Planning – 2019

SPOTLIGHT

Savills Research

Planning and housing delivery

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Assessing delivery rates • Local plan status • Five year land supply

The annual number of residential consents granted has exceeded 300,000 in England for the past two years. This level needs to be sustained and even pushed higher if the target rate of completions is to be achieved over the long term. But, recently, there has been a downturn in the volume of permissions; is this merely a blip or a trend to be concerned about?

With the annual rate of consents exceeding 300,000, there is growing political focus on delivery rates, and more attempts to ensure consents are built out, notably through the Letwin Review. Our previous research papers have highlighted the need for a greater proportion of planning permissions to be granted in the least affordable areas, where demand is greatest.

In this year's paper, we go beyond that analysis and look in more detail at the factors that impact rates of delivery. We also consider whether the current trend towards planning permission being granted on ever-larger sites will improve build-out rates.

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Sizing up the pace of delivery

There is no single factor governing the rate of delivery of a site. Considerations include site size, market strength and pricing

The pace of housing delivery has become a key topic, particularly in light of the Letwin Review, which looked at the gap between the amount of land receiving consent and housing completions. As a consequence, it has become an issue of increasing scrutiny both in the preparation of local plans and at the planning application stage.

Despite this, there is no established methodology for assessing how quickly a site can deliver new homes. Market capacity (in an active market) is often approximated using the rule of thumb of one sale per outlet per week. The overall rate of delivery is then estimated by multiplying the number of outlets that can be supported by the site and adding the affordable housing scheduled to be delivered.

However, our analysis shows that the reality is more complex. The strength of the local housing market, the number of sales outlets operating on site, and the pricing relative to the local market, all influence the absorption of open market new homes.

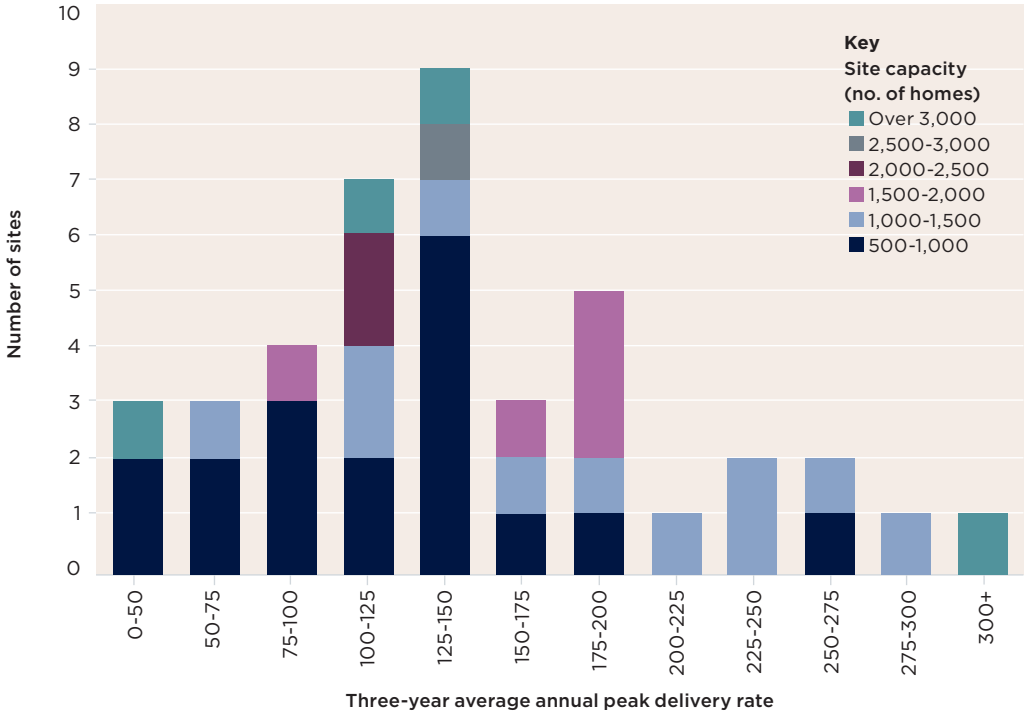
The Letwin Review identified that diversity in product type and tenure mix can also boost delivery rates. That said, our previous analysis showed that it is not the only answer (Spotlight 2018: *What next for housebuilding?*).

Variation in delivery

Our latest analysis covers 41 large greenfield sites with capacity for at least 500 homes. These are located across England, Scotland and Wales, in markets of varying strength. We have tracked annual completions, covering open market sales, purpose-built rental stock and affordable housing tenures.

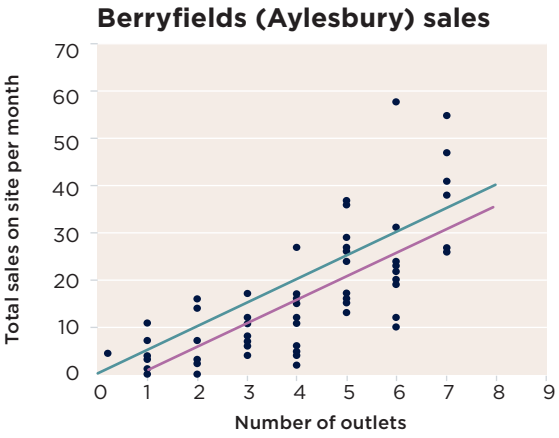
The average delivery rate from these sites is 145 homes per year, but there is a wide variation around this average. So, while 30% of the sites deliver more than 175 homes per year, three have delivered at more than double the average rate. Six sites, however, have delivered at less than half the average rate.

