



MARKET REPORT ON LETTING ACTIVITY AND COMMERCIAL MARKET COMMENTARY

FIRST FLOOR, 13-15 STATION ROAD, READING RG1 1LP

JANUARY 2023

CONTENTS

1. Overview
2. Marketing Details
3. Marketing Programme
4. Marketing Outcomes
5. Commercial Market Commentary
6. Summary and Conclusions

APPENDICES

Appendix 1: Letting brochure

Appendix 2: Summary of enquiries

1. Overview

Hicks Baker have been instructed by the owners of 13-15 Station Road to provide a written report confirming marketing undertaken to date on the first floor suite and comment on the property's viability for current/future office occupier requirements.

Hicks Baker were instructed to commence marketing of the subject property in June 2016, on behalf of the tenant Chiltern Training. It was then marketed until April 2022. The property was continuously offered to prospective new occupiers during this period, but then withdrawn from the market due to the lease expiries and tenant not wishing to incur further marketing costs. The tenant's leases are due to expire on various dates between the 5th and 20th August 2024.

The whole building is currently occupied by Chiltern Training Limited. We understand that the company has leases on each of the 5 floors of the building. From records provided by the managing agent the earliest lease dates from 2007 and most recent commenced in 2011. The first floor was surplus to the tenant's operational requirements and this self contained suite was therefore offered to the market on a sub-letting basis. The suite was measured as below:

Suite	sq.ft.	sq.m
1 st floor	1,021	95

Chiltern Training's occupation was consolidated into the remaining floors of the building. Hicks Baker was instructed to act by the tenant to find a suitable sub-tenant to reduce their void costs. Appropriate recommendations were made and a marketing campaign commenced in June 2016.

We understand that the tenant, Chiltern Training, has made their position clear to the owner and managing agent of the building that they intend to vacate all the upper floors at the end of their tenancy, (if not before) and will retain the basement and ground floor. Chiltern Training indicated they would like to make this change at the earliest opportunity if possible. As a result of this, in our role as letting agents for the first floor we were asked by the building owner about the prospects for reletting the upper floors of the building. We advised that given the previous history and lack of success in marketing the first floor that there would be little or no prospect of finding replacement commercial occupiers for the space. In our opinion, therefore the upper floors would no longer be viable for use within Class E Commercial, Business and Service, as explained further in this report.

2. Marketing Details

Our records show that the property was actively and continuously marketed for a period from June 2016 to April 2022.

During this time, the property was marketed to attract interest from the widest possible range of business users falling under Class B1 premises (part of Use Class E since September 2020), including any alternative commercial uses which now fall under the wider planning definition.

A copy of the letting brochure is attached as Appendix 1.

3. Marketing Programme

The following full programme of marketing activities was implemented:

Hicks Baker Marketing Package
Preparation and printing of Hicks Baker in-house particulars
Letting Board in prominent position on Station Road
Listing on Hicks Baker website
360 Tour of available suite and common parts
Listing on EG Propertylink
Listing on Rightmove Commercial
Listing on CoStar and affiliated portals
Periodic circulation of particulars electronically to all registered applicants
Periodic circulation via Estate Agent Clearing Services
Periodic circulation to Office Agents Society members list

4. Marketing Outcomes

The objective of the marketing campaign was to offer the available accommodation to the widest possible audience, which was demonstrated by the diverse interest received as a result of the marketing activities undertaken.

During the marketing period the tenant also re-decorated and cleaned the carpets to improve the presentation of the suite in accordance with advice. The quoting rent for the suite was as per our recommendations and what was considered to be competitive market terms.

In total, 29 parties inspected the available suite during the marketing period and are briefly summarised in Appendix 2.

However, despite our comprehensive marketing campaign, we were unsuccessful in securing a new sub-tenant and subsequently the available space remained un-let. The principal reasons for the property being withdrawn from the market are as follows:

- Financial implications of running marketing campaign.
- Lack of serious interest and success during the marketing period.
- The running down of the tenants lease term towards the end of the marketing period, notwithstanding that smaller occupiers tend to seek shorter lease terms and increased flexibility. Throughout the period of marketing there was sufficient time remaining on the lease term for a prospective occupier to sensibly take the space on a sub-lease basis if an occupier could have been found.

