

UK Development Opportunities

2020

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WHERE SHOULD YOU BUY LAND?

The process of buying land can be fraught with uncertainty. Developers will often favour regions they are familiar with, but comprehensive analysis of a string of data points can tease out differences between neighbouring local authorities that aren't apparent at first glance.

The backdrop to the 2020 Knight Frank Development Opportunities report has been one of uncertainty. Coronavirus has undoubtedly disrupted the market.

Whilst housebuilders are now returning and bidding for land, margins have been raised which is affecting what many are prepared to pay, and site selection is increasingly selective. Identifying the right sites, in the right places is key in this new market. In this report, we use a simple model – taking advantage of data and geospatial techniques – to find the most suitable and sustainable places to build houses; the local authorities that could be the most active locations for housebuilding over the coming five years.

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Knight Frank is increasingly using data and geospatial techniques to find the most suitable places to build houses
◆◆

They are places where housebuilders are able to maintain healthy profitability, while house prices remain within reach of local earners. They are local authorities with superb access to good and outstanding schools on a per capita basis. They are local authorities whose basic services such as doctors surgeries, bus routes and retail are comprehensively and evenly distributed, and internet download speeds are exceptional.

They are also areas where housebuilding has fallen behind government projections for housing need in the past three years – locations in need of more homes where a lack of delivery could underpin pricing for developers hoping to deliver large schemes across several phases.

Data in isolation is not enough, however. We've balanced the model with local expertise on the availability and affordability of land, the importance of councils that are open for business and, provisions for future transport upgrades.

Each of these factors has been weighted to broadly suit the business model of volume housebuilders, though the inputs can be changed to suit developers with various aims.

KEY TAKEAWAYS



The government's target of delivering 300,000 per annum looks an increasingly challenging task

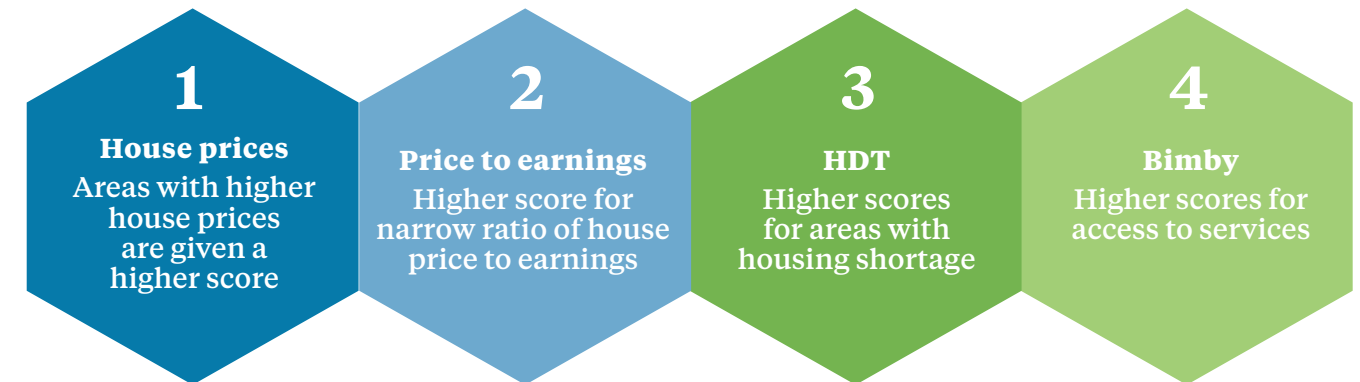


Development land prices are moderating, reflecting increased costs as well as a more uncertain outlook for the housing market



Housing market activity has been robust since the market re-opened in mid-May and transactions are expected to end the year down just 15%

THE PROCESS



Methodology

Each Local Authority (LA) was ranked on a variety of economic and housing measures, including pricing and liveability – which took into account factors such as schooling and transport accessibility. Also examined was the housing supply and demand balance, as well as input from Knight Frank land teams. Each of these scores was weighted

to produce a final ranking to highlight some areas where fundamentals suggest good development opportunities. These development opportunity areas are not only looking at potential price outperformance, but also market absorption.

