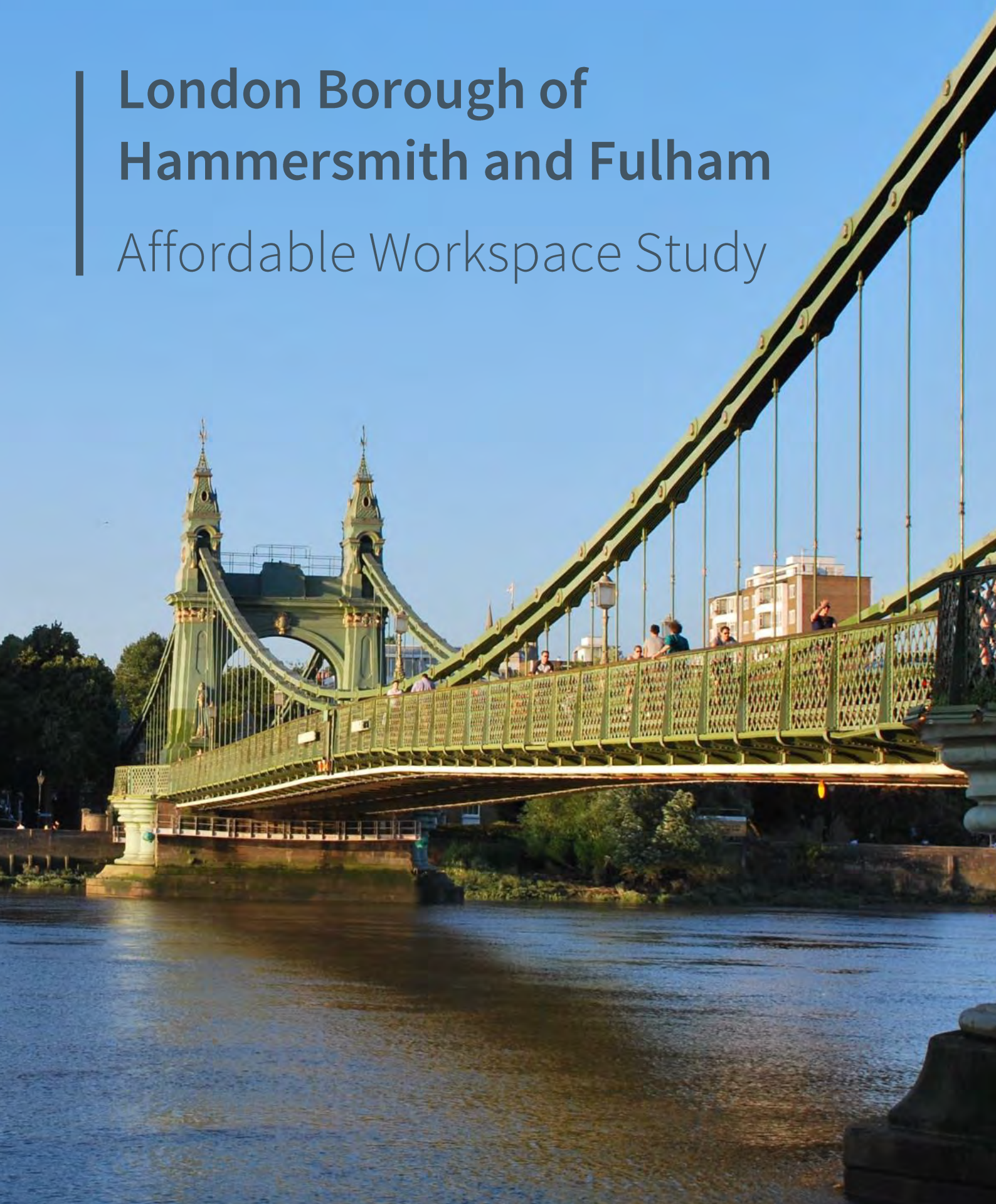


London Borough of Hammersmith and Fulham

Affordable Workspace Study



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Introduction



1. Introduction

- 1.1 Workspace affordability has become an increasingly important issue across London in recent years. Limited supply and strong demand have pushed rents up and space has become unaffordable for many businesses.
- 1.2 Ensuring that there is enough affordable space for businesses to become established and grow in is important in ensuring a healthy and dynamic economy. Affordable space can encourage entrepreneurialism, support innovation, attract inward investment, help retain existing businesses, create social value and, ultimately, drive economic growth.
- 1.3 Although it is recognised that the affordability of workspace is a challenge for lots of businesses across London, many of these challenges are highly place and/or sector specific. As such, whilst the Draft London Plan includes a general definition of affordability local authorities are left to interpret and determine what ‘affordable’ workspace means in their places.
- 1.4 This research focuses on this for the London Borough of Hammersmith & Fulham. It defines what ‘affordable’ workspace means for the borough, demonstrates the viability of the definition and makes a series of practical recommendations. The work will inform the development of the borough’s emerging Economic Development Planning Obligation Supplementary Planning Document (SPD) which responds and contributes to their Industrial Strategy as set out below.

Hammersmith and Fulham Industrial Strategy

The London Borough of Hammersmith & Fulham has recently published an Industrial Strategy called *Economic Growth for Everyone (2017)*. The ambition is to make the borough the best place to do business in Europe and to ensure that everyone benefits from growth rather than a favoured few.

The strategy sets out four key priorities: (1) West Tech Innovation District; (2) Encouraging Enterprise; (3) A Great Place in London; and, (4) Economic Growth for All.

A key pillar that cuts across all of these priorities is *Creating Affordable Workspace*. There is particular reference to the need to support the Science, Technology, Engineering and Mathematics (STEM) sectors, as well as the digital and creative industries to help overcome the high rents faced by SMEs in some parts of the borough.

A range of mechanisms are set out to do this, but one of the most prominent is to create an Economic Development SPD which has a major focus on the delivery of affordable workspace through the planning system. It will also cover employment, skills and local procurement.

This Industrial Strategy is expected to be updated in response to COVID-19 and the recession, but it is likely that *Creating Affordable Workspace* will continue to be at the forefront. The recommendations set out in this report will shape and influence the updated document.

Approach

- 1.5 This report is structured around five key questions:

- 1. **What is affordable workspace?**

- High-level overview of how ‘affordable’ is defined across London and in other boroughs.*

2. Who needs affordable workspace?

Details the current strategic context and economic performance of Hammersmith & Fulham and identifies which sectors should be prioritised for affordable workspace.

3. What does 'affordable' mean for Hammersmith & Fulham?

Provides analysis on business turnover and commercial rents which is used, in turn, to identify which parts of the borough may be unaffordable and to define what level of discount to market rent should be applied in different places.

4. Is 'affordable' viable in Hammersmith & Fulham?

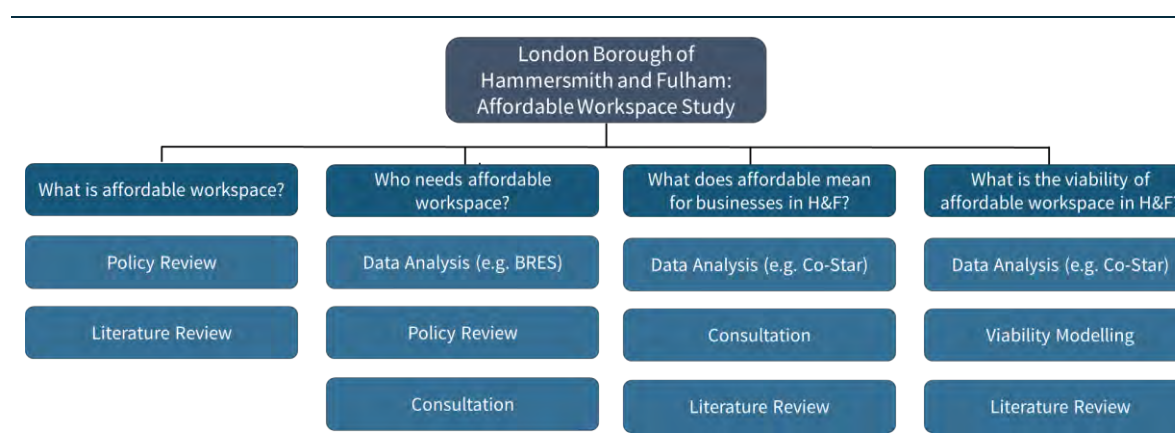
Demonstrates the viability of the proposed discounts to market rent across different parts of the borough.

5. What are the next steps?

Sets out recommendations on how Hammersmith & Fulham can deliver more affordable workspace through its Economic Development Planning Obligation SPD.

- 1.6 A clear methodology was used to provide the intelligence required for this study. Several different types of methods were used to triangulate the findings and build a robust picture as set out below.

Figure 1.1) Research Methodology



- 1.7 The study is primarily informed by the analysis of quantitative data from secondary data sources. This includes data from a number of publicly available datasets (including NOMIS and other ONS datasets) and privately held sources (e.g. from CoStar). This data has been substantiated by qualitative insight from council officers and workspace providers.

COVID-19, Brexit and the Planning System

- 1.8 This report comes at a unique time. COVID-19, Brexit and potential changes to the planning system are expected to fundamentally impact the economy in both the short and longer term. In turn, the demand for and supply of commercial property will also be affected. These factors present both threats and opportunities for affordable workspace in Hammersmith & Fulham.
- 1.9 This report recognises these pressures but given the uncertainty about how things will pan out, and the expectation that development levels will resume in the borough, it provides robust analysis and recommendations based on the best available evidence at this point in time.

- 1.10 The context is, however, changing rapidly. An addendum to this report is therefore being produced to explore the potential impact of these pressures, including on viability, and alternative mechanisms to deliver affordable workspace in the borough. The viability testing set out in this report will also be updated in six months' time to give an accurate picture of the current context. This, together with the content set out here, will provide the Council with all the evidence required to negotiate positively with developers on affordable workspace whatever happens moving forward.
- 1.11 The values data underpinning the recommendations in this report will be reviewed in six months' time. If the context has significantly changed the viability tests will be reviewed and re-run to take this into account.

What is affordable workspace?



2. What is affordable workspace?

- 2.1 Workspace affordability has become a strategic focus across London in recent years reflecting constraints in supply, rising rents and an evolution in the type and spatial distribution of demand across the city.
- 2.2 At the city level, the Greater London Authority (GLA) recognise the importance of affordable workspace and have developed research and policy to support the development and evolution of affordable workspace.
- 2.3 The Draft London Plan demonstrates this as it sets out guidance on affordable workspace and its role within London's economic landscape. It defines affordable workspace as:
- “Workspace that is provided at rents maintained below the market rate 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”.*
- 2.4 The term ‘workspace’ covers a broad range of different typologies, from conventional office and industrial space to more niche shared spaces, including artist studios, maker spaces, labs and co-working spaces.
- 2.5 Building on this, and local pressures on workspace, 12 of the 32 London boroughs have developed their own approaches to defining and supporting affordable workspace. This currently includes:
- Brent
 - Camden
 - Hackney
 - Hammersmith & Fulham
 - Havering
 - Islington
 - OPDC
 - Lambeth
 - Redbridge
 - Richmond upon Thames
 - Southwark
 - Tower Hamlets
 - Wandsworth
- 2.6 There is, however, wide variation in the depth of analysis that has been undertaken on the issue as the Draft London Plan is not as clear and directive as it could be on the matter. Only a limited number have clearly defined what is meant by ‘affordable’ in the context of their borough. The most developed definitions are set out below.

London Borough of Havering	London Borough of Islington
<p>A workspace provided where rent and service charges, excluding business support services, are on average at least 20% less than comparable local market rates for the duration of a lease (although it is noted that, for some sectors and locations, rents may be need be even lower to render them affordable to target occupiers).</p>	<p>Affordable workspace is defined as workspace that has a rental value below the market rate - generally 80% of the market rate or less. However, within Islington rents of up to 80% of market value may not always be affordable to micro and small businesses. The Council has therefore committed to assessing the genuine affordability of any new workspaces that it delivers on a case by case basis.</p>
London Borough of Camden	London Borough of Tower Hamlets
<p>Affordable workspace in Camden is determined based on the circumstances of each development. Past definitions include:</p> <ul style="list-style-type: none"> • 20% of large workspaces provided at 50% of comparable market values • Workspace leased to affordable workspace providers (approved by the Council) • 20% of the desks in an open workspace (hot-desking) area to offered at 50% of market value 	<p>Tower Hamlets define affordable workspace as “flexible workspace” that is let to a workspace operator, and which will allow for occupation by the end users in one or more sectors on terms:</p> <ul style="list-style-type: none"> • substantially below market levels of rents and charges when compared with an equivalent letting of the space and facilities on the open market; • at a rate comparable with similar facilities available in Tower Hamlets or (if sufficient comparator premises do not exist in the borough) across London as a whole; and, • at rates which mean that occupation is feasible to a large number of small/start-up businesses in the relevant sector(s).

- 2.7 There are also several differences in how boroughs approach affordable workspace. A range of policy approaches have been taken which are at different stages of maturity in terms of development, adoption and effective application. The table below sets out some of the key characteristics that boroughs have developed as part of their workspace policies and how these policies are used. A series of observations are also set out below.

Policy Observations

- The most common requirement is for **10%** of new floorspace in commercial or mixed-use developments to be affordable, although this is higher in some boroughs (e.g. 20% in Havering and Camden);
- Many boroughs typically have a **minimum threshold** before a development has a requirement for affordable workspace, which is usually at least **1,000sqm**;
- The most common discount to market rate is **20%**;
- In some places different discounts are applied to **different geographies** (e.g. in Lambeth it varies between a 20% to 50% discount on market rents depending on the geography);
- There is limited detail within policy on how authorities determine 'local market rents' against which discounts can be set. This creates difficulties for developers and authorities in setting standards and in creating certainty through the planning process;
- Timescales for the duration of affordable workspace varies from **five years to in perpetuity**;
- Some boroughs allow the on-site provision of affordable workspace to be mitigated by off-site and **cash in lieu payments**, particularly where a case can be made for more positive economic impacts for the area;
- Some boroughs (e.g. Lambeth) allow affordable workspace to be offered via **discounts to membership models** (i.e. virtual offices, fixed desks, hot desks and small offices) throughout a development rather than in a dedicated and separate space;
- Islington's policy allows them to offer heavily discounted space to businesses and organisations that deliver significant social value. Most other boroughs do not ask for such high discounts but may allow developers to offer *less* space that is *more* affordable than policy should it be above a minimum stated threshold; and,
- Some authorities have **approved providers lists** and look to proactively build relationships through policy obligations that affordable workspace must be disposed or leased to an approved workspace provider.

London Borough of Hammersmith and Fulham: Affordable Workspace Study

<i>Borough</i>	<i>% of Affordable in New Workspace / Floorspace</i>	<i>% Discount</i>	<i>Discount Priced Against</i>	<i>Duration</i>	<i>Off-Site Allowed?</i>	<i>Other</i>	<i>Approved Providers</i>
Brent	10% of total floorspace in mixed-used developments totalling 3,000 sqm or more in Growth Areas.	No more than 50% of open market rents	Open market rents.	For the lifetime of the development, disposed at a minimum lease term for 15 years to an affordable workspace operator.	Off-site only in exceptional circumstances. Cash in lieu also possible by exception / with case made.	Be disposed of for a minimum of 15 years to an affordable workspace provider approved by the Council.	Yes, affordable workspace will be let and managed by a council-approved provider.
Camden	20% of large workspaces (to include 20% of desks in hot desking areas).	50% (to include 20% of desks in hot desking areas)	Average of market rents paid of an equivalent type, sector and quality of space.	N/A	N/A	LBC will resist shell and core only, seeking fit out to Cat. A so that fit out is not a barrier to entry.	Yes, but on a case-by case approach. Sometimes an element must be leased to an approved provider at a peppercorn rent or otherwise.
Hackney	All Priority Office Areas (POAs): At least 10% of floorspace (gross).	Shoreditch POA: 40% of market rent. Remaining POAs: no more than 60% of market rent.	POA locality market rent.	In perpetuity.	Off-site only in exceptional circumstances. Cash in lieu also possible.	Where planning submissions bring total employment workspace over 1,000 sqm, affordable workspace requirement applies.	First preference for legal agreement with a Council registered workspace provider.
Hammersmith & Fulham	At least 5%.	Considered within overall viability envelope for a scheme.	N/A	N/A	N/A	Flexible leasing, cross-subsidy etc, reduced rents and start up spaces noted amongst acceptable approaches.	N/A

London Borough of Hammersmith and Fulham: Affordable Workspace Study

<i>Borough</i>	<i>% of Affordable in New Workspace / Floorspace</i>	<i>% Discount</i>	<i>Discount Priced Against</i>	<i>Duration</i>	<i>Off-Site Allowed?</i>	<i>Other</i>	<i>Approved Providers</i>
Havering	20% of total gross commercial floorspace for major commercial and mixed-use developments.	Average of at least 20% below comparable market rents, but in some locations/sector higher. Preference for a sliding scale of 60% from years 1 to 2; 80% from years 3 to 5; and 90% thereafter.	N/A	Min. 5 Years.	N/A	In redevelopment schemes, re-provision of low-value employment space reliant upon sub-market rents is required to tackle displacement.	N/A
Islington	Within CAZ, Priority Employment Locations and town centres at least 10% affordable workspace as a proportion of overall gross B- use floorspace. For proposals involving 10,000 sqm or more gross B-Use floorspace, 10% affordable workspace.	80% or less of market rent, although concede that this may not be affordable so case by case review.	N/A	At least 20 years, with some spaces in perpetuity.	Priority given to on-site provision.	N/A	Leased to the Council at a peppercorn rate. Council will sub-let to a Council approved operator.
Lambeth	Major developments that include B1 floorspace should provide a proportion of affordable workspace as per the below: <ul style="list-style-type: none"> - Waterloo and Vauxhall 10% - Oval, Kennington and Clapham 10% - Brixton CEZ 10% 	<ul style="list-style-type: none"> - Waterloo & Vauxhall 50% - Oval, Kennington and Clapham 80% - Brixton Small (up to 5,000 sqm GIA): 50% - Brixton Medium (5001-10,000 sqm GIA): 35% - Brixton Large (10,000 sqm GIA+): 20% 	Developers to provide valuation based on similar recent transaction in the area, but Council may seek independent advice to verify.	Waterloo and Vauxhall 15 years; Oval Kennington and Clapham 15 years; Brixton CEZ 25 years.	On-site preferred but payment in-lieu by exception where off-site would have greater economic impact. Will consider affordable workspace propositions that involve offering discounts to membership models (i.e. virtual offices, fixed desks, hot desks and small offices) throughout a development rather than in a dedicated and separate space.	Affordable workspace arrangements can take one of three models: <ul style="list-style-type: none"> (1) Developer lease space to an affordable workspace provider on the Council's approved provider list; (2) Affordable workspace is managed directly by the owner of the new development where they have the skills; and, (3) Affordable workspace lease directly to an end user on Council's approved business list. 	Affordable workspace providers approved list; Register of approved businesses that require non-managed affordable workspace.

London Borough of Hammersmith and Fulham: Affordable Workspace Study

<i>Borough</i>	<i>% of Affordable in New Workspace / Floorspace</i>	<i>% Discount</i>	<i>Discount Priced Against</i>	<i>Duration</i>	<i>Off-Site Allowed?</i>	<i>Other</i>	<i>Approved Providers</i>
Redbridge	No % target but focus on new commercial or mixed-use developments, or Growth Areas, mixed use schemes in Local Business Areas, and in non-designated employment land.	N/A	N/A	N/.	N/A	Flexibility of units and preferences around unit sizes expressed by the Council.	Developers encouraged to engage with workspace providers at the design stage.
Richmond upon Thames	At least 10% of proposed office floor space (where over 1,000 sqm. office space is proposed).	Rent and service charge less than 80%.	Local market rates.	Minimum of 10 years.	N/A	A revised Planning Obligations SPD will contain guidance to assist in the implementation of policy requirements on affordable employment space, including guidance on design and financial arrangements.	N/A
Southwark	Major development proposing 500 sqm. GIA or more employment floorspace (B class use) must deliver at least 10% of employment floorspace as affordable workspace at discounted market rents.	N/A	N/A	At least 30 years.	Payment in lieu for off-site.	Prioritise affordable workspace for existing small and independent businesses on the site at risk of displacement. Where not feasible, affordable workspace must be targeted for small and independent businesses from the local area with an identified need.	No, but must collaborate with the council to identify the businesses that will be nominated for occupying affordable workspace.
Tower Hamlets	10% of new floorspace in commercial (at least 1,000 sqm.) and mixed-use developments.	At least 10% below market rate.	Rate comparable with similar facilities available in Tower Hamlets.	At least 10 years.	N/A	N/A	Encouraged to work with recognised providers on the Council's list.

