



**AVONMOUTH HOUSE
6 AVONMOUTH STREET
LONDON, SE1**

**EMPLOYMENT LAND
REPORT**

**UNION STREET PARTNERS
NOVEMBER 2021**

Executive Summary

- Available office accommodation in the South Bank stands at 1.4 million sqft at the end of Q2. This is a 19% increase over the last three months, increasing Availability by 230,429 sqft.
- Levels continue to be above the 10-year average (810,189 sqft) and are the highest they have been for eight years.
- The Availability rate is now 7.3%, up from 3.6% a year ago.
- Six buildings currently under refurbishment or construction that are due to complete over the next 6 months adding 162,032 sqft of new or significantly refurbished available space to the market.
- With the new completions noted above there is now 860,206 sqft of space under construction/refurbishment of which 217,000 sqft has been pre-let leaving 643,206 sq ft of available space to be delivered over the next two years.
- In summary, there is 1.4 million sqft of available office floorspace, which is the highest for 8 years (7.3% availability rate) and a further 643,205sqft of new space to be delivered over the next two years.
- Therefore, there is significant supply available now and a healthy pipeline for the future.
- There is a market at Elephant & Castle, however with the current pipeline of nearly 300,000 sqft proposed for the area, a policy compliant 47,302 sqft office building in a backland site and isolated and away from other offices, we believe is not viable. Better alternative options are and will be available.

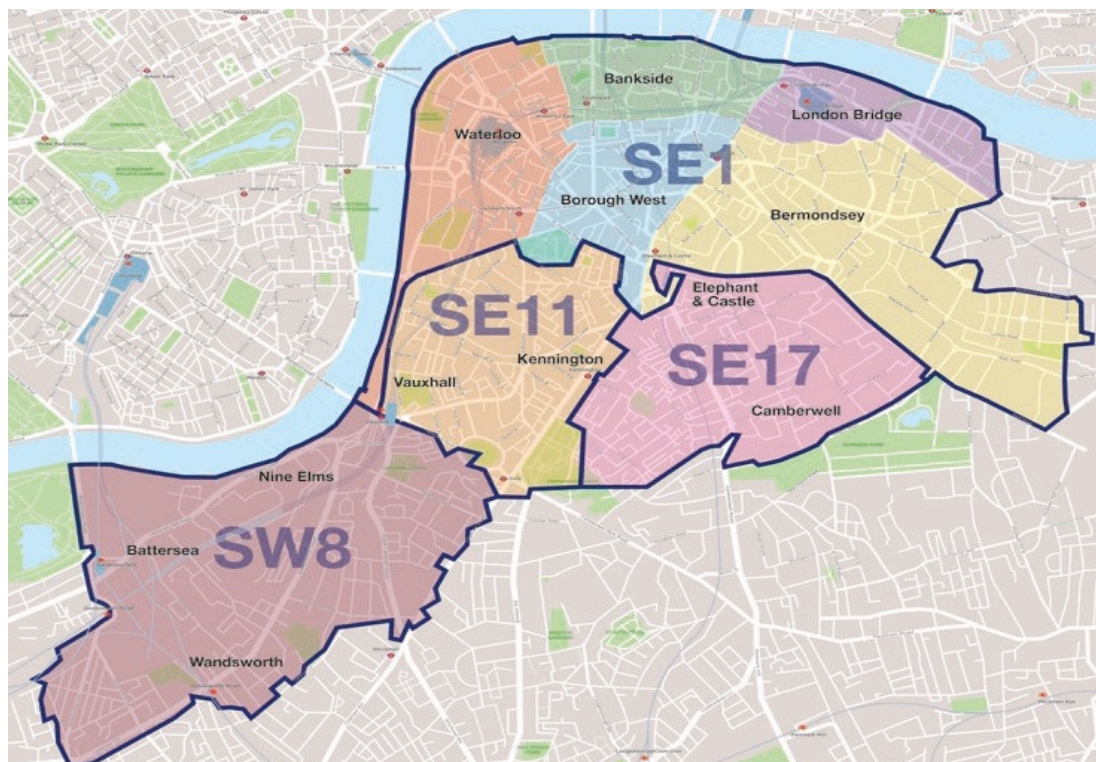
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1. INTRODUCTION

This Employment Land Report considers the supply of office floorspace in the local and wider market areas to the application site. It then considers the limited contribution a policy compliant provision would make, even if it were made at Avonmouth House.

