UK Residential Development – Autumn 2020

SPOTLIGHT

Savills Research

Delivering new homes resiliently

savills

Broadening demographics • Tenure diversity • Sustainable communities

57% of buyers have said that a separate home working space has become more important

Since the market reopened after peak lockdown in May, the housing market has experienced a strong bounce in activity due to pent-up demand, buyers bringing forward their decision to move and the stamp duty holiday.

Although there is positive momentum at the moment, there are significant headwinds for the economy and employment market, changes to property preferences and the tapering and planned end to Help to Buy to contend with. How should the new build market adapt to be resilient in the future?

Our report examines brand new analysis of who currently buys new build homes and the potential to diversify the demographic of buyers (page 4), the benefits of delivering a range of tenures and financial options (page 8), and how energy efficiency and sustainability are important to what we deliver in the future (page 9).

From here, the new build market has the opportunity to increase its share of sales by adapting new homes to meet the needs of buyers and delivering to a broader range of people, deliver more non-open market sale tenures, and consider ESG factors to deliver sustainability in the future.

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Cover: Leonie Bos

The need for resilience

The development industry faces three challenges: meeting buyers' evolving priorities, adapting to changes in Help to Buy and ensuring that supply is not adversely disrupted

Buyers' evolving priorities

This year, people have spent much more time in their homes than they might have expected. This has prompted greater introspection about our homes and what we want from them. Whether this shift is here to stay depends partly on how long the pandemic continues.

While we live in times of social distancing, space to work at home, outdoor space and our local environment have become increasingly important. Buyers are placing greater priority on home offices and faster internet connections; 57% and 48% of buyers are considering a separate space to work at home and good internet more important, according to the Savills June survey of buyers. Outdoor space has increased in importance even more, with 62% of Savills buyers considering it more important and 60% of Redrow's new home buyers listing it as the highest priority characteristic.

Local amenities and a sense of community have become more important too, as has energy efficiency, with 27%, 38% and 39% respectively considering these things more important.

Therefore, in the short term, ensuring more new homes are energy efficient with access to outside space and space to work from home in environments that have a sense of community and amenities will support demand.

Demand for homes has been very strong in the traditional London commuter locations (see Savills blog 'Where's hot in the current market'), so we need to continue to deliver homes in these places.

> **"While we live in times of social distancing, space to work at home, outdoor space and our local environment have become increasingly important"**

In the longer term when social distancing is no longer required, space to work at home, whether a designated room or flexible layout, will still be desired as we expect that working at home for part of the week will remain. Unlike existing stock, there is the opportunity to adapt new homes to meet these preferences. The challenge will be keeping these new homes affordable despite the higher costs to build them.

The end of Help to Buy

Before the lockdown, the new build sales market had been performing more strongly than the second-hand market, mostly thanks to Help to Buy. In 2019, 15% of all sales were new homes, compared with just 10% in the period 2010-2012. The Help to Buy scheme has allowed many people to get on to the housing ladder who otherwise wouldn't have been able to or for buyers to purchase a bigger property, taking two steps up the ladder in one acquisition.

However, as Help to Buy in England becomes more restricted from next year and is scheduled to end in 2023, the new build market will be back on a level playing field with the second-hand market, unless other financial support for buying new homes is available. Building homes to suit the changing buyer preferences and broadening the offer and target market for new build are therefore opportunities to support sales (page 4).

