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frost market update **Q4**

4th QUARTER 2014

Welcome to the fourth update of 2014, giving you an up-to-date view of the office, investment & development market in the west of the West End and providing an insight into prevailing trends in this sector.

Market Summary

Record office rents were set in Fulham at the Fulham Green & Coda Studios complexes in SW6. Raffles Media took the last floor available at Ocubis' Riverbank House, Fulham Green for £44 per sq ft and only 500 sq ft remains at Threadneedle's 65,000 sq ft Coda Studios following a flurry of lettings at £42.50 per sq ft. As well as good office demand these rents have been caused by a lack of supply. The Borough of Hammersmith & Fulham is down to an availability rate of 1.9%. A major contributing factor of this is Permitted Development (PD).LBHF is the borough with the 3rd highest number of PD applications.

Office availability is at an all-time low generally in west of West End. Paddington has an availability rate of 5.1%, Royal Borough of Kensington & Chelsea is at 1.3% and Chiswick is at 3.2%. The combination of good office demand and supply being lost for conversion to residential in the non-exempt parts of Paddington, Hammersmith and Fulham and Chiswick, has resulted in the fastest rent and capital value increases for offices since the late 1980s

Major developments that will create more supply in the next 2 years are at 245 Hammersmith Road, 77 Fulham Palace Road

and Landmark House, all of which are due for re-development in the centre of Hammersmith.

This quarter the Royal Mail sold their sorting office in London Street in Paddington and also began marketing their sorting office in Nine Elms. Meanwhile, the Police have sold their New Scotland Yard HQ in Broadway, Victoria for £370 million (£617 per sq ft) to Abu Dhabi investors for a residential-led scheme. This was £120m over the £250 million guide price for the 1.7 acre 600,000 sq ft site. The famous revolving triangle sign will be moved, along with the Metropolitan Police, to their new home, the Curtis Green Building on Victoria Embankment. This is not the first move for the Met. They began in Whitehall Place then moved to Great Scotland Yard in 1875 and to the Norman Shaw Building in 1890 before relocating to the current property in the 1960s. This quarter also saw the Police Force marketing their former station at 2 Lucan Place, Chelsea, SW3 for £30m.



Q4 Headlines

ROYAL MAIL SALES PADDINGTON & NINE ELMS



PADDINGTON W2

Royal Mail has sold its one acre, former mail sorting centre in Paddington to Singaporean investors for £111m. Irvine Sellar, developer of The Shard, is its development manager. This 1907 red-brick property, located at 31 London Street, W2 had indicative plans submitted for a 120,000 sq ft office-led scheme by Royal Mail in 2011.

NINE ELMS SW8

Royal Mail has also put its former south London mail sorting centre at Nine Elms, Battersea SW8 up for sale. The site is 14-acres and is close to Battersea Power Station in south-west London. The site currently houses the delivery office for the SW1, SW3 and SW7 postcodes. Royal Mail received planning consent from Wandsworth Council in March 2012 to create up to 1,870 homes, more than six acres of public space, 1.2 acres of community and retail space, as well as a new primary school.

LANDMARK HOUSE & THAMES TOWER BEING SOLD

Landmark House & Thames Tower were put on the market by owner Gems this quarter at a guide of £55-£60m (£406-£442 per sq ft). Gems had bought the 135,448 sq ft buildings in 2011 to convert to a private educational establishment but those plans have now been shelved. After requesting best and final bids in November a contract has now been issued to the best bidder.

Landmark House, which overlooks the flyover and St Paul's Church in the centre of Hammersmith was built in the mid-1960s and until the 1990s was the HQ for United Distillers owned by Guinness. Affording views of the river and across London from its upper floors the property attracted interest from residential, office and hotel developers.





Legal & General Property secured consent for the redevelopment of 245 Hammersmith Road, Hammersmith. The property was previously occupied by Bechtel, the US civil engineering group that project-managed the Channel Tunnel and the Jubilee Line Extension, who are relocating to Park Royal.

Arranged over 10 floors, the new scheme will provide 242,000 sq ft of office accommodation and 13,000 sq ft of retail and restaurant space at ground level, as well as new public space stepped back from Hammersmith Road. Work is due to start on the site in September 2015 with completion targeted for Summer 2017.



AXA buy HARPER COLLINS HQ

AXA purchased the 193,000 sq ft former Harper Collins HQ in Hammersmith. The site, located at 77 Fulham Palace Road, sold for £80m (£415 per sq ft). It will be developed by Bell Hammer into Grade A office space alongside an 18,900 sq ft extension. Publishers, Harper Collins, are relocating to the 'Baby Shard' at London Bridge Quarter.



RICHARD ROGERS MOVING FROM THAMES WHARF TO THE CHEESEGRATER

Richard Rogers architectural practice, now called Rogers, Stirk Harbour & Partners are relocating from their Hammersmith Riverside base of 30 years, Thames Wharf Studios. They are moving to the British Land owned Leadenhall Building in the City, nicknamed the Cheesegrater, which the architects actually designed.



OFFICE LETTINGS

Best office rents increased to £58.50 per sq ft in Paddington and £50 per sq ft in Hammersmith as a result of Philip Morris leasing Development Securities' office building at 10 Hammersmith Grove. In Fulham, Ocubis let Fulham Green in its entirety, including lettings to Scott Dunn and the final 3,000 sq ft to Raffles Media at £44 per sq ft. Coda Studios in Munster Road reached £42.50 per sq ft. These buildings set a new tone for SW6. In Chiswick, Bumi Armada leased Chiswick Park at £48.50 per sq ft earlier in the year and in Notting Hill, W11 rents reached £55 per sq ft.

TRANSACTIONS

Landid and Brockton Capital were the £30m (£375 per sq ft) purchasers of the 80,000 sq ft 1 Queen Caroline Street from Coca Cola in the centre of Hammersmith

and Axa and Bell Hammer bought 77 Fulham Palace Road from Nordea for just over £80m (£415 per sq ft). Both of these will be retained and refurbished as offices. Lend Lease bought the 1.3 acre site at 414-430 Chiswick High Road, overlooking Turnham Green, and Versant Developments purchased the 30,000 sq ft office building, Compass House in Redan Place, W2 from Hermes for £24.5m, both for residential conversion. Warner Music paid £58m (£838 per sq ft) for the 70,000 sq ft 27 Wrights Lane just south of Kensington High Street in W8.

DEVELOPMENT

The Permitted Development (PD) legislation of May 2013 (which allows office to residential conversions in 2014 to all of the west of West end except parts of Westminster and Royal Borough of Kensington & Chelsea) had a massive impact

on properties being earmarked for development. Estates Gazette Research showed that in the first year of PD (May 2013 to May 2014) there were double the amount of office to residential conversions than in the previous year. The research shows that only 7% of the 100% increases were schemes where planning consent was granted. As the legislation is temporary (until May 2016) we expect this debate to continue next year. Central Government appears to want to extend it in order to improve housing supply but in general, the Local Authorities are against it. They consider that PD is reducing office supply and therefore local employment in inner London and thousands of new residential properties are being created without reference to education, health or transport provision, or affordable housing.