

Autumn 2017

OUR VIEW ON OFFICES AND LABS



“Knowledge is power”
is a quote most commonly
attributed to Sir Francis Bacon
but the principle is even more
important in today’s economy

Strong demand for office and lab space in the ‘Golden Triangle’ outside of London continues to push up rents

The first half of 2017 has seen prime office and lab rents in Cambridge and Oxford surge ahead as the UK continues to refocus towards the ‘knowledge’ economy.

Prime office rents in Cambridge shifted up by 2.7% to £38 per sq ft in the first six months of this year, whilst Oxford saw a staggering rise of 7.1%, with rents growing to £30 per sq ft.

On the counter side, Central London office rents moved into reverse, with prime rents in the City of London down by 6.7% to £70 per sq ft in h1 2017, whilst West End rents are down by 12.5% to £105 per sq ft.

Tight supply of grade A space maintains the pressure on secondary rental values

Unlike previous rental cycles in the ‘Golden Triangle’ the current upturn in rents has seen second hand office rents grow at a faster rate than prime rents as occupiers have been forced to consider older space given the shortage of newly developed stock.

The graph below illustrates the current cycle and places it in context with the last upturn in rents in 2007.

Over the latest cycle, which began as far back as 2012, prime rents have grown by an annualised 4.2% per annum, whilst good quality second hand space has seen growth of 6.6% per annum. The most surprising factor is that poorer quality office space has seen rents grow by 7.1% per annum over the past five years, as occupiers have targeted space in the absence of more modern stock.

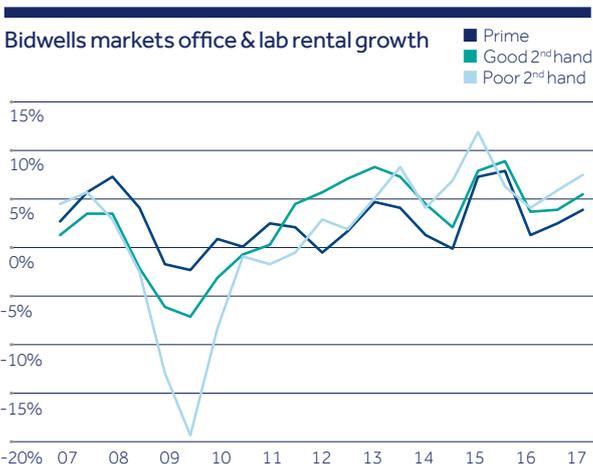
Overseas investors continue to buy despite Brexit fears

The latest investment figures for investment into UK property have shown that overseas investors have continued their purchase of UK property, despite the economic and political uncertainty that has arisen after the Brexit vote.

In the first six months of this year, transactions totalling £24.2bn have been completed, slightly down on the same period in 2016 (£26.9bn) and almost 38% below the peak level of £38.8bn in 2015.

More than 50% of purchases over the first half of the year have been by overseas investors, illustrating a huge vote of confidence in the medium term prospects for the UK.

The recent purchase of a 50% stake in Milton Park, Abingdon by the Canada Pension Plan Investment Board is further evidence that the UK commercial property market remains attractive in the context of other investment options.



Source: Bidwells Research

Office and labs market overview

Prime headline rents

Prime rents in Cambridge and Oxford continue to rise despite falls in Central London. Rents in London's West End continued to adjust downwards

Location	Prime headline rent (£psf 06/2017)	Location	Take up (000's sq ft h1 2017)
Cambridge	38.00 ▲	Cambridge	218.2 ▼
Cambridge Labs	33.50 ▲	Cambridge Labs	56.4 ▼
Oxford	30.00 ▲	Oxford	225.0 ▲
Milton Keynes	23.50 ►◀	Milton Keynes	88.5 ▼
London(West End)	105.00 ▼	London(West End)	2.2m ▲
Norwich	16.50 ►◀	Norwich	83.5 ▼

Availability

Supply continues to tighten, with grade A space coming to the market quickly going under offer

