

Project name: The Beehive Redevelopment
Client name: Railway Pensions Nominee Limited
Author: Bidwells
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**CAMBRIDGE: OFFICE &
LABORATORY OCCUPATIONAL
MARKET UPDATE**

**THE BEEHIVE CENTRE
REDEVELOPMENT**

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CAMBRIDGE OFFICE & LAB DATABOOK SUMMER 2024

1.0 Introduction

- 1.1 The 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.
- 1.2 The delivery of new commercial office and laboratory space as part of the Beehive Redevelopment in a connected urban location will provide an opportunity for much needed commercial office and laboratory space within the city. This occupational report is provided as part of the planning application submission. The Proposed Development comprises:

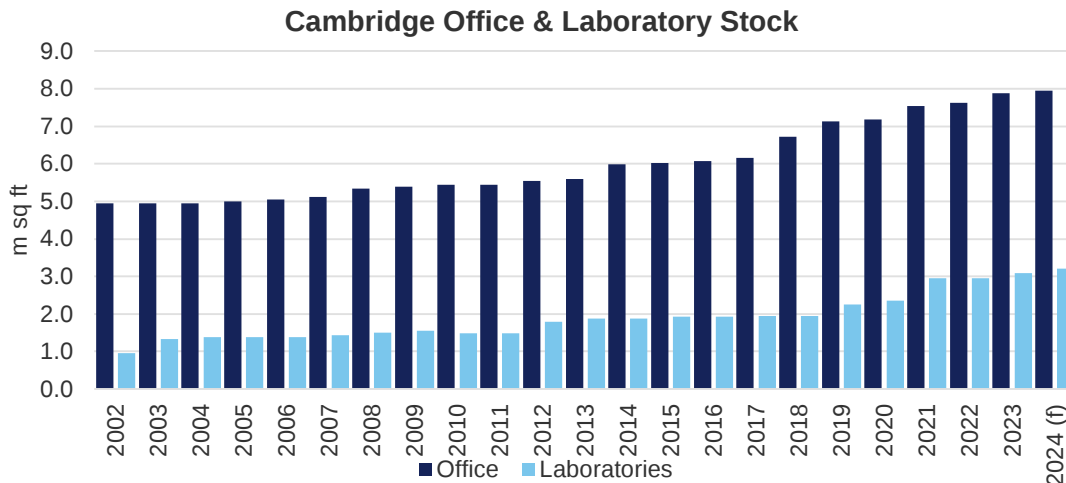
Outline Application (with all matters reserved) for the demolition of existing buildings and structures and redevelopment of the Site for a new local centre (E (a-f), F1(b-f), F2(b,d)), open space and employment (office and laboratory) floorspace (E(g)(i)(ii) to the ground floor and employment floorspace (office and laboratory) (E(g)(i)(ii) to the upper floors; along with supporting infrastructure, including pedestrian and cycle routes, vehicular access, car and cycle parking, servicing areas, landscaping and utilities.

2.0 Cambridge Market Evolution & Occupier Needs

2.1 Growth of Office & Lab Stock

- 2.1.1 The Cambridge office and laboratory market has grown significantly since the start of the millennium, with total stock rising from 5.2m sq ft in the year 2000 to over 10.9 m sq ft at the end of 2023. The rate of growth has accelerated with 3.5m sq ft of the increase in stock delivered in the past 10 years since 2013.

Figure 1: Source Bidwells



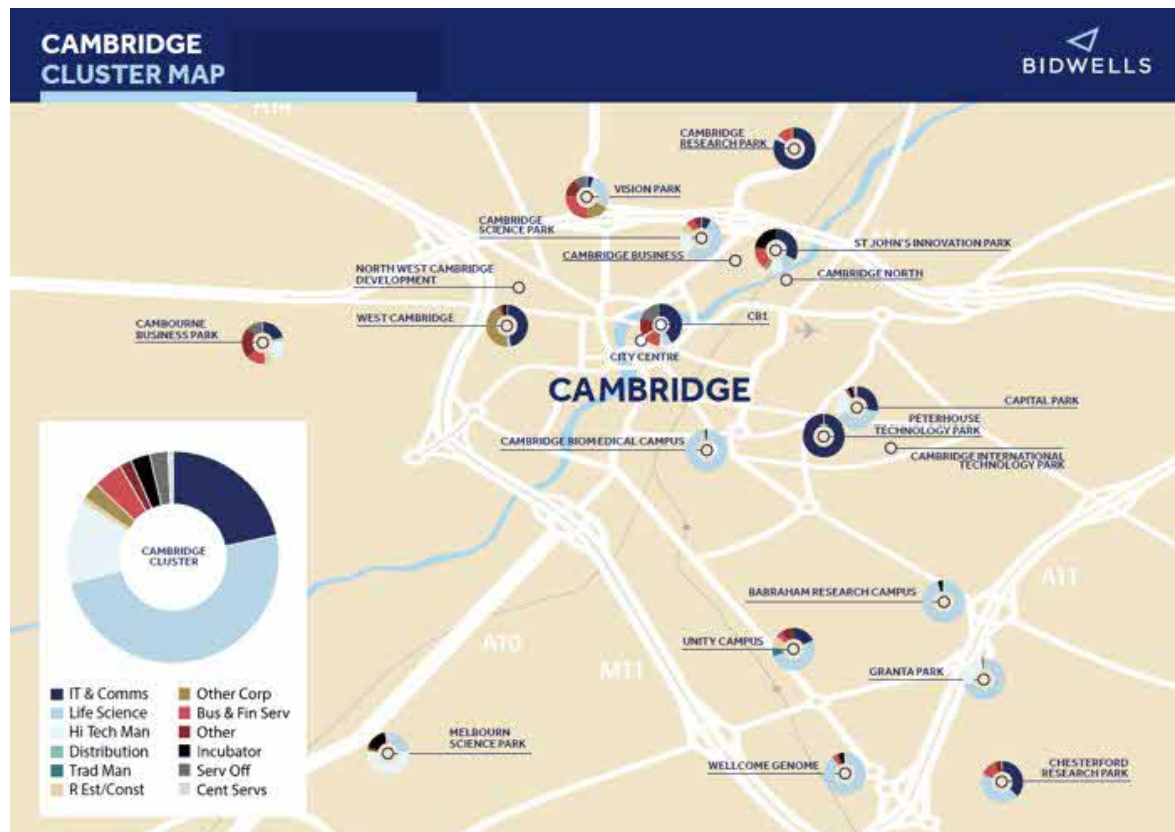
- 2.1.2 The rate of growth of the market has been limited for many periods of time during economic cycles by the completion of new developments. Occupier demand has consistently outstripped completions. This is demonstrated by majority of new developments in recent years having been pre let during construction or within 12 months leasing up period following practical completion.

