



BUSINESS PARKS AND RESIDENTIAL

An analysis of the residential development opportunities on
and near business parks in the UK

Knight Frank



SUPPLY AND DEMAND

PLANNING CONTEXT

TRAVEL TO WORK PATTERNS

HOTSPOTS

INTRODUCTION

There is little dispute that the UK is facing a chronic housing shortage. What is less straightforward is how to tackle the widening gap between ever-growing demand and limited supply.

This report considers the extent of the problem, what policymakers are doing to address it, and how building on or near business parks could be part of the solution. Our view is that these business hubs present significant opportunities for developers, both in terms of new-build and 'change of use' initiatives.

“The real imbalance in supply and demand has occurred mainly over the past 5-10 years, and has varied across the English regions.”

Supply and demand

The structural undersupply of houses in England & Wales has reached a critical stage. While demand has been increasing steadily over the past 10 to 20 years driven in part by household formation and a shrinking household size, the development of new homes has failed to keep pace.

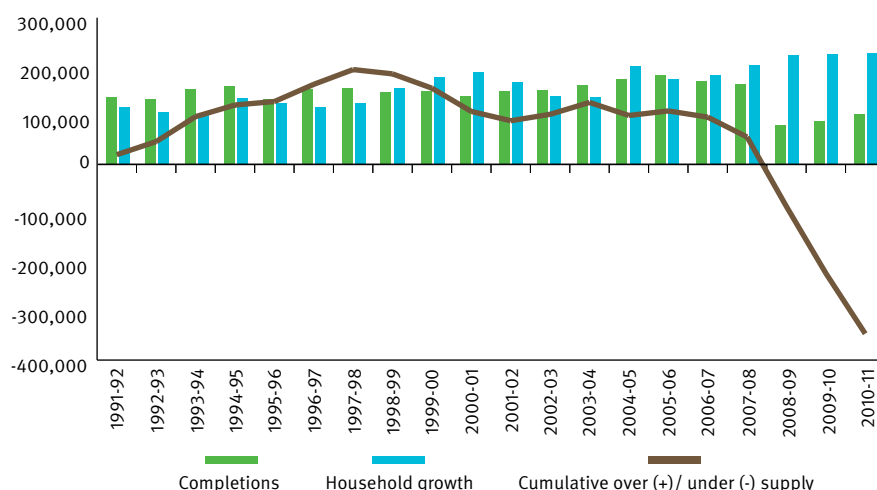
At the same time there has been a dramatic decline in the number of new homes being built. The credit crunch in 2008 and following economic malaise created a tough

environment for developers and builders who have faced difficult financing conditions and weak short-term demand for new homes, due to restrictions on mortgage market finance.

Figure 1 demonstrates the balance between household growth and completions over the past 20 years, with household growth far outstripping new completions from 2007/08. This has become even more pronounced in recent years and, with household growth showing no signs of slowing, presents a challenging outlook for policymakers.

The real imbalance in supply and demand has occurred mainly over the past 5-10 years, and

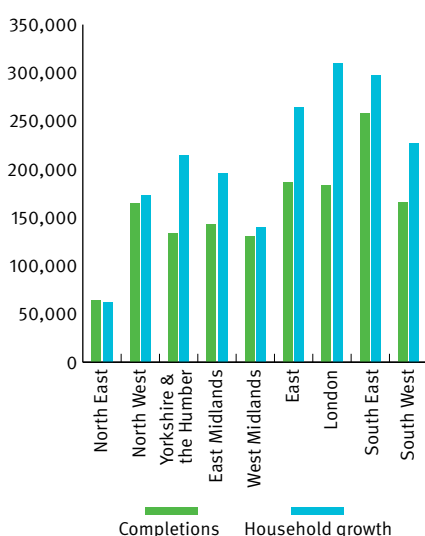
Figure 1
Supply and demand growth, with a measure of cumulative over and under supply, England & Wales



