Development – 2018/2019

SPOTLIGHT
Savills Research

Bedfordshire: Unlocking potential

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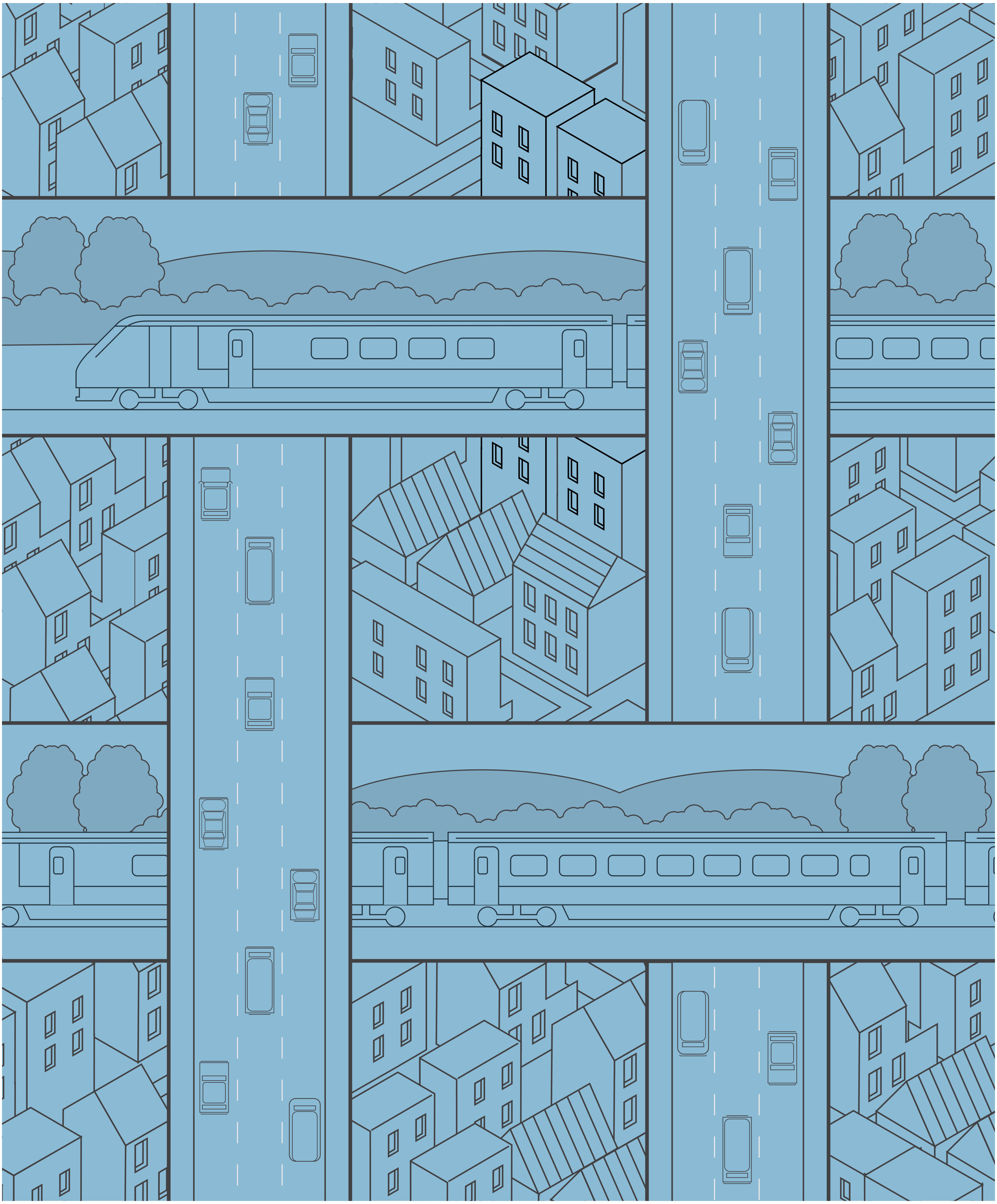


Housing market • Development opportunities • Infrastructure upgrades

Underdeveloped, affordable and with a strong outlook

Bedfordshire sits in the centre of one of the UK's most exciting growth opportunities that will deliver innovation, infrastructure and sustainable economic and housing growth

Bedfordshire is a county with diverse characteristics. It ranges from small, rurally set commuter towns, such as Sandy, to the much more urban and densely populated Luton. What is consistent across the county is relative housing affordability and excellent strategic location.

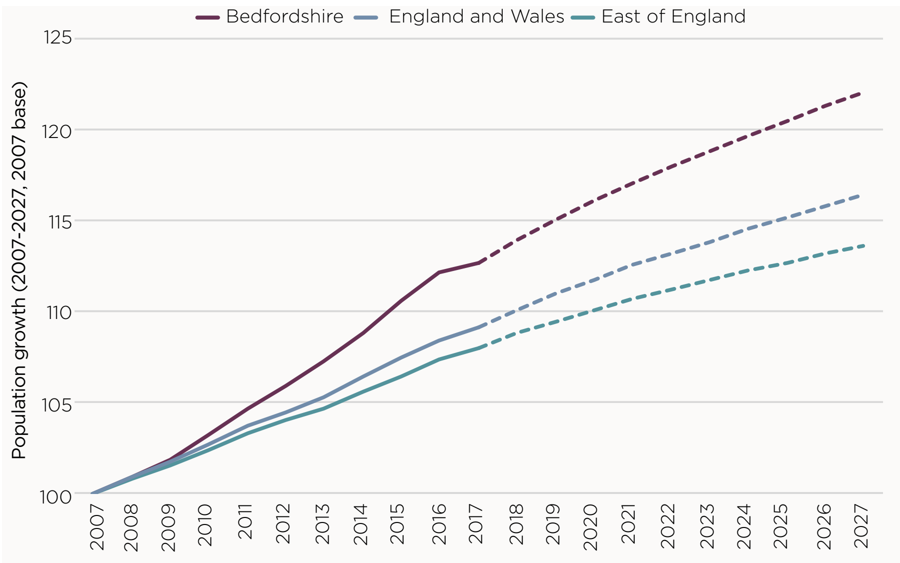
Bedfordshire's strength as a location is multifaceted. It has excellent links to London, with journey times into Kings Cross St Pancras as quick as 24 minutes from Luton and less than 50 minutes from most other towns in the county.

