Spotlight
Development: The Value of Placemaking

RAISING THE GAME
Early investment creates better places and delivers higher returns

LAND VALUE UPLIFT
Long-term vision and partnership approach is needed

CASE STUDIES
Alconbury Weald, Heyford Park, Poundbury
Early spending in infrastructure, local amenities and public spaces creates better places. This report examines why it pays to take the long view and partnership approach.
As part of a community engagement programme at Alconbury Weald, Urban & Civic held a big event in 2011. The Design and Discovery Day hosted 2,500 people who came along to see nearly 100m of display boards and give their views. A Ferris Wheel allowed them to enjoy the 575 hectare brownfield site from a different angle.

EXECUTIVE SUMMARY

Investing early can pay off: our model shows that additional early spend increases land values by circa 25%
See pages 04/05

Higher land value can be achieved by investing in placemaking earlier rather than later
See page 06

Land value uplift enables the delivery of neighbourhoods communities want
See page 07

Case studies: lessons from Alconbury Weald, Heyford Park and Poundbury
See pages 08,09,10

Recommendations: placemaking requires patient capital, viable land, long-term vision and support from Government and Local Authorities
See page 11

savills.co.uk/research 03
Modelling Land Value

INVESTMENT IN PLACE PAYS OFF

Creating better places makes financial sense. Our modelling shows how to make it work.

“Spending more upfront and achieving higher sales values and sales rates can increase land values by around 25%.”

Lucy Greenwood, Savills Research

When it comes to spending on placemaking, some key conditions stand out: the strength of the local market relative to connected markets and therefore the potential to increase sales values and sales rates through extra investment.

Our land value model

To examine how these variables affect each other and the impact of extra spending on land values, we built a simplified land value model for a theoretical urban extension of 3,000 homes on a 425 acres site, 50% of which is developable.

We have fixed many components of this model for simplicity and allowed the scale of additional investment, sales values and rates of sale to be varied. The effect of changing the required rate of return and the timing of the additional investment are subsequently examined on page 6.

The land value is an output of the model, calculated as the net present value (NPV) of the cashflow of future receipts. It is the amount the land is worth today as the income in the future from selling plots of land or taking a share in the value generated from the homes sold.

At the simplest level, it shows that spending an extra 50% on placemaking, in markets where this leads to a higher sales value and faster sales rate, can boost the land value by around 25%, depending on required rates of return.

This is a theoretical exercise to illustrate the effect of investing more upfront. Real life throws up a bigger number of moving parts, with opportunities for partnerships to reach landowners’, developers’, local authorities’ and communities’ objectives.

The basic scenario

In this scenario, we assume a basic spend on infrastructure, average house prices and a steady rate of sales on a straightforward site with no remediation costs.

The required spend on enabling infrastructure, spine roads and services as well as S106 and Community Infrastructure Levy (CIL) obligations are made at a cost of £30,000 per home.

We have assumed a new home market sales values of £250 per sq. ft. or £250,000 per home which is a typical sales value in much of the south of England.

The Affordable housing component of the site is set at 30%, which is an approximate average target across

Words: Lucy Greenwood
The benefits of an increased spend

The assumptions behind the model:
- The variables we have chosen are based on Savills experience of sites across the country as well as interviews with clients. Site specific variables will of course vary from this illustrative case.
- Our model is based on a hypothetical 3,000 home scheme on a site of 425 acres (172 hectares) which is 50% developable at a density of 35 dwellings per net developable hectare.
- It assumes an average home size of 1,000 square feet.
- 30% of the total number of homes are Affordable. The value of the Affordable homes are 50% of ‘The Basic’ market value of £250 per sq ft.
- The basic infrastructure spend (£30K per unit) is the minimum required spend per unit for site preparation works, S106 and CIL. It is assumed that 40% of this is spent in the first two years, then 15% at each fifth of the development built out.
- The additional infrastructure spend (an extra £15K per unit) is assumed to be spent as follows: 60% upfront investment then 10% every fifth of the development built out. Uplift in sales values is linked to the timing and scale of additional spend. A build cost of £100 per sq ft is assumed for the basic example, increasing with any additional spend on infrastructure by one third of the percentage of extra spend. The build cost for ‘The Legacy’ scenario is £117 per sq ft. The model is calculated in real terms, so no inflation is applied. The housebuilder margin is 20%.
- The land value is calculated as the net present value of the net project cashflow.
- No upfront land cost is assumed in the model.

