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**Subject to contract  
Without prejudice**

30 March 2016

### **The London Office Market**

The property is located between Shaftesbury Avenue & High Holborn, immediately north of Covent Garden, and falls within the London sub-market of Midtown. The building is an attractive period property arranged over lower ground, ground and three upper floors currently totalling 10,422 sq ft. Once complete, the proposed office refurbishment (including a new fourth floor) will bring much needed supply of floor plates sub 5,000 sq ft to a market that is currently suffering with a shortage of supply, particularly for well refurbished small units ranging from 1,000 – 3,000 sq ft.

As can be seen from the market commentary and data below, the London Office Market is currently struggling with a shortage of supply. This shortage of supply is most prominent in floor plates of sub 5,000 sq ft. Due to the lack of supply, small to medium size businesses seeking space in Central London are struggling to find suitable accommodation, particularly in the West End & Midtown, where supply has reached historic lows.

As the property sits on the Western fringe of the Midtown Market, bordering the West End, it is important to evaluate the current lack of supply in both Midtown and the West End sub-market known as North of Oxford Street East (Noho). Both sub-markets are very similar in respect of the tenants they attract as well as being geographically close to one another.

### **Central London Overview**

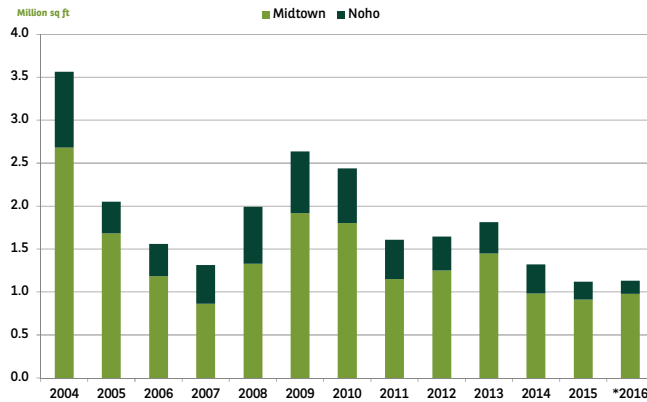
The Central London Office market is currently struggling from a lack of stock. The vacancy rate currently stands at a 15 year low at 4.15%, equivalent to only 9.13m sq ft of supply. This is 20% below levels 12 months ago and 42% below the long term average. With demand still very much robust and supply restricted, occupiers are increasingly looking to future development pipeline to fulfil their property requirements.



## Current Supply in Midtown & Noho

As at end 2015, supply in Midtown and Noho stood at 1.12m sq ft, a 15% fall on levels at end 2014. The completion of approximately 850,000 sq ft of developments in 2015 went some way in relieving the supply shortage and good levels of demand kept supply levels steady throughout the year, indeed take-up reached 1.3m sq ft, 11% ahead of the long term annual average.

## Supply in Midtown & Noho



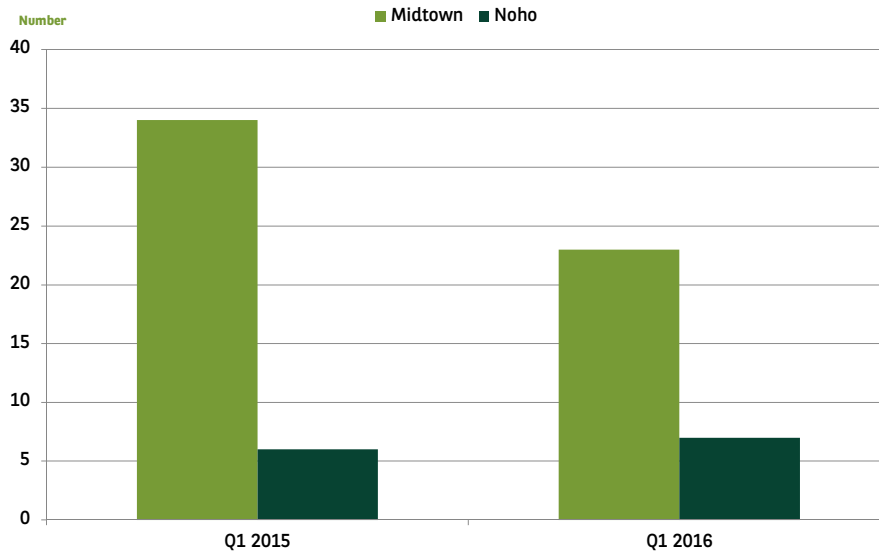
Source: BNP Paribas Research, \*2016 data as at end January – The bar graph above clearly demonstrates how office stock has dramatically reduced since 2010, both in Midtown & Soho.

