Development, Investment & New Homes **Focus**

A question of balance

Matching development viability with housing need

Savills Research

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This publication

This document was published in September 2011. It contains a review of all the key housing market indicators and news to the end of August 2011. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

The most commonly used abbreviations are:

- CIL: Community Infrastructure Levy
- Peak: refers to the first half of 2007
- HBF: House Builders Federation
- CML: Council for Mortgage Lenders

Foreword

EVOLVING ENVIRONMENTS

In a rapidly evolving UK development market, it is those who can adapt to the opportunities and threats who will evolve fitter and stronger

Evolution is characterised not only imperceptibly by gradual changes but also by 'punctuated equilibrium'; sudden changes brought about by a mix of environmental change and fortuitous genetic mutation. Rarely has the equilibrium of UK real estate development been so 'punctuated' as it is now.

It is hard to identify a period in recent history when so many paradigm-altering events have occurred simultaneously, quickly and in such number as those that now face UK house building and construction. We would dare to venture that nothing is the same as it was in the summer of 2007 – except perhaps the people and companies involved (and then in fewer numbers than was once the case).

Not only have changes in the finance world changed the nature and scarcity of development funding but a fundamental shift from purchase to renting has altered the DNA of the UK housing market (see our Residential Property Focus Q3 2011).

Alongside this genetic mutation in the market is a rapidly changing development environment. Key changes include reforms to the planning system and planning framework, the withdrawal of grant funding from affordable housing providers, reforms in regeneration and the birth of Local Enterprise Partnerships (LEPs), the withdrawal of public sector funding from various development organisations, the rise of localisms the threat of anti-growth lobbies, the advent of CIL, revision of zero carbon definitions, restricted mortgage finance, dearth of equity deposits, low levels of residential property investment – every reader can probably think of many more changes that have altered the landscape of the development industry over the course of the last year or that will change it further over the next.

But has there been sufficient 'genetic mutation' inside the industry to enable it to survive? Which will be the fittest organisations and what new organisms might emerge to take advantage of the new environmental niches that have been created?

We examine the changes and their implications. Common themes emerge and 'viability' has become a watchword for all players in the arena. But viability may mean something subtly different in the 21st century compared to the 20th.

If viability used to mean that sufficient income could be generated to cover borrowing and generate investor dividends, it may not be so relevant in the new age of equity funding.

Perhaps the beast most changed in the new environment will be the owner of development land. No longer can a landowner expect an income receipt for a raw commodity upon grant of planning permission. The value and viability of land may well have to be realised over a longer time period. The role of some landowners has changed from supplier to development, and even funding, partner. This publication shows some of the ways in which all players in the game of development and investment can adapt and thrive. ■

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Executive summary

The key findings in this issue

■ The Government has confirmed, in its draft National Planning Policy Framework, that it is determined to increase the supply of new housing to meet the needs of present and future generations. Its reference to meeting household projections, taking account of migration and demographic change, suggests that the policy aim is to deliver at least 230,000 additional homes per annum in England. See pages 4/5

■ The equity rich owner occupier markets are likely to be the primary focus of housebuilders and developers over the short to medium term. However, if revised housing targets are to be met, the first time buyer and investor markets cannot be ignored. See pages 6/7

■ The emerging use of Community Infrastructure Levy (CIL) by local authorities will be a major change to the way in which planning obligations work. CIL will drive the importance of testing policy for viability, as development only happens if a landowner can see a sufficient uplift in land value. See pages 8/9

■ Increased demand for renting is likely to continue as loan-to-value ratios remain low, property prices remain high and low interest rates restrict households' ability to accumulate savings. We forecast that private renting could account for one in five households by the end of 2016. See pages 10/11

■ It is not surprising national volume house builders are showing confidence in the London market and have focused their development strategies towards the capital. Despite risks, the mismatch between supply and demand in many boroughs present opportunities to developers. See pages 12/13

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Development viability

A NEW PLANNING FRAMEWORK

The Government's National Planning Policy Framework recognises the need to respond to market demand, shifting development to markets with the greatest capacity for delivery

Words by Jim Ward

Britain needs more housing. New housing completions in England are running at around 100,000 per annum, less than half of the volume required. This is because market capacity is lower in today's low transaction market, but also because planning and development practice has not yet adjusted fully to the new market realities.

Finance and cashflow

These realities largely centre on the limitations to the economic viability of development, as a result of the scarcity of both mortgage finance and development finance.

The limited availability of mortgage finance, particularly at higher loan to value ratios, has had a major impact on the volume of residential transactions nationally. There has been a similar downturn in the volume of sales of new homes, as shown below in Graph 1.1.

Consequently the revenue from developing a site is received more slowly, which means banks view development as a riskier prospect. Therefore these banks are less inclined to lend. They are also more selective when they do so while they de-leverage their balance sheets.

Survival of the fittest

The impact of this restricted cashflow has most impact in the weaker markets and on the larger sites.

In the stronger markets, where buyers have more equity and are less reliant on mortgage finance, the recovery in transactions has been strongest.

On smaller sites lower infrastructure costs, a shorter build period and a quicker return on capital outlay make lending a more viable prospect.

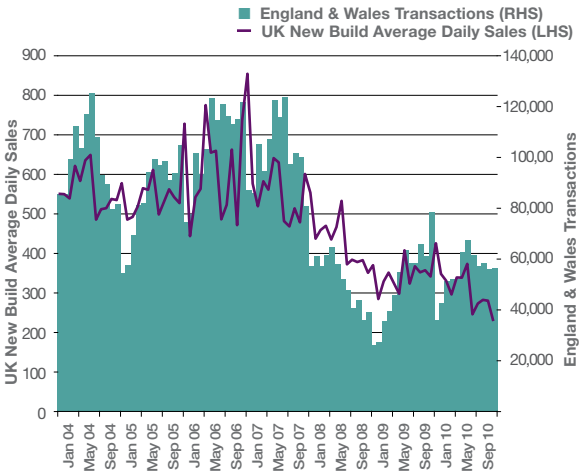
Understandably, delayed cashflow has a much bigger cumulative impact on larger sites. Furthermore, because the opportunity cost of scarce capital is so high in today's world, investing in a site with a prolonged period of negative cashflow has become uneconomic.