London Borough of Hammersmith and Fulham: Affordable Workspace Study

<i>Borough</i>	<i>% of Affordable in New Workspace / Floorspace</i>	<i>% Discount</i>	<i>Discount Priced Against</i>	<i>Duration</i>	<i>Off-Site Allowed?</i>	<i>Other</i>	<i>Approved Providers</i>
Wandsworth	Major schemes should provide 10% of floorspace.	At least 20% of market rate across borough, and above this in Nine Elms due to high commercial values.	Royal Institute of Chartered Surveyors (RICS) recognised method to assess the Market Rent valuation.	Affordable rent in perpetuity or affordable managed workspace offered for time agreed with Economic Development Office as part of a Workspace Management Plan.	Financial contributions acceptable if not feasible to have on site and will be put towards: (a) new provision of similar workspace nearby; (b) pooling of investment towards key areas designated for employment space; or (c) investment in existing affordable workspaces. The contribution will be equivalent to the rental discount that would have otherwise been offered.	Workspace is to be provided for: <ul style="list-style-type: none"> • Specific sectors that have social value such as charities or social enterprises; • Specific sectors that have cultural value such as artists' studios and designer-maker spaces; • Disadvantaged groups starting up in any sector; • Educational or research driven outcomes through connections to schools; • Colleges or higher education; and, • Supporting start-up businesses or regeneration. 	No, but developers must work with Economic Development Office to complete a Workspace Management Plan which focuses on how the space will benefit target groups and what will be done to achieve this.
OPDC	"Proposals that generate new employment floorspace should incorporate an appropriate quantum of (i) affordable workspace offered at below; (ii) share workspaces; and/or (iii) small business units".	N/A	N/A	N/A	N/A	Flexible and small workspace is as important as affordable workspace in planning policy.	Affordable workspaces to be managed by providers that meet specific criteria. OPDC will have a list of approved providers but will also consider them on a case by case basis,

Best Practice Case Studies

- 2.8 Affordable workspaces can deliver a wide range of benefits for businesses *and* communities. A series of case studies has been provided below to illustrate the value that affordable workspaces can bring to an area and to provide inspiration and learning for Hammersmith & Fulham.

Pop Brixton: Diversifying and Supporting Town Centre Vitality

Context

- 2.9 Pop Brixton is a community project, event venue and workspace home to a range of independent retailers, restaurants, street food start-ups, businesses and social enterprises.
- 2.10 Located in the heart of Brixton, the project was conceived as a meanwhile use for a vacant site owned by the London Borough of Lambeth. The aim was to deliver a temporary project focused on local enterprise and employment.
- 2.11 The site, which opened in May 2015, is currently run and managed by Makeshift. It has over 50 shipping containers configured to provide a mix of business and community space.
- 2.12 It is home to a range of business activities related to the food, drink, retail, creative, professional and third sectors. Example businesses include Massolit, Bharat & Jean, Convey, Restoration Brixton and Blackstar London.
- 2.13 It also provides space for events and community activities. It hosts a number of community focused projects such as the People's Fridge, Pop Farm and Repräsent Radio.

Wider Value

- 2.14 A recent evaluation of Pop Brixton¹ illustrates that it has delivered a wide range of positive impacts for businesses, people and the local area.
- 2.15 Most significantly, evidence demonstrates that it has helped to improve and support the vitality of Brixton town centre. A visitor survey undertaken by Hatch indicates that:
- 88% of visitors believe that Pop Brixton has strengthened the town centre overall
 - For every £10 spent by visitors at Pop Brixton around £5 is spent in other places in the town centre
 - Around 50% of visitors to Pop Brixton visit other parts of the town centre
 - Most visitors use the town centre more frequently because of Pop Brixton
- 2.16 Pop Brixton has also brought a range of new and interesting businesses to the town centre, particularly in the food and beverage sectors (e.g. Cricket, Halo Burger, Alpes and Roe). This has helped to diversify the town centre offer and has encouraged a range of similar and new businesses to the area. Brixton is now regarded as one of the most vibrant areas of London for independent retail, food and drink.
- 2.17 The evaluation also demonstrates that the project has delivered a range of positive economic benefits to the area. For example, it hosts around 47 businesses which support 197 jobs and delivers around £9m to the economy per annum. 50% of the businesses

¹ Pop Brixton Evaluation (2017): Hatch Regeneris, Lambeth Council and Makeshift

hosted are start up businesses who reported that they were attracted by flexible leases affordability.

3Space @ Keeton's and Collett: Boosting Local Spend and Benefits

Context

- 2.18 3Space @ Keeton's and Collett is a 25,000 sq ft meanwhile workspace in the former Lewisham and Southwark College building in Bermondsey. The site was purchased by Grosvenor in 2013 as part of wider regeneration plans and was temporarily leased to 3Space in 2016.
- 2.19 The aim of the workspace is to support local enterprise, entrepreneurialism and experimentation while putting social value and placemaking at its heart. The project provides a wide range of options for tenants, ranging from private offices, fixed desks, hot desks, lab space, meeting space and events space.
- 2.20 The building is currently home to around 44 businesses across several different sectors (including tech, professional services, architecture, creative, charity and the third sector). Example tenants include Resi, Advizzo, Idea Drop, RefuAid and GreenLab. These organisations employ around 128 people, generating around £8m in Gross GVA every year.
- 2.21 Formal events are also run each month, focusing on topics like business support, education, art and community. Some support tenants to grow and prosper, but others are outreach programmes to community groups and schools.

Wider Value

- 2.22 A recent evaluation of 3Space @ Keeton's and Collett² by Hatch demonstrates that the workspace has had positive economic, social and environmental impacts. High-level economic impacts include:
 - £14m gross annual turnover;
 - £8m gross annual economic output (GVA);
 - £4.5m gross annual salary; and,
 - £6m gross annual supply chain spend (purchase of goods, materials and services).
- 2.23 Significantly, however, a large proportion of these benefits are retained locally in Southwark and South East London. Evidence indicates that around 20% of those working in Keeton's and Collett live in Southwark (where it is located) and 45% live in South East London (including Southwark). Similarly, 20% of supply chain spend is within the borough and 45% in South East London (including Southwark). Based on this, it is estimated that:
 - Up to £1m gross annual salary is paid to residents living in Southwark and £2m to those in South East London; and,
 - £1.1m gross annual supply chain spend is in Southwark and £2.5m is in South East London.
- 2.24 It is also worth noting that the workspace has supported local enterprise in the local area – 35% of business owners are from Southwark and 64% from South East London. A

² Pop Brixton Evaluation (2017): Hatch Regeneirs, Lambeth Council and Makeshift

significant proportion of these businesses are new entities that have been supported to start up, flourish and grow due to the affordable rates and flexible leases available.

3Space @ International House: Delivering Social Value and Building Community Wealth

Context

- 2.11 International House is an eleven-storey, 50,000 sq ft office block in Brixton. The building belongs to the London Borough of Lambeth who previously used it as an office for Council staff. With the restoration and renovation of Brixton Town Hall and the consolidation of Council staff into it, International House was deemed surplus to requirements and was handed over to the Council's Investment and Growth team for the Brixton Central Masterplan regeneration scheme. As this is unlikely to come forward for a number of years, the Council decided to transform the building into a temporary meanwhile workspace to introduce a range of new businesses to Brixton.
- 2.12 Rather than focusing on maximising financial returns, the Council wanted to support town centre regeneration, placemaking and social value. As such, a competitive tender process was developed to select an operator who could deliver an interesting, innovative and affordable workspace which maximised social value while also providing a small financial return. 3Space were selected to run and manage the building and signed a lease in September 2018.

Wider Value

- 2.13 As the Council agreed to lease the building below market rates, 3Space are able to operate their Buy, Give, Work model which was successfully piloted at their previous meanwhile workspace in Bermondsey. The model involves commercial businesses paying market rent for space (Buy) and using this to cross-subsidise low or no rent space for not-for-profits that benefit the local area, early stage start-ups with a local founder and experimental projects (Give). This activity is supported by events and networks (Work).
- 2.14 While the workspace has delivered significant economic value through the establishment of a new design-focused quarter in Brixton, the provision of space for a range of local and third sector organisations is a major added benefit. As the table below demonstrates, International House provides five 'Give' floors for a range of interesting and valuable organisations. Paying tenants are also expected to put aside time and resources to support organisations benefitting from 'Give' space, particularly through mentoring, work experience and volunteering.
- 2.15 While the impact of this activity has not yet been quantified, it is undoubtedly delivering significant social value to Lambeth and Brixton. Research from a range of organisations (e.g. The Centre for Local Economic Strategies) demonstrates that the provision of space for small and local businesses is key to building economic and social wealth in communities. Evidence shows that local or socially minded enterprises are more likely to employ, buy and invest locally. This means that rather than extracting wealth they make significant contributions to local economic development.

Ground Floor	Youth Innovation Hub	Photography Services Floor	Community Initiatives Floor	Fabric Floor
Free of charge event space for building members with a comprehensive events program. Also includes space for an accelerator programme.	Space given to Youth Entrepreneurship Hub Business Launchpad which is a youth entrepreneurship charity that supports young people aged 16-30 at every stage of their business. Co-working, desk and music studio space is available.	Floor has been given to Photofusion who are a photographic services charity who have been based in Brixton since 1991. The floor includes photography space, dark rooms, a classroom and a digital print studio.	Space is available free of charge for local charities, non profits and social enterprises. Organisations must be based in Lambeth or deliver programs which directly benefit Lambeth Residents. 37 organisations currently have access to desk space.	Space is managed by Assemble who provide space to fashion and textiles studio businesses. It is designed to support a range of practitioners from different backgrounds, and at different stages in their development. All tenants have 24/7 shared access to a 19m ² classroom, kitchenette and maintained workshop with communal machinery and 1.5 x 3m work table.

The Granville: Linking Workspace and Communities

Context

- 2.16 The Granville is a mixed-use community centre and workspace in South Kilburn, London. It is run by the South Kilburn Trust who lease the building from the London Borough of Brent for a peppercorn rent. There are 15 studios available and a small co-working and hotdesking area. Studios typically rent for £500-600 per month and desks are available for £175 per month making them accessible to small enterprises. Plans are in place to extend and expand the building, which will involve providing traditional offices and additional community uses.

Wider Value

- 2.17 While the London Borough of Brent are not making a financial return on their asset, they are catalysing significant economic and social returns. The South Kilburn Trust are committed to supporting local, small enterprises to grow. This is achieved by leasing space to local businesses that subscribe to the Trust's values of community inclusion and involvement. Tenants also have free access to two specialist business advisors that support enterprises to scale, grow and prosper. In 2019, the workspace safeguarded or created 35 jobs and supported 12 businesses to grow.
- 2.18 The South Kilburn Trust has also recently developed a new scheme called Community Give Back, which links businesses in the Granville to the South Kilburn community. The aim is to support and inspire local people to work or set up businesses in new industries. Businesses provide a range of support services to local people, including mentoring, advice, school events, provision of work placements and support with job interviews. Local people who are interested in setting up a business are also able to access the specialist business advisors for free, which is a service not typically offered by workspaces. A recent audit shows that since formation the Granville has delivered 48 trainee placements, 600 skills workshops/seminars and has engaged almost 2000 people.

- 2.19 The rental income from the workspace is also used to cross-subsidise other free community focused activities in the building. These include a youth programme, creche and wellbeing services.

Platfo9m: Demonstrating the Viability and Opportunity for new Commercial Development

Context

- 2.20 Platfo9m is a co-working, office, meeting and event space for the creative sector in East Sussex. It is located in Hove Town Hall and has recently expanded to a second site. The workspace has a membership of over 80 small businesses who also receive business and collaboration support. Businesses range from film-makers to PR agencies, illustrators, charities, accountants, writers, graphic designers and others. A carefully curated series of regular creative and artistic events are held across the two sites.

Wider Value

- 2.21 Brighton & Hove Council identified the need for more managed workspace in the city during the development of the Brighton & Hove Economic Strategy. It was clear however that this type of space was not coming forward due a lack of market confidence from the private and third sector. To demonstrate the viability and opportunity for this type of space in the area, they decided to rent part of Hove Town Hall to a workspace provider. The workspace became a success and space was filled relatively quickly. This was an important step change as it changed perceptions which, in turn, helped to catalyse a wide range of flexible workspaces to start up in the area (e.g. Project, Spaces, The Werks and The Skiff). Agents report that the city is now well-served by managed workspaces, investors are confident in the viability of the market and that the digital and creative sector has become a key strength of the economy.

Deptford Foundry: Security Through Ownership

Context

- 2.22 Deptford Foundry is a 30,000 sq ft affordable studio space run by Second Floor Studios in Deptford, Lewisham. It comprises 85 affordable purpose-built studios home to 115 artists and makers supported by a further 40 employees, apprentices and interns.
- 2.23 The facility is home to a range of practitioners including artists, glass makers, architects, restorers, designers, product designers, publishers, graphic designers, fashion designers, jewellers, photographers, printmakers, illustrators, sculptors and weavers. Businesses in creative sectors that generate a higher financial return (e.g. architects and graphic designers) pay in the region of £23 / sq ft, which while still affordable cross-subsidises lower cost space for artists (£15 / sq ft) and start-ups (£12 / sq ft).
- 2.24 The studio sits within a mixed-use scheme on Arklow Road and takes up ground and first floor space. The scheme is a new development from Anthology (Developer), Rolf Judd (Architect) and Sisk (Main Contractor) consisting of 316 new homes.

Wider Value

- 2.25 The provision of affordable workspace was negotiated as part of the planning application by the London Borough of Lewisham following discussions with Anthology. The Council does not have a specific Affordable Workspace policy. Following engagements with several potential operators Anthology identified Second Floor Studios as a preferred partner.

- 2.26 Rather than renting the space for a limited period Second Floor Studios bought the space from Anthology at a discount to market rate agreed as part of a S106 agreement. Second Floor Studios took an open book approach with Anthology, the London Borough of Lewisham and the Mayor of London to illustrate what they could afford to pay for them to offer affordable rates to end users. The S106 agreement also stipulated that the space had to be fitted out to shell and core before any homes could be sold which incentivised the developers to provide good quality space quickly. A Good Growth Fund grant was used to fully fit out the space.
- 2.27 The major benefit of purchasing the site is that the space will now be available in perpetuity *and* it ensures that Second Floor Studio are insulated from rent fluctuations. This advantage will be passed onto the creative community who will continue to have genuinely affordable space for years to come in a prime London location.
- 2.28 It also means that the organisation does not need to rely on external funding to ensure rents remain affordable which will help the studios be more resilient over time. A careful financial and succession plan has also been put in place to protect the space for artists and makers for the next six generations.
- 2.29 Linked to this, ownership allows Second Floor Studios to provide space for artists and makers at a price point they believe is truly affordable. They recognise that artists cannot afford to pay as much as other sectors due to the profitability and nature of their work. The discount to market rate approach is less relevant to artists as they tend to be able to afford the same amount of space wherever they are based.
- 2.30 They have joined other studio providers to create London's Affordable Artist Studios Network (LASSN) to define what affordable means for artists. In London they are clear that end users can afford £12-19 / sq ft (including service charge) and therefore landlords need to rent space at £6-9.50 / sq ft to operators. This is far below the discounts suggested in this document, so Hammersmith & Fulham may want to consider a specific policy where artist studios are preferred. Their preference is to purchase space if possible and a cost of £85-100 / sq ft is seen as sustainable for shell at core.

Challenges

- 2.31 The major challenge Second Floor Studios have faced is accessing a mortgage to fund the purchasing of sites as many financial institutions perceive the risk to be high. Financiers preference is for workspaces to be fitted out to Cat A standard before lending to affordable operators. Councils can support operators by providing loan or grant funds or by stipulating Cat A fit outs in planning policy. The issue with the latter is that it is unlikely developers will fit spaces out to the standard and configuration that operators want.

Who needs affordable workspace?



3. Who needs affordable workspace?

Policy Review

- 3.1 The London Borough of Hammersmith & Fulham's policies and strategies provide strategic insight on who needs affordable workspace, in terms of business typology, sectors and local communities. They also provide insights on the type of workspace required in the borough's regeneration areas.
- 3.2 Several key observations are set out below and these provide the starting point in understanding who workspace should be targeted at and where opportunities exist.



The council want to make Hammersmith & Fulham into “**West Tech**”, a global beacon for innovation and growth. Key to this vision is providing affordable workspace for **creative, digital and STEM industries**.

Source: Hammersmith & Fulham Industrial Strategy; Hammersmith & Fulham Local Plan



Delivery of affordable workspace is to build upon the existing concentrations of **TV, programming and broadcasting** businesses around Media Village and **science and research businesses** at Imperial College's White City Campus.

Source: Hammersmith & Fulham Industrial Strategy



There is an appreciation that **small and micro businesses** face specific space challenges in the borough. The recent employment study identifies that 62% of space requirements are for businesses needing 93-465m² and that 74% of office conversions through permitted development were below 100m².

Source: Hammersmith & Fulham Employment Study (2016); Hammersmith & Fulham Local Plan



The **White City Opportunity Area** is a key priority for affordable workspace to support industries around Media City and the emerging innovation district around Imperial College's new Campus. The area has capacity to deliver **10,000 jobs** by 2035 and for substantial mixed-use development, with opportunities to build in affordable workspace requirements.

Source: Hammersmith & Fulham Local Plan Policy E1



The **Fulham Regeneration Area** also provides a major opportunity for workspace delivery, aiming to deliver **9,000 jobs** by 2035. There is a focus on delivering sites that benefit the wider community, including providing new local job opportunities. The **South Fulham Regeneration Area** and **Hammersmith Regeneration Area** are also identified for significant employment growth.

Source: Hammersmith & Fulham Local Plan



The **West Kensington and Earls Court Opportunity Area** will be preferred locations for new office development above **2,500m²** alongside Shepherds Bush and the other town centres. The council will support proposals including mixed use schemes for new employment uses, especially those that recognise strengths in creative industries, health services, bio-medical and other research industries.

Source: Hammersmith & Fulham Local Plan Policy E1

- 3.3 The Council has also recently identified the Green and Low Carbon Economy as a sector that they would like to support grow. This is in response to Hammersmith & Fulham's ambition to become the greenest borough in London and to put environmental issues at the front and centre of policy and delivery. This is a broad sector and activities associated with it cut across a range of other broad sectors such as Life Science, Creative and Digital and Financial and Professional Services. As such it is not defined as a sector in its own right in the proceeding analysis.
- 3.4 The priority sectors identified in Hammersmith & Fulham's policies align with ambitions set out in the National Industrial Strategy and the Mayor of London's Economic Development Strategy:
- The National Industrial Strategy emphasises the importance of the STEM, creative and digital industries as exemplified by sector deals for the aerospace, artificial intelligence, automotive, life science, creative, nuclear, offshore wind and rail industries. Other priorities include construction and tourism.
 - The Mayor of London's Economic Development strategy explicitly references the need to support the cultural, creative, life sciences, low carbon, environmental, tech and digital sectors. Other priority areas include tourism, advanced urban services and financial & business services.

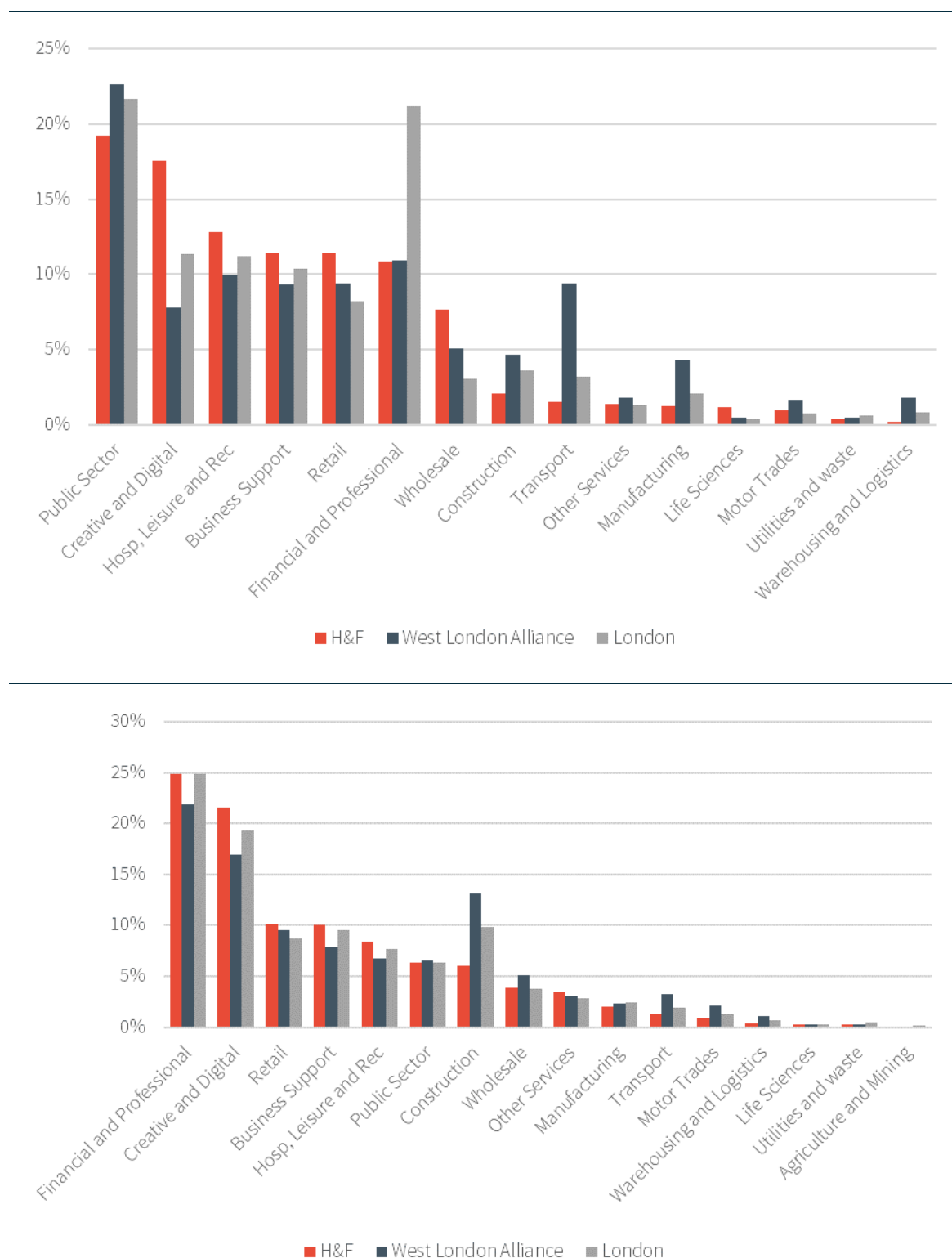
Data Analysis

- 3.5 Analysis of publicly available economic data is also an important source of information to help identify who needs affordable workspace.
- 3.6 Evidence shows that the Hammersmith & Fulham economy is diverse and is home to around **140,000 jobs** and at least **14,000 businesses**. Recent performance over the last five years has been positive but below London averages:
- Employment grew by **+7%** between 2013 and 2018, which is higher than West London Alliance³ at +3% but lower than 11% across London; and,
 - The number of businesses grew by **+13%** over the last five years, which is lower than West London Alliance (24%) and +27% growth in London.
- 3.7 The economy is characterised by strengths in higher value activities and high street businesses. The largest employment sectors are the Public Sector (27,000 jobs); Creative and Digital (24,600 jobs); Hospitality, Leisure and Recreation (18,000 jobs); Business Support (16,000 jobs); and Retail (16,000 jobs). The largest sectors by the number of businesses are Financial and Professional; and, Creative and Digital, comprising nearly half of all businesses in the borough.
- 3.8 The key trends associated with Hammersmith & Fulham's broad sectors are provided in tables and charts on the following pages, which give an overview of the make-up of the business and employment base in terms of size, degree of specialisation and growth trajectory. These highlight several key findings:
- There are a number of employment sectors (e.g. Hospitality, Leisure and Recreation; Retail; and, Life Sciences) and business sectors (e.g. Creative and Digital; Retail; Hospitality, Leisure and Recreation; Wholesale; and, Life Sciences) that are both **growing and specialised**;
 - The economy is more **balanced** than other boroughs in terms of sector representation;

