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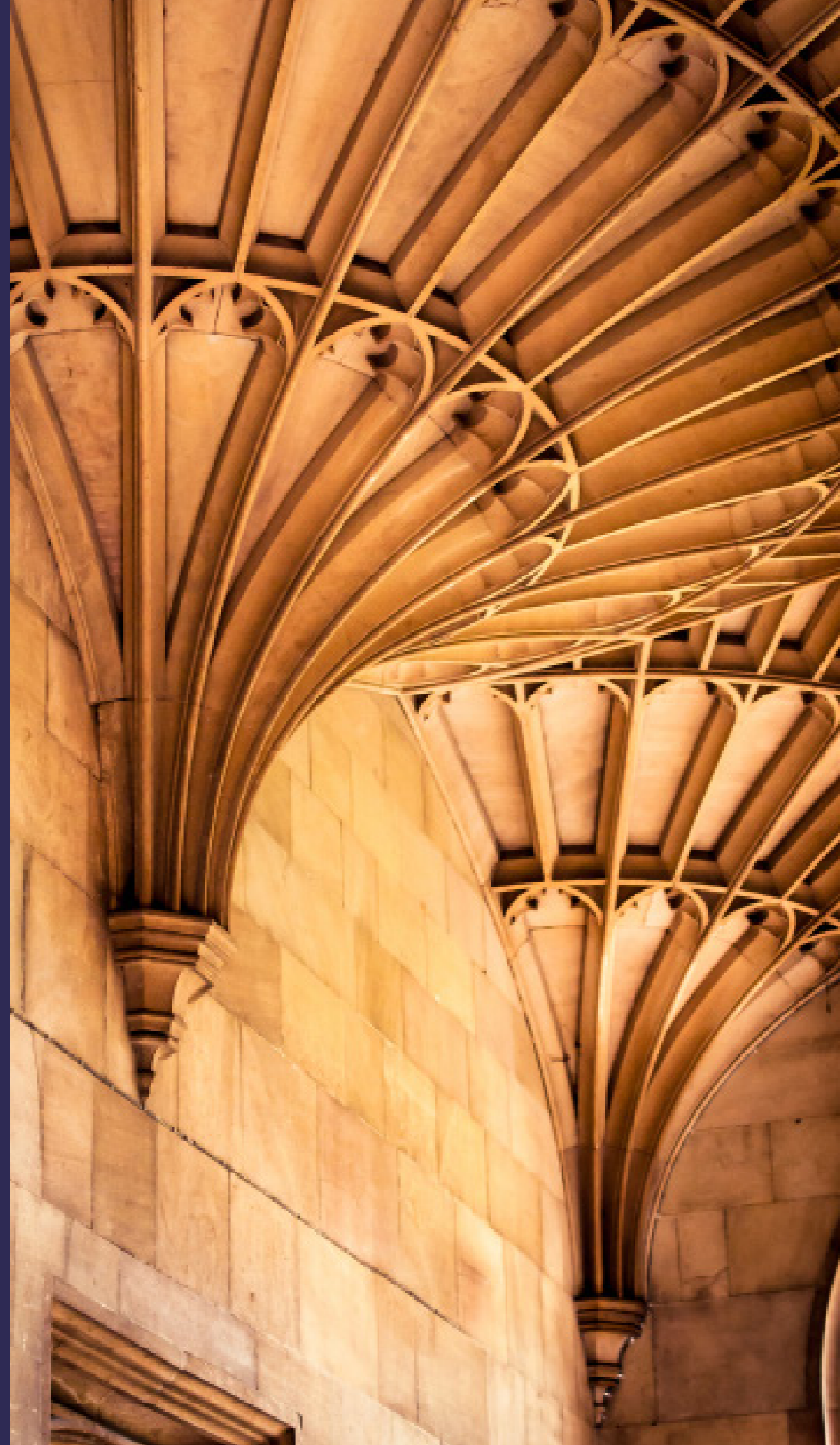
The East of England:

How can CRE power the life sciences boom?



CONTENT

I.	Executive summary	05
II.	Office – average yields hit 6.97%	06
III.	Industrial investment reaches £109m in Q1 2023	14
IV.	Retail – rents reach £24.50 per sq ft	20
V.	EPC – 65% of deals rated EPC A or B	26
VI.	What's next for the East of England?	28





EXECUTIVE SUMMARY

More than 800 years since the founding of Cambridge University, the city remains a cornerstone of Britain's knowledge economy.

As part of the Golden Triangle, it has a globally competitive life sciences sector that drives billions of pounds of economic value across the region. Meanwhile the Cambridge Cluster, or Silicon Fen, is home to also a number of businesses specialising in biotech, AI and fintech.

But experts are warning a chronic shortage of laboratory and office space could derail this vision, cutting short new investment and preventing businesses from scaling up.

Drawing on exclusive EG data, this report takes stock of the region's CRE market in 2023 and what it could mean for the future.

