

Tower Hamlets Borough Council



TOWER HAMLETS

Affordable Workspace Evidence Base Policy Review

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APPENDICES

APPENDIX A VIABILITY REPORT

1 INTRODUCTION

1.1 In this note we set out the background to the decision of the council (London Borough of Tower Hamlets) to promote an ‘affordable workspace policy’ as part of the new Local Plan. Policy D.EMP2 (New employment space) of the publication (regulation 19) version of the Local Plan states:

“Within major commercial and mixed-use development schemes, at least 10% of new employment floorspace should be provided as affordable workspace” (see part 4).

1.2 The supporting text to the policy goes on to explain that:

“Part 4 seeks to ensure that major development (i.e. which comprises of at least 1,000 square metres of commercial floorspace) provides sufficient affordable workspace to meet the needs of more local businesses as well as start-ups. In such cases, applicants should provide evidence of agreement to let the workspace at an affordable tenancy rate, at least 10% below the indicative market rate for the relevant location, for a period of not less than ten years. Applicants will be encouraged to work with recognised affordable workspace providers for which we hold an approved list, providing details of management arrangements.”

1.3 In this note [Section 2] we set out the evidence supporting the policy. Where appropriate we draw on the Employment Land Review (ELR) which PBA undertook for the borough in 2016. This set out a chronic shortage of industrial and workshop space in the borough; especially for small local firms. The evidence base also highlighted the fact that local firms were being displaced by a new source of demand - firms who were also being displaced from the city fringes and were now seeking space in Tower Hamlets.

1.4 While our ELR provides a borough-wide context, the core evidence informing the workspace policy is a separate evidence base document¹; undertaken by *Regeneris Consulting* (et al) around the same time as the ELR. This document had the brief of addressing the demand, supply and policy response for small and medium-sized (SME) workspace in the borough. The report demonstrated that there was a *qualitative* deficiency in the supply which could be filled via the provision of affordable workspace. It also found a *quantitative* shortfall and provided policy recommendations to boost the supply of affordable workspace in the borough. Regarding planning policy, the report advised the council to adopt a specific policy via *Intervention Area 6*. The report did not recommend a policy wording to the council but they suggested the council learn from a number of neighbours who had policies in place (i.e. Camden and Hackney – which we review in section 4).

¹ Tower Hamlets Growth Sectors and SME Workspace Study (April 2016) - A Final Report by Regeneris Consulting, We Made That, Aspinall Verdi and the Business Centre Specialist

- 1.5 In section 3 we show that delivering the policy as envisaged, with a minimum 10% discount on rents and 10% of new stock is viable.
- 1.6 In section 4 we look at the emerging London Plan policy and evidence; that policy (which is still in draft) seeks a higher quantum of affordable workspace than proposed by LBTH. While this is not extant planning policy, it sets out the direction of travel for future policy. Regardless of the policy status, the draft London Plan policy is supported by recent evidence published in late 2016 by the Institute for Public Policy Research². We also look at practice in other boroughs; a number have adopted policies seeking workspace provision and others promoting policies in new plans.
- 1.7 As a whole the evidence base supports the proposed council policy. But this needs to be operated flexibly because the target market is exceptionally diverse and cannot be easily defined. What is affordable for one tenant is unaffordable for another. In many cases the critical issue may not be affordability, as in discount on commercial rents, but the need to secure a type of property (or specification) that the market may not choose to deliver but is needed to ensure a diverse local economy. Positive engagement with the council and the approved suppliers will be vital to ensure the policy meets its objectives and provides beneficial space to the boroughs workplace economy.
- 1.8 Finally; it is important to note that the council's choice to adopt an affordable workspace policy is as much a policy choice made by the council and its elected members – acting in response to feedback received from their constituents – as it is one that is founded solely on statistical evidence. The availability of 'affordable' workspace in proximity to where constituents live is considered, by the members of the council, to be a critical local issue. The policy, as drafted, is their attempt to address these local concerns and bring some balance between the needs of their residents for local employment opportunities and what the commercial market may choose to deliver. It is also, in part, a response to policies seeking the provision of affordable housing in the borough. There is a concern that should the push for affordable housing not be accompanied by affordable workspace, the new residents will have very limited employment opportunities going forward.

² <https://www.ippr.org/publications/start-me-up-the-value-of-open-workspaces>

Roberts C (2016) Start me up: The value of workspaces for small businesses, entrepreneurs and artists in London, IPPR

2 NEED FOR WORKSPACE UNITS

Introduction

- 2.1 In this section, we look at the need for additional workspace units from two different evidence base documents. Firstly, the borough-wide Employment Land Review (ELR). The ELR document is the council's main strategic study which sets out the need (and demand) for space in the borough. It provides a useful starting point for looking at the need for workspace units because it shows the market for employment space has become increasingly imbalanced in recent years and that this has disproportionately affected the more affordable elements of the market.
- 2.2 We then move on to look at the more detailed borough workspace study (Tower Hamlets Growth Sectors and SME Workspace Study). This sought to address the specific need for workshop units.

The Employment Land Review

The growing small unit economy

- 2.3 Tower Hamlets is a fast growing residential borough; the new local plan has a housing target of around 55,000 units in total; of which 45 % should be delivered as affordable homes. But the borough is also a fast-growing economy.
- 2.4 Over ten years the borough successfully grew the stock of jobs by nearly 50%³. The borough now accommodates nearly 300,000 jobs; one of the largest economies in London and the UK. Between 2006 and 2015 the borough added 90,000 new jobs.
- 2.5 Although the borough is perhaps best known for its large office market; most obviously at Canary Wharf but also the edges of the City of London, around 90% of the local economy (by business count) is in small and micro firms, employing fewer than 10 people. This small business economy has also been growing.
- 2.6 Official data from the Office of National Statistics shows that the borough accommodated 9,219 enterprises employing fewer than 10 workers (micro firms) in 2006. By 2015 the number had increased to nearly 13,000.
- 2.7 If we assume that each of these new firms employs 5 people, then the stock of employment in these firms grew by around 20,000 workers. So, it is reasonable to assume that over the 2006-15 period between 20-25% of all job growth in the borough was fuelled by firms employing fewer than 10 people⁴.
- 2.8 Looking at the official Government definition of a small and medium sized firm (<250 employees), data from the ONS ordered via a special tabulation of official statistics showed that the SME economy in Tower Hamlets employed 80,000 people in 16,000 firms – with an average size of 5 people in each firm. This is a significant increase in

³ ELR (see table 3.7).

