

Southampton city centre

Strengthening the core

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Executive summary

In the past 20 years, Southampton city centre experienced a rapid growth in population, making it the 11th fastest-growing city centre in England. But this was not reflected in jobs growth, which fell at a time when city centres as a whole were growing in importance to the national economy.

As this report shows, the result is that it does not play the fundamental role that successful 21st Century city centre economies play – that of the worker hub. Given the growing preference for higher-skilled services businesses for a city centre location, this has implications for the number and range of higher-paid jobs that are available to residents who live in and around Southampton and the broader economic performance of the city as a whole. It also has a knock-on impact on its role as a place to socialise, shop and have fun, with the lack of jobs reducing footfall for the shops, cafés and restaurants in the centre.

While the access that the centre gives businesses to skilled workers is strong, a particular challenge it faces is its provision of office space. Compared to more successful city centres, Southampton has a surprisingly low amount of office space in its core, which is likely to act as a barrier to attracting or growing jobs in the centre. The Mayflower development provides an opportunity to address this undersupply and should be used to help make Southampton city centre a more attractive place to do business, strengthening the wider Southampton and South Hampshire economies too.

Introduction

The Covid crisis has put a great strain on cities, directly threatening the key roles that they play – bringing people together to shop, exchange ideas and information and to socialise and have fun. This has been the strong suit of city centres in particular, which has been very much restricted since March.

The growth of city centres in recent decades, and the likely ever-greater specialism of the UK in more knowledge-based services, gives hope that once the threat of Covid is brought under control, demand for city centre space from businesses will continue the growth it has seen over the last 20 or more years. This is due to the benefits that a city centre offers to businesses, such as access to a large pool of skilled workers from the surrounding area, and the bringing together of people to create a ‘creative collision’ of ideas that push businesses on. It is for this reason that while city centres account for 0.1 per cent of land in Britain, they are home to around 8 per cent of businesses and 14 per cent of jobs.¹ And it is why jobs have increasingly concentrated in successful city centres in recent years, despite the costs of doing so.²

This experience has not played out in Southampton city centre, setting it apart from many other large town and city centres in the Greater South East. The purpose of this report is to look at the performance of Southampton city centre in recent years, investigate the causes of it, and set out what this means for the future direction of policy.

How has Southampton city centre changed in recent years?

City centres play an important and outsized role in both city economies and the national economy as a whole. Their inherent ability to offer businesses access to a large pool of workers, and face-to-face interaction with clients, collaborators and even competitors has acted as a large pull on businesses in recent years. In particular, because these benefits have appealed to higher-skilled ‘exporting’ industries such as finance, marketing and software development, city centres have become a core location for the creation of these high-skilled jobs. Exporting industries sell to many different markets so in principle could locate to anywhere. But the reality is that they pay a premium for city centre space due to the benefits such a location brings to their business. Box 1 discusses why exporting businesses are so important.

Box 1: The role of ‘exporter’ businesses in a local economy

Businesses can be split into two categories. The first set are **local services businesses**, such as shops, cafés, bars, hairdressers. Also known as “non-tradable” businesses, they sell to a local market, and are therefore dependent on local demand, which is determined by the amount of money coming into the local economy. This is closely tied to the performance of the second type of businesses – **exporting businesses**, or “tradable businesses” such as manufacturing, software development or advertising. These are independent of the performance of their local economy because they generate their revenue from selling into wider domestic and international markets.

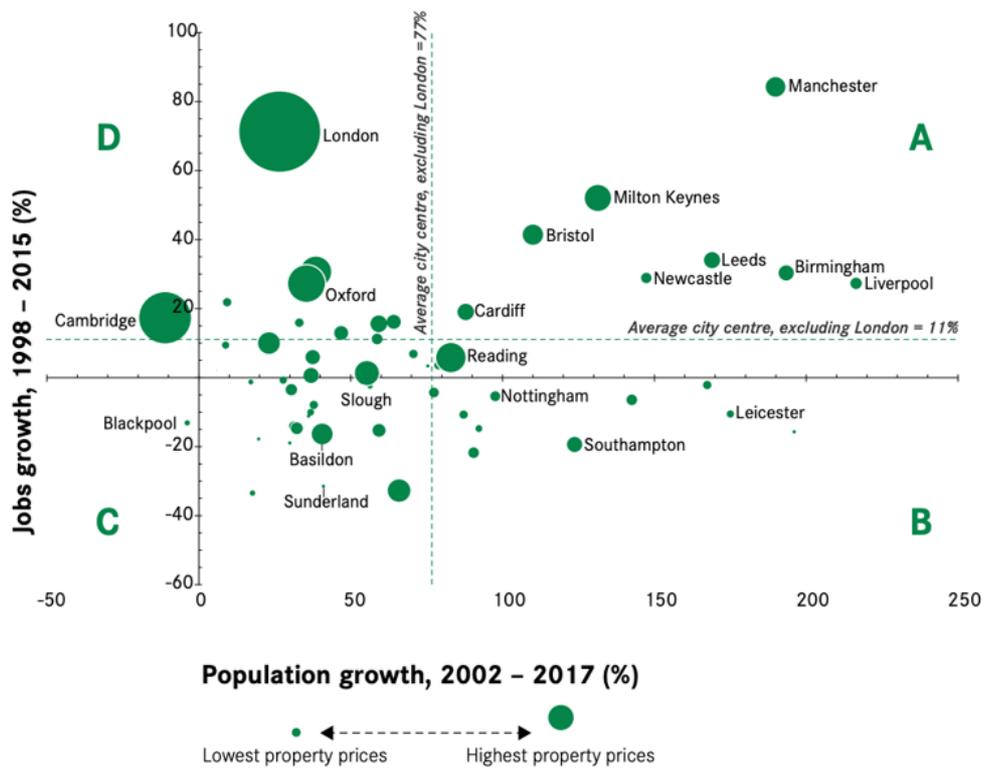
They are important for two reasons: they tend to drive productivity growth (more than local services), and therefore benefit the wider area they are implanted in, and bring money to local services through a ‘**multiplier**’ effect: the better they perform, the higher the local disposable income in the economy, the higher the demand for local businesses. This is particularly true for **high-skilled exporting services** like financial services, precision engineering or tech companies which tend to create high-value, high-paid jobs and pull up more demand for local services.

