# COMMERCIAL EDGE UPDATE

**OXFORDSHIRE**

2018

Carter Jonas

## OXFORD HAS SEEN STRONG ECONOMIC GROWTH IN RECENT YEARS, ESTIMATED AT 2.7% IN 2017, ABOVE THE UK AVERAGE OF 2.2% (EXPERIAN). GROWTH IS FORECAST TO OUTPERFORM AGAIN THIS YEAR (2.2% COMPARED WITH 1.3% FOR THE UK), AND SHOULD PERFORM WELL OVER THE MEDIUM TERM.

Employment growth in Oxford has been strong over the last five years at an estimated 3% pa, well above the UK average of 1.8% pa. Although Oxford's growth is projected to slow over the next five years (1.1% pa), this slowdown is reflective of the national trend and the city should still outperform the UK by some margin.

Oxford's strong economic performance is driven by its highly diverse and skilled employment base, focused around the growing knowledge sectors and underpinned by its two leading universities.

The physical sciences are hugely important, including key sectors such as biotechnology, where the private sector works closely with the city's universities and teaching hospitals. Work on the £103 million Rosalind Franklin Institute at the University of Oxford's Harwell Campus is now 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.

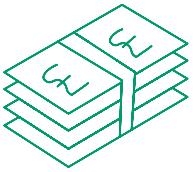
The digital sector, including data science and the digital gaming industry is also important, as is tourism, with 7 million visitors to the city annually, as well as creative sectors such as publishing. Oxford has a sizeable professional and business services sector, focused in both the city centre and Oxford Business Park; and the automotive sector is hugely important, with BMW a key employer.

Whilst the economic forecasts are positive, there are also risks to the outlook, the most obvious of which is Brexit. Although the impacts remain largely unknown, concerns include recruitment and staff retention for the large number of firms in Oxfordshire with a European presence, as well as the ability of the city's universities to attract students and teaching staff from the EU. The automotive sector could be vulnerable to Brexit if supply chains are disrupted, and funding for R&D projects is an additional concern.

In the longer term, Oxfordshire's growth will be given added impetus by transport infrastructure improvements. The most significant of these is the proposed Oxford to Cambridge Arc road link (the Oxford to Cambridge Expressway), and it is hoped that growth will be generated along the length of this corridor. A decision on the preferred route from Oxford to the M1 was taken in September, although it remains to be decided whether it will pass to the east or the west of Oxford.

The Expressway will be supplemented by the East West rail link, which is being opened to Cambridge in stages over the next decade. In addition, the completion of the postponed rail electrification to Didcot, allowing electric trains to operate on the route into London, would also be welcomed.

## FOCUS ON INVESTMENT



**2.7%**
2017 ECONOMIC GROWTH

**3.0% PA**
EMPLOYMENT GROWTH
(last 5 years)

**£134 MILLION**
OXFORDSHIRE COMMERCIAL PROPERTY TRANSACTIONS
(H1 2018)

**5.0%**
PRIME OFFICE AND INDUSTRIAL YIELD

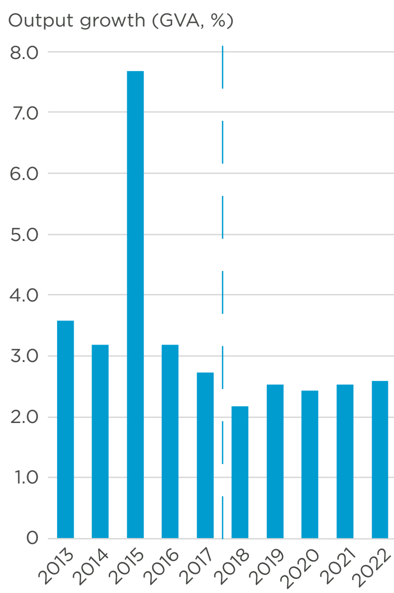
*Source: Experian, Property Data, Carter Jonas*

**Investment transactions across Oxfordshire totalled £134 million in the first half of 2018, in line with the 6-monthly average over the last five years.**

Key transactions include the purchase of Oxford Business Park by Swiss Life for circa £35 million at a yield of 4.9%; and Cherwell District Council's purchase of the Castle Quay shopping centre in Banbury town centre for £58 million, representing a yield of 6.89%.

