southbank

Southbank Bankside London Bridge Waterloo Borough Elephant & Castle

Farebrother

research Q2 2011

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Availability rate at its highest in four years due to the release of secondhand space

The performance of the Southbank office market remained robust in the 2nd Quarter 2011. Take-up continued to be marginally above the quarterly average, by 7%, at 180,000 sq ft. Total take-up for the 1st half of 2011 was 340,000 sq ft and we have revised our annual take-up projection from 650,000 sq ft to 700,000 sq ft, an increase of 8%. Availability also rose by 15% in the 2nd Quarter to 1.15 million sq ft and the availability rate, at 6%, is now at its highest level in four years. We have therefore, also raised our projection for year-end supply, increasing it to 1.25 million sq ft.

The increase in supply in the 1st half of 2011 can largely be attributed to the release of surplus space as a result of lease events and the relocation of occupiers. The most notable example is at the scheme originally developed as ‘London Bridge City’, an 850,000 sq ft office complex with ancillary retail and private hospital space between London Bridge station and the Thames. This comprehensive regeneration scheme was completed by St Martin’s Property Corporation in 1986 and was let on 25 year leases which expire in 2011.

As a result, St Martin’s is embarking on a comprehensive refurbishment and re-letting campaign on parts of the London Bridge City estate totalling up to 400,000 sq ft. The two main elements of this scheme, both of which are expected to commence in the 3rd Quarter 2011 for completion in the 1st Quarter 2013, are No. 1 London Bridge and The Cotton’s Centre. These will offer 180,000 sq ft and 150,000 sq ft respectively of refurbished offices on completion. With The Shard and The Place scheduled to complete in 2012/13, there is a danger of localised oversupply of high quality space around London Bridge station.

New and refurbished schemes in all other Southbank locations should still be considered, however. During the 2nd Quarter, the 4th floor of Dorset House, 27-45 Stamford Street, was completed and was already under offer at the end of the Quarter. With total new and refurbished space at 89,000 sq ft, only 8% of available space and less than 0.5% of all Southbank offices, there are opportunities for both new and refurbished schemes to meet demand.

The private sector can do much to regenerate Southbank under an appropriate regulatory framework. In May 2011 it was announced that both Waterloo and Southbank had been designated Business Neighbourhood vanguards. Under the Government’s drive for ‘localism’ in planning and decision-making, these officially designated areas will allow businesses, including property owners and occupiers, to have a strong say in creating local plans for Southbank in collaboration with the local authorities and residents’ representatives.

Take-up

Take-up of new and refurbished space at only 1,000 sq ft due to continued lack of choice

In the 2nd Quarter take-up fell marginally by 2% to 168,000 sq ft. This is almost identical to the average quarterly take-up rate in the current cycle (since the 4th Quarter 2007) of 169,000 sq ft. The number of transactions in the 2nd Quarter, in excess of our minimum threshold of 1,000 sq ft, increased by 11% from 45 to 50.

Take-up of new and refurbished space was virtually non-existent at just 1,000 sq ft in a single transaction at 206-208 Bermondsey Street, a residential-led development that completed in 2009. Only 89,000 sq ft of new and refurbished stock is available in Southbank due to the lack of construction activity since 2008 providing little choice for occupiers and suppressed take-up as a result.

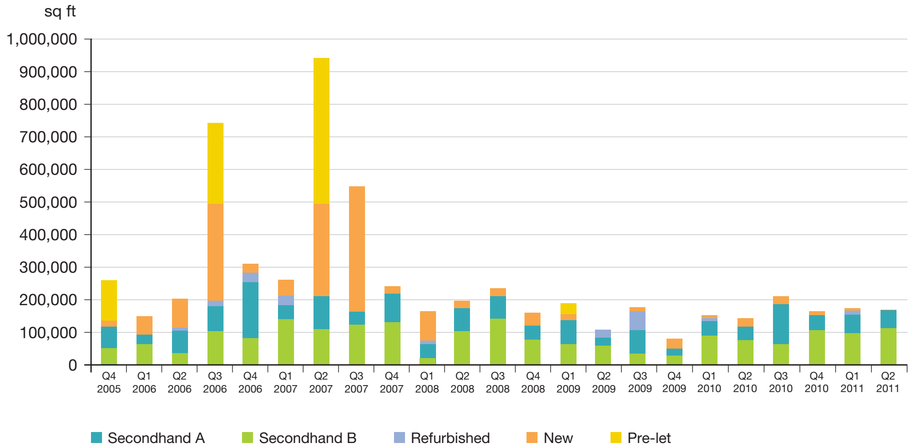
Take-up of secondhand space increased by 15% from 155,000 sq ft to 179,000 sq ft. Secondhand Grade A take-up rose by 23% to 69,000 sq ft, while secondhand Grade B take-up increased at a lower rate of 11% to 110,000 sq ft. The four largest transactions of the quarter were for secondhand Grade A space, all in excess of 10,000 sq ft. Two of these were for space within More London.

