EMP004

Economic, Employment and Commercial Needs (including logistics) Study

For **Partnership for South Hampshire**

FINAL DRAFT March 2021

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1 Introduction

1.1 This report updates the 'economic need' for land and floorspace in South Hampshire and Test Valley.

1.2 This was last undertaken in 2016 when the Councils across South Hampshire were advised in a study by GL Hearn to plan for around 1.1 million square metres of employment floorspace over the period 2011-36. The majority of this new space was suggested for the office market.

1.3 However, with hindsight and more recent data, this work requires a refresh. One particular challenge has been that the office market has failed to deliver new space in South Hampshire and the industrial market appears to be performing better than expected – possibly resulting in a shortage of land and floorspace unless addressed.

1.4 It is also the case that National Policy has changed and particularly relating to housing policy. The Government now requires local authorities across England to plan for more new homes than was the case in 2016. Only very recently, December 2020, the Government again increased the number of new homes in the 'Standard Method'[1] and now requires Southampton to plan for 35% more new homes. Although this is an economic study we need to consider whether these additional homes may require more employment land and floorspace.

1.5 This report is primarily concerned with South Hampshire but also includes all of Test Valley.

1.6 As an important overarching caveat this study provides data by district (or part district). This does not mean that this 'need' must be addressed in that district Councils are encourages to work together in their Functional Economic Market Area. For most of this study area this across the South Hampshire area but for Test Valley (north) this may mean working with other Councils along the M3/A303 corridor.

Report Structure

1.7 In the rest of this report, we first look to summarise national policy and practice. Then, in section 3, we look to re-confirm the economic geography of South Hampshire – the Functional Economic Market Area (or FEMA). This is important here because a number of planning authority areas extend well outside the South Hampshire FEMA (as previously defined). Where new space is provided outside the FEMA, it may not meet the same economic need. An office in Andover, for example, will not be market attractive to a firm who is looking for space in or around Portsmouth. But an office in Havant or any other locations in the FEMA may be.

1.8 In section 4 we review the 2016 Study prepared by GL Hearn. We focus on learning from the work to inform this assessment.

[1] The Standard Method expresses any local authority's minimum housing target to be considered when progressing local plans.

1.9 In section 5 we provide an updated market comment and then, in chapter 6 onwards, move on to consider economic needs as prescribed by the Planning Practice Guidance. The guidance requires us to consider a number of set methods or approaches:

- Past Take-up
- Labour demand (economic forecasts)
- Labour supply

1.10 In section 10 we consider the specific need for new logistics space in the area. This is a separate exercise to the above because logistics are much more 'footloose' than other economic uses – with an 'area of search' that is regional (or even national). It is also a new and rapidly growing sector with most retailers investing heavily in their network of warehouses to manage the transition away from the high street. This was a trend well in place even before the current crisis.

Covid-19

1.11 Finally, this report has been prepared in very challenging circumstances. The pandemic is still well underway and will leave a permanent mark on England's economic landscape.

1.12 We don't know exactly how the economy will recover; at the outset a number of Councils and Local Enterprise Partnerships (LEPs) commissioned work to understand the recovery but this is already out of date and of limited use for land use planning.

1.13 For Planning purposes, the pandemic has not removed the pre-pandemic *capacity* of land and floorspace to re-accommodate jobs. An office that closed in lockdown remains available for re-occupation. Sites allocated in plans for economic development remain available to be taken up post pandemic. So considerable care is needed before concluding that recovering from the pandemic needs more employment space.

1.14 However, we need to consider whether the way we use space post pandemic may change and how the planning authorities should manage this new risk. This 'second guessing' is hard – homeworking may increase but conversely the remaining office stock may be used less efficiently as offices are de-densified. Only time will tell. In this report we are reminded that Planning should not constrain growth – we must be careful in using the pandemic to cut land/floorspace from the supply that, in very uncertain times, we come to need as the recovery takes shape. Throughout the report we note where the pandemic may influence our analysis or recommendations.

1.15 Other proposals may also affect the assessment moving forward. For example, the Solent LEP has submitted a Freeport bid, and the Port of Southampton's draft port masterplan aims for continued growth. The influences these may have on our recommendations are also noted through the report, and PfSH will keep these matters under review.

2 Policy Review

Introduction

2.1 Here we provide a very simple overview of national policy as regards planning for economic uses.

2.2 This section reviews the current national policy context and guidance for Local Planning Authorities (LPAs) when planning for economic development and employment land.

2.3 We also comment on the recent changes to the Use Class order ('E').

National Policy and Guidance

The National Planning Policy Framework

2.4 Updates to the National Planning Policy Framework were published in July 2018 and again in February 2019[2].

2.5 The Government's overarching economic objective for the planning system is to help build a strong, responsive and competitive economy, by ensuring that sufficient land of the right types is available in the right places and at the right time to support growth, innovation and improved productivity; and by identifying and coordinating the provision of infrastructure (para 8).

2.6 Local Plans should apply a presumption in favour of sustainable development, which means they should: positively seek opportunities to meet the development needs of their area, and be sufficiently flexible to adapt to rapid change (para 11).

2.7 In respect of economic development, as for all other land uses, the guiding principle is that Local Plans should create the conditions for economic growth and productivity improvements. This should take account of local business needs and wider opportunities for development. (para 80)

2.8 Opportunities are characterised as *building on strengths, countering weaknesses and addressing the challenges of the future*, and accords with the vision of the Government's Industrial Strategy that looks to improve employment productivity. (para 80)

2.9 Planning policies should do four things (para 81):

- set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth, having regard to Local Industrial Strategies and other local policies for economic development and regeneration;
- set criteria or identify strategic sites for local and inward investment to match the strategy and to meet anticipated needs over the plan period;
- seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment; and

[2] The recent proposed further amendments do not address economic development.

- be flexible enough to accommodate needs not anticipated in the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances.

2.10 The need to identify and make provision for the specific locational requirements of different employment activities is recognised. Specifically, the opportunity for clustering of knowledge and data driven activities and the differing accessibility requirements of different scales of storage and distribution activity (para 82).

2.11 The need for support for the rural economy is identified, with policies and decisions enabling (para 83):

- the sustainable growth and expansion of all types of business in rural areas, both through conversion of existing buildings and well-designed new buildings;
- the development and diversification of agricultural and other land-based rural businesses;
- sustainable rural tourism and leisure developments which respect the character of the countryside; and
- the retention and development of accessible local services and community facilities, such as local shops, meeting places, sports venues, open space, cultural buildings, public houses and places of worship.

2.12 The need to accommodate business needs beyond settlement boundaries is acknowledged, subject to key considerations such as being sensitive to the surroundings, being acceptable in terms of accessibility impact, brownfield if possible and well related to existing settlements (para 84).

2.13 Plans should be prepared positively, being both aspirational, but also deliverable, and be shaped by early, proportionate and effective engagement with, inter alia, businesses.

2.14 Plans must include strategic and non-strategic policies. Strategic policies can extend beyond a single Local Plan area, and should set out an overall strategy for the pattern, scale and quality of inter alia employment development, making sufficient provision of land to accommodate the need.

2.15 Strategic policies should look ahead over a minimum 15-year period from adoption, to anticipate and respond to long-term requirements and opportunities, such as those arising from improvements in infrastructure (para 22).

2.16 In terms of land allocations, the Framework states:

> *Broad locations for development should be indicated on a key diagram, and land use designations and allocations identified on a policies map. Strategic policies should provide a clear strategy for bringing sufficient land forward, and at a sufficient rate, to address objectively assessed needs over the plan period, in line with the presumption in favour of sustainable development (para 23)*

2.17 In ensuring that Plans are positively prepared the Framework highlights the importance of maintaining effective cooperation and collaboration on cross-boundary strategic issues between Local Authorities and other prescribed bodies such as the

Local Economic Partnership (LEP). Two particular areas are highlighted – future infrastructure requirements and whether development needs that cannot be met in full in one area can be accommodated in another area. This is particularly relevant to South Hampshire given the Local Planning Authority (LPA) geography does not reflect the housing market nor economic market areas.

2.18 Non-strategic policies can include site allocations as well as development management policies.

2.19 Policies should be underpinned by relevant, proportionate and up-to-date evidence, taking into account relevant market signals. Policies should be reviewed to see if they need updating at least once every five years, taking into account changing local circumstances or changes to national policy.

2.20 Planning policies should promote the effective use of land in meeting the objectively assessed needs for various types of uses, and in particular the use of brownfield land and under-utilised land and buildings (paras 117/18).

2.21 Regular reviews should be undertaken of land allocations and land availability to take account of the demand for land. Where it is considered there is no reasonable prospect of an application coming forward the land should be re or de-allocated, and prior to the Plan update, applications for alternative uses should be supported where this would help meet an unmet need. (para 120)

2.22 Under the guise of making effective use of land the Framework advises Local Authorities to take a positive approach to applications for alternative uses on land that is currently developed, but not allocated (para 121). This is particularly relevant in areas of high housing demand. The approach does come with the proviso that in so doing this does not undermine key economic sectors or sites.

Planning Practice Guidance

2.23 Revised guidance for planning for economic needs was published in February 2019 and is set out in section 25[3]. An update in respect of planning for logistics and specialist sectors was issued on 22 July 2019.

2.24 In broad terms this ‘new’ guidance is similar to the original guidance – it provides very little detail, which is surprising given the importance of land use planning to the provision of land for economic growth and in the pursuit of improved productivity.

2.25 The guidance acknowledges that national economic trends will not apply universally, and business needs will vary according to local circumstances and market conditions. Functional Economic Market Areas (FEMA) may extend over more than one Local Authority area, and the assessment of need should reflect this, and LEPs can play a helpful role in such assessments.

2.26 In drawing up evidence on economic need the guidance stresses the importance for engagement with the business community.

[3] PPG ID: 2a-025-20190220 onwards

2.27 The evidence should cover:

- Best fit FEMA
- The existing stock of employment land (by market segment and (possibly) sub-areas)
- Recent patterns of gains and losses of employment land
- Market demand and business requirements (for the different B use class activities, including identification of gaps in provision)
- Projected growth in specific market sectors; and
- Oversupply and market failure (preventing the land being used effectively for employment)

2.28 This last point is interesting in that it is a 'warning' that the employment land supply should be deliverable but also should not be oversupplied. An oversupply of land can depress commercial values to a point where development is not viable resulting in 'market failure'. This warning re-confirms a long running thrust of national policy where land for economic needs was oversupplied and possibly constraining the scope for sites to be used for housing. The most obvious example of this was the removal of planning control via Permitted Development Rights (PDR) for conversions of property to residential.

2.29 The PPG goes on to state that data to estimate future employment need includes:

- Sectoral and employment forecasts and projections (labour demand)
- Demographically derived assessments of future employment needs (labour supply)
- Analysis of past take-up of employment land and property and/or future property market requirements
- Consultation with relevant organisations, studies of business trends, and monitoring of business, economic and employment statistics.

2.30 Guidance is provided on the method for turning jobs (by SIC categories) into jobs by use class (the separate B use classes), and then jobs to floorspace (by applying employment densities) and floorspace to land (by applying industry proxy plot ratios[4]).

2.31 Understanding the employment needs for the B class sectors will help with the consideration of individual sites, ensuring sites are allocated for the most appropriate use, and meet the reasonable prospect test.

2.32 Finally, the July 2019 amendment expands the guidance as it relates to logistics and warehousing. The amendment recognises the substantial expansion there continues to be in logistics and distribution that requires warehouse space, and this has been a

[4] A plot ratio is the ratio of the building footprint to the total site area. The PPG advises applying 'industry proxies'. For industrial uses 40% is the 'standard, reflecting the comparatively high proportion of site area dedicated to outdoor space for vehicle access/circulation, parking and outdoor storage facilities, but can be higher towards 65%. But office plot ratios vary much more widely, and can be very high (well above 100%) for multi-floored buildings in urban environments.

problematic area of evidence. The main difficulty is that the demand for new logistics space is poorly related to job forecasts or past take-up at the local level.

2.33 In general, there is a relationship between the demand for floorspace, jobs and job forecasts. But for logistics the size of the units can be much bigger than 'normal' and the divergence in job densities much greater. There is a new generation of new automated warehouses in the UK, but also a new generation of highly labour intensive warehouses as well. So a strategic employment site, if taken up for logistics, could employ between (almost) no people at one end of the spectrum to thousands at the other. Past take-up in the logistics and warehousing sector is also very 'lumpy' – the unit sizes are so large that a whole plan allocation can be taken-up by two or three single occupiers within a short period of time. Logistics is also much more footloose than other forms of commercial development – with a much larger 'area of search'. Demand tends to follow supply more readily than other uses – and occupiers will compromise to secure the right unit even if it is in the 'wrong' district.

2.34 In summary, the needs of logistics should be considered more qualitatively than may otherwise be the case – informed by, but not held to job forecasts or a projection of past take-up. This is why we overlap the quantitative assessment with the qualitative property market assessment. Practically where a council has a site or area known to be attractive to logistics then it should be considered favourably – even if it is in excess of 'need'.

Use Class 'E'

2.35 As noted above both the PPG and NPPF were last updated in 2019 regarding economic needs.

2.36 Since the technical guidance was updated Government revised the Use Class Order – effectively merging offices and retail into a new use class ('E') and allowing buildings to change use without seeking planning permission. The new use class is called "Commercial, Business and Service" also includes a number of other community uses previously in the D class.

2.37 For this study the new use class is of limited relevance – as noted above the NPPF and PPG remain unchanged and planning authorities are still required to understand, and plan for, their 'business needs'. Regardless of E – the property needs of a retail unit / shop is very different to an office – the planning authorities' evidence base needs to reflect this.

2.38 So, here E is of limited practical impact. Following the guidance, we are still required to advise the planning authorities on the scale and distribution of office demand (previously B1a now E(g)i) and also light industrial (previously B1c and now E(g)iii). While 'E' also provides additional scope for Change of Use to housing these rights were already in existence between the previous B class uses and housing.

3 Functional Economic Market Area

Introduction

3.1 The starting point for addressing economic needs is to define the geography of the functional economic market area (FEMA).

3.2 The geography of a FEMA is unlikely to correspond neatly to individual local authority or sub-regional boundaries, and this is why the PPG asks for evidence of a "best fit FEMA". The current PPG also makes specific reference to the logistics and distribution sector because it has a very different market geography compared to other forms of employment, and the geography of that sector's market area will differ from that for other employment uses.

3.3 It is important that economic evidence and economic policy are formulated from as close a fit to the area's real economic market as possible, so that most of the impacts of the policy area will be contained. In this way there will be less risk of local policies which inadvertently act against the wider sub-regional interest, and local partners will be able to make more strategic decisions on how and where economic development and investment should go. Policies designed at the right sub-regional geography mean it is possible to consider the costs and benefits of implementing policy, and mean there is more scope to tackle economic challenges effectively.

3.4 Thus, the purpose of defining such an area is firstly to ensure that the analysis in this study is aligned to a consistent and justifiable area. The broader purpose is to allow the FEMA partner authorities to align policies in relation to new and existing employment sectors to promote the growth in employment for the collective good. In this regard it will be easier to undertake the demand supply balance across a wider than local market area as this may involve 'trading' future growth in the various employment sectors. Need assessed at FEMA level will therefore assist with future cross boundary discussions.

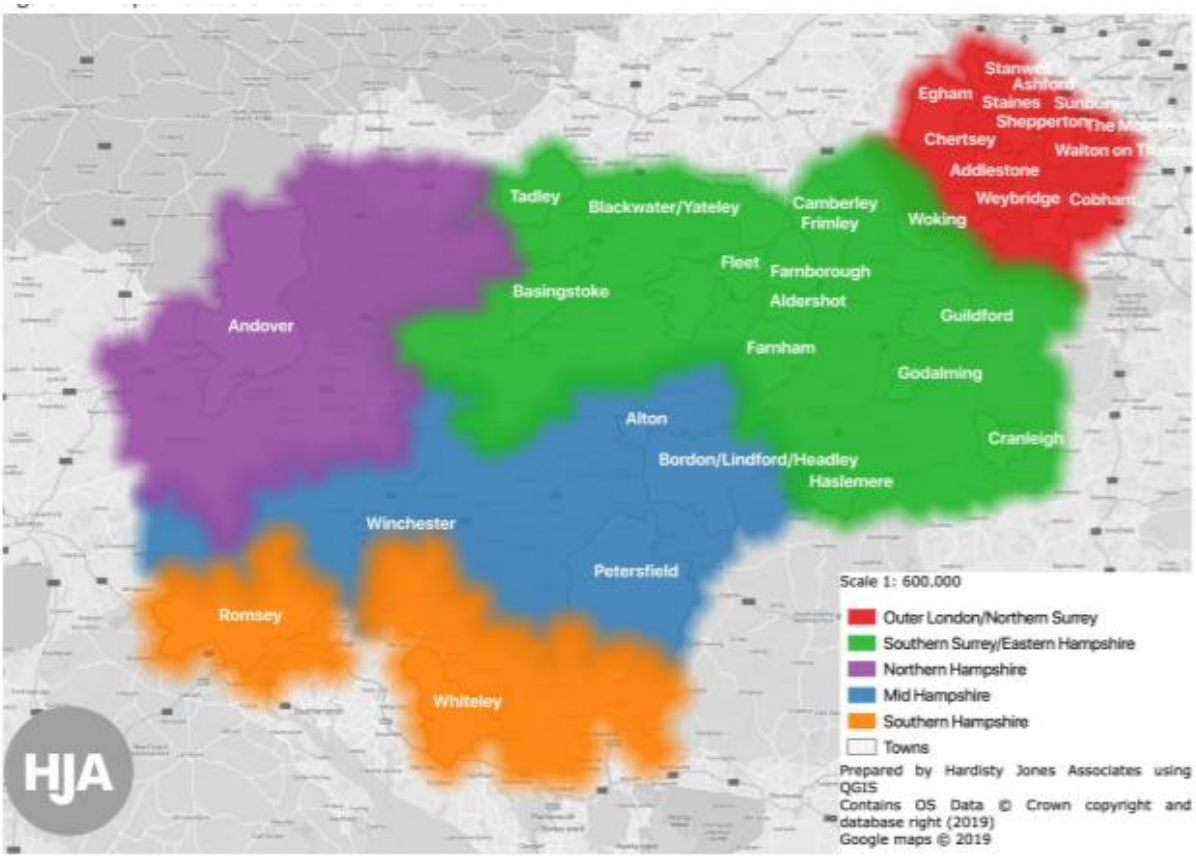
The LEP view

3.5 The PPG sets out a series of factors that can be assessed to define the extent of a FEMA. Upper-most in the list is the *extent of any Local Enterprise Partnership within the area*.

3.6 The 2019 Solent Economic Profile report prepared for the LEP by Lichfields identifies the Solent as a functional economic area centred on the two cities, the two ports and airport with a wide hinterland of smaller centres and districts between and immediately surrounding the cities. There is no doubt that the mainland Solent LEP Authority areas are all within the South Hampshire FEMA. However, the Profile report also clearly shows that it is not the whole of the New Forest district that is part of the South Hampshire FEMA, and that there are strong linkages between the Solent LEP area and the areas immediately to the north in Test Valley, Winchester and East Hampshire.

3.7 Outside the Solent LEP area, to the North is the EM3 LEP. The LEP commissioned "Towns Analysis" From Hardisty Jones Associates (December 2019) that concluded that a number of FEMAs operated across the EM3 LEP area including a 'Mid Hampshire FEMA' broadly to the north of the PfSH urban area; a Northern (Andover) and a Southern Hampshire area that would appear to overlap with land within the PfSH area.

Figure 3.1 Enterprise M3 Functional Economic Market Areas



Source: HJA 2019 (unfortunately the source map in the HJA report is rather fuzzy)

3.8 What is unclear from the EM3 work is the rationale for the Mid Hampshire FEMA, and of less direct relevance here, the Southern Surrey / Eastern Hampshire FEMA.

3.9 Pragmatically a FEMA geography should be an area where demand is substitutable irrespective of administrative geographies. But were a new site to be released in Petersfield or Bordon it is highly unlikely to meet the same demand as a site in Winchester City. So, for this work we set aside the concept of a Mid Hampshire FEMA and note that, for South Hampshire, it could be misleading and underplay the strong radial links between the urban area and the Hampshire Towns. For example, we would consider that the economic links between Winchester City and urban South Hampshire are much stronger than between Winchester and its EM3 FEMA partners.

3.10 While we have some reservations regarding the EM3 FEMAs here the debate is focused on the southern 'edges' of the core EM3 South Hampshire market area. Here the EM3 Towns Analysis 2019 recognises that while most of Test Valley, Winchester and East Hampshire are within the EM3 LEP area, parts of the southern

extent of these districts are economically more strongly linked with South Hampshire driven by the two port cities (the Solent LEP area).

3.11 The EM3 2018-30 Strategic Economic Plan also identified that the eastern edge of the New Forest, the area broadly from Totton down to Fawley, aligns with South Hampshire rather than the EM3 area.

3.12 Precisely how far north into these three districts and how far west into the New Forest the economic area extends is the matter to be defined.

3.13 We don't test the eastern edge of the FEMA because this falls outside the County and in a different LEP area. We also note that work for the 'Greater Brighton and Coastal West Sussex Strategic Planning Board' (2017[5]) concluded that Havant (and East Hampshire) were in a different FEMA. For Havant the study concluded that this was not attractive as a substitutable location for Chichester firms:

"Havant and Waterlooville were seen as a separate market as they had better links along the A3 corridor."

The 'edges' of the functional geography

Winchester

3.14 We start with Winchester where we recently completed an ELR study that included defining the extent of the district that functioned as part of the South Hampshire economic market area.

3.15 Winchester City as a large County town in its own right, in our view forms the nucleus of its own FEMA. But the South of the district functions are part of urban south Hampshire.

3.16 In the Winchester ELR this split was determined by detailed analysis of commuting flows and market evidence including examples of where firms had moved into South Winchester from the other parts of the PfSH FEMA.

3.17 Ultimately, we defined the Southern FEMA area using Lower Super Output Area geography (LSOAs). The LSOAs in the South Hampshire FEMA area (the PfSH part of Winchester district) are: 011C and D, 012A, B, D, E and F, 013A, B, D, E, F and 014A, B, C, D and E. We explain in the next section how this geography was used, and provide a map at Appendix A to detail the areas.

Test Valley

3.18 For Test Valley it is more difficult to use existing evidence. While the M3 Towns Analysis demonstrates that south Test Valley is most likely to be within a South Hampshire FEMA, the analysis is far from clear cut. To test the boundary we have identified the MSOAs that most closely align to the southern area: the five MSOAs numbered Test Valley 010, 011, 012, 013, 014 and 015.

