

Commercial edge Oxfordshire

Oxfordshire has one of the strongest and most diverse economies in the South East. Over half of Oxfordshire's workforce is engaged in knowledge based sectors and the county's expertise in a number of sectors such as high performance engineering and motorsports are renowned on a global scale.

Is Oxfordshire taking off or landing?

This report provides analysis and comment on the current office and industrial market together with commentary on investment transactions and forecasts. The analysis is based on units of 5,000 sq ft and more.

The report is centred on Oxford city centre and then focuses towards the surrounding markets of Abingdon, Witney, Harwell, Didcot, Bicester and Banbury, illustrated by the map overleaf.

Whilst we do not comment on the retail sector it is worth noting that Oxford and the majority of the subject report towns each have retail based developments either underway or in the pipeline. Similarly, although the report's focus is on the private sector, Oxford city centre is currently undergoing significant University-led development, most notably with the Bodleian Library and Radcliffe Observatory quarter schemes but also with several college led schemes.

In common with the wider market place, 2012 has been a challenging year within the Oxfordshire office market. Letting activity has fallen by approximately 50% compared to the previous year; although it should be noted that the 80,000 sq ft Centrica deal on Oxford Business Pak was included within our 2011 statistics.

Whilst 2011 saw a spike in industrial activity particularly in the Banbury area, 2012 has been more muted with activity remaining constant whilst not spectacular. In common with the office market there is now a shortage of quality stock, with the majority of transactions involving second hand 'churn'. Banbury offers the greatest scope for development with three developer led consented schemes jointly offering 1.57M sq ft of design and build space.

Oxford in numbers...

