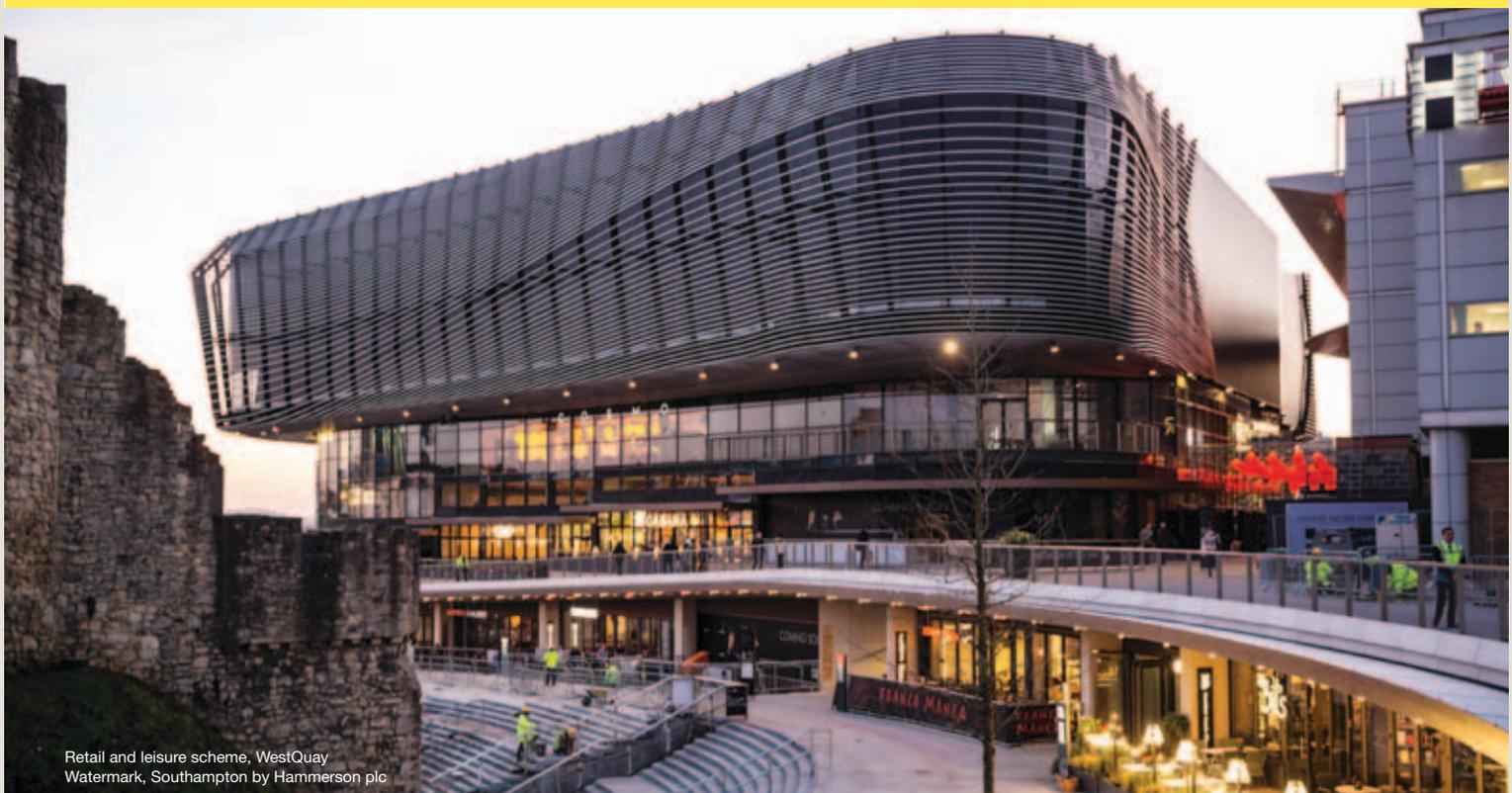


# Spotlight The Future of the M27 Corridor

2017



Retail and leisure scheme, WestQuay Watermark, Southampton by Hammerson plc

## SUMMARY

### Delivering homes and workplaces in and around Portsmouth and Southampton

■ The economy of the M27 corridor and surrounds is growing faster than the national average, putting further strain on an already undersupplied commercial market, and exacerbating the housing shortfall.

