Local Development Framework

SUBMISSION DOCUMENT
CORE EVIDENCE BASE:
Small and Medium Office and Workspace Study

Improving the quality of life for everyone living and working in the borough

November 2006
B1 Small and Medium Office and Workspace in Tower Hamlets: A Demand and Supply Assessment

London Borough of Tower Hamlets

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Executive Summary

Background

Renaiisi was commissioned by the London Borough of Tower Hamlets Planning Department to consider whether the current stock of B1 office property in the Borough is appropriate to realise the potential growth of the office and workspace based SME sector. The study was to review and build on existing research of supply and demand for office space in Tower Hamlets and regionally.

Our research has identified the importance of the SME sector to the local economy and in particular the role it plays in creating local employment opportunities and opportunities for the Borough’s Black and Minority Ethnic Communities. We have looked to identify property barriers affecting the growth of the SME sector and make practical suggestions which, subsequently, could be developed into planning policy.

Our research includes detailed interviews with the key commercial property agents and workspace providers in the Borough and the regional Inward Investment Agency Gateway to London and a telephone survey of up to 60 local SMEs to identify property issues and other locational barriers they may face.

LBTH SME Sector

- The SME sector makes a significant contribution to the local economy with 70% of businesses in B1 office and workspace employing less than 10 people. This accounts for 15.2% of total employees within the Borough
- The Borough has a high propensity for enterprise development with a higher than average amount of company registrations of 14.1% compared the national average of 11.2%
- SMEs with less than 10 employees are less likely to employ people from Black and Minority Ethnic communities than larger firms. Larger SMEs make a significant contribution to Black and Minority Ethnic employment and are more accessible to BME individuals than the financial and professional service industries which are also more likely to employ people from outside the Borough.

Workspace Supply and demand context

- The Mayor’s London Office Policy Review identifies Tower Hamlets as having the strongest evidence of excess supply of office
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accommodation of all London boroughs but this is likely to be skewed toward financial and professional services and larger units.

- The above review suggests that existing planning consents and applications will provide up to 3.4 million sq m of new office space well capable of accommodating up to 150,000 new jobs forecast for Tower Hamlets but again this is likely to be in the financial and professional services sector and concentrated around Canary Wharf.

- The LDA and others have identified gaps in the market for SME space and have recommended some form of public sector intervention (such as planning obligations) to address this market failure.

Planning Context

- The LBTH 1998 Adopted UDP takes a ‘protect and improve’ approach to B1 office and workspace with the aim to promote the refurbishment of rather than an increase in the quantity of stock.
- Existing planning policies tend to lead to the reprovision of stock in mixed-use developments.
- Emerging policies in the LDF Preferred Options documents adopt a ‘promote and protect’ approach to B1 office and workspace.
- Area Action Plans within the emerging LDF allow for greater flexibility in the reprovision of space and support proposals that cater for specific needs of an area.

Identification of sub-areas

- The mapping of existing businesses and discussions with local property agents led to the identification of four sub-areas for analysis - The City Fringe, The Isle of Dogs, the Leaside and the Central area. These confirm the relevance of the AAP areas when considering B1 locations in the Borough..

Agents and Workspace Provider responses

Our interviews with property agents and workspace providers identified several trends and issues including:

- current provision of B1 SME office accommodation is adequate when considered at a macro level but there are concerns about future provision;
- it is generally felt that there is a lack of small space (most pronounced in units of less than 100 sq m);
- existing provision of B1 SME is out-dated and there is a clear need for new stock on the market;
new provision of workspace is often delivered through mixed-use schemes which may not be meeting market need in terms of required building typologies; and

within existing supply and current reprovision there is a lack of appropriate and affordable ‘move-on’ workspace.

Supply Analysis

Our analysis of Gateway to London’s database of available commercial property identified that;

available supply is dominated by larger floorplate developments, particularly units over 1000sq m. Units of less than 100 sq m, those most sought after according to our discussions with agents, appear to be in scarce supply. Our analysis of Experian data suggests that such units account for 2% of total supply1;

the majority of lettings over the previous two years were for smaller units. Units of less than 250 sq m account for around 64% of lettings.

Vacancy Analysis

To understand better the issue of lack of availability of micro business units, we spoke to a number of providers. That research indicated:

of all the providers surveyed, none were currently operating at less than 80% occupancy levels and 3 of the 8 premises were at full capacity. While not all units were occupied, the majority of vacancies were attributed to churn (availability of space between tenancies) which was typically 10-15% per annum for most premises;

three stated that they currently had waiting lists exceeding 150 applicants, which was for a total of 160 units over the three sites; and

the highest demand is for low specification, unrefurbished, second hand or ‘dirty’ B1 space.

Mixed-used Schemes

A number of themes emerge from our research:

there have been very few examples of mixed-use schemes coming forward successfully offering larger units, the schemes we looked at generally provided units of less than 500 sq m

units of 100 sq m or less appear optimum, and thus it is paramount to include these sized units in new mixed-use developments;
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- small units offering grade A space (particularly in added value locations such as those on the waterside) can command high rents but the allure of secondary quality stock is affordable rents and unrealistic rental demands will see such properties unlet;
- units offering freeholds and long leaseholds in mixed-use schemes realise occupation very quickly if sensibly priced and located; and
- small and start up firms appear to be content to initially locate away from the City Fringe and the Isle of Dogs. This indicates that business centres and managed workspace would be effective when provided in the Central and Leaside sub-areas.

Conclusions/Recommendations

Our review of sub-regional publications across the B1 sector as a whole suggest a current oversupply of accommodation and this is backed up by our own experience and our discussions with property agents.

We concur with the GLA findings that B1 provision is cyclical and that a period of very high demand combined with a shortfall of supply tailed off in the early part of the decade and that we are in a period of consolidation.

However, we consider that for the very smallest businesses, we are now in a concentrated period of a shortfall of accommodation which is forcing particular market sectors away from the area. Those sectors are demonstrated to be key to the regeneration of the area, particularly in terms of employing local people and individuals from BME communities.

We believe that your emerging planning policies are robust and are appropriate for the market which currently prevails. However, planning policies are a crude tool. Whilst the LDF can set out spatial policies about issues such as small units and the high demand for freehold units over leasehold options, there is a limit to how this can be enforced.

At this particular time, increased B1 provision is only appropriate if it meets certain market requirements. This will be achieved only if the planning policies set out above are complemented by other interventions, namely:

- the identification of appropriate delivery vehicles to provide niche accommodation; and
- support to improve viability for land-uses which would not otherwise compete with residential uses but which are key to the economic growth of Tower Hamlets.

There are very strong parallels between the above approach to social housing provision and the current requirements of SMEs in Tower Hamlets. It seems to us that a similar approach would be entirely appropriate. Delivery vehicles exist in the form of the workspace providers we talked to and whose findings are set out in Section 6.4. These organisations suffer at present from
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operating wholly in competition with the property market, and are increasingly being forced into peripheral locations away from Tower Hamlets. They do not benefit from social housing style policies which would force the mainstream market to work with them. Similarly, funding via Section 106 policies or localised grant regimes could ensure viability of such provision just as it does with the housing market.
1. Study Context

In this section, we provide the context for the work we have undertaken. This includes our understanding of the study brief, our methodology and our reporting structure.

1.1 Understanding of the Brief

The Tower Hamlets draft LDF sets out a managed growth-led approach to renewal up to 2016 and beyond. Through the emerging Core Strategy and Development Control Policies and Area Action Plans, the Borough is seeking to provide a range of employment and enterprise opportunities for local residents as well as realising the Borough’s role in London’s continued World City status.

This approach reflects the 2004 London Plan’s aspirations for the provision of housing and employment as key priorities for growth to 2016. The London Plan policies also encourage the mixed-use development of brownfield sites in order to diversify land-uses and reduce the need for travel, which is recognised by the Borough as a key principle of sustainable development.

Similarly, PPG3 – Housing Update – Supporting the delivery of New Housing, requires the Council to favour new residential development for redundant, surplus office or employment land that is determined to be no longer required for employment use. This position has been reiterated in draft PPS3. In Tower Hamlets this has been translated into a rapid and significant increase in residential-led mixed-use development proposals usually on existing employment sites leading to an overall loss in employment generating floorspace. The Council is keen to meet the needs for major housing growth but is looking to do so in a way which does not prevent the growth of the business economy in the Borough.

In line with this approach, Tower Hamlets is seeking to provide a range of employment and enterprise opportunities for local residents as well as realising the Borough’s role in London’s continued global business status. The Borough is the home of Canary Wharf and also offers a large office location adjacent to the City of London – the City Fringe. Major corporate institutions are an integral part of its make up. This study is confined to small-scale B1 (a and b) use classes and not other commercial land-use classifications.

In addition, Tower Hamlets has a strong small to medium business economy which is diverse in nature and operates in pockets across the Borough.

Whilst new investment at Canary Wharf demonstrates the relative strength in the large office market, there is also the need to ensure that the growth of the SME sector is being promoted and protected through the provision of appropriate premises.
The Tower Hamlets Planning Department is concerned about the provision of B1 office and workspace within the Borough and its ability to meet the needs of the Small and Medium Enterprise (SME) sector now and in the future. In particular, there is concern that the high values being achieved for housing development are forcing small businesses out of the area and stifling new provision of B1 office and workspace accommodation. What B1 provision is coming forward is within mixed-use schemes which may not provide the typology of building required by the SME sector. This study looks to verify these assertions.

We have reviewed existing research about office supply and demand in Tower Hamlets and tested findings and the above assumptions by carrying out additional research locally. This is to provide a qualitative research base for the Borough against which policy recommendations can be developed.

The aim of the research is to inform the production of the Borough’s Local Development Framework and make recommendations to ensure that the appropriate amount and type of B1 accommodation comes forward in the next plan period.

This study looks at the demand for, and supply of, office/workspace accommodation for SMEs – including general trends and growth sectors. It considers any barriers preventing SME growth from being fully facilitated and makes recommendations on areas where planning policy can be amended to assist the process.

The report makes an assessment of those areas where demand is being frustrated and, alternatively, those areas where there is an excess of supply over demand. The work also looks at those SME areas which are strong commercial locations or serve a particular niche market.

Our report is intended to:

- provide an overview of the role of SMEs in Tower Hamlets;
- identify the relevant Planning Policy Context;
- identify current and future demand and supply for B1 SME space;
- identify property barriers to growth of the sector;
- consider any market failures in terms of property provision;
- consider the market suitability of B1 workspace coming forward in mixed-use schemes; and
- recommend suggested approaches to addressing the position in planning terms.
1.2 Methodology/Structure of Research

The following methodology was identified as the most appropriate way to develop an evidence base given the time limitations of the study. We believe that a qualitative analysis of demand and supply of B1 space based on interviews with the local key commercial property agents, workspace providers and the regional inward investment agency, Gateway to London, would allow us to gain an accurate picture of the market and access to any quantitative data they hold. Whilst a full audit of supply and demand would offer a more comprehensive study, we have identified an approach which is both deliverable within the timescale but which provides robust findings on which recommendations can be based.

We outline below the strands of work we have undertaken and set out how they are presented within this report. We also identify those assumptions or caveats which need to be taken into account when reading this report.

Chapter 2 – The Tower Hamlets Business Sector and SMEs

Using the Experian database, a database of all VAT registered businesses in Tower Hamlets, we have identified all SMEs with less than 250 employees in the Borough that occupy B1 office and workspace and mapped the results.

This exercise and a desktop review of published sources are used to identify the wider economic context of Tower Hamlets and define SMEs for the purpose of the study. We consider the importance of SMEs to the economy and what role the sector plays in employing local Black and Minority Ethnic communities.

Chapter 3 – Planning Policy Context

This chapter summarises the planning context, identifying the established planning position in relation to B1 uses, emerging planning policies of relevance to B1 office and workspace development and the basis for these policies.

Chapter 4 – Desk Top Review of Demand and Supply

We have undertaken a review of a range of published sources to provide industry commentary on predicted and planned supply of B1 office and workspace in Tower Hamlets.

Chapter 5 – Sub-Area Profiles

From interviews conducted with property agents (see section 6 below) and analysis of SME locations, we have identified four sub-areas for the purpose of this study. They are City Fringe, Isle of Dogs, Leaside and Central Tower Hamlets. Three of these areas are currently covered by Area Action plans within the emerging LDF. This chapter provides a profile of each of those areas and gives an overview of the type of B1 office space within it. These
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overviews have drawn upon published sources and our own investigation of the area.

