

Spotlight Cambridge Residential

Spring 2015



SUMMARY

Thriving local economy drives strong house price growth and development boom

■ Price growth: House prices in Cambridge increased by an average of 16.9% over the past year on the back of strong demand driven by a buoyant employment market and a strong local economy. p.2/3

■ Silicon Fen attracts multinationals: The technology and bio-science industries are two of the fastest growing sectors in Cambridge, establishing the city as a global expert in these fields. This is illustrated by the arrival of 2,000 employees to AstraZeneca's new global headquarters. p.2/3

■ Rising demand for rental homes: Cambridge has a mature private rented sector, accounting for 28% of all households compared to 18% across England and Wales. This is attracting an increasing number of investors who now account for nearly 30% of buyers in the prime second hand market. p.4/5

■ Housebuilding: More new homes as a proportion of existing stock were added in Cambridge in 2013/14 than any other English city. Delivery is aided by strategic pro-growth policies and co-operation across the relevant stakeholders, including a £100m City Deal. p.6/7

■ Potential to unlock value: Thousands of new homes are set to emerge around the edge of the city in the next five years. At the Southern Fringe, where work is already underway, a total of more than 4,000 homes could be developed over the longer term. p.6/7

“Thousands more new homes are set to emerge around the edge of the city in the next five years”
Susan Emmett, Savills Research

Market overview

STUDENT TOWN TO GLOBAL CITY

A growing tech industry and international investment has led to the rise of Cambridge



Words: Sophie Chick
Twitter: @SophieChick

Since the credit crunch, cities such as Cambridge have benefited from a growing trend of households preferring to live within a thriving urban environment. This has resulted in a pattern of affluent UK cities outperforming their comparatively less prosperous counterparts in the housing market.

In Cambridge, house price growth has been very strong. Average values recovered to their 2007 peak of the market in October 2011 and are now 30.5% above, according to our indices, based on Land Registry data. This growth has not been matched by the rest of the county and the gap between average values in Cambridge

and the surrounding areas is at an all time high.

Over the year to January 2015, property prices in Cambridge have increased by 16.9% and the average sale price reached £419,000 with detached houses selling for an average of £757,000. This price rise is comparable to London, which saw an increase of 17.0% over the same period. In Cambridgeshire, annual growth was just 10.2% with an average sale price of £272,000, which is in line with the England and Wales average of £261,000.

Strong demand

Increased demand for housing stock and strong population growth in Cambridge can be attributed to a number of factors. Over the ten years to 2014 the population of Cambridge increased by 13.8% according to Oxford Economics – this is significantly higher than the 7.6% average population growth in the UK and is in line with the strong increase seen in London of 14.7%.

The buoyant employment market and the strength of the local economy have played a significant part in attracting both people and businesses

TABLE 1

The different employment sectors in Cambridge

	Total number of employees in 2014	Change since 2004	Forecast change to 2024
Education	24,714	↑ 21.3%	↓ -0.4%
Human health and social work	15,689	↑ 44.4%	↑ 7.4%
Professional, scientific and tech	13,985	↑ 53.4%	↑ 20.6%
Wholesale and retail trade	11,636	↓ -9.0%	↑ 7.6%
Administrative and support	8,562	↑ 85.2%	↑ 28.5%
Accommodation and food service	7,242	↑ 18.9%	↑ 14.5%
Information and communication	7,127	↑ 28.1%	↑ 17.2%
Public administration and defence	2,818	↓ -30.3%	↓ -12.4%
Manufacturing	2,218	↓ -3.4%	↓ -10.7%
Arts, Entertainment and Rec	1,989	↑ 1.4%	↑ 23.8%

Source: Oxford Economics

to the city. The 2011 census shows the proportion of people working in higher managerial, administrative and professional occupations in Cambridge is more than twice the UK average at 27.0% and 12.8% respectively.

Rising sectors

The biggest employment sector in Cambridge is education, accounting for nearly a quarter of all employees in 2014, according to Oxford Economics. The University of Cambridge itself has more than 9,500 direct employees and its presence has meant that education has been the largest industry in Cambridge for some time.

