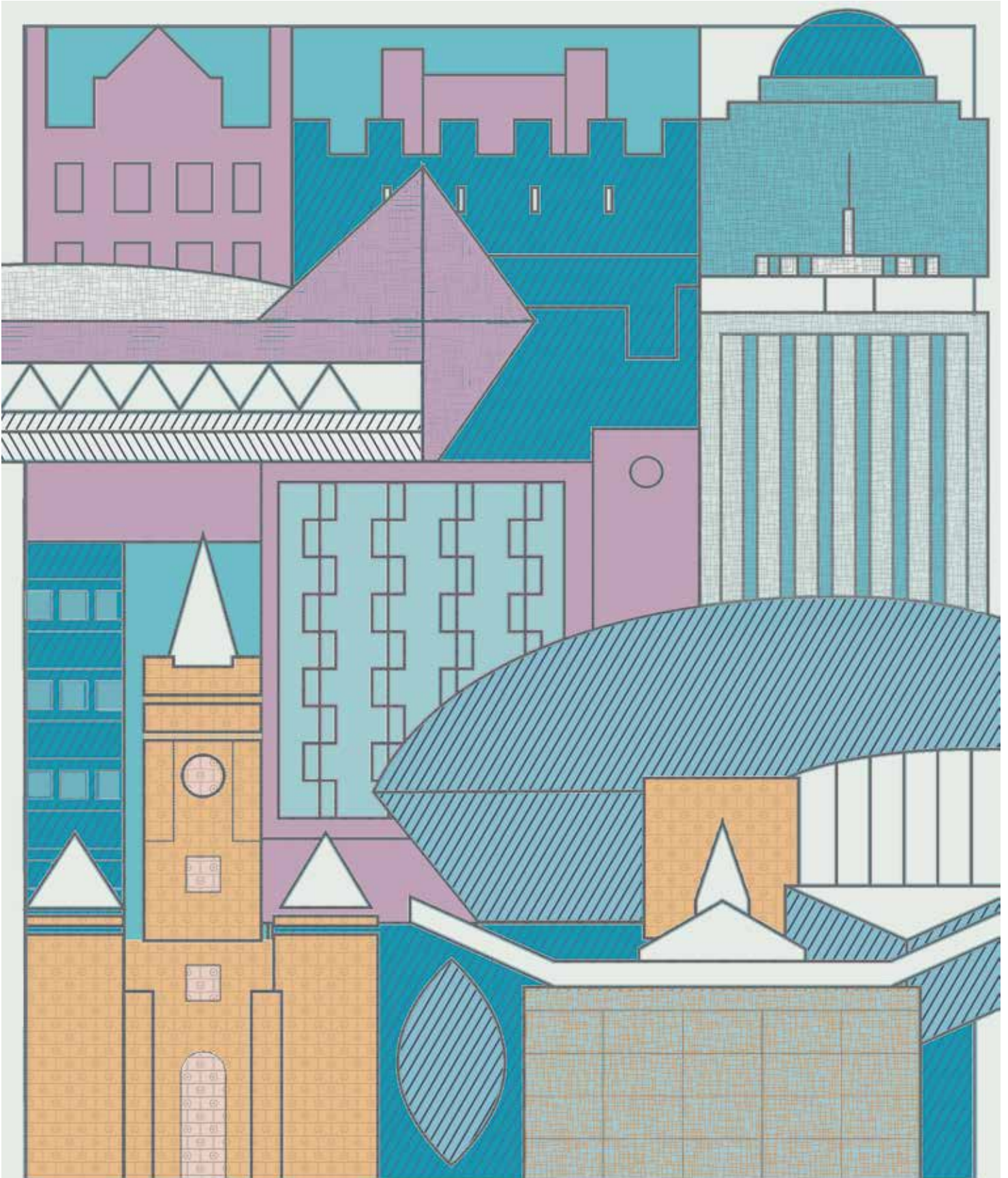


Cardiff: Connecting the City



● Maintaining growth ● Developing the city centre ● Unlocking regional potential



Photo © Meshroom

Punching above its weight

Cardiff is on the verge of a sustained period of growth, but connectivity will be key to unlocking the full potential of the capital region

Cardiff is half the size of the next largest of the nine UK Core Cities, Liverpool, but it punches well above its weight. As the primary economic hub for South Wales, the influence of the city reaches well beyond its boundaries.

