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RESEARCH

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DEVELOPMENT OPPORTUNITIES

2015

ECONOMIC FUNDAMENTALS

PLANNING

POLICY OUTLOOK

OVERVIEW

Housing has risen to the top of the agenda across the country. While there has been significant progress in boosting development levels since the financial crisis and the introduction of the National Planning Policy Framework (NPPF) there is still some way to go.

This report aims to identify areas which may present development opportunities in the current market.



“In this report, we examine where economic fundamentals converge with planning and local knowledge to suggest development opportunities across England in the short to medium term.”

GRÁINNE GILMORE
Head of UK Residential Research

Earlier this year, Knight Frank published the London Development Hotspots report, identifying areas across the Capital where prices for new developments had the potential to outperform the wider market in the coming years. In this report, we take this idea further and extend the scope, starting with England. Knight Frank, along with Barton Willmore, the planning consultancy, examined where economic fundamentals converge with planning and local knowledge to suggest the best possibilities for development activity in the short to medium term. These Development Opportunity areas are not only looking at potential price outperformance, but also market absorption. This list is not exhaustive, but these areas have strong fundamentals.

Also, we recognise that there may be different opportunities at different price points. However, we aim to highlight the local authorities where economics, planning and agent knowledge signal there are compelling opportunities for new development in today’s market.

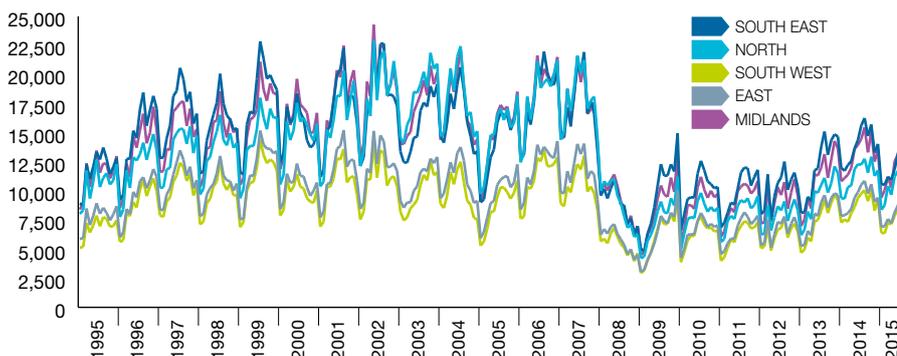
Economic Fundamentals

In order to identify opportunity areas, we examined the economic outlook across the country by Local Authority (LA), ranking each LA in line with their economic forecasts. We also looked at forecast jobs growth as well as future housing supply and demand (this was calculated by examining schemes in the planning pipeline in each LA and comparing the total number of units coming forward over the next five years to the household growth forecast for the LA over the same time-frame). We also examined sales to stock ratios, liveability (including schooling), infrastructure and affordability. This, along with input from Knight Frank land agents, resulted in a list of areas where the fundamentals suggested development opportunities.

Planning

However, the economic background can only make up part of the development picture. Planning is a key factor, and each LA was examined in terms of its approach. As Iain Painting, planning partner at Barton Willmore, explains on page 7, our identified Development Opportunity areas do not have a ‘one size fits all’ criteria in terms of planning. Instead there is a mix of planning approaches by the LAs, from those which need help in sourcing a five-year land supply, to those LAs which are proactively supporting development to help meet the housing supply in their area. It is worth noting that in some cases a local plan may be in place but a previously approved five-year housing supply pipeline has now fallen through. Finally, we also examined where there is policy support to boost development or the local economy, via growth designation policies including housing and enterprise zones or a drive towards regeneration or large-scale development within the core strategy.