The locations identified are not exhaustive and we recognise that there may be

different opportunities at different price points and for developers with different aims. However, we aim to highlight the local authorities where economics, planning and agent knowledge signal there are compelling opportunities for new development in today's market.

Market update

Housing transactions across the UK fell by nearly 60% year-on-year in April to below 40,000 sales, according to data from HMRC. This is likely to mark the low point for transactions, with a steady increase in recorded sales every month since.

Mortgage approvals data meanwhile suggests that the recovery in lending has so far been v-shaped. This reflects a number of factors. First, buyer interest has recovered quickly, supported by robust levels of mortgage availability at lower LTVs. The stamp duty cut has also encouraged some buyers to bring purchases forward.

As a result, and based on a market analysis that includes listings data, we forecast UK property transactions will fall by 15% this year compared to 2019. August was unseasonably busy

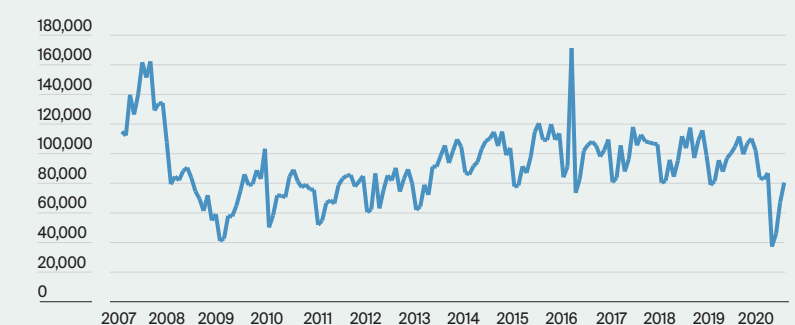
and the fourth quarter could benefit from a similar trend.

However, despite this period of pent-up demand coming forward, the future trajectory of the property market remains unclear against a backdrop of mixed

economic data, not least the impact the unwinding of the government's furlough scheme could have on unemployment.

As such, we expect many housebuilders will retain a fairly cautious approach to acquiring any land.

UK sales volumes Monthly transactions



Source: HMRC

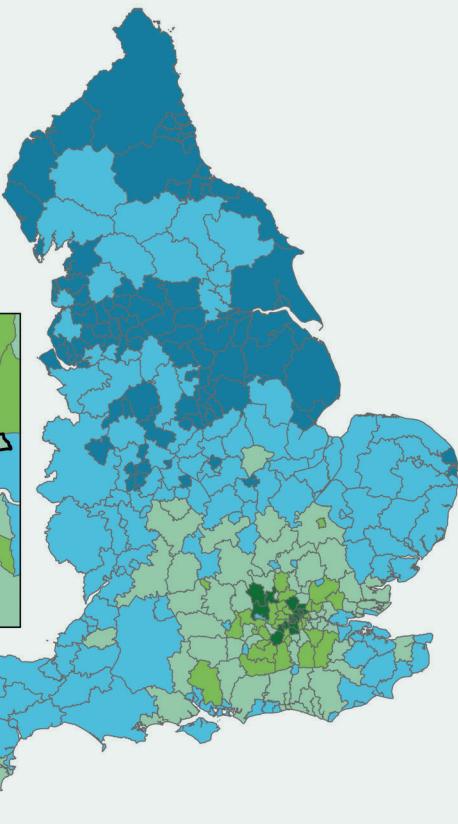
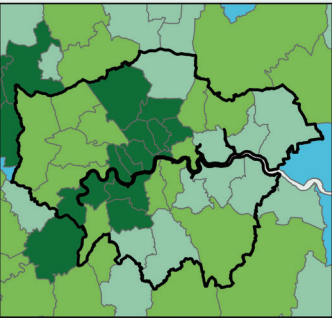
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HOUSE PRICES

Areas with higher house prices are given a higher Score. Higher price suggests housing in that area has greater appeal, and provides more revenue within a given development appraisal.

