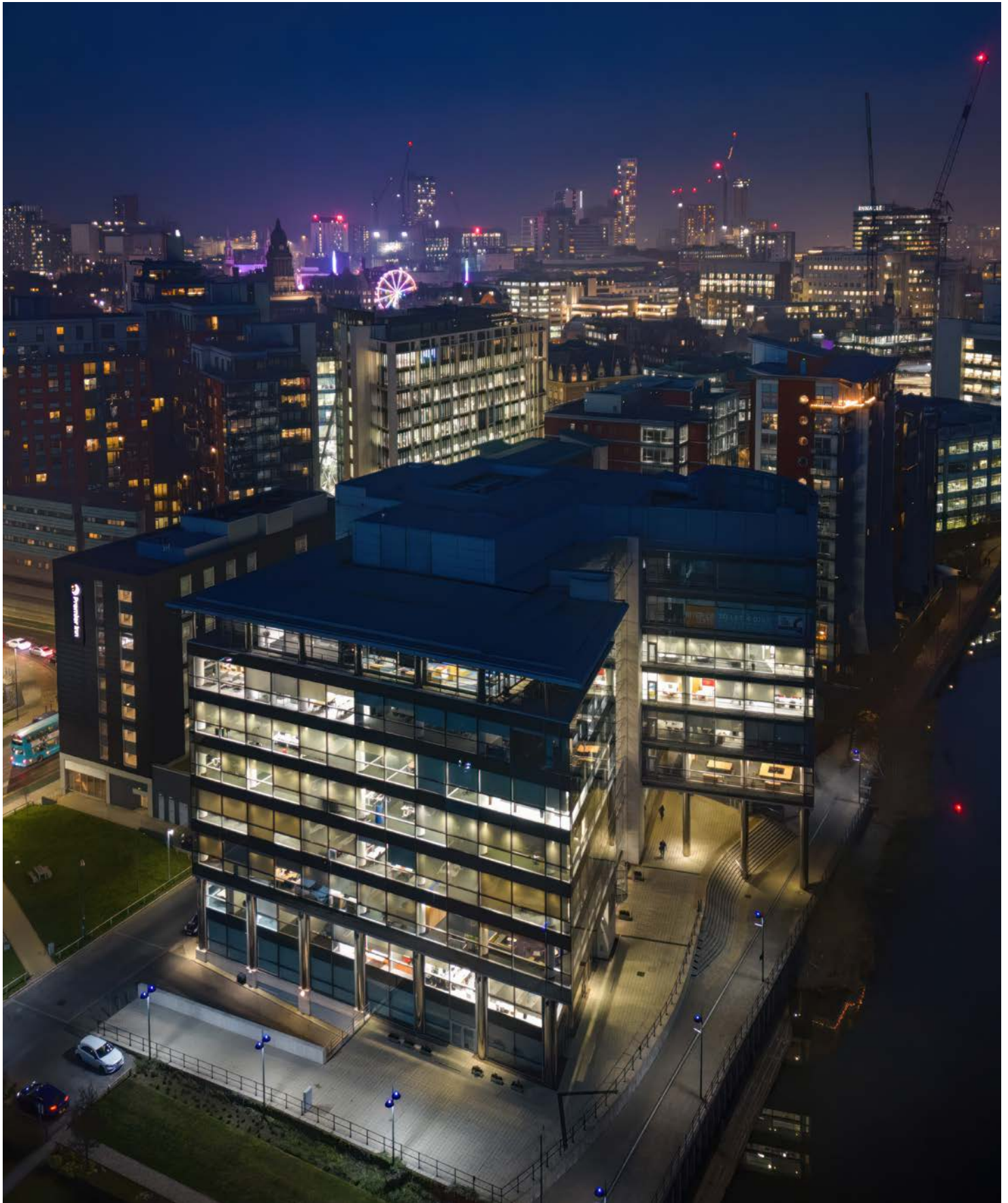


Leeds: creating and delivering innovation



How can Leeds maximise its economic potential?



‘Leeding’ the way

Leeds has strong growth ambitions to achieve large-scale transformation, anchored around the Leeds Innovation Arc

Leeds City Region is the undisputed leader within the Northern Powerhouse. With a local economy worth £69 billion, a workforce of 1.4 million people and over 7 million people within an hour's drive, it is the largest contributor to UK GDP in the Northern Powerhouse.

