



COMMERCIAL EDGE

OXFORDSHIRE

SPRING 2019

Carter Jonas

OUTLOOK SUMMARY

- Oxfordshire is proving highly resilient to the wider economic uncertainty, helped by its focus on the knowledge sectors, which are driving market activity. The main constraints are on the supply rather than the demand side and this has adversely impacted on transaction levels in the office / R&D sector in 2018, with the main science and technology parks continuing to dominate activity.
- 2018 saw Oxfordshire's highest industrial take-up in a decade, but with a lack of development opportunities, supply shortages are biting and activity is increasingly focused on the second-hand market. Some speculative development activity is under way across the county, but more is required.
- Assuming continued economic growth and a benign resolution to the ongoing Brexit impasse, we expect further upward pressure on rental and capital values across the office, R&D, industrial and distribution sectors.
- The mood of the retail market remains cautious, reflecting the national trend, although the refurbished Westgate Centre is reportedly trading well. Market activity remains subdued, and rents in the prime pitch on Cornmarket are now starting to adjust downwards to become more competitive with the Westgate.

DRIVERS OF GROWTH

Oxfordshire remains a great place to do business and the knowledge industry in particular has insulated the county from some of the greater uncertainties in the wider UK economy. Whilst not totally immune, the key science locations at Milton Park, Harwell and Oxford Science Park are all reporting good interest and are looking at the next stages of development.

Against an uncertain economic and political backdrop, the county continues to attract a strong level of inward investment. Indeed, Oxfordshire secured 93 foreign direct investment projects during 2017/2018, significantly ahead of the 33 secured in the previous year, with more than 1,300 jobs created and others safeguarded (source: OxLEP, DIT).

Oxfordshire has a diverse economic base, with a particular emphasis on the growing knowledge sectors, underpinned by its two leading universities. These include digital technology, data science, the life sciences, aerospace, electronics, biotechnology and pharmaceuticals.

The Science Vale UK Enterprise Zone contains a wealth of world-class research centres, including the University of Oxford's Harwell Campus, where work on the £103 million Rosalind Franklin Institute is now well under way. This major national research centre will harness disruptive technologies such as AI and robotics to aid the pharmaceutical industry in the development of new drugs. Culham Science Centre and Milton Park are other important sites within the enterprise zone, with the latter having been the focus of significant development over the past decade.

The automotive sector remains important, both in terms of key employer BMW/Mini at Cowley, as well as the high concentration of motorsports related companies. There is also a sizeable professional and business services sector, focused in both Oxford city centre and surrounding business locations, as well as creative sectors such as publishing. Oxfordshire saw nearly 30 million visitors in 2017 supporting nearly 37,000 jobs (source: Experience Oxfordshire, OxLEP), underlining the importance of the tourism sector.

Oxfordshire is one of the first areas of the UK to develop a Local Industrial Strategy (LIS), as agreed under its Housing and Growth Deal in 2017. Oxfordshire Local Enterprise Partnership (OxLEP) has now submitted its draft LIS to Government. This innovation-led plan sets out a range of targets, including doubling the size of the county's economy by 2040, and creating at least 108,000 private sector jobs. A formal response from Government is expected this summer.

In the longer term, the Oxford to Cambridge growth corridor has the potential to drive significant



development activity, based around improved transport links. We believe that further clarity on the full delivery of these schemes is now urgently required if the target date of 2030 is to be achieved. The proposed infrastructure consists of:

- the Oxford to Cambridge Arc road link (Oxford to Cambridge Expressway). The preferred route between Milton Keynes and Oxford was announced last September, although the route west of Oxford is still to be decided.
- the East West rail link, which is due to be opened to Cambridge in stages over the next decade. Phase 1 linking Oxford to Bicester is already open, with new services from Oxford Parkway to Marylebone. Phase 2, scheduled to open in 2023, will extend the link to the West Coast Main Line at Bletchley/Milton Keynes. Five route options have been developed for reinstating the final stage between Bedford and Cambridge, and a public consultation is currently under way.

Brexit remains a key concern, given the large number of firms in Oxfordshire with a European presence, the importance of the universities' ability to attract students and staff from the EU, and the vulnerability of the automotive sector to supply disruptions.

