

## **PUBLIC APPENDICES**

### **Appendix E - Market Conditions**

1. A comprehensive review has been undertaken of recently published literature and market reports to help provide clarity on the strategic direction for the site and the routes to delivery herein. A summary of the review concluded that:
2. When considering 'commercial' space in the Cambridge market, the science and technology sectors invariably dominate the conversation driven by the very high levels of occupational demand and investor appetite over the past few years. Multiple commentators observe very low levels of supply, high levels of demand and increasing rental forecasts going forward. The market could be over heated and there is significant competition for any opportunities that present on or around the existing science parks in Cambridge.
3. More traditional office supply is limited due to the lack of space for new build within the city centre. Investors and developers may well look increasingly towards refurbishments, but rental growth is also expected in locations outside of the centre if the conditions and transport connections are sufficient.
4. Industrial and mid-tech requirements are complimentary to the demand from prime science and technology occupiers and increasing levels of more affordable space for affiliated support services will be required. Due to the lack of supply, rents are forecast to grow in peripheral locations as well as the more prominent business park and city centre locations.
5. While the EZ does not presently have some of the characteristics that are driving demand at the other locations such as an identifiable anchor tenant, cluster of existing businesses and enterprise, or, relationships to academic and public institutions, its peripheral location does have significant characteristics in that it offers a 'blank sheet of paper', a relatively affordable entry cost and the opportunity to develop a long-term vision aligning to a patient capital approach.
6. There is therefore an opportunity for the market to utilise the EZ as an overflow opportunity to accommodate other uses being priced out at the more established locations as well as an opportunity to promote the EZ for science / R&D / tech related uses.

#### **Market Engagement**

7. This new direction of travel was partially established via one-to-one market engagement conversations led by our delivery advisors, PRD who undertook conversations with several investors who are currently active or seeking to make strategic investments within the Cambridge region.
8. The feedback from the consultations provided intelligence on where the EZ could be positioned and viewed within the market and has been helpful in re-shaping the strategic objectives and approach to promoting and delivering the EZ.

9. Consistent headlines from the consultations were:

*Regarding the Market*

- Confidence should be taken from the fact that opportunities to build a scheme of this size in Cambridgeshire are rare and there should be a good number of interested parties.
- Within Greater Cambridge, there is a greater foresight of longer-term land supply opportunities and less foresight of short-medium term land opportunities. Combined with the weight of investment money pursuing the science sectors at present, now is the time to bring forward the EZ.
- All the consultees had slightly different views around the target tenants, but all were confident that demand would emanate from the science, tech and R&D sectors. A different approach for the EZ might be the positioning to offer slightly lower rents, with the established science parks around Cambridge becoming 'overheated' in terms of rental levels.
- The larger the site, the more chance it has of succeeding in the long-term. Evidence around Cambridge suggests that smaller sites will only succeed in the longer-term if they have one or two growth-generating anchor businesses that spawn new businesses and directly attract other companies to the site. An example of this type of anchor might include a university faculty or major research organisation. If the site is larger, however, there is less reliance on having a key, anchor tenant.
- The HWRC will deter potential investors / developers / tenants, but it will also reduce the overall scheme size and reduce the chances of long-term success (see previous point) and would be a material consideration for investors.

*Regarding the delivery structures*

- Symbiotic relationships between the public and private sectors are welcome, recognising that each party can positively contribute to the long-term success of any future scheme
- A long lease / ground rent structure, aligned to an Overarching Development Agreement (ODA) is a recognised model that could balance SCDC's need for long-term control but also recognises that the private sector will bring most of the expertise and funding, and therefore will also take the majority of profit.
- A fundamental question that will need an early resolution is 'how much infrastructure and place-making is required upfront, and who is going to pay for it'? Investors and developers will be cautious about early-stage investment that produces no direct revenue via rent.

- Not being overly prescriptive around the uses and users of the buildings will allow more flexibility to be employed by delivery partners in targeting investment and development activity
10. Concluding thoughts were that there is pent up developer and investor demand within the Cambridge market, particularly around science, tech and R&D. The 'blank sheet of paper' scenario and the scale of the development opportunity would be appealing. SCDC would be seen as a credible partner and the market would recognise and be supportive of a development agreement type approach.