Res Dev Real Talk

UK Property Development Market Update

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In this issue:

Prepared by
Nick Fisher MRICS

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Introduction

Nick Fisher MRICS // Aprao

Welcome back to Res Dev Real Talk! We absolutely loved hearing the positive feedback from the last edition and so we decided to launch another. We're ready to kick off this quarter's commentary with another all-star property line-up, but before we do, let's set the scene for our new readers.

Res Dev Real Talk is a report that features expert contributions across the UK real estate development market, to bring you genuine opinions on trends and the direction of the industry. As with the last edition, rather than being a formal research paper, this is packed full of interesting insights that can be enjoyed over a cup of tea or between busy meetings.

So what's the latest in real estate this quarter? Undoubtedly there are uncertainties still overhanging from the effects of the pandemic. The bulk of the population is vaccinated, but there's still an influx of Delta cases. Lockdown restrictions seem to be a thing of the past but international travel is still hit and miss. Pubs, bars and clubs are opening up and mass testing is commonplace, but "the pingdemic" is an unruly side effect.

All of these have been shaping and moulding the property sector over these last few months. For example, we spoke to developers that lost a whole team of bricklayers in one afternoon due to the dreaded 'ping' notification. There's a shortage of lorry drivers and imports and with that, a delay to construction works. Price hikes on materials have affected build costs and the work from home (WFH) trend has meant an uncertainty around the viability of certain projects. On top of this, our sector held its breath hoping for much-needed planning reform from the Government. The UK is consistently missing the house-building target and this gap isn't closing. This was debated, and now the proposed changes have been shelved.

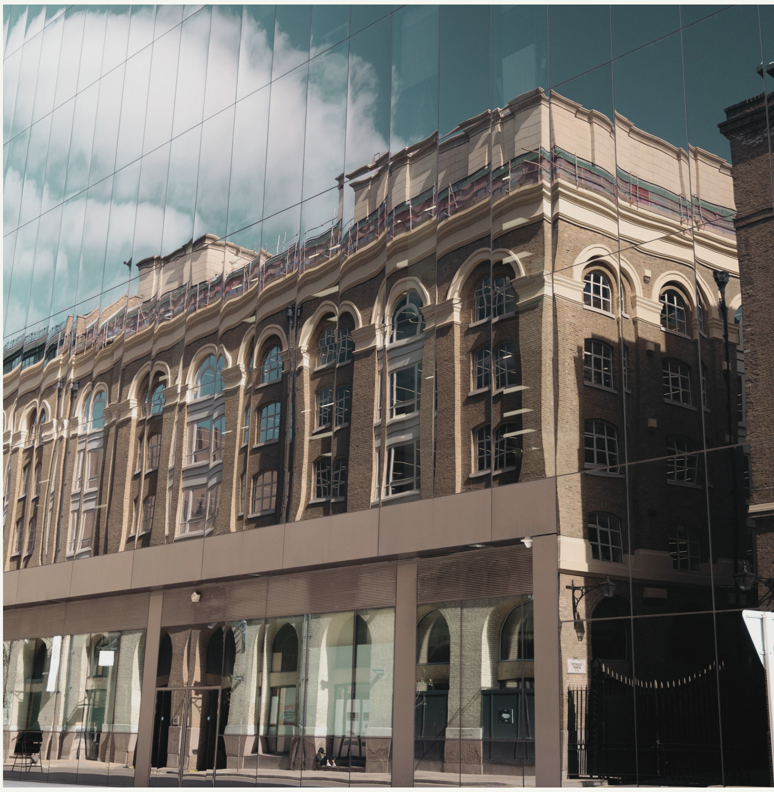
To add to the long list, now the Government has announced a cabinet reshuffle and we have a new Housing Minister!

Yet, despite all this, many developers are optimistic about the market. And why not? Interest rates are exceptionally low. This has meant a correspondingly low cost of capital. With businesses opening up again, students are flocking back to universities and commuters are heading back to city offices. There's still a lot to be positive about.

But what do the industry experts think?

In this edition, we provide you with the latest insights across property recruitment, construction, procurement, planning, lending and development.

So without further ado, please enjoy this edition of Res Dev Real Talk. And as always, thanks for taking the time to read this quarterly report.



