

Spring 2016



OUR VIEW ON PLANNING



THE TIMES THEY ARE A CHANGIN'

Whilst positive economics and planning reforms have increased the volume of housing coming through the planning system, actual construction and completions continue to lag Government targets.

To paraphrase Bob Dylan, The times they are a changin'.

This latest edition of the Bidwells' Planning Commentary presents a reality check on housing development whilst also considering some of the many issues associated with Brexit. We also scrutinise some of the housing and planning challenges facing the new Mayor of London.

Whilst the economy remains in broadly good shape, economic growth this year will almost certainly undershoot the past two years. Similarly, the property market, as measured by liquidity and the relative balance between supply and demand, remains generally healthy. However, development and investment volumes have eased and prices are levelling off.

The market is now beset by two complex but countervailing forces. On the one hand, despite ongoing struggles with the current account deficit and interventionist taxation in the housing sector, the property market remains driven by pronounced under-supply in

many sectors and locations, most especially the residential market of course. This continues to stimulate development and investment initiatives – and continued controversy and wrangling in the planning system.

On the other hand, the impending June Brexit vote, perhaps compounded by a possible and radical change at the White House in November, has sent shivers throughout most sectors of the economy and all financial markets. Whether upward or downward, property markets thrive on confidence and certainty. Transaction volumes are now falling and prices are now stabilising. The property market has gone into stasis until the result of the Brexit vote.

If we remain, then "business as usual"; the economy and market will likely resume activity and continue on a generally positive trajectory. If we vote to leave however, "all bets are off". Policy uncertainty will still further add to the maelstrom of issues which shape and influence the planning sector. I make no attempt to predict what will happen and I certainly will not cast a pall on the next six months. Either way, the future of the planning sector will be far from dull.

Planning Alert Housing and Planning Act 2016

The Issue

The Housing and Planning Act received Royal Assent on 13 May 2016, following a seven month preparation process and much debate between the two houses (Lords and Commons).

The Government said on the Bill's publication in 2015 that provisions would kick-start a "national crusade to get one million homes built by 2020" and transform "Generation Rent" into "Generation Buy." The Act's strategic objectives are increasing the delivery of new homes, and improving the affordability of home ownership for first-time buyers.

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KEY TRENDS

A positive but complex market

Whilst property development and investment, most especially in the residential sector, continues its upward trajectory, the background economic landscape has become less clear and this year will be marked by more uncertainty and reduced confidence.

GDP growth in 2015 of 2.2% compares with 2.9% in 2014 with the service sector accounting for most activity.

If the June Brexit vote indicates secession from the EU, a period of policy, currency, stock market and business investment volatility is assured. This may dampen an otherwise exuberant property market which remains constrained by supply and thus highly attractive to investors on a risk adjusted basis.

A broadly positive economy, allied with robust consumer confidence and expanding credit markets, have continued to bolster the demand for property. This has been especially marked in the residential sector with the Government now taking an increasingly interventionist stance as it tries to limit excessive speculation and unsustainable pricing. Stamp Duty reforms, primarily affecting higher value assets and buy-to-let/second home properties, have become the blunt instrument of market regulation.

