UK Cross Sector - December 2020

SPOTLIGHT
Savills Research

Building for Bristol

savills

Residential ● Planning and development ● Office market

Bristol has always been in demand. Now, as we emerge from a second national lockdown, demand is stronger than ever across all property asset classes.

However, the nature of that demand is changing. The designs, amenities, and locations that occupiers are looking for have altered to reflect changes to how we use our homes, offices, and shops.

The race for residential space has tilted the balance of housing demand to Bristol's suburbs (page 3). The Government's Planning White Paper sets an expectation for the city to deliver more homes (page 4), which in turn will drive the need for logistics space to service those households' needs (page 5).

How we use our office space when we return to work in the new year will differ from before the pandemic. High-density rows of desks will make way for spaces that facilitate collaboration, mentoring, and networking (page 6). And the way we shop has changed, with consumers showing a greater preference for larger, retail warehouse stores that can facilitate socially distanced shopping (page 7).

2020 has been an exciting year for Bristol's property market in spite of the many challenges we have faced. The years ahead will provide the city with many opportunities to grow and to consolidate its position as one of the most attractive locations to live, work, and play in the UK.

Paddy Hales
Head of Bristol
UK Investment

Sales agreed were 40% higher in Oct-20 than in Oct-19

Selling through the seasons

In a year of two halves, Bristol's local buyer interest and strong national appeal means the residential market remains buoyant

The residential market in Bristol is the busiest it has been in years, despite the ongoing pandemic looming in the background. Towards the end of summer this year, agreed sales were over 50% higher than they were at the same time in 2019. New instructions have similarly remained high through to October, with sellers keen to make the most of such an active market.

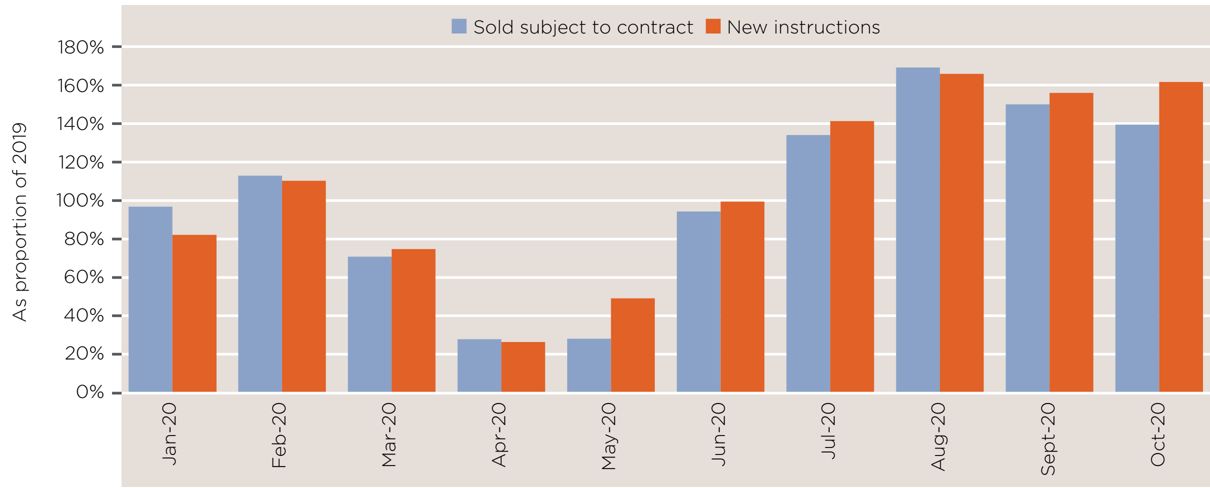
How badly has Covid-19 really hit sentiment? The national lockdown in spring saw a notable slowdown in buyers and sellers across Bristol, with sales agreed in April just 20% of what they were the previous year. This was particularly stark when measured against strong activity in Q1, which continued rapidly in the face of developing news about the oncoming pandemic.

