SUMMARY

Bristol must address its housing and workplace shortfall to continue its economic growth.

- Bristol’s economy has grown faster than other cities outside of London. Robust demand for homes has pushed up house prices in Bristol by 11% over the past year, outpacing the national average.
- Wider Bristol needs a very minimum of 84,364 new homes by 2036 and would suffer from a potential future shortfall of at least 1,234 new homes a year, if current rates of building continue.
- There is also an undersupply of new office space, with only one year’s worth of Grade A supply available. Failure to meet demand may inhibit growth prospects of local businesses and make it harder to attract new companies.
- Bristol has seen the highest number of applications granted for office to residential conversions outside London. However, we expect to see a shift in this trend as growth in office rents means commercial refurbishment is attractive again.
- Bristol needs to grow to accommodate its rising population. Co-operation with neighbouring local authorities is key. At least 30,000 new homes are currently being planned for or developed in the city’s immediate surrounding areas.

“Bristol’s economy has grown faster than other cities outside of London”
Bristol needs to build more homes and workspace to ensure economic growth continues

**Market dynamics**

**STRONG GROWTH BOOSTS DEMAND**

Bristol is undergoing dramatic change, supported by the fastest growing economy outside London, city centre regeneration and a vibrant cultural scene that saw it voted as the best city to live in by The Sunday Times last year.

The economy rebounded strongly following the recession, expanding by 19.2%, between 2009 and 2014, ahead of Birmingham (16.3%) and Manchester (15.2%), with the best performances coming from manufacturing, real estate and construction, the latest Government data shows.

This economic growth is reflected in strong demand for both residential and commercial property across the city and beyond its boundaries. House prices rose by 11% in 2015, well above the 6.4% average for England and Wales and just behind London’s growth of 12.4%, according to HM Land Registry.

One of the biggest employers in Bristol is the public sector, with the largest single employer being Bristol City Council with over 5,000 employees. The universities and hospitals also provide a significant number of jobs. We expect this sector to continue to grow with more office requirements from the EU and Central Government going forward.

However, the fastest growing sector in terms of employment, is the professional, scientific and tech sector, which has grown by 44% over the last five years, closely followed by the information and communication sector, which grew by 28% over the same period, demonstrating the strength of the TMT sector in Bristol.

Indeed, our take-up figures show that the TMT sector has grown by 70% from the 2006-2010 period to the 2013-2015 period (fig 1). Further to this, the BBC is a major occupier in Bristol city centre, employing around 2,500 people. We have also started to see a number of tech clusters forming around the city in places such as Clifton and Spike Island.

However, this economic success brings further development and planning challenges which must be tackled to ensure the city’s competitiveness and continued growth.

The population is projected to increase by 9.3% between 2015 and 2025, adding 41,000 more people to a city of 450,000. Employment growth means that an estimated 14,000 office based jobs will be created during the last five years, closely followed by the 2013-2015 period (fig 1).

To accommodate these workers, we estimate between 900,000 sq ft and 1.4 million sq ft of floor space will be needed over the next ten years. As one of the key cities within the UK, Bristol needs to develop the suitable commercial space it requires to continue to attract inward investment and enough housing to accommodate its growing population.

**Office demand & supply**

Lower property and staff costs compared with the South East, have also acted as a magnet for businesses making a move to the South West. As the UK’s fifth biggest city and regional commercial hub, demand for office space both within the city and its surrounds has been consistently strong over the last five years.

Last year take up of office space in the city centre was just under the five year average of 533,000 sq ft. However, take-up in 2016 is expected to reach 800,000 sq ft, 63% up on the previous year. Is there enough available space to soak up this demand?

Our analysis shows there is currently a severe under-supply of new space in the market, with only one year’s worth of Grade A supply available. We anticipate a continued decline in supply levels going forward, with increased demand and limited developments (fig 2).

The next scheme to complete will be Aurora, Finzels Reach in 2017. This scheme will provide 95,000 sq ft of new office space, the equivalent of less than a year’s worth of supply, which is not enough to satisfy future demand. The lack of new developments could inhibit future inward investment into the city as well as preventing current occupiers from upgrading their space.

There is potential for additional developments, such as Aspire (200,000 sq ft), 3 Glass Wharf (109,000 sq ft) and Glass Fields (100,000 sq ft) to start on site, which are yet to be confirmed. A significant pre-let would likely kick-start much needed development within the city centre over the next few years. We have seen the lack of office space available in Bristol drive the demand for ‘value-add’ office refurbishment opportunities. These are attractive given their speed to market and their ability to ‘plug the gap’ while the market waits for developments to complete.

