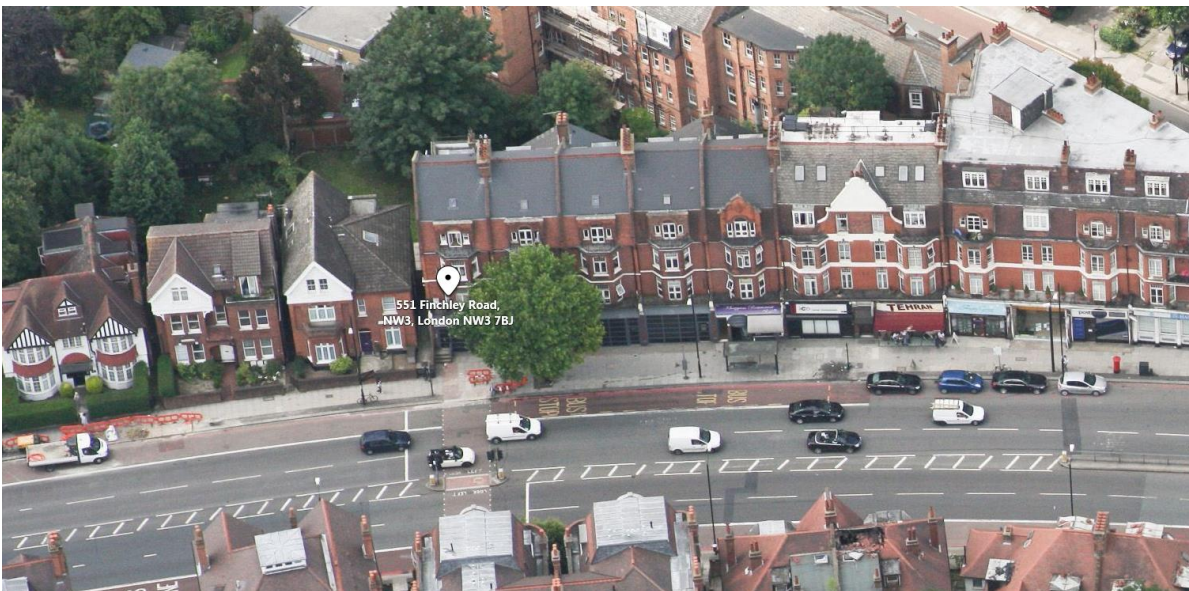


Viability appraisal for A1 retail and B1(a) office uses at 551-557 Finchley Road, NW3



**Prepared by: David Matthews BA MSc
of Dutch & Dutch**

Friday, 29 November 2019

Instructions

I have been instructed by Hampstead Properties Ltd to prepare this report which aims to establish whether A1 retail or B1(a) office uses are likely to be viable at the subject property once the existing language school vacates the premises in February 2020.

Experience

David Matthews (BA MSc) is a Director of Dutch & Dutch and has been involved in the disposal and acquisition of commercial and residential property in and around North West London for 19 years.

He has acted for Institutions, Government Departments, Local Authorities, FTSE 250 Companies as well as local businesses and individuals.

He has been involved in transacting and advising on in excess of 5 million square feet of office, industrial, retail and residential space in the area.

David is currently Chairman of the West Hampstead Business Forum and a leading figure in the property community in North West London.

Overview

Hampstead Properties Ltd own the freehold of this 14,391 ft² building which is currently let to 'Experience English', who currently run a language school at the property.

The property has been operated as a language school for at least 20 years.

The property is currently let for a term of 15 years from 19th February 2010 with a Tenant only option to determine the Lease 20th February 2020 subject to 12 months' notice.

The Tenant has now served notice to break this lease and will be vacating the property prior to February 2020 in order to comply with their obligation to provide vacant possession on or before the break date.

Whilst the existing planning use of the property falls under a D1 use class I understand that this is personal to the occupier.

When the tenant vacates the building in February 2020 the use class reverts back to the uses in existence prior to the language school's occupation of the property.

I understand it has been established that the uses in existence prior to the language school use were a mix of A1 retail, B1(a) offices, B1 light industrial and residential use.

The focus of this report is to appraise the likely success of the original quantum of A1 and B1(a) uses at this property should it return to these uses following the departure of the language school.

