

**London's Central Business District:
Its global importance**



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Executive summary

The Central Business District (CBD) including Canary Wharf is home to many of the capital's core activities and businesses, including not just international finance and business, but also world-renowned retail and leisure functions. It is a business district of global standing employing one and a half million people and is also home to around 300,000 residents and a celebrated centre for culture, including theatres, museums and cinemas. This report is designed to support the development of various policy strands on Central London and is aimed at filling a gap in existing analysis. By focusing on how the various functions of the central area interact we can hopefully understand better what underpins its uniqueness and gives London's economy dynamism.

Central London has a distinct economic geography containing a range of distinct concentrations and quarters. Notable examples are the financial district in the City of London, legal firms and functions around Holborn, retail and creative industries in the West End and higher educational institutions south of Euston. This report considers the characteristics and economic importance of these individual functions. The City is core to London's global city role, but also crucial are the range of professional and supporting business services that have national and international linkages in their own right.

London holds a significant market share in most of the key internationally traded financial services and is home to the world's international bond market and the London insurance market. Over the last decade it has strengthened its position relative to other financial centres, increasing its share of cross-border bank lending and foreign exchange turnover, while gaining an overwhelming share of the rapidly developing hedge fund market. Alongside the finance sector are world-class business services including legal firms, accounting and consultancy with their own distinct concentrations in and around the City of London and the West End. Together, financial and business services account for approximately 750,000 jobs – half of the total jobs based within the CBD.

The West End's retail sector offer is unmatched anywhere in the UK, and is a major attraction to shoppers from not just the UK but all over the world. The range of theatres, museums and galleries is world-renowned, a key element of the capital's tourist offer and a significant generator of export income.

Key to understanding the uniqueness of the CBD economy is how these various functions work in a cohesive manner. The critical mass (or agglomeration) of specialisations, including skills, knowledge, inputs and markets in the central area encourages growth and innovation. A location within the CBD is often a critical competitive advantage for a business. A 'cross pollination' of ideas occurs between different but interrelated business activities which enables further diversification and strengthening of the economic base. Nowhere has this been demonstrated more than in the rapid growth of London's creative industries sector, or in the development of new financial products such as derivatives.

The process of agglomeration, competition and innovation has in some cases led to Central London 'type' activities developing on the fringes of these areas, resulting in the geographic extent of London's CBD changing over time. The development of Canary Wharf can be seen from all over London, but change is also occurring in locations such as Paddington, riverside Southwark and Camden. These areas are becoming more 'CBD like' in the nature of the activities located there.

The opening up of international markets with globalisation and the continued economic development of emergent countries, notably India and China, throws up potential opportunities for London's CBD. For example, the need to address the weakness of the Chinese financial system suggests opportunities for law firms and economic consultants to offer advice on regulatory reform and system architecture. In India the need for greater investment offers opportunities for London's financial sector. London is well placed to take advantage of opportunities such as these given its concentration of world-class performing corporate financial and business services.



London is ranked as one of the world's top business centres alongside New York. London is able to attract highly skilled and talented individuals from across the globe and this means that the diversity and quality of its workforce is at least on a par with New York and unrivalled elsewhere. Openness to foreign operators, and the regulatory and legal environments are also key factors contributing to London's economic success.

However while progress is being made, improving the public transport network remains an ongoing challenge for all of London and particularly for the centre. A key argument that helped to secure the recent announcement of a funding package for Crossrail was how transport promotes agglomeration and productivity and this similarly applies to the Underground upgrade and Thameslink schemes. The economic primacy of the CBD means its linkages spread well beyond Greater London. Hence increasing transport capacity and reliability are key to strengthening these linkages if the central area is to fully realise its future job growth potential.

Ensuring that the CBD serves all of London cuts across a range of challenges. The concentration of employment at all levels in the centre is a potential opportunity to match workless individuals with jobs. This requires overcoming the barriers that prevent workers from entering employment and offering employers the skills and attributes they need.

Central London is a potential high profile target for terrorists as the events of July 2005 demonstrated. The Metropolitan Police continue to work with the Security Service and with Londoners themselves to combat this threat.

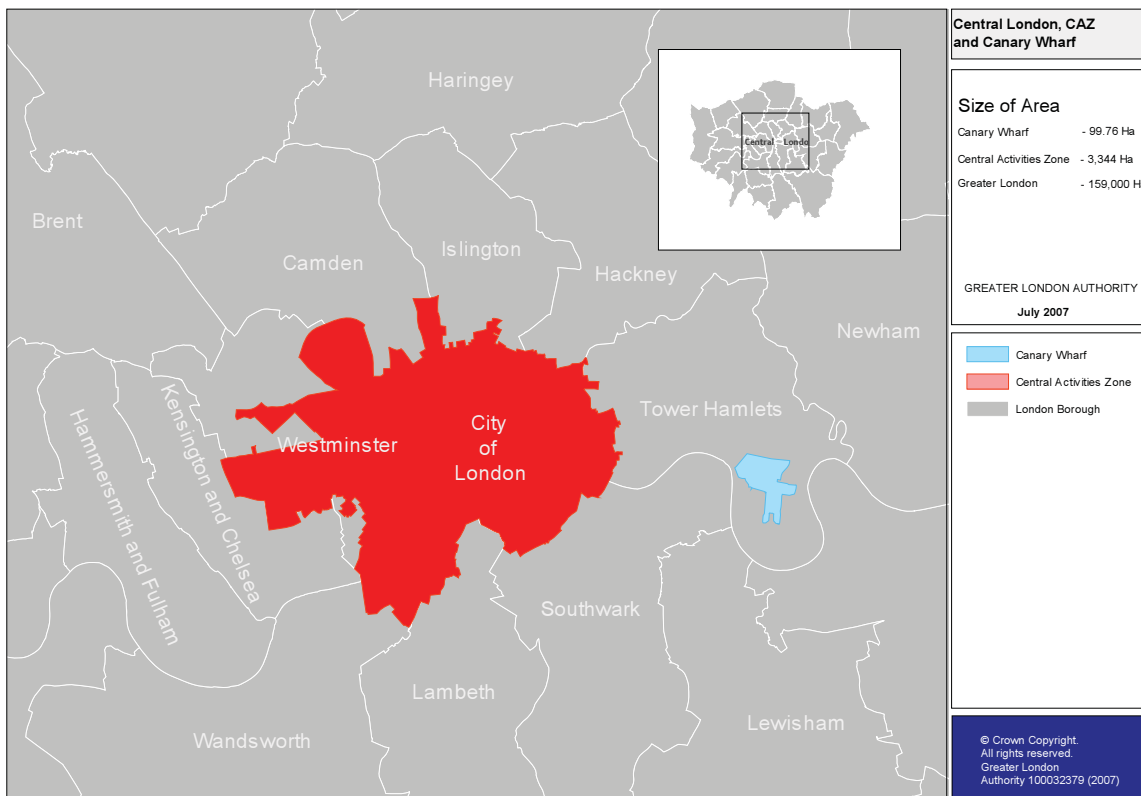
London's CBD is economically vibrant and successful. Its continued success is not inevitable and depends on retaining its strengths, such as its highly skilled and talented workforce, whilst tackling those areas which could hold back its potential, such as the need for ongoing transport and other infrastructure improvements to match its growing population and employment levels.

Introduction

This report is designed to support the development of various policy strands on Central London including the Central Activities Zone¹ (CAZ), Special Planning Guidance, and the West End Special Retail Policy Area (WESRPA). It also fills a gap, as while there are many studies of particular aspects of the Central London economy, especially with regard to financial and business services, we are not aware of any recent reports which have considered the economic landscape of Central London in an integrated fashion. By considering the various interactions between different functions of the Central Business District (CBD) we can better understand what underpins its uniqueness and economic dynamism.

Central London is home to many of the capital's core activities and businesses, including not just international finance and business, but also world-renowned retail and leisure functions. It is a business district of global standing employing one and a half million people and is also home to around 300,000 residents and a celebrated centre for culture, including theatres, museums and cinemas. This report focuses on the functions of London's CBD that make it a unique area within Central London rather than the totality of Central London, including its role as a residential area.

Figure 1: Location of CAZ and Canary Wharf



Source: Greater London Authority

We loosely define London's CBD as the CAZ plus Canary Wharf². Figure 1 outlines the geographic context of the CBD in relation to the Inner London boroughs. We recognise that Central London 'type' activities are also developing on the fringes of these areas, resulting in the geographic extent of London's CBD changing over time. We should also emphasise that London's CBD is part of a wider London city-region economy which extends beyond the boundaries of Greater London into the surrounding South East and East of England regions.

The economic primacy of London's CBD is emphasised by the sheer density of economic activity it captures, and not just in financial services. We outline some key economic facts on the CBD.

- The CBD including Canary Wharf is home to around 1.5m jobs – one-third of London's employment in just 2 per cent of London's land space.
- Activities such as fund management, banking, insurance, and other finance (located mostly in the CBD) total over £7.8 billion of exports per annum.
- Business services including consulting, legal, advertising, computing, architecture, engineering and media (again, mostly located in the CBD) and a range of other business services total over £7.7 billion of exports per annum.
- The CBD including Canary Wharf employs approximately 750,000 people in finance and business services.
- The area is a leading centre for foreign banks and is the number one location for international finance in general. In 2007, 245 foreign banks were present in London compared to 210 in New York, and 67 in Tokyo.
- The CBD is home to three out of the top four leading law firms in the world and over 200 foreign law firms.
- Total CBD employment is equivalent to the whole of Greater Manchester and well in excess of any North American CBD with the exception of New York – see Table 3.
- The West End, including Covent Garden, account for over £5.3 billion of comparison³ retail spending and 6.6 million square feet of comparison retail floorspace in 2006.

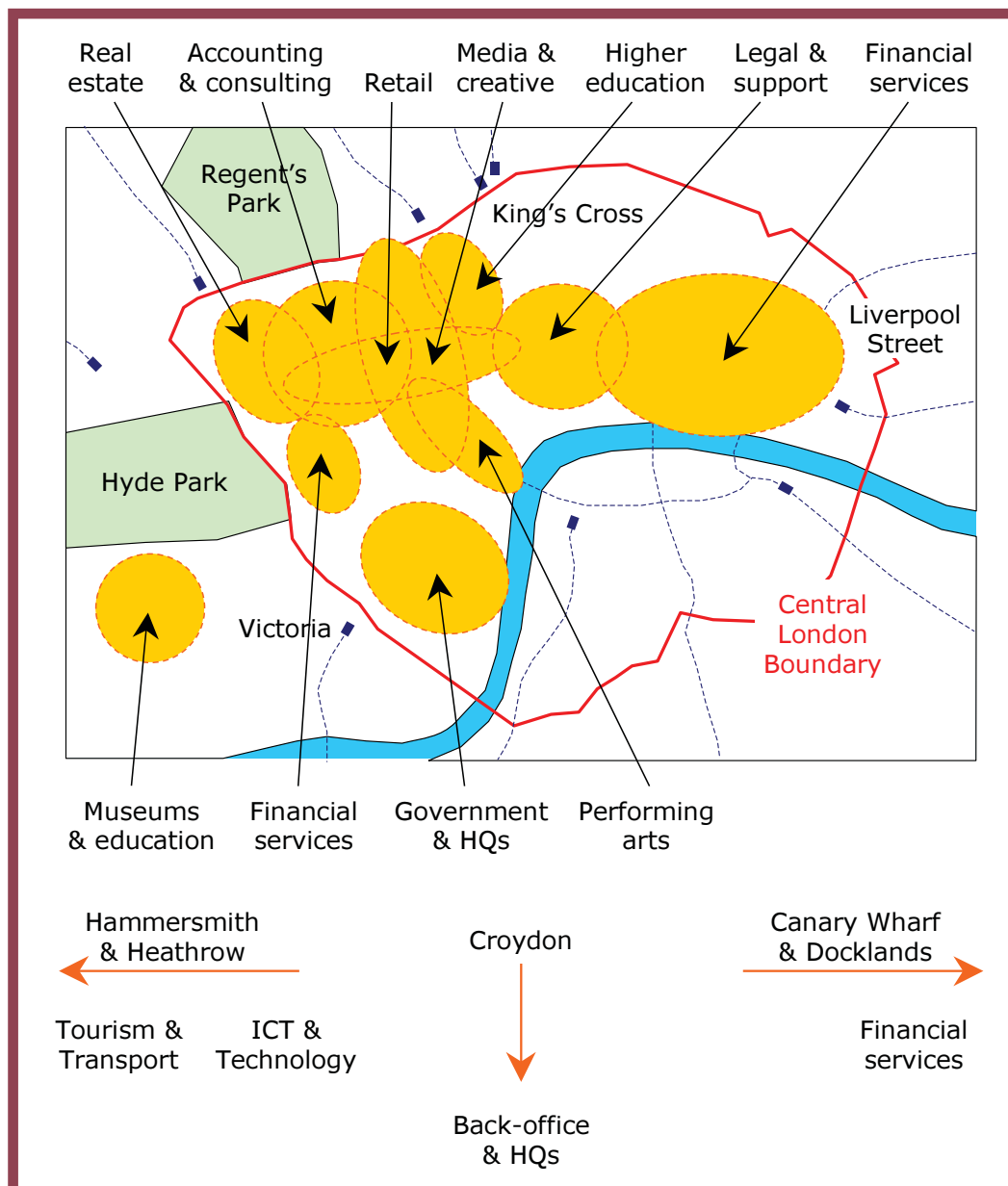
Central London's economic geography

The central area of London was first officially recognised in the 1951 census, covering an area of approximately 10 square miles, stretching from Kensington in the West to Aldgate in the east on the edge of the City of London and from the northern rail terminals of King's Cross and Euston to Elephant and Castle in the south. Within it we can identify distinct concentrations of activities such as central government offices, investment banks, lawyers, company headquarters embassies, and museums. Internationally oriented financial and business services (FBS) are predominantly in the City and Canary Wharf but also with significant concentrations of 'City type' activities in Westminster and Camden. Examples here are financial services in Mayfair and Victoria and specialised legal firms in Holborn. Accountancy, advertising, publishing, and other media outlets make up a large proportion of office activities around West End locations such as Mayfair and Soho, while real estate and property services are centred on Mayfair and Marylebone.

The range of CBD activities

In the UK context, its [London's] range of internationally competitive industries and strong clusters is unique. It can be argued that its economic strength arises from the diversity of its clusters combined with the extent of mutually reinforcing interdependencies between them⁴.

Figure 2: Identifying the CBD's key industry clusters



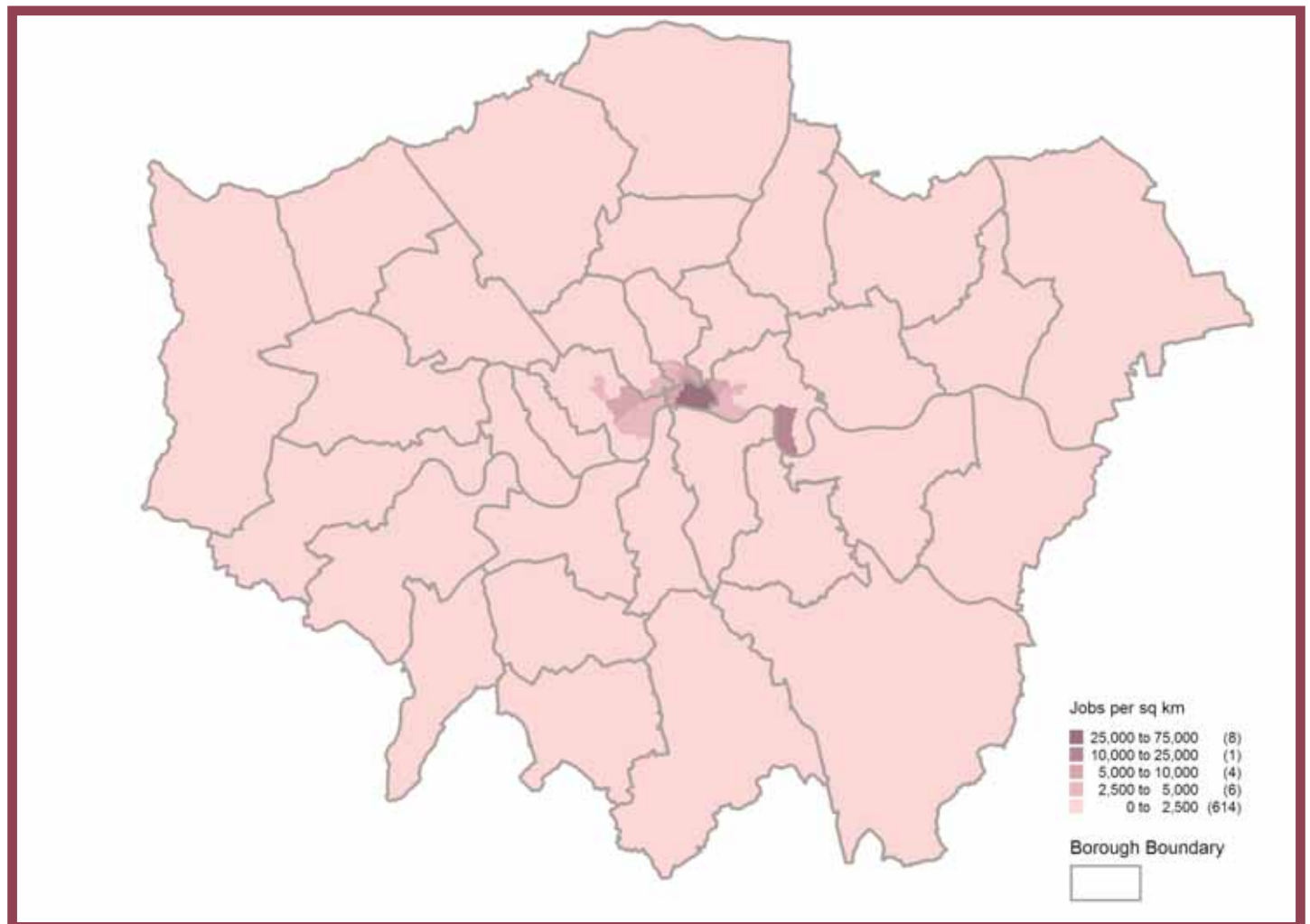
The CBD economy is distinctive from much of the rest of London in terms of the nature and prominence of the business activities located there. Figure 2 identifies the range of sectors and their general location within the CBD. Aside from the financial district in the City of London, the most prominent are Media and Creative in Soho, Retail in the West End, Legal and Support services around Holborn and Higher Education south of Euston. Elements of the CBD economy tend to be more concentrated and more prominent than that found elsewhere in the capital. This section looks more closely at the CBD's key business functions and their relative importance in a UK and international context.

