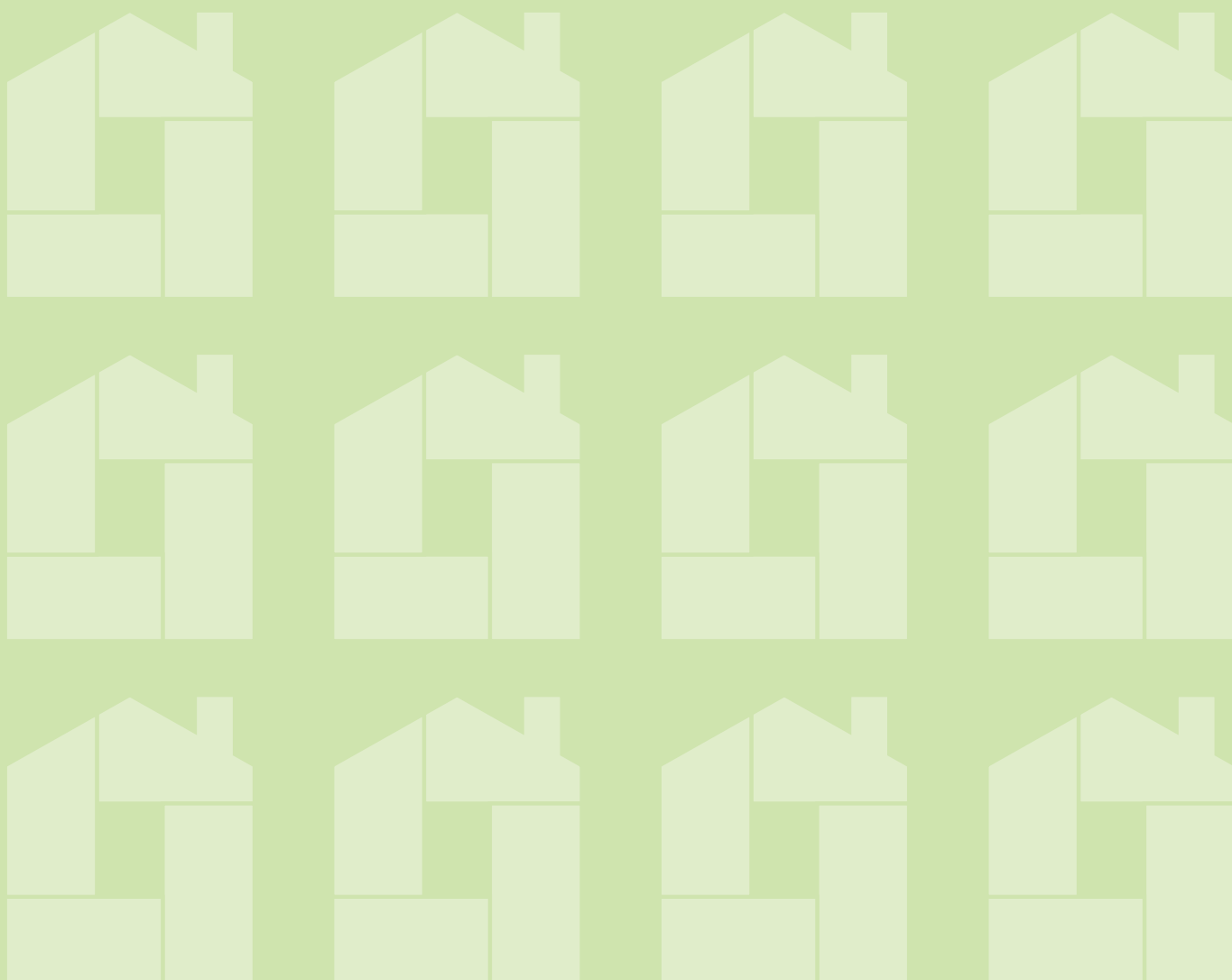




REALISING POTENTIAL

The scale and role of specialist land
promoters in housing delivery

March 2018



INTRODUCING THE LPDF

MEMBERS

Barwood Land
Catesby Estates
Gallagher Estates
Gladman Developments
IM Land
Landform Estates
Lands Improvement Holdings Limited
Lone Star Land
Manor Oak Homes
Pigeon Investment Management
Ptarmigan Land
Richborough Estates
Rosconn Group
St Congar Land
Wates Developments

WHO WE ARE

The LPDF is a group of the country's leading land promoters and developers. LPDF members specialise in the promotion and development of predominately-strategic land across the UK. Projects range in size from circa 200 new homes at the smaller end to 5,000-10,000 new homes, with supporting community facilities, employment and infrastructure, at the strategic end of the scale.

LPDF members work closely with public authorities; landowners (including private individuals; institutions; charities; public sector bodies and agencies); key stakeholders; local communities; and housebuilders to boost the supply of housing land and therefore new private and affordable homes across the UK.

WHAT WE DO

LPDF members work alongside the housebuilder sector providing "oven ready" land with planning permission that can easily be picked up and constructed by national and regional housebuilders to bring homes to the market in a timely manner to meet local need.

Members have varying approaches to the identification and acquisition of land but all invest significant time and funding in this process to identify and acquire sustainable sites for new housing. These include both greenfield and brownfield land, including that requiring significant investment in infrastructure and decontamination.

Members invest in the promotion of this land through the planning system to achieve allocations and planning permission for new homes, with supporting infrastructure. Members invest both time and funding to undertake necessary technical, planning and design work, as well as engaging with local planning authorities, stakeholders and statutory consultees. Promotion can take many years, and there is no guarantee of a positive outcome. The significant investment made by members is at risk, and it is this willingness to take risk to deliver development land for housing that makes members such important part of the delivery chain for new housing.

LPDF members obtain outline planning permissions, which confirm the principle of development which can then be picked up and progressed by housebuilders with their own individual preferences on housing types, and layout.

Approaches to engaging with housebuilders vary, often depending on the scale of development. For example, larger strategic development sites require infrastructure and servicing, and some LPDF members do this in-house (including providing transport, schools, community, health and sports facilities) before selling serviced land parcels to housebuilders. In these cases, a single site could have two, three or more housebuilders constructing at once, bringing new homes quickly to the market and enabling faster delivery of strategic sites.

While approaches may vary, all LPDF members have one common goal – to achieve planning permission and dispose of consented land for delivery of homes in a timely manner.



EXECUTIVE SUMMARY

This report – prepared by Lichfields and commissioned by the Land Promoters and Developers Federation - explores the role of specialist land promoters and developers in housing delivery in England. The analysis is framed by the Government's ambition for 300,000 homes per annum by the mid-2020s and to better understand – via the Letwin Review – the relationship between planning permissions and housing output. The current debate would benefit from a greater awareness of the roles played by different types of organisation in developing land, and of the work, costs and risks involved.

Our research reviews data on planning permission data and surveyed a number of specialist land promotion companies. It reveals the following key findings:

