) Vantage House

6.5.5 Vantage House sits about two minutes' walk from City Hall, on Fishers Lane, running between St Giles Street and Pottergate. It is a modern, 1970s office building on five storeys. It is clearly not a prominent location; rather it is nestled among residential properties and close to a hotel. Pottergate is a cobbled street. There is under croft parking for 34 cars.

6.5.6 The building appears to be in a generally good condition; although we understand that post-Grenfell regulations mean that it will need to be re-clad. The floorplan is rectangular, yielding 420-440 sq m NIA per floor, and 2,200 sq m NIA overall. The building benefits from good natural lighting on three sides.

6.5.7 The building is vacant and currently on the market for a sale.

6.5.8 Given its central location; given that it is available subject to a refurb/re-clad, and given its size, Vantage House would appear to present a strong possibility for a digital hub. The fact that the building is developed foreshortens any delivery programme. And the need for a re-clad introduces the opportunity to create something 'quirky'. The need for the re-clad should also have a significant impact on the asking price.

(2) Townshend House

6.5.9 Townshend House, Crown Road, sits to the rear of the Anglia TV building, opposite the Castle. The building is a relatively modern, 1980s purpose-built office building, currently occupied by NPS Group. The building comprises four storeys and is marble-clad. It is easily accessible and provided with good car parking. The building is very close to the city centre.

6.5.10 The building has a rectangular plan form, which is positive, and probably yields c20,000 sq ft NIA, although this is an estimate. It is well-lit from three sides and is clearly in a good condition.

6.5.11 It is, however, difficult to perceive how the building could be made to appeal to the digital sector. While adjacent to ITV Anglia, the building is relatively isolated from other commercial activity, and its marble cladding and dark windows portray a ‘corporate’ feel rather than a creative, innovative hub.

(3) Land to rear of City Hall

6.5.12 The site sits immediately to the rear of City Hall, adjacent to Bethel Street police station, and is owned by the Council. It is Allocated Site CC24. It is a very central situation, and offers an obvious infill solution.

6.5.13 The location is excellent with respect to city centre facilities. The market, main retail offer and cultural/leisure facilities are all 'on the doorstep'.

6.5.14 The presence of the police station raises question in terms of the overall desirability of the site, as well as over access and what might be deliverable on the site. There is a public right of way across the back of the site.

6.5.15 In contrast to both Vantage House and Townshend House, this site is a development site, which means that it has a much longer delivery programme, with attendant uncertainties and risks. On the other hand, being a development site, there is much greater freedom to create a purpose-designed hub.

(4) Mountergate

6.5.16 This is a large, very accessible site, with proximity to the rail station, at the river end of Prince of Wales Road and is allocated as site CC4, and we understand consideration is being given to splitting the site into two allocations. It is an under-utilised site. The site could provide either a residential-led or a commercial-led mixed use scheme. Offices would work well on the site, it being between the station and the city core (five minute walk).

6.5.17 Insofar as the site could provide a commercial-led mixed use scheme, there is a strong argument for suggesting that a digital hub could form a part of that, if timescales permit. The rail station, residential provision and the evening economy characteristic of the area all suggest that this is quite feasible. Moreover, it might be possible to provide a more affordable digital hub model as part of a larger, overall development agreement.

6.5.18 What is very clear, however, is the delivery of a comprehensive scheme here will be some years off. This is not a short-term option and in this sense is a second tier option for a digital hub.

(5) Rouen Road car park

6.5.19 This is a largely residential area with some commercial activity, just to the south of the castle. The site itself is a car park, and a small number of industrial and retail warehouse properties adjacent. It is allocated as site CC10. There is one office building nearby, Rouen House, which is currently occupied by various NHS-related agencies. The neighbouring industrial premises appear to be in good order and are fully-occupied, providing a range of services including auto maintenance and repair.

6.5.20 The site is clearly appropriate for a residential scheme. Given the dynamics of the Norwich office market (low demand, unviability and relatively strong potential supply of schemes), there seems to be no case for office development on this site. And even if this were chosen as an option, there is even less a case for a digital hub. The area simply does not lend itself to the creation of a vibrant, creative business community.

6.5.21 We are aware also that the car park is currently an income generator for Norwich City Council.

(6) Anglia Square

6.5.22 Anglia Square, which opened in 1970, is a very large, c4.5ha, site on the northern fringes of the city centre, adjacent to the A147 Inner Ring Road at St Crispin's Road. It contains a shopping centre and office space. Vehicle access is very good. The site is currently occupied by a mix of activities, including secondary retail, car park, vacant office buildings and dereliction. Even if the buildings were in good condition, Anglia Square betrays signs of its late-1960s urban renewal design ethos, and a somewhat alienating urban form.

6.5.23 A planning application, currently called in, proposes a mixed use scheme including up to 1,250 dwellings and up to 6,580 sq m of B1 space (although this is only an option within the 110,000 sq m GIA of commercial space proposed).

6.5.24 Whatever happens on the site will be large-scale and, almost inevitably, residential-led mixed use. There would, given sufficiently strong market signals, be a strong case for a commercial office content to a mixed use scheme, given the site's prominence and accessibility. However, signals are anything but strong.

6.5.25 With respect to a potential digital hub, the site does not appear to be appropriate. First, the timescales are wrong: the site is a long way from being delivered. Secondly, the scale of the site, does not offer much promise of a 'character' building for digital firms. Thirdly, it is too far from the city centre.

(7) St Crispin’s House

6.5.26 St Crispin's is a substantial office complex, dating from the early-1970s on Duke Street. The building has frontage to St Crispin’s Road and an entrance on Duke Street. The building comprises c10,700 sq m NIA, arranged across five storeys, around a central courtyard, which is now an atrium housing an on-site cafe with break-out areas. The building is around 690m from the city centre (using the market as a node).

6.5.27 In recent years, the building has been let in small units (from 240 sq m to 1,400 sq m, with occupiers including The Passport Office, The Stationery Office and Countrywide Legal Indemnities. These have now vacated, mostly to elsewhere in Norwich, including the Stationary Office moving to St Andrew’s Business Park.

6.5.28 The building has planning consent for a change of use from offices to student accommodation (around 600 units) under application 17/01391/F.

6.5.29 Given its comparative distance from the city centre, together with its larger corporate image, it is unlikely that St Crispin’s House could form a potential digital hub.

(8) Duke's Wharf

6.5.30 This site has planning consent (subject to completion of a S106 agreement) for the redevelopment of the former Eastern Electricity Headquarters in Norwich, to provide 154 waterfront residential units and commercial floorspace.

6.5.31 The development involves the retention and conversion of the majority of the existing buildings on the site, together with rooftop extensions in order to maximise opportunities for development on the site. The proposal was secured via full planning permission.

6.5.32 In addition, the proposal includes the development of three new residential blocks on a part of the site that is currently vacant, resulting in a high density development that is appropriate to a sustainable city centre location.

6.5.33 The only real prospect here is if the commercial element of the designed scheme could create a distinctive digital hub. Although we would not rule it out definitively – a waterfront setting is the sort of ambience that digital economy firms enjoy – the timescales are too uncertain to consider it as realistic.

(9) St Mary's Works

6.5.34 St Mary's Works is a site that includes a striking red brick former shoe factory and several less distinctive buildings. Somewhat confusingly, an internet search for St Mary's Works finds a website that redirects to the site for the nearby St George's Works (presumably under the same ownership).

6.5.35 St Mary's houses The Shoe Factory Social Club, a space for music, theatre and dance, with the space free to use by artists while the site awaits regeneration.

6.5.36 The site has been subject to various planning applications, the most recent of which was withdrawn. This makes timing of any new development uncertain. That said, the area has the ambience that digital businesses might find attractive, although it is relatively remote from the city centre, as the 'former factory' status is known to attracted creative business.

6.5.37 We would also have doubts as to whether this particular factory building could be easily adapted, and the site is somewhat hemmed in by residential property.

(10) Barrack Street and Gilders Way

6.5.38 Barrack Street is a large site on the A147 Inner Ring Road with a consent originating from 2006. The consent proposes a mixed-use development including over 200 homes and 20,500 sq m of office space in three buildings on Gilders Way. Of these three buildings, two have been completed and let and are attractive modern buildings let to Birketts LLP (solicitors) and the Environment Agency. The third remains undeveloped, although enough groundwork has been carried out to keep the consent alive. It is unlikely this will go ahead in the absence of a substantial pre-let, but it is worth noting that this consent alone could deliver more space than all office planning consents since 2016.

6.5.39 The housing element of the site, known as St James' Quay appears to be under development with at least initial ground works underway at the time of writing.

6.5.40 Part of the development was the construction of a footbridge – the John Jarrold Bridge – linking the part of site behind the office buildings to the cathedral quarter. Despite this bridge, and the attractive area to which it connects, Barrack Street is still rather remote from the city centre, with perhaps a ten minute walk to the Castle Quarter. In addition, the lack of any obvious social provisions in the form of bars and cafés renders this a strictly corporate area, rather than a candidate for a digital hub.

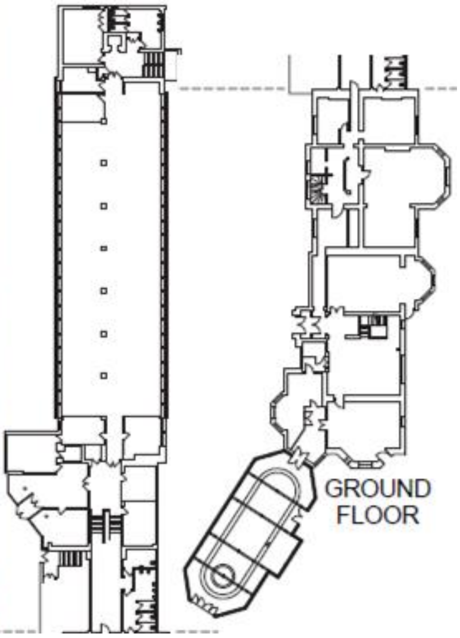
(11) East Norwich Strategic Regeneration Area

6.5.41 The ENSRA is an expansive area to the east side of the city centre. In planning terms the area is divided into three sub-areas: Deal Ground, the Utilities Site and Carrow Works and Carrow House

6.5.42 ENSRA is considered in more detail in Section 7.2. The major note to raise here is that the site needs to have access radically improved before it becomes viable as a possible locale for digital business. Most of it is closed off, with the railway line providing a real barrier.

6.5.43 That said, it is possible in the significantly longer term to see the parts of ENSRA closest to the rail station being attractive to digital business, especially given some fairly characterful former industrial buildings. Having said this, ENSRA is a long-term option surrounded by uncertainty in terms of deliverability. On this basis alone it presents a very minor option.

(12) Carrow House, East Norwich Strategic Regeneration Area



6.5.44 Carrow House is a building comprising the Grade-II listed former home of the Colman family and a post-War II office building, with a combined total of just over 5,000 sq m in 1.8ha of grounds, with on-site parking. This includes a substantial conservatory or 'Winter Garden'. It is just inside ENSRA. Owned by Norfolk County Council, it is currently for sale. It is not far from Norwich Station, although not on an axis with the city centre.

