UK Cross Sector - Spring 2022

SPOTLIGHT
Savills Research

South East Development: Unlocking potential

savills

Unlocking development opportunities across Kent and East Sussex

Dartford Crossing

Bridging the divide

The county's connectivity to London is considered a key factor in terms of boosting the prosperity of the region

Kent is the largest English county with a population of over 1.5 million, and a further 500,000 people live in East Sussex. The region is projected to grow to a combined population of 2.5m by 2030. GVA for the area totalled £55.3bn in 2019, driven largely by the professional, scientific and tech sector.

Its logistics infrastructure is critical for the nation as a whole. Dover alone handles around a sixth of all UK cargo vessel arrivals each year, and over £100bn of trade in goods passes through the port each year.

Future economic growth is likely to be driven by connections to London. Most of Kent & East Sussex is expected to see growth in the total numbers of jobs between 2020 and 2035 (see Figure 2 on page 4). Dartford and Sevenoaks top the table with growth over 10% in projected employment numbers, with particularly strong growth in the professional, scientific & tech sector.

At the bottom of the table with flat or negative growth in the number of jobs are the settlements on the south coast. These areas have also seen recent weak performance, with GVA falling in Dover and Swale over the past decade.

House prices are also driven by the connection to London. Towns closer to the capital have a greater discrepancy between the incomes of those living and working in an area. We can see commuters bringing back 'London wages' to the towns, helping boost values beyond what the local employment base could support alone.

East Sussex, and Kent in particular, therefore have a clear economic divide, and overcoming this will be a key challenge for developers and policy makers. The £75 million of Levelling Up funding already allocated to the region should act as a catalyst for bridging this divide.

House prices in Kent & East Sussex were 7% and 9% higher in September 2021 than May 2020

The London clock face

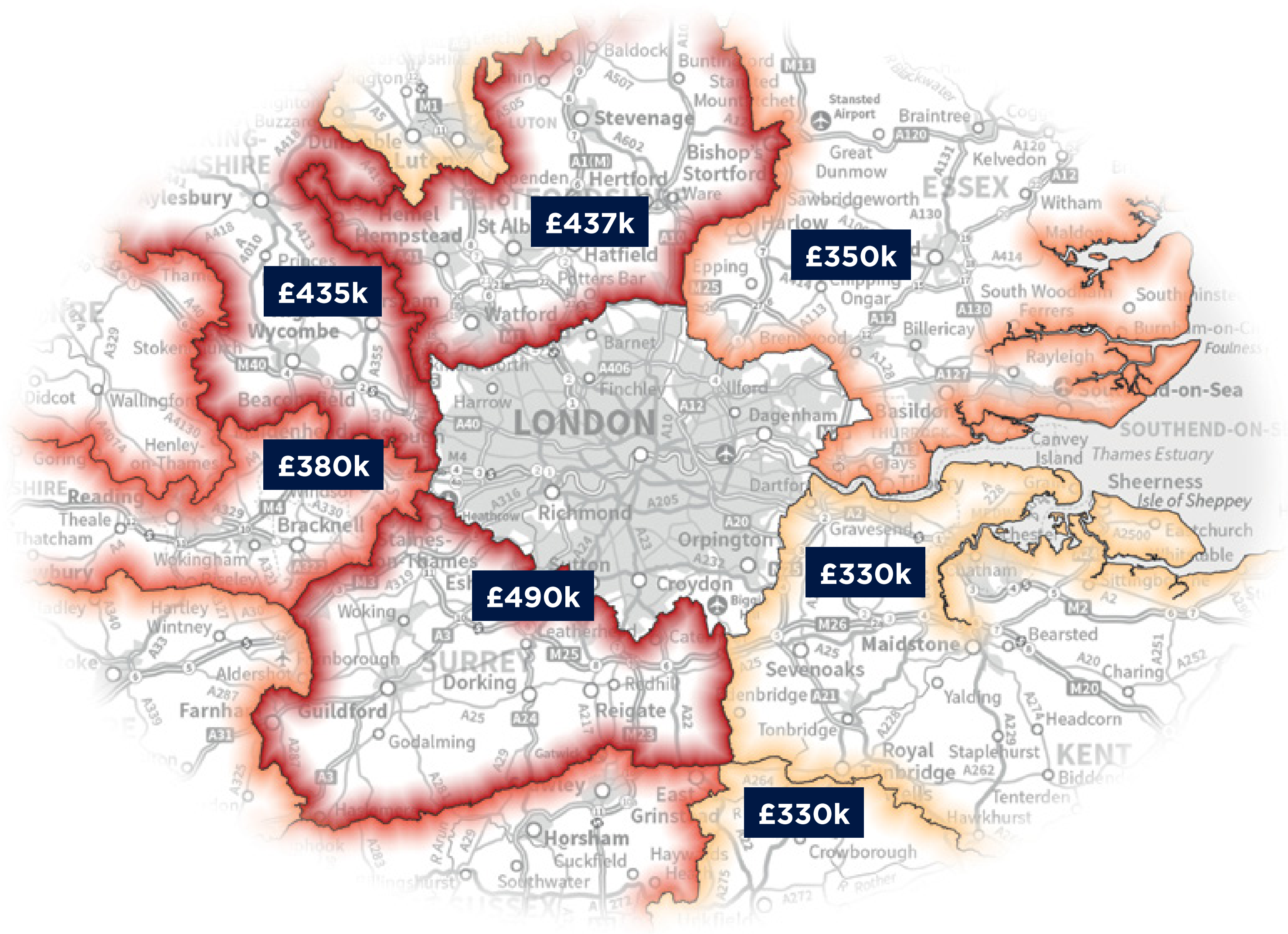
Kent and East Sussex are comparatively affordable in the context of the London 'clock face'. Average house prices were £330k in both counties in the year to September 2021, compared to £490k to the west in Surrey, or £350k to the north in Essex. This makes the area attractive to buyers looking for value for money, but also access to London.

