

Cambridge continues to be one of the UK's main economic drivers, showcasing the nation's talent and expertise on the international stage, despite the continuing economic malaise surrounding the UK.

# Commercial edge Cambridge

## Spotlight on office and laboratory market prospects in Cambridge

The businesses which characterise the much-lauded *Cambridge Phenomenon* have, in the main, remained recession-proof by most economic measures and they continue to prosper and grow. Unlike the majority of regional office markets, Cambridge has witnessed another resilient year, with prime rents rising, active demand remaining strong and availability falling.

“Cambridge has witnessed another **resilient** year, with prime rents **rising**, active demand **remaining strong** and availability **falling**”

The expertise, prosperity and growth of Cambridge have been widely acknowledged by Whitehall and Westminster. At a time of limited growth in the country as a whole, the gaze of national politicians has fallen more intently on Cambridge, with successive political Administrations always keen to promote and support the city's current success and plans for future growth.

“Cambridge and London as a **de-facto super-cluster**”

### Cambridge in numbers...

**501,287** sq ft take-up in the office and laboratory markets in 2012

**827,601** sq ft total availability of built stock at end of Q1 2013

**4,212** sq ft – the average letting size in 2012, similar to 2011

**16%** reduction in take-up compared to 2011 but still higher overall than the 10 year average

**48%** of all built stock supply is located in the traditional business park belt

**10%** increase in the total number of requirements in 2012

Prime city centre rents achieved **£32.50** per sq ft at the end of 2012

Prime business park rents achieved **£26.50** per sq ft at the end of 2012

Development pipeline at the end of Q1 – 2013 totals **3.8 million** sq ft



## Take-up

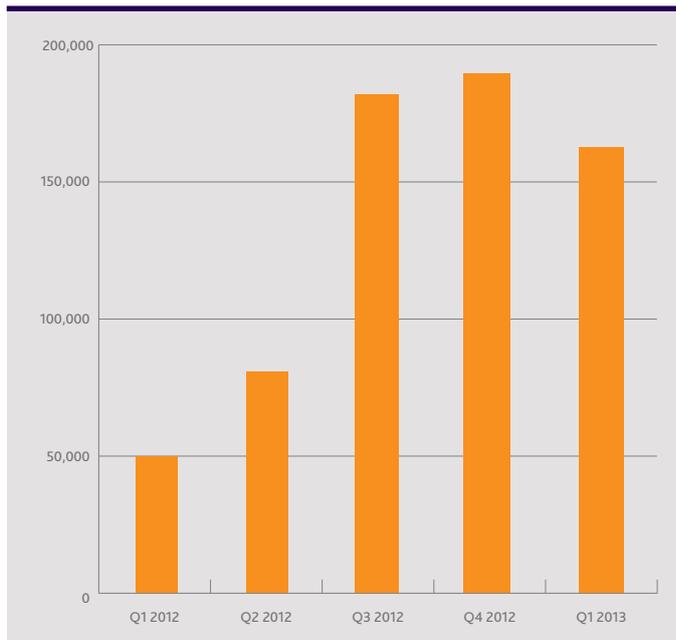
Take-up in 2012 totalled 501,287 sq ft (including Pembroke Building, Chesterford Research Park - below), a 16% reduction from its 2011 level. Despite the reduction, the 2012 figure remained above the 10 year average of 400,000 sq ft.

Two thirds of the take-up was focused in Zones 3 & 4, which accounted for 28% and 38% of all 2012 letting activity, respectively. This was due to a combination of higher availability within these zones, the resilience of occupiers and the growing demand levels for space on the business and science parks and, in many cases, expansion of occupiers seeking space in an out-of-town location.

