WORK SPACE SUPPLY AND DEMAND IN THE CITY FRINGE

A STUDY FOR THE CITY FRINGE PARTNERSHIP
FINAL REPORT
APRIL 2003

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EXECUTIVE SUMMARY

Background

- Renaisi were commissioned to identify to what extent the supply of workspace in the City Fringe is meeting demand in light of recent concerns of the lack of affordable workspace across the area.

- The study area for this report includes that part of the City Fringe Partnership area outside the City of London. It includes the wards of Holborn (Camden), Clerkenwell, Bunhill (Islington), Wenlock, Moorfields, Haggerston (Hackney), Weavers, Spitalfields and St Katherines (Tower Hamlets).

- The work was to build on previous studies which outlined the trend of commercial properties being eroded from the City Fringe Partnership area by alternative uses. In the 1980s cycle this saw a reduction in workspace in industrial properties as a result of an office boom. More recently, office and workspace users have been replaced by residential and live/work accommodation.

- The study also provides commentary on specific industrial sectors namely, creative and cultural industries, manufacturing, and hospitality. These sectors have been identified as potential growth sectors in the City Fringe by a range of commentators.

Business Profiles

- In terms of profile of the area, small businesses continue to dominate. Over 70% of businesses we interviewed as part of the study employed less than 5 people.

- Businesses are becoming increasingly well established in the City Fringe. 65% of the businesses were in occupation for more than five years. This was at odds with the findings of the 2000 Business Audit where many businesses were less than three years old. This suggests that many businesses have cemented their position where as new entrants into the area are less prevelant.

- Companies have identified proximity to the local customer base as significantly the most important factor for businesses operating in the City Fringe.

- Conversely, businesses are most concerned about the lack of parking and the impact of congestion charge on their operations.

- For those considering moving away from the area, the cost of rent and rates is by far the greatest push factor.

- Despite a rise in demand for freehold premises, the profile of existing businesses still shows a major predominance of leasehold properties, perhaps suggesting a lack of freeholds available on the market.

Demand

- An audit of businesses in 2000 demonstrated a critical under supply of properties at a time when there was enormous demand for small business units from both existing companies and those considering the City Fringe for the first time.

- Whilst there has been an overall significant reduction in demand for commercial properties in the last 18 months, there is still strong demand from small users, especially start ups. This demand is dominated by users seeking space at less than £15psf.

- Enquiries reached a peak in 2000 and fell significantly during 2001 and 2002. However, there was a continued strong demand for small premises which saw, proportionately demand for small units rise significantly. The proportion of total enquiries which were for space of under 2,500sq ft rose from 56% in 2000 to 85% in 2002.

- There was some recognition by enquirers of the increasing property costs in the area. In 2000, 84% of enquiries were for properties offering rents of less than £15psf. By 2002 this figure had dropped to 60%.

- Providers of workspace have identified that whilst there is currently a considerable amount of property on the market it is the wrong kind of space and not geared towards small workshop users. They also identified the lack of mid sized stock as a problem in that many incubators who outgrow incubator space have no where to move onto.

Supply

- The cost of office, B1 and industrial space rose dramatically between 1999 and 2002 with some levelling off in the second part of 2002 and the early part of 2003.

- In 1999, 71% of office and B1 properties were being offered at less than £21psf. By 2001, this figure had dropped to 23% although it did increase to 33% in 2002.

- In 2003, some 2.7 million sq ft of commercial accommodation has been identified as available across all types of property and size ranges. 91% of this floorspace served the office and B1 market.

- Secondary space dominates the City Fringe property market providing 88% of the property available. The amount of new commercial accommodation coming onto the market is negligible.

- There are a number of affordable workspace providers across the City Fringe area including Cockpit Arts, Clerkenwell Green Association and Winkley Workspace. However, discussions with affordable workspace providers suggest that space is over subscribed. Such providers suggested that, whilst they are extremely keen to invest further in the area, prevailing freehold values prevent this from happening.

Sectors

- In terms of creative and cultural industries, workspace development needs to be broadly themed according to the specific sub sector it is seeking to serve. Such developments need to have a range of ancillary space, access to specialised advice and typically be in units of between 400sq ft and 1000sq ft.

- Efforts to secure manufacturers in the area should be in the area of high density, high value design orientated businesses rather than low density low value traditional manufacturing. Size requirements vary significantly. It is unlikely that City Fringe will continue to foster growth of major industrialists and users of less than 5,000sq ft should form the focus of any proposals.

- The hospitality sector continues to grow extremely quickly. Opportunities for the City Fringe include the development of further retail, restaurant, bar, leisure, entertainment and tourism attractions in one or more focal locations to achieve a cluster effect. Specific retail and hotel development strategies would be appropriate.

Conclusions

- Demand for commercial properties in the City Fringe peaked during 2000. At this time demand for space was extremely high and availability of commercial property was almost non existent.

- There is clearly a consensus that commercial demand started to drop away significantly sometime during 2001and there is currently a shortage of demand for larger footplates and for properties in excess of £20 psf.

- Demand for freehold premises remains high. There are few freeholds on the market and what do exist are sold quickly. The freehold market is not reflecting achievable rents. Freeholds are frequently seeing an asking price of fifteen or twenty times what they could achieve in annual rent. This compares to a figure of ten to twelve times asking rent being a more traditional reflection of value. To some degree this identifies the hope value being put on property for residential and live/work uses.

- There is a current mismatch between demand and supply. Whilst demand has fallen, there is still considerable demand for properties at less than £15psf. In 2002, 60% of demand fell into this price bracket. At the same time, only 8% of supply was available at this price.

Recommendations

In terms of specific workspace development, there has been a significant downturn in demand over the last two years as with the rest of the market. However there are continued waiting lists for affordable incubator units. The City Fringe as san area has developed in a way that, no matter what the market condition is at any given time, there is little likelihood of provision for workspace users coming forward naturally. If such users are to be facilitated, this will require intervention from public agencies either via public funding or other routes such as Section 106 Agreements. We believe that the provision of affordable workspace should remain a key priority for the City Fringe Partnership and other regeneration and public funding bodies in the area.

1.0 INTRODUCTION

The City Fringe Partnership has been working with SMEs and micro businesses in potential growth cluster industries to identify barriers to growth and models of intervention to overcome those barriers.

Research and experience over recent years suggests that there has been a marked reduction in the supply of, and an increasing demand for, work spaces within these industries in the City Fringe area.

The City Fringe Partnership has asked Renaisi to further investigate this assertion in order to provide an evidence based forward strategy for future activities.

The key objectives of the study were to:

1. Identify and analyse SME demand for work space in the City Fringe including:

    - an overview of the general SME market demand for work space;

    - more detailed analysis on the SME market demand in the creative, manufacturing and hospitality industries.

2. Identify and analyse the supply of SME work space in the City Fringe

3. Identify to what extent the supply of work space in the City Fringe is meeting the demand of work space generally, and more specifically of the three sectors identified above

4. To estimate the potential future supply and demand for workspace in the City Fringe.

The rest of this report provides our findings. In section 2.0 we set out the structure of the work we have undertaken. Section 3.0 seeks to put our work into the context of longer term trends taking place in the City Fringe. Section 4.0 provides a commentary on the specific market sectors identified as potential areas of growth by the City Fringe Partnership, namely creative industries, manufacturing and hospitality. Sections 5.0 and 6.0 provide our assessment of demand and supply respectively. The final section provides recommendations in respect of the workspace demand and supply for the City Fringe Partnership.

2.0 STRUCTURE OF THE RESEARCH

2.1 Introduction

We briefly outline below the strands of work we have undertaken and set out how they are presented within this report. We have also identified those assumptions or caveats which need to be taken into account when reading this report.

2.2 City Fringe Context

The work we have undertaken provides an assessment of demand and supply over a 3-4 year period. Clearly, market cycles can reflect a period considerably greater than this and the relationship between the City Fringe and the City needs to be considered over time. As context, we have summarised the recent history of demand and supply in the City Fringe and also drawn on the findings of other relevant studies.

2.3 Sector Analysis

We have sought to provide a broader understanding of the influences affecting growth sectors currently targeted by the City Fringe Partnership. The sectors under consideration include creative industries, manufacturing and hospitality. These have been identified as key growth sectors by industry commentators including the London Development Agency's Economic Development Strategy.

The sectors are reviewed in terms of:

- Structure and growth prospects;
- Factors driving the growth of each sector;
- Extent of dependence of each sub-sector on related businesses, suppliers, customers and complementary industries;
- Nature of specialist support needed to promote the growth of each type of cluster;
- Examples of incubation developments set up to support alternative clusters, how configured and support facilities offered;
- General development issues affecting the growth of each sector-cluster.

Implications for the accommodation and support provision necessary to ensure the vibrancy of the City Fringe target sectors are set out in Section 7.0 and Appendix I respectively.

2.4 Demand Assessment

Our demand assessment of workspace in the City Fringe is set out in Section 5.0. In coming to our conclusions on demand we have considered the findings of the following elements of work.

- Renaisi's 2000 Business Audit of property needs. This analysis was not undertaken as a survey as such and, therefore, results are not represented84 Tc (1s( ) Tj0.084 Tc 8 Tc (iT) Tj-0.192 Tc (h) Tj0.216Tc 8 Tc as critical in recent years and we have also spoken to a range of support organisations to further develop our view of workspace demand.

2.5 Supply Analysis

Renaisi collates information relating to available commercial property in the City Fringe and has done so since 1997.

In considering supply issues, in addition to taking into account the views of the property agents and business support agencies, we have considered the following:

- Trends in the cost of supply between 1999 and 2002. Figures are considered separately for offices and workspace supply. These figures are based on a sample of 50 offices for each year and 50 workspace units - although a sample of 25 workspace units is used in 2002 because of the lack of such accommodation on the market.

- An analysis of 2003 supply. This is not intended to provide a pointer to the adequacy of the amount of supply on the market as this is a variable of total stock which has not been assessed. Rather, we have commented on the nature of availability in qualitative terms.

2.6 Gaps in Provision

From the demand and supply analysis we provide an assessment of how the needs of workspace users are being met by the market at the current time in the City Fringe (section 7.0).

3.0 THE CITY FRINGE AREA

3.1 The City Fringe Area

The study area for the work undertaken includes parts of the Boroughs of Camden, Islington, Hackney and Tower Hamlets.

It includes the wards of Holborn (Camden), Clerkenwell, Bunhill (Islington), Wenlock, Moorfields, Haggerston (Hackney), Weavers, Spitalfields and St Katherines(Tower Hamlets).

Figure 3.1 below shows the City Fringe Partnership area. The study area includes the portion shaded red. The blue represents the Corporation of London which forms part of the City Fringe Partnership but not this study.

3.2 The City Fringe Partnership

The City Fringe Partnership was established in 1996 and was funded through the Government's Single Regeneration Budget. As well as the area outlined above, it includes the City of London governed by the Corporation of London.

The Partnership's SRB 4 'Bridging the Gap' programme was a five year scheme which finished in March 2003. This project looked to regenerate the City fringe by ensuring that the area benefited from its proximity to Europe's financial centre. In April 2003, the London Development Agency joined a newly structured City Fringe Partnership developing a three year economic development strategy for regenerating the City fringe area.

The Partnership has identified the following as its key issues:

- the very low levels of literacy and numeracy amongst residents of the Fringe
- the rise of property prices and the impact on small businesses
- high levels of unemployment compared to the London average.
- the continued importance of targeting jobs in the City for local residents.
- supporting key business clusters

The Partnership wants to build upon the opportunity to take advantage of the fringe's location alongside the City - such as facilitating local procurement opportunities (estimates indicate that the City annually procures £2billion per annum of goods and services). Moreover, by projecting the development of employment and office requirements for the City the Partnership looks to realise good practice in obtaining community benefits from large-scale re-developments.

The Partnership also aims to facilitate increased consistency of economic development, planning and transport policies across the Fringe area.

The creative industries are an integral part of the Fringe's history and economy. The Partnership will continue to offer support for developing and sustaining specialist craft, precision and digital media activities across the City Fringe, as well as other key sectors as defined by the LDA, such as, hospitality, tourism and manufacturing. Financial and Professional Services is a core employer in the area and training and employment opportunities will be targeted towards higher level training to ensure opportunities are afforded to local residents.

The Partnership also supports networks of jewellers, fashion designers and other design related activities and will support joint marketing and international trade opportunities, as well as specialist new media support projects.

3.3 Recent Property Trends (1980s & 1990s) in the City Fringe

The City Fringe underwent a major change in the mid to late 1980s.This period saw major new office developments in line with a general London wide trend. Market rents increased up to threefold and new office development came to the fore. This trend put pressure on industrial space as developers sought higher value office uses and coincided with a period of industrial decline across London. This impacted upon SME sectors which had been dominant in the City Fringe since the beginning of the 19th century including furniture, clothing and leather manufacturers. The impact of this trend forced many of the traditional industries further out of the City Fringe, displaced by the rise in rental values for office accommodation.

This upturn in the market meant that the City Fringe was seen as a popular place to locate for businesses who could no longer afford City prices but wished to remain in close vicinity to the City. Over time, this saw a gentrification of traditional workspace within the City Fringe.

The early 1990s saw a major downturn in the market and property prices dropped dramatically. There was a major oversupply of office space. Whilst some occupiers benefited from very good lease deals in this period, the area became characterised by a large number of empty properties.

By the late 1990s, the City Fringe was again well on the way to recovery. Office space was taken up over time and there was some new build stock. However, the main driver was the encouragement of residential uses in former industrial or office buildings and the introduction of the live/work concept.

During the mid to late 1990's office values started to rise and witnessed a rapid upturn in the market. This was a London wide trend, which forced rental values and freehold values up 100- 200%.

City rental prices reached as much as £65 psf for good quality office space from around £30 psf in three years. As prices rose, companies started to look for cheaper alternatives, and the City Fringe, due to the advantages of the location, became the favoured location for many companies.

Over the same period rental values increased through out the City Fringe to as much as £25-30 psf for high quality office space achieving £10 psf five years earlier for comparable accommodation, (although expensive for the City Fringe, it was considered reasonable in comparison to the City). As rental and freehold values increased, the City Fringe has witnessed new sectors coming into the area, which are able to afford the increase in rental values whilst traditional users struggled to maintain costs and remain in the City Fringe.

Availability of commercial space by the year 2000 was very limited and, as the residential boom continued, the situation became increasingly critical.

The mid 1980s saw the high value of offices push out workspace users whilst in the late 1990s high residential values prevented any significant development of either offices or workspace units. The result is very few new build office developments since the mid 1980s and workspace stock which precedes even that time. What new commercial accommodation does exist is generally within mixed use developments.

