

# Cambridge: Thriving on Innovation





# State of the Cambridge market

Robust demand for homes and offices,  
but affordability remains challenging

## MARKET MONITOR



### The market

The Cambridge housing market acts a lot like that in London

Despite recent improvements, housing affordability remains a key challenge for Cambridge



### Employment market

Cambridge has a robust employment market, with productivity set to overtake London



### Housing costs

As a result of strong employment and unaffordable housing, the rental market is large and affluent

### "High growth..."

In recent decades Cambridge has been among the standout performers for residential property price growth, and has a strong claim to be one of the UK's premier residential markets. Cambridge house prices have risen 241% since 2001, according to Land Registry – just 1% less than London over the same period, and well ahead of the rest of the East of England.

Recent performance in the city has been somewhat weaker, however, despite boosts from the stamp duty holiday. Values in Cambridge rose by 3.8% in the year to June 2021, somewhat lower than the national average of 6.2%.

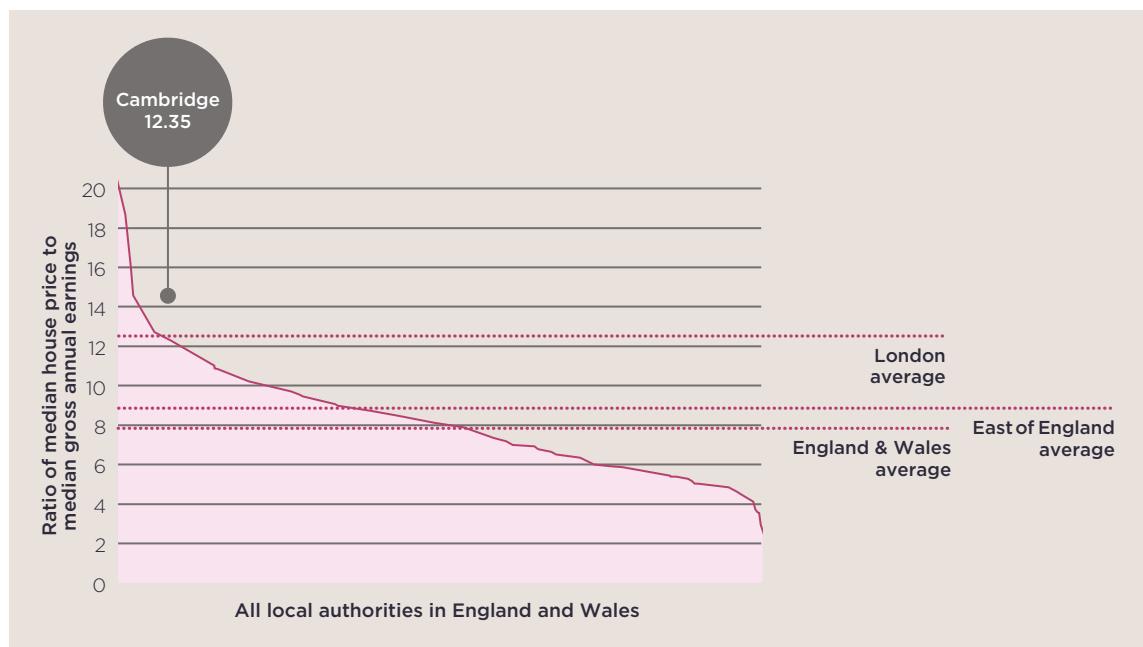
### "...and high costs"

Cambridge's spectacular historic growth has become a double-edged sword for the city. It is one of the least affordable housing markets in the country, limiting market activity and future value growth.

At their peak in 2018, house prices were an eye-watering 13.5 times greater than local average earnings – higher than London's figure of 12.3 at the time, and well above the national average of 7.8. This means the city struggles to attract younger and less affluent workers – including key workers. These households often have to find accommodation outside of the city itself, putting greater stress on infrastructure. The greater number of long-distance commutes also has environmental implications. Providing either suitable accommodation in the city or suitable and sustainable transport options into the city must be a priority going forward.

