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Spotlight | Autumn 2017

RESIDENTIAL PROPERTY FORECASTS

The ripple effect

How London's affordability pressure is changing the pattern of price growth

The rise of the regions
As London price growth slows, the North will begin to outperform the capital

Five-year forecasts
Our latest look at the future of the mainstream and prime property markets

Making moves
Transaction levels are changing. What does this mean for different buyer groups?

This document was published in November 2017. The data used in the charts and tables is the latest available at the time of going to press.
Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.
Description of terms. **Mainstream:** mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values. **Prime:** the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

The six factors that underpin our housing forecasts

The housing market is shaped by many moving parts. Lucian Cook outlines six key factors that enable Savills to deliver the best predictions for the future of the market

Forecasting house prices is not for the faint hearted. Getting it right presupposes you have made the right economic assumptions, can predict the direction of government and Bank of England policy and have the ability to foresee the fickle nature of buyer sentiment.

And yet there is plenty we do know, or can predict with confidence, that allows us to best estimate the future of the housing market. In particular, there are six key factors (right) that influence our forecasts.

They show how the UK housing market has many moving parts. How we occupy our property changes over time and between generations. That means house prices, which we consider at a regional and national level on page 4, are just part of the picture. Transaction levels can be as much of a variable, whether across the market or among different groups of buyers, as we explore on page 12.

Our thoughts on what these six factors mean for the market are laid bare throughout this edition of *Residential Property Forecasts.* ■

Lucian Cook **UK Residential**
Lucian looks after a team of 27 researchers and is one of the country's leading market commentators.
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1 In the short term, there will be uncertainty over what Brexit means for the UK economy and, just as importantly, for individual households' wealth and financial security. While it will take time for the precise impact to become clear, this uncertainty will make buyers more cautious in the short term at least.

2 Mortgage interest rates in the UK are likely to rise over the next five years. That is likely to put a squeeze on the amount people can borrow in an age of mortgage regulation. Dramatic increases in the cost of borrowing, that would create undue financial stress on households, are unlikely.

3 Buy-to-let investors are now beginning to feel the effect of the mortgage regulations that owner-occupiers have lived with since 2014. They also now bear greater stamp duty costs and, unless there is a change of political heart, will increasingly be affected by restrictions on income tax relief.

4 London has shown much greater house price growth than the rest of the country for the majority of the past decade. So, it is likely to be more constrained than the rest of the country by the factors above.

5 In previous cycles, we have always reached a point where house price growth in the north of the country exceeds that in the south. In the past, it was facilitated by a strong economy or relatively unrestricted access to mortgages.

6 We are not building enough homes of the right type in the right places to meet demand. However, there seems to be an increased political desire to address this.

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Residential Property Forecasts

“We expect the market to return to growth in 2019-20, as employment, wage and GDP growth swing back towards trend levels. But, in the longer term, we will face the impact of interest rate rises”

–

Lawrence Bowles assesses growth prospects for the UK housing market against a backdrop of economic and political pressures

ILLUSTRATION NEIL STEVENS

We expect house price growth to slow next year as uncertainty weighs down the market. There is capacity for growth later on, but this will be tempered by interest rate rises. This means that we expect UK house price growth to be limited to 14% in total over the next five years, half the level seen over the last five.

What's holding back growth?

Right now, uncertainty. With the UK's future relationship with the EU up in the air, we've seen the UK's credit rating downgraded, the pound weakened, and the economy subdued.

Inflation has cut into people's earnings, with the ONS reporting that incomes fell by 0.4% last year in real terms.

Against this economic backdrop, there are no strong drivers for house price growth over inflation next year.

What about the following year?

We expect the market to return to growth in 2019-20, as employment growth, wage growth, and GDP growth swing back towards trend levels. But in the longer term, we will face the impact of interest rate rises.

Any rise in the Bank of England base rate, no matter how gradual or limited, will increase the cost of borrowing for households with a variable-rate mortgage.