It is situated in a central area in the heart of the Cambridge-Milton Keynes-Oxford growth corridor, which is one of the most innovative and economically successful parts of the UK. The corridor has huge opportunities for further growth and the support of central government. Improved infrastructure will be a key part of this and continue to improve connectivity in the region along with the expansion of Luton airport.

The strength of the location has been recognised by a number of high-growth global businesses that operate in the area and are thriving. The three unitary authorities that make up the county, Bedford, Central Bedfordshire and Luton, have all developed their own significant local sector strengths.

Employers are also attracted by Bedfordshire's positive demographic picture. It has seen population growth of 8.0% since 2011, significantly outperforming the national rate of 4.35% (ONS) and it has a strong local labour pool with high levels of employment. Bedfordshire's outlook is also strong, with base-case population and employment growth projected to be higher than both national and regional projections.

Figure 1 Population growth rate

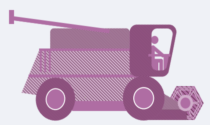


Source Oxford Economics

> "In many ways the picture is very positive and there is certainly a wealth of opportunity for future growth. The county does, however, face challenges. The ability to deliver on its growth potential will require the provision of a substantial amount of new housing, in addition to what is currently planned"

Sectoral strengths

Bedford
Aerospace, Electronic Engineering, Creative Industries, Food & Drink, Research & Development, Manufacturing



Central Bedfordshire
High Performance Technologies, Research & Development, Visitor Economy, Transport & Logistics, Agrifood

Luton
Air Transport, Creative Industries, Business Services, Logistics, Vans

Housing market

Bedfordshire's housing market has seen a strong recovery since the global financial crisis, with prices now 39% above their previous 2008 peak according to Land Registry data. It has outperformed both the East of England region and the wider country over this time frame, driven by healthy local economic activity and excellent connectivity, particularly to London. Despite this, much of Bedfordshire still looks relatively affordable, with house prices and house price to earnings ratios in Luton and Bedford lower than the regional average.

Luton is the most affordable of the main population centres, with a median house price to median earnings ratio at 7.5, below the England average of 7.8 and 9.7 in the East of England. It has an average house price of £239,800 compared to a national average of £294,700. A location with this level of affordability is rare given its strong and improving connectivity to London and other key locations.

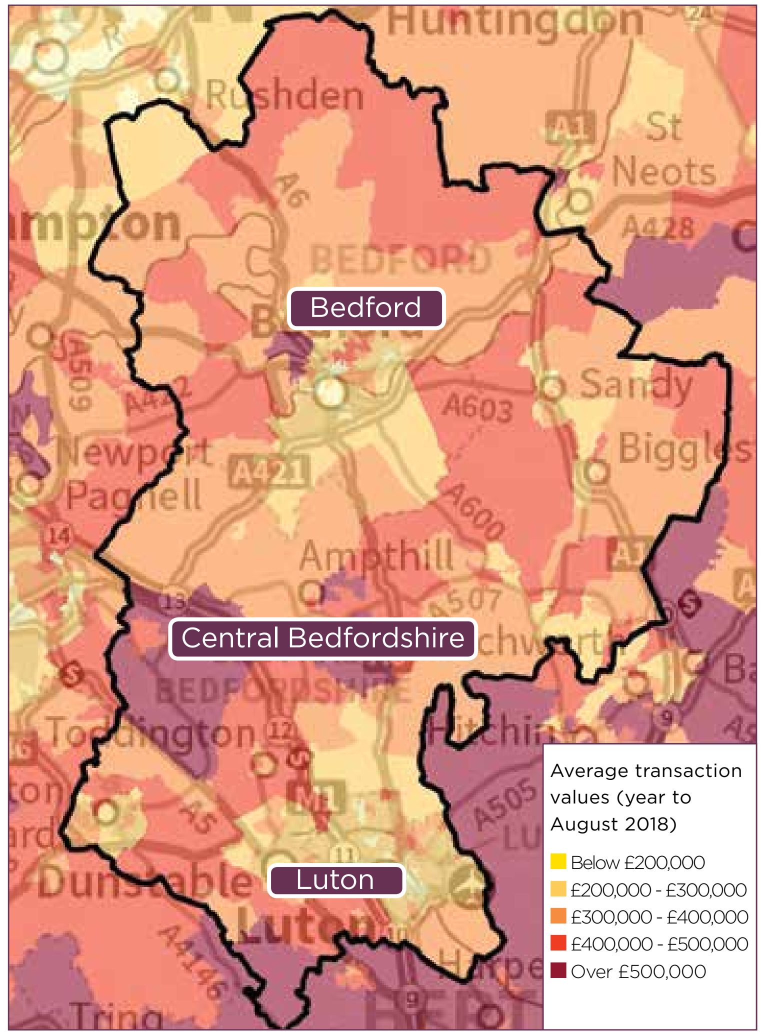
Central Bedfordshire is the least affordable of the three authorities, having seen affordability decline the most during the recovery period. Its house price to earnings ratio is now 10.4, compared to 7.4 in 2008. With an average house price of £332,500 it is the only authority in Bedfordshire higher than the East of England which has an average house price at £329,500. However, it remains a significantly more affordable location than the neighbouring local authorities of Aylesbury Vale and South Cambridgeshire, which both have house price to earnings ratios of over 11.

High values in Central Bedfordshire's villages and towns such as Sandy and Biggleswade contribute to its house price to earnings ratio. Nevertheless new homes in the authority are relatively affordable within the wider market context.

Bedford's affordability is in between that of Central Bedfordshire and Luton, with a house price to earnings ratio of 9.3. Average house prices are £303,300, which is lower than the East of England average but higher than the national average.

