

M60 Written Statement from Just Space 2718

Low Cost and Affordable Business Space

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?*

Policies E2 and E3 are distinct and it is concerning the EIP is bundling them together. Low-cost business space is found anywhere the market is suppressed due to either location (outer London), site constraints (railway arches, slithers of land unsuitable for anything else), or on SIL/LSIS where planning policy acts to suppress market values. Affordable workspace should be kept to describe workspace that is actually sub-market and subsidised through Planning gain. It is normally secured through new developments. Low-cost business space needs protecting, whilst affordable workspace needs promoting (neither should be restricted to B1).

Both policies should be addressed in the London Plan for a number of main reasons:

1. If not raised in the London Plan, it will send a strong signal to boroughs that they are not a high priority amongst the many considerations local planners face and they will be dropped.
2. Low cost and affordable workspace caters to a wide range of users: from SMEs, start-ups, tech spin-offs, artists and creatives and last but not least, charities, community and social enterprises. Micro to SMEs account for 99.8% of businesses in London and over half the employment. Between 2009 and 2011, evidence suggests almost a third of businesses founded used an incubator, accelerator or co-working space¹. The size and function of this sector alone, spread as it is all across London, suggests it merits strategic consideration.
3. The equalities impact assessment in the London Plan IIA found both policies as playing a direct, key role in addressing inequality with multiplier effects and being of strategic (GL) importance as well as local (L) importance.
4. At borough, neighbourhood and community level, the lack of specialised knowledge across SMEs and third sector users about property acquisition, management and high cost of coordination required to pool their resources to compete for property use, often prevent market participation.
5. Absent these policies, the well documented trend to convert unprotected employment land to residential use will continue unabated. This is particularly the case with existing low cost or affordable workspace where gains from residential conversion are that much more valuable for developers, and “existing use” fares very badly in

¹ <https://lep.london/publication/workspace-affordability-crisis-reports>, 8 June 2018, Local Enterprise Partnership for London

viability assessments. Removing PDR will not prevent conversion. Protection of existing low cost and affordable workspace is needed (See responses below) – the policies would benefit from better wording to achieve their strategic objectives.

6. There is ample evidence of the challenges of providing new affordable workspace from across London² which reinforces the urgent need to protect existing low cost workspace

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?

We do not believe the policy is effective in helping to meet the accommodation needs of all micro to medium enterprises because:

1. E2 mentions only B1 uses and should explicitly refer to B2 and B8 space as well.
2. Voluntary, social, community and charitable enterprises and organisation needs have to be considered as well. These play a vital role in the London-wide economy, and E2 ought to give them equitable weight in their deliberations
3. E3 should strongly support securing affordable workspace in perpetuity, not just on 5-10 year leases.
4. E2 A states “Provision, and where appropriate, protection of low-cost business space... should be supported...” without defining terms. Specifically:
 - a. The Strategic importance of both the small business and not for profit sector justifies dropping the term “where appropriate”
 - b. “should be supported” ought to be fleshed out to cover:
 - measurement to form an evidence base on a borough by borough level of the nature and extent of low cost business and affordable space and the prevalence and types of users (how do planners know what they are meant to be protecting?)
 - evidence based needs assessment to determine the nature of support needed (how will planners know current and future needs are being met?)
 - impact assessments which go beyond viability studies/market criteria to determine the nature of the contributions made by existing users of low cost and affordable workspaces (see also answers below)

² Ferm, J., 2014, Delivering affordable workspace: Perspectives of developers and workspace providers in London <https://www.sciencedirect.com/science/article/pii/S0305900614000361#sec0200>

- monitoring the effectiveness of policy and the extent of protection afforded (has there been a net loss of low cost and affordable workspace, is there a shortage, have policies delivered in their intent?)
- c. Absent further definition, policy E2 as it stands raises concerns about:
- Differences in the type of support offered under different local planning regimes that reflect interpretation and differences in prioritisation
 - The system is open to “gaming” by developers and failure to adequately protect existing sites or provide for growing demands would lead to a loss of important areas of diversity, vibrancy and local employment, going against the nature of GG1 and GG5
- d. E2 A might be more appropriately worded as “Low-cost B1, B2 and B8 space should be protected and additionally provided to meet the needs of micro to small businesses and the not for profit sector... where these needs are periodically assessed and monitored using criteria that include social value”
5. E2 B deals with repurposing existing office space and should extend to B2 and B8. Furthermore:
- a. The policy refers to “*areas where there is an identified shortage of lower cost space*”. Measuring and monitoring for E2 A would provide planners with an independent evidence base *viz.* this criterion.
- b. Absent such a provision in E2 A, this requirement is vital to be met by independent or LPA measurement and monitoring of the evidence base. Relying on developers or planning applicants with a clear incentive to demonstrate “no shortage of space” is marking the policy for failure.
- c. Even with such an evidence base, E2 B seeks from developers to demonstrate lack of demand for preferred use (typically by marketing) for specific sites. This system is prone to gaming, wastes valuable planning resources and leaves properties empty for long periods while developers argue the “surplus” case.
- d. An additional criterion, namely to “demonstrate that the space is unsuited to low cost or affordable workspace, by actively marketing the space to providers of low cost or affordable workspace” will help to ensure the accommodation needs of the various users E2 is seeking to address are being met. Such a criterion will not subvert the market as often such providers are