FIGURE 1
Monthly housing transactions, England



Source: Knight Frank Research / Macrobond

OPPORTUNITY AREAS

North of England

The growing influence of urban areas is particularly noticeable in the North of England as shown on the map on page 4-5. Three of our development opportunity areas are in and around cities: **Leeds**, **Manchester** and **York**. Manchester and Leeds are expected to be among the areas which will experience the strongest rates of household growth over the next ten years, while York scores particularly highly on liveability rankings. The green belt will pose constraints for developers in and around **Durham** and York – but at the same time, there is a need for more site identification, as these two areas do not yet have a five-year land supply. York boasts policies to boost housing supply as it has been identified as one of the first Housing Zones in England. Meanwhile, Leeds plays host to an Enterprise Zone and the North East Combined Authority, of which Durham is one of the constituent boroughs, has also bid for 175 hectares of Enterprise Zone over ten sites. This new combined authority has just been granted extended powers over housing.

Of the four Development Opportunity areas, only Leeds has an approved local plan.

As policymakers push ahead with the ‘Northern Powerhouse’, especially the transport infrastructure to support this, the opportunities in the North of England will widen.

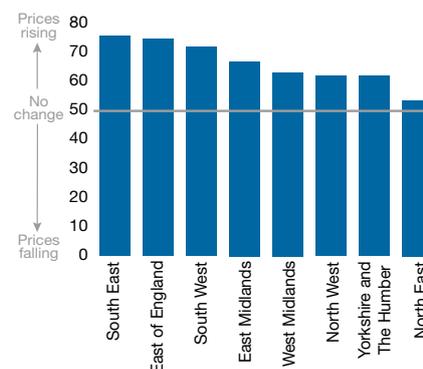
Midlands

Knight Frank has explored the development opportunities in **Birmingham** in a separate report, but the second-biggest city in the UK not only has an Enterprise Zone, but also a planning department committed to large-scale regeneration of many parts of this city. **Nottingham** is also an Enterprise Zone area, and this LA is also up to speed on planning, with a local plan and five-year land supply in place. However, our data shows that the current pipeline supply of schemes in this local authority may fall short of household growth projections. Further south, **Warwick** scores highly on liveability, and also has strong employment growth forecasts, while strong household growth is projected in **Leicester**.

FIGURE 2

Household expectations for house prices over the next 12 months

House Price Sentiment Index (October 2015)



Source: Knight Frank Research / Markit Economics
NB: A reading of 50 equates to no change, above or below representing growth or decline respectively.

East

The arrival of Crossrail in 2018 will make **Brentwood**, an already attractive area of Essex even more so. Direct trains to Bond Street will take 44 minutes, cutting nearly 10 minutes from the journey time as well as the need to change trains. This LA also has one of the strongest forecasts for employment growth, as well as showing one of the largest imbalances between pipeline supply and household growth over the next five years. **South Cambridgeshire** also has a particularly strong forecast for employment growth, and has been rated the best place to live in an independent survey of rural locations across the UK. The LA does not yet have an approved local plan in place for housing, and has not quite met its five-year housing supply. There are questions about whether the LA should release more green belt land for development.