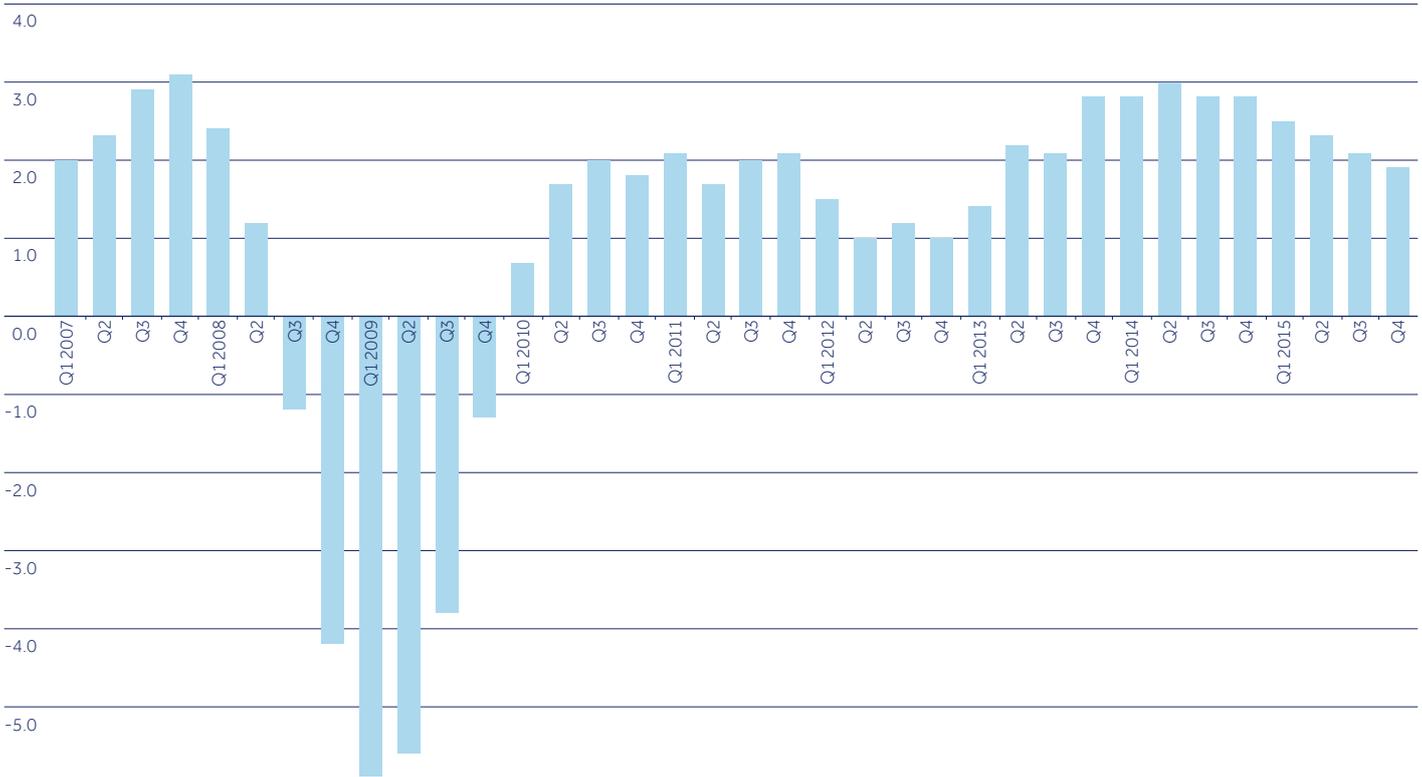
The effectiveness of these taxation based interventions is highly questionable, introducing increased

volatility in the short term as buyers and investors chase deadlines and then liquidate positions. In the longer term, reduced activity in the private rented sector in particular may actually reduce supply and bolster rents and prices thereby having the reverse effect of Government intentions.

At a headline level, the Government will be pleased with a notable upturn in housing starts last year. At 37,080, housing starts in Q4 2015 were 23% up relative to Q4 2014. Positive economics and planning reforms are now most certainly leading to increased construction activity.

The introduction of the 3% buy-to-let Stamp Duty surcharge on April 1st led to a surge in activity, stretching affordability ratios still further.

Quarterly UK GDP (Change on previous year 2007 to 2015)



Source: Bank of England

KEY TRENDS

Housing starts rising

There were a total of 143,560 housing starts in 2015, representing a 6% uplift on 2014. At the same time, annual completions reached 142,890 units, equivalent to a 21% increase on the previous year.

Annual housing starts are now running at the highest annual rate since 2008, reflecting a more development oriented planning regime.

Whilst the national deficit is reducing, the rate of reduction is lagging both official forecasts and targets, suggesting ongoing fiscal austerity.

