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# Surrey Heath Employment Land Technical Paper

2023 Update

Iceni Projects Limited on behalf of  
Surrey Heath Borough Council

ICENI PROJECTS LIMITED  
ON BEHALF OF SURREY  
HEATH BOROUGH COUNCIL

December 2023

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Surrey Heath  
Technical Paper  
2023 UPDATE

Employment Land



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# 1. INTRODUCTION

1.1 Surrey Heath Borough Council commissioned Icen Projects to undertake an update to their Employment Land Technical Paper Update 2019.

1.2 This report responds to the broad objectives of the brief being:

- Establish whether any market assumptions have changed since the preparation of the Employment Land Review (2020) and if so how these would affect the conclusions of the ELR Update including on the future balance of supply and demand for employment land and premises in the Borough;
- Review the robustness of the employment forecasts from Oxford Economics and Cambridge Econometrics and any potential impact on the findings of the ELR Update;
- Assess the likely impact of changes to working practices following Covid-19 on the conclusions of the ELR Update, for example through any changes to assumptions on job/floorspace ratios;
- Review the impact of the proposed site allocations in the Draft Local Plan (Regulation 18) consultation on the conclusions of the ELR Update
- Review the demand for specific employment types in the Borough, including specific analysis of the film industry/film studio space and logistics/warehousing; and
- Ensure that the evidence is consistent with the most recent National Planning Policy Framework, 2021 and planning practice guidance.

1.3 This report covers:

- Property market review – with office and industrial considered separately
- Scenarios for future floorspace demand
- Employment land supply position review
- Supply-demand balance based on preferred future needs
- Policy matters and recommendations

## 2. PROPERTY MARKET REVIEW

- 2.1 This chapter provides an assessment of the commercial property market in Surrey Heath. It is split into two sections – one on the office market and one on the industrial market (where industrial refers to general industrial, light industrial and warehousing).
- 2.2 The assessment combines quantitative analysis with qualitative analysis to build a picture of the level and nature of demand. The quantitative analysis uses Valuation Office Agency (VOA) data, which provides the best indication of the amount of commercial floorspace in the area.
- 2.3 All other quantitative analysis uses CoStar – one of the UK's largest providers of commercial property data. However, this database does not cover all properties/transactions (owner-occupier properties, smaller transactions and properties/transactions in rural areas are a particular issue). To ensure the robustness of the data, it is backed up by targeted qualitative analysis.
- 2.4 This qualitative analysis draws on engagement with local property agents Curchod and Co, and Collins and Jarvis.

### Office

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- 2.5 This section provides an assessment of Surrey Heath's office market. This is used to inform the scale and type of future need which is identified later in this report.

### UK Office Market Overview

- 2.6 The onset of the pandemic has heavily disrupted office markets and occupation following the enforced work from home period. The latest data (August 2022) from Savills<sup>1</sup> suggests that occupancy<sup>2</sup> is running at below 40% in the UK but that this has been slowly increasing through 2022. However, it is not expected that levels will return to their pre-pandemic average of over 70%, suggesting a potential average fall in occupancy of over 30 percentage points.
- 2.7 In terms of market transactions, CoStar report that following the end of lockdowns, the recovering economy has helped bring about some recovery in office take-up. However, the overall demand picture remains subdued and the first half of 2022 saw a net release of floorspace onto the market (in terms of leasing). Weak demand and continued delivery of new space at the national level have

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<sup>1</sup> [https://www.savills.co.uk/research\\_articles/229130/331228-0](https://www.savills.co.uk/research_articles/229130/331228-0)

<sup>2</sup> Office occupancy rates are based on the average number of office workers over the course of a working week (excludes bank holidays) for a sample of fully let, multi-let office buildings located in the central business district (CBD).

led to a rising vacancy rate which could continue to rise given pipeline supply and likely continued subdued demand.

- 2.8 Rent declines seen during the pandemic have recently levelled off due to the demand for high-quality space. CoStar state that, 'prime buildings should outperform secondary ones in the coming years as firms continue to pivot to better-quality, well-ventilated space - to attract staff, welcome clients and meet growing Environmental, Social and Governance (ESG) commitments — even if many take less space overall amid a more permanent rise in home working. This could lead to the accelerated removal of older stock'.

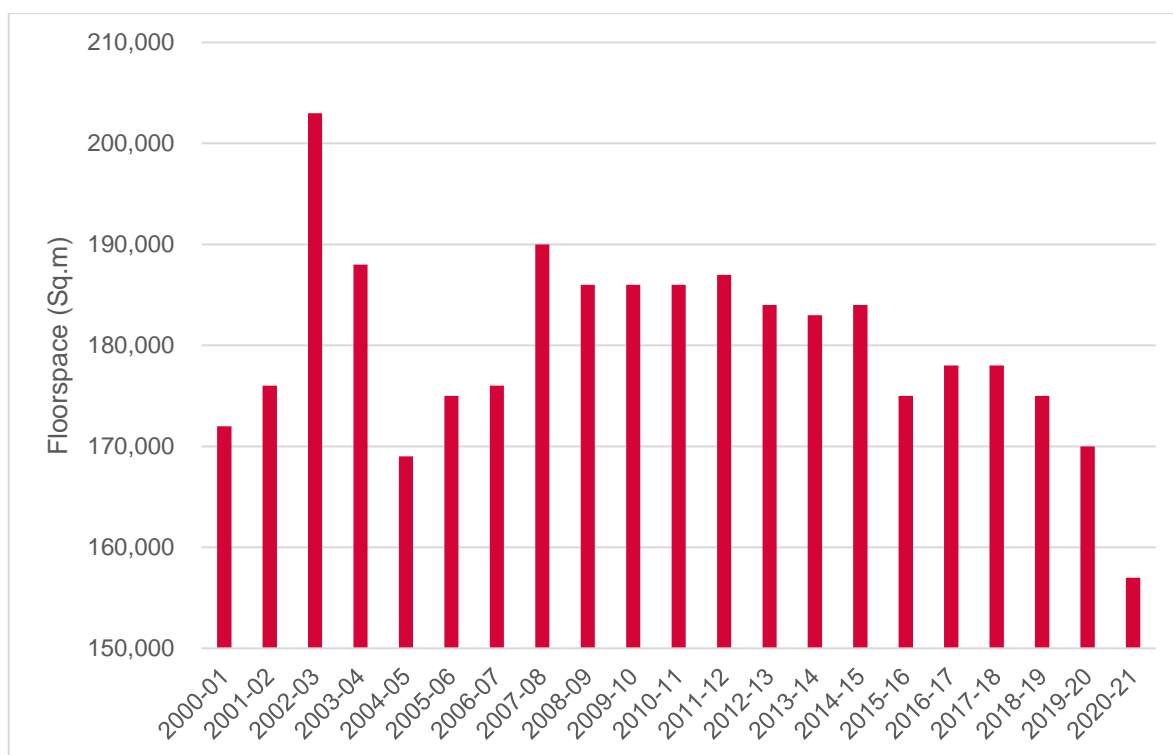
### **Surrey Office Market Overview**

- 2.9 CoStar define a number of distinct office markets across the UK. Surrey Heath falls within the Surrey Office Market, which covers the same area as the non-metropolitan county of Surrey. Although we recognise that Surrey Heath is within a Functional Economic Market Area with the Hampshire authorities of Hart and Rushmoor.
- 2.10 With regards to the Surrey office market; CoStar report that pre-pandemic, Surrey's office market was being driven by a wave of leasing by tech, financial, medical and co-working firms but since the pandemic this has slowed markedly. Leasing activity over the past 2 years has been the weakest since the 2007 financial crisis, leading to rising vacancies. However, limited pipeline supply means that an upturn in demand would quickly reverse this issue and decrease vacancy rates.
- 2.11 Demand is reportedly rebounding across much of the South East and although Surrey's leasing has yet to rebound to pre-pandemic levels, there have been several notable recent deals providing some confidence in the market, which is reflected in stabilising and growing rents (previously declining).
- 2.12 Co-Star also provide commentary for Hart and Rushmoor within their Berkshire and North Hampshire reports. Berkshire and North Hampshire have one of the biggest office markets in the country based on stock volume. Office vacancies in Berkshire & North Hampshire, which historically trended well below the national average, have risen over the past two years and now stand at 10.6% as many firms have recently released space onto the market and consolidated their office holdings. Within Berkshire and North Hampshire, Hart and Rushmoor have below-average amounts of floorspace.

**Surrey Heath Office Stock**

- 2.13 The VOA<sup>3</sup> provides information on the amount of office floorspace by administrative area. In Surrey Heath at the end of FY 2020/21, there was 157,000 sq.m of office floorspace in total – a relatively small office market.
- 2.14 CoStar suggests that Surrey Heath had 210,833 sq.m of office floorspace at the end of Q1 2021 which is 34% higher than the VOA data suggests. This difference is due to a number of reasons, including that the definition of office space used by CoStar differs from that used by the VOA and the fact that data is collected differently by each organisation (e.g. void offices will not be reported by VOA with no rates payable).
- 2.15 The figure below shows the amount of floorspace in Surrey Heath between 2000/01 and 2020/21. It can be seen that the amount of floorspace has decreased gradually since 2007/08, with a sharper decline since the onset of Covid-19 (which is partly due to an increase in vacant space).

**Table 2.1 Office Floorspace (2000/01 – 2012/21)**



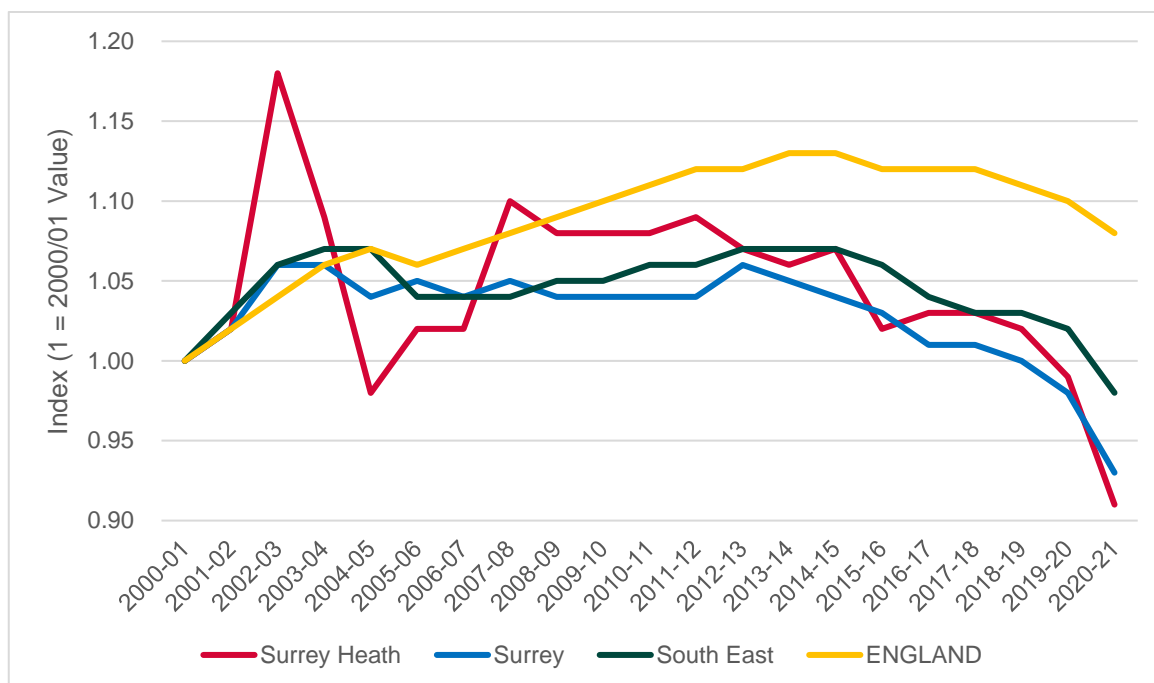
Source: Icen analysis of VOA data

- 2.16 The figure below shows how the amount of floorspace has changed in Surrey Heath relative to the county, the region and England. It can be seen that Surrey Heath has followed the county-wide and

<sup>3</sup> VOA: Non-domestic rating: stock of properties including business floorspace, 2021.

regional trend of declining office floorspace since 2007/08, whereas there was growth in office floorspace across England as a whole.

**Table 2.2 Indexed Office Floorspace Change (2000/01 – 2020/21)**



Source: IcenI analysis of VOA data

- 2.17 Overall, Surrey Heath's office market is relatively small and declining. This is likely to be driven by permitted development rights which have allowed office to residential conversion, as well as more recently Covid, which saw a reduction in demand for space.

#### Overall Supply-Demand Balance – Surrey Heath Office Market

- 2.18 The overall supply-demand balance has been assessed by looking at headline indicators – namely vacancy rates and rents. The drivers of changing vacancy rates, supply and demand have also been assessed by looking at net absorption and net deliveries.

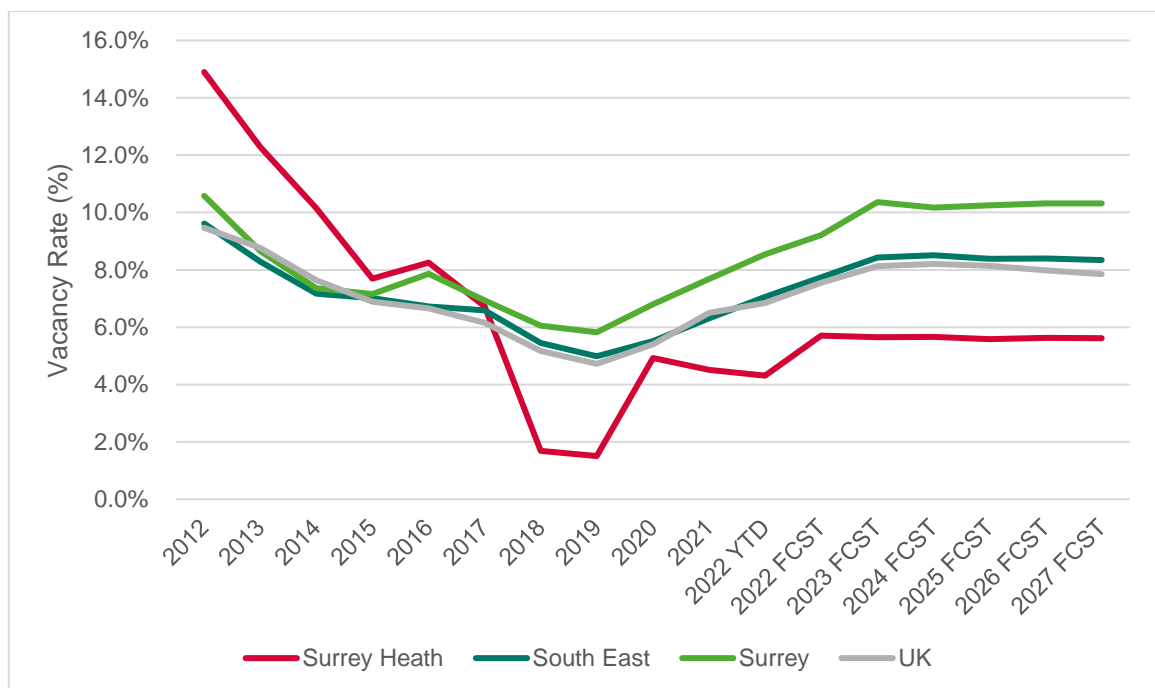
#### Vacancy Rates

- 2.19 The figure below shows how the vacancy rate in Surrey Heath has changed over time compared to Surrey, the region and the UK. The current (September 2022) vacancy rate in Surrey Heath is 4.3%. This is lower than the post-recession peak in 2012 but has increased since an all-time low in 2019. Since the end of 2020 vacancy rates in Surrey Heath have decreased slightly indicating some resurgence of demand following the pandemic.
- 2.20 Surrey Heath's current vacancy rate is significantly lower than for the comparator areas, particularly Surrey which has a vacancy rate of around double that of Surrey Heath. It is also considerably lower than Rushmoor (9.4%) and Hart (9.9%).