The ability of areas to grow and attract exporting businesses will determine their future economic performance.

This has spurred a renaissance in city centre living in a number of centres. The return of jobs to the centre of successful cities has pulled in workers, which has created demand for amenities. This in turn has changed the benefits of these city centres as places to live and has caused a sharp increase in the number of people living in city centres, which are shown in quadrant A of Figure 1.³

Southampton’s centre has not followed this trend. It has seen a sharp increase in its number of residents: between 2002 and 2017, its population grew by 124 per cent, making it the 11th fastest-growing city centre in England. However, this growth in population was not matched by a boom in job creation. Between 1998 and 2015, the number of jobs in Southampton city centre shrank from 29,860 to 24,070, which corresponds to a 19 per cent decrease (Figure 1).

Figure 1: Population and job growth

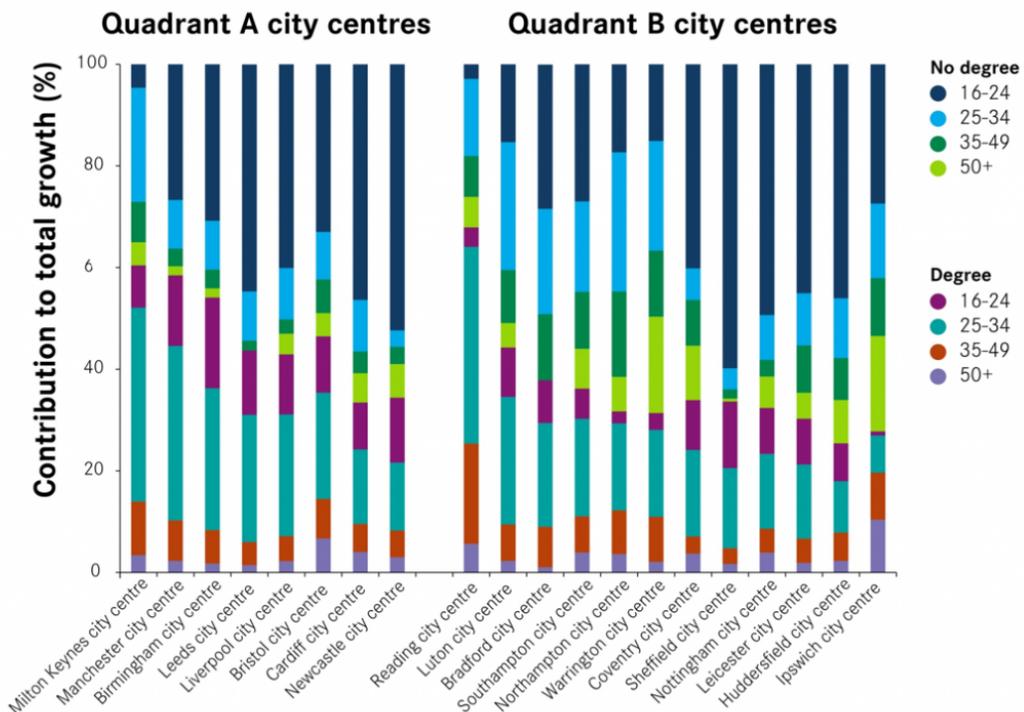


Circle size: index based on standardised prices (2017) and commercial prices (2015)
 Source: ONS, Small Population Estimates, Business Structure Database

Looking into the breakdown of population growth suggests that the growth in population was at least in part a result in the growth of students living in the city centre. Growth was mainly driven by an increase in the 18-30 age band, which contributed to 55 per cent of the overall increase. As a result, the average age went down from 35.1 in 2002 to 30.1 in 2017.

While only covering 2001 to 2011, Census data gives some extra insight (see Figure 2). Compared to those centres that saw both strong population and jobs growth in Quadrant A of Figure 1, young professionals (those aged under 34 with a degree) played a relatively small role in overall growth in Southampton. Those aged under 34 without a degree contributed to almost double the amount of overall growth, of which a reasonable share of these is likely to have been students. This is reflective of the development of student housing in recent years, such as the recent developments on the High Street.⁴

Figure 2: Composition of population growth in selected cities, 2001-11



Source: Census (2011). Note: Quadrant A and B refer to the top and bottom sections on the right of Figure 1 above.