Source: CLG

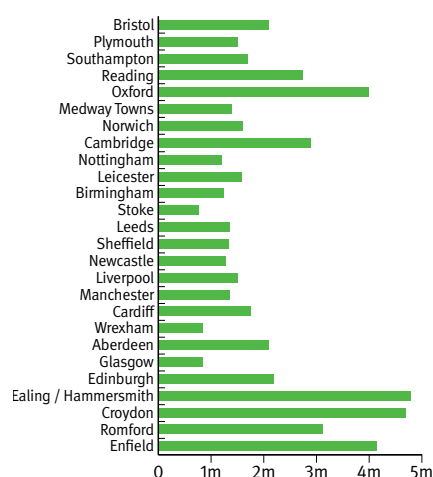


Figure 2
Regional supply and demand balance, English regions, past 10 years



Source: CLG

Figure 3
Residential building land values (2011) (£ per ha)



Source: VOA

has varied across the English regions. Figure 2 shows the total increase in the number of new households measured against the total household growth over the past decade. All UK regions have witnessed a surplus of household growth over the period, apart from the North East, where the number of completions has been higher.

Planning context

One of the major barriers to house building is the lack of available land suitable for residential use. This is demonstrated in part by the differential in land values between uses, a key indicator of underlying supply and demand dynamics. For instance, residential land in some areas is up to five times the value of industrial land.

The gap between residential land values and those related to all commercial uses has been widening over the past 15 years, driven by the fact that the total number of dwellings only increased by around 10% between 1998 and 2011, whereas the total amount of office space has increased by over 25% between 1998 and 2008.

In its drive to reform the planning system the Coalition Government has acknowledged the acute need for new houses by implementing a consultation on proposals to relax the planning rules for 'change of use' from

commercial to residential. The proposals, which were drawn up by the Communities and Local Government (CLG) department, state the commitment of the Government to "reforming the planning system so that it supports economic growth and drives an increase in the supply of land for housing". The proposals reference the structural undersupply and low building rates.

The proposals under consultation suggest action on three fronts:

- to provide for change from commercial (B use classes) to residential (C3 use class) without the need to apply for planning permission;
- local communities and authorities to use imaginatively the powers they already have to relax planning constraints locally to target local issues, encourage development, support local economic strategies and make best use of existing properties;
- remove unnecessary barriers to change of use through wider review of how change of use and permitted development is managed within the planning system.

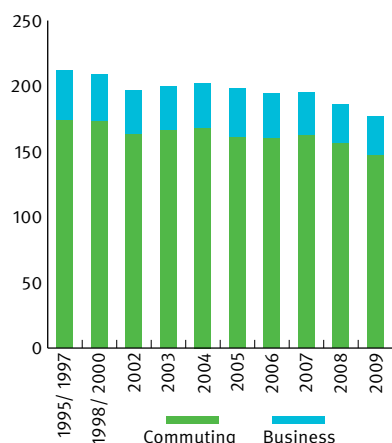
It is our view that these proposals would represent a critical and much-needed step towards releasing more land for residential development and creating the opportunity for developers, particularly in locations linked to existing business parks and the amenities that they offer.



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Figure 4
Trips, per person, per year



Travel to work patterns

Over the past 15 years, the number of trips and miles travelled for commuting and for business purposes has declined by 17% and 16% respectively (Figure 4). This decline has in part resulted from advances in information and communications technology (ICT).

While the number of commuter trips per annum has been decreasing, so too has the average number of miles travelled per annum fallen (Figure 5).

The car has consistently remained the dominant mode of transport, typically accounting for 70% of all commuter trips each year. However, the car usage varies according to distance travelled. For journeys over two miles, the car is easily the preferred mode of transport. But for journeys under two miles, more people choose to walk, 48% in fact. This threshold suggests that providing residential property within close proximity to employment centres makes it much more viable for people to get out of their cars and walk or cycle.

Working habits are changing; people are working from home more; people are taking fewer trips; and people are travelling shorter distances than even 10 years ago.

This, coupled with the ongoing drive for more sustainable live and work models suggest that there is likely to be an increasing need to develop more locations into places where commercial and residential components work together.

Business parks as residential locations?

