

Spring 2018



OUR VIEW ON OFFICES AND LABS



“Technology is breaking down traditional social barriers – replacing them with an ethos of collaboration and transparency.”

Heather Brooke
Author of 'The Revolution Will Be Digitised'

Property and equity returns converge

Property returns confounded expectations in 2017, finishing the year at 11.2%, up from 5.1% in the middle of the year.

Consensus forecasts for the property market stood at 8.2% in IPF's November UK Consensus Forecasts publication, illustrating how most analysts underestimated the strength of the market.

Office returns (8.5%) were slightly behind the All Property average, which was boosted by a strong performance in the industrial sector (21.1%).

On the counter side, equity returns fell back to 13.1% for the calendar year from a peak of 24.5% in May 2017.

The IPF Consensus forecasts for 2018 anticipate a slowing, with returns down to 4.0%.

Investment activity remains buoyant

Investment market activity has remained resilient in 2017, with total transactions of £62.1bn, 27% higher than the previous year.

Overseas investors were the most active purchasers in the market, accounting for 47% of overall investment and they were the only net investors into the UK market.

Domestic investors continued to reduce their exposure to the UK market. Institutional investors were net sellers to the tune of £1.2bn, whilst UK property companies (both quoted and private) sold a net £6.3bn.

The two largest transactions along the 'knowledge corridor' have involved overseas investors, with the Canadian Pension Plan Investment Board purchasing a 50% stake in Milton Park, Oxford for £200m and US group TPG Real Estate acquiring Oxford Business Park, through their purchase of Arlington Properties, for £450m.

Investment in the 'knowledge corridor' is under pinned by strong fundamentals

Increased investment in the 'knowledge corridor' and other provincial markets has been supported by the continued strength of the occupational market.

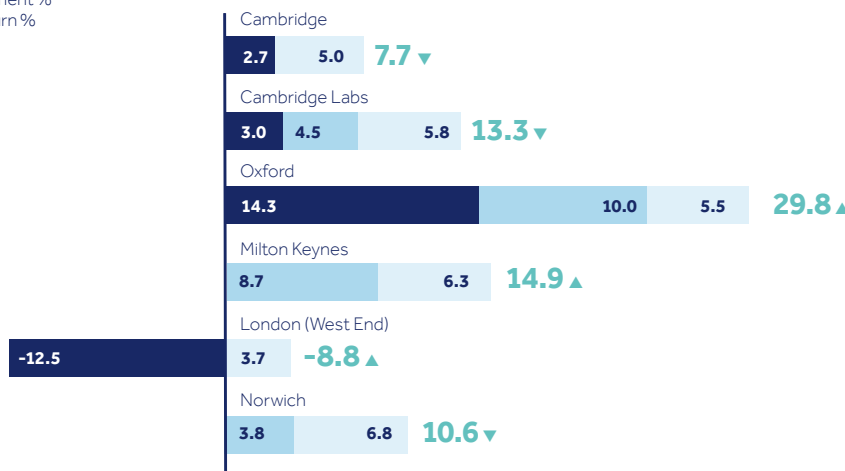
Over the past five years, total office and lab take up in Bidwells' primary markets has totalled 8.6m sq ft, with total office occupancy increasing by almost 3m sq ft.

Demand for office and lab floor space across the Bidwells region stood at 3m sq ft at the end of 2017.

Rents are expected to reflect the continued strong demand for office and lab space, with Bidwells' forecasts anticipating growth of 2.3% p.a.