Office take-up totalled

144,000 sq ft
48% of the 2011 annual total

Oxford accounted for
of all office letting
activity in 2012

59%

Office availability stands at

921,000 sq ft
at year end

Headline office rental levels have
remained unchanged in 2012 at

£23.00 per sq ft

Scope for office rental growth at

£25.00 per sq ft
for new builds in Oxford City Centre

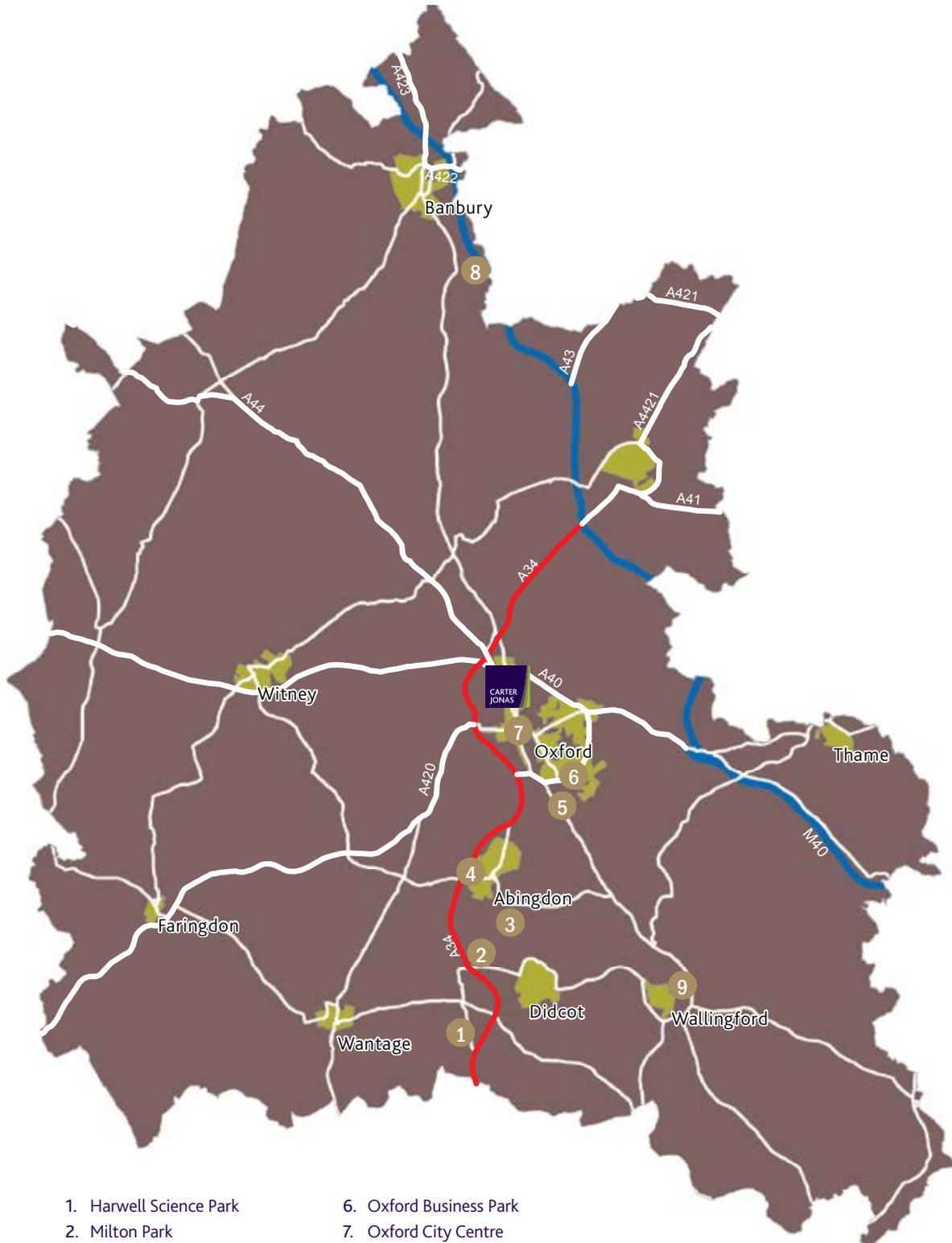
Availability of Grade A industrial
space comprises just

5,610 sq ft in one unit

Industrial take-up totalled

973,000 sq ft,
a 14% decline from 2011 level

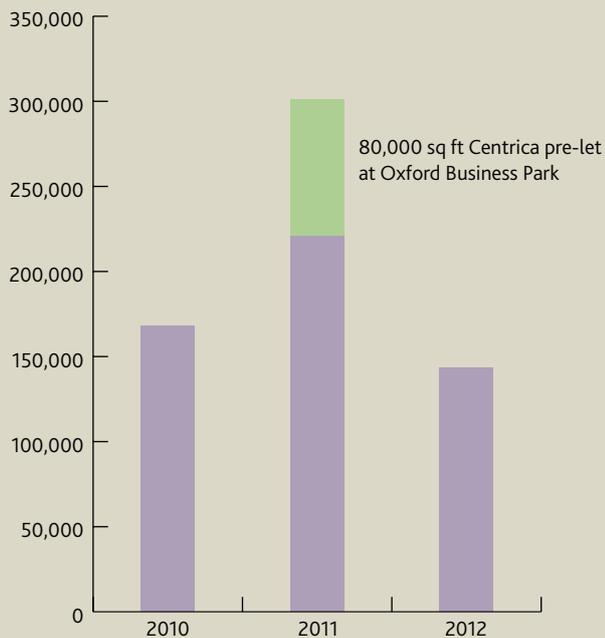
Oxfordshire Business Centres



- | | |
|---------------------------|--------------------------|
| 1. Harwell Science Park | 6. Oxford Business Park |
| 2. Milton Park | 7. Oxford City Centre |
| 3. Culham | 8. Banbury Business Park |
| 4. Abingdon Business Park | 9. Howbery Park |
| 5. Oxford Science Park | |



Oxfordshire office take-up



Source: Carter Jonas

Office Market

Take-up in 2012 totalled 143,473 sq ft, 48% of the 2011 annual total of 301,440 sq ft which was itself significantly boosted by the 80,000 sq ft Centrica pre-let at Oxford Business Park. A two tier market has become increasingly evident within the Oxford office market during the year, with enquiry levels remaining broadly buoyant within the city centre in contrast to the out-of-town locations where greater availability is enabling occupiers to strike strong deals.