Notwithstanding the above, Oxfordshire has seen strong economic growth over the last five years of around 3% pa, well above the UK average, and Oxford has led the charge with growth of 3.8% pa (source: Experian). Growth over the next few years will almost certainly be below the long-term average, but we expect Oxford's economic growth to significantly outperform the UK, with growth forecast at around 2.6% pa to 2023, compared with 1.7% pa for the UK, assuming a benign outcome to Brexit negotiations.

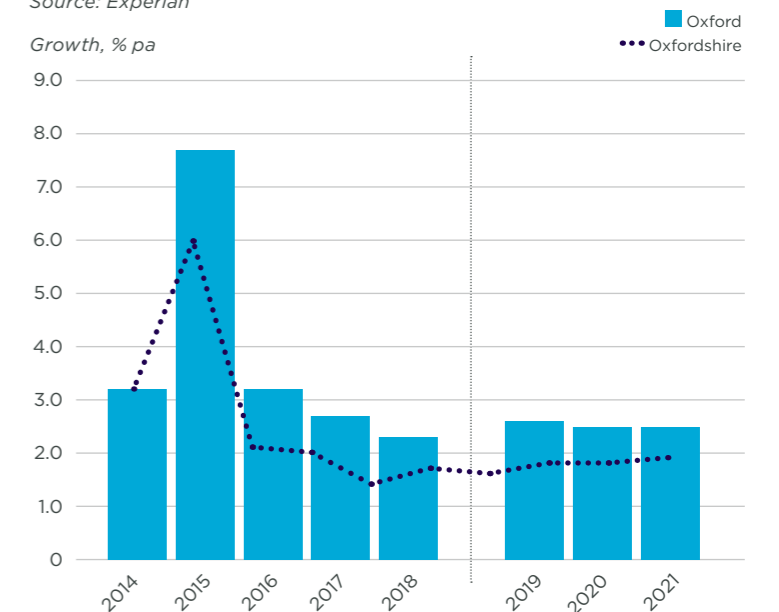
KEY ECONOMIC AND BUSINESS STATISTICS

Source: Experian, ONS, Thinkbroadband, Land Registry
* England

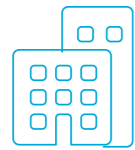
	OXFORDSHIRE	UK
ECONOMIC GROWTH LAST 5 YEARS	3.0% pa	2.2% pa
OUTPUT PER HEAD	£32,475	£26,600
EMPLOYMENT GROWTH LAST 5 YEARS	1.3%	1.5% pa
UNEMPLOYMENT RATE (ILO)	2.9% pa	4.2%
GCSE AND EQUIVALENT AVERAGE ATTAINMENT 8 SCORE	46.7	44.3*
BUSINESS BIRTHS PER 1000 PEOPLE 2017	5.0	5.7
NEW BUSINESS SURVIVAL RATE AFTER 5 YRS	48.7%	43.2%
ULTRAFAST BROADBAND COVERAGE (OVER 100 MBPS) % OF PREMISES	52.0%	56.2%
AVERAGE HOUSE PRICE	£350,955	£230,776
AVERAGE HOUSE PRICE GROWTH	-0.6%	2.5%

Figure 1 Oxfordshire Economic Growth (GVA)

