

UK Eastern Region Offices December 2018



Savills advised on the disposal of the Abcam Building (102,508 sq ft) at Cambridge BioMedical Campus.

SUMMARY

■ The Eastern region contains six core markets being Cambridge, Peterborough, Chelmsford & Brentwood, Ipswich, Norwich, and Romford & Ilford.

■ A constant theme throughout the region is the supply constraint that is present. With the exception of Cambridge, every market has been significantly affected by permitted development rights (PDR) which has resulted in at least 2.1 million sq ft of office space being converted to residential uses.

■ Every market in the region has

experienced rental growth as a result of the limited supply. Further rental growth is expected as the development pipeline is limited. Only Cambridge and Ipswich have experienced speculative development in recent years.

■ Occupier demand has fluctuated market by market with the lack of supply hindering take-up. Cambridge has witnessed the strongest levels of occupier demand in the region.

■ The supply constraints present in the market provide investors and developers with an opportunity to refurbish or develop new stock.

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 “The occupational market is experiencing a chronic supply shortage in the region which will prove as an attraction for investors and developers who are seeking refurbishment and development opportunities.”

 James Emans, Investment

Cambridge

“Supply levels have remained low despite new development due to the strong levels of occupier demand. Further rental growth is expected in both the city centre and the northern cluster.”

Market Snapshot

■ Take-up by the end of Q3 2018 in the Cambridge reached 373,000 sq ft despite a subdued start of the year for transactional activity. Notable deals in 2018 include ARM leasing 47,617 sq ft at Eastbrook and Carl Zeiss leasing 43,332 sq ft at 1030 Cambourne Business Park.

■ There has been a general downward trend in supply levels in the last five years and strong demand has resulted in supply falling. There is approximately 647,000 sq ft available which is 13% below the long term average of 745,000 sq ft. New development has not resulted in supply increasing, Brookgate’s speculative scheme One Station Square (120,000 sq ft) was practically fully let prior to practical completion.

■ Developer confidence in the market is strong with 399,000 sq ft currently under construction, there is however significant occupier demand with an estimated 50% pre-let or under offer to occupiers. The new development will set new rental tones in the Cambridge market with record rents expected to be achieved at Brookgate’s 50 & 60 Station Road. We envisage prime rents exceeding £45.00 per sq ft by the end

of 2020.

■ The life science and technology sectors are growing in Cambridge and we envisage strong demand from these sectors going forward. The artificial intelligence (AI) technology development sector is growing quickly and firms are expanding at an exponential rate. Samsung have recently committed to opening a new AI research hub in Cambridge, which will add to the already growing cluster of mature and start-up AI developers. Microsoft also have a research base covering AI at 21 Station Road, within the city centre. Darktrace and Prowler IO are newer cybersecurity AI companies who have expanded. Prowler IO have expanded their footprint by over five times in two years.

■ Large corporates such as AstraZeneca and ARM Holdings have confirmed their long term real estate commitment to Cambridge following the Brexit vote. In addition Cambridge Assessment moved into their new purpose built 350,000 sq ft facility this year. Furthermore with limited reliance on the financial services sector, Cambridge is less exposed to any potential employment contractions arising from a potential hard Brexit.

▼ Savills are leasing agents at the recently speculatively developed Maurice Wilkes Building

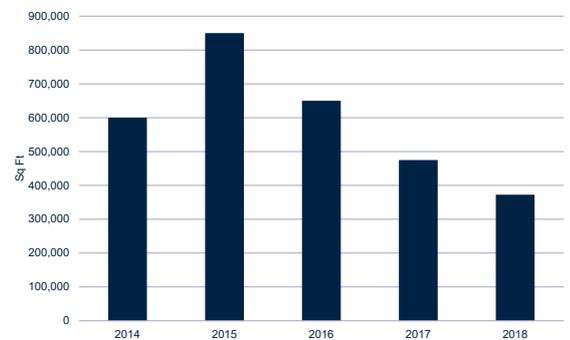


TABLE 1
Key Data

	Data
Total Office/Laboratory Stock	9.0 m sq ft
Office Space Converted to Residential	0 sq ft
New Speculative Development	399,000 sq ft
Average Take-Up	644,000 sq ft
Current Grade A+B Availability	647,000 sq ft

