



5 S F N Z T E L

OXFORDSHIRE A34
COMMERCIAL PROPERTY
MARKET UPDATE 2021

If 2020 was the year of the **'Oxford Vaccine'** then 2021 is the year of **'investment'** flowing from the huge potential that Oxfordshire is now demonstrating and delivering from the wealth of science and technology innovation that it holds. 2022 and beyond is the period when the Oxfordshire property market delivers to reach that potential and accommodate the rapidly expanding number of home-grown enterprises.

This potential within Oxfordshire has caught the attention of property investors who are now racing to secure opportunities which they believe will create facilities for the life sciences industry and deliver significant rental and capital growth. In the last quarter of 2021 several high-profile investments came to the market which have all reached values way in excess of quoting terms. The Centrica building and Trinity House on Oxford Business Park created fierce bidding among investors, whilst Littlemore House sold to the Ellison Institute for a future hub for the Global Health Security Consortium.

This excitement in the market has its foundations in the following key statistics:

Oxford University has retained its title as the No 1. university in the world and the No. 1 university for research. (TES)

Oxford University is the leading university for spinouts according to the GovGrant Report published in September 2021. Using data of 958 UK spinouts created between 1998 and 2018 it put Oxford University as No. 1 with 15% of the total, with a value created of £6.4B and money raised of £2.9B.

Oxford Science Enterprises (renamed this year from Oxford Science Innovation) invested £160M in 2021 (v £103M in 2020 and £58M in 2019).

The Q3 report by Oxford University Innovation reports 31 new companies created and £1.16B of external investment received for their portfolio companies which now exceed over 200 companies.

2021 saw significant increase in series B/C and D funding for the maturing spinouts created in recent years with the main beneficiaries being: Exscientia, Oxford Nanopore, Vaccitech, Pepgen, Ultromics and Spybiotech amongst others.

The impact on the occupational side of the commercial property market has been significant. Laboratory and office take up has continued to rise with an increasingly significant proportion of the this now dedicated to the fitted laboratory element.

The supply of office stock has increased, principally due to the impact of 'grey' occupier space being offered on the market. However, laboratory stock is in short supply and will continue to be so in 2022 until the development market catches up with demand in 2023 and beyond.

We estimate a significant level of unsatisfied laboratory demand (between 400,000 and 600,000 sq ft) at the start of 2022. This

increasing demand will put further pressure on rental levels and landlords will look to deliver fitted laboratory space wherever possible to meet the requirement for ready-made space.

Elsewhere in the office market we have experienced the same national phenomena of the professional and service sector occupiers seeking to consolidate their office space whenever lease events allow as they adapt to a COVID enforced work from home pattern and the need for greater overall flexibility. As a consequence, we are also receiving more enquiries for flexible leasing and this is also driving interest from the serviced / flexible office market which looks like one of the winning sectors in the future.

The industrial market has also experienced a record year with take-up at historic highs and supply nearing all-time lows. Capacity on allocated sites for industrial and warehouse development has now mostly been delivered and it is likely 2022 will hasten the disconnect between available space and demand. This should lead to further rental growth, particularly in prime locations.

The technology market is already a key element of industrial take-up. 2021 marked an acceleration of a sector specific drive by developers to provide dedicated space for growing spinout and tech businesses. This area will feature heavily in 2022 and beyond as various schemes come to completion focusing on this exciting market.

There is continued hope that the rail infrastructure will receive news of new funding in 2022. Planning permission was granted in Q4 2021 for the Oxford Station West platform redevelopment. This will hopefully lead to a chain reaction which will see Network Rail seeking DfT funding for both this and the Botley Road bridge. Increased station capacity will allow potential for the Cowley branch line and further studies are to be progressed to justify this scheme.

Sources:

Times Educational Supplement University Rankings

<https://www.timeshighereducation.com/content/world-university-rankings>

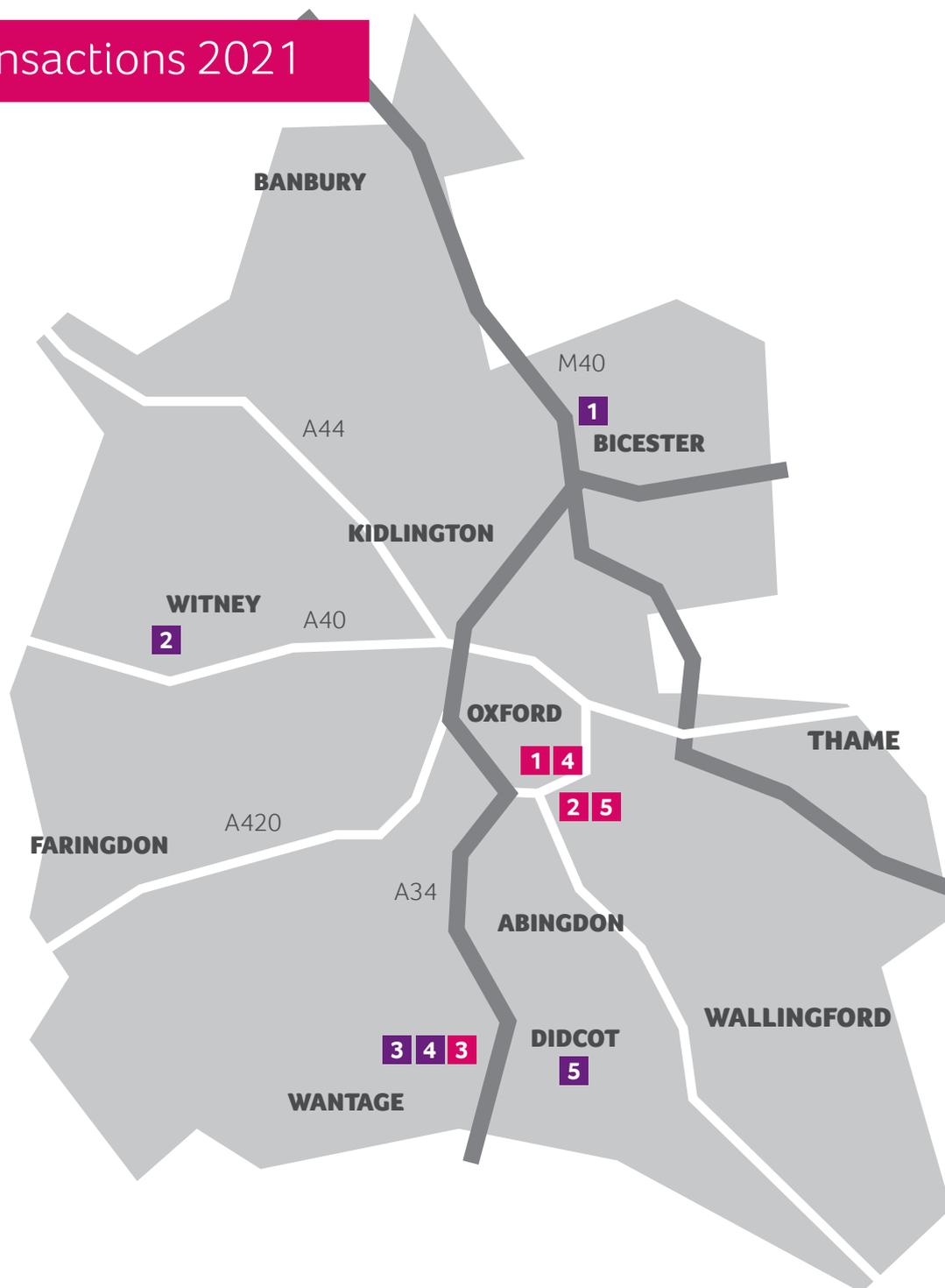
The University Spin Out Report 2021

<https://www.govgrant.co.uk/university-spinout-report/>

Oxford University Innovation – Annual Report 2021

<https://annualreview2021.innovation.ox.ac.uk/>

Key Transactions 2021



Office Transactions ■

- 1 3140 Oxford Business Park**
25,374 sq ft to Oxford Biodynamics
- 2 Littlemore Park**
41,417 sq ft to Larry Ellison Federation
- 3 Harwell – Airman’s Mess**
17,000 sq ft to confidential
- 4 4000 Oxford Business Park**
18,000 sq ft to Ivy Farm
- 5 Hayakawa Building, The Oxford Science Park**
38,000 sq ft to The Oxford Science Park

Industrial Transactions ■

- 1 Axis J9 Phase 3**
250,000 sq ft to Arrival & Menu Group
- 2 3 Tungsten Park**
28,000 sq ft to Air Tanker
- 3 Harwell Pre Let**
320,000 sq ft to Natural History Museum
- 4 Harwell-Zeus**
60,000 sq ft to Vaccitech & Astroscale
- 5 Didcot Quarter - 120**
120,000 sq ft to Simon Hegele

Office Market

When describing the 'office market' we have traditionally included buildings that have been let as laboratory space, or to other science and technology users. We have now created a separate sub section for the laboratory market but for the sake of consistency we continue to describe this market as a whole within this section.

Take up was recorded at 384,673 sq ft which was an increase on 18.4% and approximately 10% above our 5 year average.

We have identified two key trends in 2021. Firstly, the significant increase in laboratory lettings which now accounts for 50% of all transactions within this sector (see our Laboratory section for more details). Secondly, as a consequence of COVID lockdowns and flexible working patterns, many existing office occupiers are reducing the floor space they occupy.

We have also recorded 4 major professional sector occupiers that undertook considerable consolidation in their property holdings by reducing their floor space by between 40% and 60%. These events have usually occurred as a consequence of lease events and we foresee this trend continuing into 2022 and beyond as occupiers seek a central hub and meeting facility but only anticipate having half the workforce in at any one time.

We have also recorded a number of transactions to educational occupiers generally providing private 6th form education. These have taken space which has been relinquished by foreign language schools as this market re-emerges.

Supply has increased significantly though as a consequence again of larger occupier held space being offered to the market as occupiers seek to consolidate in the new flexible working that we are all adapting to. Supply has increased by over 24% to 795,837 sq ft. A significant element of this space can be found on the Oxford Business Park (240,084 sq ft). Here a number larger occupiers including Oxfam (85,000 sq ft) and Centrica (82,250 sq ft) seek to off load surplus

office space. The availability of landlord held space also provides a key opportunity for Brookfield at the Oxford Business Park, who will be looking actively to provide re-purposed space to accommodate the immediate laboratory requirements. In comparison very little space remains available in Oxford City Centre and also at The Oxford Science Park, where rental levels continue to grow.

The dedicated office market will continue to adapt in 2022. We foresee a greater need for flexible/serviced workspace as occupiers cautiously return to the office and prefer not to take longer lease commitments, as well as providing for early stage start ups. Occupiers will increasingly demand high quality space to attract staff back into the office with added extras such as better amenity, break out space and public transport.

Average transaction size also increased by 9% to 10,635 sq ft, reflecting an increasing maturity in the technology market where these larger transactions have occurred.

Rental levels in the office sector held firm and even demonstrated growth in areas of limited supply, but it is the laboratory sector which is proving most dynamic.



