Corporate & Commercial

Building momentum: the Northern Powerhouse

NatWest

The establishment of an economic powerhouse in the North of England will require collaboration, innovation and investment in infrastructure, but its impact on the real estate sector could be significant

15 million

£287bn

The North of England produces £287bn GVA from a population of 15 million

Source: Office for National Statistics; figures have been rounded

£19.9k

The North of England GVA per capita ranges from £17,400 – £19,900

£40.2k

London produces £338bn GVA from a population of 8.5 million. GVA per capita is £40,200

Source: Office for National Statistics; figures have been rounded

Comparison with Germany's Rhine-Ruhr region

A useful international comparison with the North of England is the Rhine-Ruhr metropolitan region in Germany. It is home to 11 million people from five large and 10 smaller cities, compared with the North's 15 million people from six major and 11 smaller cities. It is host to 12 Fortune 500 companies, and average GDP per capita ranges from £22,900 to £25,300 – that's 30% higher than GVA in the North of England. It has an integrated rail network covering 15,300km and carrying 1.2 billion customers a year, with 39 transport companies operating under one ticketing and pricing system.

The concept of the Northern Powerhouse received a first airing in June 2014, and the chancellor, George Osborne, has revisited the theme on many occasions since. The premise behind the strategy is that the North of England, with its major cities of Manchester, Leeds, Liverpool, Newcastle, Sheffield and Hull, and a population of 15 million, is not fulfilling its potential. The region produces gross value added (GVA) of £287bn, compared with £338bn produced in London, from a population of 8.5 million. GVA per capita across the North ranges from £17,400 to £19,900, while in the capital it is £40,200. While the comparison with a global financial centre may be slightly unfair, the gap in productivity between London and the second largest city economy, Manchester, is wider than the equivalent in any other G7 country.

So what can the North do to deliver better opportunities for the local population while contributing to stronger and more balanced growth in the UK as a whole?

Cover image shows MediaCityUK, Salford

Devolution

According to Core Cities, a cross-party grouping of leaders of the major regional cities, almost 95% of taxes raised in cities go directly to central government funds, with just 5 – 7% controlled locally. In Germany, c30% is controlled locally or regionally, in the US c40% and in Canada over 50%. Most spending on cities is deployed through a variety of government departments, perhaps hampering the co-ordination at a local level required to maximise the benefit of investment.

The government has promoted the devolution agenda, but has stipulated that regions must agree to directly elected mayors, to ensure that decision-making is effective and in the interests of the region as a whole. Greater Manchester will hold elections in 2017 and has already had some powers devolved from Westminster, including those involving transport and housing, as well as the right to retain all growth associated with business rates. Indeed, 10 local authorities have worked closely together under the Greater Manchester banner for years, rendering public expenditure more co-ordinated, and heavily promoting inward investment. The results seem evident: in 2012 (the latest year for which such data is available), the Manchester economy grew by 3.8%, compared with 2.0% in London and more than any other major city. Other progress has included the establishment of the Greater Manchester Land Commission, which co-ordinates how the region's publicly owned land can be used to support its wider ambitions – including the need for 10,000 new homes a year.

Elsewhere, Leeds City Region has demonstrated the potential of co-ordinated action at a local level. Its scheme to cut youth unemployment helped thousands of young people find work, achieving a 70% success rate compared with 30% for the equivalent national scheme[1]. In the North East, seven councils have come together to create the North East Combined Authority, with Newcastle's Stephenson Quarter and Science Central developments cited as evidence of the benefits of this co-ordinated approach.

Significantly, however, if powers are to be devolved on a wider scale, it is likely that the councils of Wakefield, Bradford, Gateshead and Sunderland, for example, may have to accept that theirs will be a junior role to the dominant cities in their regions.

Infrastructure

As well as co-ordination within regions, there needs to be better interaction between cities. While Leeds and Manchester are only 40 miles apart, just 0.2% of Leeds residents commute into Manchester. This is due in no small part to the train journey between the two, which takes at least 50 minutes and is characterised by unreliability, overcrowding and ageing rolling stock.

