

Spotlight on...

Strategic Development Schemes



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 preplanning to construction.

As at Summer 2010, there were around a thousand sites on our database, accounting for a national pipeline of some 1.2 million homes. Of these, 25% (303,000 residential units) are earmarked for London. Other regions with significant numbers of strategic schemes are the East of England with 17% of the unit pipeline (205,000) and the South East at 15% of units (173,000). The majority of schemes are for mixed use development, with at least three different uses. Our study considers their viability and the likelihood of being built.

Summary

- The public sector has been a strong driver of large strategic developments, so austerity measures threaten the future provision of funding. As a consequence, there will be an increasing need to involve private sector partners at an earlier stage in the development process.
- Greenfield, edge-of-town sites are growing in prominence, increasingly favoured over difficult brownfield sites that require costly remediation, particularly in the regions where the appetite for new-build apartments has diminished.
- The sometimes disparate nature of land ownership makes land assembly lengthy and challenging, an issue likely to be magnified as development continues to shift away from single ownership brownfield sites.
- The smallest sites of those we monitor (250–500 residential units) saw the most progress over the last year, reflecting their ability to secure funding.
- Looking forward, active investment and place management will be required to deliver a serviced product appropriate to today's market.

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Large development projects, pivotal to the delivery of new homes around the UK, were among those hardest hit during the downturn. Often challenging, long-term endeavours, these projects struggled to secure what little private sector funding was available. In the past, private sector funding was typically matched with public sector money. However, with austerity measures hitting hard across the public sector, this vital source of funding has been the first to be cut, and will likely be less widely available in future.

Such threats to delivery do not bode well in meeting national housing needs. Strategic developments across the UK could supply a quarter of all new households anticipated over the next 20 years. In London, the figure is closer to 50%. By contrast, in the South West, where some 578,000 households are anticipated to form between 2006 and 2026, the strategic sites pipeline equates to just 14% of new households, or 79,000 residential units (Figure 1). Without significant numbers of large new schemes coming forward, housing pressures in these regions will escalate.

Strategic development shifts away from brownfield land

Increasingly, the largest development schemes are shifting from brownfield to greenfield land. Greenfield sites account for 17% of former uses for schemes in our database, up from 15% a year ago. While these sites, typically urban extensions situated on the edge of towns, hold potential for the delivery of large numbers of residential units, they often face lengthy land assembly negotiations. Many more are in the early stages of development and face a long planning process. With Local Authority housing targets under review following the abolition of Regional Spatial Strategies, this makes their future even less certain. Greenfield sites have the potential to make a significant contribution to supply if they can be brought forward under the new regime.

Brownfield sites are the dominant land type, making up 85% of all strategic schemes. The delivery of housing on this land is more challenging as it carries higher remediation costs and requires greater capital investment. Brownfield sites, with a mixture of existing uses, account for 22% of schemes while former industrial or manufacturing land, (often involving costly decontamination prior to development), make up 17% of schemes (Figure 2).

The number of schemes in town or city-centre locations has reduced. In 2010, 35% of sites were situated in town or city-centre locations, compared with 58% in 2003. This reflects the fact that many of the best city centre strategic sites have already been built during the last decade – often supplying the speculative city-centre apartment market. As the appetite for such flats has diminished, especially in the regions, so the number of units delivered in towns/city centres will continue to be very low.

Public sector cost cutting threatens future delivery

Recently, the public sector has been a strong driver of strategic development projects, accounting for 22% (257,000 units) of the schemes we monitor. In addition, schemes led by a public/private partnership make up a further 12% (136,280 units), meaning some 34% of schemes have public sector involvement.

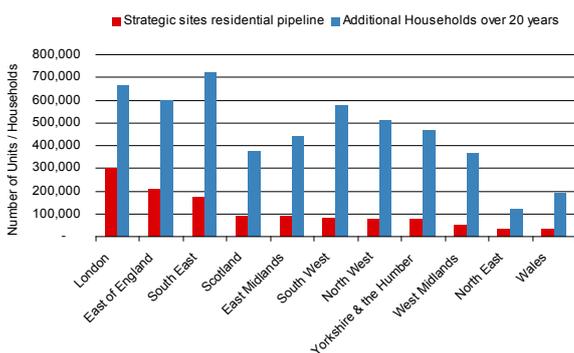
Schemes where the public sector has a prominent role will be under pressure as cost-cutting threatens future funding and delivery. Going forward, there will be an even greater need to develop new forms of long-term finance and to bring in private sector partners at an earlier stage to ensure that schemes get off the ground. The delivery of these sites to housebuilders as more manageable serviced plots may be necessary if many of these projects are to realise their potential.