These trends have led to City Fringe businesses facing very significant increases in property costs, most notably between 1995 and 2000.

Nevertheless, the City Fringe continues to have a strong SME base, most recently fuelled by the media sector, creative industries and the dot- com boom in the late 1990s.

Work undertaken by Renaisi with businesses in the City Fringe suggests that the continuing popularity of the City Fringe as a SME location results from:

- Traditional industrial legacy of large buildings
- Cheap rents compared to City locations
- Good transport links into the City and main line stations
- Good/ large space through warehouse conversions
- Advantages of cluster locations – pull factors for similar organisations.
- `Vibrancy' of the area
- Proximity to the City and clients

3.4 Findings from PPC and CCR Report

The position at the end of the 1990s as outlined above is endorsed via the findings of PPC and CCR in their 1998 study of Commercial Property in the City Fringe. This study provides some useful context for this work and we have briefly included their main findings below.

In relation to the gradual reduction of available properties during the 1990s the consultants note:

It has taken 6 years for the surplus space born of oversupply and weakened demand to be absorbed out of the market. The process of net absorption has had 2 elements: first, the gradual letting of office space against the background of no new construction and second the conversion of some commercial space to residential use.

The result of this was already becoming clear at that time:

This reinforces our view that the difficulties experienced in the City Fringe were largely supply rather than demand driven.

We are concerned, however, that the rate of take up may be threatened over the short to medium term by lack of suitable supply within the City Fringe….

...we expect the shortages of supply for secondary office accommodation in particular, to continue to sustain rental growth for second hand office space over the next two years..

However, any call for restriction on residential space was tempered.

The arrival of the residential development market in the City Fringe from 1995 onwards has played an important role in bolstering confidence in the City Fringe, has led to genuine renewal of often long-vacant commercial property and has helped to strengthen the office market by stripping away surplus office space and office development sites. It would indeed be perverse to rail against a force for renewal which is backed up by real demand.

The residential market, however, just like the office development market brings problems in its wake. Given the demonstrable demand for office and other commercial space in the City Fringe, there is a danger that the supply of commercial space could be restricted by further change of use activity. We would argue that local authorities should re-examine their policies on change of use particularly in locations that are close to the City and are becoming more viable once more for office use.

In summing up the consultants noted:

Overall, the City Fringe is in the fortunate position of being popular. The past four years have clearly demonstrated the acceptability of the City Fringe as a residential location. Historically, the City Fringe has been a popular office overflow location offering office buildings in generally good locations at cheaper rents than in the core areas of Central London. Its traditional role in the office market is once more coming to the fore as rents rise in the Core and the ripple effect moves into the City Fringe. The losers, once more, are the industrial, workshop and warehouse uses which are unable to outbid either the emerging residential market or the re-establishing office market.

3.5 The Live/Work Concept

Before going on to look at the current demand position in the City Fringe, we comment briefly on the role of live/work uses in the recent development of the City Fringe.

The number of live/work developments in Inner London Boroughs has increased dramatically in recent years. Such developments are aimed at providing associated working and living accommodation within a single self contained unit. The employment element should be the predominant space. The increase in applications for the live/work land use gave rise to considerable concern that developers were using the live/work concept as a 'back door' route to achieving residential consents on sites identified for employment use ie claims that development was aimed at the commercial market when in fact it was residential in all but name.

Working with the LDA, Shoreditch Our Way and the Haggerston SRB Partnership, Renaisi appointed consultants, Chesterton, during 2002 to look at how live/work developments have come forward in recent years. Briefly, Chesterton's main conclusions were:

- *The inability of live/work units to provide adequate employment opportunities and minimal contribution to regeneration;*

- *Proper enforcement and implementation of Live/Work units is required by Registered Social Landlords if true live/work is to be achieved;*

- *Our case studies reveal that live/work developments are predominantly in residential use, and that employment land is being lost through these schemes;*

- *Live/work units are often 'back-door' entry to gaining permission for residential use;*

- *Overall, there is considerable uncertainty and ambiguity, and a lack of policy direction at the national level*.

A development should include a percentage of affordable units if wider regeneration and employment retention objectives are to be met.

The implementation of live/work has had a major impact upon workspace development in recent years. Many developers have shunned away from workspace provision towards the live/work option. Whilst, there are no doubt good examples of live/work scheme which offer genuine schemes providing a solution to those wishing to work and live in one location, the above research has very much demonstrated that this trend is more to do with achieving residential land values than it has to do with any kind of genuine working environment. The tackling of this issue in coming years is extremely important in the context of wider workspace provision.

4.0 SECTORAL ANALYSIS AND CLUSTERING

4.1 Introduction

The purpose of this section of our report is to provide a broader understanding of the influences affecting the growth sectors currently targeted by the City Fringe Partnership. These include creative and cultural industries, manufacturing and hospitality.

The Partnership has developed a growth strategy for the City Fringe which draws upon research outlining the importance of these sectors. That research indicates that, whilst financial and business services remains the dominant sector in the City Fringe (and indeed has increased its dominance), the three identified sectors account for some 20% of all employment in the area. However, their significance goes beyond that of a high proportional representation. Traditionally, these sectors employ relatively high numbers of local residents and, as such are vital to local regeneration. Their continued growth in the area is important in a market where business and financial services are on the increase, a trend which has a more limited benefit to the unemployed people of the City Fringe.

As such, the needs of workspace users are seen as paramount to the sustainable growth of the City Fringe area and wider indicators of regeneration including access to jobs for local people.

In developing our findings we have had regard to the needs of those individual sectors and the degree to which they can or have formed clusters. In this section we comment upon the trends driving these sectors and clusters whilst we also draw out sector specific findings in both the demand section and conclusions of the report. The nature of the specialist support required by each sector is summarised in Appendix 1.

There is no single definition of a cluster. We have taken the view that a cluster can be described as a group of organisations in related industries that are linked together because they buy or sell from each other, and/or because they use the same infrastructure, customers or skills base.

A cluster is more than an industrial sector. It will normally comprise a group of sectors together with their supporting infrastructure of finance providers, logistics providers etc and, in addition, the universities/research institutions that provide the cutting edge research inputs to the various sectors.

The strength of the cluster depends on the existence of all these constituent parts located in the area of the cluster and the strengths of the relationships between them.

Taking account of these descriptions of what a cluster is, the extent to which the three growth sectors identified by the City Fringe represent a cluster is debatable. There are identifiable clustering patterns within the creative and cultural industries. With the other two sectors, the evidence of there being a fully integrated cluster is less apparent. This does not diminish their importance as growth sectors for the City Fringe.

In the rest of this section we provide an overview of the issues affecting the identified sectors. These assertions are predominantly the views of the authors. However, the creative industries analysis does draw heavily upon the findings of David Powell's 1999 report "Creative Energy".

4.2 Creative And Cultural Industries

The creative industries in the UK generate revenue of around £112.5 billion and employ some 1.3 million people. In London, the creative sector activities account for 400,000 jobs (11% of London's employment), and a large number of self employed individuals. The Government has predicted that the creative industries will be the fastest growing source of new employment and economic activity between 1998 and 2006.

These industries have world-wide impact and contribute significantly to export earnings. From an estimated £16billion in revenue generated from this sector in London, it is estimated that the value of exports from London includes product exports of £2.3billion, £1.5billion in royalties, and other creative services totalling some £7.5billion in all.

Many of these activities involve a considerable degree of cross-sector convergence across such areas as design and technical services, manufacturing and ICT.

We have considered the creative and cultural industries in more detail for the following sub-sectors:

- Film and TV Making, Recording and Media Services
- Fashion and Clothing
- Designer Crafts, Giftware and Jewellery
- Designer Services
- Arts, Museum and Heritage Industries

Film And TV Making, Recording And Media Services

There is a significant concentration of television, radio, and film and video production and supporting media services concentrated in London. These sectors have major potential for further development of international trade.

- There are about 1700 film and TV production companies based in the region (70% of the UK total) employing some 45,000 people. The television and radio sector is expected to double in revenues within the next decade as a result of the digital revolution.

- Many of the specialist film and recording support services undertaken in London are for the overseas market, particularly the USA. The music industry is also heavily concentrated in London which has 70% of the UK's recording studios, and five out of six music publishers.

- London is also a world centre for new media, with over 750 businesses operating on the interactive leisure software and media sector with most international leisure software businesses being clustered in the region. These firms serve major markets for games, exhibitions, museums, tourist attractions and special effects for films.

- London is also a major international location for making films and for providing a significant range of highly specialised support services and facilities. Producers using London as a filming location also bring in a huge amount of spending into the region through travel, hotels and other support services. This aspect is extensively promoted by London Film Commission and the British Film Commission but needs further support.

The sector is characterised by a large number of small businesses with specialist skills and expertise for which there is considerable demand from the rest of the world.

Fashion and Clothing

Across all sub sectors, the fashion and clothing sector accounts for at least 2000 companies across London. Fashion design and clothing are growing activities, significant in terms of international trade. London is one of the world's leading fashion design centres, and ranks along with Paris, New York and Rome as a key centre for this activity. Some 60% of fashion designers export their work.

London Fashion Week is now an established event within the international fashion scene and attracts 40% of its buyers from overseas. London also has a significant leather industry. Clothing exports from London are worth almost £900m, with related sectors such as textiles and furnishings worth a further £300m.

Designer Crafts, Giftware and Jewellery

The main product areas in this group are:

§ Giftware, including glassware, picture ware, lamps, tableware, ceramics, collectables, corporate gifts, and small household decorative items.

§ Jewellery. London has a major cluster of almost 400 jewellers. Major country markets include Western Europe, China, Japan, Hong Kong and the UAE.

§ Designer maker and artistic products; these are typically short batch products with a high degree of design content commanding a relatively high value.

There are a number of specialist support agencies and networks which have been established to assist these producers in their development opportunities.

Designer Services

This group of creative industries comprises a number of growth activities such as interior and industrial design, graphic arts and design, advertising, and related support services. Including the graphic design and services sector, there are around 3500 of such companies of varying size across London.

Of these, the design consultancies are a major growth area, including those specialising in brand identity, corporate identity, retail design (interiors), packaging and new product development services. They are a key source of growth and dynamism for the London economy generating a large proportion of its GDP, contributing significantly to overseas earnings.

Arts, Museum and Heritage Industries

There are some 1500 organisations specialising in music, theatrical and other artistic creation activities throughout London, which contain a number of lucrative sub-sectors.

In addition to the operation of public viewing facilities, museums and heritage activities include a number of highly knowledge based activities, such as interactive software for exhibits, galleries and leisure attractions, display systems, costumed animated figures, providers of conservation and preservation functions and a range of consultancy services.

As can be seen from the above, there is a high degree of interdependence across most of the creative and cultural sectors. For example:

- Activities such as film and media involve a significant supply chain for content, supporting technical services and there is a high level of convergence with the ICT sectors;
- Fashion and clothing businesses involve a high level of inter-dependence, particularly between the design and manufacturing sectors and the link with fashion accessories. Other important links include access to computerised design facilities and marketing and showroom facilities;
- The design industries have a potential link to the manufacturing sectors and are dependent on networking and support for marketing and promotion;
- There are important links with the Arts, Museum and Heritage sectors with the media sector. There are also strong links to London's tourism industry, and to the giftware sector. For this area to be fully exploited, there is a need for more cohesive networking of the participants within the sector;

Examples of incubation developments supporting the Creative and Cultural Industries are summarised in Appendix II.

4.3 Manufacturing

According to Made in London, manufacturing in Greater London employs over 283,000 people and comprises 26,000 establishments across the region. At the same time, the London Development Agency's (LDA) Economic Development Strategy (EDS)suggests that some 20% of London's manufacturers are constrained by poor sites and premises.

London's manufacturing has the highest productivity in the country, at 20% above the national average and its higher value added activities are growing strongly.

The LDA's EDS identifies manufacturing as one of the leading sectors within the regional economy. It is prioritised as one of the sectors for pro-active development working with Made in London and proposes to establish a business advisory commission for the manufacturing sector. This will seek to map out a future for a high value added, design led, manufacturing sector, relating London's strength and based on good practice. Related initiatives include the recently established Regional Centre of Manufacturing Excellence (CEME) and Manufacturing Advisory Service, targeting manufacturing training needs, establishing mechanisms for business retention and inward investment and the provision of appropriate land and premises and specialised accommodation.

The LDA EDS identifies for East London the realisation of the Thames Gateway brownfield development potential as a focus for modern, technology based manufacturing and engineering and for inward investment.

In general terms, there is a wide degree of interdependence through the supply of manufactured components and specialist support services within the manufacturing sector. These supply chains can cut across international boundaries. With appropriate supply chain support initiatives, there is scope for greater levels of networking that can help businesses collaborate better at a more localised/sub-regional level.

The Manufacturing Development Framework for the Thames Gateway recently produced by Benefits for Business (the business support network for the Heart of Thames Gateway) identified the following issues which affect the more wider ranging aspects of support to manufacturing.

- Little significant inward investment to London;
- Strong internal demand for sites & premises by manufacturers, but lack of availability & knowledge of them;
- Significant barriers to SME product and market innovation;
- Under performance, particularly amongst SMEs;
- Limited EU/ foreign market penetration of manufacturing SMEs in region;
- Amongst manufacturing SMEs, there is some degree of management awareness of need to improve their own competence, but such awareness needs to be widened;
- Despite concerted initiatives to promote higher levels of skills development amongst local manufacturers, there has been slow

take up of training provision from Thames Gateway manufacturing SMEs.

- There has been slow uptake of manufacturing/ technology careers at post 16 level;
- Transport and Broadband access is increasing as a local issue amongst manufacturers.

The main problem facing manufacturers in the City Fringe is cost pressures, together with the pressure for redevelopment of old industrial sites and buildings for higher value activities such as offices and housing.

In addition, there is an absolute shortage of space for traditional manufacturing within the sub-region, given its inner-urban location. As identified above, there is strong internal demand for sites and premises by manufacturers, but lack of availability and knowledge of them.

With regard to incubation, an area such as the City Fringe is well placed for accommodating smaller scale activities which are more heavily oriented towards design and prototyping. Much could be done to encourage the growth of these activities through the provision of specialist accommodation, possibly through the provision of a London Business Innovation Centre satellite, or alternatively by linking into the initiatives of the North London Sector clubs, which have assisted traditional industries found in the City Fringe such as food, furniture and clothing to become more innovative and better established.