- 2.21 It should be considered that Data for smaller areas can be misleading due to low sample sizes and poorer quality primary data collection by CoStar. Local agent engagement suggests that whilst the true vacancy rate might be slightly higher, CoStar’s vacancy rate is reasonable.
- 2.22 It was suggested that a few office properties have recently become available (most notably 100,000 sqft of space at Frimley Square) and that these would push vacancies up significantly. However, this site is allocated for residential use within the emerging Local Plan and hence the vacancy rate would remain at around 5% should that occur.
- 2.23 If businesses are tied into longer leases then their premises will remain used and technically not vacant until such time as a renewal (so from 2018-2019 pre-pandemic a 5-year expiry in 2023-24). That may be a context for the forecast rises to the end of 2023. The availability rate – the amount of space advertised rather than just vacant, therefore including forthcoming lease breaks – is at Q3 2022 5.9% so higher than the vacancy rate.

**Table 2.3 Vacancy Rate**



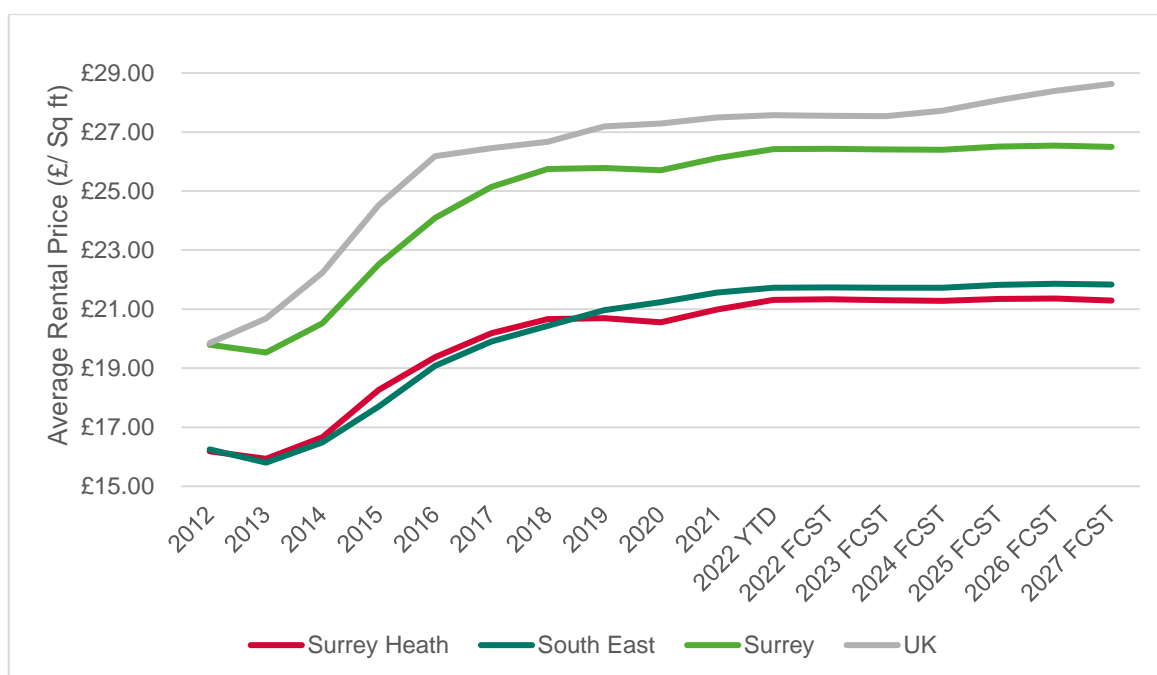
Source: Icen analysis of CoStar data

*Rents*

- 2.24 The figure below shows how average rental prices in Surrey Heath have changed over time compared to Surrey, the region and the UK. At present (September 2022) the average office rental price in Surrey Heath is £21.31 per sq ft.

- 2.25 Agent engagement suggests that rents for prime office space are around £28-£28.50 per sqft. They believe that this would not be sufficient to support office development and that rents of £30-35 per sq ft would be required given high build costs and high holding costs in a slow market.
- 2.26 Rents in Surrey Heath are lower than in Surrey as a whole but similar to the South East. This reflects the more rural nature of the borough and the absence of key office towns such as Guildford which push up the Surrey average. This suggests low vacancy rates are driven by a lack of supply rather than particularly strong demand relative to other areas of Surrey.
- 2.27 At £21.31 per sq ft rents in Surrey Heath are slightly below those in Rushmoor (£22.53 per sq ft) but above those in Hart (£19.33 per sq ft).
- 2.28 As across Surrey, rents in Surrey Heath saw a slight decline between 2019 and 2020 but have since recovered and continued to grow, highlighting some confidence in the market. Rents are forecast to stagnate going forward suggesting there is sufficient supply in relation to demand.

**Table 2.4 Average Rental Price (£ per Sq ft)**



Source: IcenI analysis of CoStar data

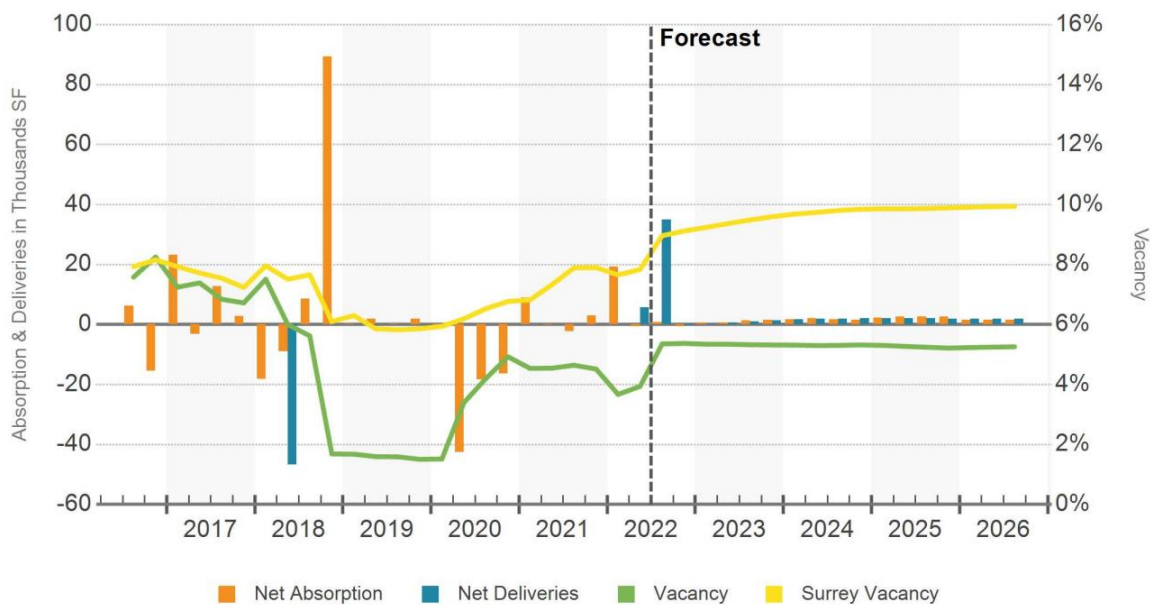
*Supply-demand Indicators*

- 2.29 CoStar provides data on net absorption and net deliveries. Net absorption is the balance between the amount of space moved into and moved out of (i.e. Net absorption = Move ins – Move outs). It provides an indicator of the strength of demand. Net deliveries are the difference between floorspace delivered (i.e. constructed and brought onto the market) and demolished (or otherwise taken out of

use and removed from the market). When net absorption is greater than net delivery this leads to a falling vacancy rate and vice versa.

- 2.30 The figure below shows net absorption, net deliveries and their resulting impact on vacancy rates in Surrey Heath. As shown, vacancy rates increased in 2020 driven by negative net absorption (i.e. firms moving out of offices). Since then, there has not been significant positive net absorption, aside from a small spike in early 2022.
- 2.31 It is forecast that a significant amount of new office floorspace will be delivered in Q3 2022 leading to a further increase in the vacancy rate. However, this forecast delivery is incorrect as this is due to the delivery of 3,250 sq.m at Building 4.2, Frimley Business Park which is marked as being in Surrey Heath on CoStar but actually lies within Rushmoor and is owned by Rushmoor Council. This therefore can be erroneous but the main point is that the vacancy rate is forecast to stabilise at above 5% until 2027.
- 2.32 Similar to Surrey as a whole, low vacancy rates and weak pipeline supply mean that if significant demand were to return, the market would quickly become undersupplied. However, there are no signals of a rise in demand in the near term.

**Table 2.5 Net Absorption, Net Deliveries and Vacancy Rates**



Source: IcenI analysis of CoStar data (this does not include Frimley Square as this occurred after the graph was produced).

*Local Agent View*

- 2.33 Agent engagement reveals that demand for office space in Surrey Heath is low (backing up what low and stagnant rents suggest) and that the market hasn't bounced back from the economic downturn. However, supply is also low explaining the low vacancy rates observed.

#### *Conclusions on Supply-Demand Balance*

- 2.34 Whilst vacancy rates are low, on balance, relatively low and stable rents suggest that Surrey Heath's office market is sufficiently supplied. This is backed up by local agent engagement.

#### **Supply-demand balance by Quality and Age**

- 2.35 It is important to understand how overall vacancy rates are reflected when considering vacancy rates for stock of varying quality/age. It is particularly important to understand vacancy rates in high-quality stock as this provides a good indicator of demand for new, high-quality stock.
- 2.36 The figure below shows the vacancy rate for office stock by quality (in terms of CoStar's Building Rating System<sup>4</sup>). It can be seen that vacancy rates are particularly low for 4-star stock suggesting that there is still some demand for high-quality office space. Agent engagement also suggests that where demand does exist it is likely to be for high-quality stock.
- 2.37 The vacancy rate for 1 star stock is also low but there is very little of this and therefore the sample size is not reliable. There is no 5-star stock in the borough.

**Table 2.6 Vacancy Rate by Star Rating**

Rating	Number of Units	Vacant Space (Sq.m)	Total Space (Sq.m)	Vacancy Rate	% of stock
1	16	-	2,010	0.0%	1%
2	98	1,196	36,614	3.3%	17%
3	99	7,581	143,428	5.3%	67%
4	9	337	32,543	1.0%	15%
Total	222	9,114	214,595	4.3%	100%

Source: Icen analysis of CoStar data

- 2.38 The table below shows the vacancy rate for office stock by age band (based on the later of the build or renovation dates).

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4 The Building Rating System is explained here - [https://www.costar.com/docs/default-source/brs-lib/costar\\_buildingratingsystem-definition.pdf?sfvrsn=12a507a4\\_2](https://www.costar.com/docs/default-source/brs-lib/costar_buildingratingsystem-definition.pdf?sfvrsn=12a507a4_2)

- 2.39 It can be seen that stock built between 2010 and 2019 has a vacancy rate of around 0.3%, suggesting that there is demand for newer high-quality stock (stock built between 2020 and 2022 has a high vacancy rate which is expected as new buildings inevitably take time to fill up).
- 2.40 The agent stated that the majority of newer space in Surrey Heath is renovated rather than new build and that is where recent deals have been done.
- 2.41 It can be seen that the majority of stock in Surrey Heath was built between 1980 and 2009. This stock has a vacancy rate which is slightly above the overall vacancy rate but is still low.
- 2.42 Just 11% of stock was built pre-1980 but this has a low vacancy rate suggesting there may still be some demand for older and cheaper stock.
- 2.43 Agent engagement suggests that there has been a significant loss of office floorspace due to conversion to residential under Permitted Development Rights (PDR), but they felt that this has been beneficial as most of the stock lost was low quality (Grade D), much of which was vacant.
- 2.44 The agents suggest that there is not a great amount of poorer quality stock left (as reflected by our analysis of CoStar data above) but that some of this is also likely to be lost under PDR, which they are not concerned about. The rest of the stock in the borough is protected by the conditions of the General Permitted Development Order or is a good enough quality to attract tenants at sufficient rents.

**Table 2.7 Vacancy rate by age**

	Number of Units	Vacant Space (Sq.m)	Total Space (Sq.m)	Vacancy Rate	% of stock
Pre-1940	24	-	5,473	0.0%	3%
1940-1979	21	170	15,215	1.1%	8%
1980-1999	70	4,065	77,561	5.2%	41%
2000-2009	29	3,496	68,024	5.1%	36%
2010-2019	7	44	14,226	0.3%	8%
2020-2022	5	1,339	6,639	20.2%	4%
Unknown	66	-	27,458	0.0%	
Grand Total	222	9,114	214,595	4.3%	

Source: IcenI analysis of CoStar data

- 2.45 Overall, where limited demand exists this is likely to be for high-quality, modern office floorspace.