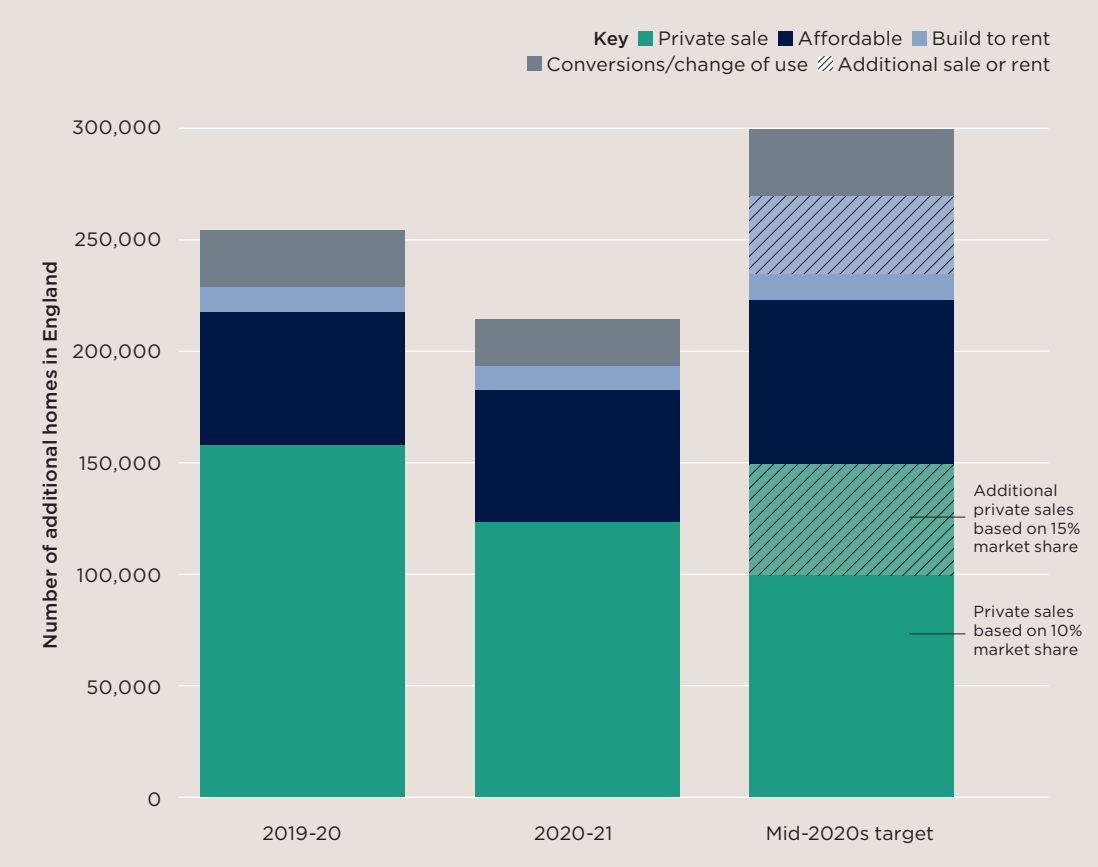
Meeting housing targets

Housing supply has been significantly disrupted by Covid-19, and we estimate that 17% fewer homes will be built in the 12 months to March 2021 than last year. However, with starts of new sites running at around 47% of pre-Covid levels, there is a significant risk to delivery in 2021-2022 unless builders gain more confidence.

To reach the target of delivering 300,000 homes in England by the mid-2020s and the number of homes needed in Scotland and Wales, delivery of all tenures will need to increase. The new build market share of the sales market will need to avoid falling back to pre-Help to Buy levels of 10%. And enabling the build to rent sector to expand will be essential.

Delivering this volume of homes will require diversity in construction, such as greater use of modern methods of construction (a less labour-intensive way of building homes). This will be needed because of the existing skills shortfall and potential for fewer construction workers from outside the UK in the future due to Brexit.

Housing supply in England To meet targets, delivery of all tenures will need to increase



Source Savills Research using MHCLG

OUR REPORT: KEY TAKEAWAYS

The new build market has recovered well after the slowdown in construction during the initial lockdown. From here it has the opportunity to increase its market share by adapting design to meet changing preferences and appeal to a broader range of buyers. However, the market will need to adapt to the changes to Help to Buy.

1 Young families are the most common buyers of new homes and the greatest users of Help to Buy, making them the most exposed to the tapering and ending of the scheme. Providing family housing they can continue to afford in areas with good primary schools, play areas and parks will be important for attracting this group.

2 Singles and couples over 40 are the least common buyers of new homes. Low maintenance, energy efficient homes close to health services appeal to many in this group. A further 8,700 homes a year could be sold if 10% of this market could be captured.

3 To be more resilient to changes in market conditions, developers could deliver a range of tenures including forward-funded build to rent homes and income-generating uses alongside homes for sale where appropriate.

4 Developments in the future will need to be energy efficient, sustainable, mixed, flexible and well connected places that promote health and wellbeing to meet buyers' needs and Government targets. With higher ESG credentials there is greater investment potential, albeit providing all this will put some pressure on land values.

