

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2934

Industria – GLAP Head Lease

Executive summary:

It is proposed that £5,432,558 from the Homes for Londoners Land Fund (as approved by Mayoral Decision 2207) is allocated to allow GLA Land and Property Ltd (GLAP) to enter into an agreement for lease with the London Borough of Barking and Dagenham (LBBD). The agreement for lease commits both parties to enter a head lease once the construction of a multi-level industrial facility is completed by the LBBD. GLAP's head lease will have a 15-year term, subject to the ability for GLAP to break at year 10. The lease will be for approximately 48,847 square feet of industrial floorspace, which GLAP intends to sub-let to businesses at market rent.

The allocated Land Fund monies will ensure that GLAP can pay the total direct costs under the lease for the minimum investment period of 10 years. This allocation assumes that GLAP will not receive any rent from its sub-lettings. In practice, it is expected that GLAP will receive rent that will generate a commercial return in alignment with the GLA Land Fund Investment Strategy metrics.

The LBBD has secured planning permission for the project and commenced construction. The building is due to be completed by February 2023.

In alignment with the new London Plan, the LBBD's scheme will intensify and consolidate industrial uses, subsequently allowing the release of land for residential development in the wider area.

Decision:

The Mayor is asked to approve:

- i. the allocation of £5,432,558 from the Homes for Londoners Land Fund (as approved by MD2207), in accordance with the Land Fund Investment Strategy, to allow GLAP to enter a head lease arrangement with the LBBD
- ii. a delegation to the Executive Director of Housing and Land to enter GLAP into an agreement for lease and a head lease with the LBBD.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

16/3/22

PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1 In December 2017, MD2207 approved the establishment of the Homes for Londoners Land Fund, comprising £250m funded from Housing and Land resources, and receipts from the GLA and GLAP, to unlock the delivery of affordable housing via commercial-facing ventures such as site acquisition, land assembly and the enabling costs of development. This funding stream, in addition to the Department for Levelling Up, Housing and Communities Land Assembly, Small Sites and Accelerated Construction Funds, will help to achieve aims set out in the London Housing Strategy, including the Mayor's commitments to take a more interventionist approach in London's land market.
- 1.2 MD2207 grants the Executive Director of Housing and Land delegated authority in consultation with the Deputy Mayor for Housing and Residential Development to approve, via a director decision, the allocation of the Land Fund in accordance with the terms associated with the programmes and in pursuit of the Mayor's housing ambitions.
- 1.3 The project set out in this decision document was considered by the Land Fund Investment Committee on 16 November 2021, which – in noting the strategic importance of the proposed intervention – endorsed the recommendation to allocate funding from the Homes for Londoners Land Fund.
- 1.4 This decision document seeks Mayoral approval to allocate £5,432,558 from the Homes for Londoners Land Fund to allow GLAP to enter an agreement for lease with the LBBD. The agreement for lease commits GLAP to enter a head lease for part of an innovative, multi-level industrial facility once construction is completed by the LBBD. GLAP can terminate the agreement and not enter into the head lease if the building has not reached practical completion by the date set out in the agreement for lease.
- 1.5 GLAP's head lease will have a 15-year term, with a break clause at year 10, for approximately 48,847 square feet of industrial floorspace, which amounts to circa 50 per cent of the total building space. The agreed rent can be found in part 2 of this decision report. The allocated Land Fund monies will ensure that GLAP can pay the direct project costs, made up of rent and stamp duty land tax, for the minimum 10-year term of the head lease. The intention is that GLAP will sub-let the space to tenant businesses at market rent, which is anticipated to produce a financial return in compliance with the Land Fund Investment Strategy, approved under MD2615. The LBBD will maintain the freehold of the building and manage the remaining workspace as a long-term, revenue-generating asset for the Council.
- 1.6 Through the proposed head lease, GLAP will provide the LBBD with a fixed revenue income in the early stages of the project. The proposed structure facilitates the delivery of an exemplar industrial project by allowing two public-sector parties to share the investment, and the operational risks and responsibilities. The project also provides GLAP with an opportunity to benefit from a commercial return; achieve the Mayor's Good Growth aspirations; appropriately release land for residential purposes; and demonstrate best practice in industrial intensification.

