



EDGE COMMERCIAL

OXFORDSHIRE
2018

Carter Jonas

THE ECONOMIC SUCCESS OF OXFORDSHIRE HAS BEEN PRIMARILY DRIVEN BY THE KNOWLEDGE SECTOR. THIS IS REINFORCED BY THE FACT THAT THE EDUCATION SECTOR ACCOUNTS FOR OVER 7% OF THE COUNTY'S ECONOMIC OUTPUT. THIS HAS HELPED IN PRODUCING A GVA PRODUCTIVITY FIGURE PER WORKER THAT IS 17% ABOVE THE NATIONAL AVERAGE.

The result of this is Oxford being ranked as 2nd in the Fastest Growth City Ranking and ranked first on the Good Growth for Cities Index. This growth is further supported at a macro level by the Government's Industrial Strategy and the commitment made in the Autumn Budget to invest £215 million in Oxfordshire on vital infrastructure projects. Long awaited plans to redevelop the central Oxford train station are considered crucial to future prospects.

Oxford itself has witnessed above average economic growth over the last five years (3.4%pa average), with 2017 seeing economic growth of 2.7%. 2018 is expected to see reduced economic output at 2.2%, but this is still well above the national average. The strong economic growth has translated into particularly healthy employment growth. During 2017 employment growth was 2.0%, compared to 1.3% nationally. Employment growth is expected to slow down throughout 2018 after the sustained growth seen over the last five years, although the demand for almost 1,000 FTE jobs is anticipated in 2018.

Consumer expenditure in Oxford grew by 2.0% across 2017. Growth is forecast to be lower across 2018, at 1.3%, but still noticeably above the national level. In fact, disposable income per head in Oxford is 36% above the national average.

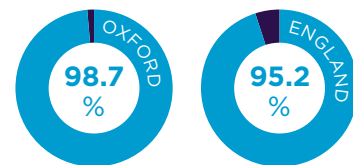
FOCUS ON INVESTMENT



2ND
FASTEST GROWTH
CITY RANKING
(UK 2018)

£71,641
GROSS VALUE
ADDED (GVA)
PER WORKER
(UK £61,444)

98.7%
SUPERFAST
BROADBAND
COVERAGE
(England 95.2%)



48.6%
BUSINESS
SURVIVAL
RATES
(% after 5 years)
(England 44%)



Property investment activity in Oxfordshire has generally been static due to lack of stock, with approximately £190 million of deals completed across 2017 compared to £307 million in 2016. These figures do however exclude Hermes’ sale of a 50% equity stake in Milton Park for a reported £200 million which falls outside of our investment criteria.

The industrial sector saw investment trading in excess of £70 million, driven primarily by four large deals in Banbury, Didcot and Faringdon. These were delivering yields of between 5.5-6.5%. Activity was focussed in the first half of the year.

Retail investments totalled just over £30 million in 2017. This was driven by two deals in particular, Waitrose in Banbury and Yarnton Nurseries in Kidlington. Yields remained tight on many transactions, at around 4.5%.

Interest in property investment across Oxfordshire has also driven by the wider infrastructure investment that has been happening and is

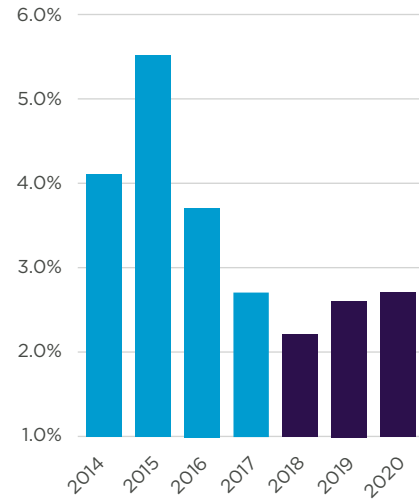
planned to happen within the county. The Oxfordshire Local Enterprise Partnership (LEP), for example, has been identified as the most successful LEP in attracting office occupiers, and Oxford is classed as a Top 10 City by Nesta for inward capital investment. The LEP has also achieved year-on-year growth over the last five years in terms of foreign direct investment successes. This has assisted in delivering over 40,000 jobs in the county since 2011 – half of the 2031 target.

