

# Peterborough: In high demand



What does Brexit uncertainty mean for Peterborough?



**High demand and a lack of quality stock has increased demand for investment opportunities**

# Record low vacancy

The East of England is becoming increasingly desirable for both office and industrial occupiers due to its location, connectivity and relatively cheap rents

National occupier demand for industrial properties above 100,000 sq. ft. in the first six months of 2019 reached 1.19 million sq. ft., 48% above the long-term average. Within the local Peterborough market, take-up on units above 10,000 sq. ft. in the first six months of 2019 reached 861,512 sq. ft., 13% above the long-term annual average.

Moreover, recent strong occupational activity paired with limited new development has kept vacancy rates at chronic lows currently standing at 2.6%, a positive for the rental tone within the market. The constrained supply has caused rents to grow by roughly 40% since the low of £3.70 in the 2008 economic crisis to £5.50 or £7.50 for prime units, depending on size.

The supply of industrial units above 10,000 sq. ft. in the region currently stands at 744,428 sq. ft. meaning there is less than a year's supply in the market. This chronic shortage of supply has created opportunities for speculative development. This strategy has been seen at Gateway Park, where strong levels of demand have recently led to the decision to develop two further speculative units.

Limited office supply in Peterborough has restricted office take-up in recent years. During 2018, Peterborough saw total office take-up of 43,000 sq. ft., which was below the long-term average. During the first six months of 2019, Peterborough has seen 19,000 sq. ft. of space occupied,

suggesting that 2019 take-up will be down again from the preceding year.

The permitted development (PD) of office stock to residential has seen office supply in Peterborough rapidly fall. In recent years, over 600,000 sq. ft. has been purchased for conversion. The conversion of Bayard Place, the former Peterborough City Council HQ, into 115 residential flats will see a further 60,000 sq. ft. of office stock removed from the city.

Conversions combined with limited new development has resulted in office availability in Peterborough currently standing at just 250,000 sq. ft. There is only one building that can provide over 20,000 sq. ft. of contiguous space, demonstrating a need for development if Peterborough is able to attract and retain large occupiers. This has resulted in significant rental growth over the past five years. Prime rents currently stand £17.50 per sq ft representing growth of 8% per year since 2015.

## Local supply pipeline

Occupier demand within Peterborough's industrial and logistics market continues to revolve around better quality units. Landlords are undertaking quality refurbishments of second-hand space and there is the opportunity to generate lettings at increased rental levels which will in turn help with rent reviews and portfolio valuation.

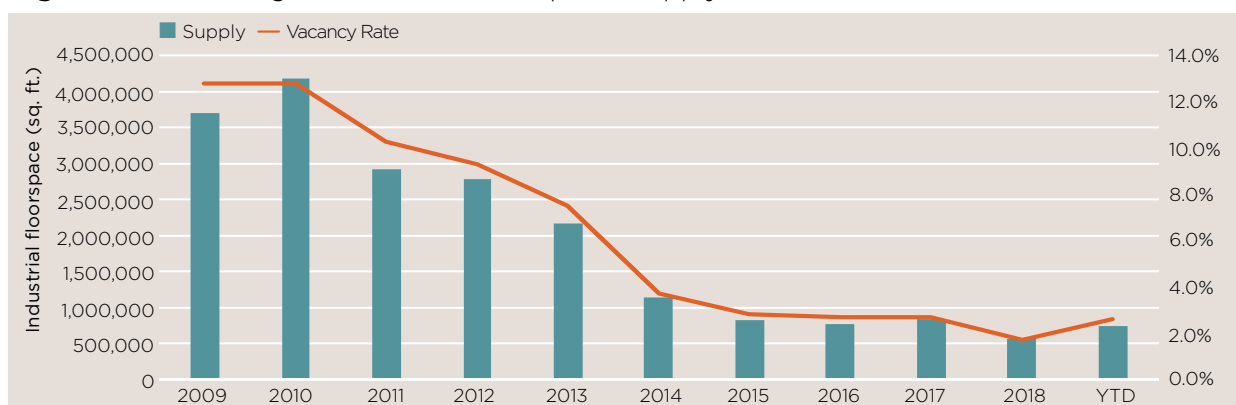
High demand, quality rental growth opportunities and lack of quality stock on the market has also increased demand for investment opportunities. Savills national prime yields have remained largely static for the last 12 months and now stand at 4.25% for prime single let logistics units and 4.00% for multi-let industrial estates, the lowest levels ever seen. The current pricing, high demand and low yields provide an opportunity for current asset owners to sell off stock for higher capital values.

## Upgrading existing stock

There are similar opportunities in the office sector. Owners of secondary buildings can optimise the benefits from increased demand and rising rents by refurbishing and upgrading existing stock to meet the demands of modern office occupiers.

