Harrow Depot and HNC Business Case Review

Harrow Central Depot, Forward Drive, HA3

May 2020

Contents

Prepared By: Hugo Parry MRICS
Status: Final
Date: May 2020

For and on behalf of Avison Young (UK) Limited t/a Avison Young

1. Executive Summary

1.1 Key findings from this report include:

- Option 2(a) which assumes the relocation of the Council's back office to the Depot and the integration of commercial space at the HNC is Avison Young's recommended option. This option generates a greater capital return for the Council than Option 1 and requires less management than if PRS or Private for Sale were to be integrated to the HNC.

- Occupier demand for the Depot will be determined by those who prioritise lower rents, larger floor plates, and the availability of car parking over access to public transport and/or needing to be within a client-facing building.

- Integration of commercial occupiers at the new Brent Civic Centre and Hounslow Civic Centre demonstrates demand amongst public sector and national associations for space within civic buildings.

- The Council should consider the One Public Estates programme when looking to integrate commercial occupiers into the Depot and HNC as there are considerable wider benefits that co-location of public service providers can deliver across the Borough.

- Whilst releasing further space at HNC (beyond what is suggested in Option 2) might yield a higher return, this will carry increasing risks for the Council in terms of the management and letting of the building.

2. Introduction

2.1 Avison Young received instructions from Harrow Council (the 'Council') in February 2020 to undertake a business case review for the redevelopment of the Depot and to provide our own assessment in respect of the potential redevelopment options and earning potential of the Depot and HNC.

2.2 In doing so we have also carried out a qualitative review of the likely occupier demand within the Depot and HNC taking into consideration the nature and likelihood of demand across various uses for both options.

2.3 We have then carried out an assessment of any potential barriers and opportunities on both sites which might affect their earning potential including the planning constraints to the third and fourth floor and associated mitigation strategies.

2.4 Finally, we present an assessment of the potential income across both sites and options followed by Avison Young's recommendations.

2.5 We have also conducted an extensive assessment of the current office, PRS, and private for sale markets in the local area looking into key performance indicators and comparable evidence to help inform our view of the market which can be found at Appendix I.

2.6 An inspection of the Depot and HNC site was carried out on 4 February 2020 by Hugo Parry, MRICS.

2.7 We have been provided with the following documents from the Council:

- Redevelopment of Central Depot Business Case dated July 2018 (Appendix II)
- HNC/Depot Accommodation Issues Presentation
- Depot Redevelopment Presentation

2.8 The advice offered in this Report does not constitute a valuation and cannot be regarded or relied upon as a valuation. This advice is exempt from the current RICS Valuation Standards (the Red Book) other than the requirements of PS 2 Ethics, competency, objectivity and disclosures, with which this advice complies.

2.9 We confirm that as far as we are aware, no conflict exists, nor is there a risk of a conflict of interest. We are required by the RICS to confirm this to all parties we act for.

3. The Sites

The Depot

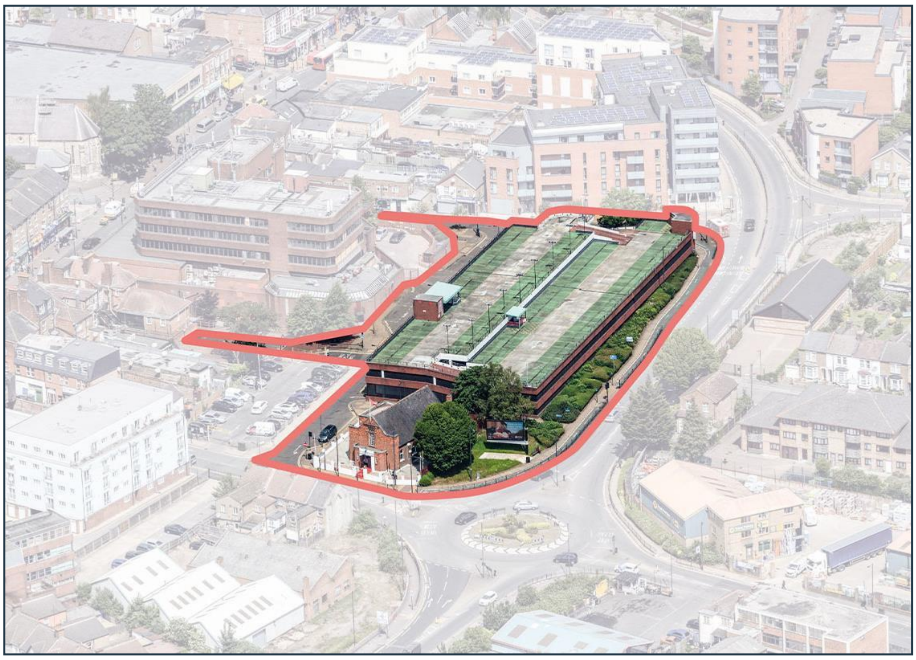
3.1 The Depot is located within a larger industrial site known as the Central Depot which serves as the operational base for the Council's front line services, including fleet maintenance services, as well as providing rental accommodation for a number of local businesses. The area to be redeveloped (red line) forms approximately 50% of the wider Central Depot site (blue line) shown in the image below:

3.2 The wider Depot site is located approximately 800m south-east of Harrow & Wealdstone station and is bound by the railway line to the west, Kenmore Avenue to the South and East and the rear gardens of residential units to the North.

3.3 The scheme was originally approved in April 2017 and in July 2018 members approved an additional two floors of office space and additional car parking. The proposed development (which is under construction) will now provide workshop, office and welfare space over 5 floors as well as a 3 storey car park. Each floor measures 9,817 sqft (NIA) equating to 49,085 sqft in total. Four of these floors totalling 39,268 sq ft will be considered for incoming producing purposes which this report will focus on.

Harrow New Civic

3.4 The HNC is likely to be located on the site of the existing Peel House Car Park within Harrow and Wealdstone's main retail district approximately 250m north of the Harrow & Wealdstone station and measuring approximately 0.8 acres. It is bound by Canning Road to the north, Gladstone Way to the West, the A409 to the East and Palmerston Road to the South.



3.5 Current proposals for the redevelopment of the HNC are for a 94,000 sqft (GIA) development for civic purposes of up to 6 storeys. The proposals include 60 car parking spaces, bike storage, and a roof terrace. It is expected that the Council will relocate staff to the Peel House site from the existing Civic Centre which is being replaced with housing and ancillary commercial uses.

4. Occupier Demand

The Depot

4.1 We have spoken with several local commercial agents and carried out our own extensive review of the market to determine the nature and likelihood of occupier demand for the Depot space.

4.2 In terms of size, typical office occupiers within the local area tend to be searching for space between 1,500-5,000 sqft which is reflective of the scale of local enterprises being mostly small to medium sized businesses. This suggests that the Council would require at least 2 occupiers per floor for typical office occupiers.

4.3 The Harrow and Wealdstone area attracts a variety of office tenants including accountants, solicitors, IT specialists, and other standard professional services. We are however of the view that the subject site would not appeal to such client facing occupiers due to its location within a generally industrial area which is also adjacent to the Harrow Recycling Centre, railway line, and not within particularly close proximity to major transport routes.

4.4 We are however of the view that the Depot would appeal to a different category of office occupier including those that consider large floor plates, staff car parking, and more economical rents as a priority over location.

4.5 We have established a range of possible sectors which the site would appeal to including:

- Administrative Services
- Back Office Operations
- Building Contractors
- Call Centres
- Civil Engineering
- Logistics Services
- Maintenance Providers
- Public Sector / Local Authority Services / One Public Estate (OPE)
- Security
- Transport Services

4.6 Whilst typical office occupiers (professional services etc) tend to demand space between 1,500-5,000 sqft we would expect that the above alternative occupiers might seek larger sized offices and therefore consider it likely that whole or multiple floors could be let to a single occupier of this nature at the Depot.

4.7 We are confident that there would be demand from occupiers of the nature outlined above at a rental level to be discussed in Section 6 of this report.

4.8 We consider that a focus on opportunities across OPE should be considered as a priority as a number of these service providers are likely to be well suited to the nature of the space offered at the depot. Further, a OPE co location approach can yield far wider benefits across the Borough both in terms of operational performance but also in terms of potential site release.

