

---

-

**APPENDIX 3**

**REPORT ON**

**BOSTON HOUSE, FITZROY SQUARE, LONDON – MARKETING REVIEW AND REPORT**

---

**SEPTEMBER 2020**



19<sup>TH</sup> May 2020

**BOSTON HOUSE, FITZROY SQUARE, LONDON – MARKETING REVIEW AND REPORT**

**1.0 THE BUILDING**

**1.1** Boston House appears from its façade as being of a similar design and build to its neighbours, however internally it bears little resemblance. Boston House was constructed behind the façade following extensive bomb damage in World War II. I make the point to highlight that most tenants are attracted to Fitzroy Square by the characterful nature of the accommodation and Boston House simply doesn't tick that box.

**2.0 LOCATION**

**2.1** Boston House is situated on the south side of Fitzroy Square. The building is located near the western end of the Borough of Camden, close to the boundary with Westminster. Fitzroy Square and the immediate surrounding area is made up of an eclectic mix of residential (approximately 50%), B1 Office Use and D1 Medical and Education Use occupiers.

**2.2** I would first highlight the fact that the number of Serviced / Co Working operators in the area has been increasing, making the conventional leasing market more challenging. Fundamentally and relevant to the subject property is the flexibility that these operators offer to tenants, meaning that securing leases with a term certain of more than 3 years, is now more difficult than ever. This has had a significant effect on the conventional leasing market where it is simply not financially viable to let a building on these terms. This in fact was highlighted in JLL's report in November 2019 on behalf of The Fitzroy Square Frontages & Garden Committee (p11) in response to a previously submitted application at the site.

**2.3** In recent months Fora (a co-working operator owned by Brockton Capital) have opened another centre at 42 Berners St, and TOG (The Office group) are to open their third site on Gt Portland Street. There is no doubt that this offering has, and is having, a bearing on the conventional method of leasing office space. These operators offer flexible leasing options with a host of member licensee benefits. Licensees can expand and contract as their occupational requirements change, and meeting rooms are only paid for when used. These buildings typically benefit from communal break out areas, reception facilities and in some cases gymnasiums. It is worth noting that TOG (The Office Group) and LabTech both inspected the property at Boston House and were not interested. Please refer to the attached viewing schedule (**Appendix 2**).

**1.0 THE BUILDING**

**1.1** Agreed.

**2.0 LOCATION**

**2.1** Whilst the surrounding area may comprise 50% of residential space, on inspection, it is clearly apparent from observational survey, the square has far lower residential density. It offers mainly commercial use, with a mix of B1 offices and D1 medical, with approximately 20% of the square itself being residential.

Fitzroy Square stands alone, in a predominately residential area, with the exception of some new buildings in Fitzroy Street. JLL have not focused on Fitzroy Square itself, but the 'surrounding area', the latter of which is hardly relevant to Fitzroy Square itself.

**2.2** I agree that pre Coronavirus there was a surge in the serviced and coworking market, which made traditional leasing of second hand grade B1 space more challenging to traditional Tenants. This is underlined by the number of inspections of serviced and coworking operators as opposed to traditional office Tenants, and neither resulted in lettings.

Boston House would not suit such operators in view of the quantum of space, served by only a single lift, which creates a problem for any occupier, in view of the concerns over the spread of the Coronavirus.

**2.3** Fitzroy Square is at the very northern end of Fitzrovia, which arguably is a secondary Fitzrovia location backing on to Euston Road, which is not sought after by office Tenants, persons in technology, fashion and media industries, who favour modern image buildings in Fitzrovia.

In summary, the location and specification of Boston House, will make it uncompetitive with those buildings.

Even if refurbished, the location of a 20,000 sq ft office building may rule a letting out to potential occupiers, who want proximity to Google etc.

Even serviced and co-working operators will be doomed to fail in this location.

