

DTRE

RESEARCH Q4 2022



OFFICES & LIFE SCIENCE

INVESTMENT & LEASING
CAMBRIDGE MARKET REVIEW

Cambridge Q4 End-of-Year Report



WRITTEN BY
Florence Weston
Research Analyst

5 Things You Need to Know



Take up reached **414,000 sq ft**



Demand for laboratory space alone amounted to **1.2 million sq ft**



Double digit rental growth was experienced across both lab and offices



2022 saw **c.£700 million** of office and life science investments traded, with the majority occurring in Q3.



Cambridge based Life Science & bio-tech companies raised **£529m** in 2022

Cambridge has long been a prominent hub for science and technology and has continued to demonstrate this in 2022 with active demand for laboratory space alone totalling 1.2 million sq ft. Combined, office and laboratory demand was in excess of 2.0 million sq ft.

Take-up of office and laboratory space for the year was 414,000 sq ft. Whilst down from 728,500 sq ft in 2021, this drop was due to a lack of supply and was not reflective of a reduction in demand.

A new prime office rent for Cambridge was achieved at £57.85 per sq ft.

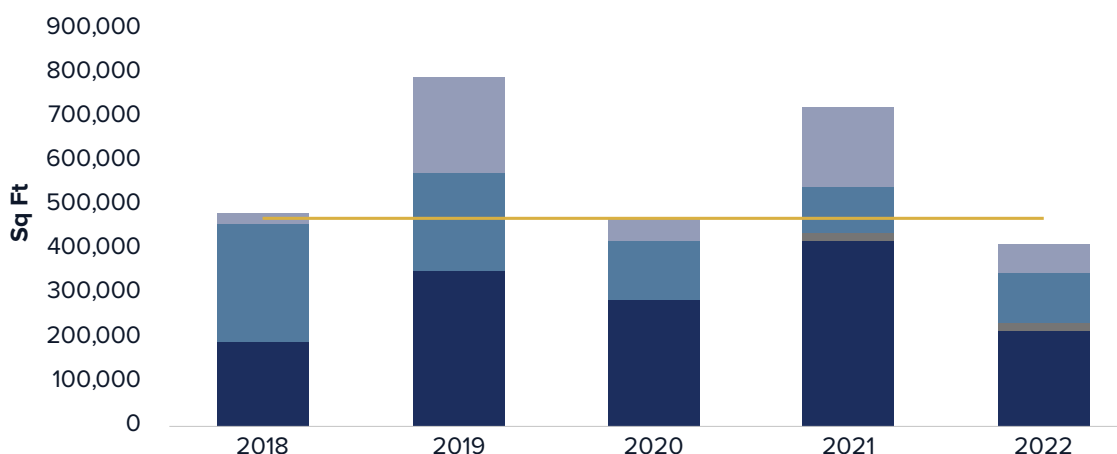
Furthermore, £680 million of investment into office and laboratory development opportunities saw a shift into acquiring office space with the potential of redevelopment into laboratories to try and address the structural supply/demand imbalance. It was this redevelopment opportunity that dominated the investment market with the largest deal of the year at Capital Park claiming 30% of the year's total spend.

FIG 1 →

Office & Lab 5 Year Average

- ◆ Grade A Office
- ◆ Grade A/B Office
- ◆ Grade B Office
- ◆ Laboratory
- 5 Year Average

