

CHEFFINS

DATAPOINT 2020

ANNUAL REVIEW OF THE BUSINESS SPACE MARKET IN CAMBRIDGE

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Interview with
Thomas Weaver, CEO,
PetMedix Ltd

THE RISE AND RISE OF THE LABORATORY

Cambridge has an ever-increasing importance in the global life science market.

Whilst take-up of labs was less than 2019 this was a reflection of supply shortage rather than demand tailing off. There is continuing pressure from occupiers, investors and developers to enter the Cambridge market.



Welcome to Cheffins Datapoint, our annual round up of activity in the commercial property market in Cambridge and its region.

We are delighted to present our data collected throughout the year which will highlight availability of space, take-up and rental levels in the business space market. Our aim is to explain the dynamics behind the data, put it into context and make sense of what has been an extraordinary year for everyone. We hope this will be of some use to occupiers, owners and developers of business space alike.

In a year dominated by Coronavirus, perhaps it is not surprising that the life science market has seen such interest from occupiers and investors. Whilst the actual take up figure for laboratories is lower than last year this is very much due to lack of available stock rather than demand which has actually increased. "Fortune favours the brave" and those who have speculated lab buildings have been rewarded with tenants and significant rental income this year.

The industrial and logistics market has also benefitted from the pandemic. As more and more of us buy more and more from warehouses instead of shops, demand from logistics and warehouse operators has increased substantially. Again, although our data shows take up to be down year on year, this is most likely the result of low availability of good quality stock. Many manufacturing businesses in the region have seen activity levels maintained and a number of technology companies are choosing smart industrial style buildings which give greater flexibility of use at reasonable cost. As a result, supply in the sector remains short, especially for modern and new space, and rents have been increasing dramatically, spurring on new development starts due in 2021.

And what about the beleaguered office sector? Have we heard the death knell for traditional office space and lease structure or has news of its demise been premature? Our data shows a slowdown in take up this year, and certainly fewer numbers of deals, but we predict something of a bounce back in demand in 2021 as normality returns, although availability of prime stock may be limited.

It seems that many of us still prefer to work with others and we can't wait to get back into the office. Of course, some of the benefits of home working are bound to stick and the way we work is likely to be more flexible, but we believe that the majority of businesses will still require a substantial physical presence.

Cambridge itself has enhanced its reputation as a location of global significance for research and development industries during 2020. But can a small city of 100,000 live up to the billing and fulfill its potential? The UK government would like to think so – promotion of the wider Cambridge-Oxford Arc is a way of leveraging the Cambridge success story and providing necessary infrastructure to allow more development to occur. The future for the Cambridge commercial property market seems very bright indeed.

Whilst we have focused this research on Cambridge and its immediate area (around a ten-mile radius) we are also actively involved in the wider regional market and have collected data for many of the Cambridge necklace towns, and we will comment on some of the more significant activity there. Cheffins' unique spread of offices within the Cambridge region gives us detailed insight and knowledge of the whole market.

More detail on all the above is to be found in our report together with some interesting insights from Tom Weaver of PetMedix Ltd, one of Cambridge's exciting and fast-growing life science companies. What are they looking for from their property and why have they chosen the location they have?

We hope you enjoy reading the report.

Michael Jones, Director, Head of Commercial
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Laboratories stats and overview

The laboratory market performed strongly in 2020, with the already increasing importance of the biotech and life science sectors further propelled into the spotlight by the current Covid crisis. This has manifested itself in various ways, including record levels of investment in life science companies (Q3 alone saw more than £1 billion being invested in British biotech companies) and a marked increase in the number of multinational investors keen to be involved in this specialist area of the property market.





