

UK Commercial – August 2024

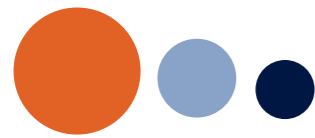
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SPOTLIGHT
Savills Research

Spotlight: Golden Triangle Offices & Laboratories



Occupational • Development • Rents

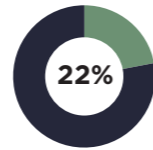
Cover image: Oxford North's new Red Hall, first laboratory buildings and Fallaize Park – coming Q1 2025. Savills are sole leasing agents for the scheme



Top sectors in H1 2024
Share of take-up: Technology, Media & Telecoms (46%) and Biosciences (29%)

£65+
Prime city centre office rents expected to be over £65 per sq ft by the end of 2025

(Deals over 5,000 Sq Ft)



Laboratory take-up in H1 2024
22% share was below the five-year average of 26% (2019-2023)

CAMBRIDGE INVESTMENT MARKET OVERVIEW

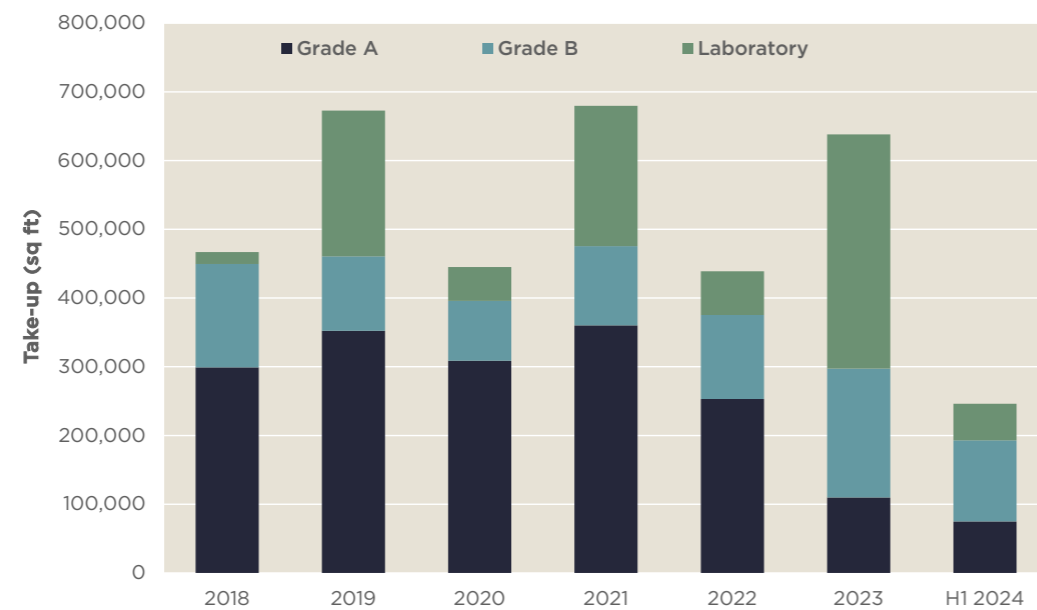
Investment activity has been subdued in Cambridge in the first half of the year with investment volumes reaching £12.7 million across two transactions. A notable deal being Royal London Asset Management acquiring Building 3000 Cambridge Research Park. The asset will be brought into their wider ownership of Cambridge Research Park.

A mismatch in pricing expectations between vendors and purchasers has persisted throughout the year which has resulted in several assets being withdrawn from sales process over the last 18 months. The base rate cut was priced into many investors pricing expectations which has resulted in a stasis of transactional activity. There is currently £43 million of assets under offer with an expectancy of an uptick in transactional activity in the second half of the year.

The underlying thematic drivers of investment into the science and innovation assets remain pertinent and will ensure that investor interest will be sustained in the sector. The prime yield for laboratory related assets stands at 5.00% which is a 200 basis point premium to the prime regional office yield.

5.00%
Current prime yield

Take-up



Source Savills Research

Cambridge

The outlook for the Cambridge office and laboratory market

After a strong start to the year, take-up across both offices and laboratories was slightly subdued in the second quarter culminating in take-up reaching 246,000 sq ft which was 7% below H1 2023. Demand in the market is still resilient with H1 2024 take-up being 18% above the five year average for the first half of the year.

