

# **ASSESSMENT REPORT OF: ECONOMIC BENEFITS STATEMENT BY VOLTERRA, RELATING TO:**

**63-81 PELHAM STREET, LONDON**

**ON BEHALF OF:  
THURLOE OWNERS AND LEASHOLDERS ASSOCIATION  
ONSLow NEIGHBOURHOOD ASSOCIATION  
PELHAM RESIDENTS ASSOCIATION**

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## 1. INTRODUCTION

1.1 This report is prepared on behalf of South Kensington Resident's Association in relation to a proposed redevelopment at 63-81 Pelham Street which is the subject of a planning application by The Wellcome Trust Ltd, case reference PP/21/00471.

1.2 The scheme is described as:

*"Demolition of the existing building to basement level and construction of a part two storey, part ground plus five storey office building with gym use at basement level, associated bin storage, cycle parking, plant and other ancillary works."*

1.3 The proposed scheme will comprise 9,823sqm of office space and 824sqm for a gym. This represents a net increase of 6,641sqm in office space from the existing 3,195sqm and a reduction in space for the gym facility from 2,095sqm to 824sqm. In addition the proposal will result in the loss of a small retail unit of 167sqm.

1.4 To support the planning application, an Economic Benefits Statement (EBS) has been prepared on behalf of the applicant by consultants Volterra.

1.5 The purpose of the EBS is to set out the economic benefits that are believed to result from the development, were it to go ahead. These benefits are categorised as follows:

- Part 2: Economic impacts relating to construction and operation of the scheme should it be built and fully occupied as intended.
- Part 3: Assessing the need for office space
- Part 4: Policy context
- Part 5: Conclusion

1.6 The purpose of this assessment report is to assess these benefits and impacts; to verify if they are likely to be achieved; and to assess other impacts of the proposal that have not been considered in the EBS.

1.7 The objective of this assessment is to address the impacts of the scheme such that the proposal's final, net benefits can be better understood.

- 1.8 As such, the report structure will reflect the three categories of benefits as outlined above (1.5) and will also consider the policy context and relevance of the various benefits.

## **2. IMPACTS OF CONSTRUCTION AND OPERATION PHASE**

### *Construction Phase*

- 2.1 The EBS estimates the construction of the development will require 255 workers over an approximate 22-month build phase. This calculation is made using a recognised methodology based on construction cost and the amount of construction GVA generated per worker.
- 2.2 The claim that the development will result in an 11% *increase* in the Borough's construction workforce of 2,250 cannot be supported because there is no net calculation to account for what other construction jobs might be gained or lost in any given period. It can only be said that the 255 workers are representative of 11% of the current workforce.
- 2.3 The workforce's expenditure in the Borough while on site is calculated to be £420,000 per year, based on expenditure of £12.10 per day, by 60% of the 255 workers, assuming 220 working days in the year.
- 2.4 Using these metrics and applying them to the Borough's workforce as a whole, we find that total workforce expenditure in the Borough would amount to a little over £229m over 220 days. Therefore, the proposed development's workforce expenditure amounts to 0.18% of the total for the Borough.

### *Employment Generation*

- 2.5 The EBS makes an estimate of the existing level of employment based at 61-83 Pelham Street. These estimates amount to 40 office jobs and 25 jobs in the gym and retail unit in the current building.
- 2.6 These estimates are based on current usage. However, in order to assess the existing space against the proposal, it should not be assumed that the space can only be used as it is now. This creates the notion of a binary choice between the current use and usage characteristics, and the proposed use.
- 2.7 As such it is misleading for the current use to be the only comparator to the proposed use, which involves a complete demolition, rebuild and subsequent transformation of the site.

