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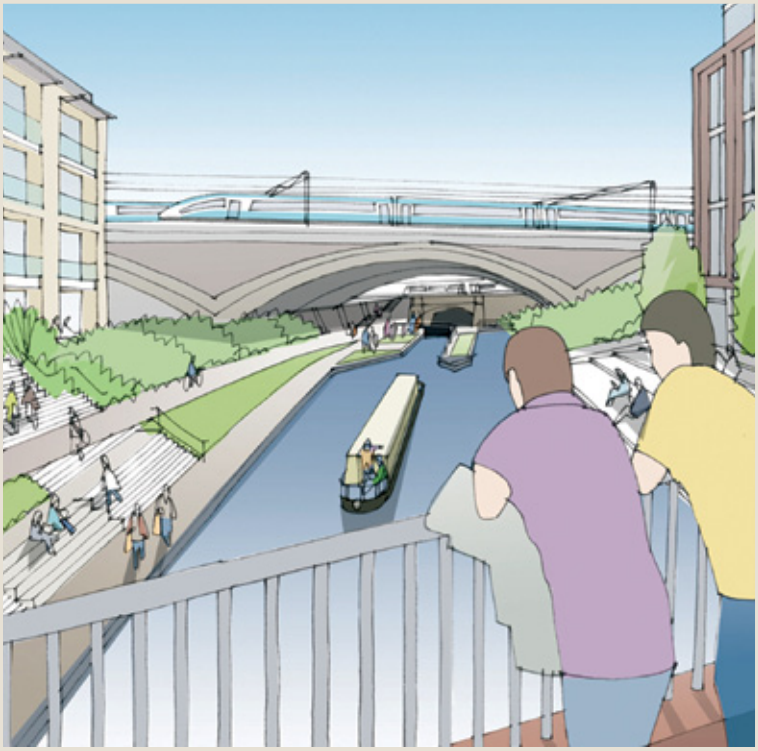
Spotlight
The Impact of HS2 on Development 2015



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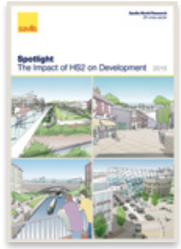
Foreword
THE IMPACT OF HS2 ON DEVELOPMENT



■ **Impetus for change.** The initial impact of HS2 will be on Birmingham. The city is already changing fast and undergoing tremendous regeneration and development. Large employers are expanding and, in turn, not only generating more jobs but also a bigger number of higher skilled positions. These changes have not gone unnoticed by investors, many of which are looking beyond London for new opportunities.

The coming of HS2 enables the city to build on the momentum. Increased connectivity between places where synergies exist increases the potential for trade. Faster train journeys and increased capacity also have the potential to prompt the reorganisation of economic activity between places with companies moving or expanding to more efficient locations.

■ **Demand for Birmingham.** While the West Midlands was hit worse by the last recession than many other regions, the scope for catch-up is strong. Relatively low employment and housing costs compared with those of London will support expansion.

We estimate that moving a position from central London to the West Midlands could save £8,000 pa in office property costs and £10,000 pa in staff costs.

Linking Birmingham's growing financial district and tech sector, including the flourishing creative enterprises in Digbeth, with London via HS2 adds to the attraction for both occupiers and investors enabling further growth.

■ **Housing.** Growth will put pressure on its already stressed housing market. Birmingham needs 89,000 new homes between 2011 and 2031, the equivalent of 4,450 a year. But only 1,810 homes were added to the mix in the year to March 2015, leaving a shortfall of 2,640 homes.

If supply remains restricted, the increased demand for homes will push up house prices. Over time, the gradual influx of wealth both in the shape of commuters' salaries and a greater number of better paid corporate employees in Birmingham means that the top end of Solihull and Birmingham are likely to outperform the local market.

■ **Regeneration around Curzon Street.** The arrival of HS2 in a newly constructed station will encourage the growth of the city centre eastwards. By instigating physical changes in the surrounding areas and bringing sites forward, the line effectively expands the areas suitable for development.

The new station is likely to act as a catalyst for development in Eastside and the eastern side of the City Centre Core. Improved connectivity enhances the potential to increase densities.

■ **The potential for Manchester.** Plans for HS2 provide additional stimulus to redevelop areas around Manchester Piccadilly station, particularly the sites which missed out on regeneration in the last economic cycle.

However, given the lengthy timeframe, it is difficult to disentangle how much development will be brought forward directly as a result of HS2 from what would have happened anyway.

