Spotlight | 2018

Bristol: entering a new phase

Summary Bristol has witnessed a period of extraordinary growth over the past 20 years. However, as the city enters a new phase it faces a new set of challenges

- Over the past decade, Bristol has outperformed many of the core UK cities. Growth has been driven by a diverse economy, a well educated population and strong city centre regeneration
- Housing delivery continues to rise and is now at its highest level in seven years. However, there is still a shortage against need, which is impacting housing affordability
- High demand and the loss of stock through change of use is putting pressure on the city's office supply. At the end of Q1 2018 there was less than 500,000 sq ft available to let
- The city centre remains a key focus for housing delivery. But the competition from other uses will require increased density
- The collaboration of authorities in the West of England Combined Authority will be key to supporting the continued growth of Bristol, particularly supporting edge of settlement development

A success story

Bristol has experienced two decades of strong growth, but there are signs that the city is entering a new phase

Bristol has been one of the success stories of the last two decades. The city has benefitted from a fast-growing economy, city centre regeneration and a thriving reputation that has attracted many people to the area. According to census data, between 2001-2011, its population grew by 12.5%, behind only Manchester and Nottingham in the 10 core UK cities.

This strong rate of growth is a result of multiple factors. The city has long benefitted from a strong external marketing effort, with an Economic Development Officer promoting the city in Silicon Valley and Boston from 1979. More recently, successful place branding tied to sustainability, culture and regeneration of the waterfront has provided a foundation for growth based around tourism and leisure.

Bristol's productivity outstrips that of Birmingham, Manchester and Cambridge, and it has been climbing relative to other UK cities since the early 2000s. The city is one of the few in the South of England to retain over 25% of its graduates, making it an attractive location for employers.

A diverse and resilient economy

The city also benefits from a very diverse economy, which has made it more resilient and well placed to weather shocks. The largest single contributor to the city's GVA is the banking and insurance sector, but advanced manufacturing and creative industries are also strong.

Key to Bristol's success has been its ability to retain its historic industry while also attracting new businesses. Home to aeroplane firms since 1910, the city region has retained three world leading firms in aerospace (Rolls Royce, Airbus and GKN Aerospace). The aerospace cluster directly supports 14,200 jobs and is one of the largest of its kind in Europe.

Bristol has had a long association with the BBC, but at the turn of the century only 2% of employment was in arts and media. There are now an estimated 11,500 jobs in creative industries and the city has international reputation in film and TV production, animation and digital media.

Beyond this, the city has been able to provide a conducive environment for entrepreneurship. Start-up rates are high, notably in the business services and retail sectors. Support of the region's universities has been crucial; for example the SETsquared Partnership works with researchers at Bristol University to commercialise their work.

The partnership occupies incubator space in the Engine Shed in the Temple Meads Enterprise Zone, supporting over 80 start-ups, and was named Established Incubator Space of the Year by UKBI. The zone has attracted 3,000 new jobs since it was established in 2012. Patent applications per 100,000 of population are double the national average, although they still lag far behind those of Oxford or Cambridge.

Proactive development

Population growth has also been supported by high levels of housebuilding. Between 2003 and 2011, new homes were delivered annually at a rate of at least 1% of existing stock. The city core has particularly benefitted from apartment construction and office to residential conversion, bringing residents back into the city centre, which has in turn stimulated demand for retail and leisure.