A range of further actions are being promoted by the LEP and key local stakeholders to include the agreement of a Local Industrial Strategy, developing the Oxford-Cambridge Arc initiative, investing and expanding the Science Vale and Didcot Enterprise Zone, and rolling out the Government-supported Oxfordshire Transformative Technologies initiative.

Whilst this increase in activity over the past few years has and continues to result in key gains, equally there remains much to do in terms of local investment in infrastructure and housing particularly.

Figure 1 Oxford GVA

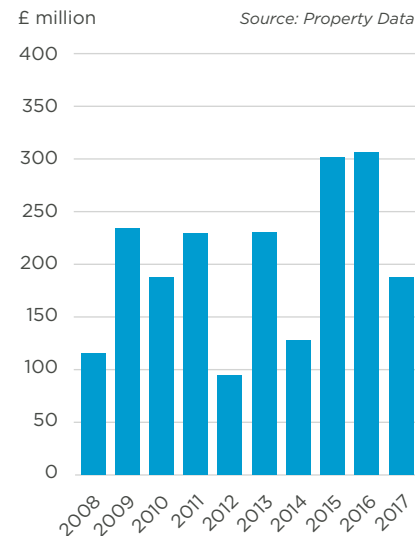
Source: Experian



THE OXFORDSHIRE LEP HAS BEEN IDENTIFIED AS THE MOST SUCCESSFUL LEP IN ATTRACTING OFFICE OCCUPIERS

Figure 2 Oxfordshire Commercial Investment Volumes

Source: Property Data



BALANCING THE STATS

Three dimensions of a 'balanced city' are outlined below. Comparing Oxford's performance to the national average allows us to consider the affluence of the city.

ECONOMICS

GVA GROWTH 2017



2.7%
OXFORD

1.7%
NATIONAL

EMPLOYMENT GROWTH 2017



2.0%
OXFORD

1.3%
NATIONAL

BUSINESS SURVIVAL RATES (% AFTER 5 YEARS)



48.6%
OXFORD

44.0%
NATIONAL

INCOME PER HEAD



£25,646
OXFORD

£18,793
NATIONAL

EDUCATION GVA OUTPUT (% ECONOMY)



7.1%
OXFORD

0.6%
NATIONAL

HOUSE AFFORDABILITY RATIO



12.1
OXFORD

11.9
NATIONAL

PROPERTY

OFFICE SUPPLY/DEMAND RATIO (YRS SUPPLY)



1.4
OXFORD

5.2
NATIONAL

INDUSTRIAL SUPPLY/DEMAND RATIO (YRS SUPPLY)



1.3
OXFORD

13.9
NATIONAL

RETAIL SPEND PER SQ FT



£11,839
OXFORD

£10,739
NATIONAL

5+ A*-C GCSEs ACHIEVED



49.8%
OXFORD

57.8%
NATIONAL

LONG-TERM UNEMPLOYED (2016 - %, 1 YEAR+)



1.2%
OXFORD

3.7%
NATIONAL

LIFE EXPECTANCY (YEARS)

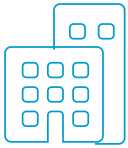


82.5
OXFORD

81.3
NATIONAL

PROSPERITY

OFFICE/LAB MARKET



£30.00
 OXFORD OFFICE
 RENTS (psf) Q4 2017



OXFORDSHIRE
 OFFICE TAKE-UP
 (2017)



OXFORDSHIRE
 OFFICE SUPPLY
 (End 2017)

Office take-up in 2017 across Oxfordshire totalled 586,000 sq ft, representing the highest recorded level over the past decade and a notable increase against the 2016 figures. Oxford’s knowledge-based economy has been the primary driver of this growth, with approximately 74% of the recorded transactions involving companies operating in the life sciences and technology sectors.

