

Spotlight | 2018

# Peterborough: A growing city



**Summary** As an affordable location and well-connected city, there is plenty of room for further growth in Peterborough

■ Strong economic and population growth will produce new opportunities in the commercial and residential sectors

■ High demand for industrial space has resulted in historic low vacancy rates and presents opportunities for new development

■ House prices have recovered more slowly than across the East of England region, but there is room for growth as housing remains affordable

■ There is strong residential demand, and housing need exceeds 1,200 new homes per year

■ Uncertainty over Brexit could depress the farmland market, but the strength of commodity prices will limit falls in the East of England

# Responding to structural shifts

Structural changes in commercial spaces have resulted in similar cross sector solutions

Designated as a New Town in 1968 and with strong road and rail connections, Peterborough's economy grew in the 1970s and 1990s. It was initially focused on manufacturing, in particular engineering, although in recent years this sector has been in a state of steady decline.

However, the industrial market has clearly benefitted from the continued shift towards online retail as many retailers have established large distribution centres in the city, such as Amazon, Debenhams and IKEA.

Similarly, whilst Peterborough benefitted from the relocation of financial services firms from London during the late 1980s, the office sector has since weakened considerably and the major occupiers in the city are public sector bodies. Whilst many private sector companies including Budget Insurance, Thomas Cook and Bauer Media retain a large presence in the area, the market is now dominated by smaller and more local companies.

As a consequence, the opportunities within the business space sector are remarkably similar, although for different reasons.

Within the industrial sector vacancy rates are at a historic low of 2.2% which is all the more remarkable given the amount of large scale warehousing in the area. Roxhill have been extremely successful at Peterborough Gateway disposing of over 2.6m sq ft in just three years. With just one plot remaining and no other sites currently actively being

marketed the opportunity exists for landlords of second hand units to take advantage and undertake refurbishments to bring poorer quality units up to standard as the rent spread between grade A and grade B units continues to narrow.

At the smaller end of the industrial sector, 12,600 sq ft is under construction at Axis Park in small units. Whilst welcome, this is only a tenth of a year's worth of supply based upon an annual average take-up of 121,000 sq ft for units under 5,000 sq ft.

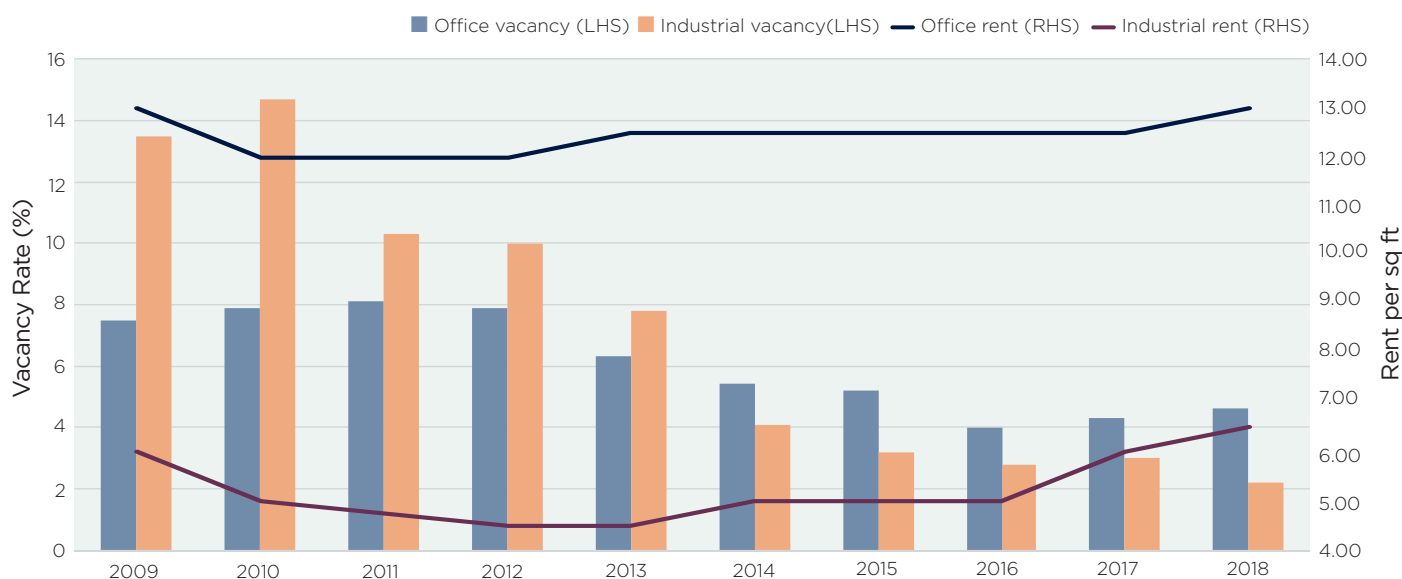
Within the office sector vacancy rates have actually increased and now stand at 4.4% due to a combination of two years of falling take-up but also the fact that 600,000 sq ft of office stock has been lost through permitted development to residential.

