Spotlight
The Future of Leeds City Region

2016/17

SUMMARY

The region must address its housing and workplace shortfall to continue to grow

■ Leeds City Region is undergoing a dramatic transformation, driven by economic growth, a strengthening financial services sector, a large student population and increased inward investment.

■ Leeds City Region's population has grown by 3.1% over the past five years. Oxford Economics indicate a further 2.4% growth over the next five years, with Leeds having the 7th fastest growing resident population up to 2020.

■ The growth of the tech sector has added a further dimension to Leeds and this sector is expected to grow by 5.6% over the next five years compared to 2.8% over the last five.

■ Continued strong take-up within Leeds' office market has been a catalyst for development over the last 12 months. With 47% of space delivered in 2016 pre-let, there is still a need for further development within the city.

■ A potential housing shortfall of 30,000 units by 2021 is anticipated. Already, reduced new supply means average house values are close to or level with their 2008 peak across the region, with some hotspots outperforming this.

■ York is currently 14% above its 2008 peak with average values of £231,700. Leeds is 3% above peak with average values of £165,600.

Market dynamics

STRONG GROWTH NEW CHALLENGES

Stronger economic growth will increase demand for employment space and put further pressure on housing

Words: Michael Barnes

> "Prime office rents are expected to hit £30 per sq ft by 2019"
> Savills Research

Leeds City Region is undergoing a dramatic transformation, driven by economic growth, a strengthening financial services sector, a large student population and increased inward investment.

Within Leeds city centre, the region's economic hub, the opening of the First Direct Arena, with capacity for 13,000, and Trinity Leeds in 2013 have marked some of the most striking changes so far.

There is more to come. The recently opened £165m addition of Victoria Gate Shopping Centre, anchored by the largest John Lewis outside London, is expected to increase Leeds' shopper footfall to 1.5m and add to the city's draw.

Beyond the city, the region has seen strong inward investment since the financial crisis, recording £975m during 2015, its strongest year since 2006.

Market sentiment has improved since the lull following the referendum. The purchase of 3 Sovereign Square by Leeds City Council for £43m marks a key deal since the referendum, reflecting a net initial yield of 5.42%.

With a further £75m of office investments to transact before year end, we expect the majority of demand to come from overseas investors looking to the regions for value.

Further ahead, the delivery of the second leg of HS2 into Leeds will deliver further economic stimulus, creating a potential 20,000 jobs and providing a catalyst for development around the station. The opening of the line, which is expected in 2033, will increase capacity and improve connectivity, adding to the attraction of Leeds.

Strong economic picture

The region's economy has grown by 6% over the past five years and is expected to accelerate by 8.8% over the next five, according to Oxford Economics. Together, Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield and York contribute £62bn to the UK economy.

Leeds city delivers one third of the region's economic output as the second largest financial services centre after London. Office based employment within Leeds City Region grew by 5.6% over the last five years. Despite Brexit, the region is still forecast to see positive employment growth over the next five years at 3.4%. The tech sector is expected to grow by 5.6% over the next five years.