Supply in Midtown and Noho currently stands at 1.13m sq ft, this is 35% below the long term average. We expect to see approximately 1m sq ft of completions in 2016, however we believe demand remains robust enough to avoid an oversupply in the two submarkets, indeed approximately 150,000 sq ft is currently under offer and 16% of completions due for delivery in 2016 are already pre-let.

Despite the development pipeline seeming to respond to restricted supply levels, severe under supply is still being felt in buildings which offer floor plates sub 5,000 sq ft. Currently, there are only 23 buildings in Midtown, which supply floor plate's sub 5,000 sq ft. In the sub market of Noho, this figure is even more restricted, with only 7 building offering units sub 5,000 sq ft. The bar chart below highlights the fall in supply for small units (<5,000 sq ft) in both sub-markets.



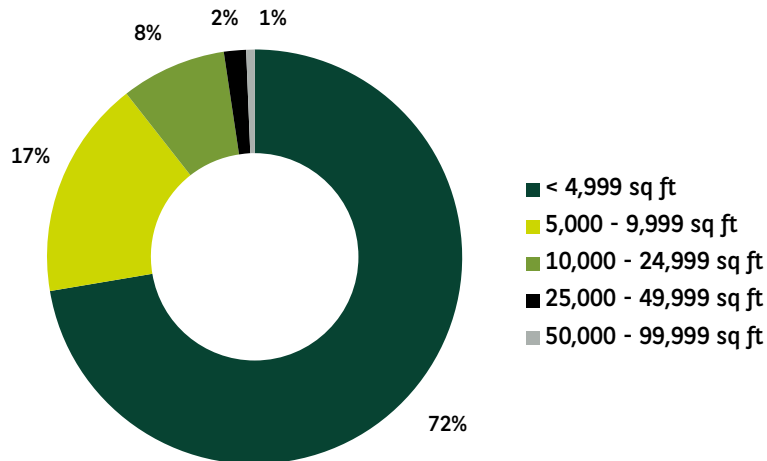
## Number of buildings with <5,000 sq ft floor plates



Source: BNP Paribas Research.

The demand for smaller units in Midtown and Noho is demonstrated in the below graph, the largest proportion of demand over the last five years is for units of <5,000 sq ft and below.

## Deals by unit size band last five years 2011-15 (number of deals)



Source: BNP Paribas Research.



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This contraction of supply has inevitably placed pressure on rents which, as at the end of 2015 stood at £67.50/ sq ft. This was very much driven by record rents being achieved on smaller floor plates.

As previously cited, the lack of supply is particularly affecting occupiers seeking small floor plates. Start-up companies and small occupiers that have long occupied accommodation in these sub-markets or who wish to be located here due to the benefits it will bring to their business are struggling to secure suitable accommodation. Occupational demand is the dominant reason for the shortage of stock, but many buildings that once offered this type of accommodation have been converted to residential use, particularly in Covent Garden over the course of the last five years.

The proposed scheme will provide the ideal accommodation for small to medium sized businesses, whilst helping to improve employment in the immediate area, which will in turn help local retailers and the immediate business community. In addition to this, the fully refurbished property would be yielding a significant amount through business rates, which wouldn't have been realised otherwise. We estimate that a tenant(s) liability for the fully let proposed scheme is in the region of £224,000 based on the estimates for April 2017. The Rateable Values adopted on any 2017 assessment at 9-13 Grape Street will be based on rental values at or around the Antecedent Valuation Date of 1st April 2015.

The proposed refurbished B1 office accommodation will bring much needed supply into a market, which is currently deprived of good quality refurbished office units of sub 5,000 sq ft. Because of the lack of supply and continued strong occupier demand, we believe that the refurbished scheme will secure a letting(s) before or soon after completion of the Cat A works, assuming the market fundamentals remain strong. A fully refurbished office scheme will ensure retaining quality tenants in the long term, in turn improving the local area.