Two of the fastest growing industries have been 'human health and social work' and 'professional, scientific and tech'. Over the past ten years they have both overtaken the 'wholesale and retail trade' sector to become the second and third largest industries in Cambridge with an increase in the number of employees of 44.4% and 53.4% respectively.

Silicon Fen

In particular, the rise of the technology and bio-science industries in Cambridge has been grabbing the headlines. Cambridge and its surrounds are often referred to as either the Cambridge Cluster or Silicon Fen, because of the density of high-tech businesses and technology incubators that have developed on science parks around the city. There are currently more than 1,500 technology-based firms in the region who employ over 57,000 people.

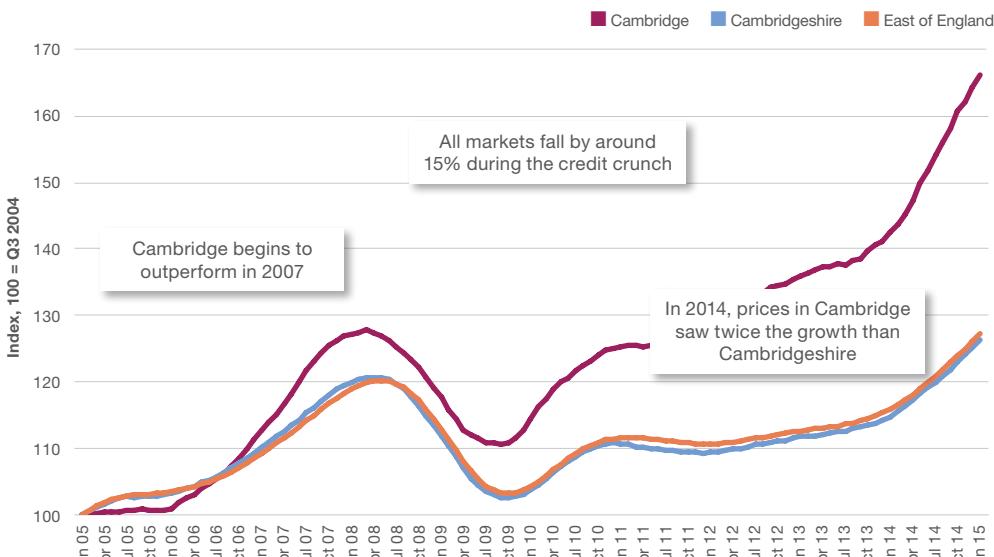
The arrival of AstraZeneca, Britain's second largest pharmaceutical company, at the Cambridge Biomedical Campus is significant. They plan to establish a new £330m Global Headquarters for 2,000 employees, which will add 2% to Cambridge's workforce. Papworth Hospital also recently gained planning permission for a £165m move onto the site.

Transport links

Although Cambridge is not reliant on London, the fast commuter links to the capital certainly add to the appeal of the city, particularly given that a cluster of tech companies such as Google and The Wellcome Trust are now based at King's Cross. The 2011 census shows us that 2.3% of the population commute to London on a daily basis and this increases to a third of buyers

GRAPH 1

House price growth in Cambridge outpaces surrounding locations



Source: Savills using Land Registry, 12 month rolling average index

of properties over £1m according to Savills data. Looking forward, we expect a growing number of buyers in Cambridge and the surrounding areas to come from London.

In July 2014, construction began on a new railway station at Chesterton, near the city's science park to the north of the city; this is due to be operational in 2016. The station will form part of the Fen Line, which runs from Cambridge to King's Lynn and will connect to the guided busway. The aim is to take pressure off the main station and reduce congestion in the city. This will provide easier access to the area which should boost the local housing market.

Other demand

Employment is not the only driver for the housing market, retirees and downsizers are also a powerful force within it. While first time buyers and second steppers are generally constrained by the mortgage market, downsizers tend to be cash buyers.

Cambridge is a popular choice for downsizers who are often making the move from the countryside to an urban location with more conveniences on their doorstep. The excellent health facilities are also an attraction for these buyers.

In the high value prime markets, there is also demand from overseas, particularly Europe and China. International buyers account for 22%

of sales in the prime second hand market and 24% in the new build.

