Degrees of fortune

One university city is holding up well for investors, says Nicola Venning, with the supply of new-build pivotal to the market's success

The future, for property investors, could be less than academic: despite the housing slowdown, Cambridge is bucking the national trend.

Recent research from the East of England Development Agency (EEDA) paints a robust picture of the city. For a start, there is the enormous academic population. The University of Cambridge, a global top-five research university, has over 18,000 undergraduates and postgraduates who account for 16% of households in the city, compared with a regional average of just 3%.

"This is underpinned by the Cambridge phenomenon of the growth of science parks and research centres," says Toby Greenhow of Savills estate agency in the city. These international quality research centres such as Cambridge Enterprise and the Cambridge University Discovery Fund are successfully attracting funding. Cambridge Enterprise alone has captured more than £30m of investment into 13 of its portfolio companies over the last ten months.

Cambridge also boasts over 1,500 hi-tech firms which include high-profile companies such as Microsoft and numerous pharma-ceutical companies of the ilk of Pfizer, which has just announced expansion plans.

Then there is the busy training hospital of Addenbrookes which is also growing, largely via a new 'Medipark', and like the university is a major local employer. The new Medipark, due to be finished around now, contains huge research and clinical space, world-class conference and hotel facilities plus staff housing, and will eventually be responsible for generating some 7,500 jobs.

Even without these, already over 72% of the city's working-age population is economically active, according to Cambridge-shire County Council, with over 40% being employed in healthcare, education or research. EEDA anticipates new jobs emerging in Cambridge from 2010 while the rest of the East of England will begin to bounce back from the recession from 2011 or perhaps 2012.

With its cobbled lanes, graceful colleges and tight greenbelt policies, Cambridge is a very attractive and convenient place in which to live.

Ruth Bagnall Court, a 2006 development by Luminus

London is under 50 minutes by train to King's Cross, and Stansted airport is only 32 miles away.

All of this contributes to a broad mix of potential tenants and a robust lettings market. "One- and two-bed flats are always needed," says Jane Dixon of Savills, who lets apartments from £875 to £950 per month in the modern Triangle and Gallery, two new developments near the station.

Demand

Only a mile from the city centre, a resale one-bed apartment in this suburb of mainly Victorian housing would start from roughly £200,000, which might look very pricey in most other areas. But Dixon claims that rents have been holding up well and demand has been constant throughout the year.

With a number of good schools – St Mary's School for Girls, the Perse Schools for boys and girls, the Leys (mixed) and Hills Road Sixth Form College – Cambridge is also a magnet for London families who want a different quality of life – every bit as cultural, but less of an urban jungle.

"They are renting in Cambridge while waiting for the market to settle and then will buy," says Dixon. Large family homes which let for in excess of £2,000 per month are being snapped up within days of coming on to the lettings market.

It is no surprise that most agents are enjoying high levels of activity and many had an exceptional summer.

"In Cambridge we have reduced house prices and a high yield," says David Bentley, partner with Bidwells Estate Agency in the city. "It's not rocket science that investors are coming back."

House prices in Cambridge, using Land Registry figures for the first seven months of the year, recorded annual falls of minus 14.1%. This was not as great as some – neighbouring Luton recorded an annual fall of 22.5% – but it was more than others: Greater London's annual fall to July this year was minus 10.2%. However, Land Registry figures are always historic, and since then, Nationwide has suggested that house prices are back up to what they were

The Triangle (Warren Close), a 2007 development by Laing Homes

this time last year, although still 20% off their 2007 peak.

However, this is a city where traditionally yields have never been excessive, according to Bentley. He felt that by July, yields were up from 4.5–5% on average to about 5.5–6%, buoyed by a shortage of supply of houses for sale. Although yields will have dipped slightly since, given the small rise in prices, it is worth bearing in mind that even the upbeat Nationwide does not rule out further price falls.

Before the credit crunch, Cambridge was earmarked as being in a growth region. Specifically, it was included in the London Stansted–Cambridge–Peterborough (LSCP) Growth Area with 47,500 new homes planned. Now, however, much of this new housebuilding has stalled, although demand is still there.

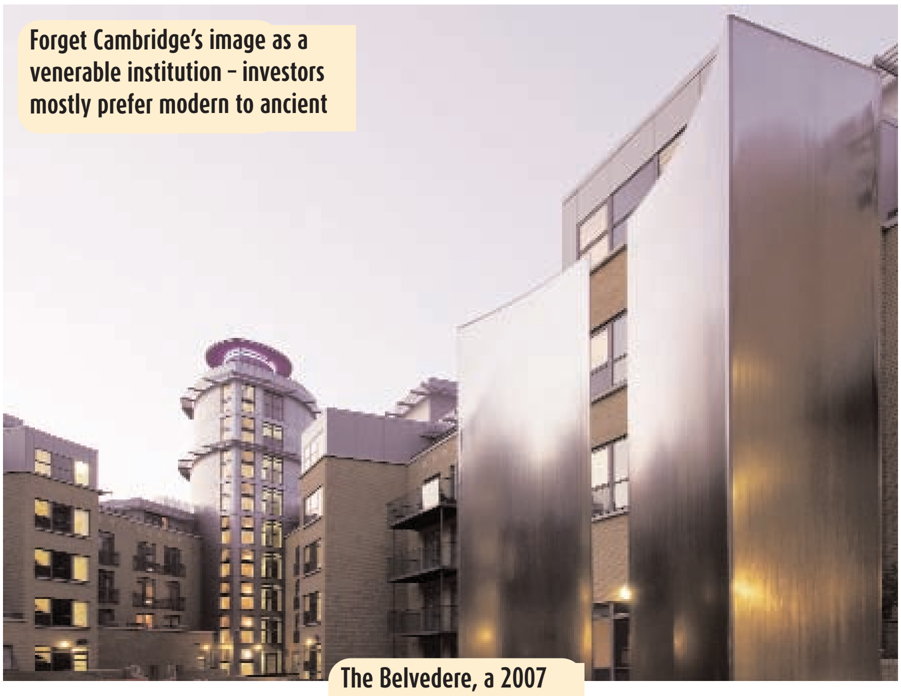
"We are staring at a gap – there is little or no new-build stock and this will put pressure on resale and possible price recovery if there is not enough to go around," says Savills' Greenhow.