These include: 1 Cathedral Square, catering for the more corporate tenant, and The Pithay, geared towards the more creative start-up.

**CHALLENGE AND OPPORTUNITY**

Bristol needs a greater supply of homes and offices to meet demand

\[ \text{450k Population of Bristol} \]
\[ +10.4\% \]
\[ 10\text{-year increase (2005-15)} \]

\[ \text{260k Bristol’s workforce} \]
\[ +9.5\% \]
\[ 10\text{-year increase (2005-15)} \]

\[ \text{2,984 More homes built per year over past 5 years in wider Bristol area} \]

\[ \text{One year’s worth of office development under construction in the city centre} \]

\[ \text{22\% Below annual target for new homes in wider Bristol area} \]

\[ \text{LIMITED SUPPLY HAS CAUSED A SHORTFALL} \]

\[ \text{One year’s worth of Grade A office supply in the city centre} \]

\[ \text{1,234 potential annual future housing shortfall if current building levels continue} \]

\[ \text{DEMAND DRIVES UP PRICES} \]
\[ \text{11.7\% Growth in house prices in 2015} \]
\[ \text{5.3\% Predicted growth in Grade A office rents in 2016} \]

Office rent increases

Due to the lack of new supply coming through in the Bristol market, Savills forecasts prime rents to break through the £30 per sq ft barrier during 2016 and rise to £35 per sq ft by the end of 2020. Indeed, Bristol is likely to see the best rental growth of all the UK cities and could see a 12% rental increase on the best space by 2017. This supply/demand imbalance has driven rents upwards in the Grade B market (£25 per sq ft), whilst good quality refurbishments are achieving similar rents to Grade A space. The rental differential is likely to widen again as new developments set higher rental levels.

Investment

£385m was invested in the Bristol office market during 2015, the highest level of investment since 2006, well above the 10 year average of £211m. Overseas investment, made up 31% of volumes in 2015 and this trend has continued into 2016 with the recent sale of Bridgwater House at Finzels Reach for £56.3m. The sale was again to overseas investors and reflects a net initial yield of 5.35%. We continue to see investors looking for secondary assets in strong locations where limited new development has taken place. Opportunities now exist for cash ‘value add’ opportunities within the city.

Rental and student

The private rented sector (PRS) is well established in the Bristol city centre, with 55% of households renting according to the 2011 Census. Rental values in Bristol city centre have been rising steadily over the past five years, growing by an average annualised rate of 6%, due to strong demand from young professionals faced with affordability constraints, a growing student population and very low levels of new housing supply.

The search for higher yields and fresh opportunities is prompting PRS investors to look beyond London. Previous analysis in Spotlight on Rental Bristol earlier this year identified Bristol as one of the top cities for institutional PRS investment. With 39,000 students at the University of Bristol and the University of the West of England, there is also strong demand for student housing. One third of these students can be accommodated in University controlled and private student housing. A further 1,500 student beds (11% increase) are in the development pipeline. In our Spotlight on UK Student Housing last year Bristol was identified as a “first league city”, reflecting both strong demand and a need for more supply.

Retail & Leisure

Bristol is ranked in the top 10 of the UK centres (PRIME) and offers a broad mix of retail and leisure, supported by the thriving office and residential markets which in turn has fuelled this evolution. The main shopping area of Broadmead focuses on Cabot Circus (1m sq ft of retail), anchored by House of Fraser and Harvey Nichols, the scheme offers mid to high end retail, family leisure and casual dining. Broadmead is balanced by The Galleries Shopping Centre, which serves the value, convenience and mid-market sectors. Clifton Village offers more upmarket boutiques and recently attracted The Ivy restaurant. To the north of the city, the Met at Cribbs Causeway and The Venue are looking towards a significant expansion through development.

Residential property

Strong economic growth, increased competition in the mortgage market and robust demand from cash only buyers, coupled with a lack of appropriate homes for sale, have driven up house prices in Bristol. As a result, Bristol saw the biggest increase in the value of housing stock outside London. The total value of housing in the city is now £4.4bn following an increase of 14.5% over 2015.

Demand is mostly home grown. Our own data shows that over the last three years, the vast majority of buyers have come from Bristol and Somerset and have purchased a home as their main residence, with the bulk (92%) buying properties worth between £500,000 and £1m. Average values in Clifton Village, the most affluent neighbourhood in Bristol, exceeded £750,000 last year. Values in Leigh Woods were not far behind.

