PERSPECTIVES

THE LATEST ON UK REAL ESTATE

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This Issue

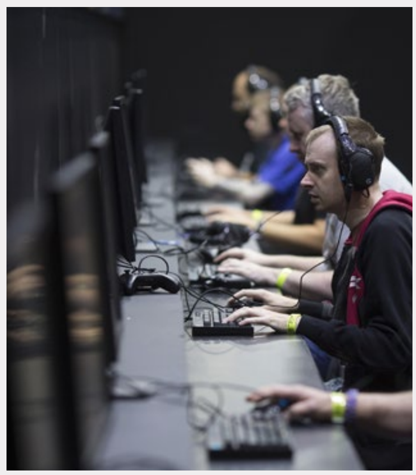
Welcome to the third edition of Perspectives, a selection of topical articles, interviews and insight from across the UK. The running theme of this issue is future vs past. We start with the leading article which provides an overview of traditional and new clusters and the competitive advantages they bring to the UK economy.

Continuing the theme, we talk about the heritage of textile mills and demonstrate ways to make them work for the future. We also interviewed Andy Burnham, now metro Mayor for Greater Manchester, to get his views on the future of the region and the Northern Powerhouse. Simon Lloyd takes an in-depth look at the Green Paper on Industrial Strategy and how it will affect the future of the industry and UK development.

The reputation of UK Universities outside of the country is high and David Feeney from Manchester considers the role they will play in driving economic performance in the post-Bexit era. We explore tools such as the Private Rented Sector and Planning's PiP (Permission in Principle) that intend to ease the housing crisis. Also in this edition, we take a close look at construction costs and how Brexit will affect the UK construction industry.

We hope that you enjoy reading this edition. If you have any suggestions of things you'd like to see in the next edition, please contact us via perspectives@cushwake.com

What's Inside



Dynamic Clusters in the UK

At the turn of the decade, BT's 'Geography is History' marketing campaign promoted the proposition that the internet enables people to work from virtually anywhere. True enough! However, despite ever faster connectivity, the paradox today is that for many areas of business the power of physical clusters as places to work has never been stronger.

By Neil McLocklin and Shikha Dhingra,
EMEA Strategic Consulting

LEAD STORY

Clusters are defined by business guru Michael Porter as "geographic concentrations of interconnected companies and institutions in a particular field". In everyday terms they are eco-systems in which people meet, exchange ideas, develop innovations and create businesses and, by doing these things together, add value to the whole.

The origins of clusters are often largely accidental and have tended to evolve to fill market niches that governments and existing businesses didn't anticipate. Typically, the strength of a cluster lies in the physical interplay of factors such as talented individuals, nimble small businesses, heavyweight corporations, world-class academic centres, willing investors, appropriate infrastructures and supportive local and national government agencies.

Silicon Valley

Perhaps the most famous and certainly most successful cluster the world has seen is Silicon Valley in California. This began as a tech hardware focused cluster with processing and semi-conductor companies like Intel driving innovation for enhanced computing capabilities in the 1980s and 90s – hence the name 'Silicon'.

While many of these companies still have a local presence, their footprint and importance has been dwarfed by other predominantly software focused businesses such as Google, Apple and Facebook and the thousands of start-ups aiming to be the next big thing. In fact, the Valley's continuing evolution is a clear demonstration of the dynamic nature of a cluster and how it can develop through its own innovation and value creation.

> **"More than half the UK clusters are global centres of excellence for their industry**

A British Tradition

In Britain, clusters have long been part of the industrial landscape. During the 19th century, Manchester was the epicentre of the international cotton and textile trade. By 1871, the city and its Lancashire satellite towns had become collectively known as 'Cottonopolis' and accounted for 32% of global cotton production.

Step forward to the 21st century and clusters are equally as important, especially in growth sectors of the economy. Britain has 31 major business clusters that, according to McKinsey, contain fewer than 10% of the UK's businesses but generate 20% of national economic output.

More than half the UK clusters are global centres of excellence for their industry. They include long-established clusters such as the 'Golden Research Triangle' of advanced life sciences between Oxford, Cambridge and London, the Lloyds Insurance Triangle in London's EC3, the Scotch whisky industry and the South Yorkshire metals industry. Also there are newer ones including the London Silicon Roundabout/ Shoreditch tech cluster and the reborn Motorsport Valley in the Midlands.

Scattered around the UK as they are, these diverse business clusters are helping their host cities develop a unique selling point and establish a solid economic base to compete in today's increasingly globalised world.

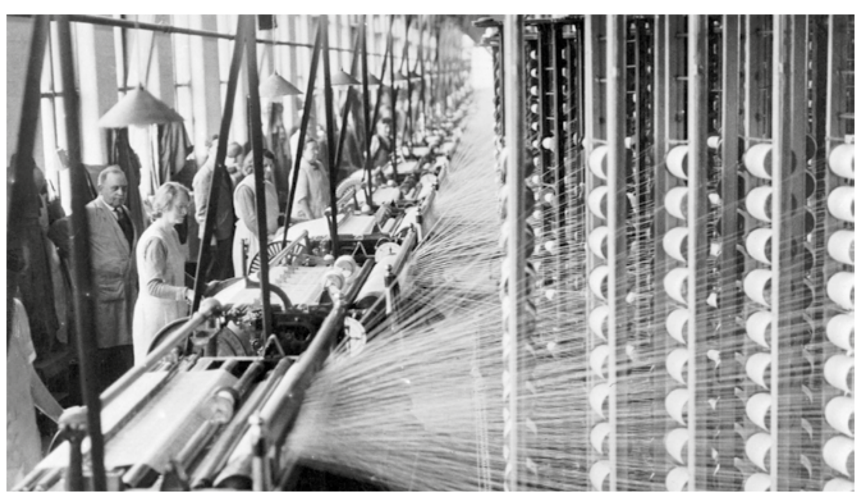
Mapping Britain's Clusters

Distinctive clusters overlap spatially, potentially and functionally. For example, there is a very clear overlap between Motorsport Valley, the Golden Research Triangle and High-tech and ICT (Information and Communication Technology) M4 corridor due largely to data analytics and science being as critical to successful racing cars as to genetics and mobile telecoms.

> "*Britain has 31 major business clusters that generate 20% of national economic output*