Values have been rising steeply however. House prices were 7% and 9% higher in September 2021 across Kent and East Sussex respectively, compared to May 2020. This puts them in line with the national average growth of 8% across that period.

This rapid growth will have exacerbated unaffordability in the area. While homes are relatively cheap in a regional context, they still typically cost 11 times the average income in East Sussex, and 10 times in Kent. Both are some way above the national average of 8 times. These constraints hit First-Time Buyers (FTBs) particularly hard, who now face an average deposit of £75k across the region. The deposit obstacle is likely to grow, particularly with the end of Help to Buy in 2023.

As home values rise, and the cost of living increases, the relative affordability of Kent & East Sussex will be a key advantage compared to the other home counties.

Figure 1 Kent & East Sussex represent good value compared to the London 'clockface'



Average house prices, year to Sept 2021

Source: HMLR

Land values have risen by 7% in 2021 across the South East

There are headwinds for developers

As with the housing market, land values have climbed rapidly over the past year, rising 7% across the South East. This has been largely driven by strong interest in strategic sites by national housebuilders, although the number of bids from Registered Providers and modular housing specialists has been climbing.

Higher build costs have been a thorn in developers' sides, however. Developers have so far been able to offset these costs due to rising house prices. This will be harder to pass on as value growth cools off, which might see developers margins compressing. Sustainability is also becoming an important issue, with Kent County Council consulting on a minimum 20% uplift in biodiversity net gain for new development. These barriers may slow down housing delivery, in an area already struggling with an undersupply of homes.