■ **London Terminus.** Euston station is the planned terminus station for HS2 in London, providing scope for redevelopment around the station. There is the potential to provide both quality public space and commercial, residential and retail provision. While there may be difficulties to overcome with development around the station, it is essential that HS2 terminates in Central London. ■

EXECUTIVE SUMMARY

Connectivity will stimulate growth in a supportive business environment
See pages 04/05

With relatively low employment and housing costs, Birmingham's potential for growth is strong
See pages 06/07

The creation of development zones in the centre of Birmingham presents opportunities for investment
See pages 08/09

The second leg of the HS2 project could act as a catalyst for further regeneration in Manchester and Leeds
See pages 10/11

The biggest impact of the HS2 project is it provides the impetus for change
See page 12

The politics
WHAT EFFECT WILL HS2 HAVE?

Connectivity will stimulate further economic growth, supported by the devolution deal and Government investment

£50bn
The estimated cost of the HS2 infrastructure project

£1bn
Government investment in West Midlands devolution deal

Six years have passed since a second high-speed line was proposed to address capacity constraints on the West Coast Mainline. HS2, the £50 billion infrastructure project to build a high-speed rail line from London to Manchester and Leeds, via Birmingham, was initially backed by the Labour Government in 2009 and gained the support of the Coalition Government in 2010.

Supporters of the project argue that it will help 'rebalance the economy' by attracting investment to regional cities and creating new jobs. The Government estimates that HS2 itself will create 25,000 jobs during construction.

It has also been argued that HS2 will generate local economic opportunities and development beyond the impacts of this direct expenditure.

HS2 Ltd predicts that additional commercial development brought forward as a result of HS2 in areas immediately surrounding HS2 stations could support up to 100,000 jobs (The strategic case for HS2, 29 Oct 2013).

Criticism

However, the project has also attracted plenty of criticism. Critics of the project argue that it represents poor value for money, draws investment away from other local infrastructure projects and risks turning regional cities into dormitories for London businesses, sucking talent towards the capital and sapping regional cities of their local identity, rather than bridging the north-south divide.

In a report published in March this year, the House of Lords Economic Affairs Committee, stated that they: "do not believe that the Government has shown that HS2 is the best way of stimulating growth in the country." Peers questioned whether improving regional links between northern cities might not be a more cost effective way of stimulating growth, and called upon the Government to present better analysis to justify the project.

Jeremy Corbyn's ascent to the Labour leadership raises other questions. The new Labour leader's voting record shows no enthusiasm for HS2 and he has openly criticised the project in the past. However, given that his Northern Future policy paper makes no specific reference to HS2, it is possible that Corbyn will adopt the Labour party's stance on the project which had received wide cross-party support before the election.

The Hybrid Bill

The controversy surrounding the line is reflected in the fact that over 120 amendments have been made to the Hybrid Bill which is currently winding its way through Parliament. The Bill to secure the powers to construct Phase One was tabled in 2013 and is expected to achieve Royal Assent by the end of 2016, after which construction will begin.

In the meantime, HS2 Ltd, the team backed by the Department for Transport developing the service, face three assessment reviews by the Government, the first of which was due to take place this autumn but has been deferred until the New Year.

However, the political will behind the project was made clear over the summer by the new Conservative Government who interpreted its election victory as a 'vote of confidence' for HS2.

The recent appointment of Lord Adonis as head of the new National Infrastructure Commission (NIC) is a further sign of the Government's determination to see the project through. Adonis was the secretary of state for transport who initiated HS2 under the last Labour Government and he is still one of the project's most staunch supporters.

This paper therefore starts from the proposition that HS2 will happen and focuses primarily on its effects on Birmingham which is the first phase of the project.

Work is expected to start in 2017 on Phase One of HS2 which will run from London to Birmingham and is estimated to be completed by 2026. The second phase, in which the line splits into a V shape running to Manchester and Leeds, should begin later.

The impact of HS2

Increased connectivity between places where synergies exist increases the potential for trade. It also allows for a reorganisation of economic activity between places with companies moving or expanding to more efficient locations.

However, good connectivity in itself does not automatically attract investment. Connectivity allows growth where the conditions exist to enable market participants to take up opportunities (Rosewell & Venables, April 2014).

The report argues: "A key question is therefore whether firms and organisations in areas of increased accessibility have growth potential, economies of scale potential and a willingness and ability to invest in these."

Investment in HS2 must therefore be accompanied by a supportive business environment and structured plan of action if regional cities are to reap the full value of the new line.