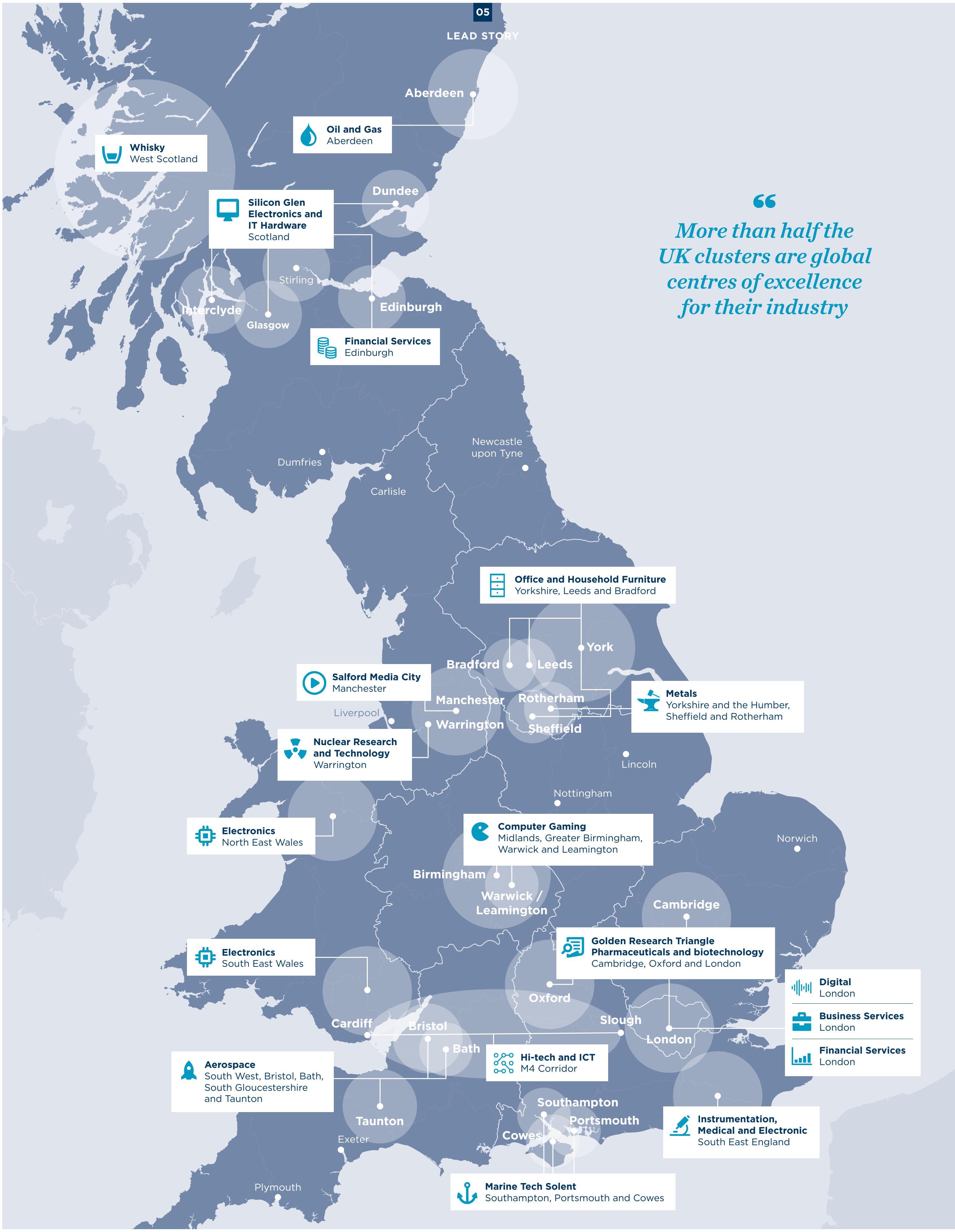
High Growth Clusters

In addition to the established sectors, there are a number of emerging growth clusters which, if they thrive, will contribute to the long term health and sustainability of the UK economy. These include new developments such as digital tech and creative businesses clusters as well as significant developments within the existing Golden Research Triangle and Midlands Motorsport Valley clusters.



Manchester's 19th century cluster of international cotton and textile trade

"More than half the UK clusters are global centres of excellence for their industry



Digital Tech Clusters

In addition to London, which has 2,577 tracked entities and is the largest and best known digital tech cluster, there are another 31 recognised clusters across the UK.

In Scotland, Dundee, home of the Beano and Dandy, has long boasted a thriving games sector on the back of its media creativity and is also home to the University of Abertay which provides courses in related subjects. Similarly, Edinburgh is the location for two billion-dollar companies in Skyscanner and gaming start-up Fanduel.

In the north of England, Leeds and Sheffield are developing their digital base and have an economy of £3.4bn per year between them. Sheffield is marketed as the 'maker city', while Leeds is the 'data city' and has a strong focus on FinTech. Across the Pennines, Manchester is setting itself up as the engine of the Northern Power House and is aiming to build on its media and financial clusters to become one of the top 20 digital cities in the world by 2020.

Further south, Cambridge has long been one of the UK's most dynamic technology centres. It has connections with the university and local expertise in deep tech such as artificial intelligence and internet security. Global success stories include ARM, Cambridge Silicon Radio and Autonomy, all of which have been swallowed by large global tech conglomerates.

In telecoms, there are notable clusters at Harwell in Oxfordshire and in Ipswich on the back of BT's Adastral Park.

Reading has traditionally dominated along the M4 corridor and 21.7% of its companies focus on tech. However, other centres such as Slough, Maidenhead, Newbury, Swindon, Bristol, Bath and Cardiff all have strong local clusters.

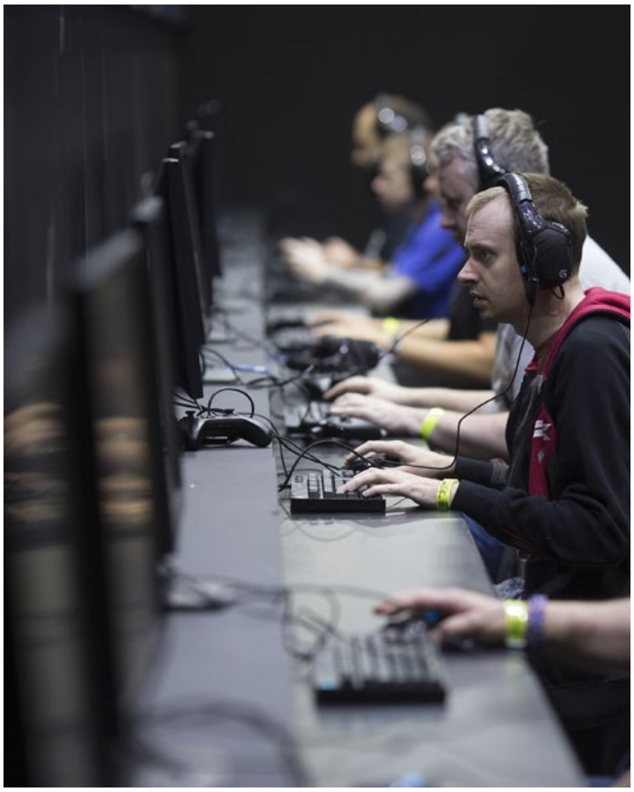
Belfast's thriving tech centre has been a surprising success story in recent years and the city is now home to a host of digital start-ups in ecommerce and SAAS. Northern Ireland not only has low overheads in terms of rent and staffing but it also has a large talent pool across many disciplines.

Creative Businesses Clusters

The creative industries are becoming more important in local economies. Forty-seven creative clusters have been identified across the UK. Rapid growth has been experienced in all sub-sectors including advertising, film, radio and TV, architecture, publishing, music and performing arts. Service activities such as design, software and digital have been doing particularly well.

London and the South East are major components of the UK creative industries and together comprise around a third of all clusters in the sector. Other 'hip creative cities' include Brighton, Cardiff, Nottingham, Leicester, Manchester, Edinburgh and Glasgow.

47 Creative Clusters



Biotech Clusters

Golden Research Triangle
The already very well established Golden Research Triangle between Oxford, Cambridge and London is becoming ever more important. Driven by world class research universities, it has become a globally significant biomedical, medical and technology cluster with a cutting-edge focus on pharmaceuticals, life-sciences and bio-technology.

Almost half of the UK's 183,000 life science jobs are concentrated in the region, and the cluster itself provides highly skilled employment for 36,000 people. It invests more in R&D than any other sector in the UK and accounts for around 30% of the UK's total R&D spend. The area boasts five of the world's top medical research universities.

As well as its strong science base, the South East offers life sciences companies an ideal place to conduct medical trials, mainly because of the genetic diversity of London's 8 million population.

The Golden Research Triangle makes a good case to be the strongest bioscience cluster in Europe and the fourth in the world. A study conducted last year by Ernst & Young for the BIA (The BioIndustry Association) put the UK ahead of Germany and Switzerland (measured by the number of biotech products being developed).

Although dwarfed by the USA, the UK has the largest source of private sector funding in Europe. However, as the EU is the largest source of public sector funding, Brexit poses a risk to the sector and the cluster.

A major support component for the Golden Research Triangle, and in fact for the UK's significant opportunity in medical diagnostics, is the medical big data capability provided by clusters such as the one in Harwell.

WORLD UNIVERSITY RANKING BY SUBJECT – BIOLOGICAL SCIENCES (2015)

University		Ranking
University of Cambridge	🇬🇧	2
University of Oxford	🇬🇧	3
Imperial College London	🇬🇧	4
University College London	🇬🇧	17
King's University London	🇬🇧	44

Med City

Med City was launched in 2014 as an initiative to enhance collaboration between London's three premier life sciences academic institutions and promote the broader Golden Research Triangle. It represents a great opportunity for interdisciplinary collaboration to help maintain the UK's position at the forefront of health-tech development in Europe.

At the heart of Med City is the Francis Crick Institute in London. Funded to the tune of £1bn and opened in 2016, the institute is a partnership between Cancer Research UK, Imperial College London, King's College London , the Medical Research Council, University College London and the Wellcome Trust. It is envisaged the Institute will eventually be the biggest single biomedical laboratory in Europe with 1,500 staff, of which 1,250 will be scientists, and a budget of over £100m[5].

