BARRIERS TO HOUSING DELIVERY – UPDATE

PRIVATE SECTOR HOUSING DEVELOPMENT ON LARGER SITES IN LONDON

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MAYOR OF LONDON

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THE REPORT HAS FIVE SECTIONS:

KEY FINDINGS

In 2012 The Greater London Authority asked Molior London to produce a report called 'Barriers to Housing Delivery in London'. The report's purpose, broadly, was to find out why developers in London were not building more homes for private-sale. The report's conclusion was, broadly, 'they are building more homes for private sale than you think'.

Earlier this year Molior London was asked to update that report. This time the brief might be simplified as 'the stock of unbuilt private-sector planning permissions in London is significant – so why aren't we hitting housing delivery targets?'. This report's conclusion can be summarised as 'big schemes in London are commencing units in line with the numbers required to meet housing need'.

The key findings are:

- Big schemes are delivering a large number of starts. When measured in terms of housing starts not housing completions, recent marketing conditions have been so favourable that GLA housing need targets are being met in terms of the contribution expected from private-sale starts on sites of 20+ homes
- As few individual schemes commence more than 100 private sale units per year, the *number of consented sites* is as important, if not more so, than the number of consented units
- If large sites continue to get planning consent at recent rates, and if the sales environment continues to be favourable, it is quite likely that London will continue to meet or exceed the private sector starts element of a 49,000 homes-a-year total requirement. Molior's one concern is that the number of individual sites with planning permission might start to fall – 49% of the permitted sites in the 2012 report are now being built. Luckily, during the last two years sufficient new sites have emerged to maintain the number of consented sites – on a like for like basis, in 2012 there were 531 permitted sites, now there are 575
- A smaller percentage of planning permissions are held by non-developers (as opposed to developers) in 2014 than in 2012, and the majority of those held by developers in 2012 have since progressed to full construction commencement

1. SCOPE AND BACKGROUND

Housing starts not completions

Much reported data looks at housing completions. Data on housing completions provides a view of housing delivery that is two years out of date. Such data only tells you how developers were acting when they started construction eighteen months to three years previously. This report looks at current housing starts and expected housing starts – it looks at how developers are acting now and how they intend to act during the next 18 months.

London, big schemes, private sale units

This report looks at schemes containing 20+ private sale homes in London:

- London is defined as the Greater London Authority area
- Schemes with fewer than 20 private sale homes are excluded
- In the schemes that are included, units consented for affordable housing are excluded from the numbers in this report

Funding development has changed considerably in the last two years

A very important change in the development market during the last two years has been the change in the availability of residential development finance. We thought it important to include the following short note on the state of the funding market as of summer 2014.

This section has been produced with the considerable help of Andy Blenkinsop at Pluto Finance.

House builders (Barratt, Bellway), housing associations (London & Quadrant, Hyde Group) and larger developers fund their schemes from corporate resources:

- Equity from retained earnings, from the stock market and from private wealth
- Corporate debt provided as a general loan (debenture) secured against all of the company's assets and intended to fund a number of different schemes

Smaller developers do not receive funding at the company level; instead loans are sought on a scheme-by-scheme basis and are secured against the scheme. Two years ago the ability to secure such funding was a significant barrier to housing delivery. Two years ago schemes were chasing money.

Now, money is chasing schemes. Effectively, there is now an unlimited pool of funding for schemes costing below £40m as the limiting factor in the market is the number of schemes that can be invested in. And there are no real 'no go' areas for development funding anymore – funding can be secured for schemes in places like Tottenham, Deptford and Peckham if selling price-points are sensible. This was not the case two years ago.

The number of funders in the market depends on the size of the loan:

- The provision of loans of £1m-£10m is very competitive with perhaps 30 to 40 active lenders – the market is liquid and competitive
- Over £10m - the number of firms willing to lend falls substantially. There are perhaps 10 fewer lenders in the £10m-£40m bracket; only five to 10 lenders in the £40m-£100m bracket and effectively no lenders for schemes of over £100m
- Loans of over £40m will tend to be syndicated between several different lenders.