Source: Cabinet Office, Prime Minister's Strategy Unit, London Project Report (July 2004)

Financial and related business services

Matching the supply and demand for investment funds across the world and providing the right contractual basis for such funds, as well as assessing the appropriate riskiness of ventures, has been a function of the City of London over several centuries. The co-location of business activities in Central London is perhaps most synonymous with financial services in the Square Mile, and more recently Canary Wharf. In addition, finance jobs have spread out to areas beyond the City of London to the City Fringe such as Hoxton and Shoreditch – see Figure 3. Together both locations represent one of the world's foremost global financial centres alongside New York, and ahead of other global centres such as Hong Kong, Singapore, Paris, Frankfurt and Tokyo⁵.

Figure 3: Finance jobs density per square kilometre



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The following summarises the key features about London's financial services sector:

- The CBD accounts for 43 per cent of UK financial services output.
- The domestic turnover on the London Stock Exchange in 2006, stood at a record £3,200 billion, and accounted for 11 per cent of global turnover.
- It is the world's leading market for international insurance.
- The City of London is home to three out of the top four leading law firms in the world and over 200 foreign law firms.

Although London competes for financial services with other UK cities, London is unique in the UK in terms of its linkages to other cities and financial and business centres around the world⁶ and so in terms of its international orientation of its financial and business services sectors. In addition, while other cities such as Leeds and Manchester have significant financial service sectors these are orientated towards retail rather than wholesale financial services. The overwhelming share of the UK's exports in FBS are accounted for by London's CBD while many of its business activities would look to New York, Paris and Tokyo as alternative locations rather than other UK cities. Table 1 summarises London's presence in international financial markets over the last 15 years.

Table 1: London's % share in international financial markets

% share of financial services markets	1992	1995	1998	2001	2003	2004	2005	2006
Cross border bank lending	16	17	20	19	19	20	20	20
Foreign equities turnover	64	61	65	56	45	44	43	42
Foreign exchange turnover	27	30	33	31		31	32	32
Over the counter derivatives turnover		27	36	36		43		
Marine insurance net premium income	24	21	14	18	21	19	20	
International bonds	70	70	70	70	70	70	70	70
Fund management			8	8	8	8	7	
Hedge funds					14	19	20	21

Source: IFSL

As Table 1 shows, London holds a significant market share in most of the key internationally traded financial services and is home to the world's international bond market. In cross-border bank lending and foreign exchange turnover, London has maintained or increased its share over the last 10 to 15 years. More recently it has taken advantage of the rapidly expanding hedge fund market and now accounts for 79 per cent of European hedge fund activity⁷.

Direct comparisons with other financial centres, such as New York, also confirm London's status as a paramount financial centre. The capital far outstrips New York in its share of foreign equities trading and now matches its share of the IPO market (see Table 2). Although New York is the centre for the world's hedge fund industry, London is gradually catching up as it captures the lion's share of business in Europe's growing hedge fund sector.

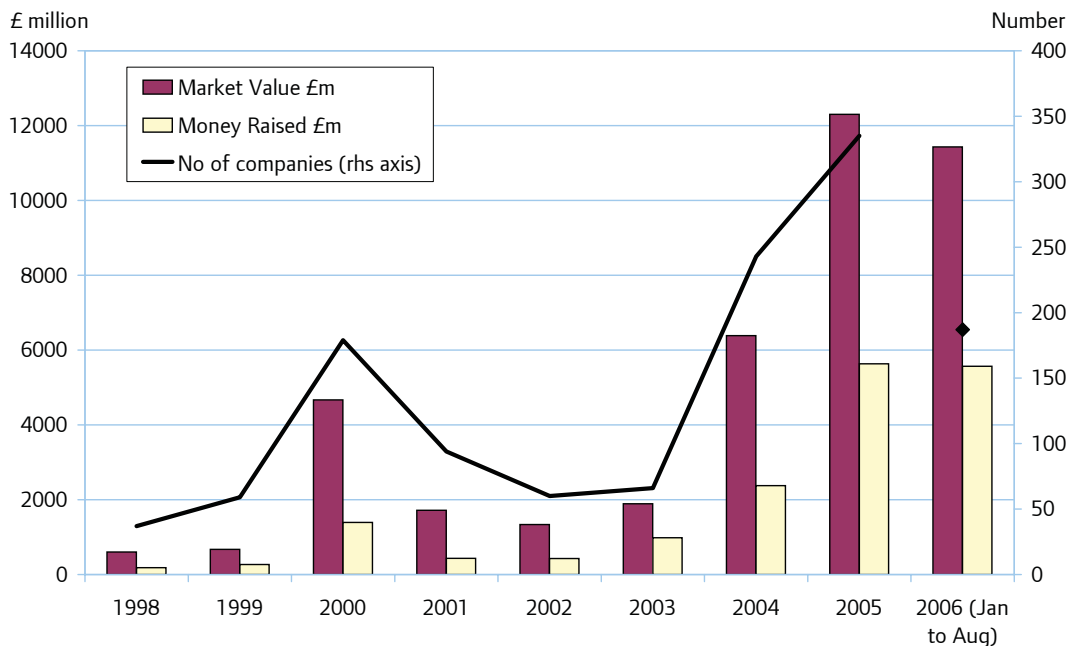
Table 2: Trading in international securities

% share	London	New York	Other
Foreign equity trading			
2005	43.1	31.6	25.3
2006	42.4	32.7	24.9
Share of IPOs			
2005	13.7	24.6	61.7
2006	17.2	16.8	66
International bond trading			
2005	70	n/a	30
2006	70	n/a	30

Source: World Federation of Exchanges, IFSL

There has been a recent surge in the number of companies making initial public offerings⁸ (IPOs) on London's exchanges. For example, there were almost 350 IPOs on the Alternative Investment Market (AIM)⁹ in 2005, and almost 200 in the first eight months of 2006 alone (see Figure 4).

Figure 4: Initial Public Offerings on LSE's Alternative Investment Market



Source: London Stock Exchange statistics

An increasing number of these IPOs are from non-UK companies (28 per cent in the first eight months of 2006, up from 8 per cent in 2003). And what is more, the London Stock Exchange (LSE) is out-performing the main US exchanges (the New York Stock Exchange (NYSE) and the NASDAQ¹⁰) in attracting new international listings – 50 international companies (from 15 different countries) listed on the main market and AIM over the first half of 2006, with only 15 foreign companies listing on NYSE and NASDAQ over the first five months of 2006.

One reason for London's strengthening position on IPOs is its favourable regulatory environment. The US Sarbanes-Oxley Act of 2002 has increased the regulatory costs for companies listing on US exchanges. Indeed the recent McKinsey report¹¹ on New York's finance sector noted that these increased regulatory costs meant that, 'very small-cap companies in the US [are] increasingly favouring London's Alternative Investment Market (AIM) over NASDAQ'.

London, together with New York, is the top world centre for fund management. In 2000, both of these centres had close to \$2.5 trillion of assets under management¹². London ranks second to New York on the extent of pension and insurance fund management¹³. The long established private sector pension and insurance industries have helped London lead in Europe in this area. Many of the EU's largest insurance firms, such as Aviva, AXA, Allianz, Lloyds TSB and Swiss Re all use fund managers in the City of London.

Insurance

The UK Insurance industry is the third largest in the world after the US and Japan and accounts for around 15 per cent of total net exports in financial services. The London Market is one of the oldest financial markets in the world and solely located within the Square Mile. It is distinct from the rest of the UK insurance sector as it offers a marketplace for high-risk businesses (eg, as in shipping and aviation) that cannot easily be placed in local markets¹⁴. Around 40,000 people are employed in the City of London by the London Market, with an additional 10,000 in connected business in the rest of the country. This accounts for just over 15 per cent of total UK employment in insurance.

London's Central Business District: Its global importance

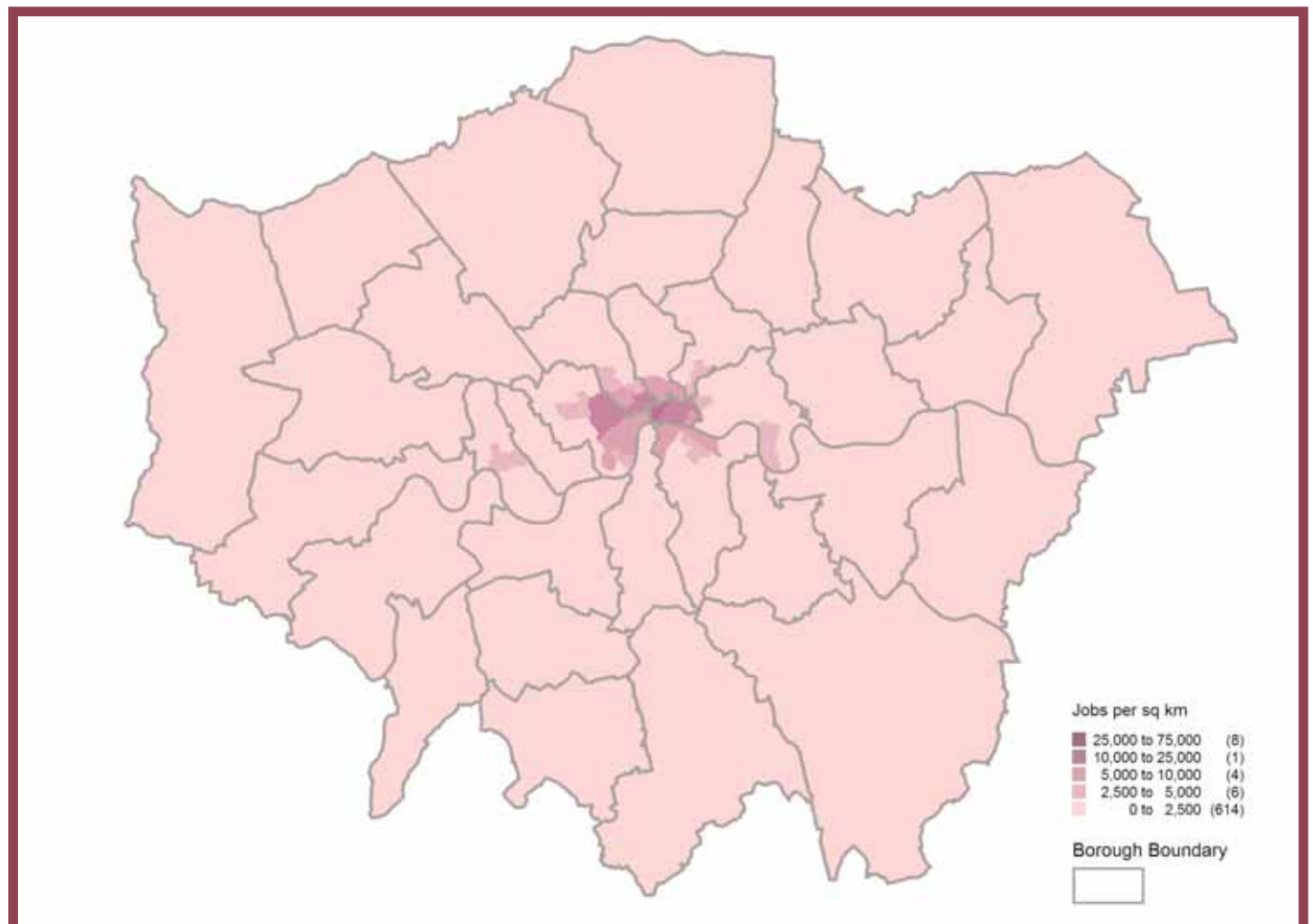
A significant share – around 10 to 15 per cent – of the world's industrial insurance is arranged in the London Market, making it the world's leading market for internationally traded insurance and re-insurance. In 2005 gross premiums on the London Market were estimated at around £24 billion, nearly double the 1999 level. The City of London is the only place in the world where all 20 of the largest insurance and re-insurance companies have offices¹⁵. The close concentration of under-writers, buyers and brokers as well as a range of support services nearby facilitates regular contact and trust. This is highly important for industrial insurance where the risks can be complex and the sharing of information between actors is paramount. The London Market is one of the clearest demonstrations of how proximity benefits efficient working, as one recent study¹⁶ highlighted:

"The London Market's competitive advantage is based on the exceptionally high concentration of underwriters, brokers, and buyers within London, along with ancillary service providers such as actuaries, lawyers, accountants, claims handlers and loss adjusters. This has resulted in a network of expertise that makes the advantages of the London Market difficult to replicate elsewhere."

World-service centre

London is widely viewed as the world's most important centre for international finance and business services¹⁷. Its status serves to attract the most capable and qualified workers, while firms based in the CBD expect to find the highest quality talent without having to undertake a costly search or spend time training workers up to the required level. The financial sector in the City of London and Canary Wharf accounts for in excess of 183,000 London employees in wholesale financial services such as commercial banking and insurance, foreign exchange and securities dealing.

Figure 5: Professional business services jobs density per square kilometre



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In addition there are a further 190,000 jobs across a wide variety of professional and technical services including legal, accounting, research, consultancy and IT services. Figure 5 shows that professional business services jobs are also concentrated in Soho and the West End, around Holborn, and have spread south of the river to riverside parts of Southwark and Lambeth.

Altogether these jobs can be described as 'City type' employment as they are almost entirely found in and around the CBD including Canary Wharf. This result is a complex web of collaboration and mutual dependency between various sectors that thrives on proximity.

The benefits of spatial concentration of expertise and human capital (agglomeration) are borne out by London's superior productivity in finance and business services, which is estimated to be 40 per cent higher than in the rest of the UK¹⁸. Research by the Corporation of London¹⁹ further underlines the importance of this agglomeration in achieving greater 'returns to scale' in terms of the following:

- A five-fold increase in the volume of managed funds reduces unit-operating costs by two-thirds.
- In insurance, unit-operating costs typically fall by 10 per cent when volumes double.
- For banking, unit-operating costs fall by 15 per cent when volumes double.

Accounting services

Accounting activities include services such as auditing and assurance, tax, corporate finance and insolvency. According to IFSL, the most important areas of work amongst the largest 20 firms are audit and assurance (38 per cent) and tax (26 per cent), but other services such as wealth management are increasingly in demand and being offered on a global scale. In London, accounting firms work closely alongside large, often multinational corporations, as well as banks, legal firms and software suppliers. Many of them are clustered in the West End, close to corporate and high-value private clients but within easy reach of financial institutions in the City of London.

The City of London and Westminster employed around 29,000 workers in accounting services in 2005, making up around 14 per cent of total UK employment in the sector. The global market in accounting services has expanded sharply over the last decade with net exports for the UK increasing from just over £50m in 1995 to £936m in 2006²⁰. Growth has been strong in areas such as tax consultancy and mergers and acquisitions which demand other inputs, for example legal services. As London is able to offer all of these services it has been the focal point of the UK's expansion in accountancy.

