



# COMMERCIAL EDGE

**CAMBRIDGE**  
2018

**Carter Jonas**

## CAMBRIDGE HAS MAINTAINED A HEALTHY AND VIBRANT ECONOMY FOR SEVERAL YEARS, STRONGLY INFLUENCED BY THE SCIENCE AND TECHNOLOGY SECTORS AND THE ROLE OF THE UNIVERSITY OF CAMBRIDGE.

A skilled workforce, high productivity levels, a vibrant retail/leisure sector and popular tourist draw, all help in maintaining the economic vitality of the City. This is reinforced from a range of surveys, which culminated in Cambridge being ranked as first in the Fastest Growth City Index.

Cambridge has witnessed economic growth well above the national average over the last five years. Economic output was 2.9% in 2017 and is expected to remain significantly above the national average in 2018. In fact, the economy is expected to grow steadily to reach an output level of 3.0% by 2022.

Unsurprisingly, this economic performance has translated into a significant rise in employment, primarily driven by the knowledge sectors. Over the period 2013-17 the increase in employment has averaged 2.3% pa, with 2017 seeing growth of 2.2%. However, this is expected to slow throughout 2018, although this is still a relatively healthy rate of growth and over twice the national rate for 2018.

Consumer expenditure in Cambridge grew by 2.0% across 2017, which is above the national average. A slowdown in expenditure is expected in 2018, as it is nationally, with growth of 1.1% forecast. Even so, disposable income per head in Cambridge is still 30% above the national average and the gap is expected to widen further.

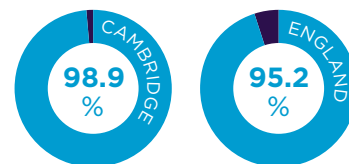
## FOCUS ON INVESTMENT



**1<sup>ST</sup>**  
FASTEST GROWTH  
CITY RANKING  
(UK 2018)

**£65,670**  
GROSS VALUE  
ADDED (GVA)  
PER WORKER  
(UK £61,444)

**98.9%**  
SUPERFAST  
BROADBAND  
COVERAGE



**48.6%**  
BUSINESS  
SURVIVAL  
RATES  
(% after 5 years)  
(England 44%)



4-8 Hills Road, Cambridge

**Cambridge is widely regarded as an attractive location in which to invest with just under £100 million of property investments completed in 2017. There is strong demand for well-located commercial investments across the city in all sectors. A key issue remains the availability of suitable opportunities.**

Investment in the Cambridge office sector was over £50 million in 2017, with most activity taking place in the latter part of the year. Kett House and The Quorum led the field in terms of size of deal, at over £20 million each. The continued strong interest in the sector is seeing deals with Net Initial Yields (NIY) commonly at 5.0% or lower, as witnessed at 4-8 Hills Road achieving 4.7% in Q3.

Industrial investor sentiment remains strong, with overall investment levels in Cambridge totalling £43 million. Barwood Capital and Goya Developments forward sold Buckingham Business Park to M&G Real Estate for around £22m in Q3.

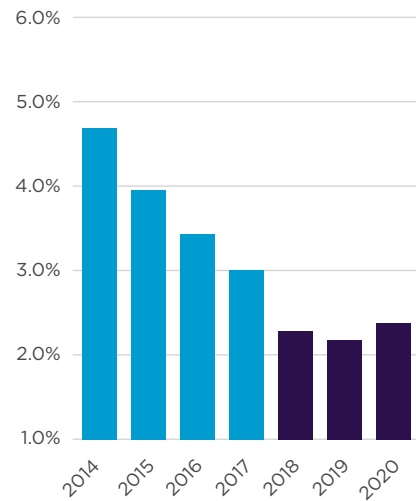
The retail sector has continued to attract strong investment with 50 Sidney Street selling in Q3 at £1.26m, reflecting a NIY of 4.5%. This followed the successful sale of 14-15 Market Street, Cambridge, let to WH Smith, which was sold for £17.7m reflecting a NIY of 3.8% in December 2016. Given the amount of interest in the retail market, the investment tone is set to remain around these levels within the City Centre.



## CAMBRIDGE INVESTMENT TRANSACTIONS WERE CLOSE TO £100 MILLION IN 2017

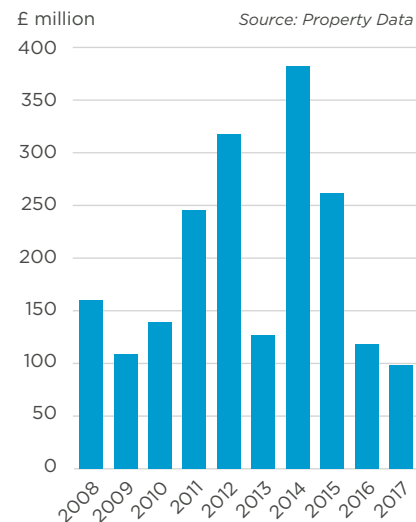
**Figure 1** Cambridge GVA

Source: Experian



**Figure 2** Cambridge Investment Volumes

Source: Property Data



# BALANCING THE STATS

Three dimensions of a 'balanced city' are outlined below. Comparing Cambridge's performance to the national average allows us to consider the affluence of the city.

