

Savants Review

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Move to Rural Settings is Driving New Build Demand

There is clear evidence from a number of sources to suggest there is an increasing demand to relocate to more rural settings. Equally, the willingness to sell from these idyllic locations is low, creating an excess of demand over supply. This fuels an uplift in pricing structures. However, this creates a perfect storm of opportunity for the house building sector.

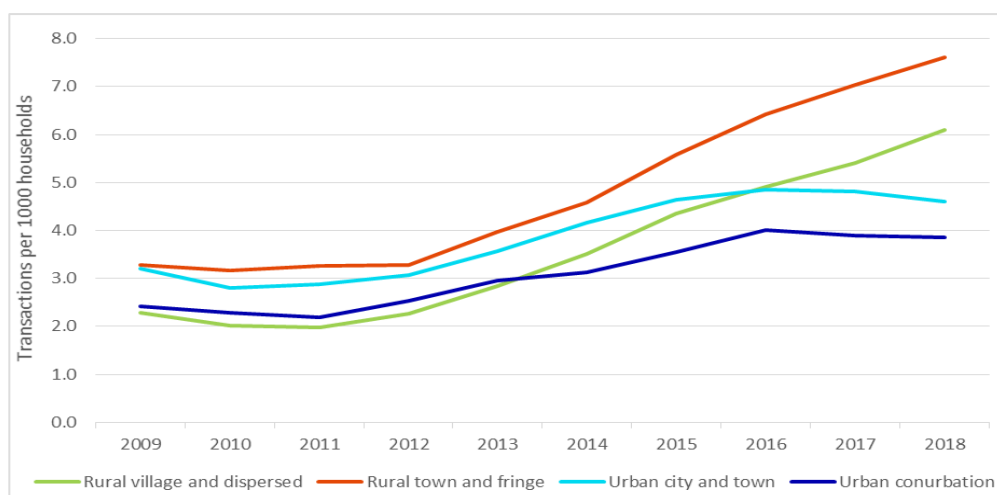
The requirements of property purchasers have clearly changed from the start of 2020 and COVID which has led to a revaluation of lifestyle work balance and living. High on the desire list for houses is more space and the ability to work from home, or to install work pods in the garden and have access to open spaces.

The property market is often a cycle of trends and currently larger properties are on trend. With hybrid working models including significantly less office-based working, locations convenient to the commuter routes has become less of a concern compared to the lifestyle balance.

A recent Rightmove survey showed that almost one third of buyers, indicated the COVID lockdown has made rural living more desirable and surprisingly, one in five first time buyers also want to live rurally.

According to the Department for Environment Food and Rural Affairs ("DEFRA"), this trend towards rural living is interesting, as it appears the demand for such locations began in 2012, before the start of the pandemic as illustrated by the graph below.

DEFRA, reviews the new-build residential housing transactions built in rural and urban areas providing valuable insight into housing development in rural areas.



Source: DEFRA Middle Super Output Area rural-urban classification, in England, 2009 - 2018

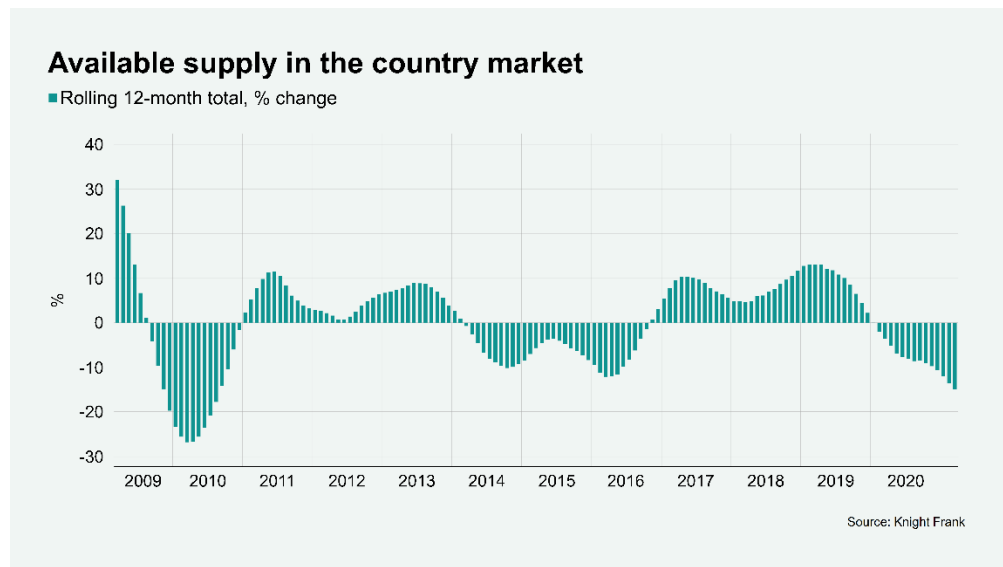
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/862309/Rural_using_-_residential_housing_transactions_-_Jan_2020.pdf