As a result land transactions for the larger sites tend to be based on deferred payment terms, unless the site is in a higher value market. Among sites of more than 10 acres, half of transactions were paid for up front in low value markets over the last three years, while in higher value housing markets, 69% were paid up front (see Graph 1.2).

Assessment of site viability for planning purposes also needs to embrace this increased dependence on cashflow.

GRAPH 1.1

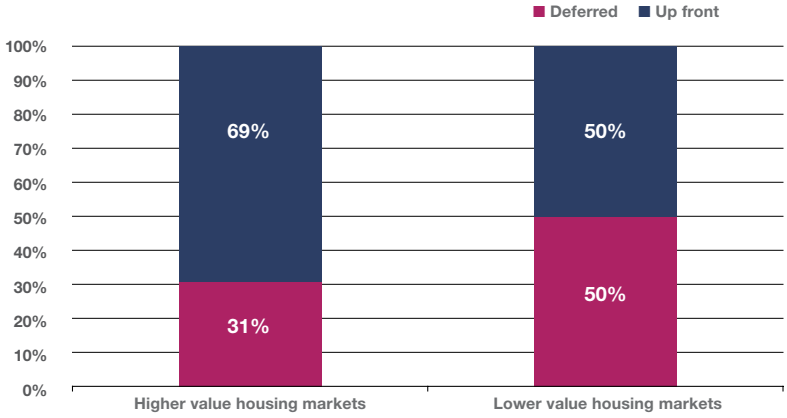
Transactions vs daily sales new homes



Graph source: Land Registry, NHBC

GRAPH 1.2

Land transactions over 10 acres, payment type by housing market value



Graph source: Savills Research

A new framework

The Government has confirmed, in its draft National Planning Policy Framework, that it is determined to increase the supply of new housing to meet the needs of present and future generations. Its reference to meeting household projections, taking account of migration and demographic change, suggests that the policy aim is to deliver at least 230,000 additional homes per annum in England.

It also recognises that to do this, planning will need to respond to market demand. This means it will need to have regard to the differing ability of local and regional markets to absorb stock and the viability of development in different locations.

Some lessons can be learnt from the reaction of the market since the credit crunch.

In London, where transactions have been most buoyant and where high house prices support economic viability, private enterprise new build completions have risen from 9% to 13% of all transactions. However, new build completions themselves remain well below the peak of the market.

By contrast, in the much more restricted housing market of North West of England, this new build ratio has fallen 0.7% to 11.5% of transactions in 2010.

Planning constraints have prevented the development market from performing entirely rationally. Despite high house prices and relatively strong transaction levels, new build completions in the South East of England were constrained to 12% of transactions in 2010, having an improvement of less than 0.5%.

The proposed framework emphasises how the planning system should be responsive to other market signals such as land prices, rents and housing affordability, to ensure that supply is sufficient to meet housing needs. Demand and need should be assessed in both the local market and others that are connected by virtue of travel to work patterns.

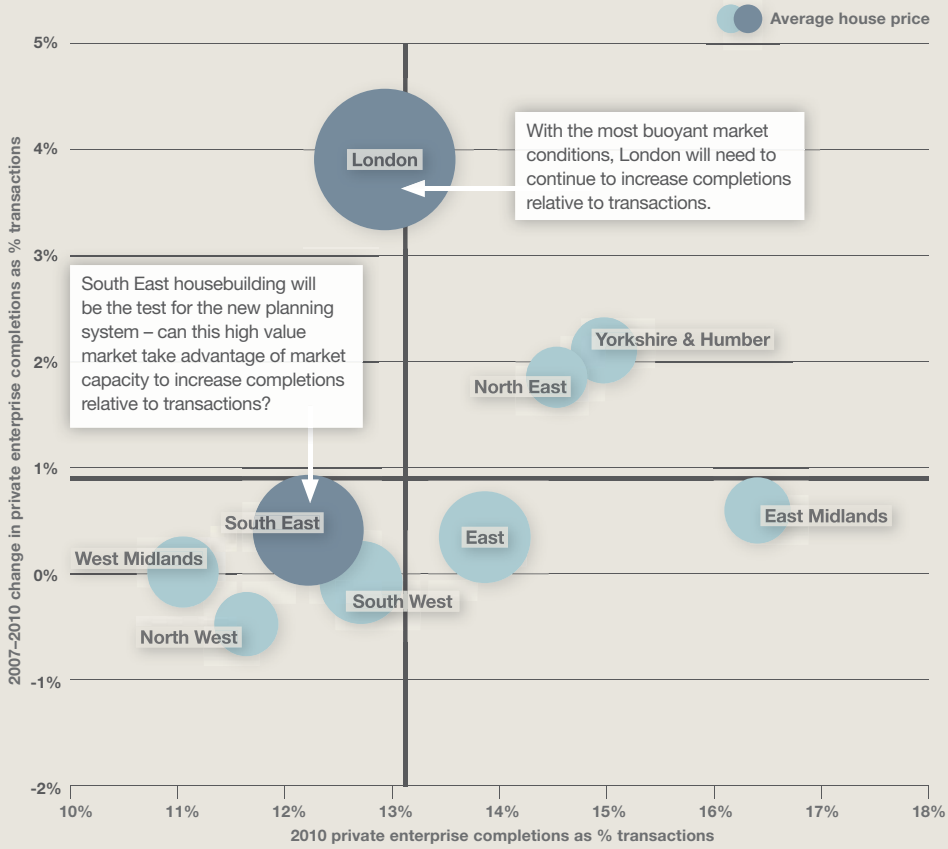
This indicates that, wherever suitable land is available, new housing should be built in the higher priced markets, where scarcity is greatest, unless the adverse impacts of allowing development would significantly and demonstrably outweigh the benefits. This means new development should be targeted at areas where transaction levels are able to recover most quickly. Yet there will also need to be recognition that individual markets only have so much capacity to absorb new stock.