For schemes requiring debt of up to about £40m there are two types of lender:

- Specialist lenders like Pluto, Titlestone, Revcap, Topland, Starwood, LaSalle
- Mainstream banks like Barclays, Lloyds, RBS, HSBC, Santander, BLME

The lenders work in terms of 'loan-to-cost'. If a scheme has a total sales value (GDV) of £13m, total costs of £10m and bank funding of £5m it is said to have LTC of 50%.

- The specialist lenders are usually willing to lend 70% to 90% LTC
- The mainstream banks are usually willing to lend up to 60% LTC

So for the £13m GDV scheme Pluto might lend £7m-£9m, but RBS only £6m.

The cost of a loan is related to the LTC ratio not the amount of debt being borrowed:

- LTC <50% - 4% interest + 1% when the loan is made and 1% when the loan is repaid
- LTC of 50-70% - 8% interest + 2% fees
- LTC of 80% - 12% interest + 2% fees
- LTC of 90% - 15% interest + 2% fees
- LTC of 100% - 10-12% interest + 50% profit share

The majority of loans are in the 50% to 80% LTC bracket which means two things:

- The mainstream banks tend not to provide scheme-level residential development funding in London
- The typical loan costs 8-12% + 2% fees

2. CURRENT HOUSING COMMENCEMENT

Historic housing output in London

It is worth remembering the background to today's housing market in London. Typically, planning approvals are given for roughly double the actual number of homes finally built. Table 1 shows housing approvals and completions for the last nine years, and shows that, even allowing for the fact that schemes can take eighteen months or more to be completed once given permission, in the long run this figure roughly bears out (note the spike in approvals in 2012 most likely due to the introduction of the Mayoral Community Infrastructure Levy). So, although these permissions indicate a capacity for more than enough homes than are needed to meet London's requirements, they have historically not followed through to actually being built.

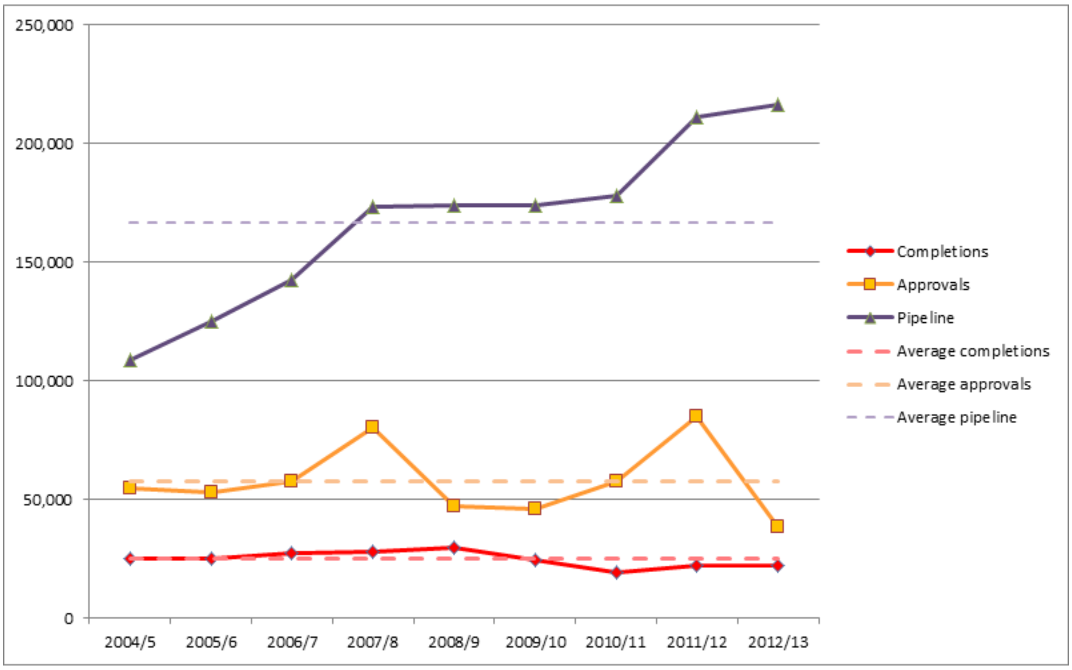
Table 1: housing approvals and completions