## 66% of the take-up was focused in Zones 3 & 4

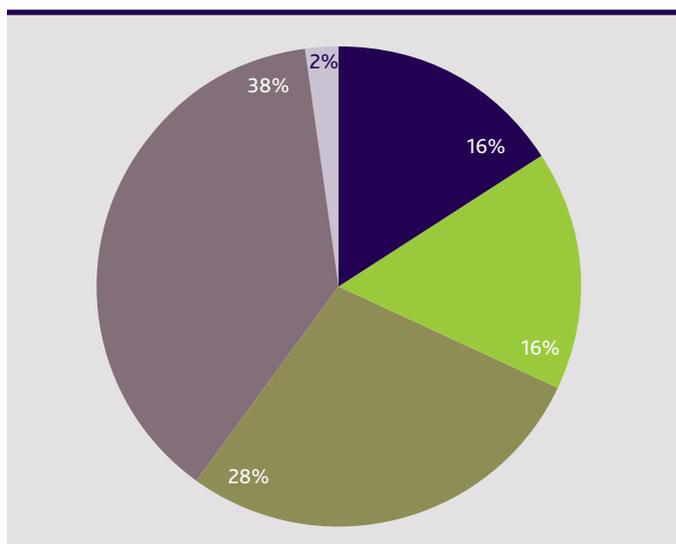
Activity consistently increased on a quarterly basis throughout 2012, peaking at 189,139 sq ft in Q4. Encouragingly, Q1 2013 take-up totalled 162,248 sq ft, compared with Q1 2012 take-up only 49,696 sq ft.

The average size of a transaction declined slightly over the year, from 4,318 sq ft recorded in 2011 to 4,212 sq ft in 2012. The average transaction size in Q1 2013 was slightly down again to 3,957 sq ft. The largest transaction in 2012 was the pre-let of 44,000 sq ft to Mott McDonald at 22 Station Road, Cambridge



Cambridge Office Take-up

Source: Carter Jonas



Cambridge Office 2012 Take-up by Zones

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

Source: Carter Jonas



Pembroke Building, Chesterford Research Park



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## Availability

Availability of the overall built stock office and laboratory market stood at 827,601 sq ft at the end of Q1 2013, nominally down from its level in Q1 2012. Almost half (48%) of total supply is focused in Zone 4, where the majority of business and science parks are located. Even at long-term average take-up levels, there is only just over two years' worth of supply currently available across the Cambridge office and laboratory market.

“Most critically, overall there is only **358,000** sq ft of Grade A accommodation, which is less than one year's supply, assuming Grade A is taken-up

Of Zone 4 availability, 55% of all supply is classified as Grade A quality and is, consequently, proving to be in relatively high demand as occupiers continue to seek good quality stock with high quality specifications. There is less than one year's average supply of Grade A stock remaining: a dangerously low level.

Availability within the city centre, Zone 1, amounted to only 60,240 sq ft at the end of Q1 2013. This comprised four units, which includes the refurbishment of Francis House, Hills Road (35,095 sq ft), 37 Hills Road (10,300 sq ft) and 90 Hills Road (9,030 sq ft).