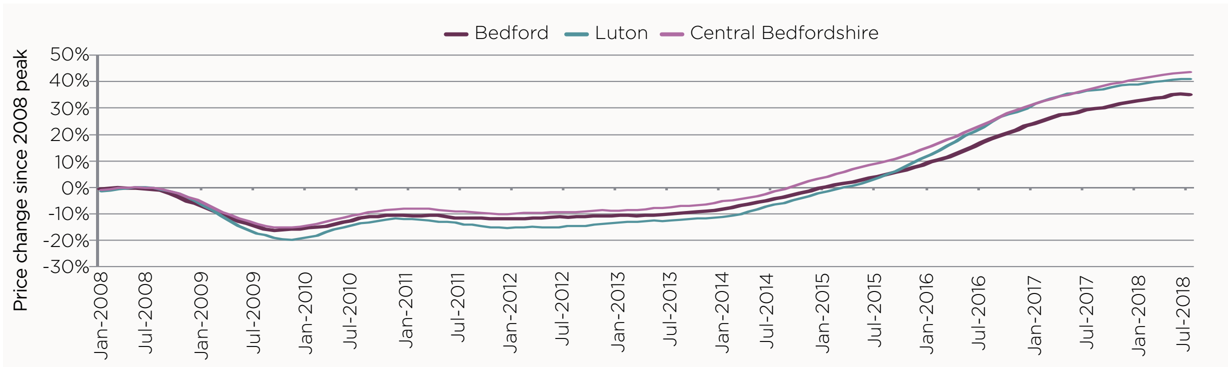
Of the main towns, Leighton Buzzard and Dunstable have experienced the most house price growth since the previous peak, both seeing a 44% increase, with Luton at 40% and Bedford lagging slightly at 35%.

Figure 2 Average transaction values, year to August 2018



Source Land Registry, OS

Figure 3 House prices vs 2008 peak



Source Land Registry

Housing delivery

Housebuilding exceeded adopted local plan targets in 2017/18 in all the local authorities in Bedfordshire, although Luton delivered far less than its Objectively Assessed Housing Need. It has struggled to bring brownfield sites forward, as a result of viability challenges. Its tight urban boundaries and lack of greenfield alternatives within the authority mean that more needs to be done to bring forward brownfield opportunities as part of the solution.

Currently, Luton is the only one of the three authorities without a Housing Infrastructure Fund bid, a mechanism which could help to unlock brownfield sites.

Inevitably, Luton is reliant on neighbouring authorities to pick up the housing delivery shortfall under the Duty to Cooperate. The majority of this lies with Central Bedfordshire and North Hertfordshire where there has been Green Belt release.

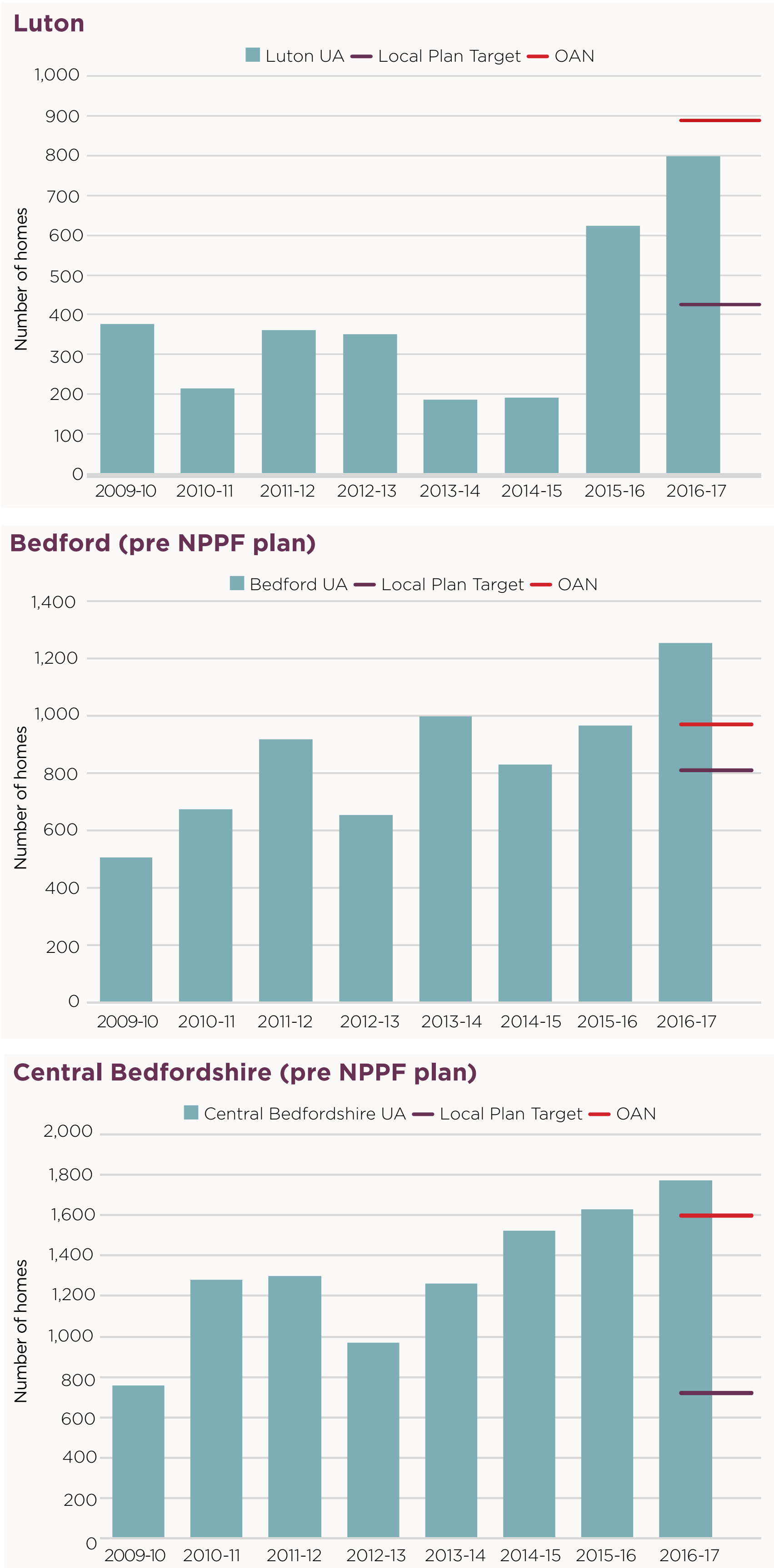
Looking forward, there is a significant central government desire for local authorities in the Cambridge-Milton Keynes-Oxford corridor to submit 'ambitious proposals for further growth', as part of the Government ambition of seeing one million homes built in the corridor by 2050, to realise its growth potential.

Across the corridor, delivery will need to increase by 63% against the level achieved in 2017/18 for its growth potential to be unlocked and Bedfordshire has the land, the affordability, the economic base and significant new transport investment to play a key role in filling that gap.

Central and local government need to reach a place where they see mutual interest in delivering on this ambition.