While prime office rents have fallen from their 1992 peak of £17 per sq ft the loss of stock is creating an upward pressure and rents now stand at £13 per sq ft. Whilst this still makes new office development unviable aside from pre-lets there is the short term opportunity to deliver excellent refurbished buildings and drive continued rental growth.

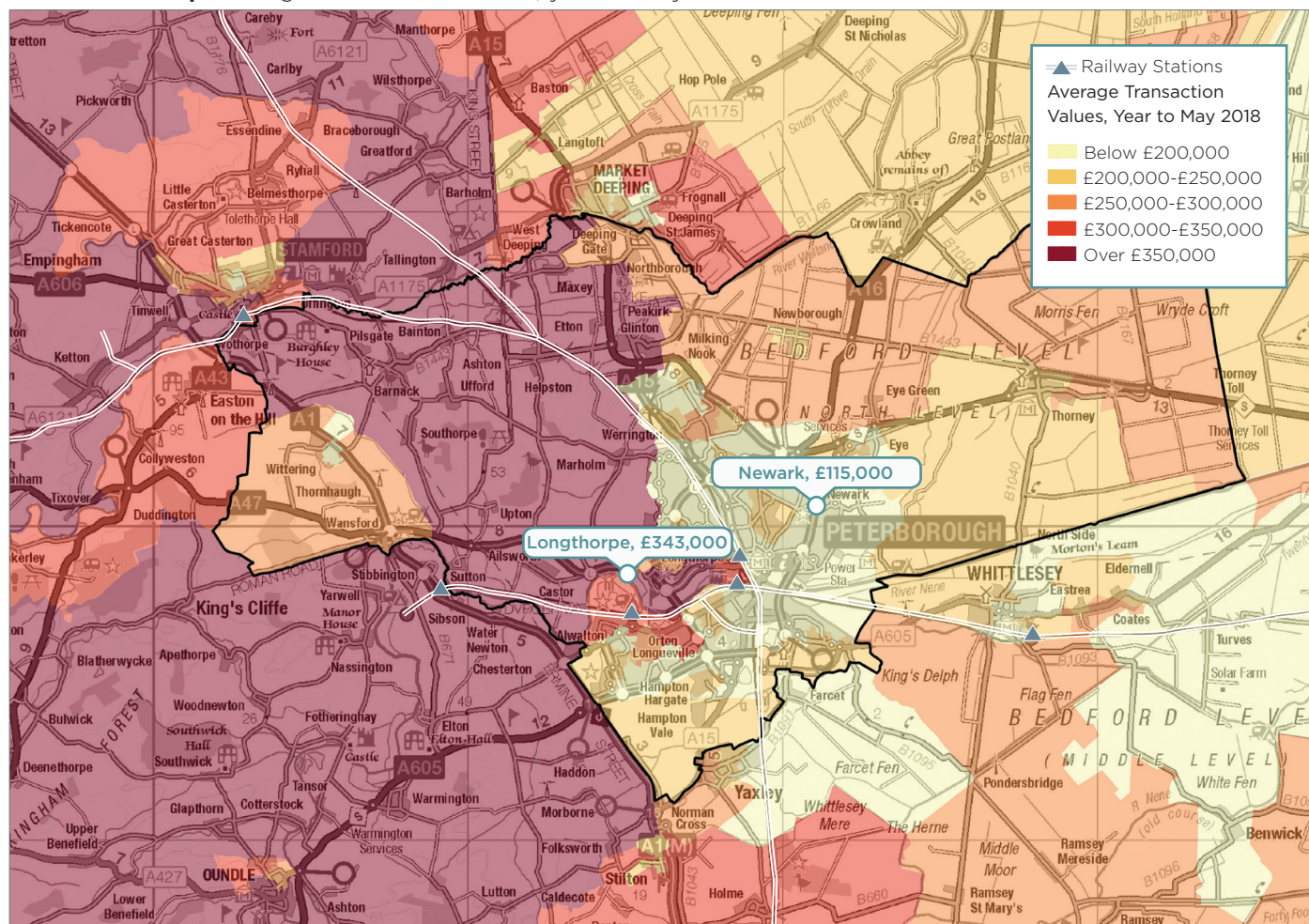
A good example of this is the recently refurbished Lynchwood Park where units between 3,000 and 50,000 sq ft are available and rents are quoting at £17 per sq ft.