Looking to the future, plans to boost the city's economic growth and productivity are centred around the Leeds' Innovation Arc. The Arc, a series of innovation neighbourhoods formed around the natural anchors of the main universities, the proposed hospitals, and major private sector partners, is aiming to create an ecosystem that promotes collaboration and innovation. As a result, this should attract a high value talent pool and create new opportunities for public and private sector investment into the city. However, in order to attract and retain skilled talent and productive employers, the local market must offer high quality and affordable accommodation, well connected to the city.

Building on existing economic strengths

Forecast GVA growth for the city is set to outperform the regional and national averages over the next 10 years. GVA in Leeds is expected to grow by 16% over the next 10 years

which is in line with the average across the other UK “Big 6” cities (Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Manchester).

Leeds has proven to be resilient in recent years, developing a more mixed economy with strength across a range of service and knowledge sectors. Information & communication, scientific & tech and insurance & financial sectors currently make up almost a third of GVA in 2023. However, innovation is at the heart of Leeds' ambition for growth. The emerging Innovation Arc will create an opportunity for the city to improve on these forecasts.

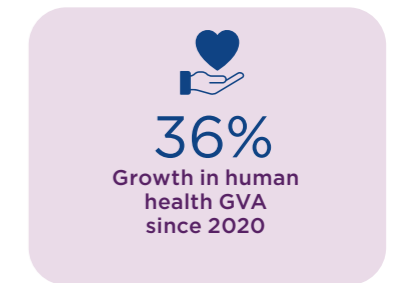
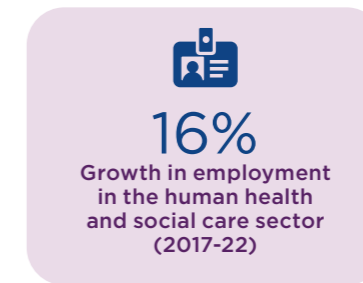
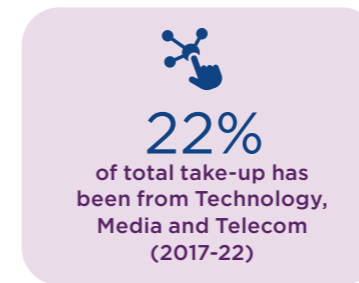
Over the next 10 years, information & communication is expected to experience the biggest growth with GVA forecast to grow by 31%. However, significant growth (24% growth in GVA by 2032) is also forecast for the more traditional insurance and financial sectors.

A hub for digital health and life sciences

The healthcare sector in particular generates significant economic impact in the city. Employment in the human health and social care sector has grown by 16% in Leeds over the last five years compared to just 7% across the UK. Healthcare sector

KEY MARKET DATA

COMMERCIAL



RESIDENTIAL



“The new hospitals will create the opportunity to redevelop the old hospital estate as an Innovation Village, a world-class hub for research, innovation and technology in life sciences, and bring about direct and wider economic benefits of up to £13bn in net present value terms and around 4,000 jobs”

Victoria Critchley, Leeds Teaching Hospitals NHS Trust

output is forecast to increase by £1.1bn (34.5%) between 2018 and 2028.

The presence of NHS Digital at Wellington Place is a major driver for future growth of the city, attracting over 60 start-ups who will co-locate around such a major organisation and venture capital funding, enabling these businesses to scale-up within the city.

The city also has a thriving life sciences sector. The presence of leading pharmaceutical companies, research organisations, and innovative start-ups creates a dynamic ecosystem that drives job creation. The combination of strong medical research capabilities, a robust healthcare infrastructure, a thriving life sciences sector and a skilled workforce positions Leeds as an important economic powerhouse for healthcare.

Leeds Innovation Arc

The Leeds Innovation Arc, currently under consultation, will be a nationally important and internationally recognised knowledge engine, where academic research and entrepreneurial businesses come together to share knowledge and create new economic opportunities. By focusing on creating knowledge clusters and promoting collaboration, the initiative strengthens the city's economy, enhancing its competitiveness.