Harrow New Civic

Office

4.9 Upon completion, the HNC has the potential to offer best-in-class office space within the Harrow Borough. Its likely location on the former Peel House car park will mean it is in close distance to the Wealdstone retail offering and train station which will benefit employees.

4.10 In comparison to the Depot the location and design of the HNC would in our view appeal to a wider range of occupiers and including those who tend to be more client facing. We understand that the Council has aspirations for the HNC to become a leading sustainable building which will appeal to an increasing number of potential users which is linked to wider trends in the market for sustainability conscious occupiers . Provided that the specification of the available office space meets the Grade A office space criteria, we believe there would be good demand from a wide range of private and public sector occupiers for the space.

4.11 It is our view that the HNC would appeal to the following office sub-sectors:

- Administrative Services
- Charities
- Health Services
- Professional Services (Accountants, Financial Advisers, Consultants, Lawyers)
- Public Sector / Local Authority Services / One Public Estate (OPE)
- Transport Services

4.12 Typically such occupiers would be seek between 1,500-5,000 sqft and therefore we anticipate that the floors of the Civic would be multi-let.

4.13 We have carried out research into the occupancy of new civic centres within other London Boroughs as examples of where such integration is being achieved. As a good example, the Brent Civic Centre (built in 2013) provides approximately 30,000 sqft for the VOA, The Secretary of State for Commerce, and Soceité Air France combined over the top floor. Another example is LB Hounslow's new civic centre, Hounslow House, which also accommodates the Hounslow Clinical Commissioning Group, New Adult Education classrooms, and the Council's police partners. The sixth floor also includes the more modern and flexible Council Chamber, which can also be used as community or event space. This is a clear indication of demand amongst other public sector bodies and national associations to locate within civic buildings.

4.14 Our view is that the Harrow New Civic will provide rare Grade A and sustainable office space in the local area and we are confident that this would result in demand from the occupiers described above at a rental level to be discussed in Section 6 of this report.

4.15 In additional we consider there may be scope to consider opportunities across the OPE within Harrow and there is lots of evidence where Councils' have successfully sublet space within their civic centre to these occupier groups.

PRS

4.16 We have been asked to consider the likely demand for PRS units which could potentially be integrated within the HNC.

4.17 Based on information provided to us by the Council, the maximum potential available floor space of the HNC equates to c. 31,378 sqft NIA (to be discussed in more detail in Section 6). Based on the assumption of an 80% Gross:Net ratio this would result in an NIA of c. 25,100 sqft for approximately 44 PRS units (assuming avg. unit size of 575 sqft).

4.18 We have discussed this as an opportunity with our in-house residential team who have said that from an institutional investor perspective 44 units would be too small to consider. Typically, institutional investors would require minimum 120 units and therefore the likely investor demand for such a PRS project is not likely to be high.

4.19 Alternatively, there may be an opportunity for the Council to receive income from the PRS units either by managing the units themselves or by appointing a third party to oversee operational management. We are aware of companies such as PRSim who are able to offer such services.

Private for Sale

4.20 We would expect the primary demand for new build town centre apartments to come from young professionals working in and around the town centre or in nearby business parks. However, due to the placemaking mandate of the scheme we believe that young families currently living in the town would be encouraged to move for the convenience of good amenity access and transport. This may also be true of small families living outside of Harrow but working in the town who wish to minimize commuting time.

4.21 Additionally, as Harrow & Wealdstone station is a 12 minute train journey away from London Euston, we would expect a large proportion of potential purchasers to be commuters seeking to benefit from this short journey and the relative value of Harrow compared to other more expensive commuter-belt locations. The short commute to central London is likely to also attract renters and in turn create interest in predominantly smaller units from buy-to-let investors.

5. Further Barriers and Opportunities

Planning Constraints

5.1 Planning permission (Ref: P/4251/18) for the Depot was granted in September 2019 for the:

> *"Redevelopment to provide part single, part two and part five storey building with plant room on roof and part first floor mezzanine incorporating workshop (B1 light industrial), office (B1 use), warehouse (B8 use) and ancillary uses; multi storey car park and external car parking; bin store (demolition of existing buildings) (Amended description)."*

5.2 However the permission is subject to a number of conditions including the following which limits the third and fourth floors for the purposes of civic functions associated with the Council:

> *"The B1a office accommodation on the third and fourth floors hereby approved shall be used solely for the purposes of civic functions associated with Harrow Council Services, and for no commercial purpose outside of this remit without prior written consent from the local planning authority;*
>
> *REASON: (a) To safeguard the on-going operation of a locally important function within the Borough; and (b) In the interests of highway safety."*

5.3 We interpret this condition to allow any business which provides services or benefits to the Council to occupy the premises, including third party service providers.

5.4 In terms of the impact of this planning constraint, we anticipate that a third party Council-related body would be willing to pay the market rent however we would expect there to be a slightly extended void period of around 2-3 months as a result of a restricted demand pool.

5.5 Whilst we do not consider the impact of the planning constraint to be severe, we have been asked to provide our view as to any mitigation strategies the Council may use to circumvent this constraint.

Car Parking

5.6 **The Depot** – LB Harrow has a relatively large catchment area meaning that a greater percentage of employees opt to drive to work. As a result we believe the addition of car parking to the Depot would be an attractive feature to occupiers.

5.7 **HNC** – Whilst the existing Civic Centre has approximately 500 car parking spaces we understand the number of these spaces is to be significantly reduced within the HNC. However, due to the location of the HNC within short walking distance to Harrow & Wealdstone station, we do not foresee that this fall in car parking space will be a concern for commercial occupiers.

One Public Estate

5.8 We believe there is a significant opportunity for both sites to benefit from the OPE programme which provides practical and technical support and funding to deliver collective public sector assets.

5.9 The programme focuses on bringing together various public sector bodies within the same area or building to promote collaboration, reduce management costs, and to release surplus public sector land elsewhere.

5.10 We consider there is a strong case to pursue OPE at both the Depot and HNC as we believe these assets could be home to a range of public sector services. We have considered a range of local occupiers who we believe would be suitable under the OPE programme including:

- Educational groups
- Emergency Services – Fire & Ambulance
- Network Rail
- NHS Harrow CCG
- The Royal Mail
- Transport for London

5.11 We therefore recommend that the Council carries out further investigation into pursuing this avenue which can deliver a number of benefits to the Council, third party public sector bodies and the wider Borough. These can include:

- Operational savings through for example shared reception areas and back office functions
- Knowledge sharing through co location
- Release of surplus public sector land which in turn can be redeveloped for wider economic and social benefi

General

5.12 This Report has been prepared by Hugo Parry, MRICS, Surveyor within the Planning, Development and Regeneration Department and reviewed by Kimberley Grieveson MRICS, RICS Registered Valuer and Director within the Planning, Development and Regeneration Department.

5.13 Please note that this advice is subject to our usual Definitions and Reservations. This report is provided solely for the benefit of Harrow Council and it should not be relied upon by any third party. In addition, we note that any figures provided are not formal valuations and cannot be relied upon as such.

Appendix I

Market Overview

1. Market Overview

Office

1.1 Although primarily a residential area in London's commuter belt, Harrow is nonetheless home to just under 3 million sq ft of offices. It had been one of the capital's best-performing submarkets until recently, with positive demand and office-to-residential conversions pulling vacancies down sharply and boosting rents. However, while Harrow's vacancy rate remains close to 1%, demand has turned mildly negative over the past year and rent growth has also fallen away, driven by rental losses in older stock. Investment volumes remain relatively robust, however, with investors largely looking to office buildings in places like Harrow for their future conversion potential.

1.2 Harrow's office vacancy rate has come down sharply in recent years. Steady demand and the loss of stock to other uses (especially residential) has brought about a marked change in the submarket's fortunes, at least from a landlord's perspective. In 2011, vacancies hovered around 11%, well above the London average. Today, vacancies sit close to 1%, well below the market average and making Harrow one of the tightest submarkets in London.