Figure 2 Key growth sectors

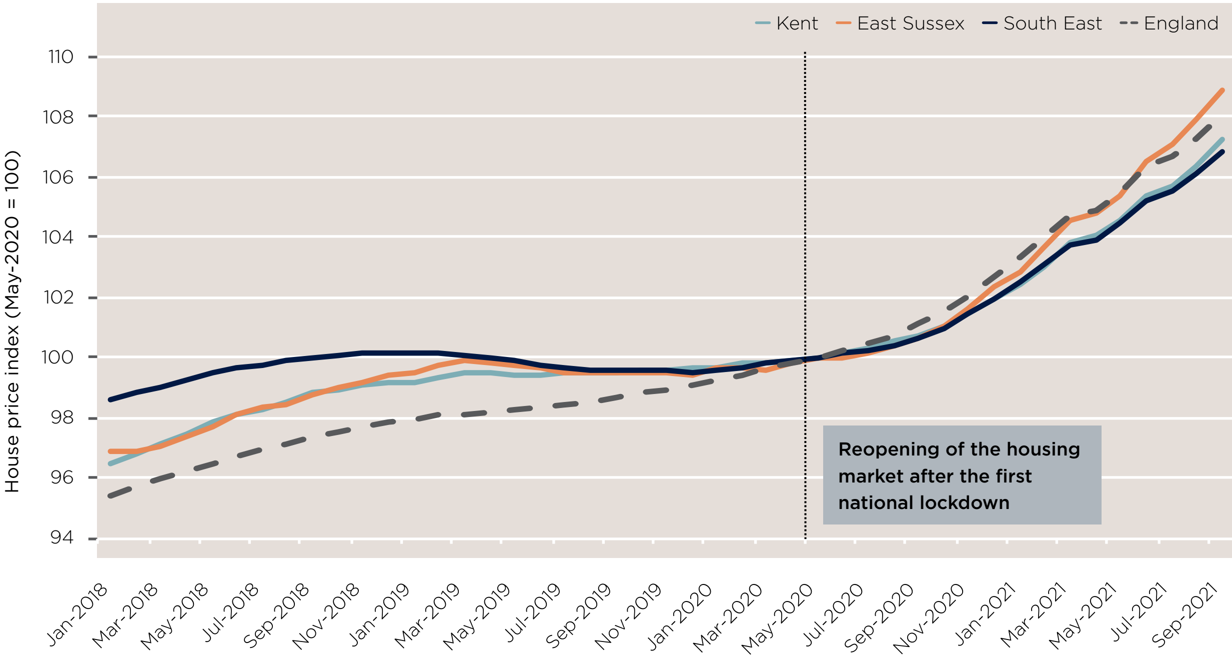
Increasing employment | No change | Decreasing employment

Local Authority	Growth in all jobs between 2020-2035	Fastest growing sector	% Growth of that sector by 2035
Dartford	16%	Professional, scientific and tech	42%
Sevenoaks	11%	Human health and social work	28%
Maidstone	7%	Human health and social work	23%
Tonbridge and Malling	6%	Real estate activities	31%
Tunbridge Wells	5%	Real estate activities	22%
Gravesham	5%	Real estate activities	29%
Ashford	5%	Real estate activities	25%
Lewes	4%	Information and communication	23%
Eastbourne	4%	Real estate activities	18%
Wealden	4%	Human health and social work	23%
Canterbury	3%	Real estate activities	15%
Swale	2%	Human health and social work	21%
Rother	1%	Information and communication	17%
Medway	1%	Human health and social work	15%
Dover	0%	Real estate activities	27%
Thanet	0%	Real estate activities	14%
Folkestone and Hythe	-1%	Real estate activities	24%
Hastings	-2%	Real estate activities	15%

Source: Oxford Economics

Average logistics rents reached £8.74 psf in 2022

Figure 3 House prices have risen faster in East Sussex than the national average since the first lockdown



Source: HM Land Registry

The Logistics Market

Kent's industrial market has performed strongly in recent years, with demand from third-party logistics operators, online retailers, manufacturers and grocery retailers underpinning transactional activity. The pandemic has meant leasing activity has slowed, but Brexit related uncertainty meant the market was not overbuilt at the onset of the outbreak. Continued activity levels have kept the average vacancy rate low.

Kent has seen an average of 2.25 million sq ft of space transacted per annum for units over 10,000 sq ft. Given the low supply of 3.63 million sq ft of space, this equates to just 1.6 years' worth of supply in the region. Closer analysis suggests that a large proportion of this stock could be obsolete as it is not capable of accommodating modern occupier requirements. The strong demand and low supply dynamic has been present for much of the past decade, leading to strong rental growth. The average rent has increased from £5.33 psf in 2009 to £8.74 psf in 2022.

Demand is likely to continue to be strong, driven both by the importance of Dover as a trade centre, and newly arising demand from residential analysis. Research from the British Property Federation highlights that at present there is 69 sq ft of warehouse floorspace for every home in England. With an annual housing need of 11,980 per year, this would see 8.26 million sq ft of additional warehouse space required in the next ten years, or 231 acres assuming 20,000 sq ft per acre.