Source: Experian



OFFICE MARKET



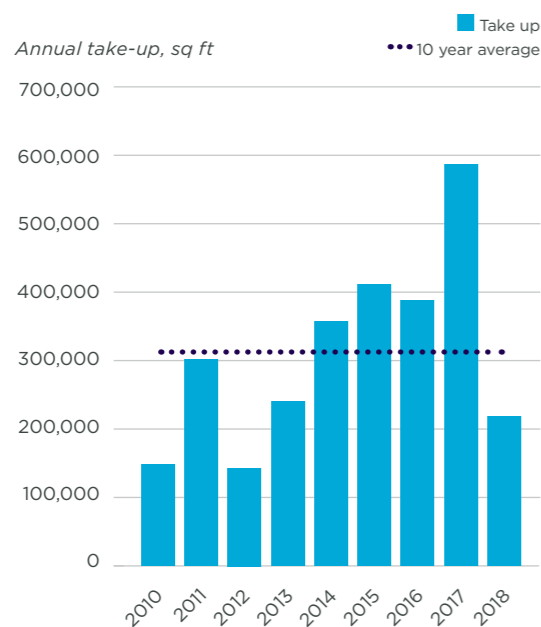
PRIME RENT
(SCIENCE PARKS)
£32.00 PSF

2018 TAKE-UP
218,000 SQ FT

AVAILABILITY
646,600 SQ FT

GRADE A
AVAILABILITY
49,000 SQ FT

Figure 2 Oxford office/R&D take-up
Source: Carter Jonas



Oxfordshire's office/R&D market is focussed on the three main science and technology parks of Oxford Science Park, Milton Park and Harwell, and thereafter features Oxford city centre and outlying suburbs and business parks. There are also submarkets in each of the surrounding market towns, resulting in a highly varied market picture across the county

Following the 2008 recession, take-up in Oxfordshire recovered to more normal levels from 2011, and **2017 saw an exceptional 586,000 sq ft transacted**, nearly double the 10-year average of 310,000 sq ft pa (see Figure 2).

2018 saw transactions reduce to 218,000 sq ft, well below this average. However, in our opinion this is largely **reflective of the low level of supply rather than a fall in underlying demand** (although there is some variation across the county). Indeed, sentiment is healthy with demand led by the knowledge sectors.

The largest transaction of 2018 was broadband provider Gigaclear taking 28,600 sq ft at Abingdon Business Park. The Schrodinger Building at Oxford Science Park saw six deals totalling 53,130 sq ft, accounting for nearly a quarter of the county's total. The largest deal on the park was to spinout investor OSI (17,260 sq ft), but one of the most noteworthy transactions, not in size but in terms of inward investment, was arguably the 7,750 sq ft taken by US robotics manufacturer Intuitive Surgical, as a new entrant to the Oxfordshire market.

2018 also saw **major activity at both Harwell Campus and Milton Park**, with RM Education Ltd, Wave Optics, P2i and Oxford Biotrans Ltd taking space at Milton Park; and Veolia and AMEC taking space at Harwell.

It is important to note that some transactions which we have classified as industrial are in reality R&D deals as they are used as lab space, for example 82,140 sq ft let to Oxford Biomedica at Oxford Business Park.

Total availability across Oxfordshire has fallen from 840,000 sq ft to 646,600 sq ft over the last year. **There is little space available on the county's three main science and technology parks**, although all have plans for new development. However, the pace of delivery is a key issue, and whilst more space will come forward at Oxford Science Park, this is approximately 18 months away. Elsewhere, second-hand stock is being taken up, and so overall vacancy levels have been falling.

There is currently no quality office stock available in Oxford city centre, with no significant take-up during 2018 as a result.



Development here is complex, given the inherent constraints of this historic city.

Whilst no space will come forward over the short term, as previously reported, there remain three notable medium to long-term development proposals, all located close to Oxford railway station (Oxpens, the Jam Factory, and at Oxford Station itself). Given the length of time that these schemes will require for delivery, **activity will continue to be focussed out of town** in the short to medium term.

There are also **longer-term schemes in the out-of-town pipeline**. St Johns College is seeking planning consent for the first phase of its **Oxford North** scheme. This 44-hectare site has the potential to deliver nearly a million sq ft of commercial space, and effectively provide a new district on the edge of Oxford. This space would include retail, residential and a hotel, as well as a substantial office element. Whilst the scheme has had elements of controversy, a decision is expected within the next few months. Oxford Council has recently agreed in principle to put nearly £19 million towards infrastructure.

The **proposed re-opening of the rail line from Oxford to Cowley** (currently freight only) would also create significant development opportunities. It would provide improved access to the eastern side of the city including Oxford Science Business Parks and The Mini Plant, and potentially act as a catalyst for further development. However, significant investment to upgrade the infrastructure would be required, and there is currently no funding in place or definitive timescale for implementation.

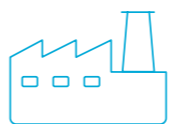
The **prime headline rent on the key science parks is currently £32.00 psf**, although smaller suites can let at over £40.00 psf. However, there is significant variation in rental levels across the county, according to the type, quality of stock, and submarket.

