4th November 2024

Gaylord Investment Limited
5 Fleet Place
London
EC4M 7RD

MARKETING REVIEW FOR 8-9 SPRING PLACE, LONDON, NW5 3ER

1.0 Introduction

This report has been prepared to support submission of a planning application to the London Borough of Camden for the proposed change of use of the building known as 8-9 Spring Place, NW5 from Use Class E offices to Class C1 hotel use.

The northern fringe market has witnessed several challenges in the traditional office market post-COVID with limited requirements and leasing activity in the submarket over the last 4 years.

This report summarises the current economic outlook for the UK market in the context of the real estate sector, analyses the northern fringe submarket, reviews construction, the competition, recent transactions in the area and places this in context to the subject property. It also assesses the demand for hotel uses in the borough.

2.0 Allsop Office Leasing Agents

Allsop is an independent consultancy with a market-leading reputation for high-quality service and integrity. Founded in 1906, Allsop comprises 22 Equity Partners and approximately 152 fee earners. Allsop has offices in the West End, City of London and Leeds.

Allsop is one of the most established and largest agencies in the Central London office market, providing development consultancy, sales, and letting advice over the last 30 years. The West End team has a long history of dealing in the Northern Fringe office market, particularly in Camden and has extensive experience working with buildings where a redevelopment or refurbishment is undertaken to identify the right occupiers, maximise rents, increase lease terms and therefore improve value.

Allsop have provided professional advice and been involved with many development and leasing instructions in the northern fringe. The most significant current Allsop involvement is being retained as sole leasing agents at The Centro Campus, Camden Town, N1 which comprises 250,000 sq ft across 7 separate buildings since 2018.

3.0 Market Commentary

3.1 Executive Summary

- The Northern Fringe office submarket is a large area to the north of Central London stretching from Angel, Shoreditch and Camden Town in the south to Wood Green and Tottenham in the north.

- Despite steady leasing activity in the area's locations closest to Central London, such as Shoreditch, Angel, Hoxton and Camden Town, demand has remained limited in the areas further north which includes Kentish Town where the subject property is located.

- The majority of leasing activity has been concentrated at the smaller sub 5,000 sq ft end of the market.

- Whilst the economy shows some signs of stabilisation, the outlook remains uncertain. Funding remains a particular challenge, with borrowing rates still high and expected to remain elevated.

- The Central London and Northern Fringe office markets are dominated by 'best in class' Grade A space, accounting for the majority of lettings in Q3 2024.

- The Northern Fringe's vacancy rate continues to rise with new office completions pushing vacancy rate to a 20 year high.

- There are few 'best in class' office buildings in the Northern Fringe however those that are available have remained either in part or entirely empty for several years.

- Many new developments proposed have been placed on hold due to the increased build costs and the reduced demand levels in the Northern Fringe. The costs (both construction and financing) to deliver schemes of any size have risen so much in the last two years that new developments are extremely challenging to deliver from a commercial viability perspective.

- In a bid to attract tenants, many landlords are now resorting to highly structured deals; inflating headline rents by paying for tenants' full fitout and furniture ("Cat-B"), giving generous (and often undisclosed) rent-free packages and moving tenants from other buildings within their portfolios in exchange for reduced or nil dilapidations.

- The current building standing at Spring Place would need to undergo substantial renovation work to become fit for a modern office occupiers' purpose and given the subject properties location, demand would still be extremely limited even if best in class space were to be offered.

3.2 Economic Overview

The latest UK National Accounts & Balance of Payments data from the ONS shows the economy still balancing on a knife-edge:

GDP Growth and Revisions

- Quarter-on-quarter GDP growth in Q2 was 0.5%, down from 0.7% in Q1 and revised down from the initial estimate of 0.6%.
- Year-over-year growth rose to 0.7% in Q2 from 0.3% in Q1, though this was revised down from the first release of 0.9%.
- The economy continues to grow above potential despite the 0.1 percentage point downward revision to Q2 GDP growth.

Current Account and Trade

- The current account deficit widened sharply to £28.4 billion in Q2, from £13.8 billion in Q1, but better than the consensus expectation of £33.0 billion.
- Excluding precious metals, the current account deficit widened to £22.4 billion (3.2% of GDP) in Q2, from £16.68 billion (3.9% of GDP) in Q1.

Economic Components and Revisions

The mix of growth looks slightly better than in the first GDP release, with business investment contributing more to growth and the volatile trade, stocks, and valuables components adding less. Consumer spending continues to disappoint, rising only 0.2% quarter-to-quarter in Q2 and 0.8% in the first half of the year as households built up savings.

After the expected next interest rate cut this week and a further potential cut in Spring 2025 (although this is now less certain than it may have been following the recent budget), rates could potentially remain on hold until as late as Q4 2025 *if* the labour market and wider economy continue to overperform expectation. The recent budget commitments are currently being digested and the extent that it could impact inflation and subsequently forecast reductions in interest rates needs to be monitored closely. Further reductions in rates will only help the office leasing, development and investment markets.