Nearly 77,900 people, a third of the workforce, commute into the city each day which demonstrates the important economic and social role Cardiff plays in relation to the wider region. It is the sixth biggest retail centre in the UK, and attracts over 20 million visitors a year, bringing £1 billion to the local economy.

Strengthening markets

The real estate market has remained resilient despite the current political uncertainty. House prices are now 21% above their pre 2008 peak, in line with Birmingham and ahead of Manchester and Leeds. Cardiff saw house price

growth of 6.1% in 2018, well above the England and Wales average of 1.9%.

Despite this strong price growth, housing remains relatively affordable in Cardiff, with an average house price to average earnings ratio of 6.58. This is in stark contrast to Bristol, which despite having similar average annual earnings of £27,000, has a house price to earnings ratio of 8.99. Cardiff is therefore well placed to attract those becoming priced out of areas on the other side of the River Severn.

Office space is similarly affordable, and attractive in comparison to Bristol. Grade A office rents in Cardiff are at £25 per sq. ft., with the potential to rise to £27 per sq. ft. for new supply.

In contrast, top rents in Bristol are reaching £35 per sq. ft., and affordability is becoming a constraint on further growth.

A growing city

Cardiff is projected to see population growth of 25% by 2034, a rate of growth that exceeds all the other UK Core Cities and is even higher than London. According to Oxford Economics, employment is forecast to grow by 12% by 2030, bringing 27,600 new jobs to the city, and outpacing the UK growth forecast of 8%.

The strongest forecast growth is expected to be in the professional, scientific and tech sector, which is expected to grow 60% by 2030. There is also strong growth forecast for the administration and information sectors, which are anticipated to grow by 56% and 46% respectively.

This projected growth is attracting investment. During 2018 Cardiff saw total commercial investment volumes of £408 million, 34% above the

Cardiff
All You Need
To Know



£1.2 billion
Investment in the
Cardiff Capital
Region



6.1%
Annual house
price growth

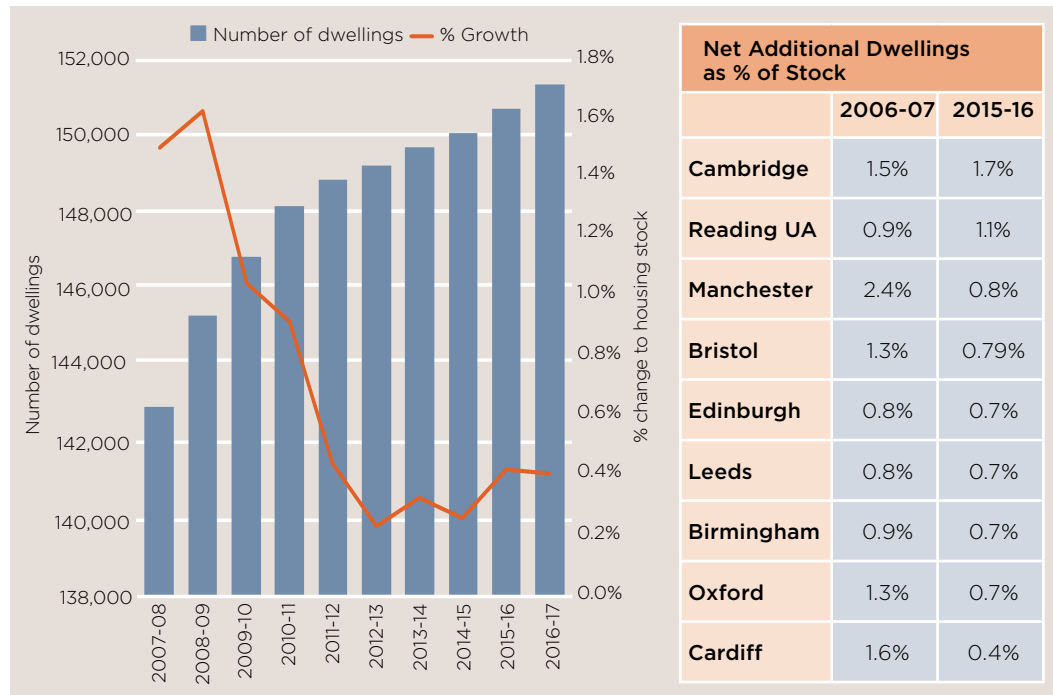


25%
Projected
population growth
to 2034



27,600
New jobs
by 2030

Figure 1 New homes delivery as a percentage of existing stock has fallen in Cardiff and is lagging behind the rate of growth in other cities



Source: StatsWales, MHCLG

5-year annual average. 84% of investment was in office space, and 32% of investment came from overseas.

