

Coronavirus and residential development

A short shock with long-term implications?

The coronavirus pandemic will affect all aspects of the UK housing market, particularly impacting transaction levels as people's ability to work and move is limited. In this note we consider the impact it is likely to have on housing delivery and land supply, both in terms of activity over the coming months and the longer-term implications for the flow of land through the development pipeline.

The economic outlook is highly uncertain, with economists becoming more bearish about the depth of recession in Q2 2020. At this early stage, it is unclear what form and how long the recovery will take. When restrictions are lifted, the release of pent up demand will support the strength of bounce back in the economy. However, should business and consumer confidence be slow to return, then the Government's focus will turn to measures that support the speed of recovery in all affected parts of the economy, including housebuilding.

Development activity

As government measures to tackle the COVID-19 outbreak have intensified, the majority of the biggest housebuilders have decided to shut down operations on site as well as closing sales offices and show homes in order to prevent the spread of the virus. The official government guidance advises that construction sites can remain open, with Site Operating Procedures that align with public health guidance published by the Construction Leadership Council.

However, due to the difficulty of ensuring social distancing measures on busy sites, many developers have taken the decision to halt construction. Action taken has varied, with

some housebuilders fully shutting down all site operations whilst others are remaining open with strict precautions in place to finish off sites nearing completion and sites where essential work is required to protect customers. Our analysis of site data from Glenigan suggests that as of 31st March, construction had been halted on sites with capacity for 193,000 homes in England, equivalent to 79% of total supply in 2018/19, and on 18,900 and 8,500 homes in Scotland and Wales respectively. Inevitably, this will result in falls in both housing delivery and new build sales this year.

In addition to a lack of labour and skilled workers, the sector also faces a shortage of materials. The outbreak of COVID-19 has had a widespread impact across all areas of the supply chain including the production of materials. UBS reported that international cement production volumes have been falling as there have been increasing site shut downs across the world. Heidelberg Cement commented that in Italy, cement production volumes had been normal up until March and by 12th March were down 25-30%.

There could also be delays in discharging conditions and implementing consents if developers are unable to start on site. This could result in permissions granted in 2017 expiring unless the government permits temporary extensions, causing further disruption to housing supply in the longer term. Our analysis suggests that there are 47,000 units in England that gained consent between Q2 and Q4 2017 and are yet to start on site that could be affected by these delays, equivalent to 13% of all residential consents granted that year.

Table 1 Regional impact of construction shutdown

Region	Number of units on which construction is halted	2018/19 Net Additional Dwellings
London	28,598	36,161
South East	36,165	41,570
East of England	28,739	29,834
South West	15,976	26,395
East Midlands	16,026	22,326
West Midlands	21,504	24,940
Yorkshire and Humber	13,803	20,124
North West	22,767	29,945
North East	10,391	10,040
Scotland	18,992	21,292
Wales	8,558	5,777

Source Savills Research using MHCLG, Glenigan

Land market

At the beginning of 2020, the land market appeared to be strengthening, as certainty and confidence grew following the decisive general election result in December. However, the coronavirus outbreak has disrupted the market. Existing land deals are largely proceeding, with some delays in completion date, but housebuilders have generally paused all new land buying activity, stopping all discretionary land spend and new acquisitions of immediate land, focusing on preserving cash.

In the short term we will see fewer sites being brought to market as landowners prefer to wait for more clarity. However, cash rich developers may be able to make the most of the reduced competition for sites.

In the medium term, changes in the land market will be linked to what happens in the wider housing market. We currently anticipate that residential transactions will be significantly reduced over the next three months, but capital values will be less affected, with falls of -5 to -10%, returning to

stronger growth in the medium term. In this scenario, the impact on land values should be limited. However, if house prices fall more sharply or recovery in the housing market is slower due to ongoing economic uncertainty, this may feed through into downward pressure on land values.