## Approach to Mixed Use Policy – provision of a residential unit on site

This section identifies why the proposed scheme at 9-13 Grape Street would only work as a single use commercial scheme. Due to the size of the building and configuration of the floors, it would not be financially viable or practical to provide a residential unit on site. The costs involved to provide separate entrances and services such as separate lifts will mean the additional capital expenditure required, and additional ongoing servicing and maintenance costs. Furthermore, the loss in Net Internal Area will make the proposed development unviable for the Landlord, discussed below.

To accommodate both commercial and residential use within the building, the Landlord would need to create two separate entrances at the Grape Street elevation, as well as two separate lifts and cores for access. This would significantly reduce the lettable area on all the floors, particularly on the ground floor. The result of this is to reduce the lettable floor space by approximately 185 – 278 sq m (2,000 – 3,000 sq ft), a 21-32% reduction which would have severe adverse impact on the financial viability of the scheme.

Furthermore, in addition to the reduction in the quantum of floor space, the quality and practical usability of office floor space is affected, adversely impacting on the viability of the scheme even further. As the floor plates are circa 2,000 sq ft and very narrow, anything more than a single lift and core would make the commercial use unlettable and financially unviable.

The capital expenditure required fitting two separate lifts and services to supply the separate residential and commercial demises would far exceed what the Landlord is currently expecting to pay for the single use development. These additional costs would need to be taken out of the budget set aside to fit out the internal demise, which would significantly reduce the proposed quality of the refurbishment, thus impacting the quality of end user and achieved rental tone that the building would have otherwise yielded.

The alternative would be for the residential and commercial occupiers to use the same reception and lift. In our experience, this would impact the viability of both schemes as well as provide additional problems from a point of view of security, and practical usability.

Receptions are an extremely important part in marketing both a residential and commercial building. While the finishes are often consistent, there are certain elements that are specifically used in one and not applicable to the other. For example, a tenant board is critical to a commercial scheme, advertising which tenants occupy the building. Residential occupiers would not appreciate this in their reception.

In addition, residential tenants would not appreciate the heavy footfall of people coming in and out of reception, many of which are visitors. A commercial tenant is unlikely to take kindly to noise made from the residential unit, whilst conducting business meetings etc.

Based on the above, we are of the opinion a mixed use scheme is not financially viable. A residential unit cannot be accommodated on site without rendering the scheme unviable, and unable to come forward.

The building lends its self well to commercial (B1) use and could be let in its entirety to a single occupier or on a floor by floor basis. There is a lack of office accommodation in the local area, particularly for floors sub 5,000 sq ft, reflected in the current proposals for a wholly office scheme which caters to this demand.



## Approach to Mixed Use Policy - Search for suitable sites nearby to provide a residential unit

This section identifies the search undertaken to find alternative accommodation off site to provide the required residential unit of circa 224 sq m (2,404 sq ft). The search criteria was based on the following;

- Size was ranged between 46.45 – 278.70 sq m (500 – 3,000 sq ft).
- No budget was set, in order to ensure full coverage.
- Commercial Units.
- Freehold & Long lease hold options were both considered.

The search area was in the first instance focused on the Holborn and Covent Garden ward, as agreed with the Council. This yielded no results.

Due to the lack of results from this agreed search area, the geographical boundary was expanded for the purposes of this exercise in demonstrating the difficulties in finding suitable sites.

The industry uses two key methods to identify available property in the market on behalf of clients. The first method and most commonly used is an online communication platform known as West End & City Agent.com. This system allows Central London agents to communicate with one another, posting requirements they have for clients searching for space or for marketing space they are disposing of on behalf of clients. Nearly every commercial property agent dealing with office accommodation in Central London uses this platform. Method 2 centred on using a property database system called Costar. This is the most commonly used commercial property database for Landlords and agents to list the buildings they are seeking to dispose of, both on a freehold and leasehold basis. Nearly every commercial property company uses this database.