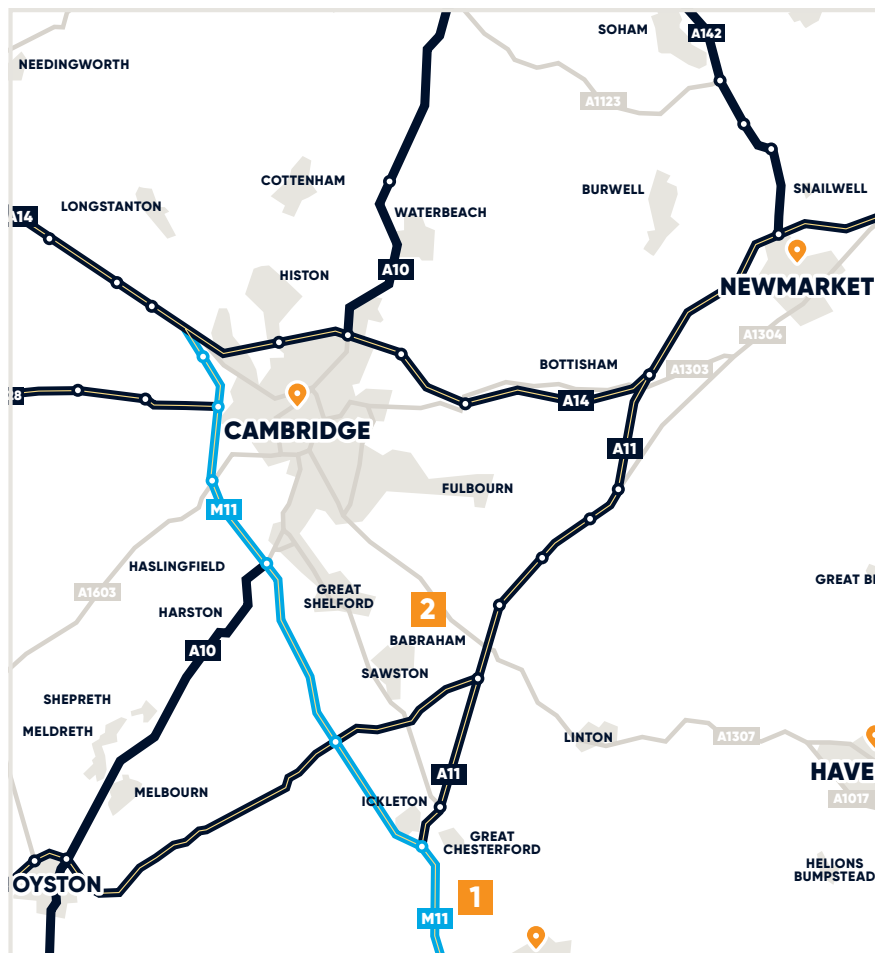
This has resulted in premium prices being achieved for investment opportunities; at the time of writing, sales were being progressed on both Cambridge Science Park and Melbourn Science Park at levels above market expectation after rounds of competitive bidding.

On the face of it, a take up of 66,000 sq ft for 2020 might not suggest strong performance (it is more than 100,000 sq ft less than the previous year's figure) but this does not tell the full story. The key point to note is that take-up for the year was

limited by supply rather than demand, with all the available new space being let. Indeed, the key transactions highlighted at Babraham and Chesterford were the last remaining spaces in each case which meant that both developments were fully let upon completion of building works. The rents on these last deals show an increase of some 8% against earlier lettings in each development. Similarly, rents in the Science Village at Chesterford Research Park had increased to £40 per sq ft by the end of the year, an increase of nearly 15% during the 12 month period.



Next stage companies are interested in accommodation which is ready for occupation.



RENTS Dec 2020 (per sq ft)

Prime fully fitted £45

Prime shell and core £35

KEY LAB TRANSACTIONS 2020

- 1 Newnham Building, Chesterford Research Park 11,700 sq ft let to Oncologica Ltd
- 2 Building 950, Babraham Research Campus 24,900 sq ft let to BitBio Ltd



In addition to start-ups taking incubator space in places such as the Science Village and similar facilities at Babraham and on Cambridge Science Park (amongst others), there is a particular demand from “next-stage” companies seeking to expand out of this type of space into larger accommodation, often in the 10–15,000 sq ft range as is highlighted in our interview with occupier Tom Weaver of PetMedix.

To satisfy this demand it is important to provide fitted rather than shell and core space, which had until recently been the norm due to the technical and financial concerns of trying to provide “generic” lab space. These next-stage companies are interested in accommodation which is ready for occupation, with minimal additional adaptation to suit their (often) immediate requirements.

They also wish to avoid capital, which has been ear-marked for research purposes, being tied up in property.

Looking forward to the long-term for both this sector, and Cambridge as a whole, the future is set fair and the most pressing need is to provide these growing businesses with a supply of new space. To this end, it is pleasing to report that work is underway on both the Emmanuel Building at Chesterford and The Portway at Granta Park. Both will be providing fitted lab space, with the former totalling 37,400 sq ft and available from the end of Q2, and the latter 98,400 sq ft from late Q3. Given current positive market conditions it is reasonable to assume there will be strong demand and continued upward pressure on rents.

