

Research
bulletin

Unlocking Garden Cities

February 2013



Foreword

The extent of the country's housing crisis is well documented – the need to build 240,000 units a year whilst the market is currently only delivering 110,000 units. A principal component of the Government's response to this crisis is the desire to enable large-scale housing development under the banner of 'Garden Cities and Suburbs' where housing is deemed to be most needed.



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Although readily supported by the Town and Country Planning Association and the house building industry, there has been little in the way of clarity about how these developments are to be delivered, aside from attempts to free up the planning system and place the emphasis with the private sector.

The critical question is whether or not these large-scale schemes can deliver the high numbers of new homes required. To assist the debate, GVA has researched the number of units already being sought in large schemes (above 3,000 units) currently in the housing pipeline, and explored the reasons why delivery has been so problematic.

For the first time, data on all the larger residential schemes is being assembled. We have started by considering schemes in the South and South East of England. This paper draws out the principal findings from this analysis and poses real questions for the Government if it is to make its 'Garden Cities and Suburbs' aspiration a reality.

National policy

Planning for large scale housing development lies at the heart of the National Planning Policy Framework (NPPF) and features in the Government's national housing strategy, published in November 2011. The new Garden Cities concept features as one of the preferred delivery routes to achieving a significant increase in new housing numbers.

To date, in spite of further policy announcements and a speech from the Deputy Prime Minister re-stating the Government's commitment to promoting 'Garden Cities and Suburbs for the 21st Century', it has failed to provide any real detail into how these communities might be realised and delivered in practice.

In policy terms, the concept is not particularly new. There has been a longstanding recognition that large-scale developments have a role to play in meeting our housing needs, and these have been promoted under a variety of different banners in the past, such as the 'Eco-town' concept.

While a supportive national policy is a fundamental requirement, rhetoric alone will not help these new schemes to be realised. Bringing forward large scale residential development in the form of either urban extensions or new towns is a complex process and takes a considerable time.

There are some signs that Government is now beginning to recognise these challenges. It recently announced additional funding to help unlock large housing development sites at Eastern Quarry near Ebbsfleet, at Cranbrook in Devon and Fairfield, Milton Keynes. But there are individual ad hoc responses. A much more strategic response is required. In the mean time we await with interest its official response to the Expert Advisory Panel report, chaired by Tony Pidgley, tasked with making recommendations to help bring forward development for housing on public sector sites.

The local picture

The Policy Exchange and Tetlow King recently published the results of their survey of all housing targets in the country. Their research uncovered planned reductions of over 270,000 homes compared to the previous targets outlined in the Regional Spatial Strategies.

One in three local authorities reduced their housing targets when setting them locally. This is likely to rise to over half once all the remaining councils confirm their own housing targets.

The largest reductions were seen in the South West (18.3%), although the South East (8.8%) and East of England (4.6%) also saw significant falls in the planned housing targets.

The largest reduction in planned housing in the South East is in Aylesbury Vale, which has more than halved its original RSS targets. The largest reduction the East of England is in Basildon which reduced its target even more significantly by 61%.

“ The supply of new homes can sometimes be best achieved through planning for larger scale development, such as new settlements or extensions to existing villages and towns that follow the principles of Garden Cities. ”

National Planning Policy Framework, 2012

Large-scale housing schemes in the South and South East of England

Our research has identified and collated information on larger suburban extension and new settlement schemes in the South and South East that could contribute more than 3,000 new homes each.

Our analyses has identified 40 sites which combined, could contribute up to 250,000 new homes in total.

This equates to just over 20% of the total housing requirement as outlined in the relevant former Regional Spatial Strategies illustrating the important role that these large schemes are expected to play.

Based on 2012 local authority average house prices, delivery of these 250,000 new homes could generate over £58 billion worth of sales and up to 110,000 construction jobs.

A significant proportion of affordable housing supply is also held on these sites. Assuming 30% is delivered at sites where the contribution has not yet been agreed, then these sites could deliver around 80,000 new affordable homes.

Of these 250,000 units, 30,000 new homes are under construction with a further 40,000 planned to commence this year. However, this includes three schemes yet to achieve planning permission.