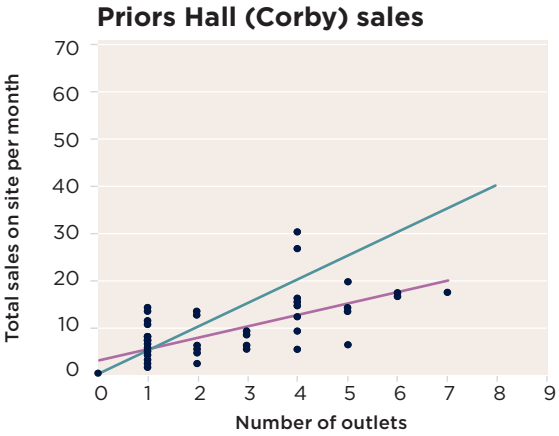
Delivery rates Distribution of completions (all tenures) on sites with capacity of more than 500 homes



Source Savills Research

145 The average annual delivery rate of homes from sites in our survey.



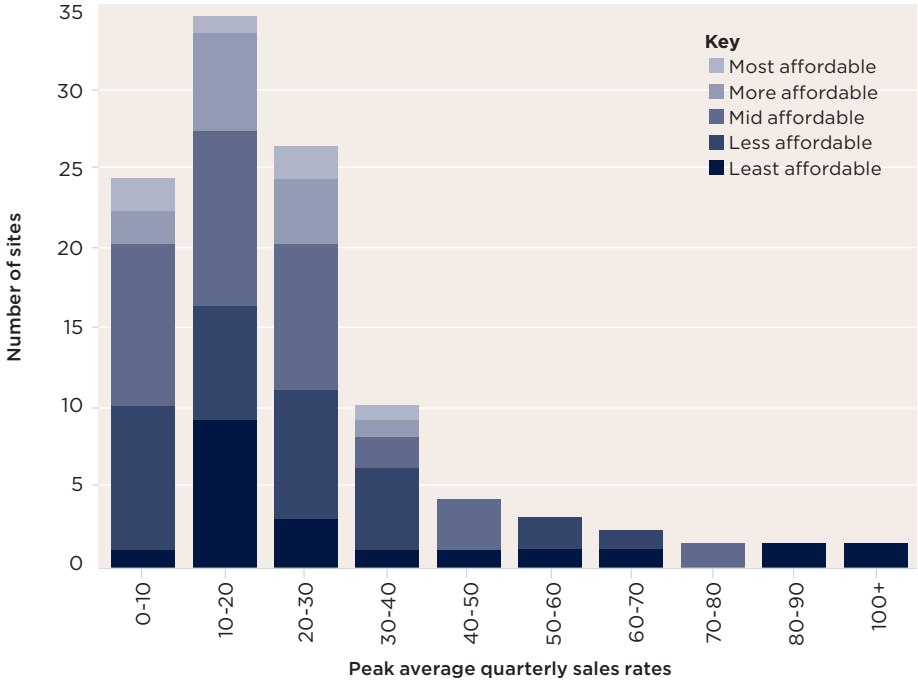


Key
- Benchmark sales rate trend using one sale per outlet per week
- Actual sales rate trend

Source Land Registry

> There are trade offs between pricing that enables high delivery levels and the land value uplift that can be captured through developer contributions

Sales rates Peak quarterly sales rates and housing scarcity



Source Land Registry, ONS

Scale and sales rates

There is no correlation between site size and the rate of delivery; sites with greater capacity and, hence, more physical potential to have multiple outlets, do not automatically result in higher delivery rates.

Equally, there is little clear evidence that a rule of one sale per week per outlet can be applied across all markets. Comparing Berryfields and Priors Hall, two sites with similar total capacity, shows the variation (left). While the trendline at Berryfields follows the benchmark line closely, at Priors Hall the lines diverge.

At this development, the highest monthly sales rates were achieved when there were four outlets active on site. Adding more outlets had no impact on increasing the number of sales across the site. This shows that there is much more that needs to be taken into account when assessing delivery rates beyond the total capacity of a site and the number of outlets it can support.

For open market sales, the strength of the local housing market and the demand for homes will be a key factor (chart below left). Our research shows that for sites where sales rates are at least 50 homes per quarter, this has been achieved in areas where housing is least affordable (with affordability providing a proxy for demand).

A further factor to consider is the pricing of new homes relative to the local market. The sites in markets that are selling high numbers of new homes tend to be priced at a discount to the average price of homes in the local second-hand market. Our previous research has shown that three of the highest delivery sites in higher-demand areas in 2017 were, on average, priced at a discount of up to 15% from local market pricing per square foot (Spotlight 2017: *On track to solving the housing crisis?*).

There are, therefore, multiple considerations that need to be taken into account when assessing the potential delivery rate of any site and particularly larger sites. There is no single rule that can apply across all sites; instead consideration needs to be given to multiple factors, such as the level of housing scarcity in the area, the strength of the market, and the proposed pricing of the scheme. The strength of the local market is likely to have the greatest impact on build out rates.

The analysis of the likely rate of completions will also need to be carried out in conjunction with the viability testing at local plan stage. This analysis indicates a potential trade-off between pricing that allows for higher sales rates and the amount of land value uplift that can be captured through developer contributions.

In 2018, more than 20,000 plots were consented on sites of over 1,000 homes, up from 4,600 in 2016

Signs of progress

Although the number of consents granted in England is falling, the distribution of consents is aligning more closely with where housing is most needed

By spring 2017, the number of full planning consents granted for the year had exceeded the government's 300,000 homes target. During the following year, consents continued to rise, reaching a peak of 378,959 in the year to March 2018, creating a promising pipeline for future delivery. More recently, the rate of consents has seen a marginal decline, to 369,417 homes in the year to December 2018.