63%
Across the corridor, delivery needs to increase by 63% against the level achieved in 2017/18

Figure 4 Housing delivery against existing plan targets



Source MHCLG, Savills Planning database

Development land and planning

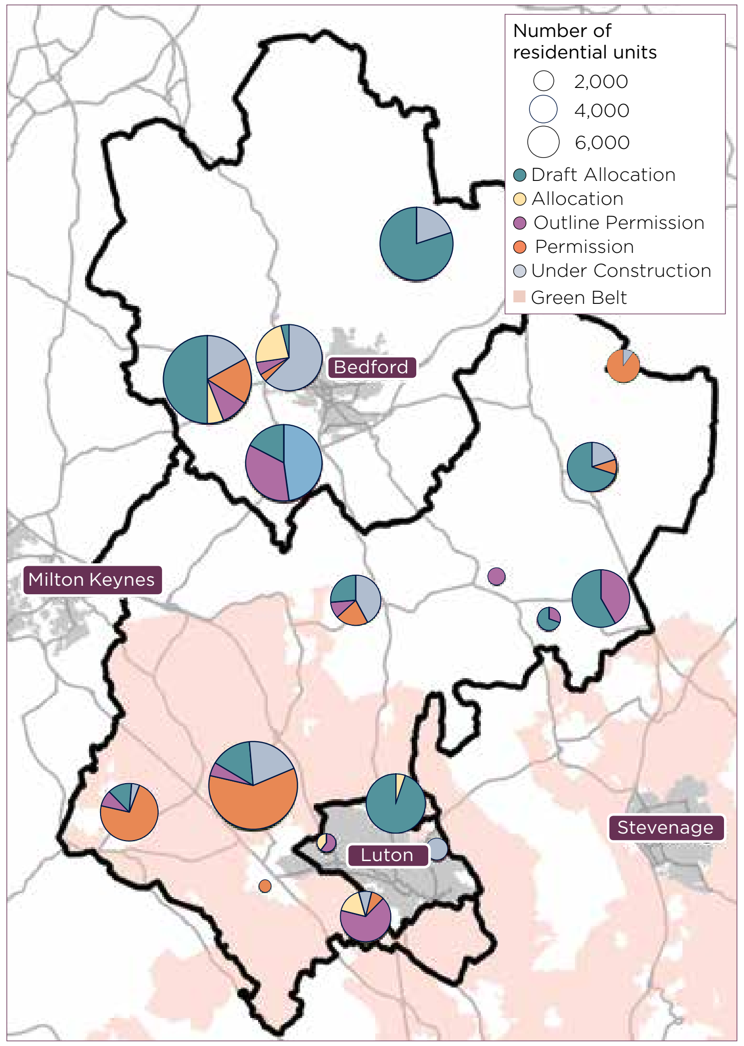
A step change is required to meet Government's growth ambitions

The Government has identified a 'once in a generation opportunity' to unlock major new development and economic growth in the Cambridge-Milton Keynes-Oxford corridor through infrastructure investment.

The National Infrastructure Commission recommended in its 2016 report that strategic infrastructure investment needs to be married with locally led housing growth ambitions to ensure the area does not fall behind its international competitors. Central government and Homes England are proactively looking to engage on how this can be delivered through a range of measures, including new and expanded settlements. They have identified the requirement for infrastructure investment beyond the current pipeline and designated the corridor a key economic priority. Notably there is up to £4.1bn available for forward funding housing infrastructure nationally.

The potential difference in economic growth outcomes from more significant and ambitious intervention and investment compared to the baseline case is enormous (Figure 6).

Figure 5 Residential Development Pipeline



Source Savills Development Database

Figure 6 Unlocking the growth potential across the corridor by different levels of intervention

Scenarios	Job Growth	Economic Impact
1 Business as usual Existing levels of housing delivery, current and confirmed infrastructure investment only.	+335k	+1.9% pa GVA
2 Incremental enhancements The housing requirements identified in SMHAs are met. An increase in population is realised in line with the ONS high migration projection. Transport infrastructure investments are made above and beyond the existing plans. Several existing constraints to economic growth are relieved.	+720k	+2.4% pa GVA
3 Transformational enhancements Housing investment is such that population grows well above the ONS high migration scenario. A high level of transport investment is realised, allowing an increase in economic integration. This scenario is required to realise the growth potential of the corridor.	+1.104m	+2.9% pa GVA

Source Cambridge Econometrics

1 million jobs

Unlocking the growth potential across the corridor could deliver over one million extra jobs

Alongside this, the Government has stated its interest in exploring bespoke mechanisms of Land Value Capture. This includes working with local authorities in the corridor, subject to ensuring these mechanisms do not impact on the viability of development in an area.

There has been significant investment to date with plans for further transformational improvement, including London Luton Airport's £110 million expansion, the East-West Rail link, and the Oxford-Cambridge Expressway – which recently saw the preferred route west of Milton Keynes announced.

The provision of new infrastructure will open up new potential development sites for both residential and commercial uses. The greatest opportunities are likely to be where new infrastructure intersects existing rail and road, creating new hubs. Bedfordshire sits at the centre of this opportunity, with the new east-west links crossing the Midlands Main Line and the M1 in the county.

However, realising this potential will require more proactive, locally led planning. The emerging local plans in Central Bedfordshire and Bedford have not fully taken into account the proposed infrastructure improvements, while Luton's local plan was adopted in 2017, before many of the infrastructure plans were confirmed.

Consequently, current local plans provide for a lower level of housing than is needed to maximise the area's economic potential. The adopted housing target in Luton of 425 new homes per year is well below the new standard methodology for calculating housing need figure of 1,417 homes. The emerging Central Bedfordshire target slightly exceeds the standard methodology number, but the objectively assessed need figure being used to inform the emerging local plan in Bedford is 950 homes per year, 30% below the standard methodology figure.

But meeting the Government's ambition of delivering one million new homes across the corridor by 2050 will require local authorities to go beyond the baseline of the standard methodology. The target is 33% above the level that would be achieved by applying the standard methodology over the same period. However, local development framework timetables are such that local plans may take another four years to begin to properly reflect the scale of the opportunities.

To fully maximise the potential of Bedfordshire, there is a need for ambitious planning policy. While all of the three local authorities can currently demonstrate a five year housing land supply, to capture maximum value from the new infrastructure, more sites will need to be allocated for development.

