Independent Review of Build Out Rates

Annexes

June 2018
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

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Contents

Annex A. Build out rates

KEY

Stages:

1 'Regulatory stage'

A – From application to outline permission granted

B – From outline permission granted to first detailed application

C – From first detailed application to first detailed permission

2 – 'Build out stage'

A – From first detailed permission to first start (dwelling)

B – From first start to final completion (actual, projected)

NOTES ON GRAPHS

Case study sample

All data was requested at the time of site visits and was provided by developers and local planning authorities between January and May 2018. Site size is based upon units specified in original outline and/or full planning applications, excluding conversions. The case study sample size is 15. Planning permission was secured via a hybrid application on two of these sites.

In the following cases, a part of the site has been excluded for the purposes of the analysis:

Wembley Park, Brent

Only covers development within the 2015 master plan.

Nine Elms, Wandsworth

Only covers schemes by major house builders, Ballymore and Battersea Power Station Development Company (therefore excluding Bellway and the Bellway/L&Q joint venture) that are set within the boundary of Wandsworth Borough Council.

East Village, London Legacy Development Corporation (LLDC)

Excludes conversions (2,818 units completed in 2014).

Projections

Projections are based upon delivery projections provided by developers and local planning authorities between January and May 2018. In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. In other cases, full projected annual completions data is not available at all or does not account for the whole site. In these cases, an implied projection has been calculated based on current and planned delivery rates.

In the following cases, an implied projection of build out has been calculated by the MHCLG Review Team:

Barking Riverside, London Borough of Barking & Dagenham (LBBD)

Implied projection based on information provided on site visit. The black bar on graphs AX9 and AX10 denotes length of regulatory and build out stages prior to December 2017.

North West Bicester, Cherwell

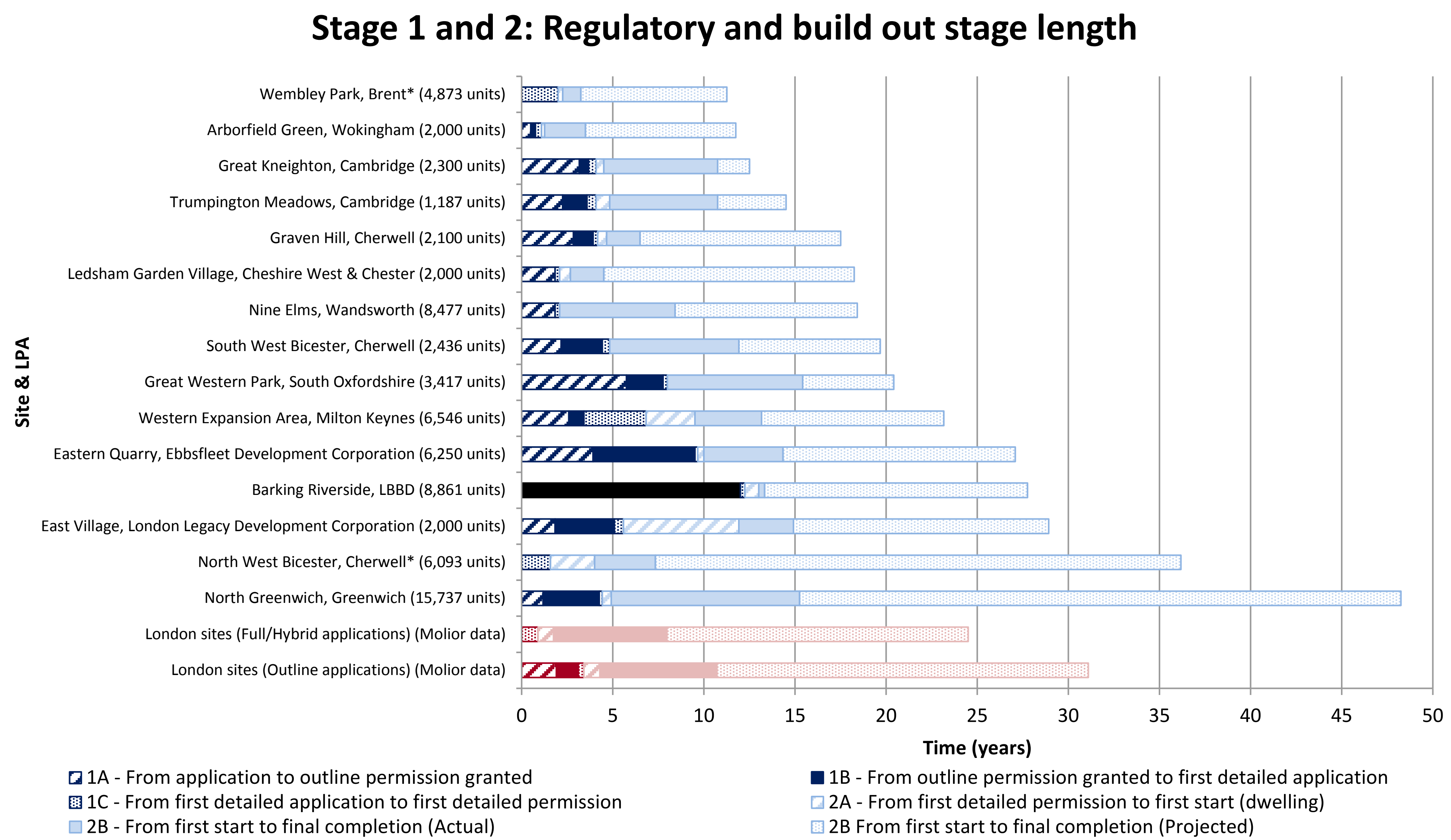
Implied projection for later phases based on data provided for first two phases of development.

Molior London data

Molior is a market research practice who collates data on sales, land and planning, sites pre-planing and Built to Rent.

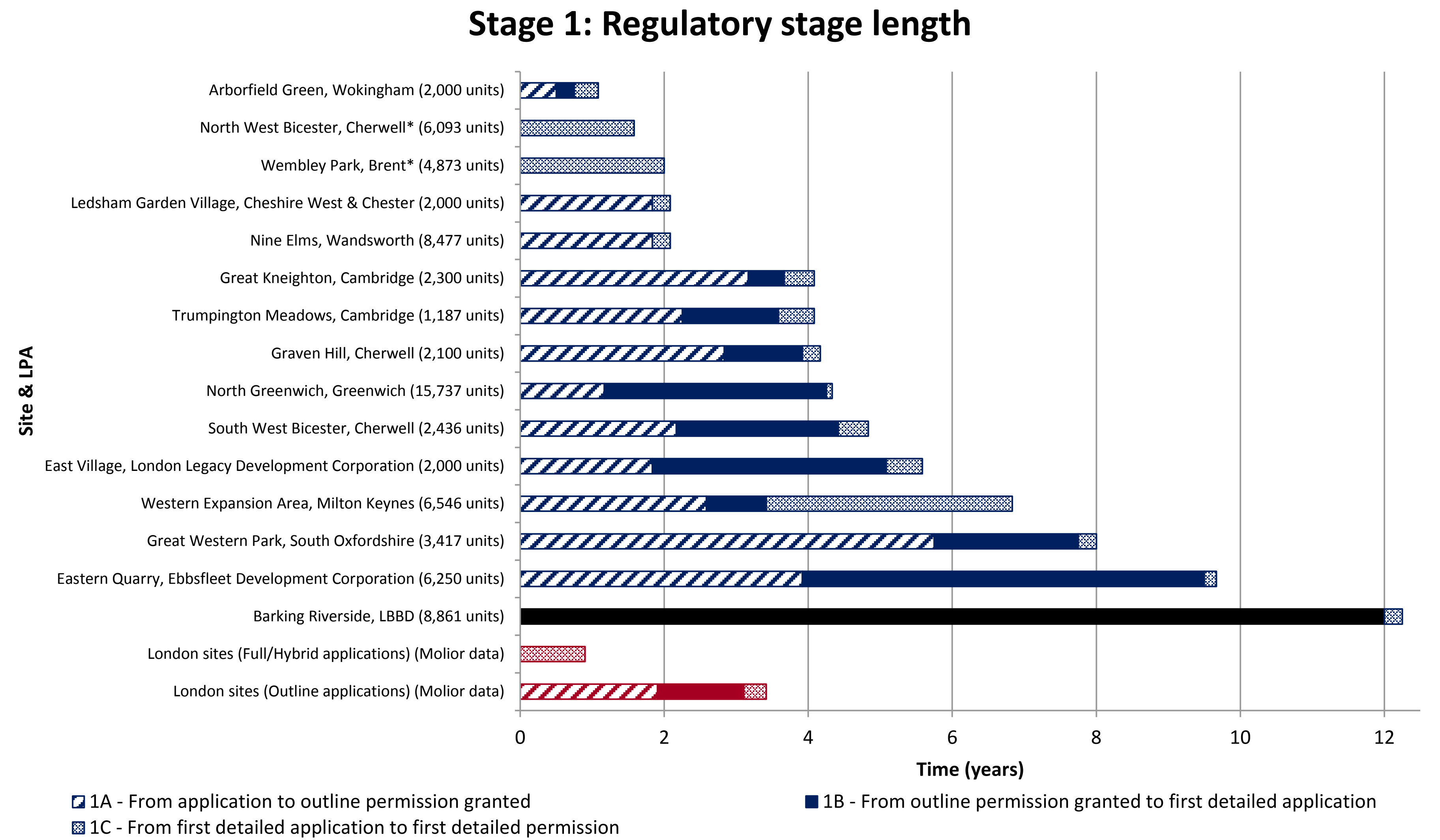
A Molior dataset has been used in some graphs, covering 18 sites of 500 units or more that are currently building out with over 10% of private units completed. These sites are in London only, and build out data is only available for the market housing on these sites – completions data does not include any affordable housing units. As all of these sites are currently building out, an implied projection has been calculated based on the current rate of build out. Molior does not collect affordable housing completions data, therefore the build out rate for sites in the Molior database has been calculated on the basis of market housing completions data. Molior has reviewed the analysis undertaken by the MHCLG Review Team and has advised that the methodology and information used are accurate for the development projects examined as of the latest data returns, dated March 2018.

1 Start to finish

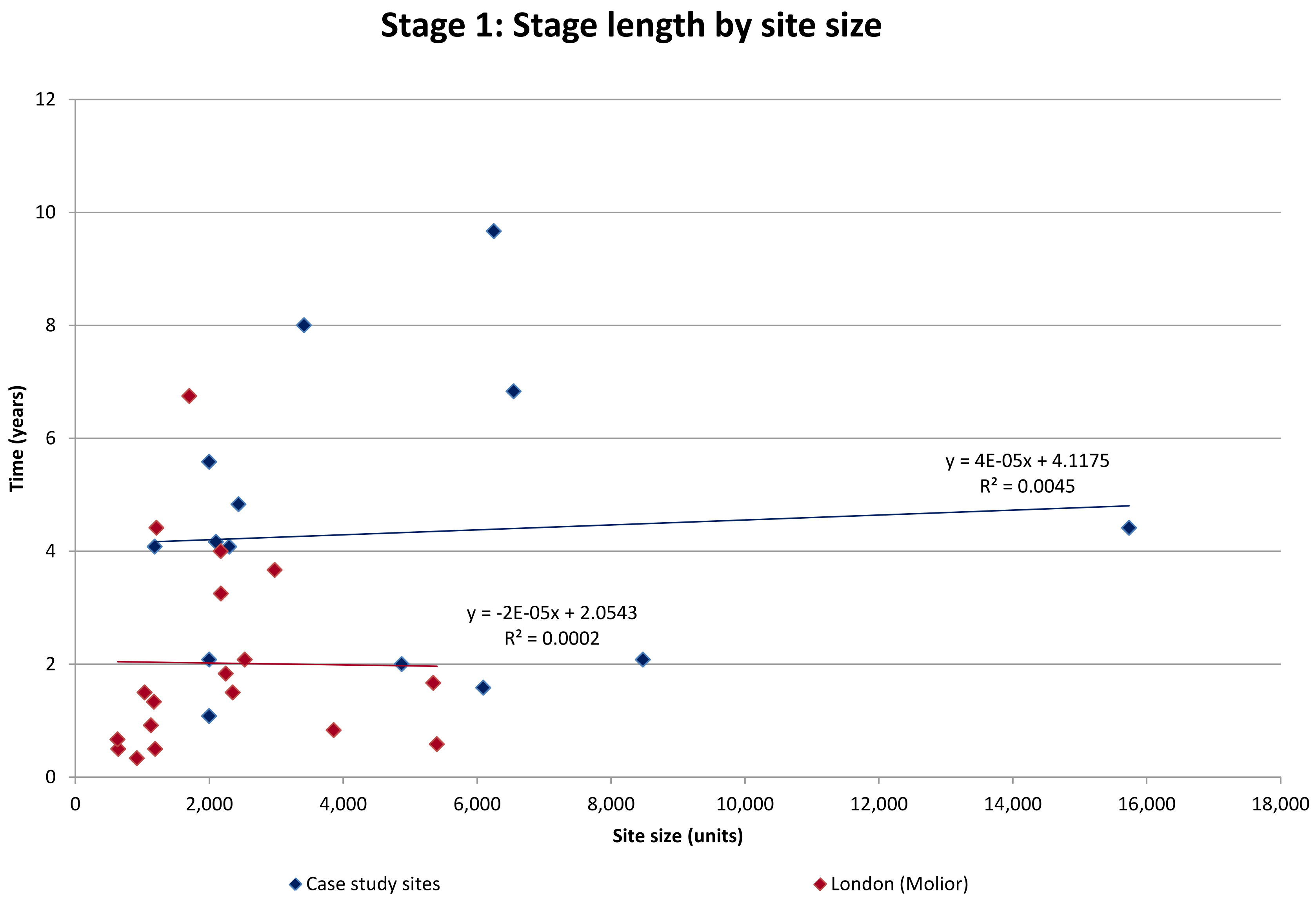


Note: Stage 1 and 2 - from outline application to final completion (projected). Asterisk (*) denotes hybrid application. For Barking Riverside, the black bar denotes length of regulatory and build out stages prior to December 2017. For Barking Riverside and North West Bicester, an implied projection for Stage 2B has been calculated. For London sites in the Molior dataset, Stage 2B length is calculated on the basis of market housing only as Molior data does not include affordable housing completions. The mean length of each stage has been calculated for London sites in the Molior dataset.

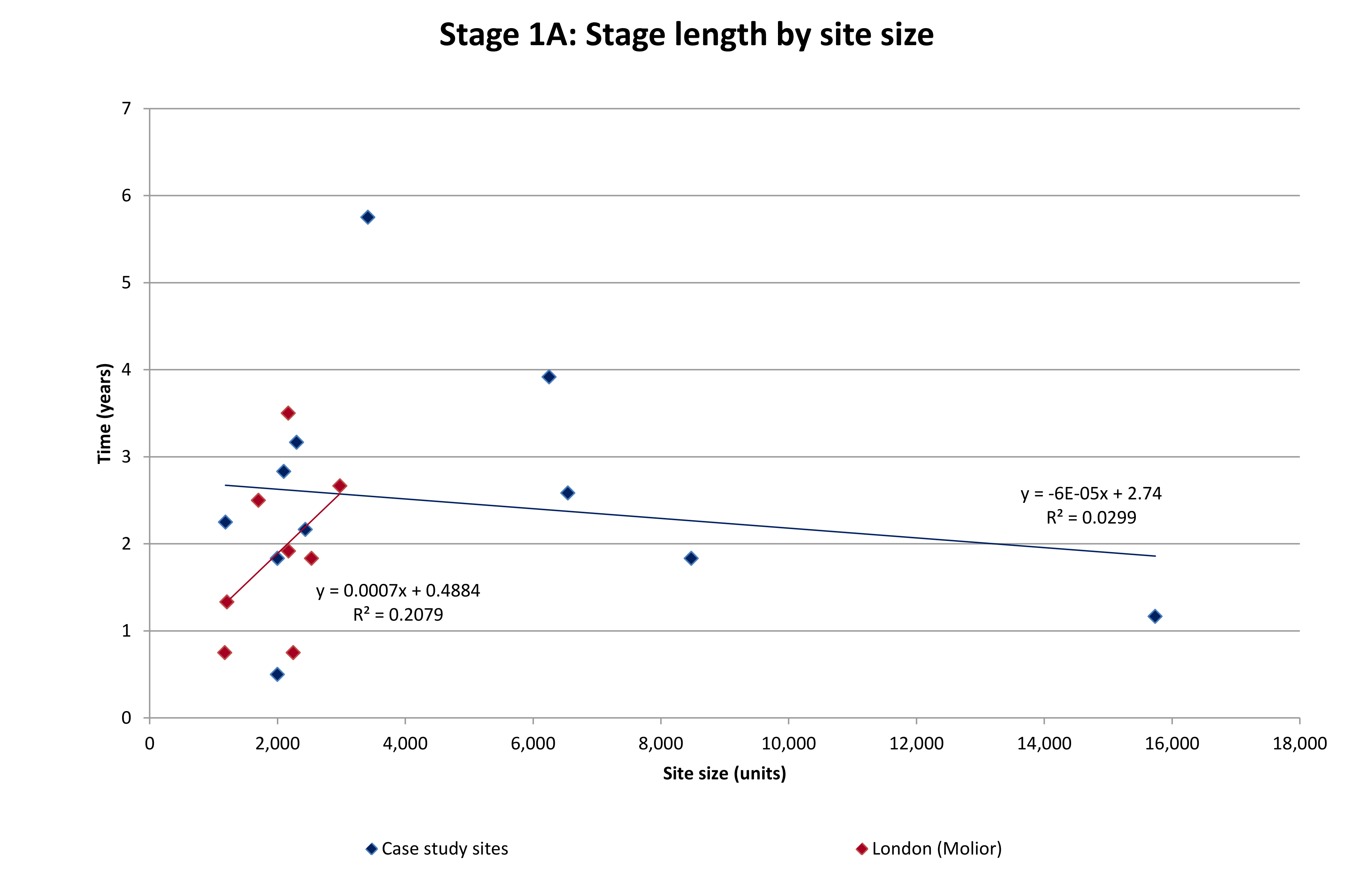
2 Stage 1: Regulatory



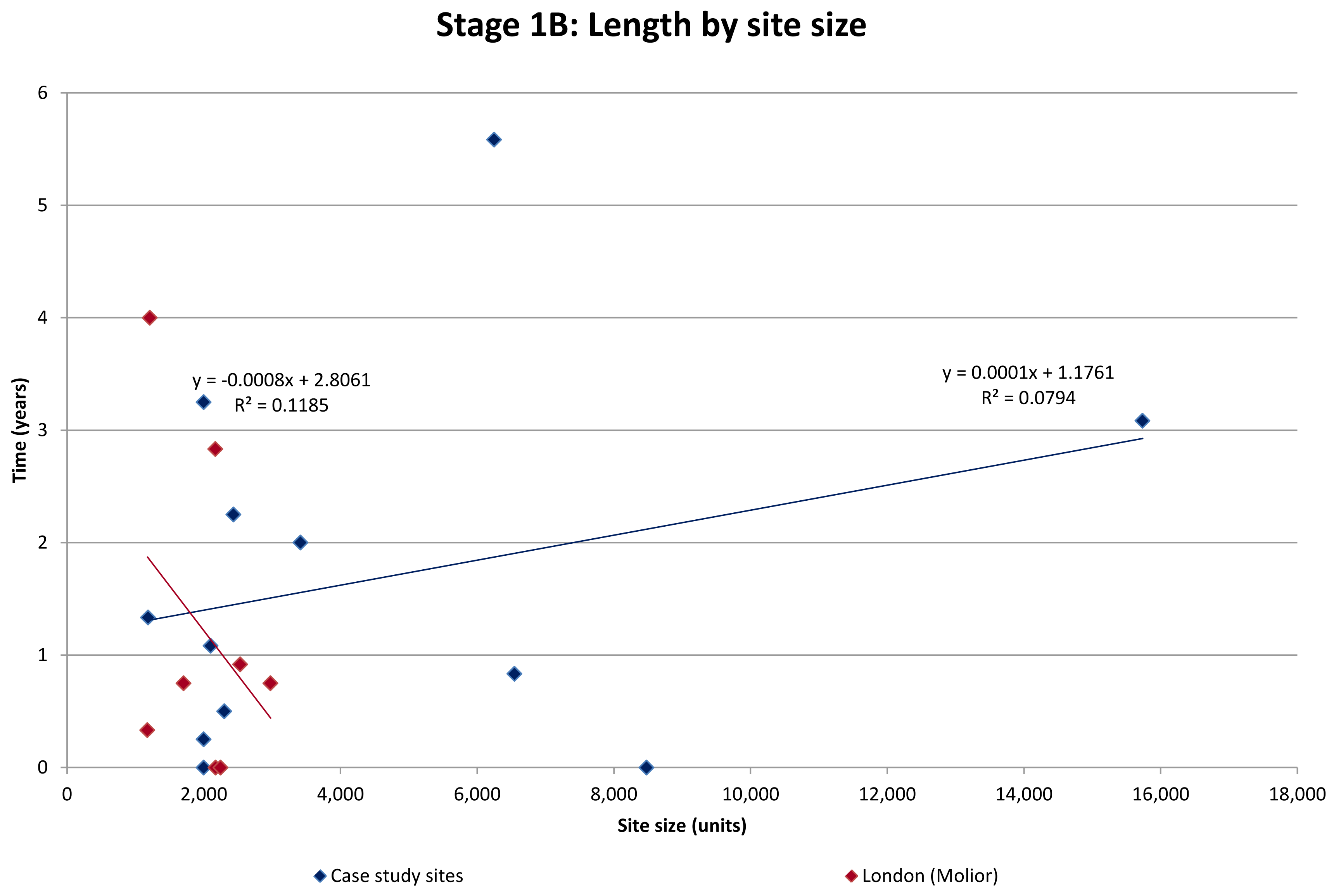
Note: Stage 1 - from outline application to first detailed permission. Asterisk (*) denotes hybrid application. For Barking Riverside, the black bar denotes length of regulatory and build out stages prior to December 2017. The mean length of each stage has been calculated for London sites in the Molior dataset.



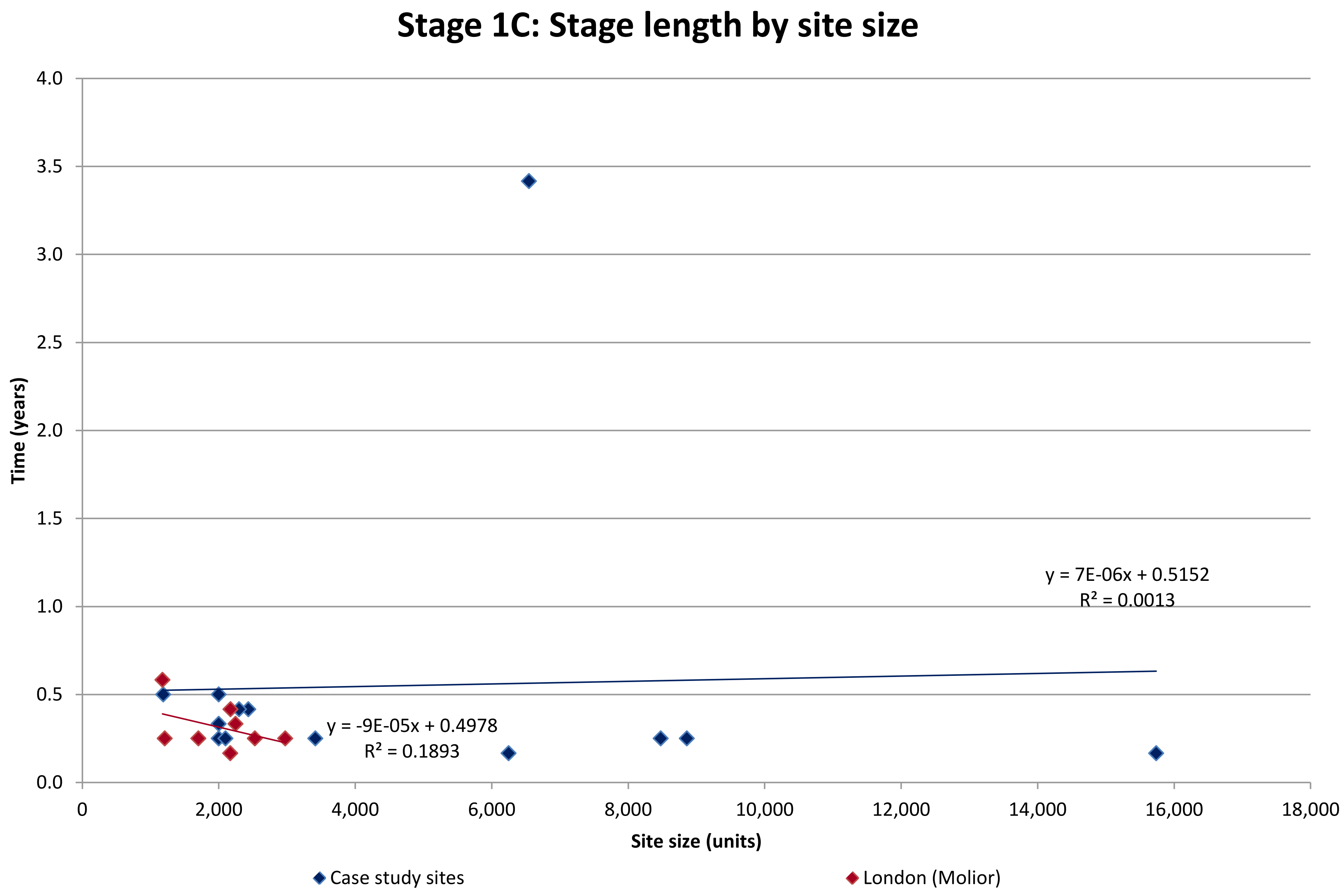
Note: Stage 1 - from outline application to first detailed permission. Excludes Barking Riverside.



Note: Stage 1A - from application to outline permission granted. Excludes Barking Riverside; and hybrid and full applications.

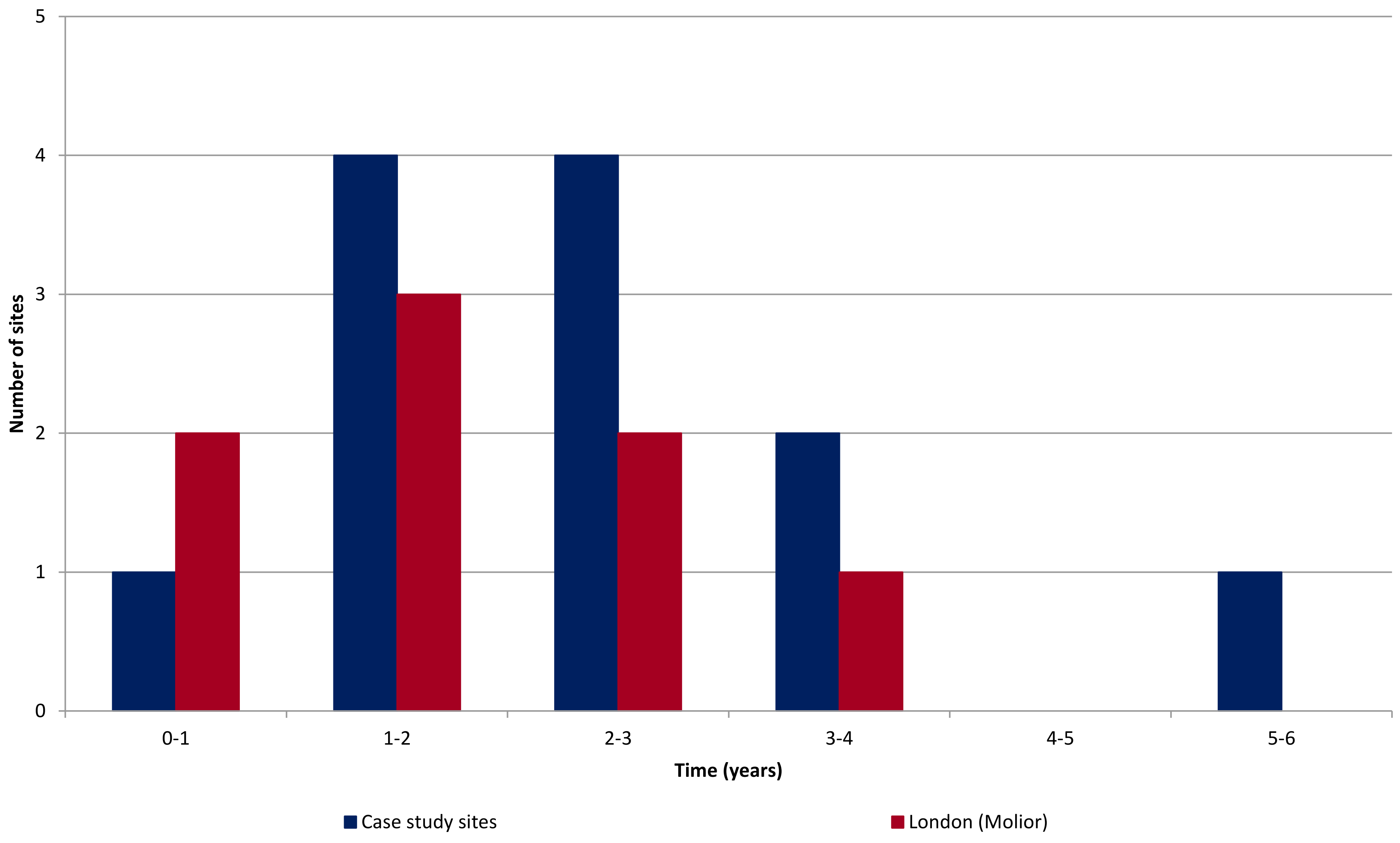


Note: Stage 1B - from outline permission granted to first detailed permission. Excludes Barking Riverside; and hybrid and full applications.

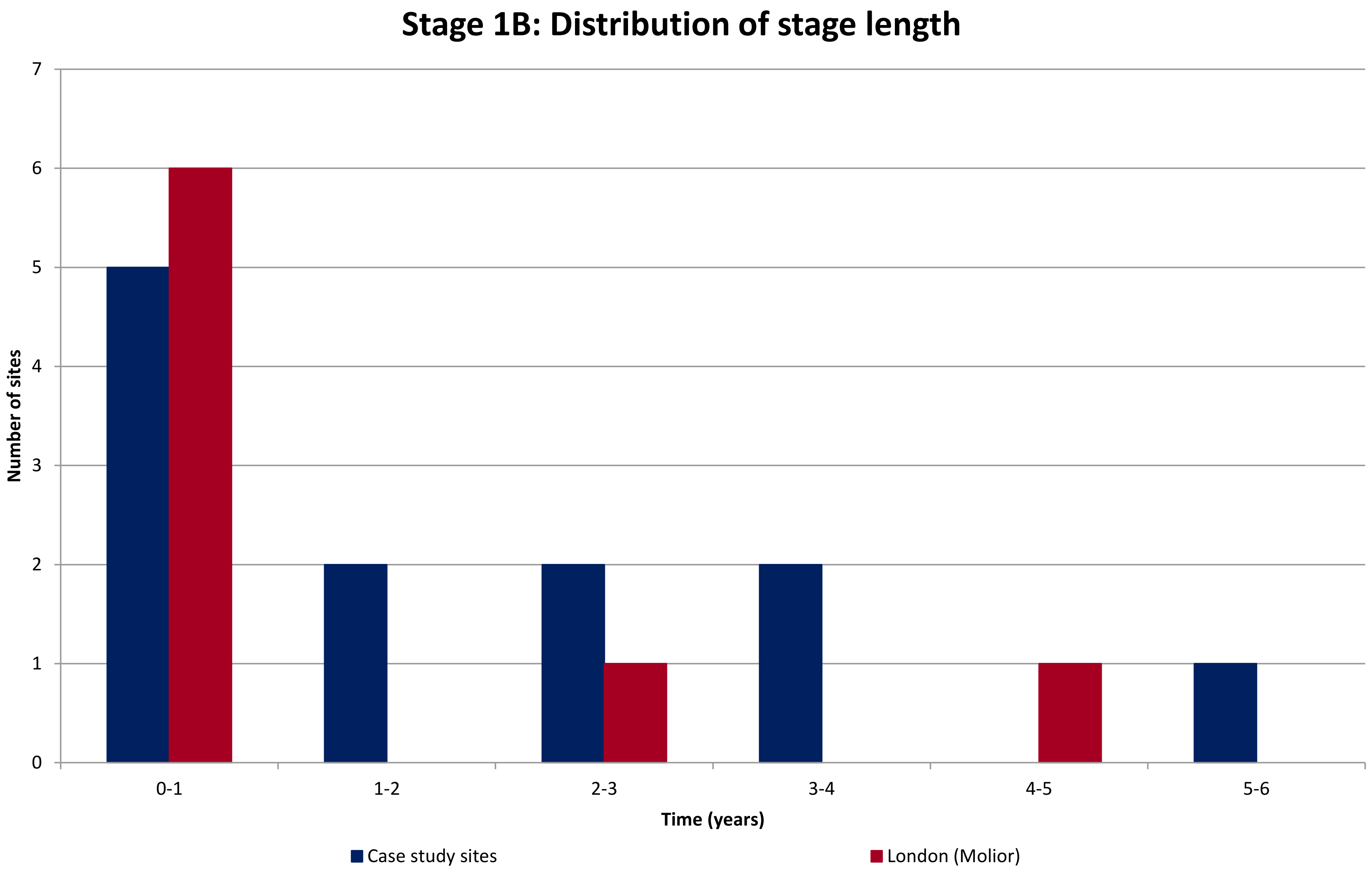


Note: Stage 1C - from first detailed application to first detailed permission. Excludes hybrid and full applications.

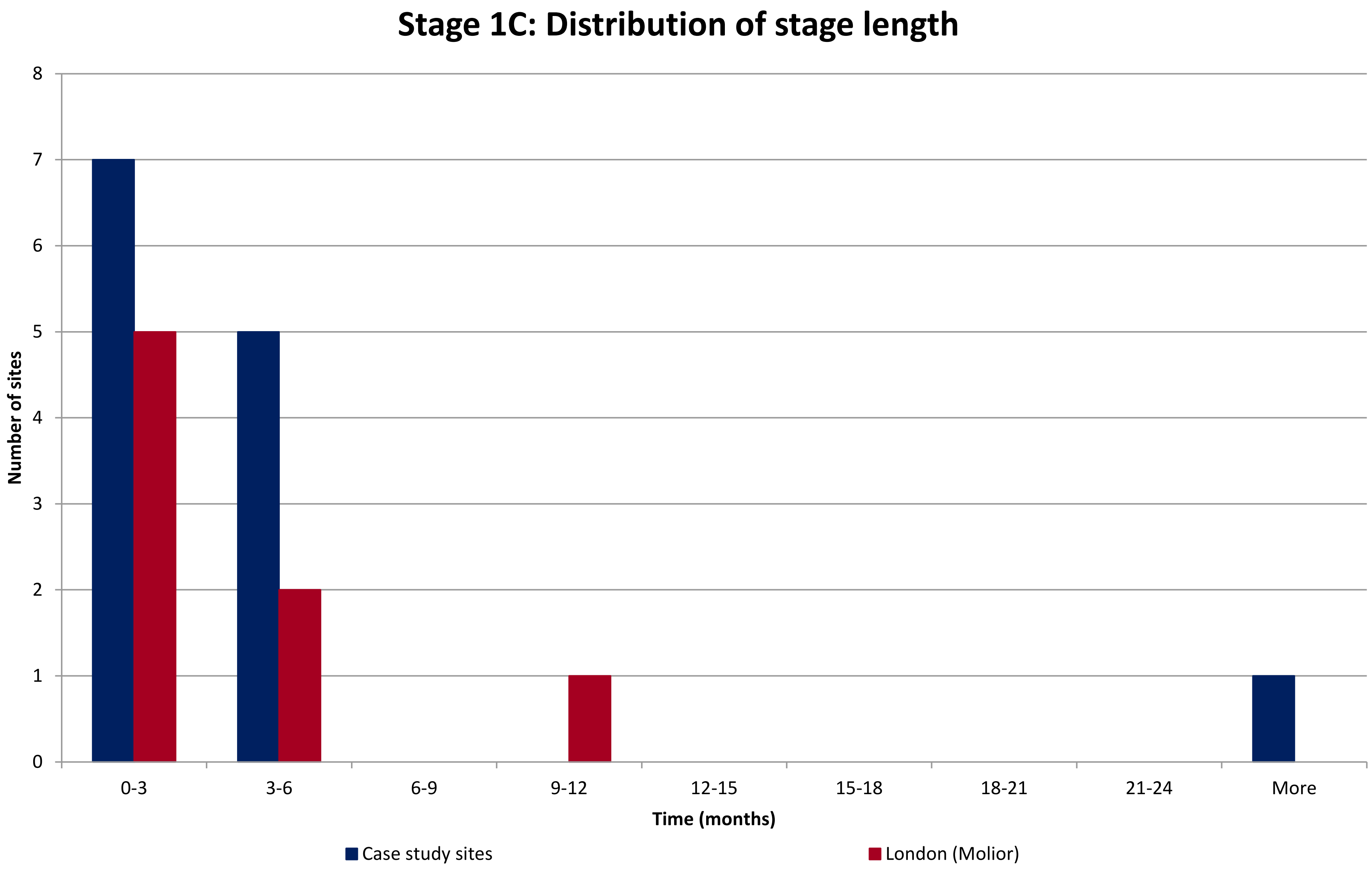
Stage 1A: Distribution of stage length



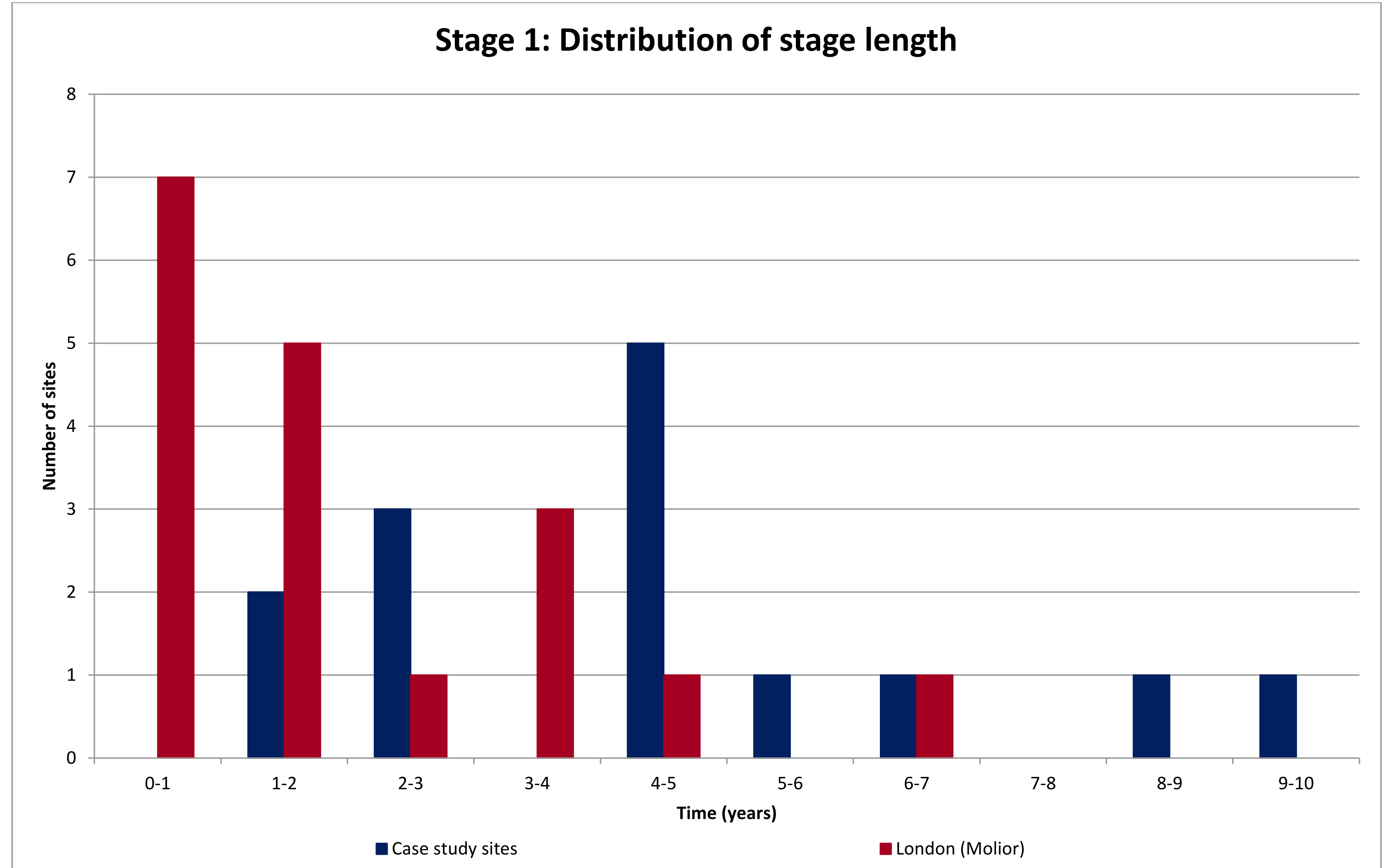
Note: Stage 1A - from application to outline permission granted. Excludes Barking Riverside; and hybrid and full applications.



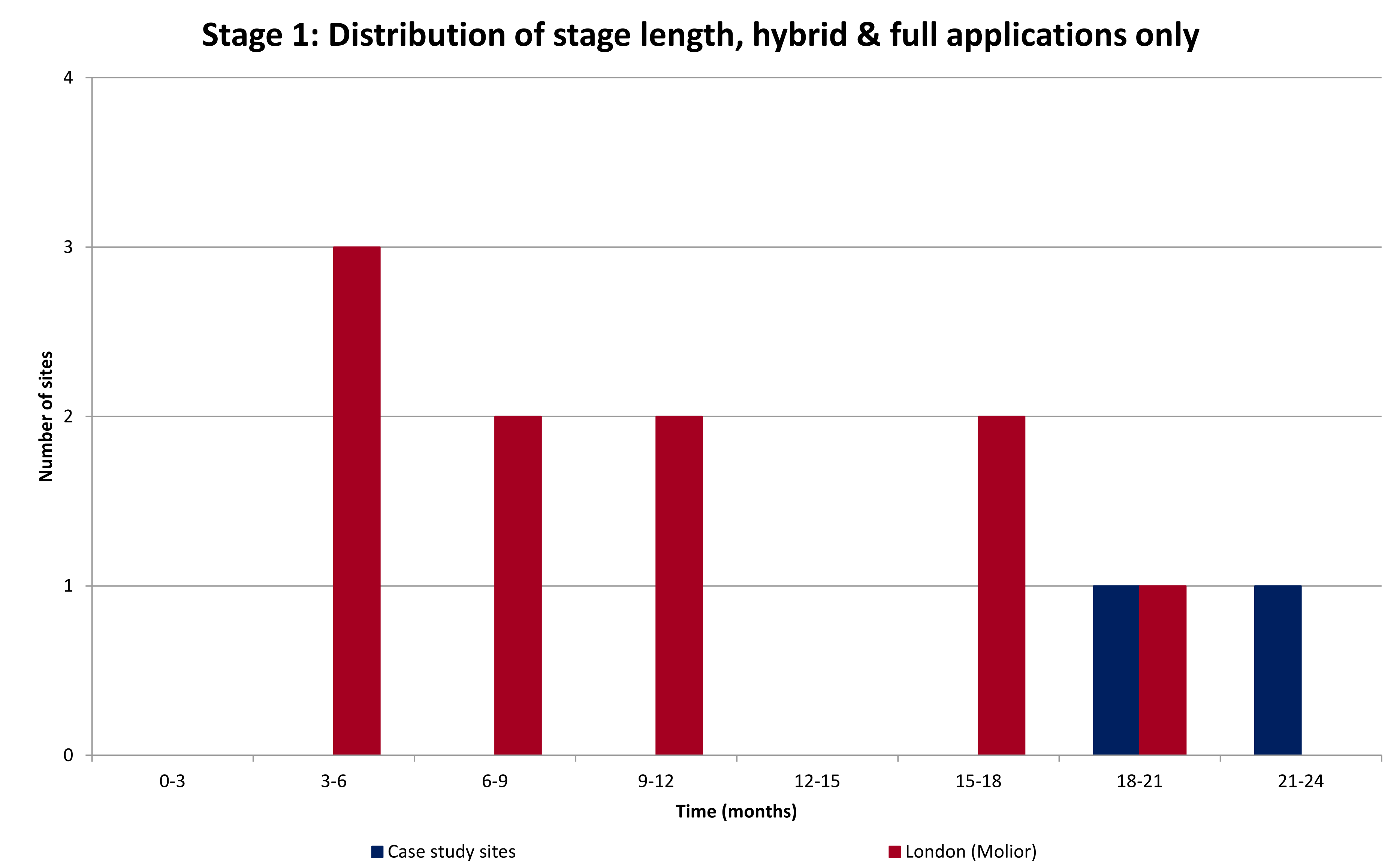
Note: Stage 1B - from outline permission granted to first detailed application submitted. Excludes Barking Riverside; and hybrid and full applications.



Note: Stage 1C - from first detailed application submitted to first detailed permission granted. Excludes hybrid and full applications.

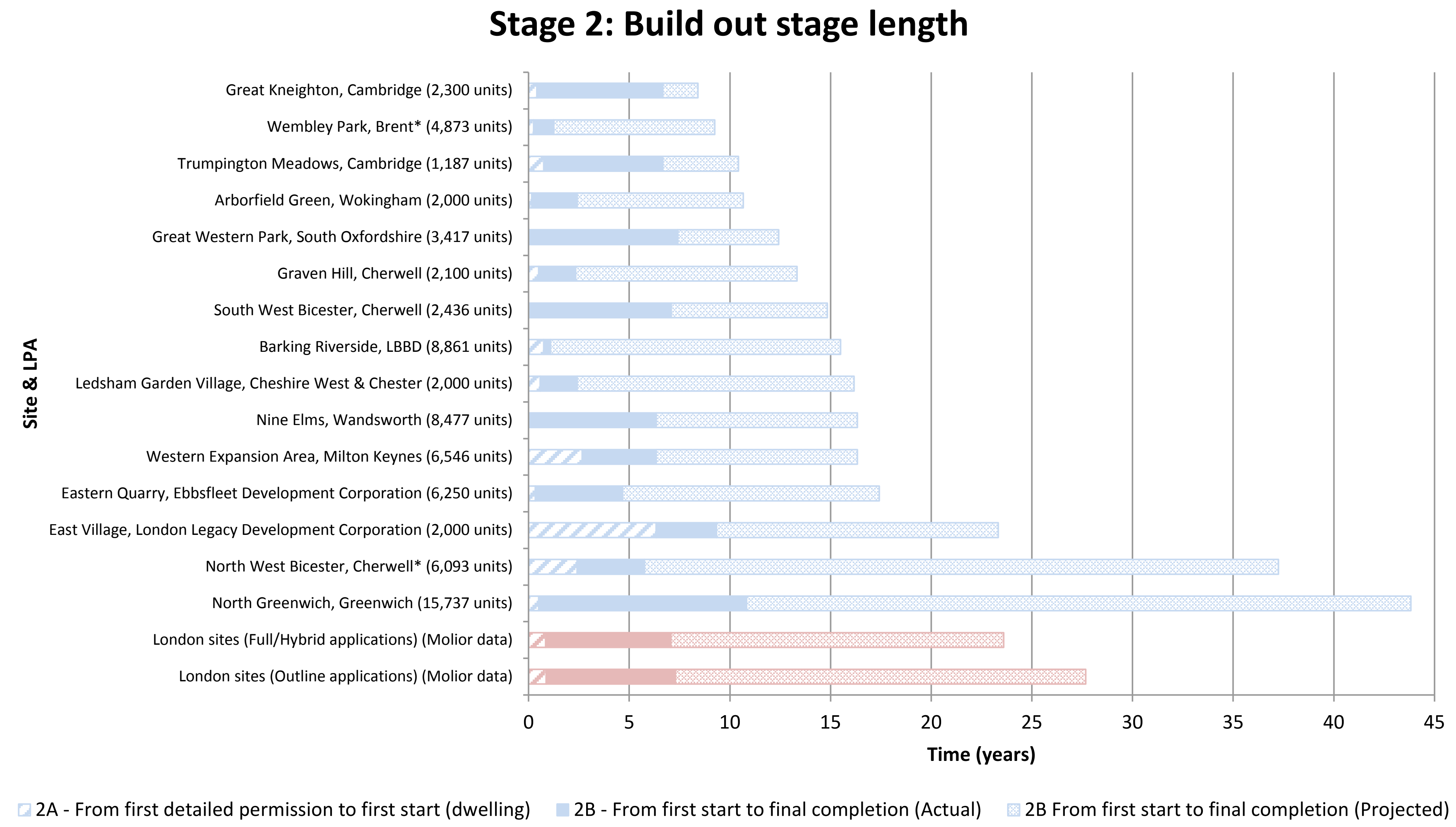


Note: Stage 1 - from outline application to first detailed permission. Excludes Barking Riverside.