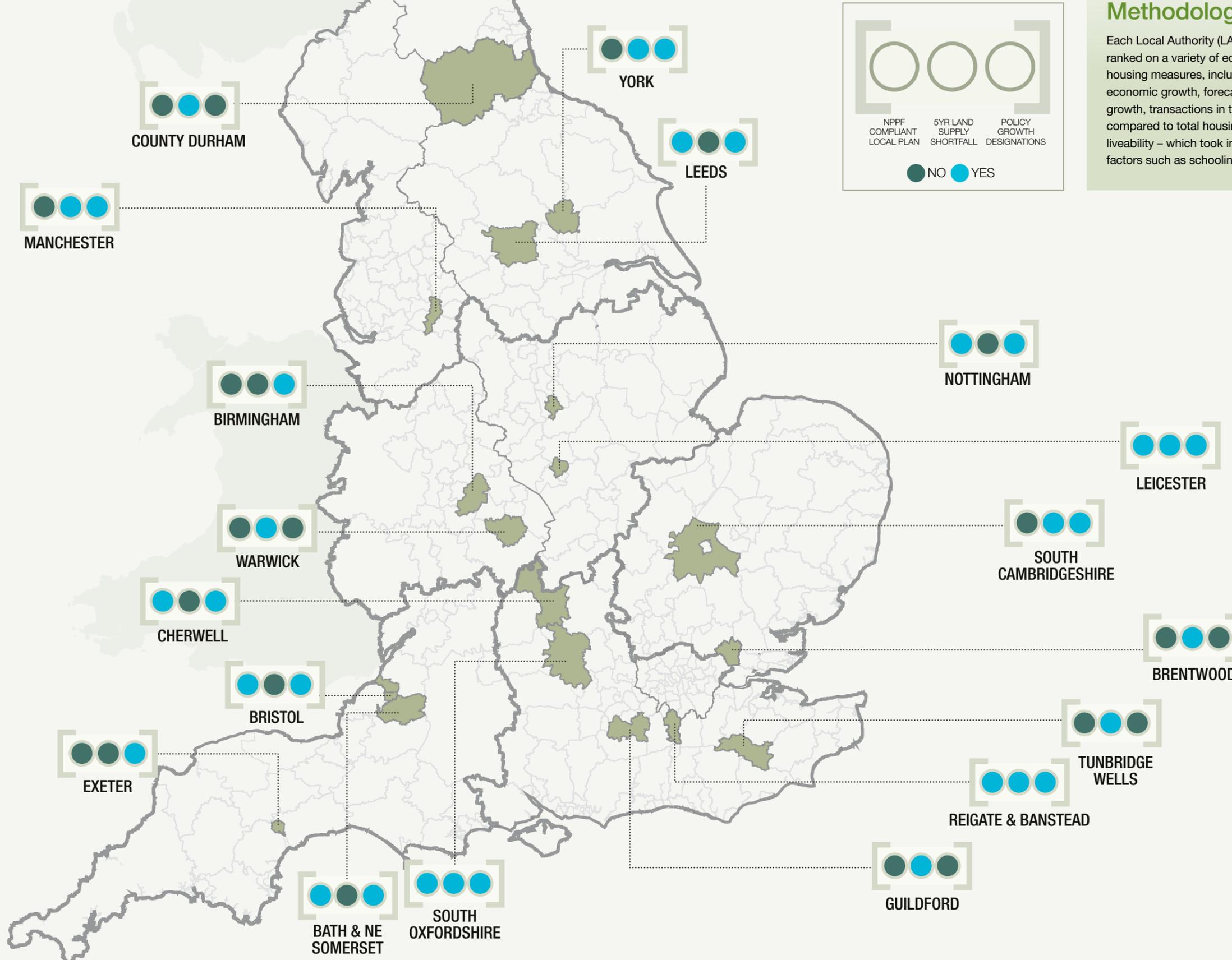
South West

Knight Frank has examined the development fundamentals of **Bristol and Bath & North East Somerset** in a separate report, highlighting the imbalance of future housing supply and forecast household growth in these areas, as well as transport infrastructure improvements. Both LAs have a local plan and a five-year housing supply, and the determination to step up development is underlined by the policy environment, with

“These opportunity areas are aligned with the increased emphasis on urbanisation, focusing on many of England’s key cities, but also demonstrate that development opportunities are not purely based in the South East.”

Iain Painting
Planning Partner, Barton Willmore

OPPORTUNITY AREAS

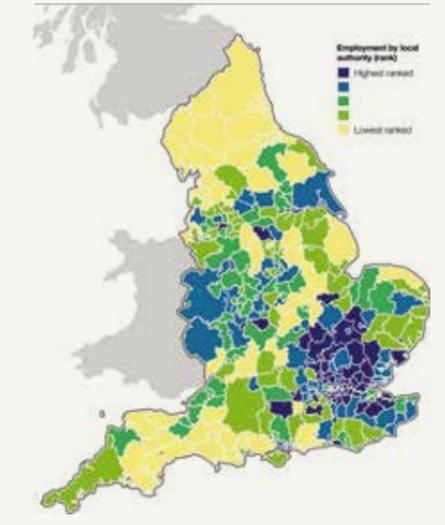


Methodology:

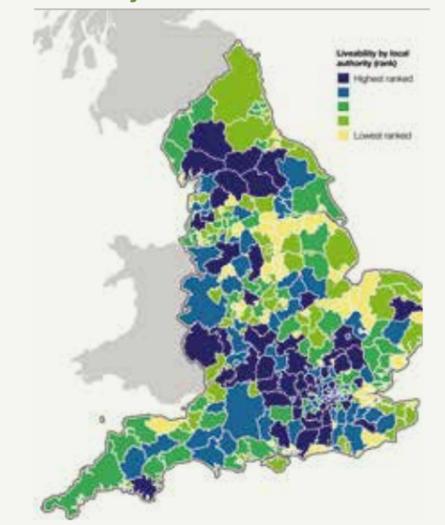
Each Local Authority (LA) was ranked on a variety of economic and housing measures, including forecast economic growth, forecast jobs growth, transactions in the market compared to total housing stock and liveability – which took into account factors such as schooling.

Also examined was the housing supply and demand balance, as well as input from Knight Frank land teams. Then detailed planning analysis from Barton Willmore was layered on, to highlight some areas where fundamentals suggest good development opportunities.

Employment growth forecast - 5 years



Liveability index



Policy landscape

The policy landscape is changing rapidly, which, in the short-term, is leading to some ‘limbo’ in the development market, as housebuilders and Registered Providers grapple with the Chancellor’s announcement over the summer that social rents will be cut for the next four years. Alongside this, Registered Providers have been collating their response to “**Right to Buy**”, all of which affects the balance sheets from which they can work, and upon which they can agree development deals. At the same time, while the Government’s announcements of a new “**Starter Homes**” initiative, under which new homes sold at a 20% discount will make up some of the affordable housing requirement, have been welcomed, the lack of detail released on how the scheme will work is causing some uncertainty.

In terms of planning, despite following a localism agenda, there is evidence that policymakers would like more joined-up thinking, with the promise of **devolution** on housing policy for elected Mayors. The Mayor of London is set to be given more robust powers over housing, while the Mayors of other cities or combined authorities, which so far include Manchester, the North East and Cornwall, will be able to take a more holistic view of the regional housing picture.

In addition, the Government has pledged that policymakers will step in where local authorities have not created a local plan by 2017.

The Government is also using **Housing Zones** in a bid to promote development on brownfield land, where in return for providing a mix of open market and affordable sale and rental property, developers are eligible for a range of planning and financial support, including funding for site remediation for brownfield sites. So far, 20 such zones have been identified outside London.

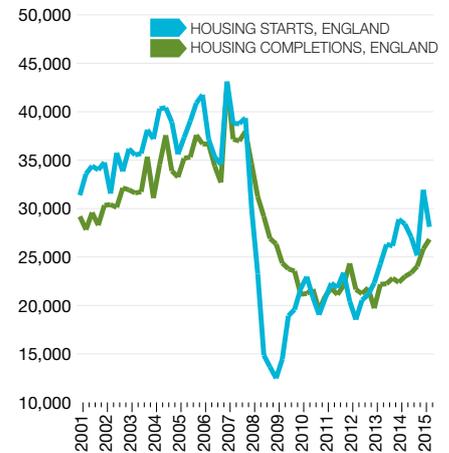
a local enterprise zone in Bristol’s Temple Quarter. Further to the south, **Exeter** doesn’t yet have a post NPPF local plan, but has identified three sustainable urban extensions.

South East

Cherwell and **South Oxfordshire** will both benefit from transport infrastructure improvements – with a new train line taking passengers from Oxford Parkway and Bicester Village to London Marylebone, and a possible new junction to the M40 at Bicester. Bicester has also been identified as a Garden Town, which will translate into more funding and support for housing. Further south, the Science Vale in South Oxfordshire is positioning itself as a global hotspot for enterprise and technology. Parts of the Vale have been granted Enterprise Zone status.

