

Reading: positioned for growth





Reading is set for growth

With a growing population and strong connecting links to the capital, the Berkshire town is one of the South East's key residential and commercial markets

Despite being passed over again in 2022 in its bid for city status, Reading continues to operate as one of the key residential and commercial markets in the South East. Its population is projected to reach over 165,000 people by 2030, while continued strength in IT and communications industries is expected to drive economic growth over the next decade well above the UK average.

Economic strengths

Employment in Reading is forecast to grow by 14% by the end of the decade according to Oxford Economics. The town's economy is dominated by the Professional, Scientific and Tech, and Information and Communication sectors, with a combined GVA of £3.3 billion. These sectors are anticipated to continue to expand, with the EY Regional Economic forecast predicting that Reading will be the fastest growing location in the country between 2024 and 2026.

The chronic lack of available lab space across the London-Oxford-Cambridge 'golden triangle', with the vacancy rate

currently standing at 7% in Oxford and below 1% in Cambridge, provides the opportunity for Reading to capitalise on the expansion of the science sector. Reading has historically attracted the major life science companies, including Bayer at Green Park, albeit mostly with a HQ office function rather than R&D. However, there has been increasing interest from major global life science companies for a presence in Reading with R&D functions, likely to be focused on edge of town locations like Thames Valley Science Park and Green Park. Reading's position equidistant between Oxford and London will attract occupiers struggling to satisfy their real estate requirements in those markets.

The film and television industry is continuing to expand, with combined spend by film and high-end television (HETV) production reaching £6.27 billion in 2022 according to the British Film Institute (BFI), which was the highest level ever recorded for the UK. Reading's presence within the sector is continuing to grow, highlighted by the cluster of new film studios opening in or close to the town. Shinfield Studios,



located at the Thames Valley Science Park, will comprise just under one million sq ft of studio space alongside a bespoke office environment with post production facilities.

The partnership with the University of Reading and Wokingham Borough Council will boost employment and engagement opportunities, which will strengthen the future talent pool for the sector. Stage Fifty are opening their second film studio in the UK at Winnersh Triangle Business Park. This comprises of 120,000 sq ft of studio space, 25,000 sq ft of office space and 50,000 sq ft of workshops.

The technology industry continues to be a key growth sector in Reading, highlighted by the sector acquiring the highest quantum of office space in the Reading market in 2022, leasing a total of 121,000 sq ft, over half of Reading's office take-up. Reading's technology cluster has attracted new inward movers, with 80% of new entrants to the town being occupiers from this sector. Amazon opened a new office at 400 Brook Drive, Green Park where they leased 49,000 sq ft, adding to the cluster of both SME and multinational technology occupiers already based there. There has also been expansion of demand from existing occupiers. The cyber security company Rapid7 leased 22,600 sq ft at 2 Forbury Place, nearly doubling the space they previously occupied at Arlington Business Park. The relocation and expansion was driven by business growth as they look to become more dominant in the UK market.

Reading is not necessarily a location synonymous with venture capital (VC) funded companies. In the decade, up to and including 2020, Reading recorded an annual average of £34m of VC raised by companies that are headquartered in the town. For 2021/2022 period, this average was £105m – over 210% higher than the long-run average. Around 50 companies had a VC fundraise in this two-year period with the dominant sub-sector being software.

Changing structure

The population of Reading is forecast to grow by 0.7% over the next ten years, below the average projected growth for England. However, the changing structure of the population will pose some interesting challenges for the town. The 15-24 age band is projected to become the largest population group by 2033, accounting for over 17% of the population. Much of this growth is expected to be driven by those in their early twenties, reflecting Reading's strength both in higher education, and as a destination for graduate employment. Strong growth of 3.2% is also expected in the over 65-age group, suggesting potential growing demand for downsizer properties.

In contrast, the population aged between 25 and 50 is set to drop by 4.8% over the next ten years. Combined with a drop in

under 15s over the same period, this suggests that Reading is becoming a less attractive location for families. A driver of this change may be the increasing unaffordability of the area for homeowners, with the latest average house price to income ratio at a high of 9.41.

An educated workforce

Much of Reading's economic strength is based on its strong graduate employment. The University of Reading has developed global expertise in areas including climate science, agriculture and food science, and has an undergraduate population of 12,500. Reading retained around 8% of the graduates of the university in 2021, a relatively low proportion compared to other locations in the South East.