Legal services

London is a major centre for the provision of legal services, and particularly international services which have grown rapidly on the back of globalisation. Legal firms in London are generally clustered between the City of London and West End close to the Royal Courts of Justice with smaller concentrations within the Square Mile where international law firms are focused on supplying services to financial institutions. Recently there has been an influx of American law firms to take advantage of the opening up of European markets in services and growth in cross-border mergers. Many of the world's top 100 law firms are located in the City of London.

Fee income generated by the largest 100 law firms in the UK more than tripled between 1997/98 and 2005/06 to £10.8bn. More than a half of this revenue was generated by firms based in London. Corporate finance forms a significant proportion of international law business. These include activities such as mergers and acquisitions (M&A), equity issues and exchange listings, corporate restructuring and banking work including lending, public private partnerships and securitisation. Smaller law firms concentrate on more specialist and niche markets, especially in areas such as insurance.

Many legal firms locate close to large financial institutions because they require a wide range of legal services in carrying out transactions and structuring major deals such as M&A. The legal teams often undertake very specific

tasks as part of a wider process. These services are typically expensive to provide, given the expertise involved, though by locating close to a critical mass of large clients the cost can be reduced. In turn the financial institutions benefit from the ability to source a specialised service cost-effectively.

Consultancy

Management consultancy is another rapidly expanding area of business services and, similar to accountancy, encompasses a range of activities. The main areas of consultancy are outsourcing and IT, accounting for approximately two-thirds of all consultancy fee income in 2004. As the core business is providing advice to other firms, management consultants naturally prefer a central city location where they maintain regular contact with clients and promote close working relationships. One example of this is in software consultancy where the information embodied in the product is often highly technical or specialist and requires face-to-face contact to aid the understanding between client and supplier.

In London, the consultancy sector employs roughly 28,000 workers accounting for 10 per cent of the UK total. They are predominantly clustered around the West End and the City Fringe, but are also present within the Square Mile and Canary Wharf.

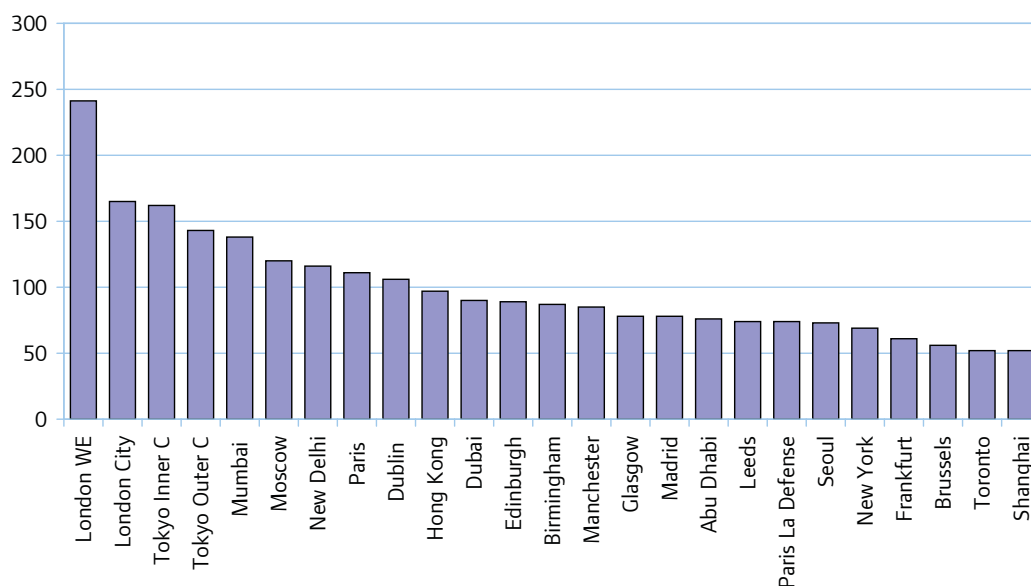
It is important to recognise that the core functions of the CBD such as exchanges, banking and insurance feed a variety of business services that also provide services to each other.

Property in the CBD

The self reinforcing nature of co-location in financial and business services, through the process of concentration, competition and innovation – leading to further growth – is not fully captured in official statistics but this is not to understate its importance. One consequence of co-location of finance, business services and other companies is that pressures on available commercial space in London's CBD are amongst the highest in the world (as shown in Figure 6) compared to other international finance and business centres. This no doubt presents a competitive drawback for London or at least for those activities where the returns to scale are not as substantial as in finance and business services. However, as argued, the lower overall costs of doing business and other advantages must more than outweigh the impact of the higher rents for finance and business services.

Figure 6: Global office rents – comparing major cities

US \$ per Sq Ft per annum



Source: Cushman & Wakefield

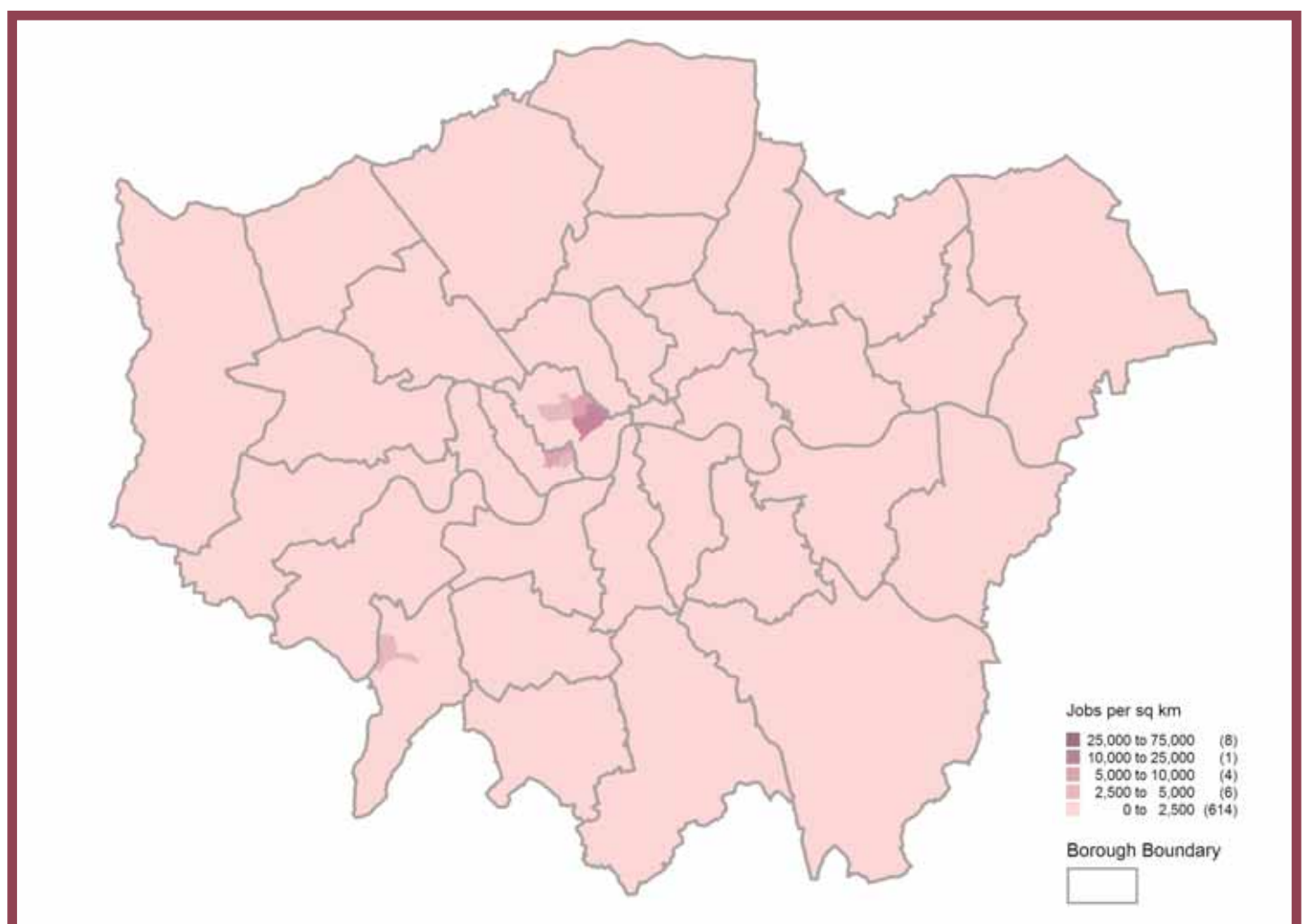
Retail in Central London

The West End, including Covent Garden, is the largest retail centre in the UK in terms of both floorspace and turnover. It attracts a significant number of visitors from the rest of the UK and from abroad and is one of two world-renowned retail sites within the CBD alongside Knightsbridge. The reputation of Central London's retail offer is built on the range of shops, department stores, and the quality of goods offered. Some key statistics²¹ regarding the West End are:

- approximately 30,000 people employed in all retail activities, with an additional 30,000 (approximately) in licensed and restaurant establishments.
- it hosts around 6.6 million square feet of retail comparison goods floorspace.
- it contributes a total spend on comparison goods of around £5.3 billion per year.

Figure 7 shows the prominence of the West End and Knightsbridge as retail centres within Central London.

Figure 7: Retail jobs density per square kilometre



Source: ABI, © Crown copyright. All rights reserved (LA100032379) (2008) GLA

The uniqueness of Central London's retail offer is not just in terms of its size. West End retail is widely perceived to be of international standing, with roughly one quarter of shoppers coming from overseas. It makes a major contribution to the national economy – Experian has estimated that overseas visitors spent £1.1 billion on comparison goods alone in London in 2004. The US and the EU15²² countries are the largest overseas tourist markets for West End retail and this is reflected in the profile of overseas shoppers. These markets represent 20 per cent and 33 per cent of overseas expenditure in London respectively. Visitors from other European countries account for approximately 13 per cent of overseas expenditure.

Typically, spending per visit is higher amongst visitors from the US than from Europe, although other markets are becoming increasingly important to West End retailers. The Global Refund Index estimates that Middle Eastern shoppers accounted for 29 per cent of UK retail sales to overseas residents in 2007. This source does not give London-specific figures but given London's sizeable Middle Eastern community and tourist attractions the majority of this spending is likely to be concentrated in West End outlets. Similarly Russian shoppers are a growing market for London retailers, accounting for more than 10 per cent of overseas sales in 2007. Sales to Indian and Chinese tourists have risen in the order of 30 to 50 per cent over the last year as both countries enjoy sustained economic expansion. For overseas shoppers, London is associated with high-end luxury goods, fashion and designer clothing, and is seen to have 'the latest of everything'. In summary foreign shoppers see the main attractions of Central London shopping as:

- high-end, good quality and luxury goods
- 'bigger and better shops' in range and quality
- specialist shops and clusters eg, antique and art dealers

A further fifth of West End shoppers on top of overseas visitors come from elsewhere in the UK outside London with the remaining half or so of shoppers living in London. For London residents, the appeal of the West End is more diverse than other major retail centres around the capital. This is not just in terms of the range of goods and services on offer but the whole mix of other attractions, which are easily accessible and complementary to shopping. According to one survey²³, shoppers see the West End's attractions as encompassing:

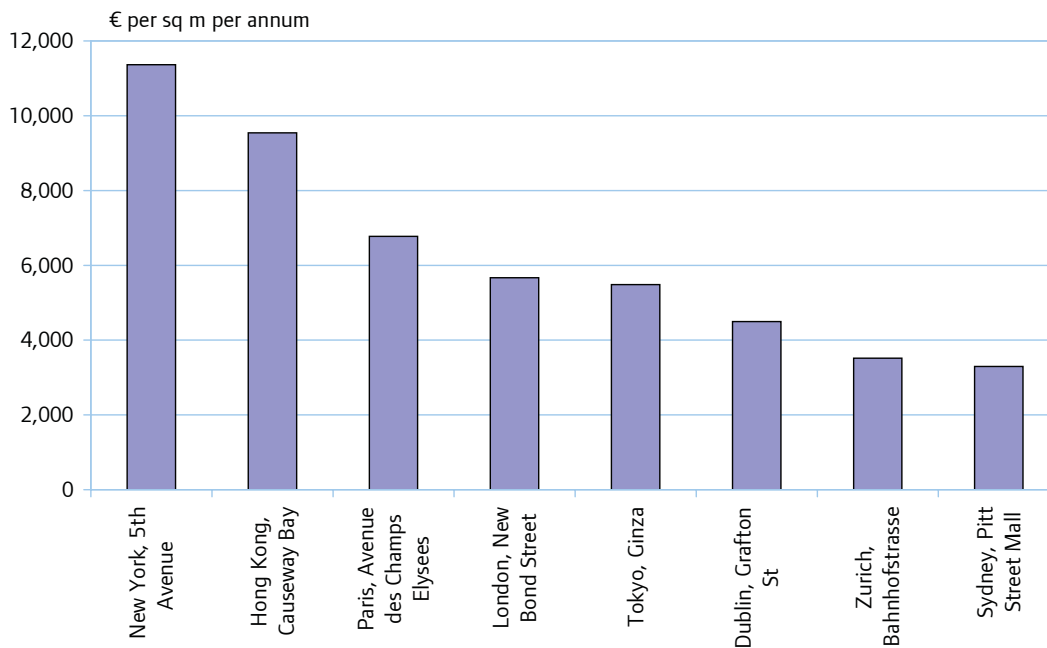
- a good range of shops of good quality
- a good atmosphere and attractive location
- large/flagship retailers and department stores
- familiarity
- proximity to work and other venues
- a range of eating and drinking places
- easy Underground access.

Ultimately the CBD's key advantage over other retail locations is its accessibility not just from work locations but also from many of London's tourist and leisure attractions by public transport and on foot. The report of the West End Central Retail Area Planning and Development Commission (a private sector-led body including the GLA, local government, academics and retailer and property industry representatives brought together to advise the Mayor of London on policies for the future of the West End) notes that shopping is increasingly viewed as a leisure activity, and survey evidence suggests that the ability to combine shopping with other activities is a key attraction of the West End, with around one half of shoppers combining eating/drinking with shopping. The report found that more than 80 per cent of theatregoers from abroad and just under 50 per cent of non-London UK theatregoers shop or intend to shop during their visit. The report sums up this argument as:

Another unique feature of the West End is the differentiation and specialisms of its constituent neighbourhoods – another key factor behind its vibrancy and "buzz". Unlike any other centre, the West End can be characterised as a "cluster of clusters", each making a contribution to the area's distinctive feel and offer.

It is largely for these reasons that retail rents in Central London are among the highest in the world (see Figure 8). New Bond Street prime retail rents rank fourth after Fifth Avenue (New York), Causeway Bay (Hong Kong) and L'avenue Champs Elysées (Paris). Staffing costs for retailers are higher than anywhere else in London and there are a number of problems with servicing and delivering to the West End which is not a problem in other London locations. However, the numerous benefits in terms of critical mass of customers, accessibility and reputation outweigh the higher costs to business of being located in the central area. That is not to argue, however, that policies which seek to reduce some of the costs and difficulties such as those surrounding deliveries in the West End should not be progressed where possible.

Figure 8: International comparisons of retail rents



Source: Cushman and Wakefield, 'Main streets across the world', 2006.

The West End also plays a distinctive role in the country's retail development in acting as a 'bridgehead' for international retailers establishing a UK presence. The addition of Hong Kong-based mobile telephone Network 3 and US-owned Skechers Shoes in Oxford Street or De Beers in Bond Street are recent examples. Also, a number of international retailers have opened flagship stores in the West End. Recent examples include the Spanish-owned Zara, which opened its biggest store anywhere in the world at 331/337 Oxford Street, while on Regent Street Apple computers opened the only showcase store of its kind anywhere in Europe.

The West End and Knightsbridge locations within the CBD combine a variety of shopping and leisure facilities that cannot be replicated by other shopping locations in London. This especially applies to purpose built developments such as Bluewater and Lakeside, but these are nonetheless seen as increasingly rivalling the West End as alternative locations. Indeed, with similar large developments closer to the edge of the CBD such as Stratford City and White City becoming operational within the next few years, competition for London's retail spending will grow. The West End will have to respond to this by building on its unique features and addressing the issues that negatively affect the shopping experience such as congestion and the quality of public spaces.

Leisure

Leisure activities have been one of the fastest growing parts of London's economy over the last 10 to 15 years, helped by expanding employment and population, and rising living standards. Central London's contribution to the performance of the leisure economy is underscored by the fact that many of the major entertainment and visitor attractions, as well as a high concentration of eating and drinking establishments, are located in the CBD. As in the case of retail, the appeal of Central London is not just in terms of size and choice, but also in the quality and breadth of the attractions. In 2000, half of the top ten paid attractions and half of the top ten free attractions were in Central London, including the Tower of London, Madame Tussauds, London Eye and several of the main museums.