#### **Demand by Size**

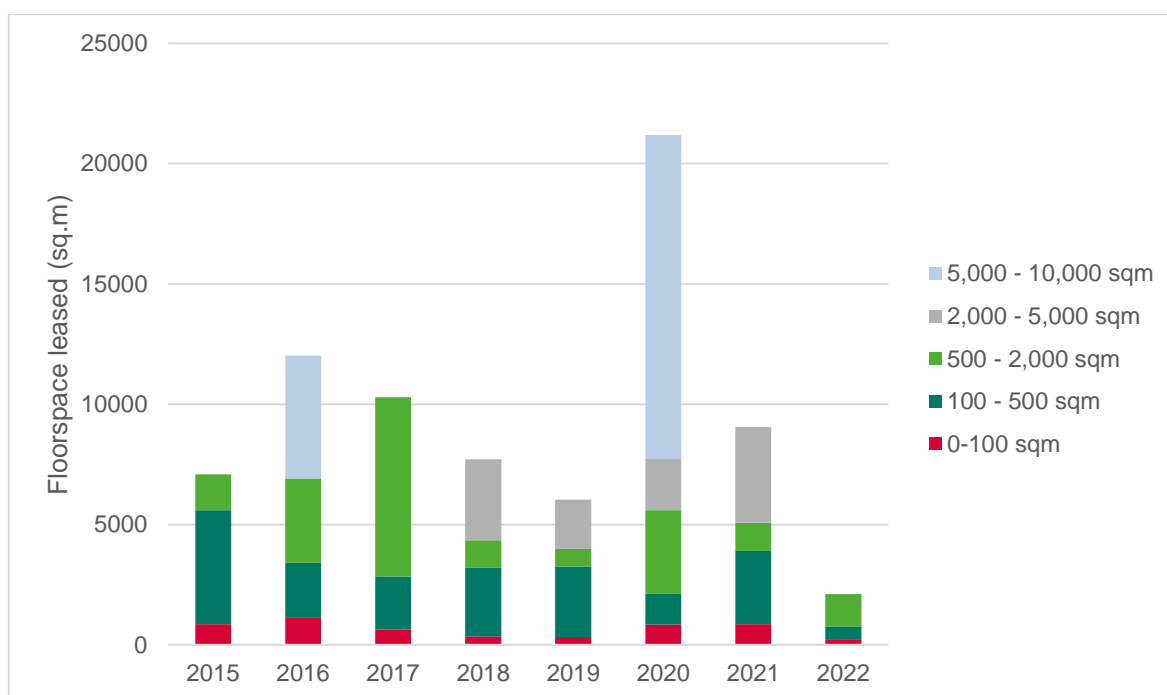
- 2.46 The amount of leasing activity that has occurred in various size bands has been assessed to indicate demand by size. However, it should be kept in mind that leasing activity is constrained by the size of

available stock. Therefore, our assessment of demand by size has been considered together with information from stakeholders.

2.47 Leasing activity differs from absorption in that it refers to the amount of space which is leased (i.e. signed for rather than physically moved into).

2.48 The figure below shows the amount of leasing activity (sq.m) by size band which has occurred over the last 8 years. It can be seen that every year sees a ‘base load’ of 0-2,000 sq.m floorspace leased, the majority of which is between 100 and 2,000 sq.m. However, in two of the eight years considered there are leases of 5,000-10,000 sq.m and in four of the eight years considered there are leases of 2,000-5,000 sq.m.

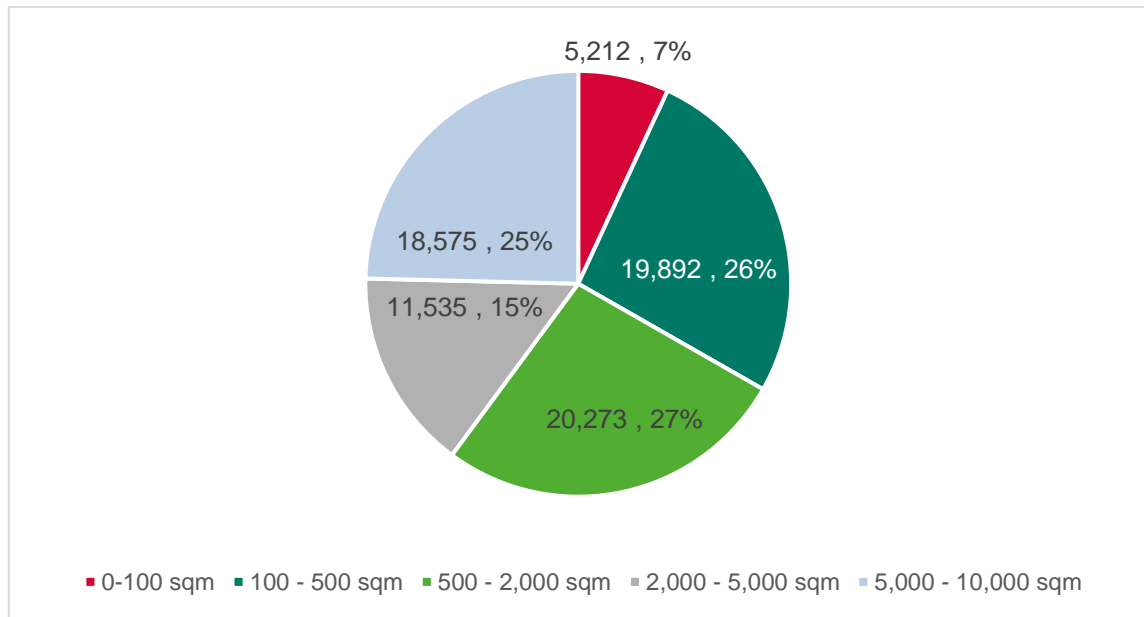
**Table 2.8 Leasing Activity Over Time by Size Band (Sq.m)**



Source: Icen analysis of CoStar data

2.49 To make things clearer, the pie chart below shows the amount and percentage of floorspace leased in each sized band over the last 8 years. It can be seen that leasing has been quite evenly split between size bands (aside from the 0-100 sq.m size band). However, over half of floorspace take-up has been for units of between 100 and 2,000 sq.m.

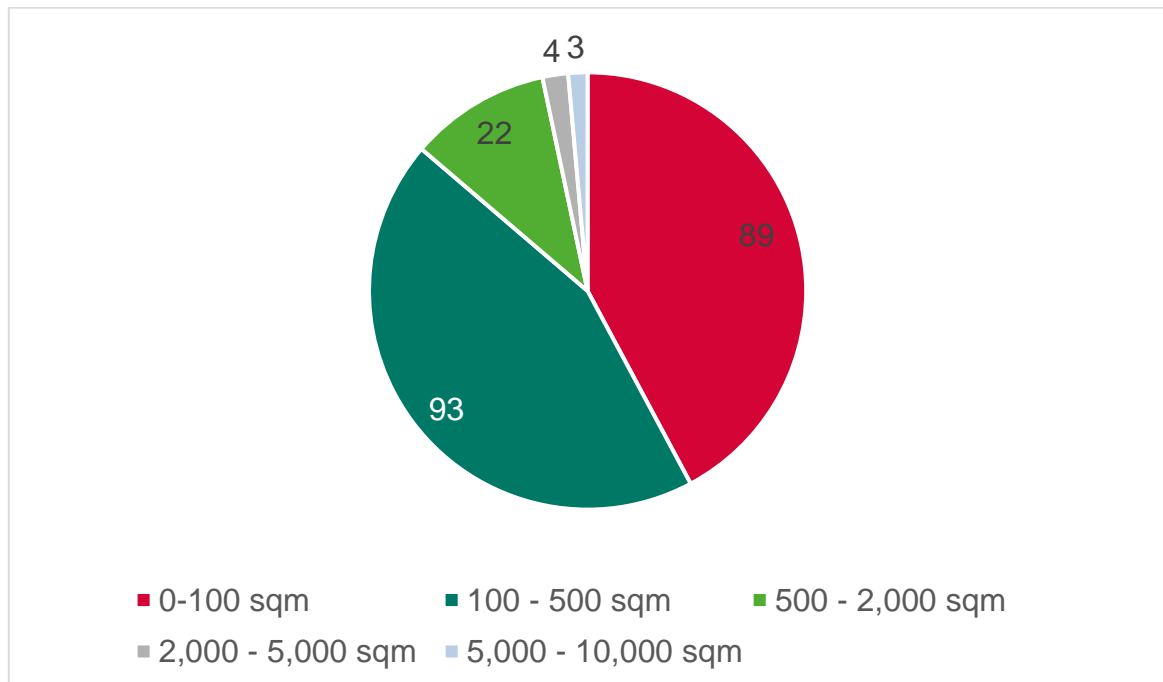
**Table 2.9 Amount (Sq.m) and Proportion of Leasing Activity by Size Band (2015-2022 YTD)**



Source: IcenI analysis of CoStar data

2.50 The pie chart below shows the vast majority of units leased between 2015 and 2022 were 0-500 sq.m in size. A handful of mid-sized units and a small number of larger units were also leased during this period.

**Table 2.10 Number of Units Leased by Size Band (2015-2022 YTD)**



Source: IcenI analysis of CoStar data

- 2.51 Agent engagement also reveals that where demand exists it is likely to be for smaller stock. They state that there have only been smaller deals recently and that there have been no big corporate deals for a long time.
- 2.52 Overall, there has historically been demand for a range of sizes of office units in Surrey Heath but by far the most demand is likely to be for smaller units. There may be future demand for large inward investments but this is less likely than in the past.

### **Conclusions**

- 2.53 Overall, Surrey Heath's office market is relatively small and declining. This decline is driven both by the extension and implementation of permitted development rights, which have allowed office-to-residential conversion, as well as more recently the social response to the Covid pandemic. However, the losses have been mainly to poorer quality stock and have hence not been damaging to the local office market.
- 2.54 Surrey Heath's vacancy rate can be considered to be relatively low, which normally indicates that the market is undersupplied. However, in the Surrey Heath context, there is a lack of demand and the low vacancy rate reflects this rather than say a lack of supply. This is backed up by local agent engagement.
- 2.55 Any demand which exists is likely to be for high-quality, modern office floorspace in Surrey Heath as evidenced by low vacancy rates for 4-star stock and stock which was built in the 2010s. This reflects national trends and is backed up by agent engagement.
- 2.56 Based on past deals, there is demand for a range of sizes of office units in Surrey Heath but by far most demand is likely to be for smaller space. There is unlikely to be large inward investment in the near future as business shifts away from large headquarters.

### **Industrial**

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- 2.57 This section provides an assessment of Surrey Heath's industrial market. This will be used to inform the scale and type of future need which is identified later in this report.

#### **UK Industrial Market Overview**

- 2.58 Since the onset of the pandemic, there has been a national rise in demand for industrial stock. This has been driven by a number of factors, including most notably e-commerce, which sees requirements for a range of unit sizes for distribution and wholesaling. Brexit has also led to some local onshoring and increased demand for local supply chains, with almost all markets across the UK seeing increases in demand for new stock reflected in rent rises and falling vacancies.



- 2.59 CoStar report that “although industrial market conditions remain strong, demand faces headwinds from rising operating costs and a pullback in consumer spending, which could dampen logistics occupiers' appetite for expansion....”
- 2.60 CoStar go on to state that industrial rents have at a national level, been growing at 9.7% per year, leading to “affordability concerns for some warehouse occupiers in the face of rising operating costs and next year's business rates revaluation”. However, industrial rental growth is still expected to outpace the other main sectors over the coming years which could be supported by occupiers moving to higher-priced warehouses to reduce transport costs.

### **Surrey Industrial Market Overview**

- 2.61 Surrey Heath falls within the Surrey Industrial Market, which covers the same area as the county of Surrey. We have also provided some commentary on Rushmoor and Hart which share a Functional Economic Market Area (FEMA) with Surrey Heath.
- 2.62 CoStar report that Surrey is an important industrial market due to its three major motorways (one of which runs directly through Surrey Heath), proximity to London, and easy access to Gatwick and Heathrow.
- 2.63 These factors have driven healthy occupier demand, compounded by the increase in online retailing. This has caused a rental increase and Surrey is now the most expensive UK industrial market outside the capital.
- 2.64 Demand and rental growth saw speculative development ramp up markedly in the Surrey market of late, with several significant schemes coming to market over the past couple of years - much of which has already been taken up.

### **Surrey Heath Industrial Stock**

- 2.65 The VOA<sup>5</sup> provide information on the amount of industrial floorspace by administrative area. In Surrey Heath, at the end of FY 2020/21, there was 331,000 sq.m of industrial floorspace in total. This makes Surrey Heath a relatively small industrial market.
- 2.66 CoStar suggests that Surrey Heath had around 262,000 sq.m<sup>6</sup> of industrial floorspace in 2020, which is around 21% lower than the VOA data suggests. This difference is due to a number of reasons,

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<sup>5</sup> VOA: Non-domestic rating: stock of properties including business floorspace, 2021.

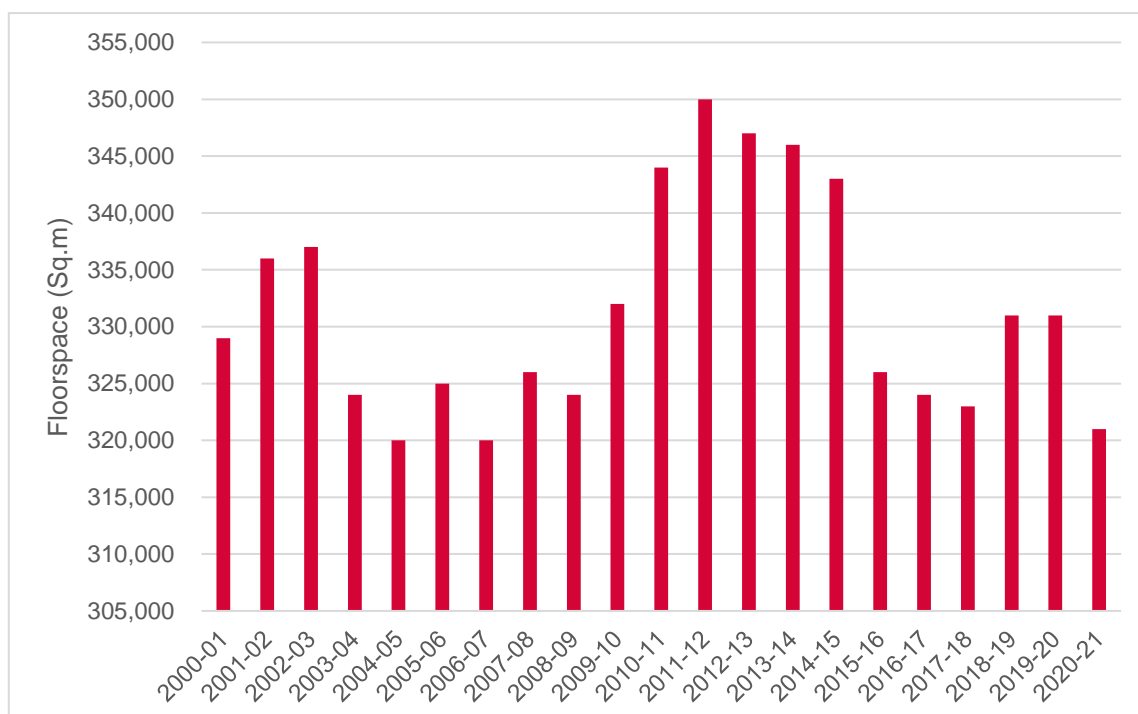
<sup>6</sup> Converted from NIA to GIA using a GIA:NIA ratio of 0.95 in order to be comparable with VOA data.

including that the definition of industrial space used by CoStar differs from that used by the VOA and the fact that data is collected differently by each organisation.

