

**LEEDS CITY CENTRE
RESIDENTIAL MARKET
REPORT 2007**





Source: DTZ Photograph Concord Street

CONTENTS

Introduction	1
Leeds City Centre Market 2007	2
Market Trends	4
Price and Affordability	15
Future Market Forecast	21
Conclusion	23

INTRODUCTION

The purpose of this report is to provide an overview of the Leeds City Centre housing market in 2007. It analyses the strength and weaknesses of the market through assessing trends in supply and demand, concluding with an outlook for residential development in the City Centre in the future based on consultation with developers, investors and agents active in the market.

This report has been commissioned by the Home Builders Federation and is sponsored by six development organisations:

Barratt

Hallam Land

McInerney Homes

Miller Homes

Persimmon

Taylor Wimpey

The project has been managed by Dacre Son & Hartley and written by DTZ. The results of this report will be considered in the development and marketing strategies of the sponsoring partners and can be used to inform the Housing Strategy for both the City Centre and Leeds housing markets in the future. This report has been produced having regard to the Leeds City Council Strategic Housing Market Assessment (SHMA) published in June 2007.

For further information on this report please contact.



Jenny Cropper

+44 (0) 113 2543076
jenny.cropper@dtz.com

George Wise

+44 (0) 113 2543113
george.wise@dtz.com



Linda Wright

+44 (0) 113 272 7573
Linda.wright@hbf.co.uk



Mark Johnson

+44 (0) 113 2042249
mtj@dacres.co.uk



Source: DTZ Photograph Bridgewater Place

LEEDS CITY CENTRE MARKET IN 2007.

Over the past 10 years, Leeds City Centre has undergone a major transformation. Moving away from traditional manufacturing industries, the City Centre's regeneration has established Leeds as a city of local, regional and national importance. The city has a *"rich history, diverse economy, enterprising people and cosmopolitan atmosphere"* (Leeds City Council Heritage Services 2005), and has established itself as one of the strongest economies in the North of England.

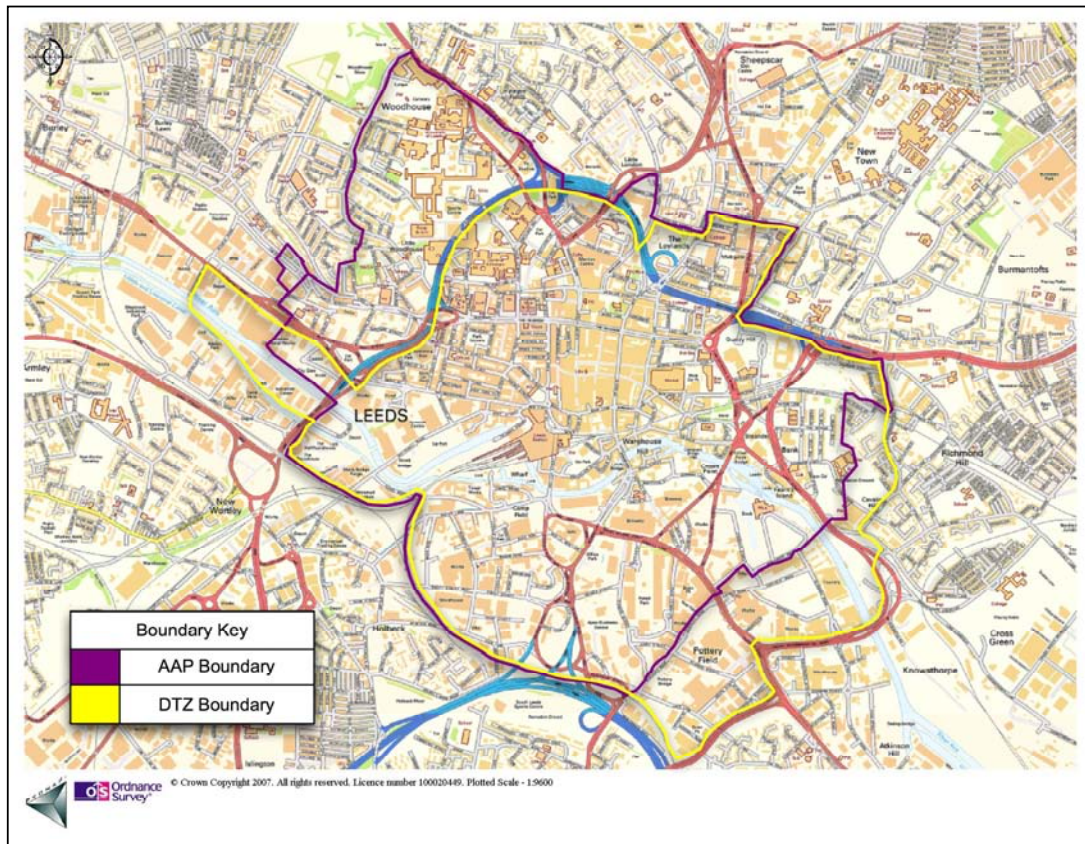
The transformation of Leeds City Centre has been led by strong growth in the service, finance and legal industries, which have attracted major investment and spend. Alongside this, Leeds has seen the development of large amounts of residential accommodation rejuvenating the City Centre and urban living. High-density developments have been the norm, supplying thousands of units of residential accommodation, with many more started or proposed.

The growth in city centre development is one of the most visible signs of the city's economic renaissance. The creation of landmark buildings, such as Bridgewater Place, continues to change the skyline, advertising the region's growth, centred around the strength of the City Centre core.

CITY CENTRE HOUSING MARKET BOUNDARY

The boundary for this study considers residential accommodation in the City Centre and the peripheral area. The traditional boundary of the City Centre's commercial area has been expanded by new developments providing city centre living.

For the purposes of this report, we consider the boundary of the City Centre to be Quarry Hill to the East, Apex Business Centre to the South, Airedale Chemical Works to the West and Leeds University to the North (the yellow boundary on the map below).



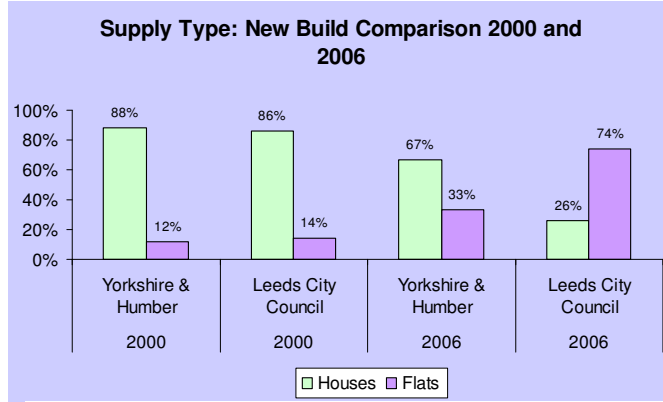
Source: DTZ

DTZ's boundary is different to that of the Leeds City Council Area Action Plan (AAP); the main differences are to the North and East of the city centre. To the North, DTZ consider the boundary to be inside the inner city ring road and not expanding to the areas close to the University. To the East, DTZ's boundary expands further than that of the AAP, as it is our opinion that residential development is spreading into this area with many schemes currently under construction. Our boundaries have been drawn to ensure that we are responding to the developing market whilst analysing information for the City Centre.

MARKET TRENDS

SUPPLY

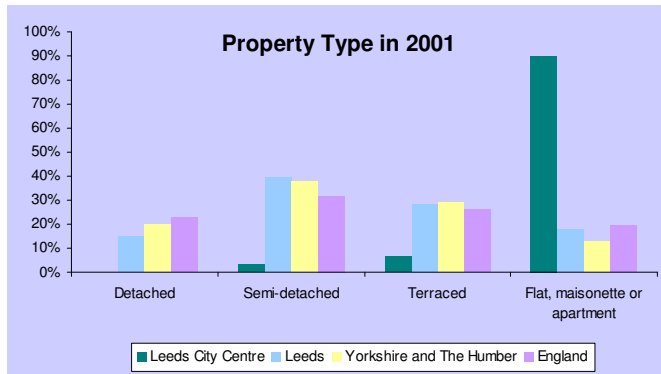
Since 2000 the nature of housing supply in Leeds has changed dramatically. In 2000 86% of all new build properties in Leeds were houses and 14% flats. In 2006 this picture has changed dramatically with flats accounting for 74% of all new build units developed in Leeds.