**At their peak in 2018, house prices were an eye-watering 13.5 times greater than local average earnings – higher than London's figure of 12.3 at the time.<sup>99</sup>**

**Figure 1** Cambridge remains one of the least affordable locations in the country



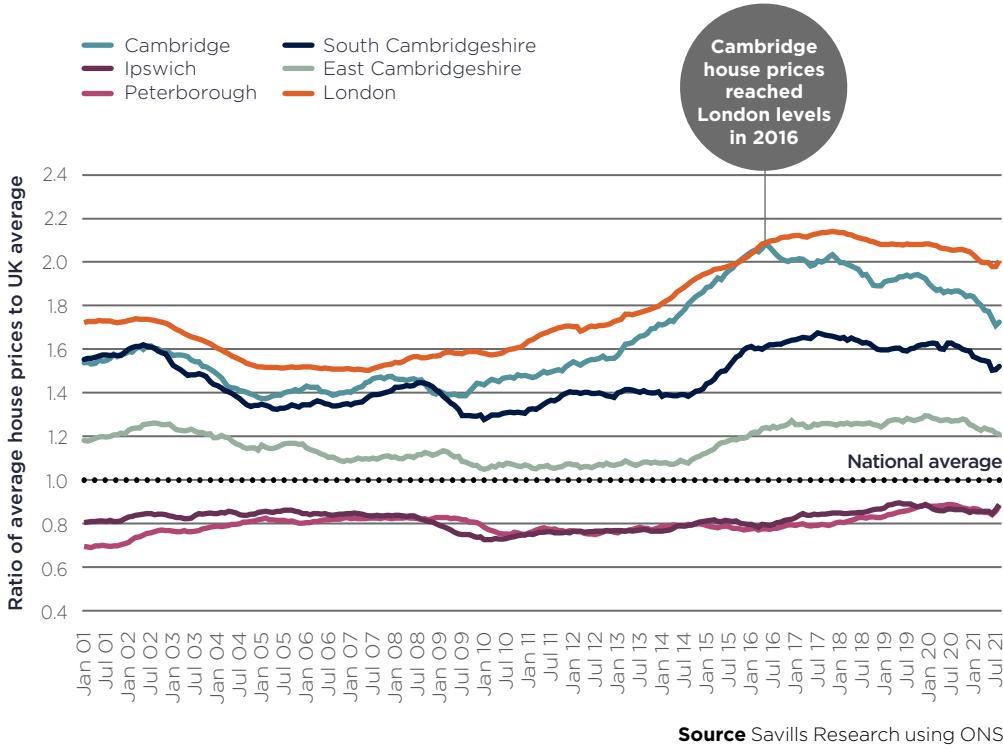
**Source** Savills Research using ONS, Land Registry

**Cambridge house prices have risen 241% since 2001 – just 1% less than London over the same period, and well ahead of the rest of the East of England.<sup>99</sup>**

There are three Build to Rent schemes in the pipeline, which we expect to deliver around 550 rental homes. This will help increase the tenure and housing options within the city, supporting its continued growth and development.



**Figure 2** Local house prices compared to the UK average



#### Affordability has been slowly easing

House values in Cambridge had pulled away from the local area significantly after the Global Financial Crisis - a trend mirrored (albeit to a lesser extent) in South and East Cambridgeshire. Cambridge peaked with average values over 2x the national average, rivalling London values in 2016, but they've been cooling off over the past several years. This pattern is in contrast to the behaviour of regional neighbours Peterborough and Ipswich, which have seen little shift compared to the national average in over two decades. This shows Cambridge to be in higher demand relative to nearby towns and cities.

#### Rental opportunities

The stretched affordability in the city has resulted in a strong rental market. Rents have grown 4.1% in the city in the 12 months to Aug-21, compared to 1.6% in London. Despite strong rental growth, an affluent population, and a large private rented sector that make up 42% of households in the city, there are currently no established Build to Rent schemes in the city, although there are three schemes in the pipeline, which we expect to deliver around 550 rental homes. This will help increase the tenure and housing options within the city, supporting its continued growth and development.

With accelerating rental demand, Cambridge has become a more attractive proposition for Build to Rent investors. We expect a number of purpose-built rental schemes to be delivered in the city over the next few years.

6%

Cambridge is due to overtake London in value added per worker in 2022, and achieve a 6% lead by 2030

### Productivity city

The economic foundations of Cambridge's high-performing residential market are solid. Unemployment between 2010 and 2020 averaged only 4.5%, compared to 5.9% nationally. The productivity figures are even more flattering: after 20 years of stellar productivity growth – 24% ahead of the national average – Cambridge had closed its productivity deficit with London from 20% in 2001 to just 4% in 2020. According to Oxford Economics forecasts, Cambridge is due to overtake London in value added per worker in 2022, and achieve a 6% lead by 2030. What's more, the wider area has also seen recent gains in productivity, pulling up and away from the national average.

This growth, supported by several major office deals, has underscored Cambridge's appeal to employers. Software provider MathWorks moved into their new 93,000 square foot premises at Cambridge Science Park earlier this year, marking the scheme's biggest deal for over a decade. And Huawei has reaffirmed its commitment to building a new research and manufacturing facility in Sawston.

However, employers will stop coming to Cambridge if their workers can no longer afford to live there. The city's economic growth will require the right sorts of homes and workplaces to support it.