- 2.1.3 Over time, there has been a development of clusters within the wider Cambridge area. Initially these were to the edge of the city with the earliest being the Cambridge Science Park over 50 years ago, and then followed with the creation of out-of-town business and science parks. The desire though for city centre and urban commercial spaces has also intensified and over the past 10+ years and coincided with the redevelopment around the Station at CB1 which has been very popular with occupiers wanting to be connected within the city. Opportunities for the growing laboratory occupiers to locate centrally within Cambridge City have been very limited to date.

This often-international occupier tenant base is used to seeing urban labs in other global life science centres and this is something Cambridge should offer to maintain its attractiveness for this important sector for the UK economy.

- 2.1.4 The office & lab stock within the Cambridge area is dominated by the Life Science and Tech sectors and their influence growing. The two occupier types have different requirements for floor space, with Life Sciences demand dominated by wet laboratory floor space, whilst IT and Communications occupiers seeking more traditional office/R&D floor space.

Figure 2: Source Bidwells



2.2 Market Evolution & Demand Drivers

2.2.1 Over the past 20+ years, Cambridge has become an important global centre for R&D, built on the following:

- **University Effect** - Cambridge University is a global leader providing access to an incredibly talented employment pool and world leading research.
- **Buy Outs** – Cambridge companies are a focus for international companies to secure their intellectual property and talented people. As the Cambridge ecosystem has developed the acquiring business have often further invested into Cambridge.
- **Indigenous Growth and Access to Funds** – Access to funding has become greater and more diverse making it far easier to grow a company exponentially.
- **Life Science Sector** - The emergence of the Life Science Sectors over the past 20+ years has added another significant dimension to the market. Cambridge has the largest concentration of life sciences lab floorspace in the UK.
- **Clustering** - Recognition by R&D sectors of the importance of clustering and for 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.

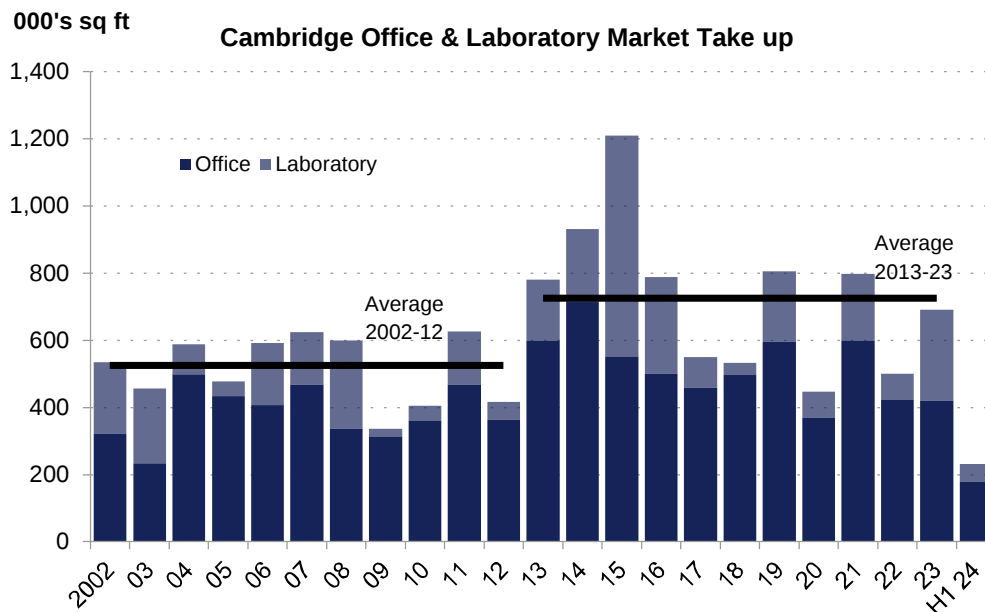
2.2.2 All of the above have made Cambridge very attractive to Science & Tech businesses which seek to establish or grow in the city and changing the economy radically over past 20 years. The provision of office and Laboratory space has not kept up with the needs of the growing businesses.

3.0 Office & Lab Market Metrics & Need for The Beehive Centre Redevelopment

3.1 Office & Lab Take Up

- 3.1.1 As Cambridge's science and technology sectors have matured, we have seen a step change in average annual take to c. 725,000 sq ft over the past decade since 2013, an increase of c. 200,000 sq ft pa on the previous 10 years. With the growing economic base, greater access to sustained capital and focus on Life Sciences for the UK we forecast a further increase and step change in average take up over the next decade.