³ The West London Alliance is a sub-regional partnership of Western London boroughs and includes Barnet, Brent, Ealing, Harrow, Hillingdon, Hounslow and Hammersmith and Fulham

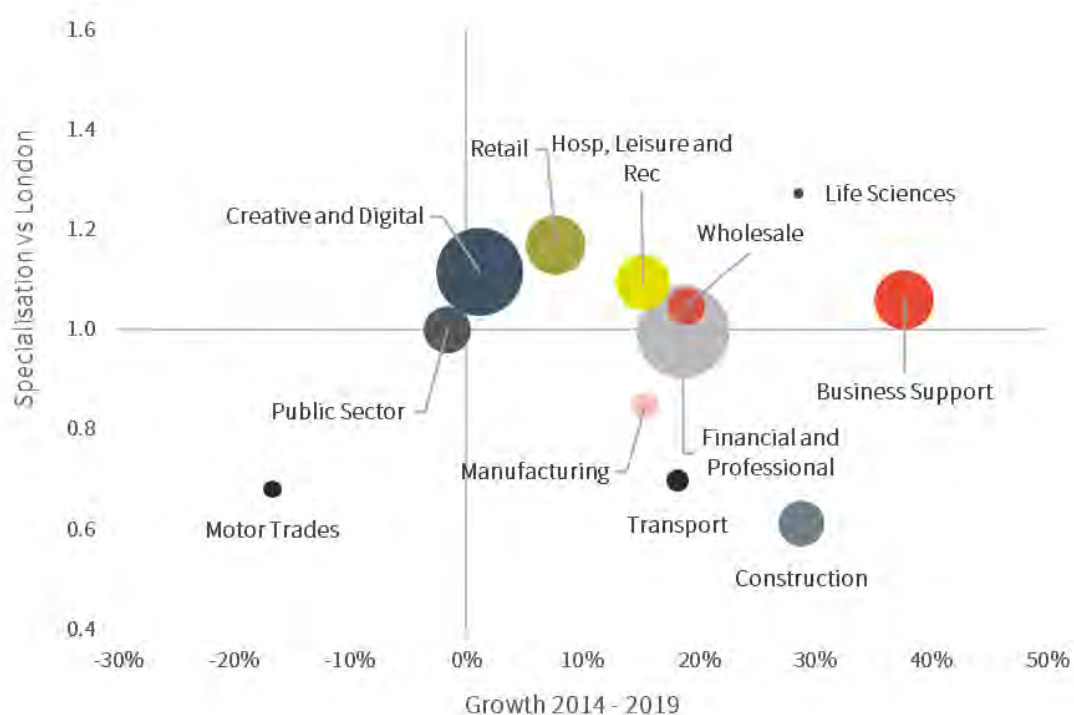
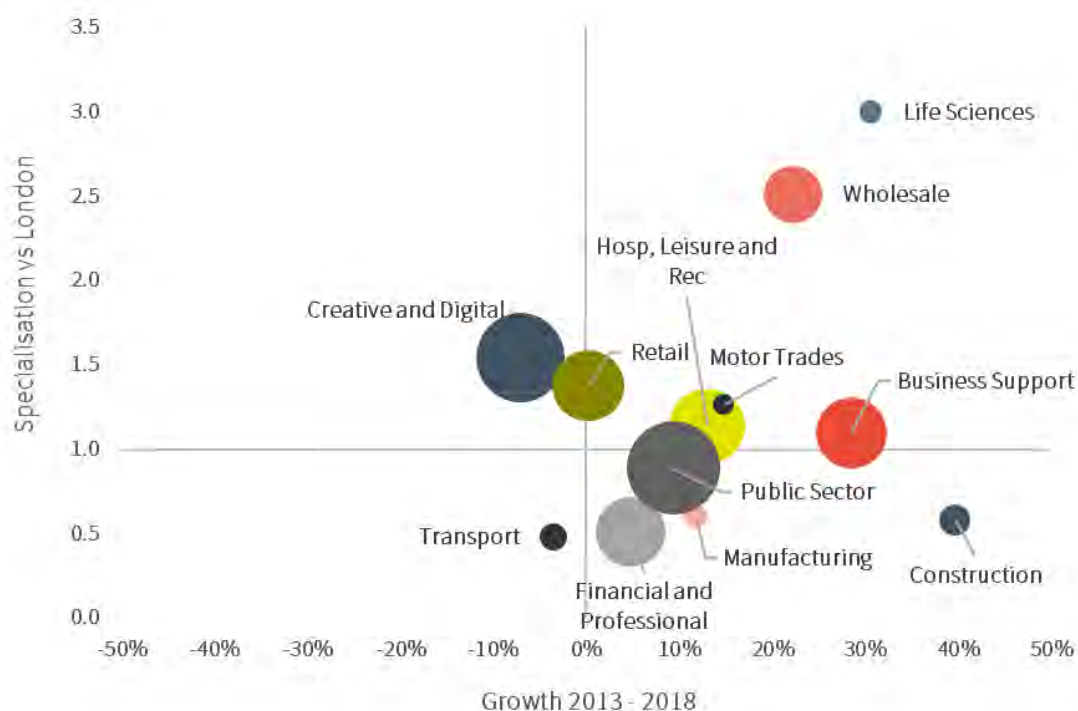
- Most sectors are **growing**;
- Some of the largest and most specialised sectors in Hammersmith & Fulham are **higher value** in terms of economic output, driving higher wage growth and supply chain spend in the local economy (e.g. Creative and Digital and Life Sciences); and,
- The **creative and digital sector** is large and specialised but has experienced an **8% decline** in employment in recent years and business numbers have remained relatively static.

Figure 3.1) Broad Sector Breakdown vs the West London Alliance and London (Employment (2018) Above, Business (2019) Below)



Source: BRES, 2018; UK Business Count, 2019

Figure 3.2) Broad Sector Performance: Size, Concentration and Growth (Employment Above, Business Below)

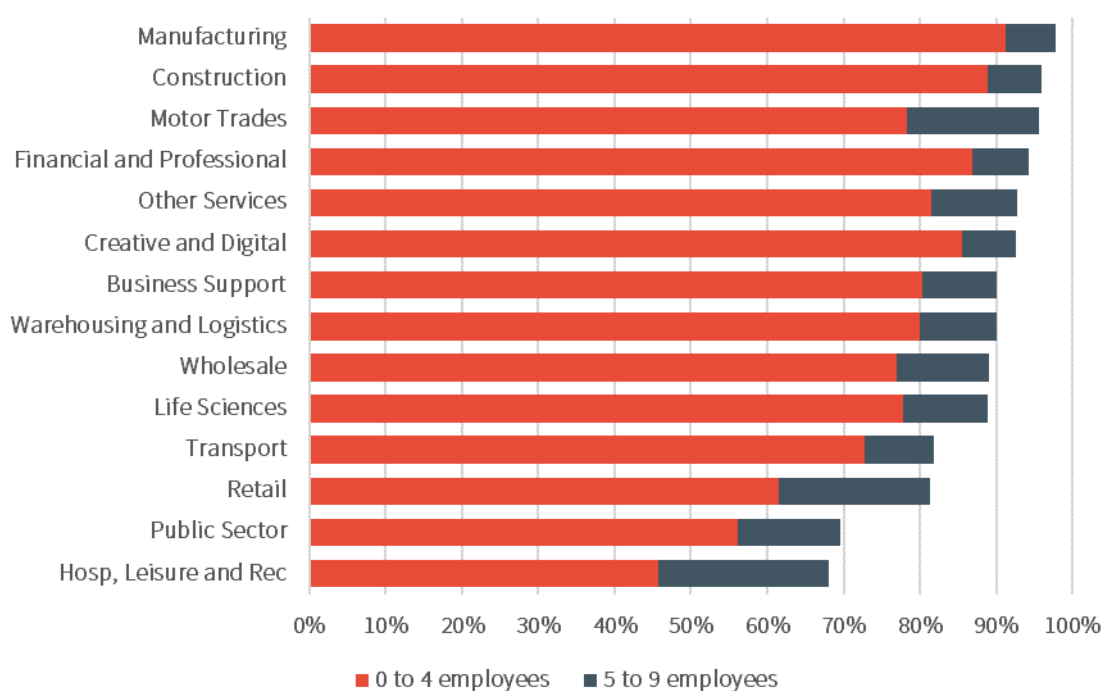


Source: BRES, 2013 – 2018; UK Business Count 2014 – 2019

Note: Charts illustrate the size, concentration and growth of employment and business sectors. The size of the bubble denotes the size of the sector in terms of employment (above) and number of businesses (below), the X axis shows employment/business number growth and the Y axis shows the level of specialisation vs London (anything over 1 indicates a specialism).

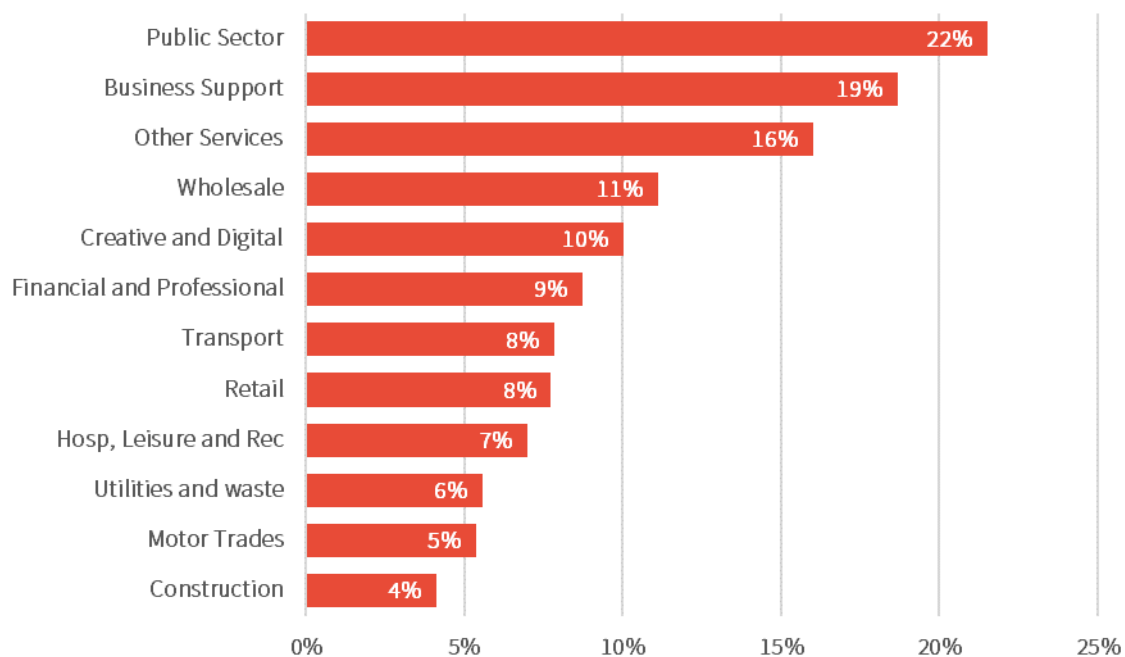
- 3.9 The borough's economy is also characterised by micro businesses that employ fewer than 10 employees. Around **88%** of businesses are micro businesses, including **9%** that are sole traders. Whilst the proportion of micro businesses differs by sector, data indicates that a number of sectors have at least 90% microbusinesses (Manufacturing; Construction; Creative and Digital; Financial and Professional; and, Other Services).
- 3.10 The number of sole traders is also relatively high in sectors such as other services; business support; wholesale; creative and digital; and, financial and professional services. These very small companies require bespoke support in order to start and survive, including affordable workspace, collaborative networks and funding. Co-location and agglomeration are critical to supporting these businesses to survive and scale.

Figure 3.3) Proportion of Micro Businesses by Broad Sector, 2019



Source: UK Business Count, 2019

Figure 3.4) Proportion of Sole Traders by Broad Sector, 2019



Source: UK Business Count, 2019

Note: Life sciences, manufacturing and warehousing & logistics have 0 sole traders reported and are not included.

Table 3.1) Detailed Sector Overview

Overarching Sector	Detailed Sector	Business					Employment			
		Number	% of total businesses	% SMEs	LQ vs London	% change 2014 - 2019	Number	% of total employment	LQ vs London	% change 2013 - 2018
Business and Professional Services	Financial and Professional	3,590	25%	98%	1.0	+19%	15,250	11%	0.5	+4%
	Creative and Digital	3,115	22%	96%	1.1	+1%	24,620	18%	1.5	-8%
	Business Support	1,460	10%	96%	1.1	+38%	16,050	11%	1.1	+28%
	Other Services	495	3%	98%	1.2	+30%	1,945	1%	1.1	-23%
	Life Sciences	45	0%	100%	1.3	+29%	1,665	1%	3.0	+30%
	<i>Total</i>	8,705	60%	97%	-	+15%	59,530	42%	-	+3%
Local Service Sectors	Retail	1,475	10%	96%	1.2	+8%	15,985	11%	1.4	+0%
	Hosp, Leisure and Rec	1,215	8%	98%	1.1	+15%	17,935	13%	1.1	+12%
	Motor Trades	125	1%	92%	0.7	-17%	1,360	1%	1.3	+14%
	<i>Total</i>	2,815	19%	96%	-	+9%	35,280	25%	-	+6%
Construction and Manufacturing	Construction	870	6%	98%	0.6	+29%	2,975	2%	0.6	+39%
	Manufacturing	300	2%	77%	0.8	+15%	1,750	1%	0.6	+11%
	<i>Total</i>	1,170	8%	92%	-	+25%	4,725	3%	-	+27%
Wholesale, Logistics and Transport	Wholesale	565	4%	88%	1.0	+19%	10,720	8%	2.5	+22%
	Transport	195	1%	82%	0.7	+18%	2,185	2%	0.5	-4%
	Warehousing and Logistics	50	0%	100%	0.5	-9%	335	0%	0.3	-42%
	<i>Total</i>	245	2%	86%	-	+11%	13,240	9%	-	+13%
Public Sector	Public Sector	925	6%	87%	1.0	-2%	27,015	19%	0.9	+9%
Primary Activity	Utilities and waste	40	0%	75%	0.6	+100%	545	0%	0.6	+210%
Total		14,470	100	95%	-	13%	140,375	100%	-	7%

Source: BRES, 2013 – 2018; UK Business Count, 2014 - 2019

- 3.13 This data is concerned with the period before COVID-19 and therefore does not take account of more recent impacts on employment or business trends as a result of the ongoing economic instability. Whilst there is still much uncertainty and limited available data resources, many local authorities are beginning to take stock and attempting to understand the short, medium and long-term impacts on their local economies.
- 3.14 A recent study from Oxford Economics commissioned by the West London Alliance does exactly this and includes specific analysis for Hammersmith & Fulham. The study provided two forecast growth scenarios to estimate the total workplace employment in the borough.
- 3.15 For the **baseline scenario**⁴ it is estimated that jobs will decline by -4% (41,000 jobs) in 2020 (higher than the rate across London (2.8%)) with a rebound of +2% in 2021. Between 2019 and 2025 total employment is expected to increase by an annual average of 0.5%, resulting in an additional 34,000 workplace jobs from the baseline position in 2019.
- 3.16 Under the more **conservative downside scenario**⁵, employment is expected to contract by -4% in 2020 with no return to growth until 2022. The severity of the contraction combined with a later recovery means that overall job growth between 2019 and 2025 would be around 13,600 workplace jobs. This represents a job growth rate that would be a third of London as a whole.
- 3.17 Sector performance differs and is dependent on a range of factors, including social distancing measures, adaptability of businesses and changes in demand for products and services. The study⁶ provides a baseline forecast change in workplace employment by sector between 2019 to 2025 and identifies a number of headline findings:
- Hammersmith & Fulham is ranked as having below average exposure to COVID-19 challenges. Low exposure to manufacturing and transport sectors and the presence of high growth businesses improve the borough's resilience. Factors which leave the borough more vulnerable include the relative importance of hospitality, retail and the large share of small businesses in the area;
 - Several sectors are projected to increase in total jobs, including information and communication (+5,600 jobs), administration and support services (+5,600 jobs), professional, scientific and technical (+2,200 jobs) and wholesale trade (+3,600 jobs);
 - A number of sectors are projected to decrease in total jobs, including manufacturing (-5,700 jobs), transport and storage (-600 jobs) and financial and insurance activities (-500 jobs); and,
 - Structural shifts to the retail and hospitality sectors (e.g. rise of online retailing and other online trends such as Airbnb and Deliveroo) are expected to be accelerated over the next six months due to COVID-19 which is likely to create significant implications due to the prominence of these sectors in the borough.

Priority Sectors

- 3.18 Drawing on the policy review, data and secondary literature four priority sectors for affordable workspace have been identified. It is important to identify priority sectors because it allows limited resources and opportunities to be directed to where they can have the most significant

⁴ Impact of COVID-19 for the West London Alliance Economy, Oxford Economics (June 2020)

⁵ ibid

⁶ ibid

impact and contribute to wider strategic objectives. It also ensures that support is provided where need is greatest and pressures are highest.

- 3.19 This process has also drawn on our wider knowledge of the affordable workspace market, which has meant that some sectors that are not commonly associated with affordable workspace have been excluded. Priority sectors are set out in Table 3.2 below.

Table 3.2) Hammersmith & Fulham's Priority Sectors

Priority Sector	Definition	Rationale	Policy Context
1: Creative and Digital	This is a standard overarching sector that includes a range of business activities, including publishing, television, media production, telecommunications, web design, marketing film and photography	The sector is a key contributor to the borough's economy, accounting for around one fifth of all businesses, and is specialised (LQ of 1.1 for businesses and 1.5 for employment) compared to London. Despite this, employment growth declined by -8% in recent years which is a concern. This may link to the high number of freelancers and SMEs in the field (96% of the sectors businesses are SMEs in Hammersmith and Fulham).	Creative and digital sectors are key to delivering the council's "West Tech" vision for Hammersmith & Fulham to be a global leader for innovation and growth. The sector is also specifically referenced in the UK's Industrial Strategy to unlock growth of one of the fastest growing sectors in the UK.
2: Life Sciences	This is a standard overarching sector that includes specific activities relating to life sciences, such as manufacturing of pharmaceutical products, medical supplies and equipment, as well as research and experimental development in natural sciences, biotechnology and engineering.	Whilst the sector is relatively small, it is highly specialised (LQ of 1.3 for businesses and 3.0 for employment) and is one of the fastest growing sectors in the borough (+30% growth in business and employment in the last five years) which should be encouraged. The sector is being driven by small business, with 100% classified as SME and 90% classified as a micro business.	Like the creative and digital sector, the life science sector will contribute to delivering the council's "West Tech" vision for Hammersmith & Fulham. This is particularly relevant in response to the innovation district in White City, driven by the partnership with Imperial College. At the regional level the sector is also referenced in the new Draft London Plan as a sector that has specific business growth opportunities, particularly as part of the London, Cambridge and Oxford 'golden triangle'. At the national level it is identified as a key sector in the UK's industrial strategy, with the aim to ensure the UK remains at the forefront of innovation in the life science industry.
3: Financial and Professional	This is a standard overarching sector that includes a range of business activities including banking, investment,	Another key contributor to the borough's economy, accounting for the largest proportion of businesses (25%) and	The draft new London Plan (2019) identifies Financial and Professional Services as a priority sector for business

	insurance, trading, property management, technical consultancy (including engineering), language and accountancy.	around 11% employment. It has also experience growth in recent years, both in terms of business (+19%) and employment (+11%) which can be encouraged. The West London Alliance COVID-19 Impact report is a concern as it indicates that the financial and insurance sector could decline in the next five years by 500 jobs, making the case to provide greater support to retain the sector.	growth. The ambition is to sustain and enhance London's position as a global financial services hub along with a diverse range of professional and business services. The GLA's Employment Projections (2016) also set out that Finance and Insurance Activities as well as Professional services should drive London's growth moving forward (assuming London grows at 2.5% in terms of economic output per year, they expect employment in these sectors to increase by 0.5% and 1.5% respectively each year).
4: Manufacturing	This is a standard overarching sector that includes a range of manufacturing activity, including food, high tech, general and creative and media manufacturing.	The manufacturing sector is relatively small (2% of businesses and 1% of employment) but has experienced growth in recent years (+15% in businesses and +11% in employment) which should be supported. The West London Alliance COVID-19 Impact report also indicates that the manufacturing sector is projected to decline in the next five years by 5,700 jobs, making the case to provide greater support to retain the sector.	While manufacturing is not referenced as a priority sector for growth in the new draft London Plan, it is recognised that it makes an important contribution to the economy of Greater London and should be retained and encouraged where possible. This, among other factors, has driven the development of policies related to Strategic Industrial Locations (SILs) which are in place to protect and enhance industrial areas. Boroughs are expected to develop policies to intensify, co-locate and increase the attractiveness of these areas.

