



The Frost Meadowcroft MARKET UPDATE 3rd QUARTER 2013

Welcome to the third update of 2013, giving you an up-to-date view of the west of West End office, investment and development market and providing an insight into prevailing trends in this sector.

Market Summary

Not since 2006 have we seen office rents, office capital values and residential values increase so dramatically all at the same time in the west of West End. Consistent demand from the gradually improving economy during the last 6 months, combined with the lack of new supply (apart from large new office buildings such as Chiswick Park, Chiswick Green and 10 Hammersmith Grove) has driven office rental growth. Further pressure on office rents is being created by the new Permitted Development Rights implemented in May this year where many parts of west London are seeing conversion of existing office space to residential thereby reducing office supply. Whilst the Central Activities Zone, including part but not all of Westminster and Kensington & Chelsea won an exemption from this new policy, the neighbouring boroughs of Hammersmith & Fulham, Ealing, Hounslow and Richmond did not secure exemptions. In these areas some office supply has begun to be lost. To the south of Hammersmith and Fulham for example offices are very vulnerable as average rents are at £25 per sq ft and residential flat values at £800 per sq ft thus creating a strong financial case for a change of use for many building owners.

Conversely in RBK&C, which won the exemption, commercial schemes are gaining traction. The owners of the mixed retail and commercial 80,000 sq ft Lancer Square in Kensington Church Street are consulting with the Council with a view to redeveloping the office block at the rear and providing a new commercial development rather than residential.

The headline rents of the best new stock in Hammersmith at £47 per sq ft have created a disparity in rents of the second hand stock so we expect only inferior secondary office stock in Hammersmith to remain below £30 per sq ft and the best second hand offices rents are heading towards £33.50 to £37.50 per sq ft. Lettings include the 11,500 sq ft part 2nd floor at the newly refurbished Griffin House in Hammersmith by Reach Local at £37.50 per sq ft. In Notting Hill, Frost Meadowcroft let 6,000 sq ft at 99 Talbot Road W11 to tech company IOVOX at a headline rent of £40 per sq ft. This type of tenant is expanding the typical profile of tenants in the Notting Hill area (fashion and music) to include TMTs. This quirky office building was previously occupied by Richard Branson's V2 Music label and more recently by Pepe Jeans.

Notable sales have included M&S's sale of their 10 acre storage depot and 'mock up shop' warehouse in White City to Berkeley St James for £100m, this site could accommodate 4,500 new homes. Owner occupier GE Capital has also sold the iconic 160,000 sq ft Ark next to Hammersmith flyover for £67m. Haymarket has sold 174 Hammersmith Road for £15m to Kier and in Victoria, 13-14 Buckingham Gate, a 12,515 sq ft multi-let office property was sold for £11.5m. This equated to a yield of 3.77%, reflecting the low average rents (£37.65 per sq ft) and the general improvement that is afoot in Victoria as detailed later in this update.



Haymarket Media Group (founded by Michael Heseltine in 1957) has sold their 35,000 sq ft Hammersmith HQ to Kier for £15m, relocating the 450 staff to Teddington Studios. Kier will demolish the existing property and construct a new

seven-storey office building of around 60,000 sq ft. Haymarket are also under offer to sell their offices just behind 174 Hammersmith Road in Bute and Wolverton Gardens, Brook Green to a residential developer.

WHITLEYS & QUEENSWAY

Various holdings in Queensway have been combined by Johnny Sandelson, backed by finance from the Sultan of Brunei (pictured) and Meyer Bergman, to enable a proposed regeneration and gentrification of the area. They have bought the Grade II listed 300,000 sq ft Whiteley's Shopping Centre for £120m, the Queensway Estate for £100m and hundreds of individual freeholds in Queensway running from Bayswater Road to Westbourne Grove. Dixon Jones are to be the architects that realise this 10 year plan.



WILL THERE BE AN EMBASSY SELL-OFF?