Guildford and **Reigate & Banstead** are positioned to take advantage of the housing need in the capital. Sitting just beyond the M25, these local authorities, which have strong forecast economic growth over the next five years and which are well above average in the liveability rankings, both have a shortfall in their five-year land supply, and Guildford does not yet have an approved local plan in place. **Tunbridge Wells** has one of the highest liveability scores in the country – indeed the schools in and around this LA are renowned. This area is also forecast to have strong economic growth. The pressure for more housing is well documented; however the green belt is a constraint. There is as yet no local plan in place and there is a shortfall in the identified five-year land supply.

FIGURE 3
Housing starts and completions, England



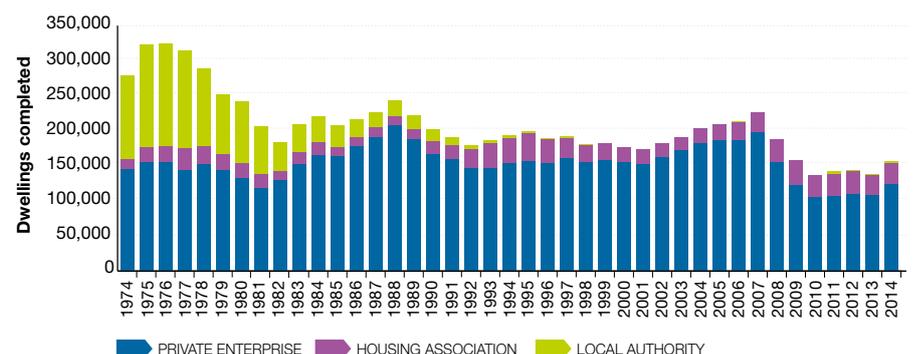
Source: Knight Frank Research / DCLG

Development fundamentals

The Government’s own household growth projections show that nearly 2,000,000 new households will be created across England over the next decade. If these nascent households are to be housed, an average of 200,000 homes a year need to be built across the country. Some estimate that more housing than this is needed every year. The Town and Country Planning Association has said that 312,000 additional homes are needed every year over the next five years.

The shortage of housing stock compared to the demand for housing is widely recognised, and recent policy announcements would suggest that the Government is making it a priority, as

FIGURE 4
How the delivery of housebuilding has changed: 1974-2014



Source: DCLG / Knight Frank Research

PLANNING



IAIN PAINTING
Planning Partner,
Barton Willmore

Contrary to popular mythology, the planning system is dynamic, in that the availability of planning opportunities is constantly changing. 'Windows of opportunity' in the development context are often a function of three factors: local plan status and progress, housing requirements and supply, and finally, events or investment decisions that lead to a step change in the market and therefore the planning context.

The shortlist of opportunity areas in this report reflect these factors. They are also aligned with the increased emphasis on urbanisation, focusing on many of our key cities, but also demonstrate that opportunities are not purely in the South East.

In Oxfordshire for example, the key issue is the underlying lack of capacity in Oxford City, which together with the economic drivers (aerospace, automotive and of course, education/research sectors) continues to drive need and demand. The M40 acts as a corridor of opportunity up to Birmingham.

examined in 'policy landscape' on page 6. Recently, the Prime Minister David Cameron vowed to transform "Generation Rent" into "Generation Buy".

The scale of the historical shortfall in housing supply compared to a 200,000 a year target is clear from figure 4. Since 2008, there has been a cumulative shortfall in housing of around 330,000 units. However, the situation is improving, as shown in figure 3. Construction starts in England in Q2 this year were 94% higher than in the same quarter in 2009, but there is still some way to go. In the year to July, around 113,000 units were started, down from 152,000 during the same period a decade ago.

Another measure of future activity – pipeline planning, suggests that the

Cambridgeshire is in many ways similar. The economic success of the region and the constrained nature of the City (heritage plus green belt) results in a continuing growth pressure in South Cambridgeshire. The policy basis has already seen a joint approach submitted by South Cambridgeshire and the City and this trend is likely to continue as part of the ongoing Cambridgeshire and Peterborough devolution bid.

York is one of the Local Authorities that is facing planning challenges. With the oldest Local Plan of all our hot spots, the city's continued difficulties in addressing housing need is running counter to the area's strengthening position as an attractive hub for Yorkshire. As a result, there is strong pent up demand which can no longer be ignored and green belt land release surely has to be part of the proposed response.