Educated workforce

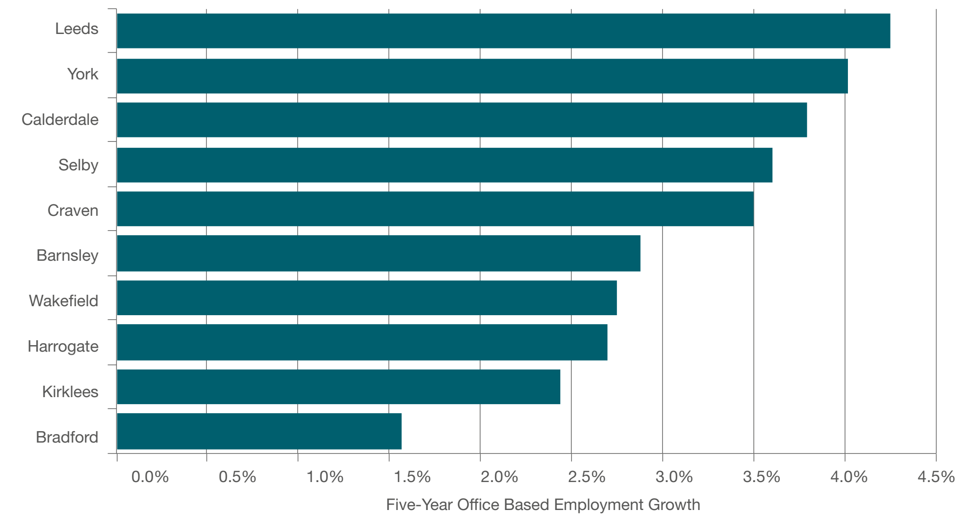
With a large student population, the region has a ready talent pool. There are eight universities in the region, with 116,000 students, according to the Higher Education Statistics Agency (HESA). 74% of the region's graduates work in Yorkshire, while only 7% move to London.

Staffing and property costs are also competitive, with some of the lowest rents within regional cities. We expect this to stimulate continuing demand for office space from both indigenous, 'north-shoring', and inward-investing businesses.

With office rents in London now at record high levels, we believe 'north-shoring' will remain a theme over the medium term, as businesses seek to control costs.

FIGURE 1

Office based employment is expected to grow over the next five years



Source: Oxford Economics

Challenges ahead

Jobs growth means more demand for employment space and in turn puts further pressure on housing. The continued strong take-up within the Leeds office market has been a catalyst for development over the last 12 months. With 47% of space being delivered in 2016 already pre-let, this should pave the way for future development within the city.

However, despite a recent number of completions, Leeds city centre has only two years of new Grade A supply, with 109,000 sq ft due to complete by the end of 2017.

With average annual Grade A take-up of c.250,000 sq ft, there is still a need for further development.