prepared to pay market rents and their specialist role ensures they can convert existing space into low cost or affordable uses. This point would be further strengthened if there was a requirement to show evidence of appraisals from workspace providers. A requirement to engage directly with workspace providers would also help assess viability of new-builds and allow for pre-lets.

6. E3 D defines a role for measurement and monitoring of the objectives of the policy (including in terms of social value). This strengthens the case for an overall measurement and monitoring to cover E2 A, E2 B as well; there are obvious crossovers and economies of scale to be gained.

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?

Policies E2 and E3 seek to address market failures specific to the low cost and affordable workspace sector.

The vast majority of the not for profit sector and small firms pay market rates for the space they occupy, including in many cases a “per square foot” premium to cover the costs of workspace providers and to gain flexibility. But the value of all land across London that has residential development potential so heavily outweighs the price of providing that workspace that the market fails the sector.

Often, “low cost” business space is simply “small” business space, packaged to sizes that small businesses can afford to swallow and on terms flexible enough to allow them to manage their sudden growth (or need to exit). Similarly, affordable workspace is many times existing workspace acquired at market rates and reconfigured to significantly increase intensity of use to make individual spaces affordable.

Within the small business and not-for-profit sector it is also true also that some provision at sub-market rates is justified because of the immense social value carried out by the organisations and end users. As the GLA’s equality impact assessment put it, there are multiplier effects.

The market failure in provision stems from a number of sources.

A common characteristic of micro and start-up businesses, artists and the not for profit sector is low or poor current income, uncertain future prospects and high failure rates. Lack of income, and the associated risk which is discriminated against through higher upfront deposits or risk premiums, not lack of willingness to pay, become the excluding factors in pricing the small

business and not-for-profit sector out of the market. Yet, from this pool emerge winners, large future employers, occasionally international global giants that ensure the London of the future retains its international status as a global city.

Similarly, the not for profit sector using low cost or affordable workspace exists to address the myriad of (non-property) market failures and social goals that a free market on the one hand and government interventions on the other, fail to address. This social value is never priced into property values.

The provision for low cost and affordable business space falls victim to market failure in viability assessments because:

- ☞ small companies and creatives lack the income and face high costs of coordinating demand and pooling resources to compete for suitable properties;
- ☞ development schemes driven by market price alone ignore wider benefits to society from creating employment, jobs close to home; social, entrepreneurial and creative clustering
- ☞ market pressures drive scale economies on developments through specialisation in construction sectors, making much of what is on offer too big or unsuited to afford for small businesses

Workspace providers in particular play an important role by being prepared to take on large spaces and take a long view. In turn they sublet smaller spaces to many individuals and companies on flexible terms. As a result, they build a diverse, large portfolio of users and small businesses, where risks of individual sublets and demands for flexible terms are pooled and they have specialist knowledge of their end users.

Clustering and synergies amongst end-users reap hard to quantify benefits to society, improve survival rates, agglomerate “last mile” distribution (reduce air pollution) and are often located closer to home adding vibrancy to local neighbourhoods, reducing travel times, assisting regeneration and providing local jobs and economic support.

There are a range of providers, from not-for profit to large global companies operating in London. Yet, the market is still seeing a loss of low cost and affordable workspace in the face of rising demand because of the market failures.

This loss of space is driven by the fundamental inability of property markets (and even the workspace providers) to capture the value of clustering and agglomeration and the social benefits entailed, which means that provision for workspace will always be less valued and priced out of the market compared to residential use in particular. This is far more pertinent for the not-for profit sector.

The largest contribution from the planning side has been to allow (in terms of this New London Plan as well, absent policies E2 and E3) employment land that is not protected (effectively not CAZ/A/B commercial or SIL/LSIL industrial space) to be a target for residential developers, putting immense pressure on non-protected employment land.

The price differentials in favour of housing redevelopment have almost guaranteed that such land has been lost. E2 and E3 go some way to providing some protection and support and as argued above, needs further strengthening.

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

The not for profit and small business sector provides diversity, resilience and fulfils vital functions not provided for by market forces, central or local government, arguably in many cases more efficiently. They fulfil a vital function in helping the economy to grow in a spatially distributed vibrant and interdependent way.

We would strongly recommend that GG5 is amended to make specific reference to low cost and affordable workspace.