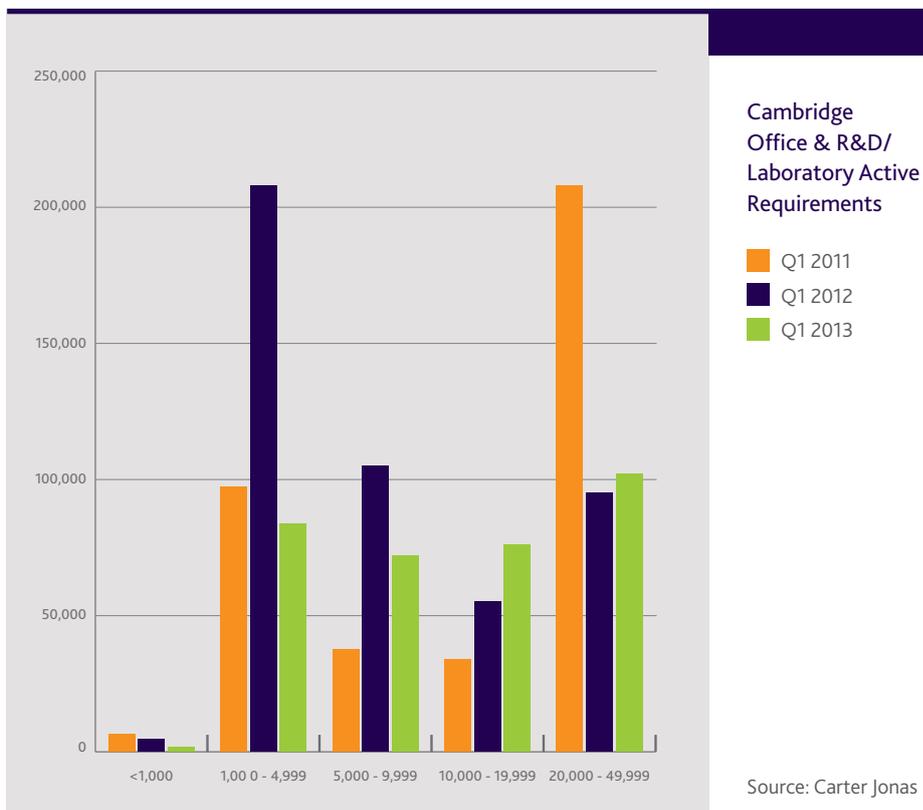
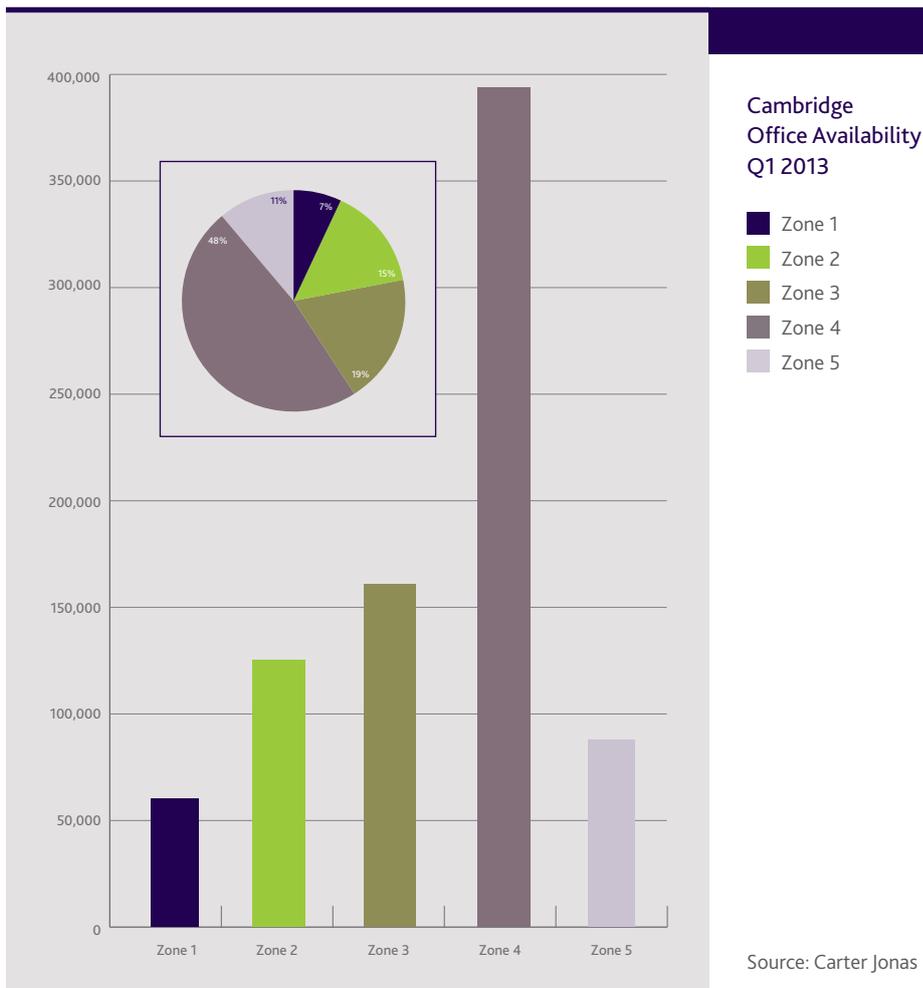
## Active Requirements

The cumulative volume of known active requirements recorded throughout 2012 was 1.85 million sq ft. Following a slow start to the year, quarterly active demand rose consistently, reaching a peak in Q4 at 544,475 sq ft with an average requirement size of 6,639 sq ft. This compared to an annual average of 5,939 sq ft. The conversion rate from an activate requirement to completed transaction was 27%, a similar level recorded in 2011 illustrating the continuing breadth of demand for good quality office and laboratory space across Cambridge.

