

**Date: 21 September 2023**

**Item: Business Update: Arches Portfolio**

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**This paper will be considered in public**

**1 Summary**

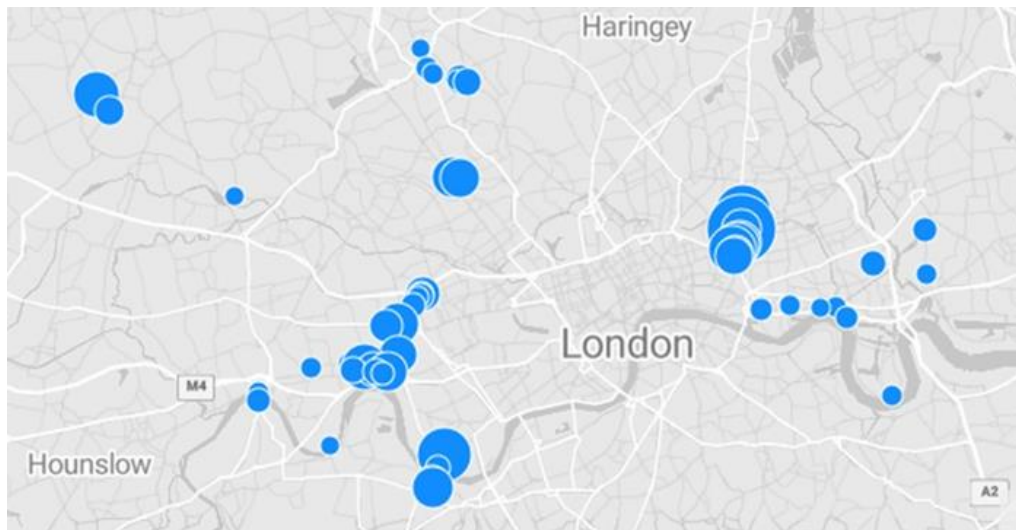
1.1 As the first in a series of business updates that will be shared with the Committee over the next 12 months, this paper provides an overview of Places for London's Arches Portfolio.

**2 Recommendation**

2.1 **The Committee is asked to note the paper.**

**3 Context**

3.1 Places for London's arches portfolio consists of 850 arch units across 21 arch runs, located beneath Jubilee, District, Piccadilly, Overground and DLR lines



(see indicative location plan below).

3.2 The railway arches, once solely utilised for supporting the railway tracks, have been creatively repurposed into valuable, well-located commercial real estate spaces. Places for London took ownership of the arch assets through a phased approach, with the first transaction taking place in 2019.

- 3.3 Places for London currently manage over 350 diverse tenants across unique and characterful arches. A number of tenants are in lease across multiple units on the Places for London estate. The arches are home to restaurants, cafés, gyms, and maker spaces. The arch estate is distributed across London, with the highest rental income estates located in Shoreditch in the east and Shepherd's Bush in west London.
- 3.4 Places for London's arches portfolio is valued at £151m and is forecast to generate £11.4m of gross property income in 2023/24. The arches portfolio constitutes over 10 per cent of Places for London's investment portfolio value and 13 per cent of forecast gross property income for 2023/24.
- 3.5 Historically, the arch estate's tenant base was predominantly industrial and automotive industries. In the past decade, a more diverse range of businesses has been attracted to the estate. Increasingly important categories include food and beverage enterprises, leisure, creative studios and event spaces as well as start-up ventures.
- 3.6 Our arch estate has always been home to small and independent businesses with 99 per cent of tenants being small and medium-sized enterprises (SMEs).
- 3.7 Places for London has a deep understanding of the operational challenges entailed in overseeing properties within railway arches, owing to their unique nature, age, and proximity to rail infrastructure.
- 3.8 The Arches is a legacy estate and holds a pivotal role in our asset management focus. Our aim is to foster enduring growth whilst modernising and improving the condition of the estate to unlock long-term value.
- 3.9 Whilst future-proofing the estate, we will look to incorporate environmental and social factors to tackle the pressing decarbonisation challenge and aim to create more efficient spaces for tenants to occupy.

