A DECADE OF COMMERCIAL PROPERTY DEVELOPMENT

My subject is the decade of commercial property development ending last year, one of the most vibrant periods this century in the history of the Square Mile. From 1900 to 1939 only about a fifth of the buildings in the City were re-developed. Between 1983 and the end of the century nearly one half of the floor space will have been developed again. It also happens to coincide with Margaret Thatcher's Prime Ministership, the tone of which has continuously impinged on and moulded the tide of events affecting the City. Witness the abolition of exchange control, the reforms to the taxation system including the establishment of tax free enterprise zones and, probably most significantly, the free competition policies which led directly to "Big Bang" in 1986.

The economic background was itself one of unparalleled opportunity with investment returns during the decade averaging 23% per annum, greatly higher than the average rate of inflation, the FT30 Share Index rising during the period by over 400% and significant investment abroad to the benefit of the invisible earnings of the City. Not that progress went unchecked, the Stock Market collapse of 1987 proving a timely reminder that upward movements in markets were neither inevitable nor dependable.

The decade started quietly from a low base following the agonising period of the 1970's with its two significant recessions, rent freezes and oil price-induced economic crises. Only 0.5m square feet of new office space was constructed in the years 1978 and 1979, a miniscule figure compared with what was to follow. Empty buildings began to be let after the previous two years of recession and 1980 saw nearer 1 million square feet being constructed. This figure was to double in 1981.

Employment trends in the Square Mile were in the throes of a major turning point. Some 300,000 people were working in the City in 1981 compared with a post-war peak of 390,000 in 1961 and the all-time high in the 1930's of some 500,000. Since 1981 there has been a significant increase in the number of City workers notwithstanding the steady relocation of back offices to provincial centres and other parts of London. It was essentially the banking and financial services sector which saw the greatest growth. Banking has, throughout the period, been the most significant user of space, accounting for some 60% by area. Prominent amongst the main users are the foreign banks, here for access to the Euro-Currency Markets which have been a unique feature of City banking business since the 1960's. Some 460 banks are now represented in the Square Mile and there are currently more American banks here than in New York and more Japanese banks than are in Tokyo. 100 more foreign banks are in London than in New York and only one of the world's top 100 banks is not in London. Approximately 40,000 extra jobs were created in the financial sector during the decade, offset partially by losses in the newspaper and distributive trades which I shall refer to in more detail later.

1981 probably saw the high point of the movement towards conservation in the City. During that year most of the present 22 conservation areas were designated, affecting some 28% of the land area in the City and creating a requirement for higher standards of design within those designated areas. The historic core of the City was particularly subject to conservation area protection, giving rise to concern on the part of some ratepayers that there would be insufficient adaptibility within those central areas to meet the changing needs of their businesses.

Thinking in the early 1980's was very much that central location was crucial to certain key City activities, for example that proximity to the Bank of England was a key requirement of banking companies. The insurance sector was also sensitive to development opportunities around the Lloyds' Building. Those two activities alone accounted for a greater part of space users within the City boundary. The rest of the 1980's were to see a radical change in the perception of where to locate and where modern space could be created and this I would propose to make the major theme of my talk today.

1984 saw the release of the draft Local Plan for the City which followed work by the planning staff on the perceived needs for the next ten years. It met with howls of outrage from the development lobby in particular, but also significant criticism from major ratepayers. The Plan was felt to be out of touch with the priorities for City businesses, apparently seeking to "freeze" the character of the City and constrain expansion of modern office space. At the same time the plans for major commercial space in Docklands were announced which appeared to reinforce the argument that the Square Mile was now "full up" and that planners at Guildhall were willing to see the businesses move to alternative locations.

Fortunately opinion in the Common Council reacted positively to these criticisms and major changes were brought about to the Plan prior to its adoption in May 1986.

Major changes were underway during this crucial period which gave impetus to the policy changes then under discussion. Foremost of these was the decision of the Government in 1985 to break the monopoly position of stockbrokers and jobbers by requiring them to quote competitively, thereby reducing commission charges by some 40%. In order to maintain their profitability the businesses were forced to merge and to join forces with major banks who would provide the capital both to fund their running stock positions and also pay for the new configuration of dealing floors which the larger securities houses required. This had a very direct impact on property development in the City. A totally new category of space was required, to be built with large open trading areas with as few columns as possible, generous floor to ceiling height and maximum flexibility for servicing and telecommunications. The historic core of the City could not absorb new buildings of

25,000 sq.ft. upwards per floor with the result that developers were forced to consider hitherto peripheral locations and they were urged by the planners to submit applications in line with these new needs. No longer was proximity to the Bank of England a key requirement and new areas were found over railway stations, the tracks approaching them and over highways, to accommodate the large floor area buildings. Moreover, the average floor space per person increased by a quarter from about 120 sq.ft. to 150 sq.ft. net. Mostly, this was due to the introduction of computer equipment as well as the general improvement in standards.