GLA Economics has estimated the market value for visiting London's historical sites, museums and visitor attractions in 2000 was £380 million, and many of these are to be found in the centre²⁴. Examples include the British Museum, Natural History, Victoria and Albert and Science Museums as well as the leading art galleries. These are part of the fabric of Central London and it would be difficult to replicate them anywhere else in the capital. Indeed, the international reputation of its museum and galleries is at the core of London's tourist offer and in itself represents a substantial export industry.

As highlighted earlier West End theatres are a key feature of the leisure economy with the majority of the capital's prestigious venues and shows to be found in the CBD. Almost one half of London's 100 or so theatres are located in the West End, accounting for around 45 per cent of all ticket admissions and 70 per cent of UK theatre box office revenues.

As Figure 9 shows, leisure jobs are concentrated in London's West End, and around Covent Garden and the Strand, but also in the eastern half of the City of London and in Knightsbridge.

The importance of the leisure economy in Central London has to be understood in terms of the complementariness of the attractions. A visit to the theatre or gallery may follow dinner in a restaurant.

As with retail, scale, choice and quality are once again important foundations, as is its vibrancy. Indeed, with shopping increasingly viewed as a leisure activity the complementary aspect of Central London's leisure activities is likely to strengthen.

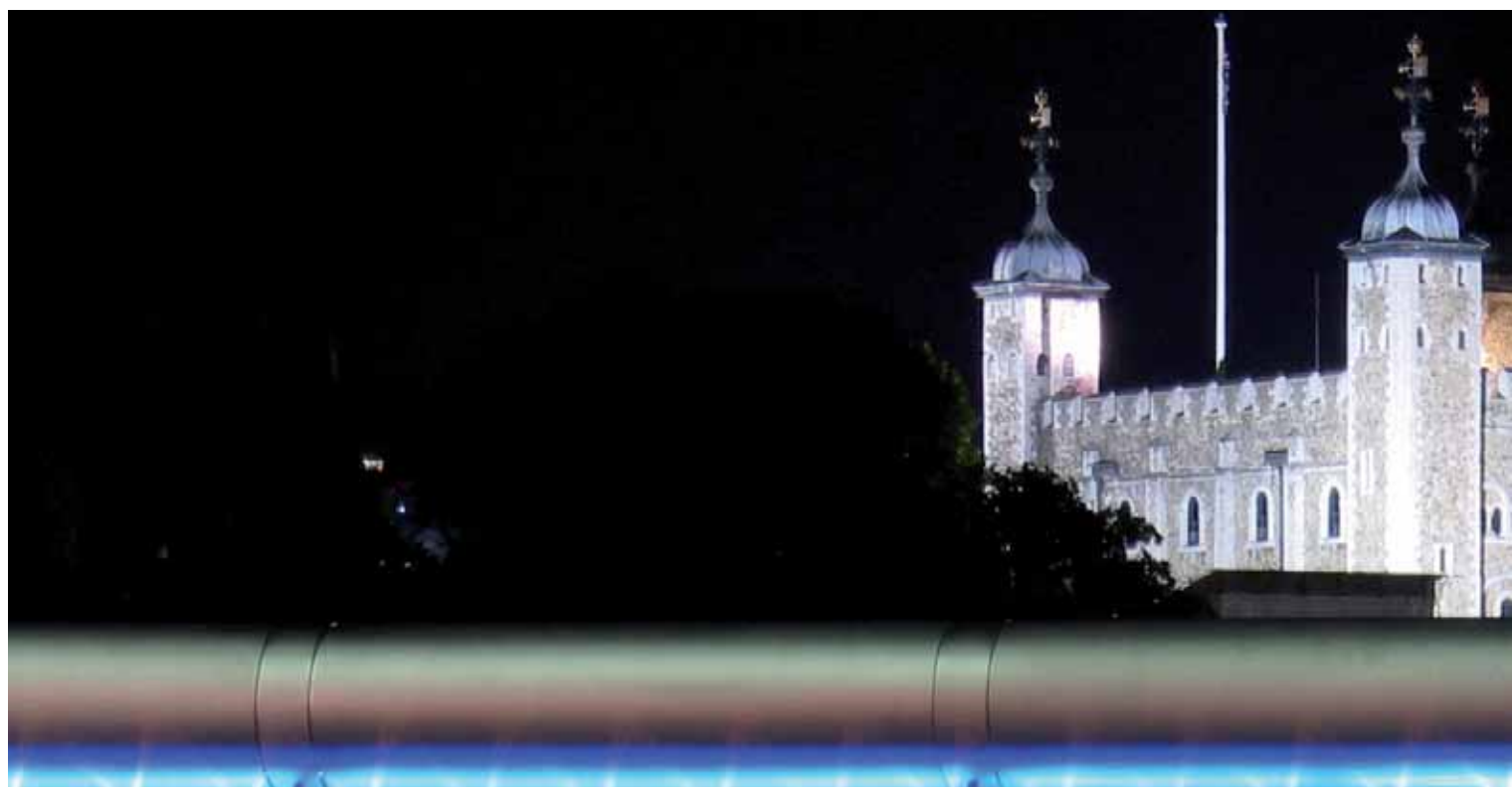
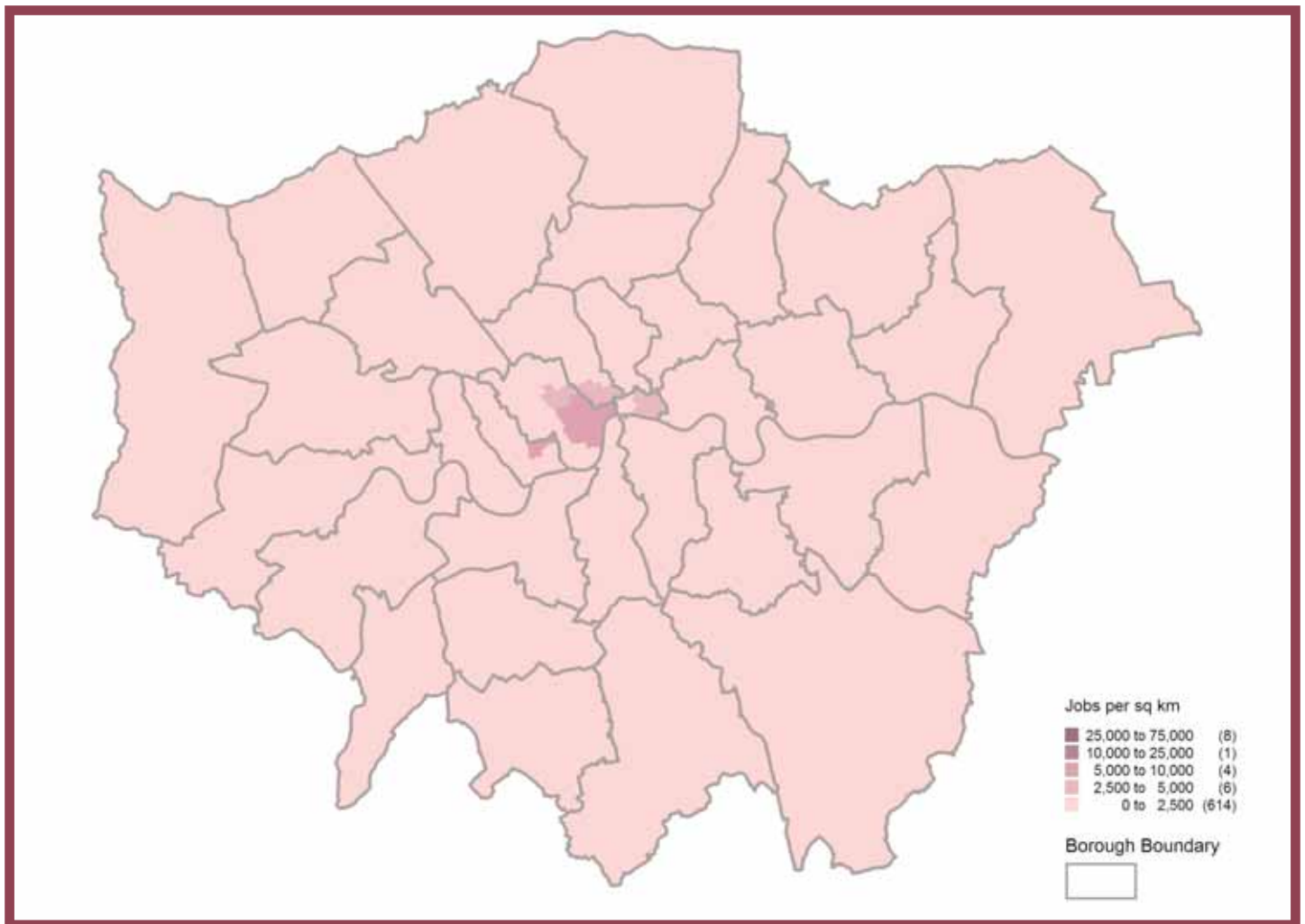


Figure 9: Leisure jobs density per square kilometre in London



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Tourism in the CBD

The concentration of visitor attractions, shopping, entertainment, and bars and restaurants in the CBD attracts millions of visitors to the area every year. Tourism from overseas, other parts of the UK, and London residents generates substantial wealth and employment for Central London.

GLA Economics estimates that tourism supports over 50,000 jobs in Westminster alone (around 7 per cent of total employment in the borough), and a further 12,000 jobs in the City of London, where business visitors are a key market²⁵. The LDA's Local Area Tourism Impact model, which disaggregates official tourism data available for the London region, confirms that Westminster is the principle recipient of tourism visits and spending in Central London. Borough-level estimates show that in 2005 Westminster benefited from around £5 billion in tourism spending, with over half of this total coming from overseas visitors.

The City has less outright tourist attractions but its role as a world centre for commerce helps to attract business visitors who enjoy bars, restaurants and high-end shopping. The same is increasingly true for Docklands as its leisure offerings, shopping and accommodation develop in support of business activities conducted in the area. Other areas on the fringes of the CBD such as Kensington, Camden and Southwark all have distinctive pull factors for visitors, providing a wide range of environments and facilities to complement those found more centrally.

Major visitor attractions, museums and entertainment venues are the core of the CBD's tourism offer. These factors are highlighted by the recently commissioned London Visitor Survey (LVS)²⁶ as the most important influences on decisions to visit the capital, along with history and heritage – much of which is embodied in central areas. Satisfaction ratings from the LVS show that visitors to London find the quality of attractions, museums, entertainment and shopping to be high. And high levels of satisfaction prompt typically over half of overseas visitors and three-quarters of domestic visitors to say they are definitely likely to visit London again over the next few years.

Over recent years there has been a trend of rising numbers of visitors from overseas to London and the UK and a decline in levels of UK domestic visitors staying overnight in London (as they opt for a wider range of international destinations). The United States is still the country sending the most overseas tourists to London, but the largest increases in visitor numbers in recent years have come from Europe. London's international standing, and the CBD's contribution to world city status, makes the capital well placed to benefit from further growth in leisure and business tourism, and those travelling to visit friends and relatives (an increasingly relevant section of the market as London's population mix becomes ever more diverse).

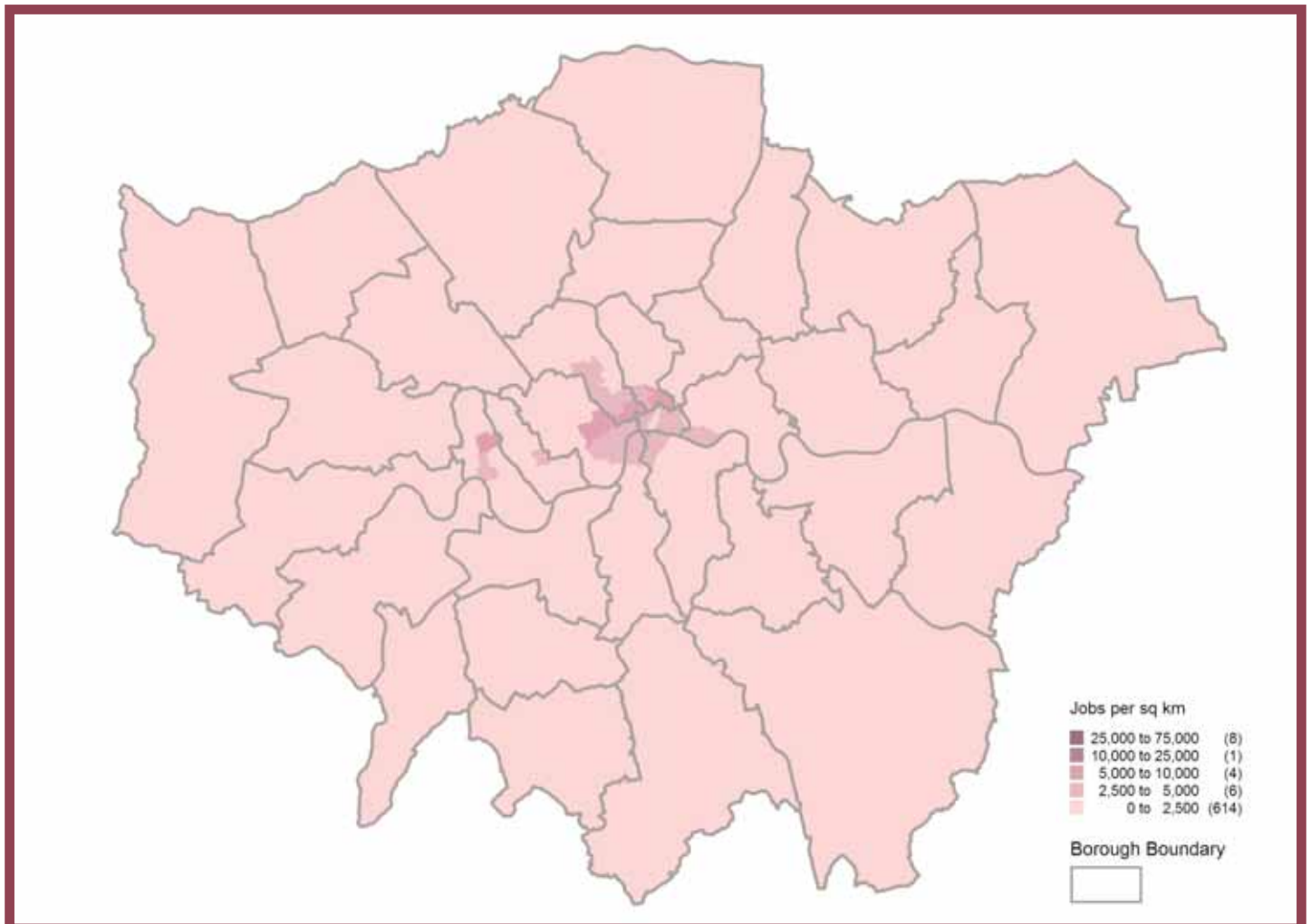
The international tourism attracted by London is also of growing importance in the wider context of globalisation. In order to continue to be successful in the international arena London must be seen as open and continue to develop its linkages with all parts of the world – and crucially the rising economic superpowers of China and India, from which an increasing share of visitors and trade will come from in the future.

Central London's international tourism offer is an important generator of wealth and employment in its own right, but in attracting visitors from all parts of the world – increasingly the emerging markets – it is also an aid to help London continue its success in rapidly changing global markets.

Creative Industries

The CBD is the location for a large share of London's creative businesses, many of which cluster together in a similar way to financial and business services. The main concentration of creative businesses is in the West End although significant concentrations are also to be found in and around the City of London, and spreading out north towards Camden Town and south to riverside Lambeth and Southwark. West London has also established a significant cluster of creative activities around Hammersmith Broadway and Shepherd's Bush – see Figure 10.

Figure 10: Creative Industry jobs density per square kilometre in London



Source: ABI, © Crown copyright. All rights reserved (LA100032379) (2008) GLA

Creative activities have contributed significantly to the growth in London's business services employment in recent years and are increasingly becoming a major source of employment and growth for the capital. We list the creative industries as encompassing the following sectors:

- Radio and TV
- Computer games, software
- Fashion
- Architecture
- Publishing
- Advertising
- Art/antiques
- Music and performing arts
- Video, film, photography

Workers in creative activities thrive on interaction, inspiration and face-to-face contact. As the GLA's Creative Industries report showed, more than 70 per cent of the demand for creative products is from other businesses. Many creative activities play a complementary role to other sectors. For example, advertising in the West End supports many of the financial and business service firms in the City of London. It therefore makes good business sense for creative firms to locate in the CBD.