Focus On: Workspace Requirements

- 3.20 Finding workspace that is affordable is a major challenge for many businesses in London, particularly SMEs and those in less productive sectors. It is often a key determinant in choosing where to locate.
- 3.21 The affordability of workspace is, however, not always the most important factor influencing business owners' location decisions. There are a wide range of other relevant factors, some of which are specific to the type of business activity undertaken. Examples include proximity to similar businesses, access to specific infrastructure, flexible lease terms and the type of location.
- 3.22 It is therefore important to consider other factors that are important to businesses across the priority sectors. An overview of their general requirements and premises needs is provided in the table overleaf.
- 3.23 It is also important to note that the relative importance of sectors to regional economies changes and fluctuates over time. As technology develops and we enter the fourth industrial revolution, these changes may occur more rapidly as new solutions and products are developed more quickly.
- 3.24 Due to this, it is worth noting that several commercial property requirements cut across all sectors. Research shows that the availability of high quality, flexible commercial space that is adaptable to changing circumstances is most important. This needs to be supported by good infrastructure, particularly high-speed internet connectivity, with access to fast and reliable transport options.
- 3.25 Businesses are also increasingly demanding flexible lease terms to manage risk and allow them to adapt to changing market need. While there are clear distinctions between businesses that require office and industrial space, there are a range of similar requirements within these groups.

Table 3.3) Workspace Requirements of Hammersmith & Fulham's Priority Sectors

Priority Sector	General Requirements	Premises Needs	Opportunity Areas*
Creative and Digital	<ul style="list-style-type: none"> Proximity to skilled workforce Proximity to similar and supply chain businesses Accessibility to labour, partners, customers and markets Strong public transport connections Ultrafast broadband connectivity Flexible and adaptable premises 	<ul style="list-style-type: none"> Small, flexible workspace Studios and makerspace Industrial units– B1a and B8 (data centres) Office and co-working space Town centre locations Business/industrial parks Creative and dynamic feel Flexible lease terms 	<ul style="list-style-type: none"> Shepherd's Bush Hammersmith Centre Townmead Road and Imperial Ravenscourt Park Fulham Centre
Life Sciences	<ul style="list-style-type: none"> Proximity to similar businesses Proximity to highly skilled workforce Strong public transport connections, with access to major international airports Access to leading technologies and innovative environments Proximity to major universities, hospitals and researchers Strong digital and physical infrastructure and access to labour, customers and markets 	<ul style="list-style-type: none"> Incubator centres Innovation spaces High quality office space Lab/R&D space Adaptable industrial units Town centre locations Science parks Business/industrial parks 	<ul style="list-style-type: none"> Shepherd's Bush Hammersmith Centre Townmead and Imperial Parsons Green and Putney Bridge
Financial and Professional Services	<ul style="list-style-type: none"> High quality facilities in prestigious locations Quick access into central London via public transport Accessibility to labour, customers and markets Access to research institutions and collaborators Good public transport links 	<ul style="list-style-type: none"> High quality private offices Flexible workspaces Home working reducing need for space and increasing demand for co-working space Town centre locations Business parks 	<ul style="list-style-type: none"> Hammersmith Centre Fulham Centre Ravenscourt Park Olympia and West Brompton
Manufacturing	<ul style="list-style-type: none"> Flexible industrial space that is adaptable Quick access to road network, with connections to other cities and ports High speed broadband and internet Close proximity to workforce Close proximity to supply chain companies 	<ul style="list-style-type: none"> Light industrial space Workshops Yard space Storage space Access to tools, technology, meeting rooms etc Edge of town centre locations Business/industrial park locations Ability to receive/take deliveries from large vehicles Flexible lease terms or ability to purchase property 	<ul style="list-style-type: none"> Imperial Road and Townmead Parsons Green and Putney Bridge

*More detail on how the borough has been sub-divided is provided in the next chapter.

What does 'affordable' mean for Hammersmith & Fulham?



4. What does ‘affordable’ mean for Hammersmith & Fulham?

- 4.1 The cost of occupying commercial premises at an ‘affordable’ rent for any business can vary substantially depending on the size, turnover and sector of the business and the additional overheads they need to account for as part of their operation.
- 4.2 Some businesses may be prepared to accept a higher rent for the benefits that a particular location or type of space might bring, whilst other businesses will be operating at a more marginal scale whereby paying only a very low proportion of their turnover in rent will allow them to remain viable.
- 4.3 Generally, a lower ratio between turnover and rent will offer a greater degree of stability for those businesses that may experience fluctuating costs and demand - factors that are particularly relevant for start-up businesses and heightened by the current and on-going impact of COVID-19 and Brexit on the economy.

To understand what ‘affordable’ means for businesses in Hammersmith & Fulham, the starting point has been to consider the ratio of annual turnover to rent⁷ for businesses.

- 4.4 This ratio is a critical decision-making tool for any business in choosing where to locate or in selecting a particular premises. For all businesses there will be a point at which the ratio becomes too high and threatens their ability to remain operational in an area – in much the same way as a household’s ability to afford housing is a function of the cost of paying rent as a proportion of their income. Unlike in the housing market, there are no readily available or industry standard benchmarks for a typical ratio of annual turnover to rent.
- 4.5 In the retail sector, where turnover leases are more common, the ratio can range between **2%** and **12%** with most not paying more than 10%. Anchor tenants tend to drive a lower ratio to reduce the risk of taking up a larger amounts of space. Business insight commentators in the US⁸ suggest similar ratios for retail and professional service sectors, with up to **15%** for those seeking more prestigious locations.
- 4.6 Across other sectors of the economy, particularly those that are more specialised, there are no standard benchmarks. Businesses simply negotiate the lowest rent achievable based on their turnover, other overheads and the necessity to be in a particular location.
- 4.7 Despite a lack of readily available benchmarks, it is possible to reach a view on an appropriate benchmark for Hammersmith & Fulham based on a **bottom-up analysis** of business turnovers and rents across different sectors of the borough’s economy.

Business Turnover

- 4.8 Business turnover data for 2019 is available at a broad sector level from the Inter-Departmental Business Register (IDBR). It provides a useful understanding of the relative scale and performance of Hammersmith & Fulham’s businesses compared to Inner and Outer London.

⁷ This excludes other occupancy costs such as insurance and business rates which may be applicable.

⁸ BizStats; AZCenral; Womply

- 4.9 This data is set out in Table 4.1 below, which shows the average turnover per business for Hammersmith & Fulham vs Inner and Outer London for each sector. For consistency, IDBR's standard sectors have been matched with the broad sectors identified in the Evidence Review in Chapter 3 (as per Table 4.2 below).
- 4.10 The data indicates that the average annual turnover of businesses in the borough was **£3.4 million** in 2019. There is a wide variation by sector within the area, ranging from **£31.9 million** per business for **Wholesale** to **£0.7 million** for Construction.
- 4.11 The average turnover per business in the borough is around half of the average for Inner London of £7.1 million but nearly **three times higher than the Outer London average of £1.3 million**.
- 4.12 At the sector level there are some other notable points of difference between Hammersmith & Fulham and Inner and Outer London in terms of turnover:
- The average turnover per business for the **Wholesale** sector in both Hammersmith & Fulham and Inner London is significantly *higher* than Outer London;
 - The **Transport** and **Warehousing and Logistics** sectors in Hammersmith & Fulham have a *higher* turnover per business relative to both Inner and Outer London;
 - The **Financial and Professional** sector has the second highest turnover per businesses ratio for Inner London, yet is relatively low in Hammersmith at £0.9 million per business;
 - The average turnover of **Creative and Digital** businesses in the borough is almost on a par with Inner London (£2.1m vs £2.2m);
 - The average turnover for the **Life Sciences** sector around half of the average for Inner London at £0.9 million per business; and,
 - **Manufacturing** businesses in the borough have a far lower average turnover versus both inner *and* outer London.
- 4.13 It is worth noting that differences in turnover per businesses between Hammersmith & Fulham and wider comparators is not a direct reflection on business performance, but more likely down to the average business size and the nature of available commercial space. This data is, however, key to understanding what businesses can afford to spend on rent and demonstrates how this will differ on an area by area basis and within sectors.

Table 4.1) Turnover per business, 2019 (£ million)

Broad Sector	Hammersmith & Fulham	Inner London	Outer London
Wholesale	£31.9	£27.7	£4.3
Transport	£15.2	£8.4	£3.5
Warehousing and Logistics	£15.2	£8.4	£3.5
Retail	£2.9	£4.5	£1
Public Sector	£2.7	£2.8	£1.2
Business Support	£2.2	£2	£1.2

Creative and Digital	£2.1	£2.2	£0.6
Hospitality, leisure and recreation	£1.7	£2.1	£0.6
Manufacturing	£1.4	£12	£3.5
Financial and Professional	£0.9	£13.4	£1.3
Life Sciences	£0.9	£1.9	0.4
Construction	£0.7	£2.5	£0.6
Average	£3.4	£7.1	£1.3

Source: IDBR, March 2019 **Note:** Turnover data not available for Motor Trades, Other Services and Utilities and Waste.

Table 4.2) Alignment of Sector Analysis to IDBR Sectors

Broad Sector	IDBR Sector
Business Support	<ul style="list-style-type: none"> • Business admin and support
Creative and Digital	<ul style="list-style-type: none"> • Information and communication • Professional, scientific and technical
Life Sciences	<ul style="list-style-type: none"> • Professional, scientific and technical
Financial and Professional	<ul style="list-style-type: none"> • Finance & insurance • Professional, scientific and technical
Other Services	<ul style="list-style-type: none"> • n/a
Retail	<ul style="list-style-type: none"> • Retail
Hosp, leisure and recreation	<ul style="list-style-type: none"> • Accommodation and food • Arts, entertainment and rec
Motor Trades	<ul style="list-style-type: none"> • n/a
Construction	<ul style="list-style-type: none"> • Construction
Manufacturing	<ul style="list-style-type: none"> • Production
Wholesale	<ul style="list-style-type: none"> • Wholesale
Transport	<ul style="list-style-type: none"> • Transport and storage
Warehousing and Logistics	<ul style="list-style-type: none"> • Transport and storage
Public Sector	<ul style="list-style-type: none"> • Education • Health
Utilities and Waste	<ul style="list-style-type: none"> • n/a

Source: Hatch Regeneris

Focus On: Commercial Property Trends

A set of subareas has been identified to guide commercial analysis. This is because the borough is not contiguous and has a range of commercial property submarkets. Undertaking analysis at the borough level would mask place-based variations and miss specific needs and opportunities.

Seven subareas were selected using the borough's Employment Land Review as a basis, alongside insights from Co-Star, the Local Plan and an understanding of the characteristics and economic function of different parts of the borough. These subareas incorporate priority regeneration areas identified in Policy E1 of the Local Plan.

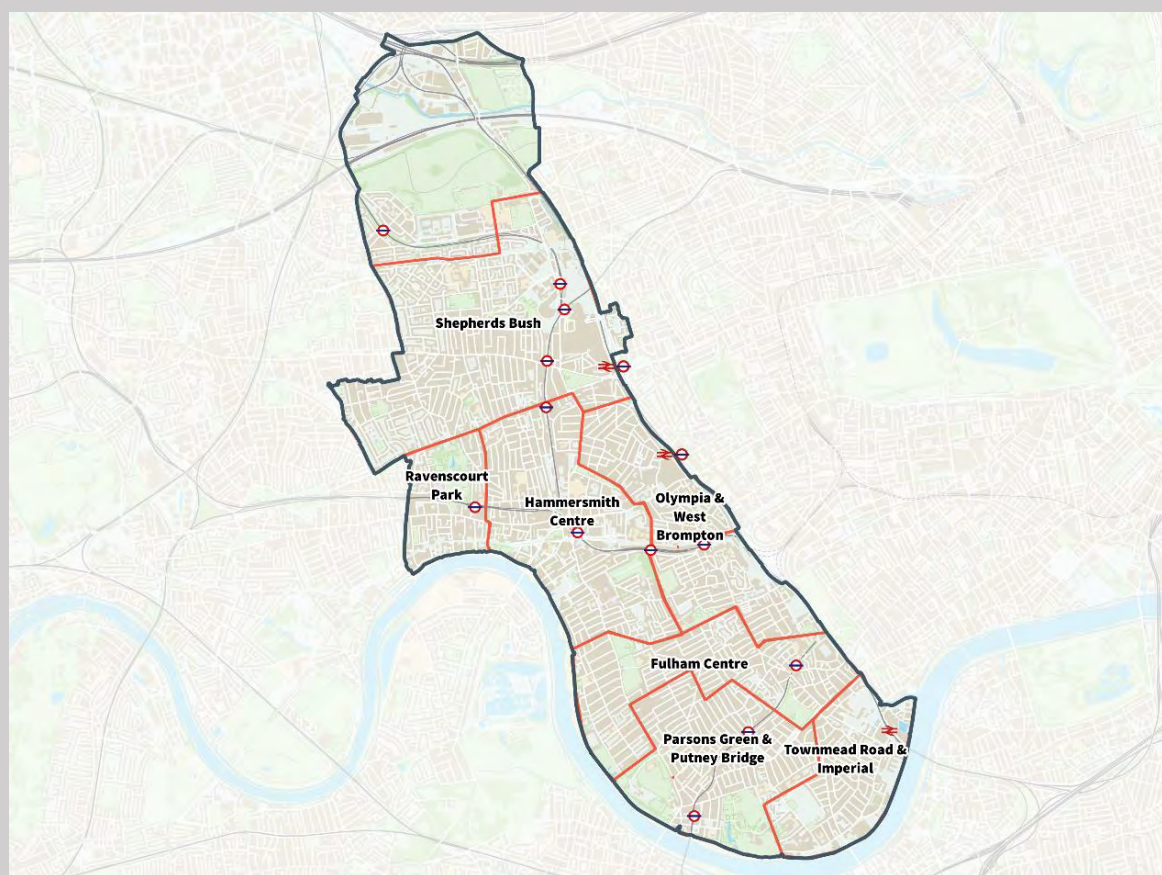
The sub-areas are:

- **Shepherds Bush:** This is in the north of the borough and is home to Shepherds Bush and White City. Its major commercial assets are concentrated in the White City Regeneration Area and include Media City, the emerging innovation district around Imperial College's new Campus and Westfield London. It has the highest office rental values⁹ in the borough at £53 / sq ft and average industrial rental values of £20 / sq ft.
- **Townmead Road & Imperial:** This is on the south eastern edge of the borough, home to both Townmead Road and Imperial Wharf. The area has contributed around half of the borough's industrial space with rental values at around £37 / sq ft. There is also a significant amount of office space with rental values at around £31 / sq ft.
- **Hammersmith Centre:** This is in the centre of the borough with the majority of commercial activity concentrated in the Hammersmith and Regeneration Area in close proximity to Hammersmith Underground Station. Other key areas include King Street and the river frontage to the south. Hammersmith Centre has the highest proportion of office floorspace in the borough with rental values of around £51 / sq ft.
- **Olympia & West Brompton:** This is located in the central eastern part of the borough and contains both Kensington Olympia to the North, home to the large exhibition space Olympia London, and West Brompton to the south which is largely residential in nature apart from the Empress State Building. North End road is a key high street connecting the two areas. Rental values for office space are around £42 / sq ft and there is no significant amount of industrial space.
- **Fulham Centre:** This is located to the south of the borough home to Fulham Town Centre (part of the Fulham Regeneration Area). Rental values for office space are around £43 / sq ft and there is not a significant amount of industrial space.
- **Parsons Green & Putney Bridge:** This is on the southern edge of the borough and includes both Parsons Green, Putney Bridge and part of Fulham High Street. Rental values are around £42 / sq ft for office space and £26 / sq ft for industrial space.
- **Ravenscourt Park:** This is located at the western End of the borough. Ravenscourt Park, King's Street and residential areas are its key assets. The area is home to a small proportion of the borough's office and industrial space, with rental values at around £45 / sq ft and £17 / sq ft respectively.

It is worth noting that the remaining area to the north with Old Oak Common, Hythe Road and Wormwood Scrubs are not included as a sub area as local planning authority functions belong to Old Oak and Park Royal Development Corporation (OPDC).

⁹ All rental values quoted in this subsection are *asking* rental prices retrieved from CoStar in May 2020. Intelligence is gathered from CoStar agents who update values on a regular basis.

Figure 4.1) Hammersmith & Fulham Subareas for Analysis



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According to data from CoStar, the average rents across the borough are **£48 / sq ft** for **office** space and **£18 / sq ft** for **industrial** space¹⁰. Average office rental values are slightly lower than the London average of **£50 / sq ft** whilst average industrial values are higher the London average of **£14 / sq ft**. Office rents are higher than average rental values in the West London Alliance geography (£38 / sq ft) as are industrial rents (£14 / sq ft).

The borough is not however a single spatial or economic entity. Each sub-area has unique characteristics and differing levels of affordability.

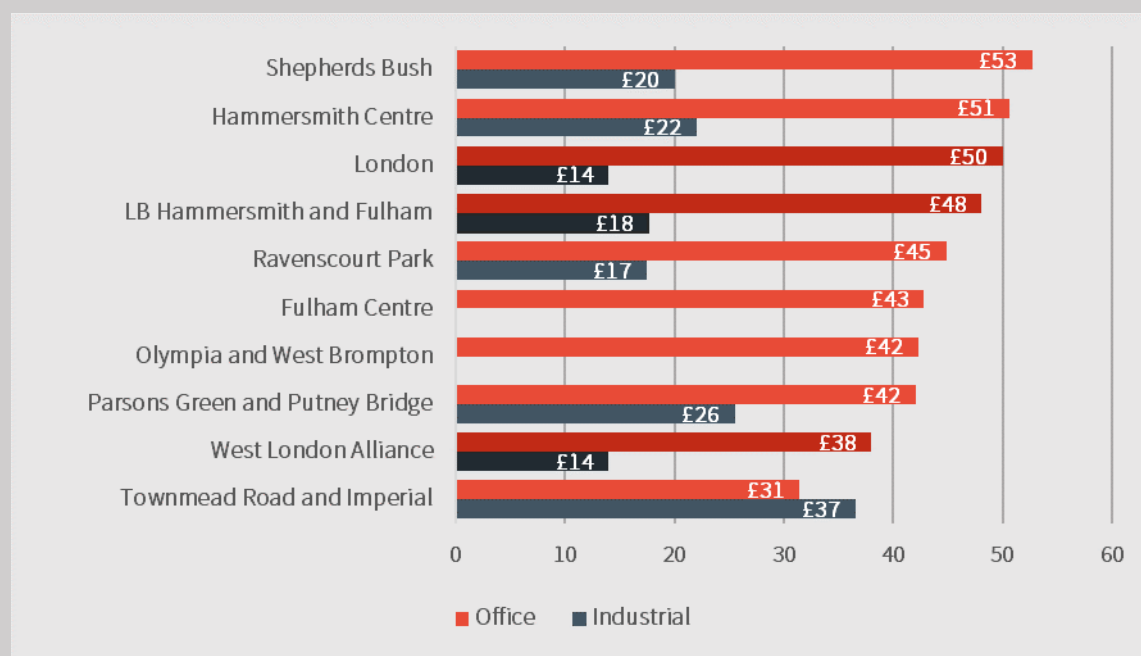
The most expensive office locations are **Shepherd's Bush** and **Hammersmith Centre** at around **£53 / sq ft** and **£51 / sq ft** respectively. These areas contain roughly 60% of all office floorspace in the borough.

Olympia and West Brompton is more affordable than other parts of the borough with the average at around **£42 / sq ft** and contains around 20% of office floorspace in the borough. This is lower than the London average (**£50 / sq ft**), but still higher than across the West London alliance (**£37 / sq ft**). **Townmead Road and Imperial** is also comparatively affordable at **£31 / sq ft** despite the high quality office space that exists in the area.

The most prominent and expensive industrial location is, in contrast, **Townmead Road and Imperial**, which has around 50% of all industrial stock in the borough and costs around **£37 / sq ft**, well above the London average (£18 / sq ft). Remaining industrial stock is spread across the borough, with rental

values in **Shepherd's bush (£22 / sq ft)**, **Parsons Green and Putney Bridge (£26 / sq ft)** and **Hammersmith Centre (£22 / sq ft)** all above the London average. **Ravenscourt Park (£17 / sq ft)** is the only area below the London average.

