CBRE

Castlewood & Medius House

This supporting document has been prepared by CBRE on behalf of the Applicant (Royal London UK Real Estate Fund) following the grant of Planning Permission 2017/0618/P on site (77-91 and 63-69 New Oxford Street).

ROYAL LONDON
ASSET MANAGEMENT

CBRE

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Marketing Overview

N.B. for the purposes of this Note, the Use Classes referred to reflect the changes introduced on 1st September 2020. It is acknowledged that Classes A1/A3 have now been revoked and now reflect Classes E(a)/E(b).

Introduction

This supporting Note has been prepared by CBRE on behalf of the Applicant (Royal London UK Real Estate Fund) following the grant of Planning Permission 2017/0618/P on site (77-91 and 63-69 New Oxford Street).

Application 2017/0618/P obtained Planning Permission in 2017 for:

"Demolition of existing office building at Castlewood House (Class B1), and erection of an 11 storey office building (Class B1) with retail and restaurant uses (Class A1/A3) at ground floor level; enlargement of existing double basement level and formation of roof terraces and rooftop plant along with associated highways, landscaping, and public realm improvement works. Partial demolition of Medius House with retention of the existing façade, and erection of a two storey roof extension including private roof terraces, in connection with the change of use of the building from office (Class B1) and retail (Class A1) to provide 18 affordable housing units (Class C3) at upper floor levels with retained retail use at ground floor level".

Market Trends

Over the past 5 years, there have been considerable changes in the retail and leisure markets.

The Covid 19 pandemic has, of course, had an unprecedented impact on this sector, changing the rules and thinking of the operators and consumers and their expectations over the next few years and beyond.

In Quarter 2 of 2022, considered to be in the post-covid era, the adaptation and acceptance to change and progress by owners, operators and the Local Authorities is essential to success going forward. Despite a noticeable dip in consumer confidence across the UK during this period, it was anticipated that Central London's performance would continue to improve steadily during 2022. We have seen a roller-coaster response in the market from all sectors.

The success of much of central London retail is directly linked to office workers, as well as foreign and domestic tourism. There has been, as expected, a steady increase in footfall to retail destinations across the country, with the return of office workers and international travel resuming however, numbers have still not bounced back to the level which one would have hoped they would in core London areas. We have seen reports of 80% (Google Mobility Data) of underground tube traffic return on certain days (Tuesday to Thursday) and only 60% on Monday and Friday with the expectation that 'work from home' will continue and that these levels are likely to become the new norm.

Anecdotally, office occupancy in several mid-town/central offices is at only 60% of capacity as of June 2022 (CBRE office research).

Retailers are also facing a very different future. The internet now accounts for just under 30% of total retail sales (according to Retail sales Index (DRSI)) a balance that retailers are addressing by seeking to reduce and reshape their bricks and mortar portfolios and where possible to use lease events to rebase their rents towards lower fixed occupation costs and towards more turnover based commitments. This is also with an eye on the rebasing of Rates in 2023, which is of particular relevance to Central London.

Accordingly, there is little focus on actively pursuing new opportunities other than in a limited number of priority and prime locations; typically, more neighbourhood led or with a mix of a residential and office catchment, e.g. St Johns Wood, Kensington, Marylebone and Kings Road.

Getting the attention of retailers to focus on locations for 2023 remains a challenge due to the amount of quality stock currently on the market at reduced rents. Furthermore, attempting to attract retailers and even restauranteurs to take space in shell and core condition is difficult, given the amount of fitted space available in the market.

Against a backdrop of needing fewer stores, operators are, as stated, also trying to reduce costs within their network. Accordingly, there is a balance that they [retailers and restaurateurs] are trying to weigh up in terms of insisting on being in the most strategically important locations versus securing the best terms. The consequence is a fall in rents even in the most prime locations. The general view is that ERV's have fallen by 15% to as much as 40% , as values are rebased across central London and supply remains relatively high (source CBRE retail).

