

OFFICE MARKET REPORT

Former Bristol & West Arcade Friar Street Reading



Report produced for

Sonic Star Properties Ltd

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1. Introduction

The purpose of this report is to provide an overview of the Reading office market and how it relates to the recent marketing exercise of the above mentioned property and its current consented planning use. Within this report we identify how the Reading office market is performing and understand what trends are driving occupier demand. This is then used to understand the viability of the current planning consent.

Lambert Smith Hampton is one of the leading market agencies in the Greater Reading market. LSH has an office in Reading and have been involved in a diverse range of building disposal and occupier acquisition projects. For example, these include disposals for; The White Building, R+ and The Blade and acquisitions for SSE (185,000 sq.ft) and Austin Fraser (14,000 sq.ft) in the town centre.

Personally, I have 6 years of experience specifically in the Reading office market and have been involved with several prominent Reading office schemes such as Green Park, Forbury Place and Apex Plaza. I therefore feel suitably qualified to comment on the consented scheme on the above property.

2. Office Sector

The office sector in 2020 was significantly impacted by the effects of the Covid-19 Pandemic. A combination of lockdowns and the Government guidelines resulted in changes in occupier behaviour and how tenants use their offices.

Regardless of business sector, most occupiers have had to incorporate working from home practises or socially distanced work space. This has meant offices are generally being used less as occupiers work remotely to comply with government guidelines.

This remains true from small businesses to larger corporates who in many instances have had to make compromises on their use of office space whether by temporarily closing their offices, having a rota system in place or reducing the desk density in their premises.

All of the above contribute to an office sector that is experiencing reduced demand. This is supported by the final South East office market take up figures for 2020 of 1.89m sq.ft. This is 45% below the 10-year average and the lowest level of take up in the last 20 years.

Vacancy levels across the South East office market (2020) did rise to 6.8% but remains below the long term average of 7.3%. Average office letting transaction size in the South East also continues to decrease to a new 20 year low of circa 12,500 sq.ft.

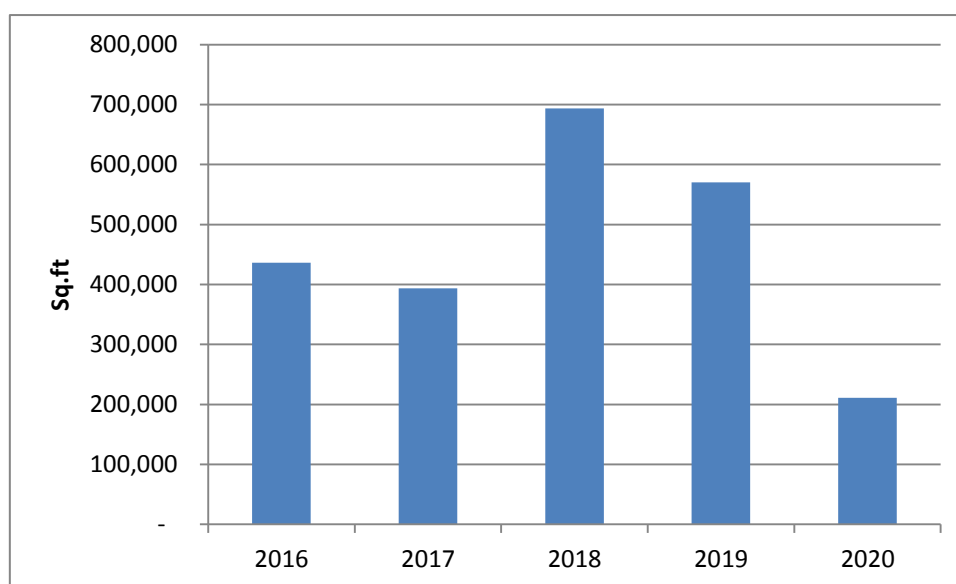
3. Reading Office Market

The Greater Reading market saw a significant drop in activity levels and take up in 2020 but still proved to be the most resilient market across the Thames Valley. Final take up figures for 2020 was 210,000 sq.ft for all transactions over 2,000 sq.ft.

