

Cambridge has been a powerhouse of academia for over 800 years. In the past 40 years technological and scientific discoveries and innovations developed in the city have seen it gain a reputation for excellence throughout the world.

Commercial edge Cambridge

Spotlight on office and laboratory market prospects in Cambridge

Closer to home and in more recent times, the Cambridge area has been identified by successive national governments as a model for economic prosperity and development. But with a squeeze on finance and an expansion of the city beyond its boundaries, we review the 2011 market and provide our forecasts for 2012.

The Cambridge office market has proved resilient

The Cambridge office market, despite the economic turmoil experienced over recent years, has proved resilient, particularly compared to other UK regional cities. The city benefits from a diverse occupier market and was particularly bolstered by activity within the ICT and Professional Services sector over the last 12 months.

Pre-letting activity is forecast to commence during the latter part of 2012

Cambridge in numbers...

598,000 sq ft

Take-up in the office and laboratory market in 2011

50% Increase in letting activity from 2010

2,250,000 sq ft
Volume of known requirements during 2011

37% Reduction in available B1 space in 2011

22% Increase in active demand from Q1 2011 to Q1 2012

4,150,000 sq ft
Office and laboratory space with planning consent

Prime city centre rent of

£30.00 per sq ft

Prime business park rent of

£26.50 per sq ft

Cambridge zones



Zone 1 - The prime central area

Zone 5 - Peripheral locations

Zone 3 - The northern cluster

Zone 2 - The peripheral city centre zone

Zone 4 - The wider area business parks

- A Cambourne Business Park
- B Vision Park
- C Cambridge Science Park
- D Cambridge Business Park

- E St John's Innovation Park
- F Cambridge Research Park
- G Capital Park
- H Granta Park

- I Chesterford Research Park
- J Iconix Park
- K Babraham Research Campus

Take-up

Take-up in 2011 totalled 598,000 sq ft compared to the 2010 level of circa 400,000 sq ft - an increase of 50%. ICT companies and lawyers proved the most active sectors throughout 2011.

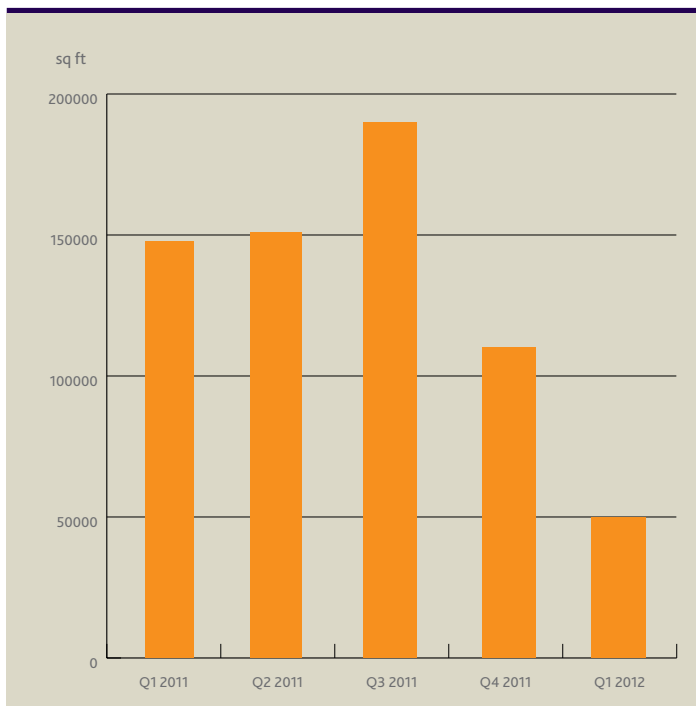
Take-up in 2011 totalled 598,000 sq ft compared to the 2010 level of circa 400,000 sq ft - an increase of **50%**

The 2011 figure compares favourably to both the longer-term average take-up levels for the city; 425,000 sq ft over the last four years and 375,000 sq ft over the last ten years.

Letting activity in Q1 2012 totalled 50,000 sq ft, significantly below the quarterly levels recorded in 2011. This marked reduction is due in part to diminishing Grade A supply levels and also to a number of active requirements being satisfied in Q3 2011 rather than a notable decline in the overall requirements level.