It will also hit households looking to agree a new mortgage: lenders must apply an interest rate 'stress test' to make sure their borrowers can afford repayments should rates rise. These new tests will push mortgage availability out of the reach of more households.

This is what limits our growth forecasts for 2021 and 2022. With mortgage affordability increasingly constrained, any house price growth will be driven by earnings growth.

If everything is so uncertain, how do you know this is what's going to happen to the market?

We base our forecasts on what Oxford Economics estimates is the most likely Brexit scenario: that the UK will have >

Incomes fell by **0.4%** last year in real terms an interim EU deal from March 2019, then move to a free trade agreement.

Clearly, other outcomes are possible; each having an impact on price growth. We also assume no major Brexit-related job losses and a Conservative minority government until 2022.

How do the different regions compare?

Price growth will be most sluggish in areas where affordability is most stretched; particularly London and the commuter belt. Affordability in the capital is already more stretched than the rest of the UK, putting a brake on growth. But areas beyond the Home Counties have potential for growth: incomes have grown more in line with house prices, aiding affordability.

That's why we expect the North to outperform London and the rest of the country. The North West, in particular, has a robust economic outlook and strong employment growth. And house prices sit at a modest multiple of average incomes: 5.6 times in the North West, compared with 12.9 times in London.

But these are trends for diverse regions. London contains ultra-prime Kensington and Chelsea, and up-and-coming Waltham Forest. The North West has affluent markets such as Trafford, along with less wealthy areas, such as Burnley.

In general, we'd expect price trends to follow the same pattern we predict at a regional level. Prices will grow fastest in areas that are well-connected to markets with stretched affordability. ■

18.1%
5-year compound growth in the North West

Lawrence Bowles, Associate
Lawrence specialises in residential investment, development, and infrastructure.

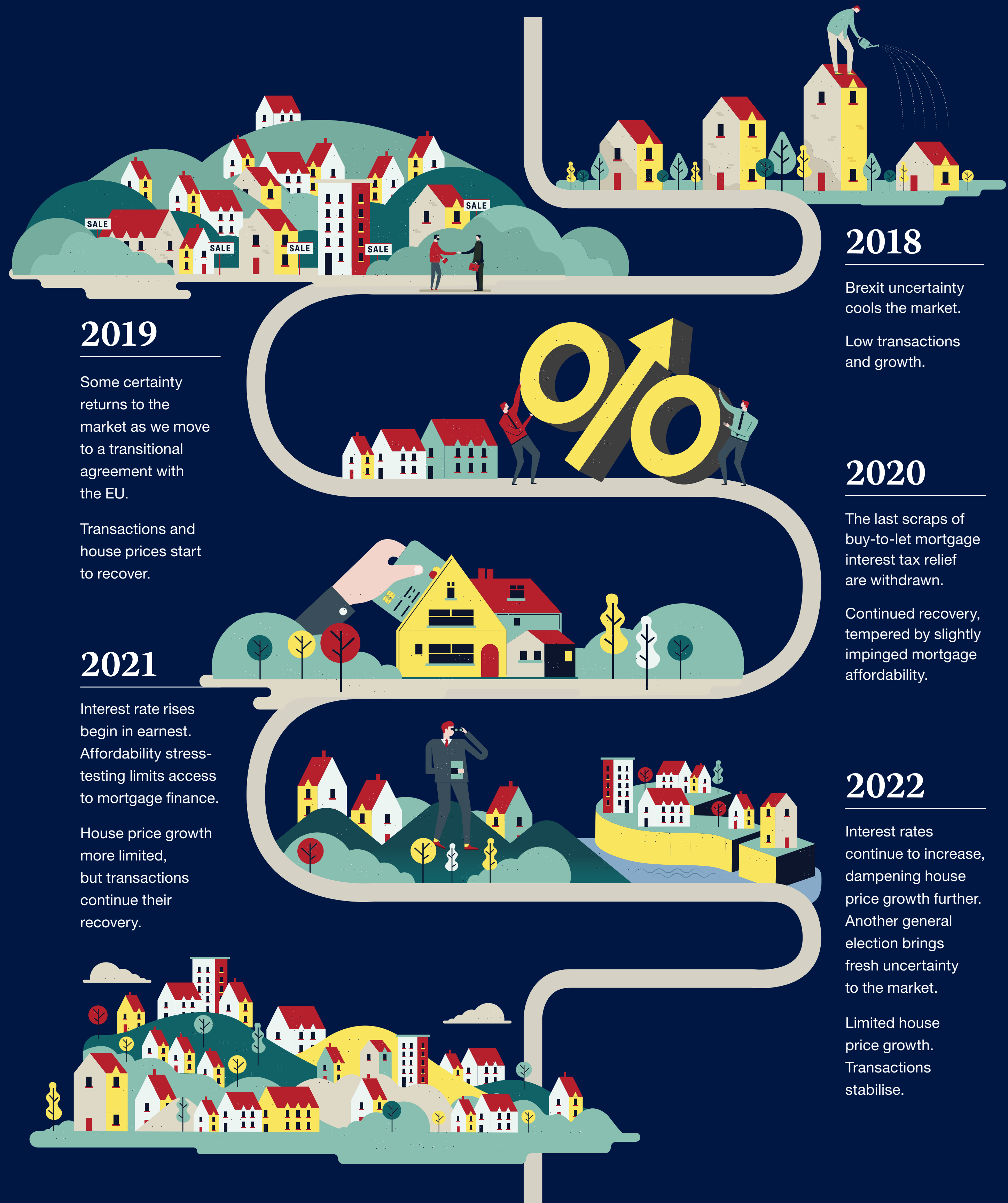
Mainstream house prices Our five-year forecast