According to Rightmove, city residents contacting estate agents to buy a home in a village **rose by 126%** in June & July 2020 compared to the previous period in 2019 (68%), outperforming Cities and town searches. <https://www.rightmove.co.uk/press-centre/village-enquiries-double-as-city-dwellers-escape-to-the-country/>

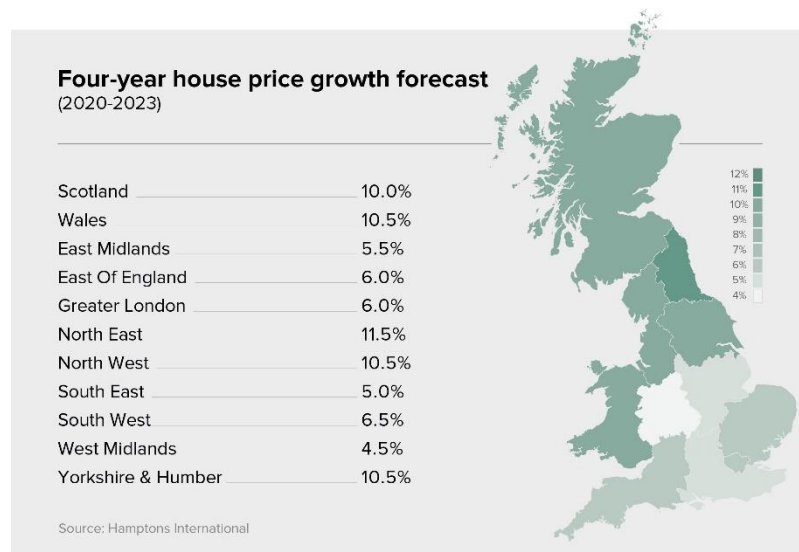
During the first 3 months of 2021 this interest has translated into action. The higher-value end of the market continued to perform strongly. Buyers have continued to seek more space, greenery and privacy post-pandemic, exploring a new work/life balance that could see many working from home more often, when the restrictions finally end.

Given the long-term trend curve - rising from 2012 through to 2018 and the reports from Rightmove detailing the increased enquiry rate, it is logical to conclude this trend is sustainable and will continue beyond 2021. Indeed, country homes valued at £5m and above saw average prices increase by 7.3% in the first three months of 2021, taking the **annual rate of growth to 15.8%**, with tight supply a contributing factor. (Source: Knight Frank)

Given the basic supply and demand economics, price rise when demand is greater than supply. There is evidence of reduced property availability, but increased demand leading to price rises. This supply trend is illustrated on the chart below



Combining the demand and supply, this will reflect in a shift of price rise trends over the next 3 years away from London and the Southeast to the lesser populated areas where the forecast is higher growth



<https://www.hamptons.co.uk/research/articles/housing-market-forecasts-2020/house-price-forecasts/>

Conclusion

Given the rural trend for the reasons set out above, it is less likely supply will increase and with an upward trend in demand, it is logical to conclude this will fuel the demand for increased availability of building plots creating an opportunity for the smaller builder.