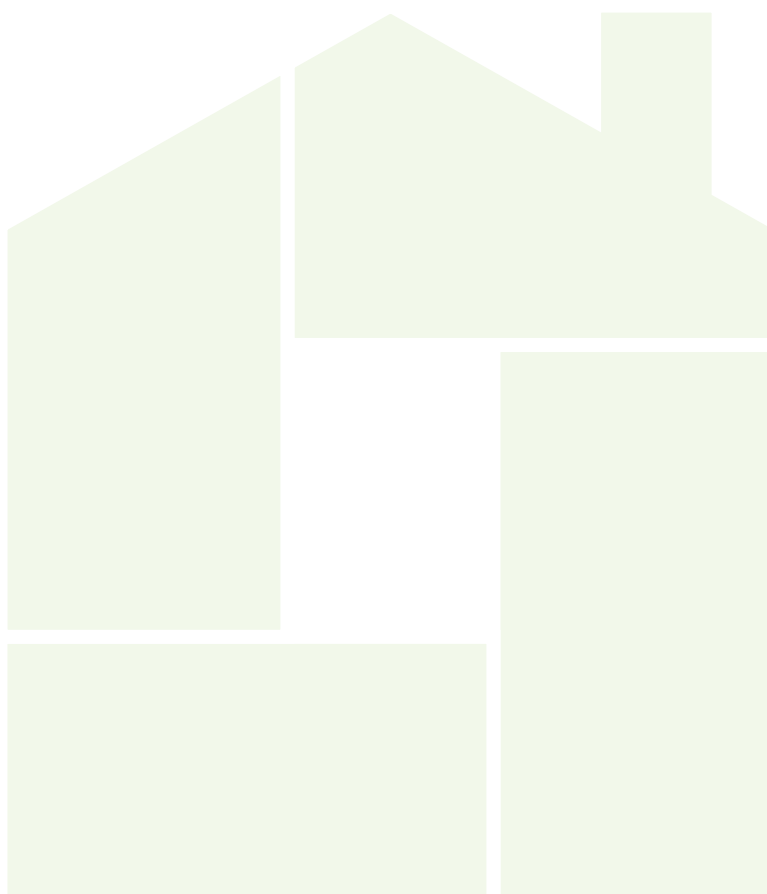
1. Land promoters are responsible for around 50% of all work on pre-application sites – exploring the potential of land with local planning authorities;
2. Outside London, there are some 541,000 dwellings with outline planning permission on sites of over 100 units. This may seem a large number, but in the context that most credible estimates put the number of permissioned units needed for 300,000 homes per annum at around 1m, it shows there is some way still to go. The number of permissions of this scale granted has increased markedly since 2015, but has been just under 120,000 per annum in 2016 and 2017;
3. Of the total stock of permissions, over half are on sites of over 1,000 units which will inevitably be developed over a number of years, emphasising why great care should be taken in making simple comparisons between the number of units granted permission in a year with the number of completions or starts;
4. Specialist land developers and promotion companies are responsible for securing outline planning permission for 41% of these homes, compared to 32% for volume housebuilders, of which the majority are the largest housebuilders, with smaller and regional housebuilders being less likely and able to expose themselves to the planning and financial risks of land promotion;
5. Around 100,000 homes (just under 20%) are held in outline permissions secured by the public sector and civic bodies. These organisations face the same hurdles to converting these permissions to starts on site as housebuilders and specialist land promoters;
6. Specialist land developers and promoters are more likely than other organisations to secure planning permission at appeal, although the overall numbers are very small (just 6% of units with permission);
7. Sites for which they secure outline planning permission are sold to a mixture of the very largest, mid-scale and small-scale housebuilders;
8. Smaller housebuilders are more likely to buy smaller sites; and
9. The housebuilding sector is not homogenous meaning that one should be cautious about making generalisations, but the experience of LPDF is that larger housebuilders tend to buy larger sites but have more internal procedures to adhere to, whereas SME housebuilders can be more risk averse even for sites with an outline planning permission, making offers for land conditional on securing a detailed reserved matters approval.

Our findings are important for the delivery of housing of sites of all sizes and all types:

- If the Government wants to increase the number of housebuilders by ensuring smaller firms have access to sites, land promoters will be an important part of their site supply chain;
- About 40% of residential units on sites over 1,000 units have had an active specialist land developer and promoter driving forward the site. Insofar as there is a clear Government agenda to accelerate the pace of delivery on larger sites, specialist land developers and promoters are clearly aligned to this objective;
- To avoid choking off the supply of land, care should be taken to avoid imposition of prescribed implementation rates given how sensitive these are to facts on the ground and the risks inherent in land promotion.

CONTENTS

1.0	Introduction	1
2.0	Context and review of evidence	2
3.0	Planning and delivering new homes	6
4.0	Land promoters' contribution to housing delivery	11
5.0	Conclusions and implications	16



This report has been prepared by Lichfields for the Land Promoters and Developers Federation (the LPDF).

WHAT IS THE LPDF AND WHAT DO LAND PROMOTERS DO?

The LPDF comprises a number of companies involved in the identification and promotion of land for development, mainly but not exclusively, for new homes. LPDF members do the up-front planning work necessary to have sites available for construction of homes by housebuilders. This often involves them directly delivering new infrastructure including roads, railway stations, schools and other community facilities. You can read more about the the LPDF and find a list of its members on the front inside cover of this report.

THE PURPOSE OF THIS REPORT

Boosting housing supply is high on the agenda. Increased attention is being given to how housing is delivered, focused on issues relating to land, planning, finance, tenure and construction. But relatively little attention has been given to the different types of organisation involved in bringing forward new housing and the roles they play in light of the risks involved in the planning and development process.

The 'Letwin Review'¹ is carrying out an investigation into the build out of planning permissions, particularly in areas of high demand. There have been a number of investigations into purported 'land banking', none of which have identified any evidence that companies are deliberately stymieing the release of land that could otherwise be developed. In general terms, if delivery of 300,000 new homes every year is to be achieved – in line with the Government's ambitions – an increased flow of deliverable land will be required.

The LPDF believes that its members² and other similar companies similarly specialising in bringing land forward for development could have a significant role to play in achieving that goal.

The LPDF has therefore commissioned this research to explore these issues, and specifically to develop a better understanding of how the companies who specialise in land promotion and development (as distinct from volume housebuilders) contribute positively to the flow of deliverable land for new housing.

THIS RESEARCH IS STRUCTURED AS FOLLOWS:

- **SECTION 2.0**
provides a brief review of evidence;
- **SECTION 3.0**
unpacks the phases for the planning and delivery of land for housebuilding and identifies the types of risks involved;
- **SECTION 4.0**
uses data on planning permissions to quantify the role of different types of organisation in bringing forward land for development, including quantifying the contribution made by land promotion and development specialists; and
- **SECTION 5.0**
draws some key conclusions.

¹ In 2017, the Government commissioned the Rt Hon Sir Oliver Letwin MP to lead a review into build out of planning permissions into homes. Its terms of reference were confirmed in January 2018.

² Listed on the inside cover of this report.

“

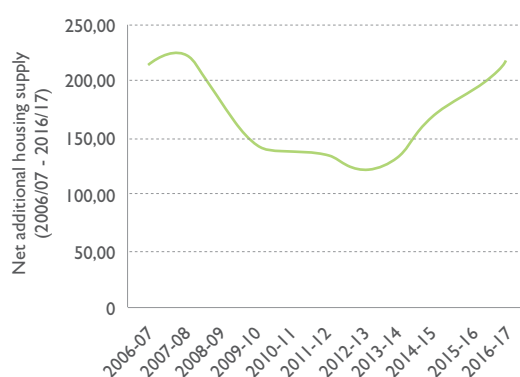
I will dedicate my premiership to fixing this problem [of home ownership] – to restoring hope. To renewing the British Dream for a new generation of people. And that means fixing our broken housing market. For 30 or 40 years we simply haven't built enough homes.

Prime Minister
Theresa May

BOOSTING HOUSING SUPPLY

In the face of acute problems of affordability and declining rates of home ownership, building more homes has become an increasing policy priority. In the years following the financial crisis, net additional housing supply fell to under 150,000, and whilst it has recovered most recently to 217,350 net additional dwellings in 2016/17³ (see Figure 1) it is well below the 300,000 homes a year by the mid-2020s set out by the Chancellor in the 2017 Autumn Budget;⁴ that being a figure which, if sustained over a long period, could begin to improve affordability and deliver the necessary supply of affordable homes. Further underlining this emphasis, the renamed Ministry of Housing, Communities & Local Government (MHCLG); means 'Housing' is a named remit within a Cabinet Department/Ministry for the first time since 1970.

Figure 1 Net additional housing supply



Source: MHCLG; Lichfields analysis

This renewed centrality of housing – and housing supply in particular – was launched in the 2017 Housing White Paper *Fixing our broken housing market*. The White Paper advanced a range of policies and proposed actions aimed at *Planning for the right homes in the right places*; *Building homes faster*; and *Diversifying the market*.

Policy propositions include ensuring up-to-date local plans are in place; a standardised approach to assessing housing need; improving transparency around land ownership; tackling delays caused by planning conditions; reforming developers contributions; and improving information around the development pipeline. Some of these measures have been further consulted on (such as for improving the use of planning conditions) or have come into force through primary or secondary legislation (as for the review of local development documents), while the revised National Planning Policy Framework (currently expected spring/summer 2018) will translate the myriad of floated ideas on planning into a form that will shape plan making and decision taking on planning applications.

The Housing White Paper responded to the debate that has existed over the relationship between planning permissions and the build out in the face of allegations that sites are not being implemented with sufficient pace, both in terms of how quickly developers can get on site, as well as the rate at which new homes are completed (so-called 'land banking'). The 2017 Autumn Budget went on to commission a review of build out rates, to be chaired by Rt Hon Sir Oliver Letwin MP, with the brief "to explain the significant gap between housing completions and the amount of land allocated or permissioned, and make recommendations for closing it". An interim report is expected for the Spring Statement 2018, while the full report should be published at Budget 2018.