A common aspect of the creative process, be it in software development or advertising is the need for ongoing input throughout the supply chain. Changes to the design or delivery of content are expressed most effectively face-to-face, and to be fully understood require close proximity between various players. A lot can rest on whether the finished product is a success or failure, meaning, trust and collaboration between the various suppliers within the process and the client is a common feature of the creative sector. Such processes have been found to work best when firms are concentrated in small areas, where they can maximize interaction

Innovation is a strong driver of the creative industries, generating wider demand for other business activities. A good example is in the development of digital media which can be formatted and accessed through a range of different applications. This creates demand for other services related to production, distribution and consumption. As the centre of the UK's specialised business services, London can offer the full range of services required throughout the supply chain. It has therefore played a major role in the expansion of creative areas of IT, design, publishing and production. Rapid and frequent liaison with providers and immediate purchasers are of decisive importance²⁷ and creates a fertile environment for the exchange of knowledge and ideas.



Higher education

Education provides people with skills that have a long-term impact on productivity and consequently output and employment. Investment in knowledge and skills creates human capital, which leads to higher productivity and higher earnings in the economy. Many of the capital's and indeed the UK's leading higher educational institutions are based in the CBD, particularly around the Bloomsbury and Holborn areas. These include the London School of Economics, University College London, Birkbeck College, Kings College London and the School of Oriental and African Studies (SOAS) which are all affiliated to the University of London. Imperial College London is based in South Kensington on the edge of the CBD. Together these higher educational establishments cater for more than 150,000 full and part-time students – 43 per cent of the London total and employ around 11,500 full-time academic staff. These institutions offer world-class teaching and research facilities that draw leading academics and students from all over the world and the UK.



Workers in the CBD

Roughly 1.5 million jobs are located in the CBD, a large proportion of which are highly paid. This attracts people from all over London, the South East, and East of England and beyond who commute to work in the CBD. Based on data from the Annual Business Inquiry and the 2001 Census of population we estimate that around 640,000 London CBD workers live in Inner London, with around 480,000 commuting in from outer London and approximately 380,000 from outside London itself.

Dynamism and competition

Key to understanding the nature of London's CBD economy is how the critical mass of skills, knowledge, inputs and markets in the central area encourages growth and innovation. The scale of choice means businesses are able to 'pick and mix' requirements and tailor these to their specific needs. This means a site in the CBD is often a critical competitive advantage for a business. As more firms are attracted inwards this intensifies competition but also the scale and scope of skills, services and other inputs on offer. The outcome is often a virtuous cycle of increasing concentration of economic activity encouraging further growth and development. Table 3 lists the size of CBDs by employment for a number of the world's major cities. As Table 3 shows, London's CBD is among the largest in the world.

Table 3: International comparisons of employment levels in selected CBDs

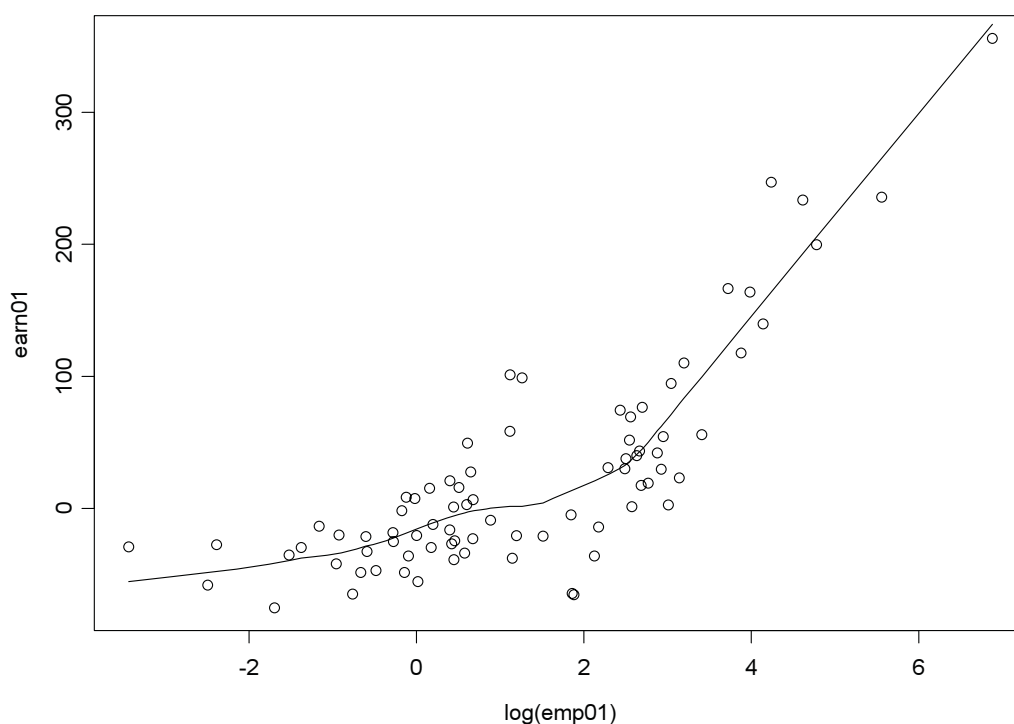
Business district	Employment in business district	Year
Tokyo-Yokohama (Yamanote Loop)	4,250,000	2001
Tokyo-Yokohama (Core CBD)	2,430,000	2001
New York	1,736,900	2000
Osaka-Kobe-Kyoto	1,380,000	2001
London	1,260,500	1998
Chicago	541,500	2000
Washington	382,400	2000
San Francisco-San Jose	305,600	2000
Toronto	302,200	1998
Boston	257,000	2000
Philadelphia	220,100	2000
Seattle	155,100	2000
Houston	153,400	2000
Los Angeles	143,700	2000

Source: Demographia- *Employment in International Central Business Districts*.

Crucially, innovation is also a product of size and density, where proximity leads to networks that promote trust and the flow of knowledge between employees in different lines of work. The outcome is a 'learning environment' that aids the development of new processes and products. This 'cross pollination' of ideas between different business activities is important in enabling urban economies to diversify and strengthen their economic base²⁸.

Research has consistently shown a positive correlation between higher employment density and productivity, and perhaps is the plainest illustration of cities' dynamism. Figure 11 indicates this relationship (using earnings differentials as a proxy for productivity) for the UK. There is a positive correlation between productivity and employment density even at relatively low levels of density but the relationship intensifies beyond a critical point. The observations to the right of this point are in Greater Manchester, Tyne and Wear, the old West Midlands metropolitan county, or 27 London boroughs – in other words, dense urban areas. Inner London – as the densest urban area of the UK is estimated²⁹ to be 38 per cent more productive and London overall 27 per cent more productive than the UK average.

Figure 11: Illustrating the relationship between employment density and productivity



Source: GLA Economics, 'Working Paper 17: Why distance doesn't die – Agglomeration and its benefits', June 2006.

Note: The solid line is the fitted values from the general non-linear local regression technique, with span = 0.6

The CBD and innovation

A concentration of competing firms in one location is a considerable driver of innovation. Close proximity enables visibility of competitors, and pressure to spot gaps in products, inputs and services and create spin-off businesses. Also, workers can hop between companies and provide a fresh approach to their new firm. This has been a major source of dynamism in the City of London where the information sharing process is well developed through formal and informal institutions.

According to the economist Michael Porter (1990)³⁰, gaining and sustaining competitive advantage is a process said to be "increasingly determined by differential knowledge, skills and rates of innovation embodied in skilled people and organisational structures - processes that are intensely local." There is considerable evidence to show that new patent applications per head of population (an indicator of innovative activity) are higher in metropolitan areas where more industries are co-located. Small businesses can be highly innovative compared to large firms and tend to be concentrated in urban areas. Cities therefore experience stronger economic growth overtime than less densely populated areas.

The idea of the product cycle can also be used to support the view that central areas are more effective at generating a 'learning environment' for innovation. It stresses that firms will separate activities by location according to the stage in the life cycle of the product. For example, in the development stage of the product these inputs tend to be non-standardised. Cities provide a suitable environment for the location of information intensive activities such as research, design and development, which are most important in early stages of the product cycle. Close proximity across the different activities allows face-to-face interaction between workers, enabling collaboration and giving a strong impetus to improvement and innovation.

Beyond the design, testing and development phase of the cycle, the product's inputs and components become more standardised along with the information embodied within it. The cycle moves to the production stage and eventually production techniques become better understood and easier to carry out. The need for information intensive inputs and specialised skills becomes less, but more space for production is required. It then becomes more cost effective to move out of the central urban area to a more peripheral location where the cost of land is cheaper.

London provides a good example of this. During the inter-war period a large part of the capital's manufacturing industry increasingly relocated to or was established in outer London and beyond, where it could be served more effectively by arterial roads. In addition some service activities themselves have become more standardised and subsequently located away from the centre. One example is in IT where tasks such as systems analysis and technical support have increasingly shifted to outer areas.

This does not mean that London's CBD is slowly dispersing. Rather this is recognition of change overtime. Innovative and cutting edge activities which reap the greatest agglomeration benefits are always likely to be located in London's CBD, but move out to lower cost locations as they mature and become more routine. This theme is discussed in more detail in this report under the title offshoring.

Innovation in services

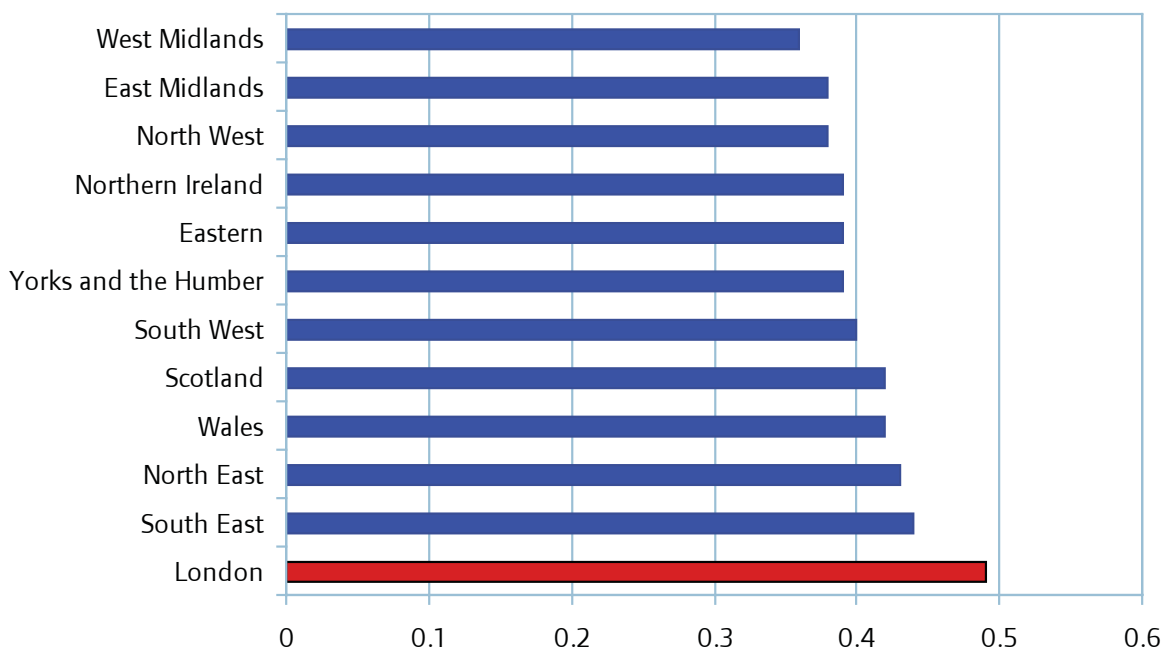
The transfer of knowledge within an industry's supply chain are important in the developmental stages of a product. In many businesses the services provided can be very customised in nature, requiring information sharing throughout the product cycle. Consequently as business services play an increasingly important role so has the importance of knowledge, in financial services, advertising and media. Indeed, as information intensive activities increase their influence in the economy it seems likely there will be a growing need for firm proximity and concentration.

London's record in innovation

London has established a reputation for financial sector innovation, and has been at the heart of growth in innovative creative activities, which is reflected in the capital's (and particularly the CBD's) higher productivity level. However, this performance is reflected less in official measures of innovation. London fares poorly in terms of inputs into innovation such as levels of research and development (R&D) but performs very well against the government's only measure of the outputs of innovation: the percentage of turnover from products new to the firm or significantly improved – see Figure 12³¹.

The apparent paradox between a mixed performance on innovation and high productivity growth in London is explained by the dominance of the service economy. Businesses in the service sector are less likely to rely on R&D as a driver of innovation, with innovation occurring further down the supply chain. It is the new products, new processes and new ways of working that will lead to higher productivity, rather than the inputs to the innovation process itself. Changes in management practices, business structure, organisation or marketing strategy also constitute wider forms of innovation and in these categories, London performs well relative to other UK regions.

Figure 12: Percentage of turnover from products new to the firm or significantly improved



Source: Department for Trade and Industry/Fourth Innovation Survey

Therefore, although UK innovation surveys suggest that R&D typically accounts for around 40 per cent of innovation expenditures, this percentage is likely to be lower for London given the structure of its economy. Process, product and wider innovations are important in service activities and as illustrated by the product cycle are best achieved in dense employment areas. It could be argued that as high value added services continue to expand these forms of innovation will grow in importance leading to an increased need for proximity between firms. This will ultimately favour large CBDs that can provide a critical mass of services-based employment and businesses.

Innovation in financial services

Innovation plays a major role in maintaining Central London's status as a leading global financial and business centre. Investment banks and insurance firms are demanding clients, placing considerable pressure on legal firms and other business services to improve performance and secure market share. Innovation occurs in other ways, such as changes in the regulatory regime to enable the trading of different securities or funds. Hedge funds are a good recent example of this.

Hedge funds

London has gained the overwhelming share of the recent rapid growth in the European hedge fund market and is now the second largest centre in the world for such funds after New York. Hedge funds are exempt from many of the rules that apply to the majority of investment funds. They can accordingly engage in investment strategies that are not open to more mainstream funds, such as short selling and investing in more complex financial products. Hedge funds tend to cater for very rich and knowledgeable investors but are attracting a more diverse range of clients including banks. Approximately one-fifth of the world's hedge fund assets (including 80 per cent of Europe's) are now managed out of London, compared with just a tenth in 2002³². UK hedge funds are overwhelmingly based in London's CBD with 61 per cent in the West End, 30 per cent in the City and just 9 per cent elsewhere in the UK³³.

Private equity

The UK is also the second largest global centre of private equity activity after the US. In 2005, the UK managed 22 per cent of the world's private equity investments. Although London plays a key role in this field it is difficult to gauge the quantitative importance of London within the UK private equity industry. The BVCA's (British Venture Capital Association) regional breakdown of the UK private equity industry's total investments states that in 2005 35 per cent were made in London – but this is not the full picture. More qualitatively, it is London's leading position as an international financial centre that facilitates the business of private equity itself (for example, its Mergers and Acquisitions (M&A) and Initial Public Offerings (IPOs) activity) and the key supporting services such as debt provision (from investment banks) and advisory firms³⁴.

The generally supportive atmosphere of London and the UK for private equity activity is highlighted in several industry reports. For example, a report by the private equity firm Apax Partners (in association with the Economist Intelligence Unit) has ranked countries on their private equity 'environment' (financing, legal/policy, marketing, entrepreneurial) and again the UK comes second only to the US³⁵.

Derivatives

Derivatives are another example of financial innovation in London. London has long had a strong position in the derivatives market – accounting for around two fifths of global over-the-counter derivatives turnover in 2004. Credit derivatives, the fastest growing financial product, are substantially based in London. The British Bankers' Association estimate that at the end of 2006 London accounted for 40 per cent of the world credit derivatives market. The McKinsey report on New York's financial services sector notes that 'the more amenable and collaborative regulatory environment in London in particular makes businesses more comfortable about creating new derivatives products and structures there than in the US'³⁶.

Financial services innovation and tackling climate change

The need to combat climate change also represents a potentially huge market in financial services and is also a good example of London's innovativeness. In 2005 the European Union set up an EU wide carbon emissions trading scheme (ETS), the first of its kind in the world which sets a cap on the amount of carbon that industries are allowed to emit. Firms that produce less than their carbon allowance are able to sell their surplus to firms that exceed their emissions cap and find it cheaper to buy additional permits rather than reducing emissions. This encourages emissions reductions in the most economically efficient manner. London had already taken the lead in this area through the establishment of voluntary ETS in 2002 for the trading of emissions permits and reduction allowances.

Since the introduction of the EU system London has asserted a primary role with more than 80 per cent of carbon trading at the European Climate Exchange, according to International Financial Services London (IFSL) figures³⁷. Although both it and the EU scheme have experienced similar problems (mainly with regard to the over-allocation of permits) London undoubtedly has a head start in terms of the skills and infrastructure in place to take advantage of a potentially enormous commodity market.