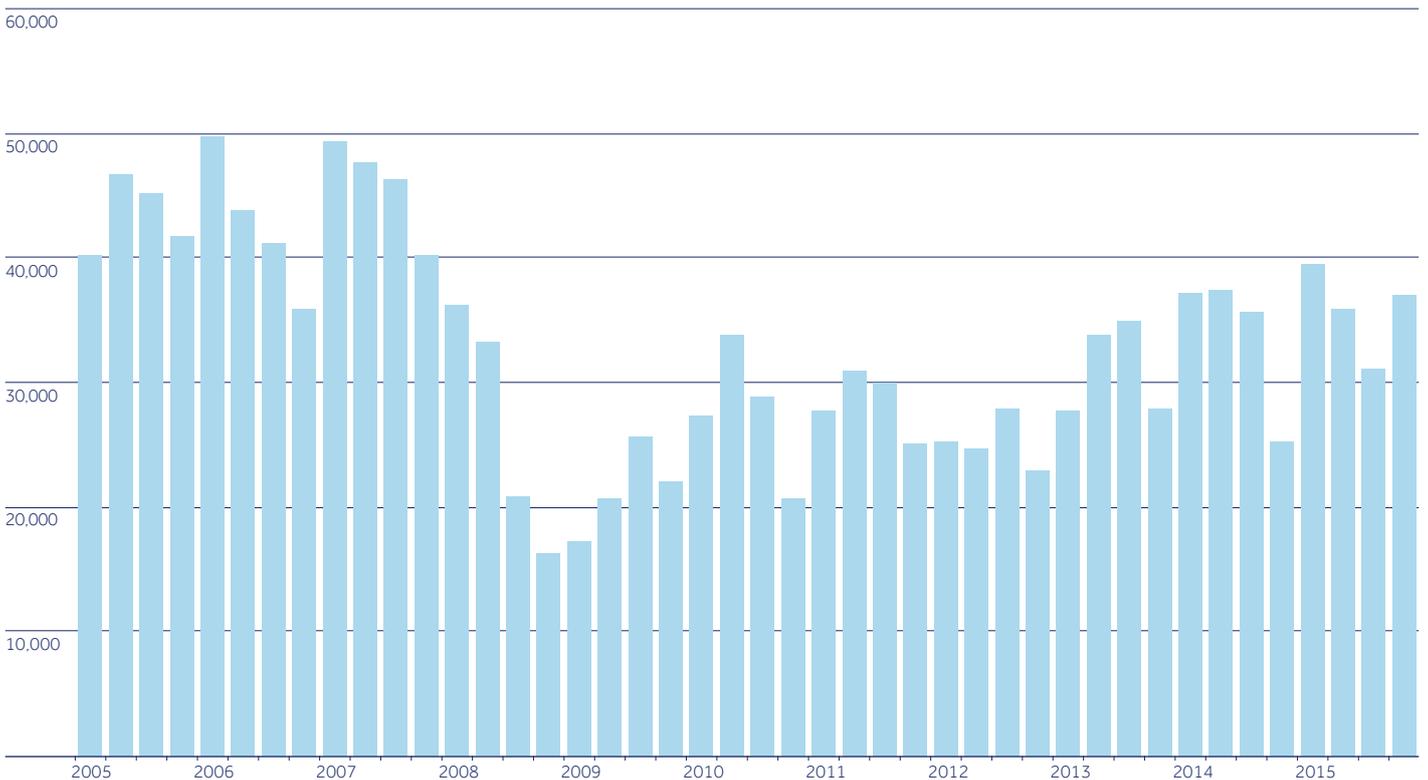
6%

Uplift in housing starts in 2015 compared to 2014

21%

Increase in annual completions

Housing starts - England (2005 to 2015)



Source: DCLG

KEY TRENDS

Planning approvals surging ahead

The most recent HBF data shows that annual planning approvals for housing were running at 242,819 units at the end of Q3 2015. With minor quarterly variations, residential planning consents have essentially risen consistently since the start of 2012. Although socio-economic assessments vary, the Government and the development industry accepted some years ago a notional supply target based on underlying demographic and household formation rates of around 250,000 units per annum. It has been more than 30 years since this level of supply was delivered to the market.

Annual housing starts and completions are however, now running at around 100,000 units less than the current rate of planning approvals.

