Spotlight on...

Cambridge Residential Development Sales

With high levels of employment creating demand, the Cambridge city market is set to outperform the regional average over the next five years

The Cambridge housing market has been experiencing significant price rises over the past 18 months, the imbalance between properties available and levels of demand driving significant growth.

Cambridge, unlike other city markets, did not experience the oversupply of new homes in the run up to the peak in 2007. In contrast, new housing delivery across Cambridge has undersupplied the market over the past ten years, with the number of new build completions averaging 510 units per annum, compared with an increase in the number of new households of 703 per annum. This suggests a shortfall of over 1,600 homes since 2001, with a further 8,000 new households expected over the next ten years. This shortfall, particularly acute within the city centre, coupled with high levels of owner occupier and investor demand, has created latent demand for new build housing within the City.

Demand

One of the strengths of the Cambridge market is the diverse range of occupiers it attracts. Recent research by NOMIS puts Cambridge at the top of the list for cities with the highest →

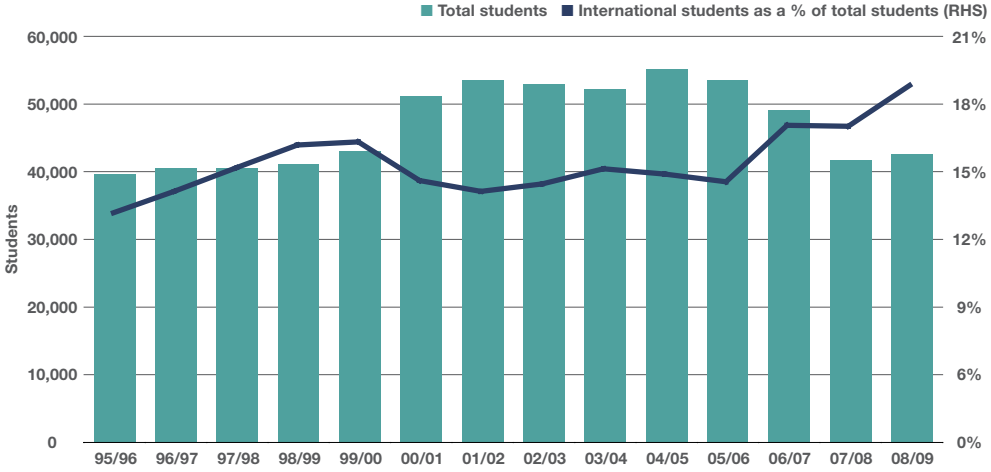
SUMMARY

An overview of the market

- Cambridge, unlike other city markets, did not experience the oversupply of new homes in the run up to peak in 2007.
- A strength of the Cambridge market is the diverse range of occupiers it attracts. Research puts Cambridge top of the list for cities with the highest proportion of high skilled employees.
- Investor activity, from domestic and overseas buyers, returned in force to the Cambridge market in 2010, with 58% of new home sales to investor purchasers. Cambridge saw levels of overseas investor activity second only to London in 2010.

GRAPH 1

Student numbers in Cambridge Cambridge continues to attract high levels of demand from overseas students



Graph source: HESA

proportion of high skilled employees. With a strong local economy and employment base, the recession had less of an impact on employment levels within Cambridge. There are a number of highly skilled employers across the city, including education, technology companies and research and development operations based at the Science Park, as well as the significant expansion of the medical Campus at Addenbrookes. Employment growth in the city is expected to outpace both regional and national growth figures, which will in turn underpin pricing and place further pressure on the Cambridge housing market.

Cambridge also attracts demand from London commuters, with intercity services taking 45 minutes to reach King's Cross. As well as demand from families moving out of London, recent new developments close to the station have attracted young professionals working in the capital.

Demand from students, both domestic and overseas, also creates a market for new property, both in supply of tenants for buy to let landlords and in interest from parents looking to buy property for their children while they are studying. The Cambridge university brand has meant that overseas investors, who have in recent months been concentrating on opportunities in London, have also looked to the Cambridge property market for investment opportunities, either as a rental investment or as a home for offspring studying in the city.

The latest HESA data for 2008/09 highlights a drop in total student numbers across all Cambridge institutions since a peak of 55,000 students in 2004/05. Although total student numbers have decreased in the last two years the proportion of overseas students has increased. The levels of international students have risen from 5,200 to over 8,000 since 1995/96. At a time when university funding is being reduced the need for higher paying international students will intensify, leading to increasing proportions of international students on Cambridge's famed campuses.