## **4 Market Context**

- 4.1 Key themes are emerging for real estate in 2023 and beyond, which will impact and influence our arches portfolio including:
  - (a) Net zero carbon – with a growing focus on reducing environmental impact, low or net-zero carbon properties are gaining prominence in the market. As a result, sustainability is a crucial factor at the core of Places' asset strategies and is being considered from the outset. As existing properties, inherent to London's public transport network, our productive use of our arch portfolio optimises embodied carbon and embraces reuse;
  - (b) Delivering social impact – market-leading property companies believe that positively impacting communities can lead to increased success and resilience in their businesses. By engaging with customers who share their ethos, Places for London can achieve both commercial and social impact, enhancing value in both elements;

- (c) Current economic climate – this has put pressure on the real estate market with a shortage of available capital expenditure, limiting investment and development. At the same time, the market is increasingly demanding ‘turn-key’ spaces, as businesses seek ready-to-use solutions that minimise upfront costs and streamline operations;
- (d) The majority of arches are located in the outer zones of London, with a blend of uses and operator type. This depth of occupier helps provide sustainable revenue. There is now a real focus on shopping locally, with consumer demand for convenience and immediacy leading to a shift in locations sought by independent retailers – a trend that the arches are well placed to meet; and
- (e) The light-Industrial sector is experiencing heightened demand for industrial space in the capital, especially in craft and artisan workshops, bakeries, microbreweries and distilleries, and the rapidly expanding e-commerce industry. This demand has become more pronounced than ever and presents opportunities towards a greener and cleaner London.

## **5 Strategy and Vision**

### **5.1 Places for London’s Arch sector strategy is:**

*To be the true small business powerhouse of London, a powerful force for the small business community of London while being commercially astute and socially useful.*

- 5.2 Through increased investment in our Arch portfolio and operations, we have a significant opportunity to contribute more to their local settings, and to the people that live, work, play and move in and around them. Through our acknowledgement of the locally led social value contributed by small businesses, we will continue to attract and bolster small businesses and create an ecosystem that encourages entrepreneurialism.
- 5.3 Businesses are increasingly focused on the values and vision of those they choose to work with, including their landlord. Through taking a customer-centric approach and providing clear and simple terms of business, we can attract and retain the right customers to support our vision and to move London forward with thriving, connected places.
- 5.4 We will continue to promote a blended customer base. Our strategy focuses on understanding demographics and needs for vibrant tenant mixes. We will work with our tenants, local planning authorities and local communities to promote a genuine mix of uses that will generate more sustainable revenue and create places people are proud to live, work and grow safely, inclusively, and sustainably.
- 5.5 We will enhance the positive contribution the assets have on the wider neighbourhood in a meaningful way, building on the existing character of the

location. We will always look beyond the 'red-line' of our sites to understand how they can fit into, and contribute to, the ever-evolving area that surrounds them.

- 5.6 In the short-term, our focus will be on addressing the historical underspend on maintenance through significant capital investment to modernise and improve the estate.
- 5.7 Our approach to curation will be research-led with a focus on creating spaces, where communities can collaborate, make, socialise, entertain, and educate. There will be a specific place-shaping masterplan with a high-level vision and design code for each arch location. This will enable a more detailed design for each of the arch runs as well as the design possibilities for individual arches
- 5.8 A medium-term aspiration is provision of incubator space within the portfolio with a focus on growing our own customers, alongside enhanced customer support and training. We will take a strategic approach for arches determining how we balance priorities and commercial returns across the portfolio
- 5.9 Our customer strategy plays a core role in our arches sector. We are continuing to invest in our voice of customer programme and the training and business improvement in our teams to embed a customer centric culture.
  - (a) We consistently involve our customers in how we make decisions and change, including through our surveys and customer advisory groups;
  - (b) We are clear on our terms of business and what we should expect from our tenants and what they can expect from us;
  - (c) We have a service model that underpins growing mutual value for us and our tenants, removing friction where we can and adding value where we can have most impact; and
  - (d) We look to 'grow our own', both helping our existing customer base and attracting and supporting new businesses on to our estate through incubator space and services.
- 5.10 Due to the historic under investment in and the nature of our arches estate, there is a strong emphasis on conducting property condition surveys across all assets through our compliance team. This is a vital step in ensuring the health and safety of our estate remains the highest importance, which is fundamental to our business.

