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Dear Sir/Madam,

**PROPOSED DUAL OFFICE / EDUCATIONAL USE – VERULAM GARDENS, 70 GRAYS INN ROAD, WC1**

This letter has been prepared on behalf of the Landlord, Euro Properties, to provide an update on office market conditions and leasing activity at 70 Grays Inn Road since December 2020.

**EXECUTIVE SUMMARY**

- The London office market has seen a recovery since the Covid-19 pandemic, although leasing activity is for the best buildings in the best locations whereas demand for Grade B stock (such as 70 Grays Inn Road) is low.
- Take-up in Midtown has been subdued since 2020, whereas supply is trending significantly above the 5 year average.
- Take-up by educational users is at the highest level ever recorded – educational users usually consider Grade B stock due to having lower rental budgets.
- There are a number of live educational requirements in the market, some of which have, or are likely, to consider 70 Grays Inn Road.
- The biggest barrier to increased educational take-up is the planning risk.
- Granting 70 Grays Inn Road dual office / educational use would significantly enhance its leasing prospects.
- The proximity of the building to other universities makes it an attractive proposition for educational users.

**MARKET CONTEXT – CENTRAL LONDON**

The Central London office market has had a turbulent past three years with the disruption from Brexit and the Covid-19 pandemic. Annual office take-up volume plummeted in 2020 due to the enforced shut down of offices around the country and uncertainty surrounding the economy. Although office demand and take-up in Central London has since recovered – take-up in 2022 was 10.47 million sq ft, 135% higher than 2020 – there is a clear trend of office occupiers committing to less, but better quality space, and only in the best locations. The ‘flight to quality’ trend is evidenced by the fact that 65% of total office take-up in Central London in 2023 year-to-date (YTD) was for newly built or comprehensively refurbished stock. These transactions are typically for best-in class schemes in prime West End or City Core markets located in close proximity to major transport nodes. **Demand for Grade B stock, such as 70 Grays Inn Road, has not recovered in the years following the Covid-19 pandemic.**

**In the same period we have seen an increase in demand and take-up from educational occupiers – educational take-up is 5% of total office take-up in Central London for 2023 YTD, the highest level ever recorded. Grade B buildings such as 70 Grays Inn Road appeal to educational occupiers as typically**

these users have lower rental budgets and must therefore compromise on quality of space and/or location.

Since December 2020 we have seen subdued office take-up in the Midtown market with 387,336 sq ft transacted in the submarket in 2022, **28% down on the 5 year average**. We have also seen supply increase substantially in recent years – as of January 2023, supply in the submarket was recorded at 1.23m sq ft, **57% above the 5 year average** and equivalent to a total vacancy rate of 7.4%. In the December 2020 report we cited 2 Grade A schemes in the submarket – Fetter Yard which completed in Q2 2020 and 5 Norwich Street which completed in Q2 2019. **Both of these buildings still have space available to let from the Landlord despite 5+ year marketing campaigns**. The subdued take-up in Midtown can be attributed to the following:

- A lack of Grade A stock in the submarket (as of January 2023, the Grade A availability rate for Midtown was 2.4% compared to 3.9% for the City Core).
- Preference for occupiers to take space in more core locations.

#### **EDUCATIONAL USERS – TAKE UP & DEMAND**

A table of key, recent leasing transactions by educational users in Central London can be found below:

University	Address	Size (sq ft)
<b>2021</b>		
BPP Holdings Limited	Portsoken Street, E1	83,862
UCL	105 Judd Street, WC1	34,741
Anglia Ruskin University	Import Building (Republic), E14	32,372
York St John University	Export Building (Republic), E14	24,233
LCA Education	Export Building (Republic), E14	24,229
University of Coventry	The Hudson, SE11	23,262
University of Staffordshire	Here East, E20	14,188
New College of Humanities	Devon House, E1	9,918
<b>2022</b>		
New York University	265 Strand	73,124
University of Wales	1 Westferry Circus	45,876
Coventry University	102 Middlesex Street	17,600
UCL	77 Wicklow Street	16,982
UCL	40-48 Bernard Street	15,097
The Home Office	42-50 Victoria Street	13,365
The World University Insights	26 Red Lion Square	10,988
NCH	Marble Quay	10,157
Kings College London	44-46 Aldwych	8,272
Kaplan International Language	3-4 Southampton Place	7,246
Kings College London	14 Soho Square	5,580
<b>2023</b>		
Teesside University	Here East (Press Centre)	26,249
York St John University	Export Building (Republic)	23,009
SP Jain School of Global Management	Exchange Tower	22,000
BPP	1 Portsoken Yard	16,879
Queen Mary University of London	11-13 Charterhouse Buildings	11,379
Northeastern University	1 Thomas More Square	7,752

