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Dear Jason

SPITALFIELDS NEIGHBOURHOOD PLAN

Representations on Affordable Workspace policies (Policy SPITAL7)

We are writing with our review of Spitalfields Neighbourhood Plan Submission (Regulation 16) Version, dated October 2020 (“Neighbourhood Plan”), specifically in relation to the Affordable Workspace policy SPITAL7.

This review follows an earlier review of the pre-submission version of the Neighbourhood Plan carried out in September 2020. Since that time and in light of the ongoing Covid-19 pandemic, there has been limited additional evidence which would materially alter the conclusions of the September 2020 review.

Introduction

The Neighbourhood Plan represents one part of the development plan for the neighbourhood area over the period 2020-2035, the others being the Tower Hamlets Local Plan and the London Plan. Draft policy SPITAL7: Affordable Workspace, proposes 10% of the new employment workspace to be at least 45% below market rate for a period of 12 years. The draft policy is an extension of Local Plan Policy EMP2 for at least 10% of new employment floorspace within major commercial and mixed-use development schemes to be provided as affordable workspace, let at rates of at least a 10% discount to the prevailing market rent.

The policy is supported by an evidence base prepared by Peter Brett Associates (“PBA”), titled ‘Affordable Workspace Evidence Base: Policy Review’, dated February 2018 (albeit this document now appears to be omitted within the Submission Version evidence base, despite it being a key citation within the Plan footnotes). The PBA report draws heavily from the Local Borough of Tower Hamlets Local Plan Viability Assessment, prepared by BNP Paribas (“BNPP”), dated December 2017, as well as referencing the London Borough of Hackney Local Plan and CIL Viability Assessment dated October 2018.

The draft Neighbourhood Plan makes the following key conclusions. Firstly, at paragraph 6.9 it states:

“Sensitivity tests conducted as part of the Local Plan Viability Assessment [cites BNPP report] reported that the delivery of affordable workspace at 50% of the market rent was found to be viable (paragraph 7.22), indicating that the affordable workspace policy in the Neighbourhood Plan can be feasibly implemented.”

In relation to the draft policy SPITAL7, the Plan states at paragraph 6.10:

“This policy approach is justified by the evidence base [cites PBA report] which supported the Borough Council’s Local Plan Policy EMP2, clause 4 which found that some major development schemes could viably support 10% of new employment floorspace at a 40% to 50% discount in market rental rates.”



You have instructed DS2 LLP to undertake a review of the Neighbourhood Plan evidence base documents to determine whether the Affordable Workspace policies are financially viable, and therefore deliverable.

Review of Evidence Base documents

As noted at paragraph 6.10 of the Neighbourhood Plan, the PBA report draws its conclusions that the policy is viable by reference to four scheme scenarios which were tested with the inclusion of Affordable Workspace. As noted, these were tested at discounts of between 40% and 50% to market rates, which were found to be viable.

However, the four scheme scenarios tested within the BNPP report, and in turn cited by the PBA report, are major strategic development sites; Bishopsgate Goodsyrd, Billingsgate Market, North Quay and Whitechapel South. The size and scale of these sites is significant. We have extracted the key information from the BNPP appraisals below:

	Bishopsgate	Billingsgate	North Quay	Whitechapel
Office net area (sq ft)	792,230	1,604,525	1,736,483	30,182
Residential net area (sq ft)	786,619	1,355,258	608,334	445,435
Residential units	996	1,716	772	564
Gross site per ha	4.24	5.74	3.48	1.39

These are very large developments. In terms of area, the largest site to come forward in the Spitalfields area was the London Fruit & Wool Exchange (0.84 ha) and beyond this the majority of applications in Spitalfields are on sites less than 0.5 ha, which is reflective of the smaller urban grain and fragmented land ownership in the area. It appears therefore that the Neighbourhood Plan’s Affordable Workspace policies are being determined on scheme scenarios which are not reflective of the local area in which the policies are being applied.

Furthermore, all of the sites are mixed-use developments which include a significant number of residential units. Again, this is not reflective of the nature and scale of development that has typically come forward in the Spitalfields area. Where the schemes being tested include high proportions of residential, it is not clear whether the residential uses (and value associated with these) are cross subsidising the Affordable Workspace policies or not.

