Sometimes commercial is simply the smart choice

While the Crossrail effect is boosting resi values in the Thames Valley, the office market is also reasserting itself

It is an interesting lesson in market forces. Even with an intervention on the scale of permitted development rights, at some point demand reasserts its command over supply

It has been well documented now that residential prices in central London took off like a rocket after the depths of the downturn, but are now describing a different trajectory. The problem with values going up like that is that there was bound to be a correction at some point. And that is what we are seeing now. Prices are flatlining, causing grief to developers who rushed in to take advantage.

The situation in the Thames Valley is markedly different. We haven't seen the disproportionate explosion in values. While the central London market is very much driven by international investors, the Thames Valley is driven by owner-occupiers – families, parents as breadwinners taking out a mortgage and so on. They are buyers as the normal residential market would understand them; men and women either working locally or commuting into London.

Residential values

A year back, residential values in the Thames Valley were starting at around the £350/sq ft mark, rising to £600/sq ft in the best locations. Now, across all our areas, from Wickham, Slough and Marlow out to Reading and Newbury, values have gone up to a minimum of £400/sq ft in terms of capital value. At the upper end, we are talking about £650/sq ft.

But there are exceptions. At the one end of the market, in Oxford we're looking at a residential scheme in the centre where we're expecting values of about £900/sq ft. That's a lot of money, but we analyse supply and demand, and in the city centre in particular there is a real lack of opportunities.

And then you go to areas such as Bracknell, where there is a big story about the town centre regeneration at the moment and there's a lot of land around the town centre ripe for more affordable housing. It's a similar story in places such as north Reading, where there are a lot of opportunities coming through. So there are opportunities, but it is patchy.

By far the biggest external factor that has to be considered is the arrival of Crossrail in 2018-19. We've already seen a rise in values along the Crossrail route, so it has already had an impact, and developers are looking strongly at places such as Slough and Maidenhead in particular, but also some of the more peripheral locations such as Langley and West Drayton. There are smaller markets too, but they tend to be quite constrained by green belt, so it is difficult to find opportunities.

So there has been quite a lot of uplift in value already, but we feel there will be another uplift in value once Crossrail gets a bit closer. Buyers will realise that commuting times are actually going to decrease pretty significantly. There is still a lot more growth to be had in those areas, especially closer to the time of Crossrail coming into service.

Industrial opportunities

On the industrial side, the story is very much one about the lack of supply providing opportunities for smart developers where they can be found. We had a small industrial unit scheme in Wokingham in the Thames Valley, consisting of about 23 existing units and around 2,500 sq ft. At the time we bought that asset, it cost around £70/sq ft all in, including fees. Our last units were selling at around £140/sq ft capital value, which is really getting back to where it was in 2007-08. I suspect there is more growth to be had because there is a lack of supply in the Thames Valley.

We haven't seen many land opportunities come through to develop small industrial units. However, off the back of our own scheme in Wokingham, there is an adjoining estate where they are once again bringing forward small units. I know the developers there are hoping to achieve £170-£180/sq ft because it is basically a Hobson's choice – there is a lack of alternatives.

Office angle

It is a similar story with the office market. Within the Thames Valley, office rents in the past year have generally risen as well. The property market moves in cycles, and in the Thames Valley usually the peaks in the previous cycle aren't exceeded. So over 20 years you don't really get genuine capital appreciation and you are always trying to catch the cycle at the right time and not be caught holding anything at the top.

However, I said generally because there are exceptions to the rule. We've still got areas such as Bracknell, which has a massive supply of offices and is therefore the last to pick up because there is so much existing stock. Rents have risen there, but it is from a very low base of about £16-£20/sq ft.

At the other end of the spectrum, Reading has now exceeded the top of the cycle. Reading office rents are now around £33-£35/sq ft, whereas in the previous cycle it was more like £30. Another good example of that is Windsor. From what we hear in the market, there has been some business done over £40/sq ft in Windsor.

That is a major threshold for the town. In the last cycle, £33-£34 really represented the top of the market, so again it has gone through the barrier. Windsor is a major historic town and there are few opportunities to be had, so if you want to be in Windsor, you have to pay the going rate. I can't see other areas hitting £40 – I think Windsor is a bit of a one-off and I certainly can't see Reading hitting that mark.

Those are the extremes, but other towns in the vicinity are also picking up. There is a lot of opportunity in the out-of-town Slough market, but the town centre is quite strong as well. Slough is now mid-to-upper £20s/sq ft, but I can't see it hitting £30 because there is just too much stock. Peripheral areas such as Beaconsfield have always been tight, so there are plenty of examples of them hitting £30/sq ft.

What the precipitous rise in office values in some places means is that there is a natural market correction, with office development once again making commercial sense over residential. For instance, we had a building in Windsor where we changed our strategy. We bought an office building to convert it to residential, but because the market has picked up, improving those offices and letting them for higher rents makes sense.

The building itself is a Victorian police station called Admiral House (pictured), and it is a lovely space. It has 10,000 sq ft of period offices and we acquired it with a consent to convert the building into loft apartments with lovely original features. But since we took ownership, office values have increased to such an extent that why would we embark on the conversion?

There is a trend there: office supply is dwindling in some locations, so developers are thinking offices are an interesting area to get into once more. It is ironic: the changes to permitted development rights (PDR) initially led to a glut of office-to-resi conversions, as the government intended, but the market has reasserted itself.

It is an interesting lesson in market forces. Even with an intervention on the scale of PDR, at some point demand reasserts its command over supply. I just can't believe that we are the only developer making the same calculations right now: even with the multiple pressures on housing supply, in some areas commercial is simply the smart choice. ■

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About Jansons

Jansons is a highly regarded property developer and investor, headed by the tenacious and innovative approach of Andy Jansons. The firm has a diverse portfolio comprising hotels, mixed-use, residential and industrial properties, including 24 schemes within the Thames Valley.