Savills *What Workers Want* survey found that only 39% of respondents felt the office had a positive effect on their mental health. With wellness rising on the corporate agenda, office buildings with wellness facilities are increasing in popularity, as occupiers aim to meet the needs of their employees. For example, Stuart House saw significantly increased interest after an extensive refurbishment to include gym, secure indoor cycle parking, an onsite coffee shop and co-working space. The building, which previously struggled to let, now only has a handful of suites available.

**Figure 1** Eastern Region industrial take-up and supply



Source Savills Research



House prices in Peterborough are buoyant, defying regional trends

# A robust market

With ambitious plans to build 19,400 homes over the next 20 years and with strong house price growth, momentum continues to gather pace

The most notable change within the residential sector in Peterborough is the recent adoption of the district's Local Plan, covering the period between 2016 and 2036. The plan which details the council's vision for the city of Peterborough, sets out an ambitious target to build 19,440 homes over the next twenty years to support the district's growing population.

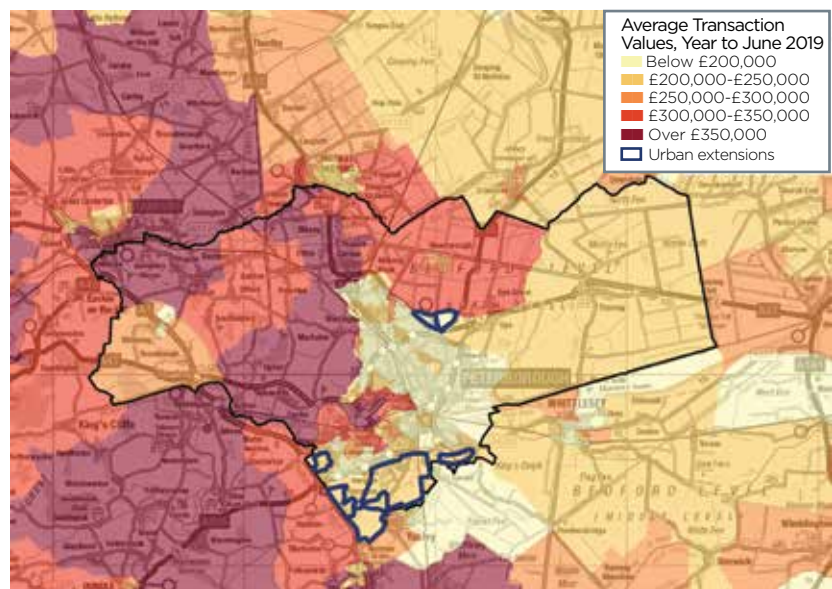
Proposals to build 2,500 homes as overspill for neighbouring districts were removed from the plan, lowering the housing target from in excess of 1,200 homes a year, to 972 homes, equivalent to 1.2% additions to existing stock per year. With the lower target, the proposed scheme at Castor Hanglands nature reserve has also been removed from the plan.

The adopted housing target includes provision for a further 600 homes to house students attending the anticipated new University of Peterborough. In terms of affordable housing provision, the Cambridgeshire and Peterborough Combined Authority recently announced £6 million of grant funding for 146 new affordable homes across the district.

Although housing delivery slowed in Peterborough by 41% in 2017-18, average delivery levels are still broadly in line with housing need (942). Combined with a strong pipeline of land supply, Peterborough is projected to pass the Housing Delivery test in 2019.

In order to achieve its ambitious housing target, the council plans to deliver 59% of its housing target through a collection of existing and new urban extensions. A further 3,569 units and 945 units are planned for Hampton and Paston Reserve, both of which have been under construction for over 10 years.

**Figure 2** Average transaction values (Year to June 2019)



Source HM Land Registry, Peterborough Local Plan

The plan also sets out proposals for schemes at Great Haddon, Norwood and the East of England showground. Alongside these urban extensions, opportunity areas for regeneration have been identified at the Hampton, Orton and Werrington District Centres where over 550 units have been allocated for development.

## Buoyant price growth

Against a backdrop of market uncertainty and flattening transactional activity, house prices in Peterborough are buoyant. Defying regional trends, prices rose by 5.8% in Peterborough in the year to June, compared to 1.4% for the East of England.

Underlying this price growth is the relative affordability of Peterborough compared to the wider region. Buyers in Peterborough do not face the same affordability pressures as those in

neighbouring markets. The median house price to earnings ratio in Peterborough at 7.3, is significantly below both the Cambridgeshire and East of England ratios of 9.0 and 9.1 respectively. Within Peterborough itself, there remains considerable variation in the local housing market, with average prices ranging from over £400,000 on the outskirts of the city to below £200,000 in the centre of Peterborough. In the last year, market activity was concentrated towards the lower end of the market as 48% of total sales in Peterborough were below the £400,000 threshold.