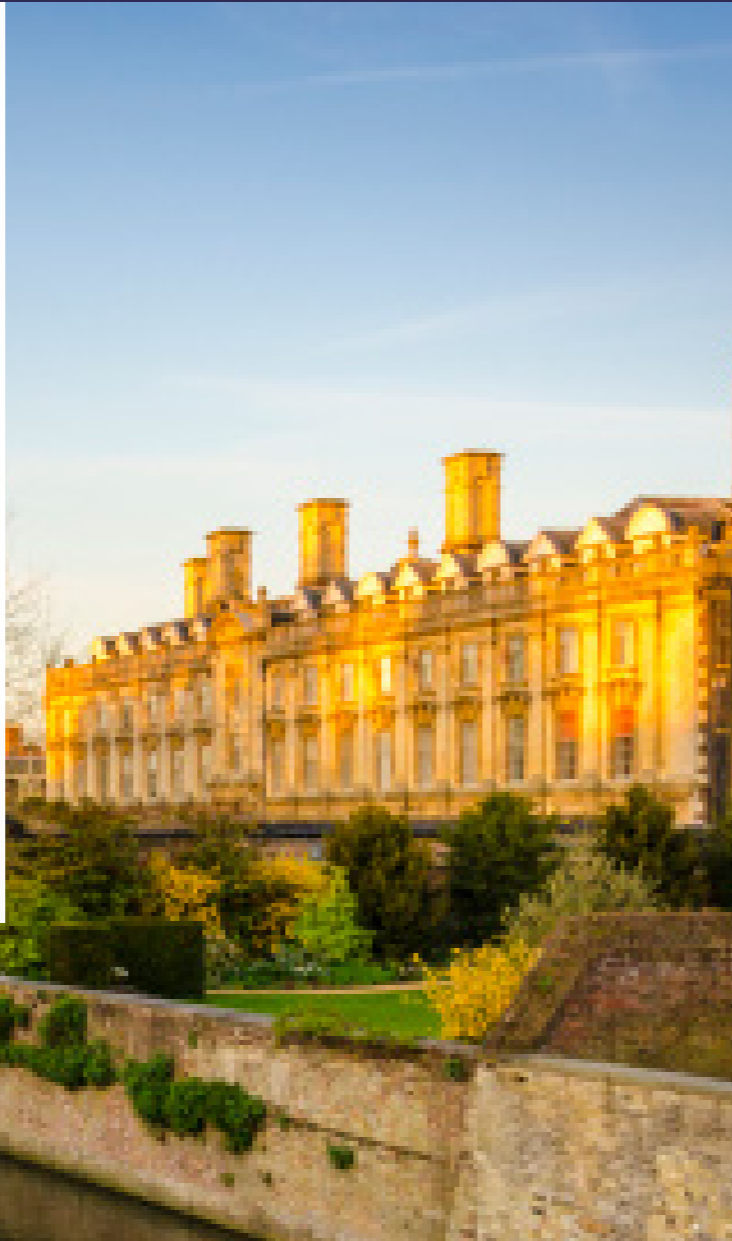
The report reveals:

- How supply shortages have squeezed deals in Q1 2023
- How the "laboratory premium" is rewarding investors
- Industrial investment topped £100m in Q1 2023
- The pattern of deals helping drive the retail sector
- The scale of the region's EPC challenge

OFFICES – AVERAGE YIELDS HIT 6.97%

After an exceptional run in recent years, the office market has recorded a significant slowdown. Deals dropped by some 23% in 2022, with a further drop in Q1 2023.

Significant deals included battery innovator Nyobold taking 37,000 sq ft at Evolution Business Park in north Cambridge, and Samsung agreeing a 33,624 sq ft prelet at One Cambridge Square – a premium central location.



“ Nyobold taking 37,000 sq ft at Evolution Business Park



Office take-up in sq ft: 2018–2019 Number of Transactions

2018

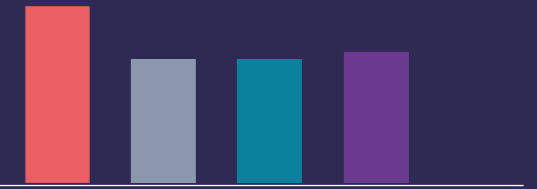
Q1 1,116,575

Q2 778,666

Q3 778,568

Q4 827,054

3,500,863
Take-Up
(Sq ft)



2019

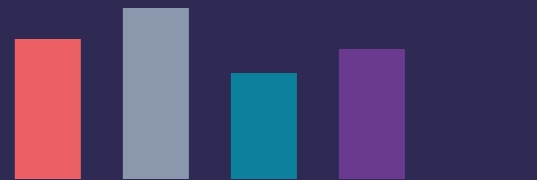
Q1 1,010,128

Q2 1,235,052

Q3 762,475

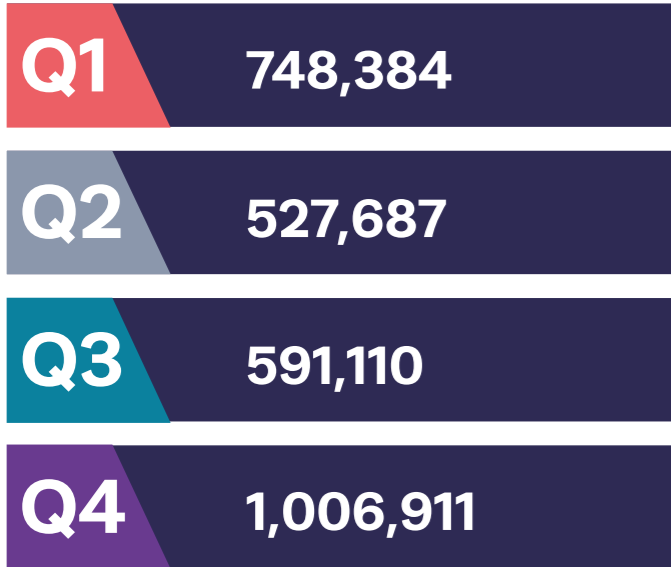
Q4 934,971

3,942,626
Take-Up
(Sq ft)