2. SOUTH BANK MARKET OVERVIEW – 2021



3. TAKE-UP

The last two years have seen an ultra-low take-up in the local and wider area. There was 36,209 sqft recorded in the last quarter and whilst there was a take-up of 314,192 sqft in Q2, this is still below the 5 year quarterly average.

The table below details the transactions across South Bank by grade of space for Q2 2021:

	PRE-LET	NEW – NEW BUILD	NEW – REFURB (EXISTING)	SECOND-HAND GRADE A	SECOND-HAND GRADE B	TOTAL
SE1	-	-	264,503	21,355	28,334	314,192

This was in part down to two lettings during the quarter. IBM signed at 1 South Bank Place, taking 130,000 sq ft in an off-market deal from Shell at a rent understood to be in the £70's per sq ft on fully fitted space. Synlab (Europe's leading provider of laboratory diagnostic services) completed another off-market transaction and was the second largest deal of the quarter taking the whole of Friars Bridge Court (94,000 sq ft) in a deal that involved a simultaneous surrender of a lease to WeWork.

It appears occupiers are slowly looking for high quality space offering wellness credentials,

excellent amenities, and outdoor space with 84% of the volume transacted being for refurbished space.

The diversity of occupiers attracted to the area continues to show through the mix of tenant types agreeing terms. 45% of the total transacted was from within the DAMIT sector, with 31% classified as “Other” driven by Synlab as well as deals transacting from the Legal, Professional and Government sectors.

The table below shows the volume and number of transactions during Q2 by size band.

SIZE BAND	TOTAL (SQ FT)	NO. OF TRANSACTIONS	% OF TAKE-UP
1,000 - 3,000	12,794	8	40%
3,000 - 5,000	10,666	3	15%
5,000 - 10,000	39,098	5	25%
10,000 - 20,000	27,656	2	10%
20,000 - 30,000	-	-	-
30,000 - 40,000	-	-	-
40,000 - 50,000	-	-	-
50,000 +	223,978	2	10%
TOTAL (SQ FT)	314,192	20	100%

4. AVAILABILITY

Available office accommodation in the South Bank stands at 1.4 million sqft at the end of Q2. This is a 19% increase over the last three months, increasing Availability by 230,429 sqft. Levels continue to be above the 10-year average (810,189 sq ft) and are the highest they have been for eight years. Although availability levels continue to rise quarter on quarter the rate of additional space being brought to the market is beginning to slow, most of the increase seen this quarter has been due to the refurbishment completions at Hays Galleria, and Southworks on Rushworth Street. These two-buildings account for 78% of the new volume of space this quarter.

The Availability rate is now 7.3%, up from 3.6% a year ago.

The table below highlights the amount of space available by grade, in sq ft.

	NEW – NEW BUILD	NEW – REFURB (EXISTING)	SECOND-HAND GRADE A	SECOND-HAND GRADE B	TOTAL
SE1	86,772	363,835	666,361	316,322	1,433,920

The increase in available space this quarter has been driven as mentioned by new refurbishments coming to market. High quality new or refurbished space now accounts for 32% of total availability.

We do however feel the traditional way of grading a building by quality gives a slightly distorted view of the space that is currently on the market, therefore we continue to track availability with our new re-grading with a 5* rating (5 being the “best of the best” and 1 being the poorest). What this showed us is that buildings like the Shard and The Blue Fin are being classified as a second-hand Grade of space whereas the quality of the space continues to be high, therefore, we believe there is a larger quantum of quality space in the market than is being reported.

The table below highlights the quality of available stock as classified by our new 5* rating (5* being

the best).

