

Yorkshire: A region of opportunity



Reimagining retail • Redistributing housing need • Race for logistics



The average Leeds retail unit is 50% larger than the UK average

Reimagining retail

Broadening the range of uses in central Leeds will draw more people to the city and support retail and leisure provision

Cities were struggling with a surplus of retail space even before Covid-19. What we are seeing in 2020/21 is an acceleration of existing trends that are changing how we view our town and city centres and the amount of retail provision needed to support them. Significant challenges face these markets: the pandemic and potential for multiple lockdowns, but also dispersed workers and shoppers and displaced tourism reducing footfall. Despite this, the retail and leisure fundamentals of Leeds, Harrogate and York remain sound, subject to rightsizing to the right offer in the right places.

Repurposing redundant retail provides an opportunity to breathe the life back into town centres. Post-Covid this will be more important than ever. Mixed uses create more vibrant, more sustainable and more resilient places with greater social value. We need to recognise that hybrid space is the future of retail space.

Leeds supply and demand

Leeds is the 4th ranked retail centre in the UK, with over 3.5 million sq ft of retail and leisure space. Significant investment in recent years, such as Trinity in 2013 and Victoria Gate in 2016, has substantially enhanced the city's retail offer. However, the consequent increase in retail stock has come at a point when consumer and occupational demand is contracting rapidly and, like every city centre in the UK, there is too much stock overall. Retail vacancy in Leeds accounts for 17% of retail units (compared to 12% nationally). Almost half of this void space, 47%, has been empty for over three years.

Recent developments attracted several new retailers into the city, but also caused migration of existing occupiers out of Commercial Street, Albion Street and Lands Lane, resulting in

voids on prime retail frontage. Several landlords were forced to reduce rents on the high street. This proved good for occupational demand and subsequently allowed other retailers to move in that had previously been priced out. However, away from the main retail core the retail occupational demand has been limited.

The result is a city of two tales. The shopping centre environment and retail core has proven relatively resilient with 12% unit voids (compared to 11% nationally). The key shopping centre schemes of Trinity, St Johns, Victoria Gate and Merrion have each fared considerably better (3%, 3%, 6% and 6% respectively). Meanwhile, the secondary high street pitch has become increasingly marginalised, where vacancy averages 23% of units (compared to 13% nationally).

You're gonna need a smaller boat

Many of the retail units in Leeds are too large. Retail units in Leeds average 3,000 sq ft across the city centre, 50% larger than the 2,000 sq ft average across UK city centres. The number of occupiers seeking large retail units has shrunk in recent years.

There is already 210,000 sq ft of redundant retail floorspace within Leeds city centre. A further 650,000 sq ft is at risk of marginalisation over the next decade, given changing retail trends. Additionally, this only accounts for ground floorspace and there is a significant amount of stock on upper floors that is underutilised by tenants who can only operate efficiently at street level. That means there is substantial city centre floorspace that would suit alternative uses.