Within the City Fringe however, the manufacturing base of the sub-region is fragmented and largely there for historic reasons. Even where there has been a case for being close to the City or West End, many such industries, such as printing, food and clothing have tended to migrate outwards in search of cheaper premises. There is evidence of the presence of major higher education and research activities providing the high level skills, design expertise and research in support of these activities, (e.g. London College of Printing and London College of Furniture), but the manufacturers which remain in the area do not reflect this profile. That is not to say that this could not be possible.

With the manufacturing sector, it must be borne in mind that the cost of premises in the City Fringe is high, and available industrial premises are becoming scarcer*.* Some larger manufacturing businesses see a market case for moving to such areas as the Lee Valley and Thames Gateway where premises are in greater supply at less cost. Attempts to intervene to provide manufacturers, who are relatively space hungry with low cost affordable premises would be an expensive enterprise*.*

On the other hand, there are a number of activities within London that have a key link to manufacturers and which can add value to them, if appropriate, collaborative links can be made. These are the design community, many of whom are based close to the centre of London, where interaction with major purchasers is more practical. Many of the products designed in London end up being manufactured outside the UK. However, if the processes of design, sample making and prototyping and pre-production activity can be linked together this can help London based manufacturers become more successful, and in turn adds to the broader competitiveness of London.

4.4 Hospitality

The region's tourism and hospitality sector is one of the largest and most highly concentrated in the world. London receives 12-13million foreign visitors a year, accounting for over 50% of the UK total and a similar proportion of their expenditure. Tourism in London is a massive source of overseas earnings, generating £6.7billion within the region in 2000. Sustained efforts to continually diversify, develop and enhance the range and quality of London's tourism offer must be a key part of any strategy to sustain and support the hospitality and catering industries.

The LDA has identified that visitor attractions have performed well over recent years, largely resisting increased pressure on the 'leisure pound'. However, operators will be forced to maintain and improve the quality, innovation and range of facilities to keep pace with technological change and increased competition. Within the visitor attractions market, heritage plays an important role in UK tourism – both overseas and domestic.

Buoyed by sustained growth in the UK economy and continued rises in levels of personal disposable income, the events market has continued to grow at above average rates in recent years. Research by MINTEL suggests that, by sector, rock/pop dominates the market, accounting for 75% of the market by value during 1999, with classical music concerts comprising 17.7% of the market value, with the niche sector of jazz/blues accounting for the remaining 7.2%.

Within the leisure sector during the past 5 years consumer spending on leisure has been steadily growing in both home based activities and activities outside of the home. Factors key to growth in these sectors have included an increase in personal disposable income, a reduction in unemployment workforce, a general improvement in the overall UK economy and a shift in socio-economic groupings, particularly increases within the numbers of the most affluent consumers.

As longer working hours and the number of dual-earning households increases, this continues to reduce the time available for household meals. The Food and Drink Foundation has identified that, as a consequence, the sector continues to be dominated by fast food outlets, representing approximately 30% of the market, and pubs and branded ‘themed’ restaurants remain a thriving sector of the ‘eating out’ market. The report, *'Eating out of Home'* launched in September 2000, predicts that 50% of all UK food consumption will be eaten away from home by the year 2025, with key factors identified as the high divorce rate, the rise in older people with increased personal disposable income, lifestyle influences such as the desire for increased convenience and an increase in 'cash rich-time poor' individuals.

Reflecting growth within the ‘eating out’ market, the licensed sector has also witnessed a number of related changes in demand over recent years.

In terms of the accommodation sub sector, there is limited hotel accommodation available in the City Fringe. However, across large areas of London, there has been a proliferation of new hotel development, particularly in the branded budget hotels sector, by such chains as Travel Inn, Travelodge, Holiday Inn, Ibis and Campanile. It is suggested that the City Fringe area needs to bridge the gap by identifying suitable sites for such development promoting inward investment from these types of operator if the area is to develop a truly significant presence within the hospitality sector.

With regard to the licensed sector, this is one area which calls for a location specific approach. Consumers would appear to be attracted to single locations which act as a honey pot for these types of activity, which in turn raise the profile of the area for retailing, entertainment, creative industries and the more avant garde forms of business service activity (e.g. architects, PR and marketing etc).

The most prominent analogy for this effect is Covent Garden. However, within the City Fringe, similar groupings have emerged to a greater or lesser degree in areas such as Islington, Brick Lane/Spitalfields and Hackney.

Additional locational opportunities that could be created to build on or consolidate such an agglomeration of bars and restaurants would have a number of benefits. They would enhance the overall footfall for the outlets concerned. They would enable better targeting of business support and training services. A parallel regenerative effect could be developed. Other groupings of high growth businesses could be attracted into the same environment.

5.0 A DEMAND ASSESSMENT

5.1 Our approach

In order to consider the likely level of demand for workspace accommodation across the City Fringe area, we have considered the following indicators:

- The findings of Renaisi's 2000 Business Audit of property needs in the Hackney and Tower Hamlets City Fringe area;
- Analysis of 105 Business Interviews held during 2003 to understand current property requirements amongst SMEs;
- An analysis of enquiries for space received by Renaisi between 2000 and 2002 across the City Fringe area;
- Discussions with a range of property agents regarding demand in the area;
- Discussions with business support agencies and providers of managed workspace.

Our findings for each element of work are set out below.

5.2 2000 Business Audit

Renaisi undertook a business audit of around 3000 local businesses in the City Fringe area in 1999/2000. We commissioned a market research company, Strategic Market Research (SMR), to contact businesses within the target area to introduce the services available through Invest in Hackney Renaisi's inward investment arm. SMR were instructed to contact businesses in the creative sectors located in the target area on the basis of Yellow Pages data sorted further by postcode. This information provides a good insight of need from the businesses located in the City Fringe during that period.

The 2000 business audit focused on 'new economy' businesses including architects, model makers, designers, internet services, photographers, product designers and so on. According to Yellow Pages data, this sector accounted for around 18% of total businesses compared to a national average of 7%. The audit also focussed on the textile trade whose representation was some ten times greater than the national average.

The primary focus of the business audit was to identify 'at risk' businesses. This consisted of businesses who, within three years:

- Had a lease which would expire;

- Had a rent review due;
- Were likely to outgrow their existing premises.

The rationale behind undertaking the business audit was the difficulty of facilitating enquiries for commercial occupation at a time when so few properties were on the market. Short lead in times to enquiries were resulting in the loss of a high number of businesses from the area. The basis of the business audit was to allow a greater lead in time to identify property options for businesses and to build up intelligence of demand to be fed into the developer market. Interviews were arranged with businesses that met one or more of the three criteria set out above and expected to move premises in that timescale.

Some key findings included:

- Approximately 30% of businesses met one of the three 'at risk' criteria. Of those:

  - 87% of businesses leased their properties;
  - 53% of businesses leases expired within 3 years;
  - 75% of businesses paid less than £15 psf;
  - 72% of businesses were in premises of less than 2000 sq ft.

Looking purely at 'new economy businesses':

- over 90% were established within the previous three years;
- 64% had a turnover of less than £1million;
- 75% employed less than 10 people;
- 51% of businesses said that at least half of their suppliers were located in the City Fringe, considerably higher than other sectors.

The overwhelming feeling from businesses that took part in the audit was one of concern regarding rising property costs. The vast majority of businesses wanted to remain in the City Fringe. Most were paying less than £15 psf but were able to consider rents of up to £20 psf. Most were also concerned that they would be priced out of the area. Whilst, for most businesses in the City Fringe, proximity to the City is considered the main locational strength, with the 'new economy' businesses, other factors more often come into play. Most notably, this included the desire to be close to each other (the clustering effect) and to be 'at the heart of where things are happening'.

The 2000 Business Audit confirmed many of the trends which Invest in Hackney feared at the end of the 1990s and which were identified as risk factors by PPC and CCR in their 1998 study. This work led to an increased determination to protect employment space in parts of the City Fringe in light of the push to conversions to residential and live/work uses.

The 2000 audit found that rental prices were increasing at a rate which made many creative industries and small traditional industries fear they would not be able to remain within the City Fringe over the next three years. The area had started to attract a wide diversity of companies such as architects, designers, internet services, marketing companies, photographers, as a cheap alternative to the City.

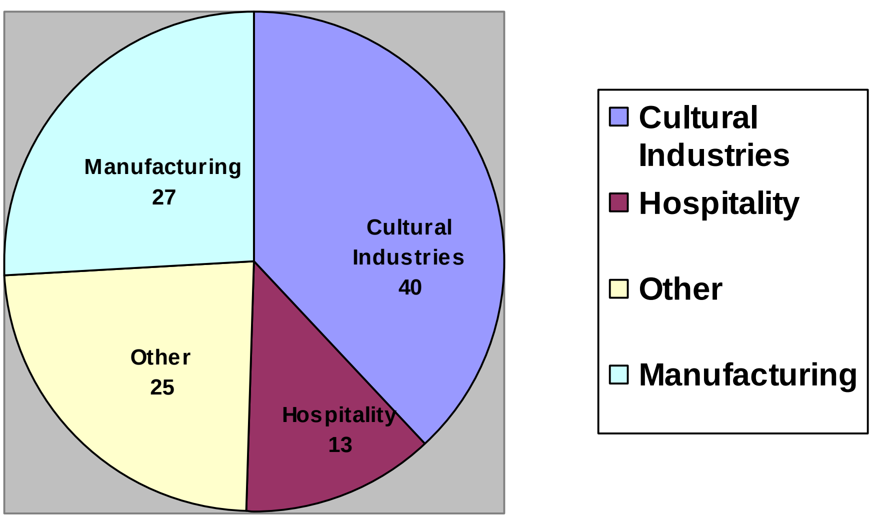
The Business Audit was undertaken at a time when residential conversions were at a peak and developers who bought land at the peak of property market in the late 2000/ 2001 required a significant level of residential development in order to make the development profitable. These factors were fuelling a change in the City Fringe away from affordable SME type of accommodation to high value residential developments. The losers were the industrial sectors, manufacturing and smaller workshops that were unable to compete with the rising rental prices.

5.3 Current Business Perspectives of the City Fringe

As part of our demand assessment we held telephone interviews with 105 businesses across the City Fringe area in January 2003. In line with our discussion with the City Fringe Partnership, the majority of interviews were held with three target sectors, namely: creative industries, manufacturing and hospitality. The survey was designed to ascertain trends relating to existing accommodation, current operating issues and future requirements.

In summary, our findings follow:

Figure 5.1: Postal Areas of Businesses Interviewed



76% of interviews were targeted at the three identified sectors. The other 24% were chosen randomly across the area.

Table 5.1: Respondents by Industrial Sector

Postal Area	No:	Postal Area	No:
EC1R	19	E2	7
N1	16	EC1M	7
EC1N	14	WC1	6
EC1V	13	E1	5
EC2	10	Other	8

Base: 105

Table 5.2: Respondents by Area of Work

Nature of Activity	No	Nature of Activity	No
Jewellery, Arts, Crafts	20	Shipping & Aircraft	7
Restaurants, Bars, Hotels	13	Hairdressers	4
Print & Publishing	12	Corporate Communications	3
TV, Film & Video	10	Furniture manufacturers	3
Clothing manufacture	9	Others	15
Design & Illustration	9		

Base:105

Table 5.3: Number of Employees Employed:

Number of Employees	Number of Businesses	%
0-5	71	72
6-10	18	18
11-20	5	5
21-35	3	3
120+	1	1

Base: 98
Don't know/refused: 7

Only one company interviewed employed more than 35 people. 90% of businesses employed 10 people or fewer.

Table 5.4: Length of Time at Present Location

No of years	No of businesses	%	No of years	No of businesses	%
1-2	13	13	16-20	5	5
3-5	24	23	21-30	6	6

6-10	34	33	30+	5	5
11-15	16	16			

Base: 103
Don't know/refused: 2

Many of the businesses interviewed were well established with 65% in occupation for more than 5 years, somewhat at odds with the findings of the 2000 business audit where many 'new economy' businesses were identified as being less than 3 years old. This suggests that many businesses in the 2000 audit have cemented their position in the City Fringe whereas new entrants to the area are minimal, perhaps due to a lack of space in recent years.

Table 5.5: Size of Premises (sq ft)

sq ft	No	%	sq ft	No	%
0-250	7	9	3001-4000	3	4
251-500	10	13	4001-5000	3	4
501-1000	22	29	5001-10000	4	5
1001-2000	17	22	10000+	4	5
2001-3000	6	8			

Base: 76
Refused/ don't know: 29

As with the 2000 Business Audit, the vast majority of businesses occupied less than 2000 sq ft (73%) with just one in ten businesses in units of more than 5000 sq ft.

17% of businesses owned a freehold (compared with 13% in 2000). Of the rest, 15 out of 87 were operating on licences with 72 on leases.

We believe that there has been a significant demand for freehold premises from SMEs over the last few years. However, the relatively modest increase in the number of businesses with a freehold may reflect the lack of freeholds which have come to the market (particularly at lower size levels) and the inability of small businesses to compete for freehold values.

Table 5.6: Most Important Factor behind Current Location

Businesses were asked the single most important reason for being in their current location.

Factor	No	%	Factor	No	%
Local Customer Base	41	40	Convenient for staff	7	7
Reasonable rent	12	11	Closeness to suppliers	6	6

Ability to network	12	11	Historic reasons	5	5
Good environment	4	10	Transport links	3	3
Good access to the City	8	8			

Base 105
Refused/ don't know:10

Access to customer base is very clearly the most important factor to businesses operating in the City Fringe. Rents continue to be seen as important by a sizeable minority whilst the ability to network also features highly, underlining the importance of clusters.

Table 5.7: Most Serious Operating Difficulty at Current Location

Factor	No	%	Factor	No	%
Lack of Parking	29	20	High Business Rates	11	8
Future Congestion Charging	29	20	Crime	9	6
None	24	17	Premises Too Small	6	4
Ever Rising Costs	19	13	Difficult Staff Retention	4	3
Perceived Lack of Interest By Local Council	14	10			

Base 145 (many businesses gave more than one response)

There is not a single factor which concerns local businesses although transport dominates to some degree. Lack of parking and the proposed congestion charge were the most highly mentioned problems. The congestion charge did not feature highly in our discussions with agents but was clearly of concern to occupiers. Its imminent implementation will have been a factor here and may have influenced the level of weighting accorded by occupiers. The issue of cost of properties was considerably less prevalent than when we previously spoke to tenants in 2000.