2.67 Given the fact that the analysis of CoStar data is likely to not take into account a significant proportion of the borough's stock, the quantitative findings should be treated with caution and considered in the context of qualitative evidence.

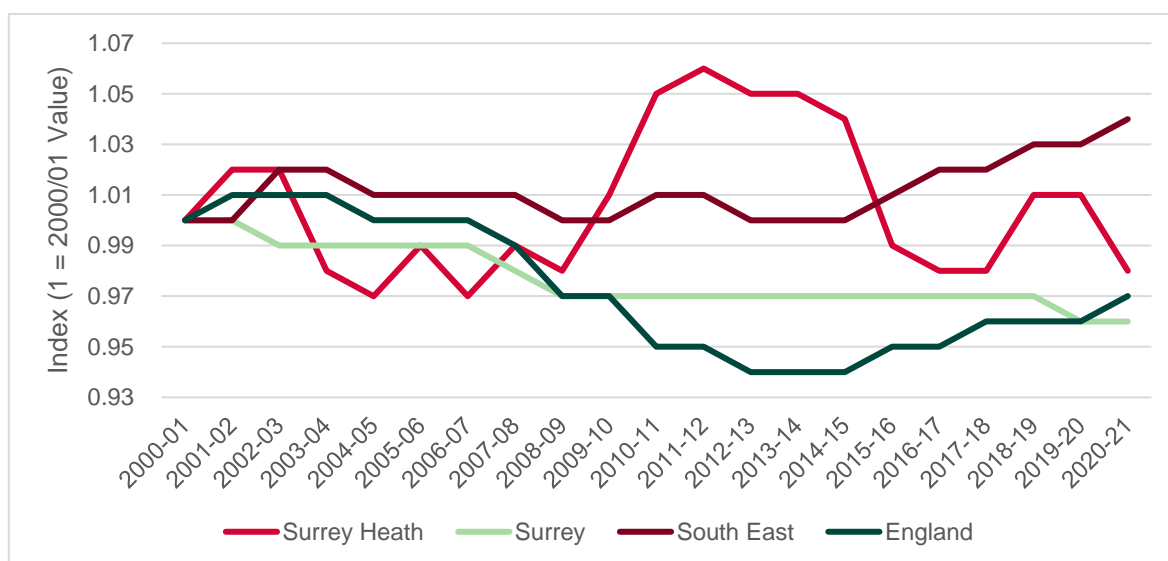
2.68 The figure below shows the amount of floorspace in Surrey Heath between 2000/01 and 2020/21 (VOA). It can be seen that the amount of industrial floorspace peaked in 2011/12 before falling to 2020-21. This is mainly due to a large loss of floorspace in 2015/16.

**Table 2.11 Industrial Floorspace (2000/01 – 2020/21)**



Source: Icen analysis of VOA data

2.69 The figure below shows how the amount of floorspace has changed (indexed to 2000-01) in Surrey Heath relative to the county, the region and the whole of England. It can be seen that Surrey Heath saw an overall loss of floorspace as in Surrey and England as a whole, whereas the South East saw some growth.

**Table 2.12 Indexed Industrial Floorspace Change (2000/01 – 2020/21)**

Source: IcenI analysis of VOA data

- 2.70 Overall, Surrey Heath has a relatively small industrial market, which has seen considerable fluctuations in stock over recent years.
- 2.71 Hart has seen a considerable amount of development over the last 12 months (130,000 sq ft) and has a further 89,000 sq ft under construction. In contrast, there have been no deliveries in Rushmoor.

#### Overall Supply-Demand Balance – Surrey Heath Industrial Market

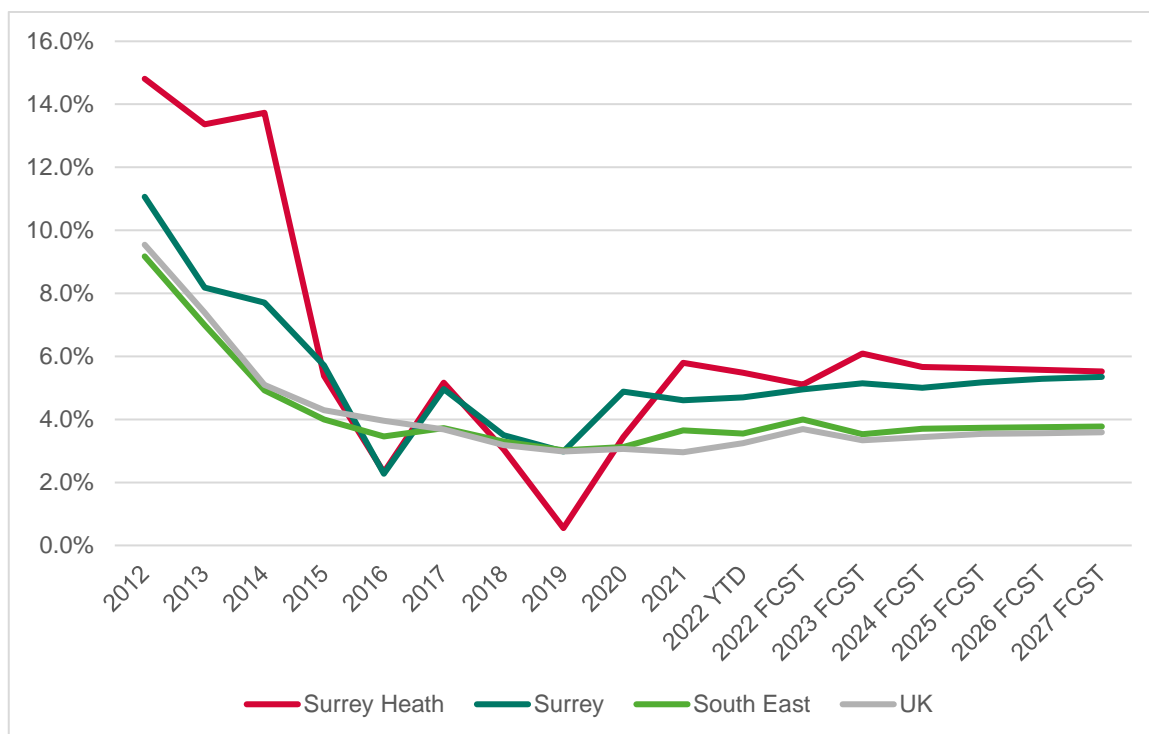
- 2.72 The overall supply-demand balance has been assessed by looking at headline indicators – namely vacancy rates and rents. The drivers of changing vacancy rates, demand and supply have also been assessed by looking at net absorption and net deliveries.

#### Vacancy Rates

- 2.73 The figure below shows how the vacancy rate in Surrey Heath has changed over time compared to Surrey, the region, and the UK.
- 2.74 The current industrial vacancy rate in Surrey Heath is 5.5%. This is below the ten-year average for the Borough of 7%. In relation to wider comparator areas, the vacancy rate in Surrey Heath is similar to Surrey as a whole but above the South East and the UK. In comparison to Rushmoor (1.6%), the level of vacancy is high although, in reality, Rushmoor is probably operating below its potential due to a lack of stock. In contrast, Hart which delivered a lot of additional stock in the last has more than double Surrey Heaths rate at 11.8%
- 2.75 However, the regional and national vacancy rates are very close to all-time lows and vacancy rates in Surrey Heath are still low while (unlike the office market) rents are increasing, suggesting that the

market is undersupplied. This may be constraining the market leading to a lack of competition, pushing up rents and potentially preventing inward investment.

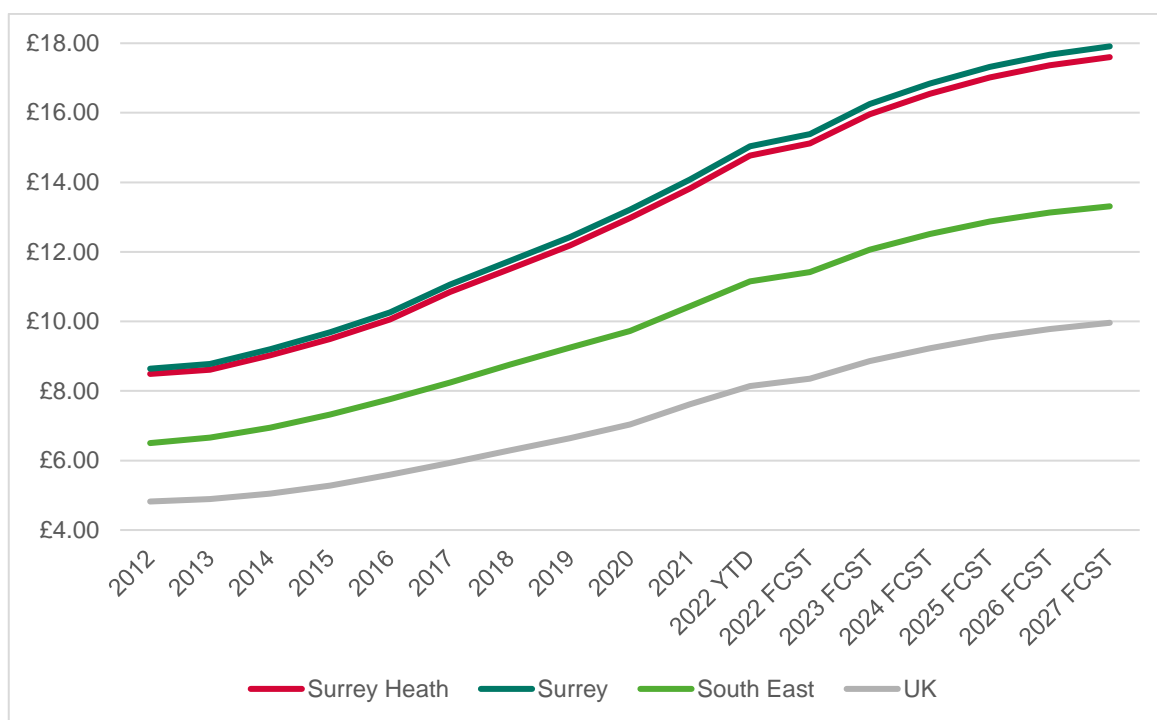
**Table 2.13 Vacancy Rate**



Source: Icen analysis of CoStar data

### Rents

- 2.76 The figure below shows how average rents in Surrey Heath have changed over time compared to Surrey, the region and the UK. The current (September 2022) average rental price in Surrey Heath is £17.60 per sqft. Rents in Surrey Heath are similar to Surrey as a whole. Rents have grown rapidly in both Surrey Heath and Surrey as a whole over the last 10 years.
- 2.77 Rents in the wider FEMA area are much lower than in Surrey Heath with Hart at £11.77 per sq ft and Rushmoor at £12.88 per sq ft. However, both have grown slightly faster at 8.7% and 8.9% respectively than Surrey Heath (8.3%) over the past 12 months. Although this was the Borough's strongest pace of rental growth in more than a decade. This also reflects the growth seen across Surrey as a whole.
- 2.78 High rental growth reflects high demand across Surrey Heath but also the wider area. Whilst not extremely low, deliveries are required (likely at higher delivery rates) to push up vacancy rates and hence keep rents affordable.

**Table 2.14 Average Rental Price (£ per Sq ft)**

Source: IcenI analysis of CoStar data

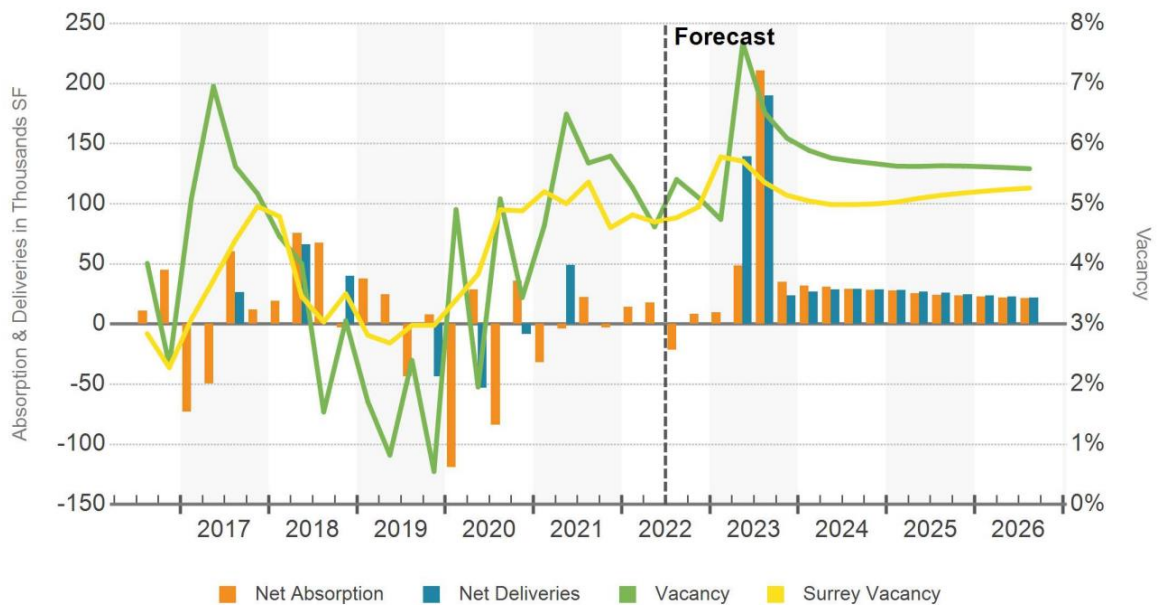
- 2.79 Engagement with a local agent supports this analysis, as it was suggested that rents are becoming unaffordable for many businesses.