ECONOMICS

## GVA GROWTH 2017



**2.9%**  
CAMBRIDGE

**1.7%**  
NATIONAL

## EMPLOYMENT GROWTH 2017



**2.2%**  
CAMBRIDGE

**1.3%**  
NATIONAL

## BUSINESS SURVIVAL RATES (% AFTER 5 YEARS)



**48.6%**  
CAMBRIDGE

**44.0%**  
NATIONAL

## INCOME PER HEAD



**£24,455**  
CAMBRIDGE

**£18,793**  
NATIONAL

## EDUCATION GVA OUTPUT (% ECONOMY)



**5.7%**  
CAMBRIDGE

**0.6%**  
NATIONAL

## HOUSE AFFORDABILITY RATIO



**13.1**  
CAMBRIDGE

**11.9**  
NATIONAL

PROPERTY

## OFFICE SUPPLY/DEMAND RATIO (YRS SUPPLY)



**1.4**  
CAMBRIDGE

**5.2**  
NATIONAL

## INDUSTRIAL SUPPLY/DEMAND RATIO (YRS SUPPLY)



**1.3**  
CAMBRIDGE

**13.9**  
NATIONAL

## RETAIL SPEND PER SQ FT



**£14,048**  
CAMBRIDGE

**£10,739**  
NATIONAL

## 5+ A\*-C GCSEs ACHIEVED



**63.3%**  
CAMBRIDGE

**57.8%**  
NATIONAL

## LONG-TERM UNEMPLOYED (2016 - %, 1 YEAR+)



**1.6%**  
CAMBRIDGE

**3.7%**  
NATIONAL

## LIFE EXPECTANCY (YEARS)

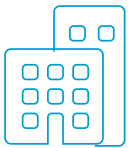


**82.4**  
CAMBRIDGE

**81.3**  
NATIONAL

PROSPERITY

# OFFICE/LAB MARKET



**£38.00**  
OFFICE RENTS  
(psf) Q4 2017



OFFICE TAKE-UP  
(2017)



OFFICE SUPPLY  
(End 2017)

**The office/lab market remains strong with high levels of demand, increasing annual take-up figures and an encouraging number of new developments both in the City Centre and in the wider region.**

Over 696,000 sq ft was transacted in the office market in Cambridge during 2017<sup>1</sup>. This represents an 5% annual increase despite no ‘super-deals’ taking place<sup>2</sup>. The lack of super-deals influenced the average size of transaction, which is now below 6,500 sq ft (7,600 sq ft in 2016) with 85% of transactions occurring in the sub-10,000 sq ft bracket. However, notable larger transactions included Amazon at One Station Square of 72,289 sq ft and Astex taking 42,688 sq ft at 436 Cambridge Science Park.

Availability at the end of 2017 stood at 1.08 million sq ft, compared to 870,000 sq ft in 2016. This was due to a number of developments

commencing including 50 & 60 Station Road, Unit 22 Cambridge Science Park and The Biomed Building at Babraham Research Park. All of these are only available on a pre-let basis as they are still under construction. At present there are few opportunities for occupiers looking to secure over 50,000 sq ft within a single building. Those requiring immediate space will either have to be patient or occupy multiple sites.

Prime office rents in the CBD<sup>3</sup> have increased from £36.50psf to £38.00psf with quoting rents at 50 and 60 Station Road now in excess of £40.00psf. With short supply in this area and considering the level of built stock, it is expected that rents will continue their upward trend.

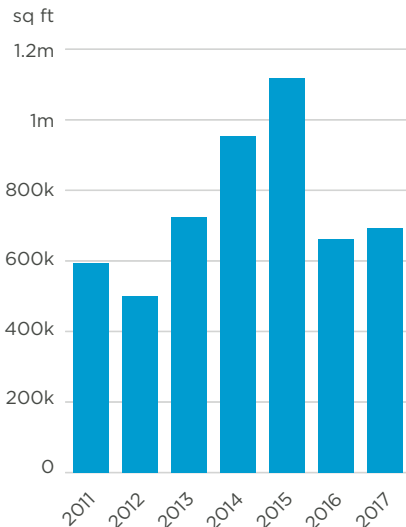
Rents in the Northern Fringe<sup>4</sup> have increased from £31.75psf (in 2016), to £32.50psf recorded at Newton House on Cambridge Business Park. The Maurice Wilkes Building on St Johns Innovation Park is now 60% pre-let with the latest lettings also achieving £32.50psf. Tenants include PwC, Darktrace and Mewburn Ellis.