⁴ Total job growth was around 90,000 over the period 2006-15.

10 years when the borough accommodated only 7,000 firms employing 45,000 people in SMEs.

- 2.9 It is also noticeable from the ONS data that the size of SMEs has actually fallen over time. Firms are getting smaller, not larger.

What do these small firms do in Tower Hamlets?

- 2.10 The same special tabulation of data from the ONS gives us an idea of what these small firms do in the borough. This in turn gives us an indication of what type of property they demand.
- 2.11 The table below shows how the small business economy has changed between 2010 and 2016. Ideally we would use a longer time period; but the ONS changed the way firms are recorded and so comparisons with earlier years are not easy.

Figure 2.1: Small Firms Structure

	Firms			Employment		
	2010	2016	Growth (%)	2010	2016	Growth (%)
Production	370	510	38%	3089	3202	4%
Construction	460	665	45%	3710	3197	-14%
Motor trades	95	145	53%	N/A	499	N/A
Wholesale	690	775	12%	3736	3968	6%
Retail	920	1115	21%	3453	4877	41%
Transport & Storage (inc. postal)	335	415	24%	2062	2597	26%
Accommodation & food services	570	870	53%	4294	7234	68%
Information & communication	1490	2850	91%	7982	12151	52%
Finance & insurance	430	480	12%	4708	4226	-10%
Property	360	655	82%	2024	3332	65%
Professional, scientific & technical	1950	3965	103%	9698	14320	48%
Business administration & support services	665	1365	105%	4544	6989	54%
Public administration & defence	N/A	5	0%	N/A	N/A	0%
Education	165	315	91%	2355	4162	77%
Health	300	605	102%	3830	5710	49%
Arts, entertainment, recreation & other services	670	935	40%	3047	4287	41%
Total	9480	15680	65%	58994	80949	37%

Source: ONS (2016)

- 2.12 The majority of small firms are in activities we would expect to occupy some form of office space. But there are signs of growth outside of the normal office sectors; including arts, construction and motor trades. It is also likely that some of the other growing sectors, including 'information and communication' and 'professional, scientific and technical', don't all occupy 'vanilla' office space. The Silicone Island cluster, which the ELR noted was being displaced into the borough, is well known for its workshop and innovation type space.

The stock of small units

- 2.13 The data suggests a growing demand from smaller firms, both micro firms and SMEs. But the Employment Land Review noted a disconnect in the local property market. Demand was strongest for small units but supply and transactions for these units exceptionally small/low.
- 2.14 This applied to both industrial and office space. For office space, despite the fact that small firms make up 90% of all firms in the Borough (10< employees), there were

almost no transactions recorded for small units. The table below (taken from the ELR) shows that fewer than 15% of transitions were for small units, below 100 square metres.

Figure 2.2: Table 4.2 from the 2016 PBA ELR

Table 4.2 Office take-up, Tower Hamlets 2011-15 by unit size

Unit size	No. of units	% of transactions
up to 25 sq m	4	1%
25.1 - 50 sq m	22	3%
50.1 - 75 sq m	25	4%
75.1 - 100 sq m	44	6%
101 - 200 sq m	143	20%
201 - 1,000 sq m	317	45%
1,001 sq m plus	144	21%
Total	699	

Source: EGi, AVL

- 2.15 While it is quite possible that some small units fall outside the normal market, small firm deals are much less likely to be reported to the industrial sources, the feedback from the ELR consultation was that there was unsatisfied demand. Agents were aware of high demand but limited stock. So there is evidence that the demand for small units is outstripping supply.
- 2.16 In addition to low transaction data we also know that the average size of an office property in the borough has grown. Increasing from 550 square metres in 2000 to 617 square metres in 2016.
- 2.17 In more general market terms, the ELR found a commercial property market under stress; vacancy rates for industrial stock were almost negligible and secondary office stock was being lost via permitted development rights. Almost all the new supply of space was dominated by the office pipeline and was almost all large floorplate offices unsuitable for smaller firms.

- 2.18 At the same time, demand was being displaced to the borough from more centrally-located areas in London. Furthermore, a new type of displaced firm, previously firms that had clustered around Old Street and Shoreditch, were moving into the borough.
- 2.19 The report noted that the **“affordable space; including true secondary stock and smaller units are being lost through uncontrolled change of use (office) and ‘regeneration’ (industrial). Overall, headline vacancy rates are exceptionally low and increases in rents clearly demonstrate a market shortage”**
- 2.20 In addition, for many local firms the ability to relocate further out of the centre of London has been hindered by the London wide shortage of property. The recent London Industrial Land Demand Study (2017), underpinning the new (emerging) London Plan, found that most boroughs had failed to limit the release of land within their ‘benchmarks’. So there is no prospect of displaced firms being re-accommodated in a neighbouring borough.

The Workspace Study

- 2.21 Around the same time as PBA were drafting the Employment Land Review, *Regeneris (et al)* were finalising a specific study⁵ (the ‘workspace study’) looking at the demand and supply of workspace units in the borough.
- 2.22 The study also found, as with the ELR, a local economy built around SMEs – and that the SME economy had been growing.
- 2.23 In addition, the study found that the borough was well represented in the SME ‘growth’ sectors, including the ICT, creative sectors and science / technology.
- 2.24 The ICT sector employed 7% of the borough’s jobs and had shown a 91% increase in only 5 years. The creative sector is much smaller (2% of jobs & 7% of firms) but had grown by 80% over 5 years. Science and technology employed 18% of the jobs and 22% of the firms. Its growth had been slower but still grew jobs by 43% and firms by 71% over 5 years. We would also note that in general the growth of firms exceeded the growth of jobs – suggesting that the growth was predominantly at the micro end of the SME spectrum.

Supply of Property

- 2.25 The workspace study goes on to map the SME geography of the borough, but it is fair to say, given the size of the SME economy, this analysis simply shows how important the SME economy is to the borough.