3.19 There are around 16,000 people working in Southern Test Valley and of these 3,900 live and work in the South. Of those who commute into the area **Error! Reference**

[5] https://www.adur-worthing.gov.uk/media/Media,147057,smxx.pdf

source not found. below shows commuting into Southern Test Valley from this group of MSOAs is dominated by a few key boroughs, particularly: Southampton, followed by (northern) Test Valley, New Forest and Eastleigh, most of which comprise part of the PfSH FEMA. Collectively, 75% of commuters to the southern Test Valley MSOAs are from these four boroughs, which is a high level of containment.

Table 3.1 Commuting into Southern Test Valley MSOAs

	Number	% of England and Wales total
Southampton	4,057	26%
Test Valley	3,612	23%
New Forest	2,144	14%
Eastleigh	1,974	13%
Winchester	728	5%
Wiltshire	541	3%
Fareham	426	3%
Isle of Wight	353	2%
Portsmouth	228	1%
Bournemouth	167	1%
Top ten total	**14,230**	**91%**
Rest of England and Wal	1,480	9%
England and Wales Tota	15,710	-

Source: Census 2011. Note 3,916 Live and Work in the Southern Test Valley MSOAs

3.20 The linkages of workers commuting out of the Test Valley MSOAs were equally strong as those commuting in, with 76% containment links with Southampton, New Forest and Eastleigh as well as internal to southern Test Valley.

3.21 As a sense check we also looked at commuting flows between northern and southern (the five MSOAs) parts of Test Valley to see the strength of those flows internal to Test Valley. This data only examines flows internal to Test Valley. The data is presented in **Error! Reference source not found.** below.

Table 3.2 Commuting between southern and northern MSOA geographies in Test Valley

Total commuters within southern MSOAs	Total commuters from southern MSOAs to northern MSOAs	Total commuter within northern MSOAs	Total commuters from northern MSOAs to southern MSOAs
2,903	1,033	12,758	709
74%	26%	95%	5%

Source: Census 2011

3.22 What this shows is that if you live in the North of Test Valley it is unlikely you will commute to the South to work. Of the 14,000 Test Valley residents in the North of Test Valley, who work in the district, only 5% work in the south of the district. From the South of Test Valley only 26% of their internal (to Test Valley) commuters go northwards.

3.23 For Test Valley is the clear that the Southern MSOAs are not well related to the North of the Test Valley and, in line with the EM3 analysis, treating the district as falling into two FEMAs would be supported.

East Hampshire

3.24 For East Hampshire we take MSOA 014 and MSOA 016. There are around 2,700 people working in these two MSOAs from a total of 58,000[6] people working in East Hampshire.

3.25 Around 2,400 people commute into the southern part of East Hampshire. Of those who commute into 014 & 016 for work, they mostly come from the PfSH urban area and Havant especially. Only 500 come from elsewhere in East Hampshire.

3.26 So it is clear that, were new jobs provided in the South of East Hampshire they would meet the economic needs of the South Hampshire area as opposed to the north of the district.

Table 3.3 Commuting into East Hampshire MSOAs 014 & 016

	Number	% of England and Wales total
Havant	1,054	44%
East Hampshire (outside 014 &016)	503	21%
Portsmouth	341	14%
Fareham	105	4%
Winchester	94	4%
Chichester	94	4%
Gosport	52	2%
Arun	23	1%
Eastleigh	22	1%
Southampton	20	1%
Top ten total	2,308	97%
Rest of England and Wales	83	3%
England and Wales Total	2,391	

Source: Census 2011

3.27 Also; were new homes provided in the same area it is likely that they would work locally (in south East Hampshire) or South Hampshire.

3.28 There are more people living in 014 & 016 than work in the area. We estimate that there are around 6,000 working residents in the South of East Hampshire (MSOAs 014 and 016). When these people commute out to work as shown in Table 3.4 below

[6] as at 2011 Census. This is a different measure and different data to various job counts discussed elsewhere.

the vast majority commute into urban south Hampshire with Havant and Portsmouth being the most likely destination.

Table 3.4 Commuting from East Hampshire (014 & 016)

	Number	% of England and Wales total
Havant	1,252	26%
Portsmouth	1,133	23%
East Hampshire	820	17%
Chichester	293	6%
Winchester	275	6%
Fareham	231	5%
Eastleigh	89	2%
Southampton	84	2%
Basingstoke and Deane	66	1%
Waverley	62	1%
Top ten total	4,305	88%
Rest of England and Wales	582	12%
Top Commuting Local Authorities from East Hampshire (014 & 016 only)	4,887	-

Source: Census 2011

3.29 As with Test Valley the data would support treating the southern part of East Hampshire district as part of a separate FEMA to the North of the district. Were new employment space delivered in the South it is very unlikely to meet the economic or social (labour supply) needs of East Hampshire in general.

New Forest

3.30 For the New Forest the LEP work includes all of the District, but in reality the FEMA is very unlikely to include the National Park and the western part of the district. The economy of those areas is materially different to that in the rest of South Hampshire, whereas the eastern flank (Totton to Fawley) has port and industrial related activity more akin to activity found in South Hampshire.

3.31 Returning to the underlying principle that within a FEMA land should be substitutable across administrative boundaries, it is clear that land within the National Park is not substitutable for land in the cities and their hinterland. Nor is land in the far west of the New Forest District.

3.32 This can clearly be seen from the analysis below. This data uses job estimates from the Business Register and Employment Survey to understand the prevalence of different sectors in the three geographies within New Forest District, broken down into Mid-Layer Super Output Areas (MSOAs).

3.33 The National Park takes up the majority of the land area in the District, and the MSOAs are very large, with the northernmost part of the New Forest itself being in Wiltshire and Test Valley. The western flank of the District includes the smaller MSOAs around New Milton. The eastern flank (that aligns with the South Hampshire FEMA) takes in the following MSOAs: 002, 003, 004, 005, 008, 009, 011, 013 and 014.

3.34 Below, we compare the proportion of jobs in the three main industrial job categories in the three sub-areas within the District.

Table 3.5 Main Employment Sectors in the New Forest Geographies

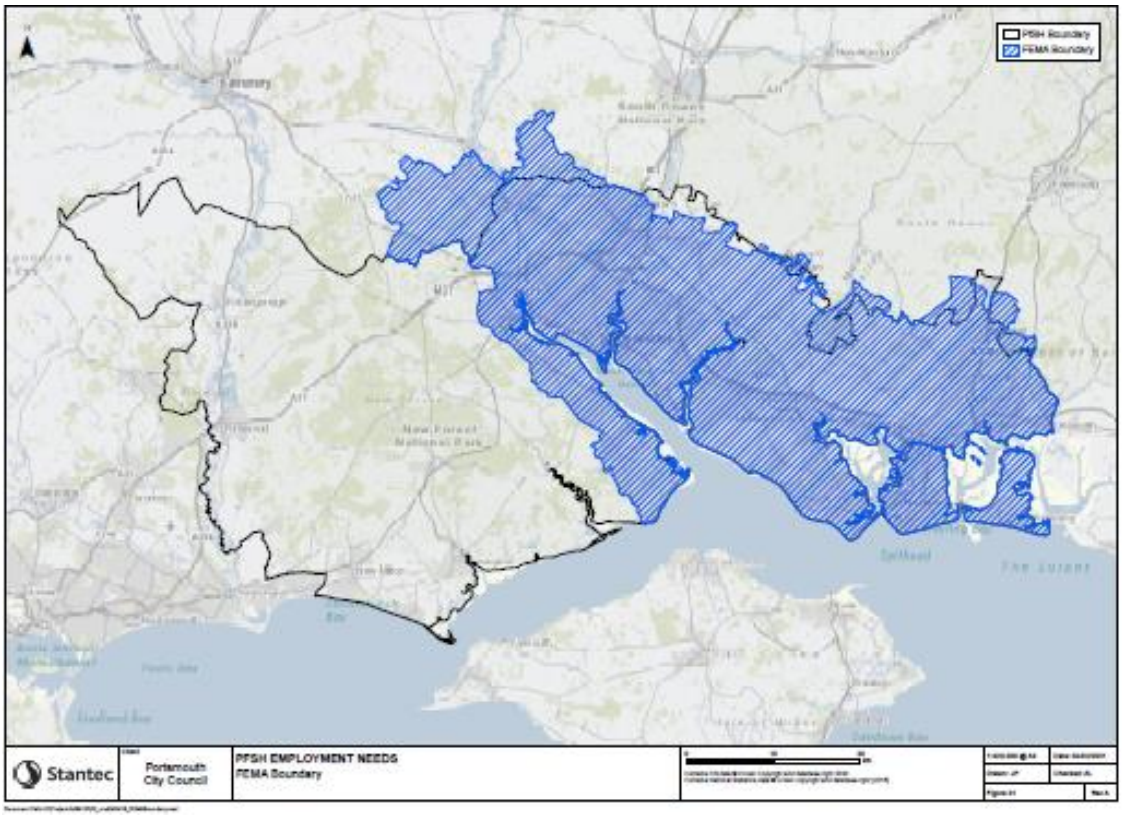
	Transport and Storage		Manufacturing		Wholesale	
	Number	%	Number	%	Number	%
Eastern New Forest MSOAs	1,805	62%	3,420	51%	1,560	50%
New Forest National Park MSOAs	475	16%	725	11%	465	15%
Western New Forest MSOAs	615	21%	2,565	38%	1,115	36%
TOTAL	**2,895**		**6,710**		**3,140**	

3.35 The data shows clearly that the eastern area has far more of the industrial jobs in all three categories compared with the other areas. Out of 2,895 jobs in Transport and Storage, 1805 (or 62%) are within the eastern area, and in manufacturing and wholesale the proportion is half of all the jobs.

3.36 For South Hampshire the Park provides a natural FEMA break – even were we to consider the National Park part of the FEMA, pragmatically, land would not be identified in the Park to meet needs arising from the cities and their hinterland. As for the land to the west, outside the Park, the local commuting data (by MSOA) clearly shows that that workers consider the park as a 'watershed' where the urban areas of the district in the west commute towards Bournemouth / Christchurch and the urban areas in the east towards South Hampshire.

Making use of this geography

Figure 3.2 South Hampshire Functional Economic Market Area



3.37 As referred to above the purpose of defining the northern and western boundaries of the South Hampshire FEMA, where they cross district boundaries is to ensure the geography makes sense from an economic market area perspective, and the assessment set out above shows this to be the case, and then to ensure that economic and housing/population data is available for the analysis of future land requirements that follow. Economic and housing data is most readily available on a district-wide basis, but some datasets are available at other geographies such as MSOA and LSOA.

3.38 For the economic need assessment work, in the case of Winchester we were able to mirror our work in preparing the Winchester ELR that was undertaken at LSOA level. For the three other districts we used the MSOAs referred to above. Thus, in the economic analysis work we were able to use the Business Register and Employment Survey (BRES) that outputs at M/LSOA level (as well as full district) to identify the existing (latest 2019) number of jobs by employment category within each of the sub-district areas. We were then able to run this though our bespoke model that translates employment category to land use class, and apply a share of job change by category in the district-wide Experian forecast.

3.39 For example, were BRES to report 1,000 ‘business service’ sector jobs in the district and 20% (200) were found in the PfSH urban area we would take 20% of the districts forecast growth/decline in that sector. But were we to find only 10% of those 1,000 jobs in the urban area we would take 10% of the district forecast.

3.40 The other strand of the employment land need work – a past trends based assessment - uses HCC planning data that identifies those schemes within the PfSH FEMA area. Thus, in the case of New Forest district schemes located in the eastern flank of the district that is within the South Hampshire FEMA area have been 'coded' as part of the PfSH FEMA dataset.

3.41 Finally, the map shown above uses MSOA/LSOA 'building blocks' to define the FEMA. These reflect the position as it stood at 2011 and also necessitates the use of a 'best fit' statistical geography. Just because land may be outside the MSOA does not mean that, if developed, this land cannot form part of the FEMA. At the moment this land, if undeveloped, generates no 'data' for us to analyse. It is also possible that changes / development since 2011 have already urbanised some of the nearby MSOAs. So, care is needed to treat the MSOA geography as entirely definitive.

3.42 When looking for sites to meet need within the FEMA sites on the edges should therefore also be considered.

Conclusions

3.43 There has been general consensus on the broad FEMA boundary for a number of years. What this study was tasked to define was where the boundary crossed districts, and this is the case in four Authorities – Winchester, Test Valley, East Hampshire and New Forest.

3.44 Work to define the extent of South Hampshire in Winchester District was undertaken last year during the preparation of the Winchester ELR. The LSOAs that were included within the South Hampshire sub-area in that study are those used in this study. The area within the South Hampshire FEMA that extends into Test Valley, East Hampshire and New Forest is defined in MSOA geography and has been tested using a combination of commuting and business survey (jobs) data.

4 Property Market Review

Overview

4.1 It is vital that any assessment of need is informed by robust market evidence that clearly highlights the reality of the market. This needs to be a critical assessment, not reliant on published agents' material (which often has an optimum bias) so the planning authorities understand the market challenges and can formulate appropriate robust policies.

4.2 This section reviews and analyses the industrial and office property markets in South Hampshire. In undertaking our market analysis, we have synthesized data from our own database, and external sources such as CoStar and other published property market research.

4.3 A strength of market analysis is that it is based on actual property availability and transactions, which provide direct evidence of demand and supply. Another strength is that it takes account of values (rents and prices), and so casts light on effective, or viable, demand - which means that potential occupiers will pay enough, and (where relevant) provide sufficient covenant strength[7], to support financially viable development. Against these strengths, a weakness of market analysis is that the evidence it provides is only about the short term; to explore future demand over 15 or 20 year forecasts are the only tool we have.

4.4 We will consider first the regional industrial market and then the office market. For each market, we will discuss in turn:

- The *national context*, to note wider factors that impact on South Hampshire;
- Recent *occupier demand* (floorspace take-up) over the last five years, to understand what space businesses want; and
- *Supply and market balance,* to see how far the existing floorspace stock is meeting that demand.

General Economic Context

4.5 As the COVID-19 pandemic has evolved, measures taken by governments worldwide to limit the spread of the virus have ranged from full national lockdowns to the implementation of more targeted local restrictions. Currently, England is firmly in the grip of a new wave, exacerbated by a significantly more contagious strain of the virus, and a new national lockdown has been announced, with resulting restrictions likely to be in place until June at the earliest.

4.6 After years of negotiations, the UK and European Union finally agreed a deal that will define their future relationship. The UK stopped following EU rules at 23:00 GMT on 31st December 2020, as replacement arrangements for travel, trade, immigration, and security co-operation came into force. Although there will be no taxes on goods

[7] A business tenant has strong covenant if there is good evidence that they will be in good financial health, and able to pay the rent, through the period of the tenancy.

(tariffs) or limits on the amount that can be traded (quotas) between the UK and the EU from 1 January 2021, there will be additional paperwork and checks relating to goods entering the EU from this date and checks for controlled substances on goods entering the UK from 1st July 2021, with this additional bureaucracy having the potential to cause severe disruption to the flow of goods. In terms of the UK services sector, businesses such as banking, architecture, and accounting, will lose their automatic right of access to EU markets and will face some restrictions.

4.7 A post-Brexit agreement avoids the disruption of a no-deal Brexit in the midst of the pandemic, although the House of Commons Briefing Paper (number 8866 21st December 2020) puts the current economic situation into stark context. The magnitude of the recession caused by the coronavirus outbreak is unprecedented in modern times. UK GDP was 25% lower during the depth of the crisis in April than it was only two months earlier in February. Economic activity picked up over the spring and summer, reflecting the opening-up of the economy and pent-up demand from the lockdown period but, overall, GDP was 10% lower in December.

4.8 Since February 2020, the number of payroll employees has fallen by 828,000; however, the larger falls were seen at the start of the pandemic. The UK employment rate, in the three months to November 2020, was estimated at 75.2%, 1.1 percentage points lower than a year earlier and 0.4 percentage points lower than the previous quarter (Office for National Statistics).

4.9 The labour market in London has been particularly affected. In the space of just three months, unemployment in the Capital has jumped by almost 2 percentage points, hitting 6.9% in November. London, with its higher proportion of service sector jobs (92% of the total), has leapfrogged the North East to become the region with UK's highest unemployment rate. By December, the number of workers on the payroll in London had fallen almost one-quarter of a million below pre-pandemic levels.

4.10 After 6 months of growth, GDP contracted by 2.6% in November 2020. The ONS said it meant gross domestic product was 8.5% below its pre-pandemic peak.

4.11 The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.9% in October 2020, up from 0.7% in September 2020.

4.12 The Bank of England's Monetary Policy Report (November 2020) projects CPI inflation to remain well below the Bank's Monetary Policy Committee's 2% target in the near term, largely reflecting the direct and indirect effects of COVID-19. These include the temporary impact of lower energy prices and cut in VAT, as well as downward pressure from spare capacity in the economy. As these effects wane, inflation rises. In the central projection, inflation is projected to be around 2% in two years' time.

4.13 After a long period of static interest rates, the Bank of England raised its base rate in August 2018 by a quarter percentage point to 0.75% from 0.5%. As a response to the COVID-19 crisis, the Bank cut the rate to 0.25% on 11 March 2020, before a further emergency meeting saw base rate cut to 0.1% on 19 March 2020, together with a £200 billion package marking the resumption of quantitative easing.

4.14 The outbreak of COVID-19, declared by the World Health Organisation as a " Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movement, and operational restrictions have been implemented by many countries. In some cases, "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

National Industrial Sector

4.15 The main driver for the UK industrial and logistics property market is the rapid rise of e-commence, which fuels demand for warehousing and distribution accommodation and for regional and local delivery centres, typically under 10,000 sq m. The Coronavirus pandemic has given an even greater focus on home shopping/home delivery and has also placed greater emphasis the supply chain for food and other key goods which, in turn, has continued to drive interest and activity in this sector.

4.16 Despite a decline in the UK manufacturing sector over the last 40 years, UK manufacturing remains a significant and important part of the economy and a major factor in the industrial/logistics market. The UK is the 9th largest manufacturing nation in the world, employing 2.7m workers and accounting for 11% of UK GVA.

4.17 The manufacturing sector, in common with all sectors of the UK economy, has been faced with unprecedented challenges as a result of the Coronavirus pandemic. However, the October CBI Industrial Trends Survey showed a general improvement in performance, indicating that the manufacturing sector is showing resilience early on in Q4 2020, but that performance was still far from robust.

4.18 In the UK big box industrial and logistics market (grade A quality units of over 100,000 sq. ft) occupier take-up in 2019 was approximately 20m sq. ft, which matched the five-year average for 2015 to 2019. Take-up in the second half of 2019 was 7% up on the first half of the year but 1% lower than the second half of 2018. Retailers and e-commerce accounted for two thirds of the total take-up of Grade A space during the year.

4.19 At the start of 2020, Grade A industrial and logistics availability was approximately 27.2m sq. ft, of which approximately 63% was in new units. The Grade A availability was 15% higher than at the end of 2018, due to a rise in both new build and new good quality second-hand space coming to the market.

4.20 The potential long-term impact of the pandemic on the industrial property market is still unfolding but there are already changes in the market's perception of individual property types and subsectors. Properties suitable for businesses operating within the food production and distribution sector or within the medical supply sector will be more resilient than those which are less suited to the needs of businesses providing key goods and services.

4.21 The UK Commercial Property market Survey published by the RICS in October 2020 indicates that the Industrial/Logistics sector is the best performing of the main UK

property sectors with an expectation that prime and Secondary industrial rents and capital values will rise over the next 12 months, whereas values in all other sectors are expected to fall.

4.22 The final details of the UK's exit from the EU, in addition to having a major economic impact, will have a significant direct effect on the industrial and logistics sector. In particular, the arrangements which will come into force at ports and border crossings will affect the property requirements of transport/logistics operators and the detail of trade agreements/tariffs will be a major factor in determining the future investment of many manufacturing businesses.

Solent Industrial Market

4.23 South Hampshire has a significant industrial property market. The market has one of the largest industrial inventories (81.8m sq. ft) in southern England; one of the largest urban conurbations; and good connectivity by road, rail, air and sea. Its location at the western end of the M3 and M27 corridors makes it a key industrial and logistics hub. Portsmouth and Southampton port container terminals are also located in the market. The latter is the UK's biggest export port, second-largest container terminal and one of the 15 busiest container ports in Europe, handling more than 1.5 million TEUs per year, as well as handling a range of other important business including cars, petrochemicals and cruise.

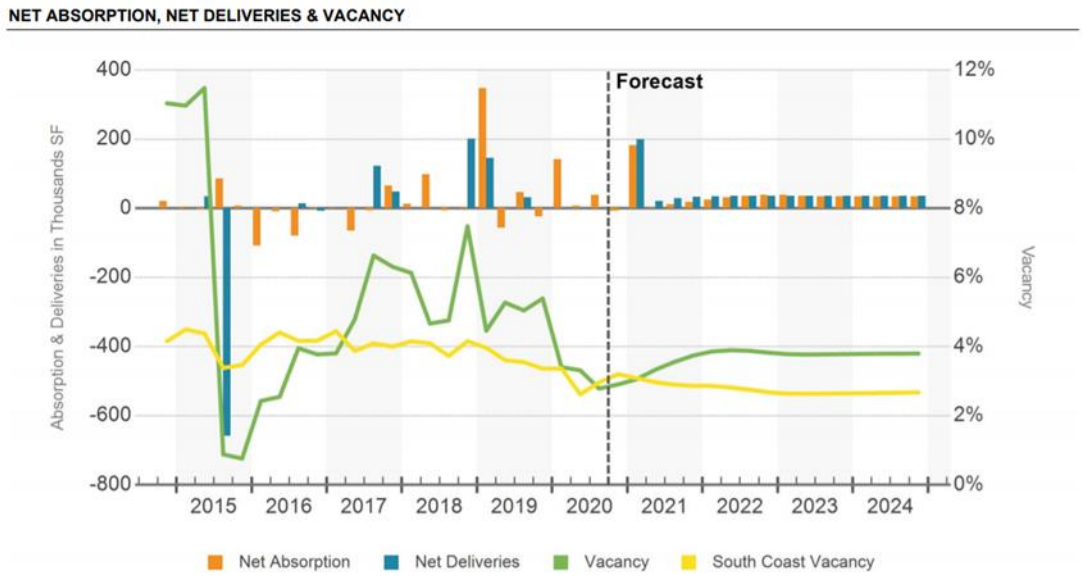
4.24 South Hampshire's market has experienced minimal pandemic impact since the coronavirus outbreak. Prior to the crisis, the region's industrial market was experiencing strong momentum with most indicators among the healthiest on record and the market remained resilient amid the current pandemic. Furthermore, industrial is perhaps the best positioned of all sectors, given the pandemic's lift to e-commerce orders as people self-isolate and practice social distancing.

4.25 A sustained supply/demand imbalance has significantly compressed the vacancy rate since its peak of around 8% in 2012. Despite a wave of new construction in more recent years, continued demand for logistics space kept the market's vacancies low.