In Cambridge Science Park, in Q1, Huawei acquired 11,500 sq ft at Building 101 for £29.50psf whilst in Q2, five recently refurbished units at Buildings 150-155 totalling around 10,000 sq ft were all pre-let for £30.00psf.

The business and research parks located outside of the CBD and Northern Fringe are achieving rents between £22.00 and £29.00psf. Heptares took 36,000 sq ft at The Steinmetz Building, Granta Park at a record rent of £29.00psf.

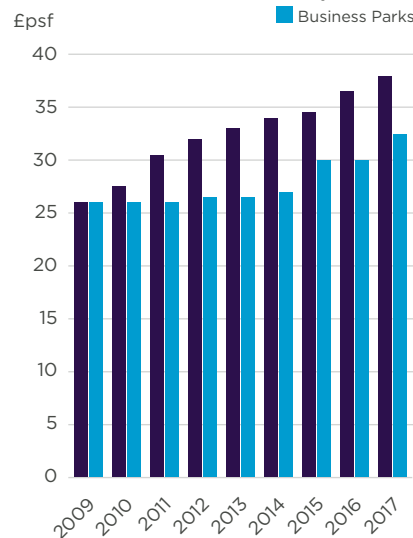
**Figure 3** Office & Lab Take-up

Source: Carter Jonas



**Figure 4** Office Rental Levels

Source: Carter Jonas



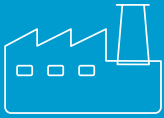
<sup>1</sup> Within an 11 mile radius of Cambridge City Centre

<sup>2</sup> Super deals are a single letting in excess of 75,000 sq ft

<sup>3</sup> CBI and Station Road Area

<sup>4</sup> Cambridge Science & Business Parks, St Johns Innovation Centre and CB4

# INDUSTRIAL MARKET



**£12.50**  
INDUSTRIAL RENTS  
(psf) Q4 2017



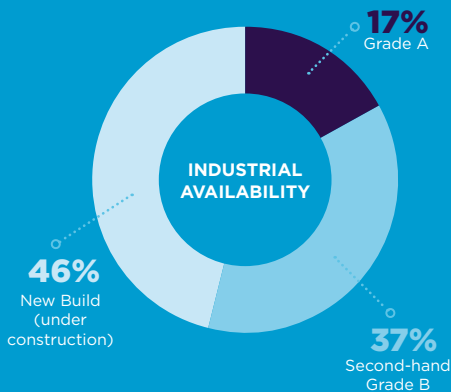
INDUSTRIAL TAKE-UP  
(2017)



INDUSTRIAL SUPPLY  
(End 2017)

**Figure 5** Industrial Availability, 2017

Source: Carter Jonas



**Demand for industrial units remains buoyant despite the limited availability of good quality stock which in turn has forced occupiers to look for second-hand units. This imbalance between demand and supply has also encouraged developers to bring forward new speculative schemes.**

There is an estimated 530,000 sq ft of industrial space available within a 10-mile radius of Cambridge city centre, of which over 200,000 sq ft is new or under construction.

Cambridge is not renowned for its industrial market due to competition from higher value land uses resulting in developers seeking alternative locations. Therefore, there have been a number of developments taking place to the north and west of the city including M&G's funding of 155,000 sq ft at Buckingway Business Park. The units will be ready for occupation in 2018. Rockspring are also due to

complete in 2018 on an 80,000 sq ft split between 12 units at Enterprise 5000 at Cambridge Research Park. The scheme benefits from up to £225,000 business rates relief over five years, offered by Cambridge Compass Enterprise Zone.

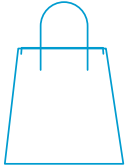
To the south of the city, Salmon Harvester Properties Ltd are proposing to speculatively build 13 units totalling 68,000 sq ft.

Prime industrial rents in Cambridge are currently around £12.50psf in the City Centre with BSS taking 18,750 sq ft at College Business Park while good secondary rents have increased to £9.25psf. Rents for central trade counter units hit £16.50psf in Q2 as evidenced by the 25,000 sq ft letting to Ridgeons on Coldhams Business Park.

Take-up within a 10 mile radius of Cambridge city centre amounted to 400,000 sq ft in 2017 including deals at Unit 3 Evolution Business Park of 21,343 sq ft in Q2 and Unit 9 Norman Way Industrial Estate of 42,000 sq ft let to Alere at £10.65psf in Q4.