Local Authority Pre-Application Advice

I understand that the Local Authority have recommended that the 'pre-existing' quantum of A1 retail and B1(a) office uses prior to the existing D1 occupation are re-provided once the existing Tenant vacates and the current D1 use is extinguished.

This report sets out why in my opinion this is very unlikely to be viable or successful.

Pre-existing Uses Classes

I am informed that prior to the occupation of Experience English the property comprised approximately **656m² of A1 floor space (of which 348sqm was flexible A1/B1c) and 197 m² of B1(a) floor space.**

This data has been extrapolated from historic plans, planning applications and information from the previous owner of the buildings.

Accommodation

The property is made up of what were originally 4 separate buildings, most likely arranged as shop with residential upper parts.

The subject property includes the ground and lower ground floors of 551 Finchley Road and the ground, lower ground and 3 upper floors of 553, 555 and 557 Finchley Road.

The floorplans which follow show the existing arrangement which can be summarized as follows:

Schedule of Areas (GIA)

Floor Level	Sq M	Sq Ft
3 rd	152	1,636
2 nd	227	2,451
1 st	241	2,594
Ground	317	3,422
Lower Ground	398	4,288
TOTAL	1,337	14,391

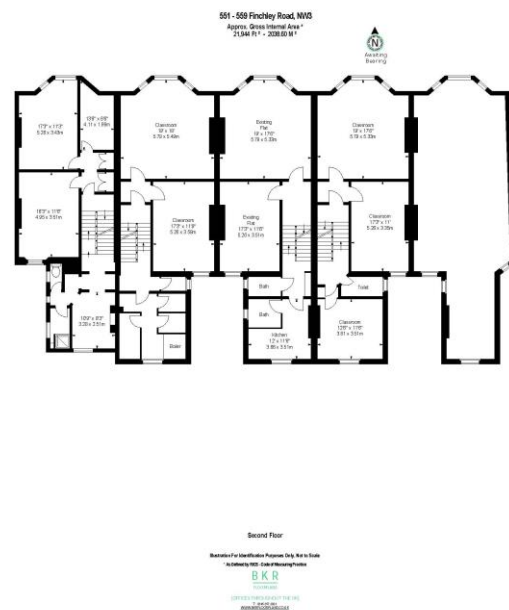
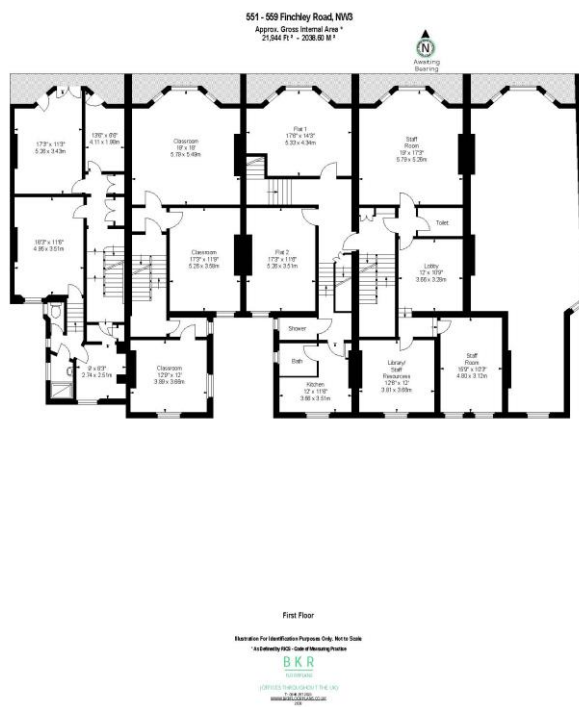
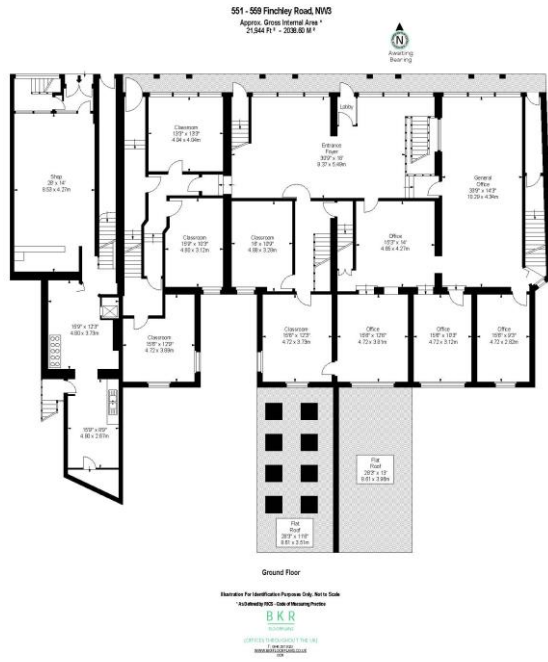
The property is heavily divided having been designed for residential purposes above ground floor with structural walls limiting the options to create open plan spaces.