Table 5.8: Adequacy of Existing Premises

Comments	Number	%
Existing Premises are adequate	76	74
Premises are too small	17	17
Premises are seriously affected by a lack of parking	6	6
Premises are too expensive	2	2
Premises are too large	1	1
The local facilities are inadequate	1	1

Base: 103
Don't Know/Refused: 2

Around three quarters of businesses interviewed believed their existing premises were adequate. Of those who had concerns about their premises, the majority (63%) believed their accommodation was too small.

Table 5.9: Ideal Preferred Location

Businesses were asked where their ideal preferred location would be if not in their existing premises.

Ideal Preferred Location	Number	%
Specific City Fringe Location	14	31
Anywhere in the City Fringe	11	24
City of London	11	24
Central London	4	9
Outside London	3	6
Other London	1	2
Docklands	1	2

Base: 45

Over half of those expressing an ideal location believed they would want to remain in the City Fringe. However, a significant proportion (24%) indicated that the City of London would be the ideal location.

Of the 105 businesses interviewed, 30 (29%) believe they will move within the next 5 years. This compares with around 25% in 2000 who thought they would move within three years indicating that the City Fringe remains fluid in both times of growth and decline. Ten businesses believed they would move within the City Fringe.

Tables 5.9 and 5.10 relate to those thirty businesses who believe they will move within 5 years:

Table 5.10: Main reason(s) for expecting to move

Factor	No	%	Factor	No	%
High rent/rates	11	31	Congestion Charge costs	3	9
Lack of Space	5	14	Wish for a freehold	1	3
Personal Reasons	4	11	Need for smaller premises	1	3
End of Lease	4	11	Reduction in trade/ turnover	1	3
Likely conversion of buildings to residential	4	11	Crime	1	3

Base: 35 (some gave more than one main reason)

Whilst many businesses commented that their existing premises were too small, the cost of premises was the most important factor for those believing they would move away from their current premises.

Table 5.11: Size of Premises Required

sq ft	No	%	sq ft	No	%
251-500	1	5	2001-3000	4	18
501-1000	4	18	3001-5000	2	9
1001-2000	8	36	5001-10000	3	14

Base:22
Don't Know/Refused: 8

Whilst the rest of our demand assessment has shown the need for premises at the very lowest end of the size scale this element of research indicates that requirements are relatively evenly spread across the board.

In terms of additional findings ten of the businesses who believed they would move, considered it likely that they would remain in the City Fringe.

In terms of timescale, a high proportion (40%) of businesses believe that they are likely to move within one year.

Sector Specific Findings

We have examined the 2003 survey findings in the context of the key sectors identified by the City Fringe, namely creative industries, hospitality and manufacturing. We have not included full tables by sector as the sample size for each one is relatively small. However, we have identified that:

- All sectors are dominated by small businesses. In terms of those with less than 10 staff the creative industries had the highest proportion (97%), compared to 82% and 80% respectively for hospitality and manufacturing;

- In terms of accommodation size, there is greater variation. 70% of creative industry businesses occupy less than 1000 sq ft compared to 28% of manufacturing indicating that the creative industries are relatively high density compared to manufacturing as might be expected;

- Industrialists are most likely to own their properties. 29% of manufacturers own freeholds compared to an average across all sectors of 17%. Whilst this means that a greater proportion of manufacturers control their own destiny, it does not reduce the risk of businesses moving out. Many industrialists will be keen to cash in on high value offers for their buildings if they can move to cheaper premises elsewhere;

- However, the benefits of networking are seen as more important to the creative industries than other sectors. 21% identified networking opportunities as a positive benefit of being in the area compared to 11% of all organisations. Local customer base was the single most important factor for all sectors;

- In terms of disadvantages, lack of parking is of greatest concern to industrialists, 26% of whom identified this as an issue. The introduction of congestion charging was of relatively little concern to the creative industries (15%) but was more significant to both the hospitality sector (28%) and manufacturing (29%);

- In terms of problems with existing premises, the greatest issue was that existing premises were too small for all sectors.

- 11 businesses identified that their ideal location would be within the City although this did not necessarily mean they were actively trying to move there. Five of these were manufacturing companies (45%), four were in hospitality and just two were from the creative industries sector.

- Of those organisations believing they would move within 5 years, 50% were creative industries companies, 7% hospitality, 29% manufacturing and 14% were from other sectors. However, a different picture emerges when looking at the timetable for moving. 45% of manufacturers believed they would need to move within one year compared to just 20% of creative industries.

Commentary of Interviewers

We believe it is useful, as well as providing the above statistical analysis, to include in this report the summary of anecdotal findings that was provided to us by the market researchers undertaking the survey of businesses. These findings relate to all 105 interviews which were carried out.

> *The City Fringe area is still perceived as a first choice location for creative industry and increasingly the hospitality sector, particularly `seed bed' companies and start–up's, the advantages of clustering, with like minded businesses remain very strong trend within the City Fringe.*
>
> *However, the intrusion of residential apartments into formerly commercial areas and buildings, often under the smokescreen of live/work units, has led to soaring property prices, and resulted in unsustainable rent increases. This combined with the*

traffic calming measures, of local councils, has led to transport difficulties and added expense.

Small business is being driven out of the City Fringe area by rent increases caused by property price increases. These increases are the result of residential property being developed in traditionally commercial areas. Small businesses are by their nature either low mark-up or low income, they cannot keep pace with these rent increases.

There is a perception by smaller businesses that the City Fringe is increasingly becoming unsuitable for them to locate, fuelled very much by the rising rental prices, and new large scale mixed use, office and residential developments. The City Fringe is a popular area, with start- up companies and new media businesses, the close proximity to the city is still one of the most favourable attractive features of the City Fringe, combined with the transport routes. Many businesses fear a rent review in the next three years will force them out of the City Fringe, further east towards Stratford for Docklands.

Many of the smaller existing businesses in the City Fringe, consider the inflexibility of the parking to be a major issue. There is a growing perception that the area fails to cater for SME's and micro- businesses. There is an image of existing businesses that not enough is done to encourage them to remain in the area, and the level of assistance is not as high as it use to be.
It is difficult for businesses of usually 1-5 people to match rents offered by bigger businesses, and the need is for rents and rates, which are proportional to profitability.

Interviewees have indicated that the need is for small workshop accommodation, preferably in a complex or business park environment, consisting of units of 300 to 1000 sq ft. These units would be basic four walls with services, and the occupier would be free to alter the interior accommodation as required. This complex of units promotes networking which is the lifeblood of small businesses. These workshops should be away from residential areas, in a defined commercial only area, which would prevent property costs being pushed up by residential values, and would be on reasonable rents and flexible leases. Businesses could take on one or more units as required, and expand or contract whilst remaining in the same premises. These measures would enable businesses to plan in the knowledge that costs will not escalate out of control.

5.4 Enquiry analysis

Invest in Hackney is the inward investment and business retention arm of Renaisi. Invest in Hackney has been working with businesses within

Hackney and its environs and potential businesses looking to re-locate to Hackney for five years. The remit of Invest in Hackney has been to retain and attract businesses to locate within Hackney and the City Fringe. This has involved collating market material of properties to rent and purchase in this area, and occupier requirements of businesses interested in moving to this area.

All enquiries are recorded on Invest in Hackney's in house database (PSI) and this material has been analysed to provide statistical information on the demand for space within the City Fringe. This information provides an indication of trends in demand.

It is important to consider the following points when looking at this analysis.

First, the first two years of analysis, include the information collated during the 2000 Business Audit (see section 5.2). As this was a targeted piece of work, the numbers of businesses contacting Invest in Hackney during this period will be proportionately higher. This audit also concentrated on cultural and creative industries.

Second, it must be noted that although Invest in Hackney endeavours to maintain the upkeep of the PSI system and deal with all enquires from businesses involved in the City Fringe, this has sometimes been limited by the available resources that work within Invest in Hackney. Therefore the demand analysis should be considered as a representative snapshot of the demand, rather than definitive analysis of absolute numbers.

The enquiry analysis has been undertaken looking at commercial data held at Invest in Hackney and through information gathered from the interviews with property agents. The enquiries were analysed in accordance with source, size, tenure, business type and location that were specified by the client.

The enquiry analysis only includes clients that are interested in occupying property in the defined City Fringe area.

5.4.1 Enquiries by Sector

The table below provides details of enquiries handled by Invest in Hackney in the period 2000-2002 by broad industry sector.

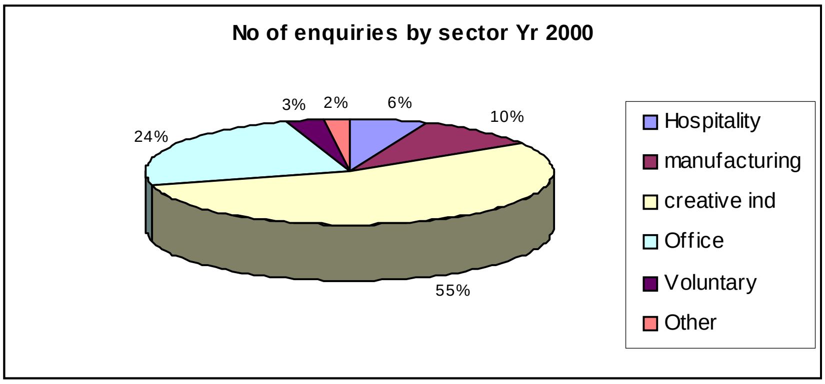
INDUSTRY SECTOR	2000	%	2001	%	2002	%
Office	76	24	43	22	46	41
Creative Industries	174	55	130	66	41	37
Manufacturing	31	10	6	3	7	6
Hospitality	18	6	4	2	6	5
Voluntary	9	3	2	1	1	1

Other	7	2	10	5	10	9
Total	315		195		111	

Over-reliance should not be placed upon the absolute figures involved as the total number of enquiries coming into Invest in Hackney is as much a reflection of the size of resources available to deal with such enquiries and targeted business audit work which took place in 2000 as a commentary on market conditions.

However the proportionate figures are relevant and are set out more clearly in the following pie diagrams.

Figure 5.2: Number of Enquiries by Sector, 2000



In 2000 the three sectors of focus for the City Fringe Partnership (Creative Industries, Manufacturing and Hospitality) accounted for over 70% of all enquiries with creative industries accounting for more than half of total enquiries. 6% of enquiries were from the hospitality sector, a higher proportion than that sectors representation in the City Fringe economy as a whole.

Figure 5.3: Number of Enquiries by Sector, 2003 to the previous year

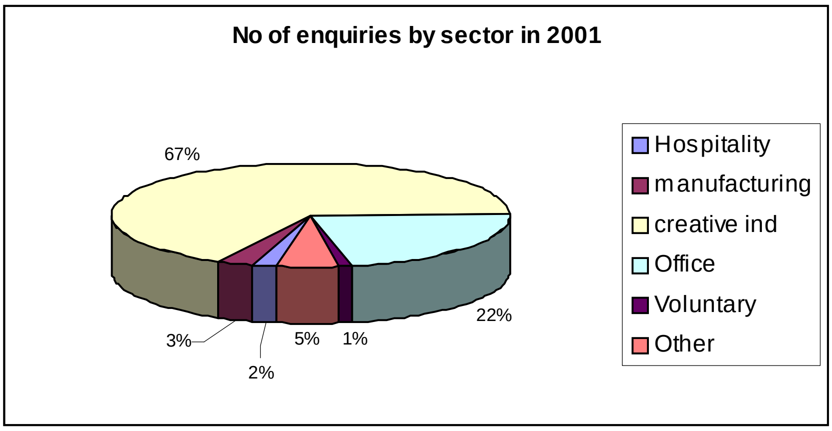
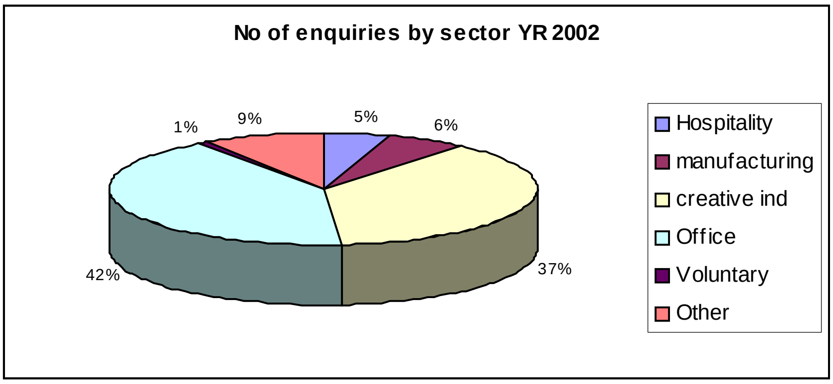


Figure 5.4: Number of Enquiries by Sector, 2002

Figures for 2001 were broadly similar to the previous year although a higher proportion of enquiries came from the creative industries sector compared with the previous years whilst industrial enquiries dropped off significantly.

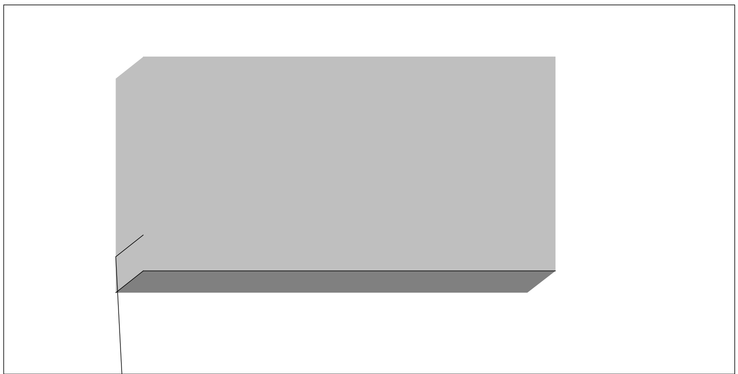


During 2002, the total number of new enquiries fell significantly with a major reduction in the proportion of enquiries coming from the creative industries sector. However, we believe this is as much a result of Invest in Hackney's work to identify 'at risk' businesses amongst this sector in 2000 and 2001 than any dramatic downturn in interest from this sector. Along with demands for office space, the creative industries remain the dominant sector.