The ongoing demand for laboratory space has been highlighted by the letting success at Unity Campus where 43,000 sq ft was let across two buildings. Wellbeck Health Partners acquired 32,000 sq ft at Sigma and ViaNautis leased 11,000 sq ft of fitted laboratory space at Cadence. Phase two of the scheme completed in Q4 2023 and

comprised 88,000 sq ft. Across the wider market, there is a further 60,000 sq ft of laboratory space under offer and 85,000 sq ft being involved in active negotiations, ensuring that the vacancy rate for laboratory space will remain low.

Office take-up reached 192,000 sq ft which was highest total at the half year stage since 2019 and 28% above the five-year average. This can be primarily be attributed to two deals over 20,000 sq ft, the largest being AMD acquiring 45,000 sq ft at 196 Cambridge Science Park on a lease assignment. The other deal over this threshold was Cambridge Mechatronics leasing 21,000 sq ft at 306 Cambridge Science Park. Savills represented both these tenants. Cambridge

Mechatronics recently raised \$40 million of venture capital funding. The corporate occupier preference remains for best in class office space that is amenity rich and ESG compliant. This trend has been evident at One Cambridge Square where a further 3,000 sq ft was let in the first half of the year to Handelsbanken.

There are currently 304,000 sq ft of active requirements for office space and a further 225,000 sq ft of requirements actively viewing laboratories. The occupier demand present in the market bodes well for positive take-up levels in the second half of the year with take-up forecast to surpass 600,000 sq ft which would be on par with 2023.

👉 **The pent up demand for laboratory space has been evident with 225,000 sq ft of requirements, touring the market, resulting in the vacancy rate remaining low** 👉

👉 **Supply has fallen by 10% from the end of Q1 2024** 👉

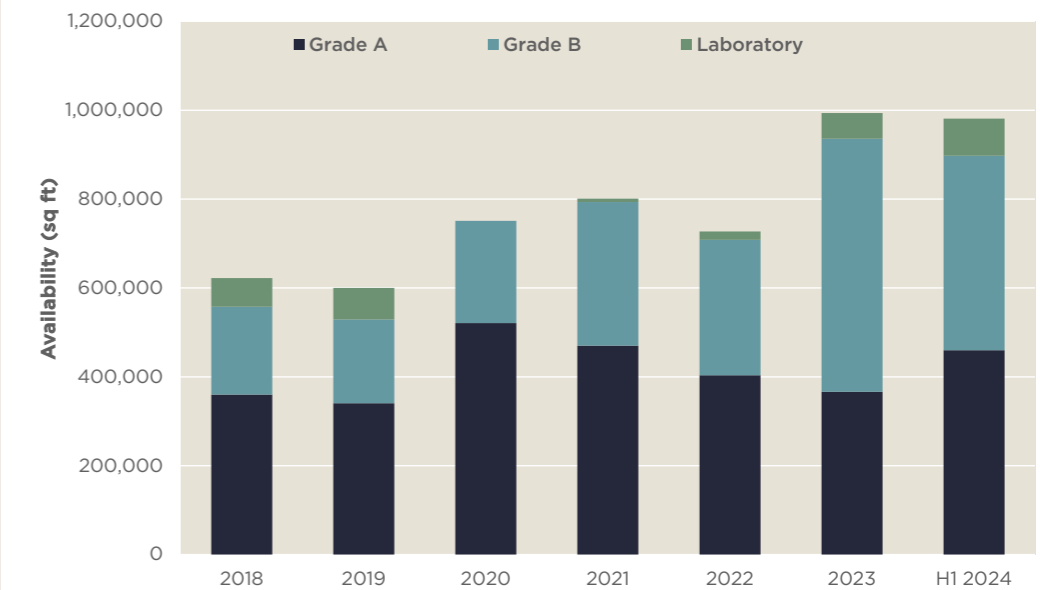
Supply & Rents

Supply in both the office and laboratory market continues to remain constrained in key locations. There is currently 951,000 sq ft available which represents a 10% fall from the end of Q1 2024. This trend is more notable in the laboratory market with the vacancy rate for prime fitted laboratory space standing at 2.5%. The supply of grade A office space located in the city centre remains limited with 103,000 sq ft available which accounts for only 11% of total office supply in the market. This total will be boosted by the completion of 10 Station Road which comprises 50,000 sq ft.