	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Completions	25,300	25,084	27,226	28,215	29,534	24,732	19,185	21,988	21,923
Approvals	54,779	52,998	57,816	80,515	47,254	45,795	57,537	84,704	38,703
Pipeline	108,818	124,862	142,305	173,464	173,772	173,702	177,782	211,200	216,476
Average completions	24,799	24,799	24,799	24,799	24,799	24,799	24,799	24,799	24,799
Average approvals	57,789	57,789	57,789	57,789	57,789	57,789	57,789	57,789	57,789
Average pipeline	166,931	166,931	166,931	166,931	166,931	166,931	166,931	166,931	166,931

Source: London Development Database, GLA

Figure 1 over the page illustrates the data in Table 1. It is clear that there is a consistent gap between housing approvals and housing completions over time, and that this gap, or pipeline of permissions, grew between 2009 and 2013. The question for this study is to what extent this is a realistically deliverable pipeline, and insofar as it is, is that translating into housing output in the current market?

Figure 1: Housing pipeline, approvals and completions in London 2004-2013



Source: London Development Database, GLA

Housing need

Molior has chosen to put this study into context using the following numbers. Please note that these numbers are not targets or statements from the GLA, merely a rough benchmark that Molior has found useful to frame this section of the report.

If London needs 49,000 homes to be developed each year, the delivery split might be:

- Affordable housing: 19,000 homes
- Private housing: 30,000 homes

Table 2 shows historical completions data from the GLA. This would suggest that, roughly, big schemes account for 50% of all private housing delivery in London. In other words, to contribute to the 49,000 homes needed in London, private homes delivery on big sites needs to be 15,000 homes per annum.

Table 2: Private sale completions by scheme size 2004 to 2012

Financial year ending	Large sites (20+ units)	Small sites (1-19 units)
2004	53%	47%
2005	52%	48%
2006	48%	52%
2007	46%	54%
2008	47%	53%
2009	47%	53%
2010	45%	55%
2011	47%	53%
2012	58%	42%

Source: London Development Database, GLA

50% or higher?

Instinct, observation and data make us wish to discard the '50%' historic percentage:

- Instinct: 49,000 homes is a scale of housing delivery very different to the last decade – so why should 50% be right?
- Observation: Developing big schemes is in fashion. And it takes an awful lot of small developments to match even one of the many large plots being commenced in Nine Elms, Greenwich, SE1 and elsewhere each year
- Data: Molior's latest data shows 15,000 units to be a very unambitious target – private sale commencement on large sites in London has averaged 5,000 homes per quarter during the last eight quarters

If we choose 66% of 30,000 as a target for larger sites, then London's big schemes are already hitting 20,000 private sale starts each year. Even if we choose 75% as a target, London's big schemes are already pulling their weight in terms of helping to meet London's housing need.

Starts by quarter from 2008

Table 3 is based on Molior's data and shows private sale housing starts in London by quarter on large sites since the depths of the recession.