■ Demand for housing pushed up house prices between 8.0% and 10.7% over the year to September across the M27 corridor, above the national average of 7.1%. However, they still remain more affordable than neighbouring markets Winchester, Chichester and East Hampshire.

■ The M27 corridor needs at least 4,000 additional homes per year, but the current delivery rate is leaving the area short of need by 940 homes a year. Office conversions have provided 10% of all new homes in the last year.

■ There is very limited office supply available and no new developments under construction. Failure to meet demand may inhibit growth prospects of local businesses and make it harder to attract new companies. Lack of commercial development has resulted in an increase in refurbishments.

■ With residential sales values outperforming commercial values, new development is dominated by housing schemes. There is, however, potential to bring forward more commercial space through residential-led mixed use schemes.

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 “The M27 corridor needs at least 4,000 extra homes per year”  
 Savills Research  
 .....

# Market dynamics

## STRONG GROWTH, NEW CHALLENGES

Strong economic growth in the markets around the M27 is increasing the pressure for more homes and workplaces

“We expect the M27 corridor to see further economic growth of 9.5% over the next five years, above the UK average of 9.2%”  
Savills Research

**T**he economy of the M27 corridor and surrounds is growing faster than the national average, driven by consumer spending, an emerging tech sector, further expansion of maritime industries and inward investment.

However, strong economic growth in our study area, which includes the local authorities of Eastleigh, Fareham, Havant, Gosport, Portsmouth and Southampton, is putting strain on already undersupplied commercial markets and exacerbating the housing shortfall.

Economic growth in the six local authorities reached 14% over the past five years, above the UK average of 11%. This was in part driven by the strong recovery in consumer expenditure, boosting the wholesale and retail sector by 35% over the past five years, exceeding the UK average of 22% growth. We expect the M27 corridor to see further growth of 9.5% in the next five years, above the UK average of 9.2%.

### Public and private investment

Through the City Deal, Portsmouth and Southampton are working together to support further growth, maximising the economic strengths of the M27 corridor and creating local jobs. The deal has provided £115m of local and national public investment to encourage over £800m of private sector investment, with a focus on supporting growth in marine, maritime and advanced manufacturing sectors.

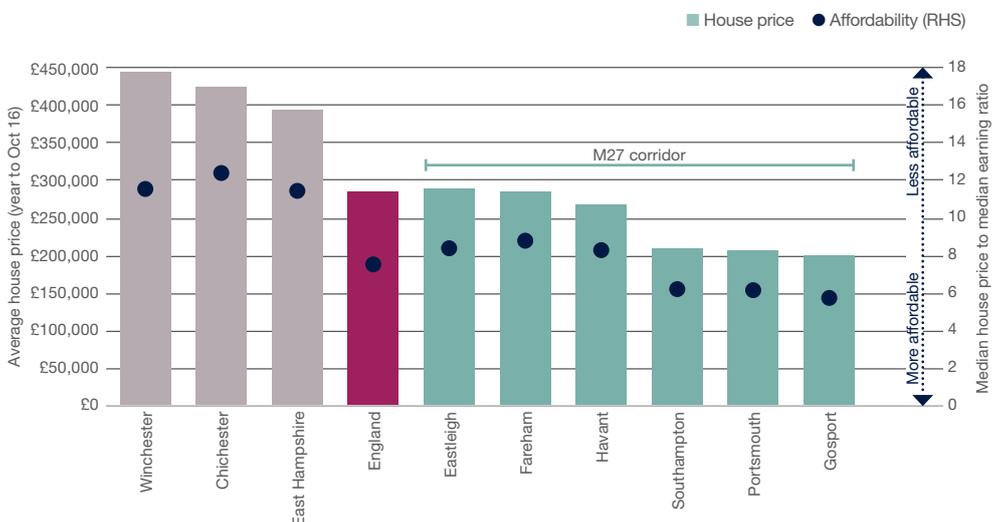
This public investment comes at a time of growing private investment. Commercial investment is returning to levels seen during 2007, particularly in the office and industrial markets. Overseas investors increased their investment levels to £157m during 2016, the strongest level since 2007, which accounted for 43% of total commercial investment.