³ MHCLG – Net Additional Dwellings data

⁴ HMT - Autumn Budget speech 2017

THE 'LAND BANKING' DEBATE

Since the publication of the NPPF in 2012, there has been an increase in the flow of new planning permissions, which has risen faster than the rate of housing completions. Attempts by some to explain this gap have involved accusing firms of deliberately 'land banking', which broadly refers to the notion that they are holding on to land with the sole purpose of waiting for this value to rise before selling it or building out homes⁵. There have been some suggestions that a 'use it or lose it' policy is required to tackle the issue.

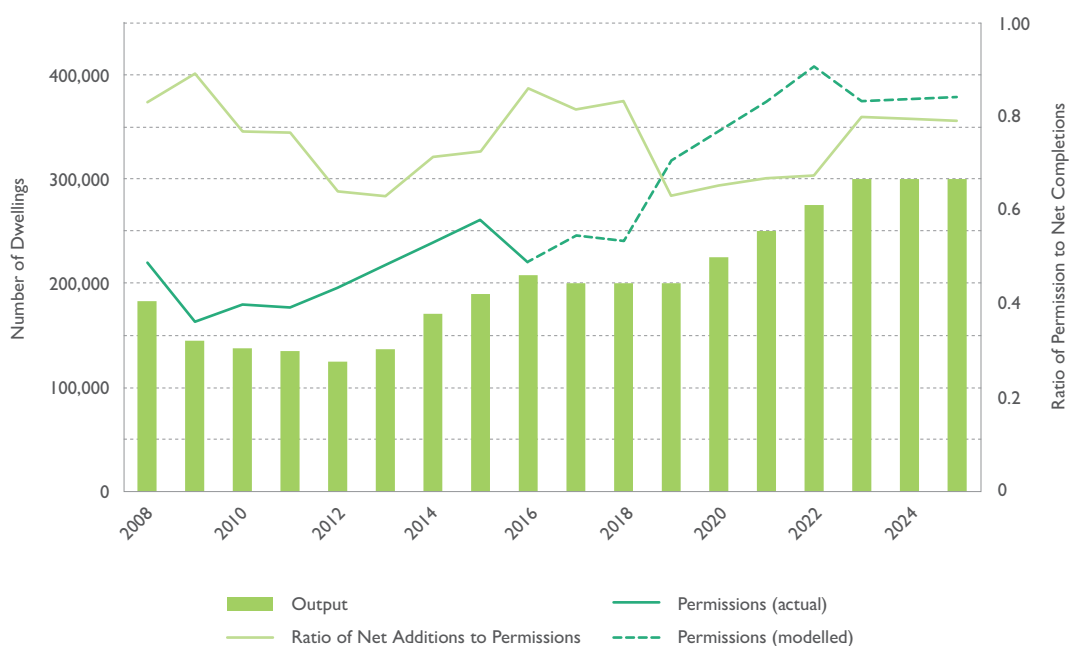
However, a concern over the 'land banking' debate is that its terms are too often based on an insufficient understanding of the planning and development process or of the actors engaged within it, leading to a misinterpretation of data and a misunderstanding of market behaviours.

Accusations of 'land banking' have been repeatedly explored and rejected, for example by the Office for Fair Trading⁶. More recently, a number of reports⁷ have attempted to explain how planning permissions relate to housing output, including the natural lag effect and build

profile associated with a pipeline of permissions, as well as the role of land pipelines in maintaining housebuilders' flow of output. The absence of business rationale for sitting on land that has an implementable planning permission has also been explored⁸ whilst recognising that there are a myriad of 'on-the-ground' reasons why some permissions do not translate to housing delivery.

On the 'gap' between housing permissions and completions, the analysis in *Stock and Flow* makes plain that even if one discounts lead-in times (its analysis assumes a single year, when longer is typically required), and the fact many permissions will inevitably be built out over more than one year (one cannot typically build a scheme of 500 houses in a single year), a constant (increased) flow of planning permissions is required – building a stock of at least 900,000 dwellings-worth of implementable planning permission – in order to support an annual delivery of 300,000 net additional dwellings⁹. Because of the step up in delivery, that means a short term increase in the ratio of permissions to completions (see Figure 2).

Figure 2 Output and permissions - historical and modelled



Source: MHCLG; ONS; Lichfields analysis

⁵Such as: 'Britain has enough land to solve the housing crisis – it's just being hoarded' (Guardian, January 2017); 'Revealed: housebuilders sitting on 600,000 plots of land' (Guardian, December 2015); and 'Land banking: what's the story?' (Shelter, December 2016); 'Greedy house developers face losing right to build' (The Times, January 2018)

⁶Office of Fair Trading – Housebuilding Market Study (2008)

⁷These include *Stock and Flow* (Lichfields) and *The Role of land pipelines in the UK housebuilding process* (Chamberlain Walker Economics)

⁸Lichfields, *Stock and Flow* (2017)

⁹Lichfields - *Stock and Flow* (2017)

This is a cautious estimate. Indeed, if there is to be a high level of certainty over the current planning requirement to have, as a minimum, a five year supply of land for housing, this would lead one to conclude need for a stock of permissions of up to 1.5m plots at any time in order to build 300,000 homes per year.

Similarly, *'The role of land pipelines in the UK housebuilding process'*¹⁰ which looks at housebuilders, explains how land banks are mostly a consequence of the length of the planning and development process and that a pipeline of land is required to maintain (and increase) housing delivery.

The land banking 'spotlight' has tended to focus more on housebuilders and only briefly touches on how specialist land developers and promoters bring forward land. For example, *'The role of land pipelines in the UK housebuilding process'*¹¹ states that "data also suggests non-builders reselling permissioned land to builders elongates the development pipeline" and that "there are more stages in the development process where non-builders are involved". This so-called 'extra step' - a land transaction that needs to take place after a permission is granted - is only harmful if

land promoters were not delivering additionality in terms of the resources necessary to bring forward land through the planning system (in other words, that the sites with permission would have benefitted from permission without the efforts of land promoter).

Moreover, this 'extra step' may not actually add additional time to the process compared to situations where a housebuilder has promoted the site, because in the latter case it may take a similar amount of time to agree a price for the land pursuant to the original option agreement. Indeed, promotion agreements¹² may bring land forward at least as quickly, because the housebuilder has acquired the site at full market value and will be incentivised to expedite construction in order to secure their return on capital..

Any analysis that seeks to understand the role of specialist land developers and promoters needs to be based on a solid appreciation of the planning and housing delivery process, and the risks and costs involved – particularly in its early stages. This appreciation is too often lacking.

¹⁰ ChamberlainWalker Economics - The role of land pipelines in the UK housebuilding process (2017)

¹¹ *ibid*

¹² Promotion agreements are, more often than not, the favoured contractual mechanism for land promoters, whereas option agreements are more typical for sites promoted by housebuilders, although this does vary including hybrids.

LAND PROMOTION

Research commissioned by Richborough Estates - *The Role of Land Promoters in Housing Delivery*¹³ - provided insight on the housing delivery process, particularly with regards to bringing land forward for development. It articulated the significant costs for those promoting land for development – be they housebuilders or other promoters/ developers - with no certainty around securing an allocation of land for development by the Local Planning Authority and, therefore, significant risk to their ability to realise any uplift in land value as return for their investment. The report also highlighted how land promoter and housebuilder businesses are “mutually beneficial” as they ensure a working balance of the overall risks between the different parties.