Housing shortfall

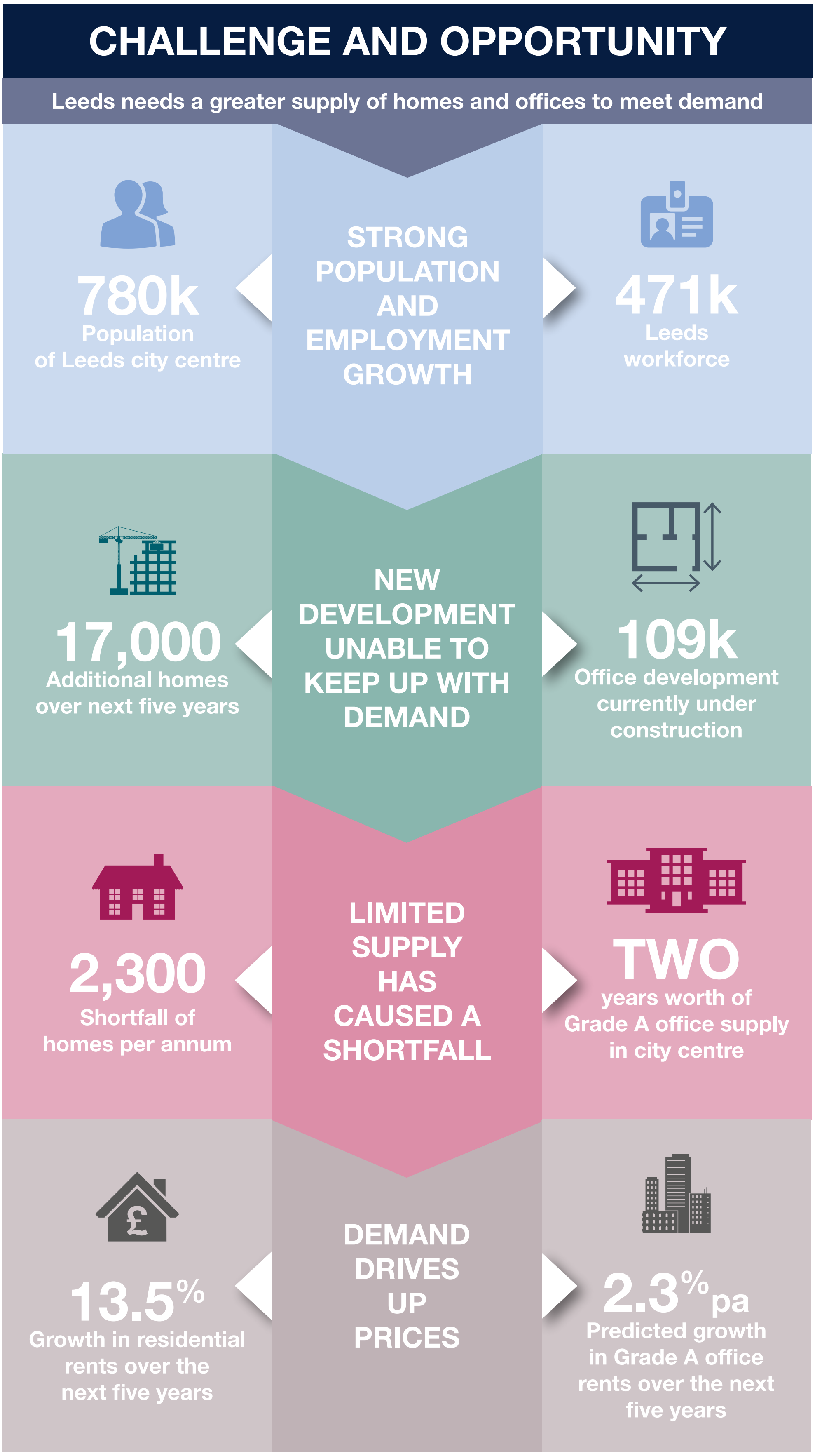
Leeds will have the 7th fastest growing resident population up to 2020, with Birmingham and Manchester ranking 34th and 38th respectively. In the wider region, the population has grown by 3.1% over the past five years. Oxford Economics indicates a further 2.4% growth over the next five years, equating to a rise of 73,000 people.

The City Region needs 14,900 new homes per annum but in 2014-15, only 7,310 new homes were delivered, resulting in an annual shortfall of 7,500. Compounding this historic shortfall, four of the ten local authorities in the region do not have a five-year land supply for delivery of new housing. There is a need for new sites for residential development to be brought forward, particularly in Leeds and Bradford.

Rising costs

The Leeds office market is still good value compared to Manchester (£34 per sq ft) and Birmingham (£32.50 per sq ft), with a top Grade A rent of £28 per sq ft per annum. However, due to tight supply, we expect top rents to grow by 2.3% a year, hitting £30 per sq ft by the end of 2019.

Reduced new supply has also had an impact on house prices. Across the region, values are now close to or level with their 2008 peak. Some key hotspots have outperformed this. Leeds is 3% above the peak, with average transaction values at £165,600, and York is 14% above peak, with average values at £231,700. We expect prices in Yorkshire and Humber to rise 10% over the next five years.



Source: Savills, Glenigan, DCLG

Development

LEEDS CENTRE EXPANDS SOUTHWARDS

Increasing demand for offices and homes has triggered development activity

Words: Clare Bailey

“City centre take-up is expected to reach a record-breaking one million sq ft in 2017”
Savills Research

Demand for more offices and homes has driven development to levels not seen since before the global financial crisis, particularly in the south of the city which is more easily accessible since the new station entrance opened up.

Substantial committed improvements to regional rail services through the new TransPennine and Northern franchises will significantly enhance connectivity in the next few years. Plans for the second leg of HS2 include the delivery of five new platforms to join the West Midlands to the north of England by 2033. Leeds station will act as a catalyst for further regeneration in the south of the city centre.