The property is served by 5 separate staircases with no lift.

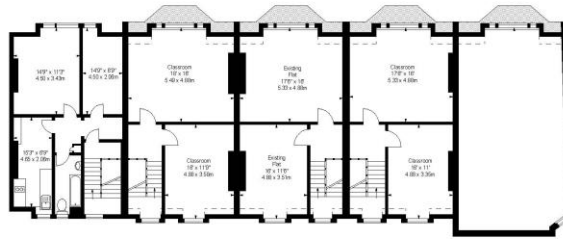
The property consists of the following rooms:

- 25 x Classrooms
- 2 x libraries
- 7 x offices
- 5 x sets of WCs

In total there are approximately 40 rooms over the 14,391 ft² building.




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Location & Context

This part of Finchley Road is considered to be a secondary, possibly tertiary retail location. There is very little footfall given that whilst it is a main arterial route for vehicles it is not a route taken by pedestrians.

The main walking routes to the nearest transport hub of West Hampstead do not pass this location.

The subject building forms the end of what was once a retail parade. To the immediate left is the start of a long row of properties all in residential use as houses and flats.



The neighboring retail parade consists of 6 ground floor units, 5 out of 6 are no longer used for retail uses.

Neighbouring traders:

Address	Occupier	Use & Description
559 Finchley Road	New restaurant	A3 – Destination Restaurant
561 Finchley Road	Design Solutions	A2 – Architecture and Interiors office
565 Finchley Road	1 st Construction & Finance and 1 st Cafe	A1 & B1 – Office and café
567 Finchley Road	Happy Gems	A2 / sui generis – Money transfer & Pawn Shop
569 Finchley Road	Nestons Estate Agents	A2 – Estate Agents
571 Finchley Road	Balthorne Safe Deposit Centre	A2 – Safe deposits and Mailboxes



**559 Finchley Road
Korean Restaurant (A3)**



**561 Finchley Road
Architects Office (A2)**



**563 Finchley Road
Sandwich Bar and Construction Com-
pany Office (A1/B1)**



**565 Finchley Road
Watch Repairs / Pawn Broker (A2/Sui
Generis)**



**567 Finchley Road
Estate Agents Office (A2)**

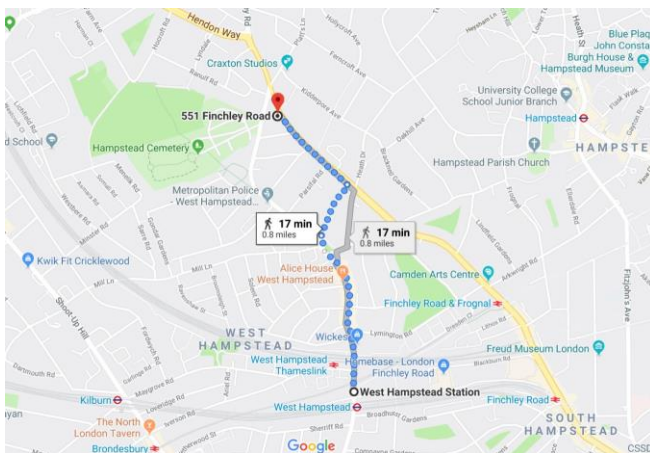
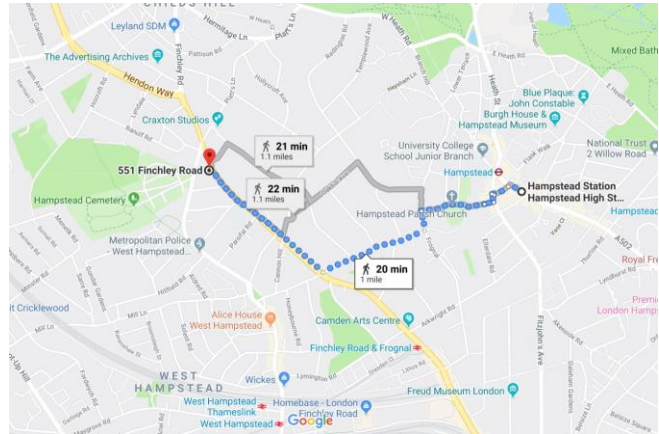


**569-571 Finchley Road
Mailbox and Security Box
Company (A2)**

Access & Transport

The property is located a 17 minute walk from West Hampstead's stations and a 21 minute walk from Hampstead's Northern Line Station. A number of bus routes serve the property via Finchley Road.

