CAMBRIDGE NORTH

CAMBRIDGE OFFICE & LABORATORY OCCUPATIONAL MARKET UPDATE

JUNE 2022

PREPARED BY

BIDWELLS

June 2022

BIDWELLS

CAMBRIDGE OFFICE & LABORATORY OCCUPATIONAL MARKET UPDATE

CAMBRIDGE NORTH

Introduction

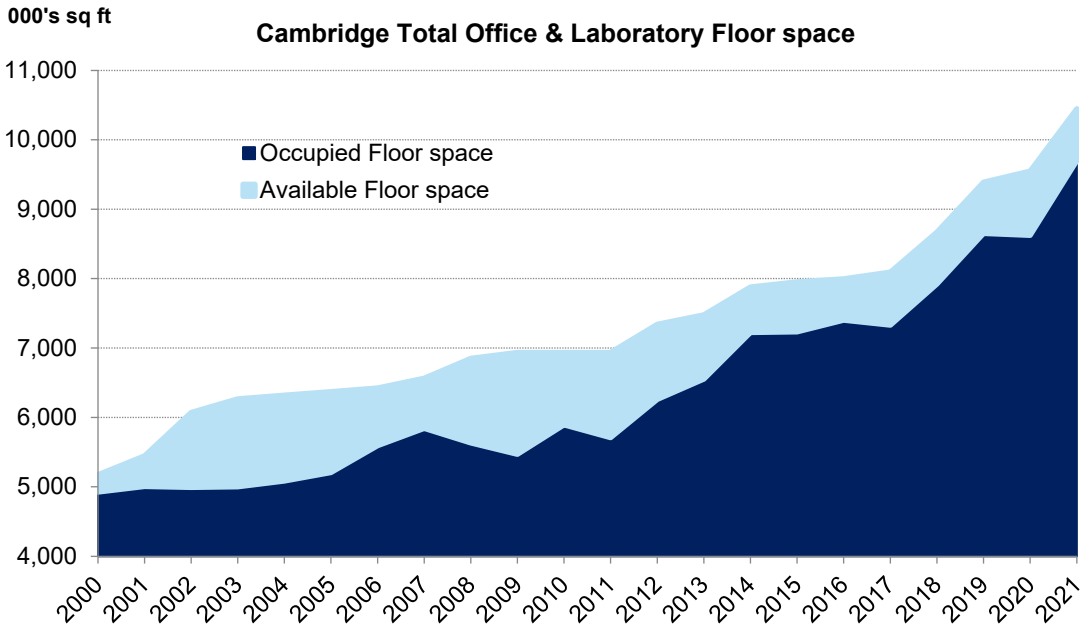
This report provides data and analysis of the growth of Cambridge office and laboratory occupational market. The provision of office and laboratory space has consistently not met the demand of both scaling local and large corporates seeking to grow their businesses within the Cambridge cluster.

The delivery of new commercial office and laboratory space at Chesterton Sidings site, adjacent to Cambridge North Station and connected by busway and cycle network is required to provide much needed commercial space. This occupational report is provided as part the application for the second phase in the wider redevelopment of Cambridge North to create a much-needed commercial space in a well-connected commercial location on the edge of the City. The Proposed Development comprises:

- *An outline application (all matters reserved apart from access and landscaping) for the construction of three new residential buildings of four to eight storeys, providing flexible Class E and Class F uses on the ground floor, and two commercial buildings of five storeys for Use Classes E(g) I (offices), ii (research and development) providing flexible Class E and Class F uses on the ground floor, with associated car and cycle parking and infrastructure works;*
- *A full application for the construction of three commercial buildings of four and seven storeys for Use Classes E(g)I (offices) ii (research and development), providing flexible Class E and Class F uses on the ground floor, with associated car and cycle parking, a multi storey car and cycle park and associated landscaping and infrastructure works.*

1. Cambridge Office & Lab Market - Total Stock

The Cambridge office and laboratory market has grown in significance since the start of the millennium, with total stock rising from 5.2m sq ft in 2000 to stand at over 10.45 m sq ft at the end of 2021.



The growth in floor space is a reaction to increased demand for space by the growing levels business activity in the Cambridge area. In support of this, total occupied office and laboratory floor space has risen from 4.9m sq ft in 2000 to 9.7m sq ft at the end of 2021.

The main growth in floor space and occupied floor space has been from 2012/13, over which time we have seen total office and laboratory stock increase by over 3.0m sq ft. Available floor space within the past 3 years peaked at the end of 2020 during the pandemic but and has subsequently availability has been falling sharply and is forecast to move to historic low levels later in 2022 and 2023.

This increase in occupied office and laboratory floor space has been sustained year on year but often been limited in specific years to the provision of new development that is delivered to meet Cambridge's expanding business economy.

The growth in floor space is driven by the dynamic economy, which has supported the development of business space. The majority of new construction has been on a pre let basis, with just over half of new office floor space added since 2013 being undertaken on a design & build basis, whilst 83% of laboratory development has been supported by commitments from occupiers. Where speculative office and laboratory schemes have been delivered, they have also been met with strong demand often being fully let on completion or shortly thereafter with competition amongst occupiers for space. Examples of this can be seen at Brookgate's CB1 scheme, where the 129,000 sq ft One Station Square and the 156,300 sq ft 50/60 Station Road were fully let on practical completion, and similarly in the Cambridge North environs the 5 buildings delivered by TUS /Trinity of 370,000 sq ft on the Cambridge Science Park.

