125 Old Broad Street
London, EC2N 1AR
Tel +44 (0) 20 3296 3000
Fax +44 (0) 20 3296 3100
cushwake.com

Ross Jacobson
Groveworld Limited
6 Graham Street
London
N1 8GB

Email Richard.Howard@cushwake.com
Mobile +44 (0) 7764 810217
Direct +44 (0) 207 1525 497

17th March 2021

330 Gray's Inn Road – Addendum and Update to July 2019 Demand and Feasibility Study

February 2021

Background

In July 2019, Cushman & Wakefield provided a Demand and Feasibility Report, specifically addressing the likely demand from the life sciences and pharma sectors for space in an urban setting, with specific reference to King's Cross and, therefore, 330 Gray's Inn Road. While the fundamental findings of that study are still relevant today, there have been inevitable advances in the almost two years since it was written, as well as significant disruptions to market dynamics. This update covers those advances and disruptions and contemplates likely outcomes, and the suitability of 330 Gray's Inn Road to address the demands created by these outcomes.

Covid 19

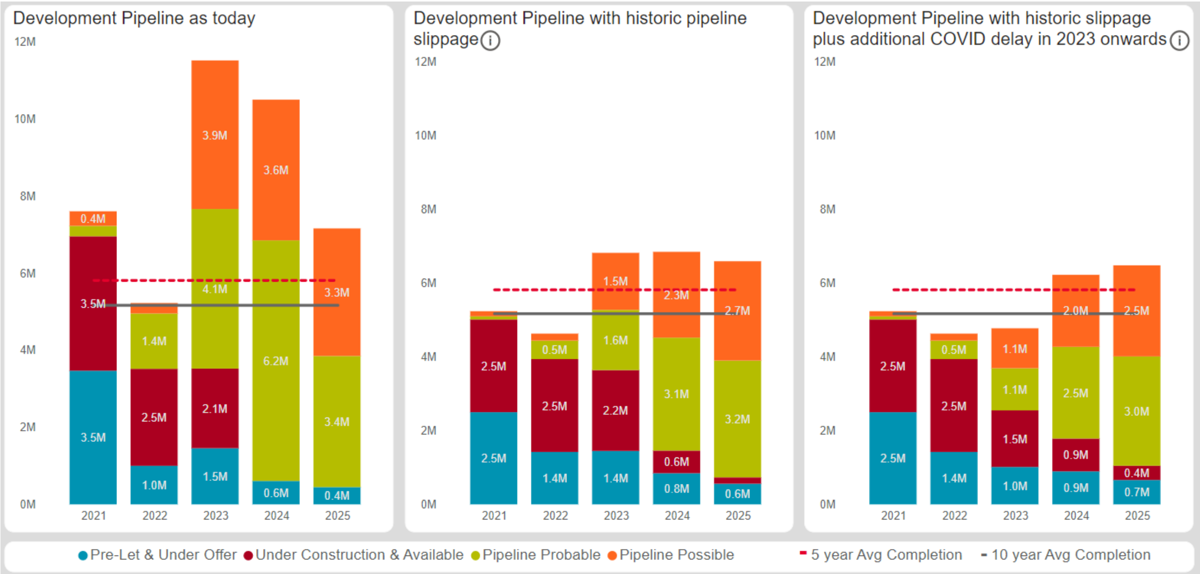
One of the most impactful events since we reported in 2019 is the global pandemic that has swept through almost every area of society, leaving no organisation or individual unaffected. Demand for commercial space in London came to an abrupt halt, and with the exception of a handful of deals that for various reasons had to proceed, London's market for commercial space went into an all-embracing hiatus. This included demand for lab/R&D style space.

Early Signs of Recovery

As of late February this year, there is already tangible evidence that occupiers are beginning to look beyond the effects of Covid, and there is a marked increased activity in terms of enquiries and inspections which will inevitably lead to transactions. Across our leasing team, all colleagues are reporting multiple inspections on individual buildings, with several beginning to enter a competitive situation where there is more demand than space in the building. A source of pent up demand is organisations that are headquartered in the USA – because of travel restrictions, decision makers have not been able to come to London to see buildings. We are already aware that once the restrictions lift, they will fast track their search process. These are the likes of Morningstar, Netflix and Capital Group (whose search has actually grown in the last 12 months from 80,000 Sq Ft to 120,000 Sq Ft).