⁵ Tower Hamlets Growth Sectors and SME Workspace Study (April 2016) - A Final Report by Regeneris Consulting, We Made That, Aspinall Verdi and the Business Centre Specialist

Figure 2.3: Economic Strengths of the SME Economy

Table 3.15 Summary of Economic Strengths and Performance

	Current Size of Economy	Recent Economic Performance	Growth Sectors				Economic Linkages	Local Economic Hubs*	Accessibility	Indicative Economic Category
			ICT and Digital	Creative Industries	Science and Tech	Professional Services				
Tower Hamlets City Fringe	£££	↑↑↑	↑↑	↑↑↑	↑↑		<ul style="list-style-type: none"> City of London Hackney/ Tech City 	Aldgate	✓✓✓	ESTABLISHED OFFICE
								Whitechapel	✓✓	LOCALLY DISTINCTIVE; EMERGING TECH / CREATIVE
								Brick Lane	✓✓	LOCALLY DISTINCTIVE; EMERGING TECH / CREATIVE
Central	£	↑	↑↑	↑↑	↑	↑↑	<ul style="list-style-type: none"> Hackney/ Tech City 	Bethnal Green	✓✓	NASCENT TECH / CREATIVE
								Cambridge Heath	✓✓	NASCENT TECH / CREATIVE
								Roman Road	✓	LOCALLY DISTINCTIVE; LOCAL SERVICE
								Stepney Green	✓	LOCALLY DISTINCTIVE; LOCAL SERVICE
Docklands	£££	↑↑↑	↑↑↑	↑↑	↑↑↑	↑↑	<ul style="list-style-type: none"> City of London & global markets 	Canary Wharf	✓✓✓	ESTABLISHED OFFICE
Riverside	£	↑		↓↓	↓↓	↑↑	<ul style="list-style-type: none"> City of London 	Tower Gateway	✓✓✓	ESTABLISHED OFFICE
								Limehouse / Wapping	✓✓	LOCALLY DISTINCTIVE
Eastern Fringe	£	↑↑	↑↑	↑↑	↑↑	↑↑↑	<ul style="list-style-type: none"> Stratford/ Olympic Royal Docks 	Hackney Wick	✓	INDUSTRIAL & NASCENT TECH
								Fish Island	✓	INDUSTRIAL & NASCENT TECH
								Bromley by Bow	✓	INDUSTRIAL & NASCENT TECH

Note: Cells highlighted in green have a location quotient above 1, i.e. they are more specialised than in London. The ↑ represents the growth rate of the sector over the last five years.

*Note: some economic hubs cross across 'sub-areas'; see previous maps for clarity.

Source: Regeneris

2.26 The study goes on to identify that there is a supply of only 117 'flexible workspace' properties in the borough. These range from dedicated co-working spaces, to converted ex-industrial premises housing artist studios, to individual desk spaces offered in larger office or studio spaces. Managed workspaces are the largest sector (33% of the total) with Incubators, Accelerators and co-working spaces (IAC) and creative studios both accounting for 1/5th of the provision. Only 4 'maker spaces' were found in the borough.

Figure 2.4: Workspace Provision in Tower Hamlets

Table 4.2 Summary of Workspace Provision by Typology

Typology	Number of workspace premises	Estimated individual workspaces	Average pricing	Estimated current availability	Typology as % of total workspace premises	Typology as % of total individual workspaces
IACs	27	2400+ desks	£289/fixed desk/month	Limited but revolving availability	23%	38%
Managed workspace	32	1500+ desks	£406/pp/month Light industrial units: £16/sqft/year Office space: £53/sqft/year	Average availability of 1-4 units per premises Recent large scale refurbishment & new provision of units increasing availability	28%	25%
Serviced offices*	9	1500+ desks	£384/pp/month	Good availability across all sites	8%	24%
Creative studios	27	750+ studios	£18.28/sqft/year	Very limited. Less than 20 studios identified as available, most operators run waiting lists	23%	12%
Maker spaces	4	20 workstations 20 desks	Ranges depending on frequency of use. From £5/month for membership access, to £250/month for fixed workspace	Short-term/casual availability for hourly/daily use Limited availability for fixed workbenches/desks	3%	0%
Temporary deskpace in existing office/studio	17	50+ desks	£217/pp/month	Ongoing small-scale availability with fast turn around. Provision tends to differ week by week.	15%	1%
TOTAL	116	6300+ desks 750+ studios			100%	100%

* only includes serviced offices offering shorter-term / flexible contracts

Source: Regeneris

- 2.27 Across the borough there is some evidence of clustering of different types of providers with serviced offices predominantly in the Isle of Dogs, IACs (Incubator space) in the west of the borough in the City Fringe opportunity area and creative studios in the east. Managed workspaces are spread throughout the borough.
- 2.28 What is not clear from the report is to what extent the supply of premises is driven by the supply of property in the wider area. The (former) industrial stock in the east is much more likely to lend its self to the creative industry sectors than the stock of offices on the Isle of Dogs, for example. There is evidence which shows that some types of provider are attracted to an area by the supply of property as opposed to any pre-existing clustering.
- 2.29 From work PBA has previously undertaken for the borough, we found that some types of workspace noted in the workspace study are transient; occupying space at the end of its useful commercial life and moving on once the area regenerates. There is evidence for example that the creative cluster at Fish Island has roots in Hoxton and Shoreditch – before these areas ‘regenerated’ and become non ‘affordable’. This economic driver of workspace provision presents the borough with a dilemma; regeneration of an area results in values increasing and without intervention it results in *affordable* tenants being displaced. In the past these tenants could relocate to the next ‘up and coming’ area. But these areas are in increasing short supply in Tower Hamlets.
- 2.30 With a sharply declining stock of older, secondary space which can be used as cost efficient (affordable) space, this lends some support for a policy led intervention. A policy led intervention to secure affordable space as part of any new provision provided.