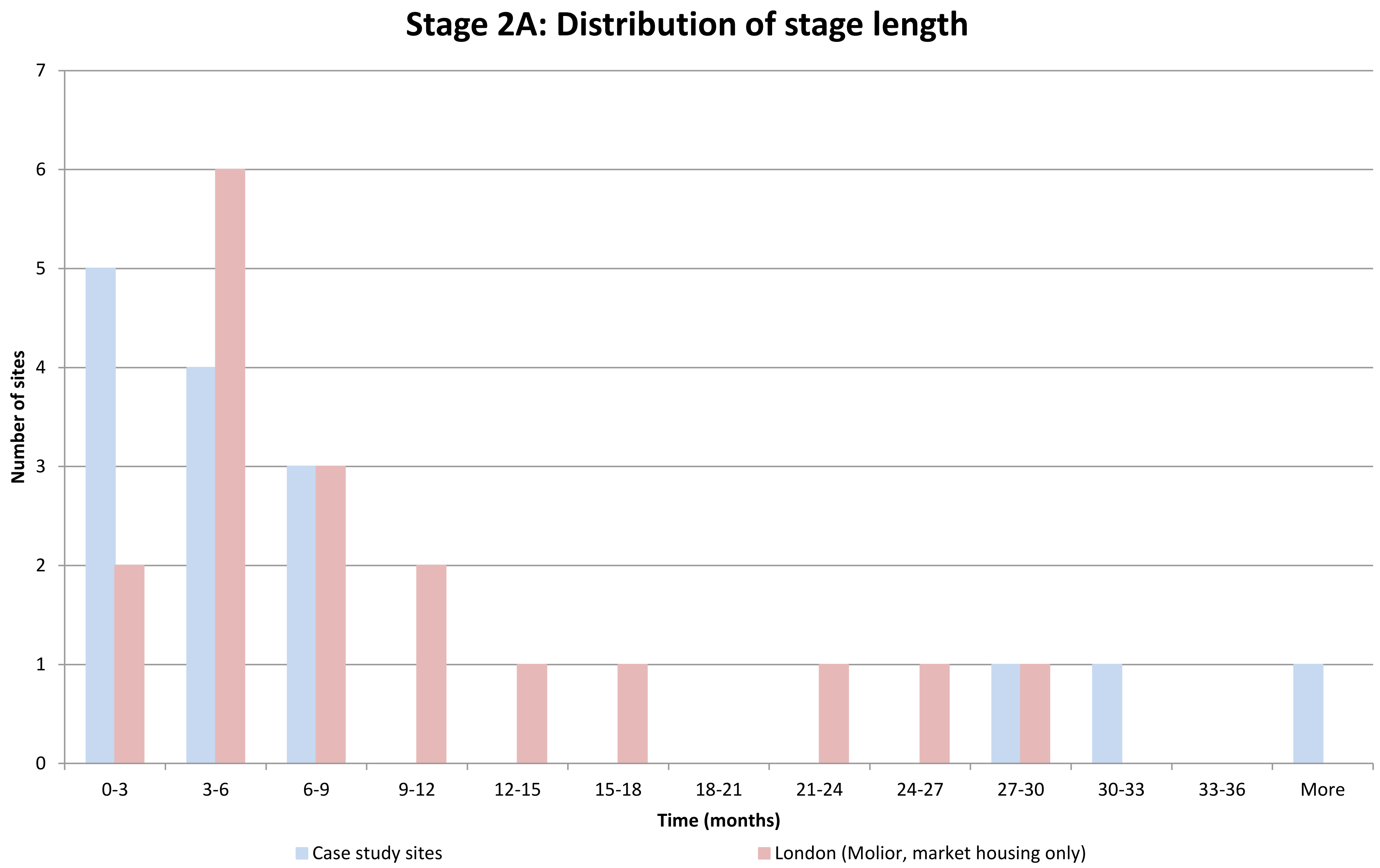


Note: Stage 1 - From outline application to first detailed permission. Hybrid and full applications only.

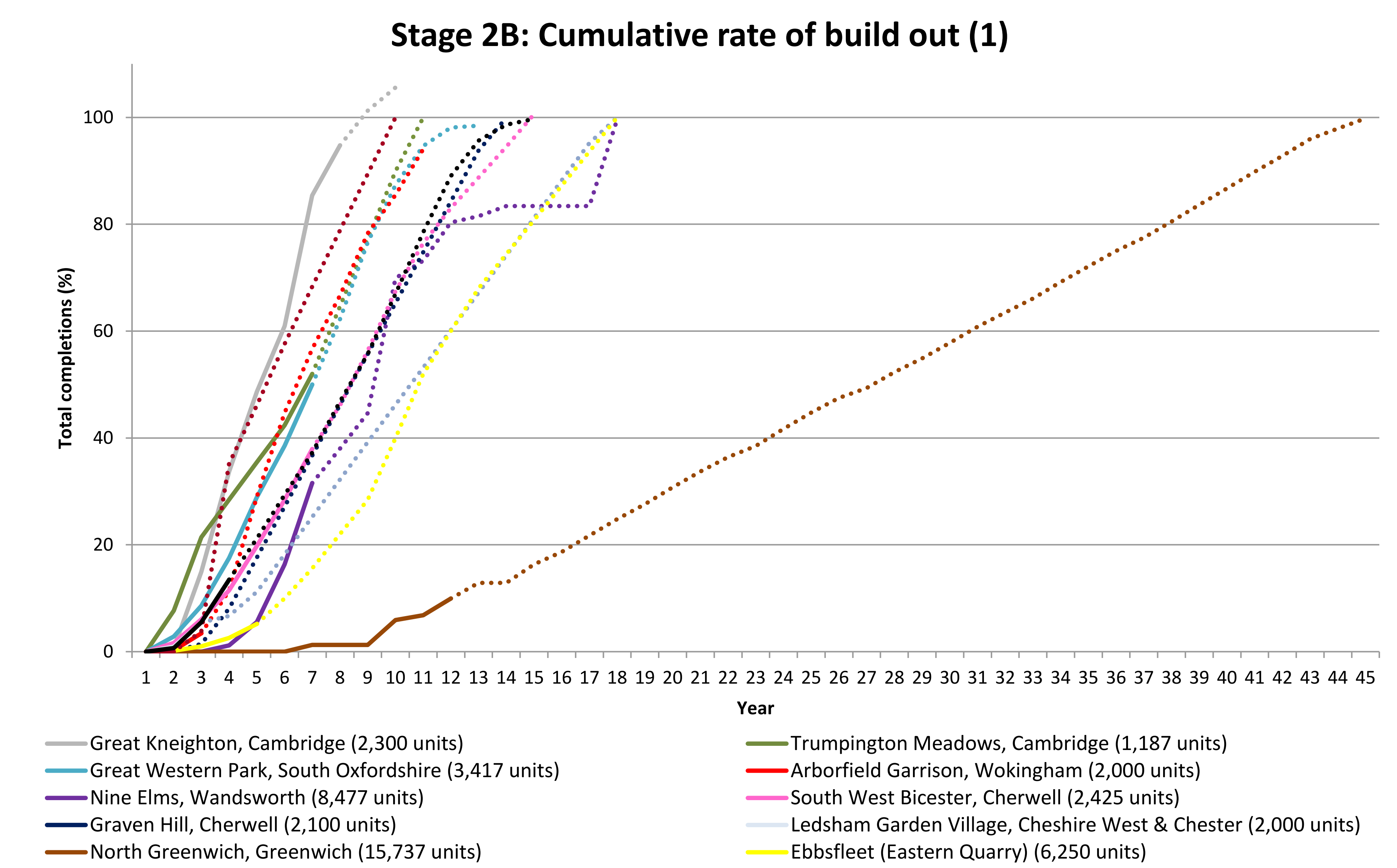
3 Stage 2: Built out



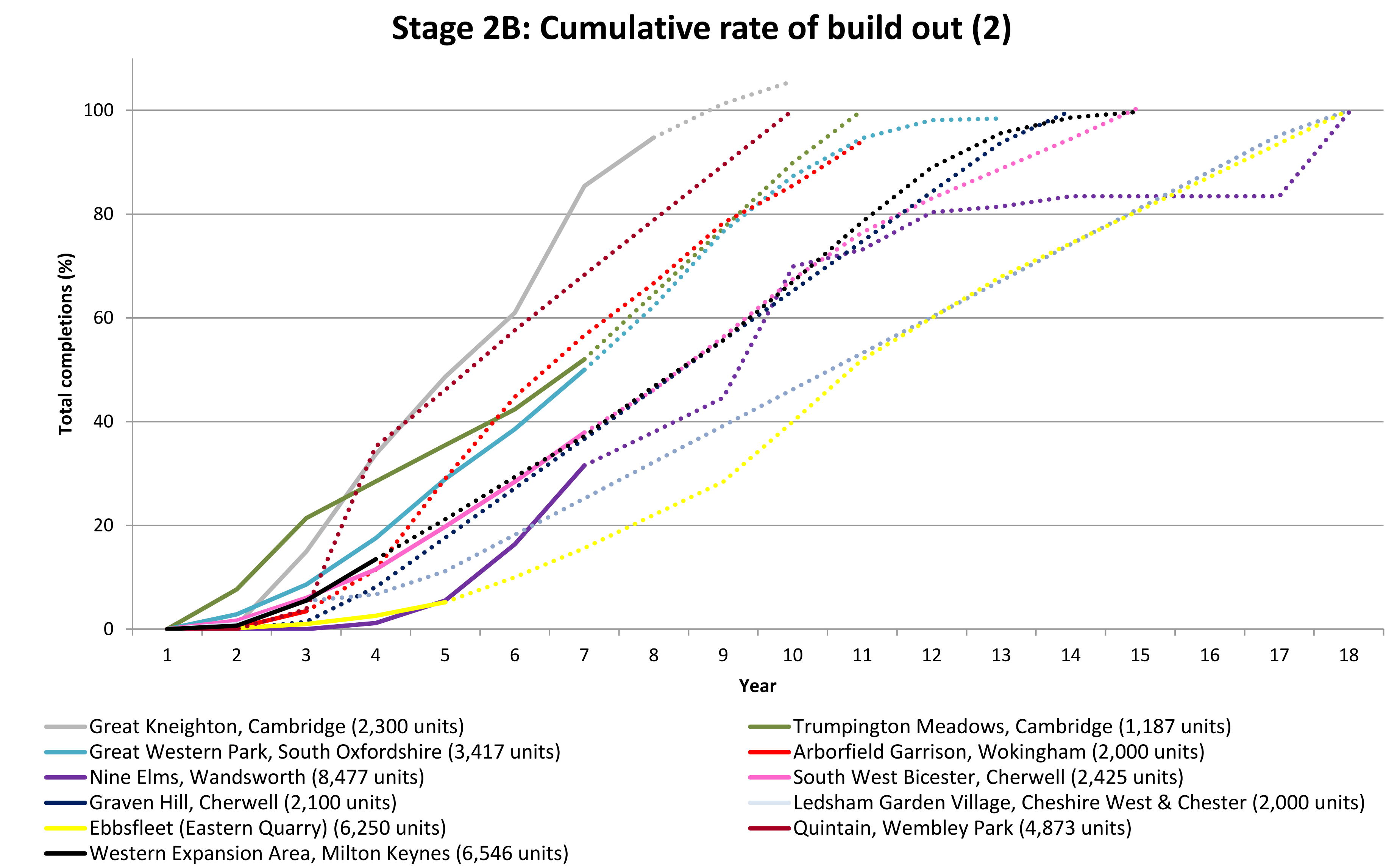
Note: Stage 2 - From first detailed permission to final completion (projected). Asterisk (*) denotes hybrid application. For Barking Riverside, North West Bicester and London sites in the Molior datset, an implied projection for Stage 2B has been calculated. For London sites in the Molior dataset, Stage 2B length is calculated on the basis of market housing only as Molior data does not include affordable housing completions. The mean length of each stage has been calculated for the London sites in the Molior dataset.



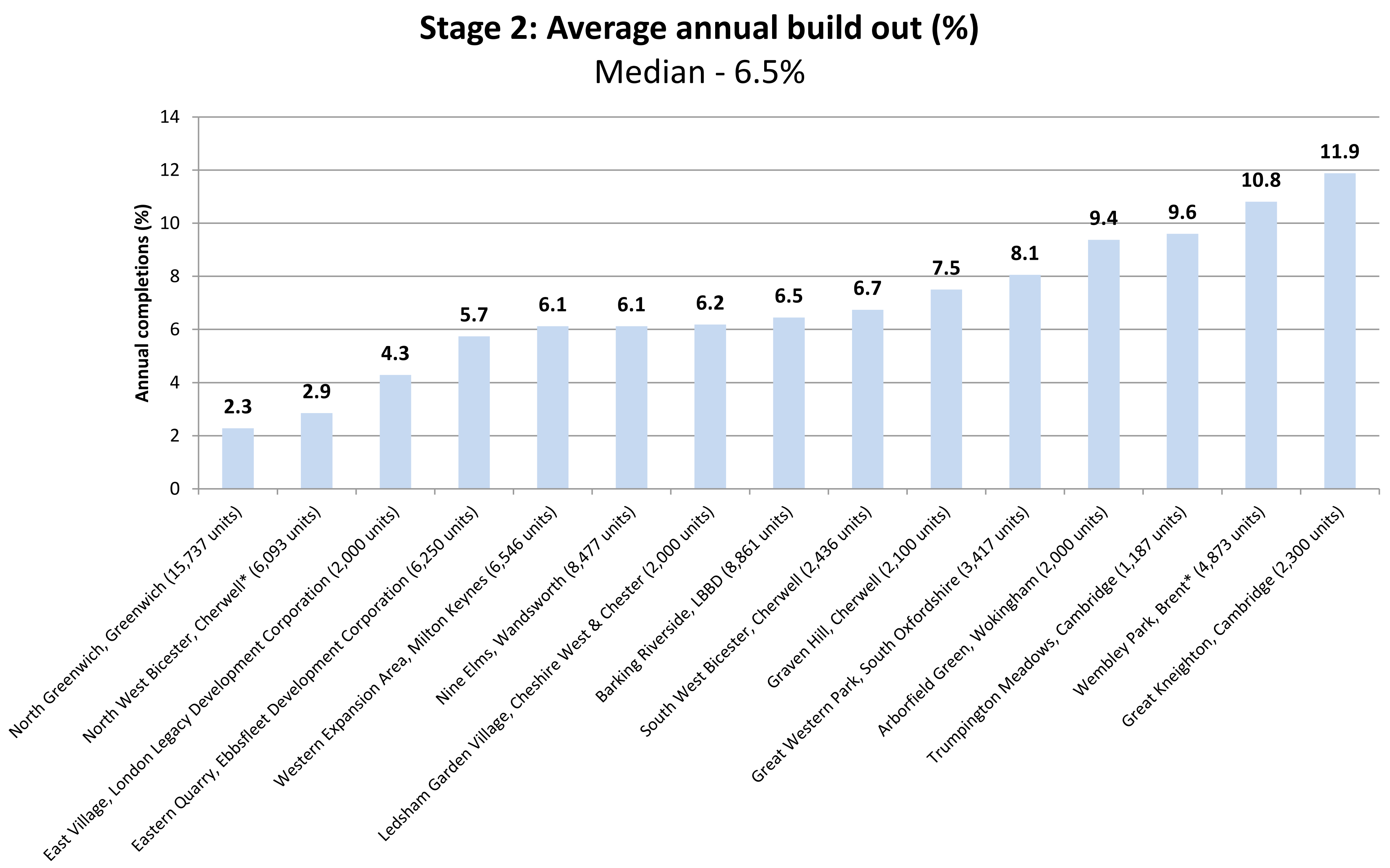
Note: Stage 2A - from first detailed permission to first start (dwelling).



Note: Stage 2B - from first start to final completion (actual, projected). Excludes sites where full annual projected completions data is not available. In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line denotes projected build out rate.



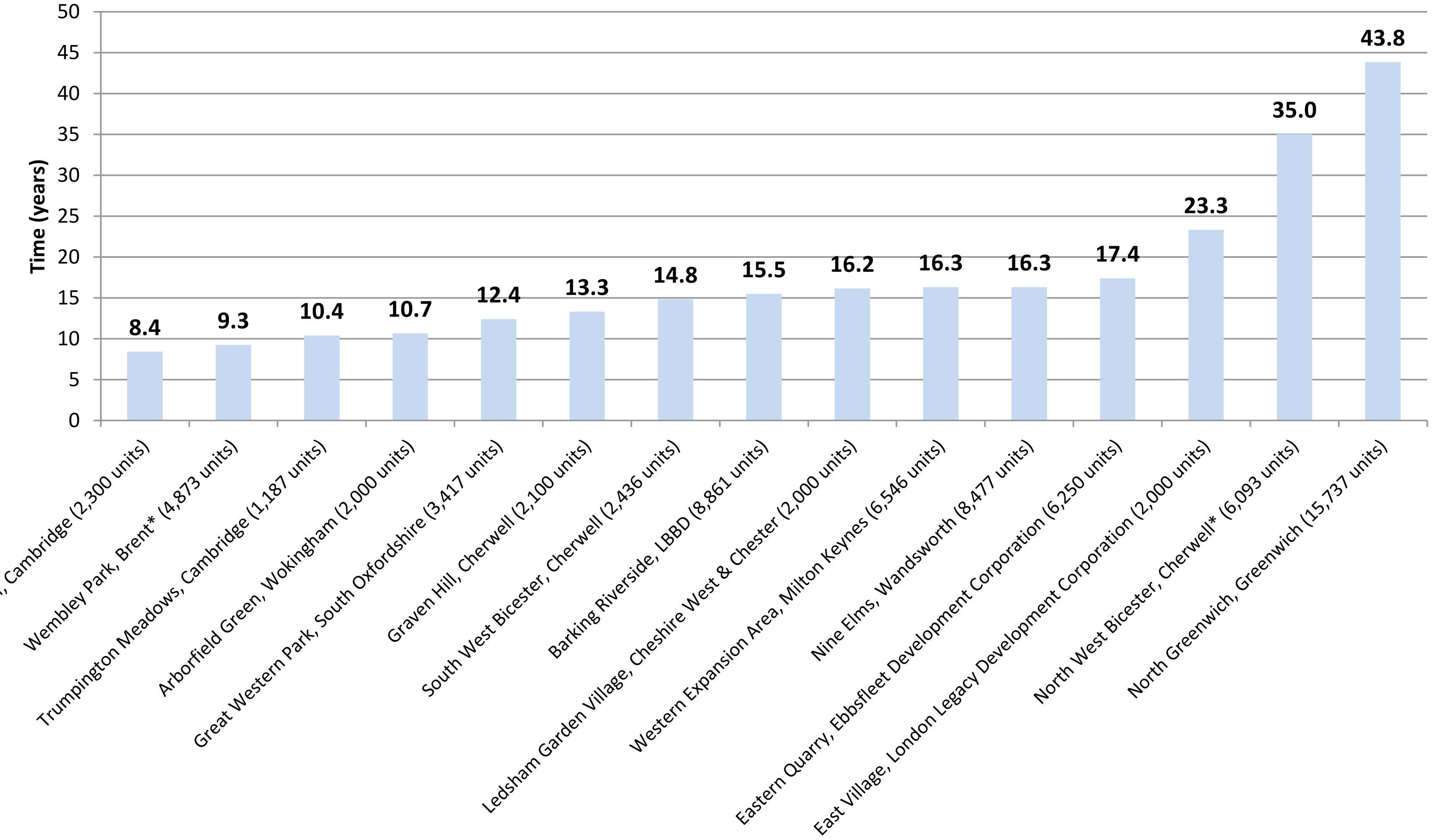
Note: Stage 2B - from first start to final completion (actual, projected). Excludes North Greenwich and sites where full annual projected completions data is not available. In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line denotes projected build out rate.



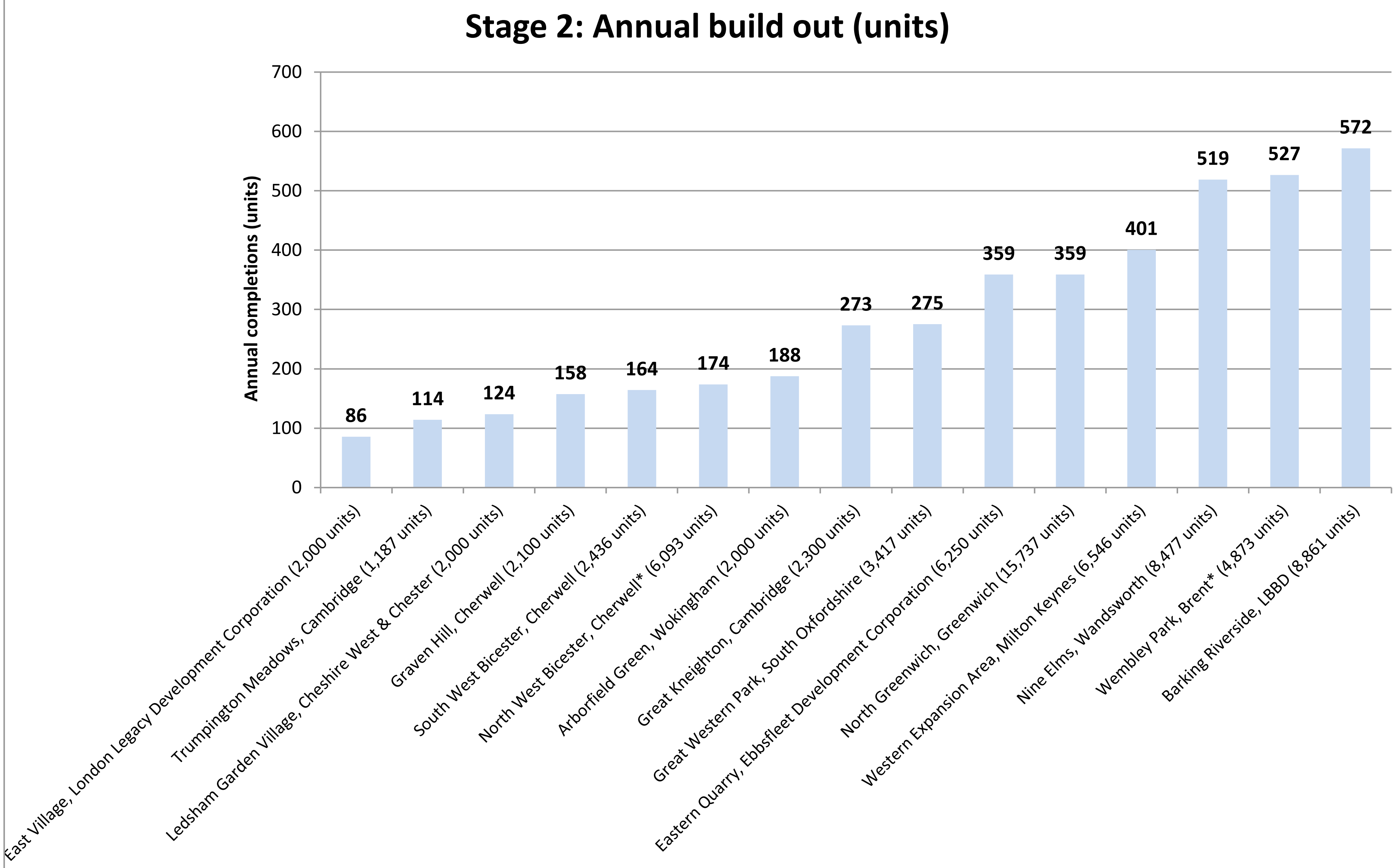
Note: Stage 2 - from first detailed permission to final completion (projected).

Stage 2: Total build out stage length

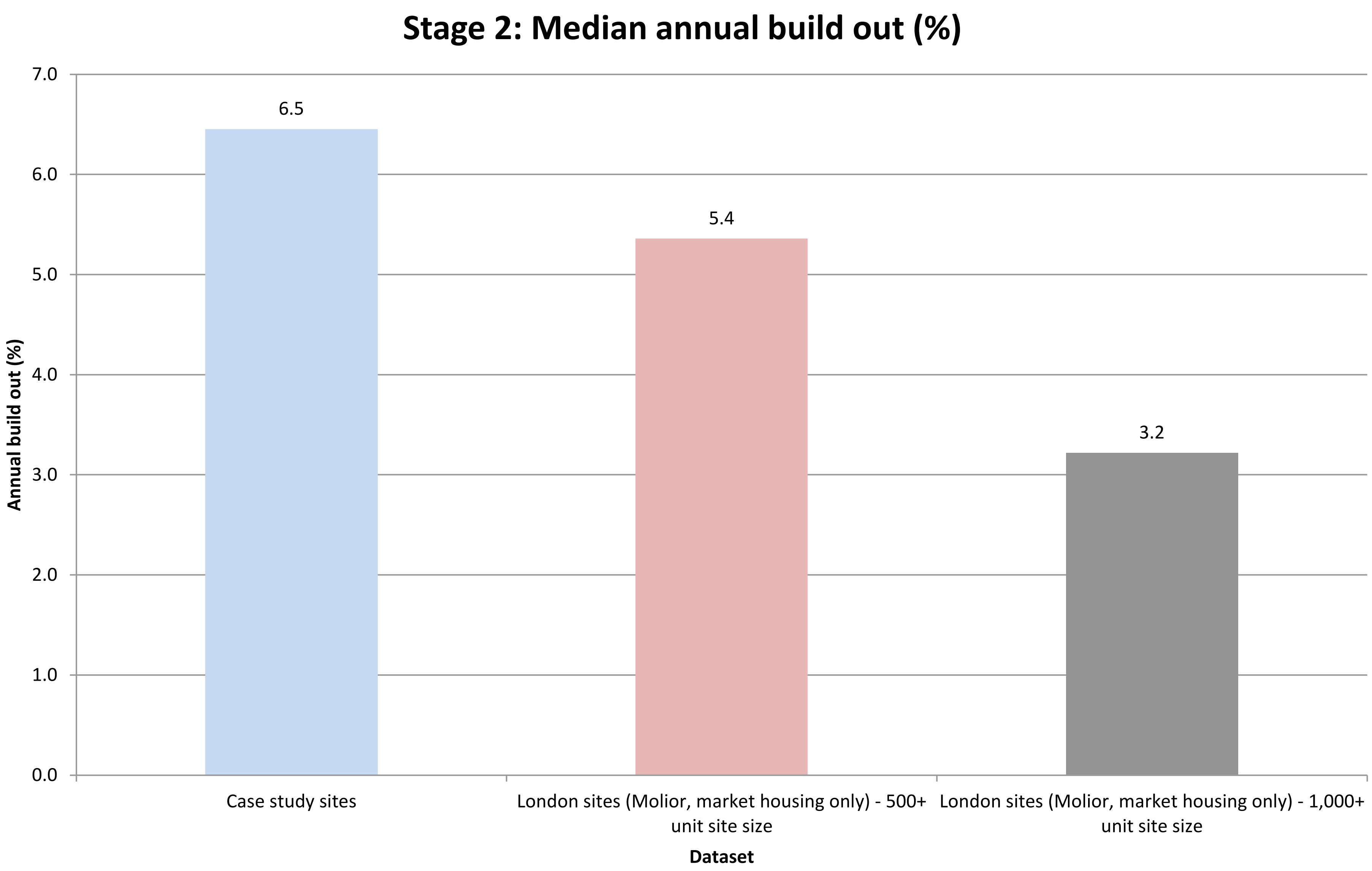
Median - 15.5 years



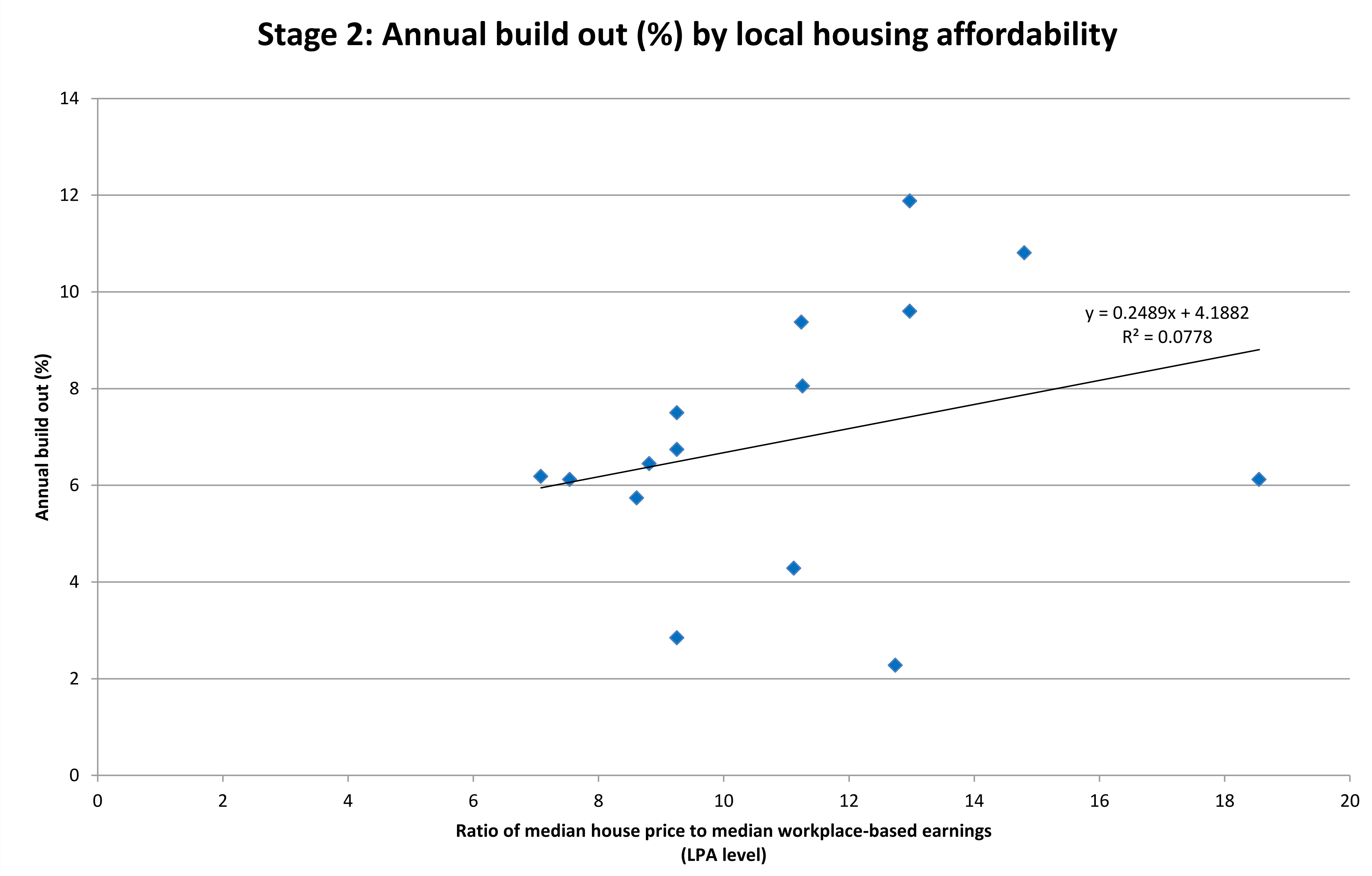
Note: Stage 2 - from first detailed permission to final completion (projected).



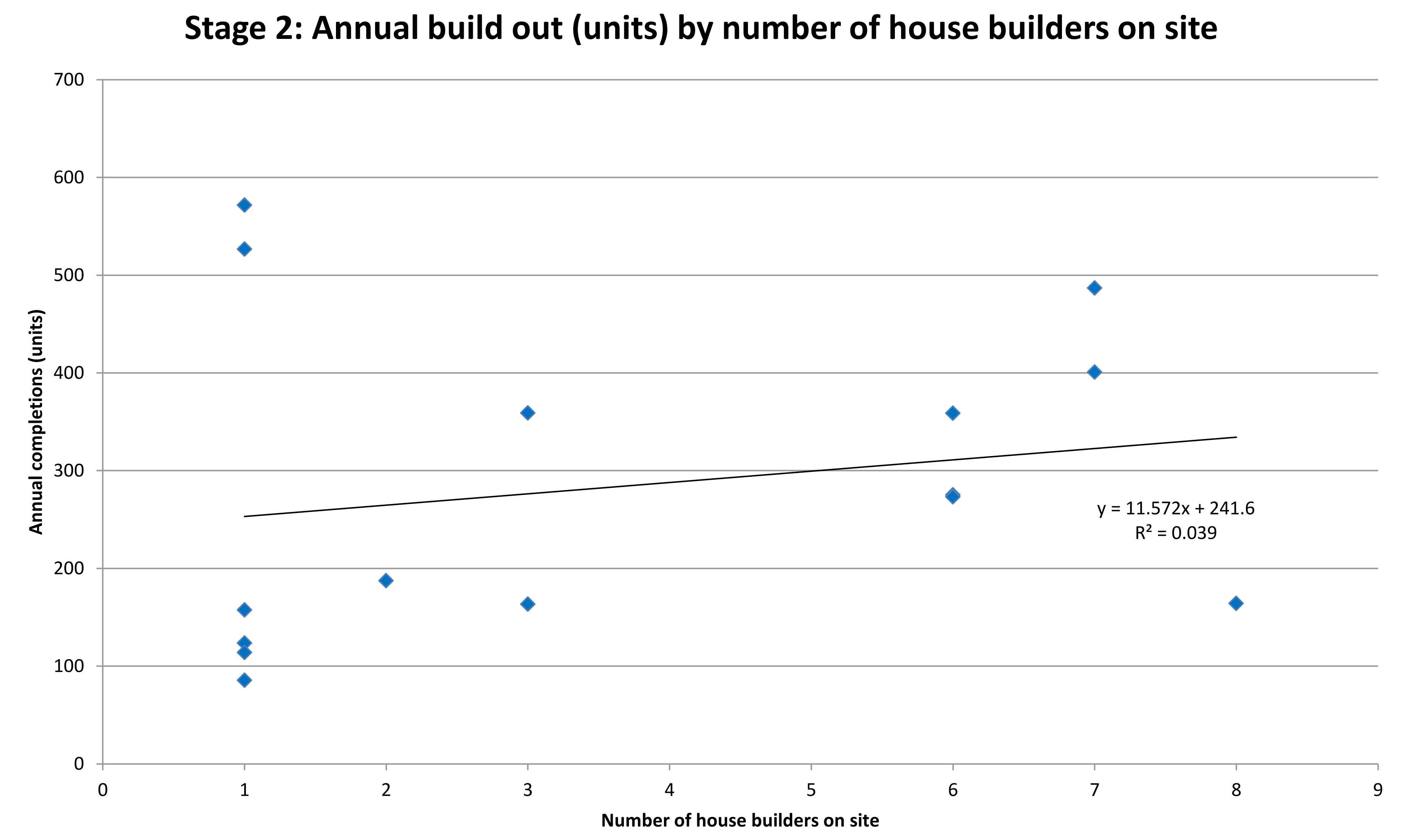
Note: Stage 2 - from first detailed permission to final completion (projected).



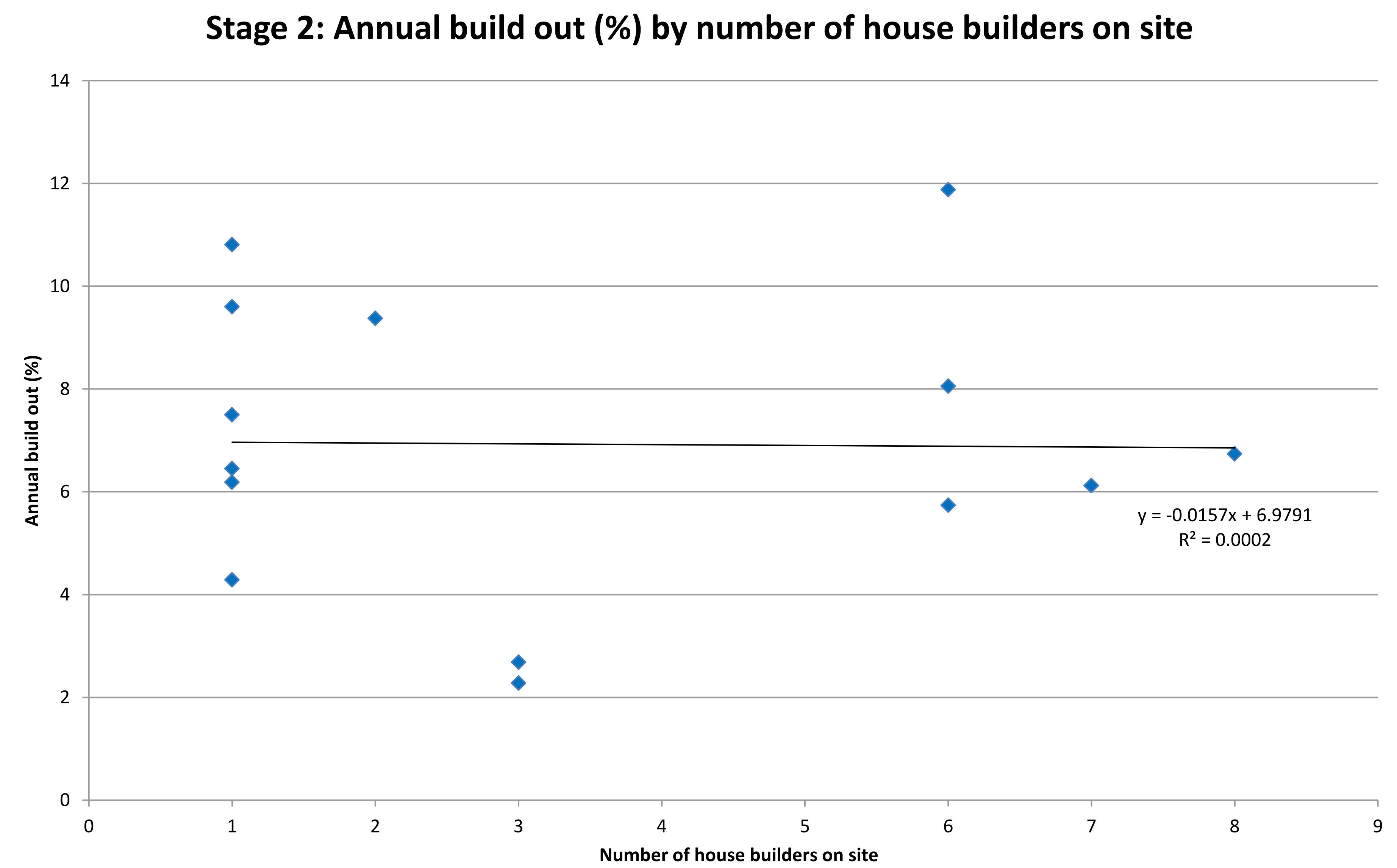
Note: Stage 2 - from first detailed permission to final completion (projected). For the London sites in the Molior dataset, an implied projection for Stage 2B has been calculated. For London sites in the Molior dataset, the build out rate is calculated on the basis of market housing only as Molior data does not include affordable housing completions. Median site sizes: case study sites (3,417 units); London sites, 500+ units (1,938 units); London sites, 1,000+ units (2,174 units).



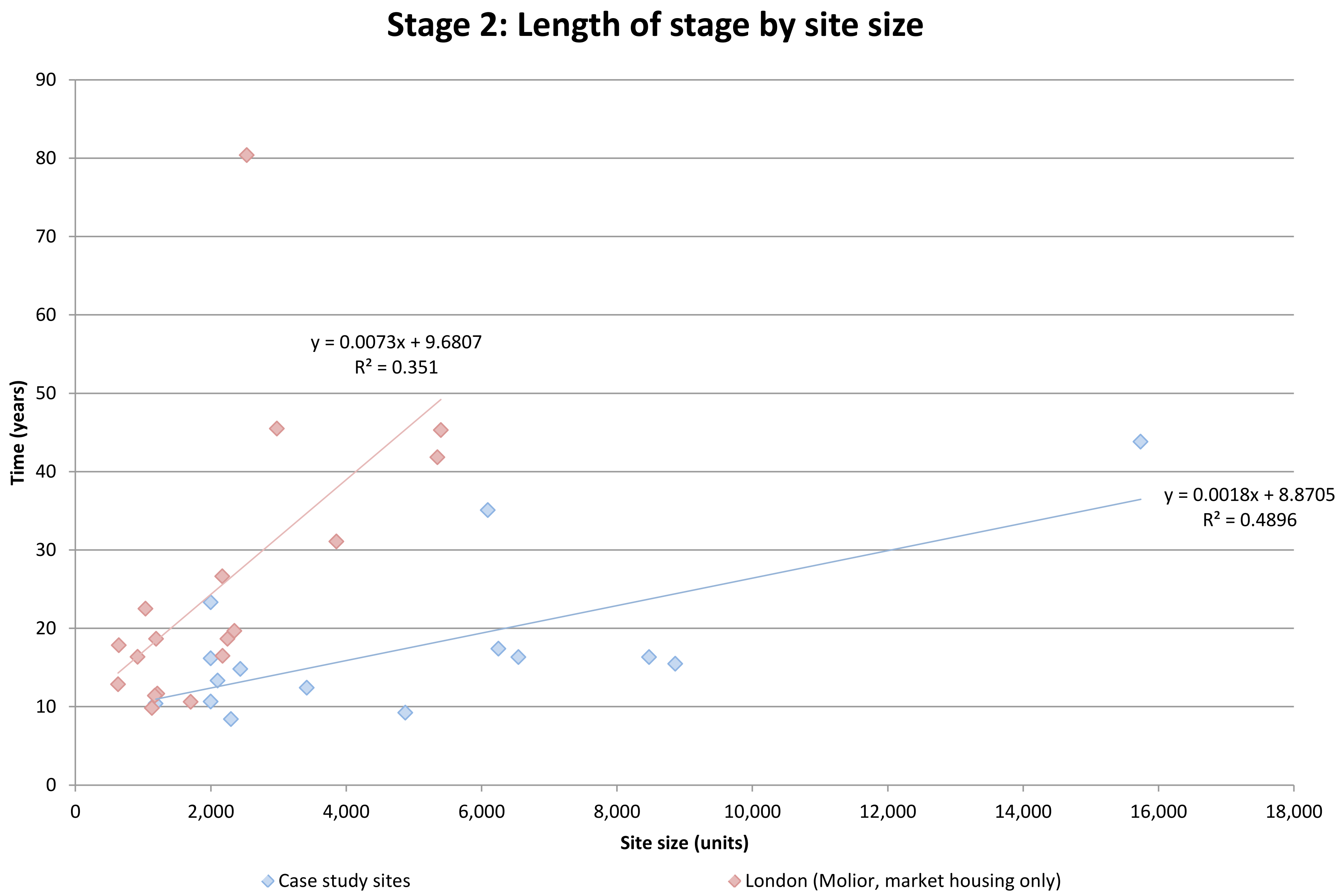
Note: Stage 2 - from first detailed permission to final completion (projected). Source of X-axis data: ONS.



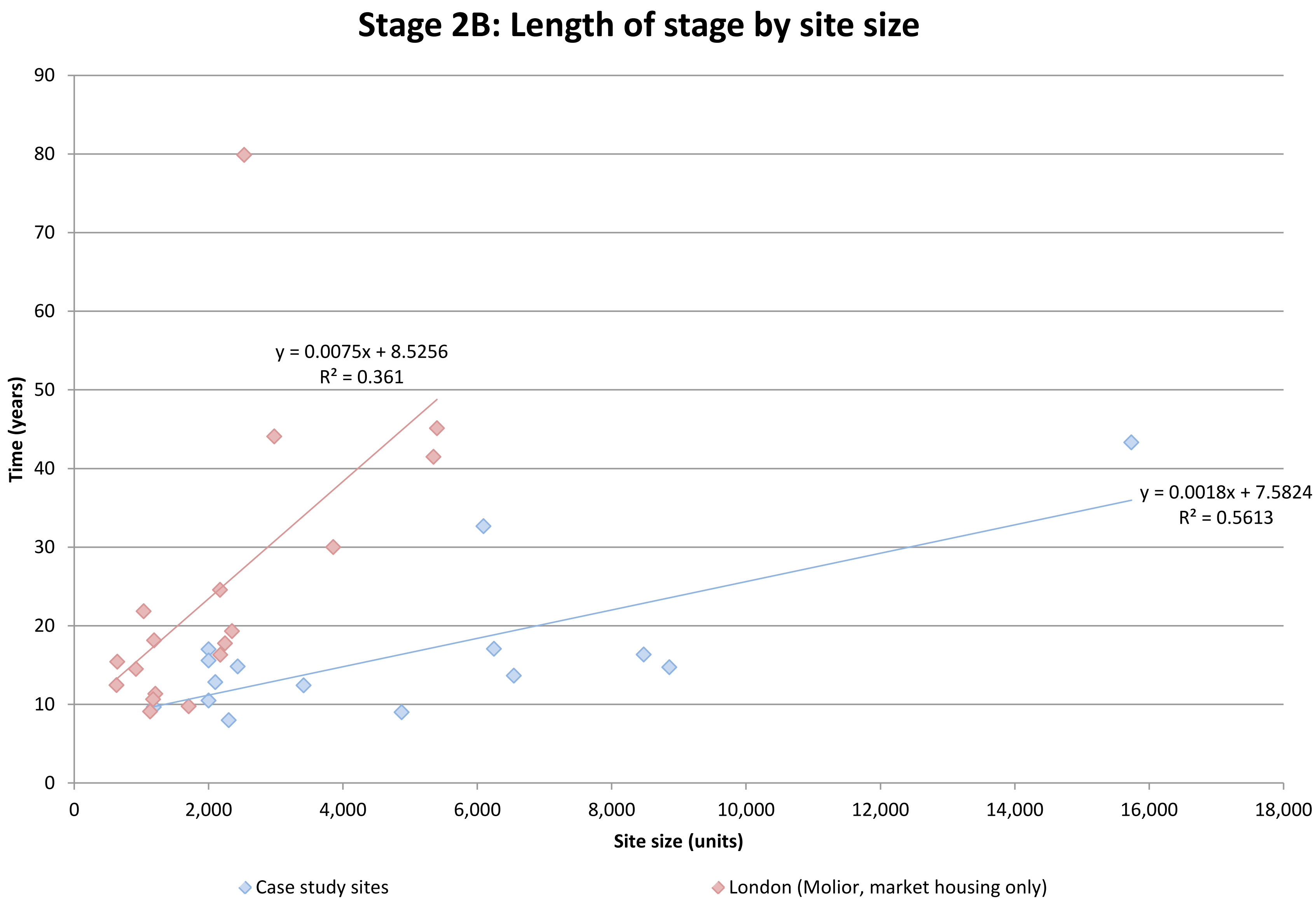
Note: Stage 2 - from first detailed permission to final completion (projected). Number of house builders is based on planning applicants; and where a house builder has multiple brands on a site, these are counted separately.