Chapter 6 – Demand and Supply

In this section, we summarise our findings in relation to demand and supply for B1 office and workspace accommodation.

Our findings are based upon a number of strands of work, namely:

- discussions with local property agents;
- discussions with sub-regional inward investment agencies;
- discussions with SME workspace providers;
- a review of available marketed properties;
- analysis of vacancy levels in SME schemes; and
- consideration of the success of letting recent mixed-use schemes.

In order to determine the current market trends on office space within Tower Hamlets a survey was conducted with 13 key agents within the Borough, including 3 key workspace providers and an in depth interview with Gateway to London. Seven of these surveys were conducted through face to face interviews and the remaining sample was taken through telephone interviews. The 13 were chosen to reflect both major players in the area and the need for coverage of all four sub-areas. The entire survey was completed between the 20th and the 27th of January 2006. From this there were four identifiable emerging themes around which the evidence can be presented.

The interviews covered the following areas:

- Type of available space
- Number and type of enquiries over the previous five years
- Number of deals over the past five years
- Average prices
- Predicted future demand
- Predicted future supply
- Planning Issues
- Mixed-use schemes.

In order to understand the role of SMEs and any property issues they may have we conducted a survey of businesses across the Borough. We selected businesses across the four sub-areas and ensured that there was good coverage of different business sectors and size in terms of employees.

The survey included 60 telephone interviews with businesses throughout the Borough including all four sub-areas. Whilst this is not intended as an audit,
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60 businesses were chosen as representing a significant sample of views. The survey was intended to represent a sample of Tower Hamlets SMEs and is intended to verify trends rather than provide a comprehensive statistical analysis.

Questions asked were in relation to:
- Ethnicity of employees/owners
- Property ownership
- Property type
- Suitability of current property
- Suitability of location
- Effect of property on profitability
- Intentions to move
- Ease of finding property.

This chapter provides a snap shot of available B1 office and workspace in the Borough.

Our work focuses specifically on commercial property within the planning use classes B1 (a) office (other than use within class A2, financial and professional services) & (b) for research and development of products or processes. This is referred to as B1 office and workspace throughout this report.

Gateway to London, the regional Inward Invest Agency maintains a database (Evolutive) of available, marketed commercial space in the Borough. Whilst this database is not a comprehensive audit of properties it provides a significant sample of supply and figures are not considered in absolute terms. To ensure the accuracy of its contents and to ensure that the database provides representative data we tested a 10% sample of properties by contacting the letting agents to confirm the availability of the space. We analysed the data from the database for the period from January 2004 to January 2006.

In terms of identifying the available supply of B1 office and workspace, the study is restricted to identifying space that is currently being actively marketed. It is not an analysis of all vacant space.

As part of our analysis of supply and in response to the findings of our discussions with property agents, we examine the vacancy levels of seven micro workspace providers across eight locations to consider how such availability compares to large units.

**Chapter 7 – Mixed-use Schemes**

The report looks at a range of mixed-use schemes across the Borough to determine the suitability of the commercial element and how successful the
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developer has been in letting the space. We have identified 11 mixed-use schemes where B1 accommodation formed an element of an overall scheme, usually alongside housing. We have researched the nature and typology of the space which has resulted and the success in letting accommodation.

Chapter 8 – Conclusion

This chapter presents a summary of the key findings of the study and makes recommendations for consideration when determining policy. It also makes suggestions for further work.

This is very much a qualitative piece of work that looks for general trends. The brief does not intend us to undertake a comprehensive audit of all demand or availability of commercial space and the report is not able to make quantitative predictions of demand. The report draws upon sample surveys and interviews with key players in the industry to establish trends.
2. The Tower Hamlets Business Sector and SMEs

We have set out below the role of SMEs in Tower Hamlets as context for considering demand and supply accommodation within the wider B1 market.

2.1 Enterprise in Tower Hamlets

The provision of good quality, affordable and appropriate workspace is vital to maintaining sustainability in and encouraging the growth of the SME sector in Tower Hamlets.

The Tower Hamlets Regeneration Strategy\(^2\) identifies the Borough as amongst the four most deprived local authorities in England. At the same time, Tower Hamlets is home to one of Europe’s highest quality business districts. As the Isle of Dogs has experienced the rapid growth of Canary Wharf and its related developments, the Borough as a whole has seen a longer, but equally dramatic, decline in industry and traditional industry based employment.

This 25 year industrial decline has contributed to the fact that Tower Hamlets has the 2\(^{nd}\) highest unemployment rate in the country (12.1%) and a level of Jobseekers Allowance claimants nearly three times the average national rate. Unemployment rates are abnormally high among ethnic groups, standing at 27% for Bangladeshis and 20% for black groups compared to 7% for the white population. Two thirds of the Borough’s neighbourhoods are within the most income deprived ten percent in England and 15% of economically active residents have no formal qualifications\(^3\).

Conversely, areas of high resident economic activity tend to be found along the Thames and the Isle of Dogs, and mean and median salaries for the Borough as a whole are comparable to London levels\(^3\). In terms of business activity, the financial sector is the most dominant sector accounting for a quarter of the Borough’s workers (38,000). There are twice as many jobs as economically active residents within Tower Hamlets borders and yet high levels of unemployment continue to persist\(^2\).

In addition to the issue of disparity, the Tower Hamlets Regeneration Strategy identifies that the population of the Borough is set to grow by at least 30% with Tower Hamlets agreeing to a target of 41,280 from 1997-2016 and up to 150,000 new employment opportunities to be available by 2016. Previous investment has been concentrated in the City Fringe and Canary Wharf and has not been matched in other parts of the Borough.

The Strategy also notes major growth in knowledge based industries shown by an increase of 38% VAT registered companies new to the Borough from 1994-2004 (compared to 23% across London) and there are considerable levels of employment opportunities forecast for Tower Hamlets by 2016. One
of the Strategy’s main aims is to have the Borough’s employment levels higher than the inner London average by 2016. To achieve this it is imperative that sound planning continues to foster business growth while ensuring that any future prosperity and development is not confined to the Canary Wharf/City Fringe but brings benefits to the wider local community as a whole. The facilitation of SME growth will be a key element in assisting LBTH in achieving its goals.

2.2 Understanding the role of SME’s

The standard definition for Small and Medium Enterprises (SMEs) is used in this study, which includes any business with less than 250 employees.

In order to consider impact on floorspace, we have used the following conversion rates which reflect our experience of the industry.

- Less than 10 employees up to 200 sq m;
- 10-50 employees up to 1000 sq m; and
- 50-250 employees up to 5,000 sq m.

SMEs can play a vital role in economic growth and in helping to address local and regional disparity and social inequality. The ability of an area to support the start up, inward investment and growth of new small enterprises is an important element of an area’s competitiveness because of the resulting job creation and innovative activity.

Specifically, the London Development Agency in their study on sub-regional economies, suggest the birth rate of SMEs is an important focus for policy as it provides an indication of the capacity of an area to provide this support and its propensity for enterprise development.

East London is performing well in this area, with a high birth rate of 14.1% (compared to 11.2% nationally) and also one of the lowest ‘death’ rates (de-registration) at 11.7% (nationally). As well as job creation and innovative drive, SME’s can also contribute to the health and sustainable growth of the economy by:

- providing a seed bed for future growth;
- increasing competition;
- developing supply chains;
- reducing social exclusion – as a sector they are often more likely to recognise the untapped potential in certain groups of society; and
- increasing economic flexibility – as by their nature they are small and diverse and tend not to be over-reliant on any one industry.

The LDA report argues that these factors justify State support for SME’s and that start-up, innovative and knowledge based SMEs in particular, contribute more to the economy than market indicators suggest. However, despite the
obvious strengths they bring to the economy, recent studies in the City Fringe and the experience of inner London boroughs lead to concerns that new and existing SMEs face considerable barriers, the most significant of which is the availability of suitable and affordable space. Those concerns are considered in this study.

The high demand for housing expected from the projected rises in population is putting commercial space under ever increasing pressure for conversions to residential development. At the same time, SME employment can be insecure. For example, one in three jobs from this sector were lost from 1995-1999, and their vulnerability and volatility suggests that this sector is in need of support. The provision of appropriate, reasonably priced office and workspace accommodation as well as meeting housing targets is key to SME growth.

Due to the danger of conflicting housing and business land requirements there is a need for competing business communities to be integrated with existing neighbourhoods rather than displaced by them. SMEs must play a role in this, particularly as part of effectively designed mixed-use schemes.

2.3 Tower Hamlets’ SME Profile

Our analysis of the Experian Database identifies that there are just under 8,000 businesses in Tower Hamlets. Of these, 1534 fit the B1 (a & b) use class category with 1502 of those firms employing less than 250 people. In other words, SMEs account for 98% of all B1 businesses. In addition:

- 1409 (92%) of B1 businesses employ less than 50 people; and of those
- 1043 (68%) of B1 businesses employ less than 10 people.

In terms of contribution to employment, B1 businesses provide a little over 38,000 jobs in Tower Hamlets of which around 19,000 are within SMEs.

Computing and computer services (11.9%), Insurance (26.1%) and Publishing (5.3%) are the dominant sectors represented within SME B1 businesses.

Appendix I shows the distribution of micro (less than 10), small (10 to 50) and medium (51-250) businesses across the Borough and these images are reproduced below.

The maps show the clear dominance of Canary Wharf and the City Fringe as business localities. However, they also highlight a more even distribution of business across Tower Hamlets as a whole for those organisations employing less than 10 people.

This indicates that micro premises across the Borough play an important role in the Tower Hamlets economy – but larger businesses focus on key areas, either because of locational requirements or a lack of suitable space.
2.4 Sector Specific Growth Areas

SMEs are important to the economy in London, providing 65% of all jobs in 2000\(^5\). There has been a flourishing SME sector in Tower Hamlets, particularly in business to business services and creative industries. Traditionally, the financial service sector is the strongest with business to business and hospitality sectors benefiting from a knock on effect from the City Fringe and Canary Wharf. Recent growth in the financial, banking and insurance sectors has been focused on the Isle of Dogs, where it grew by more than 100% from 1998-2002 and accounted for almost 75% of the net employment in the area\(^6\). However, businesses here tend to be larger than elsewhere in the Borough. In addition to finance, banking and insurance, tourism and hospitality are expected to play a significant role in the Borough’s regeneration, especially business tourism. This sector is already well established in the City Fringe but is now also showing strong growth (74.6%) in the Isle of Dogs, creating an additional 2,600 jobs\(^6\).

Although finance, banking and insurance are expected to continue to dominate the Borough’s economy, it is the creative and cultural industries that are set to experience the most significant change. They already play an ever increasing role in London’s economy, and have been highlighted as a key growth sector which not only contributes to employment and economic prosperity but will also have positive effects on community cohesion and local quality of life\(^7\). The creative and cultural industries include; advertising, architecture, art and antiques markets, crafts, design and fashion, film and video production, interactive leisure software, music, the performing arts, publishing, software and computer services and TV and radio production. The London Plan estimates that together these sectors contribute more than 8% of GVA in the UK (2002)\(^7\).

Data for 2002\(^7\) shows the creative and cultural industries accounted for 13.7% of employment within Tower Hamlets (roughly equivalent to 19,000 jobs) which was higher than the rest of London at 12.4%, and was the second highest employment sector behind the financial sector (21.2% in Tower Hamlets). The sector is dominated by small firms – 90% have 10 or less employees and only 2% employ more than 50 people. From the perspective of this study, creative and cultural industries have an even greater significance, accounting for 34% of employment in B1 SMEs. Of this workforce, 70% of employees are young and fall between the ages of 20-39.

Among the perceived success factors for this sector the most important included; the quality of the local environment and the opportunity to network with customers and suppliers\(^7\). Video, film, music and photography were the fastest growing sectors with a rate of 103% from 2000-2002 and these sectors have been a flagship for regeneration in the Leaside area. The LDA has also stated that ‘knowledge based industries will be central to London’s future economic development’ and Tower Hamlets has a good academic and research and development resource base to facilitate this growth. Attractions to outside investors include a high quality of office developments and good transport links.
2.5 SMEs and Diversity

The London Development Agency has published findings on London’s BME owned businesses which shows that there are around 66,000 BME-owned businesses in London who employ a total of 560,000 people and account for an estimated turnover of around £90 billion, approximately 11% of the total turnover for all businesses in London. The LDA has identified that 25% of businesses in London with less than five employees are BME-owned and around 53% of BME-owned enterprises employ less than five people.