The points above are themselves summarised by BNPP within their Local Borough of Tower Hamlets Local Plan Viability Assessment at paragraph 7.22 where they qualify that the scope of the testing of the Affordable Workspace is limited to only major developments (the underlining is our own):

“Our sensitivity testing of the delivery of affordable workspace in major commercial or mixed use schemes as required by Policy D.EMP2 in the strategic sites has identified that they can viably do so.”

The fundamental flaw in both the PBA and BNPP reports is that these are borough-wide studies, carried out on massive mixed-use development sites. The conclusions drawn from these scenarios have then been applied to a localised area without consideration as to whether the approach, or assumptions adopted, are relevant to Spitalfields. As such, the evidence base being used to justify the policy in the Neighbourhood Plan is not appropriate because the specific type, scale and height of development that comes forward in Spitalfields has not been accounted for.

DS2 Approach

To address the flaws in the Neighbourhood Plan evidence base, DS2 has carried out a localised, area-wide viability study, adopting assumptions that are specific to Spitalfields. Instead of only modelling major developments, we have considered a more realistic range of employment scheme scenarios or ‘typologies’. We have considered past planning precedent in Spitalfields to inform these scenarios.



The overarching methodology of our viability assessment follows national guidance and the approach within the BNPP assessment. We have appraised the Gross Development Value of the different scheme scenarios, before deducting the costs of development (construction, fees, finance etc) to arrive at a Residual Land Value. We have then compared the land values generated by these scheme typologies to Benchmark Land Values (“BLV”). If the land value generated by a scheme exceeds the BLV then it is deemed to be viable, and if it falls below, it is unviable. Through this approach we can consider whether the Neighbourhood Plan’s Affordable Workspace policies are viable.

In order to arrive at a scheme typology which can be appraised, our general approach has been to follow the methodology adopted within the BNPP assessment wherever possible. In this regard, we would note that since the publication of the evidence base documents, BNPP has also prepared a more recent borough-wide viability assessment as part of the Community Infrastructure Levy (“CIL”) Review, dated March 2019. Unlike the Local Plan viability assessment, this does include more relevant employment scheme scenarios and, as such, has been considered. However, where we feel it is justified, we have made a number of key departures from the BNPP methodology, for example, the height/ scale of the typologies being tested.

We set out below further detail on the assessment.

Scheme typologies

Site area

In accordance with BNPP methodology, we have considered development typologies over a range of different site areas, albeit with specific regard to recent planning precedent in Spitalfields, summarised below:

Site address	Area (hectares)
Attlee House, Sunley House, Profumo House and College East, 10 Gunthorpe Street	0.29
Toynbee Hall, 28 Commercial Street	0.44
11-31 Toynbee Street and 67-69 Commercial Street	0.10
140 Brick Lane	0.13
London Fruit & Wool Exchange	0.84
155 Commercial Street	0.05
Land to the east of 68 to 80 Hanbury Street	0.07
4 Norton Folgate	0.14
Site at corner of Buxton Street and Spital Street	0.36

Uses

On balance, considering the nature of the policy being tested, we have appraised employment or employment led development schemes. Considering the range of site areas demonstrated in the table above, we have therefore arrived at the following schemes:

- Small office development (0.05 hectares)
- Medium office development (0.14 hectares)
- Large office development (0.29 hectares)
- Very large office development (0.45 hectares)
- Large mixed-use development (residential and office) (0.29 hectares)

Scale/ massing

The consideration of height and massing is a critical factor in any Spitalfields-specific viability assessment. As is made clear in the Neighbourhood Plan, most of the Spitalfields area sits within four different Conservation Areas as well as being home to numerous heritage and statutorily listed assets. Parts of the area sit within the protected views of St Pauls and the Tower of London. The Neighbourhood Plan therefore notes the importance of “carefully controlling the scale, mass and footprint of new development”.



The Tower Hamlets Tall Buildings Study Draft Report (July 2017) notes the predominant building height in the Spitalfields area is typically four to six storeys. Regarding potential development sites, the study comments that a compact, street-based approach is recommended to respond to the prevailing character of the area, rather than tall buildings. As such, the restrictions on proposed development heights in the area should be reflected as this affects the viability of new development.

What this means in terms of any Spitalfields-specific viability assessment is that there will be significant restrictions on height and massing of any typologies being appraised, when compared to a borough-wide viability assessment. Such a restriction on new development height will have a material impact on the outcome of any viability assessment.