Activity has been concentrated on the County’s three main science and technology hubs - Oxford Science Park, Milton Park and Harwell. Speculative development at these hubs will be delivering 206,500 sq ft in Q1 2018. Much of this stock is expected to be committed prior to completion.

This activity has not been widespread throughout the County, however. Oxford City centre, for



example, had a much subdued share of transactions due to shortage of supply. Nevertheless, we have continued to see an increase in rental tone generally within the County’s remaining stock, driven partly by lack of supply but also through landlord investment.

With no new additions to the development pipeline in the past 12 months we anticipate greater take-up of second-hand stock over the next 12-18 month period. In the short-term, further announcements are expected regarding Oxford North (formerly Northern Gateway) and Oxpens, albeit the first phase of this latter scheme is likely to be residentially driven.

We have previously reported that the Oxpens scheme in Oxford City centre may act as a catalyst for rental growth. However, with the rental tone for the prime schemes now having passed the £30.00 psf mark, to a large extent the re-basing of the County’s prime rental tone has already taken place.

Figure 3 Office & Lab Take-up

Source: Carter Jonas

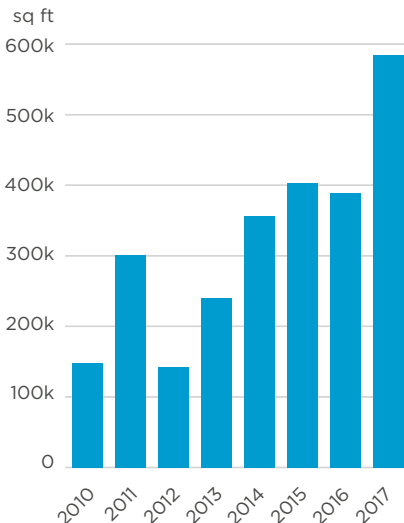
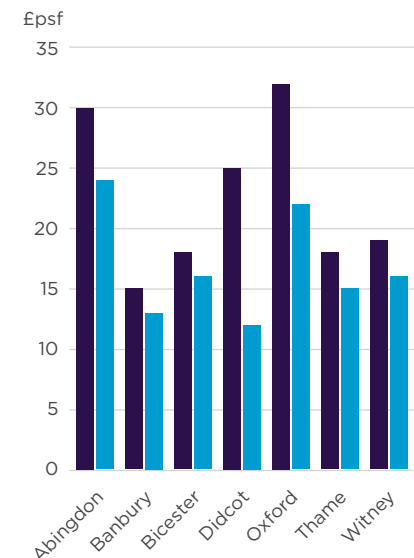
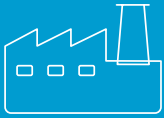


Figure 4 Office Rental Levels, 2017

Source: Carter Jonas



INDUSTRIAL MARKET



£10.50
OXFORD INDUSTRIAL RENTS (psf) Q4 2017



OXFORDSHIRE INDUSTRIAL TAKE-UP (2017)



OXFORDSHIRE INDUSTRIAL SUPPLY (End 2017)



The Oxfordshire industrial market recorded take-up activity totalling 1.42 million sq ft in 2017. This is approximately 5% down on 2016 figures. These figures show a mixed occupier profile, with no one sector dominating. However, it does include a number of science based ‘industrial’ buildings, such as the new Zephyr scheme at Harwell. Geographically, although Banbury and Bicester account for the majority of transactional activity, the spread has been much wider than previous years with notable successes in Abingdon.