#### *Supply and Demand Indicators*

- 2.80 CoStar provides data on net absorption. This is the balance between the amount of space moved into and moved out of (i.e. Net absorption = Move-ins – Move outs). It provides an indicator of the strength of demand. Net deliveries are the difference between floorspace delivered (i.e. constructed and brought onto the market) and demolished (or otherwise taken out of use and removed from the market).
- 2.81 The figure below shows net absorption, net deliveries and their resulting impact on vacancy rates in Surrey Heath. It can be seen that vacancy rates increased during the pandemic (unlike most other areas across the UK) due to significant levels of negative net absorption – this is likely to reflect the lack of an e-commerce driven logistics and dark kitchen/food delivery market in Surrey Heath which has boomed in other areas.
- 2.82 Vacancy rates have fallen recently due to a period of positive net absorption since a significant delivery in Q2 2021.

2.83 Vacancy rates are forecast to spike during 2023 due to the expected delivery of a 12,000 sq.m manufacturing facility at Kamkorp Park, Chertsey Road which is currently under construction

**Table 2.15 Net Absorption, Net Deliveries and Vacancy Rates**



Source: IcenI analysis of CoStar data

*Stakeholder Views*

2.84 Engagement with a local agent suggests a supply-constrained picture with high levels of demand outpacing supply leading to a need for more industrial space. The agents also stated that there was potential for further demand for final-mile delivery, dark kitchens and food delivery take-off in the local area.

*Conclusions on Supply-Demand Balance*

2.85 Surrey Heath’s industrial vacancy rate is low, suggesting the market is under-supplied. This conclusion is supported by the high rate of rental growth. One agent stated that high rents are becoming unaffordable for many businesses.

**Supply-demand balance by Quality and Age**

2.86 It is important to understand if overall vacancy rates are reflected when considering vacancy rates for stock of varying quality/age. It is particularly important to understand vacancy rates in high-quality stock as this provides a good indicator of demand for new, high-quality stock.

- 2.87 The table below shows the vacancy rate for industrial stock by quality (in terms of CoStar's Building Rating System<sup>7</sup>). It can be seen that vacancy rates are high for 4-star stock but there is a small amount of stock of this size, one unit of which was built in 2021 still has availability. Most stock in the Borough is 3-star rated. Around 20% of stock is 1-2 star rated. There is no 5-star stock in the Borough.

**Table 2.16 Vacancy Rate by Star Rating**

Rating	Number of Units	Vacant Space (Sq.m)	Total Space (Sq.m)	Vacancy Rate	% of stock
1	4	-	2,634	0.0%	1%
2	47	394	48,327	0.8%	19%
3	63	10,693	187,771	5.7%	74%
4	4	2,777	14,393	19.3%	6%
Grand Total	118	13,864	253,125	5.5%	100%

Source: Icen analysis of CoStar data

- 2.88 The table below shows the vacancy rate for industrial stock by age band. It can be seen that the vacancy rate is low across all age bands aside from the very newest stock (2020-2022). The high vacancy rate for the most modern space simply reflects the time taken for new space to be occupied.

**Table 2.17 Vacancy rate by age**

Age	Number of Units	Vacant Space (Sq.m)	Total Space (Sq.m)	Vacancy Rate	% of stock
Pre-1940	2	-	3,206	0.0%	1%
1940-1979	32	-	78,316	0.0%	32%
1980-1999	49	6,335	107,565	5.9%	44%
2000-2009	11	1,332	23,465	5.7%	10%
2010-2019	11	-	21,584	0.0%	9%
2020-2022	3	6,198	11,941	51.9%	5%
Unknown	10	-	7,047	0.0%	
Grand Total	118	13,864	253,125	5.5%	

Source: Icen analysis of CoStar data

- 2.89 Importantly, there is no vacancy for space built between 2010 and 2019 highlighting the demand for modern stock. There is also no vacancy for pre-1979 properties suggesting this age of stock is still useful.

### Demand by Size

- 2.90 The amount of leasing activity which has occurred in various size bands has been assessed to indicate demand by size. However, it should be remembered that leasing activity is constrained by

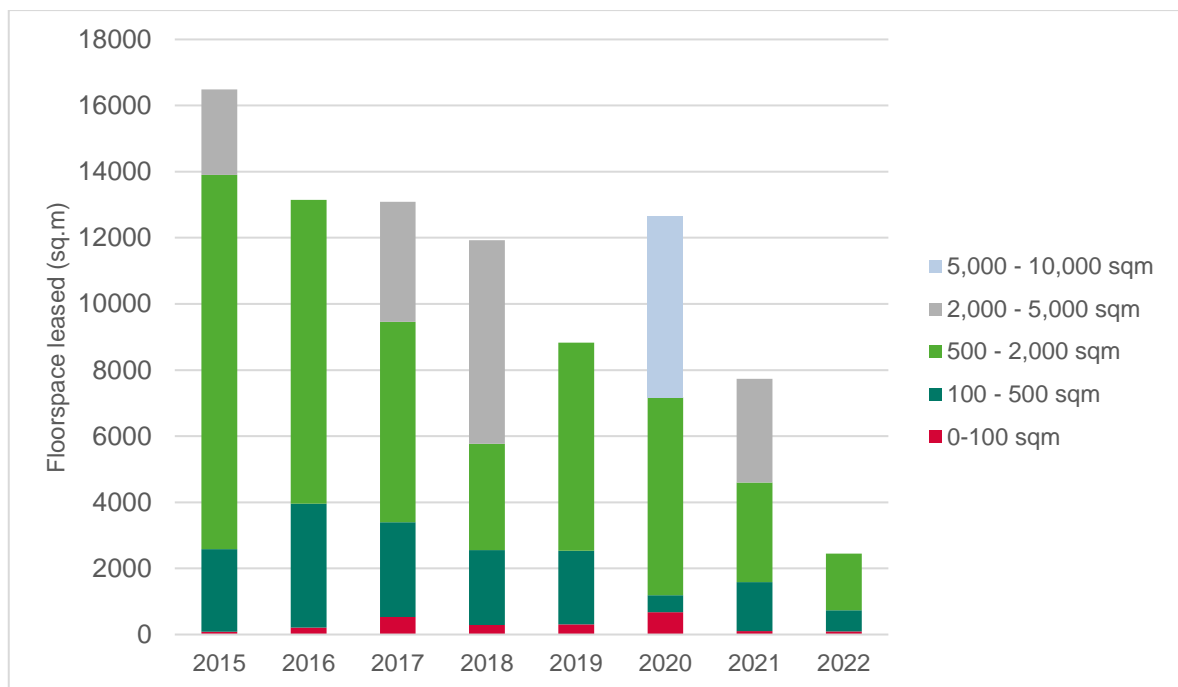
<sup>7</sup> The Building Rating System is explained here - [https://www.costar.com/docs/default-source/brs-lib/costar\\_buildingratingsystem-definition.pdf?sfvrsn=12a507a4\\_2](https://www.costar.com/docs/default-source/brs-lib/costar_buildingratingsystem-definition.pdf?sfvrsn=12a507a4_2)

the size of available stock. Therefore, our assessment of demand by size has been considered together with information from stakeholders.

2.91 Leasing activity differs from absorption in that it refers to the amount of space which is leased (i.e. signed for rather than physically moved into).

2.92 The figure below shows the amount of leasing activity (sq.m) by size band which has occurred over the last 7 years. It can be seen that there has been generally decreasing levels of leasing activity but that every year sees a 'base load' of 0-2,000 sq.m floorspace leased, the majority of which is between 500 and 2,000 sq.m. However, in four of the eight years considered there are leases of 2,000-5,000 sq.m and in one of the eight years considered there are leases of 5,000-10,000 sq.m.

**Table 2.18 Leasing Activity Over Time by Size Band (Sq.m)**

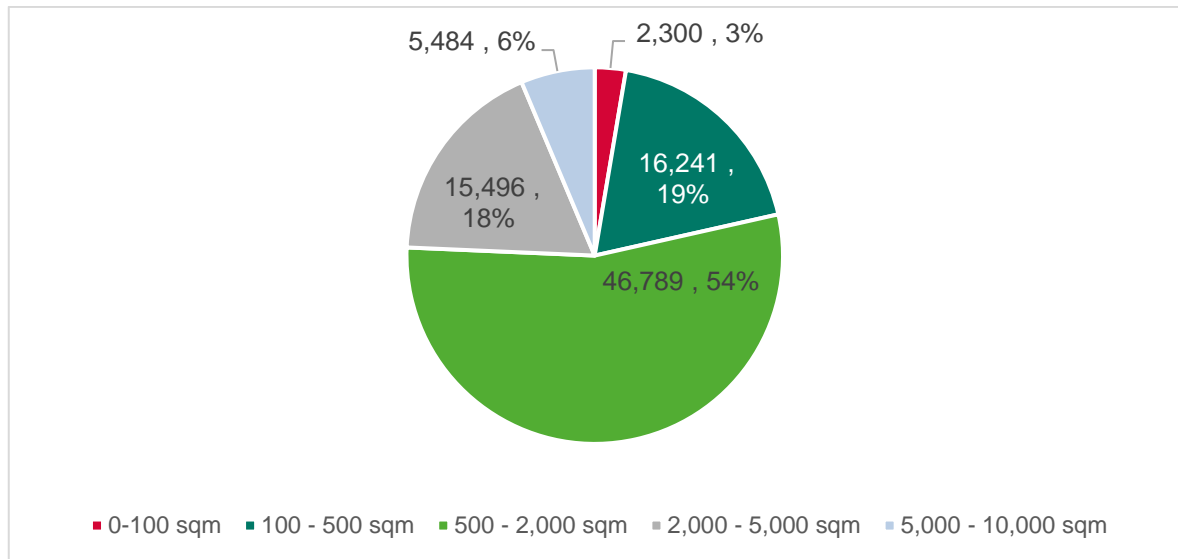


Source: IcenI analysis of CoStar data

2.93 To make things clearer, the pie chart below shows the amount and percentage of floorspace leased in each sized band over the last 7 years. It can be seen that most leasing has been in the 500-2,000 sq.m size band.



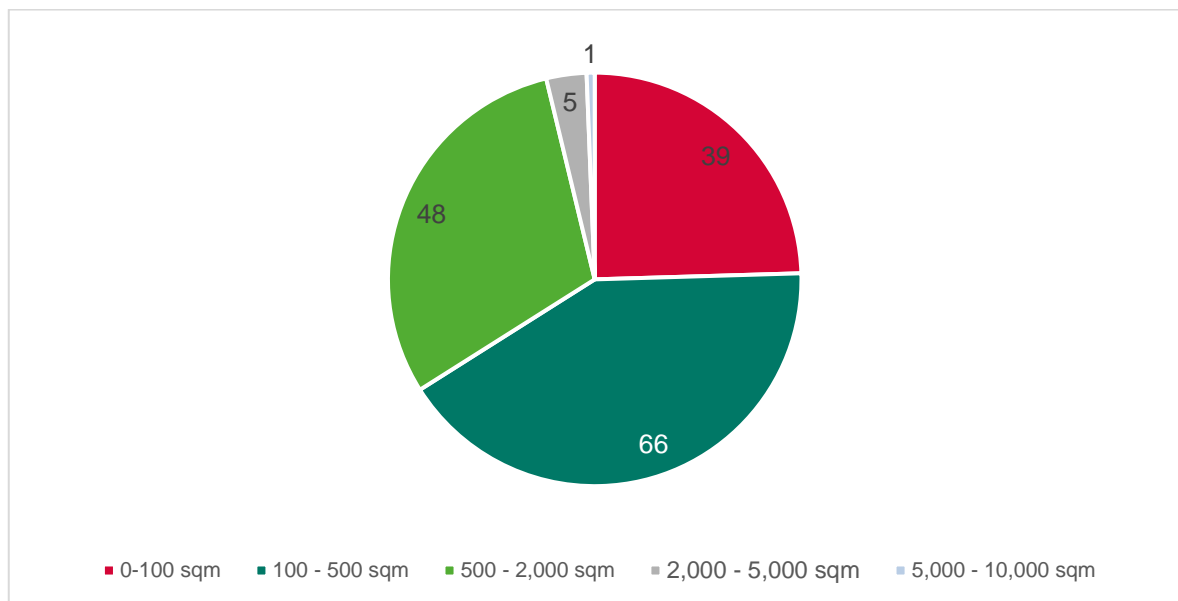
**Table 2.19 Amount (Sq.m) and Proportion of Leasing Activity by Size Band (2015-2022 YTD)**



Source: IcenI analysis of CoStar data

2.94 The pie chart below shows that, in terms of units, 2015-2022 take-up is relatively evenly split between 0-100 sq.m, 100-500 sq.m and 500-2,000 sq.m floorspace.

**Table 2.20 Number of Units Leased by Size Band (2015-2022 YTD)**



Source: IcenI analysis of CoStar data

2.95 Engagement with a local agent suggests that there is demand for all sizes but that there is particularly high demand for small to mid-sized (mechanics type) units, which is reflected by our analysis of CoStar data.

- 2.96 The agents were concerned about the redevelopment of smaller affordable units (for residential and larger industrial units). It is important to retain and provide smaller, affordable stock for local businesses.
- 2.97 In terms of the type of space needed the local agent said most occupiers want decent, clean sheds which are adaptable and that many do not need high office content.

### **Conclusions**

- 2.98 The following key conclusions can be made from this industrial market assessment;
- Overall, Surrey Heath has a relatively small industrial market, which has seen a decline over the last 20 years, particularly since 2011/12.
  - Surrey Heath's industrial vacancy rate is low, suggesting the market is undersupplied. This conclusion is supported by the high rate of rental growth.
  - Engagement with local agents suggests an even more constrained supply picture than vacancy rates indicate – one agent stated that there was a need for more industrial space and that high rents are becoming unaffordable for many businesses.
  - Around 20% of industrial stock in Surrey Heath is rated 1- or 2-star by CoStar.
  - There is demand for all sizes, but there is particularly high demand for small to mid-sized units. Most leasing has been in the 500-2,000 sq.m size band in terms of floorspace.
  - There are concerns about the redevelopment of smaller affordable units for residential and larger industrial units, which are important to the local business ecosystem.

