

**Spitalfields Neighbourhood Planning Forum**



# **Spitalfields Neighbourhood Plan 2020-2035**

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## 6 COMMERCIAL MIX

- 6.1 Small and micro-businesses are the lifeblood of the Tower Hamlets economy. Over 95% of the borough's businesses are defined as small businesses, employing fewer than 50 people<sup>3</sup>. Its 15,000 micro-businesses (10 or fewer employees) creating annual turnover of £6.7 million<sup>4</sup>. Spitalfields accounts for over 300 of these small and micro business employers. Meanwhile, industrial floorspace in the borough declined by 43% to 800,000m<sup>2</sup> between 2000 and 2012, above the Inner London average<sup>5</sup>. Employment is increasingly being focused in the service, retail and light industrial sectors.

### POLICY SPITAL7: AFFORDABLE WORKSPACE

- A. As required by Tower Hamlets Local Plan Policy D.EMP2<sup>6</sup> (New employment space), major development<sup>7</sup> of commercial and mixed-use schemes must provide at least 10% of new employment floorspace as affordable workspace for a minimum of 10 years. In Spitalfields, this provision should be let at affordable rate at least 45% below the Neighbourhood Area's indicative market rate for a minimum of 12 years, subject to viability (which must clearly be demonstrated by an open book viability appraisal).
- B. Proposals to enable small and micro-businesses to provide clear social value benefits (in exchange for a rental rebate) will be strongly supported.

**Commented [SH55]:** SPITAL7? The Ram and Maggie is already number 6

**Commented [SH56]:** Comment from the Growth and Economic Development team – usual discount is at least 10%, but they would in theory support a larger discount like this where it can be justified.

**Commented [SH57]:** Recognition of viability is a good thing – an inspector might be interested in understanding if any testing of viability has been done as part of developing the policy – increasingly, there is a focus on testing viability at the plan stage, to reduce the amount of viability testing needed at the stage of individual applications. You've referenced the Local Plan viability test below, which is good – but all of the sites tested for affordable workspace in that report were large, dense site allocations that will likely contain tall buildings (i.e. Bishopsgate Goods Yard) – there may be a question about whether those assessments are still applicable to the kinds of development that might come forward in the neighbourhood plan area.

**Commented [SH58]:** Is this a further rental rebate on top of the 45% discount, or is this intended to be for situations where formal affordable workspace is not being provided – i.e. non-major developments? Essentially, how does this differ from Clause A?

- 6.2 Spitalfields' location in the City Fringe has created additional demand from larger corporate businesses spreading out from the traditional core locations in the City. The result has been to increase rents which has impacted the existing small businesses. As an example, the Fruit and Wool exchange contained over 100 small, local businesses but was forced to close because the building was redeveloped. It has since been replaced by a single corporate employer. The Tower Hamlets Employment Land Review<sup>8</sup> estimated that the pressure on the West of the Borough will only increase in time due to the new Crossrail station at Whitechapel and recommended taking decisive action to protect businesses which directly service the residential population, including trade counters, building supplies and car sales and repair garages together with associated local waste, recycling and transport uses.
- 6.3 Yet Spitalfields still has much diversity to its commercial activity. Brick Lane is home to a diverse mix of fashion, art, entertainment, retail and start-up businesses. The richness and complexity of the area's character today is due to many factors, not least the overlapping cultural legacy of three successive groups of immigrants, each of which has made a unique contribution to the area. These businesses are served predominantly from shops, pubs, restaurants and cafés at ground

<sup>3</sup> Source: Tower Hamlets Local Plan 2019

<sup>4</sup> Source: Office for National Statistics

<sup>5</sup> Source: Peter Brett Associates (2016) *Tower Hamlets Employment Land Review*

<sup>6</sup> Clause 4

<sup>7</sup> 'Major development' is as defined in the NPPF

<sup>8</sup> See footnote 4

floor level, with offices, storage and residential uses above. The Truman Brewery now contains cultural venues, art galleries, restaurants, nightclubs, start-up spaces and shops. There are many clothing shops scattered through the area, with the rest of the mainly residential area also being home to some light industry, warehouse retail, art galleries, museums, health centres and educational buildings. 'Diversity' and 'vibrancy' are two words regularly used to describe the commercial feel of Spitalfields.

