

Good Growth for Cambridge





Opportunity for growth

Cambridge’s continued position as a world-leading centre of innovation relies on tackling infrastructure, commercial accessibility and housing affordability

Cambridge sits at a potential turning point, with the Government recently announcing ambitions for residential and commercial development that would see the city grow faster than anywhere else in the country. Whilst accompanied by significant challenges around infrastructure delivery and sustainability, this level of development would represent a scale of opportunity not seen since the creation of the Milton Keynes Development Corporation in the 1960s.

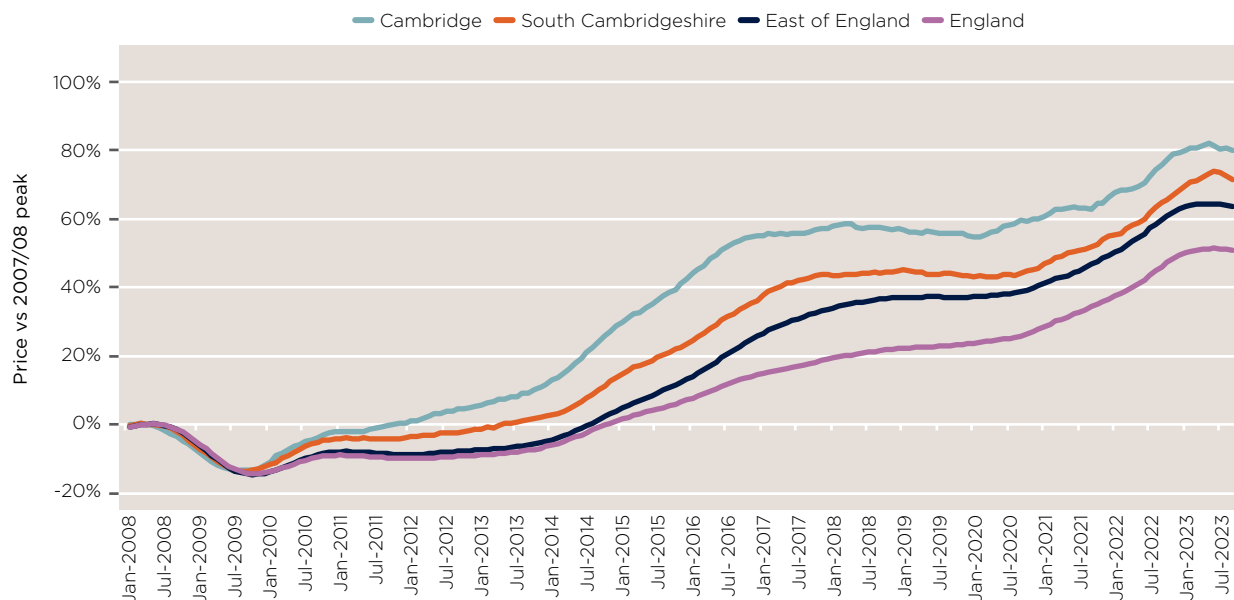
The commercial market

The potential for growth is underpinned by Cambridge’s continued recognition and strength as a global leader in technology and life sciences. This is reflected in the

performance of the commercial property market across the city. There was record demand for laboratory space in 2023 with 31,700 sq m transacted, which represented a 53% share of total office/laboratory take-up. This figure was 61% above the previous highest total recorded in 2019 of 19,800 sq m. A key deal of 2023 was BioNTech acquiring 6,970 sq m at Cambridge Biomedical Campus, underlining Cambridge’s global attraction and maturity as a market compared to Oxford and London.