However, it successfully attracts graduates who have studied elsewhere; 30% of graduates working in the town are those originally from Reading who moved back after their studies, and 50% both lived and studied elsewhere before being drawn to the town by job opportunities. Maintaining a strong pool of graduates will be important to the town's ability to continue attracting high quality commercial occupiers, particularly in the tech sector.

The return of connectivity

After two years of disruption to commuting patterns by lockdowns and work from home requirements, Reading is starting to once again feel the benefits of its strong transport links to London. Office for Road and Rail data for the year to March 2022 showed that the number of passengers using Reading station was up by 198% against the 2020-2021 figures, although still some way down from pre-pandemic passenger volumes.

Reading's connectivity has been further improved by the opening of the Elizabeth Line in 2022. The line provides an additional five services per hour into central London, offers a direct link to the City and Canary Wharf, and improves journey times from Twyford and Maidenhead by around 10 minutes. Early indicators of passenger demand have been almost double TfL's initial projections, suggesting that the line will act as another strong attraction for people looking to live and work in Reading.

Finally, connectivity across Reading will be enhanced by the opening of Green Park station to the south of town this year. The new station is expected to ease congestion on the A33, and enable further commercial and residential development in the area.

In the pipeline

Redevelopment around the station will act as a catalyst for town centre regeneration

Reading is the largest office centre in the Greater London and South East office market and has historically experienced the strongest levels of occupier demand in the region. The town has excellent transport links and has a strong provision of retail and leisure amenities, and a varied residential stock, which have helped attract and retain occupiers. Reading has the highest quantum of available Grade A office space compared to other South East submarkets which has enabled the growth of the local economy.

The occupier preference in the market is for Grade A office space, evidenced by 83% of total take-up in 2022 being for best-in-class space. Reading has an established town centre and out-of-town market that have attracted different cohorts of occupiers. The out-of-town market has historically appealed to multinational technology firms, with the town centre having a more diverse range of tenants with a strong presence of financial and professional services.

Prime central office space

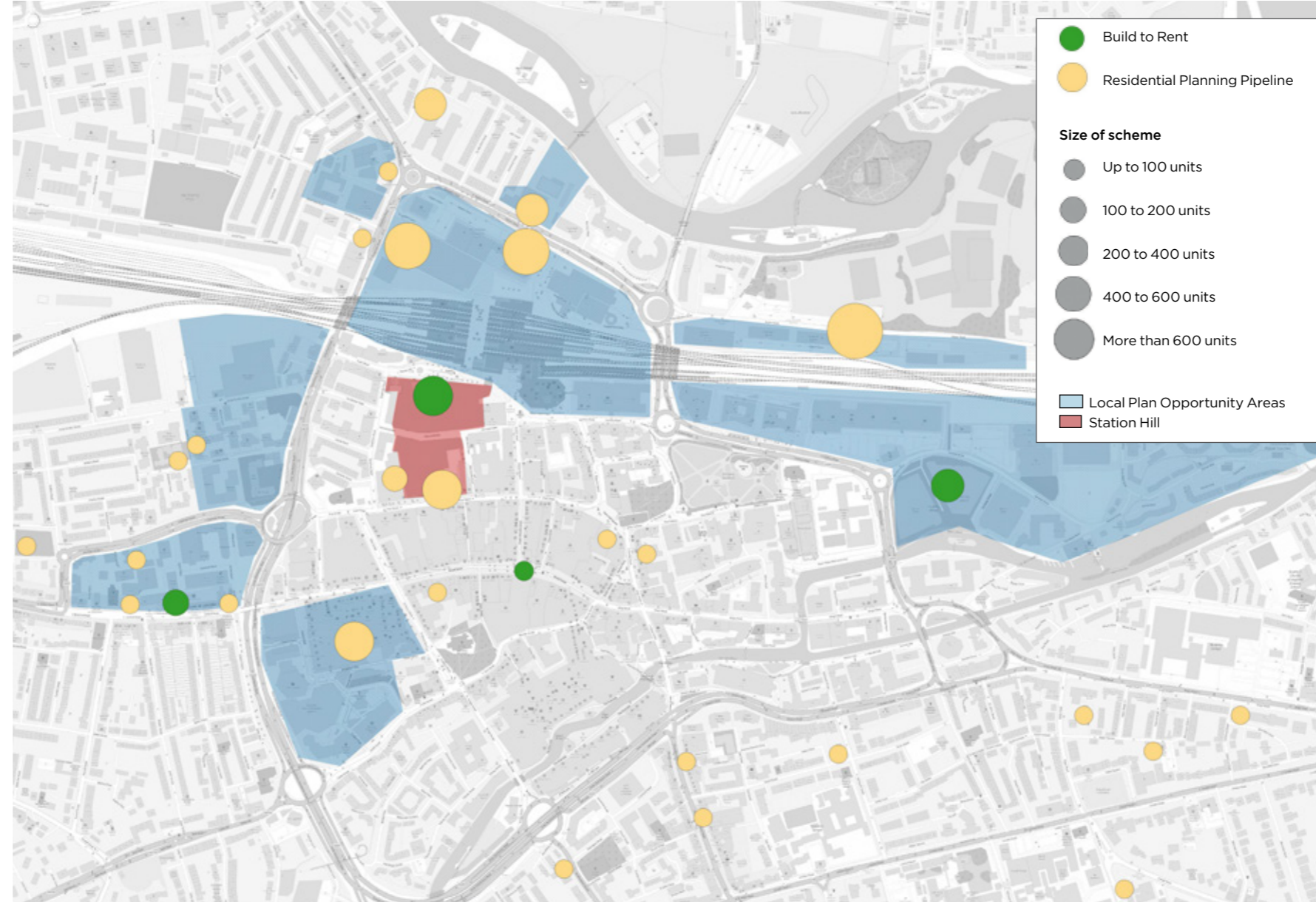
The most notable development in Reading town centre is Station Hill, which is located immediately adjacent to Reading train station and is a leading mixed-use development in the South East and regional office market. This mixed-used development will provide new contemporary living, working and leisure environments intertwined with open community space. One Station Hill is currently being speculatively developed by Lincoln Property Company and MGT Investment Management and comprises 276,000 sq ft of Prime Grade A office space, completing by early 2024.