Due to the tight supply of commercial accommodation in Central London, values have increased sharply, both in the leasing and freehold market. As a result of this, the findings of the search have been limited and those options that are available are seeking offers at extremely high levels. The findings show that it would not be financially viable to acquire accommodation on a freehold / Long Leasehold basis for the purpose of the above. Due to the size of the required unit, it has been extremely hard to locate any suitable units and they are not common.

This section reviews how both methods of search were undertaken and the limited findings yielded due to the above.

### **Search Method 1**

Details of the requirement circulated to circa 390 property agents' office departments throughout Central London via City & West End Agents.com. This ensured that all agents marketing properties on a freehold / Long leasehold basis were made aware of the potential requirement and would have sent across anything they felt was suitable. This was done on 12.01.2016, 09.02.2016 and 16.03.2016.

The search criteria was as follows (a copy of the note to the market is found in **appendix 1**);

Tenure: Freehold / Long Leasehold.

Size: 500 – 2,500 sq ft (NIA)

Budget: Nothing was set to ensure maximum coverage.



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Areas of search: Bloomsbury, Camden, Clerkenwell & Farringdon, Covent Garden, Euston/Kings Cross, Fleet Street, Holborn, Noho/Fitzrovia, Soho

Only three options were sent through. These are detailed in **appendix 2**, which gives some content on the use class, price and configuration of each property. Below identifies why each property wouldn't be suitable for the proposed alternative use;

**16 Park Road, NW1** – The property currently falls under A2 office / retail use so would require change of use. It's situated on the ground floor so would not be appropriate for residential use. The property is not located near the Covent Garden / Holborn location - indeed, it is in the City of Westminster and not Camden – and so would not be considered close by to the subject property. The asking price of £495,000 is prohibitively high.

**154 Lever Street, EC1V** – The demise of the unit would not suit residential use, being arranged over ground and lower ground floors. As it is currently a B1 use class, a change of use would be required and the current asking price of £849,950 is prohibitively high. Again, the property is located far from the required location, in the London Borough of Islington and not Camden.

**40 Rosebery Avenue EC1R** – While the set-up of the building would lend itself to residential use, the asking price of £2,000,000 is a significant amount given the proposed scheme the Landlord intends to deliver at Grape Street and the purpose of this exercise. A change of use would also be required, and again the property is in Islington and not Camden.



## Search Method 2

Due to the lack of response, we undertook a search on Costar Search database. The geographical boundaries were as follows;



All other search criteria remained consistent with method 1. The results are found under [appendix 3](#). This yielded five options. The price range for three of these properties ranged from £1.5 - £2 million, which is far in excess of the policy compliant payment in lieu for equivalent floor space, as set out in the planning statement. Given the price the Landlord paid to acquire 9-13 Grape Street and the capital expenditure required to refurbish the premises, spending the required amount to secure one of these units to provide off site residential accommodation wouldn't allow my client to proceed with the proposed scheme planned at Grape Street. The other two properties (options 1 & 2) are seeking offers well below this, but still far in excess of the policy compliant payment and are ground floor units, so would not be suitable for residential use.

All the units unearthed through the Costar search can be dismissed on the same grounds as those properties identified in Method 1. To reiterate, the reasons are as follows; required change of use, outside the required ward, too expensive in comparison to the policy compliant payment and the general configuration of the available units (mainly being arranged over ground and lower ground).





## Conclusion

The proposed scheme at 9-13 Grape Street will bring much needed supply to a market currently starved of well refurbished small floor plates. The proposed scheme will help attract a strong occupier base to complement the ever improving immediate location. This in turn will benefit local retailers and increase the tax revenue of the area through business rates generated.

Due to the size and configuration of the building, it lends itself to a single Use Class. If my client were to create a building that would allow for both commercial and residential use, the costs for doing this and the loss of Net Internal Area would make the scheme unviable.

In addition, the cost of acquiring a new property off site would be extremely prohibitive, expensive, and impractical given the current lack of opportunities in the market. Units of 500 – 3,000 sq ft are not common and often the configuration of these units would not suit residential use.

Based on our experience and knowledge of the central London office and residential markets, it has been demonstrated that 9-13 Grape Street cannot accommodate a residential unit on site without rendering the scheme unviable, and undeliverable, based on our experience and knowledge of the market.