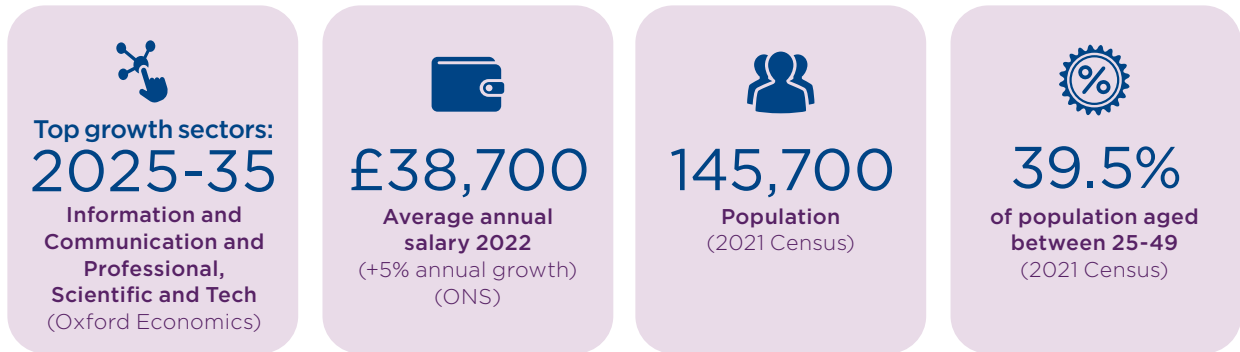
Supply constraints continue to hinder the immediate expansion of both office and laboratory markets. The vacancy rate for available laboratory space is 1.5% across the city, leading to strong rental growth. Prime laboratory rents are in

Figure 1 Residential price movements



Source: Land Registry

KEY MARKET DATA – CAMBRIDGE CITY



excess of £70 per sq ft (£753 per sq m). The office market is also experiencing a supply shortage with only one grade A building over 2,000 sq m available in the city centre, which is already 50% pre-let. The demand for best-in-class office space has been evident at the 8,800 sq m One Cambridge Square which was speculatively developed by Brookgate and Schroders. The scheme completed in Q2 2023 and has secured lettings to Samsung and EY.

The current pipeline for office and lab space is 975,000 sq m, a potential net gain of 930,000 sq m of office and laboratory space. This would nearly double the existing stock in the city. Whilst it is unlikely that all of these schemes will be developed, the depth of the pipeline highlights the confidence in the market which is in contrast to the majority of other UK locations.

At the start of 2024, investment agents are seeing a higher degree of positivity in the market following a muted 2023. Investment volumes slumped in 2023 to just over £140m of sales, compared to record levels of over £900m of sales in 2021 and 2022. With the science sector attracting a wide occupier profile, vendors expect the market to improve in 2024, driven by wider economic and capital market improvements in the UK commercial investment market. If high quality product comes to the market, buyers will appear.

Population and affordability changes

The strength of the employment market in Cambridge has had important knock-on effects on the make-up of the city. Between the last two censuses (2011 and 2021), the number of people living in the city increased by 17.6%, the largest rate of increase of anywhere in the East of England, and significantly above the England average of 6.6%. The largest percentage increase was in the 25-to-34-year-old age group (+20.6%), suggesting a strong pull factor from job opportunities generated by the University and other growing employers.

The proportion of households with children fell, and despite the overall increase in the population, the number of residents aged under four fell by just over 350. This suggests that Cambridge may be struggling to retain talent beyond the early career years, particularly at the stage when people are growing their families and need to look for larger properties. Affordability is an ongoing challenge for the city, with the

average house price to income ratio increasing from 8.7 in 2011 to 12.4 in 2022.

The unaffordability of owner-occupation is also shown in the growth of the private rented sector. 31% of all households are now renting, compared to 26% in 2011. This is almost double the England average of 19%. Finding solutions to this affordability problem will be critical to Cambridge’s long-term potential to grow through attracting and retaining talent.

Oxford Economics’ forecasts for employment growth by 2050 is already constrained by assumptions relating to housing affordability. The forecast growth in total employment of 0.7% per year is less than half the rate (1.9%) between 2010-2021. The limiting factor is no expected overall growth in the working age population by 2050, linked to an assumption based on current development trends and existing plans that only 26,000 new homes will be built by 2050. Clearly, the potential for economic growth under the Government’s newly announced ambition of 150,000 new homes would be substantially higher.

Residential market

Despite the headwinds in the market, residential values in Cambridge have remained resilient over the last year. Average transaction values in the city are now at £588,000, flat against the values achieved a year ago, according to Land Registry data. Falling mortgage costs in the first weeks of January are likely to bring more confidence to the market.

