

Focus on: Bristol

Research 2022

How will the city increase housing supply to meet rising demand over the next few years?



Foreword



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Demand for houses and apartments in Bristol continues to outstrip supply putting further pressure on the residential housing market. The latest figures published by Bristol City Council show that the shortage of supply is likely to continue in the short to medium term with limited new build supply forecast over the next 12-24 months.

Much of the new build housing stock currently being delivered to the market in Bristol is for Build to Rent (BTR) and this has fundamentally changed the housing landscape particularly in central areas of the city around Temple Meads.

Knight Frank data shows a 33% increase in the number of prospective buyers looking to purchase a home in the city last year, compared to the five-year average pre-pandemic. The increase in demand for property combined with limited new build supply has led to strong house price growth across the city.

Schooling remains an important driver of demand, and one which transcends the pandemic. Leafy suburban neighbourhoods continue to see families competing for property in school catchment areas.

Bristol's thriving economy, strong cultural identity and social scene and its large open green spaces make it incredibly appealing to people of all ages who are moving to Bristol in ever increasing numbers from all parts of the country.

39% of Bristol students surveyed by Knight Frank and UCAS last year confirmed they plan to remain in Bristol. For the city to continue to thrive and grow, we need to find a solution to meet the increase in housing demand and this is the biggest challenge facing the city and one we will seek to address in this report.

Solutions to this challenge include unlocking land opportunities to create large scale developments in a timely manner; creating greater densification and multipurpose buildings of height and continuing to develop the thriving BTR market in the city all of which will help to meet some of this demand. Bristol is the number one target for BTR deals outside London, but it remains a relatively small market and one with huge potential.

CITY IN FLUX

Bristol is taking steps to overcome a housing shortfall by building higher and bringing more land opportunities forward for development

Cities are undergoing major structural shifts to respond to changes in the way we live and work. In this report we explore how this has played out in Bristol, which is set to be transformed over the next few years as investment in new homes, transport and amenities increases.

Most recently, the wider West of England region secured half a billion pounds in government funding for public transport in last year's Autumn Budget. Stronger transport networks should help facilitate more housebuilding in a city which is chronically undersupplied.

Growing residential demand in Bristol comes as it attracts highly-skilled new workers.

There has been a significant uplift in demand for housing in Bristol, particularly family housing, driven by increased home working and the need for more outside space. Knight Frank analysis of the planning pipeline suggests that the city will fall short of meeting its housing requirements over the next five years. The market remains undersupplied, as highlighted in the government's most recent 2021 Housing Delivery Test.

Bristol is now facing a presumption in favour of sustainable development as the delivery of housing in the city was substantially below (less than 75%) the requirement over the previous three years.

To help meet this supply shortfall we expect tenure-mix will become more varied, with Build to Rent (BTR) becoming more established in the local market.

The city is also starting to build higher: a notable example is Castle Park View, Bristol's tallest residential building at 26-storeys set to complete this year.

Pricing and affordability

In Bristol, average house prices have outperformed London. Over the past five years, prices have increased 25% compared to 10% in the capital. Over the past year, house prices have risen 6.4% versus 5.4% in London. Rising demand is also boosting the city's prime housing markets, including Clifton, Harbourside and Leigh Woods. The number of sales over £1m in the city increased 6% last year compared to the five-year average, Knight Frank data shows.

Strong house price growth in recent years has contributed to growing affordability pressures in the city with the ratio of house

prices to earnings at 8.6 ahead of the national average (see Fig.1). A lack of new supply in Bristol is feeding into further affordability pressures.