There are several reasons the market has rebounded to such an extent. The start of the year was already remarkably busy, reflected in a stronger sense of confidence as the market began to open up in summer. Nationwide restrictions meant that fewer people were travelling abroad, which allowed momentum to continue throughout the summer.

On top of remarkable buyer sentiment and a greater pool of buyers through the seasons, the government introduced further measures to help keep the market moving. The stamp duty holiday put an impetus on buying and selling quickly to beat the holiday's end on 31st March 2021. The Coronavirus Job Retention Scheme meant a reduced loss of wages and helped buyer sentiment to remain steady.

Clifton Wood, Bristol

Comparison with 2019 (City of Bristol LA)



Source Savills Research using TwentyCi

City limits

Which areas have enjoyed the greatest success in this year of two halves? Suburban locations outside of Bristol city limits have seen some of the strongest activity. We have observed this across all markets, from areas with average values below £200,000 to the south of Bedminster to those over £500,000 to the north-west of Redland and beyond.

Part of that success can be ascribed to Bristol's appeal both locally and nationally. Over 60% of those moving to Bristol come from within the local authority and over 67% come from within 10km, higher than the average proportion of movers across England and Wales. There are a small proportion of those managing to travel over 10km while staying within City of Bristol local authority. The furthest one could travel within the local authority is just over 17km, from the coast of Avonmouth to the fields of Stockwood.

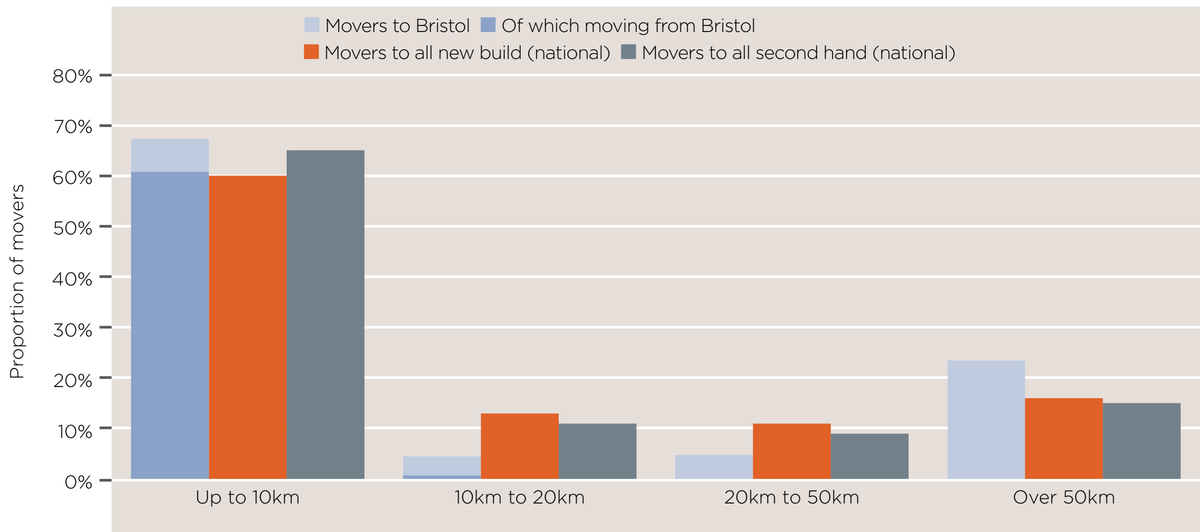
But the market is not just supported by local interest, and Bristol possesses a strong national appeal, with 24% of buyers coming from over 50km away. This is noteworthy, considering the average buyer of a second-hand property typically travels just 5.1km. However, there may be somewhat of a misconception that London is buying up the city, with only 1 in 20 buyers coming in from the capital.