Location	Availability (% total sq ft 06/2017)	Location	Prime yield (% 06/2017)
Cambridge	10 ▲	Cambridge	5.00 ►◀
Cambridge Labs	7 ▲	Cambridge Labs	5.50 ▼
Oxford	7 ►◀	Oxford	5.25 ▼
Milton Keynes	14 ►◀	Milton Keynes	6.00 ▼
London(West End)	5 ▼	London(West End)	3.75 ►◀
Norwich	7 ▼	Norwich	6.50 ▼

Take up

Take up falls back in most locations as supply shortages take their toll. Activity in London remains buoyant although occupiers negotiate hard

Demand

Demand continues to exceed supply in markets that have a strong exposure to high growth industries. This is expected to continue for the foreseeable future

Location	Demand (000's sq ft 06/2017)
Cambridge	1,096.6 ►◀
Cambridge Labs	310.0 ►◀
Oxford	771.9 ▲
Milton Keynes	411.1 ▼
London(West End)	N/A
Norwich	114.4 ▼

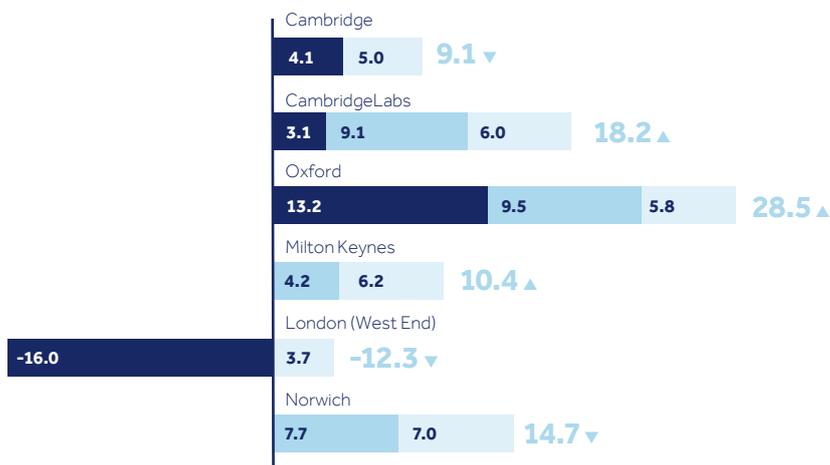
Increase in prime Oxford office rents since 2014

30.4%

Total returns (% 06/2017)

The variance in returns increase as rental values come under pressure in London's West End. Most other locations have benefitted from yield compression as investors target regional cities with good rental growth prospects

■ Rental growth %
■ Yield movement
■ Income return %



Highlights from our markets

Cambridgeshire Offices

Cambridge leading the way in the governments 'new' Industrial Strategy

Theresa May's government unveiled the first UK Industrial Strategy in more than 30 years, with a promise to promote 'knowledge' based industries.

Cambridge is well placed to benefit from the new strategy, retaining its place as the UK's most innovative city in the latest Centre for Cities report.

Oxfordshire Offices

Oxford Science Innovation raises additional capital

Oxford Science Innovation (OSI) is the investment partner to OUI, providing capital and expertise to the new research ideas launched by the university.

In 2016, OSI raised additional capital from Asian investors, pushing the overall fund value to £580m.

The science investment fund has investments in more than 35 companies.

London Offices

London is the 'Digital Tech' capital of Europe

Over the past five years (2012-16) London has attracted £13.8bn of venture capital and private equity investment into the sector. This is greater than the combined total for Paris, Berlin, Amsterdam and Dublin (£12.8 bn).

In total, London's Digital Tech industry employs in excess of 300,000 people, with an estimated 31% of these employees coming from overseas.

THE FACTS

Prime office rent hits new peak

£38 psf

THE FACTS

Amount of h1 2017 take up by the 'knowledge' based businesses

72.6 %

THE FACTS

Amount of take up in h1 2017 that was grade A space

86.6 %

M1 South Offices

Milton Keynes is one of the best examples of a 'Smart City' in the UK

Milton Keynes was lauded as one of the UK's leading city's in 'Smart City' technology.

The term refers to the city's use sensors to monitor air pollution, energy usage, water usage and living patterns at home to detect early signs of illness.

The technology is seen as being particularly important to manage cities that are experiencing a rapid growth in population.