Despite the above, the research shows that there is an under representation of BMEs within the workforce. The total active workforce for TH is 83,781, of which 32% are BME, compared to 48% of BME representation for the population as a whole.

The LDA evidences that this under representation is more pronounced in businesses occupying B1 office and workspace. Notably creative and cultural industries, one of the largest growth sectors using B1 office and workspace in Tower Hamlets, has only 8% of its workforce from BME communities, compared to 12% in manufacturing and 26% in health and social work. There is a greater representation in the retail, catering and hospitality sectors.

Access to business premises is a major barrier to most micro (start up businesses and those employing less than five or so people) businesses and SME’s and research from the LDA’s Draft Strategy, Sustaining Success, Developing London’s Economy and BME London Plan suggests that this is an acute problem for BME-owned businesses.

The above studies highlighted three major areas of concern in relation to business space:

i. Lack of affordable and accessible space for new and micro businesses
ii. Many SME’s unable to respond to upward pressures on rent
iii. Need for integrated business support providing affordable accommodation, mentoring, management and workforce development, and innovation and technology training.

From the above research, the lack of access to suitable business premises (particularly managed workspace where additional support services are provided to tenants and small, low-cost office accommodation) continues to hold back BME-owned businesses, particularly those seeking to move to the next stage of growth.

This suggests that access to good quality, affordable space for small businesses employing less than five people is important to sustain the BME sector in Tower Hamlets.
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The acute economic disparity among ethnic groups in Tower Hamlets further justifies the need for intervention as employment within SMEs can play an important role in the social fabric with particular regards to Black and Minority Ethnic groups.
3. The Planning Policy Context

Planning Policy Context

In developing our full recommendations, we have had regard to the adopted (1998 UDP) and emerging (LDF) planning frameworks within Tower Hamlets as well as regional and national guidance.

The following policies and documents have relevance when considering the provision of B1 office and workspace.

National Policy

PPS1 – Delivering Sustainable Development

PPS1 highlights the need for positive and proactive planning to achieve the creation of sustainable communities. It is stated that planning should facilitate and promote sustainable patterns of urban development by:

- making suitable land available for development in line with economic, social and environmental objectives to improve the quality of life;
- contributing to sustainable economic growth;
- protecting and where possible enhancing the natural and historic environment;
- ensuring high quality development through good design; and
- ensuring that development supports existing communities and contributes to the creation of safe, sustainable and liveable communities with good access to jobs and key services.

The government is committed to promoting a strong, stable and productive economy that aims to bring jobs and prosperity for all. Consequently, planning authorities should have regard to the importance of encouraging industrial, commercial and retail development. At the same time, planning policies should enable the provision of a suitable mix of housing including adequate levels of affordable housing.

The new approach to spatial planning encourages Local Development Documents to provide a framework for integrating policies for the development and use of land with other policies and programmes which influence the nature of places and how they function.

PPG3 – Supporting the Delivery of New Housing

In January 2005, the ODPM introduced new paragraph 42(a) to PPG3. It suggests that local planning authorities should consider favourably planning
applications for housing or mixed-use developments which concern land allocated for industrial or commercial use unless:

‘it can be demonstrated, preferably through an up-to-date review of employment land, that there is a realistic prospect of the allocation being taken up for its stated use in the plan period…’

The amendment to PPG3 highlights the importance of determining the demand for and supply of B1 workspace and whether current provision is suitable. If demand is not demonstrated or if current provision is unsuitable then consideration should be given for potential transfer to other commercial or residential use. The Draft PPS3: Housing reiterates the priority for housing where there is an over-supply of other uses. Up to date studies must prove otherwise.

PPG4 – Industrial, commercial development and small firms

PPG4 notes that policies within development plans should provide for choice, flexibility and competition in allocating land for industry and commerce. The guidance recommends that planning authorities should be realistic in their assessment of business needs. Also, they should aim to ensure that there is sufficient land available which is readily capable of development and well served by infrastructure. They should also ensure that there is a variety of sites available to meet differing needs.

Regional Policy

The London Plan

The section of relevance in the London Plan is Objective 3. This objective aims to:

‘…make London a more prosperous city with strong and diverse economic growth.’

This includes:

- creating incentives and opportunities to stimulate the supply of suitable floorspace in the right locations to accommodate economic growth; and
- releasing employment land that is no longer needed in its current use for new uses.

Policy 3B.1 recognises the importance of providing ‘a range of premises of different types, sizes and costs to meet the needs of different sectors of the economy and firms of different types and sizes and to remove supply side blockages for key sectors’.

Local Policy
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A Local Development Framework (LDF) is being developed for Tower Hamlets and will replace the existing UDP, adopted in December 1998. Both existing policy and the emerging position are summarised below.

Tower Hamlets UDP

The 1998 adopted UDP states that the Council will:

- ST15 facilitate the expansion and diversification of the local economy by encouraging a wide range of economic activities at suitable locations and the availability of a skilled local labour force;
- ST16 encourage development and other measures which promote job opportunities for local people and the London job market;
- ST17 promote and maintain a high quality work environment in order to attract investment and maintain the competitiveness of the local economy;
- ST18 seek to ensure that economic development is accompanied by the protection and enhancement of the local environment; and;
- ST19 seek to ensure that land-use and transport policies and investment are co-ordinated.

Detailed policies include:

EMP1 - That employment growth will be encouraged through the reuse of vacant and derelict land and the re-development of sites already in use.

EMP2 - The Council will oppose change of use from employment except:

i. where loss is offset by new opportunities at higher densities; and

ii. where a site/building remains vacant having been actively marketed for a reasonable length of time (deemed to be up to 4 years or more depending on location) at the prevailing market value for that area.

EMP3 - On receiving a proposal for a change to non B class the Council will consider the following:

i. length of time space has been vacant and actively marketed;

ii. level of vacant space compared with level of unimplemented planning permissions for office floorspace in the surrounding areas; and

iii. If the new use is residential – that there is sufficient provision of services for residents in the area (schools, open spaces etc) – consider use of S106.
EMP4 - Office expansion will be permitted provided that it does not lead to excessive levels of traffic/noise pollution and that the local road network has the necessary capacity.

EMP8 - The growth of new and expanding businesses will be encouraged by:

i. encouraging a range of unit sizes within new schemes;

ii. sub-division of larger premises where space is no longer required;

iii. the creation of opportunities to provided managed work space;

iv. favourable use of vacant buildings by small business; and

v. looking favourably upon live/work units within new housing schemes (the use of live/work has subsequently been revised because of its tendency to simply provide housing).

EMP9 - Conversion to business use within the CAZ will be encouraged.

EMP12 - Within industrial employment areas outlined by the UDP (Limehouse Cut, Lower Lea Valley and Leamouth) development for B1 use will be permitted where it forms part of a mixed-use scheme which includes space for industrial use.

The Emerging Local Development Framework

The consultation period for the Preferred Options and Sustainability Appraisal was from September to December 2005. The preferred options for the Core Strategies are underpinned by the principles of sustainable development, and aim to achieve the objectives of the Community Plan. The following policies are those which have particular relevance to B1 Office and Workspace delivery.

CS2 Job Creation – aims to enhance opportunities for local residents in particular excluded groups. The Council will implement this by ensuring a sustainable economic mix of employment uses by retaining and promoting:

a. large-scale office development in the Central Activities Zone, Canary Wharf and the Millennium Quarter;

b. light industrial and business uses in mixed-use and employment opportunity sites/areas;

c. A wide range of employment uses including offices in town centres, as identified in Area Action Plans and development sites, and near public transport nodes to improve access to work;
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d. Facilities and services for arts, tourism, culture and entertainment in the Central Activities Zone, cultural quarters, large mixed-use proposals and areas where there is a demonstrated need;

e. An appropriate land supply for industrial activities in Industrial Employment Areas; and

f. Smaller economic activities elsewhere as required to meet the needs of the area and local employment needs.

EE2 Strategic Employment Locations

In Strategic Employment Locations (SEL):

a) land will be safeguarded for the retention, expansion and growth of employment provided by general industrial uses;

b) change of use from B1 and B2 will be strongly resisted; and

c) development proposed in the vicinity of a Strategic Employment Location that may give rise to pressure to curtail the industrial use will be resisted.

EE3 Local Employment Locations

The Council seeks to protect locally important, viable industrial sites outside the SEL in line with other policies in the plan. Changes of use from employment on such sites will be strongly resisted.

EE4 Industrial Sites outside Strategic and Local Employment Locations

The Council will only support the ‘limited transfer’ of industrial employment land-uses outside the Strategic and Local Employment Locations and where it is consistent with other policies in the plan.

EE5 Mixed-use Development

The Council will encourage developments with complementary mixed-uses where they have been identified in the site allocations or permitted through other policies in the plan.

EE6 New Office Development

The Council will consider proposals for small-scale office development at a scale that respects the surrounding area where:

a– there is access to good public transport;

b – they are located in district and town centres; and

c – they are consistent with other policies in the plan.
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Where large office developments have been identified in the site allocations, the Council will take into account:

- **a** – sustainable development objectives, particularly potential impact on traffic, transport and infrastructure, social inclusion, regeneration initiatives, and the need to provide a suitable mix of land-uses;
- **b** – market demand for office space, the mix of existing supply and of those unimplemented planning permissions; and
- **c** – impact on existing residential accommodation, open space and employment space.

**EE7 Redevelopment Change of Use of Employment Sites (Office and Industrial)**

The Council will strongly resist the loss of sites and premises currently or last used for continued employment use. Where sites are proposed to be redeveloped, applicants should demonstrate the potential capacity of the site to increase opportunities for employment, especially local employment.

Proposals for redevelopment/change of use/or reduction in employment floorspace may be considered where:

- **a** – there is evidence that the possibilities to reuse or redevelop the site for a similar or alternative business use has been fully explored over a period of time;
- **b** – there is evidence that any potential enhancement of employment opportunities has been strongly considered;
- **c** – if the proposal contributes to a regeneration programme through high architectural quality and improvements to the public realm i.e. waterside uses, open spaces and community health uses/services;
- **d** – the retention or creation of new employment and training opportunities which meet the needs of local residents are maximised in any new proposal, especially for a mixed-use proposal; and
- **e** – local employment and/or training are being maximised.

For change of use from industrial, policies EE2 and EE3 apply, and for sites outside such locations only ‘limited transfer’ may be considered.

**EE8 Small and Flexible Workspace**

Proposals for small and flexible workspaces will be encouraged. The Council will seek to provide these using Section 106 payments.

The provision of small/flexible workspaces will be sought as part of any proposal for a large development including employment uses through planning obligations/legal agreement. Where this is not appropriate, the
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Council will seek off-site contributions for small/flexible workspaces through legal/agreement planning obligations.

Proposals on sites that accommodate small and flexible workspaces must continue to supply at least the same proportion of small and flexible workspace in any redevelopment scheme unless off-site provision can be made.

Area Action Plans

A key component of the Local Development Framework is the Area Action Plans. They set out the key objectives for an area where significant change or conservation is needed. The London Borough of Tower Hamlets is developing three Area Action Plans for Leaside, Isle of Dogs and the City Fringe. A fourth one for the Central Area will follow, giving whole Borough coverage by AAPs. Below is a summary of the relevant emerging policies detailed in the preferred options documents. Each AAP is designed to work in conjunction with the core strategy of the LDF.

Leaside Area Action Plan

Overview: The Leaside area has been in long-term decline due to its historical reliance on industry and is now under pressure for increased residential development. The AAP seeks to protect sufficient industrial land to provide local employment opportunities while also promoting balanced developments to meet growing demands for housing and office/workshop space.

Key Spatial Strategies

- Expansion and safeguarding of employment floorspace in Fish Island, Gillender Street and Empson Street/St Andrews Way
- Promote, encourage and protect creative clusters in Leamouth and Three Mills
- Encourage office space in East India (with mixed-use)
- Promote employment use focused around Bromley-by-Bow station and Three Mills.

LS2 – Employment Floorspace

Vacant and underused industrial space is to be converted to mixed-use provided:

a) there is no loss of employment land permitted on Fish Island, Gillender Street and Empson Street/St Andrews Way; and
b) there is promotion of flexible business space including space suitable for design and design related manufacturing.
LS3 – Mixed-use Developments

Sites allocated in Bromley-by-Bow area will need to include B1 space to provide employment space to meet demands of businesses.

