Commercial Land & Property Study, Aldgate

A Report to the London Borough of Tower Hamlets

BBP Regeneration with Strettons and SQW
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1 INTRODUCTION

1.1 BBP Regeneration, with Strettons and SQW Ltd, were appointed by London Borough of Tower Hamlets (LBTH) to produce a study of the commercial land and property market in the Aldgate Area. The study is to be used to inform the Aldgate Masterplan, an interim supplementary planning document (SPD) for the area around the Aldgate gyratory and the western end of Whitechapel High Street.

1.2 The Masterplan is dated 2007 and aims to provide an extra level of detail to supplement the policies in the Council’s Local Development Framework (LDF) and in particular the City Fringe Area Action Plan (AAP). It sets out broad principles for redevelopment including, coordination of new and existing developments, accessibility, security, distinctiveness and environment.

1.3 The Aldgate, Banglatown and Spitalfields area is characterised by its diversity, from the rapidly changing commercial areas and historic residential streets near Liverpool Street Station and around Spitalfields Market and Church, to the environmentally blighted areas near the Aldgate Gyratory which have seen a dearth of investment and creeping obsolescence. The areas in between house a rich mix with cultural and creative industries alongside restaurants and shops which cater for the Bangladeshi community and lend a distinctive character that is recognised well beyond East London. However, residents can also be subject to social deprivation which is not addressed by close proximity to the City of London.

1.4 This Commercial Land and Property Study aims to provide an evidence base to inform the interim Aldgate Masterplan and assist with its detailed development. Its principal aim is to understand the current demand for commercial floorspace and develop robust projections of the need for commercial land and property over the period to 2016. It will then draw conclusions to help in the development of implementation plans and policies arising from the Masterplan.

1.5 The brief provided by LBTH required us to examine the following issues:

- The present landownership patterns in the area
- The current supply and demand for commercial floorspace
- Likely future trends in supply and demand of commercial floorspace
- The likely implications of this data on the implementation of the Aldgate Masterplan.
- The consequences for the Small Medium Enterprise (SME) / Black Minority Ethnic (BME) business sectors

1.6 To assess these variables, the study team has undertaken a detailed assessment of the commercial property market within the study area to determine the nature of the current occupancy patterns and to reflect the influences, constraints and opportunities which will influence patterns of delivery. We have also consulted with local business stakeholders and policy makers to provide further background information. On top of this property market data, we have undertaken economic projections of the numbers of jobs which may have to be accommodated within the study to 2016 under a low growth and high growth scenario. These figures were compared with projections on the amount of commercial floorspace to determine whether the projected supply and the projected demand where aligned. From this, we have drawn conclusions and recommendations for the development and implementation of masterplan delivery work.

1.7 The remainder of this report is structured as follows:
Section 2 **Background**, will firstly introduce the role of the Masterplan and the drivers of development in the area. It will then undertake a brief character audit of the commercial space in the study area.

Section 3 **Existing Stock and Use Patterns**, sets out the character and use patterns across the study area in order to set the proposals in context.

Section 4 **Property Market Review**, analyses the current property market across the relevant employment sub-markets.

Section 5 **Socio-Economic Context**, profiles the demographic structure and commuting patterns of the area. It will also identify the key sectors of the local economy and pertinent historic trends.

Section 6 **Economic Projections**, examines existing forecasts of the area’s future in order to inform future property demand.

Section 7 **Development Potential**, reviews the existing employment space allocations in the Local Development Framework and considers their potential for employment use, the timeframe for development and the competing land uses

Section 8 **Summary, Conclusions and Way Forward**, makes recommendations to inform the deliverability of the forthcoming Masterplan and sets out the conclusions of the report.
Executive Summary

- The study area is located at Aldgate on the edge of the City of London. It is centred on the Aldgate Masterplan area around Whitechapel High Street but extends to meet the rail lines approaching Fenchurch Street Station in the south, up to the former Bishopsgate Goods yard in the north and New Road in the east. It takes in Portsoken ward in the City of London as well as Spitalfields, Brick Lane and parts of Whitechapel. A map of the study area can be found on page 6, Figure 1.1.

- The north of the study area has seen significant regeneration over the previous decade but the poor environment around the Aldgate gyratory has cemented the lack of growth and development to the south of the study area.

- There has been substantial high quality new office development around Liverpool Street Station but commercial developments completed in the 1980s around Aldgate gyratory are becoming obsolete. In between these two areas, the property market is diverse reflecting the vibrant local community, particularly around Brick Lane.

Key Facts

- The Aldgate gyratory has been identified as a preferred office location for commercial activities by the London Plan

- The planning policy framework supports growth but requires that the diversity of the area and the role of small and creative industries in the economy are protected.

- The creative sector has become a key to the economic growth around the north of Brick Lane and is felt by local stakeholders to be a significant employer of young graduates.

- The creative sector in the area is seen as fragile by some involved in the sector that cite the risk of increasing rents as a potential factor which could drive relocation to other City Fringe areas such as Hackney.

Key Findings

- The public realm and poor environment around the gyratory is a major constraint on growth in the south of the study area.

- New office development around the gyratory should address the quality of environment on Whitechapel High Street and Braham Street including severance between north and south and the lack of open space.

- Any growth should not only address the requirements of the development market but also deprivation within the existing communities.

- Along with the Truman Brewery, London Metropolitan University and the Whitechapel Art Gallery are important features attractive to the creative sector and can help stimulate entrepreneurial activity.
2.1 The masterplan articulates Aldgate’s tremendous regeneration potential. The London Plan highlights the pressures on the Whitechapel/Aldgate opportunity area for development to support London’s critical mass of financial and business services. It also currently accommodates much small business accommodation as well as some larger, though increasingly obsolete buildings developed in the 1980’s. Residential development competes with commercial development in some areas and, although the areas cater for office users during the daytime. The 1970’s gyratory system blights the environment around Aldgate and creates severance between areas to the north and south of Whitechapel High Street/Braham Street, the area also fails to anchor the south end of Brick Lane/Osborn Street.

Aldgate and the City of London

2.2 Aldgate is located on the edge of the City of London, which is the main focus for office development for the London financial and business services (FBS) sector. The City of London is one of the world’s leading financial centres and is of strategic importance to the UK economy as a whole. The proximity of the study area to the City has allowed the FBS sector to expand into the fringe area, clustered around transport nodes. 40% of employment within the borough of Tower Hamlets is in the FBS sector outlining its importance to the local economy; however, this figure is influenced to a significant extent by the growth of Canary Wharf as a second business and financial centre for London. In order to determine the impact on the Aldgate Masterplan a more granular analysis is necessary.

2.3 The City office market is currently experiencing strong rental growth driven by increased demand, reflecting employment growth. This follows lay-offs in 2001 and 2003 highlighting the volatility of this fast-paced sector.

2.4 Development has focused on areas close to transport hubs – particularly around mainline rail stations. Aldgate is located on the District and Hammersmith & City underground lines. Fenchurch Street and Liverpool Street Station are proximate, if not close. Whitechapel High Street and Aldgate is one of the key, ancient gateways into the City of London but the poor environment and discontinuity created by the twin gyratories at Aldgate create discontinuity between the areas and create a hostile environment which will undermine investor confidence. The East London Line extension and potential for Crossrail at Whitechapel Station, which is near to the study area, may increase the eastern edge of the study areas attractiveness as an employment location.

2.5 The study area is subject to national, regional, sub-regional, and local planning policy. The London Plan and East London Sub-Region Plan contain important overarching guidance for the study area and specifically identify Aldgate as an Opportunity Area. Given the unique land-use pressures in the City Fringe, the GLA is currently preparing a City Fringe Opportunity Area Planning Framework in order to provide guidance on how areas such as Aldgate operate in the City Fringe context. The document helps join the regeneration strategies of the 5 Councils with areas in the City Fringe and is particularly focused on overarching issues such as access, open space, and the scale of buildings, which are central to the areas identity. Consideration of the fringe in this way more accurately reflects the economic geography of the area than the Council boundaries. LBTH has also produced a City Fringe Area Action Plan which covers the parts of the City Fringe in its boundary. Parts of the Aldgate/Spitalfields, Brick Lane and Banglatown and Whitechapel sub-areas are within the study area and therefore each area can be considered in detail and within the wider area context ensuring a joined-up approach. This ensures the needs of the community are considered.

2.6 In planning terms, Aldgate is designated an Opportunity Area in the London Plan and is part of the Central Activities Zone (CAZ), where commercial development associated with
business, tourism and retail and provision for national and international agencies, institutes and services should be a priority. The Aldgate gyratory is a preferred office location (POL) and is safeguarded for CAZ activity, as are sites surrounding it, to ensure sustainable commercial growth. An exemplar office cluster will also consolidate existing uses in the Liverpool Street/Bishopsgate area and the eastern fringe of the City.

Aldgate’s Community

2.7 Alongside the office sector, the study area also contains some of London’s most deprived inner city communities alongside more affluent new quarters. The area contains both areas of environmental blight and high quality conservation areas with considerable heritage value. Interspersed with these are business premises, some serving local communities, others meeting the needs of international business. A number of these have developed into strategically important commercial and cultural quarters of their own, such as Spitalfields and Brick Lane, which is the centre of London’s largest Bangladeshi community. The AAP identifies Spitalfields Market, Whitechapel Art Gallery and the Truman Brewery as important centres of cultural and creative activity which are to be encouraged.

The pattern of change

2.8 Much of the office stock in and around the Aldgate Masterplan area was developed in the 1980’s. It is now becoming rundown and is in need of renewal. With large offices clustered around transport hubs at Aldgate and Aldgate East, the excellent transport links the area offers are highlighted, but pedestrian facilities such as the subways under the gyratory are of poor quality. Similarly, retail and leisure facilities for workers are limited and the area is perceived as struggling to compete with nearby locations in the City and City Fringe, which offer a better quality public realm and a more balanced mix of uses.

2.9 Business accommodation for clusters of activity in the cultural and creative sectors is also prominent within the study area, particularly around the north end of Brick Lane and around Spitalfields Church. These “micro markets” can be encouraged so that they compliment the other sectors of the economy and help create a vibrant and sustainable community. These businesses can exhibit high added value and can be highly entrepreneurial as well as being agents of urban change.

The role of the Masterplan

2.10 The emerging Masterplan aims to “evolve as a model of high density, sustainable development in an accessible location linked to public transport and making the most of cultural and educational assets.” It applies the principles of developing sustainable communities in order to

- Strengthen the local economy
- Deliver improvements in the quality of the environment, and
- Contribute to the social well-being of communities in the area

2.11 The Masterplan area is outlined on the map overleaf (Figure 1.1). It contains the largest concentration of development sites in the area.

2.12 This study considers a wider area, in order to investigate how the commercial property market functions and to understand how the current demand for commercial floorspace will translate into new development. The Study area is also shown on the map.
Consultations

2.13 To assist with developing the context for the study, we undertook a number of consultations with stakeholders suggested by LBTH. The key issues raised are set out below.

Public Sector Consultation

2.14 The feedback that the officers we consulted had received from their own consultation processes had suggested a focus on improving the quality of the public realm and highways. Also, at present, the area was felt to be remote from the main focus of City activity despite its proximity and had the ambiance of a hinterland. Roads in the north of the study area were seen as particularly poor. Similarly the whole of the study area was felt to suffer from the shortage of open space. Linkages for pedestrians are very poor across the study area particularly across the Aldgate gyratory and neighbouring areas feel cut off from one another. There was a sense of hope that the Masterplan could begin the process of helping to connect places to one another and open up the area. This would help both business activity and start to address community safety fears in some of the residential areas to the east.

2.15 Tower Hill was felt to be an underused asset for the southern part of the study area and pedestrian linkages should be improved.

Creative Industries Stakeholders

2.16 The Creative industry presence is seen as particularly focussed in the north of the study area around the Truman Brewery. There are a number of artists and small media firms east of Brick Lane; Fashion Street remains a hub of design and artistic activity whilst the Brewery complex itself is home to artists, bookshops and boutiques. The industry is graduate orientated and is a major source of wealth creation.

2.17 However, the creative sector is very fragile with firms tending to be small in scale and attracted by low rents and old buildings with ‘character’. There was a fear that should the area gentrify in a way which didn’t appeal to the ambience that attracts these businesses, they would move on to other areas in the City Fringe, or further into North London. Many already live in Hackney and this was seen as a major competitor. Similarly, these businesses are volatile, and moves, mergers, de-mergers, failures were more common place than in other sectors, making it difficult to plan for the sector’s future. It was felt that Truman’s Brewery, the Metropolitan University and Whitechapel Art Gallery were major draws for these businesses, and many graduated from the University. These key assets were ‘pump-priming’ the sector and their future would be an important factor in the sector’s development.

2.18 Finally, Toynbee Hall has become landlord to a small cluster of charities, a sector in which clustering is common. This has been a market driven outcome caused by the presence of a major charity acting as a landlord and making best use of surplus space on its estate. We were not made aware of any plans for the Toynbee estate moving forward.

London Metropolitan University

2.19 London Metropolitan University (LMU) will be key stakeholders in the delivery of any masterplan for Aldgate both as occupiers of key sites (e.g. Central House and Calcutta House) and through their activities, increasing the vibrancy of the area by attracting students, providing educational opportunities for locals to enable them to benefit from employment growth in the area and through their own research, development and promotion of emerging skills.

2.20 LMU’s plans for development of their campus are at an early stage, however, they have stated that they have a long term commitment to Aldgate and are keen to work closely with the public sector to assist with the regeneration of the area.
Conclusions

2.21 The existing policy framework and market forces support the development of new office buildings in the Aldgate Gyratory area which is also identified for environmental improvement. Bishopsgate is also identified as a location for commercial premises. These areas will help support expansion of London’s financial and business services sectors. This section highlights that residential development should not compromise the commercial role of the area.

2.22 Previous consultation for the masterplan has highlighted the blight caused by the Aldgate gyratory which presents a poor environment and severs the north and south segments of the study area.

2.23 The City office market is currently experiencing strong rental growth and increased demand but the sector is volatile.

2.24 The importance of creative industries within the City Fringe and the requirement to ensure that property remains available for these uses is also supported. Such business can help to lend diversity to the employment economy making it more resilient to fluctuations. They can also be highly entrepreneurial and can exhibit high growth and added value.

2.25 The planning policy framework (namely the LBTH LDF and London Plan) seeks to ensure that new development and growth is inclusive and accessible for all business and residents, addressing the deprivation within the existing communities.
3 Existing Stock and Use Patterns

Executive Summary
A profile of the existing land uses is provided, breaking the area in to four irregular segments which display similar general characteristics. Land ownership profiles are described by sector.

Key Facts & Findings

- Despite its proximity to the City of London, the Study Area has traditionally suffered from a lack of integration with the City at a social and economic level.

- The Study Area is characterized by its diversity of land use and type/quality of buildings. Older and more obsolete, low rise/density buildings to the east, with more modern, higher rise/density development further west and on certain key traffic nodes across the Area.

- The areas around the north of the Study Area have seen developmental changes which are expected to continue with the development of sites north of Spitalfields Market and east of Bishopsgate, and Bishopsgate Goods Yard.

- Major office redevelopment schemes on the Aldgate gyratory will inevitably compete with City based pipeline office schemes west of the gyratory. These may serve to raise the profile of Aldgate as an office location, but also to influence demand.

- Office uses dominate towards the City boundary with Tower Hamlets, supporting larger institutions in the banking and insurance sectors, as well as a greater number of SME companies supporting the City. Offices also dominate the northern section of the Study Area, clustered around and within the Truman Brewery complex, where a concentration of creative and media related SME/BME businesses are located.

- There has been a sharp decline in industrial uses over the last ten-fifteen years, with redundant/obsolete buildings having been developed for higher value and density residential or office uses.

- The area generally has a strong retail and leisure focus, concentrated around Spitalfields Market, Petticoat Lane and Brick Lane; which provides an important focus for, and support of, the nearby office population. In contrast retail is very much lacking in the Aldgate gyratory area, with very little retail and leisure amenity support for office occupiers. Wholesale garment, fabric and electronics businesses still have a notable presence to the east, and around Petticoat Lane.

- Residential uses dominate to the east of the study area, mostly by a high proportion of social housing, but with an increasing amount of larger scale mixed tenure redevelopment. Higher value private owned housing stock concentrates towards the west.

- There is an emergence of demand for - and as yet perhaps limited delivery of - hotel and student hostel schemes across the Study Area.
Introduction

3.1 The Study area covers a wide and diverse range of property types and use, from modern, high density/rise office development on the western extent of the Study boundary, adjacent to the City of London, with lower density, lower value and increasingly residential uses in the east.

3.2 Despite its proximity to the City, this part of Tower Hamlets has traditionally suffered from a lack of integration with the City at a social and economic level.

3.3 For the purposes of a detailed discussion of the prevailing nature of land use across the Study Area, we have divided the area into four segments.

Figure 3.1 Character Areas Map
The following map illustrates the predominant land use within the study area before we consider each segment in greater detail.

Figure 3.2 Predominant Land Uses in the Study Area
Segment 1 – Predominately residential areas within the Study Area.

Figure 3.3 Segment 1
3.5 Predominant Land Use:- Local authority/RSL built post war housing in “back streets”, with wide range of ground floor retail and commercial uses (dominated by the wholesale garment trades) with commercial and residential upper floors located on main traffic thoroughfares.

Office

3.6 There are isolated, mainly small scale office schemes within this area, with office buildings of note including Universal House, No. 1 Brick Lane, 100 Whitechapel Road as well as a number of public authority occupied 1960s & 1970s office buildings along Whitechapel and Commercial Roads. Office stock, in the main, is sub-standard and demand limited to low profile or budget driven organisations, small professional services companies catering for the local population. A large number of IT training and language schools have based themselves in the area over the last 10 years in former industrial buildings, and poor second hand office accommodation.