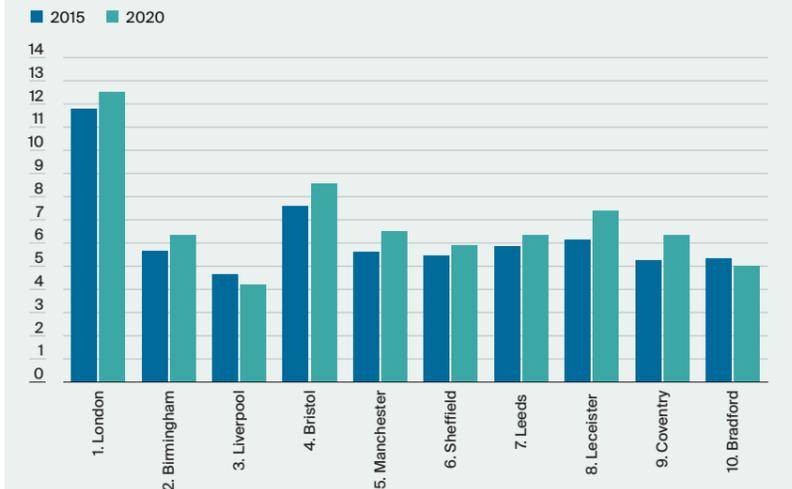
But higher mortgage rates and a cost-of-living squeeze mean we expect UK house price growth to slow in 2022. This could add pressure on developers currently facing rising build costs, with the cost of materials alone jumping 20% between July 2020 and July 2021, according to the ONS. The high rate of build cost inflation is set to cool down, according to the Building Cost Information Service, which is forecasting a return to 2-3% annual growth by autumn this year (see Fig.6 on page 5). Overall, the BCIS is forecasting build costs to increase 6.2% in 2022, down from 6.9% in 2021, before easing to 1.9% in 2023, according to its General Building Cost Index, which measures the movement in the cost of labour, material and plant to a contractor.

Housing supply shortfall

Over the past three years, just over 3,400 units on 45 schemes (with 20-plus units) have been granted detailed planning. On average, these schemes have taken 11 months to receive full planning permission.

Bristol City Council has calculated that the city has an annual housing need of 2,368 homes. However, recent changes to the Standard Methodology for calculating housing need has resulted in a 35% uplift in housing requirement for the 20 most populous urban areas across England. This results in an annual need figure of 3,196 dwellings. Analysis of the council's own five-year supply pipeline from 2020 to 2025 suggests the city will fall short of this requirement (see Fig.2). In total, the council anticipates a five-year new housing supply of 10,579 homes. This breaks down to 2,115 homes per year, which is over 30% below the annual requirement based on the new Standard Method figure. Further intensifying the pressure, accompanying guidance says that the increase "is expected to be met by the cities and urban centres themselves, rather than the surrounding areas".

FIG.1 HOW HAVE AFFORDABILITY PRESSURES IN ENGLAND'S BIGGEST CITIES CHANGED? Ratio of median house price to median gross annual earnings



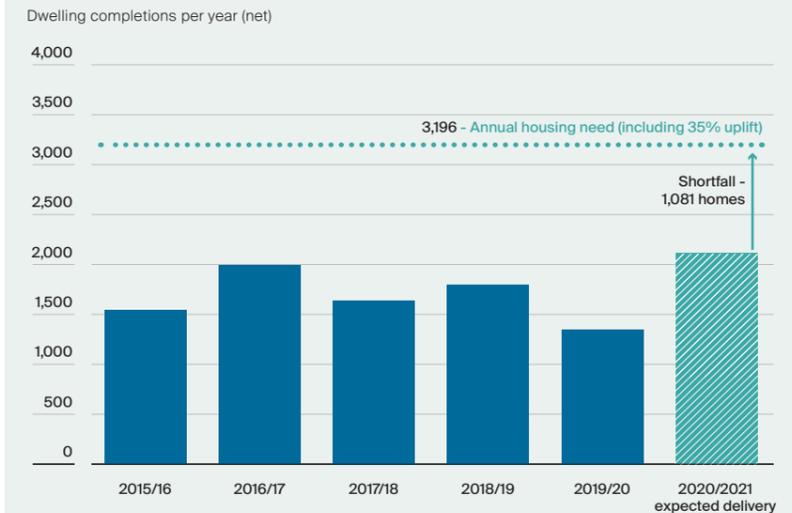
Source: ONS, Knight Frank Research

However, the council is proactively drawing up frameworks to meet this shortfall as set out in their local plan review document. The council is resourcing and appointing staff to run these new planning framework areas and drawing up collaboration agreements to work with developers. Across the framework areas, Knight Frank is involved in the delivery of 12,000 new

homes, which is on top of Bristol's current supply pipeline.