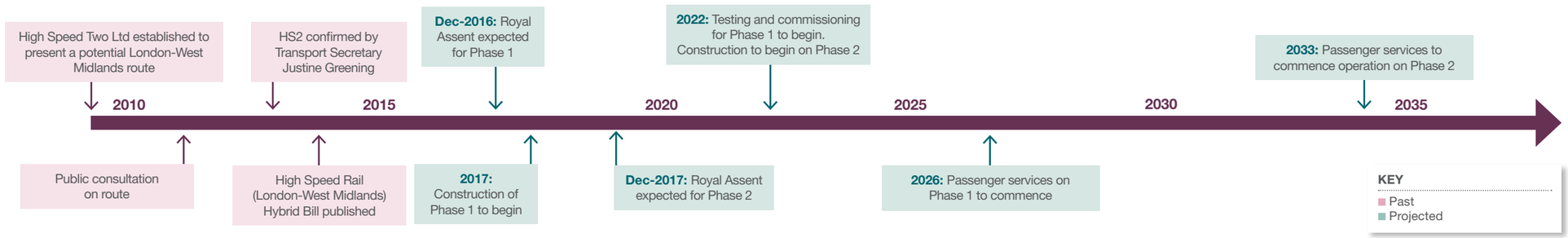
As we explore in this document, this is the right time for Birmingham both politically and economically. The recently announced West Midlands devolution deal, includes over £1 billion of Government investment to boost the regional economy. The combined councils will also receive control of £36.5 million a year of funding allocation over 30 years.

This comes at a time when the commercial occupier markets and residential markets are strengthening as economic growth builds momentum and attracts private investment. As a massive national project with a deadline, HS2 throws the region into the limelight and serves to further galvanize development activity.

FIGURE 1
HS2 high-speed rail network, phases one and two

Source: Department for Transport

FIGURE 2
The HS2 timeline



Source: www.nationaltrust.org.uk/article-1356391966618/ www.gov.uk/hs2

Market dynamics

THE POTENTIAL FOR GROWTH

Birmingham is already changing. The new high speed link creates synergies between businesses at both ends of the line

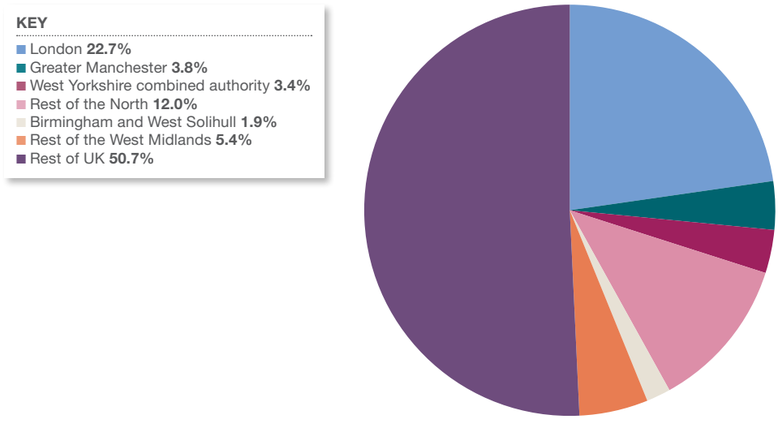
Birmingham is already undergoing substantial transformation following high levels of investment from both the public and private sector. The £600 million redevelopment of New Street Station, which includes the Grand Central shopping centre, has provided the city with an impressive transport hub and seen significant visitor footfall since opening in September.

Investment in public infrastructure is generating impetus for private sector investment. The first phase of the £500 million Paradise development, which expands the city's central business district, is already underway. Outside the city, the £200 million Resorts World recently opened at the NEC.

The profile of investors in the city has expanded from UK funds to overseas investors. Over the last two years we have seen interest in commercial property from Germany, USA, Middle Eastern sovereign wealth and the Far East as investors diversify away from London.

FIGURE 3

Distribution of Gross Value Added (GVA) 2014



Source: Oxford Economics

Further growth

As the economy strengthens, there is potential for further growth. The West Midlands was worse hit by the last recession than many other regions. Having grown more slowly than the UK average over the last decade, it has lagged behind its potential. While Birmingham and Solihull contributed around 2% of GVA last year, the region as a whole delivered 7.3% of national growth. The devolution deal together with the galvanizing impact of HS2 will help the region increase the £80 billion it currently contributes to the UK economy.

The scope for growth is strong. Capital Economics expects the West Midlands to be one of the stronger performing regions over the next couple of years, supported by a robust domestic car market and strong exports. This growing confidence is reflected in plans by Jaguar Land Rover to spend over £3 billion on new product creation and capital expenditure.