The reasons stated by prospective subtenants, who decided not to acquire the subject space, inevitably varied. Whilst companies requirements and business needs may have been case-specific, there were several reoccurring themes and issues relating to the subject property which have been summarised below:

1. Building and suite finishes and presentation. Throughout the marketing period the suite has been kept relatively neat and tidy, but this space has been considered poorly specified by many office tenants who were seeking more modern and contemporary space.
2. Lack of building amenity and facilities. This refers to in-building amenity for example a staffed concierge/reception desk, coffee/ break out areas or a bookable meeting space. There is an increased expectation in the market for commercial landlords to provide a much higher provision of inhouse amenity in order to attract tenants. Buildings of this scale have therefore already fallen behind the markets expectations if they are unable to provide these.
3. The building lacks onsite car parking and, given the loss of public car parking provision within the town centre such as Garrard street adjacent, this was seen as detrimental for many small businesses who rely on parking provision onsite for at least some staff members.
4. External presentation of the building, including the immediate environment. Whilst the property is an attractive Listed building well located close to the station, for commercial occupiers, the approach and entry experience is below the standard broadly expected of offices in the town centre with the main entrance located directly behind a bus stop on a busy pedestrian street.

5. Commercial Market Commentary

The level of demand for office space has not yet recovered to post-pandemic levels as businesses adjust not only to a challenging economic outlook but also come to terms with new 'hybrid' working practices.

In addition to the impact of the covid pandemic, together with the ongoing uncertainties over staff returning to office-based working practices, 2022 has also been a year of significant political and economic turmoil. These macro economic, political and social factors have typically not helped positive decision making within many occupier businesses, which in turn has created further risk-adversity and uncertainty amongst much of the business community.

There have nevertheless been signs of some improvement (albeit from a low base level of activity) at the smaller end of the market i.e. sub-5,000 sq.ft and, at the other end of the scale, several larger corporate requirements have been satisfied in larger centres such as Reading and Maidenhead.

It should be noted that whilst there has been some activity at the smaller end of the market, there has also been a notable increase in supply and competition across the local market. Notably there has also been an increase in larger buildings landlords now opting to split existing floorplates where possible, to provide smaller suites than perhaps they would have considered creating previously.

Over the marketing period there was also a notable increase in the provision of 'serviced office' supply, with many of the Grade A buildings also now offering either an in-house or third party serviced/managed office solution, for example Impact Working at R+, Fora at Thames Tower, Spaces at Greyfriars Road or Chadwick Business centre at 40 Caversham Road. This has provided many small and medium sized businesses, who may have previously only considered occupying traditional self-contained small office suites such as the subject property, with much wider choice in the market.

The wider array of larger competing buildings offering shared on-site services and amenity (showers, cafes, bookable meeting/conference space) has also further weakened the appeal of smaller traditional office space, such as the subject property, where introducing similar shared amenities is typically unviable given the scale and costs involved.

With the impact of MEES regulations (Minimum energy efficiency standards which apply from April 2018) there is an increased awareness of human and built environment impacts on the climate with many occupiers now more proactively seeking office space with stronger ESG credentials (Environment, Social and Governance, which can be measured across a broad spectrum but essentially speak to the energy efficiency, sustainability of building methods and occupation of commercial property). Many occupiers now demand that landlords provide modern, sustainable office space with sustainability implicit within the design and occupation which many older properties simply cannot viably provide.

The market has also seen a shift towards landlords providing fully fitted or 'Cat A+' office solutions for tenants, especially at the smaller end of the size requirements, in order to be competitive. Offering fitted space to an incoming tenant will increase speed/ease of occupation and present less up-front capital expenditure for the occupier. This approach also typically prompts an opportunity for landlord's to secure a slight rental premium, although the full costs of fitting out aren't always fully recouped even when amortized over the term.

These market factors are certainly worth noting in relation to the subject property and to impact significantly upon the unsuccessful outcome of our lengthy and sustained marketing campaign. We must consider these factors and also current general market sentiment which has not improved in the period between ceasing marketing and the date of this report. There is an apparent underlying lack of demand for secondary office space and the subject property falls into this category.

6. Competition and supply

Reading town centre office supply currently stands at in excess of 650,000 sq.ft. with a further 275,000 sq.ft. under construction at the Station Hill development.

Total office take-up in Reading town centre in 2022 was 186,393sq.ft. which is broadly comparable with 2021 (165,000 sq.ft.) but significantly below the longer term average levels of the pre-Covid era.

According to CoStar data, as at the end of 2022, the average length of time required to market an office property in Reading town centre and achieve a letting was 21.9 months. The subject property was marketed continuously for a period of approximately 70 months, supporting our view that the property no longer meets the requirements of office occupiers. During the period of activity the market continued to evolve with secondary office space becoming increasingly unattractive to modern users, irrespective of the impact of the pandemic (although it is widely considered that this accelerated these trends).