In comparison the Yorkshire and

Humber market has seen a more modest shift with flats accounting for 12% of all new build units in 2000 increasing to 33% in 2006. The rapid increase in the percentage of flats

being built in the City Centre can be attributed to the subsequent rise in apartment development across the Leeds District.



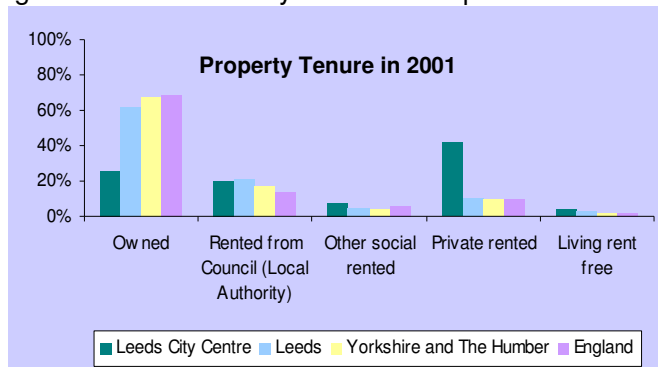
PROPERTY TYPE

As expected for a city centre, apartments make up the majority of the stock, at 92%. There are also a small number of terraced

and semi-detached houses although these are outside the core area and will be traditional housing stock. This data is taken from the 2001 census and, given the level of supply since that time, the overall percentage of flats in the City Centre is expected to have increased further.

PROPERTY TENURE

Only one quarter of housing in Leeds City Centre is in owner occupation, with 73% rented. Of the rented accommodation in 2001, around 42% was private rented



and 28% social rented. Nationally across all markets we see the opposite picture with a 70:30 split in favour of owner occupation, although average city centre markets typically have a 50:50 split.

'The City Centre in not a 'real' market. It is dominated by hype and speculation with most apartments being purchased by major investors, who subsequently sell onto smaller investors before the property becomes complete... owner occupiers are often third or fourth hand purchasers'.

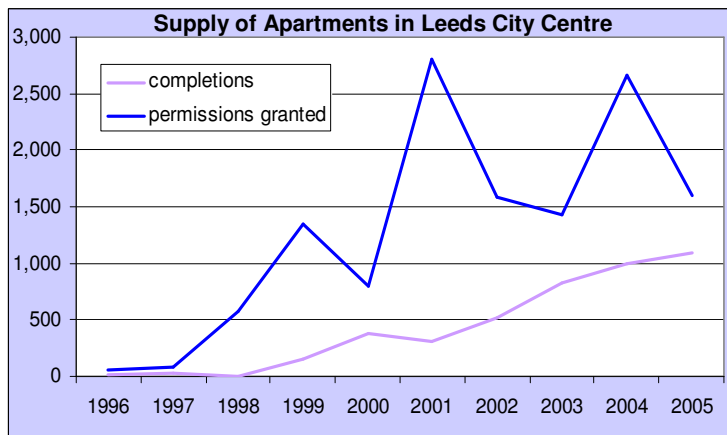
Persimmon Homes 2007

To date the City Centre market has been driven by the investor market. Typically, investors purchase accommodation off plan well in advance of properties completing, often at a discount from quoted asking

prices, with the aim of securing immediate capital growth and subsequent rental return from the properties. This considerably reduces the opportunity for owner-occupiers to enter the market. Owner-occupiers prefer to purchase apartments when they can see the property's layout and specification, which is often not available at the time when properties are first released off plan. Therefore owner-occupiers tend to enter the market as investors resell properties.

NUMBER OF APARTMENTS

The supply of apartments in Leeds City Centre began to boom in the late 1990's. Since



Source: Leeds City Council

then, there has been a total of 6,300 units completed. A further 2,500 units are currently under construction. There are also a further 10,800 units in the pipeline, of which 7,800 have planning permission, giving a possible total of 19,600 homes in the City

Centre in five years time, assuming that all those with planning are delivered prior to planning permissions expiring. Many residential agents feel that the current

'The city living development pipeline seems significant because it represents the expansion of a relatively new development sector'.

Knight Frank - 2007

pipeline of residential developments will take between 10 and 15 years to be delivered and the rate of delivery is likely to slow down.

According to the Leeds City Council Planning Department, there are over sixty schemes along the waterfront, with a number of schemes being developed toward the East and South of the city. Since 2005, 3,100 units have been completed. These include a number of significant developments including the latest phases of City Island at Gotts Road , West Point Wellington Street, and Clarence Dock.

INVESTOR ACTIVITY.

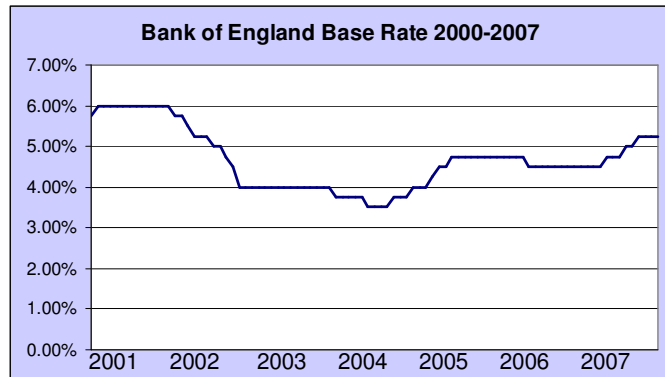
If all units under construction and in the pipeline are delivered, there will be almost 20,000 units in the City Centre. However, the likelihood of all the permissions being built, sold or

occupied is doubtful. Currently the market is seeing a downturn in investor activity. As investors begin to withdraw from the Leeds City Centre market, the gap that is left will need to be met by the owner occupier market and to date this has not occurred.

' This (interest rate) rise has caused increasing speculation that the number of units being developed is out pacing the demand from occupiers including tenants'
Estates Gazette March 2007

For reasons that will be discussed later in this report, the level of uptake of owner occupation will struggle to meet the investor gap and it is anticipated that not all units in the pipeline will be built. The investor market is not as strong as it was in the boom period

between 2001 and 2005. An oversupply in the market resulting in a lack of capital or rental growth is beginning to have an impact on investor activity, resulting in higher vacancy rates in existing supply. Alongside this, the recent increase in interest rates are having an effect on the buy to let



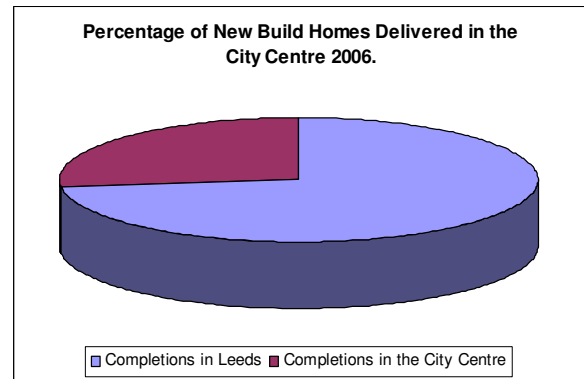
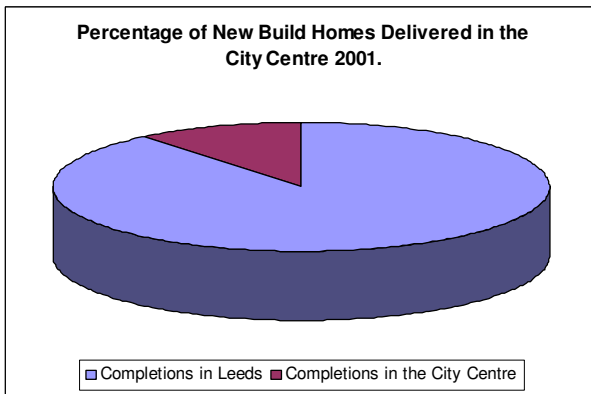
Source: DTZ Research

market as higher interest rates are impacting on the level of rental return on City Centre properties. A high level of supply is making the market even more competitive with agents informing us of landlords taking reduced rental levels in order to ensure occupation. Further rate rises are widely predicted by the end of 2007. Subsequently, it is anticipated that a number of developments with planning permission will either remain undeveloped or will be subject to a revised planning application to alter the current scheme. It is likely that

those who submit for altered applications will reduce the scale of development or incorporate more commercial and less residential space.