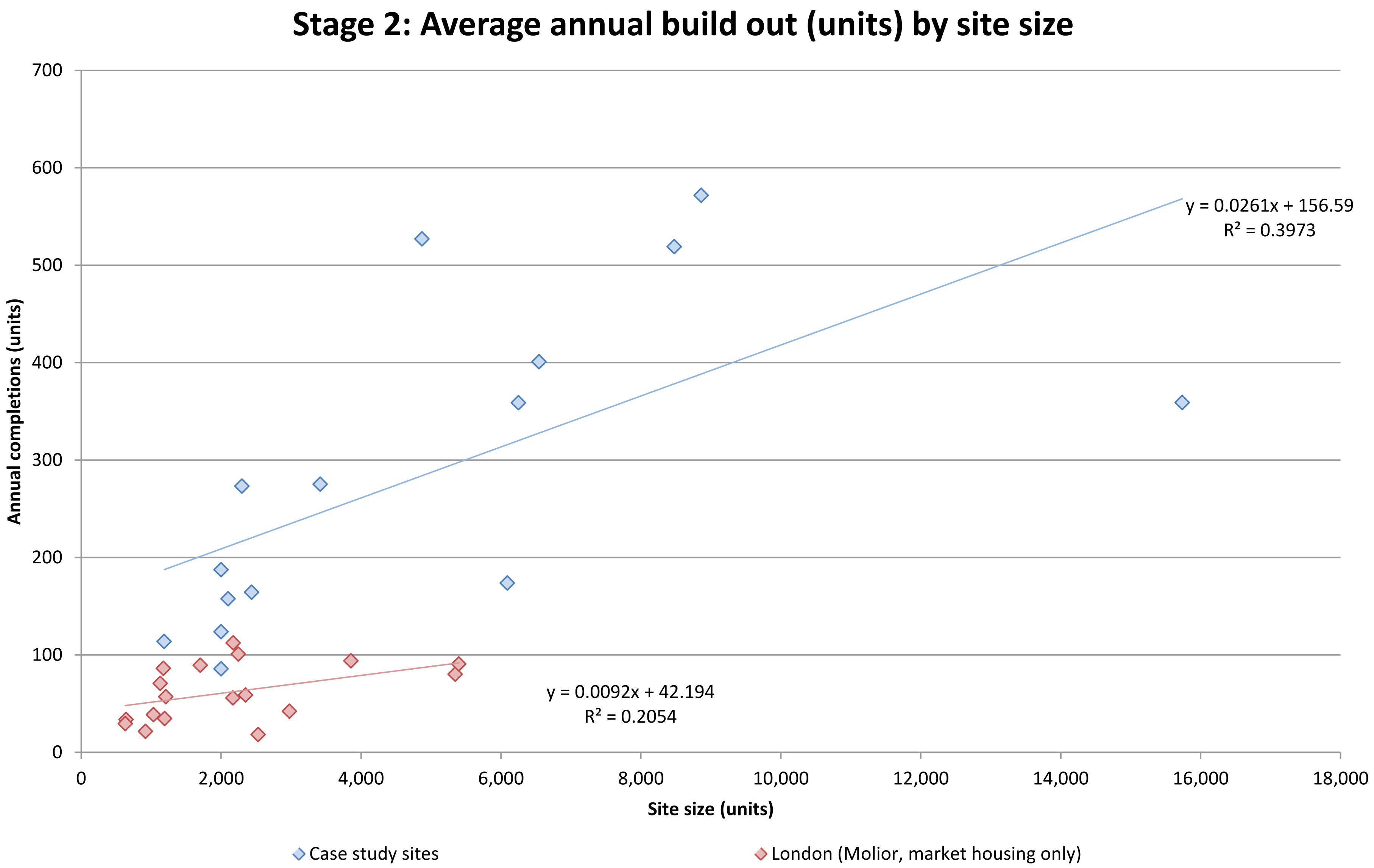
Note: Stage 2 - from first detailed permission to final completion (projected). Number of house builders is based on planning applicants; and where a house builder has multiple brands on a site, these are counted separately.



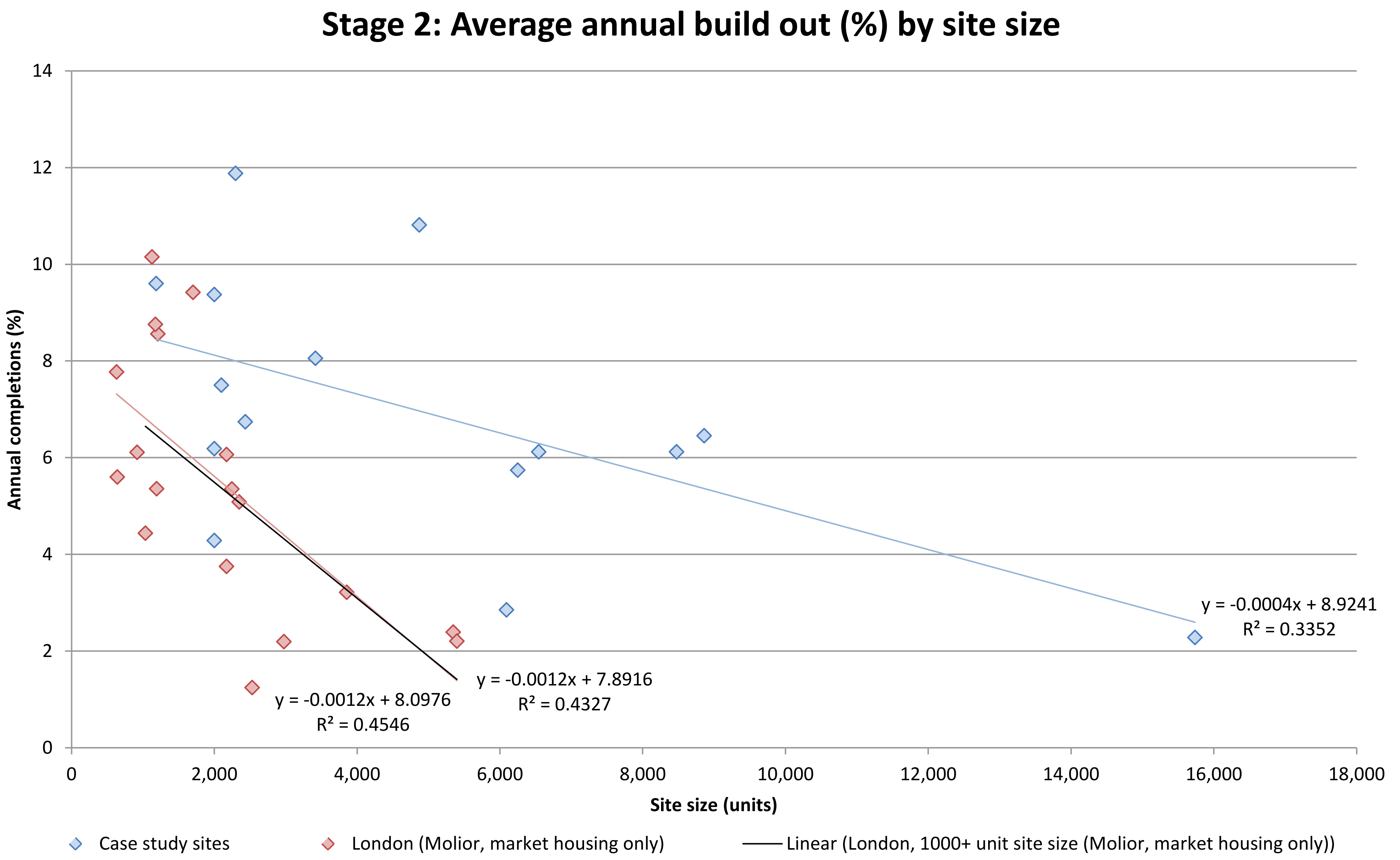
Note: Stage 2 - from first detailed permission to final completion (projected). For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and Stage 2B length is calculated on the basis of market housing only as Molior data does not include affordable housing completions.



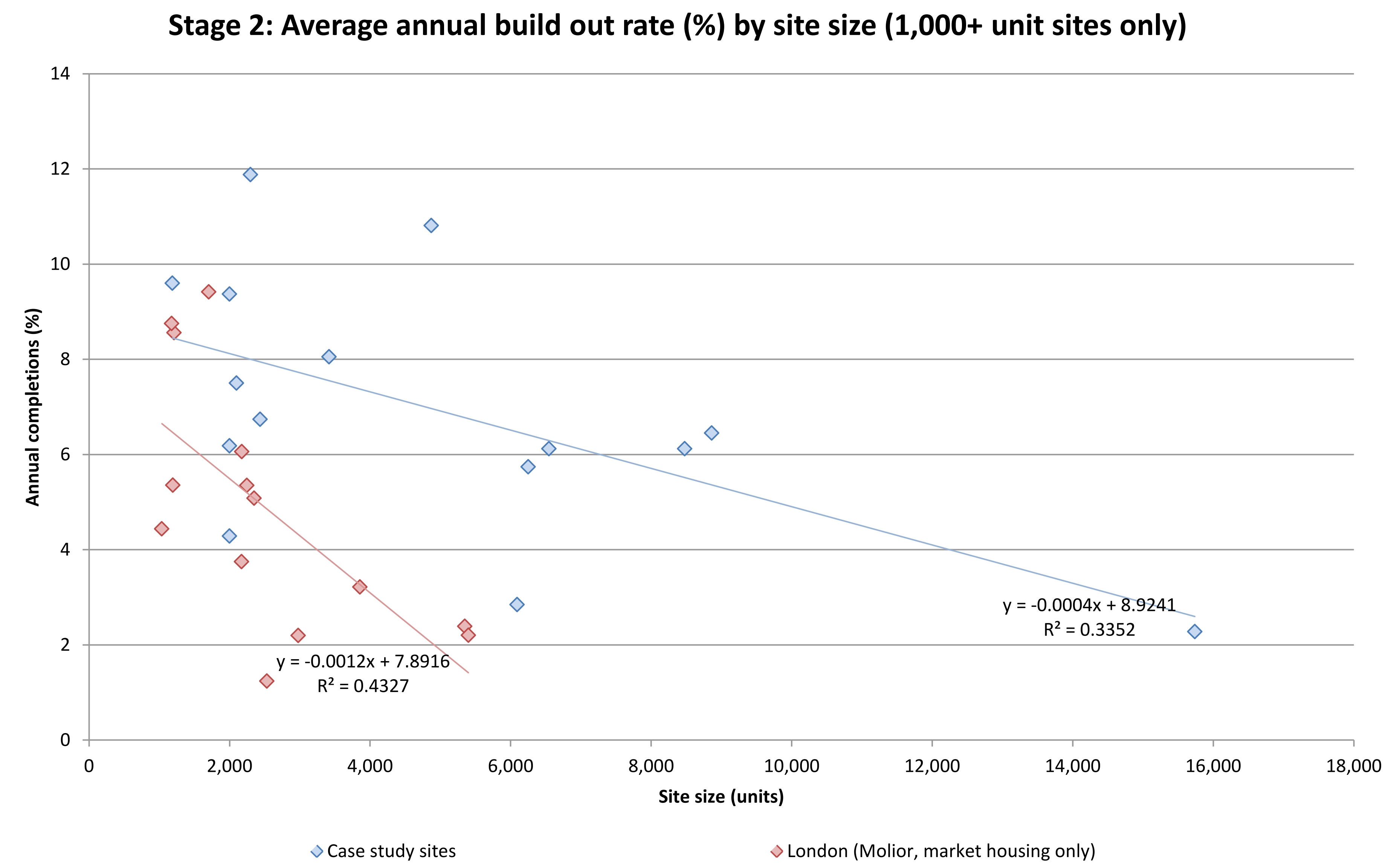
Note: Stage 2B - from first start to final completion (projected). For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and Stage 2B length is calculated on the basis of market housing only as Molior data does not include affordable housing completions.



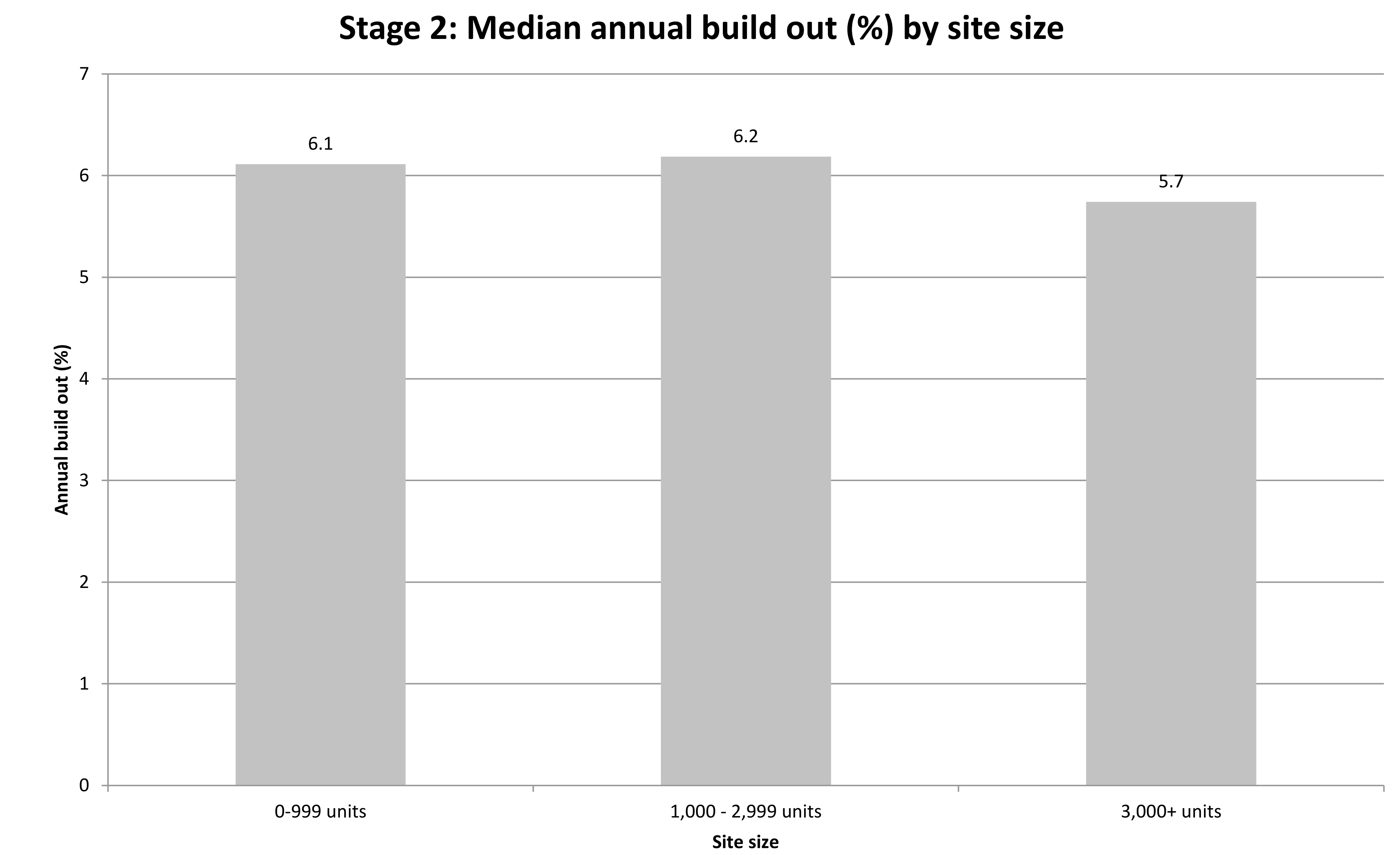
Note: Stage 2 - from first detailed permission to final completion (projected). For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and the build out rate has been calculated on the basis of market housing only as Molior data does not include affordable housing completions.



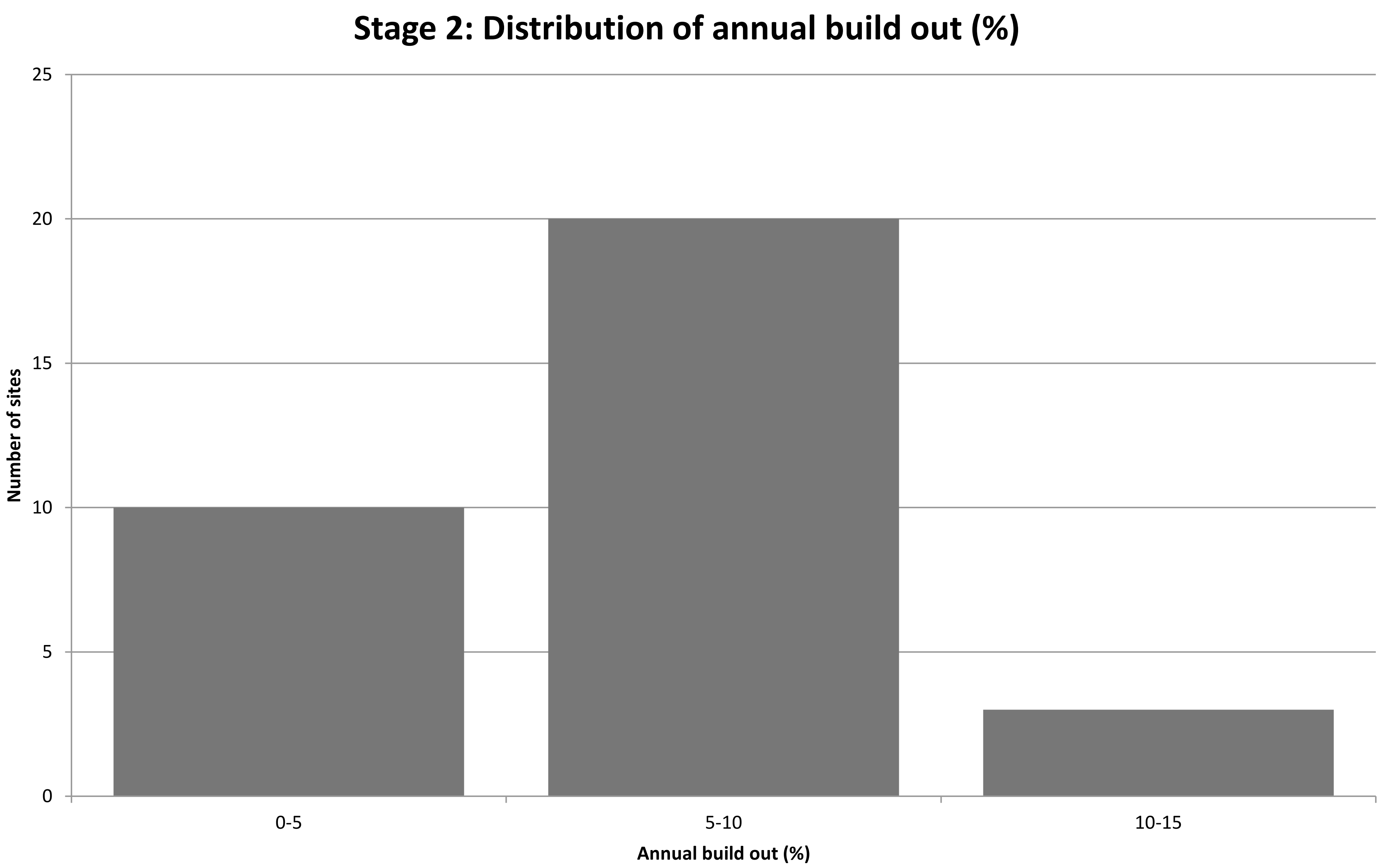
Note: Stage 2 - from first detailed permission to final completion (projected). For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and the build out rate has been calculated on the basis of market housing only as Molior data does not include affordable housing completions.



Note: Stage 2 - from first detailed permission to final completion (projected). For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and the build out rate has been calculated on the basis of market housing only as Molior data does not include affordable housing completions.

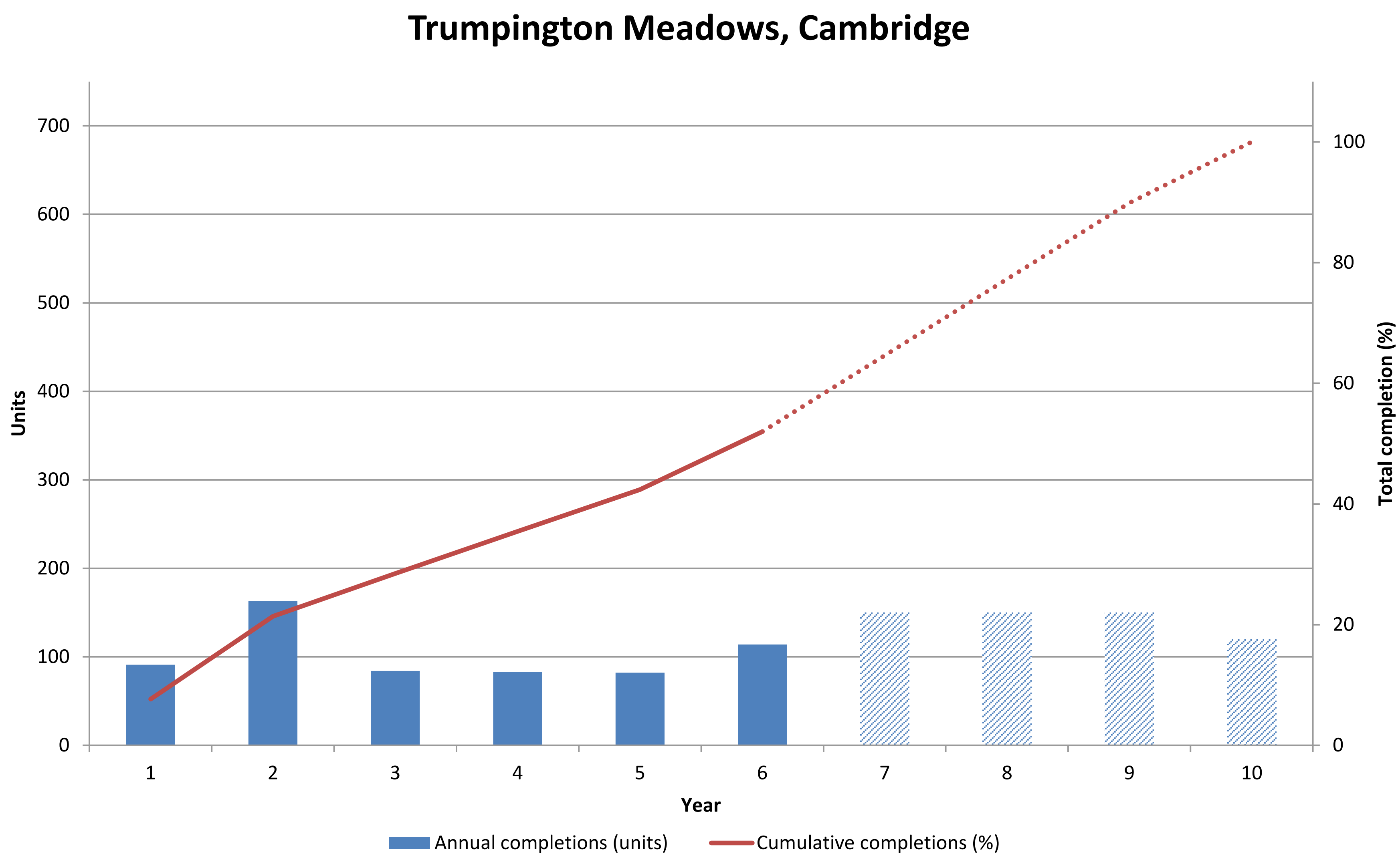


Note: Stage 2 - from first detailed permission to final completion (projected). Includes case study sites and London sites from the Molior dataset. For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and the build out rate has been calculated on the basis of market housing only as Molior data does not include affordable housing completions.

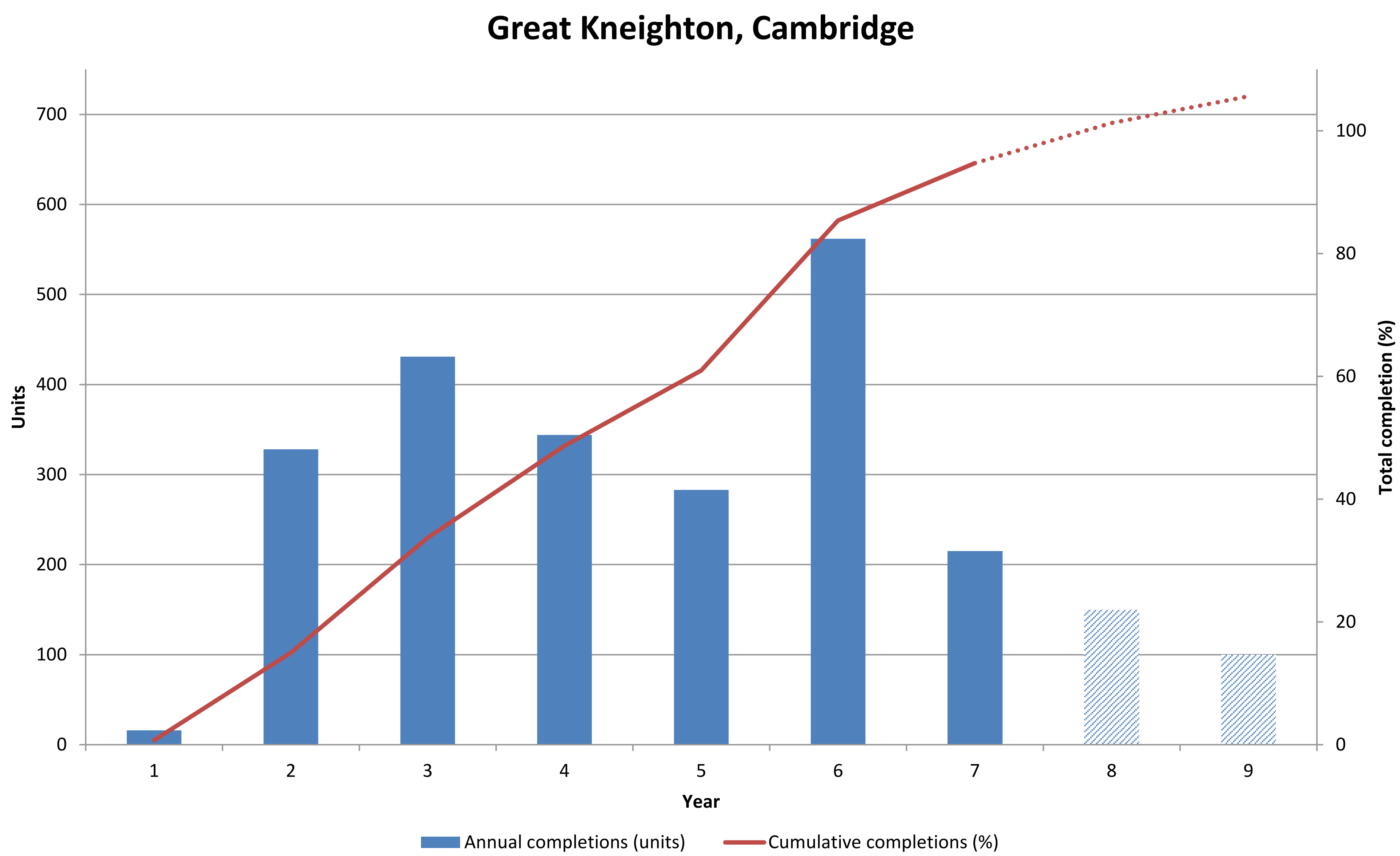


Note: Stage 2 - from first detailed permission to final completion (projected). Includes case study sites and London sites from the Molior dataset. For London sites in the Molior datset, an implied projection for Stage 2B has been calculated, and the build out rate has been calculated on the basis of market housing only as Molior data does not include affordable housing completions.

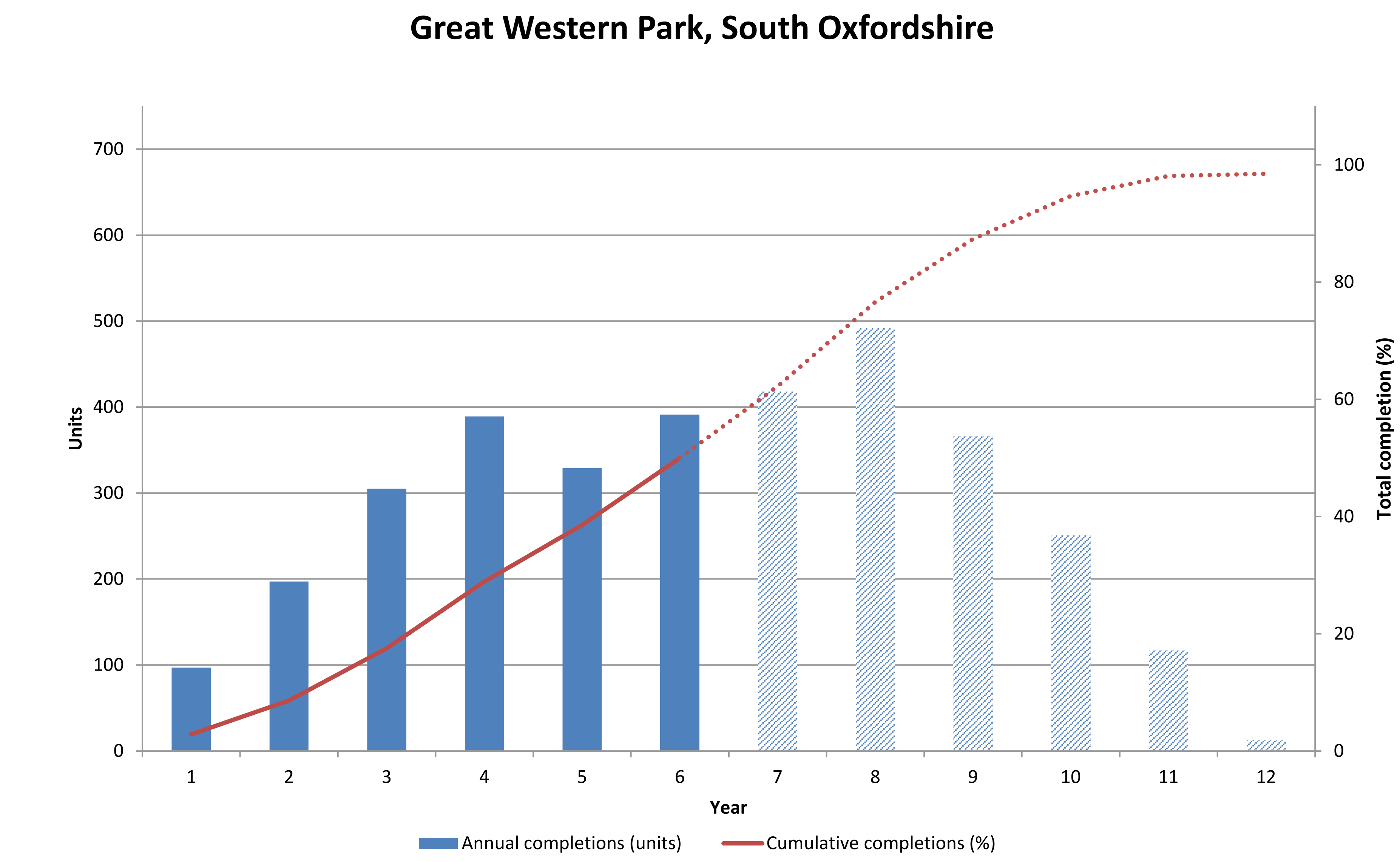
4 Case study sites: Built out rates



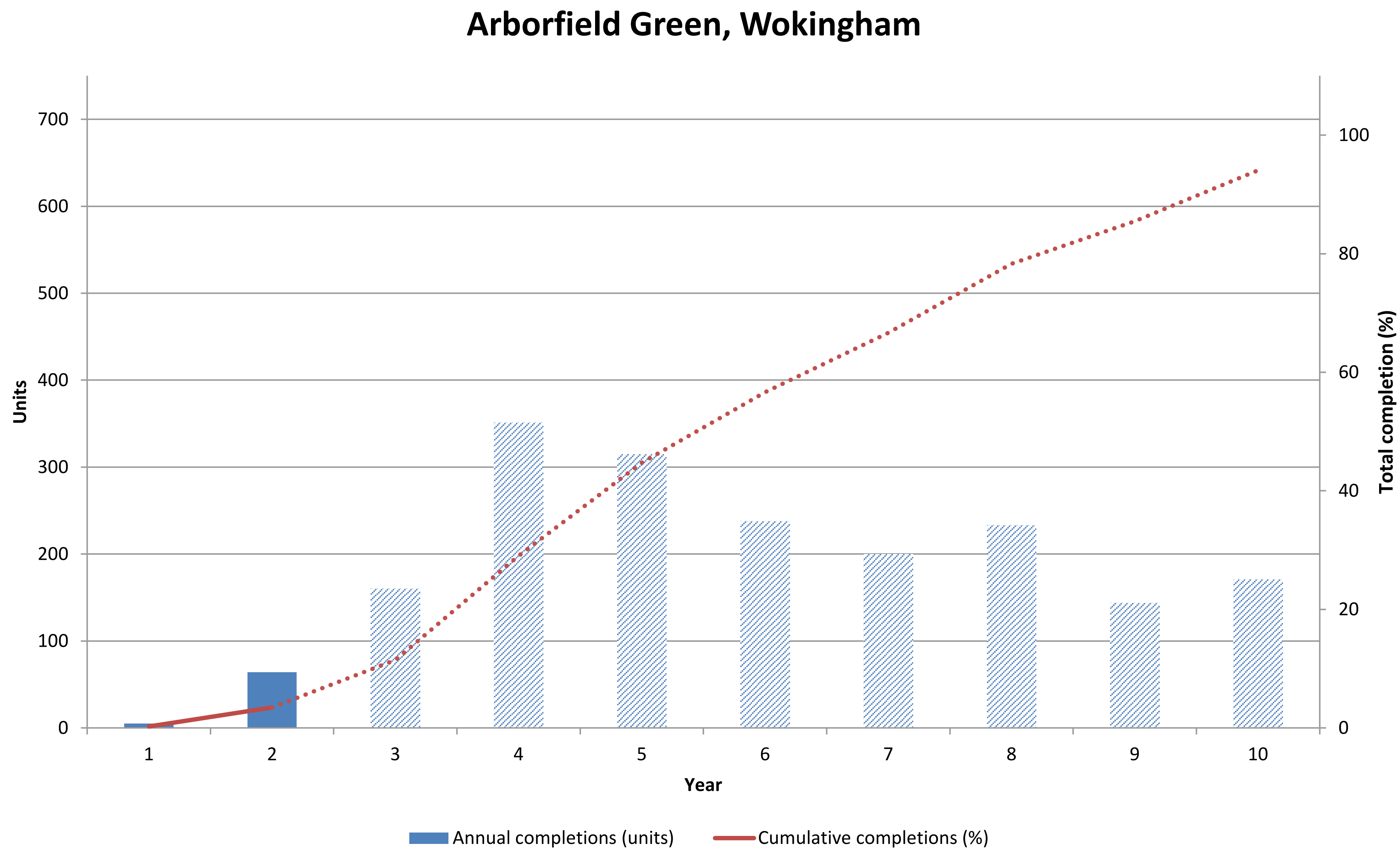
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



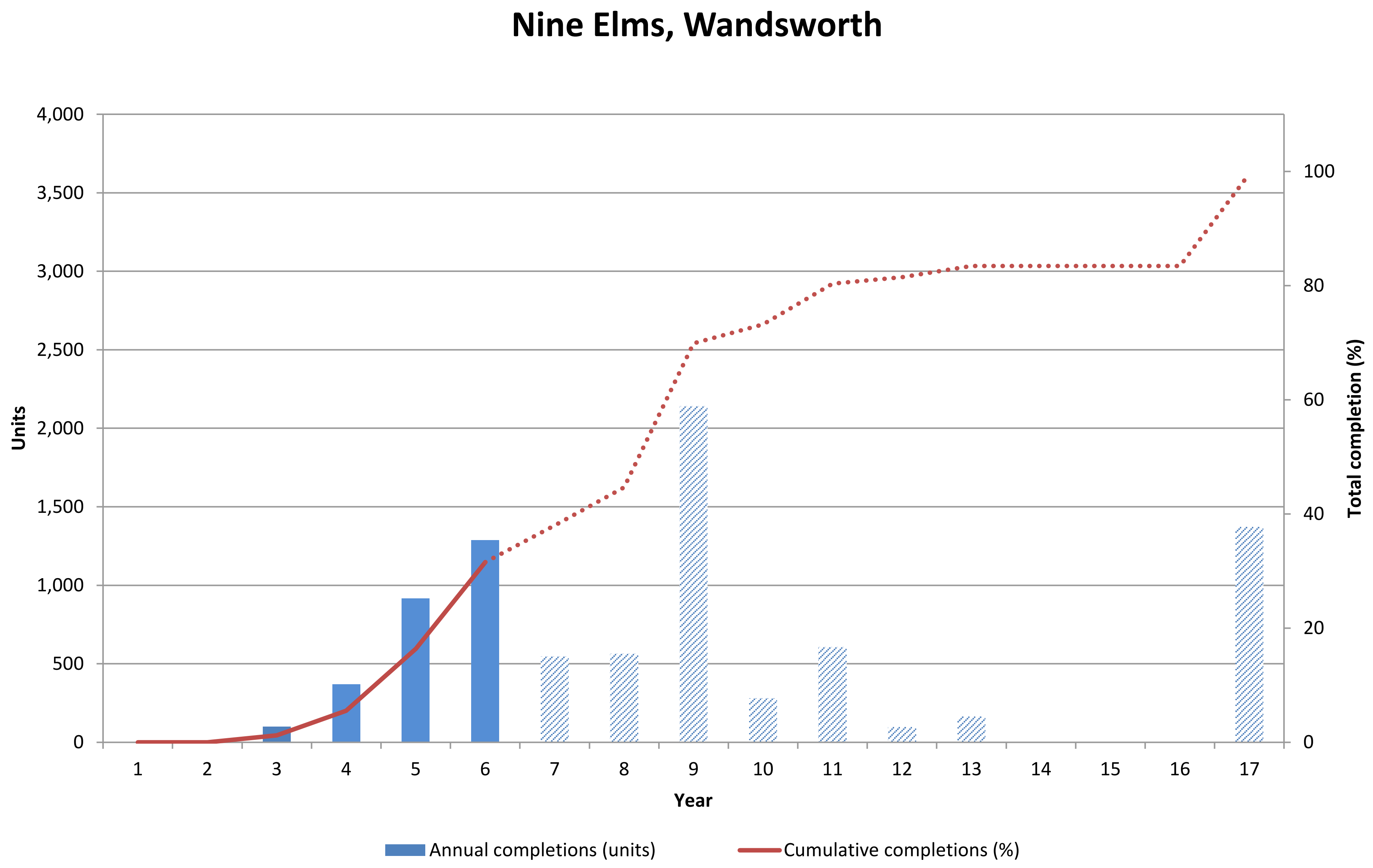
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.

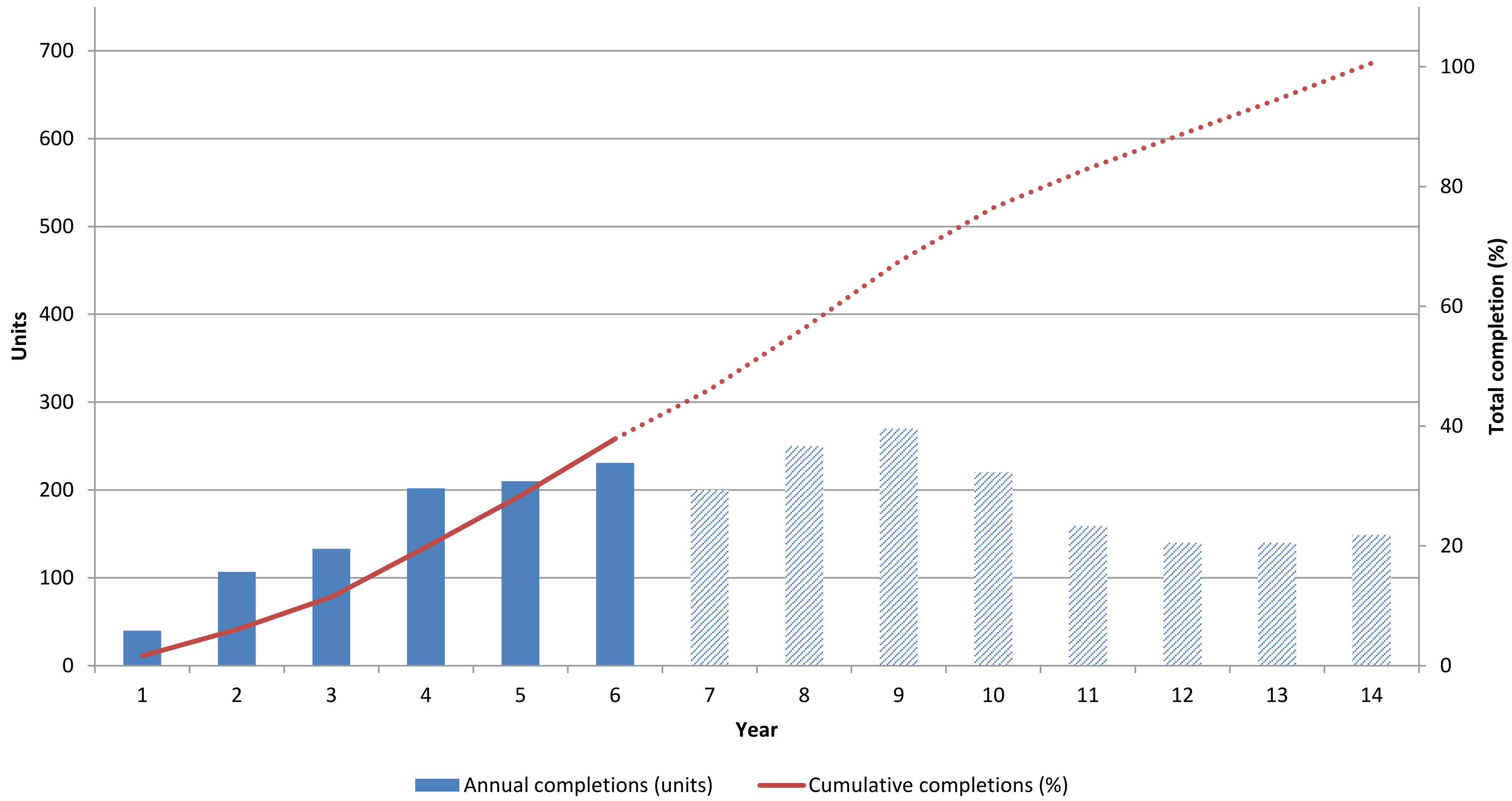


Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.

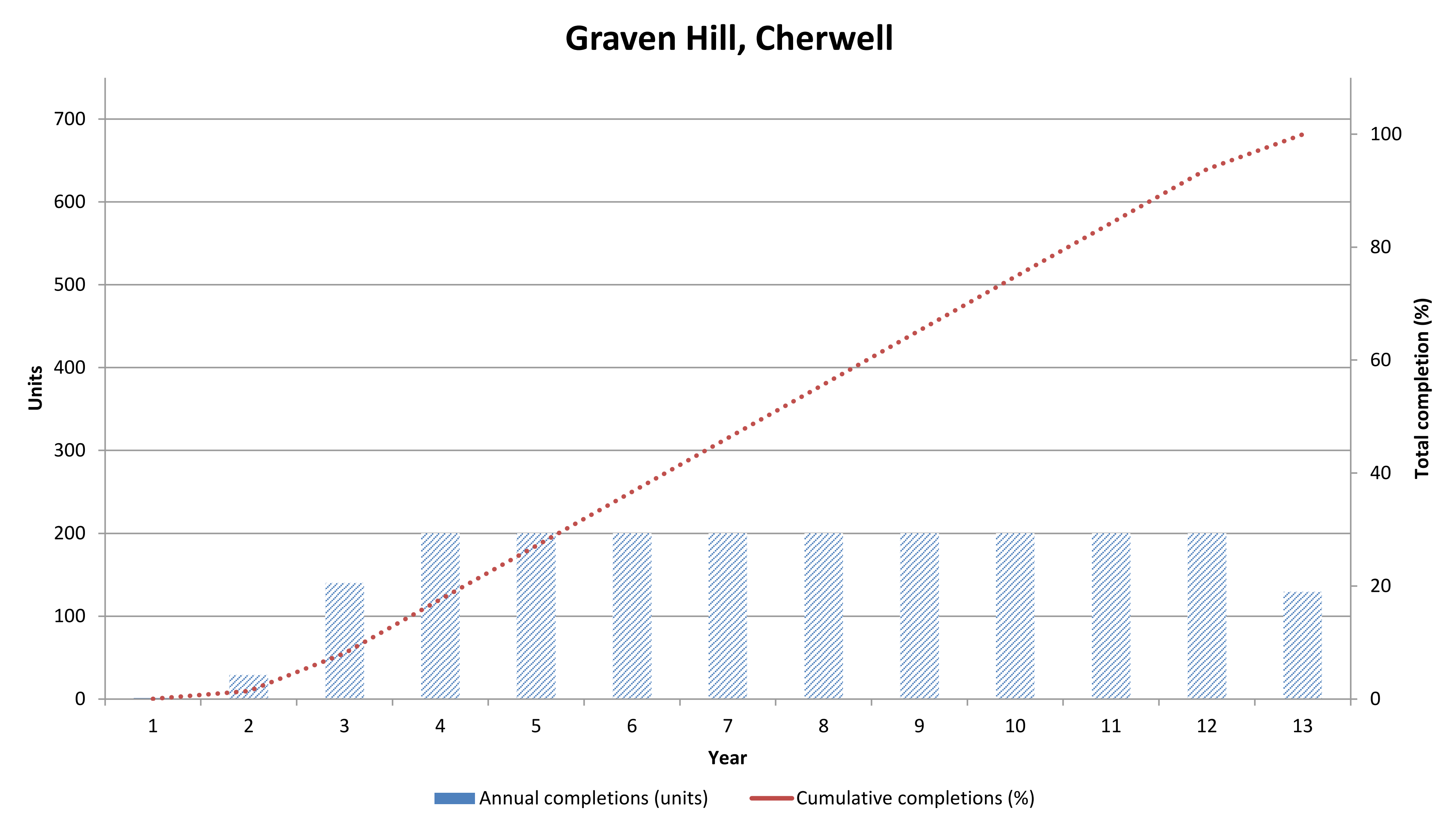


Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Only includes schemes by major house builders, Ballymore and Battersea Power Station Development Company (excluding Bellway and the Bellway/L&Q joint venture) that are set within the boundary of Wandsworth Borough Council. Doted line and striped bars denote projected build out rate.