A total of 2.9m sq ft of commercial space and 10,000 homes in the city centre have outline or full planning to be developed, however, many of these are dependent on the arrival of HS2.

Office space

We expect there to be a shortage of new Grade A provision in the city centre over the next two years.

3 Wellington Place, 109,000 sq ft is the only building offering larger floorplates within the next 12 months. Alongside this, there are a limited number of refurbishments including ‘Platform’ (120,000 sq ft), 7 Park Row (40,000 sq ft) and Benson House (73,000 sq ft).

With an estimated 2m sq ft of lease events anticipated by 2020 and city centre take-up expected to reach a record-breaking 1m sq ft in 2017, there is a growing need for city centre development.

The delivery of new commercial space will centre around the existing core of Whitehall Road/Wellington Street. However, as rents hit £28 per sq ft in these areas, some occupiers may well be pushed out.

A rush of tech-based firms have moved south of the river in recent years, particularly around the Holbeck area.

With the Holbeck Portfolio and Tower Works both in planning, these could provide an estimated 520,000 sq ft of space to meet the needs of mid-price office occupiers.

We have also seen signs of the South Bank stretching eastwards, including Sky expanding their technology hub around the lively Leeds Dock. Leeds’ ability to provide skilled employees and high quality urban workspace has meant that Sky is currently looking to expand on the space they have already taken within the city.

Legal services firms such as Addleshaw Goddard have also been attracted to areas south of the station including Sovereign Square. Its accessibility to the station, enhanced amenity space and high quality office provision has made it a desirable location for the professional sector to cluster.

The Government Property Unit

EDUCATION, EDUCATION, EDUCATION

Office conversions are improving the education offering

Although change of use from office to residential is minimal in Leeds city centre, a number of office buildings are being converted to educational use, in a bid not only to take out some of the obsolete office stock within the city centre, but also to promote a mixed-use environment.

Elliot Hudson College will be relocating to HSBC’s former office block on White Rose Office Park and there are plans to turn the former KPMG office, No.1 Embankment, into a secondary school to cater for 600 students.