1.3 That said, Harrow has lost some momentum in recent quarters. Net absorption has turned mildly negative, with some firms vacating older stock or consolidating space. The number of lettings of 2,000 sq ft or more has fallen away over the past year, with Expomax's 3,000-SF letting at 66-68 College Road (Hygeia) one of the few to occur in 2019. Expomax signed a six-year lease at an effective rent of £17 per sq ft. College Road has been the hotspot for office demand in recent years. The 166 College Road refurbishment has been particularly popular, attracting a number of new tenants such as Comparex UK, MG Group and Transport Exchange Group. FH Bertling and Burn Holt Aberdeen also took take space there in 18Q3.

1.4 A lack of availability in Harrow could restrict demand moving forwards, with only a handful of 2,000-plus-SF spaces on the market at the time of writing. Fundamentals should remain tight here over the next couple of years, especially given the lack of office development and the continuing trend towards residential conversion.

1.5 Harrow has avoided the rental losses experienced in most London submarkets over the past couple of years, helped by its low vacancy rate and its low base level. However, rent growth has slowed since peaking at about 17% in 2016, and flattened off completely during 2019. Harrow's recent performance has been dragged down by older, 3 Star properties, with better-quality, 4 & 5 Star properties continuing to record healthy rental gains. Asking rents at the popular 166 College Road scheme rose to £34.50/SF last year, up from £32.50/SF a year earlier and from £29/SF in late 2016.

1.6 Little new office space has been delivered in Harrow in recent years. The north London submarket has actually lost more than 200,000 SF of offices on a net basis during this period through conversion to residential use. Lyon House in Harrow town centre (100,000 SF) was one of the largest such examples in 2015, with Imperial House in Rayners Lane (103,000 SF) following suit in 2017. Several buildings along Northolt Road in South Harrow have also been converted to flats in recent years.

1.7 Harrow has finally welcomed a couple of new office buildings in recent months, albeit small ones. Bradburys Court completed as part of the mixed-use Lyon Square development in Harrow's town centre. The nine-story, 11,000-SF building completed in 2019, with the nearby Masters Court (16,000 SF) following suit in early 2020. Both were built speculatively. The only other office deliveries of note in the past decade were in Stanmore and Wealdstone, where Sceptre House and Artisan Studios (each around 25,000 SF) delivered in 2015 and 2016, respectively.

1.8 No major office projects are in the pipeline. Office construction in London's north-western boroughs will be focused on Wembley in the Brent Submarket over the next few years, where developer Quintain is slowly building out a large, mixed-use scheme.

1.9 Investment in Harrow has picked up sharply in recent years. Less than £10 million traded per year in 2008–12, whereas annual volumes have averaged more than £40 million in the years since as investors explored higher-yielding or residential conversion opportunities outside of Central London. Volumes peaked at more than £70 million in 2017 and cooled in 2018 and 2019, although the number of deals remained elevated.

1.10 Redevelopment opportunities remain the driver of investment volumes in Harrow. The largest deal of 2019 was Harrow Council's purchase of King's House for £22.9 million. Quinata Global, which sold the building, had previously acquired both King's House and the adjoining Queen's House from Dandi Living for £33.8 million in 2017, with both buildings ultimately destined for redevelopment into housing. Another large example occurred in September 2017, when betting firm Ladbrokes sold its offices at Imperial House in Rayners Lane for £26.1 million to a property developer. The building has since been converted to a residential development known as Broad House.

1.11 More straight-forward, income-producing transactions in recent quarters include SSRE Investments' £10.8 million acquisition of Stewart House, a 26,000-SF mixed-use asset in Kenton, in June 2018. More recently, HGB Group paid £1.2 million to acquire 297-299 Kenton Road, for its own occupation, in January 2019.

RENTAL EVIDENCE:

Image	Address	Lease term	Rent £psf	Comment
	Hygeia 66-68 College Rd Harrow HA1 1BE 2,600 sq ft	6 years 4 year tenant break Start March 2019 New lease	£17.00	Located in central harrow opposite train station. Lower ground floor suite with limited natural light.
	Hygeia 66-68 College Rd Harrow HA1 1BE 4,120 sq ft	10 years 7 year mutual break Start Aug 2018 Lease renewal 9 months' rent free	£23.95	Located in central harrow opposite train station. 2nd floor non-refurbished space

	166 College Rd Harrow HA1 1BH 2,790 sq ft	10 years 5 year tenant break Start Apr 2019 New lease 9 months' rent free	£30.95	Centrally located in Harrow Refurbished space
	Masters House 1 Marlborough Hill Harrow HA1 1UX 4,970 sq ft	To Let	£22.32 psf	5 min walk from Harrow & Weald Station. New build
	21-23 The Bridge Harrow HA3 5AG 2,028 sq ft	To Let	£32.29 psf	1 min walk from Harrow & Weald Station. Average condition

SALES EVIDENCE:

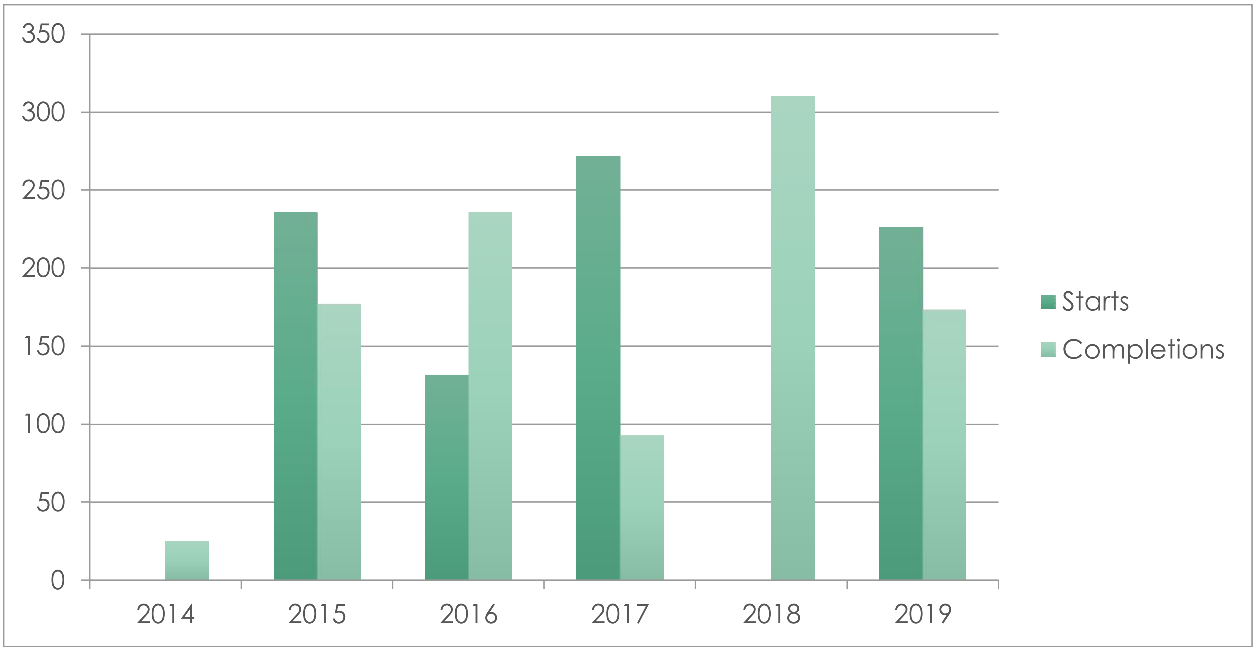
Image	Address	Sale details	NIY	Comment
	166 College Rd Harrow HA1 1BH 34,292 sq ft	£13.8m £398.21 PSF WAULT – 4.8 years Sold Jan 2020	7.10%	Centrally located in Harrow Multi-let (8 tenants) Refurbished
	Kings House Kymberley Road Harrow HA1 1US	£22.91m £274.84 PSF	Unknown	Top floor suite available at £21.00 psf Multi-let

PRS

1.12 There are just over 152,000 Build to Rent homes across the UK, including those in the planning pipeline. A quarter of these are now complete, equal to 40,180 homes. London continues to lead the way, accounting for 50% of all completed stock. Newham, Tower Hamlets, Croydon and Brent have contributed the most completed stock to date. Key regional cities have kept pace with the capital throughout 2019 and Manchester, the next closest city, now holds 17% of completed stock. Birmingham, Liverpool and Leeds are home to 5%, 3% and 3% of completions respectively.