**59%** of the active requirements fell within the **1,000-5,000 sq ft** range in **2012**

There was an 18% reduction in active demand by sq ft volume in 2012 compared to 2011, although a 10% increase in the number of requirements overall. Of these requirements, 59% fell within the 1,000 to 5,000 sq ft range in 2011.

In 2012, there was a 19% increase in the number of requirements registered up to 10,000 sq ft compared to 2011. However, there was a decrease of 33% in the number of requirements registered between 10,000 and 50,000 sq ft. The number of requirements over 50,000 sq ft remained the same as its 2011 level.



22 Station Road, Cambridge



3.8 million sq ft  
remaining in development pipeline  
benefitting from planning consent

## Development pipeline

At the end of Q1 2013, the Cambridge office/laboratory space development pipeline, i.e. schemes benefitting from planning consent, totalled 3.8 million sq ft. Key schemes include Cambridge Biomedical Campus at Addenbroke's Hospital, Cambourne Business Park, Cambridge Research Park, Phase VI Cambridge Science Park, Babraham Research Park and CB1 at the railway station.

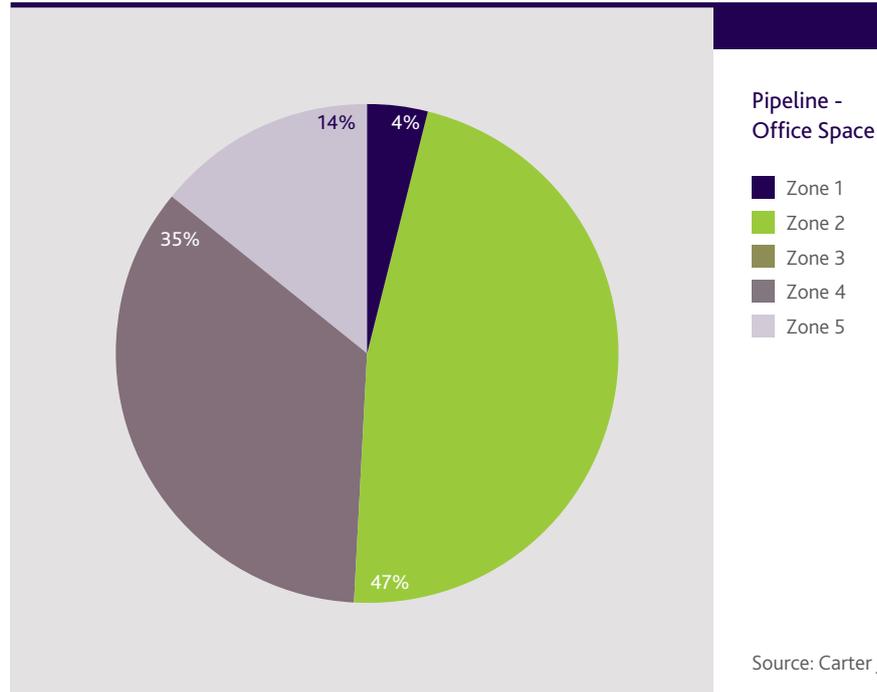
Despite this relatively healthy potential, a virtual absence of speculative development continues across the market. This is mainly due to the lack and availability of funding for speculative development. Funders are prepared to invest in this market although require pre-let agreements with blue chip companies on 15 year term certain leases in order to commence construction.

Occupiers are unaccustomed to the scenario of limited availability of built stock and have become complacent, assuming there will always be a suitable building readily available at short notice. Allied to this, many major organisations are becoming increasingly risk averse and unwilling to commit until the very last possible moment. This reticence will have repercussions for occupiers, as to deliver a new building via a pre-let route can take up to 18-30 months. Occupiers must plan now for future growth.

