

Guildford: Driving Surrey



How can Guildford maintain its success in an uncertain market?



Guildford is home to the largest cluster of videogaming companies in the UK

A success story

What’s happened over the past 10 years in the county town of Guildford?

Over the past ten years, Guildford has seen strong growth in both the commercial and residential sectors. It has become a creative and tech powerhouse, delivering economic output at a rate well ahead of other comparable towns. However, the strong growth since 2009 is now starting to create problems of affordability, which will be exacerbated if the area continues to struggle to deliver enough new homes to meet local need.

Driving commercial growth

A major contributor to Guildford’s success story in recent years has been the University of Surrey. It is a leader in the fields of scientific and technological research, with a strong reputation in health, medicine, space, environment and mobile communications.

Working in tandem with local businesses it owns and operates the Surrey Research Park, encompassing 700,000 sq. ft. of office, research and development space, home to over 140 companies. Occupiers are limited to research, development and design activities in any science, including social science that is complementary to the activities of the University. This ensures that the 70-acre site remains focused on knowledge-based industries that support the commercial application of the University’s research.

The research park is set to be extended with an extra 325,000 sq. ft. of space planned, as part of the Blackwell Farm urban extension over the next Local Plan period. This should help Guildford to continue to prosper in these fields, with local industries and the University itself working together to support growth.

One sector that has benefited from this approach is the gaming industry. The University claims Guildford is home to the largest cluster of video gaming companies in the UK, with over 60 studios and more than 1,000 employees in the industry. What’s more, this is a hugely successful and growing industry. Across the UK, the gaming market was worth £3.9bn in 2018 according to the Entertainment Retailers Association (ERA), more than double the amount in 2007. This makes it a larger market than both the film and music industry combined.

Guildford’s gaming community was further strengthened recently when Electronic Arts committed their future to the town by consolidating Onslow House and expanding to lease a further 22,000 sq. ft. in 2019.

Motorsport also dominates the area with McLaren taking space in Woking town centre in addition to their HQ on the outskirts of the town and Mercedes-Benz located in Weybridge.

Net Additional Dwellings

	3-year average	10-year average
Guildford	396	251
Woking	357	261
Runnymede	440	236
Surrey Heath	236	172
Elmbridge	210	244



The commercial market

Guildford is an established office market, along with Woking, which caters for both small and large occupiers, both in out of town and town centre locations. Large corporate occupiers have been attracted in recent years which is reflected in the five-year average take-up totalling 88,000 sq. ft.

The town centre market has benefitted from new office development. Beltane Asset Management have recently developed 42,000 sq. ft. at 255 High Street, and M&G Real Estate comprehensively refurbished London Square which has achieved a rent of £34 per sq. ft., a 34% increase from 2009 prime rental levels. Despite ongoing political uncertainty, confidence in the market remains strong; Investra are speculatively developing 30,000 sq. ft. at Riverworks which is set to achieve practical completion later this year.

Increasingly however, there is a risk of occupiers being drawn away from the town, as the focus for tech and R&D moves to the Oxford-Cambridge corridor. There have been several corporate relocations from Guildford since 2018 including Ericsson and Sanofi both moving to Reading. This highlights the importance of continuing to provide high-quality commercial space that meets occupier’s needs, and maintaining the strong links between the university and the development of commercial space for these occupiers.

We expect further rental growth across Guildford. The good levels of occupier demand combined with the strong rental

growth has resulted in strong investor interest for office assets when they become available. This was highlighted by the consistent institutional investor demand for assets in the market, since 2009 who have accounted for 54% of total office investment into Guildford.

Housebuilding

Whilst commercially, Guildford and its wider area has had some success over the past 10 years, the level of residential development has not kept pace with the town’s need.

Over the past 10 years, Guildford has averaged 250 Net Additional Dwellings per year. Its Local Plan, adopted in April 2019, but currently going through the judicial review process, has a target of at least 562 Net Additional Dwellings per annum, whilst the need defined by the MHCLG standard calculation is 789 per year. At the same time, Guildford has delivered substantially fewer affordable homes.

The wider area including the local authorities of Woking, Elmbridge, Surrey Heath and Runnymede have an Objectively Assessed Need of over 2,600 homes per annum, whilst the MHCLG standard calculation that takes into account housing affordability is higher at 2,719. For context, over the past decade, 1,165 homes have been delivered each year on average across the five authorities. A lack of supply is therefore being felt across the wider region, not just Guildford itself.