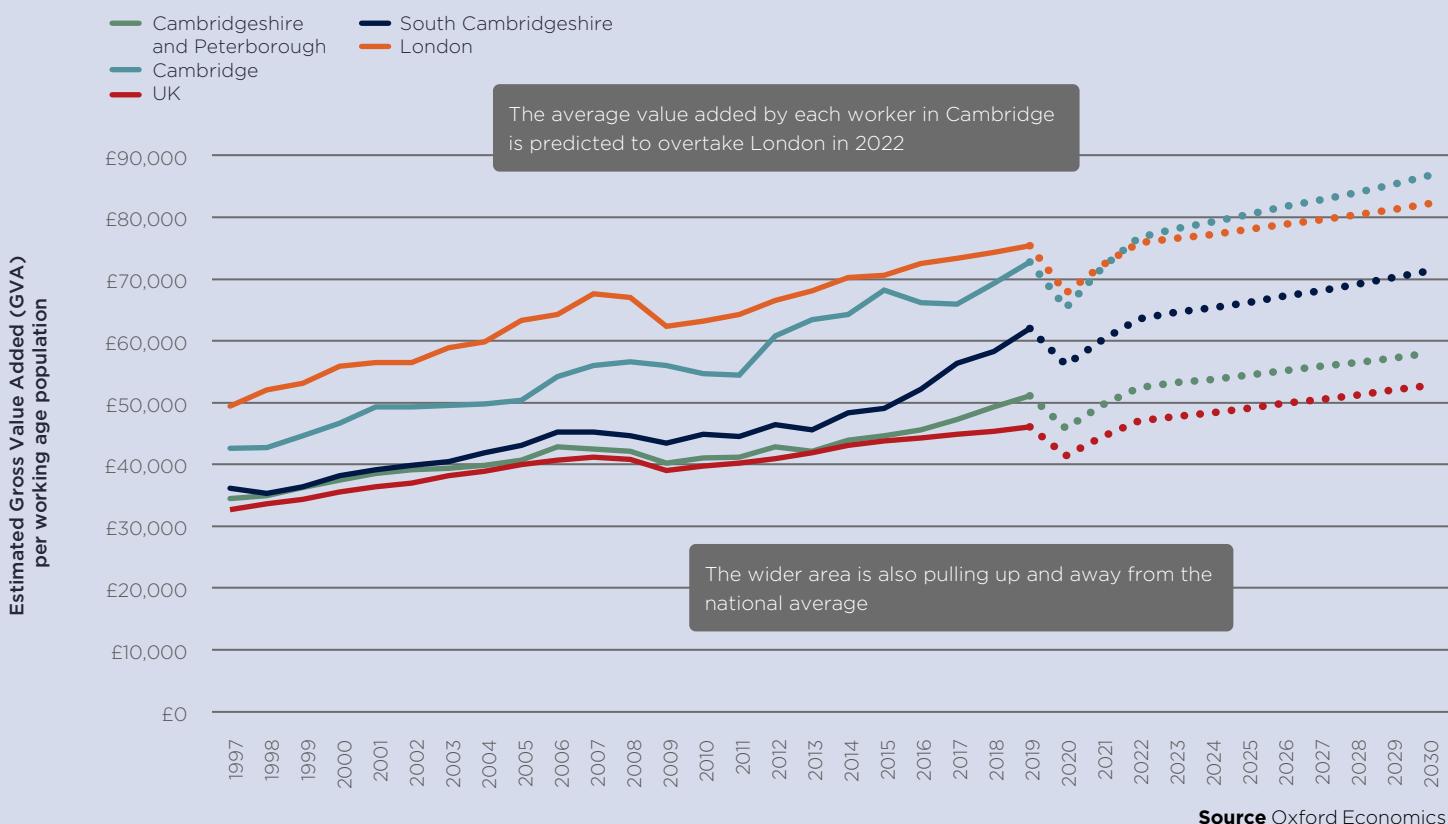
The demand for commercial office and laboratory space in Cambridge remains buoyant. The obvious turbulence of 2020 did not dampen take-up, which was broadly in line with the five-year average. 2021 has progressed in a similar way with some significant deals signed, or in an advanced stage, that will further reduce the supply of available space in the city.

Going forward, Cambridge will have a severe lack of new stock under construction, which will conflict with the continued hunger from occupiers of all sizes. Additionally, older stock cannot provide a solution as it may fail to meet occupiers' ESG requirements, including Carbon net zero. This exacerbates the potential supply 'crunch' in the short to medium term.

The result may be a reduction in the attractiveness to occupiers as their requirements cannot be met in the city.