The city is holding up more strongly than South Cambridgeshire, where values have declined by just under 2% over the last six months. The strong employment market in Cambridge has supported values in Cambridge and the surrounding areas, with locations further from the city facing more challenges. A lack of stock on the market has also supported prices. Turnover in Cambridge in 2023 was just 1.8% of dwelling stock, lower than the UK average of 2.5%.

A lack of stock, coupled with high demand, has also defined the rental market. The number of listings in Q4 2023 in Cambridge was down by -23% against the 2017-19 average. Annual rental growth was over 8% from the start of 2022 to November 2023. However, in the last couple of months, the rate of rental growth has started to slow, suggesting that an affordability ceiling is being reached.

Room to live

Increased density and transport links are needed to support development

Fully realising Cambridge's economic potential will require a step change in the rate of development. 4,900 new homes were built in Cambridgeshire in 2022-23, of which 47% were in the Greater Cambridge (Cambridge and South Cambridgeshire) area.

Greater Cambridge is currently planning to deliver 1,675 new homes per year across the two local authorities. The most recent Housing Trajectory calculated that enough land had been identified for just over six years of supply at this level of delivery.

In the longer term, there is a pipeline of allocated and consented sites, plus an assumption of windfall delivery, to deliver 38,000 homes by 2041, with further capacity for 11,000 homes on sites currently expected to come forward after 2040.

To achieve the Government's growth ambitions, land needs to be identified for just over 100,000 homes. In practice, to reach 150,000 new homes over the next 25 years, supply will likely have to come from both newly identified sites, particularly those supported by new infrastructure, and densification of sites already allocated for development. The rate of development would have to ramp up to around 5,000-6,500 new homes per year, a threefold increase on current delivery rates.

Locations for development

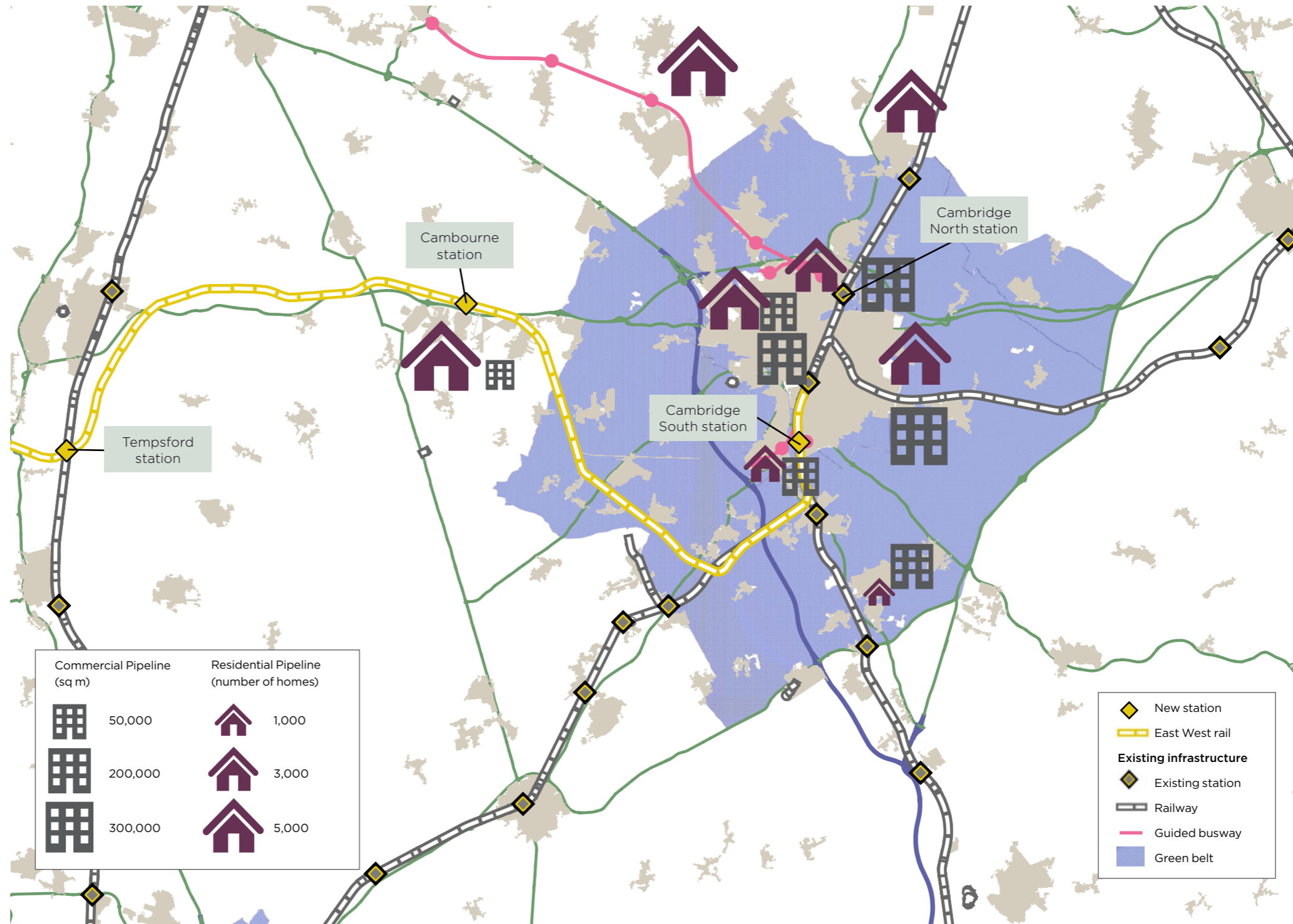
The emerging Local Plan identifies that development should include North East Cambridge, Cambridge East and the existing Cambridge Biomedical Campus. Beyond this, the greatest opportunities for high volume delivery will be those locations supported by public transport infrastructure. East West Rail will open up increased potential for sustainable residential development at the new stations at Cambourne and Tempsford, while Cambridge South could be an important hub for both residential and commercial development. Beyond this, land located close to the city or existing employment clusters would place the least strain on transport infrastructure, although many of these types of locations identified in the latest Call for Sites will require Green Belt review.