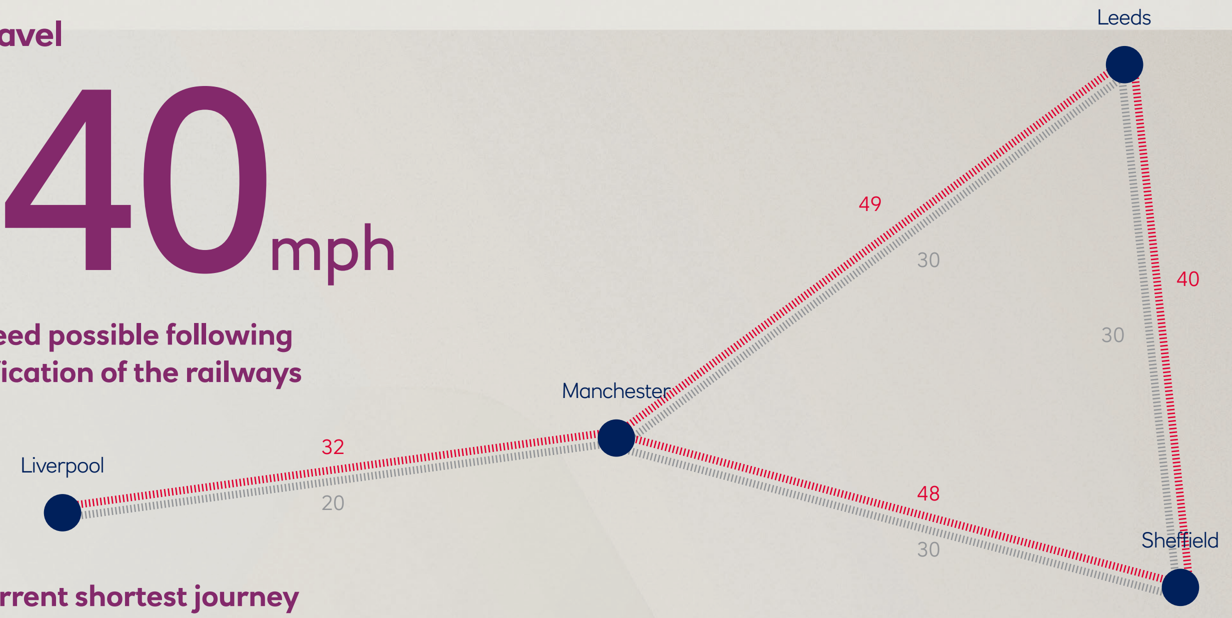
The Transport for the North partnership, which advises the government on strategic transport infrastructure interventions across the region, aspires to bringing Manchester, Leeds and Sheffield within 30 minutes of each other, and Manchester and Liverpool just 20 minutes apart. Network Rail's recently recommenced TransPennine electrification programme is a first step towards achieving this vision.

1 LEP (Leeds City Region Enterprise Partnership)

Rail travel

140mph

Top speed possible following electrification of the railways



Current shortest journey times in minutes

Expected journey times following proposed improvements

Source: *The Northern Powerhouse: One Agenda, One Economy, One North* (Transport for the North)

Work

15%

Currently, of those who move to the North to study, 15% stay in the region to work following graduation

20%

Of those who leave the North to study elsewhere, 20% return to the region to work following graduation

56%

Of those who lived in the North before studying there, 56% remain in the region to work following graduation

Source: *Loyals, Stayers, Returners and Incomers: Graduate migration patterns* (HECSU)

If realised, it would give businesses access to a larger pool of potential employees, encourage residents to look further afield for work, and foster increased interaction between businesses in different cities.

The need for investment in the road network is just as urgent, and the government has committed to £3bn of road improvements across the North. Experience shows that commitment to infrastructure helps to encourage further private sector investment. Legal & General is investing £162m into Thorpe Park, a 200-acre mixed-use development in East Leeds, where developer Scarborough Group estimates that the construction of the East Leeds Orbital road will allow a potential 7,000 new homes to be built.

Ultimately, Transport for the North envisages an "integrated Northern travel area with a single smart ticketing solution for all modes of transport across the region". Borrowing from the success of the Oyster system, which is claimed to have resulted in a 30% increase in movement of people across Greater London, fares and ticketing would be co-ordinated, with London Underground-style zoning and smart payment.