This suggests that Southampton city centre improved its role as a place to learn, but not necessarily as a place to work. Given the growing role of city centres in many successful city economies over this period, this should be a concern.

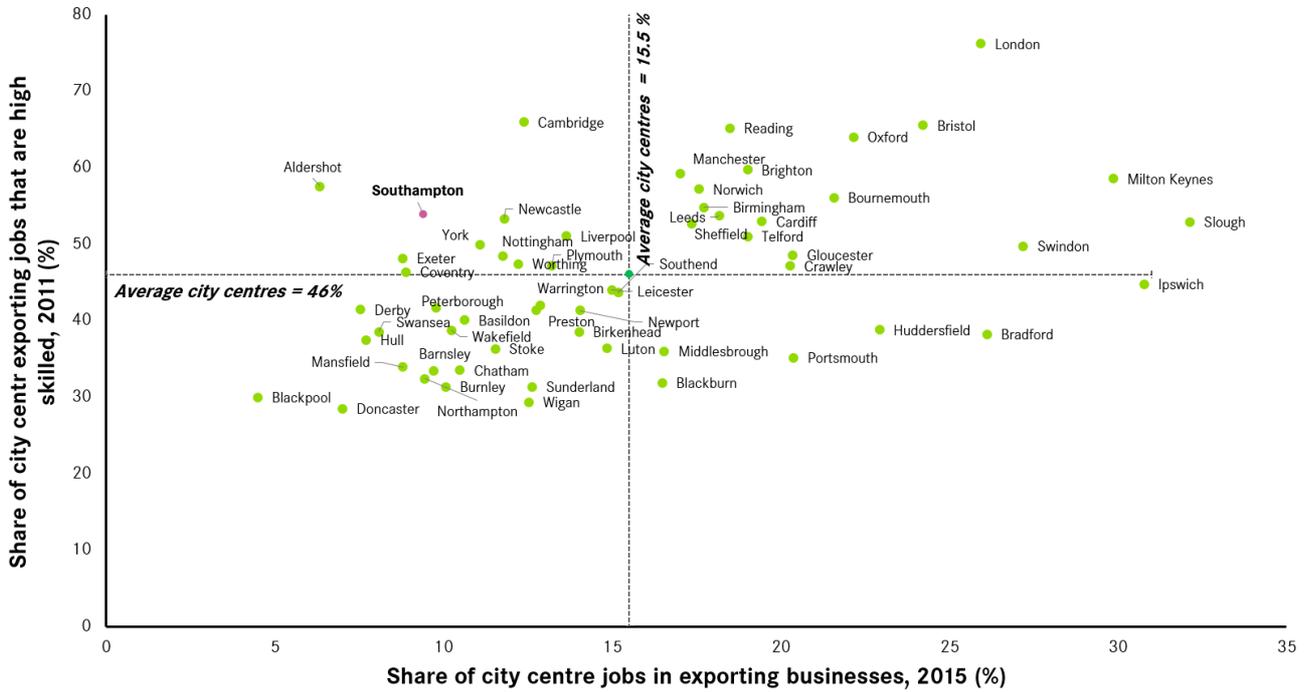
What role did Southampton city centre play before the pandemic?

Looking at the strength of the city centre economy before the pandemic gives further insight into its performance. The overall strength of a city centre economy should be measured not only on its high street, as is often the case, but by looking at its exporting base. And this should be measured on two metrics: how big is this exporting base, and how high skilled is it?

Figure 3 uses these metrics to assess the strength of Britain's 62 largest city centre economies. The strongest city centres are found in the top right quadrant – they have both a large exporting base, and a large share of these jobs are highly skilled. The bottom left quadrant is populated by Britain's struggling city centres. They have a small exporting base, and few of the exporting jobs there tend to be highly skilled.

Southampton once again is something of an outlier, located in the top left quadrant. It has a small exporting base, but the exporting jobs that it has have tended to be highly skilled. This suggests that, despite the reduction in jobs between 1998 and 2015, the city centre is attractive to higher-skilled exporting businesses. The problem is that there are relatively few of them. If Southampton is to be more successful in the future, then it needs to expand its number of these jobs to move it towards city centres such as Reading, Brighton and Milton Keynes.

Figure 3: The size and make-up of exporting base in city centres



Source: ONS (2017), Business structure database.

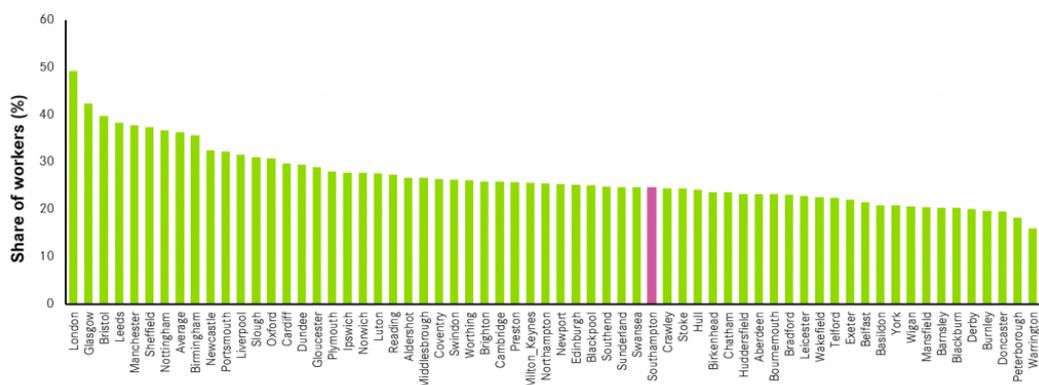
Footfall data further illustrates the weak role that the city centre plays as a place of work. As Figure 4 shows, footfall in the centre in the weeks before the first national lockdown peaked on a Saturday. This is in contrast to the strong city centres defined in Figure 3– their stronger city centre economies meant that their peaks in footfall were during the working week. And workers made up a much smaller share of overall footfall during the week than many more successful city centre economies (see Figure 5).