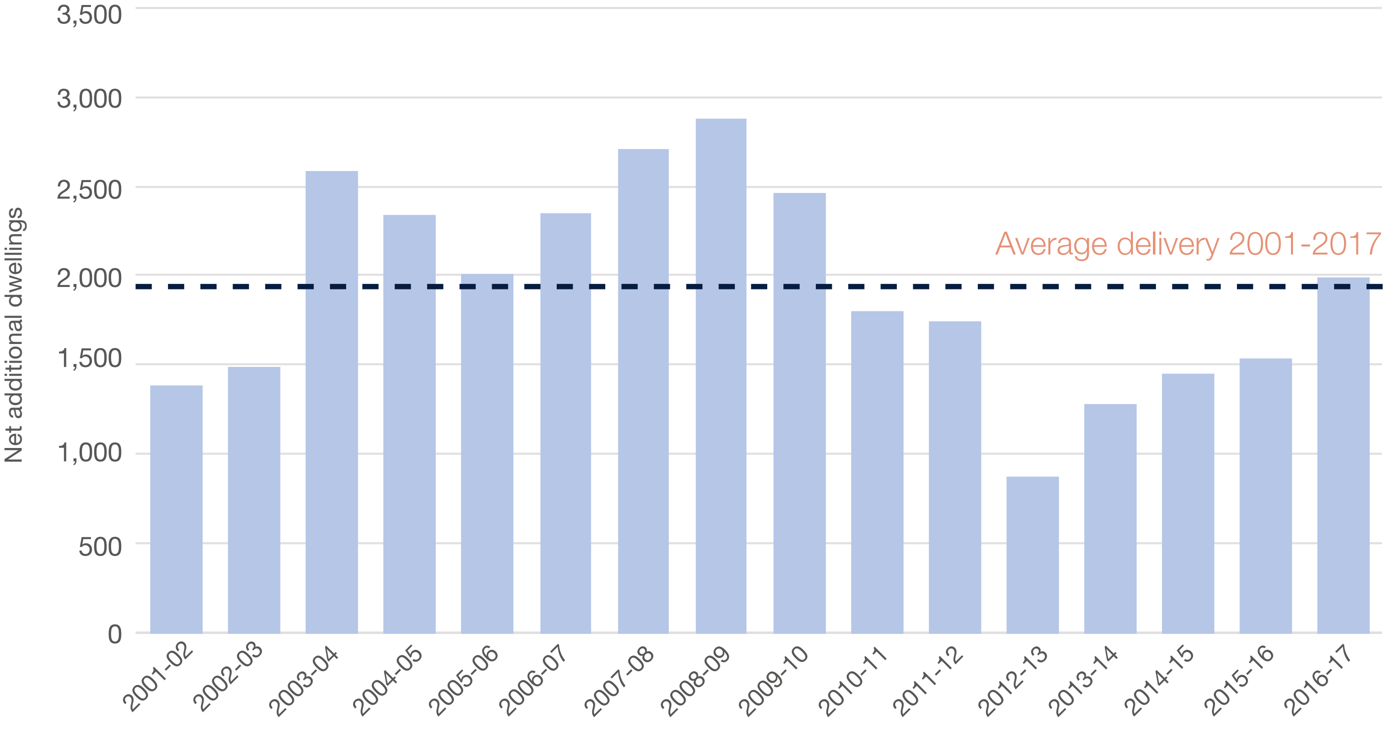
The city has also had continuing delivery of diverse commercial space. Since 2011, the West of England LEP has concentrated on six major development areas, notably delivering incubator space around Temple Meads, and industrial and logistics at Avonmouth.

However, this has failed to keep up with strong demand for office space in the City, and the surge in office to residential conversions that has been seen in recent years.

There are no signs that the demand for office space in Bristol is slowing, with take-up of office space in 2017 being 6% above the long term annual average. This has continued into 2018, with take-up this year in the City up on last year's total for the same period.

Looking ahead, the City's office market is facing a surge in lease expiries at a time when supply has fallen to a record low level. We estimate that as at the end of Q1 2018 there was less than 500,000 sq ft of office space to let in the City centre, an 83% fall on the level that there was in 2010.

FIGURE 1 Annual Housing Delivery



Source: MHCLG

Trouble ahead?

However, the city's rapid expansion seems to be drawing to a close and new stresses are emerging. Bristol's growth has been strong for a core city, but recently it has been outstripped by smaller south east settlements such as Reading and Slough.

