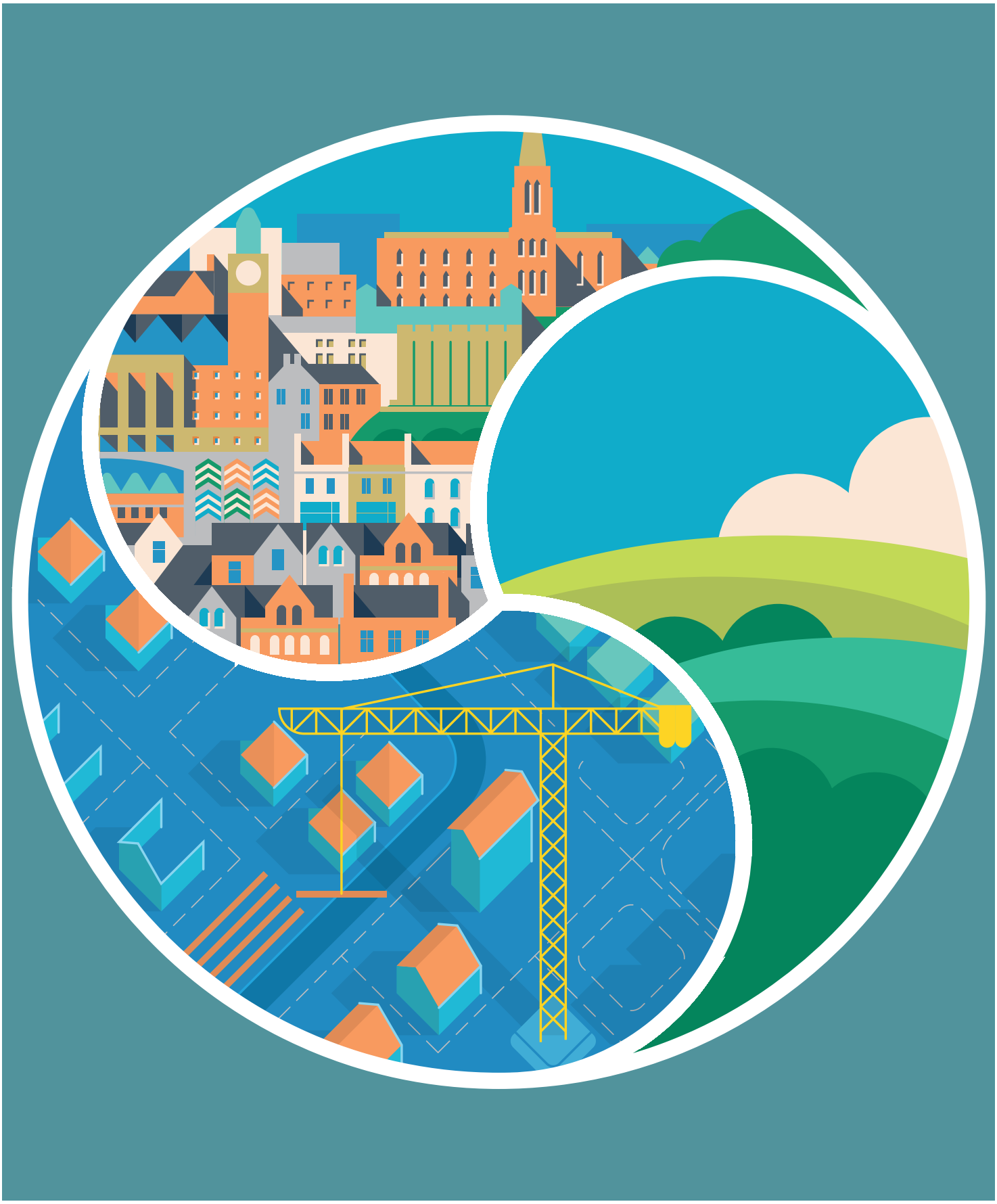
UK Cross Sector - Autumn 2019

SPOTLIGHT
*Savills Research*

# Norfolk and Norwich: Adapting for change

savills



What are the opportunities in the rural, development and residential markets?

# Broad appeal

Norfolk has something for everyone, with county capital Norwich being one of the fastest growing cities in the UK

Norfolk enjoys over 90 miles of unspoilt coastline, beautiful countryside, the unique Broads National Park, forests, heathland, internationally-important nature reserves, picturesque market towns, and fabulous seaside resorts. However, with so many benefits deriving from its remoteness, the county must act to ensure its strengths in research and technology are perceived as world-class, with a clear strategy to continue improvements in transport and infrastructure.

Norfolk is one of the UK's most popular tourist destinations, with tourism contributing £3 billion to its economy last year. Norwich has also been voted one of the "Best Places to Live in The UK" in 2018 and 2019, with its Upper St Giles Street area named among the "30 Coolest Places to Live in Britain". The city's cultural scene has a strong pull for young people and it maintains its top-twenty status in PwC's Good Growth for Cities Index, ranking above Manchester, Birmingham and Newcastle. Norwich also boasts the winner of the 2019 Stirling Prize, the first time the prize has been awarded to social housing. It is hardly surprising that so many people choose Norfolk as a place to live and work.

> **"UEA retains over 40% of its graduates, creating a strong local talent pool"**

## A growing city

Norwich is one of the fastest growing cities in the UK; since 2000 the population has increased at a stronger rate than for the UK as a whole. Norwich has a higher than average prime working age population (ages 18–49) and smaller household sizes, meaning that the number of homes required is likely to continue increasing. A younger population brings advantages attracting businesses, who can draw from a larger pool of working age residents. However, cities need to provide opportunities for young people to start and build careers, as well as cultural amenities, schools and affordable housing.