We have considered the same planning precedent in terms of maximum building heights, (it should be noted that most of these developments include height variations, e.g. part 3-storey, part 5 storey), which is set out below:

Site address	Proposed height (storeys)
Attlee House, Sunley House, Profumo House and College East, 10 Gunthorpe Street	3 - 5
Toynbee Hall, 28 Commercial Street	5
11-31 Toynbee Street and 67-69 Commercial Street	3 - 5
140 Brick Lane	3 - 5
London Fruit & Wool Exchange	3 - 6
155 Commercial Street	3 - 5
4 Norton Folgate	5 - 8
Land to the east of 68 to 80 Hanbury Street	3 - 6
Site at corner of Buxton Street and Spital Street	3

The table above clearly demonstrates the restrictions on height prevalent in the Spitalfields area. The average height is between four and five storeys.

In comparison, the BNPP report does not provide explicit heights for the strategic sites, however given the size in floorspace and units set out within the table on page 2, these are clearly multi-storey developments. Information obtained from the current planning applications at the Bishopsgate Goodsyards and North Quay suggest heights of up to 65 storeys for North Quay and the tallest building in Bishopsgate Goodsyards is 26 storeys.

We would note that the Hackney Local Plan Viability Assessment considers employment typologies up to 20 storeys in height.

Considering the unique characteristics of the Spitalfields area, the Tower Hamlets Tall Buildings Study and the recent planning precedent, DS2 has adopted a maximum height of five storeys for the scheme typologies being tested.

Floorspace

In order to arrive at a total developable floorspace we have followed the same approach set out in the BNPP assessments; starting out from a given site area, we have assumed a site coverage of 90% for office schemes and 80% for mixed use schemes. This building footprint is then multiplied by the number of storeys to arrive at a total Gross Internal Area. We have then applied a gross to net ratio of 80%, to arrive at total Net Internal Area. Both the site coverage and net to gross assumptions are aligned with the BNPP assessments.

Appraisal assumptions

Office values

DS2 has considered rental evidence from within Spitalfields in arriving at what we consider to be a reasonable rental value. We have sourced evidence from property databases that we subscribe to and spoken to local agents. For example, we are aware of transactions at 28 Commercial Street and 10 Bishops Square at £55 and £50 per sq ft respectively.

In this instance, we have also relied your own experience at the Truman Brewery site on Brick Lane.

We have therefore adopted what we consider to be a robust and optimistic figure of £57.50 per sq ft. This takes into account the relatively low-rise nature of new employment development in Spitalfields. This is higher than the 'City Fringe' assumption within the Hackney Local Plan assessment.

We have adopted an office yield of 4.75%. This is aligned with the BNPP Local Plan assessment. A 12-month rent free period and 12 month letting void have also been adopted. Purchasers costs of 6.8% have been applied.

When considering office values, the impacts of the Covid-19 pandemic must also be considered. The Neighbourhood Plan will set the development context over the next 15 years, however whilst the pandemic has resulted, initially, in short term market fluctuations, there are sustained, long term implications on how people will work in the future.

The RICS published their latest UK Commercial Property Market Survey which details results from Q4 2020. As would be expected, given the ongoing Covid-19 outbreak, the survey notes that offices and retail units continue to struggle against the challenges posed by Covid-19. Availability in the office sector is picking up at the strongest pace (in net balance terms) since 2009. Social distancing measures and forced business closures have severely restricted activity and will weigh heavily on the outlook over the coming months. Over the next twelve months, a net balance of -52% of respondents envisage prime office rents falling, while the latest reading stands at -64% for secondary. Office capital values are expected to post relatively steep declines during the next twelve months with net balance readings standing at -58%.

With the UK still under various restrictions and some form of social distancing likely to be in place for the remainder of 2021, there is significant uncertainty over what the full impact of the pandemic will be, and as a result, is it likely that values for both residential, and commercial property in particular, will see a decline.

Residential values

For the mixed-use scheme typology, we have adopted optimistic residential market values equivalent to £1,100 per sq ft. This has been informed by comparable evidence, and which is also aligned with the value ranges set out within the BNPP assessments.

For affordable housing, we have adopted the values from the BNPP Local Plan assessment.

Construction costs

Mirroring the approach in the BNPP assessments, we have sourced build cost data from the RICS Building Cost Information Service ("BCIS"), which is based on tenders for actual schemes. The underlying costs have been re-based to reflect tenders within Tower Hamlets. Considering the sensitive planning environment in Spitalfields (e.g. conservations areas, heritage/ listed assets) and smaller, constrained urban grain, we have considered costs from the 'upper quartile' of BCIS data.