Availability has increased substantially to 1.84 million sq ft. This increase is partially driven by the new build schemes, which comprise approximately 477,000 sq ft of the total. A large proportion of this new-

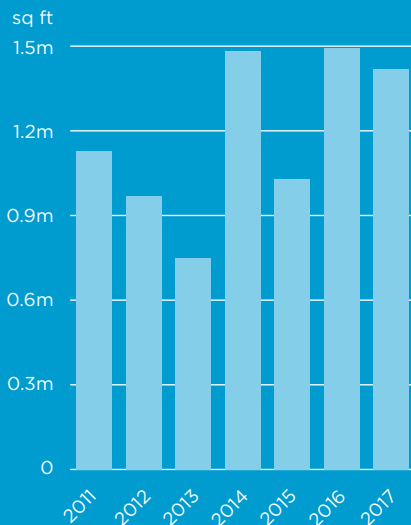
build element is accounted for in DB Symmetry’s larger Banbury and Bicester schemes. Equally, however, there is a welcome return to small and mid-range development, such as at Link 9, Bicester and Foxcombe Court, Abingdon.

Rental tones have, on the whole, continued to harden throughout the County with modest increases on most new build schemes. Capital values have risen considerably. Link 9’s latest transaction in Q4 2017, for example, is showing reported values of £128.00 psf.

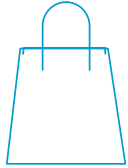
Excluding option activity, the future pipeline is largely unchanged with only Albion Land’s hard fought for Howes Lane scheme at Bicester being a new entry. Otherwise existing schemes supply is diminishing as take-up continues. The Howes Lane scheme totals 51.2 acres and can accommodate 570,000 sq ft of industrial stock.

Figure 5 Industrial take-up by year

Source: Carter Jonas

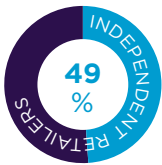


RETAIL MARKET



£300.00
OXFORD
RETAIL RENTS
(£psf ZA) Q4 2017

49%
INDEPENDENT
RETAILERS



+2.0%
CONSUMER
EXPENDITURE 2017



THERE HAVE BEEN A NUMBER OF NOTABLE EXISTING OCCUPIER MOVES TO THE WESTGATE, INCLUDING NEXT AND RIVER ISLAND.

*Source: Oxford City council



Oxford remains the dominant force in the Oxfordshire retail landscape. The City is an attractive retail centre with a strong historic, cultural and educational offering, attracting over seven million visitors a year and generating £780 million worth of income.

Our 2017 report focussed on the Westgate Centre, including the potential negative impacts it may have on the remaining City retail scene. There have, indeed, been a number of notable existing occupier moves to the Westgate, including Next and River Island. However, given the relatively strong level of known occupier requirements and limited unit availability, we consider it reasonable to assume that the longer term prospects for the City remain strong. This view is backed up by current footfall figures showing a 11.9% increase in January 2018 to the equivalent week in 2017*. It is evident from new arrivals in Cornmarket that there will be a partial change in retailing focus with a number of tourist driven retailers

and convenience food outlets taking the place of traditional high street retailers in this area.

Current Zone A rents remain unchanged with Cornmarket at around £300psf (ITZA), Queen Street at £230psf and the top of the High Street at about £200psf. Lease terms for the Westgate have been a closely guarded secret. However, we understand the Westgate is breaking with tradition, granting leases on terms as short as 5 years ensuring occupiers will have to earn their place in the shopping centre or risk their lease not being renewed. Rents are rumoured to be at an equivalent £240 psf (ITZA).

Outside Oxford the expansion of Bicester Village, owned by Value Retail, has seen the addition of 30 new stores (total 160) to the scheme. Also on the approach to Bicester, Consolidated Property Group have achieved outline planning for a new retail park totalling 100,000 sq ft of prime retail space with the main occupiers being Marks & Spencer and with the scheme incorporating a new gym, restaurant and hotel. Completion is targeted for late 2018.