Furthermore, using the methodologies outlined above – methodology based on standard industry practice when searching for property – no suitable sites have been identified. It is has therefore been satisfactorily demonstrated that it is not possible to physically provide a residential unit either on site, or off-site in the locality.



## Appendix 1 – Message circulated to the agent community.

The screenshot shows an Outlook email window. The top ribbon includes 'File', 'Message', and 'Quick Steps'. The 'Message' ribbon has buttons for 'Ignore', 'Junk', 'Delete', 'Reply', 'Reply All', 'Forward', 'Meeting', 'More', 'Eversholt, 203', 'Team E-mail', 'Reply & Delete', 'To Manager', 'Done', and 'Create New'. The 'Quick Steps' ribbon has 'Move' and 'Actions'. The email header shows: From: James Wright <notifications@westendagents.com>, To: ROONEY Robert, Cc: [Redacted], Subject: [WestEndAgents.com] 500 - 2,500 sq ft Freehold Search.

Click here to download pictures. To help protect your privacy, Outlook prevented automatic download of some pictures in this message.

**From:** James Wright <notifications@westendagents.com>  
**To:** ROONEY Robert  
**Cc:**  
**Subject:** [WestEndAgents.com] 500 - 2,500 sq ft Freehold Search

**New acquisition posted!** [View this acquisition in full](#)

**Message:**

All,

Looking to acquire a freehold interest in Midtown, City Fringe, Soho/Noho or Covent Garden.

500 - 2,500 sq ft NIA.

No budget.

James

**Location:** Bloomsbury, Camden, Clerkenwell & Farringdon, Covent Garden, Euston/Kings Cross, Fleet Street, Holborn, Noho/Fitzrovia, Soho  
**Size:** 500 – 2,500 sq ft  
**Date posted:** 09/02/2016



**Appendix 2 – Properties found through contacting agents directly in the market.**

Address	Description	Price	Feasibility
16 Park Road, NW1  NO IMAGE AVAILABLE	Long lease hold for sale: Comprising of ground floor 800 sq ft / 74.3 sqm, A2 office/retail premises. The annual ground rent is currently £3,868 with an outstanding rent review from 2014 with the final review in 2039.	Offers in excess of £495,000	Too expensive. Not near the subject property and would require consent for change of use.
154 Lever Street, London EC1 	Demise comprises ground and lower ground floor space totalling 1,410 sq ft. Available on a Long Leasehold with a term of 117 years remaining.	Guiding a price of £849,950	Too expensive and the demise unit would not suit residential use. Would need consent for change of use.
40 Rosebery Avenue, EC1 	The property is a self contained building comprising 2,253 sq ft split over two upper floors, ground and lower ground floor. Currently has B1 use.  Freehold available with vacant possession.	Offers in excess of £2,000,000. A purchase at this level reflects a capital value of approximately £887.70 per sq. ft. based on the GIA.	Too expensive and would require change of use.

# 1 57 Eagle Wharf Rd, Unit 7

London, N1 7ER  
28,200 SF Office/Residential Unit Built in 2008  
Unit for sale at £645,000 (£452/SF)

## Unit Information

Portfolio Info: ***This property is also for sale as part of a portfolio***  
Sale Price: **£645,000**  
Unit SF: **1,428 SF**  
Price/SF: **£452**  
Net Initial Yield: -  
Tenure: **Long Leasehold**  
  
Sale Status: **Available**  
Days On Market: **609**  
Sale Type: **Owner/User**  
Sale Conditions: -

Floor #: **GRND**  
Unit #: **Unit 7**

## Sale Notes

The available space comprises office accommodation on the ground floor.

