

Lambert
Smith
Hampton

HOUSING DELIVERY



RESIDENTIAL
DEVELOPMENT
MARKET SURVEY 2021

NEED FOR REFORM



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The prevailing planning system is the largest single obstacle to residential development. Challenges faced by the residential sector run deep, and require fundamental step change in the UK's approach to housing delivery.

FOREWORD

In recent years, respondents to our Residential Development Survey have repeatedly cited planning policy as the major obstacle affecting the delivery of new homes, with access to finance, bureaucracy and local opposition following closely as other key factors stifling progress.

We have once again sought the views of developers, housebuilders, land owners, local authorities, banks and professional services on how housing demand can be met, the challenges faced, and where the opportunity lies. The overriding message is clear; central Government must tackle planning reform, once and for all.

Calls to simplify an "overly onerous" process, reduce red tape, speed up the planning system and invest in council planning resources, were echoed across the board.

However, following the recent Cabinet reshuffle, major planning reform - initially scheduled for this autumn and billed as the biggest shake-up of the planning system in decades - has been 'paused' following a backlash by many ministers in response to the proposed changes by Michael Gove's predecessor, Robert Jenrick. Gove has since pledged to 'look again' at planning policy.

And while the Prime Minister's speech at the Conservative Party Conference

indicated that housing delivery remains high on the political agenda, the continued uncertainty around planning will not sit well with many respondents to our survey.

Our report takes a more detailed look at the key issues identified and offers expert opinion from our team, including insight from our colleagues at Connells Group, around the potential solutions and what lies ahead for the sector.

KEY THEMES

CENTRAL GOVERNMENT ARE NOT DOING ENOUGH TO SUPPORT THE DELIVERY OF NEW HOUSING

BIGGEST FACTORS AFFECTING THE DELIVERY OF NEW HOMES ARE PLANNING POLICY AND OPPOSITION FROM LOCAL COMMUNITIES

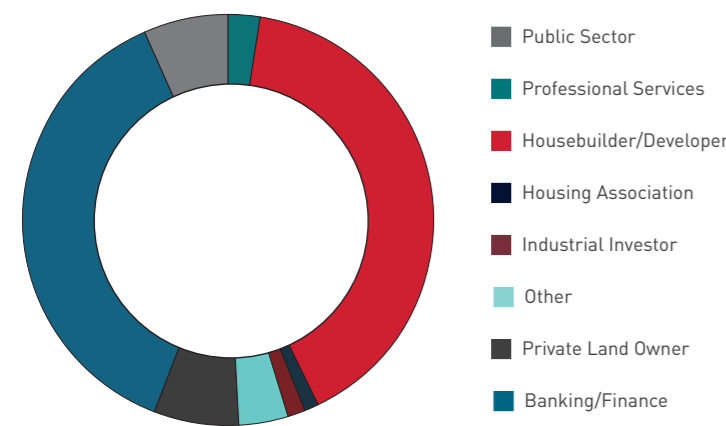
PERMITTED DEVELOPMENT RIGHTS ARE HAVING LITTLE IMPACT IN THE DELIVERY OF NEW HOMES

THE COVID-19 PANDEMIC HAS DRASTICALLY CHANGED THE NATURE OF HOUSING DEMANDS

THE INCORPORATION OF SUSTAINABILITY AND GREEN SPACES IN DEVELOPMENT IS MORE IMPORTANT THAN EVER

HOUSE PRICES NATIONWIDE ARE EXPECTED TO INCREASE AS DEMAND CONTINUES TO OUTWEIGH SUPPLY

RESPONDENT'S ROLE IN RESIDENTIAL DEVELOPMENT



Source: Lambert Smith Hampton



2021 SURVEY RESPONDENTS

"We have had more housing ministers than any other government position and **NO-ONE STAYS LONG ENOUGH** to really embed policy and make a difference"

"Mortgages are **TOO CHEAP** and available. Great for the person getting one; possibly **DESTRUCTIVE ON A MORE MACRO LEVEL** and quite possibly causing the '**CRISIS**'"

"Planning is **SLOW, BUREAUCRATIC, UNCERTAIN** and subject to being derailed by tiny numbers of objectors"

"Targets are **UNREALISTIC** and **UNACHIEVABLE** which is **UNMOTIVATING** and disenfranchises local people, local politicians and those charged with delivering"

"Most of the 'high street' banks have **RED LINED DEVELOPMENT**, leaving developers to look at the secondary or tertiary lenders, thus **INCREASING THE COSTS OF BORROWING** substantially"

"Central government need to provide **BETTER RESOURCE AND TRAINING** to planning departments and council members"



TURN THE TAP ON



STEPHEN HEMMING
Director
Planning, Development & Regeneration



ALEX ROBERTS
Director
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Local Planning Authorities are crying out for the necessary resources to be able to deliver new housing; the lack of support from central Government is leaving them out to dry, facing the wrath of disgruntled stakeholders.