Location	2018	2019	2020	2021	2022	5-year compound growth
United Kingdom	1.0%	2.5%	5.0%	2.5%	2.5%	14.2%
North West	1.5%	3.5%	6.0%	3.0%	3.0%	18.1%
North East	1.5%	3.5%	5.5%	3.0%	3.0%	17.6%
Yorkshire & Humberside	1.5%	3.5%	5.5%	3.0%	3.0%	17.6%
Scotland	1.5%	3.5%	5.0%	3.0%	3.0%	17.0%
Wales	1.0%	3.0%	5.0%	3.0%	3.0%	15.9%
East Midlands	1.0%	3.0%	5.0%	2.5%	2.5%	14.8%
West Midlands	1.0%	3.0%	5.0%	2.5%	2.5%	14.8%
South West	1.0%	3.0%	4.5%	2.5%	2.5%	14.2%
East of England	0.5%	2.5%	4.0%	2.0%	2.0%	11.5%
South East	0.5%	2.5%	4.0%	2.0%	2.0%	11.5%
London	-2.0%	0.0%	5.0%	2.0%	2.0%	7.1%

Source Savills Research **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

What the future holds

Our timeline shows how political and economic uncertainty could influence the mainstream property market between now and 2022



2018

Brexit uncertainty cools the market.

Low transactions and growth.

2019

Some certainty returns to the market as we move to a transitional agreement with the EU.

Transactions and house prices start to recover.

2020

The last scraps of buy-to-let mortgage interest tax relief are withdrawn.

Continued recovery, tempered by slightly impinged mortgage affordability.

2021

Interest rate rises begin in earnest. Affordability stress-testing limits access to mortgage finance.

House price growth more limited, but transactions continue their recovery.

2022

Interest rates continue to increase, dampening house price growth further. Another general election brings fresh uncertainty to the market.

Limited house price growth. Transactions stabilise.

Has London's market run out of steam?

A decade of strong growth in the capital's housing market has seen it become dislocated from the rest of the UK – and left the market pushing against the limits of mortgage regulation and affordability

PRICE GROWTH SLOWS

With a home purchase representing such a major financial commitment in London, buyer sentiment has become very sensitive to the current political and economic uncertainty. Over the course of 12 months, the slowdown in annual rates of price growth has been dramatic; from 7.1% to -0.6% according to Nationwide.