5.4.2 Enquiries by Size

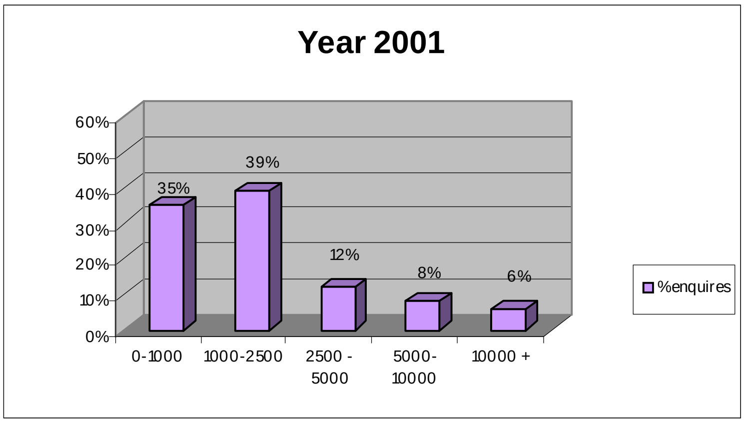
The following set of graphs show enquiries received by the size of premises required over the same three year period.

Figure 5.5: Enquiries by Size, 2000



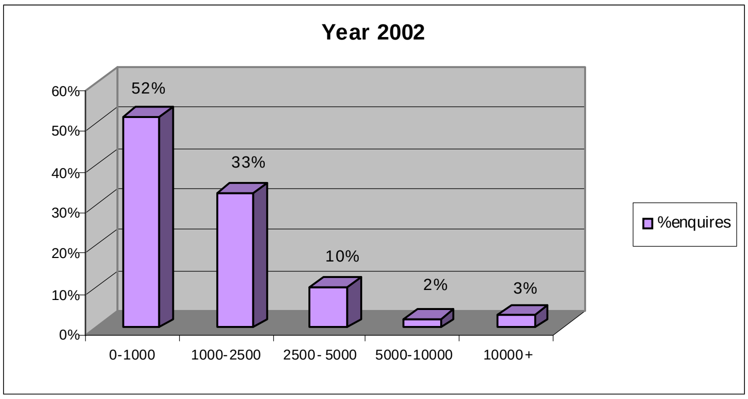
The table above shows that 56% of enquiries in 2000 wanted to locate within premises less than 2500sq ft in size. 21% of enquiries were for floorspace of more than 5,000 sq ft.

Figure 5.6: Enquiries by Size, 2001



By 2001, the proportion of enquiries seeking space of less than 2,500 sq ft had increased to 74% with a reduction in the proportion seeking larger premises (over 5,000 sq ft) to 14%.

Figure 5.7: Enquiries by Size, 2002

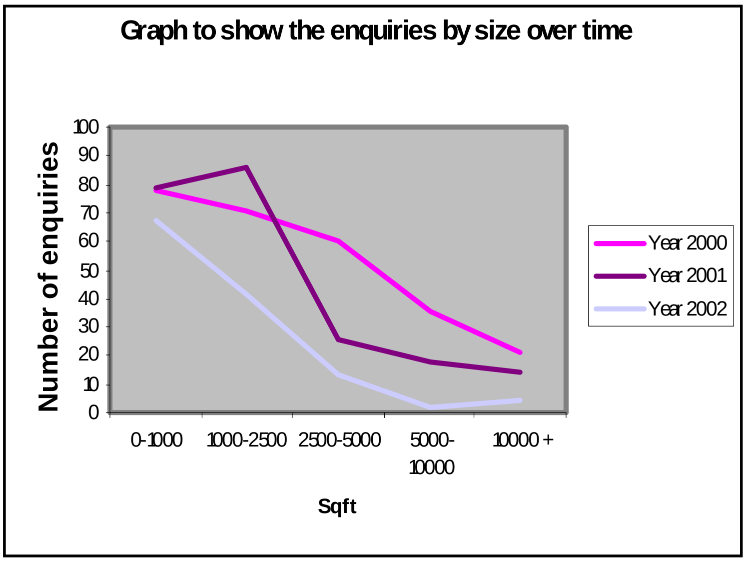


By 2002, this initial movement towards smaller uses had continued further. In that year, 85% of all enquiries were for less than 2500 sq ft with a negligible number of enquiries above 5,000 sq ft.

On the basis that the total number of enquiries dropped significantly during the three year period, this increase in the proportion of enquiries looking for small amounts of space demonstrates a major reduction in the absolute number of enquiries at the higher levels. This has two impacts. First, it demonstrates continued strong demand for small premises. Second, any overall reduction in floorspace requirement will be exacerbated given the proportionately low number of enquiries looking for large foot plates.

This trend is borne out by looking at the data in absolute terms.

Figure 5.8: Enquiries by Size all Years

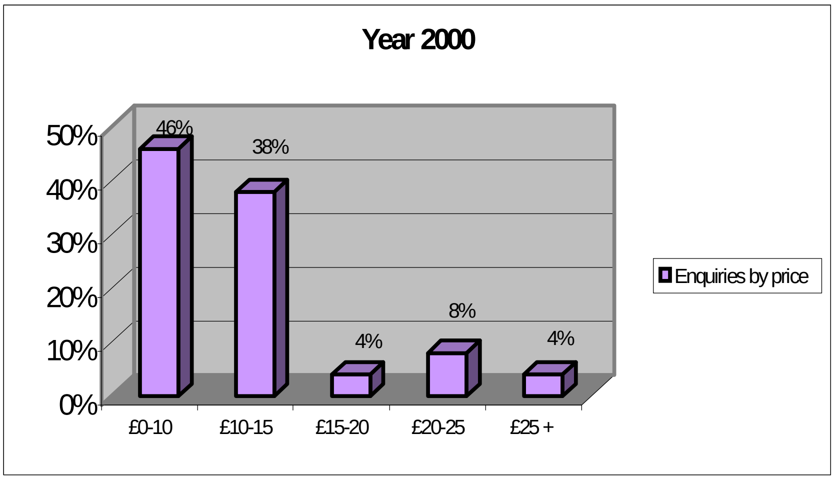


The graph shows that demand for space at the smaller end of the market (0-1000sq ft) has managed to sustain itself over the three year period. In fact, accounting for the fact that a significant factor in the reduction in enquires is the decreased level of resource utilised by the Invest in Hackney project, it is highly probable that the demand for the smallest unit size sustained itself over the three year period during which the market as a whole certainly dropped away.

5.4.3 Enquiries by Cost

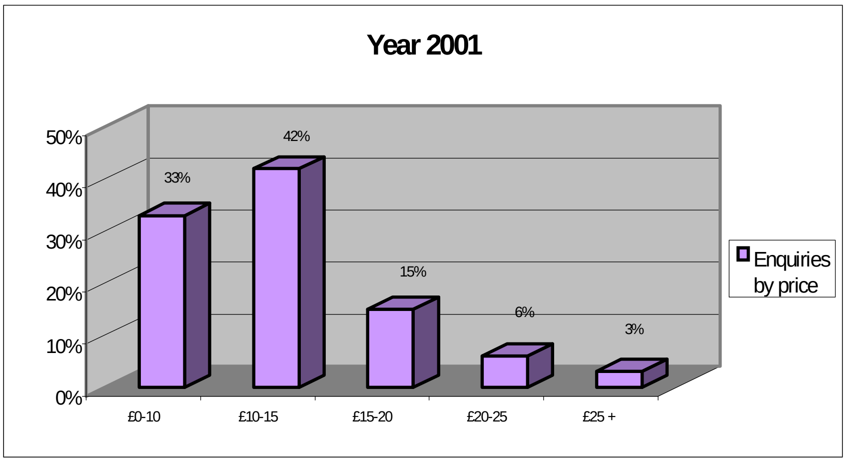
Data is also available to us for many enquiries relating to the level of rent that businesses are willing to pay. This means that a picture can be gained of the overall likely level of rents at which the market should be targeted and a figure which we can compare with the supply on the market.

Figure 5.9: Enquiries by price - 2000



The graph above shows that in 2000, 84% of enquiries were for properties offering rents of less than £15 per sq ft. Just 4% of enquiries were willing to consider properties in excess of £25 psf.

Figure 5.10 :Enquiries by Price - 2001



By 2001, the shortage of accommodation and the general rise in property prices was being recognised by the market. By this time, those requiring space at less than £15 psf had dropped to 75% whilst a significantly increased number of enquiries were considering options of £15-20 psf (15% compared to 4% in 2000). Those looking above £20 had not increased at all.

Figure 5.11: Enquiries by Price – 2002

In 2002, there was a movement again. By this point, 60% of enquiries were for less than £15 psf whilst 13% of enquiries were willing to pay in excess of £25 psf compared with 4% two years earlier.

Nonetheless, despite this trend, and significant when considering supply over the same period (see section 6.0), well over half of all enquiries even in 2002 were for relatively cheap space. Less than one in five enquiries were willing to consider properties of more than £25psf.

5.5 Views of Property Agents & small business agencies.

As part of our work to understand current trends in demand and supply for workspace development, we have held face to face discussions with both property agents and business support agencies who provide advice and, in some instances, accommodation to small workshop users.

Property Agents

The main findings which have come out of the discussions with agents are set out below:

- There were consistent mess0.2j0.984 Tc ( ) Tj 8 Tc (o) Tj0.024 Tc (f yo (·) Tj/F1 12

- There has been a lack of new build commercial developments over the past decade. All new build development has been residential led.

- The peak in the market was reached at the end of 2001/early 2002. A typical pattern of rental growth was considered to be £6 in 1995 rising to £22 in 2001 and now available at £16-17.

- A number of agents indicated that, in times of growth, SME's are always the first victims of under supply. In the City Fringe this leads to a lack of self sustainability as there is no commercial market directly for the area. Businesses locate there because of surrounding markets, most obviously the City of London.

- Agents continue to see the cultural and creative industries as major drivers to the area and whilst short term interest has significantly reduced (although this is seen as much a result of rental levels refusing to come down as lack of demand altogether), this sector still contributes strongly to overall demand.

- Hospitality uses are seen by a number of agents as having extremely strong potential which needs encouragement from local authorities and regeneration agencies alike. A number of agents were also effusive about the role which retail could play. The need for an increase number of national multiples in both the restaurant and retail trades was underlined.

- All contributors indicated that freehold property prices are remaining extremely high. There are considered to be very few freeholds available and those which do exist get sold very quickly. This is due to the overall popularity of the property market for investment funds at a time when the other investment options, most notably the stock market, are experiencing a period of uncertainty.

- Agents pointed out that the GLA's/Mayor's requirement for significantly increased social housing is going to have an impact on developers' ability to provide workshop space. It was underlined that the provision of workspace is often unviable unless it is part of a larger mixed use scheme with a significant level of residential or live/work content. The need to increase the social housing content to up to 50% would impact heavily on profit levels and, hence, on the provision of any other lower value uses.

- There was minimal concern that the introduction of congestion charging in London would have any major impact on the attractiveness of the City Fringe to end users.

- The concept of live/work has not been policed (and is difficult to do so) and has not, therefore, been well implemented.

- Quality of commercial space in the City Fringe is extremely low. Very little new build accommodation exists, and whilst there is an increasing amount of accommodation on the market, it is very predominantly second hand and overpriced.

- There has been a significant increase in those seeking short term leases as uncertainty around the economy is impacting on the confidence of businesses to sign up to long term arrangements.

- Those considering developing workshop space should aim for high quality space in small units on flexible leases.

- The City Fringe should not be planned as a single homogeneous area but should take into account localised issues and strengths. This view was also put forward by a number of business support agencies.

Business Support Agencies

The main findings of our discussions with Business Support Agencies are set out below.

- Whilst there is a considerable amount of property on the market a number of business support agencies assert that it is 'the wrong kind of space' and is not geared towards small workshop users.

- There are very few conversions to workshops taking place compared to five years ago by business support agencies and with a major loss of space to residential uses the supply of workshops is dropping significantly.

- There is a major problem with mid sized stock. Most of the agents providing incubator space believe that the vast majority of businesses who outgrow the space subsequently leave the City Fringe area altogether as there is nowhere for them to move onto. There is a significant gap in the market to meet the demands of 'secondary movers'.

- The area needs more small business space. All of the existing provision is fully occupied and has waiting lists. They are popular because of the provision of central services (such as secretarial support, photocopying, business planning, meeting rooms and so on), but equally important was seen to be the opportunities for networking - particularly 'one man bands' who can feel extremely isolated operating in their own environment.

- There is a particular demand within serviced office centres for the larger units on short term leases a reflection of the trend set out above that businesses find it difficult to move on within the area. Whilst some flexibility around lease arrangements is advantageous those cases where Tenancies At Will have been offered they have not been taken up.

- There was a strong call for the LDA and other regeneration agencies to continue to intervene in the provision of serviced workshop space.

- Tenants have a tendency to underestimate some costs, most notably those relating to relocation and legal issues. The production of documents dealing with frequently asked questions (FAQs) would be a useful tool for providers.

- In parallel to the property agents a number of business support services called for an increase in the area of retail and hospitality to improve the overall attractiveness of the working environment offer.

- Other considerations facing such users are issues of security the lack of car parking facilities the lack of access to loan funding and the need for improved creche facilities.

We have also held discussions with commercial workspace providers. These agencies believe that there is a demand for workspaces but that it is unviable to create accommodation on the basis of achievable rents given the very high freehold values which exist in the City Fringe. The lack of protection for workspace against higher value uses by local planning authorities was bemoaned by workspace providers. Such agencies are no longer able to rely on local authority land and property and have to compete with the market. This has led to them concentrating their efforts on properties in outlying areas (such as Newham) where availability it cheaper. Such agencies were clear that workspace schemes could be a success but only if the properties are available (to the developer) at less than market value and the City Fringe area has not been able to offer this in recent years. Whilst the need for workspace in the City Fringe was not in question, market rents for workspace are so far below rents for other land values that this is not an area where they can focus their efforts at the current time.

5.6 Sectoral Comments

In the Creative and Cultural services sector, there would, appear to be a self supporting network of such businesses both grouped within the area and inter-dependent with each other. These are small in scale and will continue to bring property requirements to the area.

In terms of manufacturing operations requirements can vary widely, but from the business survey research undertaken as part of this study, requirements are typically for small manufacturing units with a maximum size requirement of 5-10,000sq ft. Major industrialists do not see the City Fringe as a suitable option as large scale accommodation no longer exists.

In terms of hospitality the research undertaken to support this study has revealed a range of property requirements for the hospitality sector.

Retail units of between 250 sq ft to 2000 sq ft appear to be the main requirement for food retailing, restaurants and bars. For hotels, a minimum requirement would be for 10,000 sq ft. Typically, budget hotels would seek vacant sites for new build activity of about 4-5 acres. A further aspect to be considered is the use of old buildings with appealing character that could be converted into visitor attractions.

5.7 Summary

Demand for commercial property has significantly reduced over the last two years from a peak in 2000 in line with general trends in the London property market.