1.13 Across the country, the entire Build to Rent sector has grown by 15% since Q4 2018. In real terms, this amounts to over 20,000 additional Build to Rent homes in the past year. The majority of this growth has come from outside of the capital in key regional cities such as Birmingham, Cardiff and Edinburgh.

1.14 The chart below shows Build to Rent construction starts and completions in LB Harrow over the last 6 years to December 2019. Construction starts faltered in 2018 following a strong 2017, whereas 2018 was the strongest year for completions with approximately 310 units completing in the Borough. Starts and completions were at their combined highest at 400 units in 2019 since the Build to Rent format took hold in the market in 2015 (413 units).



1.15 We are aware of a nearby Build to Rent scheme named The Hub – an Aberdeen Standard Investments owned development which completed in October 2016. The scheme is located in central Harrow (HA1) and consists of 84 PRS units which were fully let by July 2017. Studios have generally rented from £1,100 to £1,200 per month, 1-beds from £1,250 to £1,495 and 2-beds from £1,550 to £1,740 per month.

Private for Sale

National Overview

1.16 Activity across the housing market is subdued with the number of buyers and sellers entering the market down amid on-going uncertainty in the UK economy.

1.17 House price growth for the UK is starting to show improvement with the latest Nationwide figures showing a year-on-year growth of 2.3% in February. Halifax data shows the price of the average home rose by 4.1% in the year to February. While Land Registry shows an increase of 2.2% in the year to December 2019. Despite the wider social-economic climate, the UK housing market has continued to demonstrate resilience via modest growth.

1.18 The latest RICS UK Residential Survey (January 2020) reported an increase in buyer enquiries, agreed sales and new instructions over from the previous month. Rightmove reports that the average price of property coming to market rose by 0.8% (+£2,589) in February, just £40 short of a new all-time high. It also reports a year of year increase of 12.3% in number of sales agreed nationally. Meanwhile buoyant mortgage approvals indicate more resilient activity within this portion of the market.

1.19 The first-time buyer market has remained buoyant in Q4 2019, with a 2.3% increase on year-on-year average asking price for this market. The significant government incentives – mainly Help to Buy and Stamp Duty relief – for those looking to get on to the property ladder has kept first time buyer demand strong.

1.20 The RICS residential survey observed steady positive growth in house prices across all UK regions and in particular a turnaround in London and the South East. The current market remains a buyers' market for now but with buyer demand and agreed sales increasing this may change over the next year.

1.21 The following table shows the percentage change (yearly in house prices and average price for all property types in September 2019 from Land Registry data:

Region	% Yearly Change (Dec '18-19)	Average Price
England	2.2%	£251,711
Greater London	2.3%	£483,932
LB Harrow	-3.0%	£448,263

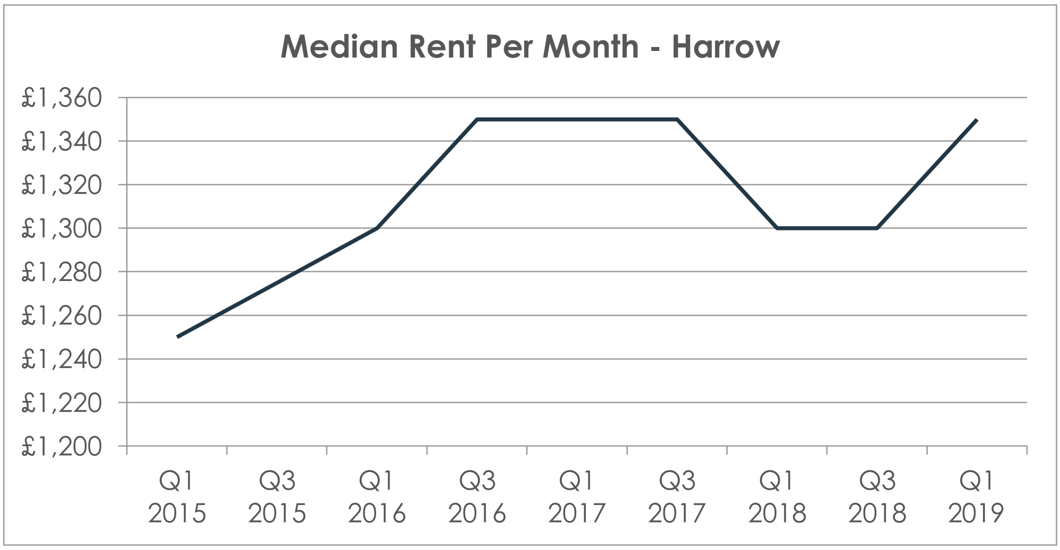
The Local Market

Macro Location

1.22 Land Registry data shows a slight negative growth in Harrow between December 2018 and 2019 of -2.0%. By way of comparison, house price growth in Greater London in general increased by 2.3% across the same time frame.

1.23 The chart below shows most recent available average rental figures for LB Harrow to Q1 2019. This shows a generally stable median rent paid of £1,350 from Q3 2016.

Table 6: Average residential rent per month – Borough of Harrow



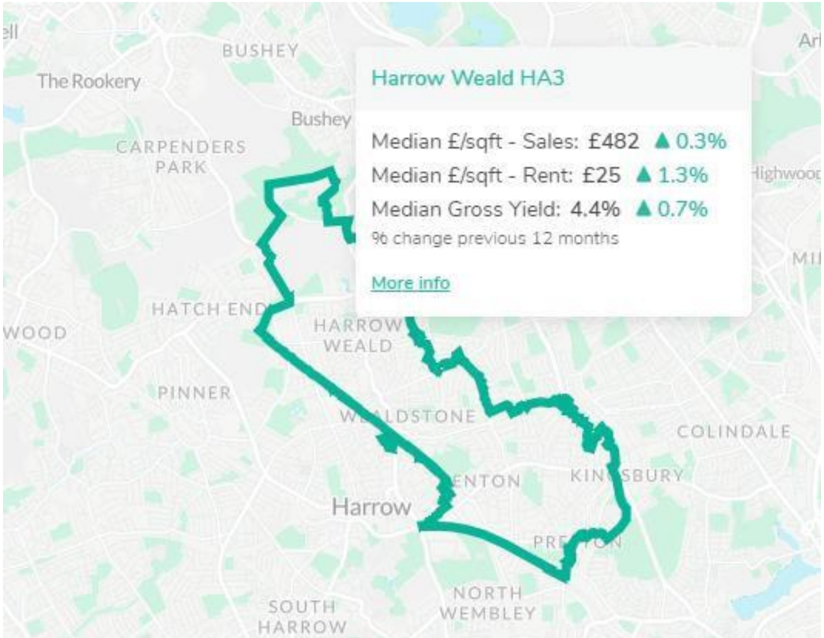
Source: London Datastore(2020)

Micro Location

1.24 The median price paid for all new build property within the HA3 postcode over the last 12 months was £461,542, which represents a 1% decrease over the period. However, the median price per square foot over this period was £482 psf reflecting a 0.6% increase over the period indicating that smaller sizes are a contributor towards the slight fall in capital values.

1.25 The median rent £ per sq ft paid for new build property within the HA3 postcode over the last 12 months is £25, which is an increase of 1% over the period. The median rent paid over the same period was £1,435, an increase of 3%, indicating an increase in the average size of rental unit.

1.26 The HA3 postcode area, encompassing the subject Site, is illustrated in the map below:



Source: Realyse (2020)

1.27 We have been provided with local agent's opinion of new build residential values for the civic centre site (below). Summarised, these suggest blended values per sq ft of £525 to £550. This is higher than the median price paid for new homes in the HA3 area as the proposed scheme is likely to reap the benefit of its own 'placemaking' and therefore set benchmark values for the area.