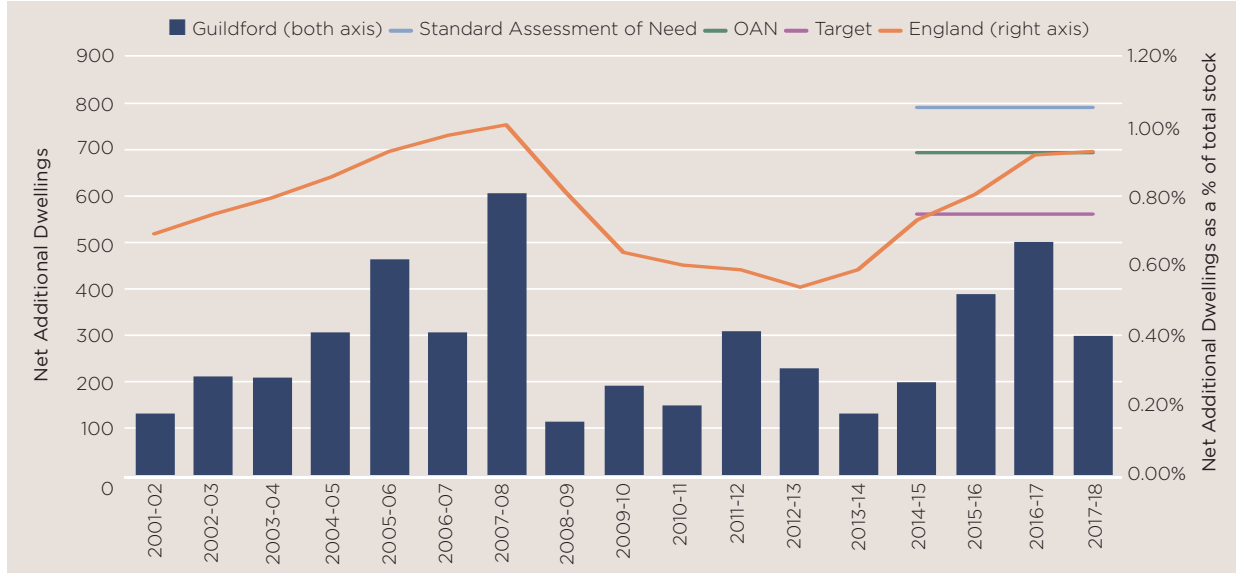
Affordability and housing delivery

	Change in affordability ratio (house price to workplace earnings) 2009 to 2018	Net Additional Dwellings as % of stock (10-year average)
Surrey Heath	62%	0.48%
Guildford	50%	0.43%
Runnymede	48%	0.48%
Elmbridge	30%	0.54%
Woking	24%	0.61%



Ratio of median house prices to median workplace earning is above the national average of 8.1

Net Additional Dwellings



Source MHCLG, ONS

Pricing, transactions and affordability

Over the long-term, a lack of new housing supply will have knock-on consequences. These are arguably already being felt. Since the previous 2008 peak, Guildford and its surrounding local authorities combined have seen values rise by 40%, going from £390,000 in 2008 to £550,000 in 2018. Values across the South East region have risen by 35% in the same period.

Transactions across the wider Guildford area are also just a few percentage points above the low of 2009. From 2009 to 2013, transactions rose 27%, compared to 24% in the South East. Since then however, with squeezed affordability and lack of stock on the market, Guildford has fallen further away, with transactions now just 3% above the low of 2009. The equivalent figure for the South East is 21%. Furthermore, the new build market accounts for just 8% across the wider Guildford area compared to 13% across the South East.

Affordability pressures are also being keenly felt. The ratio of median house prices to median workplace earnings across the region are well ahead of the national average of 8.1. Since 2009 these have increased at different rates with Woking and Elmbridge

rising 24% and 30% respectively, whilst Surrey Heath has increased by 62%. Elmbridge however still remains the most unaffordable market with house prices 15.7 times that of earnings. Guildford itself has risen by 50% going from 8.35 in 2009 to 12.53 in 2018.

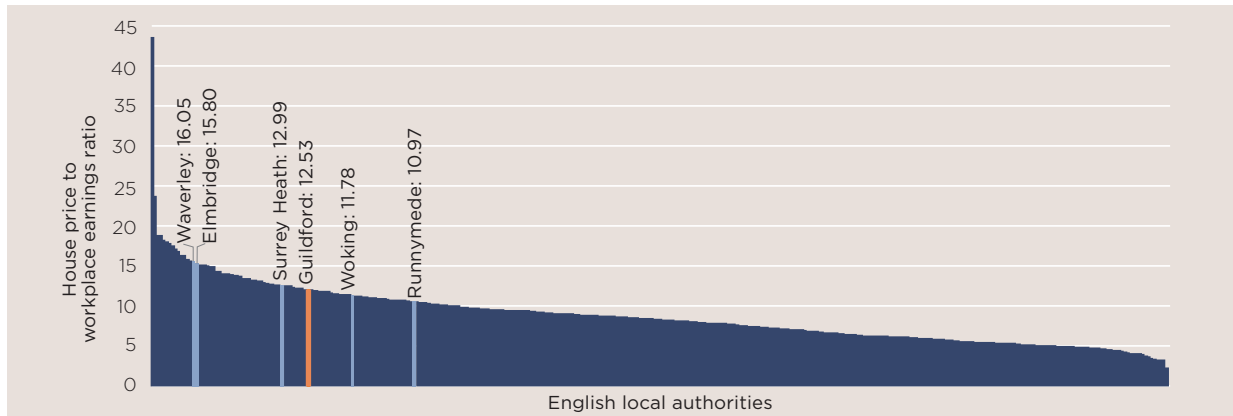
The potential consequences

It is little surprise to see a correlation between those local authorities where affordability ratios have worsened the most and those that have built the fewest homes. The lack of supply in Guildford is feeding into further affordability pressures, as illustrated.

This poses a threat to continuing economic growth if employees are priced out of the area; businesses could find it harder to recruit or retain staff, ultimately making this location a less attractive area for commercial occupiers.

The knock-on impact of people commuting from more affordable locations such as Hampshire to the south puts increased pressure on traffic and infrastructure, with resulting commuter pinch points.