	5*	4*	3*	2*	1*
SE1	13%	27%	29%	27%	5%

The table highlights that 40% of stock is in the highest two categories (Grade 4* & 5*) a higher percentage than the traditional way of grading space suggests is on the market (32%).

The level of good quality stock is expected to continue increasing through the year with six buildings currently under refurbishment or construction that are due to complete over the next 6 months adding 162,032 sqft of new or significantly refurbished available space to the market. Currently 69% of available stock on the market and immediately available is second-hand so the arrival of the newly refurbished office space will increase the choice of top-quality accommodation for occupiers.

There will be a continued stretch in the divergence between the best refurbished space with the poorer second-hand quality stock which will all be competing to let against fitted CAT A+ space.

The level of tenant released space continues to play an important role in the amount of available space on the market. We are now tracking 45% of the volume of available space as tenant released, totalling 644,481, up from 36% at the start of the year.

There are 11 buildings that can offer a tenant a single floor plate of 10,000 sqft or more in a building that is readily available now. In comparison a third of all buildings available are offering floor plates between 3-5,000 sq ft, a huge choice for occupiers.

5. PIPELINE

The level of new construction in the South Bank remains subdued with no new recorded office starts this quarter. Four schemes completed construction totalling 241,073 sqft. Hay's Galleria, SE1 completed its significant refurbishment whilst letting 28,000 sqft of the space to PRS Music. The Grain House, 46 Loman Street, SE1 also completed construction totalling 25,544 sqft with 4 floors pre-let to Guys & St Thomas's during construction. With 70% of the building let the new space adding to the availability figures totals 7,998 sqft, although it is currently all under offer.

Southworks on Rushworth Street was the third scheme to finish this quarter totalling 67,404 sqft, the 1st and part ground are under offer (c.17,000 sqft) to an undisclosed occupier. The final scheme to complete was a small building called Sea Building, SE1 part of the Great Suffolk Yard development. This section of the building has now completed as an individual scheme totalling 8,609 sqft whilst the remaining space (58,327 sqft) at Great Suffolk Yard will complete by the end of this year.

With the new completions noted above there is now 860,206 sqft of space under construction /refurbishment of which 217,000 sq ft has been pre-let leaving 643,206 sqft of available space to be delivered over the next two years.

The current pipeline is set out below:

YEAR	QUARTER	SPEC UNDER CONSTRUCTION	LET UNDER CONSTRUCTION
2021	Q3	78,705	-
	Q4	83,327	217,000
2022	Q1	106,174	-
	Q2	355,000	-
	Q3	20,000	-
TOTAL (sq ft)		643,206	217,000

The two largest schemes due to complete in 2022 are “Arbor” formerly known as Bankside Yards (221,000 sqft) and The Forge (139,000 sqft). Fabrix Capital have planning permission to redevelop the existing 1960’s building at 1-15 Pocock Street, to be known as Roots in the Sky. They aim to create a 200,000 sqft office building with not only a rooftop restaurant and swimming pool but also a 1.1-acre rooftop forest of over 100 established trees and 10,000 plants making it one of the largest urban roof gardens in Europe. Construction is due to start this year with a completion towards the end of 2024.

6. INVESTMENT

The level of activity in the Investment market in the South Bank in the first quarter transacted £28.1m across three deals whilst the last three months saw an increase in the volume transacted boosted by the sale of Friars Bridge Court, 41 Blackfriars Road, SE1. Kennedy Wilson sold the building for £132.25m to Aberdeen Standard Investments at a yield level of 3.5%. Albion House, 20 Queen Elizabeth Street, SE1 sold for £15.05 million with vacant possession to the UK Fund RE Capital.

We have witnessed a tightening of prime yields having moved 25bp from 4.50% to 4.25%, highlights the current weight of capital targeting prime income led assets. Price adjustment was inevitable once the right income producing product came to market. However, risk appetite remains very low and is unlikely to change in the short term with many investors targeting core or core plus opportunities.

7. OFFICES

High quality contemporary style space (e.g. 100 Union Street) tends to be priced at around £60 per sqft and above.

As such, pricing should be key, and we feel the strategy should be to deliver space at a price point circa £30 - £40 per sqft.