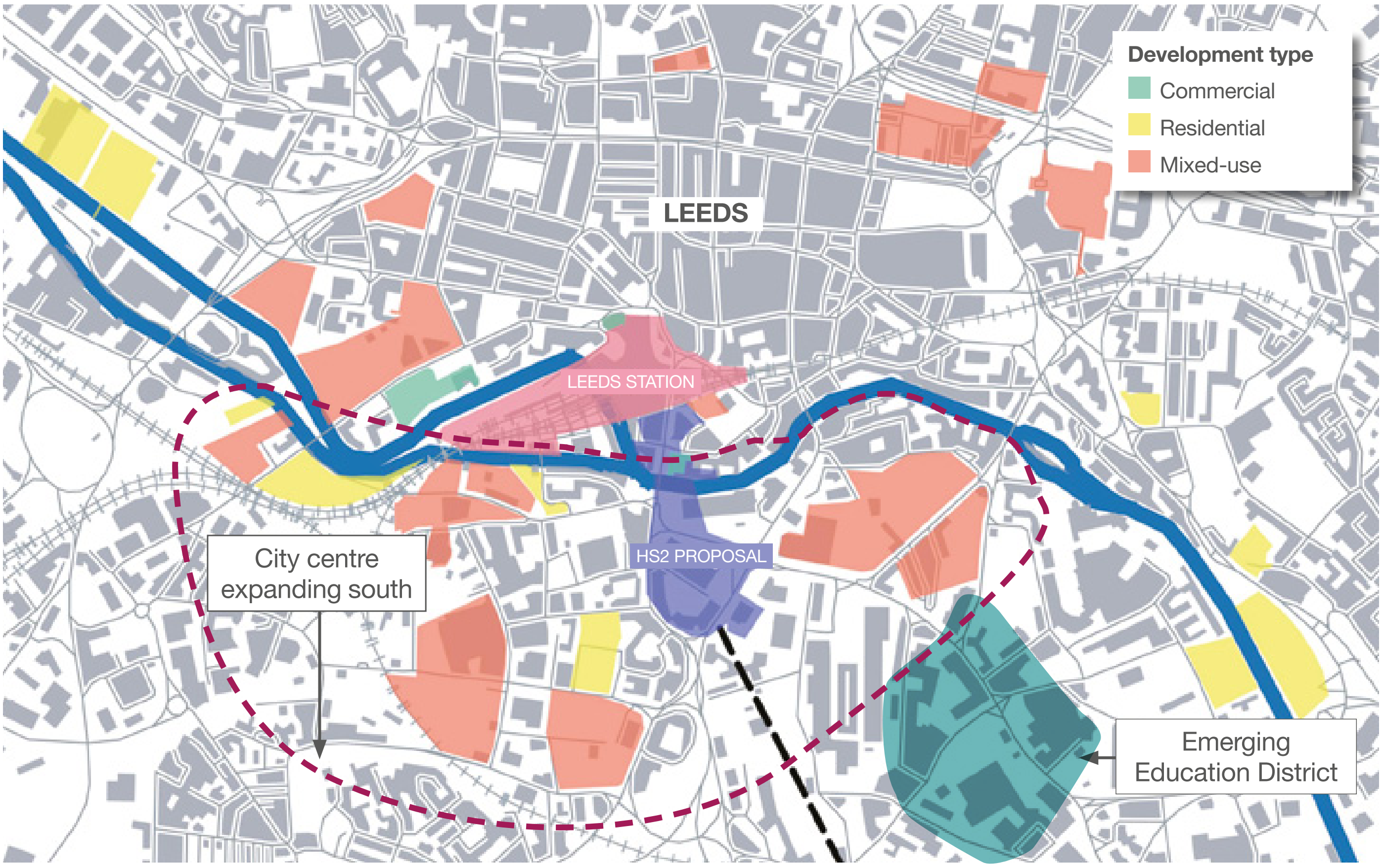
We are seeing signs of an emerging education district in the south east of the city centre. Both the Ruth Gorse Academy, and the University Technical College opened their doors during September 2016, to sit alongside the Leeds College and Leeds Building College.

With the University of Leeds and Leeds Beckett University both well established within the city, Leeds City Region must ensure it works at retaining and expanding its ‘talent pool’.

The hope is that Leeds’ education sector will bridge the gap between education and the workplace, help retain the ‘talent pool’ within the city and facilitate housing demand going forward.

FIGURE 2

Mixed-use schemes lead the way in Leeds city centre



Source: Savills Research

(GPU) currently has a 560,000 sq ft requirement in Leeds and they are said to have earmarked Whitehall Riverside, Wellington Place, Latitude and the Holbeck Portfolio, which would be available over the next three years.

Of the total commercial space in the development pipeline, we expect 43% (1.2m sq ft) to be delivered within the next five years.

Mixed-use

The proportion of mixed-use developments being delivered is particularly notable. Wellington Place is set to provide 160,000 sq ft of residential floorspace to the city centre market while Tower Works will provide 120 residential units and 130,000 sq ft of office space. From Savills What Workers Want survey, developers have recognised the importance employees place on proximity to work.

Emerging plans have been unveiled for a major mixed-use development on part of the former Tetley Brewery site in Leeds. Phase One will incorporate about 1,000 homes, a 400-bed hotel and 915,000 sq ft of commercial space, with around 160,000 sq ft of this given over to retail and leisure. The development will link the south of Leeds to the South Bank and the city centre, while also connecting the future HS2 station to Leeds Dock.

Private Rented Sector

Increasing demand has led to changes in the residential market. Vacancy rates in the housing market have fallen from 5% in 2010 to 3% in 2015, and are now in line with the England average.

