

Research Briefing

Shelter 'Phantom Homes' Research

Planning Permissions, Completions and Profits

July 2017

shelter.org.uk/policylibrary

© 2010 Shelter. All rights reserved. This document is only for your personal, non-commercial use. You may not copy, reproduce, republish, post, distribute, transmit or modify it in any way.

This document contains information and policies that were correct at the time of publication.

Shelter helps millions of people every year struggling with bad housing or homelessness. We provide specialist advice and support on the phone, face to face and online, and our legal teams can attend court to defend people at risk of losing their home.

However, at Shelter we understand that helping people with their immediate problems is not a long-term solution to the housing crisis. That's why we campaign to tackle the root causes, so that one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

Overview of Research Briefing

Shelter released new research on the topic of planning and housing development on Friday the 7th July 2017. This research briefing provides an overview of the key findings and our method.

Context

Local authorities continue to increase the number of planning permissions they grant. DCLG planning permission statistics released in June 2017ⁱ found that in 2016/17:

- 6,617 major residential permissions were granted by district planning authorities (59% increase on five years ago).
- 43,381 minor residential permissions were granted (31% increase on five years ago).

However, while private housing developers have increased the number of homes they build, England still haven't built 200,000 new homes a year at any point since the recessionⁱⁱ. It is widely accepted that we need to be building [at least 250,000 homes](#) to adequately meet housing need.

Housing supply has faltered despite a recent upward trend in the usage of conversions/changes of use to provide new dwellings. This includes office to residential conversions involving the [permitted development rights](#) policy – an approach to new housing supply which entails significant opportunity costs for enterprise, as well as eroding [minimum space standards](#).

In this context, it is clear we have become too reliant on one model of housebuilding. To stop homelessness from risingⁱⁱⁱ, and meet demand for new homes^{iv}, we need to find new ways of building the quality, genuinely affordable homes the people in this country need. This is what Shelter is calling for, under the banner [New Civic Housebuilding](#).

Research Aims

Our researchers sought to answer two principal questions to illuminate the extent to which our current approach to housebuilding is failing:

- 1) How have developers' balance sheets matured over the last five years?
- 2) Is there a shortfall between planning permissions and completions over recent years?

The remainder of this briefing will address these questions.

Part I: Developer Profits

Overview

The housing market crash was a chastening experience for some private UK housing developers, including requiring the [assistance](#) of the UK government to boost site viability and demand. Over recent years however, there has been a growing debate about the extent to which developers' benefit from our current situation of constrained new housing supply, which is tens of thousands of homes per annum fewer than needed.

To explore this issues, the following analysis utilises an existing methodology developed by Sheffield Hallam University academics at the Centre for Regional Economic and Social Research (CRESR). A five-year time period was chosen, beginning in 2011, allowing for a period of recovery for developers' balance sheets following the previous housing market crash.

Method

Developers report differently, sometimes at different times, and their usage of terms such as ‘profit before tax and exceptional items’ is different. Major developers also often generate revenue from other activities besides UK housebuilding – for example development activity in other countries (e.g. Taylor Wimpey in Spain) and commercial non-residential activity (e.g. Barratts).

As addressed above, to estimate developer profits arising specifically from UK residential development activity, Shelter used an existing methodology from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University^v. CRESR’s segmental approach to attribution was informed by advice from a qualified accountant, and it involved using developers’ own account and reports. One of the authors of the CRESR report, Dr Tom Archer, was consulted extensively regarding the below calculations. Many thanks to Dr Archer for his kind assistance. Full method contained within CRESR (2016): [‘Profits before volume: Major housebuilders and the crisis of housing supply’](#)

The profit measure used was ‘profit before tax and exceptional items’. This choice is particularly relevant in an analysis of the accounts of large housebuilders following the crisis, as large ‘impairments’ were included in their accounts, particularly in 2009, which reduced the value of their land and other assets. Including these items gives a sense of the current financial health of developers, but it may conceal the underlying profitability (or otherwise) of their normal functions such as UK housebuilding^{vi}. Therefore, for this research, it was most appropriate to use profit before tax and exceptional items, in order to shed light on the ‘normal’ activities of developers and profits arising from those activities.

The top 5 developers by UK housebuilding revenue at the end of the period under study were (in order): Barratt Developments PLC, Taylor Wimpey PLC, Persimmon PLC, Berkeley Group Holdings PLC, and Bellway PLC. These five developers produced around one third of all new build homes in England in 2015/16.