> **A broader demographic gives a place a greater sense of social and community value, something buyers are actively seeking**

The right homes for different people

Are developers overlooking key demographics for their properties? We examine who chooses to buy new build, what they choose and the opportunity to build for those who don't

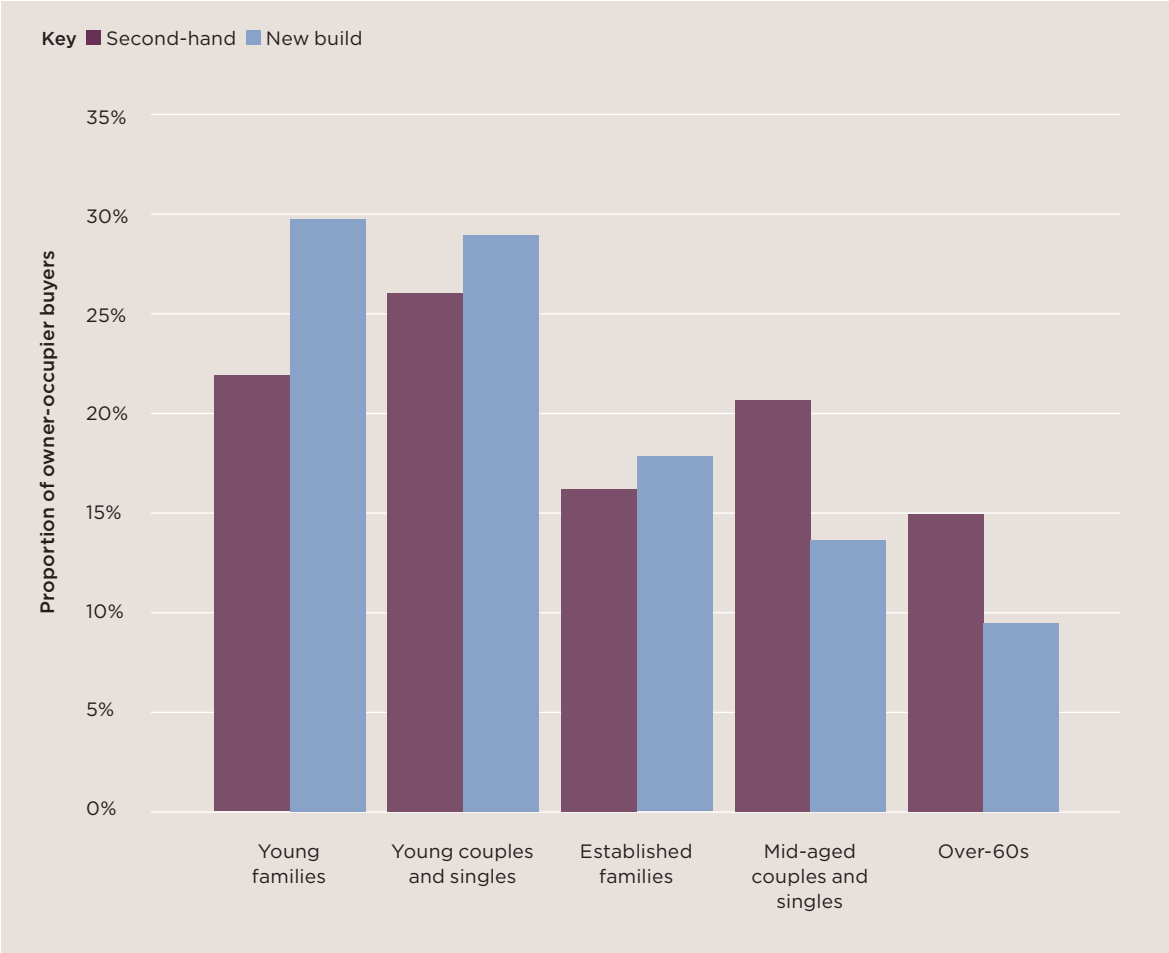
Illustrations by Janne Iivonen

We need to build the right homes in the right places, as the Government set out in 'Fixing the broken housing market' in 2017. However, we also need to be building the right type of homes for the right people, now and in the future. Building what the private market wants to buy, which makes up around 80,000 new homes sold per year in the UK, is vital to supporting delivery of new housing.

Young families are the largest new build buyer group commonly using Help to Buy, according to our analysis. By contrast, the over-40s without children living at home are least likely to buy a new home. To remain resilient, as Help to Buy tapers and ends, new build developments have the opportunity to attract a broader range of buyers. An additional 8,700 (11%) homes could be sold to owner-occupiers each year across the UK if just 10% of buyers who are singles and couples over 40 could be attracted to purchase a new home, rather than the current 7%.

Delivering to a broader range of buyers also spreads the risk if some groups are affected more than others by economic conditions. A broader demographic additionally gives a place a greater depth of social and community value, something buyers are more actively seeking.