Retail

3.7 Traditional retail parades (with upper floors in storage, office or residential uses) extend along the main traffic routes across the Study Area, dominated by Whitechapel and Commercial Roads, also, Commercial Street, Middlesex Street, Wentworth Street and Brick Lane/Osborn Street. A small handful of furniture/home wear retailers have based themselves in this area, including Estel, Ligne Roset and Bathstore.com. Conventional retail use is, however, in the minority.

3.8 Wholesale garment, fabric and electronics operators dominate, but the wholesale garment businesses traditionally associated with this part of the East End have been in decline for many years. Petticoat Lane Market is now dominated by fabric wholesalers mixed with traditional (mainly fashion orientated) retailers.

3.9 Brick Lane and Osborn Street accommodate mainly restaurants, and independent shop keepers’, cash and carry operators predominantly serving the local residential and business community. Few, if any, “multiple high street” operators are represented.

3.10 Shop sizes are small, and frontages narrow. As a result the existing retail stock, when available, often struggles to meet the criteria of established/multiple operators.

3.11 While certain wholesale and retail businesses appear to thrive, use of the upper floor accommodation where in commercial use is often poor quality, although increasing numbers of owners are undertaking residential conversions. Isolated shops exist on local authority built estates in backstreets, but most trade poorly.

Residential

3.12 Locations such as Mansell Street, and the “Tenter Streets” area between Alie and Prescott Streets in the heart of Aldgate, still accommodate a large quantity of low and medium rise social housing despite having been surrounded by office development on most of the main roads in Aldgate.

3.13 Those streets east of Backchurch Lane/Greenfield Road and extending to the eastern boundary of the Study Area on Vallance/New/Cannon Street Roads comprise mainly post-war, local authority built housing in a mixture of flats and terraced housing. Areas north of the Aldgate gyratory and along Commercial Street and east to Brick Lane also incorporate a large quantity of Council built housing. A number of these Estates have recently been the subject of stock transfer programmes to locally Registered Social Landlords, most recently the Holland Estate to East End Homes. Perception is that such transfer of ownership and management will allow for improvement to this stock. There are isolated streets with pre-war terraces that survived bomb damage in roads leading from, and within proximity to, New
Road. Isolated privately owned housing (purpose built and warehouse/office conversions) is dispersed across the area, some being quite high value, particularly in the Brick Lane area. Shaftsbury Group has recently developed a large student, and affordable housing scheme on Greatorex Street.

**Industrial**

**3.14** Warehouse and factory uses prevail in side streets, mainly in connection with the wholesale garment businesses of this part of the east end, although the dominance of this sector has waned. The remaining industrial stock, when available, is now tending to let to companies servicing the City and fringes – with the location also providing easy access to Docklands. Occupiers typically include small scale printers, office equipment suppliers, courier companies etc. However, many of these sub-standard former warehouse buildings have seen residential redevelopment over the last 10 years, particularly in roads east of Commercial Street and Leman Street. Some of this industrial stock is seeing superficial conversion to poor quality office accommodation, typically occupied by small scale further education/training establishments which are prevalent in the Aldgate and Whitechapel area.
Segment 2 - Extended boundary of the proposed Masterplan Area.

Figure 3.4 Segment 2
3.15 Predominant Land Use:- Fragmented Post war office development. Educational institutions/universities. Small isolated parades of pre-and post-war shops with upper parts. Modern, mainly privately built residential redevelopment both large and small scale.

3.16 This segment provides one of the more dominant business/office locations in the Study Area, being adjacent to the City; and public transport. It incorporates a large number of development sites (identified elsewhere in this report) as providing potential for redevelopment. Many sites already have existing or pending consents for large-scale Grade A office and mixed use redevelopment. Office led schemes currently dominate those development sites to the west of the segment closer to the City, with largely residentially led schemes prevailing to the east.

Office

3.17 During the property boom of the mid-late 1980s this, the western-most fringe of Tower Hamlets, experienced a wave of office development which saw the fragmented redevelopment of former WWII bomb sites and sub-standard residential and commercial buildings to provide medium rise offices, accommodating high profile (for the area) buildings for banking, finance and back office functions associated with major City occupiers and business sectors. Occupiers with a major presence in the area over the last 15 years included Bank of America (No.1 Alie Street), NatWest (Goodman’s Fields), and Sedgwicks (Sedgwick Centre, Whitechapel High Street).

3.18 Such development was largely confined to those areas to the south of the existing Aldgate gyratory, and streets west of Leman Street, with isolated blocks further east along Whitechapel and Commercial Roads, such as Black Lion House (multi-let), Challenger House (public authority occupiers) and 91 Commercial Road (NHS).

3.19 Many of these blocks were vacated or remained under-occupied during the 1990’s, as organisations re-trenched back to the City, or more favoured City Fringe locations, driven by falling rents, and greater availability of better quality accommodation in better profile locations. Only relatively recently has some of this stock seen refurbishment to attract better quality occupiers as rents have risen. Recent refurbishments have been limited, and tend to cluster on the immediate borders with the City, but include 1 Alie Street (Corporation of London), Standon House, Mansell Street (UKI Group), 20-22 Commercial Street (Aitch Group) and currently underway, Aldgate Union 1 (RBS). Schemes further east are being considered for internal refurbishment, including Black Lion House (private investor owned), and Challenger/Cityside House (Schroders Asset Management), in response to higher profile development activity under consideration, on or adjacent to, the Aldgate gyratory. This is also in the face of increasing competition from smaller office schemes currently available, and likely to be delivered as part of larger mixed use schemes. Interest in blocks further south is more limited to office occupier/investor interest. Juno Court on Prescott Street, for example, has recently been converted into a hotel.

3.20 London Guildhall and London Metropolitan Universities have sizeable buildings and land interests on the east and north periphery of the Aldgate gyratory. LMU is still developing its long term strategy but has stated its commitment to the area and should be regarded as a key stakeholder in the development of implementation plans.

3.21 Many developers and investors treat the eastern City Fringe office markets with a degree of caution compared to better established Central London locations. Rents in areas like Aldgate are often the last to rise following an upturn in the market, and the first to fall in the event of downturn. This affects investor and developer confidence, as the duration of a buoyant market can often be short bearing in mind the timescales for delivery of a major office project, therefore timing is critical. Currently, the office leasing market remains buoyant following a prolonged period of indifferent occupier
interest and static rents. But, investor confidence in the UK generally has been shaken by the recent increases in the costs of borrowing which has adversely affected investment yields, and therefore lowered anticipated values of investment stock.

Retail

3.22 There is remarkably little retail and leisure use within this segment, limited to Whitechapel High Street, but few multiple operators are represented. Apart from an isolated retail parade on Leman Street/Hooper Street, there is virtually no retail use at all between the Aldgate gyratory and Prescott Street other than isolated restaurant and licensed premises.

3.23 Previously, the Sedgwick Centre in the centre of the gyratory, accommodated Aldgate Barrs shopping centre at basement level. Despite its unusual location and lack of any street presence, it did secure a small number of good profile multiple high street retailers. But, it traded poorly due to lack of profile and the inhospitable pedestrian approach via the subway system beneath the gyratory. It has closed while RBS refurbish Aldgate Union 1, but the planning consent provides for replacement of a retail content in the scheme although this could be poorly received by retailers in the market place due to the below ground location.

3.24 The lack of retail and leisure amenity in this, the central area of Aldgate, has proved to be one of the reasons why the office market has proved so difficult, as occupiers have tended to prefer to locate in better established and less isolated locations further north in Spitalfields/Brick Lane and west in the City itself.

Residential

3.25 Very limited residential stock exists within this segment, but larger scale residential redevelopment has been very prevalent over the last 10 years, mainly on the eastern side of this area. Notable major schemes include Ballymore’s Aldgate Triangle development on Commercial Road, Adler Street and Plumbers Row (new build). St George’s Skyline Plaza Building on Commercial Road (office conversion). Rialto Homes’ No.1 Prescott Street (office conversion); and Berkeley Homes’ ongoing redevelopment of the southern section of the Goodman’s Fields site, off Hooper Street/Leman Street. Other recent residential schemes include the Wool House on Backchurch Lane (warehouse conversion) and 19 Leman Street (new build).

3.26 Such schemes have also included modern affordable housing elements, developed for, and now retained and managed by RSLs. There is little obvious difference between the quality of accommodation occupied by the private and RSL sectors. The area is now becoming increasingly established as an acceptable residential district on the fringe of the City, which is now resulting in an increasing number of increasingly dense new build and residentially led schemes.

Other/Emerging Uses

3.27 There is virtually no industrial or warehousing stock within this segment, but in recent years there has been an increasing trend towards emerging hotel and associated leisure uses, as an alternative to residential and office development. This market is relatively new, and largely untested in the Aldgate area, but demand is generated off the back of a perceived shortage of supply within the City itself. The Hotel Ibis at No. 1 Commercial Street was constructed about three years ago. Juno Court has been converted to hotel use, and planning permission has been granted for a further new build hotel scheme also on Prescott Street. Other hotel schemes have been discussed on development sites on the north side of the gyratory. We are aware of several requirements from budget hotel operators in the Aldgate area, as well as the City Fringe generally. We therefore see likely continued and increasing pressures to accommodate hotel use in locations like Aldgate which attract lower land values than the City.
itself, but which can provide a strong support to the City through the provision of hotel rooms, conference; and corporate function facilities.

3.28 Student accommodation is another fast emerging sector for this location, driven by the investment returns, and ability to develop without the need to provide affordable housing, which hugely impacts on the private housing development market. As a result, student accommodation operators are often in a position to bid far more competitively for land than some residential developers. All the main student accommodation providers have ongoing requirements in the area.
Segment 3 - Centred around the Spitalfields Market and Truman Brewery complexes.

Figure 3.5 Segment 3
3.29 Predominant Land Use:- Offices with retail centre at Spitalfields Market. Mainly privately
owned (for owner occupation and investment) period and modern housing stock.

3.30 The north-west segment of the Study Area borders a fast emerging extension to the northern
extent of the City, and developments such as 201 Bishopsgate/Broadgate Tower by British
Land on the west side of Bishopsgate and the pipeline “Northgate” scheme by Hammerson, as
well as the Bishopsgate Goodsyard site further north jointly owned by Hammerson and
Ballymore. Notably, the segment includes Spitalfields Market and the Truman Brewery
complex.

Office

3.31 The office market has been dominated by the redevelopment of the former Spitalfields
Market, and the land immediately adjacent to it; and, the huge success of the contrasting
media dominated centre in the Truman Brewery complex. The Spitalfields redevelopment
has provided for large scale, high-density office-led development with major, high profile
buildings and occupiers including 250 Bishopsgate (ABN Amro), 280 Bishopsgate (RBS) and
Bishops Square (Allen & Overy).

3.32 The success of these developments presents other substantial pipeline corporate office-led
redevelopment proposals at the London Fruit Exchange, Brushfield Street (Corporation of
London) and the former Nicholls & Clarke site further north on Shoreditch High
Street/Norton Folgate and extending back to Fleur-de-Lis Street (part owned by Corporation
of London and under consideration by Hammerson).

3.33 Away from Spitalfields Market itself, the office stock is smaller scale and low and medium
rise good second hand stock, the occupation of which is dominated by small professional
companies who dominate those locations west of Commercial Street. Those locations east of
Commercial Street and extending to Brick Lane are dominated by media, IT and creative
industries. Most of these organisations are accommodated within the substantial Truman
Brewery complex, and office/former warehouse buildings within close proximity to it. Office
occupiers with presence in this area include Ashurst (back office staff), Ketchum, Habitat, and
Wieden & Kennedy.

Retail

3.34 This is the only dominant area for retail use within the Study Area, and is largely focussed
within and around Spitalfields Market, and east to Brick Lane and its surrounds. The location
has for many years supported, and now become firmly established as a location for, niche
design led retailers in fashion, jewellery, and furniture; and for vintage/retro goods. These
dominate the eastern section of Spitalfields Market, parts of Commercial Street, the Truman
Complex, certain sections of Brick Lane, and its side streets. The area is also well known for
the Markets at Spitalfields, Petticoat Lane, Brick Lane and Columbia Road. The area has also
recently gained interest from multiple operators within the last 2-3 years, following
completion of Hammerson’s Bishops Square scheme, which retained a large ground floor
retail and restaurant/leisure element.

3.35 This has recently fuelled demand for retail, restaurant and licensed premises from a very
diverse range of occupiers in the face of what is still quite limited supply. Even 10 years ago,
retail demand rarely filtered east of Bishopsgate. Brushfield Street is now considered to be the
main pitch for Spitalfields, and this is spreading into the section of Commercial Street
adjacent to Spitalfields Market, and further east along Hanbury Street into the Truman
Brewery complex. The popularity of Brick Lane as a destination restaurant location has also
assisted with the transition east of Commercial Street. This demand has also been assisted by
improvements to public space and streetscapes across the segment, including Spitalfields
Market, the off street retail areas within the Truman Brewery, and traffic calming and improvements to Brick Lane.

3.36 A large number of high class multiple retailers now occupy pitches in Spitalfields Market. More of interest is the range and profile of operators who have secured traditionally unpopular pitches east of Spitalfields Market. For example within the last 2-3 years, Tesco Express, All Saints, Nandos, Timberland, and Strada have all taken units on the east side of Commercial Street. The extent and variety of this retail and leisure amenity further enhances and establishes Spitalfields as an office location.

**Residential**

3.37 The segment accommodates small, but concentrated locations of high value residential use, including the Georgian Huguenot built terraces extending between Commercial Street and Brick Lane and in Elder Street/Folgate Street. Numerous small, new build infill developments on former car park/bomb sites and redundant commercial and industrial buildings have taken place during the last 10 years. These include the St George scheme on Lamb Street/Folgate Street, immediately north of Spitalfields Market; and residential warehouse conversions lying along and either side of Commercial Street including the Exchange Building (Hampstead Homes) and Lana House (private charity ownership).

3.38 There are more limited quantities of affordable housing stock in this location, reflective of the higher land and re-sale prices, and smaller scale schemes, that have traditionally prevailed across this area, tending to run at a notable premium compared to locations further east and south. During the late 1990s and early 2000s, the buy-to-let and block investor markets dominated the demand for modern new build blocks, but the market currently displays a more consistent mix of owner occupier and investor demand.

**Industrial**

3.39 Many of the former industrial and warehouse buildings have undergone conversion to higher value office and residential uses, with very little property retaining this use in this part of the Study Area.

**Other Uses**

3.40 In recent years there has been an increasing emergence of demand for and resultant supply of student housing in this area, notably two large schemes including one on Crispin Street/Gun Street (by Shaftsbury Group) and Rodwell House, 100 Middlesex Street, (under construction by Blackstone Group). This evolved from a notable decline in office demand between 2002-2005, and the inability of developers to reliably secure pre-lets and reluctance to build speculatively. In the face of increasingly stringent affordable housing requirements, larger sites that might otherwise have accommodated residential development have been developed as student housing. Interestingly, both the schemes referred to above had previously secured consent for high profile office redevelopment, but these consents were abandoned. In the case of Gun Street the move away from office development followed the collapse of a pre-let for the site following a downturn in the office market from late 2001. On Rodwell House, it is likely that the combination of low prevailing rents (when compared to costs of construction) and lack of reliability of securing pre-let interest for all or a major part of the site would have hindered the ability to deliver such a scheme speculatively, if at all. Demand is also still prevalent from hotel operators across the area, but this segment accommodates few suitably sized sites.
Segment 4 - Forming the east edge of the City of London.

Figure 3.6 Segment 4
3.41 **Predominant Land Use:** Offices with complimentary retail, restaurant and licensed premises uses at ground floor level.

3.42 This part of the Study Area falls within the boundaries of the Corporation of London, and as such tends to display quite different trends in terms of land use and scale of development, dominated by offices. It falls within part of the EC3/E1 borders market preferred by the insurance and shipping sectors and other city support functions. It also includes large multi-let developments.

**Office**

3.43 This area displays a buoyant office market, and incorporates a number of sizeable and high profile office developments such as the Cutler Gardens Estate centred around Devonshire Square. It also includes part of Houndsditch and schemes like Beaufort House, Cutlers Exchange in the northern section, and No. 1 America Square and Minories to the south.

3.44 The make up of accommodation in the area is predominantly good quality, recently built or refurbished office stock dating from the 1960s-1990s. Occupier interest at all size levels is reasonably consistent, and despite the 2002-2005 downturn in the office market generally, the area has now picked up, with rents rising and availability falling.

3.45 The area has experienced less development activity in the last 10 years, where major schemes have been focussed in more established areas of the EC3 sub-market to the west, and further north and west across the City. Schemes close-by such as Swiss Re Tower have certainly helped fuel interest in this part of the City.

3.46 Despite limited recent development activity, this segment of the Study Area has potential (and planning permission/pending) for the redevelopment of a number of key sites including St Botolphs House, Houndsditch (Minerva); and the Trinity scheme on the Aldgate bus station site (Beetham) all of which immediately border the Aldgate gyratory, but fall just outside Tower Hamlets Borough. They will inevitably play a key part in the profile and occupier interest in the Aldgate gyratory area by assisting in highlighting the benefits the location has to offer, including proximity to such prestigious City developments. But, while assisting in focussing attention on Aldgate, they will also serve to compete in terms of future office requirements coming forward.

**Retail**

3.47 The retail market across this segment is, like many parts of the City, quite fragmented, and occupiers cluster to serve the office population during the working week. There are no traditionally recognised retail pitches within this area, although the likes of Leadenhall Market lie just to the west, and Liverpool Street to the north-west.

3.48 The profile of tenants tends to comprise smart multiple retail, restaurant and licensed operators, and upmarket independent operations. Most cater for the hugely competitive lunchtime and early evening trade, with the likes of sandwich bars, convenience retailing and restaurants/licensed premises making up the vast majority of outlets across this area. There are also an increasing number of private medical/dentistry practitioners across the area serving City workers and major office occupiers.