With proposals for change of use from commercial to residential in the pipeline, and people increasingly wanting to live and work in close proximity, the prospect of developing residential properties on already functioning business parks has come sharply into focus. There are few large-scale examples of this, one of which being Kings Hill in Kent (considered on page 7).

To understand the impact of business parks on local residential markets, we have selected a number of leading business parks across the UK and analysed the performance of local (one mile radius) residential markets in terms of capital value appreciation (Figure 7).

We then compared this to performance in the wider local authority. In all but one case, house

Figure 5
Commuter travel

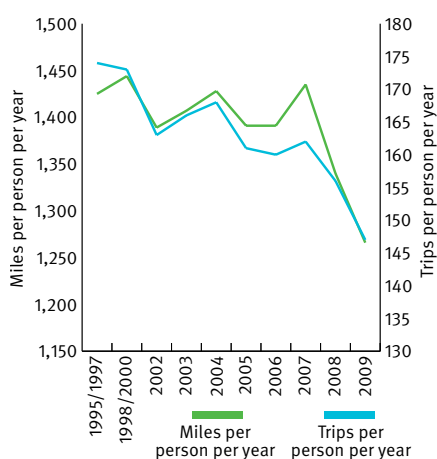
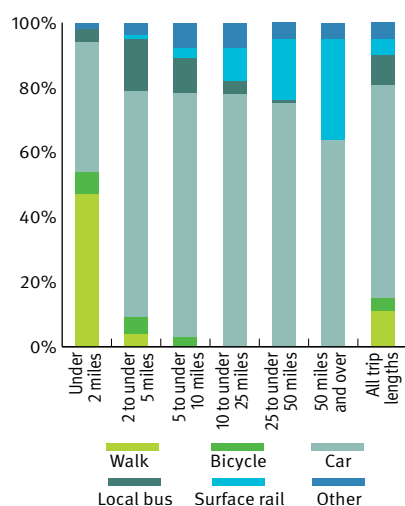
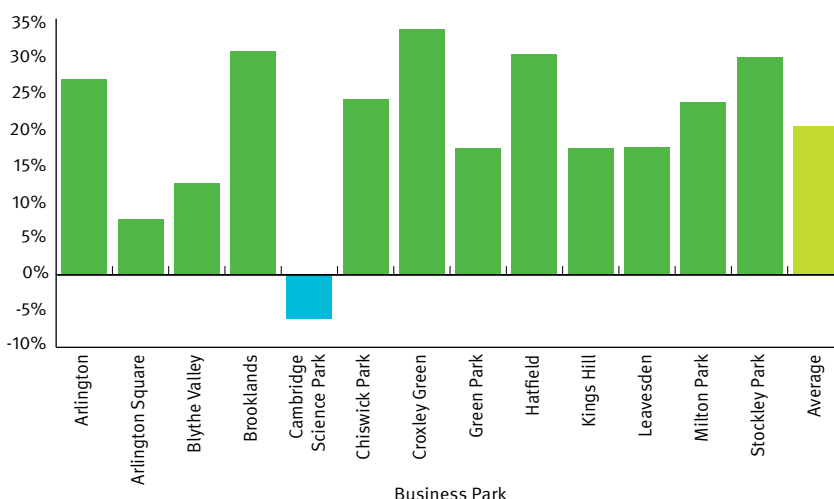


Figure 6
Mode of commuter transport, 2010



Source: National Travel Survey

Figure 7
Local residential market price growth compared to local authority price growth, past 10 years



Source: Knight Frank Residential Research



prices grew at a faster rate over the past 10 years in the areas surrounding business parks compared to the local authority control areas.

In fact, our analysis shows that five of the business parks we investigated outperformed the local authority by more than 25%, whilst on average all parks outperformed the local authorities by 20%. The implication of this analysis is that being close to an employment centre such as a business park has a positive value impact on the local housing market. Indeed, this seems logical, in that proximity to work is desirable for residents who work at these business parks, and the amenities that the parks provide can be shared by residents and employees alike.

Hotspots

As well as analysing the concept of developing residential property on or near existing business parks, we also highlight potential areas of opportunity, where the conversion of commercial space might be prioritised given the underlying market dynamics.