The largest concentration of stock and combined sub market is located surrounding the Cambridge North Station including (Cambridge North, Cambridge Science Park, St Johns Innovation Park, Cambridge Business Park). The attractiveness of this wider commercial area provides the for occupiers has resulted in lower availability levels than the greater Cambridge office and lab stock. Of existing built stock in the area surrounding Cambridge North Station had an availability rate of half that of the wider Cambridge cluster which was at 7.9% at YE 2021 and falling.

1.1 Cambridge Office & Lab Market – Evolution

The reasons why Cambridge has changed immeasurably from a relatively immature market to 'a', if not 'the' European Capital for R&D, are multiple and complex, but are broadly a result of the following:

University Effect - Cambridge University remains one of the top 5 universities in the world. It is particularly strong in all forms of STEM. It has also been visionary in its approach to partnering with the private sector to foster numerous successful companies. Cambridge Science Park was visionary in this regard and has provided a platform for many companies and continues to do so. Whilst the University remains a globally recognised it will continue to attract the top intellectual talent from around the world both for students and academics. This provides access to an incredibly talented employment pool but also areas of research that will make a difference around the world. This attracts companies who will wish to partner or invest in this research and locate in close proximity. Companies see the ability to leverage their businesses in world class talent pools as important in developing products or services and will always be attracted to cities like Cambridge, provided we can accommodate them here.

Buy Outs - Given the success of Cambridge to grow companies it naturally became a focus for international companies to purchase these companies for their IP. Historically the purchasing

companies tried to bring back the IP to their home countries, but this often resulted in the loss of the staff from the company itself. The value of the companies was always the people; so now companies are purchased and invested in to enable indigenous growth. This has increased the demand for office space and the increase in average office and lab requirement size, which has been reflected in trend take up rates.

Indigenous Growth and Access to Funds - Cambridge companies have been more inclined to grow indigenously and less inclined to sell out their technology and expertise. This has meant they have grown in size in Cambridge in their own right. This again has significantly pushed up requirement sizes. This has been helped by a significant entrepreneurial market that is prepared to invest and nurture the growth. A lot of this money has come from serial Cambridge entrepreneurs who have historically grown and sold businesses, thus recycling their money. This is further fuelled by two significant investment sources namely a sophisticated venture capital market and large corporates investing directly in smaller companies. The reasons for this are that it is far easier to grow a company exponentially in a location such as Cambridge given the talent pool and knowledge of the wider location.

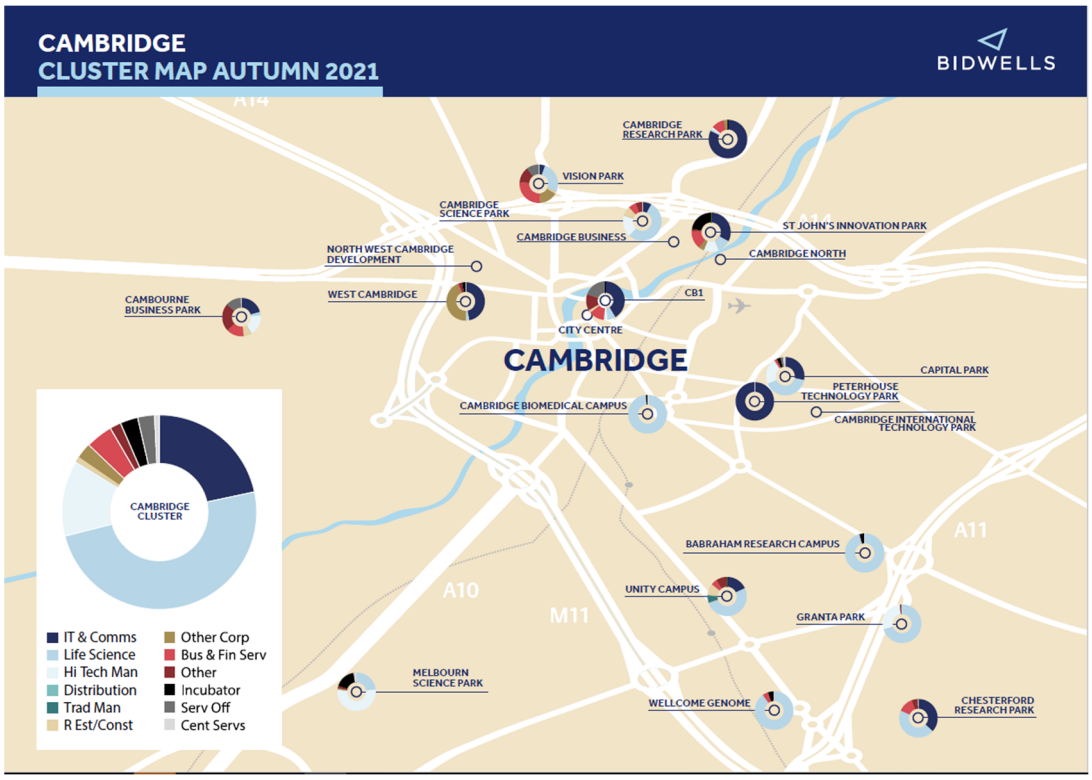
Life Science Sector - The emergence of the Life Science Sectors over the past 20+ years has added another significant dimension to the market. This emerged at the end of the 90's and whilst only totals circa 3 million sq ft has of dedicated lab space, the largest concentration in the UK giving Cambridge the label of Life Sciences Capital of the UK.