Without new development on the industrial side and refurbishment on the office side the recent upward pressure on rental growth may start to dissipate.

## Office and Industrial Vacancy rates and rents



Source: Costar/Savills Research

**Residential map** Average Transaction Values, year to May 2018

Source: Land Registry

## Room for growth

High levels of development are required to meet housing need

The residential picture across the local authority of Peterborough is varied, with contrasting values found between urban and rural locations across the area. House price growth in neighbouring markets, and indeed the wider county, have shown signs of slowing in recent years, but Peterborough still has room to grow. The area is proactively responding to strong residential demand through ambitious housing targets and a healthy land supply.

The city itself has the most diverse residential market, with lower value areas to the east contrasting pockets of high value areas towards the centre. Eastfield, to the east of the city, recorded an average transaction value of £115,000 in the year to May 2018 whereas on the western edge, Longthorpe recorded average transaction values almost three times this figure over the same period. Further afield, in more rural areas, values are even higher, at £440,000 around Castor.

House prices in Peterborough have recovered more slowly since the Global Financial Crisis than in the rest of Cambridgeshire. Peterborough house prices are now 13% above their peak levels recorded before the economic downturn, compared to over 30% in Cambridgeshire and almost 40% in the wider East of England region.

However, since the end of 2016, value growth in Cambridgeshire and the East of England has slowed as housing affordability has become increasingly stretched. Conversely, Peterborough has seen strong price growth over the same period. Values increased by 7.4% in the year to May 2018 as buyers are not yet facing the same affordability challenges.

To meet housing need, the area needs to deliver high levels of housing development. Both the adopted and emerging local plan targets for Peterborough are well in excess of 1,200 homes each year. Meeting this target will require housebuilding at a level equivalent to 1.5% of existing stock per annum.

To meet this challenge, Peterborough is currently able to demonstrate a housing land pipeline equivalent to over six years of supply. The largest share of supply will be coming through on city fringe areas, with plans to build upon the success of The Hamptons to the south of Peterborough. 750 homes will be delivered at Hampton over the next five years, and consent has been granted for a 5,300 home scheme at Great Haddon. In the longer term, proposals include a 2,300 home urban extension at Norwood and a 2,500 home new settlement at the former Peterborough aerodrome.

# Rural property remains a sound investment

Demand for farms in the short to medium term is set to continue which in turn will support values

Rural property is a safe and secure investment over the long term returning comparable performance to other assets. Over the past 25 years average annualised total returns were around 12% and this includes a price correction in farmland values during the 1990s.

Recent performance (2013-2017) has been weaker with an annualised total return of 6.3%, but this still represents a healthier return compared with equities and gilts. The improvement in residential markets and a slowing of weaker farmland value growth will lead to a strengthening performance of rural property portfolios in the medium to long term.

Long term capital appreciation is the prime attraction for holding agricultural land as an investment as income returns are historically relatively modest compared to commercial property. Its performance is relatively recession proof, resulting in a low or negative correlation with other traditional asset classes such as stocks and bonds and therefore it is a valuable asset to hold as part of a diversified investment portfolio.

In the face of Brexit uncertainty and changing agricultural policy,

resilience and adaptability are key for the continuing success of rural portfolios. In response to these economic pressures and the need to spread risk, farms and estates have been developing alternative income streams alongside, and complementing, their core business.

This range of income sources is illustrated by the results of Savills 2018 Estate Benchmarking Survey. Although estates are drawing income from a range of assets, agriculture and residential lettings remain the bedrock of rural estates, delivering, on average, 80% of the gross income.

When it comes to alternative income streams and diversification, commercial, leisure and renewable energy make a significant contribution. In addition, land managers have diversified into a range of trading enterprises. Our research shows that almost one-third of farms and estates have holiday accommodation (including caravans, camping and glamping). A similar proportion open their house or garden, a quarter host weddings and receptions, and more than 10% operate a farm shop. Other popular choices include cafes and restaurants, filming and photography, and corporate events.

## Comparable investment performance



Source: Savills Research, MSCI, FTSE Group

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