6.5.45 The location of the building is remote, on the boundary of ENSRA and very much on the most southern edge of the city centre. Further, the buildings themselves are strikingly shallow, which would present challenges in terms of creating flexible and easily reconfigured space. These are real issues that need to be recognised.

6.5.46 That said, if the building can be secured it would be in the Council's control and with imagination and flair could become a viable 'meanwhile' option. The house itself is characterful, with historic wood carvings and an important group of war memorials, and this is exactly the kind of unusual character that could make it attractive for digital businesses. Further, the Winter Garden could easily be envisaged as being repurposed either as 'set-down' space for mobile workers or as a fully wired public café/restaurant.

6.5.47 Although it is essential to be realistic about the locational and configuration limitations of the building, the idea of using it as 'meanwhile' space while fuller plans are developed elsewhere would have the additional benefit of drawing attention towards ENSRA.

6.6. Summary: limited choice

6.6.1 Norwich has several sites with a prima facie case for locating a new digital hub, as well as office development in general. We have reviewed eleven potential sites here, which range widely in terms of their characteristics and suitability as a home for a digital hub. Our overall views are summarised in Figure 6.3.

6.6.2 The problem with most of the sites is a combination of uncertain ownerships and their deliverability within a reasonable timescale. For example, Anglia Square, ENSRA and Mountergate are all highly unlikely to be delivered in a suitable timescale. Rouen Road and Barrack Street seem to lack the appropriate locale for the digital community. St Crispin's House seems now to be committed to residential use.

6.6.3 Duke's Wharf and St Mary's Works both have potential in terms of the building stock available there for refurbishment but, again, both have a longer term outlook than is required for the digital hub.

Figure 6.3 Potential digital hub sites

Site	Digital Hub	Comments
Vantage House	Yes	A good candidate that should be thoroughly investigated from a cost point of view to establish the level of subsidy needed. Must be given Article 4 protection as soon as possible.
Townshend House	Possibly	A reasonable location, but with many unknowns. Owned by the Council.
Land at City Hall	Yes	Under the control of NCC, costed, and would require subsidy. But available. Carries certainty in terms of deliverability.
Mountergate	Possibly	Good location near the rail station, but too long-term to be a viable choice.
Rouen Road	No	Off-pitch; residential area.
Anglia Square	No	Long-term; too corporate.
St Crispin's House	No	Already committed to residential.
Duke's Wharf	Possibly	Probably too long-term, but has a popular waterfront aspect.
St Mary's Works	Possibly	The right ambience, but a little remote and with an uncertain timetable.
Barrack Street	No	Too corporate; too remote.
ENSRA	No	Long-term; too corporate; too remote.
Carrow House	Possibly	Has locational and layout compromises; but has good potential as a 'meanwhile' option.

6.6.4 Having discounted these options, we are left with four potential sites which we believe represent realistic candidates, which have the potential to work together over time.

- **Vantage House** If it could be acquired at a reasonable price, it would be relatively straightforward to refurbish as long as the problematic cladding could be dealt with. We could envisage a design competition for the façade, perhaps involving the University of the Arts, to create a unique and attractive image to identify the hub.

- **Townshend House** This is owned by the Council and therefore (in theory) relatively deliverable. It is not in as good as a position as Vantage House, and it is smaller; but its proximity to the ITV facility could be key.

- **Land behind City Hall** The site has the great advantage of being in Council control (ownership) and of being already costed – albeit the costings probably over-estimate the specification required.

- **Carrow House** Is ‘off-pitch’ as a permanent solution, and it has relatively inflexible space; but it has the merit of being available and with many characterful elements that imaginative marketing and management could exploit. Could also help establish ENSRA in the longer term.

6.6.5 It is possible to envisage a two-stage process, with Vantage House/Townshend House/Carrow House being used as the initial ‘meanwhile’ base, as a fully operational prototype, run in a way that would enhance its value and which could then be sold or repurposed once a more permanent location is developed behind the City Hall.

7. Planning policy: promoting and protecting offices

7.0.1 This report has been unequivocal in terms of the need to nurture the city's digital and wider office economy as a key plank of future economic competitiveness and success. Here we assess policy options for doing so. We begin with the Council's spatial policies with respect to promoting office accommodation, including the potential offered by ENSRA; before examining the rationale and options for protection, including the potential for an Article 4 Direction.

7.0.2 Appendix Two provides a detailed outline of relevant Planning Policies, particularly Policies DM17 and DM19 of the Norwich Development Policies Plan and Policies 6 and 7.1 of the emergent Greater Norwich Local Plan (Regulation 18 Draft).

7.1. Options for promoting office space

7.1.1 The Development Management Policies Plan Policy DM19 [73] and emerging Greater Norwich Local Plan Policy 7.1 [74] seek to promote new office development within the city centre in order to re-establish employment density. However, as noted elsewhere, DM19 cannot be fully implemented due to Permitted Development Rights allowing the conversion of offices to residential use.

7.1.2 The question then arises as to where new development should be directed. The Norwich *Economic Strategy 2019-24* states that the

> *finite amount of employment land in the urban area (especially in the local authority area) needs to be protected – the mix of employment and residents has to be balanced if Norwich is to function as a modern urban centre. Recent monitoring has shown that there has been very little office development in the city centre ….*

The strategy notes the compounding impact of Permitted Development Rights. This study concurs on both points. The edge-of-town and out-of-town office market appears to need little support, but it is critical to encourage development – new and refurbishment, large and small, high spec and low spec – in the city centre to improve its offering, particularly to SMEs.

7.1.3 The city centre is not large enough, or sufficiently disaggregated, to have sub-markets; within the Inner Ring Road there is a relatively homogenous market, in which demand is attracted to sites on an availability basis.

7.1.4 It is thus not feasible to forecast levels of demand in different parts of the city centre: modern office businesses are relatively footloose and will move towards supply within relatively short distances. Moreover, the rent that might be achieved is something of a red herring (especially in light of market trends). The key point will be for the Council to ensure existing stock is protected (via an Article 4 Direction) and new stock encouraged. The latter requires two preconditions, one of which is relatively within the Council's control, one of which is not.

---

[73] Norwich City Council (2014) *Norwich Development Management Policies Local Plan* Adopted December 2014

[74] Greater Norwich Development Partnership (2020) *The Greater Norwich Local Plan Draft* Strategy Regulation 18 Consultation 29th Jan to 16th March 2020

7.1.5 The latter refers to viability. For new development to occur, it must be commercially viable. This issue was covered more fully in Section 3.4, suffice to say at this point that viability seems a long way off at the current time. The first pre-condition refers to the availability of development sites, and the Council has great influence here.

7.1.6 To this end, there are a number of unconsented sites in the city, not to mention the long-term potential of the Eastern Strategic Regeneration Area, as was outlined in Section 6.5, and in Figure 6.3 in particular. In terms of their potential for promoting office development more generally, we would make the following observations.

- Rouen Road: most likely a residential development and St Crispin's Road: already committed to residential. No positive impact on supply.

- Vantage House and Townshend House: potential for refurbishment as single buildings. Limited positive impact.

- Duke's Wharf and St Mary's works: potential to provide refurbished space. Limited positive impact.

- Land at City Hall and Mountergate. High profile, positive impact.

- Anglia Square, Barrack Street and ENSRA: all have potential for significant new additions to the City's office market. Major potential positive impact.

7.1.7 Much of the above is based on the assumption that an Article 4 Direction might be implemented in Norwich city centre. But an Article 4 will merely prevent the loss of space; it will not per se encourage new development. In particular, it is a necessary but not sufficient instrument to ensure the availability of grow-on space for digital firms and the wider office economy SMEs. To promote such a scheme will require a more direct approach. This could, by way of example, include one of the following:

- direct purchase or development and operation of a digital hub;
- contracting out the same to a private sector operator, or
- entering a joint-venture public-private partnership, possible on a not-for-profit basis.

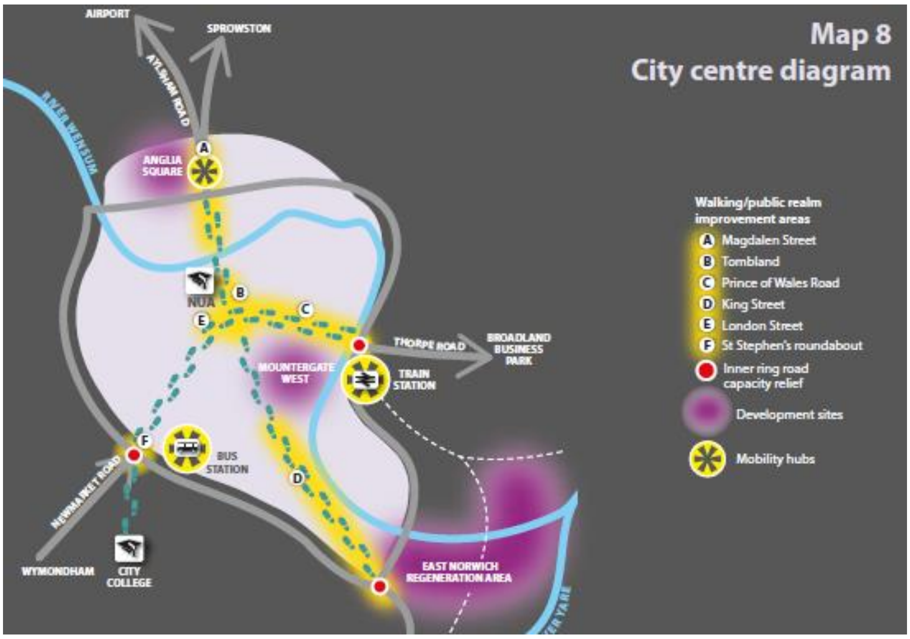
Whichever approach is adopted, the key will be to exhibit entrepreneurial flair with a vision beyond Norwich, to help the City present itself as a dynamic inward investment destination.

7.2. The East Norwich Strategic Regeneration Area

7.2.1 The East Norwich Strategic Regeneration Area (ENSRA) is proposed to be allocated within the emerging GNLP and will be informed by a masterplanning exercise. Here we review the scope for office provision in the ENSRA, and the relationship between it and the city centre. The latter is important in order to ensure that any office development is capable of complementing rather than competing with the rest of the city centre.

7.2.2 Figure 7.1 shows its physical relationship with the city centre, highlighting the development areas around Anglia Square and Mountergate West. The map illustrates why the role of the ENSRA in terms of office provision needs to be thought through: its proximity could be competitive with the centre, and this is not desirable given the fragile nature of the office economy.