Pipeline is Shrinking Fast

Another corollary of the pandemic is the rapid and dramatic constraint of the development pipeline, where developers, as well as the sources of finance that they would normally access, have lost their confidence and various schemes that were in the pipeline have now been shelved. See below – this chart shows the "normal" historic slippage of the pipeline, with the third graph factoring in the effects of Covid, using what happened in the year immediately after the global financial crisis as a base.



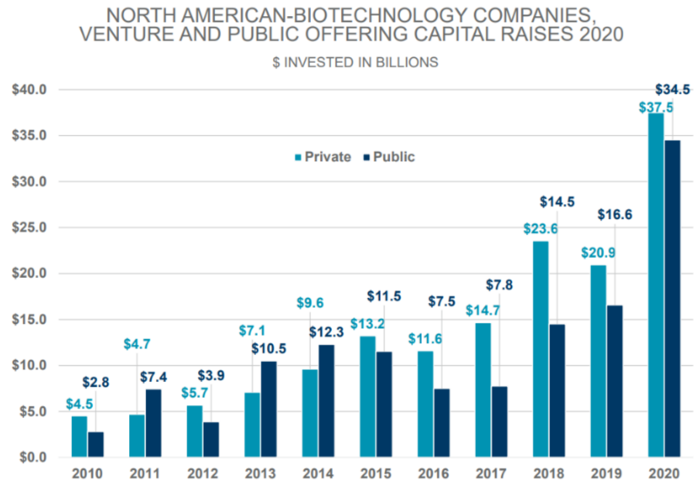
It is therefore the case that there will need to be very little increased demand before there is a supply shortage of good quality commercial space in London. This applies equally to life science/R&D space as it does to offices, as supply comes from the same essential source.

Market

As discussed 2020 was the weakest year for London offices since the 1980's with a sudden demand shock that started in March Deals still got done – indeed there were four deals over 100,000 Sq Ft (C&W were involved in all four of them), showing that even in exceptional circumstances, London's strength as a global city is such that it is impossible to completely stop it. It is true that Salesforce and Amazon (again, both C&W clients) went on hold, but the key point here is "on hold" - these searches were not terminated and are likely to resurface.

Another factor shared by all global office markets is the sudden arrival of second-hand space to the market. However, in the UK, we had the benefit of the furlough scheme which softened the process of mass redundancies, and even now it is generally agreed that this source of supply is rapidly drying up, as tenants quietly withdraw their space from the market and nothing is put on the market to replace it. In any event the impact of this will be less than some expect, because some of the space will be poor quality and will not compete with new grade A stock, and some will only be capable of being offered on existing lease terms It is therefore likely that grey space availability will ~~definitely~~ only be a short-term market factor. Another mitigating factor is the condensed pipeline that most believe will be the case as proposed new developments do not get off the ground due to developer/finance sentiment. See "Pipeline Slippage" graph attached.

Landlord response to the situation varies on a case by case scenario, largely based on what the exact position is of the real estate in terms of delivery. A good example is the recent activity of the Daily Mail. They whittled their search down to three choices – stay put, an existing new building in Hammersmith, and space under construction also in West London. The developers of the building in Hammersmith offered very significant amounts of rent free (we understand over 48 months on a ten year term); the existing landlord was generous in terms of fit out costs and package but not as much as Hammersmith

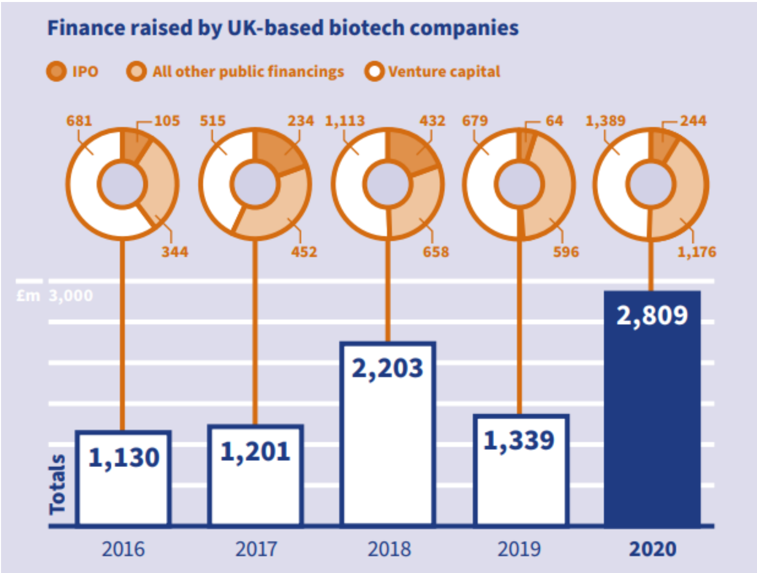


because he knew stay put would always be cheaper; and the developers with the space under construction were least generous because they are feeling less pressure and in fact are taking the not-unreasonable chance that when they deliver, things will have normalised, so why capitulate now?