**Other Uses**

3.49 Apart from offices and retail, no other land uses really dominate across this area other than isolated residential conversions, and a section of social housing on the west side of Mansell Street. A Travelodge Hotel stands on the eastern fringe of this segment adjacent to the Middlesex Street Estate, and demand from hotel operators across this segment, and the Study Area as a whole, is active as highlighted elsewhere in this report.
Land Ownership

3.50 The profile of land ownership across such a wide area is, naturally, fragmented. But, ownership tends to fall within three broad categories which we describe below and adopt for the purposes of this Study as an indicator by which, amongst other things, how and where likely future development activity might come forward can be assessed, and discussed later in this report. Overleaf, Figure 3.7 maps the broad ownership types.

Ownership Category 1 - Not for profit sector bodies

3.51 Within which we include:
- Local authority ownerships
- NHS
- Government Departments
- Housing Associations/RSLs
- Charitable and religious groups

3.52 We would categorise the nature of not for profit ownership within the Study Area as being a sector where development activity is likely to be limited in nature, unless forming part of a larger development proposal. Within this category we include schools, health centres, local authority or RSL owned and managed housing estates, religious and community premises etc.

3.53 There is one notable exception within this category, arguably being commercial land interests within the control of Corporation of London, many of which are already earmarked for proactive, medium term, larger scale redevelopment in conjunction with private developer joint venture agreements. For instance, we would include the London Fruit Exchange on Brushfield Street, and the former Nicholls & Clarke site on Norton Folgate/Fleur de Lis Street within this category, and as such have incorporated such commercial land holdings of the Corporation of London within category 3 below.

Ownership Category 2 - Private family, small investors and owner occupiers

3.54 Within which we include:
- Historic family ownerships
- Local owner occupied businesses
- Small investor owners
- Small scale developer owners
- Educational establishments/University owned land

3.55 This makes up the majority of land ownership of commercial property across the Study Area. Much of the building stock has been owned historically by family interests who often for generations, lived or worked in the area. Many buildings/sites have seen conversion or development activity as rental values have risen allowing such owners to fund development of, or improvements to, their buildings. Or, capital values have risen to a level which has enabled them to profit from selling to more active, and often better funded, small scale developer and investor purchasers which has facilitated or provided potential for medium to long term development or refurbishment of this stock.

3.56 Most of the land interests are small, with the notable exception of the family ownership of the Truman Brewery which accommodates an 8Ha site across the Study Area, as well as a number of smaller land interests by the same family.
Ownership Category 3 - Larger developer and investor interests

3.57 Within which we include:

- Pro-active developer and investor owners
- Funding institutions and private equity/finance houses
- Optioned land (even if short term strategy)
- Strategically held commercial land by the Corporation of London

3.58 Larger scale owners of development land and investment property are likely to provide the most tangible and reliable source of development activity within the Study Area, and this is demonstrated already by the number of large sites under consideration for redevelopment around the Aldgate gyratory, and to the north of the Study Area. Many of these sites are owned either outright, or jointly with co-operative smaller scale land owners (within the two categories above) or by developer interests who have exclusive development options on parcels of land within disparate ownership.
Conclusions

3.59 Land use, development densities and quality of accommodation and buildings across the Study Area is diverse. Office uses dominate in the west and north sections of the Area, adjacent to the City of London, the Aldgate gyratory, Spitalfields Market and the Truman Brewery complex. Those offices also accommodate a diverse range of occupiers from large corporate tenants in connection with the City (Aldgate and edge of City) through to far smaller media and creative SME and BME businesses to the east of Spitalfields, concentrated around the Truman Brewery and Brick Lane.

3.60 The office stock accommodates a diverse range of occupiers. Larger corporate occupiers tend to locate in Aldgate and edge of City, as do SME’s involved with a wide range of support functions in connection with the City markets. Media and creative SME and BME businesses cluster to the east of Spitalfields, being concentrated around the Truman Brewery, Brick Lane and the fringes of Whitechapel.

3.61 Retail and leisure uses are considered as a support function for the office population as demonstrated successfully at Spitalfields and Brick Lane, and conversely which has been perceived as one of the drawbacks for office occupiers in, and considering, the Aldgate area.

3.62 Much of the “undeveloped” building stock is obsolete, with the area presenting strong redevelopment and conversion opportunities for office, residential and retail uses, as well as newly emerging demand from student accommodation and hotel operators.

3.63 Ownership of land across the Study Area tends to be dominated by smaller investor and owner occupiers, and public sector/charitable ownerships, but with notable exception on the fringes of the City and Aldgate gyratory where larger property development company ownerships are greater in number. This mix of land ownership should, in theory, provide for a mixture of development activity coming forward ranging from larger scale office and residential developments, through to smaller more speculative conversions.
4 Property Market Review

Executive Summary
The nature of the office stock across the Study Area is diverse. Analysis of available space shows a high quantity of poor quality, second hand space. We have compared office availability in the Study Area with competing Central London markets, with further commentary of development pipeline supply. The context of the office development pipeline is compared against alternative uses.

Further analysis of the quality and size of space available within the Study Area has been considered in relation to the profile of demand identified. Rental and where appropriate capital values have also been considered across principle uses. Implications going forward are drawn out in the conclusions.

Key Facts
- The Aldgate and Spitalfields areas have potential to support office rents of £480-£540 per m² generating likely capital values of £8,700-£9,000 per m² which should make large scale office development viable, subject to securing pre-let interest.
- For lower profile office-led schemes, end development values tend to closely follow those for similar density schemes in residential use. But, with increasingly stringent affordable housing requirements even on small scale residential schemes, residential development activity can be slowed as such requirements have a major impact on profitability. Similarly, on larger scale office schemes, the need for (but ultimately uncertainty in securing) office tenant pre-lets can also slow or ultimately postpone delivery of such schemes. In such circumstances, an increasing number of sites are being considered as viable for alternative development proposals such as hotel and student hostel uses.
- The Study Area has an office vacancy rate of 11.2% compared to 8.1% for other areas of the City Fringe and 8.4% in Docklands. This is approaching double the vacancy rate for Central London, standing at 6.1%.
- The quality of available stock is mixed. 42.4% of space available for let is poor, second hand quality space, perhaps contributing towards the high vacancy rate – some of which may have no prospect of being let at all without refurbishment.
- Only 17.4% of available stock offers unit sizes of <250 m²; and 5.9% at <100 m². Supply that might accommodate smaller SME organisations is therefore limited. There is more availability of poor and good quality larger space across the Study Area.
- 85250 m² of office space is currently available for let in the Study Area. A further 190855 m² is available for pre-let. This represents an increase in supply of existing stock of 223%, but is focussed within large, high profile (and value) developments.
- Of total planning consents in the Study Area, office uses make up 47.3% of accommodation; with residential amounting to 29.6%. Student accommodation and hotels combined make up 15.2% of floor space with planning permission.
- Speculative and undecided planning applications in the Study Area are dominated by a small number of large office schemes, representing 89% of total floor area being sought (with residential at just 7.3%).
Key Findings

• Vacancy rates are higher than the average for other City Fringe locations, and almost double that for Central London.
• The Aldgate area provides potential to improve the quality and quantity of office stock coming forward by way of large scale development. Nevertheless, the delivery of such large scale office developments is uncertain and very much reliant on pre-let interest and favourable economic conditions.
• Such schemes are unlikely to support SME and BME businesses already within, or looking to move to, the area but will assist the secondary office markets by raising the profile of the area.
• We foresee SME and BME organisations more likely being supported by smaller scale office developments and conversions, probably as part of larger mixed use developments, but the supply of space for such businesses appears uncertain in the face of potentially increasing demand from this sector of the market.
• There are numerous perceived drawbacks to the Aldgate area cited by occupiers already within and considering the area. Factors include the hostile road network and poor connectivity with mainline stations; and lack of supporting retail and leisure amenity for staff.
Analysis of Existing Commercial Property Stock by Quantity

**Offices**

4.1 Much of the existing office stock is located towards the western fringe of the Study area, with a large concentration within Segment 4 (within the Corporation of London boundary) making up 290,000 m² (38.1%) of total floor space. Figures obtained for those locations in LB Tower Hamlets have been derived by Ward and adjusted where the Study boundaries vary from Ward boundaries.

4.2 Spitalfields and Banglatown Ward have 246,000 m² (32.4%) of the total, within which about 13.8% falls within the Truman Brewery complex, and a further 45.9% within the recently developed former Spitalfields Market complex. Whitechapel Ward, which covers the Aldgate area within this Study, makes up 225,000 m² (29.5%) of the total, within which it is judged that over 70% falls in the area west of Whitechurch Lane.

**Retail**

4.3 The distribution of retail use is, as might be expected, far more consistent across the various locations within the Study Area, as retail content in any development varies little by development density. Even retail dominated locations such as Spitalfields Market only make up 6.0% of the total floor space for the Study Area (and 13.7% of Spitalfields & Banglatown Ward). Main traffic thoroughfares like Whitechapel and Commercial Roads and Brick Lane make up the majority, with poor quality stock, with the remainder falling within Segment 4 of the Study area.

**Industrial/Warehouse**

4.4 Predictably, no industrial or warehouse floor space fell within the City of London boundaries of this search. Within Tower Hamlets, 70.5% of the total falls within Spitalfields & Banglatown Ward, and 29.5% within (our adjusted) Whitechapel Ward. Much of the space is dated, obsolete 1960s and Victorian built stock, increasingly the subject of redevelopment proposals, and a sector that we would expect to decline in the future as pressure for higher value and higher density redevelopment schemes grows.

<table>
<thead>
<tr>
<th>Table 4.1 Existing Commercial Property Stock in Study Area (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Use</strong></td>
</tr>
<tr>
<td>Office</td>
</tr>
<tr>
<td>Retail/restaurant/licensed</td>
</tr>
<tr>
<td>Industrial/warehouse</td>
</tr>
<tr>
<td>TOTAL COMMERCIAL FLOOR SPACE</td>
</tr>
</tbody>
</table>

Source: Strettons Research

**Values**

4.5 NOTE: Values, rents and yield commentary in this section of the report are based upon research undertaken by Strettons in July 2007. They are intended to provide a high level view of rents and prices for different land uses across the Study Area, solely for comparison between those land uses, relative to each other. They should not be relied upon by the recipient or any reader of this report in any other context, and do not constitute valuation advice.

4.6 Office rents across the Study Area vary with the quality of space, but have traditionally (and still) remain competitive compared both with competing areas of the City Fringe, and the City itself, across all grades of space. Capital values have risen sharply over the last 18 months as a result of historically low interest rates, which has translated in to keen investment yields, and as a result of stronger owner occupier demand for vacant stock driven by SIPP (Self Invested Personal Pension) demand, small investors and conventional owner occupiers. The latter
market has also been fuelled by low costs of borrowing. With recent interest rate rises during
the first half of 2007, yields have softened, but demand for now remains steady off the back
of rising rents, which have helped maintain capital values.

4.7 Of interest in influencing the supply of property type, are the boundaries of value between
various uses. For the large majority of the Study Area, traditionally residential use has
presented the highest property values. When the office market has been poor or in decline,
office consents have been mothballed and alternative uses investigated. This is evidenced in
several schemes across the area, including 100 Middlesex Street and No. 1 Gun Street,
discussed elsewhere in this report, both of which secured major office consents, but which
were eventually developed for student housing.

4.8 But, in a buoyant office market, as presently, the development values that can be generated
from major office schemes will often exceed those for competing residential, or alternative
hotel and student accommodation uses. Office schemes can often tolerate far bolder
development densities. Accommodation can be efficiently organized on large or deep sites
without compromises on value that might otherwise arise from lack of natural light on
residential property. Funding of such large scale schemes, however, can usually only be
supported by a heavy reliance on pre-letting all or part of the space, with speculative schemes
being uncommon. As such, the reliability of delivery of large scale schemes is often
uncertain, and can result in significant delays in the much needed regeneration of part
of an area like Aldgate.

4.9 The tables below highlight the findings of our research into a range of transactional evidence
across the Study Area, including transactions undertaken by Strettons and recorded
transactions by other agents.

Offices

4.10 The figures in the table below indicate typical rents by location within the Study Area
and by grade. The Whitechapel and Aldgate East sectors display a range of quality
accommodation, but no suitable developments exist to suggest likely top specification
rents that might come forward on some of the larger redevelopment schemes proposed,
where pre-lets are being sought.

4.11 The closest comparison would be recently built schemes in Spitalfields rather than the City,
where prime rents are touching £480 per m². Suggested rents for the Aldgate market to kick-
start development will likely fall between £400-£500 per m2, depending on location.

4.12 Investor demand is consistent for well located and well let office stock across the Study Area.
However, caution is placed against part vacant stock on the east and southern fringes because
of perceived difficulties in securing tenant interest, likely disruption to rental income flow
resulting from voids, possible need to incur capital expenditure for refurbishment/upgrading
space and uncertainty over lease and eventual rental terms. Office investments are tending to
command yields of 5.75-6.5% across the Study Area. Clearly, different types of property
bring different classes of investor and lot sizes, but the variation in yield profile is
surprisingly limited notwithstanding the range of investment and building stock and lot size.

<table>
<thead>
<tr>
<th>Location</th>
<th>Grade</th>
<th>Rents (per m²)</th>
<th>Capital Value (per m2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC3/E1 borders</td>
<td>Prime/Grade A</td>
<td>£540</td>
<td>£9000</td>
</tr>
<tr>
<td></td>
<td>New build/newly refurbished</td>
<td>£430</td>
<td>£7200</td>
</tr>
<tr>
<td></td>
<td>Good second hand</td>
<td>£325</td>
<td>£5000</td>
</tr>
<tr>
<td></td>
<td>Poor second hand</td>
<td>£215</td>
<td>£3300</td>
</tr>
<tr>
<td>Aldgate East</td>
<td>New build/newly refurbished</td>
<td>£325</td>
<td>£5400</td>
</tr>
</tbody>
</table>
Retail

4.13 The retail markets across the Study Area vary considerably in terms of rents achievable with the highest rental levels predictably being in locations on the EC3/E1 borders; and at Spitalfields Market, where rents have increased by as much as 30% in some pitches over the last 12 months.

4.14 The retail market and rents derived are, in the main, very much ancillary to the principal use above ground level and usually have a limited influence on the viability of a larger office or residentially-led redevelopment. Nevertheless, demand for retail space is consistent across all locations and sectors within the Study Area, so long as the quoting rents and lease terms reflect the drawbacks (or otherwise) of any location.

4.15 Capital Values have not been suggested in this report, as retail uses will almost always form part of a larger scheme, but prime retail yields for rack rented leases to sound multiple operator covenants in Spitalfields and the City rest between 4.5-5.25%. Yields for secondary and tertiary pitches to non-multiple operators varying between 5.5-6.5% depending on location, but generally investor demand across all sectors and grades of property is still strong.

<table>
<thead>
<tr>
<th>Location</th>
<th>Pitch</th>
<th>Zone A Rents (per m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC3/E1 borders</td>
<td>Prime</td>
<td>£1300</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>£645</td>
</tr>
<tr>
<td></td>
<td>Tertiary</td>
<td>£375</td>
</tr>
<tr>
<td>Aldgate East</td>
<td>Prime</td>
<td>£860</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>£540</td>
</tr>
<tr>
<td></td>
<td>Tertiary</td>
<td>£375</td>
</tr>
<tr>
<td>Whitechapel</td>
<td>Prime</td>
<td>£860</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>£540</td>
</tr>
<tr>
<td></td>
<td>Tertiary</td>
<td>£375</td>
</tr>
<tr>
<td>Spitalfields/Brick Lane</td>
<td>Prime</td>
<td>£1500</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>£950</td>
</tr>
<tr>
<td></td>
<td>Tertiary</td>
<td>£430</td>
</tr>
</tbody>
</table>

Source: Strettons Research

Industrial

4.16 With the decreasing quantity of industrial and warehouse stock across the Study Area, as highlighted by the limited availability stated elsewhere in this report, the number of recorded transactions has been limited. Rental values in the study area clearly fall at or just below those for the lowest grade of office stock.
4.17 Capital values recorded seem unusually high when compared to market rents, but invariably freehold transactions of this stock reflect potential to secure planning consent for redevelopment, or conversion to higher value uses.

4.18 Much of the industrial stock in the Study Area is obsolete, and lacks adequate loading arrangements and car parking.

4.19 The local roads in which industrial stock is located are often narrow, congested and heavily parked. Most sizeable occupiers in the area have tended to move east in the Borough to seek better located and appointed, purpose built premises or elsewhere in outlying Boroughs, with now very limited requirements for industrial uses in this area.

<table>
<thead>
<tr>
<th>Location</th>
<th>Rents (per m²)</th>
<th>Capital Value (per m²)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whitechapel</td>
<td>£85</td>
<td>£2150</td>
</tr>
<tr>
<td>Spitalfields/Brick Lane</td>
<td>£130</td>
<td>£2700</td>
</tr>
</tbody>
</table>

* prevailing capital values for industrial buildings incorporate an element of hope value for redevelopment in alternative higher value uses.
Source: Strettons research

**Residential**

4.20 In terms of assessment of likely development pipeline for residential uses, analysis of modern/new flat sales in the table below are of greatest relevance, although prices of older and pre-war stock are also highlighted for reference. In the main, the highest prices tend to be achieved for modern and new build stock, which traditionally command a premium over older second hand and pre-war built stock. The notable exception to this is the market for the Georgian Huguenot built houses in Spitalfields which still command some of the highest re-sale values across the City and fringes.

4.21 It should be noted that the value of better quality residential accommodation in the Study Area in many cases exceeds prevailing capital values for office stock, other than for higher profile, Grade A schemes, but as the location increases in popularity as a residential district, and increasingly high quality redevelopments come forward, it is perceived that residential prices will continue to rise relative to the London market generally.