### 3.0 MARKETING / INTEREST / VIEWINGS

**3.1** As per the attached Marketing Report prepared by my office in October 2019 (**Appendix 1**), the building was first marketed around May 2017 in advance of the lease expiry dates in the building in Jan 2019. The viewing schedule provided with the recently withdrawn application at Boston House was an accurate account of the number and dates of inspections, but where it was lacking was in the level of detail on the feedback to those viewings. The viewing schedule has now been updated to provide a more detailed account of the viewings carried out and the reason why interest of the building was not further pursued. As you would expect, there are a number of parties on the schedule, who simply were not attracted to the building for reasons including the location, style and feel of the building. Clearly, not every party was deterred by the length of lease against the capital cost of the works required to the building.

**3.2** The marketing literature produced by my office did not state the length of lease on offer, as the tactic which is often the case, is not to dissuade potential tenants. However, the reality is that with any tenants remotely interested in the property, a maximum 3 or on occasion 5-year lease commitments were being sought. This approach is very common and we promoted a flexible leasing policy, trying to tackle the point of required works, in that we relayed that these could either be undertaken by the landlord on the basis of a 10 year commitment or the tenant, with the rent induced accordingly. I would point out here that the lease lengths were all open to negotiation to interested parties. Unfortunately, with tenants seeking one-way flexibility to walk away at the end of year 4, the commercial viability of any deal, did simply not stack up.

**3.3** To summarise on the marketing of the property, the length of lease was never a barrier to generate initial interest / inspections, as we never stated that a specific length of lease was on offer in our marketing literature. This is a standard approach that is taken with most buildings that are being offered on new leases directly from a Freeholder, as was the case with Boston house. As such, we were always satisfied to lease the building for 3-5 years, but this was only possible if a tenant could occupy the building without the need for substantial refurbishment / works. However, due to the current condition of the building this was not possible, and to carry out the works were simply not financially viable as it has been estimated that the cost of getting the building into a habitable standard required by most office tenants, would be in the order of £2.5-£3m. Please refer to the costs analysis (**Appendix 3**) carried out by Thirdway (a building fit-out company) which details the significant costs and investment required. In addition to these costs, it should also be noted that the existing building contains asbestos, the removal of which alone would cost an additional £1m and adding to the overall works required for upgrading the building for future occupation. Please refer to the Asbestos Survey (**Appendix 4**) which sets out the specific works associated with the removal of asbestos from the building.

### 4.0 CAMDEN LOCAL PLAN POLICY REQUIREMENTS

#### 4.1 Loss of employment/office space

Policy E2 of the Camden Local Plan encourages the provision of employment premises in the borough and seeks to protect premises that are suitable for continued business use. The supporting text to Policy E2 (para 5.37) and the Camden Planning Guidance (CPG) on Employment Sites and Business

### 3.0 MARKETING / INTEREST / VIEWINGS

**3.1** The viewing schedule, which we believe includes developers and prospective occupiers of the whole and individual floors, demonstrates weak demand for the property, which, in my opinion, is evidence that this building, as an office, is no longer fit for purpose.

**3.2** Considering the extensive period of marketing without success, this indicates the challenges and void periods, that buildings of this nature face, when vacant.

The strategy adopted by RIB on discussions in connection with lease terms, with prospective Tenants, is standard, and for the past 2-3 years has been essential, in order to accommodate all active demand, thereby enhancing the chances of letting.

The fact that the length of the Lease was not a barrier does not surprise me, whatsoever, and therefore all interest was invited and in view of the nature of the building potential occupants could easily envisage what the refurbished space would look like.

**3.3** Most importantly, even the RIB report does not address the future impact on the office market due to the Covid-19 Pandemic, which continues as I write, where it is anticipated that office demand will diminish, due to remote working, redundancies etc, and increase supply is inevitable.

Taking this into account, on top of the challenges this building already faces in the office market, not only are the works to improve the building even more financially unjustified, but the 'letability' is blighted even further.