Harrow Depot and HNC Business Case Review

Market Update

January 2021

Contents

Prepared By: Hugo Parry

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For and on behalf of Avison Young (UK) Limited

1. Context

1.1 In June 2020, Avison Young were instructed by LB Harrow ("the Council") to produce a report which reviewed accommodation options for both the Harrow Depot and the proposed HNC. The report explored options to flex the amount of Council accommodation across both sites and explored the commercial case for any surplus space.

1.2 This market update should be read in conjunction with our initial report.

- Private residential not yielding high enough values due to 40% affordable housing provision and the disjoint of delivering this within the same building as the HNC which is likely to temper unit pricing

2. HNC Status

2.1 Discussions are ongoing with the Council's preferred partner, Wates and their architects Shepherd Robson to further explore options for the Council's requirement at the HNC.

2.2 It is likely that this requirement will be significantly reduced from the options we reported on in May 2020.

2.3 On account of the substantive change and the major economic and workspace changes that have occurred over the course of 2020 you have sought that we revise our report to provide an update on the market position which has fundamentally shifted over the course of 2020 and into 2021.

2.4 Further, we understand that the Council has undertaken work to explore the potential OPE demand in Harrow and this has proved fruitless and as such is unlikely to yield any demand for space within the HNC.

3. Market Update

Covid 19 Market Impact

London Sector Indices and DART

3.1 Figure 1 below shows the Sector Indices for London based on research conducted by Avison Young. The index is a reliable tool allowing us to track data changes in a shorter time period, such as weekly movements, opposed to GDP which only provides the ability to track monthly change. The indices for each sector are made up of 3-6 sector specific indicators which highlight general performance within that sector, for example Hotel & Leisure is made up of restaurant booking numbers and hotel take up rates. Our internal research team has selected the indicators for each sector and our baseline for the data is 29 February 2020, where we believe the sectors were performing at a 'normal' level.

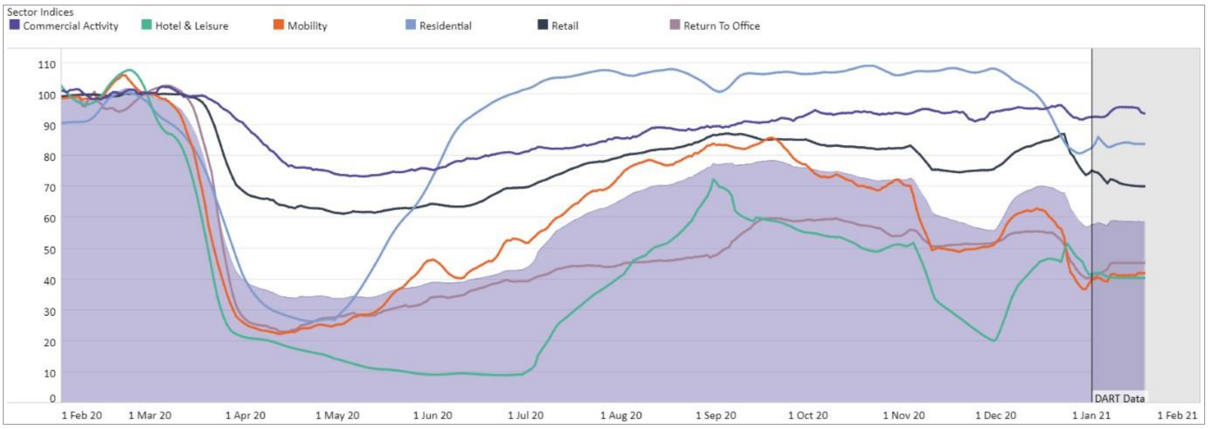

Figure 1: Sector Indices for London

3.2 The Commercial Activity Sector Index continues to remain relatively robust and now stands at 91.8 However, continued high levels of unemployment and the National Lockdown implemented in December 2020 is acting as a downward weight on its recovery.

3.3 Meanwhile the index for the residential market stood at 83.6 on the 18th of January 2021, which translates to a 16.4% decrease in activity when compared to the baseline of 29 February 2020. This latest figure fell from 107.8 as at 1 December 2020 – a 7.8% increase from the February 2020 baseline – indicating that overall the residential market during Covid-19 has been fairly resilient compared to other sectors. This has most likely been due to pent-up demand during lockdowns and the Stamp-Duty holiday. The recent fall in the Residential Index at the start of this year is likely due to the enhanced government restrictions that have been imposed at the start of 2021.

3.4 The return to office index shows a sharp fall during the first lockdown but has remained relatively flat since the second wave in 2020 and still below 52% of pre Covid levels. With the announcement of further restrictions at the start of 2021, the index stood at 45.1 on the 18th January 2021 and we do not expect this figure to improve until lockdown measures are relaxed.

National DART Compared to Covid-19 Hospitalisations:

3.5 Figure 2 below compares the national DART (Daily Activity Recovery Tracker), a database which tracks daily higher frequency data over a short time period, to the rate of Covid-19 hospitalisations.

3.6 Evidently, there is a direct correlation between National index and the number of Covid-19 hospitalisations. As covid-19 hospitalisations rise, this negatively impacts the Indices.

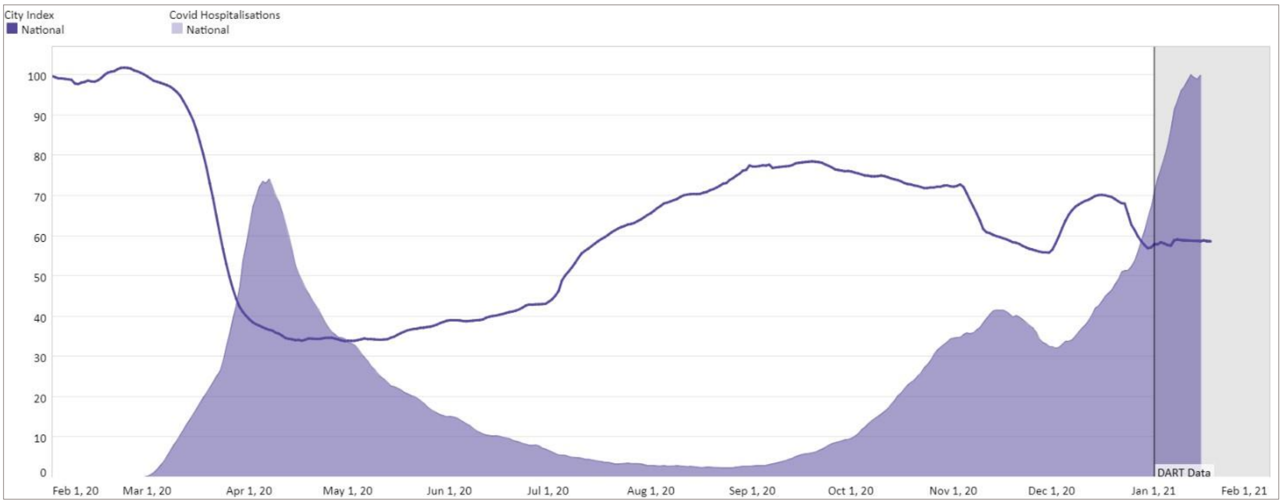

Figure 2: The Index for London and Covid Hospitalisations.

Office Sector

Office Market Overview & Covid-19:

3.7 Q2 was a difficult period for the office market and as lockdown measures eased, Q3 failed to bring the anticipated return to work for more office-based workers after schools went back in September 2020. Any resurgence in occupier activity, just as occupancy numbers began to increase, were dealt a further blow with the announcement of a second national lockdown in December 2020. This had the effect of putting large parts of the market on pause and plans for a manageable return to work and a longer-term view on tenants' occupational strategies was put back again.

3.8 With further restrictions put in place to control a second spike in the Covid-19 pandemic, and with rising unemployment, Q1 2021 looks to be another challenging and ultimately quiet quarter for take up. Naturally, occupiers who do not have to move are continuing to re-gear existing leases or reduce their footprint where possible whilst they navigate their way through these troubling and uncertain times. Of note, there are a number of companies who are yet to reopen their offices even in part following the initial restrictions in Q2 of 2020.