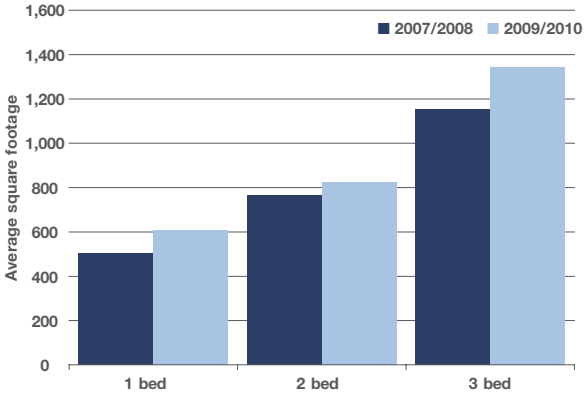
New build supply

An over-reliance on investor buyers pre downturn meant that property sizes

"Investor activity, both from domestic and overseas buyers, returned in force to the Cambridge market in 2010. The city saw levels of investor activity second only to London." Marcus Dixon, Savills Research

GRAPH 2

New build flat size

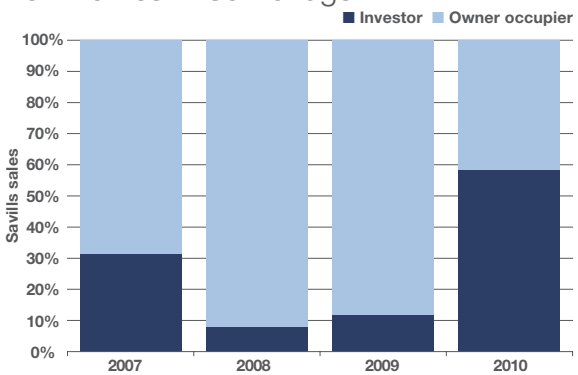


Graph source: Savills Research

GRAPH 3

Savills purchasers

New homes in Cambridge



Graph source: Savills Research

were reduced in order to optimise yield. While this suited many investor buyers the change in buyer types over the downturn meant that schemes were needing to appeal to both owner occupiers and investors, with developers realising that in affluent market such as Cambridge larger flat sizes opened up a wider potential market for unit. Graph 3 contrasts unit sizes for Cambridge flats, with those being sold in 2009/2010 have up to 21% larger than in 2007/2008.

Levels of new supply in the city centre look set to remain constrained, however there are a number of large housing developments planned on the fringe of the city. The first parcels of land on large sites on the city fringe (Clay Farm, Glebe Farm and Trumpington Meadows) will commence build this year.

There is a risk that high levels of development on the city fringe could soak up demand and limit price growth as the balance between supply and demand is restored. However, the difficulties facing developers in securing funding and delivering large developments may well mean that delivery on these sites is spread over a longer period as developers and lenders are more cautious about large scale development.

Investor activity, both from domestic and overseas buyers, returned in force to the Cambridge market in 2010, with 58% of new home sales to investor purchasers. Cambridge saw levels of overseas investor activity second only to London in 2010.

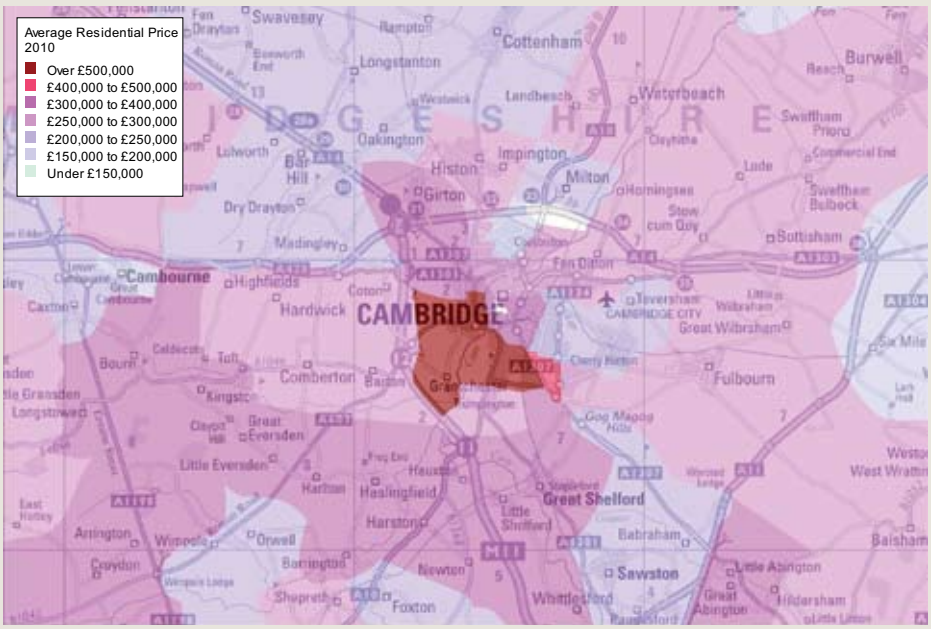
Market Indicators

House prices in Cambridgeshire have historically outperformed the regional average during the early stage of house price growth cycles. During the credit crunch values fell more quickly compared with both the East of England and nationally, however, they were quicker to recover and turn positive.

