

# Spotlight Reading

October 2016



Thames Valley Science Park is a new development by the University of Reading that will create a new business community in the Thames Valley. Savills are marketing the scheme.

## SUMMARY

■ Reading is the leading office market in the South East outside Central London and has accounted for more office take-up than any other centre in the region since 1991.

■ As the county town, served by excellent infrastructure and a leading university, it continues to attract a diverse and global occupier base, which is attracted by the availability of skilled staff and high quality office developments.

■ With Central London property costs continuing to rise, Reading offers a significant discount for

comparable quality offices. Reading has and will continue to be a highly compelling proposition for London occupiers seeking a viable alternative.

■ The Reading housing market has outperformed the national average. The average house price in Reading has risen by over 50% from 2011 to 2016. Reading offers value in comparison to neighbouring markets and with employment growth expected in the town, there will be strong demand going forward from house purchasers and investors.

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 “Our examination of the office and residential markets in Reading had shown that the town continues to perform extremely well in both respects, yet still offering good value for money compared to the rest of the South East” Phil Brown, Head of Reading Office  
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→ **Offices**

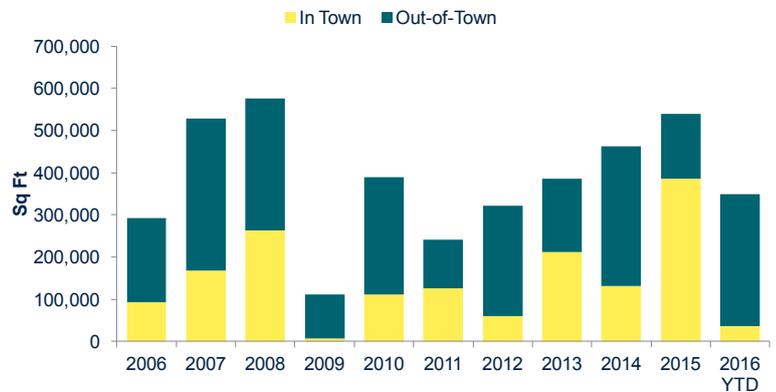
■ The positivity currently encapsulating the Reading office market is evident from annual take-up increasing year on year since 2011. Take-up is expected to exceed the long term average of 385,000 sq ft in 2016 which would represent another healthy year for the market. Interestingly, demand in 2016 has primarily focused on grade A space with 98% of the space transacted grade A. This can be attributed to a change in occupier preference and a reduction in grade B space available.

■ The out-of-town market has accounted for 89% of take-up this year although this figure is slightly skewed as there have been two large deals at Green Park (Bayer and Thales) who let 190,000 sq ft combined. Historically, take-up has predominantly been higher out-of-town as larger buildings have been available on the business parks located on the edge of the town. Between 2011 and 2015 there was only one new building above 50,000 sq ft delivered to the town centre market and consequently there has been a shortage of 50,000 sq ft and above lettings in the town centre in recent years.

■ Supply is currently 1.3 million sq ft. This is 27% below the long term average of 1.8 million sq ft, although grade A supply has marginally increased from 2015. Grade A supply will further increase once the current speculative development achieves practical completion in 2017. There is 478,000 sq ft set to complete across three schemes before the end of 2017. These schemes are all located in the town centre, the largest being 2 Forbury Place where M&G/Bell Hammer are developing 195,000 sq ft. These should appeal to occupiers who until recently were largely forced to focus on the out-of-town market.

■ Developers have responded to the previous lack of large grade A buildings in the town centre; most notably, M&G/Bell Hammer, were justified in speculatively developing 1 Forbury Place (185,000 sq ft) which was let prior to practical completion by SSE in 2015. This was the largest deal the Reading in town market for 25 years. Notable requirements are from occupiers include EY who

GRAPH 1 **Reading In Town vs Out of Town Take-Up**



Graph source: Savills

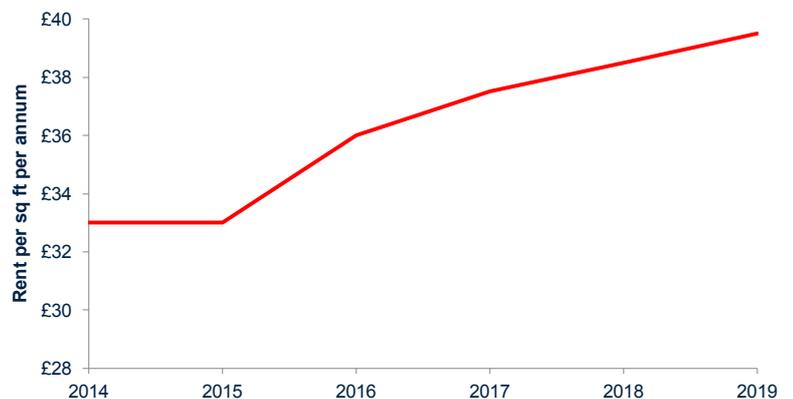
are seeking 60,000 sq ft and Virgin Media who require up to 80,000 sq ft. Cognizant and BDO are also currently searching for space in Reading.

