

70 Gray's Inn Road, EC1 – Letting Performance.

Date of Report 16th October 2019

Contents

Executive summary	1
1 The Building	2
2 Previous Occupation	4
3 The Market	5
3.1 Central London	
3.2 The City	
4 Local Competition	6
5 Marketing	10
6 Financial Analysis	13
7 Conclusion	13

1 The Building

70 Gray's Inn Road is a self contained office building on an island site on the Eastern side of Gray's Inn Road between its junction with Holborn and Theobalds Road in the London Borough of Camden. The building is opposite Gray's Inn and a short walk from both Chancery Lane and Farringdon Stations.

The office space is located over Basement, Ground and 5 upper floors.

The property was built in the 1990's and last underwent a refurbishment in the late 2000's although the floors in question were occupied by the previous tenant, Boulton Wade Tennant (BWT) for circa 25 years. The building is a steel frame construction with a stone cladding system.

The building is owned on a freehold basis and was purchased in 2018 by the current owners, Euro Properties.

The building has been measured on an NIA basis, please see a breakdown below.

Floor	Area (sq ft)	Area (sq m)
5 th	4,888	454
4 th	5,429	509
3 rd	5,610	521
2 nd	5,451	506
1 st	5,399	502
Ground	2,780	258
Basement	3,574	332
TOTAL	33,131	3,078

The Basement to 2nd floor have not been refurbished since the building was initially let to Edward Lewis in 1993 and benefited from the following;

- 4 Pipe Fan Coil Air Conditioning, installed in 1993.
- 2 x 10 Passenger Lifts
- Mineral Fibre Suspended Ceilings
- Raised Floors
- 1 Disabled Toilet on Ground Floor
- No Showers
- Limited Bike Racks

Any CAT A refurbishment does require a significant investment on a wholly speculative basis as it would be very unlikely that a conventional occupier would now take 17,000 sq ft over 4 contiguous floors, this no longer suits modern working practices. Therefore we would be letting on a floor by floor basis in the open market and there

would be limited interest in the ground and basement given the location, limited light and privacy issues on the ground as the majority of the windows face onto Gray's Inn Road. Other limitations include;

- Limited provision on WC's due to design.
- Non compliant lifts due to size of the shafts which are impossible to retrofit as the upper 3 floors are currently occupied.
- Limited DDA WC provision throughout the building.
- Substantial investment required given age of specification on the floors, which are now vacant.

2 Previous Occupation

The property was let to Edward Lewis in 1993 for a term of 15 years, BWT took on this lease and then renewed through to March 2020. The tenant surrendered their lease early to move into a single floor opportunity in 8 Salisbury Square as 70 Gray's Inn Road no longer met their modern working practices and there was a drive to occupy a single floor.

The total gross passing rent was £705,000 per annum, equating to £37.21 per sq ft overall.

The building was vacated in March 2019 and has been vacant through to now.

3 The Market

3.1 Central London

Since the referendum vote almost three years ago, we have become used to daily stories outlining the multiple negative scenarios that are likely to befall us as we approach Brexit on 31st October this year. In addition, growing tensions between the US and China have raised fears of a trade war, which has the potential to cause significant damage to investment and jobs across the world. Tenant sentiment has reflected this global economic situation and although transactions are still happening tenants are cautious.

Occupier take-up of Central London office space has been at an average level for six consecutive quarters up to the end of 2018 but has deteriorated since then. Take up for the year so far to date across Central London is over 500,000 sq ft.

Take-up was also inflated by the inclusion of some substantial preletting activity at the larger end of the market including EBRD's pre-let of 360,000 sq ft at 5 Bank Street and 310,000 sq ft by BT in Aldgate. These transactions have boosted the figures which would have been very disappointing without this.

The supply of office space in London has risen slightly; the vacancy rate at the end of the third quarter was 5.7%. The sub 50,000 sq ft office market is still slow and the sub 20,000 sq ft market has been hardest hit due to the rise in competition from serviced office accommodation. If we were to go floor by floor in this building, we would be competing in the most competitive size bracket and transactions are down 33% on the long term average.

Uncertainty over the economy continues to weigh upon both occupiers and landlords minds. Despite the tightening supply and thinning pipeline, rents have remained static in most markets and we should not expect any significant rental movement in the short term.

3.2 City

City CLQ text Q2 2019

- ◆ Vacancy rate is now 5.0% up from 4.9% in the previous quarter.
- ◆ Quarterly take-up remained below average at 1.97 m sq ft (long term average 1.81 m sq ft) but take up for the year is down overall.
- ◆ Prime headline rent is £72.50 per sq ft

Take-up in the third quarter of the year totalled 1.97 m sq ft, up by 22% on previous quarter but we are down 510,000 sq ft for the year so far vs the long term average.

The largest deal was BT's acquisition at One Braham, Braham Street, E1 totalling circa 310,000 sq ft. The TMT (34%), professional (19%) and financial (19%) sectors were the most active in Q3, accounting for 72% of total market activity, followed by flexible offices with 17%, down from 19% in Q2. The average deal size in the City now stands at 17,406 sq ft with the market being held up by the larger transactions, the smaller the floorplate the more supply there is. Although London vacancy rate is 5.7% the vacancy rate in the circa 5,000 sq ft size bracket and below sits at 11%.

