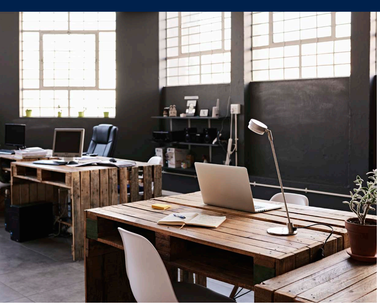
Reading Office Market 2022 Review

Subdued levels of market activity in 2022 look set to continue for the first half of 2023 but the prospect of a several major deals and pre-lets in the pipelines bodes well for increased optimism later in the year.



In the Greater Reading area, defined as Reading town centre plus the major business parks on the M4 Junctions at 10, 11 & 12, a total of 329,108 sq ft of office space was let or sold in 2022 of which transactions of over of 5,000 sq ft (the threshold we use to monitor long term market trends) contributed 225,432 sq ft. Putting this level of activity into its historical context (and comparing on a like-for-like basis), this is significantly down on the longer term (5 year) average of approximately 425,000 sq ft. and is only 62% of the previous year's take up (2021: 387,384 sq ft).

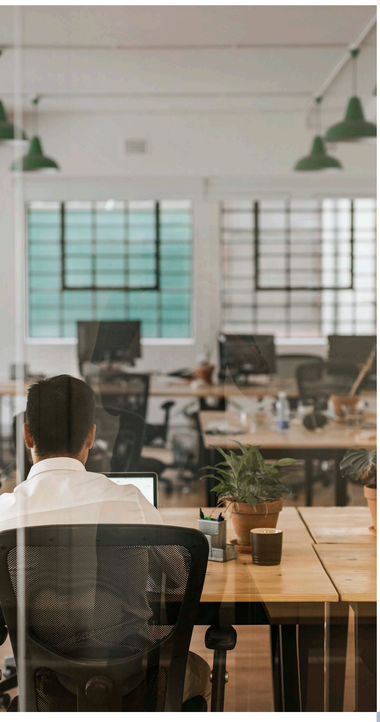
In 2022 the market was well balanced between the town centre and out-of-town sub-sectors with 51.5% of lettings taking place in and around the station and 48.5% of deals on business parks. Also noticeable last year was the lack of major transactions such as those seen in previous years to the likes of Three, Virgin Media and Amazon. The largest deals achieved in 2022 were relatively modest; to HMCTS in the town centre (The Carbon Building) and to Huawei out-of-town (Earley East on Thames Valley Park), at 27,407 sq ft and 33,451 sq ft respectively.

Demand compromised by economic headwinds and weaker business confidence

Ongoing economic and political uncertainties have been reflected in the recent performance of the Reading office market. The impact of the cost-of-living crisis, high inflation, increasing interest rates and declining confidence across many business sectors all continue to weigh heavily on the UK economy which still remains (technically at least) on the brink of recession. Whilst some indicators point to some improvement in business sentiment, few commentators expect a swift turnaround and the market is in urgent need of more positive economic news.

Hybrid working patterns have become the norm post-pandemic, although the interpretation of what constitutes 'hybrid' varies across different business sectors. Organisations continue to grapple with the impact of under-utilisation of office space, flexible working practices and how best to offer dynamic and attractive workspaces to encourage employees to spend more time in the office. Several key themes are, however, emerging as a result.





'Flight to quality' will push rents forward

Firstly, the trend of steady rental growth for top quality Grade A office space in prime locations (both town centre and on the best business parks) looks set to continue. Despite pressure on margins, many occupiers are adopting a 'flight to quality' approach when acquiring office space as part of a wider strategy designed to entice their staff back into the office. Some occupiers are prepared to pay a premium for best-in-class space offering strong amenities, ESG credentials and a stimulating working environment for staff, and new record headline rents were achieved in 2022 in key South-East towns such as Windsor. This trend is expected to be put to the test in Reading this year at various key schemes; in the town centre, for example, Lincoln/MGT will be targeting rents in the mid to high £40s per sq ft at their Station Hill scheme where Building One (225,000 sq ft) is already under construction.

Cat A+ offer now widely available as key feature of Reading office market

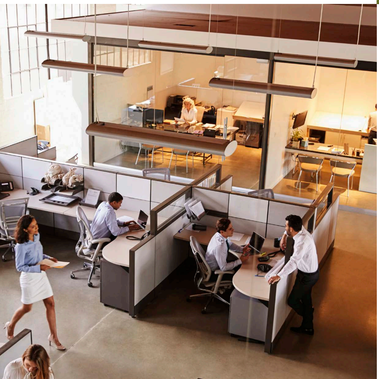
Secondly, with occupiers increasingly looking for smaller and more flexible space, the pattern of landlord/developers offering smaller suites in properties that would previously have been targeted towards a 'whole building' tenant, or lettings of large floors, is also set to continue. Many landlords have developed fully-fitted 'Cat A+' space as a key component to their range of options, designed to attract occupiers looking to avoid the substantial capex costs that would otherwise be involved in a relocation and fit-out project (albeit typically at the expense of a higher headline rent and reduced market incentives). In addition to the larger deals referred to earlier, an additional 103,676 sq ft was let in the sub-5,000 sq ft size bracket; of the 27 transactions for top grade space reported in this sub-market, 70% (19 deals) were for Cat A+ fully fitted accommodation.

This trend is therefore well established in the Reading market, with Cat A+ product on offer from the likes of L&G, Northwood and Abrdn in the town centre, as well as in various out-of-town schemes such as 'Here' and 'Now', the Campus development and at Theale. At Green Park, for example, all 5 lettings reported in 2022 (the largest of which was only 5,357 sq ft), were for Cat A+ delivered either by the landlord or where the incoming occupier 'inherited' a previous tenant's fit-out; there was a similar pattern at Arlington Business Park, where 6 of the reported 7 lettings were for fully-fitted space.

No new development starts as pipeline remains limited

Out-of-town, the 'Here and 'Now' buildings (totaling approximately 145,000 sq ft) were recently delivered at Thames Valley Park and the substantial refurbishment of the Campus scheme at Junction 11 (180,000 sq ft) was completed last September. However, apart from One Station Hill, no new 'starts' are anticipated during 2023. Development pipeline is likely to remain subdued as developers grapple with escalating construction and funding costs in addition to market uncertainty.





Potential major pre-lets should boost take-up later in the year

We remain positive despite predicting an uncertain outlook for the Reading office market for at least the first half of 2023. Notwithstanding current economic headwinds the underlying credentials for Reading and the Thames Valley as a business location remain strong, with headline rental levels holding firm and in some cases even increasing for best-in-class office space. There are several current potential pre-lets in the market including Visa's 75,000 sq ft search which is widely reported to have narrowed to a shortlist of 2 options at Station Hill and 'Here' at Thames Valley Park. Lonza, the Swiss pharmaceutical group currently based in Slough, is believed to be focussed on 2 out-of-town options for its 300,000+ sq ft requirement and two further major local occupiers, Wood Group and Microsoft, are also in the market. If any of these requirements comes to fruition, it is likely that a new benchmark rental level will be set for Grade A space in Reading. However, as a result there will be an ever-widening disparity between the best buildings and off-pitch, older office stock or buildings which fall short of the highest environmental standards increasingly sought after by a more limited pool of discerning tenants. Stock selection for investors will therefore become even more important.

For further information, please contact Stephen Head or Dominic Faires.

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