3.9 However, fears that the office market will not bounce back once the pandemic is under control seem to have abated. Despite the initial productivity results of working from home looking positive, as the onset of Winter continues, recent surveys indicate that occupiers are looking forward to returning to the office, when it is safe to do so, to benefit from the social impact it has and the subsequent creativity and cross pollination it brings. However, when employees do start returning to offices, we expect working practices will almost certainly have changed for good with increased pressures that office space needs to 'entice' workers to leave their home environment and forego the time and cost of a commute.

3.10 Headline rents are coming under pressure, but it is incentives that are taking the pain for now. As landlords fight it out for the limited demand there is in the market, incentives have begun to increase with 5-year leases offering longer rent-free periods to induce an early commitment from occupiers. Rental levels in the areas of over supply will inevitably begin to fall; but as landlords begin to offer other differentiators, such as fitted space, this will be limited in the main and the occupier is likely to benefit from more choice and some compelling bargains are to be had.

3.11 The UK economy has significantly contracted due to the impact of Covid-19. This in turn has impacted the demand for office space and led to many larger occupiers re-thinking their office space strategy. Subsequently, for the September 2020 quarter day the rent collection for office space was only 68.1% across Greater London.

Harrow Office Market:

3.12 Office demand in Harrow has been subdued in recent years and this has been exacerbated by the Covid-19 pandemic, in line with the wider market. Demand for office space within Harrow has lost further momentum in recent quarters, as net absorption turned mildly negative as firms vacated older stock or consolidated space. Few lettings of any size have occurred since the Covid-19 pandemic began in March 2020.

3.13 Our engagement with local agents also indicated that office performance remains poor but there remains some demand for Grade A space in prime locations at a maximum size of 1,500 sq ft.

3.14 One potential upside from the Covid-19 pandemic is that it may lead to an increase in demand in suburban areas like Harrow as part of a 'hub-and-spoke' model. This model refers to a more flexible workspace and working style opposed to the traditional single office headquarters model. Hub and Spoke offices allow employees to work from either their city hub or a dedicated, strategic spoke location. This market is still emerging however with limited transactional data thus far.

3.15 In terms of location, Wealdstone is seen as a less desirable area whilst Central Harrow remains arguably the most buoyant office area with several funds occupying space within the area, such as Columbia Threadneedle.

3.16 In terms of supply, LB Harrow has lost more than 200,000 sq ft of office space on a net basis since 2014. This is largely due to a number of residential conversions previously and limited development. One notable development is Bradbury's Court which completed as part of the mixed-use Lyon Square development in Harrow's town centre; at the end of 2020 we understand this was nearly fully let.

3.17 In terms of vacancy, Harrow had seen a fall in vacancies in recent years, not as a consequence of high demand but more-so driven by the lack of supply and a number of office-to-residential conversions as aforementioned, which in turn boosted rents within the area.

3.18 However, in light of the Covid-19 pandemic, vacancies now stand at 2.7%, a 1.7% increase since our last report, albeit this is a figure which is still below the market average for London submarkets.

3.19 Average rents are now falling gently with several landlords reducing asking rents in recent months. Further declines across the next few months and possibly years are expected as demand for conventional office space is expected to fall. However, there is a chance the 'hub-and-spoke' model will absorb some of this rental pressure.

3.20 Few sales occurred in 2020 largely due to Covid-19, with the pandemic depressing investor demand across London.

3.21 One noteworthy income-motivated deal did take place just before the pandemic began that provides a clue to pre-crisis pricing. In February 2020, CLS Holdings bought 166 College Road for £13.8 million. The price for the newly refurbished, fully let building reflected a 7.1% yield. As per the demand within the area, redevelopment opportunities have been the biggest driver of investment volumes in Harrow in recent years.

Office Market Conclusion:

3.22 The challenge over the short to medium term will be to make sure that office space is fit for purpose, and that it is a place where creativity and productivity thrive. But how and when exactly we return to using offices is still unknown and we would expect that Flex Space and a 'hub-and-spoke' model will become increasingly important as part of an occupier's portfolio. This will allow new ways of working to be assessed and longer-term plans to be made, whilst not having to commit to lengthy traditional leases.

3.23 However, within Harrow, the falling rental levels and level of office stock continue to make it a difficult market. Investors continue to purchase stock primary with the goal of redevelopment into residential as there is growth and value in this market.

3.24 Whilst the flexible and hub-and-spoke office market offers a road to recovery within this sector, we believe that given the current market uncertainty, trends towards residential conversion, increasing vacancy rates, and likelihood of a continued work from home policy based on surveys carried out amongst businesses, we would caution the development of large speculative office space within Harrow at the moment and consider it would expose the Council to risk in a fast evolving market.

3.25 On the basis of the above we consider that alternative uses may be more suitable for any surplus space generated by the reduced HNC footprint. Discussions with agents indicated that whilst there has been no transactions data, yields are likely to have moved out by c. 50 BPS from 7% and headline rents are likely to have dropped from £30 psf to around £25psf. Rent free periods and tenant incentives are also likely to increase as the demand to secure occupiers into office space is high across the market

Private Rented Sector

National Overview

3.26 There are 157,512 Build to Rent homes across the UK, including those in the planning pipeline. 43,236 homes are now complete, 33,505 are under construction and 80,7771 are in the planning stages.

3.27 London contributes 74,892 units of these Build to Rent homes. Salford and Manchester remain other hotspots, while the number of schemes within the midlands is also growing fast.

3.28 Whilst the coronavirus pandemic may have delayed some of the schemes mentioned above, evidence suggests that BTR is to remain a strong trend post-pandemic. It is also being treated as a safe haven for institutional investors given the low risk it represents compared to other investments.

3.29 Demand is still holding up within the market and developments are adapting to the post Covid-19 environment in various contactless and social distancing ways.

3.30 Q3 2020 saw a record £1.84 billion invested in UK Build to Rent. This is driven by strong occupancy and rental collection levels which has attracted investors.

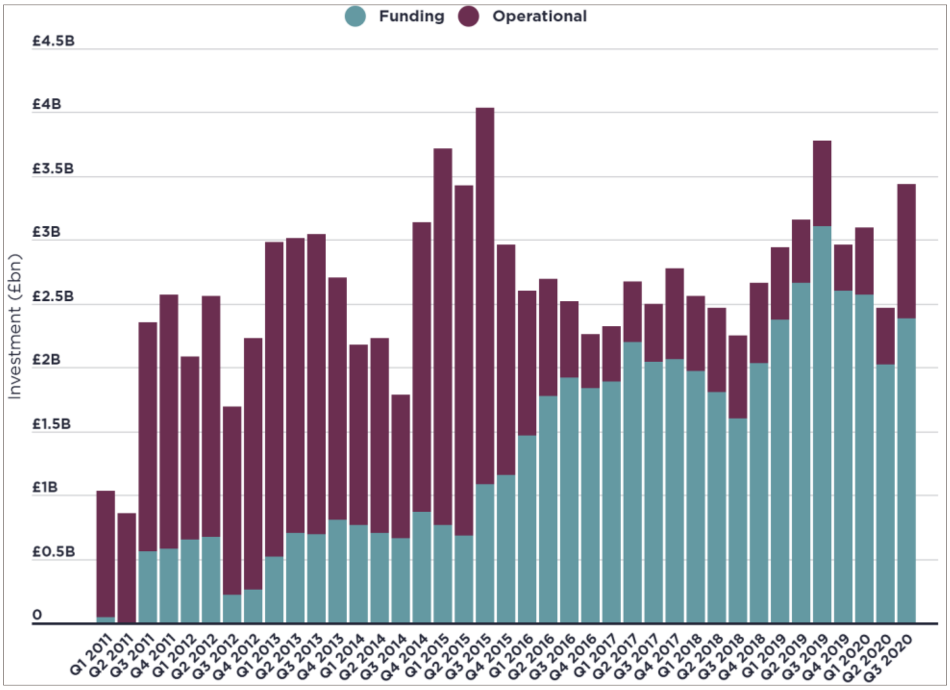

Figure 3: Investment flows into UK BTR by deal type, annual rolling

Harrow Overview

3.31 Our engagement with local agents indicated that the PRS market is moving fast and they are not seeing a significant impact from national lockdowns. Demand remains at the same level if not higher than the same period last year.