Most of this fall in the number of consents being delivered since the Q1 2018 peak has been due to a reduction of consents in the most affordable areas. These saw a fall of 9% between 2017 and 2018. That means the distribution of consents across England is more closely aligned with MHCLG's standard methodology for calculating housing need. However, this reduction may simply be due to the oversupply of consents in these lower-demand areas prior to 2018, which means there is already a good pipeline of consented land in these areas.

Falling short

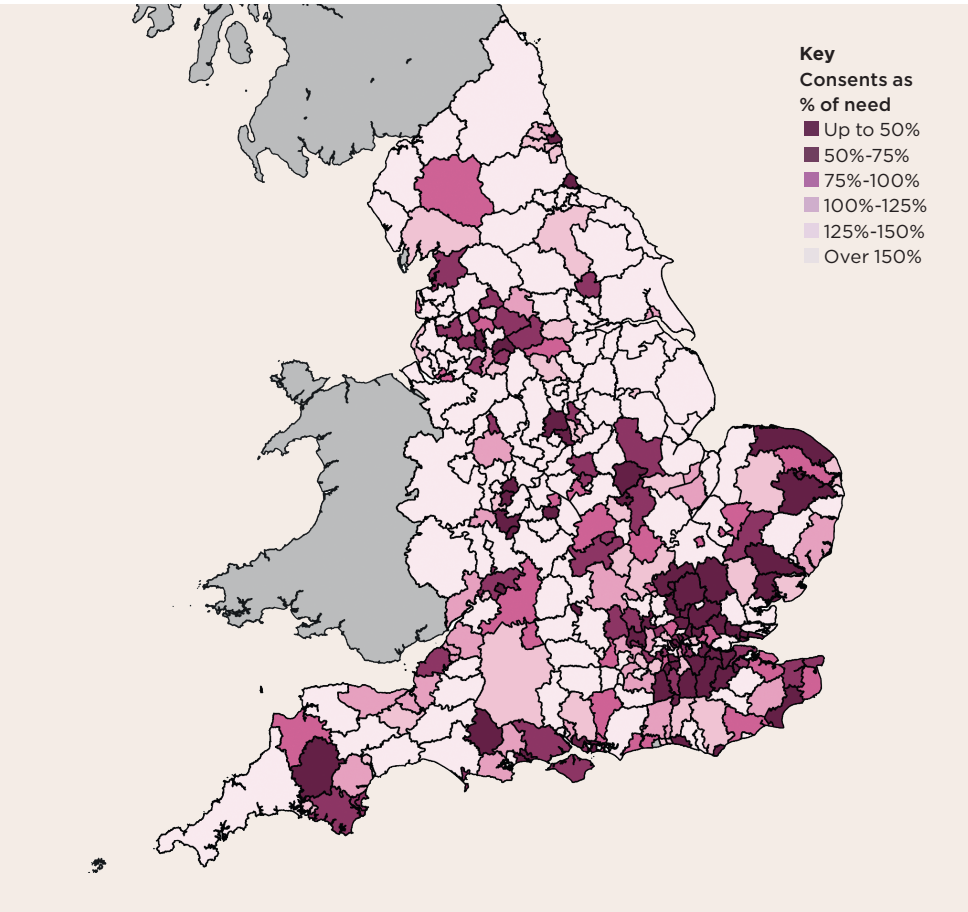
In our 2018 paper, we identified the need for there to be a greater proportion of planning consents delivered in the least affordable parts of the country. Encouragingly, there are signs of increased planning activity in areas where there is the greatest need for new homes. In 2018, full planning permission was granted for more than 80,000 dwellings in the least affordable areas, up from 57,000 in 2017.

However, there are still pockets within the least affordable areas across the country where consents are falling short (see below). The ability of London to deliver a target of 65,000 homes per year is currently the subject of debate in the examination of the London Plan. In 2018, less than half of London boroughs delivered enough planning consents to meet housing need. Seven failed to produce even half the required permissions.

The picture is similar across the country's most constrained locations, for example due to Green Belt designations. Oxford, Cambridge and Brighton

> **In 2018, full planning permission was granted for 369,417 homes. This is a 93% increase since the publication of the NPPF in 2012**