<table>
<thead>
<tr>
<th>Location</th>
<th>Grade</th>
<th>Capital Value (per m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC3/E1 borders</td>
<td>Modern/New</td>
<td>£6500</td>
</tr>
<tr>
<td></td>
<td>Post War</td>
<td>£5900</td>
</tr>
<tr>
<td></td>
<td>Pre-war</td>
<td>n/a</td>
</tr>
<tr>
<td>Aldgate East</td>
<td>Modern/New</td>
<td>£4800</td>
</tr>
<tr>
<td></td>
<td>Post War</td>
<td>£3800</td>
</tr>
<tr>
<td></td>
<td>Pre-war</td>
<td>£4300</td>
</tr>
<tr>
<td>Whitechapel</td>
<td>Modern/New</td>
<td>£4800</td>
</tr>
<tr>
<td></td>
<td>Post War</td>
<td>£3800</td>
</tr>
<tr>
<td></td>
<td>Pre-war</td>
<td>£4000</td>
</tr>
<tr>
<td>Spitalfields/Brick Lane</td>
<td>Modern/New</td>
<td>£6500</td>
</tr>
<tr>
<td></td>
<td>Post War</td>
<td>£4800</td>
</tr>
<tr>
<td></td>
<td>Pre-war</td>
<td>£7500</td>
</tr>
</tbody>
</table>

Source: Strettons research
Demand

Office

4.22 In our assessment of office take-up during 2006, we have drawn on the research data of a number of Reports, some of which provide further in depth analysis on specific markets. These are referenced and credited as appropriate.

4.23 According to DTZ\(^2\), take-up of offices in Central London totalled 1,482,000 m\(^2\) during 2006. Docklands take-up was recorded at 167,220 m\(^2\). City take-up was 64,010 m\(^2\) up 15% on 2005. No specific published data exists for the Study Area, but take-up for the E1 postcode, was reported at 41,062 m\(^2\).

4.24 Interestingly, take-up across most of the fringe areas during 2006 was lower than 2005 figures due to restricted new build supply, the exception being Southwark which saw take-up improve considerably off the back of large pre-lets.

4.25 E1 take-up accounted for just 2.8% of the total Central London take-up figure for 2006, compared to 7.2% in Southwark and 11.3% in Docklands.

<table>
<thead>
<tr>
<th>Table 4.6 2006 Office Take-up (m(^2))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>E1</td>
</tr>
<tr>
<td>City (EC1-4)</td>
</tr>
<tr>
<td>Southwark (SE1)</td>
</tr>
<tr>
<td>Docklands (E14)</td>
</tr>
<tr>
<td>North &amp; West Fringe (NW1-SW3-SW7-W2)</td>
</tr>
<tr>
<td>West End (SW1-W1)</td>
</tr>
<tr>
<td>Midtown (WC1-WC2)</td>
</tr>
<tr>
<td>Total Central London(^2)</td>
</tr>
</tbody>
</table>

Source: \(^2\) DTZ central offices research February 2007

4.26 The lack of supply of suitable Prime/Grade A and new build stock of any size hugely influences the take-up figures, but the profile of enquiries coming forward for the EC3/E1 borders and Spitalfields is actually quite strong, as the analysis later in this report will show.

4.27 In our discussions with local occupiers seeking space in the Study Area, other than the size, quality and layout of office space, the key components of tenant interest in any particular area is proximity to public transport, the profile and image of the area as a business location, and the retail and leisure amenity available for staff. Aldgate as an office location, both historically and still, continues to suffer for many of these reasons.

4.28 Many SME businesses moving within, and considering locating to, the area are often budget driven and seek more basically appointed office and studio style accommodation. Many prefer conversions of older building stock rather than new build, and supply of this style of accommodation is currently significantly outstripped by demand. Much of the existing building stock that might potentially meet the occupational criteria of such SME and BME businesses falls within Ownership Category 2 (family ownerships and smaller investors) and it is such ownerships where the delivery of such supply will be uncertain due to financial constraints and investment “nervousness”.

4.29 Many of the BME businesses operating in Brick Lane and Whitechapel areas experience further pressures by virtue of their common requirement to relocate/expand in the same area, compared to SMEs who have a slightly greater degree of flexibility to terms of location. Many BME businesses tend to have greater budgetary constraints, and are in locations which have seen sharp rent increases in the last 18 months. There is a lack of small scale, well appointed and economic business space supporting this, and the SME sectors of the market.
**Retail**

4.30 Retail demand across the Study Area during 2006 was consistent. The level and profile of enquiries varies enormously depending on the grade and location of retail stock.

4.31 With the opening of Hammerson’s Bishops Square development at Spitalfields in October 2005, the focus for retail enquiries in the Study Area has tended to concentrate around the Spitalfields Market complex. Spitalfields, and the Brick Lane area beyond, has now firmly established itself as a destination retail and restaurant location on the City Fringe, having attracted a large number of quality, small multiple and independent retailers (falling within the SME/BME sectors) and restaurateurs, rather than mainstream high street operations. There are now strong levels of retail enquires due to lack of representation by a wide range of retail operations.

4.32 There is now a perceived shortage of retail space in and around Spitalfields (when compared to volumes of enquires for unsatisfied requirements) with the only conceivable delivery of any note being as part of larger office or mixed use development pipeline stock for example as part of the London Fruit Exchange scheme or possible extension of the retail offer at the Truman Brewery complex. Perhaps with the exception of Truman, the likely supply of such retail space may not be suitably located or of a style that will appeal to small scale and niche retail operations on which the retail success of the area over the last 10 years or so has been based. Retail occupiers will need to accommodate a greater degree of flexibility in terms of where they might locate to, and the profile of building they might locate in.

4.33 This concentration of retail amenity at Spitalfields has undoubtedly assisted in the demand for office space in this part of the Study Area as it is now offering a quality of environment for staff that compares closely with most other Central London locations, and exceeds many City Fringe locations.

**Industrial**

4.34 The limited quantity of light industrial and warehouse stock across the Study Area makes any statistical analysis difficult to put forward. There has been an increasing trend towards conversion or redevelopment of older industrial stock to higher value residential and office uses, which has seen industrial use all but disappear on the western extent of the Study Area, with continuing decline further east.

4.35 The current commercial demand for such commercial space is driven by SME businesses keen to take advantage of lower rents, even if to the detriment of quality of accommodation. The availability of this type of space now tends to be towards the east of the study area, and indeed further east and north across Tower Hamlets Borough.

**Office Requirements**

4.36 Securing accurate data on the profile of property requirements has inherent difficulties as, particularly in the office sector, many requirements are kept confidential, and with the increasing use of the internet and databases to collate material, agents may be broadly aware of a requirement, but not who is behind it, or the criteria driving it.

4.37 In an attempt to provide a useful barometer of the profile of requirements across the Study Area, we have undertaken an analysis of Strettons’ applicant database; and a further analysis of agent-led requirements circulated through the Estate Agents Clearing House (EACH) - which is an electronic and paper based mailing system used by all commercial agents active (amongst other areas) in the Central London markets. This analysis seeks to provide some indicative trends in terms of enquiry levels for different size bands of office property, to highlight the relative sizes of organizations or parts of organizations potentially seeking space within the Study Area.
It should be noted that the large majority of the requirements listed were considering space in several Central London locations, including the Study Area. To cover the geographical spread of the Study Area boundaries, we have analysed requirements including the E1 and EC3 postcode districts.

Table 4.7: Analysis of office requirements from June 2006 to June 2007

<table>
<thead>
<tr>
<th>Size Band of Requirement</th>
<th>Number of Requirements</th>
<th>% of Total by number of requirements</th>
<th>Indicative minimum total Floor Space required from sample (m²)</th>
<th>% of Total by Floor Space required</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 100 m²</td>
<td>204</td>
<td>31.0%</td>
<td>163,950</td>
<td>5.5%</td>
</tr>
<tr>
<td>100-500 m²</td>
<td>323</td>
<td>49.0%</td>
<td>905,790</td>
<td>30.1%</td>
</tr>
<tr>
<td>500-1000 m²</td>
<td>56</td>
<td>8.5%</td>
<td>396,300</td>
<td>13.2%</td>
</tr>
<tr>
<td>1000 m² +</td>
<td>76</td>
<td>11.5%</td>
<td>1,537,980</td>
<td>51.2%</td>
</tr>
<tr>
<td>Total Sample</td>
<td>659</td>
<td>100%</td>
<td>3,004,020</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Strettons & Estate Agents Clearing House

The data above tends to suggest that demand in E1/EC3 was dominated by those organizations seeking space at the sub-500 m² size bracket, amounting to 80.0% of the sample. Almost one-third was represented by very small requirements of <100 m². This demonstrates the huge importance of the SME market in the area, notwithstanding that they might account for a relatively small amount of take-up.

As such, we have also analysed the sample based upon minimum floor space size requirement stated (as most state an upper and lower bracket of suitable size). Of the total sample, requirements seeking >1000 m² of space (amounting to 11.5% of the sample) demonstrated demand for just over half (51.2%) of the floor space calculated from this sample. Of those applicants seeking space of sub-500 m² this sample would have accounted for a strong 36.6% of the total floor space, almost all of which would be made up of SME businesses.

While this would appear to demonstrate a consistent market for all size ranges within the sample, it is clear from our knowledge of the market that the availability of smaller sized accommodation is limited. While many of the larger requirements noted above would consider E1/EC3 postcodes, those seeking smaller units offer a far greater degree of flexibility in terms of location and will typically consider the whole of the City Fringe, and inner east and north London locations. With the shortage of supply of suitably appointed space, such organisations are having to locate outside the study area.

Factors Influencing Office Demand

There is very much a “two tier” occupational office market across the study area led by larger corporate requirements, and those of smaller professional and creative SME businesses. These two sectors place emphasis on different factors in terms of ultimate choice of property and location.

Parts of the Study Area, and in particular those locations on and to the south and east of the Aldgate gyratory, have traditionally suffered poor levels of office demand compared to other parts of the City Fringe, and the City itself. This is despite these locations offering a mixture of reasonably well appointed office stock, compared even to Spitalfields further north which has remained popular despite a far more mixed and generally poorer quality office stock.

Applicant feedback through Strettons’ agency department identifies various factors for tenants deciding to locate outside the Aldgate area, which we highlight below.

1. Distance from public transport.
In terms of proximity to mainline stations, both Liverpool Street and Fenchurch Street stations are actually under 1km even from the eastern fringes of the Aldgate gyratory, and certainly within a generally acceptable (for most tenants) 10 minutes walking distance. Aldgate East and Aldgate tube stations are also very easily accessible, being located on, or immediately to the west of, the gyratory. Despite good public transport links, tenant's perceptions of Aldgate indicate otherwise, perhaps as a result of the hostile road network around the gyratory, and uninviting streets between Aldgate and mainline stations.

2. Staff safety and street crime.

Despite very busy traffic in the area, pedestrian activity in the area is more limited. The streets lack bustle, and many organizations cite concerns about the safety and security of female staff walking to and from public transport in dark winter months – particularly those areas to the east of the gyratory and Brick Lane, and where adjacent to social housing estates.

3. The Aldgate gyratory pedestrian subway.

Linked to both of the above is the extensive pedestrian subway system beneath the Aldgate gyratory. Intended to assist pedestrians across the busy traffic thoroughfares in the area, the Aldgate subway system has always been poorly maintained, associated with crime, and is confusing/disorientating. The subway has deteriorated sharply since the winding down and subsequent closure of the former Aldgate Barrs shopping centre and now splits previously linking sections of the subway.

4. Lack of retail/leisure amenity.

The Aldgate area has always lacked any quantity of retail amenity, accentuated by the closure of Aldgate Barrs. The location supports a small handful of retail, sandwich bar and restaurant/licensed premises catering for the nearby office population. Certainly compared to locations further north and west in the City and Spitalfields segments of the Study Area, and indeed other parts of the City Fringe, including St Katherine’s Dock to the south, the amenity is poor. Lack of retail and leisure amenity for staff has often proved a strong reason cited against organisations locating to the Aldgate area.

While these factors are “local” to the Aldgate gyratory and the office market to the south, and apply to both larger and SME requirements, elsewhere in the study area there is a differing emphasis of locational and premises requirements between the two sectors of the occupier market.

Corporate occupiers are driven more by the quality and amenity of the building, and are often looking for modern, sometimes high profile and well specified premises, within short walking distance of public transport. Office locations in the study area (limited to Aldgate and Spitalfields/Bishopsgate borders) will be compared alongside other City and fringe locations. It is our belief that potential supply in the development pipeline should cater for such demand (discussed below).

Creative SME businesses in particular, set far more flexible criteria and are largely budget rather than location driven. Many are attracted to the Spitalfields, Brick Lane and Whitechapel areas for their good transport links, competitively priced space and (relatively) good amenity for staff. The large influx of businesses in to the area over the last 5 years (as a result of rent rises elsewhere in the central London and fringe markets) has resulted in strong take-up of the existing built stock. Many prefer warehouse conversions and “quirky” space. Desired specification will vary according to budget, but many are happy to take on evenly the most basically appointed accommodation.
Professional SME businesses are generally more location sensitive. They tend to cluster further west in the study area with fewer budgetary constraints and greater flexibility in choice of building stock, considering modern, second hand and older building stock but tend to look for better overall levels of amenity.

**Supply**

**Commercial Availability**

4.53 This section of the Study highlights current levels of existing built stock available within the Study Area, and on the market. The table below demonstrates that the availability of office space in the Study Area, and also provides a comparison with other competing Central London Markets. **Availability of retail and industrial stock is negligible**, standing at 1,878 m² and 845 m² respectively for these sectors and on which we make no further comment. Total office availability in the Study Area is 85,250 m², which represents 6.8% of the Central London total. **This availability represents a vacancy rate of 11.2%**, somewhat higher than the average availability rate stated for all fringe markets (which includes E1 postcode areas) of 8.1%; and Docklands at 8.4%.

4.54 We put this, in part, down to the large amount of poor quality second hand space within the Study Area, and anomalies arising from the availability within the Truman Brewery complex where a large amount of space is potentially available, but requires refurbishment to secure tenant interest. The overall Central London availability rate of 6.1% reflects historically low vacancy rates in the West End, Midtown and City markets.

<table>
<thead>
<tr>
<th>Location</th>
<th>Vacant Built Stock (m²)</th>
<th>Vacancy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Area – built space¹</td>
<td>85,250</td>
<td>(11.2%)</td>
</tr>
<tr>
<td>City (EC1-4)²</td>
<td>453,000</td>
<td>(6.0%)</td>
</tr>
<tr>
<td>Fringe Markets (E1, SE1, NW1, SW3, SW7, W2)²</td>
<td>285,000</td>
<td>(8.1%)</td>
</tr>
<tr>
<td>Docklands (E14)²</td>
<td>138,000</td>
<td>(8.4%)</td>
</tr>
<tr>
<td>West End (SW1-W1)²</td>
<td>289,000</td>
<td>(3.1%)</td>
</tr>
<tr>
<td>Midtown (WC1-WC2)²</td>
<td>91,000</td>
<td>(3.8%)</td>
</tr>
<tr>
<td>Total Central London²</td>
<td>1,256,000</td>
<td>(6.2%)</td>
</tr>
</tbody>
</table>

Source: ¹ Strettons Research; ² DTZ Central Offices Research February 2007

**Analysis of Office Stock Available in Study Area**

4.55 Office availability in the Study Area has been further categorized by grade and unit size available to try and appreciate the range and quantity of accommodation available within these categories. **New build & refurbished and good second hand stock accounts for over half of the total (57.6%), with poor second hand quality space making up 42.4%**.

4.56 Only 17.4% of available stock offers units of fewer than 250 m², and only 5.9% at less than 100 m². This tends to support the feedback in terms of our demand analysis above where SME businesses are struggling to secure space in the area, where 80% of the sample of office requirements were seeking space in this size bracket. It is clear that the provision of smaller, more easily divisible spaces, or seedbed accommodation is required to meet the corresponding demand from small scale businesses.

4.57 Far better availability exists for larger sized stock, with the largest quantity of available stock, 38.6% of the total, being within units of 1,000 m²+, supporting far more adequately the profile of tenant demand for this type of space.
### Table 4.9 Office Availability by Unit Size and Quality within Study Area

<table>
<thead>
<tr>
<th>Size Grade</th>
<th>Total Available Floor Space (m²)</th>
<th>&lt;100 m²</th>
<th>100-250 m²</th>
<th>250-500 m²</th>
<th>500-1000 m²</th>
<th>1000 m²+</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Build &amp; refurbished</td>
<td>26265 (30.8%)</td>
<td>0</td>
<td>176</td>
<td>878</td>
<td>5535</td>
<td>19673</td>
</tr>
<tr>
<td>Good second hand</td>
<td>22891 (26.8%)</td>
<td>1734</td>
<td>2649</td>
<td>5373</td>
<td>6196</td>
<td>6939</td>
</tr>
<tr>
<td>Poor second hand</td>
<td>36094 (42.4%)</td>
<td>3317</td>
<td>6965</td>
<td>8396</td>
<td>11104</td>
<td>6312</td>
</tr>
<tr>
<td>Total Vacant</td>
<td>85250</td>
<td>5051</td>
<td>9790</td>
<td>14647</td>
<td>22835</td>
<td>32924</td>
</tr>
<tr>
<td>Stock (m²)</td>
<td>(100%)</td>
<td>(5.9%)</td>
<td>(11.5%)</td>
<td>(17.2%)</td>
<td>(26.8%)</td>
<td>(38.6%)</td>
</tr>
<tr>
<td>Vacancy Rate</td>
<td>(11.2%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Strettons Research

4.58 The above figures exclude current available pre-lets on new build space, the majority of which have secured planning permission (although there are a number of major schemes where consent is still pending that are being marketed). In addition to the 85,250 m² built stock availability, a further 190,855 m² is available on the market for pre-let. **Total built and pre-let office availability is 276,105 m².**

4.59 Of this, buildings where construction has started and that are available for pre-let account for 53,610 m². The two major schemes incorporated within this figure are Minerva’s St Botolph House, EC3 (48,311 m²) and Royal London Asset Management’s Eden House, E1 (5,299 m²).

