



R+



One Reading Central



Station Hill 2

Reading Office Market: Headlines & Trends

- Reading is one of the business locations best placed to avoid the worst effects of the recession according to a recent report by The Centre for Cities.
- Reading continues to attract inward investment and a number of significant projects are well advanced including the £848million improvement to the rail infrastructure at Reading Station, increased capacity at M4 Junction 11 and a new rail station at Green Park.
- The Reading office market proved to be surprisingly resilient in 2008 with total take-up of 397,761 sq ft; despite a decline on the previous year this was still above the 5 and 10 year averages.
- Activity was, however, heavily skewed towards the beginning of the year and the volume of transactions tailed off significantly towards the end of 2008.
- The economic climate and lack of business confidence is inevitably having a depressing effect on demand, as demonstrated by a very slow start to 2009.
- The overall level of office supply has remained relatively static; prime Grade A town centre space remains in limited supply, though significant levels of stock remain on the town's principal business parks.
- Rents held at £28.00 per sq ft in major lettings both in the town centre and out-of-town. An immediate softening in Grade A headline rents is not predicted but pressure will build if current enquiry levels do not improve quickly.
- Tenants' greater bargaining power in 2009 will undoubtedly be reflected in greater lease flexibility and longer rent free periods/incentives.
- Much will depend upon the success of PMB Holding's recently completed iconic tower, The Blade, which has now delivered 108,000 sq ft of new Grade A space into the town centre market.

Welcome to the Spring 2009 edition of our Reading & Thames Valley Office Market News.

Activity has been mixed over the last 12 months but, relatively speaking, Reading has fared well compared to other regional centres; we look at the key statistics for Reading and other Thames Valley locations, reviewing current trends including recent market activity.

For further information, please visit www.readingcommercialproperty.co.uk or our website www.hicksbaker.co.uk.

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Reading Market Commentary May 2009

There is no doubt that the unprecedented events of 2008 mean that 2009 will be a challenging year for all of us. Despite bank bailouts and base rates cut to an all time low of 0.5%, the sharp drop in trading conditions and business confidence means we are in a different, even tougher market this year.

Take-Up Analysis

The Reading office market proved to be surprisingly resilient in 2008, at least in the first three quarters. Total take-up for the year amounted to 397,761 sq ft; whilst down significantly on 2007 (755,143 sq ft – the highest figure since 2001) this exceeds take-up for the 4 years prior and is still higher than Reading's 5 and 10 year average figures.

The timing of Reading office deals in 2008, however, indicated a significant tail off of activity towards the end of the year as businesses began to feel the full impact of the credit crunch. Nearly half of the transactions over 5,000 sq ft were completed in the first 3 months when market activity was dominated by Kier's 153,000 sq ft pre-let to Yell at One Reading Central.

In contrast, only 4 deals were completed in Q4/08 and this lack of momentum has been compounded by a very slow start to the New Year. Only one letting over 5,000 sq ft (Wrigley's acquisition of 8,246 sq ft at Arlington Business Park in January) was completed in Q1/09 and, with only 3 further transactions recorded up until the end of May, take-up for the first 6 months of 2009 is unlikely to exceed 60,000 sq ft. The market is by no means dead but it is clear

that conditions are likely to remain very difficult for the foreseeable future and the decision making 'paralysis' experienced in the Autumn shows no sign of abating.

Availability

Whilst the economic climate is inevitably having a depressing effect on demand, the overall level of office supply has remained relatively static at around 2 million sq ft and there are still shortages in certain market sectors, most notably prime town centre Grade A space. PMB Holdings' iconic tower, The Blade, completed in April and the balance of One Reading Central (63,365 sq ft) will be available in December.

A number of refurbishment projects planned for 2008 were delayed as the impact of tightening credit and increasingly negative sentiment were felt and the only schemes of note to go ahead are Valad's 24,915 sq ft Advantage Reading (completed in March 2009) and Aviva's partial refurbishment at Abbey Gate which was completed in July 2008. As a result, the availability of Grade A town centre space stands at 318,359 sq ft or the equivalent of 10 months' supply; compared with the 5 year average take-up (375,380 sq ft); this can hardly be regarded as oversupply!