The concept that the promotion of land for residential development has risks as well as rewards is an important one. One needs to understand the process, from conception through to sale and then consider the various actors involved and the risks they face. To unpack this and frame the analysis in Section 3.0 we have

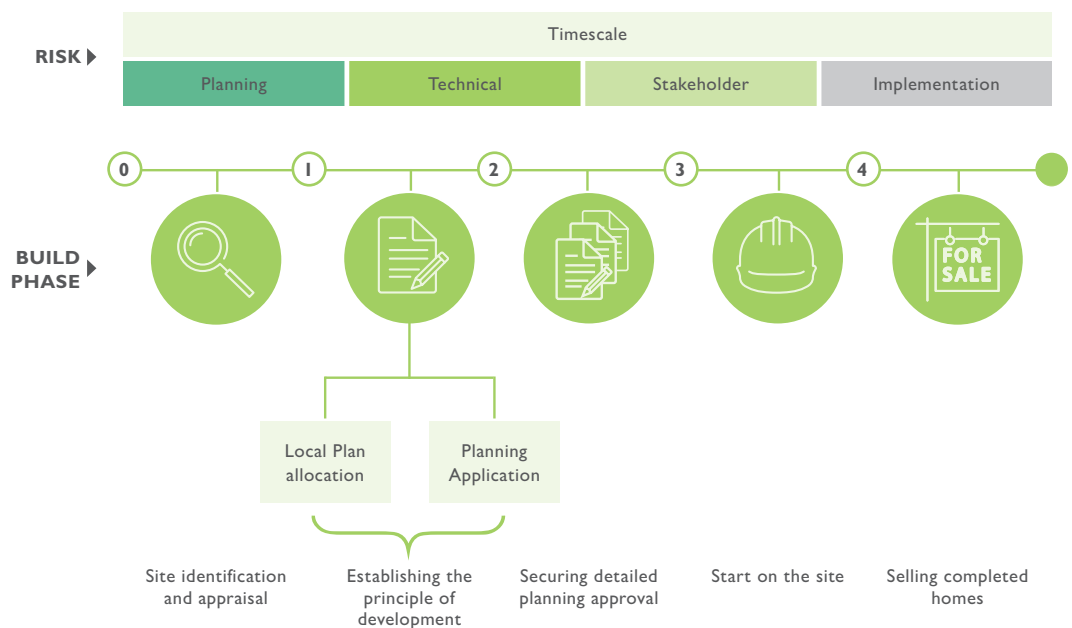
identified five phases (and related risk typologies) that underpin the planning and development process, as illustrated on Figure 3:

0. Site identification and appraisal;
1. Establishing the principle of development;
2. Securing detailed planning approval;
3. Start on site;
4. Sale of completed homes.

We have identified five key types of risk which encompass the myriad of :

1. Planning;
2. Technical;
3. Stakeholder;
4. Implementation;
5. Timescale.

Figure 3 Stylised diagram of the planning process



Source: Lichfields

¹³ Richborough Estates and Lichfields - *The Role of Land Promoters in Housing Delivery* (2017)

The planning and development process - which underpins the delivery of new housing – can be long, complex and costly, and requires a number of hurdles to be overcome. Previous analysis estimates that, for large sites (500 units or more), the average time prior to the submission of the first planning application is 3.9 years, while the average planning approval period until the first housing delivery is circa 5.3-6.9 years¹⁴. It is this complexity and the associated timescales which explains much of the 'lag' between land being identified for potential development, securing a planning permission and delivering completions.

RISKS

At every stage of the planning and delivery process, there are barriers, complexities and factors that extend the time it takes to deliver new homes on site. The impact of these *planning, technical, stakeholder, implementation, and timescale risks* will vary. Different organisations will have different levels of appetite and expertise for managing these risks.

1. PLANNING RISKS – Securing an allocation or permission is not a given. A plan-led system in which many areas do not have up-to-date blueprint¹⁵ creates a local decision-taking vacuum for those promoting land, meaning uncertainty in assessing development potential or seeking agreement with landowners. Once sites are being considered, uncertainty exists over responses from statutory consultees, the planning authority's interpretation of material considerations for the proposal, its preferences over spatial strategy, and local politics. In simple terms, having a site that is sustainable and suitable for development does not guarantee that it will be allocated or granted permission. Local authorities often change their minds during the Local Plan process or application process, or decided to change their estimate of housing need thereby reducing their purported requirement for housing. Planning appeals – with all of their costs – carry significant costs and uncertainty. Even when outline permission is granted - thereby establishing the principle of development - reserved matters approval can be refused. Decisions can be subject to judicial review. All of this means the outcome cannot be fully predicted at the beginning, and it may not be until after a significant investment (running into hundreds of thousands, and often millions, of pounds on planning fees and professional costs etc) that planning is resolved.

2. TECHNICAL RISKS – Sites carry uncertainties over technical and other constraints – for example, ground conditions, ecology, noise, traffic impacts

and highway works – which may not transpire until late on in the process, in turn impacting on the ability to secure planning approval, deliver the scheme in the form originally anticipated, or generating unforeseen costs/land assembly requirements (e.g. ransom strips) for mitigation. In some cases, these issues arise post the grant of planning permission, and can impact on the timeliness of implementation and/or delay the commercial agreement between landowner and housebuilder.

3. STAKEHOLDER RISKS – housing development projects typically feature a high number of stakeholders, all of whom have specific goals and incentives, in many cases related to political factors outside the control of the developer. For most development projects, there are three-four direct actors (land owners, land promoters, housebuilders, local authorities) and a series of indirect, but no less important, actors (for example, local community, statutory consultees, infrastructure providers, the Secretary of State) who have a role in the process, including after the granting of permission (e.g. through legal challenges) and in some cases through their control of land or infrastructure (creating ransom situations). The decisions of any one party can be the difference between success or failure of a development project.

4. IMPLEMENTATION RISKS – Those promoting sites have to address commercial risks surrounding land disposal/acquisition (negotiations between the parties, land and property market conditions), the construction phase (ground works, site access, access to labour, enabling infrastructure, construction costs and time, technical constraints), and sales risk (property market conditions, the absorption rate). These risks are self-evidently greater for larger-scale sites. They occur throughout the development process from the beginning to the end, particularly in response to other risks. For example, a changing specification for highway works mitigation late in the planning/s.106 process might result in need for additional land acquisition/create ransom strips.

5. TIMESCALE RISKS – a common factor for all interested parties in development and it represents both a risk and a cost; the longer it takes for a development to be delivered, the more likely it is to encounter a downturn in the economic cycle or encounter political changes (such as a change in Government or local policy). Even smaller sites typically count lead-in times (including planning) in years rather than months¹⁶.

¹⁴ Lichfields – Start to Finish (2016)

¹⁵ As of 31 December 2017, 52% of Local Authorities outside London do not have a post-NPPF Local Plan

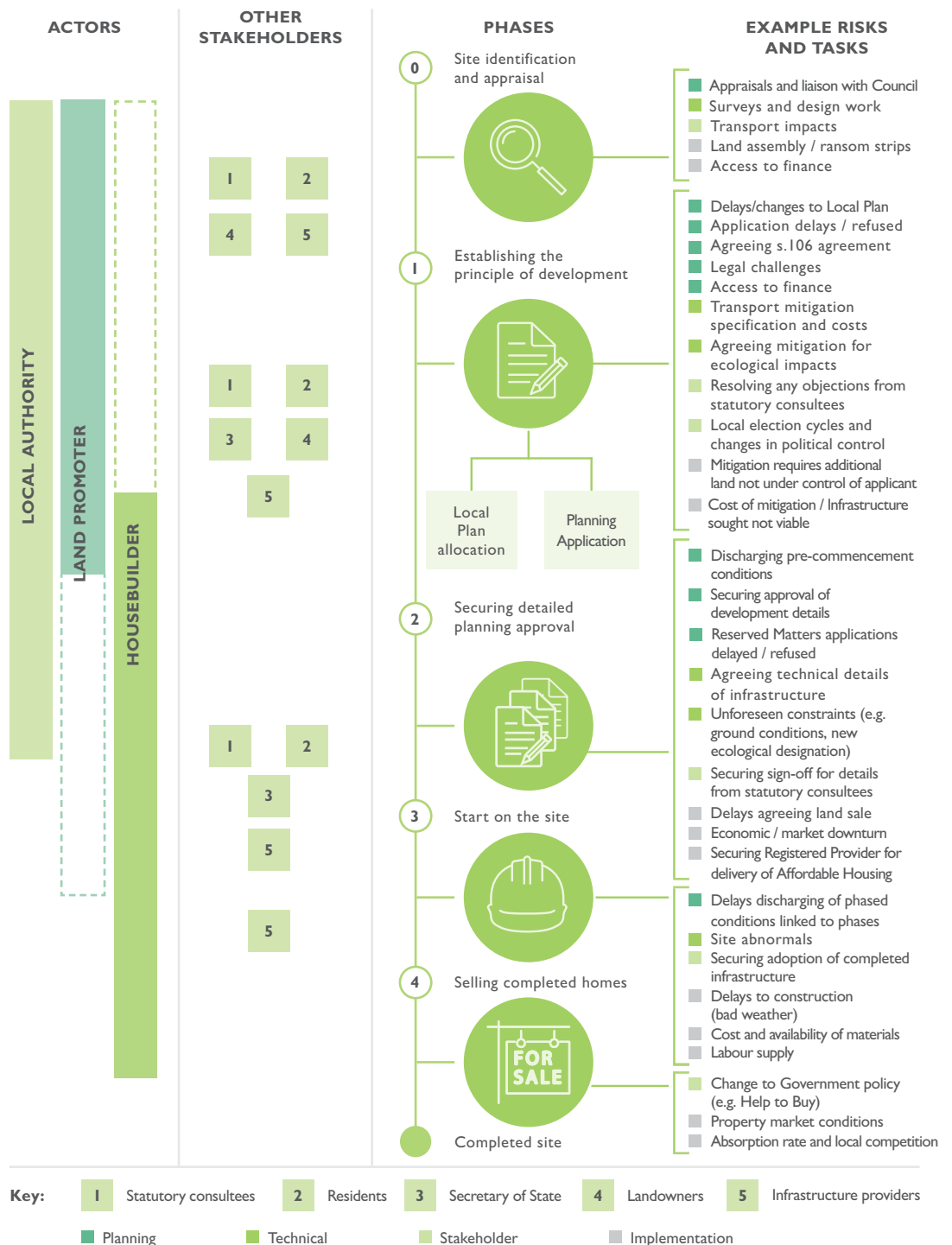
¹⁶ Lichfields – Start to Finish (2017)