Despite this trend, space requirements from small users remain relatively strong. However, these requirements are for cheap space with little demand for commercial property in excess of £20psf. In fact, the majority of demand is for units of less than £15psf. The three sectors identified by the City Fringe Partnership continue to make up an important part of overall demand although manufacturing enquiries are less dominant than in the late 1990's a reflection of their smaller overall base in the area.

There is particular demand from businesses in start up/incubator space looking for larger premises at low rents.

Typically, demand is for small workspace units offering short leases amongst other users to achieve economies of scale. Flexibility of size and fit out is important.

6.0 SUPPLY ANALYSIS

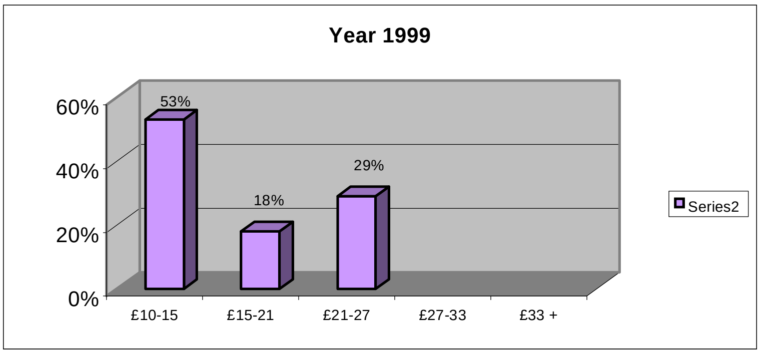
6.1 Introduction

In section 4.0 we set out our findings from varying indicators of demand for property in the City Fringe between 2000 and 2002. In this section we consider what was taking place in terms of the supply of property over the same period. Our analysis is split between office and industrial accommodation. For supply advertised as B1 space we have taken a view on whether it is essentially office or industrial accommodation in nature. Such properties have not been double counted.

6.2 Cost of Office and B1 Accommodation

We have considered the cost of office and B1 space between 1999 and 2003 in the following four graphs. To do this we randomly selected 50 properties from our database of available property across the City Fringe for each of the four years.

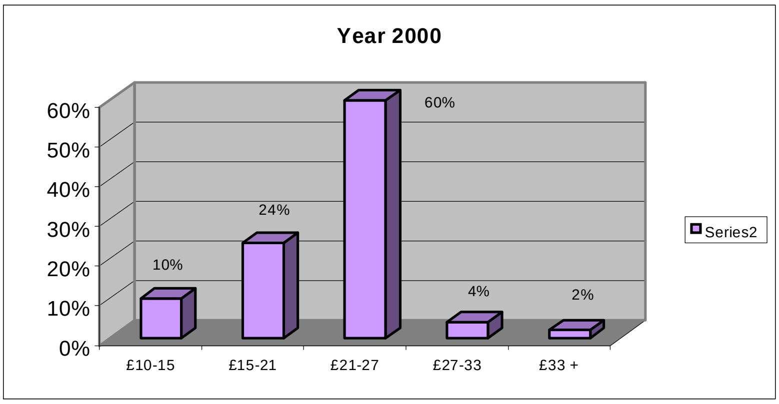
Figure 5.1: Office and B1 Costs, 1999



Base 50

In 1999, over 70% of office properties in the City Fringe were being marketed at less than £21 psf with over half of all properties being offered below £15psf. We were not aware of any properties on the market in excess of £27 psf.

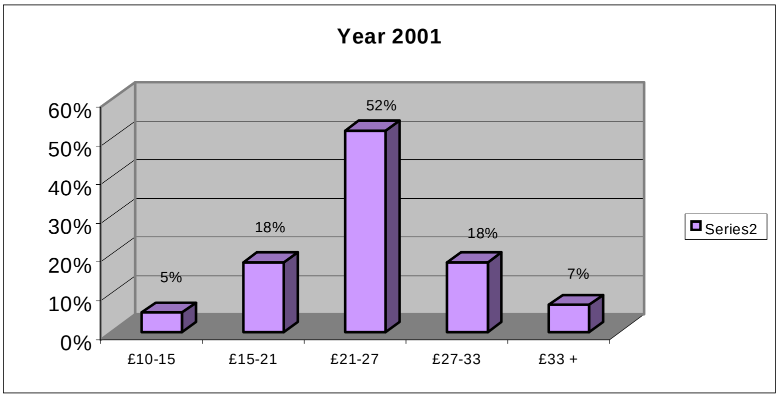
Figure 5.2: Office and B1 Costs, 2000



Base 50

By 2000, the figure for those properties available at less than £21 psf had dropped to around a third. The majority (60%) of office premises were available in the £21- £27psf range. The first £30 plus office properties were coming to the market.

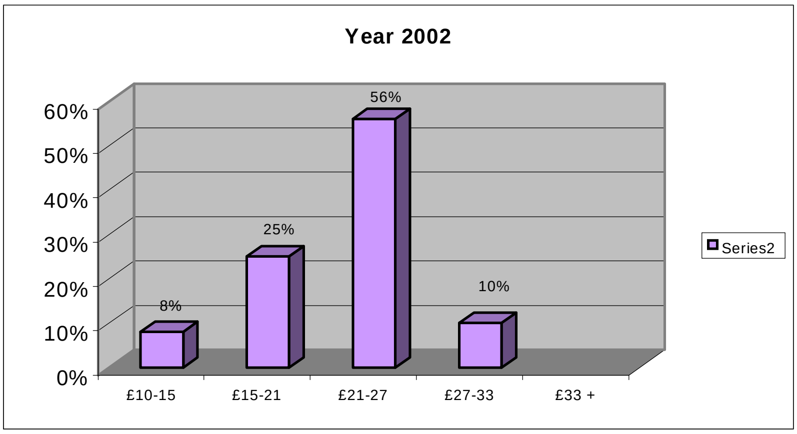
Figure 5.3: Office and B1 Costs, 2001



Base 50

By 2001, less than a quarter of office properties were being marketed below £21 psf whereas just 5% were being offered at below £15 psf compared with 53% two years earlier demonstrating how quickly there became a critical shortage or properties particularly at lower rental levels.

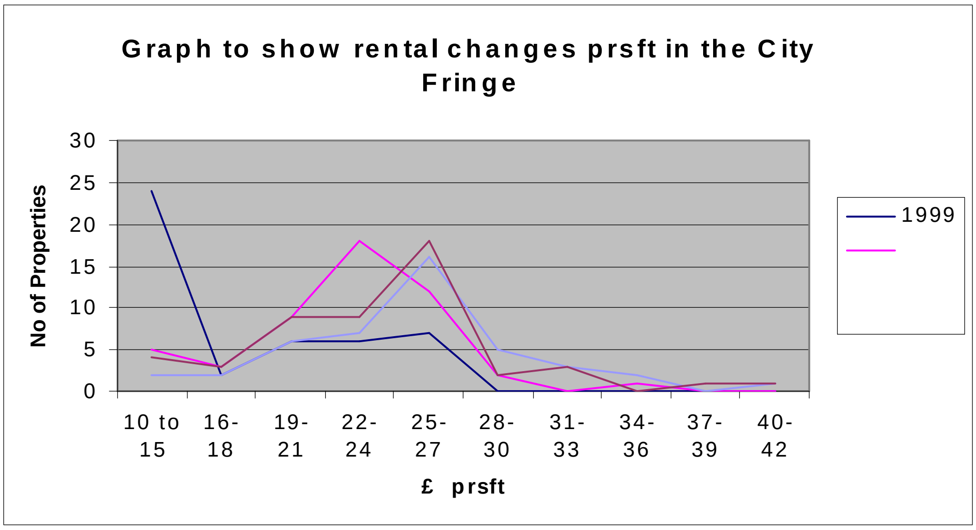
Figure 5.4: Office and B1 Costs, 2002



Base 50

By 2002, the downturn in the market had seen rental levels at the top end of the scale fall away with just 10% of properties marketed at more than £27psf. However, there was a refusal in the market to return to the lower rents of 1999 with just a third of properties being marketed at less than £21 psf.

Figure 5.5: Office and B1 Costs, 1999-2002

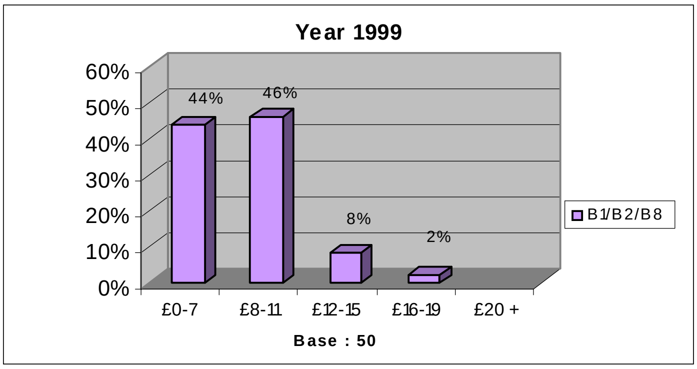


6.3 Costs of Industrial Space

We have considered the cost of industrial and warehousing accommodation between 1999 and 2003 in the same way in the following four graphs. Again, we selected 50 properties from our database of available property across the City Fringe for each of the four years. In 2002 we considered 25 properties as this was the maximum we had on our database. This, in itself, is an indication of the erosion of properties which has taken place. Properties between 500 and 2500sq. ft. were considered as these would be most relevant to the City Fringe target sectors.

The changes in the industrial B1/B2/B8 accommodation over the four years have similar trends and fluctuations to those identified in office accommodation.

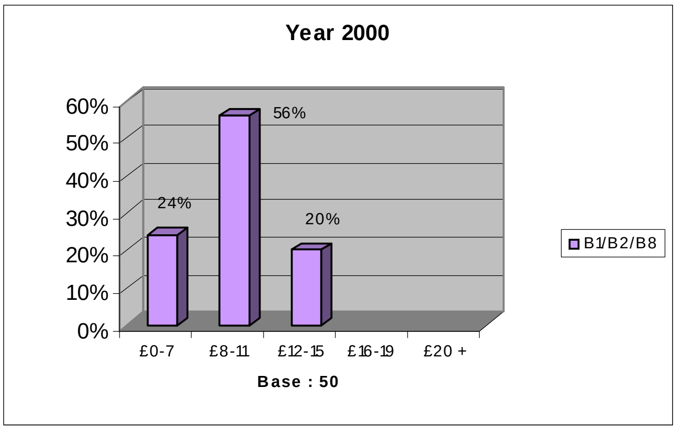
Figure 5.6: Cost of industrial Space, 1999



Base 50

In 1999, 44% of industrial properties in the City Fringe were being offered at less than £7 psf and 90% at less than £11 psf.

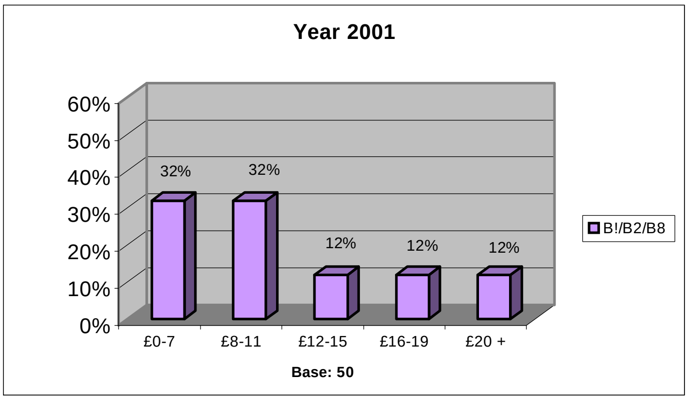
Figure 5.7: Cost of Industrial Space, 2000



Base 50

By 2000, the number of properties offered at more than £11 psf had increased from 10% to 20%.

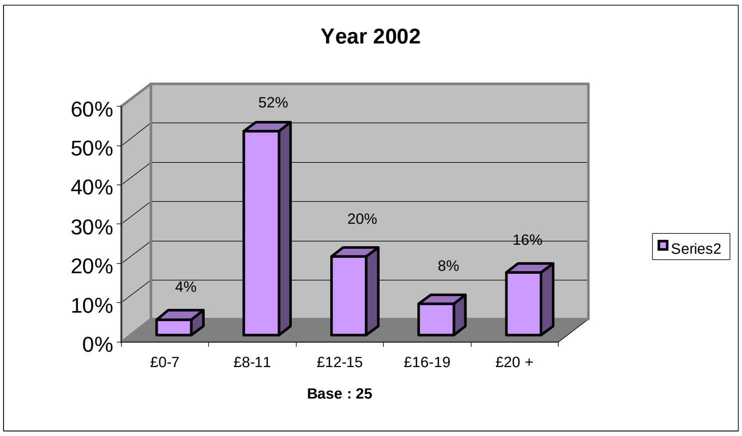
Figure 5.8: Cost of Industrial Space, 2001



Base 50

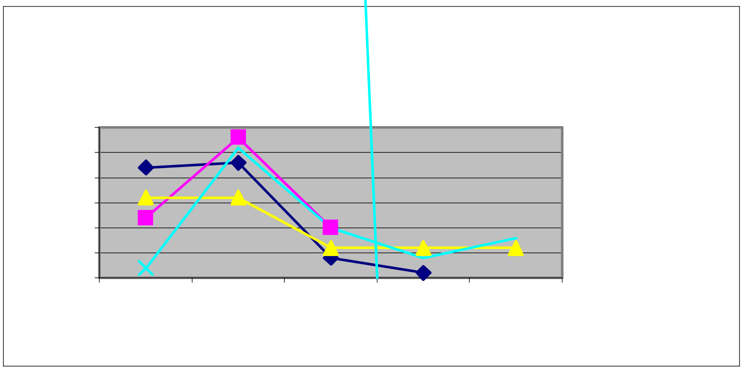
By 2001, this figure had risen to 36%, with 24% above £16 psf a figure not achieved at all in the previous year.

Figure 5.9: Cost of Industrial Space – 2002



In 2002, the cost of industrial properties continued on an upward trend whereas office properties rental levels had begun to level off. This is likely to be a reflection of the severe lack of industrial premises available and, potentially the lack of desire from agents to let properties offering low returns. 44% of properties were on the market at an asking price of more than £11psf. Just 4% were available at less than £7 psf, compared with 44% three years earlier

Figure 5.10: Cost of Industrial Space 1999-2002



6.4 Current Supply

Renaisi monitors all floorspace currently on the market at any one time. Updates are taken on a three monthly basis via walk arounds of the area and contact with all active commercial property agents.

As part of the work on supply and demand we have looked the current supply to identify the amount of floorspace available. Although the figures have been calculated to reach a total floorspace, figures are indicative. Due to the fluidity of the market it is not possible to record every property which is for rent/sale at one time.