We expect Birmingham's relatively low employment and housing costs compared with London, will support further expansion. Our analysis shows that the differential between office rents in Birmingham and the City of London has grown by 48% over the last three years. We therefore estimate that moving a single position from central London to the West Midlands could save on average £8,000 pa in office property costs and £10,000 pa in staff costs.

Corporate expansion

There is a rising trend in corporate groups in the UK to either move away or expand from central London to major regional cities such as Birmingham and Manchester bringing substantial inward investment.

Cost pressures, regulation and compliance are all factors that have contributed to this over the past few years as has the search for more affordable secondary locations in which to place 'back office' operations. More recently, there have been moves to bring higher value jobs and management roles to the regions.

One example is Deutsche Bank's shifting of front office investment banking jobs to its Birmingham office, employing traders at a fraction of the cost of basing them in London.

In one of the largest inward investment deals in the city for over a decade, Deutsche Bank acquired all 134,000 sq ft of office space in Five Brindleyplace, in addition to its existing offices at One Brindleyplace.

This year, HSBC agreed an even bigger deal to forward purchase 210,000 sq ft at 2 Arena Central in a move that allows it to bring its UK personal and business banking operations to Birmingham. The city is already home to more than 2,500 HSBC employees, and around 1,000 head office roles will move from London to Birmingham before the end of 2018.

As well as established companies, there is also growing demand from start-ups. Over 18,000 new businesses were registered in Birmingham in 2014, the second highest concentration in the UK.

Oxford Economics forecasts the number of workers in Birmingham to increase by 4.9% by 2030, with the professional, scientific and technology sectors growing fastest.

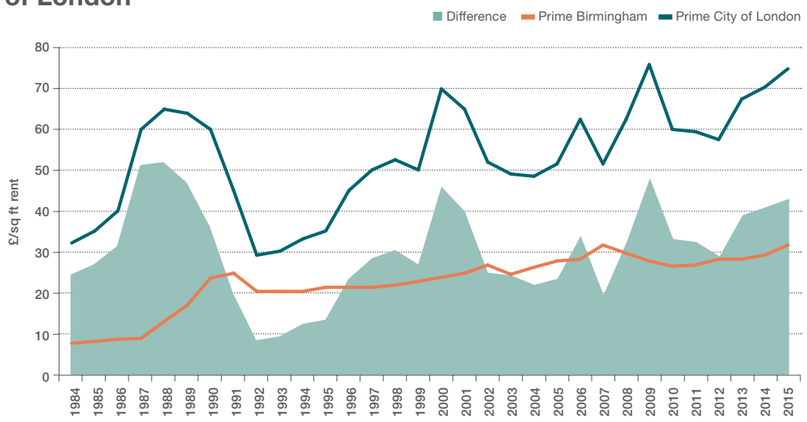
This growing occupational demand supports investor demand. Linking Birmingham's growing financial district and tech sector, including the flourishing creative enterprises in Digbeth, with London via HS2 adds to the attraction for both occupiers and investors enabling further growth.

Strong prospects for economic growth in the West Midlands

Rising trend in corporate groups in UK to move away from London

FIGURE 4

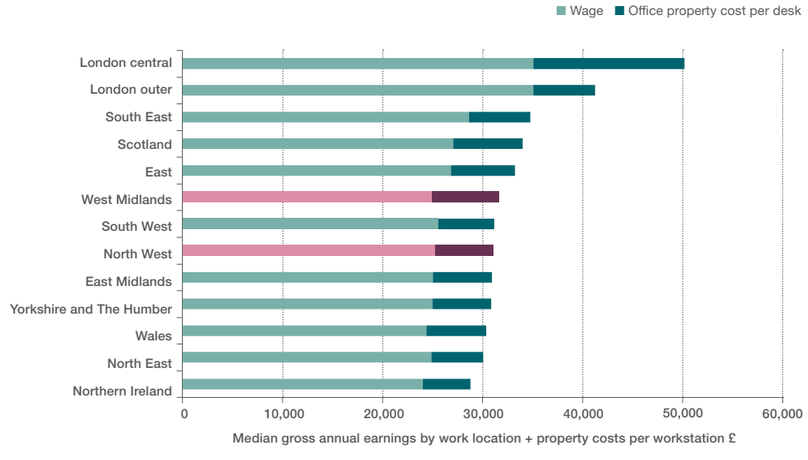
The gap between office rents in Birmingham and the City of London



Source: Savills

FIGURE 5

It's not all about office costs



Source: Savills, ONS

New Street Station

The city
CHANGING SHAPE OF BIRMINGHAM

Creating major development zones around Curzon and UK Central provides opportunities for investment

▼ Curzon Square

"This redevelopment would open the route from HS2 into the core of the city centre"

Momentum has been gathering pace following the unveiling of the Curzon HS2 masterplan which aims to maximise the development potential around the station, particularly in Eastside, Digbeth and the eastern side of the City Centre Core.