The influence of the city is also growing as it becomes increasingly well connected. There are currently 1.6 million people living within a 45 minute commute of Cardiff. Connectivity will be boosted by the electrification of the Great Western main line, cutting travel time to London to 105 minutes.

The recent removal of tolls on the bridges crossing the Severn is anticipated to boost travel between South Wales and South West England and bring a £1 billion boost to the Welsh economy.

The importance of linking Cardiff to the wider Welsh economy has been recognised in the Cardiff Capital Region city deal, established in 2016. The deal covers 10 local authorities in South East Wales,

and aims to boost economic growth throughout the region. Investment of £1.2 billion has been committed by local and national government, with over £700 million of investment to fund the Metro network for South East Wales.

Challenges ahead

However, there are key challenges which need to be addressed if Cardiff is to reach its full potential. The city has been failing to provide enough housing or commercial space to meet demand, and if this situation continues, the shortage of supply could lead to rising prices, threatening the affordability which is currently such a strength for the city.

There has been a consistent shortfall in housing delivery for the past five years. Delivery has averaged 490 homes per year, well short of the Local Plan target of 2,071 per year. 10 years

ago, total housing stock was growing at a rate of 1.5%. Now, the growth rate is considerably slower. Over the past five years the rate of growth has averaged 0.3%, lagging behind the other UK Core Cities.

Office space is also in short supply, both as a consequence of limited Grade A development and the removal of secondary stock via office to student accommodation conversion. The city doesn't currently have enough available Grade A office supply to meet the demand for even one year's worth of take-up.

However, there is significant potential in the city centre and bay area for commercial led regeneration. Delivering this development and linking new housing to existing employment centres will be critical for the future economic success of Cardiff and the wider South East Wales region.



Purpose built rental stock offers a new opportunity for investors

Joining up the city centre

There is huge potential for regeneration, and the focus should be on delivering a mix of uses

The focus of the city centre has moved in recent years, with the redevelopment of Central Square and the area surrounding the station, the office market has shifted southwards, but there is still a need to ensure that complementary uses are delivered and that the new centres are connected both with each other and the wider city.

Demand for office space

Cardiff's office market is one constrained by limited supply. There is strong demand for Grade A space and a significant under-supply to meet this demand. This contributed to 2018's fall in Grade A take-up to 180,000 sq. ft., 28% below the five year average. Refurbished space has helped fill this gap, resulting in rental growth of over 30% for best in class refurbishments.

Over the next three years, demand should be met by the delivery of over 400,000 sq. ft. of commercial space at Central Quay, John Street and the Interchange, of which around 50% will be speculatively developed. The city also needs to think about what type of space is needed to attract occupiers. Office take-up in Cardiff has historically been lease-event led and not reliant on big ticket inward investment. This is likely to continue in 2019 with most demand coming from existing occupiers within the city, so it is imperative that the city provides a mix of floor-plates to

accommodate smaller occupiers as well as the large anchor tenants.

There is a strong start-up community in Cardiff with over 3,000 start-ups registered in the city. This is a 10% increase from 2015, highlighting the growth in Cardiff and the need for cheap, flexible space, suitable for rapidly evolving businesses. Notably, the media sector in Cardiff has seen real growth. BBC Cymru will shortly relocate to a new HQ in the city centre, taking 155,000 sq. ft. at Central Square.

This, coupled with the presence of other media outlets such as Bad Wolf, Boomerang, S4C, and ITV Wales in Cardiff Bay will act as a draw for media and tech businesses. The provision of more high-specification, serviced and flexible office space will be essential to the strength of this emerging sectors.