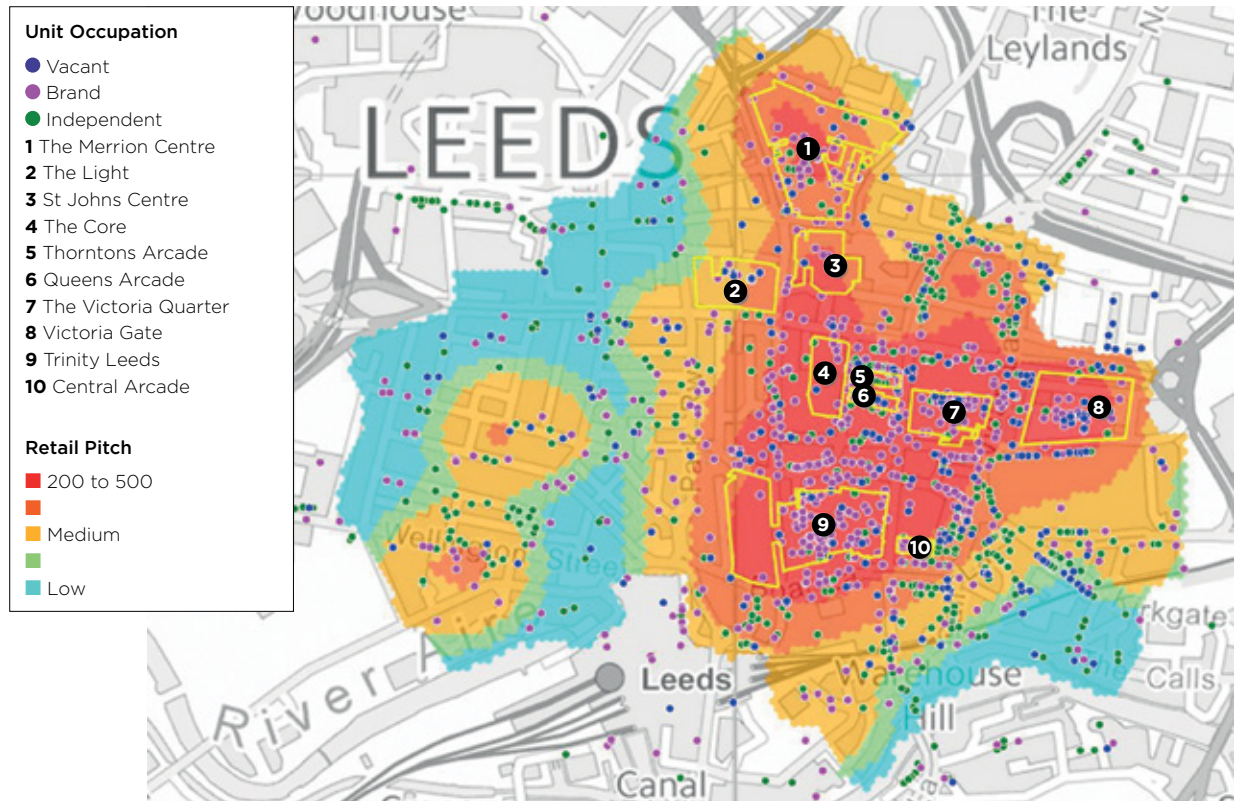
It is these upper levels, often over 2-4 floors, that are the subject of much of the current debate around repurposing of Leeds city centre space. With so much opportunity, what should

Retail provision and voids

| | City Centre | | | | | Prime Pitch | | Secondary Pitch | |
|-----------|-----------------|---|--------------------------|--------------------------|------------------------|----------------|---|-----------------|---|
| | Voids (% units) | Long term voids (% of void units empty for 3yrs+) | Retail provision (sq ft) | Redundant retail (sq ft) | At risk retail (sq ft) | Unit voids (%) | Long term voids (% of void units empty for 3yrs+) | Voids (% units) | Long term voids (% of void units empty for 3yrs+) |
| Leeds | 17% | 47% | 3.5m | 210,000 | 665,000 | 12% | 37% | 23% | 54% |
| York | 11% | 18% | 1.3m | 17,000 | 308,000 | 10% | 21% | 11% | 17% |
| Harrogate | 7% | 15% | 1.1m | 16,000 | 259,000 | 7% | 17% | 7% | 15% |
| National | 12% | 37% | - | 20m | - | 11% | 30% | 13% | 40% |

Source Savills Research, Experian

Concentration of retail space in Leeds city centre



Source Savills Research, LDC, Geolytix

be done with it? For some, it will be a relatively simple case of converting to office use; a transition made simpler by the changes to planning use classes introduced in 2020. For larger, more complex sites, there's potential to unlock even greater value by assembling holdings together and investing in placemaking.

The department store market across the UK has been affected more than most by changing consumer preferences in recent years. But they can also provide an excellent opportunity for repurposing projects, as their size increases the viability of redevelopment and flexibility of uses. The House of Fraser and Debenhams stores in Leeds are currently under review for repurposing or redeveloping with several alternative options

on the table, including hotels, office education and student accommodation. Projects like these would help diversify and support city centre vitality and likely positively impact retail occupational demand.

While there is currently an oversupply of retail and leisure space, we are confident in the long-term resilience of each of these locations. It is true that there is too much retail floorspace and that this needs to be adapted to changing needs and considered for alternative uses. However, a right-sized retail offer will remain important to providing the needs of residents and visitors alike, while an increase in alternative uses will also serve to continue to bring people into the city centre, who in turn will need the service of retail and leisure provision.

