Real Talk

Property Development Market Update

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In this issue

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Overall market sentiment

We think it is fair to say that most people are frankly bored of hearing about Covid. As the curtain is pulled up on lock down restrictions the question still remain as to where the overall economy is going to be in the next 12 months.

We have heard a lot of talk about a quick bounce back but will that be the case with the global economy fundamentally shutting down for 3 months. With Government incentives and the push back of the stamp duty holiday the house market appears to be only going in one direction!

This is partly fuelled by the shortage of new build stock. We have all heard of the "build build build" initiative but will sites continue to get stuck in the pitfalls of a challenging planning system that is in need of a comprehensive overhaul.

With contractors busier than ever and with the Government announcing their commitment to solving the housing crisis is this more political hot air or will we see the huge shortfall of housing stock solved!?

Nick Fisher MRICS
Aprao

Regional house building

The exodus to the countryside and the so called "race for space" seems to be putting a big strain on the regional house building markets. The big questions remain about what will happen in the post covid world. Will large employers drag employees back from the depths of the English countryside back to the major cities?

This quarters guest contributor is Managing Director of the Midlands office of Burrington Estates, David Jervis. Burrington Estates are a regional house builder covering the South West and the Midlands area.

"There is huge demand from developers to buy but the lack of sites is fuelling the increase in land values"

From the sales point of view, the market is still strong with a good forward pipeline of sales. The land market in the regions is still high and this is for a number of reasons. The constraints of the planning system is leading to a shortage of sites coming through. There is huge demand from developers to buy but the lack of sites is fuelling the increase in land values. Additionally there are concerns with the the supply chain and labour issues. These are all having a profound impact on the deliverability of much needed housing supply.

Regional land agents are also reporting incredibly competitive land sales resulting in bidding scenarios with developers. Another trend we are seeing are farmers looking to sell land holdings. We are hearing that in the post Brexit world there are a lack of subsidies for some farmers which is resulting in farmers looking for exits to replenish income.

David Jervis, Managing Director of the Midlands at Burrington Estates

City centre development

"We are now one year on from the realisation that the residential market was not just alive after the first lockdown; it was very much kicking too!"

Dominic Grace // Savills

Our beloved cities. The cultural centres of the United Kingdom. There has been a lot said about this over the pandemic. A tightly knit economic ecosystem which is dependent on the return of the office worker, leisure facilities and thus city centre apartment living.

This quarter we are going to quickly look at the residential development space in our major UK cities. Despite the challenges of Brexit the UK was still seen as a safe haven globally... and then Covid happened! Dominic Grace, the head of residential development at Savills says "we are now one year on from the realisation that the residential market was not just alive after the first lockdown; it was very much kicking too! This caught everyone, including the most optimistic forecasters, by surprise. Prices have bounded on and in many areas housebuilders have not been able to spool up their delivery quickly enough to meet frantic demand, certainly for houses. Land values for housing stock has therefore been more than resilient.

Flat sales in city centres are proving more challenging, not just because of the well-rehearsed impact of working from home/ need for outside space debates. In London and Manchester off plan sales, an absolute necessity to make bigger high rise projects financially viable, have become scarily over reliant on Chinese buyers. Ongoing Covid travel restrictions, along with the prevailing diplomatic and trade wrangles with China make this reliance all the more fragile. Combine this with much of the Build To Rent money rapidly pivoting away from investing in Multi Family to Single Family accommodation means that de-risking bigger flatted projects is going to require a much more considered and granular approach to the type of product delivered and how it is forward funded. Hopefully the emerging relaxation of the national planning system will make this easier, although the recently adopted London Plan is, by contrast, horribly prescriptive and likely to hamper innovation around tenures and residential accommodation in the capital.

All in all, for those running appraisals there has never been a greater need to be able to model different scenarios and to factor in so many variables and contingencies, particularly for mixed use projects. For example, what to build (the fate of the office/retail markets?), price expectations (how sustainable is today's boom in the residential market?), build costs and construction programmes (is the current materials crisis a blip or a long term issue/how to meet rapidly toughening eco targets?) and forward funding options."