■ Further demand could originate from occupiers based in Central London who are seeking to reduce their property costs. The impending rates revaluation will result in total occupation costs in Central London rising over £100 per sq ft and in prime locations over £200 per sq ft. Reading prime rents currently stand at £34 per sq ft which is a 55% discount on average prime City of London rents and a 69% discount on average prime West End rents. The opportunity to relocate office functions to a cheaper but still high quality workplaces that the new in town developments will provide and may prove attractive to Central London based occupiers. Hammerson moved their back office

functions to Aquis House, Reading in 2014 and Maersk relocated their IT staff to Maidenhead in 2015. We expect this trend to continue.

■ The pharmaceutical and technology business sectors have been the most active in 2016 to date. The pharmaceutical sector has accounted for 25% of take-up in 2016 so far in the Thames Valley, with Thames Valley Science Park set to capitalise on the collaboration between the pharmaceutical and technology sector, further strengthening the pharma-tech cluster. The technology sector is expanding quickly, according to the Tech Nation report by Tech City UK there was 19% employment growth from 2011-2014 in the sector. A new entrant to the market is Cognizant. The multinational IT consultancy firm have decided to open a new office in Reading. They

GRAPH 2 **Reading Prime Rental Growth Forecasts**



Graph source: Savills

previously had no presence in the town and have decided to locate in Reading due to the ability to recruit from the highly skilled labour pool.

■ Prime rents in Reading are set to rise on average 4% per annum to 2019. Record rents are expected to be achieved on the new stock delivered in the town centre. Prime rents are set to reach in excess of £39.50 per sq ft by 2019.

■ The positive sentiment across the wider South East is illustrated in graph 3 below. Capital invested into businesses in the South has increased year-on-year, which bodes well for job creation in the region.

TABLE 1 **Average Sale Price by Local Authority**

Local Authority	Average Sale Price, 12 months to June 2016	Reading Discount/Premium
Windsor & Maidenhead	£561,000	-46%
Guildford	£499,000	-39%
Woking	£443,000	-31%
Bracknell Forest	£354,000	-14%
Reading	£305,000	-
Slough	£289,000	+6%

Table Source: Savills Research using Land Registry

## → Residential

■ Reading has experienced strong price growth over the last decade, outperforming both the South East and wider England & Wales. Yet, it still offers relative value against other similar markets in the region.

■ The area has experienced strong growth over the last 12 to 18 months in particular, with the average sale price in the 12 months to June 2016 standing at £305,000, according to Land Registry. This represents an increase of over 50% since June 2011. However, it still stands below the average price for the South East of £343,000. Indeed, a comparison to other markets in the region that attract similar buyers shows that despite this high rate of growth Reading still offers value for money. It is therefore not surprising that Reading is attracting people from

higher value areas that are looking for affordability alongside good schools, great transport links and a vibrant employment market.

■ Reading's notable rate of growth is due in some respects to its strong employment market, which is a key driver of demand in the area. According to the 2011 census, the largest employment industry within Reading is retail, accounting for 16%, followed by information and communication. This ever expanding sector has made Reading a key area to invest, both commercially and residentially.

■ For buyers purchasing in the prime market, typically the top 10% by value, our analysis shows that 14% of those buying in Reading over the last 5 years were buying for investment. Whilst this

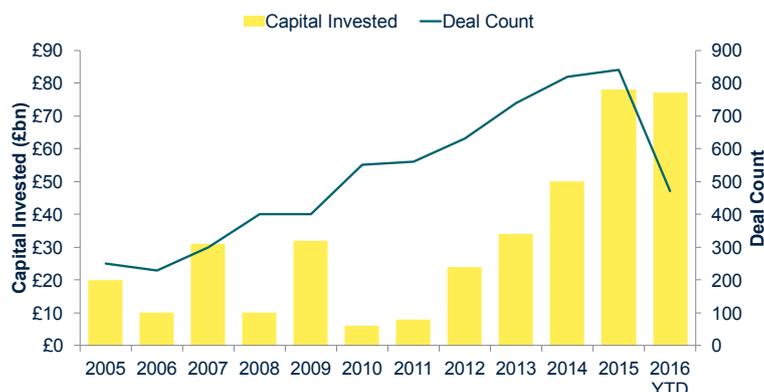
seems a small proportion, it is much higher than the average seen across other prime regional markets of 6% over the same period.