The out-of-town market, which fared less well in 2008 with only 6 deals completed over 5,000 sq ft, has not yet seen the significant dumping of surplus office space which had been feared. Grade A stock will only be added to this year by Prudential's two new buildings (of 43,000 sq ft each) at South Oak Way on Green Park, though this in part replaces the 30,727 sq ft let by Goodman at Arlington Business

Reading office transactions over 5,000 sq ft completed in 2008

Occupier	Size sq ft	Building	TC or OOT	Date
Yell	153,000	One Reading Central	TC	Q1/08
Acision	30,727	1430 Lakeview	OOT	Q3/08
SAB Miller	28,800	Bridge Street Plaza	TC	Q4/08
Yell	27,920	Fountain House	TC	Q4/08
Sally Hair & Beauty	23,835	220 Winnersh Triangle	OOT	Q4/08
Network Rail	22,569	Davidson House, Forbury Square	TC	Q1/08
NHS Trust	20,327	Princes House, London Road	TC	Q3/08
Spire Healthcare	15,594	Regents Gate	TC	Q3/08
STSN UK	12,000	2 Bennet Court	OOT	Q1/08
Warranty Direct	11,575	Quadrant House, Broad Street Mall	TC	Q2/08
Buck Consulting	8,316	Pinnacle	TC	Q3/08
IPA Global	7,595	Wellington House, Worton Grange	OOT	Q2/08
West Berkshire Council	7,103	Turnhams Green	OOT	Q4/08
Slipstream	6,500	100 Longwater Avenue	OOT	Q3/08
Provecta Car Plan	5,985	Reading Bridge House	TC	Q1/08
Historic Originals	5,500	Reading Bridge House	TC	Q1/08
SBJ Consultants	5,315	9 Greyfriars Road	TC	Q1/08
First Group	5,100	Abbey Gardens	TC	Q1/08
TOTAL	397,761		Key: TC: Town centre OOT: Business parks	



The Blade



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Park in Theale. Two further buildings remain on the latter's Lakeview phase but there is unlikely to be any further out of town development activity until SEGRO's newest phase at Winnersh including the speculative Building 1020 (89,126 sq ft) which comes on stream at the end of the year.

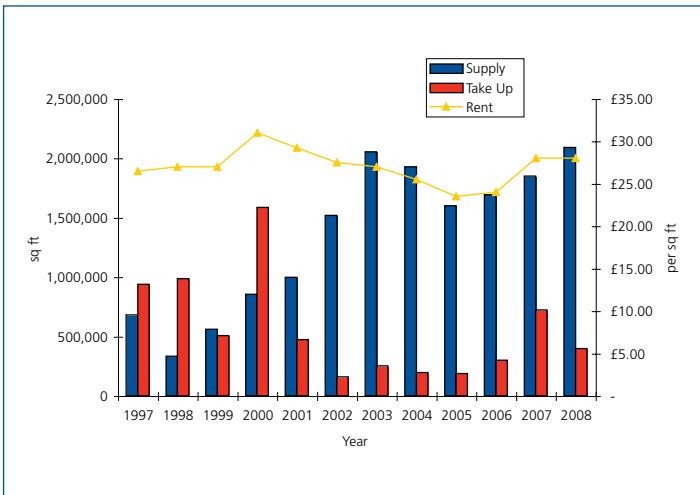
The availability of Cisco's 5 properties at Green Park continues to skew the supply side statistics out-of-town but a more overt approach bringing these buildings out of the 'grey' market and aggressive pricing directed at enticing major occupiers from London and other higher cost locations will hopefully produce results in 2009.

Rental Trends

Reading's relative success compared to most other Thames Valley towns and the continued lack of Grade A town centre stock saw headline rents barely changed during the course of 2008. Yell's pre-let, widely reported at £28.00 per sq ft was matched by Network Rail's acquisition of 22,569 sq ft at Davidson House in January. Out-of-town, Goodman held their nerve to achieve £28.00 per sq ft with the letting to Acision in August; even at Reading Bridge House, LaSalle's refurbished '60s property, rents held up with lettings to Historic Originals and Mace at £24.50 per sq ft, improving on earlier deals in the building.

The health of the leasing market boils down, as ever, to the dynamics of supply and demand. A number of occupiers faced lease expiries or break options last year which were expected to fuel further demand; whilst there were a few