Figure 4: Footfall data in Southampton and strong city centres



Source: Locomizer (2020)

Figure 5: Proportion of office workers out of all users during the week (%)



Source: Locomizer (2020)

What does Southampton city centre offer businesses as a location?

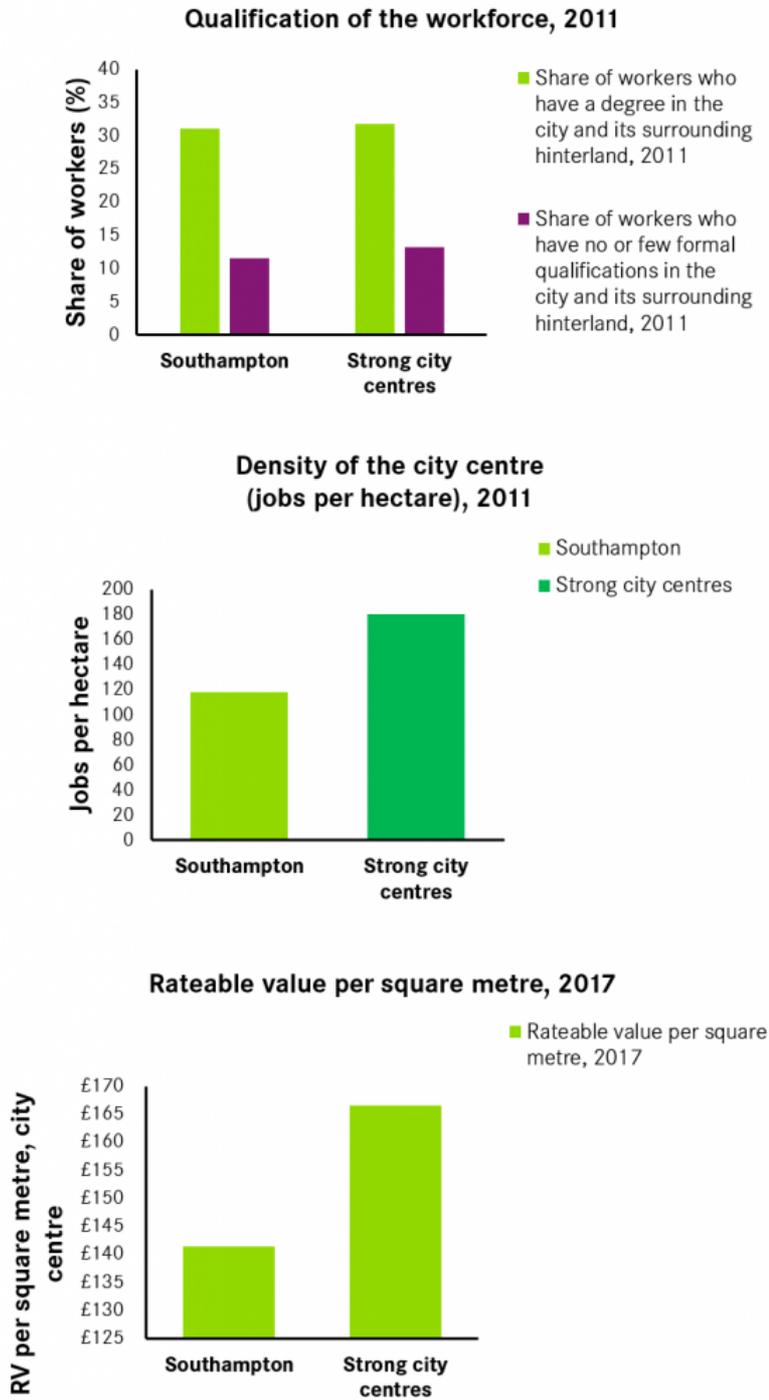
Looking at the offer that Southampton city centre makes as a place to do business gives insight into why the city centre has not attracted as many higher-skilled exporting businesses as stronger city centres (Figure 6). In deciding on their location exporter businesses weigh up the costs and benefits that a city centre location offers. The benefits are access to skills, density of jobs (a proxy for the number of face-to-face interactions a city centre can offer) and transport accessibility. These factors often come with a number of costs, such as congestion and the higher cost of commercial space. Looking at the data on these metrics shows where Southampton sits with respect to this trade-off.

