



**BNP PARIBAS
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Marketing Report Review

**Unit 1, Altitude Point, Hampden Road, London,
N8 0HG**

Prepared for
The London Borough of Haringey

May 2022

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1 Introduction

Meridian South Developments LLP ('the Applicant') are proposing to change the use of a vacant ground floor commercial unit ("Unit 1") to two self-contained residential flats. Unit 1 is contained within an existing development comprising 174 residential units and two commercial units ('the existing Development') at Altitude Point, Hampden Road, London, N8 0HG ('the Application Site'). The original developer of the existing Development was Fairview Homes, who sold both commercial units, with Unit 1 being purchased by the Applicant and Unit 2 being purchased by a private individual.

The Applicant has undertaken a marketing review assessment of the Subject Unit which indicates there is little to no market interest in the occupation of the Subject Unit. Therefore, the Applicant has indicated the Subject Unit is unfit for a commercial use. As a result, the Applicant is proposing that Unit 1 is switched to a residential use. Haringey Borough Council ('the Council') have commissioned BNP Paribas Real Estate ('BNP PRE') to review the Applicant's submission and determine whether the marketing period for Unit 1 was adequate and appropriately expansive.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Cameron Mackie MRICS and reviewed by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and registered providers on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority ("GLA") to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model and advising on areas that required amendment in the re-worked toolkit and other available appraisal models and submitted our report in February 2012.

Anthony Lee was a member of the working group under the chairmanship of Sir John Harman that produced guidance on 'Viability Testing Local Plans: Advice for planning practitioners' (2012). He was also a member of the MHCLG's 'Developer contributions expert panel' which assisted with the drafting of the viability section of the 2019 Planning Practice Guidance.

In addition, we were retained by Homes England (“HE”) to advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report structure

This report is structured as follows:

- **Section two** provides a brief description of the Development and planning history;
- **Section three** describes the methodology that has been adopted;
- **Section four** outlines the inputs adopted within our appraisals;
- **Section five** sets out the results of the appraisals;
- Finally, in **Section six**, we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Guidance Note (‘GN’) ‘*Assessing viability in planning under the National Planning Policy Framework for England 2019*’ (first edition, March 2021). However, paragraph 2.2.3 of the GN acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the GN and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no ‘performance-related’ or ‘contingent’ fees have been agreed.

This report is addressed to the London Borough of Haringey Council only. No liability to any other party is accepted.

2 Background and description of the Development

2.1 The Site

The Application Site is located on Hampden Road adjacent to Hornsey Depot and New River. The Application Site currently comprises a mixed use commercial and residential property that has 174 residential units and two commercial units. The Application Site benefits from good road links including the A23, A205 and A214 being in close proximity. The Application Site is directly adjacent to Hornsey Railway which is served by Overground and Great Northern Rail services. Journey times to Kings Cross St Pancras are approximately 15 minutes. The surrounding area comprises residential, industrial and transportation uses.

2.2 Details of Unit 1

Unit 1 is a ground floor commercial unit that has a gross internal area of 1,607 square feet. Unit 1 is of an irregular shape. Unit 1 is within a shell and core condition with capped water and electric services. It is a self-contained unit that has a Class E planning use. It benefits from an exclusive car parking space, as well as access to an additional car parking space. The existing Development is described as the following within its planning application:

'Demolition of the existing buildings and redevelopment of the site to provide two buildings of between 4 and 14 storeys in height comprising 174 residential units (Use Class C3) and 160 sqm flexible B1 floorspace, including the provision of private and communal amenity areas, child play space, secure cycle parking, car parking, refuse and recycling storage areas and other associated development'.

3 Methodology

We have reviewed the Applicant's submission and cross referenced their evidence against the local market to determine whether the Applicant's indications with regards to the marketing campaign are reasonable and accurate. We have utilised online sources such as CoStar, Rightmove and the webpages of local and regional agents. Furthermore, we have engaged in discussions with local agents to determine whether the Applicant's indications with regards to Unit 1 are reasonable in the context of the local market.

4 Assumptions

This section of the report sets out the general principles and assumptions which have been used to undertake a development appraisal of the scheme.

4.1 Housing Market Commentary

Economic and housing market context

The housing and commercial property markets are inherently cyclical. The downwards adjustment in house prices in 2008/9 was followed by a prolonged period of real house price growth. Between January 2010 and January 2021 the UK national average house price grew c.63% (Land Registry House Price Index).

