

Research Report
Jones Lang LaSalle Incorporated

BOSTON HOUSE

Marketing Report

36-38 Fitzroy Square
November 2019



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Executive Summary

- Boston House, London W1, is enviably located in the heart of Fitzrovia, one of the most sought-after office sub-markets in the West-End.
- Active demand in Fitzrovia was 1.4 million sq ft in Q3 2019, above the long term annual average of 1.2m sq ft – despite economic and political uncertainty.
- Supply in Fitzrovia decreased 10% in Q3 2019, partly due to a decline in the availability of second hand space akin to Boston House.
- Fitzrovia office take-up is well above the 10 year average; and above the take-up rate for the West End as a whole.
- As a consequence, the vacancy rate for the sub-market is comparatively low at 2% - particularly when considering that the vacancy rate for the West End currently stands at 3.7%
- The comparable transactions listed in the report, and the strong pricing levels achieved for second hand office space in the Fitzrovia sub-market, demonstrate the strong demand for sub-10,000 sq ft office floorplates.
- Boston House is capable of providing good office accommodation. The floorplates (approximately 3,000-5,000 sq ft) are regular in shape and are capable of being occupied efficiently on an open-plan or cellular basis.
- The Listed building offers a prestigious address with light, bright floorplates in a convenient location (two Underground stations are within 400 metres).
- Jones Lang LaSalle (JLL) is a global real estate business with 300 offices in 80 countries. JLL's London office has one of the most active office agency teams across the Capital. The team has prepared this report, which is a market review of the Fitzrovia office sub-market, with data and insight from JLL's leading Research Team, who track statistics for the Fitzrovia sub-market as well as the wider Central London market.
- It is our opinion that Boston House could provide Grade A, second-hand office accommodation for a diverse range of businesses; and would let with minimal void, particularly given the current market supply and demand dynamics.

Introduction

This report has been prepared for the Fitzroy Square Frontagers and Garden Committee as a market report relating to the subject building; Boston House, 36 – 38 Fitzroy Square, W1. Boston House is in the heart of the popular Fitzrovia sub-market; and is typical of many Fitzrovia office buildings: a period conversion offering good quality, well set out office accommodation.

The report is supported by statistics from the JLL research team, as well as market commentary and transactional data to evaluate the marketability of Boston House as B1 office accommodation, as well as the importance of the wider area as an office location to the London Borough of Camden and sub-market of Fitzrovia.