Clustering - Overreaching all of the above the recognition by Research and Development sectors of the importance of clustering. The importance of technology companies to be proximate to like-minded businesses, a world class University and a very skilled labour pool is a fundamental decision determining business location. Cambridge has benefitted hugely from this being recognized as one of the leading UK and European Hubs.

This has all fuelled demand for Cambridge over the last decade; the global tech brands have largely focused attention on locations with good communications and close to stations when space. The Life Sciences business in Cambridge have had fewer urban opportunities for lab space and focussed on park locations. Demand for well-connected urban environment where tech and life Sciences can coalesce is high and been highly desirable where delivered at scale in the global R&D centres that Cambridge competes in.

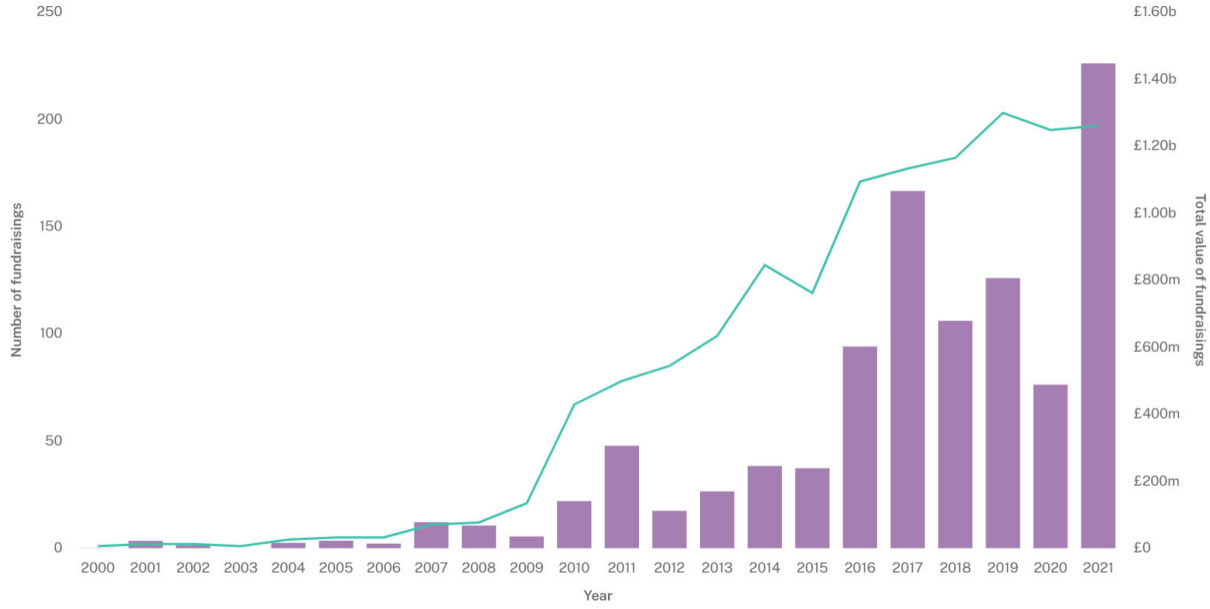
1.2 Growth of clusters and funding

The key clusters have largely grown up around the Science and Business Parks surrounding the city and the 'Cluster Map' analysis provides a useful insight to the locations driving Cambridge's economic growth. The arc to the south of the city has primary focus of the Life Science cluster, which has grown up around Hospital / Cambridge Biomedical Campus, Babraham Research Campus, Wellcome Genome Campus, with several major parks commercial parks in the region. Whereas the northern parks success has been based on a broader ecosystem with greater mix of Life Science, Engineering & Tech occupier base seeing the benefit of locating in closely together and within the city.



The Cambridge cluster in the leading city in the UK for patent applications per 100,000 population, which will drive future growth. Cambridgeshire saw a record high of £1.45bn of business fundraising in 2021, across 197 companies. The average value of these fundraisings was £3.84m, reflecting the maturity of the cluster's life science and tech sectors (Beauhurst, 2022).