Innovation

If the North's productivity is to be improved, and the gap with London closed, the human capital of the region must also be fully harnessed. Figures from the Office for National Statistics highlight the attraction of higher education in the region: in the year to June 2013, a net 12,000 people aged 18 – 20 moved to the North from other parts of the country.

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However, in the same year, 29,000 people aged 21 – 30 moved the other way, suggesting that young people may perceive greater opportunities elsewhere. This despite a recent study by the charity the Intergenerational Foundation ('Should Young People Look North?'), which concluded that many graduates would be better off avoiding the capital, as housing in the South East is prohibitively expensive for most young people. Its analysis shows that Manchester, Newcastle, Liverpool, Sheffield and Leeds scored highest in the study on a combination of graduate-level employment opportunities and affordable housing.

The transition from education to employment is key. Technical colleges that offer industry-specific courses, and apprenticeships such as the Rolls-Royce schemes in Newcastle, Sunderland and Warrington improve the pool of skilled labour in the region, while incubator hubs such as those at Manchester Metropolitan University help to support innovation.

For talented graduates, there are an increasing number of opportunities in the North. The National Graphene Institute, set up by the University of Manchester, aims to retain leadership in the development of the material discovered by two Manchester-based scientists. On the back of this success, the Sir Henry Royce Institute for Materials Research and Innovation, with £235m government funding, is also being built in Manchester, and will include satellite centres in Sheffield, Leeds and Liverpool. The Advanced Manufacturing Research Centre (AMRC), developed by the University of Sheffield in conjunction with Boeing, is a world-class research centre for aerospace and other high-value manufacturing. The AMRC is now the anchor tenant at the Advanced Manufacturing Park in Rotherham, a public-private partnership to create a centre for engineering, research and manufacturing.

Implications for real estate markets

Some have voiced concerns that improved rail links across the largest northern cities will only serve to benefit these cities at the expense of smaller towns and rural areas. Indeed, there is an unashamed belief among some proponents of the plan that the vast majority of economic growth comes from urban concentrations, and that improving access to them is the fastest route to increasing productivity. What, then, for smaller locations? For some, specialisation could offer one of the best routes to success. This is exemplified by the nuclear research and technology cluster in Warrington employing 4,000 people, and the media cluster in Salford centred on the BBC. Business parks would be particularly exposed to this trend, and those with no specific draw beyond access to a motorway would be forced to compete purely on price, with rents potentially insufficient to justify development of modern stock.

Connectivity

Analysis by property research consultancy PMA shows that, since 2008, rail connectivity has steadily become a key driver of office rental growth, along with airport accessibility. This suggests that office rents in central Manchester, Leeds, Liverpool

House prices

50%

In the North, the ratio of house prices to income is barely half what it is in London

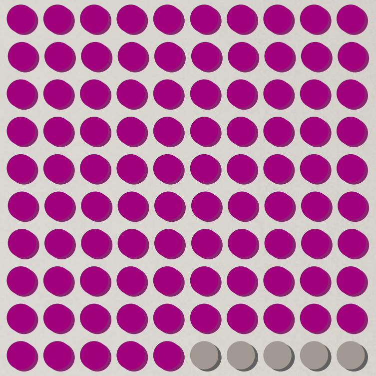
Source: Halifax House Price Index

Devolution

95%

Almost 95% of taxes raised in cities goes directly to central government

Source: Core Cities



Lessons from the Øresund bridge

A potent symbol of the benefits of co-operation on infrastructure investment is the Øresund bridge between Copenhagen, Denmark, and Malmö, Sweden. The five-mile bridge, which carries train lines, a motorway and a data cable for internet transmission, was completed in 2000 and cost 30 billion krone (£3bn) to build, financed by loans guaranteed by the Danish and Swedish governments. The results have been dramatic, with traffic between the two countries increasing by 61% in the first year, and increasing rapidly again since 2005. There is also evidence that a growing number of Danes are taking advantage of cheaper house prices in Malmö and commuting back into Copenhagen.

and Sheffield could be significantly boosted by the improved rail links outlined by Transport for the North, as well as improved access to Manchester Airport.