In cumulative terms, the office market has proved muted in 2012, primarily driven by a continuing reluctance of occupiers to commit to relocation, renegotiating existing terms where possible. Consequently, this stalemate has resulted in a decline in letting activity rather than due to any notable decline in availability of stock.

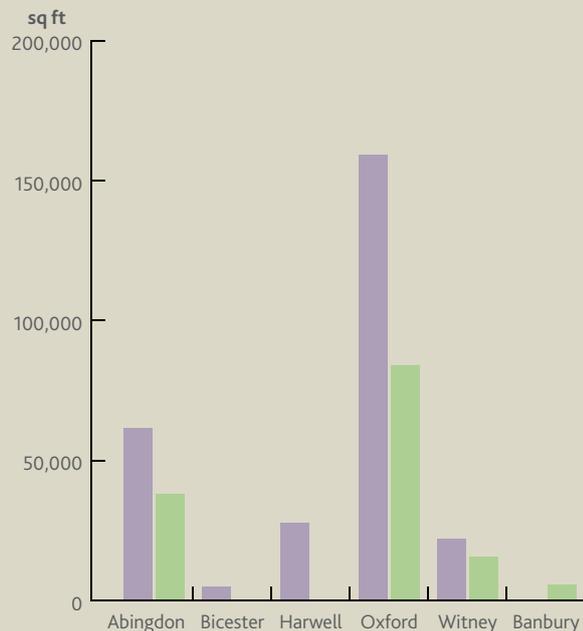
Oxford has accounted for 59% of all letting activity in 2012, compared to 53% in 2011. The largest transaction to complete in the year was Ramsay House, in central Oxford where Natural Motion acquired 18,857 sq ft.

Take-up in 2012 has been polarised into fewer markets, with Abingdon proving active with lettings totalling 37,891 sq ft, comprising five transactions, accounting for 26% of total take-up across the county. Four of the five transactions were located on Milton Park, the largest of which was the acquisition of 3 Park Square by Taylor and Francis of 11,873 sq ft.

“Take-up in 2012 has been polarised into fewer markets...”

Witney has also proved relatively buoyant and has witnessed good levels of churn from local occupiers, with take-up totalling 15,700 sq ft in 2012.

Office take-up by town



Source: Carter Jonas

Office availability stood at 920,968 sq ft at the end of December 2012, an increase of 16.4% from September 2011. Supply continues to be dominated by Grade B accommodation, which accounts for 96.7% of total availability.

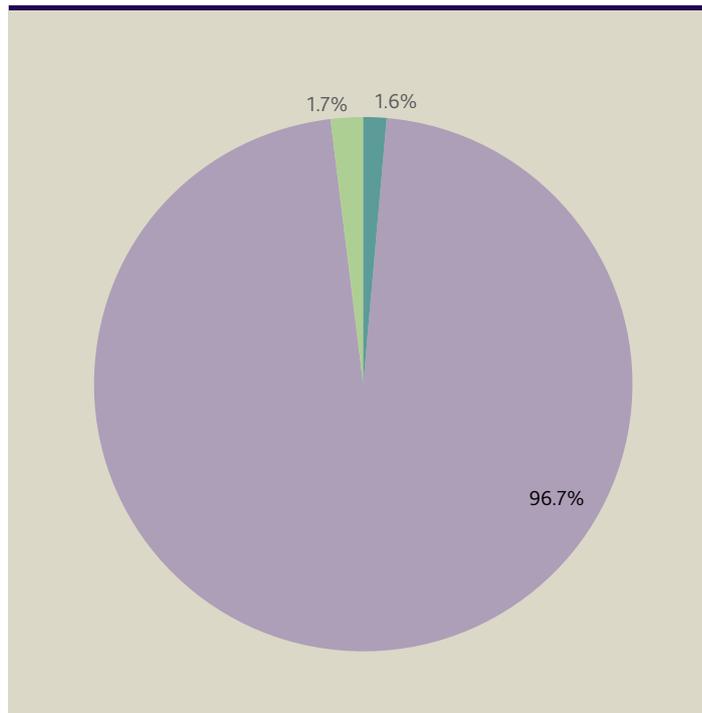
There is an acute lack of available Grade A accommodation evident across the county, with Fletcher House on Oxford Science Park totalling 14,966 sq ft the only Grade A accommodation currently available within the market.