Affordability



Source ONS



22% of the workforce in 2019 were employed within the creative, professional, scientific and tech industries

Guildford in context

How does the town measure up to its competitors?

Competitor towns map



Competitor towns

Guildford is just one of a number of towns circling London’s sphere of influence, benefiting from its proximity for commuters to the capital for work, but with a commercial core of its own, also pulling in workers from nearby itself. Places such as Reading, Chelmsford, St Albans and Sevenoaks are comparable locations on that front, but also competitor towns competing to attract a similar profile of commercial occupiers to drive their economies.

Oxford and Cambridge are undoubtedly the star performers in this field, but Guildford is amongst the ‘best of the rest’ with a strong and growing economy. With it of course, comes challenges.

Main drivers of local economy

In recent years, the creative, professional, scientific and tech industries have continued to prosper. This will be key for the towns future success, as these are projected to be amongst the 12 UK growth industries for 2017 – 2027. As a proportion of total GVA, these sectors make up over 5% more in Guildford than the national average. Competitor towns that include Oxford and Cambridge only beat the national proportion by less than 2%.

According to Oxford Economics data, the proportion of people employed in the creative, professional, scientific and tech sectors has risen across Guildford, far ahead of its competitors. Across Guildford itself, 22% of the workforce in 2019 were employed within these industries, rising to 26% across the wider Guildford area including Woking, Runnymede, Elmbridge and Surrey Heath.

This compares to 19% and 18% across the competitor towns and the South East. The five Guildford local authorities combined currently employ 83,000 people within the creative/tech sector. Reading, Cambridge and Oxford employ 79,500 in total. 42% of the working population in Guildford is qualified to at least Level 4 or higher, in line with the South East average.

In terms of new housing supply, the competitor locations around London have performed more positively over the past decade, outperforming the national average.

Rate of housebuilding (10 year average)

	Net additional supply as a % of stock
Wider Guildford average	0.51%
England average	0.71%
Competitor towns average	0.83%

Source MHCLG

“In recent years, the creative, professional, scientific and tech industries have continued to prosper. This will be key for the towns future success, as these are projected to be amongst the 12 UK growth industries for 2017 – 2027”



Guildford is a success where earnings between residents and workers is near parity

Affordability & wages

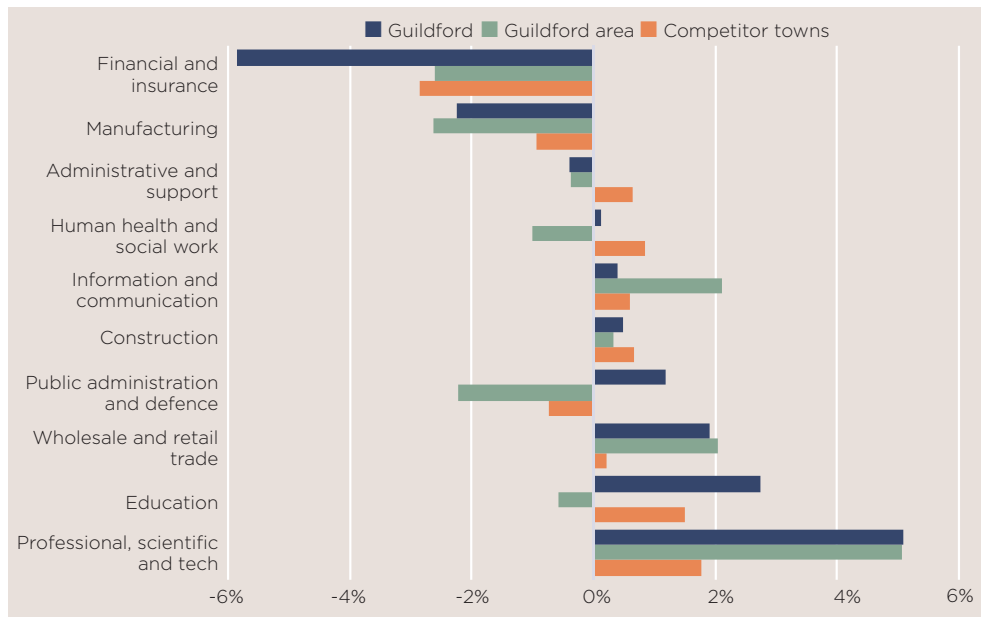
In order to have a thriving and sustainable town centre, affordability where those who work in the town can afford to live in the town is key. This is becoming increasingly difficult in places like London to the detriment of business and the inability to retain staff.

Our chart shows workplace vs residence earnings, with higher scores reflecting higher earnings amongst residents compared with workers. Places like St Albans, where trains take just 21 minutes to St Pancras are increasingly becoming purely commuter hubs, potentially at the expense of commercial success. On the other end of the spectrum, Woking has high-tech employees like McLaren where workers likely commute from outside of the borough. Guildford in this regard is a success where earnings between residents and workers is near parity. This bodes well for the sustainability of Guildford's commercial core, and whilst house prices have increased and affordability has worsened, relative to other competitor towns, it is in a much healthier state.

However, with a growing employment base in industries such as gaming, technology and creative arts, along with a historically desirable area to live due to good schools and connectivity to London, an 'affordability challenge' will always persist.