The majority of our purchasers were upsizing (69%) but a significant proportion (14%) bought because they were relocating, particularly at the higher end of the market. Among sales over £1m, which make up just over a quarter of our deals, 8% of these were bought by London buyers. However, not all of these buyers relocating their residence to Bristol were employed in the city. Among those buying homes worth £1m, 15% continued to work in London.

New build residential

We continue to see an undersupply in the new homes. With almost 4,000 new households a year projected to emerge in wider Bristol over the next 20 years, there is a clear need for 6,384 new homes, according to official estimates. (Wider Bristol HAA strategic housing market assessment, which includes the whole of Bristol, North Somerset and South Gloucestershire) Given that we saw an annual average of 2,984 additional new homes delivered across Bristol, North Somerset and South Gloucestershire over the five years to March 2015, this represents a potential future shortfall of at least 1,234 new homes if current building levels continue. However, some have questioned whether the official numbers are high enough with alternative estimates of housing need north of 100,000 which would result in far higher housing shortfalls.

Our own evidence suggests that market demand would support a higher number of new build sales. So far this year our agents have taken reservations for over 190 homes, which is more than Savills sold in the doldrum year of 2009.

More recently, we have seen high demand for smaller units with one and two bedroom apartments making up 92% of our sales in 2014/2015. This high affordability pressures on home purchasers and the search for better yields among investors has lead to an increase in demand for studios.

Government policy

Whilst 52% of our purchasers were homebuyers, 41% bought for investment and 7% purchased second homes (fig 4). This dynamic may change as a result of government policy to level the playing field between buy-to-let investors and first-time buyers. The recent introduction of an extra 3% levy on top of standard stamp duty rates for investors and second home buyers, the phasing out of mortgage interest tax relief for landlords and the fact that residential property was exempted from plans to cut Capital Gains Tax, is likely to have a calming effect on investor demand.

Developers may therefore become increasingly reliant on homebuyers’ demand undermined by other government initiatives such as Help to Buy and Starter Homes. Under current proposals, developers building schemes of 10 homes or more will be required to deliver 20% of the scheme as a “Starter Home”.

New build residential values

<table>
<thead>
<tr>
<th>New build apartments</th>
<th>Average asking price</th>
<th>Average £ per sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studios</td>
<td>£159,500</td>
<td>£405</td>
</tr>
<tr>
<td>1</td>
<td>£217,160</td>
<td>£389</td>
</tr>
<tr>
<td>2</td>
<td>£351,704</td>
<td>£395</td>
</tr>
<tr>
<td>3</td>
<td>£544,992</td>
<td>£381</td>
</tr>
<tr>
<td>4</td>
<td>£820,000</td>
<td>£436</td>
</tr>
</tbody>
</table>

Source: Savills Research

Purchaser Finance Position 2014/15

<table>
<thead>
<tr>
<th>Main Residence</th>
<th>Investment/Redevelopment</th>
<th>Second Home</th>
</tr>
</thead>
</table>

Source: Savills Research

Purchaser Finance Position 2014/15

<table>
<thead>
<tr>
<th>Main Residence</th>
<th>Investment/Redevelopment</th>
<th>Second Home</th>
</tr>
</thead>
</table>

Source: Savills Research

House prices since peak

Source: HM Land Registry

Figures show average prices and are as of December 2015.
As office rents start to grow once more, we analyse the conversion conundrum in the city centre.

Bristol has seen the highest number of new homes created from office to residential conversions of any local authority in England, adding 530 new homes to Bristol in the year to March 2015. Previous differences in values as well as a supply of older lower grade office stock in the city enabled developers to take advantage of the relaxation of planning policy to allow conversions from office to residential under Permitted Development Rights (PDR) introduced in 2013. As a result, many recently launched residential schemes came through PDR, providing much needed housing for Bristol.

This feature of the planning system has now been made permanent and has expanded to allow the demolition of office space and the conversion of light industrial space to residential. In theory, this change in policy should facilitate a surge in the conversion of unused or under used commercial space into much needed housing.

However, the high rate of conversions from office to residential in Bristol reflects the volume of older stock in the city rather than any weakness in commercial demand. As office rents start to rise as a result of under-supply of workplaces in the city, we expect to see a shift in this trend.