The supply constraints will continue in the short term with 79% of the development pipeline scheduled to complete from 2028 onwards. Developers are responding to the increasing demand for laboratory space with the pipeline focussed on this type of product. There is 6.4 million sq ft of laboratory space in the development pipeline which accounts for 77% of the total space. It should be noted that 49% of the laboratory space is at a pre-planning stage and only 708,000 sq ft is under construction, accounting for 11% of total laboratory space in the pipeline.

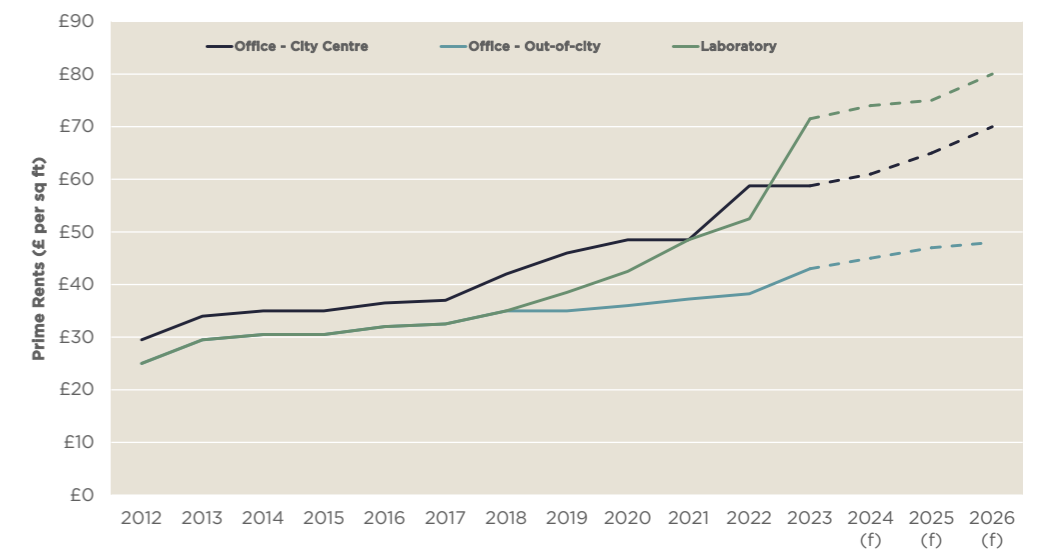
The current highest rent is £71.00 per sq ft which is set to be surpassed this year at One Granta Park. The highest office rent achieved has remained at £58.75 per sq ft for deals over 5,000 sq ft. Higher rents have been achieved on suites below this threshold and it is forecast that office rents will reach the mid £60's per sq ft by the end of next year.

The supply of immediately available laboratory space remains constrained with the vacancy rate below 3%



Source Savills Research

Cambridge has strong rental growth prospects for both offices and laboratories



Source Savills Research

👉 **The short-term rental growth prospects are strong with vacancy rates for both prime offices and laboratories remaining low** 👉

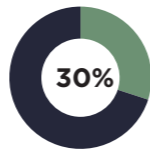


Top sectors in H1 2024

Share of take-up: Biosciences (52%) and Technology, Media & Telecoms (26%)