**Figure 3** Cambridge's productivity will soon outstrip London's



“The appetite for Cambridge’s office and laboratory market continues to grow as the City increasingly becomes one of the world leaders in life science, including pharmaceuticals, biotechnology and engineering.”

### **Healthy demand**

Throughout 2020, the pandemic focussed occupiers’ and commercial property investors’ attention towards the human health sectors. This appetite and interest has continued throughout 2021 and shows no sign of tailing off. For Cambridge specifically, with a rising interest in human health and wellbeing from the software, mobile and technology sectors, which have a significant presence in Cambridge, it has also created another future layer of demand that will emerge in the next few years. Commercial property investor interest has also continued to grow at an unprecedented rate, where we are aware of new entrants entering the market on an almost weekly basis.

The appetite for Cambridge’s office and laboratory market continues to grow as the city increasingly becomes one of the world leaders in life sciences, including pharmaceuticals, biotechnology and engineering. With a limited supply of commercial property to lease, at present, in the historic core, clusters and centres of excellence in the business, technology and science parks that surround the historic city centre are continuing to drive both occupier and investor demand.

These key drivers behind the investor interest are anticipated to produce significant rental growth predicated by expansion of the occupier base due to huge flows of capital being raised by companies of all scales, the academic spin-out through to the later-stage venture capital. These indicators, combined with a severe shortage of supply in Cambridge, highlights the need and creates the key ingredients for future development growth.

The debate in the past year has been the impact of a shift to more remote working and how this will influence the need for office space in the future. What is clear is that employers and employees value the office for collaboration, mentoring and career advancement, all of which are best met in an office environment. However, the future may result in more companies taking smaller office footprints.

### **Experimenting with labs**

The pandemic also raised investor interest levels in more alternative types of commercial property. In particular, the laboratory market, where occupancy and utilisation rates were considerably higher than in traditional offices through lockdown, increased the interest of investors. This heightened interest was also supported by the considerable level of capital being raised, particularly venture capital, by companies that then require laboratory space.

Of course, despite research and development (R&D) property historically sitting within the offices’ use class, there are significant differences between the specification of laboratory and office property. Despite this, it has been interesting to see how quickly investors have become comfortable with the wider types of R&D investment property that caters for very different end-users compared to a traditional office.



**41%**

Between 2005 and 2019,  
per person greenhouse  
gas emissions in  
Cambridge fell by 41%

# The Net Zero Carbon Challenge

Cambridge needs more development in the city to help reduce its residents' environmental impact

## Meeting emissions targets

The UK Government has committed to reaching net zero emissions by 2050, in line with the 2015 Paris Agreement. Cambridge City Council has set the yet more ambitious target of reaching net zero by 2030 - a mere eight and a half years away. Between 2005 and 2019, Cambridge's greenhouse gas emissions in tonnes of CO<sub>2</sub> equivalent fell from 6.7 per person to 3.9 - an average reduction of about 3.5% per year. At this current rate, it would take until 2039 for Cambridge to actually reach net zero. Clearly more work must be done if the city wants to hit its target. What's more, these figures only include Scope 1 & 2 emissions (more direct, measurable emissions) and not the total level of emissions all along supply chains – Scope 3 emissions. This means the actual challenge is larger than the published data may suggest.

Between 2005 and 2019, per person greenhouse gas emissions in Cambridge fell by 41%, despite the city's population growing by nearly 70,000 in the intervening period. Cambridge could potentially learn lessons from regional neighbour Ipswich, which saw a 52% reduction in per capita emissions over the same period. Most of this fall was due to greater efficiency in the industrial and commercial sectors, where emissions fell 50% over that period. Domestic emissions fell 36%. But transportation remains the lagger, with emissions falling barely 4% over 15 years. Journeys using non-main roads were the worst offender, seeing an 11% increase in emissions over the same period.

## Denser living is greener living

The new housing supply on the horizon is largely focused on delivering large, relatively low density sites on the city fringe and the hinterland beyond. It's an inconvenient truth, however, that these sort of sites tend to be worse for the environment, as greater reliance on cars for transport means emissions per person tend to be much higher than in denser, more central locations.

Suburban homes have seen increasing popularity over the past year, as lockdowns and shifts to working from home have reduced the appeal of city centre life. While many will be expecting to commute less, commutes only account for 14% of car use. The greater distance to amenities and services means a household's transport emissions likely increase after such a move, even with a significant reduction in commuting into town. No small issue, with road use remaining the highest growth source of emissions in the county.

Focusing on increasing residential density in the city centre would help Cambridge reach its net zero targets. But given the heritage challenges of building centrally, the bulk of new housing will continue to be on the edge of the city. This will mean more journeys to and from the city centre, even if the current trend of working from home continues. Facilitating these journeys in a sustainable manner, such as with regular environmentally friendly buses, will be a priority going forward.