The majority of this letting activity was in the out of town market which recorded 150,000 sq.ft compared to the town centre's 60,000 sq.ft. There were only 3 transactions in the town centre in 2020 which were over 5,000 sq.ft which were the ISIO letting at Thames Tower (5,000 sq.ft), Gateley at One Forbury Square (5,500 sq.ft) and Cellnex at R+ (10,000 sq.ft). The largest transaction in the greater Reading marketing was the CGI letting at Green Park which was 44,000 sq.ft.

The greater Reading 5 year average is 460,000 sq.ft. See Table 1 below.

Table 1: Reading Take Up Figures



Greater Reading supply currently sits at approximately 1.98m sq.ft. This encompasses all supply across Grade A, Grade B/C, off-market and tenant release space. The majority of the supply is in the out of town market equating to 1.44m sq.ft whilst the town centre total equates to 544,000 sq.ft.

Whilst there has been and continues to be expansion and improvement to stock in the out of town market, the town centre is experiencing a reduction in supply with no major office developments currently under construction and no major refurbishments under way at the time of writing this report.

Based on Greater Reading take up averages, the town centre has between 2-4 years of supply of built stock left (assuming take up figures improve on 2020's reduced demand). There are potentially new town centre schemes adding to current town centre supply such as the Station Hill development which has consent for 625,000 sq.ft of office space and the Metropolitan / Post office site which is going to planning on a potential 110,000 sq.ft office scheme to the north of the station. Neither of these schemes are likely to be built and ready for occupation before 2024.

However it is important to note what factors drive occupier demand and how this relates to the current consented office offering at Bristol & West Arcade.

Occupier demand is primarily focused in the Grade A section of the office market. When it comes to relocating their premises, occupiers are now tending to look for accessible and quality space as it helps their business retain and recruit the best staff and the property is often seen as an extension of the business' brand. This is supported by the strong level of Grade A take up when compared to lower specification properties.

In 2020, 94% of greater Reading take up was for Grade A office space. This improved on previous years; 2019 – 71% and 2018 – 91%. It is anticipated this trend will continue as businesses avoid focusing on cheaper, lower quality, Grade B options. In part this is due to lower stock levels of Grade B properties in Greater Reading and specifically the town centre which have either been refurbished to a higher Grade A quality or redeveloped to alternative uses (permitted development).

One trend anticipated to grow and is starting to have prominence in the Reading market is Landlords offering 'CAT A+' space. This is when a landlord speculatively fit out office space to offer 'plug & play' space which is ready for immediate occupation by tenants. This trend has become increasingly relevant following the Covid Pandemic as many occupiers are still looking to upgrade their office space but reduce capital expenditure on relocating and more importantly, fitting out office premises which can be time consuming and expensive. This trend is especially relevant in Reading town centre with almost all major office schemes offering some sort of plug & play space within their schemes such as The Blade, The Brickworks and Apex offering a range of plug & play suite sizes to complement their offering.

4. Current Consented scheme

The current consented scheme has a blend of retail, office and residential use across different floors of the property. The scheme was officially marketed by Savills from 2017 for a period of 9 months and then by Campbell Gordon and Savills from November 2019 on the basis it offered 43 apartments, 46,000 sq.ft of office space and 17,000 sq.ft of retail space.

Responses from Savills and Campbell Gordon on interest regarding the office element of the scheme were minimal with most of the focus on the residential element. Many of the residential applicants had concerns about taking on the scheme without pre-lets to office and retail occupiers or taking on the development and experiencing large voids on the commercial elements on the scheme. This was attributed to a number of reasons why office developers and occupiers avoided the opportunity and why the scheme as office premises has limited appeal.

The property in its current condition is unrefurbished and would need considerable investment to make it a viable office scheme that competes in the Reading office market. As demonstrated above, the vast majority of occupier activity is within the Grade A submarket so it's reasonable to assume that only a comprehensive refurbishment of the current scheme would make it relevant in Reading's competitive office sector.

Another challenge the consented scheme faces is the lack of prominence on the ground floor. The potential retail use on the ground floor does not necessarily synergise with office use on the upper floors. If occupiers are investing time and resources in high quality office space, there is an expectation the property will have an arrival experience or reception that is visually clear and prominent. The presence of retail on the ground floor for a building and floor plate of this size wouldn't necessarily benefit the office use and could leave the scheme in a secondary position to other competing office schemes which tend to have good reception spaces.