As a benchmark, in major growth areas such as Milton Keynes and Swindon, new build completions represented on average around 30% of housing transactions in the five years to the end of 2008.

If transaction levels are slow to recover one solution will be to hold initial residential phases for let in the private rented sector, which can secure income flows, while providing the flexibility to release units for sale when the market is in a position to absorb them.

Completions as a % of transactions

Are the highest value markets meeting their full potential?



Graph source: Department for Communities and Local Government

Increased supply?

There is little doubt that new emphasis on responding to demand, if implemented by local planning authorities, will shift development to markets with the greatest capacity for delivery, in terms of both market absorption and also the delivery of affordable housing.

Therefore, the new planning framework is potentially a major step towards a significant increase in housing supply. The extent to which it is embraced will therefore determine its success. ■

"The proposed framework emphasises how the planning system should be responsive to market signals such as land prices, rents and housing affordability"

Jim Ward, Savills Research

THE MARKET FOR NEW HOMES

A shift in the demand profile for new homes means the major challenge for developers is identifying and delivering viable developments that meet their fresh requirements

Words by Paul Tostevin

The market for new homes has changed considerably in the last few years. Constraints on mortgage lending, a weak economy and lacklustre house price growth has restricted the market and left the sector smaller, leaner and more targeted in its activity.

Developers have responded to this by focusing firmly on the family housing market and high-specification flatted schemes in established locations, aimed at owner occupier and downsizers.

Even before changes to the National Planning Framework, which now encourages new development to respond to 'demand' rather than 'need', market forces came to the fore. Understanding the nature of buyers in the new homes market is therefore critical to successful development and delivery today.

Composition of buyers

The equity rich owner occupier markets are likely to be the primary focus of housebuilders and developers over the short to medium term. However, if revised housing targets are to be met, the first time buyer and investor markets cannot be ignored.

First time buyers

Difficulties in accessing mortgage finance continue to limit first time buyers. Today's owner occupier demand is dominated by the cash and equity rich. However, first time buyers remain an important market for new homes, and the industry has had to adjust and innovate to overcome the constraints this group now face. For today's first time buyers the primary concern is being able to afford a deposit rather than meeting mortgage repayments.

In the mortgaged market the average first time buyer's annual income of £32,500 compares to an average deposit of £26,500 – highlighting the extreme difficulty in funding a deposit though savings (see Graph 2.1). Only the fortunate ones, able to call on the 'bank of mum and dad' have been able to get on the housing ladder in recent years.

HCA's HomeBuy Direct was successful in assisting first time buyers, something the recently launched 'FirstBuy' aims to continue. The equity loan scheme provides first time buyers with up to 20% of a property's value, and aims to assist an estimated 10,500 first time buyers over the next two years, simultaneously bolstering the market for new build product.

Although helpful, such schemes can only assist a limited proportion of the market. Housebuilders have responded with their own equity loan schemes, and initiatives such as deposit matching. However, the opportunity lies in the private rented sector, and this is where the investor market is making a come back.

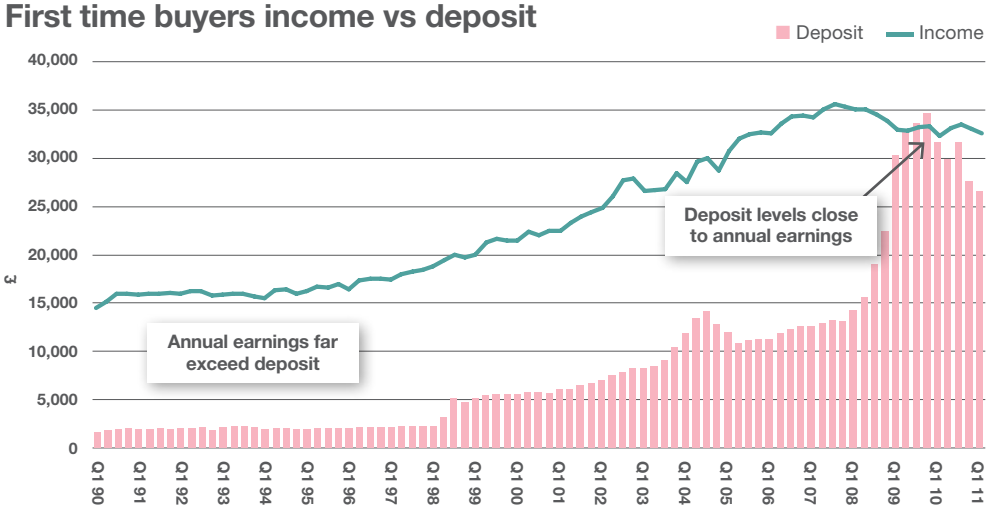
Return of the investor

Domestic investors are returning to the market, albeit in a different form to those active in 2007. With lending to buy to let investors down -67% on the 2007 peak, today's investors are experienced and equity rich, looking to add quality investment property to established portfolios.

Their focus is on core markets with proven tenant demand. Investors

GRAPH 2.1

First time buyers income vs deposit



Graph source: CML

accounted for 34% of Savills new homes sales in the first half of 2011, up from a low of 7% in the second half of 2009 (Graph 2.2).

Overseas investors are a growing force, particularly in London among quality flatted developments in prime areas. London's new build market has been buoyed by a steady flow of foreign buyers, attracted by weak sterling, global city status and a reputation as a safe haven for overseas wealth.