Regional biotech hubs

Regional hubs are using economic incentives to develop biotech clusters of their own. Alderley, for example, has inherited strengths in oncology and anti-infective drugs from AstraZeneca. South Wales is focusing on cell therapy and medical technology. And in the midlands, Nottingham's BioCity occupies the former Boots R&D facility where ibuprofen was developed.

Two of the biggest UK medical charities, the Wellcome Trust and Cancer Research UK, have research centres in Birmingham where £24m has been invested in the new Institute of Translational Medicine focused on clinical trials.

> **"The Golden Research Triangle between Oxford, Cambridge and London invests more in R&D than any other sector in the UK and accounts for around 30% of the UK's total R&D spend**

Automotive and Motorsport Clusters

Midlands Motorsport Valley

The M40 corridor connecting Silverstone, Banbury, Coventry and the West Midlands has been dubbed Motorsport Valley. It hosts the majority of the Formula One teams and their suppliers, and has businesses that dominate the design and manufacture of components for high-end motor racing.

The area has great infrastructure including world-famous race tracks at Rockingham and Silverstone, wind tunnels and good transport links. At its centre sits the Motorsport Industry Association (MIA), which promotes the sector internationally, runs events, works with universities to develop tailored courses and advocates the creation of a government-led UK motorsport unit.

With its glamour and mass appeal, F1 attracts some of the best graduates across the UK and internationally. Its high tech knowledge feeds into the wider UK motor industry including companies such as Jaguar Land Rover (Solihull and Coventry), BMW (Oxford), Rolls Royce (Birmingham) and further afield to Honda (Swindon) and Toyota (Derby).

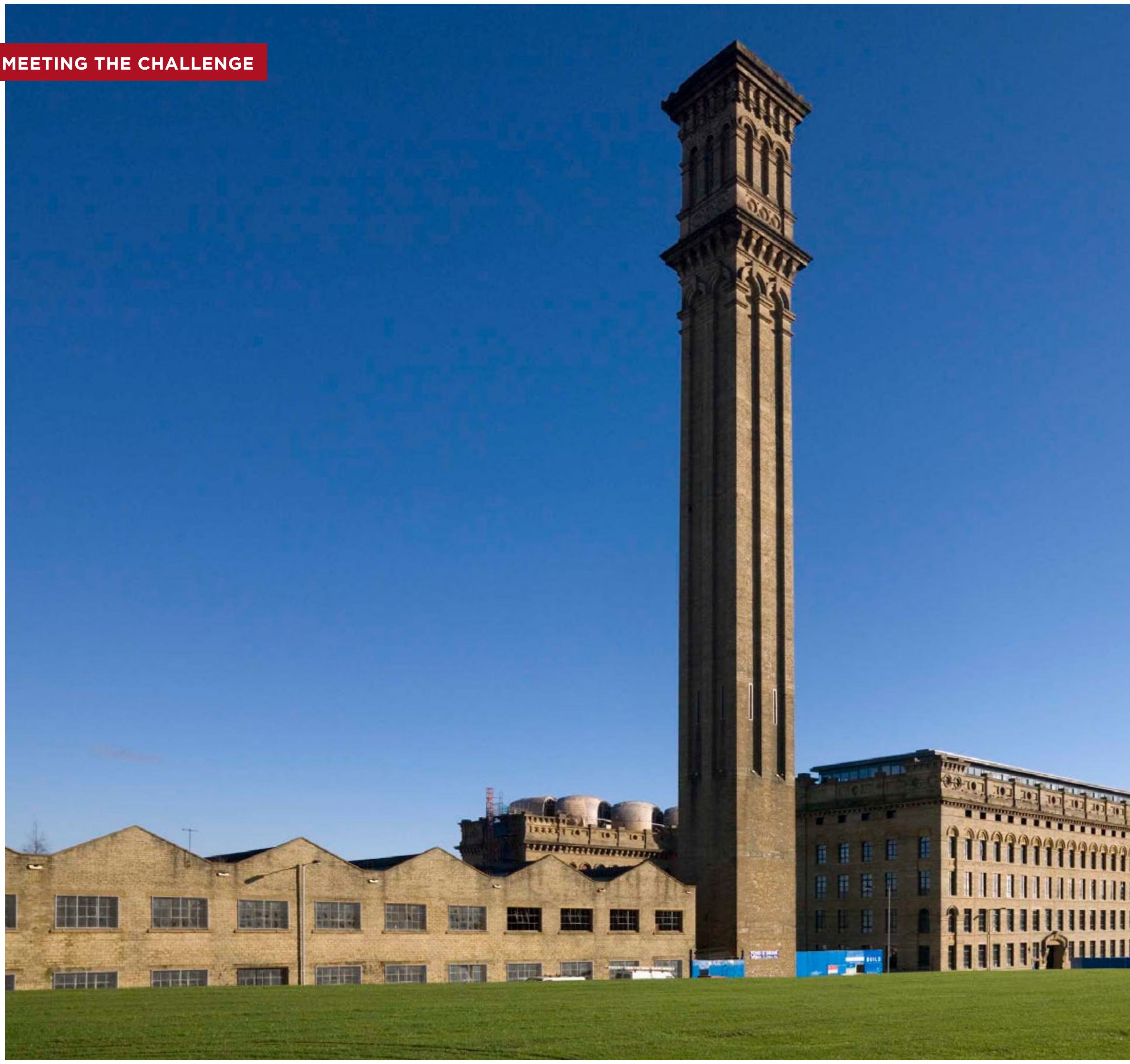
Around 4,000 firms operating in precision engineering are based within a one hour radius of Silverstone. They benefit from collaboration and competition from within the cluster which allows them to adapt their innovative technologies and products for a variety of industries in addition to automotive. Engineering companies enjoying concentric competition include big names like Ducati, Porsche and Lotus as well as many smaller companies.

An Evolving Opportunity

In our post-Brexit world it is critically important for the UK to promote and develop its clusters, which in many areas are truly exemplary on a global scale in terms of knowledge and capability. Equally, for developers and investors to maximise the value of their estates, they must look to understand what drives a cluster and the critical factors needed to encourage growth of a successful ecosystem.

The old style 'build it and they will come' approach is not only high risk, but fails to address the dynamic opportunity that clusters represent. New developments should target specific sectors and ensure that the means exist to focus on community, networks, knowledge transfer and innovation support.

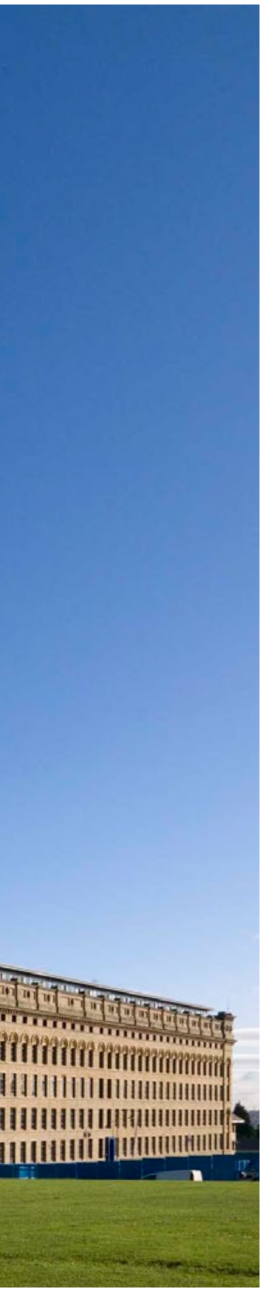
MEETING THE CHALLENGE



By Stephen Miles, Partner, Development and Planning *and Stephanie Hiscott,* Associate, Development and Planning

Making Heritage Work

During the industrial revolution, textile mills often sat at the heart of urban and rural communities. They provided employment for men, women and children, and their produce was exported the world over. Today, few are put to their original use. However, many of the buildings offer real potential for repurposing.



> There are over 1,500 remaining textile mills in the West Riding of Yorkshire, with approximately 1,350 that are either underused or vacant

Textile mills are an undeniably emotive symbol of our industrial heritage. Their distinctive character and often historic significance provide an excellent focus for repurposing.