Rental Levels

Although office headline rental levels have remain unchanged during 2012, sentiment has noticeably weakened during the course of the year. As a consequence, incentive packages have increased considerably, particularly away from the city centre, but otherwise depending on the location and quantum of stock in the local markets.

Demand has remained relatively constant within the city centre and consequently minimal incentive packages (usually below six months rent free period) are typical. In contrast, incentive packages within the business/science park market have softened and become increasingly generous with rent free periods rising to a maximum of 38 months based on a ten year lease. There is a growing expectation from footloose occupiers of being able to negotiate extremely attractive packages as active requirements continue to diminish.

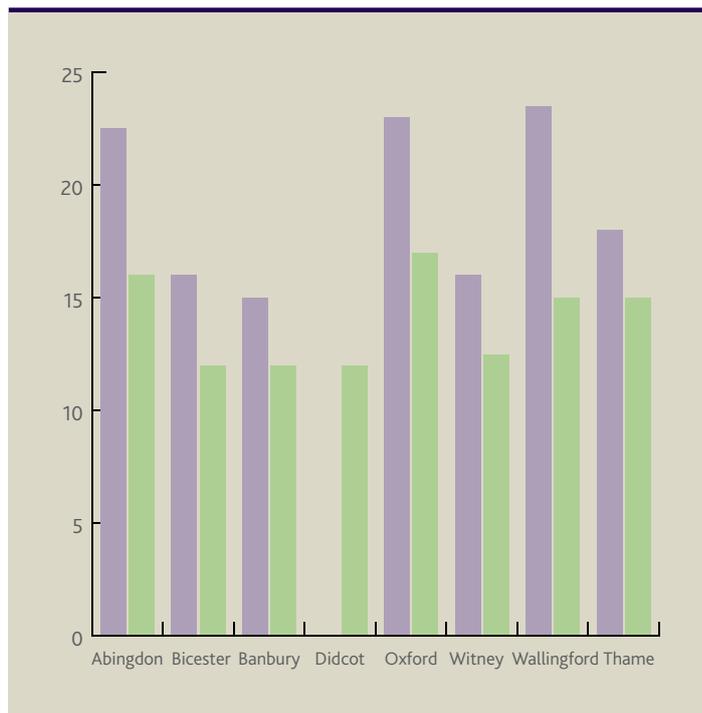
Despite the mixed outlook, we consider that there is scope for medium-term rental growth within the city centre and certain business park locations such as Milton Park up from a current prime level of £23.00 per sq ft. This potential growth is mirrored from the experience in Cambridge where CB1 achieved a new headline rent of £30.00 per sq ft. The most likely comparable scheme in Oxford in the medium-term is the BRB Oxpens site forming part of the West End regeneration area, for which activity may be stalled due to planning and political constraints.