Looking at the **skills** of the workforce within commutable distance shows that Southampton actually outperforms strong city centres: it has a similar proportion of workers who have a degree and live in commuting distance, and a smaller share of workers with no degree. But its lower **job density** (reflective of the relatively low number of jobs in the centre) suggests that it does not excel at offering face-to-face interactions, in theory a key benefit that a city centre location has over other locations.

Data on **transport** into the city centre is not readily available for Southampton. However, previous research by Centre for Cities showed that transport links were only a problem for Britain's largest city centres, whereas small and medium-sized cities do not tend to have big issues with widespread congestion in terms of access to the city centre.⁵ That said, local transport bottlenecks should be dealt with where they are deemed to be stopping the connection of workers in South Hampshire to jobs in the city centre. A specific characteristic of Southampton's city centre is that it is bounded by the River Test to the west, River Itchen to the east and Southampton Water and the Solent to the south. This creates an 'island' which poses particular access challenges, and local stakeholders should collect more data to understand what levels of congestion look like and how they are changing over time.

Compared to more successful city centres, **commercial space** is cheaper in Southampton city centre, suggesting that it has a cost advantage (Figure 6). But looking more closely at the make-up of commercial space raises questions about the availability and appropriateness of the commercial space on offer for businesses who may look to move into the centre.

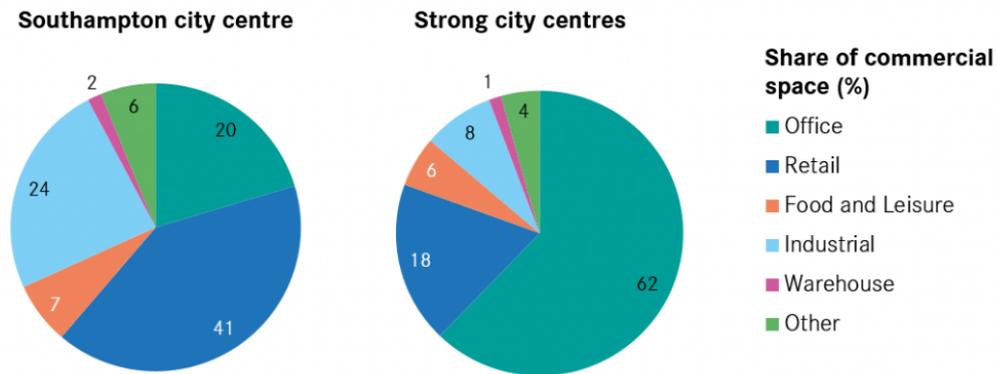
Figure 6: The benefits and costs offered by a Southampton city centre location



Source: Census (2011), Valuation Office Agency (2018)

The make-up of commercial space reflects the underperformance of the role of work in the city centre. At 41 per cent, retail dominates total commercial space in Southampton, which means that there is double the amount of retail space to office space (Figure 7). This runs counter to the relationship in successful city centres, where on average there is triple the amount of office space to retail space. Box 3 shows how this compares to Brighton, Reading and Milton Keynes. Given the change retail has undergone in recent years, with significant shifts to online shopping being amplified by the current crisis, an over-reliance on retail space is unlikely to be an asset in the future.

Figure 7: Breakdown of commercial space in Southampton and strong city centres



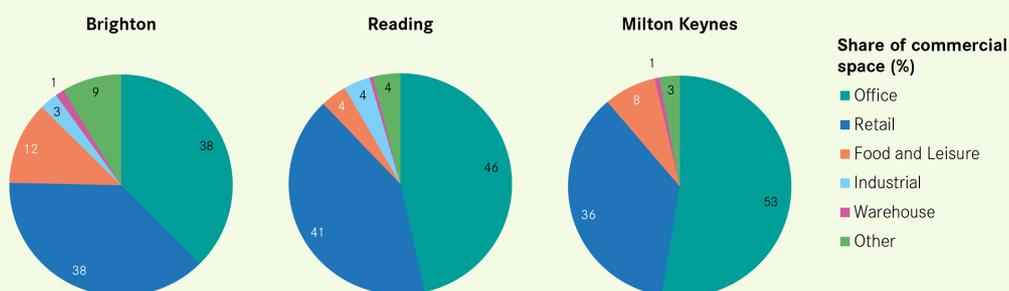
Source: Valuation Office Agency (2018)

This data is not driven by a glut of retail outlets, but rather by a lack of office space in the city centre. In Southampton there is 142,268 m² of office space (see Box 2). This is just half the amount of office space in Reading and Milton Keynes, and two thirds of what is in the centre of Brighton. It should be noted, however, that in comparison to these cities, Southampton city centre has a lot more industrial space.⁶ It is mostly occupied by the port activities and a number of offshoot and satellite businesses. Where vacant, some of this space has potential for conversion and repurpose, notably in the Mayflower Quarter.

Box 2: Commercial space in Brighton, Milton Keynes and Reading city centres

Retail in Brighton, Milton Keynes and Reading makes up a similar share of commercial space to that in Southampton city centre. The key difference is that office space accounts for a much larger share. While Covid will likely impact high streets across the country, the greater number of office jobs in these centres means that the retail offer is likely to be more viable in these city centres than in Southampton, which is over-reliant on retail given its existing low office footprint (Figure 8).