Demand for property, market balance and the rationale for a new policy

- 2.31 The workspace study outlined buoyant demand for workspace units; with most property full and some operating wait lists. The report found that the market was generally performing well but there were signs of stress in the market and particularly at the *affordable* end of the spectrum. The report concludes that “increasing rents and the loss of employment land” are ‘challenges’ for the market.
- 2.32 The report recommends that in response the borough could assist with better co-ordination of the sector but also in facilitating new provision. The recommended policy focus is not on the council providing space, but the borough using its planning powers to secure space for the private sector. This includes protecting property via planning policies but also encouraging new provision via a dedicated policy. *Intervention Area 6* of the report directs the borough to consider a specialist policy along the lines of Hackney or Camden.
- 2.33 Our opinion is that given the (evidenced) policy desire to promote affordable workspace an explicit policy is needed in the development plan. This is because one of the main barriers to securing provision is where site owners, not knowing their policy liabilities, either overpay for development sites or (at considerable expense) design schemes which cannot meet this need. By requiring this space in an explicit policy this can much more easily be factored into the site promotion and scheme development.
- 2.34 Given the highly variable nature of both provision and local demand this also lends support to a flexible policy whereby the applicant is encouraged to engage with the council and registered providers early. This is a pragmatic response to what would otherwise be an overly prescriptive policy which would struggle to specify what type of space is in demand at a single point in time and micro location.
- 2.35 We understand that applicants will be free to work with any provider from the list they choose and promote an alternative to the council, to be included in the list, if they identify a provider who has been omitted.

Where should the policy apply?

- 2.36 The workspace study recommendations suggest that the policy should be applied borough wide. When promoting a policy to the borough *Intervention Area 6*, does not scope any geography. The rationale for a borough wide policy appears strengthened by *Intervention Area 5* which suggests that:
- “LB Tower Hamlets should seek to promote less visible locations of the borough to providers, in particular emerging locations to the north and east where there are small but growing clusters of activity in the growth sectors”.*
- 2.37 For the implementation of the proposed policy, table 5.4 of the workspace study provides some guidelines; including where in the borough the council should seek what type of workspace provision. The table highlights seven areas where they expect strong demand in the future (three green ticks) and five further areas where

good demand is expected (two ticks). The table also makes a suggestion as to what type of space should be encouraged in which area.

Figure 2.5: Demand for Workspace by Geography

Table 5.4 Summary of Workspace Supply and Demand in Tower Hamlets Sub Areas								
Sub Area	Local Economic Hub	Current Characteristics		Trajectory			Workspace Opportunity	
		Current Economic Category	Workspace Supply	Economic Trajectory	Development Trajectory	Property Market Pressures	Future Workspace Demand	Relevant Typologies
Tower Hamlets	Aldgate	Established office	✓✓✓	✓✓✓	✓✓✓	EEE	✓✓	IACs, MW, SO, DS
	Whitechapel	Established tech/creative	✓✓	✓✓✓	✓✓✓	EE	✓✓✓	IACs, CS, MW, SO, BP
City Fringe	Brick Lane	Established tech/creative	✓✓	✓✓	✓✓	EE	✓✓✓	IACs, CS, MW, SO
	Bethnal Green	Emerging tech/ creative		✓✓	✓✓	EE	✓✓✓	IACs, CS, MW
Central	Roman Road	Local service/ future growth		✓	✓	E	✓✓	IACs, CS, MW
	Stepney Green	Local service/ future growth		✓	✓	E	✓✓	IACs, CS, MW
	Cambridge Heath Road	Emerging tech/ creative	✓✓✓	✓✓	✓✓	E	✓✓✓	IACs, CS, MW, MS
Docklands	Canary Wharf	Established office	✓✓	✓✓✓	✓✓✓	EEE	✓✓	IACs, MW, SO, BP
	Tower Gateway	Established office		✓✓	✓✓	EEE	✓	IACs, MW, SO, DS
Riverside	Limehouse/ Wapping	Industrial & nascent creative	✓✓	✓	✓✓	EE	✓✓	IACs, CS, MW, DS, SO
Eastern Fringe	Hackney Wick	Industrial & nascent creative	✓✓	✓✓	✓✓	E	✓✓✓	IACs, CS, MS
	Fish Island	Industrial & nascent creative	✓✓	✓✓	✓✓	E	✓✓✓	IACs, CS, MS
	Bromley-by-Bow	Industrial & nascent creative	✓✓	✓✓	✓✓	E	✓✓✓	IACs, CS, MS

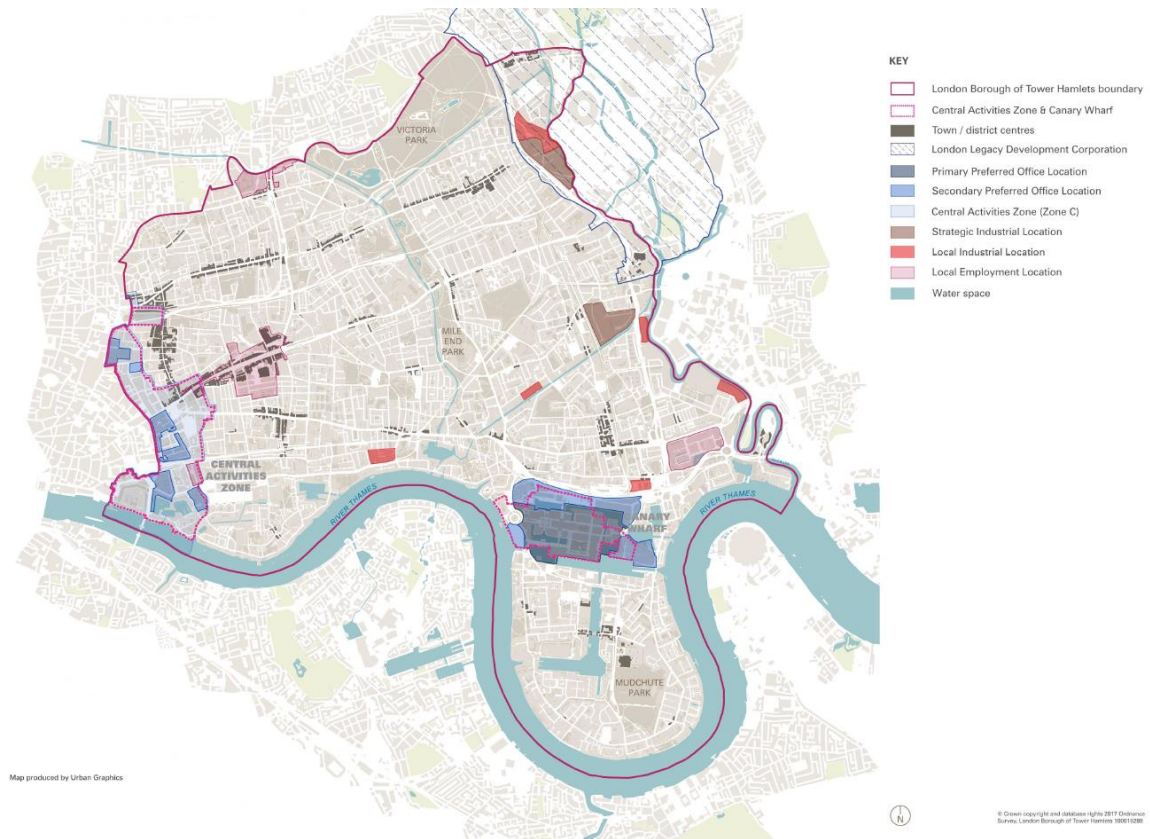
Typology Key:

- IACs – Incubators, Accelerators, Co-Working
- CS – Creative Studios
- MW – Managed Workspace
- SO – Serviced Offices
- BP – Bespoke Premises
- MS – Maker Spaces
- DS – Desk Space

- 2.38 Figure 2.6 below shows where the new Local Plan expects to accommodate its supply of new (and protected) commercial space in the future⁶. There is a good overlap with the geography noted in the workspace study and the boroughs proposed allocations.
- 2.39 In the City Fringe opportunity area, the Local Plan seeks to encourage the provision of new office space (see policies S.EMP1 and D.EMP2). The workspace study notes these areas are most ‘relevant’ to lighter office type workspaces and therefore are compatible with the proposed approach set out in policy D.EMP2. The same applies to the area to the north of the Isle of Dogs (corresponding with the Docklands area in the table above) which includes Canary Wharf. Given the quantum of space coming forward in these areas, securing provision here is clearly important to delivering the workspace study recommendation to secure net additional affordable workspace in the borough.
- 2.40 Parts of the Lea Valley, located on the eastern fringe of the borough, are protected via industrial and employment policies (including a strategic industrial location and local industrial locations as defined in the Local Plan) and the workspace study encourages more industrial space (including maker spaces and creative studios) in this area.

⁶ Note: The Tower Hamlets Activity Areas are not shown on the map (Figure 2.6) but are also areas identified in the Local Plan as being able to accommodate substantial employment growth.

Figure 2.6: Borough Employment Policy Areas



Summary

- 2.41 The Tower Hamlets ELR identified a local economy which is partly reliant on the SME economy. In general terms, the ELR found buoyant demand for smaller units in the borough which was partly the product of demand being displaced from Central London. This displaced demand was able to outbid local firms for property.
- 2.42 To compound the problem the stock of property has been falling, partly through regeneration but also permitted development rights losses that have removed the more affordable secondary stock from the supply. Because the borough and its neighbours are short of industrial land there is little scope for other areas to accommodate this displacement within the borough or nearby.
- 2.43 The workspace study largely agrees with the ELR, noting that the workspace market is generally buoyant and successful. But there is a shortage of affordable workspace and a 'threat' to the SME economy from increasing rents and values.
- 2.44 The study goes further than the ELR to suggest that the council draft a specific policy, similar to other boroughs, to encourage provision where new space is promoted.
- 2.45 The workspace study makes the case for a flexible, borough wide policy and directs the council to seek different types of provision in different parts of the borough. The report notes that demand is weaker on the Isle of Dogs and Aldgate but these are the areas where we may expect the majority of the new commercial stock to be delivered. So, accepting the need to deliver additional affordable space then excluding these

areas from the scope of the policy would not appear sensible. We would also note that some affordable workspace provision could help to diversify the economy and provide some balance to the employment portfolio to help provide a greater range of employment opportunities than may otherwise occur in these areas.

3 IS NEW PROVISION VIABLE?

Introduction

- 3.1 Any planning policy must be deliverable and so (generally) viable. Given the variable nature of the market it is impossible to robustly define 'affordable' in a single planning policy. What is affordable for one possible tenant would be unaffordable for another. Another complication, which means setting a single 'affordable' rent is difficult, is that how people use their space is partly a product of cost – the cheaper the space is, then the less likelihood and economic rationale there is to use space efficiently.
- 3.2 The pragmatic response of the council to this dilemma is to encourage applicants to engage with registered providers of affordable workspace; from a list identified by the council. These are known experts in delivering space to their respective markets at rents and specifications tenants can afford. As commercial providers of space (including charities and not for profit) they have an incentive that tenants make the most efficient use of their space as possible given their circumstances.
- 3.3 The policy, however, needs to set a 'starting point' for defining affordability – where clear evidence exists that this is generally viable to deliver. In this policy this has been set at a *minimum* of 10% discount under market rents. In this section, we discuss this discount in more detail; drawing on work from Aspinall Verdi who also advised the workspace study.

Is 10% viable to deliver?

- 3.4 In assessing whether the council's affordable workspace policy of 10% of new commercial floorspace at 10% discount from open market rent is viable, Aspinall Verdi has reviewed the BNP Paribas Local Plan Viability Assessment.
- 3.5 The plan viability report tested various scenarios; four of which included affordable workspace provision at 10% of total office floorspace. Figure 3.1 shows that the scenarios were viable when tested between 40% and 50% discount of market rents on 10% of total office floorspace.

Figure 3.1: All Viable Scenarios

Scheme	Office market rent £ psf	Affordable workspace rent £ psf	Level of reduction % market rent
Bishopsgate Goods Yard	£58	£29	50%
Billingsgate Market	£42	£21	50%
North Quay	£42	£21	50%
Whitechapel South - Site bound by raven row	£20	£12	40%

Source: BNP Paribas (2017)

- 3.6 The BNP Paribas report therefore tested a greater reduction in market rent than required in policy D.EMP2. A lesser reduction in market rent (i.e. the 10% proposed in policy D.EMP2) would increase the GDV of the scheme (assuming all other assumptions remain the same) and hence overall viability. This is illustrated through a case study analysis in figure 3.2 of the Bishopsgate Goods Yard viability testing. It shows that the GDV on the office element of Bishopsgate Goods Yard viability testing increases from £929 million to £956 million, if a 10% reduction in market rent is assumed rather than 50% used by BNP Paribas. The increase in GDV equates to £27 million.