PHASES OF DELIVERY

In combination, all this means a process for housing delivery that looks something like that shown

(in simplification) on Figure 4 across each of the Phases and described summarily in the following pages.

Figure 4 Detailed diagram of the planning process highlight actors, risks, uncertainties and timescale



Source: Lichfields

PHASE 0: SITE IDENTIFICATION, ASSEMBLY AND APPRAISAL

The first phase begins with the identification of potential locations/sites to bring forward for development. This involves land assembly – agreeing terms with landowners (via option or promotion agreements) – and framing a proposal that is likely to be regarded as acceptable in planning terms, recognising the various constraints to development. Invariably, this requires speculative judgement pending a local authority preparing its Local Plan or awaiting potential changes in infrastructure provision (a new road or junction) – often with highly uncertain timescales. Judgements have to be made on feasibility drawing on establishing a view on potential constraints, based on detailed technical work, often in advance of being able to secure traffic or flood model outputs from the relevant statutory bodies. So, there is a degree of speculation as to what form of development – and with what kinds of infrastructure – might be capable of being delivered on the site. And to get a proposal in place that can be taken to the local authority, involves significant up-front investment, without any immediate prospect of return.

It is therefore worth highlighting the cost and associated risk that goes into site appraisals before a planning application is submitted. There will be many sites where an appraisal concludes that the site is not suitable for development – these costs have to be written off. There are also sites which require significant work and development to get them ready for an application – this cost will be recuperated at the point of sale but there is no guarantee of planning permission being granted. These sites may also require significant collaboration from statutory authorities – for example Highways England, the local Highway Authority, Network Rail, Canal and River Trust etc – which may take significant time and cost. Finally, there are sites that are immediately suitable for development and are lower risk. All of these sites carry a cost before a planning application is submitted, some of which may not be recovered.

PHASE 1: ESTABLISHING THE PRINCIPLE OF DEVELOPMENT

The principle of development needs to be established, ultimately through the securing of a planning permission, and often – due to the plan-led system – via the process of having land allocated in a statutory development plan.

Often in parallel with the assembly of the site (i.e. with work being done at risk), the site needs to be brought forward through the planning system, with all the associated costs involved in seeking to persuade the planning authority and other stakeholders that the site is suitable, available and development achievable, either through a Local Plan following by a planning application, or by progressing straight to a speculative application (often in a situation where there is no local plan being prepared, or a local area needs more sites due to absence of a five-year-land-supply). Because of the discretionary nature of the UK planning system – with much dependent on planning judgement, rather than a strict set of codified rules – the outcome is by no means guaranteed. If those promoting the site fail to obtain planning permission then the investment is lost and if the process results in a lower quantum of acceptable development, or if there are delays in securing an allocation/approval, this reduces the level of return and may mean that not all of the costs can be recovered. Any organisation involved in promoting sites needs to account for write-offs and unrecovered costs – i.e. the work done proves unsuccessful.

Local Plan processes involve the local authority running what is – in effect – a ‘beauty parade’ for potential sites, concluding with a judgement as to which sites are to be allocated (and indeed, whether an area should meet its housing need) being based on a wide range of factors. Developers participating in the ‘beauty parade’ will often need to engage over a period of years whilst the Plan is prepared and then examined. Securing an allocation in a draft Plan is no guarantee of success – sites can be challenged at Examination and plans found unsound or delayed. If the local authority decides not to allocate the site within their Local Plan, it may be necessary to challenge the Local Plan at various consultation stages and at the Examination in Public (EIP) with no guarantees of success, but additional cost. There are plentiful examples of plans changing direction during their preparation – with sites being proposed for allocation in an earlier draft and then omitted from the final proposed plan, and of local areas choosing to reduce the scale of housing for which they plan.

Where the Local Plan process cannot be followed the speculative application (outline, detailed or hybrid) route does not provide any certainty and involves the production of a significant amount of technical work upfront and considerable additional risk. However, outside Green Belt locations, this

is the route typically available to land developers and promoters for those areas where an up-to-date Local Plan is not in place or where the local authority is unlikely to be able to demonstrate a five-year housing land supply. If the Local Authority refuses to grant permission (in accordance with or against the planning officers' recommendation), the only option left to land developers and promoters (without having to redesign and resubmit the entire application – although sometimes this is done too) is to lodge an appeal. Appeals take a long time to be completed (typically 42 weeks¹⁷ – but in many cases much, much longer), are expensive processes and carry the further potential for legal challenges by the local authority or third party if successful.

Once the principle of development is established either via site allocation or speculative application, and an initial Planning Permission (either detailed or outline) has been secured, then the land promoter is in a position to effectively sell the site, as its value has increased. However, it is important to note that not all permissions have the same value for both land promoters and housebuilders; this is due to a combination of different factors, specifically the quantum of acceptable development secured, and the overall complexity and related costs of planning conditions and obligations agreed. A planning permission might prove to have little value if it is subject to conditions or limitations that render it not implementable in practice. Indeed, 'risky' permissions will not be attractive to housebuilders – particularly SMEs.

Ensuring planning conditions and obligations are reasonable and practical is crucial as they can potentially add further risks at a later stage (such as in the process of discharging Grampian¹⁸ and other conditions¹⁹), costs (when they require extra work to be undertaken), and overall uncertainty in terms of time needed and more complicated negotiations between land promoters and housebuilders. In this way, the early role land promoters play in reducing the risks arising from complex planning conditions and obligations is crucial in easing the work that it will be later required from housebuilders before they can commence/complete development. However, the negotiation of planning obligations and other legal agreements can take significant amounts of time, and in some cases, there are limitations on resources in local authority legal departments, which cause delays.

PHASES 2, 3 AND 4: SECURING DETAILED PLANNING APPROVAL, STARTING ON SITE; AND SELLING COMPLETED HOMES

The planning risk associated with establishing the principle of development is not the end of the story. In order to start on site, it is necessary to agree details of the scheme (usually, reserved matters or via a fresh full application), and discharge the pre-commencement conditions and fulfil the planning obligations.

Where an outline consent has been established by a land promoter who is not a housebuilder (and where the site is large such that more than one housebuilder is required), the site (or phases of it) needs to be transferred to a housebuilder who will continue the progress through the detailed planning permission construction and sale phases. Marketing the site (or phase) to a housebuilder often involves further technical work by the promoter to resolve pre-commencement details (such as agreeing mitigation) that will influence the precise form of development that is permitted on the site, and thus the terms by which the housebuilder will acquire the site.

From this point, the housebuilder will then proceed with discharging any residual pre-commencement conditions – a potentially lengthy process particularly for large sites – and will submit detailed planning application (reserved matters applications in case of a previous outline permission) which reflects its specific housing products and design. Once the detailed planning permission has been granted, the site – now transferred to the housebuilder – will go through the construction and sale phases, facing different challenges which reflect the specific implementation risks associated with those phases; changing market conditions, discharging planning conditions and other obligations, infrastructure development constraints, speed of construction and input constraints in relation to labour, materials and finance.