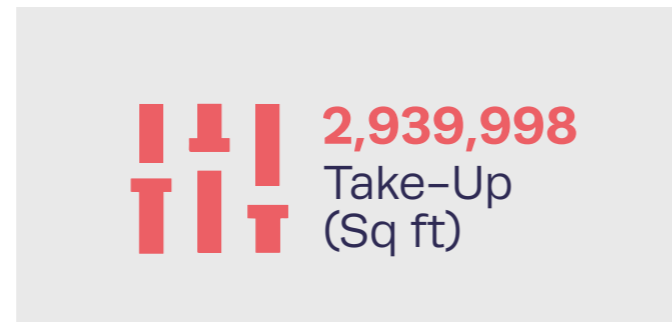
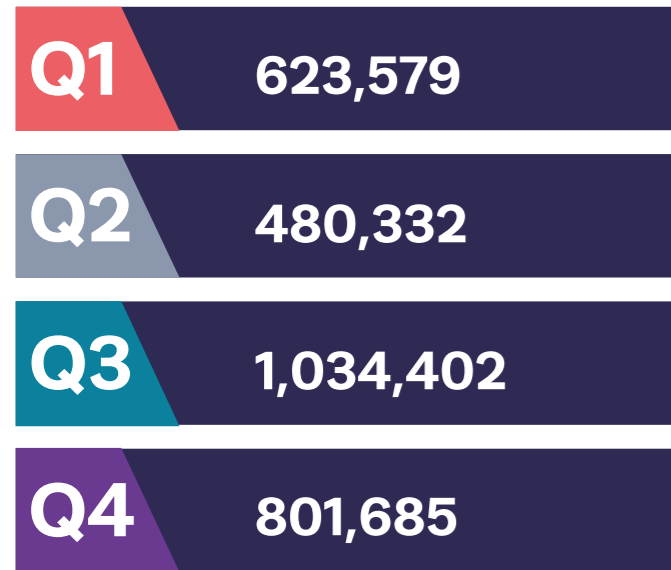


Office take-up in sq ft: 2020-2022
Number of Transactions

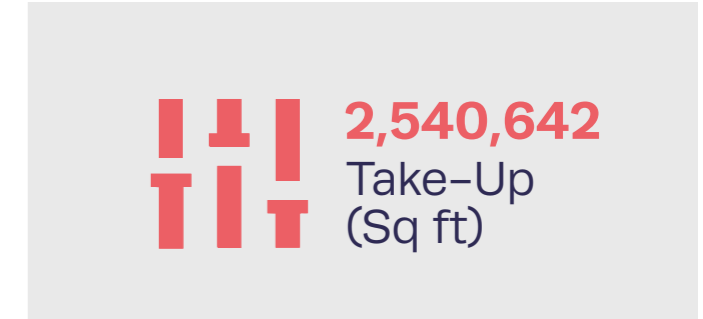
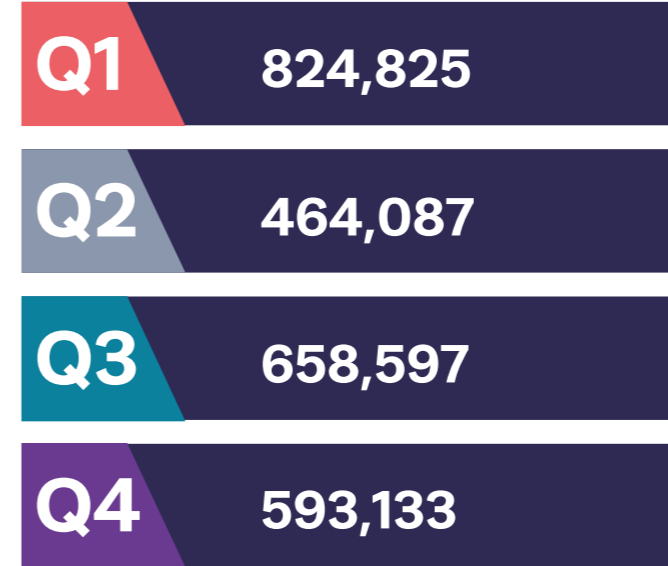
2020



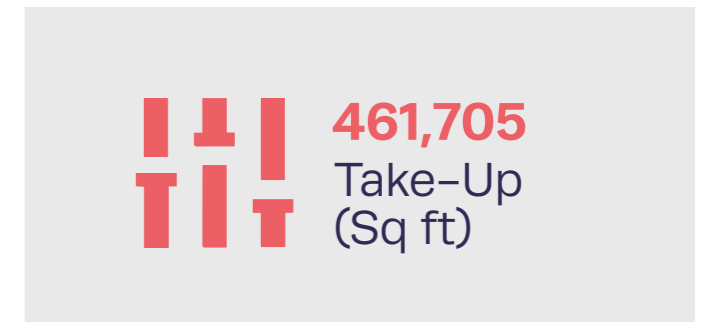
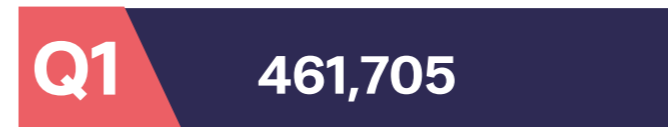
2021



2022



2023



Economic uncertainties may have taken their toll but agents consistently cite a chronic shortage of quality space, particularly in Cambridge, as a factor driving this trend.

According to Bidwells, Cambridge has just 10,000 sq ft of available office space – compared with 2m sq ft of demand. It is a stark reminder of the importance of CRE when it comes to scaling up.

Despite the supply shortage, rents have remained broadly constant, with occupiers paying an average of £18.86 per sq ft in 2022. Unsurprisingly, laboratory space continues to drive a significant premium – as much as 100% in Cambridge.

While investment purchases have slowed slightly in the past 18 months, reaching £366m in 2022, yields remain healthy. Last year, investors enjoyed average yields of 6.97%.