LS4 – Creative Industries

Promote the development of purpose built flexible workspace for creative arts and cultural industries in Leamouth and Three Mills clusters. Where proposed as part of mixed-use, proposals must be identified that secure the long-term viability of this use.

Isle of Dogs Area Action Plan (IoD AAP)

Overview: The Isle of Dogs has a juxtaposition of high affluence and a healthy labour market together with some highly deprived social housing estates and local communities that are unable to benefit from the available job opportunities.

Key Spatial Strategies

Smaller scale office development will be provided as part of mixed-use schemes where major office development is deemed inappropriate. The AAP seeks to promote small-scale business opportunities in the central and southern half of the island with the majority of space to be provided through new development as part of mixed-use, and perhaps some rehabilitation in Marsh Wall.

IOD1 – Employment Space

There will be a presumption against the loss of small business accommodation throughout the Isle of Dogs unless it is part of a larger employment scheme.

The AAP also seeks to promote the development of purpose built flexible business space for small businesses as an element of mixed-use schemes across the Isle of Dogs.

City Fringe Area Action Plan (CF AAP)

Overall Spatial Strategy

Promote flexible affordable small business space throughout the AAP especially for creative and cultural industries.

CFR2 – Small and Medium Size Businesses

Prioritise the protection of existing affordable small-scale business premises from redevelopment to alternative uses. This is a particular problem in the City...
**B1 office and workspace in Tower Hamlets**

Fringe due to high land values. SMEs play a key role in overall economic strength of the City Fringe and provide valuable employment opportunities for local people (including BMEs).

‘It’s important to retain existing and promote sustainable provision of new business premises for SMEs’.

There is to be a focus on specialist sectors and there is a clear need for affordable flexible space. However, there is also scope for conversion to mixed-use in some identified areas, namely Goodman’s Fields and News International in Wapping.

There will be a presumption against the loss of small business accommodation throughout the City Fringe and the promotion of the development of purpose built flexible business space (and where possible as affordable premises) as an element of larger mixed-use schemes.

**CFR3 – Creative and Cultural Activity**

There are traditional clusters in Whitechapel and Bricklane. Small units are to be made available in mixed-use schemes in Old Truman’s Brewery, News International and Bishopsgate goods yard.

The AAP recognises the need to identify approaches to management which will promote affordable accommodation.
4. Desktop Review of Demand and Supply

In considering demand and supply of B1 office and workspace accommodation, we have reviewed a range of regional and sub-regional publications. Most existing research focuses on the wider B1 workspace market and therefore within the Tower Hamlets context includes significant amounts of space within large office buildings in the City Fringe and Canary Wharf. This study concentrates on the demand for and supply of smaller B1 workspace – however, a review of existing research is important to understand the justifications for the wider planning policy context.

The GLA published a report on business space, Demand and Supply of Business Space in London\textsuperscript{10} in 2002. The study showed that, despite expectations of significant employment growth in Tower Hamlets which it estimates to be around 154,000 new jobs by 2016, by far the largest projections for London boroughs, it is expected that there will remain an excess of supply of available space.

The GLA study identifies the principle area of excess supply as being in East London with the greatest excess in Tower Hamlets, mainly due to developments in the Isle of Dogs but also the City Fringe areas of Bishopsgate and Spitalfields. It also highlights an acute excess of supply over demand for industrial space in all regions mainly due to long-term decline in this employment sector. Again, this is particularly severe in East London, with figures of 114 ha of available industrial floor space quoted for Tower Hamlets.

The report concludes that ‘supply is unlikely to act as a constraint’ on economic growth and suggests that this is likely to lead to the probable conversion of commercial space to residential and mixed-use to meet the growing demand for housing across London. The report also warns that these sacrifices will be necessary in order to accommodate the new work force, much of which will come from increasing population levels for which immigrant communities will play an important role in Tower Hamlets.

The Mayor’s London Office Policy Review\textsuperscript{11}, also commissioned by the GLA, again gives strong evidence for excess supply and once more highlights Tower Hamlets as the Borough where this trend is most prevalent. The report states that the Central London office market is and will remain volatile and cyclical (see fig 1 below). Figure 1 suggests that a major shortfall in office accommodation in the mid/late 1990s has now been replaced by excess supply, a trend similar to the previous decade. This reflects our own experience of office supply in East London.
The London Office Policy Review identifies a recent slump in demand which meant that by the end of 2003 the availability of office space exceeded 2.7 million sq m. Over the period from 2001-2016 the London Plan predicts the provision of up to 463,000 office jobs, which translates to the need for an additional 8.1 million sq m of office space.

For overall office space the Review estimates that for Tower Hamlets in 2004, there were 12,858 permissions and 4,206 applications giving a total of 17,064 projects in the pipeline. If an average size of 200 sq m is assumed for each project this translates to more than 3.4 million sq m of new office space, capable of accommodating the predicted 150,000 new jobs for Tower Hamlets. (assuming an average of 20 sq m per employee). However, we would wish to assert that many planning applications in East London remain unbuilt and are simply tools to add value to land. This is backed up by our review of mixed-use schemes. The London Office Policy Review addresses the trend across London for the provision of new space within mixed-use projects and ‘questions the wisdom of policies that require an element of employment space factored into any mixed-use scheme on former employment land’. The report sees little point in providing office space in unviable locations ‘given the scale of the housing need facing the capital’.

The report also suggests that the level of pre-let activity also shows no need for intervention in the London market, with availability levels well above the benchmark of 8%. In conclusion, the Review considers that the market should generally balance out an oversupplied scenario;

- firstly by ensuring that the most effective and efficient space (and hence the most valuable) is retained for employment and offices; and
- secondly that the less efficient space is converted to housing (where appropriate on other planning grounds).

However, it guards against a move towards a planning ‘moratorium’ on new office developments across London, with particular reference to Tower Hamlets.
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Taken at face value, the GLA studies at a macro level suggest over supply of office space and offers context for this study. However, this is at odds with perceptions across the City Fringe Boroughs, our own experience that there is a shortage of affordable accommodation for SMEs and our findings here. This report considers that specific issue.

Both reports from the GLA relate to a general trend in office space with emphasis on the financial and business services and do not necessarily apply to SMEs with B1 employment of less than 250 employees.

This concern in relation to SME accommodation is supported in an interim report from the LDA\textsuperscript{12} which confirms that there are ‘gaps in the market for SME space in London’ due to rising projected demand coupled with restrictions to supply and recommends intervention by the public sector. However, this report conducted by Tym and Partners does warn against basing policy on ‘grossed up’ surveys (which show an inaccurate profile of demand) and expresses concerns about the risks of distorting the market and favouring uncompetitive business. The report also argues that any approach must be based on a principle of market failure as outlined by the European Commission, (July 2002, \textit{A study of business support services and market failure}) only where there is an obvious need, i.e. where the market will not deliver the objective unaided and only where it can be visibly effective, as this is expected to give clear indications of reasonable intervention.

This position is supported by Renaisi’s own research across the City Fringe\textsuperscript{13}, including Tower Hamlets which looked at the demand and supply of workspace for businesses employing less than 20 or so people in 2003. That report concluded:

- demand for commercial properties in the City Fringe peaked during 2000. At this time demand for space was extremely high and availability of commercial property was almost non existent;
- there is clearly a consensus that commercial demand started to drop away significantly sometime during 2001 and there is currently a shortage of demand for larger footplates and for properties in excess of approx. £215 sq m;
- demand for freehold premises remains high. There are few freeholds on the market and what do exist are sold quickly. The freehold market is not reflecting achievable rents. Freeholds are frequently seeing an asking price of fifteen or twenty times what they could achieve in annual rent. This compares to a figure of ten to twelve times asking rent being a more traditional reflection of value. To some degree this identifies the hope value being put on property for residential and live/work uses; and
- there is a current mismatch between demand and supply. Whilst demand has fallen, there is still considerable demand for properties at less than approx. £160 sq m. In 2002, 60% of demand fell into this
B1 office and workspace in Tower Hamlets

price bracket. At the same time, only 8% of supply was available at this price.

In light of these conclusions, the report recommended.

In terms of specific workspace development, there has been a significant downturn in demand over the last two years as with the rest of the market. However there are continued waiting lists for affordable incubator units. The City Fringe as an area has developed in a way that, no matter what the market condition is at any given time, there is little likelihood of provision for workspace users coming forward naturally. If such users are to be facilitated, this will require intervention from public agencies either via public funding or other routes such as Section 106 Agreements. We believe that the provision of affordable workspace should remain a key priority for the City Fringe Partnership and other regeneration and public funding bodies in the area.

The above studies show the danger of considering B1 office and workspace as a single entity when considering impact on an area’s regeneration and economic growth. An immediate picture of over supply maybe exaggerated by the dominance of floorspace aimed at large corporate organisations whilst ignoring specific barriers faced by an area’s SMEs.
5. Sub-area Profiles

We have identified four distinct commercial property areas in the Borough (shown in the plans in Appendix I). These correspond with the Area Action Plan boundaries in the LDF:

- The City Fringe – includes the wards of Weavers, Spitalfields, Banglatown, Whitechapel, St Katharine Docks and Wapping in the South. This area is covered by the City Fringe Area Action Plan
- The Isle of Dogs – The area south of Aspen Way which includes Canary Wharf and incorporates the wards of Millwall, Blackwall and Cubitt Town. This area is covered by the Isle of Dogs Area Action Plan
- Leaside – including Fish Island, Bow, Bromley-by-Bow, Mile End East, Blackwall, East India and Lansbury. This area is covered by the Leaside Area Action Plan
- The Central Area – including Stepney, Bethnal Green, Mile End and Globe Town, Poplar and Bow. This area is not currently covered by an Area Action Plan.

We have provided a brief snapshot of accommodation in each sub-area below. It should be highlighted that this is to offer context to the overall study – it is not an attempt to provide a comprehensive picture. Other studies providing detailed assessments have been provided to Tower Hamlets.

The City Fringe

The City Fringe is a designated area within Tower Hamlets which is adjacent to the City of London and extends from Hackney Road in the north to Wapping in the south. The wider ‘City Fringe’ not only encompasses this area within Tower Hamlets but also includes the fringe areas in the London Boroughs of Camden, Islington and Hackney.

The proximity of the area to the City results in a very diverse socio-economic profile including areas of great affluence alongside pockets of deprivation. The continually evolving nature of the ‘City Fringe’ is clearly apparent in the wide ranging style and age of the built environment encompassing development from different periods.

Similarly, the architecture of the area reflects the diversity and history of the area which has resulted in the retention of many historically significant buildings including St. Katharine Docks, Spitalfields Market and the Tower of London.
Key characteristics of the City Fringe include:

- The large office blocks which characterise Bishopsgate are on major footplates and are often single occupiers. They have more of a feel of the ‘City’ than City Fringe. Lower density Grade A space is also found in the area around St Katharine Docks.
- Further major office development is prevalent around Aldgate. However, accommodation here is of a secondary nature but its good location offers potential for regeneration and successful use as an office location...
- Niche areas such as Brick Lane and Redchurch Street offer a stark contrast to the large office blocks in other parts of the City Fringe. Buildings are smaller in scale and offer a mixture of uses – including residential, retail and restaurants along with some studio space such as that offered in the Truman Brewery.
- Additional smaller offices are found along Commercial Road as the City Fringe pushes eastwards benefiting from continued good transport links.
- Across the City Fringe there are large pockets of residential activity which are as diverse as the commercial accommodation on offer – including well established affluent areas, new conversions of flats and so called live/work units and high density purpose built housing.

Current supply of marketed B1 office and workspace aimed at SMEs includes properties on the Highway in Wapping, near Shadwell tube and train stations, Bethnal Green along Bethnal Green Road and the western ends of Whitechapel Road and Commercial Street.

The City Fringe is well serviced by public transport as the main rail and tube lines that service the area include the East London line, the DLR, District line, Hammersmith and City line, Central line and national rail services along the Great Eastern line. Further improvements include the East London line service, comprising a total of 16 trains per hour introducing a line capacity of 7,700 passengers and the implementation of the Crossrail project.

These significant improvements in infrastructure along with the predicted north eastward expansion of the City would suggest that there is significant potential for economic growth in this area. This will lead to an increase in demand for B1 SME space.