Source: Knight Frank Research, Land Registry

Lower Score
Higher Score
Inconclusive data



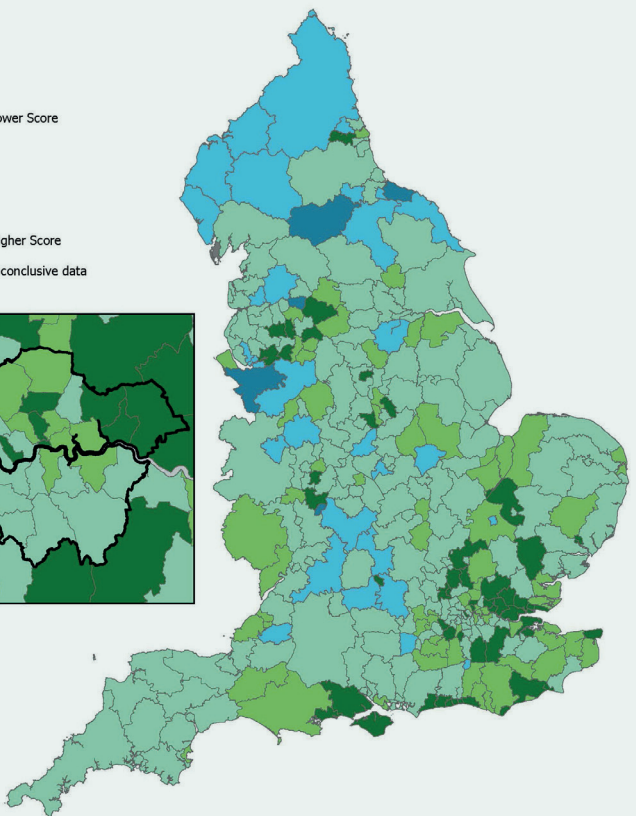
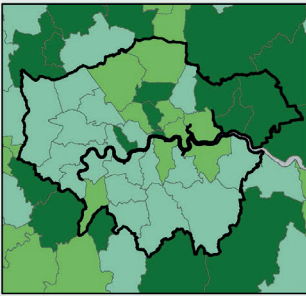
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HOUSING DELIVERY

Local authorities where housing has failed to meet government assessment for need are given higher scores

Source: Knight Frank Research, MHCLG

Lower Score
Higher Score
Inconclusive data



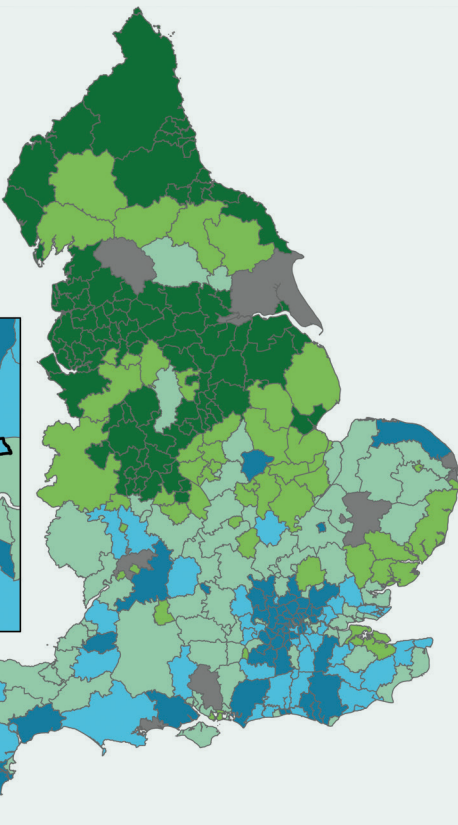
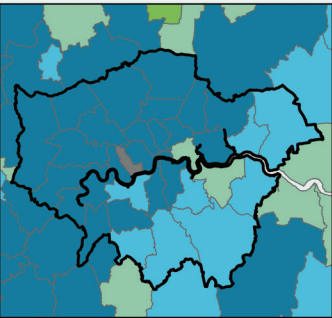
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PRICE TO EARNINGS

The previous measure is tempered by this measure. Authorities where the house price to earnings ratio is narrower are given higher scores, almost inverting the previous map.