“ An ‘affordability-challenge’ will always persist ”

Proportion of GVA compared to UK



Source Oxford Economics

Creative / Tech as a proportion of total employment



Source Oxford Economics

42% 42% of the working population in Guildford is qualified to at least Level 4 or higher

The productivity challenge

Productivity measured through GVA per worker shows Guildford performing similarly to many of its competitors. In terms of overall output, Cambridge, Oxford and Reading with their larger populations stand out clearly above the rest. However, local authorities with smaller populations and jobs such as Woking, Runnymede and Elmbridge punch far above their weight with employers such as McLaren, Mercedes and Sony.

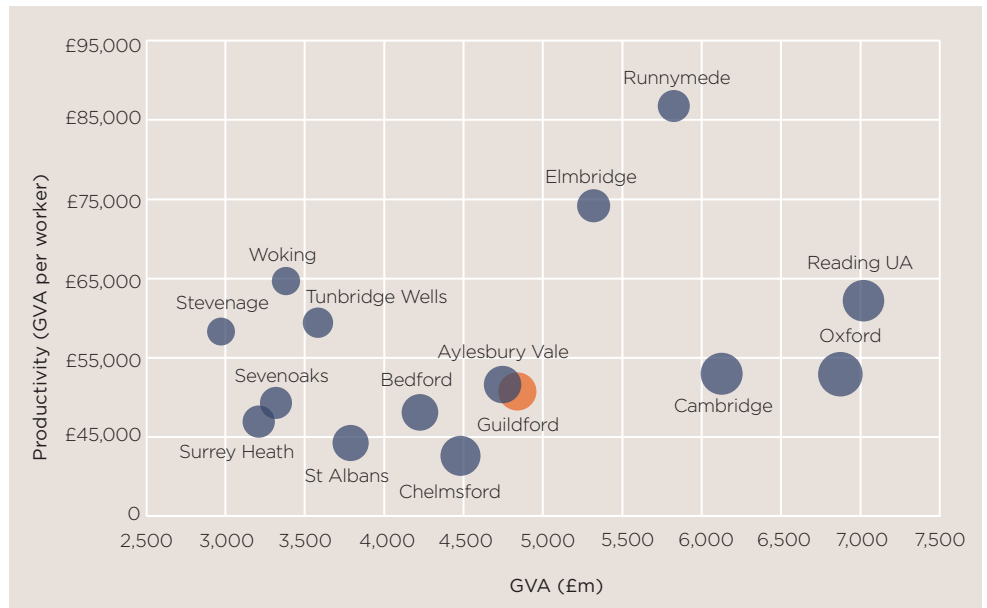
Growth in GVA over the past 10 years shows a different picture with Guildford and its competitor towns, growing between 7% and 9% respectively. This isn't just a Guildford problem however, as stagnant productivity has been a national issue since the onset of the GFC with both the UK and South East growing similarly at 8%.

The local authorities surrounding Guildford with their high-tech industries have been much more productive over the same period, with growth of 17%.

Workplace vs Residence

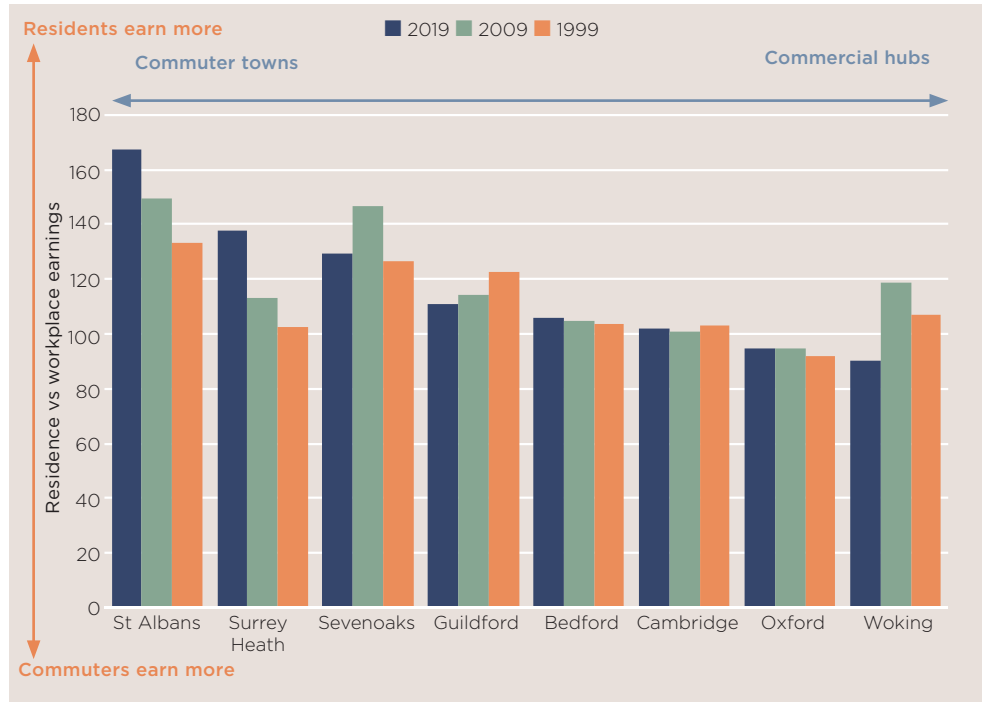
Average earnings proportion has come back towards 100; i.e. equal. This is more sustainable. At the other end of the spectrum, St Albans and Surrey Heath have a lack of commercial centre and are largely commuter hubs.