- 6.4 Testimonials from existing businesses and stakeholders in the area revealed the overwhelming concern was rising rents pricing small businesses out of the area<sup>9</sup>. As a whole this was considered to be having a detrimental effect on the Spitalfields area, making it more generic. This was cited by all types of businesses, including retailers and restaurateurs, with an increasing number of chain retail stores occupying space in Brick Lane. For instance, a representative from the Brick Lane Restaurants Association said: "The rents are just creeping up, creeping up, every year and so are the rates now. I don't see a bright future for us restaurateurs, especially in Brick Lane". Similarly, a guide organising local walking tours said, "Rising rents...people [are] being priced out of the area and as a whole that [is] having a detrimental effect on the Spitalfields area and as the area becomes more generic, becomes less unique as a lot of smaller businesses and independents and creative people are forced out."
- 6.5 Research conducted in 2017-2018 by the East End Trades Guild (EETG)<sup>10</sup> with its Spitalfields members shows presently that 2 out of 4 businesses have had to close down or relocate due to the high rents. A second survey<sup>11</sup> conducted in 2020 by the EETG with small and micro businesses in the Spitalfields area showed that 85% of respondents found it likely or extremely likely that they would have to relocate or close down their business in the next 5 years if nothing is done to provide more affordable workspace. Specifically, restaurants, cafes and shops struggled with increasing rents, as they paid on average around 24% of their turnover towards rent. Long-term commercial residents of Spitalfields that had traded in the area for more than 10 years, had on average experienced a rent increase of over 200% since moving to their current premises.
- 6.6 The impact of Covid-19 is expected to significantly exacerbate the above-mentioned issues. The survey conducted by EETG in 2020 found that 67% businesses in Spitalfields would have to dissolve or relocate their business if they were asked to re-start or continue paying the same level of rent as they did before the Covid-19 outbreak. Furthermore, 50% reported that this would force them to let go some of their employees. 69% of the respondents stated that it will most likely take them more than a year to return to normal levels of trading.
- 6.7 Clause 4 of Local Plan Policy D.EMP2 (New employment space) requires major commercial and mixed-use development schemes to provide at least 10% of new employment floorspace as affordable workspace. Paragraph 10.25 says that this space should be let at an affordable tenancy rate, at least 10% below the indicative market rate for the relevant location, for a period of not less than ten years.
- 6.8 Draft London Plan Policy E3 (Affordable workspace) outlines that planning obligations may be used to secure affordable workspace at rents maintained below the market rate for that space

<sup>9</sup> Commonplace (2019) *Spitalfields Commonplace Outreach Report 2018/19*

<sup>10</sup> East End Trades Guild (2017-2018) *Affordable Business Rents*

<sup>11</sup> East End Trades Guild (2020) *Spitalfields Neighbourhood Plan: affordable workspace and business mix*

for a specific social, cultural or economic development purpose. It states that consideration should be given to the need for affordable workspace in areas identified in a local Development Plan Document where cost pressures could lead to the loss of affordable or low-cost workspace for micro, small and medium-sized enterprises. An area where this applies is considered to be the City Fringe.