Office Market Key Stats

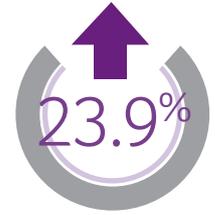
Office take-up up to

384,673 sq ft



Office supply up to

795,837 sq ft



Average transaction size

10,685 sq ft



Total transactions

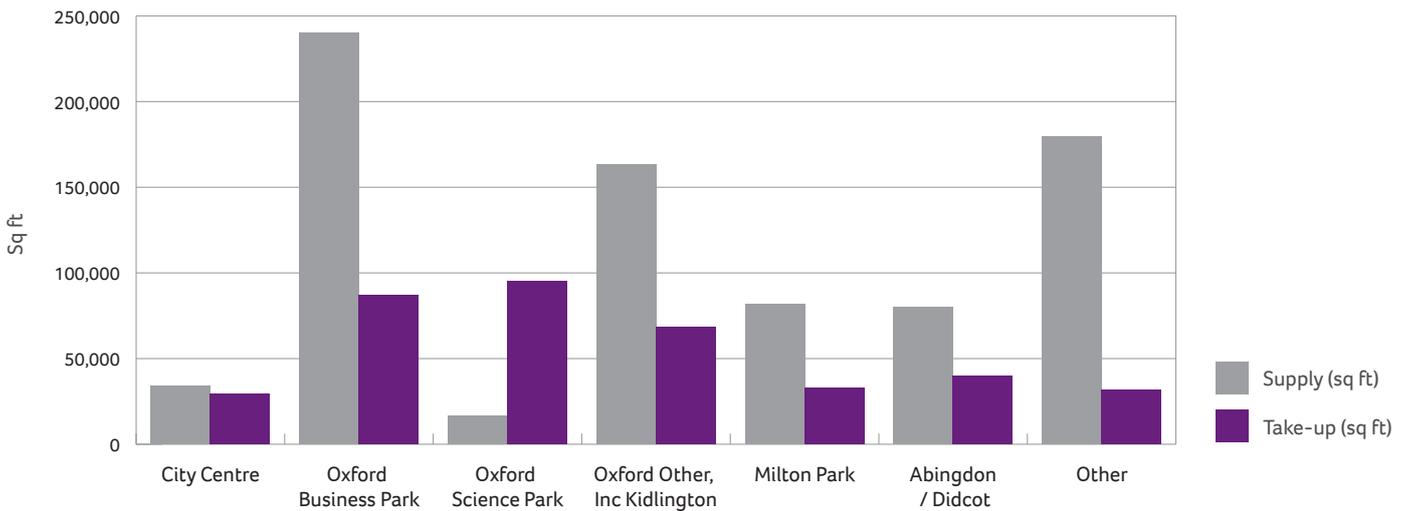
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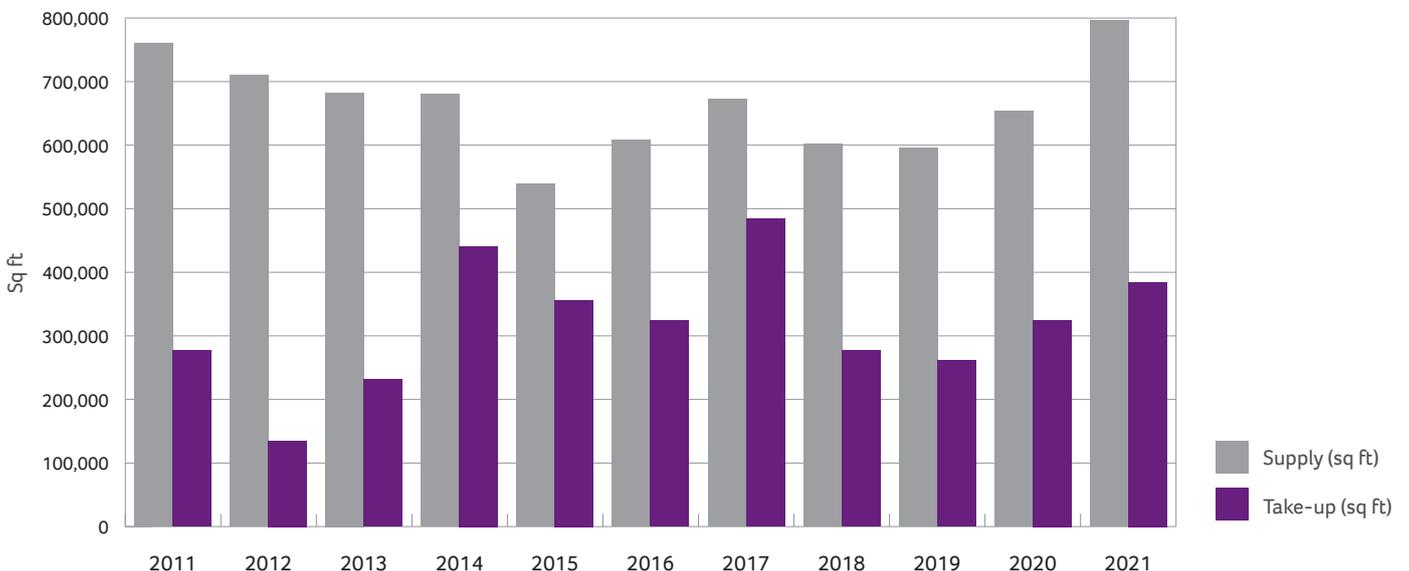
Science and Technology sector activity