■ The strong employment market is underpinning demand from young professionals in the private rented sector and the tenure of Reading reflects this. Private rented accommodation accounts for 26% of housing compared to just 16% for the rest of the South East. Similarly, there is a much higher proportion of flats in the area than the average for England & Wales.

■ The value of schooling has been instrumental attracting families to Reading. There are currently 20 secondary schools within the local authority, seven of which are independent and two of which are high performing grammars. Though the average price of a detached home in Reading is over £500,000, it offers relative value compared to other family markets in the area such as Windsor and Guildford where detached houses average £920,000 and £795,000 respectively, according to Land Registry.

■ The pull of employment in Reading results in a vast number of people travelling into the town to work, despite its proximity to London. Oxford Economics forecast a 3% rise in total employment in Reading to 2020 which equates to 2,900 new jobs. Whereas office based employment is set to increase by 4% by 2020 according to Oxford Economics which highlights the booming Reading economy. During

GRAPH 3 **South East Corporate Investment Transactions**



Graph source: Pitchbook

2015, Reading station recorded over 16 million entrances and exits. This was only second to Gatwick Airport in stations outside of London. In contrast to this, the affordability of Reading compared to London and improvements such as Crossrail and the Western Rail Link to Heathrow combined with the great access to amenity should further serve to underpin demand in the area from young professionals and present a buying opportunity for investors.

➔ **Outlook: Development and Planning**

Reading is entering a phase in the development cycle where the delivery of new housing will become a significant focus for Reading Borough Council. The Berkshire Strategic Housing Market Assessment (October 2015) has identified the need for housing delivery in Reading and Berkshire to increase significantly. In Reading, the identified housing requirement is more than 30% higher than previously allowed for, with the adjoining local authorities of West Berkshire and Wokingham also having similar increases to address.

With housing supply below identified need it is no surprise that demand for housing in Reading is high. A number of large housing schemes are currently coming forward, such as 630 units at Royal Elm Park being promoted by Reading Football Club and L&Q's scheme for approximately 800 units at the Toys R Us and Homebase site in the centre of Reading. Despite this further housing sites will need to be found to meet the identified need and this may require joint working between Reading, Wokingham Council and West Berkshire Council under the duty to co-operate.

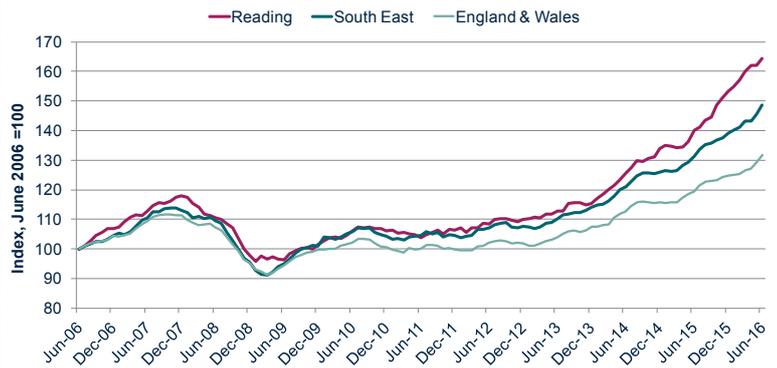
Confidence in the development land market across the Thames Valley (away from London) is undoubtedly strong despite the fallout from the EU referendum. We are currently entering into a 'litmus test' period where a phase of significantly sized parcels across the region are being offered to the housebuilding market for the first time in months.

On the whole the housebuilders are positioning themselves to acquire new consented sites on the back of strong accounts with very little debt to show. Notably numerous developers

have released trading statements over the last month or two displaying sales outside of London, in areas such as the Thames Valley, have barely been affected by the EU referendum. There is a general consensus that it is business as usual.

Although some developers are bidding conditionally on achieving reserved matters consent, most of the major housebuilders are back in the market place in an attempt to fill gaps in their build programmes over the next 12 to 18 months, meaning 'oven ready' land is key. With this demand being high, and the Thames Valley marketplace having a general shortfall in housing as aforementioned, we expect residual land prices to continue steadily increasing.

GRAPH 4 **ONS House Price Index**



Graph source: Savills Research using Land Registry

**Key Data**  
**Offices**

2016 Take-up YTD- 349,231 sq ft  
10 Yr Average Take-Up- 385,000 sq ft  
2016 Current Supply- 1.3 million sq ft  
10 Yr Average- 1.8 million sq ft

Prime Rent- £34.00 per sq ft  
Previous Cycle Peak- £32.50 per sq ft

**Residential**

Average House Price- £305,000  
Average Rental Value- £1,017 pcm

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