Number and value of fundraising

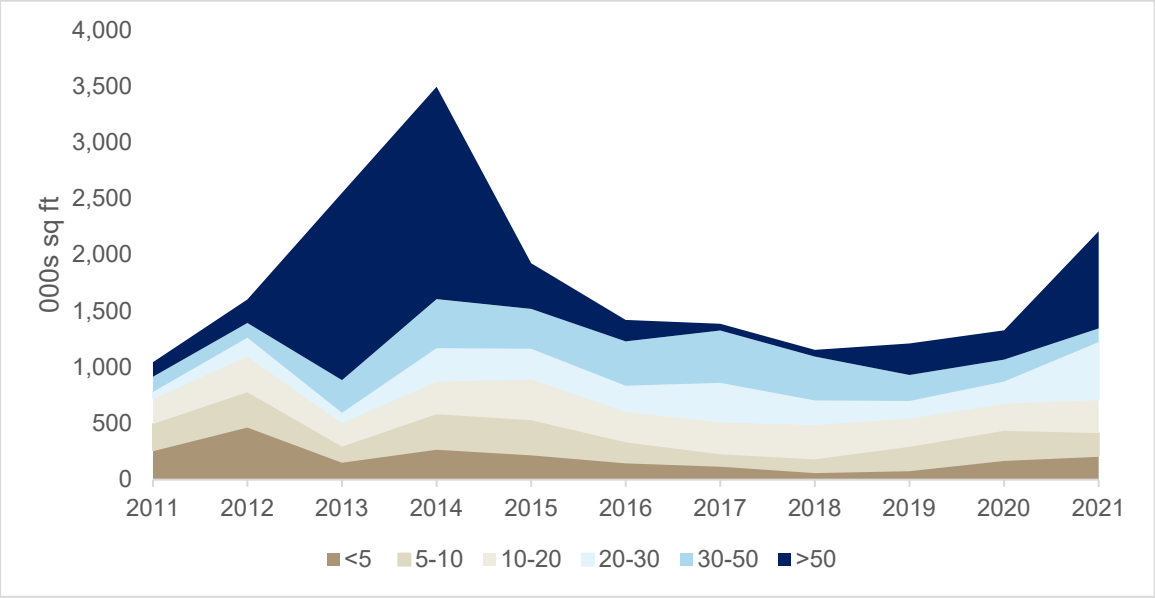


1.3 Demand for Cambridge Floor space

There is 1.83m sq ft of office and laboratory space is being sought across Cambridge by domestic and global businesses, including almost a million sq ft of laboratory space. This compares with demand for 270,000[i] sq ft of life science requirements in London (MedCity, 2021), little more than a quarter of that sought in Cambridge.

The latest full year market data (YE 2021) recorded the highest volume of combined office and laboratory floorspace requirements since those of Cambridge Assessment, Sepura, Arm and Astra Zeneca in 2014/5. However, while activity during this mid-decade period was dominated by these significant business requirements, greater depth in the market has been seen since the start of the pandemic. Not only are there a number of significant office and laboratory requirements (over 30,000 sq ft), but these have combined with robust demand from start up and upsizing businesses.

Cambridge office and laboratory requirements, YE 2021

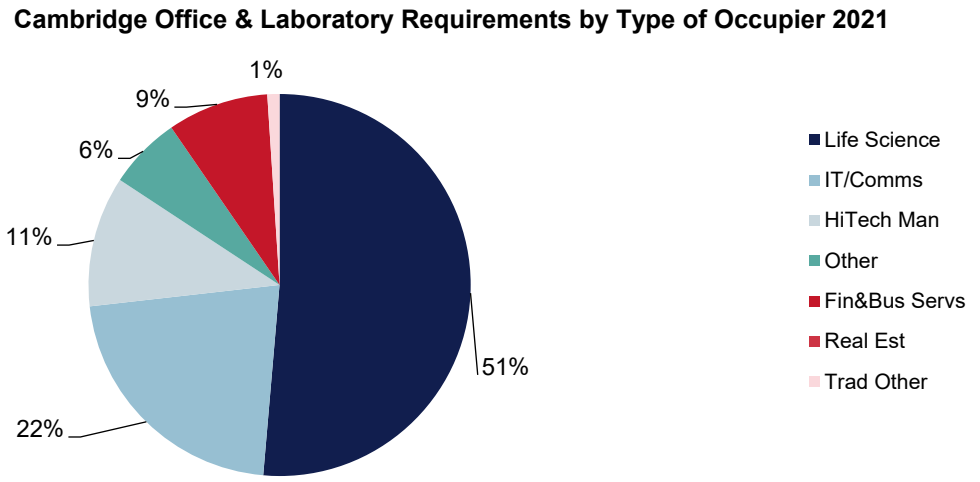


Source: Bidwells

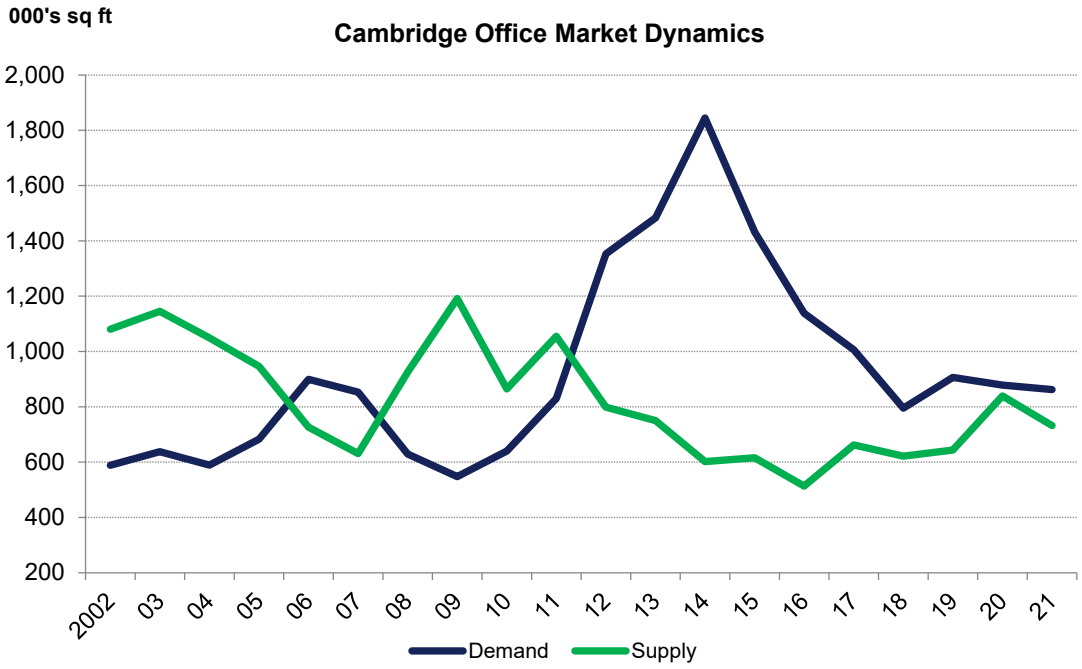
During the early part of 2022 demand has continued to grow for laboratories but also a marked return of multiple larger office requirements 30-50,000 sq ft range now confident post pandemic to seek high quality premises. Total office and lab demand is forecast to be surpass 2 million sq ft towards the middle of 2022.