201,222 sq ft = 52.3% of total take-up

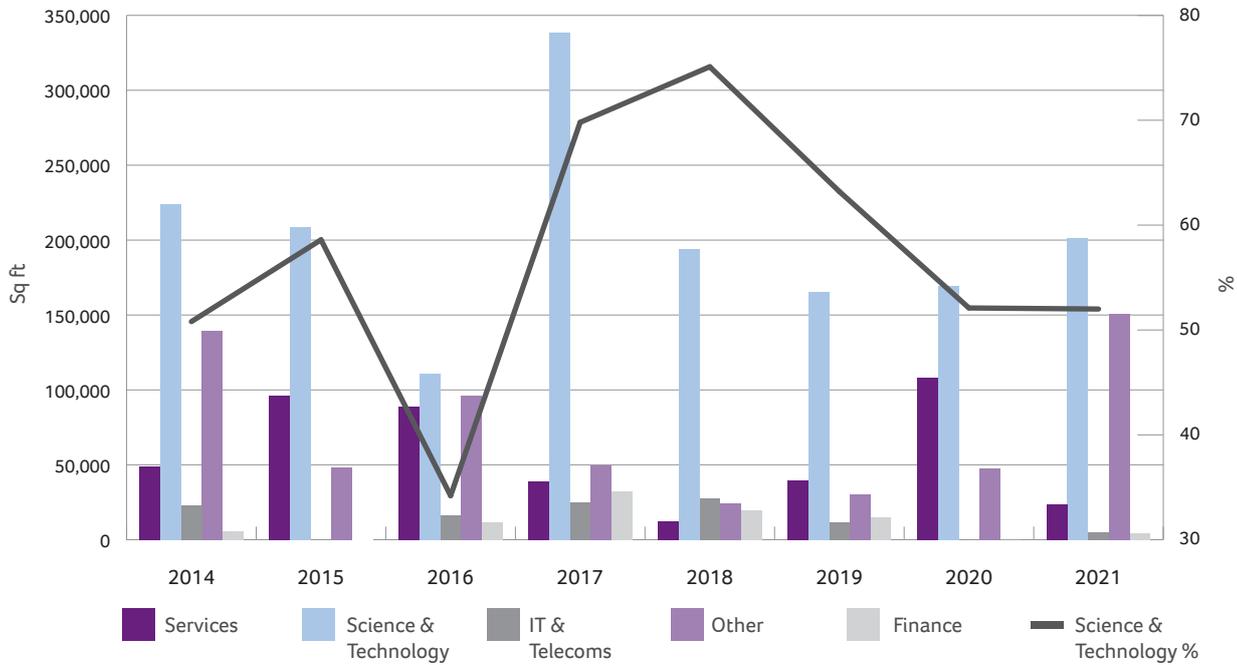
Office Supply & Take-Up by Location



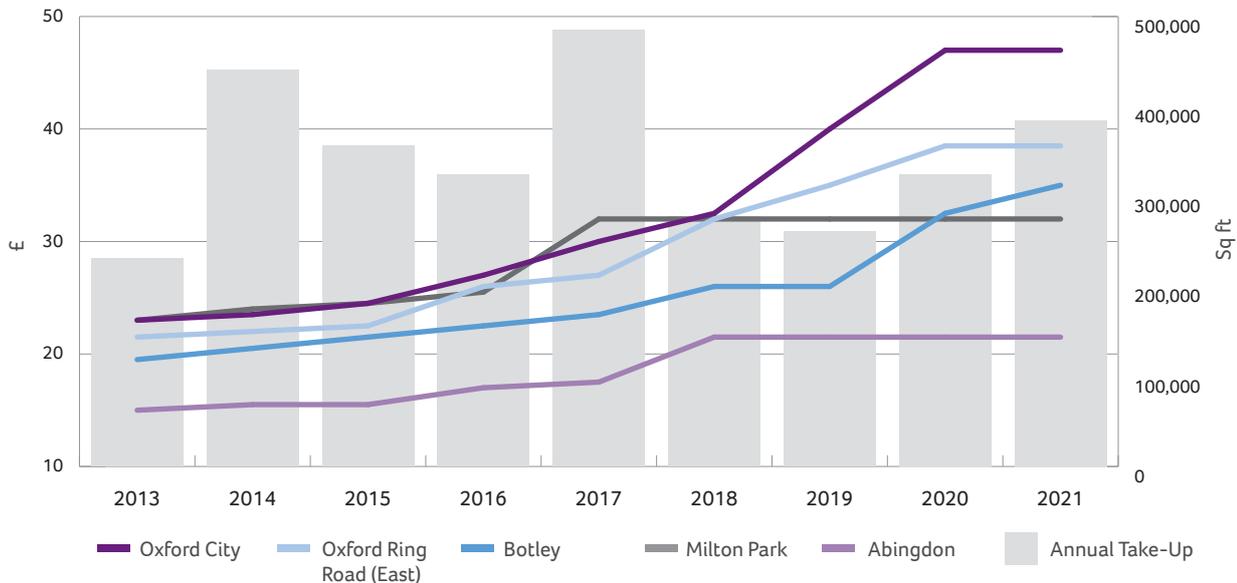
A34 Corridor Office Supply & Take-Up



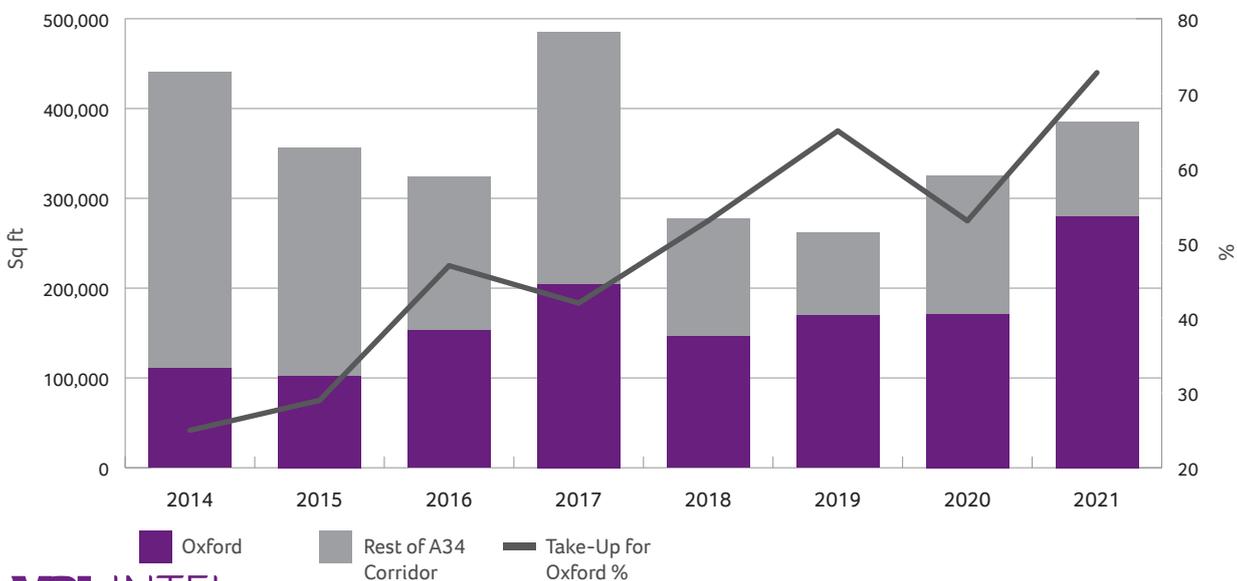
Sector Take-Up



Headline Rents / Annual Take-Up



Oxford Take-Up as part of A34 Corridor



Industrial Market

2021 marked another record breaking year for the Oxfordshire industrial and warehouse market. The completion of some 600,000 sq ft of new speculative schemes, combined with strong demand, pushed the market to record take up of 1,573,083 sq ft. Take up was some 24% higher than 2020 which had already marked the previous record level. Occupiers have been seeking good quality space to upgrade and expand, demonstrated by some 65% of all take up being new units, either speculative or on a design and build basis. The sheer speed of the take-up of the new product has led to a shortage of good quality available space which will continue through 2022.

The year continued a key shift in development focus away from traditional warehouse space towards stock specifically designed for the burgeoning science and technology markets. The focus of these developments is towards the main science and business parks in the A34 corridor. These buildings are typically designed to provide the look and design of an office building but providing the added practicality of industrial space. The HGV access, dock loading and eaves heights of traditional industrial units being replaced by additional parking, power and office content. The completion of Zeus at Harwell (60,000 sq ft mostly let to Vaccitech and Astroscale) marked the start of a wider development programme of this product type. New developments are expected in Bicester, Kidlington, Harwell and Milton Park during 2022.

The allocation of take-up between sectors was more evenly spread than previous years, but still dominated by the distribution (50%) and science and technology (31%).