We do expect investment activity to increase in Q4 2024. Now that investors have more confidence in the stability & predictability of debt markets, enquiries should pick up and money which has been waiting in the wings since 2023 for a lower-risk environment, should begin to deploy in increasing volumes."

Seb Verity - Allsop Head of Research

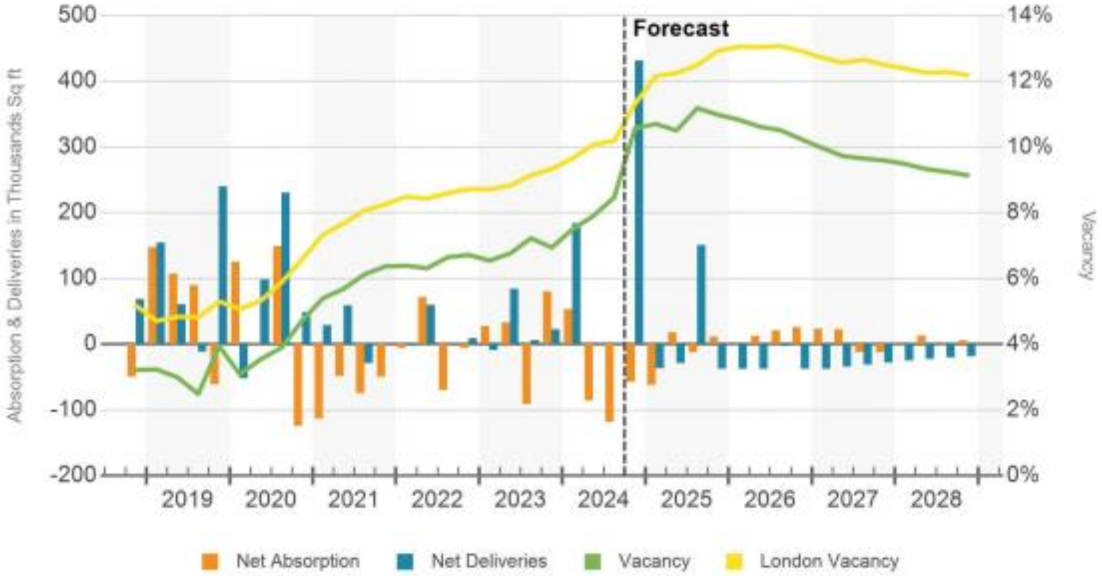
3.3 The Northern Fringe Market Overview

Vacancies in London's Northern Fringe continue to rise heading into the final months of 2024. Despite steady leasing in the area's locations closest to Central London, such as Shoreditch, Angel, Hoxton and Camden Town, new office completions have outweighed demand to push the vacancy rate upwards. It now stands at 8.4%, a 20-year high and up from just 3% when the pandemic began. It will likely rise further as the 660,000 SF under construction here is completed, with average rents declining accordingly, though vacancies here should remain slightly below the London average throughout the forecast.

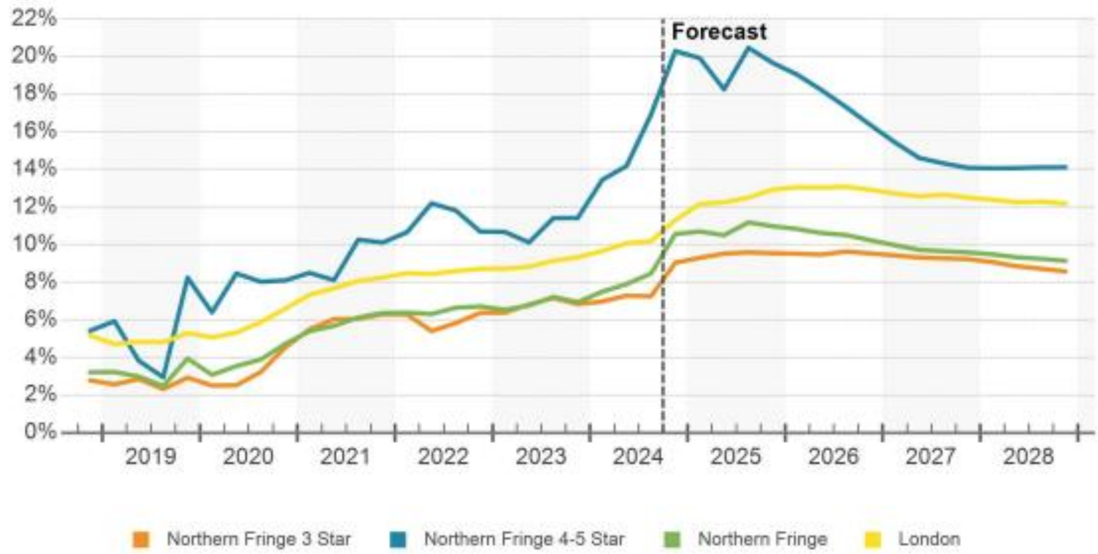
Leasing activity has been steady this year to date. It has been mainly concentrated at the smaller, sub-5,000-SF end of the market, with the average lease size running below pre-pandemic levels. New or refurbished space in locations like Camden Town are attracting occupiers with larger requirements. Clothing retailer Moss Bros signed a noteworthy deal there in May when it leased 13,000 SF of refurbished space at 128 Albert Street at £57.50/SF. Betting firm Super Group preleased 61,000 SF on Royal College Street just south of Camden Town a few months earlier in the Northern Fringe's biggest office letting in four years (albeit understood they also hold some investment in the ownership of the building itself). Charities and the public sector are the predominant sectors in the northern portion of the submarket although this demand has been further limited by the high percentage of work from home staff that operate in this occupier base.