Source: Savills Research

**Model Variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Basic Scenario</th>
<th>Legacy Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure cost per unit</td>
<td>£30,000</td>
<td>£45,000</td>
</tr>
<tr>
<td>Sales value</td>
<td>£250 psf</td>
<td>£300 psf</td>
</tr>
<tr>
<td>Sales rate (all tenures)</td>
<td>120 homes pa</td>
<td>180 homes pa</td>
</tr>
<tr>
<td>Land value (NPV)</td>
<td>£52m +25%</td>
<td>£65m</td>
</tr>
</tbody>
</table>

**Land Value Model**

The legacy scenario

Here we have assumed that there is potential to increase demand for homes on the site which is reflected in higher sales values and sales rates. Amongst the examples we have looked at where placemaking has been successful, some sites have seen strong increases in sales rates, others have seen strong increases in sales values or elements of both.

In Poundbury, the urban extension to Dorchester in Dorset, new build values are up to 29% higher than on other new build schemes in the area on a type for type basis in the last year. At Brooklands in Milton Keynes the highest sales rates over the last three years have been nearly double (91% higher) that of other nearby developments such as Oakgrove and Middleton.

In this legacy scenario, we have assumed that sales values reach 20% above the basic scenario to £300 per sq ft and that the take up rate is 50% higher at 180 homes per year across all tenures, as a result of opening up new markets for the scheme.

The scale of additional investment put into sites for placemaking is difficult to quantify accurately. From our knowledge of the range of investment typically made on sites, we have assumed that spending an extra 50% of infrastructure costs on placemaking, with 60% spent upfront, could achieve the value and sales uplift required.

This brings the total ‘infrastructure’ spend to £45,000 per home. We calculate that the extra spend and sales value uplift would deliver land value of £65 million, 25% more than in the basic scenario. This is the equivalent of £153,000 per gross acre.
LEGACY SCENARIO: THE IMPORTANCE OF TIMING

Early investment raises land value but also increases development risk

Meeting the demand for quality housing
A key feature highlighted by our modelling is that investment in place releases the potential for higher sales rates and sales values. This is particularly the case in areas of high demand where buyers can be drawn from strong markets nearby.

Therefore, the uplift in sales values can only be achieved if there is investment in place to make it more appealing. The sooner the investment is made, the sooner the uplift in sales values can be achieved which is reflected in the land value. Conversely, investing later decreases the potential.

Our model shows that for the legacy scenario the land value decreases by 26% if the majority of the extra investment is made 40% of the way through the build out rather than at the start.

Risk is greater
Investing more upfront however, increases the peak debt. In our model the peak debt is 56% greater if the majority of the investment is made upfront rather than later in the build. The ability to accommodate this level of debt is necessary to achieve the higher land values discussed above.

-26%
Relative reduction in land value if investment is later, delaying the potential for higher value sales

56%
Increase in peak debt required if additional investment is upfront

FIGURE 1
Earlier investment means greater land value

Majority of investment up front

<table>
<thead>
<tr>
<th>Timing of bulk (60%) of additional investment</th>
<th>Peak debt</th>
<th>Land value (NPV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-£80</td>
<td>-£80</td>
<td></td>
</tr>
<tr>
<td>-£60</td>
<td>-£60</td>
<td></td>
</tr>
<tr>
<td>-£40</td>
<td>-£40</td>
<td></td>
</tr>
<tr>
<td>-£20</td>
<td>-£20</td>
<td></td>
</tr>
<tr>
<td>£0</td>
<td>£0</td>
<td></td>
</tr>
<tr>
<td>£20</td>
<td>£20</td>
<td></td>
</tr>
<tr>
<td>£40</td>
<td>£40</td>
<td></td>
</tr>
<tr>
<td>£60</td>
<td>£60</td>
<td></td>
</tr>
<tr>
<td>£80</td>
<td>£80</td>
<td></td>
</tr>
</tbody>
</table>