Slow progress

With buoyant market sentiment, government support and national appeal, there should be very little to slow momentum in Bristol's housing market in the short term. However, the absence of key players in the transaction process means contracts are taking longer to exchange. Many conveyancers and surveyors have been furloughed, delaying mortgage valuations and conveyancing.

Increasing delays will have a negative impact on buyer sentiment. As completion dates move further away, buyers may question whether they'll benefit from the stamp duty holiday before it ends in March 2021. This pressure may encourage some prospective buyers to push forward without fully scoping out their purchase.

Distance moved to Bristol against national average



Source Experian

Permitted Development Rights accounted for 17% of Bristol's housing delivery in the last five years

Supplying Bristol

Looking ahead, the city requires a mix of housing delivery across all tenures

Bristol needs to deliver 2,368 new homes per year, based on the current method for calculating housing need. The government's proposed Standard Method 2, under consultation, would raise this figure to 2,490 homes. That's equivalent to 1.2% of the existing housing stock in the district, slightly more ambitious than the 1.1% annual stock increase required across England as a whole.

Bristol has delivered just over 70% of this proposed need figure on average for the past four years. It has achieved this despite restricted land supply within the city and Green Belt constraining land in the surrounding area. With the introduction of Standard Method 2, Bristol will need to work even harder to increase housing delivery, perhaps by reassessing areas designated as Green Belt and permitting denser development in the city centre.

A finite resource

Just 60% of housing delivery in Bristol comes from new build homes. The extensive use of permitted development rights (PDR) has fuelled recent housebuilding. In the past five years, conversion to residential through PDR has accounted for 17% of all net additions to dwelling stock in Bristol.

PDR has helped Bristol repurpose its older, less attractive office stock into homes. The supply of vacant offices is finite, however. The number of homes delivered through PDR has consistently fallen year on year as the availability of vacant, cheap offices fall (see chart below).

Recent changes to regulation will also limit Bristol's ability to rely on PDR for its housing delivery. From 6th April 2021, homes delivered through PDR will be subject to national minimum space standards. These start from 37 sq m for a one-bedroom flat or 61 sq m metres for a two-bedroom flat.