Figure 8: Breakdown of commercial space in Brighton, Milton Keynes and Reading city centres



City centre	Total office space (sqm)	Total retail space (sqm)
Southampton	142,268	285,278
Milton Keynes	284,174	195,543
Reading	292,500	260,969
Brighton	206,904	208,293

Sources: Locomizer (2020)

Box 3: A brief history of office space in Southampton city centre

Looking at the evolution of Southampton's city centre in the 20th Century may help explain the challenges it is currently facing, particularly in relation to the lack of offices. In the 1930s, the reclamation of a large area of land to the west of the city brought an industrial focus right into the centre of the city. The city centre suffered considerable damage during the Second World War, and was progressively rebuilt in the 1950s and 1960s. In the 1970s, a number of landmark tall office buildings were constructed, including Capita House, Charlotte Place, Terminus Terrace, Dukes Keep, Nelson Gate and the White Building. However, in the 1980s and 1990s, many of the financial services and professional firms – including HSBC, Pirelli and BAT – moved out of the city centre to the new office parks at motorway junctions, as focus shifted in the UK to developing out-of-town office space.

In Southampton city centre, this lack of office space is likely to remain an issue even in a post-Covid world. While it is not clear yet what type of employment space for high-skilled service exporters will be needed, whether it is traditional offices or more flexible space like co-working, face-to-face interaction should remain very important.

Box 4 illustrates the challenges that Starling Bank faced in finding office space when looking for a location to establish their presence in the city.

Box 4: Starling Bank

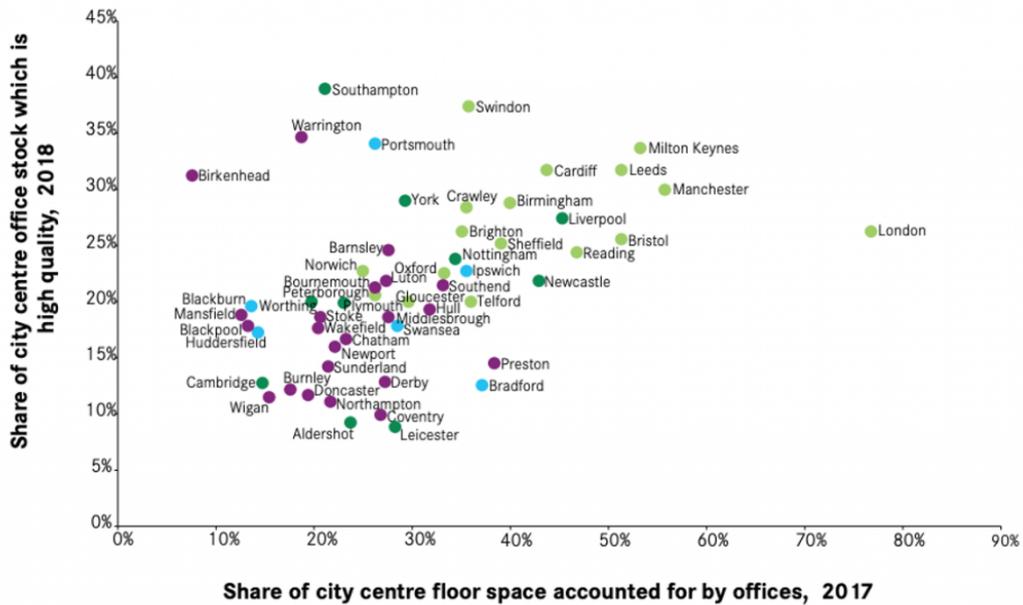
In 2019, Starling Bank opened a regional office in Southampton, creating more than 150 jobs in their first out-of-London offices. According to the bank, the decision to move away from London was driven by the shift to digital banking, but also by the opportunities offered by Southampton city centre, including its emerging tech hub and start-up scene. Being able to find offices not too far from London (a factor which might also explain the success of places like Reading, Milton Keynes or Brighton) but large enough to gather call centre staff alongside engineers and bankers, as well as the proximity of university students who could be employed part-time, motivated the decision to move to Southampton.

Starling was however told by its consultants that there was no available office space in the city centre. Searches for conventional accommodation drew a blank. The company's solution was to convert a former nightclub into an office space on Town Quay.

While this is reflective of the experiences of one company, it helps to illustrate the broader lack of supply of office space in the centre, something that is well known within the commercial property industry.

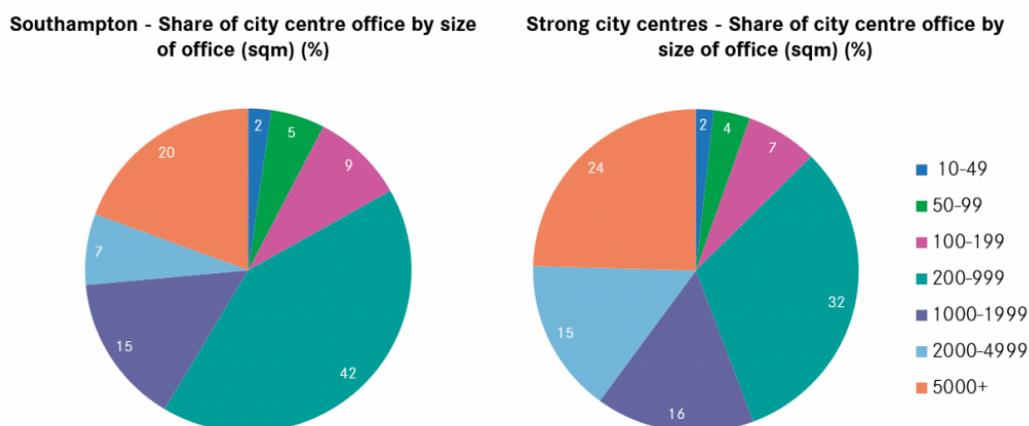
Despite having a relatively small share of city centre floor space accounted for by offices, the city centre ranks first (among English and Welsh cities) in terms of quality of office space. In general, it is those cities that have large shares of office space in their centres that tend to have higher-quality offices (see Figure 9). Using energy performance as a proxy shows that Southampton bucks the trend.