Norwich has a strong local economy: the city is home to more than 123,000 jobs and more than 8,000 businesses, both local and international. Some larger corporate occupiers have consolidated in the last few years, yet a significant number remain committed to the city including Aviva, Marsh, Swiss Re Life & Health and Alan Boswell Group.

The city is home to two leading universities and several research institutes, which promote a highly skilled workforce and are crucial to the strong development of the city's tech and digital creative sectors. The University of East Anglia (UEA) is consistently ranked in the top 15 of UK university league tables and retains over 40% of its graduates, contributing a strong 'talent pool' within the city. Norwich University of the Arts has been shortlisted twice for this year's Times Higher Education Awards and is a finalist in the Outstanding Student Support category, as a UK institution that "helps students to gain the maximum benefit from their study".

## Norwich is home to more than 123,000 jobs and more than 8,000 businesses

### Leveraging Innovation

The region is home to companies that are shaping the future of food, energy, medicine and mobility. Norwich Research Park offers a supportive and collaborative community of 115 companies, 12,000 employees and 3,000 scientists, researchers and clinicians. The Park's John Innes Centre, an international centre of excellence in plant science and microbiology, won the BBSRC's 2013 - 2016 Excellence With Impact Award. The Norfolk and Norwich University Hospital (NNUH) is the teaching hospital for health professionals studying at the University of East Anglia (UEA). NNUH has an R&D department which supports the development, approval and running of research projects.

Norwich is also part of the 'Tech Corridor' investment initiative, connecting Norwich and Cambridge along the A11, recognising these two areas as key technology hubs, aiming to create £500m of innovation-led growth, infrastructure and housing. The tech and creative sectors are expected to see employment growth of 11.3% between 2019 and 2024, resulting in over 1,000 extra jobs in these sectors.

Positive growth of any local economy will be supported by the growth of its start-ups. Between 2011-2016, digital employment in the city grew by around 40% and the stock of digital businesses by around 30%, which is substantially faster than the growth in the Norwich economy overall. Creative and digital companies are at the forefront of flexible-workspace growth and Norwich is now beginning to react with developments such as St George's Works and the Fuel Studios accommodating the needs of these growing companies.

### Nurturing a strong retail presence

In contrast with many other locations, Norwich has a strong retail offer, boasting the largest permanent undercover market in Europe. Savills review of cities across the country found that Norwich ranks as 12th most Resilient Retail Destination.

However, the historic infrastructure means that a lot of the retail units are unfit for modern retail use. The smaller boutiques of the Lanes are attractive to tourists, but do not meet all the needs of the local shoppers. The larger units lie to the west of the castle. The development of Chapelfield Shopping Centre in 2005 pulled the main retail area further south. Primark has dealt with store size issues by incorporating the adjacent unit via a large scale redevelopment, due to complete by Christmas 2019. Department stores in the city centre include Debenhams, John Lewis, Marks & Spencer, House of Fraser and Jarrolds. The multiples lie to the south, but Jarrolds, the only independent store is an icon of the historic centre.

Norwich needs to consider how it adapts its space in the future and reduces its exposure to vacant space. Looking ahead, property repurposing will be a key theme for Norwich. A new mix of uses plays a crucial role in diversifying land use and generating footfall both during and after business hours, which in turn helps the retail and leisure sectors.

### Expanding the city eastwards

The city has so much to offer both tourists and its local workforce but it will be left behind if it cannot improve east-west links and regenerate the southeast quarter of the city. The scale of opportunity presented by the soon to be redundant manufacturing plant at Carrow Works and the adjacent former industrial site at the Deal Ground and Utilities Sites cannot be overstated.

By 2030, the city hopes to create a dense low-car quarter towards the south east of the city with cutting-edge sustainable urban transport which will help to ensure the best talent stays in the city and generate good quality sustained investment in people and jobs. This new quarter could provide up to 4,000 houses and 100,000 sq. ft. of commercial space, accommodating up to 6,000 jobs. To enable this vision some key investment in infrastructure is required.

Norwich has frequent direct services to London Liverpool Street and quick access to key regional hubs Peterborough and Cambridge. It also benefits from its own international airport. Norwich was recently awarded £6.1 million by the Department of Transport as part of the Transforming Cities Scheme to improve public transport and sustainability in selected areas of the city.

The A11 to Cambridge was widened in 2014, strengthening the link between the two cities and supporting the tech corridor between them. The A47 was also identified as infrastructure in need of improvement in the Government's Road Investment Strategy in 2014. Upgrades are planned for six hotspots along the route, including the Thickthorn junction; work is due to start in 2021 with completion timetabled for 2023. ▸