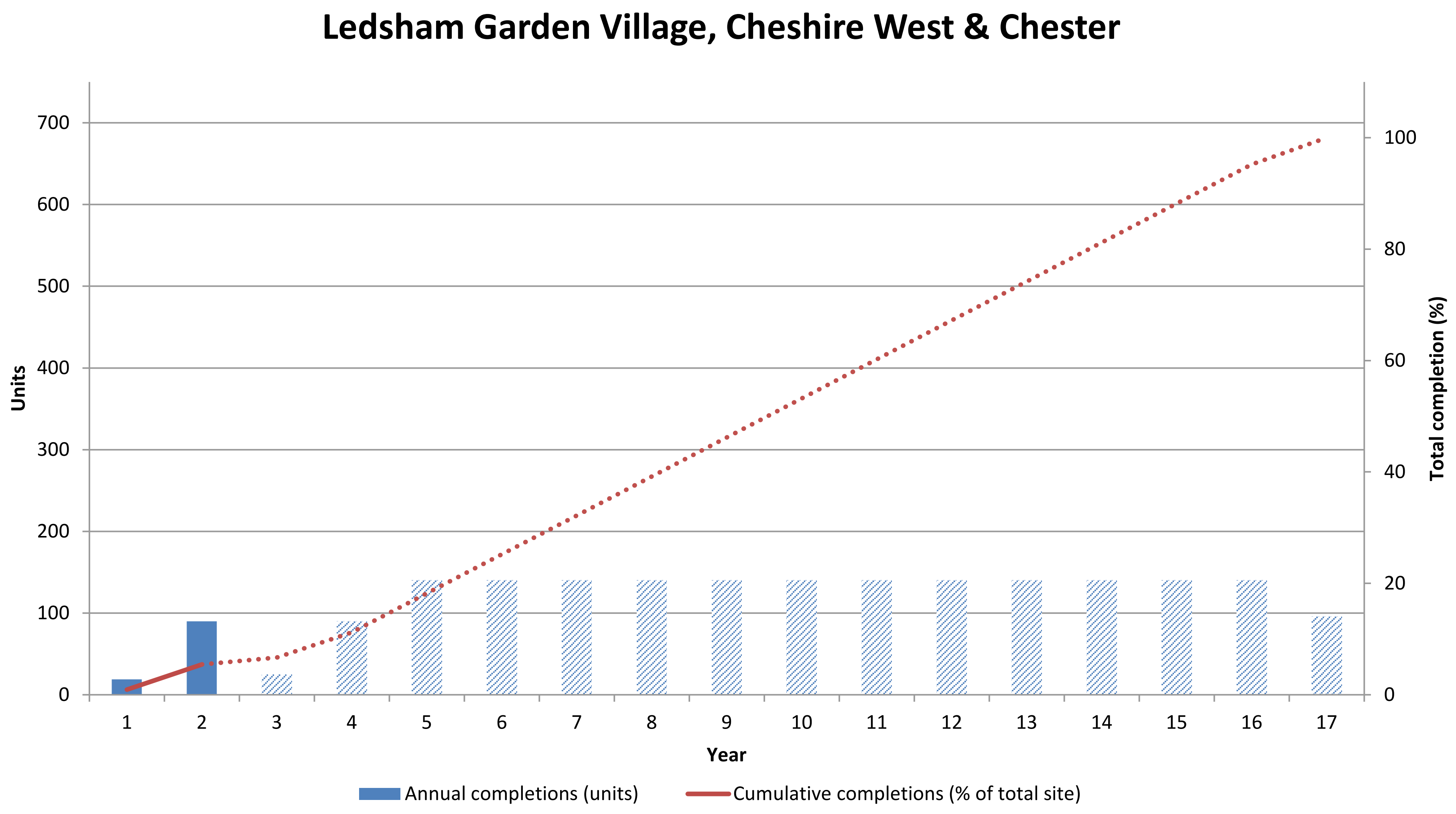
South West Bicester, Cherwell



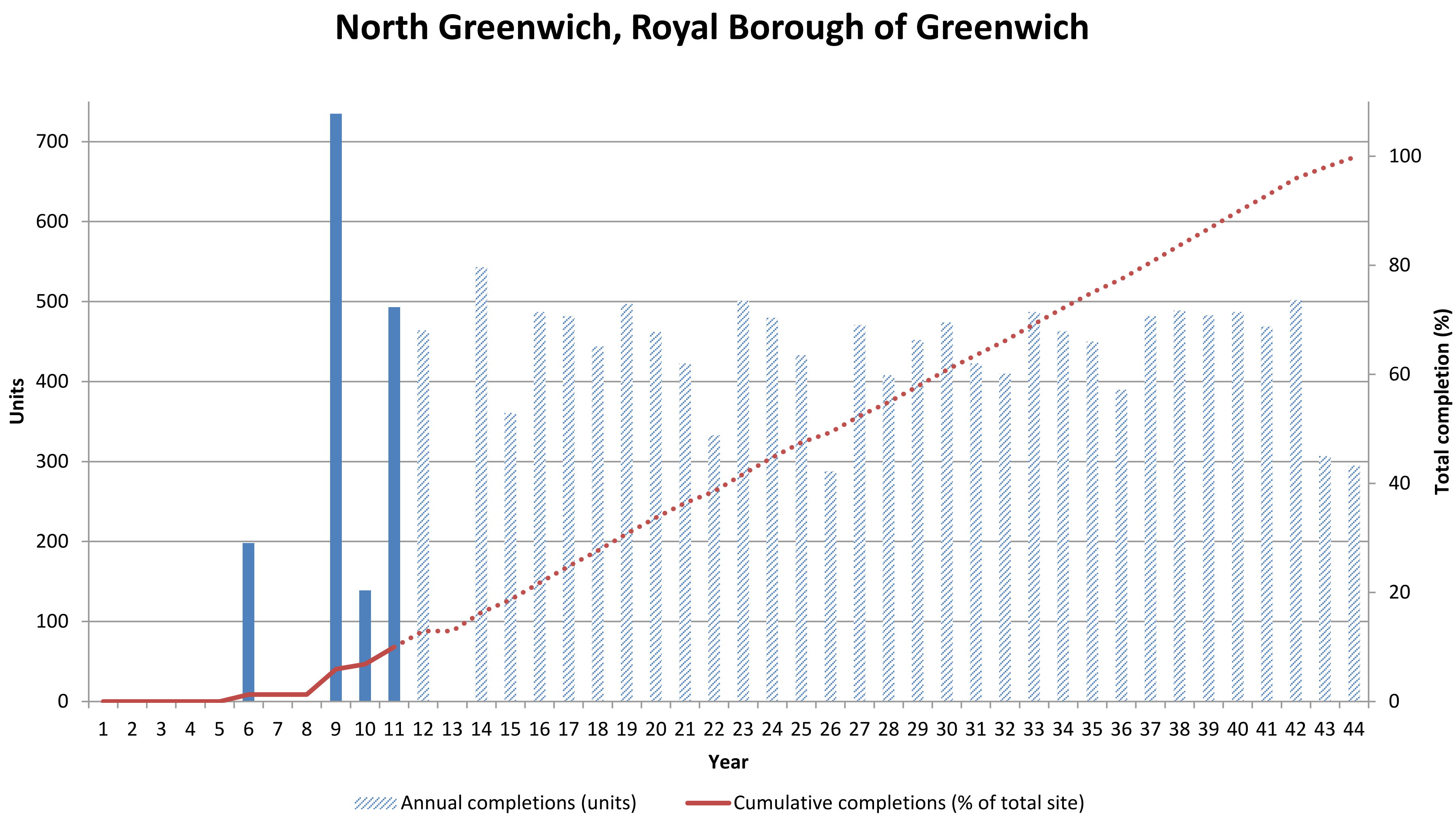
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



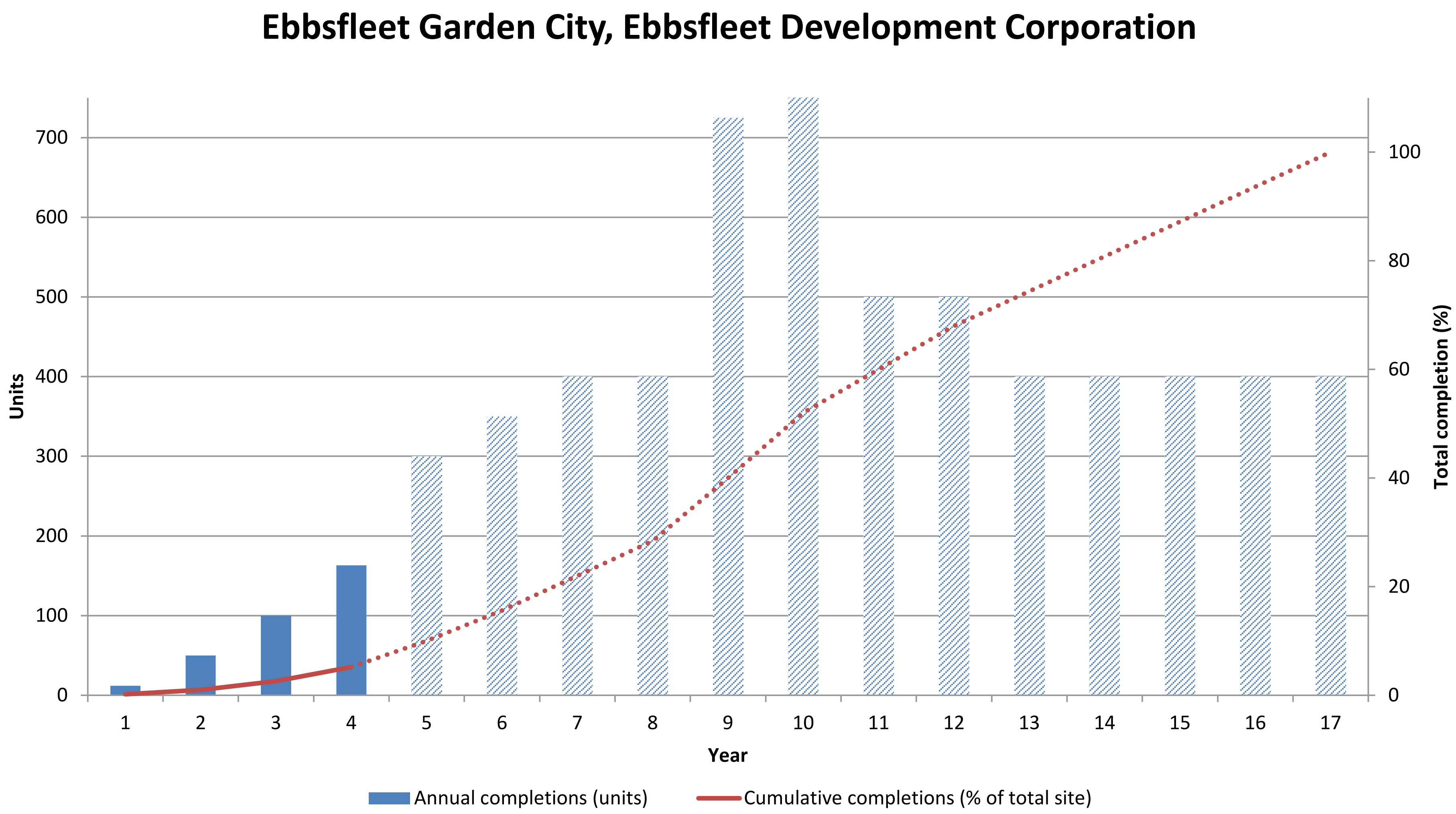
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



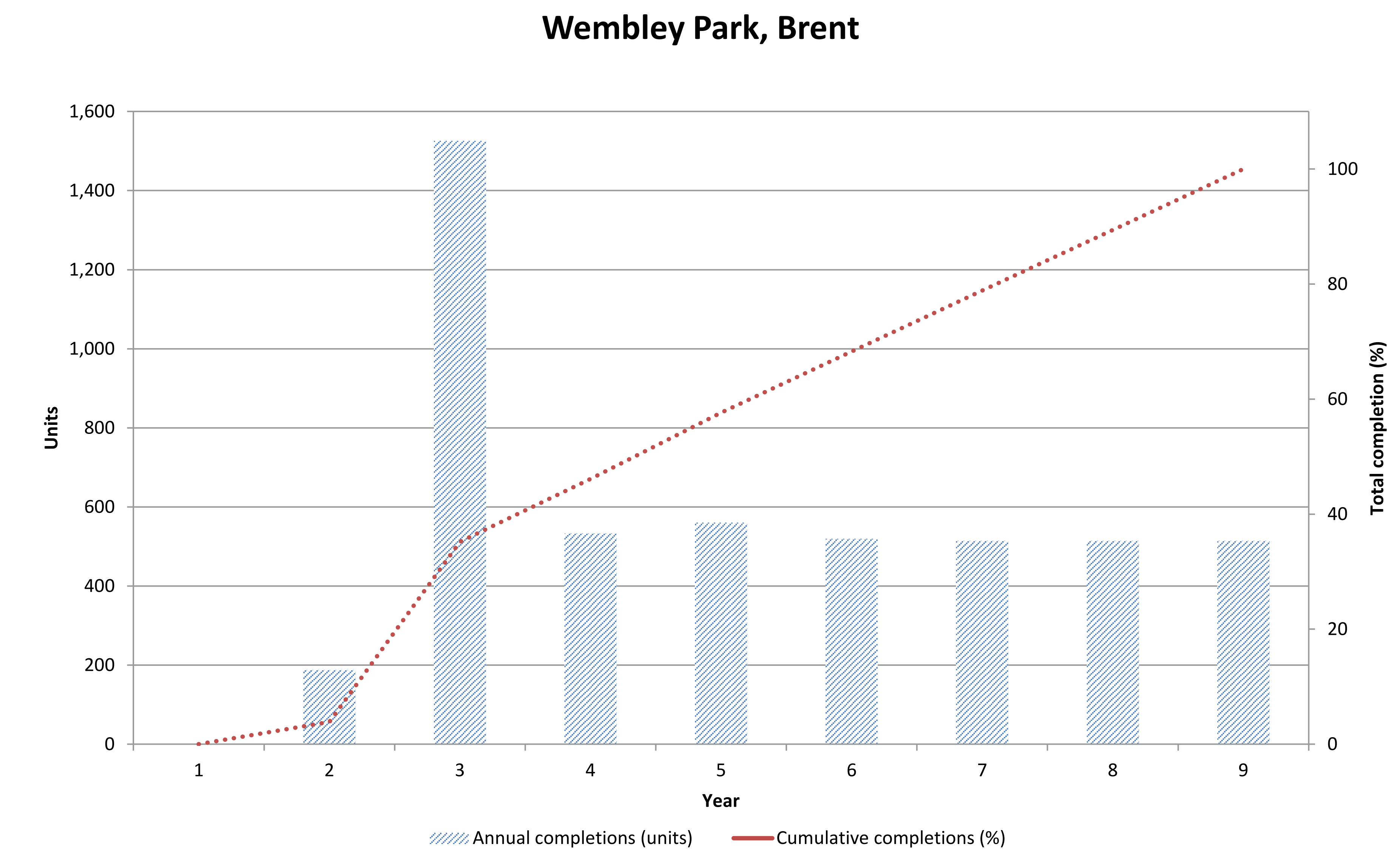
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



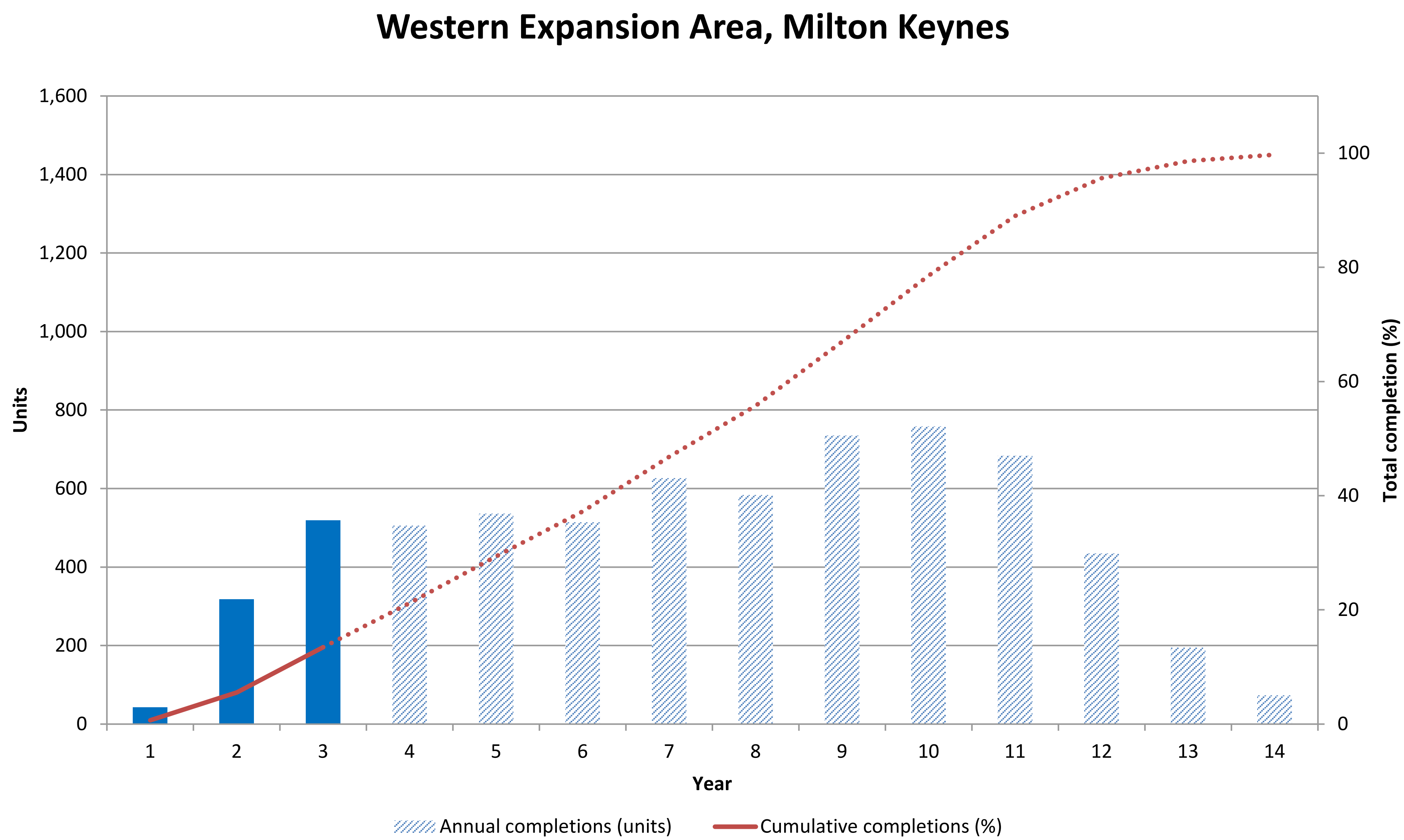
Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.



Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Only covers development within the 2015 master plan. Doted line and striped bars denote projected build out rate.



Note: Stage 2B - from first start to final completion (actual, projected). In some cases, original permissions may be revised or additional permissions submitted, which may result in projections not exactly matching the original site size. Doted line and striped bars denote projected build out rate.

Annex B. Data methodology

Data used in the analysis in Annex A and referred to in the report was either obtained by the Review Team directly from house builders and local planning authorities for case study sites or extracted from the local planning authority public access portals or the Molior London database. This note by officials describes the methods used to assemble and analyse this data.

Data collection

Case study sites

- The Review team visited specific large sites to discuss site progress with local planning authorities and to collect project level data (planning and build out) from house builders. The Review team met with local planning authorities and house builders at each visit to take their views on the progress of the site.
- The Review team requested specific site data for each site and provided support to local planning authorities and house builders on request to ensure that this commission was clear – including which data was required, why it was necessary and in what format it should be returned. In cases where local planning authorities and house builders could not provide the data, they either directed the Review team to where it could be found or explained why the data was not available.
- Data was returned from local planning authorities in a phase-by-phase format, including the aggregated data for the whole of a development site. This was entered into a spreadsheet which recorded the Review's dataset.
- Where returns from local planning authorities were not extensive in terms of providing an application-by-application breakdown of a whole site (i.e. data relating to any outline planning permissions and subsequent applications for reserved matters), additional data was extracted from loca planningl authority planning portals.
- The Review team aggregated the data on each of the projects (for the whole site or part of the site of interest to the Review) and calculated timings. The Review team then created a spreadsheet of this data, upon which the graphs used in the report are based.

London sites (Molior data)

- Data was taken from the Molior Database for large projects (over 500 units) situated in London which have commenced, and have completed over 10% of the total units approved for the site – the Review team excluded sites included in the case study dataset. The latest available data was from Molior's March 2018 returns.
- Access to the database was provided by Molior, but the extraction of the relevant sites and subsequent calculations was conducted by the Review team.

Quality assurance

Case study sites

- The Review team cross-referenced data returns with relevant local planning authority planning portals to verify and enhance data. Any anomalies which could not be cleared up following a search of the local authority planning portal were raised with the local authority and / or house builder by phone. In all cases the Review team was able to resolve the anomaly.
- Data collected through site visits has been agreed with local authorities and house builders to ensure accuracy. The graphs in Annex A are created from the spread sheet of this data and this spread sheet was quality assured by a separate team of analysts within MHCLG.

London sites (Molior data)

- Molior has reviewed the analysis undertaken by the Review team and has advised that the methodology and information used are accurate for the development projects examined.

Annex C. Site visits

1 Nine Elms, Wandsworth

2 Ledsham Garden Village, Cheshire West & Chester

3 Cheswick Green, Solihull [Smaller site: not included in statistical analysis]

4 Great Western Park, South Oxfordshire

5 Arborfield Green (Northern Parcel), Wokingham

6 Barking Riverside, LB Barking & Dagenham

7 Trumpington Meadows, Cambridge

8 Great Kneighton, Cambridge

9 North West Bicester, Cherwell

10 South West Bicester, Cherwell

11 Graven Hill, Cherwell

12 North Greenwich, RB Greenwich

13 Eastern Quarry (Ebbsfleet), Ebbsfleet Development Corporation

14 Longcross Garden Village, Runnymede [No final permission: not included in statistical analysis]

15 East Village, London Legacy Development Corporation

16 Wembley Park, LB Brent

17 Western Expansion Area, Milton Keynes

1 Nine Elms, Wandsworth **09/01/2018**

Note based on site visit

Background

Site details

Housing – c. 20,000 dwellings (of which 8,477 in case study site)

Area – 227 hectares

Developers – Ballymore, Battersea Power Station, Bellway, Berkeley, L&Q, Taylor Wimpey, and others.

Nine Elms

The whole Nine Elms project consists of various individual sites being developed by different developers. There is no single planning permission which covers the whole site although there is an Opportunity Area Planning Framework in place. Development at Nine Elms is made up of both outline planning permissions followed by reserved matters approvals and full planning permissions.

The site was allocated in the Wandsworth Local Plan in January 2009.

The largest development at Nine Elms is the renovation of the former Battersea Power Station (BPS) into a new mixed-use development with up to 4,239 new homes. The majority of the remaining residential development will be in the form of tower buildings (Ballymore, Bellway, Berkeley, L&Q, and Taylor Wimpey).

The first planning permission for residential development was submitted by Real Estate Opportunities (REO) on behalf of the previous owners of Battersea Power Station in October 2009.

Build out

St. James Riverlight was the first scheme to be built out at Nine Elms.

Constraints identified

Six factors were cited as constraining build out at Nine Elms:

1. Market conditions / absorption
2. Construction mess / logistics

3. Infrastructure, transport, utilities
4. Skills shortages
5. Site constraints such as demolition, remediation
6. Financing

Market conditions / absorption

We were told by some developers that developing all homes simultaneously would reduce sales prices. Ballymore explained that development had to be phased due to competition in the area and that there wasn't a market for bringing all units to completion in one go.

At BPS, this was not the case. They built 865 homes in Phase 1 (studios, 1, 2, 3 and 4-bedroom apartments which are occupied by up to 1,000 residents) but said they could have built more as demand was high. 254 homes were launched in the Power Station and 539 in the first half of Phase 3, all of which are under construction (total of 1,658). Larger homes have been slower to sell.

Developers agreed that market conditions in the last few years were "not normal" due to low interest rates and high overseas demand. This meant that the market could have absorbed more but that this could not have been predicted.

New build premium

There was a new build premium at Riverlight due to the river location, design standards, and limited supply of new build at the time (this was the first site to build out at Nine Elms). There was also always a small premium for high specification kitchens and other amenities. Demand would now be highly constrained even if there was a smaller premium. Berkeley stated that premium was also influenced by the fact that some homebuyers are only interested in new build.

Buyers

At Embassy Gardens (Ballymore) the first phase was marketed in April 2012 a month after receiving planning permission and sold in under a year. Initially purchasers were predominantly investors but on completion the owner occupation percentage increased dramatically via resales and assignments. UK ownership was 49.1%.

On L&Qs joint ventures with Barratt and Bellway at Nine Elms, overseas buyers bought off-plan but UK buyers did not tend to buy off-plan. The UK market grew when a show apartment was available i.e. a finished product. UK buyers who borrow to buy cannot or won't buy off-plan.

At BPS all but four of 865 Phase 1 units sold off-plan. Most are occupied or rented out. Investors are just as likely to be from the UK as from overseas and just as likely to buy off-plan (and often then sell onto a UK residential customer).

There was no price discount for buying in advance – investors were speculating on 3 year house price growth and were not interested in immediate completion (unlike UK residents). Investors may sell before completion. BPS said that investors as likely to come from other parts of UK as abroad.

UK residents want to see a finished product, not necessarily *the* finished product.

Construction mess and logistics

Access and site shape were cited as site-specific constraints to delivery.

All buildings at Nine Elms have basements. Excavation work has increased the need for spoil removal, and the river has been used to ease road congestion.

Construction management plans are used. Land owners have coordinated a plan to avoid problems and address issues such as surface water drainage, electricity and potable water supply, etc.

Infrastructure, transport, utilities

Local planning authority, developers and the Greater London Authority have worked together on infrastructure, utilities and construction management. Utilities came late to the table. Delivery would be sped up if all electricity, sewage, etc. was in place upfront.

Electricity

Electricity provision has been a big problem. Developers planned their own substation at BPS as a plan B, with an application submitted to this effect. A reapplication was then made to remove the substation from the planning permission, following late confirmation from the utilities providers that they would provide the substation at an alternative site.

A joint venture has been formed between all developers on site to order electricity.

On one section of the site, one developer (Berkeley) had brought electricity across from Wandsworth at their own cost of £3-4m. They said that debt financing was not an option for this sort of work.

Transport

All developers are funding the Northern Line Extension (NLE) – a total investment of £1bn in a Tax Increment Finance scheme and direct contributions (originally by S106 and then Community Infrastructure Levy (CIL)). BPS is accommodating the new Battersea station as part of its Phase 3 site. Those in better locations (e.g. closer to river) have paid more in CIL but, given the higher infrastructure contributions to fund the NLE, the affordable housing level was set lower (15% minimum).

All developers contributed to wider transport requirements in order to make densities viable. Some paid for this upfront, others through business rates.

The success of the Opportunity Area is largely down to collaborative working between all parties secured through goodwill and not solely on legal agreements.

Skills shortages

Cladding and plumbing were cited as the two main trade shortages.

The industry works on a model of subcontracting. "Most intelligent subcontractors" are risk averse and developers often struggle to get subcontractors to even tender for contracts. Subcontractors are "fragile", regularly go bankrupt and struggle as pay rates change over the course of a contract.

Off site construction

Action has been taken to overcome the problem of trades shortages by using off site construction. At one development, off site-manufactured bathroom pods were sourced from Italy to reduce need for plumbers, at an additional cost of 40-60% in order to maintain production.

Twin wall construction had also been used. Developers stressed that off site solutions still required use of cranes and other equipment that were constraints in their own right (see construction mess and logistics).

Site-specific constraints

Asbestos removal has had to be undertaken at BPS despite historic remediation by previous site owners. This was initially programmed to take two months but ended up taking over four times as long.

Taylor Wimpey told us that they had to demolish a school before commencing construction.

Financing

To finance later phases, developers told us that they had to build out and sell the first phase.

At one large development, there were four finance constraints:

- The scale of funding needed
- Shareholders' equity exposure
- Borrowing costs, which grow if borrowing is done at faster rate
- Failure of previous schemes

At another, the Irish regulator NAMA had become the developer's bankers and had rules on lending.

Another had been equity financed so were not constrained.

BPS had three previous owners, two of which went bankrupt and one gave up.

2 Ledsham Garden Village, Cheshire West & Chester **11/01/2018**

Note based on site visit and briefing provided by the LPA

Background

Site details

Housing – 2,000 dwellings

Area – 105 hectares

Master Developer – Redrow

Local authority area

Average house prices £190,000, but a big jump for 3/4-bedroom homes. Affordability ratio of around 7 (average earnings £28,000). In general on large sites (such as Wrexham Road (1,300 dwellings) /Winnington (1,200 dwellings) it can be difficult to seek consensus among multiple builders across a site, which can lead to delays. Particular challenges around creating a “sense of place” with different house builders providing different products and design on a single site. It is unusual on a site of this size to have single house builder.

Ledsham Garden Village

Site developed by Redrow. For the first phase this is characterised by smaller 2/3/4-bedroom homes on one side, and larger 4-bedroom homes on the other. Aim to provide as great a range as possible to appeal to as wide a market. Phase 1 for 177 homes (to include 37 to be built on open space at entrance to the development – currently a “shop window”). 140 completed as of January 2018. Permission secured for phase 1 by detailed application.

Delivery

There is a set sequence to site build out: starting with site access, then heavy machinery, then labour, through to occupation. Projected output of 140/150 units per year at full capacity across both market and social housing. Social housing (25% in total) made up of ⅔ affordable rent and ⅓ shared ownership.

Land

30-40% of annual completions across Redrow land portfolio are from their strategic land holdings.

Labour

At peak, employed 150-160 people on site, including 10 apprentices. Area has hit labour capacity. Not taking full benefit of the apprenticeship levies available. Training of staff can take three years.

Build out

On the visit we were told that 140/150 houses was the maximum possible build rate per annum. The team informed us of a Redrow site at Ebbsfleet, Kent expecting 190 completions per annum (but highly unusual). At Ledsham Garden Village specifically, they were experiencing no financing constraints on the speed of build out. However there is a cap on the expenditure available due to viability modelling.

No large infrastructure requirements on site and no remediation expected, either. Provision for primary school on site; contributions to off site health infrastructure and other matters included in the S106.

Construction began in June 2016, with the first homes delivered later that year.

Outlets

- 2-bedroom – <20%
- 3-bedroom – 30%
- 4-bedroom – 40-50%

Three outlets on site. Broadly these relate to housing types:

- Terraced homes/'mews' type
- Executive homes
- Smaller/medium-sized homes

Sales

Of 140 built to date, around 80% bought off-plan and the remainder at time of completion. Plots released 6 months in advance of completion. Bulk of off-plan sold within months of coming to market, some without show homes available. Other sites in area show what sort of product Redrow offer. Some transactional friction (house buying chains) but not a huge impact on sales rates.

Explanation of strong sales is the high rate of 'pent up' demand locally – house building has been restrained by previous regional controls on numbers. Premium on new build of around 10-20%, influenced largely by competitor pricing and second hand market. 4-bedroom homes selling around £320,000. Selling prices have been increasing throughout development (like-for-like prices have increased).

Constraints identified

Planning process

Delay caused due to disagreement between developer and local stakeholders regarding size of the site.

S106 negotiation

The whole site (2000 units) took c.20 months to conclude. Multiple aspects to the S106 obligations (education, affordable housing, open space, habitat/landscape management, regeneration, locally listed farm buildings, health facilities, various highway and transport initiatives). Traffic infrastructure was a key obstruction, which required extensive engagement with Highways England.

Transport infrastructure

Off site highway work, traffic lights – A540 is a trunk road so had to work with Highways England.

Protracted land ownership negotiations

Materials and labour

Build out constrained by access to material, labour constraints and supply chain. 16 weeks for supply of roof tiles, 3 months for bricks and expected to provide a 12 month forecast. Capacity issues at brick factories. Have imported bricks from Europe. Recognise that importing bricks is a possibility, but constrained by cost, not the availability. The local authority said they wanted support to connect colleges with employers/sites to ensure local labour supply.

Sales

Constraint on off-plan sales is expiration of mortgage offers/Help to Buy.

3 Cheswick Green, Solihull **11/01/2018**

Smaller site: Not included in statistical analysis

Note based on site visit and briefing provided by the LPA

Background

Site details

Housing – 274

Area – 11.4 hectare

Master Developer – Bloor Homes

Local authority area

Help to Buy buoying housing market. Considered more important than interfering in land assembly.

66% of borough designated Green Belt. Concerns over limited local policy on design. Local supply of land made up largely of smaller sites which are scattered across the borough. Consequently achieving higher build rates with competition more spread out.

15,000 units planned between 2014 and 2033, including the backlog. Solihull is not experiencing a delivery problem. Only 2 schemes over 50 units permissioned unimplemented in last 2 years. House prices 12% above average for England. New build in the area typically sets the lead on pricing, and the second hand market responds accordingly. New build premium at around 20-25%.

Council want more done on developer ‘pooling’ and promoting a collaborative environment.

Blythe Park

Site owned by IM Properties. Bought as a commercial site. IM are a house builder but specialise in small scale, high quality development. Commercial development is coming forward on site. Expectation is for IM to sell parcels to housing developers, and pre-application engagement is underway for reserved matters (although purchase of parcels not finalised). Reserved matters applications expected in 2018. Local facilities are not in place however which may influence plans.

There are no major site infrastructure requirements owing to existing use and connections. Network expansions will be required, including making a bridge over the M42 two-way and residential access to site.

Proposed phasing of site a market driven decision.

Traditional block building model, with no use of MMC.

Cheswick Green

Site developed by Bloor Homes. Bloor Homes held an option on the land and took the site through the planning process, resulting in the grant of outline planning consent for up to 220 units.

The total number of units permissioned by Solihull Council is now 274 as a result of a further planning application being made by Bloor for an additional 54 new homes. The additional 54 units are within the same site area of the outline planning permission and have been accommodated by replacing a number of larger 4 and 5-bedroom homes with a greater number of smaller units (2/3-bedroom homes). The additional homes are being delivered by Bloor at Cheswick Place as a direct response to the high demand experienced in the Solihull area for new 2 and 3-bedroom homes. Traditional block building model with no use of MMC.

Build out

Sequential development in pockets so that access to infrastructure put in place, followed by works undertaken by heavy machinery, followed by labour, followed eventually by occupation. Process continues across site so that occupiers are not disrupted by on-going development as this would be further along. They try to lay 20 foundations ahead of bricklayers.

Development normally progressed and released to market in “pockets” of around 15-30 units. Pockets determined by layout and access (isolated, good access). Expected start-to-completion time of 20-30 weeks for pockets of 2-bedroom 2 storey homes.

Site progressing at 60 completions per annum.

Outlets

There is a mix of 1/2/3/4 and 5-bedroom homes on site with 40% of all new homes built being affordable. As a settlement Cheswick Green is historically 3/4-bedroom homes, though on each phase of development Bloor has delivered circa 50% of new homes as 2-bedroom properties. This accords with a Solihull planning policy requirement and of the additional 54 dwellings consented on the site, 20 of the 32 open market units are 2-bedroom properties.

A variety of house types are provided (houses, apartments, bungalows) to appeal to a broad target market.

Most properties sold off-plan with a general expectation to sell in advance of physical completion. 90% of off-plan sales of houses to owner-occupiers. A few investors, but mainly applies to apartments. Homes released to the market 6-months in advance of expected completion, often following the laying of foundations.

Three show homes were built on the site. Opportunities to view completed properties at nearby sites and full details of site and plots available online.

4/5 sales per month once released. Homes not released sooner as purchasers want a more certain time frame for completion. Rate of release is currently in line with sales/demand. They added that demand turned out to be stronger than expected.

Premium (“a few per cent”) established in line with new build competitors in the area and the second hand market for like-for-like (setting and size).

Around 500 units built by Bloor Homes Western regional office per year, only 3-4% unsold properties within the region at the moment.

Constraints identified

Physical constraints

Pre-commencement outline conditions required the preparation of a local flood alleviation scheme for approval by Solihull Council. This delayed submission of the first reserved matters application for 95 dwellings by several months. Mitigation measures to alleviate a historic flooding issue locally meant Bloor had to engage with the Environment Agency, Solihull Council and Parish Council to put in place necessary protection measures for the benefit of the local community; to include construction of a series of flood alleviation basins.

Services

High voltage diversion required for the middle of the site.

Discharge of conditions

Pre-commencement conditions imposed to undertake watercourse modelling work and the design of a flood mitigation scheme (this took time). Developer aimed to clear conditions before the approval of reserved matters so that work could start as soon as possible following approval.

Sales

If they released 100s at once, buyers would ‘cherry pick’ and this would give no certainty on delivery. Moreover, Bloor reported that there are currently major material supply and labour issues that would prevent delivery They saw this as a constraint on delivering at pace.

4 Great Western Park, South Oxfordshire **18/01/2018**

Note based on site visit and briefing provided by the LPA

Background

Site details

Housing – 3,417 dwellings

Area - 1.8 sq km

Master Developer - Taylor Wimpey

Taylor Wimpey (TW) told us that Great Weston Park (GWP) is seen as ‘how you can maintain output’ on a site, thanks to cooperation and developer commitment.

Assumptions

Based volumes/prices on experience of big developments in Swindon/Bristol in recent years, where build out has been 200-300 per year. They expected 200-250/year at GWP; exceeded this due to demand (proximity to fast growing economies of London/Oxford).

Price reference

They use local market prices; they set prices below local market initially, with aim to get above market price over time as site is established. They are a ‘price taker’ and mortgage lenders play an important role in determining value.

New build premium

Normally 3-5% as they build for ‘core of market’ – the average home. New build stock has to sell so has to be priced competitively – second hand does not have that time pressure. Not 10-20% unless they are offering a markedly different product to the local market. Peak price on site now is £540k for a 5-bedroom property.

Options

Are triggered at granting of outline consent and post-S106 negotiation. The option sets a minimum price (per gross acre), and a negotiation takes place. In return for investment, the developer agrees to buy at 10% below market value or 15% of gross development value. They have to judge S106 costs, market potential etc. in determining price in option – arbitration takes place if this is not agreed.

There have been 16 reserved matters applications submitted relating to housing, with two currently under consideration.

Outlets

They told us they delivered 50-60 units per outlet. They also referred to ‘factories’. For health and safety and capacity reasons, they have a production team structure that can deliver 60 units in multiples of 30 (up to 90 – they would recruit assistant site manager; up to 120 they would create additional team). At GWP, they have had 5 factories (3 large, 2 smaller), and 2 outlets. They told us that production, not sale, is the important factor.

Why couldn’t they just have more factories and deliver more homes to meet high demand? They wanted to limit capital exposure, and balance business by reinvesting in other sites. Timeframe of investment/return is 3-5 years.

Constraints identified

<u>Land ownership</u>

TW’s involvement at GWP started in 1982 – a 20 year pre-application phase is not unusual for sites of this size, and £3-5m can be spent. This long timeline means that quick movements (e.g. ramping up build out) are “not easy”.

Originally, TW owned 90.35% of the site, David Wilson owned 9.65%. They serviced the site, and put in infrastructure with developers splitting the cost. Parcels sold to Persimmon (2012, 272 plots), Miller (2015, 163 plots), Bellway (321 plots over two tranches in 2014 and 2016). These developers were ‘likeminded’ in delivering place-making, community infrastructure, etc. Later on, part of the site was sold to HDD Ltd, who subsequently parcelled it up and sold part to McCarthy & Stone. If promoters own land the dynamic is different.

<u>ROCE/business model</u>

Sales to other builders on site reduce balance sheet exposure on the site and capital employed. There was a balance between market depth – which had been greater than anticipated – and physical ability of TW to deliver at high volumes. If 300/year had been limit of market, they would not have sold land on. GWP was ‘sucking in’ capital, which has now been released into the business.

The city expects return on capital in excess of 20% – releasing capital allows this to be realised. They have a 1.5-1.6 operation asset turnover; no return on strategic land; this results in a 1.2 return overall. They have an operational overdraft with nil borrowing at year end. They have a 3 year pipeline of permissioned/active sites; 7 years of strategic land. If they had unlimited land they would build up to capital constraints.

5 Arborfield Green, Wokingham **18/01/2018**

Note based on site visit and briefing provided by the LPA

Background

Wokingham Borough Core Strategy (adopted 2010) Policy CP17 establishes a requirement to provide at least 13,487 new dwellings with associated development and infrastructure in the period 2006-2026. The majority of this new residential development (10,000) will be focused in four Strategic Development Locations (SDL), all of which were masterplanned and subject to Infrastructure Delivery Plans (IDPs) initiated by the Council, of which Arborfield Garrison is one of these and will provide a development of around 3,500 dwellings. The policies establish a requirement for sustainable, well designed, mixed use development and make clear that a co-ordinated approach to the development of the SDL will be required to deliver the necessary infrastructure, facilities and services to meet the needs of the expanded community. The Council has approved two outline applications for the entire Strategic Development Location comprising two parcels to the north and south.

Northern Parcel – Arborfield Green

The northern parcel now known as Arborfield Green, is promoted by Crest Nicholson on behalf of the Defence Infrastructure Organisation (DIO) on the site of the former Arborfield Garrison. It was approved in April 2015, and provides a development of up to 2,000 new homes including affordable housing, a new district centre that will include community facilities, leisure and retail, primary and secondary schools, new roads and associated infrastructure including new public open space.

The Council have been working closely with Crest Nicholson to deliver infrastructure and housing on the northern parcel.

170 units are in construction, and 100 have been completed and are occupied. The planning permission has been granted on the basis of 35% affordable housing, with an off site provision of 15% via contribution with 20% delivered on site. Crest Nicholson is acting as development manager on behalf of the DIO as well as developers of around 1000 units, so half the site, which Crest is in the process of acquiring from the DIO. The remaining land is then parcelled up and disposed of on the open market on behalf of DIO and to date land has been sold to Redrow (179 units), Millgate (40 units) and a local SME Westbuild Homes (12 units). To date 114 units have been consented for PRS, the first scheme of this nature consented by Wokingham Borough Council, with a further 100 units of this tenure planned.

Outlets

Various channels to market to deliver up to c.300 per year:

- Affordable housing
- Apartments
- Market (large units)
- Market (smaller units) – including Help to Buy
- Private Rented Sector
- Senior Living
- Downsizer

Family housing is more popular here than apartments. Different housing styles are being built to deliver a broad range of products to market and to deliver a diverse community.

Building had started quickly on site in January 2016 following consent in April 2015, which has quickly increased due to the number of outlets and various accesses to the site (at the front and back) allowing numerous contractors to operate. As the site was under a single umbrella brand, there was an incentive to build quickly to establish the site and improve market demand for parcels of land.

Constraints identified

Market demand

Absorption (the choice of product buyers had) and scale are key – if site specific constraints such as land remediation were not an issue, they would not have built any faster.

Planning capacity

The LPA identified planning capacity as a constraint – they said that appeals on 14 sites had cost £1m and slowed down work on conditions on this site. 89 conditions were attached to the outline consent with a number of pre-commencement conditions. These required to be discharged ahead of start on site so following outline consent, a significant amount of work was still required before a start on site could be achieved.

Site specific

A number of site-specific issues were present, including demolition of existing MOD buildings and land remediation (asbestos).

MOD ownership

The site was not release by the MOD until 2014, and have been slow to vacate it – parts of the site are still in use. To get best value for the MOD, the site has to be drawn down gradually. At this stage Crest are delivering half the site, so around 1,000 units as well as disposing of other parcels on the open market. There is an ongoing dialogue with the MOD on the business plan for the site. The MOD's rate of release was not seen as a constraint. Land is disposed of to generate revenue for DIO as land owner, to offset significant upfront infrastructure spend and S106 obligations required to unlock the site.

Construction logistics

Existing residents live adjacent to the development with a number of public roads running throughout the site which add to the complexities on site. This is being addressed via ongoing public resident forums and a representatives steering group. There are numerous contractors on site due to the huge amount of infrastructure delivery as well as multiple outlets which requires close coordination and management. Coordinating infrastructure and logistics on site with so many different contractors is a complex task, so increased delivery would be particularly challenging from this point of view.

Utilities

Installation of new water/power infrastructure was identified as a constraint as it was not in the developer's control.

Infrastructure

The amount of infrastructure investment required early on is a challenge; and constrains development of the middle of the site due to the location of new service connections. The council approved a temporary film studio on the site in early 2017 which has produced a revenue stream for the DIO to offset the high infrastructure outlays.

Labour and materials were identified as a constraint which is an ongoing concern; finance was not. For example, bricks are currently on 28 week lead in times.

6 Barking Riverside, LB Barking & Dagenham **23/01/2018**

Note based on site visit and briefing provided by the LPA

Background

Barking Riverside is a 179 hectare brownfield regeneration site that was first identified for development in the early 1980s when Barking Power Station closed, at which time it lacked basic infrastructure and was heavily contaminated.

It is owned by Barking Riverside Ltd, a joint venture between L&Q (51%) and the Greater London Authority (GLA) (49%). L&Q bought out Bellway. Be First is a general regeneration company owned by the London Borough of Barking and Dagenham (LBBD). They act as a development manager on council-owned land, and coordinate planning functions, transport planning etc. Be First and Barking Riverside Ltd (BRL) are working together at Barking Riverside – a total of 10,800 units are being built although there may be scope to do more.

Barking & Dagenham has historically had low rates of build out, and a high proportion of unimplemented planning permissions.

BRL has an active board, with a 50:50 split between L&Q and the GLA, and LBBD and Transport for London (TFL) attending as observers.

BRL are essentially an infrastructure company, coordinating planning and putting in transport/other infrastructure and then disposing of serviced plots to L&Q, Bellway and the market. They called this the 'Dutch model'.

Transport & infrastructure

There are two contracts.

- One with TFL – BRL is paying into the cost of the rail extension. This money was specified in the S106 agreement but the contract is separate.
- A Land and Works agreement – a private agreement. This contained some CPOs and transferred land to TFL for construction of new line and station.
- Conditions include construction of new roads by the time they complete 2,500 units (BRL paying £5.4m to TFL to deliver A13 junction works).

Access

There are three main road entry points, in addition to rail/river connections to come. The same market applied to the whole site.

Demand

There was 'pent up' demand in the first phase (Bellway), with 100+ on waiting lists for some products (e.g. market townhouses). The site has a regional/sub-regional catchment drawing across NE London. Prices are c. £300/square foot. Early last year 4-bedroom townhouses sold for £370k; rent for a 2-bedroom apartment is £1,000 per month.

Land

The land value here was sub-market as it was disposed of by power companies 'virtually for free'; and BRL is seeking a return lower than commercial rate. The project has some debt but land is a much smaller component cost than would normally be expected.

Planning timeline

1993-1995 – The site's potential was first recognised in 1995 by the Government in Regional Planning Guidance 9a "Thames Gateway Planning Framework" (1995). It referred to Barking Reach as a significant new community of about 5,500 homes.

The first permissions for 800 new homes were granted in 1993 and 1994. In 1994, National Power sold the site to Bellway.

These were followed by approvals for 600 homes in 1997 and 1998. Amendments to these were submitted in 2000-2002. In total across this period around 900 new homes were built by Bellway Homes.

These homes are typical generic suburban house and flat types and were criticized for poor design and for lacking supporting infrastructure.

2004 – The first London Plan was adopted in 2004. It identified Barking Reach as an Opportunity Area with potential for 10,000 new homes and 200 new jobs up to 2016.

In 2004 Barking Riverside Ltd was formed as a joint venture of Bellway Homes and English Partnerships (which later became the Homes and Communities Agency) before passing to the GLA to deliver the project.

In 2005 the London Thames Gateway Development Corporation (LTGDC) was set up and this was invested with planning decision powers. A new masterplan was prepared in 2004 by Maxwan and following this a comprehensive outline planning permission was submitted by Barking Riverside Limited. This was granted by the Council in August 2007 (following the signing of a Section 106 legal agreement) for a mixed use development that would include up to 10,800 homes, a new town centre, a new secondary school, and two new primary schools along with open space and sports provision. The increase in density from the 5,500 homes originally envisaged to 10,800 homes was predicated on the new DLR link from Beckton to Dagenham Dock. The S106 included a condition that no more than 4,000 homes could be occupied until the DLR was operational. This application was never implemented.

2008 - London Riverside Development Corporation approved an amended outline planning application; reserved matters also approved. Under these permissions detailed approval was granted for 1451 homes in Stage 1 and 1,836 homes in Stage 2.

Since the DLR extension was cancelled in 2008 the Council, Barking Riverside Limited and Transport for London have been working on alternatives to the DLR and settled on an extension to the London Overground service from Barking to Gospel Oak as the preferred option. This required changes to the 2008 outline planning permission. These amendments were submitted in January 2016 and approved in December 2017. The overall quantum of development remained the same.

January 2016 – Amendments to 2008 outline permission submitted.

August 2017 – Transport and Works Act Order approved. As with the 2008 permission no more than 4000 homes can be occupied until the London Overground Extension is operation.

December 2017 – Amendments approved.

2021 – London Overground extension to open.

As plots are disposed, detailed planning applications are being submitted. 329 plots were disposed to L&Q and Bellway in 2017.

Outlets

Developers

Options are held on plots:

- L&Q – 50%
- Bellway – 25%
- Market – 25%

So far, L&Q have agreed to draw down options on their plots, which are pepper-potted across the site.