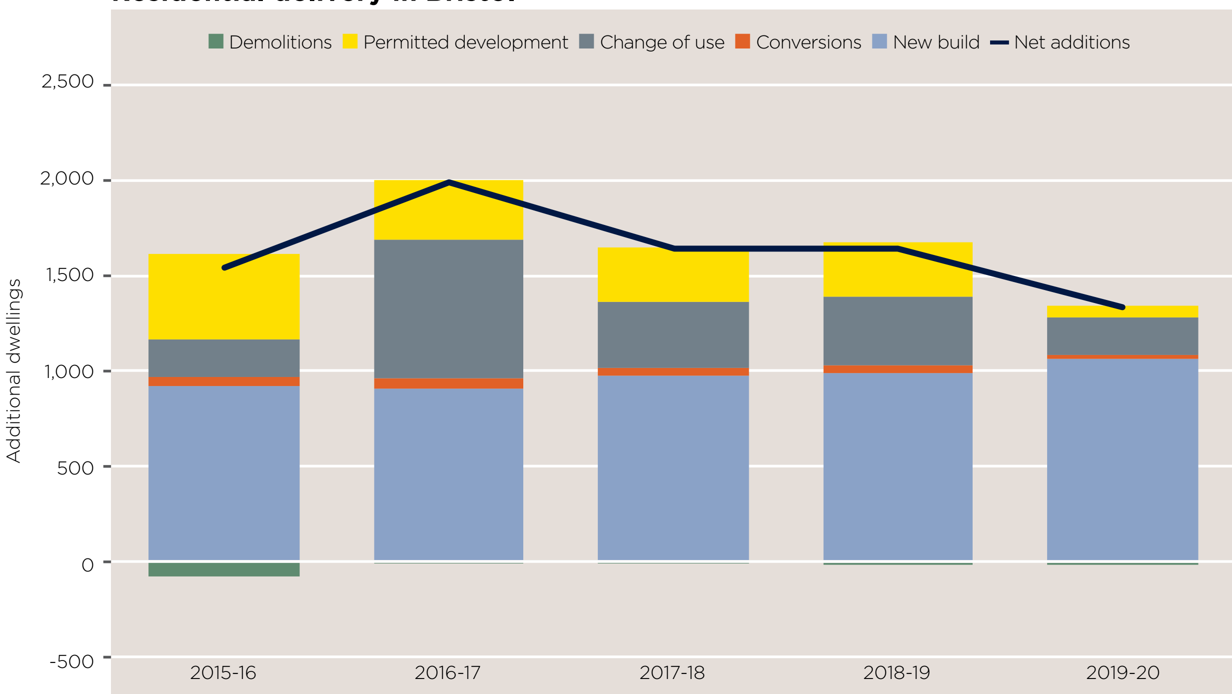
Build to Rent boom

Bristol has become a hub for Build to Rent (BTR) investment. The city is home to 667 completed BTR homes, the 8th highest for local authorities outside London. Including homes under construction or in planning, Bristol's BTR pipeline is just under 2,000 homes.

The size of schemes is increasing in line with confidence in the sector. Completed schemes had 167 homes on average, compared to 209 homes on schemes under construction and 296 homes on schemes in planning. Hawkins and George at Finzel's Reach on East Tucker Street is a nationally recognised BTR asset in Bristol, held by leading operator Grainger plc. Grainger let all 194 homes on the scheme in three and a half months, a letting rate of 55 homes per month. The scheme delivered a 7% yield on cost in 2019.

The sales market in Bristol is more active than at any point in the last five years. Why, then, are developers choosing to build homes for rent rather than for sale? Part of the reason may be the upcoming changes to Help to Buy. From 1st April

Residential delivery in Bristol



Source MHCLG

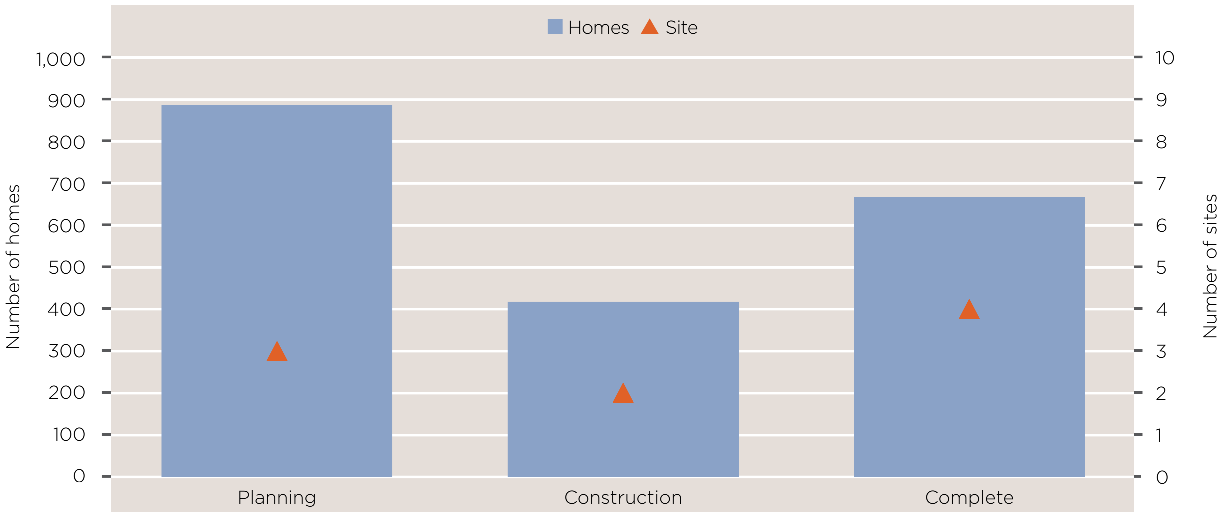
2021, only homes under £349,000 will be eligible for the Help to Buy equity loan in the South West and the scheme will be restricted to first-time buyers. For context, 24% of new homes sold in Bristol in the year to August 2020 were above the proposed £349,000 cap. From April 2023, the Help to Buy scheme will end entirely.