Take up summary 2020

Figure 01

Cambridge area Lab take up 2020 – by grade

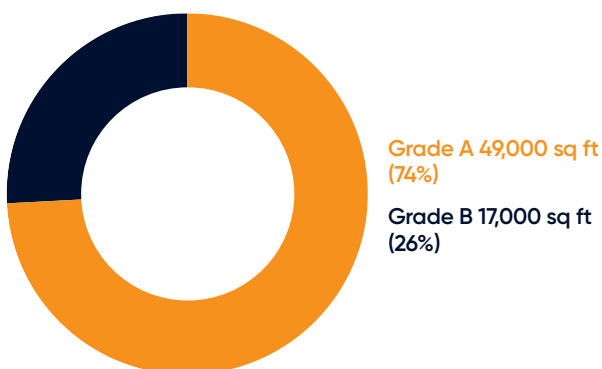
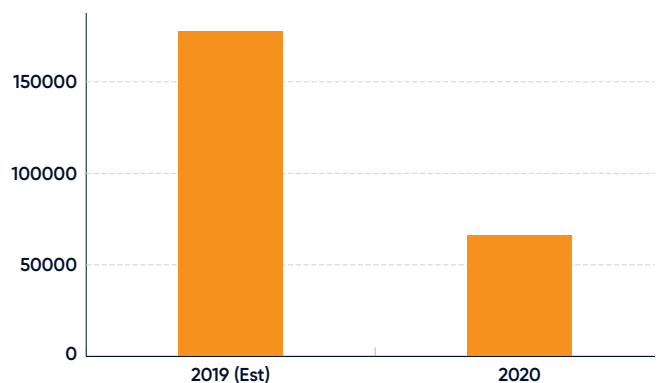


Figure 02

Total take up (sq ft)



Availability summary 2020

Figure 03

Cambridge area Lab availability 2020 – by grade

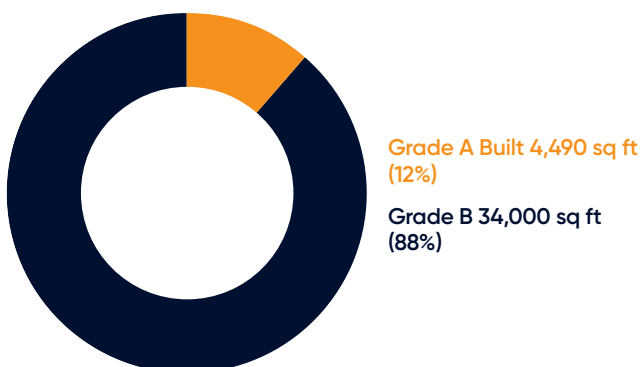
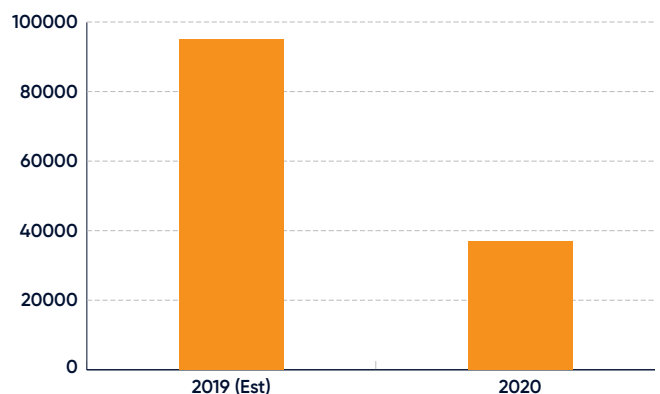


Figure 04

Total availability





Office stats and overview

Take up of office space in Cambridge in 2020 totalled 360,000 sq ft. Whilst this figure is significantly lower than average take up over the past five years, which has been around 500k sq ft, this level of activity must be seen as positive when viewed against the massive uncertainties caused by the ongoing Covid pandemic; it also bodes well for the longer term as we look to return to some sort of normality.





Over the last few years a relatively small number of larger transactions made up a significant proportion of the overall take-up; these are separately highlighted and include lettings to Mathworks and Amgen on Cambridge Science Park and the pre-letting of 20 Station Road to serviced office provider Fora. These three transactions alone account for over 50% of the total take-up figure. This continuing pattern of larger deals in both the City centre and edge of town Parks is an indicator of the way in which the market is developing to facilitate the expansion of the science and technology-based companies which dominate take up and which consider Cambridge as an ever more important UK and indeed global location.

At the other end of the scale, 2020 also saw activity and demand from what might be considered to be the "classic" Cambridge occupier – start up and early-stage companies. Again, they are from the science and technology sectors, for whom the need for collaboration and sharing of ideas makes working from home unattractive. It was the mid-range space (5000 to 15,000 sq ft) where occupiers were more circumspect as they wait to see how the current crisis will impact on the way in which they will utilise space in the future and not wanting to make any long-term commitments. In this regard it is interesting to note that almost 95,000 sq ft /circa 25% of take-up last year was to serviced/flexible office providers.