Source: Knight Frank Research, ONS, Land Registry

Lower Score
Higher Score
Inconclusive data



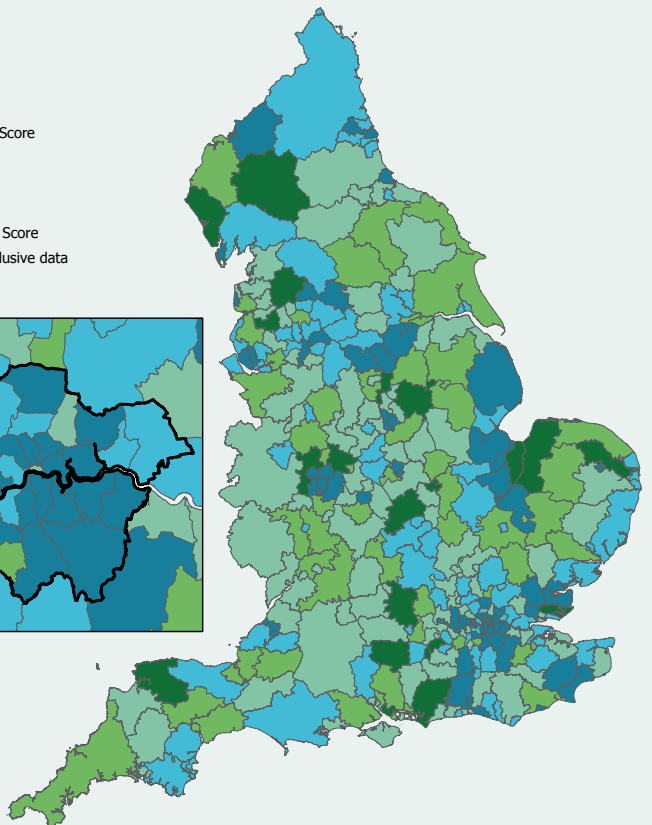
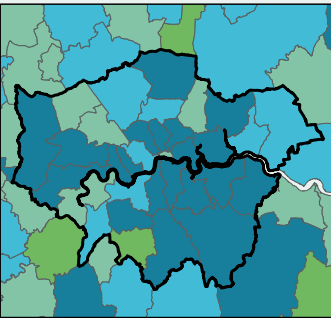
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ACCESS TO SERVICES

Local authorities with a better access to services (see analysis on page 11) on per capita basis are allocated higher scores

Source: Knight Frank Research

Lower Score
Higher Score
Inconclusive data



THE HOTSPOTS

10.9k

 ACRES OF PARKS
AND GREENBELT

SURREY HEATH

Includes extensive areas of greenbelt and woodland, with trains to central London from locations including Camberley in less than 1 hour and twenty minutes. Surrey Heath scored among the lowest of our hotspots in the government's multiple deprivation index – a measure of various factors including income, employment, health, education and crime. The authority is renowned for its parks and greenbelt, which covers 10,821 acres of Surrey Heath, or 46.1% of the local authority.

100K

 SQ M NEW
EMPLOYMENT SPACE

FAREHAM

A coastal area between Portsmouth and Southampton with direct trains to London in less than 1 hr 40 minutes and a nearby international airport in Southampton. Scores highly in our access to services per capita score, and an expansion of the town centre is underway. Fareham's local plan has earmarked a new settlement to the north of the M27 which would comprise more than 6,500 homes and almost 100,000 square meters of employment space. The authority is surrounded by attractive countryside, the river Hamble, the Solent and Portsmouth Harbour.