Such has been the level of overseas demand that activity is filtering out into more mainstream London markets, and established high-value university towns such as Bath, Oxford, Cambridge and Edinburgh. Looking to capitalise on this ready source of sales, many developers are taking their schemes direct to the overseas markets of South East Asia, with off plan sales helping to forward fund future phases.

Overseas buyers are only good news for those locations that have the ability to attract them. In lower value, less established areas, these purchasers are absent.

Quality & diversification

In a restricted market, new development is increasingly targeted at areas that have identifiable housing shortages and proven demand, something set to continue as the National Planning Policy Framework comes into effect, underpinning the influence of market forces.

The major challenge for developers in future will be identifying and delivering viable schemes that meet the new demand profile. Only in this way will levels of pricing and rates of sale be achieved that can balance housebuilders' growing cost and debt constraints.

Going forward, the industry will have to do more and tackle some of the big unanswered issues in order to supply property to the private rented sector and assisted first time buyers. ■

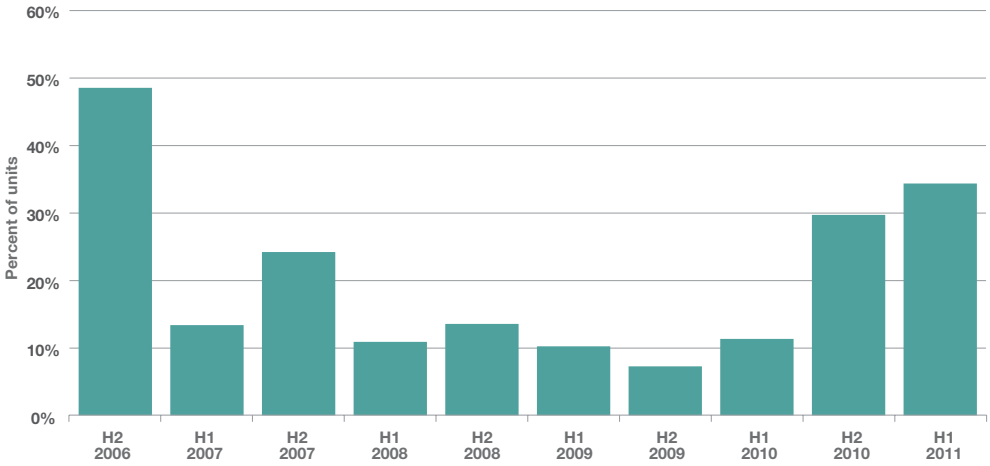
"Overseas buyers are only good news for those locations that have the ability to attract them"

Paul Tostevin, Savills Research

Above: Developers are focussed on the delivery of family housing in established locations

GRAPH 2.2

Investor demand for new homes (excluding London)



Graph source: Savills Research

Planning

DO PLANNING OBLIGATIONS AND CIL HAVE LIMITS?

The emerging use of Community Infrastructure Levy by local authorities will be a major change to the way in which planning obligations will work

Words by Jim Ward

A site must have a deliverable planning consent before it can be developed. This is self evident, but the question of what constitutes a deliverable consent has become increasingly contentious since the downturn in the market.

The issue is whether or not a scheme is economically viable with the planning obligations that are a condition of a planning consent. Viability assessments now matter more than ever. Critically, they must be based on realistic assumptions if housing delivery is to increase.

Planning obligations rise

Planning obligations grew in scale during the buoyant markets leading up to 2007. Graph 3.1 below illustrates the volume of affordable housing delivered via Section 106 agreements. This was a time of rapidly rising land values, so much so that the increase in value between the grant of planning consent and housing completions created a financial cushion to absorb the cost of obligations.

Consequently, the volume of affordable housing delivered by Section 106 agreements rose to 60% of affordable supply in 2006-07.

Affordable housing

The 2008-10 period was very different. Generous grant funding became a significant contributor to the financing of mixed tenure development, effectively supporting the delivery of market housing.

This period, however, is fast coming to an end. The average grant rate for allocations of grant under the new Affordable Rent system has fallen to £22,000 per unit, compared with an average allocation of £54,000 per unit in 2010.

This will be offset partially by higher rent on new and relet social housing, at up to 80% of market rent (subject to agreement with the local planning authority if a Section 106 agreement applies).

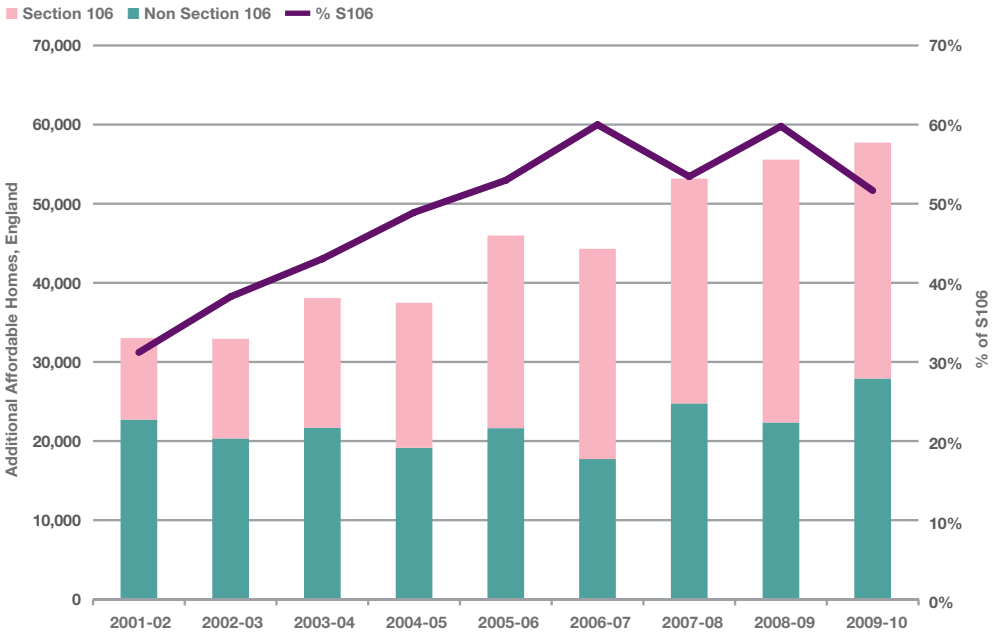
Housing associations will be borrowing more, against this increased rental income flow, but it remains to be seen how this impacts on bids for Section 106 units as the market settles down.