The sustained period of expansion during the 2000s is coming to a close. While GVA per capita remains 15 points above the national average, GVA growth has been flat for the past five years.

Another potential cloud on the horizon is Brexit. Bristol's economy has the third highest dependence on European markets of any city in the UK. Clarity around the UK's exit from the EU will be key for maintaining confidence.

The final challenge is increasing unaffordability in both commercial and residential markets. In 2017, prime office rents reached their highest ever level, driven in part by a recent shortage of supply.

Housing affordability is also becoming increasingly challenging, as average house prices in Bristol have risen from being 7.5 times more than average household incomes in 2007 to being 9.11 times higher than incomes in 2017. This poses a threat to continuing economic growth if employees are priced out of the area and alternative tenures such as PRS are not delivered.

Where does Bristol sit in the regional hierarchy?

There has been strong performance on employment and economic output

Over the past 10 years, Bristol has gone from strength to strength becoming one of the UK's most successful cities. This is highlighted by it being voted the best city to live in by *The Sunday Times* twice in the last four years.

But how does it compare to its regional counterparts? And how does its current ranking compare to a decade ago?

To answer this we have looked at Bristol and eight of its regional peers, Manchester, Birmingham, Leeds, Edinburgh, Oxford, Cambridge, Reading and Cardiff.

For each city we compared a wide range of metrics covering factors from housing affordability and delivery to employment, workforce skills, and economic performance. We combined the rankings on each of these metrics to arrive at an overall rank.

This analysis shows that in 2007 Bristol was ranked in the middle of the pack, coming in 5th place. In particular, Bristol ranked highly for business start-ups and economic participation.

However, during the 10 years to 2017, as the city has undergone a period of strong growth and regeneration, it has moved up the rankings to 3rd. It continues to attract a high number of business start-ups, has low unemployment and has seen economic output per worker grow significantly.

FIGURE 2 Savills City Index ranking

	2017 Rank (2007 Rank)
Reading	**1** (2)
Edinburgh	**2** (1)
Bristol	**3** (5)
Cambridge	**4** (3)
Oxford	**5** (7)
Manchester	**6** (6)
Birmingham	**7** (8)
Leeds	**8** (4)
Cardiff	**9** (9)

Source: Savills Research

FIGURE 3 Key performance areas

IT & Comms GVA as % of Total GVA

Despite strong overall GVA, Bristol underperforms on the IT & Comms Sector

	2017
Reading	22%
Cambridge	13%
Manchester	7%
Bristol	6%
Birmingham	4%

Source: Oxford Economics

GVA per worker

Bristol's productivity is in line with similarly sized cities

	2017
Edinburgh	54.5
Bristol	48.0
Leeds	45.7
Manchester	44.7
Cardiff	42.2

Source: Oxford Economics

Working age population with a qualification at NVQ4 or higher (%)

There is a strong pool of well qualified employees

	2016
Cambridge	67%
Cardiff	46%
Bristol	45%
Manchester	36%
Birmingham	28%

Source: Centre for Cities

Graduate Retention Rate

Unlike other cities in the South, Bristol retains close to a third of its graduates, resisting the pull to London

	2013/14 - 2014/15
Bristol	30%
Cardiff	25%
Oxford	18%
Cambridge	17%
Reading	16%

Source: Centre for Cities using HESA

Staying ahead of the pack

Housing delivery continues to rise and edges closer to pre-recession levels

Bristol has been one of the highest delivery housing markets out of its regional peers. Over the last 15 years, over 29,500 new dwellings have been delivered in the city. Only Leeds and Manchester have delivered more. This level of delivery is the equivalent to increasing the city's housing stock by 18%. Over the same period, only Cambridge and Manchester have seen their stock rise by a greater proportion.

In the years prior to the recession, Bristol was delivering on average 2,400 net additional dwellings each year – or adding an additional 1.3% to its stock. This was second only to Manchester in terms of growth in stock and was one of the foundations that allowed the city to undergo and sustain consistently strong growth.