Figure 4: Source: Bidwells,

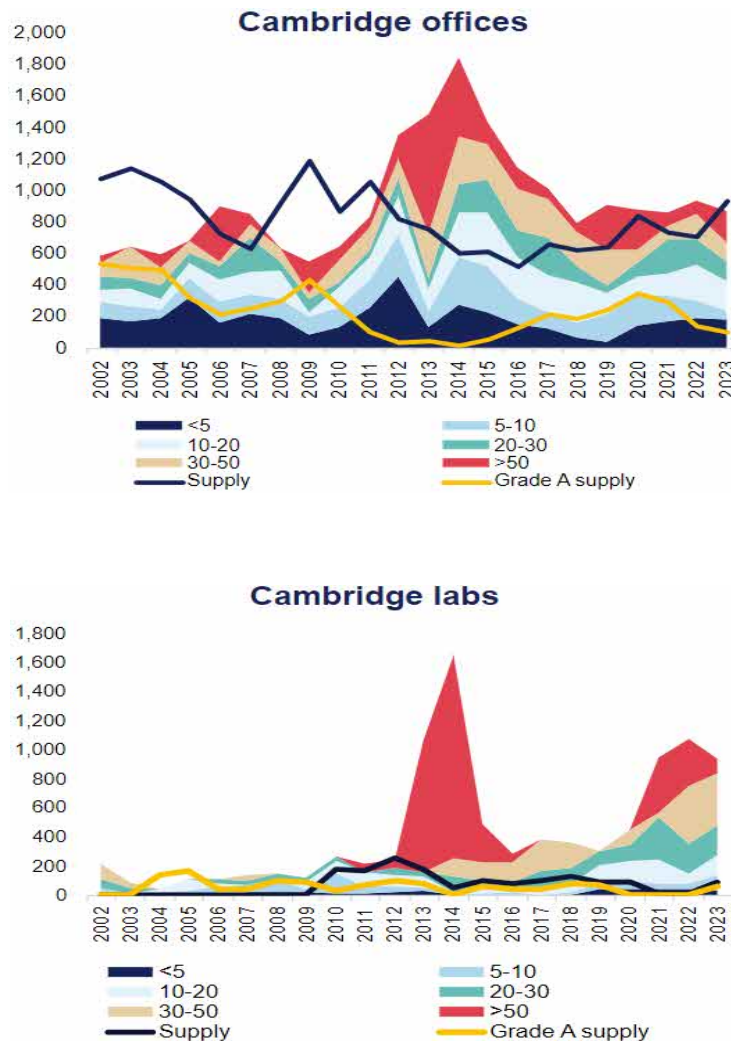


- 3.1.2 The growing Cambridge economy will increase future demand and is expected to lead to a further step change and increase of average take up over the coming decade. Bidwells have undertaken a cautious projection analysis reviewing current demand trends in demands and position within economic and funding cycles, an increasing base of size if the existing market, focus on S&T sectors for funding, forecast a larger step change in take up upwards will be expected over the next decade.
- 3.1.3 Take up activity across the Cambridge market has maintained momentum in H1 2024 with both office and lab take up at 232,431 sq ft a similar performance to H1 of 2023. Importantly despite continuing challenging global economic pressures occupiers continue to commit to space, and in excess of +150,000 sq ft of office & Lab under offer at end of H1. We forecast total take up for the year to be close to 10 year average by year end.

3.2 Demand for Cambridge Floor space

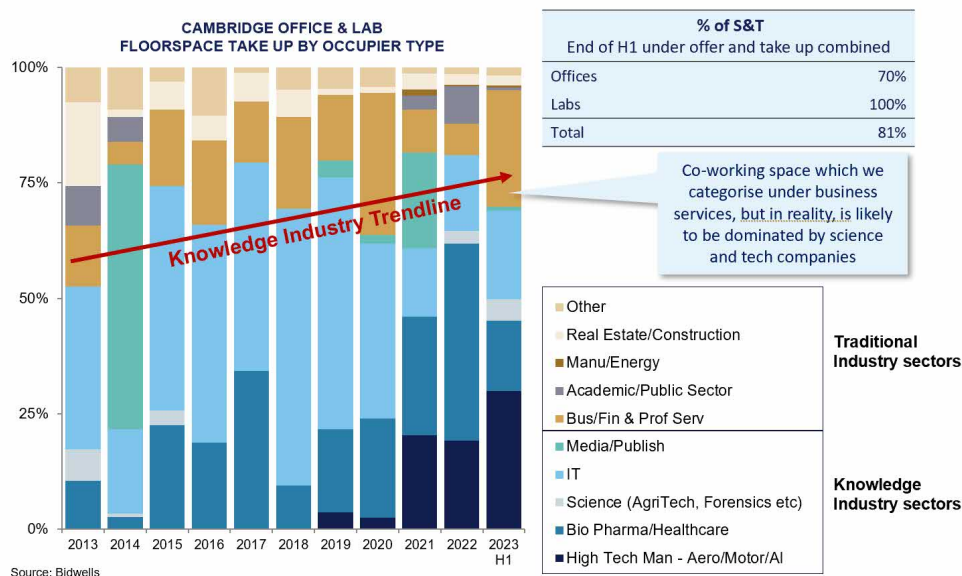
- 3.2.1 There was just over 1.45m sq ft of office and laboratory space sought by occupiers across Cambridge at end of H1 2024 (Appendix 1: Cambridge Databook, Source Bidwells). This active demand was made up of 754,700 sq ft of office and 690,500 sq ft of laboratory demand.

Figure 5: Cambridge demand & supply (office and laboratory requirements split by size (sq ft) banding of requirements). Source Bidwells.