Figure 9: Office stock quality and quantity by city centre



Source: VOA, Non-Domestic Energy performance register
 Note: High quality office space defined as having a grade C or higher

The size of floorspace in Southampton on average is smaller than in successful city centres too. The city has a slightly larger proportion of offices under 100m², and fewer large offices (see Figure 10). This is not necessarily a problem in itself, but it could pose a barrier to attracting larger companies such as corporate HQs into the city centre. Further work would be needed to understand the nature of demand to locate in the centre of Southampton and where office space is particularly undersupplied to decide the exact layout of any future office space that might be built.

Figure 10: Office space by size in Southampton and strong city centres

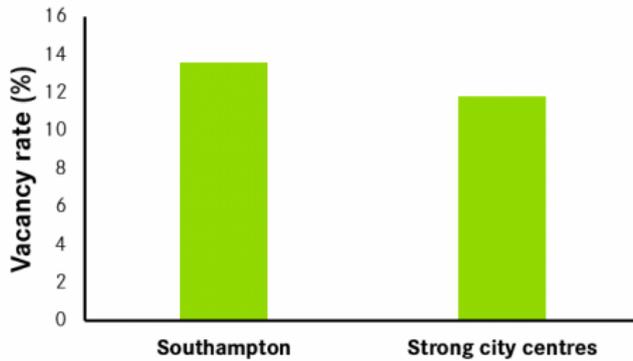
Source: VOA, Non-Domestic Energy Performance register

Finally, housing quality helps improve Southampton's attraction as a place to live. Data on Energy Performance Certificates (EPCs) is available at the scale of the city. It can be used as a proxy for housing quality and shows that, overall, Southampton performs quite well: with 43 per cent of its housing stock rated A, B or C, it ranks ninth out of all cities in England and Wales. However, a fifth of its stock can be defined as poor quality housing (E or lower). As the city grows it will be important both to increase the number of houses and address shortages of particular housing types where they exist.

How does the economic performance of the city centre translate into amenity offer?

The relative underperformance of Southampton city centre's export base has an impact on the performance of its high street. The workers that successful city centres pull in generate footfall on the high street. In contrast, the lack of workers in Southampton city centre impacts both the number and array of amenities (such as shops, bars and restaurants) in the centre of Southampton.

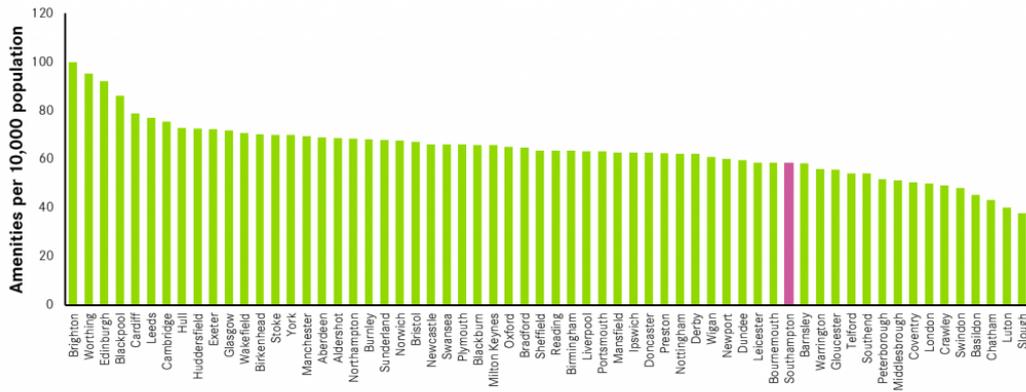
The most common way of looking at the performance of the high street is to look at the number of empty properties on it. Before the first national lockdown, vacancies in Southampton were fairly similar to the average for all city centres (13.6 vs 13.9 per cent), and higher than in the most successful city centres (Figure 11).