With the existing stamp duty holiday due to end on 31 March 2021, Help to Buy wrapping up in 2023 and the UK facing harsher economic climes in the short term, developers will need to consider their routes to market.

They will have to work with lenders to ensure first-time buyers can still access their homes without saving for a deposit for decades. As the Government's Help to Buy scheme ends, we could see a return to housebuilders running their own schemes.

Developers will also need to consider partnering with institutional investors and social landlords to provide a range of housing types and tenures on their schemes. As the 2018 Letwin Review concluded, we need to deliver across all parts of the market to accelerate housing supply and build the homes the country, and Bristol, needs.

Build to Rent in Bristol



Source Savills Research, British Property Federation

Bristol's logistics space

Demand for logistics space in the South West reflects the national increase in demand for online retail during the pandemic. That has compounded the effect of the region's relatively affordable rents and improved connectivity following the removal of the Severn Bridge tolls. Removing those tolls also allows a greater supply of labour to work on logistics sites in the Bristol area.

The supply of warehouse space in the South West for units over 100,000 sq ft has decreased by 73% over the last ten years, from 8.3 million sq ft in 2009 to 2.2 million sq ft in 2019. At 7.3%, the vacancy rate is slightly above the national average of 6.0%. However, given the five-year average annual take up in the South West, there is just 1.1 years' supply available in the region, suggesting vacancy rates are likely to decrease. The construction pipeline offers little to ease this pressure, with just one unit under construction over 100,000 sq ft.

More locally, within Bristol and surrounds there is 1.7 million sq ft of warehouse space available for units under 100,000 sq ft. Again, the vacancy rate in the area is slightly higher than the national average at 8.2%, compared to 7.5% nationally. Given the five-year average take up, there is just 1.6 years' supply in the market.

Take up in the South West will increase as the use of online retail continues to grow and as more households move to the region. The British Property Federation's 'What Warehousing Where?' report states that, at a national level, 69 sq ft (6 sq m) of warehouse space is needed per home in order to satisfy the demand from shifting consumer trends.

The current method for calculating housing need shows the region needs 27,420 new homes per year, with 2,368 homes needed in Bristol alone. At 69 sq ft of warehouse space per home, this additional housing supply would require 18.9 million sq ft new warehouse space to service those residents. Bristol alone would need an additional 1.6 million sq ft.

Warehouse space required to service new households

Area	Annual housing need	Additional warehouse space required in next 10 years (m sq ft)
Bristol (local authority area)	2,368	1.63
South West	27,420	18.92

Source Savills using MHCLG, British Property Federation

Cooperative work and networking are far easier in an office environment. Future office designs will facilitate collaboration

Shifting priorities

Demand for office space in Bristol city centre remains strong, but the changing needs of occupiers needs to be addressed

Demand for high quality regional offices has grown significantly over the last decade. With offices now being used as a recruitment tool and a key feature in the race for talent, occupiers are willing to pay premium rents for the best space.

Bristol's office market has consistently seen some of the highest rents of the 'big six' regional office markets, with 32% rental growth on the best space over the past five years. High quality stock and businesses relocating from London have driven growth from the demand side. Limited availability, exacerbated by permitted development rights eroding the city's secondary stock, has added pressure from the supply side.

As occupiers consider relocating to cheaper locations outside London, regional cities have had to improve the quality of workspace on offer. Bristol remains ahead of the curve, having the second highest BREEAM rated office building outside London. Aurora in Finzels Reach achieved a 91% BREEAM score and a Gold LEED rating.