175k

 SQ M NEW
EMPLOYMENT SPACE

TAMESIDE

The district within close proximity to Manchester city centre scored among the highest for house prices within reach of local earners. The local authority has more than 330 listen buildings and, when combined, has more good and outstanding schools than our other hotspots, at 81 (71 good, 10 outstanding). The authority has been earmarked for 8,850 homes by 2037, supported by new train stations at 'Dewsnap' in Dukinfield, and at Gamesley on the border with Derbyshire. The new housing will support more than 175,000 square meters of new employment space at Ashton Moss West.

225

 NEW HOMES
STILL NEEDED

CHESTERFIELD

In the foothills of the Pennines and known as the gateway to the peak district national park, Chesterfield has a market town locked in by greenbelt. Almost half of Chesterfield local authority is open countryside with transport links via the M1 and trains to St Pancras, Manchester, Liverpool, Leeds and Sheffield.

House prices remain within reach of local earners, though housebuilding has fallen behind need – 446 homes have been delivered in the most recent three years, while government estimates a minimum of 671 were required to meet housing need.

10.8k

 POTENTIAL NEW
JOBS

EAST HERTS

A predominantly rural district with rolling countryside including the five market towns of Bishop's Stortford, Buntingford, Hertford, Sawbridgeworth and Ware and the new towns of Stevenage, Harlow and Welwyn Garden City are located immediately on the East Herts District boundary. East Herts has more Ofsted rated outstanding schools than our other hotspots at 26.

Developers have built 1,801 homes in the authority in the past three years, while the government estimates 2,382 were needed to meet basic requirements for housing need. The authority's Local Plan suggests 10,800 new jobs will be created in East Herts between 2011 and 2033, equivalent to 491 jobs each year.

TAMESIDE
CHESTERFIELD
EAST HERTS
SURREY HEATH
FAREHAM

STATE OF FLUX

Housing policy was once more in a state of flux at the turn of the year, with a new government proclaiming a shift in strategy to refocus its aims on home ownership.

The Prime Minister has signalled an intent to use housing and infrastructure spending as tools to help drive the country's economic recovery.

Planning is a key focus (see page 10), with a consultation launched which aims to reform the planning system to streamline the planning process and accelerate the delivery of new homes.

It comes at a time when growth in housebuilding levels in England

is beginning to slow, after years of substantial growth.

The number of additional dwellings built in 2018/19 had climbed to 241,130, up 9% in a year and up 93% since the post-crisis trough in 2012/13, according to MHCLG data.

Energy Performance Certificate (EPC) data, meanwhile, which has proven to be a good forward indicator of supply, showed more than 255,000 EPCs were

issued for new-build properties in England in the year to March 2020, the highest level in decades. We expect net additions data for 2019/20 when released will show a further pick up in delivery as a result.

However, the coronavirus-induced building hiatus earlier this year, and subsequent gradual and phased return to work, means this is likely to represent a peak in delivery, in the medium term

at least. EPC data shows just over 29,000 certificates were issued for new build dwellings between April and June, dropping the annual figure to 217,311.

Productivity on sites has recovered significantly, though full capacity isn't expected to be reached by the end of the year. Getting back up to speed will be no simple task. The initial focus of construction has been on completing homes on existing sites, so fewer new sites have been started. As a result, the government's target of delivering 300,000 homes a year in England looks an increasingly challenging ask.

This could herald more change and possibly a more favourable policy environment for housebuilders, particularly whilst alternative providers still do not have the capacity to meet ambitious housing targets.

But there are also challenges. The 2% stamp duty surcharge for non-residents, for example, which comes into effect from April 2021, will impact housebuilders reliant on overseas sales, whilst the First Homes scheme, designed to improve access to home ownership for certain buyer groups and funded by developer contributions, could have a knock-on impact on viability.

Development land prices are also moderating. This partly reflects the increased costs of development, with a sharp rise in the cost of materials and labour in recent years, but also the current more uncertain outlook for the wider UK housing market.

CASE STUDIES

Developments planned in Knight Frank's 2020 hotspots

Fareham

Welborne comprises a site of 377 hectares with a resolution to grant planning permission, subject to the signing of a section 106, agreement, for 6,000 homes with a vision as a Garden Village for the twenty-first century.