Who buys new build? Life stage determines preference for buying new build



Source Savills Research using Experian, MHCLG and HM Land Registry

REGIONAL HELP TO BUY IMPACT

The challenges of selling new homes without Help to Buy differ in higher and lower value areas. In more affordable markets in England, Help to Buy enables people to purchase a bigger home. In less affordable areas, it allows households to get on the housing ladder.

In the North West and North East, where house prices are more affordable, in 90% and 92% of local authorities the average Help to Buy home sold has a higher value than the average house price in the area. In the South East and East, where affordability is more stretched, in just 28% and 29% of local authorities the average Help to Buy value is higher than the average.

When the regional caps are introduced in England from April 2021, the Midlands and the North will be most affected. We estimate that 70% of established families and 50% of young families using Help to Buy are currently purchasing a home over the regional cap in the North East, for example.

In the South, the caps are much higher and will have less of an effect – just 38% and 25% of established and young families are purchasing homes over the cap in the South East. In the short term, Help to Buy is likely to become more attractive to some. Many lenders have restricted their high loan to value products during this uncertainty which means that those who were depending on a 95% mortgage may find Help to Buy is the only path.

Young families
(aged 18-40 with children)

This is the largest buyer group in the new build market, making up 30% of all new build owner-occupier purchasers. They also have the greatest tendency to buy new homes over second-hand ones, with 14% of them doing so compared with the average of 10%.

There is little difference between the incomes for this group buying a new home against a second-hand one. Young families typically buy a 1,000 sq ft new home. Their high use of Help to Buy is enabling them to buy slightly larger and more expensive new homes – 8% bigger and 22% higher value than in the second-hand market.

Without Help to Buy, lower income young families will be unable to afford to buy a new home unless there is comparable financial support. Retaining those with higher incomes will need to be a key focus when the new build market is on a more level playing field with the second-hand market.

Providing affordable family homes in areas with good primary schools, nurseries, playgrounds and parks is important to attracting this group.

Young couples and singles
(aged 18-40 without children)

This group has a higher than average tendency to buy a new home. They have 30% higher incomes and pay 26% more for a new home compared with those buying second-hand, despite buying similar-sized properties of around 900 sq ft.

Lower income couples and singles are able to access second-hand properties but not new ones due to the higher values. This group is the most likely to move to higher-density urban new build.

Providing more homes ranging around 900 sq ft, in well-connected places with access to cafes, restaurants and convenience retail will be key to attracting this group. Health and wellbeing are important to them so amenities for exercise, socialising and outdoor space will help attract this group. Some will also be considering starting a family so nurseries and playparks will factor in their choice of home.

Note This analysis has been undertaken using Experian household and mover (based on change of address event) demographics and incomes linked to Land Registry sales data and energy performance certificates. It also draws on findings published in the Savills and NHBC 2018 report: Beyond location, location, location: priorities of new-home buyers

1,000 sq ft

Typical size of a new home bought by young families. High use of Help to Buy enables them to buy a larger, more expensive new home

Established families
(aged 41-60 with children)

This demographic accounts for 18% of new build sales to owner-occupier buyers. They are only slightly more likely to buy new build than the average buyer. They buy the largest new homes, averaging 1,200 sq ft, and move to much larger homes when buying new build (18% bigger).

There is little difference between the incomes for this group buying a new home against a second-hand one, but they pay 21% more on average for a new home, with a significant proportion using Help to Buy to enable them to do so.

Providing larger homes that this group can still afford in areas with schools, parks, sports facilities and convenience retail are important factors.

Mid-aged couples and singles
(aged 41-60 without children living at home)

This group is less inclined to buy a new home over a second-hand one – just 7% of them do – and rarely use Help to Buy. In a similar way to their counterparts living with children, they choose much larger homes when buying new build – 17% bigger at 1,100 sq ft. However, those buying new homes in this group have 24% higher incomes and buy more expensive homes (29% higher value) than those buying second-hand properties.

Providing spacious homes in high-quality environments with a strong community will be important for attracting this group. Space to work at home and access to health services and convenience stores are also important.

If 10% of this market rather than 7% could be attracted to new build, it would equate to 4,900 more sales per year.

“If 10% of the current over-60s market rather than 7% could be attracted to new build, it would equate to 3,800 more sales per year”

The average new house sold in the past three years is 1,120 sq ft, 18% larger than second-hand ones at 950 sq ft

Over-60s

This group includes empty nesters and older singles and couples without children who are nearing, or at, retirement age. They are less inclined to buy a new home than a second-hand one, with only 7% doing so. They are more likely to have equity and those buying new build have 27% higher incomes than those buying second-hand homes. The new homes this group buys are 16% larger, averaging 1,100 sq ft, and 30% higher value than the second-hand homes purchased. When buying a new home, they are more likely to choose a flat or detached home compared with the second-hand market.