### Expanding tech sector

Technology is among the fastest growth sectors in the M27 corridor, growing by 33% over the past five years, outpacing the UK average of 29%. According to Tech City UK’s latest report, Southampton witnessed digital turnover growth of 180% between 2010 and 2014, faster than any other UK city.

The University of Southampton Science Park has helped to provide workspace, advice and support for small digital science and tech businesses. Portsmouth and

FIGURE 1 Average house prices, affordability and supply in the M27 corridor



  
**940**  
current annual  
shortfall of homes  
in the M27 corridor\*

\* based on need from current SHMAs and net additional dwellings in the year to March 2016

Source: HM Land Registry, DCLG, local authority SHMAs, DCLG

Southampton Solent Universities specialise in engineering, sciences and creative industries, providing the region with a strengthening skills base.

This is additional to the strong marine and maritime sector which has also grown during recent years, driven in part by key assets such as the Port of Southampton, Portsmouth Naval Base and the Solent Marine Cluster.

### Growth of retail & leisure

Established high end shopping centres; Gunwharf Quays (Portsmouth) and WestQuay (Southampton) are the main centres for the 1.4m shopping catchment. The region's retail provision has improved considerably in recent years, with the redevelopment of Whiteley shopping centre, near Fareham, creating around 1,000 jobs. With amenity offering coming high up in Savills 'What Workers Want' survey, this scheme has also boosted occupier interest on the nearby Solent Business Park.

### Unmet housing demand

Economic growth will place further pressure on an already undersupplied housing market. According to the current Strategic Housing Market Assessments (SHMAs) for the local authorities along the M27 corridor, at least 4,000 additional homes are required per year.

However, whilst the supply of new homes increased over the last five years, reaching 3,060 in the year to March 2016, it was still short of need by 940 homes.

The low level of supply has contributed to an increase in house prices. Over the year to September 2016, house prices have grown between 8.0% and 10.7% across all six local authorities, above the national average of 7.1%.

However, with the average house prices in Portsmouth and Southampton at £205,000 and £208,000 respectively, homes along the M27 corridor are relatively affordable compared with neighbouring Winchester, Chichester and East Hampshire. These neighbouring markets have seen even stronger house price growth since the 2007/08 peak and average house prices are close to or above £400,000.

Values in these three markets have been pushed up by better connections to London, the status of Winchester

and Chichester as cathedral cities and the presence of the South Downs National Park.

Fareham and Eastleigh have average house prices of c.£285,000, lifted above the other M27 corridor areas because they include some desirable villages such as Sarisbury Green, Locks Heath, Botley and Hamble.

### Office space needed

Southampton, Chandler's Ford and Solent are the dominant office markets in the Western M27 corridor. Average annual take up has reached 265,000 sq ft over the past 10 years, and should demand continue at this rate, a need for 1,325,000 sq ft of office space will be required over the next five years.

There is currently around 430,000 sq ft of office space available in the Western M27 market, half as much as in 2011 and the lowest level on record. This equates to less than two years of supply and indicates the need for more new office space.