Healthcare Leeds the way

Yorkshire has become a go-to region for the healthcare sector. The region is home to more than 670 life sciences companies, 500 of them in medtech. That's more companies than Oxford and Cambridge combined.

Leeds alone has over a fifth of the total digital health jobs across the UK. Four of the five NHS national offices are based in Leeds, including NHS England. It also houses some of the world's largest healthcare data platforms, including the head office of NHS Digital, the national information and technology

partner to the health and social care systems, who have just moved to the new government hub in Wellington Place, with the fit out completing in early January.

Going forward, healthcare and medical technologies will be key growth sectors in the region. This is true both for traditional healthcare services and new disruptors.

For example, the experience of coronavirus and lockdown has accelerated the need for telemedicine, where medical professionals can carry out consultations and some treatments remotely.

The region has an exceptional talent pool, with over 196,000 people employed in health and science jobs, while the region's nine universities produce over 15,000 STEM graduates each year. It is home to six world-leading life science clusters of academic excellence and commercial innovation, with the largest concentration of medical device companies in the UK.

Although Yorkshire is home to some of the largest employers in Europe, 79% of digital health businesses

are SMEs. A large proportion of these are based in Leeds. The city has to make sure that it has the right building stock to accommodate these growing companies if they are to remain.

Leeds has the bold ambition to be the Best City for Healthcare. The region is already a growing hub for health. With a cluster of over 200 different businesses, and accounting for a fifth of all UK digital health technology jobs in the UK, it is well positioned to achieve its goal.



Planning changes will increase housing requirements in Leeds and Wakefield by 35%

A new standard for housing

Housebuilding targets are set to rise in Leeds and Bradford, but housing demand is growing fastest for larger, suburban homes. Developers and planners must work together to build the homes the market wants

As well as revolutionising the way we live and work, 2020 also brought about changes to how we plan for new homes. At various points through the year, the government’s preferred method for calculating housing delivery targets swung from Standard Method 1 to Standard Method 2, before backtracking to Standard Method 1 Plus. It’s enough to make even the most seasoned planning officer’s head spin.

The upshot is that housing need in Leeds and Bradford will rise. As two of England’s 20 largest cities, the number of homes Leeds and Bradford must deliver will be 35% higher. Need in Leeds will rise from 2,787 to 3,763 homes per year. Bradford’s need will increase from 1,704 to 2,300 homes per year.

Should housing delivery continue at current levels, Leeds will move from delivering homes above the government’s minimum target to facing a substantial shortfall. For Bradford, where delivery already falls short of need, the goalposts have shifted even further out of reach.

Housing delivery over the past three years

This concentration of housing need in urban areas comes as we see growing demand from residents for more space, both in- and outdoors. For many, the experience of pandemic lockdowns through 2020 has highlighted the inadequacies of their current homes. That, alongside a stamp duty holiday, has triggered the most widespread rise in buyer demand for

homes ever recorded, according to the RICS. Much of that demand has been directed at the suburbs.