Isle of Dogs

The Isle of Dogs is characterised by two main land-use areas. Canary Wharf and environs offers a high density high quality office environment with associated services. The rest of the Island is characterised by residential uses.
B1 office and workspace in Tower Hamlets

Canary Wharf itself, whilst of national significance as an office location, offers a more limited B1 SME space environment because of its focus on larger floorplate B1 uses via the financial and business services sectors. This is highlighted by the most recent investment in major schemes by, amongst others, Barclays and HSBC.

Some pockets of B1 accommodation do exist in areas such as Wood Wharf and Skylines and the Isle of Dogs remains and important B1 location in that respect – although these may come under pressure as the influence of Canary Wharf grows further.

The Canary Wharf area has yet to establish an identifiable Fringe area in the same way that has occurred around the City. The City Fringe offers a location for businesses whose clients are in the City, to operate from nearby premises which are more affordable. Such premises are less prevalent around the Isle of Dogs.

The transport infrastructure on the Isle of Dogs is orientated to a large degree around Canary Wharf. The island is served by the Jubilee line, DLR and eventually Crossrail. Transport for London plans to increase tube and rail capacity by increasing the tube line trains and train frequency. Whilst public transport into Canary Wharf is comprehensive, connectivity to other parts of the Borough is poor because of the major barriers created by Aspen Way and the DLR infrastructure.

Leaside

The Leaside area represents the eastern edge of Tower Hamlets, from Fish Island in the north to Leamouth in the south. The area forms part of the Lower Lea Valley regeneration area - which includes Newham to the east, and Hackney and Waltham Forest to the north.

The Leaside area was traditionally a thriving industrial and manufacturing centre which was centred upon the comprehensive canal and river network that serves the area. Industrial uses remain its key focus although some industrial units alongside the canal-side are being redeveloped for residential purposes.

The Leaside area contains a growing number of creative and cultural industries including space in Container City at Trinity Buoy Wharf. A report by CIDA\(^7\) highlighted that there was a significant number of visual artists active in the Leaside area along with a growing film and media sector.

The Leaside Regeneration Company has actively supported the start up and growth of small businesses by providing managed and affordable workspace at several locations. The organisation also provides a range of support services and business advice.
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Whilst Leaside offers some degree of B1 accommodation and at a cost far lower than either the Isle of Dogs or Canary Wharf, B2 and B8 uses remain the most dominant. The exception to this is around East India Dock where the Docklands environment has led to higher value larger scale B1 uses.

Leaside has reached a critical stage in its development with a range of major influences likely to influence its future, namely:

- The 2012 Olympic Games. As well as transforming the immediate environment, the Games will bring major new employment opportunities and improve the surrounding business environment. More directly, in the first instance they require the relocation of some 220 businesses
- The development of Stratford City as a regional centre which will seek to compete with Canary Wharf and the City. Leaside’s location on the A12 would make it an ideal location for Fringe businesses to serve all three major commercial centres
- Enormous ongoing pressure from residential developers wishing to capitalise on continued high residential land values and demands for large-scale housing development from Central Government.

Whilst offering exciting opportunities for the area, these trends also create threats for the existing small business base. Leaside offers the only real low cost location in Tower Hamlets for B1 accommodation. This is likely to come under major pressure. This will include occupiers of ‘dirty’ low specification, second hand properties and micro businesses in managed workspace where there is most pressure already.

Central Area

The central area of Tower Hamlets is predominantly residential. The area does contain some significant regional centres such as Stepney, Bethnal Green, Poplar and Bow which stretches into the Leaside area. Throughout the central area there are some instances of economic activity ranging from the shopping area on Ben Johnson Road to Watney Market south of the Commercial Road. There are examples of industrial development along the Highway and Cambridge Heath Road. In the south east part of the central area around Crisp St there are commercial and retail units and the daily Crisp St. market.

Other areas of commercial activity that are serviced by Aspen Way include the Poplar Business Park and clusters around Mile End station. The Bow Wharf development, to the south of Victoria Park at the junction of Roman Road and Grove Road consists of some retail and commercial developments. The area also contains Limehouse Cut which is one of London’s oldest canals and is fronted by small-scale industrial and commercial development some of which is being converted to new residential developments.
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Whilst there are pockets of business activity across the Central Area, there remains a lack of B1 office and workspace on the market in the central area.
6. Demand And Supply

In this section, we summarise our findings in relation to demand and supply for B1 office and workspace accommodation.

Our findings are based upon a number of strands of work, namely:

- discussions with local property agents;
- discussions with sub-regional inward investment agencies;
- discussions with SME workspace providers;
- a review of available marketed properties;
- analysis of vacancy levels in SME schemes; and
- consideration of the success of letting recent mixed-use schemes.

6.1 Views of Property Agents

In order to determine the current market trends for office space within Tower Hamlets, a survey was conducted with 13 property agents within the Borough, including 3 key workspace providers and an in depth interview with Gateway to London.

Agents were asked to consider whether available supply of B1 office and workspace and enquiries for such property had risen over the past five years. Subsequently, they were also asked their view on whether supply and demand would rise in the next five years.

Figures 2 and 3 show the aggregated findings.
B1 office and workspace in Tower Hamlets

Figure 2:

![Graph showing Supply vs. Demand over the past 5 years]

Figure 2 shows that the majority of respondents believed that there had been a moderate increase in both demand and supply over the last five years. From the interviews we carried out, the majority of respondents speculated that the current position was one of adequate supply when looking at B1 property as a single generic land-use. Nine of the thirteen respondents considered there to be sufficient provision of space at the present time. This view is in line with the GLA’s London Office Policy Review summarised earlier.
Looking at predicted trends, the view of the overall market was considerably less optimistic. While the majority of respondents felt that there was sufficient supply at present, when asked about their thoughts on future market conditions, the same number of those interviewed stated that they have concerns for a shortage of supply in the near and intermediate future. While the level of enquires are expected to see significant increases due to a combined effect of the regenerative activity associated with the Olympics and perceived growth in London’s economy, results from investigation into available space show that agents anticipate a considerable fall as present stock is taken up by continuing demand but little new space is added to the market.

As Figure 3 shows, while enquiries are expected to rise, the overall quantity of available space is expected to fall eventually leading to constrictions in the market and upward pressures on rent levels. Examples of comments included:

“Could reach crisis where take up will outstrip supply pushing up rents and creating problems for SMEs - more stock is needed”

“No development therefore no foreseeable improvements, but continued demand will lead to restricted supply. The support industries have nowhere to go and SME’s can’t afford higher rates”

“Rent levels could go up if demand and supply levels remain on their current trends”

Sub-Area Anomalies

Our discussions with agents led to a number of observations specific to the geographical sub-areas we have identified.

For example, concerns about future lack of available space were particularly associated with the Isle of Dogs and the City Fringe which have been the traditional focus of enquiries for large-scale B1 office activity. In terms of the City Fringe, this has largely been in connection with the City and other established business zones in Clerkenwell and the West End as the City Fringe acts as spill over markets from these areas as rents there become too high and force users to move east.

In Leaside, agents predicted a moderate rise in enquiries and deals as a specific response to the decision to host the 2012 Olympic Games in East London, not least from the 220 businesses that will need to relocate from the Olympic Zone by July 2007. Leaside is seen as an attractive location in this respect because of the cheaper rents away from the City Fringe and the Isle of Dogs. Whilst overall opinion was for supply to match demand in Leaside, a number of agents expressed concern over the loss of light industrial and workshop units to residential use. A number of commentators saw Leaside as a strong location for the provision of very small B1 space generally and low specification space in particular.
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It is worth noting that while interest in the Central area has been traditionally low, a number of agents anticipated a rise in demand for B1 office and workspace in this area, again largely due to Olympic development. Their feeling was that there were opportunities for limited but concentrated development or refurbishment of B1 office and workspace focused around the main transport nodes namely Mile End, Bow Road and Bow Church. There were no apparent objections to this space being provided as part of wider development of mixed-use schemes as it was generally accepted that the Central area is predominantly residential in use. It was suggested that small, flexible workspace units of between 50-100 sq m would be the most suitable and effective type of provision in these localities.

Analysis of Small Units

In light of observations that, in totality, there is sufficient supply of B1 space in Tower Hamlets, we discussed with agents and providers the position in terms of demand and supply of smaller units. Figure 4 sets out vacancy periods for varying size of property.

Figure 4:

Figure 4 shows that smaller space, particularly units of less than 100 sq m, remain on the market for a far shorter period than larger units – one agent commented that up to 80% of current demand is for units of less than 100 sq m.

All of the workspace providers supplying small affordable space had already seen an excess of demand over supply and saw no reason for this trend to subside. Examples of comments include:

“Supply of small space will fall and occupiers will move to Newham and SE (Woolwich, Bexley etc) for cheaper rents.”

“There is a general lack of small space in Tower Hamlets and existing small business space is under threat.”
B1 office and workspace in Tower Hamlets

This view was confirmed by the vast majority of the agents we spoke to. Results from the agents surveys suggest that this sharp demand for small workspace units is mainly focused in the City Fringe and Leaside, but with some pockets in the Central area around Bethnal Green and Cambridge Heath Road as well Copperfield Road and Mile End Park. The demand for space in these areas is largely expected to come from the creative and cultural industries. In addition, there was also an expressed opinion of a need to retain a greater amount of light industrial space. Again, this was linked with the creative industries activity in the areas mentioned above, but a number of agents also felt that such units were still necessary on the Isle of Dogs to provide support industries to Canary Wharf with accessible locations to their client base.

Agents were asked to consider where they felt that there was the greatest pressure on supply. Figure 5 summarises the responses received.

Figure 5:

![Figure 5: Gaps in the Market (Lack of Provision)](chart)

Figure 5 shows a perception that incubator/start up units represent the greatest shortfall in supply at the present time by a significant margin.

While Tower Hamlets has been extremely popular as a location for companies in the creative and cultural industries sector, particularly in the City Fringe around the areas of Spitalfields, Shoreditch and Whitechapel, several agents set out their belief that the constraints on supply and pressures on rent levels could have serious consequences for the Borough’s ability to accommodate what has been identified as a key growth sector. This view was supported by
workspace providers who expressed concern that these industries are already moving east and south of the river in search of cheaper rents.

To further exacerbate this problem, the results from the agent survey also indicate there is a shortage of ‘move on’ space for young firms that are seeking to expand their business. From investigations into the source of demand it was shown that 60% of enquiries received come from existing firms. When asked if there was sufficient affordable space for the expansion of small/start-up firms all of the workspace providers (incl. ACME, Urban Space Management and the Workspace Group), they concluded that there was inadequate supply of this type of space, particularly in the 100-500 sq m size bracket. One agent commented that:

“certain areas may be tight - such as 100 to 200 sq m space in Shoreditch, Whitechapel and Aldgate - for design type users - for which there is insufficient provision”.

Quality of Stock

The agent survey additionally identified issues surrounding the quality of B1 office and workspace stock in Tower Hamlets. The general opinion from property agents working in the Borough was that the stock was old and dated and in need of refurbishment. Many also felt that there was a clear need for new stock in addition to greater refurbishments as the main focus of enquiries was for ‘grade A’ space. A considerable level of available stock would never be let suggesting an artificially high level of supply on the market. Figure 6 below shows the agents’ views on the percentage split between new and old stock across the four sub-areas of Tower Hamlets:

Figure 6:

<table>
<thead>
<tr>
<th>Percentage split</th>
<th>Age of Stock by Sub-Area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>City Fringe</td>
</tr>
<tr>
<td></td>
<td>Isle of Dogs</td>
</tr>
<tr>
<td></td>
<td>Leaside</td>
</tr>
<tr>
<td></td>
<td>Central</td>
</tr>
<tr>
<td>New Build (built within the last 2 years)</td>
<td></td>
</tr>
<tr>
<td>Old Stock (completed before 2004)</td>
<td></td>
</tr>
</tbody>
</table>

Whilst Figure 6 only distinguishes between very newly built stock (i.e. last two years) and is not in itself an indicator of quality concerns about the grade of accommodation available were evident in our discussions.
Examples of comments made include:

“There is plenty of B1 space between 1,500 to 5,000 sq m available but mostly old stock which needs redevelopment/refurbishment”

“There is not enough construction outside of the City Fringe and the Isle of Dogs”

“More new stock is needed!”

Agents also considered there to be an excess of demand over supply for low specification and outmoded (‘dirty’) B1 space and light industrial units and felt that this space needed to be protected through the identification of cluster zones.

**Freehold Demand**

Finally, a number of property agents identified a marked increase in demand for freehold sales but considered that this demand was being largely restricted by a lack of supply. This is shown on Figure 7 below.