The £450 million redevelopment of Leeds General Infirmary (LGI) is also a major investment into the city and expands Leeds NHS Trust's world-class technology driven services. The development will release approx. 12.5 acres of land to create the Innovation Village within the Arc. This strategic partnership between Leeds Teaching Hospitals NHS Trust, Leeds Beckett University, the University of Leeds, Leeds City

Council and the private sector plans to drive regeneration for Leeds and the wider region.

Purpose-built accommodation

There is a strong existing provision of purpose-built accommodation and a significant future development pipeline concentrated in the city centre, serving the student and graduate population well. In recent years, the supply of student housing and Build to Rent has considerably increased. Build to Rent stock now makes up a key component of housing supply in Leeds, comprising 17% of total delivery in 2022. This growing sector is well placed to meet increasing demand for high quality city centre homes created by the Innovation Arc.

Creating the right space for start-ups

Leeds has been named the best UK city outside London to start a new business, according to a study based on government and business data. The launch of Nexus at the University of Leeds is driving collaboration and innovation across the city with its aim to create an outstanding place for entrepreneurs to start and grow a business in Leeds. Its community has more than doubled to 110 businesses in the last year and is already looking for future expansion. More recently, the Innovation Pop Up in the Gilbert Scott Building has been transforming ideas into successful start-ups. It is the first phase in establishing an Innovation Village and is a valuable test bed for new innovations and technologies, before they are implemented in the new hospitals.

Why Leeds?

Attracting and retaining the best talent is central to creating innovation. What is attracting and keeping this talent in Leeds?

Attracting talent

Leeds has the potential to attract key employers and occupiers but it will need to provide the right product in the form of new prime buildings if it is to compete with the “Big 6” regional cities. Currently Leeds still offers one of the lowest rents among the large regional cities with overall operating costs 30% lower than London and the South East. These currently include 9 Wellington Place (176,000 sq ft), the next phase of MEPC’s award-winning development in the city centre, as well as the significant and exciting commitment by Vastint to develop Aire Park, a new mixed-use district on the South Bank of the River Aire. The next office building at Aire Park will comprise 75,000 sq ft and is due for completion in early 2025, while 1 and 3 South Brook Street (140,000 sq ft) are due for completion at the end of this year.

The significant confidence in take-up is undoubtedly supporting developer activity across Leeds. When complete, this influx of new buildings will provide a much-needed boost to the supply of Grade A space within the city, driving rents upwards and attracting key employers with an opportunity to acquire standout office space.

Retaining talent

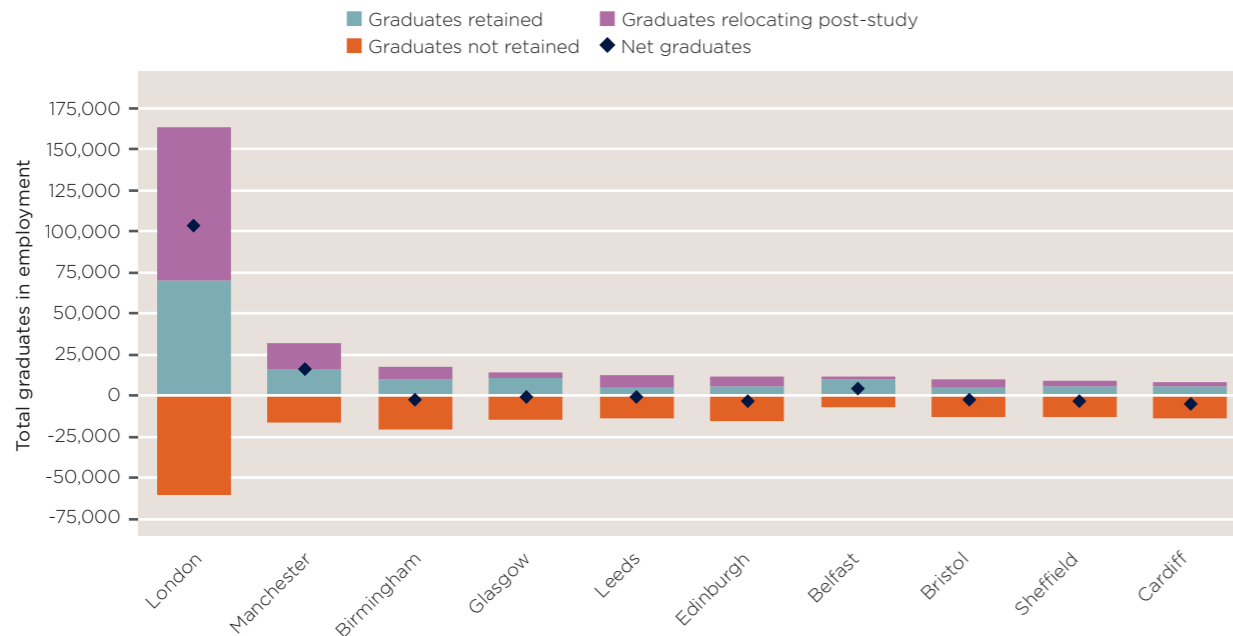
A skilled workforce is fundamental for attracting employers and investment to the city. Leeds has a diverse workforce in terms of skills, comparable with the national average. But Leeds is also home to five universities which attracts a diverse talent pool.