Reading town centre offers similarly sized offices across a range of standards and quality of accommodation. Recent transactions underline the 'flight to quality' with Grade A and 'Grade A+' i.e. fully fitted space having the better prospect of finding occupiers due to its higher specification. The pattern is further underlined by more poorly specified, secondary office space which has similarly been similarly unsuccessful attracting tenants despite having been on the market for a prolonged period. We highlight below a number of key examples which are more comparable with the subject property:

7-11 Cross Street – An refurbished office suite of a similar specification to the subject property. The property has been on the market since the last lease expired, in February 2020. It was also on the market prior to this for approximately 18 months with the previous tenant wishing to surrender their lease.

30-31 Friar Street - Partially refurbished space in a very similar location, with close proximity to Reading train station. The properties entrance has recently undergone improvement works, but there has been a significant void within the building for some time, with two suites of approx. 1,500 sq.ft. currently still available.

145 Friar Street – Landlord undertook a significant refurbishment in 2018 improving reception area and all the suites within the building. The property was previously majority let, but has now become predominantly vacant. The asking rent has also been significantly reduced.

6-9 Merchants Place – Office building with floorplates similar to the marketed suite at 15 Station Road, which underwent a comprehensive refurbishment in 2019. The property is located closer to Reading train station than the subject property and was refurbished to a very high standard but has remained vacant since refurbishment although recently a small suite on a single floor has let.

24-28 Queen Victoria Street —Comprises vacant space on the second floor. The property has been lightly refurbished and is a broadly comparable size to the marketed space in 15 Station Road. The suite has been vacant since October 2018.

7. Summary and Conclusions

In conclusion, the subject property has failed to attract a commercial tenant despite being actively marketed for over 5½ years. This prolonged timescale included 3 distinct phases; the pre-Covid period, the pandemic itself and the most recent post-lockdown era, all of which had their own market characteristics but with the same (unfortunately unsuccessful) outcome. As the office market adjusts to post-pandemic changes in working practices such as 'hybrid' and greater WFH (working from home), as well as the ongoing effect on business confidence and investment due the impact of Brexit, the war in the Ukraine and the 'cost of living crisis', the local office market is (and is likely to remain) subdued.

We expect some recovery in demand for office space in Reading town centre as macro-economic conditions improve and business confidence returns. However, we equally expect the key market trends that started to emerge pre-Covid and arguably accelerated as a result of the pandemic to become further established. The most notable of these is the shift in demand towards best-in-class office space with strong ESG credentials offering a high-quality working environment with in-house amenity as employers try to entice their staff back into the workplace. This 'flight to quality' has further widened the gulf between the prime and secondary office market sectors, making it increasingly difficult to attract occupiers to the latter.

13-15 Station Road clearly falls into this secondary category and the subject property can no longer be considered to be a viable commercial asset. Given the building's inherent limitations and evolving changing requirements of modern office occupiers, further (even substantial) investment would almost certainly not improve the realistic chances of achieving a letting to a bona fide commercial tenant.

APPENDIX 1:

Letting Brochure

Offices



TO LET

RENT

£21.00 per sq ft

KEY FACTS

- ☐ To be refurbished
- ☐ Prominent location
- ☐ Meeting rooms
- ☐ Passenger lift
- ☐ Suspended ceilings
- ☐ Central heating
- ☐ Comfort cooling
- ☐ Kitchen
- ☐ Male and female WCs

Reading – 15 Station Road, Reading, RG1 1LP

15 Station Road	sq ft	sq m
1 st floor office	1,021	94.9
Total	1,021	94.9

FLOOR AREAS - measured on a Net Internal Basis as per the RICS Code of Measuring Practice 6th Edition. These may be subject to review in accordance with IPMS: Office Buildings 2016.

SERVICE CHARGE

A service charge of £500 per month is payable. This includes:

- Electricity first floor accommodation (based on fair usage)
- Maintaining the common areas
- Maintaining the air conditioning and fire alarms systems
- Building Insurance

RATES

As shown on Valuation Office website. Prospective purchasers should make their own enquiries; contact Reading Borough Council on 0118 937 3787.

1st Floor: Rateable Value (2017): £12,250
Uniform Business Rate Multiplier (2017-2018) 46.6 pence

TERMS

New FR&I leases are available direct from the landlord.

EPC

TBC

LEGAL COSTS

Each party is to pay its own legal costs.

VAT

The property is elected for VAT.

T: 0118 959 6144 W: www.hicksbaker.co.uk

Transaction • Management • Performance

DESCRIPTION

The property is an attractive 5 storey character office block. Internal access to the available first floor accommodation is either via the main staircase or passenger lift. The suite is due to be refurbished and will consist of open plan office space with a kitchen, separate male & female WCs; reception/lobby area with two private offices; suspended ceilings; sash windows; safe; comfort cooling; perimeter trunking and Category 2 lighting.