BUILD RATES

According to the 2001 census there were 312,000 homes in the Leeds Local Authority area. Between 2001 and 2006 a further 17,432 units have been completed. Of these additional units, 5,257 have been delivered in the City Centre. This equates to 30% of all new property in Leeds being delivered in the City Centre, despite the City Centre being the smallest housing market area. Such a high level of delivery in a relatively small area has a larger impact with proportionally less homes being built across the wider district. The percentage of property being delivered in the City Centre has increased substantially since 2001.



Source: Leeds City Council Housing Land Monitor March 2007 and The 7th Leeds City Centre Audit – Leeds City Council

Year	Number of Schemes	Average Units Per Scheme
1996	1	12
1997	3	8
1998	0	0
1999	6	25
2000	13	29
2001	17	18
2002	18	29
2003	14	59
2004	13	76
2005	13	94
2006	14	99
Total	112	52

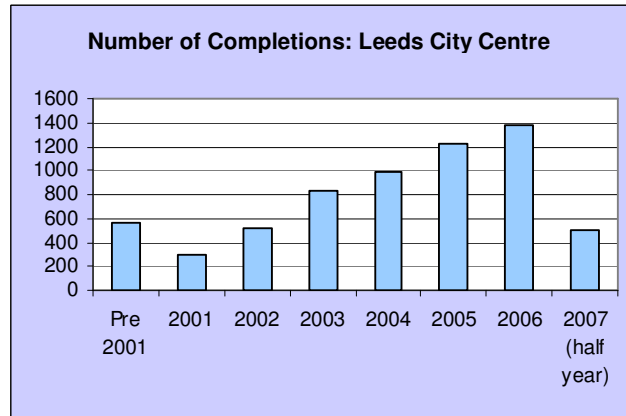
The continued rise in the number of units being constructed in the City Centre is primarily a result of the scale of the developments being built and the strength of the investor market between 2000 and 2006. The average number of units per scheme has increased from 18 in 2001 to 99 in 2006, with the average size of scheme for the past ten years being 52 units.

Source: Leeds City Council Development Department.

Interestingly, schemes completed between 1998 and 2004 account for only a third of the units completed in the City Centre to date. The remaining two thirds have been completed since 2005. Out of the possible 10,800 units that could be built in the City Centre in the future, 55% have planning permission but only 12% are under construction. This suggests

that the supply of planning permissions has run ahead of the occupier demand which is possibly compounded by a slow down in investor activity and a rise in interest rates.

Of the 7,800 units which have planning permission, 25% were granted before 2005. The majority of permissions (7,000 units) were granted between 2004 and 2006 at the height of the boom in the City Centre residential market. However, only 3,600 units have been completed since 2004. There has been an obvious boom in development since 2001 with a gradual increase in the number of completions year on year over the five year period. Six months into 2007, the figures are

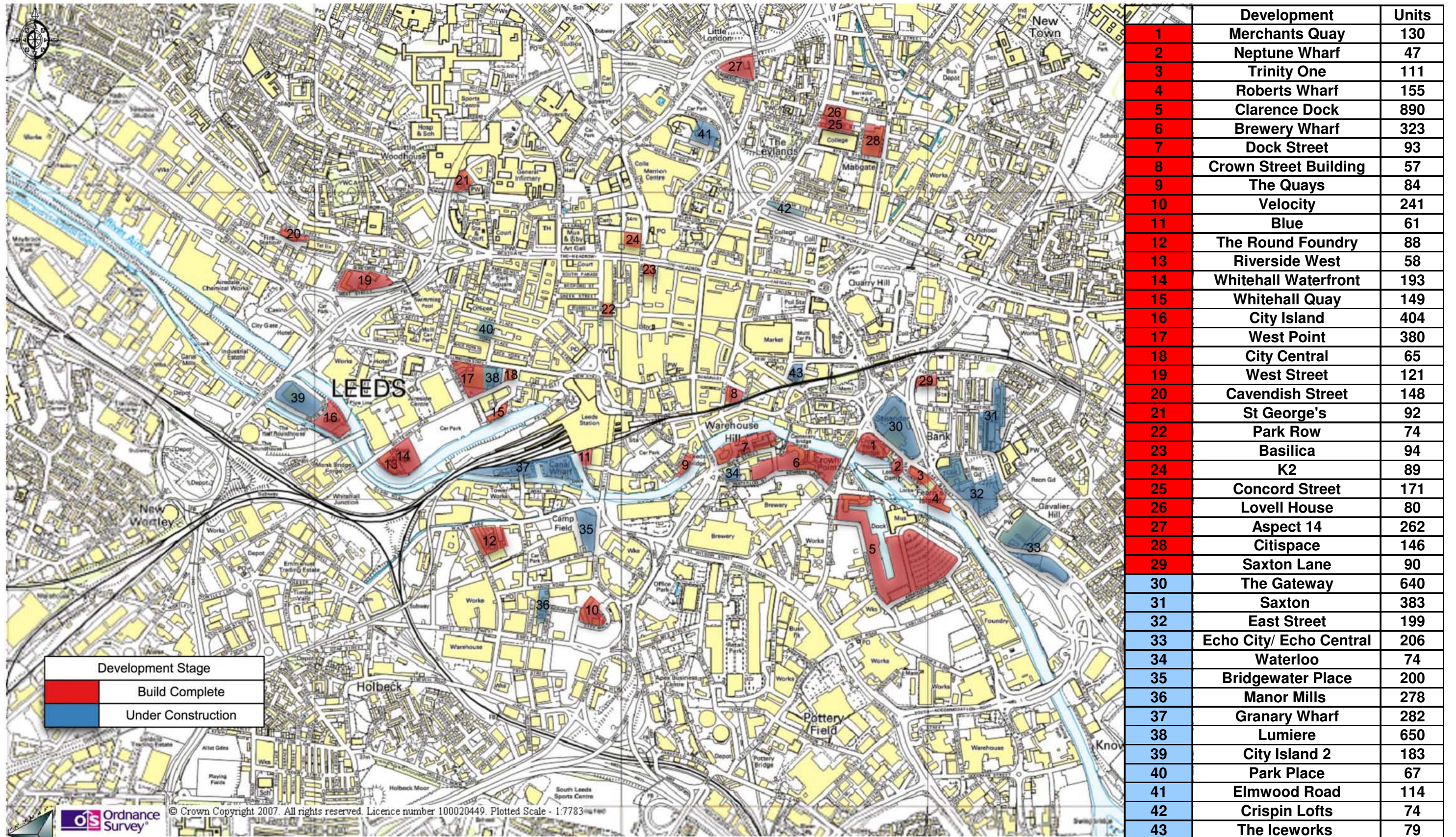


showing a slight drop on the previous year and it is anticipated that moving forward completions are likely to be reducing to about 1,000 units a year. It is important to consider that the previous upward trend occurred as a result of a strong market driven by investor demand and low interest rates. The outlook for development in the City Centre will see landmark schemes securing retained investor interest. However, it is anticipated that other peripheral and less attractive developments will struggle to secure investors and sales, resulting in a slow down in the number of residential completions in the City Centre.