Figure 8 demonstrates where the greatest level of commercial office stock (sq m) is in relation to the total resident workforce, at a local authority level (aside from London). The areas with the greatest supply of office space in relation to the population are along the M3 and M4 corridors, around Cambridge, to the south and east of Birmingham near Solihull, and south Manchester.

Given the growth in purpose-built office parks along the M3 and M4 corridors these high ratios should not be surprising. The east of Birmingham benefits from having a number of business parks such as Blythe Valley, and Cambridge benefits from having the Cambridge Science Park amongst others.

Many of the areas where there has been a particular shortage of residential development over recent years have seen strong growth in office space (Figure 9). By measuring household growth against completions from 1991 we can get a good idea of where the pinch points are in terms of demand.

Figure 9

National provision of office space

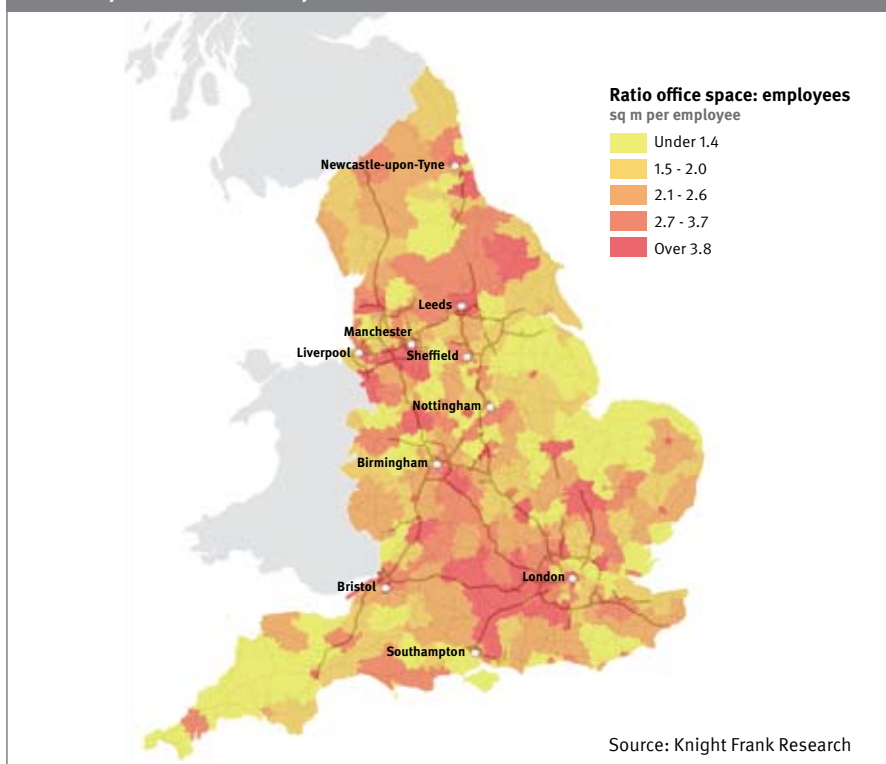
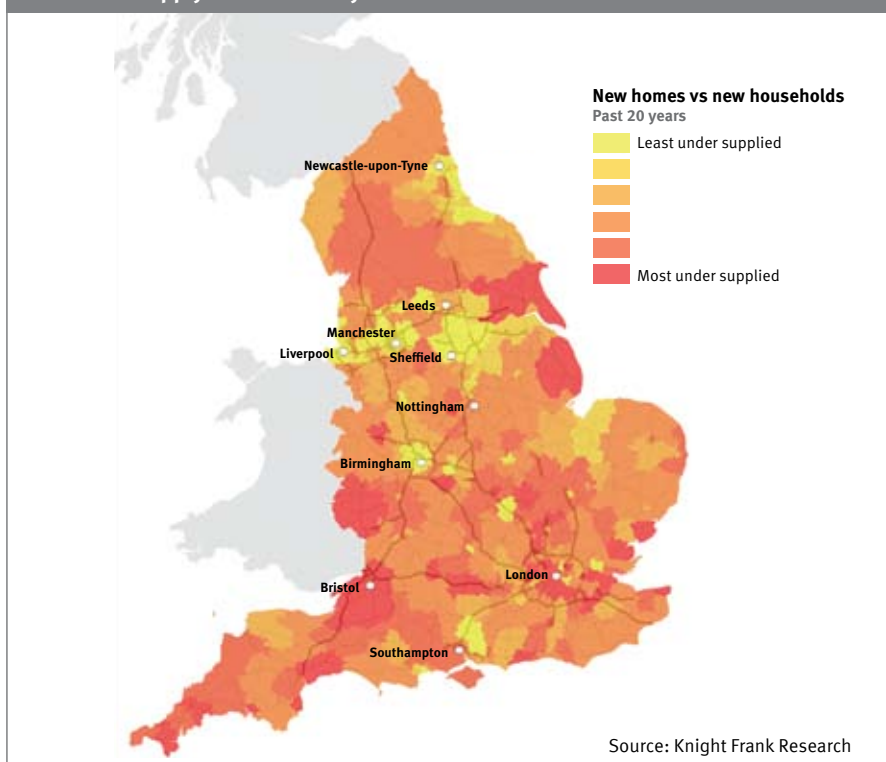