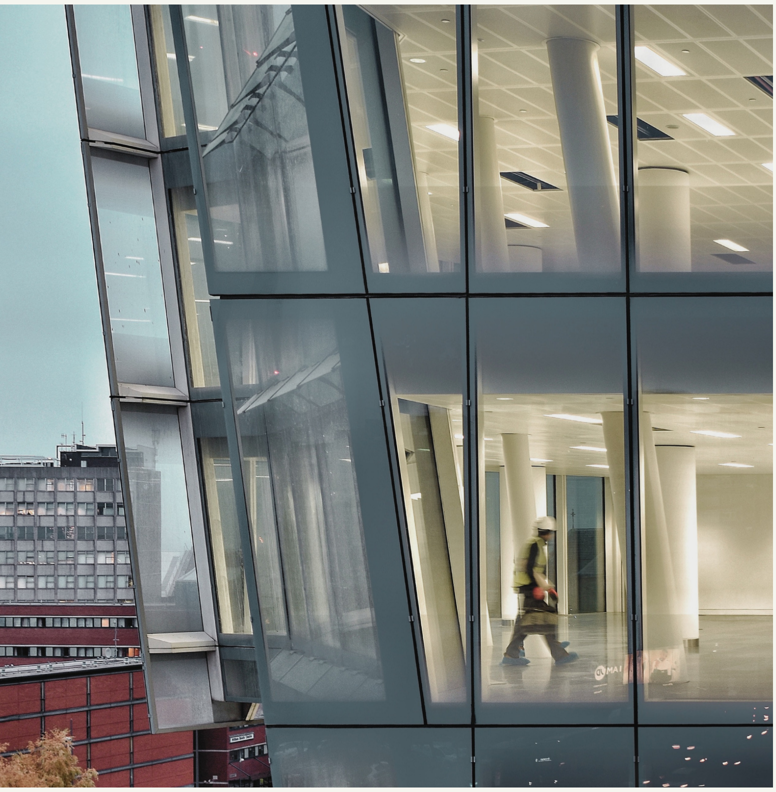
The construction view

In conversation with Paul Heming, CEO // C-Link

Panic buying and price hikes! These are just some of the trends Paul Heming is seeing in real-time within the construction sector. Paul is the founder of C-Link, an end-to-end solution where developers and contractors can manage their subcontract procurement all in one place (from discovering subcontractors to automating contracts and controlling their construction programmes). In this piece, Paul chats about current procurement trends and his predictions for the future of the industry.

What trends do developers and contractors need to be aware of?

"Well to start," Paul tells us, "the world is getting turned upside down and we, as a sector, can't cope with it!" The prime root of this is fluctuating build costs and material prices. "If you look at steel in June 2021, it was up 53% on the 12 months which is huge; this year they're talking about steel going up another 50%. You've got cement costs now up 30% and sealants at 20%!"



For context, material prices increase every January, typically at a range of 2-9%, with 9% representing a particularly high upper bound, so these kinds of numbers mean soaring build costs. "We're seeing absolutely insane numbers, rates are soaring and going through the roof."

Everyone's talking about timber

According to Paul, prices are at an all-time high. Although the UK government has committed to tripling the rate of tree plantation in the wake of wood shortages, it hasn't prevented the fluctuation of prices.

To illustrate this, in October 2020, developers were willing to pay under £500 for timber. By May of this year, the price had ballooned to £1400, meaning a nearly three-fold increase.

Paul attributes this to the dwindling amount of structural wood in the global market supply. The export of timber from America is low due to Covid.

And it's not just the US. Sweden, which supplies 50% of wood used for infrastructure in the UK is at a 2-decade rock bottom for stock levels. Consequently, costs are "at unprecedented levels, and although it's lowering, it's still very volatile at the moment".

However, Paul is optimistic: in his view, there's a delay in the timeline which means "what is currently going out to the contractors is yesterday's news – I do think timber is going to settle down".

Unfortunately, this price hike is making trade flow unstable. Much like in the retail sector, when the pandemic led to panic-buying groceries and household items (remember all the empty shelves in your local supermarket!), Paul has witnessed similar behaviour in procurement.