The largest letting in the 2nd Quarter of 27,421 sq ft was taken on the 3rd and 4th floors of New City Court, 20 St Thomas Street, by global consulting engineer Sinclair Knight Merz at a best rent of £38.50 per sq ft. At 3 More London, IT specialist and provider of wealth management systems, JHC, took a ten year sub-lease on 10,000 sq ft from Norton Rose at a rent of £40 per sq ft with eight months rent free. The asking rent was £42.50 per sq ft.

The rents shown in the Selected Lettings table are typical of the range found in Southbank by grade of space and location. Top rents of £40 per sq ft can be achieved at the iconic More London and secondhand Grade A space away from the River, such as Harling House, can command a rent of £33 per sq ft. Secondhand Grade B space in a good riverside location, such as 89 Albert Embankment, was capable of achieving rents in the low £20s per sq ft.

With take-up above average in the first half of 2011 at 340,000 sq ft, we have raised our projection for 2011 take-up by 8% from 650,000 sq ft to 700,000 sq ft.

Figure 1: **Quarterly Office Take-up in Southbank**



Source: **Farebrother**

Selected office lettings in Southbank

Occupier	Address	Grade	Sq ft	Reported Rent £psf
Sinclair Knight Merz	New City Court, 20 St Thomas Street	Secondhand (Grade A)	27,241	38.50
Conf.	89 Albert Embankment	Secondhand (Grade B)	12,000	20.00 (shell condition)
JHC plc	3 More London, Tooley Street	Secondhand (Grade A)	10,000	40.00
Care International	89 Albert Embankment	Secondhand (Grade B)	9,500	22.50 (for refurbished and 20.00 for remainder)
Bikram Yoga	Magdalen House, 136-148 Tooley Street	Secondhand (Grade B)	6,500	9.65
Conf.	1-7 Boundary Row	Secondhand (Grade B)	6,000	30.00
Environ	89 Albert Embankment	Secondhand (Grade B)	5,500	22.50
Masabi Ltd	56 Ayres Street	Secondhand (Grade B)	4,470	21.25
Conf.	Westminster Tower, 3 Albert Embankment	Secondhand (Grade B)	4,155	Conf.
Conf.	Lower Ground, 1-7 Boundary Row	Secondhand (Grade B)	4,130	Conf.
OpenGamma	185 Park Street	Secondhand (Grade A)	4,108	17.50
USPG	Harling House, 47-51 Great Suffolk Street	Secondhand (Grade A)	3,585	22.00
Intelligentsia	24 Southwark Bridge Road, Sumner Street	Secondhand (Grade A)	3,296	27.50
Touch Local Ltd	89 Albert Embankment	Secondhand (Grade B)	1,800	22.50

Source: **Farebrother**

Availability

Significant increase in availability but only 14,000 sq ft is new or refurbished space

In the 2nd Quarter, there was a significant increase in Southbank office availability. Ready-to-occupy office supply increased by 15% from 1 million to 1.15 million sq ft raising the availability rate by 0.8% points to 6%. This rate is higher than in Midtown (5.5%) but still considerably lower than the West End (7.1%) and the City (10.8%).

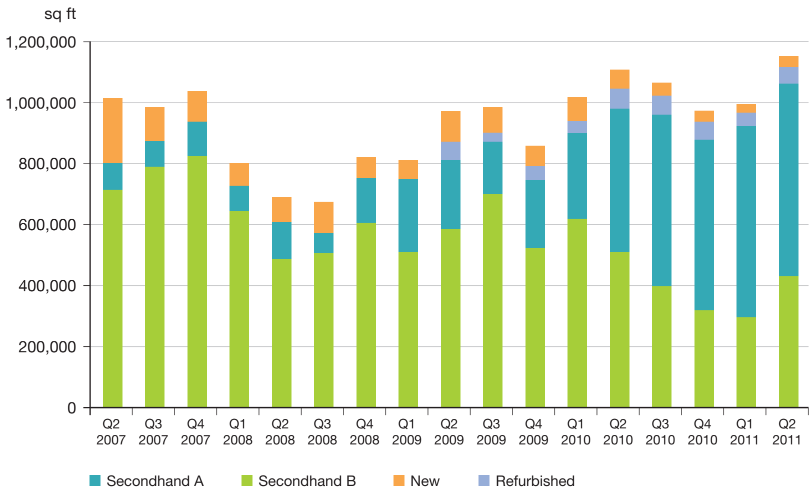
The supply of new and refurbished space rose by 15% to 89,000 sq ft but this was only an absolute increase of 14,000 sq ft. The breakdown of new and refurbished space was 31,000 sq ft and 58,000 respectively. At the end of the 2nd Quarter, new and refurbished space represented only 8% of total availability and under 0.5% of total Southbank stock. There is little prospect of any significant change in new and refurbished availability until 2012 when new supply will be led by The Shard at London Bridge Quarter.

Secondhand supply increased by 15% in the 2nd Quarter from 925,000 sq ft to 1.057 million sq ft. The rise was due to secondhand Grade B space which rose by 44% to 427,000 sq ft, whereas the availability of secondhand Grade A space remained stable at 630,000 sq ft.

