

Coronavirus and residential development



Where are we now?

As lockdown is easing, the residential development market is starting to recover. Construction on the majority of suspended development sites has restarted across England and Wales, and is restarting in Scotland. Productivity per site is increasing and many of those furloughed in the sector are back at work. However, the majority of housebuilders are seeking sufficient confidence in the sales market to start new plots and open up new sites.

Development activity

The reopening of housebuilding sites has lagged other sectors. However, in England most (85%) of suspended housing development sites have reopened, according to our analysis of Glenigan data. 71% have reopened in Wales, and just 12% of sites in Scotland have reopened at 23rd June, but as Scotland now enters the second phase of coming out of lockdown, more sites will reopen.

There is capacity for 83,000 homes on the sites still to reopen across Great Britain, just 20% of the number closed during the height of lockdown. In England where lockdown has been eased faster, sites with capacity for 47,000 homes are yet to reopen. Those with capacity for 33,000 and 2,600 homes are still to reopen in Scotland and Wales respectively.

Productivity on sites has recovered significantly as housebuilders adapt to social distancing measures. Some large housebuilders are reporting that they have reached 80% output per site, and Build UK's latest survey reported that sites are operating at 78% of normal output. Other housebuilders state that they hope to reach this level by the end of the year.

We estimate that overall construction capacity has reached c. 65% in England, considering the number of sites open and capacity per site. This is a vast improvement on the levels of construction seen in April.

In that month, ONS figures indicating that private new housing construction output had fallen to 41% across Great Britain. In Scotland and Wales the recovery in output is lagging.

Starts

The focus of construction has been on completing homes already started and those reserved, so fewer new homes and sites have been started.

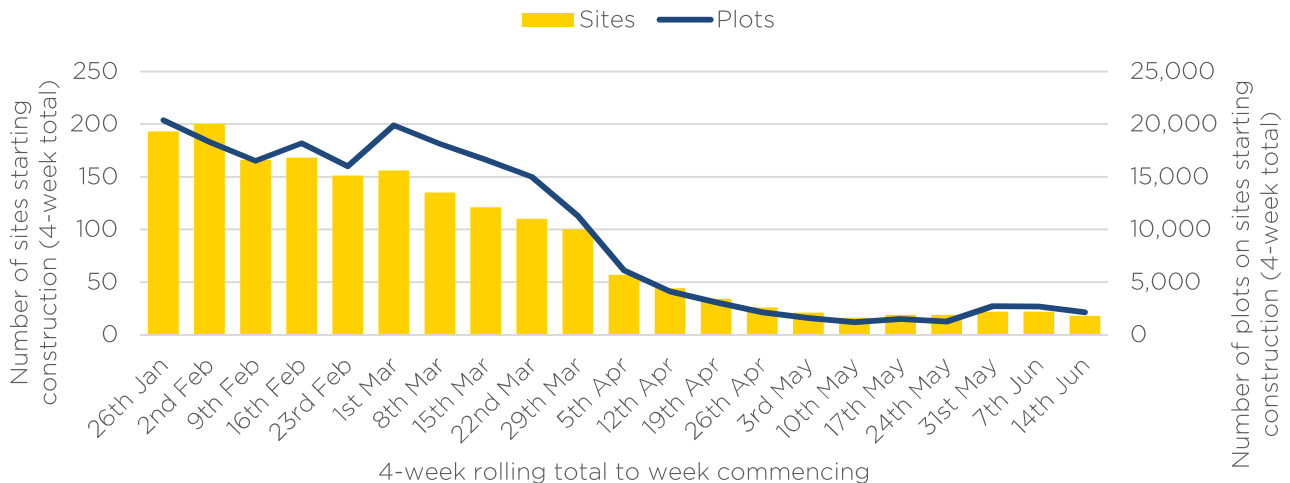
In April, new homes starts fell to just 5,000 across the UK according to NHBC, just 5% of the number started the same time last year. By early May, the number of new sites starting was at 10% of the pre-lockdown average and is yet to increase again significantly. In the 4 weeks to w/c 14th June, starts on new sites reached 12% of pre-Covid levels. Housebuilders will need confidence in the sales market for the number of sites started to increase.

Control of sites

During the height of lockdown, the large housebuilders more commonly suspended their sites than other builders. Large housebuilders, those delivering over 500 homes per year, control 42% of sites currently under construction (including those temporarily suspended). However, they controlled the majority of suspended sites (63%) in mid-April when the highest number of sites were suspended, according to our analysis of Glenigan data.

The profile of those controlling sites remaining suspended is now similar to that of all sites under construction. The proportion of sites controlled by large housebuilders has fallen back to 42%. Meanwhile, smaller builders have managed to keep more of their sites open throughout the lockdown period. SME housebuilder sites made up c10% of closed sites in April, but a quarter of sites under construction are controlled by them.