The city's housing deficit comes at a time of strong demand for family housing. Our data shows a noticeable increase in Bristol buyers citing upsizing as a reason for moving. In 2020, 15% of Bristol buyers said they were upsizing in the city, compared to 2% in 2019. In 2021, 13% of buyers were upsizers.

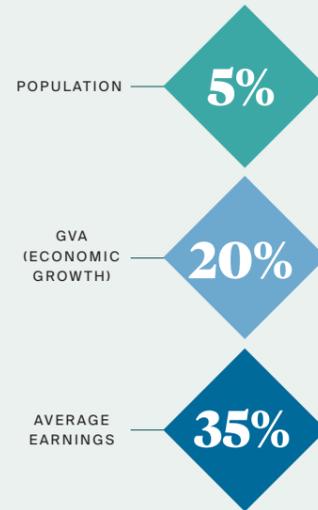
FIG.2 HOUSING DELIVERY IN BRISTOL 2015-2020



Source: Bristol City Council, Knight Frank Research

ECONOMIC EXPANSION

FIG.3 ECONOMIC FORECASTS 2022-2032



Source: Oxford Economics

Economic expansion:

The city's tech and creative scene, and its popularity with young professionals moving out of London, are encouraging new residential development in Bristol. Last year, Bristol was the third most popular city for London leavers, attracting over five thousand movers from the capital.

Major employers such as Channel 4 have opened regional offices in the city. Bristol is also home to other large employers such as Hargreaves Lansdown and AXA.

Enquiry levels and viewings for commercial property in the city are on the rise with tech, media, and telecommunication (TMT) firms in particular returning to the market to grow their presence. In total, TMT accounted for 31% of office take-up over the past five years.

There are 430 tech firms in Bristol, employing 8,000 individuals, with major

firms Nokia, BT and Oracle hosting offices in the city, according to an analysis by job search engine Adzuna in collaboration with Tech Nation and the Department for Digital, Culture, Media and Sport (DCMS).

Bristol is also recognised as a leader in innovation. Knight Frank's UK Cities 2022 report found that Bristol ranked seventh out of 39 regional UK cities for innovation, ranking third for innovation infrastructure. To reach this score, the report looked at the quality of Bristol's universities, research institutions, start-up-accelerators, and funding bodies.

By 2030, the number of people employed in professional, scientific or tech-based roles is set to grow by 15%, according to Oxford Economics.

Bristol University also works closely with the local health authority and was ranked fifth in the UK for medicine in Times Good University Guide 2022. Additionally, several London based companies that entered into the Bristol market over the past few years have expanded their office footprint, such as law firm Simmons & Simmons.

How are developers adapting new office space in the city?

New city centre grade A office developments are also emerging to cater for strong demand. The most recent examples are targeting high sustainability ratings and integrating a mix of uses on site.

However, office developments with A-grade EPC ratings remain in a minority, indicating the opportunity of introducing new premium stock to the market. By the third quarter of 2021, just 4% of the city's offices had been awarded an A rating, with 16% awarded B and the vast majority awarded C or lower.