Repurposing retail

The city centre has several distinct retail zones that define their purpose, from the independents in the Arcades, high end retail on The Hayes and mass market retail in St David's. Cardiff's retail centre is more constrained than other major city centres and therefore is less impacted by significant tertiary space with poor quality retail. The retail void rate in the city centre is 15% (about average for cities of this size), but the void rate within the retail core is 9% (below average).

However, there are 70,000 sq. ft. of long term voids that need to be reconsidered for alternative uses. The extension of St David's Centre over the last 10 years, has caused a shift in pitch for some of the pre-existing high street space, which now needs to look at alternate uses for upper floor retail space.

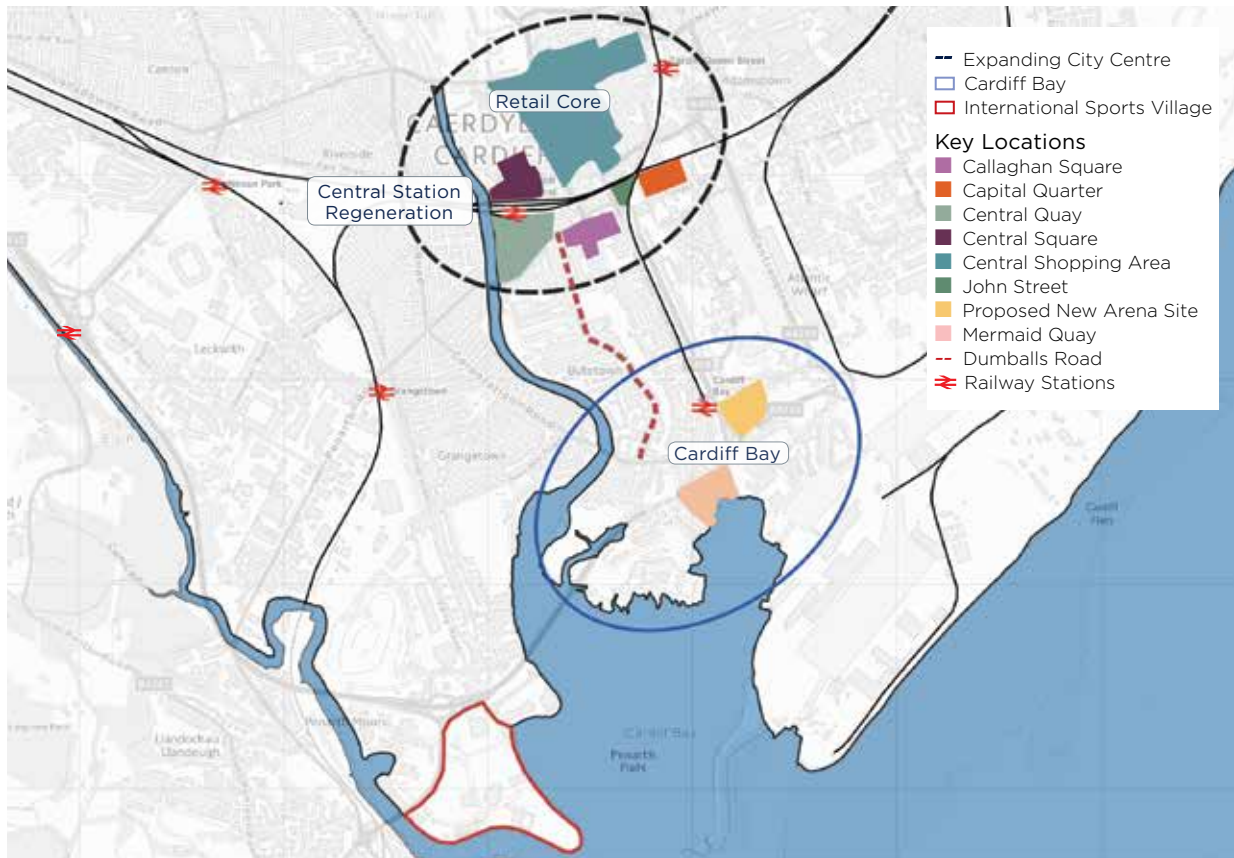
Looking ahead, property repurposing will be a key theme for Cardiff. Demand is good for smaller units, but voids within large boxes need more strategic consideration. For example, the House of Fraser unit on St Mary Street accounts for 1.72 acres of ground floor prime city centre frontage. The retailer is proposing to significantly reduce its own footprint, but far from leaving the retail pitch with a blight of vacancy, is instead presenting the landlord with a significant opportunity to provide something new.

