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BARNET
LONDON BOROUGH

Colindale
Area Action Plan

Supporting Documents

Employment Market Report
March 2009

Local
Development
Framework

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1. Introduction

DTZ have been asked to provide an update on paragraphs 2.92-2.101 of the DTZ paper, *Colindale AAP – Property Market Assessment and Key Issues*, prepared in June 2008, including sections on Employment Market and Local Dynamics – The Colindale Area. We have also been asked to specifically comment on commercial property activity at Beaufort Park.

In this document we provide a brief overview of the current property market for office and industrial uses in the UK. We also provide commentary on the UK retail property market because the majority of commercial property disposals at Beaufort Park are of units with retail uses. We then turn to information on the office and industrial property market in the Colindale area, including comment on Beaufort Park.

We understand that this document will be referred to as providing market context to the expectations expressed in the *Preferred Options* paper, published by London Borough of Barnet, dated October 2008. Therefore we therefore begin by outlining guidance on employment densities, as published by Homes and Communities Agency (HCA), formerly English Partnerships (EP). We also summarise the expectations for new job creation as set out in the Preferred Options paper.

2. Background

The paper published by EP, *Employment densities: a simple guide*, in September 2001, provides rules of thumb for appraisers of regeneration and economic development projects on employment densities. Employment density is described as the average floor or workspace occupied per person in an occupied building. These figures can be used to estimate the impact of the number of jobs likely to be created from development of new workspace.

The table below provides an extract of the EP 2001 guidelines, for employment densities for different types of use:

Employment Density (Per Workspace*)

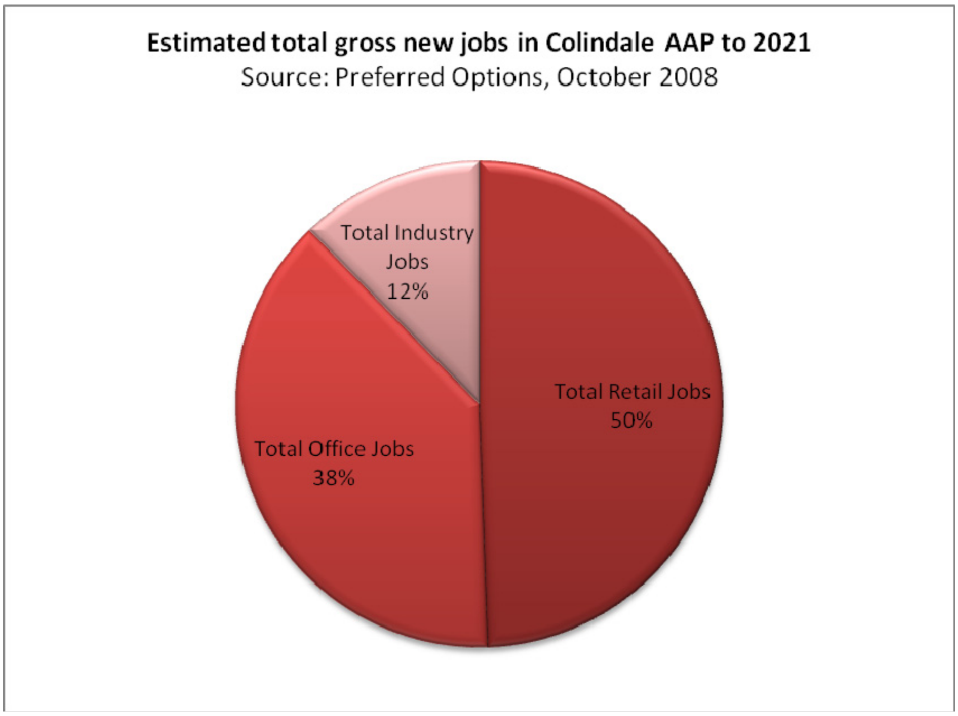
All figures are gross internal floorspace unless otherwise indicated.