Planning and land supply

In contrast, the coronavirus outbreak appears to have had little impact so far on the flow of land through the planning system. 347 sites with capacity for over 10 units received consent for residential development in March, in line with the February figure of 358. The Coronavirus Bill, which received Royal Assent on 25th March, temporarily permits councils to hold planning committees without councillors being physically present. Some local authorities have already delegated decision making powers to officers to ensure that they can maintain momentum on planning decisions. However, appeals by hearing and inquiry are on hold, with only written appeals able to proceed. Consents granted through appeal have averaged 10% of all permissions over the last three years, so this is likely to slightly limit land supply as the appeals route is effectively closed for all but smaller sites.

If the flow of consents coming through the planning system can be maintained, local authorities could exit this period of shutdown with improved five year housing land supply (5YHLS) positions. With fewer homes being built, these unbuilt homes remain in the 5YHLS, along with any more being granted permission. Overall, the number of new homes that are ‘deliverable’ would increase, improving the 5YHLS situation across the board. There are currently 30 local authorities with a published land supply of between four and five years, which would be most likely to see their figure improve to over five years.

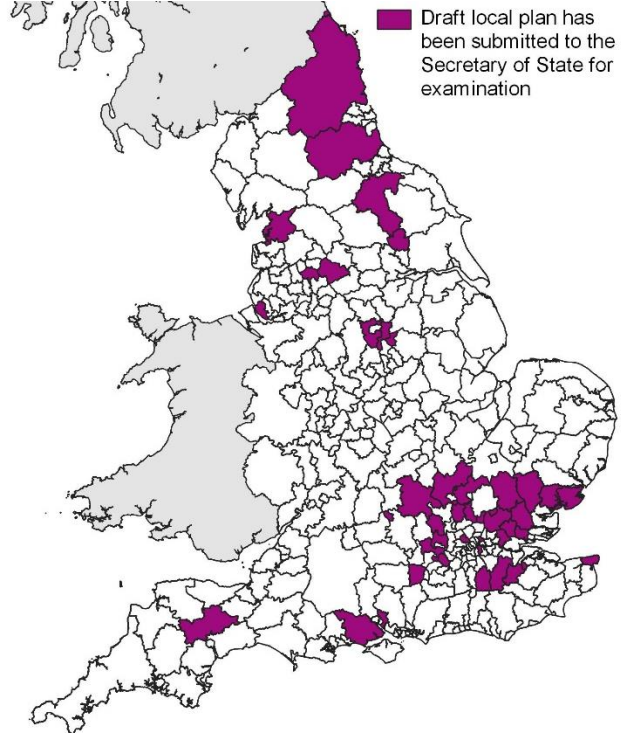
However, the local plan making process is more likely to be strongly impacted by the coronavirus outbreak. Physical consultation events are likely to be cancelled for at least three months, albeit online alternatives such as webinars may still enable progress to be made. All local plan examination hearings have been postponed, potentially delaying the adoption of over 40 local plans, shown in Figure 1.

Housing delivery test

Another important aspect of planning likely to be affected will be the results of the Housing Delivery Test (HDT), measuring the housing delivery of each local authority against their assessed need. If an authority fails the test, they become subject to the presumption in favour of sustainable development. Evidently, if construction sites are closed for a period of several months, an increased number of local authorities are likely to fail to meet the threshold of delivering 75% of need to pass the test. However, we do not anticipate that the full impact of this will be felt immediately. The results

expected in November 2020 will cover the three years to March 2020, so the construction halt will only impact two weeks of the three year period. However, the results for the following three years (2021-2023) will include the period from April 2020, and will be affected. We may see arguments from LPAs that the test should be relaxed for these three years to take the disruption into account.

Figure 1 Local plans currently at examination



Source Savills Research

New build sales demand

Housebuilders will face particular pressure to restore their sales rates when restrictions on doing business are lifted as they will need to maintain cash flow because of their funding commitments. We may therefore see increased use of buyer incentives as activity returns, together with a greater role for Build to Rent, should buyer confidence be slow to return. In this case, affordable housing take up is likely to switch from shared ownership to rent.

A further consideration once construction resumes will be whether delays to the build program result in properties no longer being eligible for the Help to Buy scheme. After April 2021, the scheme will be subject to regional value caps, and only available to first-time buyers. Under the current criteria the first long stop date for practical completion (build completion) is 31st December 2020 and buyers need to exchange and complete by 31st March 2021.

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