

Spotlight on...

Strategic Development Sites



Some 45% of five-year housing pipelines identified by Local Authorities are accounted for by strategic sites. We assess the viability of these sites and the implications of emerging policy initiatives.

Large development sites are pivotal to the delivery of new homes in the UK. Strategic developments across the UK could supply enough homes for a quarter of all new households anticipated to be formed over the next 20 years. In London and the South East, the figure is over a third (see Graph 1 overleaf).

These sites have been hardest hit by restricted development finance in the post-crunch era. Housebuilders and developers have focused efforts on smaller sites as they seek to maximise returns on scarce capital.

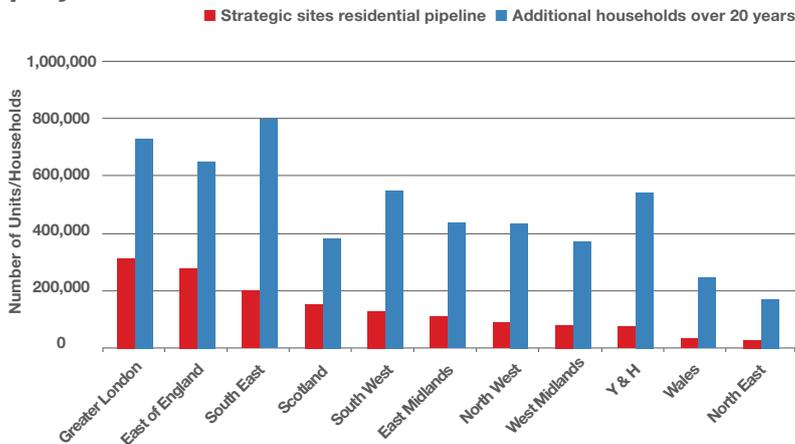
Our projections suggest that housing output in England will continue to undershoot the number of new households forming each year. Unless the scale of output is

SUMMARY

An overview of the market

- Strategic development sites (mixed use and residential schemes with capacity for 250 or more housing units), could supply a quarter of new homes needed over the next 20 years.
- Some 45% of five-year housing pipelines identified by Local Authorities are accounted for by strategic sites.
- Many of these schemes are 'log-jammed' at a pre-planning stage, due to funding constraints and/or complex or uncertain planning status.
- Developers and house builders have focused on edge-of-town sites for family housing, targeting equity-rich owner-occupiers. These now make up 58% of sites in the survey.
- The public sector land initiative has ambitions to unlock land for 100,000 new homes. Our analysis suggests 65% of the sites involved are in lower value markets, and therefore of questionable viability.
- In a muted residential market, agents of delivery on strategic sites are utilising development partners with specialist expertise, who are needed in order to unlock value over the long term.

GRAPH 1 Strategic sites residential pipeline and household projections



Source: Savills Research, CLG, Statswales

→ increased, the cumulative shortfall since 2006 will amount to 1.4 million homes by 2022. The viability of strategic development sites will be pivotal to meeting the housing demands of the UK.

Future supply

The vast majority of strategic sites are 'brownfield' – that is they have been previously developed – but supply is now increasingly found on major greenfield sites. There has been a shift away from brownfield land for large developments which no longer stack up. Greenfield sites now account for 27% of schemes in our database, by number of units, as shown in Graph 2.

Developers and housebuilders catering to the equity-rich in the housing market are increasingly focussing their efforts on edge-of-town development for family housing. This is a trend that has been evolving post downturn.

At a time when the city centre flat market dominated in 2007, edge-of-town sites accounted for just 37% of the total, while city centre sites made up over 54% (see Graph 3).

Funding – and appetite – for town centre apartment schemes dried up, so that today, while city centre schemes have slipped to less than a third (29%), edge-of-town sites now account for over half of those we monitor (58%).