Figure 1 New sites started in the UK



Planning

Despite the fact that construction was forced to slow considerably due to the lockdown and the switch to virtual working, the number of planning consents granted have held up reasonably well in England. On average 290 sites gained permission per month (four week rolling average) since mid-April, 26% below the pre-Covid average. However, the number of housing schemes granted consent in Scotland and Wales has fallen much more, by 41% and 36% respectively over the same period.

The 1,200 sites (61,000 homes) with planning consents due to expire before the end of the year (with expiry dates from the start of lockdown), have been given an extension to 1st April 2021 according to Glenigan. This will give extra time for sites that couldn't be started due to the lockdown to commence. The extension for these consents will support the recovery in sites started over the coming year.

New build sales demand

There has been a significant recovery in sales across the new and second hand markets. Overall, agreed sales in the first and second week of June were up 6% and 17% respectively year on year, according to Twenty CI.

Pent up demand, due to the inability to view and survey homes during lockdown, has kick-started the market. The bounce back has been less pronounced in the new build market, in which virtual viewings and online reservations allowed buyers to be more active throughout lockdown.

Nevertheless, the closure of sales centres throughout lockdown did limit sales and reservation rates of new homes, and according to the HBF, site visitors and net reservations in April were significantly down on the previous year, with a net balance of -79 each. Cancellation rates have remained at pre-Covid levels for some housebuilders, whilst in some cases fall-through rates have been higher due to buyers' uncertainty over jobs and the economy.

Now that many sales centres have reopened, new build sales have increased towards 2019 levels on a per outlet per week basis. Sales values appear to be holding up relatively well so far. Whilst some sellers are offering incentives including stamp duty paid and furnishing packages, others are not seeing significant need for them. Sales rates going forward will depend on whether buyer confidence is maintained during the summer and into the autumn, as economic conditions become clearer.

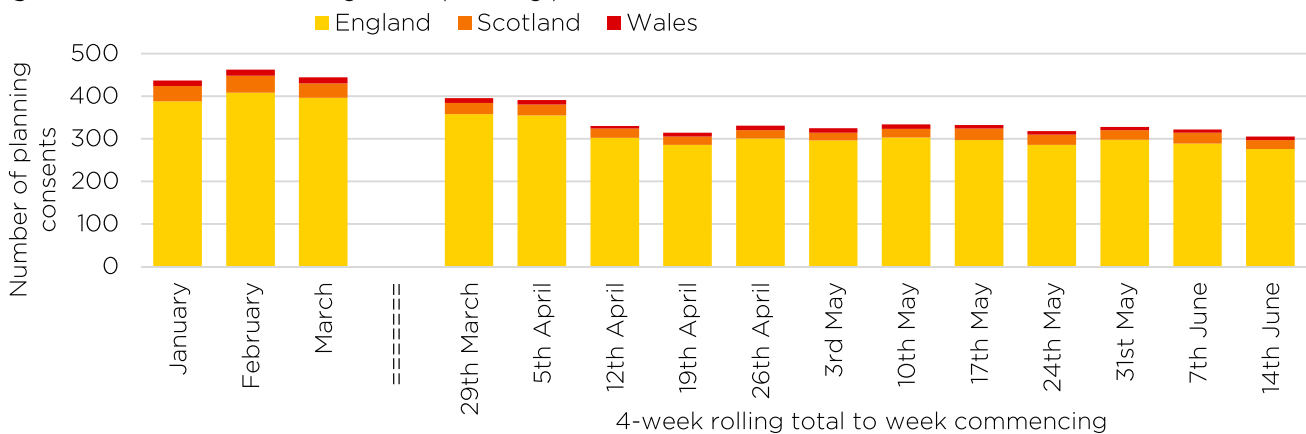
Future housing supply

We estimate that this year (2020-21) 171,000 new homes in England will be built, 66% of the number of homes built last year. This is in most part due to the reduction in construction capacity particularly during lockdown. But there is also the need for confidence in the market to be sufficient for housebuilders to start on new sites to replace those they finish. If construction capacity continues to inhibit delivery, we estimate supply could reach 80% of last year's levels in 2021-22. And assuming the economy bounces back in 2021 then housing delivery could return to 2019-20 levels in 2022-23 following renewed buyer and housebuilder confidence.

If there are medical advances later this year, sufficient to support a rapid bounce back in economic confidence, completions could fall by just 31% this year before recovering to their pre-Covid levels in 2021-22. However, if the economy is hit harder and takes until 2023 to recover to pre-Covid levels, delivery this year could be just half of 2019-20 levels and take until 2023-24 to recover to last years' levels with greater reliance on the Build to Rent and grant funded Affordable housing sectors.

In Wales and Scotland the impact on housing supply this year will be greater due to the stricter lockdown. Non-essential housebuilding ceased altogether in Scotland and property viewings are only just restarting in both countries.

Figure 2 Number of schemes granted planning permission



Source: Savills using Glenigan

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