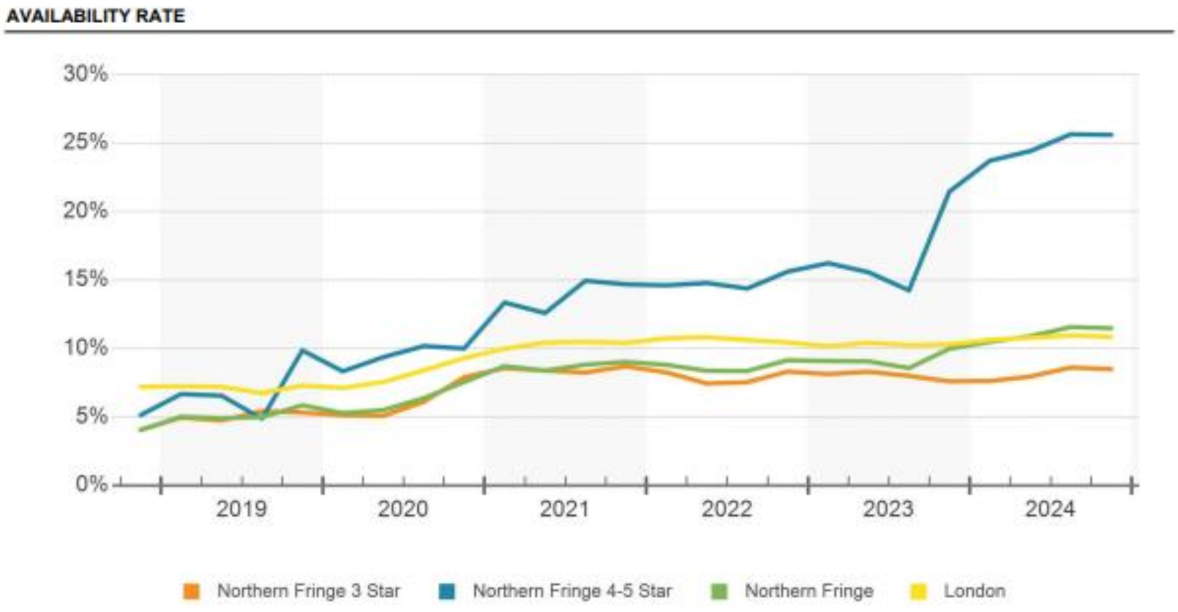
In general take up has been concentrated in the smaller, sub-5,000-SF end of the market, which caters to startups and growing firms. The Northern Fringe has become a natural home for small technology and creative firms, particularly in trendy areas like Angel, Dalston and Camden Town, as firms increasingly look beyond the "Silicon Roundabout" of Old Street, the traditional tech cluster, in search of cheaper space in similarly vibrant areas. In Dalston, leading esports company Fnatic leased 11,000 SF, signing a 10-year lease at a relatively inexpensive £33/SF. Eden Group took 13,000 SF on Kingsland Road in August 2024 at an even cheaper rent of £16/SF.

NET ABSORPTION, NET DELIVERIES & VACANCY



VACANCY RATE





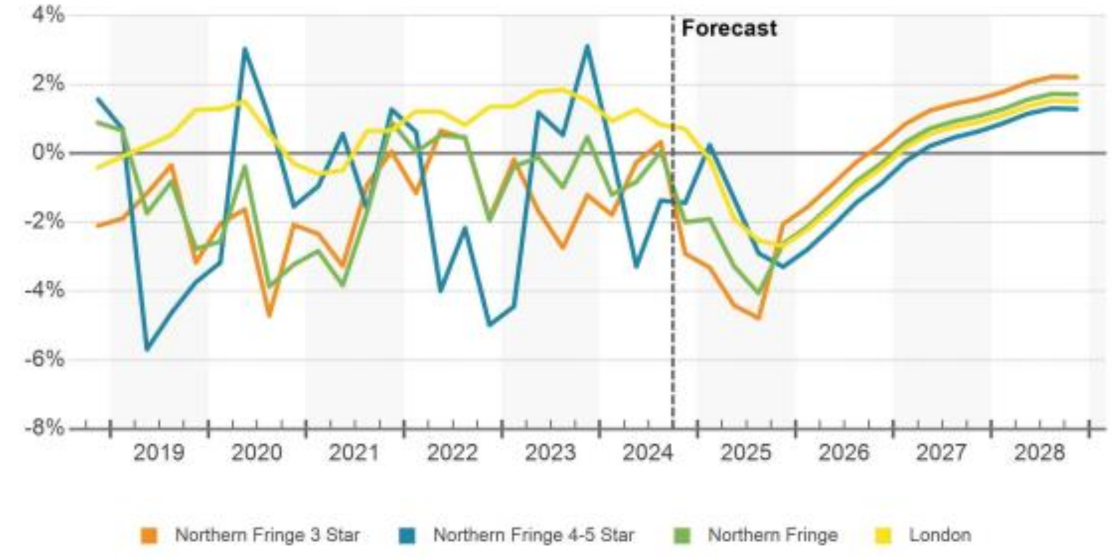
Average asking rents have not grown at all over the past couple of years, with weak demand and rising vacancy inhibiting the ability of landlords to raise rents, particularly for older or unrefurbished stock. They have fallen in real terms when factoring in inflation. Rents are also expected to fall in nominal terms in the near term as vacancies continue to rise here and across London, but new or refurbished buildings in popular areas like Camden Town and Hoxton have the best opportunity to remain resiliant.