According to Birmingham City Council, these areas alone can provide 600,000 sq m of employment space and 2,000 new homes. Within the masterplan area, the regeneration is also expected to provide 14,000 jobs for the period to 2056 and as a result generate £1.3bn in economic uplift.

Improved connectivity brought about by the arrival of HS2 in a newly constructed station on Curzon Street will also enable higher densities to help address the increasing demand for office, retail, and housing space in the city.

Near the terminus, redevelopment of Martineau Galleries has potential. The anticipated masterplan is likely to focus on offices, residential, hotels and ancillary retail – a move away from the previous Martineau Galleries retail scheme.

Crucially, this redevelopment would open the route from HS2 into the core of the city centre, leading to the financial district of Snow Hill. The third and final phase of Birmingham's Snowhill development is due to start soon, reflecting growing demand for premium office space and supply shortage on the back of increasing employment activity.

The effects of regeneration around the station would also support development in the existing knowledge quarter of Eastside, home to Aston and Birmingham City Universities.

More extensively, it could catalyse development opportunities in adjoining areas, such as Smithfield lying just south of the Bullring and in Digbeth, the creative quarter. However, this is subject to issues of accessibility through and around the station being addressed. Digbeth is also home to two conservation areas. So, while potential exists, there are issues to address when considering regeneration.

Birmingham Interchange

In addition to a station at Curzon Street, HS2 plans include an interchange station adjacent to Birmingham Airport and the National Exhibition Centre (NEC). This will provide easier access to HS2 for those living in towns to the east and south of Birmingham, such as Solihull and Coventry. Solihull Council has published an initial statement envisaging 30,000 new jobs around this interchange station.

The impact could be even greater. By adjoining the airport, NEC, Resorts World, Jaguar Land Rover and Birmingham Business Park, the new interchange enhances the potential for development in the area.

Given that a high-speed rail interchange would place Birmingham Airport just 38 minutes from London, and the ongoing debate regarding capacity at London airports, HS2 could provide an opportunity for the airport to compete effectively with Heathrow and Gatwick. These links would improve the area's attractiveness to occupiers and investors, potentially attracting more inward investment.

Housing

Birmingham's better connectivity enhances its potential as a location for headquarters, attracting more inward investment and drawing in higher value jobs. Faster access to London's large base of suppliers increases the chances other corporates will follow Deutsche Bank and HSBC, creating new sources of higher skilled jobs in the city.

Growth will put pressure on its already stressed housing market. Birmingham needs 89,000 new homes between 2011 and 2031, the equivalent of 4,450 a year. Given that not all of these new homes can be accommodated within the city's local authority boundaries, neighbouring councils will also come under pressure to house Birmingham's rising population.

Birmingham saw 1,810 net additional homes delivered in the year to March 2015, which leaves the city with an annual shortfall of 2,640 new homes, even before the backlog is taken into account. This shortfall could build up to at least 26,000 homes from now until HS2 is expected to start operating in 2026, by which time Oxford Economics projects that Birmingham's 1.1 million population will have grown by 8.0%.

Price rises

The increased demand will inevitably push up values if supply remains restricted. With frequent trains and a journey time into London of just 30 minutes and a population size similar to Solihull, Reading provides a proxy for future values in Birmingham. Figures suggest a greater convergence potential for residential values than for office costs.

According to the Land Registry, average house prices in Reading stand at £253,756, still well below London's average of £490,926 but higher than either Birmingham (£118,926) or Solihull (£214,554).

Birmingham's and Solihull's residential market may also feel the impact of London wealth more directly as more frequent commuting between Birmingham and the capital becomes possible via HS2. However, as this is likely to be limited to higher paid professionals given the ticket costs, the greatest impact is likely to be at the higher end of the market.

Over time, the gradual influx of wealth both in the shape of commuter's salaries and a greater number of better paid corporate employees in Birmingham means that the top end of Solihull and Birmingham are likely to outperform the local market.

Increasing Density

If HS2 could drive up house prices it also provides opportunities to increase housing supply. Better connectivity enables higher densities.

The local development framework recommends a city centre density twice as high as the density for suburbs. By extending the city centre further eastwards, HS2 would allow denser development and could bring forward a significant increase in Birmingham's housing supply.

