

Panda House, 628 Commercial Road, London, E14 7HS.

Prepared for:
Interland Group.

Report date: 9 December 2020

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1. Background

Appeal Ref: APP/E5900/W/20/3250665, 628 Commercial Road, London, EH14 7HS

- 1.1 Knight Frank was instructed by Interland Group in April 2020 to undertake a *Demand Assessment & Market Analysis* report in relation to the redevelopment of Panda House, 628 – 634 Commercial Road (E14 7HS). A final report (Appendix 1) was provided in June 2020 to that effect.
- 1.2 The June 2020 report provides the following analysis, in line with the instruction.
- Overview of the private rented sector (PRS) market in the UK and London including renter culture
 - Market performance and projections
 - Demographic characteristics and nature of current demand
 - Socio-economic characteristics
 - Drivers of demand
 - Supply
- 1.3 A further report was provided to Interland Group in September 2020 in response to section 6.15 of London Borough of Tower Hamlet's (LBTH) Statement of Case in relation to Panda House. The report answered specific questions relating to the Demand Assessment & Market Analysis report and covered the following points:
- the Demand Assessment & Market Analysis (DAMA) report failed to satisfy criteria 1.a. of policy D.H7 because it did not “fully address the borough’s housing needs for all types of housing, in particular, affordable housing”. The Council suggests that the report does not “justify how the proposed development will addresses the borough’s overall housing need”;
 - LBTH Council indicated that the DAMA failed to satisfy criteria 1.a. of policy D.H7 by failing to specify a need for shared living accommodation “in this location”.
 - the DAMA fails to take account of the recently approved shared living scheme at 765-785 Commercial Road (LBTH reference: PA/16/03657) for 134 number of rooms;
 - The Council claims that the DAMA only assesses the need for rental accommodation required for up to 6 months only.

These points were addressed in the document outlined in Appendix 2.

Residential Research at Knight Frank

- 1.4 The Research team at Knight Frank is at the forefront of property market research. We are key international market commentators providing the highest quality editorial outputs. Our consultancy work spans across both the mainstream and alternative investment sectors and we have provided bespoke research to all major financial institutions, house builders, developers and public sector bodies.
- 1.5 In addition to its market leading research Knight Frank is also a respected forecasting house and is heavily involved in research relating to the growing 'build to rent' sector.

Matthew Bowen, Partner, Head of Residential Investment Research

- 1.6 I am a Partner within the Knight Frank Residential Research team. I have over 10 years of experience undertaking research for a wide variety of clients including house builders, developers, financial institutions and housing associations. I utilise the latest social, economic and market data to provide clients with bespoke research outputs of the highest quality.
- 1.7 I have previously led research teams for partnerships of housing associations, local government and the NHS as well as holding more corporate research roles. I am a board member at Leeds and Yorkshire Housing Association, a PhD mentor at Manchester University and a Fellow of the Royal Society of Arts.

Data quality

- 1.8 In its research for Panda House Knight Frank has utilised the highest quality market data available including:
- Potential Supply Pipeline
[GLENIGAN, ESTATES GAZETTE Interactive, KNIGHT FRANK proprietary data]
 - Existing PRS accommodation provision – Rents & Quality analysis
[KNIGHT FRANK Proprietary data]
 - Demand analysis
[OFFICE FOR NATIONAL STATISTICS, GREATER LONDON AUTHORITY, MINISTRY FOR HOUSING COMMUNITIES & LOCAL GOVERNMENT, EXPERIAN]
 - Mainstream Rental Market including HMO analysis
[RIGHTMOVE LISTINGS DATA, LOCAL COUNCIL DATA]
 - Knight Frank has a longstanding relationship with Experian and other data providers. Our Experian data is provided as bespoke tables designed to fit the specification required for demand studies.
- 1.9 Further details on our approach to calculating the demand for private rented sector accommodation is provided in Appendix 3.