The average rent in the Northern Fringe is £38.00/SF, comfortably less expensive than more central submarkets to the south. But rents here vary widely across different neighbourhoods. Top rents in popular Shoreditch and Angel are around £70/SF. Valtech agreed to pay £71.50/SF in leasing 7,000 SF of newly built space at 10 White Lion Street in Angel in 2023. Asking rents at the popular Tea Building in Shoreditch have remained steady at around £68/SF.

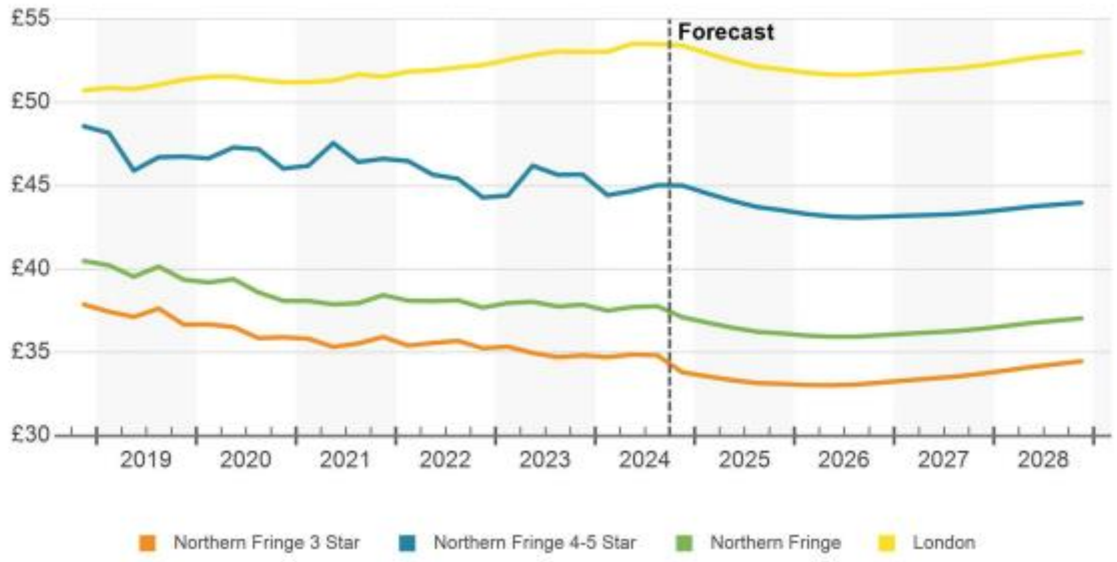
Prime rents in Camden Town and Hoxton are closer to £60/SF. Rents in the latter have seen the biggest jump in recent years, as evidenced by a big letting on Hoxton Square when graphic design firm Canva paid the asking rent of £62/SF for 13,000 SF at The Garage. In Camden, retailer Moss Bros paid a starting rent of £57.50/SF to lease 13,000 SF of refurbished space on Albert Street in May 2024, albeit with 24 months rent-free on the 10-year lease.

Conversely, rents in Stoke Newington are closer to £30/SF and below £20/SF in some locations further north. Older stock in more popular locations to the south of the submarket also rents for close to this level. JHWJ paid £27/SF to lease 7,000 SF at the Windsor Centre near King's Cross in June 2024, around a third of the rents achieved for better-quality space in the area.

MARKET ASKING RENT GROWTH (YOY)



MARKET ASKING RENT PER SQUARE FEET



3.4 Northern Fringe Leasing Transactions

Address	Photo	Date	Tenant	Floor	Size (Sq Ft)	Rent (£ per Sq Ft)	Term (Years)	CAT A / CAT B
102 St Pancras Way, NW1		August 2024	LF Europe	G-3rd Floors	11,086	£40.00	10 Years	CAT B
62 Brewery Road, N7		October 2023	Undisclosed	G-2nd	6,505	£22.56	15 years Break at 10	CAT B
The Atrium, 29A Kentish Town Road, NW5		September 2023	Chopstix Group	LG	5,645	£29.23 psf	7 Years	CAT B
Highgate Business Centre, 33 Greenwood Place		September 2023	Undisclosed	4^{th}	5,200	£30.00 psf	4 years	CAT B

Clearwater Yard, 35 Inverness Street		September 2023	Undisclosed	Ground	3,989	£45.00	Assignment of existing Lease	CAT B
24-28 Oval Road, NW1		June 2023	Boundary Visualisation	6th	6,125	£45.00	10 years break at 5	CAT B

4.0 Development Pipeline

The Northern Fringe is a sprawling area to the north of central London with around 21 million SF of offices, stretching from Angel, Shoreditch and Camden Town in the south to Wood Green and Tottenham in the north. It has grown in popularity as a tech and creative hub in recent years, and developers have responded accordingly.