Supply/Vacancy Rate

4.26 The graph in Figure 4.1 below illustrates the ten year trend for the industrial property vacancy rate in South Hampshire. Currently 2.8%, the average vacancy rate over the last 10 years is 5.16%. Even with the forecast deliveries in early 2021 the predicted vacancy levels within the market remain constant at 3-4%. This low vacancy forecast would suggest there is potential for further development in the region.

Figure 4.1 Net Absorption, Net Deliveries & Vacancy



Source: CoStar

4.27 The market was one of the most active in the UK for new construction in recent years, and a further 850,000 sq. ft is underway. Notably around 30% of the space under construction was still available going into 21Q1, which should put little upward pressure on vacancies once those schemes deliver. Rent growth has eased, and average rents have grown by 2.9% over the past 12 months.

4.28 The table in Figure 4.2 below summarises the key market indicators for each local authority area as of Q1 2021. It is notable that, with the exception of Winchester (where some speculative industrial schemes have just completed construction), current vacancy is significantly lower than the 10 year average.

Table 4.1 Market Indicators for Local Authority Areas, Q1 2021

Industrial	Inventory Sq Ft	Under Construction Sq Ft	Net Absorption Sq Ft/12 months	Vacancy Rate	
				Q1(21)	10 year Average
Test Valley	10.2m	40.1k	527,000	2.08%	6.34%
Eastleigh	8.2m	0	99,400	1.8%	6.08%
Portsmouth	8.1m	0	15,200	3.2%	3.81%
Southampton	6.8m	190k	98,000	3.2%	5.77%
East Hants	4.6m	37.7K	(78,900)	3%	5.35%
New Forest	4.9m	11.4k	50,700	0.1%	5.81%
Fareham	4.7m	0	46,200	4.2%	4.79%
Havant	3.8m	179k	67,900	3.2%	6.75%
Winchester	3.2m	59.1k	57,800	7.1%	3.82%
Gosport	2.1m	0	76,900	2.3%	8.1%

Source: CoStar (February 2021)

4.29 These market indicators point to an exceptionally tight floorspace market, where demand is much in excess of supply. A normal vacancy rate is generally considered

to be between 5% and 10%. A healthy market probably needs years to supply ratios upward of one year, both in terms of floorspace and number of units.

Take-up

4.30 The table in Figure 4.3 below outlines the total industrial transactions year on year for South Hampshire.

4.31 This occupier take-up, or floorspace take-up, should not be confused with the land take-up (though the two are of course related). Land take-up means development of new floorspace, while floorspace take-up means business taking occupation of floorspace, which may be new or second-hand (previously occupied). It is also important to note that floorspace take-up is a gross measure: it shows the space that is newly occupied by businesses, whether newly opened or moving in from elsewhere, without subtracting the space vacated by business units that close or move to other buildings.

4.32 Throughout 2015 to 2019 there was a consistent volume of transactions, with a reasonably similar total sq. ft take up. There was a steep decline in transactions in 2020, undoubtedly due to COVID-19 and Brexit uncertainties.

Table 4.2 Volume of Transactions, South Hampshire, 2015-2019

Year	Transactions	Total/sq. ft	Average/sq. ft
2015	279	2,242,347	8,037
2016	278	2,434,887	8,757
2017	314	3,265,615	10,400
2018	279	2,603,162	9,330
2019	224	2,155,623	9,623
2020	96	1,092,916	11,385

Source: CoStar (February 2021)

Rents and the economics of development

4.33 Falling vacancies and strong occupier demand have underpinned steady rental growth in recent years. However, rent growth has slowed in line with the coronavirus outbreak and was 2.9% over the past 12 months, which was on par with markets such as Berkshire & North Hampshire and Gatwick but below the Bristol and Swindon markets.

4.34 At £8 psf, average asking rents in the market have consistently outperformed the national average but are below other markets in southern England such as Kent and Gatwick. Prime rents in the region are over £10 psf for new speculatively built stock.

4.35 In terms of viability, these rents are sufficient to support speculative new build development and there is evidence of such development taking place throughout the region.

4.36 The table in Figure 4.4 below illustrates a number of significant recent occupational transactions:

Table 4.3Significant Recent Occupational Transactions

Property	Size	Landlord/Vendor	Tenant	Terms	Rent / Price (per sq. ft)
Unit 4 Mountpark, Southampton (New Build)	95,100 sq. ft	Mountpark	DSV Air & Sea Limited	5-year lease	£10.25
Unit 3B Dunsbury Park, Waterlooville (New Build)	37,800 sq. ft	Portsmouth City Council	DPD Group UK Ltd	10-year lease	£10.00
Unit 5 Merlin Park, Portsmouth	15,179 sq. ft	Canmoor Developments Limited	Zidac Laboratories Ltd	15-year lease	£10.00
Unit B Interchange Point, Winchester	38,900 sq. ft	LaSalle Investment Management	Salvation Army	10-year lease	£7.25
Unit 140 Mauretania Road, Nursling	27,155 sq. ft	Aberdeen Standard Investments	Specialist Sports Ltd	10-year lease	£9.50
Unit H&J Fort Wallington, Fareham	20,456 sq. ft	Chancerygate	Expert Logistics	5-year lease	£6.00

Source: Vail Williams Research (2021)

Logistics Occupiers

4.37 Owing to the well-connected South Coast location, transport and logistics are major demand drivers in the area. Through the rise of e-commerce and expectations of faster delivery times leading to a number of notable deals to occupiers in these sectors over recent quarters. Contributing to the strong performance were moves by the likes of Southampton Logistics, occupying 45,000 sq. ft at Chandlers Ford Industrial Estate in Eastleigh, and TM Couriers, moving into 35,500 sq. ft at 39 Central Way in Andover, both in 20Q1.

4.38 Elsewhere, the transport and logistics company DSV Air & Sea leased 95,000 sq. ft in Mountpark Southampton in 19Q3, while Amazon moved into the 125,000 sq. ft at Optima 125 in Southampton. Westcoast Holdings occupied the 341,000 sq. ft Centric 341 at Andover Business Park, both in 19Q4.

4.39 Absorption in the near term will be supported by moves such as Xpediator, which is due to occupy 190,000 sq. ft distribution centre at Southampton's Container Port in 21Q1. Although the ongoing pandemic is likely to affect leasing activity in the near

term, positive occupier demand in the market is likely to support net absorption after the lockdown measures ease further.

Industrial Summary

4.40 Our findings suggest there is a major undersupply of industrial accommodation generally in the South Coast. The forecast 190,000 sq. ft in early 2021 is to be occupied shortly after and without forthcoming developments businesses will be forced to take second-hand space, if available, to satisfy immediate requirements. More likely, however, given the supply constraints identified is that requirements will be shelved or businesses compelled to consider relocation to less constrained markets.

National Office Market

4.41 National vacancy rates were below 5% in March 2020, the lowest level in over a decade. In the months leading up to the COVID-19 crisis many record prime rents were achieved in the major cities, this was aided by strong demand and limited supply of high-quality space.

4.42 Since the national lockdown and the majority of offices across the UK having to temporarily close, the number of leases being agreed dropped significantly, down circa 70% on the same period in 2019. It appears that Landlords have been accommodating towards their tenants needs, with short term extensions being agreed until tenants have a clearer understanding of their space requirements and their financial performance. Total take up in first half (H1) 2020 was circa 36% down on H1 2019 and 31% down on the 5-year H1 average. The majority of take up has been from the Technology, Media and Telecoms sector (31%), the Public Services, Education and Health sectors (16%) and the Insurance and Financial Services sectors (9%).

4.43 Q2 2020 saw a fall in offices being made available for sale, resulting in May being the quietest month for investment transactions in the past six years. Across Central London activity declined significantly during this time with just 1.1 million sq. ft of take up in Q2, the lowest quarter since Q1 2009.

4.44 Investment volumes in the first half of 2020 were 56% below the long-term average. Although there have been signs of activity picking up over the summer the market continues to remain quiet.

4.45 Out of town, landlords have reported an increase in demand, with twice as many enquiries in June compared to January 2020. This appears to be due to the perceived risks of public transport and crowded offices within town centres as a result of the COVID-19 pandemic. Out of town offices provide an opportunity for corporate occupiers to review their real estate costs, and for their workforce to reassess their commuting patterns. Employers are ever more concerned about the well-being of their staff and consideration is being given to the flexibility of working from home and reduced commute timings and costings which has resulted in a debate in the future demand for office space.

4.46 In this risk adverse climate, the investment transactions that have occurred tend to be of the safest and well-let assets. Prime yields have moved out by 25 basis points from 4.75% to stand at 5%. Investor appetite for prime assets and medium to long term income remains strong, however there is currently limited demand for value-add and development sales.

4.47 Vacancy rates are predicted to remain fairly low for the foreseeable future due to an undersupply in office space, reduced density office requirements, the end of the furlough scheme and the relatively strong rebound in jobs. This leads to a relatively stable prime rent forecast with rents predicted to fall by circa 3% over the next 18 months before flattening off to a similar level to that seen before the pandemic. However, should the pandemic be uncontained, either nationally or within the sub-markets, resulting in further economic hardship, it is predicted that office vacancy rates could reach 9%, which is similar to those seen in 2013, and average rents predicted to fall by circa 30% over the next two years and not returned to the current levels until after 2026.

South Hampshire Office Market

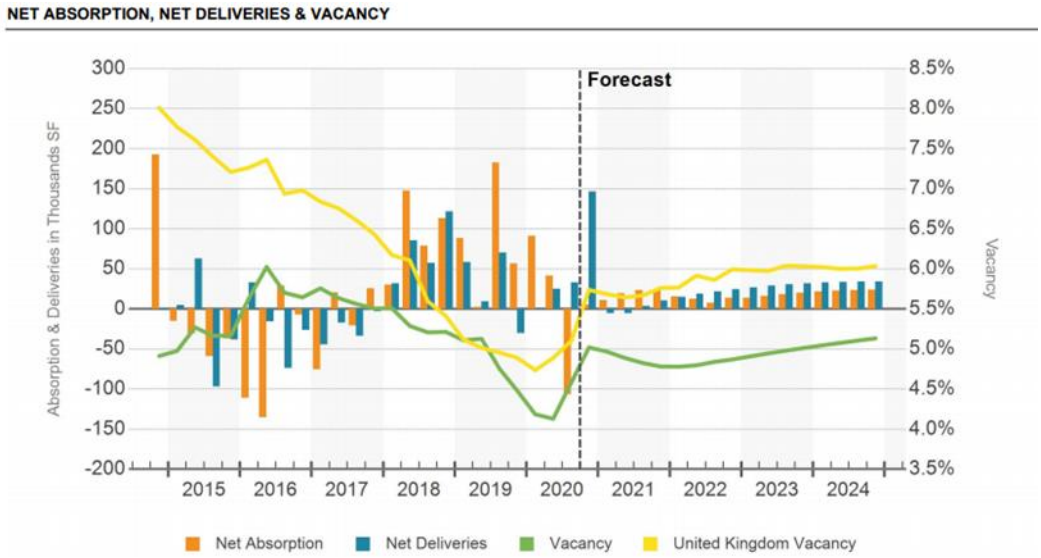
4.48 Prior to the pandemic, South Hampshire's office sector had strong momentum and was looking optimistic. Confidence was high off the back of strong demand from professional, technology media telecommunication (TMTs) companies, and serviced office providers. Owners were having minimal trouble finding tenants albeit limited availability, a lack of speculative construction and office-to-residential conversions were helping to drive vacancies down near historic lows.

Supply

4.49 There has been no speculative office development in the region for over ten years. With consistent levels of demand and the loss of space to alternative uses (office to residential conversions) vacancy rates across the region have fallen significantly. Vacancies compressed from their recent high of 6% in 2016 to around 4.5% in Southampton and 2% in Portsmouth. At the submarket level, vacancies are extremely low in the Eastleigh and Southampton South Central submarkets, compared with Southampton North Central, Chichester and Fareham, where the rate is significantly higher.

4.50 The lack of the development in the pipeline leads to a forecasted continued low vacancy rate.

Figure 4.2 Net Absorption, Net Deliveries and Vacancy



Source: CoStar (February 2021)

4.51 The table below summarises the key market indicators for each local authority area as of Q1 2021. In most local authority areas, net absorption has been negative over the last 12 months and vacancy rates are gradually increasing upwards, albeit generally from a very low base.

Table 4.4 Key Market Indicators, Local Authorities, Q1 2021

Office	Inventory Sq Ft	Under Construction Sq Ft	Net Absorption Sq Ft/12 months	Vacancy Rate	
				Q1(21)	10 year Average
Test Valley	2m	99,300	55,900	2.2%	4.28%
Eastleigh	2.3m	55,000	(12,300)	1.2%	4.8%
Portsmouth	3.3m	0	(17,300)	2.3%	4.85%
Southampton:					
North Central	2m	4,600	(30,500)	13.8%	13.37%
South Central	1.7m	60,600	(12,900)	1.3%	2.79%
Out of Town	713k	0	(2,600)	0.9%	4.48%
East Hants	1.1m	9,800	(37,200)	6.7%	5.52%
New Forest	1.1m	0	(2,200)	4.9%	5.22%
Fareham	1.6m	0	17,800	6.3%	5.13%
Havant	1.2m	0	35,800	3.4%	8.63%
Winchester	3.7m	0	(33,000)	8%	8.8%
Gosport	348K	0	660	0.9%	4.73%

Source: CoStar (February 2021) Data is only available for whole districts.

The boundaries of the Southampton sub-areas are shown on the map at Appendix B

Take Up

4.52 The table below illustrates annual take-up in the office market throughout the region from 2015. As with the earlier industrial analysis, this is the space newly occupied by businesses, and takes no account of space vacated as occupiers move out or close down.

4.53 Transaction volumes were consistent for the four years 2015-2018, before falling in 2019, most likely as a consequence of supply-side constraints. The 2020 figures demonstrate the significant market impact of the coronavirus pandemic, with transaction volumes at under 20% of the 2017 peak.

4.54 In recent years occupier preferences have shifted, with more office users looking to locate in city centres rather than out-of-town business parks. Out-of-town business parks were previously popular due to ease of access for car travel and generous amounts of free on-site parking. The lack of on-site amenities and public transport has meant that some occupiers now prefer more central locations. Access to public transport is important for occupiers in all locations, partially fuelled by the fact that younger people are not learning to drive to the same extent as previous generations. However; this trend has yet to translate into significant City Centre delivery of new space. While there may be interest in the City Centre office market, as we discuss elsewhere, viability remains an issue and firms have focused on refurbishing existing stock so it can be used more efficiently.

Table 4.5 Take-up in the office market

Year	Transactions	Total//sq. ft	Average/sq. ft
2015	237	847,804	3,577
2016	268	779,135	2,907
2017	275	867,317	3,154
2018	207	743,910	3,594
2019	175	489,971	2,800
2020	82	149,543	1,824

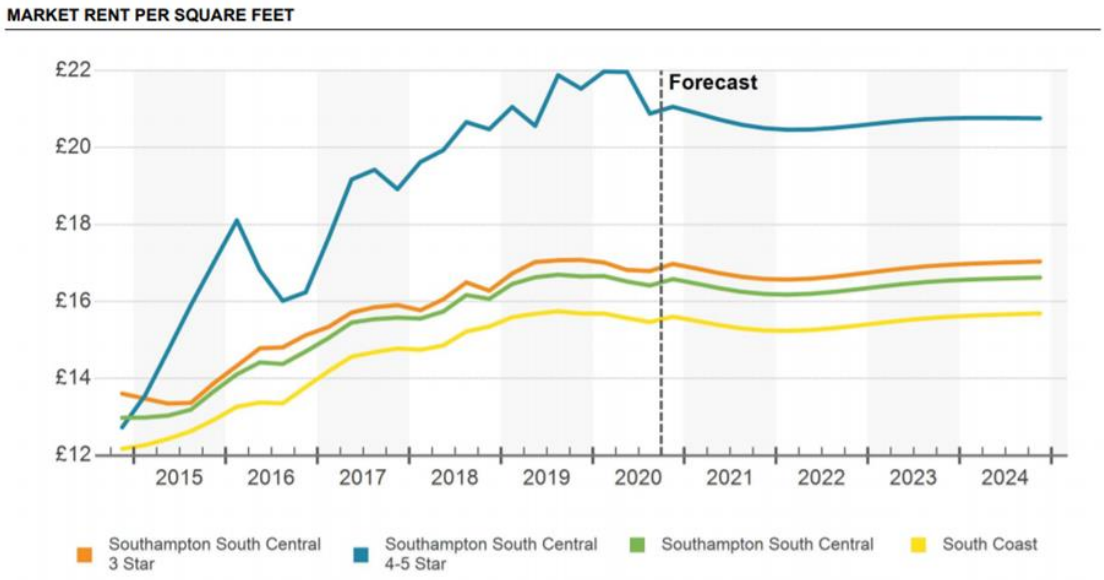
Source: Vail Williams Research (2021) Data includes whole of TVBC, NFDC, WCC, EHDC

Rents and the economics of development

4.55 In Southampton and Portsmouth, average quoting rents are around £16.50 psf. Identified in the graph below, there is clearly a premium for Grade A accommodation, with average quoting rents of around £21 psf. The best rent achieved in South Hampshire is £23 psf at 1000 Lakeside, a 20,000 sq. ft letting of refurbished space, in late 2020.

4.56 The prevailing levels of office rents across the region are such that, whilst it viable to maintain and refurbish existing stock (Lakeside, Portsmouth and The White Building, Southampton being strong examples), speculative new development is not viable. To support speculative development, rents will need to be in excess of £27 psf.

Figure 4.3 Office rents



Source: CoStar (February 2021)

Office Summary

4.57 The South Hampshire office market has seen no speculative office development for the last decade but, nevertheless, has performed consistently well in terms of occupier demand/take-up. Even with the loss of secondary space to alternative uses (for example, permitted development conversions from office to residential use), the lack of new development has not constrained market activity.

4.58 Take up has been supported by good quality refurbishments of second-hand space. Notable examples include Lakeside, Portsmouth and The White Building, Southampton, at which rents of over £20 psf have been achieved.

5 Review of the 2016 Evidence

Introduction

5.1 Before providing a new assessment of economic needs we first, briefly, look at the previous evidence. It is now 5 years since that work was published and 10 years since the 'base date' used in that report (2011). The study no longer provides the most appropriate base for planning in the area.

5.2 As a brief recap the 2016 Study advised the Councils to plan for:

Figure 5.1 Overall Net Need for Employment Space 2011-2036

Sq.m	Office	Mixed B-Class	Total B-Class
EASTLEIGH	115,706	46,534	162,240
FAREHAM	47,168	76,793	123,961
GOSPORT	29,379	39,527	68,906
HAVANT	65,126	337	65,463
PORTSMOUTH	96,979	8,365	105,344
IOW	22,000	-5000	17,000
SOUTHAMPTON	115,433	119,974	235,407
EAST HAMPSHIRE	-305	4,024	3,719
NEW FOREST	15,009	20,833	35,842
TEST VALLEY	41,925	42,305	84,230
WINCHESTER	108,273	109,245	217,518
PUSH AREA	656,693	462,937	1,119,630

Source: GL Hearn (2016)

5.3 It is important context to note that the 650,000 net additional office space included provision for job growth and also 'margin' or contingency. The study expected around 2/3rds of the space to be taken up to accommodate job growth.

5.4 For industrial uses ('Mixed B') the study expected almost no job growth and the positive need for land was driven by some growth in warehousing but also a large 'margin' or contingency allowance.

The office market

5.5 The 2016 report was heavily reliant on new office space to meet economic needs. Of the 1.1m square metres of space the report advised the Councils to provide land for, over 50% (650,000 sqm) was for office users.

5.6 This was a 'net' number – so in addition to delivering 650,000 sqm of new space any losses needed replacing.

5.7 In the short term at least, this is clearly out of context and scale with our market assessment reported above. We noted that rents are well below those needed to drive development and there has been no speculative office development. Clearly such a large increase in the stock would require development to be *generally* viable in South Hampshire.

5.8 Setting aside the market evidence discussed in the previous chapter we are now 10 years into the Study period (11-36) and data from HCC shows that South Hampshire added only 95,000 sqm of office stock in 10 years (Gross Gains) leaving 555,000 sqm metres outstanding for the final 15 years of Study Period.

5.9 In addition to this, the Study area lost nearly 300,000 sqm of space. So rather than grow offices, as per the study recommendations, the area saw a strong decline.

5.10 To be 'on target' the planning authorities should have delivered around 260,000 sqm of new office space – but they lost nearly 200,000 sqm (net).

Table 5.1 Gross gains in stock

Gains	Industrial			Office		
	Gains New sites sq m	Gains Redevel -opment sq m	Total Gain sq m	Gains New sites sq m	Gains Redevel -opment sq m	Total Gain sq m
EAST HAMPSHIRE (PfSH)	0	0	0	0	0	0
EASTLEIGH	19,631	4,699	24,330	24,972	1,667	26,639
FAREHAM	33,876	331	34,207	2,961	24	2,985
GOSPORT	17,482	0	17,482	1,634	0	1,634
HAVANT	39,012	669	39,681	1,360	0	1,360
NEW FOREST (east)	8,114	711	8,825	317	50	367
PORTSMOUTH	49,873	5,981	55,854	7,135	280	7,415
SOUTHAMPTON	41,762	5,296	47,058	29,996	744	30,740
TEST VALLEY (PfSH)	51,017	0	51,017	22,461	0	22,461
WINCHESTER (PfSH)	19,586	109	19,695	4,369	0	4,369
PfSH (S Hants FEMA area)	**280,353**	**17,796**	**298,149**	**95,205**	**2,765**	**97,970**
TEST VALLEY (excl S Hants FEMA)	137,417	4,017	141,434	2,520	1,973	4,493

Source: HCC 09/10-19/20 Data

Table 5.2 Gross losses in stock

Losses	Industrial			Office		
	Losses New sites sq m	Losses Redevel -opment sq m	Total Losses sq m	Losses New sites sq m	Losses Redevel -opment sq m	Total Losses sq m
EAST HAMPSHIRE (PfSH)	6,848	0	6,848	1,562	0	1,562
EASTLEIGH	50,530	2,583	53,113	8,624	0	8,624
FAREHAM	11,112	815	11,927	7,685	0	7,685
GOSPORT	1,243	0	1,243	5,441	0	5,441
HAVANT	34,922	25,546	60,468	7,781	177	7,958
NEW FOREST (east)	2,510	19,003	21,513	1,840	0	1,840
PORTSMOUTH	66,017	0	66,017	83,238	0	83,238
SOUTHAMPTON	49,391	57,545	106,936	155,979	6,681	162,660
TEST VALLEY (PfSH)	5,438	0	5,438	6,523	0	6,523
WINCHESTER (PfSH)	2,607	0	2,607	8,757	0	8,757
PfSH (S Hants FEMA area)	**230,618**	**105,492**	**336,110**	**287,430**	**6,858**	**294,288**
TEST VALLEY (excl S Hants FEMA)	19,988	662	20,650	2,520	1,973	4,493

Source: HCC 09/10-19/20 Data

Where have the office jobs gone?