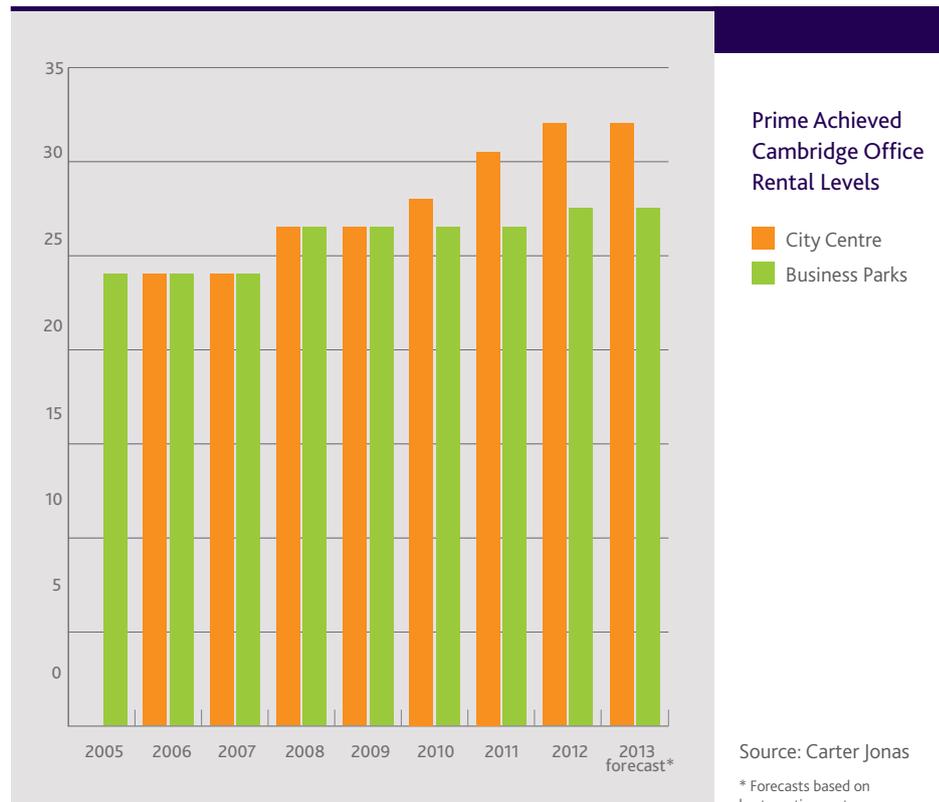
## Rents

Rental growth was evident in 2012 within the Cambridge office and laboratory market in line with our forecasts detailed in last year's report. Headline city centre rents rose from £30.50 per sq ft to £32.50 per sq ft, achieved at the 22 Station Road building pre-let to Mott McDonald.

It is forecast that as a result of limited supply of built stock and rising demand throughout 2013, upwards pressure on rental levels, particularly in the key zones of 1, 3 and 4 will continue. Headline or quoting rents in the various zones are expected to be: Zone 1 £33.00psf; Zone 2 £20.00psf (excluding Biomedical Campus); Zone 3 £27.50psf; Zone 4 £25.00psf and Zone 5 £18.50psf.



Source: Carter Jonas



Source: Carter Jonas

\* Forecasts based on best quoting rents

# The Focus on Cambridge



## In the spotlight

The Secretary of State for Business, Innovation and Skills, Dr Vince Cable has identified Cambridge as one of the premier clusters in the UK.

This cluster is focused around the University, which lies at the heart of Cambridge's business success. In the Q4 2012, an AAA rating was bestowed on the 800-year old institution by credit ratings agency, Moody's.

The University's Computer Laboratory celebrates its 75th anniversary this year and its staff and graduates have set up over 200 companies since 'The Lab' was founded. In its Cities Outlook 2013 report the think-tank Centre for Cities noted that Cambridge had more patents approved per 100,000 population in 2011 than the next ten cities in the ranking combined.

Earlier this year, the Government selected the University's engineering department as the site for a new £5.6 million research centre to pioneer work in the new field of large-area electronics. The Government also feels Cambridge is a centre which can grow even further.