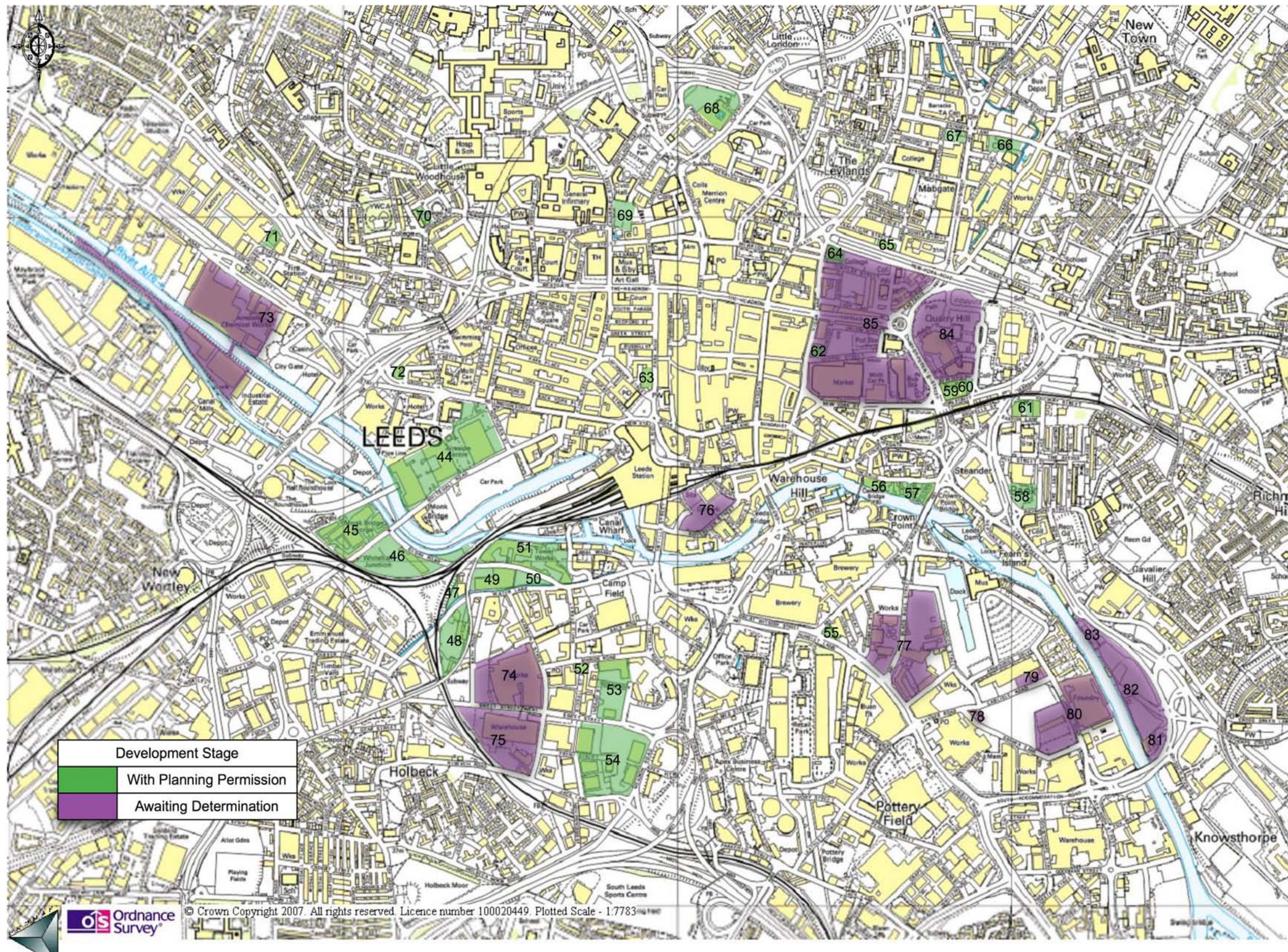
Year	Number of Planning Permissions Granted	Year	Number of Completions
2001	200	Pre 2001	567
2002	120	2001	305
2003	400	2002	518
2004	1307	2003	828
2005	3121	2004	993
2006	2539	2005	1228
2007 (half year)	127	2006	1385
Total	7814	2007 (half year)	508
		Total	6332

Source: Leeds City Council

The first of the maps overleaf illustrates the level of residential development that has taken place or is under construction in the City Centre, illustrating the location and spread of development across the City. The second map represents those schemes in the development pipeline and the third map combines all these figures showing the spread of residential development, should all of these schemes be completed.