Not surprisingly, initial indications are that the new system has widened the range of bids among providers as the approach they have taken has become less uniform and tailored much more to their individual circumstances.

Therefore, viability assessments will need to include affordable housing at values supported by robust evidence that is relevant to the local market, rather than the more generic assumptions that have often been used in the past.

GRAPH 3.1

Delivery of S106 requirement



Graph source: Department of Communities and Local Government

Current market capacity

There is considerable variation in the strength of local markets across the country, with transactions and rates of sale being the biggest variable. The significance of rate of sale and cashflow to project viability is highlighted in an earlier article in this report (see pages 2/3). It is the single biggest constraint to viability in the current market.

Zero carbon

The squeeze on viability is likely to intensify as we move towards zero carbon in 2016. Recognition of this has pushed viability up the Government's agenda and it is behind the new flexibility on the definition of zero carbon, which is now likely to be nearer to Level 5 than Level 6 of the Code for Sustainable Homes.

The proposed use of 'allowable solutions' may reduce costs further, but from a high base.

A report by Element Energy and Davis Langdon to CLG in March 2010 estimated that the cost of reaching Code Level 5 for a three-bedroom semi detached house was likely to be in the region of £25,000 and £29,000 higher than constructing to 2006 Building Regulations.

CIL and policy testing

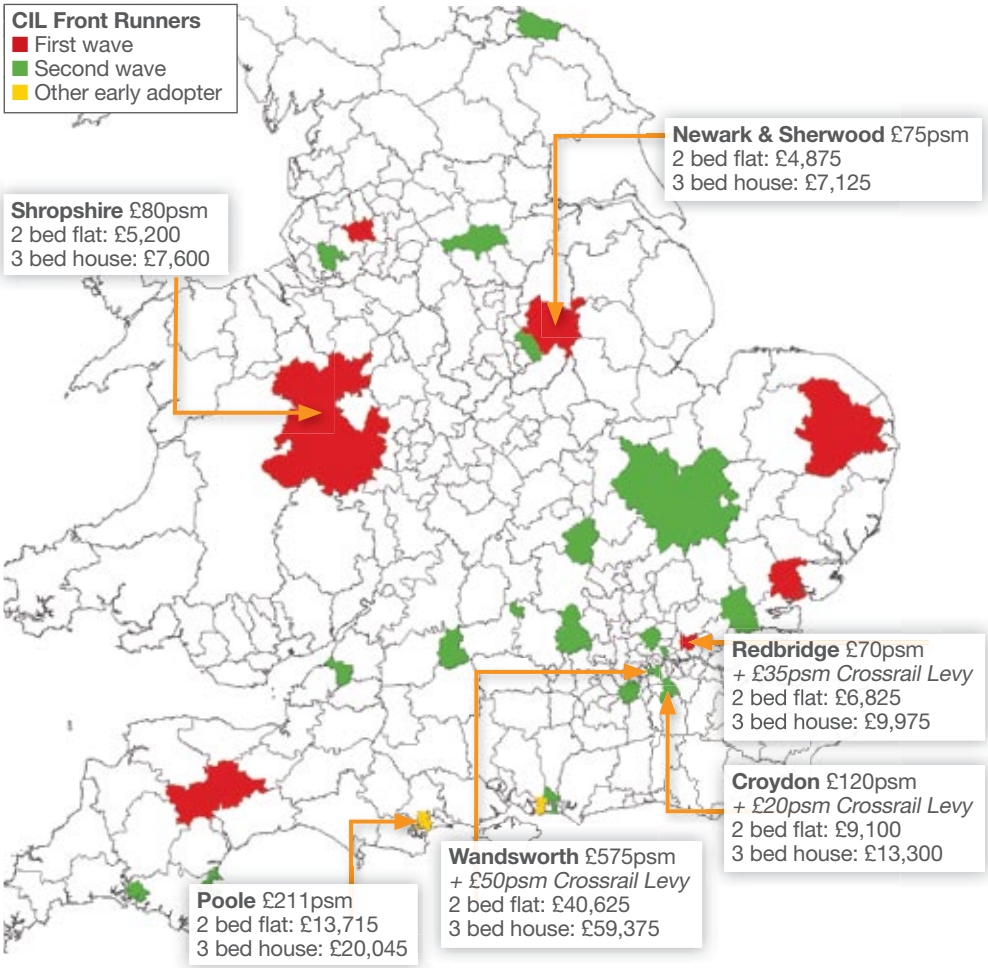
The emerging use of Community Infrastructure Levy (CIL) by local authorities will be a major change to the way in which planning obligations work. Generally, Section 106 obligations that do not mitigate the direct impact of a development are no longer permitted, apart from affordable housing.

The only mechanism for developer funding of all other infrastructure is CIL. This levy is charged at standard rates. Those can either be a flat rate across a local authority, or rates that vary by either type of development or defined market area. However, once the rate has been set by the local authority, it cannot be negotiated other than in exceptional circumstances.

Therefore, it is crucial that CIL charging schedules are tested with a robust viability assessment, before the rates are set in stone. The charging schedules are being drafted now, in early adopting authorities. A second wave of 20+ authorities will be following soon.