Densification opportunities

The amount of new land that has to be identified for development will also depend on the densities that can be achieved. Recent urban extension developments around Cambridge have tended to be built at densities of between 40-50 dwellings per hectare (dph), although Trumpington Meadows has some quarters achieving densities of 70 dph.

There are some examples of higher density development in the centre of the city, such as CB1, which achieved a density of 250-300 dph. Elsewhere in Cambridge, traditional terraced

Figure 2 Strategic growth locations



Source: Savills Development Database, Glenigan

streets in areas such as Newnham have a density of 90 dph, demonstrating that higher density developments could still be in keeping with the existing character of the city. Larger sites, where new neighbourhoods can be created, are likely to be most suited to denser developments.

Densification could also be part of the solution for the demand for commercial space. Cambridge Science Park has proposed as part of its 2050 vision to double the amount

of floorspace on site, supporting a further 21,000 jobs, while also increasing green space and reducing surface parking. Cambridge Science Park already has one of the highest floorspace to site area ratios of the employment parks in Cambridge, which suggests that, if supported by the right public transport, other locations could offer even further densification potential.

To achieve the Government's growth ambitions, land needs to be found for just over 100,000 homes

Figure 3 GCP development pipeline

	Residential units	Commercial space (sq m)
Application	1,500	55,700
Consented	970	97,500
Under Construction	5,700	55,700

Source: Savills Development Database, Glenigan

An expanding ecosystem

Early-stage investment trends signal the type of commercial space that Cambridge will need in the future

Recent investment trends

When adjusted for population size, the Global Innovation Index (GII) ranks Cambridge as the number one innovative ecosystem in the world. Early-stage investment trends suggest that in the future, the economy of the city will become even more weighted towards knowledge-intensive industries, with important consequences for the types of commercial space occupiers will be seeking.

The economic structure of the Cambridge region has attracted high level of investment in both early-stage and more established companies. Most investment has been venture capital (VC), but there has been significant capital-related “exit” events, including mergers and acquisitions and Initial Public Offerings. Companies completing these significant capital events stretch across all innovative and scientific sub-sectors, creating demand for additional laboratory and office space in Cambridge in the future, most likely as a result of headcount growth in the short term.