Shift in the market

Although Bristol saw the highest number of applications granted for office to residential conversion outside London, we do not expect all of these to be developed out. The eight storey Pithay building in central Bristol illustrates this adjustment in the market. The building was originally going to be converted into residential use. But with offices in Bristol now seeing strong rental growth, it is about to undergo a comprehensive refurbishment into a Grade A TMT office building. The building is located within the city’s traditional core. However, with financial and professional companies now moving out of this area, it is now reinventing itself as the main tech hub within the city centre.

As the map shows, residential and office values are commensurate in the centre. Residential values for new build homes are higher in the west of the city (at £525 per sq ft) in Clifton and Leigh Woods, whilst values in the east of the city are much lower, at an average of £325 per sq ft. The cost of conversion remains high and therefore likely to take place only in locations where there is a substantial differential between office and residential values.

**FIGURE 6**

Bristol new build residential and prime office capital values

---

**Source:** Savills Research
Bristol in a good position to make the most of future growth opportunities both in its city boundaries and beyond.

**Future hotspots WHERE NEXT FOR DEVELOPMENT?**

**SOUTH BRISTOL**

- Bristol has been given Housing Zone status and £300,000 to support development in one of the city’s future growth areas for employment and housing, with plans for 8,000 new homes. The completion of the South Bristol link road next year will improve access to the area. Here are some other areas to watch:

  - **BRISTOL TEMPLE QUARTER**
    - With Bristol Temple Meads station at its core, this 70 hectare site is among the biggest regeneration projects in the country. It opened as an enterprise zone in 2012 offering incentives to businesses such as streamlined planning, reduced business rates and superfast broadband. It is expected to attract 17,000 jobs over the 25 year lifespan of the project.
    - There are already more than 300 businesses in the area including creative and digital start-ups. Across the River Avon, there are plans for a new cultural offering with the regeneration of Arena Island, the former diesel depot site, to include the Bristol Arena, an entertainment venue with capacity for 12,000. The Council is currently consulting on a new Masterplan for Temple Quarter.

  - **FINZELS REACH**
    - The city centre mixed use scheme known as Finzels Reach, has already attracted a number of professional firms and residential buyers. The 115,000 sq ft Grade A Bridgewater House is now fully let to Barclays, BDO and EDF Energy. EDF Energy took 81,000 sq ft at £28.50 per sq ft during Q1 2016, in line with the 2015 peak. Due to limited new developments in the city, we expect the next phase of the scheme, Aurora (95,000 sq ft), set to complete during Q3 2017, to let quickly.
    - There is also planning consent for 200 apartments on the scheme. Construction is about to commence on Finzels Bridge, which will link Finzels Reach to Castle Park.

  - **PAINTWORKS**
    - Situated on the Bath Road to the south east of the city centre, Paintworks is the regeneration of a former Victorian paint factory. Four phases of work have been planned to develop the site.
    - Over 500 jobs have already been attracted by the site, and this is expected to rise to about 1,000 jobs when the work is completed in 2018.
    - The scheme has been particularly attractive to TMT firms given its relatively affordable rent and clusters of creative companies nearby. Small, warehouse-like workspaces, let for around £18 per sq ft.
    - The third phase is now currently under construction. It is the largest residential phase with planning permission for 321 homes and approximately 72,000 sq ft of commercial space across five acres.
    - The scheme has been particularly attractive to TMT firms given its relatively affordable rent and clusters of creative companies nearby. Small, warehouse-like workspaces, let for around £18 per sq ft.

  - **FILTON & SURROUNDING AREA**
    - The urban area of Bristol extends into neighbouring district councils. To the north of the city in South Gloucestershire, the arch between Cribbs Causeway and Filton, including the airfield and Charlton Hayes in Patchway, provides opportunity for larger scale development with the potential to create new neighbourhoods and employment.
    - The 65 acre former site of the Rolls-Royce East Works is set to become a new business park having secured planning consent for 1.2 million sq ft of commercial space, warehousing and industrial uses.
    - The £120m development, to be known as Horizon38, will provide major employment with car dealerships, trade counters, self storage and a major hotel and is set to complete next year.
    - Residential and retail is being planned on the opposite side of the A38. There are plans for at least 2,675 new homes on the former Filton airfield. Local advantages include access to M5, M4 and Bristol Parkway station which takes you directly to London in 1hr and 20 minutes. The area is also adjacent to Cribbs Causeway shopping centre. Nearby large employers include Rolls Royce, BAE Systems and Airbus UK.