At Savants, we have seen this on the ground with local rural hotspots reporting excess demand, with properties sold off plan. Land owners are releasing small plots to satisfy this demand, whilst not swamping villages or adversely impacting on greenbelt land.



Bank of England's Agents Summary on Property



What Is Developer Finance?

Securing finance for property projects is consistently listed as one of the greatest challenges for SME property developers and small construction companies.

At Savants, we have recognised the dilemma faced by the smaller contractor/builder in securing finance from the high street lenders to purchase plots and build out small volume new builds.

We are now working with a panel of financiers to provide a broad range of products to solve this dilemma for the SME property developer. The term would fit with the borrower's requirement, typically 18 months, covering the anticipated period for the sale of the development.

The benefit of a panel enables the selection of the lender to suit the borrowers' requirements and tailored risk profile.

As new funders are identified, we will extend the panel to provide an enhanced spread of funding options.

The typical products we currently offer are as follows:-

- ❖ Revolving Credit - short term finance providing short-term working capital;
- ❖ Development Finance - longer term finance to cover the build out;
- ❖ VAT Finance - cashflow finance between incurring the input tax and receiving the VAT refund;

So, the detail?

Revolving credit

- ❖ There are no costs when the facility is not used.
- ❖ The security is general and so not specifically linked to a particular development plot.

The Bank of England's Agents Summary of Business Conditions 2021 Q1, reported contacts said the **outlook for the housing market had improved**, with activity supported by the extension of the property transaction tax holiday and of the Coronavirus Job Retention Scheme. Estate agents expressed concern about a shortage of properties for sale and said buyers appeared to be less price sensitive than normal. (Source ONS April 2021)
<https://www.bankofengland.co.uk/agents-summary/2021/2021-q1>

- ❖ The facility can be used as often as needed during its 12-month life.
- ❖ Interest only charged when the facility is used.
- ❖ There is set up cost but no exit costs.
- ❖ Can be used for urgent purchase of land, proof of funds to a seller or working capital to bridge the staged development finance.

Development Finance

- ❖ Secured against the plot - additional security maybe required.
- ❖ Delivers regular staged payments against QS certificates of works completed.
- ❖ Greater flexibility on interest against risk profile.
- ❖ Set up costs and exit fee.
- ❖ Works well with the revolving credit which provides working capital confidence.

VAT Finance

- ❖ Short term cash flow gap finance.
- ❖ Enables funding against the net inputs during a build programme to be financed until the VAT refund is received from HM Customs & Excise.
- ❖ Life of the lend is limited to the VAT quarter plus time delay for the refund.

The products are aimed at the smaller builder, predominately a contractor and recognised builder of small plots, to generate a neat profit. They could be small builds, 5 new builds, mid to high end high end, or perhaps a small block of 10 – 20 apartments.

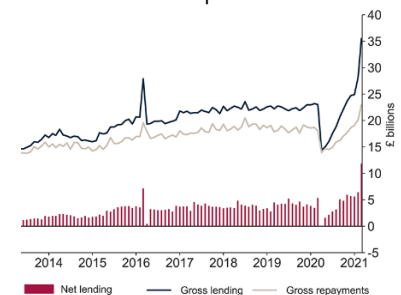
Interest rates will vary according to the product best suited to the builder's need and the borrower's risk profile, available security, experience, location and strength of information.

To discuss further please call Ian French m. 07803605751

Bank of England Money and Credit April - 2021



The Bank of England have released their report detailing mortgage approvals for house purchases (an indicator of future lending) in April 2021 was **86,900**, which was up slightly from March 2021 but lower than a recent peak of 103,400 in November 2020. The following chart depicts the trend in mortgage lending from 2016 to April:-



<https://www.bankofengland.co.uk/statistics/money-and-credit/2021/april-2021>



We provide a full range of business services including, financing, management consultancy, restructuring support.

Savants Restructuring Limited is authorised and regulated by the ICAEW

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