Infrastructure and public realm will be delivered by Buckland Development. Homes will be delivered via sustainable joint venture partnerships with housebuilders.



East Herts

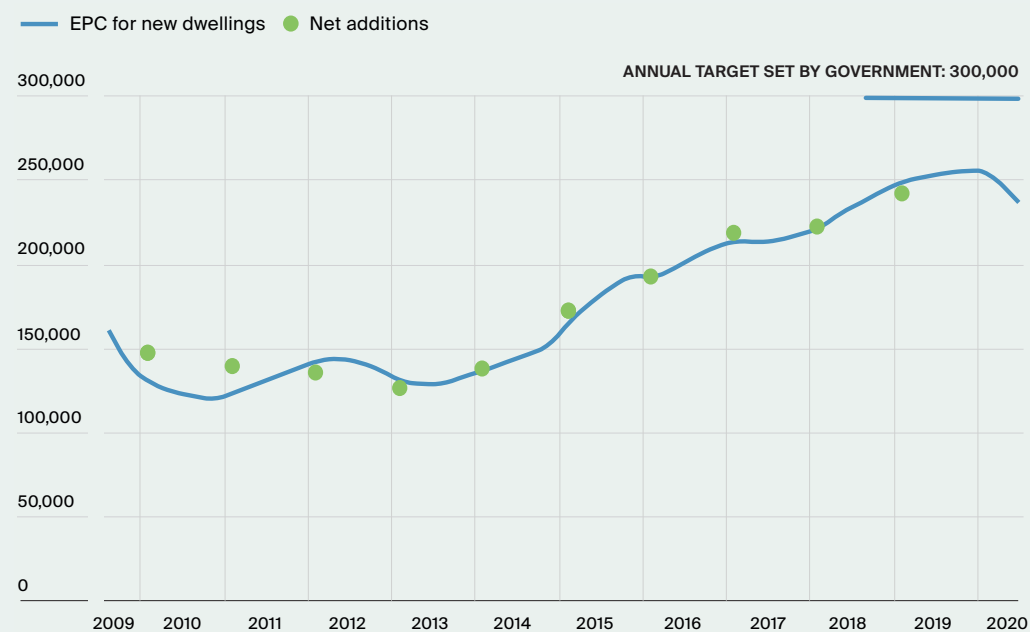
Gilston Park Estate is the largest site within the Harlow & Gilston Garden Town, which was announced in 2017, alongside other Garden Towns at Aylesbury and Taunton.

It is now awaiting planning permission for up to 8,500 new homes across six villages. More than half of the development will be provided as public open space. The development will have strong links to Harlow and the project will deliver two new crossings over the River Stort.

The development is being promoted by Places for People, the owner of the 2,500 acre site. Places for People are taking a Master Developer approach; delivering £600m+ of new infrastructure as well as phases of residential of all tenures.



New housebuilding, England
EPC = rolling 12 month total



Source: Knight Frank Research, MHCLG

2018-19 data and annual change

241,130
8.50%

Net additions

EPCs for new dwellings

217,317

Annual number of EPCs issued for new dwellings to Q2 2020

WITH CHANGE COMES OPPORTUNITY

Housebuilders are familiar with change. They’ve had ten housing ministers in as many years alone, not to mention numerous changes to property taxation. Next comes an overhaul of the planning system.

STUART BAILLIE, HEAD OF PLANNING

The Prime Minister has set out his stall alongside Homes and Communities Minister, Robert Jenrick, to reform the planning system. To make it less cumbersome, faster, more transparent and more certain. In particular, The Government wants to accelerate the delivery of housing.

Debate rages on about how radical and indeed how deliverable ‘Planning for the Future’ actually is. Certainly, Local Authorities are concerned about the streamlining envisaged, including a requirement to prepare Local Plans within 30 months rather the current average of 7 years.

However, they are likely to welcome the removal of the ‘Duty to Cooperate’ and ‘Test of Soundness’. Local Authorities will also be concerned about seemingly removing controls from Planning Committees and about how they are expected to fund the technology and new skills required to modernise and standardise planning processes and engage with communities more meaningfully and earlier in the plan making process.