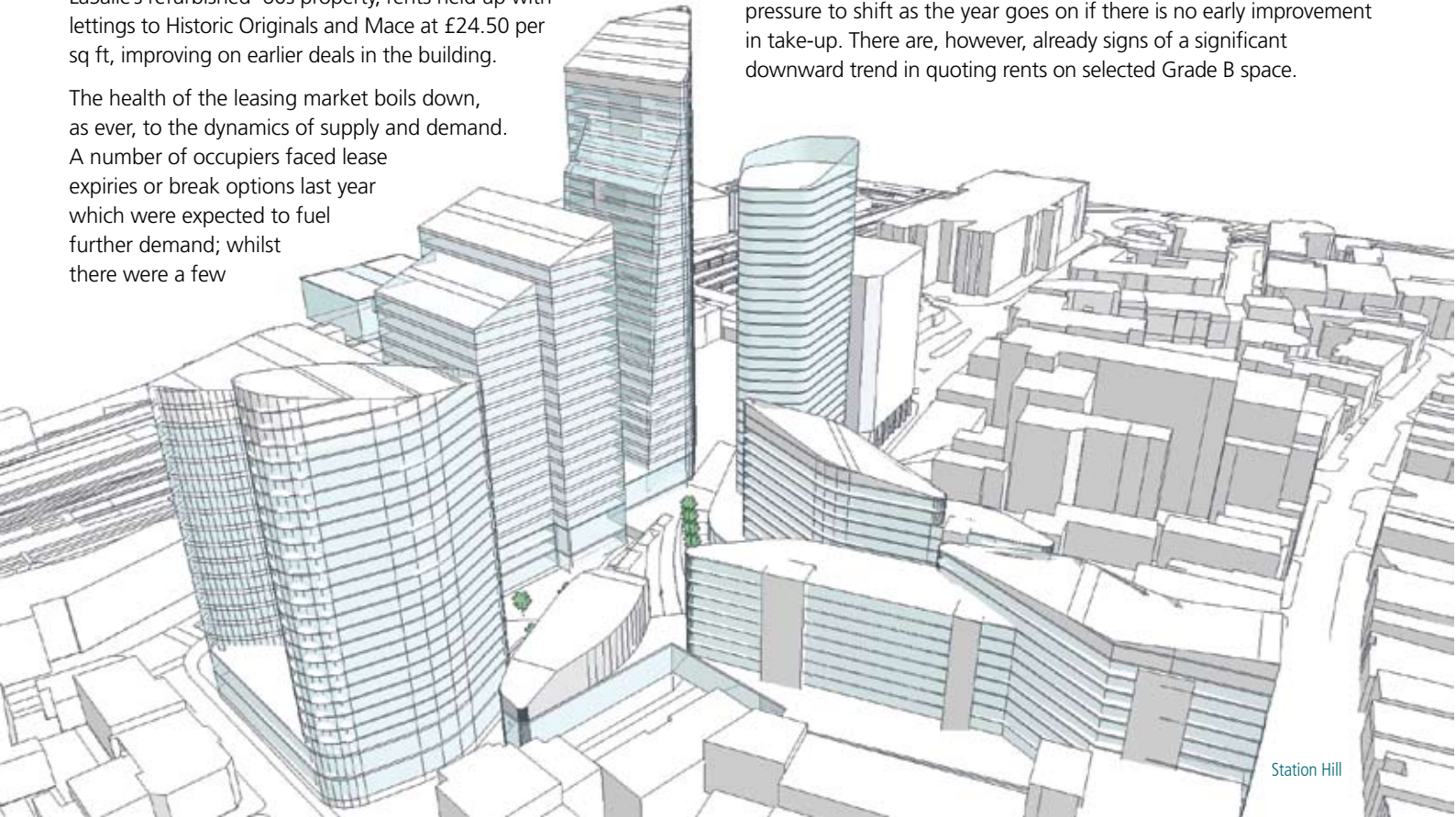
Reading: Key market indicators 1997-2008



exceptions this largely failed to materialise as tenants cautiously took the 'default' option and re-gearred, for example at Apex Plaza where various renewals were agreed at around £27.75 per sq ft. Similar opportunities will arise in 2009 but it remains to be seen if tenants are prepared to exploit favourable market conditions (and potentially achieve substantial savings on their occupational costs) rather than 'play safe' and not move.

Whilst tenants undoubtedly have more bargaining power in 2009, we predict that this will be reflected in greater lease flexibility and longer rent free periods/incentives. However, with over 80% of Grade A town centre office stock controlled by three landlords (Aviva, Kier and PruPIM) we do not expect there to be any significant softening in headline rents.

Similarly the ownership of new offices on the major business parks is limited to three companies (Goodman, SEGRO and PruPIM) who are unlikely to undermine their investment values further by precipitous changes in quoting rents. Despite the dramatic change in sentiment in the 6-9 months we do not anticipate any immediate rental adjustment from this 'cartel' of owners but there will be increasing pressure to shift as the year goes on if there is no early improvement in take-up. There are, however, already signs of a significant downward trend in quoting rents on selected Grade B space.