The Building

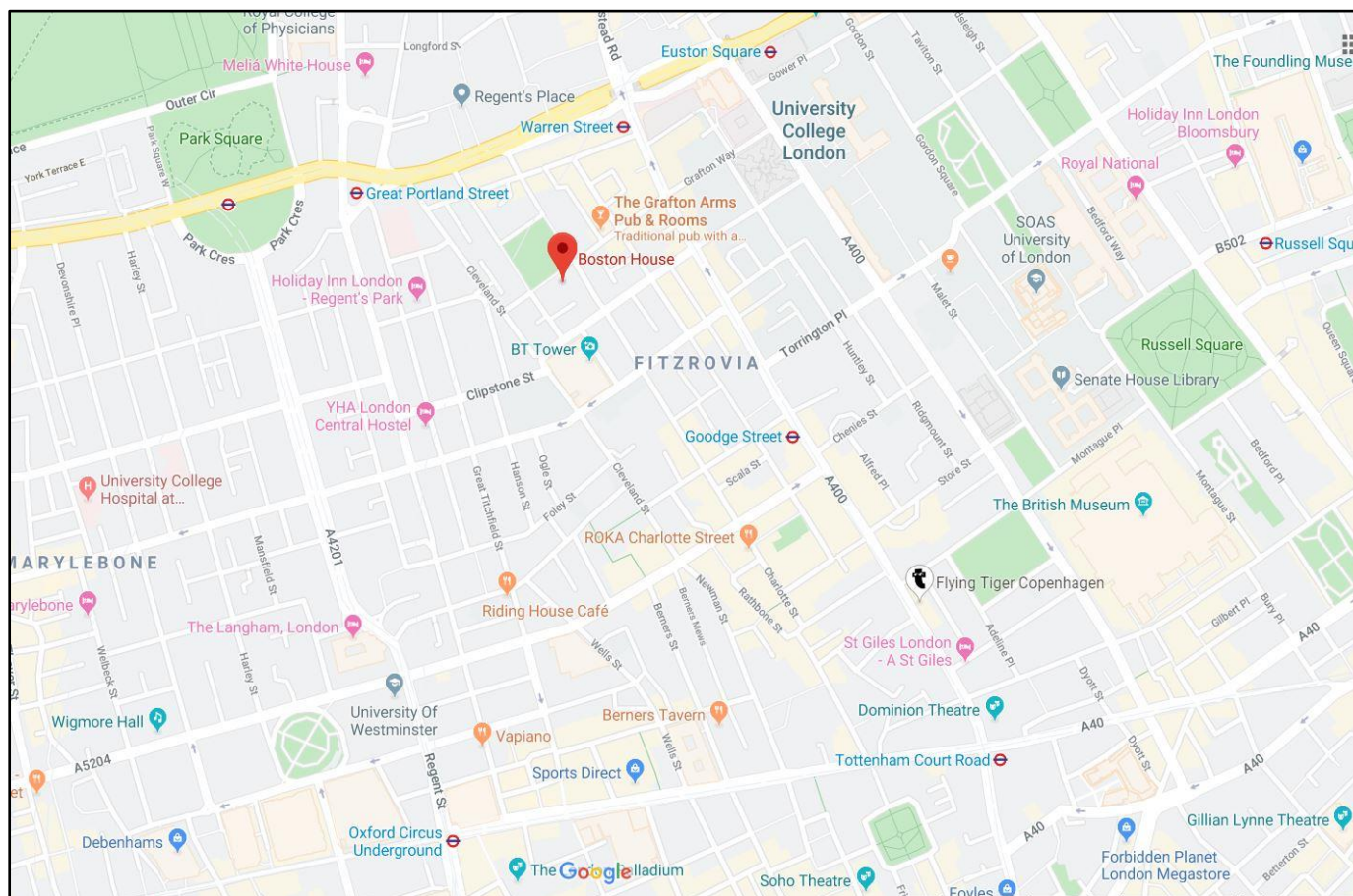
Location

Boston House is located in the heart of the Fitzrovia office sub-market, within the London Borough of Camden, which has been one of the most attractive office locations in Central London over recent years. As a location, it is in an enviable position that drives talent retention for an occupier, largely because it has a diverse and vibrant local amenity offering and exceptional transport connections. The property is close to Tottenham Court Road, Euston and Regents Park, as well as being situated just a 400m walk from both Warren Street and Great Portland Street stations.

Looking ahead, this offering will be complimented by the completion of the Elizabeth line, which will redefine London's geographical emphasis towards the Tottenham Court Road area and is expected to only improve the desirability of Fitzrovia for office occupiers.

The result of these key characteristics has seen a diverse occupier base in the area, attracting more traditional media, advertising and TMT companies, as well as a surge in established banking and finance/corporate occupiers.

Location Map

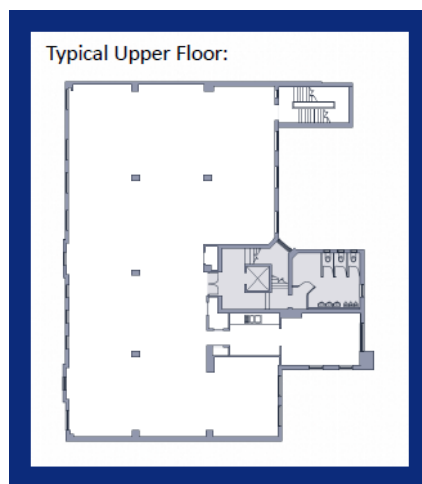


Source: Google

Building Description

Boston House is a 21,754 sq ft office building in a row of 8 terraced properties, originally built in the late 1700's and rebuilt in 1946-1948. The office space is arranged over lower ground, ground and three upper floors, providing floorplates between 3,739 sq ft and 5,182 sq ft, which are typically well suited sizes for the small to medium sized businesses occupying within the local area. The building size and layout lends itself perfectly to either being let as a self-contained headquarters building, or let floor by floor as a multi-let office.