4.60 Additional office space available for pre-let with planning permission or with planning permission likely by Q3 2007 totals a further 137,245 m². This includes Tishman Speyer’s Aldgate Union 3 & 4 (71,000 m²); Columbia Group’s 1 Commercial Street (8,361 m²), Exemplar’s Aldgate Tower (27,000 m²) and Beetham’s Trinity Phase 1 (31,307 m²).

4.61 Put into context, the amount of space available for pre-lets represents a potential increase in supply over the current supply of existing built stock of 223%. Moreover, if built out it would represent an uplift in the total built stock for the Study Area by 2009 of some 25.1%. But, of this, just one unit (of 375 m²) offers accommodation of under 500m². The current pre-let pipeline therefore fails to cater for potential SME demand. None of this pre-let supply stock falls under 250 m².

### Table 4.10 Available & Office Pre-lets by Unit Size and Quality within Study Area

<table>
<thead>
<tr>
<th>Size Grade</th>
<th>Total Available Floor Space (m²)</th>
<th>&lt;100 m²</th>
<th>100-250 m²</th>
<th>250-500 m²</th>
<th>500-1000 m²</th>
<th>1000 m²+</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Build &amp; refurbished</td>
<td>217120 (78.6%)</td>
<td>176</td>
<td>1253</td>
<td>203335</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good second hand</td>
<td>22891 (8.3%)</td>
<td>1734</td>
<td>2649</td>
<td>6196</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor second hand</td>
<td>36094 (13.1%)</td>
<td>3317</td>
<td>6965</td>
<td>11104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Vacant &amp; pre-let Stock (m²)</td>
<td>276105</td>
<td>5051</td>
<td>9790</td>
<td>216586</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock (m²)</td>
<td>(100%)</td>
<td>(1.8%)</td>
<td>(3.6%)</td>
<td>(7.4%)</td>
<td>(10.7%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Strettons Research & Focus
Planning/Development Pipeline

Existing Permissions

4.62 While the above built availability focuses on office use, the planning pipeline indicates a broader range of potential uses likely to be delivered within the Study Area. Much of the office supply available for pre-let (discussed above) centres exclusively on, or immediately adjacent to, the existing gyratory.

4.63 Due to the size of schemes intended, offices still dominate the forthcoming supply. But, they actually only make up about 47.3% of built space to be delivered, based upon existing consents. Residential use accounts for 29.6% of the total, with the remainder fairly evenly divided between other alternative uses, but with hotel and student housing accounting for 15.2%. A full breakdown is provided in Table 4.11, Annex A.

4.64 From the above consents, the number of construction starts has been assessed to provide an indication of the range of uses in the immediate planning pipeline (See Table 4.12 Annex A). While office use accounts for 47.3% of total consented floor space, 82% of this office total is made up of just three schemes namely, Aldgate Union 1 (RBS), St Botolphs House (Minerva), and Eden House (Royal London Asset Management). 14.5% of the total office floor space under construction will be delivered as part of larger mixed use (mainly residential) schemes, with just 3.6% being delivered within small, wholly office based schemes. The large allocation of student housing (14.4%) is accounted for by a single scheme underway at Rodwell House, Middlesex Street (Blackstone Group).

Outstanding Permissions

4.65 Assessment of pipeline space where planning consents remain outstanding is also required, which changes the picture considerably. Table 4.13 (Annex A) shows that office uses dominate heavily. Notably, the proposed Trinity scheme, within the City of London boundary, comprises three potential phases totalling just over 100,000m² of office space. Aldgate Union 3 & 4 would provide a further 71,000 m². When considered in context, therefore, the supply of smaller scale mixed use schemes is, perhaps surprisingly, far more limited due to the sheer scale of the (small number of) major office schemes proposed. We are aware, however, that there are a number of pre-application consultations underway on sites particularly on the eastern edge of the Aldgate gyratory which are likely to contain more modest quantities of office space, and provide for a wider mix of uses, which cannot be reflected in the figures stated.

4.66 In summary, we highlight the total development pipeline by way of existing permissions and pending consents. Existing and pending consents amount to 410,095m² of offices (63.0% of the total). Residential accommodation accounts for 21.3%, but interestingly with hotel and student housing combined amounting to just under 10%, and little under half of residential floor space proposed. A full breakdown is shown in Table 4.14 (Annex A).

Comparison of Forthcoming Supply in Study Area with Competing Office Markets

4.67 Existing availability and vacancy rates for office space are discussed above. Central London office availability was reported¹ at 1,256,000 m² as at end December 2006. A further development pipeline of buildings under construction of 1,271,000 m² will effectively see supply double in central London. In the Study Area existing office consents will also see a greater than doubling of available vacant stock (223%), and in the City of London boundary, this increase could by threefold, if all existing consents were implemented (which is unlikely).

4.68 Table 4.15 (Annex A) illustrates that in the competing markets of the City, fringes and Docklands, availability totals 876,000 m² with a further 966,000 m² under construction. Total
planning permissions consented provide for a further potential pipeline supply of 2,926,350 m². The figures do not include speculative and undecided applications, which amount to a further circa 947,580 m² in the City and Docklands alone. Therefore the Aldgate area will continue to experience pressure from competing office markets all of which (in common with Aldgate) could see between a two and three fold increase in supply if all existing consents were implemented.

4.69 Further detail on the comparable areas of London used in the study is provided in Annex B.

Conclusions
General
4.70 Vacancy rates in the Study Area for retail and industrial sectors are negligible. Demand for retail is good, whereas industrial demand is in decline. Many retail and industrial occupiers (a large number of which are SME/BME’s) have been based in the area for many years, and often decades. The office population tends to be more transient, allowing for greater levels of transactional activity.

4.71 Rents and capital values in the various property sectors vary significantly. Highest rents/prices should be attracted by high profile office developments like Aldgate Union, but no suitable developments exist in the Aldgate area itself to confirm likely top specification rents that might be achievable.

Office Demand
4.72 Office demand in 2006 was strong, but take-up in the Fringe markets was lower than in 2005 due to restricted new build supply. E1 office take-up represented 2.8% of the total for Central London, lower than Southwark (7.2%) and Docklands (11.3%). By contrast, the City take-up amounted to 43.2% of the total.

4.73 There is a “two tier” occupier office market in the study area. SME businesses with greater budgetary constraints are seeking smaller unit sizes of varying quality and location. Larger corporate occupiers are location sensitive, preferring the very western edge of the study area and seeking higher profile, and well specified buildings.

4.74 The availability of new build supply in Aldgate could potentially satisfy certain larger requirements coming forward as demonstrated by recent high profile pre-lets secured in Southwark and Docklands, assuming the strength of the office market remains consistent.

4.75 This would seem to suggest that the availability of new build supply in Aldgate could potentially satisfy certain larger requirements coming forward as demonstrated by recent high profile pre-lets secured in Southwark and Docklands, assuming the strength of the office market remains consistent.

4.76 The landing of high profile tenants in developments like Aldgate Union will be key to the regeneration of the area generally, recently successfully demonstrated at Spitalfields. Enquiries from occupiers seeking in excess of 1,000 m² space amounted for just 11.5% of our sample, (if totalling over 50% of total actual floor space required).

4.77 By contrast, 80.0% of enquiries received for office space from our sample were from organisations seeking space of sub-500 m². This demonstrates the need to deliver a mix of space in terms of size (and specification) to support SME demand. This is unlikely to be addressed by the pre-let and current planning pipeline of office stock, and requires provision of smaller or more easily divisible spaces, or seedbed accommodation is required to meet the corresponding demand from small scale businesses.
Despite the encouraging levels of interest for office space in the Study Area, those locations on, and to the south and east of the Aldgate gyratory have traditionally suffered poor levels of office demand compared to other parts of the City and Fringes. Applicants looking in the area cite concerns over (in our view perceived) distance from public transport, the hostile road network and subway system around the gyratory, crime, and lack of retail and leisure amenity for staff.

**Office Supply**

Office supply stands at 85,250 m², representing a vacancy rate of 11.2%. This is almost double the average for Central London and rival City Fringe office markets. This is in part due to the high proportion (42.4%) of poor quality second hand stock, and perhaps a large quantity of unrefurbished space potential available in the Truman Brewery.

Total built, and pre-let availability stands far higher at 276,105 m², increasingly supply over the built stock by some 223%. Moreover, if built, it would represent an increase in the total built stock for the Study Area by 2009 of 25.1%.

Almost all office space available for pre-let (and other pipeline schemes coming forward) centres on and around the Aldgate gyratory. Future development schemes are also likely to come forward further north in the Study Area, near Spitalfields Market. Existing and pending consents could amount to 410,095 m² of office space.

Furthermore, all the planning supply of office accommodation is likely to cater for larger, corporate occupier requirements, and currently overlooks the fragmented smaller SME occupier markets.

With additional forthcoming (consented) planning pipeline office accommodation of almost 1.2 million m² in the City, and almost 1.0 million m² in Docklands, there will be significant pressures on developers seeking to deliver these high profile office schemes to secure all important pre-let interest.

**Implications Going Forward**

The office population in the Study Area is more transient than other commercial sectors, due to shorter/more flexible lease lengths in the market place; and because many smaller, SME businesses within the Study Area are initially attracted to the competitive rents compared to other City Fringe locations. Companies typically expand, raise their image and move to better profile areas within Central London, or those which are budget driven leapfrog north and east to less expensive outlying areas during peaks in the office cycle.

The potential delivery of large scale office development in the Aldgate area may assist in limiting the transience of the office population. Such larger scale schemes are a key catalyst in bringing about much needed environmental and streetscape improvements for the Aldgate gyratory area in particular.

We see development sites lying on the east and southern extent of the Study area being unlikely to support further quantities of office space in the medium term until such time as demand and take-up has been established for existing pipeline stock. Competing uses therefore include residential, hotel and student accommodation. This trend is already reflected in hotel schemes on Prescott Street, and more prevalent residential redevelopment east of the gyratory, and ongoing discussions for student schemes.

Larger scale, residentially led mixed use development present a more certain prospect and firmer timescale for delivery due to the certainty of sale of the residential element, increasingly off plan, which can under-write any redevelopment proposal of this nature.
Often this will provide a far more reliable exit route than awaiting a major office pre-let in a still untested location. These **mixed-use schemes are also more likely to deliver smaller scale office availability catering for a more diverse range of potential occupiers from the SME sector.** Often they will incorporate a similar ground floor retail content as larger scale office developments although these schemes may be in less favourable retail locations.

4.88 The strongest office demand currently prevails towards the north of the Study Area and in the City itself, although the supply of office space for SMEs is quite restricted, other than provision in the Truman Brewery complex. There is a very limited amount of smaller scale office development coming forward to service this market, and we do not foresee that development pipeline development proposals are likely to accommodate such SME demand which is for smaller and more economic office space from landlords who can tolerate shorter lease lengths and higher tenant turnover. **The same also applies for BME organisations who might tend to cluster towards the east of the Study Area, in and around Brick Lane and east of Aldgate who will have very similar requirements,** and arguably even tighter budgetary constraints. The economics of development might also prevent such schemes from coming forward until such time as rents for good second-hand stock rise further which might then facilitate the refurbishment of existing stock.

4.89 The research would indicate that there is an argument for the clustering of like-minded SME and BME businesses particularly in the area east of Commercial Street and north of Whitechapel High Street. But, variety of accommodation style, and a range of quality of space and corresponding rental values also needs to be secured in the supply chain to ensure a sustainable mix of business space is delivered for this market.

4.90 The fragmented land ownership in the area may be, in part, a contributory factor in the shortfall in small-scale business space supply. While larger land owners, such as the Truman Brewery, are likely to present a more reliable delivery of space to the market, large scale ownership and control of a large part of this micro-market can result in less competitive rents, which could have the opposite effect of pushing existing or expanding businesses away from the area.

4.91 Developments like No. 1 Alie Street, recently completed by the Corporation of London, show that there is **healthy demand from SME companies in the area.** It should be recognized, however, that the funding of a speculative scheme of this size and quality, which ultimately would present an indifferent multi-let office investment upon completion, is unlikely to be delivered by conventional investors/developers. Serviced or semi-serviced office schemes offer potential to satisfy some of this demand, but **perception from the SME sector is that serviced accommodation can be expensive in the medium term,** but does remain popular in the face of shortages of good quality small sized office suites in the general market place.
5 Socio-Economic Context

Executive Summary

In order to understand the commercial land and property market within the study area it is important to look at the socio-economic context of the area examining both the demographic background of the residential population and the economic context of the working population.

By looking at the employment sectors and how they have changed over time, as well as comparing them to the change in Tower Hamlets, the City of London and London as a whole we were able to identify the key sectors of the local economy; understand the pertinent historic trends; and place these within the wider context of the London economy.

Key Facts

- In 2004 the study area had a resident population of 18,622 spread fairly evenly across all age ranges.
- 57% of the study area’s population are Bangladeshi, a notably higher proportion than the rest of Tower Hamlets (33%) and London (2%).
- 31% of the study area’s population are in full time employment and 7% are unemployed – this is similar to the rest of Tower Hamlets but worse than London.
- The study area is very deprived with five of the area’s 10 Super Output Areas in the top 10% most deprived nationally.
- In 2005 47,313 people (not including the self employed) worked in the study area primarily in banking, finance and insurance (68%).
- The area had a total of 2,982 workplaces the majority of which were micro businesses (1-10 employees, 85%) with large businesses (200 or more employees) only constituting 1% of all workplaces.
- Over the last 10 years (1995-2005) employee numbers in the study area have fallen by 16%. This is in stark contrast to the pattern across the rest of Tower Hamlets (61% growth), the City of London (10% growth) and London (18% growth).

Key Findings

- The demography of the study area is very similar to that of Tower Hamlets as a whole.
- Despite the high level of deprivation a large number of employees and workplaces are located within the study area.
- Over the last 10 years the study area has experienced a relatively high degree of volatility in different employment sectors and as a result employment levels have declined. This decline has been largely the result of two factors: firstly a decline in a number of the area’s “traditional” employment sectors and secondly the growth and development of Canary Wharf.
Introduction

5.1 This chapter of the report provides an overview of the socio economic context within the Aldgate study area looking firstly at the demographic background of the resident population in the study area and then the economic context, including the key employment sectors of the working population in the study area and how these have changed over time.

5.2 The Aldgate study area consists of 10 Super Output Areas (SOAs) which make up part of the Spitalfields and Banglatown and Whitechapel wards in the Borough of Tower Hamlets (nine SOAs) and the Portsoken ward in the City of London (one SOA).

5.3 It is important to note from the outset that some of the data used in this chapter is not available at SOA level and therefore larger geographical units have been used. Where possible we have carried out analysis at the SOA level and aggregated this up to provide a complete picture for the Study Area although where data limitations have applied, for instance when looking at commuting patterns and producing time series data pre 2003, we have used the three ward boundaries to define the study area. This different geography does give a slightly larger study area and therefore we have only used it where necessary to ensure the robustness of the data.

5.4 Therefore, for clarification, when we refer to the study area below, we are referring to the tightly defined geography constructed using the 10 SOAs within the study area and when we have used the larger geography we have called it the study area (ward boundaries).

Demographic background

Demographic structure (residential population)

Population and gender

5.5 In the 2001 Census the study area’s population was 15,930 people. By 2004 the mid-year population estimates showed that it had grown to 18,622 of which 53% were male: a larger proportion than both the rest of Tower Hamlets (50% male) and London as a whole (48% male).

Age

5.6 The study area’s age structure is fairly evenly spread, 15% of the population are under 15, 19% are between 16 and 24, 36% are between 25 and 44, 13% are between 45 and 64 and 7% are over 65. This demographic is much the same as the rest of Tower Hamlets, although ‘younger’ than the rest of London: in London 27% of the population are under 24 and 32% are over 45 compared to 34% and 20%, respectively, in the study area (2001 Census).

Ethnicity

5.7 Fifty-seven per cent of the study area’s population are Bangladeshi, the largest single ethnic grouping and notably higher than the proportion of Bangladeshi’s in Tower Hamlets (33%) and London (2%). The next largest ethnic grouping is ‘white’ (31% compared to 52% in Tower Hamlets and 71% in London). The remainder of the population is spread across a number of different ethnic groups with no one group constituting more than 2% of the population (2001 Census).

Economic activity

5.8 Levels of economic activity within the study area are similar to the rest of Tower Hamlets but generally slightly lower than the rest of London. Thirty-one per cent of the study area’s 16-74 year old population are in full time employment (36% in Tower Hamlets but 43% across London), 7% are in part time employment (7% also in Tower Hamlets and 5%
in London) and 6% are self employed (again, also 6% in Tower Hamlets but 9% in London) (2001 Census).

5.9 Seven per cent of the population are unemployed, the same proportion as the rest of Tower Hamlets but notably higher than the London average of 4% (2001 Census). Of those residents who are unemployed 47% have been unemployed for over six months and a further 25% have been unemployed for over a year. This relatively high level of long term unemployment is a characteristic of Tower Hamlets as a whole where 49% of the unemployed population have been unemployed for over six months (compared to only 40% in London) and 29% for over a year (20% in London) (Claimant Count 2007). These high levels of long term unemployment are also likely to be one of the primary causes of deprivation in the study area.

5.10 A further 24% of the 16-74 year old population are economically inactive with 6% retired, 12% looking after other family members and 6% permanently sick or disabled. These proportions are very similar to both the rest of Tower Hamlets and London (2001 Census).

Occupations and qualifications

5.11 Of those study area residents in employment, a similar proportion work in higher level occupations (56%) to the rest of Tower Hamlets (53%) and London (50%) and the same is also true for lower level occupations (22% in the study area, 22% in Tower Hamlets and 21% in London) (2001 Census).

5.12 In terms of qualifications, at the top end of the scale 31% of those aged 16-74 in the study area have Level 4/5 qualifications (approximately degree level or higher) whilst at the bottom end 34% have no qualifications. Between this, 10% have Level 1 qualifications, 12% Level 2 and 10% Level 3. This is a pattern that is reflected across both Tower Hamlets and London (2001 Census).