However, Avonmouth House on Avonmouth Street as a location is not desirable. The micro location will deter many occupiers, despite the price point.

Typical occupiers of this range will possibly look for a break option at the end of the third year, again this will affect the buildings income profile, and associated investment yield to a level that we largely see office use as unviable.

A pre-let is not likely to be sought given the small floorplates within the building as occupiers would rather the space be on as few floors as possible. This is evident for 67-71 Tanner Street, the details of which we outline below.

Attached at appendix VI is a competing building schedule of offices sub £45 psf.

8. OFFICE RENTS

There is limited occupational demand in the office market in Elephant and Castle and as a result rental values remain low ranging between £20.00-£35.00psf. This presents a stark contrast to the wider SE1 submarket where rental values are reaching £60.00-£90.00psf for prime Grade A new build space.

The table below in the immediate area illustrates the lack of recent occupational transactions around Elephant and Castle and we have therefore had to include the area towards Southwark and Borough. The majority of occupational deals occur within the established Southbank submarket which achieves significantly higher rental values. The table below identifies lettings between 5,000 – 20,000 sq ft.

DATE	PROPERTY	AREA (SQ FT)	ACHIEVED RENTAL VALUE (PSF)	LEASE LENGTH (YEARS)
December 2019	209-215 Blackfriars Road	4,316	£60.00	10
November 2019		4,419	£61.00	5
July 2019	Apex Yard, 29-25 Long Lane	3,573	£40.00	2
June 2019	Chadwick Court, 15 Hatfields	7,058	£58.00	10
February 2019	Coburg House, 44-67 Newington Causeway	5,950	£28.71	10
October 2018	One Valentine Place	6,826	£65.00	2
September 2018	Union House, 182-194 Union Street	4,902	£60.00	10
September 2018	Harling House, 47-51 Great Suffolk Street	8,956	£53.00	5
July 2018	96 Great Suffolk Street	10,291	£25.10 (£53.50 asking)	10
May 2018	1-7 Boundary Row	3,857	£54.28	10
May 2018	Hundred House, 100 Union Street	11,216	£58.50	10
May 2018	3 Marshalsea Road	5,820	£57.50	10
December 2017		1,161	£45.00	5
December 2017	Friars House, 160 Blackfriars Road	23,651	£52.50	10
December 2017	Harling House, 47-51 Great Suffolk Street	8,750	£52.50	10
December 2017	90 Union Street	5,642	£45.00 - £65.00	
03/02/2021	Amelia St	2,385	30.00	10
12/11/2020	120 Webber St	4,316	52.13	

03/08/2020	6-12 Tabard St	8,667	27.79	1
31/03/2020	46-48 Webber St	4,316	45.27	5
23/12/2019	38-40 Glasshill St	2,153		
18/11/2019	40 Rushworth St	2,650	47.50	3
27/09/2019	5-7 Marshalsea Rd	22,339	60.96	10
21/08/2019	149 Blackfriars Rd	2,220		
12/08/2019	83 Crampton St	2,156	11.60	
02/08/2019	6-12 Tabard St	10,796	30.10	1
13/07/2019	29 Long Ln	3,798	40.00	2
04/06/2019	Plantain	2,565	55.00	
17/05/2019	46-48 Webber St	4,316	49.50	2.6

We are of the view that there would not be occupational demand for office space in this location as it does not front Newington Causeway and overlooks an ex-local authority residential estate. Whilst occupiers are becoming increasingly footloose, they are becoming more targeted with their building selection and looking for properties that are the 'right' buildings for them and which will become an extension of their brand.