Meeting requirements Full consents as a percentage of housing need in 2018



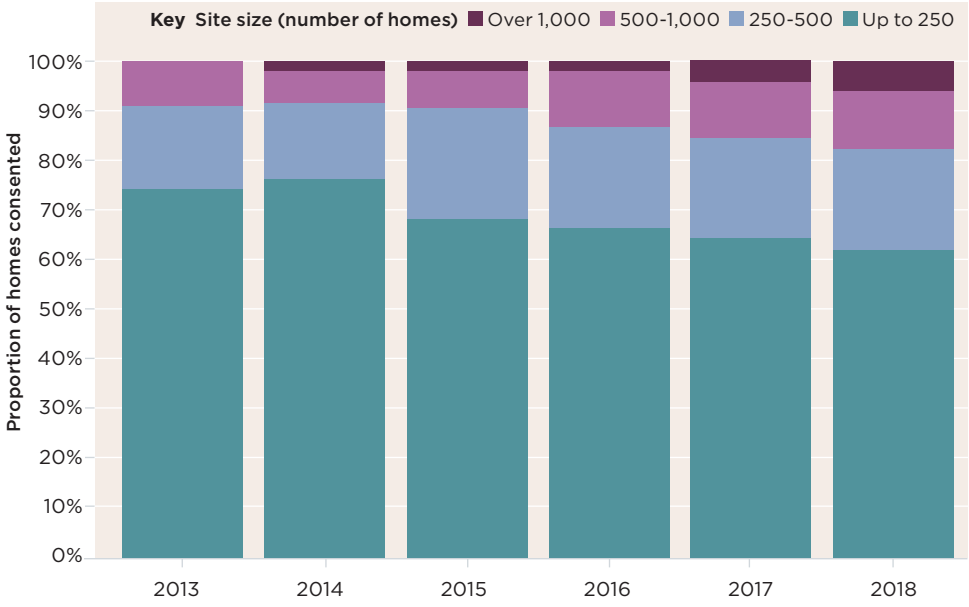
Source MHCLG, Glenigan

failed to deliver more than 75% of the number of planning consents to meet need. Local authorities in Devon and Norfolk are also falling short.

A shift to larger sites

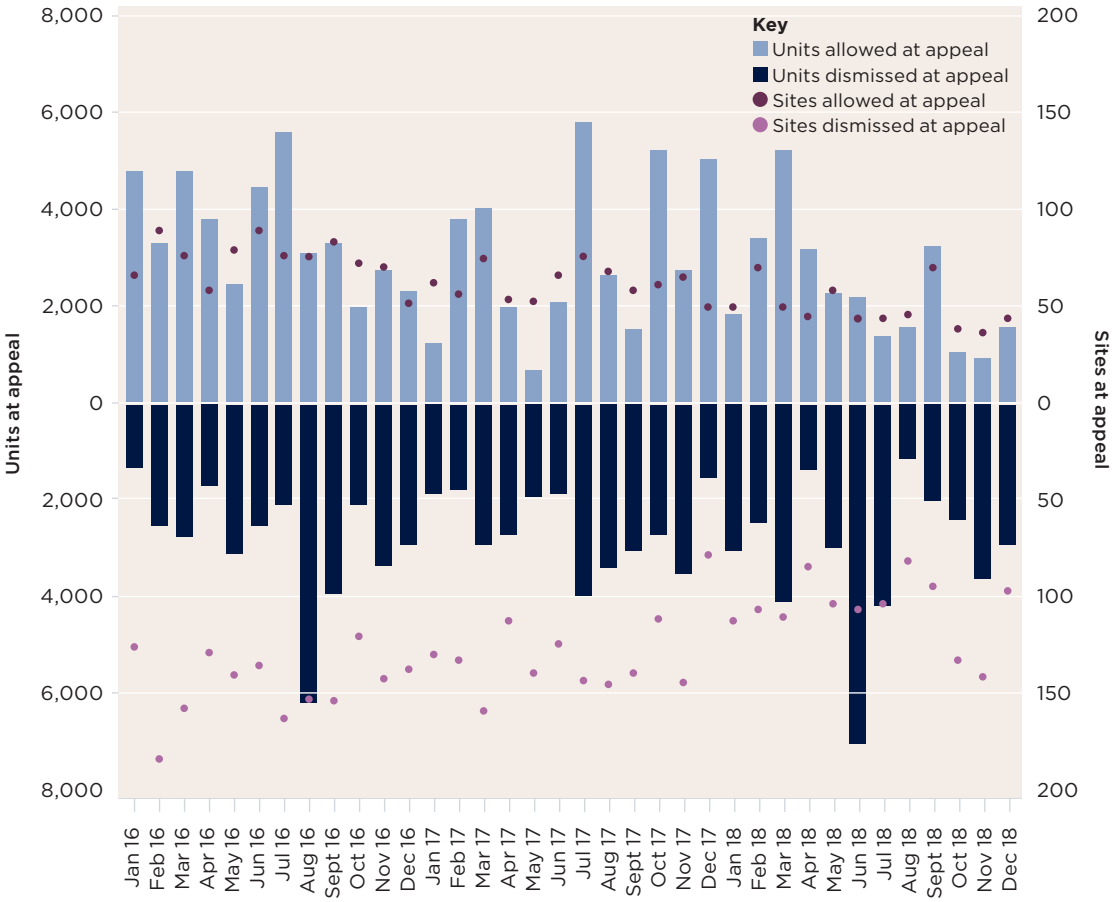
There is a growing trend towards larger sites gaining permission (see right). In 2018, more than 20,000 plots were consented on sites of more than 1,000 homes. This compares with 4,600 in 2016. If there is a greater reliance on larger sites for delivery, there needs to be a greater focus on diversifying product and tenures to ensure the necessary rates of delivery are achieved. This again points to more consents in higher-demand areas.

Larger sites, bigger focus There is a growing trend towards larger sites gaining full permission



Source Glenigan

Consents There is a downward trend in the number of units being allowed following appeal



Source Planning Resource

APPEAL DECISIONS

There is a downward trend in units gaining planning permission through appeal. In the three years to December 2018, 51% of units submitted through appeal were allowed. More recently, this has declined. In the three months to December 2018, just 29% of units submitted through appeal were allowed, continuing a downward trend from mid-2018.

Housing need and supply are key issues for consideration at appeals: a consideration on 35% of appeals allowed since the start of 2016, and accounting for 66% of all units receiving permission via appeal over the same period. But, as more local authorities adopt NPPF-compliant plans, fewer appeals might be submitted on the grounds of a lack of five year land supply. This would see a diminishing number of units allowed via appeal and a reduced role for the appeal system in generating consents.