Current proposals include a hotel and residential space, which will complement the retail and leisure offer while reducing the retail footprint of the city centre. Going forward we anticipate more repurposing, more city centre living, and more independents close to prime pitch.



There are plans for significant city centre residential development

Figure 2 Cardiff City Centre and Bay



Source Savills Research

The role of residential

Cardiff must offer the right blend of working environment, infrastructure and public amenity to attract occupiers to the city centre. Residential development will have a key role to play in this. Unlike other major UK cities, Cardiff hasn't seen the resurgence of city centre living or the completion of purpose built rental stock, with only 23 new build sales in 2018 (3% of all new build sales) within 1km of Cardiff Central station. This is despite Cardiff having a high proportion of 20 to 35 year olds relative to the UK average, the demographic most likely to value city centre living.

However, purpose built rental schemes are beginning to come forward, with two

currently in planning and a permitted scheme due to start on site in Q2 2019. This tenure offers a good alternative for investors who would have previously considered student accommodation, which, after several years of strong delivery, is already well supplied.

Delivering residential in the city centre is also essential to supporting other uses, particularly retail and leisure. In turn, having high quality amenity provision makes the location more attractive to office occupiers.

Encouragingly, there are plans for significant city centre residential development, including over 2,000 units to be delivered through Vastint's regeneration of the former industrial land at Dumballs Road. This will also

play an important role in linking the commercial centre with Cardiff Bay; the site offers an opportunity to create a new pedestrian route along the riverside. The redevelopment should also link in to Canal Park and the new Arena site at Atlantic Wharf, increasing its role as a north-south link between the city and the bay and joining with the Eastern Bay Link road.

Although residential led, the Dumballs Road site will provide a mix of uses including workspace and retail. It is likely that a mixed use approach will be key to delivering residential in central Cardiff, as using retail and leisure as placemaking tools can increase the residential values and improve the scheme's viability.



The removal of the tolls from the Severn crossings has already resulted in a 10% increase in traffic

Unlocking the Capital Region's potential

Upgrading road and rail links has the potential to boost economic performance and create new opportunities for industrial and residential development

The South Wales Metro is the cornerstone of the Cardiff Capital Region City Deal, and is indicative of how important getting the right infrastructure in place is to the future success of the region. In addition, the connectivity of the region has already improved with the removal of the tolls from the Severn crossings, although the projected increase of 6 million journeys per year could pose further challenges if the proposed M4 relief road is not delivered.

Demand for industrial space

The growth of the industrial market in the UK is well documented. South Wales has in the most part been sheltered from this increase in demand, however there are reasons to suggest that this situation will change. The most immediate structural change is the abolition of tolls from the Severn crossings, removing a significant cost within supply chains and will make locations in South Wales more attractive compared to the South West where rents are up to 30% higher.

Infrastructure investment both in and around Cardiff Airport has had a positive impact making it easier to access the Airport and move freight from there. The recently added Cardiff to Doha flight is projected to deliver 1,500 tonnes this year, up from just 5 tonnes the year before. With Cardiff Airport looking to secure more long haul flights this could make the region an attractive location for freight forwarding companies, but having modern facilities a road network that can handle the increased freight traffic will be critical.

Lastly the region is benefitting from an upturn in manufacturing with Aston Martin, TVR and train manufacturing company CAF locating in the region. Whilst these are positive investment in their own right, tier one suppliers to those businesses will look to locate in the region to deliver components.