Norfolk/Suffolk Offices

Quadram Institute building gets go ahead at Norwich Research Park

The construction of the Quadram Institute building at Norwich Research Park commenced in q1 2017, with completion scheduled for 2018.

The new £75m facility will act as a centre for research into food, diet and health and will work closely with the John Innes Centre (crop research) and The Genome Analysis Centre (Bioinformatics) both of which are already located at Norwich Research Park.

THE FACTS

Increase in occupied office floor space in Milton Keynes since 2010

1.1 msqft

THE FACTS

Growth in secondary rents since 2012

28.6 %

More detailed location sheets can be viewed at

www.bidwells.co.uk/research

Economic and market overview

Economy slows in h1 2017

The first two quarters of 2017 have seen a slowing in the economy following a better than expected result for the previous 12 months

The economy grew by 1.8% in 2016, stronger than anticipated by most economic forecasters but the first six months of 2017 have been disappointing, with q1 and q2 figures showing growth of 0.2% and 0.3% (provisional) respectively.

Performance in q2 has been driven by the service sector, which grew by 0.5% after the disappointment of 0.1% growth in q1. However, both manufacturing (-0.5%) and construction (-0.9%) acted as drags on activity.

Economy is forecast to grow by 1.6% in 2017 and slow further in 2018

The latest consensus forecasts show that the UK economy is expected to grow by 1.6% in the current year, implying an improved economic performance in the second half of the year.

A major impetus behind the improving economy are expected to be the growth in exports, which are forecast to benefit from the continued weakness in Esterling.

Of course this does not come without its costs, and inflation is forecast to remain above the Bank of England's target rate of 2% in both 2017 and 2018, as prices rise.

This has its impacts on household wealth, with real wages continuing to come under pressure

Growth of the 'Knowledge' economy outstrips non digital business

The latest Tech City report 'Tech Nation 2017' has illustrated the growing importance of the Digital Tech industry to the UK economy. The latest estimates indicate that the Digital Tech industry contributes £94bn to the UK economy and employs around 1.64m people. Output of the Digital Tech industry grew by 22% (5.2% per annum) over the period 2011-15 compared to growth in the UK economy of 2.1% per annum.

The UK is now seen as the digital capital of Europe, attracting £6.8bn of venture capital and private equity investment in 2016, more than the combined total of France (£2.4bn), Germany (£1.4bn) and the Netherlands (£1.3bn).

Office market rental growth slows

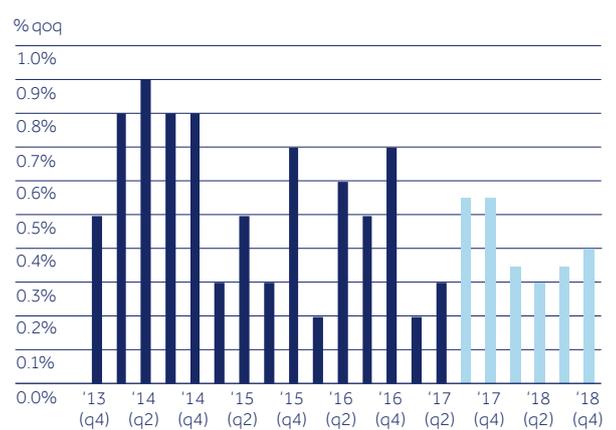
The MSCI Monthly Index has recorded a slowing in office sector rental value growth, with the decline in London rental values being the main driver.

The graph above compares the MSCI Index to the Bidwells prime rental value series, which has continued to show good levels of growth over the past 12 months.

Rents across the 'Golden Triangle' markets outside of London averaged 4.4%, with Cambridge offices and laboratories and Oxford offices leading the way. By comparison, the MSCI Monthly Index registered a modest increase of 0.9%.

The Bidwells five year forecast for office market rental growth across the 'Golden Triangle' anticipates a slowing, over the next 12-18 months before accelerating in 2019/20.

Quarterly GDP growth and forecast



Source: ONS & Consensus Forecasts

MSCI & Bidwells office rental growth



Source: Bidwells & MSCI Monthly Index

Growth in Digital Tech economy in period 2011-2015

22%

Growth in 'Golden Triangle' office rents outside of London 12 months to June 2017

4.4%

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