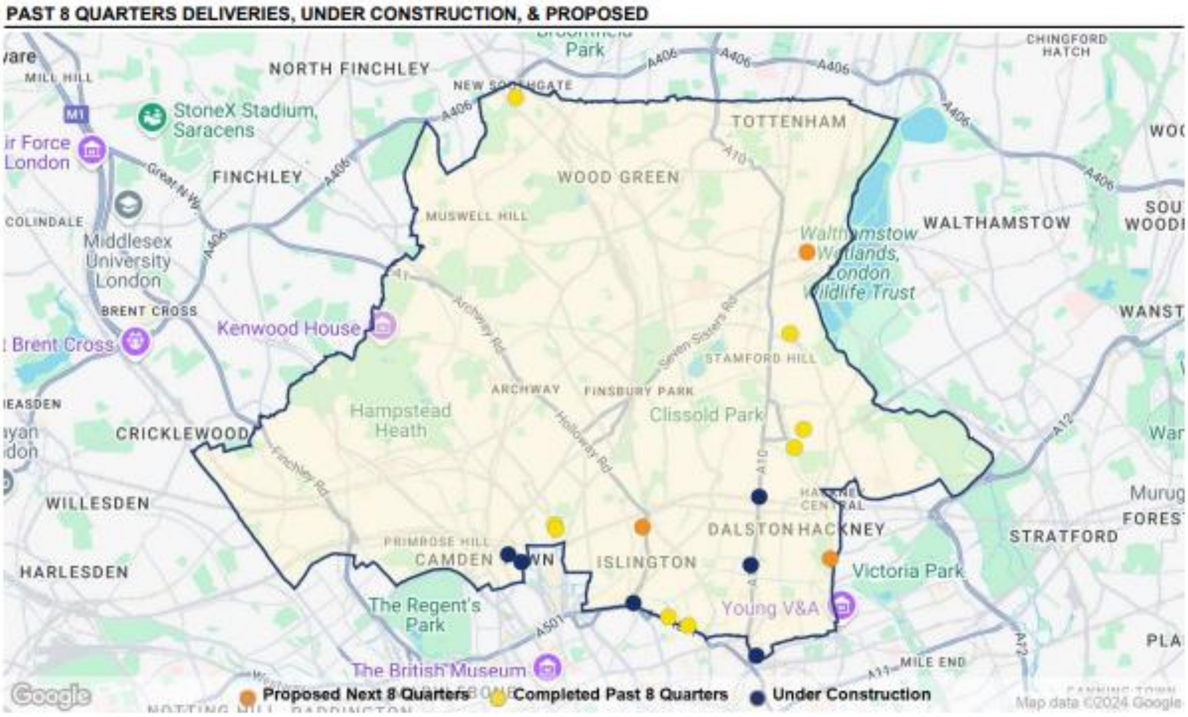
Over the past five years, over 1 million SF of office space has been completed on a net basis, one of the biggest increases in inventory of any submarket in London. About two-thirds of newly delivered space over this period has been leased.

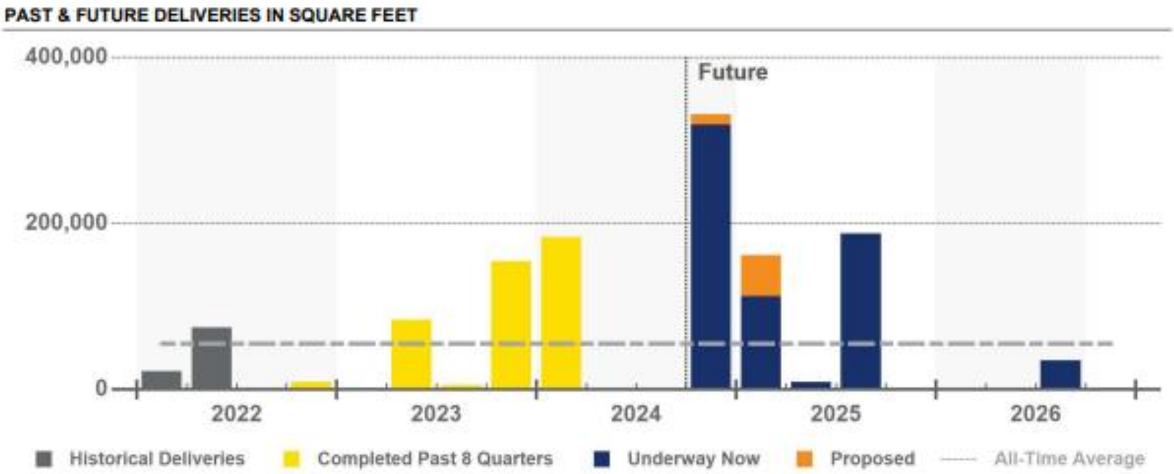
Despite rising vacancies, construction remains elevated. Around 660,000 SF is currently being built here, most of it speculative and much of which will be completed soon, with 2024 set to be the area's biggest year for net deliveries in over a decade. The southern section of the submarket bordering central London remains the busiest area for new development, with developers confident of securing tenants for top-quality, sustainable space amid an ongoing flight to quality.