2. Key findings of the Demand Assessment & Market Analysis report

Overview

- 2.1 There has been a shift towards the private renting sector within the UK housing market. Demand has grown significantly and is projected to increase further. Growth in the PRS sector in the UK is underpinned by a structural undersupply of housing, social factors such as a cultural shift towards flexibility, political changes including reduction of tax relief for buy to let mortgages, and affordability.
- 2.2 Between the last two Censuses (2001 and 2011) the number of households in private rented accommodation in the UK increased by 1.8 million or 6.4% per year. Households privately renting now equate to c.5.4 million households (19% of the market). Knight Frank estimate that, if the conditions present during the last few years continue, the demand for rental accommodation in England could grow at a base rate of 3.7% per year.
- 2.3 In terms of supply, the private rented accommodation is largely made up of properties owned by private landlords, many of whom have one or two properties. Some of these private landlords turn to the practice of sub-dividing properties to maximize profits. This can create overcrowded living conditions but at a much more affordable rate for individuals.
- 2.4 In London, PRS households account for 27% of all households, compared with 19% for England as a whole. This variation is likely to be attributed to a combination of affordability constraints, with rents being much higher in London compared with regional locations, as well as the cultural desire for a more flexible lifestyle. The desire for flexibility also leads to increased demand for short-term rental accommodation to allow tenants to take up short-term employment, training or educational opportunities.

Knight Frank Tenant Survey

- 2.5 In our 2019 Tenant Survey, we asked tenants to choose the primary reason that they are renting (see Figure 9). The majority of respondents said their main reason for renting was a lack of mortgage deposit. However, this varies across tenant types, being more prominent among those who are more likely to be concerned with climbing the housing ladder, such as Couples and Young Families.
- 2.6 Living in an area they otherwise wouldn't be able to afford was cited as a reason for renting by one in ten respondents, and is consistent across tenant types. Older renters are concerned with avoiding the responsibility of owning a home and downsizing.
- 2.7 Younger renters are motivated by flexibility due to work and not wanting to be anchored in one location. These were the second and third most popular reasons for renting among iGens and this demonstrates that renting can be a choice based on lifestyle and is not exclusively based on affordability. These tenant attitudes and motivations demonstrate demand for short-term rental accommodation in the capital.
- 2.8 Renters are motivated by affordability, access to transport and employment opportunities, and young renters increasingly require flexibility, which can be served by short-term rental accommodation.

- 2.9 The subject site is located between the employment hubs of Canary Wharf and The City of London and is very well served by public transport links within close proximity, rendering it in an excellent location for short-term rental accommodation.

Housing market performance

- 2.10 Asking rents for short-term accommodation in Tower Hamlets are higher than those for long-term accommodation. This highlights a lack of supply of affordable short-term rental accommodation for those on lower budgets.
- 2.11 Tower Hamlets has experienced strong rental growth of 1.73% per annum over the last 5 years, which is expected to accelerate to 2.24% per annum over the next five years. In recent years, house price growth in the Tower Hamlets has outstripped that of wider markets.
- 2.12 The average monthly rent for a long-term, self-contained two bedroom flat in Tower Hamlets is just over £1,400 per bedspace pcm (£2,808 for entire property). On a short-term basis, the average monthly rent for a two bedroom apartment £1,779 per bedspace pcm (£3,558 for entire property), which is over £360 more expensive.
- 2.13 This differential between short and long term renting is consistent across the other property listings and illustrates that on average, short-term rental accommodation in the borough is significantly more expensive than its long-term counterpart. This creates a potential affordability issue for those seeking short-term accommodation and evidences a lack of supply of more affordable short-term accommodation.

Population profile & projected change

- 2.14 There are approximately 33,971 households in the local area surrounding Panda House (20 minute walk time, equivalent to approximately 1 mile radius), the majority of which are aged 25 to 49. Households aged 35 to 49 account for 33% of all households, followed closely by the 25 to 34 age group, who account for 32% of all households.
- 2.15 The local area has a younger age profile than London as a whole. Young households are attracted to the area due to proximity to transport and employment hubs, as well as locally accessible amenities. Households aged under 35 account for 39% of local area households compared to 25% for London as a whole. The presence of young households indicates demand for short-term rental accommodation, as the younger age cohorts are more likely to require flexibility to take up short term employment, study or training opportunities.
- 2.16 Between 2019 and 2029 the overall population of the local area is expected to grow by 17% to 184,906 people and by 2039 it is expected to grow by a total of 24% to 195,884 people. The growing population is likely to result in an increased demand for private rental accommodation.
- 2.17 The local area is dominated by single person households which account for a third of all households in the area. The density of single person households in the local area is mirrored across the Borough of Tower Hamlets and wider London, representing 35% and 32% of all households, respectively. Single person households are most likely to be in need of short-term rental accommodation.