10,000 sq ft of
available office
space

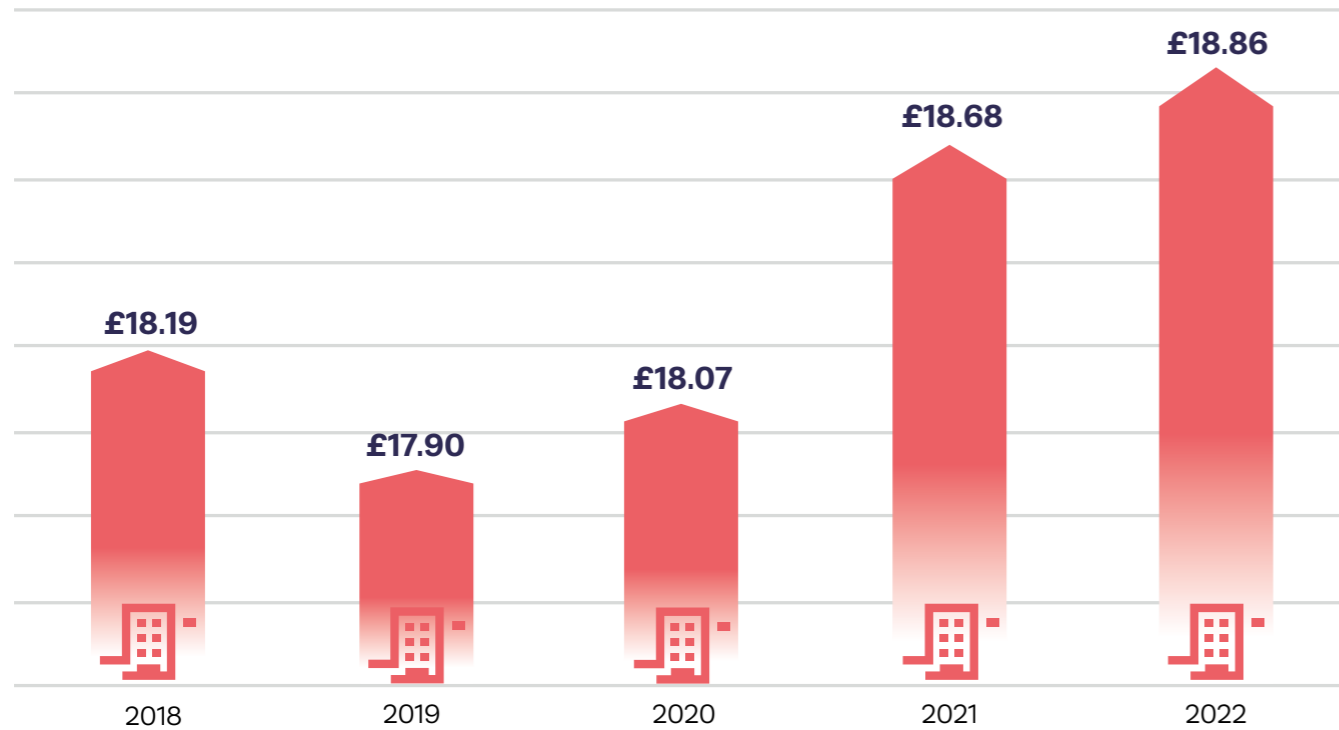


compared with
2m sq ft of
demand





Average rent for office deals (£ per sq ft)



There are some signs the situation is encouraging developers to step up to the plate when it comes to providing quality office space.

In April, Breakthrough Properties (a joint venture between Tishman Speyer and biotech investor Bellco Capital) confirmed its plans for a large research facility at St John's Innovation Park.



St John's Innovation Park

The investors acquired the site in May 2022. Works are expected to start next year to develop 132,588 sq ft of BREEAM Outstanding office space, with occupants arriving in 2026.

"More than ever, clients are seeking developments that offer best-in-class environments within world-leading ecosystems," said Thomas Renn, Breakthrough's VP for acquisitions and development.

"The planned scheme delivers on both of these fronts, with unrivalled workspaces, labs and amenities."

INDUSTRIAL – INVESTMENT REACHES £109M IN Q1 2023

As with the office market, the industrial sector has declined in the past 18 months. Deals in Q1 2023 accounted for 1.51m sq ft – around 34% of the five-year average.

Significant deals in Q1 2023 included wholesalers Bidfood taking 161,000 sq ft in Bedfordshire, and logistics firm DHL taking 125,689 sq ft at Lightning Park in Huntingdon.



Industrial take-up in sq ft: 2018–2019 Number of Transactions

2018

Q1	3,932,998
Q2	3,942,223
Q3	2,360,132
Q4	4,682,988

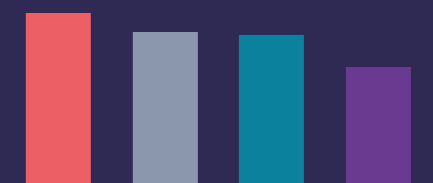
14,918,341
Take-Up
(Sq ft)



2019

Q1	4,550,777
Q2	4,046,096
Q3	3,963,022
Q4	3,133,946

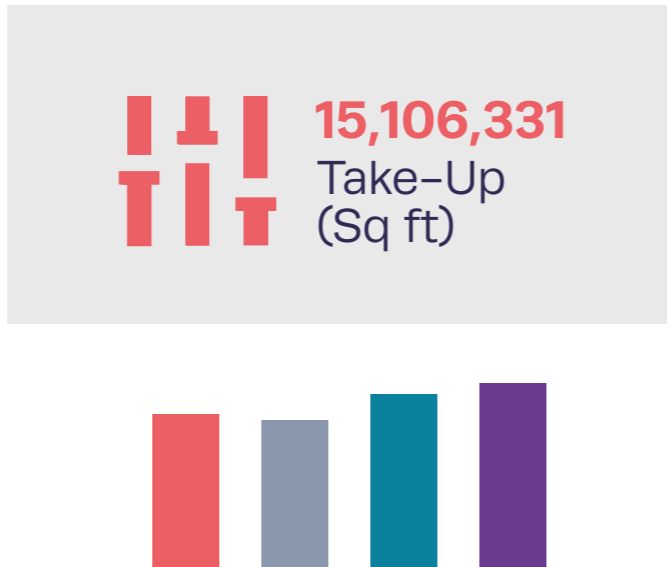
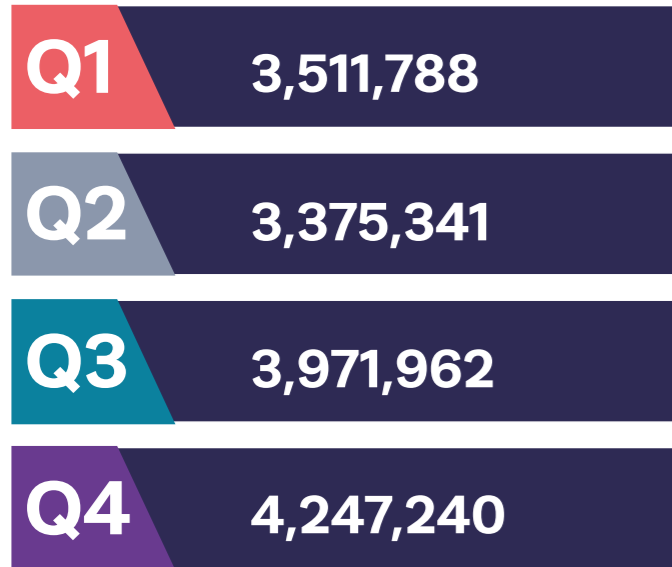
15,693,841
Take-Up
(Sq ft)