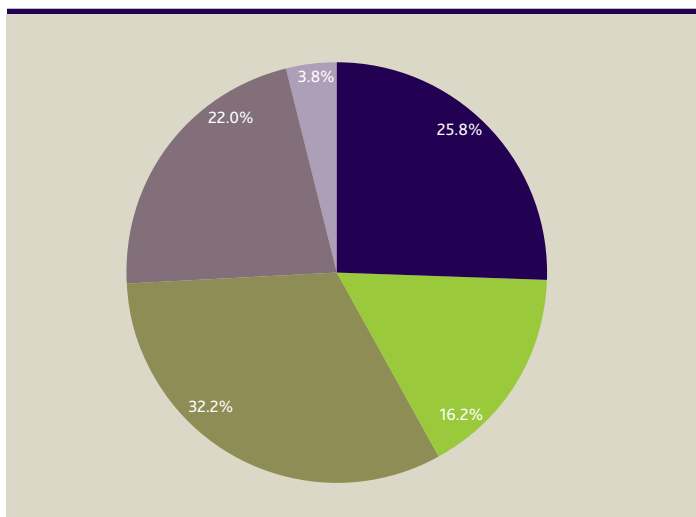
Almost a third of 2011 take-up was located in Zone 3 and more than a quarter within Zone 1. However, these trends disguise the overall lack of Grade A available product throughout the city, with occupiers increasingly likely to consider the quality of building over location in their requirement for space.

Letting activity in Q1 2012 totalled **50,000** sq ft, significantly below the quarterly levels recorded in 2011



Cambridge Office, Laboratory and R&D Take-up

Source: Carter Jonas



Cambridge Office, Laboratory and R&D Take-up by Zones

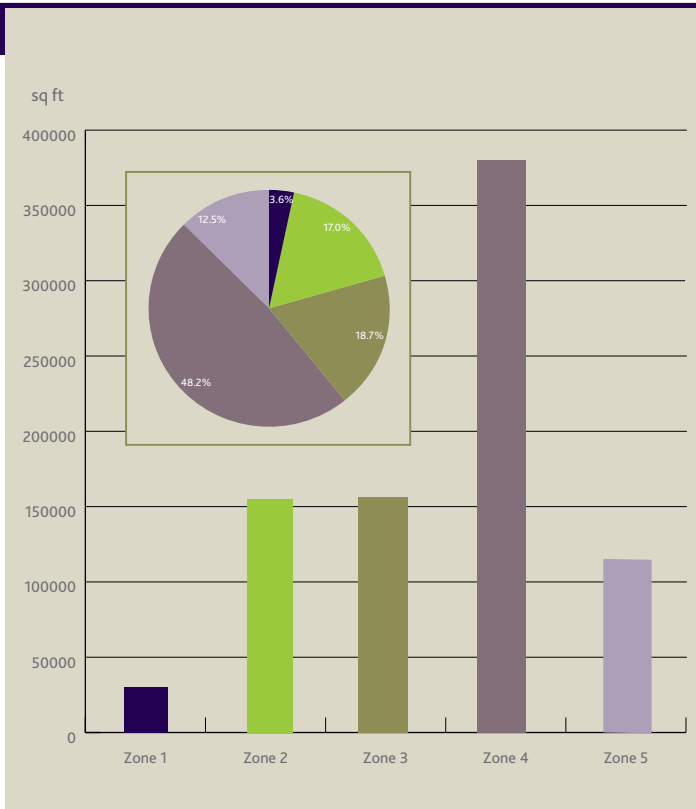
Source: Carter Jonas



Botanic House, Hills Road

Cambridge Office, Laboratory and R&D Availability Q1 2012

- Zone 1
- Zone 2
- Zone 3
- Zone 4
- Zone 5



Source: Carter Jonas

Availability

Availability of the overall office / R&D market stood at 837,256 sq ft at the end of Q1 2012 - a 37% reduction from its level at Q1 2011. Second-hand Grade B quality stock, located outside of the city centre dominates the supply profile, with the availability of new, centrally located space accounting for less than 4% of overall supply.

The overall reduction in availability throughout 2011 illustrates the resilience of many of the key occupiers in Cambridge with companies such as Microsoft, Jagex, Mills & Reeve, Citrix, ARM and Cambridge Silicon Radio (CSR) continuing to expand in the ongoing difficult economic conditions.