A strong community and proximity to amenities and health services are relevant to this group, as are homes that need minimum maintenance and are energy efficient. When they do move to new build, currently they tend to be more attracted to smaller, more rural developments, providing greater opportunities for SMEs to cater for this market. However, there is also the opportunity to attract this group to other settings if the right product was offered.

There is a huge opportunity to provide housing for this group. Many are living in large family homes and could downsize to a more appropriate home to suit their needs. As we concluded in our 2018 Savills *Spotlight on Retirement Living*, the UK's retirement housing stock needs to grow by 65% to 1.2 million homes to meet future demand. If 10% of the current over-60s market rather than 7% could be attracted to new build, it would equate to 3,800 more sales per year.

NEW HOUSES: SMALLER SIZE, LARGER NUMBER?

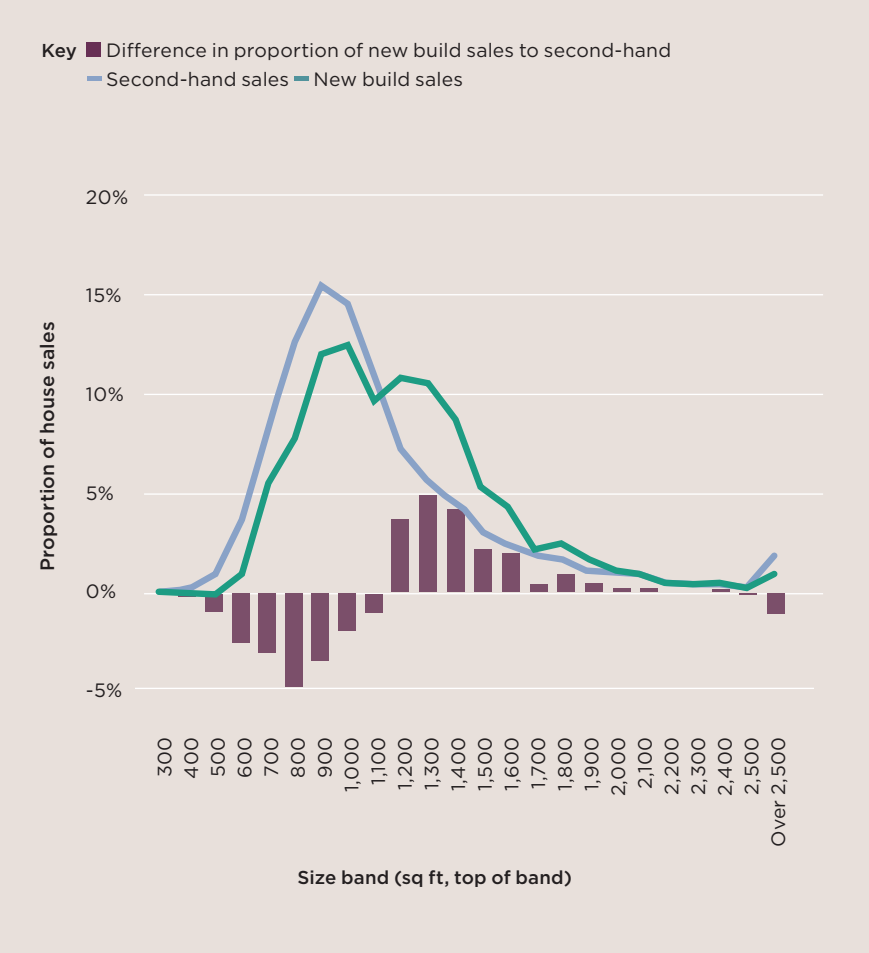
There is the opportunity for new build to gain greater market share across the market by providing homes that meet buyers' preferences, especially if they can't be met in the second-hand market. Additionally, we have identified a gap for smaller houses. New houses sold in the past few years are larger than second-hand houses, and we calculate that there is the opportunity to provide an additional 5,400 houses that are up to 1,100 sq ft per year. The average new house sold in the past three years is 1,120 sq ft, 18% larger than second-hand ones at 950 sq ft. In particular, there are a greater proportion of new houses sold between 1,100 sq ft and 1,600 sq ft compared with the second-hand market: 40% versus 23% of sales.

This is great for providing larger family housing and more spacious living with room to work at home, but it may become more challenging to support in such high volumes when Help to Buy tapers and ends, reducing some buyers' purchasing power.