Bicester recorded some 535,189 sq ft (34% of all take-up) during the year. This is down from 2020, but comfortably still the most significant location for industrial take up. Whilst most of the allocated sites within Bicester are either at or near capacity, there are three further current planning applications that, if all consented, would produce a further 1M sq ft of space. These include a 580,000 sq ft facility for Siemens Healthcare on land abutting the M40 J9. The remaining existing industrial allocation is focussed at Catalyst, a new technology based scheme with the first phase due to complete in March 2022 and a further 250,000 sq ft of capacity for the next development phase.

The level of letting and sale activity at **Witney** was in relative terms,

perhaps the biggest success of 2021 with a total of some 255,000 sq ft transacted in the town. Tungsten Park at Witney has proved both demand and rental growth to provide much needed new space to this market. This reflects a growing confidence in the location and improvement works to the A40 to Eynsham is set to further improve accessibility during the coming years (2025 completion). Planning has now been received for a further phase of 167,000 sq ft at Tungsten Park and 120,000 sq ft at Canmoor's Windrush Industrial Park both of which will be developed during 2022.

Supply has decreased by 24.8% over 2020. We anticipate the supply will continue to decline in 2022 despite some 370,000 sq ft of new stock coming to the market. This lack of new space may well force occupiers to compromise and adapt some of the older buildings in the area. There are few development opportunities and most landlords are looking to improve existing buildings in order to enhance rental growth prospects. Milton Park will commence the redevelopment of Building 170 in 2022 which will complement other existing 'back to steels' refurbishments which included Building 178, formerly occupied as a low grade warehouse unit and now transformed into a tech unit recently let to New England Biolabs.

Rental growth has continued through 2021, if anything accelerating towards the end of 2021. Inflation in build costs coupled with strong tenant demand has emboldened landlords to continue to push rental boundaries on all industrial products. Rents have therefore hit new highs in all locations and markets during the year. As supply levels decrease during 2022 further rental growth seems inevitable.