GOVERNMENT MUST DO MORE

The Government's manifesto promises to build at least one million new homes over the next five years, with a target of building 300,000 homes per year by the mid-2020s. We have yet to see this materialise, with the highest delivery rate at 267,000 new homes in 2019/20, and for 2020/21, the impact of the pandemic and changes to national policy remain to be seen.

The effectiveness of the 'urban area uplift' tweak to the standard methodology is questionable, and now that the 2020 White Paper has been sidelined, all eyes will be on the government's next steps to unlock the delivery of new homes, with 74 per cent of those surveyed saying that the government is not doing enough to support the delivery of new housing.

Put housing on the **NATIONAL AGENDA...** force great minds, daily to come up with **VIABLE SOLUTIONS.**

STRIPPED RESOURCES

Planning policy remains the biggest factor affecting the delivery of new housing; up to 68% from 50% in 2017. Calls to provide better support and increased investment to Local Planning Authorities were unanimous, with respondents citing the overwhelming lack of resource that most local authorities face leading to prolonged and lengthy response times, adding pressure to a system at breaking point.

STIMULATING NEW HOUSING

The same ghosts of land supply and finance remain the key constraints to housing delivery, with 63% of respondents calling for an increased allocation of land by local authorities to support residential development schemes and improve market availability, followed closely by the need for reduced Community Infrastructure Levies, S106 contributions and other planning obligation costs to further stimulate the delivery of new housing.

PERMITTED DEVELOPMENT RIGHTS (PDR)

The Government's drive to deliver housing through changes to the Permitted Development regime may not be having the intended effect on delivery of housing due to recent changes being too complex. The original office to residential changes delivered significant levels of housing (of differing quality) but the secondary and tertiary office space which lent itself to these changes has now, by and large, been redeveloped where this was likely to happen. More recent changes could still yet deliver further housing, but they do not seem to have been seized upon by developers in the way that earlier PDR changes were.

BIGGEST FACTORS AFFECTING THE DELIVERY OF NEW HOUSING

FACTOR	ALL
Planning Policy	68%
Opposition From Local Communities	56%
CIL / S106 / Planning Obligation Costs	51%

Source: Lambert Smith Hampton

NB: Respondents were able to select more than one factor



SHIFTING VIEWS



PAUL SHUKER
Director
Planning, Development & Regeneration



ROWEN HAWE
Assistant Planner
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The Covid-19 pandemic has shifted the focus of many, allowing time to re-evaluate the places we live, work and play, with Environmental, Social and Governance (ESG) considerations and the desire to maximise wellbeing taking centre stage.

COVID-19

Respondents have recognised that the pandemic and accompanying enforced lockdowns, whilst hopefully not to be repeated, has resulted in changing demands from house buyers; namely, a pandemic-fuelled shift in more people currently living in a city looking for property outside of that city.

Survey responses mirror the conversations that we have been having with developers. People have re-evaluated where they want to buy and live, looking for more indoor and outdoor space. There is a shift in demand as buyers strive to get more 'bang for their buck' thanks to flexible working patterns enabling remote working.

Only time will tell if this shift in demand will lead to a new direction in design and layout in the long term. However, we are seeing increasing activity from investors and developers in our regional cities, looking at the delivery of Build-to-Rent properties.