HOUSING TARGETS

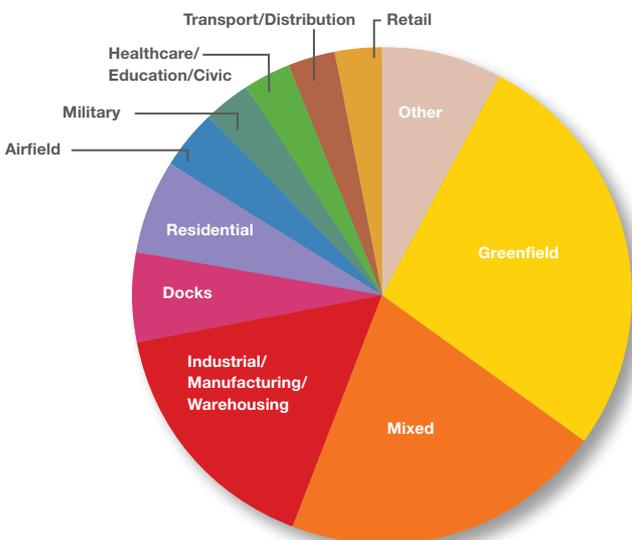
Strategic sites' contribution to the five year land supply

Analysis of Local Authority housing site trajectories highlight the importance local councils are placing on strategic sites to meet their five-year housing targets. Of those Local Authorities that publish a detailed housing site trajectory (around 10% of the total), 45% of their five-year delivery pipeline is accounted for by strategic sites. In London and the South East, the proportion of these sites is even higher, at 48%.

This emphasises the importance in making strategic sites viable to meet long-term housing need. This is particularly the case in London and the South East, where this analysis suggests the contribution of strategic sites to the short- to medium-term supply might be greatest, being regions where the housing need is most acute.

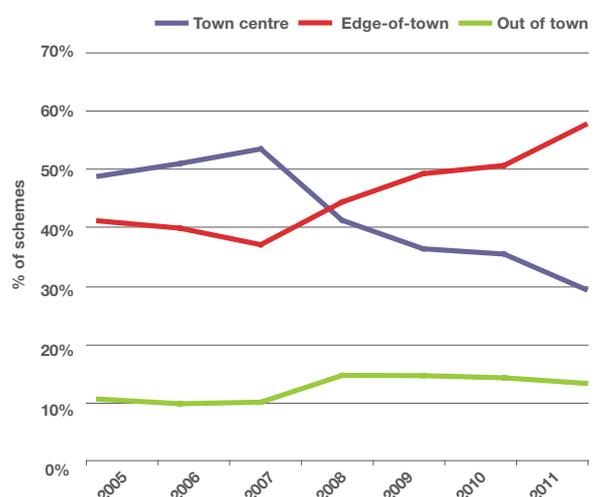
The recently published housing strategy for England sets out some initiatives for tackling stalled sites. Proposals include allowing developers to require local authorities to reconsider Section 106 agreements agreed prior to April 2010, a flexible approach to planning obligations, and a £400 million building fund to unlock stalled schemes. In Local Enterprise areas where the provision of infrastructure is a barrier to development, a £500 million Growing Places fund will be made available. Such initiatives could go some way toward unlocking more of this strategic land for delivery.

GRAPH 2 Former uses of strategic sites, by number of units



Graph source: Savills Research

GRAPH 3 Edge-of-town schemes grow in prominence



Graph source: Savills Research

→ With so many more strategic sites on greenfield land, there is more of a log-jam of units at the early stage of the more contentious planning process. Some 44% of the unit pipeline on greenfield sites is tied up at a pre-planning stage, compared to 26% of the pipeline on brownfield land (Graph 4).

Many of these greenfield sites are either under option agreement, or allocated in local planning authority strategic housing land assessments, and face lengthy promotion and planning. The new National Planning Framework's aim is to enable more sustainable development, and it will be necessary to consider the specific requirements of greenfield sites. Given their capacity for new housing delivery it may be necessary to look at ways of streamlining their promotion.