Oxford Office Availability 2012 year end

- Grade A
- Grade B
- Grade C

Source: Carter Jonas



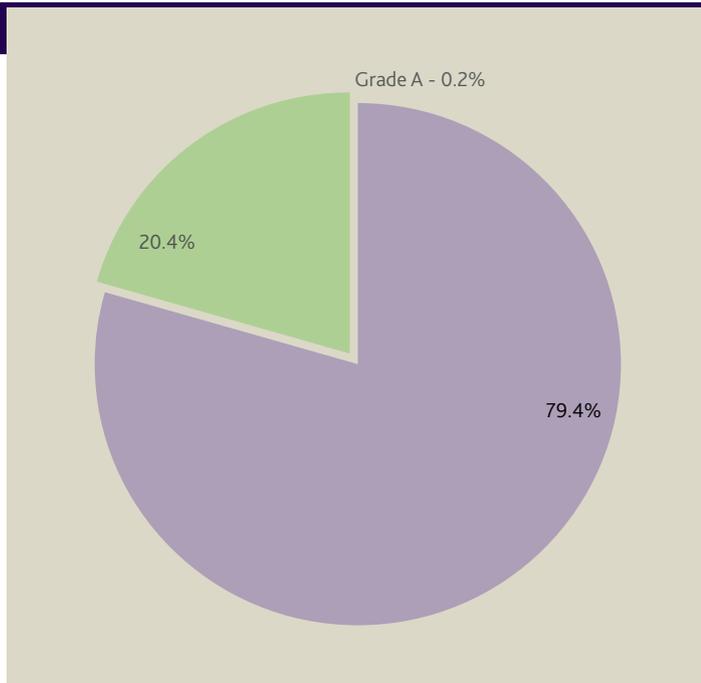
Oxfordshire office rental levels

- Prime
- Secondary

Source: Carter Jonas

Oxfordshire
Industrial
Availability
Year end 2012

- Grade A
- Grade B
- Grade C



Source: Carter Jonas

Industrial Market

Overall industrial availability across Oxfordshire currently stands at 2.24 million sq ft of which 80% is classified as Grade B accommodation. The supply of Grade A accommodation is limited to only one unit across the county at 10 Ventura Business Park in Carterton which totals 5,610 sq ft.

Industrial take-up in 2012 within Oxfordshire totalled 972,846 sq ft, a 14.0% decline from its 2011 level of 1.1 million sq ft. In line with the office market, activity has been muted due in part to a general shortage of good quality supply.

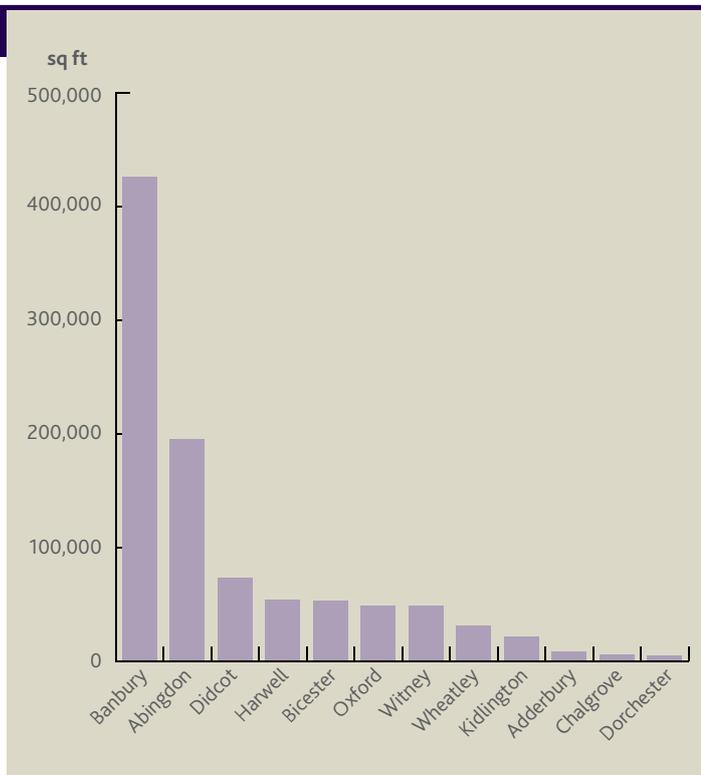
Banbury accounted for 43.8% of total take-up and witnessed the largest single letting of 178,000 sq ft the at Storehouse on Beaumont Road taken by the Stewart Company. Take-up in Abingdon has totalled 165,448 sq ft comprising seven transactions all located on Milton Park, the largest of which was the letting of 188 Milton Park to Allmakes totalling 69,700 sq ft. The limited activity within Oxford reflects an acute lack of available supply.