There will continue to be upward pressure on prime rents.



RENTS Dec 2020	Prime (per sq ft)	Secondary (per sq ft)
City	£48.50	£38-£40
Edge of town	£36	£30-£33

KEY OFFICE TRANSACTIONS 2020

- 1** 216 Cambridge Science Park
34,780 sq ft let to Amgen
- 2** 20 Station Road 64,000 sq ft
let to Fora
- 3** 9 Hills Road 29,650 sq ft
let to Mantle Group
- 4** 1 Cambridge Science Park
93,000 sq ft let to Mathworks



Prime rental values in the City centre now stand at £48.50 per sq ft following the pre-letting of 20 Station Road, with good quality/refurbished second-hand space at between £38-£40 per sq ft. In the northern cluster, the letting of Building 1, Cambridge Science Park, to Mathworks at the end of the year was at £36 per sq ft with second hand/refurbished space between £30-£33 per sq ft. Rents on Parks slightly further out of the City remained static during the year.

Generally, there were no signs that deal terms (rent and incentive level) were being significantly affected by Covid during 2020 although it remains to be seen whether this trend will continue throughout 2021. Supply of office space had risen slightly by the end of the year, principally in second-hand space available to sub-let/assign from existing occupiers, but availability remains at less than 10% of overall stock.

Looking forward, there is a noticeable reduction in the amount of new space that will be delivered, with only 125,000 sq ft of space that hasn't already been taken up scheduled for completion, during 2021. With this level of supply, against the backdrop of a continued reduction in demand due to the current pandemic, it is reasonable to assume there will continue to be upward pressure on prime rents. What will be more interesting is the extent to which unsatisfied demand switches to the increased range of available second-hand space, and whether this will positively influence rents in this sector, or whether there will be an increasing divergence between rents of prime and secondary space.

Take up summary 2020

Figure 01

Cambridge area Office take up 2020 – by grade

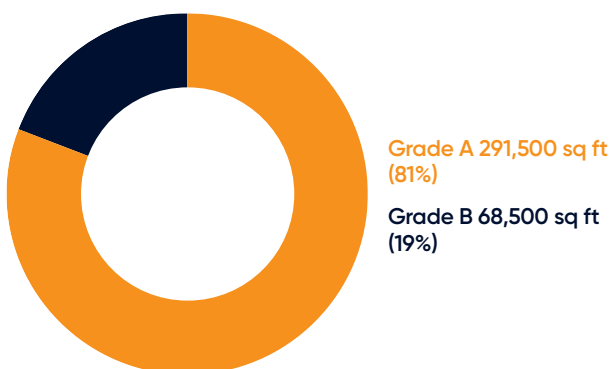
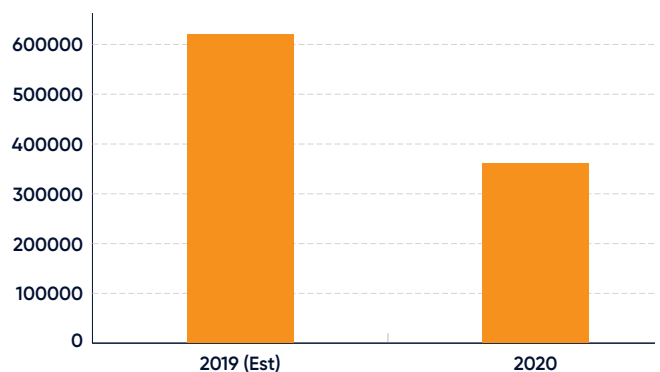


Figure 02

Total take up (sq ft)



Availability summary 2020

Figure 03

Cambridge area Office availability 2020 – by grade

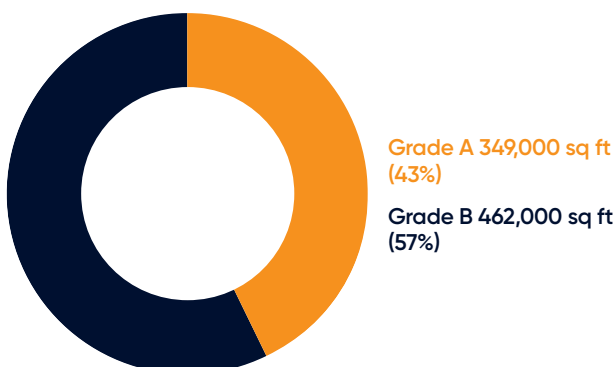
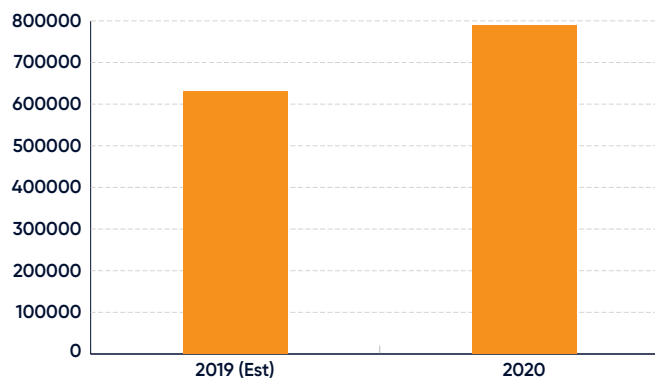