Majority of investment when 40% built

<table>
<thead>
<tr>
<th>Timing of bulk (60%) of additional investment</th>
<th>Peak debt</th>
<th>Land value (NPV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-£80</td>
<td>-£80</td>
<td></td>
</tr>
<tr>
<td>-£60</td>
<td>-£60</td>
<td></td>
</tr>
<tr>
<td>-£40</td>
<td>-£40</td>
<td></td>
</tr>
<tr>
<td>-£20</td>
<td>-£20</td>
<td></td>
</tr>
<tr>
<td>£0</td>
<td>£0</td>
<td></td>
</tr>
<tr>
<td>£20</td>
<td>£20</td>
<td></td>
</tr>
<tr>
<td>£40</td>
<td>£40</td>
<td></td>
</tr>
<tr>
<td>£60</td>
<td>£60</td>
<td></td>
</tr>
<tr>
<td>£80</td>
<td>£80</td>
<td></td>
</tr>
</tbody>
</table>

Source: Savills Research. NB: Based on the assumptions for the legacy scenario with 50% additional investment and absorption rate of 180 homes per year when bulk of investment made.
Partnership Approach

A COMMON GOAL BENEFITS ALL

A longer term view and willingness to draw receipts over a period of time is key to creating value for all.

Words: Lucy Greenwood

“Faster sales rates benefit the various partners in the scheme”

Lucy Greenwood, Savills Research

Our theoretical model shows what can be gained from the land in the long term. It does not include an upfront payment for land. If all the land is an upfront cost to the developer, development risk is greater and there may be less scope to make additional investment. However, where land is paid for over a period of time, there may be more financial capacity to invest in place and achieve better returns in the long term. There is therefore an incentive for the landowner to take a longer term view and maintain ownership of the land to benefit from the additional investment. This can be achieved by entering into a joint venture (JV) or development licence with a master developer. Separate research shows there is appetite among rural landowners to develop. According to our poll in our Estate Benchmarking survey of 81 rural estates, 40% have plans to sell land to developers over the coming year.

Importance of sales rates

Land value is increased with faster sales rates because higher levels of income are achieved sooner and the development is completed faster. As a result, the period until the development breaks even is shortened and the finance costs are reduced. This benefits the various partners that may have invested in the scheme, including the public sector. Hence public bodies putting in the land, receive their back ended returns sooner and finance invested to support upfront costs of infrastructure can be repaid earlier, returning to the public purse.

Required rate of return

One of the most influential factors on land value in our model is the required rate of return on capital or discount rate. Patient capital delivers higher land values which justifies the higher investment in place. This illustrates why developers with access to patient long term capital and/or public sector support are able to invest more in placemaking while those delivering a site on their own may find it more difficult. A partnership approach is needed where both private and public sector work together to deliver a common goal of creating better places and building more homes. Public sector support can come in the form of land, forward funding and planning certainty. Such a framework set up by a master developer allows a wider mix of housebuilders to participate increasing rates of delivery.

All three main cases studies we have observed at Alconbury Weald, Heyford Park and Poundbury, have involvement by a number of players. Hopkins, Morris and Redrow are delivering homes at Alconbury Weald. Meanwhile at Upper Heyford, Bovis Homes have bought a number of plots, providing early funds to the Dorchester Group to reinvest in infrastructure.
Infrastructure

WHEN AND HOW TO SPEND IT

Earlier investment brings greater benefits. Spending on schools, public realm and amenities sets the tone for a new neighbourhood.

"Schools attract potential buyers and increase footfall supporting shops"

Words: Susan Emmett

When and how to spend it

Savings attract potential buyers and increase footfall supporting shops

The attraction of a new development is not governed solely by the quality of the homes but by the quality of the place around it. Investing earlier in key features that give the development a sense of place and community, as seen in every desirable village and market town, pays off.

As we have explained on previous pages, our model shows that investing in placemaking delivers an uplift in sales values where conditions are right. Our calculations also show that the sooner the additional investment is made, the earlier the uplift in values can be achieved (see page 6).

This applies equally to investment in place as part of planning requirement, which may include a school, and additional investment. These are some of the key components in placemaking:

- 

Importance of schools

Investing in a school or schools, whether as a planning requirement or choice, has a significant impact on the success of a development, particularly if this is done early.

Primary schools typically cost between £5 million and £10 million and a secondary school £20 million.

Developers might be required to provide two to three schools on a scheme of around 3,000 homes depending on the need from the local area.