Project context

- 1.7 The new London Plan seeks to protect London's industrial capacity but allows for controlled release of land through masterplan-led processes where industrial capacity is protected through the intensification and consolidation of existing industrial land. In 2018, the GLA commissioned a report to identify the barriers in bringing forward new industrial typologies that are required to maximise the land available. This report noted a deficiency of precedents that demonstrate how multi-level industrial typologies can be commercially viable. A key role was identified for the GLA, and the public sector more widely, in developing and proving the concept of industrial intensification and giving confidence to the industry to follow suit.
- 1.8 The LBBB's new industrial building, 'Industria', will be located on a 1.8-acre site owned by the borough, situated within the River Road/Thames Road Strategic Industrial Location (SIL) and within the River Road Employment Area. The site is identified within the LBBB's draft Supplementary Planning Document (SPD) as being in the first phase of intensification of industrial land and therefore critical for freeing up the initial sites in Thames Road for housing delivery. The aspiration is for 3,000 new homes to be delivered in the SPD area.
- 1.9 In 2018, the Mayor allocated £1m of Good Growth funding to the LBBB to help intensify industrial land within the River Road area by funding the design and planning process for Industria. The LBBB secured planning permission for the project; obtained Cabinet approval to fund construction; and started on site at the end of 2021. Construction is due to be completed by February 2023, at which point GLAP will enter a head lease with the LBBB and become liable for the rent.
- 1.10 GLAP has appointed a consultant to undertake due diligence on the RIBA Stage 4 designs, technical documents and other aspects of the project to ensure that upon completion, the building is one of exemplar quality. The consultant will also attend quarterly site visits to monitor progress and design compliance in advance of GLAP completing the head lease. GLAP's legal advisers have reviewed the design-and-build contract between the LBBB and the appointed contractor (see part 2).
- 1.11 The scheme will be a multi-storey building which has been designed by the architects Haworth Tompkins. The building will provide industrial accommodation across four storeys, with vehicular ramp access up to the second floor. Industria will accommodate 20 SME units; 25 flatted factory units; a communal business lounge; and a public café. The intensive nature of the proposal is in alignment with Mayoral policy and results in an exceptional plot ratio of 150 per cent. Visuals and floorplans of the building can be viewed in Appendices 7 and 8 to this decision document.
- 1.12 The building design has a strong focus on sustainability, with a target of a Building Research Establishment Environmental Assessment Method (BREEAM) "Excellent" rating for sustainability and environmental impact, which would put it in the top 10 per cent of UK new non-domestic buildings on sustainability performance. The scheme will also have two green walls, which will provide significant greening of the site; and meet wider London Plan aspirations related to sustainability.
- 1.13 Tenants attracted to Industria are likely to come from surrounding parts of inner East London, attracted by more affordable rents and high-quality space. The relocation of the City of London markets, and the emergence of the new film studios in Barking will also encourage a broader demand shift and attract diverse markets into the area.
- 1.14 Appended to the agreement for lease, a cooperation agreement has been agreed between the two parties that sets out the project's aims; principles for how the parties will work together; and the governance approach for the property. The governance process includes an operational group and a steering group. Matters that can't be resolved by officers will be escalated to the steering group to identify a route to resolution.
- 1.15 The agreement for lease also sets out a requirement for parties to jointly prepare and agree a lettings, marketing and management strategy that will set out targeted sectors and occupiers for the building. This strategy will build upon soft market testing already undertaken by GLAP and the

LBBB. GLAP officers have engaged with existing workspace operators, developers and commercial advisers; and are in ongoing discussions with the GLA Culture team, which has a network of connections across London for light industrial businesses and workspace providers. The LBBB has been advised by industrial agents and a workspace consultant throughout the design process on potential tenants.

- 1.16 The lettings, marketing and management strategy will also outline an agreed process for the joint procurement of a managing and letting agent for the building. Due to its innovative nature, the building will accommodate a diverse range of tenants. It will therefore require bespoke management that achieves a hybrid model combining traditional industrial management and contemporary workspace provision. As both the LBBB and GLAP will jointly procure the managing agent, efficiencies will be made, and the building will be holistically managed. Both parties will have equal weighting in the procurement evaluation process.
- 1.17 A standard form of sub-lease will also be agreed between the parties to ensure that there is a consistent offer for all tenants. All units are expected to be let to tenants at shell and core through a Full Repairing and Insuring lease.