Figure 3.2: Increase in Office GDV (due to increasing affordable workspace rent)

Scenario	GDV
Office element with 10% of floorspace affordable at 10% market rent	£956 million
Office element with 10% of floorspace affordable at 50% market rent	£929 million
Increase in GDV	+£27 million

Source: BNP Paribas, Aspinall Verdi (2017/2018)

Conclusions

- 3.7 Based on the above review of existing evidence-base documents, there is demand for affordable workspace throughout the borough and the proposed 10% reduction of market rent on 10% of office floorspace is viable.
- 3.8 The Regeneris report identifies that there is demand for affordable/flexible workspace with vacancy rates very low and operators having to do little marketing to attract occupiers.
- 3.9 The BNP Paribas report demonstrates that 10% of the office space at between 40% and 50% discount of market rent of 10% of office floorspace development is viable. We have been able to illustrate that a “lesser ask” (i.e. 10% reduction in rent of 10% of office floorspace) in line with policy D.EMP2 increases the GDV of the development. Assuming all other assumptions remain the same an increase in the GDV will improve development viability.
- 3.10 This supports the council’s policy to set the minimum rate of discount at 10% and shows that there is, via the flexible operation of the policy, to secure a higher discount where local evidence shows that this may be needed to ensure the space offered is affordable to its target tenant.

4 OTHER BOROUGH POLICIES

Introduction

- 4.1 In this section we briefly review a number of other boroughs affordable workspace policies; adopted and emerging. As we show below this type of policy is increasingly common across London as all boroughs have seen a sharp contraction in their employment land supply which has, in their opinion and evidence, affected those at the 'affordable' end of the property market.
- 4.2 We start this analysis with a brief review of the adopted and emerging London wide plan policy. As we note below, the proposed LBTH policy is significantly weaker than the Mayor of London's proposed policy in the emerging London Plan.

The Adopted London Plan

- 4.3 The adopted London Plan requires, at policy 4.1, states that the Mayor of London will work to:
- “ensure the availability of sufficient and suitable workspaces in terms of type, size and cost, supporting infrastructure and suitable environments for larger employers and small and medium sized enterprises, including the voluntary and community sector”*
- 4.4 The supporting text goes on to note that, at the time of drafting, there was broadly sufficient market provision of workspace in London (see 4.8) but highlights areas where this may not be the case and additional could be secured via section 106 and legal agreement. Central London is specifically noted as one such area:
- “4.8 Whilst availability of workspaces that are both suitable and affordable is a key concern for small and medium-sized enterprises (SMEs), in overall terms there is currently sufficient market provision, though there will be particular locations with significant constraints that need addressing, and it will be important to ensure that there continues to be sufficient capacity into the future. In some circumstances, such as around central London, to meet the requirements of CAZ, workspace may need to be secured through planning agreements as part of mixed use development. The Mayor also recognises that London's economy is disproportionately dependent on larger employers. This Plan reflects their importance to London's continued prosperity and ensures that they have the room to grow. These trends will be monitored rigorously”*
- 4.5 It is important to note that this policy was drafted before the latest round of GLA evidence. More recent evidence, published by the GLA, highlights the faster than expected losses of industrial land. For offices more recent evidence address the rapid loss of secondary office stock as space is lost via permitted development rights. As we discuss below, this new evidence has led the Mayor of London to conclude that the market is no longer balanced and the next London Plan needs to take a stronger policy like regarding workspace provision.

The Draft London Plan

- 4.6 As noted above, the adopted London Plan supports the provision of additional affordable workspace in Central London, secured via section 106. But the new London Plan (as emerging) takes a much more proactive approach to secure new provision across the London boroughs.
- 4.7 The new London Plan proposes two new policies which are relevant to the provision of affordable space (E2 & E3). Both policies are draft and post-date the proposed Tower Hamlets affordable workspace policy. So direct alignment, in terms of policy wording, thresholds and geography could not be expected. But the proposed LBTH policy is certainly in the spirit of the emerging policy and broadly reflects the GLA evidence base.

Policy E2

- 4.8 The first relevant policy is E2. Policy E2 seeks to secure a supply of 'local cost' office floorspace "to meet the needs of micro, small and medium-sized enterprises and to support firms wishing to start-up or expand". The policy seeks to secure the re-provision, or provision of new 'cost efficient' [pba] space which is capable (by design) of being let at lower, than wider market' rents. And so is more affordable to the target tenants.
- 4.9 For large commercial proposals, those above 2,500 square metres the policy seeks SME workspace provision ('flexible workspace') as part of the proposed development mix.
- 4.10 However, it is fair to note that the phrase "affordable workspace" is not used in the policy; nor is there a policy requirement to let the 'low cost' (cost efficient) space at below market rents. The provision of sub market rents space is a requirement of policy E3. Instead, this policy could be seen to ensure a mix of property, including more affordable space than would otherwise be provide, by design.
- 4.11 In the Tower Hamlets context, application of this policy would, for example, seek to ensure that major office developments offer a range of units and specifications including lower specification space which could be let at a discount compared to what could be achieved via a different specification. It seeks to secure a wider variety of space and specifications than the market may otherwise provide.

Policy E3

- 4.12 Policy E3 of the proposed London Plan includes an explicit affordable workspace policy.
- 4.13 The proposed policy defines 'affordable' as being:
*"space that is provided at **rents maintained below the market rate** for that space for a specific social, cultural, or economic development purpose. It can be provided directly by a public, charitable or other supporting body; through grant and management arrangements (for example through land trusts); and/or secured permanently by planning or other agreements"*

- 4.14 The draft policy (section 2(b)) suggests that ‘particular consideration’ should be given to drafting affordable policy where:

“cost pressures could lead to the loss of affordable workspace for micro, small and medium-sized enterprises (such as in the City Fringe around the CAZ and in Creative Enterprise Zones)”

- 4.15 This geography is very relevant to the borough given the large extent of either City Fringe or CAZ within Tower Hamlets. Regarding the Isle of Dogs; many policies in the London Plan couple the Isle of Dogs with the CAZ. But not in this case. This is most likely because the Isle has not traditionally hosted a large SME or workspace cluster. However, securing new affordable space here could be justified to ensure a mixed character of employment provision. In section 2(c) of the policy, it states that affordable workspace should be secured:

“in locations where the provision of affordable workspace would be necessary or desirable to sustain a mix of business or cultural uses which contribute to the character of an area”