5.11 The 2016 study recommended such a large quantity of offices because it forecast that office jobs would grow – and this in turn would generate a demand for new stock.

5.12 Monitoring the delivery of office jobs is difficult because of the PfSH geography – which 'splits' a number of districts. It is also the case that local economic data – especially when split below district level is unreliable and not available in detail.

5.13 But where we can easily compare whole districts it is not the case that the area has not delivered new office sector jobs – even if the associated floorspace expected as not been delivered.

5.14 Of the six 'main' PfSH districts; where cross boundary delivery of jobs inside / outside PfSH don't complicate the data the two Cities lost jobs, but these losses were offset by higher growth in Eastleigh, Fareham, Gosport and Havant.

5.15 The table below shows that; per annum, Eastleigh grew 580 office sector jobs per annum whereas Southampton lost 176.

Table 5.3 Office Sector Jobs Delivered in Core PfSH districts (per annum 2011-18)

PfSH	GL Hearn Change pa jobs	Reality Change pa jobs
EAST HAMPSHIRE (PfSH)		
EASTLEIGH	220	580
FAREHAM	106	185
GOSPORT	74	71
HAVANT	144	414
NEW FOREST (part)		
PORTSMOUTH	219	-88
SOUTHAMPTON	220	-176
TEST VALLEY (PfSH)		
WINCHESTER (PfSH)		
Total 2011-18	**984**	**986**

Source: BRES/Experian Note: comparison only possible for whole districts, hence no part-district comparisons.

5.16 Looking at the data in more detail it would appear as though the City losses are largely related to the public sector and administration sector. We can only speculate but it is reasonable to put this decline down to public sector 'Austerity' – the impact of which was not foreseen by the authors of the 2016 study.

5.17 Across South Hampshire something is clearly amiss with how the 2016 study estimated how much new office space to provide to accommodate job growth.

Office Employment Densities – How firms use office space

5.18 In the 2016 forecasting discussed above, one important assumption is that floorspace per job ratios (employment density)[8] stay fixed over the forecast period. In this case the authors of the 2016 assumed that each additional office job they expected would generate the need/demand for around 15 sqm of new office space[9].

5.19 But this cannot be the case here; because as noted above South Hampshire would appear to have seen 'spaceless growth'. Jobs have been delivered while the space has not.

Office sector Densities in South Hampshire in 2011 and 2018

5.20 As a quick cross check we have compared the number of office sector jobs in the South Hampshire districts with the stock of office floorspace – as reported by the VOA. The data is for whole districts.

5.21 We estimate that across the area, in 2011, each office job was accommodated in around 11.4 sqm of space but by 2018 this had fallen to around 1:10sqm. The difference may appear small but this small shift is applied to a large stock of 1.6 million square metres of stock.

Table 5.4 Estimated Office Employment Densities 2011 and 2018

Office	2011			2018		
	Stock Sq m	Jobs	Sq m / job	Stock Sq m	Jobs	Sq m / job
East Hampshire	90,000	9,620	9.4	88,000	11,044	8.0
Eastleigh	163,000	15,874	10.3	175,000	19,933	8.8
Fareham	131,000	12,861	10.2	127,000	14,155	9.0
Gosport	22,000	3,996	5.5	22,000	4,493	4.9
Havant	110,000	8,890	12.4	96,000	11,789	8.1
New Forest	101,000	12,773	7.9	108,000	13,175	8.2
Portsmouth	260,000	25,867	10.1	255,000	25,249	10.1
Southampton	437,000	28,454	15.4	328,000	27,225	12.0
Test Valley	173,000	12,741	13.6	172,000	15,176	11.3
Winchester	277,000	23,829	11.6	305,000	25,489	12.0
Total PfSH Authorities	1,764,000	154,904	11.4	1,676,000	167,728	10.0

Source: VOA and BRES (from Experian).

5.22 In the data above we have used VOA and BRES data. This suggests Southampton lost ¼ of its stock but only 1000 jobs whereas Portsmouth was stable. We think this is an error – we have raised this with HCC and Vail Williams who both report the

[8] The floorspace per job ratio is the inverse of employment density, which is the number of jobs per sq. m. In practice the two terms are often used interchangeably. However, they are inversely related, so high floorspace per head equates to low density.

[9] 14.4sqm – see Para 5.22 of the 2016 report.

Portsmouth lost, not gained stock. With this in mind Portsmouth, as with Southampton lost stock far faster than it lost jobs.

5.23 Over the PfSH area it is clear that the link between jobs and floorspace has been more 'fluid' that assumed. But, with hindsight, his trend is not unexpected and has been a feature of the office market for a number of years.

5.24 Some evidence of this is provided in the table below, which compares the findings of various studies of office densities over time.

Table 5.5 National studies of office densities over time

Source	Study Date	Definition	Ratio
British Council for Offices	2018	Sq m/worker	10
British Council for Offices	2013	Sq m/desk	11
National Audit Office	2012	Sq m/FTE job	13
Homes and Communities Agency	2010	Sq m/FTE job	12
Yorkshire and the Humber Translating Jobs into Land -	2010	Sq m/worker	16
British Council for Offices	2009	Sq m/desk	12
RTP & Ramidus for GLA	2006	Sq m/worker	16
DTZ	2004	Sq m/worker	18
English Partnerships	2001	Sq m/desk	16
RTP for South East Regional Planning Conference	1997	Sq m/worker	18

Source: Stantec. All floorspace figures (sq. m) relate to Net Internal Area (NIA).

5.25 Table 5.1Table 5.5 does show a general trend towards lower floorspace per job, from 16-18 sq. m in the late 1990s and early 2000s to 10 sq. m in the latest study from the British Council for Offices (BCO). Practically this means that more people can be accommodated in the existing stock and when firms grew their job counts, they could do so without needing additional floor space. However, the trend is not as clear as appears at first sight.

5.26 One caveat is that the early figures at the bottom of the table were based on large surveys using random samples, which produced statistically representative results; while more recent studies tend to use small, hand-picked samples, which may not be representative of all offices. Thus, the BCO surveys are partly based on recent office development put forward by developers, designers and owners, and hence are probably biased towards new high-quality property. If this bias applies, the ratios calculated in BCO studies will underestimate floorspace ratios for the office stock as a whole. Not all older style stock is built to a standard that can be used so intensively – with lifts, toilets and ac/ventilation provision often not specified for so many workers. But the studies would still be useful, because they tell us that new office properties are designed to be more intensively used than previous generations of stock; and this more intensive use is applicable to the new build offices which the Local Plan will be providing for.

5.27 One piece of evidence not in the table is Central Government's objective to reduce space ratios to 8 sq. m per full-time equivalent job across its estate – down from 9.4

sq. m in 2018. But this is a measured per full-time equivalent job rather than per job. On a like-for-like basis this target of 8 sq. m is close to BCO figure of 10 sq. m.

5.28 For the purpose of the present study, we need to consider whether the trend to higher densities will continue in future, in which case our demand forecast should incorporate this change or at least recognise this as a risk. To answer this question, we first identify the factors that have led to rising densities in the past, and specifically in the early years of the 2016 Study period. There are four such factors in our view, which we discuss in turn below.

The economic cycle

5.29 One likely reason why office employment in parts of the PfSH area grew without any new space is that there was a surplus of vacant or under occupied office stock, which could absorb job growth without additional floorspace being built.

5.30 The best way of identifying that oversupply would be to estimate the vacancy rate at the base date of the 2016 needs study. Unfortunately this rate was not reported. But reasonable common sense, and Vail Williams market analysis reported above, would suggest that vacancy rates in 2011 (the base date of the 2016 study) were abnormally high due to the recent recession. It is also likely that many offices were under occupied, as employment fell but firms could not relocate to smaller premises immediately.

5.31 So, it is likely that there was some 'slack' in the office market at the start of the Study Period – which was not taken into account before advising that new jobs needed new floorspace. Any 'slack' in the market may have been taken up between 2011 and 2021 and is no longer available to accommodate further job growth.

The rise of agile working

5.32 The principle of 'flexible working' has been around for a number of years. It commonly refers to an arrangement between employee and employer whereby working hours more closely suit the needs of the employee. For example, having flexible start and finish times to suit school hours. Flexible working has an impact on the demand for office space but in general one worker still needs one desk – flexible working patterns often overlap, creating a demand for space at peak periods.

5.33 In more recent years we have seen a move towards agile working. This is a step further than flexible working, which allows the employee to choose where they work in addition the hours they work. Agile working has been enabled by improvements in technology – most obviously near universal broadband to residential properties. While there is still more to do regarding broadband most homes have the benefit of a workable connection, which will facilitate working away from the office at least some of the time.

5.34 This shift has compounded the impact of the earlier flexible working, and is allowing firms to reduce the number of desks per worker – as they can be reasonably confident that on any given day a proportion of workers will not be in the office at all.

5.35 One ingredient of agile working is home working, whereby a proportion of the workforce work ***mainly*** from home, so they may not use office accommodation at all, or only for a small proportion of the time. Recent government statistics have confirmed that working mainly from home has become more common in the last 10 years. Nationally the number of home workers has increased from 884,000 (2008) to 1,542,000 (2018). In the South East this increased from 167,000 period to 287,000 over 10 years.

5.36 It is clear that some firms will have been able to increase their employment counts without adding additional floorspace, as they encourage workers into an agile working environment. Others may have moved to smaller premises without reducing numbers of workers.

Technology and space planning

5.37 The third factor is that offices have been re-designed to make much more efficient use of floorspace.

5.38 Like agile working, this redesign has been facilitated by technology. Almost every piece of office equipment has become smaller in recent years.

5.39 Most obvious is the switch from CRT monitors to flat screens. This in turn has allowed firms to move away from L- shaped desks, where the CRT monitor was in the corner of the desk, to much more efficient 'bench style' desk arrangement. Bulky desktops have been replaced by laptops and the move towards paperless offices has reduced filing and storage needs. Also, modern working has often removed private (cellular) offices. Increasingly workers sit in open-plan offices, using space more intensively.

COVID-19

5.40 Finally, we must consider the impact of the COVID-19 pandemic. In the present, it is obvious that the pandemic has reduced the demand for offices, as large numbers of people have been working from home, and floorspace take-up has fallen. Data from the ONS, the Labour Force Survey, found that in April 2020 around 50% of all workers were working from home due the pandemic[10].

5.41 A more difficult question is how these changes may impact on office demand in the future, once the pandemic is over.

5.42 Much of the evidence on this issue comes from opinion surveys, which usually suggest that working practices will never return to what they were before the lockdown. One recent example, a survey of 2,000 office workers, commissioned by the British Council for Offices (BCO) in September 2020 – where some 60% planned that in future they would alternate between home and office working, against 30% who were considering returning to the office for five days a week; 15% planned to

[10] **Labour market survey - estimates of homeworking in the United Kingdom, April 2020.**

work exclusively from home[11]. Similarly, on the employers' side, in a survey of 1,000 members of the Institute of Directors (IoD), three quarters expected to see more homeworking after the pandemic, and more than half planned to use less office space than previously.

5.43 These and similar surveys do not signal the death of the office. On the contrary, they confirm that employees and employers value office space and will continue to use it. Thus, in the BCO survey around 70% of workers said the office was valuable for learning, developing networks and socialising, and following the IoD survey the organisation's director of policy commented that for many *companies 'bringing teams together in person proves more productive and enjoyable'*. Many other surveys record similar findings.

5.44 One counter point to the surveys and analysis above is that while, post Covid, fewer people may work 'in the office' it is possible that employers and employees will seek additional space for ongoing social distancing (of some form tbc) and that offices may need to be reconfigured to accommodate more meeting and circulation space. At the moment it is too early to draw robust conclusions.

Will the increase in densities continue?

5.45 The densities used in the 2016 study were selected from published data that reflected the national market in the early 2010's but may not have reflected South Hampshire nor the fact that there was surplus of stock, some underused and some vacant space. Some of this has been lost via PDR; but some may have helped accommodate job growth.

5.46 This would tie in with the weak development market and lack of viability in the market we noted above. Occupier demand was weak for new space – because firms were generally being more efficient and not looking to take net additional space. Even when they were growing employment.

5.47 This cyclical factor by definition cannot continue to operate indefinitely: once the spare capacity created in the recession has been taken up, the resulting increase in density is bound to stop. Vail Williams, and the agent consultations we held as part of this work would suggest 'surplus' vacant stock has now been lost. Vacancy rates have fallen.

5.48 In regard to agile working and new technology, we note the conclusions of the 2013 BCO report[12], which suggested that firms would struggle to continue to intensify their use of space, and there would come a natural limit on how intensively used office spaces can be. This is partly for technical reasons including building control regulations concerning 'means of escape'. But there are also fewer tangible factors, such as making offices attractive to current and potential employees. In a tight labour market some firms cannot afford to 'squeeze' their office workers into ever

[11] See https://www.theguardian.com/technology/2020/mar/13/covid-19-could-cause-permanent-shift-towards-home-working and http://www.bco.org.uk/News/News46982.aspx

[12] British Council for Offices, Occupier Density Study, Sep 2013

smaller spaces, and need to offer higher quality offices to secure talent. Post COVID-19 it is less than certain that firms and employees will accept being 'squeezed' further.

5.49 A related feature of the BCO reports is that they show virtually unchanged densities over the last five years, at around 10 sq. m per worker in both 2013 and 2018. So there is some evidence that pre-pandemic densities may have been stabilizing.

5.50 A final factor to weigh in the balance is the Covid-19 pandemic. Even if employment densities inside buildings remains consistent from now on - homeworking is likely to be the on-going 'pressure factor'. At the time of writing the pandemic has 'jump started' remote working – the technology was largely in existence before the pandemic - but workers expressed a preference for face to face meetings and office desks regardless. The pandemic has forced workers to adapt.

5.51 Within this report we do not assume a continued tightening of densities. We adopt 1:12 (NIA), reflecting the HCA guidance without any adjustment. This is a key assumption and as with the 2016 study, if the actual ratios were to be different across the existing and new stock this could have a significant effect on the overall need for offices that this study predicts.

5.52 This needs to be kept under review and we recommend that the planning authorities regularly sense check their densities by comparing the stock of office sector jobs (as defined in the annex to this report) with their 'headline' VoA floorspace figures.

5.53 As the economy recovers post Covid this should inform the planning authorities view as to which direction this key assumption is heading. If evidence emerges that jobs continue to be delivered without any space then this may suggest our assumptions above should be treated with additional care – although it may be a few years post Covid before anyone can conclude with any certainty.

Offices Summary

5.54 As noted above we have the benefit of hindsight and more recent data.

5.55 There is now evidence that suggests that in 2016 the office market was not healthy, possibly oversupplied and there was a lack of viability to drive the large increase in stock suggested in the study. This had been ongoing since 2011.

5.56 Subsequently at least some of the job growth has been accommodated inside the existing stock, some may have been taken by homeworkers and, compared to what was expected, austerity stripped public sector jobs in the Cities that were not replaced by the private sector.

5.57 Finally, we note that many of these factors are also present across England. Many local authorities lost stock via PDR and the office market has struggled nationally to deliver new space. So a 'disconnect' between a 2016 study and reported data in 2020 is not uncommon – we would be surprised if any study (many of ours included) managed to get their modelling nearly perfect. However, here this divergence has been amplified because the 2016 study used a 2011 base date – so the market has 'diverged' from the Study recommendations for 10 years now – rather than the 5 years between the report being published and this update.

The Industrial Market

5.58 The 2016 Study grouped the industrial uses into a 'Mixed B' group (B1c,B2,B8). The Study advised the Councils to plan for 463,000 sqm of space – again this net additional and all losses needed to be replaced. As noted above this space was not justified to accommodate job growth; most of the space was justified for 'margin' or contingency.

5.59 For offices the addition of 'contingency' only further oversupplied the market and may, arguably, be detrimental to South Hampshire. But for the industrial sector data from HCC shown in tables 5.1 and 5.2 shows strong growth with gains exceeding losses. This would support the choice made in 2016 to provide this contingency space. South Hampshire (including all of Test Valley) delivered 417,000 sqm of new industrial space and lost only 251,000 square metres.

5.60 On examination two points emerge. Firstly, the fact that Test Valley contributed 137,000 sqm of this gain. This is largely a new generation of Strategic Warehouses in Andover – away from the South Hampshire Urban market. These have been attracted to Andover given its location of the A303 and ability to service the M3 and A303 regional logistics markets. As we discuss elsewhere the Andover logistics market is very different to urban South Hampshire. The South Hampshire area lacks a 360 degree catchment for logistics.

5.61 These Test Valley warehouses would be outside the 2016 study geography so cannot be directly compared. But we note them here because our work considers Test Valley inside and outside the PfSH urban area. Setting Test Valley aside the area still saw a net gain in industrial floorspace and also industrial sector jobs.

5.62 Secondly, the data shows that in the first 5 years of the 10 year monitoring period the area lost stock – but this reversed and became a gain in the latter 5 years. The 2016 study did not appear to foresee this growth but the use of a large 'margin' and optimistic outlook for the demand for land, if not job growth has been helpful in ensuring there was land available to accommodate this uptick in recent delivery.

5.63 We return to the 10 vs 5 year trend when we consider future need – when we test both a 10 year and 5 year projection.

Job Densities

5.64 As with offices we briefly look at job and floorspace change – and so how firms may have changed how they use their stock of space.

5.65 The data shows an overall density of 1:45 sqm metres in 2011 – which is what we would expect for an area which is mainly mixed B class uses. However, the impact of the new generation of Andover warehouses can be seem in the Test Valley data – the overall density for the district was 1:60 moving to 1:65 by 2018. Larger warehouses tend to operate at a density of ~1:88sqm.

5.66 But; as with offices there is some evidence that the market has tightened in many areas. In nearly all areas, aside from Test Valley, firms are using their industrial space slightly more efficiently with most areas 'tightening' by 5 sqm over the period.

Table 5.6 Industrial Densities

Industrial	2011			2018		
	Stock Sq m	Jobs	Sq m / job	Stock Sq m	Jobs	Sq m / job
East Hampshire	498,000	10,784	46.2	513,000	11,875	43.2
Eastleigh	874,000	18,590	47.0	843,000	18,202	46.3
Fareham	548,000	12,795	42.8	545,000	12,423	43.9
Gosport	243,000	5,981	40.6	232,000	6,526	35.5
Havant	471,000	10,619	44.4	413,000	10,980	37.6
New Forest	615,000	18,415	33.4	629,000	18,623	33.8
Portsmouth	857,000	20,002	42.8	840,000	21,341	39.4
Southampton	694,000	14,533	47.8	645,000	15,031	42.9
Test Valley	1,040,000	17,378	59.8	1,220,000	18,665	65.4
Winchester	450,000	10,731	41.9	469,000	12,796	36.7
Total PfSH Authorities	6,290,000	139,828	45.0	6,349,000	146,463	43.3

Source: VOA and BRES (from Experian)

5.67 Setting Test Valley aside the South Hampshire districts saw a small decline in stock from 5.25m sqm to 5.13m sqm metres. At the same time the number of industrial jobs increased slightly from 122,450 to 127,798 (11-18).

5.68 This, would at first glance, appear to be at odds with the HCC data reported above – this showed that South Hampshire (ex Test Valley) gained stock in their 10 year monitoring period. But the data above is 2018 and we know from more recent HCC data (and market evidence) that industrial new build take-up has been much higher in the very recent past. So there likely to be a 'lag' in the data above.

Will the increase in densities continue?

5.69 As with offices this tightening of space may be a product of 'densification'. But unlike offices, where this has been an occupier choice, for industrial users there is evidence of long term undersupply with low vacancy rates and limited property.

5.70 As with offices rents have struggled to be viable – but even in 2016 there were signs (reported in that study) that speculative development was returning, and a shortage of development land (market attractive) was constraining the market. Current vacancy rates in the industrial stock are in very low single digits.

5.71 Also, listening to the market evidence, it would appear that the growth in industrial space is driven largely by logistics – including last mile delivery. Second guessing logistics densities in the future is hard - there have been very few surveys and the market is shifting rapidly as the High Street declines.

5.72 Conventional wisdom, as expressed in the HCA Employment Densities Guide, is that even last mile delivery is around 1:70 compared to a 1:47 for a light industrial unit. Given this sector is growing, planning for less industrial space per worker would not appear to be supported by the market evidence. If anything firms have too little space and more land is justified to address this bottleneck.

5.73 Finally, it is important to note then when discussing warehouse employment densities, the economic value of the unit to the economy is far greater than could be measured in employment counts. An efficient warehouse in turn aids the efficient working of the national and local economy – boosting economic growth across the economy as whole.

5.74 At the 'last mile delivery' scale of unit, these are growing in importance as the high street continues to decline. Goods previously distributed via a retail chain are now reliant on a logistics chain and a different type of space.

5.75 It is also the case that the warehouse unit supports a large network of related jobs. Few warehouses directly employ their drivers and the drivers don't 'work' in the unit. These related jobs are often missed when considering how many jobs any one given warehouse unit supports.

5.76 So, we don't assume that industrial densities will change. But, in our labour demand analysis we calculate growing logistics sectors separately from industrial sectors to ensure that we provide logistics with more space per worker than industrial sectors.

Industrial Summary

5.77 For offices we found that the market has diverged from the 2016 study and the planning authorities had been advised to plan for new space that stood, and still stands in 2021, little prospect of being delivered.

5.78 But this does not apply to Industrial. The 2016 study expected little job growth, and limited new floorspace growth – the study, rightly with hindsight, made provision for a large 'margin' and contingency allowance. Recent data from HCC, supported by market evidence from Vail Williams and the agents consulted as part of this work discussed above, shows that this 'contingency' may now be needed.

5.79 For most of the 2011- 21 period the industrial floorspace market was growing in Test Valley – due to warehouses – but stable or declining in the urban part of South Hampshire. Recent data shows this decline reversed in the last few years and the market is now growing – to what extent the market has moved beyond the 2016s 'growth' expectations and into the contingency allowance is hard to confirm. But employment is growing – as is the stock.

6 Introduction to Future Need

Introduction

6.1 In the next few sections, we assess the need for space over the period 2019-40; following the methods set out it the Planning Practice Guidance and learning from the above.

6.2 The PPG provides three broad approaches:

- Projections based on past trends of development completions
- An assessment based on labour demand (economic forecasts)
- Labour supply

6.3 Over the next three sections we start by looking at a Past Trends approach before looking at Labour Demand. We then conclude on the preferable approach – between Past Trends or Labour Demand. We only then consider Labour Supply.

6.4 While the PPG cites the three approaches in practice labour supply is very different. Past Trends and Labour Demand tell us what occupiers may demand in the future. They both seek to estimate how much space firms may take up on the future.

6.5 Labour supply expresses the potential size of the workforce based on various demographic assumptions. To arrive at a labour supply the demographer needs to make a number of assumptions about how people with occupy the housing stock. But then demographer also needs to make an external assumption about economic activity rates, unemployment and commuting to arrive at the size of the labour supply.