The policy changes introduced to facilitate this trend can be quickly summarised:—

(i) The plot ratio for new buildings, which controlled the average density on each site, was slightly enlarged to produce a standard 5:1 ratio throughout the City; in comparison with the previous variety of different ratios for different zones. Approximately 20% more space could potentially be built under these changes but without altering the essential character of the City (for example New York had a plot ratio then of 14:1 and San Francisco 20:1).

(ii) Basement areas would be completely excluded from plot ratio controls so as to leave owners and developers essentially free to enlarge space below ground.

(iii) To indicate that there would be no more conservation areas and that the 450 or so listed buildings would not be added to except under Government direction.

(iv) Measurement of plot ratio would be governed in such a way as to encourage external decorative features to improve the average standard of design.

The consequence of these changes was to increase greatly the volume of planning applications and the amount of space under construction. From a low point of nearly 2 million sq.ft. under construction in 1984 this figure rose to 17 million sq.ft. by the end of the decade. Add to that some 5 million sq.ft. which had planning consent but was not yet under construction and the picture at the end of 1989 is of something like one-third of the entire stock of offices in the City having received consent for redevelopment during the previous three years.

This process was further encouraged by a boom in rent levels which took the cost of prime space to over £70 per sq.ft., twice that of Paris or New York (but still not quite up to the levels in Tokyo).

Notable amongst the projects which were significant to the City during this period were the 4 million sq.ft. Broadgate project on land over and alongside Liverpool Street Station, the replacement of the outdated Lee House building in London Wall and developments at Fenchurch Street and Cannon Street Stations. Not all of the notable projects were of this category. Billingsgate Fish Market was carefully restored for banking use (although the time taken was too long and they have not yet found an occupier) and the Royal Exchange building itself received planning consent for additional roof storeys as did the old Post Office Headquarters building. Architectural styles differed markedly according to the skills of the individual architects but a fair amount of discretion was left to the owners, consistent with the way in which planning regulations apply to aesthetic matters, particularly outside conservation areas. 1987 saw the intervention of the Prince of Wales on the plans for Paternoster Square at his speech at the Mansion House as guest of the City's Planning & Communications Committee. Reverberations from this speech are still with us and will no doubt continue into the future as public opinion becomes mobilised on matters of design.

Notable casualties of these fast moving changes were the newspaper and fur trade industries.

Fleet Street has been completely transformed in just four years as a consequence of the exodus of printing works to more convenient locations. In total, some 540,000 sq.ft. have become available as a result of this move, the largest being on the site of the Daily Telegraph in Fleet Street but with very large projects underway at the News International site, the Daily Express building, Bracken House, the home of the Financial Times, and also the Observer Building. All of these are likely to be used for banking or professional purposes. The Daily Telegraph site now under construction will be occupied by Goldman Sachs; Freshfields the firm of City Solicitors have already moved into the Whitefriars site and a Japanese bank have prelet Bracken House. More recently planning permission has been granted for a mixed office and shopping complex on the site of the Daily Mirror building in Holborn and if this scheme goes ahead a significant increase in the volume of retail space will have been provided in the City.

Likewise, the fur trade has left the Square Mile after suffering twin pressures of changing public taste and the high cost of locating in a commercial area. In this context it is interesting to recall that only in 1981 was a policy adopted for the fur trade area between St. Paul's and the river which led to redevelopment schemes in that area being required to accommodate fur trade uses and yet by the end of the decade the business had left for Finland and the restrictive policy could not be further sustained.

A final note on archaeology. Intense development provides unique opportunities for exploration of historic remains but at the same time poses a threat to preservation of those remains. There are many places in the City which have archaeological evidence of up to 10 metres depth and obviously policies which encourage large basements give rise to concern that some remains will not survive redevelopment. Nevertheless, the Museum of London has responded to the opportunity of investigating these remains and over 400 archaeologists have been employed in recent months, about one-half of all the qualified archaeologists in the country. At the beginning of the decade, typically ten sites were investigated each year but it had doubled by 1987 and during 1988 had leapt to 54 sites. Fortunately, developers and the Museum, with the encouragement of planners, were able to develop a code of co-operation which resulted in major private funding being made available.

In all, a hectic period of change from which now, in 1990, one can look forward to a time for consolidation as developers find increased difficulty in letting completed speculative office buildings. We now look forward to the next impetus for growth, with Europe and 1992 offering the greatest potential.

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