Our figures include the design and build letting of 54,000 sq ft to Element 6 at Harwell. This is a hybrid building which will be used for research and development.

The industrial market continues to be hampered by an absence of development activity other than design & build with no new space coming to the market during 2012. Consequently this has effectively restricted activity towards the second-hand market which in itself has minimal good quality supply.

Despite restrained activity levels, the automotive, distribution and manufacturing sectors continue to dominate the demand profile of the county.

Oxford Industrial
2012 take-up by
centre (sq ft)



Source: Carter Jonas

Rental Levels

As with the office sector, industrial headline rents have been maintained during 2012. Prime stock currently stands at £9.00 per sq ft in Oxford with the general tone around the county at being £5.00-£6.00 per sq ft.

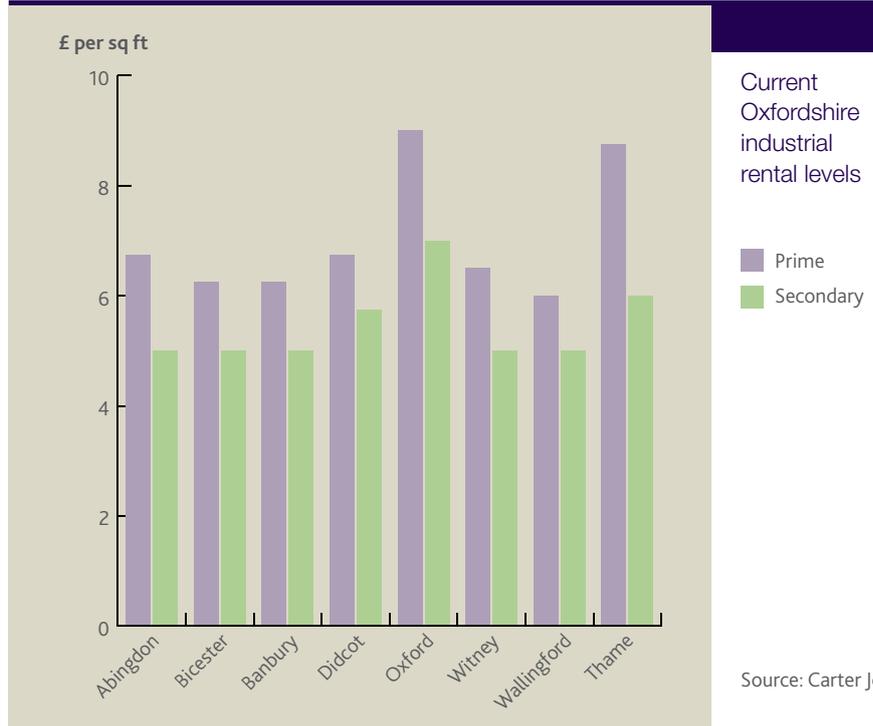
Investment Transactions

Investment activity throughout the UK, with the exception of Central London, has remained at historically low levels for more than 18 months. This is due to a combination of a lack of prime and good quality secondary stock openly marketed and ongoing concerns towards the fragility of the occupier market. Increased demand from active investors has been forecast, although this has yet to materialise due to a continuing mis-match between purchasers' perceived values and buyers' expectations.

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At year end, Oxfordshire industrial equivalent yields stood at 7.8% versus 8.50% for the South East (and 8.6% for the UK as a whole). Oxfordshire office equivalent yields are at 9.00% versus 9.7% for South East (and 7.10% for UK as a whole). All figures are sourced from Real Estate Forecasting Limited (REFL).