- 3.2.2 2022 recorded the highest volume of combined office and laboratory floorspace requirements since 2014/5. The demand profile reduced in 2023 and H1 2024 reflecting the tighter funding environment, however the overall demand has greater resilience being supported across a broad range of all sizes. Demand levels have now stabilised and do have a correlation with funding but with a delay of c. 12 months so as venture capital environment improves, we expect see demand increasing again.
- 3.2.3 Demand is dominated by the Life Science and Tech sectors and their influence is growing. The two occupier types have different requirements for floor space, with Life Sciences demand dominated by wet laboratory floor space, whilst IT and Communications occupiers seeking more traditional office/R&D floor space.

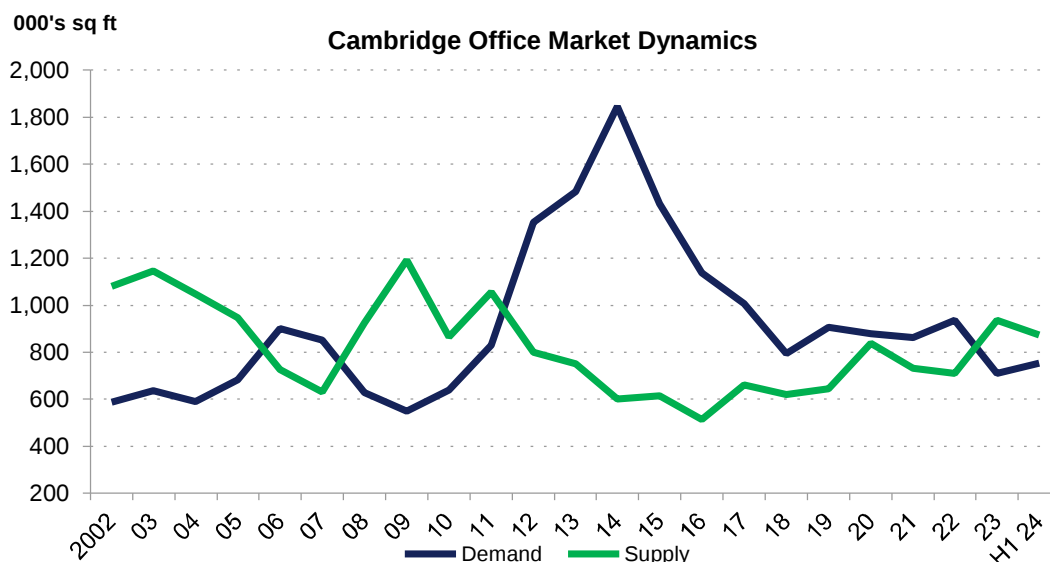
Figure 6: Make up of occupier take up. Source Bidwells



3.3 Mismatch of Supply & Demand

3.3.1 **Offices** – Total available space at the end of H1 2024 was c.873k sq ft but only 12% of this was Grade A quality. Demand at the same date point was c.755k sq ft with signs or recovering strength in demand.

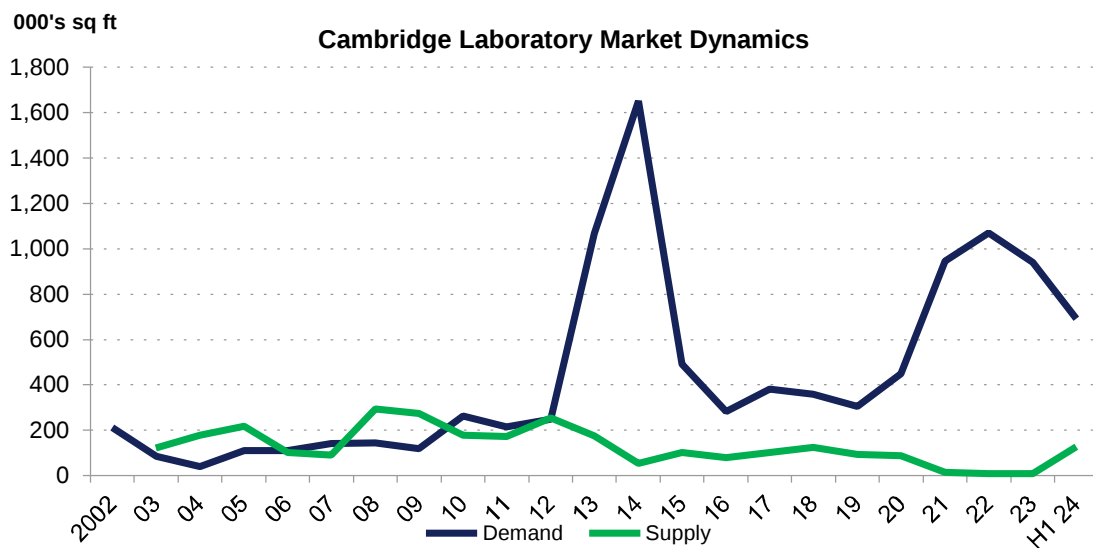
Figure 7: Office Supply versus Demand/ Source Bidwells



3.3.2 **Laboratory** - The supply of laboratory floor space was nil throughout much of 2022 against demand of over 1m sq ft. Any lab space released during that period was re-let immediately with rents rising sharply. Tightening of funding over the past 2 years has then the acute shortage ease a little but there remains a significant supply versus demand mismatch. At the end of H1 2024 immediately available lab space remained very constrained at c.128k sq ft with demand at the same date point was c.691k sq ft. There is c.140k sq ft of lab space being delivered in H2 2024 the of which a quarter has been pre let and other spaces in advanced negotiations.

With occupier demand stabilised and expected to return to growth with improving funding environment the supply demand imbalance is expected to remain a feature for the coming years.