The June 2016 referendum on the UK's membership of the EU resulted in a decision in favour of exit. Initially, the economic impact, was a fall in the Pound Sterling to a 31-year low. Despite the uncertainty following the 2016 referendum, the UK economy sustained momentum and the performance of the UK housing market surprised many.

The majority won by the Conservatives in the December 2019 General Election provided more certainty, resulting in the passing of the EU Withdrawal Bill in the House of Commons and subsequent exit from the EU in January 2020. Markets responded positively to increased certainty, with the FTSE 100 closing the year up 12% at 7,542 points. On the ground, agents reported the week of the General Election to be the best week of 2019 for exchanges and 2020 started positively as a result of the releasing of pent up demand fostered by the market uncertainty since 2016. However, market conditions were still tempered by heightened uncertainty relating to post EU exit trade and related arrangements prior to an agreed deal. A deal was agreed between the U.K. and EU negotiators on 24 December 2020 and has since been ratified by both sides. The trade agreement eased the uncertainty surrounding future relationship between the U.K. and the EU. However, the first half of 2021 saw a significant fall in U.K. exports, largely as a result of an increased administrative burden for exporters as reduced demand from EU countries. Imports from EU countries have not fallen to the same extent, resulting in a worsening of the UK's balance of trade.

The positive economic start to 2020 was curtailed by the outbreak of COVID-19, declared a global pandemic by the World Health Organisation in March 2020. The virus continues to impact global financial markets. The FTSE 100 fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall since the 2008 financial crisis. The Bank of England ("BoE") responded to the COVID-19 outbreak by lowering the base rate to 0.25% and introducing financial arrangements to help the bridge the downward economic pressure caused by COVID-19.

In response to the challenges posed by the COVID-19 outbreak, The Royal Institution of Chartered Surveyors ("RICS") recommended that all forthcoming RICS independent valuations should, at the valuer's discretion, include a statement to material valuation uncertainty in response to the COVID-19 outbreak. The economic shock caused by COVID-19 and valuation uncertainty led to a number of open-funded funds to suspend trading and gate their funds in order to protect existing investors. Corporations that suspended trading or gated their funds include Blackrock, Schroders, Royal London, Legal & General, Columbia Threadneedle, BMO, Aberdeen, Aviva Investors, Kames Capital and Janus Henderson. In Q3 2020 the RICS removed the mandate and all mentioned funds have reopened, excluding Aviva Investors which has terminated their UK Property Fund as of July 2021.

The UK Government introduced a series of restrictive and economically disruptive measures to slow and mitigate the spread of the COVID-19. The UK Government pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. On 19 March 2020, the BoE again lowered the base rate to a historic low of 0.1%. Furthermore, the Pound Sterling fell to a 30-year low against the US Dollar at a level of \$1.00 being valued at £1.15. The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses, including the furlough scheme which has since ended. Importantly for the housing market, the Stamp Duty holiday was extended in England until the end of June 2021 tapering until September

2021. The successful vaccine production and subsequent rollout programme has allowed for the full easing of restrictions within the U.K, which has in turn led to a positive rebound in economic activity. However, the rebound in economic activity has seen inflation rates ascend above the BoE's inflation target of 2%, with inflation in March 2022 at a level of 6.2%. This is as a result of continued supply chain constraints, an energy production crisis and labour shortage for a number of key sectors. Furthermore, the BoE stated they expect inflation to reach a level of 8% in Q2 2022 and may reach even higher later in the year as economic activity continues to recover from the after effects of the coronavirus pandemic.

The BoE summarised the economic outlook in their 19 March 2020 press release published alongside the lowering of the base rate *"The spread of Covid-19 and the measures being taken to contain the virus will result in an economic shock that could be sharp and large, but should be temporary"*. The BoE stated in June 2020 that *"UK GDP contracted by around 20% in April, following a 6% fall in March. Evidence from more timely indicators suggests that GDP started to recover thereafter... and housing activity has started to pick up recently"*. More recently The BoE increased the 0.5% base rate to 0.75% in their March 2022 Monetary Policy Report. The BoE stated *'The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 16 March 2022, the MPC voted by a majority of 8-1 to increase Bank Rate by 0.25 percentage points, to 0.75%'* The BoE also note the impact of increased strain on energy supplies and food prices resulting from Russia's unprovoked military invasion of Ukraine *'Regarding inflation, the invasion of Ukraine by Russia has led to further large increases in energy and other commodity prices including food prices. It is also likely to exacerbate global supply chain disruptions, and has increased the uncertainty around the economic outlook significantly. Global inflationary pressures will strengthen considerably further over coming months, while growth in economies that are net energy importers, including the United Kingdom, is likely to slow'*.