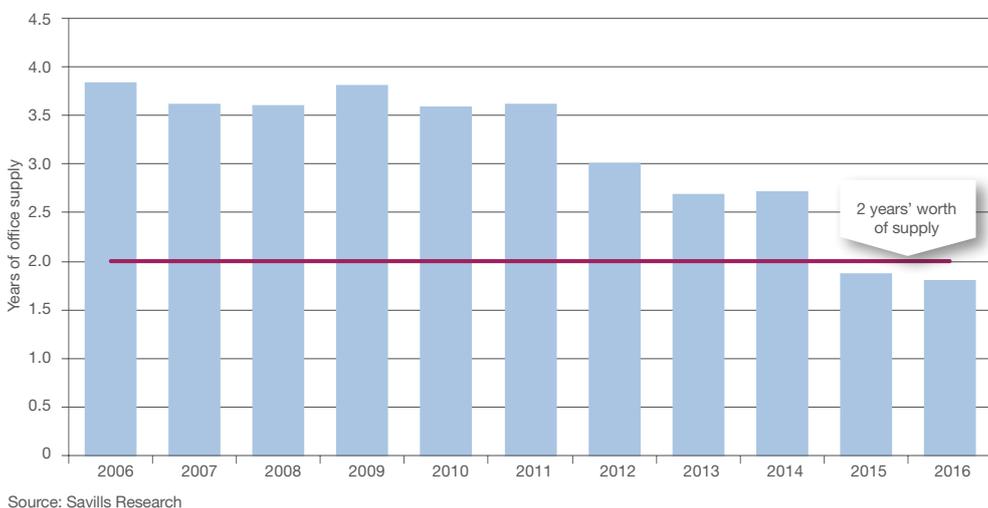
With no new build developments currently in the pipeline, and only 50,000 sq ft of office space currently under refurbishment, this reflects a potential need for 845,000 sq ft of office space over the next five years.

Headline rents have stood between £18 and £21 per sq ft for the last 25 years. After a period of significant incentives from 2008 to 2014, rents have recovered towards the upper end of this band. Now incentives have reduced dramatically and longer leases are being agreed. ■

FIGURE 3  
**Western M27 Office market**



FIGURE 2  
**The Western M27 market has a shortfall of office supply, with less than two years of space remaining**



# Development

# RESIDENTIAL LEADING THE WAY

Residential development is dominating property construction in the M27 corridor with limited new commercial space being delivered

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“New homes values in most of the M27 corridor are between £300 and £350 per sq ft”  
.....

Savills Research

**H**ousing demand, rising house prices and the potential for residential development to achieve higher sales values than commercial uses, has been prompting developers to deliver homes rather than workplaces.

Our analysis shows sales values for residential development exceed sales values for both office and industrial space across the M27 corridor (Fig.5). We found the biggest difference in sales values in Chandlers Ford/ Eastleigh area where average values for new build homes reached £360 per sq ft compared with £200 per sq ft for offices and £125 per sq ft for industrial.

## Development lending

Funding is also a factor. Since the Global Financial Crisis, funding for speculative commercial development has been very restricted and while there has been some availability of loans for fully pre-let commercial development, finance has been

comparatively easier to achieve on residential schemes.

Given these issues, one way to deliver new commercial space is through mixed use regeneration schemes where the different uses support and cross subsidise each other.

## Residential new build

New home values in most of the M27 corridor are between £300 and £350 per sq ft with higher values achieved on waterside schemes in Portsmouth and Southampton. Here, regeneration and the waterside views has pushed values of up to £500 per sq ft. New build values in the Winchester market are higher, averaging between £400-430 per sq ft for larger developments.

Higher paid workers in the M27 corridor tend to live outside the major urban areas, preferring the neighbouring towns and villages. New build developments appealing to this more affluent market, such as Berewood (west of Waterlooville), can achieve higher values and are more accessible to work places.

## Office development

With flat rents and rising build costs, there has been little incentive to add to new office stock in Southampton city centre since the completion of Charlotte Place in 2008.

Lack of new development has resulted in a surge of refurbishments, including Mountbatten House and The White Building, achieving rents of up to £19.50 per sq ft. Limited choice has prompted companies including HSBC, KPMG and Babcock to move to out of town business parks from central Southampton or Portsmouth to get the space they need.

Now that out of town rents have risen to levels in line with Southampton city centre, we believe that the case for development is getting stronger. However, there is still a nervousness among developers as to the viability of speculative office development.

## CONVERSIONS BRING FORWARD STUDENT HOUSING

### Commercial sites are under pressure

Office to student accommodation conversions have occurred in buildings such as Brunswick House, Orion's Point (former British Gas offices) and Marlands House. In addition, a number of proposed office development sites have been lost or are being lost to student schemes.