Demand for floor space is dominated by the Life Science and IT/Communications. The two occupier types have completely different requirements for floor space, with Life Sciences demand dominated by laboratory floor space, whilst IT and Communications occupiers are in search for more traditional office floor space. However, it is worth noting at this point that there is a growing blurring of distinction in demand, with many IT/Communications occupiers who focus on machine leaning and artificial intelligence applying their technology to the Life Science and BioPharma sectors.

The past 18 months has seen sustained upturn in requirements Cambridge driven by laboratories but supported by office market recovering in confidence post pandemic. The return of larger requirements to the market will create particular challenges, with approaching one third of demand for buildings of above 50,000 sq ft but with no buildings available at this scale today and very constrained development pipeline.

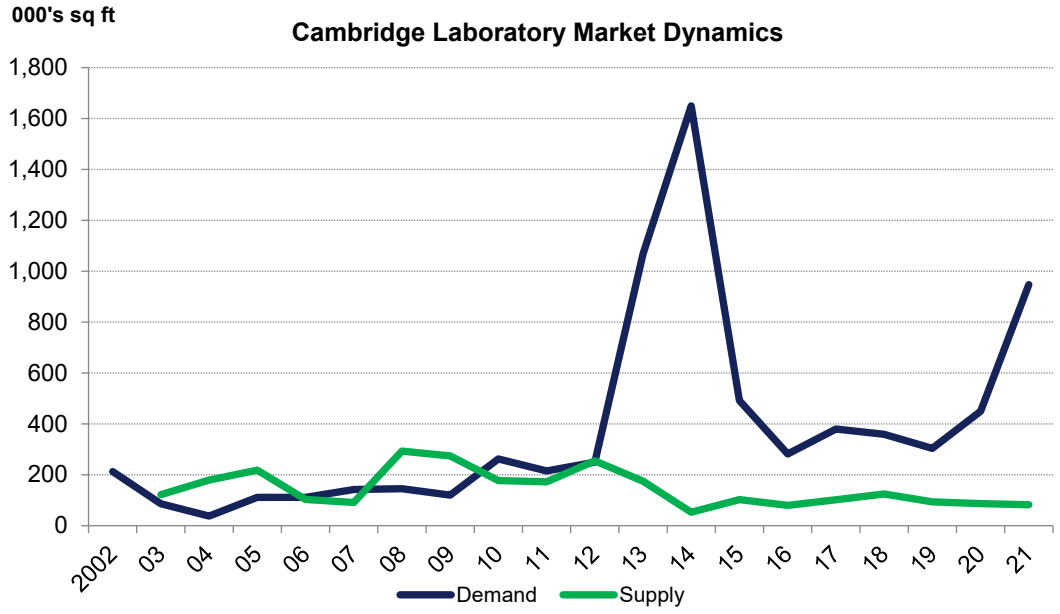


1.4 Mismatch of Supply and Demand



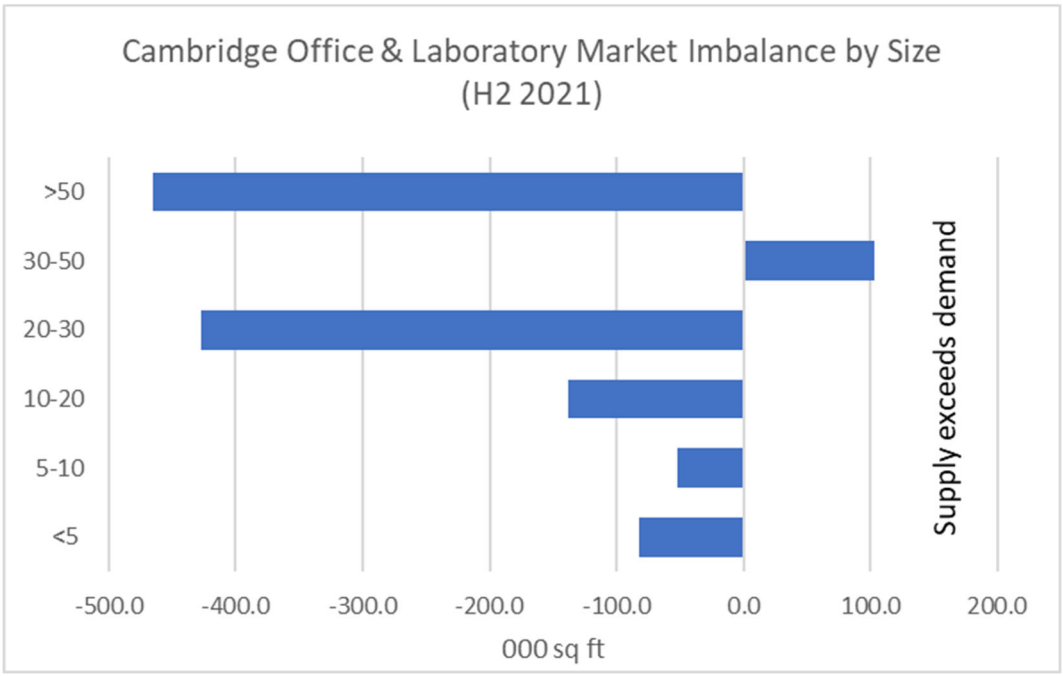
In the initial months of 2022 office demand has steadily grown with supply dropping. The peak of demand recorded in 2014 at 1.8m sq ft, was more than double the previous peak and although demand has back it is still significant in historical context over 20 years.