Investment in ‘place and infrastructure’ to unlock value

Conventional housebuilders are in control of only 11% of all sites, but their involvement is concentrated at the construction stage, where they control 17% of sites (Figure 3). Conversely, the public sector is more involved at the early stages of delivery, where they focus on promoting the site and guiding it through the planning process. Ownership is transferred to developers or housebuilders at the construction stage, making best use of their expertise in the actual physical delivery of the housing units.

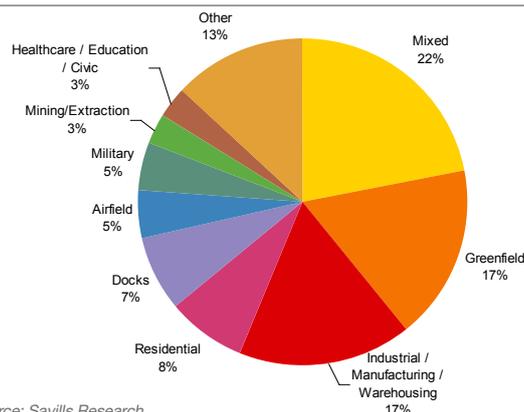
Private sector partnerships are the largest ownership group at the construction stage (20%). This reflects landowners who wish to maintain a stake throughout the development process, but recognise the need to involve a specialised development partner later. With land values languishing for difficult urban strategic sites in particular,

Figure 1. Strategic sites residential pipeline and household projections



Source: Savills Research / CLG / GROS / Statswales

Figure 2. Former uses of strategic schemes



Source: Savills Research





we expect this trend to increase. If landowners are to extract maximum value from their assets, they will need to commit themselves over the long term, drawing on the expertise of specialist development agents throughout the life of the scheme. It is no longer possible to offload raw land following the grant of outline planning permission for quick financial gain. Active investment in 'place and infrastructure' will be required to unlock value and deliver a product appropriate to the demand for serviced land.

Progress for smaller schemes that secure funding

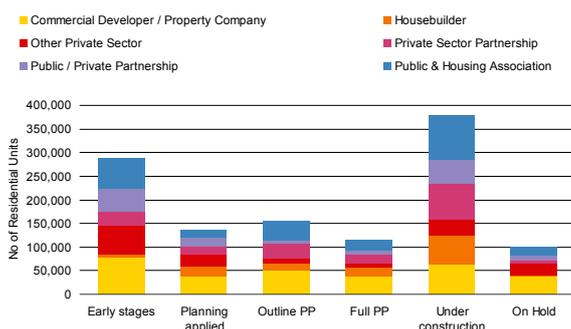
In the last year, 17% of schemes we monitored saw a change in status (for example progressed from planning applied to permission granted, or from full planning permission to construction). It is telling that the majority of these were for the smallest size of scheme we survey – 250 to 500 residential units (Figure 4). It has been these developments that have been able to secure some of the limited funding available and to progress, particularly those in the high-value, strong demand locations.

While some smaller schemes have seen progress, funding innovations will be necessary if the majority of sites in our database are to see completion in their anticipated timeframes.

New business models including finance, investment and funding structures, will be required to deliver these large strategic sites over the longer term. Delivery agents will need to consider innovative ways of raising investment or funds to forward-fund the major infrastructure works. These may take the form of RSL joint ventures, special investment vehicles, Tax Investment Finance (TIFs), Assisted Development Zone (ADZs) or other forms of bond issue for example.

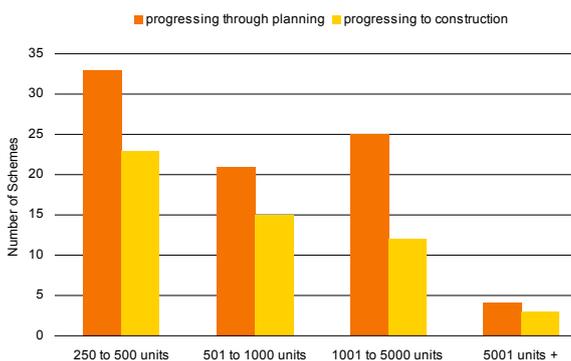
The on-going management of strategic sites is essential and may lend itself to a community trust structure, modern landed estate or co-operative model. These models promote long-term investment where value and value uplift is captured over time. Active investment and place management will be required to deliver a serviced land product appropriate to today's market. ■

Figure 3. Ownership and status by number of residential units



Source: Savills Research

Figure 4. Change of status by number of schemes



Source: Savills Research