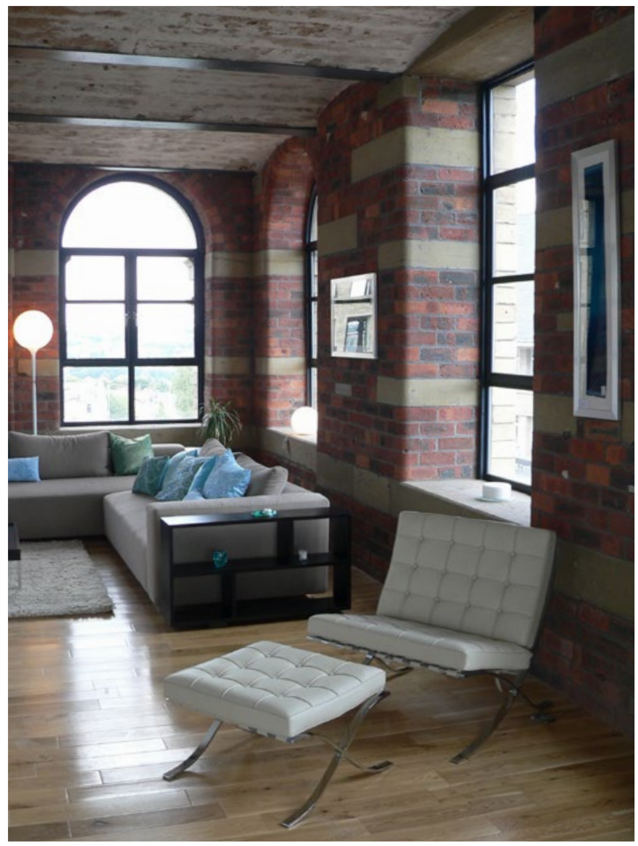
Two of the earliest such projects were Salts Mill and Dean Clough Mills in West Yorkshire. They illustrate how effective a mill redevelopment can be as a catalyst for local area regeneration. The benefits are not just in new housing, but also in the employment, social and economic benefits that come with the mill being at the centre of the community again.

Special challenges

Clearly, like other major developments, mill regeneration projects have their own challenges. Some mills are located in areas of weak occupier demand, which can suppress rental and capital values and therefore hinder viability of the redevelopment as a whole.

Equally, the fabric and structure of the mill building might be compromised if it has been under-used or left vacant for some time. As a result, the cost of adapting it could be higher than those of an average building renovation and so, again, there may be questions about financial viability.

> Regeneration of underused or vacant mills generates approximately 150,000 jobs (equivalent to £6.4bn Gross Value Added), or 27,000 homes



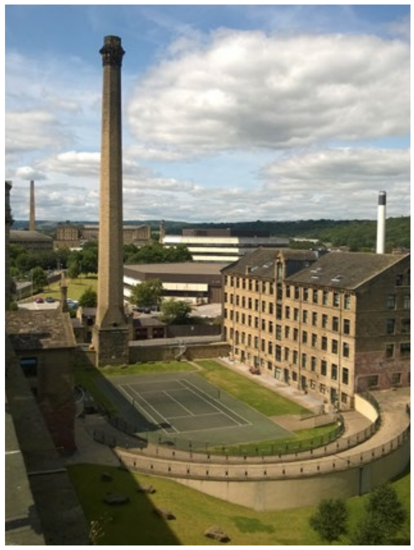
A growing appetite

There has been a marked improvement in both occupier and investor appetite for mill regeneration opportunities in recent years.

Across the north of England, local authorities are engaging with public and private sector partners to unlock delivery on some of the more difficult mill sites. Consequently, there is a wave of mill projects coming forward creating new commercial and residential floor space. Delivery will hugely benefit the regional economy and ensure that these powerful symbols of our industrial past play a role in the evolving Northern Powerhouse.

Best Practice Approaches

Due to all the uncertainties around cost, timing, planning and occupier demand, mill regeneration projects are viewed as high risk ventures by some developers and funders. However, there are several precedents of best practice that identify plausible approaches for addressing the constraints:



1

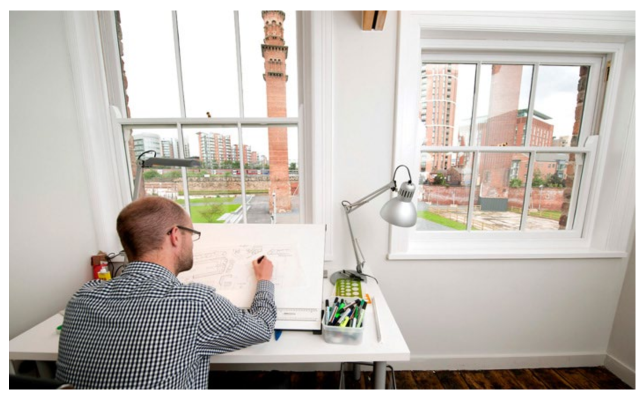
Target appropriate occupiers
Creative businesses have flourished in converted mill buildings including those at Marshall Mill and Sunny Bank Mills in Leeds.

The public sector has chosen to accommodate repurposed mill buildings such as the NHS at Acre Mills in Huddersfield and at Douglas Mill in Bradford.

2

Design and adaption solutions
Having greater flexibility in the adaptation of buildings, including partial demolition and new build on site using the concept of ‘Constructive Conservation’, can help drive change in mill buildings.

A good example is at Victoria Mills, Shipley, where the loss of the previous weaving sheds enabled the integration of old and new buildings with a high quality public space to create a successful residential redevelopment.



3

Business model solutions
The conventional developer model only works in certain circumstances and so it may be beneficial to consider alternative models.

Investors/developers establishing medium/long term funds that target such assets is one approach being used to bring forward mill redevelopment in inner city Leeds.

4

Collaborate
Success stories are evident where there has been strong collaboration in redevelopment projects involving, for example, the developer/land owner, local authority and Historic England.

5

Cost solutions
Implement smart cost management and early identification/dissemination strategy (prior to the closure of a mill) to avoid a period of vacancy.

Utilise tax concessions such as Enhanced Capital Allowances.

Off-set abnormal costs through enabling development.

6

Funding solutions
The aligning of public and private sector funds from the re-use can help plug up-front financial deficits.

"Bring on Ambitious, Quality Development"

By John Keyes, Head of Manchester Office, and *Caroline Baker,* Head of Development Consulting, Manchester

In the run-up to his election as Greater Manchester's new metro Mayor Andy Burnham gave us a wide-ranging interview on his vision for the region.

When asked about his well-publicised concerns over the draft Greater Manchester Spatial Framework, he stressed "I am no NIMBY but I feel like the current Framework lacks ambition and planners have taken the easy option by looking too readily at greenfield and green belt sites for development. I am pro development, but it must be quality development in the right places and right for people and local communities – not just right for developers."

Burnham recognises some of the concerns that the regional property industry has about his stance but stressed that he wants new homes and new jobs in the city region – especially high quality jobs. Andy said "Following the success of the city centre, focus now needs to turn to Greater Manchester's other towns and town centres. I want to use my mayoral powers and available public investment to drive this agenda."

The Spatial Framework, in his view, has looked at the "easy sites" not the "right sites". He believes the public sector has a key role to play in promoting quality investment – whether in infrastructure, cultural facilities, sports activities or green space – to enhance the value of the places that the property industry has often ignored in recent years. He said "I am passionate about creating great places to live which are healthy and less polluted. I am ambitious to see the neglected parts of the city region achieve what Manchester city centre, Media City and East Manchester have delivered in the last 20 years." He wants to work with developers who share his vision to support quality development across the whole of Greater Manchester.


John Keyes, Andy Burnham, Caroline Baker

Investing in skills

Burnham sees skills as central to the region's future success. "If elected I intend to create a world leading Digital City and I will focus on improving education and skills – especially technical skills. I will support greater collaboration between schools and colleges to deliver Greater Manchester's skills needs. I want to establish a UCAS style system – similar to that used when applying to University – to ensure that young people have much greater access and knowledge of apprenticeships available in the city region." Andy sees a key role for businesses in driving the skills and education agenda.

Central to providing support to young people in accessing quality education and training will be free bus passes for 16-18 year olds. Burnham said: "With devolution giving the Mayor and Combined Authority new powers over the region's buses, we can act immediately to help young people. I think improvements to bus services will be one of the most obvious and early benefits people will see if I am elected."