2. Objectives and expected outcomes

- 2.1 The main objective of the Industria project is to unlock the borough's ambitious housing target for the SPD area at Thames Road, which is predicated on the planned release of industrial land through intensification and consolidation of the River Road SIL. The scheme will deliver 132,697 square feet (gross external area) of industrial space, and directly unlock 45,940 square feet of land for residential development in the masterplan area. This could yield circa 150 to 177 new homes worth of development capacity within the Thames Road masterplan area.
- 2.2 The project will act as a precedent in industrial intensification that showcases efficient use of industrial land, and demonstrate proof of concept to the wider market.
- 2.3 The new industrial building will meet socio-economic objectives by providing a range of employment spaces suitable for businesses across a spectrum of maturity, sizes and identified growth sectors, including creative, food and green technology. The project will set the tone and vision for transforming the local area; and aligns with the wider LBBB regeneration programme by attracting a diverse business and economic ecosystem to the area.
- 2.4 The project will improve the quality and quantity of jobs available in the borough. It is expected that 243 jobs will be created on site; a target has been set for 50 per cent of these jobs to be filled by borough residents by the 10th year of the project.
- 2.5 It is anticipated that the rent GLAP receives through the lease structure will generate a commercial return to meet the GLA Land Fund Investment Strategy metrics.

3. Equality comments

- 3.1 Under section 149 of the Equality Act 2010, as public authorities, the Mayor and the GLA are subject to a public-sector equality duty and must have 'due regard' to the need to:
 - eliminate unlawful discrimination, harassment and victimisation
 - advance equality of opportunity between people who share a relevant protected characteristic and those who do not
 - foster good relations between people who share a relevant protected characteristic and those who do not.

- 3.2 Protected characteristics under section 149 of the Equality Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status. Throughout the progression of this project, due regard has been had to the 'three needs' listed above.
- 3.3 Any procurement activities carried out under the project, including the appointment of a managing and lettings agent, will include equality, diversity and inclusion requirements, and social value contributions, as part of the evaluation process. Requirements of any bidder will include a minimum payment of London Living Wage, and a recruitment policy that prioritises surrounding residents. The appointed café operator will also be required to illustrate their approach to social value, including how residents and community groups will be encouraged to access the space.
- 3.4 The cooperation agreement notes that the selection of tenants will be based on achieving the project aims rather than the absolute commercial gain of individual landlords (see part 2 for further detail). The lettings, marketing and management strategy will further set out how local businesses and those that share a protected characteristic are not disadvantaged in accessing the workspace available, to ensure that a diverse range of businesses are curated. The building has been designed to ensure that the workspaces are accessible and cater for a range of businesses of different sizes and activities. Ambitious local employment targets have been set and will be monitored to ensure that those living close to the scheme are able to benefit from the opportunities that it provides.

4. Other considerations

Risks and issues

- 4.1 The head lease investment proposal is considered to fall into the 'medium' risk category as defined within the Land Fund Investment Strategy. This categorisation has been given as the head lease income won't stabilise as soon as it is entered into; but the asset's performance is expected to improve over time as lettings are secured, rental values increase, and voids decrease. The project is expected to achieve the financial metrics set out in the Land Fund Investment Strategy which are required for a 'medium' risk proposal.
- 4.2 The most significant risk to the project is the relatively untested industrial typology, which means there is limited comparable market evidence. To reflect this, the rental assumptions recommended by GLAP's commercial adviser have been conservative in comparison to transactional evidence in the surrounding area (see part 2). A conservative approach to the cashflow modelling should ensure that GLAP has an effective buffer for rents to be achieved and void rates to remain manageable.
- 4.3 In addition to the project's conservative assumptions, GLAP's commercial adviser has noted that the overall industrial market continues to strengthen in London. Throughout the pandemic, demand for industrial units has continued to grow, driven in part by the requirement for warehousing and logistics space. This growing demand is expected to result in further interest in non-traditional industrial typologies such as Industria.
- 4.4 To further mitigate risk, the LBBB has carried out soft market testing to gauge opinion on Industria, including the type of industrial units, the location, the building facilities and the intended rent level. The LBBB received positive feedback from the majority of businesses that were interviewed.
- 4.5 It is considered that with a joint active marketing campaign, and by procuring an effective operator, GLAP can mitigate the lettings risk to ensure that voids are kept within the conservative assumptions, and rental income assumptions are achieved.
- 4.6 This project is not considered 'high-risk' as GLAP will not be taking planning or construction risk during the development of the project. Planning permission has been obtained; and the LBBB is the client of the construction works. GLAP can terminate the agreement for lease and choose not to complete the head lease if practical completion is not achieved by the date set out in the agreement for lease.