Greater London Authority Evidence

- 4.16 The Mayor of London’s general employment policies are informed by the London Industrial Demand Study and related London Office Policy Review. These documents were published in 2017 and post-date the Tower Hamlets Employment Land Review. Both however note that the loss of space in London, industrial and office has disproportionately affected the supply of lower cost space – including that for the SME economy. The London Plan policies are drafted very much with this in mind.
- 4.17 The Mayor of London has also commissioned specific evidence looking at the demand (or need) for affordable workspace. This evidence, undertaken by the Institute of Public Policy Research, reported in 2016⁷. It is cited as evidence supporting the emerging London Plan.
- 4.18 The report outlines the challenges facing small firms and the creative industries across London. This largely re-iterates, or confirms, that the sector is being disproportionately squeezed by rising rents and a shortage of stock caused by permitted development rights. But it goes further to quantify the value of the market in London and so demonstrates the harm that could result unless the Mayor of London (and the boroughs) intervene in the market and seek positive provision of new space.
- 4.19 The report addresses the “open workspace market” although in practice relates to almost any form of affordable, small unit space. This ranges from “flexible co-working space” which operate on a ‘rent a desk by the hour’ format, up to dedicated office studios or workshops. What separates this type of space from the more normal

⁷ <https://www.ippr.org/publications/start-me-up-the-value-of-open-workspaces>

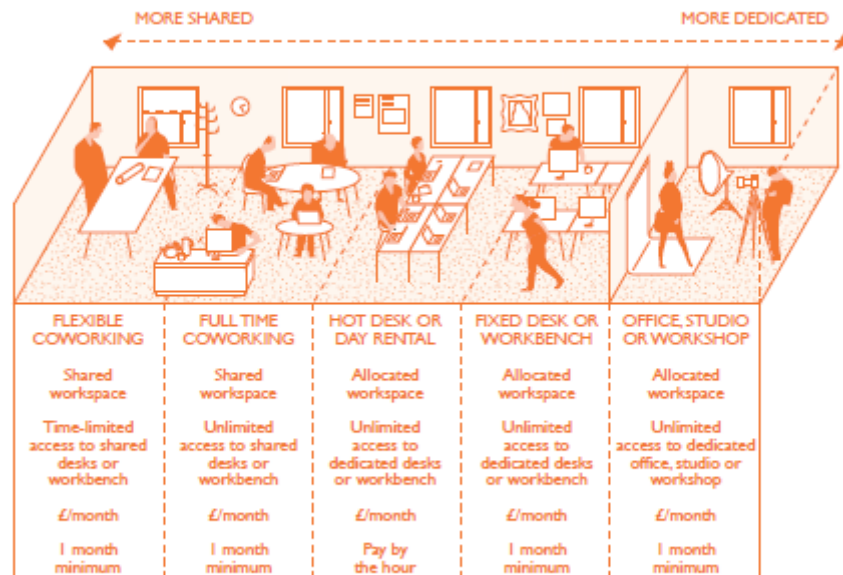
Roberts C (2016) Start me up: The value of workspaces for small businesses, entrepreneurs and artists in London, IPPR

market is that it offers the use of shared resources, flexible terms (easy in/easy out) and some form of curator and eligibility criteria.

Figure 4.1: Types of workspace

FIGURE 1.1

Five 'types' of open workspace, and how their terms vary



Source: Adapted from GLA, *Creating Open Workspaces* (GLA 2015)

Source: Institute of Public Policy Research (2017)

- 4.20 The report goes on to note that this type of space is particularly attractive to the SME and creative market.

Summary

- 4.21 The emerging London Plan is based on evidence showing that the city is running short of industrial and lower cost office space. It recognises that those at the affordable end of the market are disproportionately affected and this threatens the vibrancy of London and its ability to nurture enterprise in micro firms and other SMEs. Building on this evidence the next London Plan will include explicit policies to seek new affordable workspace.

Other Boroughs

- 4.22 Several other Central London boroughs have a well-established track record of implementing affordable workspace policies. Each borough policy is different; tailored to their evidence. But common themes include a need to provide space at below market rents, encouragement to engage with economic development teams to scope space and respond flexibly to the policy and the request to engage with an established panel of providers.

Camden

- 4.23 Camden benefits from one of the most recent adopted plans in London, adopted in summer 2017.

- 4.24 Policy E2 of the plan specifically requests the provision of affordable workspace where sites are redeveloped and intensified (i.e. where there is net additional floorspace). Where this is the case the policy requires:
- “the proposed premises include floorspace suitable for start-ups, small and medium-sized enterprises, such as managed affordable workspace where viable”*
- 4.25 In their context affordable is defined as space let at less than 80% of comparable market values – although this is only expressed as a guide in the supporting text. The supporting text provides other examples.
- 4.26 The supporting text notes that the council will be flexible in applying their policy and the council’s economic development team will work with developers to agree appropriate terms of affordability “case by case”:
- 4.27 It is worth noting that the Inspector examining the development plan considered the need to secure affordable workspace was soundly justified given the large numbers of SME firms in the borough.

Figure 4.2: Extract from Camden Local Plan (2017) (5.44 -5.45)

5.44 Where provision of SME workspace has been agreed as part of the development, the Council will seek to secure this via the use of planning obligations. We will also seek to secure through a planning obligation an element of affordable SME workspace from large scale employment developments with a floorspace of 1,000sqm or more. The cost per square foot or per workstation that would be considered affordable will vary according to a range of factors such as location, type, quality etc. Where workspace has been specified as affordable, the Council’s Economic Development Team will work with developers to agree appropriate terms of affordability on a case by case basis. The following are examples of ways in which affordability could be considered:

- *an element of the space could be provided at less than 80% of comparable market values (however, for many sectors and locations in Camden rents will need to be lower than this to make them affordable to target occupiers);*
- *a sponsorship programme through which a number of local businesses are able to access space at reduced rents for an agreed period;*
- *an average of market rents paid by tenants in the area occupying an equivalent type and quality of space.*

5.45 The Council will also consider alternative suggestions made by developers.

Figure 4.3: Extract from Camden Inspectors Report (89):

89. The requirement for higher intensity redevelopment schemes to include an element of affordable managed workspace for SMEs is justified in the context of the high level of SME growth in the borough, as outlined above. The approach has already been successfully implemented in Camden and a number of other London boroughs, and is an example of positive planning in the context of rising rents and

pressures on existing commercial premises from increasing residential land values and other factors. Criterion f also specifically states that affordable managed workspace would only be sought where it is viable. The suggested threshold of 1,000sqm is proportionate as it relates to large-scale major development which is likely to be more capable of supporting an element of affordable managed workspace.