Despite a continuing low interest rate environment, further modest sentiment-driven price falls over the next 12 months are a distinct possibility.

HITTING MORTGAGE LIMITS

Perhaps more importantly, buyers have become increasingly confined to more affluent households, who have stretched themselves to the limits of how much they borrow relative to their income. Numbers of housing transactions in London have fallen as a consequence, most significantly among those taking on a larger mortgage to trade up the housing ladder. There were 29,000 in the 12 months to the end of June this year, just 36% of the levels of 10 years ago. Stamp duty has also become a bigger cost, eating into a buyer's equity.

The area that is within the reach of both aspiring first-time buyers and the mythical 'ordinary middle-class, 2.4 children' household has also shrunk. Buyers have progressively had to widen their search across the 33 boroughs over the past 10 years, initially pushing up house prices in the wealth corridors, then at their fringes, then into new hotspots to the east and more recently the extremes of outer London. In most cases, the up and coming areas have now up and come.

Of the 600 wards or neighbourhoods of London for which we have reliable house-price data, only 28 now have an average house price of less than £300,000. An MP on a salary of £75,000 would only be able to buy the average-priced property in 34% of London if they had a 20% deposit and borrowing 4.5 times their income.

FUTURE OUTLOOK

The capacity for further house price growth in London is limited, with mortgage regulation doing exactly what it was intended to do. It is holding back borrowers from taking on excessive levels of debt in an attempt to chase the market. This has slowed the market to prevent it from overheating. Mortgage regulation is likely to continue to act as a drag on the capital's house price growth over the next five years, especially as interest rates creep up and the mandatory stress testing of affordability becomes more of a constraint.

That could change if interest rates rise more than is currently anticipated. But it is more likely that modest price growth will be reliant on London-wide household earnings growth, the ability to attract international wealth in the most valuable markets, and infrastructure and regeneration unlocking the latent capacity for growth at a local level.

Increasingly, the gains made in London's housing market are being exported into the commuter zone where buyers can get more space for their money. ■

Katy Warrick, Head of London Research
Katy specialises in London residential development

Capacity for further house price growth in London is limited, with mortgage regulation doing exactly what it was intended to do

£25,703
Average stamp duty bill in London in the 2016/17 tax year
(HMRC)

3.1x
the average bill for England

Ranging from
£155,263
in Kensington and Chelsea to
£6,186
in Barking & Dagenham

£99,753
Average deposit for a first-time buyer in London (mortgage of £268,747)
(CML Q2 2017)

3.9x
the UK average

-13%
fall in first-time buyer transactions in the past 3 years

£91,329
Average income of a mortgaged home mover in London
(CML Q2 2017)

+66%
above the average UK mortgaged home mover

-24%
fall in mortgaged home mover transactions in the past 3 years

+70%
10-year house-price growth in London
(Savills Repeat Sales Index – June 2017)

3.4x
that seen across Great Britain

103%
house-price growth in Hackney (highest)

54%
house-price growth in Hounslow (lowest)

THE NORTH WEST

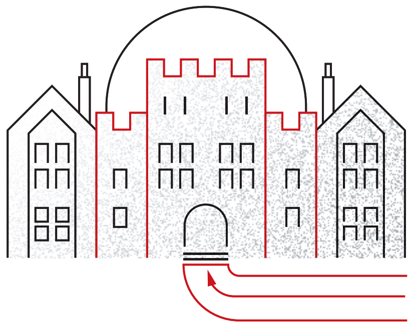
Northern exposure

While London is forecast to lag behind the rest of the UK over the next five years, which region will see the biggest growth? Here are six reasons why we believe it will be the North West