- 2.8 To address this, it is important to note the level of space in the current building rather than just the number of current users, particularly given that the current building's office space is evidently under-utilised.
- 2.9 Using the same employment densities as used in the EBS for example, it can be calculated that the office space in the current building could accommodate at least 146 staff. Adding the 25 staff counted for in the gym and retail unit, this produces a figure of 171, rather than the figure of 65 used in the EBS.
- 2.10 This is very likely to be a conservative figure as it is based upon the same ratio of net to gross floorspace as in the proposed development, which is unusually low at 57%<sup>1</sup>. This may be particular to the specific design in the application and if a more typical ratio of net to gross floorspace was achieved with the existing building<sup>2</sup>, it could accommodate over 200 workers in the office space alone.
- 2.11 The existing gym is run by one of the country's leading operators and underwent a substantial refurbishment in 2017. It is one of the largest in the area but is often reported as being busy and overcrowded at peak periods<sup>3</sup>. This is likely because it is one of only 2 full-suite gym facilities in South Kensington.
- 2.12 So while this is clearly a well-used and in demand local facility that is important to the health of the local community, there is little explanation in the EBS about the intention to reduce its size by over 60%, from 2,100sqm to 820sqm.
- 2.13 As such, there should be a question mark over the viability of operating a gym in such a reduced space and therefore over the potential loss of an important leisure facility. This is not addressed in the EBS.

#### *Additional Net Employment Generation and Worker Expenditure*

- 2.14 The total amount of employment generated by the proposed development is calculated in Table 2 of the EBS as 455 FTE (full-time equivalent) jobs. This table contains numerous errors however. The number of office and gym FTEs, at 450 and 10 respectively, are summed to 455 rather than 460. The employment density

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<sup>1</sup> The EBS states, in Table 1, GIA for the office space of 9,823sqm and NIA of 5,615sqm

<sup>2</sup> The HCA Employment Density Guide 2015 suggests an 80-85% net to gross floorspace ratio of office developments

<sup>3</sup> Link to Pure Gym South Kensington Reviews pertaining to overcrowding - [Reviews](#)

used for the gym is 100sqm per employee over 824sqm of floorspace, yet the number of jobs is calculated as 10 rather than 8.

- 2.15 The *Gross Additional* calculation, as described in the text of paragraph 3.12, is in fact the net additional calculation, where the amount of employment in the building currently is subtracted from the total. Furthermore, that number is stated in paragraph 3.8 and 3.9 as 55 FTEs and 65 jobs, which it is said will be used going forward in the report. While 55 FTEs is subtracted from the total in Table 2, only 60 jobs are subtracted from the Jobs total.
- 2.16 These are minor, if numerous, errors which when corrected and using the methods proposed, should read 403 for the *net* FTE figure (stated as gross) in Table 2, and 443 for the net Jobs figure.
- 2.17 It should again be noted however that the net figure is based on the low existing employment use of the building, rather than the potential existing use. Taking the estimate in paragraph 2.10 of around 200 workers, this would mean the net employment increase of the proposed development, versus a fully occupied existing building, would produce a **net increase of 203 net FTEs**, rather than 403.
- 2.18 The EBS goes on to calculate the **total net employment impact** by accounting for displacement, leakage and multipliers effects. It uses the HCA Additionality Guide (Homes and Communities Agency), often used in such calculations, and which provides metrics for these effects based on low, medium and high effect. The user of the guide chooses which level of effect to apply based on the specifics of the intervention being assessed.
- 2.19 For **displacement** (the proportion of jobs that would have occurred elsewhere), the EBS uses a 'low' level of displacement, on the grounds that the central London office market is highly competitive. No evidence is provided however to indicate how or why market competitiveness is an indicator of low displacement levels. On the contrary, the same HCA Guide used notes that the reverse applies, stating:
- if the supported business has few local competitors then the level of product market displacement will be low.*<sup>4</sup>

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<sup>4</sup> HCA Additionality Guide 2014, section 4.3 – Displacement, p28

As is stated in the Treasury Green Book 2020, adjustments for these factors including displacement, "need to be based on objective evidence" and data used to support decision making.