LOCATION

The property is located in the heart of Reading town centre on Station Road, directly between Friar Street and Forbury Road, approximately 200 yards from Reading Station. The property has The Oracle and Reading's other town centre amenities within easy walking distance. As well as good road communications, Reading is a major rail hub with frequent fast services to London Paddington (26 minutes) and many other national destinations. Crossrail arrives in 2019 and there is a regular RailAir coach service linking Reading to Heathrow Airport.



VIEWING & FURTHER INFORMATION

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LEASE CODE

You should be aware that the Code of Practice on Commercial Leases in England and Wales strongly recommends you seek professional advice from a qualified surveyor, solicitor or licensed conveyancer before agreeing or signing a business tenancy agreement. The code is available through professional institutions and trade associations or through the website www.lettingdisputeresources.co.uk

MISREPRESENTATIONS ACT 1967

Hicks Baker for themselves and for the vendors or lessors of this property whose agents they are give notice that: 1. The particulars are set out as a general outline only for the guidance of intended purchasers or lessees and do not constitute nor constitute part of an offer or contract. 2. All descriptions, dimensions, reference to condition and necessary permissions for use of occupation and other details are given without responsibility and any intending purchasers or tenants should rely on them as statements or representations of fact but must satisfy themselves by inspection or otherwise as to the correctness of each of them. 3. No persons in the employment of Hicks Baker has any authority to make or give any representation or warranty whatsoever in relation to this property. Unless otherwise stated the terms exclude VAT.



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Appendix 2:

Summary of Viewings

Enquiry Date	Contact/ Company	Activity
22/03/2022	Nexia Consulting	Viewed property but did not proceed.
27/01/2022	Hiten Pankania/ The Best Connection	Viewed property but did not proceed.
19/01/2022	Caz Hedges/ Together UK	Viewed property but did not proceed.
13/05/2021	Confidential requirement c/o Cushman and Wakefield	Viewed property but did not proceed.
21/09/2020	Nigel Balchin/ Kennedy Scott	Viewed property but did not proceed.
07/02/2020	Ayman Rashid	Viewed property but did not proceed.
30/01/2020	Andy Tiong/ Pillar Properties	Viewed property but did not proceed.
14/01/2020	Sian Straw/ MiCiM	Viewed property but did not proceed.
15/01/2019	Elizabeth Lowry/ Real Care World	Viewed property but did not proceed.
15/06/2018	Matthew Maclellan	Viewed property but did not proceed.
30/05/2018	Kirk Morris/ Schweitzer Engineering	Viewed property. Heads of terms agreed. Did not complete due to delays caused by a third party advisor.
18/05/2018	Luke Seaman/ IN 2 Consult	Viewed property but did not proceed.
11/04/2018	Tony Pettitt/ Reading Buses	Viewed property but did not proceed.
22/03/2018	Joe Akem-Che/ Sparked Edu-care	Viewed property but did not proceed.
29/11/2017	Martin Bicknell/ TEC Partners	Viewed property but did not proceed.

08/11/2017	Georg Coles/ Push Technology	Viewed property but did not proceed.
29/09/2017	Laura Beasley/ Chartered Institute for Archaeologists	Viewed property but did not proceed.
26/07/2017	Katie Adams/ Abbey Chiropractic Clinic	Viewed property but did not proceed.
19/05/2017	Charles Thompson/ The Thackeray Estate	Viewed property but did not proceed.
02/05/2017	Belinda Sillence/ Ranstad CPE	Viewed property but did not proceed.
20/04/2017	Matthew Baldwin/ Empactis	Viewed property but did not proceed.
08/02/2017	Confidential requirement C/O RA-RE	Viewed property but did not proceed.
07/02/2017	Matthew Williamson/ Willingcare Recruitment	Viewed property but did not proceed.
13/01/2017	Tim Whitehouse/ Caprica Online Accountancy	Viewed property but did not proceed.
12/01/2017	Kulvinder Maingi/ My Clinical Outcomes	Viewed property but did not proceed.
30/09/2016	Christine Pocock/ Griffith Robertson Solicitors	Viewed property but did not proceed.
30/09/2016	Greg Owen/ Unknown	Viewed property but did not proceed.
08/09/2016	Richard Hall/ Argyll Financial	Viewed property but did not proceed.
07/09/2016	Kelly Ferreira/ ABACO	Viewed property but did not proceed.