Before Help to Buy was introduced, new houses sold were still larger than second-hand ones. However, new houses are now 6% larger on average than in 2012 when the typical new house sold was 1,050 sq ft.

Recently, 47% of new houses sold were between 624 sq ft (the minimum space standard for a two-storey home) and 1,100 sq ft, compared with 60% in the second-hand market and 50% in the pre-Help to Buy new build market. If 10% of this market were new houses, an additional 5,400 homes of this size could be built for sale each year.

Spacious living New houses sold are larger than second-hand ones



Source Savills Research using MHCLG and Land Registry (2017 to March 2020)

> Our analysis shows that a large site with 20% of the homes for private rent could be delivered 25% faster than a site with no build to rent stock

The value of tenure and financial diversity

Providing a balanced mix of tenures and finance models will make housing delivery more able to withstand market fluctuations in the long term

Illustration by Leonie Bos

Delivering a range of tenures from build to rent to extra care can not only enhance build-out rates as concluded by the Letwin Review, it can also enable delivery to continue in more challenging markets. This reduces risk for the developer and helps build a sense of community sooner with local amenities, such as shops and cafes, able to open earlier as affordable and rented homes can often be occupied faster. However, land values and/or margins may need to be lower to accommodate a mix weighted away from private sale.

Affordable housing

Grant-funded affordable housing can provide counter-cyclical resilience in delivery and there is 'virtually unlimited' demand, according to the Letwin Review. Funding through the Affordable Homes Programme, the Strategic Partnerships Programme, and the rise in private funding of affordable homes supports delivery of these homes beyond planning obligations. First Homes will also widen the market for new build to those with lower incomes. However, the land value generated from building affordable homes can be much lower than for private sale.

Build to rent

Build to rent is a growing sector that can be delivered in both suburban locations and city centres. Demand is greatest where there is strong local employment, albeit the balance between capital values and rents can be a challenge for viability. Some 53% of private rented households currently live in suburban locations, which appeal to more established families – the fastest growing group of renters. Of those in the private rented sector, 30% are now 35-44 years old, almost double the proportion a decade ago.

By incorporating more build to rent homes, delivery rates can be increased and build-out times can be reduced. Our analysis shows that a large site with 20% of the homes for private rent could be delivered 25% faster than a site with no build to rent stock (see Savills *Suburban Build to Rent*).

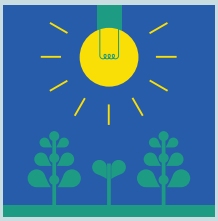
Financial diversity

Using build licences instead of upfront land payments, and delivering income-generating uses such as leasing or selling land for industrial space, care homes or workspaces alongside homes can help cash flows for developments. Forward-funding of build to rent or affordable housing can too.

Build to rent is often delivered via forward-funding agreements with investors, and if the forward fund agreement is secured early, the housebuilder can use the land payment to help fund some or all of the preliminary work on site. Builders can also benefit from cost savings by working their supply chains harder, thereby making savings on materials through larger and more visible long-term orders. A similar structure is also possible with affordable housing, by working with local housing associations.

The appeal of energy efficient housing

To attract new buyers who can afford energy efficient homes, developers need to adopt measures that reduce the environmental impact of housing



The sustainability of our homes continues to creep up the priority list for many buyers. Therefore, to continue to attract new build buyers, developers will need to deliver more efficient homes. It can also help attract more investment (page 10).

New homes are on average 33%* more energy efficient than second-hand homes, and tend to produce 66% less CO2 to run. But while energy efficiency is certainly desirable, it comes at a cost. Although the range of Energy Performance Certificate (EPC) ratings for new homes is very narrow, the trends are clear.

More efficient homes tend to be more expensive. A new £500,000 house has an EPC rating 1.3 points higher than a new £250,000 house. At the more affordably priced end of the market there is less scope to spend more on the higher build costs needed to create a more energy efficient home. As a consequence, we see younger and less affluent buyers purchasing less efficient new build homes.

Buyers are paying more for energy efficiency, with purchasers tending to stretch their house price to income ratio to afford more efficient homes, according to our analysis. This may be because they have more equity to enable them to do so and they are purchasing higher priced homes. Those with a house price to income ratio of 10 buy a home with a 1.1 point higher EPC rating than those buying a home priced at just three times their income.

The Government is keen to promote greater energy efficiency in housing. The planning white paper states that from 2025, new homes will be expected to produce 75-80% lower CO2 emissions compared to current levels, with heat pumps and better insulation part of the solution to the Future Homes Standard.