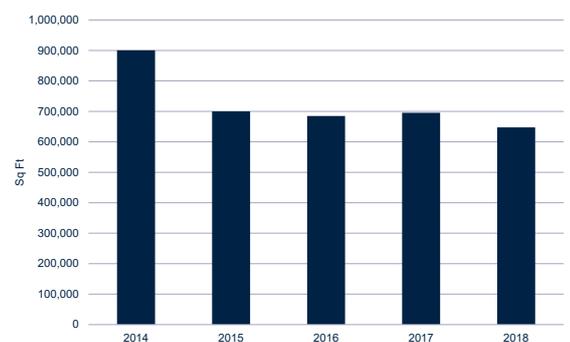
Source: Savills Research

FIGURE 1
Take-Up



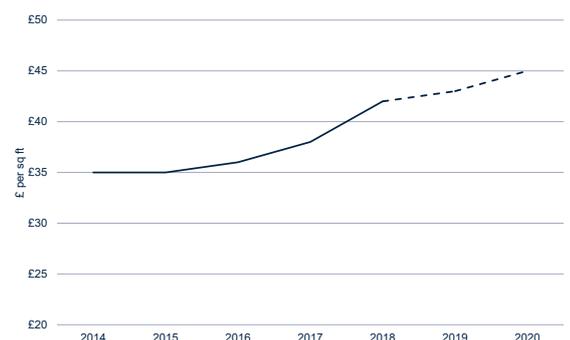
Source: Savills Research

FIGURE 2
Supply



Source: Savills Research

FIGURE 3
Prime Rents



Source: Savills Research

Peterborough

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 "Large corporate occupiers continue to commit to Peterborough, so the erosion of office stock from permitted development rights will continue an upward pressure on grade A rents."

Market Snapshot

■ Whilst occupier demand has fluctuated, long term average take-up is 98,000 sq ft which highlights the demand in the market. 2018 so far has been relatively subdued for take-up. The only deal above 10,000 sq ft in 2018 was Frontline leasing 12,000 sq ft at Stuart House.

■ Supply levels in the market continue to fall and there is currently 250,000 sq ft available. This represents a fall of 47% from 2014. Permitted development rights have significantly eroded the office stock in Peterborough. It is estimated that at least 600,000 sq ft of office space has been sold with the intention of conversion to residential use in the last three years. This equates to approximately 15% of Peterborough's total office stock.

■ The reduction in available office space has resulted in upward pressure on grade A rents with prime rents now quoting in the region of £15-£17 per sq ft. Furthermore there are only three buildings in the city centre that can accommodate requirements above 10,000 sq ft which could hamper take-up from increasing.

■ Speculative development in the

market is not financially viable unless a pre-let is secured. This however does present an opportunity to developers and investors who could refurbish existing stock in the short term and drive continued rental growth. A notable example of a refurbished scheme returning to the market is Lynchwood House which comprises 60,000 sq ft, quoting rents are currently £17.00 per sq ft.

■ Peterborough experienced a wave of back office relocations in the 1980's from financial services companies, and whilst some have contracted, large corporates such as Thomas Cook, Bauer and RNIB have recently committed to longer leases in the city.

■ There continues to also be strong demand from local companies in the sub 5,000 sq ft category.

▼ Savills are leasing agents at Stuart House.

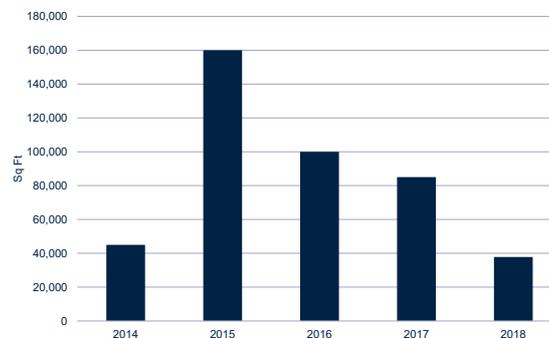


TABLE 2
Key Data

	Data
Total Office Stock	4.0 m sq ft
Office Space Converted to Residential	600,000 sq ft
New Speculative Development	0 sq ft
Average Take-Up	98,000 sq ft
Current Grade A+B Availability	250,000 sq ft