However, in the wake of the financial crisis, housebuilding collapsed and reached its nadir in 2012/13 when only 880 net additional dwellings were added to the stock. This lower rate of delivery has been one of main contributing factors behind the city's worsening affordability.

Since then the rate of housing delivery has been rising each year and reached nearly 2,000 in 2016/17, the equivalent to 1% of stock, its highest level since 2009/10.

The increasing rate of housing delivery is to be welcomed and will be key to ensuring Bristol remains competitive. However, the city needs to do more. Based on the new standardised approach, the city's annual housing need is over 2,400 homes a year or 1.2% of stock. The delivery of alternatives tenures, such as build to rent development will be crucial to expanding delivery. There are currently 200 build to rent units under construction in Bristol and a further 1,100 in the planning pipeline.

Infrastructure of the future

Bristol's rail infrastructure is undergoing improvements, with the electrification of the Great Western mainline. However, moving forward, businesses and residents will be increasingly concerned about the city's digital infrastructure.

Over the past 15 years, the internet has become an intrinsic part of our lives, both at home and at work. Businesses are increasingly concerned about connectivity when choosing where to locate.

This is an area where Bristol performs well. Almost 87% of the city's premises have access to ultrafast broadband, defined as a connection faster than 100Mbps. This places the city third behind Cambridge (93%) and Edinburgh (87%) and well ahead of Manchester (67%) and Leeds (74%).

Ensuring that the city remains at the forefront of digital connectivity will be of paramount importance, especially as the city seeks to attract and retain employers in the fast growing creative and technology sectors.

Where is the potential to do more?

City centre needs to make more efficient use of land to deliver strong mix of uses

A key challenge for Bristol, as with many other cities, is finding available land to deliver transformative projects. The city centre has already been a key location for regeneration and renewal. It has seen several key schemes delivered, including Cabot Circus, the regeneration of the Waterfront, and most recently the mixed-use development at Finzels Reach.

In the 2018 Local Plan Review, central Bristol remains a focus for future development. It is identified as having scope for 13,500 new homes over the plan period to 2036. But the city centre doesn't just need more residential development. It is also crucial for Bristol's success to deliver a steady supply of employment floorspace, alongside maintaining the city's diverse retail and leisure offer.

Consequently, the city core will need to become more dense, to deliver a strong mix of uses and make more efficient use of land. The plan review specifies that tall buildings will form part of the overall approach to development.

Relatively unfragmented

The map opposite shows where there are concentrations of land in the city centre under single ownership. Bristol is unusual in having relatively unfragmented land ownership in the city centre, making land assembly less of a barrier to transformative development schemes.