### Norfolk in numbers

**898,400**

Norfolk has a population of 898,400

**£3bn**

Tourism contributes £3 billion to the local economy annually

**8,000**

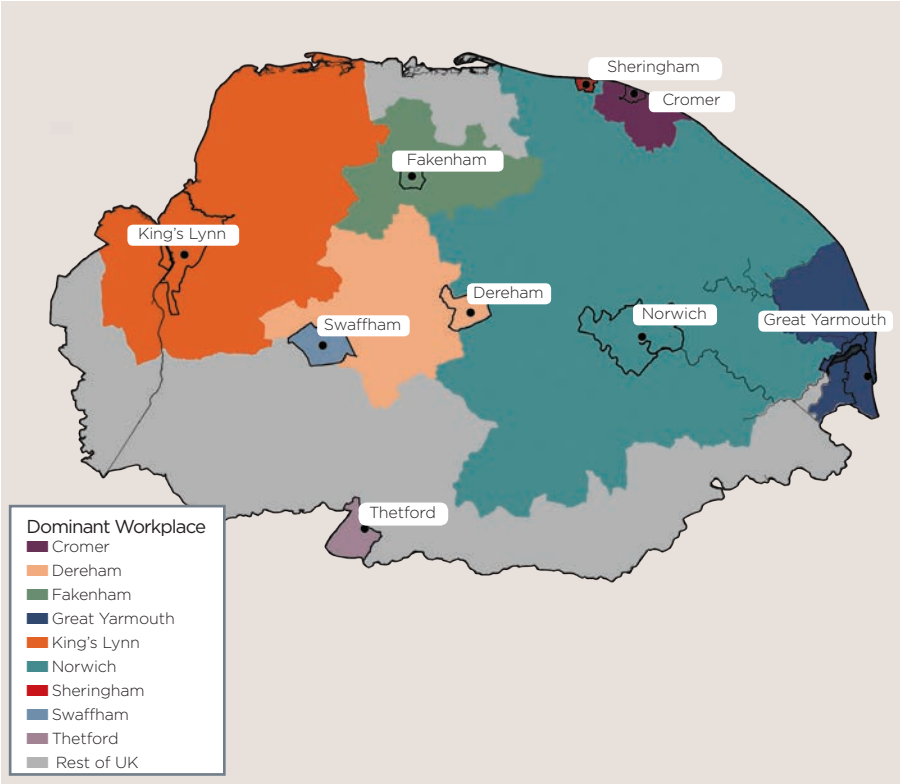
Norwich is home to over 8,000 businesses

**12th**

Norwich is the 12th most resilient retail destination nationally

**Norwich has the largest travel to work zone compared to the other key Norfolk towns**

### Travel to work areas show the geographical pull of economic centres




**Source** 2011 Census

## The importance of the daily commute

Savills recent 'What Workers Want' survey' makes clear that length of commute is a key factor for staff, with 89% of respondents considering this important. The map shows the travel to work areas across Norfolk, to calculate the dominant workplaces across the county. Norwich has the largest travel to work zone compared to other key Norfolk towns such as King's Lynn and Fakenham. There are currently 450,000 people living within a 40-minute commute of Norwich. It covers 50.2% of the entire Norfolk population, meaning over half of the county lives in an area where employment is dominated by Norwich.

In the south of the county, there is a strong pull to other employment markets, including Cambridge and London.

There is a pocket on the north Norfolk coast where most people work outside the county. This is because of the high proportion of second homes in this area, with buyers from outside the county attracted by the lifestyle and leisure options the area offers.

The traditional 'prime' area of Brancaster and Burnham Market now spreads east and west, towards Docking and Sheringham and also more inland. In Norwich, too, the traditionally prime 'Golden Triangle' is trickling out towards Thorpe St. Andrew and Eaton.

> **Demand for space in Norwich's office market rose to its highest level in three years, with over 200,000 sq. ft. of requirements**

## Office demand

Demand for space in Norwich's office market rose to its highest level in three years, with over 200,000 sq. ft. of requirements. Take up remained close to trend levels of activity in H1 2019, with 73,200 sq. ft. of lettings. Limited development provides an opportunity to capitalise on the rental growth in the market. Good refurbishments have been a viable option with buildings such as Norfolk Tower seeing rents rise from £10 per sq. ft. to £15 per sq. ft. post refurbishment.

With top rents currently at around £16.50 per sq. ft. Savills believe that prime rents in Norwich could increase close to £20 per sq. ft. by 2020 on pre-lets. Supply has fallen in consecutive years with less than 300,000 sq. ft. available. The implementation of permitted development rights has significantly affected the Norwich office market and it is estimated that over 700,000 sq. ft. has been converted to residential or other uses. This has resulted in a lack of choice for occupiers which has meant that out of town space is often the only option for occupiers with larger requirements.


**Arable farming accounts for 79% of the farmed area in the East of England**

# Taking care of business

## Identifying the four key areas impacting on Norfolk's rural economy

Norfolk built its heritage on agricultural innovation. To meet the challenges ahead, the Norfolk rural economy will need to rely on innovation again. We face an era of unprecedented regulatory change, where food production is not the key driver.

The pressures on 'conventional' farming have no doubt been building in environmental terms, particularly in water usage and the restrictions on agricultural chemistry.

However, the changing support regime and the unknown trade context faced by the UK introduces great uncertainty to farm business management. At a fundamental level farm businesses have to ride out uncertainty every growing season, so the tolerance for risk in many businesses is slim. Riding out short-term disruption is now the primary concern, though an eye on the mid-term horizon is crucial for successful business: here we highlight four key areas impacting on the rural economy in Norfolk.

### 1. Productivity and Innovation

Direct support payments for farming and agricultural land use are likely to be phased out, but food production will remain the core land use in Norfolk, particularly on the most productive land. There will be a renewed need for farming operations to achieve heightened efficiencies to ensure a viable business.

Technology has already driven a 64% increase in UK agricultural productivity since 1974, and Norfolk is a hotspot of agricultural expertise with the potential to integrate the innovation required.