Phase 2 of the ETS scheme will begin in 2008 and is likely to be more successful in avoiding an overallocation of permits. The prospect of a global carbon market being created is so far held back by the reluctance of the US and China to sign up to the Kyoto agreement. London would be in a very strong position to take advantage of a global emissions trading system, with only the US having similar expertise through its established trading schemes for sulphur and nitrous oxide. However, as a recent GLA report³⁸ argued, while the US remains isolated from any post Kyoto trading plan this will allow London to capitalise on this potential and embed its role deeper.

Another dimension to London's role in relation to tackling climate change is in the financing of environmentally friendly technologies. A considerable number of firms involved in renewable energy and clean technologies are listed on the Alternative Investment Market (AIM) run by the London Stock Exchange. AIM does not have any minimum criteria in relation to market capitalisation or firm track record, which is critical for many start-up firms in the environmental technology business. With the introduction of emissions caps, demand for pollution-abatement technology is set to grow sharply and once again London appears for to be in a relatively strong position as the international market of choice for capital raising in environmental technologies.



Death of distance, death of cities

In view of the step change made in communications technology in the last 10 or 20 years it has been argued that this would inevitably reduce the need for people to be close together. Increasingly complex data and information can be transmitted electronically over large distances seemingly making the importance of cities and proximity a thing of the past. While email, video conferencing and other forms of new communications technology can replace some interactions, personal face-to-face interaction greatly increases individuals' abilities to persuade and interact – so proximity will remain key.

In reality cities have continued to grow as advanced service activities have become more dominant in the economy. Urbanisation has been increasing not declining in the last 20 years. Business travel has risen as the world economy has become more integrated in spite of the development of communications technology. It is notable in this regard that a century ago some people were claiming that the development of telephones would eliminate the need for cities. We doubt that their modern equivalents are going to be any more accurate with their more recent predictions. Cities will continue to increase their importance in the world and the next section sets out the basic economics of agglomeration, which explains why cities and specialist areas within them such as CBDs actually exist.



The importance of agglomeration

The underlying principle behind the existence of CBDs, and why advanced services wish to locate in them is agglomeration. Cities are dense concentrations of skills, services, markets, knowledge and infrastructure. The geographic co-location or 'agglomeration' of these components in driving economic development has gained renewed focus as the economic base has shifted away from manufacturing to predominantly service activities.

Service sector businesses engaged in multifarious activities prefer to locate close together because they can access many of the same inputs such as specialised labour and other support services. Also by co-locating similar businesses can attract customers who are seeking a range of potential suppliers to choose from. This reduces the cost of doing business, offsetting the higher office / business accommodation and labour costs they are likely to pay for locating in a concentrated area. As the famous economist Robert Lucas observed: "what can people be paying Manhattan or Downtown Chicago rents for, if not for being near other people?". Indeed, as advanced service activities have increased their share of output the need to cluster together has become more imperative for business.

Forms of agglomeration can be observed around London for different types of businesses. For example, West End retailers co-locate because customers prefer to undertake most of their shopping in one location. Similarly, antique dealers in Notting Hill and jewellers in Hatton Garden co-locate because their customers have specific needs and want to compare products quickly and efficiently. Being outside the location neither benefits the customer nor the retailer. The benefits of agglomeration were first observed by the economist Alfred Marshall in the late nineteenth century. He identified three principal forms of agglomeration benefits relating to: the labour market; specialised inputs; and the role of information.

Labour Market

First, there is access to a large concentrated labour market pool which provides efficient matching of vacancies and workers as well as greater access to specialised workers. This is especially important for businesses operating in uncertain market conditions and who are constrained in their ability to invest in factor inputs that rapidly become redundant. In addition, workers can reduce their chances of unemployment and increase their likelihood of career progression by locating in or close to areas with a concentration of jobs. The resultant competition between workers can also bring efficiency gains for local firms who either obtain better quality workers for a given wage or reduce their wage costs for a given quality of worker.

Specialised Inputs

Secondly, the cost of specialised services and other inputs required in the production process can be spread over a large number of firms from the same industry when they are spatially concentrated. These apply to both manufacturing and services. For example, suppliers of car components typically cluster around large manufacturers, as in the West Midlands in the UK or Detroit in the US. Similarly, legal firms offering specialised services cluster around large financial institutions that require their expertise for specific aspects of their work. Co-locating increases the likelihood of low-cost access to highly specialised and technical services for both large and small firms.

Indeed, when the product or service is customised this often involves regular and face-to-face contact across a range of producers, suppliers and clients to ensure specific needs are satisfied. The efficiency gains from this act as a draw on additional producers, suppliers and other subsidiary businesses, creating greater economies of scale and enabling competition. This illustrates what has been termed a 'snowball effect', where the larger an agglomeration the greater its attractiveness as a location for business, encouraging further growth.

Knowledge Spillovers

This relates to a more intangible and un-costed source of agglomeration. The clustering of firms performing similar activities facilitates the sharing of knowledge and information between participants, allowing information on market trends, new products, processes and potential clients to be passed throughout the supply chain. As Alfred Marshall observed in his 'Principles of Economics' (1890):

"The mysteries of the trade become no mystery: but are as it were in the air. Good work is rightly appreciated; invention and improvements in machinery, in process and general organization of business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined suggestions of their own; and thus it becomes the source of new ideas"

Information is often shared tacitly due to the regularity of contact between the various agents. Expertise is passed unconsciously between senior and junior staff while the exchange of knowledge takes place informally in pubs, and coffee shops, as well as formally in conferences and seminars in and around the city. One study of 'City type' firms highlighted contact potential and simple time-savings in organising meetings as the key advantages of a central location, as well as the 'buzz' (Buck et al, 2002). This 'atmosphere'³⁹ of knowledge and information created by densely clustered firms can resemble a public good that in some cases, such as in Silicon Valley in the US or the City of London has proven to be a major source of competitive advantage.



London as a global city

The nature of city economies and CBDs are increasingly understood in terms of their international connections, particularly to other cities. As production operations have become more dispersed globally, managing these processes have become increasingly complex and information intensive. Businesses have looked to centralise their management functions in one or just a few locations, where they can source the necessary skills and expertise. Cities such as London, with a depth of infrastructure, services and a diverse and a cosmopolitan workforce have in effect become centres of 'management and co-ordination' of the global economy or 'global cities' (Sassen 1991).

This is reflected in the fact that many global and national companies locate headquarters in CBDs where they can access legal, accounting, design, advertising and other specialised services and support cost-effectively. Strong customer-supplier linkages are developed overtime, helping to embed the business and discourage its relocation to alternative cities. This is a significant determinant of urban competitiveness, and London's role in this regard is underscored by the fact that it was the location for a third of the European headquarters of the world's 500 largest companies in 2000. This was a long way ahead of Paris and Brussels, the next most popular locations with 9 and 6 per cent of European headquarters respectively. London has also consistently been ranked first by the annual European Cities Monitor as the best city in which to locate a business, and this supported by more recent global analysis placing London as the world's premier business location ahead of New York in second place. These trends are discussed in more detail in the 'Priorities for the CBD' section of this report.

Although the concept of global cities is well established their precise role in the global economy is still yet to be fully understood. In recent years research has attempted to identify which cities can robustly be defined as world cities⁴⁰. One highly influential study was based on the presence of global financial and business services firms, which have multi-city, multi-state locations. This has been undertaken using data for four significant corporate services: accountancy, advertising, banking, and law⁴¹. Cities were assessed as having a prime, a major or a minor centre for each of these four activities, scoring three, two and one respectively for such a centre. Hence cities could score from one to 12. London and just three other cities – New York, Paris, and Tokyo – achieved the maximum score of 12. This research has established in a robust fashion that London is not just a world city, but one in the top rank of world cities alongside New York, Paris, and Tokyo. The research also revealed the extent to which London's position in the world economy is unique in comparison with other UK cities. After London, the highest scoring UK cities were Birmingham and Manchester, which scored just two points, and were not considered by the authors to be world cities.

Further research has looked at connections between cities⁴². The extent to which a city is connected to others is calculated from data about whether financial and business service firms in a city have offices in other cities. London emerges as the most globally connected city in the world ahead of New York in second place. Again the extent of London's connections, predominantly London's CBD connections, with other major cities is unique in a UK context. After London, the next ranked UK cities are Manchester and Birmingham, which rank 101 and 106 in the world respectively.

The strength of London's connections with other world cities has also been analysed by assessing the locations in other world cities of global finance and advanced business services firms in accountancy, advertising, banking, and law which have a presence in London⁴³. Table 4 shows the top ten cities with the strongest links to London. London's particularly strong links with New York are immediately apparent, but this simple listing immediately illustrates the worldwide scope of London's linkages. The presence of Hong Kong, Singapore and Sydney on the list indicates the legacy of empire and the importance of history in determining London's current economic relations. The inclusion of Brussels points to the importance of more recent political linkages with the European Union.



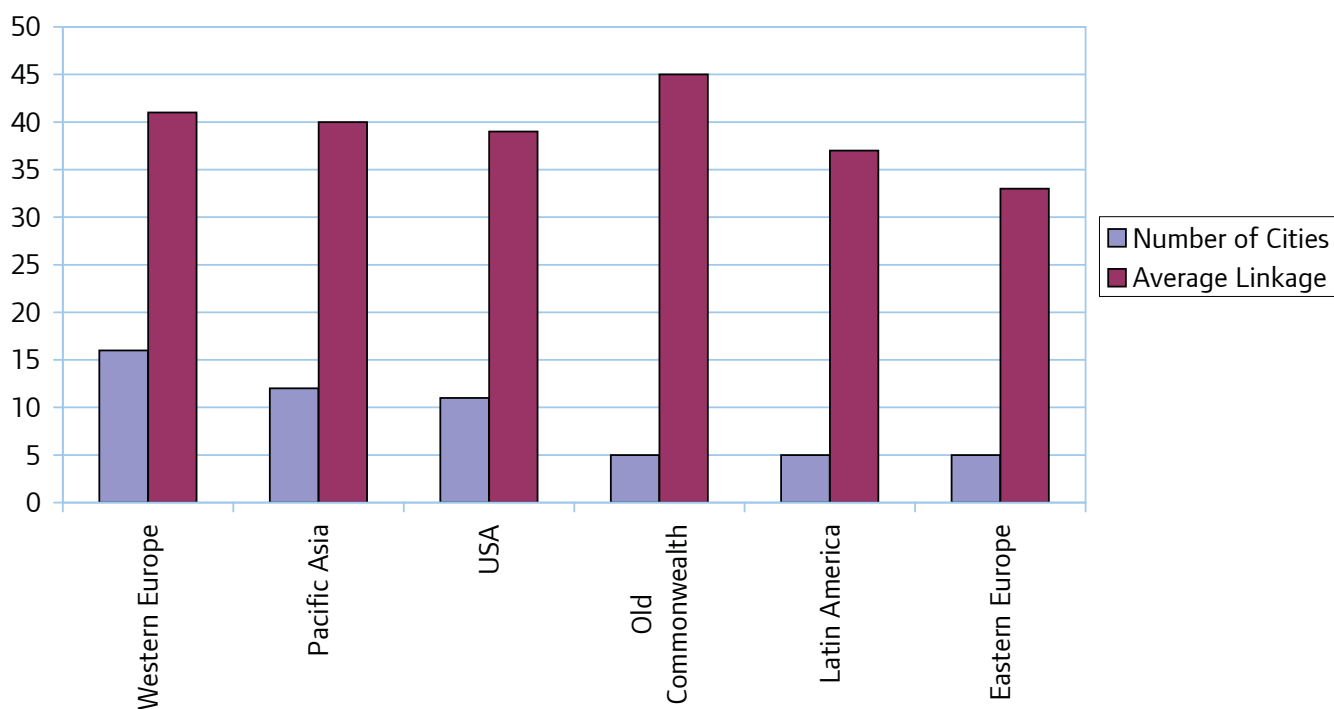
Table 4: Average linkages to London: The top ten world cities

City	Average Linkage Score
1. New York	87
2. Paris	68
3. Hong Kong	64
4. Tokyo	61
5. Brussels	59
6. Singapore	58
7. Sydney	57
8. Milan	55
9. Frankfurt	54
10. Los Angeles	54

Source: Beaverstock et al (2003)

In addition, this research analysed London's linkages to various parts of the world, plus a Commonwealth grouping (Canada, Australia and South Africa). The results are shown in Figure 13. The lack of major variations in the average linkage scores across the groupings confirms that London has worldwide economic linkages that are not particularly focused on any one part of the world.

Figure 13: Linkages to London from parts of the world



Source: Beaverstock et al. *The Global Capacity of a World City: A Relational Study of London*

These linkages between London and the rest of the world are facilitated by its international connectivity. In the European Cities Monitor, London has consistently been ranked the best European city in terms of its transport links with other cities and internationally. Globally looking at airline travel between 24 leading cities, London ranks second closely behind New York, and substantially ahead of all other cities – see Table 5. London's global role is clearly assisted by its excellent airport links with their global reach.

Table 5: Top five cities for airline traffic between 24 leading global cities

City	Number of Passengers (per annum)
New York	5.9 million
London	5.6 million
Los Angeles	4.2 million
Tokyo	2.1 million
Milan	1.6 million

Source: Mastercard Worldwide, *'The Dynamics of Global Cities and Global Commerce'*, 2007



CBD geographical expansion

The key business activities that make up the economy of the CBD and the dynamic nature of the activities have been outlined. Increasingly this dynamism is evident in central fringe areas which are becoming more 'CBD like' in terms of the activities that are emerging in certain locations. In some instances this is a case of re-colonising areas that were previously important centres of industrial employment that had declined in importance during the 1970s and 1980s. Notable locations are Paddington, Islington & Clerkenwell, Camden and Southwark.

The Paddington Basin development hosts functions that can be typically found in Central London such as company headquarters and professional business services. Similarly, schemes such as the recent 'More London' development have helped Southwark establish a foothold in finance, professional business services, including legal firms such as Norton Rose and Lawrence Graham as well as the Ernst and Young headquarters and a number of private equity firms. Once fully occupied the area is expected to employ a total of 5,000 office-based workers.

Canary Wharf is perhaps the most striking symbol of the redevelopment of the London Docklands that occurred during the 1980s and 1990s. This followed the closure of the last dock in 1982 and the creation of the London Docklands Development Corporation (LDDC) which took responsibility for the redevelopment of huge swathes of derelict industrial land. The LDDC followed a strategy of property-led regeneration that would facilitate economic restructuring away from port-related and manufacturing activities which were in decline. Canary Wharf was an explicit attempt to create a new business centre in Inner London. Following the end of the 1990s property market crash and construction of the Jubilee Line Extension the area began to establish itself as a major financial and business services district.

Table 6: Canary Wharf Employment

Year	Canary Wharf Employment	
	Financial	Total
1991	1,000	17,000
1993	3,000	27,000
1995	5,000	28,000
1997	6,000	34,000
1999	9,000	40,000
2001	24,000	62,000
2003	26,000	61,000
2004	40,000	78,000
2005	47,000	87,000

Source: IFSL

Both 'City type' employment and total employment in Canary Wharf (as shown in Table 6) has increased rapidly, especially since the extension of the Jubilee Line to Canary Wharf in 1999 which greatly improved accessibility to the area. A cluster of skyscrapers is indicative of how it has benefited from the expansion of FBS activities and how agglomeration effects have taken hold in similar fashion to the City. Although it could be argued that Canary Wharf may eventually become a distinct centre in its own right, one recent survey suggested it was 'close enough' geographically to benefit from the City of London's agglomeration economies which is no doubt aided by short journey times - 11 minutes by DLR and less than 18 minutes by Underground between the two locations (from Bank Station to Canary Wharf). In short, Canary Wharf is viewed as an adjunct of the City and not a separate rival cluster⁴⁴.

Other locations witnessing significant development at the fringe of the CBD include King's Cross, which has been slowly transforming itself from a mainly industrial area for more than a decade. Change has been partly organic with business service firms – such as in the creative activities repopulating derelict warehouses and factories, as well as the addition of new offices and housing over the years. The area, as an alternative office location, is set to accelerate with the recent opening of the Channel Tunnel Rail Link (CTRL). Also the redevelopment of the former rail and industrial land behind King's Cross stations is one of the largest urban regeneration schemes in Europe that includes a planned 4.9 million square feet of premium office space and retail development, 1,900 homes and bringing back into use the historic St Pancras Hotel.