Figure 8: Lab Supply versus Demand/ Source Bidwells



3.4 Future Supply

- 3.4.1 Offices Supply Pipeline** - The delivery pipeline of new office supply remains constrained short and medium term and is not expected to meet levels of occupier demand.
- 3.4.2** Schemes delivering in 2024 include 10 Station Road and Brooklands in the city centre. Brooklands is approaching half let with the whole scheme not completing until year end. 10 Station Road will PC in late August and has a c. 20% under offer with advanced discussions on remaining floors. One Cambridge Square, Cambridge North was the largest office building to be delivered to the Cambridge market in 2023 and less than 12 months from PC is approaching 80% let. The only office building on site of scale to be delivered in 2025 is the Optik, Peterhouse Technology Park which has good levels of interest. There is limited further office development then until 2026 & 2027 at locations such as Devonshire Gardens and Botanic Place respectively. However more high-quality schemes are needed to support the growing Science & Tech occupiers who are seeking high quality connected locations with amenities.
- 3.4.3 Lab Supply Pipeline** - The delivery of speculative Laboratory space has improved. This is good to support businesses growth following a number of years with very limited speculative supply being delivered. Where space was delivered in 2023 at locations such as Cambridge Biomedical Campus and Unity Campus leasing take up has been very successful. The 2nd half of 2024 will see much needed new lab space delivered at One Grant, Granta Park where the top floor is already pre leased.
- 3.4.4** The lab buildings being delivered in 2024, will total c.150 sq ft NIA already have good levels of interest and expected to be fully let shortly following PC. The forecast pipeline supply should improve for occupiers in 2025-2028 and will begin to alleviate the supply shortage and provide occupiers with choice but is not expected to meet existing and expected new demand. Currently there are no labs in urban city centre locations available for occupiers seeking to grow and locate within the city centre areas.

- 3.4.5 **Historic Supply** - Reviewing significant new building completions since 2016, they have generally been pre-let or let within a year practical completion. This is a unique phenomenon for Cambridge, compared to other regional cities, and amplifies the severe lack of new supply that has come forward to support the growing businesses of the city. For businesses to grow to full potential access to available space is of key importance and the lack of space will have stalled economic potential.

3.5 **Occupier Need for the Beehive Centre Redevelopment**

- 3.5.1 There is a compelling demand case for the Proposed Development from both office and lab occupiers who wish to locate to high quality buildings, in a connected and urban part of the city landscape with fantastic placemaking and amenity provision. Post pandemic office employees generally have returned to the office, but fewer days a week. When at the office they want to be inspired by the environment. The quality of the workspace is therefore key and driving factors of how this is measured include:

- **Sustainable urban locations**
- **A social, inspiring workplace**
- **Collaborative spaces for innovation to thrive**

The Proposed Development will deliver an environment and buildings that excels in all these areas.

- 3.5.2 Lab users seek the same locations and amenities as office users but to date, have limited choice. The Development will deliver for lab occupiers, for the first-time, new high-quality lab buildings as part of city with a mix of uses in a highly sustainable, connected location.
- 3.5.3 The current constrained development pipeline is impacting the ability of companies to recruit and retain talent which is detrimental to its growth. The transition to better quality, more sustainable and well-located buildings is needed by occupiers in Cambridge.
- 3.5.4 The opportunity to create a new city quarter for Cambridge at the site is needed to meet the needs of the fast growth science and tech sectors that Cambridge competes with on the global stage. There is a need for more quality office and laboratory buildings; and occupiers want these in exciting locations which are vibrant and provide a mix of uses and high quality placemaking.

4.0 Summary

- 4.1 The Cambridge office & lab market has changed radically with the growing economy which continually gathers momentum. The strength of the knowledge intensive industries and Science & Tech sectors in the city is driving more demand for space. The focus of these requirements is now about the quality and location.
- 4.2 The supply demand imbalance is a hinderance to businesses growth. Only sustained levels of increased development will alleviate the supply demand imbalance over time.
- 4.3 Cambridge is an important R&D centre globally and for the UK. To continue to deliver the success it has had, it needs more quality office buildings and specialist laboratory buildings in a connected, sustainable location.
- 4.4 The redevelopment of the Beehive Centre will provide a unique opportunity to deliver new high-quality offices and laboratories at scale within the city. The buildings will provide open plan large floor plates, with amenities that occupiers desire in a location that is within the City core. The Development is an important scheme to alleviate some of the acute supply shortages to help meet the demand for space from businesses in the City to grow in a connected and sustainable environment.

APPENDIX 1

CAMBRIDGE OFFICE & LAB DATABOOK

SUMMER 2024

Summer 2024



Offices and Labs

CAMBRIDGESHIRE

Arc Market Databook



Overview

Occupier

The science and tech sector in Cambridge supported the office and lab market in the first half of 2024. A robust Q1 for transactions was followed by a subdued Q2. Office take-up was stronger than lab take-up with overall performance similar to H1 2023. Occupier requirements for labs in Cambridge stood at 690,500 sq ft in June 2024, down from 12 months ago, but still significantly above the amount of immediately available space (128,400 sq ft). Although the totals for office demand and supply suggest a more balanced market, the figures mask limited grade A space. With increased occupier reporting levels, we expect take-up will strengthen in H2, with rental growth being evidenced in prime office and lab rents before the year-end.

Development

We anticipate around 350,000 sq ft of new office and lab completions in Cambridgeshire in both 2024 and 2025. Put in context, this would add circa 6% to the existing stock of commercial space. Two thirds of the new space is labs which will help to reduce the current shortage of options for occupiers.

The long-term development pipeline is healthy with a number of significant masterplan schemes securing consent during H1 2024 including Cambridge North, Melbourne Science Park, Cambridge Discovery Campus plus a number of standalone buildings. The need for Cambridge to deliver economic growth will mean an increasing focus on housing and infrastructure to support the city's high value sectors.