These include Mayflower Halls, which previously had consent for offices but has now been built out for student housing, triggered by the University of Southampton issuing an OJEU for 1,000 student beds in

2011. The Bond, a proposed 150,000 sq ft office development, now has consent for a student housing scheme.

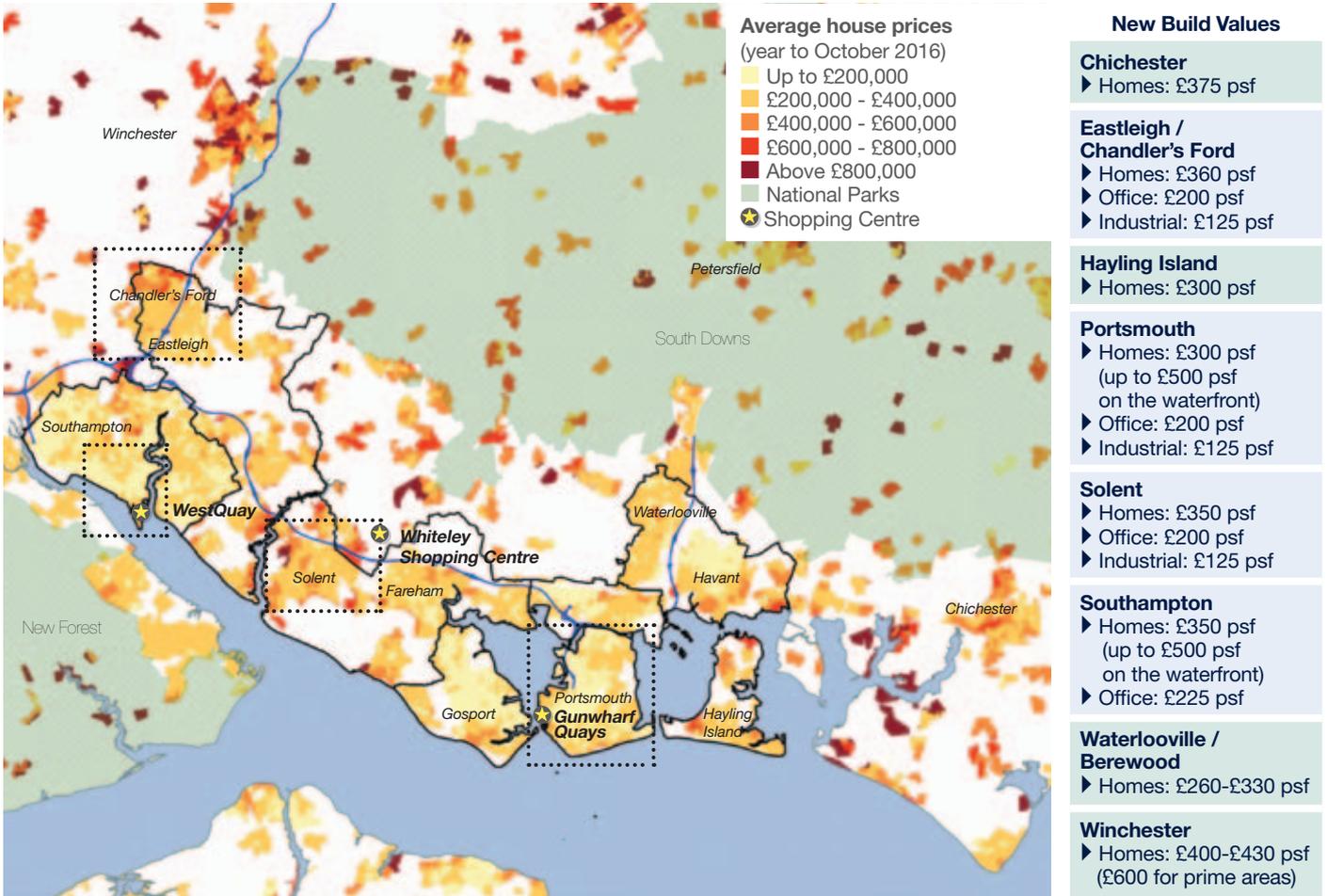
Another proposed office development site, Aqua at WestQuay, now has consent for a hotel.