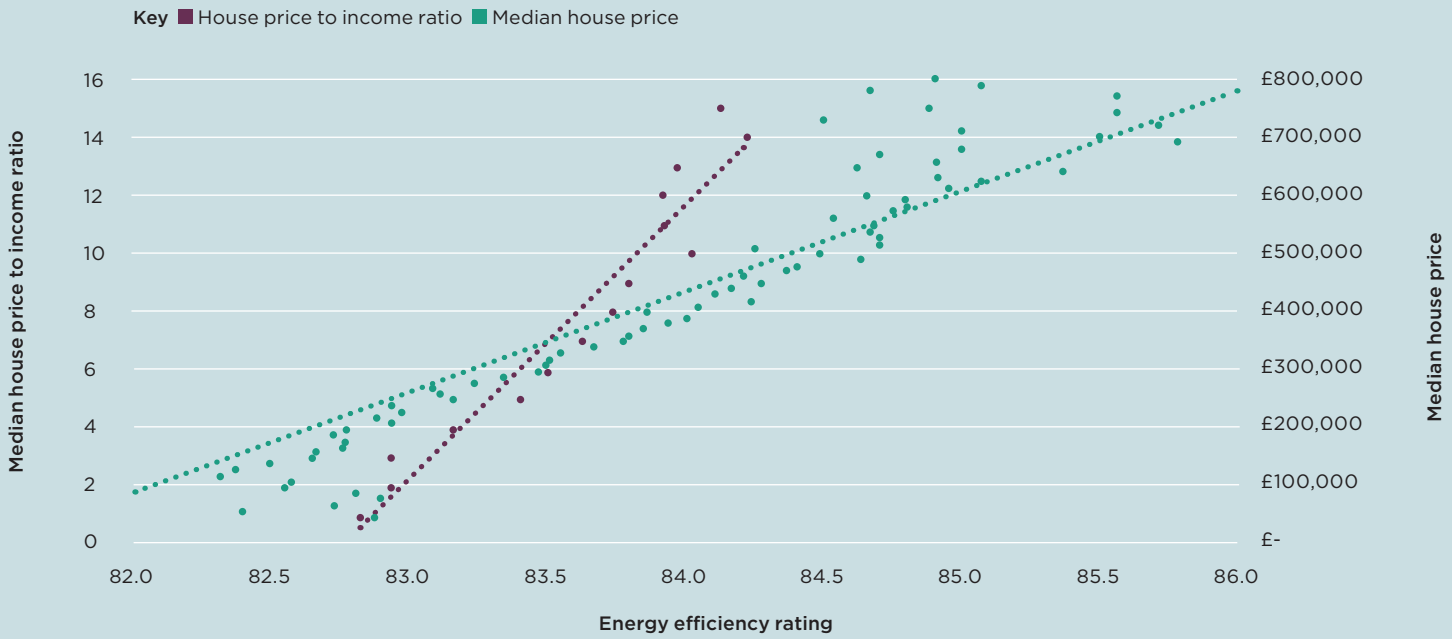
This will push up build costs and put pressure on land values, but is essential to reach these sustainability goals without compromising already stretched affordability.

Homes delivered using modern methods of construction (MMC) typically have higher energy efficiency ratings and have been shown to use 20-30% less energy to heat. In fact, eco MMC house-building specialist Etopia has been the first to be rated as better than zero carbon, with an EPC score of 103. What's more, MMC can also reduce construction waste and use less energy during construction.

Aside from MMC, the rising number of cleantech start-ups appearing is also promising for finding new solutions to creating more efficient building methods and homes.

The planning white paper states the intention for homes built under its guidance to not need retrofitting – rather they should be zero carbon ready by 2025. Futureproofing, building in flexibility to adapt to future needs, is difficult, but efforts to do so will likely increase a site's long-term resilience. A more efficient home is cheaper to run, aligned with governmental and industry goals, and generally more appealing to buyers.

Cost concern More affordable and lower priced new homes are less energy efficient



Note *Excluding flats and London **Source** Savills Research using MHCLG and Land Registry, new houses sold between January 2017 and March 2020

The right fit for the future

From community and wellbeing to energy efficiency and flexible living spaces, developers must innovate and adapt to stay relevant

Colin Palmer Photography / Alamy Stock Photo

Developments of the future will need to adapt to buyers' and occupiers' needs and wishes to stay relevant and appealing. Earlier in this report we identified the acceleration of trends exposed by Covid-19 and how energy efficiency is increasingly important. But what other factors do we need to deliver the right homes – not just numbers?