Despite a shortage of supply, our expectation is for a marginal increase in take-up this year. We also anticipate some further rental growth over the next 12 months.

SENTIMENT IS HEALTHY, WITH DEMAND LED BY THE KNOWLEDGE SECTORS. HOWEVER, THE PACE OF DELIVERY OF NEW SPACE IS A KEY ISSUE.



INDUSTRIAL MARKET



PRIME RENT
£11.00 PSF

2018 TAKE-UP
1.7 MILLION SQ FT

AVAILABILITY
1.7 MILLION SQ FT

- Unit 7, Central M40, Banbury (95,000 sq ft) was let to advanced engineering firm TVS Supply Chain Solutions
- OxBox, Oxford Business Park (82,140 sq ft) was let to Life sciences firm Oxford Biomedica

We anticipate another strong level of take-up in 2019, with two major deals currently in the pipeline.

Going forward the key issue will be the **lack of development opportunities**. Whilst there are sites in Banbury, Bicester and Didcot, they are principally aimed at the larger distribution market and realistically could be fully committed over the next 18 months. **Speculative development** is currently under way at Bicester (around 163,000 sq ft by DB Symmetry and around 320,000 sq ft at Albion Land's Link 9 scheme), and also at Central M40 Banbury, where DB Symmetry are building around 330,000 sq ft.



2018 SAW THE HIGHEST INDUSTRIAL TAKE-UP IN A DECADE.

Oxfordshire's **prime headline industrial rent is £11.00 psf**, an increase of 5% on the £10.50 psf we reported a year ago. In common with the office market, however, there is a considerable variance with rents outside of Oxford generally closer to £6.75 psf. With rising rents and strong investor demand, there is upward pressure on capital values, with recent transactions demonstrating values around £120-130 psf.

There is little change to the focus of development across the county, with larger distribution activity being centred on Banbury and Bicester, and the remainder of the county seeing activity principally in the smaller size ranges. However, forthcoming schemes at Howes Lane, Bicester (for which a reserved matters application is about to be submitted) and Downs Road, Witney both propose mid-range space.

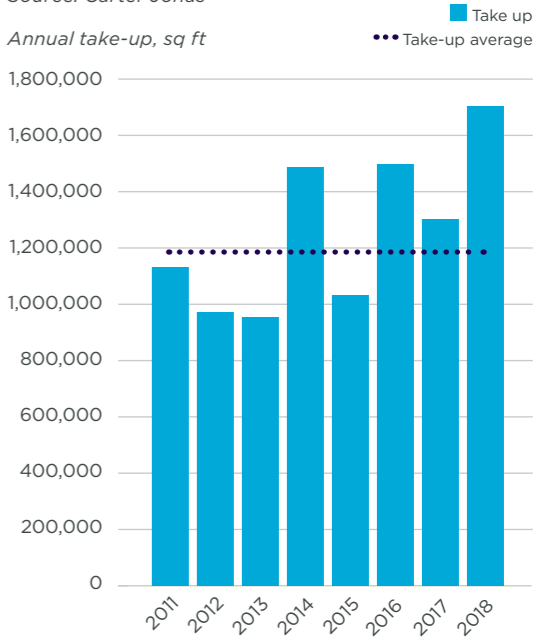
2018 saw the highest industrial take-up in a decade, with 1.7 million sq ft let across 49 transactions, 41% above the average for the previous seven years. Given the shortage of new stock, activity is increasingly focusing on the second-hand market.

The largest transaction of 2018 was the acquisition of the former Daily Mail print works at Didcot (243,695 sq ft) by Rebellion for use as a film studio. Other large transactions in 2018 included:

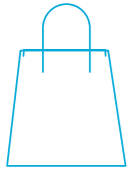
- Unit A2, Symmetry Park, Bicester (110,000 sq ft) was purchased by private healthcare provider Medline
- The former Asda distribution warehouse, Didcot (223,200 sq ft) was purchased by an owner occupier

Figure 3 Oxfordshire industrial take-up

Source: Carter Jonas



RETAIL MARKET



PRIME RENT
£280 PSF
(ZONE A)



**RENTAL VALUES
ON CORNMARKET
ARE NOW STARTING
TO ADJUST
DOWNWARDS**

The mood of the market remains cautious, reflecting the challenging backdrop for the UK high street sector in general. Activity was relatively subdued throughout 2018 and there were only a handful of transactions in Oxford city centre. The most notable of these was in the first half of the year, with Metro Bank taking a newly built unit on the corner of Queen Street and Cornmarket as part of its national expansion programme. There was no other activity on Cornmarket, and a number of units remain vacant.