Findings

- Using the top 5 developers’ own accounts it is estimated that their UK housebuilding profits before tax and exceptional items **increased by 388% between 2011-2016.**
- Profits before tax and exceptional items for the top five developers in 2011 were estimated to be £674m and **in 2016 they were estimated to be £3.3bn.**

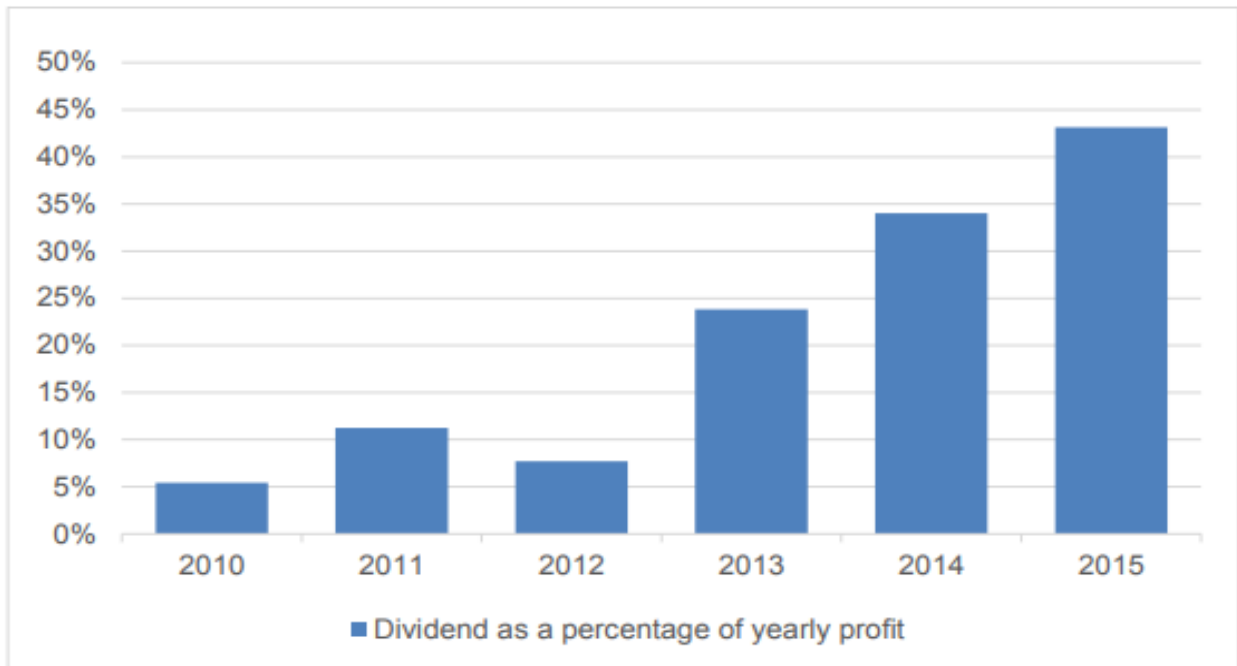
NB: Due to different reporting times, the above figures are for calendar years, rather than the financial years utilised in the planning permissions/completions comparison above.

Additional: Recent research on Shareholder dividends

CRESR (2016) highlighted the emphasis on improving profit margins when selecting sites by housebuilders^{vii}. It also highlighted changes in major developers’ business models, towards maximising short-term shareholder return^{viii}.

The below charts the increase in the dividend share of the top five developers’ after-tax profits between 2010-15^{ix}. Note that after-tax profits increased substantially over this period. Dividends therefore are taking an increasing share of an increasing total.

Figure 9: Yearly dividends for the biggest five housebuilders as a share of profits for the year



Shareholder dividends from just the top five developers were £936m in 2015. CRESR estimate these 2015 dividends alone could have funded an additional private housing output of nearly 9,000 dwellings.

Part II: Planning Permissioned Units / Completions

Introduction

There has been growing discussion of the build out rates of major developers (for example, see [Select Committee on Economic Affairs 'Building More Homes' \(2016\)](#)) and the extent to which there is a gap between planning permissions and completions.

The following analysis uses pre-eminent resources for planning permissioned units and completed units including data from the Home Builders Federation, the voice of the housebuilding industry in England, in order to ascertain the size of any gap between planning permissions and actual completions.

Overview of Statistics

Number of units securing detailed planning approval (Source: Home Builders Federation/Glenigan Housing Pipeline reports)

Geography	Total number of planning permissioned units (2010/11-2014/15)	Average per annum
England	1,020,000	204,000
London	222,000	44,000

The HBF's definition of a planning approval is^x:

'Approvals are recorded at the detailed planning stage. Where a project has secured outline planning approval and the detailed consent is being resolved through the approval of reserve matters the date of 'detailed consent' is deemed to be that of the approval of reserve matters. In the case of some projects, the reserve matters are approved piecemeal; in these circumstances the earliest approval date has been used in order to avoid double counting.'

