

Market Watch

Oxford Office Market

March 2017

Office take-up set to reach record levels during 2017, driven by three large requirements

Occupational

Oxford's office leasing take-up reached 208,000 sq ft during 2016, in line with the long term annual average. The key deal during 2016 was AC Nielson's 45,000 sq ft lease at Oxford Business Park.

The Oxford office market is forecast to see take-up reach a record 500,000 sq ft during 2017, driven by large out of town requirements. With three large requirements totalling 400,000 sq ft currently in the market, and a further 200,000 sq ft of underlying demand expected, the wider Oxford market is preparing itself for a record year.

We expect the newly opened Oxford Parkway station, along with the £110m of funding for the east-west rail link between Oxford and Cambridge to improve accessibility to the city centre and out of town markets.

However, there remains a shortage of the best quality space in the city centre, with only 5,000 sq ft of Grade A space remaining. Out of town, 55,000 sq ft of space at the Danby Building, Oxford Science Park is the only large floorplate stock remaining, after Becton Dickinson relocated to Reading. Over the last two years, a large volume of secondary office space has been converted to student and residential, rather than kept for refurbishment.

This has applied further pressure to rents. Grade A space is currently quoting in excess of £30 per sq ft, and with a shortage of Grade A space, we see rents rising to £31.50 per sq ft by the end of 2017 for two reasons.

Firstly, top refurbished space is now achieving £27.50 per sq ft, which has squeezed the rental differential between new build and refurbished space. Occupiers will look to pay the slight premium for higher quality space.

Secondly, Oxford remains attractively priced relative to the UK regional cities. For example, top rents in Cambridge are currently quoting £36 per sq ft.

Three new speculative developments at Milton Park totalling 110,000 sq ft are due to complete during 2017, with a further 60,000 sq ft of speculative development at Oxford Science Park, which will act to ease the shortfall.

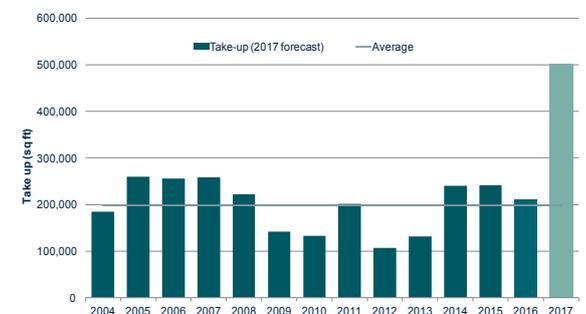
Investment

Office investment reached £39 million during 2016, in line with the 10 year average, largely driven by Sutton Borough Council's £30 million purchase of Oxfam's headquarters at Oxford Business Park, representing a yield of 5.3%.

We expect a busier year of office investment during 2017 driven by overseas investors taking advantage of a weak Sterling. We also expect to see the return of the UK institutions after what was a comparatively quiet year. With the prime/secondary yield gap closing, we see further downward pressure on prime yields during 2017.

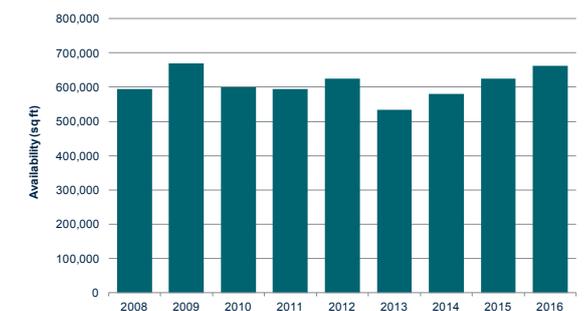
With returns set to be income driven going forward and yields remaining attractive relative to Central London, we see this as an opportunity for the Oxford office market to outperform. ■

GRAPH 1
Record year of take-up forecast



Source: Savills Research

GRAPH 2
Availability

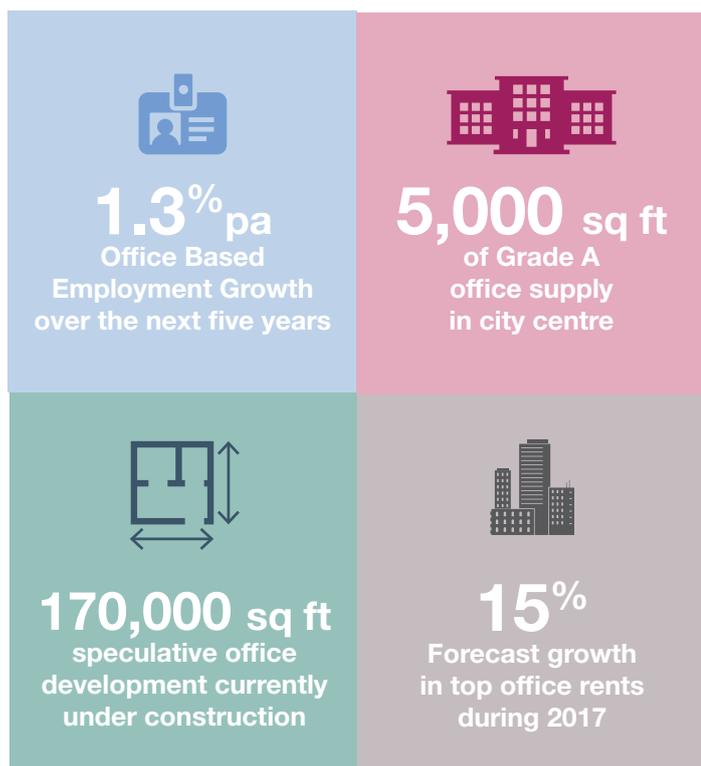


Source: Savills Research

GRAPH 3
Further rental growth is forecast



Source: Savills Research



Expert view

Charles Rowton-Lee, Director of office agency in Oxford, comments on the market

There remain a number of unprecedented large enquiries from scientific based companies looking in Oxford, whilst Grade A stock remains in short supply.

The solution to this may lie in the form of defurbishments, which allow existing secondary space to be upgraded and can include exposed brickwork, open ceilings and collaborative break-out areas. We expect this to gather pace in the Oxford market during 2017, as occupiers search for modern space at an affordable price.

The new Oxford Parkway station with services to Oxford and London Marylebone has now improved accessibility which is positive from a business point of view and has been reflected in house prices which have been driven up over the last 12 months.

Demand for industrial and warehouse accommodation of all sizes is very strong, with increased development having taken place over the last five years.

TABLE 1
Significant Leasing Deals in 2016

Address	Sq ft	Grade	Rent (£ per sq ft)	Business Sector	Tenant
Oxford Business Park	45,000	A	£25	Business and Consumer Services	AC Nielson
Unipart House	30,000	B	£18.50	Public Services	NHS
Pembroke House	16,500	A	N/A	Insurance and Financial	Bibby Financial Services

Savills Oxford Office Agency & Investment

Please contact us for further information



Charles Rowton-Lee
Agency
+44 (0)1865 269 030
crllee@savills.com



Nick Berrill
Agency
+44 (0)1865 269 066
nberrill@savills.com



Sophie Holder
Agency
+44 (0)1865 269 104
saholder@savills.com



Mike Barnes
Research
020 3107 5459
mbarnes@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.