£63.50

Prime city centre office rents

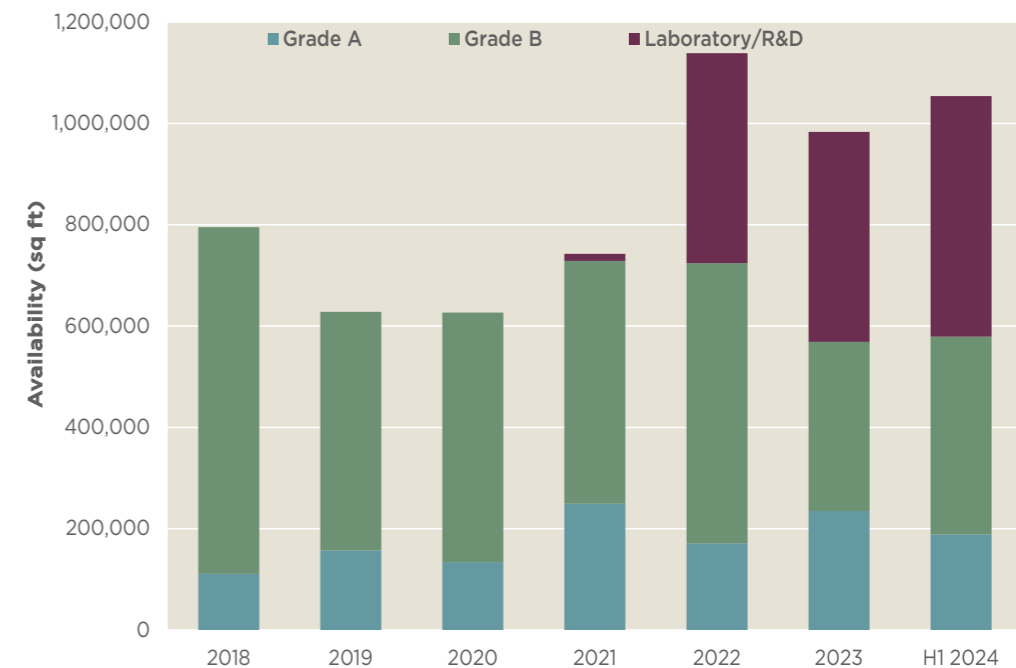


Laboratory take-up in H1 2024

30% share was below the five-year average of 34% (2019-2023)

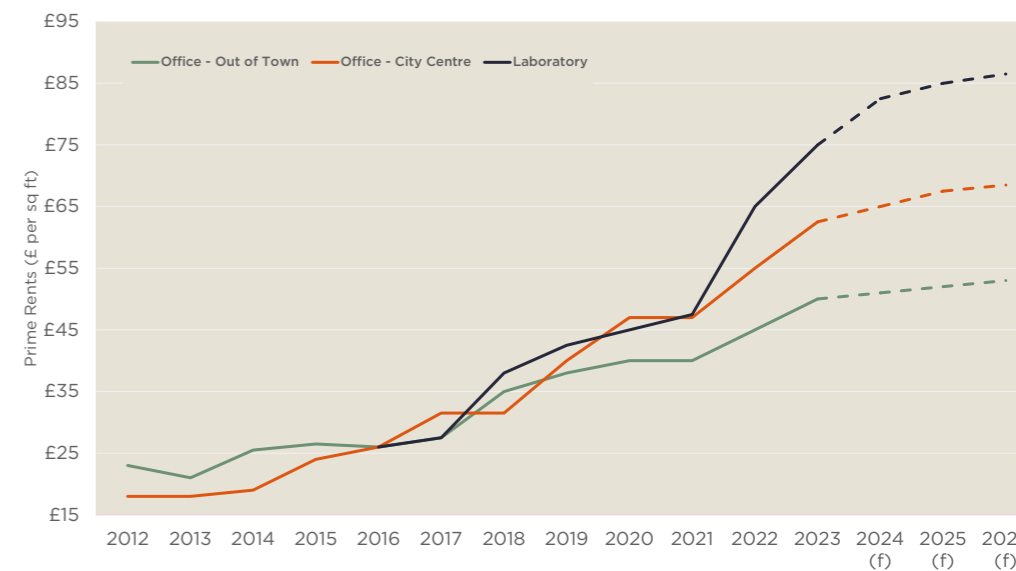
👉 Developers have responded to the pent up demand for laboratory space and there is currently 10.9 million sq ft in the pipeline 🐣

There is currently no immediately available grade A office space in the city centre over 5,000 sq ft



Source Savills Research

The lack of fully-fitted laboratory space has supported strong rental growth for this product, with smaller occupiers preferring this specification



Source Savills Research

👉 The continued lack of supply in core locations has helped support rental growth across the market 🐣

OXFORD INVESTMENT MARKET OVERVIEW

Oxford has experienced greater investment activity when compared to Cambridge with investment volumes reaching £125 million across six transactions at the end of H1 2024. The largest deal was Greycor Investments buying Building 2700 Oxford Business Park for £37.5 million. The development opportunity comprises 88,000 sq ft and was formally the head office of Oxfam. The building is set to be a science and innovation led refurbishment.