Figure 04

Total availability





Industrial stats and overview

2020 saw a take up of industrial space in the Cambridge market down to around 200,000 sq ft. This is lower than last year and well below the ten year average of around 350,000 sq ft. This reflects the effect of Coronavirus restrictions on the general market, most evident during Quarter 2 where only three transactions took place across the region in the wake of the first lockdown. It is also indicative of the chronic lack of supply of the better quality industrial and warehouse stock in and around Cambridge.





Of the circa 460,000 sq ft of available space at the year-end only around 6% (27,800 sq ft) was new build (Grade A) and 39% (170,000 sq ft) was better quality second hand (Grade B). However, Grade A space accounted for a massive 65% (131,000 sq ft) of the take up. It is clear from this that occupiers want a quality product and are prepared to pay higher rents for it.

The wave of new schemes built out in 2017-19 at Enterprise (Cambridge Research Park Waterbeach), Cambridge South (Sawston) and Buckingham Business Park (Swavesey) provided the bulk of the Grade A availability and saw strong letting activity during the year, with the result that all but Cambridge South were fully let at the year end.

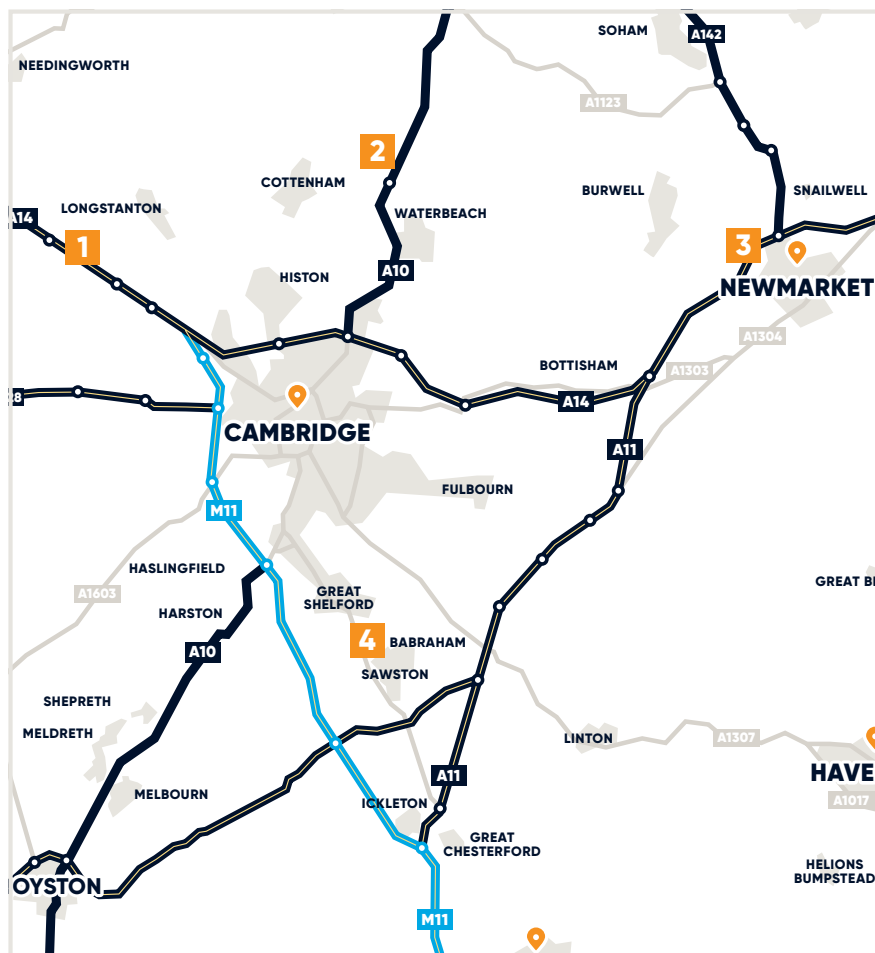
Prime rents outside the city itself stabilized during the year at £12.50 per sq ft with final unit at Cambridge Research Park under offer at £13.50 per sq ft.

