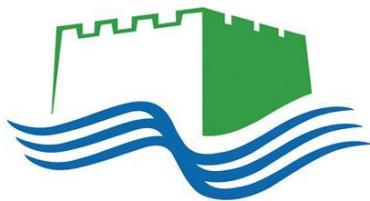


Draft Report

Workspace Affordability Study -
Supplementary Analysis

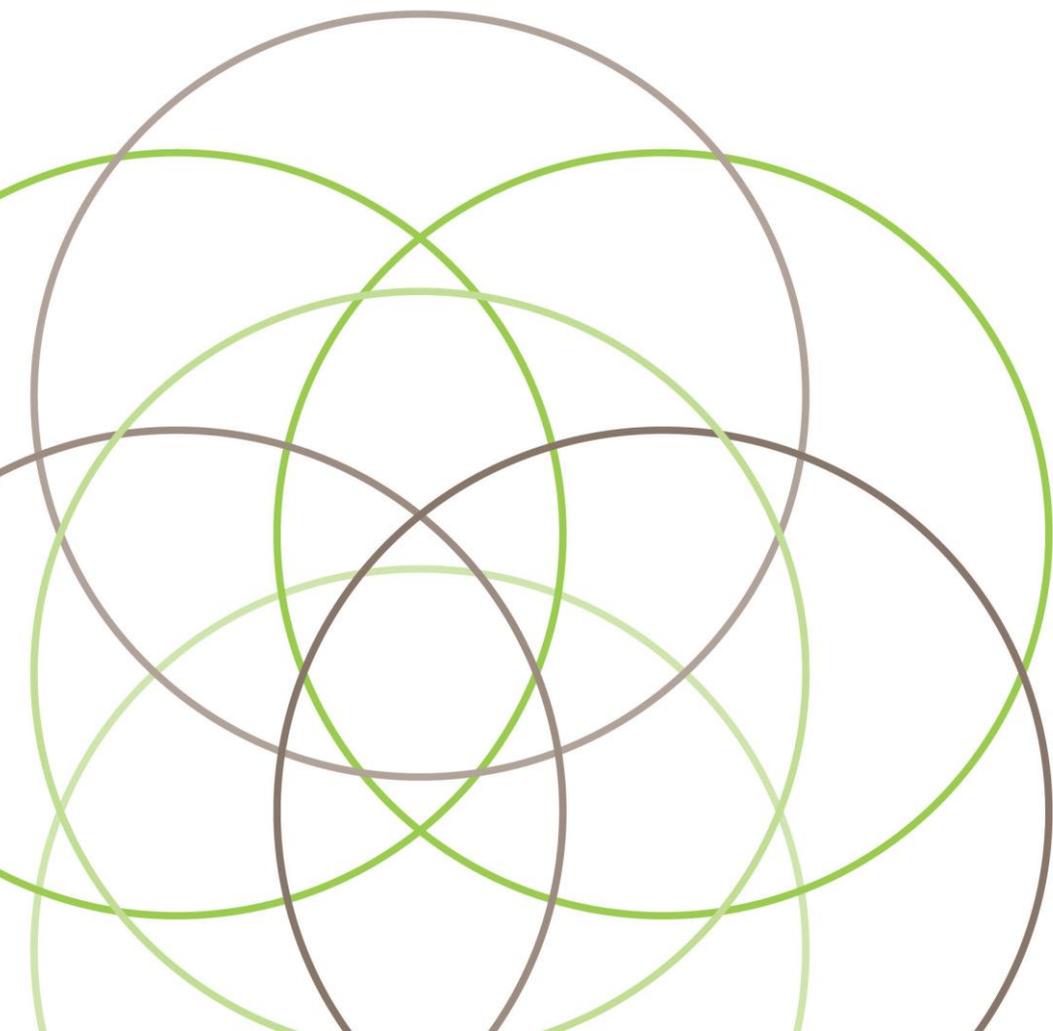


TOWER HAMLETS

London Borough Of Tower
Hamlets

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1 Introduction

- 1.1 AspinallVerdi has been instructed by Peter Brett Associates, on behalf of London Borough of Tower Hamlets to provide supporting advice concerning emerging affordable workspace policy D.EMP2¹:
- 1.2 This research provides supporting analysis of the existing evidence base documents to understand the viability of policy D.EMP2² This study reviews the council's two main evidence base documents:
- Growth Sectors and SME Workspace Study (2017) by Regeneris, We Made That, AspinallVerdi and the Business Centre Specialist.
 - London Borough of Tower Hamlets Local Plan Viability Assessment (December 2017) by BNP Paribas Real Estate.
- 1.3 Specifically, the council seeks to understand whether the emerging policy for affordable workspace is generally viable and confirm that there is demand in the borough for this use.
- 1.4 We have not carried out any of our own research into market rents, or the level of rents that make a workspace unit affordable. Furthermore, in our assessment of viability we have not run any of our own appraisals and have relied solely on BNP Paribas assessment. Furthermore, this study does not seek challenge the soundness of the evidence contained in the two studies reviewed.

2 Policy

- 2.1 The council's emerging local plan states that in major mixed used and commercial developments a certain quantity of floorspace should be provided as affordable workspace. Specifically Policy D.EMP2 states:
- “4. Within major commercial and mixed-use development schemes, at least 10% of new employment floor space should be provided as affordable workspace “*
- 2.2 The justification for Policy EMP2 is:
- “Major development (i.e. Which comprises of at least 1,000 square meters of commercial floor space) 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 no less than ten years.“*

¹ LB Tower Hamlets, 2017, *Tower Hamlets Local Plan 2031 (Regulation 19)*

² LB Tower Hamlets, 2017, *Tower Hamlets Local Plan 2031 (Regulation 19)*

- 2.3 In summary, any major commercial or mixed-use development must provide 10% of new commercial floorspace as affordable workspace; affordable workspace must be a minimum of 10% discount from open market rent.

3 Demand

- 3.1 In assessing whether there is demand for affordable/flexible workspace in the borough we have reviewed the Regeneris Growth Sectors and SME Workspace Study.