These schemes show a pronounced geographical concentration. There are seven local authorities which have proposals or allocations for over 10,000 new homes through urban extension/new settlement schemes. These are:

- East Hertfordshire (26,100 new homes);
- Central Bedfordshire (22,400);
- South Cambridgeshire (18,000);
- Aylesbury Vale (15,700);
- Broadland (14,100);
- Peterborough (13,800); and
- Ashford (12,200).

Our map indicates two corridors, firstly running along the M11/A14 from the East of London to Cambridge (87,250 new homes) and second from Cambridge to Oxford (84,430 new homes).

Dartford Council's Ebbsfleet Valley scheme (9,450 new homes), is the only local authority immediately adjacent to Greater London which is planning deliver a significant urban extension.



Planning status

Twelve schemes, with a combined capacity of 65,000 new homes, have already been permitted, or partially permitted.

Planning applications for schemes with a total capacity for 25,000 new homes are currently under consideration with a further 4,000 being considered by the Secretary of State. Only three schemes, with a combined potential of 13,000 new homes, have had planning permission refused, though these schemes are still under consideration.

Six sites have withdrawn their planning applications, with a further eight sites not yet subject to a planning application. Each of these groups could contribute a further 50,000 new homes.

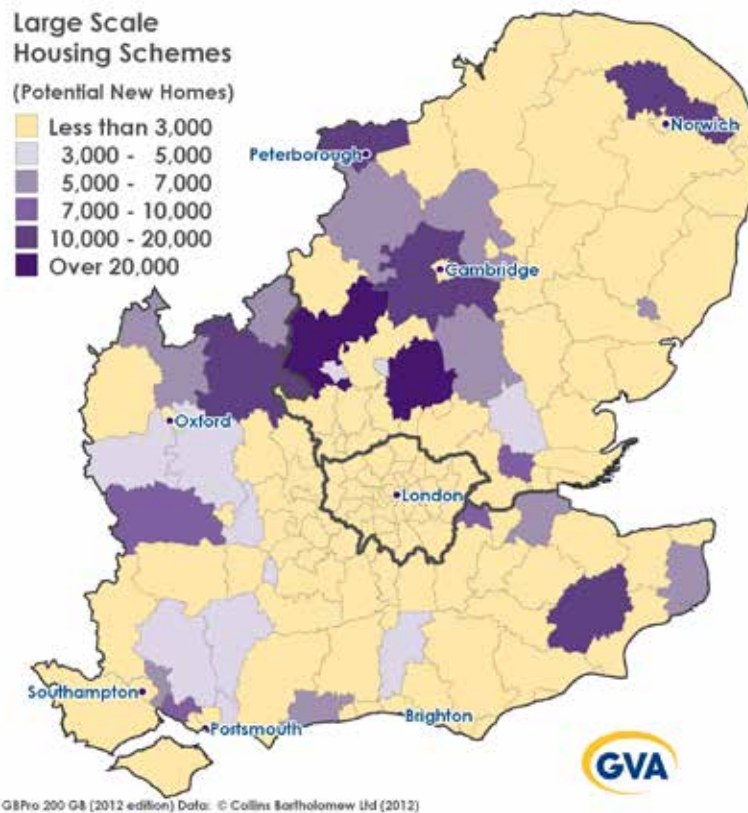
Causes for delay

These sites by their nature are complex. The causes for delay are usually multiple and varied, however we have sought to identify the main cause for delay, where possible. The most common cause for delay is the cost of funding infrastructure which is halting the delivery of around 80,000 new homes. Local demand or market is also another major consideration.

- Multiple (13,000);
- Housing market (30,000);
- Political opposition (7,000);
- Planning process (10,000);
- Infrastructure (80,000); and
- Current use (3,000).

Political opposition and the planning process are at least in part responsible for delaying or preventing delivery at large urban extension sites with a combined capacity for around 17,000 new homes.

Although one third of the sites have some form of public sector ownership or representation, this has not made delivery easier, infrastructure costs still need to be met.



Analysis of key themes and issues

This review of the larger suburban extension and residential green field schemes has highlighted a series of common themes and challenges that the Government needs to address in its 'Garden Cities and Suburbs' agenda if its ambition is to become a reality.