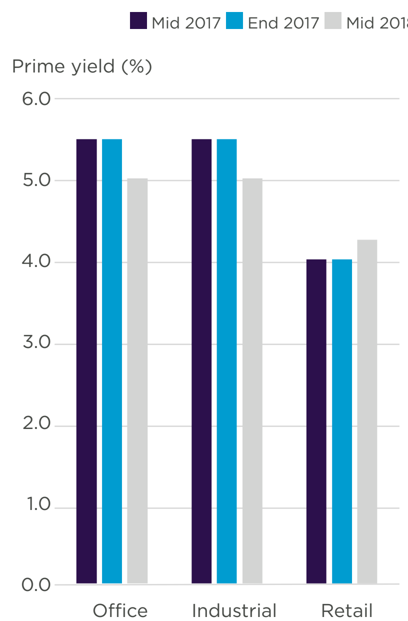
Overall, the market remains highly attractive and transaction volumes are being held back by the shortage of buying opportunities. This has resulted in a sharp downward movement in prime yields of 50 basis points to 5.0% this year in both the office and industrial sectors. However, caution is the watchword in the retail sector, and the prime yield has moved out by 25 basis points to 4.25%.

**Figure 1** Total Output Growth




*Source: Experian*

**Figure 2** Prime Yields




*Source: Carter Jonas*

# OFFICE / LAB MARKET

**£32.00 PSF**
PRIME CITY CENTRE OFFICE RENT

**801,000 SQ FT**
AVAILABLE OFFICE SPACE

*Source: Carter Jonas*

**The first half of 2018 saw relatively limited market activity, with 135,400 sq ft let across nine recorded transactions (deals over 5,000 sq ft). This compares with 586,400 sq ft for the whole of 2017 (a six-monthly average of 293,000 sq ft).**

In reality, these figures are slightly misleading as we categorise some R&D lettings as industrial rather than office space. An example of this is DNA sequencing firm Oxford Nanopore's commitment to a new high-tech manufacturing centre of 34,500 sq ft at Harwell Innovation and Science Campus.

Oxford Science Park has recorded the highest cumulative total of 36,909 sq ft, mainly involving the new-build Schrodinger building. Whilst Harwell may lay claim to this crown, its total will include sub-5,000 sq ft deals and hybrid buildings which we record as industrial transactions.

The largest single office transaction in the first half of the year was ultrafast broadband provider Gigaclear, who leased Building 1 at Abingdon Business Park, totalling 28,600 sq ft.

We are aware of a number of ongoing negotiations which should boost take-up in the second half of this year, but this year's total is still likely to fall some way short of the 2017 figure. It should, however, still be some way above the five-year average of 250,000 sq ft pa.

In the city centre market there are a number of enquiries from spin-outs in the science sector, for whom the need to be located close to similar businesses is a key consideration. Oxfordshire's science parks are continuing to see strong enquiry levels, although the traditional business parks are seeing somewhat lower demand.

In terms of development, further new build stock is under construction at Harwell, news is awaited about the next phase of development at Milton Park, and Oxford Science Park is working up new build schemes. As supply reduces across the county's science parks, further development is becoming increasingly likely.

Planning for the first phase of Oxford North has now been submitted by St Johns College, to include a substantial office element. This significant scheme will effectively provide a new district on the edge of Oxford, to include retail, residential and a hotel. However, the granting of consent is not a forgone conclusion, and space is unlikely to come forward for at least another 2-3 years.

There has been upward pressure on prime headline rents, particularly in the key science locations where £30.00 psf and upwards is now the expected norm. Again, Harwell is reporting figures in excess of this, but further analysis will be required regarding the size of transactions and inclusivity of elements such as the service charge.

