

ORGANISATION	LONDON FIRST
ID	1588
MATTER	M60 LOW-COST AND AFFORDABLE BUSINESS SPACE

M60. Are policies E2 and E3 justified and would they be effective? In particular:

a) Are they necessary to address the strategic priorities of London, or do they extend to detailed matters that would be more appropriately dealt with through local plans or neighbourhood plans?

1. London First supports the principle that underpins Policies E2 and E3 of the draft Plan, namely to ensure that there is a wide range of business space available to meet the needs of micro, small and medium-sized enterprises wishing to start up or expand. However, London First remains concerned about the detail of the policies and their possible effects on the market. London First does not believe that a one-size-fits-all strategic policy intervention in respect of low-cost or affordable business space is necessary or appropriate.
2. Notwithstanding the GLA's Minor Suggested Changes in August 2018, E2 and E3 remain blunt instruments that will result in unintended negative consequences, including a reduction in the amount of low-cost office floorspace available in the capital. London First submits that E2 requires further amendment, whilst E3 should be deleted altogether.
3. The issues that E2 and E3 seek to address are complex; they differ according to localised economic markets across London. Rental values for business space vary depending on location and condition: for example, some Grade A space may command a similar price per square foot as grade B premises in a central location.
4. In the CAZ in particular, which has relatively stable rental values, the approach advocated by the draft Plan would likely undermine the strategic priorities of the CAZ and thus conflict with Policies SD4 and SD5.
5. E2 and E3 should therefore advocate an evidence-based, Local Plan-led approach by the boroughs to tailor policies to reflect localised supply and demand issues.

6. In this regard, London First supports the new insertion at E2C that allows the boroughs to set a locally determined threshold through their Local Plan; however, the reference to “lower” should be deleted. Boroughs should have the flexibility to set higher or lower thresholds to reflect local circumstances and priorities. Indeed, boroughs may choose to raise the threshold to enable the provision of higher-quality accommodation.

7. E2C should be thus amended:

C *Development proposals for new B1 business floorspace greater than 2,500 sqm (gross external area), or a locally determined ~~lower~~ threshold in a local development plan document, should consider the scope to provide a proportion of flexible workspace suitable for micro, small and medium-sized enterprises.*

b) Would they be effective in helping to ensure that the accommodation needs of all micro, small and medium sized businesses, including those wishing to start up or expand, could be met in all parts of London?

Policy E2

1. As stated above, whilst London First supports the overarching aim of E2, there remains a concern that it will result in significant unintended consequences in the market, including a reduction in the amount of low-cost office floorspace in the capital.
2. Firstly, the definition of ‘low-cost business space’ as “*secondary and tertiary space that is available at open market rents, which is of a lower specification than prime space*” at para 6.2.2 is extremely onerous. As a result, this policy could apply to any business space in the capital that is not prime/Grade A.
3. Secondly, draft Policy E2B (2) requires the protection of low-cost business space or satisfaction of a set of onerous policy tests, including the re-provision of an equivalent amount of floorspace of a similar type, fit-out, use and size and rehousing the tenant in the development or finding alternative local equivalent accommodation.
4. The requirement to deliver/re-provide the same type, fit-out, use and size is neither practical nor reasonable. It is difficult to see how a new-build office could be delivered to the same specification as business space that is of a particular age or that has been offered at a lower rent due to its physical condition. This will be near impossible to achieve in some of the examples of ‘low-cost floorspace’ cited in the supporting text, such as heritage buildings and railway arches.
5. It is also onerous to require the same specific use to be catered for. Policy should not seek to protect existing occupiers; separate controls on relocation

are provided through the landlord and tenant system and will always be subject to separate commercial negotiation. Whilst relocation strategies are set out in emerging local policy documents (such as the Old Kent Road DPD), their purpose is to address the implications of area-wide regeneration on a well-established industrial area. It is inappropriate and unreasonable to seek to protect existing tenants on an application-by-application basis through development plan policy.

6. The draft Plan does not recognise that flexible terms are more important to SMEs and start-ups than rental levels. Whilst costs are a factor in the choice of premises, most SMEs are driven by requirements for flexible leases and low start-up costs (deposits). It is therefore crucial that the commercial market continues to provide space at the appropriate lease terms to support SMEs and start-ups.
7. The market itself is already responding to the demand for the right type of space in the capital to support SMEs and start-ups. There has been a massive increase in the number of flexible co-working spaces in both central London and the outer boroughs. These developments provide a variety of serviced office space at a range of terms to meet the varying needs of small businesses.
8. Policy E2 also fails to acknowledge that developers or landowners planning to upgrade, extend or redevelop existing business space will often offer it at a discounted rent and on a short-term lease basis until they are ready and able to undertake the works. The lower rental level may reflect the business space's condition or age, or simply the desire of the landowner to have a tenant in the building on a short-term basis for security and other purposes.
9. Fundamentally, an unintended consequence of E2 would be the curtailment of such short-term/discounted-rent leases; as such, tenants would then become an additional burden on future development. The result would be a reduction in the supply and range of space available to London's businesses and, of course, the reverse of the policy's objective.