The last decade (2014-2023) has seen Cambridgeshire companies complete on nearly £100bn of capital-raising events. Of this total, Healthcare and Information Technology (IT) companies account for 85% of the total capital raised.

Looking at the VC investment in particular can help to understand the IT and healthcare (life sciences) story in more detail. The ‘drug discovery’, ‘surgical devices’ and ‘biotechnology’ sub-sectors have dominated VC raises.

This has driven the need for laboratory space and commercial property with higher technical specification overall.

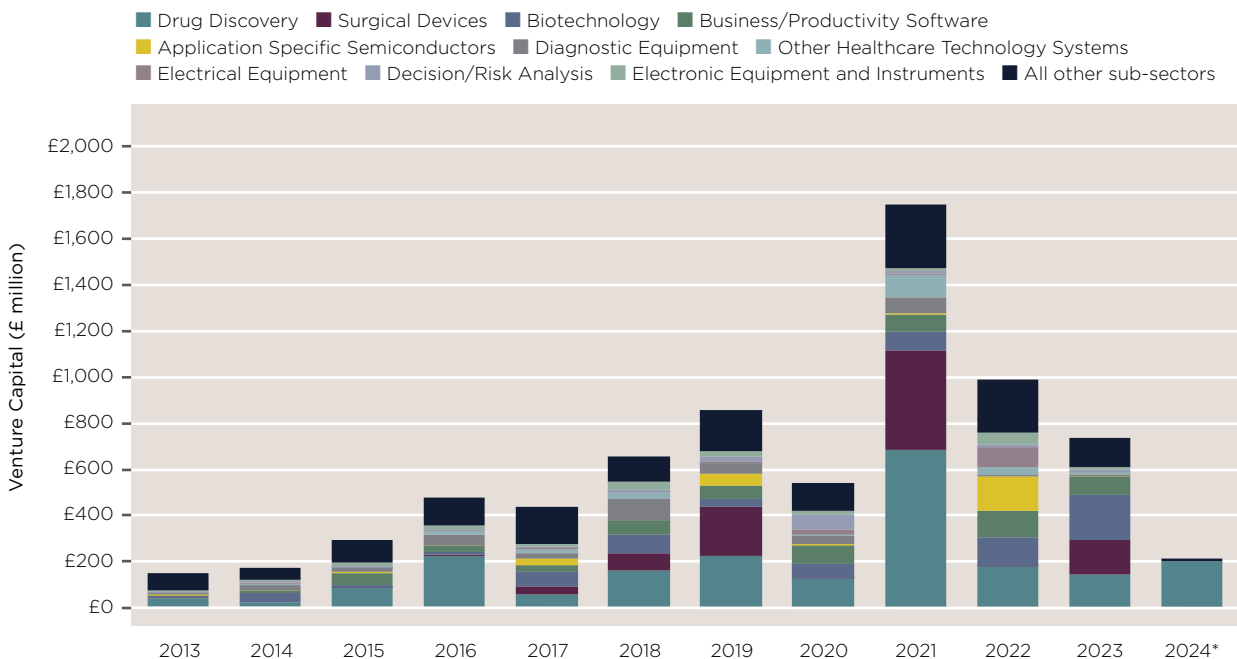
The leading organisations driving investment in terms of monetary value include Cambridge Innovation Capital (CIC), Tencent, CPP Investments and GE Healthcare, illustrating the global nature of the capital coming to Cambridge companies. Across the most prolific investors, there is a much more localism, with the leading three investors including University of Cambridge Seed Funds (Cambridge Enterprise), Cambridge Angels and University of Cambridge Enterprise Fund (Parkwalk Advisors). These investors will be driving growth at smaller, often start-up, scale.

Where next?

The pertinent question for the commercial property markets is which sectors will continue to dominate and which sectors are the emerging “ones to watch”? Since 2016, Savills has reviewed the emerging companies in Cambridgeshire within the ‘buzzword’ sectors. In total, around £900m of capital has been raised by companies based in Cambridgeshire.