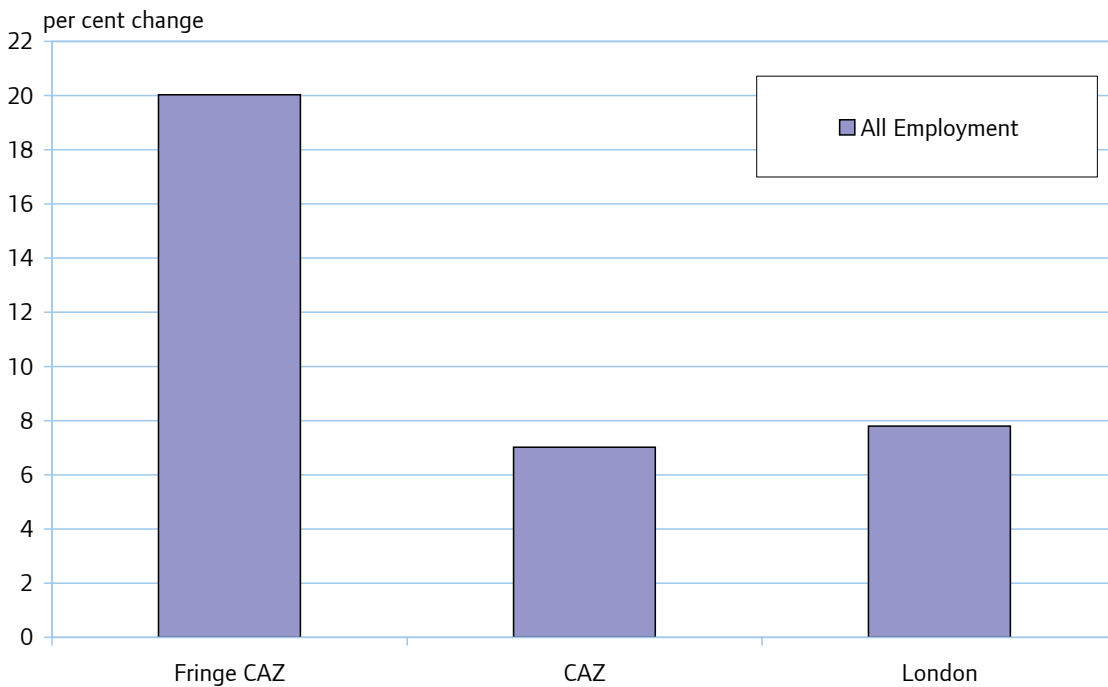
The growth of the creative sector is also contributing to the development of the CBD fringe. The West End creative cluster extends northward into Camden and Islington. Both locations are now home to significant concentrations of publishing, design and arts-related activities such as around King's Cross. Historically, publishing and print was located in Central London, most famously Fleet Street, but as pressure for space increased and combined with the desire to introduce new technology, many of these located out of the centre, most notably to Wapping and Canary Wharf in the case of the large newspaper groups.



Indeed, with the growth of digital media traditional print and publishing activities have faced declining demand. In their place has been growing employment in the electronic publishing and emerging sectors of computer games and software, which prefer a central location. Some areas on the City Fringe such as Clerkenwell have become established clusters for publishing firms and subsequently spilled further into Islington and towards King's Cross. As a result Central London has been increasing its share of publishing employment in recent years and is estimated to account for more than 40 per cent of London's total employment in this sector⁴⁵.

The emergence of significant concentrations of firms around the City Fringe underlines the growing locational advantage of the CBD in providing a critical density of employment and businesses. Indeed as Figure 14 highlights, the evidence suggests that such fringe areas of the CBD have generally experienced larger increases in employment than the CAZ or London as a whole since 1998. With London's economic structure predicted to move further towards business services, locations around the CBD are likely to grow in importance as key employment areas. This poses a challenge in ensuring there is sufficient commercial floorspace given the ongoing pressures for development in the centre.

Chart 14: Employment change in CAZ, Fringe CAZ and Greater London, 1998-2005



Source: Annual Business Inquiry, GLA Economics calculations



Globalisation and the rise of India and China – what opportunity for London’s CBD?

Globalisation has been usefully defined as ‘the integration of economies through markets across frontiers’⁴⁶.

The driving factors behind globalisation have primarily been:

- mass production technology and the international organisation of production
- the reduction in transport and communications costs
- economic liberalisation – countries opening up markets to international trade and capital flows.

The process itself is not new – although in the early twenty-first century there are some new elements such as global branding, and global division of production within companies. In the nineteenth and twentieth centuries the countries, continents and regions of the world went through periods of increasing openness and trade, as well as periods of greater protectionism and isolation, especially between the two world wars. However, the pace of change is new, as well as the scale and scope of change, affecting ever more people and products across the world. Globalisation, by opening up markets, creates the potential for greater benefits of specialisation and trade for London as much as for other parts of the world economy.

Globalisation also interacts with the other major economic trends likely to shape the world economy, especially with the rise of Asian countries as economic superpowers. The geographic shift in the balance of economic power in the world is manifest in the rise of countries such as China, India and Russia, which are expected to play an increasingly important part in the world economy over the coming decades.

The emergence of China and India as economic powerhouses in particular presents a major opportunity from globalisation for London’s CBD-based businesses in terms of their capacity to provide a wide range of financial and business services on a global basis. China and India potentially represent extremely important markets for the UK as their economies develop further.

There are a number of developments, both economic and political which mean that demand for ‘City type’ services from consumers and businesses is likely to grow substantially in the future. These developments can be broadly summarised as the following:

- Liberalisation of state-owned enterprises and product markets
- Increasing openness to international trade
- Reduced role of state security system

We outline the relevance of these issues for China and India and the potential opportunities they present for London’s globally orientated businesses.

Liberalisation

In China the banking system still maintains strong linkages to state-owned enterprises where heavy subsidies are required, and in some sense resemble a de facto social security system. Chinese state banks have embarked on a process of full and part-privatisation and this will require strengthening of the financial and regulatory architecture. The City of London is regarded as holding a reputation for sound governance, and legal and financial frameworks; these emerging markets will look to City and other London CBD-based companies as a source of advice, creating demand for legal services in particular.

In India the break-up of traditional state firms and monopolies are also likely to present potential opportunities for foreign financial services firms to provide financing, investment, as well as advisory services related to privatisation, restructuring and merger and acquisition. Indeed in both countries, the liberalisation of product markets and opening up to international competition will also create demand for joint venture arrangements and other types of financial structures. As these come into play demand for corporate finance services will grow.

Increased Role of Multinational Corporations (MNCs)

Chinese and Indian multinationals are increasingly dispersing operations, seeking new sources of resource and materials and new markets particularly as they become involved in all stages of the production process. This is likely to lead to demand for the specialised financial and support services involved in managing complex supply chains. Aided by looser capital controls and lower trade tariffs, such services may encompass capital raising, M&A advisory and other services, export finance, and consumer credit packages⁴⁷. As London already possesses the whole complement of services required to manage global production operations it is well placed to take advantage of this new market and develop strong relationships with Indian and Chinese MNCs.



Social Security

China's privatisation process also effectively ends its commitment to provide lifetime employment, housing healthcare and pensions to the population through the state firm system. Such reform potentially represents significant latent demand for savings products. Though perhaps the greatest opportunity is in China's high savings rate, as households have accumulated huge savings amid the economic boom rather than spending their income gains. The future market for financial services products, particularly among the urban middle classes where wealth is concentrated, could therefore expand rapidly.

Similarly, in India there are growing opportunities to provide retail financial services to an emerging middle class. In particular, the insurance business is still mainly state controlled and enjoys protection from foreign competition. Liberalisation in financial services coupled with the probable future demand for savings and investment products from a growing middle class will require expertise in a number of areas where London's CBD has a strong competitive edge.

In general, current and future developments in China and India will in all likelihood create significant demand for international financial and business services. Much of this will depend on the pace and scope of further economic reform and there are numerous uncertainties associated with this. London is well placed to capture a significant share of this market given its concentration of world-class businesses in the financial and business services sector. To summarise it is widely perceived as having the following major strengths:

- reputation for sound governance, principles-based regulation and integrity;
- agglomeration advantages of clusters of services – including financial and legal, accountancy, IT, engineering;
- expertise that is both multi-national and multi-lingual;
- quality, diversity and depth of its managers and employees.

It is necessary for London's CBD to capitalise on these assets. The critical mass of expertise is unique not just in terms of its quality and depth but also in having a reputation for openness. This also gives it a strong track record for innovation in financial services and creativity that sets it apart from the emerging financial centres of Mumbai and Shanghai.

Offshoring – A risk to the City?

While positive benefits have flowed to London's wholesale financial services and supporting business services from the emergence of globalisation, there have been growing concerns over the outsourcing of financial services jobs to lower wage economies abroad such as India – known as 'offshoring'. A recent survey⁴⁸ showed that around a third of London businesses have sought to relocate certain FBS tasks to lower cost locations, up from 26 per cent in 2005.

However, the evidence so far suggests that these involve more standardised support tasks such as IT support and call centres that do not necessarily require a CBD location. A considerably lower proportion of R&D and design jobs have been offshored. Furthermore continued expansion of City and Canary Wharf employment levels suggests the process of offshoring has not made a significant dent in the labour market. Higher value added tasks that require face-to-face contact have tended to remain in Central London. One report suggested that this was attributable to the City's capacity to discover new forms of competitive advantage through innovation and increasing the proportion of higher skilled jobs among the workforce⁴⁹. It should be noted that offshoring is merely the latest manifestation of the dispersal of activities out of Central London once they become routine/standardised and are no longer innovative or cutting edge. In the past back office activities have moved to Outer London, the South East (outside London) and other parts of the UK. In this sense, offshoring is nothing new.



Priorities for the CBD

It is becoming clear that competitiveness in the era of globalisation is as much about cities as it is nations. Cities around the world are building on and developing expertise in a range of services. To some degree they represent a hierarchy of activities, with London, New York, Tokyo and Paris at the top and cities such as Shanghai, Chicago and Frankfurt at the next level but also striving for 'world city' status. Moreover, cities' governments increasingly understand the need for cities to develop their international role, from investment in world-class infrastructure links to development of tourist and cultural attractions. Just as New York has recently taken stock of its competitive position with the publication of a report by consultants, McKinsey and Company⁵⁰ so we in London need to understand both London's strengths and its weaknesses. Hence this final section of our report looks first at the areas where London does well and which create a favourable environment for business and economic activity and then looks at areas that have been more problematic.

As survey and other research evidence has shown, London clearly performs well against other cities such as New York as in the extent, diversity and quality of its workforce⁵¹. This is mainly due to its ability to attract highly skilled and talented individuals from around the world for whom the existing cosmopolitan character of the existing workforce is a major draw. As such maintaining an open policy towards international migration is paramount for the CBD. Nevertheless as discussed later more action is needed to develop the talents of London's workforce to ensure they benefit from the numerous employment opportunities presented by the growth of employment in London's CBD.

Openness to foreign operators, and the regulatory environment are also instrumental factors contributing to London's competitive edge over New York and Paris. As the McKinsey report on New York stated, 'our regulatory framework is a thicket of complicated rules, rather than a streamlined set of commonly understood principles, as is the case in the United Kingdom... The flawed implementation of the 2002 Sarbanes-Oxley Act, which produced far heavier costs than expected, has only aggravated the situation.' In addition, the McKinsey report concluded that 'the legal environments in other nations, including Great Britain, far more effectively discourage frivolous litigation... the prevalence of meritless securities lawsuits and settlements in the US has driven up the apparent and actual cost of business – and driven away potential investors'.

As highlighted earlier this promotes financial innovation and makes London the premier global centre for a number of markets. The regulatory framework has been tested by the recent Northern Rock crisis. So far the problems have been confined to a single financial institution suggesting the current regulatory approach is reasonably robust. Quite sensibly the Government is reviewing recent events to see what reforms of financial industry regulations may be required. In doing so the challenge will be not to over react with a set of overly prescriptive regulations as occurred in the USA with the 2002 Sarbanes-Oxley Act in the wake of the Enron affair. The Government, however, is aware of this danger and the Economic Secretary to the Treasury, Kitty Ussher, recently committed that 'we won't move away from the smart, proportionate, risk-based approach to financial services regulation that has contributed so much to London's strength'⁵².

Rankings of cities in terms of their attractiveness to business also provide useful information on London's competitive position and strengths and weaknesses. The most long standing of such analysis is Cushman and Wakefield's European Cities Monitor which has been surveying Europe's major business centres each year since 1990. London has consistently been ranked as the best city in which to locate a business over the years. Table 7 shows London's ranking in 2006 and 2007 together with the ranking of importance of the various factors for companies' location decisions. London has the top ranking in half of the 12 factors considered including all of the four most important factors for business location.

Table 7: London's ranking as business location in Europe

Location Factor	Ranking of Factor's Importance in 2007	London's 2006 Ranking	London's 2007 Ranking	Lead City in 2007
Availability of qualified staff	1	1	1	London
Access to markets	2	1	1	London
Quality of telecommunications	3	1	1	London
Transport links to other cities and internationally	4	1	1	London
Cost of staff	5	16	25	Bucharest
Languages spoken	6	1	1	London
Climate for business	7	5	2	Dublin
Offices – value for money	8	29	18	Warsaw
Offices – availability	9	1	2	Berlin
Travel within the city	10	1	1	London
Employee quality of life	11	7	11	Barcelona
Freedom from pollution	12	26	29	Stockholm

Source: *European Cities Monitor, Cushman and Wakefield*

More recently two other rankings of cities have been conducted on a global basis. The Global Financial Centres Index⁵³ (GFCI) ranks financial centres on the basis of five dimensions: people, the business environment, market access, infrastructure, and general competitiveness. Box 1 explains the areas covered by each of these dimensions.

Box 1: Explaining the Global Financial Centres Index

The Index consists of five dimensions as follows:

- *People* covers the availability of good personnel, labour market flexibility, business education and human capital development.
- *The Business Environment* includes regulation, tax rates, levels of corruption, economic freedom and the ease of doing business.
- *Market Access* comprises levels of securitisation, the volume and value of equities and bond trading, and the clustering effect of the concentration of many financial firms together in one centre.
- *Infrastructure* currently covers, in the main, the costs and availability of buildings and office space.
- *General Competitiveness* covers more general economic factors, economic sentiment and how centres are seen as places to live.

The GFCI ranks London as the world's top financial centre, closely followed by New York. These two centres clearly stand out from the other cities considered as the world's top two financial centres. London heads the list of centres on all five dimensions of the GFCI. London is particularly well rated for the availability of skilled personnel, regulation and market access. The main areas of concern for London were considered to be business tax rates and transport infrastructure.

The Mastercard Worldwide Centers of Commerce Index using data from 2006 ranks cities as centres of global commerce. The index combines together six facets of performance: the legal and political framework, economic stability, the ease of doing business, financial flows, significance as a business centre, and knowledge creation and information flow. Box 2 explains the areas covered by each of these.

Overall this index ranks London first ahead of New York in second place. London scores highly on all the dimensions with the exception of the legal and political framework dimension. Table 8 shows London's ranking on each of the six performance dimensions.

Box 2: Explaining the Mastercard Worldwide Centers of Commerce Index

The Index consists of six aspects as follows:

- *Legal and Political Framework* covering credit ratings and regulations affecting licensing, property rights and international trading.
- *Economic stability* covering the volatility of growth, inflation and exchange rates.
- *The Ease of Doing Business* including the corporate tax burden, contract enforcement investor protection, provision of banking and other services and also quality of life factors.
- *Financial Flows* comprising equity, bond, derivative and commodities trading and the presence of financial institutions.
- *The Business Center* dimension covers the ease of starting and closing a business, employing workers, obtaining credit and air transport connections.
- *Knowledge Creation and Information Flow* includes the number of universities, medical schools, MBA programmes, patent applications and measures of information flows such as the extent of broadband access and newspaper readership.

Table 8: London's ranking as a centre of global commerce

Performance Dimension	London's Ranking	Lead City
Overall Index	1	London
Legal and Political Framework	19	Stockholm
Economic Stability	4	Barcelona, Madrid
Ease of Doing Business	5	Vancouver
Financial Flows	1	London
Business Center	2	Hong Kong
Knowledge Creation and Information Flow	3	New York

Source: Mastercard, 'Worldwide Centers of Commerce Index 2007', 2007.

The analysis has rightly set out an optimistic picture of London as a global centre of business. London has many strengths, for example, in its regulatory environment for business, and as we have noted, in relation to financial market regulation. The future challenge involves ensuring these strengths are maintained. Nonetheless, some issues weigh on London's competitiveness, for example past under investment in London's transport infrastructure. Also other factors such as the relative cost of living (especially in housing) and lack of social cohesion all chip away at London's attractiveness to workers and business. If not properly addressed these problems will increasingly come to the fore as other cities develop their global role. Below we consider how these issues affect the performance of the CBD and the approaches required to tackle them.