Source: DTRE Research



Occupational



▼ 37%

2022 office take up in Cambridge

FIG 2 →

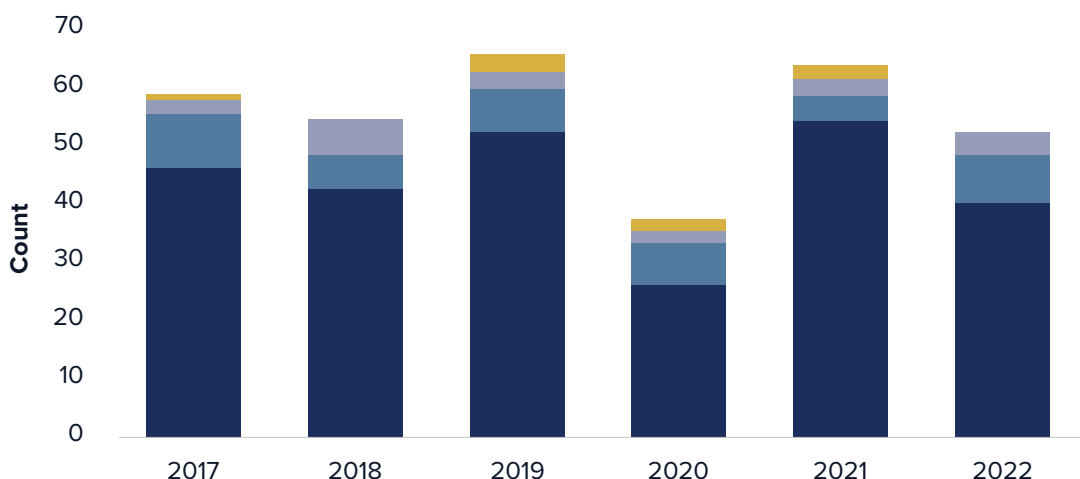
Office Takeup By Size

- ◆ 0-10,000 sq ft
- ◆ 10-20,000 sq ft
- ◆ 20-50,000 sq ft
- ◆ 50,000 + sq ft

Source: DTRE Research

OFFICE

2022 office take up in Cambridge reached 345,000 sq ft, down 37% on 2021's level and falling below the 5-year average of 470,600 sq ft. Out of 51 tracked transactions, 40 of them were for spaces under 10,000 sq ft, there was no take up of office space over 50,000 sq ft, and only 4 transactions occurred in the 20,000-50,000 sq ft range. As a result, the average office area leased was 6,700 sq ft, a 21% decrease year-over-year.



These results are due to high demand levels in Cambridge but set against a decreasing supply of larger office spaces. Although total demand for office space exceeded 500,000 sq ft, the average requirement size was approximately 30,000 sq ft. At the end of 2022, the largest available space within an existing building was 42,500 sq ft at Building B, Cambridge Business Park.

Subsequently, the largest leasing deal by area in 2022 was Dassault Aviation occupying over 30,300 sq ft at 22 Cambridge Science Park in Q3 for a term of 11.5 years at a headline rent of £37.50 per sq ft.

A new office prime headline rent was accomplished in Q4 2022 with the letting of 2,600 sq ft new Grade A office space at 3 Station Square to Charles Stanley at **£57.85 per sq ft for 10 years. This represents rental growth of 52% since 2017.**

As a national hub for technology and knowledge intensive firms, Cambridge did not face the same extent of diminished demand that came with the increased work from home culture that has affected many other UK cities. Instead, its rents grew as occupiers remained willing to pay a premium for the best buildings in the most prime locations.

Q4 also saw Siemens pre-let 27,600 sq ft of Wrenbridge and M&G's 67,000 sq ft Brooklands development in the City Centre at a headline rent of £53.50 per sq ft. The other notable transaction in the city centre was the letting of 7,506 sq ft at 4 Station Square to Taylor Vinters at just under £54 per sq ft.



▲ 52%

Cambridge Office Rents have increased 52% in last 5 years



▼ 63%

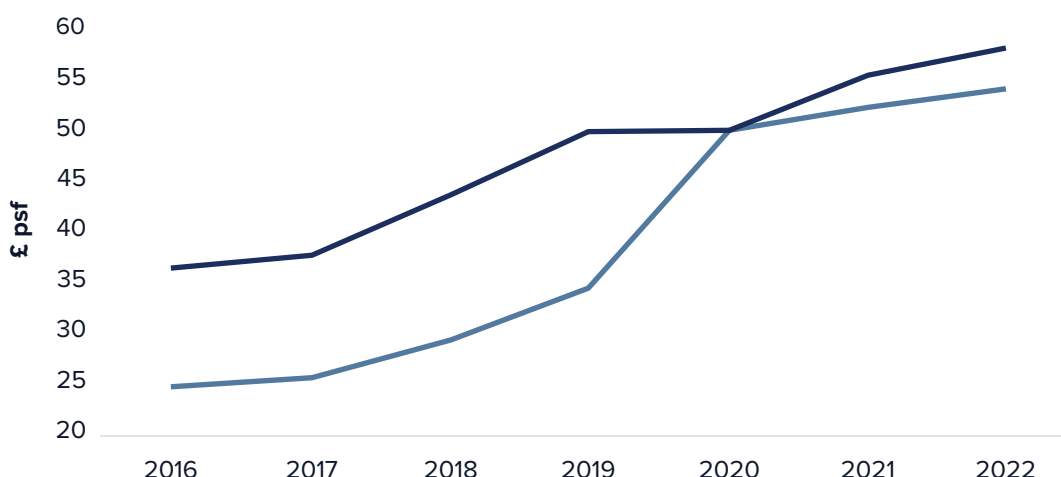
Decrease in life
science take up
from 2021