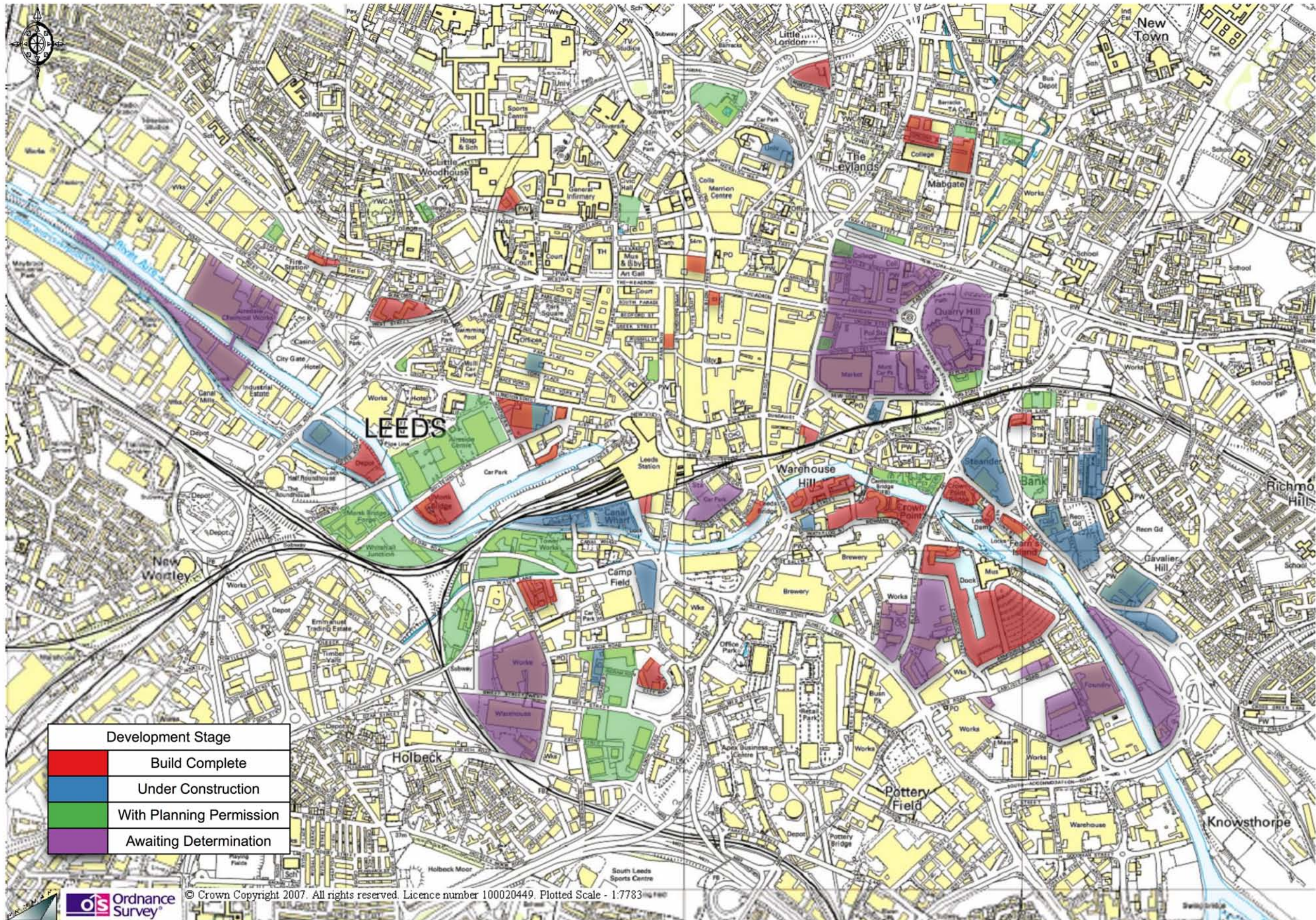


Source: DTZ



	Development	Units
44	Wellington Place	200
45	Monk Bridge works	550
46	Green Bank	838
47	Prestige Salvage	50
48	Bath Road	240
49	Haynes	118
50	Water Lane	263
51	The Tower Works	237
52	Bush Holdings	57
53	Spectrum	720
54	City One	450
55	Hunslet Lane	50
56	Calls Wharfe	74
57	Calls Riverside	50
58	East Street	194
59	St Peters Square	49
60	St Peters Square	106
61	Saxton Lane	80
62	Vicar Lane	60
63	Park Row	75
64	Vicar Lane	167
65	Emco House	108
66	2020 House	272
67	Verito	104
68	Claypit Lane	222
69	Woodhouse Lane	50
70	Woodhouse Square	72
71	Cavendish Street	50
72	Mayfair	272
73	Bankside	1,450
74	The Temple Works	75
75	The Temple Works (South)	934
76	Criterion Place	700
77	The Works	739
78	Sayner Lane	178
79	Carlisle Road	52
80	Hydro Works	700
81	Aire	229
82	Low Fold	842
83	East Street	203
84	Quarry Hill	705
85	Eastgate Quarter	450

Source: DTZ



Source: DTZ

DEMAND

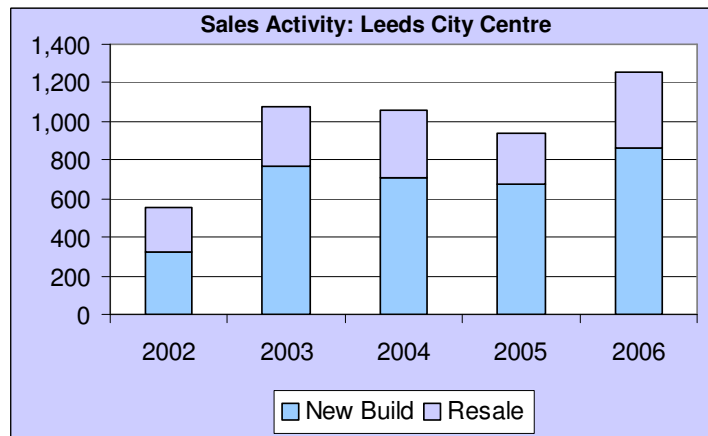
ECONOMIC OVERVIEW

Market demand for residential property is affected by a range of economic factors. The UK economy has performed well over recent years having low levels of unemployment and historically low base rates. Combined with the poor performance of the financial markets, this has resulted in an ideal climate for investment in residential development. Leeds remains at the core of the Yorkshire and Humber economy, driving the region's economic growth and strategic policy as the '*Leeds City Region*'. The city's economy has been expanded mainly through growth in the services, finance and legal sectors.

Employment across Leeds is forecast to increase by 32,000, or 7% from 2006-2016. Leeds' GDP is predicted to increase by 34% by 2015. This further illustrates the expected performance of Leeds in the future. Much of the previous growth in Leeds, particularly the Centre, has been fuelled by the regeneration of the City Centre. The finance for development has been forthcoming, aided by low interest rates. Much of the recent base rate increases have typically been 0.25% and are beginning to have an effect on the investment market.

MARKET ACTIVITY

According to HM Land Registry, the level of sales activity in the City Centre has grown from 556 transactions in 2002 to 1,252 in 2006. A more detailed analysis of market activity has shown approximately 70% to be new build transactions (i.e. property purchased for the first time). The remaining



30% is resale (or second hand) property. Current market trends suggest almost all new build sales activity occurs off-plan to investors, where many of the original contracts of sale will have been agreed previous to or during construction. This results in a lag time between agreed sales and actual completion.



The increase in owner-occupier activity has seen moderate growth compared with the overall City Centre market, increasing from 234 to 390 units between 2002 and 2006. At the same point, 4,800 build completions were reported. The resale market has fluctuated between 28 and 33% of total sales activity during the past four years. This is a concern given the current developer reliance on investors to purchase property off-plan. Estate agents inform us that owner-occupiers seldom place reservation and deposit monies in advance of build completion, neither do they receive the tax relief that Buy To Let mortgages enjoy. Given the build programme of many of the larger schemes currently planned and proposed, this may have a negative effect on values in the future should the investment market weaken.

'Whilst private buyers have expressed great interest to date the timescales prove difficult for them to commit to purchase as it will invariably involve the sale of an existing property'.

Knights Frank - 2007

The SHMA survey found that only 7% of residents across Leeds expressed a preference to live in apartments and a separate survey by Leeds University found that only 3.4% of residents wished to be owner-occupiers within the City Centre. Given the lack of demand for owner-occupation in the City Centre and for apartments generally, it is questionable whether the projected development pipeline can be substantiated based on current market expectations.

APARTMENTS AND INVESTMENT

'By the middle of 2006, there were over three quarters of a million Buy- To – Let mortgages with £84billion. It has helped to bring investment in residential property into the mainstream of personal investment activity'.

University of Reading Business School.

Historically, the City Centre housing market has been driven by investor activity attracted by low interest rates and substantial house price inflation. There has been a variety of private and syndicate investors involved with the market, from private individuals, to single syndicates, special purpose vehicles and property clubs. During the boom running up to 2005, syndicate investment groups

dominated the Leeds City Centre market with reports of syndicate investors reserving between 80-100% of entire schemes. However, in more recent times and following a dampening in market confidence in the Leeds City Centre market, it is known that syndicate

City	Average Q1 2006 Value	Average Q1 2007 Value	% Change
Leeds	£147,284	£164,413	12%
Sheffield	£133,892	£153,627	15%
Hull	£103,646	£121,961	18%

groups have turned their attention to other provincial cities where there is a greater potential for capital growth, such as Hull and Sheffield.

Source: HBOS Regional Quarterly Review, Q1 2007.

The ARLA Review & Index for Q1 2007 reported that capital asset values of rented properties across the UK fell marginally by 0.6% over the last three months to May 2007.

'Investors were active in Leeds but low valuations have made it difficult to obtain finance to purchase'. Capital Invest - 2007

The rapid expansion in supply has resulted in a large amount of rented property in the City Centre, resulting in little rental growth. Those that have bought on a Buy-to-Let investment basis are starting to accept reduced rents in order to secure a tenant to cover mortgage payments. Many of the large institutional investors are at present choosing not to release their property to the market for rent at all as there is not thought to be the level of demand

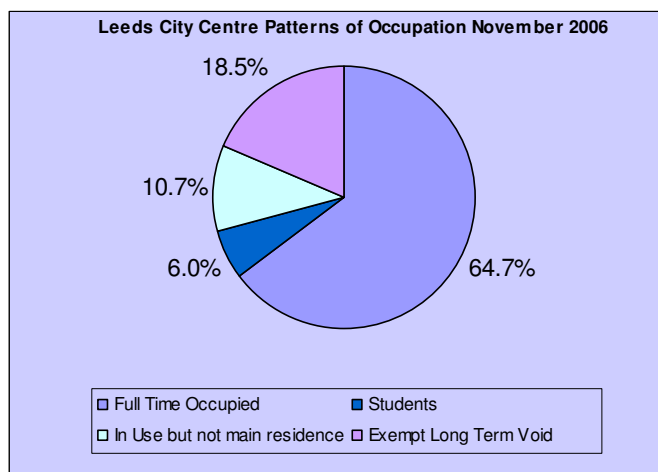
'Those who bought off plan in recent years are faced with the dilemma of selling for less than their original purchase price or being prepared to keep hold of property long term to see any market growth'

Hunters Estate Agents – Leeds 2007.

needed to secure strong occupancy rates, preferring instead to hold the properties for future capital growth.