2021 saw strong take up for offices at c.20% above long term averages which helped stabilise unsatisfied demand increasing sharply. However, with supply and pipeline development constrained the imbalance between demand and supply will grow.



Lab market demand has seen a step change since the arrival of AZ and the growth in life science sector in Cambridge 2014/15. Demand has consistently outstripped supply over the last 5 years and we anticipate this trend to continue. The recent upturn in demand for laboratory space reflects the sharp acceleration in advances is specific areas of science, many of which Cambridge has an expertise. This is evident in the burgeoning gene and cell therapy sector. 79% of Cambridge laboratory floorspace take up in 2021 was by companies operating in these areas. The UK Bioindustry Association forecast employment growth in cell and gene bioprocessing sector of 151% by 2026[ii]. Based on current demand in the market, this suggests an additional 1.6m sq ft of laboratory space will be needed by 2026 to satisfy the needs of the cell and gene therapy sector alone.

The supply of laboratory floor space is acutely constrained. With no new purpose-built lab supply for 2+ years occupiers are being forced consider how they scale their businesses in the Cambridge cluster.



The major shortages in supply in the office and laboratory market is at the larger end of the scale, with demand exceeding supply in buildings. With only two office buildings on site of +50k and only two lab buildings of this size expected to start on site in 2022 the supply demand imbalance will become increasing challenging for occupiers.

Combined office and lab availability rate as at end December 2021, stood at 7.9% but are expected to drop to historic lows during 2022. Our experience suggests that when availability rates are below 12.5% this leads to strengthening rental growth in the market place and market imbalance with no choice for occupiers.

Grade A office supply currently stands at 291,000 sq ft across the whole of the Cambridge market almost entirely in peripheral locations on non-prime parks outside of the city boundary. There is a very limited supply of Grade A space in the major prime sub markets areas of the city centre and prime park locations including those accessed easily by the Cambridge North Station.

1.5 Pipeline supply

The delivery pipeline of new supply is also scarce and will not dent the significant supply demand imbalance. Looking at the wider Cambridge cluster market only the following significant schemes (+50k sq ft) have clarity of start date on site:

STATUS	BUILDING & LOCATION	SIZE	TYPE	OCCUPATION DATE
Construction started	One Cambridge Square, Cambridge North, CB4	94,564 NIA	Office	From Q1 2023
Construction started	B1 & B2 Brooklands, Clarendon Road, CB2	66,984 NIA	Office	From H1 2024
Construction started	Buildings A, B & C, Unity Campus, CB22	c. 95,000 NIA	Office / Lab	From H1 2024
To start on site H2 2022	1000 Discovery Drive	c. 102,000 NIA	Lab	From H1 2024
To start on site H2 2022	10 Station Road	c. 50,000 NIA	Office	From H2 2024
To start on site H2 2022	Building H, F, G, Granta Park,CB24	c. 240,000 NIA	Lab	From 2024+

This future supply which has firm delivery dates meets less than 1/3 of current total demand. As soon as schemes are under construction they are generally let prior or within a few months of completion.

Other significant schemes with consent expected to progress to firm commencement date on site during 2023:

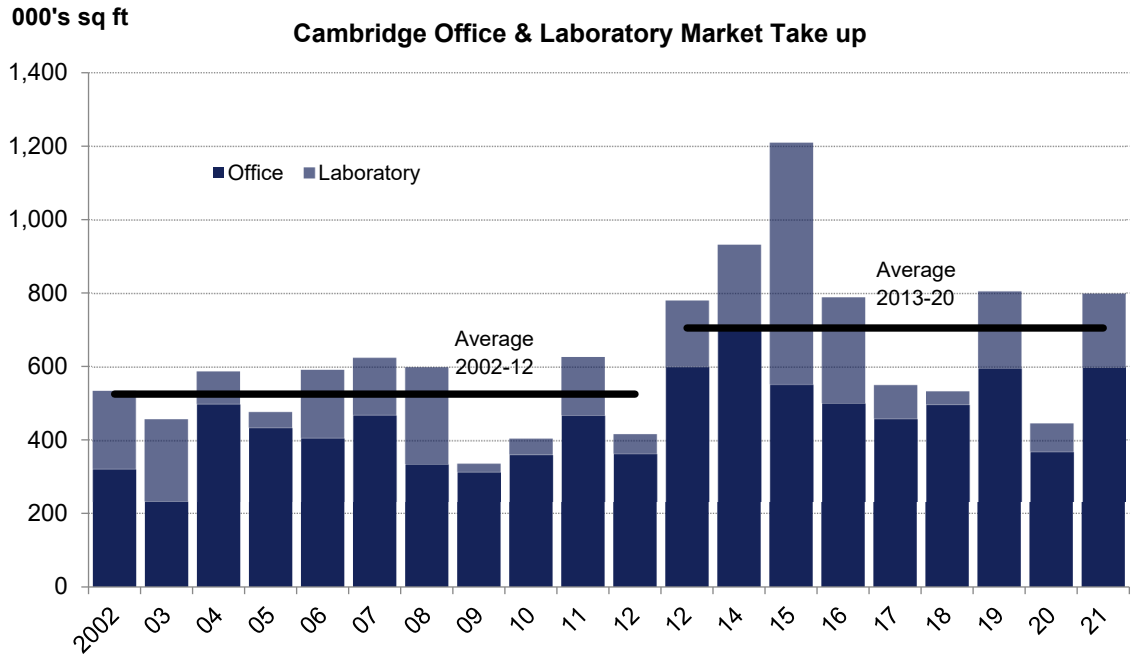
- St Johns Scheme at St Johns Innovation Park, CB4. Received a Resolution to grant for two buildings totalling 150,000 sq ft. Earliest expected building delivery 2025.