Despite an intellectual powerhouse in the shape of Cambridge University at one end, it is the Norwich end of the Tech Corridor that is advancing the agri-tech and plant science sector. 6.1% agri-tech employer growth in the tech corridor over five years far outstrips the national average of 0.29%. The map overleaf shows just some of the wide range of enterprises behind agri-tech in Norfolk, the future success of which will be important in balancing rising environmental standards and plateauing yields.

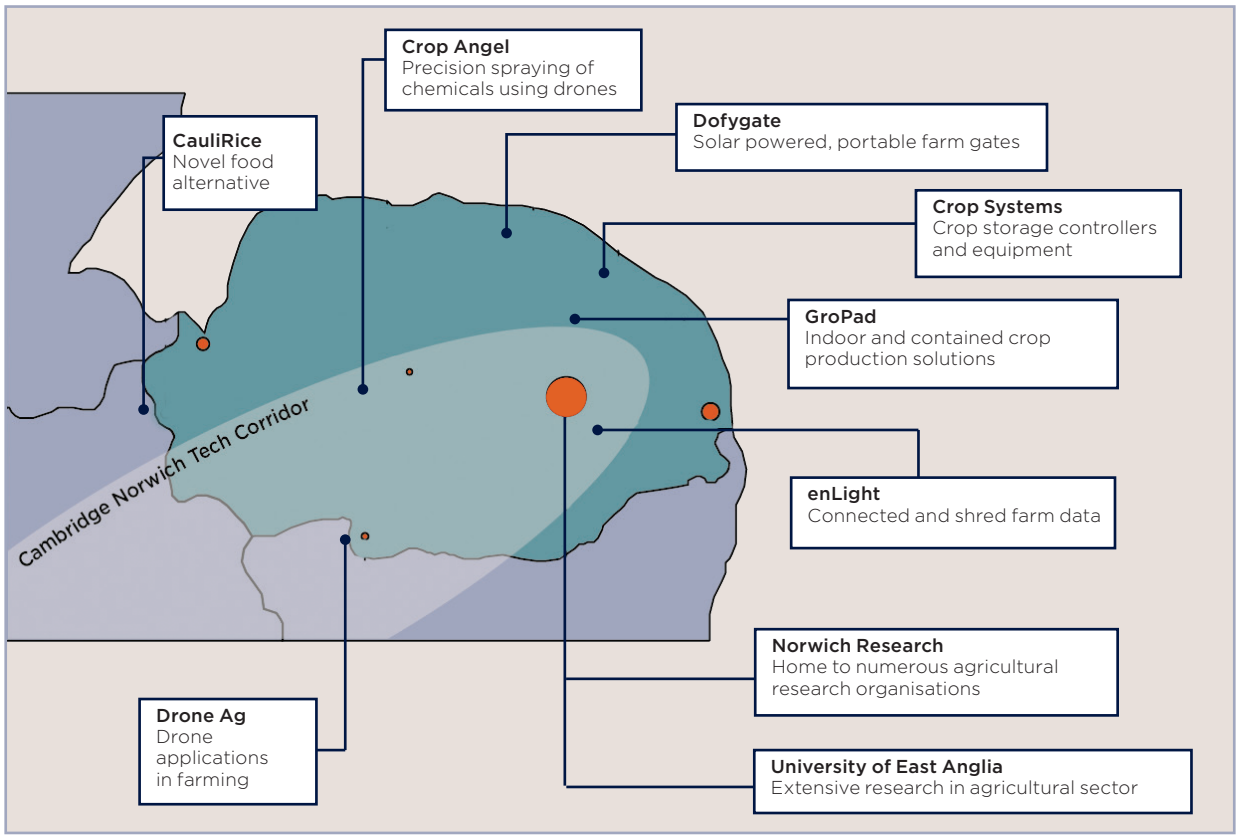
### 2. Water: the key resource

Arable farming accounts for 79% of the farmed area in the East of England, against a national average of just 52%. In Norfolk prime arable locations are found in the Broads in the North and East and Fens in the West – with both areas focussed on food production. Going forwards, the balance between production and the stewardship of the natural environment will come in to increasingly sharp focus.

This is most clearly expressed by the competing demands on water – a finite resource that will put sustained pressure on ▸

**6.1% agri-tech employer growth in the tech corridor over five years far outstrips the national average of 0.29%**

## Agri-tech in Norfolk




**Source** Savills Research

land management decisions going forward. Some areas have already been affected by the removal or reduction of abstraction licences, whilst other farms are yet to receive confirmation that their licences will be renewed. New powers in the draft Environment Bill may signal further restrictions are likely. Initial reform has affected Broadland farmers, though irrigation rights on light Breckland soils may also come under scrutiny. These soils are naturally less fertile and may struggle to retain productivity levels without irrigation. Therefore investment in infrastructure for water is vital, in particular winter fill reservoirs with updated networks. Failing this, it is likely that sensitive areas will see reversion to grassland or marginal dryland cropping.

At the other end of the soil-water spectrum, Fenland and peat soils have been drained to produce some of the most productive farmland in the country. This process also results in the release of the carbon that was stored in those soils. This can be reversed by re-wetting, but wetting peatland soil vastly reduces the number of cropping options available to farmers. Peatland restoration is one area being given substantial attention in policy development and, given the direction of both public sentiment and party policy, it will continue to do so going forwards.