Testing times

Although more than half of local authorities in England have adopted a post NPPF plan, increasing numbers of plans are due a review

Local plan coverage continues to grow, with 58% of local authorities now successful in adopting a plan since the introduction of the NPPF compared with 51% in 2018. In the year to 1 March 2019, 28 new local authorities adopted a local plan.

However, during the same period, 20 local plans reached their fifth anniversary since adoption, meaning they are due for a review according to the 2018 revisions to the NPPF. This is in addition to the 28 local authorities that were overdue for a review of their local plan when the 2018 NPPF was introduced. It remains to be seen how local authorities will treat the review process. There is a risk of coverage of up-to-date plans reducing as more become due a review.

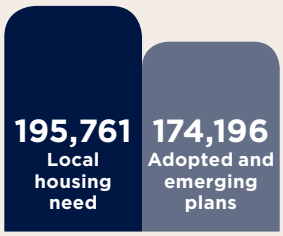
The rush to adopt

The cut-off date to submit plans for examination under the policies of the 2012 NPPF was 24 January 2019. All plans submitted after this date will be subject to the revised tests in the 2018 NPPF. In the three months to January 2019, 12 local authorities submitted their plans for examination. This is higher than the eight plans submitted during the same period the previous year and substantially higher than the six local plans submitted for examination in the three months to January 2017.

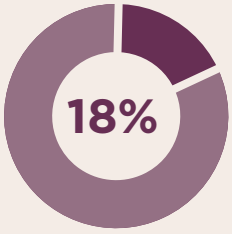
In terms of the factors driving the decision to submit a local plan prior to January 2019, the level of housing appears to be a key factor. The housing requirements proposed in these local plans represent a shortfall of more than 2,700 against the standard methodology for calculating housing need that would have applied had the plans been submitted for examination after the January deadline.

At the other end of the process, 34 local plans will be coming up for review in the next 12 months, as they will be more than five years old. If these local authorities have to review their local plans using housing targets derived from the standard methodology, 15 of them would see their annual requirement rise, at an average increase of 23%.

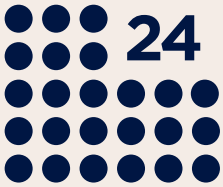
Plan-making in brief Assessing adopted plans, shortfall and housing need



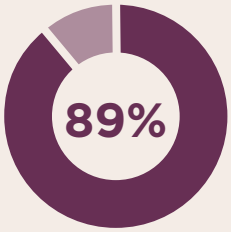
Adopted and emerging plans in England have a housing shortfall of 21,565 when assessed against MHCLG's housing need methodology



The largest shortfall in housing need is in plans that are more than five years old. The total adopted requirement for these plans is 18% below MHCLG's local housing need figure



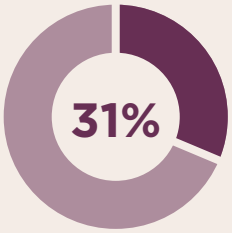
24 local authorities without an up-to-date local plan had a lack of five year land supply confirmed at appeal in the past year



The total housing target of adopted plans and plans submitted for examination is 89% of MHCLG's local housing need figure

131,000

Local authorities yet to adopt a plan have a combined housing need of more than 131,000