In our experience the success of 'out-of-town' B1(a) office accommodation is directly attributable to it's proximity to an Underground station. Office based businesses require quick access to central London both to attract good quality staff from across the capital but also, so they are connected to suppliers and customers.



In order to be viable and to attract occupier's, office developments situated this distance from an Underground Station would always require on site car parking.

Car Parking

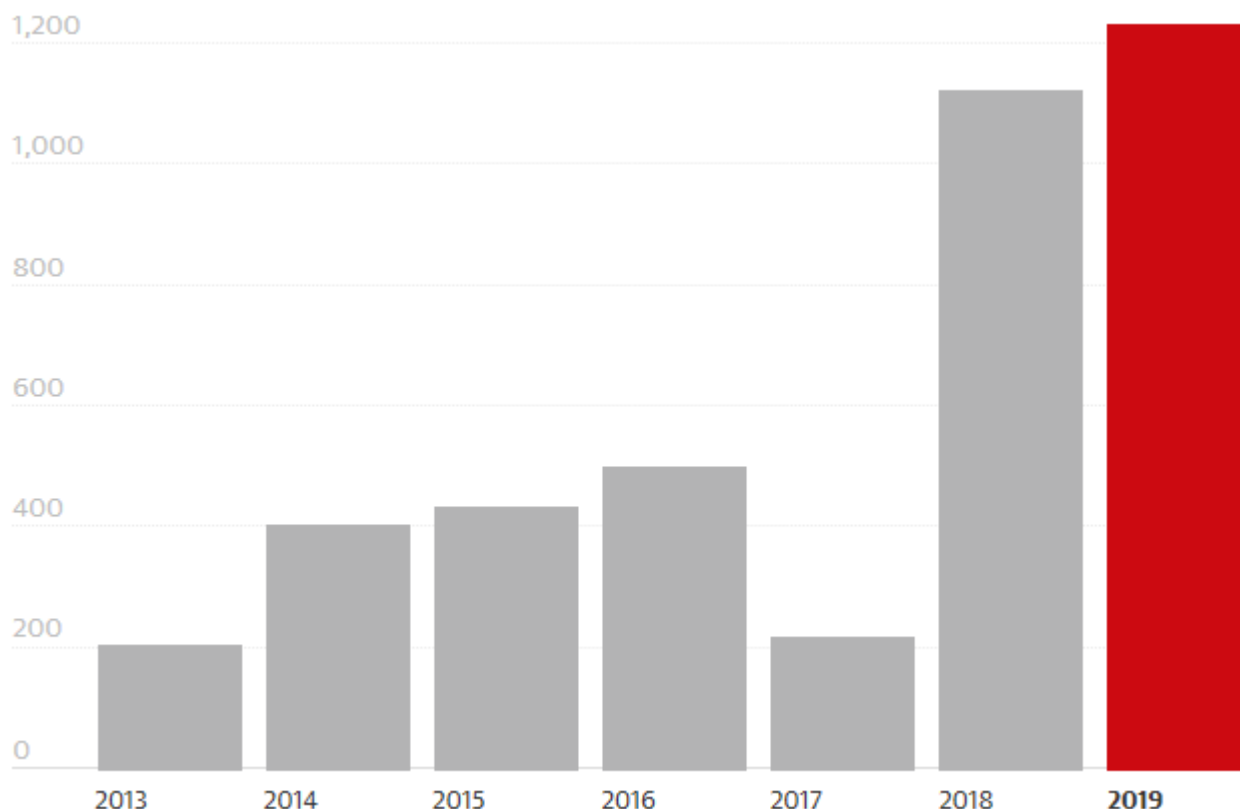
The building has no allocated car parking. There is a bay which can accommodate 5-6 cars for a maximum stay of 30 minutes between 7am and 4pm.