Use type	Sqm	Sqft	Major factors creating variations
Industry			
General	34	365	Nature/sector of occupier and the degree of automation Wide variations exist between industrial sectors Higher densities in areas of high land value eg London 27 sqm, South East 31 sqm
Small Business	32	340	
High tech / R&D (non-Science Park)	29	310	
Science Park	32	340	
Warehouse and distribution	Gross external figures		
General Warehousing	50	540	Wide variations exist between industrial sectors
Large Scale and High Bay	80	860	Technological developments are reducing densities. Long-term storage has much lower densities than short-term storage
Office			
General	19	205	Densities vary according to location. Non-town and non-city centre developments e.g. business park developments have higher densities. Town and city centre densities are often lower than might be expected given occupancy costs Changing working practices are affecting densities
Headquarters	22	240	
Serviced Business Centre	20	215	Densities within units may be high but common areas reduce the overall density
City of London	20	215	
Business Park	16	170	Suburban densities have similar figures (high density) However town/city fringe locations have lower densities
Call Centre	12.8	140	
Retail			
Town/City Centre (net internal figures)	20	215	Some variance with retail type Small shops (less than 50 sqm) may have much higher densities of around 10 sqm)
Food Superstores (net internal figures)	19	205	
Other Superstores/ retail warehousing - including wholesale but not storage (gross internal figures)	90	970	
Leisure and visitors attractions			
General Hotels (3 star)			1 employee per 2 bedrooms
Budget Hotels			1 employee per 3 bedrooms
4/5 star Hotels			0.8 employees per bedroom
General Restaurants	13	140	Densities may be lower in fast-food restaurants and higher in high standard restaurants
Cultural Attractions	36	390	
Cinemas (including multiplex)	90	970	
Amusement and Entertainment Centres	40	430	
Sports Centres	90	970	
Private Sports Clubs	55	590	

* the prospective or actual number of occupied workspaces should be used as for some developments there may be more Full-Time Equivalent employees than workspaces (eg in call centres)

Arup Economics & Planning English Partnerships and the Regional Development Agencies September 2001

Section 7.19 of the *Preferred Options Paper* (October 2008) explained that London Borough of Barnet had estimated that around 1,000 new jobs could be created in the Colindale. The paper sets out projected new jobs. It should be noted that these are gross and do not reflect existing employment on the sites that would be lost through redevelopment. The split of jobs envisaged in the *Preferred Options* paper (October 2008), page 62, is illustrated below.



Sites are envisaged as generating either office, industrial or retail jobs, with the exception of the British Library site, Colindale Avenue (2.3 ha), where a mix of commercial uses is envisaged, including 23 retail and 45 office jobs. The sites which are anticipated to yield the largest numbers of jobs are summarised below:

Main employment generating sites	Projected gross new jobs: Office	Industrial	Retail
Farrow House, Aerodrome Road (0.9 ha)	515 gross new jobs 9,779 sq m GIA 19 sq m per person		
Land between railway lines, Aerodrome Road (0.7 ha)		188 gross new jobs 6,400 sq m GIA 34 sq m per person	
Peel Centre West, Colindale Avenue (3.8 ha)			298 gross new jobs 5,959 sq m GIA 20 sq m per person

DTZ have been informed by Urban Practitioners of the following known sources of possible job creation within the Colindale AAP:

Source	Description
Local Primary Care Trust (PCT)	Aspiration for a new health centre of 2,500-3,000 sq m within the Colindale AAP area
Met Police	Committed to staying on site and retaining broadly the same number of jobs
North London Waste Plan	Potential for waste facility on the land between railways lines on Aerodrome Road, in addition to proposed employment floorspace.

3. UK Office, Industrial and Retail Property Markets

a. Overview of Leasing and Capital Markets

Section 3 provides an overview of the UK office, industrial and retail property markets, based on DTZ Research *UK Property Market Overview*, Q1 2009 which is attached in Appendix 1.

In the leasing markets, Quarterly rental growth turned negative for all sectors in Q4 2008 as conditions in the real economy took a significant turn for the worse. RICS data show a drop off in enquiries, shorter leases, more inducements, rising availability and deeply negative rental growth expectations across all commercial property sectors. We expect the trough in rental growth will last into 2010, and while the office sector is already well into the downswing of the rental cycle, we anticipate the fall in retail rents to ultimately exceed offices over the current downturn.