Figure 7.1 Relationship between ENSRA and the city centre



Source: NCC *et al* (2018) [75]

7.2.3 There is likely to be a role for office provision in the ENSRA, but again this role needs to be carefully considered. For example, it is unlikely that it will be able to replicate the provision of smaller, lower cost space that is available in the city core, but it might well be able to cater for 'corporate office' demand, although this would not – on current values – happen without a substantial pre-let.

7.2.4 Many UK cities have found themselves facing the challenge of transforming redundant land, often at the margins of urban centres and with all of the problems of derelictions, land contamination and neglect or absent infrastructure that reflects former industrial-era usage.

Lessons from elsewhere

7.2.5 There are several examples of edge-of-centre regeneration schemes in regional cities. For example: Bristol (Temple Quarter), Edinburgh (Leith), Leeds (Armouries), Liverpool (Princes Dock) and Manchester (Salford).

Create a 'place'

- Demand is most likely from larger firms looking for 'corporate' office space in institutional grade buildings. Canary Wharf is the extreme example, Liverpool's Princes Dock a smaller scale example.

[75] Norwich City Council; Norfolk County Council; South Norfolk District Council and Broadland District Council (2018) *Norwich: Transforming Cities Fund Application*

- There is an opportunity to create an ‘urban quarter’ – a distinctive part of the city with its own character and attractions, which potentially is less dependent upon a single occupier. However …

- Sometimes these quarters are themed. Manchester has created a ‘media village’ in Salford, having anchored the scheme with the BBC; in Edinburgh’s Leith, The Shore area is emerging as the city’s creative hub, with a large-scale 160,000 sq ft (14,900 sq m) film and TV production facility; and Leeds Dock has attracted Sky’s Digital HQ.

  Taking these lessons as a setting provides a strong argument that some form of anchor, a key occupier or a key business sector, preferably one that sits at the top of the ‘business food pyramid’ and can therefore attract a secondary layer of demand from those who service them, would be a strong way to drive development.

Establish an attractor

- Many urban ‘extensions’ have a natural (Bristol’s docks) or historical (Leeds Armouries) association. The Royal Armouries Museum welcomes 250,300,000 visitors a year. A good mix of period or just characterful buildings are a strong draw, and this is even more the case if that character can be complemented by waterfront.

- They can create destinations in their own right. Nuveen’s spectacular 160,000 sq m Edinburgh St James development is due for completion in October 2020 (80,000 sq m retail and leisure) and 2021 (W Hotel and 152 residential apartments).

Ensure connectivity

- Most successful major regeneration schemes involve a balanced blend of residential, commercial, cultural and leisure facilities. But there is one problem that all have had to address, from the huge scale of London Docklands in the 1980s and 1990s to all the modern schemes, and that is making it easy for people to get there, whether to work or to visit.

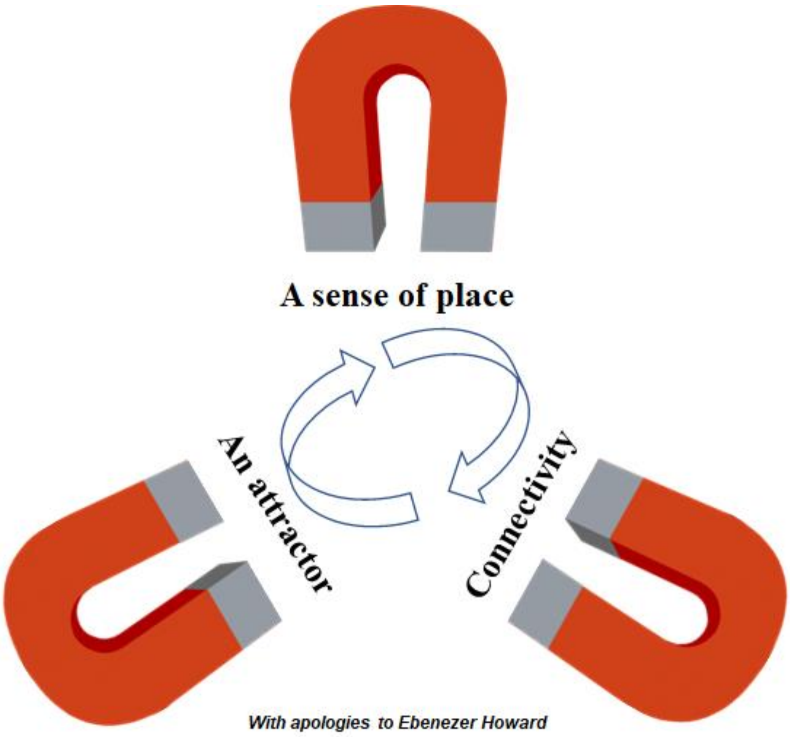
7.2.6 These principles can be captured in a graphic (Figure 7.2), which draws inspiration from Ebenezer Howard’s Garden City principles.

7.2.7 The three magnets are, first an *Attractor*, which is the ‘pull’ of the area. If this were a retail scheme it would be an anchor tenant, but for business space it need not be a single occupier, but a sector, or a clear, compelling and forward looking idea. The second magnet is a *Sense of Place*, that is an environment that encourages people to stay. The third magnet, but the one on which everything else hangs, is *Connectivity*, the facility to get into and move around the area.

7.2.8 At the moment large parts of the ENSRA are relatively inaccessible, and it is obvious that this needs to be addressed. In particular the railway line creates a strong barrier between ENSRA and the city centre, and this is something identified by Norwich City Council. But attention should also be given to linkages with the business parks to the east of Norwich, since the greater city is still quite compact (at least in ‘as the crow flies’ terms) and it would help to ensure the business areas can effectively work together.

7.2.9 ENSRA has the potential to form a nexus for the disparate parts of the Norfolk business space market. Further, although there are of course large areas of disused industrial land, there are locales within that contain buildings of genuine character that, if the linkages urged above could be made, have the potential to appeal to modern dynamic business. To develop an urban quarter requires all of the elements - linkage, character and even waterfront. Whitlingham Country Park is directly adjacent, and this should be seen as part of the opportunity.

Figure 7.2 The magnets of regeneration



7.2.10 The area's advantages – scale, reasonable proximity to Norwich Station and the main roads, potential for character and proximity to green space, can all be more effectively exploited if its linkages to the rest of Greater Norwich can be firmly established. If this can be done, then the area certainly has potential, although the timescales for delivery remain uncertain.

7.2.11 But exploitation of that potential probably won't be driven by the office economy, at least not the digital, media and technology sectors of the office economy. It is relatively remote from the city centre (insofar as anywhere in Norwich can be considered remote) and all of the *social* infrastructure found there, and it is unlikely that the density of development implied by an office-led programme would be the best way forward.

7.2.12 A more likely route will be a move towards cutting edge science-led advanced materials and manufacturing, possibly with a healthy dose of biotechnology, which would be likely to occupy the full range of B-use classes. It needs an idea that provides an anchor to allow regeneration to take root, to give an advantage over similar areas elsewhere.

7.2.13 The following is an exercise in imagination to illustrate the potential.

7.2.14 Norwich sits between some of the most fertile agricultural land in the UK and one of its most treasured wetland ecosystems. Ask any farmer – around the world - what they need help with, and the common answer will be resilience in the face of climate change. Ask any custodian of wetlands what their biggest concern is, and they will say rising sea levels.

7.2.15 The University of East Anglia as also home to the Climate Research Unit, one of the most important centres for climate science in the world, itself within that highly regarded university. It, intentionally or not, reflects that Norwich sits near the frontline of climate change in the UK.

7.2.16 Imagine if a centre of excellence could be created, perhaps a Centre for Climate Resilience, drawing in partners from public, private and academic sectors; and that, in a focused manner, complimented existing centres such as Norwich Research Park and Hethel Engineering Centre. Such a centre could be a hub for many industries with the desire to co-operate, from agrochemicals to bioengineering to advanced manufacturing to artificial intelligence, all, while not really office style users, *serviced by the whole gamut of business support, analytical and communications services such a centre would need.* And these do tend to be office-based.

7.2.17 Rooted in ideas of environmental responsibility, carbon reduction and re-usability and it could be a potent, potentially world-class, centre with all of the multiplier effects that implies.

7.2.18 The overarching point is that Norwich lacks the scale to be able to leverage endogenous growth and an area like ENSRA offers the opportunity to create something that will pull people towards Norwich, but ideally that effort needs to be clearly focussed on an attainable objective, and outward-looking.

7.2.19 In the specific context of this research delivery timescale alone exclude ENSRA from consideration for a digital hub. However, in the longer term the potential synergies between a city centre hub and a focussed and effective new business area are there to be enabled and exploited.

7.3. The rationale for protection: office-to-residential conversion

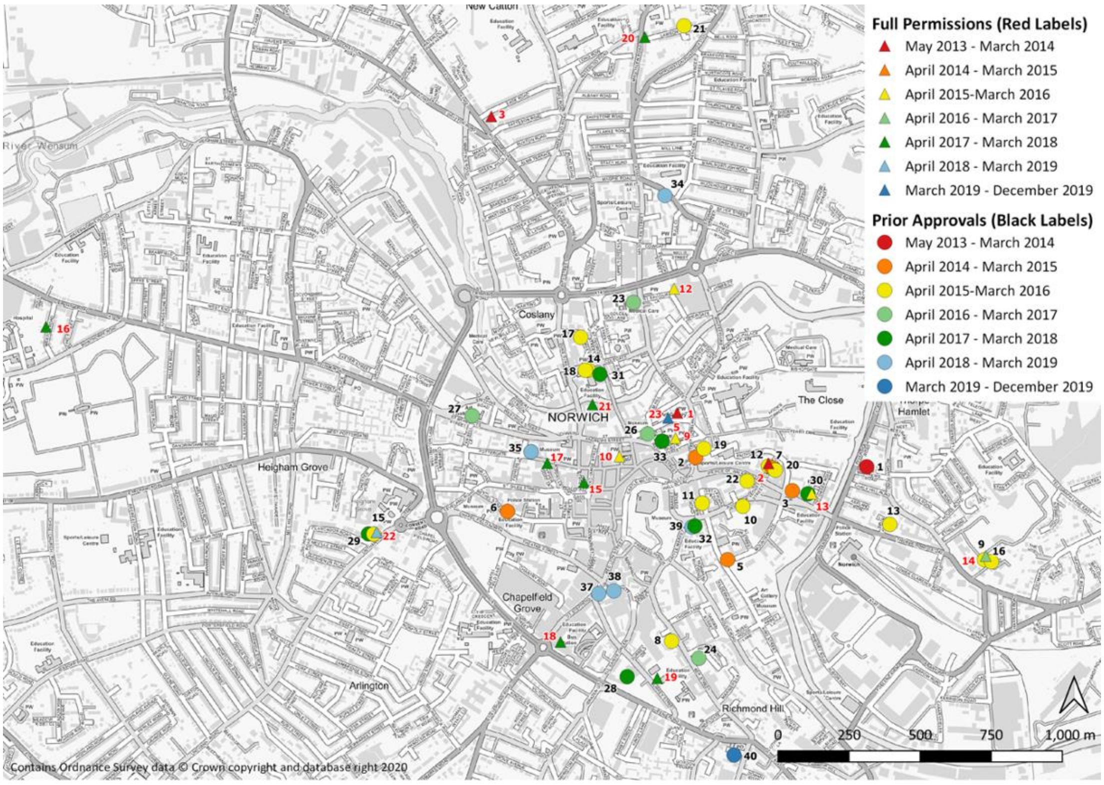
7.3.1 As was noted in Section 3.2, Norwich has lost almost 109,000 sq m of office space in recent years, of which just under 66,000 sq m has been completed or started on site, the bulk of this in the NR1 postal code.