Closer co-operation, including developing a strategic plan via a similar housing deal to the one recently agreed for Oxfordshire could also be appropriate. Local plans will also need to identify the differing types of housing need in their areas to support the diversification of product needed to deliver at the scale required to unlock the area's full potential.

Figure 7 Local Plan Status

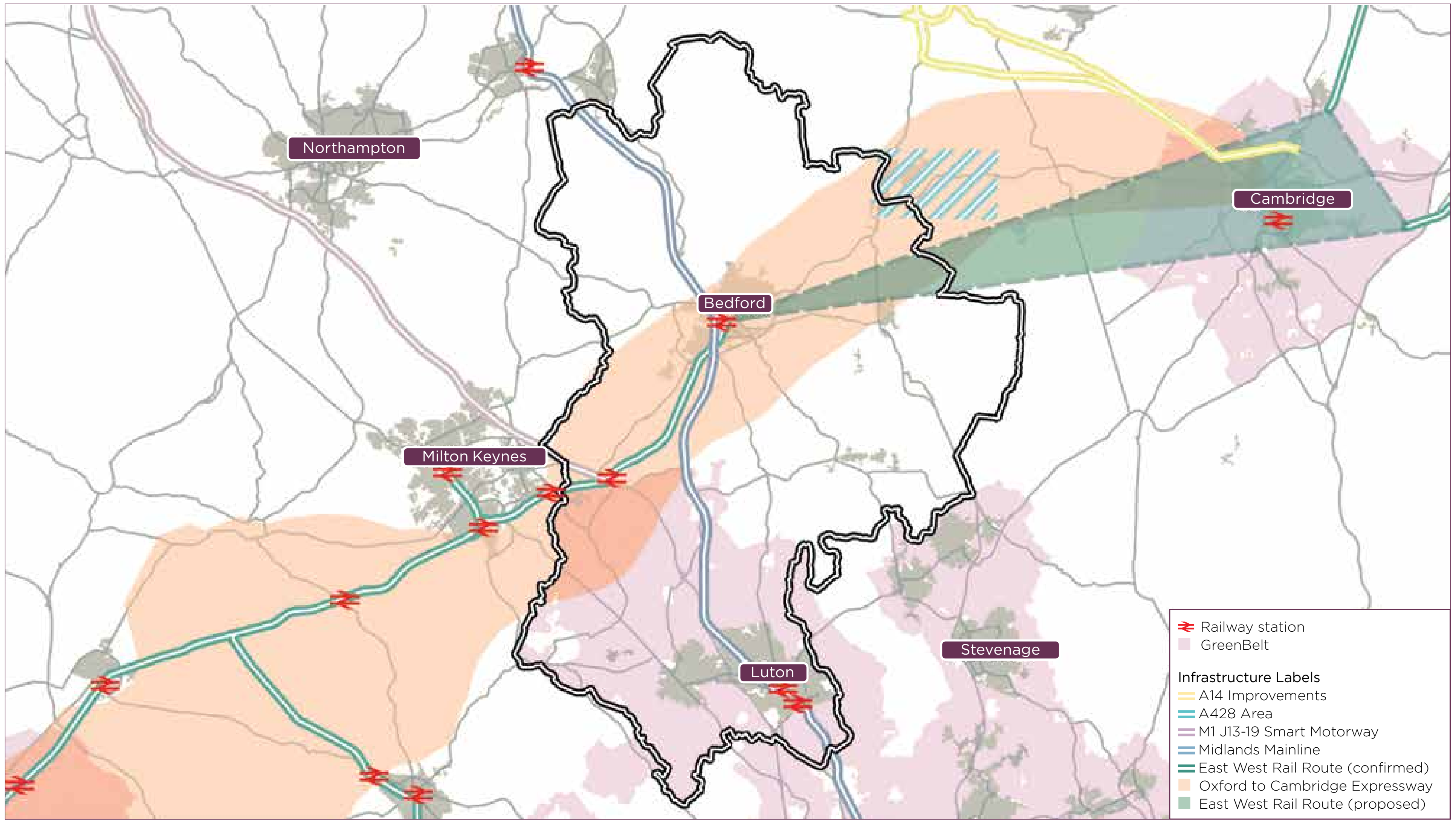
	Luton	Central Bedfordshire	Bedford
Post NPPF Local Plan Status	Luton Local Plan Adopted November 2017	Draft Local Plan Published June 2018	Draft Local Plan Published January 2018
Post NPPF Local Plan Target per annum	425 homes	1,968 homes (emerging, upper end)	N/A
Objectively Assessed Need per annum	890 homes	1,600 homes	970 homes
MHCLG Standard Methodology per annum	1,417 homes	2,553 homes	1,281 homes
Most recent land supply statement	7.47 years	5.81 years	5.80 years

Source Savills Research

1 million homes

The proposed infrastructure improvements will support plans for the construction of one million new homes in the corridor by 2050

Figure 8 Major infrastructure improvements



Source Highways England, DfT, NIC

Midland Main Line Upgrade

The Midland Main Line improvements will include longer platforms, station upgrades and more seats on trains which will increase capacity along the line. The improvements will also provide for more freight journeys, reducing the level of freight traffic on local roads. Full upgrades, including the line electrification north of Bedford towards Kettering and Corby, are due for completion December 2019.

Oxford to Cambridge Expressway

The Expressway will provide a new, high-capacity road link between Oxford and Cambridge, supporting growth in both urban areas along with key successful and productive areas along the route. The Expressway will be a key element supporting the construction of one million new homes by 2050.

A428 Junction Improvements

By the end of 2020, works are due to commence on the A428 between Black Cat and Caxton Gibbet. The key aim of the scheme is to increase road capacity and reduce major congestion experienced in peak periods. The road improvements will also help support growth identified by local plans in the area.

M1 Smart Motorway (Junction 13–19)

The M1 will become a smart Motorway between Junctions 13-19 by 2020. Smart motorways use traffic monitoring technology to regulate traffic flow and improve journey times.

East West Rail Route

This rail line will connect areas of East Anglia with other parts of Central, Southern and Western England. The Western Section, due to open in 2024, is fully defined with planned stops at both Bedford and Ridgmont stations.

The Central Section of the project involves connecting Bedford with Cambridge. While still at early stages of development, the preferred route is due for announcement in 2019. The Secretary of State has requested accelerated plans that will see trains operating on the railway by the "mid 2020s".