As we have seen from the amount of developments with planning permission the current oversupply of a similar product (2 bedroom apartments) in a similar location looks set to continue in the short term as current commitments come to the market. At the time of this research, over 500 properties were immediately available to rent in the City Centre and many others are void. Whilst the number of rentals achieved every month is at a relatively healthy level, occupancy levels are a concern.

A key feature of the investment market is the high vacancy rate amongst some apartment blocks that have been sold exclusively to investors. Anecdotal evidence from Inside Housing (December 2006) has suggested vacancy rates as high as 40% in Leeds City Centre. Analysis of the City Centre council



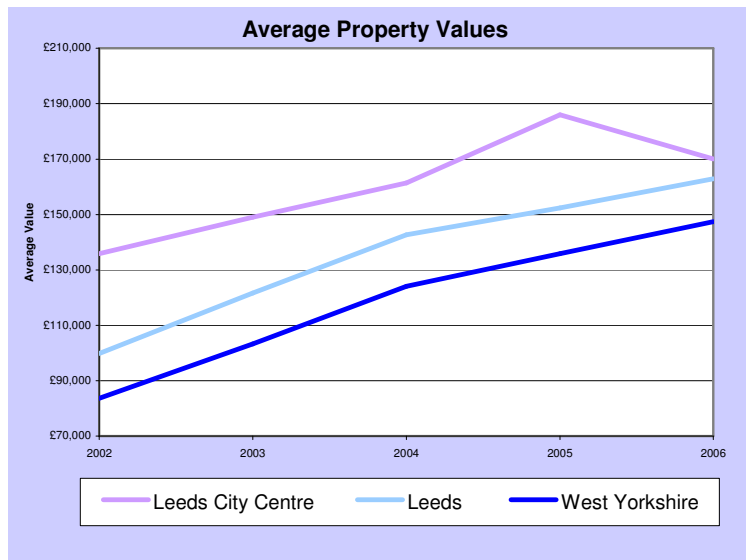
tax register states exempt long term vacant units within the most recently completed buildings are up to 24.8%. Overall the Council tax data for the City Centre is demonstrating

that only 65% of the stock is in full time occupation. Of the remaining 35%, 18.5% is exempt due to long term voids, 10.7% is in use but not as the occupier’s main residence and 6% are recorded as student households. With fluctuations over time, vacancy rates in the City Centre as a whole vary between 30 and 40%.

Anecdotal evidence would also suggest that in order to overcome vacancies in their stock, some investors are offering short term lets (days/weeks) to generate a return from their investments. At the time of writing this report over 20 schemes advertised properties to let for a minimum of 2 days. Some schemes such as Bridge Apartments in Brewery Wharf were designed and granted planning permission as serviced apartments; others are attempting to differentiate their investment to overcome problems with void properties. There has been a rise in the use of City Centre apartments as serviced accommodation as a short stay alternative to hotels.

PRICE AND AFFORDABILITY

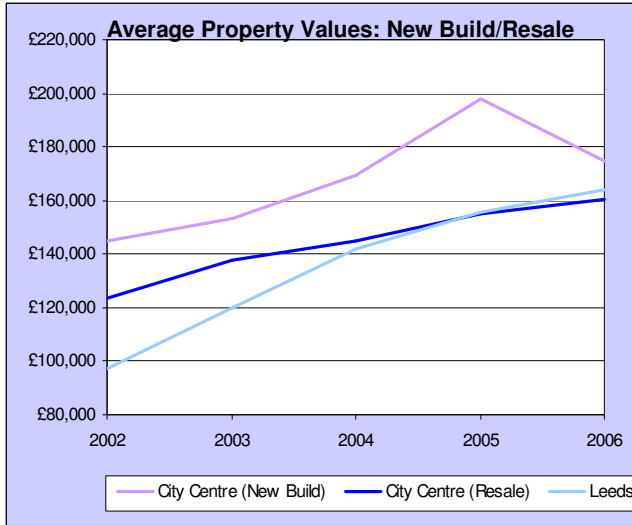
In recent years the City Centre housing market has performed well alongside the Leeds and Regional markets, however, following a surge in values in 2005, the average value dropped



in 2006. The average property value in Leeds City Centre in 2006 was £170,035, representing a total increase since 2002 of 56%. Despite the wider Leeds and Yorkshire region having lower property values, these areas saw increase of 57% and 62% respectively. The average price in 2006 for a new build

Source: HM Land Registry

property in the City Centre was nearly £175,000 and just over £160,000 for a resale equivalent. The difference in value is due to the premium value typically paid for new property. The graph above shows there was a distinct rise in City Centre values in 2005 attributed to a number of high value apartments completed within the Crosby Homes’ Clarence Dock development.



As we have seen, house price inflation between 2002-2006 indicates that Leeds District saw property values increase by 56%. During the same period in the City Centre, new build properties achieved only 21% growth, although resale properties performed marginally better at 27%. This suggests City Centre investors could make better returns from alternative locations, as greater capital appreciation is being achieved elsewhere.

Within the City Centre, average resale values are growing at a quicker rate than that of new build property, which goes against the trend of investors purchasing new build property for its capital appreciation and may result in smaller investors diverting their investments into resale stock to gain higher returns. If this occurs, demand for new build apartments will fall further.

Property value, when analysed on a per square foot basis, has seen large growth up to 2006. However, property prices have stayed fairly stagnant in recent months due to an over supply of the same product in the City Centre market. We have identified sample prices from a random selection of new build and resale properties from the City Centre using Internet based sources and through consultation with City Centre agents.

Development	Age	Bedrooms	Area (Sq Ft)	Value	£ / Sq Ft
Lumiere*	New Build	1	448	£171,150*	£382
Lumiere*	New Build	1	213	£115,500*	£542
Granary Wharf	New Build	1	522	£160,500	£307
Granary Wharf	New Build	2	765	£247,000	£322
Green Bank	New Build	1	485	£153,500	£316
Green Bank	New Build	2	696	£249,000	£357
Green Bank	New Build	3	1010	£355,000	£351
Echo City	New Build	1	481	£129,995	£270
Echo City	New Build	2	675	£176,995	£263
Whitehall Waterfront	Resale	1	435	£127,500	£293
West Point	Resale	2	759	£184,950	£243
Whitehall Quay	Resale	2	664	£199,950	£301
Merchants Quay	Resale	2	800	£225,000	£281
Whitehall Waterfront	Resale	2	720	£209,950	£291

Source: DTZ Databases and Market Research (* Estimated – developers official release prices not available)

Private rents in the City Centre remained relatively stable during the past year. The average price for a penthouse apartment is in the region of £1,500 - £2,000 per calendar month (pcm). Agents have commented that the market for these penthouse apartments is limited. The two bedroom market dominates supply, with two bedrooms achieving between £550 and £1,000pcm. One bedroom apartments currently achieve in the region of £400-£700pcm. 'Crashpads' (compact single room apartments typically 250-300 sq ft) are a new addition to the development mix and have seen limited success despite some being offered as low as £375 pcm.

In addition to any marketing or rental values, add on costs of living in the City Centre includes service charges and ground rents. Analysis of current available property revealed that ground rents range from £90-£260 per dwelling. Typically, for older apartments (pre 2000) this is £60-£150 per dwelling and new property £200-£250, dependent on the property type.