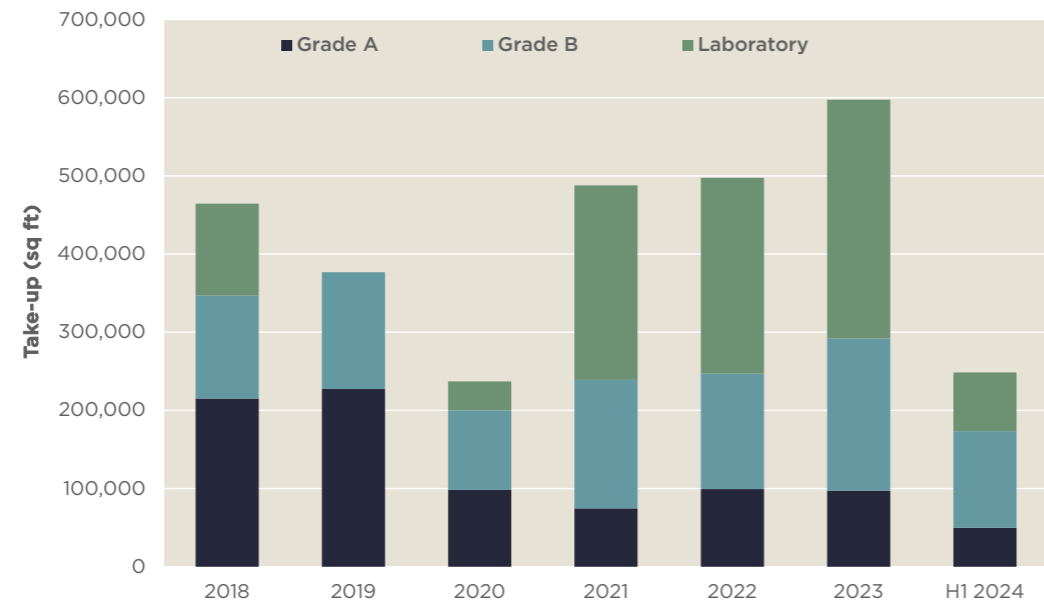
Another development opportunity being the former Debenhams unit located at 1-12 Magdalen Street was acquired by The Crown Estate, Pioneer Group and Oxford Science Enterprises. The site is set to be transformed into a 100,000 sq ft development. The Crown Estate have long-term ambitions to invest up to £1.5 billion into the UK's science and innovation sector.

Akin to Cambridge, Oxford will continue to be targeted by thematic investors who are seeking exposure to the science and innovation sector. The base rate being cut for the first time since the start of pandemic in March 2020 will hopefully stimulate activity in the market with price discovery being challenging to achieve in the last 18 months. The prime yield for laboratory assets remains at 5.00%.

5.00%

Current prime yield

Take-up



Source Savills Research

Oxford

The outlook for the Oxford office and laboratory market

Demand in the Oxford market has remained robust with 249,000 sq ft transacted across both offices and laboratories in the first half of 2024. This total was 23% below H1 2023 but 4% above the five year average. The reduction in total take-up can be attributed to Moderna pre-letting a bespoke 145,000 sq ft research and development facility in H1 23. The largest laboratory deal in H1 2024 was Ellison Institute leasing 28,000 sq ft of fully fitted space at Winchester House, Oxford Science Park. The Ellison Institute has been expanding its Oxford presence with the recent acquisition of two plots in Oxford. The institute acquired Littlemore House which comprised 5.9 acres, Savills advised the vendor, and a long leasehold interest of 3.5 acres on Oxford Science Park. The majority of demand for

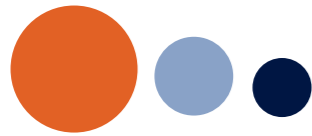
laboratory space in the market has been derived from venture capital backed early stage occupiers, with 76% of deals recorded since 2021, below 20,000 sq ft. There has however been an uptick in requirements from occupiers who are seeking large quantities of space. These include Vertex, Novo Nordisk and Oxford Nanopore who all require in excess of 50,000 sq ft. Unlike the majority of smaller occupiers who have shorter timescales to satisfy their requirements, the larger requirements are seeking occupation within the next two to four years which will benefit the demand profile for the development pipeline across the market. Office take-up has been resilient in H1 2024 with 173,000 sq ft transacted which was the highest since 2019 and 72% above the five

year average. The high total has been primarily caused by Aurora Energy Consultants leasing 38,000 sq ft of unrefurbished space at 109 St Aldates, and is indicative of the pent up demand for grade A office space in the city centre submarket. This trend is further underpinned by the letting of the first floor at Park Central where Savills acted for Critchley's on their acquisition of 8,600 sq ft of newly refurbished office space at £61.50 per sq ft. There are currently no available grade A buildings that can satisfy a requirement over 5,000 sq ft. Looking forward, there are 1.1 million sq ft of requirements which bodes well for healthy levels of take-up in the second half of the year. It is forecast that end 2024 take-up will reach over 500,000 sq ft with the positive momentum in the market continuing in the second half of the year.