2.20 For example, an assessment of office-based development and employment levels in the Borough in recent years would indicate if new development is resulting in net gains in employment and floorspace.

2.21 Employment levels in 4 of the 6 key office-based sectors have shown little or negative growth in the last three years of data.<sup>5</sup> This is shown in Table 2.1 below, where only the ICT sector has shown noticeable employment growth. Of all the office base sectors, ICT is understood to be the one where workers are most able to work remotely and to have had operations least affected by the Covid-19 pandemic, beyond the reduced requirement for office space.

**Table 2.1: Office based employment growth in RBKC: Last Three Years' BRES Data**

	<b>J : ICT</b>	<b>K : Fin. &amp; Ins. Svcs</b>	<b>L : Real estate</b>	<b>M: Profess'l, scientific, technical</b>	<b>N : Admin/ support svcs</b>	<b>O : Public admin</b>
<b>2016</b>	9,000	3,000	3,000	15,000	11,000	3,000
<b>2017</b>	16,000	3,000	5,000	13,000	11,000	3,500
<b>2018</b>	15,000	3,000	6,000	14,000	12,000	3,500
<b>2019</b>	19,000	3,500	5,000	12,000	11,000	3,000
<b>Change</b>	7,000	500	0	-3000	0	0

**Source:** ONS Business Register and Employment Survey, Employment by sector

2.22 Overall therefore, there has been a net increase in traditionally office-based employment in the Borough of just 4,500 jobs in the four years to 2019. Data on floorspace will be examined later in this report but RBKC monitoring data shows that net commercial floorspace has not increased in recent years.

<sup>5</sup> Based on ONS BRES Sectors J to N

- 2.23 Overall therefore, high levels of competition in the London office market, set alongside overall declines in floorspace and low levels of office employment growth in the Borough, gives a strong indication of *high* levels of local displacement. There is little justification for the assumption in the EBS that levels displacement should be low, based as it is on the unproven assertion that a competitive marketplace creates low levels of displacement.
- 2.24 The employment multiplier impact is again assumed to be high, based upon: *the comprehensive nature of industries within London's economy resulting in supply chain impacts occurring predominantly within the region* (EBS, para 3.19).
- 2.25 Again, there is little explanation or evidence as to how or why "the comprehensive nature" of the London economy should result in a high local multiplier. Key considerations in the application of place-based employment multipliers are overlooked. These are set out in the Treasury Green Book (2020) and include the important distinction between job creation in tradable and non-tradable sectors. Non-tradable refers to occupations whose output is only deliverable in the local area, whereas tradeable refers to output that is traded outside the local area. Local multipliers are *low* for tradable occupations.
- 2.26 Prime office development in RBKC will almost certainly involve national and international service companies selling services *outside* of RBKC. Furthermore, areas with high rates of employment would expect lower multipliers, as described in the Treasury Green Book:
- Where the employment rate is at or above the national average and/or projected local employment numbers are large relative to the local unemployment rate, multipliers at the lower end of the range would be expected as the likely level of displacement will be greater.*<sup>6</sup>
- 2.27 It is clear therefore that the use of the high composite multiplier from the HCA Additionality<sup>7</sup> guide used in the EBS is not appropriate.
- 2.28 Examples taken from detailed studies of employment multipliers are referenced in the Treasury Green Book, taken from the What Works Centre for Local Economic Growth. These studies can be used and applied where they most closely represent the project in question. In this case, a study of hi-tech companies in the UK most

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<sup>6</sup> Treasury Green Book (2020), paragraph A2.11, p102

<sup>7</sup> HCA Additionality Guide, Table 4.14, p36

closely represents the likely employment created by the Pelham Street proposal, particularly given that employment growth in RBKC is largely attributable to the ICT sector (see Table 2.1). In this example, the multiplier is found to be 0.9; i.e. for every ICT job created a further 0.9 are created in the non-tradable sector.