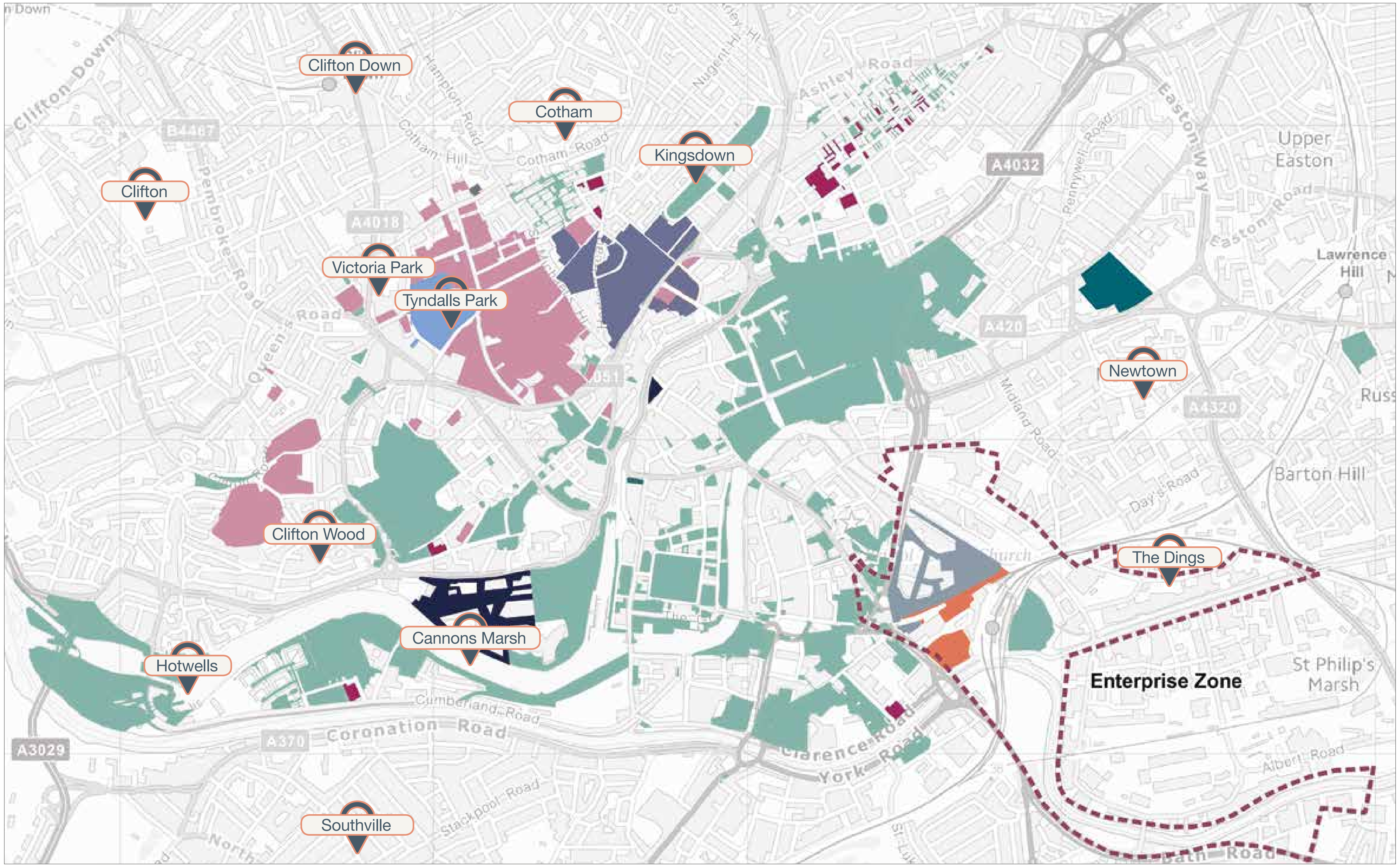
The city council stands out as the dominant landowner, with over 400 acres in its control. It will be important to see how the council engages with government initiatives to bring forward publicly owned land via One Public Estate and works with partners such as Homes England.

Moving away from the established core, plans are underway to regenerate the surroundings of Temple Meads station. A key part of this will be the development of Bristol University's new campus, including new teaching facilities, student accommodation and commercial premises.

The regeneration of this quarter will provide a better gateway for visitors to the city. This is a crucial step to maximise the potential of the electrification of the Great Western Railway, which will reduce the travel time to London and enable a greater frequency of services.

BRISTOL: MAPPING IT OUT

FIGURE 4 Land ownership in the city centre



Land Owner	Acres owned in the city centre	Land Owner	Acres owned in the city centre	Land Owner	Acres owned in the city centre
City Council of Bristol	405.85	Crest Nicholson Holdings PLC	9.16	Banco Santander SA	6.51
University of Bristol	63.53	Homes & Communities Agency	8.89	Liverty Ltd	6.45
University Hospitals Bristol NHS Foundation Trust	22.27	Bristol Grammar School	7.87	Network Rail Ltd	5.12
-- Enterprise zone					

Source: Savills Research

Future priorities

Bristol's changing growth patterns will require new strategies

As the first half of this report has shown, Bristol has undeniably punched above its weight over the last decade. The drivers of this out-performance have been a successful fusion of branding, perception, industrial mix and regeneration.