Active Requirements

The volume of known requirements totalled 2.25 million sq ft during 2011. Following a slow start to the year, active demand gathered momentum throughout the year which culminated in an impressive Q3 level of 190,000 sq ft. With 2011 annual take-up totalling 598,000 sq ft, the conversion rate from an activated requirement to completed transaction stood at 27%.

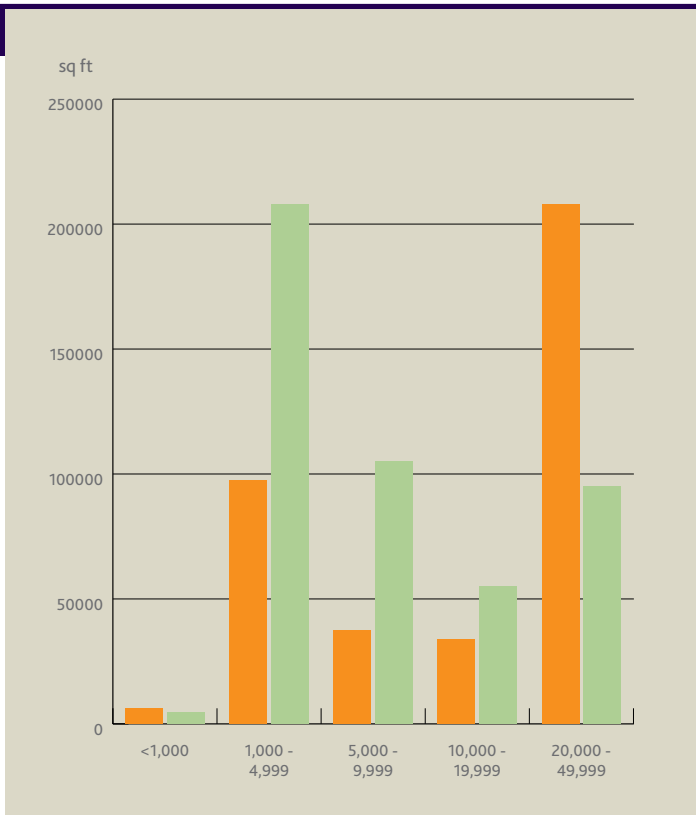
Active demand at the end Q1 2012 stood at 468,397 sq ft, a 22% increase from its Q1 2011 level. Despite this overall increase, requirements for units between 20,000 - 49,999 sq ft fell by 54% while demand for units between 5,000-9,999 sq ft and 1,000-4,999 sq ft witnessed particularly sharp rises.

With 2011 annual take-up totalling 598,000 sq ft, the conversion rate from an activated requirement to completed transaction stood at **27%**

Despite the overall rise in the volume of active requirements, the market remains tentatively cautious although an increase in activity is predicted after the summer months.

Cambridge Office, Laboratory and R&D Active Requirements

- Q1 2011
- Q1 2012



Source: Carter Jonas

Development pipeline

The Cambridge office development pipeline totals, approximately, 4.15 million sq ft of office space which has planning consent. Key schemes include cb1, Medi Park, Cambridge Research Park, Chesterford Research Park, Granta Park and Cambourne Business Park.

Despite a relatively fulsome potential development pipeline on initial inspection, there is a virtual absence of speculative development opportunities within the market; primarily due to development funding remaining particularly restrained and this is unlikely to improve over the short-term. In addition, despite improving market conditions, developers remain cautious about “dipping their toes” back into the speculative market.

Rents

Rental growth has been evident within Cambridge city centre (Zone 1) since 2010, where prime rents are being driven upwards by the reduction in availability of stock. In contrast, business parks rents have held firm at circa £26.50 per sq ft.

City centre office rents for existing stock currently stand at between £26.00 and £28.00 per sq ft on the Hills Road / Station Road junction.

A lack of good quality stock in the city centre is forcing occupiers to consider more outlying locations such as the northern fringe business parks which has enabled landlords to become more resilient with their quoting terms. Zone 2 rents currently range from £15.00 - £21.00 per sq ft.

There has been a considerable level of activity within the northern cluster (Zone 3) to include the Cambridge Science Park, Cambridge Business Park and St John’s Innovation Park. Rents currently range from £21.50 - £26.00 per sq ft.