Policy changes

The Government's proposals to speed up plan production as set out in the Housing and Planning Bill is likely to lead to a raft of draft plans emerging during the course of next year. Whether the planning inspectorate (PINS) has the resources to examine these plans remains to be seen. However those with development interests will need to be active in promoting sites and

upward trend will continue. Data from Glenigan, the construction analysts, shows that there were more than 293,000 units with planning permission across the UK in April this year, up from 253,000 in April last year, and 184,000 in April 2013. However, it is worth noting that there is no guarantee that all schemes with planning will come to fruition, especially due to the increasing number of planning conditions applied to successful planning applications which can affect the final viability of a scheme.

Development land prices are also moderating, although this partly reflects the increased costs of development, with a sharp rise in the cost of materials and labour in recent years.

participating in the production of the evidence base, as once adopted, the development opportunity will be plan-based.

The key to success in planning is therefore foresight and evidence.

Developers can take advantage of the planning 'window of opportunity' when they understand the dynamics at play in the local area and how that fits in their own developments. Successful promotion is dependent upon evidence: evidence of need and delivery, benefits and sustainability.

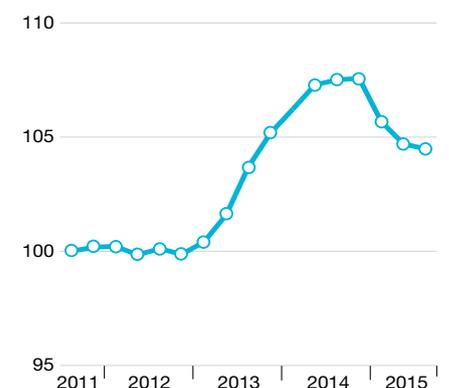
This report provides a snapshot of opportunity areas, but it is always the job of planners and developers to be alive to the effects of large step-change events. The market is already responding to the opportunity of Crossrail 2 in London but the effects upon suburban capacity (for example of routes into Waterloo) are still being assessed.

The Government's response to the Airports Commission's report could lead to a major step-change in economic and employment demand in the South East. This, together with a raft of surface access proposals, could fundamentally change the accessibility and attractiveness of locations both in and well beyond this region.

FIGURE 5

Development land prices moderating

Greenfield development land index
100 = Q1 2011



Source: Knight Frank Research



Economic update

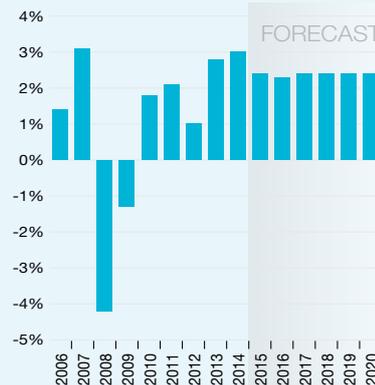
UK economic growth slowed slightly in the third quarter of 2015, but output from the UK is still climbing faster than most other countries in the G8. The fundamentals are good, with low unemployment and rising wages – a trend which is projected to gain momentum in the coming years.

There are interest rate rises on the horizon however. The Bank of England has kept the base rate at an ultra-low 0.5% since 2009, and the markets expect a rate rise within the next 12 months. However the date of the first rise is by no means certain. Already, weaker than expected UK and global economic data have pushed the expected date of the first rate rise back from the end of this year to the second half of 2016. Even once rates start rising however, they are still projected

to remain low, compared to long-run historical averages, over the short to medium term.

FIGURE 6

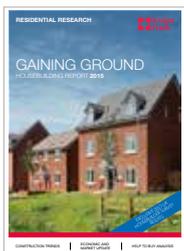
GDP growth since financial crisis and forecast



Source: Knight Frank Research, Experian

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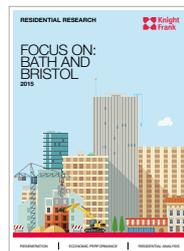
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