7.3.2 Policy DM19 of the Norwich Development Management Policies Plan seeks to protect offices (see Appendix Two), but it is unable to control change of use from office to residential due to the extension of Permitted Development Rights.

7.3.3 The vast bulk of office-to-residential conversions have, unsurprisingly, occurred within the A147 Inner Ring Road, and this is true regardless of whether Full Permission or Prior Approvals were used (Figure 7.3). Given that this is where most stock is located this pattern is not surprising, and it is noticeable that conversion is spread throughout the city centre, so this is the area of prime concern.

7.3.4 The map gives a clear indication of the locations that need special protection, at least to be protected from Prior Approval.

Figure 7.3 Location of office to residential conversions



Source: Norwich City Council

Primary drivers of change

7.3.5 There is no escaping that the primary driver of office-to-residential conversions is that values for residential space are more attractive than for offices, and office values are supressed thanks in part to Norwich's size and also to the relatively small size of its SME sector. That said, it is worth noting that student accommodation has made up a significant share of those properties that have already been converted and that this is a market with a finite size.

7.3.6 To give a very approximate comparison of office and residential values, we understand from informal discussions with local agents and with residential research firm Dataloft, that values for flats/apartments in central Norwich are currently running at more than £300 sq ft. At the same time, an achieved office rent of, say, £17.50 sq ft at a 7% yield (both quite realistic in today's market), translates to a commercial value of £250 sq ft.

7.3.7 On top of this is a lack of strong policy guidance at the national level.

7.3.8 Even so, it seems unlikely – in normal circumstances, at least – that pressure on the housing market will ease. It has been the defining feature of property markets throughout the south and east of England for more than two decades.

Key office sites at risk from office-to-residential conversion

7.3.9 Virtually any site that is not secured on a long lease should be considered under pressure for development as residential.

7.3.10 Given that there have been Prior Approvals nearby on Pottergate, Vantage House must be considered particularly vulnerable to residential conversion.

Likely effect of further office-to-residential conversions

7.3.11 When considering the future effect of continued residential conversions there are two elements: ongoing impact from the recent wave and possible impact from a repeat of this activity. It is evident that the conversions so far have driven up rental values in good quality second-hand space in the city centre – from around £10 per sq ft to £15 per sq ft – and but for the pandemic it is possible that they would have edged up a little more as vacancy rates fell. The reduced vacancy would maintain some upward pressure in rents, as long as demand did not fall.

7.3.12 In the longer term, the risk comes from a repeat of the loss of stock experience since 2013, and especially since 2016. Although, on the face of it, this might be expected to push rents upwards, and push investment yields downwards enough to trigger redevelopment, in practice the result could be the opposite. Development requires sites, and a significant loss of sites could turn remaining sites from being attractive to inflationary, which in turn would put off the very occupiers needed to foster a vibrant town centre. This could be compounded by having a resident population in the newly converted buildings with no desire for the noise and disturbance that vibrancy brings. Thus, it would be easy envisage a repeat wave of conversion generating a spiral from which the city centre might find it difficult to recover.

7.4. What needs protecting?

7.4.1 Chapter 2 reviewed the changing nature of office work nationally, and the general impacts on workplace design. Chapter 4 summarised the nature of demand from the digital sector and the wider office economy; while Chapter 5 quantified demand for office space in terms of forecasts of square metres required.

7.4.2 Throughout, we have underlined the importance of space to meet the demands of small firms generally (not just digital sector), the importance of cost and flexibility, and the relationship between office work/office occupiers and their desire for good public realm, support services, food and beverage, cultural attractions and public transport.

7.4.3 In Chapter 5 we saw that offices are becoming a more important component of city centres rather than less so being as they are, generators of jobs, spending and competitiveness. For this reason, the availability of suitable offices is vital to Norwich's economy. We concur with the emerging GNLP which argues that

> *it is essential [to ensure] that high density employment uses are concentrated in highly accessible locations in particular the city centre, and that loss of existing floorspace in the city centre is resisted.* [76]

7.4.4 There are two further aspects of demand that merit emphasising at this point. The first is that Norwich does not have a strong base of large corporate office occupiers. On the contrary, office occupiers in Norwich city centre are very largely

[76] Greater Norwich Development Partnership (2020) *The Greater Norwich Local Plan Draft* Strategy Regulation 18 Consultation 29th Jan to 16th March 2020

small businesses, not large employers. While this is not particularly unusual, it does point very clearly to where the potential for growth lies.

7.4.5 Secondly, smaller businesses tend to require access to 'affordable' space. This means one of: economic space in multi-let buildings; secondary space or flexible space. Norwich has lost almost one-third of its office stock since 2008, much of which provided exactly the kind of secondary space required by small businesses.

7.4.6 These two factors combine to present the Council with a dilemma. On the one hand, it needs to encourage new development (setting aside for one moment the question of viability) to provide new, high quality space to attract high growth occupiers. On the other hand, it needs to protect seemingly outdated stock for occupation by businesses who can afford only secondary rents. In short, new development will generally, not be affordable to small businesses; and refurbishment does not have to be of Grade A standard to attract occupier interest.

7.4.7 Figure 7.4 presents a 'premises typology' to illustrate how different kinds of office premises can be considered as part of a varied offer. It is important to emphasise the heterogeneity of demand: there is no single building type or specification that unlocks demand. A range of specifications, sizes, costs and characters is important to meet different aspirations.

Figure 7.4 Premises typology and target occupiers

Premises Type	Digital and office economy SME demand				
	Traditional lease	Managed space	Serviced + Grow-on	Coworking	Hybrid/studio
Modern, Grade A	Limited	As a small sub-let unit.	IWG Regus type	No	No
Post-war to 1990s office	No	Assuming character and cost	Core market	Yes	No
Period building	No	With adequate refurbishment	Depending on floorplan	Yes	Yes
Industrial stock	No	With adequate refurbishment	Core market	Yes	Core market
Marginal	No	No	No	Limited	Core market
Over retail, leisure	No	No	Limited	No	Yes

7.4.8 It is unlikely, given viability issues as well as physical constraints, that there will be demand either from occupiers or investors/developers for large Grade A offices in the city centre. Demand for such space is, largely met on business park environments away from the city centre (and might in due course be met on the ENSRA). Similarly, traditional leases, with their relatively long-term commitments and obligations are not favoured at all.

7.4.9 In terms specifically of a digital hub, which would likely offer managed space, serviced and grow-on space, and coworking space, it is important to emphasise that a suitable building must be offered alongside a quality management regime committed to curating the 'feel' of the work environment.

7.4.10 It is also worth emphasising the fact that a permanent digital hub needs to be part of a place-based approach, with strong public realm; where there is an identifiable business community; a good food and beverage offer and transport connectivity. If one of the 'meanwhile' options considered earlier is progressed, there is some flexibility on these criteria in the short-term.

7.4.11 As captured in the typology, digital and wider office economy firms can occupy a range of premises types from Grade A office to refurbished industrial units. The main aspects of specification requirements are as follows.

- **Sub-divisible space** Floorspace and regular configuration that can respond to changing requirements and be altered quickly and inexpensively. Also a space that can create a sense of shared community, such as ground floor atrium or meeting space.
- **Floor-to-ceiling heights and natural light** Provision for both should be as generous as possible. There should be a minimum floor-to-ceiling height of three metres (likely no raised floor or drop ceiling). Access to natural light to be maximised.
- **Air handling** Different solutions will be driven by the building form but, overall, air handling is more economic than full air conditioning, and in some buildings openable windows are acceptable. Many firms have a preference for mechanically or naturally ventilated space.
- **ICT infrastructure** Perhaps the most commonly used cable currently is the Category 5e specification (Cat 5e), which offers performance of up to 100 MHz bandwidth. Cat 6 cabling has improved performance yet further, providing bandwidth of 250 MHz bandwidth; while Cat 6a provides 500 MHz bandwidth. The Cat 6 specification improves on Cat 5e by mitigating crosstalk (signal interference, or transfer, from one circuit to another).
- **Power and utilities** 3-phase electricity power should be installed. All statutory services must be supplied to the accommodation, capped and tested and separately metered. Conduit should be installed through perimeter walls suitable for incoming data cabling.
- **Fit out** Most firms are looking for a low specification fit out. Bare walls and exposed ceilings are regarded has perfectly acceptable. Soffits and structural columns can be exposed, fair-faced polished concrete or plastered and pointed; and internal walls plastered and painted. The floor areas should be covered with appropriate carpet tiles or exposed wood if such exists
- **Access** The vacant accommodation should be finished to a standard that will allow for immediate occupation including secure entrance(s), heating, lighting, kitchenette(s) and WC facilities.
- **Vehicle access** There should be adequate space for loading/unloading.
- **BREEAM standard** The workspace should achieve at least a BREAAM 'Very Good' rating. The workspace must comply with all relevant accessibility regulations and requirements.
- **Cycles** Spaces for cycles and showers/changing facilities are critical.

7.4.12 This is not a comprehensive specification, and we emphasise that, irrespective of which sector they might be in, just like consumer markets, tastes and preferences vary according to the individuals involved.

7.4.13 We have seen elsewhere in this report that digital businesses and wider office economy SMEs have differing and overlapping preferences for buildings types and specification; but their unifying theme is that they increasingly want to be part of the city centre milieu, where they can find not only a peer group business community, but also the other attractions of city centres: cafes, bars, restaurants, shops, services and culture.

7.5. Current supply of office space

7.5.1 GVA's *Greater Norwich Employment Land Assessment* identifies Norwich city centre as comprising three existing employment sites and two mixed use sites totalling 16 ha (Figure 7.5), together with recommendations of how to deal with them. [77] These sites accommodate a mix of uses and reflect their city centre character with a varying building age and quality. Given the strategic city centre location and good road access, each of the sites are particularly suited to continued B-class use.

Figure 7.5 Existing office locations in Norwich [78]

GVA Site Ref	Council Site Ref	Site	Site Area (ha)	Stock Quality	Site Quality	Future Advice
N E19	-	Surrey Street	3.44			**Protect & Maintain** Mature town centre location with mix of valuable office space.
N E22	NC021	Gilders Way	8.58	Mixed	Mixed	**Protect & Enhance** Large site with a mix of high value occupiers and large development opportunity.
N E23	NC023	Blackfriars Street	1.42			**Protect & Maintain** Mature site with large occupier.
N MU1	266	St Giles/ Pottergate	1.11			**Protect & Maintain** Mature site with a range of occupiers.
N MU2	267	City Hall/St Giles	1.93			**Protect & Maintain** Mature site with a range of occupiers.