In line with the national trend, Oxfordshire has witnessed relatively few investment transactions in 2012. The largest was at Jordan Business Park, North Oxford purchased by Oxford University Press, an occupier of part, for £10.13M, reflecting a net initial yield of 9.0%. The adjacent table shows examples of investment transactions during 2012.



Address	Type	Size (sq ft)	Price (£ M)	Net Initial Yield
30-31 Market Square, Witney	Bank	9,176	£1.815	6.48%
Travis Perkins Depot, Sandy Lane, Oxford	Trade Counter	21,355	£2.88	5.75%
Jordan Hill Business Park, Oxford	Office	68,000	£10.13	9.0%
6/7 High Street, Oxford	Retail	14,048	£9.3	4.8%
Godstow Court, Oxford	Office	15,000	£3.95	7.10%
Network Oxford (Speedy Hire)	Industrial	20,526	£2.2	6.94%

Key 2012 Investment Transactions





Spotlight on the Science Vale UK

Competing property schemes at Harwell and Milton Park joined forces to promote South Oxfordshire as the 'Science Vale UK'. This approach has coincided with the classification of Harwell and Milton Park with Enterprise Zone status and the wish by both parks to promote the area internationally.

In real terms the Enterprise Zone status affords the parks a more streamlined planning process as well as occupiers the ability to benefit from up to £55,000 per annum in business rates reductions.

In terms of on-site activity both Parks have undertaken significant infrastructure and landscaping improvements, with Harwell de-classifying a large area formerly under the control of UKAEA, for future development.

Harwell has seen the announcement of a £60M investment through the UK Space Agency for the European Space Agency facility, although at this stage it is unclear what this will mean in relation to resultant built space. Of a more tangible nature is the recently completed 54,000 sq ft facility built for Element 6, for their stated use as a 'synthetic diamond innovation centre'.

Activity at Milton Park has been buoyant recording the most transactions within our statistics for a single landlord in both the industrial and office sectors. Although outside the scope of this report in terms of size, MEPC has built speculatively, completing a small unit business scheme at 119-120. MEPC are close to announcing the commencement of speculative office development at 101/102 Milton Park totalling 55,500 sq ft, which will represent the first significant speculative development for over four years in the County.

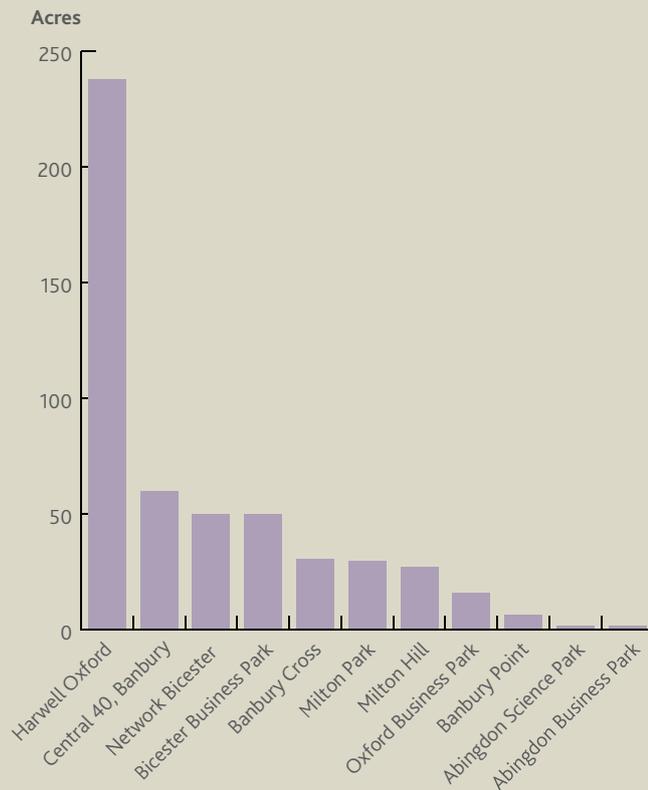
Andrew Barlow, Commercial Director at MEPC's Milton Park comments

"We are excited about the prospects of building offices speculatively during 2013, even at a time when commentators predict further challenges ahead.