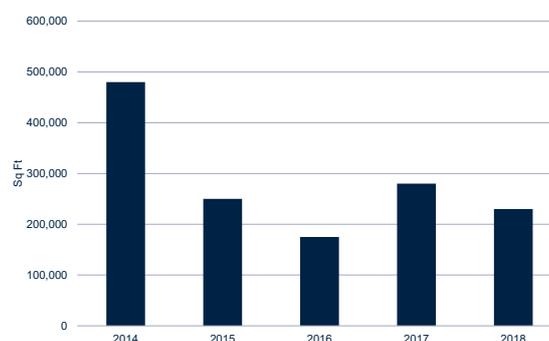
Source: Savills Research

FIGURE 4
Take-Up



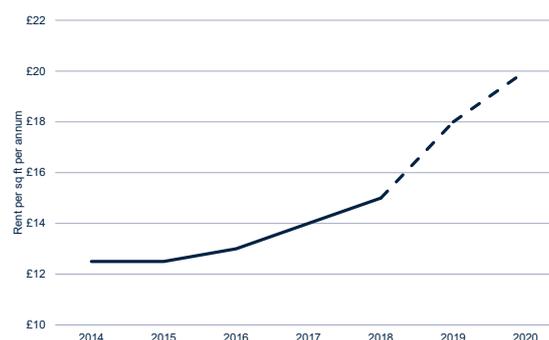
Source: Savills Research

FIGURE 5
Supply



Source: Savills Research

FIGURE 6
Prime Rents



Source: Savills Research

Chelmsford & Brentwood

“Chelmsford and Brentwood have historically experienced good levels of occupier demand. The lack of supply has resulted in strong rental growth, particularly in Brentwood.”

Market Snapshot

■ Chelmsford and Brentwood are Essex’s two largest office markets and have historically experienced strong occupier demand. These markets have performed well in 2018 with over 84,000 sq ft transacted. This has been driven by Sky leasing 39,490 sq ft at Stone Cross, Brentwood. Other occupiers who have been active in the market in 2018 include Taylor Wimpey and Create Business Hub.

■ Supply continues to fall in the market and currently stands at 181,000 sq ft, the lack of large supply in the market has hindered take-up from further increasing.

■ Permitted development rights have eroded stock levels in both markets. It is estimated that over 350,000 sq ft of office space has been converted to residential uses. Residential developers are seeking to take advantage of the rising residential values caused by the arrival of The Elizabeth Line. The erosion of supply in both these markets has resulted in steep rental growth. Record rents have been achieved in both Brentwood and Chelmsford in the last year.

■ There are opportunities for investors

and developers to refurbish existing stock and drive continued rental growth due to the lack of supply.

■ Kings House, Brentwood which was recently refurbished, achieved a record rent for the market with £28.50 per sq ft being achieved on the vacant space. Savills expect prime rents to reach £32.00 per sq ft in Brentwood by 2020.

■ Furthermore, the occupier demand for grade A space was highlighted at Stone Cross, Brentwood which was let to Sky prior to works completing, highlighting the demand for grade A space in the Brentwood market if it is available.

▼ Savills are marketing 16,765 sq ft of available space at 90-96 Victoria Street



TABLE 3

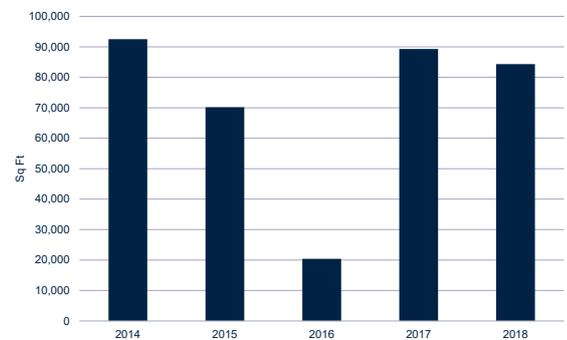
Key Data

	Data
Total Office Stock	5.3 m sq ft
Office Space Converted to Residential	350,000 sq ft
New Speculative Development	0 sq ft
Average Take-Up Per Annum	68,000 sq ft
Current Grade A+B Availability	181,000 sq ft

Source: Savills Research

FIGURE 7

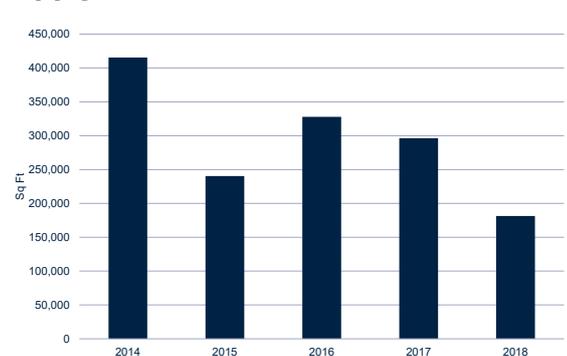
Take-Up



Source: Savills Research

FIGURE 8

Supply



Source: Savills Research

FIGURE 9

Prime Rents



Source: Savills Research

Ipswich

“Ipswich has experienced steady levels of occupier demand in recent years and supply is falling in the market. This has resulted in rental growth on both prime and secondary buildings.”