Source: GVA (2017a)

- Site N E19 includes a building occupied by Aviva, the Marble Hall and office spaces set above ground floor retail. The site is well located in proximity to a range of amenities, the offices are dated but of reasonable quality.
- Site NE22 in Gilders Way includes a mix of large office buildings with a large amount of allocated space that was previously used for car parking.
- Site N E23 in Blackfriars Street shares similar characteristics but has no vacant land and appears to be occupied by a large single industrial building.
- Sites N MU1 and N MU2 have mixed use designations which reflect the variety of occupiers. Buildings on both sites are of typically high quality and some have historic character which benefit overall amenity.

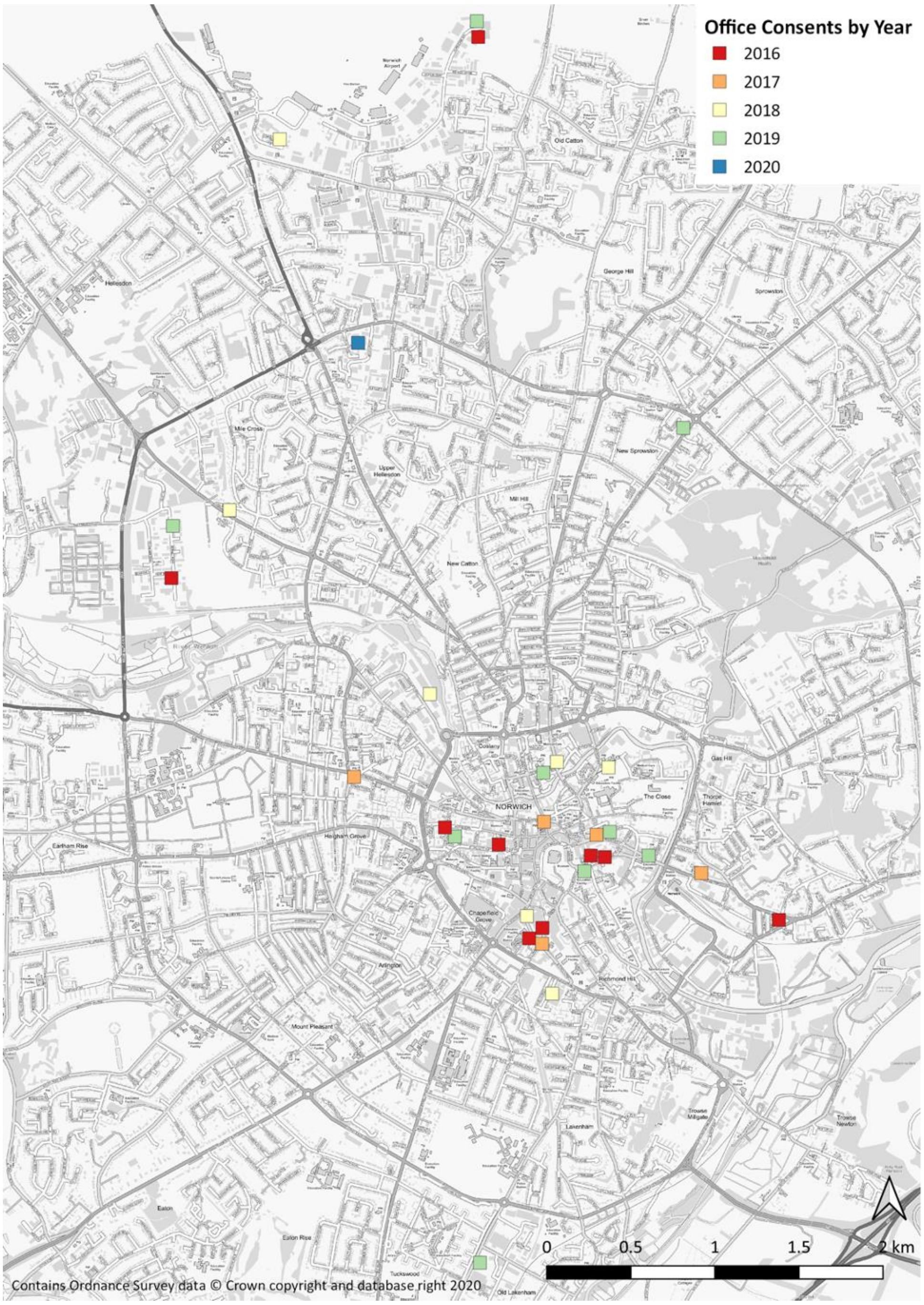
[77] GVA (2017a) *Greater Norwich: Employment Land Assessment* December 2017
[78] The yellow and green in the table represents GVA's "Red-Amber-Green" assessment for stock and site quality. Essentially, green means 'good' and amber/yellow means 'qualified good'. This table sat alongside others that are not pertinent to this study.

7.5.2 Only two of these sites have seen no office-to-residential conversion, one of them is Gilders Way, where a 200+ dwelling consent is in place, and which GVA said should be protected and enhanced. But the encroachment on three of the five areas, including Sentinel House, a substantial building on Surrey Street, included in the statistics detailed in Chapter 3, starkly illustrates the threat to office space.

Development pipeline

7.5.3 There is a surprising dearth of space with outstanding consent for any form of development involving offices (mapped in Figure 7.6 and tabulated in Figure 7.7).

Figure 7.6 All office consents, since 2016



Source: Ordnance Survey, Norwich City Council

Figure 7.7 Unexpired office consents, NR1, NR2 and NR2, since 2016, sq m

Consent year	NR1	NR2	NR3	Total Sq m
2016	1,075	175	38	1,288
2017	1,156	73		1,229
2018	1,064	67	903	2,034
2019	237	111	1,183	1,531
Total	3,532	426	2,124	6,082

7.5.4 Only 6,082 sq m of space has an office consent and of this total, 5,000 sq m involves change of use applications, while a smaller element comprises offices ancillary to other uses. The largest consent is just 544 sq m for change of use of the former Lloyds Bank in Surrey Street.

7.5.5 The lack of sites in the development pipeline underlines the fragility of Norwich's office market, referred to elsewhere in this report. In a regional city of its size, it would be expected to find a much deeper reservoir of development potential. It is striking that the remaining building proposed at Gilders Way has more space than this entire pipeline.

Available space

7.5.6 In terms of the supply of space, at the time of writing, there were 19,444 sq m of office space available in 49 units listed (according to the Estates Gazette Interactive (EGi) system) in the NR1, NR2, and NR3 post codes (Figure 7.8), ranging in size from 24 sq m to 3,097 sq m, plus two where the size is not stated.

7.5.7 The majority are in the central area, with a few scattered around Norwich (including a large unit on Whiffler Road). The largest unit available in the central area is Vantage House, Fishers Lane, which is for sale with vacant possession rather than to lease. This suggests it must be under threat of residential conversion.

Figure 7.8 Availability in Norwich city centre, May 2020

Address	Size sq m	Under Offer	Availability Type	Days on Market	Time on market
Upper King Street, NR3 1RB	n.a.	No	Letting	5	a) <30 days
Ground Floor, 45 Bethel Street, NR2 1NR	n.a.	No	Occupational sale	5	a) <30 days
Churchman House, 71 Bethel Street, NR2 1NR	923	Yes	Letting	23	a) <30 days
Units C & D, City Office Park, Barton Way, NR1 1DL	177	No	Letting	22	a) <30 days
Seebohm House, 2-4, Queen Street, NR2 4SQ	163	No	Letting	23	a) <30 days
Vantage House, Fishers Lane, NR2 1ET	3,097	No	Occupational sale	70	b) 30-90 days
4-8, Whiffler Road, NR3 2BH	2,926	No	Letting	73	b) 30-90 days
100, Prince of Wales Road, NR1 1DD	515	No	Investment sale	43	b) 30-90 days
St Mary's Croft, Chapel Field North, NR2 1NY	361	No	Occupational sale	41	b) 30-90 days
2, Barton Way NR1 1DL	147	No	Letting	41	b) 30-90 days
3-5, Orford Place, NR1 3RU	138	No	Letting	43	b) 30-90 days
11/17, Bank Plain, NR2 4SF	86	No	Letting	79	b) 30-90 days
114B, Prince of Wales Road, NR1 1NS	37	No	Letting	43	b) 30-90 days
47-51 All Saints Green, NR1 3LY	252	Yes	Occupational sale	154	c) 80-180 days
38, Rose Lane, NR1 1PN	71	No	Occupational sale	111	c) 80-180 days
36A, Unthank Road, NR2 2RB	24	No	Letting	107	c) 80-180 days
Thorpe House, 79, Thorpe Road, NR1 1UA	17	No	Letting	245	c) 80-180 days
Kingfisher House, 1, Gilders Way, NR3 1UB	979	No	Letting	568	d) 1-2 years
The Atrium, St George's Street, NR3 1AB	833	No	Letting	687	d) 1-2 years
Lloyds TSB Bank Plc, Surrey Street, NR1 3NF	741	No	Letting	541	d) 1-2 years
1, Prince of Wales Road, NR1 1BD	630	No	Letting	435	d) 1-2 years
24, City Road, NR1 3AL	486	No	Letting	383	d) 1-2 years
2nd, Woburn House, 84, St. Benedict's Street, NR2 4AB	298	No	Letting	492	d) 1-2 years
Nedeham House, St Stephens Road, NR1 3SP	233	Yes	Letting	462	d) 1-2 years
Entire Building, 5, Recorder Road, NR1 1NR	187	No	Letting	520	d) 1-2 years
25-27, Surrey Street, NR1 3NX	140	No	Letting	541	d) 1-2 years
Bridge Court, 1, Fishergate, NR3 1UF	133	No	Letting	509	d) 1-2 years