Demand for land remains strong

Activity in the farmland market is picking up following the record lows of 2020

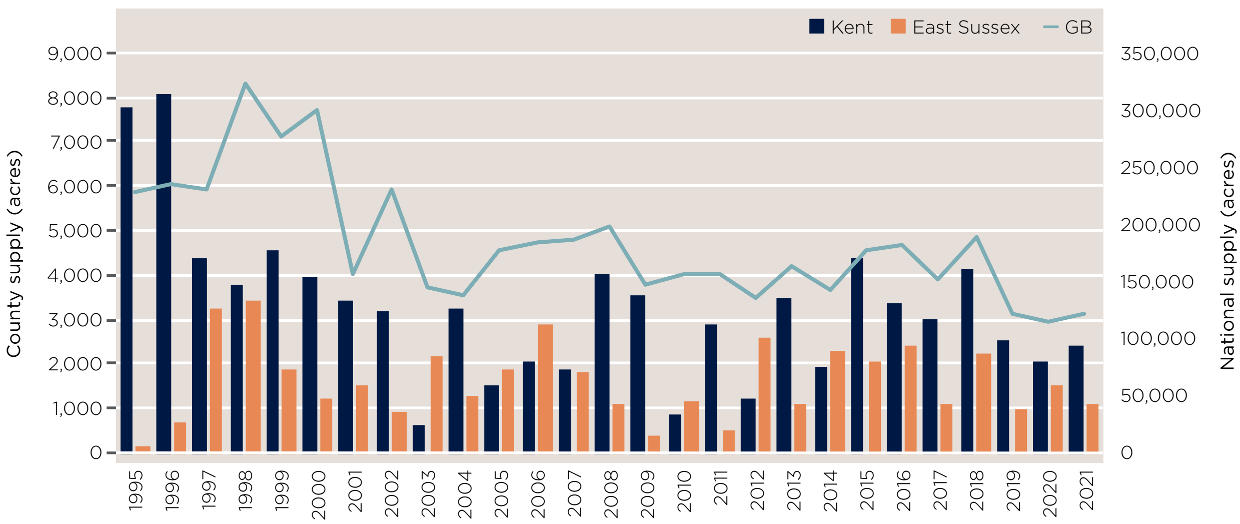
Popular with farmers and lifestyle owners, farmland in the South East is distinguished by its warm climate, good quality land and attractive landscapes. Coastal regions in Sussex are some of the sunniest in the UK, meaning temperatures exceed that of the rest of the country and the region is less prone to frosts. This temperate climate makes the region particularly suitable for more specialist agricultural production including soft fruits, hops and wine. According to DEFRA, the biggest contributor to the value of output in the region is fruit. In addition, natural capital is anticipated to become a major market driver.

Supply & Demand

The number of acres of farmland publicly advertised across Great Britain increased 6% in 2021 in comparison to the record low of 2020. In the South East, supply increased further with 12% more land being brought to the market than the previous 12 months.

However, this still fell short of the 5 and 10-year averages. At a county level, this trend remains – less land is being brought to the open market.

Figure 4 Publicly marketed farmland



Source: Savills Research

12% more farmland was brought to market in 2021 compared to the previous 12 months

However, Savills data indicates that in the south of England, privately advertised deals made up approximately 14% of transactions in 2021. This indicates that there are higher activity levels in the market, but with strong commodity values and ongoing economic uncertainty, landowners are cautious about bringing land to the market.

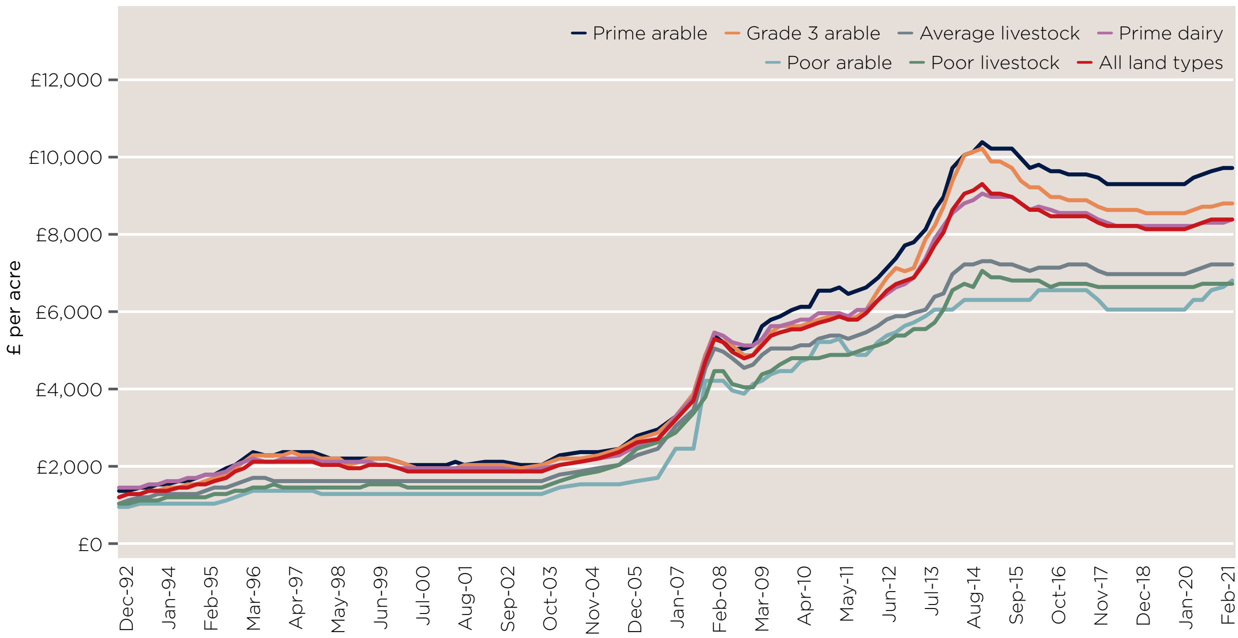
Despite the lack of market activity on the supply side, demand for farmland remains strong. The favourable tax position, the reliable returns and the emerging market for ecosystem services has seen interest in the asset class climb in recent months.