Deprivation

5.13 The study area is very deprived. Five of the study area’s 10 SOAs are in the top 10% most deprived nationally and of the remaining five SOAs a further two are in the top 20% most deprived.

Economic context

5.14 Using information sourced from the Annual Business Inquiry (ABI) this section presents an analysis of the economic context of the study area examining the scale, extent and trends of the key employment sectors and business growth in the area.

5.15 Before looking in detail at the economic context of the study area it is important to set this within the overall context of London’s economy. The GLA’s medium-term planning projections ‘London’s Economic Outlook: Spring 2007’ states that “London’s economy continues to outperform the UK in terms of annual output growth” and that this performance has been led by the financial and business services sectors. A strong performance has “boosted the City of London’s office market with rising take-up, lower vacancy rates and higher rents”. In addition to this, the performance of the distribution, hotels and catering sectors has continued to grow and growth in the manufacturing sector has also picked up more recently. There has been a slowdown in the level of growth of transport, storage and communications sector but, despite this, its growth over the past year has remained strong. Growth in the government and other services sectors has remained steady.

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Over the medium term growth is expected to continue across all sectors with the highest levels remaining in the financial and business services sector and the transport and communications sector. Growth in manufacturing is expected to be “sluggish”. This sectoral growth will also be reflected in continued annual employment growth.

**Key Sectors (working population)**

In 2005² 47,313 people (not including the self employed) worked in the study area. These employees worked primarily in three broad industrial groups: 68% in ‘Banking, Finance and Insurance etc’; 11% in ‘Distribution, Hotels and Restaurants’; and 10% in ‘Public Administration, Education and Health’ (see Annex C).

Within these three key broad sectors:

- The employees in ‘Banking Finance and Insurance etc’ worked in financial intermediation (34% of all study area employees), legal activities (9%), business and management consultancy activities (7%), call centre activities (7%) and computing and related activities (6%).
- The employees in ‘Distribution, Hotels and Restaurants’ worked in hotels and restaurants (5% of all study area employees), wholesale trade (4%) and retail (2%).
- The employees in ‘Public Administration, Education and Health’ worked in Education (4% of all study area employees), health and social work (4%), public administration (2%) and in recreational, cultural and sporting activities (1%).

There were a total of 2,982 workplaces in the study area in 2005. **The majority of these workplaces (85%) were micro businesses (1-10 employees) and a further 11% were small businesses (11-49 employees), 3% were medium sized (50-149 employees) and only 1% were large (200 or more employees) (see Annex C).**

Approximately half (49%) of all the workplaces in the study area were in the ‘Banking, Finance and Insurance etc’ sector; 28% were in the ‘Distribution, Hotels and Restaurants’ sector, and 6% were in the ‘Public Administration, Education and Health’ sector. It is interesting to note that 7%, were in the ‘Other Services’ sector (see Annex C).

Within the key broad sectors:

- The workplaces in ‘Banking Finance and Insurance etc’ are primarily used for ‘other business activities’, which includes legal activities, business and management consultancy activities and call centre activities (24% of all workplaces), or for ‘financial intermediation’ (10%). It is interesting to note that of those workplaces used for ‘other business activities’ 88% are micro businesses (1-10 employees) and only 1% are large (200 or more employees) whereas of those workplaces used for ‘financial intermediation’ 69% are micro businesses and 6% are large.
- Of the workplaces within the ‘Distribution, Hotels and Restaurants’ sector 13% (of all workplaces) are used for wholesale trade of which 90% are micro businesses; 8% are used for retail (93% are micro businesses); and 7% are used for hotels and restaurants (78% are micro businesses).
- The workplaces in ‘Public Administration, Education and Health’ are predominantly in recreational, cultural and sporting activities (2% of all workplaces) and health and social care (2%) with 1% of all workplaces in education. Ninety-four per cent of the workplaces in recreational, cultural and sporting activities are micro businesses whilst

² The most recent Annual Business Inquiry (ABI) data available
the workplaces used for health and social care and education are spread across a range of micro, small and medium sized businesses.

- All of the workplaces in ‘other services’ are micro firms.

**Historic trends (working population)**

5.22 Using the larger study area (ward boundaries) it is possible to analyse the pace and scale of growth and decline in employee numbers and workplaces that has occurred in the study area (ward boundaries) over the last ten years, and to compare this to the change that has occurred in Tower Hamlets, the City of London and London as a whole over the same period.

**Changes in employee numbers**

5.23 Between 1995 and 2005 the number of employees in the study area (ward boundaries) fell by 16%, a decline that occurred predominantly in the last five years (since 2000) where employee numbers fell by 14%. This decline in employee numbers is in stark contrast to the pattern across the rest of Tower Hamlets (where employee numbers grew by 61% over the last ten years), the City of London (10% growth) and London as a whole (18% growth). Over the last five years the contrast is however less stark and some parallels begin to emerge. Between 2000 and 2005 employee numbers still grew significantly across Tower Hamlets (31% growth) whereas they actually declined in the City of London (7% decline) and remained static across London (0% growth).

5.24 Within the study area (ward boundaries) the most notable decline in employee numbers have occurred in the area’s “traditional” employment sectors such as ‘Transport and Communications’ (65% decline between 1995 and 2005) and ‘Distribution, Hotels and Restaurants’ (24% decline) (see Table 5 Annex C). It is interesting to note that over the ten years between 1995 and 2005 the number of employees in ‘Transport and Communications’ also fell in Tower Hamlets (29% decline) and the City of London (34% decline) but grew across London (13% growth), where as the employee numbers in ‘Distribution, Hotels and Restaurants’ grew in all three of the comparator areas (Tower Hamlets by 25%, the City of London by 59% and London by 12%).

5.25 The decline in ‘Transport and Communications’ in the study area (ward boundaries) occurred mainly in water transport (99% decline between 1995 and 2005), supporting/auxiliary transport (45% decline) and post and telecommunications (57% decline). In ‘Distribution, Hotels and Restaurants’ the decline between 1995 and 2005 was primarily in wholesale trade which fell by 46%, although over the last five years between 2000 and 2005 there has also been a decline in the number of employees in retail (33% decline) and hotels and restaurants (8% decline).

5.26 The only major growth in employee numbers in the study area (ward boundaries) occurred in ‘Public Administration, Education and Health’ which grew by 19% over the 10 years to 2005 and 23% over the last five. This level of growth is either level with or above that experienced by Tower Hamlets (19% 1995-2005; 11% 2000-2005) and the City of London (16% 1995-2005; 20% 2000-2005), it is also above the five year growth of London as a whole (17%) but below the 10 year level (32% growth).

5.27 This growth has primarily occurred in health where employee numbers have grown by 40% over the last 10 years (35% over the last five), as well as steady growth in public administration (6% between both 1995-2005 and 2000-2005). Employee numbers in education have fallen over the last 10 years by 15%; however, they do appear to be increasing again with a 7% growth between 2000 and 2005.

5.28 Perhaps the most interesting change has occurred in the ‘Banking, Finance and Insurance etc’ where the growth and development of Canary Wharf has had a major
impact. Over the last 10 years employment in this sector in the study area (ward boundaries) has fallen by 2% whereas growth in employee numbers has ‘exploded’ in the rest of Tower Hamlets (156% growth) and grown steadily in the City of London (12%) and London as a whole (26%). However, over the last five years the picture is slightly different. In the study area (ward boundaries) there has been a slight upturn and employee numbers have increased by 1%. Tower Hamlets has continued to experience significant growth in the sector (83% growth) whereas the City of London has begun to experience a decline in employee numbers (9% decline)\(^3\).

5.29 Both the significant growth in Tower Hamlets and the decline in the study area (ward boundaries) and the more recent decline in the City of London can almost certainly be attributed to the continued growth and development of Canary Wharf over the last decade. Canary Wharf’s growth has not only increased the employee levels within this sector in Tower Hamlets but it has also contributed to the decline in the study area (ward boundaries) and the City of London as several large City/City Fringe employers within this sector have relocated to Canary Wharf.

5.30 The decline in the ‘Banking, Finance and Insurance etc’ sector within the study area (ward boundaries) has predominantly occurred in financial intermediation (61% decline between 1995 and 2005), as ‘other’ business activities such as business and management consultancy and legal activities (92% growth) and computing related activities (106% growth) have both increased in employee numbers during the same period.

Changes in workplace numbers

5.31 In terms of the actual number of businesses in the study area (ward boundaries) between 1995 and 2005 there was an overall growth of 9% which was in line with the City of London (8% growth) but notably lower than Tower Hamlets (55% growth) and London as a whole (21% growth) (see Table 5, Annex C). The growth in the number of workplaces in the study area (ward boundaries) has primarily occurred in three sectors: ‘Banking, Finance and Insurance etc’ (17% growth) predominantly in ‘other’ business activities (97% growth) and computing relating activities (218% growth); ‘Distribution, Hotels and Restaurants’ (22% growth) predominantly in hotels and restaurants (42% growth), retail (29% growth) and wholesale trade (25% growth); and ‘Other Services’ (78% growth). It has also occurred through the growth of micro businesses (1-10 employees) which grew by 25% over the last 10 years.

5.32 Over the last five years, 2000-2005, the picture has been quite different and the number of workplaces in the study area (ward boundaries) has actually fallen by 22% (see Table 6, Annex C). All of the comparator areas also experienced a ‘slow down’ in business growth but despite this, growth rates were still higher than the study area (ward boundaries) (Tower Hamlets 3% growth, City of London 5% decline and London 2% growth).

5.33 Between 2000 and 2005 the study area (ward boundaries) saw significant declines in ‘Distribution, Hotels and Restaurants’ (24% decline) with declines in hotels and restaurants (13% decline), retail (27% decline) and wholesale (27% decline); ‘Transport and Communications’ (34% decline); and ‘Banking, Finance and Insurance etc’ (20% decline) with notable declines in the number of workplaces in financial intermediation (63% decline) and computing related activities (43% decline).

5.34 The decline in the number of workplaces has occurred across all size bands (see Table 5.6 above) although it is important to note that the number of workplaces employing 200 or more people has declined at a much slower rate (only 2% between 2000 and 2005) and within this

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\(^3\) Changes and variations that have all been taken account of in the GLA Employment Projections used in Chapter 6.
the number of workplaces employing 200 or more people in both ‘Banking, Finance and Insurance etc’ and ‘Public Administration, Education and Health’ actually increased (by 28% and 75% respectively).

**Conclusions**

5.35 In many respects the demography of the study area is similar to the rest of Tower Hamlets, with comparable levels of economic activity and unemployment and similar patterns in terms of occupations and skills; although it is important to note that the study area does have a notably higher proportion of Bangladeshi residents. However, when compared with the rest of London there are a number of differences, the most notable of which can be seen in economic activity as the study area has a lower proportion of employed and higher proportions of unemployed residents than London as a whole. These economic differences are likely to be one of the key contributing factors to the very high levels of deprivation across the study area.

5.36 Despite this high level of deprivation a large number of employees and workplaces are located within the study area. Due to its proximity to the City of London, the employment is primarily within the ‘banking, finance and insurance’ sector (68% of all employees) and the workplaces are predominantly micro (1-10 employees, 85%) or small (11-49 employees, 11%) businesses.

5.37 Over the last 10 years the study area has experienced a relatively high degree of volatility in different employment sectors, which is largely the result of two factors. Firstly, a number of the area’s “traditional” employment sectors such as manufacturing, transport and communications and distribution have declined markedly. Secondly, the growth and development of Canary Wharf has had a major impact on the employment levels in banking, finance and insurance and other associated industries such as hotels and restaurants. The result of this volatility is that between 1995 and 2005 employee numbers have declined by 16% in the study area whilst growing significantly across Tower Hamlets (61%), the City of London (10%) and London (18%).

5.38 More recently (2000-2005) the decline in employment levels in banking, finance and insurance has been reversed and has actually begun to increase, a fact that, coupled with continued strong growth in the public administration, education and health sector, perhaps points to the future need for more commercial space within the study area. However, it is important that any commercial development that does occur in the future contributes positively to the wider regeneration of the area and seeks to address the high levels of deprivation currently experienced by much of area.
Executive Summary

In order to inform the future commercial land and property demand in the study area it is necessary to examine the projected employment growth between 2005/6 and 2016 as well as the likely population growth over the same period.

Using GLA projections for both employment and population growth in Tower Hamlets, the City of London and London as a whole it is possible to develop a number of different growth scenarios for the Study Area.

Key Facts

- The GLA’s projected employment growth in Tower Hamlets is notably higher than both the City of London and London, largely as a result of the continued growth and development of Canary Wharf and the influence of the London Olympics in 2012.
- Due to similar employment characteristics between the study area and the City of London it was felt that it was most appropriate to forecast employment growth for the study area using a combination of projected growth for the City of London and London rather than Tower Hamlets.
- Based on the current levels of employment in the area and using the GLA projections it is estimated that employment in the study area may grow by between 6,783 (low growth) and 8,331 (high growth) additional jobs up to 2016.
- It is estimated that 55% of the jobs in the low growth scenario will be created between 2006 and 2011 (with 45% created between 2011 and 2016). However for the high growth scenario 74% of the additional jobs will be created between 2006 and 2011.
- For both scenarios the majority of employment growth will occur within the financial and business services sectors. It is estimated that this growth will require between 113,740 and 120,400 square metres of net additional A2/B1 floorspace.
- The study area’s population is expected to grow by between 3,880 (low growth), 4,636 (central growth) or 5,362 (high growth) additional people to 2016.

Key Findings

- The fact that the majority of new jobs will be in the business and financial services sectors has two broad implications for the study area. Firstly, there will be an increased requirement for modern office space, and secondly, there is a need for appropriate measures to ensure that ‘local’ residents have the right skills and qualifications to access these jobs.
- The growth in population also needs to be carefully planned and it is important that any commercial property development complements the associated residential development and enables the study area to develop as a prosperous mixed use area.
Introduction

6.1 This chapter provides the key economic projections for the Aldgate Study area looking primarily at employment growth between 2005/6 and 2016 but also at the likely population growth over the same period.

Employment projections

Rationale and key sectors

6.2 In order to develop robust forecasts and to provide a range of employment growth for the study area to 2016 we have used two different methodologies: (1) applying the GLA Borough level projections\(^4\) for employment growth to the study area; and (2) calculating estimates using the GLA sectoral projections\(^5\) applied to the study area.

6.3 For more detail on both the Borough level and the sectoral projections and the rationale and approach used to forecasting employment please see Annex D.

Applying the data to the study area

6.4 The two different methodologies used produce a total of seven different scenarios. Using these seven different forecasts (set out in Tables 1 and 2 in Annex D) and applying them to the current employment numbers in the study area enables the following projections to be made (see Table 6.1) below.


\(^5\)‘Employment projections for London by sector and borough’, Greater London Authority (GLA Economics), February 2007
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<th>Construction</th>
<th>Wholesale</th>
<th>Retail</th>
<th>Hotels &amp; restaurants</th>
<th>Transport &amp; Communications</th>
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<td>384</td>
<td>2,340</td>
<td>2,068</td>
<td>157</td>
<td>507</td>
<td>117</td>
<td>6,458</td>
</tr>
<tr>
<td>Trend Extrapolation-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>11</td>
<td>74</td>
<td>33</td>
<td>211</td>
<td>120</td>
<td>255</td>
<td>305</td>
<td>1,859</td>
<td>1,643</td>
<td>125</td>
<td>403</td>
<td>93</td>
<td>5,132</td>
</tr>
<tr>
<td>Triangulation- London</td>
<td>10</td>
<td>67</td>
<td>30</td>
<td>192</td>
<td>109</td>
<td>231</td>
<td>276</td>
<td>1,685</td>
<td>1,489</td>
<td>113</td>
<td>365</td>
<td>84</td>
<td>4,652</td>
</tr>
</tbody>
</table>
Table 6.1 shows the number of additional jobs that would be created, by sector, under each of the seven different scenarios. As can be expected, applying the different forecasts to the study area data produces a wide range of results from as little as 4,562 additional jobs through to 18,036 additional jobs. The table clearly shows the high number of additional jobs that would be created if the study area was to grow at the same rate as the rest of Tower Hamlets (something, as noted in Annex D, that we believe will not happen as this growth is largely driven by Canary Wharf). The table also shows (highlighted in grey) the two forecasts that we feel are the most appropriate to use for the purpose of this study: the Triangulation forecast for the City of London and the London Sectoral forecast (see Annex D).

It is important to note that the London Sectoral forecast gives the clearest estimate of how employment in the individual sectors will change as for the other six forecasts (because they do not disaggregate by employment sector) a blanket approach was used whereby the same percentage growth was applied to each employment sector. This forecast shows that between 2006 and 2016 it is likely that there will be small declines in employment numbers in construction, transport and communications and public administration with the majority of growth occurring in financial services and business services.

Using the City of London Triangulation and London Sectoral forecasts we predict that employment in the study area may grow by between 6,783 (low growth) and 8,331 (high growth) additional jobs up to 2016 (see Table 6.2 below).