The public sector

The public sector has historically been a strong driver of strategic development projects. Their involvement in delivery has declined in recent years as austerity measures have taken hold and public funding has been curtailed. The public sector's share of schemes, by number of units, has slipped from 22% in 2010, to 19% in 2011.

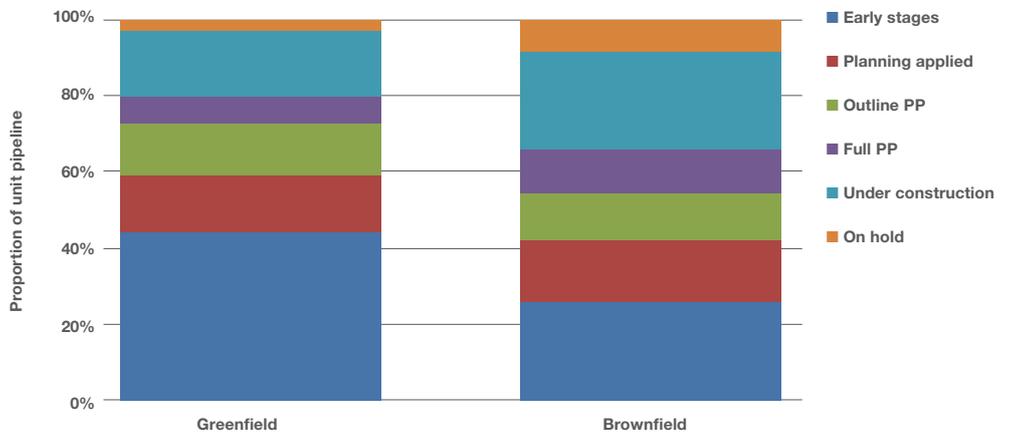
This has, however, been offset by an increase in the number of public/private initiatives. An increasing recognition of the need to involve private sector partners at an earlier stage of development has seen the proportion of public/private partnerships grow, albeit marginally, from 11.6% in 2010, to 12% in 2011.

Public land is an under-utilised resource and, recognising this, the government has announced its intention to release sufficient public land to deliver 100,000 homes by 2015.

Government departments with significant land holdings have identified land and property that could be released for new residential development, in the intention to make as much available under the 'Build Now, Buy Later' initiative.

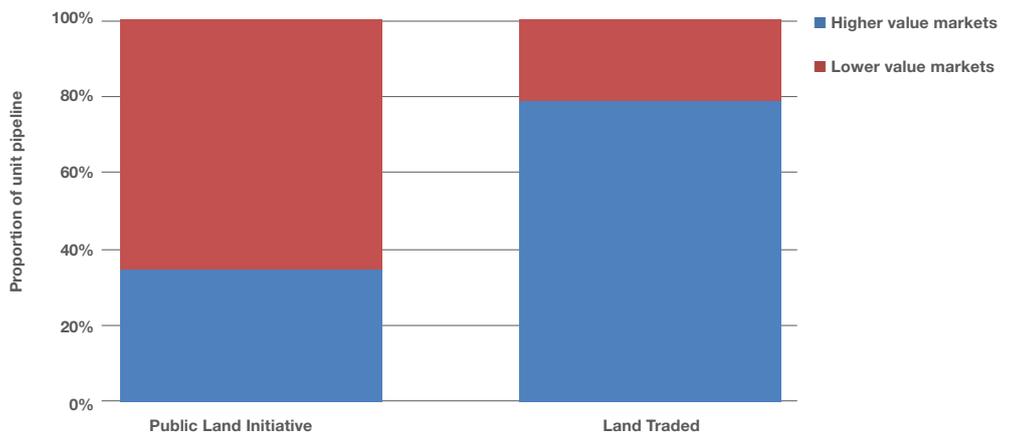
Our analysis of this proposed public sector land supply points toward a

GRAPH 4 **Greenfield and Brownfield land, unit pipeline – by stage of development**



Graph source: Savills Research

GRAPH 5 **Proposed public land and land traded over 10 acres, by strength of market**



Graph source: Savills Research

potential demand/supply mismatch. Only 35% of public initiative land over ten acres in size is located in market areas where house prices are above the national average. This is where development is likely to be most viable and where housebuilders tend to concentrate their efforts.