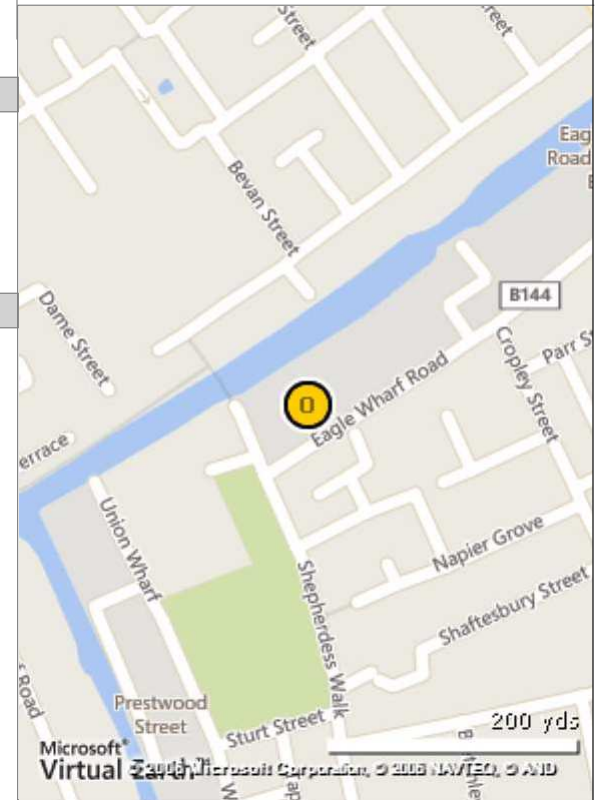
A new 125 year long leasehold interest from August 2009 is available, subject to an annual ground rent of £500.00.

Guide price £645,000.

## Office Information

Bldg Type: <b>Office</b>	Bldg Status: <b>Built May 2008</b>	Tenancy: <b>Multi</b>
Rent/SF/Yr: <b>£26.17</b>	% Leased: <b>100.0%</b>	Elevators: -
NIA: <b>1,428 SF</b>	Total Avail: <b>6,251 SF</b>	
Floors: <b>8</b>	Bldg Vacant: <b>0 SF</b>	
Owner Type: <b>Developer/Owner-RGNL</b>	Typical Floor Size: <b>18,149 SF</b>	Use Class:
	Land Area: -	Owner Occupied: <b>No</b>
	Ownership: <b>Unit</b>	

Amenities: **Courtyard, Raised Floor, Roller Shutters, Security System, Storage Space**



## 2 17-20 Parr St, Unit C

London, N1 7ET  
8,757 SF Office/Residential Unit Delivering 5/2016  
Unit for sale at £306,000 (£350/SF)

### Unit Information

Portfolio Info: ***This property is also for sale as part of a portfolio***  
Sale Price: **£306,000**  
Unit SF: **874 SF**  
Price/SF: **£350**  
Net Initial Yield: **-**  
Tenure: **Long Leasehold**

Sale Status: **Available**  
Days On Market: **46**  
Sale Type: **Owner/User**  
Sale Conditions: **Shell & Core**

Floor #: **GRND**  
Unit #: **C**

### Sale Notes

The available space comprises ground floor office accommodation.

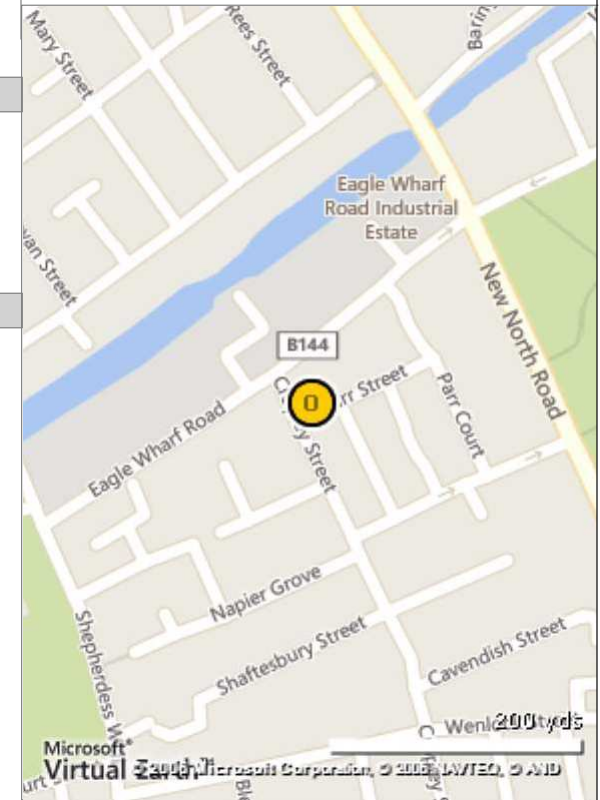
The long leasehold interest of the property is available on a 250 year lease subject to a nominal ground rent.