This new development will help cater for the growing demand from occupiers for best-in-class office space. The scheme is expected to set a new headline record high rent for the Reading office market with a rent in excess of £40 per sq ft. This is a new rental tone we are seeing being set across the South East market, with Windsor and St Albans both achieving rents above £40 per sq ft and Maidenhead expected to surpass this level in 2023. Furthermore, occupiers are less rent sensitive with 11 submarkets achieving record high headline rents in 2022.

New developments in Reading town centre have been able to attract new inward movers to the town, which bodes well for future take-up levels. This was exemplified by Thames Tower that completed in 2017, comprised of 185,000 sq ft, and attracted seven inward movers to Reading. Demand in the office market is becoming increasingly polarised, with schemes that can adhere to high environmental requirements and offer multiple amenities set to outperform. Station Hill can benefit from this market trend.

Aside from Station Hill there is limited other new town centre office supply coming forward. Another office phase of Station Hill will be the next scheme likely to be speculatively developed.

Figure 1 Central Reading Development Pipeline



Source: Glenigan, Reading BC, Savills Build to Rent database

The role of Build to Rent

Alongside the commercial pipeline, residential development has an important role to play in the regeneration of the town centre. The Local Plan suggests that by 2036 central Reading will accommodate around 6,400 new homes. While much of the central residential supply in the 2010's was delivered through office to residential conversions, the pipeline has shifted to purpose built stock, much of which is focused on the rental market.

The residential pipeline for Reading currently totals over 8,800 units, with over half of those homes to be delivered in

central Reading. 21% of the central Reading pipeline is currently under construction, with the remainder in the planning process. 1,150 homes will be delivered as purpose built rental stock, all located in the town centre. Over 800 of these rental units are already under construction, including the scheme at Station Hill, which will provide a crucial anchor to the redevelopment of the area around the station itself.

While this will provide a significant addition to Reading's rental stock, previous market trends suggests that there is the capacity to absorb this level of delivery. 48% of movers to

Reading in 2020-2021 entered the private rental sector, and over 53% of movers aged under 30 were renters. Rents have increased by 10.2% in the year to November 2022, above the South East average of 8.9%, as demand exceeded new supply.