GVA per worker and total size of GVA

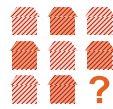


Source Oxford Economics

Average earnings: workplace vs residence



Source Oxford Economics



863 homes are earmarked for Guildford town centre in the Local Plan

Planning and infrastructure

Delivering enough homes to meet need will be critical to Guildford’s continuing economic success

Where are the homes going to go?

It is clear that Guildford and its surrounding local authorities haven’t built enough homes in recent years. In order to better compete with the likes of Oxford and Cambridge, and competitor towns like Bedford and Aylesbury, Guildford simply has to build more homes.

With little delivery currently from large sites, new development has been dominated by small rural sites and town centre redevelopment, including some office to residential permitted development, although this has been limited with continued demand for offices in Guildford.

Further town centre intensification with repurposed retail units adapted to the changing requirements of the sector presents opportunities to provide homes alongside. 863 homes are earmarked for Guildford town centre in the Local Plan, 9% of the total. 400 of these are allocated at M&G’s North Street redevelopment. The potential closure of Debenhams would also provide a good opportunity to open up the river with Guildford likely to embark on a revised Town Centre masterplan.

Woking has shown the way in recent years, with the highest rate of housebuilding. With Green Belt being a major obstacle to finding land in order to build, the local authority has chosen to intensify land uses within the town centre, with multiple towers currently under construction up to 35 storeys in height.

There is little appetite for going tall in Guildford itself, with a number of proposals having seen heights reduced to get through planning in recent years. Focus is starting to shift to taking a more pragmatic approach to green belt release.

A conundrum facing local authorities is reconciling the required growth and infrastructure with Green Belt boundaries, some of which have not undergone review for decades. Guildford’s recently adopted plan proposed circa 1% release of Green Belt to achieve the stepped increase in growth. Waverley

sought to release some Green Belt, in part to protect the more sensitive parts of AONB.

Runnymede’s Local Plan is seeking modest Green Belt release in response to this challenge, soon to be followed by Elmbridge’s emerging Local Plan. The options consulted include potential releases in those areas deemed to be of lower quality Green Belt. Surrey Heath will decide on the exceptional circumstances to make any Green Belt release in January 2020, in the knowledge that the alternatives could be development closer to the environmentally sensitive Thames Basins Heath SPA. National government is keen for Green Belt protection, and will continue to defer the decision on release to local authorities, who also have to promote growth and sustainable patterns of development.

Mapping Local Plan status and five-year land supply across this area

Guildford’s recently adopted Local Plan (although it is in Judicial Review process) proposes a 5-year housing land supply of 5.93 years. This is a vast improvement from the 2.5 years in the previous estimate, prior to the new Local Plan, and is clearly a positive step in the right direction.

Sites include urban extensions to Guildford, including Blackwell Farm, Gosden Hill Farm, and a new settlement of over 2,000 homes at the former Wisley Airfield, all of which will see green belt release, but this Plan will only be finally confirmed following a High Court challenge.

The infrastructure puzzle

As part of the new Local Plan, a number of large strategic sites have been allocated to come forward for housing. For these to happen, infrastructure improvements are necessary to enable housing delivery.

Local Plan Status

	Guildford	Woking**	Runnymede	Surrey Heath	Elmbridge	Waverley
Post-NPPF Local Plan status	Adopted (Judicial Review)	Adopted	Examination	Draft Plan	Initial preparation	Adopted
Post-NPPF Local Plan target pa	562	292	N/A	N/A	N/A	590
MHCLG standard calculation pa	789	409	557	352	612	538
Most recent land supply statement	5.9	7.7	8.0*	4.0	2.8	5.2
Proportion of local authority that is Green Belt	89%	63%	79%	60%	58%	61%

*From 2014
 ** Woking 'self-certified' their 2012 Plan as still up to date. It will need a review soon, as it only plans to 2027.
 Source Savills Research



Infrastructure improvements are necessary for new homes to be delivered

Railway upgrades

Guildford station has plans for additional platforms and layout changes to provide additional capacity, along with a new station building, 438 new homes, retail, office space and improvements in the public realm. Planning was approved in February 2018. An enhanced station environment and interchange and connections with the town centre has the potential to bring forward and encourage adjacent development, especially around the River Wey, where other sites are allocated in the Local Plan.

New railway stations

Guildford could see two new stations built at Guildford East and Guildford West. The latter is allocated in the Local Plan, adjacent to the Royal Surrey County Hospital and close

to the Blackwell Farm site, an allocated site owned by the University of Surrey that has plans for a mixed-use urban extension that will see 1,500 homes built and an extension to the University’s Research Park.

At Guildford East, landowner Martin Grant Homes is promoting a potential station adjacent to the allocated 1,700 home site at Gosden Hill Farm. Network Rail considers that, subject to further assessment and approval, the railway station is feasible and viable.

Road upgrades

A major upgrade to the Wisley interchange, where the M25 and A3 meet is planned with cost estimates of up to £250m. The DCO for this scheme is progressing and is likely to be made in Autumn 2020.