Burnham is also putting higher graduate retention at the heart of his plans. He said: "Greater Manchester needs to be seen as a credible alternative to London for bright young things. This means providing an appropriate supply of homes in the city centre and in other town centres. I will support higher density development and a range of housing solutions including rent to own."

"Our" Northern Powerhouse

Burnham does feel that the Northern Powerhouse has slipped down the agenda for Central Government, following the departure of George Osborne. "I have some concerns about whether the region will receive the funding, especially in infrastructure, that is needed", he said.

But added: "The North must drive the Northern Powerhouse agenda. Councils across the north need to

> "Greater Manchester needs to be seen as a credible alternative to London for bright young individuals

collaborate and deliver effective policies and solutions and then demand the appropriate support from the government – including financial contributions."

Better than London

When quizzed about the Greater Manchester Mayoral model compared to London, Burnham was adamant that the Manchester model is better. He stated: "Our model drives much closer relationships between the Mayor and the councils who are key to so much policy delivery. But devolution of the health and social care budget is the "game changer." Health spending influences so many areas of public policy. I am passionate to see reinforced links between health and housing policy which has been lost since the early days of the NHS. I am keen to looking afresh at the design and quality of housing to make sure care needs are factored in from the outset."

> "Greater Manchester is well placed for success

On Housing, Burnham welcomed the recent Housing White Paper, notably its desire to promote a greater mix of housing tenures.

The journey to devolution

Burnham feels the appointment of a Mayor marks a major step forward for devolution. "The Mayor will have a clear mandate and can provide leadership and direction. I want business and the public and voluntary sectors to get behind my agenda." He recognises that Greater Manchester is well placed for success: "The city region has never really stopped collaborating. We have a 30 year track record of partnership working. I recognise the great contribution of civic leaders like Sir Richard Leese and Sir Howard Bernstein but the election will move us further forward."

“

I see the opportunity to shape the city region and its future

He added: “I do believe we are on the start of a journey. There is a case to explore the passing of further powers to the Mayor, including over education spending and over benefits and social security budgets.”

The right move

Campaigning for Mayor and campaigning in a constituency in a General Election was described as “chalk and cheese.” “I have really been aware of the scale of the city region and the more diverse communities and issues that exist,” Burnham said.

He expressed his frustration with the politics of Westminster. “Whitehall just cannot provide all of the answers. The Mayor is a big role, a new role and a chance to make a positive difference. This is the right move for me. I see the opportunity to shape the city region and its future.”

“

I am passionate about creating great places to live which are healthy and less polluted. I am ambitious to see the neglected parts of the city region achieve what Manchester city centre, Media City and East Manchester have delivered in the last 20 years

Roadmap to success

The Greater Manchester Spatial Framework (GMSF) is being prepared jointly by the ten Greater Manchester Local Planning Authorities as the overarching statutory Development Plan Document for the combined authority area. Its role is to ensure that the right land use allocations are provided in the right places to deliver the homes and jobs needed up to 2035, along with identifying the new infrastructure required to achieve this.

In time, the new Mayor will need to use the Greater Manchester Agreement powers to create the final approved plan in conjunction with a unanimous vote of the Mayoral cabinet. Approval of the plan had been anticipated in 2018 but we expect this to move out.

Headline statistics that are part of the overarching spatial strategy are summarised as follows:

227,200

new homes

Around

4,000,000m²

of industrial and warehousing floorspace

A minimum of

2,450,000m²

of office floorspace

Over

25,000

responses were received in response to consultation on the draft plan

(October 2016 to January 2017)

Shaping Industry's Future

SECTOR FOCUS: INDUSTRIAL STRATEGY

Whilst the Government's recently launched Green Paper on Industrial Strategy lacked detail, it did show real appreciation of the industrial sector's achievements and importance to the UK economy. The required focus going forward is surely to ensure that industry and its surrounding infrastructure is fit for a post-Brexit world.

By Simon Lloyd,
Partner, Industrial

The Government's Green Paper on UK Industrial Strategy identified a number of pillars ranging from research and infrastructure to training and regional imbalances that are fundamental to industrial well-being. While the inclusion of these pillars is unsurprising, and many have been discussed at length previously, it is clear that they all need to be addressed to maximise the UK's competitiveness.

The impact of Brexit is still far from certain. However, this uncertainty makes it even more important that Government listens to the views of industry, recognises the many benefits of having a manufacturing base in the UK, and implements a coherent strategy for the sector's development.

Transport policy

One of the central pillars of the Strategy is the provision of an appropriate transport infrastructure. The difficulty here, as we all know, is that the road and rail networks are already highly congested. This congestion adds a considerable cost burden to business as well as having a damaging environmental impact. Addressing the problem will be a lengthy and costly affair, but doing so via a coordinated transport policy is absolutely critical.

Rail and air

Ongoing recent improvements to the existing rail system have meant that its use has increased significantly. This is

> Improvements to the infrastructure and growth of the skills base will help industry as a whole and also contribute to smoothing regional imbalances

good for taking congestion off the roads and also for the environment, but it has led to passenger overcrowding in many of the major conurbations.

Looking forward, the HS2 Bill is now progressing and, once delivered, the new railway will free up much needed passenger and freight capacity on the existing network. However, many more modern rail terminals are required for rail freight to maximise its competitiveness. Unfortunately, rail terminals are costly to develop and take considerable time to bring forward.

Furthermore, the elephant in the room, urgent progress is needed to resolve the London airport issue.

Planning

An area not addressed by the Green Paper is that the planning system is slow, costly and has uncertain outcomes in terms of both the form of consent and its timing. Major infrastructure projects take many years to bring to fruition and, while there are procedures that seek to speed the delivery of such schemes, the process as a whole is not quick or cheap.

It is appreciated that although there are many factors and views to be considered, the delays in the provision of infrastructure approvals does not help industry to flourish.

Land availability

Linked to the issue of infrastructure, is the question of land availability for industry versus land for residential. The public demand for housing is very strong. It is therefore politically expedient that some unsuitably located commercial sites are redeveloped for residential. However, this alone cannot fulfil housing need completely, and it also creates a demand that appropriate replacement sites are found for employment uses. Inevitably, this will mean looking at developing Green Belt sites, which is a very sensitive issue.

Growing the skills base

One of the major concerns of business is the availability of appropriately skilled labour. The Strategy recognises this and proposes to continue working with educational establishments and industry to develop the skill base. With the increasing number of technical colleges and apprenticeships it is clear that the process has started, although this is not a quick fix.

Having a voice

It is appropriate for business to have a proper route for lobbying on issues that are important to the sector. Although business pays a substantial amount of money in tax each year through mechanisms such as business rates, it does not have a voice to indicate how that money should be spent.

Greater input from the business sector into Government departments such as UKTI may help to address this issue and contribute to the ongoing development and implementation of appropriate industrial strategies.

Plenty of potential

The UK has a long history of industrial innovation, and developing this ability and capitalising on it seems entirely logical. Improvements to infrastructure and growth of the skill base will help industry as a whole and also contribute to smoothing regional imbalances.

However, although the industrial sector is already performing very well, it is not yet truly fit for purpose. The initiatives outlined in the Green Paper on Industrial Strategy and those associated areas not covered in its pages, if implemented, are essential to helping maintain industrial momentum and adding greater resilience to the UK economy.

Image: britishchamber.cn

> The UK is open and ready for business and the launch of the Industrial Strategy today shows our commitment to improving growth and productivity across the whole country
> —
> *Liam Fox, Secretary of State for International Trade*

Universities as the Engine for Growth

ALTERNATIVES

The Government is working to determine its industrial strategy and focus for future economic growth in a post-Brexit United Kingdom. David Feeney considers the role of universities and their importance in driving economic performance going forward.

By David Feeney, Student Accommodation Advisory

The UK is one the world's great centres of learning and is second only to the United States for its number of world class universities. It has 164 higher education providers and is home to over 2,000,000 students.

The Times Higher Education's World University Rankings places 32 UK universities in its global top 200, of which three are in the top 10 and the University of Oxford is at number one.

Continued growth in education at both a national and global level has seen UK university income grow by 70% since 2005 to £33.2bn. Around 10% of all internationally mobile students come to study in the UK and they spend approximately £11bn.[1] In very real terms, universities contribute significantly to national GDP and play an important role in driving economic growth.