This description of the planning and development process provides a (much simplified and summarised) framework to understand the complexity and inherent risk that this process carries, particularly for those that invest capital.

¹⁷ Government Guidance – Appeals: how long they take. From 'Receipt' to 'Start' to 'Event' to 'Decision' can take 42 weeks (For appeals dealt with by an inquiry)

¹⁸ Grampian conditions are negatively-worded conditions that require a specific action to be taken in order to 'unlock' development or its occupation. As such, often Grampian conditions result in so-called 'pre-commencement' conditions (i.e. conditions that need to be discharged before the development can start on site).

¹⁹ Such conditions often require specific actions to be undertaken before development can start, including the submission and approval by the local authority of technical studies or additional information.

IMPLICATIONS

All of the above points to a development process that involves organisations taking on activities that require the effective management of a quite diverse set of risks. In the early stages of the process a significant amount of speculative investment and expertise in navigating the planning process is required, with no guarantee of success. Whilst many volume housebuilders have the necessary land assembly and planning skills to promote their own sites – as many do – some do not (at least at any scale) and, more generally, housebuilder business models (and the flow of land for development) benefit from being a mixed market in strategic land in which housebuilders purchase ‘oven-ready’ sites from land developers and promoters and then build and sell new homes utilising their skills in managing implementation risks. Not all organisations – and particularly not small and medium sized builders who will be crucial to expand housing delivery - have the skills, capacity and resources necessary to promote their own strategic land. This creates a gap for ‘master developers’ that strategic land promoters and developers fill.

Furthermore, if actors within the entire housebuilding process specialise, there is scope for efficiencies, and in this regard, increasing productivity in the house building process will be critical if 300,000 units per annum are to be achieved. While housebuilders will continue to be active in site promotion and explore new approaches to land acquisition (drawing on approaches adopted by strategic land promoters and often working in parallel with them), there is no doubt that a significant focus for that part of the sector will also need to be on driving down building costs through investment in construction innovation, efficiency savings and economies of scale.



LAND PROMOTERS' CONTRIBUTION TO HOUSING DELIVERY

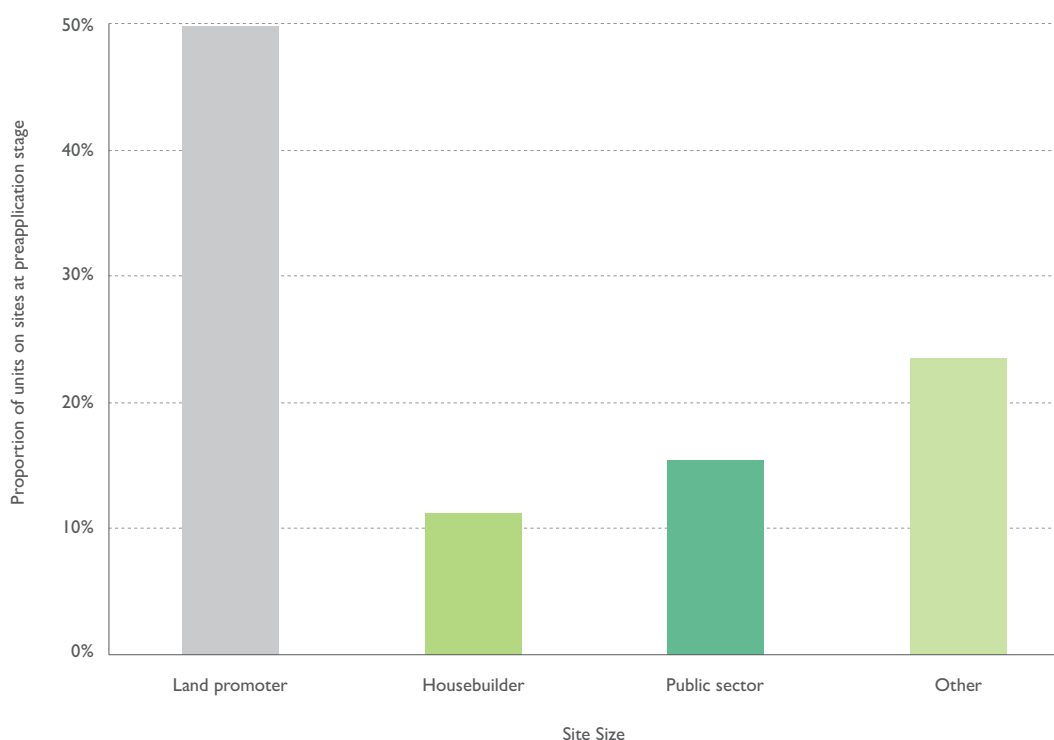
In light of the development process, who is it who is managing the risks associated with assembling and promoting land through the planning system?

Land promoters frequently take on development risk at the early stages of planning for development. At the pre-application phase (Phase 0, in the previous section) – i.e. bringing land forward for development by promoting it to local authorities as part of the plan or outside of the plan – land promoters control around half of the units on these sites (Figure 5). Housebuilders, understandably, have fewer units at this stage of development – around one-in-nine – which shows the importance of land promoters in the development process in exploring the potential for land to be delivered.

METHODOLOGY BOX

Using Glenigan data on live sites (of over 100 units²¹) with outline planning permission outside of London, Lichfields assigned each scheme to one of the following typologies: Land promoter; housebuilder; public sector and civic institution; other (typically individuals). The process for categorisation involved key name searches; internal knowledge and desk-based research. A detailed explanation of the methodology can be found in the Appendix.

Figure 5 Proportion of units on sites at pre-application stage by typology



Source: Savills²⁰

²⁰ Savills - The Strategic Land Market (Research report to Ptarmigan Group and Farr Land) 2016 – data was grouped into categories as consistent as possible with Lichfields' analysis later.

²¹ A threshold of 100 units was selected to ensure the research was proportionate given the volume of data.

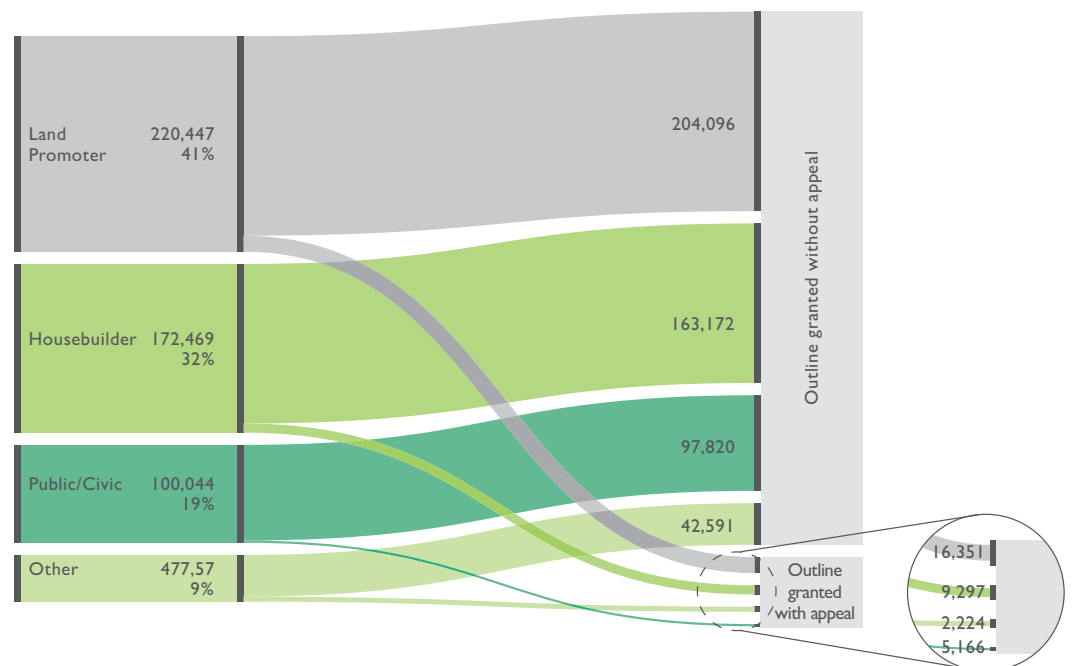
As of January 2018, there were 541,000 total dwellings on 'live' sites of over 100 units— i.e. sites with extant outline planning permission which have not yet been completed, but where development may or may not have commenced - outside London. A breakdown of this is shown in Figure 6.