Values

In the South East, the value of 'all land types' hit £8,393 per acre and prime arable achieving £9,646 per acre. Whilst these values have not recovered to the previous highs in 2014, growth was recorded across each land type in the last 12 months.

Following a similar trend to that seen across the country, it was the value of poor livestock land that grew the fastest in 2021, increasing 8%. The sustained lack of supply is driving values higher as more active purchasers compete in a crowded market.

Figure 5 Land values in South East England



Source: Savills Research

Forecasts & emerging trends

Land is the only asset class that can be both a source and a solution to climate change. This will drive a change in use of a quarter of the UK's land over the next 30 years, directly impacting farmland values; Canterbury City Council recently launched a 'Call for Sites' through which it is inviting land agents and landowners to put forward potential sites to help the district meet its climate change and ecological goals. The warm climate in the South East lends itself to renewable energy but also expanding high value produce such as viticulture and horticulture.

Opportunities for diversifying away from food production will include ecosystem services such as the provision of Biodiversity Net Gain credits, Nitrate Neutrality credits or carbon sequestration. Despite the falling subsidy support, these emerging markets will support farm incomes and generate further demand for farmland, resulting in growth in values in the short term. We have forecast that prime arable land will show 2.5% growth over inflation annually, whilst poorer livestock land is predicted to grow 6% annually over inflation for the next five-year period.

> "Land is the only asset class that can be both a source and a solution to climate change"

Unlocking potential

Up to date Local Plans are required to coordinate infrastructure delivery and environmental mitigation, in order to meet housing need

Need & Supply

The total target for annual housing delivery in Kent set in adopted and emerging local plans is 8,448. In 2020-21, net additional dwellings were not far off this figure, with a total of 8,308 homes added to the stock in the county. However, this aggregate masks some significant shortfall, both in the delivery against target in specific locations, and more challengingly in the number of homes being planned for.