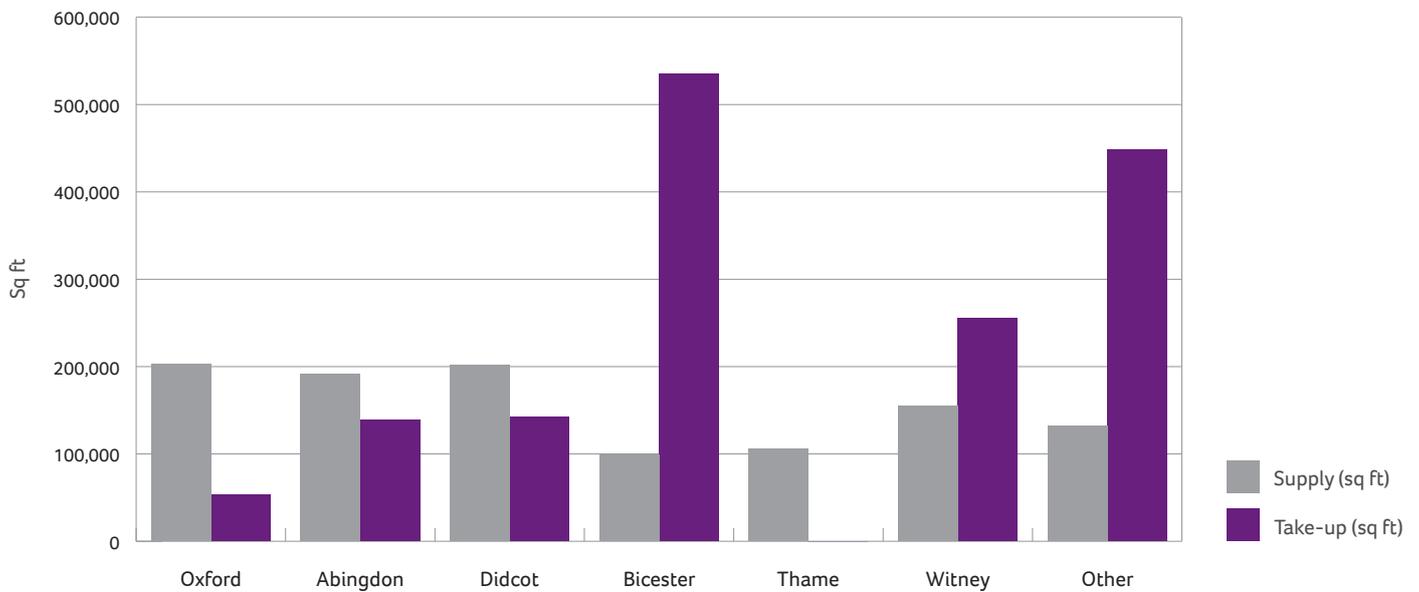


Industrial Market Key Stats

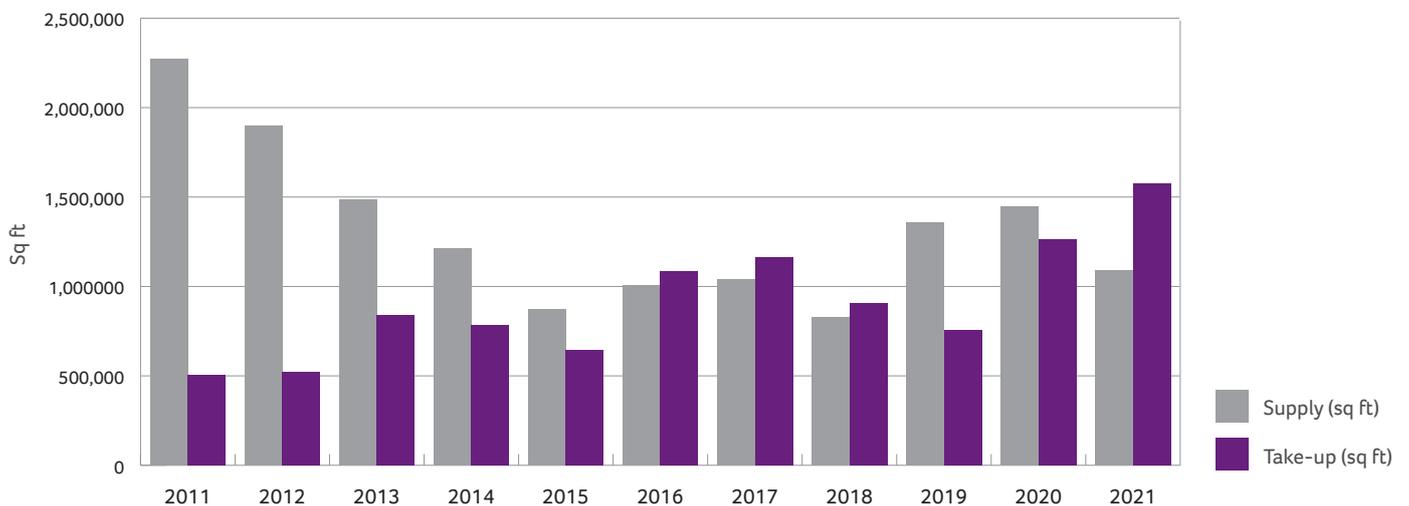


Science and Technology sector
482,233 sq ft = 30.7% of all take-up

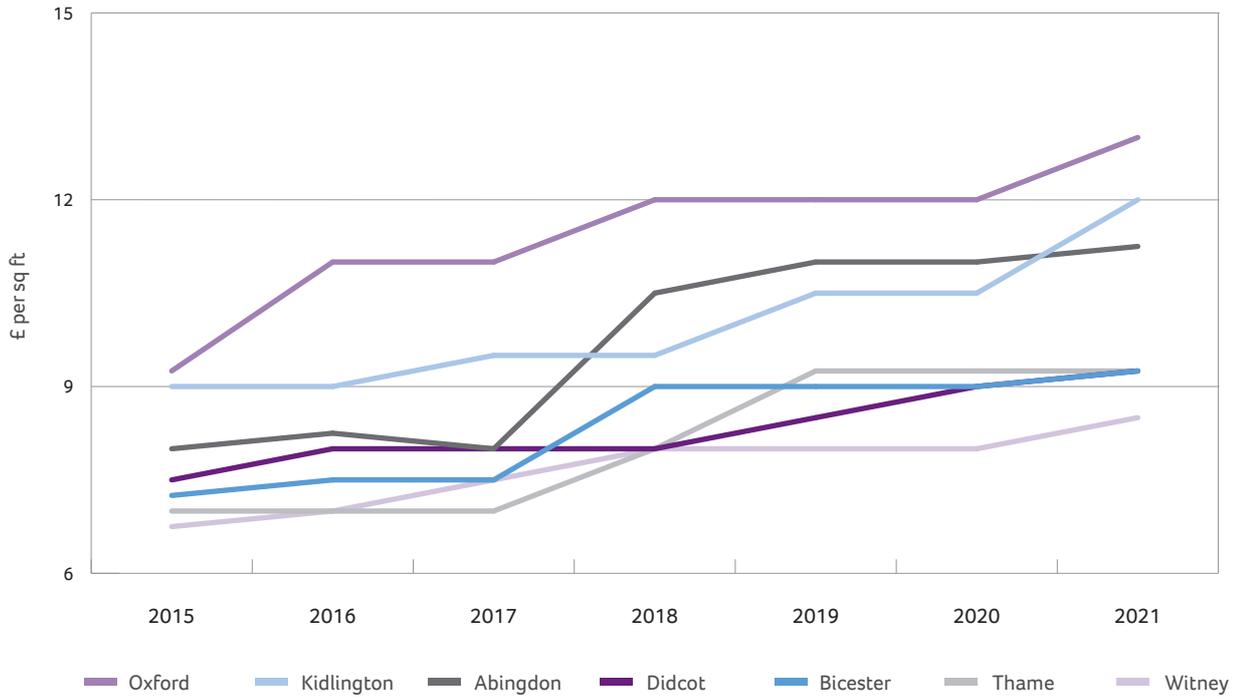
Industrial Breakdown by Town



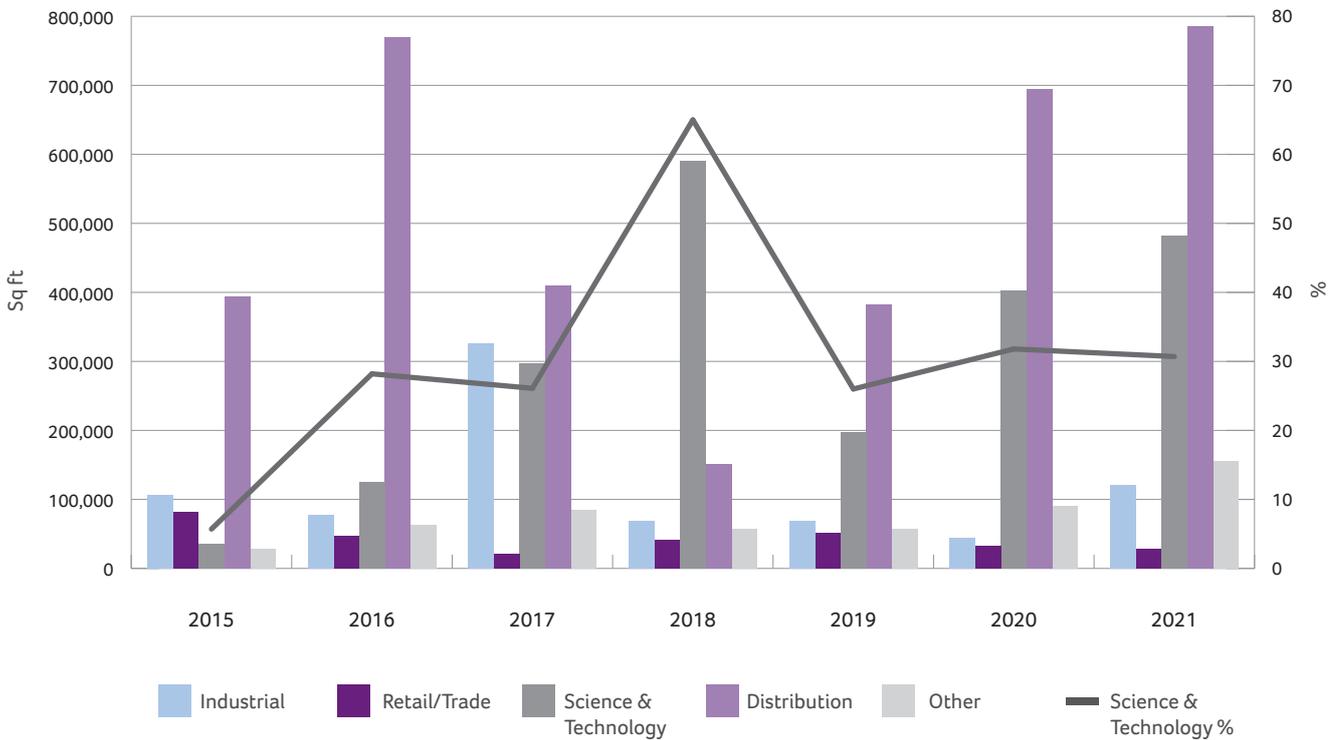
A34 Corridor Industrial Supply & Take-Up



Industrial Prime Rents



Industrial Take Up By Sector

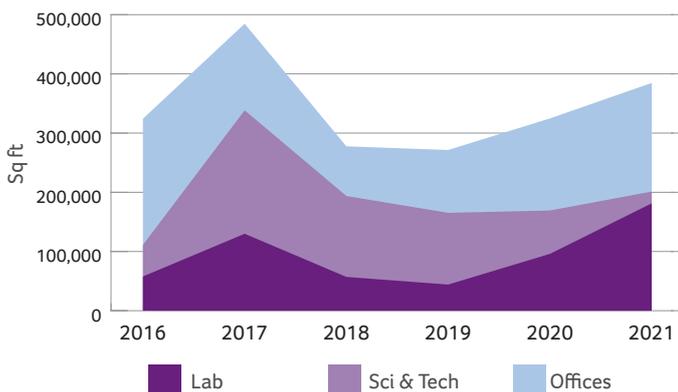


The Laboratory Market

2021 was the year that saw laboratory demand and take up soar. We have already referenced in our introductory page the key drivers for occupier demand. Requirements are being driven for incubator space, grow on space and HQ facilities as companies mature at speed.