Shortage

In fact, this shortage of new housing stock is already beginning to feed into the market. "We have seen prices increase for lower value stock," says Bentley.

Richard Hatch, residential partner at another agent, Carter Jonas, says: "People want somewhere to put their cash that is safe and this has been feeding into the market since February."

He adds: "What people see with Cambridge is its record for value holding out in difficult times."



Forget Cambridge's image as a venerable institution – investors mostly prefer modern to ancient

The Belvedere, a 2007 development by Highland

He recommends to investors the Victorian two-ups, two-downs near Glisson Road, between Hills Road and Mill Road. Small houses in reasonable condition off Mill Road start from approximately £250,000. Again, these prices sound steep to investors from outside the area.

However, the fact is that your choices are limited, and if it is new-build you are after, then your chances of purchasing are decidedly small. Just three new developments are starting or just completing in Cambridge this autumn – and with such low supply, prices are certainly not for the faint-hearted.

Crest Nicholson is offering the next phase of Kaleidoscope, a scheme of 51 off-plan units off Brooklands Avenue in the south-west of the city. From £240,000, the one- and two-bed apartments come with parking and bicycle storage and are due to be completed within a year.

High prices

Nearby, Accordia Living is a mixed scheme of social and private housing where Redeham Homes has just completed another stage of its development of 190 private flats and houses – but prices seem extremely high. Two-bed apartments start from £379,950 while reasonable sized but hardly palatial three- and four-bed houses at 2,054 sq ft are from £745,000.

This month (November), Highland Homes will start Artisan, a scheme of 93 private one-to three-bedroom apartments as well as 40 affordable units on Hills Road. With underground parking, prices are expected to start from £250,000.

"There has never been a better time to build," claims David Hughes, managing director of Highland Homes, talking about his land and construction costs. "But for us, the true test of the market will be next September when we will be bringing these forward to sell on completion," he says.

Meanwhile, at Orchard Park, formerly the Arbury Estate, near the A14 or King Hedges Road in the north of the city, construction work has recently resumed after being mothballed in September 2008. The aim is for 900 mixed social and private houses and flats to be completed by 2011, with four-bedroom houses starting from a far more buyer-friendly price of around £245,000.

Next year some of the bigger strategic sites will come through, says Bentley. Developers will be encouraged by what is happening overall in the market – ie, slow release of new-builds and high demand.

Neil Robinson, a director of residential investment and buy-to-let specialists Chard Robinson, has been buying for clients and himself in Cambridge for over 13 years.

He recently snapped up a tired ex-university Victorian terrace house in the popular (and expensive) village of Newnham, half a mile from the city centre, for £180,000. He plans to add value to it. "I will refurbish it and turn it into a three-bedroom, three-bathroom house and let it for between £1,100–£1,400 per month," he says.

However, Robinson has decided not to buy any more properties for the time being. "Prices are rising quite fast at the moment, so we might do some more selling. Purchasers, particularly first-time buyers, don't mind tired ex-rental and it is a good time to change your portfolio around if some properties are looking dated," he says.

So should buyers be wary of a potential glut of new-build in times to come? "To be fair, this buoyant market could have gone the other way before the recession because there were so many pieces of land with planning permission," he says.

He adds that it's definitely a situation to watch. He hopes that future developments will be delivered one by one over the next decade, "because then the chance of over-supply is reduced".

However, he still believes that Cambridge is a good bet and that investors, particularly those with cash, are returning to the market, albeit cautiously.

The clear attraction for investors is twofold: the transient working population and the stranglehold on available land for property development both within and outside the city.

Robinson says: "Whilst rents have seen a 10% fall since the heights of 2007, demand and occupancy have bucked national trends and remained strong in Cambridge throughout the recession.

Influence

"Three factors will each have an influence on the future rental demand and occupancy: interest rate rises, first-time buyer confidence and rental property supply. Demand is currently high and new rental housing stock scarce. Interest rate rises could affect landlords' pockets adversely but at the same time improve tenant retention and maintain high occupancy.

"If property prices continue to rise with no sign of rate changes, first-time buyers will gain confidence and move out of rental property, provided that the liquidity of funding also continues to improve. Both of these are relatively short-term influences."

He believes, however, that there is a good chance of general stability and slow upward growth being maintained in the Cambridge market and that it is the nature of the supply and volume of rental stock that will be the chief influences on the city's lettings market.

www.landregistry.gov.uk
www.chardrobinson.com
www.Redehamhomes.co.uk
www.kaleidoscopecambridge.com
www.savills.co.uk
www.bidwells.co.uk
www.carterjonas.co.uk
www.highlandltd.co.uk

St Matthew's Gardens, a 2003/2004 development by Wilson Connolly