The global reach of Heathrow Airport was a key driver for the development of the Thames Valley as a major hub for international businesses. Manchester Airport, which now has direct flights to many key business locations including Frankfurt, New York, Singapore, Hong Kong and, from 2016, Beijing, has the potential to create something similar in the North West. The draw of the airport is demonstrated by the plans for Airport City Manchester, a 5 million square foot site encompassing offices and advanced manufacturing and logistics facilities.

Given an increased concentration of office-based employment in cities, it is possible that some smaller conurbations surrounding these cities will take on the characteristics of dormitory towns. In the South East, there are a number of sizeable and affluent towns where a large proportion of the working population travel to London for work every day, thanks to quick and direct rail links. These would not be considered front-line office locations, as most white-collar workers who live locally would perceive considerably greater opportunities in London.

They do, however, have very strong residential markets, and appealing retail, leisure and cultural offerings. Some towns and outer suburbs surrounding the key northern cities could benefit from a dramatic improvement in amenities where the increased affluence of the local population attracts new retailers and restaurants.

For the distribution sector, investment in the nine major freight ports in the region could redraw the map of the country for logistics firms. Peel Ports Group has committed £300m on a new deep-sea container terminal at Liverpool docks, which will be able to accommodate 95% of the world's container ships.

Elsewhere, Associated British Ports (ABP) has committed £150m to improve the Port of Hull, and a £180m investment is planned for the Port of Tyne. The so-called 'Golden Triangle' in the East Midlands is currently the UK's dominant logistics hub, thanks to its proximity to the major container ports of the South East. Over the last year, 53% of logistics take-up was in the Midlands compared with 22% in the North[2]. An increase in freight arriving directly in the North would reduce the need for so much of it to be transported across the country. This is perhaps already being reflected in development, with 56% of newly completed industrial space located in the North compared with 15% in the Midlands[3].

A step change

The real estate sector as a whole should benefit from a step change in economic growth and productivity in the North. The creation of a genuine northern powerhouse would reduce the North-South divide, a legacy of which is the dramatically lower cost of living in the North, where the cost of a house relative to salary is barely half what it is in London. This would be a huge draw to migrants if the perceived opportunity gap were closed. Focused action on infrastructure and innovation by empowered local government would attract more private sector investment, in turn creating more aspirational jobs across a range of industries, thereby helping to retain more of the thousands of graduates produced in the region each year. The greater affluence brought to the region by these jobs would, as a by-product, attract more retailers, restaurants and leisure operators to the region, further improving quality of life and creating additional jobs.

> If the North of England were able to fully exploit its potential, it could re-emerge as a centre of the new technological era

Over the 19th century, the population of the North increased rapidly, from 27% of England's population in 1801 to 37% at the start of the last century[4], as the region became the dominant global centre of the industrial revolution. However, by 2013, it had fallen back to 28% as the industrial era gradually gave way to the dominance of professional and financial services centred in London. If the North of England were able to fully exploit its potential, it could re-emerge as a centre of the new technological era, creating better opportunities, more robust economic growth and an improved standard of living.

And these gains to the North would not come at a cost to the South. On the contrary, the virtuous circle would benefit the country as a whole, by rebalancing the economy, attracting inward investment, improving skills and alleviating the pressure on housing supply in the South East.

2, 3 CBRE
4 Office for National Statistics (ONS) North of England Economic Indicators

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Mark St John Qualter
Managing Director, Real Estate Finance, North
Tel: 07920 021302
mark.qualter@rbs.co.uk

David Salisbury
Head of Real Estate Finance, Yorkshire & North East
Tel: 07767 354413
david.salisbury@rbs.co.uk

Heath Thomas
Head of Real Estate Finance, Manchester
Tel: 07500 815388
heath.thomas@rbs.co.uk

Shaun Smyth
Head of Real Estate Finance, Merseyside, Lancashire & Cumbria
Tel: 07810 831619
shaun.smyth@natwest.com

Tom Sharman
Head of Strategy & Insight, Real Estate Finance
Tel: 07919 218560
tom.sharman@rbs.co.uk

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