The graph below illustrates the laboratory sector and now accounts for 50% of all take up within the office sector. A consequence of both the increased demand but also declining office take up.

A34 Corridor - Lab Take up as Part of Office Market

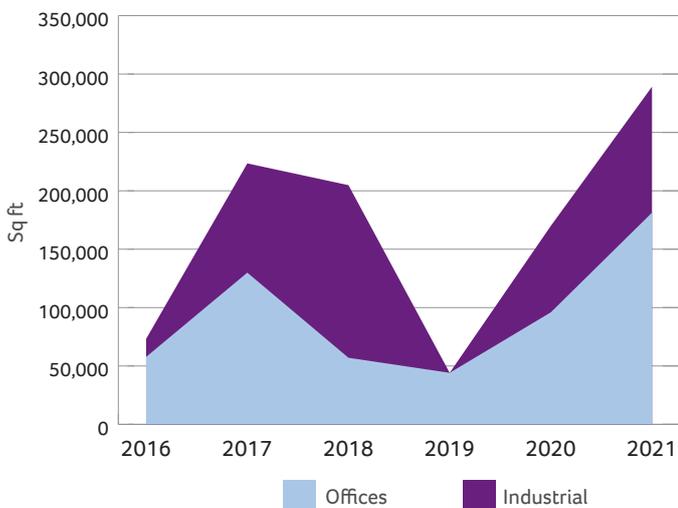


Total laboratory take up in the office sector accounted for 181,298 sq ft. Within this figure, 38% or 68,869 sq ft accounted for fitted laboratory space.

Total laboratory take up in the industrial sector accounted to 107,878 sq ft or 6.8% of the total industrial take up and is still an emerging part of this market.

The combined market deals totalled 289,000 sq ft which is the highest level we have recorded.

Total Laboratory Deals (Office & Industrial Sector)



The majority of demand is coming from the Life Sciences sector which typically requires Containment Level 2 laboratory premises with access to

good ventilation and extract, water and drainage, piped gas and loading facilities.

Supply is mainly being created from the repurposing of existing office stock. Occupiers moving from incubator space have become accustomed to taking 'fitted laboratory' space and this requirement is now the norm for 'grow on' space. The tenant often wishes to preserve their working capital, also can't wait for space to be fitted and lacks the experience to manage the fit out process. Landlords are accepting that this greater investment can be recouped through higher rents and the likely ability to relet this space to future occupiers. We believe landlords will increasingly be creating 'fitted laboratory' space and that 'lab enabled' or shell space will be provided on larger buildings were specialist fit out and longer lead-in timescales are likely.

Supply of space is becoming increasingly limited and we estimate current laboratory stock is limited to approximately 121,700 sq ft, of which 29,000 sq ft is under offer. Of this space some 12,700 is fitted and 80,000 sq ft presented as lab enabled.

Our view is that availability of supply will continue to be limited into 2022 and occupiers will mainly be reliant on re-purposed space with new purpose built accommodation unlikely to come through until 2023 and beyond. By 2026 we estimate a further 4.75M sq ft of laboratory space could reach the market.

We currently estimate existing laboratory demand being in the region of 400,000 to 650,000 sq ft. This supply/demand imbalance is likely to lead to rental inflation over the next 12 months. The rental market is still yet to stabilise and adjust to the new 'fitted laboratory' standard. A premium rent of £95 per sq ft is reported to have been achieved at the OSE developed Sherard Building on The Oxford Science Park for a 'fitted laboratory'. Other deals in the Oxfordshire market have varied from late £30's to high £40's per sq ft but comparison is often difficult without understanding the specifics of each deal. We predict that rents will climb significantly in 2022.

As reported earlier, the other significant factor in this market has been the intense competition from investors to place money into the Oxfordshire eco-system. In September GIC acquired a 40% holding in The Oxford Science Park for a reported £160M following competitive bidding. At the same time the Arlington portfolio which included Oxford Business Park was sold by TPG to Brookfield who now occupy a dominant position in the local market as they are also joint developers at Harwell Science and Innovation Campus. This significant infrastructure investment in the built environment secures Oxfordshire future ambition to be a leading light in the development of the OXCAM arc.

VSL & Partners produces market reports providing a valuable insight into commercial property market activity in the Oxfordshire region. For further information or to speak to one of VSL & Partners experts, please call 01865 848488 or visit www.vslandp.com

About VSL & Partners

VSL & Partners was formed in 2002 to provide clients with unrivalled local and regional commercial property advice.

The company now has the largest dedicated commercial property agency team in Oxfordshire with other services including: Commercial Property Lease Advice, Valuation, Consultancy, Technology Company Advisors and Business Rates Appeals.

VSL is recognised by The Estates Gazette online service – EGI as Oxfordshire’s Most Active Agent accolade and Deal Maker of the Year for 2020.

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