The service charge is dependent on the size of dwelling. Usually it is calculated on a rate per square foot, however, some apartments appear to have a flat rate per dwelling. Services charges are circa £600 per 1 bedroom apartment and £1,000 for a 2 bedroom apartment. In addition to the above two charges as with all residential property council tax is also payable. Council tax for a typical 650 sq ft two bedroom apartment is currently £1,130.

When the above charges are taken in to account, the additional owner-occupier cost of living in the City Centre is as follows:

Type	Ground Rent	Service Charge	Council Tax	Total cost per Annum	Amount per month
1 Bedroom	£200	£700	£1,182	£2,082	£173
2 Bedroom	£200	£1,000	£1,182	£2,382	£198

Source: DTZ Databases and Market Research

These add on costs are a substantial additional financial burden to small scale investors in a slowing market and are also a barrier to entry for lower income groups wishing to live in the City Centre. There has been some reported evidence of investors and occupiers failing to pay service charges. If this trend continues the physical fabric of the developments will be difficult to maintain and the quality of the buildings will suffer over time.

AFFORDABILITY

The affordability of property is a national concern and the ability of owner occupiers to access the property ladder is diminishing. As we have seen, property prices in Leeds City Centre are higher than the district and regional averages. In a market driven by investor demand, affordability can be a concern for both owner-occupiers and renters wanting to access the market.

According to the Leeds SHMA 2007, single earners in Leeds must have an income of £37,205 per annum gross in order to afford a mortgage on an average entry level property priced at £130,217. This is significantly above the average entry price for West Yorkshire. In Doctor Rachel Unsworth's 2005 review of City Centre residents, 65% of those who answered the questionnaire recorded their income to be in excess of £35,000. However, the average property price in the City Centre is £170,034, demonstrating that the City Centre still presents concerns regarding affordability.

AFFORDABLE HOUSING

Given that property is becoming increasingly inaccessible even to those on higher and/or joint incomes in the City Centre, the delivery of affordable tenures to meet demand should be a priority. When City Centre living in Leeds began in the early 1990's Leeds City Council had no requirement for on site affordable housing and took commuted sums from developers for provision off site. More recently, the delivery of affordable housing has increased with most schemes now providing units of affordable housing within the development. However, there are still a number of flagship schemes still to be built that have negotiated zero affordable housing on the basis that all financial resources are required in order to deliver iconic buildings.

The limited amount of affordable housing units that have been developed in the City Centre are targeted at the Key Worker market and have been successful in encouraging occupation, close to places of work at affordable rental and purchase prices.

Households in Need: Leeds District 2006

Housing type	Number of Bedrooms					Total
	One	Two	Three	Four	Five +	
Detached	16	94	165	164	25	463
Semi-detached	31	195	339	72	5	641
Terraced	18	228	86	37	1	370
Flats/maisonette	164	228	4	0	7	402
Other	0	9	0	4	0	13
Total	228	754	593	277	37	1889

The Leeds SHMA has identified that there are 31,429 current households in need of affordable housing in the Leeds District, 22,515 of which cannot afford to meet their

needs in the market. Therefore there is a requirement for 1,889 units of affordable housing to be built per annum over 15 years in order to meet current need. As shown in the table above the priority is for two and three-bedroom properties across a range of property types. Three bedroom semi detached properties are in the highest demand.

Distributing the affordable housing requirement by zones		
Location	Proportion	Requirement per annum
City Centre	5.7	107
Inner Urban	21.5	406
Inner Suburban	12.8	243
Outer Suburban	42.7	807
Areas Outside of the urban	17.3	326
Total	100	1889

The requirement for affordable housing is then broken down in the Council's SHMA into sub market areas. This demonstrates that of the requirement for 1,889 units a year, only 5.7% (107 units)

are required in the City Centre. This clearly poses a problem for the City Council when we look at the build rates for the City Centre. Currently the City Centre is delivering 30% of all new units across the Leeds District despite it being the area of lowest housing need.

FAMILY HOUSING

According to the Council's SHMA there is a large need for family housing (2 and 3 bedrooms) across the Leeds District. Currently, the City Centre is delivering the highest level of new build homes for any of the SHMA zones in the District. Whilst the regeneration of the City Centre and the corresponding increase in City Centre living has been driven by a strong investment market, this housing market is far from balanced and does not meet identified housing need.

In order to redress this balance, Leeds City Council is looking to introduce family accommodation into the City Centre market. The Council's proposal in the City Centre Area Action Plan is for the introduction of 15% of all units in new developments to be of three bedrooms to help to introduce families into the market. This is despite the SHMA identifying a need for just four, three bedroom flats per annum across the whole District. Whilst the Local Authority are driving to deliver three bedroom accommodation in the City Centre, in an attempt to balance the market and introduce family living in the City Centre, the need and aspiration for this type of

'Some property professionals warn that central Leeds, like other northern city centres where thousands of flats have been built, has not got enough family-friendly amenities'. Sunday Times June 18th 2006.

accommodation has to be questioned - especially when we consider the lack of required support services and infrastructure in the City Centre needed to sustain family living.

STUDENT ACCOMMODATION

Although Leeds' student population has grown rapidly over the last ten years, figures recently released by the City's two universities show that student numbers are beginning to stabilise. Currently there are over 67,000 part and full time students at the University of Leeds and over 49,000 further and higher education students at Leeds Metropolitan University. Traditionally, Headingley and Hyde Park were the student areas of the City, but as property prices in this area have increased due to strong demand there is now a demand for student accommodation in other parts of Leeds. There is a growing trend of parents purchasing property for their children and providing an income to fund the child's education through letting out other rooms in the investment property. The increase in demand has led to the development of a number of purpose built student properties in the City Centre. Mill Street Flats was the first of these completed in 2005, but subsequently developers such as Unite have produced student accommodation on Clay Pit Lane (The Plaza), Cavendish Street (The Tannery) and St Cellia Street (Josephs Stone House) and further developments are underway. Prices for purpose built student accommodation in the City Centre start from £55pw up to £70pw dependent upon the development and size of bedrooms and management of communal areas.



This influx of students is changing the dynamic of the City Centre market by introducing a large number of people under the age of 30 into the City Centre who are housed in temporary (term time) rented accommodation. As the demand for student accommodation in the City Centre is continuing to rise as they vacate other areas, it is anticipated that further purpose built student accommodation will be developed.

FUTURE MARKET FORECAST

Current and emerging Government policy, which will impact on City Centre living in Leeds, focuses on responding to the Demand for Homes – with housing as one of the top priorities for Prime Minister Gordon Brown. More homes will need to be delivered in Leeds as a whole to support forecast economic and demographic growth. The role of the City Centre market is an important consideration in light of current Government thinking. At present, the City Centre is delivering a high percentage of the housing allocation for Leeds and the highest net additions across the City Region. In order to meet the aims of current agendas it is essential to consider the growth of the City Centre market, driven by the apartment market, alongside the need to deliver houses which are in demand and support the forecast economic and demographic changes. It is important that new units delivered in the City Centre are acknowledged as meeting a limited housing need rather than a full range of District housing need. An over reliance on City Centre accommodation will do little to address wider housing need across the whole District.

As part of this study DTZ has undertaken consultation with developers, investors and agents active in the market. The main aim of the consultation has been to understand the view of professionals working in the City Centre on a day-to-day basis, and determine their opinions on how successful the market will be moving forward and the capability of the City Centre to become a more balanced housing market.

City Centre sales agents commented that currently there is an over supply of apartments, which has resulted in greater buyer choice and consequently eroded potential for capital growth. One agent estimated properties are achieving in the region of 95% of their asking price, however, this is dependent on their type, location and design.

' The larger the stockpile gets, the more likely it seems that City Centre development is assuming something of the character of a speculative bubble, fed by investors keen to get a share of the profits before the opportunities disappears. But although it seems clear that demand will eventually impose limits on output, it is difficult to know when this point will be reached'.