Active demand in the City increased for a third consecutive quarter, up by nearly 11% quarter-on-quarter to 5.6 m sq ft by the end of Q3. The level of active searches over 50,000 sq ft increased further from 27 to 29 during Q3 again showing most of the demand is at the larger end of the market.

Supply levels in the City, including Southwark, Midtown and the fringes, rose from 6.08 m sq ft in Q2 2019 to 6.14 m sq ft in Q3. The current vacancy rate now stands at 5.0%.

The prime rent remained static at £72.50 per sq ft for the 3rd quarter. Rent free periods have remained at 24 – 26 months on a typical 10-year term certain.

4 Local Competition

There was nervousness on speculatively refurbishing the space as local competition has struggled.

Please see attached the details of Fetter Yards, 20 St Andrews Street and Bureau, all of which are within a short walk of the building and a good barometer of the local letting performance.

Bureau prelet the best floor, with terraces, 2.5 years into the preletting campaign but the remaining space has now been available on the market for over 3 years and 12 months from PC.

Fetter Yards is substantial refurb of existing building where they started the marketing in October 2018, the scheme completes in January 2020 and they are still yet to do a deal.

20 St Andrews Street was a comprehensive refurbishment of 58,334 sq ft offering 5,800 sq ft floor plates and took 27 months to let up in its entirety in an arguably better location.

Given this performance there is nervousness over the potential lettability of 70 Gray's Inn Road given 20 St Andrews is a far better refurb in a better location which still took over two years to let up.

FETTER YARDS, 86 FETTER LANE

London, EC4



Area (net internal)

Total:	64,899 sq ft
Typical Floor:	11,000
No of Floors:	6

Programme

Site Status:	Under Construction
Completion:	Q1 2020
Market Campaign Commenced:	October 2018

Tenure

Long Leasehold:	Europa Capital
------------------------	----------------

Professional Team

Developer:	Europa Capital / Hobart Partners
Architect:	Fletcher Priest Architects LLP

Comments

Comprehensively repositioned and refurbished offices in Midtown. The building is still yet to secure a new tenant.

BUREAU, 90 FETTER LANE

London, EC4



Area (net internal)

Total:	74,030 sq ft
Typical Floor:	9,250
No of Floors:	8

Programme

Site Status:	Completed
Completion:	Q3 2018
Date Marketed:	Q2 2016

Tenure

Freehold:	Evans Randall
------------------	---------------

Professional Team

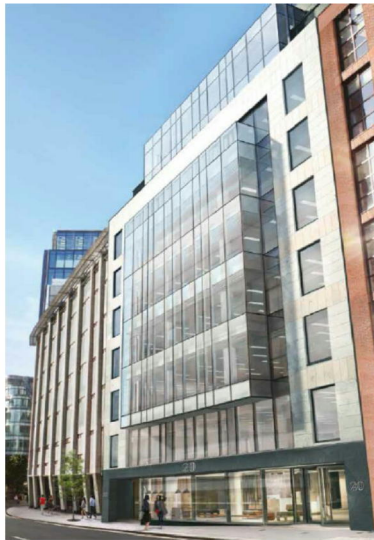
Developer:	Evans Randall / CORE
Architect:	John Robertson Architects

Comments

The building has been comprehensively refurbished with the addition of two floors and a new refined rectilinear facade. AB InBev have let the top four floors at a blended rent of £79.00 psf. Apart from the pre let the rest of the space has been vacant for a year since PC.

20 ST ANDREW STREET

London, EC4



Area (net internal)

Total:	58,334 sq ft
Typical Floor:	6,000
No of Floors:	9

Programme

Site Status:	Completed
Earliest Completion:	Q2 2017
Date Marketed:	Q2 2016

Tenure

Freehold:	Bank of Kuwait
------------------	----------------

Professional Team

Developer:	Axa / Morgan Capital
Architect:	DLA Architecture

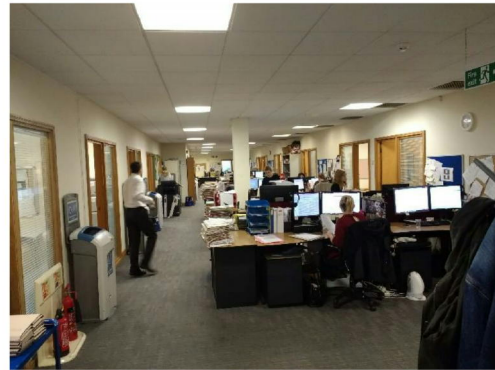
Comments

The building has been comprehensively refurbished and is now fully let. The last floor signed 18 months after PC of the works.

5 Marketing

The space has been marketed since September 2018 once we knew the current tenant was vacating the building. The space had been formally on the market 13 months at the time of drafting the report.