In the capital markets, the UK investment market suffered one of its worst quarters in Q4 2008 as quarterly investment volumes slumped and yields moved out at their fastest pace on record. Nevertheless, we expect 2008 to be seen as the trough for total returns, yields to have peaked by year-end 2009, and a return to low, but still positive, total returns in 2010. The value of commercial real estate investment fell by half, to just £3.3bn, in Q4 2008 compared to Q3 2008, representing the lowest quarterly volume since our data series began in 1997. For 2008 as a whole, investment volumes reached just £22bn, a 52% fall on 2007, the lowest annual volume since 1999.

Around half of the fall in volumes can be attributed to the fall in property values. Over 2008 the IPD All Property equivalent yield moved out by 220 bps (120bps in Q4 alone), which, combined with negative rental growth (-1.4% over the year), led to a fall in capital values of 26% over 2008. As valuations lag the transactional market the actual change attributable to falling values is likely to be greater. The sharp correction in yields over the past eighteen months has taken capital values back to levels last seen in 2002. In typically leveraged investments this may have destroyed all the equity invested.

All Property returns fell sharply in Q4 2008 (-13.0%) compared to a fall of 4.8% in Q3 2008. Further, significant yield shifts (+120bps) over the quarter drove capital values down by 14.4%, a trend evident across all sectors. Over the quarter, retail delivered the weakest returns (-13.7%) followed by offices (-12.7%) and industrial (-12.1%). Falling rental growth had a negligible impact, but as occupational markets weaken, it will soon play a major role.

b. Office Leasing Market

All surveys and indicators for the service sector continue to paint a bleak picture. In particular the latest CBI/PwC Financial Services report highlights declining staff levels, with almost all sectors planning to further reduce operating costs, the weakest response since the survey began in 1992. UK Financial and Business Services (FBS) employment fell by 112,000 in the year to Q3 2008, exceeding the 88,000 decline which took place in the early 1990s over a similar period.

The latest RICS survey of commercial agents also substantiates the grim outlook - occupier demand for office space and levels of enquiries are falling at the highest rate since the survey began in 1998; and conversely, available floorspace and inducements to tenants are rising at the fastest rate since 1999. Echoing this, IPD UK office quarterly rental growth has fallen from -0.7% in Q3 to -3.3% in Q4 2008. The fall was greatest in London and the South East.

c. Industrial Leasing Market

December marked the 10th consecutive month of negative annual manufacturing output growth – consumer durables and capital goods being particularly badly hit. According to the BCC survey, the number of manufacturers operating at full capacity fell to 29% in Q4, down from 37% in Q3 2008 and a peak of 46% a year earlier. Business sentiment, profitability and employment intentions indicators not only fell further, but more sharply over Q4 2008. Forward-looking indicators suggest further deterioration in the sector. Firms' order books have become progressively weaker, though export orders appear to have fallen somewhat less, commensurate with the rapid depreciation of sterling, particularly in Q4 2008.

Retailers looking to cut costs to protect their margins are reviewing their supply chains and logistics operations. The ONS distributor indices show a resultant general contraction in GVA over 2008. Wholesale distribution's weakness directly reflects the very significant destocking that has taken place, while direct retail, capturing the effect of increased on-line trading, still remains positive, although on a declining trend.

d. Retail Leasing Market

Deteriorating consumer sentiment and rising unemployment are adversely affecting consumer confidence, and retailing is also being assailed by the consequences of a falling housing market (affecting the sale of household goods), consumer and retailer indebtedness, and overcapacity. The immediate policy response, aggressive interest rate cuts and a reduction in VAT, should in theory provide a stimulus to consumer spending. However, with credit restricted, job security under increasing threat, and households looking to pay down debt, the outlook remains weak. ONS data nevertheless suggest retail sales have performed better than anticipated, volumes showing a rise of 1.5% in the three months to January. Food store retail sales held up well and internet and value retailers have also benefitted. The length and depth of the pre- and post-Christmas sales may have been a factor, but if so, may well have been at a cost to activity over the next few months.