6.6 But importantly - just because a demographic assessment may suggest a larger labour supply – these people don't demand employment floorspace. If the demand for labour is fully satisfied in any baseline then the additional people suggested in a labour supply scenario will not be 'taken up'. They may as a worst case scenario remain unemployed or required to commute out – effectively invalidating the inputs the demographer has been required to make.

6.7 So; labour supply tells us about an area's ability to accommodate economic growth – but it tells us little about whether the firms involved want or need this space. If there is demand for labour – these jobs won't be translated in a demand for floorspace.

Net and Gross

6.8 It is important to consider whether this study should make recommendations 'net' or 'gross'.

6.9 In this context 'net' means that recommendations relate to the change in the total stock of land and floorspace in the area. So, for example that South Hampshire could plan to increase its stock of offices from 1.6m sqm to 1.9m sqm by 2040.

6.10 But behind this 'net' number the planning authorities will continue to lose sites from the stock. This could be a planned release – because the Council considers that, on

balance, housing is a preferable use – or a 'windfall loss'. These losses need to be 'made good' to ensure that the 'net target' can be met.

6.11 For strategic evidence it is normal to report 'net' – because whether or not to release sites requires an audit of the stock, which is out of scope for a strategic study. But more importantly whether to release a site is largely a policy choice for the planning authorities. While PDRs may allow property to be released without planning the general consensus appears to be that generally the 'easy' PDR housing wins have already been taken and PDR losses are slowing. In this study we cannot confirm this by district and make local adjustments.

6.12 However, we would be remis not to comment on the relationship between Net and Gross. If past losses continue in line with past trends the amount of new land/floorspace required to 'make good' these losses is very large; and may even be greater than the amount of land needed to accommodate growth.

6.13 So; in this work we focus on the 'Net' but we discuss past losses in more detail in our Past Take-up section below. We also in our final conclusions note where planning authorities have a large planning pipeline that, at the local level, will be material to our recommendations.

Market balance at the base date

6.14 As part of this study consultees noted that the market was not 'balanced' at either 2011 or 2016. In particular the vacancy rate in the office stock was too high (i.e. the market was oversupplied at the base date) and the Industrial Market undersupplied.

6.15 In this work we have taken these criticisms onboard. Agents agree that for the market to function efficiently between 5-10% of stock should be vacant and available for occupation. We accept that there is no statistical data to confirm this exact range but rates within this range are normally considered 'sound' by Plan Inspectors. The London Plan Industrial land SPG (2017) uses 8% for example[13].

6.16 So here we make two adjustments. We firstly adjust the assessment of 'need' to allow for 7.5% of space to be vacant. This adds additional space on top of our 'raw' assessment of need (Vacancy Adjustment).

6.17 We have also asked Vail Williams to estimate the industrial and office market vacancy rates today. Where we find them above 7.5% we consider this as space available to be taken up to meet 'need'. Vacant stock is available to be (re)accommodated. We make this final adjustment in our conclusions and recommendations section (Vacant Stock Adjustment). Where we find too low vacancy at the base date we increase our 'need' accordingly to allow for a 7.5% vacancy rate in the stock.

13 https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/SPG%20Land%20for%20Industry%20and%20Transport.pdf

Margins and Contingency

6.18 It is normally good practice to provide for more land than is 'needed' for two main reasons.

6.19 Firstly the market always requires a choice of site. Unlike housing, where the product is reasonably uniform and so are the sites, the employment space market is much more complex. Some firms require specific design and build, some a large warehouse, others a small warehouse. Some need town centres and others out of town or close to the ports.

6.20 Here we adjust for this via vacancy adjustments (noted above) but planning authorities may, in local evidence, conclude more margin or contingency is needed because their supply of sites may carry a greater risk and larger margin of uncertainty. In such circumstances our normal advice would be to try and manage any risk by 'front loading' the land supply so that as much as possible is available early in the plan period and, if successfully taken up, land supply 'topped up' via a plan review. This ensures maximum choice and flexibility in the early plan period while not sterilising land otherwise needed for housing. This also minimises the risk that a development plan has quantitively too much land that, mathematically, will never be taken up for employment uses and is vulnerable to 'reasonable prospect' challenge. But local evidence may warrant an alternative approach.

6.21 Secondly, in the past it was common that development plans would not be regularly reviewed and so many plans became 'time expired'. If a plan only had 15 years of supply, and not reviewed until year 14, then there was a risk there was little or no supply remaining. Evidence base studies often adjusted for this by, for example, advising that 20 years of 'need' are accommodated in a 15 year plan.

6.22 However, overprovision carries risks. Here the agents warn that, in a struggling office market, adding more supply into the system is not helpful. Too much supply also means the planning authorities lose scope to direct new development to priority areas – we have already seen the market overlook town / city supply in favour of out of town developments that are cheaper. Prime sites have also been lost because developers are able to demonstrate that the market is oversupplied in general. So, we make no further adjustments to the office recommendations.

6.23 But there is scope for additional industrial provision and particularly to manage a strengthening logistics sector. We adjust for this via a separate adjustment for logistics discussed in section 10.

Floorspace to Land

6.24 Some of the tables that follow show both floorspace (sq. m) and land area (Hectares / Ha).

6.25 For Industrial uses, until recently, it was reasonably common to assume 4,000 sqm per hectares (40% plot ratio). This was because for many industrial firms their 'yardage' was almost as important to the efficient operation of their firms as the built

space. Also, the additional structural cost of multistorey industrial property is prohibitive and makes more intensive formats unviable.

6.26 This ratio remains standard for most industrial uses. The exception is a new generation of logistics units where, because they can be constructed vertically without the need for heavy structural industrial floors, 8,000 sqm + is achievable. These are still uncommon outside major national and regional distribution hubs which we don't think are attracted to South Hampshire. So; for industrial uses we assume 4,000 sqm per hectare and suggest the planning authorities focus on allocating land in line with our hectare recommendations.

6.27 For office uses we illustrate a 60% plot ratio – representing a modern, efficient laid out business park. Traditionally 40% has been used instead – reflecting a 1990s' style campus office park but, as the market recovers developers are likely to make better use of their land and, via planning policies, be encouraged to use their sites more efficiently. In practice many offices are developed on much denser urban sites where plot ratios can be much higher. So, for offices, the floorspace numbers should be used in preference – it avoids the need to make very risky plot ratios assumptions in advance of knowing the capacity of potentially allocated sites.

B Class (E) vs the whole economy

6.28 This assessment is required to consider the needs of firms who may require offices or industrial property[14] (the B class economy - now part inside the new E class). These are only part of the economy with many jobs accommodated in other forms of property (schools, shops etc).

6.29 In this assessment these 'whole economy' jobs are considered as part of the Labour Demand approach – this starts from a review of the whole economy (as set out in the detailed forecasts in the appendix C) but in this report, we need to separate only those jobs we think form part of the B class economy. How we do this is set out in the appendix D.

6.30 They are also considered as part of our Labour Supply analysis where we consider all jobs regardless of sector.

6.31 Our Past Trends analysis; informed by data from HCC, is only available for the B classes.

6.32 So; while this study considers the whole economy, we don't advise on how much space may be needed for non B class jobs because most sectors have a separate evidence base that assesses their needs.

[14] Plus a number of similar uses that are legally classed as 'Sui Generic' uses but pragmatically locate on industrial sites

7 Past Take-up

Introduction

7.1 The first, and probably most crude but simplest approach to assessing future demand is simply to project forward the past. As with any approach to 'need' set out in the PPG there is no guarantee that there is land to accommodate this projection, but the logic flows that if land was taken up in the past there is at least evidence of demand that similar may be taken up again in the same market area (that may be in a different district).

7.2 For this assessment we use data from Hampshire Country Council. HCC data monitors gains and losses as permitted by the planning authorities. Data is also available inside/outside the South Hampshire FEMA.

7.3 For this study we have been provided with 10 years of data. The 'headlines' from the 10 year period were discussed above but here we also introduce a short, 5 year, period (note – the two periods overlap).

Offices

7.4 Starting with Offices – it will be no surprise that the 'net' data past Take-up data is almost always negative.

7.5 They show that over both the 10 and 5 year period the PfSH as a whole lost stock. When this is projected forward it means less office land / floorspace is needed. Test Valley North also lost stock.

Table 7.1 5-year office projection

OFFICE	Gains	Losses	Net change	Projection	2019-41
	sq m	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	0	300	-300	-1,260	-0.2
EASTLEIGH	2,745	6,204	-3,459	-14,528	-2.4
FAREHAM	2,537	5,229	-2,692	-11,306	-1.9
GOSPORT	1,242	4,851	-3,609	-15,158	-2.5
HAVANT	666	3,654	-2,988	-12,550	-2.1
NEW FOREST (east)	0	508	-508	-2,134	-0.4
PORTSMOUTH	2,020	58,144	-56,124	-235,721	-39.3
SOUTHAMPTON	4,928	43,175	-38,247	-160,637	-26.8
TEST VALLEY (PfSH)	5,279	4,448	831	3,490	0.6
WINCHESTER (PfSH)	2,854	3,944	-1,090	-4,578	-0.8
PfSH (S Hants FEMA area)	**22,271**	**130,457**	**-108,186**	**-454,381**	**-75.7**
TEST VALLEY (excl S Hants FEMA)	3,040	3,813	-773	-3,247	-0.5

Source: HCC – 15/16 – 19/20 Monitoring years and Stantec analysis.

Table 7.2 10-year office projection

OFFICE	Gains	Losses	Net change	Projection	2019-41
	sq m	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	0	1,562	-1,562	-3,280	-0.5
EASTLEIGH	26,639	8,624	18,015	37,832	6.3
FAREHAM	2,985	7,685	-4,700	-9,870	-1.6
GOSPORT	1,634	5,441	-3,807	-7,995	-1.3
HAVANT	1,360	7,958	-6,598	-13,856	-2.3
NEW FOREST (east)	367	1,840	-1,473	-3,093	-0.5
PORTSMOUTH	7,415	83,238	-75,823	-159,228	-26.5
SOUTHAMPTON	30,740	162,660	-131,920	-277,032	-46.2
TEST VALLEY (PfSH)	22,461	6,523	15,938	33,470	5.6
WINCHESTER (PfSH)	4,369	8,757	-4,388	-9,215	-1.5
PfSH (S Hants FEMA area)	**97,970**	**294,288**	**-196,318**	**-412,268**	**-68.7**
TEST VALLEY (excl S Hants FEMA)	4,493	7,288	-2,795	-5,870	-1.0

Source: HCC 10/11 – 19/20 monitoring data and Stantec analysis

Gains and Losses

7.6 For the area as whole South Hampshire lost around 200,000 sqm of office stock over the 10 year period and a similar amount in the 5 year period (100,000 over 5 years, 200,000 over 10).

7.7 When either period is projected the results are similar and suggest a reduction in the stock of around 70ha or 425,000 sqm. This must be seen in the context of a 1.6m stock figure today but is still a significant decline – especially if, as we think the stock is largely occupied and scope for further 'densification' limited.

7.8 What is important to note for the conclusions and ultimate advice flowing from this report is that the reason the 5 year period is similar to the 10 year is not because development activity increased in the last 5 years. The data shows that new build (gross gains) fell in the last 5 years.

7.9 The reason the two projections provide a similar answer is that losses slowed. Most likely because PDR 'easy wins' were lost prior to the 5 year period.

7.10 For our conclusions, and advice, this is a vital fact – the market has actually slowed the delivery of new space compared to when the GL Hearn 2016 work was drafted. GL Hearn advised planning for faster growth in 2016 – just as the market looked to slow even further.

7.11 The picture for Test Valley – outside the urban south Hampshire area is similar in that both projections are negative. Gains may be improved in the 5 years – but the headline conclusion is no growth and slow decline.

Summary

7.12 The PPG requires us to consider a past trends approach and there may be areas or circumstances where this analysis forms a sensible scenario for planning. But it is clear that this is not the case here.

7.13 However, the analysis is still useful. For the office market it clearly demonstrates the issue facing South Hampshire is one of poor delivery with the market struggling to deliver new space. This illustrates that any positive office recommendations need to be treated with care in the context of poor past trends.

Industrial

7.14 This part of the assessment includes light industrial, industrial and warehouses. So we project forward space recorded by HCC as falling in the (old) B1c, B2 and B8 uses.

7.15 Here we note that for the South Hampshire FEMA there have not been any large warehouse completions and so this sector cannot mathematically be projected in a Past Trends approach. But Test Valley has delivered warehouses and these are 'captured' in this approach. As regards strategic warehouses we discuss these in detail in chapter 10.

7.16 In headline terms, for South Hampshire, the two trend periods are very different. A 5 year projection suggests a return to net growth – around 122ha of new land. But for the 10 year continued losses.

7.17 For Test Valley (south) both projections are similar at 60-70ha – 'driven' by previously strong warehousing take up.

Table 7.3 5-year industrial projection

INDUSTRIAL	Gains	Losses	Net change	Projection 2019-41
	sq m	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	0	0	0	0	0.0
EASTLEIGH	18,541	17,745	796	3,343	0.8
FAREHAM	26,366	6,784	19,582	82,244	20.6
GOSPORT	14,120	1,040	13,080	54,936	13.7
HAVANT	34,638	29,476	5,162	21,680	5.4
NEW FOREST (east)	5,288	17,573	-12,285	-51,597	-12.9
PORTSMOUTH	53,414	14,316	39,098	164,212	41.1
SOUTHAMPTON	50,123	60,826	-10,703	-44,953	-11.2
TEST VALLEY (PfSH)	47,083	1,398	45,685	191,877	48.0
WINCHESTER (PfSH)	16,681	636	16,045	67,389	16.8
PfSH (S Hants FEMA area)	**266,254**	**149,794**	**116,460**	**489,132**	**122.3**
TEST VALLEY (excl S Hants FEMA)	73,349	8,351	64,998	272,992	68.2

Source: HCC – 15/16 – 19/20 Monitoring years and Stantec analysis.

Table 7.4 10-year industrial projection

INDUSTRIAL	Gains	Losses	Net change	Projection	2019-41
	sq m	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	0	6,848	-6,848	-14,381	-3.6
EASTLEIGH	24,330	53,113	-28,783	-60,444	-15.1
FAREHAM	34,207	11,927	22,280	46,788	11.7
GOSPORT	17,482	1,243	16,239	34,102	8.5
HAVANT	39,681	60,468	-20,787	-43,653	-10.9
NEW FOREST (east)	8,825	21,513	-12,688	-26,645	-6.7
PORTSMOUTH	55,854	66,017	-10,163	-21,342	-5.3
SOUTHAMPTON	47,058	106,936	-59,878	-125,744	-31.4
TEST VALLEY (PfSH)	51,017	5,438	45,579	95,716	23.9
WINCHESTER (PfSH)	19,695	2,607	17,088	35,885	9.0
PfSH (S Hants FEMA area)	**298,149**	**336,110**	**-37,961**	**-79,718**	**-19.9**
TEST VALLEY (excl S Hants FEMA)	141,434	20,650	120,784	253,646	63.4

Source: HCC 10/11 – 19/20 monitoring data and Stantec analysis

Gains and Losses

7.18 For offices we noted that new build development (gross gains) were lower in the 5 year period than the 10. But the opposite applies here.

7.19 In the 10 year period the planning authorities in South Hampshire gained 298,000 square metres but we can see that almost all this occurred in the short (5 year) period. In the 5 year period we added 266,000 sqm.

7.20 Losses remained broadly stable, possibly slightly slowing, in the 10 year period losing 336,000 sqm of space - of which around 50% was in the last 5 years (150,000).

Summary

7.21 An analysis of past trends for industrial space provides two very different answers. One continued decline and the other modest growth.

7.22 The tables below summarise the two periods and make an allowance for vacant space.

7.23 Care is needed in interpreting the data – it can be very unstable between years but across both the 5 and 10 year periods losses remain similar – with a possible slight slowdown in recent years. The data shows losses in Southampton. However again care is needed in projecting these into the future. The industrial areas in the city are well occupied and provide important space for a diverse range of small and medium enterprises and firms servicing the large population / business base. They may also in the future help to support growth associated with the Port and Freeport bid. Past losses are likely to reflect planning decisions regarding the redevelopment of older sites in less suitable locations, or losses to other non B class commercial uses which also need to be located on an industrial site. Past losses do not indicate a lack of

demand or need for industrial space in the city. The extent of future losses (if any) will be driven by policy decisions.

7.24 However, development activity (gross gains) are much higher in the short period. This would align with our market evidence which suggests a recent strengthening in the industrial market. This would suggest; that at least for industrial there is clear preference of the 5 year projection over a 10 year. Table 7.5 below summarises this scenario including the vacancy factor.

Table 7.5 5-Year Past Trends (Industrial) inc. an allowance made for Vacant Stock (Vacancy Factor)

2019-40	Past trends baseline demand	Vacancy factor	Net demand	
PfSH	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	0	0	0	0.0
EASTLEIGH	3,343	271	3,614	0.9
FAREHAM	82,244	6,662	88,906	22.2
GOSPORT	54,936	4,450	59,386	14.8
HAVANT	21,680	1,756	23,437	5.9
NEW FOREST (east)	-51,597	0	-51,597	-12.9
PORTSMOUTH	164,212	13,301	177,513	44.4
SOUTHAMPTON	-44,953	0	-44,953	-11.2
TEST VALLEY (PfSH)	191,877	15,542	207,419	51.9
WINCHESTER (PfSH)	67,389	5,459	72,848	18.2
PfSH total	**489,132**	**47,440**	**536,572**	**134.1**
TEST VALLEY (excl S Hants FEMA)	272,992	22,112	295,104	73.8

Source: Stantec / Experian

8 Labour Demand - Economic forecasts

Introduction

8.1 The PPG requires consideration of the need for land arising from an assessment of 'labour demand' and also 'labour supply'. In reality the two approaches are linked because if there is insufficient labour demand in the economy then any increase in labour supply will not result in a need for additional employment space

8.2 In the following analysis we first start with the baseline forecast from Experian. Unlike other forecasting houses Experian are more explicit regarding their labour supply assumptions, using ONS population projections at the local level as their baseline. Other forecasting houses use their own population models that may not align with official data. We return to this when discussing labour supply.

8.3 The data we have used reflected Experian's view as at September 2020 and broadly reflects the Governments view of a V shape Covid recession whereby the economy quickly rebounds and returns to growth. The base year used for the forecasts is 2019, and the end date is 2040 so our forecast period spans the recession and the 'V' period.

Figure 8.1 Experian September 2020 Total Jobs Solent LEP area

Source: Experian

8.4 At the time of writing the Government is optimistic that this 'bounce back' will be even quicker with the vaccine roll out – but only time will tell. For this study is important to note that, for planning purposes, any space released in the recession is available to be taken backup as the economy recovers on the upward part of the 'V'.

Baseline Forecast

8.5 The full forecast we have used to inform this analysis is presented in the appendix C. This shows all forecast job growth, for the whole districts in our client group, across all sectors. So inside and outside the former B class uses.

8.6 Here, in line with our brief, we are focusing on the employment uses (Old B class – now parts of E) and estimate needs within the PfSH urban area and Test Valley.

8.7 To quantify the demand for offices, industrial space and storage and distribution we start with the raw data, which is provided by the economic forecasters in employment activity sectors (38 for Experian, related to the Standard Industrial Classification (SIC)).

8.8 We then translate these sectors into the three land use categories using our sector-to-space mapping technique (an explanation of this is provided at **Error! Reference source not found.**).

8.9 Once the job numbers are identified for the B class activities, we then apply specific employment densities sourced from the 2015 HCA report Employment Density Guide and informed by our analysis of densities.

Oxford Economics and Experian

8.10 Shortly before this study commenced the LEP commissioned Lichfields to prepare an Economic Profile for the Solent LEP. This was prepared in July 2019 and used 2017 base economic forecasts from Oxford Economics.

8.11 It is best practice to compare two forecasts, from different forecasting houses. Here the Oxford forecasts appear much lower than Experian.

8.12 Lichfields reported total job growth in the LEP area of 35,000 over a 2018 – 36 period. Experian are forecasting 65,000 for the 2019 – 40 period for the similar PfSH geography.

Figure 8.2 Alternative Forecast Employment Change in the Solent LEP

Location	Absolute Change in Employment (2018-2036)	% Change in Employment (2018-2036)
Eastleigh	6,000	+8.8%
Fareham	3,400	+6.0%
Gosport	1,200	+4.5%
Havant	400	+0.7%
Isle of Wight	4,500	+7.5%
New Forest	-500	-0.6%
Portsmouth	8,500	+6.9%
Southampton	12,000	+9.2%
Solent LEP	35,600	+6.1%

Source: Oxford Economic 2017 / Lichfields

8.13 The detailed Experian forecasts we used are shown in appendix C. But as an illustration by district, in the Lichfields work Portsmouth was forecast to grow by 8,500 2018-36 compared to 18,500 in Experian (19-40). For Havant, in the Lichfields analysis gains 400 whereas Experian suggests 5,900.

8.14 In September 2020 the same firm provided the LEP with an 'economic recovery plan'. But rather than base this analysis on another Oxford Forecast – to maintain consistency in approach – this more recent work instead uses Experian.

8.15 We don't know whether this is because the consultants no longer consider Oxford as a robust baseline; and now consider Experian is preferable or they made this choice for another reason.

8.16 For our work their rationale for this choice is not very relevant. What is important is that both the LEP and our work are now using forecasts from the same source. As with the LEP evidence we, in our analysis, progress the more recent Experian model.

Offices

8.17 Table 8.1 below shows the results of the office calculations for the period up to 2040.

8.18 In the table we have assumed that each office worker needs 12 square metres of space – this is in line with our density calculations in chapter 5 and also in line with HCA advice for offices (2015).

8.19 We have not made an allowance for further 'densification', nor for possible COVID-19 impacts. But recognizing that some space should always be vacant – to provide 'market choice, churn and friction' we make a small adjustment above the 12sqm per worker. We add 8.1% as a 'vacancy factor'[15] to the 'raw' numbers (but don't yet add an adjustment for the low vacancy rates in the stock).

