



fm market update Q2

2nd QUARTER 2016

Welcome to the second update of 2016, 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

As the Referendum drew closer there was a notable rise in caution during May and June on UK commercial property yields and values as well as land and residential values. Following the 'Leave' vote, and despite a 'Remain' vote from the central London Boroughs, capital value growth is unlikely as vendors and buyers try to fully understand the economic consequences.

Not all parts of London will be affected in the same way and with less reliance on the financial sector the west of West End market should be less affected than the City of London and Docklands.

Office supply changes in Q2:

- ♦ RBK&C increased from 1.3% to 2.2%
- ♦ LBH&F increased from 8.9% to 14.5%
- ♦ Paddington increased from 4.1% to 10.7%, and
- ♦ Chiswick decreased from 12.9% to 9.5%

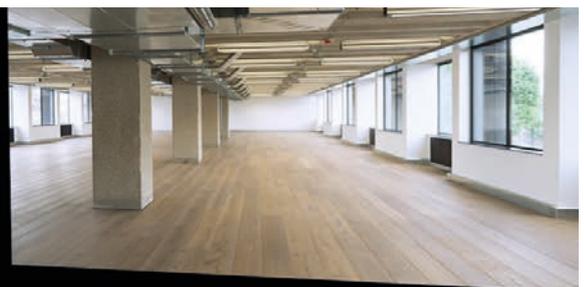
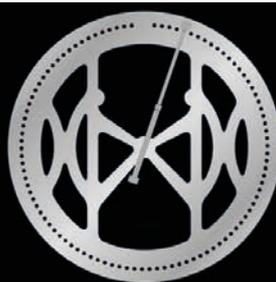
Prime rents remained at Q1 levels, with rents at £55 per sq ft in Hammersmith with 11,000 sq ft let at 1 Queen Caroline Street to DHX Media and 9,000 sq ft in two lettings at The Aircraft Factory to Vista Entertainment and Clear People, both 'tech' companies. Rents remain at £52.50 in Shepherds Bush, Chiswick, Fulham and Ladbroke Grove and £73.50 in Paddington. As supply has increased there is a wider range of specifications for tenants to choose from and a

wider range of rents available than in 2015. In Hammersmith for example the range is £45 to £55 per sq ft. Two notable office buildings were launched in Q2 following refurbishment.

The 20,000 sq ft Thames Wharf Studios, formerly Richard Rogers HQ by the river in Hammersmith and the 42,500 sq ft Clockwork Building (mentioned in more detail below). Thames Wharf Studios was originally an industrial site containing the Duckham's oil facility. It was acquired by the architects, Richard Rogers Partnership, in 1983 who converted the industrial complex of redundant 20th century warehouses into offices, workshops, housing and a restaurant. On the ground floor of the site is The River Café which opened in 1987. The restaurant looks out over a private landscaped area that extends to the river walkway. The two-storey semi-circular rooftop extension to the office space, shaped like a 'bread bin', was designed by Lifschutz Davidson Sandilands, an architectural practice that had offices in the Thames Wharf complex but has since moved to Island Studios, 22 St Peter's Square where Frost Meadowcroft are also based.



Q1 HEADLINES



CLOCKWORK BUILDING Ravenscourt Park is LAUNCHED

On the day of the Referendum the Clockwork Building was launched to 85 commercial agents from across London who were invited to a temporary bar set up on the penthouse floor and to a lunch cooked by the chef, Tom Hunt. This prominent building in Beavor Lane, Ravenscourt Park has a rich heritage. It was designed by renowned architect Richard Seifert on the site which was once the home of the world-famous International Time Recording Company

(that became IBM) hence the Clockwork name. Seifert was the architect and visionary behind London's Centrepoint and NatWest Tower buildings. He and his practice were responsible for creating more London-based buildings than Sir Christopher Wren and designed over 500 office buildings across the UK and Europe. The property has been transformed to become the highest specification, creative sector office building locally. A common roof terrace on the 6th floor

provides all tenants with river views as well as a private roof terrace on the 5th floor. The building has been painted black and fitted with striking copper signage emulating one of the International Time Recording Company's clockwork pieces. It is stripped back to expose the original vaulted concrete ceilings and fitted with contemporary lighting, new timber flooring as well as having a new reception, showers and cycle bays installed.



on Hammersmith town-centre scheme

Legal & General Property has sold a 50% stake in its proposed £275m office-led scheme at the former Bechtel offices at 245 Hammersmith Road to Mitsubishi Estate London. The joint venture partners will now speculatively develop the 250,000 sq ft office scheme next to L'Oreal's building which is designed by Shepherd Robson. Construction is due to start next month and the scheme will be completed in the first quarter of 2019. The site has planning for a 13 floor office building with four shops on the ground floor and a new urban park and plaza in Hammersmith Road.

AFFORDABLE HOUSING DILEMMA

Why is affordable housing on new schemes rarely 50% of the private housing, despite this being stipulated as the target in London development plans?

Unfortunately when politicians discuss affordable housing and stipulate that they want 50% on a particular site, they ignore a key complexity in terms of planning; can the site accommodate 50% in viability terms?

The National Planning Policy Framework of 2013 in Paragraph 173 states that:

“Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.

To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”

The key issue therefore is “whether an otherwise viable development is made unviable by the extent of planning

obligations or requirements”

In simple terms, if the sum of the cost of the development (including affordable housing) together with the land value and reasonable profit exceeds the gross development value of the project then the affordable housing renders the site unviable. If the development costs, profit and land value can be ascertained and are fixed, the only variable that can be altered is the level of affordable housing to make a site viable.

Frost Meadowcroft have a department that specialises in land valuation and during the course of our work in this respect, when land value is determined we must ask what uses are appropriate in the relevant local authority's development plan that do not attract affordable housing. This enables us to assess the market value of a site. What the housing developer paid for the site is not as relevant.

In London, if a site is near an Underground station the land value for office development is often a good start, otherwise it might be valued as land for serviced apartments or ‘apart Hotel’, a school, college or traditional hotel. Below is a graphic that helps to explain the planning obligation dilemma better.