MAP 3.2

Maximum proposed CIL by local authority



Maximum of the proposed range for residential development. For example, in Poole this will range from £75psm to £211psm. Calculations assume 65sqm 2 bed flat, 95sqm 3 bed house

Map source: Local Authority draft CIL chargng schedules

Developer returns

CIL is going to drive the importance of testing of policy for viability. The assessment must be based on a robust view of the types of site that make up the supply pipeline and the economics of delivery of these sites.

Foremost among these assumptions on viability are land value and developer margin. In the past, both of these have often tested with crude rules of thumb that bear little relationship to market experience.

In reality, however, development will only happen if a landowner can see a sufficient uplift in land value to release the land. Likewise, developers have to see sufficient return on scarce capital to cover the variable risk of development.

Planning gain

Capture of planning gain for the public benefit can work, most successfully at times of super profit, but it works only if there is sufficient incentive for landowners to release land and for developers to put scarce capital at risk. ■

"The squeeze on viability is behind the government's new flexibility on the definition of zero carbon, which is now likely to be nearer Level 5 than Level 6." Jim Ward, Savills Research

The rental market

EXPANDING THE PRIVATE RENTED SECTOR

A dramatic increase in demand for rented accommodation across a much greater mix of locations means that supply in the private rented sector needs to expand both in quantity and variety

Words by Yolande Barnes

While apparent aspiration to home ownership has not decreased noticeably, the number of private renters has increased steadily since 2007. Over this period the growth of tenant take-up was typically associated with young singles or childless couples, often in professional occupations.

The speed of that change increased dramatically since the credit crunch, as the difficulty in meeting mortgage criteria, most noticeably the increased cost of a deposit, has pushed the average age of the unassisted first time buyer to 37.

Increased demand for renting is likely to continue as loan-to-value ratios remain low, property prices remain high and low interest rates restrict households' ability to accumulate savings. We forecast that private renting could account for one in five households by the end of 2016.

Widening demand

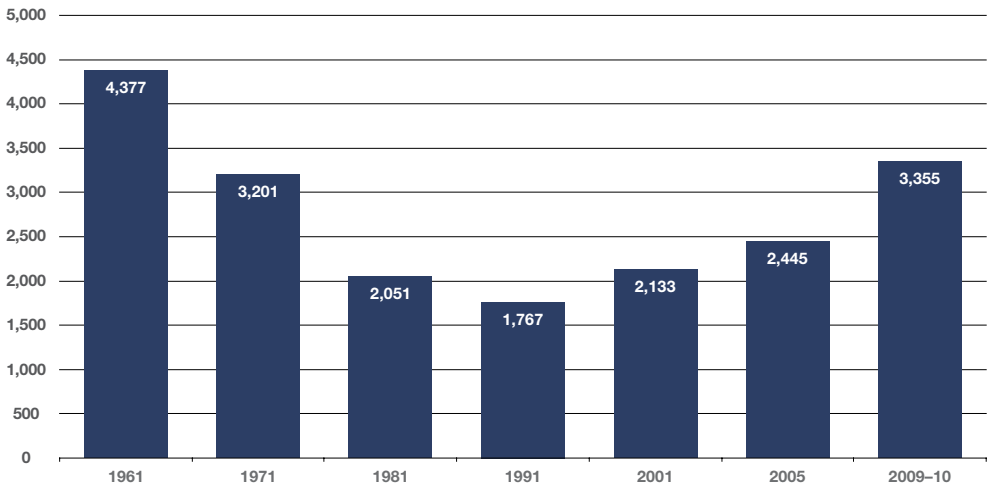
We also anticipate that the demand for rented accommodation will begin to spread across a much greater mix of neighbourhoods over the next decade.

Increasingly those priced out of owner occupation are likely to include older age groups, who are consequently more likely to have children and need family housing rather than small apartments.

There is also a separate cohort of private sector tenants who increasingly rent through choice, including those requiring labour mobility, flexibility or who expect their household status to change.

GRAPH 4.1

Number of private rented households in England



Graph source: CLG / English Housing Survey

Added to this are a group whose needs are not met by the social housing sector. The capacity of the social housing sector to provide intermediate housing has diminished due to subsidy withdrawal.

Recently this has coincided with reduced capacity among house-builders to subsidise new social housing stock, given suppressed levels of house building.

Already the private rented sector has taken up some of the slack adopting a client base who are, at least partly, reliant on housing benefit.

Matching supply

Together this means that supply in the private sector needs to expand in terms of both quantity and variety. It also presents a variety of investment opportunities which need to be matched to the investment criteria of different types of landlord whether they be private individual, institutional or corporate investors.

Some investor types will continue to be best suited to supplying short-term, AST rack-rented stock for young professionals, where returns are dominated by capital growth whilst others will be more suited to long-term investment where income yields increasingly dominates.

Investment performance

We believe our analysis of where properties lie within a matrix that contrasts nature of location and the grade of existing housing stock, can help to assist potential purchasers in their decision making and investment strategies (see Savills Investment Matrix above right).

It also has a real relevance to other players, namely, the developers supplying new stock into the rented sector and social housing providers looking to take advantage of the ability to charge rents at up to 80% of the market level on new stock.

Importantly the value of portfolios within this matrix will depend on the appetite of each investor and will differ between investors depending on their target performance and whether they will (literally) be valuing income stream or VP open-market growth potential.

Development potential

Finding a way to capture this value is particularly important for housebuilders developing large sites. Large sites will be impossible to develop in a truly sustainable manner if only a limited range of housing is built on them.

Providing a range of viable investment products has the ability to diversify the range of product, type occupier and type of owner and reduce the reliance on a limited pool of owner occupier purchasers.

As a result it has the potential to significantly boost rates of sale by selling and forward-selling let stock and part owned equity stakes.

To unlock that potential, investment products that readily appeal to investors need to be developed. Here something can be learned from the social housing sector. It has become imperative that Housing Associations attract private money in order to fund increased housing provision.