FIG 3 →

Office & Lab Prime Rents

— Office
— Laboratory

Source: DTRE Research



1.2M SQ FT

Laboratory demand

Despite new prime rents being achieved and nearly a letting a week on average, general market activity was restricted by the lack of new supply. Looking to the near future, the completion of One Cambridge Square in Q1 2023 will provide an additional 94,000 sq ft of Grade A space whilst the completion of the Brooklands in Q3 2023 will add an additional 39,300 sq ft.

LIFE SCIENCE

Activity in the life science market was significantly impacted by the lack of availability and supply. **Take-up in 2022 totalled 69,000 sq ft, a 63% decrease from 2021, the result of there being a complete absence of available purpose-built laboratory space.** This meant that some life science and bio-tech companies with urgent requirements began to look at the viability of adapting office space for laboratory use, accepting the trade-off between speed of occupation and quality of accommodation.

Metrion Biosciences increased its occupancy at Granta Park to over 20,000 sq ft by taking a further 8,700 sq ft at the Granta Centre at a headline rent of £36.00 psf where they have fitted out lab space. Sphere Fluidics also converted 7,000 sq ft of office space to laboratories in the same complex at a similar rent level.

Indeed, every lab letting over 10,000 sq ft this year has happened within office space that has subsequently been repurposed to laboratories. The largest laboratory lease signed in 2022 was in Q2 at Mortlock House on Vision Park in Histon, as the 29,000 sq ft converted laboratory space was occupied by Nuclera at £45.85 per sq ft for 10 years. However, continued limited supply meant that the 8,800 sq ft space at The Works in Sawston, let to Chimeris UK for 10 years at £43.00 per sq ft, was the largest transaction to occur in Q4.

In sharp contrast to the tight supply there is over 1.2m sq ft of named laboratory demand.

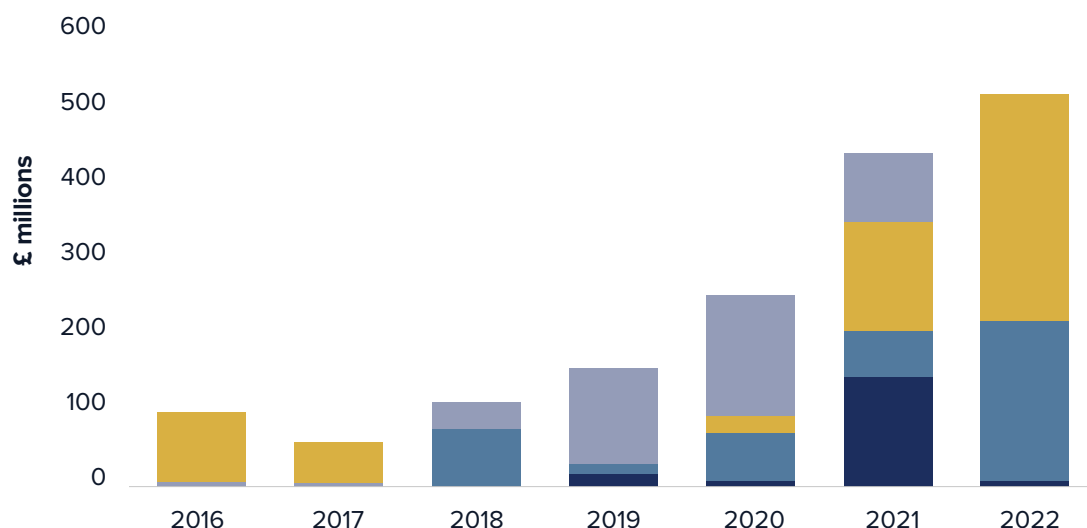
The demand is also becoming more broad-based, with perhaps less need for highly specified laboratories in favour of wider applications involving data processing, computational analysis as well as in advanced technologies such as quantum computing and new battery development. This demand is driven in part by maturing companies looking to “graduate” from incubator spaces, and three years of robust fundraising where Cambridge based life science and bio-tech companies have raised £2.13 billion since 2019 with £529 million raised in 2022 alone. It is important to note that this capital is already sitting with these companies and so the demand is effectively baked in. We do not expect to see it materially reducing in 2023.