WORDS LAWRENCE BOWLES

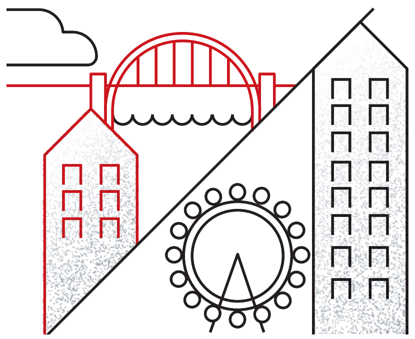
MARKET CYCLES

Historically, whenever London has been the slowest-growing region, the growth profile has flipped to put the North West and North East as the fastest-growing areas. We predict this happening over the next five years; though perhaps not to the same degree as the past, given the economic and lending environment.



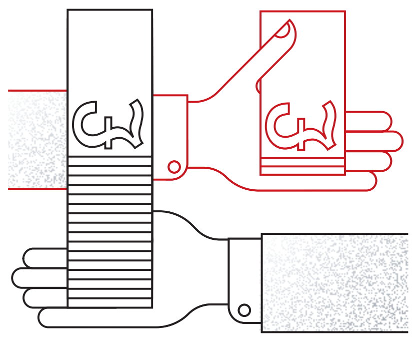
MICRO-MARKETS

Manchester is an ambitious and growing hub, and will attract more investment. As yields tighten there, investment is likely to spill into other northern cities such as Leeds and Liverpool. Cheshire offers large, prime properties at a steep discount to the home counties, so could attract upsizers who would otherwise have moved there.



HOUSE PRICE AFFORDABILITY

Affordability is far less stretched in the North West than in London. In the North West, the average ratio of house price to income was 3.7 for mortgaged first-time buyers; in London, the ratio was 5.5. The greater prospects of getting on the housing ladder is likely to make the region attractive to aspiring homeowners.

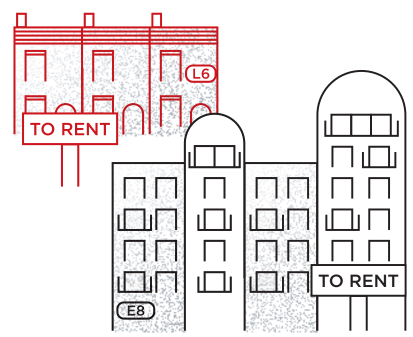


DEPOSIT REQUIRED

The average first-time buyer in the North West pays a deposit of £19,000, 54% of their annual income. In London, it's £99,753, or 149% of average income. That means people in the North West can afford to buy sooner and are less constrained by the need to accumulate stacks of wealth.

STAMP DUTY

The cost of moving properties is much lower in the North West than in London. In 2016, the average SDLT rate paid in the North West was 2%, compared with 5% in London. Taking the difference in house prices into account, the average bill was £3,000 in the North West compared with £25,700 in the capital.



RENTAL AFFORDABILITY

Rent on a median two-bedroom property makes up 23% of gross income in the North West, compared with 47% of gross income in London. This means that renters in the North West have more money left over to save towards a deposit. That is likely to mean the region retains more of its graduates. ■

Changing fortunes for buyers

In the year to the end of June 2017, there were 1.2 million transactions in the UK housing market, half a million fewer than 10 years ago. This reduction in number is one of the legacies of the credit crunch, but how is it shaping the property market? We examine what it means for four buyer types using past, present and predicted transaction data

WORDS LUCIAN COOK

FIRST-TIME BUYERS

1992-2002 average
516,000pa
2002-2007 average
371,000pa

Current
353,000pa
2022 forecast
380,000pa

Much is made of the plight of first-time buyers. Receiving significant support from the Bank of Mum and Dad and, to a lesser but still important degree, the Help to Buy scheme, they ended the 12 months to the end of June within 5% of their pre-crunch level.