- 102-104 Hills Road, CB1. Received consent at appeal for 300,000 sq ft and detailed design being worked up so expected start on site in early 2023. Earliest expected building delivery 2025 +.
- West Cambridge Campus. The University has consent to deliver another phase of office building but has significant pre-let interest in this phase and it is unlikely that space will be built speculatively.

Delivery of all of these schemes does not ally the supply demand imbalance that has been growing steadily post pandemic.

1.6 Office and Lab Take up

As Cambridge's science and technology sectors have matured, we have seen a step change in average total take up to just over 700,000 sq ft since 2013. In 2021 take up rebounded strongly from the pandemic at just under 800,000 sq ft of combined office and lab take up.



Take up is driven by the key science and tech sectors that drive the Cambridge economy. The vast majority of occupiers seeking Grade A space in modern sustainable new buildings. The take up numbers are constrained by the limited number of completions.

1.7 Significant Development Completions Since 2016

The vast majority of new development delivered in Cambridge over the past 5 years have been pre let or let within 3 months of practical completion.

Offices

Year	Address	Park	Size	Spec/D&B	Occupier	Comment

2016	Maurice Wilkes Building	St John's Innovation	64,400	Spec	Multi	Majority let prior to PC with remainder let within 12 months
2017	Bradfield Centre	Cambridge Science Park	53,000	Spec	Innovation Centre	Multi Occupied Serviced Operation.
2018	One Station Square	CB1	129,000	Spec	Multi	Pre lets to prior PC
2018	The Triangle	Centre	420,000	D&B	Cambridge Assessment	Owner occupier
2019	50/60 Station Rd	CB1	156,300	Spec	Multi let	Fully let at PC
2019	Building 22	Cambridge Science Park	60,500	D&B	Displaylink	Let at PC.
2020	The Works	Unity Campus	60,000	Spec	Multi	50% pre let at PC. 90% let now,
2021	1 & 2	Cambridge Science Park	220,000	Spec	2 single lettings	50% let prior to PC and 50% within 3 months

Laboratories

Year	Address	Park	Size	Spec/D&B	Occupier	Comment
2018	Illumina Building	Granta Park	171,300	D&B	Illumina	Pre let by Biomed.
2019	Bio Innovation Centre	Cambridge Science Park	40,300	Spec	Muti	Innovation Centre
2019	Discovery Drive	Cambridge Biomedical Campus	102,500	D&B	Abcam	Pre let at CBC. Moved from CSP.
2019	Flowers Building	Granta Park	93,000	D&B	Gilead	Expansion Prelet for Gilead on adjoining plot.
2020	Biomed @ Babraham	Babraham Research Campus	100,000	Spec	Multi	Fully let once Biomed committed to creating fitted laboratories.
2021	Portway	Granta Park	100,000	Spec	2 single lettings	Full refurbishment (largely to frame). Pre let prior to PC