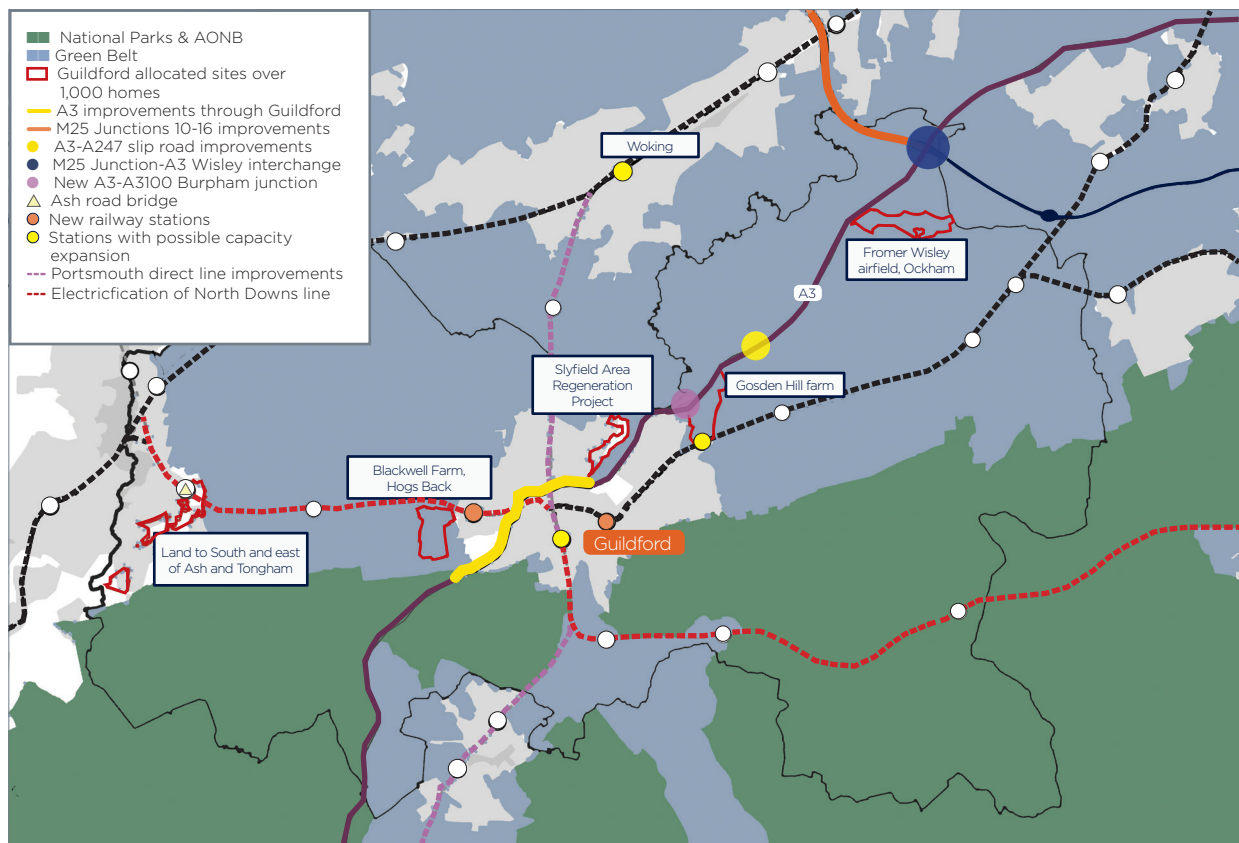
This upgrade is necessary to bring forward nationally important infrastructure and to enable the Local Plan growth.

£30m+ upgrades to junctions on the A3 are also needed to mitigate the impact of strategic sites including 550 homes planned at Garlicks Arch. These are to be wholly developer-funded between 2021 and 2027.

Ash Road bridge

A new bridge over a railway line is needed before a further 700 new homes can be delivered at Ash and Tongham. The scheme has provisionally secured £10m in funding from Homes England and £2.5m from Network Rail. Guildford Borough Council is seeking to secure further contributions from Surrey County Council and S106 funding from developers.

Local Plan Status





Apartments have dominated the market in Guildford in recent years

Meeting varied needs in the new build market

Delivering the right mix of homes will be crucial to ensuring continued economic growth

The new build market

New build housing being built across Guildford and the surrounding local authorities varies hugely, with homes sold in the 12 months to May 2019 ranging from apartments worth £200,000 to more than £2m.

Apartments have dominated the market in Guildford in recent years with permitted development and urban in-fill schemes. Family housing-led schemes have been few and far between. Those housing schemes that have come through have tended to be small in size, rural in location, and targeted at the upper end of the market.

Over the three year period between 2016 and 2018, just 26% of new build homes were houses, the rest were apartments. This differs to a split of 56%/44% in favour of flats to houses across all five local authorities combined. The split between flats and houses has remained fairly static since the Global Financial Crisis. Guildford has also seen a number of retirement living schemes in recent years. With an ageing population and built-up equity amongst this sector, the area is ripe for such product.

Where are buyers coming from?

Around 50% of all household moves to Guildford's built-up area are from households that already live within the town itself. Those that move from further afield typically come from South West London with road and rail links, especially the A3, clearly a well-trodden corridor. Places such as Esher, Raynes Park, Wimbledon and Clapham have all seen significant out-migration into Guildford over the past couple of years, as London based buyers look to release equity or upsize.