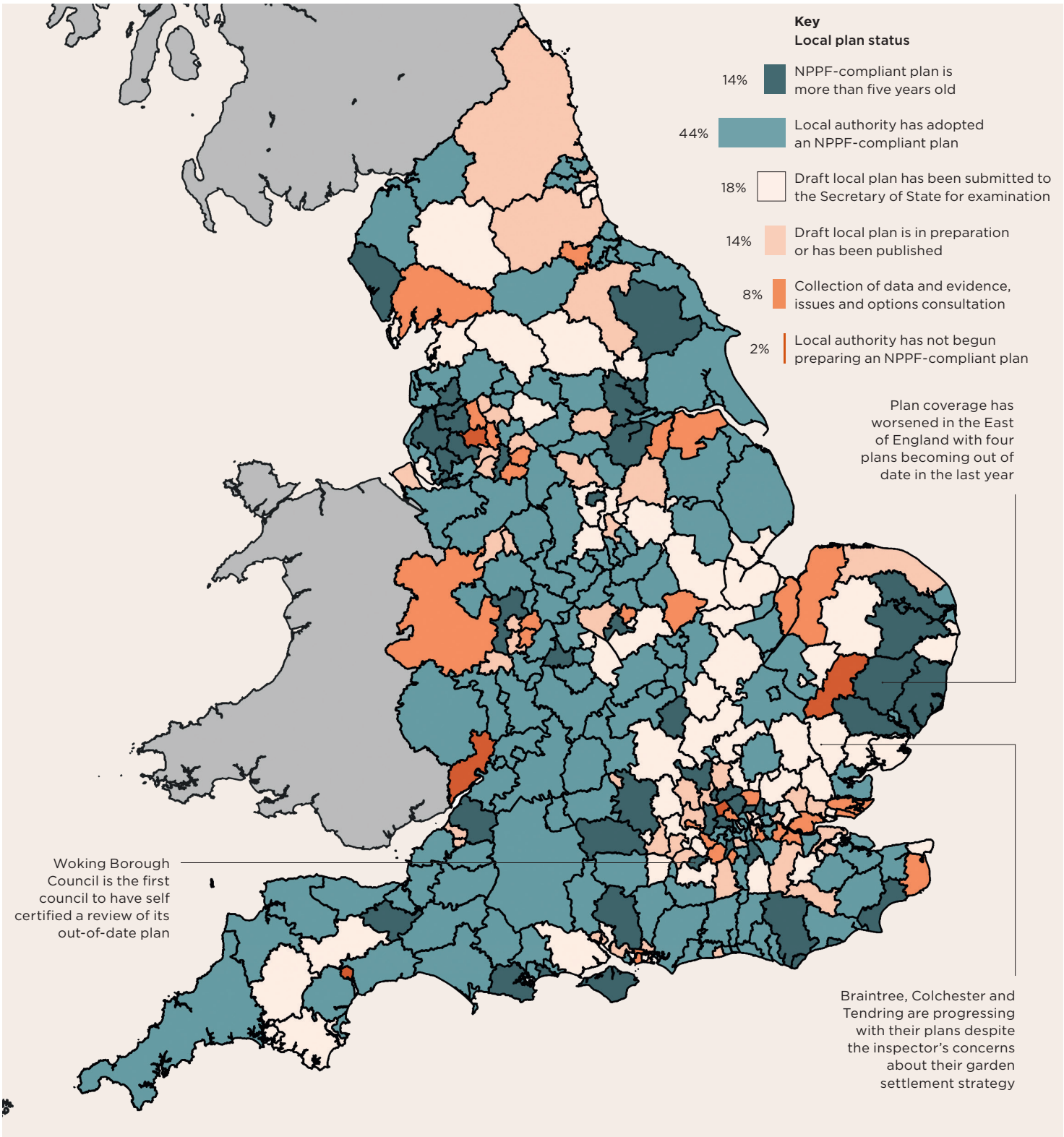


31% of local authorities without an up-to-date local plan achieved less than 85% on the Housing Delivery Test

Source Savills Research **Note** All local plan data is up to date to 1 April 2019

> Local plan coverage continues to grow, with 58% of local authorities now successful in adopting a plan since the introduction of the NPPF

Local plan status Plan-making is continuing to pick up momentum



Source Savills Research

Building land supply

The Housing Delivery Test has altered the methodology for calculating five year land supply, but local authorities are still falling short

Identifying enough land for housing development remains a challenge for many local authorities. Some 15% had a lack of five year land supply confirmed at appeal in the year to March 2019. However, this is a decrease on the 19% of local authorities with significant appeals disproving their land supply in the previous year. Of those who failed at appeal, 60% claimed to have more than five years' supply.

In addition, fewer local authorities (18%) published less than five years' supply compared with the 21% doing so last year. Across England, there is published land supply of 6.4 years, up from 6.1 years in April 2018. This is the third consecutive year of an increase in published land supply.

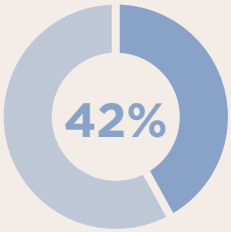
Falling short on delivery

The Housing Delivery Test, introduced in 2018, is used to measure delivery against need for all local authorities across England. Under the test, local authorities failing to meet at least 85% of need are required to apply a 20% buffer to their annual housing target. For 30 local authorities across the country, this will mean an increase from the 5% buffer in their most recently published land supply statements. With the buffer applied, we have calculated that the land supply for five local authorities that claim they have an adequate supply would fall below five years.

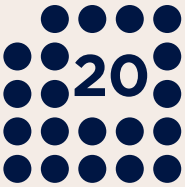
The situation is further complicated by the changes introduced in Paragraph 217 of the revised NPPF, which enables local authorities who enter into a housing deal with government to reduce their land supply target to three years. In Oxfordshire, such an agreement came into force on 12 September 2018, and is intended to enable the local authorities to focus their efforts on their Joint Spatial Strategy.

We have calculated that each of the five districts in Oxfordshire has more than five years' worth of land, thereby meeting the agreed requirement. However, in the year to March 2019, South Oxfordshire and West Oxfordshire both had significant appeal decisions allowed against them on the grounds of housing land supply issues.

Missing the mark How local authorities are falling short on land supply

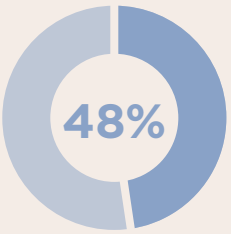


42% of local authorities that failed at appeal have yet to adopt an up-to-date local plan



There were 20 repeat offenders who had a lack of land supply confirmed at appeal in the year to March 2018 and the year to March 2019

There are 19 local authorities with an adequate supply of land that failed at appeal in the year to March 2018. They will have either identified land or not had their supply figure challenged in the past year



Of the repeat offenders, 48% have adopted a post-NPPF local plan

Source Savills Research **Note** All five year land supply data is up to date to 1 April 2019

METHODOLOGY

We have applied a simple five year land supply calculation to all local authorities in England using the LPA published supply figures. No adjustment has been made to the supply, and the methodology does not impose any different treatment of the basic requirement other than it being annualised (spread equally over the next five years). The map indicates categories based on the result, which allows a like-for-like comparison between authorities and echoes the arguments being used in appeals based on five year land supply across the country. Our calculation works as follows:
1) Current five year requirement (taking the first available data source from the following list): a) Post-NPPF local plan target (where local plan is less than five years old). b) Local housing need figure calculated using latest published affordability data.
2) Apply buffer according to Housing Delivery Test results to requirement.
3) Calculate the five year supply based on these figures (based on LPA quoted land availability – from SHLAA and/or AMR). We are not questioning deliverability of the stated land supply in this exercise.