Further detail is required and it would be unwise to judge the reforms at this early stage until the consultations have progressed and the detail has been further fleshed out. We focus here on five key aspects of the Planning Reform and the potential implications for housing delivery.

1) A push for better quality design is writ large in the White Paper. A fast track for ‘beautiful’ development proposals is proposed

as is locally prepared design codes and encouraging greater diversity of design in residential developments. Concerns will likely be raised about the prescriptive nature of design codes which may not be conducive to facilitating innovative design solutions for constrained sites.

2) Allocating land as Growth, Renew or Protect – all land to be allocated in Local Plans in one of three categories. We expect the classifications to be hotly contested particularly in areas of significant conservation / heritage constraint or indeed green belt designations which will see extensive ‘Protect’ allocations. Notably there are no new proposals for Green Belt review.

3) Fast tracking planning – by applying deemed consent (equivalent to outline planning permission) in ‘Growth’ areas; increasing the use of Permission in Principle for brownfield sites; and, introducing a new Development Consent Order procedure for substantial residential developments such as urban extensions or new settlements.

4) Creating opportunity for SME housebuilders – The Government has made much of the over reliance on a handful of major housebuilders delivering the majority of new homes in England. They see this as stifling creativity and contributing to supply issues. The White Paper and associated planning reforms seek to entice new and existing

SMEs into the market via a raft of measures including through an 18 month window of opportunity during which schemes of up to 40 or even 50 new homes could be exempt from affordable housing contributions; Surplus public sector land to be made available to SME developers as a priority; and large scale sites to be parcelled up between multiple developers to increase delivery rates and to diversify design.

5) Tall Buildings – with a raft of new permitted development rights for upward extension of residential premises and redevelopment of vacant commercial / industrial premises for residential alongside the reference to ‘gentle densification’ of our town centres, the Planning Reforms are seeking to intensify development but do not seem to be predisposed to facilitating tall buildings. The implication is that proposals should conform with locally set definitions of height and density and local design coding. It appears likely therefore that a conventional full planning application route will still be required for tall buildings or higher density developments that don’t tick all of the policy boxes.

We will be tracking the reforms with great interest in the coming months. More change is afoot.

BUILDING BEAUTIFUL

The Building Better, Building Beautiful Commission recommended a new framework to build “the right development in the right place” combined with a “stewardship” approach to development.

CHARLIE DUGDALE, DEVELOPMENT PARTNERSHIPS

The BBBBC’s recommendations, and the ‘Planning for the Future’ white paper, are highly relevant to our approach to identifying development hot spots. They spoke to geospatial modelling as a means to combine datasets to inform larger than local decision making.

A nationwide methodology for identifying place potential could build on that part of the Beauty In My Back Yard (BIMBY) toolkit that identifies the most sustainable locations for development (see below).

Within ‘UK Development Opportunities’ we have adopted a top-down approach to identifying the most interesting Local Authorities to develop in. Our approach

combines datasets and searches out areas where high levels of amenity collide with the right affordability metrics and existing housing shortages.