The profile of private renter households

- 2.18 In 2018 in the local area, 16,634 (34%) households are estimated to be living in privately rented accommodation. This is marginally lower than the Borough of Tower Hamlets average (38%) yet higher than the rate across the whole of London (25%).

- 2.19 67% of PRS households in the local area are aged under 35 compared with 39% across all tenures. This is higher than the proportion of young renters seen in London as a whole (52%).
- 2.20 These young renters within the borough and local area are likely to be living in either shared or single person households as the density of these households are the highest within the local area
- 2.21 Experian data indicates that 2,734 of local private renters are categorised as MOSAIC Type O63 – Flexible Workforce. These households are typically self-starting young renters who are ready to move to follow worthwhile incomes from service sector jobs. This MOSAIC Type is a key target group for short-term rental accommodation.
- 2.22 Panda House offers more affordable rents than the borough averages, with 13,541 PRS households (98%) in the local area able to afford to rent a single room in Panda House, whilst only 87% (12,060) could afford to rent the average Tower Hamlets studio.
- 2.23 Panda House serves the need for affordable short-term accommodation. A double room at Panda House costs £542 per person per calendar month, whilst a couple sharing the average short-term studio flat in Tower Hamlets would have to pay £698 per person.

The growth in the number of households

- 2.24 Since 2011, Tower Hamlets has seen an estimated 32% growth in the number of households, which equates to 4,134 new households per year on average. This is higher than the total growth seen in London of 14%.
- 2.25 Overall, the average annual growth rate within Tower Hamlets has been 3.6% over the period 2011-2019, which is significantly higher than that of London as a whole. Much of this growth in Tower Hamlets can be attributed to Sharers, who had an average annual growth rate of 4.7% (higher than the London average annual growth for Sharers of 2.8%). This is likely to have created increased demand for short-term rental accommodation, as sharers are the most likely household group to require short-term rental accommodation.
- 2.26 In Tower Hamlets, the highest growth rate in total numbers originated from One Person Households (1,163 new households per year). This type of household accounted for 28% of all new households within the borough, created on an annual basis.

The growth in private renting households

- 2.27 In 2018 in the local area, 16,634 (34%) of households privately rented. This is marginally lower than the Borough of Tower Hamlets average (38%) yet higher than the rate across the whole of London (25%).
- 2.28 In terms of the total number of PRS households, the local area has seen an increase of 40% (+4,740) since 2011. This is less than the Borough of Tower Hamlets increase of 47% but much higher than the London increase of just 4.5%. This suggest that the area has, in the last few years especially, become an increasingly attractive area for private renters.
- 2.29 Analysis of GLA household projections gives an indication of future demand for residential accommodation. Within Tower Hamlets, it is projected that the number of total households will increase by 11% by 2024 to almost 150,000 households. This is higher than the projected growth across London, which currently stands at 7%.

Demand for PRS

- 2.30 Currently there are 38,937 households in the borough renting from the private rented sector. 32% of these PRS households are estimated to be households in which two or more adults, that are not a couple, are sharing. This equates to 12,460 households living as sharers within the private rented sector within the borough.
- 2.31 The average household size of ‘sharer’ households in Tower Hamlets is estimated at 2.9 persons per household. If this applied to the number of sharer households in the PRS there are an estimated 36,134 people living as sharers within this tenure across the borough.
- 2.32 If the number of PRS households is projected forward five years, the number of households overall increases to 42,868 and the number of sharer households increased to an estimated 13,718. This equates to a household population of 39,781 people living in the tenure.