FIGURE 6

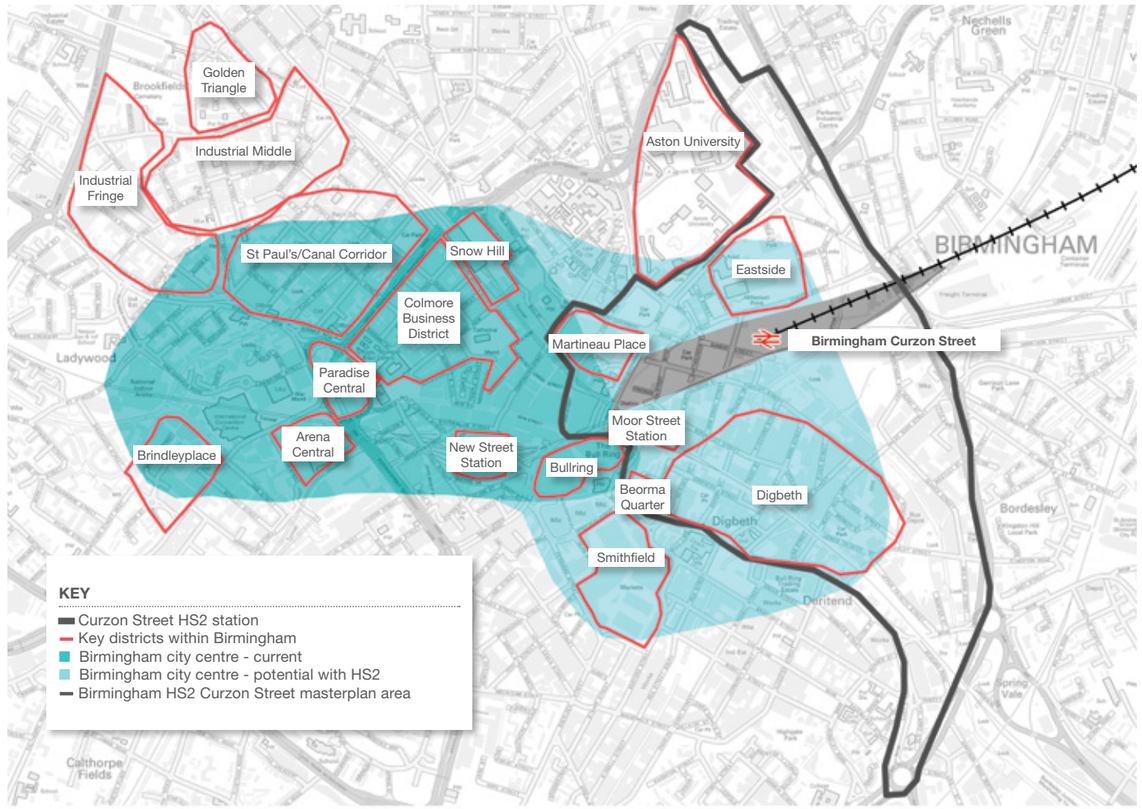
The comparative cost of housing

	London	Birmingham	Manchester	Solihull	Reading
Average house price (12 months to August 2015)	£535,941	£172,628	£159,262	£274,864	£280,690
Average flat price (12 months to August 2015)	£464,605	£125,142	£148,026	£167,399	£200,660
Median monthly 2 bed rent (2014)	£1,264	£587	£583	£659	£863

Source: Land Registry, Rightmove

FIGURE 7

The potential for development in Birmingham city centre



Source: Savills, Birmingham Curzon Masterplan

Northern Powerhouse
BUILDING ON PHASE TWO

The second leg of the HS2 project could act as a catalyst for further regeneration in Manchester and Leeds

If Phase One is set to join London to the West Midlands by 2016, Phase Two is expected to take the line onwards to the north of England by 2032-33, splitting into two branches with a western leg going to Manchester Piccadilly via Crewe and Manchester Airport and an eastern leg going to Leeds New Lane via the East Midlands Hub at Toton and Sheffield Meadowhall.

By linking key northern cities, the full HS2 'Y' network, alongside local rail upgrades and plans for the TransNorth east-west rail links, is an important element in bringing together the Northern Powerhouse as a single economic entity.

Manchester

With devolved powers over transport, housing and planning (including public sector land) as well as an agreement to have an elected Mayor from 2017, Manchester looks set to benefit from central Government's drive to rebalance the economy. Oxford Economics expects Manchester's economic growth to be above the national average over the next five years.

Strong political leadership and improving local economy is already being reflected in emerging plans for new development. Following a long recession, there are currently 2,500 new homes under construction in central Manchester and Salford, and over 1 million sq ft of new build office space is planned for the city centre over the next two years.