A14 Improvements

£1.5bn has been invested to provide a new bypass in the area to the south of Huntingdon, as well as providing upgrades along the road between Huntingdon and Cambridge. Work began on the scheme in late 2016 and completion is due in 2020.

New home sales accounted for 19.3% of all transactions in Bedfordshire in 2018

What next for new homes?

Transaction levels in the new homes market remain strong

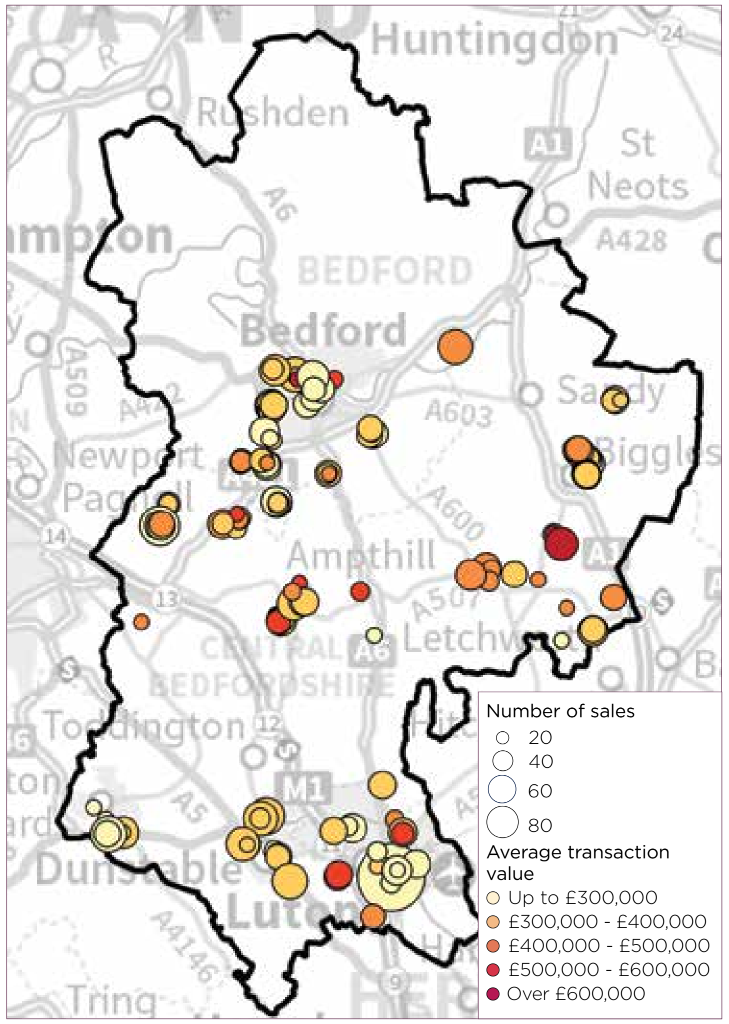
New home sales accounted for 19.3% of all residential transactions in Bedfordshire in the year to August 2018, according to Land Registry data. This is notably higher than the national figure of 11%. 51% of new build flats are sold for between £170,000 and £250,000, below the 5% stamp duty threshold. New build houses have a broader price range, but there is a clustering of transactions between £300,000-£360,000. Transaction activity in new houses is strong right up to the £600,000 Help to Buy limit before tailing off.

Transaction volumes in Bedfordshire have been consistent over the last three years. 2017 saw a fall to 11,107 total transactions, down from 11,477 the year before. Volumes so far this year look very healthy, with the figure running at 9,968 to August 2018.

As Figure 9 shows, Luton sees the most activity and also accounts for the majority of the lower value transactions, with central Bedford and Dunstable also seeing robust activity. Higher value sales are less clustered with some concentrations in the greenbelt areas in Central Bedfordshire.

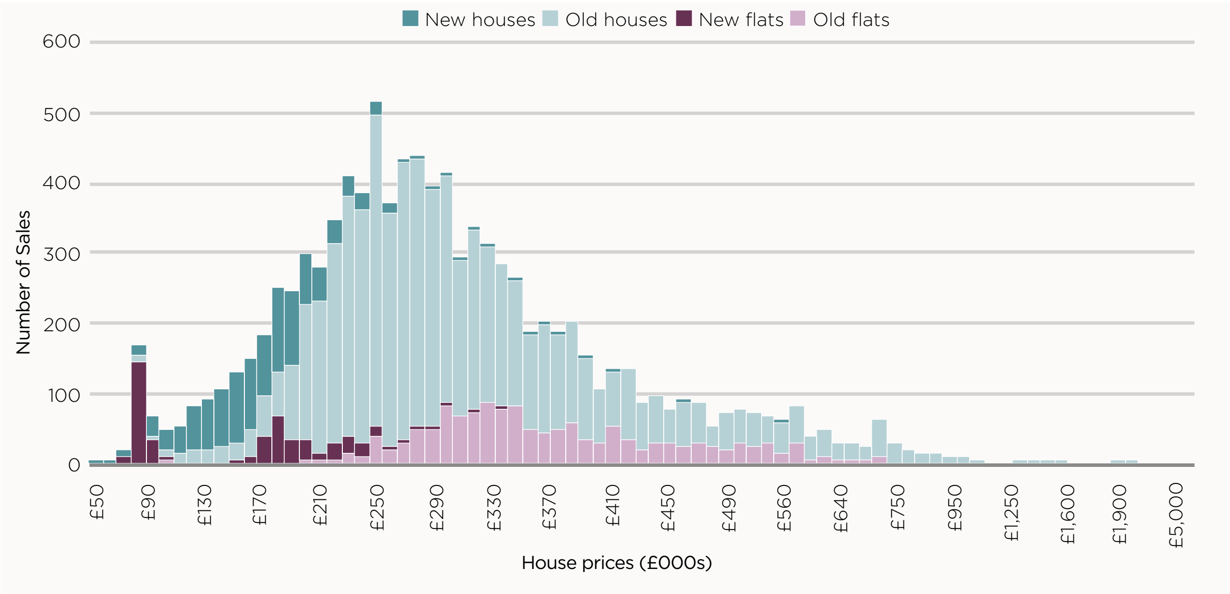
A significant proportion of buyers are moving out from London and Milton Keynes. Demand from these buyers is strongly linked to employment centres; locations with fast links into London and Milton Keynes being the most popular.