**Figure 7:**

The desire for freeholds is seen by industry commentators as driven by a perceived pensions crisis and a need by small firms to secure long-term capital investments, particularly those who have been affected by major rent reviews in the past. However, all of those interviewed stated that despite the rise in demand for freehold office properties there was a severe lack of this type of space. There were suspicions from some of the agents that owners were ‘holding out’ for more lucrative opportunities in residential development, a trend that our own experience bears out across the City Fringe.
Mixed-uses

Finally, many of the agents recognised that while mixed-use schemes were a beneficial concept, much of the new workspace coming through via such schemes was of the wrong size and type and was essentially not letable.

Reasons for the lack of appeal of B1 office and workspace in new mixed-use schemes included the fact that much of the office space was provided on the ground floor and was thus unattractive due to security concerns, and in addition developers were expecting excessively high rents for this space and hence take up was slow. However, by far the most important factor identified by the agents as being the key barrier to demand for office space in mixed-use schemes was its location.

Agents saw many of the units coming forward as part of mixed-use being provided as a ‘token gesture’ by developers that were in fact useless as effective employment spaces. Proximity to public transport nodes has proved to be paramount and unless an office is served reasonably well by such services it proves very difficult to let. This issue is dealt with further in Section 7.

6.2 Views of Local Businesses

Previously in this section, we have set out our overview of current and future demand following our discussion with agents, workspace providers and inward investment agencies. In addition to that work, we have held qualitative discussions with around 60 businesses to consider how property market trends impact on business perceptions of the Borough but to also gain some qualitative perspectives on the strengths and weaknesses of particular Tower Hamlets’ locations to inform discussion around key SME growth areas.

Of those businesses interviewed, 50% were office based, 16% were workspace units, 11% were start up units and 22% were “other” including artist studios, music producing studios, small hi-tech industrial work shops. Around 70% had been in their present location for at least three years. The cyclical nature of the property market means that such businesses may have outdated experience in terms of their attempts to find a property and answers may reflect perceptions of availability rather than actual experience.

When questioned about property 43% of respondents outlined that it would be “fairly” or “very” difficult to source a property in the area. This figure rose to over 50% of businesses who have moved to their current premises since 2000 and around 65% when asked about availability at a price they are willing to pay.

A number of supplementary comments were made concerning the rising cost of business premises as certain professionals (for example, artists and music producers) felt they may find it difficult to find suitable premises in the locality. In particular, small business in the City Fringe commented upon the difficulty of finding suitably priced property in the area they were presently located.
Similar concerns were raised in Leaside where there were specific concerns about the loss of properties to residential uses.

Of those offering a view about why it would be difficult, 40% stated that the premises available on the market were not suitable for their needs whilst 27% stated that the cost of premises was the restricting factor – suggesting that building typology is as important as cost in local perceptions.

In responding to wider concerns about the area, the strongest factors related to car parking and the need for building modernisation although 45% of respondents said there was nothing negative about the area for operating SMEs underlining the strength of Tower Hamlets as an SME location.

City Fringe locations are traditionally volatile in terms of business moves. All respondents were asked the likelihood of their moving within the next three years. Around 50% of businesses believed that this would be the case. This figure rose to 71% when considering only Leaside businesses and reduced to 30% when considering only City Fringe businesses. Traditionally, the City Fringe would be seen as the more volatile location with a high level of business turnover whereas the Leaside area would have been more stable. Uncertainty over the changing profile of Leaside and the current Olympic development may be behind this. In a comparable study of the City Fringe in 2003, 29% of businesses suggested that they would be moving location in the next 5 years.

The key factor behind the reasons for needing to move was the need for more space (40% of respondents).

A number of businesses commented that an attraction to a particular location was proximity to like minded businesses. Businesses such as graphic design and artistic industries both professed an incentive to locate to (or stay within) an area if similar industries or suppliers were within the locality underlining the importance of supporting business cluster and identifying core SME locations where critical mass can be created. This is true in the City Fringe area where a concentration of creative industries has led to the area becoming a prime regional business location for that sector. This has led to an increase in demand for B1 space and a change in the type of new B1 space required. Similarly, proximity to client base is a major concern - responses within industries based in the Isle of Dogs, stated that proximity to Canary Wharf and the Docklands was a major factor in their presence in the area. Similarly many City Fringe businesses consider a presence on the doorstep of the City to be a prime locational factor.

Overall, location (both in terms of convenience for staff and ability to serve customers) and proximity to public transport were consistently the key reasons for businesses locating in Tower Hamlets. This should clearly be a key factor when considering appropriate SME locations. However, there were some sub-area variances – for example, positive responses relating to proximity were most prevalent in the City Fringe sub-area.
B1 office and workspace in Tower Hamlets

Again, it is important to highlight that the most common response to concerns about Tower Hamlets as a business location was “nothing”. Concerns which were raised related to none property issues such as parking in the City Fringe and lack of local facilities and crime in more outlying areas.

6.3 Current Available Supply

In this section we provide a snapshot of available B1 office and workspace in the study area using data analysed by Gateway to London’s Evolutive database of available commercial properties in Tower Hamlets.

We have examined supply on the following basis:
- Availability of accommodation by size
- Availability of accommodation by location
- Asking rental levels of large units
- Asking rental levels of small units.

Figures 8 and 9 below show recent trends by size. Figure 8 shows current supply of available space by size. Figure 9 shows the size of space that has been let over the previous two years in terms of number of units. Figure 9A translates Figure 9 into total floorspace.

Figure 8: Current available B1 office and workspace by unit size

Figure 8 shows that available supply is dominated by larger floorplate developments, particularly spaces over 1000 sq m, which account for 29% of space on the market in the sample. Units of less than 100 sq m, those most sought after according to our discussions with agents, appear to be in scarce supply. Such units account for 2% of total supply whilst units of less than 1,000 sq m (large enough for 90% of Tower Hamlets B1 businesses) account for less than one third of available accommodation.
Figure 9: Units Let (2004-2006) By Unit Size

Figure 9 shows that the majority of lettings over the previous two years have been for smaller units. Units of less than 250 sq m account for around 64% of all lettings.

Figure 9A: Units Let (2004-2006) By Total Floorspace

Figure 9A shows that, even in absolute terms, there is a paucity of lettings for the largest units, where there is greatest supply. With units of less than 100 sq m 59% of floorspace is let, compared with only 34% of supply in this bracket.

Figures 8 and 9 appear to support the findings from the interviews with the Agents and Workspace Providers and our own research that the majority of available space in units larger than 100 sq m while the majority of demand is for smaller units.

The following chart shows the availability of B1 office and workspace within the four sub-areas.
Figure 10: Location of Available space

Figure 10 shows that the majority of available B1 SME office space is located within the Isle of Dogs and a significant amount of available space in the Central area. Much of the apparent surplus space is likely to be linked to major new schemes at Canary Wharf rather than accommodation targeted at smaller, lower value businesses.

Figure 11 below shows the changes in average rental levels in the four sub-areas between January 2004 and January 2006 for units over 100sq m.

Figure 11: Rental Levels for Properties over 100sq m.
Figure 11 shows that generally asking rentals have fallen during the period, suggesting additional supply over demand. This is not the case in Leaside where rental levels have remained flat.

The following charts Figures 12 and 13 show the location of and rental levels for B1 office and workspace units under 100 sq m.

Figure 12 shows that the vast majority of available small B1 office and workspace is located in the City Fringe followed closely by the Isle of Dogs. There is a lack of accommodation available in more peripheral areas.

![Figure 12: Location of available B1 Space of Less Than 100 sq m](image)

The information contained in Figure 13 below shows that rental levels have dropped over the previous two years across the City Fringe, Isle of Dogs and Central area. Only Leaside has shown an increase throughout the period.
6.4 Micro and Managed Workspace Providers

Our research has identified a significant market for units of less than 100 sq m which we have defined as Micro Workspace. Some such units offer additional value via a managed workspace environment as do larger providers – whilst we have included managed workspace providers in our review, we have only done so where they offer units suitable for micro businesses. Managed workspace is workspace that includes additional facilities and services within the set rental level and typically includes reception facilities and shared meeting rooms.

Our findings above suggest that there is sufficient provision of general B1 office space but that demand for smaller units is high and that supply of such units is proving to be scarce. In order to consider this anomaly further, a total of 7 micro workspace providers, managing premises over 8 locations, were surveyed to determine current levels of demand and supply and what factors are affecting these variables. For the purpose of this study the definition of micro workspace was taken as units of less than 100 sq m grouped together in clusters of 5 or more units.

All micro workspace providers were able to offer flexible lease terms ranging from 6 months to 10 years and a number of units also offered a 2 month ‘get out’ clause.

Over the 8 locations there were more than 290 micro units ranging in size from 20-100 sq m. Two of the locations, the Environment Trust at Pinchin Street and the Whitechapel Technology Centre on Whitechapel Road, also offered a limited number of units at sizes greater than 100 sq m in order to
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accommodate larger and expanding firms, and the Bow Business Centre was able to change the size of its units in order to suit the users needs. Another two of the sites, Trinity Buoy Wharf on the Leaside peninsular and the ACME Fire Station on Gillender Street, also offer live-work accommodation.

Of all the providers surveyed, none were currently operating at less than 80% occupancy levels and 3 of the 8 premises were at full capacity. While not all units were occupied, the majority of vacancies were attributed to churn which was typically 10-15% per annum for most premises.

Of the 8 premises providing micro workspace, 3 stated that they currently had waiting lists exceeding 150 applicants, which was for a total of 160 units over the three sites. The workspace providers with the highest demand and hence the longest waiting lists were ACME, both the Copperfield Road and Gillender Street sites, and Trinity Buoy Wharf, all of which are able to offer ‘dirty’ B1 space particularly suited to artist studio and workshop space, although Trinity Buoy Wharf also offers high spec office space on site. Notably, rents at these premises averaged around £75 psm. All of the other providers offered conventional B1 office stock at various levels of quality and specification. The average rents achieved for this remaining stock was roughly £165 psm although these varied greatly from £40-300 psm depending on location.

The highest demand is very clearly for ‘dirty’ B1 and studio space and comments from ACME and Urban Space Management suggest that typical users of this type of space are already seeking premises in surrounding boroughs in the search for more affordable units. Research recently conducted by ACME but yet to be published indicates that the value for equivalent studio space on the market exceeds 3 times the current rent levels offered on their sites. There is therefore a need to provide a greater quantity of this space at affordable rents. The emerging creative clusters in Gillender Street and Copperfield Road serve as ideal locations for this type of space.

Price was highest for micro space in prime locations, notably the Technology Centre on Whitechapel Road and the East London Small Business Centre on Wentworth Street, but it appears that price was not overly restrictive on demand - there is a clear need for more micro space in City Fringe locations and small firms are generally able to meet the market values for such locations.

Finally it is important to note the achievement of the Bow Business Centre despite being located away from traditionally commercial zones. A combination of its low rents and flexible terms of lease and unit size, as well as its proximity to Bow Road/Bow Church stations all contribute to this accomplishment. This case indicates the potential success of managed/serviced, flexible micro office space in locations centred around transport nodes but away from the City Fringe/Isle of Dogs. This type of accommodation can also be provided through mixed-use developments.
7. Mixed-use Schemes

The British Council for Offices (BCO, 2005) suggest that the rising demand for housing and the high land values for residential space linked to this demand are resulting in large pressures to include a residential element in all new developments. In fact the pressure has become so high that exclusively residential developments are often the most sought after option, even in traditionally commercial zones where employment sites have become vacant and underused.  

Recent provision of office floorspace in peripheral locations has almost exclusively come via schemes which provide a mix of office and residential uses. However, by their nature, the design and implementation of mixed-use schemes poses a number of challenges and there is always a difficult objective of balancing the needs of the various users. Our discussions with property agents active within Tower Hamlets have identified concerns regarding the provision of office space within these schemes. The key issues regarding this provision focus around the location of the scheme, the size and cost of the space and the type of space provided.  

There is concern that such mixed-use developments do not provide the kind of B1 office and workspace required by the market – often perceived as expensive, large units on ground floors when the market is looking for cheaper, small units on upper floors.  

However, rather than being a threat to office space in urban locations, some commentators believe it possible to use this drive in residential property development to maintain and even enhance employment space, and planning has been the major force in creating these opportunities (Carpenter, 2005). From a planning perspective mixed-use can enable the creation of vibrant urban forms, high-density developments and sustainably built environments.  

