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Our Ref: AH/lo'd

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Dear Bryony

Re: 212-214 High Holborn, London, WC1

Farebrother is a multi-disciplinary real estate advisory firm that acts for an array of office, retail, leisure, and residential clients. Our two main locations of focus are Midtown, where the subject property is located, and the South Bank in London. In the last three years alone, we have advised on over 1.6m sq ft across Midtown and the South Bank.

Following our inspection and subsequent correspondence you have asked us, in our capacity as local Leasing and Development advisors, to provide our expert advice on the paragraph below. It follows a meeting and subsequent correspondence with the London Borough of Camden in respect of a planning application at 212-214 High Holborn (Ref: 2017/0356/P and 2017/1279/L).

'In listed building terms, the existing upper floors, lend themselves to being in residential use and there is currently not a sufficiently robust justification against Policy DP1 that residential floorspace cannot be provided onsite. There is no mention of whether you have explored the possibility of sharing one of the entrances between office and A1/A3 users so that the other entrance could be a residential entrance'.

In order to address this, we will firstly comment on the current local Office Leasing Market.

In terms of take up, there has been a strong start to the year with occupiers committing to 681,164 sq ft in Q1 2017, which is an increase of c.58% in comparison to Q1 2016, and up from approximately 546,000 sq ft in Q4 2016. This represented the strongest start to a year in the last 10 years since Q1 2011 and was 4% above the 10-year average. A large driver behind these figures was several large deals to corporate occupiers signing including McKinsey at The Post Building committing to 96,999 sq ft, ITV at 2 Waterhouse Square taking 88,801 sq ft of fitted out tenant space from Skype, and COS (part of H&M) taking 60,505 sq ft at 1 New Oxford Street.

Although there have been some big transactions this quarter, the most active end of the market, by number of deals, continues to be the 1,000 - 5,000 sq ft market, where we have seen smaller units continuing to let well and at good rents (There were a total of 81 deals in Q1 2017, 50 of which were in this size bracket). We expect this to continue, given that occupiers looking for this amount of space generally have shorter lease terms so move on a more regular basis. We have also started to witness an increase in activity in the 5,000 – 20,000 sq ft market, which has been relatively subdued in recent months, with 15 deals over 10,000 sq ft this quarter.

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Occupiers are still prepared to pay for quality, newly refurbished, well configured buildings. The arrival experience is becoming increasingly important to corporate occupiers as this helps with brand as they continue to try and differentiate themselves from their competitors in order to attract the best talent. At the other end of the spectrum, there is also a lot of demand from occupiers chasing value. Requirements for cheaper space, and increased lease flexibility, are becoming more prevalent as tenants seek to avoid being locked into long term, and expensive, lease liabilities. Buildings that can accommodate this will be well placed. The area of the market that is struggling is buildings where compromises have been made and this is leading to longer void periods, and putting downward pressure on headline rents as landlords look to secure tenants.

We also monitor space that is under offer and are tracking approximately 450,000 sq ft, which suggests that Q2 should also be healthy in terms of take up, although with continued uncertainty in the market, and with a whole host of macro and micro economic events set to unfold throughout 2017, we predict that take up levels could drop over the next 12 months. That said, London continues to be the number one destination for a whole host of industries (finance, Fintech, IT and Technology and DAMIT related businesses in general) and continues to attract the top talent from around the world. Whilst it is incredibly difficult to predict how the market will react to the snap general election and the EU negotiations, the market is coming from a position of strength and is well placed to cope with what is sure to be a volatile period.

Availability in Midtown, and generally across Central London (with perhaps the City as the one exception), continues to be at a relatively low level standing at just 4.9%. This should mean that rents are likely to remain slightly more resilient than in previous market slowdowns. However, softening demand, due to the uncertainty in the market, and the increased amount of tenant space coming onto the market, is likely to result in increased tenant incentive packages and a slight decline in headline rents throughout the year.

You will see from the above that the market is currently being driven by the higher quality buildings. With the additional economic and political uncertainty, tenants who wish to move, will generally only move to those buildings, that they feel will greatly enhance and improve their current accommodation or there is an element of cost cutting. Catalysts for moves will be lease expiries, corporate expansion or outmoded accommodation. Buildings which are substandard will be undermined in terms of their overall lettability, which in turn will affect rents achievable and therefore overall feasibility.

Looking more specifically at the physical constraints of a shared entrance between B1 and residential, we would make the following points:

- Shared entrances are unusual and deemed secondary in nature and will therefore detract/undermine lettability. This will influence the covenant strength of an occupier, as they are unlikely to be corporate in nature.
- Where still found, they are in smaller, outmoded period style buildings. This is attributable to historical legacy, where office occupiers found use for a minor element of residential. More recently and in the context of the current market, it is extremely rare to find office requirements that are also looking to combine with a residential use. Due to recent office to residential conversions, there is more residential available in traditional office locations, so the need for a combination of the two in the same building, is now outdated.
- Shared entrances, whilst detracting from the overall quality will also increase security concerns. Additional arrangements need to be put in place from a security perspective and it also has

implications for the intensity of use, as residential is more likely to be 7 days a week as opposed to the 5 working days.

- Front of house and how it is presented, is currently one of the most important attributes for buildings with tenants becoming more discerning in respect to this. It is no coincidence that significant design work, and therefore cost is channelled towards getting the entrance areas right. Buildings with poor reception areas are quickly labelled as such, and this will again undermine rents.

The combination of the above will have a detrimental effect on both rents likely to be achieved and also appropriate yields applicable to the building, which, within the background of rising construction costs will undermine feasibility.

In terms of looking at the possibility of a shared entrance between office and A1/A3 users, we would make the following comments:

- This type of arrangement is extremely rare as generally unworkable.
- There is the odd exception where coffee houses or kiosks occupy ground floor areas, but generally in larger buildings such as 90 High Holborn. By comparison the floor plate is 20,000 sq ft with Starbucks occupying circa 1,500 sq ft and Orange the other unit, which is again circa 1,500 sq ft. The latter use is A1.
- The proposed ground floor for 212-214 is circa 3,681 sq ft, so the ability to support this arrangement is again severely limited and possibly unworkable.
- Pure A1 users in the immediate vicinity are deterred by a lack of other A1 users. The area is still evolving and as yet the predominant retail user will be A3 as these uses are more complimentary to the existing office stock. Covent Garden is within relatively close proximity and is a well-established A1 destination. This element of High Holborn doesn't yet have the footfall or the infrastructure to support A1.

I trust these comments are as required.

Yours sincerely

Alastair Hilton

FAREBROTHER

c.c Matt Causer – Farebrother (by email)