Policy E3

10. London First objects to E3 as a matter of principle and requests that it be deleted. It could result in additional unintended consequences for London's economy, including:
 - (i) putting at risk the existing market-led regeneration of London and failing to support the clustering of new businesses across emerging business districts, as occurred with tech start-ups in Shoreditch and creative businesses in Peckham;
 - (ii) having a direct impact on development viability; and
 - (iii) being complex to define and deliver.

11. Should E3 remain in the Plan, it should be subject to a minimum size threshold and an upper time limit for the planning obligation, as an obligation in perpetuity is neither practical nor reasonable.
12. The introduction of a subsidised workspace policy will have an impact on development viability by adding another layer of cost. This will cause a market distortion. If the cost of development rises too high relative to value or the potential value decreases relative to cost, then the attraction of undertaking speculative development is reduced. E3 could potentially reduce the overall supply pipeline and therefore place rents under upward pressure – thus frustrating its very objective.
13. Finally, E3 does not recognise the basic practical considerations arising from affordable workspace provision, including design and management issues. It requires self-contained, separately accessed business space, which further increases the cost burden. Depending on the size and layout of accommodation, it will not always be practical to provide this onsite. If the policy is retained, this factor should be addressed and payments in lieu accepted.
14. In conclusion, parts A, C, D, E and H of E3 should be amended as follows:

A *Boroughs, in their Development Plans, may consider affordable workspace policies for specific locations, where there is strong evidence of local need and it is demonstrable that it will not prevent the delivery of the Plan's overarching policy objectives such as the delivery of affordable housing. These may include policies on site-specific locations or defining areas of need for certain kinds of affordable workspace. Planning obligations may be used to secure affordable workspace at rents maintained below the market rate for that space for a specific social, cultural or economic development purpose for an agreed time period.*

Such circumstances may include workspace that is:

- 1) for specific sectors that have social value such as charities or social enterprises*
- 2) for specific sectors that have cultural value such as artists' workspace, rehearsal and performance space and makerspace*
- 3) for disadvantaged groups starting up in any sector*
- 4) supporting educational outcomes through connections to schools, colleges or higher education*
- 5) supporting start-up and early stage businesses or regeneration.*

~~C — Boroughs, in their Development Plans, are encouraged to consider more detailed affordable workspace policies in light of local evidence of need and viability. These may include policies on site specific locations, or defining areas of need for certain kinds of affordable workspace.~~

D *Affordable workspace policies defined in Development Plans and the terms set out should only apply to new office developments of over 5,000 sq.m and should not apply within the Central Activities Zone unless there is very strong locally specific evidence to demonstrate a specific need*

E *Where it is not practical or feasible to provide this on site, the developer may provide a payment in lieu towards the provision of affordable workspace elsewhere in the borough;*

H *The affordable workspace elements of a mixed-use scheme should be **practically complete** operational prior to residential elements being occupied.*

15. Should E3 be retained, no changes are proposed to parts B, F or G, however our starting point is that it should be deleted in its entirety.

c) Or would that objective be better achieved by market forces in the context of other policies in the Plan, including E1A, E4A, E4H, E5C and E6, as well as any relevant policies in local plans and neighbourhood plans?

1. The commercial office market in London provides for a full range of business requirements, including unit types and sizes, rental levels, and lease arrangements. There is no market failure that requires low-cost or affordable workspace policies to be introduced through the Plan. This view is reinforced by the *London Office Policy Review* (Ramidus Consulting Limited, 2017).
2. As stated above pursuant to (b), the market has responded to the demand from SMEs and start-ups because flexible co-working spaces have sprung up all over the capital. These developments provide a variety of serviced office space at a range of terms to meet the varying cost and flexibility needs of small businesses.
3. *Small Offices and Mixed Use in the CAZ* (Ramidus Consulting Limited, 2015) states that while there is a “perception that there is a shortage of small, economically priced units [...] CAZ is able to offer an acceptable range of office values [...] we consider this to be a sustainable and healthy range”. The report concludes that the demand for small offices from businesses in the digital economy is being satisfied in a wide range of locations adjoining the CAZ. Furthermore, on balance, the provision of small offices in this current market broadly matches the level of demand.

4. There are emerging trends in the clustering of small businesses, creatives and start-ups in locations in London where rents are low: for example, Hackney Wick, Peckham and Camberwell. This clustering regenerates these areas, further attracting new businesses, residents and visitors. This demonstrates that the property market self-regulates.
5. London First submits that the underlying aim of E2 and E3 is adequately addressed through Policy E1A and E1G, which supports the delivery of a range of office types and sizes, including enhanced flexibility, whilst E1F seeks to protect the loss of low-cost business space through the introduction of Article 4 Directions in appropriate locations. The aims of E2 and E3 should be delivered by the boroughs through evidence-based policies in their Local Plans.

d) How would policies E2 and E3 affect the implementation of policy GG5 “growing a good economy”?

1. Our overarching concern with Policies E2 and E3 is that they could act as a deterrent to investment in London due to presenting excessive impediments to development.
2. The cumulative impact on viability, arising from these and other policies in the draft Plan, risk constraining delivery and the future economic success of London. This would fundamentally undermine the implementation of GG5. The approach set out in the draft Plan will render more schemes unviable, in turn restricting the amount and range of accommodation available on the market, and thus exacerbating affordability issues by raising rent levels.