Table 3: Starts, completions and sales 2008 to 2014

Period	Starts	Completions	Sales
2008: Q4	1,362	2,199	641
2009: Q1	1,254	2,414	1,464
2009: Q2	3,150	4,782	1,872
2009: Q3	1,561	1,339	1,565
2009: Q4	1,282	2,810	2,031
2010: Q1	1,949	2,096	1,887
2010: Q2	2,268	1,795	2,123
2010: Q3	2,475	2,037	2,261
2010: Q4	2,718	2,207	2,184
2011: Q1	5,138	1,225	2,915
2011: Q2	2,229	2,222	2,083
2011: Q3	3,397	2,287	3,907
2011: Q4	2,084	2,100	3,242
2012: Q1	2,828	2,520	3,609
2012: Q2	3,049	3,353	2,706
2012: Q3	3,088	2,128	2,802
2012: Q4	3,957	3,652	3,844
2013: Q1	4,796	2,340	5,798
2013: Q2	4,329	2,940	4,475
2013: Q3	5,988	3,004	5,290
2013: Q4	6,250	3,208	5,841
2014: Q1	5,163	2,799	4,960
2014: Q2	5,905	4,380	5,362

The first four quarters shown have starts of just 7,327 units; the most recent four quarters show 23,306 starts. Based on the last year's starts, big schemes housing delivery is currently 77.7% of the 30,000 private homes target.

Two points

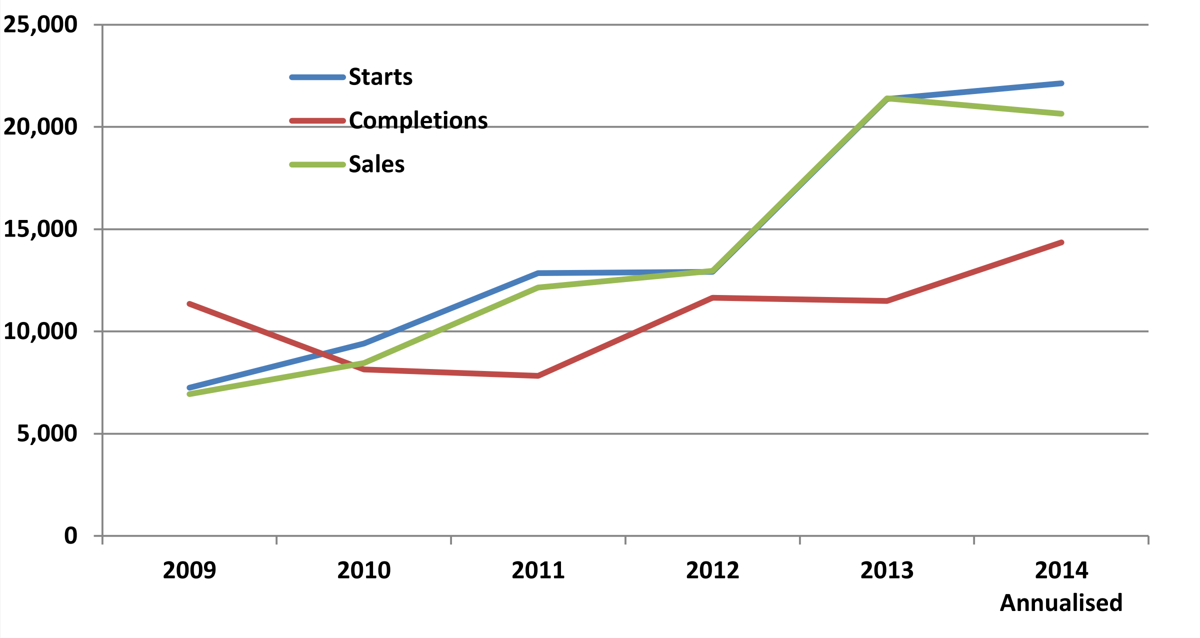
(1) A small percentage of homes consented for private sale are delivered as affordable tenures – maybe 800 of the 23,306.

(2) Molior's data is compiled quarterly through detailed site visits and developer interviews. Molior is able to back up the 23,306 number with photographs and explanations on a block by block, phase by phase, scheme by scheme, borough by borough, sub region by sub region basis.

Market risk

Figure 2 shows Table 3's data in a graphic form. The high level of housing starts reflects the high level of sales being achieved.