A key priority for the city is not only to attract high value talent but also to retain this talent for the long term. Leeds does successfully retain graduate talent. The city currently retains the fifth highest number of graduates, ahead of Bristol, Cambridge and Oxford but it falls behind other growing cities such as Manchester, Birmingham and Glasgow. Of the 55,600 students that graduate from the universities across Leeds each year, 27%, equivalent to 12,500 students, are retained in the city post-graduation.

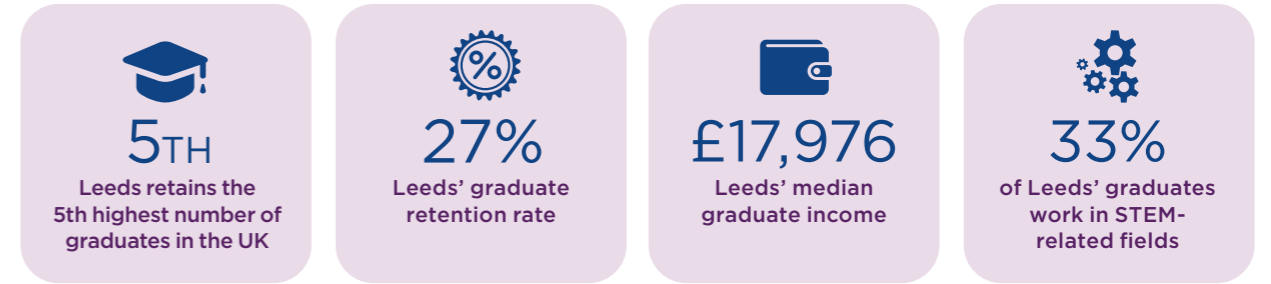
Graduates employed in Leeds are most likely to work in human health and social work (17%) and education (17%). But the city also retains a graduate talent pool in key growth sectors. 33% of graduates in Leeds work in science and technology-related fields, in line with the national average. These high value research-intensive sectors offer higher median graduate salaries of c.£20,968 compared to median graduate incomes at £17,976 in Leeds.

🗨️ **Leeds loses more graduates than it retains. Each year over 13,750 graduates leave the city. 18% of students in Leeds moved to London and a further 6% moved to Manchester** 🗨️

Figure 1 Leeds retains 27% of graduates each year



Source: HESA



Leeds does however lose more graduates than it retains. Each year over 13,750 graduates leave the city. 18% of students in Leeds moved to London after their studies and a further 6% moved to Manchester with many graduates frequently enjoying higher incomes in science and technology sectors. Leeds has a prime opportunity to improve graduate retention and hold on to more of the high value talent it creates, following the likes of Manchester, Birmingham and Glasgow.

Housing is affordable

Despite graduates earning lower median salaries than the national average, a fundamental driver for talent moving to Leeds is the relative affordability of the housing market and lower cost of living pressures. With a median house price to income ratio of 6.8 in 2022 compared to a national figure of 8.2 and 13.3 in London, Leeds is well placed to attract and retain a skilled workforce.

In comparison to other cities where an unaffordable housing market drives talent away, the barrier to entry to the housing market in Leeds is relatively low and graduates can afford to access both the private rental market and the sales market.