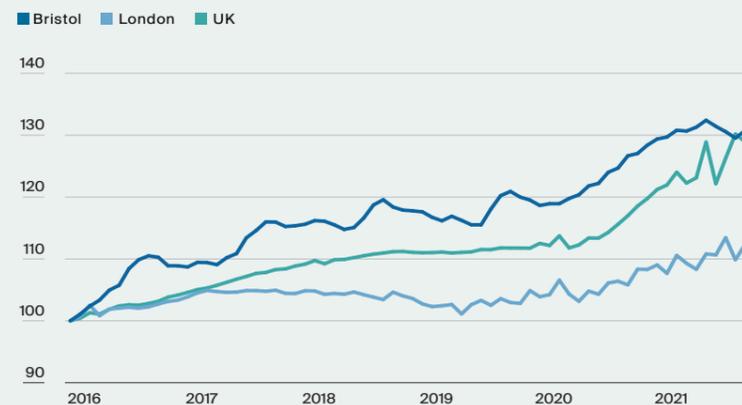
Connectivity and green space

Bristol has over 450 parks and green spaces, proportionately more than any other UK city. It also has a floating harbour which winds its way through the city centre and out into the Avon Gorge.

It also takes only 20 minutes by train to get to the beach at Weston-Super-Mare and one hour by train to reach the Mendip Hills, an area of outstanding natural beauty.

FIG.4 BRISTOL OUTPERFORMS LONDON

Total average house price growth, prices indexed = January 2016



Source: Knight Frank Research / ONS

FIG.5 CONNECTIVITY RANKINGS - TOP TEN

1	Manchester
2	Birmingham
3	Leeds
4	Coventry
5	Leicester
6	Glasgow
7	Liverpool
8	Bristol
9	Preston
10	Edinburgh

It takes just over an hour to go by train from Bristol to London.

As a major city and economic hub in the South West of England, Bristol is sometimes referred to as the gateway to the South West. Our UK Cities report ranked Bristol eighth out of 39 regional UK cities for connectivity, looking at metrics including public and private transport time, the number of people in full employment and digital connectivity and 5G availability.

It is also part of the West of England Combined Authority led by metro mayor Dan Norris, who recently secured half a billion pounds in government funding for public transport in the region.

Bristol has plans for a new mass transit system and more segregated bus routes. The city's mayor Marvin Rees has also mooted the possibility for Bristol to have its own overground which could utilise technology such as driverless pods or trams.