The largest project underway is in Angel, where Tishman Speyer is speculatively renovating Angel Square, which comprises three adjoining buildings above Angel Station. Tishman Speyer plans to increase the office space from 130,000 SF to around 190,000 SF, with delivery scheduled for 2025.

Offices being built as part of mixed-use developments is a key theme. The ARC on City Road completed construction last year and contains about 150,000 SF of offices and 100 residential units, with nearly all the offices still available as of autumn 2024. Blue Coast Capital is building a similarly sized scheme on nearby Redchurch Street in the warehouse style that appeals to tech firms, with delivery due towards the end of this year.

Tottenham, where Argent is planning a huge residential-led development, will be a focus for further new construction in the longer term.





Source: CoStar

DRAFT

5.0 Available Offices Likely to Compete with 8-9 Spring Place, NW5

Address	Size Available From – To	Floor(s)	Quoting Rent	CAT A / CAT B	Picture
Centro 2, Mandela Street, NW1	3,908	Ground	£45.00	CAT A	
Centro 4, 20-23 Mandela Street, NW1	5,840	3^{rd}	£57.50	CAT A	
24-28 Oval Road, NW1	6,181 – 31,348	LG – 5^{th} Floors	£37.50	CAT A	
Bedford House, 125-133 Camden High Street, NW1	3,000 – 6,000	1^{st} & 4^{th}	£45.00	CAT A	

Primrose Hill Works, 42 Gloucester Avenue, NW1	1,951–15,348	G-4th Floors	£42.50	CAT A	
The Rochester, NW1	2,400-9,600	G & 1st Floors	£45.00	CAT A	
Matter Camden, 140-146 Camden Street, NW1	9,967	LG – G	£57.50	CAT A	
Highgate Studios, 53-79 Highgate Road, NW5	650-35,000	G-3rd Floors	From £45.00	CAT A / B	
Fortress Works, 36-52 Fortress Grove, NW5	2,983-28,156	G-2nd	£49.50	CAT A / B	
293-299 Kentish Town Road, NW5	219-14,877	G-3rd	£39.50	CAT B	

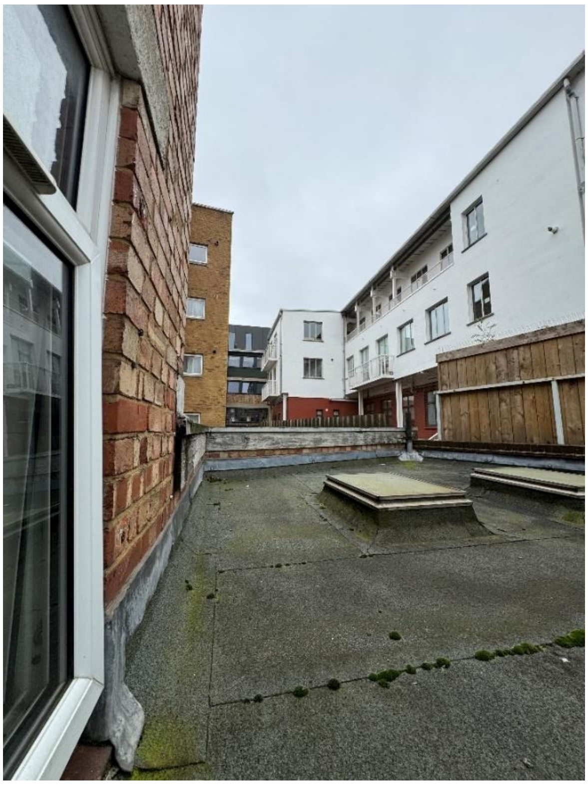
Piano Factory, Perren Street, NW5	1,408 – 11,337	LG-4th	£45.00	CAT A	
Primrose Hill Courtyard, 6 Erskine Road, NW3	870-27,850	G – 2nd	£52.50	CAT A	
152-156 Kentish Town Road, NW5	5,336	1st	£49.50	CAT B	