Tenure mix

There is 50% affordable housing provision on the site:

- 50% market (including PRS)
- 35% shared ownership
- 10% affordable rent

• 5% London Living Rent (60-80% market rent) Previous phases 'over-provided' social housing.
Constraints identified Infrastructure The trigger point linked to the Overground extension limits the site to 4,000 units and constrains demand for homes on the site. Pylons It is hard to work with UK Power Networks to put pylons underground – doing so could release more land for development. In addition, 300 units of first phase are dependent on moving pylons. Market demand This was flagged as a concern but they said that they would seek to mitigate it by delivering more homes for rent. Bellway previously struggled due to lack of infrastructure. Their business plan is not pinned on house price growth. Planning In theory, if detailed planning process sped up they could deliver more homes more quickly. Materials, labour These are 'always a concern' and anecdotally costs of skilled site managers has gone up (from £60k salary to £80k); and logistics of 2,000 workers on site at same time is challenging. BRL are working with supply chain to build capacity e.g. brick manufacturers.

7 Trumpington Meadows, Cambridge

8 Great Kneighton, Cambridge **16/02/2018**

Note based on site visit and briefing provided by the LPA

LPA background

The local plan (joint strategy) identified sites for 45k new homes to extend the city into new settlements beyond the Green Belt. This included urban extensions such as Northstowe and Waterbeach. Green Belt and city boundaries act as big restrictions on new development.

There was a challenge to keep developers focused on delivering on long-term sites. For example, one developer was active on two large sites, one of which had seen little energy behind it.

The Strategic Housing Market Assessment covers a number of markets, including global researchers who tend to rent; students; employees of key sectors such as life sciences.

There is a steep house price ratio, extra pressure on infrastructure and prices rival London. Private and affordable housing are not sophisticated enough categories to meet particular demand in the city.

TRUMPINGTON MEADOWS

Site background

Site details

Housing – 1,187 dwellings

Area – 60 hectares

Master Developer – Barratt Homes

40% affordable housing.

Grosvenor Estates were the original master developer and land owner. Barratt Homes bought the site and are now the house builder for the whole site.

The area was released from the Green Belt along with Clay Farm (Great Kneighton) in 2006 local plan.

The LPA and the land owner had high ambitions for design quality, with a design code a condition of outline permission and reserved matters. There have been some delays in implementation/delivery – the LPA invested to get the private sector used to working with design codes. Developer reportedly believed the brick specified in the design code was the most expensive they have ever used. Barratt told us that the material pallets for the site were generally very expensive, with high aspirations from the local authority and USS Grosvenor, which led to procurement issues in terms of sourcing and lead-in times although difficulty in sourcing materials is not unique to this development. The design code identified broad material pallets taking into account the local context, but was not specific about manufacturers. The design code was made possible by low existing use value (it was a greenfield site) and high local house prices/demand. Barratt did go through a competitive tender process to acquire the site at residential use value.

An upfront injection of cash from Bedford Pilgrims Housing Association allowed the funding of infrastructure.

House prices on the site have also been higher than initially expected. Barratt have told us that build costs were also higher than expected.

Planning timeline

Barratt bought the site after outline granted (Dec 2011). Phase 1 built first – 353 units between 2012 and 2014. Infrastructure put in by Grosvenor to service land between November 2010 and December 2011. Started on site 2012 and phase 5 ended 2015.

S106 completed at outline stage, including the design code. Reserved matters took less time than normal due to design code.

Outlets

<u>Sales</u>

Bedfordshire Pilgrim Housing Association, the Registered Social Landlord partner, bought affordable housing at a price set in the S106 agreement (negotiated by Grosvenor). 25:75 of shared ownership to rented is being delivered in line with the S106 agreement, at a price of £138sqft which represents a discount of 2/3 to open market revenues. These units bought by BPHA for 1/3 – ½ market price. Prices were lower than at Clay Farm (Great Kneighton). 2-bedroom homes were £300k-£400k, 3-bedroom homes £400k-£500k, 5-bedrooms (2,000 sq. ft.) £900k. Help to Buy (HtB) on site of around 5-10%. Most properties selling at above HtB threshold.

Constraints identified

Design code

Agreed to by Grosvenor at outline stage. All bays and cladding had to be done on site which added 30% to construction time; and it was difficult to source some materials. The code and parameter plans set out relatively broad scale and massing approaches but were not prescriptive over the use of particular housing types. Incorporating terraced townhouses into the development has been part of the response to helping achieve the required site density. Barratt have told us that the design code didn't allow the flexibility to provide for what the market wanted and that the terraced three storey townhouses that have been harder to build and sell.

Sales

Not a constraint as kept building, but they had to wait for six months in mid-2016 for sales to catch up with rate of building; the cost of capital is too great for building to slow down, with overheads of £20-25k per week on the site.

Designation of phases

Urban Quarter made up of largely 2-bedroom apartments, which are absorbed much more slowly.

GREAT KNEIGHTON

Site background

Site details

Housing – 2,300 dwellings

Area – 109 hectares

Master Developer – Countryside Properties, Crest Nicholson, Bovis, CALA, Hill Residential, and Skanska

40% affordable housing.

Countryside is the master developer for the site with six active developers in total. Countryside has been involved since 2003, when an option agreement was signed.

The site is set upon former Green Belt land. It has been developed as part of a push to open up agricultural land to the public, but no more than 50% land allocated to housing.

Crest Nicholson have bought a parcel from Skanska, who developed some housing on site. Hill Residential have developed a parcel with a 50:50 split of affordable housing and Private Rented Sector (L&Q bought the PRS stock; the council manage the affordable housing units). Bovis also active and have sold a parcel to CALA Homes. 104 PRS units in total across all parcels.
Range and design code When on the visit, it was explained that there has been a 'phenomenal' rate of build out due to the mixture of sizes (ranging from studios to 5 beds), an affordable housing level of 40% and the number of developers building and selling simultaneously. A design code is also in place for Great Kneighton, but it is not as prescriptive as Trumpington Meadows.
Outlets Countryside have three outlets – Abode, Aura, Novo – with different price points for each. For example, Novo had apartments/homes from £250k; at Aura, apartments start from £425k; £1m homes also available on the site. <u>Sales</u> Sales rate of c. 1 per week. They identified different customers at different outlets. 60:40 split in favour of houses (vs flats). Approximately 45 units per hectare. 'Not much' HtB take up – 20% buyers, concentrated in apartment/lower priced units. In contrast, some sites can be '99%' HtB. Of the affordable housing, there is a 60:40 split in favour of shared ownership. Shared ownership sells instantly. We were told that there is 'no competition' between HtB and shared ownership – salary is a key determinant. Variety of product and style increase sales rates – style is "as important" as price.
Constraints identified <u>Existing residents</u> If construction begins to take over they might need to mitigate this by slowing down delivery.

9 North West Bicester, Cherwell

10 South West Bicester, Cherwell

11 Graven Hill, Cherwell **08/03/2018**

Note based on site visit and briefing provided by the LPA

LPA background

Growth focused largely on edge of town.

Local plan was adopted in 2015. It provides for 22,840 homes and 200 hectares of employment land to arrest out commuting.

North West Bicester – 6,093 units

Site background

Former 'eco town'; 3,293 units allocated within plan period (up to 2031); a total of 6,093 to completion.

Land holdings were splintered, and it has taken a long time to bring these together, which has delayed the process since outline permission was granted.

A2Dominion, the developer, put in an application for 393 units before a master plan for the whole site had been submitted.

Section 106 negotiations are protracted, with a road and rail bridge that need to be moved. £6.7m of Housing Infrastructure Fund money has been awarded to drive this forward.

A design code is in place here, and is more detailed than that at South West Bicester, based on 'garden town' principles.

Graven Hill – 2,100 units

Site background

Former 241 hectare MOD site – the MOD secured planning permission, at which point the LPA bought the site.

Graven Hill is a custom and self build site. A Local Development Order (LDO) was used to simplify the process of securing detailed permission.

The site is owned by Graven Hill Development Company, a council-owned company.

A design code is in place, introduced via a condition on the outline permission.

The allocation and planning consent processes ran in parallel.

The original outline was for a more traditional large site as it wasn't at that point earmarked for self-build. The outline secured under MOD ownership has been changed by the LPA, and the S106 sets out two possibilities for the site (as a custom and self-build site, and as a more traditional large site).

Planning passports have been used, containing the rules and guidelines that home builders should adhere to when developing their plans, as well as the steps they should follow to receive confirmation of planning permission. Around half of the plots sold so far have needed to be negotiated following plan submission; a decision is made within 28 days of submission, and once permission is granted, builders have to complete build out with 18-24 months.

10 units as part of the demonstrator site in phase 0.

The site is allocated for 2,100 homes. The current outline permission includes 1,900 homes with the remaining 200 homes to be provided on a separately owned piece of land at the northern part of the site.

There is a small 'flying factory' producing timber frames for Beattie Passive homes.

Infrastructure was put in 'too early'.

A school needs to be ready by 2020.

Sales and products

They have sold 97 plots so far, with 60 confirmation of compliance applications so far, and 24 under construction.

There are nine products in total.

The first self-build homes will work out at roughly £380,000 for a 3-bedroom detached house in total – £100k for the plot, £38-65k for the 'golden brick' (foundations and a single brick to avoid 20% VAT). People building on site are building homes in line with the second hand market locally, but are making a saving on development costs (c.10-12%). The residual land value calculation the development company has made it the same as it would be for a traditional developer.

They are looking to develop a mix and match product, allowing buyers to pick one of four homes, with the development company arranging contractors and offering it as a

whole package including the serviced plot. They are allowing customisation of shared ownership homes.
Constraints identified <u>Build out is demand-led</u> The council would be happy for the site to build out more quickly. <u>Transfer of MOD land</u> This is taking place over two phases (summer 2017, summer 2019). The land transfer for phase 1 was delayed by a year. <u>Disruption</u> It has been phased to reduce disruption on the site, with each plot developed by a different self-builder, although they could deliver 1,000 per year if there was demand. It is difficult to manage deliveries to each separate plot. <u>Mortgage finance</u> Lenders require a 25% deposit, and 'staged pay' mortgages are expensive. There is also an affordability issue, as those building their own homes mostly have to rent a home through the build process. They suggested a Help to Buy scheme for self-build. The council is about to introduce a £2.5m fund to help people buy by indemnifying mortgages (three lenders are offering a 95% mortgage). This will be a revolving pot of money that could support self and custom build on an ongoing basis. <u>S106 & infrastructure</u> Negotiations with the county are difficult, and it is hard to get services and transport providers to understand dynamic of a self-build site and rate of occupation. The S106 agreement was also formulated as if the site was a traditional site, reflecting sales prices of traditional developments rather than the serviced plots on sale here – the development company's income is around a third of a traditional developer on a site of this kind. Affordable housing and terraces are being built first, to sell on. The development company are putting in infrastructure and landscaping upfront beyond the 'normal' scale, which limits the development that can come forward. The S106 requires a disproportionate contribution to woodland management.

South West Bicester – 2,436 units
Site background Countryside Properties are the master developer – they promoted and serviced the site and are not building any homes on it. Subsequently, developers (Taylor Wimpey, Bovis, Bellway, David Wilson, Persimmon, Linden) have bought parcels, sought reserved matters (RM) approval and built these out.
Experience to date Build out has reached 200-250 pa, depending on the flow of affordable housing construction. There are four outlets on the site; they assumed three sales per outlet per month, which has proved to be about right. A design code was used and has worked very well, facilitating creation of coherent street scenes. There is a small proportion of custom build on this site, which sold very well. Over 1,000 homes are now occupied. 2 to 5 bedroom homes predominate, with 3-4 bedrooms the 'sweet spot', and a few one beds. A primary school has been built, and an application is in for a secondary school. A sport village is now open, and a community centre will be built. A hotel and pub have already been built. A road was constructed on completion of 650 units. An SME bought a farmhouse on the site, which has been refurbished alongside 11 new barn-style homes.
Pricing Prices are roughly £350-360/square foot – a 3-bedroom is £300-350k, a small 4-bedroom is £400k. 30 per cent of sales are through Help to Buy.

12 North Greenwich, RB Greenwich **15/03/2018**

Noted based on site visit and briefing provided by the LPA

Background

Site details

Housing – 15,737 dwellings

Area – 78.7 hectares

Master Developer – Knight Dragon

Greenwich Peninsula

Large brownfield site, which had originally been the site of Europe's largest gasworks.

Land in control of Quintain (c.20 acres) and the Mayor of London (c.130 acres). Mayor of London (Greater London Authority (GLA)) acquired land from Homes and Communities Agency (HCA) following devolution of powers under Localism Act 2011. HCA (formerly English Partnerships) had acquired the land in the 1990s.

Quintain was "encouraged" into forming a joint venture due to the size of the site (to include land owned by the GLA). Meridian Delta Limited (MDL) established between Quintain and Lend Lease in 2001.

First masterplan approved and outline permission granted for 10,010 dwellings on 23 February 2004.

Delivery

MDL started works on site in December 2001, following a preliminary agreement between MDL and English Partnerships (EP). This precluded the granting of planning permission.

EP undertook surface-level decontamination in region of £250m. Underground remediation is required by developers.

A Land Disposal Agreement (LDA) was entered into between MDL and EP in May 2001. This gives developers exclusive rights to develop land. In return the developers are expected to bring forward infrastructure (c.£500m), build affordable housing and undertake underground land remediation.

- It sets out the Minimum Land Value (MLV) to be paid back to EP (now GLA following devolution of powers) as the developer draws down land for development. This is calculated using a tariff-style payment based on the

  square-footage of the building being developed.
- The Agreement also introduces a profit-share between the developer and (now) the GLA. Any profits above an Internal Rate of Return hurdle from land developed, minus the costs to the developer of remediation, infrastructure, and construction of dwellings, will be split.

The MDL joint venture was a deadlock JV from a control perspective:

- Both parties held 50% stake.
- The LDA and the financial crisis meant that residential development was not viable, although Bellway did build one tower block

Bellway purchased one plot from MDL and were granted planning permission in 2007. Developed one tower (229 dwellings with 26% affordable), which completed in 2011.

In July 2012 the Quintain land was acquired by the JV and Knight Dragon bought the Lend Lease stake and 20% of the Quintain stake in the JV (taking majority control of the development with a 60% stake). They saw the Peninsula as an opportunity (London, location, geography) that couldn't be passed up.

Build out

Bellway purchased one plot from MDL and were granted planning permission in 2007. Developed one tower (229 dwellings with 26% affordable) which was completed in 2011 and fully occupied in 2012. Three office buildings were completed in 2008/09, with Transport for London and Ravensbourne College (now University) as anchor tenants.

Prior to consent being granted, Knight Dragon spent 3 years investing in infrastructure for the site.

In order to show commitment to accelerating the site following years of inaction, and to support the submission of a new planning application, Knight Dragon entered into an 11 plot Memorandum of Understanding with Royal Borough of Greenwich. This promised 25% affordable housing commitment across the plots, with 54% in the first 7 plots at lower riverside (now built), and no affordable housing in 4 plots to be delivered to the Northwest of the Peninsula. The delivery of affordable units was supported by the GLA Affordable Housing programme funds (£50m), which were ring-fenced for the Peninsula.

The first 7 plots received planning permission between 2013 and 2014; construction commenced in January 2014, and have now been built and fully occupied (total of 1,335 dwellings).

The first market homes had a successful launch, but Knight Dragon made a net loss on this initial phase of the site in order to kick start the scheme.

A new masterplan agreement was approved in December 2015. This granted outline approval for 12,898 residential units, in addition to the 2,832 which had already received detailed planning permission under the 2004 outline permission.

The new agreement requires that Knight Dragon must build 1,000,000 sq.ft of accommodation every 5 years (subject to an absolute minimum 300,000 sq.ft.). This residential ask equates to roughly 200-300 units. Should the absolute minimum target not be met, the agreement would collapse.

Further, 1,267 dwellings received detailed planning permission across 4 plots, in 2014 and 2015. 1,007 were commenced in 2015 and are underway concurrently across 5 buildings at Upper Riverside. The estimated completion of these buildings is early-2020, with the first two buildings expected to complete end-2018.

Knight Dragon predicts that they could continue to deliver 1,000 units every 5 years, or sell off plots to other developers to build in tandem. If Knight Dragon can find the right people to build a mix of products, they anticipate a build rate up to 500 units per year.

1,335 dwellings have been built to date.

Outlets

2015 masterplan approval requires that:

- 0-20% of dwellings is studios, with a cap of 15% across the whole site.
- 25-50% of dwellings are 1-bedroom units.
- 20-40% of dwellings are 2-bedroom units.
- 5-30% of dwellings are 3+-bedroom units, with a minimum of 20% site-wide.

<u>Sales</u>

Have resisted pre-construction sales where possible as it was anticipated that a later sale was more likely to achieve better value due to the national trend for increasing house prices. Resisting pre-construction sales would also increase confidence to the prospective community that a large proportion will be owner-occupiers. However, they also stated that foreign investors who buy off-plan are key to build out rates.

Estimated ratio of 70:30 in favour of owner-occupier in first 7 plots covered by MoU. Expect this to reverse for Upper Riverside development, however.

Buildings 1 & 2 of Upper Riverside, c.450 units – pre-selling properties, with over 90% now sold (i.e. a reversal of the initial 70:30 split). Homes selling at roughly

£900-950 per sq. ft. 2-bedroom flats selling for around £650k-£750k.

Struggling to sell larger units given the reluctance of families to commit to a purchase so far before completion.

They are running a lettings service to allow investors to purchase homes and then rent them out through Knight Dragon. KD is considering acting as their own investor-lettings landlord for Building 4 of Upper Riverside.

Variation in price across floors despite identical product, taking into account views etc.

They may in future sell on plots to other developers or develop new tenure offers (e.g. an 'option to buy' product).

Constraints identified

Affordable housing

Original permission required 38% affordable housing commitment for 10,010 homes. This was considered unviable given the infrastructure and remediation demands of the site, and the reduction of grant to Registered Providers. The original permission was far too rigid. 2015 permission much more flexible.

Land remediation

High remediation costs, both in terms of money and time. The site is set on the former grounds of Europe's largest gasworks – remediation for the first Knight Dragon phase took 6 months, in addition to the initial work done by English Partnerships.

Finance

Project is not constrained by capital at present. Absorption in London is slowing delivery.

Physical constraints

Main physical constraint was the City of London airport. Original permission limited build height to 32 stories. Subsequent developments in airline technology etc. have meant that the 2015 permission allows for up to 40 stories. The bridge over the Blackwall Tunnel was another physical constraint as was the proposed Silvertown Tunnel.

13 Eastern Quarry, Ebbsfleet Development Corporation **19/04/2018**

Note based on site visit and briefing provided by the LPA

Background

Site details (Eastern Quarry)

Housing – 6,250 dwellings

Area – 270 hectares

Master Developer – Henley Camland

Ebbsfleet Development Corporation (EDC) and Urban Development Area (UDA)

The majority of the UDA is situated around former chalk quarries, which ceased use around 2000. The site itself is therefore classified as a major regeneration area with brownfield land making up almost all of the land within the UDA.

The land is primarily of former industrial use (quarrying, minerals extraction), particularly Eastern Quarry and the areas to the Northeast of the UDA in sites around Northfleet.

Land at the Swanscombe Peninsula is part of the UDA and is the site of a proposed entertainment resort. Proposals for the resort will be considered under the Nationally Significant Infrastructure Projects regime. There are many uncertainties associated with the delivery of the entertainment resort, and consequently this has had an impact on the delivery of development across the Ebbsfleet Garden City.

The EDC is the local planning authority for the area, however it does not have plan making powers. This means that applications submitted to the EDC must be determined in accordance with the local development plans of the 2 boroughs in which it operates: Dartford and Gravesham Borough Councils.

The EDC owns very little land within its boundaries (the only land owned is two, small and recently acquired parcels of land for the construction of the Springhead Bridge). However, the Department for Transport holds the lease over Ebbsfleet International Station, and associated car parks.

The EDC attempts to accelerate delivery of the site where possible. It has provided targeted funding for certain infrastructure projects to help progress development. This includes £30m in upfront funding for an electricity supply, £45m for improvements to the A2 (to be refunded through s106), and a linking bridge between the Central Ebbsfleet site and Springhead Park. It will also fund green corridors.

The area has a lower affordability than most of the Southeast, which can have issues for viability.

7 strategic sites within its boundaries:

- Eastern Quarry (6,250 dwellings);
- Ebbsfleet Green (950 dwellings);
- Ebbsfleet Central incl. Springhead Park (3,384 dwellings);
- Northfleet Embankment West (532 dwellings);
- Northfleet Embankment East (598 dwellings); and
- the Swanscombe Peninsula.

Eastern Quarry

Outline planning permission submitted to Dartford Borough Council in 2002. Resolution to grant in July 2003, but determination delayed due to objections from Highways Agency. Outline permission granted in 2007 for 6,250 dwellings.

Build out

On the visit we were told that Henley Camland (land owner from March 2018) invest in on site infrastructure (including remediation and social infrastructure) and masterplanning. They then sell off serviced parcels of land, excluding open space, to house builders as part of a competitive tender process. Henley Camland explained that they put a focus on quality. Parcels have to be delivered in accordance with the timescales agreed between the land owner and developers of the individual plots. Parcels typically 250/300 units, with house builders buying 1 or 2 (total c.500 units). Each parcel requires its own site manager and sales office.

Sold first parcel to Ward Homes (150 units) to generate interest.

Site has currently delivered 500 units. Development has progressed from southeast to northwest due to site access. The intention is to also open up the western end.

Countryside Properties and Clarion Housing Association have recently purchased land as a joint venture capable of delivering c.2,600 dwellings (Western Village). They will begin to build out as serviced parcels are provided by Henley Camland.

There is 25% affordable housing across the site with a further 5% being provided via off site commuted sums. Affordable housing now to be built out alongside private sales, following blocks of affordable housing development in earlier phases.

Total costs expected at around £1bn (£300m for land and infrastructure works, £700-800m for house building). Henley Camland could put all infrastructure in place and sell all parcels at once if it had the capital, subject to physical constraints of construction.

Site access and construction began in August 2013, with the commencement of the first homes in April 2014. The first occupations were in October 2014.

Outlets

Eastern Quarry whole site indicative type mix

- Studio / 1-bedroom – 10%
- 2-bedroom – 40%
- 3-bedroom – 30%
- 4-bedroom– 15-20%
- 5-bedroom – <5%

Several different house builders at Eastern Quarry, with 5 active outlets at Castle Hill:

- Castle Hill includes Ward Homes (Barratt), Taylor Wimpey, Charles Church (Persimmon), Clarion, and New Crest.
- Western Village includes Countryside Properties and Clarion.
- Central Village includes Barratt.

Sales – General

Prices currently at around £300-325k for 800sq.ft. In 2014, 800sq.ft. was selling for £200-230k. Prices are rising considerably.

A mixture of residents at Eastern Quarry. Some commute to London, others work locally. Some have moved from London while others have moved from wider Kent.

May explore Private Reneted Sector at some stage when social infrastructure has been delivered. Henley have prior experience with PRS delivery.

Sales – Ward Homes

3/4-bedroom homes selling for £250-440k on launch. Since the start of development, prices have increased around £100k across all types of product. 2-bedroom apartments selling at present for £325k.

65% sold through Help to Buy (HtB). Problematic for 1-bedroom homes as HtB makes 2-bedroom homes accessible. There are however some first-time buyers not using HtB. Difficult to get Buy to Let to work owing to bank stress tests.

Sales – Taylor Wimpey

First Taylor Wimpey development of 69 homes at Eastern Quarry submitted in accordance with the parameters of a Local Development Order. Permission approved in May 2017, commenced in late 2017, and first sales in March 2018. 50%

already sold. Sales rate taken from nearby development (The Bridge, Dartford), where 150 homes were built per year over a sustained period.

Do not consider themselves in competition with other house builders as the market is strong enough.

Sales – Redrow (Ebbsfleet Green site)

A lot of people moving out of London.

3-bedroom selling from £400-450k. 4-bedroom around £600k. HtB limit at £600k makes it difficult to increase prices above this.

Constraints identified

Remediation

It wouldn't be physically possible to speed up the preparation (full remediation) of the site beyond the current projection of 2021. Henley Camland also providing social infrastructure e.g. schools which would need to be built as development progresses.

Highways

Original application for planning permission at Eastern Quarry (2003) was to be taken to Planning Committee in June 2004. However, objections in relation to highways caused delays and the permission was eventually granted in 2007.

House builders explained that getting the agreement of highways planners and Kent highways was still difficult. Suggested that the unitary authority model (under which planning and highways would be controlled by one body) would be beneficial. Giving EDC highways powers was considered during its creation, but not taken forward given the wider implications to highways across the county.

Adoption of roads also causing delays. Subsequently residents have been made to pick up the costs. Resourcing pressures cited as a main contributor to delays.

Delays also experienced when working with Highways England.

Formation of Ebbsfleet Development Corporation

The transitionary period, as planning powers moved across from the local authorities to the EDC, caused some delays. Many officers at the EDC were initially temporary. Has been relatively smooth since.

Services / utilities

Statutory authorities cannot keep up with section 98 agreements.

Electricity had been a large obstruction. EDC has invested £30m in upfront funding. At Eastern Quarry, Henley Camland has paid upfront for electricity provision. This was only recently undertaken and was a decision post-EDC involvement to secure the electricity infrastructure for the Ebbsfleet Garden City. The supply Henley Camland has contracted to is from the Central Area substation, with an extensive cable route required to serve the area. The EDC have instructed UK Power Networks and part of this solution for electricity is to have a substation in the Eastern Quarry location to serve these developments and beyond.

<u>14 Longcross Garden Village, Runnymede</u> **26/04/2018**

No final permission for Longcross South: Not included in statistical analysis

Note based on site visit and briefing provided by the LPA

Background

Longcross Garden Village is located on the western boundary of Runnymede Borough Council to the south of the existing settlement of Virginia Water in Surrey. The site forming the village is the former Defence Establishment Research Agency (DERA) site, now in use as film studios, as well as the Longcross Barracks site. The site is identified in the adopted 2001 Local Plan as a Major Development Site in the Green Belt.

The site comprises two distinct parcels of land bisected by the M3 motorway, Longcross North and Longcross South. Longcross Rail Station borders the northern boundary of the site. The site is allocated in the draft Runnymede Local Plan (Jan 2018) which has recently completed a Regulation 19 consultation and will undergo further topic-specific consultation prior to formal submission to the Secretary of State by the end July 2018.

<u>Site details</u>

Housing - 200 dwellings (consented); 1700 (proposed)

Area – 162 hectares

Owner and Developer – Crest Nicholson (in 50%/50% JV with Aviva)

A hybrid consent is held for 176 units in the North parcel (phase 1); the hybrid application process, whilst costly, was highlighted as a positive in reducing the length of the regulatory phase to the commencement of the first phase.

The high cost of the planning process (they have spent £6.5m so far) means that only larger developers and funders (Aviva are Crest's JV partner), can possibly acquire and promote such schemes.

<u>Longcross North</u>

Longcross North currently houses a number of buildings in use as a film studio but planning permission has been granted on this site for 79,025sqm of office floorspace, 36,000 sq m data centre floorspace, up to 200 new homes as well as local retail facilities and land for Suitable Accessible Natural Greenspace (SANG) as avoidance for the Thames Basin Heaths Special Protection Area - planning permission referenced RU.13/0856, granted 12th August 2014 (*amended by RU.16/0584 – this removed one planning condition in respect of off site highway* *works, agreed with the County Highway authority*). The permission will also deliver other green infrastructure and community uses. The development is to be delivered in phases, with detailed planning permission and reserved matters having already been granted for Phases 1 and 2.

The western half (approximately) of the North site comprises the Longcross Park Enterprise Zone which falls within the remit of the Enterprise M3 Local Enterprise Partnership. The north parcel is freestanding from any adjacent settlements. The western-most part of the northern parcel falls within the jurisdiction of Surrey Heath Borough Council.

Runnymede BC are leading on the Longcross Village with the support of Surrey Heath BC albeit, the lack of support in the early years led to significant delays in the RBC Local plan process.

Negotiations in respect of potential development of the land falling within Surrey Heath BC are at a very early stage.

The site developers, Crest Nicholson/Aviva, are proposing to seek full planning permission for a further 200 residential units within the North site in the near future making full advantage of the adjacent railway holt with its direct line to Waterloo.

The North site planning permission provides for the following section 106 planning obligations, the most notable being:

- road junction improvements;
- £165k towards design of traffic calming works in either Chobham, Windlesham or Bagshot (post occupation of commercial units);
- £754,641.50 towards Longcross Rail Station upgrading;
- £700,000 towards increased rail stopping service at Longcross – to be all-day half-hourly service. Funding to pump-prime the service for 4 years, paid in instalments to Surrey County Council (SCC);
- bus service enhancements totalling £880,000, delivered by SCC, paid in instalments over 9 years;
- cycle route to be provided along Chobham Lane
- education contributions (£1.43m)
- 25% affordable housing (70% Affordable Rent/30% shared ownership)
- SANG provision including establishment of SANG Management Company to manage the SANG in perpetuity – developer funded for first 10 years
- Strategic Access Management and Maintenance (SAMM) contribution of £630 per dwelling; and
- £150k towards Runnymede BC Travel Initiative.

<u>Longcross South</u>

The southern parcel of land does not have planning permission but is capable in conjunction with the northern parcel of forming a free standing settlement capable of delivering at least 1,300 new homes.

There are a limited number of existing residential properties in Longcross (around 55) which do not fall into the boundary of the former DERA site (south) although these too would form part of the village wider village community once complete.

The Longcross Garden Village site is allocated for development within the emerging 2030 Local Plan along with a number of other borough-wide land parcels which would need to be released from the Green Belt and encompassing some 173 hectares of Green Belt between them.

Overall the circa 1,300 homes envisaged at the DERA site (south) and 400 in the north (of which only 186 currently have detailed planning permission) would provide up to 1,700 in total or around 24% of the plan target. The site allocation (whilst not currently adopted policy) also stipulates that 35% of these dwellings should be provided as affordable units, with at least 65% of these to be for affordable rent.

Key Infrastructure Issues

The draft Runnymede Local Plan 2030 has been informed by a series of key evidence reports. Of particular note in respect of Longcross Garden Village are the:

- Runnymede Infrastructure Needs Assessment Dec 2017
- Longcross Garden Village Infrastructure and Viability Assessment Dec 2017
- Strategic Highway Assessment Report Oct 2017
- A320 Corridor Study March 2018

These documents can be viewed on the Council's website at

https://www.runnymede.gov.uk/article/15570/Infrastructure

Despite an agreement with South West Trains and Surrey County Council, together with agreed funding from the development to upgrade the rail service and the station facilities, no meaningful service upgrade has been forthcoming. Such an upgrade is expedient to service the needs of new workers and residents is a sustainable legacy is to be created.

Planning timeline

Date	Stage
2001	Allocated in draft SE plan
2004	Crest Nicholson and Aviva purchase site

2008	SE Plan abandoned
2012	Allocated in draft Local Plan; hybrid application for North phase 1 submitted
2014	Hybrid application determined; draft Local Plan withdrawn
2014-16	Judicial Review
2017	South site allocated in revised draft Local Plan
2019/20	Estimated adoption of Local Plan
	19 year overall planning promotion period

Build out

At Longcross South, Crest are anticipating peak delivery through multiple outlets of around 180 units PA. They are exploring a Build to Rent development of around 200 units that could be delivered early and simultaneous to other units. The absorption rate of BTR homes is around 12 per month.

Crest told us that different product types reach different markets and enable accelerated delivery.

Not all locations are suitable for Build to Rent development. It requires good access to jobs and/or transport links to major economic centres.

Crest's major projects regularly deliver at over 200 dwellings per annum. Supporting statistics will be shared separately.

Outlets

To deliver 180 units PA, they will need three delivery teams, potentially including one from outside Crest (from a partner developer that shares Crest's design led approach). Each team can sell 40-45 units PA and deliver the 35% affordable housing as well giving circa 60 dwellings per annum per team.

They are looking at the potential for:

- multiple outlets (served from the North and South);
- mixed tenures (private, PRS, affordable, starter homes);
- custom build plots;
- Surrey SME land sales/partnerships; and

- private rented sale.

Build to Rent (BtR) works best in blocks of 100 units. The value of BtR units is circa 85% of open market value, but offers diversity and can be absorbed quickly.

This approach to diversification does not work everywhere as there is not always a BtR market for some types, e.g. Build to Rent, 4 to 5-bedroom homes.

Constraints identified

Local authority capacity

This was identified as a general constraint on submitting hybrid rather than outline applications. The capacity funding provided by DCLG/Homes England via the garden villages programme has been very helpful in this regard at Longcross.

Planning and the Green Belt

Green Belt designation of the site slowed down the granting of consent for the site, with around 200 units in phase 3 of the north parcel currently unconsented. The hybrid process has worked well for phases 1 and 2, taking 9-10 months for determination. A judicial review initiated by neighbouring land owners had delayed implantation of the permission.

Price point

The price point of homes on the site restricts build out as there is limited demand at price points over £600k and more expensive homes are more complex to build. At higher price points, developers are more reliant on a functioning second hand market because of the higher transactions costs and longer chains.

Skills and capacity

This was identified as a general constraint, particularly post-Brexit, rather than something specific to Longcross. Crest are responding to this by investing in an off site manufactured solution, with an aim of building 2,500 of their 4,000 units annually via MMC within the next five years. It is (slightly) more costly but Improves quality and most importantly takes bricklaying and other cladding trades out of the ‘critical path’.

Community

Building homes too quickly, where there is limited construction access, makes it more difficult to create a community/liveable environment.

Risk and certainty

Developers fear holding unsold stock. Holding unsold stock makes firms go bust – this was the experience of the 2008 crash, but build out is pushed hard until you hit a high risk of excess stock.

The response in 2008-9, when mortgage finance dried up, was to slow/stop building and convert excess stock to other tenures.

Sales are unpredictable irrespective of the build out rate – at Bath Riverside, sales can fluctuate between 50 and 150 open market sales per year.

A low sales rate slows down build out as excess stock quickly becomes unfundable.

Planning v Delivery

Crest pointed out that it takes them far less time to build out their major sites than the time taken to get an implementable planning consent.

At Longcross, Crest/Aviva have actively promoted planning for the Southern site since 2001 and, despite the support of RBC and the South East plan throughout that period, are still not in a position to submit an outline planning application for the South due to prolonged delays with the plan led planning system.

15 East Village, London Legacy Development Corporation **03/05/2018**

Note based on site visit and briefing provided by the LPA

Background

Size – 27 hectares

Affordable housing – 30% (East Village)

The former athletes' village, which housed 17,000 athletes in 67 buildings, was converted after the 2012 Olympic Games, to 2,818 apartments. This conversion was completed in 2014, taking 18 months. 6,000 people now live at East Village, with a 50-50 split of private rented and affordable homes.

Delancey and Qatari Diar contracted in 2011 with the Olympic Delivery Authority (ODA) to buy the land and buildings at East Village, with a forward commitment to purchase the retrofitted units.

The retrofit was carried out by Lend Lease, who started work in September 2012. This involved converting athlete bedrooms into living rooms and kitchens. Planning permission, where required for conversion works was secured in 2011 & early 2012.

Half of the retrofitted units were sold to affordable housing consortium Triathlon.

Get Living London have planning permission for the additional c. 2,000 units (which unlike the 2,818 conversions) form our study site. Detailed permissions for the remaining blocks in EV (N06, N08, N16, N18, N19), part of the original master plan for the site, were granted in 2014, but for plot N06, this was altered with a new reserved matters detailed permission granted in 2016.

Building started on the first block (N08) in 2016, and is due to complete at the end of 2018; the second block (N06) is due to start in 2018 and complete in 2021. There will be 1,000 units across these two blocks, available for private rental. There has been no decision yet on when to start the remaining 1,000 permitted units, or on the tenure of those units.

Absorption and rent levels

It took 2.5 years to let all units, with an average lettings rate of 15 per week, with peaks of up to 40 units per week in the summer months.

Rental prices at the site were based on research of similar areas and products across London. Rents have increased over time, with low rents in the early days to help 'build momentum'. A 2-bedroom flat at that stage would let for £370 per week.

Tenancy length is typically three years, with rent increases linked to CPI.

Some flat types have seen stronger rental growth than others – 3 and 4-bedroom flats have seen rents grow faster than those for 2-bedroom flats.

There are a number of other developments around the East Village site, with thousands of homes for sale built and in construction. These were not seen as being in competition with the rental offer at East Village.

Constraints identified

Lettings capacity

The upper limit for lettings was identified as 50 per week due to:

- Market demand
- Provider capacity to manage a high volume of new lettings
- Logistical issues caused by a high volume of simultaneous house moves in apartment blocks – for example, many of the blocks only have one lift.
- The desire to have a 'core staff' that made it harder to increase staffing numbers and maintain service levels for tenants.

Forward sales

The dynamic for Build to Rent is different to build for sale as there are no forward sales.

Disruption

As most homes are rented, tenants had the option of leaving the site if there are high levels of construction-related mess and disruption.

Construction costs

The construction of the second block had been delayed by around a year because of marginal viability on the site, which had been caused by construction cost inflation. This had led to a decision to delay and redesign the second block to change the mix of sizes, with more smaller flats and increase the commercial space.

16 Wembley Park, LB Brent **03/05/2018**

Note based on site visit and briefing provided by the LPA and developer

Background

Size – 18.6 hectares

Affordable housing – 33%

Quintain acquired Wembley Park in 2002 from the Football Association (FA), when the site was expanse of surface car parks and old industrial sheds, and was granted outline planning consent in 2004 for a transformational 5 million sq ft residential led, mixed-use development.

The company is leading the £3bn transformation of the site, delivering new homes, jobs, restaurants, shops, offices and hotels, community facilities and transforming the land around the National Stadium.

The 2004 master plan for the site delivered circa 520 residential units and new shops, restaurants hotel and student accommodation however this permission became unviable and needed updating. A further consent for 1,100 new homes was approved in 2011 for the North West Lands works, with delivery expected over a 7 year period.

A new master plan was prepared after the financial crisis, submitted in 2015 and approved in 2016, at which point the first detailed permissions were also submitted and subsequently approved.

In February 2017, Quintain announced that Wembley Park would become the largest Built to Rent development in the UK on a single site with 4,873 rental homes around Wembley Stadium.

All of these homes will be managed by their BTR operator Tipi which offers an all-inclusive package to renters. There are already 361 BTR homes on site and by end of this year they will have 556 rental homes available.

There are currently 3,458 homes under construction at Wembley Park, being delivered over ten plots, the majority of which will be Build to Rent.

The BTR offer includes homes at discounted market rent as part of the wider delivery of new affordable homes at Wembley Park – where one third of all homes are affordable.

1,350 units have been completed so far.

There is a large number of public parks and gardens and ceremonial routes for event

day crowds. A range of non-residential buildings have been constructed, including the Brent Civic Centre, a hotel, and the London Designer Outlet.
Absorption and rent levels A 2-bedroom flat rents for around £2,100-2,300 per month, and there is no service charge. Sale prices are around £700 per square foot. This includes all utility bills, broadband and the use of shared social spaces such as a gym, garden and cinema room. The disposal rate for rented units is around 25 per month; for sales, it is currently one per month. Tenants include students, downsizers, local families and younger sharers. They have sought to deliver a wide range of types and styles to meet the demands of consumers. There is a range of other development around the Quintain site, including apartments for sale and student accommodation. This was not seen as competing with Quintain's rental development. The Private Rented Sector (PRS) market has improved and the attraction of it has increased. They have had to aggressively market Tipi, the management brand for the site, and the Wembley Park area. The site is seen as in competition with East Village in Stratford. Rents are at the top end of the Brent market. Renters on site at Wembley Park earn, on average a median London salary.
Construction methods There are currently 1,800 construction workers on site and Quintain is spending £1.5m a day on construction. There are over 60 subcontractors and a framework of four main contractors on site; John Sisk & Son, McAleer & Rushe, Wates and McLaren. A mix of traditional methods and innovation is used on the site, depending on the local supply chain, to maximise the speed and quality of build. This afforded much higher levels of flexibility and lower lead-in times, important on this site as Quintain were still learning about consumer demand and 'what works'. Factory production does not offer this flexibility.

Constraints identified

Resource

In the early years of the development, Quintain had been resource-constrained due to the financial downturn; this was addressed as the business was restructured and cash was injected into the Wembley Park project.

Absorption

Development is taking place at the maximum absorption level for this type of rental property. However, the build out rate would be a tenth of the current rate if the homes were for sale rather than rent, due to a much lower absorption rate. Demand is key to decisions on whether to build or not.

17 Western Expansion Area, Milton Keynes **10/05/2018**

Note based on site visit and briefing provided by the LPA

Background

Size – 317.1 hectares

Land ownership

The site is owned by Gallaghers (roughly two-thirds) and Milton Keynes Council (roughly one third). Gallagher have assembled the site and acted as promoter for the whole site, although residential applications have been made by individual house builders. The council is disposing of its portion to Gallaghers at a commercial rate.

Planning history

The Western Expansion Area (WEA) was allocated as the largest strategic expansion area for Milton Keynes in the 2005 Local Plan, incorporating an estimated 6,500 dwellings, as well as land for employment, education, retail, community and open space uses.

The site is split into two, Area 10 and Area 11, with outline applications being submitted in 2005 and 2006 respectively. Outline planning permission was granted in 2007 for 4,320 dwellings in Area 10 and 2,220 dwellings in Area 11; Milton Keynes Council also has permission for 6 dwellings. Between 2007 and 2012, as the downturn hit, work was done on infrastructure, fulfilment of planning conditions and development of design codes. First pre-commencement conditions were submitted in 2011 with the last of these conditions being approved in 2015 and, in 2014 the first starts were seen on site.

One of the conditions of the permission was for a series of design codes (to be applied to no more than 1000 units each, relating to different character areas within the site). These design codes were developed by Gallaghers, and gave developers a pallet of options, such as a choice of materials. The design code specifies that densities must increase closer to the town centre of the site.

Parcels

Gallaghers are selling plots in parcels to individual house builders – six in total so far.

At Area 11, 1140 plots have been sold to Barratt as a single disposal, with Barratt delivering infrastructure for these plots. It is anticipated that the remaining plots will be sold to Barratt too.

At Area 10, five developers have bought parcels, including Bovis (750 plots, 122 of which have been sold on to Cala Homes); and others to Abbey Homes, Bellway, and

Taylor Wimpey.

Gallagher is considering selling on future parcels to smaller builders and self-builders.

Build out

Delivery since 2015 has increased on a yearly basis with the most recent completion figures for 2017/18 showing over 500 dwellings across the whole expansion area within the year, exceeding that which was projected for the year.

Furthermore, as of the 1st April 2018, there are 297 dwellings currently under construction and 504 dwellings with reserved matters approval which are not yet started on Area 10. Similarly on Area 11, there are 104 dwellings under construction with 453 dwellings not yet started with reserved matters approval. This therefore provides hope that similar completion rates to those shown in 2017/18 could also be achieved in 2018/19 and the Council's current projections for delivery of the WEA, based on information provided by Gallagher's shows a continuation of these higher delivery rates. These projections have also been tested at recent Section 78 appeals and have not been questioned by the Inspectors.

Absorption rate

Barratt have accelerated house building in Milton Keynes generally because they are seeing growth; this applies to this site too.

A number of house builders are building a high number of two bedroom homes and flats. This is partly due to local demand, and partly due to design code requirements to build higher in some parts of the site.

A high proportion of homebuyers on the site are local buyers.

Tariff

An umbrella Section 106 agreement has been used to secure investment in infrastructure to support the wider growth of the city. This has funded strategic and site-specific infrastructure by apportioning the local (that is, Milton Keynes) contribution to infrastructure projects such as roads and schools through new development across the city. 75 per cent of the circa £400m local contribution was divided between the projected 15,000 new dwellings in the city, equating to £18,000 per new home. This is index-linked.

75 per cent of the payment is due on completion of dwellings; 10 per cent is payable on granting of implementable consents; and 15 per cent on implementation (e.g. a

start on a phase of development). This system has provided certainty to developers, supporting delivery of new homes; and has allowed the local authority to forward fund infrastructure projects by borrowing against future Section 106 income. It was suggested that this 'flat tax' on new homes de-incentivised delivery of smaller and hence lower value homes, such as one and two bedroom flats.
Constraints identified <u>Pre-commencements conditions</u> Specifically conditions related to archaeology as the site is adjacent to a Roman road; and ecology, as requirements for newt tracking has meant that 40km of newt fencing has been installed, as well as the construction of a new reservoir. These have taken over a year to fulfil, although much of this work was done during the downturn in 2008 and 2009. <u>Downturn</u> The 2008 downturn had triggered protracted discussions with the land owners, which was seen as delaying progress.

Annex D. Other meetings

A list of attendees can be found at the top of each meeting note.

MHCLG officials were present at every meeting.

Date	Meeting
06/12/2017	London First
14/12/2017	CBRE
	Knight Frank
	Savills
21/12/2017	Toby Lloyd, Shelter
	Non-government organisations roundtable
	Developer roundtable
09/01/2018	James Wates CBE, Wates Group
	London First and Grant Thornton
25/01/2018	Toby Lloyd, Shelter
	JLL
	Royal Institution of Chartered Surveyors
	Lord Hutton of Furness
01/02/2018	Expert Panel, Meeting 1
	Gladman
07/02/2018	Homes for the South West
08/02/2018	Non-government organisations roundtable
	Town and Country Planning Association
	Developer roundtable
15/02/2018	Sadiq Khan, Mayor of London
16/02/2018	Peter Studdert, Peter Studdert Planning

Date	Meeting
20/02/2018	Nick Boles MP
21/02/2018	Local Government roundtable
	Dame Kate Barker
22/02/2018	Andy Rowland, L&Q
	British Property Federation
	Legal & General
	Hallam Land
01/03/2018	Richard Bacon MP and Right to Build Taskforce
	Utility providers roundtable
	Professor Paul Cheshire, LSE
	Simon Leask
08/03/2018	Off site construction roundtable
15/03/2018	Utility regulators roundtable
22/03/2018	James Murray, Deputy Mayor for Housing and Residential Development
	KPMG
	Estate agents roundtable
	Homes England
	Expert Panel, Meeting 2
05/04/2018	Visit to IJburg and Almere, the Netherlands
06/04/2018	Visit to Heidelberg and Frankfurt, Germany
17/04/2018	Paul Carter CBE and David Godfrey, County Councils' Network
19/04/2018	Building suppliers roundtable
	Skills and workforce roundtable
	John Calcutt
25/04/2018	Lands Improvement Holdings
26/04/2018	Legal roundtable
	Market analysts roundtable
	Mark Farmer, Cast Consultancy
02/05/2018	Ray Rafiq-Omar, Unmortgage
03/05/2018	Kevin Parry
10/05/2018	Glenigan
17/05/2018	Developer finance roundtable

Date	Meeting
	Lichfields and Commercial Estates Group
17/05/2018	Mortgage lender roundtable
23/05/2018	Cllr John Fuller, Chair, District Councils’ Network
24/05/2018	Tony Pidgley CBE, Berkeley Group
07/06/2018	Non-government organisations roundtable
	Developer roundtable
	Pete Redfern and Jennie Daly, Taylor Wimpey
	James Murray, Deputy Mayor for Housing and Residential Development
	Expert Panel, Meeting 3

London First, 06/12/2017

Attendees:

- Sir Oliver Letwin
- John Dickie, London First
- Jonathan Seagar, London First

The discussion focused on analysis of planning data commissioned by London First, and undertaken by Grant Thornton. This analysis identified ‘attrition rates’ for planning permission in the Greater London Area.

<u>CBRE, 14/12/2017</u>

Attendees:

- Sir Oliver Letwin
- Miles Gibson, Head of UK Research, CBRE

Land values

Method of valuation would typically be to work backwards from residential values to calculate residual land value price. This would involve a calculation of type/tenure/use; phasing, etc.; taking into account local new build market; activity in second-hand market; cost of build out; cost of borrowing; and local/international demand. Would also take into account the products the developers built, planning constraints, etc. They also drew on a wider range of economic data in this calculation.

Build out

Developers likely to be concerned about:

- Hidden costs in sites
- Market crashing
- Not getting the site design correct
- Policy changes

Only after phase one had been completed and sold did the developer (and financiers) genuinely know whether assumptions had been proved correct. Financing in tranches was for this reason common.

Land purchasing models

Land purchasing models could take various forms, including auctions (closed/open), off-market sales, etc.