In Oxford city centre the prime rent is currently £32.00 psf, and rental values for good quality second-hand stock have risen to mid-£20s compared with low-£20s six months ago. Rent-free periods are now minimal, at typically 2-3 months for fit-out (assuming a 10-year lease with a 5-year break). No development in the city centre is likely in the short term, with the next new space likely to be 4-5 years away, so supply will remain highly constrained.

# INDUSTRIAL MARKET

**£11.00 PSF**
PRIME OXFORD INDUSTRIAL RENT

**1.97 MILLION SQ FT**
AVAILABLE INDUSTRIAL SPACE

**1.36 MILLION SQ FT**
INDUSTRIAL TAKE-UP (H1 2018)

*Source: Carter Jonas*

**Activity levels have been encouraging so far this year, given the relative lack of stock. 1.36 million sq ft was transacted in the first half of 2018 across 20 deals, only slightly lower than the 1.42 million sq ft recorded for the whole of 2017. Occupier demand tends to be focused around the 2-5,000 sq ft and 10,000+ sq ft size bands, and originates primarily from trade operators and local businesses.**

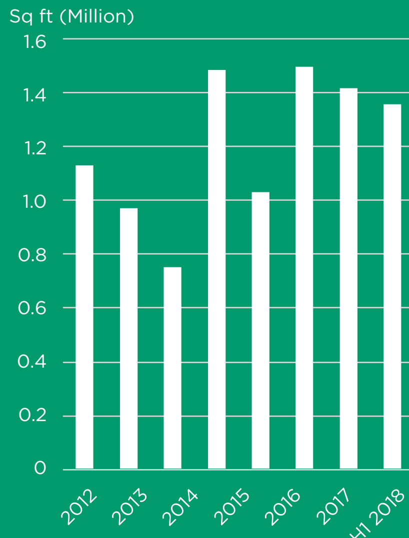
There were two key new-build deals during the first half of 2018, with TVS and Medline taking pre-lets at DB Symmetry's Banbury and Bicester schemes, totalling 205,000 sq ft. The majority of the remaining deals were for second-hand stock of varying quality.

Total availability has increased by circa 6% since the end of 2017, to just under 2 million sq ft. A number of new schemes have been developed, including Rockspring's Foxcombe Court at Abingdon Business Park, totalling 49,300 sq ft; and Albion Land's Link 9 in Bicester, totalling 146,000 sq ft.

DB Symmetry is building further phases of its Banbury and Bicester schemes, totalling circa 500,000 sq ft in two buildings. Meanwhile, Glenmore has completed a small-unit scheme in Kidlington totalling 10,340 sq ft, with all units being pre-committed ahead of completion.

Witney, 12 miles to the west of Oxford, is a particular hive of activity, with Glenmore about to commence a 34-building small-unit scheme. Carter Jonas has also been marketing a 24-acre development site and has shortlisted developers following a competitive bidding process.

**Figure 3** Industrial take-up

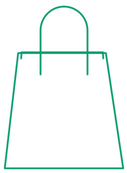



*Source: Carter Jonas*

There is upward pressure on rental values, with the Foxcombe Court scheme in Abingdon quoting £11.00 psf and most schemes seeing modest increases. As reported in our previous year end report there is also pressure on capital values.

We expect a strong second half to the year, with take-up for 2018 almost certain to exceed 2017 by a considerable margin. We take the view that the prime rent is now £11.00 psf, compared with £10.50 at the end of 2017, and up from £10.00 psf a year ago. We do however draw your attention to the variance of rental levels throughout the County, with rents outside of Oxford generally closer to £6.75 psf.