6.0 8-9 Spring Place, NW5 – Background

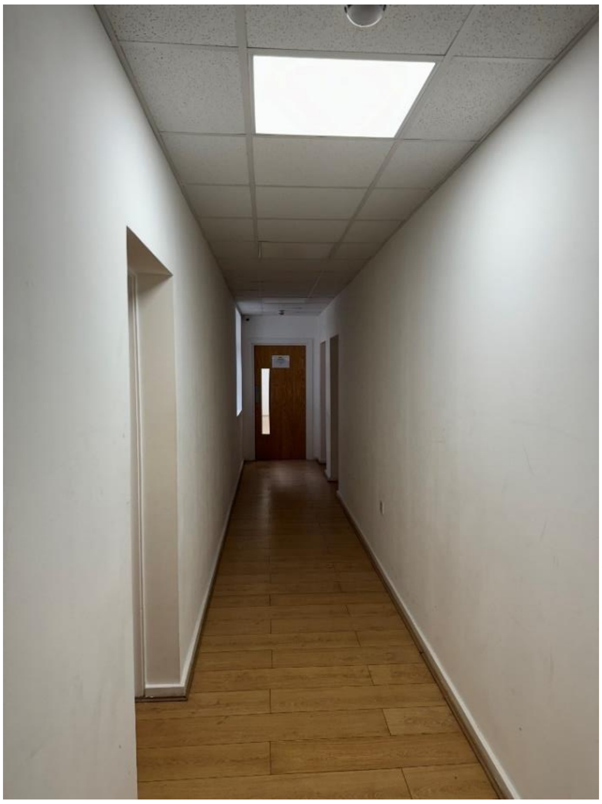
8-9 Spring Place, NW5 is situated on a plot of some 730 sq m on the southern side of Spring Place, adjacent to the Railway bridge. The existing building comprises accommodation arranged over ground and 2 upper floors and is currently configured in a heavily cellular layout.

View from Spring Place

Hard Standing area / Car Parking Space



Flat Roof to rear



Existing Corridor space

Passenger Lift (Non DDA Compliant)

Outlook from 2nd floor looking North-East

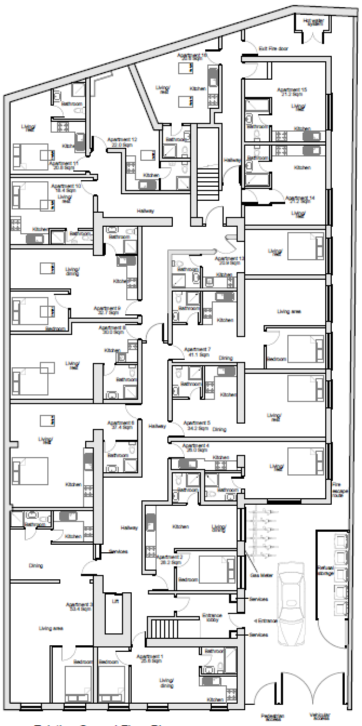
7.0 8-9 Spring Place, NW5 – Challenges from an office use perspective

- 8-9 Spring Place is a now dated building situated on a tight site with the main entrance immediately adjacent to the railway bridge.
- The existing building is compromised with access to the building proving challenging from a DDA perspective.
- Smaller floor plates are proving exceptionally challenging to lease in the current market with the continual over supply and competition from the managed and serviced office sector providing a wide choice of unit available which are better quality, locations closer to public transport and better value than anything that could be created on this site.
- Limited amenities and external space will prove challenging to offer which have become increasingly important to office occupiers.
- The building façade is dated and unattractive to office occupiers.
- The building needs to comply with modern sustainability expectations and EPC ratings

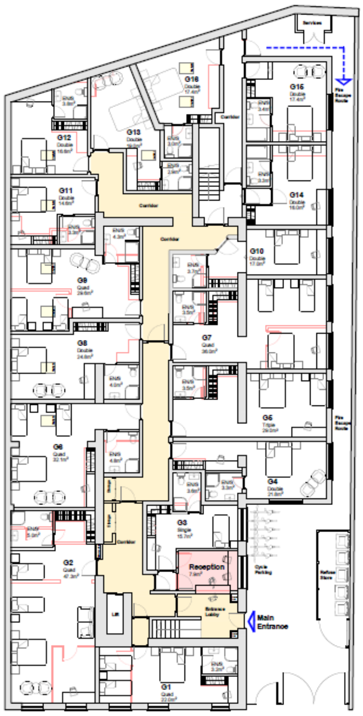
8-9 Spring Pace, NW5 – Revised Proposal to Convert to C1 Planning Use

The shift in the office leasing market has been pronounced over the last five years. Repurposing suitable redundant office buildings from use B1 (now Class E) to C1 Hotel and serviced apartments (short term lettings no longer than 90 days), has become increasingly commonplace in various boroughs across London. This has been a preferred route for many councils seeking to retain some viable employment uses whilst ensuring permanent residential is restricted as per planning policy for the area.

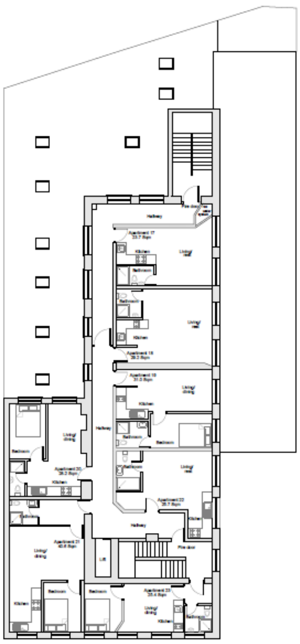
The initial feasibility study prepared by Stamos Yeoh architects shows that because of the size and configuration of the existing floorplates, through minimal intervention the building can be upgraded and adapted to the proposed use to create high quality C1 accommodation. Please see below as existing and proposed plans for each floor.