**Leeds City Council Housing Land Monitor Report
March 2007.**

The most widely available property types are two bedroom apartments, however, one-bedroom apartments have better sales rates as they are cheaper. Often occupiers are forced into one-bedroom properties due to affordability requirements and these do not meet their housing needs or aspirations. Consultees reported that

the city centre market activity was once buoyant and outstripped other suburban areas but today the apartment market shows significantly lower levels of activity than elsewhere in the City. City Centre agents are reporting the amount of resale investor activity is notably down. The two main reasons why this has occurred are; the large amount of stock available having a dampening affect on potential capital growth; and rental yields reducing as investors take

'The trend of an over-supply of city centre apartments continued throughout 2007. Due to falling rents, low capital growth and increased interest rates, there are very few investors looking to buy into the resale market'.

Hunters Estate Agents, Leeds – 2007.

lower rents to avoid under occupancy, which has reduced the attraction of this asset class.

The recent increases in the Bank of England base rate have further tightened margins and reduced the ability for an investor to service a Buy to Let mortgage. This has resulted in a gradual reduction in the number of larger syndicate investment clubs that previously dominated the off-plan City Centre market. Private investment is still apparent on a number of active schemes, albeit on a much lesser scale compared to the 'boom' years.

Previously, resale apartments had been purchased by novice investors on a Buy To Let basis, however given the current position regarding the lack of rental or capital growth the number of small Buy to Let Investors in the market place is falling.

Owner-occupier demand to live in the City Centre is not currently at a scale comparable to that which is being delivered or in the development pipeline. City Centre agents are aware of the additional residential development proposed and expect excess supply in the future. This will be dependent upon the delivery of future schemes and the amount of product delivered.

Looking forward, it is evident developers are attempting to create niche products to differentiate from existing stock. K W Linfoot and City Lofts have both used high profile interior designers to progress and develop their products at Lumiere and Roberts Wharf respectively. There is a concern as the newer developments differentiate themselves from the current stock, investors will be drawn into the new developments resulting in a large influx of older stock entering the resale market as it becomes more unattractive.

Evidence from our research has shown the City Centre market in its current form cannot be sustained in the longer term. Much of the existing residential stock provides accommodation of the same type and tenure with a limited demand. Developers have identified this issue

and are innovating designs to distinguish their developments from current supply and create properties to have a greater demand.

The market currently hangs in a very tentative balance and until the prospect of capital growth and rental returns that will service a mortgage return, the market is not anticipated to grow in the short to medium term. This will determine developer confidence and consequently the amount of developments realised.

'Where the market was being sustained by investor purchases, this is starting to falter which only now gives the public a realistic view of the state of the property market'
Fresh Invest - 2007

CONCLUSIONS

Over the last 10 years City Centre living in Leeds has increased rapidly. Driven by planning policy and investor demand, over 6,000 new homes have been delivered in the City Centre with a further 2,500 under construction. With the boom period of the early 21st century fading and a further 10,800 units in the pipeline, it is questionable whether the City Centre market can sustain its current build rates. The potential for capital gain and rental return is reducing as property supply and interest rates continue to increase and consequently the market is beginning to see a contraction in the investor sector.

Affordability is limiting the opportunities for owner-occupiers to enter the market and the lack of variation in property type and tenure is causing an imbalance in the market, which continues to be strongly weighted towards the rental sector. As the investor market contracts, it will be essential for the owner-occupier market to increase to meet this gap in demand if the City Centre market is to be successful. Currently, indications suggest that this will not be achievable.

Most dwellings in the City Centre are one and two bedroom apartments targeted at the investor market. 65% of the population in the City Centre is under 30 and many live in single person households.

'Young, childless households are the key market for city centre apartments, many of whom are attracted by the lifestyle opportunities only available in the city centre'
Leeds City Council Strategic Housing Market Assessment 2007

In the Leeds City Council Area Action Plan for the City Centre, it is proposed that of all future developments in the city centre,

15% should be three bedroom apartments targeted at families. However, the introduction of larger units alone will not encourage families to live in the City Centre. There is a requirement to deliver a better social infrastructure into the City Centre. Current education and health facilities are poor and unacceptable for family living and there are very low levels of recreational and open green space, which are essential to attract people away from the suburbs. There are no cogent plans to address these deficiencies at present.

Currently the City Centre is delivering 30% of all new build activity across the Leeds Local Authority Area. This is despite the Council's SHMA indicating that the lowest level of housing need is in the City Centre. The SHMA identified a requirement for 1,889 units of affordable housing to be produced across Leeds per year, however only 5.7% (107 units) of this requirement is needed in the City Centre. Two and three bedroom semi detached properties are in the greatest need with a requirement for only 20% of all new build accommodation to be maisonettes or apartments. Not surprisingly, the current City Centre market activity is reducing developer and investor confidence. While many City Centre apartments have been built and resulted in a changing physical image for the City, it is debatable if the apartments are making a proportionate contribution to the District's wider housing need. It is clear the development of the City Centre has skewed housing provision and fed investor needs rather than meeting social needs.

Evidence shows that for every 1,000 units built only 600 to 650 units will be occupied, this high vacancy rate within the City Centre is a concern. Research shows that this trend is set to continue. With a weakening in the investment market and a trend of investors holding property vacant waiting for a capital growth, vacancy rates are unlikely to reduce in the short to medium term. In light of the shifting market activity, developers are now taking a view of the perceived risk of residential development in the City Centre. Previously the City Centre development market had been under pinned by low interest rates. In light of the evidence it is clear the recent rate of apartment development in the City Centre is slowing down. It is also clear accommodation in the City Centre meets the need of limited household types within the City's housing need.

REFERENCES

ARLA Group (2007) *'The ARLA Review and Index'* ARLA Group of Buy to Let Mortgage Lenders.

Ball. M (2006) *'Buy to let The Revolution –10 years on'* ARLA University of Reading Business School.

Cole. I. Mayblin. L (2006) *'Improving the Residential Offer in Leeds City Region: Developing a strategic Response to the Challenges of Economic Growth'* Sheffield Hallam University.

CURS (2006) *'Housing and Economic Growth in the Leeds City Region'* CURS, University of Birmingham.

DTZ (2005) *'Creating a Balanced City Centre Housing Market'* DTZ and City of Bradford Metropolitan District Council and Bradford Centre Regeneration

Knight Frank (2006) *'Leeds market activity report'* Knight Frank LLP

LDY (2006) *'Quality of Place: The North's Residential Offer'*, Llewellyn Davies Yeang

Leeds City Council (2007) *'Housing Land Monitor'*. Development Department Leeds City Council.

Leeds City Council (2007) *'Strategic Housing Market Assessment'* Leeds City Council.

Nathan.M.Unwin.C (2005) *'City Centre People, City Centre Living in the UK'* Centre for Cities.

Unsworth.R (2005) *'City living in Leeds 2005'* K W Linfoot/ University of Leeds/ Leeds City Council

<http://neighbourhood.statistics.gov.uk>, National Statistics Website various data

<http://www.egi.co.uk>

<http://www.HBOSplc.com>
Halifax House price Index



Source: DTZ photos: The Gateway



In partnership with



DTZ

DTZ is one of the world's leading real estate advisers, providing innovative real estate and business solutions. DTZ is a leading name in the world's major business centres, with 10,000 people operating from 200 offices in 40 countries.

Around the world, DTZ professionals advise multi-national companies, major financial institutions, property companies, banks, governments and other public sector organisations.

As one of the UK's leading property advisers, DTZ provides creative solutions to complex development and property issues.

FOR FURTHER DETAILS PLEASE CONTACT

RESIDENTIAL DEVELOPMENT

Philip Roebuck

+44 (0) 113 2543070
philip.roebuck@dtz.com

DEVELOPMENT CONSULTING

Sarah Bull

+44 (0) 113 2543031
sarah.bull@dtz.com

RESIDENTIAL VALUATION

Sue Howarth

+44 (0) 113 2543107
sue.howarth@dtz.com