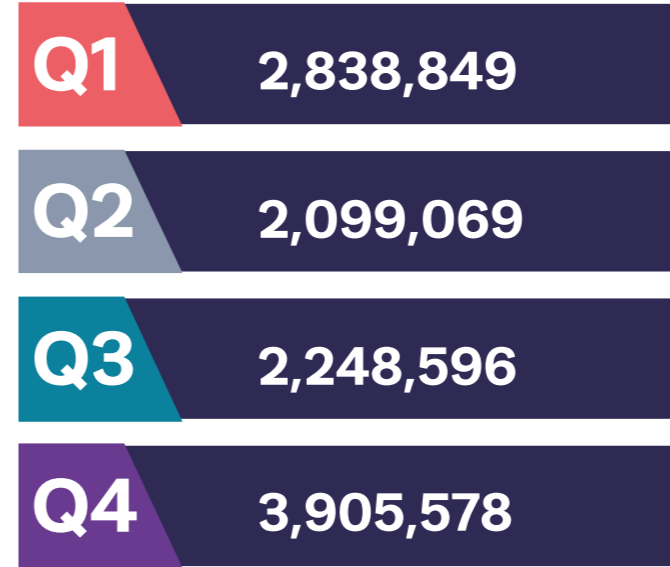


Industrial take-up in sq ft: 2020-2022
Number of Transactions

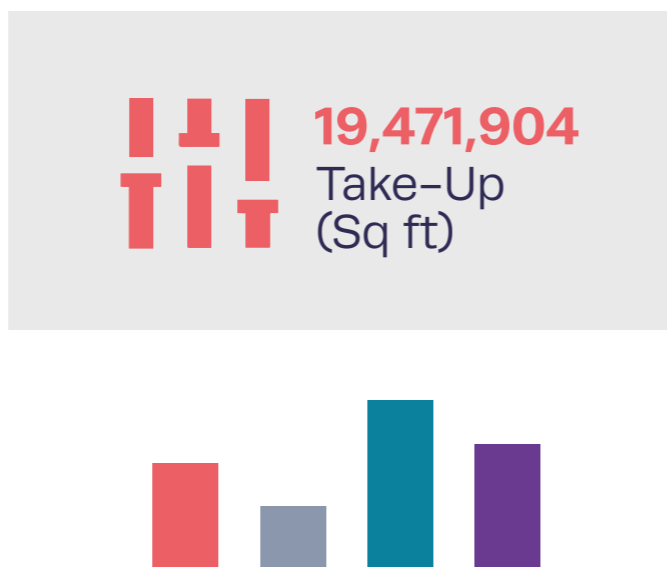
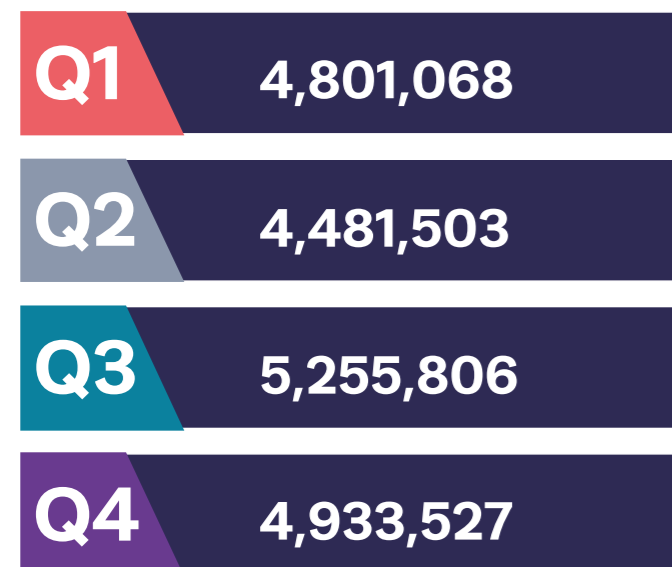
2020