Rising rents

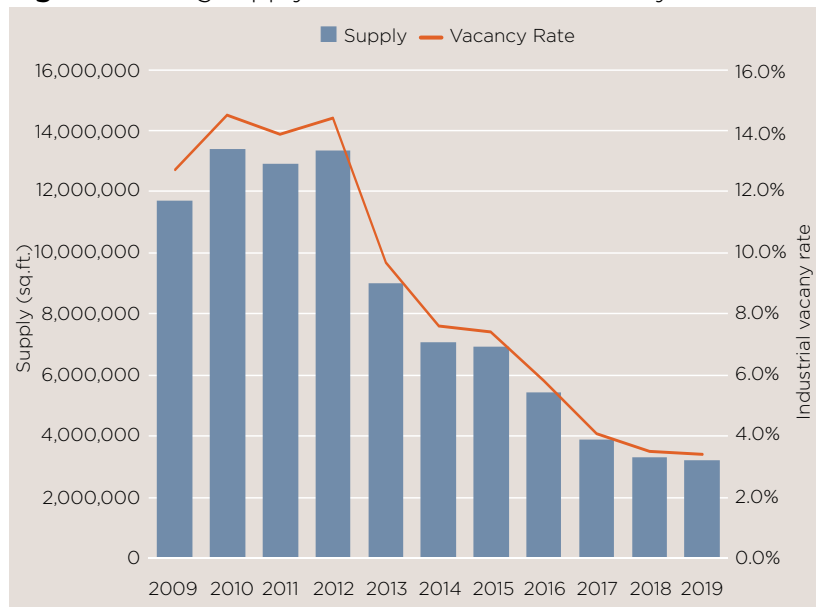
Take-up has risen by 10% over the last three years but the development market has not reacted. Vacancy rates are at an all-time low of 3.4% meaning occupiers will have to look to other markets to satisfy their requirements.

This has already been seen with DPD recently committed to a 60,000 sq. ft. pre-let at Pac Felindre where

they will pay a rent in excess of £9 per sq. ft. Moving further east, a site is expected to come forward at Magor after Studwelders purchased 50 acres for their own occupation and to promote industrial and logistics development. Once infrastructure works are complete, this will be an attractive location for occupiers and highlights the need to bring forward sites closer to Cardiff.

With rents in South Wales set to rise by 3.1% a year by 2023, landlords and developers would be advised to consider speculative development of good quality industrial space or the refurbishment of second hand stock to bring it to modern standards. There are long term opportunities for site promotion around the proposed new road links.

Figure 3 Falling supply has resulted in low vacancy rates



Source Savills Research

Meeting housing need

In 2017-18, 464 new homes were delivered in Cardiff, well short of the Local Plan target of 2,071. Affordable housing requirements are assessed at 6,646 affordable units for the Plan period 2014-2026, equating to 554 units per annum. However, only 194 affordable homes were delivered in 2017-18.

Getting the right infrastructure in place will be essential if Cardiff is to provide enough housing to meet demand. In the Local Plan, significant allocations for residential development have been made, but much of it will be through major urban extensions and new garden suburbs, such as the 7,000 home capacity Plasdwr site at North West Cardiff.

For these developments to be successful, they need to be linked to existing employment centres, so that housing growth can work in tandem with economic growth.

According to TomTom data, Cardiff already experiences journey time increases of over 50% during the morning and evening rush hours. Trying to deliver large volumes of edge of settlement development without supporting it through an integrated rail and bus network will only exacerbate the travel challenges.