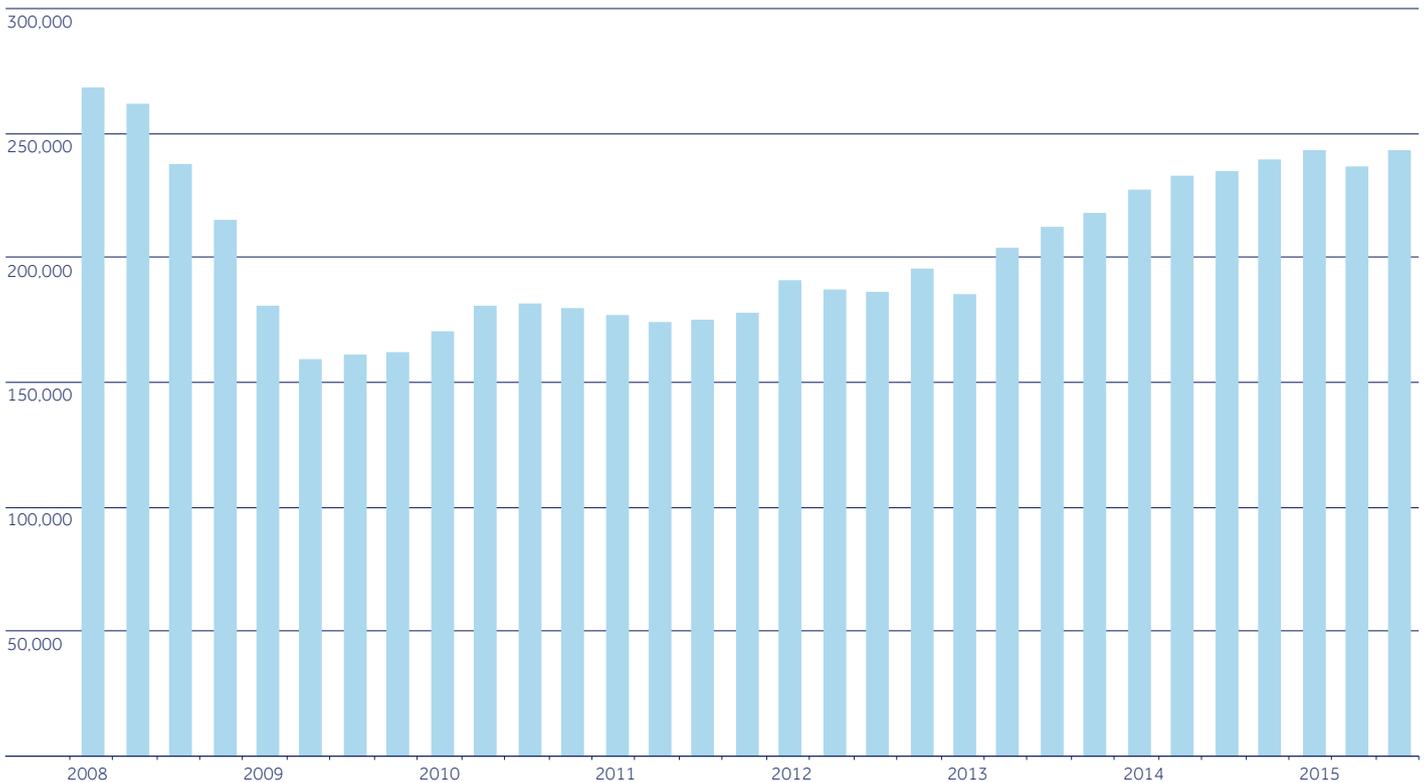
It is however, clear that the throughput from the planning system is starting to deliver annual supply volumes broadly in line with notional demand and Government aspiration.

The annual volume of housing receiving planning consent is now broadly in line with projected demand and Government expectation.

242,819

Annual planning approvals by Q3 2015

Residential planning approvals - England (Moving annual total 2007 to 2015)



Source: HBF/ Glenigan

KEY TRENDS

Completions lagging demand

However, there is an ongoing and pronounced discrepancy between the planning system and the construction market. As the data here shows, whilst annual approval rates for new housing are edging towards a quarter of a million, housing starts and completions are languishing around 150,000 units per annum, despite trending upwards over the past three years. As noted, 2015 housing completions were markedly up on 2014 as housebuilders took advantage of positive buy-side indicators and ongoing and persistent shortages in expanding and attractive markets like Cambridge and Milton Keynes.