<table>
<thead>
<tr>
<th>Year</th>
<th>Scenario 1 – Low Growth</th>
<th>Scenario 2 – High Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2009</td>
<td>2,519</td>
<td>Data not available</td>
</tr>
<tr>
<td>2009-2011</td>
<td>1,207</td>
<td>6,153 (between 2006 and 2011)</td>
</tr>
<tr>
<td>2011-2016</td>
<td>3,056</td>
<td>2,178</td>
</tr>
<tr>
<td>Total</td>
<td>6,783</td>
<td>8,331</td>
</tr>
</tbody>
</table>

Source: SQW Consulting

In order to understand how these additional jobs will actually impact upon the study area it is important to see how many jobs will be created over the short (2006-2009), medium (2009-2011) and longer terms (2011-2016) for both the low and high growth scenarios (see Table 6.3 below). However, it should be noted that the GLA does not provide the data for the ‘triangulated’ forecasts for 2009 and therefore it is not possible to distinguish between the short and medium term growth for the high growth scenario.
Table 6.3 Study Area Additional Jobs by GLA Employment Sector

<table>
<thead>
<tr>
<th>GLA Employment sector</th>
<th>Scenario 1 – Low Growth</th>
<th></th>
<th></th>
<th>Scenario 2 – High Growth</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary &amp; Utilities</td>
<td>-13</td>
<td>-6</td>
<td>-13</td>
<td>N/A</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-94</td>
<td>-41</td>
<td>-91</td>
<td>N/A</td>
<td>88</td>
<td>31</td>
</tr>
<tr>
<td>Construction</td>
<td>-19</td>
<td>-8</td>
<td>-22</td>
<td>N/A</td>
<td>39</td>
<td>14</td>
</tr>
<tr>
<td>Wholesale</td>
<td>33</td>
<td>8</td>
<td>33</td>
<td>N/A</td>
<td>253</td>
<td>90</td>
</tr>
<tr>
<td>Retail</td>
<td>36</td>
<td>16</td>
<td>47</td>
<td>N/A</td>
<td>144</td>
<td>51</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>251</td>
<td>133</td>
<td>369</td>
<td>N/A</td>
<td>306</td>
<td>108</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>-41</td>
<td>-16</td>
<td>-58</td>
<td>N/A</td>
<td>366</td>
<td>129</td>
</tr>
<tr>
<td>Financial services</td>
<td>469</td>
<td>208</td>
<td>625</td>
<td>N/A</td>
<td>2229</td>
<td>789</td>
</tr>
<tr>
<td>Business services</td>
<td>1818</td>
<td>861</td>
<td>2037</td>
<td>N/A</td>
<td>1970</td>
<td>697</td>
</tr>
<tr>
<td>Public admin</td>
<td>-46</td>
<td>-19</td>
<td>-51</td>
<td>N/A</td>
<td>149</td>
<td>53</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>37</td>
<td>21</td>
<td>47</td>
<td>N/A</td>
<td>483</td>
<td>171</td>
</tr>
<tr>
<td>Other services</td>
<td>89</td>
<td>50</td>
<td>133</td>
<td>N/A</td>
<td>112</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>2519</td>
<td>1207</td>
<td>3056</td>
<td>N/A</td>
<td>6153</td>
<td>2178</td>
</tr>
</tbody>
</table>

Source: SQW Consulting

6.9 Based on the low growth scenario 37% of the additional jobs will be created in the short term, 18% in the medium term and the remaining 45% in the long term. This fairly even split occurs because the low growth forecast is based simply on a trend extrapolation of historic data. However, for the high growth scenario the picture is quite different but actually more realistic. Because the high growth projection takes account of the actual availability of business sites and the expected changes in transport accessibility it is therefore more likely to reflect when growth would actually occur. This scenario forecasts that 74% of the additional jobs will be created over the short and medium term and 26% in the long term. Therefore, for both scenarios, the majority of additional jobs in the study area will be created between 2006 and 2011.

Infrastructural changes

6.10 For both scenarios the majority of employment growth will occur within the financial and business services sectors (89% for the low growth scenario and 68% for the high growth scenario) and therefore the study area will require a substantial amount of additional A2/B1 employment space, and using English Partnerships Employment Densities\(^6\) as a guide this could range from 113,740 to 120,400 square metres of net additional floorspace within the Study area. The other notable increases in employment occur in Hotel and Restaurants, Health and Education and Other Services (see Table 6.4 below).

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Table 6.4 Additional Jobs to 2016 by GLA Employment Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Scenario 1 – Low Growth</th>
<th>Scenario 2 – High Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary &amp; Utilities</td>
<td>-32</td>
<td>17</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-226</td>
<td>120</td>
</tr>
<tr>
<td>Construction</td>
<td>-50</td>
<td>53</td>
</tr>
<tr>
<td>Wholesale</td>
<td>75</td>
<td>343</td>
</tr>
<tr>
<td>Retail</td>
<td>99</td>
<td>195</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>752</td>
<td>414</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>-115</td>
<td>495</td>
</tr>
<tr>
<td>Financial services</td>
<td>1303</td>
<td>3,019</td>
</tr>
<tr>
<td>Business services</td>
<td>4717</td>
<td>2,668</td>
</tr>
<tr>
<td>Public admin</td>
<td>-116</td>
<td>202</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>105</td>
<td>654</td>
</tr>
<tr>
<td>Other services</td>
<td>273</td>
<td>151</td>
</tr>
<tr>
<td>Total</td>
<td>6783</td>
<td>8,331</td>
</tr>
</tbody>
</table>

Source: SQW Consulting

The fact that the majority of growth is occurring in the financial and business services sectors also has major implications on the local education and training providers. If local people are to benefit from the creation of new jobs in the area then it is very important that those organisations involved in delivering education, training and skills locally provide the types of courses, skills and qualifications that will help facilitate local people in accessing these jobs. These courses do not need to just focus on higher level occupations that require degree or above qualifications but they can, and should, focus on those lower level occupations that require mid-level qualifications. It is especially important for the regeneration of the area that there is also a focus on helping those with no qualifications and the long term unemployed to access some of these new employment opportunities.

Population projections

The GLA also provides population forecasts to 2016 for every London borough based on the results from the 2001 Census and it is possible to use these to forecast population growth in the study area.

The GLA has prepared three variant projections based upon different assumptions about migrations after 2001. Using the three (low, central and high) different projections for Tower Hamlets it shows that the population of the borough is expected to grow by 24% (low), 29% (central) or 34% (high). Applying these projections to the 2001 population of the study area (15,930) suggests that the study area’s population will grow by either 3,880 (low), 4,636 (central) or 5,362 (high) additional people to 2016.

It is important that the growth in population is proactively managed and planned for alongside any commercial growth that occurs. If the study area is to prosper as a mixed use area then it is important that the commercial property development complements the residential development and that the associated infrastructure and local facilities are

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7 ‘GLA Population and Household Forecasts based on the First Results from the 2001 Census’, Greater London Authority, January 2003
there to support and provide for those who work in the area, those who live in the area and those who both live and work in the area. The challenge is to create a sense of place and an environment that is appropriate for and appeals to both workers and residents alike.

Conclusions

6.15 Based on the GLA triangulated projections for the City of London and the sectoral projections for London it is forecast that the study area will see an increase in employees of between 6,783 (low growth scenario) and 8,331 (high growth scenario) to 2016. It is estimated that under the low growth scenario 55% of these additional jobs will be created in the short and medium term (between 2006 and 2011), whereas the high growth scenario suggests that as much as 74% of the additional jobs could be created by 2011 – largely because of the current availability of potential commercial sites.

6.16 Under both the high and low growth scenarios the majority of new jobs will be in the business and financial services sectors (89% for the low growth scenario and 68% for the high growth scenario). The fact that the growth is primarily focused in these two sectors has two main implications for the study area. The first is that there will be an increased requirement for modern office space. The second is that there is a need for appropriate measures to be put in place, primarily through enhancing the skill levels and qualification levels of ‘local’ residents, particularly the unemployed, so that ‘local’ residents are better placed to access ‘local’ jobs. If these two implications are addressed then future employment growth has the potential to be a key driver in the physical, social and economic regeneration of the study area.

6.17 The population projections suggest that the population of the study area will also grow by between 3,880 (low growth) and 5,362 (high growth) people to 2016. This growth in resident population also brings with it a number of different infrastructural implications the most important of which, in relation to this study, is to ensure that any commercial property development complements the associated residential development. This will enable the study area to develop as a prosperous mixed use area with the necessary sense of place.
7 Development Potential

Executive Summary
In order to assess the implications for planning policy of the employment projections, the likely supply of employment space arising from the development sites identified for employment uses by the draft LDF has been examined. These were analysed on a site by site basis and classified according to the likely type of employment floorspace to be provided and the timeframe within which it may come to market.

By comparing the projected supply of employment land based upon allocations within the draft Local Development Framework and the requirement suggested by the economic projections, we were able to determine whether these two projections were aligned.

Key Facts
- The current allocations provide sufficient floorspace to accommodate a total of 9,814 new jobs in 196,287 m² of floorspace.
- The employment projections suggest that space will be required for between 5,168 and 8,885 new jobs.
- There is greater diversity in the employment space market within the City Fringe areas than in the City of London.
- The majority of the new development will cater for large and medium sized companies in office type accommodation.
- Opportunities for smaller office and studio/workshop space, including SME and BME interests are limited.

Key Findings
- There appears to be sufficient provision for the projected increase in employment to 2016. Provided that the provision of new space is led by the occupier market and not speculative, the risk of oversupply can be avoided.
- There is a risk under both the high and low growth scenarios that there will be too much space provided for large office uses, however, there is some flexibility between office space for large users and medium sized users which would allow the market to adjust to demand.
- Under the high growth scenario, there will still be sufficient new development for the workshop/studio space that has been suggested within the current space allocations. However, almost all of this requirement will be met at the Truman Brewery under the currently identified sites for commercial development. This presents a potential risk to supply for this sector should the development not progress to support these use types. Therefore, policy should be developed to encourage other opportunities for development for these sectors, possibly supported by residential use to ensure such schemes are viable.
Major/Strategic Development Sites Identified

7.1 Below, we outline a schedule of land ownerships of these sites earmarked for development in the Tower Hamlets Local Development Framework Policy CFR14. Most of these are located around or adjacent to the Aldgate gyratory, or towards the northern extent of the Study Area.

<table>
<thead>
<tr>
<th>Site Ref (LDF)</th>
<th>Address</th>
<th>Ownership/Control</th>
<th>Site area (Ha)</th>
<th>Ownership Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>CF4</td>
<td>Former Nicholls &amp; Clarke site &amp; adjacent. Fleur de Lis Street</td>
<td>Corporation of London/Grainger Trust &amp; various local ownerships (optioned by Hammerson plc)</td>
<td>0.44</td>
<td>2 &amp; 3</td>
</tr>
<tr>
<td>CF5</td>
<td>Truman Brewery, Brick Lane/Hanbury Street/Quaker Street</td>
<td>Zelooft Partnership (family)</td>
<td>8.17</td>
<td>2</td>
</tr>
<tr>
<td>CF6</td>
<td>Eden House, Spital Square</td>
<td>Royal London Asset Management</td>
<td>0.17</td>
<td>3</td>
</tr>
<tr>
<td>CF8</td>
<td>Fruit &amp; Wool Exchange, Brushfield Street and Car Park, Whites Row</td>
<td>Corporation of London</td>
<td>0.53</td>
<td>3</td>
</tr>
<tr>
<td>CF9</td>
<td>100 Middlesex Street</td>
<td>Blackstone Group</td>
<td>0.53</td>
<td>3</td>
</tr>
<tr>
<td>CF12a</td>
<td>Goodman’s Fields, Goodman’s Stie.</td>
<td>Exemplar Properties/Berkeley Homes</td>
<td>3.81</td>
<td>3</td>
</tr>
<tr>
<td>CF12b</td>
<td>Aldgate Union 1 &amp; Tower, Whitechap High Street</td>
<td>Royal Bank of Scotland &amp; Exemplar Properties</td>
<td>0.65</td>
<td>3</td>
</tr>
<tr>
<td>CF12c</td>
<td>Aldgate Union 3 &amp; 4, Whitechap High Street/ Braham Street</td>
<td>Tishman Speyer Properties</td>
<td>0.64</td>
<td>3</td>
</tr>
<tr>
<td>CF12d</td>
<td>Aldgate Union South, 1-47 Aile Street and Braham Street south side.</td>
<td>Corporation of London, UKI, Stuctadene Group and others</td>
<td>1.12</td>
<td>2 &amp; 3</td>
</tr>
<tr>
<td>CF12e</td>
<td>61-75 Aile Street</td>
<td>Inonder Ltd</td>
<td>0.25</td>
<td>3</td>
</tr>
<tr>
<td>CF12f</td>
<td>1 Commercial Street</td>
<td>Mangrove Securities Ltd/Columbia Group</td>
<td>0.23</td>
<td>3</td>
</tr>
<tr>
<td>CF12g</td>
<td>3-11 Goulston Street &amp; 4-6 &amp; 16-22 Middlesex Street</td>
<td>The Cromtech Property Co Limited/Freshwater Group</td>
<td>0.45</td>
<td>3</td>
</tr>
<tr>
<td>CF12h</td>
<td>Calcutta House, 4-12 Goulston Street &amp; baths site plus 126-137 Whitechap High Street</td>
<td>London Guildhall University &amp; various fragmented</td>
<td>0.47</td>
<td>2</td>
</tr>
<tr>
<td>CF13</td>
<td>44-56 Prescot Street</td>
<td>Grange Hotels</td>
<td>0.35</td>
<td>3</td>
</tr>
<tr>
<td>CF14</td>
<td>Mansell Street/adj railway lines</td>
<td>Network Rail</td>
<td>0.47</td>
<td>2</td>
</tr>
<tr>
<td>CF25</td>
<td>40-48 Fashion Street</td>
<td>Meritcape</td>
<td>0.18</td>
<td>3</td>
</tr>
<tr>
<td>CF28</td>
<td>21 Osborn Street</td>
<td>Zelooft Partnership</td>
<td>0.16</td>
<td>2</td>
</tr>
<tr>
<td>CF35</td>
<td>Former Library 77 Whitechap High Street</td>
<td>Whitechapel Art Gallery</td>
<td>0.14</td>
<td>1</td>
</tr>
<tr>
<td>CF36</td>
<td>52-58 Commercial Road</td>
<td>Columbia Group</td>
<td>0.21</td>
<td>3</td>
</tr>
<tr>
<td>CF38</td>
<td>Central House, Whitechap High Street</td>
<td>London Metropolitan University &amp; other local ownerships/interests</td>
<td>0.68</td>
<td>2</td>
</tr>
<tr>
<td>CF39</td>
<td>33-35 Commercial Road</td>
<td>Kundra Brothers/Broadstone Ltd/City Properties Management</td>
<td>0.57</td>
<td>2 &amp; 3</td>
</tr>
<tr>
<td>CF40</td>
<td>Challenger &amp; Cityside House, Adler Street/Mulberry Street</td>
<td>Schroders Asset Management</td>
<td>0.6</td>
<td>3</td>
</tr>
<tr>
<td>CF42</td>
<td>2-6 Commercial Street and rear land</td>
<td>Valsan International</td>
<td>0.37</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: LB Tower Hamlets LDF & Strettons Research
The development sites identified above make up a sizeable land area of some 21.19 Ha, although site CF5 (Truman Brewery Complex) makes up 38.5% of the total. This is a sizeable development site but owned by an individual family interest, with limited likelihood of all or part of the site coming forward for major redevelopment.

**Overall Approach to Estimating Capacity**

The potential for new commercial employment space within the study area has been derived through an assessment of the number of jobs which are likely to be generated by the development sites allocated within the draft LDF for employment uses.

We have surveyed each site and determined the likely floor area which would be used for commercial employment taking into account existing planning consents, the surrounding environment (including the presence of listed buildings and Conservation Areas), emerging Planning Policy, physical site constraints and an assessment of market pressures.

To determine the amount of commercial employment which each site will then generate we have applied the employment densities recommended in Employment Densities: A Full Guide published by English Partnerships. We have adopted a density of 20 m²/person (psn) as recommended for City of London offices and 32 m²/psn for studio and workshop space.

We have classified each of the opportunities according to our opinion of the type of commercial space which is likely to be developed on the site, the timeframe over which development is likely to come to market and the likelihood of the development occurring. This will be matched against the economic projections to determine whether the likely growth in employment space is aligned with the likely growth in employment within the study area.

**Existing Commercial Space**

The levels of existing employment space are taken from the Neighbourhood Statistics website. The data is dated January 2005. Data from Tower Hamlets SOA 015 and 021 where available, however the data is not available for Portsoken Ward in the City of London.

<table>
<thead>
<tr>
<th>Table 7.2 Existing Quantum of Commercial Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offices</td>
</tr>
<tr>
<td>Units</td>
</tr>
<tr>
<td>Tower Hamlets</td>
</tr>
<tr>
<td>City of London</td>
</tr>
<tr>
<td>Tower Hamlets 015</td>
</tr>
<tr>
<td>Tower Hamlets 021</td>
</tr>
</tbody>
</table>

Note: areas are expressed on 000s of m²

Since 2005, there have been significant additions to the office market particularly around the Bishop’s Square development which has added 102,300m² of high quality office space to the north of the study area. In the Portsoken ward, which contains high proportion of commercial office space, 52,030 m² will be provided at St. Botolph’s House.

Within the study area, much of the vacant office property is obsolete and those which have not been identified as development sites may be converted to other uses such as for housing. Although there may be other windfall sites these are likely to be statistically insignificant. Larger windfall sites should be assessed against evolving economic projections and market demand.

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7.10 Within the study area the split of non-domestic land use is contrasted with the borough as a whole and City of London as follows:-

![Commercial Land-Use in the Study Area](image)

Source: ONS, from VOA Data

7.11 The study area contains more retail space than either the City of London or London Borough of Tower Hamlets and also more industrial space which includes workshop and studio uses.

**Analysis of Allocated Sites**

7.12 The draft LDF includes 20 sites within the study area which are potentially allocated for commercial employment uses. We have detailed our analysis of the development capacity potential of each of these sites in Annex E. Applying the development capacity calculations and deducting an allowance based on estimates of any existing commercial space on site at the time of survey, we have estimated the additional employment space provided by each development. In estimating employment densities, we have used the ratios suggested in Arup’s Employment Densities Guide\(^\text{10}\) and assumed, in the absence of detailed survey information, that existing operational commercial premises are fully occupied at these densities. The one exception is CF12a Goodman’s Field, which is likely to see a reduction in the existing commercial floor space in favour of residential development. We have scheduled the sites in Table 7.3 by order of additional commercial space created.