Office and labs market overview

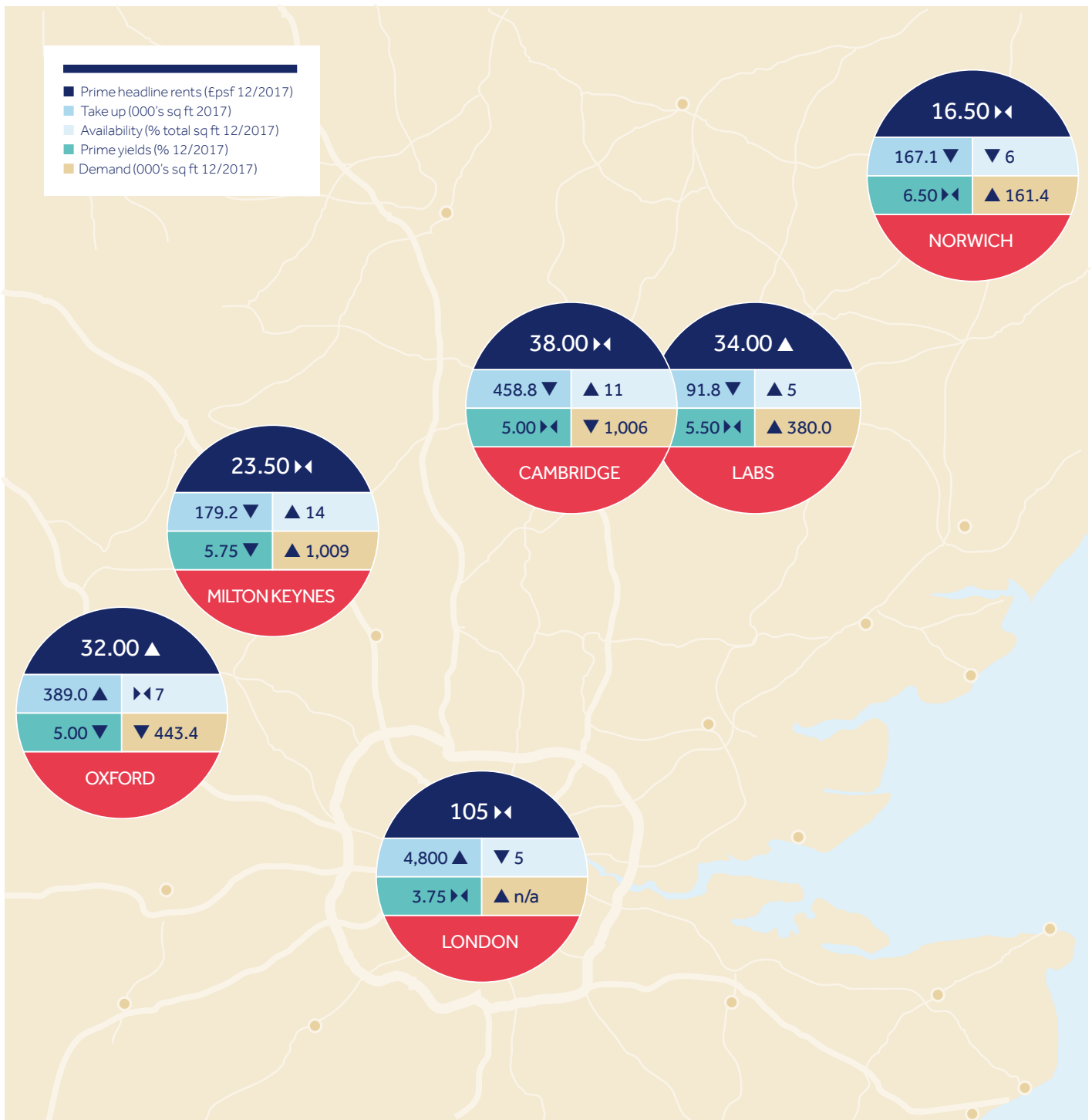
■ Rental growth %
■ Yield movement %
■ Income return %



Total returns (% 12/2017)

Rental growth has continued to be the major determinant behind returns, with Oxford offices recording the highest return (29.8%) in 2017 and London (West End) the lowest (-8.8%).

Office and labs market overview



Prime headline rents

Rents stabilised in most locations following a period of strong growth. Oxford prime rents continued their strong upward trend, rising by 14.3% in 2017.

Availability

Availability has edged up slightly over the past 12 months in most markets but grade A supply is at its lowest level in two years.

Take up

Take up has been constrained by shortages of supply in most markets. The only locations to see above trend take up in 2017 were Oxford and the West End of London.

Prime yields

Yields stabilised in most markets aside from Oxford and Milton Keynes. Prime Oxford office yields are being driven down by strong rental growth, whilst Milton Keynes represents good value.