- 6.9 Given the high concentration of small and micro-businesses in Spitalfields, the Neighbourhood Plan considers that it is justifiable for this affordable workspace to be let at a cost which is at least 45% below the indicative market rental value at the time of letting. This reflects the need to be in general conformity with the Local Plan policy and the importance of addressing this issue in Spitalfields, a location rich in such business needs whilst also facing the pressure of high rents in a City Fringe location. Sensitivity tests conducted as part of the Local Plan Viability Assessment<sup>12</sup> 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.
- 6.10 This policy approach is justified by the evidence base which supported the Borough Council's Local Plan Policy EMP2, clause 4<sup>13</sup> 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. It also mirrors the approach in neighbouring Shoreditch, with a similar policy in the draft Hackney Local Plan (Policy LP29 – Affordable Workspace and Low Cost Employment Floorspace) for the Shoreditch Priority Office Area (POA). This was supported by a viability assessment of the policy<sup>14</sup> which found that such a policy would still result in residual land values exceeding existing use values 'by a significant margin'<sup>15</sup>. The employment profile in Shoreditch is very similar to Spitalfields, with both being in the City Fringe and subject to the strategic growth proposals in the City Fringe Opportunity Area, as well as the major investments such as Crossrail 2 that will attract new investment but also put pressure on rents, particularly for small and micro-businesses in the cultural and creative sectors which are the lifeblood of Spitalfields' economy.
- 6.11 A discount of at least 45% on the indicative market rent in the local area for a period of at least 12 years is therefore considered to represent an appropriate balance.
- 6.12 The affordable workspace should be secured in the usual way through legal agreement with the Borough Council. As advised in paragraph 10.25 of the Local Plan, applicants should work with the Council's **enterprise team** and recognised affordable workspace providers (for which the Council holds an approved **list**) to determine the nature of the affordable workspace provision on a case by case basis. Applicants can manage the space either themselves or in association with a provider not included on an approved list, provided the terms can be agreed with the Council. In all cases, the applicant will be required to provide details of management arrangements as part of the planning application.

**Commented [SH59]:** Growth and Economic Development Service

**Commented [SH60]:** At the moment, we don't actually have an approved list – we negotiate on a case-by-case basis and recommend workspace providers based on the requirements of the specific development.

<sup>12</sup> BNP Paribas Real Estate (2017) *London Borough of Tower Hamlets Local Plan Viability Assessment*, for London Borough of Tower Hamlets

<sup>13</sup> Peter Brett Associates (2016) *Tower Hamlets Affordable Workspace Evidence Base*

<sup>14</sup> BNP Paribas Real Estate (2018) *London Borough of Hackney: Proposed Submission Local Plan and Community Infrastructure Levy Viability Assessment*, for London Borough of Hackney

<sup>15</sup> *Ibid.*, paragraph 6.26

- 6.13 One of the fundamental purposes of clause B of the policy is to deliver indirect 'social value' outputs by supporting proposals for social value workspace. This approach seeks to place wider considerations of value above simple financial value (in the form of rental value). The intention is to support businesses which are able to demonstrate social value outputs. The activities that are expected to deliver such social value might include:
- i. small businesses paying London Living Wage;
  - ii. business mentoring in the wider local area;
  - iii. apprenticeships;
  - iv. employability or business start-up programmes for local residents, especially for women, Black, Asian and minority ethnic communities and residents with disabilities;
  - v. prioritising local suppliers;
  - vi. provision of childcare;
  - vii. charities; or
  - viii. supporting educational outcomes through connections to schools, colleges or higher education.

- 6.14 The social value created and amount of rental rebate will depend on the location and size of the scheme and will be negotiated on a case-by-case basis. As part of the delivery of the policy, the intention is to welcome delivery of partnerships with locally-owned and run social enterprises, charities and cooperatives as well as small businesses. The rental rebate is to be provided by the Borough Council or an appointed local workspace provider. Similarly the Borough Council will be responsible for delivery of the social value outputs either in-house or via an appointed local workspace provider.

**Commented [SH61]:** Comment from Growth and Economic Development team: some of these aspects are currently secured through s106 agreements on Employment & Skills and Enterprise, and so may already be secured on new sites.

**Commented [SH62]:** Growth and Economic Development team have noted that this approach could be quite onerous for the Council and the workspace providers in terms of delivery and monitoring – would require the development of a social value-based economic benefit methodology to determine the amount of social value being provided and the appropriate rent rebate to accompany it. Essentially, we need more detail on how this would work.

From a planning policy perspective, this seems to be mandating that the council behave in a certain way – we don't think neighbourhood plans have the power to do this, they're for setting out how planning applications should be decided on, rather than mandating particular courses of action from the council itself.

On that basis, I'm not sure that the second clause of this policy is deliverable – although to be clear, I think the first clause is fine.