This is really designed for customers of a retailer and is insufficient time for a business meeting for example.



Retail & the Wider Economy

New data shows the number of shops lying empty is rising at the fastest pace in nearly a decade. According to recent research undertaken by the Local Data Company Britain's high streets recorded 1,234 more store closures than openings in the first half of 2019*



Source: Local Data Company. *Net loss of 'multiple' retailers (five or more stores) across the top 500 GB town centres, 1 January to 1 July 2019

Retailers have been hit by a mix of low consumer confidence, which has cut spending, and rising costs from business rates, an increase in the legal minimum wage, and higher cost prices as a result in the decline in the value of the pound since the EU referendum.

Recent announcements regarding the closer of 700 William Hill branches and the likely closure of 900 Ladbrokes branches are likely to compound the problem.

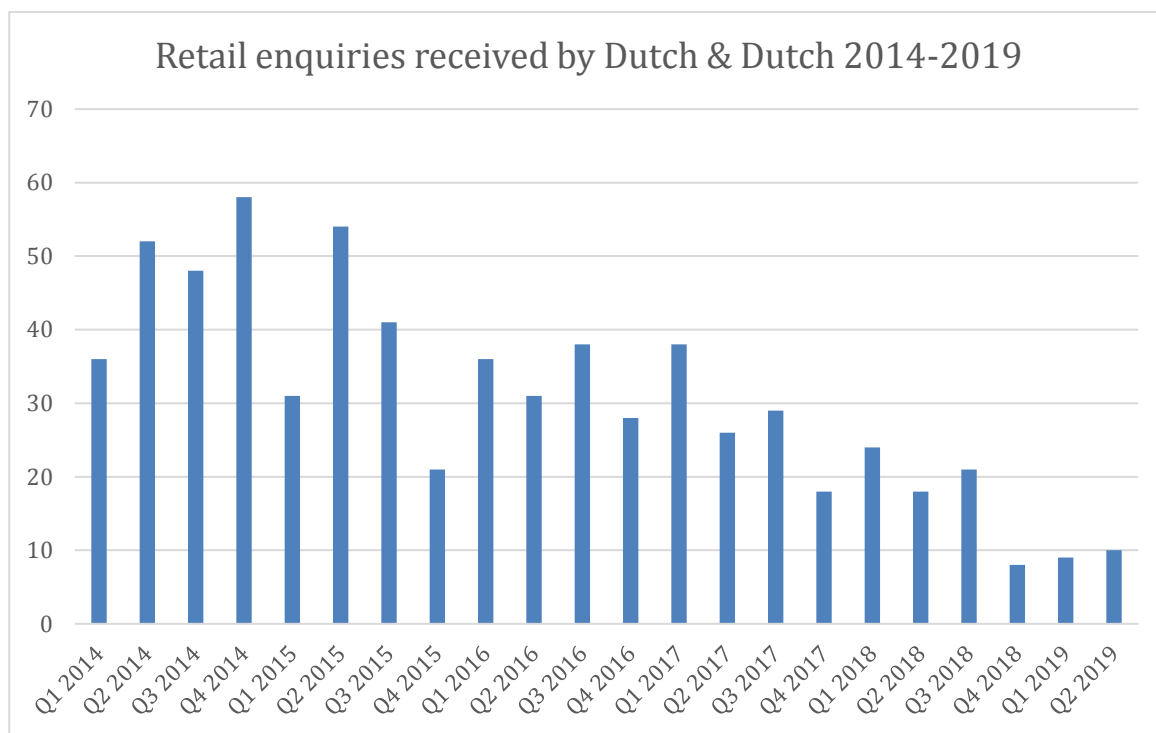
Secondary High Streets and retail parades such as where the subject property is located have also been hit with a lack of demand. There are very few traditional retailers looking for units in such locations.

Local Demand for A1

Most of the enquiries we receive for retail units are from independent businesses or new companies rather than operations with a chain of units.

All A1 retail enquiries are for North West London's prime high streets or busy secondary high streets as footfall is key to their success.







However, there has been a noticeable reduction in the number of enquiries we receive for retail premises in North West London.








The fact is that online shopping, economic uncertainty, business rates liabilities and a lack of footfall on local highstreets makes it very difficult for retailers to turn a profit. This is particularly the case on quiet, secondary and tertiary parades such as the location of the subject property.