Higher value developments (ESG, not just GDV)

We are used to measuring the value of places in monetary terms, such as house prices and gross development value (GDV). But there is a rising need to look beyond the financial and measure places for their environmental, social and governance (ESG) value.

The environmental value is increasing in importance for buyers, as our recent survey of Savills applicants suggests, but costs can inhibit who can afford to choose a more energy efficient option. The importance of social value has been accentuated by the Covid-19 pandemic. More of us have been spending time in the area around our homes rather than the workplace and there's been a renewed focus on sense of community, health and wellbeing, which to a greater or lesser extent is here to stay. Therefore the new homes we build need to be created in places with greater social, environmental and health benefits for the future.

Being a business with better ESG credentials also opens the door to more investment. Investments that support the UN sustainable development goals (adopted by all UN member states in 2015) including 'sustainable cities and communities' and 'good health and well-being' are important to investors too. 56% of those surveyed in DFID's *Investing in a Better World* report stated they wanted all or part of their pension to be in sustainable investments, and according to data from Morningstar, annual European sustainable fund flows more than doubled between 2018 and 2019 from €50 billion to €120 billion, increasing by 1.4 times.

The affordable housing sector has a head start on this, by virtue of the people it is providing homes for. However, the whole development sector has a way to go to contribute more towards these goals. Smaller developers could benefit too, as the weight of money searches for opportunities to be deployed. Measuring ESG criteria has proved challenging but the UK social housing white paper *Building a Sector Standard Approach for ESG Reporting*, published in May 2020 by The Good Economy, is a big step forward and includes themes from affordability to resident support and climate change.

Creating places, not just homes

We need to be creating friendly, welcoming places that work on a human scale with the mix of uses needed for a community to function including schools, GP surgeries and local shops. Places that provide good internal connectivity but also connect beyond their boundaries to transport, energy and broadband networks, linking them sustainably into existing infrastructure.

We also need mixed communities of old and young people. The Intergenerational Foundation's report *Generations Apart?* found that there is increasing age segregation, which hinders care of the elderly, exacerbates loneliness and marginalises young people. It is also contributing to a general increase in segregation by age group, social class and ethnicity that is estimated to cost the UK economy £6 billion each year. New developments that deliver housing and environments for a wide range of ages of people, from play areas to dementia friendly routes, are a way to counter this problem.

Ensuring the places we deliver enhance health and wellbeing has been made increasingly important in light of the Covid-19 pandemic. The health cost to the NHS of conditions exacerbated by poor housing is currently estimated to be £1.4-2 billion per year in England alone. The Healthy New Towns programme with 10 demonstrator sites is a start, but all developments need to prioritise health and wellbeing if we are to make real change. Encouraging walking and cycling to local amenities and parks rather than driving, using the stairs rather than the lift, ensuring high air quality and mitigating noise pollution are all part of this. Providing allotments and only allowing healthy food stores and eateries could be others.

As well as creating places that are best for us to live in, new developments need to enhance biodiversity. The Environment Bill proposes 10% net biodiversity gain becomes a condition of planning permission.

Flexibility

As lockdown has shown us, we can be creative with what space we have in our homes to work, live and play all in one space. New homes of the future need to be as flexible as possible to allow for changing lifestyles and life stages, working at home and play time. Designs that optimise space within an affordable home and create segregated quiet areas to work and room to spread out will be key.

The impact on land

The increased expectations for new development and the cost of providing it, from enhanced energy efficiency to appropriate infrastructure, comes with pressure on land values. The challenge for the proposed infrastructure levy will be whether it can be structured to ensure delivery of the social and physical infrastructure we will need while maintaining a competitive return to a willing landowner.

> **"There is a rising need to look beyond the financial and measure places for their environmental, social and governance (ESG) value"**

KEY FEATURES FOR FUTURE PLACES

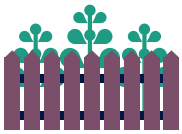
A mix of uses including schools, GP surgeries and local shops

Flexible spaces

Promote health and wellbeing

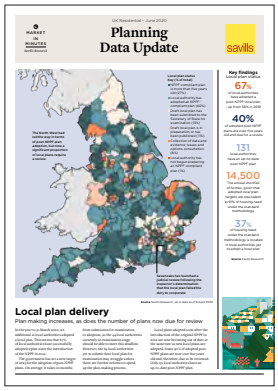
Sustainably built energy efficient homes

High air quality and biodiverse



Allotments and healthy food options

Connected to transport, energy and good broadband networks



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