Figure 2: Starts, completions and sales 2009 to 2014



Whether starts lead to sales or sales lead to starts is a moot point – but the correlation in Figure 2 is very clear. Selling and building go hand in hand. With the recent drop in sales the upward trajectory in starts has flattened and might be expected to fall.

We do not want readers to conclude that the high level of starts can be taken for granted. Higher interest rates, higher exchange rates, political uncertainty, tougher mortgage rules, 'anti-foreign-buyer' rhetoric – anything affecting sales rates is likely to affect the rate of starts.

Who is building?

Table 4 shows that in 2011 six firms started 50% of private homes on big sites.

Table 4: Starts in 2011 by company

Company	Units	Share
Berkeley Group	2,208	17%
Barratt	1,549	12%
Taylor Wimpey	769	6%
Bellway Homes	730	6%
Fairview New Homes	717	6%
Telford Homes	599	5%
82 other firms	6,265	49%

Table 5 shows that in 2013 nine firms started 50% of private homes on big sites.

Table 5: Starts in 2013 by company

Company	Units	Share
Berkeley Group	3,197	15%
Bellway	1,665	8%
Barratt	1,414	7%
Battersea Power Station Development Company	866	4%
London & Quadrant Housing Trust	805	4%
Taylor Wimpey	804	4%
Countryside	575	3%
Galliard Homes	556	3%
Ballymore Group	541	3%
94 other firms	10,942	51%

This seems to paint a very balanced picture in terms of companies responsible for London's housing delivery – half of delivery is provided by a small number of big, strong household names; half of delivery is provide by almost a 100 disparate firms.

3. REVIEW OF 2012 'BARRIERS' REPORT

Results in 2012

In 2012 Molior interviewed the firms behind 531 planning consents in London. The goal was to understand which schemes would be built and which would not. The results are shown in Table 6 – please note this table is a slight update from the actual 2012 report. When that report went to press 32 owners had not been interviewed, the table below incorporates the results after 16 further interviews had actually been carried out.

Table 6: Results of 2012 permission interviews

2012 'Next Step' Category	Schemes
1 - Not interviewed	16
2 - Master Permission	34
3 - Resi Abandoned	6
5 - Land Sale or JV	97
6 - On Hold	225
7 - Probable 2012 Start	153

In summary:

- We were unable to interview 16 firms
- 34 permissions were classified as 'Master Permissions' – these are (usually) outline consents for very big schemes, schemes where individual phases have separate detailed permissions. The developer behind each detailed permission was interviewed, but to avoid double counting the master permissions were not interviewed
- In six instances the developer/owner said the residential permission would not be progressed. This was usually because a different use was to be developed, for example a school
- In 97 instances a developer was needed before the scheme could be built – these were permissions that had been secured by, for example, an existing land user who was not a developer
- There were 225 schemes where the owner/developer said the scheme was on hold – typically because of the need for more planning, the inability to get vacant possession, the inability to get development funding or simply because the land owner preferred to wait rather than develop
- 153 developers said, in summer 2012, that they would commence construction before the end of that year

What has actually happened to those 531 permissions?

No forecaster likes to review what they said two years before and then have the results published. So it was with some nervousness that we produced Table 7. Table 7 shows the status of the summer 2012 permissions in summer 2014.

Table 7: Outcomes after 2012 Report

2012 Category		Status Summer 2014			
		Permission Lapsed	**Current Application**	**Current Permission**	**Construction commenced**
		5%	*2%*	*43%*	*49%*
5 - Land Sale or JV	*18%*	2	7	37	51
6 - On Hold	*42%*	17	6	133	69
7 - Probable 2012 Start	*29%*	2	0	20	131
Categories 1/2/3	*11%*	4	0	41	11
Totals		**25**	**13**	**231**	**262**

Ignoring an annoying 1% rounding error in the horizontal percentages:

- 49% of the summer 2012 permissions, 262 schemes, had commenced construction by summer 2014. This means piling and proper construction – not simply a technical 'dig a trench' implementation.
- 5% of permissions, 25 schemes, had lapsed without development taking place and without a new permission being secured.
- 45% of permissions, 231 schemes with consent and 13 more with a live current application, remain on hold.