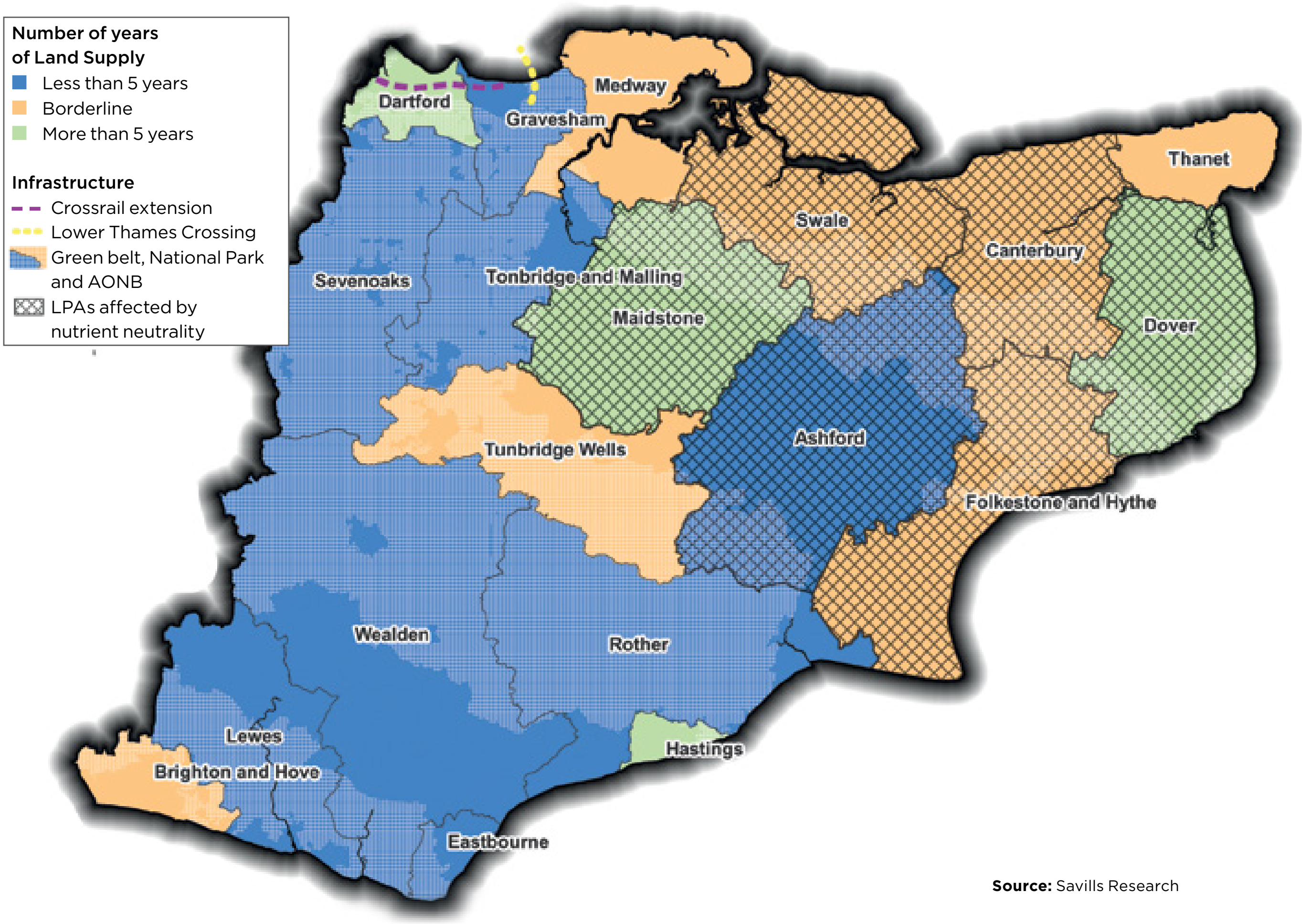
The standard method for calculating housing need produces a requirement for Kent that is over 40% higher than the current local plan targets. Under-performing areas include Canterbury, where 438 homes were built in 2020/21 against a Local Plan target of 800 homes and a standard method requirement of 1,120 homes per year, and Sevenoaks, where housing delivery was 50 homes above the local plan target, but 500 homes below the standard method figure.

As a consequence of this under delivery, several local planning authorities (LPAs) are facing sanctions under the Housing Delivery Test. Dover and Folkestone and Hythe must prepare an action plan to outline how the area will prevent future under supply. Swale and Thanet are required to apply a 20% buffer to their five-year land supply. Canterbury, Gravesham, Sevenoaks, Tonbridge and Malling, and Medway all delivered less than 75% of their housing need and so must apply the presumption in favour of sustainable development to planning applications.

Opportunities

Kent is set to benefit from infrastructure improvements over the next decade that could unlock major development potential, the bulk of which will be focused in the north of the county. The Elizabeth Line is finally set to open on May 24, 2022. It will terminate at Abbey Wood, but a proposal was submitted to the government in November 2021 for the line to be extended to Gravesend. This would increase the frequency of services to Central London and provide better links with Canary Wharf, although it is unlikely to be delivered until the 2030s.

Figure 6 Planning constraints are shifting the focus of development eastwards



Source: Savills Research

> Kent is set to benefit from infrastructure improvements over the next decade that could unlock major development potential

The area around Gravesend could also be boosted by the proposed Lower Thames Crossing. The new tunnel would double road capacity across the Thames, and bring over 400,000 jobs within a 60-minute commute of Gravesham and Thurrock, and linking with the London Gateway Deep Sea Port at Corringham. Construction of the Crossing itself will also provide an economic boost, with 22,000 new jobs created. The improved connectivity in the area is likely to draw buyers from Havering and Dartford, looking for more space and better value for money.