We have looked at a number of mixed-use developments to consider their contribution to B1 office and workspace availability. We have reviewed 11 schemes across the Borough and examined the success of the space, the cost of the accommodation and the nature of the occupiers. Schemes were sourced via the on-line Tower Hamlets planning applications database and our own research. Data was collected in a number of ways:

- Sourcing information directly from the planning application
- Speaking to developers and owners of the properties
- Speaking to managing agents
- Interviewing current occupiers.

The results of this study are presented below, with each scheme being considered on an individual basis. Subsequently the report will then attempt to
summarise what factors affect the success of the schemes and what recommendations can be made for their future provision.

The following schemes were considered. Despite a number of such schemes having realised planning permission, we have been unable to identify any completed mixed-use schemes where the B1 element offers units in excess of 200 sq m or so. This may be because sites have been sold on and new applications sought or a change of use has been realised following completion.

**Hermitage Wharf, Wapping High Street, E1 W1N (Central Sub-Area)**

This scheme is located on the northern bank of the river Thames and within walking distance of Wapping tube station. Completed in 2000 by Berkley Homes it is a mix of residential, office and live-work space, with some A3 restaurant use on the ground floor. The B1 units are located on the ground and first floors, with the latter being the more popular type of space, and typical unit size ranges between 200-300 sq m. All B1 units here are now occupied although some ground floor space had been vacant for up to 18 months after completion. The attractiveness of this development includes the fact that it is a new riverside building offering grade A stock, but the most defining factor is perhaps that fact that office space is offered on a long lease basis, up to 999 years, and has achieved returns of £2300-2600 psm on this basis.

**55 Royal Mint Street, E1 8LG (City Fringe)**

Planning permission was realised in April 2002 for B1 office use on the ground floor and basement, and live-work and residential units on the 3 floors above. The project remains unimplemented although it is due for completion in October 2006. The location offers good accessibility to transport links, with Tower Hill (Circle and District) and Tower Gateway (DLR) within walking distance. Prior to the submission of the application the plot had been vacant for more than 5 years. The total B1 space is estimated to be around 200 sq m and the developers are expecting to achieve rent levels of at least £75 psm. While this location is within the City Fringe and with good transport links, its peripheral location, combined with the fact that it is ground floor space, may prove to be a hindrance to attracting B1 SME users. The developers have not yet secured a pre-let although they have been holding negotiations with ‘a couple of banks’ indicating that there may be a change of use class from B1 to A2 to better suit the location.
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2-12 Cambridge Heath Road, E1 5QH (Central)

This site was previously a solicitor’s office and social club but has now been renovated and donated to the NSPCC for use as 3 floors of offices and counsellor and workshop space (sui generis). The total floor space for the building is 731 sq m. The offices are located within walking distance of Bethnal Green tube but due to the fact that the building was given as a charitable donation by Minerva plc, there is no information available on rent levels. While this is a non-typical scheme, particularly due to the fact that there is currently no provision of residential accommodation, the potential success of combining B1 space with various other uses remains. Individually, the scheme also gives an indication of the potential success of third sector occupiers away from central business districts.

Denmark Wharf, 68-72 Copenhagen Place, E14 7DB (Central)

The site of this development was listed as vacant prior to the application but its original use was as a workshop for storage and metal works. An application submitted in December 2001 (PA/02/0022) was to redevelop the site to create 5 B1 units and 13 two bedroom flats. The total B1 floor space registered on the application was 530 sq m with average unit sizes of around 100 sq m and the closest transport link is Westferry (DLR). Information from the Experian database shows that plots were vacant for up to 12 months although all units are now occupied and rent levels are around £55 psm. No information was available on the type of users occupying the space but the price and size of the units are expected to be significant factors in contributing to the success of the B1 space and its appeal to small and start up businesses.

63 Brady Street (The Duke of Wellington), E1 (City Fringe)

The application for a mixed-use development on this plot was submitted in August 2005 (PA/05/01278) and was for the demolition of the existing property and the redevelopment to one B1 business unit and 13 residential units. Due to the fact that this is such a recent application construction is yet to begin although the developer is keen to move ahead and is confident about letting both the residential and commercial space. The total B1 floorspace to be provided is roughly 58 sq m and will be provided on the ground floor and at basement level. The location has close links to Whitechapel and Bethnal Green stations and expected occupants of the B1 space are ‘media type’ local businesses.
Bow Road Business Centre, E3 2SE (Central)

The current business centre is located in a 60’s art-deco building and offers office accommodation over 5 floors. The mixed-use element was introduced from 2000 when a planning application (PA/00/0995) was made to add 2 additional floors to provide 13 residential units, all of which are now occupied. The business centre offers flexible B1 units ranging in size from 20-150 sq m. They are able to offer short leases of 6 months or more and typical rents are between £40-80 psm meaning that a great majority of occupiers are new start up firms. A managing agent from the business centre claimed that while they never operated at full capacity, take up was good and maximum vacancy was no more than 3-4 months for any one unit. It was also indicated that the business centre was popular with third sector users. The building is located in close proximity to the transport nodes of Bow Road and Bow Church stations.

3 Old Montague Street, E1 (City Fringe)

Planning permission for this project was realised in June 2004 to renovate the existing vacant building to create a mixed-use scheme with the ground floor and first floor for retail use, the second floor for B1 office and the third floor for a residential apartment. The A1 and C3 space has been let successfully but the owner of the property claims that the office space has been vacant for more than 12 months. The B1 space available here is small, approximately 37 sq m, and the rent is high, approximately £200 psm including all rates, but the location is good with Whitechapel and Aldgate East tube stations within a few minutes walk. The owner has cited the main reason for the lack of take up as being the second floor location, with a number of interested occupiers complaining that it is too remote and awkward for clients. However, given the situation of this property the price of the office space may also be acting as a barrier. It is also possible that the quality of this stock, while recently renovated, is not grade A, and this could also be a contributing factor in levels of uptake.

2-4 Commercial Street, 102-105 Whitechapel High Street (City Fringe)

While this scheme does not include residential uses it does incorporate a mix of retail, office and educational/training facilities (D1). Its previous use was as a students’ union and was then converted to B1 space although the success of letting this space has been limited. The retail unit on the ground floor is occupied and has been for some time but the B1 space on the 1st, 2nd and 3rd floors has not been let for over 6 years. The rent levels for the B1 space in this property are approximately £150 psm for a total of 1401 sq m over 3
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floors. Reasons given by the letting agents for poor take up centre around the fact that the space is only partially fitted and is in need of further renovation. They claim that as it is near a university site they have had some interest from new innovative firms but it is suspected that the size of the units may be a prohibitive factor to these types of occupiers.

417 Wick Lane, E3 2JG (Leaside)

This is a new development on previously industrial vacant land and now incorporates both commercial and residential uses. Planning consent was given in March 2004 for B1 accommodation and 75 live/work units. The developers for the scheme indicated that there were a mix of users occupying the B1 space and that all B1 units had been let. There are a total of 8 B1 units on site, with seven at 100 sq m and one larger unit of 165 sq m. No information was available on the rent levels achieved on this project but the fact that it is a new riverside development providing grade A stock in an emerging cultural industries cluster would mean that this work space is expected to be a popular commodity.

138-148 Cambridge Heath Road, E1 5JQ (Central)

Permission was granted in August 2004 to demolish the existing 2 story building and carry out the erection of a 3-4 story building to house three B1 units on the ground and 1st floors and 2 one bedroom flats on the additional floors. The total planned B1 space was 304 sq m with 102 sq m of residential. However, despite 3 years of negotiations the scheme is yet to be completed and there are now plans from the current owners to submit a new application for an exclusively residential development to provide affordable housing. Unfortunately the ownership appears to have changed hands since the original application and it is unclear why exactly the B1 development failed to go ahead, although the owners cited ‘financial and legal’ reasons.

Anderson Wharf, Copenhagen Place, E14

Previously a Timber Yard, planning permission was obtained in May 2002 for 5 B1 units on the ground floor as well as 10 live/work units and 16 residential flats. Construction was then completed 2 years after this date. All 5 of the B1 units are now owned by one occupier, ‘New Beginnings’, who use the space as offices for their training and recruitment programs. The total floorspace for the office units exceeds 500 sq m and has been occupied since September 2004 by the present user. Although in a commercially dominated area, the reasons that this B1 space has been successfully occupied can be attributed to the fact
that it is a waterside development backing on to Limehouse Cut, there is parking provision for staff and clients and the occupier was able to purchase the freehold for the office premises (undisclosed fee).

Our discussions with property agents in Tower Hamlets suggested that location and typology is paramount when providing suitable B1 space, particularly in mixed-use schemes. The above research supports these comments.

Newly built, high spec, grade A space offered in small units of no more than 100 sq m has proved popular in a number of schemes including Hermitage Wharf, Denmark Wharf, and Wick Lane. In addition, all three of these projects are waterside developments, indicating that both commercial and residential users are attracted to these areas and they provide ideal locations for mixed schemes.

Price did appear to have some influence over the success of attracting SMEs, but with mixed results. In Copenhagen Place, away from the traditional business districts of the City Fringe and Canary Wharf, rents are understandably low, but it seems that this has been effective in attracting occupiers and vacancy levels did not exceed 12 months. To the same effect the low rents and flexible terms of lease offered at Bow Road Business Centre mean that although turnover is high, there is a steady flow of demand for the units there. Conversely, rent levels at Old Montague Street and Whitechapel High Street are expected to have been a significant factor in the length of vacancies for these properties. Interestingly, the long lease hold opportunities available at Hermitage Wharf for B1 space appear to have proved popular and this is in line with findings from Chapter 4 which indicate that the demand for freehold office space is increasing.

The issue of typology in terms of whether offices are provided on the ground, first or second floors is less clear cut from the samples included above. While the B1 space at Hermitage Wharf has been successful, some of the units on ground floor intended for office use are now occupied by restaurants. Although the property on Royal Mint Street is yet to be completed the developers have failed to close a pre-let deal thus far on the office space and the only expressed interest has been from A2 users. However, the units on offer in Old Montague Street and Whitechapel Road do offer B1 space above ground level, but take up has been slow. As indicated previously this is expected to be more due to the cost and quality of the stock as to why demand has been restricted in these cases.

A number of themes emerge from our research:

- there are very few examples of mixed-use schemes offering larger units successfully coming forward;
- units of 100 sq m or less appear optimum, and thus it is paramount to include these sized units in new mixed-use developments;
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- small units offering grade A space (particularly in added value locations such as those on the waterside) can command high rents but the allure of secondary quality stock is affordable rents and unrealistic rental demands will see such properties unlet;
- units offering freeholds and long leaseholds in mixed-use schemes realise occupation very quickly if sensibly priced and located;
- small and start up firms appear to be content to initially locate away from the City Fringe and the Isle of Dogs. This indicates that business centres and managed workspace would be effective when provided in the Central and Leaside sub-areas; and
- the Central sub-areas are popular among third sector users and more provision should be made for this type of occupant within this zone.

Ground floor space is perhaps more effectively occupied when provided as A1, A2 or A3 depending on the location of the scheme and its proximity to similar commercial occupants

**Mixed-use Building Typologies**

Our consideration of the way in which mixed-use schemes are coming forward as well as our wider analysis of supply and demand has led us to some clear conclusions in relation to building typologies for mixed-use schemes.

It is clear that many of the permissions for mixed-use schemes are for B1 accommodation on the ground floor with large footplates aimed at single users. However, our experience of these is that they are not tending to come forward to the market – either because they are not being built or because on completion developers look for alternative uses. This reflects the fact that this is not the kind of accommodation currently required by the market.

In encouraging mixed-use schemes, it is important that the planning authority realises right the kind of building typology.

In core areas, such as around public transport nodes, in the City Fringe, in the Borough’s major retail centre, the Isle of Dogs Major Centre, and in waterfront locations, it is possible to realise high value lettings within high specification developments. However, small units are far more likely to be let and this must not only be reflected in the design of the building but in its marketing and management. Where space simply maximises the housing requirement and ignores the needs of the small user, schemes will fail to let. This is especially risky where mixed-use schemes are led by housing developers with little knowledge of the SME market.

In such areas, it is important to get away from simply a ground floor B1 use with residential above, eg a vertical mix. Where this is the only appropriate building typology, it may be better to realise A1 and A2 uses on the ground.
B1 office and workspace in Tower Hamlets

floor. Instead a separation of B1 from residential space within the design or at least commercial accommodation on some upper floors should be considered.