**HOW WILL BRISTOL EXPAND?**

Cooperation between neighbouring local authorities is key

Bristol needs to grow in order to accommodate its rising population and to continue to attract investment as its economy flourishes. Hence the city must seek to intensify development within its urban areas as well as to co-operate with surrounding local authorities. Release of suitable sites on the Green Belt could provide opportunities for much needed urban extensions.

Bristol City Council, Bath and North East Somerset, North Somerset and South Gloucestershire, drew up the West of England Joint Spatial Plan which estimates the need to build at least 84,364 homes over the next 20 years. Around 56,000 homes are already planned for, with planning permission or sites already allocated. Different scenarios to increase housing include: urban intensification and repurposing sites for housing, expansion of urban areas into adjacent countryside, expansion of other towns in the area and the potential to bring together cluster of sites for strategic purposes.

Critics have questioned whether more is needed, with some estimating housing need of more than 100,000 homes by 2036.

Our map provides a snap shot of the current pipeline of larger developments in Bristol’s surrounding area with over 30,000 homes planned for and under construction.
Spotlight | Bristol Cross Sector

OUTLOOK

- Bristol is set for further growth. The population is projected to increase by 9.3% between 2015 and 2025, adding 41,200 more people to a city of 450,000. Over the next five years, total employment growth in Bristol (4.8%) is expected to outperform the UK average of 3.0%. Bristol's office-based employment over this period is expected to grow by 7.1%, above the UK average of 5.4%.
- Infrastructure improvements such as the electrification of the Great Western railway, cutting journey times to Cardiff and London and faster internet connections will add to the momentum. The MetroBus network to be launched next year will support development in the Bristol conurbation.
- Bristol is set to become the next gig-city, benefitting from gigabit internet speeds which will further support its gigabit city, benefitting from gigabit internet.
- The devolution agenda will give Bristol more power but place a greater onus on the four West of England councils to work together. Under the devolution agreement announced in this year’s budget, the West of England Combined Authority, working with a new elected Mayor for the combined authority, will receive £30 million a year funding over 30 years to boost the region’s growth.
- As part of greater regional responsibilities, the authorities have agreed to bring forward a Joint Transport Plan by the end of 2017. The councils also aim to accelerate housing delivery by prioritising investment in infrastructure associated with development including transport, schools and health. The devolution package also gives the region responsibility for the further education budget.

FIGURE 8

Mainstream markets: five-year residential value forecasts

<table>
<thead>
<tr>
<th>MAINSTREAM</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>5.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>London</td>
<td>5.5%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>15.3%</td>
</tr>
<tr>
<td>South West</td>
<td>6.0%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.0%</td>
<td>2.5%</td>
<td>19.9%</td>
</tr>
</tbody>
</table>

Source: Savills Research

NB: these forecasts apply to average prices in the second hand market. New build values may not move at the same rate.

Office rents in Bristol to rise to £35.00 per sq ft by the end of 2020.

This report is for general informative purposes only. It may not be published, reprinted or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

Savills team

Research

- Susan Emmett
  UK Residential
  020 3107 5460
  semmett@savills.com
- Lucy Greenwood
  UK Development
  020 7016 3882
  lgreenwood@savills.com
- Clare Bailey
  Commercial Research
  020 7409 8863
  cbailey@savills.com
- Michael Barnes
  Commercial Research
  020 3107 5459
  mbarnes@savills.com

Bristol Office

- George Cardale
  Residential Development Sales
  01179 100351
  gcardale@savills.com
- Julian Harbottle
  Development
  01179 100329
  jharbottle@savills.com
- Craig O'Brien
  Planning
  01179 100335
  cobrien@savills.com
- Peter Clayton
  In Town Retail
  01179 102205
  pclayton@savills.com
- Andrew Main
  Investment
  01179 102207
  amain@savills.com
- Chris Meredith
  Office Agency
  01179 102216
  cmeredith@savills.com

Savills plc

Savills is a global real estate services provider listed on the London Stock Exchange. Savills operates from over 700 owned and associate offices, employing more than 30,000 people in over 60 countries throughout the Americas, the UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactions services to clients all over the world.

Savills is a global real estate services provider listed on the London Stock Exchange. Savills operates from over 700 owned and associate offices, employing more than 30,000 people in over 60 countries throughout the Americas, the UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactions services to clients all over the world.

This report is for general informative purposes only. It may not be published, reprinted or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

This report is for general informative purposes only. It may not be published, reprinted or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.