Planning

The Coalition Government has consistently focused on the planning system as being the problem. Our research has indicated that while the planning system can be slow, it is not the overriding challenge facing the delivery of these schemes. Our analysis shows, that there are over 65,000 units where planning is in place in the South and South East of England which have not been delivered.

Indeed there is evidence from work completed by the Policy Exchange of a fundamental shift away from the Regional Spatial Strategy targets, often driven by political or community opposition as individual local authorities revisit future housing requirements. Government, through its actions, has actually had the impact of reducing the long term housing targets. Continuing to tinker with the planning system will not serve as a panacea and will not alone deliver significant numbers of new homes. It is an easy target and takes attention away from other things the Government could be doing.

There is little doubt that the planning approval process is still taking too long. This is often, however, a consequence of local community and political opposition – the same reason housing targets have been reduced – Localism in action.



Release of land for development

Obtaining planning permission is not the same as releasing land for development, so even if a developer or landowner has planning permission there is no guarantee that development will happen. Our research has indicated evidence of a reluctance to bring forward development after planning has been achieved. This reluctance reflects the stagnation in the market – the lack of purchasing power and the malaise in the market. Why crystallise value now when higher values could be achieved in a few years time, especially when your underlying holding costs may be minimal by comparison?

There is a need to alleviate this stagnation through public intervention to encourage development, including loosening S106 agreements, facilitating funding and even using CPO powers to encourage delivery.

A number of the schemes covered by our research are in the ownership of several organisations - either land owners or developers. This multiple-ownership is also hampering delivery as the parties involved are unable to agree or co-operate on a way forward. This is a particular issue around sharing in the cost of infrastructure, the timing/cash-flow implications, and the subsequent value creation.

We are seeing examples of the local authority stepping in to try and release the log-jam, facilitating communication, putting equalisation agreements in place, considering forward funding etc, but the skills and end experience are often lacking. They need assistance and support from Central Government.



Infrastructure burden

Our analysis has indicated that one of the most significant issues in delivering large scale housing development, particularly given the current market is the funding and delivery of large-scale infrastructure.

Each scheme will have distinct infrastructure requirements in order to create a sustainable development. The scale of enabling infrastructure will often be extensive – roads, utilities, schools and other community facilities. This is a particular issue with new village/ town/ garden city developments because there is often no infrastructure in place and significant investment is required at the outset of a development.

This infrastructure requirement creates a burden which can dramatically reduce scheme viability and which overall presents cash flow problems.

This presents two key challenges, the overall lack of infrastructure funding and the ability to repay infrastructure funding. In a boom market or where there is a positive short-term economic outlook, a developer can more readily obtain, or has more appetite for seeking infrastructure funding as there is a high likelihood of house sales and hence a reduced risk of repayment to the fund provider (either bank or investor).

However, in a recessionary market there is a lack of infrastructure funding (banks and equity investors have limited capital and are seeking low-risk, safe havens) hence there is a significant risk of repayment.

Local authorities could lend money to the developer to fund infrastructure (or provide funding by way of a joint venture) however they are cautious as they will be faced with a repayment/default risk.

A possible solution is that central government could provide a 'Housing Fund Guarantee' for appropriate schemes to reduce the burden and repayment risk. This would then place the repayment burden on central government. The process could be managed by the Homes & Communities Agency (who are already providing debt and equity funding on certain smaller schemes through Get Britain Building).

The alternative is for the local authority or indeed the Local Enterprise Partnership (LEP) to undertake this role in facilitating funding, but in many instances authorities and LEPs lack the necessary skills and experience.

The process would require an agreed application by the developer, supported by the local authority, with the authority or the HCA making the case to Government to provide funding or to facilitate funding by providing a backing guarantee.

As the government/local authority is undertaking the risk, the developer profit would be reduced to reflect this reduction in risk by the public sector. These funding structures would need to be State Aid compliant and would involve require appropriate procurement arrangements if a developer (s) is not already in place.

Analysis of key themes and issues



Pace of delivery

There is undoubtedly a natural absorption rate in any large scheme, linked to micro-factors such as the local market profile (affordability etc), alongside macro factors such as availability and cost of mortgages. This will be a factor in the relatively slow build-out of large schemes with planning permission. A scheme of 3,000 units could take 15 years to deliver at an optimistic sales rate of 200 per annum.