There was a consensus among developers we interviewed that this was money well spent and should be prioritised over other non-residential uses. Schools provide an immediate draw to the development not only attracting potential buyers but also increasing footfall from non-residents.

It is therefore important to locate the school in a way that complements the neighbourhood centre and helps...
support early commercial outlets. Parents on the school run can provide custom for coffee shops and food stores, creating community feel.

Effect of schools on sales
It can be hard to pick apart a single driver for increasing sales rates and values. We know from our earlier research of 2015/16 schools results and HM Land registry data that there is a 20% house price premium around the best performing state schools. Whilst this analysis does not tell us whether the school is better because it is in a higher value area or if the house prices are higher because of the quality of the school, it does suggest a link between quality schools and demand for homes.

Heyford Park School
At Heyford Park, a development of over 700 homes on a former US air force base in Bicester, rental uptake increased significantly in the lead up to the opening of Heyford Park Free School in 2013 as parents sought to ensure that they were in the right catchment for the new state school. The success of the school which is currently three times oversubscribed has driven new build sales rates with approximately a quarter of new buyers suggesting the school was the main reason they buy at the site.

Overall, Dorchester, the master developer behind Heyford Park, has experienced sales price growth from £250 per sq ft to £340 per sq ft in the two years since it started building with 150 homes already completed and sold by the housebuilder on site. It has experienced a sales rate of two a week, selling to one in four visitors.

Public Realm
In any neighbourhood that works, the spaces between the buildings are as important as the buildings themselves. Investing in well-designed good quality public realm makes all the difference when it comes to creating a sense of place and using land effectively.

However, prescribing exactly how much ought to be spent on public realm is difficult.

For developers involved in long-term placemaking, establishing effective procurement routes and long-term relationships with suppliers can mitigate the costs of higher quality materials, such as natural stone. This is the case for the Duchy of Cornwall in Poundbury.

Poundbury
Whilst Poundbury’s traditional architecture, built according to principles advocated by the Prince of Wales, has drawn the most comment, we found that the way the development made best use of land provides the most important lessons for other development.

The master plan for the overall scheme delivers higher densities within a walkable neighbourhood, which promotes healthier lifestyles, helps support the local shops and increases land value.

In general, higher densities increase land values at appropriate building heights for the location. However, securing this premium requires that the public realm is well designed and of good quality.

At Poundbury people are prioritised over cars. Streets are an integral part of the public realm, designed to feel like a welcoming open space where neighbours can meet and children can play rather than solely a route for vehicles.

There is a wide variety of building types at Poundbury and a hierarchy of scale rising to a landmark tower, in Queen Mother Square, which will form the district centre of the neighbourhood.

Buildings around the square, rise between four and six storey
and deliver a mix of residential and commercial property.

**Alconbury Weald**

Urban & Civic have also prioritised investing in the public realm to set the tone for a new neighbourhood at Alconbury Weald from the outset. The entrance to the development is framed by good quality landscaping. The first thing a visitor sees is a pond with seating areas, leading onto an attractive open square and a new primary school which opened in September 2016 even before the show home was opened.

New entrances to the site have been put in to separate construction traffic and a significant amount has been spent on moving existing and putting in mature trees. Around £10 million was spent in advance of any housebuilding on these features to ensure that the experience those looking for a home get when they come to the site is one of an established quiet, rural village.

**Retail and amenities**

Where a new place is being created from scratch, shops, services and community facilities should be integrated within the design coherently.

There is a symbiotic relationship between residential and commercial development if both are considered together rather than treated as separate entities. Residents value local shops, cafes, restaurants, community facilities and leisure amenities. Shops and leisure facilities need day time trade to thrive. Local schools and commercial workplaces can help provide vital footfall.

The retail does not need to start big. Smaller units run by local entrepreneurs, rather than a national chain, as seen in the Poundbury approach, may prove more viable in themselves and support a greater sense of community and quality of place.

At Poundbury, residential, shops and employment space are fully integrated. The scheme also features mixed use buildings such as Kings Point House which was built for £6.5 million in 2011 and includes retail, office and residential uses.

So far at Poundbury, there are approximately 3,000 people living in different types of housing, including Affordable housing.

It also provides employment for some 2,100 people working in 185 businesses. The scheme is over half built and is expected to grow to 2,200 homes by completion in 2025.