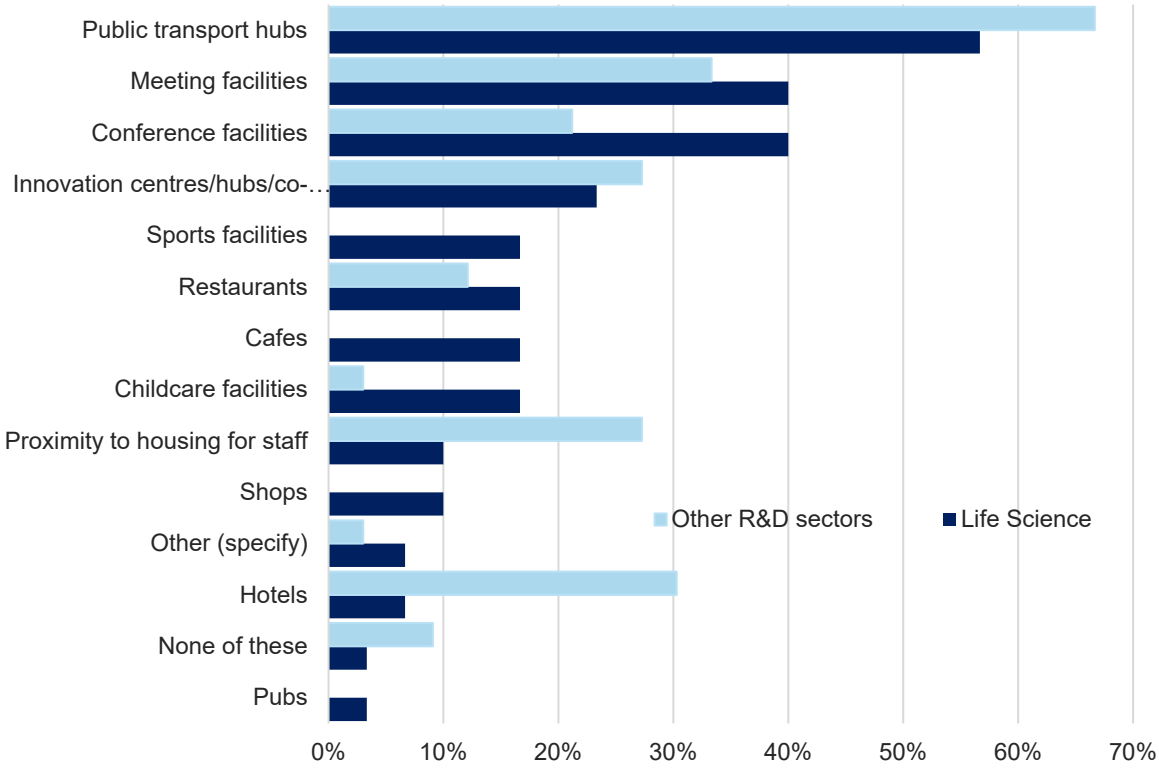
1.8 What Occupiers Want

We have undertaken research with YouGov to understand better what occupiers are seeking when choosing where to locate their offices and laboratories. The research underline the location specific nature of these businesses with exacting requirements to be in close proximity to the centres of research where the ideas, collaboration and the talent are focused.

- 27% of life science companies want to be located either in walking distance or a short drive, orcommute from a hospital or other medical facility. Similarly, 27% of R&D companies want to be in close proximity from an academic or research institution.
- Significantly, the importance of close proximity to collaborators has increased significantly since the 2018 study. The most notable shift relates to collaboration between the life science and tech software sectors. 69% of life science companies reported collaborating with tech software businesses now, or expect to do so in the future. This reflects the acceleration of advances in the life science sector which are increasingly facilitated by data and computing power, a development which is only going to grow.

- The R&D generated in Cambridge already benefits from the close relationship between tech and life science. Almost half of Cambridge office and lab floorspace is occupied by life science sector companies, with a further 35% in the IT sector. Combined these sectors have seen their dominance of the Cambridge office and lab market increase over the last two years, rising from 76% to 84% of total floorspace. The future strength of the cluster depends on supporting the growth of both sectors, in close proximity in order to support interaction that drives collaborative innovation.
- Aside from property specific aspects, the YouGov research finds recruitment and retention of staff is by far and away the greatest priority for global R&D businesses. This is noted as a key driver of location decision making by 77% of life science companies and 71% of business working in other R&D sectors. A concentration of activity positions the cluster a viable option for global top talent - individuals will make the move if they know there are further opportunities to build their career and their future.
- According to the YouGov research, over half of life science R&D businesses stated their ideal location would be in a city district. Aligned to this 62% of R&D businesses see public transport hubs as the most important facility they require, up from 48% in 2018. This preference for central, highly accessible locations supports both collaboration across and between sectors, but also extends the recruitment reach of companies.

Importance of facilities to R&D businesses



Source: Bidwells, YouGov (survey completed November 2021)

1.9 Summary

Cambridge has changed as an economy radically over past 20 years. The delivery of commercial floorspace has been constrained and the latest floorspace analysis demonstrates Cambridge has very limited accommodation to help enable 'grow-on' university spin out companies. Global corporates and future unicorns are on a very long waiting list, while the economic impact of the innovation being generated across the city is unfulfilled. This has consequences for the national and local economy as well as the delivery of important science. The practical implications are seen in three ways.

Firstly, incubators are experiencing 'bed blocking' by innovative new start-ups and university spin-outs who are unable to secure 'grown-on' space. Inevitably this limits the ability of new businesses to commence on their own start up journeys but also contains the growth of new companies. The VC funding detailed earlier sits idle while companies are unable to scale up.

Secondly, companies have 'make do' in order to enter one of the respective clusters. We estimate 53% of industrial floorspace on Cambridge business parks is occupied by the life science sector. The conversion of such space absorbs funding that would otherwise be used to invest in productive activities of R&D or processing, such manufacturing facilities for the business. In addition, the assimilation of such space has resulted in a sharp increase in industrial rents across Cambridge. Inevitably this has displaced local industrial occupiers as a result. Prime industrial rents have increase by 43% over the last 5 years, or 7.4% per annum. Over the same period shortages in office space have driven rents to rise by an average of 12% per annum, again displacing businesses in the process.

Thirdly, as a result of the location inflexibility detailed earlier, the absence of occupational options pushes companies look to other global science clusters with investment and growth opportunities lost for Cambridge and the UK.

---

[i] *London Life Science Real Estate Demand*, MedCity with Creative Places, 2021
[ii] Catapult Cell and Gene Therapy, *2021 UK Cell and Gene Therapy Skills Demand Survey Report*, 2021