Market Snapshot

■ Occupier demand has fluctuated in recent years with 2017 being a subdued year for take-up with just over 50,000 sq ft recorded. There has been healthier occupier demand in 2018 with over 50,000 sq ft transacted by H1 2018. The largest deal in 2018 was Pound Gates leasing 10,588 sq ft at Hyde Park House.

■ Supply is falling in the market with permitted development rights continuing to erode office stock levels. Current supply stands at just over 325,000 sq ft which represents a decrease of 29% from 2014 highlighting the continuing supply constraints that persist in the market.

■ Two speculative developments have commenced since 2016 these are Connexions and The Maltings which comprise 33,900 sq ft and 23,100 sq ft, respectively. These are the two first speculative schemes in the market for over two decades highlighting Ipswich’s importance as a growing regional centre and confidence of developers.

■ A new record rent of £18 per sq ft was set following Birkett’s 40,000 sq ft pre-let for their new headquarters.

The previous lack of available grade A space has restricted rental growth in the market. We envisage prime rents rising slightly to £18.50 per sq ft although there is a lack of grade A space available in the town.

■ There is an opportunity for developers to refurbish existing stock and take advantage of the current supply constraints and occupier demand present in the market.

■ Much of the current availability in Ipswich is poorly configured or large open plan accommodation. The majority of demand recently has derived from smaller local occupiers in the sub 5,000 sq ft category.

▼ Connexions was recently speculatively developed. Savills are leasing agents for the building.

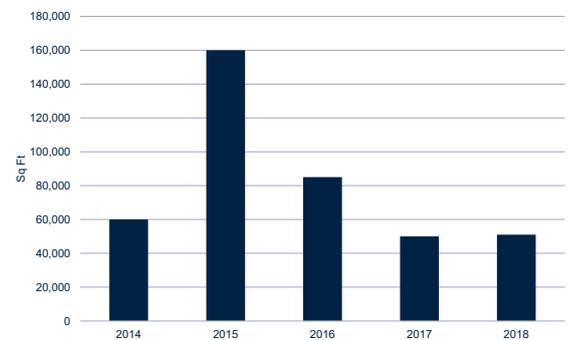


TABLE 4
Key Data

	Data
Total Office Stock	3.3 m sq ft
Office Space Converted to Residential	250,000 sq ft
New Speculative Development	57,000 sq ft
Average Take-Up	89,000 sq ft
Current Grade A+B Availability	325,000 sq ft

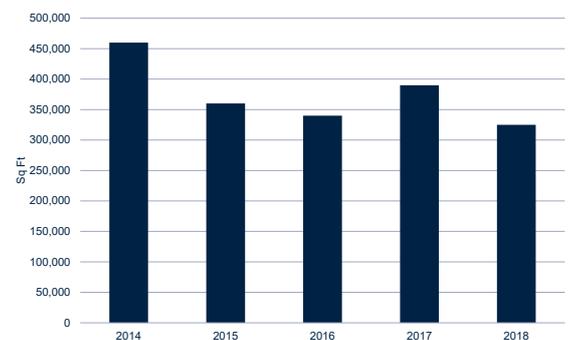
Source: Savills Research

FIGURE 10
Take-Up



Source: Savills Research

FIGURE 11
Supply



Source: Savills Research

FIGURE 12
Prime Rents



Source: Savills Research

Norwich

“Limited supply in the Norwich market has hampered take-up from increasing. There is no new development taking place in the market which provides an opportunity to capitalise on the rental growth in the market.”

Market Snapshot

■ Occupier demand has been relatively subdued in 2018 after steady take-up levels in 2017 with just over 150,000 sq ft transacted. Falling take-up in the market can be attributed to the lack of supply available in the market. The majority of occupier demand in Norwich has recently come from local occupiers who are leasing sub 5,000 sq ft.