The International Monetary Fund ("IMF") produced a similar forecast for the UK economy in their October 2021 Global Economic Outlook. The IMF stated that the UK economy shrank by -9.8% in 2020. The IMF has estimated a return to positive economic growth in 2021 at rate of 7.2%. Furthermore, the IMF predict the global economy grew by 5.9% in 2021 and is predicted to grow at a rate of 4.4% in 2022. The IMF have stated that despite the prospect of economic growth the coronavirus continues to impact the global economy *'The global economy enters 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spreads, countries have reimposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies. The ongoing retrenchment of China's real estate sector and slower-than-expected recovery of private consumption also have limited growth prospects'*.

Despite the economic headwinds facing the UK, the housing market has continually outperformed expectations. In 2020, house prices grew by 7.96% and a further minimum of 10.8% in 2021 (based on the latest date available to the HPI). Halifax's Managing Director, Russell Galley states in the Halifax February 2022 House Price Index Report that *'The UK housing market shrugged off a slightly slower start to the year with average property prices rising by another 0.5% in February, or £1,478 in cash terms. This was an eighth successive month of house price growth, as the resilience which has typified the market throughout the pandemic shows little sign of easing. Year-on-year prices grew by 10.8%, the fastest pace of annual growth since June 2007, pushing the average house price up to another record high of £278,123'*.

Nationwide's Chief Economist, Robert Gardener, commented the following in Nationwide's March 2022 House Price Index Report *'March saw a further acceleration in annual house price growth to 14.3%, the strongest pace of increase since November 2004. Prices rose by 1.1% month-on-month, after taking account of seasonal effects, the eighth consecutive monthly increase. The price of a typical UK home climbed to a new record high of £265,312, with prices increasing by over £33,000 in the past year. Prices are now 21% higher than before the pandemic struck in early 2020'*. Both Nationwide and Halifax indicate the house price growth should slow considerably resulting from increased inflationary pressures on everyday household budgets and interest rate rises. Halifax reported, *"Surging oil and gas prices are one immediate consequence, meaning that inflation in the UK – already at a 30-year peak – will remain higher for longer. This will add to the squeeze on already stretched household incomes. While increases in Bank Rate look likely in the near term, the extent of*

the rises will depend on how it affects prices and companies' approaches to pay over the months to come. "These factors are likely to weigh on buyer demand as the year progresses, with market activity likely to return to more normal levels and an easing of house price growth to be expected." (Halifax February 2022 House Price Index).

Savills have stated within their April 2022 Residential Housing Update article that the housing market is performing above expectations *'House price growth the strongest in 18 years, with little prospect of slowing in the near future. House prices rose by 1.1% in March, with annual growth now at 14.3%, the highest growth since 2004 according to Nationwide. Growth has been strong across all regions, but annual growth was strongest in Wales (up 15.3%) and weakest in London, up 7.4%. It continues to be fuelled by a persistent supply/demand imbalance'*. Savills also forecast that they expect house prices to sustain momentum in the coming months *"Despite tantalizing signs of rising supply, the imbalance compared to demand is set to continue and prices are expected to rise over the next few months. While growing numbers of surveyors have been reporting an increase in new instructions, according to RICS, they remain a minority"*.

Stamp duty changes introduced in December 2014 for residential property purchases continue to impact the housing market. The changes benefit first time buyers, who predominantly purchase lower priced properties, as an overall percentage on purchase price was replaced in favour of percentile charge tiers similar to income tax. As first noted in BNP Paribas Real Estate's Q2 2017 Housing Market Report, *"the market has become increasingly reliant on first-time buyers, especially with the depletion of mortgaged movers from the market. Income weakness clearly has potential to dent activity amongst this group given the high average loan-to-value ratios needed to gain the first step on the ladder."* The March 2020 Budget announced that a 2% surcharge in stamp duty would apply to foreign buyers of UK property from April 2021. Additionally, in response to the COVID-19 pandemic the UK Treasury announced that stamp duty would be suspended on all purchases below £500,000, and higher value properties will only be taxed on the value above that amount which increased activity in the sector until the stamp duty holiday ceased in September 2021.