Different actors, with different risk profiles, were likely to own a site at different stages in the lifecycle- with a spectrum of risk/actors.

Most value seen to be in the permission, not in the plan allocation.

<u>Knight Frank, 14/12/2017</u>

Attendees:

- Sir Oliver Letwin
- Justin Gaze, Head of Residential Development Land, Knight Frank
- Gráinne Gilmore, Head of UK Residential Research, Knight Frank

Viability

If sites are not developed, it is due to viability. This can be affected by high infrastructure costs or 'no market' for new homes locally.

Land banking is a misnomer. Developers want to build but are held back by 'red tape'.

House builders measure viability using Return on Capital Employed (ROCE). They look at profit on sale in their appraisals, whereas commercial developers tend to measure profit on costs. As a rule of thumb, they seek a 20% return on cost, or 25% of Gross Development Value (GDV) or sale price, which are roughly similar.

Developers may trim profit expectations if the development is highly saleable and if there is significant competition to purchase the site.

Modelling

House builders on large sites defer payment for land over time, based on assumptions about sales rates. The normal take up for a site is assumed as 60 units per flagpole (that is, one developer on one site) a year.

This led into a discussion on how agents model land values. They use transactions data, data at local authority/borough level, and performance of plots in locality and those with similar characteristics on a £/square foot basis.

They use a cash flow model that accounts for infrastructure, S106 etc., and speak to the market on the rate of sales on sites. A key factor is agent and developer judgement because each site is different.

They use data to assess potential demand pools, taking into account mortgage affordability, other local developments etc., which are used to understand take up/absorption by location and pricing of scheme.

Phasing

There was a discussion of an example scheme in London where 900 units have been delivered in a single year as infrastructure was in place up front, and pricing was 'competitive'. However, construction models mean this scheme will be phased despite the pre-construction sales and it won't complete for 2-3 years.

There is a distinction between volume house builders outside London, who need the finished product before they can start selling homes, and developers in London/Manchester who can achieve in a strong market up to 100% pre-sales (historically, some in London assumed 100% pre-sales) but still build out in phases.

Capacity, such as labour, and mechanics of process are key constraints on delivery. It can take 12 months to get detailed planning from an outline permission.

New entrants are building across different tenures for different markets and so have the potential to achieve quicker build out rates.

Price points

Phasing is based on estimates of what can be absorbed at particular price points, and agents feed into these estimates. Historically developers did not tend to ask for price points that would support rates of delivery per year, e.g. how would units need to be priced to deliver 1000 per year?
They are usually working with the site opportunities they find, which will dictate size of schemes.

Land acquisition

The normal process of land acquisition is similar across the largest house builders. They work out how much they can pay, a transparent process is held by the agent, and there is normally a variance in bids.

Finance

Big developers and house builders rely on their balance sheet and existing facilities with banks to fund developments – they typically have a strong cash position which is recycled from earlier sales. Agents work on sites for both banks and non-bank financiers.

Historically, some inexperienced developers have overpaid for land, having underestimated construction costs and been saved by an increase in sales values. In current market conditions with increasing construction costs and slower sales rates and falling sales revenues this may lead to price adjustments in some instances.

<u>Savills, 14/12/2017</u>

Attendees:

- Sir Oliver Letwin
- David Jackson, Head of Planning, Savills
- Emily Williams, Senior Researcher, Savills

Land acquisition

Key issue is land value – how much paid at the beginning and cost of obligations determine rate of build out.

That value crystallised at outline planning permission. At that point, developers negotiate acquisition prices on optioned land, which can take a while. Agent can be on both sides – working for the land owner and developer. Mostly, parties are aligned in interests.

To assess this, the agent will look at comparators in the marketplace – e.g. other strategic land. The problem is that there are very few transactions and very few are directly comparable. A mix of comparable land prices and residual value was used.

The process for acquiring land varies.

One route discussed involved a tender for an option, run by the agent. The option was a floor price without a put option. This was a competitive process at the beginning of process – only 1% or so of land value was up for grabs. Then a price is agreed when outline permission granted and involves determining the majority of the value of the site. Agent can act as independent arbiter in this process.

This arbitration process involves a review of local land prices, additional elements of development e.g. a new school – same process as for sales/build out. It's rare that this process fails as developers/land owners are already committed.

Another route is via a promoter. This is a frequent model – the promoter takes land through planning process, then holds a tender process. Agents advise promoters. A transparent bid process of sale is held, based on a bidding process.

A new model is the land owner promoter. Land owners will package to sell the land in phases, sometimes doing servicing/infrastructure to reduce risk for developer. This phasing was decided based on rate of completion elsewhere, the size of the site (larger sites post-infrastructure build out quicker), 'x factor' of quality, balance of open market and non-market housing, and market absorption based on local market.

Build out rates

You get the highest rates of delivery in highest demand areas when prices are at most in line with second-hand market or discounted on a £/square foot basis. In lower demand areas, you can get a new build premium. Building across tenures would also improve rates of development e.g. Build to Rent, affordable housing.

Developer behaviour differs. Traditional builders sought to maximise sales rates. In London, local affordability was not a constraint and new build was mostly a different product to second-hand. In addition, in higher value urban areas, land tends to have an existing use value. They typically used a 10:1 ratio for second-hand to new build transactions.

Profit assumptions

Profit assumptions vary on: scarcity of product (i.e. land availability), strength of local market, developer’s confidence/knowledge of local market, type of developer and whether they have a long-term interest in the site, whether land owners retain land nearby. Typically developers sought a profit margin of 15-20% (of gross sale value).

Modelling

They said no developer, promoter or land owner had ever asked what price they would need to sell at to develop X units in one year.

Some schemes have increased build out rates by developing a split of homes for rent and sale. A university was exploring how to deliver housing quickly for students/staff. Finally, appealing to whole market – through rental, shared ownership etc. – could speed this up.

Toby Lloyd, Shelter, 21/12/2017

Attendees:

- Sir Oliver Letwin
- Toby Lloyd, Head of Housing Development, Shelter

Margins

Developers build as many homes as they can sell at their target price.

They assume a minimum margin of 20% but aim higher, and it is said that one major developer regularly makes 50%. Margins used to be lower.

It is (or was) a high risk business – there is memory of boom/bust cycle and bankruptcies.

But there was no market clear out after 2008 and no new entrants/innovation for 40-50 years. The Planning Inspectorate and courts have enshrined this – see https://www.rau.ac.uk/sites/files/rau/field/field_document/Viability%20and%20the%20Planning%20System%20Research%20January%202017.pdf.

Land

Market share is not the most important business objective in development – land is key – and margin is more important than volume.

Planning is not the cause, because land supply is fixed – if there was no planning system, there would not be a 'Nine Elms 2' adjacent to Nine Elms. There is limited supply of land where people want to live.

Volume

They could build more but aim to achieve a certain price level.

'Rules of thumb' are used to determine volumes. They have good sales data from previous schemes.

Some house builders are trying to build more to gain market share but others hold a lot of land so are building slowly.

<u>Non-government organisations roundtable, 21/12/2017</u>

Attendees:

- Sir Oliver Letwin
- Paul Miner, Planning Campaign Manager, CPRE
- Toby Lloyd, Head of Policy, Shelter
- Michael Kiely, Chair, Planning Officers' Society
- Richard Blyth, Head of Policy, RTPI
- Megan Thomas, Committee Member, Planning & Environment Bar Association
- Ruth Davison, Executive Director of Public Impact, NHF
- Terrie Alafat, CEO, Chartered Institute of Housing
- Henry Smith, Projects and Policy Manager, TCPA
- Dame Helen Ghosh, Director, National Trust
- Adam Royle, Head of Advocacy, National Trust
- Brian Robson, Acting Head of Policy and Research, Joseph Rowntree Foundation

Sir Oliver set out the scope of the Review (the build out of large sites with planning permission) and the sites which had been identified (based on a geographic mix, predominately in areas of high housing demand).

Data collection

The initial work of the Review would be an extensive data collection exercise of those sites identified to inform an assessment of what is prohibiting site delivery. This will help establish the nature of the problem and will provide the basis for the interim report, expected by Spring Statement.

Constraints to development

There is a limited availability of skilled labour and training opportunities. The problem is exacerbated by sub-contracting as contractors may not have aspirations to expand while house builders are not incentivised to train in-house.

The built form of the units can influence the speed of build out. For example, there is a greater need to complete 100 units in a single tower block, as opposed to 100 houses which can be built out individually.

Developers overbid for land, which means they consequently have to wait for land prices to rise and/or renegotiate s106 to make development viable. Leads to a culture where the developer who acquires land is prepared to be most aggressive on the renegotiation of s106, leading to protracted discussions.

Land promoters in possession of a large amount of outline planning permissions.

Developers can delay discussion of s106 and leave negotiation of affordable housing until the end of the process, which is often most difficult to conclude.

Recommendations for visits

Sites in Newquay, Croydon, Cranbrook, Sherford, Wembley and the Olympic Park were suggested as worthwhile case studies.

It was also recommended that the Review consider visiting the Netherlands and Germany to investigate their build out rates.

<u>Developer roundtable, 21/12/2017</u>

Attendees:

- Sir Oliver Letwin
- David Thomas, CEO, Barratt PLC
- Jeff Fairburn, CEO, Persimmon
- Peter Jordan, Group Planning Director, Persimmon
- Pete Redfern, CEO, Taylor Wimpey
- Rob Perrins, Managing Director, Berkeley Group
- Patrick Bergin, COO, Crest Nicholson
- Peter Truscott, CEO, Galliford Try
- Keith Carnegie, Executive Director, Bovis Homes
- John Tutte, CEO, Redrow
- Gregg Wilkinson, Managing Director, Gallagher Estates
- Ian Sutcliffe, CEO, Countryside Properties
- Stewart Baseley, CEO, Home Builders Federation

Sir Oliver explained the scope and intention of the Review, and that initially he will be focusing solely on the build out of large sites by large house builders while acknowledging the context of the broader changes to the planning system currently being pursued through reforms to the National Planning Policy Framework (NPPF) and National Planning Practice Guidance (NPPG). More roundtables would be arranged.

Development stages

Identified and agreed 3 key stages to the delivery of sites:

- the pre-application stage to outline permission;
- outline permission to detailed permission (implementable consent); and
- detailed permission to completion.

The latter of these is generally in the control of the developer.

Land acquisition

Sir Oliver tested the accuracy of his understanding of the processes for land acquisition, following talks with land agents. He understood that there could be either:

- a competitive bidding process where the highest offer takes the site, or
- an option agreement (whereby the site is acquired at a later date for a sum determined by the open market value at that point).

Developers stated that both options were employed when acquiring land for housing development, but that options are generally used to acquire strategic land holdings.

Constraints to development

It was suggested that:

- 80% of planning permissions are granted to non-builders (government, land promoters etc.). Developers have to acquire the land and then may have to amend permissions, which causes delays.
- The process of allocation to permission stage and the clearing of conditions needs to be sped up. This will bring forward more homes and increase output.
- The planning system dictates that large sites are more common. These however are subject to more complex delivery constraints.
- There is a need to recognise that there is an initial 'infrastructure phase', following grant of detailed planning permission and before the first completion. This involves the provision of essential up-front infrastructure that must be in place before the first home is built. Costs during this stage can contribute more than 50% of the total site costs (including housing development), and cannot be recouped until sales begin.
- Flats were more common pre-recession but developers are building more houses since. This is a result of market demand, changes in planning policy, and a change in lenders' appetites, including in relation to attitudes to Buy to Let which saw a boom pre-2008.
- More labour is required to deliver houses, but, in terms of floorspace, delivery is up from pre-2008 (and consequently more people are housed). Based on the issuance of Energy Performance Certificates for new homes, the average floorspace of a new home in 2017 was 92.7m2 compared with 74.9m2 in 2009.
- If market demand drops, developers become more risk averse and reluctant to maintain the rate of build out as this would represent an inefficient use of finite capital. Build out rates are mainly influenced by local market absorption rates, however, other factors affect output such as land owner agreements, availability of labour and materials, restrictive operating hours, availability of funds, planning (including bringing forward replacement sites); there is limit on the build rate irrespective of the sales rate, including considerations around the supply of labour and materials which can take time to respond.

<u>James Wates CBE, Wates Group, 09/01/2018</u>

Attendees:

- Sir Oliver Letwin
- James Wates CBE, Chairman, Wates Group

Outlets

Housing is built by developers according to market demand, at a rate of one unit per week per outlet.

Outlets relate to different products. Differentiation is limited by planning from the outset, and it is difficult to flex to meet market demand during the construction process.

Wates have tended to avoid developing flatted developments as it is hard to stop once started.

Flats are more likely to be sold off site due to the involvement of investors. Buyers of family homes tend to be occupiers and want to see the finished product.

Construction times

A 10 floor, 280 unit block would typically take 78 weeks to build.

For contractors, time is the biggest cost – they would prefer shorter timescales and to be involved early in the process to shape development/plans.

Multi-storey is capacity driven. Builders can reduce time by 10-15% by using more off site/system building.

Houses are built at ‘pretty much’ the same speed.

Wates build homes for themselves and others – Wates invest in the full spectrum of housing from raw land and its promotion though to planning, to development including joint ventures with volume house builders.

System building

In the 1950s and 1960s, housing was system built – ‘a floor a week’ – either off site or in a ‘flying factory’ on site.

Limits to this approach are structure (height), fire regulations etc.

Since Ronan Point there has been little R&D / system building in the industry as the pipeline of central government commissioning has dried up. Direct commissioning would encourage industry to step up and collaborate to increase capacity.

Capacity constraints

Labour is an issue and will get worse, with Brexit and an ageing workforce. Wages are not the issue – it's the limited pool. Wates employ 4,000 directly and 10-12,000 indirectly.

Construction competes with other sectors – for IT, finance personnel, etc. – and 50% of the workforce has transferrable skills.

Direct employment gives more control over process.

<u>London First and Grant Thornton, 09/01/2018</u>

Attendees:

- Sir Oliver Letwin
- John Dickie, London First
- Jonathan Seagar, London First
- Naomi Smith, London First
- Emma Sullivan, Grant Thornton
- Ian Tasker, Grant Thornton
- Kersten Muller, Grant Thornton
- Stephen Bromwich, Grant Thornton

Grant Thornton analysis

The methodology and data sources for the planning data commissioned by London First, and undertaken by Grant Thornton, were explored in further detail.

<u>Toby Lloyd, Shelter, 25/01/2018</u>

Attendees:

- Sir Oliver Letwin
- Toby Lloyd, Head of Housing Development, Shelter

Introduction

Development is based on land value, and that the process is 'cultural' and self-sustaining rather than set by iron laws of nature.

House building is a rare example of new stock being driven by demand/pricing of second-hand stock – second-hand car sales are, for example, driven by the new car market.

House building occurs at the intersection of the two biggest systems in our economy – land and finance.

Innovation & disruption

There was a discussion of why there has been no innovation or disruption in the market.

Asking questions about Modern Methods of Construction is looking at the issue through the wrong end of the telescope – if the market is fixed, innovation and MMC will follow.

He said that developers are conservative. They don't do MMC because they don't need to and it wouldn't benefit them to speed up build out by investing in expensive plant. In fact, the problem is that there are already a lot of small innovators – what is needed is scale.

Rented housing

There was a discussion about why the high demand for Private Rented Sector (PRS) units was not met by the new build market.

- He argued that Build to Rent (BtR) has failed for 20 years because the power in the rigidity of the system prevents it.
- There is also not a clear demand for PRS – it's insecure, costly, and conditions are poor – Shelter survey data backs this up.
- Build to Rent doesn't generate competitive yields – rents are too low to generate residual land values to compete with the sales market.
- Build to Rent competes with amateur landlords who make up the majority of the sector – amateurs have low/no overheads. This means BtR developers focus on the top of the market where there is limited demand.

- Reputational issue (evicting people generates bad press).

Affordable rent is problematic – 80% of market rent can be within the margin of error when measuring market rent (as measurements vary by 20%) – and providers are struggling to fill affordable rented units.

Sir Oliver asked if you could build homes for rent at the housing benefit (LHA) level, if land was at zero/near zero cost. Toby said yes, and that:

- there would be colossal demand;
- L&G have done this on local authority land, where they fund development in exchange for a 40-50 year rental income stream, at the end of which they gift the asset back to the authority. Their experience and modelling suggests that this can work (i.e. generate a return sufficient to attract private investment) outside London/very high pressure areas; and
- when land prices are low, social housing returns a profit.

House prices

Sir Oliver asked about reducing price and accelerating build out rates– what would be the impact of a greater volume of cheaper housing on local markets?

- international money would flood in to buy homes – and first buyers would get land value uplift, rather than the land owner;
- it would have a small impact compared to a) effective demand b) existing stock;
- would need to be done for 10+ years to have a dampening impact;
- demand shocks are more important for prices than supply;
- in fact, high quality new homes, planned well, with the right infrastructure, could help to regenerate areas and raise house prices locally; and
- few losses crystallise in a downturn anyway – people hold onto their homes especially if mortgage affordability is good (as it has been since the financial crisis).

New towns would release us from the land nexus as they are less constrained by the existing local market.

Lord Hutton of Furness, 25/01/2018

Attendees:

- Sir Oliver Letwin
- Lord Hutton of Furness

Innovation and off site construction

Lack of innovation, and reliance on old building methods is a major problem. It would be interesting to compare today's build out rates with that of Taylor Woodrow (and similar builders) in the 1930s when much of suburbia was built.

The Review should look at off site construction and should speak to L&G, (on off site construction), and CIMC (Chinese off site construction company predominantly focused on hotels and student accommodation, but is now branching into residential).

Build out rates for different tenures

Does the analysis show evidence of different build out rates for different tenures? With huge demand for rented accommodation in London and the South East, it would be interesting to see whether absorption rates are different for the rented sector. In companies that Build to Rent on leased land, the business model centres around getting the property rented as quickly as possible, so build out rates are likely to be faster.

Affordable housing (including rented housing) is cross-subsidised by the open market house building, and therefore build out rates were likely to be the same rate.

Lessons from the Turner Report

- Problem/diagnosis must be supported by high quality analysis.
- Solutions proposed must be readily understood and easily digestible.

The Review should engage the industry, so they can feed in and potentially stand behind the findings and recommendations. The profession as a whole are very wary of legal/regulatory change, so any changes can lead to temporary paralysis while they take time to understand them.

The Review should speak to property teams in legal firms, who can offer interesting perspectives on the contractual/regulatory framework.

<u>JLL, 25/01/2018</u>

Attendees:

- Sir Oliver Letwin
- Adam Challis, Head of Residential Research
- Simon Hodson, Head of Residential Land

Land valuation and acquisition

Agent looks at market dynamics (supply and competition) to help provide valuations. Developers often ask land agents to provide them with a model that maximises output and achieves best value.

At a large site, developers will deliver in mini phases in accordance with market conditions. If house builders had more certainty about the rate of sale, they would build more quickly.

Sales

Help to Buy let the market run away with itself while interest rates were low. House builders were generating 50-60% of their sales through Help to Buy. There is no incentive for house builders to sell below market value, so they are happy to play the long game.

Developers under-build in order to allow for incremental price increases.

Public sector land

On the sale of public sector land, local authorities are required to obtain market value (and will be criticised by their auditors if they don't). But by maximising the price of the land, the land owner cedes control over how that land is used. There is flexibility when local authorities can seek their remuneration.

Option agreements

It is much more common to hold options before a site has been progressed through the planning system. Developers prefer to pay more to reduce planning risk by acquiring a site which already has permission.

There are several variants to option agreements, but they can include the following characteristics:

- An obligation to promote site

- A time length for the option, although they are typically long dated
- An obligation on the promoter to appeal if application is unsuccessful
- A price at which the option must be exercised. While the developer does not have to exercise the option, they would have to sell on open market if they chose not to.

Obtaining planning permission

Some land promoters bank on progressing several sites through the planning system in the hope that one is granted planning permission.

Developers are much more cautious and will typically progress one at a time. Once the principle of development has been established (through outline permission) applicants then consider options for delivery or re-masterplanning.

Reserved matters allow for revisions and increased flexibility.

Developers are typically interested in their 1-3 year and 7-10 year income cycles. By developing sites in phases, they can iterate at each stage, optimising their income.

Build out

One way to speed up build out is to introduce certain products at the start of the development. Private Rented Sector (PRS) and social housing upfront can provide certainty (as these are bought en masse), once they are delivered (along with necessary infrastructure) a sense of place is created which is then of greater appeal to a house builder who has a market in which to build.

<u>Royal Institution of Chartered Surveyors, 25/01/2018</u>

Attendees:

- Sir Oliver Letwin
- Tony Mulhall, Associate Director, RICS Land Professional Group
- Faraz Baber, Director, Terence O'Rourke
- Geoff White, Interim Head of UK External Affairs, RICS

Land acquisition

Some developers will buy land unconditionally, in advance of planning permission, and some are prepared to enter a profit-sharing arrangement with the local authority.

On average it takes around 2.5 years from the grant of outline permission to starting on site.

Land valuations and development appraisals

The land market is limited and rationed, so there is greater competition between developers for land as it is in short supply. There is a common assumption that land and house values are likely to rise in certain markets. Ultimately, land is a scarce item and its value is subsequently increased.

Another key ingredient to the valuation of land is the availability of finance (although some developers will have their own equity). For example, a piece of land bought for £17m before the 2008 crash, subsequently sold for £3m. The drop in value was due to the availability of finance.

Sites undergo a valuation and a separate development appraisal. The development appraisal includes an assessment on capacity and absorption rate of the market, and the likely cost of construction.

Asked why a valuation does not provide a range of costs, sales prices and sales rates (limited production, premium product vs volume, lower-priced product), RICS stated that if the latter, existing home-owners would be compelled to sell into the second-hand market to receive the profit of their asset, and then buy another new-build home at a discount. RICS said that eventually the second-hand market value would reduce and equalise.

Valuation of new homes is both objective (relying on comparable evidence of existing market value) and subjective (predicting where the market is going).

RICS made the point that if a mechanism were introduced which would artificially reduce the price at which new homes were offered, so that it was below the market price, then this would be problematic for the existing dwellings market. It is likely that this would skew the values of the existing housing market, possibly putting owners into negative equity and reducing the value of the security held by mortgage providers. A knock-on effect might be that buyers of existing homes near a new housing development site would not be able to secure mortgage funding and that there would be increased local opposition to applications for new housing development.

Market absorption

The market can bear a certain price at a certain volume of sales. You may be able to sell more at a lower cost, but developers will initially test the market to see what it can bear. In areas of regeneration, there is often a lack of evidence to demonstrate existing market values.

There is no immediate point (or method for capturing the point) at which you would oversupply a local market with new-build properties and consequently reduce prices in the second-hand market.

Expert Panel, Meeting 1, 01/02/2018

Attendees:

- Sir Oliver Letwin
- Richard Ehrman
- Lord Gadhia
- Baroness Prashar (by phone)
- Professor Christine Whitehead

Apologies:

- Lord Hutton of Furness

In advance of the meeting the panel had seen notes of meetings and site visits undertaken as part of the Review.

Sir Oliver opened the session, giving an overview of the review, work done so far and his early thoughts. Specifically:

- The rate at which new homes are absorbed into the market without disturbing the prevailing local price appears to determine the rate at which houses are built.
- Having determined the rate at which homes are built out, the key parties (local authorities, developers, land agents, suppliers etc.) appear to have geared their operations to operate at that speed, which effectively becomes a self-fulfilling prophecy.

Sir Oliver also explained that members of the Panel did not have to agree with his thesis and that he expected to be challenged. He also made clear that the discussion was not to be constrained and any areas of interest could be brought to the Panel's attention.

Planning delays

The notes of the site visits undertaken as part of the Review suggest there were delays between outline and full permission, but once they had full permission, they got on with building out. This points to the theory that absorption rates determine build out – in these cases the developers had either sold the homes off-plan, or had little problem selling the houses.

Local authorities

A large increase of homes in an area requires the Local Authority to consider schools, roads, shopping and, to some extent, the impact on local politics.

For those reasons, local authorities often prefer phased and steady build out rates. Local plans set out the number of units that will be brought forward each year.

Local communities also often oppose fast build out, and opposition is easier to address if the build out is limited to a small number of houses each year.

Housing need is not well articulated by local authorities and doesn't coincide with the Local Plans.

Local populations, planners and regulators have bought into the expectation that houses are built out at 50-60 homes per year per site.

Finance

Financial investors have also bought into the 50-60 per year mode. The steady output provides greater certainty on their investment returns.

Developers need to maintain house prices, to ensure they make their expected margins, and ensure their share price is maintained.

Underpinning the share price is the pipeline of strategic land, which guarantees continuity of supply.

Mortgage lenders are also focused on house prices. A reduction in house prices would create concern amongst the lenders.

House prices

Absorption rates are mainly determined by demand at the prevailing market price. At lower prices, the demand for houses would commensurately increase.

In the event that new build houses were heavily discounted, and consequently built out and sold much faster, the panel agreed that there would be little long-term impact on local market prices. However this would represent a 'windfall gain' for the buyers of those discounted homes.

In the event of an excess of new build homes, local home owners and purchasers on the site would be concerned about the possible impact on the value of their homes.

Nationally, house prices are driven by expectations, and people don't always distinguish between local and national markets.

Speeding up build out in areas of high housing demand would not impact on prices in the local areas, but could cause depopulation of low demand areas as people move from small towns/rural areas to big cities, and thus potentially reduce house prices in the low demand areas.

There are perhaps 1.5 million potential households that have not formed (such as adults living with their parents, house shares etc.) due to high housing costs.

Specifically in London, the number of single person households has dramatically reduced.

If there is an expectation of house price changes, the entire system can slow down. In Sweden, an adjustment to the system led to a five year reduction in output.

Tenures

Does Build to Rent affect local absorption rates? The team will visit the Quintain Build to Rent site at Wembley.

BtR could be replacing Buy to Let, which is shrinking due to taxation changes.

BtR is proving less viable in certain parts of London and Manchester as the margins are so narrow and investors are seeing little return for their investment.

Land pipeline

Developers are concerned about the availability of permissioned sites.

Land is rationed by regulation, which goes to the heart of the planning system, but you have no right to build, and can only build by licence.

Predictability would only be improved by giving people the right to build.

With public sector land, public bodies seek to maximise their sales receipts, and this reduced the supply of land that could be built out quickly/affordably.

Land value

Land owners have a fixed idea of price, and the availability of land dries up if a policy change reduces the value of land. This was the case in 1947 when land owners knew they could wait for a new government to reverse the economic trend, and they would be able to realise a greater return for their land.

Infrastructure costs

The cost of section 106 conditions is deducted from the price that is paid for the land, so the land owner is effectively contributing to infrastructure costs.

Diversification

The panel argued that diversification of the market was needed, with new entrants doing different things – e.g. SMEs, housing associations, the public sector

More people building homes would lead to delivery of more housing types

The issue with different housing types was that surveyors/RICS valued homes lower even if they were the same size.

<u>Gladman, 01/02/18</u>

Attendees:

- Sir Oliver Letwin
- David Gladman, Partner, Gladman
- Victoria Hesson, Managing Director, Gladman Land

Land promotion

A land promoter's business model relies on them taking a site through the planning system, obtaining planning permission and selling the site to a developer. At no point do they own the land. They operate on behalf of the land owner.

They find a patch of land where it is likely that planning permission will be granted, approach the land owner (individual, councils, government) and offer to take the site through the planning process (inc. discharging pre-commencement conditions before approval, plans). They then take a commission on final sale.

Gladman begin with the discharge of pre-commencement conditions in 70% of cases.

Some promoters sell planning permissioned sites to developers on the open market – essentially a promotion deal. Some other promoters instead acquire the land through an option.

There are currently 5/6 larger promoters.

Land value and sale

Gladman calculates value of permissioned land based on open market value, i.e. the most recent transactions in the area coupled with the residual land valuation based upon second-hand market and new-builds, where possible. There was no assumption of premium for new-build.

The promoter is responsible for conducting auctions to sell the land. Typically achieve within 10% +/- of expected valuation. There are however examples which have come in 60-70% above valuation price.

It was stated that developers rarely change the planning consent once they acquire the land. Developers buy land in the first place either to fulfil a business requirement (team with capacity already deployed in the area, or to spread risk), or because they really want a specific site. Any winning bids are typically followed through.

Planning system

Sites are often delayed through the planning system as local planning authorities and county councils are uncommunicative.

Gladman works with sites of 75-200 units with fewer large sites following the 2008 recession. They had 56 sites last year, whereas competitors tend to progress 20-30 through the planning system per annum.

Sites take around 18-30 months to take through the planning system. They have around an 85-90% success rate, although some are granted outside of the 30 month timeframe. Around 78% (last year) were granted planning permission at the first attempt. Most sites are commenced within 9 months, assuming that reserved matters approval has been granted.

Gladman use 30-40 completions per annum per active outlet to assess 5-year land supply.

50% of sites promoted are in areas where local authorities cannot demonstrate a 5-year land supply. 1/3 of sites sold are allocated in local plans, with 50% allocated before the promoter became involved, and 50% allocated following their involvement.

Land supply

Hypothetically, if there were plenty of good promoters (capable of identifying land likely of obtaining planning permission) and willing land owners, within the existing planning system, there are “infinite” hectares available. Land, in that sense, is not a major constraint.

If they had sudden access to a large land supply, they would still be able to operate (skills permitting).

Intervention in land market

In the event that the land price did not increase substantially following grant of planning permission (as a result of government intervention), land owners would wait until the higher prices returned. As happened with Land Tax reforms introduced in the 1960s and 1970s.

Nationalising land would have no impact upon their business model as they do not own the land at any point. Progressing planning permission is the only source of income.

Market diversification

Gladman stressed the importance of market diversification. They claimed that the production of large house builders had peaked and would continue at that rate.

The NPPF has taken sites out of the system, as authorities now favour larger sites and urban extensions (related to demonstrating a 5-year land supply). Smaller sites are also more likely to be refused on appeal, owing to increased protections for rural sites.

SMEs would create unique products (amongst themselves too) to differentiate from large house builders as they cannot compete with them due to economies of scale. Large house builders would stick to their usual models, and there wouldn’t be too great an impact on absorption rates. Example given where a promoter took a site to market in an area with 11 active outlets, being developed by a mixture of SMEs and large house builders and still received 4 bids within a year.

<u>Homes for the South West, 07/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Charles Pitt, Homes for the South West
- Paul Crawford, Chair, Homes for the South West, Chief Executive DCH
- Victor da Cunha, Chief Executive, Curo
- Graham Colls, Chief Executive, Magna Housing
- Robert Nettleton, Chief Executive, Merlin Housing
- John Clark, Chief Executive, Plymouth Community Homes

Homes for the South West

Homes for the South West are a group of the largest housing associations in the South West. They are planning to build 16,500 homes over the next 5 years.

Section 106 and housing association development

Around half of these homes are not dependent on S106. Land availability was the major constraint on increasing delivery as most strategic sites are optioned.

These sites are bought at open market value and housing associations build across market and non-market tenures, with the former subsidising the latter. They would like access to more land to increase delivery but did not want to act aggressively to option and promote sites.

Absorption and product mix

There was agreement that increasing the mix of type tenure/types of new build would increase absorption and speed of build out.

<u>Non-government organisations roundtable, 08/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Paul Miner, Planning Campaign Manager, CPRE
- Toby Lloyd, Head of Policy, Shelter
- Michael Kiely, Chair, Planning Officers' Society
- Richard Blyth, Head of Policy, RTPI
- William Upton, Committee Member, Planning & Environment Bar Association
- David Orr, CEO, NHF
- Terrie Alafat, CEO, Chartered Institute of Housing
- Kate Henderson, CEO, TCPA
- Henry Smith, Projects and Policy Manager, TCPA
- Adam Royle, Head of Advocacy, National Trust
- Brian Robson, Acting Head of Policy and Research, Joseph Rowntree Foundation

Sir Oliver updated the group on progress so far and his working hypotheses.

Housing demand

Houses are bought as both homes and investments, and people buy homes as a dwelling but also a statement, for example buying a big house that exceeds their needs.

Homes are positional goods – once you've built a house on a piece on land, you cannot build another house on that piece of land. Whereas there is no limit to the number of cars you can build.

Affordable housing

Tenure mix is a choice.

Increasing proportion of affordable housing increases build out rates.

International experience

Ireland is worth looking at, with a comparable planning system to England. There were a lot of small sites were permitted away from areas of need, and sit unfinished. Dublin has made land plans with large urban extensions in the suburbs. It is evidence of a long-view.

Land ownership

Land owner priorities can control build out. A site owned by a volume house builder may have different drivers for realising a capital return than a site owned by private land owner.

Developer land pipeline

Continuity of business is important to developers.

Developers are faced with risk of planning system changing.

Public services & infrastructure

Concerns were raised that health, education, transport bodies were not planning for increased housing delivery.

Local authorities were comfortable in assuming a slow build out rate.

Consumer demand

It was suggested that housing is not a consumer-driven market and that increasing quality of new homes would increase demand for them.

Town and Country Planning Association, 08/02/2018

Attendees:

- Sir Oliver Letwin
- Kate Henderson, CEO, TCPA
- Henry Smith, Project and Policy Manager, TCPA

The TCPA outlined its purpose as an educational charity, membership organisation, training provider and campaigning body. Members include councils, land owners, housing associations, investors, utility providers, consultants, charities, universities, students and individuals.

Lessons from Garden City developments

The new towns include Milton Keynes, Stevenage and Harlow. The garden cities and suburbs include Hampstead Garden Suburb, Letchworth Garden City, and Welwyn Garden City. The new towns were built following the Second World War, when materials were in short supply, but the houses needed to be built at speed. There was a very high proportion of affordable housing in some of the new towns (between 80-90%) and land was priced at agricultural rates in the first phase of new towns.

Building new towns today

Developers today are interested in schemes up to 1,500 to 2,000 homes, but are not interested in larger-scale new towns, however this could change if development corporations were used to derisk the land assembly and planning, enabling a number of different housing developers, including housing associations and self-build, to be on site at any one time.

The TCPA agreed to provide data on the build out of the post-war new towns, including the mix of tenures, speed of build out, speed of occupation, pricing of houses, the land value and the method of assembly.

Developer roundtable, 08/02/18

Attendees:

- Sir Oliver Letwin
- Richard Brooke, Regional (East) Managing Director, Barratt
- Peter Jordan, Group Planning Director, Persimmon
- Jennie Daly, Group Operations Director, Taylor Wimpey
- Peter Kemkers, Director of Finance, Berkeley St. James
- Patrick Bergin, COO, Crest Nicholson
- Peter Truscott, CEO, Galliford Try
- Keith Carnegie, Executive Director, Bovis Homes
- John Tutte, CEO, Redrow
- Gregg Wilkinson, Managing Director, Gallagher Estates
- Stewart Baseley, CEO, Home Builders Federation
- David O'Leary, Head of Policy, Homes Builders Federation

Sir Oliver updated the group on progress so far and his working hypotheses.

Product mix

Planning has a role to play in product mix but where this is too prescriptively laid down by authorities with no insight into local market dynamics, it can prove counter-productive.

Speeding up build out

If build out was sped up to vastly exceed local absorption rates, there would be fewer viable sites, fewer land owners willing to sell, and local market displacement.

Land owners

Land owners are normally seeking the market value, and were often willing sellers even in downturns, subject to receiving a reasonable uplift over existing use values. Land owners require a premium to existing use value unless the sale is 'distressed'.

Gross Development Value, land values and developer margins

There was wide agreement that on large sites typically:

- 50-55% - construction costs (build costs and abnormal costs);
- 10-15% - LPA S106 / Community Infrastructure Levy;

- 20% - operating margin (before cost of finance); and
- 10-15% - land price.

The price of land was proportionately higher on smaller sites where S106/CIL was lower; and that serviced/'clean' land was more expensive.

Planning system

Success rate for planning permissions was 'high' – around 90%.

However, while the end result is predictable in terms of obtaining permission, the time it takes to gain permission is not predictable, the issue is of 'when' rather than 'if'.

Some developers said they were increasing their investment in new land to mitigate the variability of time it takes to get consent because fixed costs are carried in spite of sites stalling or being delayed. This helps to explain why the volume of permissions has increased but speed has fallen. There is also a timing issue in relation to acquiring additional land to meet future growth expectations.

During the planning process, developers have to undertake a range of negotiations – the type and mix of affordable housing, highways and road layouts, education, third party owners, etc.

A number of attendees said that, when buying land from promoters, it is often necessary to submit new applications for a different plan. In addition, a promoter's definition of consent often varies from a house builder's definition of consent with sites often not yet being at the stage at which they are implementable and/or needing to be re-planned once acquired by a home builder.

Planning authorities and individual planners often wanted different things requiring the use of building materials that were sometimes hard to source creating potential for delay.

It was suggested that the Government should commission a further review on the delay in establishing five year land supplies but also, critically, between allocation of sites to final, implementable permission, including the imposition and clearance of pre-commencement conditions.

Further information

The HBF provided the Review with further information after the meeting.

Absorption rates differ for every product style in each location so it is not only price that influences absorption and build rates, but also product type. Product type is influenced by the planning process.

Pricing of homes is determined by the value of local comparable homes. Industry valuations are intrinsically linked to the RICS red book methodology which, in turn, drives sales price, and which influences absorption. Within this framework, house builders will build as many homes as they believe they can sell.

Sites taken through the first part of the planning process by land promoters often lack detail necessitating further planning to make schemes deliverable.

Planning permissions are increasingly being granted on very large sites often with complex infrastructure requirements necessitating upfront investment and works. In 2017, 35% more plots were granted planning permission than in 2006 but on 3.5% fewer sites. It was suggested that this trend is partly down to local politics leading to authorities trying to limit ‘planning battles’ to fewer locations and the lack of resources at the disposal of planning departments.

Uncertainty and delay mean that for house builders and their shareholders who want to see businesses operating responsibly and sustainably, a land bank is required to minimise or spread risk.

<u>Sadiq Khan, Mayor of London, 15/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Sadiq Khan, Mayor of London
- James Murray, Deputy Mayor for Housing and Residential Development
- James Clark, GLA

The Review

Sir Oliver outlined the focus of the Review on large sites and large house builders, and set out his emerging findings that build out is centred on the market absorption rate.

The Mayor offered the support of GLA officers in providing London-specific data on build out rates and help with arranging site visits.

The London market

On larger sites, infrastructure has proved to be a big issue.

80% of new builds can be afforded by only 8% of those renting (who want to move into home ownership).

Dwellings are sold off-plan years in advance of completion, as the high density developments require sizeable capital upfront before breaking ground (unlike the lower density developments outside London, where dwellings are sold off-plan 6 months before completion, for which people can get mortgages).

On place-making – the fact the developers on large sites save the most desirable locations within a site to build out last, once a sense of place/community/vibe has been created – and house prices have risen to reflect that.

Peter Studdert, Peter Studdert Planning, 16/02/2018

Attendees:

- Sir Oliver Letwin
- Peter Studdert, Peter Studdert Planning

Peter was director of planning at Cambridge City Council. The discussion focused largely on large sites in Cambridge in the last 10 years or so.

Neighbourhood style

For sites taken out of the Green Belt, such as Trumpington Meadows, they assumed a high proportion of family housing with higher 'urban' densities around main roads.

This was part of a conscious effort to design a compact neighbourhood to make shops/buses viable.

Design codes

Some developers responded better than others to design codes.

The council didn't focus much on 'viability' after securing 40% affordable housing provision.

Focus of design codes was on public realms, mews, roads and other common areas, with an aim to build 'character areas'.

Design codes can be specific or general, and the inspectorate would uphold.

More flexibility was left for architects at Clay Farm – some developers would hire good architects at plan stage.

The NPPF had in some ways strengthened design and design review panels.

Developers prepared and paid for the design codes with input from LPA – this smoothed the way for reserved matters.

This gave certainty to developers and gave a consistent feel across multi-developer sites.

Sometimes developers will get rid of architects having secured outline permission and hire cheaper technicians to do working drawings.

Market analysis

This was done at the strategic level for 2006 local plan.

Large sites

As a general point, he said that large sites needed a lot of support of the sort provided by development corporations.

Build out

LPAs would accept build out rates because local authorities have little control over build out rates, as these are largely determined by market conditions.

Northern Europe

He recommended sites in Freiburg, Germany and Amersfoort, Netherlands as examples of best practice.

<u>Nick Boles MP, 20/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Nick Boles MP

The Review

Sir Oliver outlined the focus of the Review on large sites and large house builders, and set out his emerging findings that build out is centred on the market absorption rate.

Observations

The working capital model requires the sale of one house to fund the building of the next house.

In France, the construction of 400,000 houses was started in 2017, half of which were self-build.

The market, in its current form, lacks competition, and is akin to an oligopoly.

Potential solutions

One solution would be for sites that haven't been built out to be made available for sale, for other developers to purchase with the requirement they build what was required for the local area.

Suggested next steps

Sir Oliver and Mr Boles proposed to meet again after the publication of Sir Oliver's Draft Analysis, to discuss potential solutions.

<u>Local Government roundtable, 21/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Lord Porter of Spalding CBE, President, Local Government Association
- Cllr John Fuller, Chair, DCN
- Cllr Ric Pallister, Lead Member for Housing and Planning, DCN
- Cllr Philip Atkins, Spokesman for Housing, Planning and Infrastructure, CCN

Sir Oliver updated the group on progress so far and his working hypotheses.

Valuation of new homes

Not always dictated by local second-hand market.

Small and medium-sized house builders

87% of applications for residential development are minor applications, with only 13% of applications for major applications. There needs to be an increased focus on delivery by SME developers.

It was noted that the major house builders contribute 50% of the total output.

Diversification

Greater variety of product and mixture of tenures required to speed-up build out.

The private sector has reached peak delivery. Large scale, non-standard construction of around 80,000 new homes required, which can be provided by the public sector.

Increasing demand

Build out will not increase unless the absorption rate increases in tandem. To achieve this you need to focus on supporting aspiring homeowners with financing.

Need to take into account the wider economy (availability of jobs, services etc.). Changing the price of properties alone will not change demand.

Land promoters

Promoters involved at allocation stage. As the allocations process is competitive, promoters are inclined to make unrealistic promises long before house builders are involved.

Planning system

Issues with the five year land supply. Windfall sites stop allocated sites from coming forward. If allocations can be sped-up (i.e. get necessary unlocking infrastructure in place), then windfall sites won't need to come through.

At the point of allocation local authorities need more power to bring forward development. At present, they relinquish all negotiating power as soon as a site obtains an allocation.

Constraints on authorities purchasing land at agricultural value.

Difficulties in introducing design codes (can be overturned on appeal).

Financing

Need to remove the fear of bankruptcy. Allow local authorities to provide loans to developers, who will only have to pay back once they start to make a return on the site.

<u>Dame Kate Barker, 21/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Dame Kate Barker

Definitions

Kate started by asking ‘what is the problem?’

She called the build out phase the point at which a developer has ‘implementable’ planning permission – the point at which groundworkers can be booked to start work.

She questioned whether increasing build out rates would increase the total number of homes built nationally.

Data

Kate felt strongly that there was a need for better planning permissions data.

Absorption

Kate agreed that the ‘system’ of skills, materials, infrastructure, utilities and so on is built around the assumed absorption rate.

New homes are sold at comparable local prices – this would happen anyway, even in a different world where residual value calculations were made in a different way.

New and second hand homes are slightly different markets – cheaper new homes could change this as more would want new homes.

Land values

Development would still be somewhat risky even if land costs were removed and the threat of a crash was removed.

Land value capture wouldn’t affect build out rates positively.

Products

Agrees to some extent with general point about a small range of type/size/tenure being built on large sites.

Kate strongly agreed that different products increased build out rates.

Splitting up sites between builders does work to increase build out rates.

She believes that self-build could be an important part of large sites.

Land supply

Speeding up build out would mean developers would want replacement sites.

It is expensive to go through planning so developers don't make applications on sites with little chance of success.

Planning time

There is time variability in the planning system – it can take a year either way (with roughly a 1-3 year window).

This means developers can end up with too many or too few permissions.

Uncertainty does bother developers.

The 'worst thing' can be when a planning officer moves on mid-way through an application.

Site logistics

Getting site logistics a challenge if build out rates increase.

Andy Rowland, L&Q, 22/02/2018

Attendees:

- Sir Oliver Letwin
- Andy Rowland, Managing Director, Development & Sales East Region, L&Q

L&Q

They own and/or manage 90,000 homes, of which around 20% are shared ownership, as well as 4,000 Private Rented Sector (PRS) homes.

They will take handover of 2,500 homes this year, of which 30% are via S106.

They have ambition to develop 100,000 homes, 60,000 directly – but they still have market risk due to their cross-subsidy model.

Section 106

This normally operates via an open tender by the developer – they will have a direct design/build contract.

The S106 agreement will specify tenure breakdown, which determines the value.

Social rented units are circa 60% open market price; this goes up as proportion of shared ownership and other tenures increases. This is location dependent – for higher value areas, social rent units can be more like 40% market price.

Own developments

Of their 26 sites in the east region, 15 or so are their own developments.

They act as promoter, developer, and contract with builders.

They are divided into regions, in a way that large developers would recognise.

They get land from a variety of sources. The split between consented and unconsented is roughly 50:50, similar to other developers.

In future they plan to move away from S106 allocations.

They don't have a long-term land bank.

They fund land purchases through debt – interest costs put pressure on them to build quickly.

Timelines

As a rule of thumb, it takes from 18 months to 4 years to take a site through planning, with an average of 2 years.

Larger sites are more predictable but can take longer; smaller sites are more unpredictable. Mid-size sites are therefore seen by some developers as the ‘sweet spot’.

Product mix

Roughly 50% units will be market sale/PRS; 25% shared ownership; 25% affordable/submarket rent.

This is cross-subsidy model – market rent/sale cross-subsidises sub-market rented homes; shared ownership roughly breaks even.

There is a very high demand for shared ownership.

Andy is cautious on resilience of PRS to market downturns, and did not feel that PRS had attracted a customer base beyond young sharers.

Constraint

They could build a lot more but they are constrained by land availability.

After this, they need to manage market risk and have the capacity to build.

Finance

They access finance through bonds and bank lending.

Barking Riverside

Barking Riverside is unique because it’s a new town, not just a development, so needs amenities, social infrastructure and the right ‘feel’.

The current value assumptions are c. £250k for a 1-bedroom; £300k for a 2-bedroom.

The Barking Riverside Limited model is like a promoter not a developer.[1]

£250m infrastructure is going in.

They would like to do more projects like this.

[1] See note of Sir Oliver's visit to Barking Riverside.

British Property Federation, 22/02/2018

Attendees:

- Ian Fletcher, Direct of Policy, British Property Federation
- Alex Green, British Property Federation

This meeting largely focused on the Build to Rent (BtR) sector.

Build to Rent investors

There are a mix of UK and international investors in the sector, including Legal & General, M&G Real Estate, Greystar and Grainger.

Scale

There are currently 30 developments of 500+ units in the pipeline; 105,000 units in total. Started in outer London, and has moved to second tier cities and now smaller cities. Knight Frank estimate there will be £70bn investment in the sector by 2022.

Form

Most are apartment blocks although some exceptions, e.g. Sigma are working with local authorities in the North West to build family homes with Countryside.

Absorption

The sector does not compete with the sales market, and they offered to provide evidence on the additive nature of the BTR sector.

Two examples were given:

- Argo Apartments, Canning Town (joint venture between APG and Grainger). Initially planned for two towers of units for sale; changed to one for sale and one for rent. The initial development would have taken 6 years to build; this took 3 years. 60% units occupied within 3 months.
- Grainger's Berewood development at Waterlooville in Hampshire: they have worked with Bloor to build rented and sale units and put in infrastructure. This had sped up build out.

Rents

Rents are similar to the local market; yields are around 4-6% - although it is hard to get sufficient yields in central London (zones 1 and 2). Rents rise roughly in line with inflation.

They tend to project on a discounted cash flow model, accounting for RPI and house price index inflation.

Tax

New homes for sale are VAT exempt, homes for rent are not, so there are issues for BTR investors.

Constraints

The constraint is a lack of stock to invest in, so investors are going up the risk curve to become developers.

Management

Housing associations are often contracted to manage developments; and a lot of investment is being made to deliver a high quality management service to tenants which can include security, concierge services, laundry, gyms etc. The brand of the sector appears to be improving.