**Employment**

Ultimately, the decision on whether to include significant employment space really depends on the strength of the local economy, the location of the scheme, its connectivity and what is already available in the areas surrounding the development.

Urban & Civic have taken a different approach to Poundbury at Alconbury with the Enterprise Campus which has a separate entrance to the residential element. It currently has a workforce of 600 which is set to increase with the build out of 1 million sq ft of commercial space over the next two years.

Given its location in Cambridgeshire, the Campus can draw on Cambridge’s reputation as a global centre for technology and proximity to other business and technology hubs.

The Campus received Government Enterprise Zone status in 2012 which means businesses will enjoy a range of benefits including 100% business rates discount and superfast broadband.

**Heyford Park Centre**

The next step for Heyford Park involves a £15 million village centre at the heart of the scheme. It is designed to feel like an Oxfordshire village and includes plans for community space, a village square, a restaurant, a hotel, a bar, a cafe, shops and 40 homes. However, with over 1.3 million sq ft of commercial space ranging from warehouses to lab space and offices, the site is already home to 200 established businesses.
Recommendations

CREATING GREAT PLACES REQUIRES SUPPORT

Investing in placemaking creates quality new neighbourhoods, enabling more new homes to be built faster. Land, patient capital, partnerships and Government support are key

1 SITES IN THE RIGHT PLACES: We need more land to come forward in areas of high housing demand or connected to strong markets where investing extra in place making is viable. A greater availability of sites would keep land values stable allowing more scope to invest in non-residential uses, public realm and infrastructure.

2 THE ROLE OF PUBLIC LAND: Public land disposal, including central Government’s target to release land for 160,000 new homes over the course of this Parliament, can play a large part here. However, public sector landowners must consider their objectives when releasing surplus land such as whether they prefer a capital sum, a long-term income stream or a mix of both. The latter particularly lends itself to working in partnership with developers to create new places that can provide steady income over longer time frames. The new Accelerated Construction scheme (see below) will help ensure land release is put to use more effectively for house building.

3 PATIENT, LOW COST MONEY AND LAND: Investing early in quality placemaking and facilities can deliver higher land values in the right locations. But if landowners look to extract maximum funds at the earliest opportunity there is less scope to make the additional investment. Investing more earlier on also increases development risks. The solution comes in the form of patient capital and/or JVs with landowners willing to take a longer term view and draw funds at a later date once sales start. The role of pension funds looking for steady income should also be considered.

4 GOVERNMENT INFRASTRUCTURE SUPPORT: There is some help from Government. In last year’s Spending Review, the Treasury extended the £40 billion UK Guarantees Scheme to cover housing and regeneration and new school building plans. Such guarantees can help reduce development risk, with loans repayable only as homes are completed. Given that private investment is key to delivering infrastructure and housing, it’s crucial that Government support continues to help developers raise finance from banks and capital markets at low rates and where possible repayable against sales.

5 SUPPORT FOR HOUSE BUILDING: Uncertainty throughout the period of Brexit negotiations risks a negative impact on the economy and less availability of finance. The recent announcement of the £3bn Home Building Fund, designed to speed up house building should help mitigate these risks provided funds are easily accessible and not mired in red tape to ensure take up.

The package includes cash from existing funding streams and provides £1bn of new loans for small builders, custom builders and innovative developers. A further Accelerated Construction scheme will use £2bn of public sector borrowing to make public land with outline planning permission available to builders.

160,000 new homes to be built on public sector land

£40bn UK Guarantees Scheme extended to cover housing, regeneration and new schools

£3bn Home Building Fund is designed to speed up housebuilding
Additional Research

Spotlight Planning
What workers want 2016
Estate Benchmarking Survey
Spotlight Cambridge Cross Sector
Market in Minutes: UK Residential Development Land

Savills team

Research

Development Services

Susan Emmett
Development
020 3107 5460
semmett@savills.com

Lucy Greenwood
Development
020 7016 3882
lgreenwood@savills.com

Chris Buckle
Development
020 7016 3881
cbuckle@savills.com

Jim Ward
Development
020 7409 8841
jward@savills.com

Richard Rees
Development
020 7016 3726
rees@savills.com

David Jackson
Planning
020 7420 6371
djackson@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.