👉 There has been an uptick in requirements from larger occupiers as the market continues to expand 🐣

Supply & Rents

There is currently 1.05 million sq ft available which represented a 7% decrease from the end of Q1 2024. The recent completions of The Iversen Building at Oxford Science Park, Building One Begbroke Science Park, Barton House Abingdon Science Park have added 243,000 sq ft of laboratory space to supply. This much needed purpose built laboratory space can help facilitate the ongoing expansion of the science and innovation ecosystem in the city. Developers have responded to the pent up demand for laboratory space and there is currently 10.9 million sq ft of potential pipeline albeit 65% of this is subject to planning. There will however be a lag in this space being added to the market with 76% scheduled to complete after 2026. The city centre market will be expanded by the provision of laboratory space. Inventa which comprises 65,000 sq ft is the first purpose built laboratory development located on the Botley Road and has let 20,000 sq ft to Nucleome Therapeutics. This submarket is set to experience further laboratory development with British Land and Columbia Threadneedle submitting planning applications for laboratory led schemes in this location which will help the city centre benefit from the expansion in demand for laboratory space. Premium rents continue to be achieved for fitted laboratory space with small suites achieving £90 per sq ft and larger quantumms achieved in excess of £75 per sq ft. In the short-term the newly added laboratory schemes to supply will provide greater optionality for occupiers which may soften the rental growth the market has experienced in recent years. Prime office rents remain at £63.50 per sq ft in the city centre which is the highest level outside of central London.

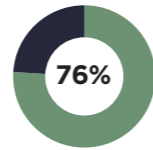


Cluster expansion

The Knowledge Quarter and East London account for 68% of the development pipeline

62%

Average fully fitted laboratory rental premium to Cat A office space



Laboratory take-up by size band

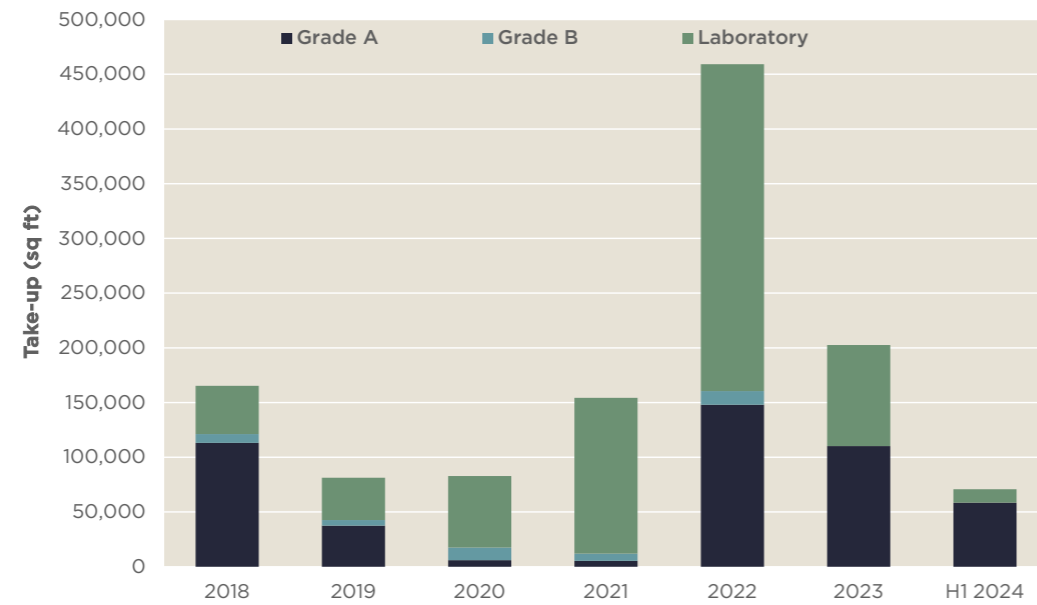
76% of laboratory deals recorded from 2023 onwards have below 10,000 sq ft

LONDON SCIENCE INVESTMENT MARKET OVERVIEW

The London science investment market is nascent with a lack of stabilised asset sales making ascertaining exit yields challenging. The largest transaction in 2024 was Royal London acquiring a 50% stake from British Land at 1 Triton Square for £192.5 million. The building was previously pre-let to Meta in 2021, who then surrendered their lease. The joint venture will convert the property to a best in class science and innovation building that will comprise 300,000 sq ft.