Successful regeneration always delivers a period of out-performance, however that supra-normal growth is always finite.

Our research nationally shows that typically a successful regeneration programme can deliver three to five years of better than average growth before the location settles down and begins to show more normal levels of growth. This period of comfortable middle-age is in our opinion exactly where Bristol sits now, and it brings new challenges to the city.

The first major challenge is the hangover from a period of success.

Office supply under pressure

Our analysis of housing affordability in the city shows that house price growth has significantly outstripped that of wages, pushing homeownership further out of reach – the median house price to earnings ratio is now 9.1x, compared with 6.7x five years ago.

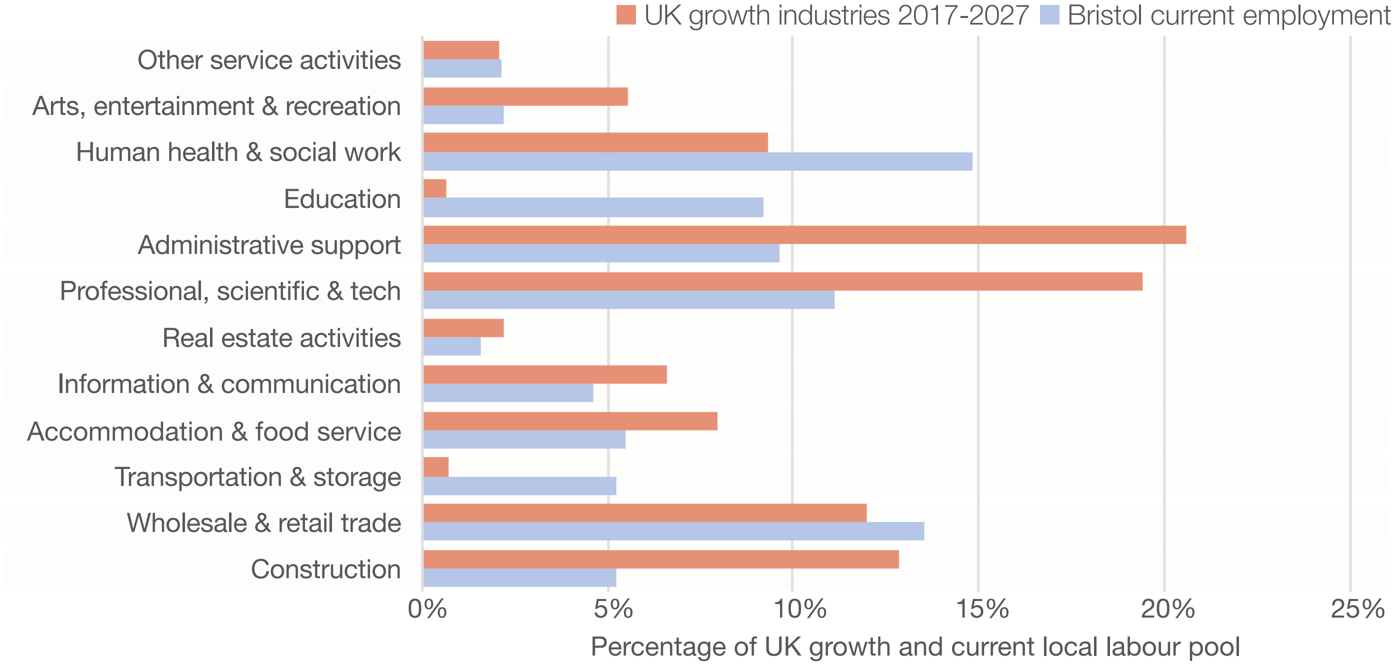
The tight housing market is already bringing stress to the city, indeed the ONS's own data on wellbeing shows that Bristol's residents have gone from being the 149th most anxious in the UK in 2011/12 to the 48th in 2016/17. This puts Bristol in line with major cities such as Manchester, Edinburgh and London where similar issues around housing affordability are rife.