### 3. SCENARIOS FOR FLOORSPACE DEMAND

- 3.1 This section considers future requirements for employment floorspace.
- 3.2 The September 2020 Surrey Heath Employment Land Evidence Report used both the Cambridge Econometrics (CE) and Oxford Economics (OE) local forecasting model to determine a future employment floorspace and land need for the borough. This approach is updated herein.
- 3.3 However, this is not the only approach, it is of note that the PPG (including the most recent 2019 updates) recommends that for assessing future needs market engagement, market signals, take-up trends, availability, economic forecasts, etc, should all be considered.
- 3.4 In Icení's view, it is increasingly important to use a range of indicators to come to a view on future property and employment land requirements. There are benefits and challenges to using a range of methods, notably:
- Labour demand: future job trends are increasingly divorced from property requirements, particularly for industrial, with investment in capital and productivity not being necessarily matched with increased jobs. Some falls in poorer quality industrial jobs are likely to be replaced by higher-skilled needs in both manufacturing and logistics sectors.
  - Completions: historic delivery can be a reasonable indicator of future demand, although suppressed markets or changing needs can mean adjustments are required.
  - Take up (absorption): can be a useful indicator of needs in the current market cycle, however, land supply constraints can suppress take up and build in a repressed view of needs, similar to completions trends.
- 3.5 Within Surrey Heath, the market review and trends (above) suggest that the office market has slowed since the pandemic after a period of falling vacancy levels in the stock. This is against a background of decreasing stock, particularly with losses to residential.
- 3.6 A different picture emerges in the industrial market, whereby vacancy rates are low and rents are climbing as a result of the restricted supply. Take up of industrial space has been falling as a result of low availability, therefore projections of this trend are likely to build in supply-side capacity issues without adjustment.

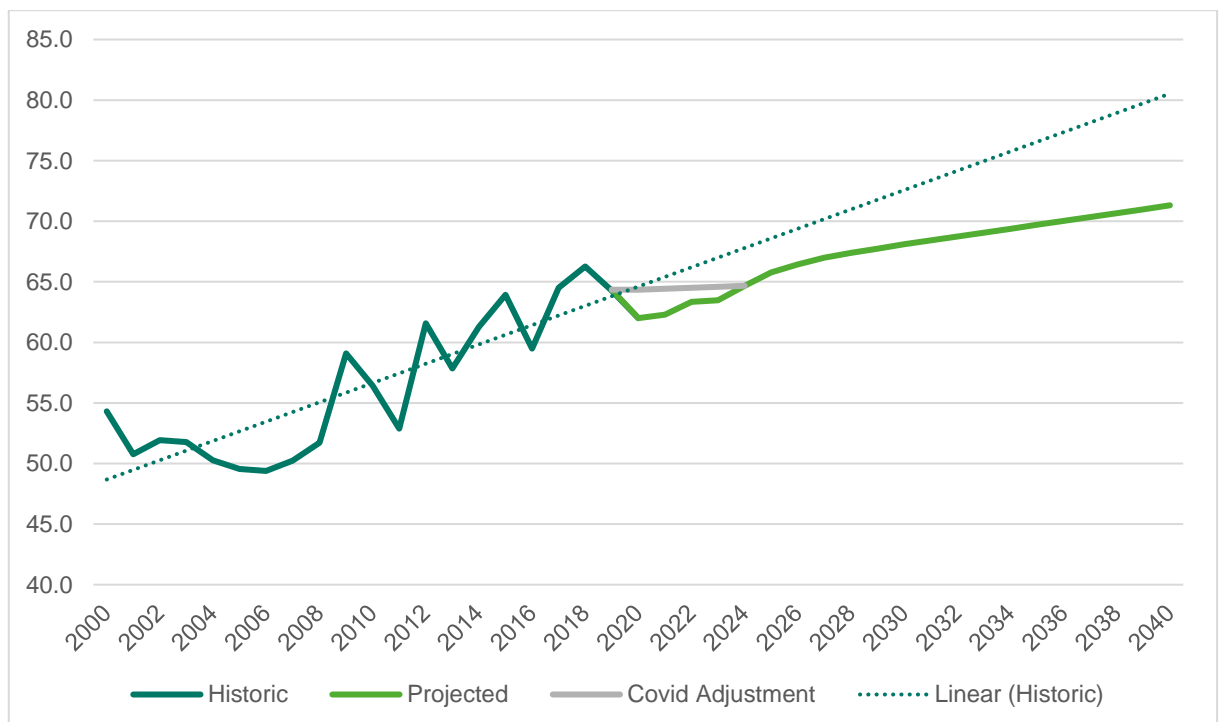
#### Labour demand

- 3.7 Following on from the 2020 labour demand modelling work, in the first instance this 2022 update takes a similar approach, using the latest forecast update from Oxford Economics (OE) and

Cambridge Econometrics (CE) and the same modelling method for forecasting floorspace and land needs, using the period 2021-40.

- 3.8 The COVID-19 pandemic will be fully captured in the employment figures as far as known at the time. The data is charted below. Overall the impact of the pandemic can be seen with an employment trough in 2020 and a relatively rapid rebound to 2019 employment rates by 2024, which broadly accords with the latest data and outlook as of early 2022.
- 3.9 To ensure that this rebound is not unnecessarily picked up in the need for employment land, because it will be jobs reabsorbed into the existing floorspace, we have adjusted the forecasts to effectively flatline growth between 2019 and 2024.
- 3.10 Beyond this time the OE data suggests that Surrey Heath's employment growth at a slower rate than that seen over the period from 2000. The future growth is driven by strong increases in employment in Professional Scientific and Technical, Administrative and Support and particularly Healthcare sectors. However, the growth is somewhat tempered by a continued decline in manufacturing in line with OE's expectations on macroeconomic trends.

**Table 3.1 Surrey Heath: Oxford Economics Workforce Jobs 2000-40**

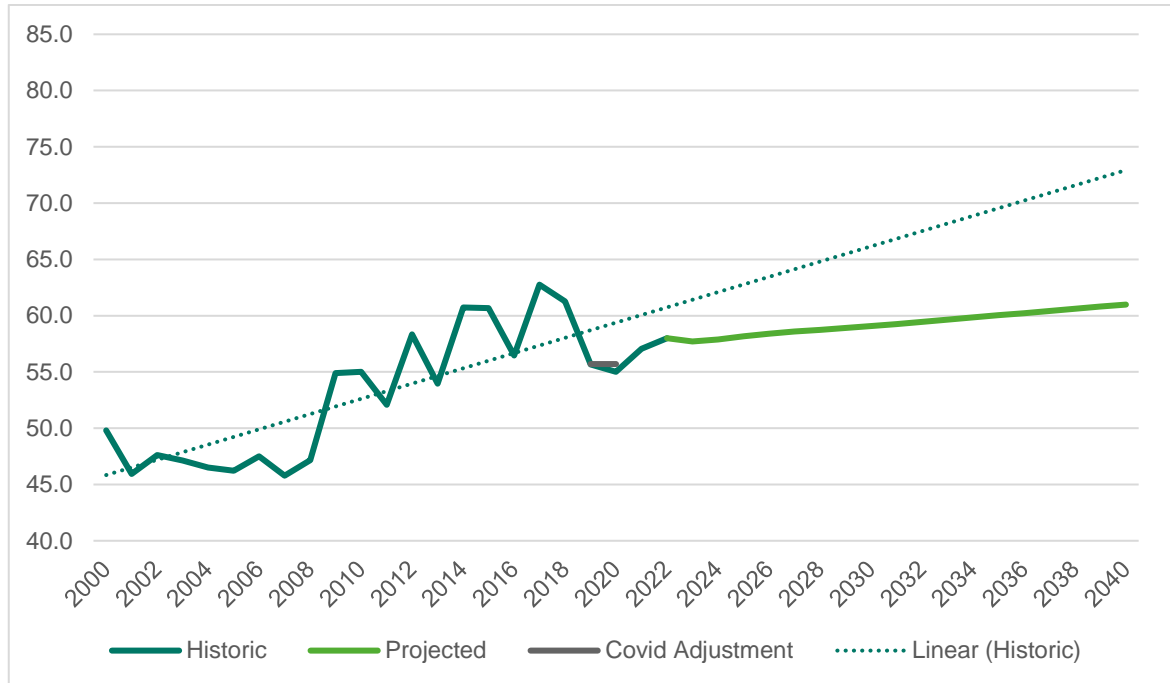


Source: Oxford Economics / Iceni analysis

- 3.11 A Covid fall of 700 jobs also occurs in the CE forecasts between 2019 and 2020, however, this is not as large as the pre-Covid fall of 5,600 jobs between 2018 and 2019, therefore the rebound is fairly swift. We have therefore only flatlined the 2019-2020 period as the 2021 figure already exceeds the

pre-covid total. The pre-covid fall can be seen across many sectors although the largest falls at in the construction and other services sectors.

**Table 3.2 Surrey Heath: Cambridge Econometrics Employment 2000-40**



Source: Cambridge Econometrics / IcenI analysis

- 3.12 Similar to the OE forecasts the CE forecasts suggest that Surrey Heath’s employment growth will be at a slower rate than that seen over the period from 2000. The future growth is driven by strong increases in employment in hospitality and finance. However, again the growth is somewhat tempered by a continued decline in manufacturing. Overall, job growth within the CE forecast is much lower than the OE forecasts.
  
- 3.13 A summary of the 2021-2040 jobs forecast outlook by sector is set out below. Note that the two forecasting houses do not use the same sectoral breakdown as a result there are differing outlooks for each use class.

**Table 3.3 Jobs change by sector OE - 2021-40 ('000s)**

Sector	2021	2040	Change
Agriculture	0.0	0.0	-0.01
Mining	0.0	0.0	-0.00
Manufacturing	3.3	2.1	-1.18
Utilities	0.0	0.0	-0.00
Water / waste	0.3	0.2	-0.08
Construction	4.6	5.5	0.93
Wholesale and retail	9.7	10.1	0.44
Transport	1.0	1.0	-0.04
Accom. and food	3.5	3.8	0.25
ICT	2.1	2.0	-0.14
Financial	1.3	1.3	0.05
Real estate	0.6	0.7	0.11
Professional	9.5	11.4	1.90
Admin	8.7	10.3	1.66
Public admin	1.8	1.5	-0.28
Education	3.3	3.2	-0.13
Health	11.8	14.7	2.90
Arts	1.1	1.4	0.29
Other	1.8	2.1	0.23
Total	64.4	71.3	6.9

Source: Oxford Economics, Q2 2022

**Table 3.4 Employment change by sector CE - 2021-40 ('000s)**

Sector	2021	2040	Change
Agriculture etc	0.1	0.1	0.0
Mining & quarrying	0.0	0.0	0.0
Manufacturing	3.8	2.8	-1.0
Electricity, gas & water	0.4	0.4	0.0
Construction	4.0	4.5	0.5
Distribution	8.3	8.9	0.6
Transport & storage	2.4	2.5	0.1
Accommodation & food services	2.9	4.3	1.4
Information & communications	1.8	2.4	0.6
Financial & business services	16.6	18.0	1.4
Government services	14.1	14.3	0.3
Other services	2.7	2.7	0.0
Total	57.1	61.0	3.9

Source: Oxford Economics, Q2 2022

- 3.14** There are some perhaps surprising and considerable differences from the 2020 position. Most notably overall growth is expected to be on average higher despite the impact of the pandemic. Part

of this can be explained by the covid recovery, however even when the starting points are aligned to 2019 the baseline is still greater.

**Table 3.5 Comparison of Baseline Forecasts**

Publication	Scenario	Total Jobs Growth	Years	Per Annum
2020 ELR	OE - Baseline	5,619	2019-2040	268
2022 ELR	OE - Baseline	6,887	2021-2040	362
2022 ELR	OE – Pre-Covid Baseline	7,050	2019-2040	336
2020 ELR	CE - Baseline	3,018	2019-2040	143
2022 ELR	CE - Baseline	3,912	2021-2040	206
2022 ELR	CE – Pre-Covid Baseline	5,300	2019-2040	252

Source: OE and CE, 2019 and 22

- 3.15 As was the case in 2020 the CE forecasts are also notably more pessimistic than the OE forecasts. Although both have improved their outlook. The higher forecast growth in the 2022 forecasts may relate to a more positive outlook from OE and CE post-pandemic rather than a mid-pandemic outlook in 2020. This will in part be due to the economy rebounding quicker than expected.

### Floorspace needs

#### Baseline OE forecast

- 3.16 Icen Projects has used the same assumptions as the 2020 study to convert jobs to employment floorspace, essentially drawing on the HCA Employment Guide densities and a detailed analysis of sector composition to allow us to split job growth across use class. As can be seen, it is only the minority of the job growth that is expected in these use classes.

**Table 3.6 2021-2040 sq.m change by Use Class (baseline forecast)**

FTE Job Growth	Jobs	Jobs Density	Floorspace Sq.m
B1a /E(g)(i)	3,243	12.0	38,920
B1b /E(g)(ii)	0	50.0	0
B1c /E(g)(iii)	6	45.0	278
B2	-1,155	36.0	-41,593
B8	148	70.0	10,361
<b>Total</b>	<b>2,242</b>		<b>7,967</b>

Source: Oxford Economics / Icen analysis

- 3.17 For Surrey Heath, the above data represents some changes from the 2020 OE position (which was the 2019-40 period rather than 2021-40):

- From 57,702 sq.m to 38,920 Ha for offices
- From -65,575 sq.m to -41,315 Ha for industrial
- From -640 sq.m to 10,361 Ha for logistics

- 3.18 Given wider macroeconomic factors, as well as the property market evidence it is perhaps no surprise that demand for office space is decreasing and demand for logistics space is increasing.
- 3.19 It is of note that the productivity forecasts (GVA gains) for 2021-40 for manufacturing in Surrey Heath are expected to be around +£93m, reflecting potential capital investment; and substantial floorspace decreases would mean this is not possible. The GVA change contrasts with the employment change forecasts and resulting floorspace position. It is logical that with a growing manufacturing sector may require additional floorspace, even though employment is negative (driven by productivity improvements). Given this, alternatives are also considered which allow for a more stable outcome in industrial floorspace regardless of employment change.