Offices don't just need to minimise harm to the environment, they need to protect their occupants as well. Health and wellbeing have become more prominent following the experience of Covid-19. Workplaces that provide better air quality, access to outdoor space, and facilities to encourage running or cycling to work will look increasingly attractive to occupiers. Building on these trends, Bristol's Grade A office buildings now offer a similar specification to the best new blocks in the City of London.

Take London's 280 Bishopsgate, for instance: designed with health and wellbeing in mind, the building offers a communal roof garden and terraces on every floor so workers have access to outdoor space. Cycle-in entry means staff don't need to wrangle their bikes up and downstairs or through heavy doors to get to work. And a wellness suite lets employees blow off some steam on their lunch break or before they head home for the day.

While Bristol cannot compete with the sheer scale of space available at Bishopsgate (265,000 sq ft), three new schemes mean it can compete on specification: Assembly, Halo, and EQ.

Assembly, built in 2020 and fully let to BT during its construction (Q4 2019), has taken on many features associated with a top Grade A London office building. The building has external terraces, which can be used as breakout areas, as well as green rooftop spaces. These features make the most of the waterside location and provide panoramic views of Bristol's city centre. The building also has shower and changing room facilities and bike storage and hire. The difference is stark when compared to Grade A Bristol offices built ten years ago, which focused on floorplate size, high quality finishes and car parking without any of the wellbeing focused extras they have today.

Bristol's offices will need to keep adapting to keep up with occupiers' high standards and the continued flight to quality. Covid-19 has only accelerated the need to change. Currently, many occupiers will be assessing whether or not their current office meets their workforce's shifting priorities.

The Savills Office FiT survey showed that while there is no doubt the office will remain a necessity, the way we use these spaces will have to change. High-density, open-plan workspaces will need to be rethought and reconfigured to allow for agile working, while amenities remain as important as ever for the workforce. While it's easy enough to buckle down on a report from a laptop at the kitchen table, cooperative work and networking are far easier in an office environment. Future office designs will have to accommodate these collaborative activities.

Returning to the office, many occupiers may find that they now have a shortage of insulated space where people can take calls, as online meetings have become the norm. Landlords should therefore look to solutions to facilitate this, increasing the number of personal quiet spaces where staff can hold virtual meetings and calls.

Demand for office space in Bristol city centre remains strong, despite the pandemic disruption. As recently as Q3, long-time out-of-town occupier Gleeds leased 7,000 sq ft of Grade A space in Aurora, setting the current headline rent of £37.50. The way occupiers use those city centre spaces is set to change, however. Providers will need to consider these shifting priorities if they are to continue attracting the best rents.