3.32 We are aware of 5 recent BTR schemes within Harrow which have been granted planning permission, in construction or now complete.

3.33 Lexicon, which was completely sold at the end of Q1 2020. London Borough of Harrow launched Swift House in June 2019, starting gross monthly rents for the 53 BTR units were £1,325 for a one bed, £1,700 for a 2 bed and £1,850 for a 3 bed. The lettings of these units completed in October 2019, 18 weeks after the first units became available.

3.34 Ferrari House, this scheme includes 25 BTR units, construction completed during Q2 2020, the scheme has been built to rent but our research indicates there is no sign of marketing. It is suspected that this scheme was let out to housing waiting list residents only.

3.35 The Heights, which is currently under construction, which begun in Q3 2020. The development will provide 125 units, all of which are BTR units.

3.36 2 Dalston Gardens is an office conversion completed in November 2020 and consists of 24 BTR flats. As at December 2020, only one unit was still available to let.

3.37 The average asking rents for Harrow in the last 2 years are shown in the figure below and appear to have remained relatively static. Given that PRS products offer a variety of amenities on top of a typically rented home, we would typically expect PRS rents to command a a slight premium above these indicated rents.

Figure 4: Average asking rents for new build Flats in Harrow over the last 2 years

3.38 We believe that the continued growth in the Build to Rent sector makes it a suitable opportunity for the subject site. Rents remain strong and it represents a low risk and attractive opportunity for investors. The appetite for renting will likely increase following the end of the Stamp Duty holiday at the end of March 2021. However, we caution that PRS investors would typically require a minimum of around 100 units and therefore any proposed PRS development at HNC below this threshold would carry additional risk.

Private for Sale

National Overview:

3.39 Covid-19 had a significant impact on the UK housing market in 2020. Lockdown restrictions virtually brought transactions to a halt and the impact on the economy and personal finances has affected willingness and ability to undertake house purchases.

3.40 Despite this, the most recent data points to a 'bounce-back' in the market. This is partly due to a release of pent-up activity from the initial lockdown and also a demand boost from the recently announced stamp duty holiday, albeit this is due to come to an end at the end of March 2021.

3.41 There are a range of government interventions in the market such as the moratorium on evictions and mortgage holidays which have protected against distress. The removal of these protections and the potential for significant increases in unemployment, currently being held off by high levels of government support, are risk factors for the market.

3.42 Nationwide's House Price Index (HPI) release reported that house prices across the UK increased by 7.3% in December, compared to the same period the previous year. The Outer Metropolitan area saw an increase of 5.6% for Q4 2020, up from 5% the previous quarter.

3.43 The monthly rise has been attributed to the lifting of lockdown allowing a release of some pent-up demand as well as the announcement of the stamp duty holiday for property valued under £500,000 between 8 July 2020 and 31 March 2021. Although this is a strong month-on-month growth figure, a key question is whether the house price growth is sustainable and it is likely that the ending of the Stamp Duty holiday at the end of March will have a negative impact on the national market.

3.44 Rightmove data for January 2021 indicates that buyer activity has continued to exceed the same period compared to a year ago, even though 2020 also had a very active start. Visits to the Rightmove website have continued to increase and were up 33% at the start of January when compared to the same period in 2020. The number of sales agreed is also up 9% for January so far compared to the previous year. It is expected activity levels will remain high with buyers keen to complete before the end of the Stamp Duty holiday. However, Rightmove data indicates the possibility of completing before the end of the holiday is low with it currently taking 126 days from the time an offer is accepted until legal completion, just over four months.

3.45 Rightmove data also illustrated a post-lockdown boost in activity following the initial lockdown. The site recorded its 10 busiest days ever in May and June, with 955,000 hours spent on the site on 6 June alone. In a typical month, Rightmove may expect to accrue around 1.4 million hours spent on their site. Asking and achieved price data shows transactions on Rightmove achieved 97.7% of their asking price in June, up from 96.6% in February. This strong performance fuelled continued growth in asking prices on the site, increasing by 2.4% in July compared to March with an annual growth of 3.7%.

3.46 The RICS residential market survey, which is a good timely indicator of sentiment, delivered more positive readings in the December 2020 report. New buyer demand held a net balance of +15%.

Although this increase has gradually slowed in recent months, it still represents a strong level of growth within the market.

3.47 Price expectations for the coming twelve-months from the survey period remain slightly negative, despite persisting confidence in positive five- year growth.

3.48 As Acadata notes:

> *There has thus been a substantial turnaround in the market. It is clear that the Stamp Duty holiday applied on 8 July (in Wales the reduction came into being on 27 July) has acted to stimulate activity (London is the biggest beneficiary in terms of the tax reduction impact) – as was intended. This holiday continues until March 3ᵗ, 2021 in England and Wales, as well as in Scotland. Landlords continue to pay the 3% additional tax. Of course, as with the previous tax holidays it will cause purchases to be brought forward, with the potential consequence that we could see a contracting market post March 2021 – which might also coincide with a contracting economy.*
>
> *Currently, the housing market is busy – the Halifax release referred to it as a "mini boom" – and most lenders are supported by the BoE Term Funding scheme (which is offering up to £150 billion of funding at rates very close to the Bank Rate of 0.1%), with the result that funds are plentiful and cheap. However, the supply of higher loan-to-value loans has contracted, impacting first time buyers with limited deposits. Many lenders are displaying a high degree of caution, partly because they are busy processing payment holidays, but also because there is an exception of a significant contraction in house prices, along with an upturn in mortgage arrears and repossessions following the end of the furlough scheme.*
>
> *There is thus an element of caution overlaying the current optimism. Some analysts argue that the current activity is the "dead cat bounce", built on suppressed demand and will be finite, others that the buoyant market will be sustained. We shall see, in addition to the way in which the emerging new geography of the housing market develops in terms of prices and demand. Will inner city areas see sustained falls, and outer suburban areas/rural see sustained rises? Certainly, the evidence set out in this release indicates is it having an impact now.*

3.49 The following table shows the percentage change yearly in house prices and the average price for all residential property types in November 2020 from Land Registry data:

Region	% Yearly Change (November '19-20)	Average Price
England	7.61%	£266,742
London	9.65%	£513,997

Region	% Yearly Change (November '19-20)	Average Price
LB Harrow	5.23%	£474,528

Harrow Overview

Macro Location

3.50 Land Registry data shows a growth in prices within Harrow between November 2019 and November 2020 of 5.23% By way of comparison, the house price growth in London in general increased by 9.65% across the same period.

3.51 The average sale price for new build flats within Harrow across the last 2 years can be seen below. Although there has been strong growth within the market for 3 bedroom flats, the prices for 1 and 2 bedroom new build flats appears to be relatively flat.

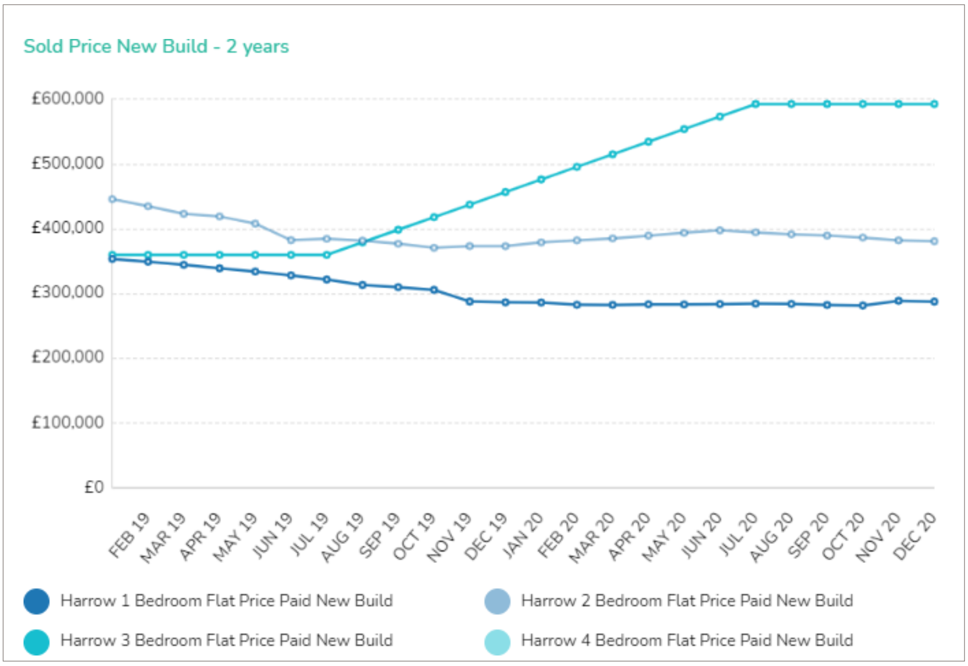

Figure 5: Sale price of new build Flats in Harrow over the last 2 years

3.52 Within Harrow we are aware of several new build schemes which have been granted planning permission, begun construction or completed within the last 2 years.