■ Supply has fallen in consecutive years and currently stands at just below 280,000 sq ft. The implementation of permitted development rights has significantly affected the Norwich office market. It is estimated that over 700,000 sq ft has been converted to residential or other uses. This has resulted in a lack of choice for occupiers. This was highlighted by the recent sale of Sentinel House which comprises 103,000 sq ft to residential developers.

■ Supply constraints in the town centre have been exacerbated by the continuing erosion of office stock from permitted development rights, this has meant that out of town space is

often the only option for occupiers with larger requirements.

■ Rental levels have increased from the continual falling in supply and currently stand at £16.50 per sq ft and there is potential for headline rents to grow.

■ There is currently no development taking place in the market. Whilst the rents achievable will not support new development, refurbishments are viable and would be attractive to occupiers in the market.

■ Savills expect that prime rents in Norwich could increase close to £20.00 per sq ft by 2020.

■ Despite consolidation by a number of larger corporate occupiers in the last few years, a significant number of companies remain committed to the city including Aviva, Marsh, Swiss Re Life & Health and Alan Boswell Group.

▼ Aviva Headquarters which is being sold by Savills

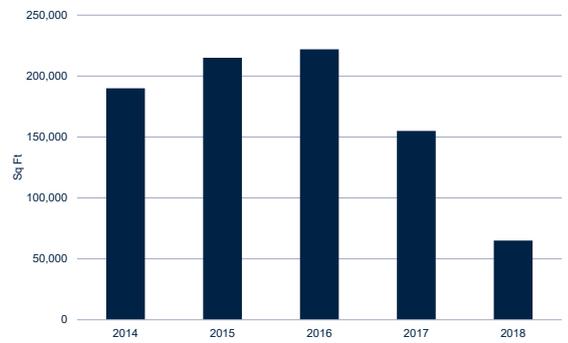


TABLE 5
Key Data

	Data
Total Office Stock	4.5 m sq ft
Office Space Converted to Residential	700,000 sq ft
New Speculative Development	0 sq ft
Average Take-Up	196,000 sq ft
Current Grade A+B Availability	280,000 sq ft

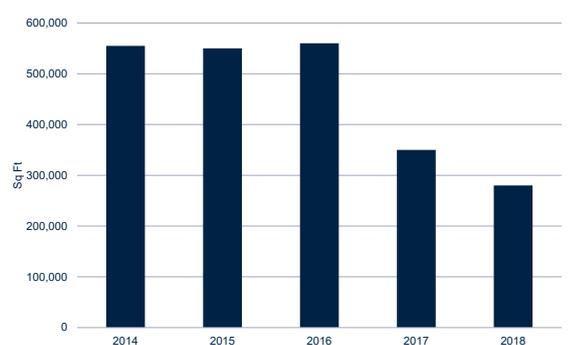
Source: Savills Research

FIGURE 13
Take-Up



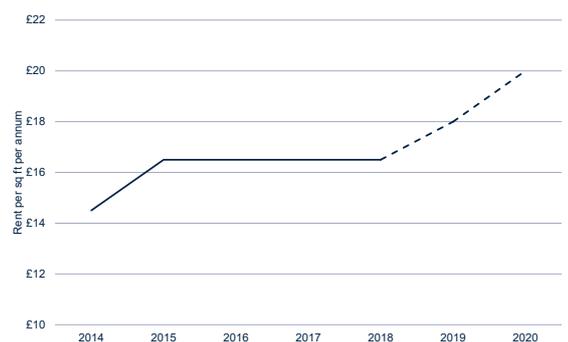
Source: Savills Research

FIGURE 14
Supply



Source: Savills Research

FIGURE 15
Prime Rents



Source: Savills Research

Romford & Ilford

“Romford provides good opportunities to refurbish existing stock to capitalise on the rental growth the market is experiencing and the imminent arrival of The Elizabeth Line.”

Market Snapshot

■ This is the smallest of the Eastern Region markets, but is a strategic location and due to benefit from infrastructure improvements.

■ A lack of supply in Romford and Ilford has hindered take-up increasing in the last five years. Occupier demand has been focussed in the smaller size bands as there has been a lack of floorspace available over 10,000 sq ft. Notable occupiers who leased space greater than 5,000 sq ft in recent years in Romford include Canon, Clegg Gifford Insurance, Richburns and Garrets International.