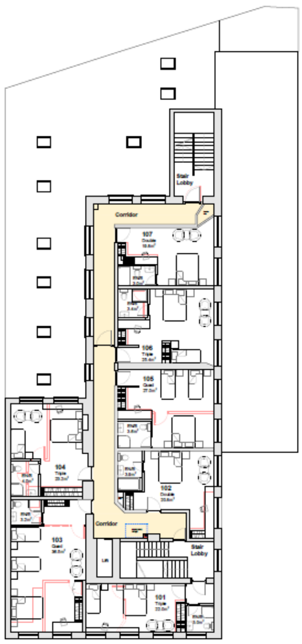
1. Existing Ground Floor Plan
Scale: 1/200



2. Proposed Ground Floor Plan
Scale: 1/200

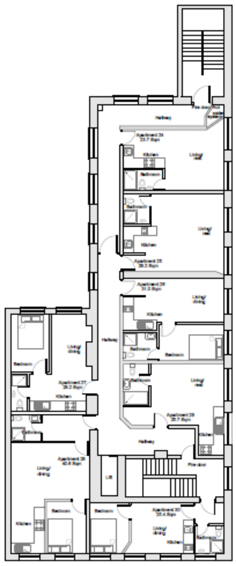


1. Existing First Floor Plan
Scale: 1/200

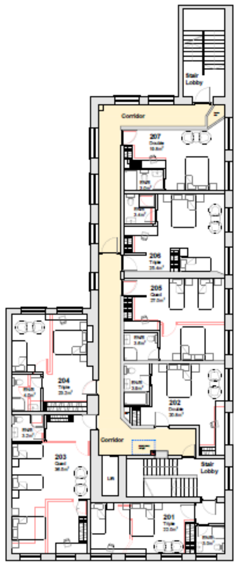


2. Proposed First Floor Plan
Scale: 1/200

Existing wall Demolition



1. Existing Second Floor Plan
Scale: 1/200



2. Proposed Second Floor Plan
Scale: 1/200

Existing wall — Demolition

7.1 Hotel Demand & Supply Dynamics

One of the most attractive aspects of hotel use, and the wider overnight hospitality accommodation sector, is the strength of its demand fundamentals. An expanding middle class in large emerging economies in Asia, growing consumer appetites for travel amongst other factors, have fuelled growing demand in overnight accommodation, particularly in leisure demand. These underpinning factors are clearly apparent in the speed and strength at which the UK hotel market bounced back post pandemic.

Looking forward, these drivers are set to strengthen. The soft-landing forecast for major global economies, alongside slowing inflation and in turn positive wage growth has translated into improved hotel customer confidence.

This will feed positively into hotel demand across the European region, with Oxford Economics forecasting international arrivals into Europe to increase by an average of 8.5% per annum through to the end of 2026. For the UK this will have positive implications for London and Edinburgh, two major destinations for international tourists.

Projections indicate that total hotel room supply across the UK is set to grow modestly in 2024 and 2025. This is following a slowdown in new hotel deliveries in 2022 and 2023 that saw UK hotel stock grow by just 0.7% per annum.

Based on schemes under construction and in final planning, just over 17,000 new rooms are anticipated to enter the market in 2025. However, with 70% of this yet to start on site it is expected most of this pipeline will as a minimum drift into 2026 indicating a growth rate of c.1.5% over the next 2 years.

Source : Savills – Spotlight UK Hotels 2024

8.0 Conclusion

Allsop are one of the leading office leasing specialists in Camden Town and surrounding markets. The leasing team have experienced a turbulent few years' post Covid with several office buildings remaining available for several years with little hope of improvement in market dynamics.

Many buildings are taking more than 3 years to lease including Highgate Studios, Spectrum House, The Piano Factory, Fortress Works and The Centro Campus. Many still have ongoing voids with little visibility on when these buildings will be successfully let in the future.

The current building at 8-9 Spring Place is not fit for purpose as offices in our view. Converting the current building will be costly and the office space created will not let successfully with the amount of competing space at all levels of quality currently available in the locality in more established office locations.

We have continued to witness occupiers move away from office buildings located in fringe areas either to more central locations or adopting a work from home mandate. Net absorption rates have continued to reduce as occupiers seek to take lower volumes of space following the rebalancing of working from home vs office working. This has resulted in notably lower levels of active demand coupled with a continued level of tenant space' being released to the market to sublet.

Given this challenging environment combined with inflationary increases in build costs we believe that replacing the current space with further office supply will prove to be unviable in all respects.

The opportunity to adapt, repurpose and rejuvenate the existing building into a C1 planning use could bring numerous benefits to the local environment and meeting an increasing demand for overnight accommodation.

Should you wish to discuss the report in further detail please do not hesitate to contact the team at Allsop.

Yours sincerely

RICHARD TOWNSEND BLE (HONS) MRICS
Partner
For Allsop LLP
DL +44 (0)20 7543 6718
M +44 (0)7787 153 408
E richard.townsend@allsop.co.uk