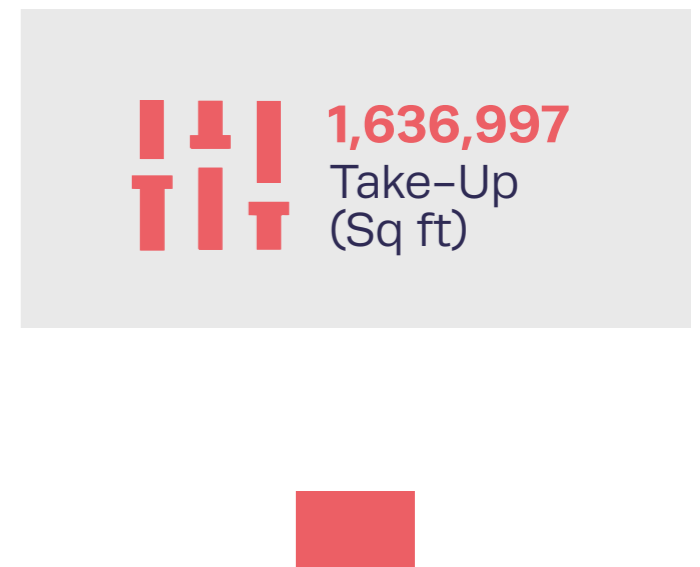
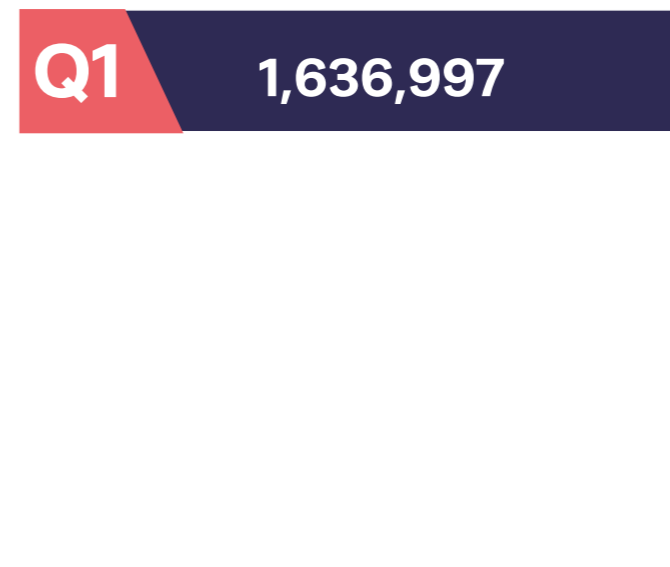
2022



2021



2023



A shortage of quality space has had an impact on rents, which reached £10.19 per sq ft in 2022 – up from £8 per sq ft in 2019. This pattern has played out across the region.

The good news is this has piqued the interest of investors. Acquisitions totalled £109m in Q1 2023 – a significant rise on the levels seen in the second half of last year.

The investment pipeline remains skewed towards high-quality premises, with a strong emphasis on sustainability.

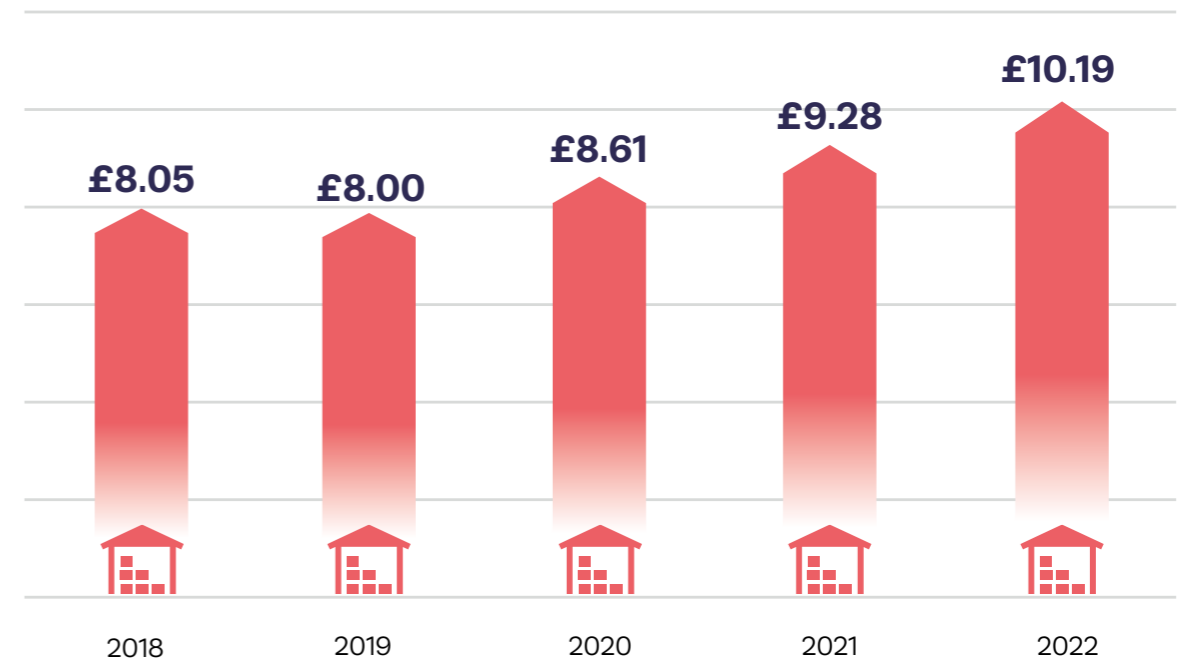


Notable acquisitions in 2023 have included Federated Hermes' £18.7m purchase of a grade-A industrial park in Ely and Clarion Partners' £52m purchase of two large EPC A warehouses covering 180 acres at Peterborough Gateway.

"With vacancy rates in the region at near-historical lows, and the speculative development pipeline subdued due to ongoing inflationary pressures and rising financing costs, the rental growth story remains highly compelling," said VP Matthew Tatlock.