👉👉 **The economic structure of the Cambridge region has attracted high levels of investment in both early stage and more established companies** 👉👉

Figure 4 Cambridgeshire headquartered VC



Source: Savills, PitchBook (* as at mid-January)

The rise of quantum computing is very clear, accounting for nearly 30% of capital raised. For this sector, laboratory-type space (dry labs) would be required, but not with the same air circulation or extraction requirements for wet laboratories for pharma. The same is true for the next highest sector, Medical Robotics. The crossover between artificial intelligence (AI) and the life science sector is emerging strongly with 'AI-Powered Drug Discovery' growing on the global stage at a fast pace. This will be a key sub-sector for Cambridge going forward.

A rapidly emerging sector, with huge potential for growth, is food and nutrition. Cambridge's existing strengths in R&D for life sciences is increasingly important for the food sector, with a focus on preventative interventions for human health. Currently, food sector investment is dominated by 'Indoor Farming', comprising just over 10% of all VC investment in Cambridgeshire. But in the coming years, there is potential for significant expansion from the 'Clean Meat, Cellular Agriculture' and 'AI in Foodtech' sub-sectors. These sectors only comprise 4% of investment since 2016, but will grow by benefiting from a strong academic presence and links with traditional life sciences.

Space and location requirements

The high concentration of companies within Cambridge illustrates that co-location and sectoral clustering is a driver of investment. Future demand will be high for new space within close proximity to these established clusters.

Smaller start-up floorspace, grow-on, wet/dry laboratory and corporate offices will have to be delivered to accommodate the anticipated growth for the wider Cambridge region. For the wet laboratory market, there is an emerging trend of floorspace being fitted out for the smaller companies who do not want to spend hard-earned VC money on fit-out and will have a much shorter lead-in time requirement to occupation.

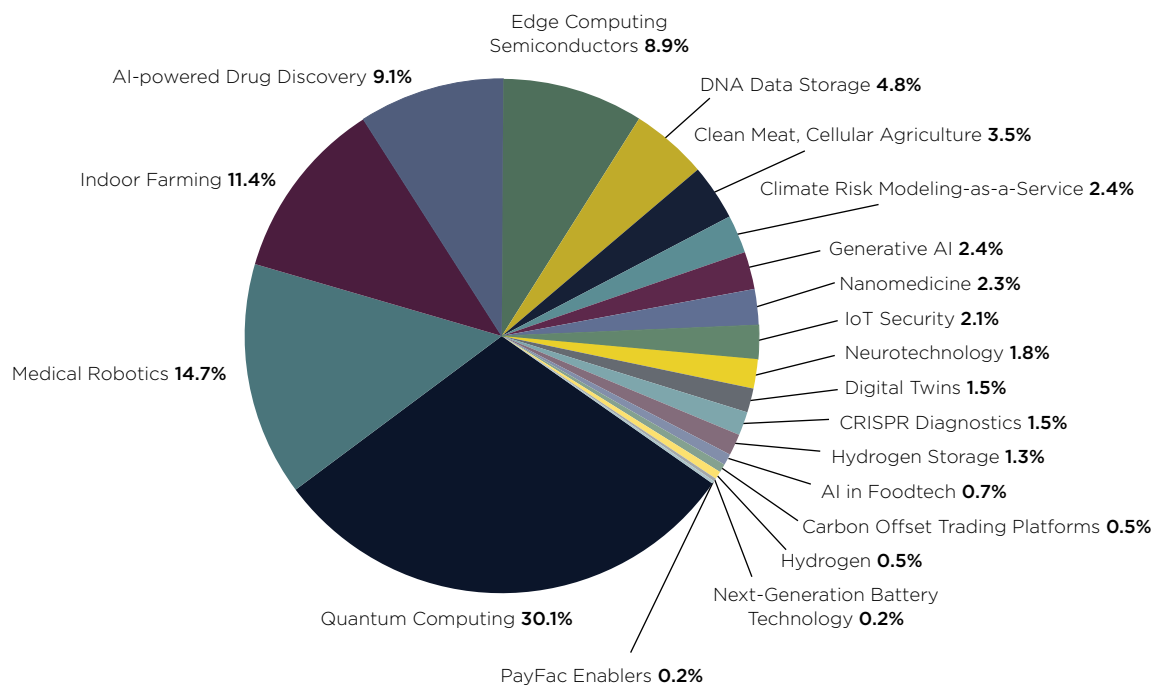
For the life sciences, the demand is for wet laboratory space. The need for this type of laboratory space for discovery and innovation will remain in the medium term. However, as AI becomes an increasingly powerful tool in this sector, power resilience and secure data storage will likely move further up the specification wish list.