North West Cambridge is a 20-year, £1 billion development on 150 hectares of university-owned farmland heading out of the city towards the M11, A14 and A428 road interchanges, the masterplan of which gained approval in summer 2012. It is being very tightly controlled by the University who, as the developer, will only be releasing 4 per cent of the housing for private sale. The bulk of the residential accommodation will be allocated for students and staff. While there will be 400,000 sq ft of commercial space there will be little opportunity for private business interests with most of the space reserved for University research ventures. Work on the £281 million phase one is underway this year with the focus on residential accommodation and sights set on first occupiers in 2015.

## Infrastructure

Transport infrastructure has long been the bugbear of many businesses in Cambridge whose employees commute in from an ever widening catchment area.

The Cambridgeshire Guided Busway – linking the market towns and villages to the north of Cambridge to the Cambridge Science Park and through the city in a loop to Addenbrooke's Hospital and its Biomedical Campus - has been operational for two years this summer and is now widely perceived as a full or partial alternative to the A14 trunk road for some commuters and visitors to the city.

George Freeman MP has called for Cambridge to be a beneficiary of £1 billion worth of investment from the regional growth fund with a focus on a joined-up and electrified railway from Cambridge out east to Norwich and west to Oxford.

The project to dual the final stretch of the A11 is underway this year. This will improve journey times between Cambridge and Norwich and key settlements as well as road interchanges in between. The £134 million project has an ultimate completion date in 2015.

The planned upgrade of the A14 progresses. The Greater Cambridge and Peterborough Local Enterprise Partnership (LEP) is looking to divert £50 million of business rates from the Alconbury Enterprise Zone towards the £1.5 billion project. In the interim, there are a number of A14 quick-fixes planned, a priority being the alleviation works on the carriageway leading from the often gridlocked M11/A14 Gilton interchange to the Histon junction.

Arguably, the biggest infrastructure scheme in the pipeline for Cambridge is the plan for a second railway station - to be known as 'Cambridge Science Park'. A planning application is due for submission by the summer with a view to the station being in operation by 2015. It will be a massive undertaking in drawing land interests and funding together but it has the Government's blessing and certainly that of businesses in the city. It is expected to be used by 3,100 passengers per day within a year of opening and it will give businesses on this north-eastern side of the city direct railway access to London.

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Cambridge Science Park railway station's success has the potential to unlock circa 500,000 sq ft of new employment opportunity in what is probably the last remaining area of the city which has yet to be commercially developed in any meaningful way.

While central government is keen to invest to help foster Cambridge's growth and prosperity, the city's venture capitalist funders continue to push forward in supporting this too. VC group Cambridge Angels has recently joined forces with its London equivalent, Tech City, in an initiative called 'Cambridge South'.

Cambridge and London as a de-facto super-cluster is a natural progression.

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# Forecast

- Pre-letting activity is predicted to increase in momentum towards the end of this year and moving into 2014.
- No rental discounts are predicted as pre-letting activity increases and built stock availability reduces.
- Astra Zeneca has announced it would be bringing 2,000 staff to Cambridge and is looking for a large single site to provide in the region of 500,000 – 700,000 sq ft. We believe the Biomedical Campus at Addenbrooke's Hospital site will be favourite to accommodate this requirement.
- The development pipeline will be reduced by up to 25% by the end of 2014 equating to take-up of approximately 1 million sq ft.
- Active demand will increase and we predict that at least one speculative development will be confirmed within the next 12-18 months.

“The development pipeline will be reduced by up to **25%** by the end of 2014 equating to take-up of approximately **1 million** sq ft

- Incentives to occupiers such as rent free and capital contributions in relation to built stock will decrease and lease terms will become more landlord-friendly.
- Refurbishment of poor quality built stock will increase.



“Pre-letting activity is predicted to increase in momentum towards the end of this year and moving into **2014**.”



## Commercial Centres



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## About Carter Jonas

Carter Jonas commercial has dedicated, specialist teams in 6 major locations throughout England offering strategic and consultancy advice in the key commercial sectors of Landlord Services, Tenant Services, Agency, Business, Science and Industrial Developments, Valuations, Investment and Asset Management, Planning and Development. Carter Jonas are therefore well placed to offer regional and national advice on all matters relating to commercial property to both corporate and private clients.