While the council has various plans to reduce emissions, such as installing heat pumps and solar panels at leisure centres, using low carbon heating and switching to low emission council vehicles, there is clearly a lot of progress to be made.

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### Net zero

Cambridge has committed to hitting net zero by 2030 but is only on track to reach that goal in 2039

Focusing on delivering homes in the city itself rather than its outskirts could help reach this target

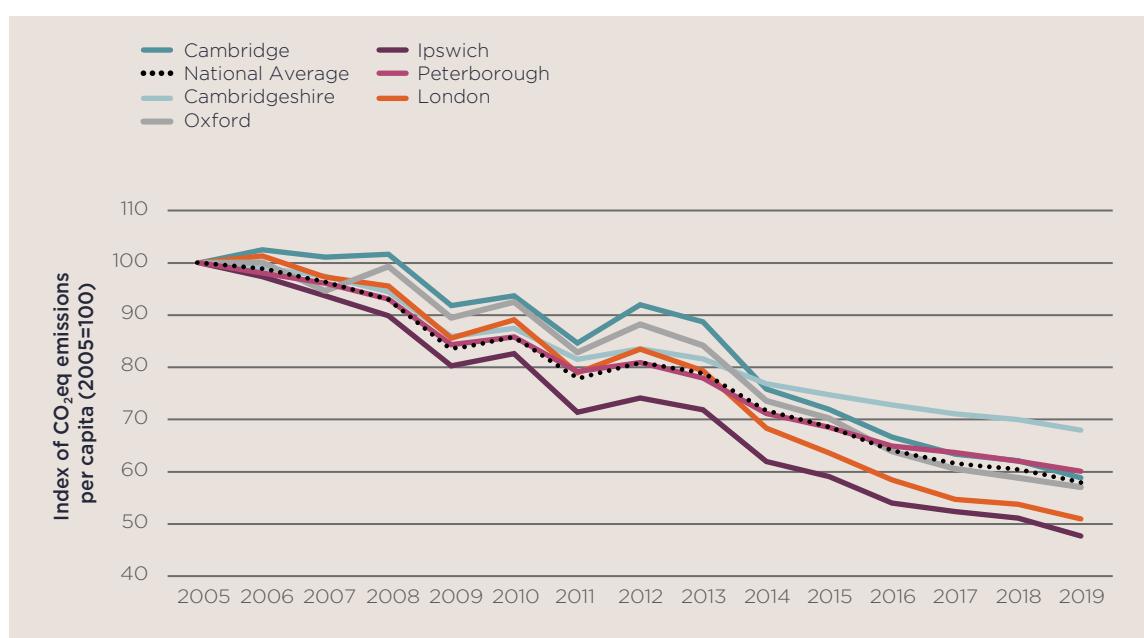


### EPC ratings

It would cost an estimated £1.6bn to upgrade all homes in Cambridgeshire to at least EPC C

Focusing on producing more green energy might help offset the difficulty in renovating heritage buildings

**Figure 4** Cambridge's greenhouse gas emissions are falling



Source ONS (Note: Scope 1&2 emissions only)

**47%**  
Proportion  
of homes in  
Cambridge City  
that are EPC D  
or below

#### The costs of going green

Cambridge does not sit in a vacuum, and the wider region will need to address the efficiency of its housing stock. Our analysis suggests there are 114,000 homes across Cambridgeshire with an EPC grade of D or below. Within the city, many of these homes will be used by the colleges to house students. Upgrading all homes to at least EPC C standard could reduce CO<sub>2</sub> emissions from 939,000 to 542,000 tonnes per year, a fall of 42%. We estimate the total cost of upgrading these homes would be about £1.6bn. For context, Government had earmarked £2bn funding in its now axed Green Home Grant scheme.

The distribution of housing quality and type varies across Cambridgeshire. 47% of homes in Cambridge are EPC D or below, while 58% of homes in Fenland are D or below. There is an inverse relationship between the number of homes in need of upgrades and the economic output of an area. Thus Fenland, the authority with the lowest economic output in the county, would find itself paying 12.2% of its GVA just improving housing stock to meet the new standards,

compared to (much richer) Cambridge's 3.6%. The distribution of costs for meeting environmental standards is loaded against the areas least able to pay.

An even greater challenge is ensuring the colleges themselves are kept in line with requirements. Trinity College has pledged to reach net zero by 2050, and aims to divest itself of fossil fuel investments by the end of 2021.