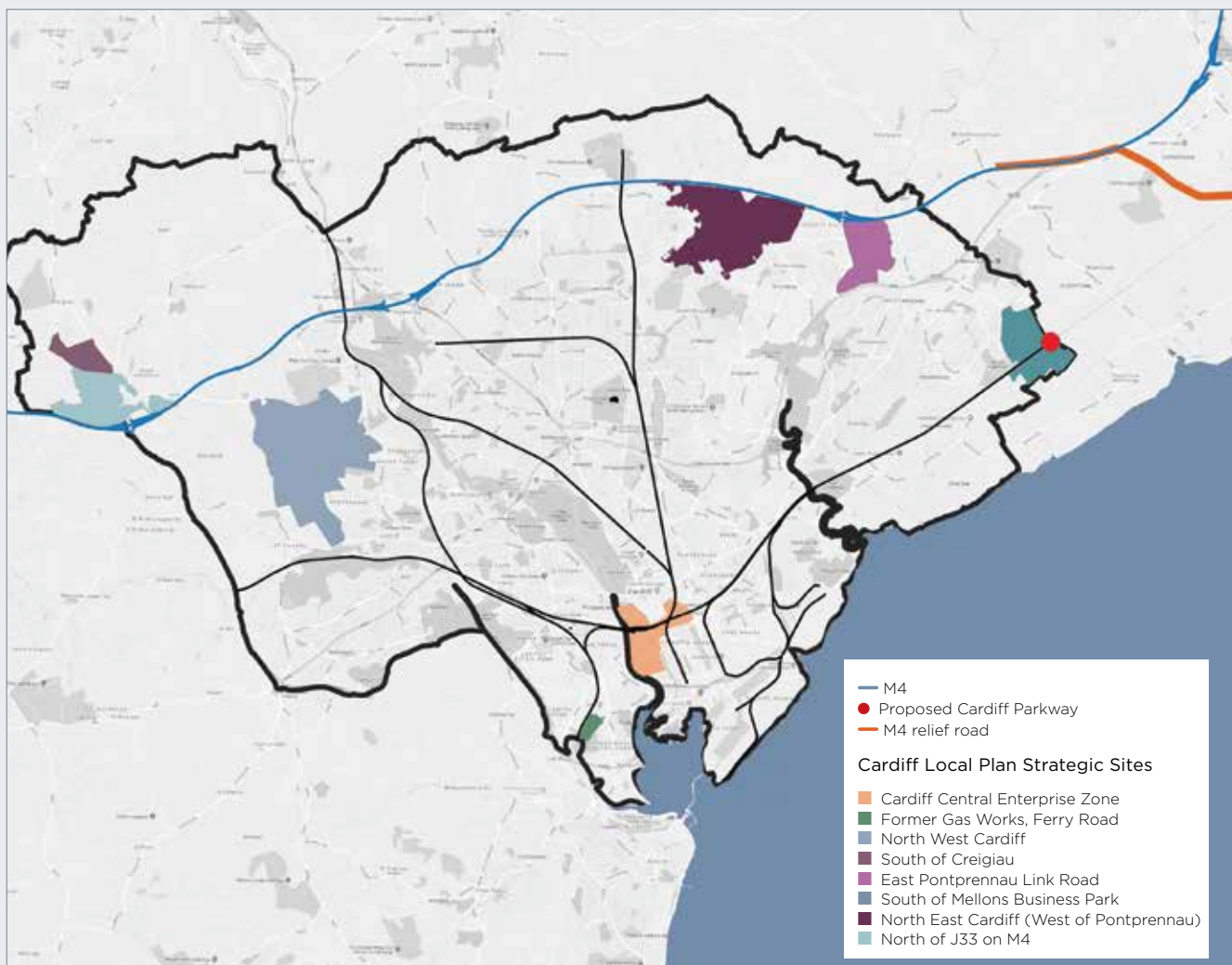
This problem could be tackled in part by the South Wales Metro project. The first phase, currently underway is focusing on the existing rail network,

linking the valleys with the city. The second phase, will focus on an integrated bus, train and tram system, and has the potential to enable edge of settlement developments that aren't served by rail stations to be integrated to the system.

The final crucial infrastructure piece will be the M4 relief road. The importance of this scheme was highlighted by the January 2019 statement, signed by 90 business figures and council leaders urging the Welsh Government not to delay any further.

If the right transport network is delivered, it will serve to unlock the huge growth potential of the city.

Figure 4 Infrastructure and strategic sites



Source Savills Research



Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

Research

Emily Williams

Residential Research
020 7016 3896
ewilliams@savills.com

Clare Bailey

Commercial Research
020 7409 8863
cbailey@savills.com

Guy Whittaker

Residential Research
020 7299 3031
guy.whittaker@savills.com

Kevin Mofid

Industrial Research
020 3618 3612
kmofid@savills.com

Tom Whittington

Retail Research
01612 447 779
twhittington@savills.com

Cardiff Office

Chris Potts

Head of Office
02920 368901
cpotts@savills.com

Scott Caldwell

Development
02920 368943
scaldwell@savills.com

Gary Carver

Business Space
02920 368963
gcarver@savills.com

Ross Griffin

Investment
02920 368961
rgriffin@savills.com

Daniel Rees

Residential
02920 368915
drees@savills.com