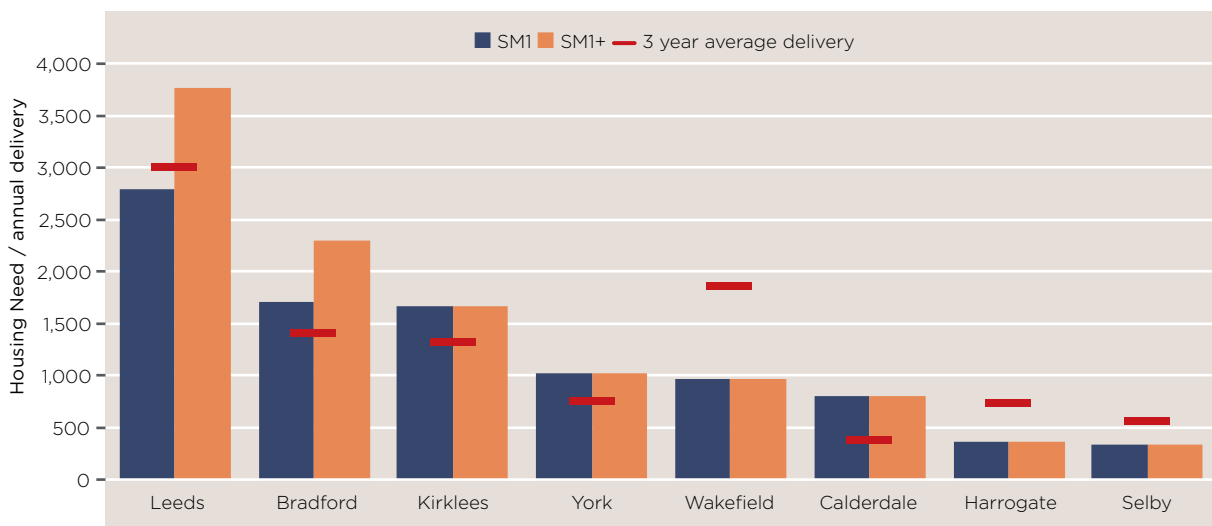
Our latest residential client survey reported 62% of respondents are listing access to a garden or outdoor space as a higher priority than before Covid-19. That rises to 80% when just looking at under the 40s. Unsurprisingly given the experience of home schooling, over three quarters of those with pre-school or school aged children now place more importance on the amount of outside space available. Our survey also reports 56% of respondents expect to work from home more often (rising to 81% for under 40s). The new homes we build will therefore need to be designed to support this increased emphasis on outdoor and green space, with adaptable rooms for flexible home working.

Over two thirds, 69%, of homes built in Leeds in the year to June 2020 were flats, versus just 28% houses. To meet the rising resident demand for homes with more space, either Leeds must identify more sites to deliver houses, or developers will have to change the design of the flats they’re building.

Who do these new homes cater for?

Planning changes look likely to concentrate housing delivery in high density flatted developments, while shifting demand points to a greater demand for more spacious homes in the suburbs. But

Housing need calculated using the current Standard Method and proposed Standard Method 2