# RETAIL MARKET



**£300 PSF**
PRIME ZONE A RETAIL RENT

**1.1%**
2018 PROJECTED CONSUMER EXPENDITURE GROWTH (EXPERIAN)

**Lettings have slowed noticeably in the first half of 2018 against a challenging backdrop for the UK high street sector, with retailers generally more cautious about acquisition and expansion.**

Despite the slowdown there has still been some market activity. For example, Metro Bank is undergoing a significant expansion programme, and has taken a new unit on the corner of Queen Street and Cornmarket, delivered as part of a student accommodation scheme. Metro Bank also has a requirement for a second unit in the city. There has also been strong activity in certain locations outside of the city centre, most notably Summertown in North Oxford.

There remains a reasonable level of interest from the food & beverage sector, despite concerns over market saturation at the national level, with demand becoming more focused around independent retailers and those with a more unique offering.

It is almost a year since the redeveloped and extended Westgate Centre opened, significantly enhancing the city's retail offering, and with a greater emphasis on leisure. Anchored by John Lewis and Primark, the centre is performing reasonably well and has attracted an impressive range of retailers, including new entrants to the Oxford market. However, vacancies do remain and some significant rent free incentives are being offered in order to attract tenants.

Prime retail rental values have been stable over the last six months, with Zone A rents in Cornmarket at around £300 psf, Queen Street at £230 psf and the top of the High Street at about £200 psf.

Overall, we are unlikely to see any further rental increase until sentiment has improved. The Westgate Centre has shifted the city's centre of gravity, and the market is still undergoing a period of adjustment to this. Indeed, with rental pricing in the Westgate Centre broadly comparable to that in Queen Street, we think that rents in Cornmarket will need to reduce in order to remain competitive and attract occupiers as units become vacant. This will help pricing to match the need for retailers to lower their occupancy costs, and also increase the city's appeal to local occupiers.

# PROPERTY MARKET TRENDS

| | | **PRIME RENT** (MID-2018) | **CHANGE** OVER H1 2018 | **FORECAST** NEXT 12 MONTHS | **PRIME YIELD** (MID-2018) |
|---|---|---|---|---|---|
| **VALUES** | **Office** | £30.00+ psf | ↑ | ↑ | 5.0% |
| | **Industrial** | £11.00 psf | ↑ | ↑ | 5.0% |
| | **Retail** | £300 psf ZA | ↔ | ↓ | 4.25% |
| | | **H1 2018 TAKE-UP** (SQ FT) | **TAKE-UP** COMPARED WITH 5-YR AVERAGE | **CURRENT AVAILABILITY** (SQ FT) | **CHANGE** OVER H1 2018 |
| **BUSINESS SPACE ACTIVITY** | **Office** | 135,400 sq ft | Below average | 801,000 sq ft | ↓ |
| | **Industrial** | 1.36 million sq ft | Above average | 1.97 million sq ft | ↑ |
| | | **TOTAL TRANSACTED H1 2018** | | **6-MONTHLY AVERAGE (LAST 5 YEARS)** | |
| **INVESTMENT MARKET ACTIVITY** | | £134 million | | £133 million | |

# OUTLOOK

- We expect occupier interest across the office and industrial sectors to remain strong. The key issue is a lack of supply, which will continue to constrain the level of market activity for both occupiers and investors, maintaining upward pressure on rental and capital values. There are also some concerns around the recruitment and retention of EU staff post-Brexit.
- Occupier requirements from university spin-outs and the knowledge sector will remain key for the office / lab market. Science parks remain the focus for demand, and further development looks increasingly likely as supply falls.
- No new city centre office space is due to come forward in the short term. Oxford North has the potential to add significantly to Oxford's office stock in the medium term, but is not certain to get planning approval.
- The Westgate Centre has undoubtedly been a success but this, combined with a slowdown in retailer demand, may mean a downward adjustment to retail rental values elsewhere in the city centre.
- In the longer term, there is further potential for growth allied to the new east-west transport infrastructure linking Oxford with Milton Keynes and Cambridge, especially given the aspiration for commercial and residential development along this key corridor.

# THIS PUBLICATION IS PART OF THE 2018 COMMERCIAL EDGE RESEARCH SERIES.

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## ABOUT CARTER JONAS

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