Cambridge is one of the few locations outside of London to see this level of international interest, illustrating the global appeal and stature of the city. ■

TABLE 2

The average sale price of property year to January 2015

	Cambridge	East of England
Detached	£757,000	£373,000
Semi-Detached	£421,000	£248,000
Terraced	£445,000	£213,000
Flat	£307,000	£171,000
New flat	£368,000	£240,000
All	£419,000	£262,000

Source: Land Registry

Prime market

THE IRRESISTIBLE RISE OF PRIME

Strong price growth boosted by the city's growing appeal is pushing the boundaries of the prime market



Words: Sophie Chick
Twitter @SophieChick

The number of sales of homes worth over £1million has more than tripled in Cambridge over the past five years as a result of increasing demand for property in the city. In the year to January 2015, the Land Registry recorded 66 sales over £1million compared with 21 sales at that level in 2009.

The market above £500,000 has also expanded. Over the same period transactions increased from 149 (36

new build) to 387 (140 new build). The prime market really gained momentum from 2011 to 2013, when the majority of this growth took place.

Location is key

The most expensive area to buy a property in Cambridge is the affluent neighbourhood of Newnham, which was last year's runner-up in the Sunday Times 101 Best Places to Live in Britain. The average sale price across the ward in the year to January 2015 was just under £1million, reflecting the strong demand and scarcity of stock coming to the market. Only 34 transactions were recorded in the ward over the same period.

The location with the highest number of £1m+ transactions was the ward of Trumpington, recording 18 sales at that level in the year to January 2015, according to the Land Registry. Trumpington also saw the highest number of sales across all price bands, with 309 sales accounting for 19% of all transactions in Cambridge. This is largely due to the recent development centred on the 'Southern Fringe' as discussed on page 6.

Increased investment

Growing interest from buy-to-let investors, who are buying across all price brackets has contributed strongly to price growth in Cambridge.

In the past few years, in particular, the proportion of investor buyers in the prime second hand markets has increased significantly.

Last year, nearly 30% of buyers were investors, compared to just 9.1% in 2012 according to Savills data. In the new build market, around 70% of buyers in prime areas were investors in 2014.

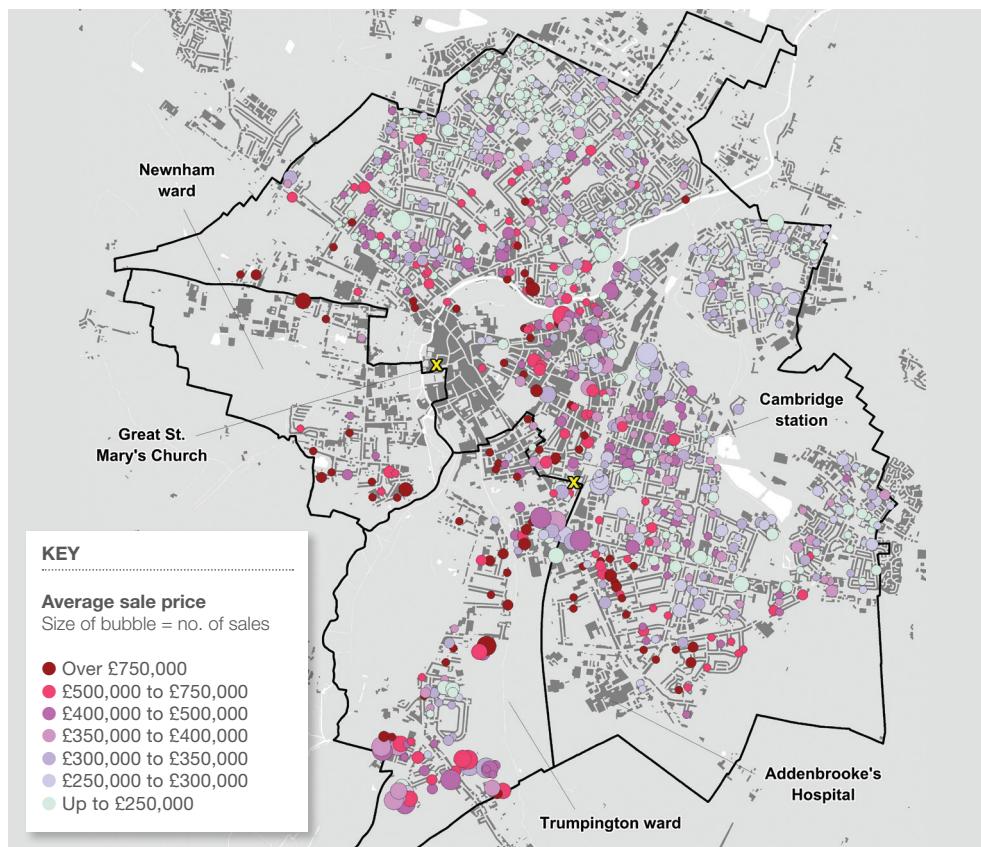
Investors are particularly attracted to Cambridge as there is a relatively mature private rented sector in comparison to the rest of the UK. According to the 2011 Census, 27.8% of households in Cambridge are in the private rented sector compared to 18.0% across England and Wales. The tenants include families, many students and a high proportion of those employed in the highest socio-economic groups.