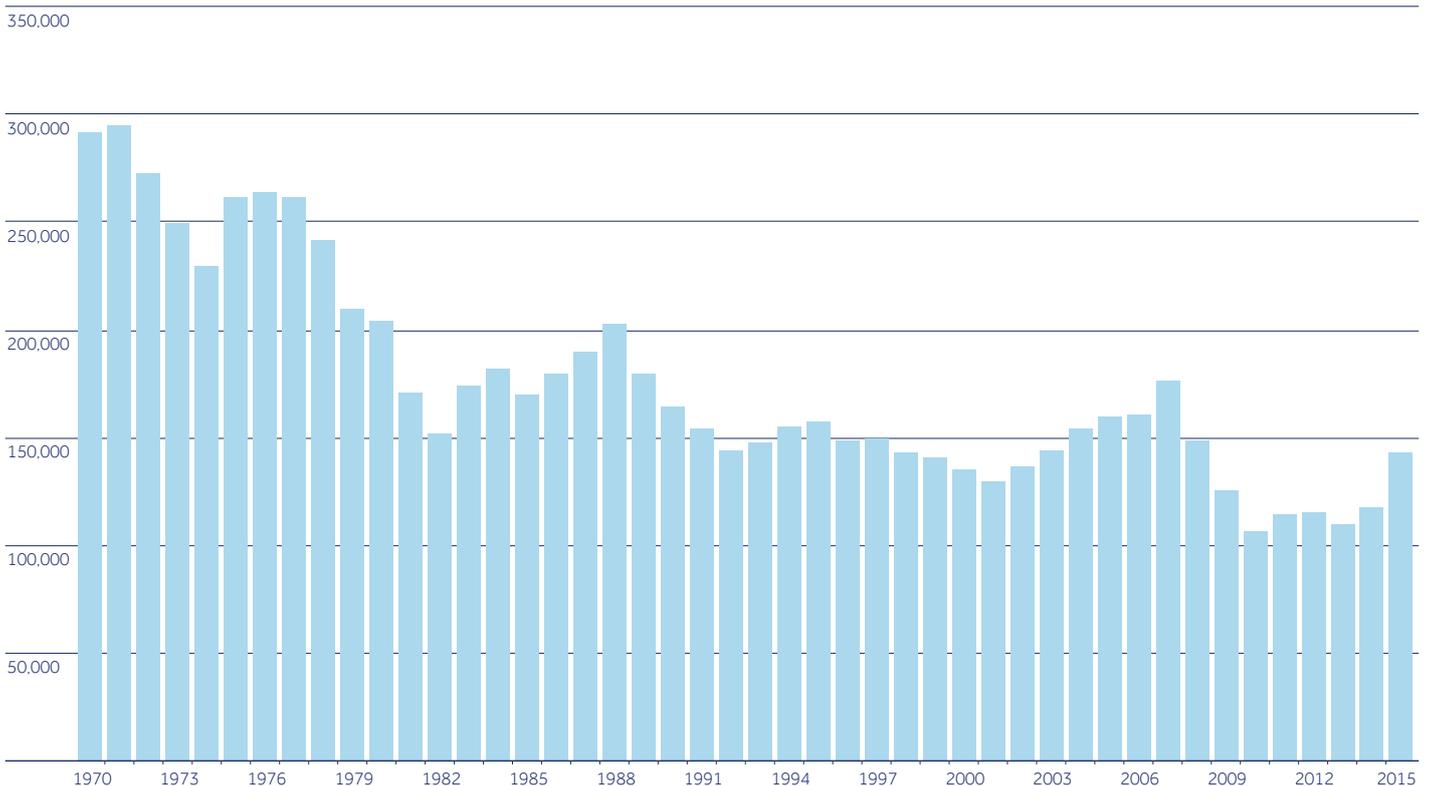
Housing completions rose rapidly in 2015, but not as rapidly as Government would have liked.

“ Whilst actual supply is now trending markedly upwards, ongoing tension and debate between the Government and the development sector is inevitable. ”

The mismatch between burgeoning planning consents and lagging completions has created some tension between the Government and the housebuilding sector, dominated by the big 8 players. Accusations of land banking need to recognise the balance that housebuilders must strike between volume, profit and shareholder return. At the same time, housebuilders are still having to contend with lengthy Section 106 negotiations and labour shortages which are driving up construction costs.

In a far from perfect fashion, Localism, the NPPF and change of use planning mechanisms have had the desired effect of driving up planning consent volumes, even if this involves the presumption effects inherent in a failure to complete Local Plans and make adequate five year provisions. From a market perspective however, whilst actual supply is now trending markedly upwards, ongoing tension and debate between the Government and the development sector is inevitable.