For knowledge-intensive workers, there is a need to deliver commercial floorspace in both city centre and out-of-city locations, mainly science/technology parks. There is a growing shift towards urban locations for science and innovative sub-sectors, with access to public transport hubs becoming a key driver for younger employees.

For occupiers, more central, city centre and edge-of-city developments will provide the most appropriate commercial floorspace stock – something that has not been delivered at scale in the recent past. Providing this type of floorspace will draw additional occupiers to the city. However, within the context of 'good growth', the newly emerging innovative locations, often as 'districts', must acknowledge, incorporate and deliver a direct positive impact for the wider community.

Looking away from the office and laboratory market, the delivery of appropriate size and quantum of industrial-related floorspace is vital to deliver and support a strong ecosystem in Cambridge and surrounds. Echoing global trends in R&D, space is needed not just for research, but also for the development and delivery of 'discovery'. Mid-tech will be an important commercial sub-sector to maintain in quantity (including warehousing and advanced/light manufacturing). This sub-sector has lower occupier and employment density when compared to laboratories and offices. This means there are fewer workers on-site and it is less reliant on being centrally located near urban areas or near public transport, instead requiring easy access to major road and motorway networks.

Figure 5 Emerging spaces in Cambridgeshire since 2016 (may or may not be HQ'd in Cambridgeshire)



Source: PitchBook, Savills



Positive energy

How can the delivery of physical infrastructure in Cambridge be aligned with the planning process?

Beyond identifying enough land to accommodate Cambridge's growth potential, the other key obstacle is ensuring the infrastructure is in place to make any development sustainable. For Cambridge, there are two key areas that need addressing: electricity and water. Both of these have implications for the phasing and speed of development, as potentially adding additional costs that could impact land values.

Electricity

Cambridge and South Cambridgeshire currently use around 1.49TWh of energy per year, but this level of demand is expected to triple by 2031 based on currently planned development, business growth and electrification of the energy supply. A greater level of development in line with government ambition would put even more pressure on the grid.

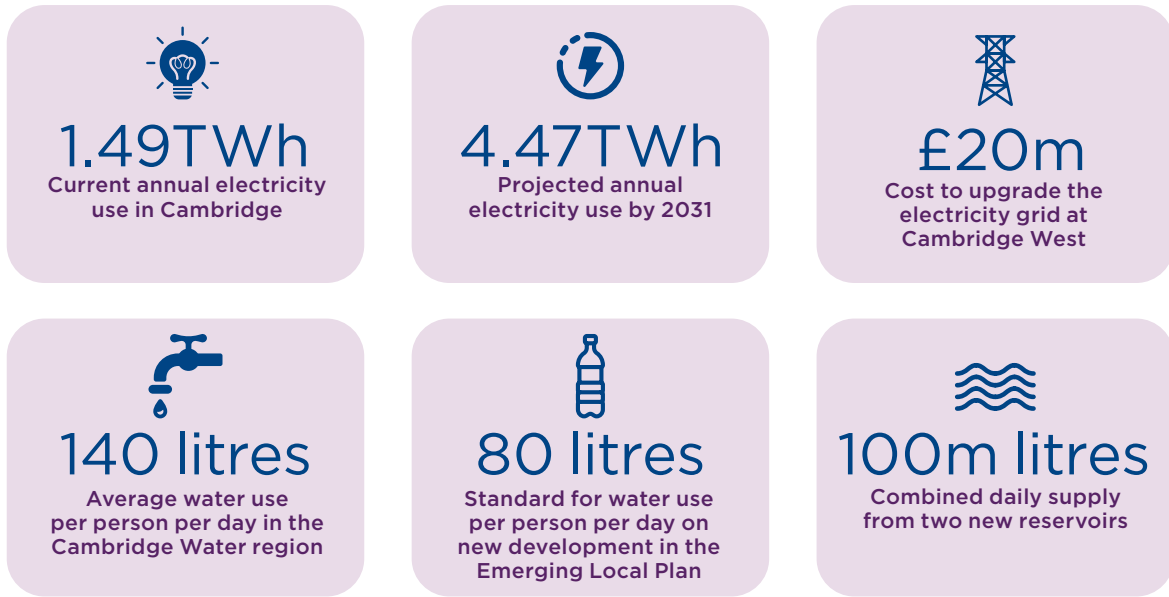
With current energy use, a circuit of 1 MVA can support 550 homes. But it is projected that with increased use of electric vehicles and electric heating and cooling, this figure will fall to just 100 homes. Sites for energy intensive commercial uses or those larger than 100 homes are at risk of