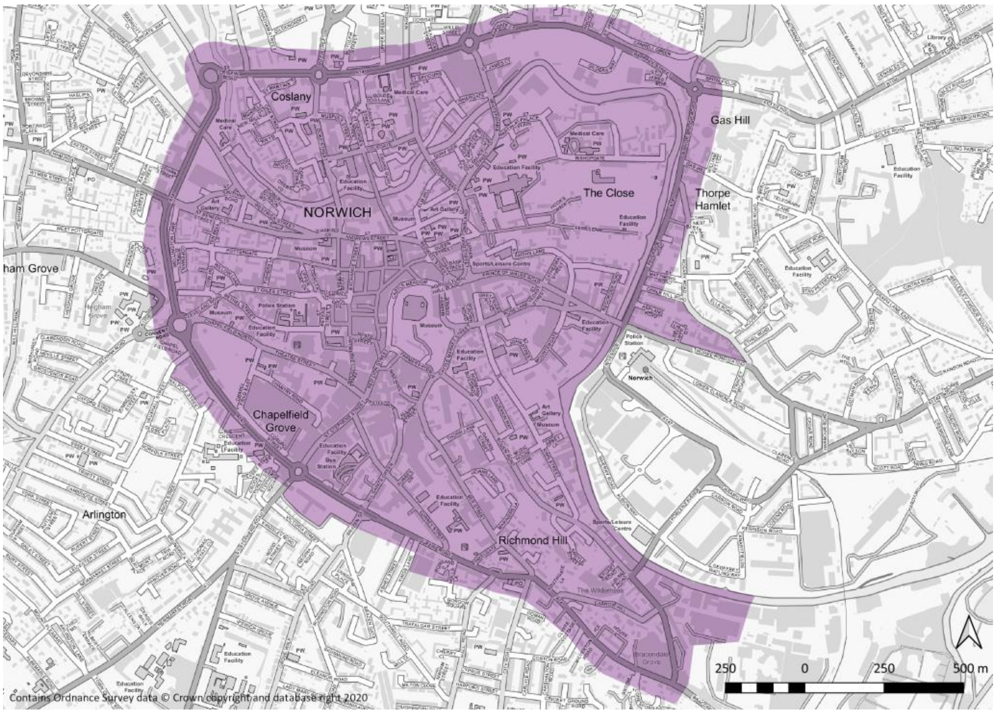
Address	Size sq m	Under Offer	Availability Type	Days on Market	Time on market
13-15, St George’s Street, NR3 1AB	110	Yes	Letting	512	d) 1-2 years
13-15, St George’s Street, NR3 1AB	110	Yes	Letting	602	d) 1-2 years
St Vedast House, St Vedast Street, NR1 1BT	94	No	Letting	706	d) 1-2 years
St Giles House, 27, St Giles Street, NR2 1JN	86	No	Letting	653	d) 1-2 years
Ground (part), 56a, Thorpe Road, NR1 1RY	68	No	Letting	676	d) 1-2 years
5th (part), Kiln House, Pottergate, NR2 1BZ	1,027	No	Letting	1,846	e) >2 years
Lawrence House, 5 St Andrew’s Hill NR2 1AD	998	No	Letting	1,252	e) >2 years
St James' Works, 12-20, Whitefriars, NR3 1SH	953	No	Letting	2,269	e) >2 years
1st, Kiln House, Pottergate, NR2 1BZ	725	No	Letting	1,846	e) >2 years
11, Prince of Wales Road, NR1 1BD	362	No	Letting	828	e) >2 years
Ground, Basement and 1st, 13-15, Cathedral Street, NR1 1LU	241	No	Letting	811	e) >2 years
Ground (part) and 2nd, 111, Queen’s Road, Norwich, NR1 3PL	229	No	Letting	1,325	e) >2 years
19, Upper King Street, NR3 1RB	223	No	Letting	1,619	e) >2 years
Suite A, Queen’s House, 123-129, Queens Road, NR1 3PL	110	No	Letting	828	e) >2 years
Ground, 83-87, Pottergate, NR2 1DZ	91	No	Letting	888	e) >2 years
19, Upper King Street, NR3 1RB	86	No	Letting	849	e) >2 years
19, Upper King Street, NR3 1RB	86	No	Letting	849	e) >2 years
Suite D, 4th (part), Kiln House, Pottergate, NR2 1BZ	75	No	Letting	1,846	e) >2 years
07, 2nd, Chalk Hill House, Rosary Road, NR1 1SZ	64	No	Letting	1,325	e) >2 years
69-75, Thorpe Road, NR1 1UA	61	No	Letting	1,098	e) >2 years
Suite B, Queen’s House, 123-129, Queens Road, NR1 3PL	56	No	Letting	828	e) >2 years

7.6. Article 4 Direction

7.6.1 The Council is currently considering the case for and against the introduction of an Article 4 Direction, which is the primary weapon to restrict the uncontrolled loss of offices to residential use. Based on the evidence presented earlier in this chapter and in Chapter 3, this report is of the view that an Article 4 Direction should be considered as an urgent action. This is both because of the already low values inherent in the Norwich market and also because the COVID-19 crisis might radically alter property owners' risk analysis. If they think the case for building business space is weakened, then they are likely to consider switching to residential, precipitating a fresh glut of office-to-residential conversions.

7.6.2 There is no obvious case for applying an Article 4 Direction to the whole of Norwich, because the vast bulk of its threatened stock is in the city centre. And as already noted, the digital sector and wider office economy SMEs have a strong preference for a city centre location. With this in mind, the main thrust for determining the Article 4 boundary has been to ensure that the whole of the city centre's office stock is covered, taking account of where the overwhelming number of residential conversions have taken place. To this end, we propose the A147 as the main boundary to an Article 4 Direction (Figure 7.9).

Figure 7.9 Proposed Article 4 Boundary



7.6.3 We would emphasise that the boundary line extends up to <u>and beyond</u> the A147 in order to protect office land and buildings that are contiguous with the road. Examples of such buildings that sit immediately on the outside of the A147 include: Marsh (corner of St Stephens Road and Queens Road); Norvic House (corner of Chapelfield Road and Vauxhall Street), and the cluster of buildings on Queens Road which include 115 Queens Road, Queens House and St Francis House. In addition, there is a significant stock of office accommodation near the railway station which should be protected. Figure 7.9 shows how the Article 4 boundary is extended to encompass the area including Thorpe Road, Rosary Road and Chalk Hill Road.

Offices within this area include Yare House, Roche, Adrian Flux, MoneyFacts and Berry and Warren

7.6.4 This boundary would give Norwich sufficient control over office development, on the one hand, permit stock that is truly redundant to change use while being able to protect space of strategic value.

7.7. Summary: need for immediate action

7.7.1 Norwich is in delicately poised position. Although there has been a significant shake out of entirely redundant office space, the sheer scale of office-to-residential conversion suggests a risk that it has gone so far that it might be putting the viability of the Norwich office market at risk.

7.7.2 This chapter has considered spatial options for promoting office development. The overwhelming evidence is that the finite amount of employment land in the city centre needs to be both protected and enhanced. Currently, the impact of Permitted Development Rights will continue to thwart efforts to increase office development in the city. For new development to occur, it must be commercially viable, which seems a long way off at the current time. But the first pre-condition to viability is the ready availability of deliverable development sites, and the Council has considerable influence here.

7.7.3 To this end, there are a number of unconsented sites in the city, not to mention the long-term potential of the ENSRA. In particular, Land at Anglia Square, Barrack Street, City Hall and ENSRA: all have major potential for significant new additions to the city's office market. But they are long-term and uncertain. And even when they get going, strenuous efforts must be made to ensure they compliment the office market in the city core, rather than compete with it.

7.4.14 Smaller businesses tend to require access to 'affordable' space. This means economic space in multi-let buildings, secondary space or flexible space. Norwich has lost almost one-third of its office stock since 2008, much of which provided exactly the kind of secondary space required by small businesses. The Council therefore has the task not only of ensuring a ready supply of new office development, but also of protecting seemingly outdated stock for occupation by businesses who can afford only secondary rents.

7.4.15 In this chapter we presented a 'premises typology' to illustrate how different kinds of office premises can be considered as part of a varied offer. It is important to emphasise the heterogeneity of demand: there is no single building type or specification that unlocks demand. A range of specifications, sizes, costs and characters is important to meet different aspirations.

7.7.4 In summary, in the short- to medium-term, it is imperative that the Council secures an Article 4 Direction to enable implementation of adopted planning policy (Policy DM19 in Norwich's Development Management Policies plan) and to support emerging planning policy in the Greater Norwich Local Plan (Policy 7.1 in the Regulation 18 plan) to safeguard its remaining central city office market. This is essential to providing the kinds of space required by the businesses that form the backbone of demand.

8. Conclusions and recommendations

8.0.1 Norwich City Council commissioned this study of the city's office accommodation in order to provide a robust evidence base of the issues driving supply and demand for offices in the city; to identify sites that might be able to support a digital hub; to examine the case for public intervention, and to assist in the consideration of an Article 4 Direction. The study has a focus on the needs of the digital sector, but encompasses the wider office economy.

8.0.2 In recent times there has been reduced developer appetite for new, large-scale office development, with low rental values making speculative development unviable. This in turn has led to reduced choice for occupiers which has meant that out-of-town space is often the only option for occupiers with larger requirements. In short, there is a market failure.

8.0.3 The emerging Greater Norwich Local Plan argues that a key aspect to reversing this market failure will be to reverse the loss of office accommodation in the city centre and to ensure the supply of suitable sites and premises for the key employment growth sectors, particularly digital and creative industries.

The impact of COVID-19

8.0.4 Much has been written about COVID-19, including the 'end of the office' narrative and observations suggesting long-term changes to behaviour around commuting, working patterns, office layouts and so on. In reality many of the changes being discussed have been a feature of the direction of travel in corporate real estate over the past two decades.

8.0.5 However, COVID-19 has served to show the importance of being prepared for rapid and severe disruption, and that new approaches to the use and management of offices are required. Seen positively, the recent crisis has forced change where entrenched attitudes and cultures were previously resistant. Many more people have now experienced a different way of working which presents major future opportunity to adapt to inevitable change.

8.0.6 The 'new normal' is likely to comprise a blend of work settings in different locations, with varied experiences and functionality. Balancing the impact of social distancing on density with less office-based headcount demand will likely not affect the overall quanta of demand, and offices will continue to thrive but in new ways. The office has a key social function, not to mention areas such as training, mentoring, leadership, corporate ethos and so on. These needs have not disappeared. We do not foresee a structural change in the quantum of demand for offices in Norwich city as a direct result of COVID-19.

The evolving office market: lessons for Norwich

8.0.7 Before and after the COVID crisis, fundamental changes in the economy are bringing about major changes in the nature of demand for property, particularly the office sector. Drivers are economic, business, technological and social, exemplified in the office economy, and typified by technology-enabled, knowledge-intensive businesses, or KIBs.

8.0.8 This disruption is seen in the type of space required; with the nature of buildings; workplace design and workplace management all evolving quickly, altering the traditional profile of demand, as businesses adopt a more agile, networked approach. Offices are becoming ‘less generic’ and less single purpose, and will work harder to provide choice and flexibility: Owners will have to work harder and mirror the ‘experience management’ of the flexible space sector.

8.0.9 A key marker of recent change has been the growth of small businesses, particularly micro-businesses (fewer than nine jobs) and one-person businesses. The number of such firms across the UK has grown by 82% since 2000. Norwich will increasingly need to nurture its business ecosystem, large and small, providing flexible, economic and ‘interesting’ accommodation.

The office market in Norwich

8.0.10 The Norwich office market is small and vulnerable. The city’s wider office economy, of which digital firms form a part, amounts to around 14,000 jobs. Cambridge has 27,750 office economy jobs and Peterborough has 18,250. The Norwich office market has taken a huge hit from residential conversions, with 65,000 sq m already lost and another 40,000 sq m consented.