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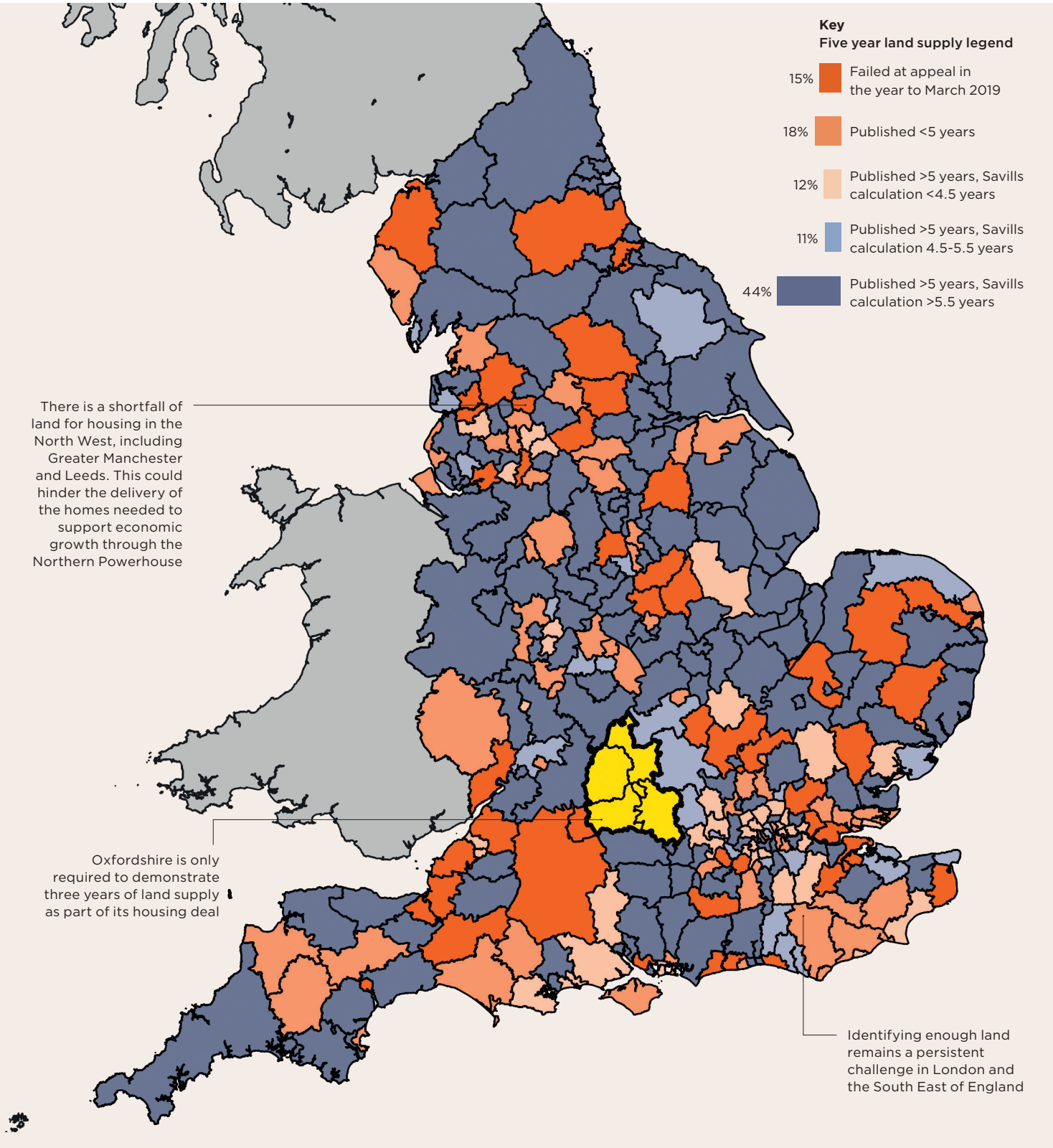
Number of local authorities who need to increase their buffer having failed to meet the 85% delivery target

Five year land supply Identifying enough land to achieve the required level of delivery remains a challenge



Source Savills Research

201 The number of local authorities in England that could see the presumption in favour of sustainable development apply to all proposals by November 2019

Missing the target

Tasked with demonstrating a five year land supply, having an up-to-date local plan and meeting the Housing Delivery Test, local authorities continue to struggle to meet requirements

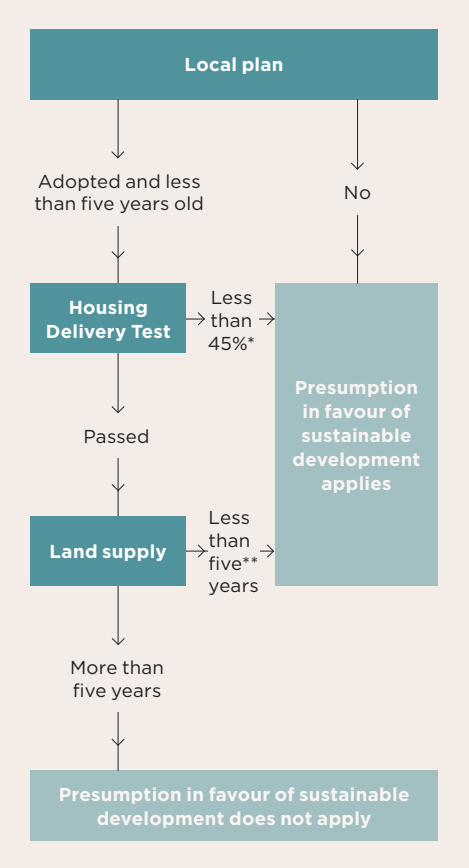
The presumption in favour of sustainable development is growing in significance. The Housing Delivery Test (HDT) has become tougher in its second year, the implementation of the standard methodology has increased housing need in some locations, and increasing numbers of post NPPF plans are now due for review. This all results in the presumption in favour of sustainable development applying in ever increasing numbers of local authorities. We project that by November 2019, 201 of the 325 local authorities in England could see the presumption in favour of sustainable development apply to all proposals.