Much of these opportunities are driven by the area's position as a strategic growth corridor in the London Plan. The newest London Plan states that the Mayor is interested in working with partners to accommodate more growth in sustainable locations outside the capital. The Thames Gateway from Dartford to Chatham and locations along the HS1 line are identified as areas of particular interest to support economic growth around Canary Wharf and London City Airport. Further economic growth in the area could come from the proposed Swanscombe Peninsula theme park, expected to create at least 20,000 new jobs.

Challenges

Although there should be plenty of new opportunities in Kent, land availability is a major constraint. According to Savills calculation, seven LPAs have a housing land supply of under five years. Green belt is a constraint on development in six LPAs, covering over 70% of land in three of them. In the last year, Medway, Sevenoaks and Tunbridge Wells have all been found at appeal to lack an adequate land supply. The East Sussex LPAs are similarly constrained, with three years or less of land supply identified in Eastbourne, Wealden and Hastings.

Local Plan progress is also proving challenging, particularly in the west of the area. Both Sevenoaks and Tonbridge and Malling have been required to restart the Local Plan process, as they were found to have failed in the duty to co-operate with surrounding local authorities. Both authorities now have no up to date Local Plan and have failed the most recent Housing Delivery Test, but the potential for speculative planning applications will be limited by the green belt and the Kent Downs AONB. These land constraint challenges are pushing the focus of development further east within Kent to traditionally lower value areas.

But the most pressing difficulty is the issue of nutrient neutrality, which is affecting sites within the River Stour catchment. The local planning authorities in this area have been advised by Natural England that permission cannot be legally granted for developments that are not nitrate and phosphate neutral.

As a consequence of this, the number of homes receiving full planning permission in Kent has fallen from over 9,000 in 2017 to 5,800 in 2020. In Ashford, consents have fallen in that three-year period by 57%. Until mitigation schemes can be put in place in conjunction with rural landowners, nutrient neutrality will pose a significant obstacle to meeting housing need and supporting economic growth in Kent and the wider South East.

What type of product needs to be delivered?