Figure 4.2) Average Asking Rent by Hammersmith & Fulham Sub Area and Typology, 2020 (YTD)



Source: CoStar, 2020

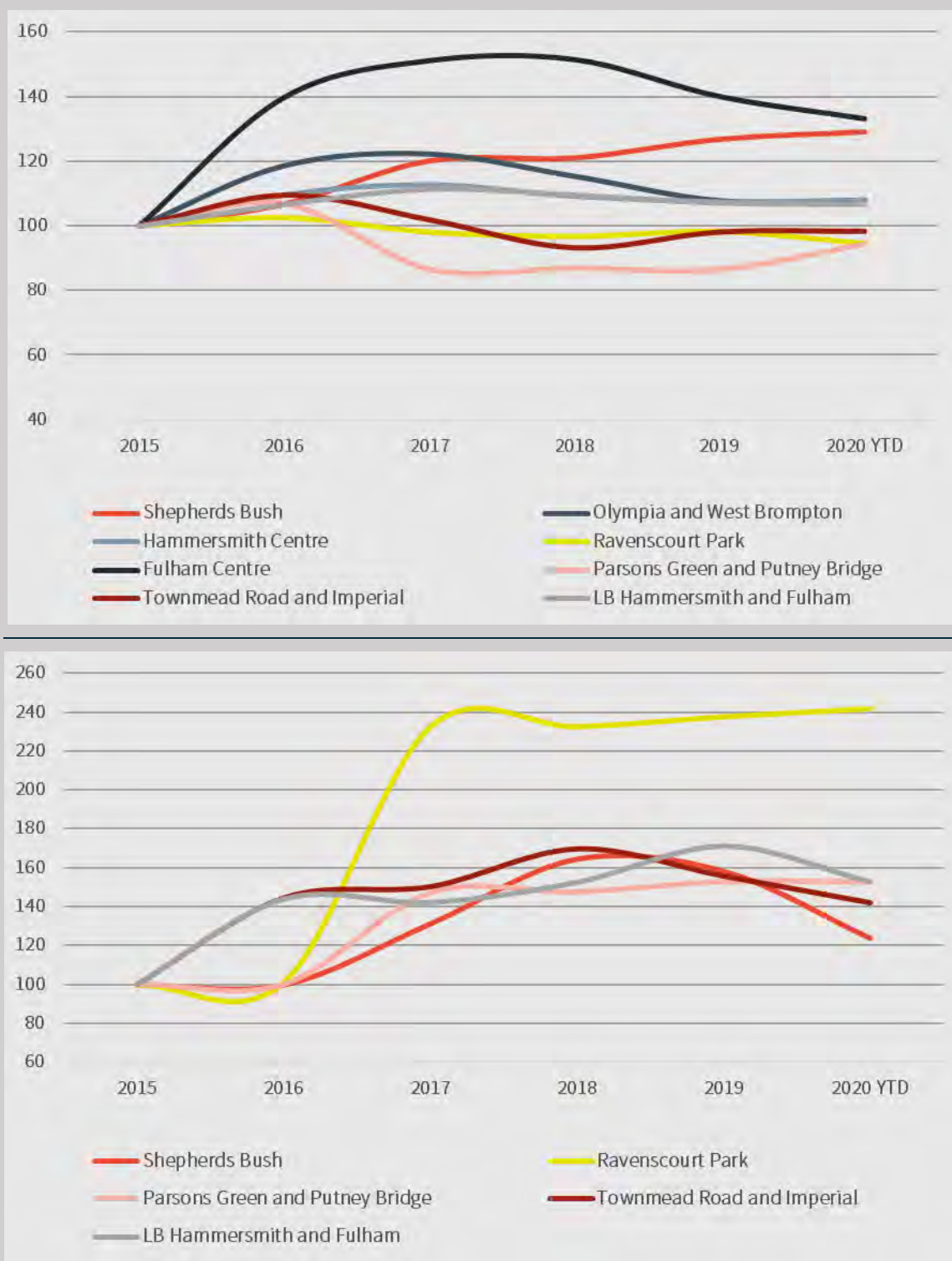
Note: YTD data downloaded May 2020; Insufficient industrial data for Fulham Centre and Olympia and West Brompton

Over the last five years office rental prices have grown from **£45 / sq ft** to **£48 / sq ft** on average across the borough.

Growth in office rental prices is largely attributable to **Shepherd's Bush and Olympia and West Brompton**. This likely reflects provision of new or refurbished high-quality office developments for coming on to the market (such as redevelopment of the BBC TV centre, BBC Media Village and Kensington Village) and forthcoming regeneration schemes.

Industrial space has risen more sharply than office space from **£12 / sq ft** to **£18 / sq ft** over the last five years. This is likely due to increased pressure on the supply of industrial space driving up prices across the borough. The largest increase in industrial rents has been in **Ravenscourt Park**, reflecting a very low starting rate in 2015 and a gradual increase to average rents across the borough.

Figure 4.3) Indexed Rental Growth (100 = 2015): Office (Top) and Industrial (Bottom)



Source: CoStar, 2020

Note: Industrial transaction data from 2015 to 2020 (YTD) not available for Olympia and West Brompton, Hammersmith Centre and Fulham Centre; YTD data downloaded May 2020

Turnover to Rent Ratios

- 4.14 Having examined trends in business turnovers and commercial property market rents, the next step is to estimate the likely proportion of turnover that businesses are paying on rent in Hammersmith & Fulham.
- 4.15 The following steps were taken to do this:
- 1) **Calculating average rent paid per business by use class**
 - *Detailed transaction records from CoStar on over 3,000 commercial premises in Hammersmith & Fulham were used to identify the total premises and rent paid across different use classes. Records include information on location, typology, floorspace (NIA sqm), achieved rent, tenancy type (single or multiple) and number of floors.*
 - *CoStar records do not provide data on individual businesses, as such premises data had to be converted to business data. It is assumed that a single tenancy premises has one business and multiple tenancy premises have the same number of businesses as floors (i.e. a multi tenancy premises with 6 floors has 6 businesses). This was considered the most robust method in the absence of other readily available assumptions, such as floorspace per business in the borough.*
 - 2) **Assigning turnover per business by use class**
 - *Average turnover per business data by sector were assigned to use classes most appropriate to the sector activity as shown in turnover to ratio Table 4.3 overleaf (e.g. Finance & Insurance was assigned to office space).*
 - 3) **Calculating turnover to rent ratio**
 - *The average rent paid per business by use class was lastly divided by the average turnover per business by use class to calculate the proportion of turnover used to pay rent.*
- 4.16 This method provides an indication of the proportion of turnover that businesses in Hammersmith & Fulham currently pay on rent assuming they have an average turnover. This is summarised in Table 4.3 below and suggests that the upper end of the range is around 15% to 20%, with only one sector paying over 20%.

Table 4.3) Turnover to Rent Ratios by Sector and Use Class

Sector	Turnover per business (£million)	Turnover to Rent Ratio		
		Office	Light Industrial	Industrial
Business Support	£2.2	7%	-	-
Construction	£0.7	-	18%	30%
Creative and Digital	£2.1	7%	6%	-
Finance and professional	£0.9	17%	-	-
Hospitality, leisure and rec	£1.8	9%	7%	-
Life Sciences	£0.9	18%	15%	-
Manufacturing	£1.4	-	9%	16%
Transport	£15.2	-	1%	1%
Warehousing and Logistics	£15.2	-	1%	1%
Wholesale	£31.9	-	0%	1%

Source: IDBR, 2019 (Turnover per business); CoStar, 2020 (Rent paid per business). Analysis by Hatch Regeneris

Note: Turnover to Rent Ratios were not included for sectors that do not occupy B class uses, including Public Sector and Retail. Sector and use class combinations have not been included where they are not likely to be found in the market (for example, finance and insurance is likely to only occupy office space).

4.17 As noted earlier, turnover to rent ratios differ dependent on the sector, type of space used and stage of business. The difference is due to a range of factors:

- **Operating costs:** Businesses will have different running costs depending on the type of sector they operate in. For example, Transport and Wholesale (1% turnover to rent ratio respectively) are more likely to spend less on rent, given the higher costs for logistics, machinery, tariffs and stock. In contrast, professional service businesses using office or light industrial space are likely to spend a higher proportion of turnover on rent as they have fewer overheads to cover.
- **Size of business:** Smaller businesses are more likely to spend a higher proportion of turnover on rent in the earlier stages of the business life cycle. This usually reduces as the business becomes bigger, more established and has greater choice. The average size of business differs across sectors which is reflected in rental prices.
- **Desirability of location:** Businesses may be willing to spend more money on rent to be in a more desirable location. Desirability is highly dependent on the sector the business operates in, but can related to transport accessibility, clustering, agglomeration, footfall, access to talent, access to finance and wider amenities for staff. Desirability from sectors will differ on a borough by borough basis (as well as within sub areas of a borough) and could therefore affect the average rent businesses are willing to pay as a proportion of turnover.

Taking these factors into account, together with the analysis set out in Table 4.3 above, a conservative benchmark of 15-20% for the maximum turnover to rent ratio businesses can pay is considered reasonable for Hammersmith & Fulham.

Defining ‘Affordable’ For Hammersmith & Fulham

- 4.18 The maximum affordability benchmark of 15% to 20% has been applied to a range of theoretical turnovers and premises sizes to provide an indication of the rental values businesses of different sizes and scales are able to afford. This information is set out in the tables overleaf.
- 4.19 The ‘affordable’ rental values have then been compared to actual average rental values across different parts of the borough to understand which areas are unaffordable in order to define a suitable discount to market rate in each area. This is set out later in this subsection.
- 4.20 It should be noted that:
- The data indicates the level of rent that a business can pay based on the turnover to rent benchmarks of 15% and 20%. A business with a turnover of around £100,000 seeking a premises of 500 sq ft, for example, would be able to afford a maximum of £30 per sq ft using the 15% benchmark or £40 per sq ft at 20%;
 - Analysis excludes other occupancy costs such as insurance, business rates (where paid by the end user) and utilities that may be required in addition to rent;
 - The number of employees (left hand column) is indicative of the potential size of businesses occupying the space and is based on standard employment densities for a range of managed workspace types;
 - Industrial and light industrial occupiers will typically require larger sized units at lower densities; and,
 - Cells are left blank and shaded grey where the permutation of turnover to size of premises is potentially unrealistic (e.g. very small turnover and a large number of employees).

Table 4.4) Office Rent Implications for different sized turnovers (£) and premises
Rent / sq.ft at 15% of annual turnovers

Employees	Size (sq.ft)	£100,000	£150,000	£250,000	£500,000	£1,000,000	£1,500,000
2 – 3	500	£30.00	£45.00	£75.00	£150.00	£300.00	£450.00
3 – 7	1,000	£15.00	£22.50	£37.50	£75.00	£150.00	£225.00
7 – 13	2,000			£18.75	£37.50	£75.00	£112.50
10 – 20	3,000				£25.00	£50.00	£75.00
17 – 30	5,000					£30.00	£45.00
35 – 65	10,000						£22.50

Rent / sq.ft at 20% of annual turnovers

Employees	Size (sq.ft)	£100,000	£150,000	£250,000	£500,000	£1,000,000	£1,500,000
2 – 3	500	£40.00	£60.00	£100.00	£200.00	£400.00	£600.00
3 – 7	1,000	£20.00	£30.00	£50.00	£100.00	£200.00	£300.00
7 – 13	2,000		£15.00	£25.00	£50.00	£100.00	£150.00
10 – 20	3,000			£16.67	£33.33	£66.67	£100.00
17 – 30	5,000				£20.00	£40.00	£60.00
35 – 65	10,000					£20.00	£30.00

Average Market Rents /sq.ft by Sub Area, 2020

Sub Area	Office
Fulham Centre	£42.78
Hammersmith Centre	£50.65
Olympia and West Brompton	£42.25
Parsons Green and Putney Bridge	£42.02
Ravenscourt Park	£44.87
Shepherd's Bush	£52.70
Townmead Road and Imperial	£31.44
LB Hammersmith & Fulham	£48.07

Source: Hatch Regeneris

Cells in the tables above have been highlighted in green, amber and red to reflect the variations in potential affordability when compared to average market rents:

■ **Red:** Businesses with these turnovers and seeking space of this size would be unable to afford to rent offices in most sub-areas based on the benchmarks of 15 – 20% of annual turnover.

■ **Amber:** businesses with these turnovers and seeking space of this size would be unable to afford rent for office space in the highest priced sub-areas based on the benchmarks of 15 to 20% of annual turnover.

■ **Green:** businesses with these turnovers and seeking space of this size would be able to afford rents for officespace in all sub-areas based on the benchmarks of 15 to 20% of annual turnover.

Cells are left blank and shaded grey where the permutation of turnover to size of premises is potentially unrealistic (e.g. very small turnover and a large number of employees).

Table 4.5) Industrial Rent Implications for different sized turnovers (£) and premises
Rent / sq.ft at 15% of annual turnovers

Employees	Size (sq.ft)	£100,000	£150,000	£250,000	£500,000	£1,000,000	£1,500,000
3 – 7	1,000	£15.00	£22.50	£37.50	£75.00	£150.00	£225.00
7 – 13	2,000		£11.25	£18.75	£37.50	£75.00	£112.50
10 – 20	3,000			£12.50	£25.00	£50.00	£75.00
17 – 30	5,000				£15.00	£30.00	£45.00
35 – 65	10,000					£15.00	£22.50

Rent / sq.ft at 20% of annual turnovers

Employees	Size (sq.ft)	£100,000	£150,000	£250,000	£500,000	£1,000,000	£1,500,000
3 – 7	1,000	£20.00	£30.00	£50.00	£100.00	£200.00	£300.00
7 – 13	2,000		£15.00	£25.00	£50.00	£100.00	£150.00
10 – 20	3,000			£16.67	£33.33	£66.67	£100.00
17 – 30	5,000				£20.00	£40.00	£60.00
35 – 65	10,000					£20.00	£30.00

Average Market Rents /sq.ft by Sub Area, 2020

Sub Area	Industrial
Fulham Centre	-
Hammersmith Centre	£22.00
Olympia and West Brompton	-
Parsons Green and Putney Bridge	£25.53
Ravenscourt Park	£17.46
Shepherd's Bush	£20.00
Townmead Road and Imperial	£36.53
LB Hammersmith & Fulham	£17.62

Source: Hatch Regeneris

Cells in the tables above have been highlighted in green, amber and red to reflect the variations in potential affordability when compared to average market rents:

■ **Red:** Businesses with these turnovers and seeking space of this size would be unable to afford rents to light industrial and industrial space in most sub-areas based on the benchmarks of 15 – 20% of annual turnover.

■ **Amber:** businesses with these turnovers and seeking space of this size would be unable to afford rent for light industrial and industrial space in the highest priced sub-areas based on the benchmarks of 15 to 20% of annual turnover.

■ **Green:** businesses with these turnovers and seeking space of this size would be able to afford rents for light industrial and industrial space in all sub-areas based on the benchmarks of 15 to 20% of annual turnover.

Cells are left blank and shaded grey where the permutation of turnover to size of premises is potentially unrealistic (e.g. very small turnover and a large number of employees).

- 4.21 The analysis shows that the size of the business and premises size being sought is crucial in terms of affordability. The rent that business can afford according to the 15% benchmark very quickly reduces for those businesses with small turnovers seeking premises of 1,000 sq ft or more. This is of course not all that surprising and reaffirms the relevance of affordable workspace for small and start-up businesses. For those businesses operating at the margins it also highlights the importance of other factors in terms of affordability such as flexible lease terms.
- 4.22 Affordability is also impacted by the type of space required. For example:
- Rental values for office space are higher than industrial but businesses are able to operate in smaller spaces due to high density. Businesses operating at the lower end of the market (<£100,000) would have to pay a higher ratio than the benchmark of 15-20% for office space across all sub areas except for Townmead Road and Imperial. Businesses with turnovers of £150,000 would still be required to spend more than the 15–20% ratio of turnover for space larger than 500sq ft.
 - Industrial space is less expensive than office space, but businesses require larger premises for business operations. With this in mind affordability for industrial space should be considered for premises of 1,000sq ft or over. At this level there are affordability challenges for industrial businesses with turnovers of £150,000 or less; they are only able to afford industrial space in some areas of the borough.

Discount to Market Rent

- 4.23 Proposed discount to market rents have been set out for office and/or industrial space for most of the subareas based on all the intelligence and analysis set out above. The discounts aim to support the *smallest* businesses with the *lowest turnovers* to access workspace in the borough while also being cognisant of viability. These businesses are the focus as they are most in need of affordable workspace and make up the largest proportion of businesses in the borough.

For office space this involves bringing rents to around £30-40 per sq ft, which is below the borough average, and for industrial to as close to £20 per sq ft as possible which is near the borough average.

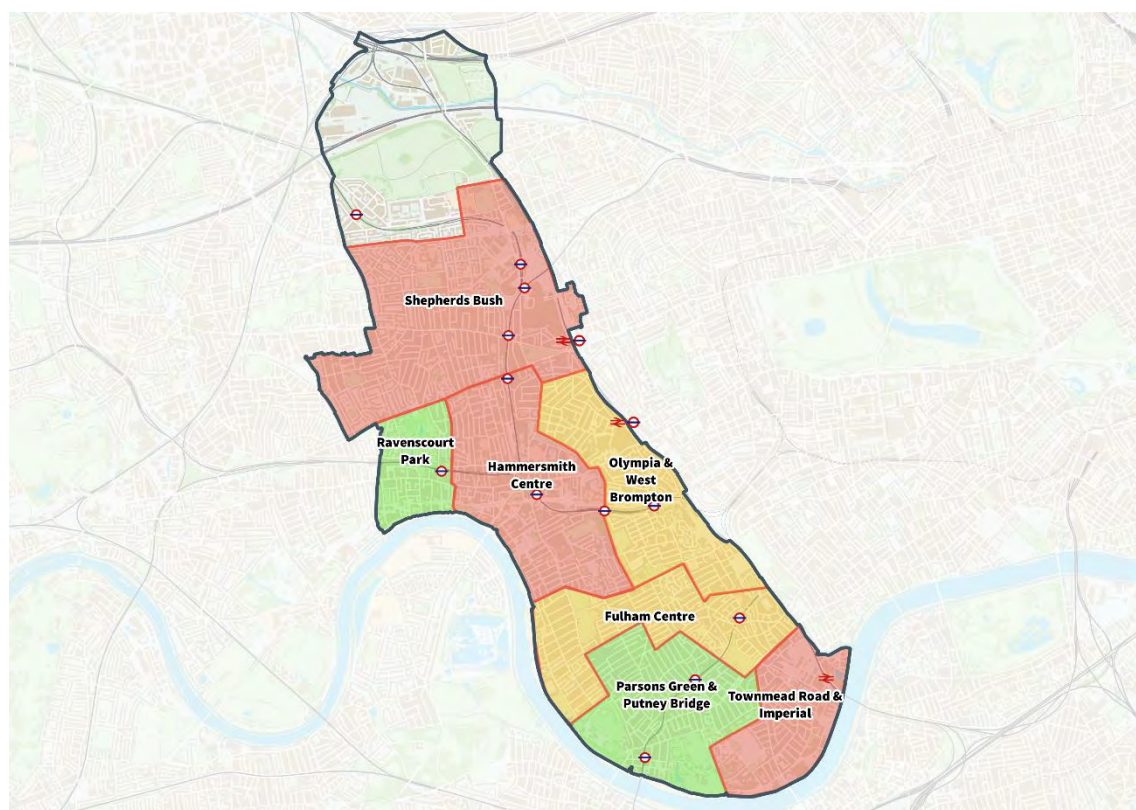
- 4.24 Using this as a basis, alongside an appreciation of the role, function and future of different parts of the borough, the subareas have been classified as high, medium or low priority for affordable workspace *and* discounts to market rents:
- **High priority** areas are key locations for affordable office and/or industrial space as they are strategic business locations, have major commercial development coming forward and require the highest discounts to market rents.
 - **Medium priority** areas are also important places for affordable workspace as they are already established business locations, have some development on the horizon and are not as affordable as they could be.
 - **Low priority** areas are less of a priority as they have less well established business locations, are expected to have little development over the short and medium term and are likely to be more affordable for most businesses already.
- 4.25 The table below summarises the priority level for each subarea, the proposed discount to market rent for office and/or industrial space and the rationale behind this. This is followed by a deep dive into each area which goes into more detail and also identifies which sectors should be prioritised for affordable workspace in each place.

4.26 It is important to note that the discount to market rent is consistent across priority levels as current commercial rents and affordability benchmarks for the smallest and lowest turnover businesses have been used to select the priority level for each place. These discounts apply to office **or** industrial space depending on the nature of the subarea:

- High: 40% discount
- Medium: 20% discount
- Low: 0% discount

More detail on how this is applied is set out below.