- 2.29 This example supports the likelihood that the local multiplier effects will in fact be low and that wider, supply multiplier effects will relate to the international nature of the businesses likely to occupy the development and will occur well beyond the boundaries of RBKC and as such are not quantifiable in any meaningful way. This is a crucial factor in the net economic benefit of developments such as the one proposed, which is further assessed in the conclusion of this report.
- 2.30 Overall therefore, the low, local multiplier from the same 'ready reckoner' matrix in the HCA Additionality Guide used in the EBS, would clearly be more appropriate, even if, at 1.05 it is higher than that of 0.9 in the cited example study for hi-tech companies.
- 2.31 Taking the displacement effect as 'high' and the multiplier effect as low, produces the results in Table 2.2 for net employment generation arising from the proposal.

**Table 2.2: Total Net Additional Employment Generation by Proposed Scheme**

	<b>FTEs</b>	<b>Jobs</b>
Gross Additional FTE	455	510
Displacement Effects (high – 75%)	-341	-382
Multiplier Effects (local – 1.05)	+6	+6
Net additional	120	134

- 2.32 It is clear to see from these calculations that the proposal offers substantially less economic benefits in terms of employment and local multipliers than the EBS claims. Developing the site for more local employers and occupiers, that might operate more locally, is likely to produce larger local multipliers.

- 2.33 The EBS additionally references potential spend of workers in the proposed development. This is calculated at £1.1m per annum. Based on the total expenditure of workers in the Borough (as per paragraph 2.4), this is equivalent to just under half of one percent of workforce expenditure in the Borough.
- 2.34 However, using the net additional employment numbers in Table 2.2, the net additional expenditure in the Borough amounts to £290,000. Although it can be accepted that the expenditure in the immediate area where the displacement effects are not felt could be higher.

### 3. ASSESSING THE NEED FOR WORKSPACE

- 3.1 A key component of the EBS is the oft stated high level of need for office workspace in the Borough. This is initially evidence by the growth in office floorspace and employment throughout London, and by one of many estimates for floorspace demand in the 2017 London Office Policy Review (LOPR). The only estimate referenced in the EBS is the employment-based forecast for London of just over 6 million square metres in the 25 years to 2041. The LOPR contains a very wide range of estimates and scenarios however, accounting for aspects including homeworking (pre-pandemic), trend-based forecasts, densification and the like.
- 3.2 Taking the trend-based forecast from the LOPR as an example, this produces a forecast of almost half the employment-based forecast, at 3.4 million square metres to 2041. These forecasts are also broken down by Borough and produce a forecast for RBKC of 83,300sqm trend based, and 93,700sqm employment based.
- 3.3 The graph used at Figure 4 (page 18) of the EBS is said to represent the amount of office employment, although what sectors constitute office employment in the graph is not explained. The table in this report at 2.1 provides a wide definition of sectors (using the same data source as the EBS<sup>8</sup>) that are likely to use office facilities, from which it is clear that the spike in employment from 2016 has occurred almost entirely in the ICT sector, while being offset by around 40% by a reduction in jobs in other sectors. It seems likely that a narrower definition of office uses has been used in the EBS, which would accentuate the growth in the ICT sector.
- 3.4 The graph is largely inadmissible however because it covers a period when there was a change in the way employment was measured in the Business Register and Employment Survey. The survey began in 2009 but was altered to include PAYE self-employment after 2015. This had the effect of increasing the overall number of workers counted between 2015 and 2016, thus artificially inflating changes in employment that occurred around this time, as is clearly the case in the graph used in the EBS by Volterra. This change is explained in full by the ONS as follows:<sup>9</sup>

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<sup>8</sup> ONS Business Register and Employment Survey

<sup>9</sup> From ONS:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/>

*From January 2016, the coverage of the Office for National Statistics (ONS) Standard Business Survey Population was extended to include a population of solely Pay As You Earn (PAYE)-based businesses.*