Investment

The investment market was very quiet in the first half of 2024, despite good occupier demand and the prospect of future rental growth. The lack of transactions creates some uncertainty around pricing, but we believe that prime office and lab yields in Cambridge stood at 6.0% and 4.75% respectively, in June 2024. However, there are signs that the re-pricing of assets over the last two years and the recent drop in finance costs are starting to feed through to investor sentiment and the second half of this year is likely to see some recovery in investment deals.



Max Bryan
Head of Laboratory & Office Agency

max.bryan@bidwells.co.uk

News highlights

Tech powers 2024 H1 performance

Tech hardware companies were very active in H1 2024, after a relatively quiet 2023. The biggest office letting was to AMD (45,000 sq ft) at 196 Cambridge Science Park. The company designs computer processors and related technology and is benefiting from the rapid growth in AI and data centres. Four of the five biggest office lettings in the first half were to tech hardware companies. Overall science and tech occupiers together accounted for 90% of total office and lab take-up. We expect life science and tech to continue to drive the office market in H2 with a number of scaling and established businesses with live requirements actively reviewing the market.

Lab demand stabilising

Although requirements for lab space in Cambridge were lower in June than in December 2023, they are still double the pre-pandemic average and continue to dwarf the amount of available lab space (128,400 sq ft). The tail off in demand was mainly due to a number of overseas life science companies, pausing, or withdrawing requirements. By contrast, demand for smaller lab units <10k sq ft grew, reflecting the healthy pipeline of “home-grown” university spin-outs and scale-ups which are critical to the long-term success of the cluster. With funding remaining challenging occupiers are behaving cautiously and reviewing options and business cases with increased scrutiny before committing.

Office requirements fell by 13% between December and June to c. 750k sq ft. The reduction was driven by the largest size category >50 k sq ft, whereas demand for small and medium sized units was stable.

New schemes add c. 6% to stock by end 2025

The strength of occupier markets means that developers have continued to progress schemes, despite the rise in interest rates and construction costs over the last two years. We anticipate around 335k and 385k sq ft of office and lab completions in Cambridgeshire in 2024 and 2025, respectively. To put that in context, that will add c. 6% to the existing stock of space (excluding academic buildings) within the two years to end-2025. The space splits one-third: two-thirds between offices and labs with c. 20% already committed to by occupiers.

The largest new build lab schemes currently on site are at South Cambridge Science Centre, One Granta and The Press. CamLIFE is also progressing with the comprehensive refurbishment and expansion of three lab buildings. These schemes will help to relieve the shortage of lab space occupiers have faced in recent years. British Land's, The Optic at Peterhouse Technology Park will deliver 100k sq ft in early 2025 on the edge of the city. Brooklands and 10 Station Road are delivering new office space to the Central Cambridge office market in 2024. Once these buildings have completed there will be two years until the next new office schemes in the city centre, which are being developed by RailPen.

The facts

232k sq ft

Total office and laboratory take up in Cambridge in 2024 H1

106k sq ft

Available Grade A office space

691k sq ft

Lab requirements

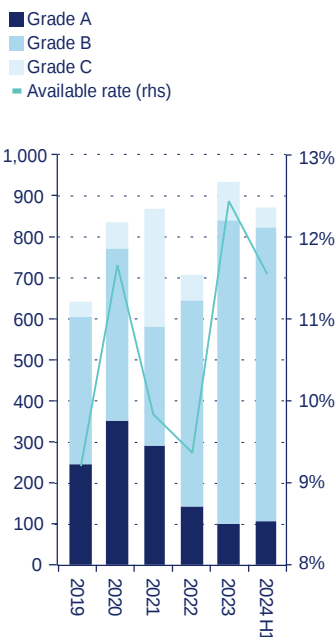
9.4 %

Combined office and laboratory availability rate at end H1 2024

Offices

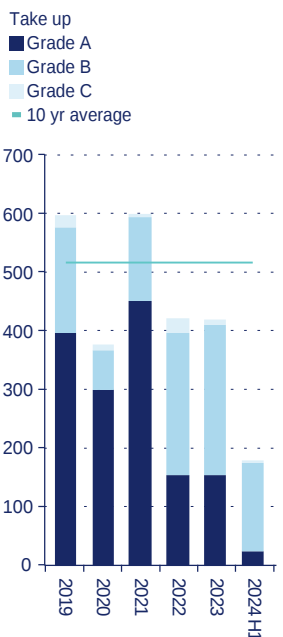
The tech sector led by hardware companies continues to expand in Cambridge, accounting for two thirds of lettings in H1 2024.

Office supply (June 2024)

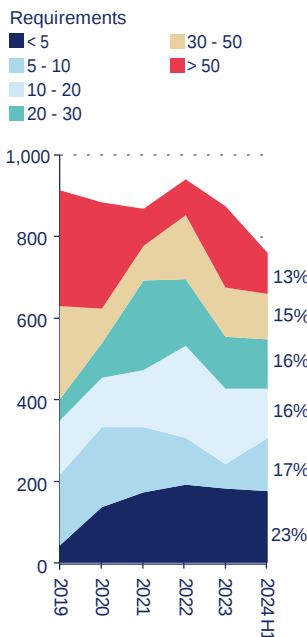


Availability 000s sq ft 873.6 q
Availability rate 11.6% p

Office demand (June 2024)

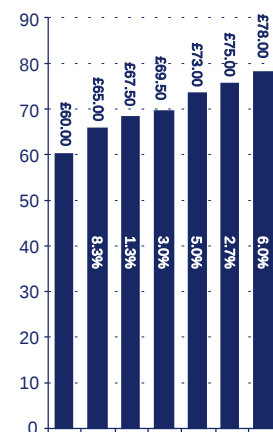


2024 H1 Take up 000s sq ft 177.9 q



Requirements 000s sq ft 754.7 q

Office rents (June 2024)

