

MARKET ON PAUSE

BUT IT'S NOTHING TO DO WITH THE ELECTION

The Reading office market continues to see steady, if unspectacular, activity in the second quarter of 2017. After a modest start to the year in which only 82,000 sq. ft. was transacted in Q1, the 3 month period to June shows little change of pace although there is the prospect of further deals on the horizon.

Town Centre

The most notable event in the market over the last period has been the completion of the much heralded Thames Tower development which reached practical completion in April. This has enabled a number of negotiations to come to fruition. Austin Fraser's and HSBC's acquisitions of the 11th floor and part of the 7th floor respectively have been quickly followed by BDO's signature on the 14,040 sq. ft. 12th floor. Hicks Baker advised BDO in this transaction.

At the time of writing, Austin Fraser and BDO represent the two largest office transactions in Reading town centre so far this year, closely followed by Workday's recently announced acquisition of 13,315 sq. ft. at The White Building on Kings Road.

As a result of the latest development cycle, approximately 850,000 sq. ft. of new Grade A office stock in the Reading office market has been delivered within the last 6 months or is under construction. Whilst there is momentum on some buildings, deals have proved more difficult on others and this is reflected in market sentiment which sums up activity as 'patchy'.

At Thames Tower, the developers Landid and Brockton have also secured pre-lets for their ground floor A3/retail space, with Pret and Kupp gearing up to open for business in the next few months. The White Building on Kings Road has also seen good activity with the Workday deal adding to transactions with Carbon Black (5,400 sq.ft.) and previously reported lettings to Herjacvec, Pharmacosmos and Work.Life. The only other transaction of note in the town centre has been the letting of 12,567 sq. ft. at R+ to Macquarie Bank.

Rents in the town centre are nevertheless holding up well; headline figures before incentives range from £34.00 to £37.00 per sq. ft. at Thames Tower, £33.00-£35.00 per sq. ft. at The White Building and £36.00 per sq. ft. at R+.

Out of Town

The out-of-town market takes the prize for the largest office deal so far, with Nokia signing on 33,000 sq. ft. at The Hive in Theale at a reported rent of £27.50 per sq. ft. However, volumes generally have been lower on the out of town business parks, with only 2 further deals at Green Park in the 6,500 sq. ft. to 8,000 sq. ft. bracket.

A number of trends has emerged

1. The buildings with real 'momentum' in the market are those finished with exposed services. This is now on trend, not only for IT and media sector businesses but also to professional and financial services companies such as BDO and the banks. Thames Tower and The White Building both offer this style of finish and this has also been replicated on a smaller scale at Forbury Works and One Valpy Street.
2. There is a definite trend towards greater workplace flexibility and Reading is attracting more providers of serviced/managed offices and co-working space. Chadwick Business Centres acquired the vacant 20,398 sq. ft. 40 Caversham Road building and are currently fitting-out to commence operation in July. Similar co-working space is being provided as part of the offer at The White Building; Landid and Brockton have similar aspirations for at least one floor at Thames Tower. It is also widely rumoured that Regus will shortly sign up on a significant amount of space in the town centre to launch its' new Spasis co-working concept.
3. There continues to be substantial funds available for the purchase of older office buildings for conversion to residential, either with the benefit of a full planning consent, or under Permitted Development Rights. Hicks Baker sold 300 Kings Road, a largely vacant 33,000 sq. ft. building on an unconditionally basis in under 6 weeks. Similarly, Clarendon House, an 18,000 sq. ft. office building on Kings Road has recently sold at nearly double the guide price after generating a huge response – a reported total of 45 bids!
4. Finally, returning to the occupier market, the current shift towards smaller lettings shows no sign of abating. Apart from the Nokia deal and a limited number of negotiations in the pipeline, the dearth of major requirements from corporates is marked and this reflects a generally more cautious approach which may trickle down to SMEs with more modest requirements. With the UK Election regarded by many as a foregone conclusion, this is not, in our view, a factor slowing the market down. There are, however, greater economic uncertainties which may suppress any radical upturn in office take-up figures in the second half of the year.

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