Of these 220,500 (41%) units were on sites where the applicant was a specialist land promoter who will dispose of the site (or phases of it) to housebuilders to construct new homes (Figure 6).

Housebuilders were the applicant for outline planning permission for 175,000 units (32%). And, it is larger housebuilders who tend to have the lion's share; 121,500 units (22% of the total; 69% of all housebuilders) were obtained by one of the top 25 (by turnover) housebuilders. Smaller and regional housebuilders are clearly less likely to expose themselves to these up-front planning risks.

Interestingly, in the context of alleged land banking, the public sector and civic institutions also play an important role in bringing land forward. Over 100,000 proposed dwellings (19%) are on sites with outline planning permission where the application was either a public sector body or civic institution. The role of these bodies is often overlooked in the wider commentary – and yet the public sector and civic institutions currently hold a significant stock of land with the benefit of planning permission and yet to be translated into new homes. There is no suggestion that these institutions are 'land-banking' in the pejorative sense, and equally no evidence they are any more effective at converting permissioned land into rapid completions than any other actors, for the simple reason that they face the same inevitable hurdles as all other actors in translating 'consented land' into deliverable sites.

Figure 6 Units (and proportion of units) granted outline planning permission (including after appeal) by typology



Source: Glenigan; Lichfields analysis

Reflecting their attitude to managing planning risk, land developers and promoters are more likely than other parties to have secured their permission via appeal, although the vast majority of permissions are secured without this being necessary. However, it is important to remember that this route requires significant investment and has risk attached. As of January 2018, there were 33,000 units on sites with outline planning permission that were granted after appeal. Of these, over 16,000 units (49%) were on sites where the applicant is a land promoter. The next largest category is housebuilders with around 9,000 units (28%). Perhaps unsurprisingly, the public sector/civic institutions are much less likely to challenge at appeal.

The number of units on sites (of over 100 units) granted outline planning permission has increased markedly since 2015 (Figure 7). This indicates that the government's focus on increasing planning permissions - alongside a more vibrant economy - to increase housing stock has had positive effects. The role of land promoters in bringing these sites forward has been consistently high over these years with units on sites they have brought reaching a peak of 51% of the total in 2016 (59,000 units in total).

Figure 7 Units with outline permission granted by year and typology



Source: Glenigan; Lichfields analysis

Figure 8 shows how the roles vary in terms of the size of site. This shows that land developers and promoters have the lead role for all size-categories, including the very largest sites. In fact our scrutiny of the data showed most large sites came forward as part of mixed approaches, with combinations of different land developers and promoters and housebuilders working together as consortia or via more formal joint ventures. In some cases this is to reflect land assembly arrangements but also to share the inevitable planning and technical risks associated with the largest and most complex sites. In many cases, the land promoters will be operating as master developers – providing infrastructure and serviced plots for housebuilders and retaining a longer term role.

Interestingly, given the debate over the relationship between units with permission and build out, 53% of all units (288,000 dwellings) with outline permission are on the largest sites (of over 1,000 units) where it is most likely that build out will take place over a number of years, thus meaning that the ratio between permissions

and completions is always likely to be substantially greater than the 1:1 that a simple interpretation might expect.

For large and all other categories of site, it is clear that measured by volume of residential units, land developers and promoters as a group are the single largest part of a mixed market of organisations (housebuilders, public sector, and individuals) taking the lead in doing the land assembly and necessary planning work associated with bringing land forward for residential development

Because smaller housebuilders are less likely to bring forward their own strategic land – particularly on sites of over 100 units – specialist land developers and promoters also play a crucial role in bringing land forward to housebuilders of all types and sizes.

Figure 8 Mekko chart showing the number of sites each typology is involved in promoting by site size (area represents the number of sites)

	Site Size					Totals	
	100-250	251-500	501-750	751-1,000	1,001+		
Land promoter	26,456	35,465	20,363	24,660	113,503	220,447	40.8%
House builders	15,137	20,590	18,542	18,880	99,319	172,469	31.9%
Public/ civic institution	8,860	9,550	10,175	5,455	66,004	100,044	18.5%
Other	13,647	12,252	10,175	5,455	9,342	47,757	8.8%
Totals	64,100	77,857	55,307	55,284	288,169	Grand total: 540,717	
	11.9%	14.4%	10.2%	10.2%	53.3%		

Source: Glenigan; Lichfields analysis

In a survey of 15 specialist land developers and promoters that operate across the country, 20% of sites (and 17% of units, an average site size of 209 units) were sold to the largest three volume housebuilders (Barratt, Taylor Wimpey and Persimmon) during the past three years. Half of sites (and 65% of units, an average site size of 157 units) were sold to the 4th-25th largest housebuilders while almost one-in-three sites (and 18% of units) were sold to those outside of the largest 25 (Figure 9), with an average site size of 100 units.

Importantly for future Government policy – and noting the stated intention to increase plurality in housebuilding sector – the land promoters in the survey reported that there are differences in business model and outlook between larger and smaller housebuilders. On the whole, it was perceived that smaller housebuilders tend to take on smaller sites and are arguably more flexible in the process of purchasing land

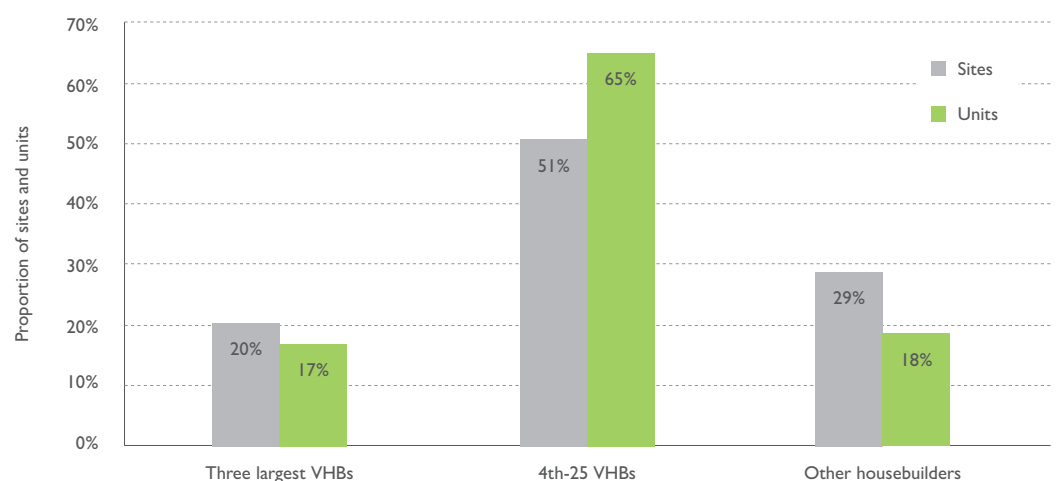
(often due to a shorter chain-of-command), but they often lack financial power (as they are often private businesses and not public limited companies) and require offers to be conditional on reserved matters to de-risk site. Conversely, it was reported that larger housebuilders would tend to purchase larger sites but have a 'more complicated' approach to purchasing land.

In both cases – for larger and smaller housebuilders – securing an outline permission is often not sufficient basis for them to transact. Requirements exist to discharge conditions, and in some cases secure a Reserved Matters approval – before a sale can be completed.

METHODOLOGY BOX

Using Glenigan data on live sites (of over 100 units) with outline planning permission outside of London, Lichfields assigned each scheme to one of the following typologies: Land promoter; housebuilder; public sector and civic institution; other (typically individuals). The process for categorisation involved key name searches; internal knowledge and desk-based research. A detailed explanation of the methodology can be found in the Appendix.

Figure 9 Proportion of sites and units sold by specialist land developers and promoters to housebuilders of varying sizes in the last three years



Source: Lichfields

This research report explores the role of land developers and promoters in bringing forward land for development of new homes, set within a review of the types of risks involved in the development process. The context for this analysis is a very clear policy boost to increase the supply of homes alongside increased attention on how permissioned land relates to housing delivery – as per the terms of reference for the Letwin Review.

Much of the general commentary on the issue of land and housing supply fails to recognise the practicalities of planning and land promotion. Our review of the literature and consideration of the planning process reveals a series of risks that apply in different ways across the five phases of housing delivery. In simple terms, planning, stakeholder and technical risks apply significantly during site identification, appraisal, in establishing the principle of development, and to an extent securing detailed approval. These risks – and the skills and resources necessary to manage them – are very different from the skills necessary to manage implementation risks arising from the physical construction and sale of new homes.