3.53 Jubilee House which is the demolition of a former office building and four semi detached houses and a redevelopment to provide 103 residential units and a further 70 units within a five-eight story building. Taona House which will provide 70 units is due to complete in January 2021. The 1-beds are priced from £340,000, 2-beds from £560,000 and 3-beds from £685,000.

3.54 Lyon House, which completed during Q4 2018 sold its last unit in Q3 2020, this again was a demolition of the former Lyon House and Equitable House and redevelopment to provide 287 residential units. There was an affordable housing provision of 49 units.

3.55 Harrow View West (Kodak), is a site which was purchased by Persimmon in late 2015 for £50 million. The development is for 314 residential units and includes 60 units allocated to affordable housing. At the end of Q4 2020 the scheme had sold out. Phase 1 which included 114 private units and 10 affordable has now completed and all units are sold. Phase 2 is 64 private houses, all now sold and complete. Phase 3, 76 private units sold out during Q4 2020, our research indicates that 50 units are complete, the rest are expected to complete in Q1 2020. The affordable allocation for this phase will complete in Q2 2020.

<u>Micro Location</u>

3.56 The median price paid for property within the HA3 postcode over the last 12 months was £476,695. Most sales within the HA3 subarea during the last year were semi-detached properties, selling for an average price of £516,557. Overall, sale prices in HA3 have risen 5.82% over the past 12 months.

3.57 As at November 2020, the current asking price for property within HA3 is £511,857. A breakdown of average prices across property types is summarised in the table below.

Property Type	1 Bed	2 Beds	3 Beds	4 Beds	5 Beds
Houses	£205,875	£411,704	£552,993	£706,280	£856,906
Flats	£255,925	£335,309	£386,869	£450,000	-
All	£250,587	£345,795	£540,090	£698,144	£856,906

3.58 The average sale price for Flats within HA3 across the last 2 years can be seen below. The sale price is relatively static, and this is likely due to a lack of transactional data within the Micro location.

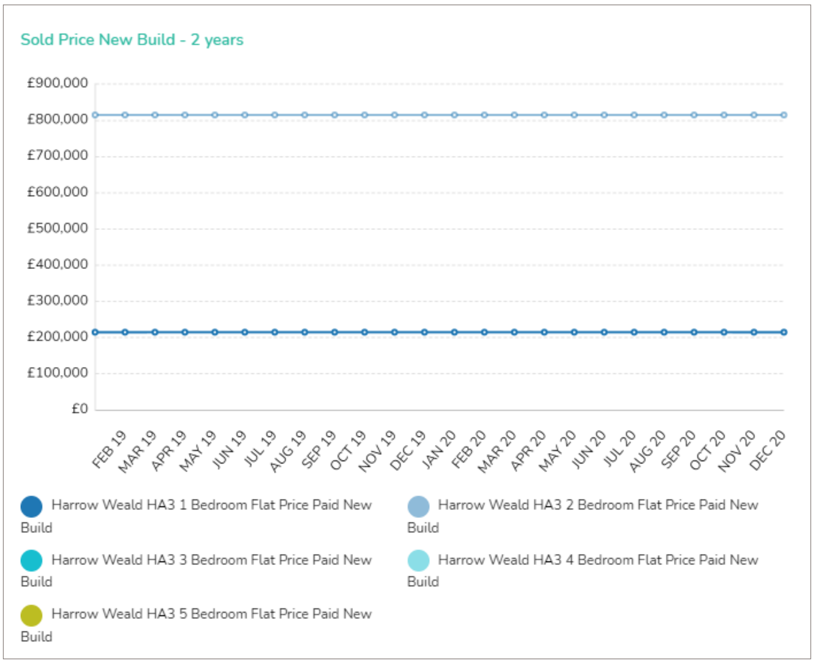

Figure 6: Sale price of new build Flats in Harrow over the last 2 years

3.59 The table below summarises the current asking rents within HA3, the average current asking rent is £1,271.

Property Type	1 Bed	2 Beds	3 Beds	4 Beds	5 Beds
Houses	£734	£1,484	£1,689	£2,087	£2,600
Flats	£972	£1,337	£1,489	£1,826	-
All	£920	£1,349	£1,647	£2,058	£2,600

3.60 Agents within the Private Sale Market indicated that it remains a very strong market and the quality of buyer has increased. The Stamp Duty holiday has significantly aided the market, although there is a degree of uncertainty with what will happen after March. First time buyers accounted for most of buyer demand.

4. Conclusions and Recommendations

4.1 Since Avison Young's previous market report in June 2020, the Covid-19 pandemic has evidently had a further impact on all real estate markets but in particular the office sector - driven by working from home policies as a result of government restrictions and lockdown measures - has been most negatively affected.

4.2 In line with this trend, this report highlights that within Harrow, demand for office space has also fallen with vacancy levels rising by 1.7% since our previous report was issued and rents falling within the area.

4.3 Whilst a hub-and-spoke model, flexible space, and the rollout of a vaccine throughout 2021 offer hope of a recovery within the office sector in Harrow, we anticipate a sustained working from home policy to be common amongst most businesses throughout 2021 which will contribute towards further increased vacancies and falling rental levels. Furthermore, when employees do start returning to offices, we expect working practices will almost certainly have changed for good and the current level and nature of demand will not be the same as before.

4.4 Based on these trends and movements within the Office sector, we do not consider the development of large speculative office space within Harrow to be appropriate at this time. However, given the relatively low level of supply within Harrow, there may be opportunities to explore this sector by providing either small Grade A units of c. 1,500 sq ft or units intended for a hub-and-spoke model albeit this remains fairly unproven within the market and carries risk.

4.5 We believe that the continued growth in the Build to Rent sector makes it a suitable opportunity for the subject site. Rents remain strong and it represents a low risk and attractive opportunity for investors. The appetite for renting will likely increase following the end of the Stamp Duty holiday at the end of March 2021. However, we caution that PRS investors would typically require a minimum of around 100 units and therefore any proposed PRS development at HNC below this threshold would carry additional investor risk.

4.6 In terms of the Private for Sale market, following a resurgence in activity due to pent-up demand from the initial lockdown and an increase in demand from the Stamp Duty holiday, we caution that the impact of lifting this Stamp Duty holiday at the end of March 2021 remains to be seen. There is ongoing dialogue that it could have a negative impact on the market and we would therefore recommend that the Council waits to assess the impact of this event before pursuing a Private for Sale development opportunity which we would consider well suited for the subject site.

4.7 Based on the above, as part of exploring further options for the Council's requirement at the HNC, we do not consider the speculative development of medium to large office space to be appropriate, albeit the development of small, flexible and 'hub-and-spoke' type units may present less risky opportunities within this sector. We would recommend that the Council explores PRS use, provided the proposed development could support at least c. 100 units, and/or Private for Sale use should this market remain stable following the ending of the Stamp Duty holiday at the end of March 2021.

General

4.8 This Report has been prepared by Hugo Parry, MRICS, Surveyor within the Planning, Development and Regeneration Department and reviewed by Kimberley Grieveson MRICS, RICS Registered Valuer and Director within the Planning, Development and Regeneration Department.

4.9 Please note that this advice is subject to our usual Definitions and Reservations. This report is provided solely for the benefit of Harrow Council and it should not be relied upon by any third party.

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