9. DEVELOPMENT PIPELINE:

There are a number of development sites in and around Elephant & Castle which will provide a lot of office space in superior locations. These include:

ADDRESS	SIZE (SQ FT)	STATUS
Great Suffolk Yards, 127-131 Great Suffolk Street	66,674	In construction
33-38 Rushworth Street	40,000	Construction to commence Q1 2022
Former Walworth Town Hall, Walworth Road	60,000	Construction due to commence
Larcom House, 9 Larcom Street	c.15,000	Future refurbishment
Manor Place Bath House, Manor Place	c.12,000	Due for refurbishment
301-303 Borough High Street	7,701	Under refurbishment
Salvation Army Headquarters, 99-101 Newington Causeway	c.80,000	Redevelopment
TOTAL	c.281,375	

There is over 280,000 sqft of office pipeline in the immediate vicinity to Avonmouth House of which c.80,000 sqft is within a new schemes yet to be confirmed but is in mixed used development. The new scheme is far better located with the potential profile having greater presence on the street scape, will provide for better purpose-built office profile.

The building in the most advanced stage is Great Suffolk Yards, a 66,674 sq ft new office development which is expected to be completed in Q4 2021. Brochure attached in the appendix.

This is a high-grade purpose-built office building, which comprises part new build and part retention of existing warehouse, creating a characterful offering targeting creative occupiers in a more established and desirable office location.

The capital expenditure in this location would be similar to that of Avonmouth House if redeveloped but there is a large differential in the rents and values achievable which impacts on viability. The surrounding local and ex-local authority residential housing to the rear of the site also impacts the values and desirability of this location and will affect potential occupiers' decision making.

40,500 sqft of offices is being proposed at 33-38 Rushworth Street. construction/refurbishment at the beginning of 2022 is within a more established office location and much closer to Southwark Underground station. Southworks at 14-21 Rushworth Street directly opposite has been completed and provides 67,404 sqft is being marketed and all currently available.

The former Walworth Town Hall is to be extensively refurbished by General Projects and will provide 60,000 sqft of creative workspace to the local community. Location is further south of Elephant and Castle on Walworth Road but the quantum of accommodation and different uses of space within this landmark building will attract a different occupier base. The approach to the building fronts onto Walworth Road in an established commercial location with a diverse mix of uses including retail, food & beverage, hotel, residential, student housing and workspace.

Immediately next-door adjoining Walworth Town Hall is Larcom House, an existing office building currently on the market and in need of refurbishment. Currently, 14,427 sqft available to rent.

The availability schedule below shows the high quality office buildings in superior and more established office locations and as highlighted in the market summary, there is an increase in the amount of availability, which is now 860,206 sq ft of space under construction /refurbishment of which 217,000 sq ft has been pre-let leaving 643,206 sq ft of available space to be delivered over the next two years.

10. AVAILABILITY SCHEDULE

Printworks

Unit F - Printworks
Amelia St
London, SE17 3AS
United Kingdom



SF AVAILABILITY

P GRND	2,110
Total	2,110

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£30.00/SF
Rates:	-
Service:	-
Total £:	-

Blackfriars Foundry Annexe

65 Glasshill St
London, SE1 0QR
United Kingdom



SF AVAILABILITY

P 1st	100 - 5,500
Total	100 - 5,500

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Coworking
Rent:	-
Rates:	-
Service:	-
Total £:	-

Blackfriars Foundry Annexe

65 Glasshill St
London, SE1 0QR
United Kingdom



SF AVAILABILITY

GRND	150 - 5,972
Total	150 - 5,972

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Coworking
Rent:	-
Rates:	-
Service:	-
Total £:	-

200 Great Dover St

London, SE1 4YB
United Kingdom



SF AVAILABILITY

P 4th	6,735
Total	6,735

OVERVIEW

Use:	Office
Term:	Thru May 2026
Type:	undefined
Rent:	£55.00/SF
Rates:	£14.74/SF
Service:	£9.21/SF
Total £:	£78.95/SF

93 Great Suffolk St

London, SE1 0BX
United Kingdom



SF AVAILABILITY

P 1st	2,937
Total	2,937

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£55.00/SF
Rates:	£14.48/SF
Service:	£9.70/SF
Total £:	£79.18/SF

Great Suffolk Yard

127-131 Great Suffolk St
London, SE1 1PP
United Kingdom



SF AVAILABILITY

P 5th	2,358
P 4th	7,644
P 3rd	9,168
P 2nd	11,816
P 1st	14,442
P GRND	12,587
P BSMT	1,160
Total	59,175