Local Supply of A1 Retail

There are several retail units currently available within close proximity of the subject building. All the available units are in locations with a significantly higher footfall and would certainly be considered to be in superior trading locations.

<p>Harben Parade Finchley Road, NW3</p> <p>1,800 sq ft £50,000 per annum</p> <p>To Let</p>	
<p>Finchley Road, NW11 7RR</p> <p>1,350 sq ft £30,000 per annum</p> <p>To Let</p>	
<p>Canfield Gardens, NW6 3BS</p> <p>2,300 sq ft £61,000 per annum</p> <p>Lease Assignment</p>	
<p>Frognaal Parade Finchley Road, NW3 5HH</p> <p>820 sq ft £35,000 per annum</p> <p>To Let</p>	
<p>287 Finchley Road, NW3 6ND</p> <p>410 sq ft £20,000 per annum</p> <p>To Let</p>	
<p>291 Finchley Road, NW3</p> <p>1,285 sq ft £21,500 per annum</p> <p>To Let</p>	

<p>297 Finchley Road, NW3</p> <p>1,295 sq ft £29,500 per annum</p> <p>To Let</p>	
<p>4 Frognal Parade, Swiss Cottage, NW3</p> <p>152 sq ft £9,750 per annum</p> <p>To Let</p>	
<p>Frognal Parade, London, NW3</p> <p>480 sq ft £15,000 per annum</p> <p>Lease Assignment</p>	
<p>513 Finchley Road, NW3</p> <p>1,750 sq ft £17,500 per annum</p> <p>Lease assignment</p>	
<p>O2 Centre, Finchley Road, NW3</p> <p>4,823 sq ft £170,000 per annum</p> <p>To Let</p>	

This is only a selection of the properties currently available which I was able to find on www.rightmove.com www.realla.co www.zoopla.com and www.grovelands.net. There are likely to be other units available on websites to which I don't have access, in particular business transfer agents.

Local Demand for B1(a) Office Space

There has been a noticeable reduction in the demand for traditional office space in the areas we cover (north Camden). This reduction in demand is attributable to two main factors. The economy and the growth of flexible office providers.

Firstly, the economic climate has without a doubt reduced the take up of office space. Businesses are not expanding or currently investing in new accommodation.

Secondly, flexible office providers have expanded rapidly in London, with strong take-up over the past five years boosting the flexible office share of total stock. Unlike traditional standalone office buildings, these providers can offer a 'turn-key' product to occupiers.







The rapid increase in supply, together with flexible office providers' aspirations to attract smaller occupiers, will result in more direct competition with traditional leasehold office space.... This will be most keenly felt at the smaller end of the market, for deals of less than 10,000 sq ft

(JLL Central London Office Market Report Q3 2017)

Successful flexi-office space buildings are 40-50,000 sq ft plus. Smaller buildings are simply not capable of accommodating the work areas, entertainment space and amenities required to create the critical mass necessary to ensure success.

Local Supply of B1(a) Office Space

There is a very healthy supply of office accommodation both available for long term let as well as shorter serviced style accommodation within close proximity of the subject property. All of the properties listed would be considered as being within much more desirable locations than the subject property as they are closer to underground stations (West Hampstead, Finchley Road and Swiss Cottage).

<p>111 Sumatra Road, NW6 250-3,400 sq ft</p> <p>To Let – since May 2019</p>	
<p>13 West Hampstead Mews, NW6 1,485 sq ft</p> <p>To Let – since March 2019</p>	
<p>Suite B Canfield Place, NW6 1,278 sq ft</p> <p>To Let – since late 2018</p>	
<p>Ground Floor, 3 Hampstead West, NW6 504 sq ft</p> <p>To Let – Oct 2019</p>	
<p>Barkat House, Finchley Road, NW3 Various office suites available 1,500-6,500 sq ft</p> <p>To Let – since (unknown)</p>	
<p>Finchley Road, NW3 Office suite 451 sq ft</p> <p>To Let – since Oct 2019</p>	

Is the loss of '*pre-existing*' quantum of Retail detrimental to the parade?

The loss retail uses in an established parade of shops is generally considered to be detrimental to the success of the parade as it can lead to a reduction in footfall.

However, the circumstances in this instance are unique. There have been no retail uses in the subject property from 551-557 Finchley Road for at least 20 years.

The neighboring businesses will not suffer a loss of footfall as a result of the loss of the *pre-existing* quantum (656sqm) of A1 use.