This has encouraged institutional investment in the private rented sector (PRS), which is beginning to act as a driver of development within the city.

AIG and LIV are building out a scheme for 330 PRS units at the Clarendon Quarter on the north west edge of the city centre, and a further 1,200 PRS units are currently in the planning pipeline. Grainger has recently agreed to forward fund a private rented sector scheme on the former Yorkshire Post site for around £40m. This development will comprise 242 new rental homes and around 3,000 sq ft of commercial space. ■

▼ Tower Works, Leeds

The City Region
SUPPORTING GROWTH

Economic growth and investment in infrastructure is leading to new development opportunities

Words: Emily Williams

The city region is continuing to attract investment and is expected to see economic growth of an impressive 8.8% over the next five years. This is leading to new development opportunities across all sectors.

Industrial and logistics

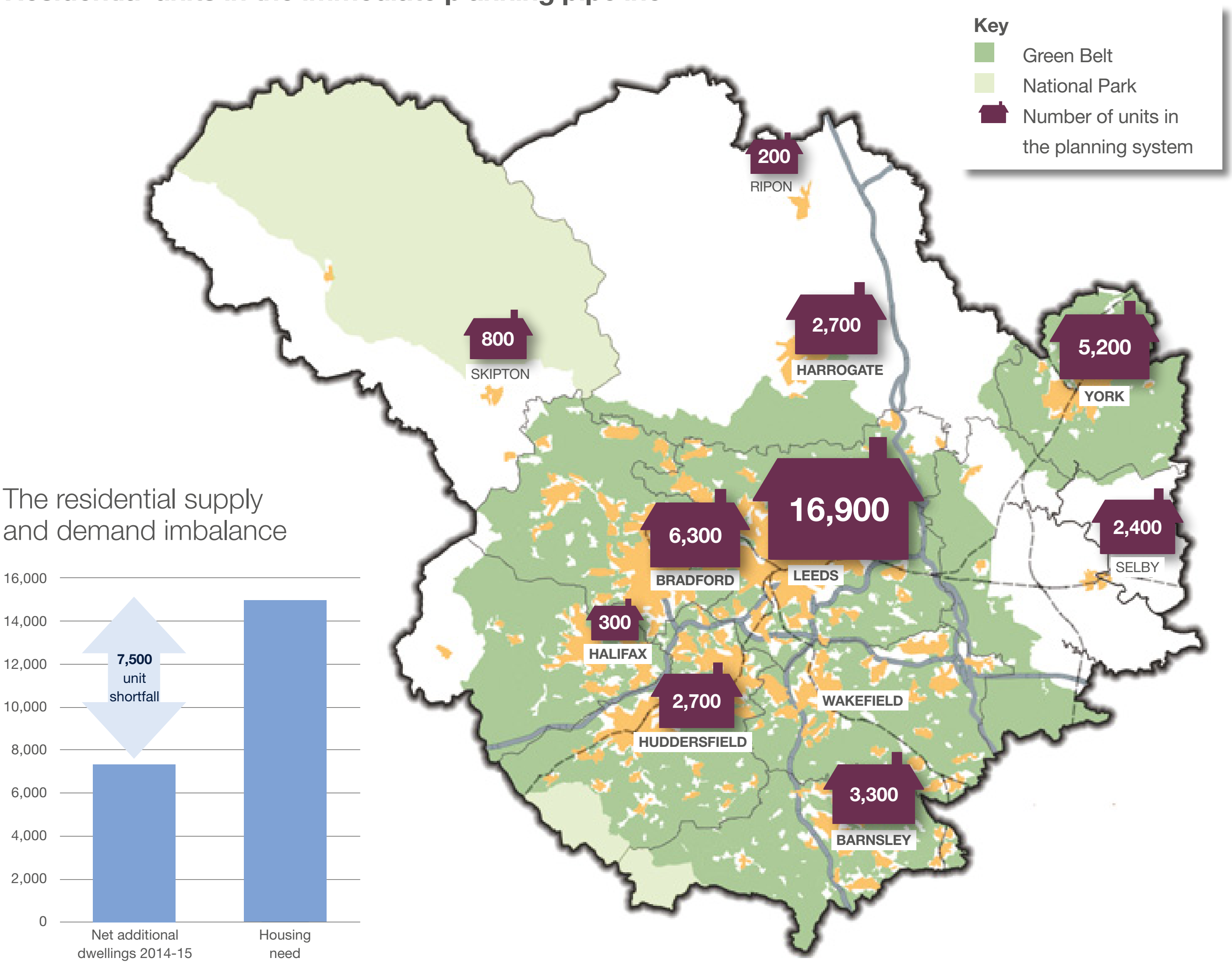
Beyond Leeds city centre, growth will initially be driven by industrial, logistics and manufacturing. The Leeds and wider Yorkshire industrial market is suffering from a massive supply demand imbalance. Take-up averages 2.8m sq ft a year, and prime rents have increased from £5.00 to £5.75 per sq ft in two years, and are forecast to rise by a further 5.5% by 2020.