### 4.0 CAMDEN LOCAL PLAN POLICY REQUIREMENTS

#### 4.1 Loss of employment/office space

Education, creates office jobs, and the nature of those running educational facilities. In addition, it create feeders to office employment, and thus, in the medium to long term, an educational use, would create more office jobs in Fitzrovia / Camden, than having say 200 office workers occupying the

Premises (para 8) provides a list of various factors which will be taken into account when considering whether there is potential for the employment use to continue of a site. These factors (combined from both documents) have been listed and considered in turn below or addressed in the Planning Statement to accompany the application.

building, if it were maintained as offices.

Educational facilities are well used by students, which benefits the whole area, especially leisure users, who are in such trouble, namely cafes, bars, and restaurants, and who need more footfall, to counter the devastation which they have experienced as a result of the Covid-19 Pandemic and impact on the office worker market.

Even the most optimistic Government forecast anticipate millions of middle management personnel face unemployment, and educating post grad students, and retraining them for alternative employment, will create jobs and thus support the economy.

**4.2 i) The suitability of the location for any business use:**

Businesses are located on Fitzroy Square, however the layout/condition of the existing building at Boston House does not allow an easy floor by floor letting policy for office space. Without substantial and unviable major works (as referred to above), the building could realistically only be let as the basement and ground floor as one letting, and the top floors as a single unit or separate units for which there is no demand.

**4.2 i) The suitability of the location for any business use:**

Agreed, as proven, by the failed extensive marketing campaign.

**4.3 ii) Whether the premises are in a reasonable condition to allow the use to continue**

The premises are in poor order and the Mechanical and Electrical (M&E) systems are at the end of their current useful life. As such the future use of the building requires significant investment which has deterred future occupiers of the building for office use. As outlined above, please refer the costs analysis carried out by Thirdway (**Appendix 3**) which details the costs and investment required to be between £2.5-£3m.

**4.3 ii) Whether the premises are in a reasonable condition to allow the use to continue**

Agreed, as previously commented upon.

**4.4 iii) The range of unit sizes it provides, particularly suitability for small businesses.**

As outlined above, the building does not allow for an easy floor by floor letting policy and to do so would require significant investment and expenditure. Furthermore, any external alterations required to sub-divide the building into a number of separate units are likely to require extensive works to the front elevation/entrances to the building. This could have a potentially harmful impact on the character and appearance of the listed building and it is considered most appropriate for the building to continue to operate as a single unit.

**4.4 iii) The range of unit sizes it provides, particularly suitability for small businesses.**

Agreed, and this further impacts on the suitability of the building for the serviced office / coworking industry.

**4.5 iv) Whether the business use is well related to nearby/neighbouring land uses**

Boston House is located in an area primarily characterised by office and residential uses. The proposed D1 use is considered compatible with the neighbouring uses and is appropriate in this location. The proposed D1 use is well related to site's location within the Knowledge Quarter where similar education/academic facilities are located. Please refer to the Planning Statement which accompanies the application which provides further details on the impact on neighbouring uses.

**4.5 iv) Whether the business use is well related to nearby/neighbouring land uses**

It is clear that London, as an educational centre for the rest of the world, has been thriving, and hopefully it will thrive after Coronavirus lockdown, when restrictions on travel open up again.

Educating students creates people who will take up and create up to date jobs in the long term, which would be a benefit for Camden's intentions to keep its workforce in place.

**4.6 v) whether a lower quantum of replacement employment space is proposed as part of the development, and if so whether the nature of this space is considered to have the potential to offer equal or greater benefits to local people or businesses than the existing space.**

The proposed change of use of the existing office use at Boston House has been largely offset through the re-provision of office space at County House and the existing NCH site at 19 Bedford Square. Notwithstanding the small net loss in office space, the occupation of the site by NCH would continue

**4.6 v) Whether a lower quantum of replacement employment space is proposed as part of the development, and if so whether the nature of this space is considered to have the potential to offer equal or greater benefits to local people or businesses than the existing space.**

Agreed, and as I have commented elsewhere.

to provide genuine office use associated with the operations and administrative functions of the college. Furthermore, the proposed use would continue to support permanent, full time and part time employment at the site, a large proportion of which would be in administrative roles and office based. Overall, the proposal is considered to have the potential to offer greater benefits to the local people or business in terms of employment, education, training, and community function. For further details please refer to the Planning Statement which accompanies the application.