Shortfall of private rented accommodation in Tower Hamlets

- 2.33 There are an estimated 9,000 HMOs in Tower Hamlets providing an estimated 20,700 bed spaces. As of September 2020, there are 17 PRS schemes within Tower Hamlets that are currently under construction representing 8,119 units. An additional 19 PRS schemes have been granted detailed permission representing 2,592 units, a potential pipeline totalling 10,711 units. Of the total schemes identified within the pipeline only one is considered to be a co-living scheme – The Sailmakers at 765-785 Commercial Road (LBTH reference: PA/16/03657) for 134 units.
- 2.34 As outlined, there are an estimated 36,134 ‘sharers’ living in PRS households within Tower Hamlets. It is reasonable to assume that these ‘sharers’ would prefer to live in a professionally managed HMO scheme as opposed to unlicensed accommodation. Assuming this, the shortfall of HMO bed spaces across Tower Hamlets equates to an estimated 15,434 bed spaces.
- 2.35 If you consider the projected supply-demand imbalance over the next five years, this shortfall of HMO and co-living bed spaces is expected to widen even further with potentially 18,947 ‘sharers’ unable to access purpose built, professionally managed HMO accommodation in Tower Hamlets.

Table 1: Updated Shortfall of HMO and Co-Living Bed spaces in Tower Hamlets

Supply/Demand Metrics	2019	Projected annual change to 2024	2024
Supply (HMO bedspaces + co-living bedspaces)	20,700	0	20,834*
Demand (‘sharer’ household population)	36,134	3,647	39,781
Shortfall (HMO bedspaces + co-living bedspaces)	15,434	3,647	18,947

Source: GLA, Glenigan, ONS, Tower Hamlets Borough Council, Local Authority Statistics, Knight Frank Research

*As of September 2020 there is one co-living schemes in the development pipeline that is likely to be delivered by 2024.

NOTE: ‘Sharers households’ are defined as at least two adults, who are not couple, living together in a single property with shared facilities

Conclusion

- 2.36 Given the current and projected number of households living as ‘sharers’, our study confirms that there is a strong need for additional HMO bed spaces and affordable purpose built accommodation that provides accommodation for sharers across Tower Hamlets. Furthermore, our Knight Frank Tenant Survey indicates that a preference for flexibility, provided in short-term tenancies, particularly for younger renters. Housing market evidence indicates that short term private rental listings and rental listing overall, have decreased year on year in the borough.

- 2.37 Tower Hamlets has the highest housing target in the adopted London Plan, however, over the last three years there has been an average annual shortfall of 695 homes. As outlined in section 4.10.3 of the Draft London Plan, 'well-designed one- and two- bedroom units in suitable locations can attract those wanting to downsize from their existing homes', and as a result, has the 'ability to free up existing family stock.'
- 2.38 The proposed scheme on Commercial Road will provide affordable HMO/co-living accommodation and much-needed flexibility for private rented 'sharers.'

Appendix 1

Demand Assessment & Market Analysis report (see separate attachment).

Appendix 2

Response to LBTH Statement of Case in relation to Panda House (section 6.15)

Date 16 September 2020

**SOC
reference
6.15(a)**

The Council indicates that the Demand Assessment & Market Analysis (DAMA) report fails to satisfy criteria 1.a. of policy D.H7 because it does not “fully address the borough’s housing needs for all types of housing, in particular, affordable housing”. The Council suggests that the report does not “justify how the proposed development will address the borough’s overall housing need”.

Policy D.H7: ‘Housing with shared facilities (houses in multiple occupation)’ states that new houses in multiple occupation will be supported where they meet an identified need. The DAMA demonstrates a need for shared HMO accommodation within the borough. The policy makes does not reference an assessment of need for houses in multiple occupation that requires this need to be placed in the context of ‘need’ for other types of housing or for a justification of this need to be made against the need for other types of housing.

Knight Frank was instructed to provide a bespoke analysis of the need for shared HMO accommodation within the borough and the report presents that analysis. It does not present a full assessment of housing need across the borough. In our view this is not required to demonstrate need against policy D.H7.

**SOC
reference
6.15(b)**

The Council indicates that the DAMA fails to take account of the recently approved shared living scheme at 765-785 Commercial Road (LBTH reference: PA/16/03657) for 134 number of rooms. At the time of writing the omitted scheme was not identified within Knight Frank’s own data as being a ‘shared living scheme’. The application of the scheme fell under a generic planning use category and was not captured as a specific ‘co-living’ scheme.

The Council is therefore right to point out this omission, however, its inclusion does not alter the demand/supply imbalance of shared living accommodation across the borough, as follows:

As of September 2020, there are 17 PRS schemes within Tower Hamlets that are currently under construction representing 8,119 units. An additional 19 PRS schemes have been granted detailed permission representing 2,592 units, a potential pipeline totalling 10,711 units. Of the total schemes identified within the pipeline only one is considered to be a co-living scheme – The Sailmakers at 765-785 Commercial Road (LBTH reference: PA/16/03657) for 134 units.