Rents for modern buildings in prime city centre spots, suitable for trade counter operators, have exceeded these levels with the odd deal topping out at £15-£16 per sq ft.

Well-specified and well-located logistics premises were in demand and the final available warehouse at Buckinghamway of around 50,000 sq ft was let to Stearn Group at a headline rent of £9 per sq ft during the year. We also saw the rise of the "mid tech" occupier – technology businesses looking for smart looking but flexible space, which would enable the fit-out of a portal framed building into a mix of offices, labs, production space and storage areas. This has certainly been to the benefit of Enterprise where all the units were either let or under offer to companies from the technology sector. Rents achieved at Cambridge South were slightly lower at £9-£10 per sq ft.



Significant expansion during 2020 at Lancaster Way Business Park, Ely.



RENTS Dec 2020	Prime (per sq ft)	Secondary (per sq ft)
Cambridge City 10 miles	£16 £12.50	£8-£12 £6-£10
Huntingdon	£9.50	£5-£7
St Ives	£9.50	£6-£8
Ely	£8	£5-£7
Newmarket	£8.75	£5-£7
Haverhill	£8.50	£5-£7
Saffron Walden	£10	£6-£8
Royston	£11	£6-£8

KEY INDUSTRIAL TRANSACTIONS 2020

- 400 Buckingham Business Park**
50,284 sq ft to Beam Group
- Enterprise, Cambridge Research Park, Units 8/9** 13,769 sq ft to Grifols
- Unit 8, Newmarket Business Park**
20,000 sq ft to Mr Fothergills Seeds
- Sawston, Cambridge South**
Unit 1 22,034 sq ft to Pulpex
Unit 2 12,361 sq ft to Harrow Green
Unit 3 12,523 sq ft to Building Product Solutions





Rental growth into double-digits has encouraged developers to promote new industrial schemes and in 2021 we expect to see major new developments being built out at Norman Park Bar Hill (by Wrenbridge/L&G) and at Bourn Quarter Bourn (by Aitchison/Savills IM) where planning permission has been granted for units totaling 107,000 sq ft and 161,000 sq ft respectively. Both schemes are proposed to be built out more or less speculatively, and both intend to achieve Net Zero Carbon whole life cycle developments. We are beginning to see much greater emphasis on environment and sustainability in buildings as both occupiers and building owners seek ever greener credentials.

Interestingly, there is no new build space available in the city itself, nor in the pipeline as far as we are aware. With rents as high as they are and with investment yields in the sector falling below 5% perhaps industrial developers will start outbidding other users for available land in and around the city before much longer? Sheds have become incredibly sexy to investors.

Outside of Cambridge itself 2020 also saw a fall in take up and low levels of availability. Highlights during the year were the letting of 20,000 sq ft at Newmarket Business Park to Mr Fothergills at £8.75 per sq ft, and the completion of two new speculative units at The Ridge, Haverhill Business Park by Trebor Developments totaling 62,000 sq ft. Guide rents for The Ridge are at £8.50 per sq ft.

At Newmarket Business Park, a significant modern warehouse was put on the market at the end of the year as a result of Taylor Wimpey Logistics' expansion and relocation to Peterborough. The building comprises 70,000 sq ft and is offered to let at £8.25 per sq ft.

Lancaster Way Business Park at Ely continued to expand with nearly £20m of new buildings for DB Broadcast (25,000 sq ft), Thorlabs (110,000 sq ft) and Cambridge Nutritional Sciences (16,000 sq ft) completing during the year. Freehold land prices at Lancaster Way are now quoted at £495,000 per acre.

Take up summary 2020



Deals at £12.50 per sq ft (last unit under offer at £13.50 per sq ft) at Enterprise, Cambridge Research Park.