The building itself also has some physical attributes which limits its appeal as office premises. The property has a deep floor plate (12,500 sq.ft) which limits the amount of natural light available through the property. This may become more of an issue in the event partitioning is erected by a developer or occupier as part of their fit out. Similarly, the property has no parking spaces. This means any occupier would have to source car parking elsewhere in Reading town centre and whilst town centre parking need is less due to good public transport links, occupiers still want and expect an element of parking when acquiring office space in Reading. It should be noted that all currently available competing office schemes in the town centre have some onsite parking even if only a small quantity of spaces.

The floor plate depth and size suggests the building would either need to be able to compete with other schemes in the town centre with floor plates over 10,000 sq.ft or be capable of splitting into smaller suites to capture smaller business occupiers in a more multi-tenanted approach. Understanding how viable splitting the deep floor plates would work is critical to the building's marketability as many prime schemes in Reading have the capacity to accommodate smaller occupiers by carving up floors to make smaller office demises within their schemes. If it was determined the floors in subject property didn't split efficiently then it would likely miss out on the more active section in the market which is the sub 10,000 sq.ft market.

Lastly it's rare and often perceived as a negative for an office scheme to share part of its building with residential use. Whilst these two elements would most likely remain separate if the scheme's current consent was taken further, most occupiers prefer the separation between office and residential space as there are potentially logistical, noise and privacy issues when in such close proximity to residential use within the same building. It is worth noting there are no schemes in Reading with a blend of residential and retail within the building except of instances of very controlled lettings to retail operators which may complement the overall office scheme. It is likely the market expectation is a blend of residential and office uses do not appeal to occupiers if they are within the same building.

The property's current consent will have finite appeal from an office market perspective. The property would need significant works to make it occupier ready and the building has several physical attributes which make the current consent limited in its appeal.

5. Conclusion

Feedback to the Savills and Campbell Gordon marketing period showed many applicants expressed concerns the current planning permission was not 'market facing.' Comments regarding the office scheme included concerns about the office element's size and finding a suitable serviced office operator or office occupier to take the office space in order to get it let and income producing.

Office market trends are showing take up is primarily centred around the Grade A sector in Greater Reading with occupiers looking for the best space in order to win the 'war for talent' and have office space that extends their brand, emphasises on wellness factors and the retention of staff. Bristol & West Arcade would need a significant repositioning exercise as part of any redevelopment if the office element was retained as part of any consented scheme. The building itself faces significant challenges to compete with other local schemes

which may benefit from; better building and reception prominence, more parking and greater access to natural light.

The current consented scheme will need thorough and innovative investment in order to make the office element of the scheme viable and appealing to modern day occupiers. This is especially the case if the retail and residential elements are to be retained which, in my view, are a major challenge to the success of the office use, particularly at a time when the market is experiencing reduced demand and many occupiers are re-evaluating how they use their office space.

In conclusion, the site as it stands currently and in the consented scheme is not suitable for the current or foreseeable office market demands as set out in this report. Our view is that the site could therefore be better used for an alternative use that is more market facing, especially given the site has been derelict and removed from the market within the town centre for approximately ten years.

6. Supporting Appendices

Key competition of Reading office schemes highlighting availability and key features.

Property (click image for links)	Space Available	Floor Plate Size	Parking	Key Features
2 Forbury Place 	140,000 sq.ft	27,300 sq.ft	1:833 sq.ft	BREEAM Excellent On-site café Electric charging Cycle and changing facilities Manned reception
Apex 	53,000 sq.ft	7,500 sq.ft	1:428 sq.ft	On-site Café Direct train station access Large atrium Plug & Play suites available
R+ 	43,000 sq.ft	19,000 sq.ft	1:2,480 sq.ft	Manned Reception Exclusive balcony spaces EPC 'A' BREEAM Excellent
The Blade 	16,000 sq.ft	8,000 sq.ft	1:1,000 sq.ft	Manned Reception Plug & Play suites available
The Carbon Building 	26,000 sq.ft	5,100 sq.ft	1:1529	Plug & Play suites available Manned Reception Exposed Services Finish