And there are clear positive indications to look at that make this last stance (to assume a rapid post-vaccine normalisation, then a significant shortage of high quality supply)a reasonable one – the threat of a no-deal Brexit has gone; the results of the US presidential election have definitely made US occupiers more positive; the arrival of a (hopefully) workable vaccination and that it is being rolled out very quickly here; and finally the effects of Lockdown 3, during winter, with home schooling thrown in, have made all the talk in quarter 3 last year about “working from home forever” seem like a hollow joke. All of this bodes positively for the market, which is already showing signs of translation through to a recovery in terms of activity, and there are at least some positive indications that 2021 will be the year that things do start to pick up. I attach some graphs that may be of interest and illustrate what has been said. On the deal tracker, please note that the deals shaded green are the only ones that have happened, and please also note the dates of the deals – a fair number are pre -March last year.

Demand

Looking at the available evidence, a case can be built for continued growth. For example, fund raising in the biotech/R&D sector has continued unabated on both sides of the Atlantic, through the whole course of the pandemic; this can only lead to increased demand for the space to house the activities that are being invested in.



Demand For Flexible Lab-Enabled Space/Office Space

A good example of flexible, lab-enabled space finding ready demand is the space within Westworks in the old BBC Centre in White City. While not in King's Cross, it is still highly relevant as an example of how there is almost immediate demand for space like this from knowledge-based occupiers. What is particularly instructive is that various science related occupiers such as Engitix, Synthace, GammaDelta and Mapletree are able to share the same building with conventional office occupiers. The "science" space was adapted to suit these occupiers, principally by altering the ventilation and power systems, and these occupiers relocated to a cluster that already included larger occupiers such as Novartis.

King's Cross and The Knowledge Quarter

King's Cross has become more and more articulated as a centre for life sciences and R&D uses – much more so than White City. The MSD deal at Belgrove House is about to conclude and typifies the kind of occupation that many envisage will be typical for the area. We are highly familiar with the MSD search. Belgrove was quite literally their only choice in terms of secure deliverability. They are a very illustrative example of a company that is absolutely desperate to be in the orbit of The Francis Crick (as well as DeepMind, Wellcome etc), and having very little/no choice. The rents agreed are highly confidential but are certainly reflective of these factors.

The British Library site has been complicated, largely due to the constraints around safeguarding for Crossrail 2, but we understand that these issues are now resolved. This space is likely to be occupied almost in its entirety by life science users. Along with other organisations and institutions such as the British Library itself, Wellcome, Google, DeepMind, UCL, UCLH, Alan Turing Institute etc, this location was already becoming a hub for knowledge-based users – in particular associated with genomics, AI and data analytics. A noteworthy addition to the Knowledge Quarter in the second half of 2020 was GSK, who have taken space at Pancras Square for GSK AI. They have cited access to talent in the AI sector as the reason for locating in the area. This clustering trend is expected to continue as the Library site project evolves.

It remains the case that there is little/no commercial space available in and around King's Cross – despite the pressures of Covid, very little space has been relinquished by occupiers, and there is very little pipeline coming through here.

It therefore remains the case, and is in fact likely to become even more strongly so, that the demand/supply imbalance for flexible, lab-enabled space is still very much in evidence and the case for providing circa 100,000 sq ft of such space at 330 Gray's Inn Road remains as compelling as it ever did. Indeed, it could be argued that 330 Gray's Inn Road is ideally suited to address the likely market outcomes over the next few years – apart from everything else occupiers will demand flexibility on an unprecedented basis. This has always been important of course, but Covid has made it even more compelling. It is also likely that SME's will come to the fore – as the recovery offers more opportunities for such companies, particularly in the pharma/life sciences sector, to flourish. 330 has the ability to offer near-total flexibility, allowing occupiers to reconstitute and reinvent their use of the space over and over again, and create multiple floor splits easily.

Yours sincerely

Richard Howard.

Richard Howard
Head of London Leasing
Cushman & Wakefield LLP