The BCC survey of service businesses indicates that finance costs continue to be burdensome for retailers at precisely the time when their pricing power is at its weakest. The sharp decline in the value of sterling is also anticipated to raise import costs and put increasing pressure on retailer margins and thus their ability to afford rents. There have been pockets of growth and certain operators, notably value-led retailers and international fashion operators, have even been acquiring space. But overall the demand for retail space has fallen significantly. According to the RICS, retail was the worst performing sector for take-up and enquiries in Q4 2008. Demand for space fell to an all-time low (since the survey began in 1998) and indicators of confidence in future occupier activity fell abruptly to deeply negative balances. Inducements and void rates also picked up sharply and are currently higher and thus more adverse than for any other sector.

IPD data show that quarterly retail rental growth turned negative for the first time in 15 years during Q4 2008. Moreover, retail warehouse rents, which IPD has never previously recorded having fallen, notched up the most negative growth of -0.7%. Void levels are high (over 11% of IPD tenancies, or the equivalent of 6.2% of ERV) and rising (Q4 2007 values were 9.6% and 4.8% respectively). Nominal retail rents have typically held up well during past market weakness, but the correction over this downturn is expected to be much more severe. Retailers are vulnerable due to a relatively supportive economic environment in recent years that has accommodated significant growth in debt exposure. In addition retail rental values are also forecast to be adversely affected over 2009-10 by retailer pre-pack administrations and 'at risk' tenants. The effect will be cushioned by existing leases and the performance of the better shopping centres and high streets.

4. Local Colindale Area Property Market

a. Office

Colindale is a relatively weak office location, due to limited transport hubs and amenities, and like other areas has suffered from the current economic climate. There is a significant amount of available stock. This is generally of 1960s-1970s specification, with limited amounts of newer space. A number of the older properties have been refurbished to provide good quality office accommodation but there is also a large part of the market which is made up of small secondary properties.

Demand for offices in the North West London area has typically been from Government Bodies, Insurance Firms or occupiers from the Banking Sector. The remainder of the demand is from small local occupiers looking for affordable office accommodation close to Central London. Demand from these sectors has been relatively quiet over the past 12 months which has led to little in the way of transactional activity.

Colindale has seen the departure of major office occupiers, including McNicholas, which has relocated to Borehamwood. Remaining major occupiers include JP Kennedy and PJ Keary and notably Telecomms Plus moved into the area recently from West Hendon, taking occupation of former MFI headquarters. Agents expect to see demand from local office occupiers, such as solicitors, travel companies and architects; however these occupiers would have limited space requirements.

Whilst in a period of uncertainty, it is difficult to predict exactly how the market will perform over the next six to 12 months. However recent trends would suggest that enquiry levels will be lower than levels seen in previous years whilst supply levels will remain constant or possibly increase as tenants bring surplus accommodation to the market.

Agents commented that likely demand would be for units of around 5,000 sq ft, with limited demand for offices of over 10,000 sq ft. Office rents could be in the region of £15.000 per sq ft for a 5 year term with 3 year break, with 2-3 months rent free for every year of term certain (i.e. up to date of break option). Prelettings would be challenging in the current market and there could be marketing voids for 12-24 months from practical completion.

New commercial development could take the form of mixed use space, such as offices over retail or offices over small industrial units.

The table below summarises some office stock currently being marketed in the local area:

Property	Size (sq ft)	Quoting Rent (per sq ft)	Specification	Comments
Beaufort Park Aerodrome Road Colindale NW9	20,863	£25.00	Air conditioning Car parking Shell and core condition WCs	Part of a comprehensive mixed use development close to Colindale Underground station.