It is against this backdrop, and rising build costs for developers, that we expect to see significant rental growth in laboratory rents in 2023 from the current high of £48.50 psf. Pressure on supply should lift slightly in the short term with the construction of vital laboratory space taking place at 1000 Discovery Drive, Cambridge Biomedical Campus (105,000 sq ft), and Phase 2, Unity Campus (90,000 sq ft). Both schemes have a targeted delivery over 2023. Construction is also underway on the Babraham Research Campus at Building 960 (40,000 sq ft) with the building expected to PC in the beginning of 2024. Given the clear supply demand imbalance, there has been significant interest in this space, with most expected to be pre-let prior to completion.

Investment & Development

OFFICE

Office investment volumes hit c.£513 million in 2022, standing at the best year on record with an 18% increase on 2021's total.



However, no deals took place in Q4, **with Q3 seeing the most transactional activity, trading over £295 million, 108% more than the corresponding period in 2021.**

Oval advised by DTRE, sold the 250,000 sq ft Capital Park to Longfellow for £185 million as an office investment to be converted to life sciences, the largest transaction of the year. The other major transaction of Botanic Place, 100-112 Hills Road occurred in Q3 at £175 million bought by Railpen. In the same period, Stanhope and Cadillac Fairview acquired the fully let 194, 196 and 198 Grade A offices at Cambridge Science Park for around £85 million.

Volumes were further bolstered by Brockton Everlast's purchase of Buildings 1-2 at Cambridge Science Park in Q3. The £140 million scheme was sold by Tuspark and Trinity College Cambridge and was the final stage of the joint venture's five-building scheme designed for high-tech and life science companies.

LIFE SCIENCE

The year was dominated by investors and developers acquiring office buildings that have the potential to convert or redevelop as laboratory space. Lateral's £15 million acquisition of Mortlock House and IQHQ's purchase of Nuclera's c.8,000 sq ft offices building at 137 Cambridge Science Park for £13 million were two such deals. The Vitrum Building at St Johns Innovation Park, purchased by Breakthrough Properties as an office for £25 million was also sold with the intention of redeveloping the existing building into laboratories.

FIG 4 →

Office Investment Volumes Per Annum

◆ Q1
◆ Q2
◆ Q3
◆ Q4

Source: DTRE Research



£295 million

Traded in Q3, 108% more than the same period in 2021

OFFICES & LIFE SCIENCE

INVESTMENT & LEASING
CAMBRIDGE MARKET REVIEW



Jamie Green
Partner

✉ jamie.green@dtre.com
☎ 07776 161 534



Matt Smith
Partner

✉ matt.smith@dtre.com
☎ 07810 191 570



Florence Weston
Research Analyst

✉ florence.weston@dtre.com
☎ 07761 280 978

This report was prepared by DTRE's Research Team. All materials presented in this report, unless specifically indicated otherwise, is under copyright and proprietary to DTRE. Information contained herein, including projections, has been obtained from materials and sources believed to be reliable at the date of publication. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. Readers are responsible for independently assessing the relevance, accuracy, completeness and currency of the information of this publication. This report is presented for information purposes only exclusively for DTRE clients and professionals, and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. All rights to the material are reserved and none of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without prior express written permission of DTRE. Any unauthorized publication or redistribution of DTRE research reports is prohibited. DTRE will not be liable for any loss, damage, cost or expense incurred or arising by reason of any person using or relying on information in this publication. To learn more about DTRE Research, or to access additional research reports, please visit dtre.com/research.