Figure 11: Share of high street services that are vacant, 2017/18 (%)

Source: Local Data Company

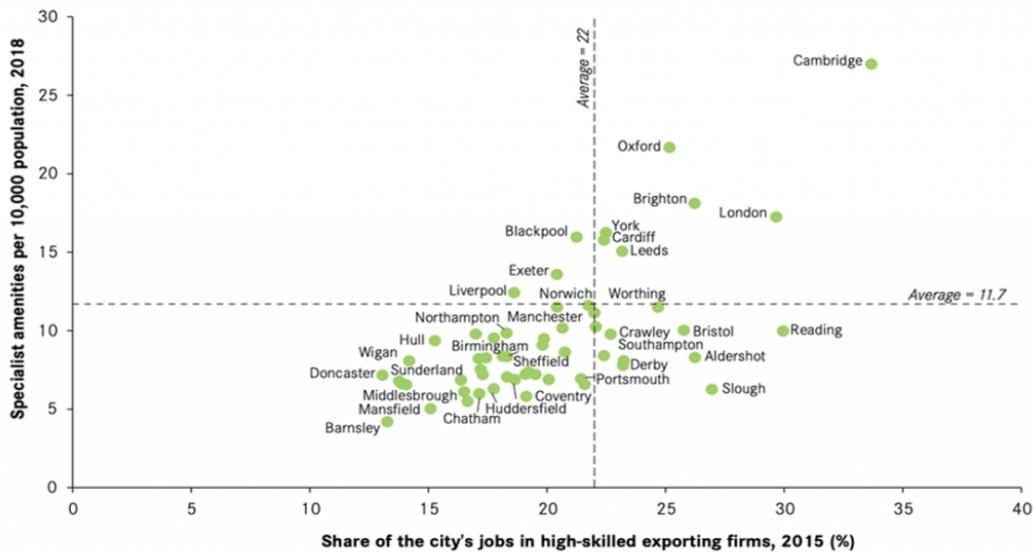
But the number and range of amenities are also important things to consider.⁷ Two metrics give some insight here. Looking at the number of ‘day-to-day’ amenities across all city centres shows that there is not too much range across them – all tend to offer similar numbers of such amenities.⁸ (That said, Figure 12 shows Southampton to be towards the bottom end of this range.) Looking at the range of ‘specialist’ amenities shows greater variation.⁹ Figure 13 shows a relationship between the share of high-skilled (and so better paid) jobs in a city centre export base and the number of more specialist amenities. Despite having a relatively high-skilled export base, the lack of volume of these workers in particular is likely to be a key reason why Southampton city centre’s offer of specialist amenities is below average.

Figure 12: Day-to-day amenities per 10,000 people, 2018



Source: Locomizer (2018); ONS mid-year population estimates (2017)

Figure 13: Relationship between economic strength and specialist amenities



Source: Locomizer (2018), ONS Business Structure Database (2017), 2011 Census, ONS mid-year population estimates (2017). Note: This chart only contains data on cities in England and Wales due to unavailable data for Scotland and Northern Ireland.

In order to strengthen the city centre’s role as a place to spend leisure time, it will need to expand the size of its exporting base. Efforts to support the high street must start with policies to support jobs, not shops.

Conclusion and policy recommendations

Southampton city centre has the underlying fundamentals to become a strong-performing city centre in the next decade. In particular, the number of highly-qualified workers within commutable distance – an important factor in the location decision of high-skilled businesses, and also one of the hardest things for policy to address – is in line with some of Britain’s strongest city centres.

This is not reflective in the performance of its city centre economy, which plays a smaller role as a worker hub than would be expected. While the exporting base of the city centre – the driver of the overall performance of the city centre economy – is relatively highly skilled, it is much smaller than in Britain’s most successful centres. This has a knock-on impact on the performance of the high street in the centre, and the range of jobs that Southampton city as a whole offers to residents living in and around it.

This report shows that the one key fundamental that the city centre struggles on is the supply of appropriate office space. Reflecting the nature of the export base, the office space that exists in the city centre is of higher quality than most city centres, but there is not a large supply of it. The favourable make-up of skills of workers within commutable distance, and the high-skilled nature of the export base in the city centre both point to potential latent demand for more office space.

To make Southampton city as a whole a more successful economy in the coming years, a key focus should be on making Southampton city centre a more attractive place to do business. The data in this report suggests that the main focus of policy to improve the attractiveness of the city centre as a place to do business should be to increase the supply of new office space.

The Mayflower Quarter – as one of the largest development sites in Europe – presents a unique opportunity to do this. The site should be used to strengthen all the roles that a city centre plays. This includes working, but also learning, playing and living. While all these uses are closely tied to one another, strengthening the role of the centre as a place of work is particularly important. It should be a core priority for any policy intervention, supporting as it does the centre’s retail, leisure and cultural sectors.

Endnotes

- 1 Swinney P and Mc Donald R (2019), City centres : past, present and future, London : Centre for Cities
- 2 Swinney P and Serwicka I (2016), Trading Places: Why Firms Locate Where They Do, London: Centre for Cities
- 3 Thomas, E, Serwicka, I and Swinney, P (2015) Urban demographics, London: Centre for Cities.
- 4 <https://urbanconstruction.uk/project/southampton-student-accommodation/>
- 5 Jeffrey S (2020), Getting Moving, London: Centre for Cities
- 6 In Southampton, industrial space represents more than 168,150 m², compared to 14,600 in Brighton and 24,070 in Reading.
- 7 McDonald R, Ramuni L, Tan L (2019) What's in store ? How and why cities differ for consumers, London : Centre for Cities
- 8 Day-to-day amenities are those used regularly and by most of the population, such as cafes, supermarkets and clothes shops.
- 9 Specialist amenities are instead used occasionally, or a used by a smaller number of customers with specialist interests, like yoga studios, restaurants and theatres.

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