Demand

Demand has remained strong despite the strong period of take up. Requirements in Milton Keynes edged above 1m sq ft for the first time since 2013.

Rent Forecast 2022

Cambridge	£41.00 (1.5% p.a.)
Cambridge Labs	£36.50 (1.4% p.a.)
Oxford	£38.00 (3.5% p.a.)
Milton Keynes	£27.00 (2.8% p.a.)
London	£120.00 (2.7% p.a.)
Norwich	£18.50 (2.3% p.a.)

Highlights from our markets

Cambridgeshire Offices/Labs

Underground train system the best solution to overcome congestion in Cambridge

A revolutionary new underground system has been proposed as the best solution for the city's under-pressure infrastructure in a report commissioned by the Greater Cambridge Partnership.

The new system has the backing of senior officials in the government and could be operational by 2025.

The overall cost of the new system could reach £4.6bn.

THE FACTS

Combined availability rate in office and labs (end 2017)

9.4%

Oxfordshire Offices

Government backed Faraday Institute to be based at Harwell

A new research institute for battery technology has received £65m of government backing.

The Faraday Institute brings together the leading minds from seven leading universities in the field (including Oxford, Cambridge and Imperial College).

The institute will be based at the Harwell Campus.

THE FACTS

Growth in prime rents since 2014

39.1%

London Offices

MSD announces plan to establish UK Discovery Centre in London

US BioPharma group Merck, Sharp & Dohme (MSD) announced its intention to open a new life sciences research facility in London, creating 150 new research roles and 800 support jobs.

The company is in the process of identifying the site for its new facility but sees London as an important location in the UK's golden triangle for academic science.

THE FACTS

Proportion of supply in ready to occupy grade A space

22.3%

M1 South Offices

Oxford/Milton Keynes rail link due to open in 2019

The western section of the proposed 'Varsity line' is expected to be operational by 2019, linking Milton Keynes to Oxford via Bletchley.

The longer term eastern expansion of the Varsity line together with the express way will make Milton Keynes a key strategic location between Cambridge and Oxford, boosting business and increasing productivity.

The line is expected to be built over the previous route of the East/West rail link which was decommissioned in the 1960s.

THE FACTS

Increase in demand in Milton Keynes over past 12 months

71.5%

Norfolk/Suffolk Offices

Quadram Institute due to open in mid 2018

Construction of the new Quadram Institute building at Norwich Research Park entered its final phase at the end of Q3 2017, with the fit out of the laboratories and offices commencing.

The facility will specialise in research into food, human health, gut biology and disease as well as providing a new endoscopy unit for the Norfolk & Norwich University Hospital.

A total of 300 researchers and 100 clinical staff will work at the institute building when it is fully operational.

THE FACTS

Secondary rental growth since 2012

45.0%

More detailed location sheets can be viewed at

www.bidwells.co.uk/research

Economic and market overview

Stronger than expected economy leads to first interest rate rise since 2007

The UK economy grew at a stronger than expected 0.5% in Q4 2017 as a result of the continued resilience of the service sector.

The latest indication of strength in the UK economy has seen full year growth of 1.8% for 2017, ahead of most forecasters' expectations.

In response to the good economic performance, the Bank of England increased the bank base rate to 0.5% from 0.25% in November 2017. This is the first increase in bank base rates since July 2007.

Opinions about the outlook for the economy in 2018 are diverse

Whilst the consensus forecast for GDP growth in 2018 has remained stable at 1.4% for 2018, the range of opinions has diverged as debate continues about the fate of the UK outside of the European Union.

The graph alongside illustrates the economic growth record since 2010, with the consensus outlook and range of forecasts in each of the forecast years.

The current year shows the greatest divergence in views, with established 'Brexiters' Liverpool Macro Research (2.6%) and Capital Economics (2.0%) forecasting the strongest performance for the UK economy, whilst forecasters in the 'Remainers' camp continue to anticipate a weaker outlook.

If the experiences of the past few years are a guide to the next 12-18 months, then the economy should continue to out perform expectations, with stronger growth than anticipated.

New Industrial Strategy focuses on increasing productivity

The government's new Industrial Strategy, which was launched in the Autumn Statement, is aimed at addressing the UK's poor productivity performance compared to other global economies.