However, pricing will be key for future absorption. The average graduate salary in Reading is £27-30,000, meaning a monthly rent of £750-£850 per person is affordable for this part of the market, while the 42% of movers to the town earning between £40,000-60,000, can afford rents of £1100 - £1,650 pcm.

The importance of sustainability

Sustainability and energy efficiency is becoming an ever more important consideration for development, and is a key point of differentiation for new build against existing stock.

The 2019 Reading Local Plan requires all new residential developments of ten or more homes to be built to zero carbon standards if possible, or if not possible, achieve a 35% or greater reduction in emissions compared to minimum UK standards. Since the introduction of this planning policy, over 1,200 homes which will conform to the zero-carbon policy have gained consent in Reading.

While this will add extra costs for developers, there are emerging signs that home buyers are placing greater value on the energy performance of their property; a survey of Savills applicants showed that 30% would be willing to pay a premium of at least 5% for a property powered largely by renewable sources. Corporate occupiers are also increasingly seeking energy efficient space, and a shortage of suitable space in the existing stock is driving demand for new 'prime green' offices. However, given the lack of new central commercial supply, retrofitted offices will become an increasingly important part of the market.

Supply matters

Reading has reached its housebuilding targets in three of the past five years, but a shortage of development land could provide challenges

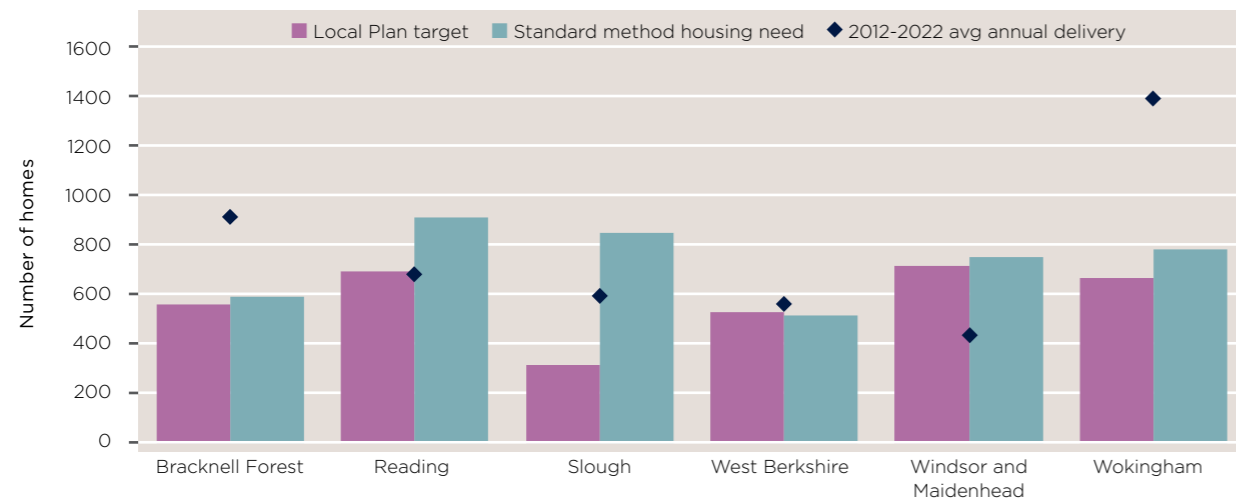
To maintain Reading's economic potential, and to continue to attract commercial occupiers and a highly qualified workforce, Reading and the surrounding areas have to provide more homes across a range of price points and tenures.

Reading itself has performed relatively well, building more homes than the Local Plan annual target of 689 in all three of the last five years. However, the adopted target is over 200 homes short of the standard method for calculating housing need figure

for Reading. Consequently, housing need that can't be met in Reading should be delivered in the surrounding local authorities.

This approach has been successful over the past five years. Average annual net additional dwellings across Berkshire has exceeded the combined standard method housing need figure. However, as shown in the chart, this has largely been possible thanks to high volumes of housebuilding well in excess of target in Wokingham.

Figure 2 Delivery against target



Source: DLUHC, Savills Planning Database

However, it is unlikely that Reading will be able to rely on supply elsewhere in Berkshire in the future. While Reading Borough has a stated land supply of seven years (based on the lower local plan target), both Bracknell Forest and Slough have a stated land supply of less than five years. Wokingham has a land supply of 5.1 years, but this figure is based on a Local Plan target that is -15% below the standard method need figure. Furthermore, the current NPPF reform consultation is proposing to remove the Duty to Co-operate.