Rental demand

Rents have risen by 52% over the five years to 2014 as a result of

MAP 1

The Cambridge housing market in 2014* A look at where the sales happened and at what value



strong demand for rental homes against limited supply. At £987, the median monthly rent in Cambridge is higher than both the national and regional average (£738 and £746 respectively). The resulting gross yields for investors typically range from 4% to 6% depending on the type of property.

This rental growth is being driven by demand from both ends of the market. The prime rental market benefits from the strong employment market and the increasing number of international companies in the city. Savills figures show that in the prime markets, 71% of tenants renting are due to employment relocation and 45% of tenants are from overseas.

In the mainstream market, rental demand is being driven by would-be first-time buyers who have been priced out of the market and/or are unable to access mortgages as a result of tighter lending criteria.

Looking forward

Average earnings in Cambridge are 17% higher than across the UK, and employment is forecast to grow strongly over the next few years. This indicates a strong and stable economically active tenant base that is likely to continue to attract investment from both the UK and abroad. ■



The number of £1m+ sales in Cambridge has tripled over past five years



27.8% of households in Cambridge are in the private rented sector



Average earnings in Cambridge are 17% higher than across UK

TABLE 3

The tenure of households in Cambridge and Cambridgeshire

Tenure	Cambridge	Cambridgeshire
Owned occupied	48.6%	67.2%
Social rented	23.6%	15.3%
Private rented or living rent free	27.8%	17.5%

Source: 2011 Census

UNIVERSITY CHALLENGE

Cambridge and Oxford go head to head

There is an intense rivalry between these two cities. Traditionally, this has revolved around academic achievements, celebrity alumni and rowing, but more recently house prices have also come into focus.

While both cities have historic centres encircled by suburbs of mainly Victorian and Edwardian homes, Oxford has historically enjoyed higher prices due to the large

cluster of prime housing to the north of the city, but in recent years, Cambridge has caught up.

The thriving local economy and increased levels of prime house building in Cambridge have resulted in average sale prices growing strongly to reach £409k over the year to November 2014. The value gap to Oxford has closed from 14% in 2004 to 2% today.



TABLE 4

How do the two housing markets measure up?

	Measure	Cambridge	Oxford
City	Population	122,700	150,200
University	University founded	1209	1096
	University boat race wins	81	78
	Nobel Prize laureates	78	26
Housing	Average sale value (12 months to Jan-15)	£419,000	£433,000
	Highest value ward (Jan-15)	Newnham (£951,000)	North (£1,338,000)
	Annual price growth (Jan-15)	16.9%	11.3%
	Growth since 2007 peak (Jan-15)	30.5%	21.1%
	Number of sales (12 months to Jan-15)	1,848	1,750
	£1m+ sales (12 months to Jan-15)	66	95
	Net new homes added (2013/14)	1,300	70

Source: Land Registry, Savills Research, Census

Development

CAMBRIDGE IS GOING FOR GROWTH

Strong and consistent demand is supporting a high level of residential development in the city



Words: Nick Gregori

Cambridge is a leading centre for technology and business and has taken policy action to ensure that a lack of housing does not hold back the growth of the city. Strong property price growth has accompanied the increase in housebuilding, with values rising by 16.9% over the year to January 2015, according to our indices.