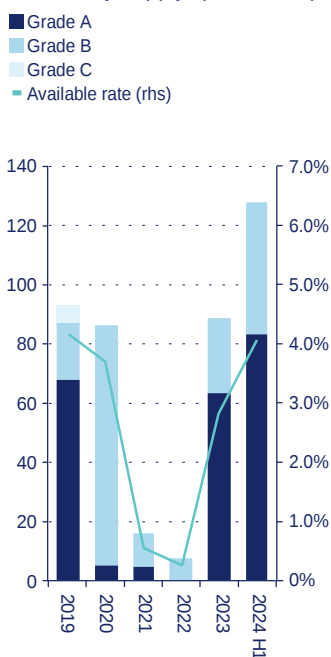


Prime £psf £60.00 }
Secondary good £psf £40.00 }
Secondary poor £psf £22.00 }
Annualised growth rate 4.9% p.a

Laboratories

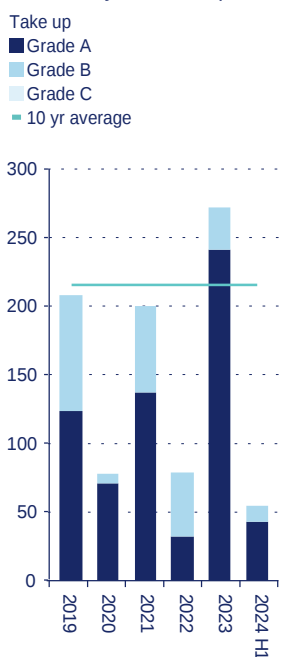
Large requirements from overseas life science companies fell in H1 2024, but smaller requirements grew, reflecting the healthy pipeline of university spin-outs and scale-ups.

Laboratory supply (June 2024)

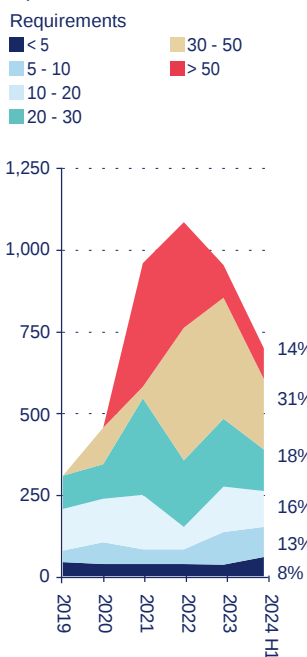


Availability 000s sq ft 128.4 p
Availability rate 4.0% p

Laboratory demand (June 2024)

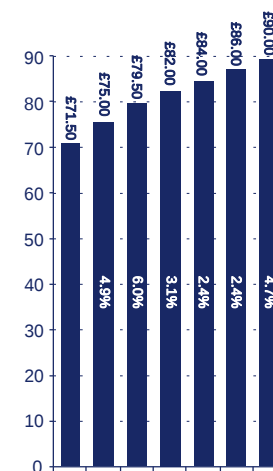


2024 H1 Take up 000s sq ft 54.5 q



Requirements 000s sq ft 690.5 q

Fitted laboratory rents (June 2024)



Prime fitted £psf £71.50 }
Prime open plan £psf £65.00 }
Prime shell £psf £57.50 }
Annualised growth rate 4.3% p.a

Key Bidwells transactions

306 Cambridge Science Park



On behalf of Trinity College, Bidwells successfully let 22,000 sq ft of Grade A office space located at 306 Cambridge Science Park. The property has been acquired by fast growing technology company, Cambridge Mechatronics.

Radio House, Cambridge



Acting on behalf of Orchard Street Management, Bidwells has leased the last remaining space at Radio House in Cambridge, fully letting the building and marking a significant milestone. The final unit, comprising 14,450 sq ft, has been leased to the US-based electronic component manufacturing company, Power Integrations.

Orion Building, Unity Campus



Bidwells acted for Welbeck Health Partners to acquire the recently completed Orion Building at Unity Campus. The building will be enhanced to provide a new c.31,000 sq ft clinical facility for Cambridge. The transaction follows on from Welbeck taking a lease in Oxford in 2023 on which Bidwells also advised.

Eastbrook House



Following a successful string of lettings to Transition Bio & RAND, Bidwells have secured the letting of 10,994 sq ft to Gas Management Services Limited, a market leader in software and 24/7 operations for gas and power companies across Europe.

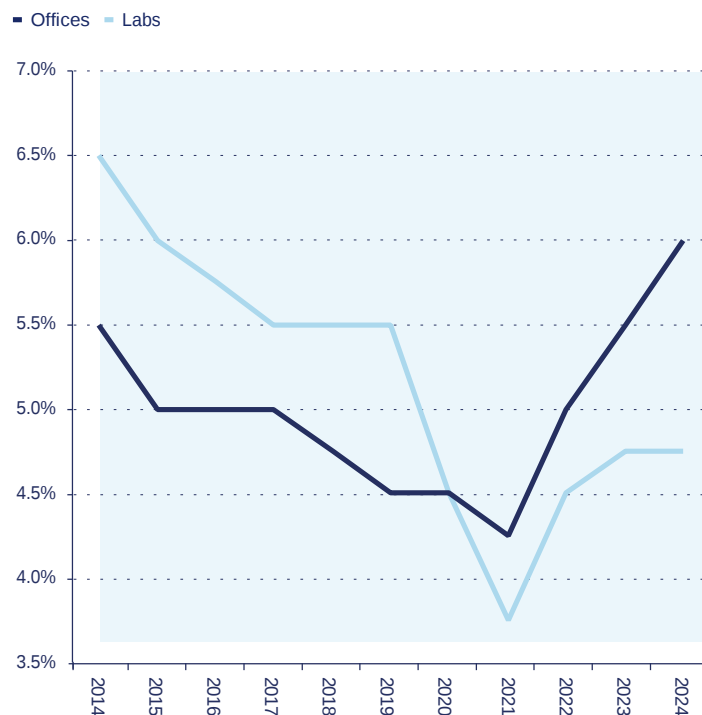
Capital markets

While there were only a few, small office and lab investment transactions in Cambridgeshire in the first half of 2024, a number of larger deals which had stalled have started to progress. We expect some pick-up in activity in the second half of this year.