The Westgate Centre is reportedly trading well and benefiting from an increased emphasis on food and leisure. Indeed, at least one retailer is reporting that their unit in the Westgate Centre is their best performing in the UK. However, some vacancies do remain and some significant rent-free incentives are being offered in order to attract tenants.

Although there are no major projects in the pipeline in Oxford, we are aware of three potential redevelopments in the city centre that would provide a retail element within mixed-use schemes. However, no new space is due to come forward within the next 24 months. Future schemes are likely to take out some existing retail space for redevelopment as smaller units, for which there is greater demand in the current market.

We believe that rental values in the prime pitch on Cornmarket are now starting to adjust downwards from £300 psf (Zone A) towards £280 psf (Zone A) in order to attract occupiers and be more competitive with the Westgate Centre. Rental values in other central locations have also seen some downward adjustment. Units in Westgate are trading at a level broadly comparable with Queen Street (a Zone A rent of around £210 psf). Meanwhile, prime rents on the high street are now trading at around £180 psf (Zone A).

Further out of the city centre, a number of locations are trading well, for example Walton Street and Summertown in North Oxford. In Summertown footfall remains strong and with few vacant units, the location is still achieving rental values up to around £90 psf (Zone A).





COMMERCIAL PROPERTY TRENDS AND VALUES

INVESTMENT IN 2018
£306 MILLION

PRIME OFFICE AND INDUSTRIAL YIELD
5%

Commercial property investment transactions across Oxfordshire totalled £306 million in 2018, below the total for 2017 of £388 million, but still a healthy level. Key transactions included:

- Cherwell District Council's purchase of the Castle Quay shopping centre in Banbury town centre for £58 million, representing a yield of 6.89%
- Tesco Pension Fund's purchase of the Beaumont Industrial Estate in Banbury for £28 million at a yield of 6%
- Swiss Life/Mayfair CIM's purchase of Parkway Court, Oxford Business Park, for around £35 million at a yield of 4.9%
- NFU Mutual's purchase of Unit 3, Banbury Trade Park, for around £27.5 million, reflecting a yield of around 5%

Overall, the market remains highly attractive and we believe **transaction volumes are being held back by a shortage of buying opportunities**. This has resulted in a **sharp downward movement in prime yields of 50 basis points to 5.0% this year in both the office and industrial sectors**. However, caution is the watchword in the retail market, and the prime yield has moved out to 4.5%, in line with national investor sentiment towards the sector (see Figure 4).

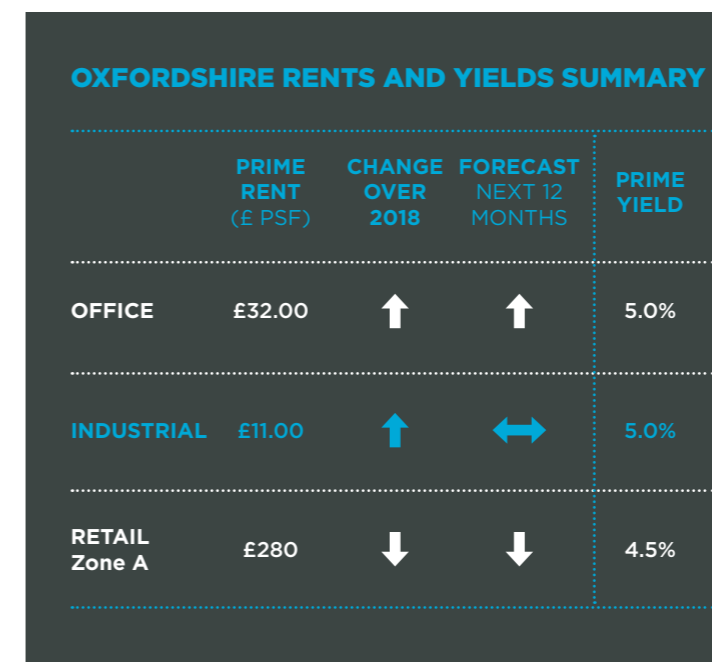


Figure 5 Oxford average all property rental growth projections
Source: MSCI, REF, Carter Jonas