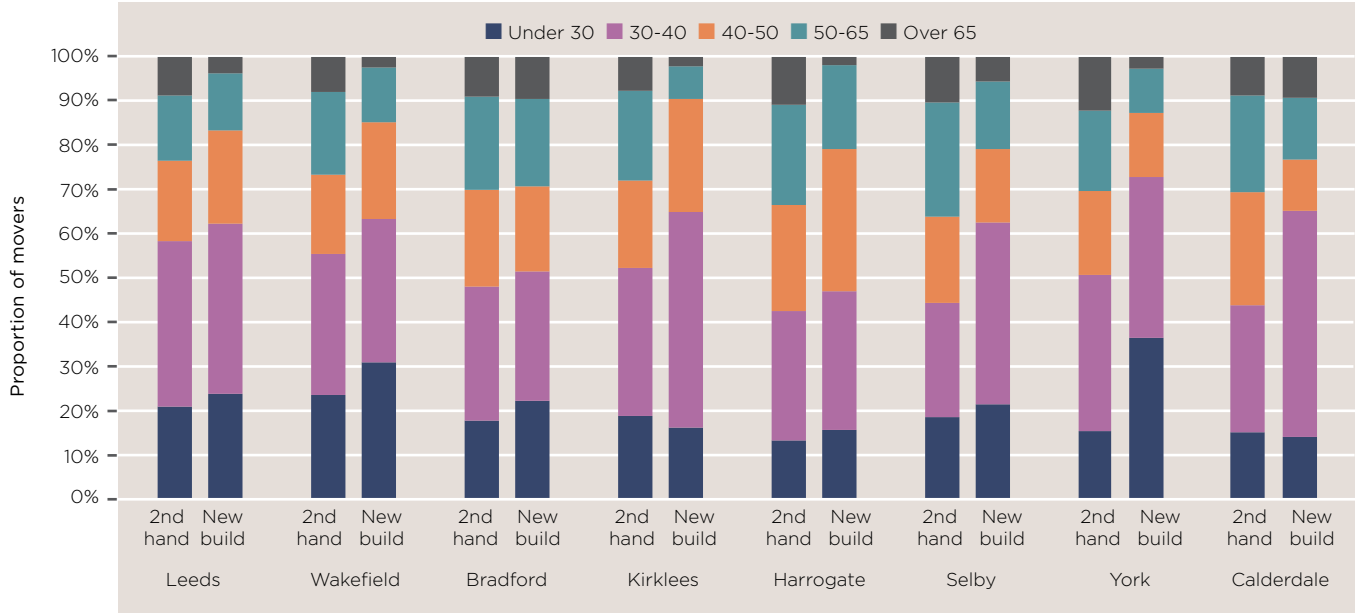


Source Savills Research using MHCLG



The average Help to Buy property in Harrogate is almost £150,000 higher than the value cap arriving in April 2021

Age distribution of households moving to new and second hand homes



Source Savills Research using Experian Mosaic

what sorts of households are already attracted to moving to new builds in Leeds and its surroundings, and where are the gaps?

Analysing the age composition of household movers from Jan 2017 – Feb 2020 in and around Leeds (chart above) shows that new build homes attract a higher proportion of younger households than second hand. This is true even away from the stereotypically ‘young’ university cities of Leeds and York. For example, in Calderdale almost two thirds of movers to new build properties were under the age of 40 (compared to less than half of movers to 2nd hand).

Movers to new build homes were also more likely to have children than not (55%), with a high proportion of families moving to new build properties in Calderdale and Wakefield (70% and 60%, respectively). In contrast, Harrogate had a lower than average proportion of movers to new build

properties with children, and is also the most expensive area for new build properties at £317 psf.

The new Help to Buy value caps could intensify the affordability pressures keeping younger families from moving to higher value areas such as Harrogate. From April 2021 the value cap for Help to Buy will fall from £600,000 to £228,100 in Yorkshire & Humberside. Compare that to Harrogate, where the average Help to Buy property value in 2020 Q1 was £375,832.

Housebuilders will therefore need to deliver more affordable homes, likely in the form of terraces rather than detached properties in order to satisfy these caps. They may have to operate outside of more desirable areas of Harrogate and York in favour of cheaper alternatives such as Calderdale and Wakefield to continue to cater to the Help to Buy market.





The supply of larger logistics units has fallen 75% over the last decade in Leeds against rising demand

The warehouse space race

Demand for logistics centres is rising but delivery can't keep up

Demand for logistics space in Yorkshire and the Humber is rising due to its connectivity and relatively low rents. In particular, its strong links to major road and rail links has driven interest from occupiers seeking to acquire large buildings to locate their national distribution hubs in the region.

Size matters

Availability of warehouse space in Yorkshire and the Humber is particularly constrained for those larger units suited for national hubs. The supply of units over 100,000 sq ft has decreased 75% over the last decade, from 14.26 million sq ft in 2010 to 3.58 million sq ft in October 2020. The vacancy rate in these larger units is just 5.75% below the national average of 6.01%.

Given the three year annual average, take-up for Yorkshire and the Humber, that supply of larger units equates to just 0.64 years' worth of take-up in the region. Without a significant acceleration in delivery, rents for these larger logistics hubs are likely to rise.

As things stand, the development pipeline is likely to ease that pressure only a little, with just six units over 100,000 sq ft under construction. This development pipeline totals 1.85 million sq ft, or around half a typical year's take-up.

At a more local level, within Leeds and surrounding local authorities there is 4.7 million sq ft of warehouse space available in units under 100,000 sq ft. Here the vacancy rate is somewhat higher than for larger lots at 7.3%. However, vacancy is still slightly lower than the national average for smaller units of 7.5%.

Where houses, warehouses

Regardless of size, the demand for logistics space is only likely to rise as the number of households living in the region grows. The British Property Federation's *What Warehousing Where?* report states that every new home requires an additional 69 sq ft of warehouse space to support the distribution needs of that household.

The Government's new proposed method for calculating housing need shows Leeds needs to provide an additional 2,387 homes per year. This suggests the city requires 165,000 sq ft additional warehouse space each year to accommodate that household growth.

Accounting for housing need in the surrounding areas such as Wakefield, Bradford and Harrogate suggests a need for approximately 6.4 million sq ft of additional warehouse space in the area over the next decade. By contrast, just 2.1 million sq ft of logistics space has been delivered over the previous five years.