Elsewhere in the city's property market, there are other metrics that point to occupational stresses that have emerged.

Prime and refurbished office rents reached their highest ever level in 2017, and we are projecting that the lack of supply will push them even higher in 2018 and 2019.

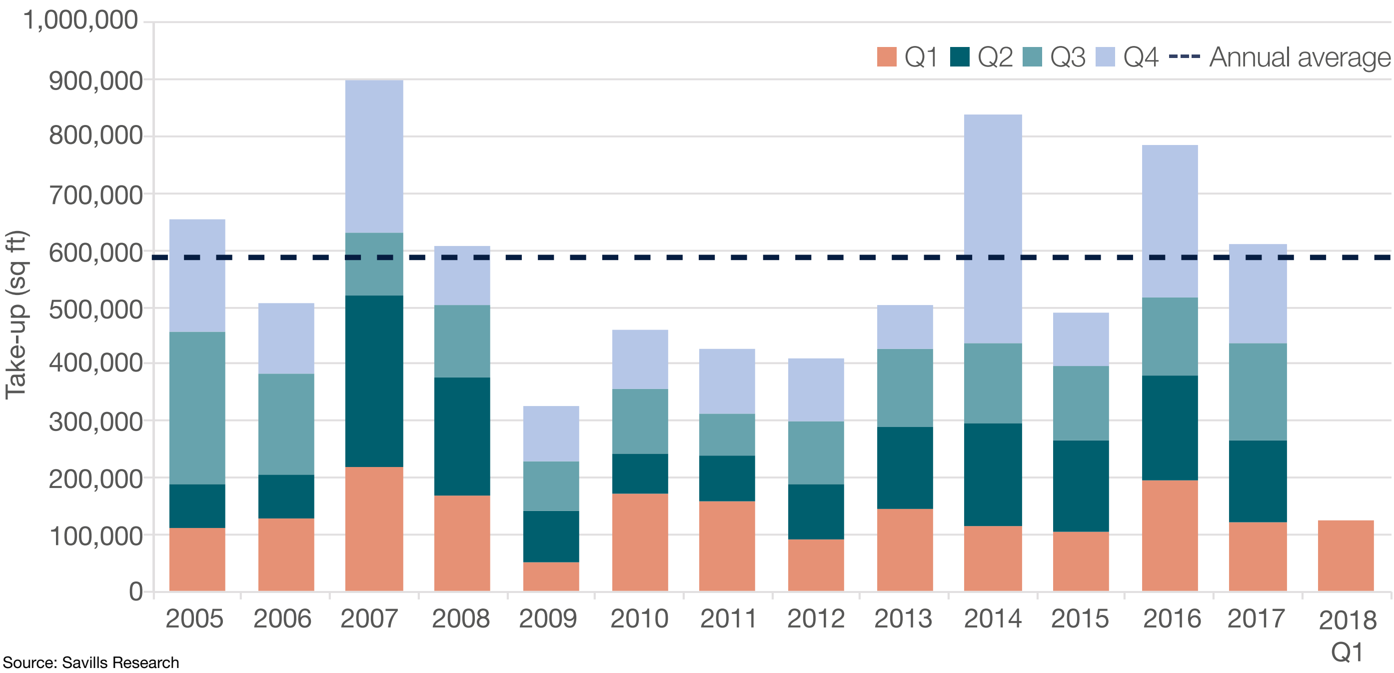
The undersupply in the office market is in part linked to the recent strength of the residential market (37% of the city's office stock has been converted through PDR). This is not expected to improve over the near term. Aurora, the city's only speculative office development, is currently 75% pre-let or under offer and there is no further new development anticipated until Q1 2020. However, the low levels of development is not limited to Bristol and is symptomatic of a wider national issue.