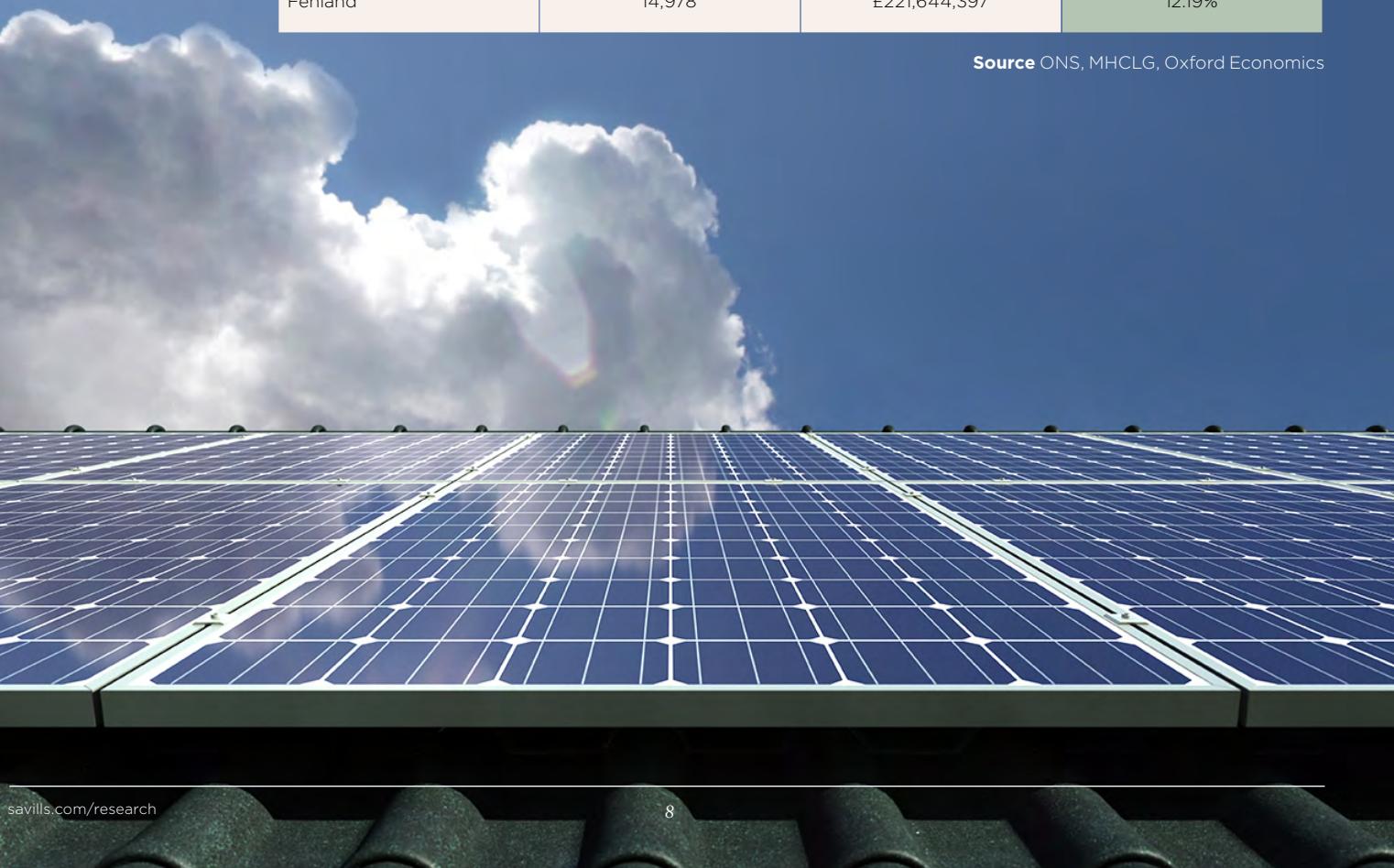
Many of the 16th & 17th century buildings that make up the college were not built with the 2015 Paris Agreement in mind, however. Renovating them to increase their energy efficiency, while maintaining their character will likely prove an impossible task.

Given the colleges' landholdings around Cambridge, a more feasible approach may be to invest in renewable energy generation through solar, wind and biomass, and using this green energy to heat and power these buildings. This would reduce the scale of intervention needed in historic city centre buildings, though colleges would still need to replace gas heating and boilers with electric.