Of this latter category, some of these sites may take a significant length of time before leaving the planning system. But some sites will have been stalled from before our period of study as well, and due to Glenigan's method, those additional 'detailed consent' approvals will not figure in these planning permission numbers. It is hard to know without site-by-site data which one of these influences outweighs the other, particularly given the housing market crash just before our period of analysis, and its stalling impact on planning and development alike.

Limitations

This data has been challenged by local authority representatives, using London Development Database data as a comparator^{xi}:

Appendix one gives more detail, but we particularly draw your attention to a comparison of Glenigan data (as used by DCLG and LGA) with approvals collected through the statutory London Development Database (LDD). This shows that the stock of unimplemented permissions identified by Glenigan excludes some types of development and, significantly underestimates the stock of new homes permitted.

Complementary analysis of data for sample authorities in the East of England and South East further illustrates how the Glenigan data underestimates the backlog of unused permissions. Based on this local monitoring we believe the backlog to be much greater than Glenigan's estimate and more in line with the LDD findings. Assuming the same known differences occur in the East and South East and to the same degree, the LGA / Glenigan data would be increased by 128%, giving a total of over 510,000 unimplemented homes in the Wider South East, which is over six years' supply for new households (see Table 3 in the Appendices).^{xii}

However, as this data is published by the HBF themselves, the decision was made to continue to utilise the HBF/Glenigan data, under the proviso that it may undercount, as we are keen to be fair to the industry.

New completions (Source: DCLG Table 120)

Geography	Completions (2011/12 to 2015/16)
England	696,000
London	117,000

DCLG Table 120 was selected over DCLG Table 208, as Table 120 provides a fuller picture of new homes built (the more timely quarterly statistics which underpin Table 208 under-counts high density development, Small Medium Enterprises (SMEs) and private sale by housing associations. We followed Civitas (2016) and others in this regard^{xiii}.

Method and key considerations

Time naturally elapses between gaining planning approval, starting on site and actually completing a home. The latest evidence on this from the planning and development consultancy, Nathaniel Lichfield and Partners, establishes^{xiv} that the time taken moving from permission to completion varies with site size. On sites of over 2,000 units, the first homes are completed on average after 10 months. On sites of 500 – 2000 homes, the first homes are delivered around 12 months on average, and sites of <500 units wait on average 18 months for their first completion.

It will be the case that sites given planning permission during the period of study will build out after our period of analysis, thus acting as a downward weight on the ratio of completions/planning permissions. However, it is also the case that sites given planning permission before our period of study, will have been built out during our period of analysis, thus inflating the ratio of completions/planning permissions. It is unclear whether either effect will dominate the other, particularly given the potential backlog of planning permissioned units arising from the period of economic recession.

There was also a large housing market downturn in the later part of the 2000s. Housebuilders and housebuilding began to recover in 2010 and 2011. Using a lag of more than one year for this analysis would mean looking at permissions in part of the pre-2010 crisis period. This is a key downside to utilising a lag of greater than one year, as it limits the extent to which we can reflect 'normal' times in the planning system.

Factoring in all of these considerations, and without the ability to follow individual sites through the development process, the usage of a lag of one year was deemed the most effective approach to ascertaining any 'shortfall' between planning permissioned units and completions at an aggregate level.

The following findings are therefore the result of comparing data on planning permissioned units between 2010/11 and 2014/15, with data on English new build completions between 2011/12 and 2015/16.

NB: It is possible that granted residential planning permissions expire after a period of time, and are re-applied for. It is not possible to account for this minority of cases in an aggregate-level analysis. Further, if this is occurring as anything more than an exception, it itself raises serious questions about the health of our current approach to housebuilding.

Findings: National

- The number of completed homes between 2011/12 and 2015/16 was **68%** of the number of planning permissioned units between 2010/11 and 2014/15.
- This is a **'shortfall' of 324,000 homes**. A shortfall was particularly driven by large gaps in London and the North West.

Sensitivity of these findings

- If no lag utilised, completions would only be 63% of planning permissioned units – leading the calculated 'shortfall' to be 413,000 homes.
- If a two-year lag was utilised, completions would only be 73% of planning permissioned units, a shortfall of 252,000 homes.