This updated position reduces the future shortfall of HMO and co-living bed spaces to 18,947 down from 19,081, representing a marginal reduction of less than 1%. As such, the conclusions

made in the DAMA remain unchanged by the inclusion of the omitted pipeline scheme at 765-785 Commercial Road (LBTH reference: PA/16/03657).

**SOC
reference
6.15(b)**

The Council indicates that the DAMA fails to satisfy criteria 1.a. of policy D.H7 by failing to specify a need for shared living accommodation “in this location”.

The DAMA provides an assessment of the profile of both renters and the supply of rental accommodation at a local area catchment comprising a walk-time around the proposed scheme of 20 minutes. The analysis contained in the report is provided at the local catchment area where it is possible to do so. However, to make an assessment of how the profile of renters is likely to change in the future and therefore any future requirement of shared living accommodation, does require the use of data (from the GLA and English Housing Survey for example) that is not available at the ‘local’ catchment area level. Household projections data, for example, is only available at the Local Authority level for Tower Hamlets. It is therefore not practicable to make an assessment of future demand and or need for rental accommodation at the local area level. It is only possible to do this at the local authority level. It is important to acknowledge that the Greater London Authority (GLA) household projections also suggest that there is an increasing demand for HMO-style accommodation in the borough and that this analysis is presented at the borough level and not at specific, smaller geographic areas.

Furthermore, it is also likely that demand for the proposed scheme would come from a significantly wider area than just from those living within the local catchment area. It is therefore more appropriate to consider demand for the scheme at the local authority level.

**SOC
reference
6.15(d)**

The Council claims that the DAMA only assesses the need for rental accommodation required for up to 6 months only. This is not the case. The shortfall of shared living accommodation identified in the report does not depend on the distinction between short-term and long-term accommodation.

The DAMA refers to the motivations of ‘Renters’ in deciding which accommodation to live in by drawing on the findings of Knight Frank’s latest Tenant Survey undertaken in 2019. The report indicates that renters are motivated by affordability, access to transport and employment opportunities, and that young renters increasingly require flexibility, which can be served by short-term rental accommodation. However, the DAMA assesses the need for rental accommodation for renters requiring accommodation at all tenancy periods.

Furthermore, there is no way to disaggregate the data used within the DAMA report to assess the demand for and/or shortfall of rental accommodation at different tenancy lengths and no attempt is made to do so. The Council has misinterpreted the assessment in this regard.

Appendix 3

Calculating the demand for PRS accommodation

- 2.39 To assess the demand for PRS accommodation Knight Frank Research combined secondary data from Office for National Statistics (ONS), Ministry for Housing Communities and Local Government (MHCLG), Greater London Authority (GLA), the English Housing Survey and Experian.
- 2.40 The number of current (2019) existing private renting households was calculated by applying tenure change from the English Housing Survey to 2011 Census data and household projections produced by MHCLG.
- 2.41 2011 Census tables on the tenure breakdown of households and the age of the Household Reference Person within the local authority is used as a base point. Average five-year change in the distribution of household tenure is calculated from the English Housing Survey and applied in order to estimate the change in the split of tenure for households in the borough from 2011 onwards.
- 2.42 Household projections data is then applied to estimate the current level of private renting households in the borough and a projection of additional households in this tenure in future years. The household projection used to estimate the current level of households at local authority level is the 2016 based central trend projections (not housing-led) from MHCLG.
- 2.43 The 2019 estimate of private renting households in the borough is then broken down by the composition of private renting households in the borough using the 2011 Census. This is the only data source to provide the level of detail required to estimate the number of households in which two or more adults, that are not a couple, are sharing.
- 2.44 The average household size of 'sharer' households is then estimated by comparing population level data from the 2011 Census with household level data for the same group. The average household size is then utilised to estimate the number of individuals living as sharers using the 2019 estimated number of sharer households living in the private rented sector.
- 2.45 Sharer PRS households and their population are then projected forward using the borough level household projections.
- 2.46 As outlined in Appendix 2 – this approach is not possible at lower levels of geography because the projection of households is provided at borough level only.