House prices have ticked up 2.8% to an average of £110,000 over the past year and office rents have reached £32 per sq ft in the city centre following an increase in take up to 1.3 million sq ft over the past year.

However, Manchester is only building half of the 9,654 new homes it needs every year and there is still an undersupply of purpose built student accommodation in a city with the UK's second highest student population.

Demand is expected to grow. With the cost of housing and office rents now at record highs in London, we expect that Manchester's lower costs will prove to be a draw northwards. We estimate that the cost saving per employee for a company moving or expanding from central London could be almost £10,000 per person a year in office property costs and the same again per person in staff costs.

Development

Plans for HS2 provide additional stimulus to redevelop areas around Manchester Piccadilly station, particularly the sites which missed out on regeneration in the last economic cycle. According to Manchester City Council, the redevelopment around Manchester Piccadilly station has the potential to provide 625,000 square metres of commercial floorspace, 100,000 square metres of retail and leisure facilities and 4,500 new homes.

Figure 8 highlights the different areas around the station. To accommodate HS2, Manchester Piccadilly would be expanded opening up on the north side of the existing station towards Piccadilly Central. To the south, there is much political will to redevelop the government owned land in Mayfield. Adjacent to that, the University of Manchester North Campus is due to be vacated for wide scale redevelopment.

Such big regeneration schemes undoubtedly benefit from the positive sentiment and political focus stimulated by a project on the scale of HS2. However, given the lengthy timeframe, it is difficult to disentangle how much development will be brought forward directly as a result of HS2 from what would have happened anyway.

Leeds

The current plan for the new station in Leeds will be a five platform station with a pedestrian link to the existing Leeds City station. It provides the catalyst for redevelopment of 136 hectares of land on the south bank comprising areas of Holbeck urban village, the old Tetley Brewery and Leeds Dock according to Leeds City Council.

The site is expected to support 5,000 new homes, approximately a year's required need in an undersupplied market. The city council has identified that Leeds requires 4,930 new homes a year although only 1,980 were added to existing stock in the year to March 2015.

Leeds is expected to see economic growth over the next five years in line with that of Greater Manchester, above the national average according to Oxford Economics. Providing 250,000 sq m of office space on the redeveloped site will help to provide for this anticipated growth.

London Terminus

Euston station is the proposed terminus for HS2 with an interchange at Old Oak Common. The plans provide scope for redevelopment around the central London station and the creation of a new neighbourhood as part of the major regeneration of Old Oak Common in west London.

In central London, HS2 and accompanying development provide the opportunity to accommodate companies wanting a foothold in London and Birmingham or Manchester or Leeds, in the same way as the Kings Cross regeneration allows Microsoft staff to travel easily between London and Cambridge.

To enable these synergies to develop and to reap the full economic benefits of a high-speed link, it is essential that HS2 terminates in central London. While there may be difficulties to overcome with development around Euston, parallels have been drawn with the regeneration of King's Cross and St Pancras and there is strong appetite to go beyond the current plans and provide both quality public space and commercial, residential and retail provision.