The wider area business parks (Zone 4) have remained comparatively quiet and are therefore able to offer the tenant more favourable lease terms. These wider out-of-town locations are currently achieving rents of between £18.00 and £22.00 per sq ft.



“City centre office rents for existing stock currently stand at between **£26.00** and **£28.00** per sq ft on the Hills Road/Station Road junction



Pharmaceutical company patents

Cambridge is renowned for its expertise in the pharmaceutical sector, and this sector has accounted for a significant proportion of take-up over the last five years.

A notable number of patents on world leading drugs, many of whom have premises in Cambridge, have either expired over the last two years or are due for expiry over the next year, leading to potential short-term shake-up within a sector which is vitally important to the city's economic prosperity.

It is likely that whilst instead of employing significant in-house teams, many large organisations will adapt their business models and outsource specialist requirements to independent research and development facilities. Cambridge is one of the very few markets across the world which provides plentiful expertise in these specialist skills.

Behind the short-term upheaval, this adaptation is expected to provide more efficient and, arguably, sustainable businesses moving forward. It is expected to change the size and profile of demand across the market, with more flexible, less

formal, HQ-type buildings forecast to fall out of favour to a preference for more flexible, smaller floorplates.

Despite this changing focus, the largest pharmaceutical companies are unlikely to leave Cambridge, as it is perceived as the epicentre of the sector and matched only by Boston, Massachusetts. Severe stock shortages of good quality space remains a key constraining factor to the market, although potentially, pre-letting activity when coupled with the increasing role of comprehensive refurbishment will address and re-balance this issue in the short-term.

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Forecast

Despite a slow start to 2012, take-up is anticipated to improve after the traditional summer lull. However, 2012 annual take-up is forecast to total less than the 2011 total of 598,000 sq ft. This is due to the diminishing supply of Grade A accommodation currently available across the market.

Demand is predicted to gather momentum moving into Q3 2012, with suites between 5–10,000 sq ft showing the most significant increase. In light of the ongoing changes regarding patents, requirements are predicted to continue to focus towards flexible and smaller volumes of office and laboratory space. This is due, in part, to a significantly reduced volume of funding previously obtained from pharmaceutical companies in the latter 1990s and also from depleting revenue streams as a result of patents expiring. Large pharmaceutical requirements are predicted to polarise between 20,000 – 50,000 sq ft rather than the 50,000 – 100,000 sq ft range which, historically, has proved particularly active.

“**Current availability of 837,256 sq ft equates to just under two year of take-up (based on the four year average).**”

Current availability of 837,256 sq ft equates to just under two year of take-up (based on the four year average). With the availability of Grade A accommodation particularly restrained, pre-letting activity is forecast to activate during the remainder of the year and will gain momentum moving into 2013. A number of the key parks are progressing outline planning consents, enabling the delivery of design and build space. This forecast is in stark contrast to the historic trend of the Cambridge office market which has witnessed minimal pre-letting activity.

Previous market cycles saw significant volumes of space flood the market as a result of speculative development which led to a notable fall in rental levels from which it took a considerable time (3-4 years) to recover.

Given the restraints of speculative development, an increase in the refurbishment of existing buildings has proved evident, both within the city centre and out-of-town markets, over recent years. By way of example, The Crown Estate has undertaken four comprehensive refurbishments, with a fifth currently underway on the Cambridge Business Park. All have been let within three months of practical completion and achieved favourable rental levels. Given the diminishing supply of Grade A accommodation, this trend is forecast to continue as active demand generally holds firm.

The minimal supply of Grade A space within the city is applying upward pressure on rental levels and, without the commencement of pre-let activity, the market will be

stifled in terms of expansion and, very significantly, future rental growth. Packages on pre-let schemes are likely to include up to two years rent-free period based on a lease of 15-years term certain for those considering moving relatively quickly. Incentives are likely to shorten as market confidence and momentum gathers pace moving into 2013.

“**The market will be stifled, in terms of expansion and rental growth, if pre-letting activity is not activated in 2012**”

The paucity of Grade A accommodation but relatively stable demand means healthy competition for prime office locations has been evident and is driving rents, particularly in the city centre, in an upwards direction.

Cavendish House, Cambridge Business Park





Commercial Centres

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About Carter Jonas

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