Funding of £100m has been secured through the City Deal, a central government scheme for boosting regional economies outside London. This forms part of an investment package that could total £1bn

over the five years to 2020. This will help to part fund jobs, homes and infrastructure, and creates a governance arrangement between the local and county councils, the Local Enterprise Partnership, and the University of Cambridge.

Working together

In Cambridge 1,299 homes were completed in 2013/14, adding over 2.5% to the existing housing stock. This is more than double the average rate in the city over the previous ten years and the second highest rate of any local authority in the country. The England average for the same period was 0.6%. A similar rate of delivery is forecast to continue over the next five years, adding 1,245 homes per year on average.

Just outside the city boundary in South Cambridgeshire, further developments also contribute to Cambridge's housing supply. Both local authorities have produced local plans to provide for development needs up to 2031. Those plans are being jointly examined, but are unlikely to be adopted before middle of 2016.

Values across the city

Prime city centre property is popular with investors, with around 70% bought to let in 2014. Limited supply of housing in central locations has pushed up prices, with values reaching £650 to £700 per sq.ft at the end of 2014 in some new developments.

Schemes such as Riverside, Kaleidoscope and Parkside Place have all sold very strongly. International buyers of new build focus on the prime central area and made up 24% of buyers across the city in 2014 according to Savills dealbook data.

Around the station a new area of prime new build is emerging. A limited number of new schemes are in the pipeline here, including Grand Central by Weston Homes and another phase at CB1 by Hill Residential. Values here can match the central area, with the latest phase of CB1 achieving £550 to £750 per sq.ft.

Urban extensions

At the 'Southern Fringe', an urban extension to the south of the city, there is more family housing and investors make up 30% of buyers. Turnover of large properties in the city centre is very low, and prices are high, so moving south is a popular option for those looking for more space

DEVELOPMENT OPPORTUNITIES

New land needed to support future growth

On the edge of the city, the sites currently being developed were released from the Green Belt through the last round of local plans. Outside the Green Belt, large new settlements will also contribute new homes to the Cambridge market. Meeting Cambridge and South Cambridgeshire's housing need – estimated at up to 46,000 homes over the 20 years to 2031 – will require a lot more land coming forward from a range of sources.

At Northstowe, in South Cambridgeshire District, five miles to the north west of Cambridge city centre, a 10,000 home new town is planned on the former Oakington Barracks and surrounding farmland. The Homes and Communities Agency (HCA) is leading the project, in partnership with developers Gallagher Estates. The first new homes are scheduled for completion in 2016.

The new homes are likely to be more affordable than Cambridge property and will be built to strict low-carbon standards. Corresponding infrastructure upgrades

include primary and secondary schools and improvements to the A14. A guided busway linking Huntingdon and St. Ives to Trumpington opened in 2011 and runs adjacent to the site; additional stops will be added as part of the development.

Elsewhere in Cambridgeshire, an extension to the new settlement at Cambourne, and large new developments at Bourn Airfield, Alconbury, Wyton and Waterbeach, are proposed. It will be important to get the pricing and infrastructure right in order to attract buyers looking for a more affordable alternative to Cambridge. Critical to the debate on the overall development strategy is the ability to deliver sustainable transport links between these sites and the city.

There is also scope for these sites to contribute to the need for affordably priced housing within London's commuter zone. A station at Waterbeach and the proposed one at Alconbury will both offer travel times to central London of just over one hour.