329 Edgware Road, Cricklewood	5,500 sq ft	£16	Top floor accommodation	Available to let from owner-occupier in occupation of rest of property £4 per sq ft contribution to running costs of building
Merit House Edgware Road Colindale	58,498	£14.00	24 hour access 24 hour security 4 lifts Air conditioning Car parking Cat II lighting	Walking distance to Colindale Underground station and 1.3 miles from Hendon railway station.
Hyde House The Hyde Colindale NW9	298 – 37,780	£10.00	3 lifts Central heating Ample onsite parking On site security Flexible lease terms	Short driving distance to Colindale and Hendon Underground stations. Multi tenanted office building over 11 floors.
303 – 305 Cricklewood Broadway London NW2	25,000	£4.40	Entire building	Secondhand accommodation over ground and first floors.
126 Colindale Avenue Colindale	11,710	£13.50	12 car parking spaces Self contained Suspended ceiling	Close proximity of Colindale Underground station and midway between Edgware Road and Hendon Way.
Venture House 8 – 93 West Hendon Broadway Colindale NW9	8,850	£15.00	Air conditioning Raised floors 14 car parking spaces	Located on west side of Edgware Road.
Britannia Business Centre Cricklewood Lane	7,485	£10.00	Air conditioning Car parking Central heating CCTV Passenger lift Perimeter trunking Recessed lighting Suspended ceiling	Short distance from Cricklewood main line station.

b. Industrial

Colindale is a good industrial location, due to its proximity to the M1 motorway. Colindale offers a mix of older and more modern units. However, agents commented that Colindale has received limited industrial investment, with some former industrial units being converted to residential and offices.

Industrial occupiers in the Colindale area tend to be mixed, depending on unit sizes and location. Overall, agents reported a mix of national covenants and local occupiers, with predominantly small to medium sized enterprises servicing central London. Typical industrial occupiers are distribution, fashion, storage and cleaning operators.

Agents commented that the industrial market in Colindale is currently subdued in view of economic conditions. There are reasonable levels of relatively local demand for accommodation of up to 30,000 sq ft, with stronger levels of demand for units of 1,500-12,000 sq ft.

Demand tends to be predominantly freehold, although recently agents have seen leasehold demand increasing due to the lack of available finance. Most of the demand currently in the market is lease event driven, i.e. companies with lease breaks or expiries who are considering their options for relocation, consolidation etc. There has been an increase in demand for flexible short term leases which enable companies to meet their immediate business requirements during the recession without having to make substantial financial and long term commitments.

Typical terms for lettings of units of less than 30,000 sq ft in the Colindale area would be around £9-£12 per sq ft with at least 6 months rent free on 5 year leases. The rental tone has been relatively flat over the last 12 to 18 months, and in the current economic climate, and rents are expected to decline over the next 12 months. The majority of landlords are trying to maintain headline rents by granting greater incentives to secure deals, particularly in light of the abolition of Empty Rates which has increased holding costs for vacant industrial property.

Local industrial centres in the Colindale area include Staples Corner and Kingsbury. These are more secondary locations but have the benefit of more competitive rents. Staples Corner is located at the junction of the A406 (North Circular) with the south end of the M1 motorway and the A5 which provides direct access to Central London (West-End) (5 miles). It is an established industrial and distribution location with a variety of stock of different size and age. Staples Corner tends to be a fairly distinctive market; however there are some synergies with Cricklewood, Hendon, and Finchley, all of which have limited industrial stock. Kingsbury Trading Estate, Church Lane, is located adjacent to the A4006, south west of the Colindale AAP area. It comprises units of around 2,000-5,000 sq ft. Interested and actual occupiers include car repairers (both local and manufacturer-backed specialists) and catering traders (including caterers and wine storage providers). Consistently strong demand has been received over the last year, with continued interest this year. Lettings are typically undertaken on the basis of 5 year leases at £10 per sq ft, with 3-6 month rent free incentives.

Competing major industrial centres include Park Royal, Acton, Greenford, New Southgate, Hendon, Borehamwood, Harrow and Wembley. Agents for Borehamwood Business Park in Borehamwood commented that they receive enquiries from a range of occupiers but that interest has halved over the last year.