Figure 01

Cambridge area Industrial take up 2020 – by grade

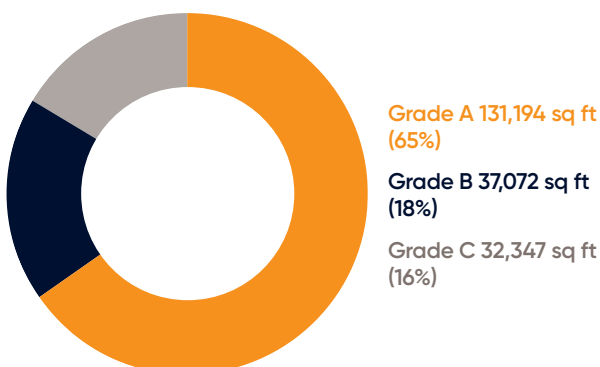
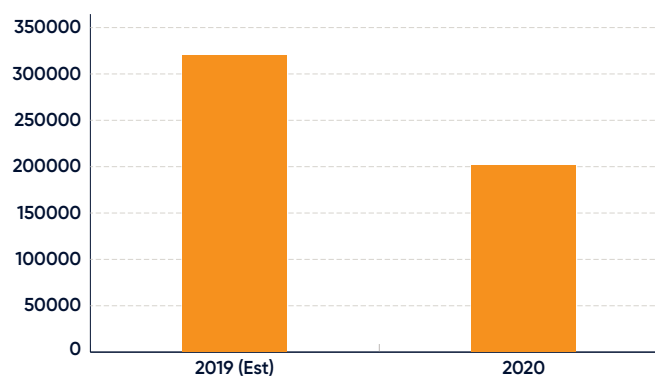


Figure 02

Total take up (sq ft)





Huntingdon saw a significant amount of available second-hand industrial stock in the market in 2020 with over 370,000 sq ft available at the end of the year. Industrial development land prices are now at £600,000 per acre.

Further afield, but of significance to the whole region, was the sale late in the year of 42 acres at Jaynic's Suffolk Park Bury St Edmunds to Belgian logistics operator Weerts for the development of a new 870,000 sq ft UK distribution warehouse.



Bourn Quarter, new development starting in 2021.

Availability summary 2020

Figure 03
Cambridge area Industrial availability 2020 – by grade

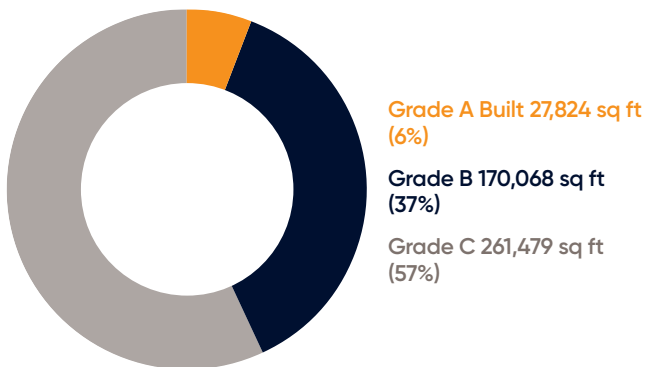
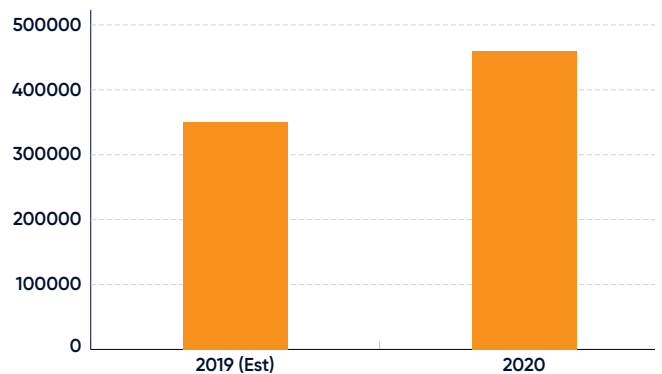
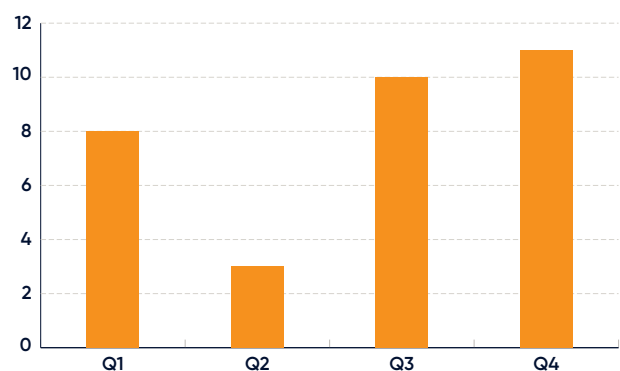


Figure 04
Total availability



"There is no doubt that the pandemic affected the industrial market in terms of deal flow – during the first lockdown in Q2 only three deals were concluded."

Figure 05
Number of Industrial deals per quarter 2020





The Cambridge Cluster is an ecosystem of tremendous talent but property requirements continue to challenge early-stage companies.