In addition to the city's robust price growth, the development land market is active, with strong rates of sale for new homes, good transport and commuting links and the district's relative affordability, all driving demand for sites.

“ In order to achieve its ambitious housing target, the council plans to deliver 59% of its housing target through a collection of existing and new urban extensions ”

# Brexit uncertainty, opportunity or threat?

Uncertainty continues to weigh heavily on farmers' minds and decisions over releasing land to the market continue to be delayed

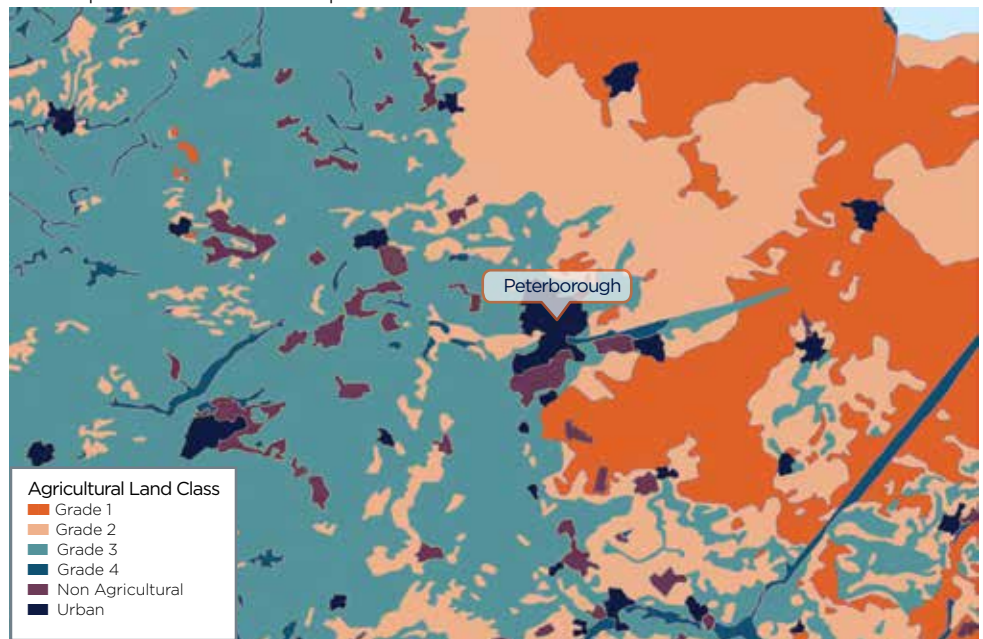
The combination of policy change and political uncertainty is causing sellers to be more nervous than buyers. Across the East of England, average prime (Grade 1 and 2) and average Grade 3 arable values are around £8,500 per acre and £7,900 per acre respectively and have remained relatively stable during the second quarter of this year. We are predicting average values will remain stable while demand continues, especially for the 'right' farms, in a market where product is very limited.

Our agents however reported that there is a broad range of prices achieved either side of the average, with neighbours working quickly to secure rare opportunities to acquire adjoining land, and the weak pound has renewed international interest in farmland assets in well located areas. The recent correction in the value of bare commercial farmland is now creating opportunities for investors to make a reasonable return, and conservation-minded buyers continue to express an interest in marginal and high-nature value areas.

It is well documented that market activity across Great Britain over the past 15 to 20 years has been low in the historical context with, on average, farms now changing hands just once every 200 years. This pattern is the same in the East of England with just 7,000 acres of farmland publicly marketed in the first half of 2019. This is the lowest volume on record apart from in 2004, the year before the single farm payment was introduced, when just 5,000 acres came to the market in the corresponding period.

Brexit with a deal or without; we know there are significant changes on the horizon for agricultural and environmental policy. This will no doubt bring new opportunities and

**Figure 3** Agricultural Land Classification around Peterborough, the top three Grades to predominate



Source Defra

threats to land based businesses. Peterborough is surrounded by top quality farmland and is serviced with good transport links. Food production will remain a top priority, especially on the best land, but with increasing focus on carbon, we expect Grade 1 peatlands to come under increasing scrutiny in the years ahead. Innovation, including collaboration, will need to be embraced to ensure that businesses remain profitable whilst being sustainable. Sustainable agriculture is becoming a significant issue for investors and supply chains, requiring farmers to balance economic productivity goals with environmental and social costs – water use in

agriculture is a good example of a topic that cuts across both of these.

However, environmental and social themes can add real value to land based businesses, especially with marginal and non-agricultural land, providing drivers for new income streams. These include renewable energy, strategic development, environmental offsetting, carbon sequestration and diversified enterprises.

Understanding the economic, environmental and social value of your business will be a good foundation to mitigating the risks and fostering the opportunities that lie ahead – both to income and capital values.



## 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.

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