*This improvement in coverage is estimated to have increased the business survey population by around 100,000 businesses, with a total of around 300,000 employment and 200,000 employees between December 2015 and January 2016.*

*The increase in business population has led to an increase in the estimate of employment and employees for the 2015 dataset. This increase in coverage makes comparisons of figures prior to 2015 with figures from 2015 onwards more difficult since the employment estimates prior to 2015 do not include PAYE-only businesses.*

- 3.5 It would also be relevant to consider the employment of RBKC residents. Around 70% of RBKC residents are employed in occupations classified in classifications 1 to 3 of the ONS Standard Occupational Classifications, relating to Managers, Directors and professional and technical workers. These can reasonably be expected to be office based. Taking the same period between 2016 and 2019, data shows that the number of residents employed in these sectors declined from 56,800 to 49,700. There is a similar trend when looking at the total number of workers resident in the Borough, reducing from 76,600 to 72,100 in the same period.<sup>10</sup>
- 3.6 While it is noted that significant numbers of resident workers will work outside the Borough, the data is clear evidence of further downward pressure on floorspace demand, not accounted for in the EBS, and not supportive of repeated assertions of high demand for office floorspace.
- 3.7 The high proportion of employment in the finance and insurance sector in RBKC is taken as an indicator of need of office space in paragraph 4.9. This is sourced from the *resident* community, demonstrating the high numbers of residents who work in the sector. Data for the *workforce* of RBKC, as set out in Table 2.1, show that there are 3,500 working in the Borough in that sector, which represents just 2.5% of the workforce, compared to 7.3% of the London workforce<sup>11</sup>. The high number of residents working in the sector is largely irrelevant to office demand within RBKC.
- 3.8 Much is made in the EBS of the reduction of commercial floorspace and this is indeed a notable feature of the development trends in the Borough in the last

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[businessregisterandemploymentsurveybresprovisionalresults/provisionalresults2016revisedresults2015#things-you-need-to-know-about-this-release](#)

<sup>10</sup> Data from ONS Annual Population Survey, via Nomis, Kensington and Chelsea Profile

<sup>11</sup> Data from ONS BRES via Nomis Profile for Kensington and Chelsea

decade or so. Set alongside the claimed large increase in employment shown in Figure 4, this is taken as an indicator of the strength of demand for office space.

- 3.9 However, given the more nuanced reality of office-based employment as set out here, which shows growth has been far less than imagined, together with the reduction in office based employment among residents, together with changing trends in uses and requirements for office space, it is easy to see that the loss of office floorspace in the Borough is nothing more than a market response to a sustained period of reduced need.
- 3.10 RBKC monitoring data also shows that in recent years planning permissions have exceeded completions. This is clear evidence that there is no issue of planning permissions preventing the development of office floorspace. This shows that permissions have been granted but development has often not gone ahead.
- 3.11 As such, the assertions at paragraph 4.11 of the EBS, stating that without an increase in floorspace, office businesses "will not be able to continue to be a leading level across London Boroughs" is entirely unsubstantiated and unsupported.
- 3.12 The stated mismatch in supply and demand is not evidenced, as the floorspace and employment analysis in this report indicates. High rental values in areas such as RBKC cannot be automatically attributed to - and assumed to be a result of - a lack of supply. Rental values are high in RBKC for a variety of reasons and increases in supply are unlikely to see changes in rental values beyond natural fluctuations associated with macro-economic cycles and factors.
- 3.13 What is clear is that the major investment required for the proposal, set in a prime, Zone A office location, will almost certainly command rental values at the highest end of the spectrum. There is no evidence therefore – as is intimated by the EBS – that the proposed development will result in, or indeed offer, any significant reduction in rental values.

#### 4. POLICY CONTEXT

4.1 The newly adopted London Plan contains policies (E1 and E2) relating to offices, and notes that the office market is going through a period of restructuring, increasing the numbers of micro and small businesses, while seeing new forms of flexible and co-working accommodation.