636,000 sq ft of available Southbank stock was in 31 units offering 10,000 sq ft or more with the balance of 510,000 sq ft contained in 133 units from 1,000 to 9,999 sq ft. The largest available unit was 66,870 sq ft of secondhand Grade A space at Hay's Lane House, 1 Hay's Lane, formerly occupied by PricewaterhouseCoopers (PwC). The largest unit of new or refurbished space was at St George's House, 195-203 Waterloo Road, which is being offered at a rent of £12.50 per sq ft in shell condition or £17.50 per sq ft fully-fitted.

The 18% increase in secondhand availability in the 1st half of 2011 is the result of occupiers releasing space due to relocating. We expect this trend to continue in the 2nd half of 2011. As a result we have revised our projection for availability for the 4th Quarter 2011 to 1.25 million sq ft, an increase of 29% during the year and an increase of 9% during the second half of 2011.

Figure 2: **Quarterly Office Availability in Southbank**



Source: **Farebrother**

Future supply

Further construction activity planned around London Bridge

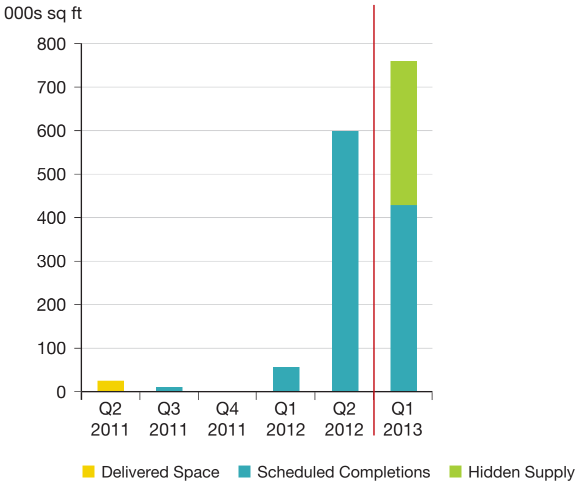
Overall construction activity in Southbank remained unchanged at just under 1.1 million sq ft in the 2nd Quarter, all of it speculative. The London Bridge Quarter (LBQ) accounts for 95% of all construction activity with 595,000 sq ft underway at The Shard, due to complete in the 2nd Quarter 2012 and 429,000 sq ft at The Place (renamed in the 2nd Quarter), scheduled to complete in the 1st Quarter 2013.

There were no construction starts in the 2nd Quarter. Outside of LBQ there were only two schemes under construction at the end of the 2nd Quarter. These were an 8,000 sq ft residential-led scheme at Bermondsey Spa Site C, Grange Walk and the 50,000 sq ft Harlequin Building, 65 Southwark Street.

Further starts are expected before the end of 2011, however, including several refurbishments at London Bridge City, one of the first integrated office mega-schemes on the fringes of Central London along with Devonshire Square and Broadgate/Finsbury Avenue. London Bridge City was developed by St Martin's Property Corporation, the Kuwaiti Investment Office subsidiary, on land acquired through its purchase of the Hay's Wharf Company. The c. 850,000 sq ft scheme, completed in 1986, was let on 25 year leases expiring in 2011 and St Martins is to undertake a major refurbishment of the vacant space.

The two core elements of the scheme are the entire 180,000 sq ft at No. 1 London Bridge and 150,000 sq ft in The Cottons Centre. No. 1 London Bridge is a very distinctive office building adjacent to the Southbank landfall of London Bridge, forming the gateway to London Bridge City and More London. Further along the River, the ground, 1st, 2nd and part 3rd floors are to be refurbished at The Cottons Centre. Both schemes are expected to commence in the 3rd Quarter 2011 for completion in the 1st Quarter 2013. The timing of scheduled completions is shown in Figure 3. The London Bridge City scheme is identified as hidden supply.

Figure 3: **Future Supply in Southbank 2011-2013**



Source: **Farebrother**

Investment

Investment market remains quiet

There was very little investment activity in Southbank in the 2nd Quarter, with less than £1 million changing hands in transactions where a price was made public. In the largest transaction, long-time owner, the Sons of Temperance Friendly Society, sold 176 Blackfriars Road to a private investor. The other two transactions recorded were owner-occupied, long leasehold office units to similar owner-occupiers.

At 214 Bermondsey Street, Johnston Works bought a long-leasehold interest in 1,399 sq ft on a 125-year lease, expiring in June 2136 from Acorn Homes for £450,000. The quoting price was £447,680. White Water Strategies acquired a 999 year interest in a 1,547 sq ft ground floor office space on a 999 year lease, expiring in April 3010 from Maven Training Ltd for £465,000. The quoting price was £490,000.

Selected transactions in **Southbank**

Address	Size sq ft net	Vendor	Purchaser	Reported Price £m
176 Blackfriars Road	4,992	Sons of Temperance Friendly Society	Private Investor	Conf.
31-33 Tanner Street	1,547	Maven Training Ltd	White Water Strategies	0.465 (999 years)
214 Bermondsey Street	1,399	Acorn Homes	Johnston Works	0.45 (Owner-occupier, 125 year lease)

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BM TRADA CERTIFICATION ISO 9001:2008 UKAS QUALITY MANAGEMENT 012

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