A key economic sector

Universities UK, the representative organisation for the UK's universities, estimates that higher education accounts for 2.8% of UK GDP and 2.7% of all employment. This equates to around £73bn of economic output and over 757,000 FTE jobs.

The Association of University Directors of Estates notes that universities spend £2.75bn a year on capital projects. The annual income of the University of Cambridge is £1.6bn and of the University of Oxford is £1.4bn.

Engines for growth

There is recognition from Government that universities are central to the UK's economic growth in that they "generate the know-how and skills that fuel our growth and provide the basis for our nation's intellectual and cultural success".[2]

Reflecting Government belief that the knowledge economy will drive future growth, there has been an increase in young people going to university from 19% in 1990 to almost 40% today.

The 2013 Witty Review of Universities and Growth set out the recommendations for university involvement in driving economic growth. It noted that "universities have an extraordinary potential to enhance economic growth", and "much of the UK's comparative advantage in the 21st century could be derived from our universities".[3]

The role of universities is especially important in our post-financial crisis world of stunted global productivity in which UK productivity is 35% lower than in Germany.[4] University/business collaboration is considered key to unlocking productivity. The Higher Education Innovation Fund (HEIF) notes that collaborations between universities, business and communities return £7.30 for every £1 spent. Collaborative research, which currently stands at £4.2bn a year, grew by 6.2% last year and is helping to drive economic performance in many different ways.

Collaboration in action in Swansea
Cushman & Wakefield has worked closely with Swansea University for a number of years. During this time we have seen the £450m transformation of a former sea-front BP site into the University's 1m sq.ft. Bay Campus. The development, which was awarded the RICS Wales Regeneration Project of the Year 2016, highlights the economic impact of universities at local, national and international level.

Swansea University has fully embraced the concepts of collaborative research and exploitation of comparative advantage identified by Witty. Its areas of activity include alternative energy, membrane technology, aerospace, printing materials and medical diagnosis. Collaborations with companies such as BP, Rolls Royce, Airbus and Tata Steel are delivering productivity improvements and helping to drive regional and national economies.

- Working with Rolls Royce, the University Technology Centre in Materials helped to improve the efficiency of gas turbine engines, which led to a significant reduction in fuel consumption.

- Flite, a computational aerodynamics system, is being employed to revolutionise the speed of aerodynamic design work and has been used by NASA, BAE and Airbus.

7,500 workers on site

20% increase in students over 5 years

183 contracts awarded to Welsh companies

£48.4m in research awards for colleges at the Bay Campus

£162m average annual student spend in the region

40% studying in key STEM subjects

Source: Swansea University

University/business clustering
Perhaps the most famous UK example of university/business clustering is the 'Silicon Fen' region around Cambridge. It is home to a large number of software, biotechnology and electronics companies including ARM, which was recently subject to a £24bn takeover. This cluster of minds is helping to drive a technology sector growth rate 32% higher than the national average.[5]

The University of Manchester, whose 41,000 students make it the UK's largest university, is hoping to derive similar comparative advantage from the discovery of graphene (the 2D material that is 200 times stronger than steel and was isolated by two of its researchers in 2004). The University is looking to create a critical mass of researchers to drive an engineering ecosystem which will be fundamental to the planned development of the £61m National Graphene Institute.

Universities also help to drive economic performance in a number of ways beyond collaboration with multinationals. Many work closely with SMEs. Lancaster University, for instance, has created more than 4,000 jobs by collaborating with 5,000 SMEs. It has been awarded the Small Business Charter Gold, one of only three nationally, in recognition of its role in driving enterprise and economic performance.

Looking ahead
It is clear that universities will play a central role in developing the UK's economy over the coming decades.

The Government's preliminary proposals for a post-Brexit UK6 note that around half of today's 17 year olds will have participated in higher education by the time they are 30. In doing so, these young people will help forge the role of universities in commercialising research and spin-out companies, aid greater collaboration between universities and businesses, and contribute to developing a tighter focus on local strengths and advantages.

Today's young people operate in an economy the OECD recognises is built on knowledge and information. Within this, university teaching, research and knowledge exchange are at the heart of the process.

> "Universities UK, the representative organisation for the UK's universities, estimates that higher education accounts for 2.8% of UK GDP and 2.7% of all employment

1 The Impact of Universities on the UK Economy (Universities UK)
2 Success as a Knowledge Economy (Higher Education White Paper 2016)
3 Universities and Growth: The Witty Review (2013)
4 Autumn Statement 2016
5 Tech Nation 2016
6 Building Our Industrial Strategy (Green Paper)

£ SECTOR: PRS

Dawn of the Rental Generation

After decades of decline, the Private Rented Sector (PRS) is undergoing a remarkable period of growth. Rental values are positive and strong investor appetite has driven growth of unit availability in urban centres across the country.

> "The Private rented sector is now seen as a tenure of choice

By Jack Simmons, Partner, Head of Residential Investment

The main drivers for today's growth in the Private Rented Sector (PRS) have been well documented: high house prices that have proved remarkably buoyant in some parts of the country even after the 2008-09 crash; a protracted period of flat or constrained incomes; the severely curtailed availability of mortgage finance; and the high levels of deposit now commonly needed to access home ownership.

For young people in particular, these factors have combined to force a delay in home ownership until later in life and, for many, to probably make it unobtainable. With affordable housing generally heavily oversubscribed and the waiting list for affordable accommodation approaching 4.5 million people in England alone, the PRS is now often seen as the only realistic option for tenure.

Changing trends

The trend towards rental has become so marked that it is bringing about a structural shift in home ownership, particularly among 25-34 year olds. In 2008, 52% of this group were in owner occupation, 31% in the PRS and the balance of 17% in the social rented sector. However, if current trends continue, by 2020 the position will reverse and there will be a 51% majority in the PRS with only a third in home ownership.

Countrywide growth

Growth at the level we are currently witnessing represents an additional 1.2 million households in the PRS over a five year period. While this has been concentrated in urban areas, it is by no means exclusively in London and the South East. Indeed, we have seen Manchester, Birmingham, Leeds and Bristol experiencing similar urban growth.

The London PRS market has remained lively with numerous high profile transactions including L&Q's £72m forward funding for the Oaks in Ealing and the £74m forward funding of Colindale.

However, the stage is now set with a strong focus on regional cities. In fact, 2016 saw a seminal change with investors showing a strong appetite for regional PRS product. While most of this focus has been on Manchester with its thriving commercial offering and plentiful product, many 2nd and 3rd tier cities are causing a stir.

For example, Sheffield's largest PRS scheme, the Velocity City 371 apartment scheme, was sold in 2016 to Addington/Europa Capital for £36.75m. In Bath, a scheme of 171 apartments was forward funded for L&G + PGGM. And in Newcastle, the TT Portfolio comprising a 500 unit PRS sold to William Pears for £25m. Alongside all this, Manchester City Council and Abu Dhabi United Group are working on a 6,000 unit scheme in East Manchester.

The HS1 / HS2 effect

Even at this early stage of 2017 we are seeing increasing opportunities in emerging regional cities such as Liverpool, Preston, Hull and Derby. All are keen to attract significant investment to stimulate regeneration through PRS provision.

Key to the PRS opportunity is the improved connectivity expected through HS1 and HS2. Birmingham has seen only minimal PRS provision so far, but it is recognised by investors as potentially a major PRS location. Interestingly, it is not just the connectivity to London that is driving investor appetite, but also connectivity between the major regional cities. For investors this is an opportunity to create a diverse portfolio with increased net returns.

Construction industry challenges

A significant consideration for the regions is that although there is a proven tenant/customer demand for rental product, and an appetite to commit by investors, the ability to build the product cost effectively is proving to be a challenge.

Contractors and developers are devising innovative strategies to enable quicker and more efficient methods of delivering PRS schemes. For example, L&G has established its own construction plant to build modular apartments and so control both the delivery schedule and the build quality.

£30bn

£30bn is ready to be invested in PRS across the UK.

13.5%

Latest IPD data shows a total return from residential property of 13.5%.

58% aged 25-44

58% of private renters are aged between 25 and 44.

72%

72% of PRS landlords own just one rental property. Only 12% own more than three properties.

51% under 35

Just over half (51%) of private renters are under 35, of which 54% have no dependents.

£1.29tn

PRS is currently worth an estimated £1.29tn, an increase of 55% since 2010.