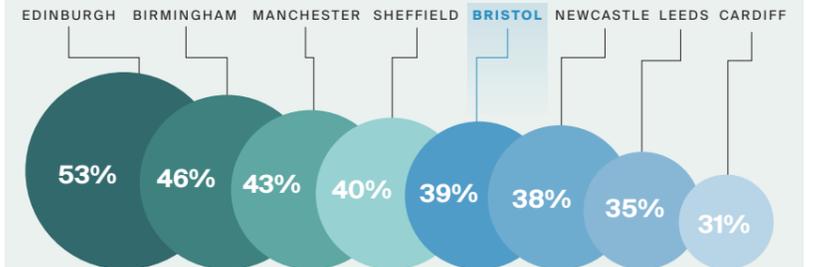
FIG.6 UK HOUSEBUILDING: MATERIALS COST INFLATION TO EASE

Annual % change



Source: BCIS, Knight Frank Research

FIG.7 % OF STUDENTS INDICATING THEY WILL STAY IN THE CITY POST-GRADUATION



Source: Student Accommodation Survey 2021, Knight Frank, UCAS



FINDING VALUE IN WALKABLE NEIGHBOURHOODS

How do house prices and rents compare in Bristol's most convenient areas

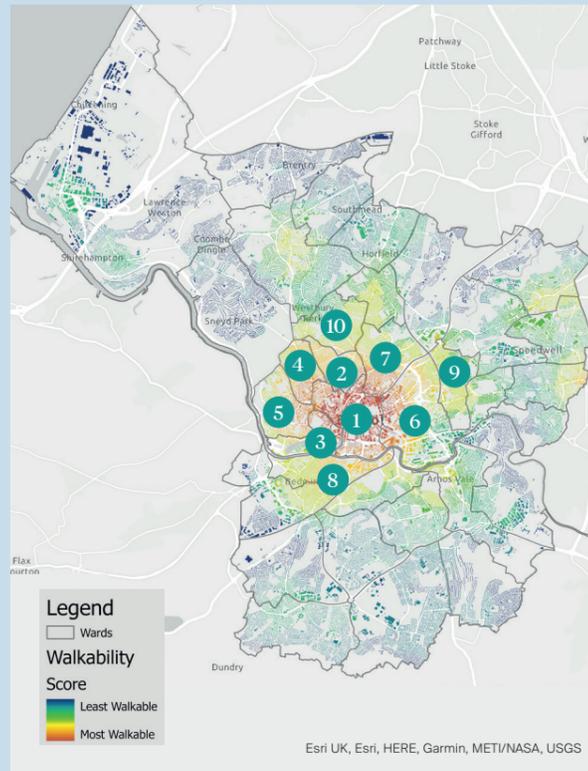
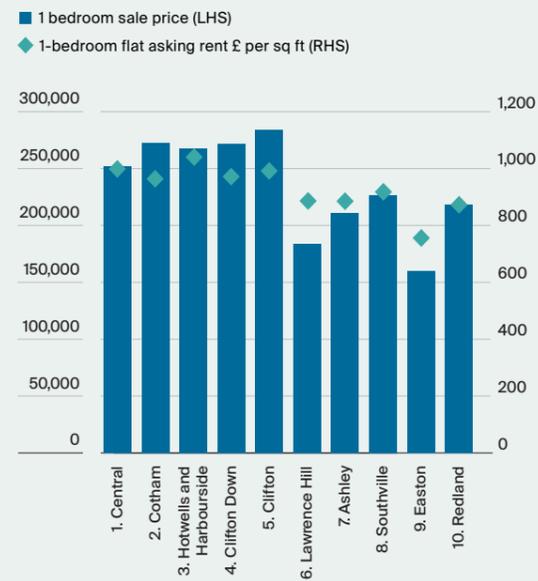


FIG. 8 LIVING COSTS IN BRISTOL'S TOP 10 MOST WALKABLE AREAS

The average price of a one-bedroom flat for sale and rent in each city ward



Source: Knight Frank Research, OnTheMarket.com

Sources: Life Science Companies: Office for Life Sciences Company Data 2019. Life Science Campus/Park/Innovation District: UKSPA and Knight Frank. Research Centre of Excellence: Global Research Identifier Database. NHS Acute Hospitals: NHS England.

The rise of 15-minute cities

The pandemic has underscored the value of local community, and easy access to social and entertainment venues. The rise of the 15-minute city has been much talked about, the idea that everything you need – groceries, leisure, work – is within a 15-minute walk.

Just over half of respondents to our latest Knight Frank UK sentiment survey said that when choosing where to live, access to amenities including pubs and entertainment

was more important now than before the pandemic. In addition, 56% said that the local community was now more important.

House prices in Bristol's walkable areas

We have looked at five, ten and fifteen minute walk zones around residential properties in Bristol and then calculated a score for that property based on the number and type of amenities within the walk zone.

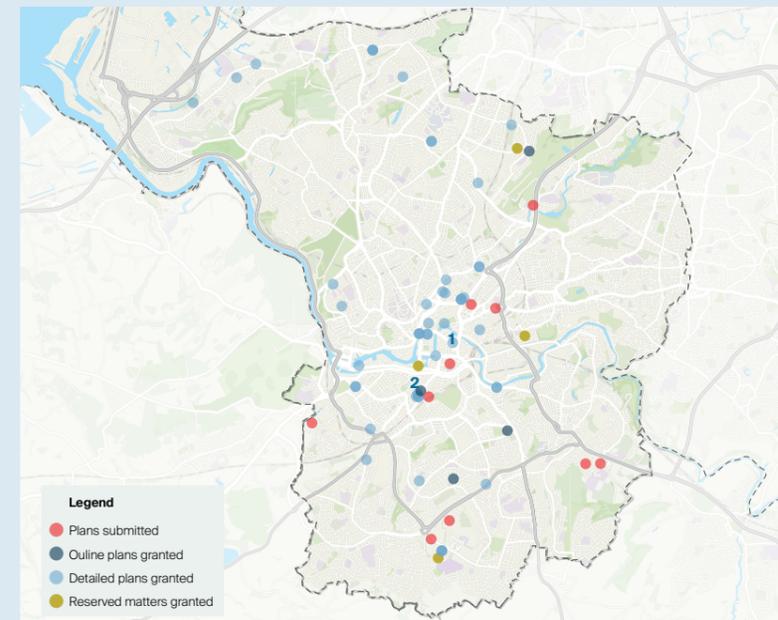
Amenities have been grouped by importance so that a grocery store or public transport connection has a bigger impact