Figure 10

Residential supply and demand dynamics



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“In all but one case, house prices grew at a faster rate over the past 10 years in the areas surrounding business parks compared to the local authority control areas.”

Aside from in the major conurbations, most other areas of the country seem to have seen household growth in excess, or at least in line with new dwelling completions. A combination of the above data sets highlights where there has been significant growth in commercial office space but an undersupply of new homes (Figure 10), highlighting areas where the potential for change of use might be greatest. In broad terms, this area stretches west from London, up to Birmingham, and across from the West Midlands to the eastern regions.

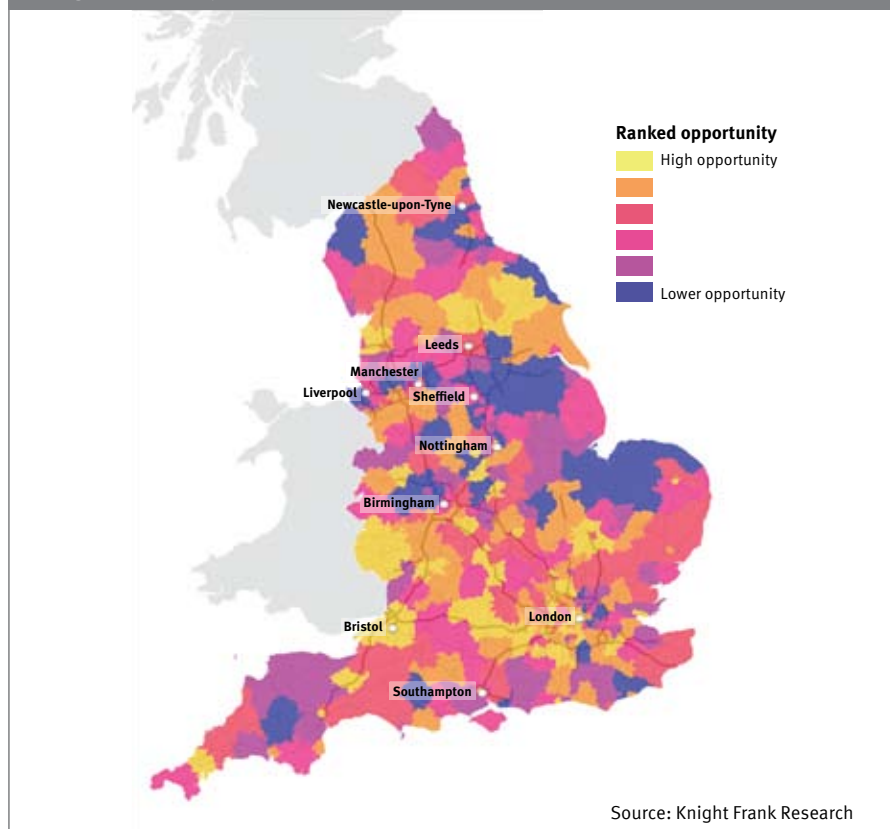
Residential and business parks

In terms of compatibility, commercial uses and housing are not necessarily natural bedfellows. In order to develop sections of a site for residential use there will need

to be clear zoning and master planning to ensure the main components and ancillary uses work together in harmony. While there are relatively few examples of business parks embracing residential development on a large scale, success with this type of project is certainly not unprecedented. One of the largest and most successful mixed-use schemes in Europe is Kings Hill in Kent.