#### Baseline CE forecast

- 3.20 We have also calculated the floorspace and employment land need using the CE forecast. The tables below follow the same process as the OE forecasts although because of the different sectoral split assumptions on the conversion for jobs to use class differ slightly. This shows a slightly higher floorspace need of 12,000 sq.m. This is higher than the OE forecasts despite the fewer jobs principally because of the make-up of those jobs i.e. more B8 jobs which have a lower employment density. There is also less of a decline in manufacturing employment.

**Table 3.7 2021-2040 sq.m change by Use Class (baseline forecast)**

FTE Job Growth	Jobs	Jobs Density	Floorspace Sq.m
B1a /E(g)(i)	1,717	12.0	20,601
B1b /E(g)(ii)	-	50.0	0
B1c /E(g)(iii)	79	45.0	3,539
B2	-915	36.0	-32,929
B8	297	70.0	20,810
<b>Total B Class</b>	<b>1,178</b>		<b>12,022</b>

Source: Cambridge Econometrics / IcenI analysis

- 3.21 For Surrey Heath, the above data represents some changes from the 2020 CE position (which was the 2019-40 period rather than 2021-40):
- From 19,923 sq.m to 20,601 sq.m for offices
  - From -42,112 sq.m to -29,390 sq.m for industrial
  - From -1,788 sq.m to 20,810 sq.m for logistics
- 3.22 Unlike the OE forecasts, there is a small increase in demand for office floorspace which given wider macroeconomic factors, as well as the property market evidence is counter-intuitive although demand for logistics space is increasing and more so than the OE forecasts. As with the OE forecasts Industrial demand is still negative (albeit less so).



- 3.23 Within the CE forecasts, It is of note that the productivity forecasts (GVA gains) for 2021-40 for manufacturing in Surrey Heath are expected to fall although this may be due to a spike in manufacturing GVA in 2021 as it falls again in 2022 and from that point modest gains occur. It also shows a very significant growth between 2020 and 2040 (+35%). Because the data fluctuates so significantly between years it is difficult to draw any conclusions on this basis.

#### Working from Home

- 3.24 As a sensitivity, we have also run scenarios which assume reduced demand for office floorspace as a result of greater levels of working from home. Whilst definitive evidence is yet to emerge, these sensitivities assume a reduced office need by 30% and 50% due to greater levels of home working. This in effect means job density per sqm of floorspace falls from our assumed assumption of 12 sqm per job to 8.4 sqm per job (30% reduced floorspace need) and 6 sqm per job (50% reduced floorspace need).
- 3.25 This is based on changes to some major corporations' positions, which range from very limited home working to complete flexibility<sup>8</sup>, as per discussions in the property market analysis section. The result of which is set out below, this should be examined as a range from the baseline and growth analysis above.

**Table 3.8 Working from Home Sensitivity, 2021-2040 sq.m. change by industrial sector**

	<b>OE 100% Office Working</b>	<b>OE 70% Office Working</b>	<b>OE 50% Office Working</b>	<b>CE 100% Office Working</b>	<b>CE 70% Office Working</b>	<b>CE 50% Office Working</b>
B1a/b	38,920	27,244	19,460	20,601	14,421	10,301
B1c/B2	-41,315	-41,315	-41,315	-29,390	-29,390	-29,390
B8	10,361	10,361	10,361	20,810	20,810	20,810
<b>Total B Class</b>	<b>7,967</b>	<b>-3,709</b>	<b>-11,494</b>	<b>12,022</b>	<b>5,841</b>	<b>1,721</b>

Source: Oxford Economics and Cambridge Econometrics / Icen analysis

- 3.26 As shown in the table above for the OE forecasts the working from home sensitivities reduce the baseline need for office employment land from 38,920 sq.m to 27,244 sq.m and 19,460 sq.m based on a 30% and 50% reduction respectively. For the CE forecasts the working-from-home sensitivities reduce the baseline need for office employment land from 20,601 to 14,421 sq.m and 10,301 sq.m based on a 30% and 50% reduction respectively.

<sup>8</sup> HSBC is cutting its global office space by 40%. Lloyds is cutting desk numbers by 20%. Alphabet is developing a model where staff work three days in the office and two days from home. Facebook are allowing 'complete flexibility'.

### Flexible Margin

3.27 The final consideration for the labour demand scenario is a flexible margin. It is considered good practice to include an additional margin in the calculations of demand modelling. This flexible margin takes account of:

- The potential error margin with the forecasts;
- Providing a choice of sites to facilitate competition; and
- Providing flexibility to allow for any delays in sites coming forward.

3.28 We have not included a margin for office uses as there is already a considerable level of choice and flexibility in the market due to a high and growing vacancy rate. For industrial space, the margin is based on 2 years of average gross completions. This also includes a redistribution of 90% of mixed-b development to industrial uses.

3.29 The redistribution of mixed-use delivery is principally to B2 (40%) and B8 (50%) and reflects those uses now at the former BAE site at Lyon Way, Frimley. In addition, we have assumed that 10% of the mixed-B is actually in office use.

3.30 With the inclusion of the redistributed mixed-B delivery, gross completions for industrial averaged 1,043 sq.m per year in the same period and warehousing 2,266 sq.m. As the flexible margin is two years' worth of completions then 6,618 sq.m for industrial (combined B2 & B8) is added to the previous scenarios.

3.31 The overall margin is considered proportionate to the scale of overall need, for example, it accounts for around 21% of the industrial need based on net completions. The application of these figures results in the below requirements.

**Table 3.9 Need including Flexible Margin, 2021-2040 sq.m. change by industrial sector**

	OE 100% Office Working	OE 70% Office Working	OE 50% Office Working	CE 100% Office Working	CE 70% Office Working	CE 50% Office Working
B1a/b	39,620	27,944	20,160	21,301	15,121	11,001
B1c/B2	-39,228	-39,228	-39,228	-27,303	-27,303	-27,303
B8	14,892	14,892	14,892	25,341	25,341	25,341
Total B Class	15,284	3,608	-4,176	19,339	13,159	9,039

Source: Oxford Economics/ Cambridge Econometrics / IcenI analysis

3.32 For illustrative purposes, we have also calculated the midpoint of the projections. These show an office need ranging from 30,461 to 15,581 sq.m, a factory need of -33,236 sq.m and a warehouse need of 20,117 sq.m.

**Table 3.10 Midpoint labour demand needs including Flexible Margin, 2021-2040 sq.m. by use class**

Use Class	Forecast Mid-Point 100% Office Working	Forecast Midpoint 70% Office Working	Forecast Mid-Point 50% Office Working
B1a/b	30,461	21,533	15,581
B1c/B2	-33,266	-33,266	-33,266
B8	20,117	20,117	20,117
<b>Total B Class</b>	<b>17,312</b>	<b>8,384</b>	<b>2,432</b>

Source: Oxford Economics / Cambridge Econometrics / IcenI analysis

#### Past trends forecast

- 3.33 As an alternative approach, IcenI has considered the roll forward of past floorspace trends. This draws on both data from the Council (net and gross) and from the Valuation Office Agency (VOA) (net only). We have also drawn on different trend periods for the VOA data. This wasn't possible for the Council data which is only based on the last seven years (2015/16 to 2021/22).
- 3.34 As with the flexible margin, it is also necessary to redistribute the Mixed-B delivery within the Council completion trends and thus the projected need.

**Table 3.11 Completions by Use Class Based on Council Data – Sq.m (2015/16 to 2021/22)**

		Annual Average	Total Completions
B1a	Gross	85	592
	Net	-4,024	-28,167
B1b	Gross	47	330
	Net	47	330
B1c	Gross	135	944
	Net	-215	-1506
B2	Gross	35	248
	Net	-396	-2,773
B8	Gross	1,174	8,219
	Net	305	2,137
Mixed B	Gross	2,183	15,279
	Net	2,183	15,279

Source: IcenI Analysis of SHBC Data.

- 3.35 When these trends are extrapolated across the next 19 years (2021-40) the gross need is for 69,518 sq.m of employment land and the net need is a loss of 39,900 sq.m. The net figure is based on a significant loss of office space (71,414 sq.m) and a growth in industrial (4,974 sq.m) and warehousing (26,536 sq.m).

- 3.36 We have also included a margin of two years' average gross completions within the net forecast calculations for industrial uses to account for past trends showing a low vacancy rate. This reduces the net loss to 33,282 Ha. No buffer is applied to the gross figure as this will already reflect churn and intensification of the existing stock.

**Table 3.12 Projected Employment Floorspace and Land Based on Council Data (2021-40)**

	Gross Emp. Floorspace need (sq. m)	Net Emp. Floorspace need (sq. m)	Net Emp. Land need With Margin (sq.m)
B1a/b	6,650	-71,410	-71,410
B1c/B2	19,824	4,974	7,061
B8	43,045	26,536	31,067
Total B Class	69,518	-39,900	-33,282

Source: Icen Analysis of SHBC Data.

- 3.37 The extrapolation of VOA data results in a negative need for all types across all periods. The most recent trends, once extrapolated, result in the greatest losses. VOA data is based on returns, so void spaces will not be recorded. Regardless, the difference in VOA and council data is stark.

**Table 3.13 Projected Employment Floorspace and Land Based on VOA (2021-40)**

	20-Year Average Projection (Sq. M)	10-Year Average Projection (Sq. M)	5-Year Average Projection (Sq.M)
Office	-14,250	-55,100	-342,000
Industrial	-7,600	-43,700	-95,000
Total	-21,850	-98,800	-437,000

Source: Icen Analysis of VOA Data.

- 3.38 It should be noted that the projections based on the 5-year average would result in the loss of more than the total sum of office floorspace in the borough at present. It is therefore wholly unrealistic and has not been taken forward for further consideration.

#### Absorption Trends

- 3.39 A model that rolls forward the trends in lease deals is also set out here. Icen considers this to be increasingly useful in considering industrial and logistics market analysis and forecasting, aligning with the PPG and is also being promoted by the British Property Federation<sup>9</sup>. However, for smaller sub-markets such as Surrey Heath the data can be weak and the outlook therefore misleading, so this should be treated with caution.

<sup>9</sup> Levelling Up - The Logic of Logistics 2022 <https://bpf.org.uk/our-work/research-and-briefings/>

- 3.40 As well as a projection of past trends, CoStar also produce their own forecasts over the next five years which we have extrapolated across the plan period using an annual average of the forecast net absorption.
- 3.41 As shown in the table below, the forecasts and projections based on net absorption and Co-Star data result in a need for offices in the range of 14,391 sq.m to 15,727 sq.m. For industrial uses (including warehousing) the need ranges from 17,675 sq.m to 40,242 sq.m. At the upper end, this reflects ongoing increases in levels of demand in the future for industrial. We have also included a margin within this calculation which takes the total need to between 38,684 to 62,586 sq.m

**Table 3.14 Lease deal property requirement projections 2021-41 (sq.m)**

	<b>Co-Star Forecasts (sq. m.)</b>	<b>Absorption Trend (2015-21) (sq. m.)</b>	<b>Co-Star Forecasts with Margin (sq.m)</b>	<b>Net Absorption Trend (2015-21) with margin (sq.m)</b>
Office	15,727	14,391	15,727	14,391
Industrial	40,242	17,675	46,859	24,293
Total	55,968	32,067	62,586	38,684

Source: CoStar / Icen Analysis

- 3.42 We have used trends for the 2015-21 period when arguably these are constrained by low levels of vacancy (particularly in offices). However, it is unreasonable to exclude the most recent trends. In any case, using a longer-term trend incorporating a period of higher vacancy rates (such as the 2009 to 2021 period), actually reduces the office need to -1,426 while industrial need increases to 23,098. Furthermore, the inclusion of the margin will go some way to addressing a low vacancy trend.

#### **Recommendations on future need**

- 3.43 For Surrey Heath, there are a number of issues to consider when recommending a future need, the range of models for which are set out below (with margins) although the VOA data is not considered given the extreme and therefore unhelpful outcomes and difference from the other models:

Table 3.15 Range of Projected Employment Floorspace and Land Based (2021-40) (Sq.M) (margin adjustments included as required)

Use Class	Office Working	Completions Gross	Completions Net With Margin	OE Baseline with Margin	CE Baseline with Margin	OE CE Mid-Point with Margin	CoStar Forecasts with Margin	Net Absorption Trends (2015-21) with margin
E(g)(i-ii)	100%	6,650	-71,410	38,920	20,601	29,761	15,727	14,391
	70%			27,244	14,421	20,833		
	50%			19,460	10,301	14,881		
B1c/B2		19,824	7,061	-39,228	-27,303	-33,266	46,859	24,293
B8		43,045	31,067	14,892	25,341	20,117		
Total	100%	69,519	-33,282	14,584	18,639	16,611	62,586	38,684
	70%			2,908	12,459	7,683		
	50%			-4,876	8,339	1,731		

Source: IcenI Analysis of SHBC Data.

## Office

- 3.44 The scenarios we have examined range from a loss of 71,000 sq.m to a need for 39,000 sq.m. Net completion trends suggest that the need is negative, however, this is influenced by significant permitted development losses.
- 3.45 Both the labour demand scenarios suggest need is still positive even when assuming greater levels of working from home. This is particularly related to professional, scientific & technical jobs and business admin & support in the OE forecasts and finance and ICT in the CE forecast.
- 3.46 While market signals are modest there is still some demand for smaller office space and vacancy rates are relatively low (5%) in comparison to the County due in part to pressure from past losses, while rents are generally stagnant. The net completions trend is the only negative forecast and the scale of these losses is not considered to be positive in an area with a reasonably strong economy.
- 3.47 Net Absorption trends and CoStar forecasts also suggest a positive need. While a positive demand is most likely, so too is increased levels of working from home which is likely to be an ongoing factor. Over time it is realistic to consider that some larger occupiers may review and reduce their office footprint.
- 3.48 The core range is considered to be somewhere in the range of the gross completions scenario (6,650 sq.m) to the CoStar forecasts (15,727 sq.m). This also encompasses the mid-point of the economic forecasts which assume 50% reduced demand for office floorspace (14,881 sq.m) and the net absorption trends (14,391 sq.m).
- 3.49 This positive need for additional floorspace over the plan period, albeit for a relatively modest quantum, needs to be seen in the context of a need to maintain a supply of high-quality modern floorspace to support the Borough's economy.
- 3.50 Alongside this it is reasonable to expect some consolidation and redevelopment of some office stock – including older outdated stock which no longer meets modern floorspace requirements; or where there is a relocation or consolidation of larger corporate occupiers.
- 3.51 **Planning positively for growth suggests that the rounded need in the range of 6,500 – 15,800 sq.m is suitable**, but this is an uncertainty in the outlook, particularly in relation to levels of working from home and if these return to pre-pandemic levels.
- 3.52 Even the upper end is lower than the 2020 report suggestion (of 30,000 – 35,000 sq.m) reflecting the continued trend for working from home and the observed rising levels of office vacancy.