50%+ in PRS by 2025

By 2025, it is estimated that over 50% of 20 to 39 year olds in the UK will be in the PRS (PwC).

+1.1m

Demand for rental properties will grow by 1.1m households by 2021 (20,000 units per month required).

19% of population

The number of households in the PRS has more than doubled since 2001 to 19% of the population.

40,000 units

Build to rent pipeline of over 40,000 units across the UK (BPF).

> The Private Rented Sector is now often seen as the only realistic option for tenure

Government support

Not only is there Local Government enthusiasm for attracting PRS into regeneration projects, but Central Government has also responded to the opportunity for increasing the flow of new build housing across the UK.

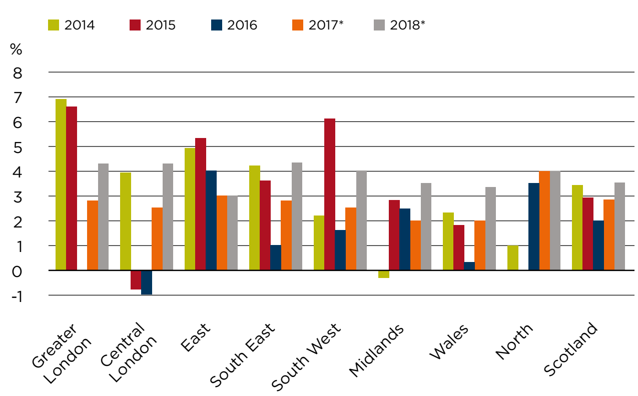
To show its support, which has perhaps been lacking in previous years, Government has established a Housing Infrastructure Fund to provide £2.3bn for build-to-rent projects. While, as usual, there are significant hoops to jump through to obtain this funding, it is a game changer for developers and investors alike and shows a tangible commitment by the Government to expand the UK's housing stock. The latter was further emphasised in the recent publication of The Housing White Paper, which supports increasing the PRS sector.

A positive outlook

The prediction for the PRS market in 2017 and beyond is very positive in terms of demand, funding and political support. There is a genuine focus across the whole of the UK to deliver more PRS product.

Rental growth levels by UK region

Rental growth across the UK for the next three years is projected to be very positive. In general, this is fuelled by a lack of good quality product and high customer demand.



Source: Countrywide Research Lettings Index. *Data based on forecasts

BPF figures

Regional growth is demonstrated by the BPF November 2016 figures, which show that there is now an even split between London and the regions for PRS units.

	Oct 2015	Oct 2016	% Increase
London	14,516	33,411	130%
Regions	7,112	34,415	384%

TRENDING

PiP – the new 'Third Way'

The Government's recent White Paper for Housing makes it clear that the current planning system with its 'plan led' approach will remain a key element in the delivery of housing growth. However, in an attempt to speed the process, later this spring we'll see the introduction of Permission in Principle (PiP); a new 'third way' of achieving planning permission.

By Ian Anderson, Planning and Development Consultancy

It is fair to say that the Government's recent White Paper for Housing met with a mixed reception across the industry. It acknowledged that the market is 'broken' and also recognised the importance of the rental sector in lieu of home ownership, but many of the big issues were not addressed.

Gavin Barwell, Minister of State for Housing and Planning, has a mantra that says you can't live in a planning permission. This holds true at face value but, unless future housing provision is to be made entirely of reoccupied commercial and other permitted development changes, the current planning system will remain central to the delivery of housing growth.

To its credit, the Government continues to seek ways of speeding the processes. In the past two years we have seen reform on further extended permitted development rights, simplifying pre-commencement requirements and the express discharge of conditions. Later this spring, and perhaps even more radical, Permission in Principle (PiP) will be introduced specifically for housing-led developments as a new 'third way' of achieving planning permission.

PiP explained

At the moment, planning permission can be applied for either in 'outline', followed by an application for approval of reserved matters, or 'full' with all details taken into account. Both routes require applicants to provide substantial amounts of information up-front.

The current process means that developers and landowners often have to spend significant time and resource even to establish outline 'in principle' acceptability of development. Major proposals that do not require an EIA are supposed to take up to 13 weeks to determine such a principle. However, as most of us know, the reality is that it often takes far longer.

By introducing PiP for housing-led development, the Government is seeking to increase the efficiency of the planning process by establishing more certainty as to whether land is suitable for new homes.

The intention of doing so is to separate decision making on 'in principle' issues including use, location and density/amount from matters of technical detail such as materials and what the buildings will look like.

A grant of PiP would have to be followed by a successful application for Technical Details Consent (TDC) before the applicant could benefit from planning permission to develop the site.

Where will PiP be allowed?

Powers secured through the Housing and Planning Act 2016 allow PiP to be granted when:

- Local authorities or other qualifying bodies choose to allocate housing-led development in local or neighbourhood plans.

- Local authorities identify land on their brownfield land registers (which they are required to set up under section 14A of the Planning and Compulsory Purchase Act 2004 once the Town and Country Planning (Register of Previously Developed Land) Regulations 2017 come into force).

There may also be the opportunity to seek PiP directly for smaller schemes of say 10 units or below that do not feature in local/neighbourhood plans or the register. However, this has yet to be confirmed.

Speeding the principle

It is hoped that PiP will enable the principle for 'housing-led' schemes to be established within a five week process, though the subsequent TDC, which is ultimately what will be required in order to start construction, is likely to take longer.

> "By introducing PiP for housing-led development, the Government is seeking to increase the efficiency of the planning process by establishing more certainty as to whether land is suitable for new homes

The thinking is that this will allow some certainty on the acceptability of the overall use of the site for housing, appropriate location of development within the site and density (possibly within maximum and minimum parameters).

The exact method by which this will be achieved is still being determined. It could be through the wider use of 'parameter plans' as a quick way of identifying those areas within the site where development is acceptable and where densification is possible.

Clearly, there will also be a need to determine the extent to which such 'housing led' schemes can accommodate other uses. In this respect it is likely the guidance will have to provide a judgement, for example, on the proportion of housing on site versus other uses, so that it remains within the spirit of PiP and compliant with other elements of Government policy.

PiP's will also have conditions attached and potentially be subject to CIL/S106. As with an outline or full planning application route, there will be a right of appeal against any refusal.

Awaiting the details

Much of whether PiP will add to, or detract from, the existing outline or full planning permission approach ultimately rests in the detail due to be published in spring 2017.

We know that the PiP process is likely to exempt EIA based schemes, which could unfortunately cut out many major housing proposals from qualifying. A robust approach will also need to be taken to flooding, heritage, nature conservation and traffic at the plan-making stage to avoid doing it at the PiP stage.

A possible unintended consequence could be that developers and landowners have to 'front load' their ambitions by making sure sites are included in local plans/brownfield registers. Failing to do this could invite the risks of negotiating with parishes as part of the neighbourhood planning process, which would defeat the object.

Whether this third way will be the silver bullet the Government requires to unlock planning and deliver more housing growth remains to be seen. With so many details yet to be finalised it is very much a case of watch this space!

TOPICAL

Still Holding our Breath on Costs

The UK construction industry took a very deep breath following the Brexit referendum. There's been a bounce back, and some areas are doing better than others, but the pervading attitude is still one of caution. Think differently and be open to change is today's guiding mantra.

By Jon Thorn, Partner, Head of London Cost Consultancy, Project Management & Consultancy

Initial reaction to the Brexit referendum was one of pause and consolidation. This inevitably slowed construction output in the months following the vote. Consultants saw multiple projects put on hold as investors, developers and government departments considered their positions.

By October the construction industry was enjoying a surge in activity due, in large, to an increase in the housebuilding and civil engineering sectors. Unfortunately the commercial building sector continued to stall as international investors remained wary. As we move through 2017, the commercial office fit-out sector is holding steady and there is an encouraging number of enquires.

At Cushman & Wakefield, we have seen growth in tender costs for much of the work we undertake. This perhaps reflects the relatively short nature of the programmes we become involved with, many complete within 12 months, and the fact that the majority happen in and around London, which is still a booming location.

> According to the CIOB, the UK needs to find 224,000 new recruits by 2019 to cover the current skills shortage

Dealing with the unknown

The real challenges of Brexit are yet to be fully understood and, even though the official exit process has begun, we can still only speculate on likely scenarios, outcomes and how these will affect UK construction. The truth is that until the respective trade agreements are in written form it is impossible to estimate the full impact.