The larger house builders also want control of sites, therefore (subject to payment terms) they will seek out large scale land opportunities where they can control the pace of development.

There is therefore a natural tension between the aspiration to deliver unit numbers and house builders' desire to maintain margins by controlling pace of sale (through pricing).

This can only be tackled by the public sector forcing the pace of development through direct intervention - say through JV approaches or taking control of the development land in some way, or if providing funding, making stipulations on build out rates, maybe creating local development competition.

Public funding avenues

Public funding availability to support larger scale housing schemes has changed radically since the election of the Coalition Government in 2010. Previous sources have been withdrawn or cut back leaving a patchwork of funding pots including: City Deal, Regional Growth Funds, Growing Places, Local Sustainable Transport Fund, Get Britain Building and the steady extension of the roles, responsibilities and funding to be channelled through the Local Enterprise Partnerships. This is a confusing and over-complicated picture that does not make accessing necessary funding easy.

There is now, in 2013, a welcome improvement in the clarity and direction of funding being provided by Government, but there is still an issue exacerbated by the competitive bidding processes put in place by Government. Clarity is required from Government on the scale and source of public funding dedicated to large scale housing development.



The role of the public sector

Overall, a common theme from our analysis is the need for public sector intervention to enable and in many instances to effectively manage the delivery of large scale housing schemes - or a select number where need is particularly acute. These large schemes by their nature are complicated, with challenging infrastructure requirements and in some instances land assembly issues. There is generally no shortage of ambition by the house building industry to promote these schemes and bring them to fruition, albeit at their pace.

However, history tells us that the only time in living memory when new settlements or large scale housing have been delivered to any significant degree is when the public sector takes the lead - for

example the Commission for New Towns and the council housing building programmes in the decades after the war.

The lack of a single, overall structure or public agency/ organisation with clear, direct responsibility to drive forward and support the delivery of larger residential schemes is a challenge. This is particularly the case for schemes where the private sector needs support to assemble sites, coordinate infrastructure and share the risk.

It would appear that Government expects LEPs to have a role to play here, but most do not have anywhere near the consensus, organisational structures, skills nor funding to even start to tackle schemes of this complexity. Moreover, they do not have the necessary powers and are unlikely to be in any position to take on the financial risk.



Conclusions

The Government is correct – large scale developments in whatever guise have an important role to play in delivering the housing this country needs. Our research illustrates that the 'system' is in the process of creating these large scale housing opportunities – despite the seeming contraction of housing targets since the demise of the Regional Spatial Strategies.

The issue is though very much one of delivery. Whilst the concept of 'Garden Cities and Suburbs' has much going for it as a concept - not least the principle of properly planned settlements - the evidence shows that the market will never deliver these, given issues of infrastructure funding, land assembly, local politics, local market and value protection.

A definitive position needs to be taken by Government on facilitating and enabling these larger schemes. This should include a set of clear actions – a definition of those they wish to support, empowerment of the public sector to lead their delivery (possibly through HCA), a strategic funding commitment, perhaps through the creation of a Housing Fund Guarantee (government backed funding guarantee) and/or even the creation of a 'Housing Bank'.

Is it not enough to set such a significant and ambitious policy and then only address its delivery on the margins and in an ad hoc manner. The private sector needs direct and focused public sector support and investment to deliver large housing schemes. Otherwise, the concept of 'Garden Cities and Suburbs for the 21st Century' is nothing more than a pipe dream.



An aerial architectural rendering of a residential development. The scene shows a grid of white, rectangular buildings with flat roofs, interspersed with green lawns and clusters of trees. A central road or canal runs through the development. The background shows a mix of greenery and existing buildings. A semi-transparent purple rectangle is overlaid on the left side of the image, containing white text.

About GVA

GVA is a leading, UK-based independent property consultancy offering a full range of commercial advisory and transactional services to the public and private sectors. We are unique in being able to provide planning, development and regeneration consultancy as well as viability, finance and funding expertise to enable the delivery of new homes.

If you have any questions, or would like to discuss any of the issues raised in this paper then please contact:

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