## **6 Property Management**

- 6.1 The arches sector is at the forefront of Places for London's sector-specific policies, they are available on application.
- 6.2 The Arches Design Guide outlines a design-focused strategy for the future renovation, maintenance, and modification of the arch estate, benefiting internal teams, design teams, and tenants. Its purpose is to optimise the

arches' impact on their neighbourhoods and communities, acknowledging that each estate will have a unique character while being connected by common design elements and rules. The Guide adopts the principles of our Sustainable Development Framework (SDF) and includes specific indicators from the SDF that are particularly relevant to the arches portfolio.

- 6.3 The Places for London Customer Partnership Statement encompasses core commitments to foster collaboration, transparency, equitable growth and support for businesses on the estate.
- 6.4 The Places for London Small Business Policy aims to nurture small businesses, sharing responsibilities, supporting success, and aligning with local businesses. Transparent reporting, surveys, and customer research ensure effective performance.
- 6.5 The Places for London Lettings Policy establishes lasting partnerships through suitable spaces, equitable rent, and transparent management.
- 6.6 The Places for London Rent Policy prioritises understanding customers, collaboration, and value creation for London communities, emphasising relationships over rent, with sustainable levels and fairness in customer approach.
- 6.7 The Places for London Customer Handbook ensures our customer's understanding of the key information relating to their tenancy and Places for London's estate.

## **7 Resource**

- 7.1 Places for London has moved towards a sector-led organisational structure, with a Head of Arches sector role implemented in August 2023.
- 7.2 The Arches team is a team of eight and benefits from all being qualified chartered surveyors, with support from a commercial property apprentice. The roles within the team are largely split across the Property Management and Asset Management functions. The team draws upon expertise from other teams within the wider organisation, with access to legal, planning, engineering, project management and internal architectural advice playing an important role in the team's day to day work.

## **8 Example Projects**

- 8.1 Places for London has begun (and in some cases completed) several exciting projects across the arches portfolio building on our vision and aspiration for the portfolio, as set out above.
- 8.2 At Kilburn, we are undertaking a major refurbishment project to repair and modernise eleven arches and the surrounding mews area to enhance the public realm and create a centre for community and cultural diversity. A new mews will be integrated with Kilburn High Road to improve visibility, creating a more welcoming and connected space close to the Underground station.

- 8.3 At Kingsland (Shoreditch), we are developing two levels of office space at the former Shoreditch station building and five adjoining arches, whilst also delivering works to the rear external area. The development will enhance the relationship between the buildings which occupy a prominent corner location, the arches, and the surrounding area to create a coherent space across the assets. The scheme also provides a new active public realm space on Kingsland Road, taking into consideration the active cultural, creative, and night-time economy in the area.
- 8.4 At Lockton Street (Kensington) we are refurbishing eleven arches with the aspiration for these to be Places for London's first multi-use incubator hub. This "grow our own" partnership is designed to accommodate "maker spaces" uses, with the target market being local SMEs within the Royal Borough of Kensington and Chelsea.

**List of appendices to this report:**

None

**List of Background Papers:**

Arches Design Guide  
Places for London Rent Policy  
Places for London Lettings Policy  
Places for London Small Businesses Policy  
Places for London Customer Handbook  
Places for London Customer Partnership Statement

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