■ Supply has fallen substantially in the last five years to stand at just below 70,000 sq ft this represents a 60% fall from 2014 supply levels.

■ The fall in supply has been driven by the lack of new development and the impact of permitted development rights. Residential developers have sought to capitalise on the rising residential values as a result of the improving infrastructure. The Elizabeth Line will improve current journey times from Romford to Tottenham Court Road and Canary Wharf to 33 and 28 minutes, respectively. It is estimated

that over 300,000 sq ft of office space has been converted to residential uses since the implementation of permitted development rights.

■ However investors and developers should still consider Romford & Ilford as an attractive location to invest and develop offices. The lack of supply has resulted in pressure on headline rents increasing with record rents being achieved in 2017 and 2018. Prime rents have increased dramatically. HCL paid £20 per sq ft on Eastern Road, Romford when compared to 2016, prime rents only stood at £14.50 per sq ft.

■ Whilst speculative development is not financially viable, refurbishments on existing stock can be considered as existing occupiers are willing to pay higher rents which has been demonstrated in the last two years.

■ Romford has further room for rental growth when compared to neighbouring markets such as Stratford and Brentwood. As previously mentioned Romford prime rents stand at £20 per sq ft which is a significant discount when compared to prime rents in Stratford and Brentwood.

▼ A CGI image of the new station entrance of Ilford station which will be a stop on the Elizabeth Line



TABLE 6

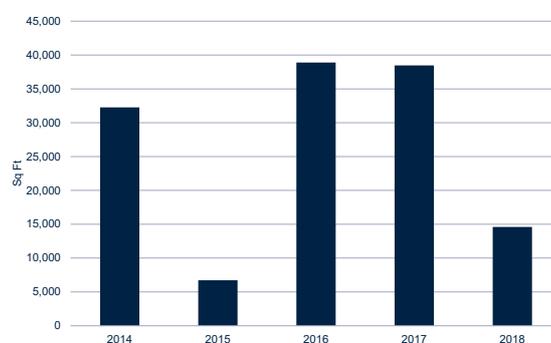
Key Data

	Data
Total Office Stock	2.1 m sq ft
Office Space Converted to Residential	300,000 sq ft
New Speculative Development	0 sq ft
Average Take-Up Per Annum	29,000 sq ft
Current Grade A+B Availability	69,000 sq ft

Source: Savills Research

FIGURE 16

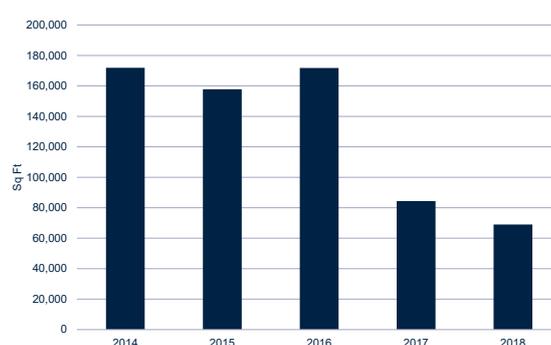
Take-Up



Source: Savills Research

FIGURE 17

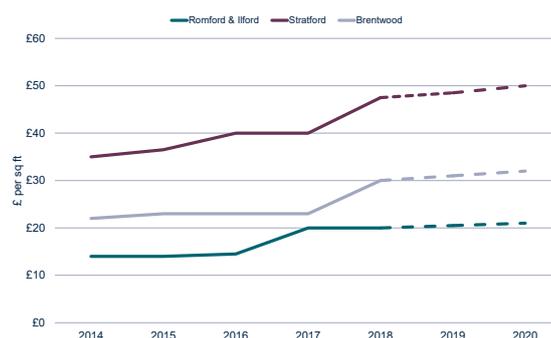
Supply



Source: Savills Research

FIGURE 18

Prime Rents



Source: Savills Research

Investment

“Cambridge continues to attract a diverse investor base and the other Eastern Region markets are generating improved institutional investor interest. The occupational market dynamics are a compelling case to invest in the region.”

Market Snapshot

■ The East of England office investment market continues to experience a resurgence in investor demand. The occupational market dynamics of limited supply and good levels of occupier demand has proved attractive to investors who are seeking growth opportunities.