Further, the retail market remains in a slight hiatus as the rates uncertainty clouds the positives of a return. We do believe the market will bounce back as supply slowly decreases, primarily for Class E(a) retail in a different format, with fewer but more focused stores and locations. This does have further implications for the 'secondary options' in London's West End

The restaurant and food market, however, has shown positive sentiment in the first half of 2022 reflecting the demands of the returning work force. Grab and Go is a competitive market at the present time and the 'restaurant' operators are seeing some very positive signs as customers have shifted their patterns of socialising, drinking and eating to fit the new working days.

New Oxford Street

New Oxford Street is a very central location which has huge potential from an occupier perspective due to its proximity to the major transport hubs, Tottenham Court Road and Holborn.

The development of Post Building, Central St Giles, 10 Bloomsbury Way and the redevelopment of Commonwealth House (One New Oxford Street) has demonstrated the great potential and belief of landlords in the area and the attraction for new office occupiers. The supporting retail infrastructure similarly has a great deal to offer in terms of the invigorated neighbourhood.

In considering the type of retail that can be attracted, consideration is required with regard to the proximity to the 'retail' powerhouses of Oxford Street, Covent Garden and Tottenham Court Road and of course, the likes of Regent Street (albeit over 1 mile away, but only one tube stop) which creates a mismatch in terms of pure retail Class E(a) requirements. Fashion and many Class E(a) retail is driven to these locations and the surrounding streets of Soho, Fitzrovia etc and this will always remain the case. This presents a challenge to emerging areas and it is vital that the balance of new retail in this location draws and retains footfall to this geography.

New Oxford Street is and has always been a very good ‘service’ location in terms of retail for the immediate office population and the main vehicle thoroughfare through to Holborn going East. The area draws very positive footfall from visitors to the British Museum and fringe custom created by Oxford Street and Tottenham Court Road plus the additional land very important local residents of course. It remains a focus for people using the bus interchanges which offer peak hours of pedestrian traffic. The type of retail to support this ‘traffic’ is of course the critical point.

We have undertaken some simplistic analysis of the immediate area for further reference.

Museum street, Great Russell Street and Coptic Street offer small, retail enclaves for the specialist (Class E(a)) gallery, stamp and coin collectors, opticians and eclectic bookstores plus coffee shops reflecting the requirements of the British Museum. On the main new Oxford Street frontages, there are a very limited number of similar Class E(a) retail operators, only Fultons Umbrellas and Joseph Fine Art Gallery as this is generally not suitable or affordable. Historically New Oxford Street points us towards food and beverage.

The location is suited to the restaurant and food operators supporting the office occupiers, hotels and residents. Showrooms such as Infinity motorbikes and Nationwide Bank and Halifax occupy space here but there has been little or no interest from the other occupiers listed above.

The Post Building (developed by Brockton) is a prime example of the need to offer maximum flexibility in planning terms for a new building and reinforces the type of demand for this location. Completed over 2 years ago and has been marketed by a number of advisors. The interest for the principal units is for food, convenience, restaurant and leisure options plus cafes with very limited alternative interest. The Nationwide Bank letting at ground floor was also a result of a requirement of the head office function directly above and the gymnasium One Rebel a reflection of office occupiers’ requirement above. The limited percentage of Class E(b) (33 %) of the whole has hampered the letting of the space during this time plus the timing of delivery was rather unfortunate. Very recent lettings here reinforce the type of demand which are to a new competitive socialising (Virtual reality) operator, subject to planning and a hair salon/academy, Keune.

Similarly, Sun Ventures 1 New Oxford Street attracted food and beverage across the spectrum to fill the 4-ground floor ‘retail’ units. These again reflect the ongoing requirement and balance of users that the area attracts against the backdrop of the competing locations in the West End.