Four key business sectors (life sciences, construction, artificial intelligence and the automotive industry) have been identified as high growth sectors with the ability to create an economy fit for the future.

The Industrial Strategy not only identifies the business environment but also the institutions, places and infrastructure where these sectors will thrive.

The 'knowledge corridor', which spans Cambridge, Milton Keynes and Oxford, will continue to be a major beneficiary of this government initiative.

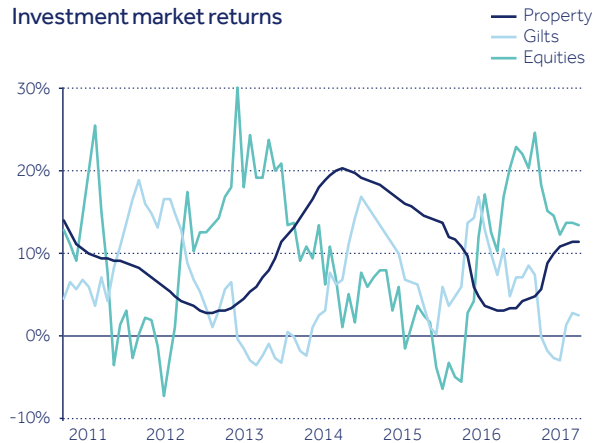
Office market rental growth slows

Demand for office and laboratory floor space has remained strong along the 'knowledge corridor' over the past five years, with both prime and secondary rental values showing strong growth.

Shortages of grade A space has meant that secondary rental values have grown at a faster pace than prime rents, as occupiers have bid up values in order to gain a presence along the new 'engine' to the UK's economic success.

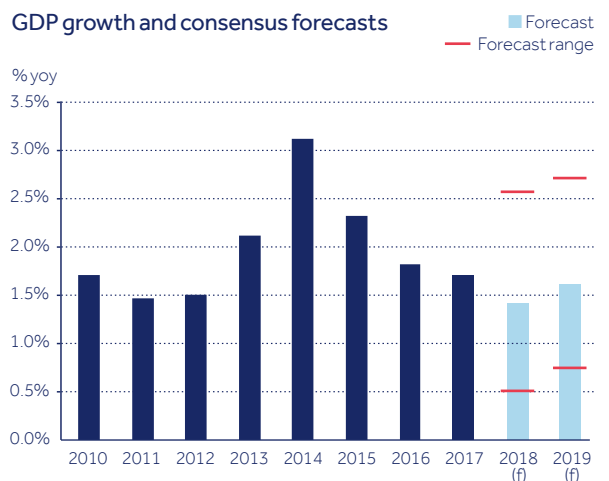
Prime rental values along the 'knowledge corridor' have grown by 4.2% per annum over the past five years, whilst secondary values have increased by 6.7% per annum.

Investment market returns



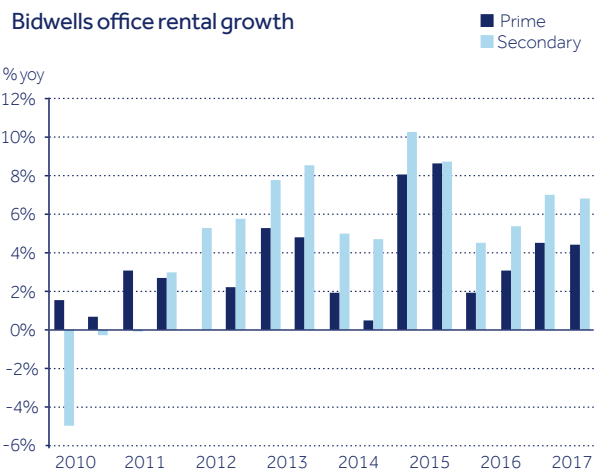
Source: Financial Times & MSCI Monthly Index

GDP growth and consensus forecasts



Source: ONS & Consensus Forecasts

Bidwells office rental growth



Source: Bidwells Research

Estimated increase in 'knowledge corridor' GVA by 2050

£163 bn

Source: National Infrastructure Commission (Nov 2017)

Growth in secondary office rents in 'knowledge corridor' since 2012

6.7% p.a.

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