Figure 4.4) Priority Levels for Affordable Workspace *and* Discounts to Market Rents for Subareas



Source: Hatch Regeneris, 2020

Legend: Red = High Priority, **Amber** = Medium Priority, **Green** = Low Priority

Table 4.6) Summary of Sub Areas and Priority Levels

Sub Area	Priority Level	Priority for office?	Priority for industrial?	Rationale	Proposed Discount
Shepherds Bush	High	✓	✗	<ul style="list-style-type: none"> Office rents are high (£53 / sq ft) Office rents prohibitive for most businesses with turnovers less than £250k Development expected as part of the White City Opportunity Area 	Office: 40% Industrial: N/A
Townmead and Imperial	High	✗	✓	<ul style="list-style-type: none"> Industrial rents are high (£36 / sq ft) Industrial rents prohibitive for most businesses with turnovers less than £250k Significant development expected around Chelsea Harbour, in the South Fulham Regeneration Area and in other parts of the subarea 	Office: N/A Industrial: 40%
Hammersmith Centre	High	✓	✗	<ul style="list-style-type: none"> Office rents are high (£51 / sq ft) Office rents prohibitive for most businesses with turnovers less than £250k New development expected in the Hammersmith Regeneration Area 	Office: 40% Industrial: N/A
Olympia and West Brompton	Medium	✓	✗	<ul style="list-style-type: none"> Office rents are more affordable but still high for smaller businesses with lower turnovers (£42 / sq ft) Significant new development expected as part of the West Kensington and Earl's Court Opportunity Area 	Office: 20% Industrial: N/A
Fulham Centre	Medium	✓	✗	<ul style="list-style-type: none"> Office rents are more affordable but still high for smaller businesses with lower turnovers (£43 / sq ft) Commercial development is expected to come forward as part of the Fulham Regeneration Area 	Office: 20% Industrial: N/A
Parson's Green and Putney Bridge	Low	✗	✗	<ul style="list-style-type: none"> Office and industrial rents are reasonably affordable and little major commercial development is expected to come forward 	Office: N/A Industrial: N/A
Ravenscourt Park	Low	✗	✗	<ul style="list-style-type: none"> Office and industrial rents are reasonably affordable and little major commercial development is expected to come forward 	Office: N/A Industrial: N/A

Source: Hatch Regeneris, 2020

Shepherds Bush

Sub Area Name	Shepherds Bush			
Priority Level	High			
Office	✓			
Industrial	✗			
Characteristics	<p>Shepherd's Bush occupies the northern part of the Borough and is a strategic office location for Hammersmith & Fulham, home to Media City and the growing innovation district around Imperial College Campus. The area has changed dramatically in recent years due to the development of Westfield from 2009 and the designation of the White City Opportunity Area in 2013.</p> <p>The area is popular with office suppliers due to excellent transport links via Shepherds Bush, White Centre and Wood Lane providing Central line and Overground Links. It features some of the larger and new office buildings in the borough, such as the Shepherds Building on Rockley. It has a substantial pipeline which will deliver additional workspace. The area is home to a concentration of creative, digital and life science businesses and continues to attract small companies within these sectors.</p> <p>It is a desirable location and has the highest office rental values in the borough at £53 / sq ft, higher than the £48 / sq ft average in London. Affordability is also becoming worse, with average rental value growth of +30% from £40 / sq ft in 2015.</p>			
Rationale for priority level	<p>Shepherd's Bush is key to the borough's creative, digital and life science sectors but office space is prohibitive for most businesses with a turnover of less than £250k. Even businesses with a turnover of £500k would struggle to afford 2,000 sq ft of space (typically associated with 7-13 employees). Micro businesses, which have lower turnover, are particularly important in supporting the creative and digital sectors, accounting for over 90% of all businesses. Given the current trajectory of office rental growth, the opportunities for affordable workspace provision with new developments, and the importance of this area to the sectoral aspirations of the borough, this area should be prioritised for affordable office space and discounts to market rents.</p>			
Proposed discount	40% for office space			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences	✓	Manufacturing	

Townmead and Imperial

Sub Area Name	Townmead and Imperial			
Priority Level	High			
Office	✗			
Industrial	✓			
Characteristics	<p>Townmead and Imperial is in the south east of the Borough and is home to Chelsea Harbour and the New King's Road. Imperial Wharf station provides London Overground and Southern services. It contains around half of all industrial stock in the borough and rental values are around £36 / sq ft, the most expensive of the sub-areas and well above the London average. The most prominent industrial buildings include Parson's Green Depot, 27 Bagleys Lane and Albert Wharf.</p> <p>The area is currently undergoing significant development at Chelsea Harbour, which has already seen new high-quality office floorspace in the Design Centre East and Harbour Yard (in addition to a hotel, marina and residential homes). Despite this, new office stock rental values for office remain relatively affordable at around £31 / sq ft. Redevelopment in the area will bring new opportunities in terms of office, studio and light industrial workspace provision which may cause this rate to shift over time.</p>			
Rationale for priority level	<p>There is a need to tackle the affordability issue associated with industrial space in the area, given its prominence as an industrial location and the potential for existing stock to be lost or redeveloped. At the moment small businesses with turnovers less than £250k would struggle to afford any space in the area. Even those with £500k turnovers would struggle to afford space that is 2,000 sq ft or over. It is likely that further development will come forward particularly in the South Fulham Riverside Regeneration Area, which will impact rents but also provide opportunities for affordable workspace.</p>			
Proposed discount	40% for industrial			
Priority Sectors	Creative and Digital	✓	Financial and Professional	
	Life Sciences		Manufacturing	✓

Hammersmith Centre

Sub Area Name	Hammersmith Centre			
Priority Level	High			
Office	✓			
Industrial	✗			
Characteristics	Hammersmith Centre is a hub of commercial activity centred around Hammersmith Underground Station. It is a key office location for the borough with around 40% of its office floorspace. It has good transport connectivity and is well placed to provide affordable workspace for businesses looking for alternatives to central London. Despite this, rental values are currently above the London average at around £51 / sq ft and have remained largely the same over the last five years.			
Rationale for priority level	There is a clear rationale to prioritise affordable workspace in the area, particularly to help it to continue to be a desirable location for small businesses looking to operate outside of central London. Like Shepherd's Bush, office space is prohibitive for most businesses with a turnover of less than £250k. Unlike Shepherd's Bush however, rental levels appear to be more stable (£45 / sq ft in 2015 vs £51 / sq ft in 2020) but new development is expected as part of the plans for the Hammersmith Regeneration Area. This should provide more opportunities for affordable workspace in the town centre.			
Proposed discount	40% for office			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences		Manufacturing	

Olympia and West Brompton

Sub Area Name	Olympia and West Brompton			
Priority Level	Medium			
Office	✓			
Industrial	✗			
Characteristics	<p>Olympia and West Brompton is the third largest office location behind Hammersmith Centre and Shepherd's Bush, but is more affordable with rental values of around £42 / sq ft compared to above £50 / sq ft in these locations. This is still higher than most small and low turnover businesses can afford however.</p> <p>The office market has improved in recent years, following improved frequency of trains from Kensington Olympia and the renovation and expansion of the Olympia Exhibition Centre between 2011 and 2013. This has provided good transport connections and a strong anchor institution to attract new business into the area.</p> <p>Kensington Village is the largest office estate in the submarket. It is a recent redevelopment of a 19th century warehouse to provide purpose build office buildings, surrounding gardens, a café and gym. Small scale developments and refurbishments such as Kensington Village will continue to deliver additional workspace provision in the short term. In the long term the mixed-use regeneration of the 77 acre site in the West Kensington and Earls Court Opportunity Area will bring about workspace opportunities in conjunction with the delivery of housing and other commercial uses.</p>			
Rationale for priority level	The area is more affordable than other parts of the borough, but SMEs with turnovers less than £250k would still struggle to afford office space in the area. With regeneration momentum on the horizon, the area could see greater confidence from investors to deliver commercial workspace, providing opportunities for workspace provision. This could also push rents higher than they already are.			
Proposed discount	20% for office			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences		Manufacturing	

Fulham Centre

Sub Area Name	Fulham Centre			
Priority Level	Medium			
Office	✓			
Industrial	✗			
Characteristics	Fulham Centre has developed as a small office centre due to the strength of the local shops and amenities, in addition to good transport links via Fulham Broadway Underground. The main office buildings in the area include 20 Fulham Broadway and the Blue Building on Vanston Place. The Fulham Regeneration Area is focused on the delivery of community uses and will provide opportunities for workspace, particularly utilising affordable models to provide for local residents.			
Rationale for priority level	The area is more affordable than other parts of the borough, but the smallest businesses with low turnovers would still struggle to afford the area with rents around £43 / sq ft. As the Local Plan has identified the Fulham Regeneration Area as a priority for 8,500 jobs it is also likely that some major commercial developments will come forward in the medium to longer term that could be harnessed to provide affordable space for small businesses.			
Proposed discount	20% for office			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences		Manufacturing	

Parsons Green and Putney Bridge

Sub Area Name	Parsons Green and Putney Bridge			
Priority Level	Low			
Office	✗			
Industrial	✗			
Characteristics	<p>This is on the southern edge of the borough and is home to both Parsons Green Station, Putney Bridge Station, Fulham High Street and part of the New King's Road. It has a relatively small office market and around 11% of the borough's industrial floorspace, with rental values at around £42 / sq ft and £26 / sq ft respectively. Both of these figures are slightly higher than the smallest and lowest turnover businesses could afford.</p> <p>The sub area has good local amenities and provides a more pleasant and less urban environment compared to other locations in the borough. The New King's Road is famous for antiques and interiors and has been a pull for attracting design and fashion companies to the area. Some of the main office locations include a cluster of warehouse style offices in Heathmans Road and the Piper Centre on Carnwarth Road.</p>			
Rationale for priority level	Parsons Green and Putney Bridge serves a small localised market and is reasonably affordable compared to the rest of the borough. Even though the area is not as affordable as it could be, there are few major development opportunities in the pipeline so it is not necessary to designate the area as a priority.			
Proposed discount	N/A			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences		Manufacturing	

Ravenscourt Park

Sub Area Name	Ravenscourt Park			
Priority Level	Low			
Office	✗			
Industrial	✗			
Characteristics	<p>Ravenscourt Park is on the western edge of the borough and has two underground stations (Ravenscourt Park and Stamford Brook) both providing district line connections. The area to the north is mostly comprised of residential uses and green space, while King Street, Great West Road and the Thames frontage to the south provides a strong amenity offer, with a large range of pubs, bars, restaurants and some other businesses.</p> <p>It has the lowest proportion of office floorspace (3%) compared to other sub areas in the borough and a low proportion (10%) of industrial floorspace. Rental values are around £42 / sq ft for office space and £17 / sq ft for industrial space. While office rents are not as affordable as they could be, they are more affordable than most other areas and it is particularly affordable for industrial space.</p>			
Rationale for priority level	<p>The sub area is not a key office or industrial location and has no major development opportunities in the pipeline. The office and industrial space that is present is relatively affordable in comparison to other sub areas. As such, this area is considered as a low priority for the provision of affordable workspace.</p>			
Proposed discount	N/A			
Priority Sectors	Creative and Digital	✓	Financial and Professional	✓
	Life Sciences		Manufacturing	

Is 'affordable' viable in Hammersmith & Fulham?



5. Is 'affordable' viable in Hammersmith & Fulham?

- 5.1 Hammersmith & Fulham's Local Plan (February 2018) states that applications for large new commercial schemes will be expected to provide affordable workspace which could be via cross-subsidised rent through S106 Agreements, reduced rent arrangements, the provision of co-hubs, start up space and/or flexible leasing arrangements.
- 5.2 Any provision is to be specific to the area or location in which the development is being undertaken. This is highlighted earlier in this report, for instance, where there are specific requirements in local areas. An example of this is Shepherd's Bush, which is home to Media City, the Imperial College Campus and office space providers due to excellent transport links.
- 5.3 Local Plan Policy E1 – Providing for a Range of Employment - sets out the borough's aspirations for mixed-use and new employment schemes and the retention, enhancement and intensification of existing employment uses. The Council recognise the existing strengths in the borough in creative industries, health services, life science and other research-based industries. Policy E1 states that these industries will require flexible and affordable space suitable for small and medium enterprises in large new business developments, unless justified by the type and nature of the proposal and subject to viability.
- 5.4 The areas in the borough identified earlier in this report as having demand for commercial development and need for affordable workspace are:
 - Shepherd's Bush (office);
 - Hammersmith Town Centre (office);
 - Fulham Centre (office);
 - Olympia and West Brompton (office); and,
 - Townmead and Imperial (industrial).

The viability of providing affordable workspace at the level of discount to market rent presented in Chapter 4 have been tested for different size thresholds and proportions as set out later in this chapter. Whilst Parsons Green and Putney Bridge and Ravenscourt Park were listed initially, these areas are not considered to be locations where there is demand for commercial development and need for affordable workspace and on this basis have not been tested.

Focus On: Viability Assumptions

Testing has been undertaken on the basis of commercial floorspace only. Mixed-use scheme testing has not been included at this time in order to establish whether purely commercial floorspace can viably support affordable workspace.

Reference has been made to the original Hammersmith & Fulham Community Infrastructure Levy Study (Peter Brett, 2014) in order to maintain consistency across the borough. Due consideration has also been given to the Car Giant scheme in Hythe Road (Old Oak & Park Royal Development Corporation ("OPDC") as examined by the Planning Inspector, September 2019) as this has been a recent assessment which has assisted in deliberations regarding land values across the borough.

Benchmark Land Values

Local Plan testing utilises industrial land values to establish Benchmark Land Values (BLV's), to ensure that land values are not set too high. Turley consider that land values should be set according to location for the purpose of this report. Peter Brett's Hammersmith & Fulham CIL Viability Testing 2014 provided a wide range of industrial land values across the borough. Peter Brett adopted a BLV of £14m per hectare/£5.66m per acre in viability testing 'Hammersmith Town Centre' and 'outside Hammersmith Town Centre' for commercial uses.

Industrial land values have been established through assessing relevant literature. Most notably, evaluation of the Car Giant scheme (OPDC) where the Planning Inspector¹¹ (P.W. Clark, 2019) agreed with CBRE (representing OPDC) on a figure of £14m per hectare/£5.67m per acre. However, it must be acknowledged that in establishing this land value, CBRE did so by undertaking an appraisal based on an alternative use value (AUV) on behalf of Car Giant. Their appraisal produced a residual land value based on a hypothetical industrial redevelopment. Turley therefore consider £14m per hectare/£5.67m per acre to be at the midpoint of industrial land values for the borough.

In terms of BLV's, we have taken into account both the original Peter Brett CIL Viability testing (2014) and the Whole Plan Viability Study¹² (undertaken by BNP Paribas, 2017) prepared for the Old Oak Park Development Corporation (OPDC), which details their consideration of Land Value at the Car Giant site (information provided by LBHF), at £11.64m per hectare/ £4.71m per acre for 'Secondary Office and industrial (high)'. It is considered that BNP Paribas would be taking a view that in this location Industrial land values would be low. Turley have therefore adopted £4.75m for the lower end of the adopted land values (in order to reflect the passage of time since the Whole Plan Viability Study was undertaken to the present day).

Moreover, Turley have inflated the adopted values from Peter Brett's report (£5.67m) to the present day accordingly which equates to c. 15% uplift (arriving at a land value of £6.5m). This figure represents the upper end of adopted land values for this research.

Turley have considered the rents adopted by Hatch to establish Low, Medium and High Value locations in terms of Benchmark Land Values. There is clearly a High, Medium and Low value range established from the rents identified. To arrive at a midpoint for the adopted land values, Turley have simply taken the midpoint between the lower adopted value (£4.75m) and higher adopted value (£6.5m) to arrive at £5.625m. This is set out in the following table:

¹¹ P.W. Clark (2019) OPDC Local Plan Examination – Interim Findings on viability of Car Giant proposal

¹² BNP (2017) Old Oak and Park Royal Development Whole Plan Viability Assessment

Table 5.1) Benchmark Land Values By Sub-Area

Location	Rental value (ft ²)	Value (Location)	£ per Acre	£ per Hectare
Townmead and Imperial	£36/ft ²	Low	£4,750,000	£11,750,000
Fulham	£43/ft ²	Medium	£5,625,000	£14,000,000
Olympia/West Brompton	£42/ft ²	High	£6,500,000	£16,000,000
Hammersmith	£51/ft ²			

Plot Ratios

Turley have considered plot ratios as part of the benchmarking exercise. Plot ratios are defined as "a ratio representing the density of building in a specified area of land."

To inform the input of Plot Ratio, Turley cross checked Peter Brett's Hammersmith & Fulham CIL Viability Study (2014). Peter Brett assumed a Plot Ratio of approximately 1.9:1. In layman's terms, an office building with an area of 4,645 sqm can be built on a site area of 2,500 sqm. Peter Brett has used this assumption for 'Hammersmith Town Centre' and 'outside Hammersmith Town Centre'. Relevant detail is provided below.

Table 5.2) Peter Brett Viability Testing Assumptions

Ref	Zone	Net Site Area	Commercial CIL Chargeable Floor Space sqm	Residual Value		Benchmark		Overage
		HA	GIA sq m	Per Ha	Per £psm	Per Ha	Per £psm	Per £psm
HTC1	HTC Offices	0.25	4,645	£23,920,183	£1,287	£14,000,000	£753	£534

Turley have assumed that the development land is less efficient and adopted a ratio of 1.5:1. This is because the occupier market is becoming more geared towards providing more user-friendly communal gardens, adequate car parking and bicycle storage. Turley note that plot ratios are site specific and are influenced by the make-up of the surrounding area, planning policy/context and with impacts on density and storey height. Land values will naturally be higher on developments permitted to build increasing storey heights.

GL Hearn¹³ (2019) undertook a study which informed plot ratios, however this was informed mainly by B8 industrial land, with a suggested a ratio of 0.65:1. This aligns with the draft London Plan¹⁴, which seeks to retain sufficient industrial, logistics and related capacity by seeking no net loss of industrial floorspace. Floorspace capacity is defined in the Draft London Plan (2019) as either the existing industrial and warehousing on site, or the potential floorspace that could be accommodated on a site

¹³ GL Hearn (2019) West London Employment Land Evidence

¹⁴ Draft London Plan (2019)

at 65 per cent plot ratio. B8 uses tend to have low site coverage given the need for circulation space for vehicles. Turley therefore expect that for hybrid testing of a range of B uses the plot ratio is going to be more efficient.

With regard to plot ratios, we have adopted a 1.5:1 (office building: development plot). Turley have also adopted a plot ratio of 0.65:1 (industrial building: development plot) for the Townmead appraisals. The plot ratios: GIA office/industrial building areas are summarised in the below table.

Table 5.3) Commercial Development and Plot Ratios

Quantum of Offices (sq m)	Plot Area (sq m)	Plot Area (sq ft)	Plot Area (in acres, rounded)	Plot Area (hectares)
1,000	666.67	7,175.93	0.16	0.07
2,500	1,666.67	17,939.83	0.41	0.17
5,000	3,333.33	35,879.67	0.82	0.33
Quantum of Industrial (sq m)	Plot Area (sq m)	Plot Area (sq ft)	Plot Area (in acres, rounded)	Plot Area (hectares)
1,000	1,538	16,555	0.38	0.15
2,500	3,846	41,398	0.95	0.38

It has been assumed that the development land is slightly less efficient than assumed in Peter Brett's (2014) CIL study for the office space, to incorporate a wider range of commercial users and to integrate the provision of communal space, ample parking space and bicycle storage (for example) in development coming forward. As discussed plot ratios are site and user specific, and will vary based on the context of the area and scale/massing.

Stamp Duty, Agent and Legal Fees

Stamp Duty has been included at the prevailing rate together with 1% Agents Fee and 0.80% Legal Fee. This is standard industry input for these costs.

Commercial Floorspace Thresholds

Commercial floorspace thresholds have been tested at:

- 1,000sqm;
- 2,500sqm and;
- 5,000sqm GIA of commercial space.

It is considered that 1,000sqm would be the minimum threshold to trigger a requirement for affordable workspace.

Percentage of Affordable Workspace

The following percentages have been tested in each of the floorspace at the following affordable provision thresholds:

- 5%;
- 10% and;
- 20% affordable provision.

With regard to work that other London Boroughs have undertaken on Affordable Workspace, it appears that 10% is the most common percentage of affordable workspace sought.

Construction Cost for Commercial Floorspace

The Construction Costs have been adopted from BCIS Offices 'Generally' and BCIS Purpose Built Warehouses both of which fall between BCIS Upper Quartile and Median Quartile, which we believe provides a reasonable allowance. We have therefore not included for Abnormals or Demolition. The view would be that as each site comes forward it is tested on its own merits.

Commercial build costs of £2,600 per sq m / £241 per sq ft – were recommended by the Planning Inspectorate at the Car Giant site. This falls between median and upper quartile for offices generally therefore this figure has been adopted for the appraisals in this report. This assumes fit out to Cat A specification.

Industrial build costs for warehouses in LBHF are listed at £1,215/m² (£113/ft²) which has been adopted in the appraisals.

Plot External (Construction Costs)

Plot externals have been incorporated at 10%. The usual rate adopted on development schemes can be anywhere from 10% to 15%. It is considered that 10% for commercial floorspace is appropriate for testing purposes.

Professional Fees

Professional fees usually appear within a range of 8% - 12% depending upon the complexity and duration of the development scheme.

Turley have adopted 10% which is considered to make appropriate allowance for a range of commercial schemes.

Contingency

A 5% contingency has been applied to the construction costs. This is a standard construction industry assumption. However, it is acknowledged that this could be higher in cases where Listed buildings are used for commercial space, owing to the specialist nature of construction related to listed buildings and heritage implications. This could have an impact on particular areas of the borough where such buildings are more prevalent.

Profit

Viability testing across the boroughs comprise mixed-use schemes, which are predominantly residential-led and provide a level of affordable housing. Typically, the combined profit level seen on these schemes is between 15-20% Profit on Cost. This is dependent on the level of the Affordable housing within the appraisals, as 20% Profit on Cost is accepted on the private market housing, and 6%

Profit on Cost for the affordable element. As we are assessing commercial only, Turley have adopted 15% Profit on GDV for commercial development.

This profit reflects the risk in the current market, due to both Covid-19 and Brexit factors. Turley note that the adopted Profit Margin in the Car Giant scheme was 20% Profit on Cost, which roughly equates to 17.5% Profit on GDV. We therefore consider 15% Profit on GDV to be an appropriate assumption.

Marketing/Sales Agent and Legal fee

A total of 3% sale, marketing and legal fee has been adopted. This is considered to be a reasonable level of cost to be attributed to disposal of units. This reflects the costs adopted in the Car Giant scheme.

Letting Agent/Legal fee

- 10% Letting Agent Fee (calculated from the headline rent)
- 5% Letting Legal Fee (calculated from the headline rent)

This reflects industry standard inputs.

Finance

7% debt finance has been adopted. This is a reasonable level of debt finance assuming 100% debt finance.

Rent Free Period

A rent free period of 12 months has been adopted. This reflects a market facing incentive to allow an occupier to fit out commercial space to their own specification.

Rents, Discounts and Yields

The rents identified in Chapter 4 have been included together with the proposed discounts for each area. With regard to yields, these are informed by comparable evidence identified for these particular locations, which are also corroborated by the evidence at Car Giant. The BNP Car Giant study adopted yield of 5.5% on rents of between £40/ft² to £50/ft². Turley consider that this is an appropriate yield to test all locations given the rental values being achieved. This includes Townmead/Imperial, where the rents reflect high levels for industrial rent, however industrial yields are considered to be more robust in the current market. The following rents, discounts and yields have been adopted for the areas tested.