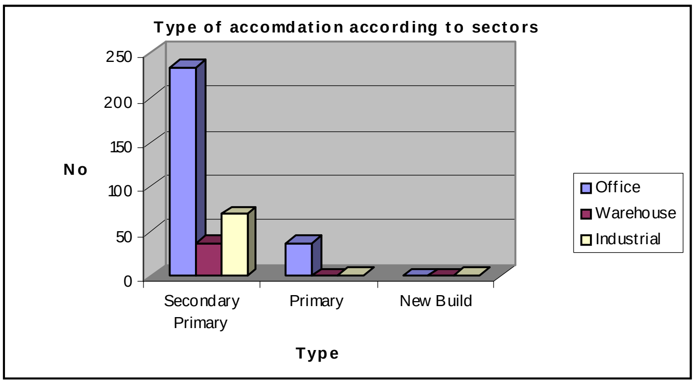
As of March 2003, we have identified approximately 2,700,000sq ft of commercial accommodation as being available across all types of property and size ranges. This analysis excludes live/work accommodation and is constrained to office, industrial and warehouse uses.

Figure 5.11: Supply of Commercial Floorspace, by land use, 2003

91% of current supply in the City Fringe is classified as serving the office and B1 market. Just 123,000sq ft of warehousing (5%) and 107,000sq ft of industrial space (4%) is available.

The total floorspace within each sector can be divided into different type and quality of space. Figure 5.12 highlights these trends. Secondary space accounts for the vast majority of available floorspace. This has been defined as basic accommodation with minimal services provision and will have a high percentage of second hand stock. Primary space is defined as high level of service provision, new fit out, air-conditioning and New Build is anything that specifically being constructed with a pre-decided planning use.

Figure 5.12: Quality of Commercial Floorspace



The levels of new build in the last six months is very low at only 0.7% through out all sectors.

Secondary space dominates the City Fringe property market, providing 88% of the property available and primary only 10% of the accommodation stock available.

Within each type of floorspace, secondary space provides the largest amount of floorspace. There is a negligible level of either primary or new build space for either warehouse or industrial space. This indicates that the headline figure of 2,700,000 sq ft of total accommodation, the level of modern accommodation available to workspace users is practically nil.

Table 5.1 provides a breakdown of the available floorspace by size and sector:

	Office		Industrial		Warehousing		All	
Size	Total	%	Total	%	Total	%	Total	%
0-2500	329528	13%	44583	41%	29610	24%	403961	15%
2500-5000	657079	27%	28541	27%	14484	12%	700104	26%
5000-10,000	930405	38%	34607	32%	38688	31%	1,003,700	37%
10,000-40,000	552,917	22%	-	-	40260	33%	593,177	22%
Total	2,469,929	100%	107,701	100%	123042	100%	2700572	100%

Table 5.1 indicates that just 15% of all available floorspace is aimed at small users. Out of 2,700,000sq. ft. some 75,000sq. ft. is targeted at small workspace users.

6.5 Pipeline Supply

It is not within the breadth of this report to assess the quantum of the pipeline supply coming forward to the market at the present time. However, the analysis of recent rends undertaken above underlines the lack of new properties which have come forward to the market in recent years with new build properties accounting for a tiny fraction of total stock. In considering future supply of workspace there are a number of issues likely to impact:

i. Mixed use schemes
ii. Single major developments
iii. Any continued downturn in the B1/B2 market
iv. A downtown in the housing market

Taking each in turn:

i. The vast majority of new commercial accommodation coming forward is via mixed use developments. This is because developers are seeking to maximise the residential content of new schemes in areas designated for employment to realise the greatest return. It also reflects a move towards mixed use schemes in the London Plan. The impact of this trend on future supply is likely to mean relatively high specification space coming forward via high value schemes in an environment where end users have to be compatible with residential developments. This is not likely to realise the provision of affordable workspace.

ii. The relatively sparse provision of affordable workspace means that decisions on public sector intervention are being made based on relatively low stock levels. Therefore, where the market brings forward a single major development this can have a major impact on the demand/supply equation. One such case is the Tea Building on Bethnal Green Road. Here, 180,000sq. ft. of small business space will shortly became available with an asking rent we understand of £12.50 psf. This will very significantly add to the existing stock of such space in the short term. In the longer term, it is unlikely that this building will remain in such use. The property, owned by Derwent Valley Estates, is likely to be seen as a major City Style investment benefiting from proximity to the East London Line Extension station and the City itself. The successful occupation of the Tea Building will provide relief in the short term but will require some degree of decanting opportunities in the long term if businesses which flourish there are to remain in the area.

iii. As we have stated earlier, there has been a significant downturn in demand for properties. This has less affected the small workshop user compared to larger scale occupiers. Nonetheless, a prolonged downturn could have an impact on the ability of workspace providers to attract occupiers not felt to date.

iv. The value of the buildings in the area is currently dictated predominantly by the strong growth seen in the housing market. It is this growth which has taken values to a point where there is little prospect of workspace provision being a viable option. There is evidence of a downturn in this market. If residential values were to drop very significantly compared to commercial values then this increases the prospect of new commercial supply coming to the market.

6.6 Examples of Affordable Workspace Provision

Workspace provision in the City Fringe reflects the sub sectors of the cultural and creative industries which exist in different parts of the Partnership area. For instance, within Spitalfields there is a trend of SMEs which are designer, furniture, clothing, IT based companies, with employees often living close to the place of work. Moving towards Shoreditch, the companies are more Web – Dot com based companies, artist studios, increasingly small `professional' businesses such as architects, designers and marketing companies. Moving towards Hatton Garden and Clerkenwell, there is a strong fashion, jewellery making, clothing, designer, shoe makers and artists orientation. There is a very strong predominance of wanting to locate with similar or complementary businesses to achieve a strong network of communication.

The types of workspace that are available are reflective of the different sectors which reside within the City Fringe. We have outlined some examples of workspaces available:

Cockpit Arts

The Cockpit Arts organisation concentrates on the craft – designer makers sector, offering additional services, to assist business support. Cockpit Arts deliver a service of training and concentrated business support. The support ranges from:

- Seedbed Awards – Designers recently graduated from college. Subsidised studio space and business support on a sliding scale;
- Standard Awards – Offered to Design Markers who already have a studio but wish to relocate to Cockpit Arts and are offered space on a sliding scale;
- Teacher Training;
- Professional development for designer- makers;
- Outreach programmes involving the local community;

- Marketing initiatives, media coverage;
- Computing;
- Open studio days - networking events, when public, buyers, press/ media etc.

The buildings that Cockpit Arts use are all on long term leases with peppercorn rents, which mean that the organisation can offer affordable rates to their clients.

Clerkenwell Green Association:

Clerkenwell Green is a charity that works predominately with craft and design based companies such as jewellery making, clock and watch making, engraving, and musical instruments making. Characteristics of this workspace are:

- Size varies 100sq ft <400sq ft;
- Operate on a monthly licence, inclusive of Business Rates;
- Three months notice required;
- Average cost is £180 per month for smaller units;
- Part-time space – open –plan development, for graduate or start-ups. Cost in range of £8 per day;
- Clerkenwell Award Scheme for business start–ups. Linked directly to sponsors;
- By becoming members, tenants can gain access to new designers and marketing events at the workspaces;
- Runs courses and Seminars in Business Planning / Communication skills / Presentation Skills/ Time Management Seminars.

Winkley Workspace, Bethnal Green

Winkley provides newly refurbished workspace in Bethnal Green, designed specifically for the local cultural and creative industries. The workshops range from 200 sq ft to 1885 sq ft. The workspace is made up of a number of refurbished mews style former workshops and three storey Victorian premises in Teesdale Street.

The targeted sector is a range of cultural and creative industries, ranging from IT companies, designers, SME's and business start ups with normally less than 6 people.

The building is managed by Cityside Regeneration, who own a number of buildings in the Spitalfields area, providing `affordable' workspace.

There is clear evidence that there is greater demand than supply for workspaces. Large waiting lists are present at nearly all of the managed workspaces in the City Fringe, partly as a result of a low level of turn around once businesses have secured space within workspaces. There is a lack of flexibility to expand within workspaces. The affordability of space compared to market rents elsewhere make these schemes especially popular.

There is a mixture of space requirements for people on waiting lists. The majority will be `seed - bed' companies looking for start up spaces having previously been working from home. Evidence from local operators of workspaces show that the type of person waiting for space will directly be related to the type of space being offered in that organisation. In other words, artists are attracted primarily to like minded organisations and are unlikely to locate within a commercial minded workspace.

It has also become evident that organisations do not need to market the fact that there is space available within managed workspaces. There is a constant stream of enquiries that are interested in space, and only very few need commercial agents to market the property on their behalf, representing clear demand for space within the City Fringe market. For example, Cityside Regeneration's Group Workspace development in Whitechapel was 100% pre-let before even construction was completed.

Industry concern focuses on the issue of the wrong type of space rather than the amount of space available. Once a company wants to move from being a seed-bed company there is a limited supply of affordable units available for occupation, thus creating a gap in the market for `secondary movers' which needs to be addressed to ensure that businesses are not lost from the area.

One of the factors that link all these organisations together to make successful workspace providers is tenure: Clerkenwell Green association has two buildings from London Borough of Islington, Pennybank chambers and Cornwell House, which CGA took on the leases in 1979, and How house 80 workshops and studios. They pay a peppercorn rent and can offer affordable rents. The problem is that if organisations don't own the building they can be susceptible to rent reviews and ultimately rent increases which would mean offering affordable rents to organisations would become unviable.

The security of owning a lease, will ensure a more sustainable future for many workspaces. The problems associated with this is the ability to attract funding, the rapid changing in the market, the knowledge of funding available and the co-ordination of partners to ensure success.

7.0 CONCLUSIONS AND RECOMMENDATIONS

The City Fringe has always been an area of volatility. Its proximity to the City means that its economy is intrinsically linked to the ebb and flow of the City itself. However, its fluctuations in fortune are exacerbated by the relatively small area which the Fringe covers. Because the area is penned in by major residential estates to the north and east, the Fringe has a limited area into which to expand during strong periods of growth. Hence, when the market is growing rapidly as in the late 1990s, the availability of space becomes very scarce very quickly. Conversely, as the market contracts, as in the last 18 months or so, the failure of the Fringe to realise its full growth potential during strong times means that it is contracting from a lower base.

The City Fringe also has a history of being led by the highest value use at the time. During the late 1980s property boom this saw a high degree of office development at the expense of traditional industrial or workspace provision. More recently, from 1995 onwards, the strong housing and live/work market has led the way at the expense of most other kinds of commercial uses although A3 uses have become established in parts of the Fringe. As summarised in section 3.0, from a workspace perspective, this means that there has been no significant investment in workspace accommodation by the private sector over the last 20 years or so.

Demand for commercial space in the City Fringe has traditionally come from three main areas:

- businesses whose client base is in the City and, therefore, want to be close by but do not want to pay City rents;

- businesses who want to locate in the area because many organisations in the same field are in the area. This is behind the clustering effect which has seen the development of major sectors such as the creative industries.

- traditional businesses (usually industrial) who have been in the area for many years;

The last of these groups has come under enormous pressure over the last 15 years as a result of property trends in the Fringe.

We have considered demand in the City Fringe across a range of indicators.

We believe that demand peaked during 2000. At this time, demand for space was extremely high when availability of commercial property was almost non existent. Of the existing business base, our business audit demonstrated that up to 25% of existing small businesses thought they would need to move premises within three years and the majority of them were concerned that they would not be able to do so within the immediate environs. There were relatively few new entrants to the market because of the high rental levels being demanded other than users at the high value end of the market.

Out migration from the City Fringe at that time was high, not from businesses choosing to leave the area but being forced to do so. At the same time, the opportunity to bring major inward investment to the area during a period when many businesses wanted to locate to the area was very substantially missed as the properties required by these businesses simply did not exist on the market.

There is a clear consensus that commercial demand started to drop away significantly some time during 2001 and this is a trend which is backed up by analysis of our own enquiries as well as the view of occupiers, agents and developers alike.

In particular, there is currently a significant shortage of demand for larger footplates and for properties in excess of £20 psf (see tables 5.5 to 5.7). Larger businesses have apparently come under most pressure from the downturn. At the same time, there is a clear picture of a move back to City locations from the City Fringe and it is expected that this is most prevalent amongst larger organisations. At the current time, investment in the Fringe is coming predominantly from the smallest end of the market. Enquiries have been sustained at high levels for space at 0-1000 sq ft but have dropped off at all size levels above this and enquiries over 5,000 sq ft are currently rare. Some part of the reduction in demand has come from a willingness of landowners to negotiate downwards with businesses currently in premises. This has led to some businesses who were considering moving away from the area being able to remain.

Our discussions with businesses have indicated that there are very few new businesses to the area. Our 2000 audit of businesses showed many new entrants to the market but the survey undertaken in January 2003 for this research indicates that most businesses are at least three years old. This is likely to be a reflection of the lack of property available in 2000. This trend suggests that, whilst the commercial base of the Fringe is smaller than it could have been, the local economy is made up of well established organisations.

Demand for freehold premises remains high. There are few freeholds on the market and what do exist are sold quickly. The freehold market is not reflecting achievable rents with freeholds frequently seeing an asking price of 15 or 20 times what they could achieve in annual rent. This compares to a figure of 10-12 times annual rent being a more traditional reflection of value. This trend is most likely a result of two things. First, the residential and live/work markets remain strong compared to the commercial market and continue to drive asking prices for freehold properties. Second the property market is seen as a good diversion for capital at a time when stock markets are extremely volatile.

Supply of commercial property is on the increase and there are more options for occupiers than at any time over the past five years. However, there are some very major difficulties with the supply of premises at the current time. Two in particular are of importance. First, the quality of available premises is very poor. Few new properties are available and occupiers are being deterred by substandard accommodation. Second, the asking price for premises is significantly above what the market is willing to pay. The upshot of this is that a large proportion of availability is unlikely to ever be let. This is not necessarily a major disadvantage for landowners who may believe that having their properties remain empty is a route to achieving a change of use through planning to non commercial uses. As a result, those who have paid high values at the peak of the market feel no compulsion to drop rents to a point where they would not make a profit when there is the option of cashing in on high land values.

This mismatch between current supply and demand is borne out by the analysis we have undertaken. The following graphs show demand and supply by cost of property in 2000 and 2002. We identified in section 6.0 that 91% of availability was for office space.