■ The investor demand is evident from investment volumes recorded in 2018, which by the end of Q3 were just below £200 million. This follows two strong years of office investment into the region with investment volumes surpassing £200 million in 2016 and 2017. It could be argued that 2018 turnover has been hindered from further increasing by a lack of large lot sizes coming to the market. Only 4% of deals recorded in the last five years have been above £50 million.

■ Across the region the profile of investors active in the region is changing. Cambridge has deep investor interest from a variety of investors. The appeal of the market to corporate occupiers and the strong rental growth that the market is experiencing has appealed to UK institutions as well as overseas

investors. This was highlighted by Royal London purchasing Cambridge Research Park for £78.0 million and Schroders acquiring The Quorum for £22.7 million in 2017.

■ The other markets in the region are smaller than Cambridge and have historically attracted interest from property companies and private individuals. In the smaller markets we are witnessing increasing interest from UK institutional investors who are seeking to refurbish secondary buildings and capitalise on the strong rental growth the market is experiencing.

■ Institutional investors who have recently bought office buildings in smaller markets in the Eastern Region (outside of Cambridge) include Mayfair Capital, Kames Capital, Schroders, Hermes & CBRE Global Investors which highlights the growing investor interest in these markets.

■ It is conceivable that we will see more speculative or design and build development in the region if the chronic supply crunch continues.

▼ Savills acquired Cambridge Research Park on behalf of Royal London Investment Management

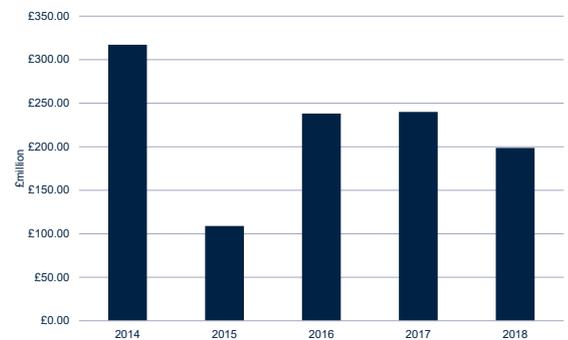


TABLE 7
Key Data

	Data
Average Total Investment*	£210.8m
Average Lot Size*	£10.7m

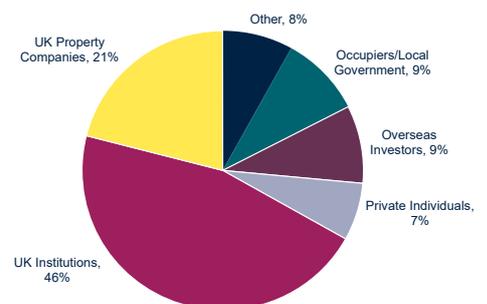
Source: Savills Research * 5 Year Average (2013-2017)

FIGURE 19
Investment Volumes



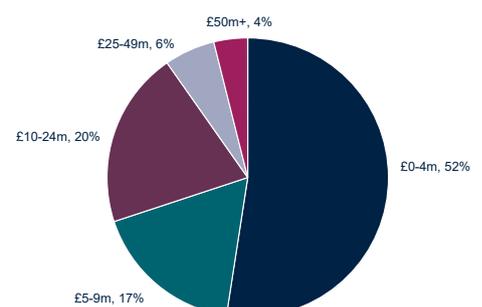
Source: Property Data

FIGURE 20
Investment by Purchaser Type*



Source: Property Data *For the time period 2014-2018

FIGURE 21
Investment by Lot Size* (No of Deals)



Source: Property Data *For the time period 2014-2018

Savills Eastern Region Investment Transactions

Acquisitions



- Cambridge Research Park
£78.0 million
2018



- Saxon House, Chelmsford
£9.75 million
2018



- Yare House, Norwich
£7.0 million
2018



- St Edmunds House, Bury
St Edmunds
£3.0 million
2018



- Suffolk House, Newmarket
£2.25 million
2018



- Mill Court, Great Shelford
£9.85 million
2017



- East & West Bridge House,
Cambridge
£4.95 million
2017

Sales



- Rouen House, Norwich
Quoting- £2.78 million
2018



- Aviva HQ, Norwich
Quoting- £135.0 million
2018



- Saxon House, Peterborough
Quoting- £6.75 million
2018



- Abcam, Cambridge
BioMedical Campus
£61.0 million
2017



- Marconi Building, Chelmsford
£4.1 million
2017



- Quorum, Cambridge
£22.7 million
2017



- Felaw Maltings, Ipswich
£8.7 million
2017

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