For decades the available stock has been dated, with occupiers having to settle for either secondary buildings or secondary locations.

The City Region Local Enterprise Partnership is encouraging investment in these sectors through Enterprise Zones. The Leeds

FIGURE 3

Residential units in the immediate planning pipeline



Source: DCLG, Local Authority SHMAs

Enterprise Zone, which has good links to the M1, has already seen completion of over 480,000 sq ft of commercial space and has long-term capacity for over 4.5m sq ft of employment space.

Nine sites have been allocated for development in the M62 Corridor Enterprise Zone covering 103 hectares across Bradford, Kirklees, Wakefield and Calderdale.

Office requirements in key locations

Outside Leeds, the office market is quieter. Prime office rents range from £14.50 per sq ft in Harrogate to £16.50 per sq ft in York and Wakefield, and the demand for new supply has been largely met by the existing pipeline, such as the conversion of Dean Clough Mills in Halifax which is now home to over 100 companies and has recently seen Covéa Insurance complete its relocation, taking 75,000 sq ft of space.

There is, however, an undersupply of Grade A office space in key locations, with Hiscox recently choosing to develop their own site in York, rather than take existing office space.

In York and Harrogate, strong residential capital values have also made it viable for landlords and developers to convert tired office stock into residential units rather than refurbish. Office to residential conversion has played a valuable role in supporting housing delivery in these areas. For example, in 2015, 36% of new housing stock in Harrogate was delivered via change of use.

Residential demand

The recovering economy has led to a growth in residential demand. There is a large shortfall in the delivery of new homes across the region. Housebuilding was damaged by the 2008 recession, and although delivery has steadily increased since 2012, demand still outstrips supply.

The region needs over 90,000 units to be delivered by 2021. However, we have identified only 60,000 residential units currently in the development pipeline (16,500 under construction, 19,100 permitted, 24,400 under application).

Four local authorities in the region, Barnsley, Bradford, Kirklees and Leeds, cannot demonstrate a five-year housing land supply. This problem is exacerbated by the greenbelt which constrains the number of sites able to come forward, and the cost of developing out major regeneration schemes, which raises viability issues in weaker markets. Although house prices across the region have seen growth, it is still not sufficient to support the development of more complex sites.

Housing hotspots

Some locations are emerging as likely hotspots for future residential development, as it has been recognised by multiple local authorities that major residential sites need to be brought forward.

Wakefield is well positioned to absorb the overspill of demand from other areas in the region, thanks to its accessibility and availability of land for housing development, including major developments at Snowhill and Wakefield East.