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£62.50psf
Rates:	-
Service:	-
Total £:	-

Great Suffolk Yard

The Sea Building
127-131 Great Suffolk St
London, SE1 1PP
United Kingdom



SF AVAILABILITY

P 4th	1,147
P 3rd	1,564
P 2nd	1,582
P 1st	1,562
P GRND	1,644
Total	7,499

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£62.50/SF
Rates:	-
Service:	-
Total £:	-

Larcom House - The Larcom

9 Larcom St
London, SE17 1RY
United Kingdom



SF AVAILABILITY

P 2nd	6,191
P 1st	5,116
P GRND	3,120
Total	14,427

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£29.50/SF
Rates:	£3.27 - £19.60/SF
Service:	£6.00/SF
Total £:	£38.77 - £55.10/SF

134 New Kent Rd

London, SE1 6TY



SF AVAILABILITY

GRND	3,951
Total	3,951

OVERVIEW

Use:	Office / Retail
Term:	Negotiable
Type:	Direct
Rent:	£17.21/SF
Rates:	£11.73/SF
Service:	-
Total £:	-

The Signal Building

93 Newington
London, SE1 6BN
United Kingdom



SF AVAILABILITY

P 2nd	2,060
Total	2,060

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£39.00/SF
Rates:	£0.01/SF
Service:	£2.76/SF
Total £:	£41.77/SF

73-75 Newington Causeway

London, SE1 6BD

United Kingdom



SF AVAILABILITY

P 3rd	700
P 2nd	842
P 1st	1,025
P GRND	1,073
Total	3,640

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£32.97/SF
Rates:	£0.98 - £9.76/SF
Service:	-
Total £:	-

Unit 2

Plantain Pl

London, SE1 1YN

United Kingdom



SF AVAILABILITY

P GRND	2,354
Total	2,354

OVERVIEW

Use:	Office
Term:	Thru Apr 2022
Type:	undefined
Rent:	£55.00/SF
Rates:	£13.49/SF
Service:	£2.20/SF
Total £:	£70.69/SF

Colorama

61 Webber St

London, SE1 0RF

United Kingdom



SF AVAILABILITY

1st	8,073
P GRND	1,073
P GRND	1,430
P GRND	3,368
P BSMT	1,172
P BSMT	1,779
P BSMT	2,612
Total	19,507

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£41.76 - £55.12/SF
Rates:	-
Service:	-
Total £:	-

6-12 Tabard St

London, SE1 4JU

United Kingdom



SF AVAILABILITY

P 4th	935
P 3rd	1,537
P 2nd	1,531
P 1st	1,532
P GRND	720
Total	6,255

OVERVIEW

Use:	Office
Term:	Negotiable
Type:	Direct
Rent:	£55-£60
Rates:	-
Service:	-
Total £:	-

11. SUMMARY

The total number of deals over 1,000 sqft over the past 18 months is 120 totalling 830,315 sqft compared to 5 year running average of 143 deals totalling 864,307 sqft.

Of the 120 deals in the last 18 months, only 15 were in Bermondsey and Elephant & Castle equating to 12.5% of the total amount of deals. The running average over a 5-year period is 23 deals out of 143 equating to only 16% of the total deals.

The demand for offices in the core South Bank office market is returning after a turbulent 20 months and there is a flight to quality in key established areas. The secondary and tertiary markets are still slow and being monitored leading to questions whether these markets will return to that of pre-covid.

Along with that the 5-year average for availability across the South Bank is 781,526 sqft sitting at 4% but currently, as of Q3 2021, the availability is 1,467,595 sqft (7.3%). The availability at the same point 12-month prior of 3.6% has doubled. Occupier requirements are increasing seeing some good rents being agreed in the prime parts of the South Bank, but this has not translated down to Elephant & Castle.

There is a market at Elephant & Castle, however with the current pipeline of nearly 300,000 sqft proposed for the area, a policy compliant 47,302 sqft office building in a backland site and isolated and away from other offices, we believe is not viable. Better alternative options are and will be available.