Many have the covenant and track record to raise bond issues, for example, on the back of sizeable and stable rental income streams and we expect to see the use of such instruments increase.

A new understanding

In order to understand the tenanted sector, we believe that it is necessary to make a clear distinction between the nature of occupants who are renting and the landlord type.

Much existing analysis of the 'residential investment' sector fails to differentiate between the different combinations of these categories.

Sometimes this means that only direct investment by private individuals or 'buy to let' investors are considered while ignoring other types of either direct or indirect funding and investment. This is set to change. ■

SAVILLS INVESTMENT MATRIX
Investment prospects over next 10 years

Location quality	Property Grade A	Property Grade B	Property Grade C
Prime (P)	Low yielding, high capital growth prospects		Mid yielding, later high capital growth prospects
Secondary (S)		Blended returns (medium capital growth & mid yields), high rental growth	
Tertiary (T)	Mid yielding, low/later capital growth prospects		High yielding, later low capital growth prospects

"It has become imperative that Housing Associations attract private money in order to fund increased housing provision."

Yolande Barnes, Savills Research

Development: London

LONDON CONTINUES TO BUCK THE TREND

Confidence in the London market remains high. Consequently house builders and developers have refocused activity on the capital in the expectation it will lead the recovery

Words by Katy Warrick

Residential property in London has echoed some of the national trends over the last few years, following the UK into the second dip in house prices over the second half of 2010.

However, more recently property in London has outperformed the national average, reflecting a wider confidence in the capital's housing market. As a consequence this has caused housebuilders and developers to refocus activity on London in the expectation that it will lead recovery in the market.

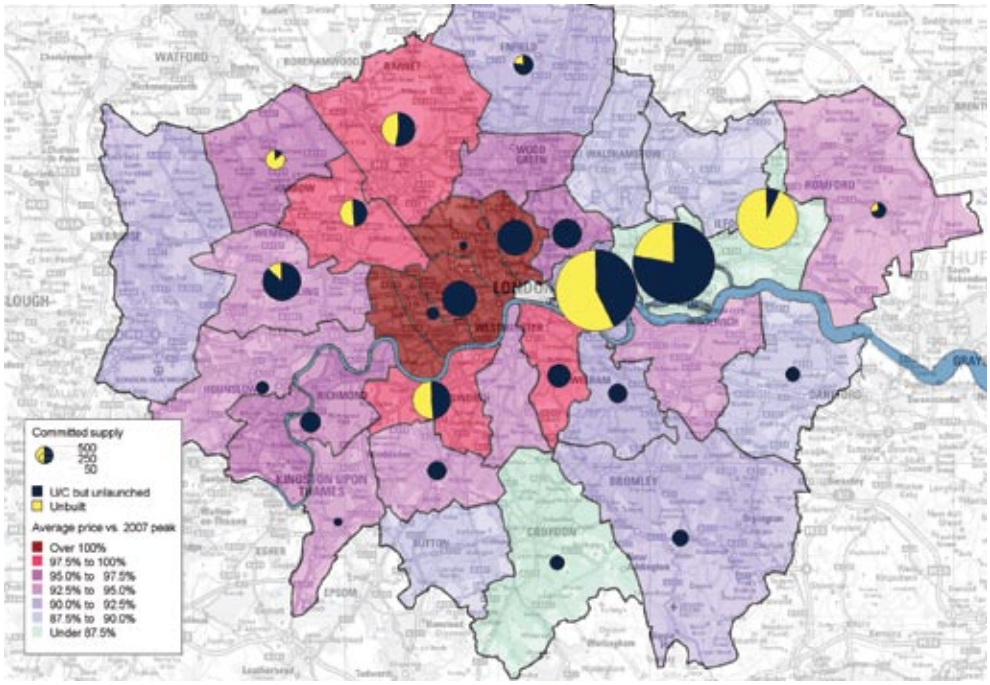
Confidence and demand

According to HBF, demand in terms of site visitors and net reservations is significantly stronger in London. Homebuilders' view of sales in the year ahead has been more changeable compared to the South East and Great Britain; however its current position is more optimistic. The HBF net balance of opinion of London sales shows a positive balance of +63% in June.

Demand is underpinned by buyer confidence and also a greater ability of buyers to purchase within a mortgage constrained market. It is also the ability to sell property to overseas buyers in those locations which Asian buyers, in particular, are familiar with. In addition, new supply is constrained, supporting current pricing.

MAP 5.1

London pipeline Committed supply and average prices vs 2007 peak



Map source: Savills using Molior

Housing scarcity

The latest (revised) housebuilding figures for the first half of 2011 show that housing starts are -21% below peak levels (H1 2007), but ahead of England, which is still -45% below peak levels.

While comparatively robust, these figures are still well below the Mayor's target; London's annual completions currently stand at 18,070, which is 56% of the target (to deliver 32,250 homes per year till 2021). This demonstrates the shortfall that London is experiencing in terms of new housing provision.

Against this context, it is not surprising that national volume house builders are showing confidence in the London market and have focused their development strategies towards London where the market has proved more resilient over recent years.

In particular, affordable housing has been strong (accounting for almost half of all starts in H1 2010); but is now diminishing (accounting for just over a third of all starts in the first half of 2011). It is likely that we will see this downward trend continue as public funding, and some affordable housing provider's ambition is scaled back.

Some of the recovery in housebuilding starts can be accounted for by public investment in both the public and private sector.

London's new build housing market has benefited from a significant amount of government funding through initiatives such as Kickstart, HomeBuy Direct and the National Affordable Housing Programme (NAHP). Kickstart and HomeBuy Direct have now finished and the NAHP has significantly less investment available.

Risks to London market

Despite homebuilders' positivity about sales in the year ahead, we must not get complacent about the strength of the London market as it is also heavily susceptible to changes in the economic and political climate.