It seems likely that many Embassies in the west of West End will be sold off soon by their respective countries around the world. The Nepalese government has said its embassy at 12A Kensington Palace Gardens, W8 will be sold because it is too expensive to maintain. Kensington Palace Gardens has 16 buildings used as embassies or ambassadors' residences and according to The Diplomat magazine at least five are being considered for sale. Several Victorian villas on the street have gone through an "embassy to residence" conversion including 9a Palace Green, formerly the Philippines Embassy, which was sold to Mr Mittal for his daughter Vanisha for £70 million in 2008. Venetia van Kuffeler, editor of The Diplomat said:

"Dating back to the Victorian era, grand embassy buildings used to be an important visual representation of each country. However with the internet and 24 hour news that isn't as necessary as people now know a lot more about countries from around the world." Other potential west of West End embassy sales could be the Algerian (54 Holland Park), Greek (1A Holland Park), Gambian High Commission (57 Kensington Court) Royal Netherlands Embassy (28 Hyde Park Gate) and Kazakhstan (33 Thurloe Square).



VICTORIA MAKEOVER

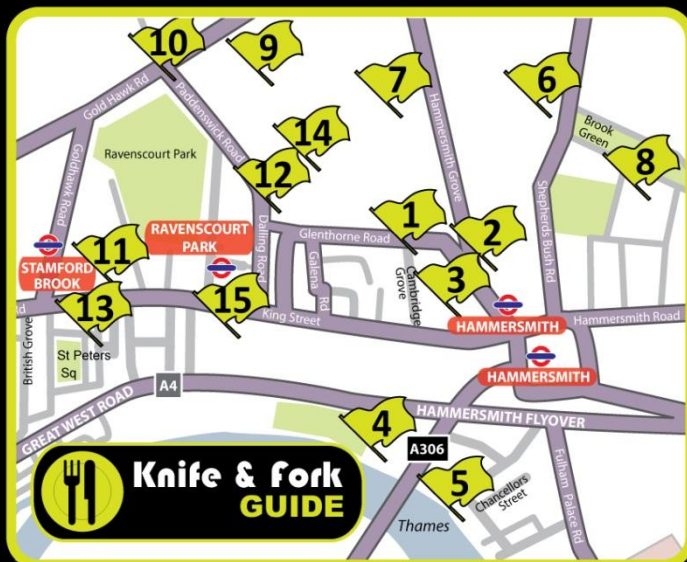
Grosvenor Estate is planning to redevelop the Art Deco Victoria Coach Station on its 10 acre site to create a new city quarter with homes, shops and cultural venues.

Whilst Transport for London owns the departure hall they only have a short lease on the rest of the coach station. Grosvenor has appointed consultants to find an alternative site for the Coach Station to enable development. Other older office buildings are also being converted to residential locally, including 21 Buckingham Palace Road and Grosvenor Gardens House. Grosvenor Gardens House was built in 1867 as the UK's first serviced apartment block before it became offices. It is now converting back to residential complete with a swimming pool, private library, cinema and 24 hour concierge provided by the neighbouring 5 star hotel The Goring in Beeston Place. Land Securities have also started developing Nova, behind the Palace Theatre opposite Victoria Station on the large circular island site between Victoria Street, Bressenden Place and Buckingham Palace Road. The 727,000 sq ft first phase comprises 480,000 sq ft offices, 80,000 sq ft retail and 170 apartments across three buildings within a new pedestrianised, landscaped public quarter that is due for completion in Q2 2016.



Knife & Fork GUIDE W6

Recently we had a conversation with an existing Hammersmith office tenant who, when we described the new restaurants going into 10 Hammersmith Grove (Bill's and Byron), amusingly exclaimed "great - I can eat in Hammersmith with a knife and fork now". However, we thought we should dispel this myth, contrary to first impressions there are some decent eateries in Hammersmith, they are just quite hidden away. Our knife and fork guide may help.



1. **STONEMASONS ARMS** (Gastro Pub)
2. **BYRON BURGER/ BILLS** (Restaurants at 10 Hammersmith Grove)
3. **LYRIC THEATRE** (Restaurant)
4. **BLUE ANCHOR/RUTLAND ARMS** (Gastro Pubs)
5. **RIVER CAFÉ** (Restaurant)
6. **BROOK GREEN** (Hotel & Bar)/ **LOS MOLINOS** (Tapas Bar)
7. **THE GROVE** (Restaurant)
8. **THE QUEENS HEAD** (Gastro Pub)
9. **ANGLESEA ARMS** (Gastro Pub)
10. **GRAND UNION** (Gastro Pub)
11. **TOSA** (Japanese Restaurant)
12. **THATCHED HOUSE** (Gastro Pub)
13. **CARPENTERS ARMS** (Gastro Pub)
14. **ANDOVER ARMS** (Gastro Pub)
15. **HAMPSHIRE HOG** (Restaurant /Bar)