Average rent for industrial deals (£ per sq ft)



“ Average industrial rent reached £10.19 per sq ft in 2022



RETAIL – RENTS REACH £24.50 PER SQ FT

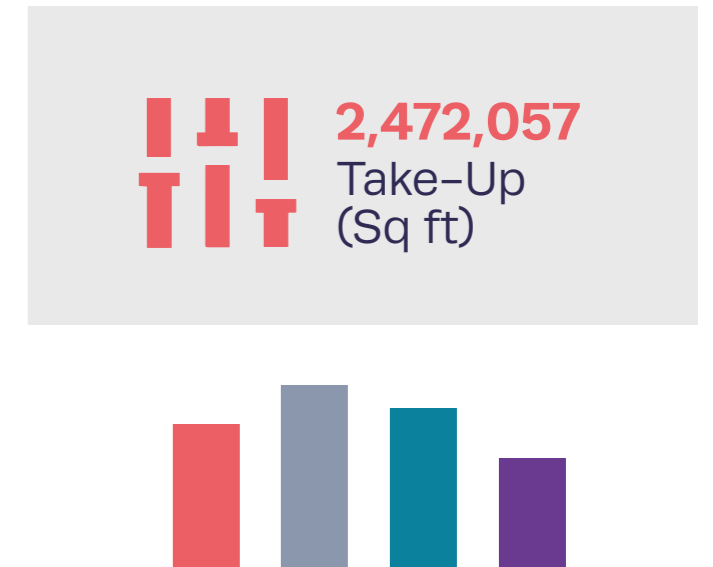
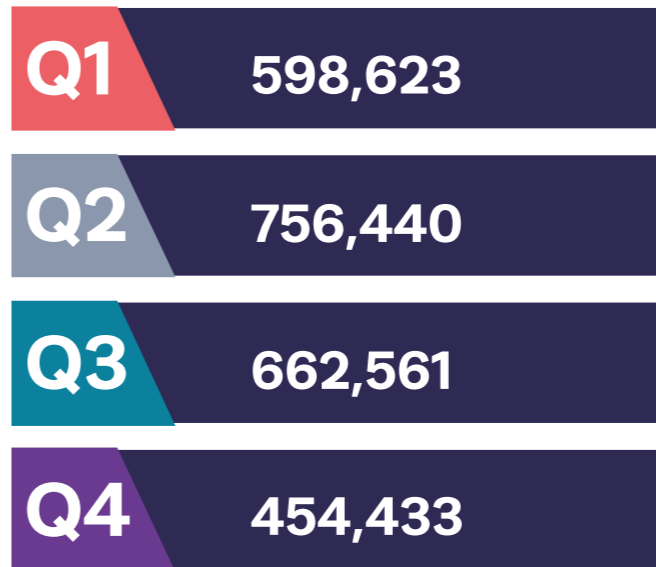
With persistent inflation hitting discretionary spending, the UK retail sector faces an uncertain time.

Transaction data suggests this is influencing the real estate sector. Lettings and occupational sales slumped in 2022, with a noticeable drop in the second half the year.

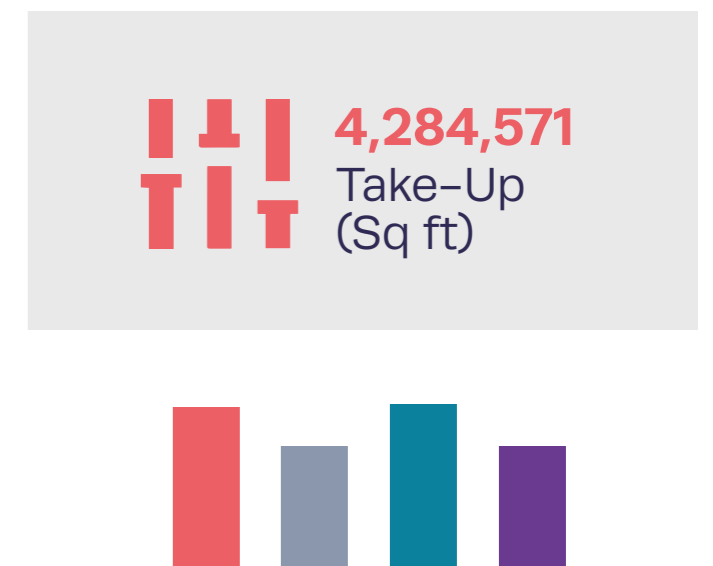
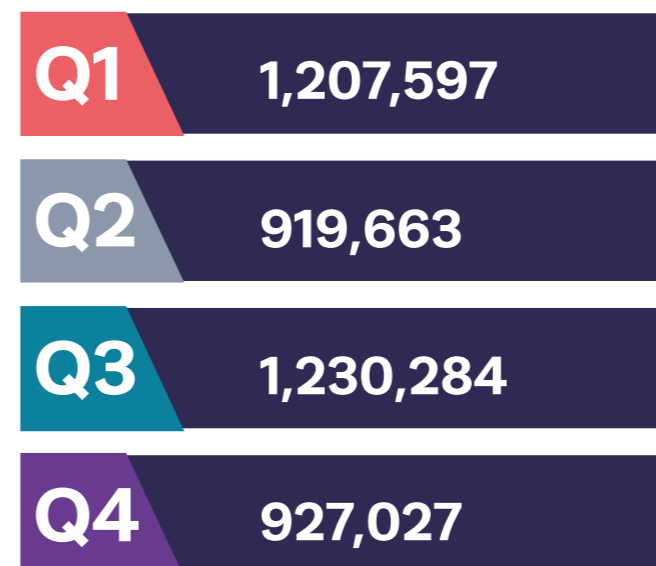