Table 5.4) Location Specific - Applied Rents, Discounts and Yields

Location Specific	Use	Yield	Market Rent	Affordable Rent	Discount
Fulham	Office	5.5%	£43	£37.40	20%
Hammersmith TC	Office	5.5%	£51	£30.60	40%
Shepherds Bush	Office	5.5%	£53	£31.80	40%
Olympia and West Brompton	Office	5.5%	£42	£33.60	20%
Townmead/Imperial	Industrial	5.5%	£36	£21.60	40%

Community Infrastructure Levy (CIL)

Development schemes are very sensitive to CIL, especially in areas where construction costs are high and revenues are low by comparison. This sensitivity also applies where land values are high. Only one location in LB Hammersmith & Fulham incorporates Borough CIL (BCIL) and Mayoral CIL (MCIL) and that is Hammersmith Town Centre, which applies these as BCIL of £80psqm and MCIL of £80psqm. These rates have been incorporated in the appraisals for Hammersmith Town Centre.

Construction Timescale

The following construction timescales are tabled below per each of the threshold floorspaces tested.

Table 5.5) Construction Timetable

Construction Timeline (Months)	Threshold Tested		
	Offices (1,000 sqm)	Offices (2,500 sq m)	Offices (5,000 sqm)
Pre-construction	6	6	6
Construction	9	12	18
Sale	1	1	1
Total Months	16	19	25

Viability Tests

- 5.5 As the tables below show, all locations and sizes are viable at the proposed discounts to market rents set out in the previous chapter (i.e. where the Residual Land Value exceeds the Benchmark Land Value as highlighted in green).
- 5.6 It can be reasonably expected that developments in Fulham Centre, Hammersmith Town Centre, Olympia and West Brompton, Shepherd's Bush and Townmead and Imperial can provide up to 20% affordable workspace at the proposed discounts to market rents based on the current inputs.
- 5.7 Turley consider that the affordable workspace should be assessed in line with the market and discounted accordingly. This could be reviewed every five to ten years, or more regularly, depending on the terms of the leases. The duration of time the Affordable workspace is provided for can also depend on whether the building has a change of use, or the market dictates that the existing use becomes unviable.
- 5.8 Whilst Townmead has been tested on an Industrial basis, it may be possible to achieve a level of affordable workspace through mixed-use schemes which may generate a higher Gross Development Value overall, though this depends upon the practicality of delivering schemes with large scale office use in a largely industrial location.

Table 5.6) 5% Affordable Workspace

GIA Area	1000sqm	2,500sqm	5,000sqm	LAND VALUE	LAND VALUE
Plot (Acres)	0.15	0.45	0.85	(per acre)	(per hectare) Ha
Plot (Acres)*	0.38	0.95	1.95		
<i>Fulham Centre</i>	RLV	RLV	RLV		
5%	£1,431,824	£3,444,386	£6,411,993	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
<i>Hammersmith TC</i>	RLV	RLV	RLV		
5%	£2,016,991	£5,347,479	£10,060,071	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
<i>Olympia and WB</i>	RLV	RLV	RLV		
5%	£1,331,342	£3,197,502	£5,935,064	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
<i>Shepherd's Bush</i>	RLV	RLV	RLV		
5%	£2,381,652	£5,778,115	£10,920,280	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
<i>Townmead/Imp</i>	RLV	RLV	RLV		
5%	£2,230,522	£5,483,283	£10,387,412	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

*Townmead plot ratio

Table 5.7) 10% Affordable Workspace

GIA Area	1000sqm	2,500sqm	5,000sqm	LAND VALUE	LAND VALUE
Plot (Acres)	0.15	0.45	0.85	(per acre)	(per hectare)
Plot (Acres)*	0.38	0.95	1.95		
Fulham Centre	RLV	RLV	RLV	£	£
10%	£1,431,824	£3,444,386	£6,411,993	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Hammersmith TC	RLV	RLV	RLV		
10%	£1,915,460	£5,073,152	£9,530,127	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Olympia and WB	RLV	RLV	RLV		
10%	£1,331,342	£3,197,502	£5,935,064	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Shepherds Bush	RLV	RLV	RLV		
10%	£2,381,652	£5,778,115	£10,920,280	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Townmead/Imp	RLV	RLV	RLV		
10%	£2,230,522	£5,483,283	£10,387,412	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

*Townmead plot ratio

Table 5.8) 20% Affordable Workspace

GIA Area	1000sqm	2,500sqm	5,000sqm	LAND VALUE	LAND VALUE
Plot (Acres)	0.15	0.45	0.85	acre	Ha
Plot (Acres)*	0.98	0.95	1.95		
Fulham Centre	RLV	RLV	RLV	£	£
20%	£1,308,059	£3,140,296	£5,824,554	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Hammersmith TC	RLV	RLV	RLV		
20%	£1,712,400	£4,524,497	£8,470,239	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Olympia and WB	RLV	RLV	RLV		
20%	£1,210,466	£2,900,509	£5,361,334	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Shepherds Bush	RLV	RLV	RLV		
20%	£2,065,727	£5,001,888	£9,420,769	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Townmead/Imp	RLV	RLV	RLV		
20%	£2,015,937	£4,911,048	£9,368,902	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

*Townmead plot ratio

What are the next steps?



6. What are the next steps?

- 6.1 Based on the evidence and analysis presented within this report a series of recommendations have been identified to inform the Economic Development Planning Obligations SPD and ultimately enable the borough to deliver affordable workspace through the planning system.

Overarching Recommendations

- 6.2 A series of overarching implications have been identified for the borough. These are as follows:
- **Focus on priority sectors:** It is sensible to focus on priority sectors for affordable workspace because there may be limited opportunities and resources and these should be directed to where they can have the most significant impact and contribute to wider strategic objectives. It also ensures that support is provided where need is greatest and pressures are highest. The four priority sectors identified as part of this study are: (1) Creative and Digital; (2) Financial and Professional; (3) Life Sciences and; (4) Manufacturing.
 - **Geographically varied discount rates:** The evidence suggests there is scope to vary the discount geographically to align with those areas that have been identified as high, medium and low priority based on demand, need and the commercial pipeline. This is discussed in more detail in the sub-area recommendations below.
 - **Focus on small and start-up businesses:** Evidence suggests that as turnovers increase above £250,000 affordability is less constrained by geography and size of premises. This highlights the importance of focusing interventions on start-up and micro businesses (1-10 employees) with low turnovers (<£250,000) typically occupying space of 1,000 sq ft or less, or for scaling businesses occupying space of up to 2,000 sq ft. This cuts across all priority sectors.
 - **Minimum size threshold:** Affordable workspace operators may not be interested in taking on small spaces. It may therefore be prudent to have a minimum size threshold (based on soft-market testing with operators) for affordable workspace and put in place alternative mechanism where smaller workspaces are proposed (e.g. payments in lieu).
 - **Flexible lease terms:** Evidence suggests that occupiers of affordable workspace often equally value flexibility in lease terms in order to manage risk and allow them to adapt to changing market need. Identifying and working with operators who offer flexible lease terms to end users will be important in securing space that is genuinely accessible.
 - **Potential for off-site contributions:** Hammersmith & Fulham could consider implementing off-site contributions where on-site provision is either physically inappropriate or unacceptable in terms of viability. A formula would need to be created to ensure that there is no benefit to the developer in providing a payment in lieu rather than workspace on site (see box below).
 - **Specific rates for artist studios and not-for-profits:** As set out earlier in the report, the London Affordable Artist Studios Network (LASSN) highlight that artists cannot afford to pay as much as other sectors due to the profitability and nature of their work. A set specific rate could be introduced in the SPD for artist studios in locations where they may be desirable and contribute to other strategic objectives. A similar approach could be taken for not-for-profits or social enterprises that deliver significant social value.

- **Balancing space and affordability requirements:** In some instances it may be preferable for a developer to offer greater discounts to market rates but provide less affordable space overall. This could be considered on a case-by-case basis but it might be helpful to offer the flexibility where a developer has to provide a large quantum of space due to the proposed size of the development or where the proposed discount to market rate is still not affordable for specific target groups (e.g. artists or not-for-profits). This may also be relevant where developments include shared events/networking and meeting space that contribute to the facilities and services that affordable occupiers can access, even if not specifically desk space.
- **Flexibility over membership models:** Some developers may prefer to pepper pot small businesses and start-ups throughout their commercial space to encourage collaboration and networking between different types of businesses. This could be offered in the form of appropriately discounted memberships rather than dedicated and separate space (e.g. discounted desks, touch down spaces, small offices, virtual offices etc). This could be considered where a developer or operator has a strong vision and track record in providing such space. A Payment in Lieu formula or calculator could again be used to determine the value of the discount that should be provided on an annual basis.

Payment in Lieu Calculations

Several London boroughs consider Payment in Lieu as an alternative to affordable workspace provision, often where proposed space is too small or has been too difficult to let. Specific formulas and/or calculators are used to determine the size payment and to ensure that it is not more cost effective for developers to make a payment than provide space on site. A similar type of approach could be used in Hammersmith & Fulham.

One of the clearest formulas is set out in the London Borough of Lambeth's Draft Local Plan. The formula is as follows: **Step 1: $C=A \times B$; Step 2: $E=D \times C$; Step 3: $G=E \times F$; Step 4: $H=G-E$; Step 5: $J=(1 \times I)$; Step 6: $K=H \times J$.** The letters refer to:

- A. Total lettable employment floorspace (sq m)
- B. Percentage of floorspace to be discounted
- C. Amount of floorspace subject to discount
- D. Market rent per sqm before discount
- E. Market rent for discounted floorspace before discount
- F. Percentage discount
- G. Rent after discount
- H. Value of discount
- I. Investment yield
- J. Income multiplier
- K. Capital value of discount

Determining Market Rent

The Council will need to set out how developers should determine a 'normal' market rent to apply a discount to. We recommend that this is done on a case-by-case basis to ensure that the nature and location of proposals are considered. The Council and developer could jointly commission an independent market valuation; both parties could commission independent valuations to be compared; or, a developer could commission an independent valuation that the Council could verify independently if they disagree with the conclusions. It will be important to allow 'normal' rents to shift and change over time depending on market conditions, but any increases should be limited by inflation to ensure space continues to remain as affordable as possible. The Council should be informed of any changes to rents and may need to charge a monitoring fee to cover the costs associated with this.

Sub Area Recommendations

- 6.3 Subareas have been categorised into low, medium and high priority for affordable workspace based on the commercial data and rent to turnover analysis set out in Chapter 4. A suggested discount to market rates is also made based on the proposed discount in Chapter 4 and the subsequent assessment of viability set out in Chapter 5. On this basis, sub-area recommendations are set out below.
- 6.4 It is important to note the proposed discount to market rate is for the end user rather to a workspace provider¹⁵. Discounts also do not account for services charges, so the Council will need to be clear in policy that service charges should be set at a reasonable level that does not offset the overall affordability of the space provided.

Shepherd's Bush

- 6.5 Shepherd's Bush has been categorised as a **high priority area** for affordable **office** space on the basis of its contribution to the borough's strengths in the creative, digital and life science sectors combined with the prohibitively high rents to small and micro sized businesses with turnovers of less than £250k.
- 6.6 A discount to market rent of **40%** is recommended for high priority areas based on the rent to turnover analysis set out in Chapter 4. The viability assessment has demonstrated that it is viable for 20% of new commercial developments over 1,000 sqm to be put aside for affordable workspace in the sub-area.
- 6.7 **Recommendation: Major commercial developments to include affordable workspace with a discount to market rent of 40% or higher. Testing shows that apportioning 20% of space in developments over 1,000 sqm is viable.**

¹⁵ The viability analysis set out in the Addendum to this report provides an overview of how viability changes when certain parameters are changed and includes a statement on the viability 'tipping point' for each place. This should be helpful in determining viability should an operator be used to manage and run the space.

Townmead and Imperial

- 6.8 Townmead and Imperial has been categorised as a **high priority area** for **industrial** space given its prominence as an industrial location, the potential for further space to come forward via the South Fulham Riverside Regeneration Area and the relatively high rents which are unaffordable to businesses with turnovers of less than £250k.
- 6.9 A discount to market rent of **40%** is recommended for high priority areas based on the rent to turnover analysis set out in Chapter 4. The viability assessment has demonstrated that it is viable for 20% of new industrial developments over 1,000 sqm to be put aside for affordable workspace in the sub-area.
- 6.10 Recommendation: Major industrial developments to include affordable industrial space with a discount to market rent of 40% or higher. Testing shows that apportioning 20% of space in industrial developments over 1,000 sqm is viable.**

Hammersmith Centre

- 6.11 Hammersmith Centre has been categorised as a **high priority area** for **office** space on the basis of its desirability as a location for small businesses looking to operate outside of central London, prohibitively high rental levels to small businesses and the strong potential for new development to come forward.
- 6.12 A discount to market rent of **40%** is recommended for high priority areas based on the rent to turnover analysis set out in Chapter 4. The viability assessment has demonstrated that it is viable for 20% of new commercial developments over 1,000 sqm to be put aside for affordable workspace in the sub-area.
- 6.13 Recommendation: Major commercial developments to include affordable workspace with a discount to market rent of 40% or higher. Testing shows that apportioning 20% of space in developments over 1,000 sqm is viable.**

Olympia and West Brompton

- 6.14 Olympia and West Brompton has been categorised as a **medium priority** area for office space. Whilst it is more affordable than other parts of the borough, there is evidence to suggest that start-ups and SMEs with turnovers of less than £250k would still find rents unaffordable. This combined with potential for regeneration in the area including opportunities for workspace provision indicates that it is a medium priority area.
- 6.15 A discount to market rent of **20%** is recommended for medium priority areas based on the rent to turnover analysis set out in Chapter 4. The viability assessment has demonstrated that it is viable for 20% of new commercial developments over 1,000 sqm to be put aside for affordable workspace in the sub-area.
- 6.16 Recommendation: Major commercial developments to include affordable workspace with a discount to market rent of 20% or higher. Testing shows that apportioning 20% of space in developments over 1,000 sqm is viable.**

Fulham Centre

- 6.17 As with Olympia and West Brompton, Fulham Centre is more affordable than other parts of the borough but would nonetheless likely remain out of reach for small and start-up businesses with

low turnovers in priority sectors. With the likelihood of commercial development coming forward within the Fulham Regeneration Area, Fulham Centre has therefore been categorised as a **medium** priority area for **office**.

- 6.18 A discount to market rent of **20%** is recommended for medium priority areas based on the rent to turnover analysis set out in Chapter 4. The viability assessment has demonstrated that it is viable for 20% of new commercial developments over 1,000 sqm to be put aside for affordable workspace in the sub-area.
- 6.19 **Recommendation: Major commercial developments to include affordable workspace with a discount to market rent of 20% or higher. Testing shows that apportioning 20% of space in developments over 1,000 sqm is viable.**

Specified Area vs. Floorplates

Any requirements set out in the SPD specifying the proportion of affordable floorspace to be provided on-sites coming forward will not always fit neatly onto floorplates being planned by developers. In these instances the Council could consider introducing flexibilities on a case-by-case basis to account for this. This could work in several ways:

- Developers could provide *more* space but with adjusted discounts to market rents;
- Developers could provide *less* space but make a Payment in Lieu relative to the space lost; or,
- Developers could provide other facilities that contribute to the quantum and type of space accessed by affordable tenants, including shared networking and events space. When not being used by affordable tenants this space could be cross subsidised by market rate paying tenants for the remainder of the time.

The option alighted on would depend on the nature and location of the development, the Council's priorities for the area, the Council's internal workspace programme and a range of other factors. We recommend that the Council should, however, seek to ensure as much affordable space as possible is provided and only make small adjustments where it is practical to do so.

Parsons Green and Putney Bridge and Ravenscourt Park

- 6.20 Both of these sub-areas have been categorised as low priority for both industrial and office space on the basis that they serve a small localised market, with limited major development opportunities and reasonably affordable rental levels relative to other sub-areas.
- 6.21 Nonetheless, they are important locations for local businesses including in some priority sectors (e.g. creative and digital and financial and professional). With this in mind, we make the following recommendations:
- No discount to market rent is currently required, however, it would be prudent to continue to monitor rents, particularly within any new development that comes forward;

- Continue to monitor the loss of small office and industrial space through Permitted Development Rights (PDR) in order to understand the potential scale of erosion of existing affordable workspace for these sectors;
- Consider the potential to utilise other levers in relation to workspace to encourage the retention and growth of these sectors within the sub-area, including;
 - Repurposing of existing stock and council-own assets to provide affordable workspace and meanwhile uses;
 - Convene with local landlords and lobby to offer flexible lease terms; and,
 - Explore opportunities to open meanwhile spaces in buildings that become temporarily vacant.



Affordable Workspace Study – Viability Review

London Borough of Hammersmith and Fulham

October 2021

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Client

London Borough of Hammersmith and Fulham

Our reference

LOND3016

October 2021

1. Introduction

- 1.1 Workspace affordability has become an increasingly important issue across London in recent years. Limited supply and strong demand have pushed rents up and space has become unaffordable for many businesses.
- 1.2 Ensuring that there is enough affordable space for businesses to become established and grow in is important in ensuring a healthy and dynamic economy. Affordable space can encourage entrepreneurialism, support innovation, attract inward investment, help retain existing businesses, create social value and, ultimately, drive economic growth.
- 1.3 Although it is recognised that the affordability of workspace is a challenge for many businesses across London, a significant number of these challenges are highly place and/or sector specific. As such, whilst the Draft London Plan includes a general definition of affordability local authorities are left to interpret and determine what 'affordable' workspace means in their places.
- 1.4 Hatch Regeneris are instructed on behalf of London Borough of Hammersmith & Fulham to assess the market and deliverability of Affordable Workspace, along with Turley as Sub-Consultant to understand the viability, which is the subject of this report. The viability analysis set out in the report will inform the development of the borough's emerging Economic Development Planning Obligation Supplementary Planning Document (SPD) which responds and contributes to their Industrial Strategy as set out below.

Hammersmith and Fulham Industrial Strategy

- 1.5 The London Borough of Hammersmith & Fulham has recently published an Industrial Strategy called Economic Growth for Everyone (2017). The ambition is to make the borough the best place to do business in Europe and to ensure that everyone benefits from growth rather than a favoured few.
- 1.6 The strategy sets out four key priorities: (1) West Tech Innovation District; (2) Encouraging Enterprise; (3) A Great Place in London; and, (4) Economic Growth for All.
- 1.7 A key pillar that cuts across all of these priorities is Creating Affordable Workspace. There is particular reference to the need to support the Science, Technology, Engineering and Mathematics (STEM) sectors, as well as the digital and creative industries to help overcome the high rents faced by SMEs in some parts of the borough.
- 1.8 A range of mechanisms are set out to do this, but one of the most prominent is to create an Affordable Workspace SPD which has a major focus on the delivery of affordable and flexible workspace through the planning system.
- 1.9 This Industrial Strategy is expected to be updated in response to COVID-19 and the recession, but it is likely that Creating Affordable Workspace will continue to be at the forefront. The recommendations set out in this report will shape and influence the updated document.

- 1.10 As identified in the report submitted in November 2021, The London Borough of Hammersmith & Fulham's policies and strategies provide strategic insight on who needs Affordable Workspace, in terms of business typology, sectors and local communities. They also provide insights on the type of workspace required in the borough's regeneration areas
- 1.11 There is an appreciation that small and micro businesses face specific space challenges in the borough. The recent employment study identifies that 62% of space requirements are for businesses requiring 93-465m² and that 74% of office conversions through permitted development were below 100m².
- 1.12 Analysis of publicly available economic data is also an important source of information to help identify who needs Affordable Workspace.
- 1.13 Evidence shows that the Hammersmith & Fulham economy is diverse and is home to around 140,000 jobs and at least 14,000 businesses. Recent performance over the last five years has been positive but below London averages:
- Employment grew by +7% between 2013 and 2018, which is higher than West London Alliance¹ at +3% but lower than 11% across London; and,
 - The number of businesses grew by +13% over the last five years, which is lower than West London Alliance (24%) and +27% growth in London.

Approach & Methodology

- 1.14 Turley's sole focus for the review is to identify if 'affordable' is viable in Hammersmith & Fulham.
- 1.15 The main focus of this report is to identify and understand any difference in Viability following market changes (rents and costs), due to COVID-19 and various market factors. Turley undertook an updated comparable evidence research exercise (utilising CoStar), in order to identify any changes in each of the sub-markets from the initial submission and demonstrates the viability of the proposed discounts to market rent, as demonstrated in Table 4.6 of the Affordable Workspace Research Study (hereafter 'AWRS'), across different parts of the borough.

¹ The West London Alliance is a sub-regional partnership of Western London boroughs and includes Barnet, Brent, Ealing, Harrow, Hillingdon, Hounslow and Hammersmith and Fulham

2. Planning Policy Context

COVID-19, Brexit and the Planning System

- 2.1 COVID-19, Brexit and potential changes to the planning system are expected to fundamentally impact the economy in both the short and longer term. In turn, the demand for and supply of commercial property will also be affected. These factors present both threats and opportunities for Affordable Workspace in Hammersmith & Fulham.
- 2.2 This report recognises these pressures but given the increased uncertainty with how the market may perform in the short to medium term, and the expectation that development levels will resume in the borough, it provides robust analysis and recommendations based on the best available evidence at this point in time.
- 2.3 An addendum to the AWRS was submitted in January 2021 to explore the potential impact of these pressures, including on viability, and alternative mechanisms to deliver Affordable Workspace in the borough. The viability testing set out in this report is an update 9 months on from when the AWRS was undertaken. The base values in the Addendum report were the same as the original report, as there was not ample market evidence to update the values. This, together with the content set out here, will provide the Council with all the evidence required to negotiate positively with developers on Affordable Workspace moving forward.