No.	Risk	Impact	Likelihood	Mitigation
1	Achievable market rents do not provide the expected commercial returns	Medium	Low	GLAP has taken a forward-looking, cautionary view on rents, which is based on commercial advice and market comparisons. GLAP and the LBBB will have an active marketing campaign and a managing agent to mitigate risk.
2	High void rates due to bringing a relatively untested typology to the market	High	Medium	Conservative void assumptions have been built into the financial modelling, particularly over the initial period. In addition, a conservative view has been taken in regard to anticipated rental income, with a discount applied to reflect the untested typology.
3	High management costs due to the intensive nature of the asset	Low	Medium	GLAP and the LBBB have agreed to jointly procure a managing agent through a competitive tendering process to ensure costs are minimised and efficiencies achieved. Pessimistic management-cost assumptions have been included in the financial modelling, and are based on commercial advice and appropriate market comparisons. These costs are passed onto tenants when units are occupied. Scenario testing illustrates that management costs have less of an impact on viability than rent and voids.
4	Delay, and/or an increase in cost of construction	Low	Medium	GLAP is not liable for any increased costs during construction. The rent is only payable after the head lease has been entered into. If the agreed practical completion date is not achieved, GLAP can terminate the agreement for lease.
5	Quality of build	Medium	Low	GLAP has reviewed the form of build contract; has warranties from the contractor; and has appointed a consultant who will monitor construction and confirm that the building meets the required specification, aligns with the planning permission, and meets building regulations before the head lease is completed. Details of the contractor's liability is set out in part 2.

Links to Mayoral strategies and priorities

- 4.7 The London Housing Strategy sets out the policy rationale for the GLA to take a more interventionist approach in London's land market, with the aims of building more homes, improving affordable housing provision, and capturing value uplift for public benefit.
- 4.8 London's housing crisis, characterised by increasing affordability pressures and rising housing need, has resulted in an ambitious housing target in the new London Plan which will require the efficient and best use of land (GG22 of the London Plan). This proposal assists with London's housing demand by ensuring the efficient use of land through increased floorspace within the SIL,

safeguarding existing industrial capacity, while allowing the release of additional land for residential use.

- 4.9 The Industria project supports the new London Plan policies on industrial intensification (namely E5 and E7) by intensifying the function of SIL as part of a plan-led process, enhancing its attractiveness and using space more efficiently.
- 4.10 The project supports the Mayor's Good Growth principles by providing workspace, which will allow a range of businesses to thrive and grow, which will create a range of employment opportunities in turn (GG5 of the London Plan).

Conflicts of interest

- 4.11 There are no known conflicts of interest to note for any of those involved in the drafting or clearance of this decision.

5. Finance comments

- 5.1 This decision request approval for the expenditure of £5,432,558 on the lease of 48,847 square feet of an industrial building from the LBBD. The lease is for 15 years, with a 10-year break clause.
- 5.2 The expenditure will be funded from the Homes for Londoners Land Fund.
- 5.3 Further finance comments are set out in part 2 of this decision.

6. Legal comments

- 6.1 Section 30 of the Greater London Authority Act 1999 (as amended) (GLA Act) gives the Mayor a general power to do anything that he considers will further one or more of the principal purposes of the GLA, as set out in section 30(2):
- promoting economic development and wealth creation in Greater London
 - promoting social development in Greater London
 - promoting the improvement of the environment in Greater London.
- 6.2 In formulating the proposals in respect of which a decision is sought, officers confirm they have complied with the GLA's related statutory duties to:
- pay due regard to the principle that there should be equality of opportunity for all people
 - consider how the proposals will promote the improvement of health of persons in Greater London; promote the reduction of health inequalities between persons living in Greater London; contribute towards the achievement of sustainable development in the United Kingdom; and contribute towards the mitigation of or adaptation to climate change in the United Kingdom
 - consult with appropriate bodies.
- 6.3 Sections 1 to 3 of this report indicate that the decision requested falls within the GLA's statutory powers.

7. Planned delivery approach and next steps

Activity	Timeline
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Mayoral Decision	March 2022
Agreement for lease completed	March 2022
Construction completed and head lease completed	February 2023

Appendices and supporting information:

None

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? Yes**

If Yes, for what reason: Until the agreement for lease is entered into and there is certainty of the project progressing, expected 10 September 2022.

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – Yes

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Christine Wood has drafted this decision form in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Rickardo Hyatt has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Tom Copley has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

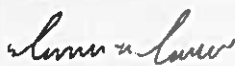
This decision was agreed by the Corporate Investment Board on 14 March 2022.

✓

EXECUTIVE DIRECTOR, RESOURCES: Enver Enver on behalf of David Gallie

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature



Date

14/3/22

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature



Date

13/3/22