FIGURE 5 Bristol is underweight in seven of the 12 UK growth sectors



Source: Savills Research using Oxford Economics

FIGURE 6 Bristol City Centre office take-up



Source: Savills Research

Office development activity across the UK remains at very low levels due to developer and lender caution around Brexit. This should diminish as we move towards clarity in the early 2020s, and with office rents likely to be in excess of £35/sq ft by that date, the viability of office development in the city is assured so long as developer confidence returns and not all suitable sites are designated for residential uses.

Retail & industrial demand

Land availability for retail and industrial uses is a less pressing need for the future of Bristol, as we expect to see further consolidation in the retail sector as the structural change of internet shopping continues to reduce the number of stores that we need.

This will increase the need for logistics space across the region, though our analysis suggest it is well served for large logistics units, and the size of the city means there is limited need for 'last mile' logistics space.

Future urban development will however need to pay attention to the provision of light industrial spaces as part of a healthy and diverse economy.

Successful cities tend to have diverse and adaptive industrial structures. Bristol's past success can definitely be attributed to its industrial mix and flexibility, but new challenges lie ahead.

A changing economy

While Bristol was very successful in attracting Financial Services occupiers during the boom years of that industry, banking and finance are no longer the growth powerhouses that they once were.

Figure 5 looks at the sectors of the UK economy that are projected to show the strongest employment growth over the next decade, and compares that with Bristol's current employment structure. Bristol is underweight in seven of the 12 growth sectors, and is arguably stronger in the less value-added segments.

This analysis points to a period of slower growth ahead for the city, as well as a need to adapt again to make the city more attractive to faster growing knowledge-economy businesses.

While it is difficult to generalise about what these businesses need, a universal motivator is the quality of the local workforce. This is where the biggest future challenge for the city is directly related to its past out-performance, in that the reducing affordability of housing in the city will not only inhibit its ability to retain new graduates, but also to attract in-movers.

Bristol is facing a period of slower growth, and needs to attract more knowledge-economy businesses

The key pinch point

Of course, this is not new news, and good progress is being made through the West of England Combined Authority to develop a more joined up approach to housing delivery across the area.

Increasing delivery will carry additional pressure following the 2018 revisions to the NPPF and the standard methodology for calculating housing need, which provides an uplift based on housing affordability; under the new method, housing need for the Combined Authority area would be set at 4,520 homes per annum.

The future strategy for the city has to continue to build on the urban regeneration successes of the past with a continued focus on delivering the right housing stock at the right price. Development needs to encompass continued delivery on urban brownfield, combined with sustainable growth beyond the existing urban area. Housing development must be supported by investment in transport infrastructure that connects homes with jobs.

While dealing with housing delivery and affordability in the city should not be the only focus for the future, we believe that it is the most pressing challenge for Bristol. Without this, the city's labour pool will not be able to flex and adapt to the challenges of the next decade in the same way it has done so in the past.

Annual Housing Need Requirements

724

Bristol Core Strategy 2018 Housing Requirement

2,420

City of Bristol standard methodology to calculating housing need

4,025

West of England Combined Authority Emerging Plan target

4,520

West of England Combined Authority standard approach housing need figure

Forecasts

We forecast that the South West will see house price growth of 14.2% over the next five years, in line with the UK average, and well ahead of forecast growth in London. Growth will be slower than over the previous five years, due to uncertainty over Brexit and increasingly stretched affordability.

In the office markets, we anticipate that office rents will exceed £35/sq ft by the early 2020s. Savills views Bristol prime office yields at 5%, 25 basis points above that of Manchester and Birmingham, and 100 basis points above that of the City of London.

FIGURE 7 Residential forecasts

	2018	2019	2020	2021	2022	5-year compound growth
United Kingdom	1.0%	2.5%	5.0%	2.5%	2.5%	14.2%
South West	1.0%	3.0%	4.5%	2.5%	2.5%	14.2%
London	-2.0%	0.0%	5.0%	2.0%	2.0%	7.1%

Source: Savills Research

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