significant delays due to an inability to connect to the grid. Schemes comprising 5,700 homes and 270,000 sq m of commercial space consented or allocated in the Local Plan are already affected.

The Greater Cambridge Partnership (GCP) has been investigating this challenge, and has identified three substations critical to the economic growth and development of the area: Cambridge East, Trumpington Primary and Cambridge West. The GCP has put together a business case to deliver two of these substations over a five-year period, taking total grid capacity around Cambridge from 240MVA to 310MVA. The GCP had originally planned to contribute to the funding of these upgrades using City Deal money, but Ofgem has now agreed to fully fund work to be carried out by UK Power Networks, recognising the high importance of the scheme.

However, a plan for delivering the final substation at Cambridge West hasn't been announced, where an additional 50MVA of capacity could be created. This could pose delays to development to the north and west of the city. It remains to be seen whether GCP still has the appetite to contribute catalyst

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funding towards the estimated £19m cost, or if forward funding payments from those seeking to develop in the area will be needed. The main concern for developers will be a timeline for delivery that aligns with the Local Plan and gives certainty that sites would be delayed by power requirements.

Water

Further considerable challenges are posed by the need to increase the water supply in Cambridge. Although new development doesn't yet have to prove water neutrality, as has been imposed in Horsham, analysis by the Environment Agency has found that there isn't sufficient infrastructure to deliver the growth set out in the existing Local Plan, let alone the Government's larger target.

Anglian Water and Cambridge Water are already planning to deliver a new reservoir in the Fens, capable of supplying 100 million litres of water daily, as well as a further scheme in Lincolnshire which will also serve the East of England. This would provide water for at least 750,000 homes. But the reservoirs have been in progress for a decade already, and are unlikely to be operational until the mid-2030s.

Figure 6 Volume of Development currently delayed by lack of Infrastructure

	Number of homes	Commercial space (sq m)
Electricity	5,700	270,000
Water	9,000	700,000

Source Savills Research using Glenigan, Environment Agency

This highlights the challenging nature of delivering large scale infrastructure. A key concern for Cambridge's growth prospects is whether developers will have the certainty they need to be able to begin progressing large sites through planning. In a letter to central Government in 2023, Cambridge and South Cambridgeshire warned that water shortages risked significantly undermining the development plan. The Financial Times reported that there is a possibility that planning consent will not be granted for more than 9,000 homes and almost 700,000 sq m of commercial space currently in the pipeline, and the Environment Agency has raised objections to five planning applications, with capacity for over 4,000 homes.

Co-ordination

For any large-scale expansion of Cambridge to be successful, there will need to be greater co-ordination between locally led planning decisions, and the delivery of national strategic infrastructure, bringing together both the public and the private sector. Michael Gove has announced plans to establish a development corporation for Cambridge, with the "full powers necessary" to lead a project of this scale.

Whether through a development corporation, or another overarching body such as Homes England, the growth of Cambridge will only happen with clear timelines for investment and delivery of new physical and social infrastructure, aligned with the Local Plan process. Alongside the electricity and water challenges highlighted here, this also has to include the provision of education, health and social care, as well as a range of housing tenures to ensure the city retains its essential key workers.



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