SUSTAINABILITY

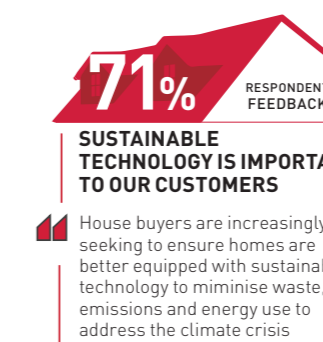
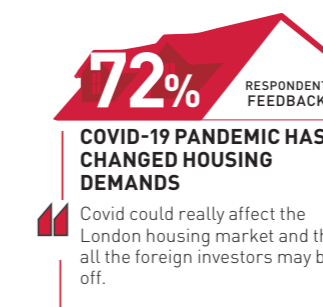
Sustainability is a widely encompassing concept the planning system has traditionally provided broad aspirations for but with few definitive targets. We believe it is important to look beyond simple carbon and energy targets, and consider where and how we live, in order to most effectively deliver living environments that meet our current needs whilst meeting sustainability targets. This is reflected in other aspects of our survey results:

- 77% think it is important to build long-term resilience into

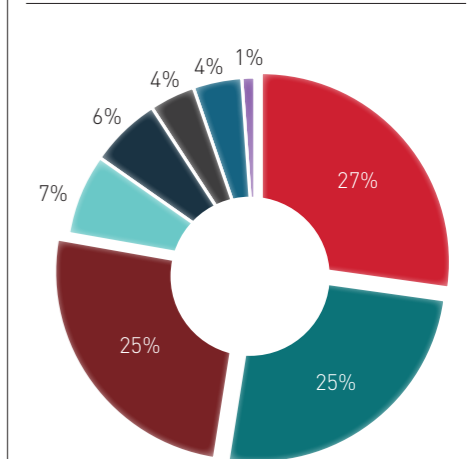
infrastructure, including sustainable transport;

- 71% think sustainable technology is important.

Notably, this must be a collaborative approach, which feeds into wider needs to address ESG issues. It will be interesting to see how previously mentioned habits accelerated by the Covid-19 pandemic, such as home working, reduced car usage, and local shopping may become permanent fixtures of a more sustainable lifestyle. The challenge for the Planning and Building Regulations systems will be how to promote innovation, and best plan for sustainable places and lifestyles, without causing undue delay and burden in the applications process.



THE EFFECT OF COVID-19 ON HOUSING DEMANDS



- Increased demand for more indoor space/home working
- Increased demand for specialist or older persons living
- Reduction in the need to commute
- Increased desire to be close to family and friends
- Increased demand for homes to be closer to local amenities
- Increased demand for affordable housing
- Increased demands for more outdoor space
- Other

Source: Lambert Smith Hampton



HOUSE PRICE HIKE



STEPHEN HEMMING
Director
Planning, Development & Regeneration



ROGER BARRETT
Group Land & New Homes Director
Connells Group

Growing housing demand precariously balanced against limited supply and the hardening of development finance conditions has resulted in a hike in the price of houses across the country.

THE RACE FOR SPACE

Britain's pandemic house price boom has been felt across the width and breadth of the country as estate agents don't have the supply to be able to satisfy unprecedented levels of demand.

The average UK house price jumped by around £4,400 (1.7%) between August and September of 2021, marking the fastest growth since February 2007, according to figures by mortgage lending company Halifax. As well as this, remote working trends accelerated by Covid-19 has resulted in increased demand for more idyllic, remote properties in some of the country's lesser known beauty spots. For example, property prices have risen by 29% in Richmondshire, North Yorkshire, in the last year, according to the latest official figures from the Land Registry.

In terms of 2021, we will see double digit growth, with a fair chance it could be as high as 12% - fuelled by strong buyer demand and a severe shortage of available stock. Looking ahead to 2022, 72% of respondent's suspect house price increases to continue. We expect HPI to be around 3.5% but there is potential that it could come in higher if supply fails to improve in the spring market.

IMPROVING MORTGAGE ACCESS

According to the BBC, home movers were responsible for a record proportion of mortgage borrowing in the first three months of 2020. More than half of respondents (64%) felt that the ability to access mortgage finance had greatened over the past 12 months. However, many self-employed and furloughed workers have had mortgage applications turned

down by some high street lenders, recognising this, respondents cited a need for more flexible borrowing terms to improve future access to mortgage finance conditions.

WAITING FOR CLARITY

Our survey showed a lack of clarity around the state of development finance conditions. However, lenders have returned strongly to the market over the last 12 months and are now competing strongly for the business available. As a result, interest rates have fallen, and criteria and LTV's available have got better thereby improving access to mortgage supply for consumers. Affordability is still a challenge for many and, as a result, the easing of the rules limiting lenders in this area would be welcomed by all stakeholders in the housing market.