Whilst most volume housebuilders do have the skills and resources necessary to promote so-called strategic land and then – having secured an allocation or outline permission – to go on to deliver it, they typically combine this with ‘oven ready’ sites they have purchased with permission as a necessary part of their land pipeline. On larger sites, many housebuilders work in consortia or in joint venture with other organisations in order to spread the risk. Further, many smaller housebuilding companies do not have the resources and risk appetite to take on strategic land promotion at all.

There is a clear role for specialist companies who take on strategic land promotion function – doing the hard graft of assembling land, testing feasibility, overcoming technical hurdles to development, and making the case to the local planning authority that the site should be allocated for development in a Local Plan. Absent these specialist companies, it is not at all clear that there would be capacity in other sectors to fill the gap.

Our review of the evidence, including planning permission data reveals the following key findings:

1. Land promoters are responsible for around 50% of all work on pre-application sites – exploring the potential of land with local planning authorities;
2. Outside London, there are some 541,000

dwelling with outline planning permission on sites of over 100 units. This may seem a large number, but in the context that most credible estimates put the number of permissioned units needed for 300,000 homes per annum at around 1m, it shows there is some way still to go. The number of permissions of this scale granted has increased markedly since 2015, but has been just under 120,000 per annum in 2016 and 2017;

3. Of the total stock of permissions, over half are on sites of over 1,000 units which will inevitably be developed over a number of years, emphasising why great care should be taken in making simple comparisons between the number of units granted permission in a year with the number of completions or starts;
4. Specialist land developers and promotion companies are responsible for securing outline planning permission for 41% of these homes, compared to 32% for volume housebuilders, of which the majority are the largest housebuilders, with smaller and regional housebuilders being less likely to expose themselves to the planning risks;
5. Around 100,000 homes (just under 20%) are held in outline permissions secured by the public sector and civic bodies. These organisations face the same hurdles to converting these permissions to starts on site as housebuilders and specialist land promoters; and
6. Specialist land developers and promoters are more likely than other organisations to secure planning permission at appeal, although the overall numbers are very small (just 6% of units with permission).

Our survey of specialist land developers and promoters (all LPDF members) to identify to whom they sell land, found that:

- Sites for which they secure outline planning permission are sold to a mixture of the very largest, mid-scale and small-scale housebuilders;
- Smaller housebuilders are more likely to buy smaller sites;
- The housebuilding sector is not homogenous meaning that one should be cautious about making generalisations, larger housebuilders would buy larger sites but have more internal procedures to adhere to, whereas SME

housebuilders can be more risk averse even for sites with an outline planning permission, making offers for land conditional on securing a detailed reserved matters approval.

Our findings are important for the delivery of housing of sites of all sizes and all types in three key respects:

- If the Government wants to increase the number of housebuilders by ensuring SME firms have access to sites (as indicated by their proposals for the NPPF of requiring 20% of land supply to be smaller sites), land promoters will be an important part of their site supply chain. If smaller housebuilders are often reluctant to take the risk of reserved matters (where the principle of development is, arguably, already established) it is even less likely that they will be in a position to increase their exposure to the much greater risk involved in securing allocations and outline planning permission. Securing a supply of land – on sites of less than 100 units – is going to involve land promoter organisations to bring forward land. Assisting smaller housebuilder to enter the market is something that will require an ongoing role for specialist land developers and promoters rather than be at their exclusion.
- About 40% of residential units on sites over 1,000 units have had an active specialist land developer and promoter driving forward the site – in terms of all the necessary technical work and absorbing the planning risk – to obtain outline planning permission and then undertaken important work on technical details, legal agreements and pre-commencement conditions. These specialist land developers and promoters, having incurred the costs of securing the permission and generally not being housebuilders themselves, are incentivised to accelerate the disposal of plots within the site to a range of housebuilders. Insofar as there is a clear Government agenda to accelerate the pace of delivery on larger sites, specialist land developers and promoters are clearly aligned to this objective.
- There is, by definition, a clear step between land promoter and housebuilder in the delivery chain for new housing, and it is a given – particularly on larger sites – that precise rates of delivery on sites will not be known at the time when applications are submitted. There are clear incentives for housebuilders to build out at a rapid rate consistent with the price they have paid for land, but during implementation, rates of housebuilding will be subject to great uncertainty (particularly over an economic cycle), and great care should be taken in terms of any attempts to prescribe implementation dates or rates of delivery. This may simply increase risk to an already costly and risky business, which acts as a deterrent to investing in land promotion. Without this pipeline of land, we will not deliver the 300,000 homes the country needs.

APPENDIX I: METHODOLOGIES

THE SCALE OF LAND PROMOTER ACTIVITY AT OUTLINE PLANNING STAGE

Analysis uses primary Glenigan data downloaded on 3rd January 2018, filtered by the following criteria:

- Geography - All sites in England, excluding London;
- Planning stage - outline planning permission granted; or granted after appeal; and
- Site size - 100 units or more.
- Typologies were created and each scheme was assigned a group. The typologies include:
- Land Promoters and Developers Federation members – members of the group;
- Other specialist land developers and promoters – any non-LPDF land promoter members;
- Volume Housebuilders – the top 15 housebuilders by turnover;
- Other housebuilders – all other housebuilders outside of the top 15 by turnover;
- Public sector and civic institutions – this group includes Government departments; Government organisations, such as Homes England (HCA); local Government public bodies; educational facilities; and religious bodies.
- Private individuals – individuals, or groups of individuals, who have gained outline permission; and
- Other – all other bodies, including on those sites that are unidentifiable.

Broader categories have been created in order to simplify the analysis. These categories include: specialist land developers and promoters (LPDF and other land promoters); housebuilders (volume and other housebuilders); public sector and civic institutions; and other (private individuals and other).

To assign a typology to each scheme, a list of possible firms within each category set out above was created. This list would form the basis of an advanced search formula within Microsoft Excel that attributed a category when a name matched.

While many firms are easily recognisable – which makes the search easier – many were unfamiliar. In order to attribute a typology to these firms required two further approaches. First, a series of frequently used words or phrases were attributed to each typology that most likely matched the firm with the group – a good example of this would be firms including the word ‘homes’ in were overwhelming likely to be housebuilders.

The final stage of data cleaning required searching for individual firms on those schemes that were yet to be attributed to a typology. This list had input from regional experts across Lichfields. A very small percentage of sites were unable to be assigned a typology – the data for these sites were allocated the ‘Other’ category.

The data download provided schemes that had outline planning permission granted. On some schemes, there is more than one successful applicant – i.e. the application had more than one firm involved. As the data does not provide the precise split of units between each applicant, we have assumed that the total number of units on site would be shared equally. It is this number which has been aggregated at the typology level.

In terms of data accuracy, we rely upon the raw data provided by Glenigan. It is also worth noting that the dataset available for download has schemes that are ‘live’ – i.e. still in development – or have been completed in the last year.

LAND DEVELOPER AND PROMOTERS' LAND SALES

Analysis regarding to whom specialist land developers and promoters sell land relies on a questionnaire sent to all LPDF members and a selection of additional firms.

The questionnaire asked for the number of sites and the number of units sold to three main category of housebuilder:

- Three largest housebuilders: Barratt, Taylor Wimpey, Persimmon;
- 4th to 25th largest housebuilders: Bellway, Berkeley, Redrow, Galliford Try, Bovis, Crest Nicholson, L&Q, Countryside, Bloor, McCarthy and Stone, CALA, Miller Homes, Ballymore, Lovell, Galliard Homes, Hill Group, Kier, Keepmoat, Fairview, Telford Homes, Morris Homes, Avant; and Other housebuilders: all other housebuilders.

The questionnaire also asked whether the firms could provide insight on the approach of large volume housebuilders differ to that of smaller housebuilders when they look to acquire consented development land and if there is a spatial variation.

The number of firms that responded was: 15.



LAND PROMOTERS & DEVELOPERS FEDERATION

For more information about the LPDF please contact
Katherine Marriott at Cratus Communications
on kmarriott@cratus.co.uk.

Lichfields

14 Regent's Wharf

All Saints Street

London N1 9RL

Tel: **020 7837 4477**

Matthew Spry

Email: matthew.spry@lichfields.uk

Joe Sarling

Email: joe.sarling@lichfields.uk



@LichfieldsUK

Visit our website: **Lichfields.uk**

March 2018

LICHFIELDS