Dominic Grace // Savills

What are the valuers saying?

Edward Anderson-Bickley of REEF Commercial Property Valuation says Material Uncertainty clauses reflecting the impact of Covid19 remain a feature in most valuation reports, and transactional evidence in some sectors is still anchored in the pre-Covid era - these two factors in combination are really splitting the field between valuers who genuinely understand their craft and those that are softening yields by citing Covid, but no solid business case for down valuing assets.

Professional Indemnity looks like it could become a notable issue. Premiums across the piece are increasing, but premiums for valuation are - in some cases - rising by over 200% as insurers pre-empt an uptick in claims against valuers.

Most valuation departments are reporting high volumes of instructions, with a 2 - 3 week lead time, reflecting both a need to catch up on instructions missed in 2020 and an apparent increase in new business requiring valuations.

The retail arena is getting a lot of interest at all points of the spectrum. The market is still rocking from the demise of INTU at one end of the scale, whereas new entrants into the real estate investment world are attracted in increasing numbers to the opportunities presented by "shops and tops" coupled with recent changes to the planning use class order and Permitted Development rights.

One of the most challenging types of property to value over the coming months will be offices. We must still wait to see if the Covid induced "office to home-working" migration has a lasting effect. Again though, without transactional evidence, valuations will reflect the pre-Covid market until the impact on real estate is evidenced by post Covid transactions.

Edward Anderson-Bickley // Reef

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Lending update

This quarter's commentary comes from the lending team at United Trust Bank.

Paul Turton, Director of Business Development, says that the High Street and Challenger banks more cautious and concentrating on medium and large firms at the moment. The specialist banks however have a strong appetite and are focused on regional SME's developers.

Lenders that closed during lockdown are now open again and those that reduced leverage during lockdown are back to pre-lock down lending metrics. The lending appetite has been significantly boosted by CBILS and RLS last year and this year for those lending institutions accredited by the British Business Bank

"Specialist banks however have a strong appetite and are focused on regional SME's developers"

UTB have seen that construction and lending activity is strong across the country especially the North, Midlands and South West.

Specialist banks continue to grow coverage across the regions as they fill the void left by the high street lenders and challenger banks.

Headwinds include construction risk in the context of construction inflation and material and product shortages, end of government incentives including furlough and the big one is medium term inflation and its impact on mortgage liquidity and affordability if interest rates were to rise to counter inflation.

Paul Thurton // United Trust Bank

Construction update

The construction sector as a whole is exceptionally busy however there is a lack of raw materials which is delaying projects. This is down to increased global demand, Brexit and supply delays stemming from the first lock down in 2020.

Cost of timber has gone up by more than 80% according to Construction Products Association. Timber is currently being held at shipping docks as demand continues to increase inevitably raising the price.

Concrete is another material in short supply with contractors pointing the finger at HS2. The UK Government has pressed on with one of the largest infrastructure projects in decades which is soaking up construction supplies. Couple this with the demand from the stamp duty holiday the sector is under pressure.

"Supplier warehouses are literally running out of raw material at the moment which needs is obviously going to cause massive issues in the UK development sector."

Norbert Hernyak is the CEO of Yottex, a contractor based in South London who has worked on notable developments such as the US Embassy conversion for the Qatari Royal Family.

He says "Supplier warehouses are literally running out of raw material at the moment which needs is obviously going to cause massive issues in the UK development sector. The bigger question to ask is where does this leave us 6 - 12 months time.

Future projects need to be planned out accordingly particularly for developers. From a contractors perspective it is a difficult market, demand is through the roof but we are struggling to give quotes and raw materials prices are literally fluctuating on a daily basis! Perhaps the biggest challenge is the national cement crisis. Simply put cement is the main ingredient for construction. Contractors literally can't get hold of it and when we can they restrict the amount we can buy! The start of HS2 really hasn't helped the construction sector!"

Norbert Hernyak // Yottex

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