## 5.0 Market strategy

5.1 The marketing strategy to date has been extensive and has been carried out in accordance with paragraph 46 of Camden Planning Guidance (Employment Sites and business premises) which sets out the thresholds for a reliable marketing exercise. Full details of the marketing carried out is attached at **Appendix 1**, however the following provides a summary:

- 5.1.1 • The property has been marketed by Robert Irving Burns (RIB). RIB are a practice that were established in 1962 and have been located and active within the Fitzrovia and neighbouring areas since its inception.
- 5.1.2 • A letting board was not permitted by the Fitzroy Square Garden Association and therefore was not used to market the property.
- 5.1.3 • Marketing literature was featured on Focus/Co-Star and circulated via the West End Agents and Perfect Information Property (PIP) Portals.
- 5.1.4 • The existing lawful use was included in the marketing literature.
- 5.1.5 • The marketing period commenced in May 2017 and ran until March 2020.
- 5.1.6 • Given that there were various letting options available, RIB did not quote a fixed rent on the marketing literature. Instead, as is often the case, RIB stated 'upon application'. The same applies to the lease terms where we did not specify a fixed term.
- 5.1.7 • The building was offered to parties on a short-term basis, but only on the basis that any tenant would take the premises over in its current condition. This however did not generate any positive interest.

5.2 For full details of the viewings that were undertaken, including the interested parties, dates of viewings and the reasons for not pursuing further interest please refer to the Marketing Viewing Schedule attached at **Appendix 2**.

## 5.0 Market strategy

5.1 I agree that every effort was made to let the building as offices, as a whole, or in part.

- 5.1.1 • I agree that RIB are one of the leading, Fitzrovia, office letting and sales agents.
- 5.1.2 • Whilst a board would have been advantageous to maximise exposure to the local community, I do not feel this would have made any difference, to the outcome of the marketing campaign. Furthermore, we were advised that it is the Garden Committee themselves who refuse and even take down boards -even still, there were 193 inspections
- 5.1.3 • Noted, and standard commercial property online portals for marketing.
- 5.1.4 • Noted, and expected.
- 5.1.5 • This is significantly extensive and demonstrates the challenges of reletting the accommodation.
- 5.1.6 • As per my comments on quoted lease term above, this is a standard and essential strategy to generate as much interest as possible.
- 5.1.7 • I am not surprised that there was no interest.

5.2

## 6.0 Proposed university use at Boston House

Principle 6 of the Fitzrovia Area Action Plan (FAAP) seeks to guide education uses to the areas (as defined by the FAAP); the east of Tottenham Court Road (east of the site) and to the Howland Street Character Area (south of the site).

In response to this, a review of premises available to these areas has been undertaken which demonstrates that there are no available/suitable premises to meet the needs of NCH. A search was carried out by RIB on 28th April 2020 for self-contained premises between 19-23k sq ft. This confirmed that no self-contained properties, comparable to Boston House, were available within the identified character areas. Please refer to **Appendix 5**.

## 7.0 REVIEW OF JLL REPORT – NOVEMBER 2019

7.1 I have read through JLL’s report prepared on behalf of The Fitzroy Square Frontages & Garden Committee in response to a previously submitted application at the site. I have listed below their executive summary (in bold), and provided my own assessment on these conclusions below;