How this informed the 2014 research

Clearly the interviews weren't a waste of time – what people said they intended to do in 2012 turned out to be a decent, if somewhat rough, guide to outcomes.

For 2014 we decided to expand the categories:

- To split '6' into three subcategories – to better understand the scope for 'Land Banking'.
- To split '7' into two subcategories – starts in 2014 and starts in 2015.
- To add in a new category '8' – schemes that can be built having gained Prior Approval under the General Permitted Development Order for Office to Residential conversion.

- To add in a new category '4' – If a scheme contains two residential blocks and only one is under construction, the other is still, technically, a consent. We were interested to see whether a significant number of permissions exist under this category.

So the interview categories for 2014 became:

- 1 - Not interviewed
- 2 - Master Permission
- 3 - Resi Abandoned
- 4 - Partly Underway
- 5 – Developer Needed
- 6a - Planning/VP/Ownership/Phasing
- 6b - S106 to be signed
- 6c - Current Application
- 7a - Potential 2014 Start
- 7b - Potential 2015 Start
- 8 - Prior Approval

4. LONDON'S PLANNING PERMISSIONS

Total permissions in July 2014

Molior calculates London to have 766 development sites with a planning permission containing 20+ private sale units where none or some of the private sale units have yet to start construction.

This includes:

- 26 schemes with consent but where a new application is currently being considered.
- 96 schemes with a committee resolution to grant consent but where the s106 is unsigned.
- 112 sites with the ability for residential units to be delivered having gained 'Prior Approval'.
- 79 schemes where part of the permission is currently under construction but part has yet to commence.
- And 49 schemes where overlapping/duplicate permissions have had to be carefully inspected to ensure no double counting.

Between them, these schemes have un-started private sale units totalling 172,116 homes. Table 8 shows the location of these permissions by borough. [Please note the number of 210,833 permissions in the 2012 report was for private AND affordable homes.]

Table 8: London's large scheme private sale permissions that have not been implemented

Local Authority	Schemes	Units - Private
Barking & Dagenham	11	8,209
Barnet	32	13,348
Bexley	10	698
Brent	24	2,791
Bromley	12	731
Camden	28	2,064
City of London	6	640
Croydon	36	5,477
Ealing	22	6,013
Enfield	16	1,190
Greenwich	39	16,306
Hackney	32	6,813

Hammersmith & Fulham	33	11,045
Haringey	9	2,206
Harrow	24	2,788
Havering	13	2,093
Hillingdon	19	1,922
Hounslow	21	2,752
Islington	19	2,369
Kensington & Chelsea	14	2,382
Kingston upon Thames	7	272
Lambeth	29	5,373
Lewisham	26	8,885
Merton	8	523
Newham	39	22,637
Redbridge	14	1,150
Richmond upon Thames	5	282
Southwark	38	6,666
Sutton	20	1,951
Tower Hamlets	60	15,992
Waltham Forest	13	1,478
Wandsworth	38	11,614
Westminster	49	3,456
Total	**766**	**172,116**

Realistic permissions in July 2014

However we believe it is misleading to make policy decisions based on the 172,000 number from Table 9. Of the 766 permissions:

- 700 schemes have consent for up to 500 private sale units. They contain a total of 72,932 private consents
- 66 schemes have consent for 501+ private sale units. They contain a total of 99,184 private consents

Molior believes that cases with capacity of more than 500 units per site are misleading. Very, very few schemes commence over 500 units in any five year period. This is because selling more than 100 units per year is very difficult. In fact:

- In 2011 there were 12,837 starts on 189 large sites. This is an average of 68 private starts per site
- In 2013 there were 21,054 starts on 248 large sites. This is an average of 85 private starts per site

If we limit the 66 very big schemes to having only 500 permissions each, London's 'realistically deliverable' stock of planning permissions falls to 105,932 units.