## Industrial

- 3.53 When the industrial and distribution need are combined the scenarios range from a loss of 24,336 sq.m (OE baseline) to a need for 62,869 sq.m (gross completions). The commercial market signals suggest that there is certainly demand for industrial space; vacancy rates are low (4.5%), while rents are increasing quickly (8.3%).
- 3.54 Neither labour demand scenarios suggest the need is positive, but this is only marginal (-1,962 sq.m) in the case of CE. However, there is a disconnect between manufacturing employment and floorspace demand and taking account of productivity improvements, the economic forecasts show increasing GVA which may feed through to increased floorspace demand (despite declining employment) and necessitate a need for additional industrial floorspace.
- 3.55 Net trends vary with the VOA projections suggesting that the need is (very) negative, while the Council data suggests the need is positive (38,128 sq.m). The net completions scenario (using Council data), with the additional buffer to increase provision compared to past trends, constitutes the lower end of a recommended range to represent need in the context of planning for growth, with shifting economic trends.
- 3.56 Past gross completions show the highest need (62,869sqm), although some of this will be on-site redevelopment and churn, whilst other models point to lower needs - including the Co-Star forecasts (46,859 sq.m) and net absorption trends (24,293 sq.m).
- 3.57 We consider the range between the net completions with buffer (38,128sq.m) and the gross completions forecast (62,869 sq.m) to be a reasonable basis for considering need, noting that the upper figure is generous, as this is double the unadjusted net figure. This range also encompasses the CoStar figure and considerably exceeds the net absorption trend. This upper end also takes into account the market feedback and low vacancy rate.
- 3.58 This range would enable an uplift beyond the past net change to contribute to alleviating the low vacancy. Although the gross completions may risk some over-provision assuming opportunities for windfall deliveries and recycling of land on existing sites.
- 3.59 In conclusion, it is clear that there is demand for industrial and storage/distribution uses. **We therefore recommend a rounded need for between 38,000 and 63,000 sq.m, with a broad balance between industrial and warehousing.**
- 3.60 This is an increase above the 2020 position (negative up to 44,800 sq.m), which is to be expected in line with the post-covid market trends including online retailing trends, impacts of Brexit requiring greater stockpiling capacity and emergent growth in Film/TV, and one where there will be ongoing losses and renewals.



- 3.61 The rationale for a broad balance of B2 and B8 is that although the market trends in online retail growth and the impacts of Brexit on increased demand for warehousing for stockpiling nationally are recognised, economic priorities identified for the borough are to strongly support SMEs and the priority growth sectors which include advanced manufacturing and therefore a clear need for B2 floorspace is envisaged. Furthermore, a regional approach is required to increased demand for B8 floorspace from online retail growth, as well as to address emerging needs of film/TV production.
- 3.62 Based on the range of scenarios examined the low scenarios when combined equate to a need for 51,500 sq.m while the two high scenarios when combined equate to a need for 78,800 sq.m although it should be stressed that combining these scenarios is somewhat arbitrary and there is no reason to suggest the both the high or the low scenarios for office and industrial need to be combined.

**Table 3.16 Recommended Range of Employment Need (2021-40) (Sq.m and Ha)**

	Low Scenarios	Mid-Point	High Scenarios
Office (E(g)(i)(ii)) (sq.m)	6,500	10,750	15,800
Industrial and Storage/Dist. (E(g)(iii)/B2/B8) (sq.m)	38,000	50,500	63,000
Total Floorspace Need (sq. m)	44,500	61,250	78,800
Land Requirement	10.8	14.9	18.9

Source: Icen Analysis of SHBC Data.

- 3.63 We have also translated this range to an indicative employment land need of between 10.8 Ha and 18.9 Ha. This is based on plot ratio assumptions of 0.5 for office and 0.4 for industrial. These figures are just indicative and greater focus should be placed on the floorspace need.
- 3.64 This identified midpoint of 61,250sq.m is a significant increase on the 26,990 sq.m midpoint set out in the 2020 ELR as the emphasis has moved from the office to the industrial market which typically has a larger floorspace need. Furthermore, job growth forecasts are also higher compared to the previous study, and local delivery projections have been updated including more recent larger-scale completions in 2019/20 and 2020/21.

## 4. SUPPLY AND DEMAND BALANCE

### Supply Position

4.1 The supply position refers to the amount of confirmed future supply of employment floorspace. This is made up of two components which are combined to estimate the future supply of employment floorspace:

- Completions since March 2022 when the need figure starts from;
- Unimplemented Permissions - Permitted employment floorspace which has not yet been completed.

4.2 Additional supply will also come from regeneration and redevelopment opportunities which are explored to some degree in the supply paper. There will also be windfall development.

### Net Completions since 2022

4.3 Across 10 sites a total of 17,194 sq.m net increase of employment floorspace has been delivered between March 2022 and July 2023. This is comprised of gains of 24,926 sq.m and losses of 7,732 sq.m. The majority of new floorspace was at two large sites, one adjacent to Yorktown Industrial Estate in Camberley and another within the Former British Oxygen Company site near Windlesham.

Table 4.1 Completions since March 2022 by Detailed Use Class (sq. m)

Use Class	Net Completions since March 2022 (GIA)
B1a/b	226
B1c/B2	3,088
B8	13,880
<b>Total</b>	<b>17,194</b>

Source: Icen Projects based on SHBC Data

### Unimplemented Permissions

4.4 Unimplemented permissions have been determined using local authority monitoring data. The table below shows the amount of net permitted floorspace by use class which was unimplemented. We have also included a sensitivity whereby only 75% of the net unimplemented permissions are actually delivered

**Table 4.2 Unimplemented Permissions by Detailed Use Class (sq. m)**

<b>Use Class</b>	<b>Net Unimplemented Permissions (GIA)</b>	<b>Adjustment to unimplemented permissions (-75%)</b>
B1a/b	-18,818	-14,114
B1c/B2	-83	-63
B8	1,981	1,485
<b>Total</b>	<b>-16,921</b>	<b>-12,691</b>

Source: Icen Projects based on SHBC Data

- 4.5 As shown, if fully implemented this would result in a net loss of around 18,800 sq.m of office space and assuming that only 75% of these occur then it would result in a loss of 14,100 sq.m. In contrast, only around 80 sq.m of industrial space would be lost while 2,000 sq.m of warehouse space would be delivered.

### Supply-Demand Balance

- 4.6 The total need figure for offices sits in the range of 6,500 –15,800 sq.m (see 3.51) while the industrial need was assessed in the range of 45,000 and 63,000 sq.m (see 3.49). To this, we have removed the supply position calculated in Tables 4.1 and 4.2 above.
- 4.7 As shown in the table below, there is a residual need for floorspace in the order of 47,000 to 75,000 sq.m of employment floorspace with the majority of that need for industrial floorspace. This is assuming that all losses incurred should be replaced, irrespective of the reason for loss.

**Table 4.3 Initial Supply-Demand Balance – 2021 to 2041 (sq. m)**

	Office / R&D	Office / R&D	Industrial (Factories and Warehousing)	Industrial (Factories and Warehousing)
	(Low)	(High)	(Low)	(High)
Floorspace Need	6,500	15,800	38,000	63,000
Completions Since March '22	226	226	16,968	16,968
Unimplemented Permissions	-14,114	-14,114	1,423	1,423
Residual Floorspace Need	20,388	29,688	19,609	44,609

Source: Icen Projects based on SHBC Data

### Loss to Residential

- 4.8 Some of the pipeline permissions are unimplemented office losses to residential. In the past, a considerable volume has been lost and there is a question for the new Plan period as to whether this is sustainable.
- 4.9 The calculations above assume that all losses should be replaced to achieve the 'net gain' figures arrived at. However, more realistically it is recommended that some – not all – losses going forward

are monitored and sought to be replaced at a suggested rate of 25% of losses to help to maintain some supply.

- 4.10 As shown in the table below, 7,732 sq.m of office floorspace was lost to residential since March 2022. When 25% of these are to be replaced it reduces the balance in terms of 'losses which need replaced' to just 1,933 sq.m.

**Table 4.4 Office Losses to Residential (sq. m)**

	Net completions since March 2022	Unimplemented permissions
B1a /B1b losses to residential	-7,732	-13,054
B1a/B1b losses reduced to 25%	-1,933	-3,264

Source: Icen Projects based on SHBC Data

- 4.11 Similarly, on the unimplemented permissions 13,054 sq.m are to residential uses. If only 25% of that is to be replaced then the replacement requirement is just 3,264 sq.m.
- 4.12 Taking these changes into account the completions and pipeline supply totals 17,645 sq.m which is broken down as follows:
- Office and R&D: -746 sq.m
  - Industrial and Warehousing: +18,391 sq.m
- 4.13 The following section of this report (Supply and Demand Balance) brings together the supply position with the future needs assessment to determine the scale of surplus/deficit of employment land supply in Surrey Heath.

#### **Updated Supply-Demand Balance**

- 4.14 As previously set out, the forecast need figure for offices sits in the range of 6,500 – 15,800 sq.m (see 3.51) while the industrial need was assessed in the range of 38,000 and 63,000 sq.m (see 3.59). To this, we have removed the supply position calculated in 4.12 above.
- 4.15 As shown in the table below this results in a revised residual need for between 7,246 and 16,546 sq.m of office floorspace and 19,609 and 44,609 sq.m of industrial floorspace (factories and warehouses).

**Table 4.5 Updated Supply-Demand Balance – 2021 to 2041 (sq. m)**

	Office / R&D Low	Office / R&D High	Industrial (Factories and Warehousing) Low	Industrial (Factories and Warehousing) High
Floorspace Need	6,500	15,800	38,000	63,000
Completions Since March '22	6,025	6,025	16,968	16,968
Unimplemented Permissions	-6,771	-6,771	1,423	1,423
<b>Residual Floorspace Need</b>	<b>7,246</b>	<b>16,546</b>	<b>19,609</b>	<b>44,609</b>

Source: Icen Projects based on SHBC Data

4.16 Before making any recommendations, further considerations should be taken into account:

- Use of existing vacant spaces: vacancy rates are now low for both industrial and to a lesser degree office space. For industrial, the vacancy rate is simply too low. For offices, vacancy is low as a lot of space has been lost to residential.
- Intensification and regeneration of sites within existing Strategic and Locally Important Employment Sites. This would include sites coming to the end of their natural life, surface car parks, and infill opportunities.

4.17 There is a great deal of uncertainty in the office requirement given the levels of flux in the market. That notwithstanding agents are reporting enquiries for smaller space and that the market is likely to continue to demand space. However, the level of need should be monitored and increasing levels of returning office workers and conversely further vacant or lost stock should be responded to accordingly.

4.18 For industrial development, as set out in the Property Market Review section (Chapter 2) there is a need to increase the existing floorspace supply to allow for greater churn and choice in the market.

4.19 The focus for offices should be on smaller flexible spaces. Typically, the locational requirements for offices should be town centres or edge of centre.

4.20 For industrial, edge of town would be required and for warehousing uses an added requirement would be appropriate connectivity to the strategic road network. The focus for industrial units should be on smaller to medium-sized industrial units, although overall floorspace should be split across a range of sizes with some provision for final mile distribution.

## 5. POLICY MATTERS AND RECOMMENDATIONS

5.1 Consideration is given below to specific policy matters.

### Permitted development

5.2 A significant amount of office space has been lost to residential in recent years. Based on an assessment of the unimplemented permissions in the Borough, this is likely to continue. The pandemic has reduced office demand and vacancy rates have risen even against a background of reduced stock, although vacancy is now stabilising.

5.3 The 2020 report recommended that the planning authority seek to replace around 25% of stock being lost. This recommendation is considered sound and should be maintained, albeit in reality, it is difficult to implement as losses continue and office viability is weak in an uncertain market.

5.4 There is less certainty on the office requirement given the levels of flux in the market. Notwithstanding agents report enquiries for smaller space and that the market is likely to continue to demand space which is ever decreasing due to permitted development.

5.5 An ongoing loss of stock simply restricts the Borough's ability to accommodate business, discouraging inward investment and encouraging out-migration and out-commuting, even in a post-covid home-based work environment. Furthermore, R&D-type businesses that see some success in Surrey are less susceptible to home working practices.

### Specific employment types – film studios/logistics

5.6 Icen Projects is aware of the long lease Netflix has taken at Longcross (in Runnymede) and the anticipated expansion and increased investment at the site. There are also a number of Film-related economic activities at Fair Oaks.

5.7 More widely, there has been a considerable increase in demand for film studios and growth in the associated production sector in the UK in recent years including around the M25, such as Garden Studios at Waxlow Road in Park Royal; development of Shenfield Studios at Reading; investment by Pinewood/Shepperton etc. Industry studies on the economic impact of film studio development indicate economic impacts and multiplier effects in the local area of investment, potentially at a rate of 1.2 at the LEP level<sup>10</sup>.

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<sup>10</sup> Pinewood Studios: Business Case and Economic Impact Assessment 2013, p48.

- 5.8 It is therefore reasonable to suggest that there will be demand for both supply chain, spin off and potential film studio demand in Surrey including in Surrey Heath.
- 5.9 In terms of logistics, there is likely to be demand for some final mile premises to serve local populations in Camberley, Frimley and beyond (noting for example DPD at Albany Park). This is reflected in the property market review and the level of requirement for industrial premises overall as set out.
- 5.10 Surrey Heath also accommodates three M3 junctions, which could theoretically provide for large sub-regional logistics demand but these investments could be located in a number of areas and would be a policy choice to release additional land for such development.

#### **Conclusions and Local Plan Policies**

- 5.11 This report is an update to the 2020 position. Overall the post-pandemic period is one of uncertainty for the office market; whilst demand has generally increased for industrial, and particularly warehousing premises, to serve greater levels of e-commerce.
- 5.12 The conclusions in terms of local employment needs are for reduced levels of office but increased levels of industrial premises.
- 5.13 In a separate study, Iceni has identified a potential for 32,355 sq.m of additional supply from vacant land in existing employment sites through undeveloped land, partially occupied sites and vacant sites.
- 5.14 The employment site study also identifies a further 41,769 sq.m of vacant floorspace or floorspace which could be reused to address some of the future need particularly if there is a conversion from office to industrial. Intensification opportunities could also occur when older stock is redeveloped.