BELIEVE THAT HOUSE PRICES WILL INCREASE OVER NEXT 12 MONTHS

Housing demand remains high against a backdrop of limited supply caused by slow planning policy and local politics, accentuated by the impacts of Covid-19.



BELIEVE MORTGAGE CONDITIONS HAVE IMPROVED IN THE LAST YEAR

More money has been made available and confidence is returning as we emerge from the pandemic



UNSURE ABOUT FUTURE IMPROVEMENTS TO MORTGAGE CONDITIONS

Banks now have so few branches, and so few staff, they can hardly function.



DON'T THINK THAT DEVELOPMENT FINANCE CONDITIONS HAVE IMPROVED IN LAST YEAR

It remains difficult to access finance for our company, as lenders continue to exercise general cautiousness.



DON'T KNOW WHEN DEVELOPMENT FINANCE CONDITIONS WILL IMPROVE

Until the amount of equity required is reduced and red tape is relaxed then things won't change.



A JOINED-UP APPROACH



STEPHEN HEMMING
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Frustrations have built due to the magnitude of housing undersupply, acceleration of population growth, paradigm shifts in societal-technological-environmental context, and a sustained lack of meaningful consistent planning reform.

Our survey continues to indicate a high level of frustration with housing delivery. There is particular emphasis placed around land supply availability, raised construction costs, the restrictive nature of planning policy and the impact that community-led objections are having on local planning approvals.

These are well made and credible concerns.

The harsh truth is that the frustrations have built due to the magnitude of housing undersupply, acceleration of population growth, paradigm shifts in societal-technological-environmental context, and a sustained lack of meaningful consistent planning reform.

Cumulatively, this has created an unwieldy and complex housing crisis. The odds are significantly stacked against the most maverick of housing ministers understanding, identifying, and rolling out a meaningful solution to the UK's housing crisis for the foreseeable future.

There are pockets of hope across the survey; access to mortgages, modular housing successes on a greater scale, the rollout of schemes through PDR office to housing, especially in London, a return to simpler brick housing design rooted in modernity, and a focus on raising living standards through place creation.

An unsurprising lead theme of the survey was the emphasis on us all to not underestimate or ignore the many concerns raised around living conditions that the pandemic accentuated. There is a need for the industry to quickly understand how these concerns can help inform future design and place, but also, how we can achieve greater integration of social value and culture within the

granular aspects of new development.

The theme of greater brownfield site delivery has been highlighted by the government as a priority in opening up delivery. However, such land is often already positively allocated, and an absence of site activity can simply be due to the long-term effects of the economic downturn of 2007/8.

Positively, there has been a recent upturn in the amount of brownfield delivery but the unit numbers often only feed into housing targets from a decade before. A further hard 'shake out' of brownfield land may yet identify other opportunities, but this comes at a time when there is growing tension with modern employment land requirements.

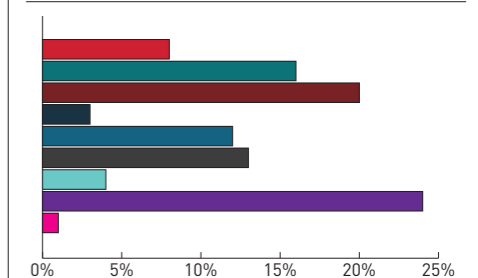
COVID-19 is still making people nervous

The spectre of David Cameron and Eric Pickles legacy haunts the survey's findings; deconstruction of regional policy and replacement with big society localism have negatively impacted the when, where, how and if of housing delivery. We note an ever-growing call for the reintroduction of a mechanism between central and local government, to lead housing number apportion and direction of spatial growth.

Integrate this with the distribution of strategic market-led employment sites and finally embrace the longstanding need for statutory comprehensive green belt reviews; and there's potential for powerful structural governance which would resonant strongly with the levelling-up agenda.

While this is likely to be highly politically unattractive, the severity of the housing problem built up by successive governments is by far uglier. With a projected population increase of five million in the next 20 years, anything other than rapid movement towards greater authoritarian intervention and leadership will continue to merely prolong and sharpen the acuteness of the crisis.

GREATEST RISKS TO THE FUTURE OF RESIDENTIAL DEVELOPMENT



- Access to finance
- Availability of land
- Construction costs
- Cost of finance
- Cost of land
- Economic confidence
- Investor confidence
- Planning
- Implications of Covid-19

Source: Lambert Smith Hampton

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