Warwick Business School	The Shard	5,662
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We are also aware of the following named educational requirements (active or potential) in the market, a number of which have considered or viewed 70 Grays Inn Road. **If 70 Grays Inn Road had dual office / educational it would significantly enhance the building's letting prospects as applying for change of use following the agreement of terms represents one of the key risks for educational users acquiring office space.**

University	Potential Size (sq ft)	Comment
University of Wales Trinity	5,000	<b>Viewed 70 Grays Inn Road in 2023</b> but focused on pre-fitted classroom space.
Beifang University	15,000	<b>Viewed 70 Grays Inn Road in 2021</b> a number of times. Requirement now on hold.
Coventry University	10,000 – 20,000	Require additional space to add to portfolio.
University of Law	75,000	Active search
NCH	40,000	Search for an additional building – on hold
University of Chester	TBC	Various locations in and around Chester
University of Derby	TBC	No satellite offices – considering London location
University of Huddersfield	TBC	No satellite offices – considering London location
Lincoln University	15,000	<b>Previously under offer on 15,000 sq ft at 70 Grays Inn Road</b> but pulled out due to pandemic. May reactivate.
QA	60,000	Under offer at 1 Alie Street in Aldgate.
Arden	50,000	Central London live search
SAE Institute	20,000	Understood to be negotiating on shortlist of buildings on fringes of the City
Melbourne Institute of Technology	10,000 – 15,000	On hold – looking for JV partner.
Intouni	10,000 - 20,000	Have viewed stock in Midtown & City Fringes
ILSC	10,000 – 15,000	Understood to be focusing on Stratford

**70 Grays Inn Road is likely to appeal to educational users for the following reasons:**

- **Efficient floorplates that can be subdivided;**
- **Great natural light, especially on upper levels;**
- **Ability to provide a self contained entrance at ground floor level and own postal address**
- **Competitive price point versus newer buildings in prime submarkets**
- **Proximity to other universities**

## **MARKETING UPDATE**

We have been actively marketing the vacant floors at 70 Grays Inn Road since September 2020 (with Knight Frank being the previous agents). Our marketing strategy from inception has been as open and flexible as possible by marketing the building on a multi-floor or single floor basis, enabling us to target a wide pool of occupiers from 950 sq ft up to the entire building (34,000 sq ft) when all floors were either vacant or VP was anticipated. **In this period we have achieved limited letting success to traditional office occupiers, a function of the lack of traditional occupier occupiers seeking space in Midtown since Covid rather than our marketing efforts.**

Our marketing collateral includes:

- Marketing brochure including professional photography (currently being updated)
- In-house particulars
- HTML mailers
- Listings on the Agents Society website (the primary database used by all Central London office agents), C&W occupier-facing website and Zoopla
- CGIs
- Virtual tours

To enhance the building's lettable to traditional office occupiers, the Landlord is in the process of delivering speculative CAT A+ fit-outs on 4<sup>th</sup> & 5<sup>th</sup> floors and improving the furniture in reception. As of September 2023 the 4<sup>th</sup> & 5<sup>th</sup> floors remain unlet.

## **CONCLUSION**

Since December 2020 we have experienced very little traction marketing to traditional office occupiers. Those who have relocated have upgraded their workspace by taking space in new developments in better located, prime submarkets. The current macroeconomic and geopolitical issues are highly likely to produce further headwinds in the next 12-18 months which will make conditions for leasing to traditional office occupiers even more challenging. With the above considerations in mind, we therefore expect tenant interest in the scheme to come from educational users and **obtaining dual office & educational use for 70 Grays Inn Road would be crucial in helping us secure a letting to an occupier for this sector.**