- 7.1.1 • **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.** The property may be situated within the borders of Fitzrovia but this is the northern most section almost bordering Euston Road. The property is certainly not situated in the ‘heart of Fitzrovia’ and from my experience that when occupiers refer to Fitzrovia, Fitzroy Square is often deemed as being outside this area and referred to as Euston. Fitzrovia is bordered by Euston Rd to the North, Oxford St to the South, Tottenham Ct Rd to the East.
- 7.1.2 • **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.** I consider this statement to be misleading given that Fitzrovia is a large catchment area and that the subject property is often regarded as being closer to Euston, than being in the heart of Fitzrovia.
- 7.1.3 • **Supply in Fitzrovia decreased 10% in Q3 2019, partly due to a decline in the availability of second hand space akin to Boston House.** For this statistic to be accurately relied upon, it really needs to focus on the Northern sector of Fitzrovia, factor in the size of Boston House and also recognise that Boston House is a building where the basement, ground and first floors cannot be split without substantial reconfiguration and investment.
- 7.1.4 • **Fitzrovia office take-up is well above the 10 year average; and above the take-up rate for the West End as a whole.** I again refer towards the number of leasing deals to the likes of FOR A and TOG that have skewed these statistics.
- 7.1.5 • **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%.** Please refer to my comment above to the first point.

## 6.0 Proposed university use at Boston House

I agree, my agency department have recently undertaken a search for between 17,500 sq ft and 25,000 sq ft self contained buildings in the locality, and there remains no other suitable option.

## 7.0 REVIEW OF JLL REPORT – NOVEMBER 2019

7.1

7.1.1 I agree with RIB’s statement that Fitzroy Square cannot be described as being in ‘the heart of Fitzrovia’, and it is on the north western borders of Fitzrovia, which is far less desirable in the office market.

7.1.2 Even if the JLL figures had any validity, which I do not accept, such figures must now be reassessed . The Covid-19 Pandemic will inevitably cause supply to increase, and office demand reduce. I also agree with RIB’s comments, that these figures, even in a market pre Covid-19 Pandemic, are misleading, and suspect that they included much larger active occupiers, seeking premises within the West End, Midtown, and the City of London generally.

7.1.3 I agree with RIB’s comments, and as aforementioned, it is inevitable that supply will increase, as a consequence of the Covid-19 Pandemic.

7.1.4 I agree with RIB’s comments, that the uptake of large space, from the serviced office sector means these statistics are ambiguous. What needs to be considered is the uptake in Fitzrovia itself, of smaller office space ranging between 3,000 -5,000 sq ft.

7.1.5 Uptake of space since the Covid-19 Pandemic began, has severely reduced, and, I anticipate that this will continue for the foreseeable future.

In view of current circumstances, and the anticipated impact of the Covid-19 Pandemic, there is absolutely no doubt that the vacancy rate for the West End, and even Fitzrovia in isolation, will increase substantively. Therefore, these “somewhat historic” figures are no longer relevant.

- 7.1.6 • **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.** As outlined above, none of the so called comparable sites listed are in fact comparable from a site or a micro location perspective.
- 7.1.7 • **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.** Without substantial expenditure the building is not easily sub-dividable. Looking at the building's internal layout specifically, the basement, ground and first floors only lend themselves to a single occupier. The top two floors could be let separately, however, are more suited to a single occupier. RIB's marketing of the building has advertised all options and the results are set out above and within the attached viewing schedule as to why further interest has not been pursued.
- 7.1.8 • **The Listed building offers a prestigious address with light, bright floorplates in a convenient location (two Underground stations are within 400 metres).** JLL have failed to mention that the interior of the building is not typical of a listed building. Whilst it is true that tenants are attracted to Fitzroy Square because of the architecture and listed buildings, unfortunately the interior of Boston House does not possess such historic or architectural interest. This was noted as being one of the reasons for interest in the building not being pursued.
- 7.1.9 • **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.** JLL's reputation is not questioned. However, it is considered that they have not reported accurately on the specific circumstances surrounding the building and its location.
- 7.1.10 • **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.** This statement is not accepted. The building has been thoroughly marketed and a number of tenants who inspected the site were represented by other well respected Central London Agents. Interested parties who were seeking classic period accommodation were left disappointed on the lack of period features internally. Those, interested in modern office space would a) not typically be attracted to an address such as Fitzroy Square, and b) would want substantial works carried out, which are simply not viable on this property on a 3-5 year term.