A much smaller amount of A1 use on site is considered more likely to be viable as long as it is provided as part of a new mixed use development including uses such as apart hotel and co-working/cafe uses as they are likely to generate their own custom and draw more people from the local area. This could be further made viable by applying for a flexible use class for the relevant floorspace to cover A1, A2, A3, A4 and A5 uses as well as non-residential institution (D1) and assembly and leisure (D2) uses to provide the owner with the maximum flexibility to secure an occupier.

It is worth noting that only 1 out of the 6 neighboring businesses are an A1 Use. 5 out of 6 of the businesses are not reliant on passing footfall and are 'destination' businesses.

Summary of the Limitations for B1(a) Use

- Building arranged as a large number of rooms with lots of structural walls making it difficult to create open plan areas
- Too far from the nearest Underground stations
- No allocated parking
- Short stay parking boxes limited to 30 minutes do not provide sufficient time for meetings
- Far superior office options in the area, closer to public transport
- Building too small for flexi-office options

Summary of the Limitations for A1 Use

- Tertiary location with insufficient footfall to support retail uses
- Significant economic uncertainty
- Increase in online shopping
- Significant reduction in demand and number of enquiries for retail uses
- Red route makes it very difficult for loading and the 30-minute bays are often full
- Several available retail units in busier locations near-by with better footfall

Proposed Scheme

I understand that the proposed development is for an apart-hotel scheme with a complimentary co-working/café (B1/A3) of 177m² and a flexible retail/non-residential institution/assembly and leisure unit (A1-A5/D1/D2) of 22 m².

There is therefore a technical net loss of some 20m² of B1(a) floorspace from the pre-existing use. However, the pre-existing building arrangement is significantly inferior to the proposed, modern and open plan proposals.

There is also a technical loss of A1 floorspace. However, this location is not in a town or local centre and the existing amount of A1 use is considered unviable in this location as demonstrated earlier in this report.

A small (22sqm) flexible retail unit is proposed, which is considered likely to be viable. In order to maximize the likelihood that this will be let we would recommend use classes for this unit to include A1, A2, A3, A4, A5 as well as non-residential institution (D1) and assembly and leisure (D2) uses. It is our opinion that these alternative uses are also likely to be viable in the context of the apart-hotel and co-working/café use.

There are several hotel, apart-hotel and serviced apartment operators with requirements for buildings such as this. It is a proven and popular concept that allows residents the flexibility to stay for anything between 1 night and 3 months.

One such operator is YotelPad. They specify co-working space as a 'must have'.

This provision of B1(a) and A1-A5/D1/D2 at the quantum proposed will complement the apart-hotel use and vice-versa.

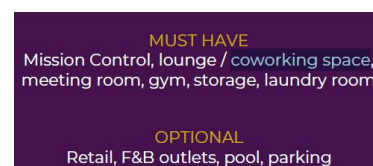
The potential employment capabilities for the proposed use have been discussed with architects, hospitality specialists and two apart-hotel providers. The general consensus is that the scheme will create the following employment opportunities:

Apart/Hotel	15 jobs
Coffee & Co-Working Space	3 jobs
Retail	3 jobs
Co-working members	57+ members
Grand total	21 full time jobs plus space for an additional 57+ people to work on a flexi-basis

Summary & Conclusions

The pre-existing quantum of retail and office uses at this building no longer represent a viable option in this location. The nature of retail is evolving very quickly and secondary locations such as this, with low footfall do not attract tenants. Similarly, businesses seeking office space now prefer larger flexi-accommodation or properties within close proximity to an underground station.

Given that the *pre-existing* retail and office uses are not currently in operation, their partial loss at the quantum proposed will have no detrimental impact on the neighboring units or



the local economy. The re-provision of some of this floorspace at the reduced quantum proposed is likely to be viable in the context of the symbiotic relation with the apart-hotel which will provide custom and the combination of the proposed mix of uses as it is envisaged this will draw more people to the area.

The proposed scheme will also create more employment than the actual use in existence.

In my view and given my experience and knowledge of the local area I believe the proposed apart-hotel concept paired with a co-working café and standalone flexible A1-A5/D1/D2 unit will be a great success and will be a superb addition to Finchley Road and the local economy.



.....
David Matthews
Director
Dutch & Dutch
Friday, November 29, 2019