The nascent recovery in the investment market reflects a switch in investor sentiment, as fears that prices will be lower in six months have given way to confidence that they have found a floor. This improvement can in turn be attributed to the re-pricing of assets since mid-2022 and to growing optimism that the Bank of England will cut interest rates in the second half of this year.

5-year swap rates which are the anchor point for real estate debt costs have fallen to 4.0% from 5.2% in mid-2023. Prime Cambridge laboratory yields held steady at 4.75% through the first half of 2024. Prime Cambridge office yields rose to 6.0%, their highest since 2013, echoing national trends in the sector.

Cambridge prime office and laboratory yields

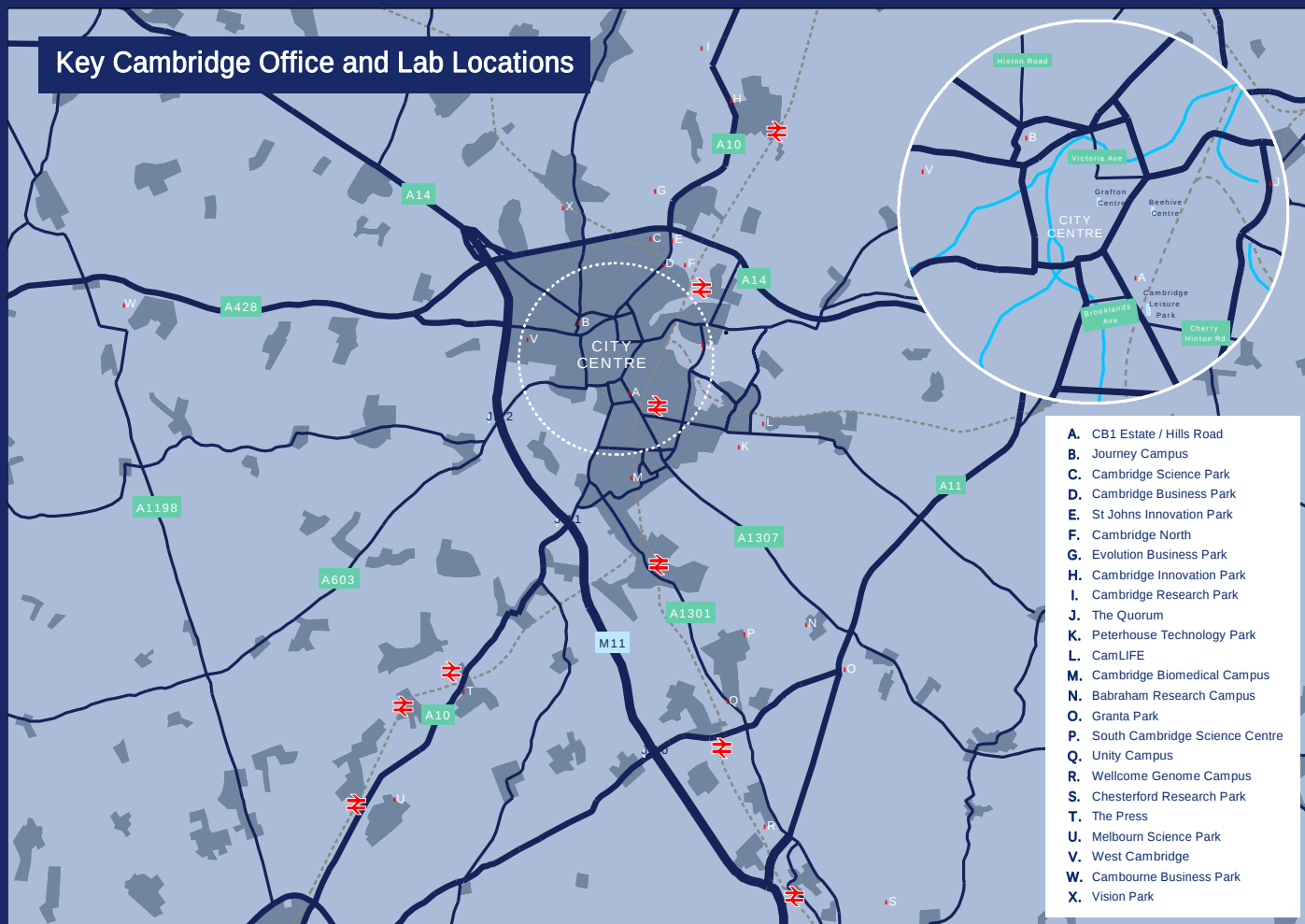


Source: Bidwells

The Optic at Peterhouse Technology Park, Cambridge



Key Cambridge Office and Lab Locations



Key contacts



Max Bryan
Head of Laboratory & Office Agency

max.bryan@bidwells.co.uk



Saul Western
Head of Commercial

saul.western@bidwells.co.uk



Sue Foxley
Research Director

sue.foxley@bidwells.co.uk

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