In particular the design of mixed-use schemes should be strong and emphasise the commercial element of the development. Ideally, the B1 element would be located in one area of site and be over a number of floors rather than spread across the ground floor of the whole development. It is particularly important in peripheral locations that the B1 element is easily recognised as a commercial building.

In more peripheral areas, away from public transport nodes and core areas, such as around Leaside and the Central area, it is more difficult to make B1 accommodation viable. Demand is again for small units but usually in low specification, low value accommodation. This will be unpopular for developers who will envisage low returns and incompatible uses despite clear demand. However, such locations are vital to the encouragement of start up and move on businesses and the map of micro businesses set out in Appendix 1 underlines the importance of start up accommodation in low value areas.

In most cases reprovision of B1 space should be sought on site. Some loss of B1 space maybe appropriate in the most peripheral areas provided it realises the right sort of accommodation albeit in a reduced form. For example, former textile factories on large floor plates over several floors may be popular with micro businesses via low value conversions but it will be difficult to persuade the market of the merits of this. Simply protecting the ground floor and insisting on B1 accommodation will equally not have the desired effect – it will most likely lead to inappropriate space being on the market for several years before being converted to housing in the future.

What is needed in these locations is separation of the housing element from the B1 element and, potentially, off site mitigation and effective management of the resulting space. Where this cannot be provided by the developer, an effective vehicle for delivery and management should be identified as part of the S106 negotiation.
8. Conclusions and Recommendations

The key objectives of the report as outlined in Section 1.1, Understanding of the brief, were to:

- **provide an overview of the role of SMEs in Tower Hamlets.** This has been achieved through a detailed analysis of the Experian database of local businesses, a review of literature and through a survey of 60 SMEs in the Borough. The detailed findings can be found in Section 2 of the report;

- **identify the relevant Planning Policy Context.** This objective has been achieved in Section 3 of the report which details the national, regional and local Planning Policy Context;

- **identify current and future demand and supply for B1 SME space.** This objective has been achieved in Section 4 and Section 6 of the report which includes an analysis of existing research into demand for and supply of B1 Office Space. It also provides the findings of interviews with the key commercial property agents and workspace providers and an analysis of all commercial space that is available in the Borough;

- **identify property barriers to growth of the sector.** This objective has been met through the detailed interviews with property agents and workspace providers and is addressed in this conclusion section;

- **consider any market failures in terms of property provision.** This objective has been addressed in Section 6 of the report as part of the analysis of interviews and the business survey;

- **consider the market suitability of B1 workspace coming forward in mixed-use schemes.** This objective is achieved in Section 7 of the report, through the identification and review of eleven mixed-use schemes; and

- **recommend suggested approaches to addressing the position in planning terms.** This section outlines the general conclusions from all parts of the research and makes recommendations on how any issues identified can be addressed.

We have set out in the bulk of this report our considerations of supply and demand for B1 office and workspace accommodation aimed at the SME market in Tower Hamlets.

Our review of sub-regional publications across the B1 sector as a whole suggest a current oversupply of accommodation and this is backed up by our own experience and our discussions with property agents.

We concur with the GLA findings that B1 provision is cyclical and that a period of very high demand combined with a shortfall of supply tailed off in the early part of the decade and that we are in a period of consolidation.
B1 office and workspace in Tower Hamlets

It is also clear from the extensive research undertaken at a regional level that there is an oversupply of B1 space generally mainly in the large office market centred on City Fringe and Canary Wharf. However, evidence suggests that for the very smallest businesses, we are now in a concentrated period of a shortfall of accommodation which is forcing particular market sectors away from the area. Those sectors are demonstrated to be key to the regeneration of the area, particularly in terms of employing local people and individuals from BME communities.

In considering its policies Tower Hamlets Planning Authority, needs to consider the apparent excess of B1 property alongside the following issues identified in this report which are potentially contributing to the restriction of growth of the SME sector:

- The majority of demand for accommodation is within units of less than 250 sq m
- Provision of micro units and managed workspace is a specialised industry. These sectors are characterised by high management costs because of the large number of agreements required and a high turnover of occupants. Where they exist they are very well let and often have waiting lists
- Mixed-use developments are often led by residential developers for whom the B1 provision is not their core business and, as such, the understanding of market requirements are low
- The highest number of enquiries are for two kinds of space. First, high quality, grade A accommodation offering high specification units in strong locations. Second, ‘dirty’ space which is usually second hand stock, cheap and may be in peripheral locations
- Much of the accommodation on the market and unlet falls between the above to typologies, being large units of second hand accommodation in the need of refurbishment
- Small units offered as freeholds meet a particular niche market at the present time
- Outside very core areas, i.e. those areas that are established commercial locations including town centres or areas which are close to good transport infrastructure, commercial development of small units is very unlikely to be viable in an environment where the housing market is dictating land values.

Research Key Findings and Emerging Policy.

The existing and emerging Planning Policy context is recorded in section 3 of the report.

Requirements by size of premises
B1 office and workspace in Tower Hamlets

The findings of the report suggest that there is a requirement for more space aimed at the small business sector particularly businesses employing less than fifty people. In particular the market seeks developments of units up to 100 sq m and to a lesser extent units less than 250 sq m and are capable of subdivision. This could apply to new premises or the refurbishment of existing commercial space. A shift towards the provision of small and medium sized units is necessary to address the current mismatch in supply and demand. Existing space that matches this typology in appropriate locations, i.e. established commercial areas including town centres or areas with good transport infrastructure should be protected.

**Recommendation:** LBTH should encourage commercial developments with flexible unit sizes of less than 250 sq m and particularly unit sizes of less than 100 sq m.

**Core Strategies**

The preferred options for the Core Strategies are generally supportive in addressing these issues. They passively promote a range of commercial uses, strongly protect B1 SME space in Strategic Employment Locations and support only limited transfer to other uses outside the Strategic and Local Employment Locations. Policy EE7, Redevelopment Change of Use of Employment Sites, strongly resists loss of space and encourages the increase of employment densities. Policy EE8 Small and Flexible Workspace actively supports proposals for small and flexible workspaces and includes the principle of using S106 payments to provide these spaces. This is an important precedent and provides a basis for additional regeneration solutions where necessary.

**Area Action Plans**

Leaside Area Action Plan takes a managed approach to re-designating surplus employment land for alternative uses and safeguarding particular employment locations. The Preferred Policy Option LS2 promotes purpose-built flexible business space, including space suitable for design and design related manufacturing. This is the area most suited to fulfil market requirements for lower end or ‘dirty’ B1 space.

Isle of Dogs Area Action Plan recognises and promotes the growth of Canary Wharf as a global financial centre. The AAP also acknowledges the need for economic need and therefore policies promote the development of purpose built flexible business space for small businesses particularly as elements of mixed-use schemes. This strongly supports the finding of this report that there is a market for small business space in the Isle of Dogs which is likely to increase as demand for space from Support Service businesses increase as the Canary Wharf Financial sector grows.

City Fringe Area Action Plan seeks to focus major office regeneration in locations close to public transport nodes. The AAP also strongly supports the development of flexible affordable business space throughout the area and
B1 office and workspace in Tower Hamlets

protects existing small business space. The emerging policies actively address the issues identified in the report. Most available units in this location are in excess of 200 sq m and there is a shortage of supply of smaller affordable units. The promotion of smaller and more flexible units is critical in this location.

Requirements by Typology

In this context it should be recognised that premises of appropriate size is not the only criteria sought by small businesses. Businesses may have particular requirements relating to the type of accommodation both in terms of design, tenure, layout and the management style of the workspace.

Core strategies

Emerging policy does little to address the issues identified with building typologies. Although the preferred options for the Core Strategies promotes flexible and small workspace more guidance would be useful for developers on what typologies the market requires. In the City Fringe, Isle of Dogs and much of the Central Area ground floor B1 office space is not desirable. Planning Policy should promote upper floor office space with ground floor uses that encourage more active street frontages.

Recommendation: LBTH should seek to provide guidance to developers on which commercial building typologies are demanded by the market.

This report identifies that the quality of design of the commercial schemes has a significant impact of how quickly and easily commercial units let. In particular agents reported that basements and lack of natural light make properties more difficult to let. It was also clear that developers were incorporating basements within schemes to make the commercial floor space re-provision more favourable. It is recommended that officers give consideration to how is policy terms they can improve the design of commercial buildings and limit re-provision of good quality space into basements.

Recommendation: LBTH should consider developing a SPD providing guidance on the design of commercial space.

Area Action Plans

The Leaside, City Fringe and Isle of Dogs Area Action Plans include policies which encourage the development of space suitable for design and design related manufacturing and where possible affordable space but does not provide detail on what sort of typologies should be encouraged. The AAP’s should provide more guidance on what commercial building typologies are required in their respective areas.

Recommendation: The AAP’s should provide more guidance on what commercial building typologies are required in their respective areas.
Requirements by Location

The vast majority of agents interviewed and businesses surveyed commented that access to public transport was critical to the success of commercial schemes, the research found that proximity to good public transport nodes had particular impact on how easily commercial developments were let. The findings of the study concluded that where possible new commercial development should be focused around transport nodes.

Core Strategies

References to accessibility to Public Transport for new and refurbished schemes are limited. Core Strategy Policy EE6 New Office Development ensures that any new office development has good access to public transport but this requirement is not repeated across all of the other relevant Employment policies. Access to public transport is more of an issue in the central area, the only area not covered by an AAP. It is isolated, commercial schemes in this area that demand for is particularly low, especially if there is no parking provision.

Recommendation: New commercial space should be encouraged around new and existing transport nodes.

Area Action Plans

Each of the three Area Action Plans has a detailed Chapter on Transport Accessibility and Infrastructure. It generally promotes higher density development around transport nodes and therefore supports the findings of this study. Not enough detail is contained with the AAP policies to provide enough guidance as to where employment space should be transferred to other uses.

Recommendation: Commercial developments should be encouraged close to public transport nodes. When considering change of use applications from B1 to other uses, proximity to transport nodes should be taken into consideration.

With the above factors in mind we have reviewed below the relevance of planning policies within your emerging Local Development Framework.

We believe that your emerging planning policies are robust and are appropriate for the market which currently prevails. However, planning policies are a crude tool and taking on board the above recommendations could dramatically improve the quality and therefore the success of new B1 space coming onto the market. Whilst the LDF can make recommendations and observations about issues such as small units and the high demand for
B1 office and workspace in Tower Hamlets

freehold units over leasehold options, there is a limit to how this can be enforced. Where it is in the interests of the developer for buildings not to be let – for example where a future residential change of use would increase value – the lack of remit of the planning authority to dictate the nature of provision could undermine these policies.

At this particular time, increased B1 provision is only appropriate if it meets certain market requirements. This will be achieved if the planning policies set out above are complemented by other interventions (see recommendation below).

Whilst it is beyond the remit of Tower Hamlets Planning Authority to take forward these issues in isolation, it is essential that a dialogue across East London Boroughs takes place to consider implementation and management of micro and SME office and workspace and is particularly pertinent in light of the accommodation requirements which will emerge from hosting the 2012 Olympic Games.

Recommendation: Identify appropriate delivery vehicles to provide niche accommodation; Provide support to improve viability for land-uses which would not otherwise compete with residential uses but which are key to the economic growth of Tower Hamlets.
B1 office and workspace in Tower Hamlets

Appendix I: B1 Businesses - Distribution
Density Map of:
Valuation Office Agency Data - 10 to 49 Employees

Legend
AAP Boundaries
Density
High
Low
B1 office and workspace in Tower Hamlets

Density Map of:
Valuation Office Agency Data - 50 to 249 Employees

Legend
AAP Boundaries
Density
High
Low

Scale 1:22,400
Appendix II: Distribution Of Mixed-Use Schemes

1. Hamstage Wharf, E1 W1N
2. 55 Royal Mint Street, E1 8LG
3. 2-12 Cambridge Heath Road, E1 5QH
4. Poplar Wharf, E1 7DR
5. 63 Bady Street, E1 3SW
6. 153-159 Bow Road Business Centre, E3 2SE
7. 3 Old Montague Street, E1 3AL
8. 90-106 Whitechapel Road, E1 6BQ
9. 417 Wick Lane, London, E3 2QG
10. 138-146 Cambridge Heath Road, E1 5QH
11. Andrew Wharf, E14 7DA
Appendix III: Bibliography

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13. CFP: Demand and Supply of Office Space in the City Fringe, Renaisi Ltd (April, 2003)


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