Finzels Reach

Socially distanced shopping

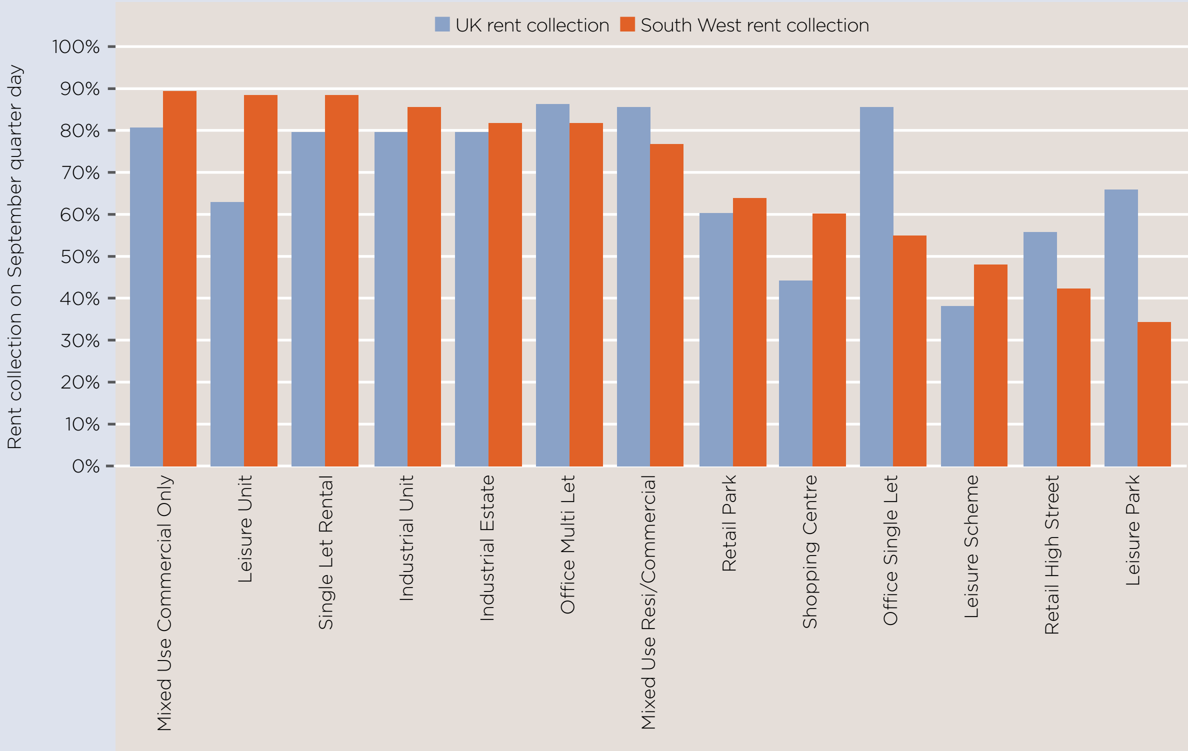
Landlords and some tenants on retail warehouse parks have had a slightly less painful lockdown than in other parts of the retail market. That's reflected in rent and service charge collection data. Retail warehouse tenants in the South West paid 44% of rent due and 40% of service charges due on the June quarter day. By contrast, shopping centre tenants paid just 23% of the rent due and 6% of service charges due in June.

Rent collection is rising across the retail sector but retail warehouse parks continue to outperform. On the September quarter day, rent payments on South West retail warehouse parks rose to 65% and 69% for service charge due. Shopping centres collected just 61% of their rent and 57% of services charges on the same date.

As the first lockdown ended, the UK retail sector's next question was what part of the market would recover to normal levels fastest?

Footfall on retail parks recovered soonest, and as of the start of October was only 11.8% down year-on-year. The combination of large units and adjacent car parking makes socially distanced shopping easier on retail warehouses parks than in other types of retail location. As lockdown measures ease, we'd expect to see retail warehouses lead the footfall recovery again.

Rent collection rates in the South West are higher than the UK average



Source Savills using MHCLG, British Property Federation

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.

Lawrence Bowles Residential Research lbowles@savills.com 020 7299 3024	**Clare Bailey** Commercial Research cbailey@savills.com 020 7409 8863	**Hamish Simmie** Residential Research hsimmie@savills.com 020 7299 3018	**Pearl Gillum** Commercial Research pearl.gillum@savills.com 020 7535 2984	**Will Laing** Commercial Research will.laing@savills.com 020 7535 2955

Bristol

Paddy Hales Head of Bristol Office phales@savills.com 0117 910 2203	**George Cardale** Head of UK Residential Development Sales gcardale@savills.com 0117 910 0351	**Julian Harbottle** Development jarbottle@savills.com 0117 910 0329	**Craig O'Brien** Planning cobrien@savills.com 0117 910 0335	**Christopher Meredith** Office Agency cmeredith@savills.com 0117 910 2216
Chris O'Mahony Retail comahony@savills.com 0117 910 2204	**Robert Cleeves** Logistics rcleeves@savills.com 0117 910 2227	**Rupert Ward** Property Management rward@savills.com 0117 910 2220	**Andrew Phillips** UK Investment adphillips@savills.com 0117 910 2354	