8.0.11 While rental growth has been modest overall, the loss of space has driven up prices for good quality second-hand offices. Nevertheless, new development is not viable, and the city’s low commercial property values mean that, in the absence of measures to prevent it, the city remains highly vulnerable to a second wave of office-to-residential conversions.

8.0.12 Even if Norwich opted for a “stand still” strategy, content only to protect what it has in terms of office-based business it would need to take action. Failure to do so would push more occupiers away from the city centre as the quality of stock declines, even if the quantity is held. This could create a situation where rents for remaining good quality space get high enough to support new development, only to find that many occupiers had already decamped to better stock elsewhere and that the city centre market has been permanently shrunk. It is clear that the supply of office stock in the centre needs to be protected and nurtured.

8.0.13 There are around 1,750 digital sector jobs and 280 businesses in Norwich, accounting for perhaps 2% of all employment and 6% of total business stock. This suggests a surprisingly small role for digital businesses in the Norwich economy. However, in the five years to 2015, digital employment in Norwich grew by around 40% and the stock of digital business by c30%. Its role in the future needs to be nurtured to assume greater importance.

Longer term viability

8.0.14 Viability is the most challenging issue facing the Norwich office market, and dealing with it needs to avoid reacting only to *current* market signals. To achieve anything like viability will require rents in the order of £22-23 per sq ft (a near 30% increase on today’s top rents), which might not be achievable until after 2026. Conceivably, we could be looking at another decade of non-viability.

8.0.15 The message here is that the Council cannot wait for viability to catch-up. The unavoidable implication is that the Council must seek to ‘change the game’. Longer term viability and rents will be dependent upon, and will follow, a thriving knowledge economy. And this, in turn, requires a steady supply of suitable accommodation.

8.0.16 In the case of a digital hub, the viability question makes public intervention a necessity: a strictly commercial venture will not materialise. And this in turn points strongly to the need for a Town Deal grant to prime the pump of such a project.

8.0.17 It must also be stated clearly that the story of Norwich is not all about overcoming weakness. That it is an attractive locale, a cathedral city with historical streets and characterful locales, is significant. Quality of life is a genuine concern for all strata of society. Strong measures to protect the character of the city centre and prevent it becoming a suburb-by-any-other-name are critical.

Demand forecasts

8.0.18 Previous forecasts of growth in demand for office space in Norwich have proved to have been optimistic. More realistic assumptions reduce Norwich city's forecast space demand from 112,000 sq m to c43,000 sq m (central scenario) and from 136,000 sq m to c50,700 sq m (under the higher growth scenario), 2020-2036. Spread evenly, this represents an annual demand of 2,700-3,200 sq m per annum.

8.0.19 Given that between 2015 and 2019 there was an annual average of 11,000 sq m of lettings (mostly second-hand), in 39 deals averaging 280 sq m each, the revised demand forecasts for additional space appear more likely than those in the earlier forecasts.

Market failure and lack of suitable accommodation

8.0.20 If Norwich is to overcome market failure two cross-cutting sets of criteria need to be met – building and locale. First, there must be a range of building types available. Digital firms do not require a single, definable building type – they can and do occupy anything from new Grade A space to converted 19th century industrial buildings. There must be choice, variety and character – all at an affordable price.

8.0.21 Regarding locale, an isolated secondary building will always be a second choice to one that is 'at the centre of things'. Small firms want to feel part of a business community – which is why large buildings with many occupiers work well – but firms also require access to services and lifestyle.

8.0.22 This combination will provide an attractive offering to office economy and digital economy firms, particularly those in the SME and growth sectors. Norwich city centre is replete with the necessary externalities but short on choice of premises.

Economic benefits of Council intervention

8.0.23 The benefits of public sector intervention are (a) to protect the city's economic vitality; (b) to kick-start growth and expansion and (c) to provide means and mechanisms whereby private sector investors and developers might be encouraged to take a positive view on the city's prospects.

8.0.24 An expanding digital sector (and wider office economy) will bring higher value jobs; it will enable Norwich to remain competitive and encourage small, growing companies to stay. Council intervention will ensure that employment opportunities sit within a wider package of social and economic objectives. By encouraging the office economy in the city centre, the Council will counter-balance less sustainable development on the city's periphery.

8.0.25 While one building (a digital hub) cannot change the fortunes of the whole office market, it is a step towards nurturing businesses at their most vulnerable stage – transitioning from start-up to established. The resulting job creation, directly and through multiplier, will bring wider economic benefits in terms of jobs, spending, wellbeing and training.

Importance of B1(a) premises to Norwich's economy

8.0.26 Office-based activities lie at the centre of most forecasts for growth in the national economy and it is vital that progressive, competitive cities cater for such growth – or risk losing vitality and competitiveness.

8.0.27 B1(a) premises are a critical component of city economies. The office economy is capable of underpinning employment growth, driving economic output, generating Council income and providing a wide range of employment opportunities. The last of these feeds through to wider social benefits in terms of quality of employment, lifestyles and health and wellbeing. A very clear trend in cities across the UK in recent years has been the growth of office jobs in city centres. KIBs prefer being near social and professional networks, public transport and so on.

Likely effect of further office-to-residential conversions

8.0.28 The conversions so far have driven up rents in good quality second-hand space in the city centre – from around £10 per sq ft to £15 per sq ft – and but for the pandemic it is possible that they would have edged up a little more as vacancy rates fell. The reduced vacancy would maintain some upward pressure in rents, as long as demand did not fall.

8.0.29 In the longer term, the risk comes from a repeat of the loss of stock experience since 2013, and especially since 2016. Development requires sites, and a significant loss of sites could turn remaining sites from being attractive to inflationary, which in turn would put off the very occupiers needed to foster a vibrant city centre. This could be compounded by having a resident population in the newly converted buildings with no desire for the noise and disturbance that vibrancy brings. Thus, it would be easy to envisage a repeat wave of conversion generating a spiral from which the city centre might find it difficult to recover.

Promoting and protecting offices

8.0.30 The Council's spatial policies with respect to office accommodation revolve around promotion and protection of office accommodation.

8.0.31 **Options for promoting office space** The edge-of-town and out-of-town office market appears to need little support, but it is critical to encourage development – new and refurbishment, large and small, high spec and low spec – in the city centre to improve its offering, particularly to SMEs.

8.0.32 The first step in the promotion of office activity is ensuring the availability of development sites, and the Council has great influence here. To this end, there are a number of unconsented sites in the city, as well as the ENSRA. With respect to the digital hub, and as already indicated above, this is likely require a direct approach. This could, for example, include the direct purchase or development and operation of a digital hub; contracting out the same to a private sector operator, or a public-private JV/partnership, possibly on a not-for-profit basis.

8.0.33 The ENSRA is proposed to be allocated within the emerging GNLP and will be informed by a masterplanning exercise. There is likely to be a role for office provision here, but this role needs to be carefully considered so that such development complements the city centre rather than competes with it.

8.0.34 **Options for protecting office space** The primary weapon in safeguarding offices is obviously an Article 4 Direction. This should be considered as an urgent requirement, both because of the values inherent in the Norwich market and because the COVID-19 pandemic may alter property owners' risk analysis. If they think the case for offices is weakened, then they are likely to consider switching to residential, precipitating a fresh glut of office-to-residential conversions.

8.0.35 There is no escaping that the primary driver of office-to-residential conversions is that values for residential space are more attractive than for offices. Virtually any site that is not secured on a long lease should be considered under threat for conversion to residential. On top of this is a lack of strong policy guidance at the national level. It seems unlikely – in normal circumstances, at least – that pressure on the housing market will ease. It has been the defining feature of property markets throughout the south and east of England for more than two decades.

8.0.36 **Article 4 Boundary** There is no obvious case for applying an Article 4 Direction to the whole of Norwich, because the vast bulk of its threatened stock is in the city centre. Further, as already noted, the digital sector and wider office economy SMEs have a strong preference for a city centre location.

8.0.37 With this in mind, and taking account of where the overwhelming body of residential conversions have taken place, we propose the A147 as the main boundary to an Article 4 Direction, with an extension to encompass the business space around Carrow Road. This boundary would give Norwich sufficient control over office development, on the one hand, to permit stock that is truly redundant to change use while being able to protect space of strategic value.

Recommendations

Norwich office market

8.0.38 Norwich's office market is in a parlous situation. And there is a need for some urgency in addressing key issues.

8.0.39 While there has been a significant shake out of redundant office space, the sheer scale of office-to-residential conversions suggests a risk that it has gone so far that it might be putting the viability of the Norwich office market at risk, at least in terms of being a major business centre. Further, there is a strong case for Norwich City Council and its partners to take an active role in making the city centre a more viable location, especially for small businesses looking to grow.

- There is an urgent need to strengthen Norwich's city centre office market for its role in creating high value jobs and their multiplier effect in the economy.
- This translates into an equally urgent need to take measures to protect the city's remaining office stock.
- There is a basic market need for choice – old and new, high spec and low spec, large and small. Secondary space is as important as new buildings.

- We support the introduction of an Article 4 Direction, as soon as possible, to protect existing stock.
- While a single building will not turn the market around, we support the creation of a ‘digital hub’ in the city centre to provide affordable, grow-on space for small businesses.
- Any such digital hub must be accompanied by the appointment of a specialist operator to ensure its long-term viability and success.
- We recommend some form of institutional ‘anchor’ such as a University or key firm/sector.
- Softer initiatives must also be put in place to nurture digital and wider office economy jobs: promotion, marketing, networks and so on.
- On a wider front, Norwich must be more vigorously promoted as a business location based on quality of life factors that can compete with Cambridge and Peterborough.

8.0.40 These recommendations are aimed at reversing the city’s cycle of decline in its office market, and returning the city centre to development viability through growing demand and creating the right conditions for investor confidence.

The digital hub proposal

8.0.41 Risk cannot be eliminated; any act carries it. But it is equally true that not acting is a risk in its own right, and we believe we have demonstrated that not acting to mitigate market failure places the viability of the entire city centre market under threat. With that in mind, we make a few points regarding managing and mitigating the risk associated with creating a digital hub.

- As stated above it is essential to have an experienced operator on board, at the design stage. The lessons of earlier projects, such as Whitespace, as well as our case studies here, need to be taken fully into account.

- It needs to be fully understood that the risk is front-end loaded, with significant capital expenditure. It is very easy to imagine the critical headlines if any project does not maximise its impact and this needs to be the driving force of the project.

- The underlying approach to the project should be to create an asset-backed service business, not a property business. With this in mind, if the choice is made to include a residential component in any scheme, it should be developed through the lens of creating co-living space and not as a back-door subsidy for the commercial element.

- Marketing must be fully engaged with the idea of capturing demand from other centres, meaning that every opportunity should be exploited, and outreach emphasised.

- The scale of the project should balance expectations of demand from ‘pure’ digital companies (for grow-on space) with those from the wider office economy.