In the March 2021 budget, the Chancellor announced a Government-backed mortgage scheme that that will help both first time buyers and current home owners to secure a mortgage with just a 5% deposit to buy a house of up to £600,000 available to lenders from 19 April 2021. The scheme is now available from lenders on high streets across the country, with Lloyds, Santander, Barclays, HSBC and NatWest and from Virgin Money in May 2021.

Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. There is a consensus that there will be a return to stronger sales value growth in 2022 - 2024, when it is anticipated that the COVID-19 outbreak may have largely subsided. Additionally, positive growth will be further encouraged as more certainty emerges on the deal now agreed for the UK's exit from the EU and employment growth, wage growth and GDP growth return towards trend levels.

4.2 Marketing

4.2.1 Quoting Rents

The Applicant has stated that leasing transactions within the area range in rental value between £20 to £25 per square foot. The Applicant suggests that an accessible location is the most important factor in determining whether Unit 1 would achieve a rent towards the higher end of the range. The Applicant states the following to support the quoting rent of £30,000 per annum (£18.67 per square foot).

"The location of Unit 1 Altitude Point was taken into consideration and quoting rents were adjusted accordingly for newly constructed, shell and core office space with wide scope for fitout adjustments. It is important to note the unit is positioned inside the development behind the gates, and therefore away from Hampden Road's roadside traffic as well as pedestrian access. This subsequently rules out occupiers that heavily rely on footfall and roadside traffic for immediate access to the property, including supermarket, gym, coffee shop & restaurant uses. We therefore recommended that a quoting rent of £18.67 per square foot or £30,000 per annum would be most appropriate".

We agree with the Applicant, that as a result of Unit 1 being within a gated development the uses relying on public footfall would be inappropriate. The gated element would separate the occupier from the majority of their customer base. Therefore, we consider an office use to be most suitable use for Unit 1. This is due to the typical non-reliance on public footfall that an office has, meaning being located in a gated development is less of a negative factor. As a result we have reviewed the local office market to determine whether the Applicant's quoting rent was reasonable.

Table 4.2.1: Local Office Market Leasing Transactions

Address	Sq. Ft. Leased	Rent per Sq. Ft.	Rent Type	Term	Sign Date
Vale Rd	4,862	£9.67	Achieved	10 yrs	03/02/2020
1 Clarendon Rd	14,400	£10.97	Asking	5 yrs	29/05/2020
30A Bounds Green Rd	936	£15.38	Effective	1 yr	01/10/2019
195 Eade Road	11,921	£16.26	Effective	10 yrs	28/03/2022
Overbury Rd	3,000	£16.70	Asking	Unk.	02/12/2020
70 Hampden Rd	3,051	£19.50	Asking	Unk.	14/02/2022
336 Philip Ln	6,101	£19.67	Asking	Unk.	18/12/2019
Vale Rd	433	£21.17	Achieved	2 yrs	30/04/2020
63-67 Athenaeum Pl	688	£21.80	Asking	3 yrs	19/03/2021
Gateway Mews	1,004	£22.80	Asking	5 yrs	09/01/2020
3A Princes Ln	220	£23.18	Effective	1 yr	15/07/2019
Clarendon Rd	945	£23.28	Effective	5 yrs	29/07/2019
Gateway Mews	1,005	£26.23	Asking	5 yrs	10/05/2019
Gateway Mews	1,092	£26.23	Asking	5 yrs	10/05/2019
Elder Ave	6,465	£26.30	Achieved	25 yrs	16/09/2019
Vale Rd	643	£27.50	Asking	Unk.	28/02/2020
Vale Rd	364	£27.50	Asking	Unk.	28/02/2020
Vale Rd	263	£27.50	Asking	Unk.	28/02/2020
51 Colney Hatch Ln	269	£28.90	Asking	Unk.	01/09/2021
70-72 Fortis Green Rd	987	£33.43	Achieved	5 yrs	01/06/2021
602 Green Lanes	478	£33.47	Achieved	2 yrs	12/09/2019
4A Crouch	85	£47.05	Achieved	1 yr	07/11/2019

As can be seen, there is a wide rental range, with achieved rental values ranging between £9.67 per square foot and £47.05 per square foot. Unit 1 is larger than most of the properties at the higher end of rental value range. All the properties are not new builds, and many are of a secondary nature on account of their age and condition. Therefore, the Applicant's quoting rent of £18.67 per square foot is reasonable as it sits below many other properties, even as a new build. Since the report has been written, the Applicant is advertising Unit 1 for £27,500 per annum (£17.20 per square foot) further indicating the level of low interest received.