Quality

Quality and specification is high because investors are owning and managing over the long-term.

Contracting to build

Many contract the build out of developments to mid-sized developers.

Other such as housing associations and Grainger have done it themselves.

<u>Legal & General, 22/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Nigel Wilson, CEO
- Rosie Toogood, CEO, L&G Modular Homes
- Bill Hughes, Head of Real Assets

L&G

They manage £1 trillion funds and are committed to investing in real assets.

They are committed to the housing industry across all parts of the market – rental, for sale, affordable housing, seniors housing and student accommodation.

Build to Rent

The first part of the discussion focused on Legal & General's growing investment in Build to Rent developments. This is, they said, a UK wide business.

Finance

There is not enough equity finance in UK housing.

They want to hold stock for a long time. They have structured special purpose funds for Build to Rent, with risk taken on the parent company balance sheet.

The UK is the only western country where housing is not an investment asset class.

Planning

The planning system is the easiest it has been for 30 years, although there are differences between LPAs.

It is easy to get planning permission for Build to Rent developments in large cities.

Delivery

They own a number of house builders.

Their Build to Rent developments are typically 150-500 units. They will employ builders, own the freehold on sites, promote the site through planning and acquire land in a variety of ways. Once built, they will own and manage the units. They have invested in Urban Bubble in Manchester, a management company.

Rents

They charge rents that rise in line or close to in line with inflation.

They calculate rents based on what else is available in the local market, and their own offer – comparison can be hard as they are often the first Build to Rent proposition in the local area. This means they have to pitch a price and then judge take up.

Profitability comes over a long-period – so they don't want to 'gouge' tenants.

This also means that they don't start with costs and work back from this to calculate rents.

Management and operating costs represent c. 23% of gross rents; on the remaining 77%, the yield is in line with construction costs. In London it's 3.5-4%; in Manchester it rises to 5-6%.

They believe that rents are stable outside London when downturns hit.

They would be able to adjust rents to achieve 100% occupancy (as Easyjet do with flight sales) – they are looking for a long-term return and stable cashflow.

Competition & demand

They compete with a range of other housing options.

There is latent demand for city centre housing, particularly amongst older people.

Their block in Manchester has a very diverse range of tenants of all ages, with an average age of 27.

Younger tenants shop around. L&G offer 3-5 year tenancies and give preferential terms on tenancy length.

Some people are also now permanent renters.

Their goal is to build 35,000 units, and they are planning a £10billion investment in the sector and would like to do this as quickly as possible. They believe there will eventually be a market for 35,000 new Build to Rent units a year.

Constraints

The constraint on this is how quickly they can build – they are not site constrained.

The ultimate constraint is resources, which is why they have invested in modular.

They also raised: a) how easy it is to work with LPAs; b) their own bandwidth to manage portfolio – this was a very important constraint; c) how easy it was to negotiate with land owners and other developers.

Modular

They are making a significant investment in a new 55,000m² factory near Leeds – the biggest in Europe. They are in the pre-production phase currently producing prototype models through the production process, learning from this process to improve the design, manufacturing process, develop training & tooling ready for production start in April 2018. They have initially developed a 2-bedroom, 2 module home and a 3-bedroom, 4 module home. They will then develop a mid-rise multi occupancy, later living & then high rise product range.

They have recruited people from a range of industries (automotive, aerospace, design consulting, construction) to manufacture homes like cars.

Cost

Modular can deliver faster & at better quality for the same price.

At this stage they are at the top of the cost curve – the second factory will cost half that of the first.

Capacity

They estimate a factory of this size could deliver 7-8,000 units per year.

They need to be located near road transport as units are delivered pre-built to sites.

Labour

Bricklayers and other on site labourers construct fascias, roofing, foundations.

They are looking at MMC solutions for bricks and roofing, and they can do these in any style or design. This would reduce skills requirements (e.g. brick panelling is a semi-skilled role).

There is competition and rising costs for labour as demand rises.

They need 450 workers in a single factory, so they need to attract people and train them.

Many workers will be semi-skilled and trained across the production line, giving them flexibility.

Quality

Energy costs are very low.

They are confident that modular can greatly reduce the rate of snagging.

Time

Modular could cut development time in half on a typical site.

The factory will run 24/7, unlike building sites.

Further information

Legal & General provided the Review with further information after the meeting.

Legal & General announced on 27 April 2018 the launch of Legal & General Affordable Homes, a new wholly-owned affordable housing provider. With Legal & General's long-term financial backing and utilising the housing management expertise of the leading existing affordable housing providers, the new business will be looking to accelerate and grow the provision of affordable housing across the UK, targeting all areas of the affordable housing market, including new build Section 106 and grant-funded affordable rent, social rent and shared ownership units. Legal & General Affordable Homes will aim to be fully operational and delivering 3,000 homes per year within the next four years.

<u>Hallam Land, 22/02/2018</u>

Attendees:

- Sir Oliver Letwin
- Nick Duckworth, Managing Director, Hallam Land
- Andy Birch, Director, Hallam Land

Clients

Their client base is largely the top ten developers. They have 180 sites across the UK.

Hallam Land differ from competitors in that they focus on long-term sites, and will often enter into partnership/joint ventures with developers.

They gave an example of a site at which Hallam and a number of developers had pooled their options on adjacent sites to form a large site to take through planning.

Even so, Hallam will always be present through planning stage – developers may not.

Planning

They said changing of planning personnel can be a challenge, giving an example of a site they worked on which has seen them struggle to get reserved matters approval after planning officers changed.

S106 negotiation usually takes a year. They would like to be able to negotiate reserved matters at the same time as S106.

They have an 85-90% success rate for their planning applications.

Product mix

They gave example of a site where largely 3 to 4-bedroom homes were being built, with some 2 and 5-bedrooms, and 30% affordable housing.

Developers build what they know sells through their experience and market analysis.

Developers can resist sales to Build to Rent investors as it risks adding uncertainty into the planning process when densities have already been agreed.

They believe there is a lack of diversity in the market. You get a bigger range of builders in lower pressure areas.

Promotion agreements

They will often use promotion agreements. They will work to get planning permission, agree a sales strategy, and sell the site either pre- or post-infrastructure; they then take a share of profits from sales.

Sites

They do not tend to do sites below 150 units.

They normally get planning permission and sell it on within 12 months. 75% of their sales are to developers once they have outline permission.

They said there is a lot of land available – developers can cherry pick sites and do not have to rely on strategic land.

They normally facilitate the transaction between developer and land owner, or they own the site themselves.

Land value

They agreed that land is valued by the residual value calculation.

<u>Richard Bacon MP and Right to Build Taskforce, 01/03/2018</u>

Attendees:

- Sir Oliver Letwin
- Richard Bacon MP
- Michael Holmes, Chair, NACSBA
- Mario Wolf, Right to Build Taskforce, NACSBA
- Andrew Baddeley-Chappell, Chair, Right to Build Policy Commission

Custom build

Custom build (including self build and community led housing) is a route to increase and diversify the delivery of new homes.

On average 40% of all houses built in developed countries are custom built. In England, that number drops to 6.75% and 7.25% for the UK.

Significant market growth is possible. The Netherlands has seen its custom build market grow from UK levels to around 20% of all new build since the 2007/8 credit crunch.

According to a BSA survey (2016) 53% of the population would like to build their own home. The public are attracted to the opportunity of choosing a product to meet their needs and wants.

Where custom build occurs on a larger site, it may have all or some of the following features.

Design codes – to speed up planning approval and manage the relationship between homes. The code may lean towards more traditional design or could encourage innovation and variety.

A master developer – responsible for site layout, building roads, infrastructure (including supply of services to the plot) and final landscaping.

A buyer purchasing a plot is required to build out in accordance with certain conditions, including a build out rate. In the Netherlands for example owners may incur a €5000 charge for every month they exceed the 24-month time limit.

There can be community and efficiency benefits – one person hiring a crane for their home might share the hire with a neighbour(s).

Evidence shows an average 29%[2] saving based on market cost against market valuation for self-build properties. It is expected that there would be uplift for custom build developments on larger sites, but at a reduced percentage.

Finance

There is currently sufficient supply of mortgage finance for those who have a 20% deposit. This supply is dominated by the smaller building societies with more manual, flexible systems.

Custom build mortgages are more complex to administer. They require staged payments to be made and affordability needs to be assessed separately during the build and then post completion.

To reduce mortgage payments in the build phase, the loan is typically on an interest only basis. Living costs (including if required rental of an existing property) for the build phase need to be considered.

In addition to standard lending policies, lenders typically require individuals to take out build out cover to increase security during the build phase. Warranty cover is also required, and the process will also involve a review of key builders and suppliers. Current credit risk experience is extremely positive.

The market

The average age of a person undertaking a custom build is currently 51[3]. This reflects the greater deposit requirement, but also a greater appetite for the perceived risk and complexity.

The greatest demand for this product is 18-34 year olds[4] who are attracted to the benefits of choice and value but concerned with a perception of risk.

In Almere in the Netherlands, affordable “shared ownership” style housing has been built combining standard elements such as foundations and shared walls for terraces to limit costs with quality design to deliver both quality and value.

[2] Homebuilding & Renovation Self and Custom Build Market Report 2016.
[3] Homebuilding & Renovation Self and Custom Build Market Report 2016.
[4] Nationwide BS Internal Market Research 2018.

Utility providers roundtable, 01/03/2018

Attendees:

- Sir Oliver Letwin
- David Strang, Water UK
- Steve Peggs, Network Rail
- Kim Mears, Openreach
- Basil Scarsella, UK Power Networks
- Tony Glover, Energy Networks Association

Sir Oliver opened the meeting by asking whether providers could meet the demands of increasing the rate of development significantly. Providers confirmed that they could.

Discussion summary

There was broad consensus on the six conditions for delivering infrastructure for new development successfully:

- Vision,
- Organisation,
- Coordination,
- Clarity,
- Drive, and
- Sufficient notice.

The Olympic Delivery Authority (ODA) was cited as the best example of a model that delivered across these points. The ODA gave providers knowledge of and certainty over what was to be delivered; advanced notice; coordinated between providers and construction companies; provided visibility throughout the process; and cascaded government commitments to all parties.

The ODA model was a 'one off' that has only been replicated in very few other cases. Croydon LA has used the same system. Ebbsfleet Garden City was also cited as an example of a successful model. Nine Elms in Wandsworth was cited as an example of the opposite approach, with 20+ developers making separate requests for similar and interdependent infrastructure.

Late registration of development is a problem as providers need time to plan. It was suggested that between 9 months and 2 years was needed, although rail was different; and that this depended on the utility.

Providers only have certainty when someone (e.g. a developer) commits to paying for infrastructure. Certainty of building is also important for water companies - building in advance of need is undesirable for technical reasons.

Finance was not seen as a constraint, although roads and rail are subject to fiscal constraint.

Openreach will make the necessary investment in infrastructure where it is commercially viable to do so and where firm commitments are given from developers (that usually follows the developer obtaining planning consent). Where it is not commercially viable for Openreach alone to invest in the infrastructure, Openreach will seek the appropriate contribution from the developer.

Prof Paul Cheshire, LSE, 01/03/2018

Attendees:

- Sir Oliver Letwin
- Prof Paul Cheshire, London School of Economics & Political Science

Pricing

S106 housing affects the price of non-S106 housing on a site with the result that developers cannot form expectations of future revenues until they know planning obligations. So S106 provisions benefit large builders because smaller builders have less access to capital and are less able to negotiate with local authorities.

Product substitution

The substitutability of a housing product depends on the size and geographic extent of the market – e.g. affordable housing in Peterborough has a restricted market; a large home in Cambridge is substitutable with a large home in Hampstead.

Housing options exist on a spectrum – income and skills determine travel to work areas, which determine the extent of markets.

Household formation is a function of price; high housing costs relative to incomes suppresses household formation.

Developers build what they build because there is a shortage of housing generally and they have a degree of monopoly in the market. The greater this monopoly power the more they have an incentive to control the rate of build out.

Capacity constraints

Capacity such as skilled workers and building materials, could be assumed to be almost perfectly elastic in the medium-term – so the market would be able to respond to increased demand for house building but it would take some time.

Market impact

You could increase delivery of new homes in e.g. Reading by 500% and you would have no impact on prices – the impact would be on the rate of return of developers but mainly on the cost side. This is truer where sites are connected to larger markets.

There is a huge pent up demand from people who would like to move from renting to ownership – renting, shared ownership, house sharing etc. are all substitutes.

The larger the site relative to the relevant housing market, the larger the local monopoly a developer holds.

Increasing supply significantly would only have a moderate impact on prices, unless expectations were affected.

<u>Simon Leask, 01/03/2018</u>

Attendees:

- Sir Oliver Letwin
- Simon Leask, Hyas Associates

ATLAS team

The team had a broad remit, and developed a robust model to support local authorities and the development sector.

They initially worked on sites of 500+ units but gradually they focused on bigger sites. The team worked on a substantial proportion of the largest sites across England.

The team included planners, designers, architects, environmental and social sustainability specialists and a surveyor.

Their role varied but was almost exclusively in the regulatory phase, not the build out phase.

A number of constraints were identified:

Local authorities

Lack of public sector expertise/capacity.

Impact of national policy changes over time.

Coordination between districts and counties on infrastructure.

Developers

Many developers ended up with viability issues on optioned sites after the 2008 crash.

Fall in number of house builders has hindered delivery.

Planning

Large scale development is genuinely complicated but the planning system has been more difficult than it needs to be, with time consuming requirements for evidence to be collected and changes to the system.

Allocations and design codes

There was broad agreement that with some notable exceptions the quality of what was being delivered is not good enough.

The NPPF does not require local authorities to create great places – allocation is the right time to do this work.

Too often sites were allocated without work done upfront to establish a clear place based vision or set out clear and justified policy requirements – such as schools, roads, affordable housing, urban design principles etc.

Whilst place making/design principles are essential detailed codes are not required at the allocation stage, as it's hard to fit the profile of a site before principles are set. Detail can be built up over time at different stages of the planning process.

Resources are a constraint on local authorities seeking to do design work including codes. They are also under pressure to deliver permissions, and are often not motivated/able to focus on design.

To do this well, you need a team with:

- Leadership (ideally from an urban designer)
- Planning
- Architect
- Transport expertise
- Landscaping/urban design
- Sustainability expertise

From idea to allocation takes around two years. All expertise is not required throughout the project but ideally you need someone to lead/own the process for 5-10 years, from allocation through to build out.

He suggested more needed to be done to capture learning and best practice.

Off site construction roundtable, 08/03/2018

Attendees:

- Sir Oliver Letwin
- Steve Trusler, Laing O'Rourke
- Dennis Seal, Build Off site
- Richard Oldroyd, Space4, Persimmon Homes

Skills

The skill base is key in driving the growth of off site and in location of factories.

Specifically, shortages of bricklayers have driven firms like Persimmon to invest in off site construction, with plasterers/roofers/plumbers in better supply. Timber frame has allowed them to remove bricklayers from the 'critical path' of construction. Bricklayers are employed to construct external walls, although they are looking at options for cladding that would remove the need for bricklayers entirely.

There was agreement that it is far easier to find labour for a factory than it is for on site construction. Factories have a 15-20 mile workforce radius, low churn rates, investment in training staff, a different skills profile to on site construction (e.g. more digital skills) and a more diverse workforce.

Another part of this is consistency – the subcontracting model means you can have different personnel building a home on site from one day to the next.

An example was given of a high rise block in central London; 70 per cent of the value of the scheme was delivered off site; there was a 60 per cent reduction in labour needed on site; construction time was 30% shorter; and disruption to neighbours was reduced compared to traditional build.

Off site means that roles such as bricklaying are being de-skilled – Laing O'Rourke use semi-skilled operatives, whose role is to put bricks into moulds in the factory.

Laing O'Rourke directly employed 9,000 people; Space4 deliver to Persimmon sites as a normal supplier, and as such most construction labour is subcontracted.

Quality

Laing O'Rourke investment in off site was to guarantee quality and consistency on site through a precision engineering approach.

Space4 are building homes to the same building regulations, but homes are more likely to meet regulation standards when built off site.

One issue identified was the work done by trades on site, once off site homes are erected – e.g. drilling holes – which can undermine the quality, precision engineering and ‘building envelope’ of off site manufactured homes.

Certainty of demand

The sector needs certainty/continuity of demand to invest and grow capacity.

Type

Space4 manufacture open parallel timber frames, which replace block walls in traditional brick/block build. Roofs are not made in the factory (although in some cases panels are used on the roof for room-in-roof type properties).

They manufacture homes of different sizes and types (e.g. detached and semi-detached, and 2-4 bedrooms).

Laing O’Rourke produce high rise blocks of 150+ units.

Scale

Space4’s factory manufactures 5,500 units on its production line each year. Production could be scaled up to 8,000 pa.

Laing O’Rourke currently manufactured 1,500 units pa.

The most successful firms have focused on Ministry of Defence/hotel/student accommodation as they can produce the same product at scale and so achieve costs that are more beneficial.

There are around 40 companies with factories in the UK, of which 10 are large and 30 are SMEs.

Variability

Space4 have 20 template houses that they can ‘skin’ differently (e.g. different bricks, windows). 80 per cent of production is repetition of the same house - standardisation is key to achieving scale. Internally these homes are the same but externally there is variation.

The Laing O’Rourke production line can produce different products and components, and can manufacture complex designs.

Time

Traditional brick and block can take 3 weeks to erect the superstructure; it takes 1 week to erect timber frame on site and add a roof.

Cost

There is a premium for timber frame over traditional construction.

There was agreement that the aim must be to aim for the market rate, but that off site could deliver better quality at that rate.

Future modifications

There is no difference between off site construction and traditional build in the amount of flexibility owners have to make changes to properties.

Constraints

To increase capacity, the sector is constrained by:

- Long lead in times (circa 18 months to 2 years).
- The high capital cost of opening new factories.
- Space4 said that it can also be difficult to source materials, with ebbs and flows in supply and a significant amount of inputs imported. There is a need for more investment in supply chains. Laing O’Rourke use local materials.

Utility regulators roundtable, 15/03/2018

Attendees:

- Sir Oliver Letwin
- Andrew Burgess, Associate Partner Energy System Integration, Ofgem
- Emma Kelso, Senior Director of Customers and Casework, Ofwat
- Huw Saunders, Director, Network Infrastructure, SITE, Ofcom

Funding

Charging arrangements were discussed, and whether these would need to be changed through legislation. It was suggested that the industry code and, in the case of water, DEFRA charging rules/guidance could be used for this purpose. Even if work was underwritten by a development corporation or local authority, the question of who pays would remain, and whether it would be paid upfront by the developer.

On individual sites, it is a question of who pays and when – water companies expect to recover charges both from developers and from future residents.

There is also a question of scale – a large new development can have a proportionally significant impact on small water companies.

For fibre to the premises (FTTP), upfront costs are met by Openreach, who then receive costs from providers.

Certainty

Certainty is key to justify investment in new infrastructure ahead of need. Stronger evidence of new development gives providers more certainty.

Who delivers what and by when

Having multiple developers on one site can be difficult as there is a lack of coordination – a joint venture or consortium approach on a commercial basis can overcome this problem.

Distribution Network Operators (DNOs) are incentivised to invest in new demand.

On water, if connections were to be put in prior to development, the work would not necessarily be done by water companies – other firms could compete to provide this service.

This was also the case for Openreach, as developers had the right to negotiate with other providers. If Openreach are contracted, they will provide connections or subcontract this. There was a lack of clarity over who has responsibility for passive infrastructure.

It was suggested that third party delivery would leave open the question of who would take over and manage the infrastructure over the longer-term.

It was suggested that the Olympic site would be worth looking at, and reference was made to work done in 2014 and 2015 by the UK Regulatory Network.

<u>James Murray, Deputy Mayor for Housing and Residential Development, 22/03/2018</u>

Attendees:

- Sir Oliver Letwin
- James Murray, Deputy Mayor for Housing and Residential Development, Mayor of London's Office
- John Bibby, Senior Policy Officer, GLA

Review timing

The timing of the Review was discussed. It was agreed that a further meeting would be held in June, when Sir Oliver's Draft Analysis was ready.

It was noted that the Mayor of London welcomed Sir Oliver's preliminary update.

Constraints

There was discussion of site specific issues on large sites in London, such as transport, infrastructure and remediation. It was agreed that absorption rates were the binding constraint.

Product mix

Product mix was discussed. It was noted that, owing to high density building typologies in London, it would be hard to greatly increase diversity of design and type. It was stated that affordable housing is key in London, and that the Build to Rent sector has an important role to play.

<u>KPMG, 22/03/2018</u>

Attendees:

- Mark Essex, Director, Public Policy, KPMG
- Craig Cox, Senior Manager, Corporate Affairs, KPMG
- Jan Crosby, Managing Director, KPMG

The challenges of Build to Rent

There is an increasing focus on Build to Rent (BtR) and multi-family housing, but this is an immature market despite appetite from institutional investors.

The BtR product is different, with rental levels not comparable to rents in local areas. The big issue is the size of the market for this premium product. Investors are taking a 10-15% equity risk, not a 4% cost of capital risk.

Market absorption of Build to Rent units reflects the fact that people’s needs and wants are highly diverse.

There is also ‘too much’ demand for homes for sale as those who are able to buy are taking the opportunity as prices continue to rise beyond incomes. Security of tenure can only be guaranteed by buying.

Investors are there for the long-term. Land values for BtR investors are set by open market investors and they have expectations of long-term appreciation.

Their solution

They argued that the solution is to reconfigure rental streams to look like steady pension fund returns.

The two challenges to this are the risk of void periods and tenant credit risk.

They proposed an employer-led model of Build to Rent, based on contingent liability, with employers (such as large private sector organisations, major public sector bodies such as the NHS) guaranteeing occupation.

Flats would be available below market rent as AAA-rated organisations can access lower borrowing costs than other investors or developers.

Collaboration between employers would prevent mono-employer blocks, which could be unattractive to employee-renters, and would support place-making as amenities provided would meet the needs of particular resident demographics (e.g. young professionals).

Public sector land could be used for this type of development, with the public sector retaining a reversionary freehold.

They said that there is employer appetite, but that it would likely be focused in London and a few other cities where housing pressures and prices are very high.

This model could be used in any case where rents can be guaranteed.

<u>Estate agents roundtable, 22/03/2018</u>

Attendees:

- Sir Oliver Letwin
- CBRE – Mark Collins, Miles Gibson
- JLL – Adam Challis, Ben Walden-Jones
- Savills – Toby Greenhow, Lizzie Cullum
- Knight Frank – Justin Gaze, Rupert Dawes

Price points

On a large consortium site, price points for houses can vary between developers over the course of the development. Different explanations were offered by different attendees, including different build costs, the price paid for land and product differentiation; and it was suggested that the market will ultimately determine the price at any point in time.

Market segmentation

There was broad agreement that there are different markets for different house types and tenures, and that renters and buyers did not compete. A suggestion was made that occupiers and landlord investors may operate in the same market.

A reference was made to 'tribes', with distinct groups based on factors including age, earnings, and location. Agents carry out demographic research and treat rental and sales markets as separate. This work is based on demographics and past experience of what particular groups look for in housing, and was based on tenure and price rather than design.

Price was the main driver for most buyers. Most purchasers are cost maximisers – they try to 'spend the lot'.

Location was also a key driver, with people willing to compromise on size and other considerations in order to buy in a better location. However, people (especially in London) are 'transient' – they will consider a range of location options.

Developer behaviour

It was suggested that SME developers on large sites delivered a differentiated product.

Large sites

It was not possible to design a 2,000 unit site fully in advance – demographic change occurred as sites were built out, and it was hard to predict market conditions and demographics five years prior to delivery.

The type of housing built in which phase was determined by the target market for particular types – for example, apartments aimed at young professionals could be built out before housing for families who typically require amenities, open space, transport links and schools to be in place before moving.

Shared ownership

Three factors were identified as constraints on the appeal of shared ownership:

- current lease restrictions on shared ownership homes, which narrow the market for second hand shared ownership homes, and different mortgage arrangements that apply to them;
- a cultural stigma and preference for full ownership, although it was suggested that this was changing, partly as a result of tenure blind development; and
- historically, the build quality of shared ownership units had been lower than open market homes.

Developers tended to like shared ownership as it was similar to a sales product.

Help to Buy has ‘probably’ taken market share away from shared ownership; and the short length of mortgage offers (6 months) restricted demand as people were reluctant to commit to buying new build homes.

Land values

Hope value depends on the likelihood of development being realised.

Strategic land trades were very risky and subjective, which restricted the size of the market.

Rules of thumb for land values were suggested:

- Agricultural land – £8-10k per acre.
- Agricultural land with prospect of allocation / planning permission – £20-100k per acre. Allocated land much closer to £1m than £100k.
- Permissioned site – £1m per acre.

Hope value depends on the prospect of allocation rather than location – Green Belt land within the M25 is cheaper than agricultural land in South Wales. However, serviced and permissioned land does vary in price depending on location.

Option agreements normally specify a minimum land value. The amount varies, depending on location and specific site attributes, from less than £100k per acre up to over £500k per acre.

<u>Homes England, 22/03/2018</u>

Attendees:

- Sir Oliver Letwin
- Nick Walkley, CEO
- Stephen Kinsella

Homes England

Homes England (HE) currently has c.3,000 hectares of land for residential development to provide c49,000 homes.

HE provides two key services:

- Unlock public & private land where the market will not, to get more homes built where they are needed, intervening in the market to unlock and assemble land for development; and
- acting as a master developer, which includes trialling new and challenging methods to provide tried and tested examples for others to copy.

Tools employed include the provision of grants, plan making expertise and the use of recoverable investment.

As master developer, HE's work includes but is not limited to:

- creating the context for a successful development;
- getting the land allocated;
- securing outline consent;
- agreeing design codes; and
- getting the infrastructure in place.

Promoters

85% of outline consents are secured by people/organisations that don't go on to build anything – many of whom are promoters. Developers are less keen to undertake the heavy lifting required to bring forward large sites, or to take large sites onto their balance sheets. Once a large site is ready to sell on to developers, it does not suit the promoters' business models to break the site up and sell onto multiple builders, as doing so would reduce the overall value of the site. HE would like to take on a greater role as a promoter to bring forward sites for development.

Land owners

The motivation of land owners can have a significant impact on a development. These include:

- maximising profit;
- realising capital quickly;
- providing a lasting legacy; and
- delivering specific objectives (such as policy objectives in the case of Homes England).

Local authorities

Local authority levers of influence are reduced following the allocation of land, and the lack of relevant expertise (in terms of architects, designers etc.) contributes to their reduced ability to influence the outcomes on sites.

Homes England have much of the expertise that could benefit local authorities. They have the benefit of the learning acquired from legacy sites in the HE portfolio. With their commercial experience they recognise which sites represent good value and which do not, and they can provide on site capacity, while still remaining part of the national agency, with the levers that can provide.

Next steps

Sir Oliver to meet with Homes England again in September to discuss emerging solutions.

<u>Expert Panel, Meeting 2, 22/03/2018</u>

Attendees:

- Sir Oliver Letwin
- Richard Ehrman
- Lord Gadhia
- Baroness Prashar
- Professor Christine Whitehead
- Lord Hutton of Furness
- Tim Leunig, MHCLG

Sir Oliver began by explaining his progress to date and setting out his plans to produce a Draft Analysis by the end of June, as outlined in his update to the Chancellor and Housing Secretary.

Draft Analysis

To ensure transparency and clarity, the report will need to provide definitions on some of the terms used in the Review, including the definition of large site in the context of the Review. 1,500 units and above is considered to qualify.

The report needs to clarify the scope and purpose of the Review. The preliminary update should have helped in setting out the Review's intention.

Recognised that strategic land banks are a fundamental component of the house building industry, and are a response to the variability in time it takes to progress sites through the planning system. Consequently, there is a need to look at ways to increase the flow of permissions through the system.

The data gathered from site visits should show the level of variability in the time it takes to progress a site through the planning process – it may show a level of predictability in the time it takes to acquire planning permission.

The Review needs to look more closely at some of the commonly cited issues e.g. the planning system.

The speeding up of the site allocations process needs greater consideration given its inclusion in the Terms of Reference. This is because by the time that an application is submitted, a great deal of legwork has already been undertaken to establish the development potential of a site. Progressing through to planning permission following application takes a relatively short period of time.

A value chain should be included in the analysis which sets out the changing land value at different stages in the process.

Skills and labour

Skills has been investigated but there is a need to continue examination (latest statistics required etc.). Skills not considered a core constraint on house building e.g. the number of electricians employed in housing construction compared to total electricians is minute. The number of electricians to service an extra 100,000 homes would be a tiny proportion of the total number of electricians.

ONS data does not show pressure on bricklayer pay, which would not support the anecdotal evidence that there is a shortage of bricklayers.

Finance

There will be two roundtables – one with mortgage lenders and a second on developer finance. We need to understand more about constraints to development finance and mortgage lending. This includes identifying whether there is a capital constraint for other builders (including Registered Social Landlords such as housing associations) who want to come on site to deliver alongside existing developers.

Need to explore how housing associations access finance

Is finance a constraining factor for the number of homes available as shared ownerships. If we were to increase the amount of shared ownership available, what finance model would make that possible?

Data

The depth and quality of analysis is the foundation of a successful report, and the analysis needs to be accessible to enable external scrutiny.

The Draft Analysis will be published and will be subject to iteration following discussions with stakeholders, who will be encouraged to critique the data.

Historic data that goes beyond the past few years will be valuable.

Currently there is no comprehensive database owned (or known) by Government which presents developer delivery data or land ownership. Land Registry are looking to record data on all land options held on land.

Molior can provide useful quantitative site data, but greater qualitative information is required to make accurate assessments of why the rate of delivery is what it is. The Review’s site-specific data will be relied upon for more detailed analysis.

Regional variations should be recognised, although the Terms of Reference require that areas of high housing demand should be the focus. For example, the GLA's area is very different to other areas of the country. Between 2008-2014, 50% of applications were on 'large sites', but these contributed only 5% of total output. It would be useful to see if this has changed since 2014.

The scope of Review is on large house builders on large sites. This is due to the overall contribution to total output made by large house builders, and most of that output comes forward on large sites. It was noted, however, that most house builders would consider a large site as anything above 250 units. Should the Review look at some sites in the region of 500 to 1,000 units?

The panel were invited to suggest further sites to visit or other stakeholders to meet that would be of value over the coming months.

Diversification

Could certain products be considered to substitute for other products in a comparable market i.e. if Developer A was building homes to rent on a certain site and a housing association started building on the same site, would that substitute for Developer A's PRS development?

Agreed that pace of development would be quicker if a housing association was building-out at the same time as another house builder on site.

Variety and price point are key to changing the build out rates.

How far different kinds of tenure have an impact on one another, and how far are they largely separate markets?

- Are buyers who favour X (social rent, shared ownership, market housing) over the others a different category of buyer, or are they making a choice based on the products that are available to them?
- Shared ownership is the meeting point between social rent and market housing. However, the subset of buyer for shared ownership is very narrow given the rules in place on purchase (including income thresholds and demonstrating employment history).
- Why is the shared ownership model (paying c.25% upfront and 75% rent) less favourable than the market rent model? Why does replacing part of the rental stream with capital upfront cause issues? Recognised that there were issues with demand.
- Shared ownership liable to higher interest rates and are complicated to sell. There is less intrinsic security to lenders if they lend 95% on 50% ownership than 70% on 100% ownership.

<u>Visit to IJburg and Almere, The Netherlands, 05/04/2018</u>

- Sir Oliver Letwin
- Tim Leunig, MHCLG

IJburg

In advance of site-specific discussions, we were given an overview of the Dutch housing market by officials from the Ministry of the Interior and Kingdom Relations. At IJburg we met the project manager and urban designer from the Municipality of Amsterdam.

IJburg is located on the east side of Amsterdam and consists of six islands. It was built out between 2001 and 2018. In this period about 10,000 houses were built, although there was a five-year hiatus in the middle because of the recession. Between 2001 and 2008 around 6,000 were built, and between 2013 and 2019 around 4,000 will be built. The dwellings are a mix of social rental housing, rental housing in the private sector and owner-occupied housing.

Within the Municipality of Amsterdam, the lead department has been the Department of City Planning – the DRO. Within the DRO, a team was set up to deliver the IJburg project. This team, the Project Management Bureau, was the vehicle that procured the land (from another government department – the Land Development Company), using income generated from existing housing – similar to council tax.

The Project Management Bureau created a city plan. But when investors (builders) were brought in, the investors found the plan too prescriptive, so a new one was created. The investors, who together created a consortium, wanted an urban plan in a grid, creating mini zones. Each investor was responsible for one plot (zone) and they wanted freedom to develop that zone themselves. The Bureau agreed a simple set of rules which included stipulating the height of the buildings, but within each plot, there was a marked degree of variation.

They talked extensively about the role of place making, ranging from the provision of trams to make it a community from which you could commute to Amsterdam easily, to views of the water, and parks. They also talked about kindergartens and schools.

They were unclear why it has not been built out faster, but they consider the rate at which it had been built out as a good speed. They believed that this rate had insured market absorption, as well as allowing the creation of communities.

They have a particular definition of a plot, which is very different to ours. Definition of a plot is usually something on which you can build a single family home. Their plot is what we would really call a "block" that is it is the space between two roads in each of the two horizontal dimensions. Sometimes adjacent blocks were sold to the same developer, but in general each block was sold to a different developer. The developers had to be approved by the local authority, and they were given guidelines to help them design their blocks. For example, there was a maximum height in almost all cases. Similarly, most of them required houses to start 1m back from the edge of the pavement. The housing then went all the way round the edge of the block, facing outwards. This left a courtyard in the middle, which the developer was obliged to do something with. Some build smaller housing in the middle, for example, while others provided more communal facilities such as a play area. Some of these communal areas were restricted to the people living in the block, whereas others were accessible to be public via alleyways. Cars are stored in underground garages, although there is some facility for visitor parking above ground. The new role of the local authority meant that in reality they approved everything that was submitted, because everything that was submitted was sensible. Post-2013 they were rather more relaxed, because the recession had hit viability.

They are about to start the second phase on a second island. The island will have approximately 1,500 dwellings, and will be primarily small-scale, self-build. This is much slower (300 per year), but leads to more interesting streetscapes. They also recommended saving some important sites to create real statement pieces of architecture. It is often best to do this at the end when you have a sense of how the place is developing.

They noted that selling all of the blocks initially had reduced their short-term flexibility to build communities. In particular, it was hard to have "pop-up" communities or facilities, since they did not own the land.

Almere

At Almere we met officials from the Municipality of Almere, from Almere project team, and Amvest.

We visited 3 sites: Plan Duin, Zicht op Duin, and Homeruskwartier

Almere: Plan Duin

Plan Duin is an approximately 100 hectare development area in the coastal area of Almere Poort.

Approximately 3,000 homes, catering establishments, hotels, shops, care facilities, education facilities, and offices are being realized. 200-300 houses per year are being constructed. 10% are for social housing, 20-25% for rent, and the remainder will be available on the open market.

The Municipality held a competition for investors (builders) interested in a long-term investment (a minimum of 30 years) to create an urban plan for the area. Amvest, a pension fund, submitted the winning plan, which was judged on the overall plan for the area, plans for the houses and the price they were offering for the land. As the successful bidder, Amvest acts as project developer and investor of ‘Plan Duin’.

Much effort has been spent on place making. The developers have created a beach environment, incorporating existing trees into the landscape. Businesses moving into the area have to agree to adhere to the design quality of the overall plan.

Plan Duin has now become the face of Almere, and houses there sell or 20-25% premium above other houses on Almere. At the beginning, the developers built 4 houses on the site and people were invited to come and stay in the houses and provide feedback on what was good and bad. A pioneer family also moved in and helped create the space using social media to promote the benefits of living there.

Amvest has a contract with the Municipality to develop Plan Duin, but there is no obligation to build. However, building out is the only way for Amvest to see a return on their investment.

The Municipality review and agree Amvest’s plans for the spaces. There are 8 people working on the development of the project within the Municipality, with an additional 1-2 people reviewing the building permits.

Amvest bought land for the first 2,000 units, and has options on the remaining land. The Municipality released the land at the speed at which they want it to be built out.

As the land was originally owned by the City, the City was able to choose who to sell it to.

Almere: Zicht op Duin

'Zicht op Duin’ is a project for which the Municipality of Almere enables developers and builders to build ‘city palaces’. These are small-scale stately apartment blocks that consist of approximately 12-15 apartments per building.

Developers wanting to develop a plot (one block) can reserve the land by paying a deposit of 5% of the land value as a deposit. The Municipality will only release the land for development once planning permission is granted. If permission is not given, the developer can return the land to the Municipality, but they lose their 5% deposit.

After the crash in 2008 the Municipality reduced the block sizes, enabling smaller builders to enter the market. Design rules were also relaxed to encourage greater build out.

<u>Visit to Heidelberg and Frankfurt, Germany, 06/04/2018</u>

- Sir Oliver Letwin
- Tim Leunig, MHCLG

Heidelberg

In Heidelberg we met officials from the Regional Department for Environmental Protection, Commercial Inspectorate and Energy to discuss the development at the Bahnstadt.

Background

They typically have a 20% social housing minimum, and a procedure very similar to s106 negotiations to decide the actual percentage. Social housing units are not designated as such in perpetuity, but will typically become market units after about 25 years. The state offers loans to developers at 0% interest if they agree to build social housing promptly (starting within one year). The 0% loans are for 25 years, and any investor is eligible for these 0% loans. These loans can be for up to 80% of development costs. Social housing is also sometimes grant -assisted. The social housing can also be provided off site, although this is generally only the case if an area has sufficient social housing already.

Because the social housing units are not permanent, the developer/investor will build them to the same standard as the private homes (which is also required by law), because one day they will want to rent them out in the private sector. They prefer to have the social housing intermingled with the market housing wherever possible. The City will also take something of a hit on the land price in order to get sufficient housing for low and middle income groups: viability issues are otherwise problematic.

The Bahnstadt

The Bahnstadt is a new district of Heidelberg on a large site (over 116 hectares) of a former freight yard, being developed by the City's own Development Corporation. into the largest passive house development in the world eventually housing about 10,000 people (3,700 homes). It is a high quality mixed use urban quarter and one of the largest development areas in Germany. Shareholders of the Development Corporation include the Heidelberg Public Savings Bank (Sparkasse Heidelberg), the Heidelberg Public Housing Company (GGH), and the Federal State Bank Baden-Württemberg Real Estate (LBBW Immobilien).

The approach used is based on contract law. They award building contracts, which include build out clauses to determine the speed of build out, and the right to build is awarded to a specific person. Once a contract has been agreed between the investor and the City

Council, the investor must submit their plans within 6 months. Once the plans are agreed, the investor must start building within a year.

Using urban development measures, the City Council buys land. In Heidelberg, the Development Corporation bought the freight yard and sold small plots to investors, with investors paying for the land upfront. The Development Corporation can reclaim land if there is a breach of contract by the developer.

The City Council has to agree to the detailed plans, including the time it will take to build. If the City Council rejects the plan, they have the right to buy back the land if they owned it before (which is common) at the price at which they sold it.

Investors paid about €550 per square metre, which is similar to the price the state had paid the railway company. The price paid to the railway company is a market price, in the context of the expected development. There is no land value capture. The plan is public and everyone knows what can happen, and this means the price is quite high.

Once the Development Corporation has bought the land it has an incentive to sell it on quickly, to realise any returns on its investment. The local authority always keeps some flexibility in the plan, which enables them to react to any development. That said, the law is generally pretty specific. For example, someone buying a block will have a design code, specifying the maximum height, the design of roofs, the colour of the walls, to create a coherent look across the area. They are trying to be a little more flexible now, where as they used to be even more prescriptive. The flexibility is used in contract negotiations, but once the contract is finished, everything is tied down. A plot, for which planning permission would be granted as a single unit, is typically 100 flats.

Overall the City makes a loss on land purchases and sales, but it gets tax revenues in the form of each share of the income tax that goes to the state, from the new residents who move into the flats. It also gets a share of the tax take that businesses pay to the state. So even though they make a loss on land, it is still profitable overall to support development.

This development was done by a formal development company, partly owned by the city. It installed the streets and the sewers, and also the heating pipes were installed by a utility company which is a hundred per cent owned by the city (they use district heating: it is part of their approach to zero carbon, via a wood fuelled combined heat and power system). The city contracts with some private companies for the delivery of some infrastructure services, if those companies have relevant expertise. They also provide a subsidy to the developers of €50 per square metre such that they meet the required passive house requirement.

Building began in 2010 and the entire site is due to complete by 2022, although could be earlier. The first occupation happened in 2011, and so far they have built 2,245 units in the first 7 years. Overall they expect it will take 10 years to complete the build out.

The Development Corporation is a very small team comprising of officials seconded from the stakeholders, including the municipal savings bank. There are urban planners working for the City Council, and the planning permits are awarded by the City Council. Permits are awarded for each plot – usually comprising of 100 flats per plot.

Frankfurt

In Frankfurt we met with officials from the Department of Planning and Living.

Frankfurt is a city covering 250 km², approximately one fifth the size of London. It has a population of 740,000, and has grown by a hundred thousand people over the last decade.

49% of people living in the Frankfurt area are eligible for social housing, using national criteria. A further 19% are eligible for a Frankfurt specific category of subsidised housing.

The planning department are efficient: it typically takes 49 working days to process an application. Planning permission approvals have also recently doubled.

They have built an urban extension recently, called Riedberg, to the north of the city. It consists of 6,000 units, and took 17 years to build, including planning, with the actual houses built over 10 to 12 years.

They are now repeating this approach, immediately to the west of Riedberg. This area is currently 550 hectares, of which 200 hectares will be built on. It will have between 10-12,000 units. They are currently undertaking an environmental assessment, after which the development will be permitted or rejected by the town council. At that point they will buy the land. They will then have a competition to design the overall concept for the area. This will be an opportunity for town planners to come up with a vision for the area. This vision will then lead to the zoning within the overall town, and the design guides. Then they will sell the plots (residential blocks). The contract to sell the plots will have requirements about design, the quantity of social housing, and the speed at which the houses are built. They will sell the plots in stages, as they need the revenue from the early plots to pay for the installation of the infrastructure in the next bid to be developed. They are also concerned about market absorption, and do not want to undermine the prices, and don’t want to be in competition with other developments in the city. They expect it will take 10 to 15 years from the construction of the first house, to the construction of the last house. But if market absorption is faster, then it may get built more quickly. Riedberg went from an initial 60 per year, to 600 per year by the end. They had 35 Development Corporation employees working on that project.

We asked what price the City pays for the land. Reference was made to the SEM law, which apparently sets out the formula for paying a farmer for land. They suggested the agricultural value was €20,000-€25,000 per hectare. They suggested that the full market value might be €500,000, to €600,000.

They also outlined a much smaller urban extension, of 17 hectares, with 850 units. They are starting to build that one now, and were expecting to be finished by 2022, although the developer is claiming it will be finished by 2020. In this case the land was owned by a foundation with close links to the council, so it was all very straightforward.

They also told us about a railway site, which began building around 2009. Since then they have built about 1,000 units a year, with various competing builders. It is 145 hectares, and only 3% of it is social housing. It includes the first large residential tower in Frankfurt. It was built with much lower involvement from the council, and the railway company ran it themselves. The council didn't try to acquire the land as they felt that the railway company would do the right thing, and trying to acquire land would be too expensive for their underlying fiscal position.

<u>Paul Carter CBE & David Godfrey, County Councils' Network, 17/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Paul Carter CBE, Chairman, CCN and Leader, Kent County Council
- David Godfrey, Kent County Council

Remit of study

Study around build out of major sites – can take around 10 years after all potential obstacles agreed.

Important to understand the issue fully before offering recommendations.

Local authority/developer control

Current development model does not easily encourage different products to be offered into different markets.

Power shifts to developer at site allocation; the local authority's role differs in some European countries, with similar examples here in Barking and Graven Hill.

New ways of land value capture were urgently needed, with a much more reasonable share of uplift between the land owner and the local authority.

Serious concerns over current S106/developer contribution model which could deliver a 20% increase or more.

The example of Kings Hill, a large site in Kent, was discussed. The County Council owns a 50% stake in the development which works well and is delivering a return.

Local authorities, beyond mayors and combined authorities, should be allowed to risk share. There was a question around local authority capacity.

Regulatory phase

There is a long lead in time in the pre-allocation phase.

Design and construction quality

SMEs struggle to compete with the big builders' construction costs. Design and quality is improving.

<u>Building suppliers roundtable, 19/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Brett Amphlett, BMF
- Joe Hudson, Ibstock
- Laura Cohen, British Ceramic Confederation
- Jade Lewis, Saint-Gobain
- Iain McIlwee, British Woodworking Federation
- Jonathan Clemens, Tata Steel
- Keith Aldis, Brick Development Association

Bricks

Capacity

Existing factories are operating at 'full tilt' although there is room for 10-15% capacity growth by increasing shift patterns and increasing the number of production lines. This would take c. 6 months.

Current slack is picked up by imports, but European construction growth in the Netherlands and Belgium in particular is putting pressure on this.

Roughly 60% of bricks produced each year are sold to house builders; 40% are sold to merchants. Of these, 50% are sold to construction firms engaged in commercial and residential development, including many smaller firms.

2.4bn bricks is the annual 'sell out capacity'; there is capacity to produce 1.9bn clay bricks in the UK, with circa 400m imported last year, and around 100m sourced from existing stocks during the last 12 months.

Lead in times

It takes roughly three years to plan and build a new brick factory.

There are constraints on recruiting people for new factories.

Supply chain

The supply chain for bricks is highly inefficient and the industry needs to work collaboratively to solve this. Competition Law acts as a restrictor to productive collaborative working in this area. Orders are routinely placed and cancelled and this makes planning and forecasting very difficult. Up to 30% of total production is affected in this way.

Orders from house builders are based on a ‘gross order intake’ that is calculated annually and is an ‘unscientific estimate’.

Providing stable and firm contracts would help resolve this.

Encouraging investment in bricks and other ceramic construction materials

Kilns last at least 25 years, and they are not trivial investments – firm, long-term demand is needed to encourage growth. Investment in additional capacity would be encouraged through:

- regulatory certainty;
- government ‘pressing button’ through housing targets and investment in house building, particularly counter-cyclical demand, including new social housing;
- access to nearby secure clay assets, for the lifetime of the operation;
- support to ‘level the playing field’ on energy costs vs. overseas competitors; and
- robust trade remedies framework after Brexit to counter dumping etc.

Brick types

One issue identified was that there are approximately 400 ‘very specific’ brick types out of approximately 2,500 product lines. The extent of variety is often due to requirements in planning permissions.

Persimmon are investing in a concrete brick factory, but using concrete bricks can increase build times and cost.

Builders’ merchants offer a brick matching service to help businesses obtain the right type of brick for their project.

Other ceramic construction materials

Plenty of extra capacity for clay drainage pipes (and almost no imports). Some extra capacity for clay roof tiles – imports have increased to c.25- 30% UK market.

Some extra capacity for wall / floor tiles – there is currently a significant level of imports. Anti-dumping tariffs renewed in recent EU review.

Some limited extra capacity for ceramic sanitaryware – there is currently a significant level of imports.

Steel

Steel is not used extensively in residential development due to the high proportion of low rise house building which is predominantly brick and block construction. 80-90% of smaller components are manufactured in the UK. To expand use of steel, awareness of how to fix and use steel needs to be improved. Modular construction requires more steel than traditional build methods.

Windows, frames and glass

The window frame sector is very fragmented.

There is not a capacity issue in the glass sector, although there are only three main manufacturers, adding capacity would require long-term investment, and imports are difficult due to the fragility of glass. However, most glass is used to replace existing windows rather than for new build homes, and there is capacity to increase output at existing factories.

Timber

The timber frame industry could scale up capacity of existing factories. Brexit could be an issue for timber imports, although more investment is going into UK forestry.

Brexit could affect imported materials. If no mutually beneficial UK-EU customs' agreement is struck, British businesses face paying 20% extra upfront as VAT on imports like timber & bricks. This has immediate implications for operating costs and cashflow for importers, merchants & manufacturers.