THE TRENDS		PRIME RENT (END 2017)	CHANGE OVER 2017	FORECAST 2018	PRIME YIELD (END 2017)
OXFORD VALUES	Office	£30.00psf	↑	↑	5.5%
	Industrial	£10.50psf	↑	↔	5.5%
	Retail	£300.00psf ZA	↔	↔	4.0%
		2017 TAKE-UP (SQ FT)	CHANGE OVER 2017	CURRENT AVAILABILITY (SQ FT)	CHANGE OVER 2017
OXFORDSHIRE BUSINESS SPACE ACTIVITY	Office	586,000	↑	843,300	↑
	Industrial	1,420,000	↓	1,840,000	↑

SPOTLIGHT ON: UNIVERSITY SPIN-OUTS

Although the University spin out is not a new phenomenon, the past three years in particular have seen a marked increase in spin out investment, with a range of investment vehicles concentrating on this sector, including Lansdowne Partners and Woodford Investors, amongst others.

The most high profile of these however is Oxford Sciences Innovation (OSI), launched in 2015 in partnership with Oxford University to provide capital and scaling expertise to businesses driven by intellectual property developed in Oxford’s Mathematical, Physical, Life Sciences and Medical Sciences Divisions.

This in turn is now resulting in tangible take-up activity as the

spin out companies accelerate their development programmes with the benefit of this capital and expertise and move into both conventional and lab accommodation.

Since formation OSI has invested in over 45 spin out companies across the technology and life science sectors. Most recently Diff Blue, an AI company, with a 2017 \$22M Series A funding from Goldman Sachs, OSI and The Oxford Technology and Innovations Fund, has leased 15,000 sq ft of city centre accommodation.

In 2017, The Oxford Science Park attracted EvOx Therapeutics to the Park, whose mission statement is to create novel exosome-based biotherapeutics for the treatment of various severe diseases. EvOx was one of three biotech companies that secured a combined total of £37m from OSI in one round of fund raising.

Strong demand from University backed spin outs is forecast to continue well into 2018/19 and translate into take-up in the Oxfordshire office market. The related challenges arising for landlords is their ability and capacity to deliver high specification office accommodation, capable of fit out for dry and wet labs for companies rich in funding but with unproven trading and unknown future property needs.

Oxfordshire boasts a wealth of established success stories within the spin out sector, with the examples of Oxford Nanopore, Adaptimmune, Immunotec and Immunocore alone accounting for 240,000 sq ft of take up in 2017. It will be interesting to follow the newest crop of companies whose rise, or fall, could come about quicker given this increase in funding activity.



FORECASTS

Despite the uncertainty surrounding the impact of Brexit, in general terms Oxfordshire's immediate future appears strong. This is primarily linked to the rapid growth in knowledge based industries but also the related prospects presented by Oxford spin out companies.

In the industrial market, limited stock and demand for new built stock will encourage further development, where opportunities allow. In turn, this will be bolstered by the improvement seen in rental and capital values.

In the retail market we will see a number of schemes progressed during 2018 in the wider market place, whilst in Oxford city centre we expect a period of transition as those moving to the Westgate do so and new entrants take their place. Whilst there may be some initial pressure on rental tones equally there is an argument for longer term improvements as the City's footfall increases.

In summary, we have reason to be optimistic for the County's prospects over the next 12 months.

38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON



Bangor	Newbury
Basingstoke	Northampton
Bath	Oxford
Birmingham	Peterborough
Boroughbridge	Shrewsbury
Cambridge	Suffolk
Edinburgh	Taunton
Harrogate	Truro
Kendal	Winchester
Leeds	York
Marlborough	

National HQ One Chapel Place	Knightsbridge & Chelsea
Barnes	Marylebone & Regent's Park
Barnes Village	Mayfair & St James's
Fulham Bishop's Park	S. Kensington & Earl's Court
Fulham Parsons Green	Wandsworth
Holland Park & Notting Hill	Waterloo
Hyde Park & Bayswater	

ABOUT CARTER JONAS

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