Housing completions - England (1970 to 2015)



Source: DCLG

PROJECTED 30,000 HOUSING SHORTFALL

In June/July 2016 the Government will be publishing their 2014 based household projections (2014HP). It is anticipated that for many LPAs (Local Planning Authorities) in the Golden Triangle and the wider South East these will suggest an increase in housing need, reflecting the improvements in the economy since the 2012HP.

It seems to be a good point to consider how well we've done against the 2012HP. To do this we have looked at the projected growth in households between 2012 and 2015, converted this to dwellings and compared it to the number of dwellings completed over the same period.

This does carry a health warning however; the 2012HP is only the starting point for determining the objectively assessed housing need (OAHN) and adjustments (usually upwards) are often made which can be quite substantial. Overall therefore it is likely that more housing would have been needed during this period, not less.

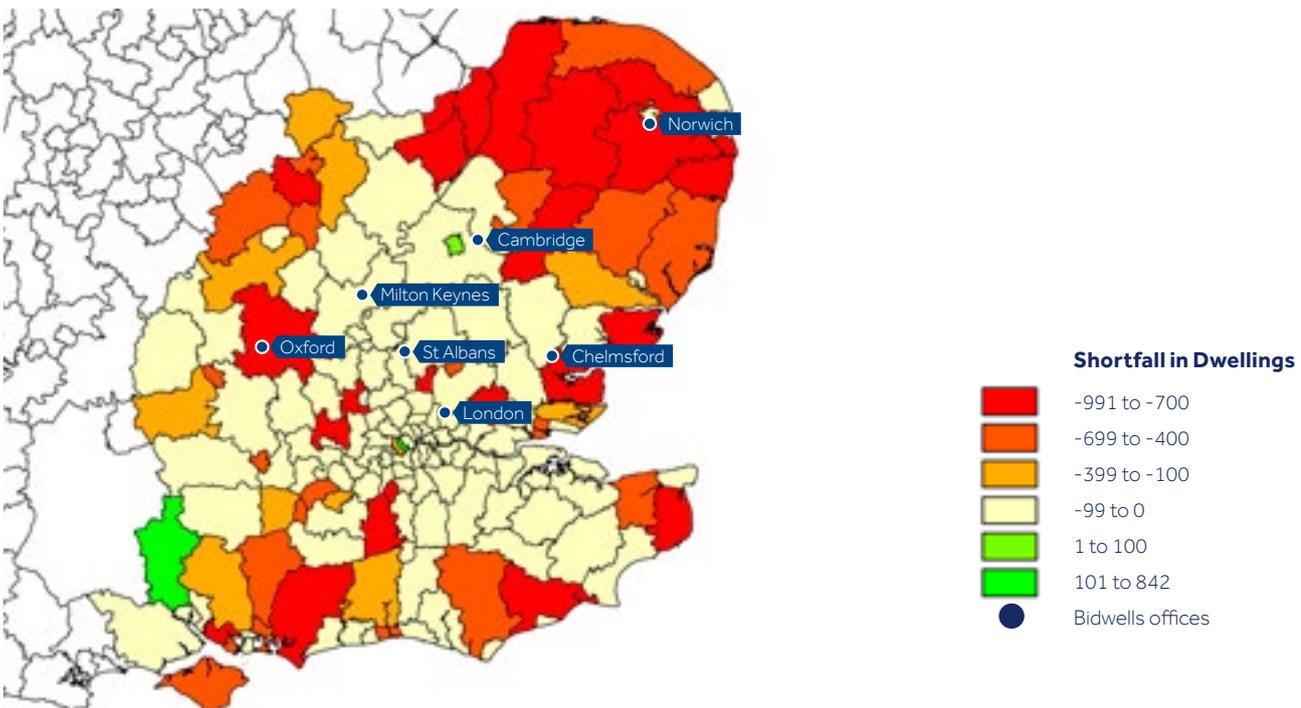
The map shows that only three LPAs can show a greater number of houses being built than needed, including Cambridge, where it is generally accepted that the 2012HP was a significant underestimation. Most LPAs are underperforming by only a small margin but there are notable exceptions. South Norfolk is one area where there is a clear disconnect between need and housebuilding (with a 910 dwelling deficit). This is despite a particularly good housing land supply, suggesting that the obstacles are not with achieving planning permission but in implementing it.