During the 2009/10 recovery, growth was stronger than the national and regional averages with house prices sitting 5.2% higher than peak levels at Q3 2010. ➔

MAP 1

Average house prices in Cambridgeshire



Data source: HM Land Registry

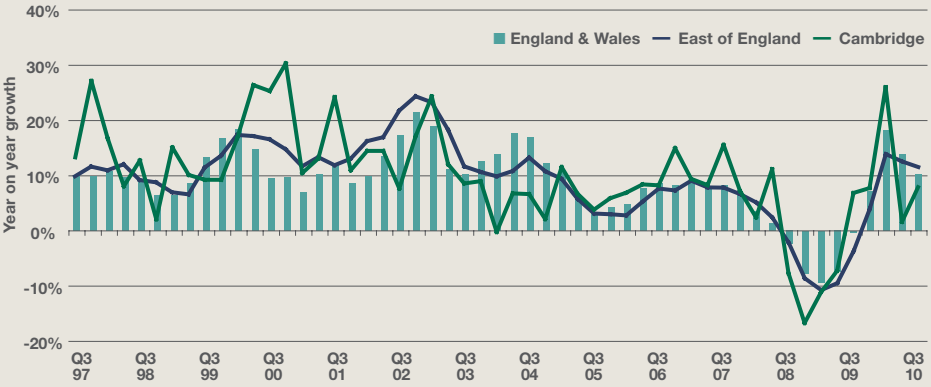
GRAPH 4

Housing completions & new households

Graph source: Cambridge Annual Monitoring Reports / ONS

GRAPH 5

House price growth – all property



Graph source: HM Land Registry

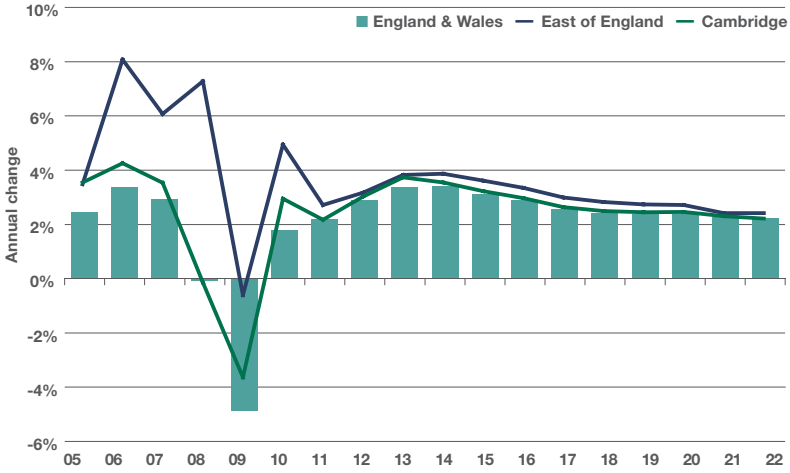
The Cambridge employment market has been much more resilient over the course of the downturn than both the East of England and UK, growing by 7.2% in 2008, and experiencing on a small fall in 2009, at -0.6%. Looking further ahead employment forecasts suggest this out-performance will continue.

Strong positive economic growth in Cambridge was forecast to return in 2010, showing growth of 4.9% and then 2.7% in 2011. Over the next ten years total employment in expected to increase by 14%.

Within the region central Cambridge commands the highest average prices, the enduring popularity of the city market means that prices in central Cambridge average twice that of more rural areas surrounding the city. ■

GRAPH 6

Employment growth & growth forecasts The employment market was resilient during the downturn



Graph source: Oxford Economics

OUTLOOK

Key findings in this document

■ We are forecasting that prices in the East of England will soften in 2011, with falls of -2% forecast by the year end. However the high levels of demand for property within the city as well as the links with the London commuter market mean that the city centre market could be cushioned by the high levels of latent demand limiting falls over the next 12 months.

■ Over the next five year we forecast prices in the East of England will increase by 21%, with potential for good quality homes in Cambridge to outperform the regional average with growth of up to 26% forecast over the same five year period.

"Over the next ten years total employment is expected to increase by 14%."

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