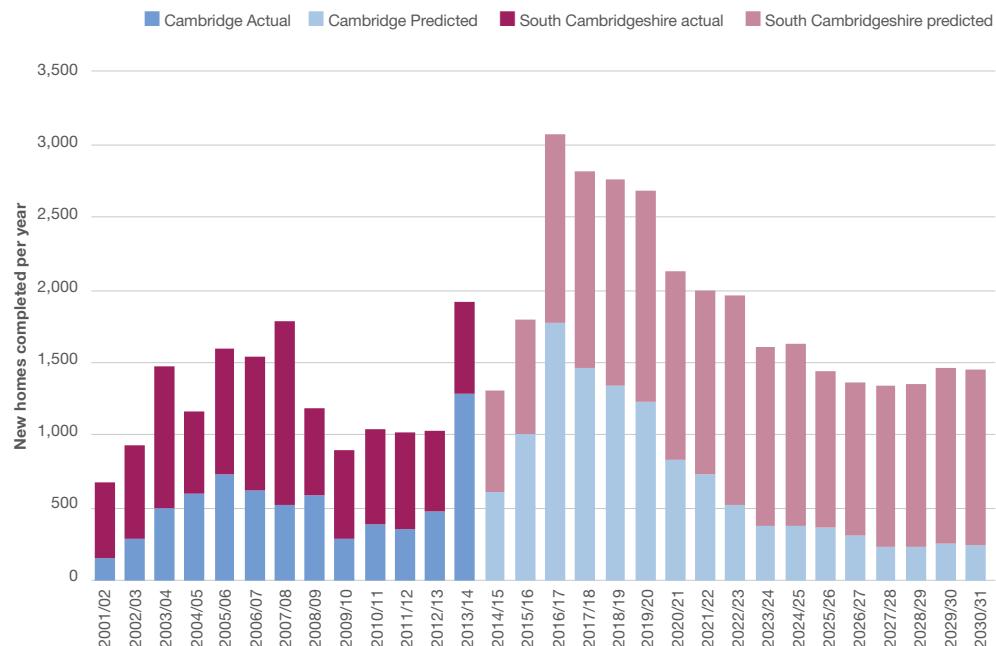
and better value. Schemes such as Trumpington Meadows, Paragon, Novo, Seven Acres and Abode have delivered large numbers of new homes. Current prices are £370 to £450 per sq.ft, with a three bedroom house at around £450 to 500k.

The bulk of delivery in the near future is set to come from three main urban extensions: North West Cambridge, including Darwin Green (NIAB) and the NW – Cambridge University site; Cambridge East; and Southern Fringe, including Trumpington Meadows and Great Kneighton. Alone these are scheduled to provide around 5,500 homes in the next five years and over 10,000 in total.

Later in the period fewer sites have been identified within and on the edge of Cambridge, whilst more sites are proposed at new settlements in South Cambridgeshire. This balance between the growth of the City through urban extensions and new settlements in South Cambridgeshire is a major debating point in the local plan process. ■