Retail take-up in sq ft: 2020–2022
Number of Transactions

2018



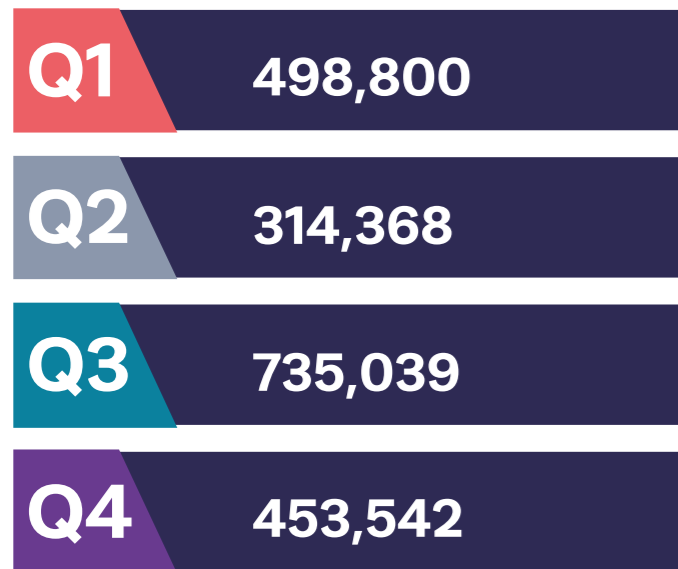
2019



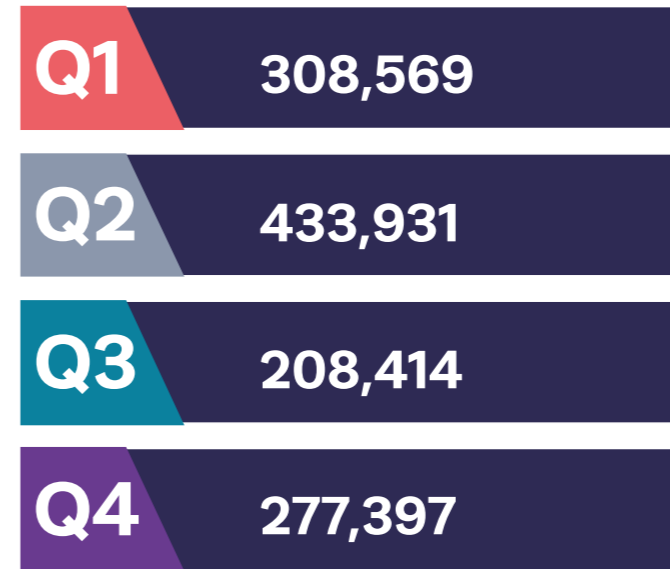


Industrial and logistics take-up in sq ft: 2020-2022 Number of Transactions

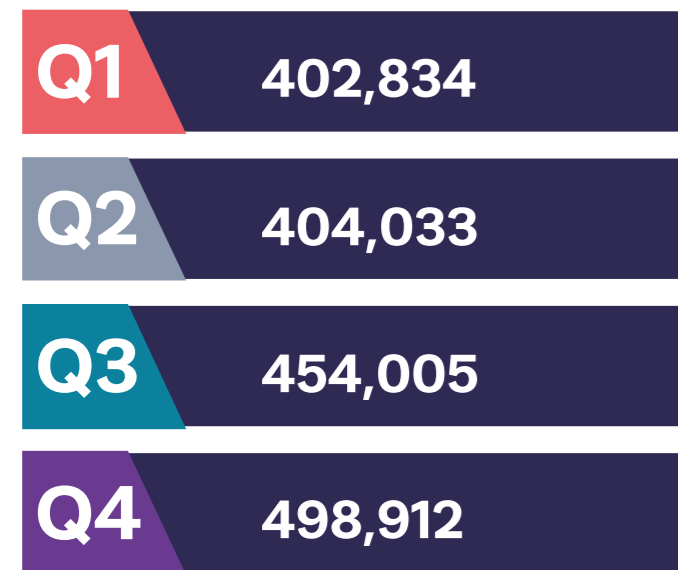
2020



2022



2021



2023





Average rent for retail deals (£ per sq ft)

Furthermore, retail deals in Q1 2023 show no signs of a speedy recovery, with deals accounting for just 99,650 sq ft (compared with 251,809 sq ft in Q4 2022).

As with other areas of the UK, out-of-town retail parks remain a bright spot, with significant deals in Cambridge, Colchester and Norwich. The largest of these saw B&M take 32,500 sq ft on a 10-year lease.

Thankfully, investment has been less affected. Deals in Q1 2023 amounted to £73m—more than the previous two quarters put together.

Q2 2023 is already off to a strong start, with Frasers Group confirming its £58m acquisition of Luton Mall in the city centre.



EPC – 65% OF DEALS RATED EPC A OR B

Across the CRE market, a sustainability race is under way, as new rules mandate tougher environmental standards.

Since April, non-domestic premises with an EPC rating lower than E are no longer able to be leased. The minimum standard will rise to C in 2027 and B in 2030.

However, exclusive data from EG suggests the East of England is much better prepared than other regions.

Of the deals listed in Q1 2023, 65% (by sq ft) were for premises rated either EPC A or B – making it the second most sustainable area in the UK, after Yorkshire.

Just 12% of the listed stock is below C (and thus set to be stranded in April 2027). This is less than any other part of the UK.

And the life sciences sector is not immune from these standards, with a number of examples of premises falling below the required standard.

In July 2022, Bidwells let 6,000 sq ft at Cambridge's Granta Park science sector at a rate of £36 sq ft. The premises are currently rated EPC G.

This will also create opportunities for investors and developers who can benefit from bringing premises up to scratch.



Cambridge's Granta Park

WHAT'S NEXT FOR THE EAST OF ENGLAND?

When it comes to real estate, the East of England is at a crossroads – and most of all in Cambridge.

Indicators across the market point to demand hitting new levels yet supply is failing to keep pace.

Encouragingly, developers are responding to these signals. One trend in recent months has been the acquisition of office space to convert for laboratory use, as happened at the Granta Centre and Vision Park in Histon.

Meanwhile, FTSE-listed British Land has confirmed its intention to invest in the development of Cambridge Biomedical Campus, which is set to be the largest centre for medical research in Europe. The campus is set to provide 1m sq ft of life sciences space.

This kind of investment is to unlock the full value of the region's knowledge economy.

For these reasons, expect the East of England to be keenly watched throughout 2023 and 2024.

“ Despite the uncertain economic picture, the early signs of optimism in the economy have been reflected in the commercial real estate market.

The strong knowledge-based economies across the Oxford-Cambridge Arc will benefit from continuing employment expansion across the science and tech sectors, particularly due to emerging Government policy support. The launch of the Arc Supercluster Board will provide a further catalyst for growth across the region.

Max Bryan, Head of Science and Technology, Bidwells





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