“There is a de-risk strategy that some are taking. An example of this is one of our developers are currently procuring their groundwork. But rather than procuring the materials in a sequential way, they’ve taken the decision to buy absolutely everything now.

"They’re not even out of the ground and they are about to place orders for dry lining, tiling, painting and decorating. That means they are paying more, but they’re locking in the risk now.”

But are stress responses like this cooling down? “What is starting to trickle through to me, from my conversations with sub-contractors, contractors and developers is that next year, things are going to change and ease up.”

How is the climate crisis affecting build costs?

According to Paul, the industry has not sat up and taken notice in the way that it should. “Unfortunately, I don’t think it’s changing build costs right now because I just don’t think there is enough push from the architectural level.

"Sustainability is not enough of a trend in the sector to be affecting build costs.” This is in spite of “cement and steel being the biggest contributors [to the climate crisis]”.

"What is starting to trickle through to me, from my conversations with sub-contractors, contractors and developers is that next year, things are going to change and ease up."

Post-pandemic: hiring property professionals

In conversation with Hannah Taylor, Investment & Finance Manager // deverellsmith

Are you thinking of hiring your next team member?

Whilst we've often spoken about the pandemic's effects on valuer, developer and lender trends at Aprao, we really should discuss an underlying sector driver on which we are all dependent – the workforce. Arguably it's *who* and *how* we hire that most impacts the health of the real estate industry.

Hannah Taylor spent 7 years working at a Prime Central London estate agency before moving into recruiting real estate roles and leading the Investment and Finance Team at deverellsmith.

It's fair to say Hannah knows the market inside and out, with insights that are invaluable to securing great candidates and keeping on top of hiring trends. Post-covid the hiring process has become more collaborative between managers and prospective employees.

In light of the pandemic, how can managers keep attracting the best talent and retaining them?

Post-covid boom

According to Hannah, the real estate job market is alive again.

The abrupt halt brought about by the pandemic, which saw cost-cutting, project cutbacks and candidates being let go on multiple fronts, has been replaced by a flood of positions opening up. "It's extremely busy at the moment!" Hannah says, "everyone is hiring again. Post-lockdown there are tonnes of candidates now looking for jobs".

However, Hannah tells us that with a sea of both roles and candidates on offer, there's been a discernable change in the calibre of prospective employees. Though some fit the bill, the reality is that really good candidates simply want to stay where they are. The reason for this is that "good staff are more valued now than before. The sense from managers post-pandemic is if you have good people, you want to do everything you can to keep hold of them".

Keeping a great employee

So after multiple lockdowns, you're finally ready to hire for that role you so desperately needed. But according to Hannah, you may not find your dream candidate right away – she estimates that most top project managers won't be available in the job market right now.

This is chiefly because managers are acutely aware of the cost and stress of hiring, and desire now more than ever to retain the best workforce.

These savvy managers are making considered judgement calls internally to prevent the competition from poaching their best talent! They're taking the time to understand their employees' needs – particularly surrounding remote work requests, flexible hours and work perks – the kind of emotional concerns that simply go beyond the office.

"Companies need to recognise the power of remote work with candidates; the biggest barrier to finding good talent is the lack of flexibility."

It's no longer purely about salaries and bonuses. Hannah believes that "companies need to recognise the power of remote work with candidates; the biggest barrier to finding good talent is the lack of flexibility". She explains that it's rare to see a fully office-based, real estate job advert now.

Those managers that request 5 days a week in the office often get pushback during the recruitment process, or find a limited pool of quality candidates as a result. It all comes down to this: is the sacredness of the office worth limiting candidate options?

More unfilled roles for employers

Hannah's role has pivoted towards head-hunting in recent months in response to the sheer number of vacancies, particularly with land positions, which have been trickier to fill.

In fact, she recalls one employer who culled an impressive 500 employees at the start of the pandemic and is now finding it nearly impossible to fill these positions again.

This example fits a wider trend of large firms re-hiring for mass positions that were cut prior to the pandemic.

Back then, it would be typical to receive a full inbox of candidate responses to job adverts – Hannah explains that it's quite the opposite now; "it's not like before when you put out LinkedIn ads and expected a guaranteed response".

Therefore, employers should manage their expectations regarding timeline-to-hire and onboarding processes.