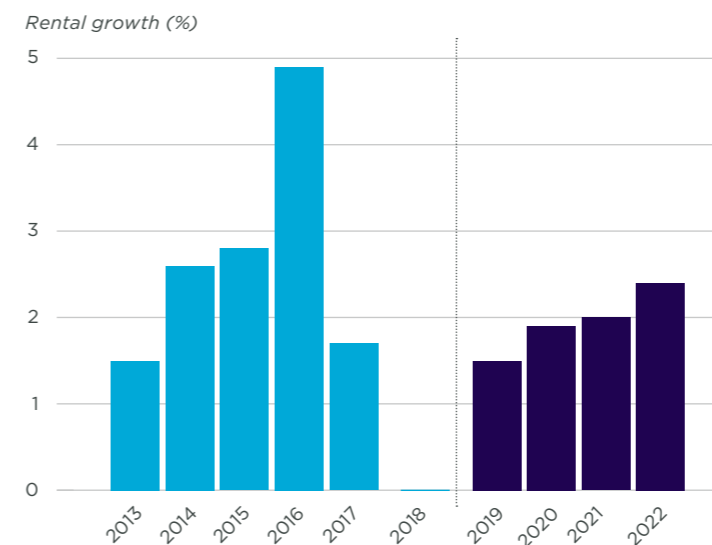


Figure 4 Oxford prime yields

Source: Carter Jonas

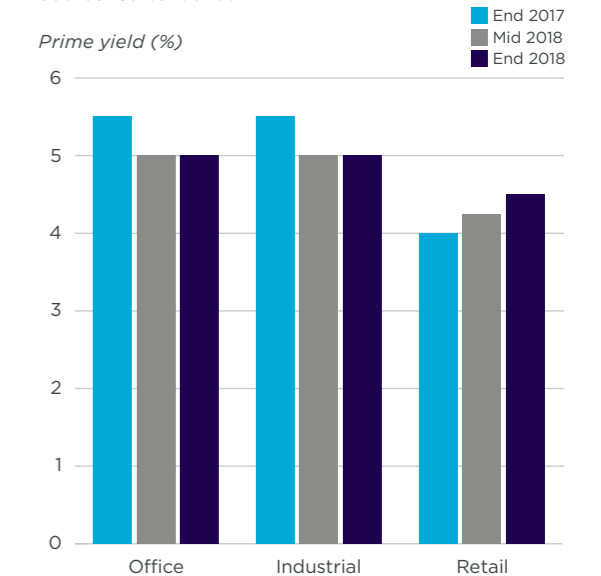
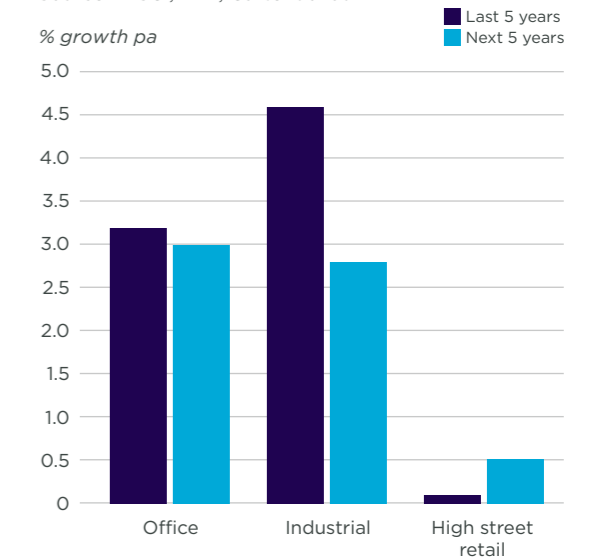


Figure 6 Oxford average annual rental growth forecast by sector

Source: MSCI, REF, Carter Jonas



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