How to meet the need

Delivering the logistics space that Yorkshire needs will not be easy. While local authorities are expected to allocate land for both housing and employment uses, they face far greater pressure to deliver on their housing requirements. Missing housing delivery targets can trigger the presumption in favour of sustainable development, effectively stripping a local authority of its ability to direct where and what kind of housing should be built.

By contrast, failing to allocate enough land for employment uses like logistics carries only indirect penalties, such as in the form of forgone business rates.

In areas of high warehouse demand and extremely low potential supply, occupiers are often willing to make compromises to their normal operational requirements to secure sites. This has been demonstrated clearly in London, where vacancy rates of 2% have forced occupiers to settle for non-traditional logistics space such as underground car parks to meet their needs.

In more rural locations, there could be opportunities for agricultural landowners to convert existing buildings for use as distribution centres to serve the growing number of households moving to the countryside. See our research note *Spotlight on Rural Logistics* for more information.



Future of the workplace

Demand for offices remains strong but the way we use them is changing

The world has changed dramatically during recent months. Unsurprisingly, this has affected our views on the workplace.

The Savills FiT survey, which looks at the needs and wants of office-based workers before and after the Covid-19 lockdown, shows the importance of the office as a hub for community and belonging. The survey found that 89% of respondents believe the office will remain a necessity.

While demand for office space remains strong, the way we use those offices is changing. Employees can find a desk and a coffee machine in their kitchens at home: city centre offices need to offer something more. The future success of the workplace depends on providing an adaptable, multi-disciplinary environment for a dynamic and forward-thinking workforce. Although we all like to put those ‘light bulb moments’ and meetings of minds down to serendipity, many forward thinking companies are now working towards creating more ‘intentional’ opportunities for collisions by rethinking their office design.

Many organisations, such as the Chartered Institute for Personnel and Development, share concerns that prolonged time away from the office has had a negative impact on employees’ mental health, on company culture, and on professional development. Far more than simply a space to work, offices must become a public amenity offering amazing amenities and building communities of like-minded individuals. Measures such as high quality break-out areas, better access to daylight and good air quality will become non-negotiable, particularly given that they have been shown to reduce absenteeism and improve staff retention.

Flexibility and community

One of the key growth sectors in Yorkshire is tech. As the region’s reputation as a digital hub grows, more and more tech companies are choosing to settle down in Leeds. This means more jobs, more innovation and more opportunities for collaboration.

Our analysis shows Yorkshire has seen a huge 48% increase in digital tech jobs over the past three years. A sense of community

is a vital part of the tech scene. As Tom Almas, Managing Director of co-working space Wizu said, “no business survives in solitude, and being in a community-centric workspace is key to collaboration and innovation.”

Post-Covid, there is a degree of concern around performance of flexible workspace. However, long term, we see this sector set to perform well. As we see vaccines rolled out through 2021 and social distancing measures ease, occupiers will be attracted to flexible leases and fully fitted out space.

Bruntwood has introduced its new co-working concept at the recently completed Platform scheme, directly above Leeds train station, with Spaces recently acquiring over 24,000 sq ft of space at 7 Park Row. This trend looks certain to continue, cementing Leeds as a leading location for young, creative talents who are working ‘alone-together,’ with the express purpose of being part of a community.

Wellington Place is also very much designed with people and community in mind. The development has a vast array of amenities, plus thoughtful touches like a Little Free Library and beekeeping lessons. The scheme endeavours to benefit our wider community too, from creating educational partnerships focused on social mobility to a year-round programme of participatory events. Wellington Place brings people together in meaningful ways which employees can’t get from home.

Leeds isn’t the only place in Yorkshire which offers community driven environments - Dean Clough in Halifax has community at its heart. These - converted mills, formerly the largest carpet manufacturing factory in the world, are now home to about 150 businesses and arts venues. Dean Clough takes a flexible approach to office space and regularly devotes up to nine of its public spaces to a rolling programme of gallery exhibitions that typically reflect contemporary art practice in the North of England.

The bottom line is that by designing spaces that nurture relationships, wellness and community, we can create happy places of work that employees want to be, while working towards getting the UK economy back on track.



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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