The real estate recruitment sector is in itself adapting, and these trends can be found, not just in London, but regionally too. This means that recruiters now look to "add additional value through headhunting, market mapping and contact sourcing", which has "all been a large part of the recruitment industry as a whole in recent months".

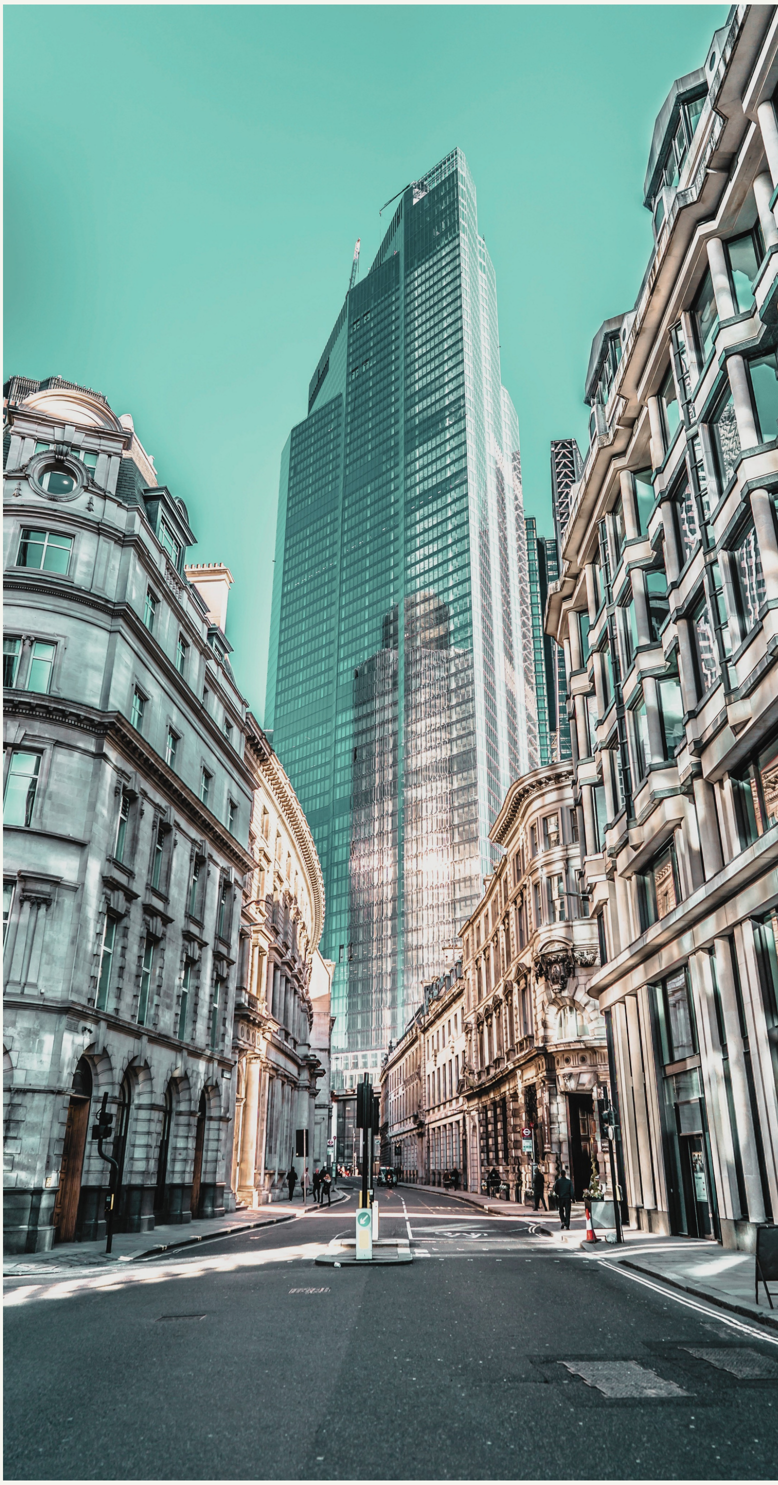
A candidate-first movement?

So it's clear that candidates now hold greater bargaining power than ever before, with both current and future employers. the reality is they expect higher standards from their managers.