When the results of the HDT are released for 2018/19 in November, we project that four local authorities will have delivered less than 45% of their housing need, and so will see the presumption in favour of sustainable development apply. This is a slight step up from the results of 2018, when no local authorities failed to meet the lower threshold of delivering 25% of housing need. More serious sanctions are likely in the third year of the test, when the delivery threshold will rise to 75% of housing need.

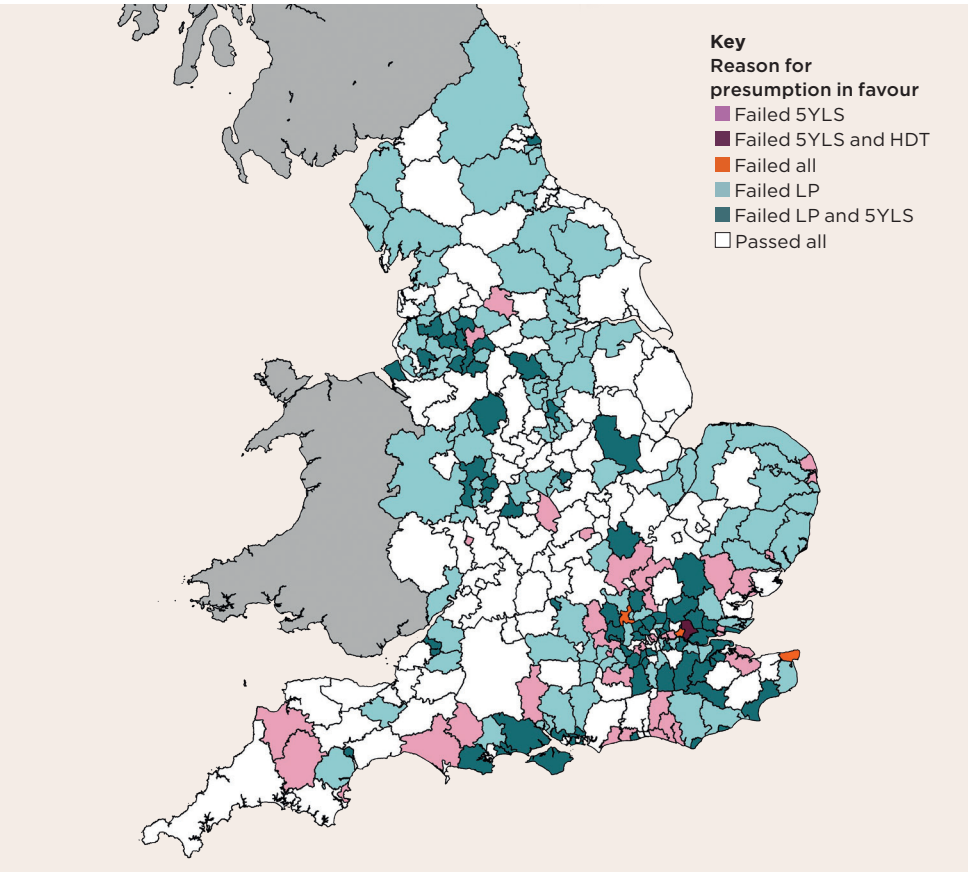
By November 2019, we project that 164 more local authorities could face the presumption in favour, either because they have not adopted a post NPPF plan, or their current plan will be over five years old and need to be reviewed. Some 139 local authorities look set to pass the HDT and local plan hurdles, but 16 cannot presently demonstrate a five year housing land supply. Three local authorities are projected to fail on all three measures, an improvement from our projection in 2018 when 14 were at risk of failing on each measure in 2019.

However, the emerging picture is that the majority of local authorities in England are at risk of losing full control of their planning policy. The pressure will be particularly felt in London and the wider South East – areas with the highest housing need. Given the requirement for homes in these areas, it is essential that local authorities become more proactive in identifying land for residential development, so that future development can be planned and delivered in the most sustainable way.

Route to delivery Presumption in favour of sustainable development



Test results Three local authorities are projected to fail on all three measures of local plan status (LP), five year supply (5YLS) and Housing Delivery Test (HDT)



*Rising to 75% from November 2020. **The requirement is for less than three years in areas with a recent neighbourhood plan.

Source Savills Research, MHCLG, ONS

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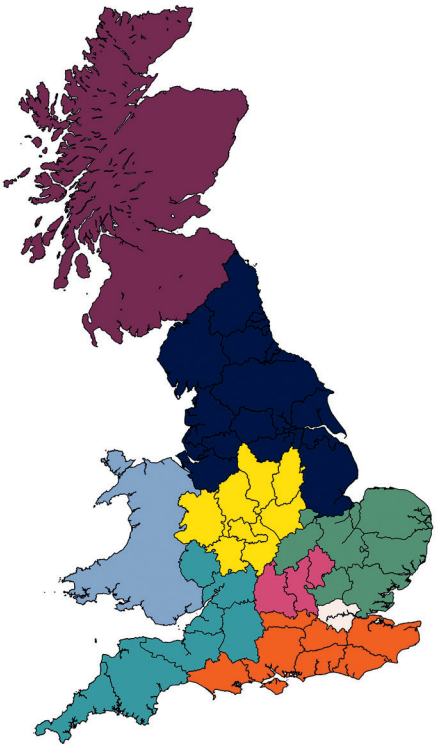

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