When we started the campaign the building was occupied by the previous tenant and was dated so not comparable with its direct competition, please see images below;



The space was in need of refurbishment but as shown by the financial analysis a speculative refurbishment would have produced a negative IRR, please see section 6.

We have produced in house particulars and a full architects pack, details attached in Appendix II.

The building has been listed on CoStar and EGI websites along with the KF website, some of these are no longer active but some of the listings are attached in Appendix III.

The space has been circulated to all 650 Central London office agents through City and West Agents Club on two separate occasions.

The space has been sent to 91 specific active requirements including the serviced office sector, which is the most dominant in terms of take up, please see examples of these attached in Appendix IV

We have done 12 inspections with 9 different parties, please see feedback below and full details are in Appendix V.

Proposals				
Date	Tenant	Requirement Details	Broker	Comments
05-29-19	University of Lincoln Consumer Services	15,000 - 30,000 SF	Honor Rankin <i>Cushman</i>	Apr 05 - Inspecting on 10/04 Mar 28 - Preference for King's Cross and self contained building.
04-04-19	Prospect Business Centre Serviced Office	20,000 - 40,000 SF	Charlie Cudworth <i>Prospect Business Centres</i>	Apr 04 - Revised terms submitted. Discounted as tenant did not have money to open new centre. Mar 15 - Running numbers to finalise terms. Mar 05 - Terms have been submitted
03-15-19	CoCreations Serviced Office	10,000 - 30,000 SF		Jan 28 - Expecting a proposal shortly. Requirement never put forward as discounted it as an option. Jan 18 - Viewing on 11/01 and plan to make us a proposal on a management basis.

03-15-19	WeWork Serviced Office	20,000 - 100,000 SF London, ENG - City	Oliver Meyers <i>WeWork</i>	Feb 27 - Does not work given size and spec, tenant has now run out of funding. Jan 28 - Waiting for feedback following inspection. Jan 21 - Looking for additional space near Fox Court Grays Inn Road. Inspected on 21/01 and plans/design pack has been sent.
03-15-19	Worklife Serviced Office	10,000 - 20,000 SF	Henry Wilkinson <i>Work.Life</i>	Mar 15 - Final position almost confirmed. Only willing to managed solution on a profit share so not viable. Feb 27 - In negotiations. Jan 18 - Counter proposal should be receive on 21/01

Touring

Date	Tenant	Requirement Details	Broker	Comments
07-15-19	Unknown	3,000 - 5,000 SF	Henry Carrol <i>Brecker Grossmith</i>	April 03 - Looking for boutique gym operator Inspected on 03/04 and although they liked the space the location does not quite work.
07-15-19	Unknown Gym Provider	5,000 - 7,000 SF	Alan Wylie <i>Movement LDN</i>	April 05 - Looking for gym operator and inspected on 05/04 but found it difficult to space plan ground and lower ground.
07-15-19	Unknown	7,000 - 7,000 SF	Jonathan Franks <i>Richard Susskind and Co</i>	Jun15 - Inspected on 10/06 but discounted as preference is to buy.
06-06-19	Space as a Service	10,000 - 20,000 SF	Michael Umfreville <i>BNP Paribas Real Estate</i>	Jun 06 - Have sent over initial info pack but preference was for profit share deal with landlord. May 29 - Inspected on 29/05 and should hear more shortly. May 20 - Looking for new space in City and Midtown. Details have been sent.

We have had negotiations with 5 different parties but the only conventional tenant to engage was the University of Lincoln all the other parties were serviced office occupiers. As we now know the serviced office model has been directly influenced by the downfall of WeWork and its over expansion in the global market, as a result Central Working (a co working operator) have now gone bust and Regus are closing unprofitable centres. Only 17% of all office prelets are off plan and given the state of the premises and the financial viability of the product the most likely market was serviced or alternative users as most B1 occupiers want finished space.

6 Financial Appraisal

Appendix VI shows the financial appraisal outlining the viability of a speculative refurbishment, as you can see based on the initial assumption, which are in line with the comparable properties outlined above.

We have assumed that the space will take 12 months to refurbish at just under £184 per sq ft. The space is then let after a 12 month letting void for a term of 10 years at 24 months rent free. The rent achieved is based on the below;

Floor	Rent (per sq ft)
2 nd	£65.00
1 st	£65.00
Gnd	£55.00
Lower Ground	£40.00

As you can see for the cover page of appendix VI the above produces a negative IRR and is a more than likely scenario given the void periods on the alternative properties, Bureau still has vacant space in it 15 months after PC.

7 Conclusion

We feel the space has been given a considerable push in the market and we have had limited interest from the conventional office occupier. As shown by the competition it is more than likely that the space would incur a considerable void period in the current market and competing in the most difficult size bracket in the market due to the rise in serviced office opportunities and the fact that due to modern working practices it is unlikely it will be let as a whole again. We felt The University of Lincoln offered a fantastic opportunity as it they wanted to use the space as D1/B1a space and not a total change of use, they would also complement the other occupiers in the building and local business community.

Yours faithfully



For and on behalf of
Knight Frank LLP