Table 8.1 Labour Demand – Offices

2019-40	a Job change	b Occupier demand Sq m	c Vacancy factor Sq m	d Net demand Sq m	e Ha
EAST HAMPSHIRE (PfSH)	129	1,549	125	1,675	0.3
EASTLEIGH	6,282	75,383	6,106	81,489	13.6
FAREHAM	2,998	35,978	2,914	38,892	6.5
GOSPORT	966	11,595	939	12,535	2.1
HAVANT	2,940	35,285	2,858	38,143	6.4
NEW FOREST (east)	806	9,667	783	10,450	1.7
PORTSMOUTH	4,209	50,505	4,091	54,596	9.1
SOUTHAMPTON	4,445	53,336	4,320	57,656	9.6
TEST VALLEY (PfSH)	1,450	17,395	1,409	18,804	3.1
WINCHESTER (PfSH)	2,791	33,496	2,713	36,210	6.0
Total PfSH	**27,016**	**324,191**	**26,259**	**350,450**	58.4
TEST VALLEY (excl S Hants FEMA)	1,345	16,139	1,307	17,446	2.9

Source: Stantec / Experian

[15] For the vacancy rate to stay at 7.5% over the plan period, for every 92.5 sq. m of additional space that will be taken up by occupiers, developers should provide a further 7.5 sq. m that will remain vacant. Therefore developer demand will be 7.5 / 92.5 = 8.1%. above occupier demand. 7.5% is 'rule of thumb' that we checked with agents as part of the consultation here.

Job Change

8.20 For urban South Hampshire the table shows the total job change over the period 2019-40 period as 27,000, which at 1:12 requires 324,000 square metres of space increasing to 350,000 sqm once we allow for 7.5% vacancy.

8.21 For Test Valley North the increase is 1,345 jobs and 17,000 sqm of space.

8.22 One noticeable feature is that the forecasts show a return to office sector growth across the area. But this is stronger outside the core cities of Southampton and Portsmouth – especially when considering the size of Southampton compared to neighbours.

8.23 The likely reason is that the existing sector structure of the districts is more favourable to growth – with less public sector employment. But also forecasting houses, including Experian, direct growth to areas known to have outperformed others in the past. This is on the assumption that if District A outperformed District B this will continue in the future. Here we know that the cities struggled in the past and this may be reflected it the forecast. In common with all the district data we present in this report, there is scope to move 'need' between districts based on supply and other policy on factors.

Compared to 2016

8.24 As a comparison we show below the 2016 office forecast recommendations. We show the need before the consultants inflated need to allow for their 'contingency'. As discussed above the 2016 report estimated a need for around 480,000 sqm of space to accommodate office job growth – increased to 650,000 sqm when 'contingency' was added.

8.25 For the best like for like comparison, we need to consider the 480,000 number and make an allowance for the part districts.

Table 8.2 Office Job Change (2016 report vs new Experian)

OFFICE PfSH	Future Experian Net change pa Sq m	Future GL Hearn Change pa Sq m
EAST HAMPSHIRE (PfSH)	80	-17
EASTLEIGH	3,880	3,174
FAREHAM	1,852	1,546
GOSPORT	597	1,068
HAVANT	1,816	2,078
NEW FOREST (east)	498	478
PORTSMOUTH	2,600	3,156
SOUTHAMPTON	2,746	3,162
TEST VALLEY (PfSH)	895	1,071
WINCHESTER (PfSH)	1,724	2,780
Total PfSH	**16,688**	**18,498**
TEST VALLEY (excl S Hants FEMA)	831	-
Total PfSH & TV	17,519	
NEW FOREST (Nat Pk)	678	-
NEW FOREST (West)	1,667	-

Source: GL Hearn & Experian / Stantec

8.26 The new Experian data shows lower growth, but not significantly lower.

8.27 By district most are similar – there are some differences, but care is needed because the two studies used different forecasting houses and Experian has more recent data. The headline is that for South Hampshire as whole both forecasts are similar.

Summary

8.28 The new Experian forecasts suggest a return to office sector growth. A similar conclusion to that reached in 2016 using a different forecasting house.

8.29 The new Experian data could have a similar credibility issue. But we would note that:

A) it is clear the 2016 report did not start from 'balance' – there was scope in the stock to absorb job growth without needing new space

B) PDR losses allowed indiscriminate losses from the stock in the early period

C) Occupiers were 'densifying' their space over the 2011-19 period.

8.30 So – while the Experian forecast may be similar – the market is now in a very different place to 2011. We don't dismiss positive office space growth but, with our suite of evidence we treat it with more caution.

Industrial

8.31 The table below shows the results of our analysis for the Industrial sectors.

8.32 We consider light industrial, manufacturing and warehouses together because they all have similar demand for land and property. In theory light industrial can be accommodated within a residential environment[16] but in practice when providing new space we try to separate them to provide more flexibility in the potential use of the property.

8.33 When estimating how much space to provide we apply a density of 1:45sqm for industrial sectors and 73.5sqm for warehouses. This in line with the HCA guidance and slightly better than we observed when testing prevailing densities earlier. We considered using 1:45 throughout – better reflecting the average densities for the industrial sector as a whole - but our market evidence suggests that it is last mile logistics that is driving demand and this would support the 1:73.5.sqm because warehouses are less intensively used that traditional industrial units (worker per square metres.

8.34 The results are below:

[16] The legal differentiation between the B1 classes and B2/B8 is that B1c does not give rise to significant residential amenity issues.

Table 8.3 Labour Demand - Industrial 2019-40

2019-40	a Job change	b Occupier demand Sq m	c Vacancy factor Sq m	d Net demand Sq m	e Ha
EAST HAMPSHIRE (PfSH)	61	2,190	298	2,488	0.6
EASTLEIGH	169	59,734	10,899	70,634	17.7
FAREHAM	378	49,411	6,773	56,184	14.0
GOSPORT	-338	-7,160	1,684	-5,477	-1.4
HAVANT	-685	-19,737	2,321	-17,416	-4.4
NEW FOREST (PfSH)	-866	-51,252	0	-51,252	-12.8
PORTSMOUTH	-293	-21,117	0	-21,117	-5.3
SOUTHAMPTON	-1,620	-70,800	444	-70,356	-17.6
TEST VALLEY (PfSH)	-291	-21,739	45	-21,694	-5.4
WINCHESTER (PfSH)	605	35,649	2,888	38,537	9.6
Total PfSH	**-2,880**	**-44,821**	**25,352**	**-19,469**	-4.9
TEST VALLEY (excl S Hants FEMA)	-542	-34,900	0	-34,900	-8.7

Source: Stantec / Experian

Job Change

8.35 The new forecast shows very little job change across South Hampshire. And limited net floorspace change. The outer edges of the urban area grow – due to a growth in warehousing demand. But the core continues to decline as industrial sectors contract. But the numbers are very small – especially when considered over 20 years and in the context of the large stock of jobs and floorspace.

8.36 Test Valley (beyond PfSH) shows a loss of jobs and space. We think this is likely to reflect the difficulty that any economic forecast (or other standard approach as set out the PPG) has with a very footloose warehouse sector – where demand largely follows land supply across large areas.

Compared to 2016

8.37 Although there are obvious differences between the forecasts used in 2016 and the new Experian forecast – the differences are small and little can be learnt from a comparison. For example, Southampton 'swings' from a small 4,000 sqm gain in the 2016 study to a small 3,000 sqm loss in Experian. But this in the context of 600,000 sqm of stock.

Table 8.4 Industrial Job Change (2016 report vs new Experian)

INDL PfSH	Future Experian Net change pa Sq m	Future GL Hearn Change pa Sq m
EAST HAMPSHIRE (PfSH)	118	100
EASTLEIGH	3,364	687
FAREHAM	2,675	1,347
GOSPORT	-261	1,090
HAVANT	-829	-782
NEW FOREST (east)	-2,441	-25
PORTSMOUTH	-1,006	-3,698
SOUTHAMPTON	-3,350	3,903
TEST VALLEY (PfSH)	-1,033	1,380
WINCHESTER (PfSH)	1,835	3,267
Total PfSH	**-927**	**7,269**
TEST VALLEY (excl S Hants FEMA)	-1,664	-
Total PfSH & TV	-2,591	
NEW FOREST (Nat Pk)	-278	-
NEW FOREST (West)	-277	-

Source: Experian & GL Hearn

Summary

8.38 Forecasts in both 2016 and more recent Experian show low job growth in the area. This includes North Test Valley although this is likely to reflect the limitations to modelling footloose warehousing – we know there is demand for logistics in North Test Valley.

8.39 For this study, the 2016 was rightly cautious (with hindsight) in treating the forecast with care. As noted above past tends are positive and viability is returning to the market.

Past Trends and Labour Demand Summary

Offices

8.40 For offices Past Trends are negative whereas, and as with the 2016 study, the economic forecast is positive.

8.41 We consider that the Past Trends period will be strongly influenced by PDR losses and, we think, although cannot confirm because the 2016 study failed to provide a vacancy rate, that much of the space lost was either vacant, underused or 'densified' by occupiers.

8.42 There is evidence that these losses cannot continue, and the market has gone some way to rebalancing. We see evidence of lower vacancy rates, higher employment densities and some market confidence. This suggests that the Past Trend approach is not the correct one to adopt now.

8.43 However, the positive forecast scenario risks a credibility issue given it is similar to that also used in 2016.

8.44 In recommending the planning authorities promote a Labour Demand scenario we suggest this needs to be considered 'aspirational' – moving from a long trend period of little or no office take-up to the positive future outlined in the forecast approach can only be described as aspirational. At the time of writing; with a gap between market rents and 'viable to deliver' rents claiming otherwise is not sensible.

8.45 So, our preferred office scenario is based on Labour Demand with a small adjustment for vacancy. This is shown in Table 8.1 above. At this point we have not adjusted for any current imbalance in the market (vacant stock adjustment) – we do this in the final recommendations.

Industrial

8.46 For Industrial uses only the most recent 5 year tend projection aligns with our market evidence. The area is delivering new space whereas the labour demand and 10 year projection suggest otherwise.

8.47 So, our preferred industrial scenario is based on 5 years Past Trends with a small adjustment for vacancy. This is shown in Table 8.4 above (ex vacant stock adjustment).

8.48 We do however recognise that none of the approaches we have considered above capture larger warehouse demand in South Hampshire urban area. We return to this in the Strategic Warehousing section because there is merit in some contingency to manage this.

Test Valley

8.49 This study is focused on the South Hampshire FEMA – but also covers Test Valley 'north'.

8.50 For offices the forecast suggests some modest growth – but this is very small and reflects the fact that Test Valley North is not a major office location.

8.51 For industrial uses the forecast is not credible and the two Past Trends similar – picking up a new generation of large warehouses. As far as an assessment of need, following the PPG, the 5 year past trend is a matter of fact. Whether or not North Test Valley can accommodate more rounds of trend based growth will depend on infrastructure and constraints.

9 Labour Supply and the Standard Method

Introduction

9.1 In the analysis above, when we considered Labour Demand and Labour Supply, we noted that there is either an explicit population assumption or implied population assumption.

9.2 The economic forecast makes an assumption about the size and structure of the population in South Hampshire. This is because, to be a credible forecast, the model needs to take a view as to the supply of labour and also the demand for services. In the Experian model this population assumption is taken from the official Sub National Population Projections. At the time the forecast was prepared the 2016-based set were the most recent available[17]

9.3 The Past Trends approach also implies that population and households form in line with past trends.

9.4 But, one major challenge facing many local authorities is that the Government's housing target, as expressed in the Standard Method, is much higher than official household projections could support. The Government's 300,000 dpa national target for housing delivery is around double the household growth suggested in either the 2016 or 2018 based household projections (165,000 dpa).

Table 9.1 Standard Method homes vs ONS 2018

	Proportion of authority in PfSH FEMA	Standard housing need 2021-31	Housing need implied by 2018 SNHP 2019-40
East Hampshi	18%	111	63
Eastleigh	100%	687	423
Fareham	100%	508	227
Gosport	100%	344	98
Havant	100%	508	449
New Forest	39%	306	136
Test Valley	33%	180	133
Winchester	34%	235	118
Portsmouth	100%	862	337
Southampton	100%	1,393	428
Total		**5,136**	**2,411**

Source: NMSS

[17] 2018 household projections were published 29th June and were not available to inform the September 2020 Experian Model run.

Note: for authorities only partially within PfSH, only the relevant proportion of the housing need has been included

9.5 It is a very legitimate question for interested parties to ask whether the 300,000 new homes per year will be delivered? Will housing actually become more affordable and more accessible to those who, in 2021, cannot access housing?

9.6 Unfortunately, those are not questions we are given scope in the national planning guidance and associated policies to query[18]. 300,000 dpa and the boost in housing supply is now a national target.

The Standard Method 'disconnect'

9.7 In South Hampshire, for the urban area, we estimate that the most recent household projections suggest 2,400 homes per annum. This is the number of homes needed to accommodate the ONS's current and best view of how many homes are needed to accommodate population growth – including migration.

9.8 But the most recent Standard Method requires the planning authorities to plan for more than double that growth (5,100 dpa).

9.9 In summary the Government's view is that building to 'trend' will not address the market failure that, over time, has made housing unaffordable for many.

9.10 This is expressed in the most recent household formation rates. These show that, following trend, homes are not accessible to a whole younger generation. They remain in shared households or at home with parents much longer than was the case for previous generations.

So how will the new households form?

9.11 With more homes in the supply, and assuming these are built those households will look very different to those assumed in the ONS projections.

9.12 Effectively the official projections suggest that the extra households that will form in South Hampshire will need only 50% of the homes indicated by the new standard housing need method. [NB: the standard method figure is a starting point not a housing requirement] - So what happens with the other 50%?

9.13 There are only two possible outcomes to this dilemma. Firstly, as per the Government's stated policy position, the new homes could assist with affordability and household formation.

9.14 This must be the core assumption for planning because while the Government has increased housing supply it has not increased the official view of the population size. If anything, the Government's position is one of lower, post Brexit, migration into the UK.

[18] There are some limited 'exceptional circumstances' where a planning authority can promote an alternative. In summary this is designed to allow National Parks and other areas where the Standard Method data inputs do not work to use an alternative. E.g. the 2014 based demographic projections are not available for National Parks. Or where there are known, and demonstrable errors in the data.

9.15 If we were to assume, nationally, that migrants would fill the gap between the official projections and the Standard Method, Governments overarching rationale to boost housing to make the stock more accessible and affordable would be undone.

9.16 So; for this work we, working with NMSS, sensitivity test the Standard Method. We do this in two ways.

9.17 Firstly, we look to see how credible it is that the additional homes in the Method can be 'absorbed' into household formation; making homes more affordable and accessible to residents.

9.18 Secondly, we look to see how many more people could be accommodated in the area if we were to assume no improvement in household formation i.e. that all the additional homes were filled by people moving to the area from the rest of England. So, the new homes facilitate higher migration into South Hampshire.

Scenario 1 - Improved Household Formation

9.19 As noted above the stated aim of the 300,000 new homes is to make housing more accessible, and affordable, to the population.

9.20 In order for homes to be more affordable, and accessible, the stock of new homes must increase at a faster rate than population growth. We have tested this by estimating the number of homes needed if, at minimum, household formation rates return to 2001 levels: the '2001 HRR floor'. 2001 is generally accepted as a favourable year for household formation and it is also a census year.

9.21 target year has been calculated on the assumption that:

9.22 In summary – the uplifted homes in the Standard Method would accommodate exactly the same size and profile of population as shown in most recent 2018 based official population projections. But this population would be housed in line with the more favourable 2001 household formation rates (or better).

Table 9.2 Testing the 2001 'Floor'

	Proportion of authority in PfSH FEMA	Standard housing need 2021-31	Housing need implied by 2018 SNHP 2019-40	Housing need implied by 2018 SNHP 2019-40	Housing need 2019-29 to achieve 2001 floor by 2029
East Hampshire	18%	111	63	91	134
Eastleigh	100%	687	423	534	697
Fareham	100%	508	227	337	478
Gosport	100%	344	98	160	233
Havant	100%	508	449	540	677
New Forest	39%	306	136	202	295
Test Valley	33%	180	133	184	263
Winchester	34%	235	118	153	209
Portsmouth	100%	862	337	504	664
Southampton	100%	1,393	428	708	981
Total		**5,136**	**2,411**	**3,414**	**4,630**

Source: NMSS

9.23 Across South Hampshire this testing shows that it is credible to assume that the Standard Method homes can make a meaningful contribution to the Government's overarching housing policy objective. There are sufficient homes to allow an improvement in household formation at least as far back as 2001 – and possibly slightly better.

Scenario 2 - Economic Led Migration

9.24 We cannot control how homes will be used in the future and we cannot rule out the prospect that the additional homes will attract new workers.

Baseline Economic Need

9.25 Above we tested Labour Demand, coupled with our market evidence, we concluded that providing new land and floorspace to meet our economic baseline would be challenging. This was particularly the case for the office market.

9.26 There was no suggestion that the availability of labour, or land, had constrained growth in the past.

9.27 Work for the Solent LEP[19] confirms that economic activity rates were generally lower in the Solent and unemployment rates higher than the South East. The labour market was also reasonably self-contained. So, by comparison to the South East Region the LEP suite of evidence would not support the case that the availability of labour has

[19] https://solentlep.org.uk/media/2691/16346-solent-economic-profile-report-final-july-2019.pdf

constrained growth. The Solent had more 'slack' in its labour supply than nearby areas which was available to firms, if there was demand.

9.28 This is also a view confirmed by the Experian data. Experian's view is that were we to simply assume a higher population in South Hampshire this will generate some job growth; because some jobs are directly related to the size of the population serviced ('per capita') but, because labour demand is satisfied, most additional people would be required to commute out to work, remain unemployed or (most likely) withdraw from the labour market (a discouraged worker effect).

9.29 So, there is no suggestion in our analysis, or the LEPs suite, that more people are needed to unlock baseline growth. The LEP evidence would suggest the opposite noting that labour here is less intensively used than the region and that the challenges are related to *"workforce productivity (beyond a number of key, high performing sectors), enterprise start-up and survival, workforce skills and deprivation"*

Transformational Projects and 'policy on growth'

9.30 The above conclusions are based on a 'policy off' or baseline case. 'Policy off' is the base case position for housing and economic evidence.

9.31 However; the planning authorities and/or other stakeholders may look at the base case outlined in the forecasts and/or past trends and look to plan for higher growth. There may also be 'external' investments not foreseen in the Past Trends analysis or Labour Demand analysis.

9.32 In this area there is continuing policy objective to regenerate the 'Waterfront sites' in Portsmouth, promote city centre growth in Southampton and the possibility of a Freeport in the South Hampshire area. Other 'policy on' or transformational projects are likely to emerge over time. They may even be needed to stimulate the office market in the cities and, as we briefly discuss below, address the new 35% Southampton boost.

9.33 For this study there is little definitive information on these 'projects' and they are therefore out of scope. Most are likely, given prevailing rents for offices, to require public subsidy. Even when schemes emerge there will be some considerable risk in promoting and delivering them.

9.34 So it is sensible to test the 'capacity' of South Hampshire to accommodate more jobs within the Standard Method housing number.

9.35 In our testing above we concluded that there is scope in the Standard Method to make a major contribution to household formation; in theory allowing existing and future South Hampshire residents to access housing more readily.

9.36 Here we assume the opposite; that the uplifted homes are occupied exclusively by new migrants – migrants who will be attracted to South Hampshire – possibly because, trend breaking new investment is to be delivered.

9.37 To estimate the possible size of a potential labour supply we have assumed that these people are available to work in line with Economic Activity Rates from both Experian and the OBR.

9.38 It is vital to remember that this can only be developed as an illustrative scenario. At the national level there are no 'spare' people to migrate into South Hampshire. If any part of this migration comes into fruition it can only be at the expense of another part of England. No Council, LEP or other stakeholder that we are aware of considers that they have a surplus of labour that is available to South Hampshire to 'borrow'.

9.39 It is also the case that many of the areas South Hampshire has traditionally attracted migration from – e.g. London, are also seeing a large 'boost' in their housing targets. London's housing target increased by 35% in the last round of the Method. With 35% more homes in and around London people may no longer choose to move to Hampshire.

9.40 Caveats in mind; the scenario shows that the Standard Method homes are capable of accommodating roughly double the number jobs than needed to meet the labour demand scenario. Across South Hampshire the baseline Experian scenario provides for around 65,000 net additional people in employment. But dependent on scenario tested (Details in appendix E) the Standard Method houses could support around 120,000 workers [between 110,000 - 135,000 workers depending on assumptions].

9.41 In the baseline forecast these people are not provided with a job – because there is no baseline labour demand for these new people. Without labour demand there is no evidence that these people will be encouraged to migrate in the first place.

Table 9.3 Standard Method Labour Supply

		Experian employment rates		OBR consistent employment rates		
	Proportion of authority in PfSH FEMA	Ave employment increase 2019-40 based on extra homes filled by all age migrants	Ave employment increase 2019-40 based on extra homes filled by 0-50 migrants	Ave employment increase 2019-40 based on extra homes filled by all age migrants	Ave employment increase 2019-40 based on extra homes filled by 0-50 migrants	Experian resi employment increase
East Hampshire	18%	2,543	2,827	2,250	2,528	1,098
Eastleigh	100%	12,141	13,012	10,418	11,271	3,700
Fareham	100%	10,256	11,620	8,754	10,088	5,700
Gosport	100%	5,136	6,143	4,143	5,128	2,800
Havant	100%	9,188	9,474	7,703	7,983	6,000
New Forest	39%	5,468	6,400	4,633	5,545	2,925
Test Valley	33%	4,802	5,023	4,243	4,459	3,333
Winchester	34%	6,592	7,294	5,991	6,678	3,842
Portsmouth	100%	24,304	25,878	21,464	23,005	14,700
Southampton	100%	44,326	47,109	40,553	43,276	21,000
Total PfSH		**124,756**	**134,781**	**110,150**	**119,961**	**65,098**
% above Experian		**92%**	**107%**	**69%**	**84%**	

Source: NMSS & Experian

Labour impact of our 'need' conclusions

9.42 In section 8 we concluded that the planning authorities ought to consider planning for Past Trends for industrial and Labour Demand for offices.

9.43 This results in a quantitative recommendation that has more space than would be supported by the Experian Labour Demand analysis discussed above – especially for the industrial sectors.

9.44 But the capacity of this additional industrial space to accommodate jobs/labour is modest. Were we to assume all our 500,000 sqm or so new industrial space gets taken up it would require between 6,000 – 11,000 people depending on the employment density (industrial or warehouse). This is well inside the 'headroom' calculated above.

Summary

9.45 Labour demand is satisfied with trend based population and housing delivery. In the baseline there is no reason to consider more new homes above the Standard Method to unlock economic growth and address a pre-existing labour supply constraint.

9.46 Nor do we recommend increasing economic need simply because we may be building more new homes. For the reasons outlined above it is not nationally credible to assume the 300,000 new homes will accommodate more workers than any other number given the national population size and profile is fixed.

9.47 Locally South Hampshire labour demand is satisfied in the baseline and, as concluded by the Solent LEP the primary focus is around productivity and skills as opposed to lack of people.

9.48 But the important 'takeaway' for the planning authorities is that there is considerable 'headroom' in the Standard Method to be more economically ambitious than our 'need' analysis would suggest. This headroom could extend to 50,000 – 60,000 more new jobs than in the Experian forecast. So even a nationally significant investment, of say, 20,000 additional jobs would not *require* more new homes.

10 Strategic Warehouses

Introduction

10.1 In our assessment of industrial need we concluded that our choice to use a past trends approach would fail to capture logistics demand in full.