Figure 9 New build sales, year to August 2018



Source Land Registry, OS

Figure 10 Distribution of sales in Bedfordshire, year to August 2018



Source Land Registry

58% of all new build properties sold with the assistance of Help to Buy

Help to Buy and First Time Buyers

Help to Buy has been used extensively in Bedfordshire, with Central Bedfordshire and Bedford in the top five unitary authorities in the country for total Help to Buy Equity Loans since the inception of the scheme until June 2018.

Overall in the year to June 2018, 58% of all new build properties sold with the assistance of the scheme. Central Bedfordshire saw the highest volume at 654, over seven times the amount seen in Luton, which recorded just 90.

The statistics underscore the importance of Help to Buy to the new build market in Bedfordshire as a whole. After the scheme comes to an end, developers will need to deliver more diversity of product type and a range of tenures to ensure the current level of housebuilding can be maintained.

More positively, the introduction of the price cap on Help to Buy properties announced in the Autumn 2018 Budget is unlikely to have any significant impact as the cap for the East of England will be £407,200. This is significantly higher than the average new build transaction value in Bedfordshire of £288,600. Even in Central Bedfordshire the average is £346,100, which is pulled up by some higher value sales above the Help to Buy price limit and therefore not eligible for the scheme.

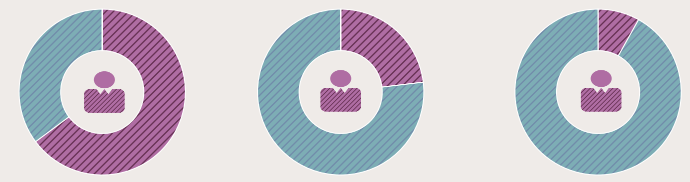
After 2023, the scheme will also be restricted to first time buyers. Since the scheme was launched, a substantial minority of those who have used it in Bedfordshire, 35%, were home movers rather than first time buyers.

Getting to work

Commuting patterns in Bedfordshire demonstrate the importance of good links to employment centres for home buyers in the county. Over a third of the population in employment work outside the county. 8.1% commute to London, but Milton Keynes, Stevenage and St Albans also attract significant numbers of workers.

Across all commuters, car is the dominant method of travelling to work. However, rail links are more important for those working outside of the county; 16.7% of those commuting beyond Bedfordshire use trains, compared to 6.3% of all workers in the county.

Employment locations of Bedfordshire residents



64.8% Work in Bedfordshire

23.1% Commute to locations in the Oxford-Milton Keynes-Cambridge corridor

8.1% Commute to London

Travel to work method

73.5% Travel to work by car

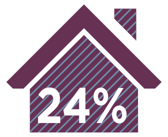
6.3% Travel to work by rail

Source 2011 census

Figure 11 Help to Buy Assisted Sales

Local Authority	Help to Buy Sales April 2013 – June 2018	Help to Buy as a proportion of all new build transactions April 2013 - June 2018
Bedford	2,197	62%
Central Bedfordshire	2,596	48%
Luton	311	37%

Source MHCLG, Land Registry



Percentage of Luton population live in private rental accommodation, compared to 18% for England & Wales

PRS in Luton and beyond

Luton has experienced huge growth in the proportion of its residents living in the private rented sector between 2001 and 2011, increasing by 95%. This compares to Bedford at 55%, Central Bedfordshire at 68% and a regional average of 61%.

At the time of the 2011 census Luton had 24% of its population living in private rental accommodation, compared to 18% for England & Wales. Since 2011, this trend has likely become more pronounced.

Over 60% of households are private renters in Luton town centre. To the north and south of the centre, over 40% of households rent. This shows how well established the private rented sector is in Luton and where this demand is concentrated.

The census household data suggests that there is demand for both multi-family units (apartments and flats) and single family units (houses) because there is substantial demand from families with children and younger households.

Despite the compelling demand side evidence, Luton has seen lacklustre rental growth over the last two years at 0.3% for median asking rents. This can be explained to some extent by sluggish earnings growth which has affected the whole country.

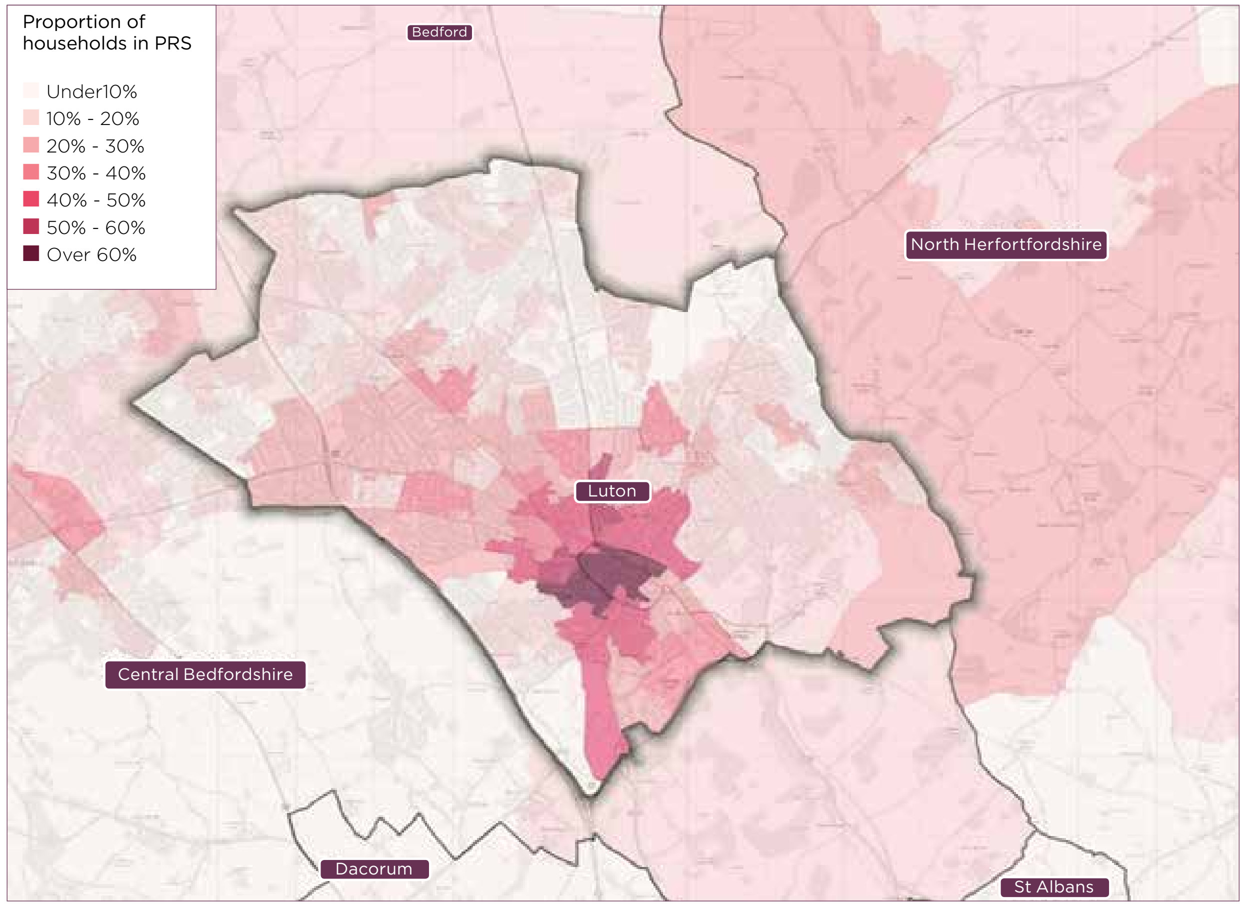
Looking beyond Luton, Central Bedfordshire and Bedford have seen a more positive rental growth story, showing growth over the same time frame of 4.7% and 1.9% respectively. Both have seen the highest increase for one-bed and three-bed units.