Analysis of deals done in the last four years shows 79% of all land has traded in these higher value markets, (Graph 5). There is therefore a question over the appetite for this public sector land. The commercial terms under which the land is released will be crucial.

The surplus public sector land in the lower value markets (65%), has the

potential to meet excess housing demand and construction activity here will contribute to economic growth and sustainable development. However, there is likely to be less land value on these sites, to be shared among planning obligations, Community Infrastructure Levy and land value to the government department.

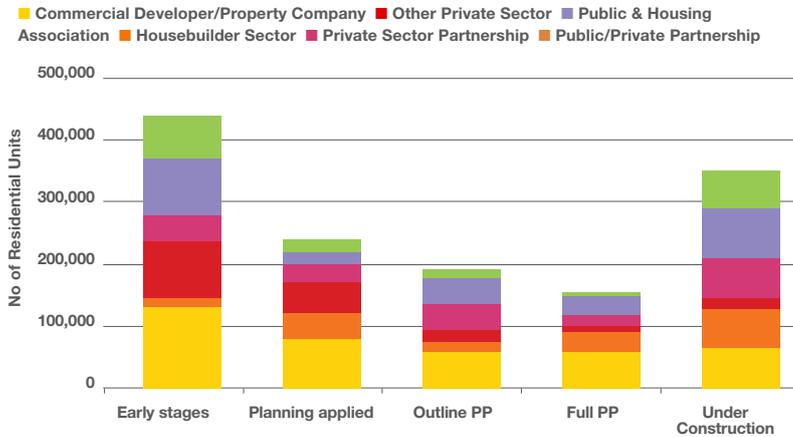
This is a situation where joined up government is needed to meet the right balance of policy objectives and where new mechanisms to release land value over the longer term are more likely to be needed.

Maximising value

Outside the public sector, conventional

GRAPH 6

Ownership and status by number of residential units



Graph source: Savills Research

→ housebuilders control 12% of all sites (by number of units), but their involvement is concentrated at the construction stage, where they control 18% of developments (Graph 6).

This reflects housebuilders' expertise in the construction and delivery of the finished product. By contrast, commercial developers and property companies are particularly dominant at the early stages (30%), where they focus on promoting the site and guiding it through the planning process.

Private sector partnerships are among the largest ownership groups at the construction stage

(19% by number of units). This is a reflection of landowners who wish to maintain an interest throughout the development process, while utilising the expertise of a specialised development partner.

Land values are currently stagnant for difficult strategic sites, and if landowners are to maximise the value of their assets, long-term commitment is required. Active investment in infrastructure and placemaking is central to unlocking value over the long term. Development partnerships containing a range of expertise are likely to be the best way to achieve this. ■

BACKGROUND

This analysis of strategic development projects provides an insight into the changing state of the development landscape. We monitor all UK development schemes with at least 250 residential units, at all stages of development from pre-planning to construction.

As at October 2011, there were 1,300 sites in our database, accounting for a national pipeline of some 1.5 million homes. Of these, 21% (314,000 residential units) are earmarked for London.

Other regions with significant numbers of strategic schemes are the East of England with 19% of the unit pipeline (280,000) and the South East at 13% of units (202,000). The majority of schemes are for mixed use development, with at least three different uses.

Our study reviews the viability of these schemes in the context of a challenging development environment.



Savills Research



Yolande Barnes
Head of Research
020 7409 8899
ybarnes@savills.com



Paul Tostevin
Associate
020 7016 3883
ptostevin@savills.com

Development Services



Richard Rees
Head of Development Services
020 7016 3857
rrees@savills.com



Mike Shaw
Head of National Strategic Development
01223 347 201
mshaw@savills.com

Savills plc

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