**Table 1** Distributional effects of upgrading housing stock:

Local Authority	Number of homes need to be upgraded	Total cost	Cost as % of GVA (2019)
Cambridge, City of	15,692	£224,573,926	3.61%
Peterborough	26,429	£375,211,848	5.71%
South Cambridgeshire	20,599	£301,465,609	5.83%
Huntingdonshire	24,432	£350,672,783	7.49%
East Cambridge	12,171	£179,743,936	9.09%
Fenland	14,978	£221,644,397	12.19%

**Source** ONS, MHCLG, Oxford Economics



12%

The population aged 25-59 is expected to fall by 12% by 2031

# Shifting demographics pose a challenge for Cambridge

Cambridge risks losing younger workers and employers unless it improves housing affordability

## MARKET MONITOR



### Environmental challenges

Cambridge's rich heritage must be balanced with the needs of its residents, and its net zero goals



### House building targets

Cambridge has been meeting its housing delivery targets but more must be done to make a dent in affordability

Ideally these homes would be centrally located to really benefit the city and help reach net zero

Cambridge needs a range of housing types to meet the needs of singles, sharers, and families

### Shifting demographics pose a challenge for Cambridge

Cambridge rightfully has a reputation as one of the most beautiful cities in the country. Its heritage value is difficult to overstate, with over 20 listed buildings per square kilometre, and just behind Oxford and central London with its density of Grade I listed buildings. The city's local plan nods to this, stating: "An essential aspect of Cambridge's attractiveness as a place to live, work, study and visit is its character". A key challenge for the city will be how it continues to grow and adapt to changing requirements without losing that rich character. One of those key challenges will be a significant demographic shift. Oxford Economics predicts the numbers of residents aged over 60 will grow by 29% between 2021 and 2031. The population aged 25-59 is expected to fall by 12%. This is a direct consequence of the city's unaffordability, as younger households cannot afford to move into or stay in Cambridge.

As the current population ages, Cambridge will see fewer economically active households. Well-targeted policy and development will be required to attract and retain these younger households within the city itself, rather than settling further out. Losing these types of households could have negative consequences for footfall and therefore the retail and leisure offering within the city centre.

### Cambridge needs more homes to match the growth in jobs

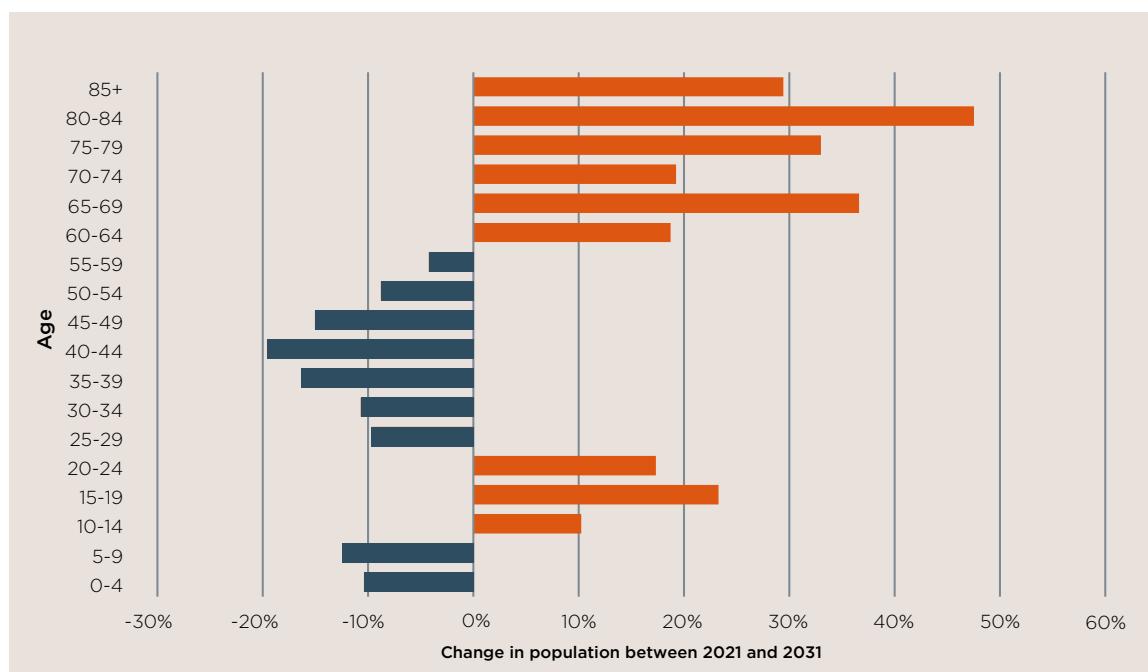
This is a challenge of the housing market, not the labour market. Employment and productivity is very strong in the city, with total employment expected to grow by 9% over the next 10 years. This growth will be driven by further expansion in the already well-established science, tech, IT and professional services sectors.

Cambridge has the jobs to attract a range of households, but not the housing market to retain them.

Instead, we see a significant number of workers within the city living outside of it in the more affordable towns nearby. The 2011 census showed just shy of 50,000 people driving into Cambridge for work, which has a significant environmental footprint. Cambridge also risks losing potential workers who reject the commuter lifestyle and would rather live in a more affordable city with an easier journey to work.