### 3. Accounting for the environment

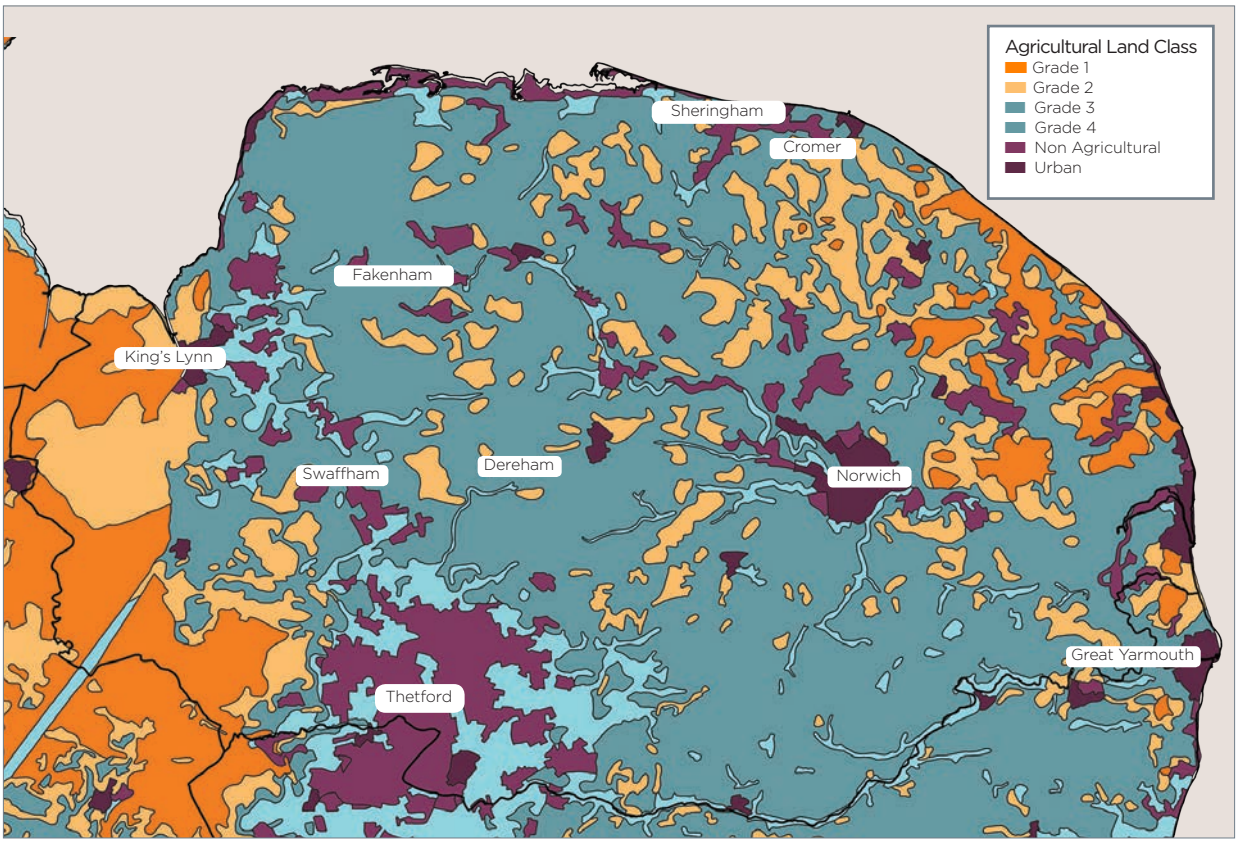
Water is clearly only a part of the environmental landscape, and land managers must also equip themselves to take a holistic, quantified approach to what they deliver beyond crop production. The benchmarks for valuing the environmental, social and financial benefits that the farmed environment delivers will be a huge change in the sector, and we expect to see markets created for these Ecosystems Services. These will be diverse, including for example agreements with private developers for the management of flood plains in a river system above a new development scheme, or collaborative habitat management on a landscape scale towards particular indicator species. All will depend upon being able to deliver a demonstrable environmental gain.

### 4. Land availability and value

Such change in a sector inevitably feeds through to transactional markets. The commercial farmland market in the East of England accounts for an average of 17% of the national market over the past 25 years, though is down significantly in 2019 as political uncertainty continues to oppress the release of land to the market across the United Kingdom.

**Norfolk's key trend in price is variance from £7,500 to £12,000 per acre**

## Agricultural Land Classification




**Source** Agricultural Land Classification Natural England

In Norfolk supply to the open market is between 3,500 and 4,000 acres per annum. Against a productive area of around 990,000 acres this is an incredibly small turnover (0.35% per annum) and therefore average values do not accurately represent the market.

The key trend in price is variance, arable land has transacted in Norfolk from £7,500 to £12,000 per acre. Neighbours will pursue rare opportunities to secure adjoining land while overseas investors are actively looking at prime assets to capitalise on a weak pound and this is sustaining top prices. Conversely, land in less popular locations can be very price sensitive, a trend we expect to continue.

Regulatory change will bring difficult succession planning conversations forward for many who have been delaying or cushioned by the subsidy regime. For those looking to retire, now might be the right time to restructure or sell. The concern is that a delay of three to five years may coincide with an increase in unplanned land sales by vulnerable businesses following the removal of direct payments, where the increase in supply may have the effect of constraining price.

### Paludiculture: Rewetting wetlands can retain productivity with investments in agri-tech

It is possible to cultivate wet peatlands for agricultural products while maintaining the ecosystem services they provide. Paludiculture harvests biomass above ground leaving which remains to preserve and potentially increase peat levels and sequester carbon.