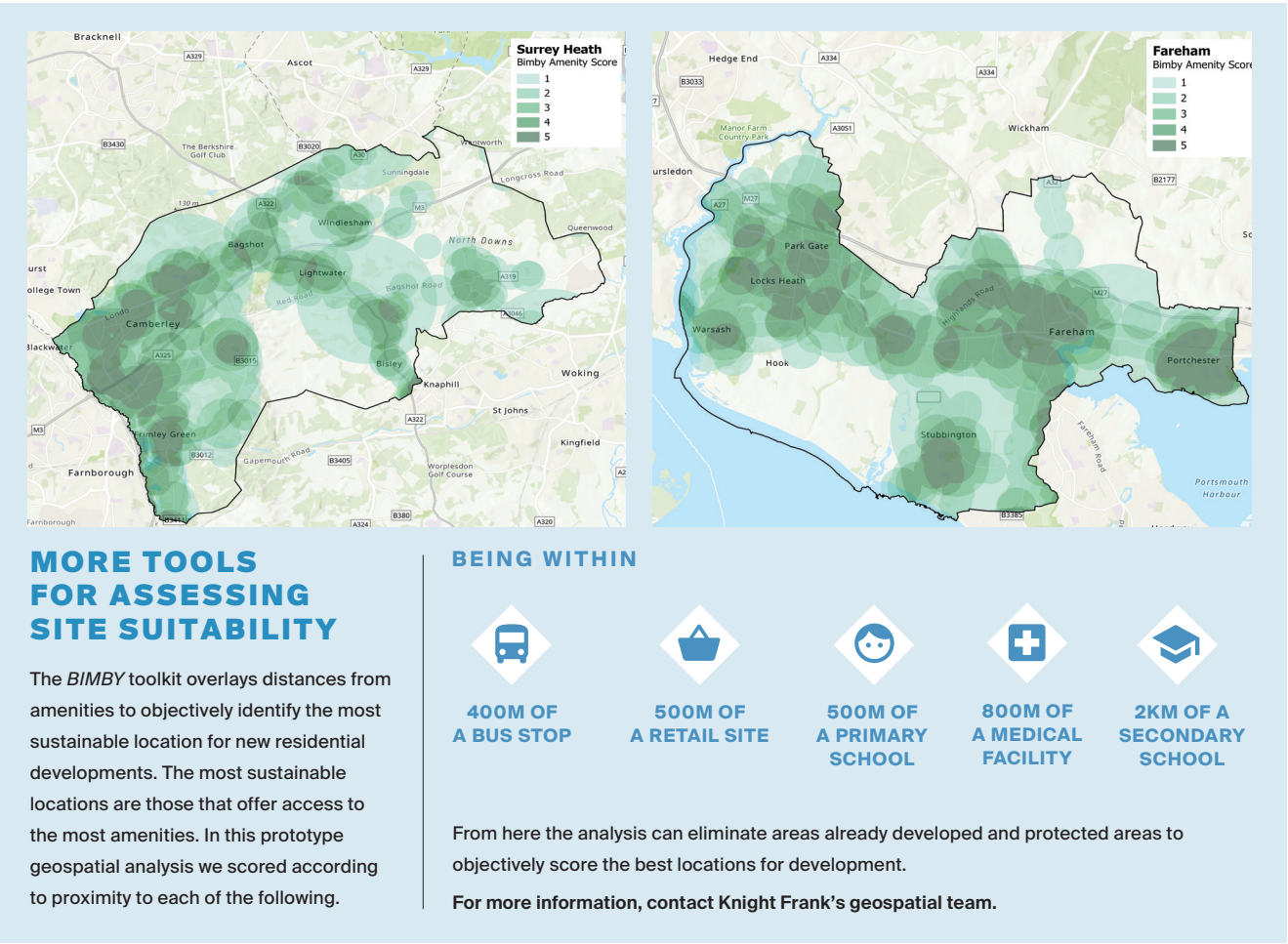
High levels of local amenity within walkable mixed-use neighbourhoods remain the Holy Grail, particularly in a world where living trends have been permanently affected by the Covid-19 pandemic. However, modelling the right place for development cannot realise that place potential in isolation.

One of the gems in the BBBBC’s recommendations was its identification of a stewardship approach to development. A landowner’s rational self-interest in

the long-term gives it the motivation to seek long-term value creation: buildings that stand the test of time; communities and local economies that thrive over the long-term.

The BBBBC suggests that the opportunity lies in the business model, encouraging a stewardship approach. This promises to form development partnerships that refocus the profit motive of housebuilders towards longer-term outcomes.

The full report by the BBBBC, along with Knight Frank’s supporting research can be found on Gov.uk: <https://www.gov.uk/government/groups/building-better-building-beautiful-commission>



Recent Publications



London Residential Development - H1 2020



Residential Land Index Q2 2020

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