Larger, longer term projects being procured at present will have to somehow address potential post-Brexit changes. These projects could see contractors factoring-in large amounts for risk related items, especially where they are committed to lump sum costs over a two or three year period.

It is worth noting that immediately after the vote in June 2016, the BCIS revised its TPI forecast to show a steady decrease through to 3Q 2018. However, six months down the line, it fundamentally revised the same forecast to an equally steady increase over the same period.

Uncertainty during the next five years could see a shift in the procurement options that contractors are willing to commit to. In an attempt to transfer or off-set risk back to the client, contractors may well push for two-stage procurement and/or actual cost contracts that see sub-contractors procured much later in the programme. This will enable the contractor to better manage and control their risk profile.

Areas of concern

Based on what we know today, the main areas of concern within the industry for the coming years are a reduction in skilled labour, increased wages and potential increases in import costs.

The potential loss of a motivated workforce is perhaps the toughest challenge to overcome. UK government figures estimate that 12% of the industry's 2.1m workers are from abroad. If freedom of movement is restricted then we could see the existing skills shortage get much worse.

According to the CIOB, the UK needs to find 224,000 new recruits by 2019 to cover the current skills shortage. This situation will become even worse if the influx of workers from Europe is disrupted.

In turn, the increasing skill shortage is pushing wages further out. Within booming markets, particularly London, salaries are increasing across all sectors and thus driving output costs up. Again, this is another problem that could become more pronounced if large sections of the workforce are compelled to leave post-Brexit.

> 12% of the industry's 2.1 million workers are from abroad

Another effect following the Brexit vote was an immediate 10% fall in Sterling against the Euro to a low not seen since 1985. This affected the contractor's ability to procure materials from Europe on fixed price contracts, which significantly impacted on outturn profit on projects already secured. Since then, all new projects have seen an increase in materials costs and thus in tender prices. Although competition helps keep the increases in check, there is no way of predicting what the future will bring.

On top of everything, the industry also needs to consider the loss of EU funding for public sector projects. In recent years the UK has been one of the main beneficiaries of EU funding and so, by leaving the union, we are disqualifying ourselves from future investment.

Thinking differently

With the increase in material and labour costs, one area of the industry that may see an increase in investment and usage could be off-site/modular construction. It might be that developers chose to have elements and perhaps whole building units mass produced in factories at a reduced cost and in a more controllable environment than is possible in-situ.

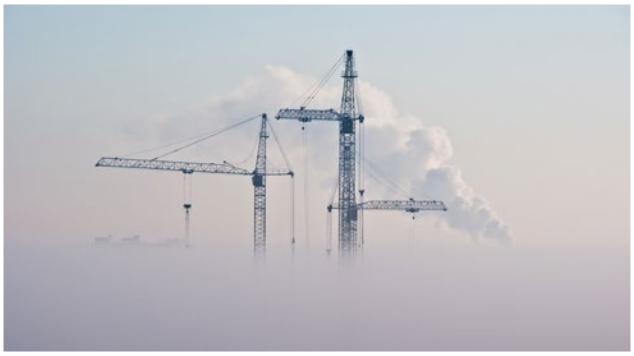
Another effect is the inevitable squeezing of contractors' margins. This will see contractors who have committed to lump sum contracts trying harder than ever to generate post contract variations to drive up their revenue and profit. This is not new to the industry, but it will be something that cost consultants need to be on their toes to combat.

A matter of opinion

Everything said so far is, of course, speculation based on observations since the vote. The truth is that we will have to wait until way beyond the triggering of Article 50 to see how negotiating positions unfold.

Parliament being responsible for the final approval of deals with the EU provides reassurance to investors and the markets that any such deals will be in the best interests of the UK and the long term prospects of UK GDP. There is no benefit for either the UK or the EU in prolonging negotiations beyond the prescribed timeline and so we can hope that deals will be mutually acceptable.

Despite the potential issues that Brexit brings, it doesn't change the fact that our ever growing population will continue driving demand for new housing, employment opportunities and the associated infrastructure. While the future may be uncertain, there are many positives to explore as the next period of UK growth awaits us.



LOCAL LIFE

Why stay at home? Get out and enjoy the wide variety of events and entertainment that Bristol and its surrounding areas have to offer over the next few months

Where to be seen in Bristol

VEGFEST
20-21 MAY

Europe's biggest vegan festival, Vegfest, is now returning to Bristol's Harbourside during one weekend only in May. 180 stalls, 15 specialist vegan caterers from across the world, four licensed bars, talks, live music and cookery demos will ensure there is enough entertainment both for adults and kids.
www.visitbristol.co.uk/whats-on/vegfest-uk-p1987203

ICC WOMEN'S CRICKET WORLD CUP
26 JUNE – 23 JULY

Bristol has been named as the UK's European city of Sport for 2017 and Gloucester County Cricket Club will be one of the five venues hosting the ICC Women's Cricket World Cup this summer, held for the first time in England since 1993. Bristol will take on a theme of encouraging a surge in women and girls' sport in the city. A great way to celebrate the part sport plays in every aspect of life across the city.
www.gloscricket.co.uk/cricket/icc-womens-world-cup/

BRISTOL HARBOUR FESTIVAL
21-23 JULY

Celebrate Bristol's maritime heritage at Bristol Harbour Festival – the annual summer festival since 1971. If you are a fan of arts, circus, dance, music, boats, nautical capers, good food and drink and general enjoyment – make sure you put that weekend in your diary. www.bristolharbourfestival.co.uk

UPFEST
23–25 JULY

Europe's largest Street Art and Graffiti Festival comes back to Bristol in the Summer of 2017. After a great success in 2015, which brought 30,000 visitors and 300 artists from across the globe to Bristol, the city will have 30,000 sq ft of surfaces being painted across 35 venues. The event is free and will have art works for sale, live music and art workshops which will undoubtedly turn this event into a visually spectacular entertaining weekend.
www.upfest.co.uk

BRISTOL INTERNATIONAL BALLOON FIESTA

10–13 AUGUST

The Bristol International Balloon Fiesta is Europe's largest annual meeting of hot air balloons, attracting over 150 hot air balloons from across the globe and thousands of visitors each year. Held over 4 days in August at Ashton Court Estate, the event will give you the opportunity not only witnessing the spectacle launch of multiple balloons, but also to board on one and enjoy the firework displays at the end of the day. www.bristolballoonfiesta.co.uk

> "From the Europe's largest Street Art and Graffiti Festival to the Greater Bristol Half Marathon, Bristol offers something for everyone

BRISTOL IN THE SKY 2017

7-10 SEPTEMBER

Following huge success in London and for the first time in Bristol, you will now be able to take your dining habits to new heights. During 4 days only, Bristol will see some of the city's best restaurants hosting their dining experiences in unique sky tables, suspended 100 feet in the air by a mobile crane. Guests will be in 22-seat tables, securely fastened in their seats, with a pop-up kitchen, chef and sommelier in the centre.
www.visitbristol.co.uk/whats-on/bristol-in-the-sky-2017-p2160873

GREAT BRISTOL HALF MARATHON

17 SEPTEMBER

First staged in 1989 and recently added to the UK's Great Run Series, Bristol's Half Marathon is a great way to test your fitness limits while having great fun. Join the 10,000 runners and pass through the city's most recognisable landmarks including the Avon Gorge and Brunel's Clifton Suspension Bridge in this must-go event. www.greatrun.org/great-bristol-half-marathon

AEROSPACE BRISTOL

SUMMER 2017

Due to open for the first time during the summer of 2017, Aerospace Bristol is a new industrial heritage museum and learning centre that tells the story of Bristol's world class aerospace industry. The museum will showcase the last Concorde to be built and to fly and will surely be a great way to admire and applaud the British and Bristol's origins and history of the aerospace industry.
www.aerospacebristol.org

AIRHOP BRISTOL

ALL YEAR ROUND

The world's largest trampoline park is now open in Patchway, Bristol. With over 177 trampolines you'll be able to exercise while having fun in one of Airhop's 2 dodgeball courts, 5 slam dunk lanes, 5 foam pit lanes, battle beams, slack lines, Total Wipeout zone and huge main court. There's no better place for you to practice and show-off your parkour flips and tricks to your friends and family.
www.airhop-bristol.com

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