Alternatively the unit is available to rent on a new full repairing and insuring lease for a term to be agreed.

### Office Information

Bldg Type: <b>Office</b>	Bldg Status: <b>Under Construction, delivers May 2016</b>	Tenancy: <b>Multi</b>
Rent/SF/Yr: <b>£20.59</b>	% Leased: <b>90.0%</b>	Elevators: <b>-</b>
NIA: <b>874 SF</b>	Total Avail: <b>874 SF</b>	
Floors: <b>6</b>	Bldg Vacant: <b>0 SF</b>	
Owner Type: <b>-</b>	Typical Floor Size: <b>5,249 SF</b>	Use Class:
	Land Area: <b>-</b>	Owner Occupied: <b>No</b>
	Ownership: <b>Unit</b>	

Amenities: **Natural Light - good**



### 3 Pear Tree St - Dance Square, Unit 33

London, EC1V 3AG  
 49,527 SF Office Unit Built in 2012  
 Unit for sale at £1,500,000 (£640/SF)

#### Unit Information

Sale Price: **£1,500,000**  
 Unit SF: **2,344 SF**  
 Price/SF: **£640**  
 Net Initial Yield: -  
 Tenure: **Long Leasehold**

Sale Status: **Available**  
 Days On Market: **213**  
 Sale Type: **Owner/User**  
 Sale Conditions: -

Floor #: **BSMT**  
 Unit #: **33**

#### Sale Notes

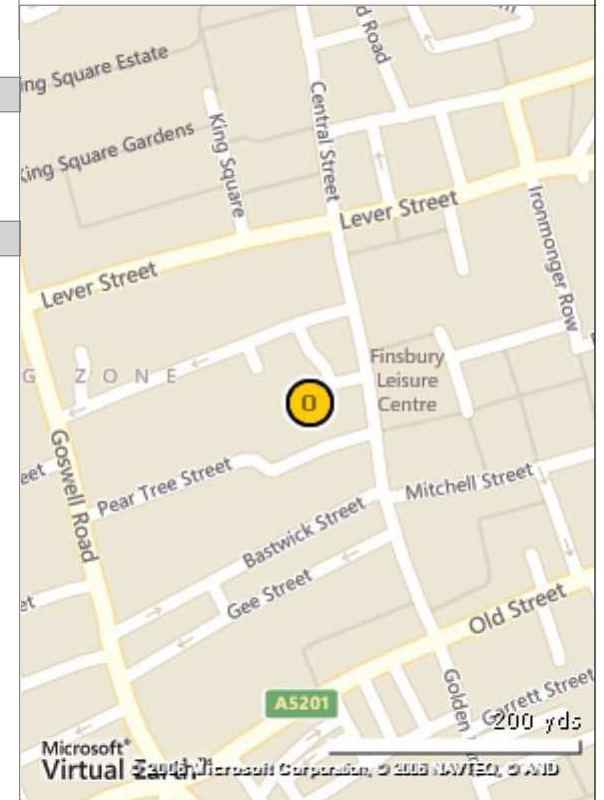
The space comprise office accommodation arranged over the basement and ground floors.

The property is available for long leasehold sale at an asking price of £1,500,000.

#### Office Information

Bldg Type: <b>Office</b>	Bldg Status: <b>Built Jul 2012</b>	Tenancy: <b>Multi</b>
Rent/SF/Yr: <b>£49.96</b>	% Leased: <b>97.4%</b>	Elevators: -
NIA: <b>2,344 SF</b>	Total Avail: <b>6,720 SF</b>	
Floors: <b>8</b>	Bldg Vacant: <b>1,301 SF</b>	Use Class:
Owner Type: <b>Corporate/Us er</b>	Typical Floor Size: <b>24,264 SF</b>	Owner Occupied: <b>No</b>
	Land Area: -	
	Ownership: <b>Unit</b>	

Amenities: **Air Conditioning, Bicycle storage, Comfort Cooling, Courtyard, Dedicated Shower Facilities, Demised WC facilities, High Ceilings, Kitchen Facilities, Natural Light - good, Raised Floor, Security System, Storage Space**