The floor plates offer modern open plan office layouts, with excellent flexibility for an office occupier to fit out in a multitude of different ways, whether they choose a traditional, cellularised office space, or more modern and open plan working, or is also sub-divisible for smaller businesses. These regular, efficient and almost rectangular shaped floor plans are seen below.



Economic & Political Context

Economic growth continues to soften, as the uncertainty surrounding the UK's exit from the EU prevails. Second quarter 2019 GDP growth is now estimated to have contracted by 0.2%, with weak growth evident in the services sector. Recent PMIs suggest that sentiment over the third quarter was lacklustre, but the economy is likely to return to growth in Q3. July saw relatively strong GDP growth of 0.4%, but output is thought to have fallen back in the subsequent months and as a result, latest estimates from Oxford Economics suggest a Q3 growth rate of 0.3%.

The labour market remains a bright spot, with employment levels at record highs, which is part of the reason for the high levels of demand still seen in the West End office market.

Despite the uncertain political environment, strong leasing activity continued during Q3 totalled 3.0 million sq ft let in Central London, which was almost on a par with the previous quarter when 2.9 million sq ft was transacted. This brought the year to date volumes to 8.2 million sq ft which was above the 10-year Q1-Q3 average of 7.2 million sq ft, albeit marginally down on the same period in 2018. With over 4.1 million sq ft under offer - double the 10-year average - the outturn for the year is expected to be above the 10-year average of 10.1 million sq ft.

With the above economic uncertainty set to remain a prevalent theme for the foreseeable future, a refurbished Boston House would sit as a very attractive proposition for companies looking for a slightly more cost-effective occupation solution in a strong Central London location.

Market Dynamics - Fitzrovia

Supply

Total availability in Fitzrovia decreased by 10% in Q3, largely due to a fall in second hand space available and strong levels of take up. The fall in second hand space available supports the need for office accommodation such as Boston House.

Future Office Supply

Future supply constraints of office space in the West End continues to be a theme in the wider market and the lack of available stock in the development pipeline is another important indicator demonstrating the need for office space, no more so than in Fitzrovia.