According to Savills deal book from 2016 to 2019, 66% of those buying in Guildford do so as their main residence with 28% as an investment. The most commonly cited reason for buying (38%) was upsizing, highlighting the importance of delivering family housing. The largest proportion of buyers are those aged 30 to 39 and 40 to 49, accounting for 31% each. Only 11% are 1st time buyers, compared with 18% across Surrey as a whole, which shows the challenge of getting on the housing ladder.

Changes to Help to Buy

Help to Buy has had a varying impact across the wider Guildford area, supporting the sale of 13% of all new build sales since 2013. This average, however, disguises the huge difference between local authorities. Help to Buy was used in just 3% and 4% of new build transactions in Guildford and Elmbridge respectively, but for 21% in Woking.

Looking forward, a new Help to Buy cap is set to be introduced from 2021 onwards, reducing the limit for properties eligible for the scheme from £600,000 to £437,600 in the South East, and only for use by first-time buyers. However, the impact of this cap should be limited in this area, as it supports a relatively low proportion of all transactions; currently, almost 40% of transactions are already above the £600,000 limit. The greatest impact will be in Runnymede, wherein the year to

Q2 2018, we have estimated that 49% of homes acquired through the scheme would have been "lost" if the cap was in place.

If developers are to continue to benefit from Help to Buy until the scheme is due to end in 2023, they will likely need to build smaller sized houses and flats so that they fall within the £437,600 cap.

PBSA development catching up with demand

As the University has prospered, the number of students it caters for has grown considerably, with more than 15,500 full-time students in 2018/19. There are plans to extend this further to 18,000 by 2022 and 23,000 by 2027, although not all students will live in Guildford. Currently, 70% of the University's students are based in Guildford. Added to the 800 students at the Academy of Contemporary Music, the number of full-time students in the town are estimated at 11,500, around 8% of the local authority's population. By 2022 the student population in Guildford is expected to increase to 13,400.

To meet this demand, purpose-built student accommodation has seen an increase both from the University itself, along with the private sector. Guildford currently has around 6,000 PBSA beds owned and operated by the University, with 185 from the private sector.

Another 2,750 beds are in the pipeline with over 1,600 of these currently under construction across three schemes. The impact of this supply on the local market will be an interesting question. As it stands around 54% of full-time students in Guildford are catered for in the PBSA market, the rest are likely to be in the HMO sector. If the total pipeline was built out by 2022, this share will rise to 67%. Assuming four students on average share in the HMO sector, this would take 215 homes out of the student housing market and back to family housing.

Potential to deliver alternative tenures

With homeownership out of reach for many, the private rented sector becomes all the more important. However, build to rent is yet to contribute to supply in Guildford, as the mismatch between supply and demand of open market housing means that housebuilders are able to outbid build to rent operators for plots either with or without planning.

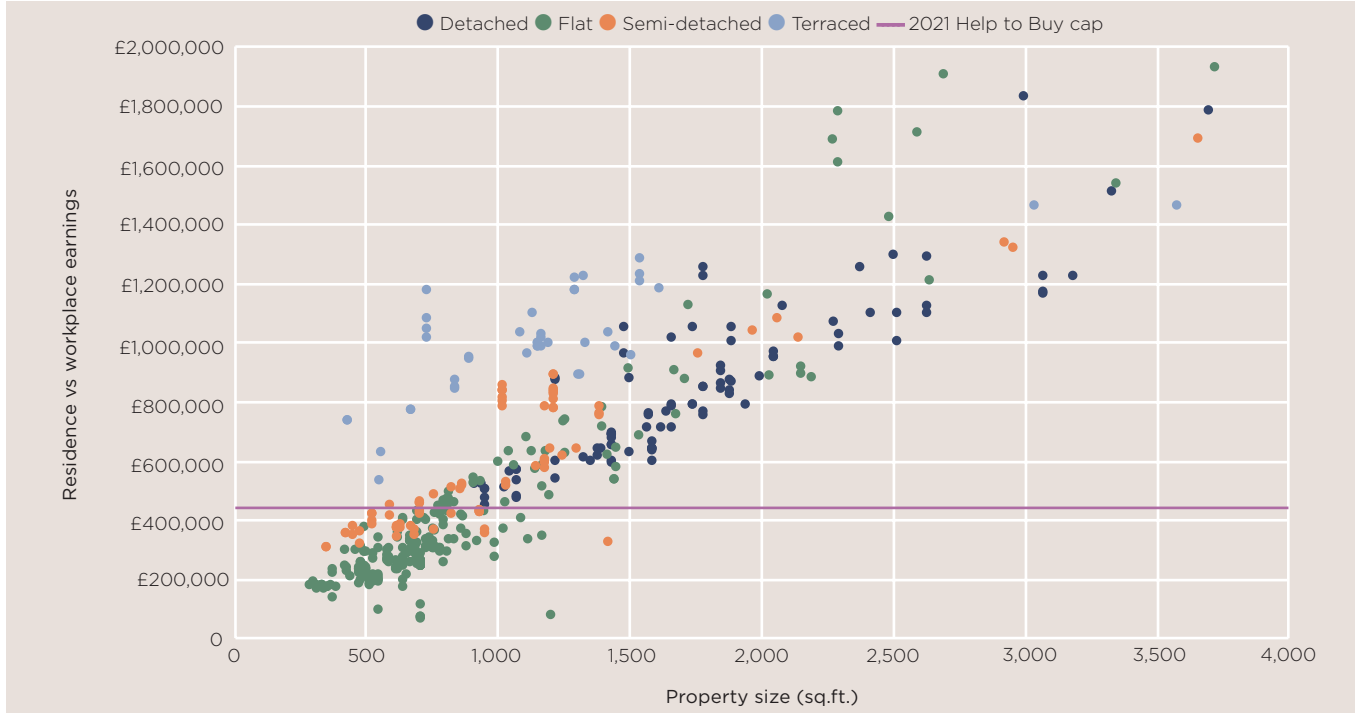
However, there are some signs that this trend is beginning to change. An application for 200 build-to-rent homes on Walnut Tree Close to the north of the town was submitted by Peveril Securities with a forward funding deal in place with M&G Investments, although it was subsequently withdrawn with plans approved for a student scheme in its place.