Transport

While the density of Central London's transport infrastructure is unrivalled by most other cities, all too often the system fails to live up to expectations with frequent problems of unreliability, congestion and lack of cleanliness that hinders its performance. London has suffered from a lack of stability in transport funding while renewal and extension of the existing network has been neglected. Since 1970 Paris has added 85km of rail and metro to its network compared to just 38km in London. Additionally, Paris has invested in new tunneling and interchanges⁵⁴.

A recent study⁵⁵ for GLA Economics estimates the total cost of transport delays to the Central London economy at approximately £1.2bn per annum comprising the following:

- £870m cost to commuters as a result of lost time spent in delayed trains, tubes or buses or traffic jams
- a further £320m a year from staff being delayed while on employers' business, as staff lose effective working time when travelling to and from business meetings.
- over-and-above this is an additional cost of £560m a year in lost time from delays experienced by those travelling to, from or within Central London for non-work (ie, leisure) purposes such as shopping, education, tourism and visiting friends. This is equivalent to £1.5m per day.

It is more problematic to put a monetary figure on the cost of reduced productivity to firms through staff stress and fatigue. However a survey carried out for the study found that up to 94 per cent of companies believe that staff productivity is either seriously or somewhat reduced by problems faced by in-commuting. This finding is supported by an earlier survey of employees in the City of London, with nearly half of respondents reporting that a reduction in their productivity as a result of transport delays is either a serious problem or somewhat of a problem⁵⁶.

Only recently has London started to address the problem of consistent under- investment and maintenance. The Public Private Partnership (PPP) for the Underground and the commencement of work on the Thameslink upgrade are examples of major schemes that will add capacity and improve reliability. Equally important is the willingness to fund additional major infrastructure most notably the commitment to fund Crossrail, which will also add much needed transport capacity to the Central London area. Also the recently opened Channel Tunnel Rail Link is the first truly high-speed rail line to the capital and has significantly cut rail journey times to the continent.

In view of the expected increase in London's jobs and population, the need to deliver substantial new infrastructure has become all the more pressing. As the Jubilee Line Extension showed, rail and tube links are essential ingredients for encouraging regeneration and intensification of priority areas, and enabling density of employment and agglomeration effects. Crossrail is intended to serve the key employment locations of the West End, the City and Canary Wharf and is therefore crucial to deliver the necessary increase in transport capacity and to sustain growth in employment in the CBD. Its central section will have twice the capacity of the Jubilee Line and will increase rail capacity to the Isle of Dogs by 54 per cent⁵⁷. The scheme should ensure that the capital realises the projected growth in financial and business services employment and associated productivity gains over the next decades. A summary of the economic case for Crossrail follows:

- Crossrail will generate net benefits of £37bn to £68bn (present value) to UK GDP over 60 years
- Crossrail will enable the addition of at least 35,000 jobs in Central London
- Additional national tax revenues of at least £14.8bn, assuming services begin in 2017.
- Time saved to business valued at around £4.9bn
- Transport for London (TfL) has calculated that Crossrail will provide 40 per cent of the extra rail capacity that London needs by 2015

Congestion charge

The introduction of the congestion charge scheme for Central London in 2003 was recognition that congestion, if not dealt with, could have damaging implications for both its residents and businesses. Freeing up road space would benefit public transport and car users as well as businesses through making the distribution of goods and services within the central area more efficient. The most recent results suggest that the initial drop in traffic entering the charge zone has been maintained, with the number of all vehicles down by approximately 16 per cent in 2007 compared to 2002. This is at the upper end of initial expectations. Furthermore initial surveys of the Western Extension to the charging zone suggest that traffic dropped by in excess of 20 per cent. Nevertheless, there is some evidence that congestion arising from roadworks, specific traffic lights and street furniture is becoming an issue in the original central charging zone and this will need to be monitored and addressed if it is not simply a temporary phenomenon.

Commercial space

Based on the London Plan employment projections, future office capacity is expected to cover 90 per cent of projected need in the Central Activities Zone to 2026⁵⁸. The Plan distinguishes the CAZ and Canary Wharf as specific locations for more intense office development, including those parts of the City Fringe and Westminster developing more strategic commercial functions. London's office market comprises several sub-markets (City, West End, Mid Town, Docklands, North, South East and West) in many ways reflecting the business activities that are predominantly clustered there. For example legal firms in Midtown and in the City of London and media companies in the West End. The performance of these sub markets can vary. The West End typically attracts considerably higher rents than other office locations outside the City of London and these have been fuelled upwards more recently by the growth of hedge funds. Office development of the West End market is particularly notable in Victoria.

The London Office Policy Review 2007 highlights the development of fringe areas where supply is limited in more established locations. Although the Mid-town office market has matured over the last decade there has been a lack of new development activity. The report notes that although de-clustering of activities from established locations is generally unlikely (eg West End media companies will not simply de-camp to a Docklands location to take advantage of lower rents) ongoing supply constraints in certain areas might reinforce 'locational substitution' where plentiful supply in a fringe area may attract new clusters of business services away from their traditional location⁵⁹. One example is at More London in Southwark where international legal and finance firms have set up.

Since the early 1990s Central London has witnessed a significant amount of office space converted into residential or other uses. According to the London Office Policy Review (2006) approximately 127,000 square feet of office space was converted to other uses, mainly housing, in the Square Mile between 2001 and 2005. Much of this occurred in fringe City areas but was also evident in core prime office locations. Similarly over the same period Westminster saw in excess of 858,000 square feet of office lost to other uses, mainly housing.

There are several reasons behind the conversion of Central London office space. For example, many premises are 1950s/60s developments that have become outdated and shunned by occupiers and investors. Also the policy of conversion and redevelopment has been a reaction to the prolonged oversupply of space experienced after the early 1990s downturn. In addition in some locations particularly in Westminster housing developments attract comparable rents and values per square foot as offices.

The recovery of the Central London office market from the dotcom bust in 2000 has led to a slowing down in the rate of conversions and increasing volumes of new development since 2002. Demand for office space has steadily strengthened over the same period and 2007 was close to a record year for take-up in the City of London according to one recent survey of the Square Mile although activity has undoubtedly slowed since the credit crunch⁶⁰. Indeed given current trends in pipeline development, new office space may struggle to keep up with occupier demand until 2009-10. This suggests City of London office rents may continue an upward trend even taking into account the swings in the economic cycle and world financial markets.

Globally oriented financial and business services view a CBD location as essential and will consider central Paris, New York and Tokyo as alternative locations to Central London. Moreover, with the global market in business services set to expand further, we will increasingly see the internationalisation of demand for commercial space in the CBD. Policy towards office provision should take into consideration the specific requirements of certain parts of London's CBD to ensure Central London can continue to fulfill and develop its role as a global business district.

Quality of life

The ability to attract and retain a high quality workforce as much depends on the provision of decent housing, high quality public services, public realm, cultural assets and natural environment in addition to rewarding employment. As one study into London's financial services sector concluded "cultural and social criteria have an important role in determining which places people and business are attracted to"⁶¹. Recognising the way in which the various assets of London as a whole and its supporting infrastructure 'hang together' in attracting investment and skills is an underlying theme of the London Plan. This emphasises the interdependency between London's CBD and the rest of London and the commuter belt beyond where the vast majority of the CBD's workforce reside. The quality of life in these areas is a key factor for the continuing economic competitiveness of London and its CBD. Obviously the policy actions to improve quality of life lie very largely beyond the boundaries of the CBD. The areas that require focus include housing, health services, education and the environment.

Research comparing London against three other major financial centres, New York, Paris and Frankfurt⁶², ranked London as the least attractive on housing costs. High housing costs directly affect the capacity to attract and retain in London and its surrounding commuter belt the highly skilled and educated workforce that many companies in London's CBD require. The competitive position of London-based companies is also affected, as they have to pay more to attract and retain employees compared to companies in the rest of the UK and to other major cities across the globe. Addressing this problem will require a large increase in the supply of housing.

London's cultural diversity is an asset in itself. As has been highlighted, much of it provides the impetus to the capital's international cultural offering and creative enterprises a large part of which is located in London's CBD. The quality of London's cultural attractions is a significant factor in attracting highly capable individuals as argued by one study:

"The attraction of London as a major metropolis and cultural centre is important in drawing in labour, especially international labour, hence there is a premium on keeping London's amenities and reputation in these areas up to scratch for the good of its commercial success." (Corporation of London, February 2003)

The environment in London is also clearly an important factor affecting London residents' quality of life. Central London gains considerably from the presence of several large and centrally located parks from Holland Park and Kensington Gardens to the west through to St James's Park in its very centre to Regent's Park to the north. These all make London a more attractive place to live, and Central London a more attractive place to work. Other areas of London's environment are more of a challenge, for example air quality. But here progress is being made. In the last ten years the levels of various air pollutants have generally fallen – for example sulphur dioxide down by three quarters and carbon monoxide by around 60 per cent. The one exception is ozone levels which have increased by nearly 60 per cent in the last 10 years.

Safety and security

The events of July 2005 have shown once again that London, and especially Central London/London's CBD, is a target for UK and international terrorists, whose actions have the potential to cause significant social and economic costs in addition to great human suffering. For example, GLA Economics has estimated that the July 2005 attacks reduced tourists' expenditure in London by around £500 million.

To combat terrorism successfully, and to improve safety and security, the police service as a whole is involved in gathering, analysing, passing on and acting on intelligence. Working in partnership with the Security Service and other agencies is essential. This intelligence-led approach reduces the opportunity for criminals to commit terrorist offences and ensures that the offenders are brought to justice, including those who support, encourage and finance terrorism.

London's capital city status also makes policing more complex and expensive, with the need to protect national government, the economic sectors that drive London's world city status, and guarding against the risk of terrorism, all without diverting resources and attention away from the more mainstream policing a major urban area requires.

West End retail

The West End Retail Area Planning and Development Commission was set up to consider the competitive position of the West End and develop relevant policy options. The Commission concluded that there were some signs that the West End's competitive edge was slipping and that it was underperforming against its potential. Accordingly, the Commission concluded that action was needed to sustain and develop the area's unique offer as a centre of retail and related activities. In summary the key recommendations for action were:

- a continuous review of transport options for the West End particularly to address the tensions between the West End's status as a destination and its use as a major thoroughfare.
- encouraging a greater number of large, flagship and otherwise distinctive shops, while enabling the replacement of obsolete stock at the eastern end of Oxford Street.
- recognition of the unique circumstances in the West End retail core by setting priorities for use of planning powers to improve quality of the urban realm/environment, transport/accessibility, legibility, amenity and consistency of the area, promoting the most efficient use of space and ensuring high quality design.
- support for complementary uses: hotels, cinemas, theatres, and restaurants.
- an emphasis on the importance of Crossrail as it will provide much needed transport capacity and increase the potential for development.

Social inclusion

Significant inequality and poverty are problems affecting many large cities, and London, especially Inner London around the edges of the CBD, suffers from having low employment, as well as some of the most deprived districts. The concentration of employment at all levels in London's CBD is a potential opportunity to match workless individuals with jobs. This requires overcoming the barriers that prevent workers from entering employment and offering employers the skills and attributes they need. Previous research has indicated that employment and training programmes with a work focus taking account of the needs of employers and the local (in this case London) labour market are most effective at assisting individuals back into employment⁶³.

The newly formed London Skills and Employment Board have recently published their proposed strategy for consultation. Among the aims of the strategy is to make it easier for individuals to access the help they need to move into work. Also through the provision of subsidised day care places, the LDA's Childcare Affordability Programme (CAP) aims to make childcare in the capital affordable, flexible and of greater quality whilst assisting parents to stay in or return to full-time or part-time employment. In total some 10,000 affordable and flexible childcare places have been created through directly subsidising Ofsted registered and approved childcare providers. CAP places are targeted at lower income families in receipt of the Child Tax Credit at a higher rate than the basic family element.

For these policies to be effective it also requires that employers in the CBD view inner city residents as potential employees. The draft strategy from the new London Skills and Employment Board proposes that employers should recognise the business benefits of 'recruiting locally, and helping out-of-work Londoners back into work'⁶⁴.

Some employment sectors with a significant presence in London's CBD such as retail have a good track record of providing entry-level jobs that can be accessed by people from more socially disadvantaged backgrounds. For example, 13 per cent of jobs in London retailing were filled by individuals with no qualifications roughly double the figure, 7 per cent, prevailing in the rest of the London economy⁶⁵. Others, such as finance fair less well, and tend to recruit entry-level staff from Outer London and the commuter belt surrounding London. A report for the City of London Corporation found that employees in more highly paid entry-level functions were more likely to come from Outer London or outside London than from Inner London – see Table 9⁶⁶.

Table 9: Geographical source of City non-graduate employees

	Inner London	Outer London	Kent	Essex	UK-wide
Ancillary					
Secretarial					
Customer Support					
Clerical					
Technical: <i>Insurance</i>					
Technical: <i>Accountancy</i>					

	Employees are rarely recruited from these areas
	A sizeable minority of employees are recruited from these areas
	Employees are predominantly recruited from these areas

Source: Corporation of London

Many of the young people involved in this research's focus groups from Inner London commented that they were the only members of their immediate peer group to be working in the City, suggesting low levels of awareness and access to the City's opportunities. This is despite the relative physical proximity of Inner London residents to City and West End workplaces.

A significant factor impacting here appeared to be family traditions of financial sector employment. These helped set a precedent, and provided young people with obvious role models, whereas those without such traditions were less aware of the opportunities available, and how to access them. This points to a need to increase the links between potential employees from deprived parts of London and companies in London's CBD.

Conclusion

This paper has set out the unique role of and the unique collection of activities in Central London. The presence of finance and business services in the City of London is well known but Central London's activities encompass retail, leisure, culture, art and government. It is necessary to consider the uniqueness of Central London not just in terms of each of its individual features but as a collection of inter-related specialisations with positive linkages and feedback mechanisms between them boosting the performance of all.

London's CBD is not an island – it sits as part of a wider London city-region economy. One and a half million people work in London's CBD with the vast majority of these residing outside of the CBD's 'boundaries' in the rest of London and beyond. Those boundaries have themselves changed in recent times – most notably with the development of Canary Wharf which is now a key part of London's CBD.

Agglomeration economies explain both the existence and the economic performance of London's CBD. These lie behind Central London's position as the world's leading international financial centre – and its ability to offer the widest possible choice of financial, business and professional services in a single location. These economic forces have become an increasingly fundamental asset amid the growing internationalisation of production and services characterised as globalisation.

Globalisation and the progressive opening up of international markets offers increasing opportunities for London CBD-based businesses – most notably to supply finance for investment and sell a range of professional business services, but also rising tourism into London as globalisation leads to rising per capita incomes in countries such as Russia, India and China.

This report has also emphasised the dynamic nature of the CBD, in terms of innovation. Agglomeration is not a static process but one where increasing the concentration of employment and businesses can be a virtuous cycle of growth and innovation. Innovation in London's financial sector is also assisted by its relatively light touch regulation compared to New York.

However the continued success of London's CBD is not inevitable. The experience of declining employment in London and its CBD in the 1970s and half of the 1980s makes this clear. London's CBD will only continue to thrive if the supporting infrastructure is in place to underpin its success. Transport infrastructure is key in this regard. The recent decision to go ahead with Crossrail linking Heathrow airport with London's CBD is vital and welcome, but with employment in London's CBD anticipated to rise from 1.5 million now to 1.9 million by 2026 further investment and improvements in public transport capacity into Central London will also be needed. As part of the wider London city-region the success of the CBD also depends on factors well beyond its 'boundaries'; most notably, with the vast majority of CBD workers residing in the rest of London or the commuter belt beyond, the need to have a high quality of life, to attract and retain people. This requires dealing with a whole host of quality of life issues such as the cost of housing in London, the quality of public services and the public realm and the environment.



Footnotes and bibliography

Footnotes

- 1 The Central Activities Zone is defined as the unique cluster of vitally important activities including central government offices, headquarters and embassies, the largest concentration of London's financial and business services sector and the offices of trade, professional bodies, institutions, associations, communications, publishing, advertising and the media in Central London.
- 2 Strictly the cluster of financial and business services and supporting retail and leisure services extends beyond Canary Wharf to other parts of the Isle of Dogs, but we use the term Canary Wharf to cover this whole cluster as this designation has entered into common parlance.
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- 6 See research by Globalization and World Cities - Study Group & Network, <http://www.lboro.ac.uk/gawc/>
- 7 IFSL – International Financial Markets in the UK, May 2007. Hedge funds are private pooled investment limited partnerships which fall outside many of the rules and regulations governing more mainstream investment funds.
- 8 The first listing of a company's shares on a public stock exchange.
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