Other commercial sites are subject to redevelopment for other uses. The former B&Q retail warehouse in Portswood is currently being redeveloped to provide 525 student rooms on its completion in 2017.



Residential sales values exceed those for office and industrial space

FIGURE 4  
House prices in the M27 corridor



Source: HM Land Registry, Savills

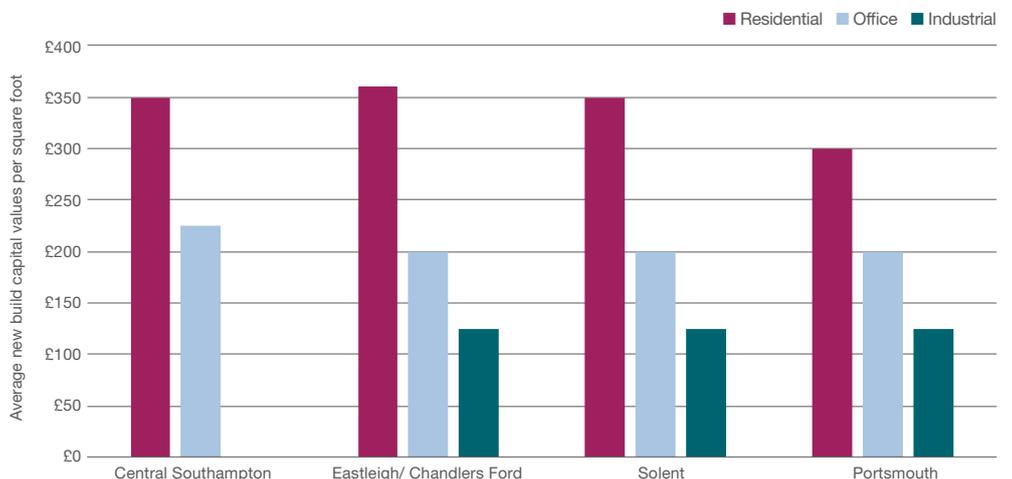
NB: psf = per square foot

### Industrial Developments

In the industrial market, development of new space is still limited with a shortage of new sites. Lidl has recently opened their £55 million distribution centre on the north west of Southampton, which will serve stores in Hampshire, Dorset and West Sussex, creating around 400 new jobs.

Two other key industrial developments are in the pipeline. Mountpark Southampton, (the former Ford Transit assembly site), is about to commence speculative development of four warehouse units ranging from 57,620 to 128,000 sq ft and Evander properties are about to commence development at South Central, adjacent to the M27, on three units ranging from 39,000 to 117,000 sq ft. ■

FIGURE 5  
Residential development has the highest capital values



Source: Savills

# Regeneration OPPORTUNITIES FOR DEVELOPMENT

Development is needed for homes and workplaces along the M27 corridor. But key hotspots are emerging with mixed use opportunities

**T**here are 13,800 homes under construction or with planning consent in the M27 corridor. If the current building rate continues, it will take four and a half years for those new homes to be delivered.

Given that the current Strategic Housing Market Assessments (SHMAs) for the six LAs identify the need for 4,000 new homes per year (and this may be an undercount), at least 20,000

new homes will be needed over the next five years. If supply of new homes does not increase, the area will be some 4,600 homes short.