Further information

Saint-Gobain UK provided the Review with further information after the meeting.

Saint-Gobain UK worked with the Construction Products Association on a study of the factors underpinning investment in the construction products industry. The report makes recommendations on how policy can be designed to reduce uncertainty for business and encourage investment. Suggestions included:

- effective regulations should be clearly defined, target-driven and not prescriptive;

- regulation should be simple with minimal administrative burden;
- industry should be consulted early and regularly to ensure problems and solutions are mutually agreed and evaluated; and
- regulation should be long-term, with cross-party consensus to prevent changes owing to party politics. Unplanned changes must be avoided.

<u>Skills and workforce roundtable, 19/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Steve Radley, CITB
- John Slaughter, HBF
- Jenny Herdman, Home Building Skills Partnership
- Lord Lingfield, Chartered Institution for Further Education
- Andrew Dixon, FMB
- Richard Byard, Oxfordshire LEP
- Jennie Daly, Taylor Wimpey

The discussion covered the following trades and roles. There was agreement that these would be priority roles if build out rates were to increase:

Bricklayers

Employment

Most bricklayers are self-employed and work in ‘gangs’, which act like temp agencies.

Most bricklayers will spend up to 30-40 years in the industry, although people leave in the industry in downturns. Bricklayers are more likely to leave the sector than other trades.

Smaller builders do more direct employment, as they require people who build more bespoke homes. Two year Level 2 courses are not sufficient for bespoke house building. There is a difference between SMEs, who look to employ people with a wider range of skills, and self-employment, where gangs are most concerned with earning money and do not have time to supervise trainees.

Training

2,700 bricklayers are trained per year. One bricklayer is needed per 4 additional homes per year.

There is significant leakage from apprenticeships and further education – around 50% of those who start courses or apprenticeships do not complete them. Only 25% of FE construction students enter the construction industry

To train a significant number of additional bricklayers over a 3 or 4 year period would require:

- improving perceptions of the industry amongst young people and their parents, although signs are that this is already happening;

- large developers doing more to help introduce people to the sector;
- attracting lecturers and trainers. This is a challenge as many older bricklayers are paid well in the industry already, above the c. £30,000 annual salary of a further education tutor; and
- further education courses in construction are comparatively expensive to run, so there is a question of college resources.

Taylor Wimpey are carrying out training pilots and increasing direct employment (as directly employed tradesman can train apprentices). Quality is one of the drivers for this.

Further education colleges find it hard to collaborate with industry.

In upturns, developers can find it hard to devote time to training on large sites.

T Levels will include 3 months of on site work experience, but will not be a ‘silver bullet’ because it is hard for many construction learners to reach Level 3 as they have low qualifications (GCSEs), and many roles do not require Level 3 skills.

The Government’s retraining scheme and skills training fund could have a big impact if focused on the key trades.

Many apprentices work with smaller firms (a third of apprentices work at firms of less than 50 employees). Concerns were raised that the Apprenticeship Levy next year will not give those smaller firms ‘carved out’ funding for training.

Shortages

Reported shortages are increasing. Shortages manifest themselves through build quality.

It can be hard to set up a supply chain for a large site.

Groundworkers

Groundworkers ‘open up’ sites, put in development platforms, dig and lay foundations, operate plant and machinery, and put in roads. There are therefore a number of roles and skills required, and the workforce has an older profile.

Groundworkers tend to go in before a site compound has been set up, and they tend to be employed via smaller companies rather than self-employed. These firms have high costs and are ‘fragile’, affected by slowdowns (and upturns) in the market before other firms.

Further education does not produce many qualified groundworkers – around 600 Level 2 apprentices last year.

Site managers

Site managers are key to delivery of housing sites. Greater work rates and larger and more complex sites require more experienced site managers. Assistant site managers and material controllers, amongst other roles, supplement that of the site manager.

200 site managers and a further 200 assistants would be required to build an additional 10,000 homes in a single year.

Routes into site management are internal, and site managers learn by doing. For example, someone might spend 10 years in a trade, before becoming an assistant site manager and then moving up to become a site manager.

Trainee site manager programmes typically take two years, but it can be hard to find opportunities to move onto a site as a site manager upon completion. Post-training, their skills continue to need to be developed through experience and they would not necessarily be fully productive for some time later or able to take management of complex and/or challenging sites.

Other points

Migration

It was agreed that importing labour is ‘quite easy’ although getting more difficult, and the quality of migrant labour tends to be good, but that migrant workers are not good at training apprentices.

Bespoke houses

Bespoke housing takes longer to deliver and requires specific skills. The Institute of Apprenticeships is promoting collaboration across the industry on a two tier model of qualifications, with apprenticeships to Level 2 and a ‘top up’ qualification to give learners further skills required by more bespoke housing, e.g. to build arch ways. The Home Building Skills Partnership has supported this as the vast majority of current bricklayer apprenticeships are Level 2.

The FMB does not support the Home Building Skills Partnership as smaller builders require different skills, and they want to raise the skill level across the industry.

Local collaboration

It was suggested that LEPs could play an important role in supporting collaboration between developers, contractors and local authorities at the local or regional level to meet forecasted housing growth and skills requirements.

<u>John Callcutt, 19/04/2018</u>

Attendees:

- Sir Oliver Letwin
- John Callcutt

Sustainability

He is focused on environmental, social and ecological sustainability in house building.

Differentiation of products

Quality and design of homes are both important factors in the differentiation of new homes.

Consumer questionnaires on quality are not sufficient or robust enough.

Local authorities

Local authorities do not have any ongoing, meaningful oversight of the quality of homes delivered on sites.

Risk and cyclicality

Land and housing cycles are key to the behaviour of developers on sites.

<u>Lands Improvement Holdings, 25/04/2018</u>

Attendees:

- Sir Oliver Letwin
- James Stone, Managing Director
- Nigel Reid, Development Director (Houghton Regis site)
- Ben Phillips, Investment Manager, Telereal Trillium

Infrastructure

Sir Oliver explained that during his investigations he had experienced numerous sites with long histories which have been held up by large infrastructure requirements. This has been particular prevalent on brownfield sites.

Houghton Regis background

Houghton Regis 1 (HRN1) will deliver over 5,000 dwellings. Including HRN1, there are over 13,000 new dwellings proposed in the area (at both post and pre-planning stage). The site is former Green Belt land.

Outline permission was granted as part of the very special circumstances case for the economic regeneration of the area that the development would bring and the support to the planned improvements to the strategic road networks, specifically a road linking the M1 and A5. This opened in May 2017.

LIH own 35% of the site as part of a consortium, with two other parties, AVIVA and the St Albans Diocesan Board of Finance owning the remaining 65% (a 51% and 14% split). Ownership functions in essence as a joint venture, with LIH operating as a promoter/co-ordinator for the site. The consortium also underwrote part of the cost of the road network with the Department for Transport.

The site was not allocated at the time that LIH acquired their initial interest in the site (1991). The site has a draft allocation in Central Bedfordshire's emerging Local Plan

An outline planning application was submitted in 2013 to Central Bedfordshire and, owing to the Green Belt designation, it was called-in and approved by the Secretary of State in 2014.

The decision was subject to challenge by Luton Council as they considered that the location of the proposals should have contributed towards their area's local housing need. The case made it to the Court of Appeal and the decision upheld in June 2015.

Between Summer 2015 and early 2017 LIH and AVIVA underwent separate restructuring processes, which had an impact on the speed of progress. Planning discussions and submission of stage 2 masterplanning and subsequent discharge of conditions have been progressing to the present day.

Utilities

Negotiations with UK Power Networks, Anglian Water and other utilities began in 2015. Discussions took 18 months, with the initial supply recently confirmed to be available on site in Spring 2019.

Development progress and projected delivery

The consortium has contributed c.£45m to date on infrastructure, under a s278 agreement. A total of £60-70m has been invested by the consortium.

Contractors expected to be procured by Autumn 2018 with land remediation and on site infrastructure anticipated soon after. LIH intend to provide serviced parcels to house builders from Autumn 2019. A design code will also be introduced by LIH as master developer.

All homes are expected to be delivered by 2038, if LIH pursues traditional model of selling off parcels to house builders. These assumptions have been based on external and internal assessments given the constraints of the site which project 5/6 outlets maximum and up to 300 units per annum. The assumed absorption rate has been considered in context of local area and existing communities.

LIH are looking at ways to accelerate delivery through PRS and associated investors, affordable housing, self-build etc. to create greater market variety. Phase 1 will be made up of c.1,000 dwellings and will provide an opportunity to create a sense of place that can extend to future phases.

Logistical limitations to delivery owing to presence of permitted site of 2,000 dwellings at the southwest side of the site. LIH will commence at opposite side to reduce impact of competition.

Sales

3-bedroom houses in the area are selling for £300k. LIH projects to sell at a similar price point, with houses potentially attracting a new-build premium.

Early phase buyers are projected as coming predominantly from within a radius of 15-20 miles of the site.

<u>Legal roundtable, 26/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Carl Dyer, National Head of Planning, Irwin Mitchel
- Sara Bailey, Head of Real Estate, Trowers & Hamlin
- Alan Aisbett, Real Estate Consultant, BLP
- Philip Medford, Head of Residential Development, Eversheds Sutherland
- David Meecham, Partner, Pinsent Masons
- Richard Birks, Head of Housing Product Group, DWF

Methods for acquiring land

Prior to allocation, promoters work to assemble pieces of land to create small, medium and large sites. When entering into promotion agreements on that land, they pay a Promotion Fee which reflects some element of the hope value for the land. Promoters will then take the land through the planning process.

Pre-2008, options were often entered into by house builders. Promoters mainly entered the market after 2008/09, and since then it has been predominantly promoters who enter into promotion agreements. Promoters then procure a sale of the land post-planning.

The use of promotion agreements has increased dramatically due to the entry of promoters into the market.

Options agreements allow house builders to share risk with the land owners.

House builders sometimes do not want to buy a whole site at once as it will impact on their return of capital employed as the demand for the housing is not sufficiently strong, and therefore often have a structure in their option agreements which allows them to buy the land in tranches. However, the options are often not exercised in tranches.

'Option agreements' and 'promotion agreements' are the terms commonly referred to, but there are in fact three distinct types of land agreement:

- option;
- promotion agreement; and
- hybrid.

Option agreements

House builders (or promoters) seek to acquire strategic land. This is land purchased or optioned at pre-allocation, with the option fee reflecting an element of the hope value.

Options generally offer exclusivity, as only the holder of the option can buy the land. Land promoters seek planning permission themselves and then sell the consented land on to a house builder. Since 2008, land promoters have become more active but house builders still take options.

Promotion agreements

Promotion agreements are a more recent form of land agreement, they are not options. Promoters, acting like a planning consultant for land owners, take the land through the planning process. Once planning permission has been granted, a portion of, or all of, the land is sold on the open market giving land owners confidence they are getting a market-tested price.

This differs from an option agreement because it is not exclusive. Lawyers representing land owners sometimes recommend promotion agreements.

If a land owner is releasing their land in tranches (rather than selling all at once) there is the risk that land owners could be classified as land traders, for tax purposes, and liable for corporation tax. Sometimes land owners prefer to sell all of their land in one sale.

Hybrid agreements

Hybrid agreements have been introduced by developers in response to the rise in promotion agreements, and are a hybrid of the options and promotion agreements. The house builder will take the land through the planning process. Once planning permission has been obtained, the house builder will sell the first parcel of land on the open market to allow the price to be set. The remaining parcels may be bought by the house builder and the price paid on the market for the first parcel will be a comparator.

The house builder will take a percentage discount to open market value to reflect its investment and risk in a similar way to how the promoter takes a percentage of the net sale proceeds under a promotion agreement.

Cost of options

To purchase an option usually costs between £10,000-£100,000. Within this range the price depends on the site. As such, it is not a significant fee. If there are multiple land owners, the fee is divided between them.

Land price

Promotion agreements involve the sale of land at market rates because of the tender process.

Options will often stipulate pricing that reflects price inflation over time.

Some agreements include a ‘tranche take’, which allows land to be purchased in tranches. This allows payment for sites to be deferred.

Infrastructure costs and Community Infrastructure Levy (CIL)

CIL is payable for the entire site when construction begins – unless the permission states it can be implemented in phases. There is no legal definition of a ‘phase’.

The infrastructure costs for a large site are usually front-loaded, but are normally spread out across tranches of land to equalise the costs over time and across a site where there are multiple developers. This is so that the buyer of the first tranche of land is not paying a disproportionately higher amount than the buyer of a later tranche, and to ensure developers owning parcels of land where social infrastructure is provided do not face disproportionate costs.

Land owners

Land owners are sophisticated in their dealings with local authorities. As local authorities develop local plans, land owners holding land on the outskirts of existing settlements will submit bids for their land to be allocated.

Public sector disposals

The public sector doesn’t tend to use promotion agreements but occasionally uses option agreements. Local planning authorities (LPAs) and other central Government Departments (e.g. Ministry of Defence) are bound by public sector value for money considerations.

Some public sector bodies, such as Homes England, the Defence Infrastructure Organisation (DIO) and Network Rail, impose certain conditions on the development of their land (e.g. design of units) when they go out to tender. They typically would sell to medium sized and larger house builders who are able to cope with the limits and constraints imposed by the conditions. Smaller house builders often cannot compete. Other public sector bodies run standard public procurement processes.

LPAs ultimately want to increase revenues, so they might enter into a joint venture with a house builder or Private Finance Initiative contractor on their site.

The public sector competes for allocations. Sites put forward on public sector land would have the edge for allocation in terms of policy and politics. LPAs would favour land in their possession.

Some public sector bodies take sites to market having not properly mitigated certain risks, such as access and service infrastructure. Without the necessary de-risking, these sites are less attractive to house builders. On occasion these infrastructure costs are so high that no house builder would approach. A developer with a wider portfolio might consider it.

Tenure mix

Variety is important. Often, just because there are multiple house builders on one site (sometimes a parent company and its subsidiaries) there is variety.

LPAs should be encouraged to provide for retirement living. These are typically delivered more quickly.

<u>Market analysts roundtable, 26/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Charlie Campbell, Liberum
- Glynis Johnson, Deutsche
- Anthony Codling, Jeffries
- Neal Hudson, Residential Analysts

House builder activity

The volume house builders are not really builders but project managers, land developers, and speculators. This combination requires skill to 'de-risk' the process.

Valuing house builders

To value a developer, the analysts look at the land they own, what they build, and the returns they make. Analysts value builders based on their assets, return on equity and their skill and expertise. Assets include their land bank, with a premium if the value of their land is likely to increase, and 'work in progress'.

They look for a sustainable return on equity. Predictability and transparency is key to analysts in judging whether house builders are a 'going concern'.

Investors look at different timeframes to judge house builders – typically from three months to five years.

Land banks

Builders hold land banks to ensure surety of supply and act as a 'buffer' against the unpredictability of the planning process.

A 'rule of thumb' for a land bank is five years' land supply.

However, analysts would downgrade a firm if their land bank was too long as it would be seen as an unnecessary use of capital, or if a firm was paying prices for sites that impacted on their returns. Firms with a five year land bank would tend to be valued higher than one with a 10 year supply.

A land bank is necessary because of the time required to navigate planning, and to build out large sites. Analysts look at the size of sites in land banks because larger sites take longer to get started due to infrastructure and other requirements.

Analysts value land as a way to deliver homes and thus return on equity, and value the land bank as way of ensuring this delivery is maintained. Optioned land is ‘risk adjusted’ to reflect the chance of taking it through planning.

One developer does not take land onto their balance sheet – instead, they obtain land in partnership with others. They make much larger returns and are valued well.

Small builders who do not have the capital to buy land have used their expertise to become promoters.

Build out

If firms build out quicker, this increases the return on equity. It also means they need to replenish their land bank to ensure surety of supply.

If house builders built out large sites faster, their value would increase if they could increase their land supply at the same time. This is because they would be able to realise more value of the same equity basis.

Return on equity

House builders’ return on equity is 21%, but their cost of equity is 10%.

The reasons for this were discussed. It was suggested that it is not because building itself is risky – construction firms operate on much thinner margins.

Land is key. In previous cycles, the return was driven by house price inflation, and some firms actually chose to build slowly to allow greater appreciation. Before 2008, the inflation in land meant there was lots of money to be made from strategic land banks.

In this cycle, there is much less competition for land. Land prices have not risen as fast as house prices and a gap between the two has opened up.

Competition to buy land is weaker than it was before the 2008 financial crisis. Small and medium sized enterprises (SMEs) cannot access capital as cheaply, due to post-crisis bank regulation. Large firms know ‘how to work’ the planning system as they have patience, knowledge, balance sheet and the portfolio of sites over which to spread risk of delays.

Planning reforms of recent years have also led to more land coming forward, putting downward pressure on land prices.

Larger firms can also access cheaper materials and subcontractors due to economies of scale.

It was also suggested that strong house builder returns can be partially explained by the impact of the Help to Buy scheme, which has pushed up house prices, and the fact that turnover in the second hand market is slow, which has given developers a greater share of the sales market.

Stock and sales

Builders do not like holding unsold stock, and analysts would hold this against them. The track record of a house builder is therefore important in their valuation.

The risk of holding unsold stock is one reason why modern methods of construction (MMC) are not attractive for volume house builders.

Constraints on delivery

Provision of skilled labour could be a constraint on more rapid build out on specific sites.

There is a ‘concentration risk’ where a house builder has a large site, because there is a risk that their demand for skills and materials will push up prices locally and reduce their margins.

Land supply

In London, there has been an increase in the number of sites where house builders are being outbid by commercial developers and housing associations with large balance sheets.

To increase delivery across the system, you would need to increase the flow of land into the system.

<u>Mark Farmer, Cast Consultancy, 26/04/2018</u>

Attendees:

- Sir Oliver Letwin
- Mark Farmer, Cast Consultancy and author of 'Modernise or Die'

Capacity constraints

Labour and materials are constraints, but these are not absolute constraints.

These shortages manifest themselves as increased construction costs and lower quality. We are also seeing skills 'dilution', and many firms are too stretched to focus on training up new staff.

Modern methods of construction (MMC)

MMC can deliver higher quality in the 'right factory', and marginal costs should decline over time.

Skills base

MMC will change the skill base, towards more multi-skilled roles with better working environments and more 'enjoyable' work compared to traditional building sites.

In Japan, MMC homes require 0.3 full time equivalent (FTE) per home; in the UK construction of a single home requires 2.5-3 FTE.

Manufacturers

Manufacturers are taking different approaches. Legal & General's factory is a large central production facility with an automated production line. It is the biggest in the UK, on a similar scale to house manufacturing in Japan.

Developers are partnering with smaller factories as many do not want vertical integration of the supply chain.

Other manufacturers are taking different approaches, for example, one firm wants to build a series of smaller factories.

Customisation

Digitisation should make it easy to customise homes, and to do so at no extra cost.

Core components

The industry is currently trying to develop a core platform of components.

Certainty

Orders and certainty of demand are key to growth in the sector. Growth has to be capacity-led.

Manufacturers' focus is on housing associations and the Build to Rent sector.

Design

Architecture should be 'agnostic' to the build method, and digitisation can enable significant flexibility in design.

Swan Housing Association have developed a 'mass customised' model to allow customers to have a say over the design of their homes, supported by flexibilities in design codes.

Growth

The industry is growing. BOPAS warranty approvals have doubled in a year.

Build and order times

For volumetric, there is typically a three month lead in time, with an additional six weeks to finish homes on site.

Ray Rafiq-Omar, Unmortgage, 02/05/2018

Attendees:

- Sir Oliver Letwin
- Ray Rafiq-Omar, Unmortgage

This meeting largely focused on the business model of Unmortgage, which will commence operations towards the end of 2018.

Model

Unmortgage's model is comparable to Shared Ownership, in that customers buy a 5% share in their home without the assistance of a mortage and pay rent on the remainder, which increases in line with RPI.

Buying second hand properties in mutual agreement with a customer – particularly mansion blocks and period properties. UnMortgage represents interests of investors in ensuring properties are safe investments.

Independently appointed surveyors annually assess price.

The institution buys out the customer's share at market rate should they wish to leave the scheme.

Investors

Pension schemes, such as Legal & General, are looking to diversify from equity and debt, and have expressed interest in the scheme.

Type of demand

Couples and young families seek the security of tenure and control over their home that this model seeks to offer.

Potential for application of model to new build

Potentially transferrable to new build.

Constraints

Pension schemes may be uninterested in purchasing new build properties. They are interested in annual income from investment and are uninterested in development risk.

There is a currently an anomaly in the tax system: the customer would have to pay stamp duty on the initial 5% in the first transaction and on the entirety of the property (100%) when buying out the property, effectively paying tax twice.

<u>Kevin Parry, 03/05/2018</u>

Attendees:

- Sir Oliver Letwin
- Kevin Parry

Kevin Parry served as Chair of the Homes and Community Agency until 2017.

Build out

Speed can be achieved with better impetus and coordination of government initiatives.

Fully empower agencies to execute government initiatives, subject to service level agreements with sponsoring Department.

Brownfield land and public land

There are varying degrees of brown.

Brownfield land is often perfect for building on.

Remediating some brownfield land is expensive to do, meaning it is often not viable for developers. To free up more land government could purchase and remediate the land and then sell it on to developers at a market price.

Infrastructure for sites could be financed by investors as an infrastructure project – potentially provide investors (such as pension funds) with say, a 99 year lease on the project.

A stocktake of land held by public industry and old 'heavy industries' could identify potential land for development. If there are substantial remediation costs, the land would have a very low value.

The NHS and MoD have land that is not being utilised. Public bodies with significant land holdings need to articulate their future land needs, and dispose of the excess, for which they should be commercially reimbursed.

Utilities

All utility companies are regulated – as part of their settlement, could they also be regulated 'in the national interest' to provide timely infrastructure services?

Transport infrastructure

Major infrastructure projects start and end with government.

Transport links are the key to unlock sites on the edges of big cities.

Absorption rates

You can't build out faster than the market can absorb, therefore there needs to be lots of sites opened up, creating lots of different markets.

Mixed development sites are key, and build for rent provides a great opportunity, and people are keen to invest.

Finance services

The aspiration of people to own their own homes remains unchanged, but there is little innovation in the mortgage offer, partly attributable to prudential regulatory requirements – people borrow for 25 years and are expected to pay it off by the time they retire.

Sell off existing public sector housing loans to generate new financing.

The Private Rented Sector is an important source of housing, re-examine the fiscal disincentives (tax relief on interest and stamp duty) on the sector.

Building places where people want to live

Given the choice, people will often opt for spacious interiors over attractive exteriors (the example given was 1960s council flats over Peabody estate housing).

In London there is a lot of low quality low rise housing. One option would be to re-develop those areas with housing that is 5-6 stories.

<u>Glenigan, 10/05/2018</u>

Attendees:

- Sir Oliver Letwin
- Alan Wilen, Glenigan
- Robert Davis, Glenigan

Glenigan planning data

The discussion focused on Glenigan's national planning data. The methodology and data sources were explored in detail.

<u>Developer finance roundtable, 17/05/2018</u>

Attendees:

- Sir Oliver Letwin
- Professor Christine Whitehead, Build Out Review panel
- Richard Ehrman, Build Out Review Panel
- Peter Cosmetatos, Commercial Real Estate Finance Council Europe (CREFC)
- Sharon Quinlan, Barclays
- Andrew Wheldon, Lloyds
- Mark Pope, RBS
- Asis Dey, Pbb Deutsche Pfandbriefbank
- Randeesh Sandhu, Urban Exposure
- Partha Pal, Ropes and Gray
- Ajay Kidambi, Ropes and Gray
- Hannah Massen, Ropes and Gray

CREFC working group

The CREFC Build to Rent working group is made up of a range of lenders, developers and investors with domestic and international experience. Its goal is to improve mutual understanding with a view to ensuring that a lack of informed credit supply is not responsible for slowing the growth of the sector. Industry representatives for this meeting were drawn from that working group and other relevant CREFC contacts.

Overview of lending to house builders

There are 2 primary methods for lending at present:

1. A revolving credit facility, whereby a house builder can enter into a contract with a lender, at a cost, and borrow capital as it is required, generally between 20% and 50% of the value of their balance sheet. House builders use the facility rarely, given current market conditions where house/unit sales are strong. This approach is typically only available for large and listed house builders.
2. Project finance (or structured financing), typically using a Special Purpose Vehicle (SPV), whereby a lender will lend on a secured, phase-by-phase basis, with (typically) a third of the cost being equity laid down by the developer. This can minimise lender exposure to market volatility as loans are calculated on a fully funded basis which ensures a completed scheme will be delivered. Rapid repayment schedules are employed, so that house builders can minimise their repayment fees, and house builders only draw down what they need, when they

need it. Lenders normally require the equity contribution to be deployed in full before any debt is drawn down.

Secured loans from clearing banks for major house builders typically require around 40% of the total costs to be contributed in the form of equity.

Planning permission is a pre-cursor to any loans for residential development. Only certain specialist lenders will take planning risk (i.e. lend on the assumption that planning approvals will be obtained). Loans for the acquisition of development land or of commercial buildings intended for conversion to residential would typically be sized and structured by reference to the value/income of the land or buildings as they are, rather than by reference to the anticipated development value.

Post-crash climate

There is a more conservative finance system, which Review Panel members suggested could slow the system down. This would be only one of a range of external factors that could have any impact on the speed of new house building. There is an inevitable trade-off between safety and caution among banks on the one hand and the cost and availability of credit for borrowers on the other.

There is an increased tendency to see capital recycling on sites, with returns made from earlier phases used to fund subsequent phases, but not recycling capital within the phases to achieve completion. Equity requirements are higher, and since the financial recession pre-sales have become core to banks' lending practices. Recycling capital can be more challenging in the context of Build to Rent housing, as rentals do not generate sale proceeds.

Lenders are more risk averse and hesitant to fund schemes over a long period, hence the use of phasing. Lloyds uses Scottish Widows to provide longer-term finance.

The risk aversion of the finance industry is reinforcing the risk aversion of house builders, which is one of several factors that could be driving the absorption rate. Parameters of bank lending are influenced strongly by past experience.

Off-plan sales

For a development of apartment blocks financed through an SPV, lenders would lend against pre-sales providing that they were "locked-in". Assurance is crucial. Without pre-sales, lenders require equity, typically 60% loan with 40% equity paid up-front.

Role of financial regulator

The regulators are very interested in what the banks lend. They have a keen overview but are not controlling. Don't interfere directly with bank practices but are interested in how they operate. They will oversee compliance and consistency across transactions, and carry out book analysis. Not interventionist.

Banks are conscious of maintaining a good reputation with the regulator, but regulators are not seen as a constraint on banks' ability to lend.

Non-bank lending

Non-banks often provide project finance in the form of debt financing above the typical 60% provided by the clearing banks (often up to 80-85% of the total project cost). For this reason, pursuing capital from non-bank lenders is generally more expensive. Leverage depends on a number of factors, including site location, level of pre-sales, and the developer's track record. This kind of more expensive credit (and mezzanine debt more generally) is more important to smaller house builders, as they are more likely to need more leverage, and less likely to have access to low cost corporate credit facilities, than large house builders.

Non-bank lenders measure risk differently. The biggest risk to non-bank lenders in funding residential development is not the sales but the construction: there is greater risk in trying to sell a project that is half-built. Other lenders also take construction risks into account. If a site was left half-built, non-bank lenders have the ability to take control of a site and continue to build. If a for sale site is finished, but the units weren't selling, it would be possible to rent them out privately although this is a backstop position.

Mezzanine finance packages are available. These offer an additional tranche of higher risk, and therefore more expensive, debt in addition to the senior debt provided by (typically) a bank.

Up-front equity is generally regarded as essential by all types of lender.

Small and medium enterprises (SMEs)

The fall in the proportion of new homes accounted for by SME house builders over the last 30 years (from 2/3 to 1/3 of total housing delivery) is often attributed to the difficulty of obtaining finance.

Clearing banks lend on a structured, scheme-by-scheme project finance basis to SMEs, not on a revolving credit finance basis, as the SME balance sheets often aren't strong enough to justify working capital facility. The terms on which they lend are broadly the same as those when lending to major house builders (i.e. sufficient equity up-front).

Some (often larger) SMEs are capable of covering up-front equity requirements and there is an equity investor market for those who need more capital to secure a loan.

Challenger banks (smaller, more recently-founded banks) are offering more innovative finance options to SMEs with higher leverage than the clearing banks and a willingness to allow sale proceeds to be recycled. SMEs therefore have access to finance through challenger banks, as well as through the clearing banks. Clearing banks are not lending to SMEs to buy land. This leads some SMEs to develop sites one at a time, because they do not have the liquidity needed to buy and promote other sites at the same time.

Lenders are inclined to look at an SME's capability to deliver a project when deciding whether to offer funding, rather than the size of their balance sheet. Lenders would still vet any contractors used by SMEs before lending.

Definitions in the industry vary. Non-banks judge loans to SMEs on their capability to deliver and track record.

Despite the availability of these three forms of finance in principle, it was recognised that SMEs still find that finance is an issue. This was attributed mainly to the fact that:

- SMEs struggle to raise equity of 20% or more;
- individuals working for SMEs can lack the prior experience necessary to demonstrate track record and capability to deliver sites; and
- SMEs consequently find project finance more difficult to manage than the balance sheet financing that they used once to receive from the high-street banks.

Access to finance

Banks have real estate experts available in all major localities. In addition there are dedicated finance brokers who can introduce clients to financiers and provide a funding pack for house builders. Similarly there are equity brokers who can support house builders to raise equity.

Hedge funds are sometimes used for larger projects.

Banking finance has become more professional so time taken to complete transactions is generally longer.

There are a lot of options for accessing finance, but the system is fragmented and opaque with differing and inconsistent requirements. These can often be off-putting for SMEs.

Private Rented Sector (PRS) and Build to Rent

A variety of lenders are either already lending or keen to lend to BtR and PRS, either at the construction or post-stabilisation stages. But the BtR sector is still in its infancy and there are obstacles like limited PRS operator track record, limited data on rental comparables and a valuation industry that has not yet adjusted to the kind of Net Operating Income-based valuation methodologies that PRS operators argue are better suited to BtR schemes.

Major clearing banks do lend to the PRS (professional landlords and major PRS) and have done for many years. They also lend to Build to Rent, on similar criteria as open market sale schemes.

When asked on what basis banks would lend to a large Build to Rent site, they said, during the construction stage, on the same basis as open market sale. They would undertake an assessment of the stabilisation period (i.e. how long it would take to let the units once fully built and what rents are achievable) – for a larger, multi-phase scheme, lenders would typically want all homes to be let before starting construction on the next phase.

The recycling of capital is completely different in PRS. As properties are let, the rental stream is used to cover interest costs (including rolled-up interest from the construction phase, when the project will typically produce no income). Refinancing can only take place once the assets have stabilised i.e. are they are occupied, but even with new, cheaper debt against the income-producing completed development, it may not be possible to free up sufficient capital to provide the equity required to fund the next project or phase.

RBS for example has set aside £1billion for Build to Rent, but institutional investors are offering forward funding, so there are not many opportunities for clearing banks to increase lending for Build to Rent.

Non-bank lenders struggle to compete with clearing banks in the PRS market, although different types of lender tend to have competitive advantage in different parts of the market. If they are to compete they have to reduce leverage, so they end up with a product which matches but is more expensive. They do provide finance to purchasers of Build to Rent sites.

Lichfields and Commercial Estates Group, 17/05/2018

Attendees:

- Sir Oliver Letwin
- Matthew Spry, Director, Lichfields
- Jon Kenny, Director, CEG
- Keran Power, Strategic Land Consultant, CEG
- Peter Village QC, In-house Counsel, CEG

CEG

CEG are a commercial and industrial property investment company. They have a large portfolio across the UK, and have been involved in residential development since 2000. They started by focusing on brownfield sites, but have since moved to developing greenfield, urban extension sites.

They de-risk and master plan sites – this role was likened to ‘part-baking bread’. They are currently promoting sites equivalent to 55,000 units.

Land supply

Government reforms have increased the supply of land. The scale of the pressure that has built up in the housing market over 30 years means that it is still too early to see the impact of these reforms.

It is hardest to get planning permissions on sites where housing pressure is highest.

Large sites are allocated in the local plan process because they offer the opportunity to deliver a lot of units in the same place, but local authorities tend to overestimate the likely delivery rates on those sites. They should allocate more complementary sites in the plan process.

Land market

There are six main counter-parties for sites, all of whom are major house builders. This means that there is not a ‘deep well’ of purchasers, which restricts the variety of products delivered on sites.

CEG have tried to open up sites to other players, such as small and medium-sized builders, but it is complicated by large infrastructure requirements.

CEG are working with Homes England on how to make sites more ‘granular’, but SMEs struggle to buy large sites and finance the infrastructure that they require.

Large house builders purchase sites on a deferred payments basis, whereas CEG would prefer to sell sites faster.

Housing associations

Housing associations are well-financed and able to offer market rates for sites, but lack contracting ability; they are also more averse to market risk than the large house builders.

Strategic planning

Reintroducing regional or sub-regional planning would bring more certainty to developers, land owners and local authorities on where sites for new housing would be allocated.

Absorption rate

More ‘flags’ or outlets on a site increases the sales rate. Increasing the provision of affordable housing, local authority house building, and getting more medium-sized builders onto sites would increase absorption rates.

Infrastructure and utilities

Installation of connecting infrastructure is a common delay. Utility providers do not have strong enough incentives to deliver the new connections needed; transport infrastructure provision varies by the complexity of a particular scheme.

Mortgage lenders roundtable, 17/05/2018

Attendees:

- Sir Oliver Letwin
- Professor Christine Whitehead, Build Out Review Panel
- Richard Ehrman, Build Out Review Panel
- Baroness Prashar, Build Out Review Panel
- John Marr, UK Finance
- David Brown, Santander
- Mark Pope, RBS
- Hugh Taylor, HSBC
- Rowland Thomas, Close Brothers
- Piers Williamson, THF Corp
- Christopher King, Secure Trust Bank

Although some of the attendees were not directly involved in mortgage lending (due to some confusion about the precise scope of the meeting), a number of useful and significant points were made.

Access to mortgage finance

Mortgage finance is not a barrier to buying a home. The market at present is competitive and well-served. There are mortgages with 100% Loan to Value (LTV) (albeit in exceptional circumstances) – this is unlikely to become the norm.

Help to Buy (HtB) boosting customer access to mortgage finance.

There are 12 month products available (6 months with an option to extend another 6 months if new build completion delayed).

Availability of capital is not the issue but affordability is.

Valuation

Valuation can be a sticking point. Surveyors sometimes don’t agree with the valuation of the house builder. Where the price increases, this can mean that the customer is unable to raise a sufficient deposit and / or be granted a larger mortgage.

Valuers are being more cautious given the current market climate. There are particular issues with valuation on large sites and flatted developments as valuers get nervous with a large volume of dwellings coming onto the market at once. This does not have a big impact on the market as a whole, and Help to Buy has also eased this problem.

While there are in-house surveyors, there are not many. Both external and internal surveyors follow the RICS red book valuation guidelines. Local knowledge might be the only variant, but this would be applied only after the RICS guidelines were followed.

A development would be valued on what it would be worth at present day should it be completed. This has been the case for a long time and is required by the RICS red book.

Site exposure

There is an issue of volume of mortgage lending, irrespective of location. Lenders don't want to be overly exposed on any one site, and there is a concentration risk. Consequently, there have been occasions where a lender has hit a limit on the amount it is willing to lend on one particular site. While this typically applies to London, it could apply elsewhere. Brokers help borrowers to identify lenders who have not hit their limits on a particular site.

Shared Ownership

The Shared Ownership (SO) lending market is dominated by big players, but there is a handful of regional building societies who lend.

Mortgage brokers can help prospective SO purchasers to find a mortgage. SO mortgages generally have a premium as they are considered higher risk, partly due to the lower incomes of borrowers and the fact that SO is perceived as a relatively unproven part of the market. The premium is also influenced by difficulties in repossessing the properties; if such repossession occurs, the lender can in principle claim against the housing association – but this depends on effective communication between the housing association and the lender because mounting rental arrears will otherwise reduce the equity value under the SO arrangements and thereby reduce the value of repossession to the lender.

The default figures for SO mortgages are in-line with the figures for the traditional mortgage market.

In the event that SO products on the market were doubled in the short-term, providing there were no concentration issues, there are no foreseen issues with lending for SO mortgage.

Traditional mortgages

A considerable increase in the number of private homes entering the market would not impact on lenders willingness to lend. Ultimately, given the size of the second-hand market, another 100,000 new homes would be a drop in the ocean.

A normal upper-limit LTV at present could be around 80-90%. The income multiplier (no more than 4 ½ time income) is still a considerable constraint for many. Most lenders typically operate at that limit and are unlikely to place a lower limit.

The main hurdle to securing a mortgage though remains the deposit requirements.

Help to Buy (HtB)

If HtB suddenly disappeared there would be market disruption. The impact would be felt more by customers and developers.

HtB underpins the market outside of London. It is considered that HtB is bringing new customers into the market who otherwise would not have been able to buy (not just customers who are buying bigger than they otherwise would be able to). It has allowed earlier access to the market for some than would otherwise be possible.

New build is more attractive than it used to be owing to HtB. Consequently, the lender-base for new build has expanded since the introduction of HtB.

HtB assistance drives the type of product you get on site (i.e. the highest value product that stays within the HtB thresholds). One example was cited where a house builder had sold all HtB properties, but had to offer discounts and incentives to sell stock not available under HtB.

Developer pricing has also been influenced, with properties either increasing or decreasing in price to reflect the HtB thresholds.

<u>Cllr John Fuller, Chair, District Councils' Network, 23/05/2018</u>

Attendees:

- Sir Oliver Letwin
- Cllr John Fuller, Chair District Councils' Network

The conversation mostly focussed on the potential of Local Authority led intervention into the housing market.

Current examples of local authority intervention

In Kings Lynn, the council stepped into a site where the development rate was low and has been playing an active role.

In Haverhill, Suffolk, the Local Authority loaned the land owner funding for basic infrastructure via the LEP. This kind of action could be scaled up by a Local Authority owned subsidiary.

In Rugby, a single site of 6,000 units was granted permission in principle and the site's development has been collapsing – partly as there is lower demand in this area.

South Norfolk Local Authority has been in proceedings to CPO a property, where the land owner was a family trust not making use of the land. CPO is often seen as a cumbersome, aggressive tool of last report; however it wipes the land title clean and gives the land owner the district value plus 10%.

Landbanks

Developers will always need a land supply of just under five years – this is not connected to the absorption rate.

Tony Pidgley CBE, Berkeley Group, 24/05/2018

Attendees:

- Sir Oliver Letwin
- Tony Pidgley CBE, Chairman, Berkeley Group

Constraints

The following constraints were identified:

- Compulsory Purchase Orders (CPO) – The compulsory purchase process is complicated and often long, and can add years to the process.
- Provision of new infrastructure – Arranging and delivering provision of new infrastructure, such as rail bridges, can add years to the development process. Too many sites are allocated in areas that lack necessary infrastructure for large new settlements.
- Stamp Duty changes have slowed the market.
- Quality of new homes is a major issue.
- There is a lack of competition in the house building market due to the decline in the number of small and medium-sized enterprises (SMEs).

People and place-making

The Berkeley Group takes masterplanning and place-making very seriously and work with local people to shape their developments in the pre-planning phase. They also put a strong emphasis on provision of community and social infrastructure, such as community centres. The result of this is that Berkeley can secure planning permissions for sites in areas where other developers cannot.

Non-government organisations roundtable, 07/06/2018

Attendees:

- Sir Oliver Letwin
- Paul Miner, Head of Devolution and Strategic Plans, CPRE
- Rose Grayston, Head of Policy, Shelter
- Michael Kiely, Chair, Planning Officers' Society
- Richard Blyth, Head of Policy, RTPI
- Megan Thomas, Committee Member, Planning & Environment Bar Association
- Adam Morton, Policy Leader, NHF
- Terrie Alafat, CEO, Chartered Institute of Housing
- Henry Smith, Projects and Policy Manager, TCPA
- Adam Royle, Head of Advocacy, National Trust

Sir Oliver presented the broad outlines of the Draft Analysis and explained the process of the Review to date. There was broad agreement at the meeting with the Analysis' findings, as described by Sir Oliver.

It was agreed that the group would meet again to discuss recommendations. Sir Oliver said that attendees do not need to respond immediately, but should wait and read the report before responding. The Draft Analysis will be revised in light of any factual inaccuracies.

The following issues were discussed:

- The supply of skilled labour;
- Product mix on large sites;
- Provision of affordable housing; and
- Local authority planning department capacity and capability.

<u>Developer roundtable, 07/06/2018</u>

Attendees:

- Sir Oliver Letwin
- David Thomas, CEO, Barratt PLC
- Jeff Fairburn, CEO, Persimmon
- Peter Jordan, Group Planning Director, Persimmon
- Pete Redfern, CEO, Taylor Wimpey
- Jennie Daly, Group Operations Director, Taylor Wimpey
- Rob Perrins, Managing Director, Berkeley Group
- Patrick Bergin, COO, Crest Nicholson
- Stephen Teagle, Partnerships & Regeneration CEO, Galliford Try
- Keith Carnegie, Executive Director, Bovis Homes
- Gregg Wilkinson, Managing Director, Gallagher Estates
- Phillip Lyons, CEO House building Division, Countryside Properties
- Stewart Baseley, CEO, Home Builders Federation

Sir Oliver presented the broad outlines of the Draft Analysis and explained the process of the Review to date. There was broad agreement at the meeting with the Analysis' findings, as described by Sir Oliver.

It was agreed that the group would meet again to discuss recommendations. Sir Oliver encouraged those present to respond with their views, but said that attendees do not need to respond immediately, and should wait and read the report before responding. The Draft Analysis will be revised in light of any factual inaccuracies.

The following issues were discussed:

- The supply of skilled labour;
- Standardisation of house types;
- Tenure mix; and
- Land assembly and the supply of new sites.

Pete Redfern and Jennie Daly, Taylor Wimpey, 07/06/2018

Attendees:

- Sir Oliver Letwin
- Pete Redfern, CEO, Taylor Wimpey
- Jennie Daly, Group Operations Director, Taylor Wimpey

The following issues were discussed:

- The supply of skilled labour and shortages in some trades.
- The absorption rate, which was agreed to be the primary constraint on build out rates.
- The importance of tenure mix to absorption rates.
- The number of developers on a site – increasing the number of developers was not seen as a good approach to increasing output.
- Taylor Wimpey's new strategy and approach to product design and branding on the customer side.
- Implications for land supply and viability of recently proposed policy changes including the current consultation by Homes England on revised agreement terms for Delivery Partner Panel 3 (DPP3).

James Murray, Deputy Mayor for Housing and Residential Development, 13/06/2018

Attendees:

- Sir Oliver Letwin
- James Murray, Deputy Mayor for Housing and Residential Development
- James Gleeson, Housing Research and Analysis Manager, GLA
- Shadi Brazell, Housing Communications and Liaison Officer, GLA

Sir Oliver presented the broad outlines of the Draft Analysis and explained the process of the Review to date. There was agreement between James Murray and Sir Oliver on the conclusions of the Review.

It was agreed that a further meeting would be arranged to discuss recommendations.

Sir Oliver also welcomed the recent URBED research into land assembly commissioned by the GLA, and said that he would consider its findings as he works on recommendations for the Autumn report.

Sir Oliver invited the GLA to respond to the Draft Analysis, and explained that the Draft Analysis will be revised.

<u>Expert Panel, Meeting 3, 07/06/2018</u>

Attendees:

- Sir Oliver Letwin
- Lord Gadhia
- Baroness Prashar
- Professor Christine Whitehead
- Tim Leunig, DEFRA

Apologies:

- Richard Ehrman
- Lord Hutton of Furness

In advance of the meeting the panel had seen the Draft Analysis and annexes.

Sir Oliver explained that he had met with stakeholders, including NGOs and developers, and that there is a general consensus on the findings of the Draft Analysis, as described by Sir Oliver in meetings.

Housing diversification

It was agreed that the Draft Analysis should be clearer that difference in terms of size, tenure, price-point per square foot, design and character of product, and aesthetics of the surroundings are all important factors in increasing the build out rate. It was agreed that how housing is diversified should be responsive to the wants and needs of the local population and people who want to move there – if there is no local demand for a three bedroom flat it will not sell and it will slow the absorption rate.

It was agreed the chief constraint on build out rates is the absorption rate and that this could be resolved with a wider variety of tenures and product types.

Potential recommendations

It was agreed that no options for action should be ruled in or out in the Draft Analysis, and that the Draft Analysis should clearly state that its focus on the build out stage will not preclude recommendations relating to earlier aspects of the house building process.

Lessons from other countries

In Germany and the Netherlands, the build out rates are similar to this country; however, neither country has the housing crisis that exists in this country and there is generally no resultant pressure to increase the pace of build out.

Resilience

The Draft Analysis does not discuss macroeconomic volatility. There was discussion about how the industry is better prepared for a downturn than in previous cycles.

Next steps

A timetable for discussing the next stage of the report was agreed.

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Annex F. Stages of the planning process

For the purposes of this Review, the progress of planning permissions from planning through to completion has been divided into five stages:

1 'Regulatory stage'

- **A –** From application to outline permission granted
- **B –** From outline permissiorn granted to first detailed application
- **C –** From first detailed application to first detailed permission

2 – 'Build out stage'

- **A –** From first detailed permission to first start (dwelling)
- **B –** From first start to final completion (actual, projected)

The map below provides a visual representation of how a fictitious site would be tracked by the Review from the planning stage through to completion. The lower half of the chart demonstrates how we have extracted information from the planning and build out stages of sites which are represented in the upper half.

Site status

Allocated or Not allocated

(in part or full)

Outline application stage (1A and 1B)

Submitted: 11/02/2008
Determined: 10/05/2010
Decision: REFUSED

Submitted: 04/01/2011
Determined: N/A
Decision: WITHDRAWN

Submitted: 22/03/2011
Determined: 15/04/2013
Decision: APPROVED

Submitted: 20/10/2017
Determined: TBD
Decision: TBD

Submitted: 11/08/2014
Determined: 12/04/2015
Decision: APPROVED

Applications can be amended (s73) or replaced by subsequent permissions (same applies at the detailed planning stage). We are interested in the first point at which permission is granted for a site at each stage.

Detailed planning stage (1C)

Submitted: 05/07/2013
Determined: 12/02/2014
Decision: APPROVED

Submitted: 13/07/2013
Determined: 18/12/2013
Decision: APPROVED

Multiple other reserved matters applications

HYBRID or FULL planning application (no Stage 1A or 1B)

There are 3 ways in which detailed permission can be granted: applications for reserved matters, hybrid applications or applications for full planning permission. Sites that enter the 'regulatory' stage via hybrid or full applications skip straight to Stage 1C.

Build out stage (2A and 2B)

First start on dwellings on any part of the site
04/09/2014

(This follows the discharge of pre-commencement conditions, and start on site infrastructure and remediation etc.)

Completion date of final dwellings on whole of site (projected)

04/2028

EXAMPLE SITE'S PROGRESS THROUGH 'REGULATORY' (1A-C) AND 'BUILD OUT' (2A-B) STAGES

Dates taken from example above

REGULATORY STAGE 1			BUILD OUT STAGE 2	
Stage 1A: Submission of first approved outline application to determination date	**Stage 1B:** Granting of first outline permission to submission of first approved reserved matters	**Stage 1C:** Submission of first approved detailed permission to determination date	**Stage 2A:** Granting of first detailed permission to first start on dwellings on site	**Stage 2B:** First start on dwellings on site to completion of final dwellings on site
Submitted: 22/03/2011 Determined: 15/04/2013 Decision: APPROVED	OUT granted: 15/04/2013 ARM submitted: 13/07/2013	Submitted: 13/07/2013 Determined: 18/12/2013 Decision: APPROVED	ARM granted: 18/12/2013 Start on dwellings: 04/09/2014	Start on dwellings: 04/09/2014 Completion of site: 04/2028
Duration: **25 months**	Duration: **3 months**	Duration: **5 months**	Duration: **9 months**	Duration: **163 months**

Total duration Stage 1: 33 months / c.3 years

Total duration Stage 2: 172 months / c.14 years

Total duration: 205 months / 17 years