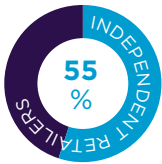


## RETAIL MARKET



**£290.00**  
PRIME RETAIL  
RENTS  
(£psf ZA)

**55%**  
INDEPENDENT  
RETAILERS



**£14,048**  
RETAIL SPEND  
POTENTIAL  
(£psf)

**+2.0%**  
CONSUMER  
EXPENDITURE  
2017



*Petty Cury, Cambridge*

**According to the Harper Dennis Hobbs 2017 Vitality Rankings, Cambridge became the best retail destination in the UK. The City climbed six places to beat Knightsbridge and Westfield in Shepherd's Bush, London. Cambridge's success has been attributed to the proportion of high-end shops compared to value-led retailers, the low percentage of vacant units and continued strong occupier demand.**

At the end of 2017 there were very few vacant properties with only around 36,000 sq ft available in the primary and secondary shopping locations in Cambridge.

Due to the University's influence and planning policies aimed at protecting the character of the City Centre, there has been little new development or refurbishment since

The Grand Arcade in 2007. However, there are ongoing plans for two A3 retailers to occupy the proposed redeveloped area along Market Street.

The Grafton Centre is still undergoing refurbishment and extension, with phase one completing last year including the new Fitzroy Street entrance improvements. Phase two and three are underway reconfiguring and extending the area around the former BHS unit to create a new hotel and food quarter. Planning has been submitted by PureGym to occupy part of this space too.

Despite a number of key transactions this year, rents achieved in the city centre, have been in the region of £240psf (ZA) which remains under the pre-recession peak of £290psf (ZA). Rents in the recognised secondary retail locations along Regent Street, Hills Road and Mill Road remain stable at £60-£90, £30-£50 and £40-£60psf (ZA) respectively.



<b>THE TRENDS</b>		PRIME RENT (END 2017)	CHANGE OVER 2017	FORECAST 2018	YIELD (END 2017)
VALUES	<b>Office</b>	£38.00psf	↑	↑	4.5%
	<b>Industrial</b>	£12.50psf	↑	↔	5.5%
	<b>Retail</b>	£290.00psf ZA	↔	↔	3.8%
		2017 TAKE-UP (SQ FT)	CHANGE OVER 2017	CURRENT AVAILABILITY (SQ FT)	CHANGE OVER 2017
BUSINESS SPACE ACTIVITY	<b>Office</b>	696,000	↑	1,080,000	↑
	<b>Industrial</b>	400,000	↑	530,000	↑



## FORECASTS

### MAJOR IMPROVEMENTS TO INFRASTRUCTURE AND CONNECTIVITY

The newly elected metro Mayor of Cambridgeshire and Peterborough has already committed support to the dualling of the A14, as well as commissioning feasibility studies into linking smaller towns to the jobs of Cambridge via a light rail as well as an underground transport system in Cambridge city centre.

### RESILIENCE OF THE CITY

Despite the recent and prevailing uncertainty surrounding UK's imminent exit from the EU, Cambridge's future remains positive. A combination of a highly qualified workforce, a dominant life-sciences and tech sector as well as the magnet of the University of Cambridge for intellectual talent means the city will remain an attractive place to live and work, and therefore continue to appeal to investors.

### RENTS CONTINUE TO RISE

Office rents will continue to increase as the imbalance between strong demand and lack of supply exacerbates. We anticipate rents in the city centre to reach at least £40.00 psf and those in the Northern Fringe to increase to £33.50 psf.

### CONTINUED INVESTMENT AND SPECULATIVE ACTIVITY

The Life Sciences Industrial Strategy announced by the government in November will drive the Cambridge economy forward by encouraging further foreign investment. We will therefore see an increase in speculative office & lab developments in both new and existing parks.

### DEMAND FOR MID-TECH UNITS

This will increase as the city continues to draw interest from knowledge intensive sector companies. These occupiers require a mixture of office, laboratory and manufacturing space, and Cambridge market will need to adapt accordingly. Over the coming years, developers may be forced to look to the south of the city as the northern parts reach capacity.

## 38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON



Bangor	Newbury
Basingstoke	Northampton
Bath	Oxford
Birmingham	Peterborough
Boroughbridge	Shrewsbury
Cambridge	Suffolk
Edinburgh	Taunton
Harrogate	Truro
Kendal	Winchester
Leeds	York
Marlborough	

National HQ One Chapel Place	Knightsbridge & Chelsea
Barnes	Marylebone & Regent's Park
Barnes Village	Mayfair & St James's
Fulham Bishop's Park	S. Kensington & Earl's Court
Fulham Parsons Green	Wandsworth
Holland Park & Notting Hill	Waterloo
Hyde Park & Bayswater	

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