FIGURE 8

Manchester HS2

PICCADILLY NORTH
- Adding infill to the historic street pattern

PICCADILLY PLACE
- Links between station entrance and city centre

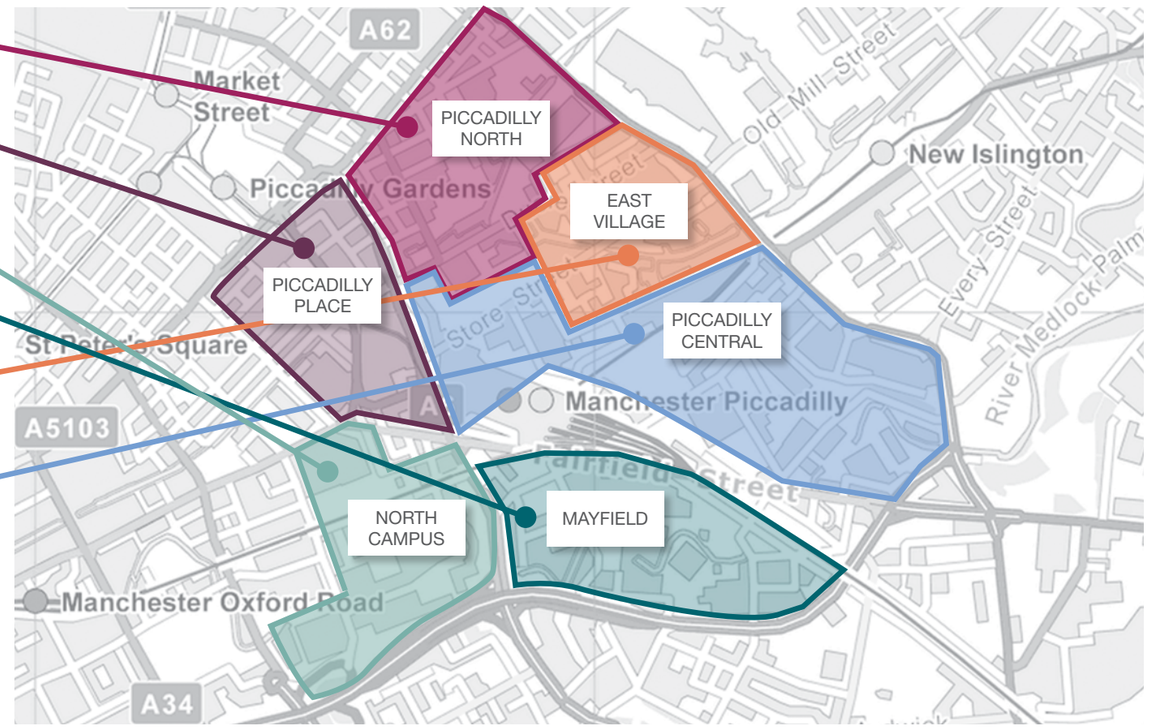
NORTH CAMPUS
- Links between station and student quarter

MAYFIELD
- New mixed-use city quarter on river bank
- Public land and Government backing
- Potential civil service relocation site (Mayfield Strategic Regeneration Framework)

EAST VILLAGE
- Mixed-use with residential focus
- Buildings surround existing canal basins

PICCADILLY CENTRAL
- Offices, high rise apartments and public park
- Adjacent to new platforms and car park

MANCHESTER PICCADILLY STATION
- Four HS2 platforms to be added on the north side of the existing station
- Station facilities to be provided below the new platforms



Source: Manchester City Council

OUTLOOK

■ **Change:** The biggest impact of HS2 is the impetus for change. The expectation of a fast train link has put the spotlight on Birmingham and enhanced its status as England's second city. HS2 supports the transformation that is already occurring and adds to the city's attraction to corporate occupiers and investors, both within the UK and overseas.

■ **Regeneration:** The physical changes a new line requires offer great potential for further development and allows for higher densities to be built. Investment in HS2 station sites creates a focal point around local areas and can kick-start regeneration.

■ **Growth:** The arrival of HS2 in a newly constructed station on Curzon Street in Birmingham will further encourage the growth of the city centre eastwards, expanding the areas suitable for development and addressing the increasing demand for office, retail, and housing space in the city. Eastside and the eastern side of the City Centre Core are likely to benefit. There is potential for regeneration in Digbeth subject to the issues of accessibility through and around the station being addressed.

■ **Increasing capacity and reducing journey times:** Linking Birmingham's growing financial district and tech sector with London via HS2 creates synergies with skills and knowledge more readily transmitted between firms and cities at both ends of the line. That new tech start-ups are struggling to afford the growing cost of employment space around London's Silicon roundabout could work in Digbeth's favour but there are planning challenges to overcome.

■ **Housing demand:** Growing employment and population will increase demand for housing and exacerbate Birmingham's housing shortage. HS2 creates the opportunity to address this providing the potential to increase densities in areas of mixed use development and regeneration around the stations. However, it is unlikely to eradicate the housing shortfall completely. Surrounding local authorities will still be required to help address Birmingham's housing need.

■ **House price growth:** Rising demand and limited supply is set to put pressure on house prices. Over time, one of the effects of better connectivity with London is a potential moderate convergence of values. The gradual influx of wealth both in the shape of commuters' salaries and a greater number of better paid corporate employees in Birmingham means that the top end of the housing market in Solihull and Birmingham are likely to outperform the local market.

■ **Inward investment:** Birmingham is already drawing in wealth from investors looking beyond London. Projects triggered by HS2 provide further opportunities to harness this interest and attract the level of private investment needed to make the most of the new link beyond public money spent on the line itself.

■ **Essential to plan ahead:** Enhanced connectivity via HS2 will support Birmingham's growth but connectivity alone is not enough. To reap the full benefit of HS2, Birmingham must continue to provide a supportive business and political environment. The devolution deal gives the region greater power to galvanize action on the back of HS2 and build on the growth strategy outlined by the Greater Birmingham and Solihull Local Enterprise Partnership this summer.

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