## Portsmouth and Southampton

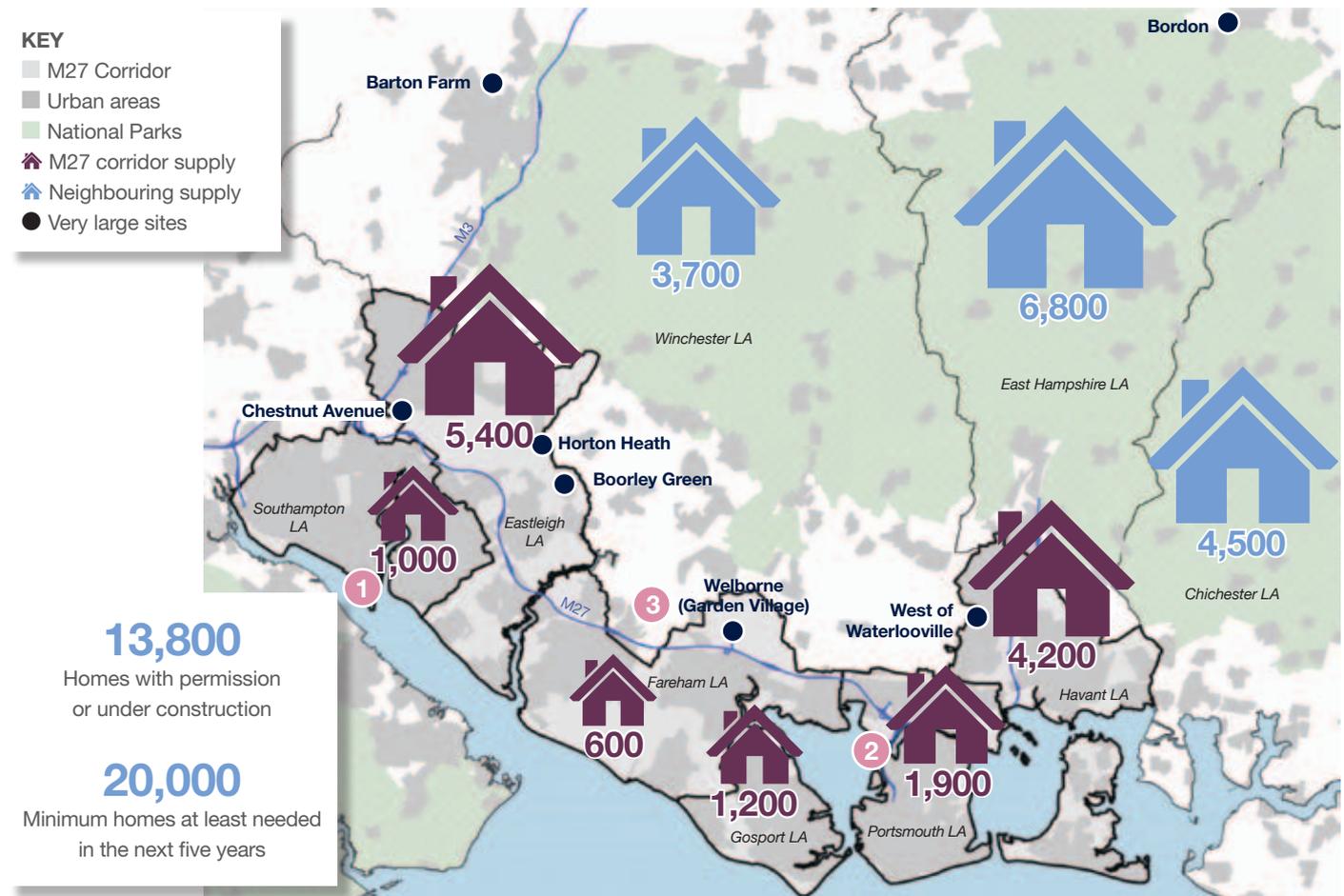
Development in Portsmouth is very constrained by its coastal location and a tightly drawn boundary to the north. It must therefore rely on brownfield redevelopment.

Southampton, by contrast, has some potential for urban extension to the north in addition to regeneration of brownfield sites. Both cities have need for additional housing.

However, the market risk can be too great for developers to build flat led schemes required to provide homes for sale within the city centres.

Alternative residential models, such as Build to Rent are becoming more common. The Build to Rent model has a lower risk profile than

FIGURE 6  
**Homes with permission or under construction**



Source: : Glenigan, Savills Research

building for sale, however it still faces challenges such as Stamp Duty.

There are a number of Build to Rent schemes in the pipeline in both Southampton and Portsmouth. For instance, the redevelopment of the former Fruit and Vegetable Market in Southampton will provide 279 homes to rent in addition to business space.

### Beyond the two cities

Eastleigh has a particularly large pipeline of homes which includes two big sites to the south east of Eastleigh close to the airport and Southampton Airport Parkway station (60 mins to London Waterloo): Chestnut Avenue (1,100 homes) and Boorley Green (1,400

homes). Another large site in the area, Horton Heath (950 homes), has a resolution to grant planning permission subject to S106.