Kings Hill was developed as a mixed use community and so benefitted from a fully master planned approach. At existing business parks it might be less easy to integrate residential development on site unless there is sufficient land or space to effectively integrate a planned residential community. However, on large scale business parks where there is excess commercial capacity and land it would be entirely plausible to create the right environment to develop residential neighbourhoods.

Figure 11
Change of use hotspots





Conclusions

The chronic housing shortage in the UK has become more acute over recent years with growing demand and development constrained significantly by the difficult economic conditions. All regions bar the North East have seen household growth greater than completions over the last 10 years.

The imbalance in delivery of residential compared to commercial space has seen residential land values considerably increase over the last 15 years compared to other land uses. With this in mind, the Coalition Government is looking to address the issue and implemented a consultation in 2011 on proposals to make the 'change of use' process from commercial to residential simpler.

Over the past 15 to 20 years people's travel-to-work patterns have changed, with more people working from home, making fewer journeys, and travelling less far to work, means that demand for traditional stand-alone office parks is perhaps waning. This, coupled with the drive to deliver sustainable communities, suggests that the development of more residential properties closer to out-of-town business parks could be part of the solution, particularly as these locations have existing infrastructure in place. Kings Hill in Kent represents a fine example of a large-scale business park successfully incorporating residential development.

Our analysis identifies a number of areas around the country where significant development of office space, in many cases driven by business parks, but where there is also an undersupply of homes, presenting significant opportunities for residential development. Many of these hotspots exist in areas stretching from the eastern edge of Birmingham, along the M3 and M4 corridors, and a large area north of London reaching up to Cambridge.

As long as collaborative approach is taken between planners, local authorities and developers, Knight Frank believe that there is an opportunity for business parks to benefit from the development of residential development adjacent to existing uses, and the residential component will benefit from being close to a place to work and the amenities on offer.

A case in point: Kings Hill, Kent

Over the past 21 years Liberty Property Trust UK has transformed the former West Malling airfield site by investing over £500 million, creating employment space for 5,000 people in over 800,000 sq ft of built space and dwellings for 6,000 residents.

On completion there will be a total job count of approximately 12,000 in 2 million sq ft of office space and homes for 10,000 residents. Kings Hill is a fully master planned environment and currently offers business space for over 100 companies, both small and large, national and international.

The residential component is distributed across distinct neighbourhoods. In addition to the employment space, there are sports, leisure, retail, medical and educational facilities set in a landscaped environment. Residents can walk or cycle to work using the network of footpaths and cycle ways.

The residential element at Kings Hill has performed well over the past 10 years, with capital appreciation outperforming the local authority area (shown earlier), and transaction volumes for new-build properties holding up well compared to the wider market. Indeed, values at Kings Hill are now higher than their 2007 peak levels.

On inception Kings Hill had consent for 3 million sq ft of commercial space and only 250 homes. However, over the years the balance between the commercial and

residential shifted towards the mix we see today, with the regional undersupply of homes driving demand for more residential at Kings Hill.

It would seem fair to conclude that Kings Hill has really benefitted from having a mixed community. The residential component has also benefitted from its proximity to the commercial elements due to the shared amenities – such as retail, food & drink and health & fitness provisions. On the flip side, the commercial element has benefitted from having a local resident population that underpins footfall at some of the retail outlets.

Figure 12++
Annual new build transactions, Kings Hill



Source: Land Registry



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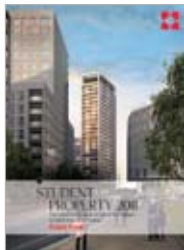
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