In return, it also means that employers are more likely to focus on the quality of individual candidates rather than taking on more roles for the sake of filling numbers.

"Companies need to be selling jobs to candidates, rather than the other way around."

Hannah concludes that "companies need to be selling jobs to candidates now rather than the other way around". The industry workforce as a consequence is changing, and managers need to be ready for this new pathway to success.



For more tips from deverellsmith on how to sell your employer brand to reach the best candidates, click here.

Land update: a year like no other

Richard Saunders, Managing Director // Land Rich

During a year like no other, land market activity has been mirror-imaging construction and property markets – it's been buoyant!

Activity has been driven by successful sales of new homes fired by stamp duty holiday and competitive tension, in turn allowing developers to move onto new projects within a shorter timescale, enhancing cashflow situations, therefore intensifying demand.

Although new homes values have risen, land values did not see a substantial, confident increase. Due to building material shortages and general build cost increases (including labour), it has not allowed land price to increase as much as growing gross development values would have indicated.

Another contributor to limited growth on land values has been build contingency budgets, which have been raised from 5% to 10% if using developer finance.

Grade 'A' sites (normally 50 units and above) in premium locations result in buyers willing to pay a premium even during uncertain times, which is what has been evident during the last year.

Sites held up in planning have also resulted in a shortage of land creating further demand. Taking into consideration all contributing factors (such as material and labour costs), the lack of readily available sites has still kept the land prices fairly grounded. A typical planning decision is made within 8-13 weeks in normal circumstances, however recently we have seen examples in excess of 50 weeks and counting!

A particularly sore subject for Somerset developers has been phosphate issues. It is thought that over 11,000 new homes are held up in planning for catchments within river Tone, Parrett, and Yeo.

Unfortunately, this issue does not have an immediate resolution, further driving demand for sites with planning within the affected areas, and also pushing opportunity-seeking developers outside of Somerset.

"We will most likely see a surge of sites available on the market (once they have been released from planning) giving an advantage to buyers rather than sellers."

With this in mind, the future of the land market is currently uncertain. We will most likely see a surge of sites available on the market (once they've been released from planning) giving an advantage to buyers rather than sellers. Once the global situation stabilises, we could expect land values to grow as GDV values should maintain a gradual increase and building costs steadily plateau.

The Planning System: time for reform

Helen Morris worked in local government for 12 years prior to this year, when she became a Director at RCA Regeneration, a national planning consultancy, in their East of England office. This has provided her with a unique perspective on the planning system in the UK from both sides of the fence. In this piece, she sits down with Aprao to discuss her views on the legacy of government planning processes, recent proposals and the future of the system under a new Housing Minister.

Local government and stretched capacity

According to Helen, the planning system is long overdue for reform. This is largely due to the stretched resources and minimal support, which local government teams have at their disposal. “I can't see how any real change in terms of speeding up the planning process can happen until that lack of resources is overcome.” She says, “Lack of staff and the recruitment of motivated staff has long been a problem in local authorities.”

In conversation with Helen Morris MRTPI, Director (East of England) // RCA Regeneration

The recruitment process often goes unnoticed but has a large underlying impact on the planning process, as instead of dedicated candidates, “you get a lot of temporary contractors, especially during the recovery since COVID.

"Lack of staff and the recruitment of motivated staff has long been a problem in local authorities"

"On the whole, I think that is where local authorities really struggle. You get a high turnover of staff and that has an impact on the consistency of applications and the planning process as a result. For example, if the case officer on an application is changing regularly during the application process, it takes a while for that new appointee to get up to speed on the previous updates. This all leads to an inability to get that good relationship and rapport with the developer or other agents.”

Local authorities have a certain timeframe to determine a case but they also have the ability to extend the time period. Helen notes that “the NPPF requires local authorities to work proactively with applicants to secure developments, but you don’t often get this due to the lack of resources.

"Given the consistent influx of planning applications, many authorities are choosing not to grant extensions of time or refuse to negotiate on them, which isn’t great customer service!”

Do shelved planning changes mean reform is also on the shelf?

On 15th September, Michael Gove replaced Robert Jenrick in the latest cabinet reshuffle, leaving many wondering how this will affect the likelihood of meaningful reform. Proposed changes put forward earlier this year to how the planning system would be updated were passed over within 24 hours.