10.2 For Test Valley the new generation of strategic warehouses in Andover are captured in our trend analysis and, in essence because we suggest using a 5 year trend projection for the industrial uses, we assume that these repeat over a new plan period every 5 years.

10.3 But in the South agents report that the market has not traditionally delivered large warehouses. This is partly due to a lack of sites but also the logistics market is growing and there are increasing inquiries from new logistics firms looking for space but not locating here because of a lack of sites.

10.4 As we detail below, these inquiries are not from major national or major regional warehouses. South Hampshire lacks a 360 degree catchment for this scale of demand. As a preference they locate further inland where there is a larger catchment area to service.

10.5 Nor is it predominantly port related logistics firms. While South Hampshire benefits from two major ports the economics of their logistics operation means that, in the current market, it is operationally more efficient to ship direct to the Midlands where goods then enter the national supply chain. 'Double handling' of goods is costly and space more expensive in South Hampshire than elsewhere[20].

10.6 So the bulk of the demand is seen as coming from smaller (but still large) units and the planning authorities need to consider how to address this need.

Market Demand

National

10.7 The UK strategic warehousing market is experiencing a significant boom. A combination of factors, including Brexit and Covid-19, the latter resulting in a significant acceleration in e-commerce trends, has stimulated demand to the extent that 2020 was a record year for the logistics sector in property terms.

10.8 Key performance indicators for the national market for 2020 (source: JLL Research and Savills Research) are:

- 35.8m sq. ft of strategic logistics take-up, an increase of 64% on 2019.
- 28.3m sq. ft of take up in new space, of which 34% was speculatively built and 66% built-to-suit.

[20] This does not mean that our analysis above excludes to the ports. Any port related demand that has occurred in the past will be captured by our previous analysis.

- 25 transactions of over 500,000 sq. ft.
- E-commerce accounted for 42% of take up. Amazon accounted for 25% of all take up.
- Grade A space availability of 25.3m sq. ft (December 2020), of which 5.7m sq. ft is under construction speculatively.
- 7% market vacancy rate.
- 112 new enquiries for logistics space logged in Q4 2020.

10.9 It is anticipated that 2021 will see much more considered thinking from occupiers who need to adapt their supply chain and distribution models to the post-COVID-19 world. This will entail greater thinking about future levels of online retail and the required inventory levels, but also the changing geographies in terms of customer delivery. It is also likely we will see more evidence of intentions emerging from the manufacturing and automotive sectors. Whilst not expecting a sharp rebound in warehouse demand initially, there is every likelihood that discussions around nearshoring move away from media construct to actual requirements for new space. Indeed, recent research (source: Savills) suggests that every £1bn of investment by UK manufacturers triggers a ripple effect for 175,000 sq. ft of additional warehouse space needed in the supply chain.

Regional

10.10 By contrast, strategic warehousing is not a significant feature of the South Hampshire property market, despite the presence of the Port of Southampton.

10.11 In the last 25 years, there have been very few warehousing transactions of significant scale, those of note being:

- Tesco, Nursling (1996) – 325,000 sq. ft
- Lidl, Nursling (2017) – 450,000 sq. ft
- Xpediator, Southampton Port (2021) – 200,000 sq. ft

10.12 Part of the reason is that South Hampshire suffers from a competitive disadvantage on pricing compared to the UK's prime warehousing locations; in rental terms this is approximately £3 psf – so, for a major warehousing user, this is at least £1.5m pa in property costs alone. This coupled with the 'double handling' issue and lack of a 360 degree catchment makes the area less attractive to many occupiers. It also limits the size of unit occupiers will take in the area. Elsewhere we see applications for 1m sq.ft units + but these are less likely to locate here.

10.13 That said, several large-scale (for South Hampshire) warehousing requirements have failed to be satisfied in South Hampshire over the last 10 years, as there were no adequate allocated sites, notably Cooperative Group (a regional distribution centre relocated from Fareham to Andover) and Wiggle (the online retailer retained its head office function in Portsmouth, but relocated warehousing to the Midlands).

10.14 In this context, feedback from our market engagement suggested that provision be made in the region for limited number of strategic warehousing sites – perhaps upto 5 throughout the region, each of 8-10 hectares and adjoining the motorway network.

Although the market is, as noted, generally unproven, there is evidence to support that allocated sites are taken up. Andover and the A303 is a prominent example of this, with a cluster of transactions over the last 10 years, including:

- Cooperative Group (2011) – 467,000 sq. ft
- Ocado (2014) – 239,000 sq. ft
- West Coast (2016) – 341,000 sq. ft

10.15 In addition to the market forecast for a small number of large sites, our market engagement identifies that South Hampshire will also continue to see non-strategic warehousing take-up (up to 100,000 sq. ft), to satisfy the continued demand for 'last mile' logistics space. This forecast demand is captured within the general market take-up figures in sections 7 & 8 of this report, but planning authorities will need to consider where sites to address this demand are located. Fundamental to occupiers' requirements is quick and direct access to the motorway network – which is why locations such as Nursling (home to Tesco and Lidl) have captured demand; sites allocated adjoining motorway junctions will be required.

Recommendations

10.16 The PPG explicitly notes that 'traditional' assessments of need may not capture the need for new logistics space (PPG 2a 31). A further adjustment to 'need' may be warranted.

10.17 Here our market assessment would support some additional land. Our Past Trends approach is unlikely to have fully captured demand for logistics in the South Hampshire urban area.

10.18 We also consider that logistics demand is only likely to strengthen - especially with COVID-19 in mind. Occupiers who may not have previously considered South Hampshire may now be looking for space.

10.19 In the absence of a quantitative assessment, it falls to a market view, drawing in market signals and a view of occupier demand which includes consideration of previously missed 'opportunities'.

10.20 Pragmatically the number of sites that can be offered will be limited by the availability of accessible sites. As noted above a market attractive site needs to be highly accessible to the motorway network. The sites also need to be available for single large unit(s) – as opposed to general sites whereby unit sizes can be smaller and easier work around constraints.

10.21 We still need to give the Councils a guide as to how many sites to look for in any supply side assessment; a number that provides room for the market to grow whole not needlessly over allocating sites. Agents agree that demand is not infinite here; but because it is new demand that has yet to establish itself in the market there is 'chicken and egg issue'.

10.22 Refencing the guidance set on in the PPG, which for logistics is strongly based on qualitative evidence (as opposed to quantitative evidence) our rounded view would be that the Councils ought to look for upto 5 new 8-10ha sites for larger unit logistics.

This would appear to balance the risk of gross over-provision of sites (in an unproven market) with need for the planning authorities to plan positively for logistics.

10.23 10ha is given as a guide because it is a size that could accommodate units at the upper end of those know to demand space in this area. But 10ha cannot be used as a maximum size. Should sites be available and local evidence justify 'need' there is no reason why larger strategic sites could not be supported with additional evidence. But we don't have the evidence to support this scale of development here and consider our 5 site suggestion proportionate.

10.24 Finally – it is important to note that even within the baseline need we expect considerable logistics take-up. This adjustment relates only to larger occupiers who need a specific type of site that is not necessary the same as a traditional mixed B class industrial site.

11 Conclusions and Recommendations

Introduction

11.1 This report is drafted in very uncertain times. Not only are the planning authorities subject to a changing policy landscape – with Government introducing a new Use Class but also much more aggressive housing targets and COVID-19.

11.2 However, plans need to be kept up to data and regularly reviewed. At the time of drafting England is hoping for a rapid return to growth and while it is difficult to second guess how the market and occupiers will respond the planning authorities need to be ready to respond positively and – most importantly – ensure land is available for development so we don't constrain growth.

Geography

11.3 This report considers two geographies – firstly the South Hampshire FEMA in the south of the county and secondly northern Test Valley.

11.4 In this report we have based our analysis on data published at the LPA level but in practice this is only a starting point.

11.5 Local Planning Authority boundaries are far from perfect and don't reflect the functional economic market area. Planning guidance encourages planning authorities to work together to ensure that economic needs are addressed.

11.6 Here, district data needs to be considered with extra care given how interconnected the South Hampshire area is and also how small some of the quantitative numbers are.

11.7 In applying our recommendations, the planning authorities should look to ensure that across the South Hampshire FEMA the best sites are available; with the lowest reasonable barriers to delivery and the most chance to simulate delivery.

Office 'Need'

11.8 The 2016 study promoted a large uplift in office stock – on the expectation that this new space would be required to accommodate office job growth.

11.9 For the 'whole districts' our analysis suggests the planning authorities should (according to the 2016 study) have delivered around 1,000 jobs per annum (11-18) and they appear on track.

11.10 However, it is the case that the cities have lost office sector jobs. Outside the cities the districts have gained jobs and some appear to have grown more jobs than envisaged. But we need to be cautious with LPA data for the reasons discussed above. The distribution of where jobs were delivered in the past may not reflect the future availability of land and other policy considerations. Councils can move 'need' within the FEMA to better match need and supply.

11.11 What is clear is that regardless of this job growth very little new space has been delivered in recent years. More space has been lost, including via permitted development, than gained.

11.12 We think this is likely to have been a loss of underused or inefficiently used space. Over the last 10 years or so South Hampshire firms have chosen to invest and refurbish older stock rather than take new. Various changes – including the switch to new more dense desk layouts mean that firms can now accommodate more people in the same stock. Added to this home/agile working has allowed firms to use their built stock more efficiently.

11.13 In this report we still advise that the planning authorities continue to promote a strategy where new space is provided for office job growth. We again base our recommendation on a 'Labour Demand' Scenario. And we also generate a positive requirement for new land/floorspace. So; we need to be cautious not to repeat past mistakes.

11.14 We recommend positive provision because agents report that the occupier market is now more balanced than in 2016 (or 2011). Poorer quality stock has already been lost via PDRs and the big space / productivity improvements to the stock have largely been made. There becomes a point where firms can no longer accommodate job growth in their existing stock.

11.15 But we are much more cautious about promoting new office space than previous evidence. Mainly because rents are still below those needed to make development generally viable. COVID-19 remains a risk and we recommend the Councils continue to monitor their office employment densities as the market recovers.

11.16 So, it would be sensible, in the context of almost no delivery in the last 10 years to advertise this number as 'aspirational' and the planning authorities recognise that it may take time before the market starts to deliver at pace. With rents someway from being viable no planning authority should be under any illusion the market will start delivering 'per annum' but it will instead take time for confidence to return. Stressing this will be important in helping planning authorities defend the best office sites from (hopefully) short term market signals that could be used to justify the release of 'lost opportunity' sites. If the economy rebounds and this does not translate into net additional floorspace the likelihood is that office densities are still falling and the space not 'needed'.

11.17 The tables below summarise our office need.

11.18 Table 11.1 shows the total need for office space over the period 2019-40 and Table 11.2 breaks this into periods as required by the brief. The economic forecast is not perfectly linear and this explains the slight differences between the time periods in table 11.2.

11.19 All 'net' numbers allow for 7.5% vacant space in addition to the net floorspace need – as explained om the Labour Demand chapter. In table 11.2 we suggest the vacant stock adjustment is addressed in the first five-year period because it relates to a

possible undersupply in the market at the base date (inc. a correction for possibly too high PDR losses).

11.20 As a matter of principle, and partly because we don't want to further inflate our assessment for additional contingency, we would advise the Councils 'front load' their supply with sites that can be delivered more quickly than our phasing may suggest. This is needed to manage any (upwards) risk and uncertainly in our analysis without adding more quantitative supply into the assessment. Local evidence bases should explore this further.

11.21 This results in a total net need of 390,000 sqm of space (20,000 in Test Valley North) up to 2040. It allows for forecast job growth and a reasonable level of vacancy. It also adjusts for where too much space may have been lost in recent years.

11.22 Due to differing plot ratios for offices we recommend focusing on the floorspace estimates with local evidence applying specific densities when making allocations in plans.

Table 11.1 Net Office Floorspace Need (Labour Demand) 2019-40

2019-40	a	b	c	d
	Net demand	Vacant stock adjustment	Total net demand	
PfSH	sq m	sq m	sq m	ha
EAST HAMPSHIRE (PfSH)	1,675	244	1,919	0.3
EASTLEIGH	81,489	14,316	95,805	16.0
FAREHAM	38,892	-297	38,595	6.4
GOSPORT	12,535	2,081	14,616	2.4
HAVANT	38,143	334	38,477	6.4
NEW FOREST (east)	10,450	786	11,236	1.9
PORTSMOUTH	54,596	19,621	74,217	12.4
SOUTHAMPTON	57,656	3,303	60,959	10.2
TEST VALLEY (PfSH)	18,804	1,372	20,176	3.4
WINCHESTER (PfSH)	36,210	259	36,468	6.1
PfSH total	**350,450**	**42,019**	**392,469**	**65.4**
TEST VALLEY (excl S Hants FEMA)	17,446	2,902	20,348	3.4

Source: Stantec

Table 11.2 Net Office Floorspace Need (Labour Demand) by period

Phasing	*Net demand*	*Vacant stock adjustment*	2019-25 Total net demand	2026-30 Total net demand	2031-35 Total net demand	2036-40 Total net demand
PfSH	sq m	sq m	sq m	sq m	sq m	sq m
EAST HAMPSHIRE (PfSH)	356	244	600	386	412	521
EASTLEIGH	21,567	14,316	35,883	19,784	18,666	21,472
FAREHAM	10,870	-297	10,572	9,345	8,535	10,142
GOSPORT	2,009	2,081	4,090	3,680	2,659	4,187
HAVANT	9,491	334	9,826	9,075	8,443	11,133
NEW FOREST (east)	2,385	786	3,171	2,532	2,455	3,078
PORTSMOUTH	9,624	19,621	29,244	13,747	12,912	18,313
SOUTHAMPTON	10,401	3,303	13,704	15,360	14,255	17,639
TEST VALLEY (PfSH)	3,097	1,372	4,469	5,132	4,493	6,082
WINCHESTER (PfSH)	8,621	259	8,880	9,122	8,021	10,446
PfSH total	**78,420**	**42,019**	**120,439**	**88,165**	**80,851**	**103,014**
TEST VALLEY (beyond PfSH)	2,918	2,902	5,820	6,516	3,561	4,451

Source: Stantec

Note: Net demand generated by job changes
Vacant stock adjustment added to immediate period - to return existing vacant stock levels to the level needed for optimum market efficiency (7.5%).
2019 is the baseline year (year 0). 2019-25 = 6 years, all other periods 5 years.

Sites and Losses

11.23 This study does not consider sites or supply to meet 'need'. The planning authorities will, as part of their local evidence, need to assess the stock of sites and consider the quality of the portfolio.

11.24 In the past it was clear that losses exceeded gains even when period evidence suggested the Councils should be planning for growth. At the time of writing, we understand from HCC data that 'pipeline' losses are around 68,000 sqm. The majority of the loss is in Southampton and relates to a small number of large PDRs.

11.25 We show this as 'illustrative' because we cannot determine whether this pipeline will be implemented nor whether the loss can be 'made good'. There may be other losses in plans that have not been reported to HCC – for example where a loss is implied in a adopted or proposed housing or mixed used allocation but permission not yet granted. As a matter of principle, the planning authorities should seek to replace losses.

11.26 We note the scale of the losses here only as a reminder as to how important it is that the planning authorities, in their local evidence base, robustly assess the likelihood of these losses (and others) being implemented in the assessment period. Our analysis is always presented as 'net' and any losses need to be replaced.

Table 11.3 Office Pipeline Losses

2019-40 PfSH	Pipeline loses sq m
EAST HAMPSHIRE (PfSH)	0
EASTLEIGH	2,966
FAREHAM	3,658
GOSPORT	1,113
HAVANT	3,022
NEW FOREST (east)	0
PORTSMOUTH	4,979
SOUTHAMPTON	49,676
TEST VALLEY (PfSH)	0
WINCHESTER (PfSH)	3,054
Total PfSH	**68,468**
TEST VALLEY (excl S Hants FEMA)	4,985

Source: Stantec / HCC

Industrial 'Need'

11.27 The industrial market in the South Hampshire FEMA has, after many years of decline, started to grow again.

11.28 This is a reasonably new trend; a 10 year 'Past Take-up' approach is negative but a 5 year positive.

11.29 Care is needed promoting any short term trend but here the evidence would suggest a strengthening logistics and warehousing market. For the traditional industrial sectors, the economic forecasts still suggest a loss of jobs over time – but the large scale, structural changes in the industrial market that released lots of brownfield land for housing in the past appear to be over. Across the broad industrial sector vacancy rates are now very low and developers are delivering speculative space.

11.30 So, our recommendation is based on a 5 year past trend projection. This generates a 'need' for 670,000 sqm for South Hampshire and 311,000 sqm for Northern Test Valley. Because industrial plot ratios are much more stable with most occupiers / developers working to 40% the planning authorities may find it easier to work with this being expressed in terms of hectares – 168ha / 78ha.

11.31 As with offices Table 11.4 shows need over the whole period and 11.5 brakes this down by period – front loading the 'vacant stock adjustment' into the first period.

Table 11.4 Net Industrial Need (5 Year Trend) 2019-40

2019-40 PfSH	a Net demand sq m	b Vacant stock adjustment sq m	c Total net demand sq m	d ha
EAST HAMPSHIRE (PfSH)	0	5,483	5,483	1.4
EASTLEIGH	3,614	35,805	39,419	9.9
FAREHAM	88,906	13,248	102,154	25.5
GOSPORT	59,386	2,536	61,922	15.5
HAVANT	23,437	13,062	36,499	9.1
NEW FOREST (east)	-51,597	10,256	-41,341	-10.3
PORTSMOUTH	177,513	32,702	210,214	52.6
SOUTHAMPTON	-44,953	13,852	-31,101	-7.8
TEST VALLEY (PfSH)	207,419	2,861	210,280	52.6
WINCHESTER (PfSH)	72,848	4,103	76,950	19.2
Total PfSH	**536,572**	**133,908**	**670,480**	**167.6**
TEST VALLEY (excl S Hants FEMA)	295,104	16,091	311,195	77.8

Source: Stantec

11.32 Note - The negative figures in some districts should not be seen as a target for losses because this capacity may be available to meet another areas need in the FEMA.

Table 11.5 Net Industrial Need (5 Year Trend) by period

Phasing PfSH	*Net demand* sq m	*Vacant stock adjustment* sq m	2019-25 Total net demand sq m	2026-30 Total net demand sq m	2031-35 Total net demand sq m	2036-40 Total net demand sq m
EAST HAMPSHIRE (PfSH)	0	5,483	5,483	0	0	0
EASTLEIGH	1,033	35,805	36,837	860	860	860
FAREHAM	25,402	13,248	38,650	21,168	21,168	21,168
GOSPORT	16,967	2,536	19,504	14,139	14,139	14,139
HAVANT	6,696	13,062	19,758	5,580	5,580	5,580
NEW FOREST (east)	-14,742	10,256	-4,486	-12,285	-12,285	-12,285
PORTSMOUTH	50,718	32,702	83,420	42,265	42,265	42,265
SOUTHAMPTON	-12,844	13,852	1,008	-10,703	-10,703	-10,703
TEST VALLEY (PfSH)	59,263	2,861	62,124	49,385	49,385	49,385
WINCHESTER (PfSH)	20,814	4,103	24,916	17,345	17,345	17,345
PfSH total	**153,306**	**133,908**	**287,214**	**127,755**	**127,755**	**127,755**
TEST VALLEY (beyond PfSH)	84,315	16,091	100,406	70,263	70,263	70,263

Source: Stantec.

Note: Net demand generated from projecting forward past trends (5 years 2015/16-19/20 inclusive)
Vacant stock adjustment added to immediate period - to return existing vacant stock levels to the level needed for optimum market efficiency (7.5%).
2019 is the baseline year (year 0). 2019-25 = 6 years, all other periods 5 years.

For Hectares 40% / 4000sqm per ha should be used.

Strategic Warehouses

11.33 In addition, to provide additional scope for a new generation of warehouses / logistics users (in the South Hampshire FEMA) we recommend that the planning authorities consider allocating an additional (up to) 5 new sites, in highly accessible locations (to the motorway network) suitable for larger warehouses.

11.34 As a guide these should be around 10ha (min 8ha) and would increase the overall need for land by a further 50 or so hectares.

11.35 Where this need is located is dependent on the availability of sites – by nature the demand is both footloose but also services an area larger than a single district.

11.36 Where highly accessible sites are identified by planning authorities, and they are suitable for larger logistics units, they should be allocated in addition to the 168ha. Our 5 sites estimate is provided as a guide to help the planning authorities look for sites to allocate. This will also depend on the suitability and availability of sites. The estimate forms a starting point for considering sites.

Sites and Losses

11.37 As with offices we have a small pipeline of losses to replace should they be implemented. This only picks up those losses permitted and reported to HCC. The data suggests there is a much smaller pipeline of losses but there may be many more in adopted or emerging plans where a loss in implied but not yet permitted.

Table 11.6 Industrial Pipeline Losses

2019-40 PfSH	Pipeline loses sq m
EAST HAMPSHIRE (PfSH)	722
EASTLEIGH	19,512
FAREHAM	2,530
GOSPORT	0
HAVANT	4,750
NEW FOREST (east)	2,800
PORTSMOUTH	1,137
SOUTHAMPTON	11,700
TEST VALLEY (PfSH)	0
WINCHESTER (PfSH)	0
Total PfSH	**43,151**
TEST VALLEY (excl S Hants FEMA)	608

Source: Stantec / HCC

Transformational Projects

11.38 Finally, this report focused on assessing 'Need' as prescribed by the Planning Practice Guidance. Our assessment of need may not meet stakeholders' aspirations for additional growth; nor other 'policy on' factors.

11.39 Planning authorities, and other stakeholders, may for example consider that they can grow faster than our office demand forecast and so choose to allocate additional sites over and above our assessment. The Freeport bid, or any other 'policy on' stimulus could increase needs in the industrial or logistics sectors.

11.40 This is within the positive spirit of planning and our numbers should not be used as a limit or cap on demand. In practice many 'policy on' interventions are likely to be publicly assisted in some way and come forward as site specific schemes. We would expect, with our analysis in hand, that the planning authorities with stakeholders would want to further investigate the apparent failure of the city office markets to deliver new space.

11.41 Our evidence suggests that there is future capacity in the housing stock to accommodate more people, should they be motivated to move to South Hampshire. Perhaps because of a successful inward investment or delivery of a 'transformational project'.

11.42 Given the size of the housing 'boost' – over baseline trend based growth – there is significant capacity to accommodate more people before additional homes are needed.

Test Valley and Winchester Advice

11.43 In this report we conclude with some specific advice for Winchester and Test Valley.

Winchester

11.44 Stantec provided Winchester with a ELR in 2019. For offices the scale of office job growth in the District is almost identical between the two studies.