Elsewhere, many LPAs cannot claim to have such a good supply of housing land. For example, Tendring has a deficit of 850 dwellings and only a

3.5 year housing land supply, whilst Harlow has a 660 dwelling deficit and only a 3.7 year housing land supply. In the west, Aylesbury Vale has a deficit of 880 dwellings and only a 4.2 year housing land supply.

Overall, it is clear that there is still much to be done to address the imbalance between housing need and housing construction. In total, we estimate that there has been a shortfall of approximately 30,000 dwellings in just the two years between 2013 and 2015 in this area (the East, South East and London combined). Whilst in some areas this might be due to delays post planning permission, getting permission in the first place is the bigger issue in most locations.

Where house building is not meeting needs



IMPACT OF THE NEW MAYOR OF LONDON

Mike Derbyshire recently spoke at a seminar on the priorities of the new Mayor of London, below is a summary of the speech.

London has a rapidly rising population. By 2036 it will have increased to 10 million people which, coupled with changes in household size, will create a need for a million additional homes over the next 20 years.

We need a greater range of sites in terms of size and location; and a greater mix of housing tenures.

In this context, the delivery of new housing has risen up the political agenda and Planners at City Hall see it as one of the key challenges for the next London Plan.

The new mayor, Sadiq Khan has identified the need for 50,000 new homes per year. But is that realistic?

The first key element here is housing delivery. The target in the London Plan is 42,000 homes per year. Until this year it was 32,000. A report prepared as part of the evidence base for the next London Plan indicates that we need to build at an annual rate of 49,000 new homes. These are numbers that are significant in historic terms.

Sadiq Khan's Housing Policy

Khan's housing policy prioritises the delivery of affordable housing. It runs through it like the presumption in favour of sustainable development runs through the NPPF, linking plan-making and decision-taking.

Like the presumption in favour of sustainable development, it will no doubt take some time to become established and will be open to wide interpretation across the market.

Some key elements of Sadiq Khan's Housing Policy are:

- The target of 50% affordable housing. This has already been extensively reported.
- Setting up Homes for Londoners, a new body which will:
 - Comprise a team at City Hall which brings together the Mayor's planning, funding and land powers alongside experts to raise investment, assemble land, commission and construct new homes and make sure Londoner's get a fair deal from developers. This is clearly a substantial and challenging brief.

- Build an alliance with those with a stake in building homes for Londoners. This includes Councils, Housing Associations, developers, home-builders, investors, businesses and residents' organisations. The proposition here is to bring a coalition and consensus for action before the government with a view to meeting the Homes for Londoners initiative, hopefully involving as many stakeholders as possible.

We need better funding mechanisms to help facilitate the infrastructure and remediation that is crucial to getting larger sites going.

10million
Population of London by 2036

LONDON CALLING

IMPACT OF THE NEW MAYOR OF LONDON

Build genuinely affordable homes including:

- London Living Rent – a new type of home where rents are based on 1/3 of average local wages.
- Homes for first time buyers to part buy part rent. On public land, first refusal will go to Londoners.

He wants Homes for Londoners to drive up home delivery by:

1. Building on sites owned by the GLA and TfL and bidding to develop other public sector land. On NHS sites, a proportion will be set aside for NHS workers.
2. Supporting Housing Associations to double their pipeline from 90,000 to 180,000.
3. Long term planning for new homes tied to transport infrastructure such as the DLR, Bakerloo line extensions and Crossrail.

Homes for Londoners have got their work cut out for them. But the new Mayor is not just leaving it all to them, he's going to do some work on housing as well through the office of the Mayor. He's going to work with Boroughs to deliver his 50% affordable pledge. He'll seek new sources of funding and use his planning powers for new and affordable homes.

Some elements of the steps he will take are:

- Use his call-in powers on stalled sites or where affordable opportunities are being missed.
- Support Councils to create clear new rules on affordable housing.
- Greater transparency on viability assessments.
- Use public land to generate income.
- Use City Hall to attract funding from institutions to finance homes for rent.
- Argue for powers for Councils to borrow finance and increase affordable provision.
- Make sure developers build with 'use it or lose it' powers.