This demonstrates that whilst the numbers can shift, with a 10 percentage point difference between no lag and inclusion of a two year lag the overall headline remains the same– the current housebuilding model is seeing shortfalls between permissioned units and completions.

NB: Some 'Changes of use' require planning permission, if it involves moving between different 'use classes'. In Civitas (2016) and other previous research into planning permissions and completions, changes of use have not been included. This is presumedly in large part because this enters subjective territory, as it is unclear what changes of use in DCLG Table 120 required planning permission, and also the extent to which Glenigan's data covers these relevant permissions. There is also the point that changes of use utilise existent property to deliver new homes, which is not sustainable indefinitely. Over three years of our period of study, many changes of use have been developed through the [permitted development rights policy](#), which does not require planning permission (45% of the 30,600 'change of use' homes delivered in 2015/16 were conducted through the development rights policy).

Further, according to the DCLG <https://www.gov.uk/guidance/when-is-permission-required> the need for residential planning permission depends on whether the development 'materially affects' the building and its external appearance – and there is no statutory definition of this. Therefore, knowing the number of changes of use is not possible from existing aggregate evidence – if evidence on this was made available by housebuilders in the future, that transparency would advance future analysis in this area. However, in order to show the lower-bound of our estimate, if half of changes of use in the last five years required planning permission, and all of these were recorded accurately by Glenigan as permissioned units, our two-year lag estimate of 73% would become 77% and our shortfall would reduce by 31,000 homes from 252,000 to 221,000 homes over a five year period. This would be a shift of nine percentage points from our central published estimate, and is our most conservative estimate of shortfall, as it takes in one year of 'non-normal' activity in the planning and development system pre-2010.

Findings: London

- The number of completed homes between 2011/12 and 2015/16 was **52%** of planning permissioned units between 2010/11 and 2014/15.

- This is a **'shortfall' of 107,000**. Equivalent to 2.5 years of the current Mayor's annual minimum housing supply target.

Sensitivity of these findings

- If no lag utilised, completions would only be 49% of planning permissioned units – leading the calculated 'shortfall' to be 120,000 homes.
- If a two-year lag was utilised, completions would only be 56% of planning permissioned units, a shortfall of 92,000 homes.

This demonstrates that while the numbers can shift, with a 7 percentage point difference between no lag and inclusion of a two year lag the overall headline remains the same – the current model is seeing shortfalls between permissioned units and completions.

For more information on this research, please contact:

Marcus McPhillips

Research Officer

Shelter

e: marcus_mcphillips@shelter.org.uk

t: 0344 515 2047

-
- ⁱ DCLG, Planning Applications in England: January to March 2017 (2017)
<https://www.gov.uk/government/statistics/planning-applications-in-england-january-to-march-2017>
- ⁱⁱ DCLG, Table 120: components of new housing supply; net additional dwellings, England 2006/7 to 2015/16 <https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing>
- ⁱⁱⁱ DCLG, Live Tables on homelessness, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness>
- ^{iv} ONS, English Housing Survey 2015/16
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595785/2015-16_EHS_Headline_Report.pdf
- ^v Centre for Regional Economic and Social Research (CRESR), 'Profits before Volume: Major housebuilders and the crisis of housing supply' (2016)
<https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/profits-before-volume-housebuilders-crisis-housing-supply.pdf>
- ^{vi} Ibid. p. 17
- ^{vii} Ibid. i
- ^{viii} Ibid. ii
- ^{ix} Ibid. p. 19
- ^x HBF and Glenigan, 'New Housing Pipeline: Q4 2016 report'
http://www.hbf.co.uk/?eID=dam_frontend_push&docID=25620&filename=HPL_REPORT_2016_Q4.pdf
- ^{xi} Unlocking unimplemented housing capacity in the East, London and the South East
<http://www.secouncils.gov.uk/wp-content/uploads/2012/03/WEB-FINAL-WSE-Letter-to-Gavin-Barwell-MP-31.1.17.pdf>
- ^{xii} Unlocking unimplemented housing capacity in the East, London and the South East
<http://www.secouncils.gov.uk/wp-content/uploads/2012/03/WEB-FINAL-WSE-Letter-to-Gavin-Barwell-MP-31.1.17.pdf> p. 2.
- ^{xiii} Civitas 'Planning approvals v housebuilding activity 2006-2015' (2016)
http://www.civitas.org.uk/reports_articles/planning-approvals-vs-housebuilding-activity-2006-2015/
- ^{xiv} Nathaniel Lichfield and Partners, 'Start to Finish: How quickly do large-scale housing sites deliver?' (2016) <http://lichfields.uk/media/1728/start-to-finish.pdf>