Currently London is seen as a safe haven for international wealth.

Coupled with the advantage of a weak sterling dropping the real cost of property in the UK, this makes the capital very attractive to overseas purchasers.

One of the reasons London is leading is because of the impressive strength of recovery in the prime London boroughs.

Prime central London has shown significant price growth ahead of mainstream markets both in the capital and the rest of the country, leading us to revise our forecasts for prime central London up to 8% price growth in 2011.

Prime central London in particular relies heavily on overseas investment, which accounts for almost half of second hand sales and almost all of new sales.

Previous economic unrest in the Eurozone has driven investment to London, but as the effects of the current bailout package are yet fully manifest in the residential market, it is possible that buyer confidence, one of the main drivers of demand, may be dampened.

We also have to acknowledge that there are differences at a local level within London, as well as between the regions. Prime London markets appear stronger, with transaction and price levels approaching or exceeding peak 2007 levels in some cases.

These markets are less affected by lack of mortgage availability and have stronger income and employment prospects.

Against this context, Map 5.1 illustrates the committed pipeline across the London boroughs split by units which are unbuilt and those which are under construction but currently unlaunched.

Committed supply is heavily skewed to the east, in boroughs such as Newham and Barking and Dagenham where residential values are still only reaching 87% and 81% of peak levels respectively.

In contrast, some local markets (such as Hammersmith and Fulham and Camden) which might be considered stronger and where prices have exceeded peak levels, have very low committed supply.

The current mismatch between demand and the supply pipeline creates gaps in the market which, despite the risks, means there are now real opportunities for developers. ■

Forecast values

MAINSTREAM FORECASTS

Wide regional price variations are set to continue, but some regional growth is expected next year

MAINSTREAM MARKETS:
Five-year forecast values

Forecasts	2010	2011	2012	2013	2014	2015	2011–2015 inclusive
UK	0.7%	-1.5%	2.0%	3.0%	5.0%	5.0%	14.1%
London	2.7%	3.0%	6.5%	5.5%	5.5%	6.0%	29.4%
South East	2.5%	0.0%	4.0%	6.0%	6.0%	6.0%	23.9%
South West	2.1%	-1.0%	3.0%	4.0%	5.5%	5.5%	18.0%
East of England	3.8%	-1.0%	3.5%	5.0%	6.0%	5.5%	20.3%
East Midlands	1.8%	-2.5%	2.5%	4.0%	5.5%	5.0%	15.1%
West Midlands	0.7%	-4.5%	-0.5%	1.0%	4.0%	4.5%	4.3%
North East	0.8%	-4.5%	-2.0%	0.0%	3.0%	4.5%	0.7%
North West	-1.3%	-4.0%	-1.0%	0.5%	3.5%	4.5%	3.3%
Yorkshire & Humber	-3.4%	-4.5%	-1.5%	0.0%	3.5%	4.5%	1.7%
Wales	-1.5%	-3.0%	0.0%	2.5%	4.0%	4.5%	8.1%
Scotland	-2.0%	-2.5%	0.0%	1.0%	3.5%	4.5%	6.5%

Annual house price growth key:
■ 8% and over ■ 6% to 8% ■ 4% to 6% ■ 2% to 4% ■ 0% to 2% ■ Below 0%

Making the grade The impact of grading on residential values

Deviation from forecast
(end of 2010 – end of 2015)

The new Savills model for evaluating UK residential property anticipates Grade A properties exceeding their local mainstream market 5-year house price growth by 5%, while Grade C properties will underperform by 5%.

Grade A +5%
Grade B 0%
Grade C -5%

Development PROPERTY RADAR

A quick look at the development issues that will be squarely on the agenda in the forthcoming months

Regeneration returns

The 2011 IPD and Savills Regeneration Indices report showed total returns from regeneration property improve sharply in 2010, but underperformed in comparison to all property. This comes as regeneration struggles to attract investors in a market focused on prime property in established locations.

The bright spot is residential regeneration. Residential regeneration property has outperformed its commercial counterpart over both the medium and long term, demonstrating the long term benefits of holding this asset class. In some locations commercial development will only be possible on the back of primarily residential schemes able to attract funding and investment.

Constraints on development

The latest HBF survey suggests land prices and land availability are a growing constraint on development. In June 2011, 45% of HBF members cited land availability as a limitation on development, while 39% pointed to land prices, up from 32% and 33% in March. This reflects the limited pool of viable, permissioned land in good locations.

Planning delays, meanwhile, remain the greatest constraint on development cited in the survey. Some 75% of HBF members cited this as a constraint, up from 68% the prior quarter. The introduction of the National Planning Policy Framework, which aims to improve the effectiveness and efficiency of the planning system, may go some way toward easing this.

Land use

Provisional estimates from DCLG suggest that the proportion of new homes built on previously developed land is decreasing. In 2010, 73% of dwellings were built on previously developed land, down from 77% in 2009. This reflects a general shift away from city-centre flatted schemes, to edge of town housing developments.

Densities, meanwhile, are showing marginal increases. Provisional 2010 figures point to an average of 48 dwellings per hectare (dph) across England for previously developed land, and 32 dph on greenfield sites, slightly up on the previous year. Across both land types, densities range from 120 dph in London to 38 dph in the East Midlands. ■

Savills research team

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"In order to understand the tenanted sector, we believe that it is necessary to make a clear distinction between the nature of occupants who are renting and the landlord type." Yolande Barnes

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"The new planning framework is potentially a major step towards a significant increase in housing supply. The extent to which it is embraced will therefore determine its success." Jim Ward

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"London has outperformed the national average, reflecting a wider confidence in the capital's housing market. As a consequence housebuilders and developers have refocused their activity on the capital." Katy Warrick

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- **Market in Minutes | Prime Regional Residential Markets**
- **The World In London**
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