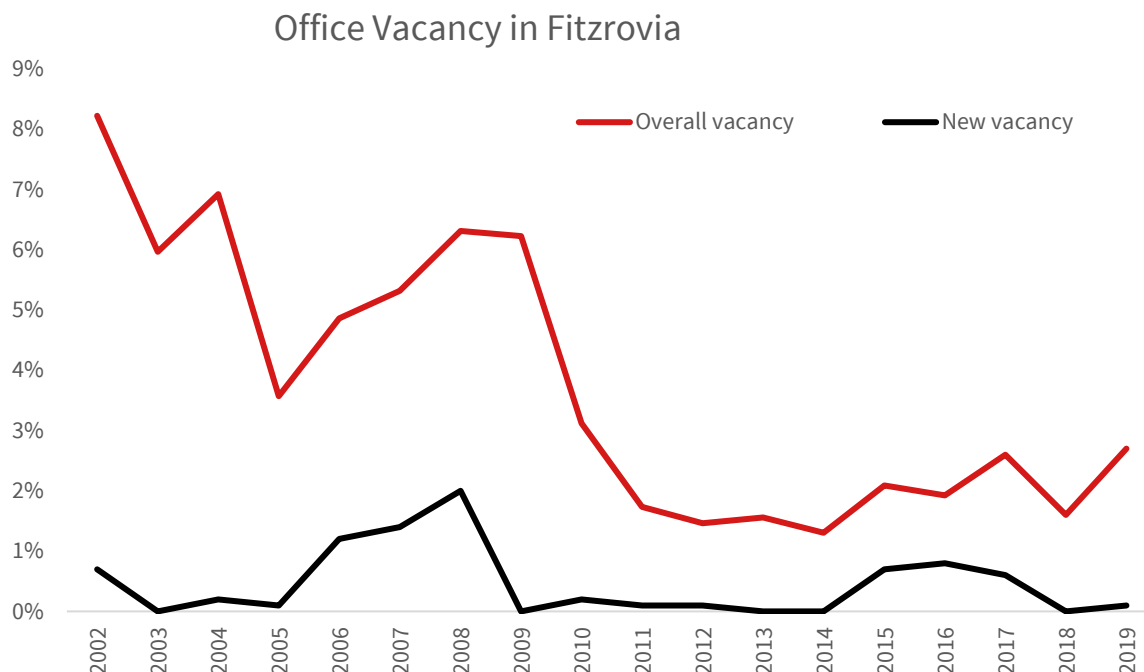
There are currently four schemes under construction in Fitzrovia, totalling 410,970 sq ft (however, c. 360,000 sq ft is already taken as 'pre-let' space). In addition, there is a further 76,259 sq ft of space with planning permission and 118,000 sq ft at the pre-planning stage.

Full details of these schemes are outlined in the table and chart below, detailing the severe lack of available future office supply in the coming years.

Scheme	Sq ft Offices	Status	Letting Status	Occupier	Expected Completion	Developer
80 Charlotte Street, W1	196,400	Under construction	Pre-let	Arup	Q1 2020	Derwent London
	123,500		Pre-let	Boston Consulting Group		
22-24 Berners Street, W1	40,070	Under construction	Pre-let	FORA	Q1 2020	Joint London Holdings
33 Charlotte Street, W1	18,000	Pre-planning	Spec		Q2 2020	Aberdeen Standard
Arthur Stanley House, W1	51,000	Under construction	Spec		Q3 2020	Westbrook and Mortimer Investments
1 Newman Street, W1	79,321	Under construction	Under Offer	Confidential	Q2 2021	GPE
Wells House, W1	76,259	Planning permission	Spec		Q2 2022	M&G Real Estate
The Network Building, W1	100,000	Pre-planning	Requires pre-let		Q4 2023	Derwent London

Vacancy

The submarket's overall vacancy is just 2%, with the new build vacancy rate at 0.1% as shown in the graph below. This is considerably lower than the vacancy rate across the whole of the West End, which stands at 3.7%, highlighting the competitive nature of the office market in Fitzrovia.



Demand

Active demand in Fitzrovia was 1.4 million sq ft in Q3 2019, which is above the long-term annual average of 1.2 million sq ft. Active demand has been driven by the services sector, which accounted for 46% of the total active demand in Fitzrovia, and has consistently risen due to the improving amenity levels in the area, as well as the excellent transport links and new businesses flocking to the area. Demand is particularly strong in the second-hand office market, where prices are more attractive given the surge in rental levels for prime office space.

Take Up

There was a total of 114,000 sq ft let in Q3 2019, compared with 27,000 sq ft in the same period last year, demonstrating the current strong demand for office space in this area. The Q3 figure is well above the 10-year quarterly average of 63,050 sq ft.

Year to date take-up in Fitzrovia also stands at 305,000 sq ft and is already above the 10-year average of 247,000 sq ft. This is in contrast to the West End as a total, where take up in Q3 2019 is 26% lower than the equivalent period in 2018, highlighting the positive sentiment towards Fitzrovia.

Recent Comparable Leasing Transactions

To contextualise some of the positive sentiment towards similar floor sizes and specification to Boston House, we set out below recent pertinent transactions in the area which show the confidence in the sub-market, especially with regards to >10,000sqft floors and not necessarily brand new Grade A office buildings.