In summary, this returns a cost rate of £259 per sq ft (applied to the Gross area). Following BNPP methodology we have then applied an allowance of 15% to account for cost items which are not reflected within BCIS rates, such as external works, infrastructure and services costs and sustainability measures (carbon zero and BREEAM requirements).



Other appraisal assumptions

We have summarised below all other appraisal assumptions adopted as part of the proposed scheme typologies. These are aligned with the assumptions in the BNPP Local Plan assessment.

Appraisal input	DS2 assumption
Construction contingency	5%
Community Infrastructure Levy	Mayoral CIL: £185 per sq m
	Tower Hamlets CIL: £100 per sq m
Professional fees	12% of construction costs
Marketing	£1.50 per sq ft
Letting agent	10% of annual rent
Letting legal fee	5% of annual rent
Sales agent fee	1% of development value
Sales legal fee	0.5% of development value
Finance	7%
Developers profit (office)	15% on Gross Development Value
Developers profit (residential)	17.5% on Gross Development Value

Benchmark Land Value (“BLV”)

In accordance with national and Mayoral guidance, we have assessed Benchmark Land Value on the basis of Existing Use Value (“EUUV”). As part of the BNPP Local Plan assessment, four BLVs were selected to provide a broad indication of values across the borough. This included a higher value existing secondary office, a medium value existing secondary office, a low value existing secondary office or community use and lower value industrial space.

DS2 has followed the same principles, adopting three different BLV typologies – a high, medium and low value employment site. We have omitted the industrial BLV as whilst this may be appropriate for the borough as a whole, it is not reflective of the Spitalfields area, and indeed the planning precedent.

In order to arrive at an EUUV, we have followed the approach in the BNPP CIL assessment which is to assume that on previously developed sites, a landowner has made the judgment that the site does not yield an optimum use of the site; either it has fewer storeys than neighbouring development, or there is a general lack of demand, resulting in lower rents or higher yields. As such, the assumption which we have replicated is that the existing floor area equates to 50% of the new scheme area. For example, if the net floor area on a 0.05 ha site generates a new development floorspace of 20,000 sq ft, then we have valued an existing building of 10,000 sq ft net area.

In terms of value, we have adopted the following assumptions for the three different BLV typologies.

	Higher value office	Medium value office	Low value office
Rent	£40 per sq ft	£35 per sq ft	£30 per sq ft
Yield	5.25%	5.50%	5.75%
Rent free/ letting void	2 years		

Another key differentiation between a Spitalfields-specific assessment and the Tower Hamlets Local Plan assessment is the underlying value of the existing employment stock. We have researched achievable rental values for secondary and tertiary office stock in the area. In comparison, the rents adopted within the Local Plan viability assessment are £25, £17.50 and £12.50 per sq ft for the high, medium and low value office BLVs respectively.

In accordance with national guidance, a premium is then applied to the BLVs, reflecting the amount required to incentivise a landowner to release their site for redevelopment. In the same way as the BNPP assessment,

we have assumed that for policy testing purposes it is not possible to reflect the circumstances of each individual site, so a blanket assumption of a 20% premium has been adopted to reflect the 'average' situation.

We have therefore summarised the BLVs which have been adopted for the purposes of viability testing.

Ha	Higher value office BLV	Medium value office BLV	Low value office BLV
0.29	£39,859,000	£32,567,000	£25,956,000
0.14	£19,242,000	£15,722,000	£12,530,000
0.05	£6,872,000	£5,615,000	£4,475,000

For comparison purposes we have shown what these BLVs equate to on a per hectare basis and then compared these to the BLV figures within the BNPP viability assessments.

BLV typology	DS2 BLV (£ per hectare)	BNPP Local Plan (£ per hectare)	BNPP CIL study (£ per hectare)
Higher value office	£137,500,000	£55,470,000	£66,306,000
Medium value office	£112,300,000	£30,673,000	£45,732,000
Low value office	£89,503,000	£14,308,000	£19,655,000

We would also note that, where stated, the BLV's adopted within the strategic sites that are referenced within the PBA report equate to c. £7,000,000 per hectare. This is primarily because the BLV's are based on vacant land/ open storage, which clearly is not an appropriate BLV typology for Spitalfields.