There is currently 900,000 sq ft of space that is set to be completed in the next three years, as these developments secure tenants, it is expected that the buyer pool will widen as London's reputation as a leading science and innovation cluster continues to gain momentum.

Take-up



Source Savills Research

London

The outlook for the London science market

London's science and innovation market is more immature when compared to Oxford and Cambridge and the take-up of laboratory space has been predominantly reliant on venture capital backed start-ups. The slowdown in venture capital funding the market experienced in 2023 and H1 2024 has impacted take-up levels with 12,200 sq ft of laboratory space transacted in the first half of the year.

The largest laboratory deal was Recursion Therapeutics leasing 6,700 sq ft at 3 Pancras Square, the AI drug discovery company will occupy a bespoke dry laboratory. There has been a further 59,000 sq ft of science related office take-up, which resulted in total science take-up reaching 71,000 sq ft. This represents a 34% decrease on H1 2023 total. There has been

an uptick in leasing activity at the start of Q3 2024 with 54,000 sq ft of science related space either let or placed under offer.

Sentiment from venture capital investors has started to improve, which has been evident by two recent transactions. Beacon Therapeutics raised £130 million in Series B funding, the company was formed in 2023 and is based at Rolling Stock Yard, King's Cross. Another notable transaction was Myrix Bio raising £90 million in Series A financing. The company spun out from Imperial College London and The Francis Crick Institute. These are the two largest life science venture capital funding transactions recorded this year in London.

Looking forward there is 500,000 sq ft of demand being tracked

across the market. A notable large requirement is LifeArc who are seeking 60,000 sq ft for a new institute for translational medicine. This new facility will help promote London as a leading centre of excellence and help expand the science and innovation ecosystem in the capital. Gilead, Wellcome Trust and Novo Nordisk also all have active requirements and are seeking a combined total of 280,000 sq ft.

The majority of demand is originating from smaller occupiers. This is reflected when analysing, demand by size band with 78% of requirements below 20,000 sq ft. Fully fitted laboratory space continues to be the preference for occupiers who require less than 10,000 sq ft.

🗨️ **The slowdown in venture capital funding has impacted take-up levels in the last 18 months, there has though been an uptick in viewing activity in recent months** 🗨️

🗨️ **The development pipeline will enable the expansion of the sector in the capital, with 5 million sq ft set to be delivered** 🗨️