A variety of types and tenures need to be delivered after the end of Help to Buy

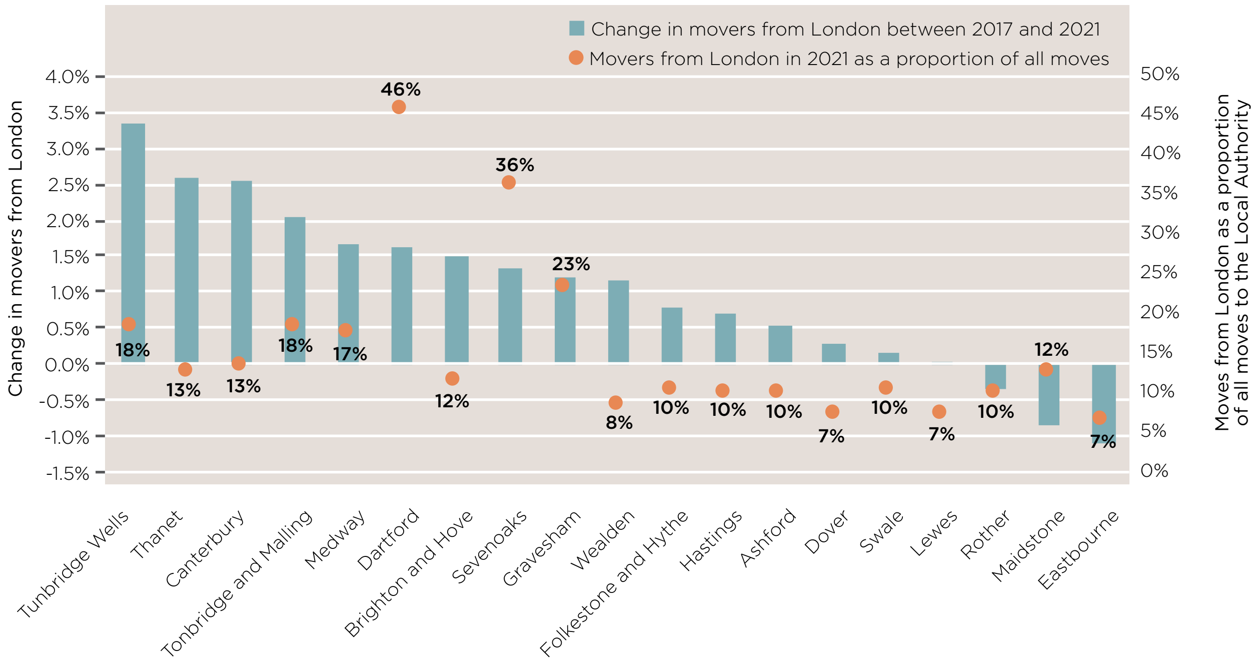
Market Drivers

Perhaps contrary to many expectations in early 2020, the housing market in the UK has performed exceptionally strongly over the last 18 months, and Kent and East Sussex have been no exception. Annual price growth has been at 9%, boosted by the Stamp Duty holiday and changing buyer priorities as working from home becomes more entrenched. Over 50% of all Savills new homes buyers in the area in 2021 were moving in order to upsize, with space for a home office being a common priority.

Locations slightly further from London have become more attractive as the requirement for many to commute into the capital every day diminished. Dartford and Sevenoaks have historically both attracted significant numbers of movers from London, helping drive their local economies. But Tunbridge Wells has seen the biggest uptick in demand from Londoners post-pandemic, with numbers up by 3.3% - making it the 4th most desirable town for Londoners, after Dartford, Sevenoaks and Gravesham.

This is reflected in working from home data, which saw the number of workers based mainly at home in Tunbridge Wells jump by 10% to a total of 27% between 2019 and 2020. This puts Tunbridge Wells as the local authority with the highest proportion of home workers across the entire country.

Figure 7 Buyers moving from London are starting to look further afield

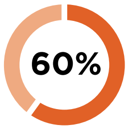


Source: Experian

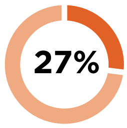
Demographics

The average ages and incomes of new build home buyers varies dramatically across Kent & East Sussex, but there is a general trend of young and relatively affluent buyers predominantly looking for family housing. However, there are variations, with locations on the coast further from London tending to attract older buyers looking to downsize.

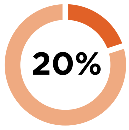
The typical new build buyer in Sevenoaks has a household income of £63k, and an average age of 37 for instance. At the other end of the spectrum is Eastbourne, with the average new build buyer being 53, with an household income of £33k – although this is likely skewed by retirees with low earnings, but relatively high levels of equity.



of buyers already based in Kent



of buyers are first-time buyers



of buyers are investors

Figure 8 The average new build buyer is looking for family housing

Source: Experian, ONS, 12 months to September 2021

Diversifying delivery

Help to Buy has been key in this area due to the unaffordability of the local housing market, supporting 44% of new build sales between 2013 and the end of 2020, someway above the national figure of 31%. With the scheme coming to an end in 2023, developers may also wish to diversify their offerings. We expect to see an increase in mixed tenure developments, with an increase in the volume of Shared Ownership homes, as well as a greater focus on Build to Rent (BtR).

Build to Rent has already secured a foothold in Kent & East Sussex, with 938 units complete, and a further 425 in planning. Medway stands out with over 300 units, followed by Tunbridge Wells with 233 Build to Rent homes completed. While most of these are flats, there is also growing suburban BtR market, The Medway towns, and other well-connected areas are likely to see the greatest expansion in this sector – again benefiting from their strong links to the capital.

With rising house values, but also relatively strong incomes in parts of Kent & East Sussex, Build to Rent is well placed to expand into some of the gaps opening up in the market after Help to Buy ends next March.

More modest growth ahead

The strong recent performance of the housing market has led to increasingly stretched affordability. Consequently, and combined with rising interest rates, we expect future value growth to be more modest – about 3% across the South East in 2022, with a five-year total of around 10.4%. However, areas like east Kent where affordability is less constrained and there is headroom for growth are most likely to outperform the region.

Rents have seen a turbulent couple of years, dropping sharply in major cities, but seeing steady growth elsewhere, up 6.3% in the year to Nov-21 across the South East. Rental growth is anticipated to remain relatively strong over 2022, at about 6%, before dropping to 3.5% in 2023 – largely in line with expected income growth. This puts 5-year rental growth at 20.0% across the South East, slightly above the national rate of 19.0%.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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