There are financial, technical and regulatory challenges that need to be overcome before this 'best of both worlds' approach becomes plausible. Research is already underway across Europe, with funds being allocated to projects in the UK too.

**Housebuilding across the county has been strong, with 3,699 new homes delivered in 2017-18**

# Building momentum

Norfolk has fewer land constraints than much of the wider south east, but improving connectivity will be the key to unlocking the housing to support growth

## Meeting housing need

Based on current local plans, Norfolk has a total estimated annual housing need of 4,142 homes. Housebuilding across the county has been strong, with 3,699 new homes delivered in 2017-18. The level of delivery has been trending upwards with annual supply increasing between 2012 and 2017, from 0.5% of stock, up to 0.9% of stock. This has plateaued recently, with negligible increase between 2017 and 2018, a trend that is in line with national levels of housing delivery.

This relatively healthy level of supply has managed to meet 89% of need. But the picture is mixed across the county. Delivery has been strongest in South Norfolk, meeting 130% of need. The largest deficit of delivery is in Great Yarmouth, with a shortfall of 268 new homes per year.

## Delivering on planning

The county is delivering this level of housing despite patchy local plan coverage. To meet the county's need, a joined-up approach to planning is required. Four of the local authorities in the country have a post NPPF plan in place, but the three others, North Norfolk, Breckland and King's Lynn and West Norfolk are lagging behind. Breckland is currently at public examination, with the draft plan now being modified. A key challenge for the local authority has been identifying enough land to meet housing need. It currently has a published housing land supply of only 4.7 years. North Norfolk has produced a draft local plan, and is aiming to adopt it by the end of 2020. King's Lynn and West Norfolk is the furthest behind in the process, currently still in initial preparations for a new plan.

Land supply is a consistent challenge across the county, despite not having the constraint of green belt designations. Two local authorities have a published land supply of less than five years. This suggests Norfolk will struggle to meet its housing need in the coming years, although it does also mean there are opportunities for developers to bring forward sites beyond the local plan process if suitable land can be identified.

There will also be opportunities to bring sites forward as the four local authorities with plans in place are now due for review. Great Yarmouth is currently preparing an update to its 2015 plan with new policies and site allocations. It is expected to be adopted in late 2020. Norwich, Broadland and South Norfolk is also reviewing their joint local plan; although publication of the new draft plan has been delayed. A key issue is how much development should be focused on Norwich itself, and how far Broadland and South Norfolk are able to accommodate overspill need.

At present Norwich is only meeting 50% of its housing need, but has been supported by Broadland and South Norfolk, both building at a rate well in excess of their own need.

## Unlocking future development

The key to identifying enough land for housing will be the delivery of new infrastructure to unlock sites. Norfolk has recently benefitted from the new Broadland Northway, which runs from A1067 to Postwick. This reduces congestion to the north of Norwich, and will support several major growth locations, including the proposed settlement at Rackheath, and the Beeston Park urban extension. The County Council has announced its intention to extend the road further to the west of Norwich, to create the full ring road, providing scope to unlock more land.

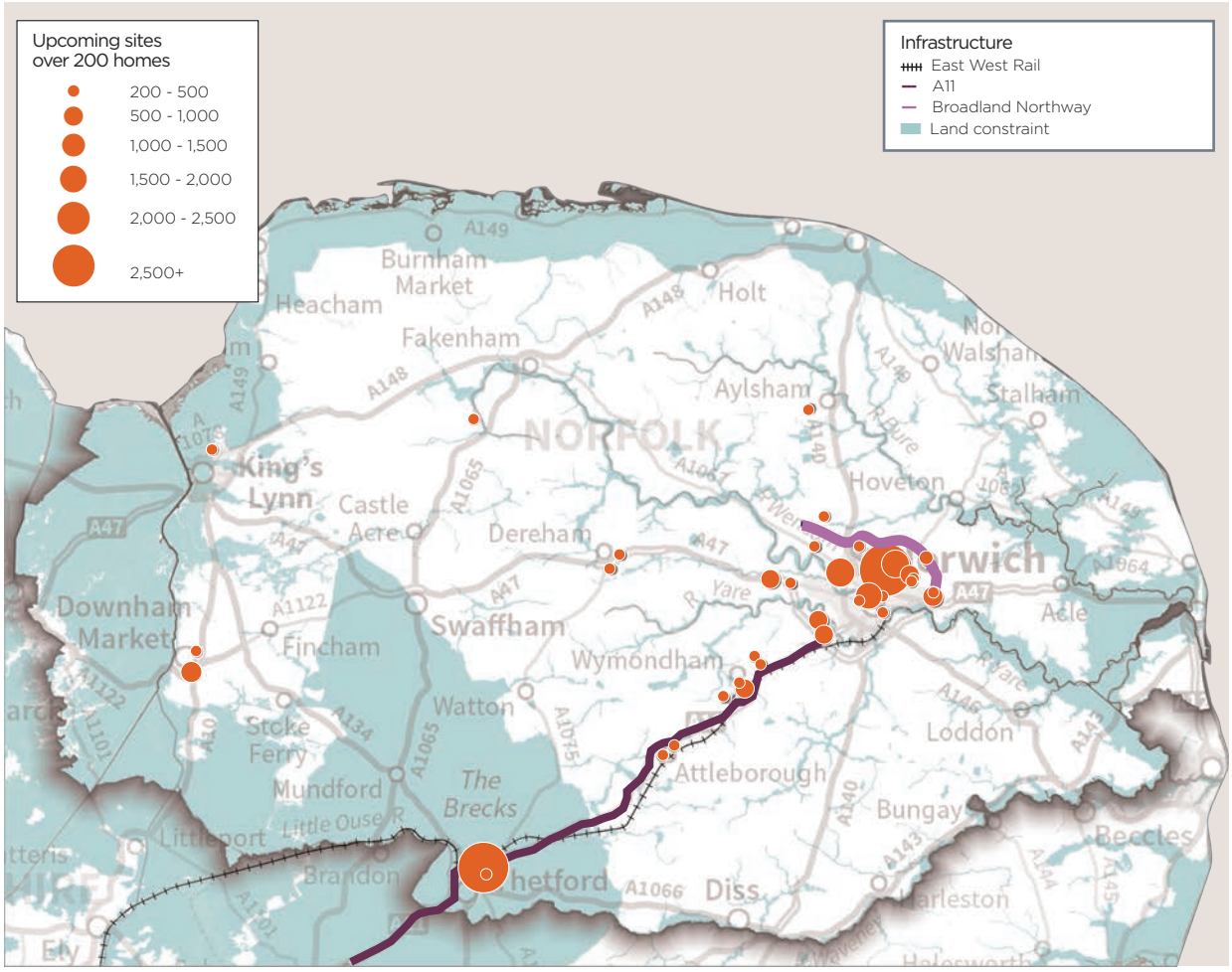
The other major road upgrade was the A11, leading to Cambridge, which was widened in 2014. This has strengthened the link between the cities, and the corridor between them is likely to be a hotspot for development for both residential and commercial uses, including logistics and distribution.