Figure 6.1: Office and B1 Supply and Demand, 2000

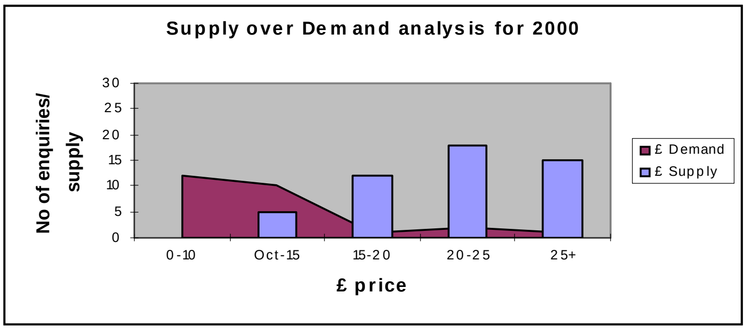
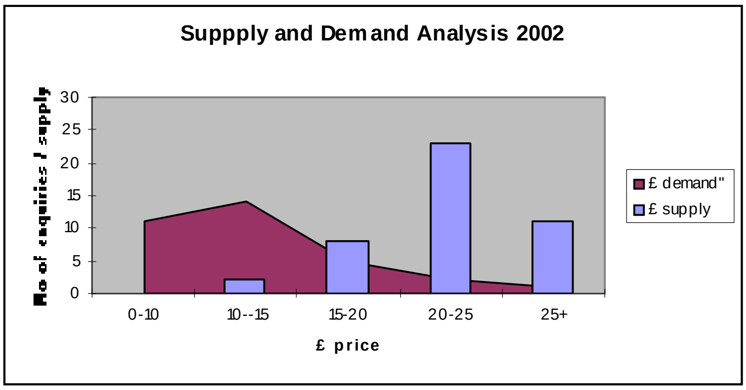


Figure 6.2: Office and B1 Supply and Demand, 2002



The graphs indicate a growing gap between demand and supply to the point where there is practically no overlap at the current time. In 2002, 80% of demand was for properties of less than £20 psf whilst only 33% of supply was at this level. At the same time, 60% of demand was for less than £15 psf compared with 8% of supply.

Our analysis of supplyss l s yya

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Whilst I have taken Invest in Hackney's estimate and rental at £15 psf net internal I consider this to be a high rent for this location in the current climate.

The mismatch between demand and supply is clearly demonstrated here. The agent establishes that 75% of availability is being offered at more than £16 psf, availability that is likely to be poor quality second hand stock. At the same time, he claims that there would not be demand at even £15 psf for newly built space.

It is also worth noting the agents view of the way that commercial space should be marketed which bears out our own findings.

In order to improve lettings in the proposed scheme I have advised the applicants to make the units as small as possible in order to appeal to this type of demand ie 500 sq ft to 1500 sq ft.

This is an approach which we would endorse in the current climate.

<u>Implications and recommendations for Workspace Development</u>

In terms of workspace provision, it cannot be assumed that demand is completely separated from the rest of the economy. There has been a significant downturn in demand over the last two years. At the current time there is no clear consensus on how the UK economy is going to fare in the future and assertions about the way the property market is going to go are very varied. This has impacted on the requirements for workspace which are lower than they were during the late 1990s. On the face of it there is enough available commercial property to satisfy the demand which exists.

However, this is too simplistic a conclusion. The continued waiting lists for affordable incubator units shows the need for such space is not being adequately met by the market as does the area's inability to retain those small businesses who have outgrown incubator space. There is effectively no supply meeting the specific needs of this sector.

The City Fringe has developed in a way that, no matter what the market conditions at any given time, there is little likelihood of provison for workspace users coming forward naturally. Research by the City Fringe Partnership has indicated that some 80% of City Fringe business employ less than 5 people. Failure to secure the future of these businesses will have a major impact on the local economy. It seems that agencies such as the City Fringe must intervene in supply, lobby for improved protection and enhancements of such spaces through planning (either via development control or section 106 measures) or face losing the workspace sector altogether.

Our discussions with incubator unit providers has underlined the concern that the City Fringe is becoming a seed bed economy for entrepreneurs but is subsequently losing those successful start ups who grow and who have to move out of the area as there is no affordable space to relocate to in the vicinity. These businesses need to continue to be nurtured. They are usually less than three years old and are still often seeing high levels of financial investment on the basis of a future rise in income. The ability to acquire an affordable lease in a mid range unit is crucial to their continued success.

At the present time, it may seem perverse to use public funds to invest in major workspace schemes when there is an apparent glut of commercial space. However, it is our belief that such uses should have a strong role to play in the City Fringe economy and that, as such, intervention to provide affordable space should remain a priority as should the requirement for provision through the planning process.

In particular, we believe that workspace in the City Fringe should be extricated from the wider commentary about the future of manufacturing in the London and the UK as a whole. Small scale workspace users do not reflect necessarily the trends of large scale manufacturing and the role of workspace users in serving the City should be seen in their own context not that of wider manufacturing.

A key barrier to realising this goal is the continued high freehold values which are being achieved for commercial properties which more reflect the residential than commercial market. The funding gap which exists between the cost and value of workspace schemes is probably higher than at any time in recent years and is a major issue for providers. A reduction in freehold values which has not been evident to date but which many commentators believe is on the way would very much assist the push for workspace provision.

Creative and Cultural Industries

The creative and cultural industries sector is clearly one which is thriving and expected to grow. Its growth is driven by the intense clustering of buyers, suppliers and complementary industries, and the international reputation of London for many of these activities (fashion, film production and recorded media, heritage etc).

From a review of existing workspace schemes, the following preliminary conclusions can be drawn.

Any workspace development needs to be broadly themed according to the specific sub-sector of the creative and cultural industries it seeks to serve.

Such developments need to have a range of ancillary space, access to specialist advice and services and in some cases, specialised equipment in order to help young businesses become established and to grow.

The mix of activities within each sub-sectoral activity needs to be complementary so that the required inter-trading, consortium working and inter-change of ideas can enable businesses to enter markets they would not otherwise have access to.

With regard to the appropriate types of accommodation for businesses within the creative and cultural sectors, work being undertaken in parallel with this study by ANCER SPA to develop the rationale for a fashion workspace centre has provided some useful insights into typical requirements of such businesses at start up and expansion stage.

From a series of in-depth interviews with existing fashion design companies, it has emerged that outside of a managed workspace situation the typical size of unit taken up is 400 sq ft with up to 1000 sq ft being the maximum unless a manufacturing operation is included from the outset. This accords with demand analysis set out in section 5.0. As can be seen from the table below, the second phase of expansion can take many directions including downwards, but typically up to the -2000 sq ft maximum size range.

However, the same study has identified 200 sq ft as an ideal size for start up units in a managed workspace centre. In some cases, start up design oriented businesses can be attracted to units of 80-150 sq ft in the first instance, as is the case in Clerkenwell Green Association. Other experienced managed workspace operators such as Cockpit Arts have units of 75-500 sq ft. Portobello Business Centre to the west has larger units of 720-1620 sq ft.

Support to workspace provision in the start up stage of development, through the provision of units from about 75 sq ft to 500 sq ft would be the key area for public sector intervention.

Manufacturing

There is a need to foster the growth of the young design oriented businesses and other high value innovative businesses through the provision of suitable workspace, as these businesses, although higher value in nature, face major constraints in setting up within the inner London areas.

In order to improve the wider competitiveness of London, there is also a need to demonstrate how specialist sector support and resource centres can be linked to the occupants of these workspace centres, and to manufacturing businesses within the City Fringe and the more outlying industrial zones adjacent to the sub-region. Only in this way, can the clustering effect work to the benefit of manufacturers in the long term.

Having said that, it is recognised that efforts need to be maintained to retain manufacturing within the area, through tighter planning controls and discouragement of the conversion of industrial premises to residential use. Where appropriate or by securing Section 106 funding via planning permission where existing workspace uses is lost.

In parallel, the support to design and prototyping activities has been highlighted as a key area of focus for the City Fringe. Much could be achieved for the wider benefit and increased competitiveness of the London region by linking in these activities with manufacturers both within the area, and in the more outlying regeneration zones adjacent to the City Fringe. This is considered a key area for intervention.

Size requirements vary significantly but it is unlikely that the City Fringe will continue to foster the growth of major industrialists and users of less than 5,000sq. ft. should form the focus of any proposals.

Hospitality

With regard to the hospitality sector, the creation of a viable cluster would depend on a number of possible interventions. These were summarised in section 4.0 but include the grouping of eating and drinking establishments in close proximity in one or more locations, the attraction of additional hotels, if possible the development of one or more major visitor draws, and measures to attract visitors to the area from adjoining people magnets such as Covent Garden and the Barbican Centre.

From the above therefore, a number of options for public sector intervention could be considered.

§ One or more local initiatives in the City Fringe to group food retail, restaurants, bars, leisure, entertainment and tourism attractions in one or more focal locations in order to achieve a true “cluster” effect of demand. This would require a specific strategy to be developed over one or more areas. Such a strategy should tie in the opportunity to attract in business demand as well as has been achieved in Covent Garden.

§ Adequate provision of premises to support the retail element of the sector, within such groupings and more generally throughout the area.

§ A hotel development strategy through which an area wide development framework identified candidate hotel sites with outline provision in advance of taking the sites to the market.

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APPENDIX I Specialist Support Required

CULTURAL INDUSTRIES

Nature of Specialist Support Required

From a review of relevant studies and activities of existing sector bodies in London, the following profile of support needs for the target sectors has been derived.

Film and TV Making, Recording and Media Services	§ Networking and business support § Provision of accommodation for new film and media businesses § Providing a network of facilities available to film producers § Provision of shared technical facilities § Training § Access to broadband
Fashion and Clothing	§ Provision of a range of business support services related to design, product development, marketing and export advice § Training, Consultancy, and Research § Showcase facilities § Technical support for design and manufacture of clothing CAD CAM § Initiatives for bringing together buyers, sellers, designers, producers, and exhibition promoters in the fashion industry. § Facilitation of networking and supply chain initiatives and collaboration between clothing manufacturers and retailers
Designer Crafts, Giftware and Jewellery	§ Exhibition space § Small workspace units § Support to marketing and promotion.
Designer Services	§ Industry led design networks of designers and manufacturers, linking manufacturers with designers
Arts, Museum	§ Business support

and Heritage Industries	§ Networking § Support to marketing and promotion § Support to exploitation of high-tech animation services

MANUFACTURING

The Thames Gateway Manufacturing Development Framework iidentifies the following list of support needs for small and SME manufacturers.

Market Development

- Market intelligence.
- Product costing and pricing
- Appreciation of market needs relative to the product.
- Commercialisation strategy/business plan.
- Intelligence on ancillary markets
- Wider national and international trade.
- Competitive analysis.
- Partnering with large companies.

Product Development

- Access to testing and product conformity support.
- Prototyping facilities.
- Design support assistance.
- Preliminary Technology transfer support.
- Match making/partnering
- Legal and patent advice
- Access to product development facilities.
- Interpretation of industry standard legislation.
- Advanced technology transfer support

Process Development

- Design for manufacturing
- Referral to sources of product development advice and resources.
- Management of design.
- Quality control process system
- Contract manufacturing
- Value engineering
- Access to scale up funding

Entrepreneurship and Management

- Promoting business start up as an option.
- Business planning

- Business planning and commercial awareness
- Development of team management
- Legislative compliance

Workforce Skills

- Business planning and management skills.
- Promoting manufacturing and engineering as an attractive carer option.
- General business and entrepreneurship skills
- Succession planning
- Organisation development
- Team management structures
- Product/process development training.
- Customised training focussed on specific company needs.
- Support to Professional development and CPD (e.g. CIM)
- Support to recruitment and retention.

Hospitality

It is important that London preserves and develops its capacity to provide the operating environment that tourists, residents and businesses need, in terms of proximity to transport, quality of hotels and conference facilities, and skills of the workforce. The tourism and hospitality sector depends on the maintenance of these conditions if their continued investment and the commitment of their client bases is to be maintained.

APPENDIX II Examples of Incubation Developments

The following incubation and support and resource centres (or project proposals) serving the Cultural and Creative industries sector have been identified.

Film and TV Making, Recording and Media Services	**LUX**	Subsidised access, training and support services for SME's and creative businesses in the City Fringe Cluster.	City Fringe
	Winkleys Estate	2,200 square metres of new business workspace to provide 25 new business work units to create an identifiable cluster for the creative sector. Single IT infrastructure for the whole project.	City Fringe
	North Kensington Creative IT and Media Industries Enterprise Units	Business incubator units for the creative IT and media	Inner West London
	Crown Wharf	Development of a canal side complex for Film and TV production and related media support services.	Leaside
	Digital House	Provision of accommodation and special facilities for film makers	Haringey
Fashion and Clothing	**Fashion Space London Project**	Centrally located business support centre, with access to unrivalled showcase/exhibition/catwalk, accommodation and facilities, combined with specialist industry knowledge and support at LCF Oxford Circus.	Central London

	North London Industries Centre: Vale Road Clothing Cluster feasibility	Proposal to provide the most appropriate means of enabling the effective clustering of designers and makers in the garment sector in Haringey to exploit market opportunities; develop higher value added processes and products to compete with lower cost production overseas; reduce research and production costs; and embrace innovation and new technologies.	5 North London
	London College of Fashion Technical Centre	Technical centre for design and manufacture of clothing CAD CAM	City Fringe
	Fashion and Design Centre Waltham Forest	To provide support to the clothing and textile sector. All forms of business support, including a state of the art CADCAM centre providing design services. The centre is to achieve charitable limited company status so it can be run as a stand alone project.	Upper Lee Valley
Designer Crafts, Giftware and Jewellery	**Hatton Garden Jewellery Centre**	Proposed Jewellery Centre of Excellence including exhibition space, educational space, workspace and training and management rooms.	City Fringe
Designer and other Creative Services	**Royal College of Arts**	Proposed establishment of product design incubator.	Central London
	Haringey Arts Council	Provides specialist support to creative and artistic businesses, including incubation units, business development &	Haringey

		links to buyers, securing grants and exhibitions	
Arts, Museum and Heritage Industries	**None identified**		

APPENDIX III Agencies Consulted

Estate Agents

- Stirling Ackroyd
- Strettons
- Tarn & Tarn
- Bob Cox
- Nelson Bakewell
- Cluttons

Workspace Providers

- Workspace
- Greater London Enterprise
- CitySide Regeneration
- Clerkenwell Green Association
- Cockpit Arts
- Ethnic Minority Enterprise Project
- Mazorca