Hackney

- 4.28 The Hackney policy is explicitly referenced by Regenesys in their report. Their policy, found in the 2015 Development Management Local Plan requires 10% of new floor space in major schemes to be offered as affordable. A threshold of 1,000 sqm is used to define major. The supporting text explains that affordable is generally 20% below market rents and this is to be secured in perpetuity.

POLICY DM16 - AFFORDABLE WORKSPACE

The Council will seek 10% of the new floorspace within major commercial development schemes¹² in the Borough, and within new major mixed-use schemes in the Borough's designated employment areas, to be affordable workspace, subject to scheme viability.

The applicant should submit evidence of agreement to lease the workspace preferably in association with a Council registered workspace provider. Under this preferred option the commercial terms to be agreed between the applicant and Council registered workspace provider are to be secured via legal agreement.

If on-site provision is not possible, financial contributions for equivalent off-site provision will be sought.

In addition, proposals for the redevelopment of existing low value employment floorspace reliant on less than market-level rent should reprovide such floorspace suitable, in terms of design, rents and service charges, for these existing uses, subject to scheme viability, current lease arrangements and the desire of existing businesses to remain on-site.

- 4.29 As with Camden the policy text notes that the policy will be applied flexibly. Applicants are requested to engage with the council early to agree the specification and also required to identify a "affordable workspace provider" as early as possible.
- 4.30 From reading their inspectors report, and earlier versions of the plan, it is clear that the policy and supporting text was originally much more specific; setting out that rents should be significantly cheaper than 20% but that space would be managed out of being affordable over 10 years (i.e. starting at a 50% rent and climbing over 10 years). This was modified removing the sliding rents but also the time period; so space is protected as 'affordable' in perpetuity.

Islington

- 4.31 The Development Management Policies Development Plan Document (adopted in 2013) requires the provision of affordable workspace in 'major schemes'. This follows

from Core Strategy policy CS13 which requires the provision of either affordable workspace or affordable retail space.

- 4.32 Unlike Camden and Hackney, this requirement is limited to 'employment growth areas' or town centres and while no threshold is given supporting text notes viability testing demonstrated that 5% affordable could be secured in large (10,000 square metres) schemes.
- 4.33 Existing London Plan policy 4.1 is cited as the justification along with local evidence of 'market failure' along with the fact that 85% of local firms are 'micro' firms employing fewer than 5 employees. This market failure is summarised as rents being too high for local firms (micro and small) to afford.
- 4.34 Applicants are directed to engage with the council to scope their scheme, and as with other boroughs to work with workspace providers chosen from the council list. The supporting text notes that an affordable rent is generally 80% of market rents but could be much lower depending on location and target tenant.

Summary

- 4.35 The emerging Tower Hamlets plan is in conformity with the adopted London Plan and would appear to be weaker than the emerging London Plan. Tower Hamlets seek a smaller reduction in rent (as the minimum) and a smaller percentage of space than being suggested in the emerging plan.
- 4.36 The Tower Hamlets policy is broadly in line with a number of other Central London boroughs. But again, the proposed policy does not appear as onerous as some others.

5 SUMMARY

- 5.1 The London Borough of Tower Hamlets is proposing an affordable workspace policy; seeking to secure a supply of below commercial cost workspace, via section 106, from larger commercial developments.
- 5.2 This flows from a recommendation made in the 2016 Regeneris report.
- 5.3 Our review of the evidence shows that the impact of permitted development rights and the general shortage of industrial property in the borough (and wider market) has disproportionately affected the 'affordable' end of the property market; including space attractive to local SME firms. What new space is being delivered is being offered at 'commercial' rents which do not reflect those of local firms and instead headline rents are increasingly set by firms moving to the borough as they are displaced from more central London.
- 5.4 We have shown that the need for the proposed borough affordable workspace policy is soundly based in evidence. Without an explicit policy, it is unlikely that the borough could secure space at below market rent. But the rationale is not all associated with a discount rent; securing the quality of space (e.g. the typologies set out in the workspace study) is almost as important as the discount. Without policy intervention, there is a risk that the market will not deliver the diversity of space demanded.
- 5.5 The GLA, in the emerging plan review, has expressed the concern that a lack of affordable space hinders entrepreneurship and the creative economy. There is evidence that a failure to provide for this market could harm the economy of London.
- 5.6 Although there is clear evidence of need, the desire to intervene in the market, securing new space via planning obligation is a policy choice made by the council. In reaching this view the council has considered factors beyond the viability and supply of commercial property, including comments received by elected members and officers – many of which we understand relates to the lack of affordable property available to entrepreneurial local residents.
- 5.7 In terms of geography there is a good overlap between those areas the Workspace report encourages new provision of property and the draft plan proposed employment allocations.
- 5.8 The choice of a minimum 10% discount, on 10% of new stock is a matter of judgment by the council. This reflects the fact that it is not realistic to identify a single rent that would be 'affordable' across the borough and for the range of tenants noted in the workspace study. However, the (minimum) 10% discount is supported by viability evidence which shows that this discount is deliverable. The viability evidence also shows that deeper discounts remain viable, and so the policy has flexibility to deliver affordable workspace where a deeper discount is needed to provide a type of space in demand.
- 5.9 We note that in the proposed policy the space is not protected 'in perpetuity' but only for a minimum of 10 years. One recent plan inspector considered that this 'in perpetuity' clause was needed to deliver the policy objectives. So, the council may need to consider whether this amendment is needed in the future – there is a risk that

with a shrinking tenancy period an affordable provider does not invest in their offer. But it may also be that the successful tenants, overtime, become able to access property at more competitive rents. The operation of the policy, the depth of discount and how space is managed towards the end of the period will need to be kept under review. It maybe that the London Plan policy may help add more clarity to assist the implementation of this policy in due course.

- 5.10 Reflecting the diverse range of business needs identified in the workspace study, the council has chosen to encourage promoters to engage with a list of recognised providers of space as early as possible. This is so that the specification, including the level of discount needed to delivery truly affordable space, can be set as early as possible – and as efficiently as possible. Given the diversity of the market this appears to be a pragmatic policy response. It is very unlikely a single plan policy could be drafted to cover the full range or needs and each small market area in the borough.