## 8.0 CONCLUSIONS

- 8.1 Boston House has now been marketed continuously for approximately 3 years and has been vacant for approximately 18 months (since January 2019). As demonstrated within this letter and supporting documents, for reasons relating to the recent shifts in conventional leasing methods for office space, the unsuitability and poor condition of the existing building for future occupiers, and the significant investment and works required in getting the building into a habitable standard required by most office tenants, RIB have not been able to secure a tenant for the future occupation of the building for office use.
- 8.2 Furthermore, following the emergence of the COVID-19 Covid-19 Pandemic, the office sector which has in recent times led to flexible leases being sought (Co Working), are now amongst those that are

- 7.1.6 On the listed building it seems, I agree with RIB's comments, on the JLL comparables provided I have commented on individually within the table, as I see almost no similarities between the style and size of these buildings, and Boston House. In general, these buildings are of modern style, externally and internally, appealing to those occupiers, looking for space in Fitzrovia, and cannot be compared to a Northern boundary located Period, traditional style building.
- 7.1.7 I concur with RIB's comments, and whilst JLL may be correct in stating there is demand in the general local area for 3,000 – 5,000 sq ft, it is apparent, as aforementioned, that Boston House, by nature, is not of the style nor quality that Tenants in the area will consider, irrespective of efficient of floor plate.
- 7.1.8 I agree with RIB's comments – prospective Tenants that will consider period style buildings, expect there to be impressive historic period style features, internally, and it is a major deterrent, for a building that looks externally prestigious not to enjoy a “wow factor” internally.
- 7.1.9 I agree with RIB's comments, and whether intentionally or otherwise, it is clear to me that only larger scale statistics, in favour of JLL's client, have been provided, and they have focused their research on the immediate location of Fitzroy Square and not Fitzrovia as a whole, which makes the figures ambiguous.
- 7.1.10 I completely agree with RIB's comments, for the various reasons aforementioned – however the building was marketed for an extensive period of time, and the failure of securing a new Tenant, is, best evidence that the building is currently unlettable as offices.

## 8.0 CONCLUSIONS

- 8.1 I agree, as covered hereabove.
- 8.2 There is already an onslaught of litigation lined up between Landlords and Tenants, following the extension of the Moratorium, where in December of this year, Landlords may be owed a year's Rent



likely to be the hardest hit, given that tenants and licensees can walk away at short notice and with relative ease. I consider this likely to further limit the marketing potential of properties similar to Boston House, first and foremost, that a surplus of office space will come onto the market and, secondly, those office based companies that do survive will need to offer not only even more flexibility but terms that make it even more difficult for the conventional leasing market to compete with.

from those who withheld the March, June and September quarter day Rents.

The future effect on the office market of the Covid-19 Pandemic cannot be ignored, and has diminished the chances of office letting, where black clouds lie over the sector.

Lehmans' diminished office values by 32% in a period of 6 months, and the effect of this crisis will be greater.

Companies such as Derwent, Great Portland Estates and Land Securities have all lost 40% of their share value on the stock market, and the office market is likely to be 20% over supplied, if 30% of office workers will work on a mobile basis. This is mentioned elsewhere in my report.

The debt will come at a time when furloughing has left companies having to pay for their staff.

In four recessions I have handled, I have never seen occupiers have so little hope of survival, and there will be reduced demand for traditional office space. Tenants will require plug-and-play space fully fitted, for the office market to survive, because even those Tenants who survive the Covid-19 Pandemic, may be cash strapped, and face dilapidations' liabilities, exiting existing larger space from which they are downsizing.

It is clear that Boston House, as an office building, will not compete with other better modern buildings which fall vacant over the next few months, let alone in a year, even if a Landlord was brave enough to refurbish the building as Offices.



**CONCLUSION**

**SIGNED:**

.....

**DATED:**

.....