Perhaps the best way to address affordability and retain residents is with increasing supply of housing. The preferred method of estimating housing need has swung about over the past year or so, but the current system suggests that Cambridge needs 658 homes per year, with 3,854 needed across the county as a whole. This is a bare minimum, however. To make a significant dent in unaffordability, many more homes will be needed. These homes will also need to be of the right type, and in the right place.

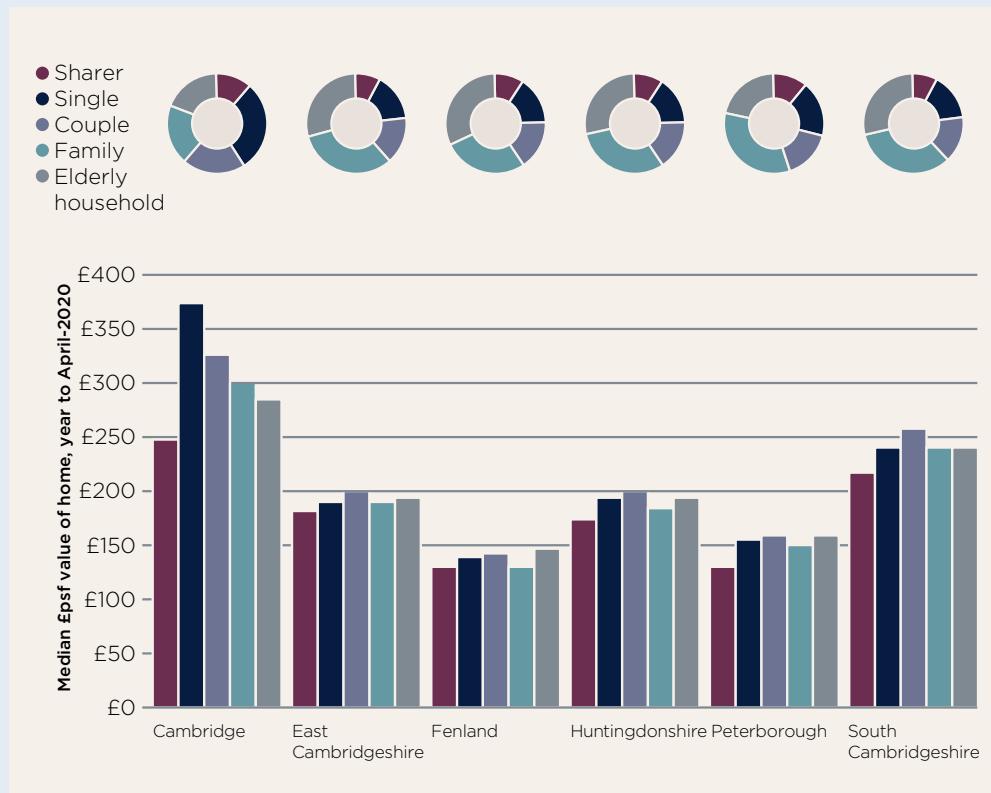
**Figure 5** Cambridge is expected to see a fall in working age households, and a boom in older residents



**Source** Savills Research using Oxford Economics

👉 Balancing the needs of the different types of households, along with delivering homes that allow for sustainable lifestyles will be a key priority for policymakers and developers within and around the city. 🌟

**Figure 6** Sharers snap up the cheapest homes



#### Future growth will require a balancing of factors

While home ownership is an aspiration for many, the large, affluent rental demographic in the city will also need to be catered for. There is a clear demand for high quality rental homes for professionals.

Balancing the needs of the different types of households, along with delivering homes that allow for sustainable lifestyles will be a key priority for policymakers and developers within and around the city.

Greater collaboration between local councils, developers and infrastructure providers will help deliver new sites in a more cohesive manner, particularly key for urban extension and new settlement projects where affordability, infrastructure and sustainability will all need to be balanced.

**Source** Savills Research using MHCLG

#### The right homes for the right households

The Standard Method provides a target for the number of homes needed but gives no steer on the type of homes. A significant number of the wrong types of homes can be actively harmful to the local market. We've split the owner-occupied households by composition and value to help give a steer on the largest segments of the market, and the price points these different types of household are currently used to.

Cambridge itself, for example, has a large proportion of single households. They make up 30% of the market and live in homes that are on average £300 per square foot. Sharers snap up the cheapest homes in the city, at £220 per square foot, with on average 3.5 adults to each sharer household. For much of the rest of the county the values are lower, but also show much less variation between household type. This suggests developers will need to be much more targeted in Cambridge than the rest of the county.







### Savills Research

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