4.2 It continues to emphasise the need to support and protect start up and small businesses with affordable lower cost business space. It states that Development Plans and proposals should support the provision of suitable space for small and micro businesses. Particular reference is made to the creative and cultural sectors in Policy E2, and to the need to provide flexible, adaptable, low-cost space for them.

4.3 Recognising this need, the RBKC Local Plan notes that:

*The borough has relatively few large employers. Instead, it has a wealth of small businesses.*

*Kensington and Chelsea has a full cross section of business types, and in the same way as the City of London is known for its financial services, so Kensington is known for its music, fashion and creative businesses.*

4.4 This makes clear that rather than the Financial and Insurance sector being the driver of need for space, in RBKC itself it is the cultural and creative sector that needs to be supported and provided for.

4.5 The proposed scheme however seems highly unlikely to offer any such support in terms of accessible, flexible, low-cost business space.

## 5. CONCLUSION

- 5.1 This report clearly shows that the proposed scheme at 63-81 Pelham Street is meeting a need that does not exist at the level suggested. Not only this, but the level of economic benefits claimed, particularly for Kensington and Chelsea, are also not evidenced and likely to be far below those claimed.
- 5.2 The amount of net employment generation across the Borough is likely to be around a quarter of the amount claimed while the amount of expenditure arising as a result will also likely be far below the amount claimed.
- 5.3 The issue of demand for office floorspace is highly debatable and the EBS uses highly selective numbers from the 2017 London Office Policy review, carried out long before the effects of the Covid-19 pandemic had been imagined.
- 5.4 Even with this in mind, the forecast floorspace need for RBKC is of 80-90,000sqm to 2041. A review of current office availability in February 2021<sup>12</sup> showed almost 35,000sqm of space in vacancies alone. This represents close to 40% of "pre-Covid" forecast need to 2041.
- 5.5 While much is made of a low vacancy rate in the Borough (2.3%), as an indicator of demand, a low vacancy rate in the West End Office Market is very much the norm, due to the high cost of voids to landlords in a high cost marketplace. Savills reports a 5 average vacancy rate for the West End Office market of 3.6%. However, following the onset of the Covid-19 pandemic, the rate was reported in January 2021 at over 6%.<sup>13</sup>
- 5.6 What becomes clear therefore, is that a re-evaluation of the need for, and provision of, office floorspace is needed before major decisions are taken.
- 5.7 Similarly, a detailed evaluation of the benefits to the Borough of high cost, prime rental office space is needed. It is too often assumed that such developments, that are only accessible to a small cohort of national and international users, automatically offer large benefits to the area.
- 5.8 While the value and importance of retaining London's position as a global business location is accepted, this proposal is unlikely to threaten that position, were it not

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<sup>12</sup> Carried out using Estates Gazette online database of available office space in Kensington & Chelsea

<sup>13</sup> Savills, West End Office Market Watch – January 2021  
[https://www.savills.com/research\\_articles/255800/310283-0](https://www.savills.com/research_articles/255800/310283-0)

to go ahead, while the benefits it would offer to the Borough if it did proceed are highly suspect as set out in the EBS, and extremely limited when considered more carefully.

- 5.9 As the London and Local Plan policy makes clear, it is an entirely different and often overlooked sector of the business community to the one which would occupy the proposed development, that needs to be provided for.
- 5.10 Without a greater focus on providing support and space for the Borough's many micro, small, cultural and creative businesses, developments such as the one proposed will only make it increasingly difficult for local business to thrive and survive.
- 5.11 The existing building has plenty of space to potentially provide valuable, flexible, lower cost space for these kinds of businesses. The inference of the applicant in the EBS is that there is only a binary choice available between the current use and their proposed high cost, high rent solution, aimed at international investors rather than the local resident and business community.