Some recent transactions are shown below:

Occupier	Address	Size (sq ft)	Price	Transaction Date
Sale to private individual	Unit 11, Borehamwood Business Park, Borehamwood	3,716 sq ft; B1 second hand light industrial space.	£430,000 freehold purchase, equating to £116 per sq ft capital value (£485,000 quoted)	December 2008
Letting	Unit at Kingsbury Trading Estate, Kingsbury	2,500 sq ft	£10.50 per sq ft 5 year FRI lease 6 months rent free	March 2009

Subletting to Millennium Ltd (textile and garment manufacturer)	4 Elstree Distribution Park, Borehamwood	16,833 sq ft; 2 loading doors and yard; 6.4m eaves heights.	£7.53 per sq ft with confidential rent free Sublease expiring January 2014, with no break options or rent reviews	January 2009
Letting	152-154 Coles Green Road, Staples Corner	27,684 sq ft with a secure yard area and 6.5m eaves; 1970s unrefurbished but in good condition.	Stepped rent averaging £8.00 per sq ft	July 2008
Letting	Millennium Centre, Humber Road, Staples Corner	21,100 sq ft; 1980s building; 5.8m eaves height.	£7.75 per sq ft headline	2008
Lettings mainly to existing occupiers from the estate	Units 18-21, Garrick Road Industrial Estate, Hendon	Refurbished units of 11,500- 14,300 sq ft. Poor access.	Circa £9.00-£9.75 per sq ft; marketed for 3-4 years prior to letting	Late 2007-2008

Some available industrial stock in the local area is shown below:

Property	Size (sq ft)	Quoting Rent (per sq ft)	Specification	Comments
Unit 3 1000 North Circular Road Staples Corner Business Park	23,941	£9.25	7.8 m eaves One level access door 20% office content	Modern mid terraced unit, which has been refurbished to a good standard.
Oxgate Works Oxgate Lane Staples Corner	28,698	£8.00	5m clear height 17% offices Self contained site	Older style un-refurbished building
Unit 1 Claremont Way Cricklewood	18,557	£8.00	6 m eaves One level access door Small secure yard area	Un-refurbished accommodation

c. Beaufort Park

Beaufort Park is a mixed use development by St George's of 2,800 new homes and around 84,000 sq ft (7,850 sq m) of commercial uses, including B1a offices, A1 retail and A3 restaurant uses. Typical A1 and A3 unit sizes range from 700-4,000 sq ft. As referred to above, 20,863 sq ft of shell and core, air-conditioned offices are available at a quoting rent of £25 per sq ft within Beaufort Park. Development is likely to continue over the next 6-7 years.

Lettings have been secured to occupiers such as Tesco, Young's, Marston's and Bright Horizons. However as the site is separated from the high street, interested has tended to be received from individual traders, including new start-up restaurant operators, rather than high street names. Much of the development was speculative, with exceptions such as units occupied by Churchill's and Benham & Reeves, which were pre-let.

A large proportion of the commercial units disposed to date have been transacted on the basis of long leaseholds of 999 years. Quoting prices are in the region of £300 per sq ft for long leasehold interest; with prices of around £280 per sq ft being achieved. The table below summarises some recent 999 year leasehold transactions:

Occupier	Unit No.	Size (sq ft)	Price (£ per sq ft)	Transaction Date
Benham & Reeves (Residential Lettings)	12	488 sq ft	£281	September 2008
Churchill Insurance Consultants Ltd	14	2,645 sq ft	£280	September 2008
Tesco Express	3	3,726 sq ft	£280	Early 2008
Hairben (Hair & Beauty Salon)	11	765 sq ft	£300	March 2008

However, in the current market circumstances short leasehold transactions are also being considered, quoting around £25 per sq ft overall; and achieving stepped rents of £15 per sq ft rising to £20 per sq ft in the fifth year of the term. A number of short term lettings are currently under offer.

5. Conclusions

Colindale benefits from its proximity to the A5, A41 and M1. However, it is a secondary commercial area and is not well-recognised as a commercial destination. Future commercial development would need to be on a relatively small-scale if it is to be integrated with the proposed major residential development in the Colindale AAP area.

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited.

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