4.2.2 Marketing Strategy and Timeline

The commercial units have been marketed since September 2020, originally through sole agent Strettons. In May 2021 Fairview Homes instructed Henshall and Partners to become joint agents for the two commercial units. We understand that Fairview Homes sold Unit 1 via Henshall and Partners to the Applicant in June 2021. From this point, the Applicant marketed Unit 1 with Henshall and Partners.

The Applicant's marketing campaign was reasonably undertaken, with the production of a brochure which had been published on platforms such as CoStar and Westend & City Agents club. A large flat board was installed on the windows of the property to alert passing traffic and footfall as to the availability of the space. The property was also advertised on platforms that include Henshall and Partners website, CoStar, Realla, LinkedIn, Instagram and the Westend & City Agents club. We consider the marketing exposure to have been reasonable and widespread.

4.2.3 Occupier Interest and Commentary

The Applicant marketed the unit since it was purchased from Fairview Homes in June 2021, though it was also marketed since September 2020 via Strettons and later Henshall and Partners. It has been stated by the Applicant there were three enquiries into the occupation of the space. We have tabulated these enquiries as supplied by the Applicant below:

Table 4.2.3: Table of Enquiries

Enquirer	Date of Enquiry	Size of Enquiry (Sq. Ft.)	Comments
Kaan Gym	November 2020	1,500 – 2,000	'Very interested and very much liked the space. Discounted due to extensive fitout and restricted access'.
Chaiiwala	October 2020	1,000 – 5,000	'Interested and liked the space as well as location. Discounted due to gated entrance and therefore lack of footfall'
Nisa Local	August 2020	1,500 – 3,500	'Interested and like the space as well as location. Discounted due to gated entrance and therefore lack of footfall'

All three potential occupiers presented by the Applicant are non-office operators. Therefore, the lack of footfall has been cited as a reason for the potential occupier discounting the unit for each of the three enquiries. We consider this an adequate reason for potential occupiers to discount Unit 1. The physical barrier between footfall and Unit 1 would restrict business opportunities for footfall reliant operators. In addition, there would be clear complications in terms of allowing the public access to an area restricted by gated access, further deterring footfall reliant occupiers. In addition, Unit 1 is in a shell and core condition, meaning the occupier will have to undertake a full interior fit out programme prior to occupation. Whilst it would likely lead to a Landlord contribution and an extended rent free period, such expenditure would likely deter smaller businesses on account of other fitted out options.

Whilst there are no office enquiries that have been presented by the Applicant, we have considered whether Unit 1 is suitable and attractive for office occupiers. The wider location of Hornsey is not an established office location, with the closest notable office centre being Kings Cross. Kings Cross is 5.85km from Unit 1, this indicates that it would likely be local or independent occupier. Despite this, Unit 1's location adjacent to Hornsey Station does offer good transport links which would be an attractive factor for potential occupiers.

The shape of Unit 1 is slightly irregular which would lead to a less efficient floorplate for an occupier. Whilst occupiers would still be able to take on the space, it would further restrict the size of the operation on account of less desks being able to be logically laid out within the irregular space. Furthermore, the requirement to fit out the space would be another hurdle for a smaller business occupier despite the aforementioned likely rent free allocation and Landlord contributions.

In essence, the space would be attractive to a relatively restricted pool of office occupiers. The small space and irregular layout is restrictive, however this is not to say it would not be occupied. The beneficial location is somewhat diminished by being situated within a gated development.

5 Conclusion

In conclusion, we consider the market exposure Unit 1 received during its marketing campaign to be reasonable. Furthermore, the asking rents were relatively low in comparison to the wider local office market, clearly reflecting the constraints of Unit 1. The low level of interest and enquiries indicates a lack of interest from potential occupiers despite low asking rent. Therefore, we consider the proposal to change the use of Unit 1 to two C3 units to be reasonable in the context of the low demand for its current commercial use.