Major development is already emerging along this corridor at Thetford. The Kingsfleet urban extension, with capacity for up to 5,000 new homes, is the largest residential scheme in the county. 18 hectares of land has been allocated at Thetford Enterprise Park for commercial development, as part of the wider A11 Tech Corridor project. It has been projected that there is capacity along the corridor to deliver an additional 26,000 jobs by 2031.

Further bolstering this connection is the potential of the proposed East-West rail link from Oxford to Cambridge extending further to Norwich. This would potentially give the city easier access to Cambridge, and provide a link to the high value tech cluster, further boosting the agri-tech sector in Norfolk. This new line has yet to be confirmed, but the East West Rail Consortium are keen to pursue this link.

**The key to identifying enough land for housing will be the delivery of new infrastructure to unlock sites**

## Local Plans across Norfolk




**Source** Savills Research, Glenigan

## Planning and Housing Need

| | Norwich | South Norfolk | North Norfolk | Breckland | Broadland | Great Yarmouth | King's Lynn And West Norfolk |
|---|---|---|---|---|---|---|---|
| Local Plan Status | Adopted | Adopted | Plan being drafted | At Examination | Adopted | Adopted | Initial Preparation |
| Post NPPF Plan Target | 477 | 862 | - | - | 610 | 476 | - |
| MHCLG Standard Calculation | 602 | 922 | 511 | 680 | 528 | 338 | 525 |
| Housing delivery as a % of Need | 50% | 130% | 106% | 78% | 111% | 44% | 73% |
| Most recent land supply statement | 6.8 | 5.9 | 6.6 | 4.7 | 7.3 | 2.5 | 9.9 |

**Source** Savills Research

**Norfolk had a population of 898,400 in 2018, and this is projected to grow to 953,000 over the next decade**

# Developing and adapting

## The scaling back of Help to Buy creates opportunities for alternative home ownership models

Norfolk has seen significant growth in new build delivery over the past few years, with the proportion of housing transactions which are new build, increasing from 8% in 2014 to 13% in 2019. This puts the supply of new homes at 0.9% of existing stock, a level of delivery broadly in line with the national figure.

This relatively healthy level of housing delivery has been helped by Help to Buy. There were 953 Help to Buy equity loans issued in Norfolk in 2018, accounting for 72% of all new build transactions in the county.

This may cause alarm for developers who are looking ahead to 2021, when new restrictions on Help to Buy use will come into play. This will restrict Help to Buy to first time buyers only, and impose a regional cap of £407,000 in the East of England.

However, our analysis shows that for Help to Buy use in 2018, only 13% of loans issued would have been excluded under these new criteria. This varies across the county; 19% would be excluded in the local authorities of North and South Norfolk, but only 4% in Norwich.

### Replacing Help to Buy

As it stands now, Shared Ownership occupies a similar but much smaller place in the market to the Help to Buy equity loan. Across Norfolk, Shared Ownership accounts for less than 3% of all new build sales.

However, our analysis shows that, given the same deposit, monthly costs for the two schemes are similar. Shared Ownership offers lower barriers to potential homeowners, as the initial deposit can be as low as 1.25% of the total property value.

Consequently, once Help to Buy ends in 2023, Shared Ownership will become the main route to home ownership for those otherwise unable to access the market. This could increase demand for Shared Ownership homes nationally by over 15,000 homes per year.

The end of Help to Buy isn't the only shift that developers will need to be mindful of. In the longer term, a demographic shift of who is buying, and the sort of home they need will be a decisive factor.

### Demographic shifts

Norfolk had a population of 898,400 in 2018, and this is projected to grow to 953,000 over the next decade, and to almost a million by 2040.

The vast majority of this growth will be in the higher age ranges. By 2040, an estimated 36% of the Norfolk population will be over 65 years old, while the national figure is expected to be 30%.

Dealing with this aging population will be a key challenge for Norfolk in the upcoming decades. It will provide developers with the opportunity to deliver more targeted housing for older people that meets the need of this specific demographic, as well as delivering family housing to ensure younger generations remain in the area.