- It must be recognised that a hub will aim to create a place and a community – it is more than a building project. The key lesson being that the long-term management of the centre needs to be a critical component of its development, not an afterthought.

8.0.42 We are aware that the current guidelines for Town Deal applications [79] caution against large, risky single investments. With this in mind the idea of piloting a digital hub at, say, Vantage House (if not already sold), Townshend House or Carrow House, while a more permanent scheme is worked up for the City Hall site, should be fully considered. At Townshend House, consideration should be given to opening discussions with ITV Anglia to explore a JV to leverage the benefits of the relatively modern Townshend House and the historic character of the Anglia building. Similarly, the potential to create a novel destination at the Winter Garden should be considered if Carrow House is progressed.

8.0.43 With regard to the City Hall site we can see the merits of an architectural competition to create a building that is environmentally and economically sustainable, easily reconfigured yet also in keeping with its locale.

8.0.44 To summarise there are four main options (which may not be mutually exclusive).

- City Hall: highest risk (front-end cost), highest control; highest reward via multiplier.
- Vantage House: moderate risk, no control, high returns if secured.
- Townshend House: lowest risk, high control (already owned), lower returns (smaller building).
- Carrow House: moderate risk (due to distance from the centre); high control (potential ownership); ‘pump priming’ returns to prove concept. A good signpost, or ‘stepping stone’, to the wider ENSRA.

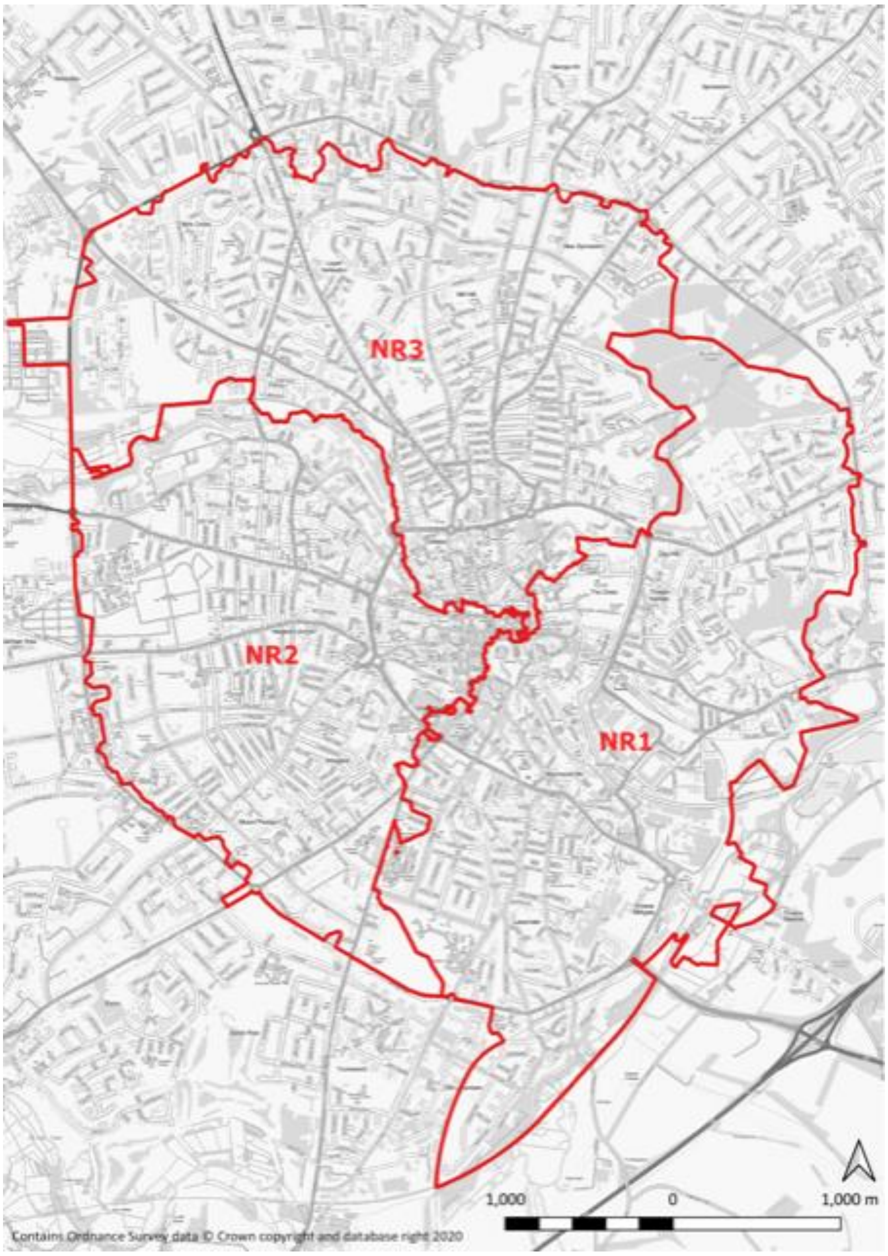
8.0.45 These are the options that can be delivered on a reasonable timescale. The other sites should only come into play if none of the above prove practical.

8.0.46 It is impossible to completely eliminate risk. The principles outlined above are intended to help understand and manage that risk pro-actively. Whichever approach is adopted, however, will more effectively support the city centre office market than adopting a hands-off approach.

[79] https://www.gov.uk/government/publications/towns-fund-further-guidance

Appendix One

Norwich Post Code Areas



Appendix Two

Planning Policy details

Norwich Development Management Policies Plan, adopted 2014

Policy DM17 relates to the protection of small and medium scale business sites and premises. It states that "*sites and premises providing for small and medium scale businesses will be safeguarded for class B business uses and other economic development purposes*". Proposals entailing the loss of such premises will only be permitted where the possibility of reusing or redeveloping the "*site or premises for similar or alternative business purposes has been fully explored and it can be demonstrated that there is no demand for small and medium scale business units in the area*".

Policy DM19 relates to offices. It states that development proposals over 0.25ha within the priority areas for office development in the city centre, will be expected to include an element of office floorspace (unless it can be demonstrated that offices are not feasible or viable on a specific site). The policy goes on to address the protection of high quality office space. Thus, proposals which involve the redevelopment (or change of use to non-residential purposes) in whole or in part of larger, existing office premises (>1,500 sq. m GIA), will not be permitted unless:

> *a) it can be demonstrated that the premises are no longer fit for purpose and their retention or upgrading and continued occupation for office purposes would not be economically viable, feasible or practicable; and*
> *b) in the city centre, it can be demonstrated that the proposal would support strategic objectives for the centre, which would outweigh the loss of the office space; or*
> *c) the proposal involves the redevelopment of the office space with replacement accommodation of an equal or higher standard; or*
> *d) the proposal would bring a long-term vacant designated or locally identified heritage asset back into beneficial use.*

Greater Norwich Local Plan, Regulation 18c Draft (published for consultation, January 2020)

Policy 6 – The Economy This policy makes four statements relevant to this part of our report.

> *1. Sufficient employment land is allocated in accessible locations to meet identified need and provide for choice.*
> *2. The needs of small, medium and start-up businesses are addressed through:*
> - *the allocation and retention of smaller scale employment sites across the area;*
> - *encouraging the provision of small-scale business opportunities in all significant residential and commercial developments and through the appropriate use of rural buildings;*
> - *encouraging flexible building design and innovative approaches in new and existing residential developments to encourage local working and business opportunities.*

> *3. Larger scale needs are addressed through the allocation of sufficient land to provide a choice and range of sites, including strategic sites targeted at specific sectors. Investment strategies will ensure that a readily available supply of land is maintained throughout the plan period.*
> *4. Land identified for employment uses in this local plan will only be considered for other uses that are ancillary to and supportive of its employment role.*

Policy 7.1 – The Norwich Urban Area Within the city centre section of this policy statement, the Plan confirms that

> *The city centre's strategic role as key driver for the Greater Norwich economy will be strengthened. Development in the city centre will provide a high density mix of employment, housing, leisure and other uses.*

Within this, the comprehensive redevelopment of Anglia Square and surrounding vacant land will provide "*a viable, high density, housing-led mixed-use development including retailing, employment, community and leisure facilities*". The policy goes on to state that

> *development should provide a range of floorspace, land and premises as part of mixed-use developments. Development should promote more intensive use of land to meet identified needs for start-up and grow-on space for small and medium sized enterprises including the digital creative industries, technology, financial and cultural and leisure services clusters. To support this, loss of existing office floorspace will be resisted.*

In so far as they seek to protect and promote office activity within Norwich city centre, this study supports these policy statements. Our report has highlighted the fragile nature of Norwich's office economy which could, ultimately, negatively impact the city's competitive position. It must also be acknowledged that DM19 cannot be fully implemented because of extension to Permitted Development Rights.

Options for safeguarding office space

Options for safeguarding existing office space are largely dependent upon whether or not there is an Article 4 Direction in place. Without this, and given Government advice, there are few safeguarding measures that will be effective. Given that there might be one such in place, then the options seem clear.

Assuming the current circumstances where there is no Article 4 Direction, the Council will seek to bring existing policies to bear to shield office schemes from pressure, with Policy DM17 being critical. This states that "*sites and premises providing for small and medium scale businesses will be safeguarded for class B business uses and other economic development purposes*". The only part of either Policy 6 or Policy 7.1 in the emergent plan that addresses safeguarding refers to the "*allocation and retention of smaller scale employment sites across the area*", in order to meet the needs of small, medium and start-up businesses.

However, these are merely policy statements; and the fact is that they are trumped by the freedoms offered by Permitted Development Rights enshrined in law. Options for safeguarding are therefore extremely limited.

Options for promoting office space

Policy DM19 and Policy 7.1 seek to promote new office development within the city centre in order to re-establish employment density. The question then arises as to where new development should be directed. The Norwich Economic Strategy 2019-24 states that the

> *finite amount of employment land in the urban area (especially in the local authority area) needs to be protected – the mix of employment and residents has to be balanced if Norwich is to function as a modern urban centre. Recent monitoring has shown that there has been very little office development in the city centre ….*

The strategy notes the compounding impact of Permitted Development Rights. This study concurs on both points. The edge-of-town and out-of-town office market appears to need little support, but it is critical to encourage development – new and refurbishment, large and small, high spec and low spec – in the city centre to improve its offering, particularly to SMEs.

The city centre is not large enough, or sufficiently disaggregated, to have sub-markets; within the Inner Ring Road there is a relatively homogenous market, in which demand is attracted to sites on an availability basis.

It is thus not feasible to forecast levels of demand in different parts of the city centre: modern office businesses are relatively footloose and will move towards supply within relatively short distances. Moreover, the rent that might be achieved is something of a red herring (especially in light of market trends). The key point will be for the Council to ensure existing stock is protected (via an Article 4 Direction) and new stock encouraged. The latter requires two preconditions, one of which is relatively within the Council's control, one of which is not.