He's got some policy aspirations for the London Plan as well. These include:

- Greater protection for residents from basement extensions.
- Ensure tall buildings respect the character of neighbourhoods.
- Protecting the Green Belt and Open Space. Prioritising brownfield land and building up around town centres.

Conclusion...

So Sadiq Khan has set out his stall to deliver affordable housing. The concept of fairness and putting Londoners first figures prominently in his manifesto. Notably, he mentions the need for 50,000 homes a year but does not explicitly set it as a target – perhaps he thinks it's a poisoned chalice.

To achieve it he wants to develop himself (via the Mayor's Office) but also seems to clearly want to work with his friends – Labour Councils and Housing Associations.

How successful he will be in drawing together Conservative Boroughs and sceptical developers into his grand alliance remains to be seen. But for the health of UK PLC – we hope he succeeds.

50,000

New homes needed per year to cope with London's population growth



IMPLICATIONS OF BREXIT ON PLANNING

If the United Kingdom were to leave the European Union following the vote on 23 June (no doubt deliberately timed to be between the group and knockout stages of Euro 2016 and perhaps therefore dependent on the home nations' fate), what would it mean for the world of planning?

At first, not a great deal. For a start, the UK would not instantly leave the EU following a 'leave' vote. Article 50 of the Treaty on the European Union (the Maastricht Treaty as amended by the Lisbon Treaty) contemplates that a withdrawal agreement will be negotiated following a request to leave, and the country would leave after two years.

Once the UK was no longer a member of the EU, regulations and treaty provisions would no longer apply from that point forwards. Directives are somewhat different because they are transposed into national legislation which is then the operative law, so these would not disappear automatically even if the directive no longer applied.

Even if directives disappear, their UK equivalents will still apply.

Most of the secondary legislation implementing Directives is made under the European Communities Act 1972, and so if that Act was repealed without any saving provisions, it would mean all the UK implementations of directives would instantly fall away. This is unlikely to happen because it would cause (even more) chaos and so secondary legislation is likely to be saved, at first at least.

The two main Directives affecting planning are the Environmental Impact Assessment (EIA) Directive, requiring the environmental effects of projects to be assessed and considered in the balance by decision-makers, and the Strategic Environmental Assessment (SEA)

Directive, which applies the same process to plans. Note that the revised EIA Directive must be transposed by May 2017, so that would still happen.

There are also four environmental protection Directives that require absolute standards to be maintained in all but exceptional circumstances: the Habitats and Birds Directives, the Ambient Air Quality Directive and the Water Quality Directive.

Whilst these Directives would remain in place, economic and market pressures may see them weakened over time as the superior obligations inherent in the parent EU legislation no longer apply.

The UK would have a choice: mirror the EU protections (perhaps as a condition of free movement of goods and services) without having a say in their development, or fall behind with the protection of people and the environment in the name of economic imperatives. The UK could introduce greater protection, of course, but that could still happen while remaining in the EU. The underlying requirement for public participation in environmental decision-making comes from the Aarhus Convention, which the UK has signed up to independently from membership of the EU, so some form of public involvement would have to remain.

Air quality is a good example. Would the UK government be trying so hard (or be forced by the courts to try harder) to improve air quality if it weren't for EU legislation? Does air quality respect national boundaries

or is it appropriate for it to be tackled internationally? This is just the sort of issue that needs an international level playing field: if it were left to individual countries' self-determination each would tend to undercut the other in the name of economic competitiveness or would water down proper regulation, at the expense of public health.

In terms of day to day planning, although the rules will not change for developments below environmental impact assessment thresholds, the funding of projects, and therefore their coming forward as planning applications, may suffer. I was at a conference recently where Danish investors said they would be more reluctant to invest in the UK following Brexit, because even if the UK mirrored commitments to policies adopted by the EU that encouraged investment, they felt they would be less 'set in stone' if it was just one country making the commitment rather than 28 countries doing so jointly, accountable to the others. Even for projects not dependant on inward investment, I think that a climate of less money coming to the UK would have a general depressing effect on the economy that would not be positive for planning.

"As you might detect, I support staying in the EU, despite leaving probably leading to a field day for lawyers..."



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