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The ability of each of these sites to meet the requirements for additional commercial employment space suggested by the economic projections will also rest on the kind of employment space which will be provided, the timeframe over which the development will come to market and, crucially, the likelihood of the development being prevented by physical or economic constraints.

We have classified and scored each site on the following basis:-

Table 7.4 Site Classification Criteria

<table>
<thead>
<tr>
<th>Likelihood of Development</th>
<th>Timeframe</th>
<th>Type of Accommodation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Certain</td>
<td>1 - by 2009</td>
<td>Type 1 – Office for Large Companies</td>
</tr>
<tr>
<td>2 - Likely</td>
<td>2 - by 2011</td>
<td>Type 2 – Offices for Small/Medium Companies</td>
</tr>
<tr>
<td>3 - Possible</td>
<td>3 - by 2016</td>
<td>Type 3 – Workshops and Studios</td>
</tr>
<tr>
<td>4 - Unlikely</td>
<td>4 – after 2016</td>
<td></td>
</tr>
<tr>
<td>5 - Very unlikely</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BBP

In making a distinction between large floor plate office space suitable for large single companies operating in an open plan environment, and space suitable for subdivision to accommodate smaller and medium sized companies, we are conscious that there will be potential for some movement between these categories at the margin.

The development sites were classified based on these criteria and analysed to determine the likely-certain developments, for which occupier market and over what timeframe.
Developments deemed unlikely or very unlikely to come forward where discarded. In addition, we have isolated the impact of the Truman Brewery as it is difficult to make estimates of capacity for this site and because of its disproportionate influence on the estimates of Type 3 accommodation – Workshops and Studios.

| Table 7.5 Additional Commercial Floorspace Provided |
|----------------------------------------|-----|-----|-----|-----|-----|
| Certain | Likely | Possible | Type 1 | Type 2 | Type 3 |
| 2009 | 49,880 | 18,278 | 47,487 | 18,858 | 1,813 | 68,158 |
| 2011 | 96,899 | 96,899 | 96,899 | | |
| 2016 | 34,730 | -3,500 | -3,500 | 34,730 | 31,230 |
| 49,880 | 149,907 | -3,500 | 140,886 | 53,588 | 1,813 |
| plus | 15,240 | | | | at Truman’s |

Source: BBP

| Table 7.6 Additional Employment Provided |
|----------------------------------------|-----|-----|-----|-----|-----|-----|
| Certain | Likely | Possible | Type 1 | Type 2 | Type 3 | Total |
| 2009 | 2,494 | 914 | 2,374 | 943 | 91 | 3,408 |
| 2011 | 4,845 | 0 | 4,845 | | | 4,845 |
| 2016 | 1,737 | -175 | -175 | 1,737 | | 1,562 |
| 2,494 | 7,495 | -175 | 7,044 | 2,679 | 91 | 9,814 |
| plus | 762 | | | | | at Truman’s |

Source: BBP

7.17 From the above analysis, we can see that there is likely to be a significant quantity of Type 1 office accommodation coming to market in the study area. The majority of this is located within the Aldgate Masterplan area.

7.18 Of the Type 3 accommodation (studios and workshops) only a small proportion of the whole is being delivered without the Truman Brewery. If this development was not to come forward for any reason the additional supply required by the market under a growth scenario could undermine this sector. Additional opportunities should be considered for providing Type 3 space.

Employment Space Requirements

7.19 In order to assess the figures suggested by our sites analysis, we have produced a series of figures which express the GLA employment projections in terms of type of accommodation. This is simply a case of allocating each of the GLA sectors to a type of commercial space e.g. Financial & Business services will require large offices (type 1) and small/medium offices (type 2) space and the wholesale and construction sectors will require workshops and studios (type 3) space. The economic data available only defines workplace size in terms of numbers not as a proportion of those employed. Also, the economic projections do not provide a breakdown of employment by the size of company. Therefore we have allocated Financial & Business services across offices for large firms (type 1) and offices for small (type 2) on a 50/50 basis. This is based upon the split between these size classes suggested by the Property Market Analysis of recent office requirements (Table 5.8). As there are a limited number of sectors and some bundle an assortment of job types together, we have, where appropriate, adjusted the figures to reflect the nature of space that would be reasonable by their use type.

7.20 The GLA employment forecasts, expressed as types of commercial space are shown below
Table 7.7 Employment Space Requirements

<table>
<thead>
<tr>
<th></th>
<th>Low Growth Scenario</th>
<th></th>
<th>High Growth Scenario</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type 1</td>
<td>Type 2</td>
<td>Type 3</td>
<td>Type 1</td>
</tr>
<tr>
<td>2006-2009</td>
<td>1,144</td>
<td>1,125</td>
<td>-49</td>
<td>1,050</td>
</tr>
<tr>
<td>2009-2011</td>
<td>535</td>
<td>527</td>
<td>-22</td>
<td>2,099.5</td>
</tr>
<tr>
<td>2011-2016</td>
<td>625</td>
<td>1,310</td>
<td>-27</td>
<td>743</td>
</tr>
<tr>
<td></td>
<td>2,303</td>
<td>2,962</td>
<td>-97</td>
<td>3,892</td>
</tr>
</tbody>
</table>

Source: GLA and BBP Regeneration

Conclusions

7.21 From a comparison of the space requirements suggested by the SQW projections, there appears to be more Type 1 (Offices for Large Companies) being planned than the economic projections suggest is required.

7.22 In addition, there is too little Type 2 (Offices for Smaller and Medium Sized Companies) being provided for the high growth scenario, however, it should be noted that there is potential for some movement between Type 1 and Type 2 at the margins so long as the Type 1 floor plates are not so deep as to prevent suitable subdivision.

7.23 Under the low growth scenario, Type 3 property would decline overall potentially releasing space to the market, however, under the high growth scenario; this type of property would be in line with the supply analysis. It should be noted that 89% of this space would be provided at the old Truman’s Brewery.

7.24 In order to protect the supply of space for growing and developing the small business and creative sectors in the study area, alternative sites for this use type should be identified. This may be as part of mixed use developments and may help to add diversity to residential areas.

7.25 The introduction of creative industries in to regeneration areas can also be utilised to stimulate diversity and expansion in areas which have not seen the benefit of recent growth but offer value locations close to transport links and a large customer base and potentially an 18-hour business cycle from a mix of business and residential users.
8 Summary, Conclusions and Way Forward

Executive Summary

The study area is diverse but polarised with high growth concentrated around quality environments close to the major transport hub at Liverpool Street Station whilst the area around Aldgate gyratory suffers from a poor environment, severance and obsolescence. The areas between are characterised by diverse occupation types, small businesses, leisure uses and creative industries. Again, the areas in the north are thriving whilst those in the south lag behind.

Planning Policy supports the growth of new offices around the Aldgate gyratory but also seeks to protect smaller businesses in the area, recognising their role in diversifying the employment base as a high growth sector.

The economic projections support the growth of business and financial service sector employment in the study area and suggest that these firms will be the main drivers of commercial development demand over the study period to 2016.

The economic projections also suggest that, under a high growth scenario, there will be a requirement for some additional studio and workshop space.

Assessment of the capacity of sites currently allocated for employment use suggests that there may be more capacity for office buildings particularly for those requiring large floorplates, than the projected demand suggests. Such schemes should be lead by the market to prevent over supply.

The Truman’s Brewery has sufficient capacity to accommodate growth in demand for studios and workshop space. However, to ensure that supply is available and is not monopolised, other sites should be considered for these uses and their inclusion in mixed use development encouraged.

Consequentially, consideration should be given to other potential sites suitable for use to support studio and workshop space, but also as part of mixed use development where residential and office value allow the creation of a proportion of this type of space. Delivery through s106 and management by the public sector or similar could offer a mechanism where direct benefit to particular SME or BME enterprises could be secured.

It is critical that perceptual and physical change is delivered to secure commercial development and resultant employment growth in the masterplan area. Environmental changes to the traffic system and the public realm will help to develop investor and occupier confidence and consequentially, increase the pace of regeneration.
Conclusions

Urban Morphology

8.1 The Aldgate Masterplan area is remote from the developments around Liverpool Street Station and Bishopsgate Goods Yard and, although physically connected, feels separated from them.

8.2 The reconfiguration of the gyratory and the improvement of Braham Street as part of the Aldgate Union scheme will help to deal with the severance of the areas to the north and south of Whitechapel High Street provided good quality, effective at grade crossings are incorporated and high quality open space is provided on both sides with good facilities.

8.3 Improving connections across Whitechapel Road and the gyratory will be important to ensure that the Aldgate area acts as a hub providing services for businesses and residents, thereby developing an 18-hour business cycle which will attract high quality leisure and retail. It will also assist connectivity between the more residential areas to the south and the vibrant evening centres around Brick Lane and up to Bishopsgate.

8.4 An improvement in the environment and retail/food and drink offer around Whitechapel High Street, as well as successful completion of the Aldgate Union, may increase demand for office space in the area.

8.5 To ensure that the growth areas do not become polarised and the benefit of growth is also felt in the “hinterlands” around Brick Lane and Leman Street, the quality of environment and diversity of use, including compatible leisure uses needs to be encouraged beyond the core Masterplan area. Character uses such as Petticoat Lane Market, Brick Lane and Truman’s Brewery should be supported and promoted as key employers lending diversity to the economy and fostering new enterprise.

8.6 Connecting the occupier markets north and south of Whitechapel High Street will be critical to ensuring its success as a focal node and also in providing an anchor to the south of Brick Lane which will increase footfall along this important street.

Access and Transport

8.7 In the longer run, the extension of the East London line may increase commuting to Whitechapel and Shoreditch at either end of the study area from Southeast London and Crystal Palace as well as from Highbury and Islington in the north. This may improve its attractiveness as an employment location. The first phase is due to be completed in 2010. A second phase, extending the line to Clapham Junction has not yet been approved and is unlikely to be complete before 2015.

8.8 The Crossrail scheme includes stations at Whitechapel and Liverpool Street connecting to Berkshire and Essex. The most optimistic estimates would not see the line complete within the time frame under consideration by this report.

8.9 For the Masterplan to achieve early success and momentum, it cannot rely on the impact of these changes.

Commercial Office Growth

8.10 The study has suggested that there are sufficient development opportunities identified to accommodate the projected growth in the business and financial services market.
8.11 The primary concern for the Masterplan is the danger of oversupply of large floor plate office accommodation. The LDF and the Masterplan concentrate these opportunities around the Aldgate gyratory. At present, this area is not a focus for this type of development due, in no small part, to the environment created by the gyratory and the lack of supporting facilities for office workers. In addition, the development of Bishop’s Square, Bishopsgate Goodsyard and other sites around the mainline rail hub at Liverpool Street, as well as large developments in the City, including Portsoken ward, may continue to draw in demand. It will be important that the increase in office space in the area is market led.

8.12 Reports suggest that developers are not currently bringing forward new supply without pre-lets in place. As such, the suggested supply may materialise later in the study period after a period of organic growth. In short, there are a number of sites which are suitable for this type of development but the Masterplan may have to deliver physical and perceptual change to accelerate the pace of regeneration which would otherwise be delivered at a slower rate or to a lower standard if left to the market alone.

The Creative and Small Business Sector

8.13 The City Fringe Partnership\(^\text{11}\) has highlighted the importance of the Creative Sector to GDP in the City Fringe and the market section of this report has also suggested that, whilst requiring less overall space than some other users, the overall numbers of small users requiring studio or workshop space is significant. At present, an overwhelming proportion of the potential supply is identified against the Truman Brewery. This is a successful development which has grown organically over a number of years and provides a synergetic blend of uses which have made a significant contribution to the regeneration of the northern end of Brick Lane.

8.14 Although the potential for creative industry growth is high, concentration on a single site for these users may present risks. For example, if the site is sold to a different owner with other ambitions or if growth is constrained.

8.15 If these uses are to be retained in the area, alternative sites for growth may have to be considered. Workshops and Studios may be viable in highly constrained or unusual development but are most likely to be successful as an element of a mixed use scheme.

8.16 New sites should be identified around the existing hub of Truman’s Brewery, for example the BT site on Jerome Street / Grey Eagle Street which has not been identified in the LDF. Assuming ground and mezzanine commercial space with residential above, we estimate that this site could provide a further 4,610 m\(^2\) of Type 3 (Workshop and Studio) commercial space in a location already established for creative enterprise. This equates to 144 jobs.

8.17 Sites around the Whitechapel Art Gallery may be particularly suitable for a creative industries hub which would provide an anchor at the south end of Brick Lane and bring spin off benefits around Whitechapel High Street.

8.18 This could help spread the regeneration benefits of the creative workshops to benefit the Masterplan area and protect their future, particularly from rising rental values around Bishops Square and Shoreditch. One potential site is the Osborn Street site currently allocated for residential. A mixed use scheme which also incorporates retail and B1 alongside residential may be viable in this location. We estimate that this site could provide a further 1,675 m\(^2\) of Type 3 space allowing for service access. This would provide 52 jobs.

\(^{11}\) TBR Economics (2005) *Analysing the Creative Sector in the City Fringe* City Fringe Partnership
8.19 Introducing mixed uses into the residential led schemes to the south of Whitechapel High Street would help to diversify the area. It would encourage sustainable work-home relationships and introduce more occupants during the day with benefits to security, helping to provide a market for supporting retail/leisure uses. It would then be possible to extend the business cycle to 18 hours.

8.20 In developing studio and workshop space, viability can be an obstacle. Often existing warehouse or similar properties can be relatively inexpensively refurbished for such uses, although there may be competition from higher value development mixes such as residential apartment. Conservation Area status can help to preserve small cellular premises which small companies will occupy but which are unattractive to medium and larger firms by prohibiting units from being joined together into larger premises.

8.21 Unless subsidies are made available, the other main opportunity will be through promoting these uses as part of a mixed use scheme, thus allowing higher value uses to subsidise the creation of these spaces. This will impact on the value of the site but policy could be developed to require a proportion of studio/workshop space, subject to viability testing on an open book basis.

8.22 In developing accommodation specifically targeted at promoting particular sub-sectors, for example within the SME or BME sectors, consideration has to be given to the objectives and effect of providing space at lower than market rents and how such a scheme would be managed. It would be important that such “affordable” space was let to developing businesses who could not otherwise afford a market rate and that once there business develops, the space can be vacated for another business.

8.23 The most obvious model for this would be Business Hubs developed by regional development agencies to promote business growth. These can be delivered using s106 funding and managed by the public sector, with appropriate support services (e.g. business support and translation facilities) to ensure that developing businesses relocate to grow-on space when appropriate.

8.24 The market and sites review suggests that the pressure for development to the south of Whitechapel High Street favours residential development rather than commercial development.

8.25 The Property Market report has highlighted the vacancy rates in tertiary retail and commercial properties. These properties, found above shops or in fringe locations, are often unsuitable for commercial uses from a location and a physical perspective and offer opportunities for residential conversion. This process can be observed in a number of residential conversions and new build developments along Commercial Street and Commercial Road.

8.26 Although capital value comparisons will not reflect differences in build costs, specification or the financial models used by respective developers, the Property Market study suggests that commercial property values will exceed residential values in the key development locations but not in Whitechapel. The exception to this may be student housing which has been shown to compete with commercial development, for example at 100 Middlesex Street. The boom in investment in this property type has been driven in London by Private Equity interest. This has been fuelled by a shortage of good quality accommodation, the expansion of London’s higher education sector, the reputation of the city as a centre of learning excellence on a world stage and the willingness of students to pay high rents for suitable accommodation.
**Socio-economic Impacts**

8.27 Currently, the study area supports a range of tradition and service based jobs many focused around “micro markets” associated with the traditional clothing industries or associated by ethnic culture. These markets are a valuable source of employment and lend a unique character and identity to the area. Growth of the office market will provide additional employment, as will the expansion of the creative sector in the area. Access to higher education, available through locally based London Metropolitan University, can improve access to these higher skilled jobs both locally and throughout London.

8.28 It will be important to ensure that investment in the environment and business support is available to ensure that these employers can also prosper and grow alongside the expanded office sector and can compete effectively with multiples and other incoming competing businesses.

8.29 We regard the role of local business representatives and London Metropolitan University as crucial to the success of the Masterplan in ensuring that local growth is not sacrificed by the expansion of the business and financial services sector but harnesses its opportunities.

**Next Steps**

8.30 The masterplan must help deliver physical and perceptual change so that new commercial space is delivered faster and is of a high quality. The physical alterations to the gyratory and the consequential investment in the public realm should be developed to give certainty to investors in terms of the timescale for delivery.

8.31 There is strong potential for the creative industries although the sector is over-reliant on the provision of space at the Truman Brewery. Whitechapel Art Gallery and the surrounding area has the potential for a second creative hub to counterbalance the activity around Truman. Initiatives to fully exploit the influence of the gallery on the local area in both a thematic and symbiotic sense.

8.32 The Masterplan sets out a vision which is broadly supported by this study, but which now should be developed as an implementation plan seeking ‘buy-in’ from the community, local businesses, developers and the public sector decision makers.

8.33 It would be beneficial for the stakeholders in the area to be able to focus and co-ordinate these opportunities for maximum effect. In particular, London Metropolitan University and the small business sector, working alongside high powered public sector representatives (e.g. London Borough of Tower Hamlets, LDA, GLA, English Partnerships) could identify the most effective opportunities and initiatives emerging from the plan and ensure that they are supported and implemented. This partnership structure may be developed from an existing initiative but should have a suitably high profile chair.

8.34 It will be important to monitor employment numbers against the projections over the period of the study (to 2016) in order that ongoing assessment of the availability of space can be made and policy informed accordingly to prevent over or under supply in any sector. We would advise tracking the number and types of jobs within the study area used for this report and the supply and type of commercial premises, particularly on the identified sites. This could be incorporated in an Annual Monitoring Review and be used to fine tune policy and its timing to respond to any fluctuations or the influence of unforeseen events, such as changes in the underlying market.