11.45 But our recommendations vary very slightly due to the fact that our local ELR noted stronger and more viable demand in the Winchester City area of the district. We suggested Winchester, as matter of local policy and seeking to match need and supply, may wish to consider a greater share of office growth be accommodated in the City (75%) than in the South of the District.

11.46 Here we assume 50/50 because we don't have scope to advise on policy responses between the districts in our study area. It would not be appropriate for us to make an adjustment for Winchester we don't make for other Councils.

11.47 For Industrial uses this study aligns with our higher Winchester industrial scenario (without any consideration of larger warehouses – i.e. the 5 sites)

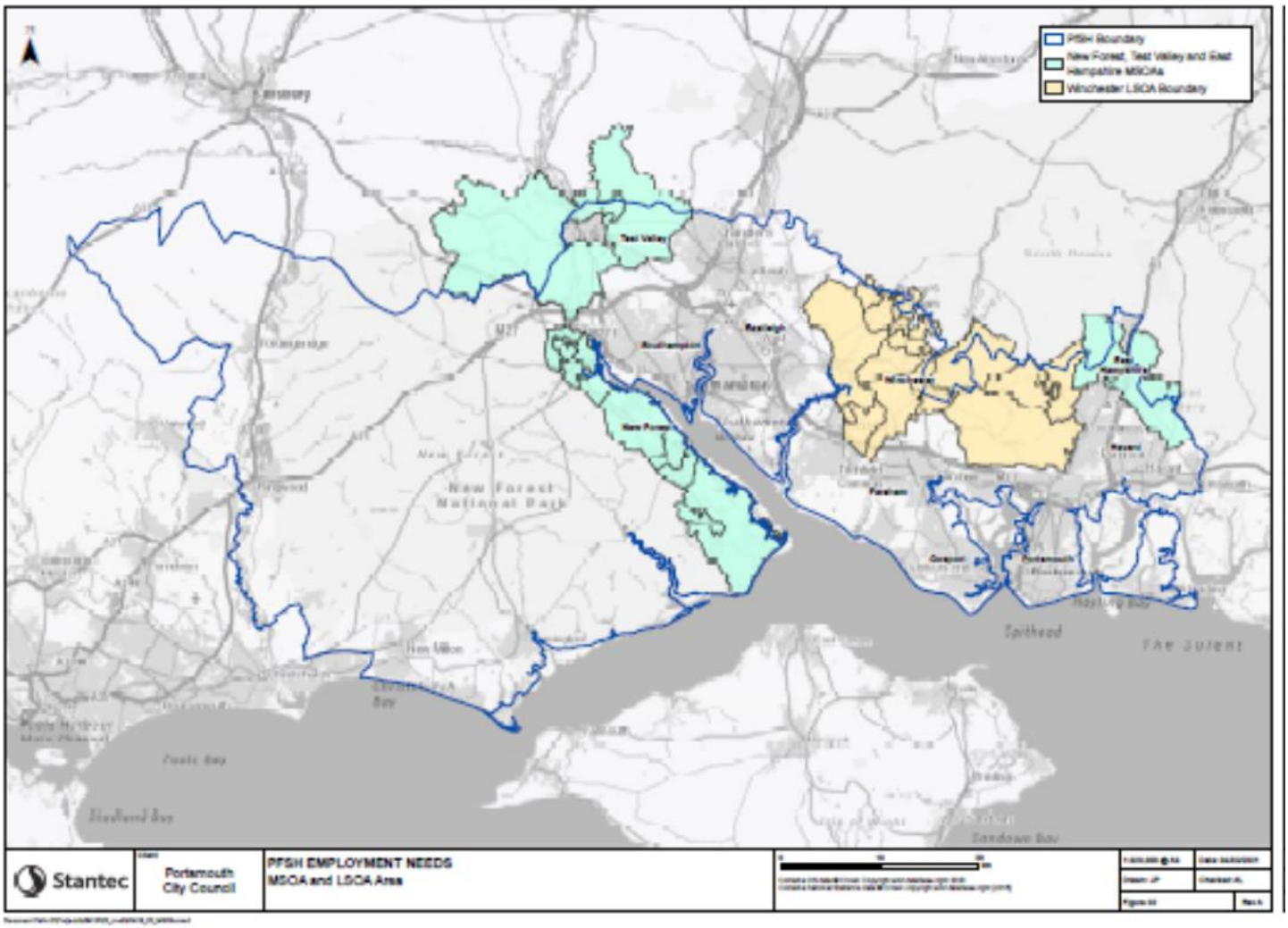
Test Valley

11.48 The focus of much of the report is on the Southern part of Hampshire. It is useful to summarise our recommendations for Test Valley and how the Council may take these forward.

11.49 For the south of Test Valley our analysis above, especially for industrial uses suggests that the area should accommodate a large share of the area's total need, disproportionate to the small area of the borough in South Hampshire. But this is not factually correct; this 'need' reflects the fact that Southern Test Valley has successfully delivered new space – it made market attractive allocations at the right time in the past. Quantitatively the high take-up in this area is driven by the success at Nursling and specifically the Lidl depot that opened inside the 5 year period we use to base our projections. But it does not automatically follow that this must be accommodated in this location in the future – this need will be distributed to the most appropriate sites throughout the sub region as part of later PfSH work within the FEMA.

11.50 For the North of the district the 'need' reflects previous generations of larger scale warehouses. Again there is no certainty that a new generation of sites could be found in North Test Valley to accommodate this. In which case the Council will need to work with its FEMA partners to distribute this need. We don't, in this work, confirm a North Test Valley FEMA. That is a matter for the Council and the EM3 LEP – but we note that the logistics FEMA (logistics drive the need in Northern Test Valley) is likely to extend along the M3 / A303 corridor and so may require joint working with Councils east and west of the district.

Appendix A MSOA boundaries map



Appendix B Map depicting the boundaries of the Southampton office sub-areas

Appendix C Detailed economic forecasts (Experian economics)

Appendix D Economic sector to B class land use

Appendix E Labour supply method

EXPLORING THE POTENTIAL CONSEQUENCES OF BUILDING IN LINE WITH THE NEW STANDARD HOUSING NEED FORMULA IN THE PfSH FEMA AREA

1. Introduction

1.1. Building new homes in line with the new standard method would mean building more homes than are implied by the household projections. This begs the question of who would live in those homes. For each home it could be either people who the projections envisage would be living in the area but would otherwise have been part of another household or an additional household attracted to the area (or a household that would otherwise have left the area). In the first case there would be no increase in the population above that envisaged in the projections but household formation rates would be higher. In the second case there would be an increase above the projected population, the size of that increase depending on the size of the additional household, but there would be no increase in household formation rates. The likelihood is that in most areas there will be a mix of the two cases. In high demand areas the second case is likely to predominate and in lower demand area the first case would be more common. Indeed, in some lower demand areas there is likely to be a net reduction in population as more people are attracted to other, higher demand areas than arrive from elsewhere in the country.

1.2. This piece of analysis considers first whether in the PfSH area it is plausible that the additional homes above those envisaged in the projections could be filled by people projected to be in the area as a result of more households being formed by that population. It then considers what the implications would be for the population of the area and the resident workforce if, alternatively, all the additional homes were filled by extra households migrating to the area.

1.3. It should be noted that the calculations made in this analysis depend heavily on the assumptions made. With different (but not implausible) assumptions, significantly different numerical answers would be obtained although the broad conclusions are likely to be similar.

2. Is it plausible that the additional homes required by the new standard method could be filled by increased household formation?

2.1. Household formation rates have fallen for many groups in most local authorities since the turn of the century. In many case this is likely to be due to the increasing unaffordability of housing, although other factors have played a significant role for some age groups. Increasing the housing supply in line with the Government's objectives could lead to improved affordability, leading in turn to more households being formed than might otherwise have been the case. Could this conceivably absorb all the additional housing required by the standard need formula?

2.2. One very practical way of assessing this is to calculate how many homes would be needed if household formation rates were, as a minimum, to return to the levels they

were at in 2001, with age groups[21] having higher rates if that is what the latest projections suggest. This is sometimes referred to as applying a '2001 household formation rate floor'.

3. Calculating standard housing need

3.1. The first step is to calculate an up to date standard housing need figure for each of the PfSH authorities using the updated method announced on 16 December 2020. In particular:

3.1.1. The starting point is the projected average annual household growth over the ten year period 2021-31 in the 2014-based household projections. This has been taken from MHCLG Table 406 from those projections.

3.1.2. In line with the standard formula, the affordability adjustment has been based on the latest ratio of median house prices to median workplace earnings. This is currently the 2019 ratio published by the ONS on 19 March 2020. The 2020 ratio is due to be published in March 2021.

3.1.3. The caps in the formula only bite in the case of the New Forest District for which the cap is 40% above the housing requirement figure set in the local plan adopted on 6 July 2020.

3.1.4. Southampton attracts the 35% city/urban uplift.

3.2. The table below shows the calculated standard housing need figures:

	Standard housing need 2021-31
East Hampshire	617
Eastleigh	687
Fareham	508
Gosport	344
Havant	508
New Forest	785
Test Valley	546
Winchester	692
Portsmouth	862
Southampton	1,393

Source: NMSS

4. Estimating the number of homes needed if, at minimum, household formation rates return to 2001 levels: the '2001 HRR floor'

4.1. These calculations have been carried out using the 2018-based projections as these are the most recent and should generally be more reliable than the 2014-based set. They have household formation rates that are virtually identical to those in the 2016-based projections. They also use the ONS's latest population projections – the 2018-based Sub-national Population Projections (2018 SNPP) which incorporate a number of methodological improvements made to the 2014-based projections, some of which make a significant difference for some authorities. In addition they have the benefit of 4 years more recent data.

4.2. The average number of homes a year needed to achieve the '2001 floor' depends on when the floor has to be achieved by. If, for example, it is stipulated that all age groups the HRR must at least equal the HRR in 2001 by 2029 the average number of homes needed a year over the period 2019-29 would be significantly higher than if the floor did not need to be achieved until 2040. To illustrate this two sets of calculations have been performed, one taking 2029 as the date for achieving the 2001 floor (i.e. 10 years into the plan period) and the and the other setting the target at 2040 (i.e. the end of the plan period).

4.3. In both cases the average number of homes a year required from 2019 to the target year has been calculated on the assumption that:

4.3.1. For each age group (i.e. males and females together) the Phase 1 HRR at the target date is at its 2001 level if this is higher than the level in the 2018-based projections. Otherwise the HRR is at the projected level.

4.3.2. The proportion of empty and second homes is the same as it was on average in the three years 2018-20.

4.4. There are four PfSH authorities for which only part of the additional population and household growth will contribute to the working population of the PfSH area: East Hampshire, New Forest, Test Valley and Winchester. That proportion depends on where the additional homes are built. This in turn will be influenced by the plans and policies of the authorities concerned. In this analysis the proportion has therefore been based on figures supplied by the local authorities in the case of East Hampshire, Test Valley and Winchester. The New Forest figure is based on the proportion of the district's population resident in the relevant MSOAs in 2019, the assumption being that these MSOAs grow in line with the district as a whole. The proportions are given in the table below, together with the standard method figures and the housing need numbers implied by the 2018-based projections with and without the '2001 HRR floor' figures showing the two dates for achieving the 'floor' – 2029 and 2040.

	Proportion of authority in PfSH FEMA	Standard housing need 2021-31	Housing need implied by	Housing need implied by 2018 SNHP with '2001	Housing need 2019-29 to achieve 2001
East Hampshire	18%	111	63	91	134
Eastleigh	100%	687	423	534	697
Fareham	100%	508	227	337	478
Gosport	100%	344	98	160	233
Havant	100%	508	449	540	677
New Forest	39%	306	136	202	295
Test Valley	33%	180	133	184	263
Winchester	34%	235	118	153	209
Portsmouth	100%	862	337	504	664
Southampton	100%	1,393	428	708	981
Total		**5,136**	**2,411**	**3,414**	**4,630**

Source: NMSS

Nb. For authorities only partly within PfSH only the relevant proportion of the housing need has been included.

4.5. As the above table shows, the standard housing need for the PfSH area is 5,136 homes a year. That is over twice the need suggested by the 2018-based household projections (2,411). Setting an objective of ensuring that all age groups have at least as high a chance of setting up a separate household in 2040 as they had in 2001 would increase the need figure to 3,414 – only two thirds of the standard housing need. Bringing forward the date for achieving the 2001 floor to 2029 increases the average number of homes a year needed in the first 10 years of the plan period to 4,630 – 90% of the standard housing need figure.

4.6. Although the 2001 household formation rates generally represent a high point in household formation rates, there is no reason why, given the right market conditions they should not be exceeded. Indeed, household formation rates in 2001 varied considerably from authority to authority. If, for example, the HRR floor for a given authority were taken to be highest level for each age and sex group in 2001 in the PfSH area (rather than the 2001 HRR in that authority), the implied housing need figure would be significantly higher. **We can therefore conclude that it is possible that all the additional homes required by the new standard method could be filled by people who are projected to be in the area by the latest projections for the first 10 years of the plan period. Thereafter the extra homes could only be filled by people projected to be in the area if household formation rate were to improve significantly above the 2001 floor levels.** That could happen, but it is debatable how plausible it is. Indeed, even achieving the 2001 'floor', let alone exceeding it, will depend on whether market conditions enable sufficient households to buy or rent the extra homes and the strength of competition from households moving in from outside the area.

5. Estimating the population and workforce in 2040 if all the additional homes were filled by new migrants

5.1. We now turn to the other end of the spectrum of possible outcomes and consider what the population and workforce of the PfSH area would be if all the homes above those implied by the household projections were filled by new migrants to the area. There are two steps to this analysis:

5.1.1. Estimating what the population would be in 2040 if homes are built in line with the new standard method.

5.1.2. Applying activity/participation rates to the estimated population to estimate how many people in the area would be in employment in 2040.

5.2. The 2018-based household projections are again taken as the starting point as, as discussed above, they are the most recent and likely to be more accurate than either the 2014 or 2016-based projections.

5.3. There are two key assumptions:

5.3.1. What the age profile of any additional people assumed to move into the area is.

5.3.2. What activity/participation rates are assumed to be in 2040.

5.4. There is an almost infinite range of possible assumptions on the age profile of the additional migrants. However, two very different options have been evaluated to give an indication of the likely range of outcomes:

- The age distribution of the additional migrants is the same as those projected to arrive in the base household projection.
- The age distribution is same as those projected to arrive in the base household projection up to and including age 50 and that there are no additional migrants above the age of 50.

5.5. The first case is fairly extreme: it is perhaps unlikely that additional pensioners will move to an area in significant numbers just because more homes are available. The second is perhaps more realistic and assumes that those at or near retirement age won't move – perhaps a reasonable assumption if the main driver of additional moves is employment opportunities. Again, the actual outcome is likely to be between these two cases, possibly closer to the second.

5.6. It has also been assumed that:

5.6.1. The additional migrants behave in exactly the same way as those who are projected to be in the area i.e. they have the same household formation rates and the same propensity to give birth, die and leave the area.

5.6.2. The same proportion of homes are empty or used as second homes in 2040 as the average in the years 2018-20.

5.7. The table below summarises the results from this stage of the analysis. As is to be expected, the population of all the PfSH districts grows much faster than envisaged in the 2018-based projections if all the extra homes are filled by new migrants. Assuming the additional migrants are aged 0-50 produces a somewhat larger population growth as households formed within that age group tend to be larger. However, the broad conclusion is that the population of the PfSH area would need to grow around three times as fast as envisaged in the latest ONS projections.

	Percentage of population and household growth assumed to be in PfSH FEMA area	2018 SNHP	All age migrant fill extra homes	% increase above 2018 SNHP	Migrant aged 0-50 fill extra homes	% increase above 2018 SNHP
East Hampshire	18%	100	217	118%	251	152%
Eastleigh	100%	776	1,435	85%	1,545	99%
Fareham	100%	294	972	231%	1,135	286%
Gosport	100%	-7	550	?	681	?
Havant	100%	714	853	19%	890	25%
New Forest	39%	112	488	336%	609	444%
Test Valley	33%	229	349	52%	375	64%
Winchester	34%	156	450	188%	528	238%
Portsmouth	100%	468	1,751	274%	1,921	311%
Southampton	100%	737	3,204	335%	3,488	373%
PfSH total		**3,578**	**10,269**	**187%**	**11,422**	**219%**

Source: NMSS

6. Estimating how many people could be in employment in 2040 if homes are built in line with the new standard method

6.1. To turn the population estimates into estimates of the number of PfSH residents who could be in employment in 2040 assumptions need to be made about the employment rate in the area in that year. Two assumptions have been modelled:

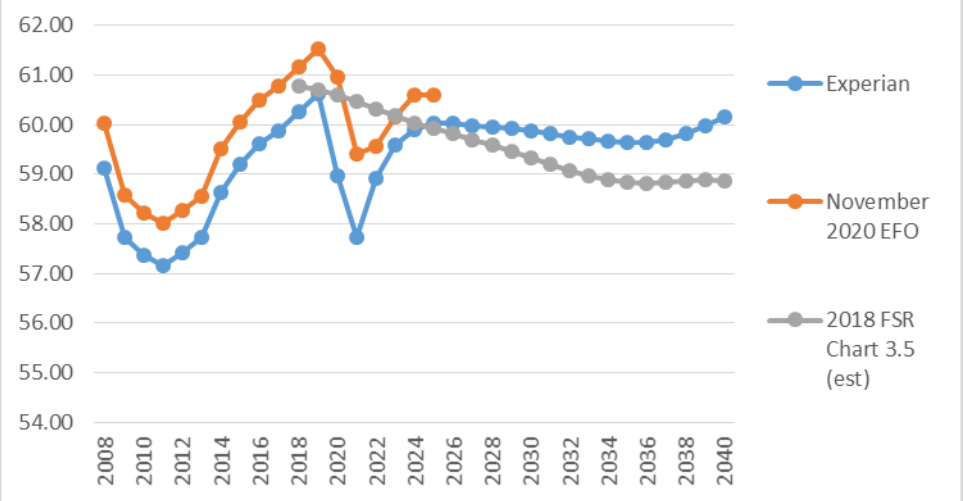
6.1.1. Employment rates have been derived from the Experian forecasts for the PfSH authorities. Both employment divided by the total population and employment divided by the16+ population have been used in the calculations and the average of the two results has been taken.

6.1.2. An estimate has been made of employment rates consistent with the OBR's participation rate assumptions by scaling the Experian rates for the individual authorities by the ratio of the OBR employment rate for the UK in 2040 to the Experian rate for the same year.

6.2. As far as NMSS is aware, the most recent long term employment rate forecast published by the OBR was that in Chart 3.5 of the 2018 Fiscal Sustainability Report, although November 2020 Economic and Fiscal Outlook (EFO) did include a forecast to 2025. The chart below compares these forecasts with Experian's. Note that the November EFO, which is more recent that either the Experian forecast or the 2018 FSR,

envisages a recovery after the pandemic to a higher activity rate than either of the earlier forecasts. This suggests that were the OBR to update their long term forecast, it may be closer to the Experian forecast. However, for the purposes of this analysis the 2018 FSR forecast has been used as this usefully illustrates the impact of taking a more cautious view of future activity rates.

Fig.1 Comparison of 16+ employment rates



Source: ORB and NMSS analysis

6.3. The table below summarises the results and compares the additional jobs that could be accommodated with the Experian forecasts.

		Experian employment rates		OBR consistent employment rates		
	Proportion of authority in PfSH FEMA	Ave employment increase 2019-40 based on extra homes filled by all age migrants	Ave employment increase 2019-40 based on extra homes filled by 0-50 migrants	Ave employment increase 2019-40 based on extra homes filled by all age migrants	Ave employment increase 2019-40 based on extra homes filled by 0-50 migrants	Experian resi employment increase
East Hampshire	18%	2,543	2,827	2,250	2,528	1,098
Eastleigh	100%	12,141	13,012	10,418	11,271	3,700
Fareham	100%	10,256	11,620	8,754	10,088	5,700
Gosport	100%	5,136	6,143	4,143	5,128	2,800
Havant	100%	9,188	9,474	7,703	7,983	6,000
New Forest	39%	5,468	6,400	4,633	5,545	2,925
Test Valley	33%	4,802	5,023	4,243	4,459	3,333
Winchester	34%	6,592	7,294	5,991	6,678	3,842
Portsmouth	100%	24,304	25,878	21,464	23,005	14,700
Southampton	100%	44,326	47,109	40,553	43,276	21,000
Total PfSH		**124,756**	**134,781**	**110,150**	**119,961**	**65,098**
% above Experian		**92%**	**107%**	**69%**	**84%**	

Source: NMSS

6.4. **As can be seen the range of results is fairly wide: from an employment increase of 110,000 2019-40 to nearly 135,000 over the same period, although both are very**

substantially in excess of the Experian forecast (65,000). The lower results are obtained using the 'all age migration' profile (which brings in more non-working migrants) and the OBR-consistent employment rate assumption (which assumes that a smaller proportion of the population is in employment).

7. Conclusions

7.1. This analysis shows that what happens to the population and workforce of the PfSH area if homes are built in line with the new standard method depends on the assumptions made about who fill the homes that are additional to those implied by the official projections. In particular:

7.1.1. **It is possible for all the additional homes to be filled by more households being formed by people who the official projections envisage will be in the area at least in the first ten years of the plan period.** For this to happen all that would be necessary is for the household formation rates in 2029 of all age groups to be only slightly higher than the higher of the rate envisaged in the 2018-based projections or the rate that applied in 2001. This would mean that the population and workforce would be the same as implied by the official projections in 2029. For the additional homes to be filled by existing residents after 2029 would require household formation rates to become significant higher than they were in 2021 or in the official projections (if higher). This is less likely as it would depend on homes being built at prices that allowed significantly more households to buy of rent them than was the case in 2001 or a much expanded social housing programme.

7.1.2. At the other end of the spectrum **if all the additional homes were filled by extra people moving to the area from the rest of England:**

- **the population of the PfSH area would grow around three times as fast as envisaged by the 2018-based official projection; and,**
- **the resident workforce of the PfSH would grow by 110,000 to 135,000 between 2019 and 2040, depending on the assumptions made about the age profile of the additional migrants and the local employment rate.** This compares with the Experian forecast of an employment growth of 65,000 over the same period.

7.1.3. In practical terms the analysis suggests that the new standard housing need figures provide sufficient housing for there to be both a return to the relatively good housing affordability of 2001 and the attraction of a bigger population than suggested by the latest projections – a population that would support a substantially larger employment growth than forecast by Experian.

7.1.4. It should be noted that what happens could be heavily influenced by whether other authorities in the South East also build in line with their standard housing need. That would produce a general over-supply of housing compared with what is suggested by the official projections, leading to what might, in effect, be a competition for households between different

parts of the South East and between the South East and the rest of the UK. In those circumstances there is, theoretically at least, a possibility that the population of the PfSH could actually be lower than projected. A lot would depend on the quality and attractiveness of the homes and jobs provided in the PfSH area.

NMSS

10 February 2021