New Oxford Street has 45 stores along its length with 62% of the stores linked to food / restaurants, with 3 hairdressers, 1 Competitive Socialising business (Flight Club) and limited alternative users. Fulton Umbrellas and Joseph Gallery as we have mentioned are the exceptions.

The strength of the New Oxford Street location and type of demand along its length is also demonstrated by the Centre Point lettings to Arcade (run by JKS) and Din Tai Fung as well as supporting operators Pret a Manger and Black Sheep Coffee.

The section of High Holborn from the junction with Kingsway to Flitcroft Street is more of an eclectic mix with circa 51 stores. 12 units are related to food and drink with 5 hotels, 4 banks (of which 2 are vacant). Supporting uses include of course the Shaftesbury Theatre, Post Office, hairdressers/ health and Beauty and Estate Agents.

There is a real opportunity to pull people into this geography and create a really successful and exciting new place in London. RLAM have sought to devise a leasing strategy to complement this ethos, whilst retaining the character of the area and focusing on the benefits to Camden itself.

The Earnshaw will sit amongst a selection of major office buildings and create some fantastic new retail / restaurant accommodation on ground floor fronting New Oxford Street and Bucknall street. The 'ground floor' is an important positioning tool for the office building above and the right supporting uses will assist in the successful leasing of the space to exciting new occupiers into the area, together with an estimated 1,500 staff within the building.

Without doubt the continued demand for high quality food and beverage users will dominate the interest, which can be equally supported by some additional, Class E(a) users, including convenience offers, gym, studios and showroom operators, The opportunity to complement, for example, Centre Point, with a new exciting food quarter in this micro location would add further gravitas to Camden.

We will be looking at encouraging independent brands, where possible, new to Camden, across all the sectors, to consider the accommodation, creating an interesting balance and reinforcing the character of New Oxford Street and the surrounding network of streets linking Covent Garden to Bloomsbury, Soho and Fitzrovia.

Proposed Retail/F&B Uses

Unit 1 (Ground 3,759 sq ft and Basement 4,434 sq ft)	The building and New Oxford Street warrants a flagship restaurant of reasonable scale. This unit offers a corner prominence on both New Oxford Street and Earnshaw as well as impressive adjacent occupier to the entrance of the office building. Typical flagship restaurant typically require in excess of 6,000 sq ft to create a meaningful destination.
Unit 2 (979 sq ft)	Designed to break up the parade and add variety to the street. The most likely tenant for this will be something like an island poke, pure, coco di mama etc but this is not exclusively for grab and go and we can see a retailer here too.
Unit 3 (1,795 sq ft)	Providing shoppers and the community for a place to dwell a little longer. We would imagine the likes of Lina Stores, Pastaio, Joe & The Juice, Elan Café to be the desired type of tenant.
Unit 4 (572 sq ft)	A small prominent unit that lends itself to an A1 use that might suit additional grab and go concepts such as pan nice, little moons and crosstown donuts.
Unit 5 (1,153 sq ft)	Local and independent retailer which could be a nail bar, hair salon or barber. These users are typically more destinational and would be well suited to this unit.
Unit 6 (1,672 sq ft)	A coffee shop that will link with the office lobby, providing both an amenity to office tenants and local residents.

As highlighted in our report, there is a need to continue to grow and support the continued demand and focus from the hospitality and food sector. The opening of the Crossrail Station has already seen a 15 % increase in footfall traffic along Tottenham Court Road (TFL) and the opportunity to encourage dwell time in the location is available with the right balance of operators creating a successful and vibrant New Oxford Street .

Accordingly, the proposals, which seek to secure between 65-70 % of the space as o Class E(b) (food and beverage)/ (Class E) licensed premises is one we would recommend to create a well-balanced and successful scheme for the future reflecting the demands of the local office workers, tourists and residents.

Contacts

STEVEN STEDMAN
Executive Director
+44 7967 697 920
steven.stedman@cbre.com

MARK CALDER
Director
+44 7920 467 615
mark.calder@cbre.com