The London Plan

Policy E3 Affordable Workspace

- 2.4 In defined circumstances set out in 1.18 and 1.19 below, planning obligations may be used to secure Affordable Workspace (in the B Use Class) at rents maintained below the market rate for that space for a specific social, cultural or economic development purpose such as:
 - 1) for specific sectors that have social value such as charities, voluntary and community organisations or social enterprises;
 - 2) for specific sectors that have cultural value such as creative and 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; and
 - 5) Supporting start-up and early stage businesses or regeneration.
- 2.5 Consideration should be given to the need for Affordable Workspace for the purposes in 1.17 above:

- 1) where there is Affordable Workspace on-site currently, or has been at any time since 1 December 2017, except where it is demonstrated that the Affordable Workspace has been provided on a temporary basis pending redevelopment of the site
 - 2) in areas identified in a local Development Plan Document where cost pressures could lead to the loss of affordable or low-cost workspace for micro, small and medium-sized enterprises (such as in the City Fringe around the CAZ and in Creative Enterprise Zones)
 - 3) in locations identified in a local Development Plan Document 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.
- 2.6 Boroughs, in their Development Plans, should consider 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.
- 2.7 Affordable Workspace policies defined in Development Plans and the terms set out in Section 106 agreements should ensure that the objectives in 1.17 above are monitored and achieved, including evidence that the space will be managed by a workspace provider with a long-term commitment to maintaining the agreed or intended social, cultural or economic impact. Applicants are encouraged to engage with workspace providers at an early stage in the planning process to ensure that the space is configured and managed efficiently.
- 2.8 Leases or transfers of space to workspace providers should be at rates that allow providers to manage effective workspace with sub-market rents, meeting the objectives in 1.17, over the long-term.

Policy SD6 Town Centres and High Streets

- 2.9 The vitality and viability of London's varied town centres should be promoted and enhanced by:
- 1) The redevelopment, change of use and intensification of identified surplus office space to other uses including housing should be supported, taking into account the impact of office to residential permitted development rights (see Policy E1 Offices) and the need for affordable and suitable business space (Policy E2 Providing suitable business space, Policy E3 Affordable Workspace).

Policy SD9 Town centres: Local partnerships and implementation

- 2.10 Boroughs should:
- 1) introduce targeted Article 4 Directions where appropriate and justified to remove permitted development rights for office, light industrial and retail to residential in order to sustain town centre vitality and viability and to maintain flexibility for more comprehensive approaches to town centre housing and mixed-use intensification.

Hammersmith & Fulham Local Plan (2018)

- 2.11 Hammersmith & Fulham's Local Plan (February 2018) states that applications for large new commercial schemes will be expected to provide Affordable Workspace which could be via cross-subsidised rent through S106 Agreements, reduced rent arrangements, the provision of co-hubs, start up space and/or flexible leasing arrangements.
- 2.12 Any provision is to be specific to the area or location in which the development is being undertaken. This is highlighted earlier in this report, for instance, where there are specific requirements in local areas. An example of this is Shepherd's Bush, which is home to Media City, the Imperial College Campus and office space providers due to excellent transport links.
- 2.13 Local Plan Policy E1 – Providing for a Range of Employment - sets out the borough's aspirations for mixed-use and new employment schemes and the retention, enhancement and intensification of existing employment uses. The Council recognise the existing strengths in the borough in creative industries, health services, life science and other research-based industries. Policy E1 states that these industries will require flexible and affordable space suitable for small and medium enterprises in large new business developments, unless justified by the type and nature of the proposal and subject to viability.

3. Commercial Market Commentary

- 3.1 Turley has sought to understand changing market factors, in order to update the findings of the AWRS and forecast future trends from leading market experts.

Demand

- 3.2 According to the Carter Jonas' 'London Office Market' report², demand is likely to remain subdued for the foreseeable future as businesses seek to reduce their property footprint and real estate costs to underpin profitability. The migration of some London jobs to the regions by a number of large-scale employers is unlikely to ease the situation for landlords.
- 3.3 The lack of demand, combined with the ongoing rise in the availability of good quality, ready fitted out, tenant-controlled, Grade A sub-let space, and the completion of office refurbishments and new developments that were initiated before the pandemic, is likely to put pressure on landlords to secure fewer footloose tenants in a market where there is more choice.

Advertised Rents

- 3.4 The fall in demand and increase in vacancy means it is likely that advertised rents will begin to decline. Reductions in advertised rents for poorly specified accommodation are already manifesting themselves as occupiers increasingly focus their searches on new, refitted and good quality refurbished Grade A space.

Rent Discounts

- 3.5 The levels of discount that can presently be negotiated on advertised rents have widened from 1.5 – 3.5%, at the beginning of 2020, to typically around 5 – 10%. Rent discounts have been at this level since the autumn of last year.

Rent Free Periods

- 3.6 Rent free periods have, ultimately, been the key element in lease negotiations, reflecting the decline in demand since the onset of the COVID-19 pandemic, and have typically widened by 3 – 5 months for a 5 – 10 year lease since Q1 2020.

Market Summary

- 3.7 Carter Jonas' research indicates that occupiers are increasingly becoming footloose, with a focus on good quality refurbished Grade A space. This presents opportunities for LBHF, whereby occupiers are looking to relocate from more established commercial/office markets e.g. West End and Docklands to more affordable, but still well connected, London locations.

² Carter Jonas, The London Office Market, Q2 2021. A Guide to Rents, Rent Free Periods & Market Trends

4. Viability Assumptions

4.1 The areas identified in paragraph 5.4 of the AWRS submitted November 2020, as having demand for commercial development and need for Affordable Workspace are:

- Shepherd's Bush (mixed-use commercial);
- Hammersmith Town Centre (mixed-use commercial);
- Fulham Centre (mixed-use commercial);
- Olympia and West Brompton (mixed-use commercial); and
- Townmead and Imperial (industrial).

4.2 The viability of providing Affordable Workspace at the level of discount to market rent has been tested for different size thresholds and proportions as set out in chapter 4 of the AWRS. Whilst Parsons Green, Putney Bridge and Ravenscourt Park were listed initially, these areas are not considered to be locations where there is high demand for commercial development and Affordable Workspace; these areas have therefore not been tested.

Focus On: Viability Assumptions

4.3 Testing has been undertaken on the basis of commercial floorspace only. Mixed-use scheme testing has not been included at this time in order to establish whether purely commercial floorspace can viably support Affordable Workspace.

4.4 Reference has been made to the original Hammersmith & Fulham Community Infrastructure Levy Study (Peter Brett, 2014) in order to maintain consistency across the borough. Due consideration has also been given to the Car Giant scheme in Hythe Road (Old Oak & Park Royal Development Corporation ("OPDC") as examined by the Planning Inspector, September 2019) as this has been a recent assessment which has assisted in deliberations regarding land values across the borough.

Benchmark Land Values

4.5 Turley has adopted the same values from the AWRS.

4.6 Turley have considered the rents adopted by Hatch to establish Low, Medium and High Value locations in terms of Benchmark Land Values.

4.7 There is a High, Medium and Low value range for BLVs within LBHF, established from the rents identified. To arrive at a midpoint for the adopted land values, Turley have simply taken the midpoint between the lower adopted value (£4.75m) and higher adopted value (£6.5m) to arrive at £5.625m. This is set out in the following table:

Table 4.1: Benchmark Land Values By Sub-Area

Location	Rental Value (ft ²)	Value (Location)	£ per Acre	£ per Hectare
Townmead and Imperial	£36/ft ²	Low	£4,750,000	£11,750,000
Fulham	£42/ft ²			
Olympia/West Brompton	£44/ft ²			
Hammersmith	£55/ft ²	High	£6,500,000	£16,500,000
Shepherds Bush	£53/ft ²			

Source: Hatch Regeneris/Turley

Plot Ratios

- 4.8 With regard to plot ratios, we have adopted a 1.5:1 (office building: development plot). Turley have also adopted a plot ratio of 0.65:1 (industrial building: development plot) for the Townmead appraisals. The plot ratios adopted are the same as those included in the AWRS.
- 4.9 The plot ratios: GIA office/industrial building areas are summarised in the below Table 4.2 overleaf.

Table 4.2: Commercial Development and Plot Ratios

Quantum of Offices (sqm)	Plot Area (sqm)	Plot Area (sqft)	Plot Area (in acres, rounded)	Plot Area (hectares)
1,000	666.67	7,175.93	0.15	0.06
2,500	1,666.67	17,939.83	0.45	0.18
5,000	3,333.33	35,879.67	0.85	0.34

Quantum of Industrial (sqm)	Plot Area (sqm)	Plot Area (sqft)	Plot Area (in acres, rounded)	Plot Area (hectares)
1,000	1,538	16,555	0.38	0.15
2,500	3,846	41,398	0.95	0.38
5,000	7,692	82,799	1.95	0.79

Source: Turley Analysis

Stamp Duty, Agent and Legal Fees

- 4.10 Stamp Duty has been included at the prevailing rate together with 1% Agents Fee and 0.80% Legal Fee. This is standard industry input for these costs.

Commercial Floorspace Thresholds

- 4.11 Commercial floorspace thresholds have been tested at:

- 1,000sqm;
- 2,500sqm and;
- 5,000sqm GIA of commercial space.

- 4.12 It is considered that 1,000sqm would be the minimum threshold to trigger a requirement for Affordable Workspace.

Percentage of Affordable Workspace

- 4.13 The following percentages have been tested in each of the floorspace at the following affordable provision thresholds:

- 5%;
- 10% and;
- 20% affordable provision.

- 4.14 With regard to work that other London Boroughs have undertaken on Affordable Workspace, it appears that 10% is the most common percentage of Affordable Workspace sought.

Construction Cost for Commercial Floorspace

- 4.15 The Construction Costs have been adopted from BCIS Offices 'Generally' and BCIS Purpose Built Warehouses both of which fall between BCIS Upper Quartile and Median Quartile, which we believe provides a reasonable allowance. We have therefore not included for Abnormals or Demolition costs. The view is that each site comes forward and is tested on its own merits.
- 4.16 For Office use, the commercial build cost is £2,723 per sq m / £253 per sq ft for Quarter 3, 2021. This falls between median and upper quartile for offices generally therefore this figure has been adopted for the appraisals in this report. This assumes fit out to Cat A specification.
- 4.17 Industrial build costs for warehouses in LBHF are listed at £1,238/m² (£115/ft²) Quarter 3, 2021 which has been adopted in the appraisals.

Table 4.3: Difference in Build Costs

Use	Build Costs Q4 2020 (£ per sqm / £ per sqft)	Build Costs Q3 2021 (£ per sqm / £ per sqft)	% Change
Office	£2,600 / £241	£2,723 / £253	4.9%
Industrial	£1,215 / £113	£1,238 / £115	1.9%

Source: Turley Analysis, RICS BCIS data

- 4.18 The build costs for office development has increased considerably since Q4 2020, by nearly 5%. The costs for industrial development has increased less significantly, by around 2%. Turley expects these change in build cost to materially affect the viability of bringing forward commercial developments in LBHF.
- 4.19 The Build Cost inflation in 2021 is due to both increase in construction materials and shortage of labour supply. Gardiner & Theobald³ state that it is uncommon to have nearly all material prices move upwards at any one time as they have in recent months, putting substantial pressure on contractors to pass these rises on to increased tender prices. Input costs have increased for the following items:
- M&E components: 2-3% (Jan-Jun 2021)
 - Concrete Reinforcing Steel Bars: 37.3% (April 2020 – April 2021)
 - Construction Industry Wage Growth: 4.9% (year-on-year three month average growth to Apr 2021)
 - Imported Sawn or Planted Wood: 22.0% (April 2020 – April 2021)
- 4.20 Inflationary pressures include reduced EU labour supply, increased shipping and logistics costs and global/manufacturing capacity unable to keep up with demand.

³ Gardiner & Theobald (2021) Tender Price Indicator Q3 2021

Plot External (Construction Costs)

- 4.21 Plot external have been incorporated at 10%. This is the same adopted rate as the AWRS.

Professional Fees

- 4.22 Turley have adopted 10% for Professional Fees. This is the same adopted rate as the AWRS.

Contingency

- 4.23 A 5% contingency has been applied to the construction costs. This is the same adopted rate as the AWRS.

Profit

- 4.24 Turley have adopted 15% Profit on GDV for commercial development, the same values from the AWRS report

Marketing/Sales Agent and Legal fee

- 4.25 A total of 3% sale, marketing and legal fee has been adopted, the same values from the AWRS report.

Letting Agent/Legal fee

- 10% Letting Agent Fee (calculated from the headline rent)
- 5% Letting Legal Fee (calculated from the headline rent)

- 4.26 This reflects industry standard inputs.

Finance

- 4.27 7% debt finance has been adopted. This is considered to be a reasonable level assuming 100% debt finance.

Rent Free Period

- 4.28 A rent free period of 12 months has been adopted. This reflects a market facing incentive to allow an occupier to fit out commercial space to their own specification. Turley note from speaking with commercial agents that typical rent free periods have not changed since Q4 2020.

Rents, Discounts and Yields

- 4.29 The rents identified have been included together with the proposed discounts for each area. With regard to yields, these are informed by comparable evidence identified for these particular locations, which are also corroborated by the evidence at Car Giant. The following rents, discounts and yields have been adopted for the areas tested.

Table 4.4: Location Specific - Applied Rents, Discounts and Yields (September 2021)

Location Specific	Use	Yield	Market Rent Per sqft	Affordable Rent Per sqft	Discount to Market Rent
Fulham	Office	5.5%	£42	£33.60	20%
Hammersmith TC	Office	5.5%	£55	£33	40%
Shepherds Bush	Office	5.5%	£53	£31.80	40%
Olympia and West Brompton	Office	5.5%	£44	£35.20	20%
Townmead/Imperial	Industrial	5.5%	£36	£21.60	40%

Source: Turley Analysis

Table 4.5: Location Specific | Comparison of Headline Rents Achieved

Location Specific	Use	Market Rent 2020 Per sqft	Market Rent 2021 Per sqft	% Change
Fulham	Office	£43	£42	-1%
Hammersmith TC	Office	£51	£55	8%
Shepherds Bush	Office	£53	£53	0%
Olympia and West Brompton	Office	£42	£44	5%
Townmead/Imperial	Industrial	£36	£36	0%

Source: Turley Analysis

- 4.30 Turley's review of comparable data from January 2021 to September 2021 demonstrates there has been a shift in values for some of the sub-markets. Turley has adopted the discount rate stated in Table 4.4 (taken from Table 4.6 of the AWRS). In Fulham and Shepherds Bush, there has been little change in the office/commercial market transactions, with values falling by 1% in Fulham and 0% in Shepherds Bush.
- 4.31 Both Hammersmith and Olympia and West Brompton have seen an uplift in office/mixed-use commercial values, with Hammersmith increasing by 8% and Olympia and West Brompton by 5%.
- 4.32 The market rent for industrial properties in Townmead remains at £36 per sqft as per the original report, however, this is due to limited market transactions and therefore Turley has kept the same values as Hatch Regeneris as per the AWRS.
- 4.33 London Borough of Hammersmith & Fulham's CIL Rate has not changed since the original submission in November 2020. Therefore, the same rates will be adopted.

- 4.34 Turley consider the rental value changes achieved across LBHF are generally positive, and demonstrate the borough has market resiliency in light of COVID-19 and associated market changes. However, Turley comment that further interrogation of the market is needed to understand whether the volume of deals completed is comparable with recent years.
- 4.35 With regard to yields, evidence demonstrates these have broadly stayed the same since Q4 2020. Investor appetite has remained consistent, perhaps due to being positively influenced the London Plan and LBHF policies allowing for intensification and opportunities to value-add.
- 4.36 It remains to be seen if larger floorplates desired by corporate businesses are still in high demand, or whether these spaces are going to be increasingly subdivided. Smaller floorplates and flexible tenancies would appeal to a wider, more diverse range of occupiers. The flexible Use Class E has also allowed a mix of commercial end users to occupy space without the requirement to seek planning permission. These positive changes have assisted in negating negative sentiment created by COVID-19 and the increasing prevalence of employees working from home.

Construction Timescale

- 4.37 The following construction timescales are tabled below per each of the threshold floorspaces tested. These remain the same as per the AWRS.

Table 4.6: Construction Timetable

Construction Timeline (months)	Threshold Tested		
	Offices (1,000 sqm)	Offices (2,500 sqm)	Offices (5,000 sqm)
Pre-construction	6	6	6
Construction	9	12	18
Sale	1	1	1
Total Months	16	19	25

Source: Turley Analysis

5. Viability Testing

- 5.1 The viability results are set out in Table 5.1, 5.2 and 5.3 below/overleaf. The RLV is highlighted in green where there is a surplus, and red where there is a deficit.

Table 5.1: 5% Affordable Workspace

GIA Area	1,000 sqm	2,500 sqm	5,000 sqm	Land Value	Land Value
Plot (acres)	0.15	0.45	0.85	(per acre)	(per hectare)
Plot (acres)*	0.38	0.95	1.95		
Fulham Centre	RLV	RLV	RLV		
5%	£1,186,384	£2,838,394	£5,229,778	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Hammersmith TC	RLV	RLV	RLV		
5%	£2,270,251	£5,494,320	£10,322,176	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Olympia and WB	RLV	RLV	RLV		
5%	£1,382,411	£3,320,032	£6,160,204	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Shepherds Bush	RLV	RLV	RLV		
5%	£2,233,206	£5,410,439	£10,198,442	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Townmead/Imperial	RLV	RLV	RLV		
5%	£2,205,958	£5,377,426	£10,267,877	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

Source: Turley Analysis, *Townmead Plot Ratios

Table 5.2: 10% Affordable Workspace

GIA Area	1,000 sqm	2,500 sqm	5,000 sqm	Land Value	Land Value
Plot (Acres)	0.15	0.45	0.85	(per acre)	(per hectare)
Plot (Acres)*	0.38	0.98	1.95		
Fulham Centre	RLV	RLV	RLV		
10%	£1,145,810	£2,738,703	£5,037,196	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Hammersmith TC	RLV	RLV	RLV		
10%	£2,160,879	£5,225,593	£9,813,049	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Olympia and WB	RLV	RLV	RLV		
10%	£1,340,060	£3,215,977	£5,959,191	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Shepherds Bush	RLV	RLV	RLV		
10%	£2,127,991	£5,151,923	£9,699,044	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Townmead/Imperial	RLV	RLV	RLV		
10%	£2,134,430	£5,201,681	£9,928,373	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

Source: Turley Analysis, *Townmead Plot Ratios

Table 5.3: 20% Affordable Workspace

GIA Area	1,000 sqm	2,500 sqm	5,000 sqm	Land Value	Land Value
Plot (Acres)	0.15	0.45	0.85	(per acre)	(per hectare)
Plot (Acres)*	0.38	0.95	1.95		
Fulham Centre	RLV	RLV	RLV		
20%	£1,064,662	£2,539,322	£4,652,032	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Hammersmith TC	RLV	RLV	RLV		
20%	£1,942,135	£4,688,137	£8,774,796	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Olympia and WB	RLV	RLV	RLV		
20%	£1,255,359	£3,007,866	£5,557,164	£5,625,000	£14,000,000
BLV	£843,750	£2,531,250	£4,781,250		
Shepherds Bush	RLV	RLV	RLV		
20%	£1,917,559	£4,634,893	£8,700,247	£6,500,000	£16,000,000
BLV	£975,000	£2,925,000	£5,525,000		
Townmead/Imperial	RLV	RLV	RLV		
20%	£1,991,373	£4,850,191	£9,249,366	£4,750,000	£11,750,000
BLV	£1,805,000	£4,512,500	£9,262,500		

Source: Turley Analysis, *Townmead Plot Ratios

- 5.2 As Table 5.1, 5.2 and 5.3 demonstrate, all locations and sizes are viable at the proposed discounts to market rents set out in the previous chapter (i.e. where the Residual Land Value exceeds the Benchmark Land Value as highlighted in green).

Conclusion

- 5.3 It can be reasonably expected that developments in Fulham Centre, Hammersmith Town Centre, Olympia and West Brompton, Shepherds Bush and Townmead and Imperial can provide up to 20% Affordable Workspace at the proposed discounts to market rents based on the current inputs.
- 5.4 Whilst Townmead has been tested on an Industrial basis, it may be possible to achieve a level of Affordable Workspace through mixed-use schemes which may generate a higher Gross Development Value overall, though this depends upon the practicality of delivering schemes with large scale office/mixed-commercial use in a largely industrial location.

- 5.5 As aforementioned, Turley consider that each site should be assessed on its own merits (and associated costs), and that the Benchmark Land Values set out act as a guide only.
- 5.6 An alternative to providing Affordable Workspace as part of a proposed development, is to secure a Payment in Lieu (PiL). PiL is typically the monetary equivalent of contributing the Affordable Workspace on-site, calculated via Viability Appraisal and agreed between the Applicant and Council. Turley consider that if the applicant has demonstrated that delivery of workspace is unviable and cannot afford a contribution, LBHF should seek to secure an early/late stage review to capture any uplift in value with changing market conditions, to secure a PiL and contribute towards Affordable Workspace.
- 5.7 Turley consider that the Affordable Workspace should be assessed in line with the market and discounted accordingly. This could be reviewed every five years at a minimum, or more regularly, depending on the terms of the leases. The duration of time the Affordable Workspace is provided for can also depend on whether the building has a change of use, or the market dictates that the existing use becomes unviable.