- 3.2 The study found that there were multiple types of flexible workspace present in Tower Hamlets and in the surrounding boroughs. This includes incubators, accelerators and co-working workspace (IAC), managed workspace desks and studio space for the creative industries. The study found that in all areas of the borough there was considerable demand for affordable/flexible workspace with providers having to do little in the way of marketing, with most having waiting lists. The study identified that “*Demand for workspace is reported to be strong by local providers, brokers and agents, with little or no vacancy within many of the identified premises.*”³ The study completed a survey of workspace providers which found that “*Of the workspace premises surveyed, most are operating near or at capacity.*”⁴
- 3.3 The study goes on to discuss rents and affordability. In all types of affordable/flexible workspace analysed, rents are much lower than market rents for traditional office space. Leases vary with some types of workspace leased on short term psf per annum basis, and others priced on a monthly per desk basis.
- 3.4 In conclusion, the Regeneris report indicates that there is demand from occupiers for affordable/flexible workspace and with SMEs and start-ups paying below market rents.

4 Viability

- 4.1 In assessing whether the council’s affordable workspace policy of 10% of new commercial floorspace at 10% discount from open market rent is viable we have reviewed the BNP Paribas Local Plan Viability Assessment.

³ Regeneris, We made That, AspinallVerdi & The Business Centre Specialist, 2016, *Growth Sectors and SME Workspace Study*, page 42

⁴ Regeneris, We made That, AspinallVerdi & The Business Centre Specialist, 2016, *Growth Sectors and SME Workspace Study*, page 78

4.2 The plan viability report tested various scenarios; four of which included affordable workspace provision at 10% of total office floorspace. Table 4-1 shows that the scenarios were viable when tested between 40% and 50% discount of market rents on 10% of total office floorspace.

Table 4-1 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)

4.3 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 Table 4-2 of the Bishopsgate Goods Yard viability testing. Table 4-2 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.

Table 4-2 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, AspinallVerdi (2017/2018)

5 Conclusions

- 5.1 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.
- 5.2 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.
- 5.3 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.