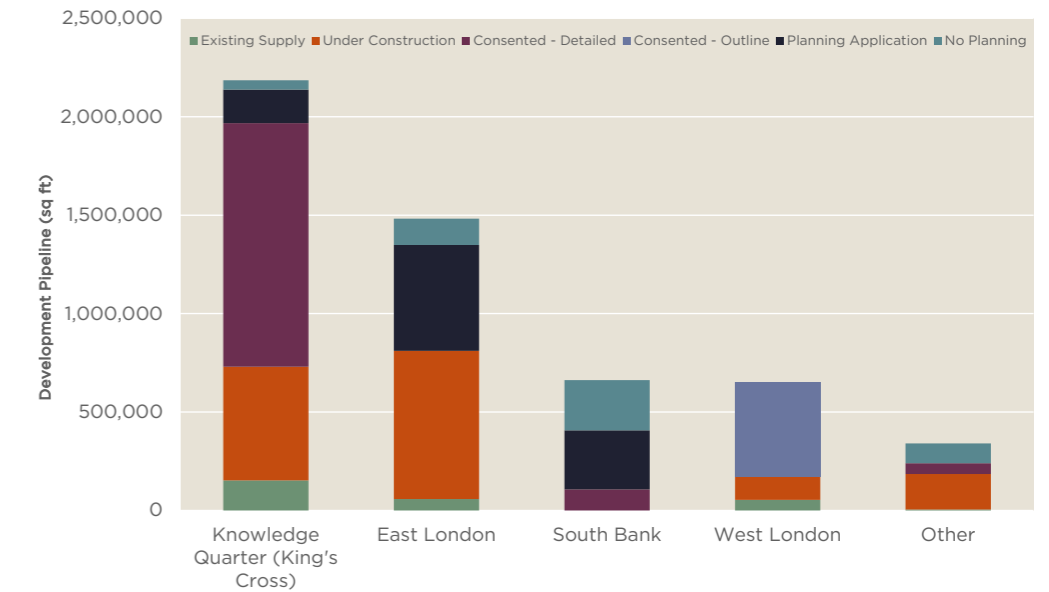
Supply & Rents

The availability of laboratory space has risen in 2024 with the first wave of purpose built laboratory developments entering the supply data. The largest completion being 5-10 Brandon Road, King's Cross, where 114,000 sq ft has been speculatively developed. There is currently 291,000 sq ft of laboratory space available with 46% of the space being marketed on a fitted basis. If 5-10 Brandon Road is removed from supply, this proportion rises to 75%. The Knowledge Quarter contains the highest quantum of supply across the capital, accounting for 54% of available space.

Developers have been fast to respond to the lack of purpose built laboratory space with five million sq ft in the development pipeline. It is however unlikely that all of this space will be developed, only 32% of this total is currently under construction and 37% is at 'granted planning permission' status and not yet started. Approximately 900,000 sq ft of purpose built space is set to be delivered in the next three years which will provide an acid test of demand for the sector in the capital.

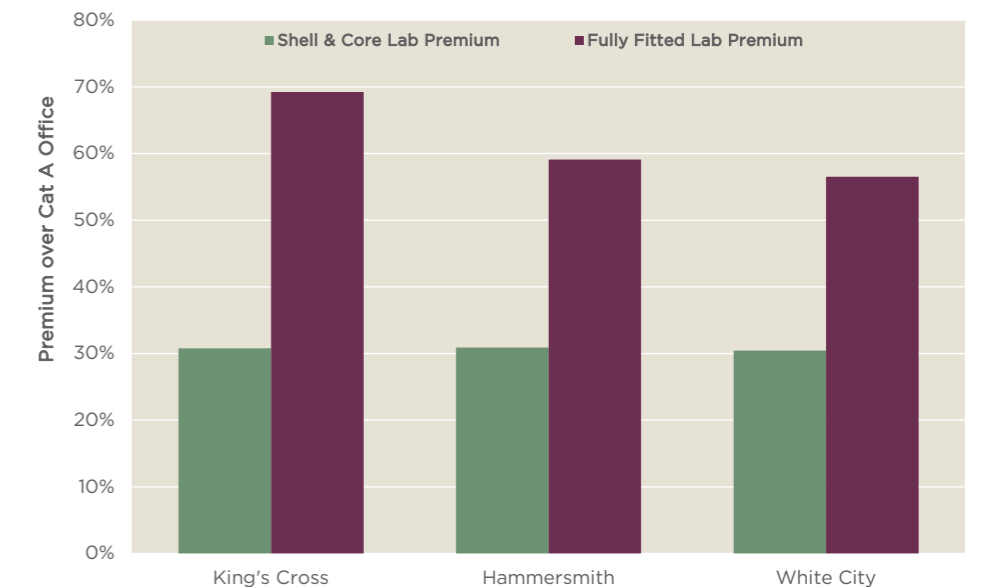
Fitted laboratories are setting new rental tones with two suites under offer at £120 and £115 per sq ft respectively. The new schemes will provide occupiers with greater optionality in the next few years with rents in excess of £130 per sq ft expected to be achieved on fitted space at these developments.

The development pipeline is focussed in the Knowledge Quarter and East London which combined account for 68% of future development



Source Savills Research

The highest laboratory rent premiums have been achieved in King's Cross



Source Savills Research

🗨️ **The ongoing maturity of the market will create more evidence of laboratory rental premiums** 🗨️



Savills

We offer clients a single accountable and collaborative team operating without boundaries out of our offices in London, Cambridge, and Oxford. With our long-established offices in Cambridge and Oxford, the individuals there are conversant across mid-tech, science, and office use. The teams reach also extends across international markets and is supported by individuals providing occupier services.

<https://www.savills.co.uk/sectors/science-and-technology.aspx>

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