Across the county, the housing targets that are being planned for are equivalent to only 78% of actual housing need. Failing to identify enough land to accommodate the homes that the area needs poses a significant risk to future economic growth; without sufficient housing at the right price points Reading risks becoming less attractive to both employees and commercial occupiers. Reading is embarking on a partial review of the Local Plan, which presents the opportunity to tackle these issues. The review particularly highlights the need for larger family homes, which currently only make up 18% of all housebuilding in the town, as a consequence of the current town centre focused approach. The process will look at housing densities, and review almost all of the existing allocations, but has not gone as far as re-examining the Tall Buildings policy.

The shortage of land coming forward for development has fed into upwards pressure on land values. Between September 2020 and September 2022, greenfield land values in Berkshire grew by 11% according to the Savills Development Land Index. There was a slight fall in values in Q4 2022 in response to the wider slowdown in the housing market, but in the medium term, given the shortage of new sites coming forward, values for the best located sites with a good planning consent will remain robust.

Figure 3 Land Supply targets

Area	Land Supply (Years)
Bracknell Forest	4.4
West Berkshire	6.4
Reading	7.0
Slough	2.1
Windsor and Maidenhead	5.9
Wokingham	5.1

Source: DLUHC, Savills Planning Database

A changing market

With strong appetite from downsizers and investors, Reading is well placed to adjust to the end of Help to Buy

There is huge variation in the new build market across Berkshire, with new build sales since 2020 ranging from flats in Bracknell and Slough selling for under £250,000, to prime new build around Windsor and Maidenhead achieving values in excess of £1.5 million.

Delivery across the county has been split fairly evenly between flats and houses, but in the town of Reading itself, apartment schemes have dominated, accounting for 89% of sales since 2020. Consequently, families make up a very small proportion of buyers in the new build market. The largest age group of buyers are 31-35 year olds, predominately two adult households with no children.

31% of new build buyers in Reading are downsizers according to Savills dealbook data, compared to 14% across the whole of Berkshire. As this buyer group are less dependent on mortgage finance, the Reading market should therefore remain more robust, despite the current market headwinds. The town has also proven to be an attractive proposition for investors, who comprise 34% of all buyers.

Almost 70% of buyers in Reading are already based in the town, or move from elsewhere in Berkshire. The next largest buyer group by origin location are those moving from London, accounting for 12% of buyers. These are often first time buyers, attracted to Reading by its higher level of affordability compared to London, but still offering good transport links suitable for commuting to the capital.

The town also proves attractive to overseas buyers, primarily moving to London and

Berkshire for work, but choosing Reading for its price point and lifestyle offering. Reading has proven to be a popular choice with BN(O) passport holders moving from Hong Kong, drawn by a well established community of former Hong Kong residents. Savills dealbook data also shows high levels of activity from buyers in the Middle East and China.

Adapting after Help to Buy

With the Help to Buy scheme now closed, a key challenge for all new build developers is how to adapt to a market without Government support. Since the start of the scheme in 2013, Help to Buy supported 747 new build sales in Reading, of which only 30 were not to first time buyers. In 2020, Help to Buy was used in over 60% of all new build transactions in Reading, but usage of the scheme had dropped by 44% by 2022, suggesting that many developers have already adjusted the type of homes they are building.

The continued strength of the downsizer market in Reading, to whom the Help to Buy scheme already closed in 2021, suggests that the end of the scheme shouldn't cause too much disruption to new build sales volumes. However, some tenure diversification might be needed for the first time buyer market. As mentioned on page 5, there is strong potential for purpose built rental stock aimed at this demographic. Shared Ownership, which in 2021/22 only amounted to 6% of supply, is likely to also be an attractive option for those who would have otherwise used Help to Buy.



Market monitor

Key statistics for the Reading market

663 sq ft

Average new build size in Reading:

90%

of new build sales since 2020 have been 1 or 2 bedroom properties

12%

of new build buyers are moving from London

34%

of new build buyers are investors

31%

of new build buyers are downsizing

20%

of new build buyers are aged over 60



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