Although a number of factors are leading this strategy, the fundamental point is the lack of grade A space both on and off Milton Park, allied to known requirements in the short to medium term.

We have invested heavily in terms of the Park's appearance and services and, with the added occupier benefits offered by our Enterprise Zone Status, consider that the timing is right."

Oxfordshire Development Pipeline



Source: Carter Jonas

“The largest development opportunity is at Harwell which has outline planning consent on 238 acres in addition to 105 acres reserved for large-scale science uses.”

Office and Industrial Development Pipeline

There has been no speculative office or industrial development undertaken in the county since 2008 with the exception of the recently completed 119-120 scheme at Milton Park, which primarily caters for smaller occupiers, together with development totalling 7,360 sq ft at the former Oxford bus depot in Cowley, a planning requirement following residential development.

The graph illustrates those schemes which benefit from outline planning consent and are most likely to come forward over the next five years, subject to demand.

The largest development opportunity is at Harwell which has outline planning consent on 238 acres in addition to 105 acres reserved for large-scale science uses.

Whilst the more established central and southern locations across Oxfordshire have diminishing development opportunities since 2010, in contrast the North of the County has significant development plans. In Bicester Albion Land are in the process of obtaining planning consent on their 50 acre Network Bicester scheme and London & Metropolitan are also progressing a 650,000 sq ft business park opposite Bicester Village, including a new Tesco store which has been recommended for approval, in turn facilitating the expansion of Bicester Village.

In Banbury, the principle design & build opportunities are Central M40, a 60 acre site by Barwood and British Airways Pension Fund, Banbury Cross a 30.5 acre site by Standard Life and First Industrial and Banbury Point a 6.5 acre site by AC Lloyd and Minns Estates.

2013 Forecast

- Despite continuing uncertain economic times, Oxfordshire is well placed to both weather the storm and grow due to its diverse economy and specialisms which range from motorsport, biotechnology, engineering through to the UK space agency at Harwell.

“Oxfordshire is well placed to both weather the storm and grow due to its diverse economy and specialisms...”

- Whilst the ongoing uncertainty in the economy is likely to limit speculative development across the County, Milton Park are close to announcing the commencement of their 101/102 scheme, which will be a significant statement in the market.
- Rental and incentive levels are likely to remain static across the county for existing stock in 2013. However with no Grade A stock in the industrial sector and only one unit in the office sector, developers should be in a stronger position to dictate terms for design & build solutions.

- Over the longer term, subject to the availability of sites, we anticipate that any new development in Oxford City Centre will be able to command premium rentals due to scarcity of supply, similar to the CB1 office scheme in Cambridge.

- The Science Vale, and specifically Milton Park and Harwell, will see continuing activity during 2013. However, in Harwell's case it is difficult to understand at this stage what the recent investment announcements mean in terms of built space.

- Given the economic strength, specialist and diverse occupier profile of the County we consider that appetite for investments will continue to be strong, particularly for well secured opportunities and prime retail within Oxford City centre. Single let assets in regional towns are likely to continue to be downgraded.

- Although outside the scope of this report there are many retail and residential led schemes within the planning system which, if implemented, will impact on Oxfordshire; nowhere is this more keenly focussed than Bicester.



Commercial Centres

LEEDS

CAMBRIDGE

OXFORD

BATH

LONDON

WINCHESTER

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With thanks to Oxford Instruments
PLC, Prodrive Motorsport Ltd,
MEPC and Image Works for the use
of photography and CGI's.

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