Transaction Date	Property	Size (sqft)	Tenant	Achieved Rent (psf)	Lease Term	Comments
Oct 2019	Part 1 st , 90 Whitfield Street	3,050	London Newcastle	£79.25	5 years	Fitted out office suite in a refurbished building
Oct 2019	Part 3 rd , 90 Whitfield Street	6,745	Ekimetrics	£75.00	5 years, 3 year break	Refurbished office, only 1 month void
Oct 2019	Part 4 th , 90 Whitfield Street	6,265	One Savings Bank	£72.00	10 year, 5 year break	Refurbished office, 0 months void
May 2019	Part 4 th floor, 1 Fitzroy Square	4,000	Hindawi Ltd	£63.74	7.5 years	Unrefurbished Grade B
Mar 2019	2nd floor, 55, Wells Street	5,116	Mayfair Capital Investment Management	£83.50	10 years	New Grade A development
Mar 2019	2 nd floor, 33 Foley Street	3,557	Worklife Holdings Limited	£82.50	9 years	Newly refurbished Grade B
Dec 2018	Part 5 th , 180 Great Portland Street	4,515	James Grant & Company Limited	£75.00	Undisclosed	Refurbished Grade B accommodation
May 2018	Part 5 th , 180 Great Portland Street	4,754	Sard Verbinnen & Co	£72.00	10 years	Refurbished Grade B accommodation

Commercial Terms

Considering market dynamics and the above comparable letting transactions, if Boston House was refurbished as an office building, we would expect the following lease terms to be achieved:

	Self-contained headquarters building	Multi-let office building
Headline Rent	£77.50 psf	£79.50 psf
Lease term	10 years	5 years
Rent free period	24 months	12 months
Void period	6-9 months	3-6 months

It must be noted that current market trends are dictating that more occupiers are seeking 3rd year breaks and additional flexibility, but given the current strength of the market and lack of other options, it is expected for full floor lettings that a 5 year term certain would be achieved.

Response to Robert Irving Burns' Marketing Report

In response to Robert Irving Burns' (RIB) marketing review, dated Thursday 17th October 2019, we would like to highlight the following points:

- The report states that RIB carried out 51 viewings of the property, demonstrating the strong demand for office space of this nature and in this location.
- It appears coincidental that all feedback from viewings was identical. However, even for 'short leases', defined in the RIB report as 3 or 5 year terms, an office refurbishment would be viable given the rental tone of this building. This is largely because, given the limited supply of office space in the area as highlighted above, we would only expect a short void period for reletting at the end of the term.
- It was surprising that the comments from all 51 inspections were identical, and perhaps more thorough investigation would have resulted in further feedback or indeed a successful letting. This is especially the case for occupiers such as WeWork and Service Office Group who typically seek 15 year leases and often fit-out offices themselves from any condition.
- The evidence in the table of recent comparables (page 9) highlights that there is demand for longer leases in comparable buildings, rebutting the argument that it is extremely difficult to secure a longer lease in the current market.
- It is reasonable to suggest that Boston House has not been let due to its current condition. The owner has chosen not to invest in improving the property to meet occupier demands.

Conclusion

Boston House is an incredibly desirably located office building with fantastic volume and light to all the floors as well as offering flexible floor plates which are typically required by office tenants in the West End. The space would no doubt be well received in the market with a full refurbishment and well thought out marketing campaign.

The Borough of Camden has seen significant redevelopment in the office market over recent years, with the redevelopment of King's Cross most notable. This has resulted in a flurry of large occupiers relocating to the Borough and consequently boosted demand for office space in the local area.

The headquarter relocations of global tech giants such as Google and Facebook have encouraged other tech companies to move to the Borough, further increasing the demand for office space in the area. There is therefore a need for a variety of office space in terms of size of floorplate, rental value and condition to host not only the large global businesses but smaller businesses too, which Boston House could provide for perfectly.

In the current market, we are confident that Boston House would suffer a minimal void period and let on strong commercial terms.



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