Who controls the permissions?

Table 9 shows who is in control of London's planning permissions. It replicates Table 7 in the 2012 report.

Table 9: Control of London's Permitted Development Sites

Type	Schemes	Permissions trimmed to 500 per site
Developer	345	64,983
Housing Association	97	10,883
Government	42	6,298
Non-Builder	170	18,262
Prior Approval	112	5,506
Total	**766**	**105,932**

Four points are worth making:

- The 2012 report treated as 'Non-Builders' some firms that we can now treat as 'Developers'. With development funding being more easily available, we have been able to classify more firms as 'Developers'

- We have avoided categorising the ownership of Prior Approval sites. It is our observation that many are owned by property traders, but it is also our observation that they are being sold rapidly to small building firms who are using the relatively quick projects as a way to expand their small businesses. Whist Prior Approvals might not deliver a great number of new homes for London, they might allow small building firms to gain income, experience and staff and become bigger players in the London market

- Excluding Prior Approvals, firms that build (developers and housing associations) control 68% of London's permitted sites and 76% of London's 'realistic' planning permissions

- 79 sites where part of the permission is currently under construction but part has yet to commence are, by definition, all controlled by firms that build. This goes some way to explaining why the percentage of 'firms that build' has risen from 55% in the last report to 68% in this report

What does this tell us about future housing starts?

The pipeline in 2014 is little different in terms of size, ownership and owners' intentions (see Section 5) than it was in 2012. The 2012 pipeline has been sufficient, when coupled with a strong sales market, to deliver new homes starts on a scale that we should all be pleased with. As long as the selling environment continues to be favourable, the 2014 pipeline of permissions suggests there is no reason why starts should fall during the next few years.

5. RESULTS FROM 2014 'INTENTIONS' STUDY

Interview results

During June 2014 Molior interviewed the firms behind 583 London planning permissions – this is all the permissions in Table 10 excluding categories '1' and '8'.

Table 10: Categorising London's planning permissions

2014 'Next Step' Category	Schemes	Permissions trimmed to 500 per site
1 - Not interviewed	71	9,223
2 - Master Permission	49	16,054
3 - Resi Abandoned	5	388
4 - Partly Underway	79	14,264
5 - Developer Needed	75	6,143
6a - Planning/VP/Ownership/Phasing	42	7,845
6b - S106 to be Signed	96	15,584
6c - Current Application	26	4,184
7a - Potential 2014 Start	154	18,046
7b - Potential 2015 Start	57	8,695
8 - Prior Approval	112	5,506
Total	**766**	**105,932**

The GLA specifically asked us to investigate:

- When schemes were due to commence – these are category '7'
- If a scheme was not due to commence soon, why? These are categories '5' and '6'
- The impact of the planning system in housing delivery

It became clear quite quickly that everyone who could build was planning to commence as quickly as possible, and that those who could not were working through pre-commencement issues diligently. The phrase 'Making hay whilst the sun shines' was used more than once, referring to high selling prices and the ease with which new homes can be sold.

- NOBODY said they had any particularly pressing problem with public sector bodies. Many had problems but nothing they wanted the outside world to meddle with. Read that as 'please leave us alone to get on with our schemes'
- A few people said that the GLA might want to look at the time it takes applications to reach committee, and the time between committee and the signing of the S106. Some

firms expressed frustration with how long it was taking to work through pre-commencement planning conditions

- Whilst funding is no longer a widespread issue, construction costs and the availability of materials and construction staff could be causing London housing starts to plateau. Barring another shock like the one we received in 2007/2008, this might turn out to be the biggest barrier to lifting London's housing starts

The interview results do not suggest a problem with big scheme housing starts as long as the selling environment and construction capacity remain positive for developers.