> **"Once Help to Buy ends, Shared Ownership will become the main route to home ownership for those otherwise unable to access the market"**

### New Build Market


74% of buyers in Norfolk are from Norfolk


95% of new homes built in Norwich in the last year were flats


52% of new build homes sold in Norfolk in the last year were priced between £200,000 and £300,000


35% purchases are 4 beds or larger, compared to 23% nationally


54% of buyers are under 40yrs old


Only 16% of sales were to FTBs, compared to 28% nationally

**Source** Savills Research

**Average value growth has been 2.8% over the last year**

# Remaining resilient

## The residential market in Norfolk has shown resilience in the face of uncertainty

The housing market is slowing across much of the country, with falls in the number of transaction since the end of 2017. This fall in activity is largely driven by ongoing political uncertainty, people tend to prefer more stability when making such large financial decisions. Norfolk hasn't managed to avoid this slowdown, with a 3% drop in transactions in May 2019 compared to the previous year. This fall is in line with the national trend however, and shows Norfolk to be significantly more robust than London or the South East, which both saw falls of 6-7% each over the same period.

Despite the slowing market, value growth in Norfolk has remained resilient. The last year saw average values grow by 2.8% in the county, significantly higher than the regional and national growth rates of 0.5% and 1.5% respectively. The fastest growing areas in Norfolk are Great Yarmouth and Broadland, up 5.3% and 4.2% over the past year respectively. Norwich has seen weaker growth of 1.7% over the past year, but this still outpaces King's Lynn, the weakest part of the county, where average values have grown by 0.2% year on year.

### The prime market

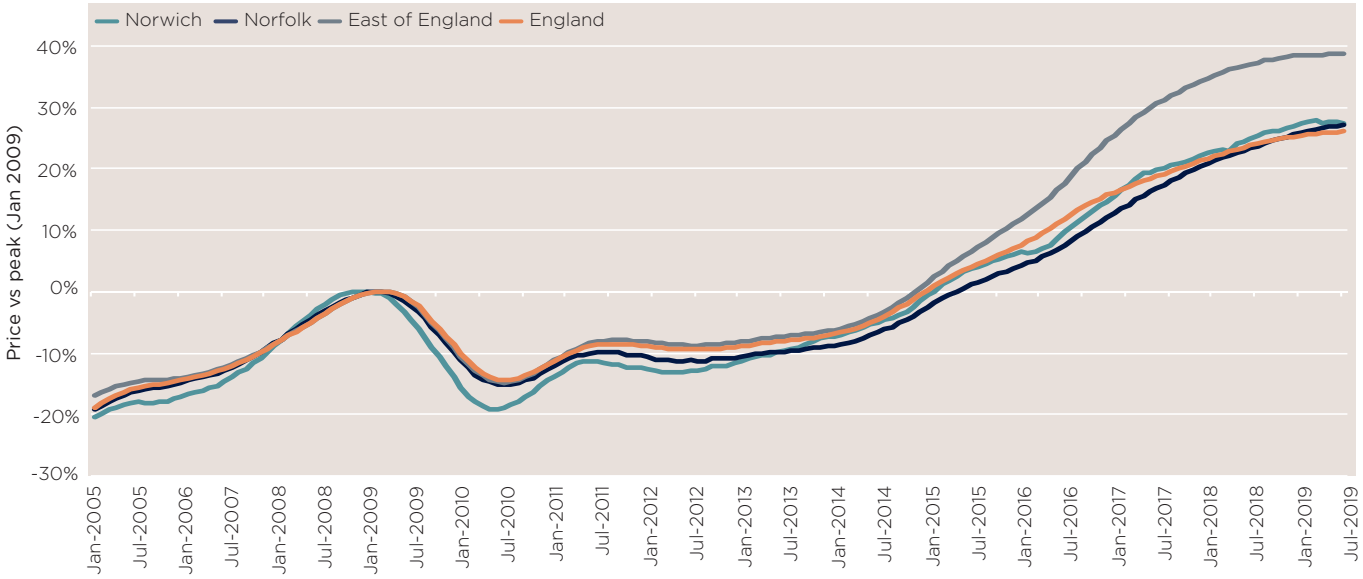
Across the prime markets of Norfolk, lower value properties, those worth less than £1m, have seen strong growth of 16% over the past five years. By comparison, those over £1m have seen almost no price growth over the same period. This is in part due to higher stamp duty rates for the top end of the market which were introduced in December 2014. More recently, the uncertainty surrounding Brexit has subdued appetite for these higher value properties as this part of the market tends to be more discretionary.

In line with the national trend, Norwich has outperformed surrounding areas. Prime properties in the city have seen growth of 27% over the past five years while those in surrounding villages and rural locations have only risen 7%. This demand for urban living across the country has been driven by increased appetite for access to local amenities and transport links.

### The importance of affordability

Affordability is beginning to drive the market, particularly at higher price points. The average income to average house price ratio, sits at 7.6 across England as a whole. In Norfolk, it varies from the eminently affordable Great Yarmouth at 6.4, to the more stretched market in North Norfolk at 9.6. Norwich sits at 7.2, significantly cheaper than nearby Cambridge (12.4) or Ipswich (12.5). This affordability gives Norwich a significant advantage at attracting and retaining a skilled workforce, which in turn will help drive long term economic growth.

**House price growth has been in line with the England average**




**Source** Savills Research using HM Land Registry

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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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