on overall walkability score than a place of worship or garden centre would. In addition, amenities within a five minute walk contribute more to the overall score than those fifteen minutes away.

We have also looked at average sales values and rents for a one-bedroom flat in the top ten most 'walkable areas'. Sales values range from £283,771 in Clifton to £160,202 in Easton. Rents range from £1,043 per month in Hotwells and Harbourside to £759 per month in Easton.

REGENERATION AND PIPELINE

A snapshot of residential schemes above 20-units currently in planning



1. Finzel's Reach

The largest residential scheme with detailed planning permission is Finzel's Reach. Now nearing completion, it will offer 737 new homes (100 affordable), with 3,300 people living and working within the quarter.

2. St Catherine's Place

Plans to redevelop the shopping centre into high-rise apartment blocks with 178 homes were approved last year. The scheme has hybrid planning permission in place (both outline and full).

Pre-planning

Other major mixed-use schemes coming forward include the **Temple Quarter**, one of the largest urban regeneration projects in the UK covering over 100 hectares of land. The 10,000 home project is currently at proposal stage.

Frome Gateway is another development site that is under consultation. Part of the council's new planning framework, it will include 2,500 new homes.

Bedminster in south Bristol is another key focus area for the council's planning framework. The aim is to build out 4,000 new homes here, including 220 at the former Selco Warehouse and the 178 at St Catherine's Place mentioned above.

Build to Rent



JONATHAN STEVENSON,
KNIGHT FRANK PARTNER AND
HEAD OF BTR AND FUNDING

The UK's Build to Rent sector is expected to play an ever more important role in meeting housing delivery targets and investment in the sector is on the rise.

More than £1.4 billion worth of deals were agreed in the final three months of 2021, pushing year-end investment volumes to a record £4.3 billion.

Annual spend was up 19% on 2020, the previous record year. Deal volumes were also up by nearly a third year-on-year.

But while there has been a rise in investment looking at regional markets, particularly Birmingham and Manchester, other markets such as Bristol have seen much lower rates of deal activity.

Combined, Manchester and Salford are of a similar population size to Bristol, but their BTR pipeline is over eight times the size at 23,447, including 10,371 completions and 6,804 currently under construction.

In contrast, Bristol's pipeline comprises of just 2,848. However, there are signs of change, with the number of units under construction in the city set to nearly triple from 896 this year to 2,349 in 2023. Furthermore, Bristol is popular as a location to invest in. Both domestic and overseas capital have London followed by Bristol as their key targets for BTR and because land supply is constrained when any new sites

come up for sale in the city this leads to highly competitive bidding processes.

But despite the rapid growth of the sector in recent years, BTR still forms a small part of the overall UK rental market. Completed stock accounts for just 1.3% of all private rental households, rising to 2.2% if the pipeline of under construction stock is included. In Bristol, completed stock accounts for just 5% of stock versus 7.5% in Birmingham and 17% in Manchester.

So even in the most mature markets the figures point to there still being capacity for growth. Given Bristol's growing population, strong local economy and young demographic, there will be more opportunities for BTR developers in this market to help meet the growing housing demand in Bristol.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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