

Report Findings: The Role of Land in Enabling New Housing Supply in Rural Scotland

This is a transcript of presentation given by Graham Reid of Savills for Rural Housing Scotland on 20th August 2020. A recording of this and other presentations from the session can be found at www.ruralhousingscotland.org/webinars.

Slide 1

I am delighted to be able to take this opportunity to share some of our key findings from our recent research: The Role of Land in Enabling New Housing Supply in Rural Scotland.

Slide 2

So the Scope set by the SLC was to investigate to what extent land, specifically the cost of land and access to land is a barrier to new housing delivery in rural and remote rural Scotland.

We were also asked to highlight examples of stalled projects and good practice whilst making a series of recommendations which we felt would help overcome these challenges. These could be practical recommendations or legislative changes.

Slide 3

Before going any further it is useful to highlight what we mean by rural Scotland. We have adopted the Scottish Governments classification system which is highlighted by the dark and light green shading on this map.

The darker shade of green refers to remote rural and the lighter green to accessible rural.

It is clear to see just how substantial and significant this area is.

Slide 4

It didn't take us long to realise / or reaffirm just how complex this topic was going to be!

By the end of October the list of themes we had noted down from interviews and our literature review was almost overwhelming!

This slide helps to provide that sense of complexity and highlights how interrelated many of these themes are.

It is a rather complicated jigsaw puzzle and it was becoming apparent that, whilst access to land was clearly an important factor, it was very much influenced by the range of issues around it.

To look at land access in isolation was going to be too simplistic and it became clear that there was not going to be a 'silver bullet' solution.

Slide 5

Thanks to the help of the various stakeholders who attended our workshops in Inverness and Edinburgh back in January, we were able to start distilling and ranking the key issues that most influenced access to land and the ability of a developer to acquire that land at a reasonable cost.

Given that I only have a few minutes left I will very briefly summarise the main land challenges.

Firstly, one key challenge is that volume housebuilders who are geared up to deliver housing at scale and deliver the majority of new homes in our towns and cities are largely absent from rural Scotland. This is because their business models are very much predicated on a) sales volume and b) return on capital deployed.

Towns and cities offer volume and depth of demand, more pricing certainty, the markets are more established and transparent, and tend to result in higher pricing.

Even some smaller builders are, we discovered, seeking to migrate towards areas of known demand.

Secondly in many areas of rural Scotland, that aren't in hotspots or commuter belts, the economics of development can be very challenging - both in terms of cost and revenue, whilst demand can be untested or unknown. In many cases this leads to what is essentially market failure and it is not uncommon for allocated or consented land to remain undeveloped.

Thirdly, the process of buying a site (properly) and developing it out is complicated and much more complicated than many people realise. I would suggest that this complexity is compounded in many areas of rural Scotland given market failure and untested demand.

In the report we outline the process that an established builder would typically follow which is supported by a wide array of consultants and substantial financial resource. There are a lot of steps to navigate that often even they find challenging!

The above complexity is compounded by a general lack of skills, resource and awareness in many rural communities. There is often a will but the way is too expensive and/ or overwhelming. There is no clear road map and it doesn't take much to derail a project. This is very much highlighted in both our Rothiemurchus and Tarland case studies.

Ironically, many rural projects would be in the too difficult box for many seasoned developers and house builders and yet community groups are trying to manoeuvre their way through this process with very limited resource!

Sadly, this complexity can lead to relationships between stakeholders breaking down, paranoia and finger pointing. Sometimes we see that a change in personalities or strong leadership by a key stakeholder can make all the difference and help to get things back on track.

I will now go on to explain the economics of development briefly to try and bring the price of land section of the report to life a bit more. And apologies in advance, I have been in this business for 20 years and still sometimes have difficulty in explaining this concisely ...

Slide 6

In terms of the methodology for assessing land price this is most commonly done using the residual approach.

This is where the anticipated cost of development and target profit element are deducted from the anticipated market value of the house once it has been built.

In this example the market value of the house based on comparable sales evidence (which is influenced by affordability and supply and demand dynamics and not cost) is £200k, the cost of building the house is £140k and the target profit margin is £40k. This means that the builder can pay the landowner £20k per plot.

Where land price is known, and viability is being tested profit and land cost are substituted and profit becomes a function of the Selling price of the home less the total cost of building it (including land).

Slide 7

This graphic attempts to set out the proportion of the value of a new build 1,100 sq. ft house in 4 different housing market areas split between Land Price (green), Build Cost (grey) and Gross Profit (blue). This is based on 4 sites we have appraised in the last 6 months.

If I start at the top left and work clockwise. The first example is of a new house in an urban market. The value of the house when it is built is expected to be £300k and this is a function of the supply and demand dynamics of that market and the affordability of buyers. The total cost to build the house (including abnormalities) is anticipated to be c.£150k and the target profit margin is 20% or £60k. Land is therefore c.£90k per plot or 30% of the value of the home.

As I move clockwise the value of the houses starts to fall and the cost of building it begins to increase. This has the impact of eroding land price and ultimately profitability (in that order) if the housebuilder model is adopted.

In this remote rural example the combination of reduced market value (based on affordability and market context) and £35k per plot cost premium (higher abnormalities and cost of materials and labour) erodes both land price and profit.

Whilst this paints a negative picture in terms of developer viability it is important to note that development is still taking place and land is being acquired. Indeed, not for profit developers can play a key role in stepping into this void.

These groups tend to rely heavily on grant funding and government support and so are less influenced by the vagaries of the market and focus instead on satisfying housing need.

Another key player in the rural land market is the self-builder who can often pay more for land because they do not need to make a profit.

Slide 8

This graphic highlights the difference that not taking a profit on land can have on the price a self-builder can pay in comparison to a builder. In this example the value of the end house is £510,000 and so a 20% profit return equates to a difference of more than £100,000. This difference more than offsets any increase in cost due to the self-builder paying a direct contractors margin.

The additional value that can be generated through this approach can help to cross-fund housing delivery. This was the case in our Rothiemurchus case study where 4 of the 6 homes were delivered as affordable self-builds. It can also help to overcome viability issues or higher enabling costs whilst creating opportunities for the growing 'custom build' sector.

I will now pass you onto Debbie who will talk you through some examples of good practice before running you through our 6 recommendations.