Outside the M27 corridor, Winchester, Chichester and East Hampshire have a significant number of homes with permission, including the 2,000 home site at Barton Farm to the north of Winchester and the 2,400 home site at Bordon.

The more restrictive planning policies that apply in the South Downs National Park accentuate the need to provide homes in other parts of our study area. ■

“There are 13,800 homes under construction or with planning consent in the M27 corridor” Savills Research

## HOTSPOTS FOR REGENERATION

### Mixed use schemes

While residential schemes are dominating development along the M27 corridor and surrounds, there is potential for more workplaces to come forward through mixed use developments. Public sector support, both locally or through national initiatives such as the £3bn Home Building Fund can help provide development finance and offset the costs of site preparation.

Below are three emerging development hotspots to watch:

1

#### WestQuay and Royal Pier, Southampton

The £85m Watermark leisure complex, which includes over 20 restaurants, is being developed alongside WestQuay Shopping Centre. 260 flats are currently being marketed in its second phase. Its central location provides an opportunity to deliver homes for rent as well as for sale.

WestQuay is likely to act as a catalyst for the £450m development of neighbouring Royal Pier that will transform Southampton's waterfront.

Plans include 500,000 sq ft of offices, 730 apartments and around 40 shops. The Royal Pier Development Company has been set up to work with the three landowners: Southampton City Council, Associated British Ports and the Crown Estate, with anticipated completion around 2032.

2

#### Tipner-Horsea Island

The Tipner-Horsea site, close to Portsmouth City Centre, the Portsmouth International Port and Portsmouth Naval Base has potential to become a key gateway to Portsmouth.

It could bring forward 2,370 new homes and 580,000 sq ft of employment space for the growing marine and advanced manufacturing sectors creating over 3,700 jobs. However, contamination, flood risk and lack of infrastructure present development challenges.

£48m of investment from the City Deal and further Portsmouth City Council support, including the building of the new motorway junction on the M275, will all act to help unlock this development opportunity.

3

#### North Whiteley

North Whiteley, a greenfield site north of the M27 between Southampton and Fareham, has outline permission for 3,500 homes which are expected to be built by Taylor Wimpey, Bovis and Crest from 2018.

As an urban extension to Whiteley, it will provide a very different offering to the more urban sites in Portsmouth and Southampton. Building a new neighbourhood that appeals to the higher paid workers, who would otherwise choose to live in the surrounding villages, would increase values and create a resilient place in the long term.

Enhanced leisure and retail facilities at the nearby redeveloped Whiteley Shopping Centre have improved Solent Business Park as a location and will increase the demand for more new homes.

## OUTLOOK AND RECOMMENDATIONS

### The potential for growth in Portsmouth, Southampton and the wider M27 corridor

■ More homes and workplaces are needed to support the growing economy of the area. Housing schemes are currently dominating development in the wider area with residential sales values higher than commercial. However, there is potential to bring forward more office space and a wider range of uses through mixed use development.

■ We forecast that house prices in the South East will rise by 17% over the next five years, outpacing London and the UK average.

■ Office rents are expected to continue to grow in Southampton city centre where

they have, at best, been flat over the last few years, while out of town rents have seen increases in the last 24 months or so.

■ In and directly to the north of the M27 corridor there is potential to provide much needed housing and bridge the value gap between the lower value urban areas and higher value rural ones. Large sites including the Garden Village at Welborne could be instrumental in this.

■ There also remain plans for a major expansion of Southampton Docks by using reclaimed land on the New Forest side of Southampton Water. By 2030,

the commercial port is expected to increase exports from 2.7m containers per year to 4.2m.

■ With tight planning restrictions, particularly on B8 Warehouse/Distribution and a focus on residential developments, more industrial space must be delivered to avoid hampering demand in the M27 corridor market. This has consequently pushed rents up to £8.50 per sq ft for prime industrial space.

■ The weaker sterling is set to generate interest from overseas investors. But uncertainty surrounding Brexit negotiations remains a risk to investment.

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