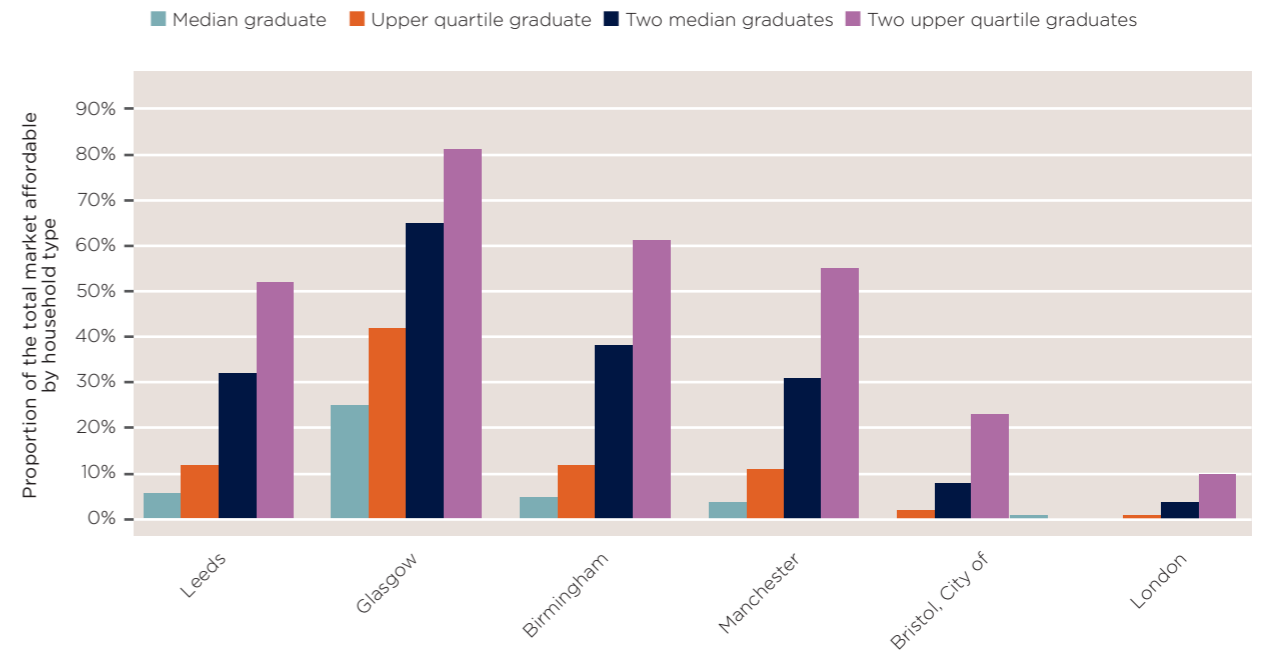
We have modelled the affordability of the rental market in

Leeds in comparison to other cities. Two graduates together on two median salaries, assuming a 30% spend of gross income on rent, can afford to rent 50% of two bed listings in Leeds in the 12 months to Q1 2023, rising to 82% for two graduates on upper quartile salaries. The rental market in Leeds is much more affordable and accessible to graduates than both Manchester and London, the two biggest cities that Leeds loses graduates to.

Alongside an affordable rental market, graduates can also afford to buy in Leeds. Modelling the affordability of buying reveals that two graduates on median salaries purchasing a home at 4x loan-to-income and at a 80% loan-to-value could afford 32% of the total housing market in Leeds, rising to 52% for two graduates on upper quartile salaries. This is comparable to Manchester and marginally below Birmingham but is significantly ahead of London.

Fundamentally, the affordability of the housing market in Leeds is a huge pull factor but the city needs to retain talent for the long term. Leeds should be providing a diverse range of housing to accommodate different household groups, from high quality purpose-built student or Build to Rent stock in the city centre to larger family housing in the outer suburbs.

Figure 2 Graduates can afford to access the housing market in Leeds



Source: HESA, HM Land Registry

Delivering innovation-led growth

What are the requirements to deliver innovation-led growth in Leeds?

Drawing on its existing economic strengths and diverse talent pool, there is significant potential for Leeds to realise its growth ambitions. Strategic planning not only within Leeds but in collaboration with neighbouring markets, underpinned by one central long term vision for the city, will be key.