Station Hill

Development Update

On the development front Sackville, having been granted permission on their massive Station Hill scheme early in 2008, decided to withdraw the application from the subsequent call-in process. Sackville is now focussing on a new scheme incorporating the Friars Walk shopping centre which was a strategic purchase in 2007. The new design proposes to take full advantage of the opportunities to link Station Hill with the Reading Station development, addressing the issues of alignment with a new station entrance and concourse as part of a comprehensive development linking with the main retail area.

Whilst for the time being at least there is likely to be little appetite for further speculative development, pre-leasing opportunities will remain available as developers (for whom doing nothing is not a no-cost option due to holding costs) seek to eliminate as much commercial risk as possible. Reading Council's decision not to ratify their previously stated intention to redevelop the Hosier Street site (which they own) for the new civic offices has given landowners and developers hope that this 100,000 sq ft office requirement might be accommodated elsewhere. This is one of a number of potentially significant pre-lets currently in circulation.

The danger remains that if all future development is choked off due to current negative sentiment, this could leave shortages in the town centre when demand recovers. The most likely candidate for speculative development in anticipation of an upturn by late 2010/ 2011 is Canmoor's scheme on the site of Aldwych House directly opposite Reading Station. Planning permission was granted in December for a new 103,000 sq ft building, to be known as 'R+'; site enabling works have been undertaken and construction could start as early as the autumn.

The Economy & Further Investment

The fiscal stimulus in the Pre-Budget Report looks unlikely to have a big impact and the aggressive reductions in interest rates appear to have had so little effect that there is now much speculation about so-called quantitative easing and other monetary strategies. Nobody can be confident yet as to how long and how deep the recession will be but Pre-Budget Report's forecast that recovery begins on 1 July looks highly optimistic to say the least!

continued overleaf

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'Greater Reading' in this context includes the administrative area of Reading Borough Council (RBC) together with certain outlying areas and business parks that naturally form part of Reading's business core. Most of the business parks fall outside the RBC administrative area.

All take up statistics relate to transactions over 5,000 sq ft unless stated otherwise.

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Reading Market Commentary May 2009 (continued)

If we are resigned to a challenging 2009 (and few commentators would say otherwise), it is much more difficult to predict when market conditions might improve. When asked recently about the state of the market, a luminary in the property industry observed that 'we are one year nearer the end than we were last year'; a glib statement perhaps but indicative of the current economic uncertainty. Each day brings us closer to new growth and there are 'positives' despite the general gloom.

A recent report by The Centre for Cities highlights Reading as one of the business locations best placed to avoid the worst effects of the recession. Whilst major centres such as Belfast, Liverpool and Hull are predicted to be hit hardest, Reading gets a 'green light' and is in the least vulnerable category. Reading is an example of one of the stronger city economies of the South East with a highly qualified workforce. The report suggests that 'their profusion of knowledge industries is not immune to job losses but [they] are likely to be less exposed and better placed to recover more quickly'.

Reading continues to attract inward investment and a number of significant projects are well advanced including the £450million improvement to the rail infrastructure which will include the upgrading of track and platforms at Reading Station and the grade separation of passenger and freight services. This will increase the capacity of this key section of the western main line and eliminate 'bottleneck' delays that have built up over the years.

The city centre will benefit from a further £2million of new investment over the next 5 years after businesses decided to back a new and enlarged Business Improvement District (BID) championed by Reading UK CIC and the local Council. Work has also started on the enlargement of Junction 11 on the M4 motorway, as has the new rail station at GreenPark which will be operational in 2010.

Thames Valley Overview

Thames Valley Office Market 2008 – Comparative performance of key towns

Town	Office take-up 2008 sq ft* (2007 figures in brackets)	Largest single transaction	Size sq ft	Occupier	Rent achieved (before incentives)**
Slough	103,950 (341,000)	Capital Point, Bath Road	29,488	Lego UK	£24.50
M Maidenhead	180,000 (200,000)	Q2, Quantum, Norden Road	53,584	Biogen Idec	£32.50
Bracknell	217,000 (53,000)	Milbanke Court, Western Road	50,454	Cable & Wireless	£25.00
Wokingham	47,720 (42,220)	Crowthorne House	14,800	Romans	£22.50
Reading	397,761 (755,143)	One Reading Central	153,000	Yell	£28.00
Newbury	N/A	St.Catherine's House	12,600	Taylor Woodrow	£17.50

Source: Other agents & published data * Qualification criteria may vary ** Rent shown does not necessarily apply to largest recorded transaction



The Reading Development & Investment Review

The *Reading Development & Investment Review 2009* provides the latest comprehensive information on Reading's demographics and economic characteristics, planning and transport infrastructure and detailed analysis of all commercial property sectors.

Fully updated for 2009, the latest edition of RDIR will be published in June.

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