Both these authorities have a higher proportion of their population who are young couples in their first homes starting families than the regional and national average according to Acorn demographic segmentation.

This suggests there could be a role for a suburban PRS model in these locations like we have seen in Faygate, three miles west of Crawley town centre where M&G and Crest Nicholson have teamed up to fund, build and let 227 new private rented sector PRS homes.

To date there is only one Build to Rent scheme in Bedfordshire, in Bedford itself. Looking ahead, with large sites coming forward, the role of Build to Rent in speeding up delivery and making the new build market accessible to a greater number of people, seems particularly relevant in Bedfordshire.

Figure 12 Proportion of population in Private Rented Sector



Source 2011 census

By 2022, online retailing is forecast to account for 19% of the total retail sector

Industrial sector remains strong

The industrial sector within Bedfordshire, Cambridgeshire, Hertfordshire and Peterborough remains strong due to increased occupier demand which has recently spiralled due to structural change within the logistics and retail sectors.

Take-up in the regions for units of over 100,000 sq ft has totalled 4,161,558 sq ft so far in 2018. Interestingly, 86% of take-up was based in Bedfordshire alone, compared with 3% in Peterborough, 0% in Cambridgeshire and 11% in Hertfordshire, highlighting Bedfordshire as an occupier favourite. In fact, take-up within the regions has historically been robust with the five-year annual average resting at 1,784,874 sq ft per year.

By 2022 online retailing is forecast to account for 19% of the total retail sector. According to research undertaken by Prologis, an extra Đ1 billion spent online leads to an additional 770,000 sq ft of requirement for warehouse space, suggesting the appetite for industrial accommodation will only continue to increase.

As a consequence of strong levels of take-up, the region is experiencing a current supply shortage with less than 500,000 sq ft available across three units. These units include Huntingdon 252 in Cambridgeshire totalling 251,746 sq ft, Orton 130 in Peterborough totalling 129,099 sq ft and Building 2 G Park in Bedfordshire totalling 106,338 sq ft.

Consequently, due to all available units being below 300,000 sq ft there may be more opportunity to satisfy larger occupier requirements within the region.

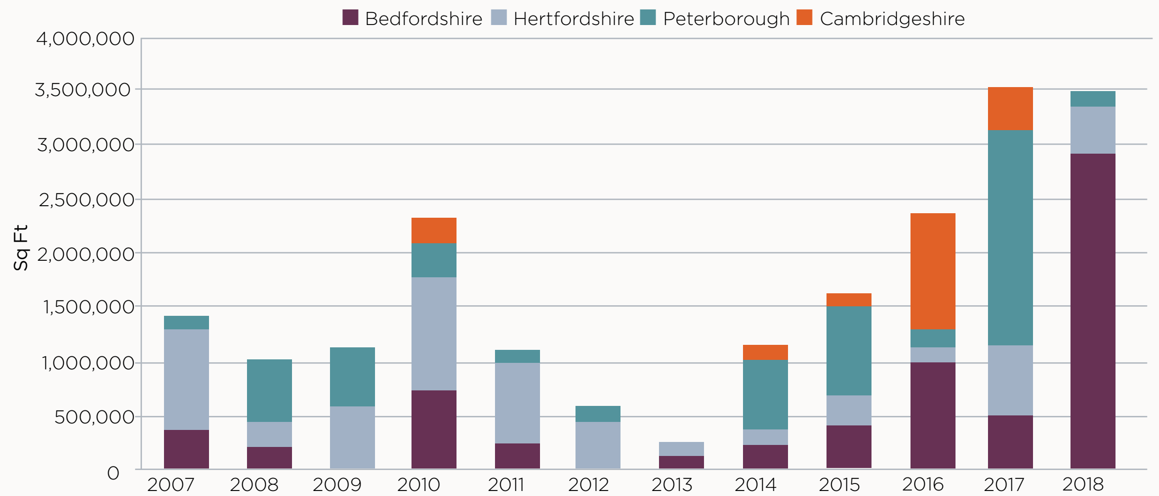
Considering the current supply level, which stands at 487,183 sq ft and the five-year average annual take-up, there is 0.27 years left of supply within the regions, highlighting further opportunities for development.

There are currently four units totalling 947,000 sq ft being speculatively developed throughout the regions, which will helps alleviate some of the supply shortage. The largest of which is Bedford 405, in Bedfordshire, totalling 405,000 sq ft. 82.2% of the sq ft under construction is located within the Bedfordshire market, highlighting strong developer confidence.

Additionally, there are currently 22 sites throughout the regions allocated for future development, of which only six have been identified as developable in short term, suggesting more sites could be brought forward particularly as building sizes increase.

Furthermore, the conditions that the market is currently experiencing with an inherent lack of supply and increased occupational demand has pushed on rents. Taking data from forecasting house RealFor, we expect industrial rental growth across the region of at least 12% by 2022, reaching 14.3% in Bedford and as high as 20% in Cambridge and surrounds.

Figure 13 Warehouse take-up by region



Source Savills Research

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