Commercial occupiers commit to Leeds

Over the last decade, Leeds has attracted big names to the city such as Sky Betting and Gaming (135,915 sq ft at 4 Wellington Place in 2019) as well as seeing the establishment of a 378,000 sq ft Government Hub (HMRC and NHS Digital) at 7 and 8 Wellington Place in 2017. Despite ongoing questions surrounding the future of the office in recent years, some key occupiers are continuing to commit their future to Leeds city centre in the post-Covid period. In 2021, DLA Piper committed to Leeds until at least 2036 signing for 83,000 sq ft at City Square House which is set to be delivered in 2024. More recently, Lloyds Banking Group signed for 124,000 sq ft in Q1 this year at MEPC's 11/12 Wellington Place. These examples highlight how market-leading occupiers are looking to solidify their Leeds presence in prime buildings in some of the most sought-after locations in the city.

Rebalancing housing supply

Overall housing supply in Leeds has been increasing in recent years and has broadly met housing need. 3,238 net additional dwellings were delivered in 2021-22, falling just short of the Local Plan target of 3,247. Leeds has built up a strong supply of high quality purpose-built accommodation concentrated in the city centre, successfully meeting need from graduates.

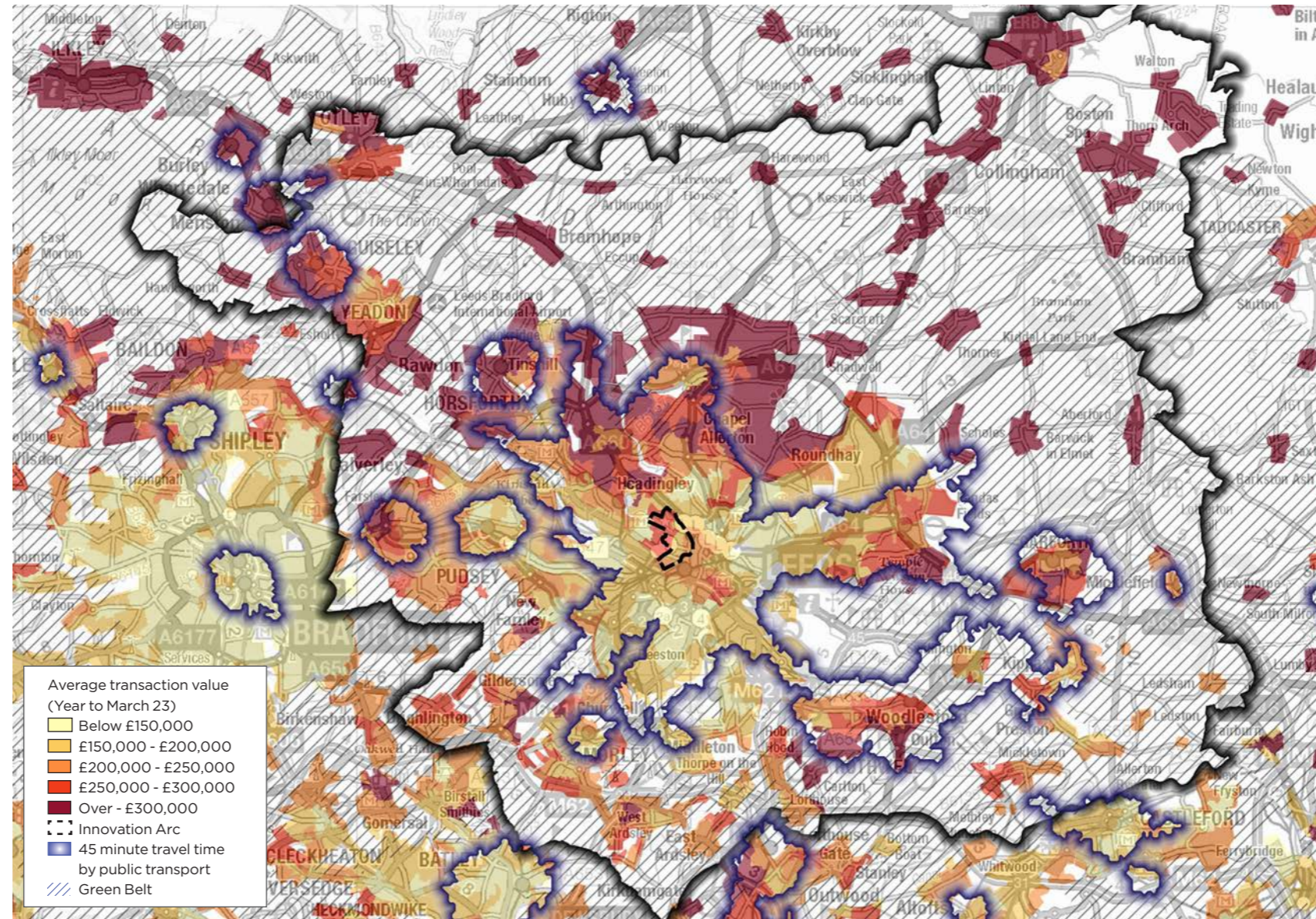
Although there remains an ever increasing demand for purpose-built accommodation in the city centre, housing supply is failing to align with local market demand beyond the city. A significantly higher proportion of flats concentrated in the city centre have been completed in recent years leading to an undersupply of family housing.