GRAPH 2

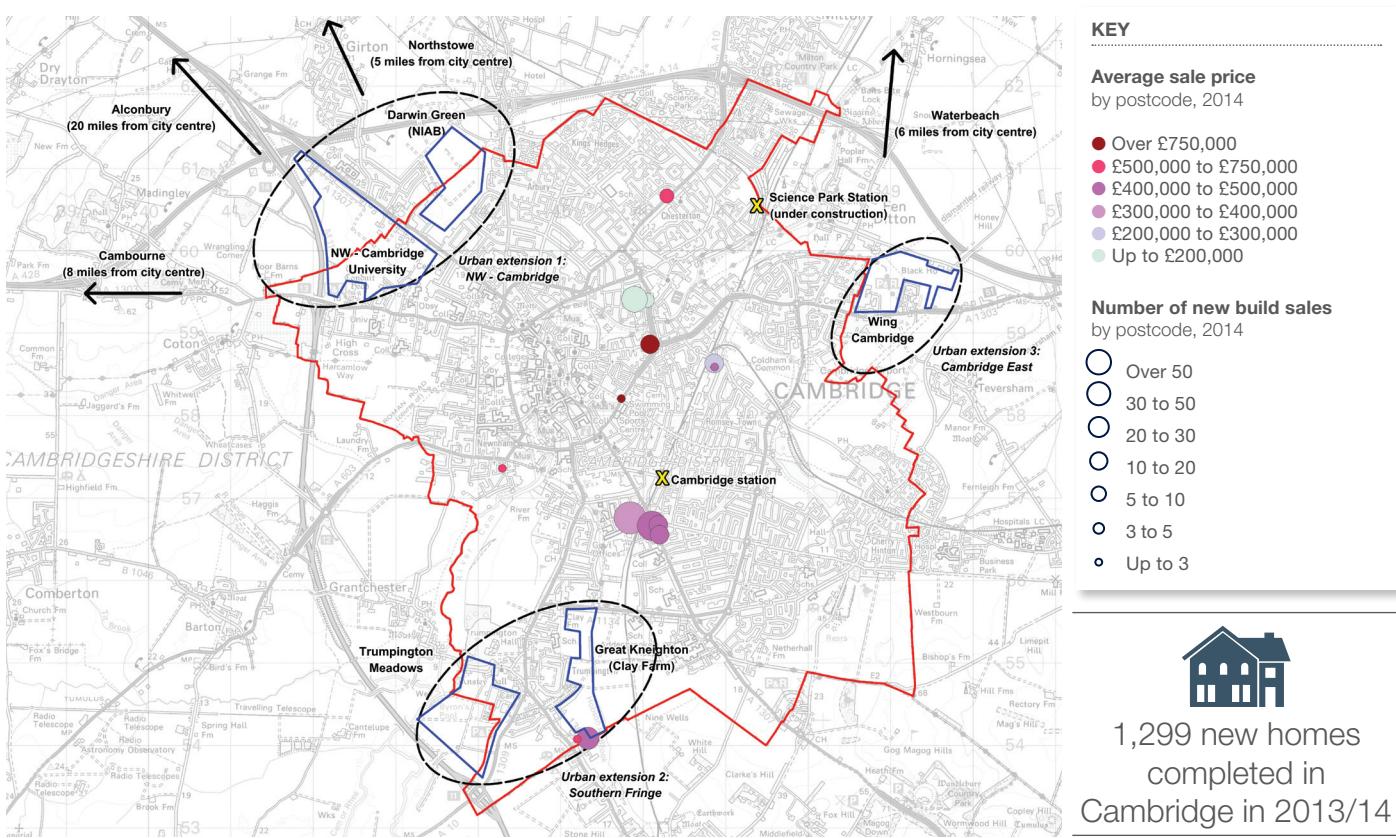
Actual and projected completions 2001 to 2031



Source: 2014 Annual Monitoring Reports

MAP 2

Current and future development sites in Cambridge



Source: Savills Research

OUTLOOK

■ East to outperform London: Over the next five years, we are forecasting that the strongest performing region will be the South East, closely followed by the East of England, with average house price growth of 26.4% and 25.2% respectively. This will be driven by an improving economy and buyers moving out of London in search of better value for money.

■ In the city: Cambridge has seen stronger house price growth than the East of England since 2006. Based on the economic factors discussed in this document and the positive sentiment in the city, we believe Cambridge will continue to outperform the regional forecast. However, this disproportionate

rise in values means that buyers in Cambridge are becoming increasingly stretched. Affordability pressures coupled with mortgage constraints may limit future house price growth.

■ The prime markets: Taxation is the key issue affecting the prime housing markets in 2015 as the pre-election rhetoric around a mansion tax is likely to suppress the short term potential for further price growth in the prime housing markets. In the absence of such a tax, the potential for price growth in the prime markets remains, particularly in the London commuter markets such as Cambridge.

■ Development hotspot: 2013/14 saw high volumes of new homes

delivered but the level of demand meant that these were absorbed into the market quickly and prices continued to grow strongly. Sales rates at Cambridge Southern Fringe demonstrate that developing in the right locations can lead to high levels of delivery with multiple housebuilders operating in tandem.

■ More land required: Looking forward we expect demand for new homes to remain strong. Major new releases of land are required to meet Cambridge's housing need and support the economy. These have the opportunity to provide housing at a range of tenures and price points, along with additional employment areas.

TABLE 5

Mainstream markets: five-year value forecasts

	2015	2016	2017	2018	2019	5-year					
UK		2.0%		5.0%		5.0%		3.0%		3.0%	19.3%
East of England		3.0%		6.0%		6.0%		4.0%		4.0%	25.2%
London		0.0%		3.0%		3.0%		2.0%		2.0%	10.4%

Source: Savills Research

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