## 4 40 Rosebery Ave

London, EC1R 4RN  
2,253 SF Office Building Built in 1830  
Property is for sale at £2,000,000 (£888/SF)

### Investment Information

Sale Price: **£2,000,000**  
Price/SF: **£888**  
Net Initial Yield: -  
Tenure: **Freehold**  
Sale Status: **Available**  
Sale Conditions: -  
Sale Type: **Owner/User**

Days On Market: **612**



### Sale Notes

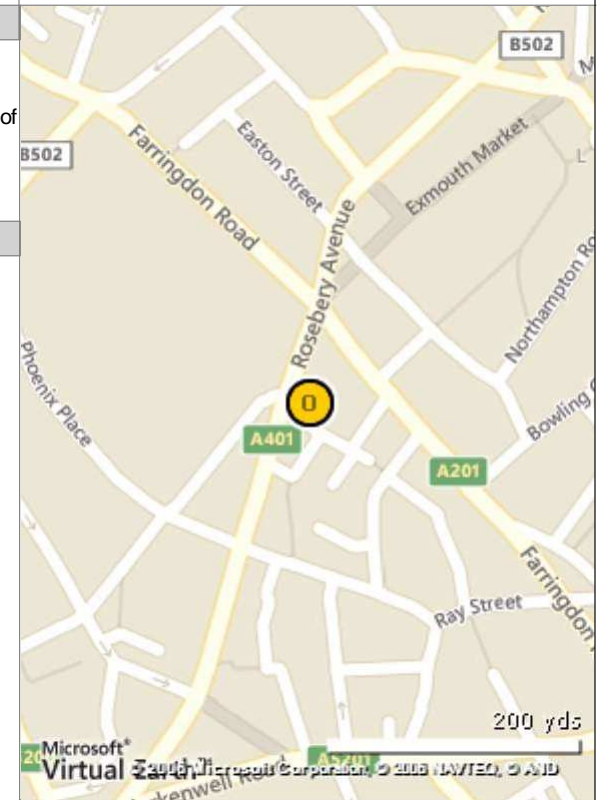
The available space comprises office accommodation arranged over five floors.

offers in the region of £2,000,000 exclusive and subject to contract for the freehold interest. A purchase at this level reflects a capital value of approximately £998.66 per sq. ft. based on the GIA.

The vendor would consider rental offers in excess of £75,000 per annum exclusive.

### Office Information

Bldg Type: <b>Office</b>	Bldg Status: <b>Built 1830</b>	NIA: <b>2,253 SF</b>
Total Avail: <b>2,253 SF</b>	% Leased: <b>0.0%</b>	Floors: <b>5</b>
Bldg Vacant: <b>2,253 SF</b>	Elevators: -	Land Area: -
Typical Floor Size: <b>451 SF</b>	Use Class: -	Owner Type: <b>Individual</b>
Plot Ratio: -	Tenancy: <b>Multiple Tenant</b>	Owner Occupied: -
Star Rating: ★★☆☆☆		
Amenities: <b>Security System</b>		



## 5 2-4 Sebastian St - Sebastian House

London, EC1V 0HE  
2,247 SF Office/Residential Building Built in 1955  
Property is for sale at £1,950,000 (£868/SF)

### Investment Information

Sale Price: **£1,950,000**  
Price/SF: **£868**  
Net Initial Yield: -  
Tenure: **Long Leasehold**  
Sale Status: **Available**  
Sale Conditions: -  
Sale Type: **Owner/User**

Days On Market: 1



### Sale Notes

The available space comprises ground floor office accommodation.

The long leasehold interest of the property is available.

### Office Information

Bldg Type: <b>Office</b>	Bldg Status: <b>Built 1955</b>	NIA: <b>2,247 SF</b>
Total Avail: <b>2,247 SF</b>	% Leased: <b>100.0%</b>	Floors: <b>5</b>
Bldg Vacant: <b>0 SF</b>	Elevators: -	Land Area: -
Typical Floor Size: <b>1,124 SF</b>	Use Class:	Owner Type: <b>Developer/Owner-</b>
Plot Ratio: -	Tenancy: <b>Multiple Tenant</b>	Owner Occupied: <b>NTL</b>
Star Rating: ★★☆☆☆		
Amenities: <b>Reception, Storage Space</b>		