In summary, the BNPP assessments do not reflect the specific circumstances of the Spitalfields area in respect of BLV valuation. As a result, the viability conclusions are not relevant to the Spitalfields area, and in turn, are not appropriate to determine whether the Neighbourhood Plan's Affordable Workspace policies are viable.

Appraisal results

We have summarised the results of our viability modelling below. In each case, we have deducted the Residual Land Value of the proposed scheme typology away from its corresponding BLV. Where the outcome is viable and results in a surplus, this is presented in green. Where the outcome is unviable, this is presented in red.

In the first instance, we have tested the viability outcome of providing the Neighbourhood Plan's draft Affordable Workspace policy of a 45% discount to market rates.

Scheme typology	Site area (ha)	Higher value offices	Medium value offices	Low value offices
Mixed-use	0.29	-£16,869,542	-£9,576,965	-£2,966,220
Very large office	0.45	-£18,096,916	-£6,780,848	£3,477,206
Large office	0.29	-£11,675,956	-£4,383,379	£2,227,366
Medium office	0.14	-£5,636,211	-£2,115,656	£1,075,738
Small office	0.05	-£2,015,944	-£758,603	£381,181

We have then tested the viability outcome of providing the Local Plan's Affordable Workspace requirement of a 10% discount to market rates.

Scheme typology	Site area (ha)	Higher value offices	Medium value offices	Low value offices
Mixed-use	0.29	-£15,621,670	-£8,329,093	-£1,718,348
Very large office	0.45	-£14,897,104	-£3,581,036	£6,677,018
Large office	0.29	-£9,613,823	-£2,321,246	£4,289,499



Medium office	0.14	-£4,640,743	-£1,120,188	£2,071,206
Small office	0.05	-£1,660,328	-£402,987	£736,797

Conclusions

Our viability testing demonstrates that the requirement to provide a 45% rent discount on Affordable Workspace results in the majority of scheme typologies being unviable.

Furthermore, the requirement for a 10% discount results also results in the majority of typologies being unviable. This is the result of the specific differences that we have highlighted between the Local Plan viability assessment and a Spitalfields-specific assessment.

It follows therefore that the draft Neighbourhood Plan policy SPITAL7 is set at an unfeasible and undeliverable level. Whilst the Local Plan requirement for a 10% discount is unviable, the degree of viability 'deficit' is lower. We understand that you recognise the need for Affordable Workspace to be provided and have therefore agreed to commit to the Local Plan requirement for 10% Affordable Workspace at a 10% discount to market rates as a minimum.

Summary

We have set out the key findings of our review of the Neighbourhood Plan evidence base:

- The PBA report relies on a borough wide BNPP viability assessment. By definition, this is not reflective of a localised area such as Spitalfields.
- The PBA and BNPP report reach conclusions based on major, strategic development sites which are significantly larger in scale, height and make-up when compared to recent planning applications made in Spitalfields. As such, the Neighbourhood Plan's proposed Affordable Workspace policies are being determined on scheme scenarios which are not reflective of the local area in which the policies are being applied.
- Development height is a key consideration. Most of Spitalfields is in a Conservation Area and new development must respect the local context which includes heritage assets and protected views. An overall typology height of five storeys has been adopted. Recent planning precedent and the Council's Tall Buildings Report support these conclusions.
- The impacts of the Covid-19 pandemic must also be considered. Whilst the pandemic has resulted, initially, in short term market fluctuations, there are expected to be sustained, long term negative impacts on the commercial workspace market, reducing demand and market rental rates, which will place further pressure on development viability. The Neighbourhood Plan will set the development context over the next 15 years and so should take this into account.
- BLVs which are specific to Spitalfields have been adopted. These are significantly higher those adopted within the Local Plan, CIL or LBH viability assessments. It follows that with BLV rents c. 100% higher, the viability of the Spitalfields typologies will be more heavily constrained (and depart from the conclusions of the Local Plan assessment).
- The results of our viability testing demonstrate that the majority of development scenarios are unviable when providing Affordable Workspace at a 45% discount. As such, the policy approach is not justified when assessed using a more appropriate evidence base.
- There is no merit in setting a policy at an unachievable level, despite the sound qualitative reasons for increasing the supply of Affordable Workspace. Setting the policy at an unachievable level would have the adverse effect of stifling commercial development in Spitalfields, resulting in less new workspace being created.



If you would like to discuss this further, please do not hesitate to call.

Yours sincerely

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