One of these discarded proposals included creating specific growth zones to prevent developments from being blocked, and to enable the government to meet the expansive shortfall on housing targets. However, criticism around this included the impact this would have on the local community's voice in the planning process.

Helen agrees with this objection. "I think zoning almost seemed to be an 'anything goes' green light for development in growth areas. And then in other areas, you might only need permission in principle, and you just have to get approval for the details. My concern would be that this is taking power away from the local people in a growth area. Local people are going to be taken away from being able to have their input in the planning system that they currently have."

Despite some local objectors (NIMBYs) being difficult to manage, Helen believes it's vital that dialogue between communities and planning offices remains open: "at the end of the day, people need to be able to have input in the system, they need to be able to say when they've got concerns with an application, so they definitely should be part of that process."

"Regarding the change in Housing Minister, I think everybody agrees, that whichever side of the fence you're on, that there needs to be reform. I really hope the new Housing Minister does bring meaningful reform into effect.

"As mentioned, I'm not convinced by the changes that were proposed earlier this year, so I'm glad they're being delayed. Hopefully, when new proposals do come out, they will be for the better.

"Local authorities want there to be housing delivered. And hopefully, Michael Gove will deliver on that, but it needs to be houses built in the right places, and they need to be quality houses – that's the problem."

"At the end of the day, people need to have input in the system"

Helen emphasises the need for well-designed housing, referencing the building frenzy of the 1970s in response to the housing crisis that led to a prioritisation of low cost over quality. "We don't want poor builds, thrown up across the country, that aren't going to last. I hope there is a strong push for design going forwards; surely anybody involved in the development process would want to leave a mark for the right reasons?"

Lender's view: revisiting the concept of 'home'

Daniel Joyce, Director // Close Brothers

At Close Brothers, we're delighted to be returning to the office, albeit gradually and with some flexibility in place to keep us all safe. This has meant our catchups with clients have been face-to-face, which is very welcome!

Despite the challenges the last 18 months have brought, our doors remained firmly open as we continued to support not only our existing client base but new to Bank clients as well.

As part of the FTSE 250 Close Brothers Group, we continued to lend and support the needs of our clients throughout the pandemic. Over the course of the last two years, we've noticed a decided shift in attitudes towards living spaces. There's been a sustained exodus from urban centres and a large majority of the new schemes we're looking at are in leafy suburbs, as commuters look to get more space and value for their money.

The concept of our 'home' has changed dramatically over the last 18 months, with many of us seeing our homes as a safe haven.

However, this period has also shone an uncomfortable spotlight on the need to improve much of our existing housing stock and move away from high density and towards sustainable, spacious homes with outdoor areas.

SME housebuilders have a vital role to play in this respect as they bring much-needed innovation, creativity in design and the agility to pivot; adapting to these new challenges more quickly than their Plc counterparts.

At Close Brothers, we're currently funding the development of almost 6,000 new homes across the UK. We are flexible when it comes to the type of schemes we fund, from city centre apartments and student accommodation to luxury family homes in rural locations and are proud to support local, regional housebuilders.

In recognition of this variety, we've recently recorded the first episode of our new podcast series in association with Show House magazine; the theme for the episode was "Building for the Future", where we discussed pertinent topics from eco-homes, MMC, to green mortgages, with two SMEs housebuilders we lend to.

Future episodes will focus on First Time Buyers and the next generation of housebuilders.

View our latest video, featuring our developer clients here.

About Us

Thank you for reading this Aprao report. We hope you enjoyed it!

Aprao is a cloud-based development feasibility tool, which is used by property developers, land teams, valuers, agents, development finance lenders and property professionals.

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Contributors

Nick Fisher, MRICS // Aprao

NICK@APRAO.COM

Paul Heming// C-Link

PAUL@C-LINK.COM

Hannah Taylor // deverellsmith

HANNAH.TAYLOR@DEVERELLSMITH.COM

Richard Saunders // Land Rich

RICHARD.SAUNDERS@THELANDRICH.CO.UK

Helen Morris // RCA REGENERATION

HELENMORRIS@RCAREGENERATION.CO.UK

Daniel Joyce // Close Brothers

DANIEL.JOYCE@CLOSEBROTHERS.COM

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