In Kirklees, Dewsbury Riverside has been allocated over 2,500 units in the Draft Local Plan, while in the north of the region, new settlements of over 3,000 units are proposed at Whinthorpe, Clifton Moor and Harrogate Council is currently consulting where the new major settlement will be.

It is essential that local authorities across the region work together to meet the demands of the growing economy through the delivery of infrastructure for these development projects. An absence of suitable homes could easily restrict growth if lack of supply or affordability problems prevent people from moving to the City Region.

DEVELOPMENT HOTSPOTS

New infrastructure leading to new opportunities

New sites will be opened up across the region as a result of infrastructure improvements. This is already happening at **Kirkstall Forge**, where a new station opened this year has enabled the development of 400,000 sq ft of commercial space and over 1,000 new homes. Three options are also currently being considered for a **new airport link road** which will open up sites around Rawdon, Yeadon and Horsforth.

Upgrades to the station at Ravensthorpe and a new relief road to the south of Dewsbury will support the development of 2,500 units at Dewsbury Riverside, while improvements along the A653 Leeds to Dewsbury corridor could facilitate the development of a major mixed-use site at Chidswell.

East Leeds Orbital Road, which is set to be completed by 2021, could unlock a major housing development adjoining Swarcliffe and Whinmoor. Alongside a new rail station, the Orbital Road will also enable further development at **Thorpe Park**, including 300 new homes and over 1.3m sq ft of office, retail and leisure space.

South Bank: With over 36 hectares of brownfield space potentially available for development, and advanced plans for the **HS2 station**, there are major opportunities for growth on Leeds' South Bank. The area has traditionally attracted a more creative occupier, however a growing number of professional firms are also taking advantage of the enhanced amenity provision. With falling availability for city centre apartments and rising residential rents, there is a strong basis for mixed-use development.

York Central: York Central, York's largest brownfield site, has the potential to deliver a new wave of housing and commercial space to the city. The 72-hectare development area on the edge of the city centre, between York Railway Station and Water End, will offer a minimum of 480 homes and up to 800,000 sq ft office space. This would help address the acute, growing shortage of high quality office space and the severe challenges the city faces in providing homes for York residents.

OUTLOOK AND RECOMMENDATIONS

Leeds City Region must develop in order to accommodate increased demand

Leeds city region is set for growth. However, growth will bring new challenges. In order to accommodate its rising population and workforce, the region needs to develop its infrastructure links which will facilitate residential and commercial development in both the city centre and wider city region.

As well as the expansion of the south side of Leeds station, there have been significant improvements to regional rail services through the new TransPennine and Northern franchises, which will significantly enhance connectivity. The second leg of HS2 will act as a major catalyst for further regeneration in the region.

Planning for growth beyond the boundaries of Leeds should be one of the priorities for a newly elected mayor. The devolution agenda provides an opportunity for this, with local authorities having more power over transport and local planning.

Leeds city region should be building 14,900 homes a year, but the city region is suffering a shortfall of 7,500 homes a year, which now needs to be addressed. The office market is also suffering from an undersupply of high quality office space. With only two years worth of supply in Leeds city centre, we anticipate 40% (1.2m sq ft) of the development pipeline will be built within the next five years.

The supply/demand imbalance within the office market has prompted the return of rental growth. Savills expects top rents to break the £30 per sq ft barrier by the end of 2019 and industrial rents to rise by 5.5% over the same period. Savills forecast that house prices in Yorkshire and Humber will rise by 10% over the next five years, and will start to outperform London from 2019.

FIGURE 4

Mainstream markets: five-year residential value forecasts

MAINSTREAM	2017	2018	2019	2020	2021	5-year
UK	0.0%	2.0%	5.5%	3.0%	2.0%	13%
London	0.0%	3.0%	4.5%	2.0%	1.0%	11%
Yorks & Humber	-2.0%	1.5%	5.0%	2.5%	2.5%	10%

Source: Savills Research

NB: these forecasts apply to average prices in the second hand market. New build values may not move at the same rate

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