Delving deeper into the R&D and laboratory market, Cheffins interviewed Thomas Weaver, Founder and CEO of PetMedix Ltd, who has many years of experience in life science technology development, specialising in creating value in new projects and early-stage companies. PetMedix is the latest in a series of start ups which Tom has been involved in and having recently occupied the Glenn Berge Building on Babraham Research Park, we asked Tom exactly what it was that makes the Cambridge Cluster so integral for the life sciences industry and the challenges which face early-stage companies and their property requirements.

Cheffins asks: "Where did the PetMedix property story begin?"

At PetMedix, we are a Biotech company with a difference, making animal therapeutics. We started off at the Sanger Institute, which is a fantastic location for a start-up, however it was not able to provide the space for our growing needs. From the Sanger Institute we relocated to a sublet option at Granta Park, for a twelve month period, and from there to a longer-term lease in a larger space which was purpose built at the Babraham Research Park.

Cheffins: "From an occupiers' perspective, what's your view on the lab space market?"

Stock is certainly incredibly low. Cambridge is undoubtedly one of the most successful life sciences clusters in Europe, however it is becoming increasingly expensive and difficult to find the right accommodation. For companies such as ours, you need dedicated laboratories to carry out work which can't all be done digitally or from home. We had to move as we grew, we originally only occupied 1,000 square foot of lab space and now we are at over 12,500 and it is this ability to scale-up which is increasingly tricky in the local market. From our perspective, the ability to take fitted space where we knew the specification would suit our requirements was incomparable.

Cheffins: "What would you say are the absolute 'must haves' for lab accommodation for life sciences companies?"

While cost is of course a factor, as previously mentioned being able to move into space that is ready to go together with flexibility to allow for both up and downsizing is essential. Long lease clauses are problematic for start-up companies surviving on venture capital money. Taking the larger accommodation at Babraham was certainly a risk for the company, and affordability is a major concern which needs to be mitigated and we take this very seriously. The other absolute essential is the adjacency to additional services which can't all be provided in-house, all life science companies need to outsource a variety of services such as contract research and contract manufacturing and these need to be easily accessed. Babraham Research Park, Granta Park and Chesterford Research Park are all locations which provide this extremely well, with provision of the likes of DNA sequencing and IT support. In addition, the environment is important for staff recruitment and retention. Landscaping, transport and provision of services such as restaurants, creches and so on allows us to employ the best staff in the business. The culture of start-ups and their attitudes need to be recognised by property developers. BioMed are fantastic at understanding the start-up ethos and have certainly made provisions for it in their developments in the region. Cambridge with its highly active number of spin out companies is the perfect incubator to test out how certain property spaces can work.





"...the ability to take fitted space where we knew the specification would suit our requirements was incomparable."

Cheffins: "You have been involved in companies all over the world and with this in mind, what would you say are the benefits of being located within the Cambridge Cluster?"

The Cambridge Cluster is an ecosystem of tremendous talent. Not only does it have the world-famous University, but all of the support services which are provided within the area, including property, make it one of the best locations for life sciences companies. It is not only the Nobel Prize-winning scientists and access to venture capital which draw companies here, but it is also the involvement and support services of lawyers, accountants, recruiting and property agents, the culture of the science parks and the access to high quality laboratories. Entrepreneurs can take advantage of this ecosystem and use it to build and grow some of the most exciting new talent in the industry. One of the great things about Cambridge is that it is hugely joined-up, with engagement across all parts of the science sector. When AstraZeneca located to Cambridge to be next to some of the best laboratories in the world, there was no greater proof of the importance of these adjacencies and how companies need to work together and it's the ultimate validation of the Cluster as one of the greatest locations for the industry on a global scale.

Cheffins: "How do you view the future of the laboratory sector? Cheffins believes that looking at the scale of investor appetite from a property angle, and the fast-increasing flow of funds, we could be on the cusp of something very large. Do you agree?"

I agree, but that could change in the space of two or three months. I have been in this business for 30 years and there has never been enough laboratory space to go around. This has always been a challenge, and as the investment market continues to fluctuate, it would not be a surprise if funds into science and biotech are accelerated. The places which have done this right are the likes of Boston, San Diego, and the large Chinese science parks in Shenzhen and Beijing, such as TusPark which has recently built facilities on the Cambridge Science Park. In China they take the view of 'build it and they will come' and how do we manage to replicate that? I don't know the answer, but the community and ecosystem here in Cambridge will continue to grow as demand from early and mid-stage companies drives development. There is a very real opportunity here for developers who are willing to provide the right model for the companies looking for space and I believe that the government also has a part to play to help propel the economy forwards.



PetMedix Ltd occupy a purpose built space at the Glenn Berge Building at Babraham Research Park.



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