Guildford is set to see build-to-rent in the form of co-living, with 113 units under construction aimed at young professionals. PBSA specialist and operator Scape is building the 'compact living' block in conjunction with more than 400 student beds within the same scheme. The success of the scheme, both from the market and local authorities' perspective could be seen as a litmus test for any future proposals.



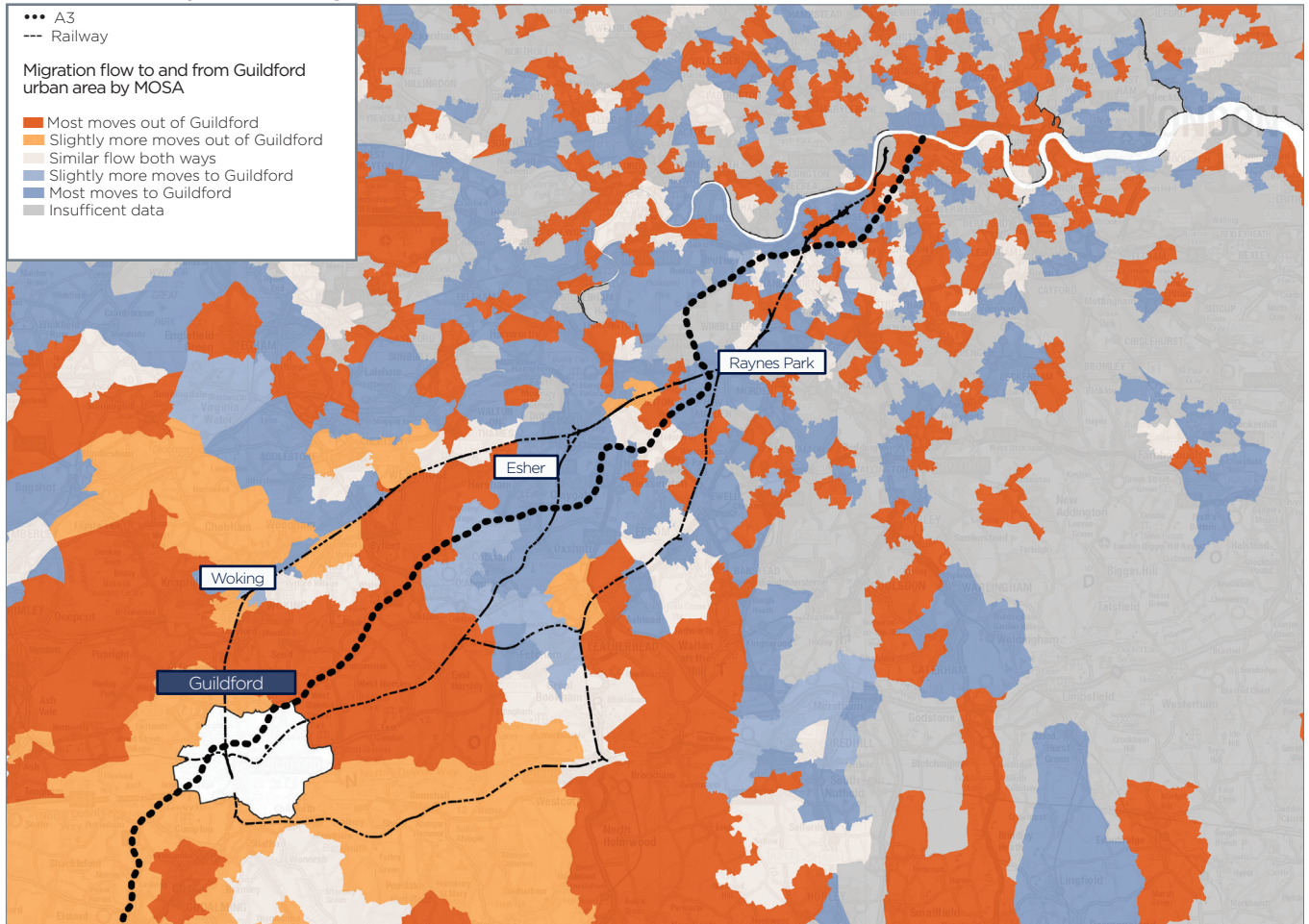
Guildford is set to see build-to-rent in the form of co-living, with 113 units aimed at young professionals

New build sales in wider Guildford area 12 months to May 2019



Source HM Land Registry, EPC

Where are buyers coming from?



Source Experian



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