In the last four years, 48% of new homes completed in Leeds have been flats, compared to the Local Plan policy target of 25%. Flats also comprise 68% of the future development pipeline.

The lack of family housing relative to demand is also reflected in the concentration of households moving to neighbouring markets in order to access larger new build family housing. 13% of movers from Leeds moved to the adjacent markets of Harrogate, Bradford, Kirklees, and Wakefield in 2022, according to data from Experian.

To meet demand across Leeds, greater volumes of family housing need to be delivered in the outer suburban markets alongside purpose-built city centre supply. Providing a diverse range of housing will be central in keeping families in Leeds for the long term.

Figure 3 Average transaction values and connectivity



Source: HM Land Registry

The role of place and community

“Community and place are the most important drivers for development in the city. The best and most effective way to make buildings an integral part of people’s lives is by designing in connection and with consciousness of the wider area. Office buildings must become more than simply a space to work and with ground floor amenity can help to enhance the surrounding environment. Food & Beverage units can activate public spaces and retail and services can contribute to their vitality. Well-designed public infrastructure connecting housing to the city also has a role to play in promoting active lifestyles and facilitating connections to the city centre.”

Charles Newman, Town Centre Securities

A case for green belt release?

Expanding public transport infrastructure around the city and connecting local markets could be combined with measures to densify Leeds. Highly productive cities tend to be denser. Densification of the existing suburbs across Leeds to build more family housing may form part of the solution, alongside providing family housing outside of Leeds in the neighbouring markets.

The development pipeline in Leeds has typically been concentrated on brownfield land in the city centre and within existing settlements. But what about the rest of Leeds? 61% of the local authority land is located within the green belt, with no evidence of green belt release in recent years, there is the potential to unlock development through green belt release to maximise the development of family housing.

Public transport beyond the city centre

Improving connectivity to employment clusters is a catalyst to unlocking long-term growth in Leeds. Currently there is a gap in public transport provision beyond the city centre and a heavy reliance on car transport.

In order to achieve more sustainable forms of development, there needs to be a greater focus on public transport. Leeds is the largest European city with no mass public transport system, according to analysis published by Centre for Cities in 2021. Better public transport connectivity would reduce traffic congestion in the city and improve air quality, a key focus for Leeds City Council. Investment in public transport infrastructure would also allow larger volumes of people to access employment clusters.

The development pipeline in Leeds needs to be well integrated and connected to the local economy. The planning system therefore needs to align the delivery of new homes with future economic growth and infrastructure. Public transport could help unlock sites with capacity to deliver large family housing, beyond the city. There is also the challenge of connecting development in the neighbouring local markets to the city.

Long-term patient capital

In recent years, there has been a sea change in the levels of investment into the city. Strong market fundamentals, a skilled and diverse talent pool alongside a Russell Group university have attracted institutional investors such as UBS, L&G and Aviva. The deployment of long-term patient capital at scale to invest in place, public realm and infrastructure would help facilitate the ongoing large-scale transformation and regeneration of the city, attracting further sources of investment.

“Major regeneration projects with placemaking at the core require stakeholders who are prepared to take a long-term strategic view, especially if there is upfront planning, remediation and infrastructure costs required to create the ‘shovel-ready’ development site to attract business and occupier requirements.”

Adam Varley, Scarborough Group



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