The potential for further significant growth in this number, however, is limited in an age of mortgage regulation where deposits are likely to remain high. But the constraints which this imposes vary across the country, and the extremes seen in London are unrepresentative of the majority of the rest of the UK. In the South East, the constraints are less acute, but still significant. In this region, the average household income of first-time buyers exceeds £50,000, and the average mortgage stands at more than four times that figure. Meanwhile, the average deposit is a considerable £48,000. Who is able to buy is restricted by their ability to raise that kind of sum for a deposit, along with the need to have a substantial household income. There seems little capacity to stretch loan-to-income multiples much further than they already stand and, as a result, that is likely to limit growth in first-time buyers in this part of the country.

By contrast, in the North West, the average income of a first-time buyer is just over £35,000, and the average mortgage is 3.24 times that sum. The average deposit – though certainly not to be sniffed at – is considerably less, at £19,000. And, while there are still undoubted constraints to be found in this area of the UK, they are not nearly as great as those experienced by their South East counterparts.

MORTGAGED HOME MOVERS

1992-2002 average
579,000pa
2002-2007 average
750,000pa

Current
358,000pa
2022 forecast
350,000pa

The number of mortgaged home movers is only marginally higher than first-time buyers. Transactions have risen by less than 10% in the past five years, far less than the 29% across the housing market as whole.

In part, this activity reflects falling levels of home ownership. It also reflects a lack of earnings growth and rising levels of consumer credit that impinge on the ability to obtain a larger mortgage.

But, perhaps more crucially, it points to households moving up the housing ladder less often. This reflects the longer time it takes to build up equity to make the next move – not just with house price growth, but paying down existing mortgage debt.

A period of low house price growth will do little to help people build up sufficient housing wealth to be confident of moving up the ladder, although this should ease over the five years of our forecast period.

In London, the cost of buying a house with an extra bedroom – and the ability to get a mortgage to do so – is likely to drive demand into the commuter zone, where upsizers get more for their money.

MORTGAGED BUY-TO-LET INVESTORS

2002
85,000pa
2007
183,000pa

Current
75,000pa
2022 forecast
55,000pa

Buy-to-let investors have had the triple hit of extra stamp duty, restricted tax relief on their interest payments, and mortgage regulation. This has led to a large fall in purchases of investment property by those using a mortgage.

The stamp duty surcharge has raised far more revenue for the Treasury than was envisaged, largely through the volume of cash investors. Changes seem unlikely. Meanwhile, the effect of restricted tax relief is probably yet to show its hand, given the benign interest rate environment and its staggered introduction. Mortgage regulation has had a more immediate impact since its introduction for small private landlords in January 2017 and was applied to portfolio landlords in October.

It seems likely we'll see mortgaged buy-to-let numbers fall further, with investors looking to cheaper, higher-yielding properties to make the sums add up – often outside London and the South. >

Change for all Our forecast for buyer demographics

	2017	2018	2019	2020	2021	2022	5-year change
Mortgaged first-time buyers	360,000	360,000	370,000	370,000	380,000	380,000	6%
Mortgaged home movers	360,000	350,000	340,000	330,000	340,000	350,000	-3%
Mortgaged buy to let	75,000	65,000	65,000	60,000	55,000	55,000	-27%
Cash buyers	400,000	360,000	380,000	410,000	420,000	425,000	6%
Total	1,195,000	1,135,000	1,155,000	1,170,000	1,195,000	1,210,000	1%

Source Savills Research

Current
414,000pa
2022 forecast
425,000pa

Cash buyers have become more dominant, and now account for 34% of all house purchases – but they're likelier to be cost cautious

CASH BUYERS

1992-2002 average
407,000pa
2002-2007 average
386,000pa

The number of cash buyers has become much more dominant in the market – they now account for some 34% of all house purchases, and 45% of all sums spent on house purchase. Amongst this group, investors, second-home buyers and those buying a home for other family members, now have to contend with the 3% stamp duty surcharge. All are likely to be slightly more cautious in weaker market conditions, given the additional 'dead-money' they will have to pay.

Cash investors, in particular, are likely to become a little more cost conscious, particularly as returns from alternative investments begin to rise in a higher interest rate environment.

Second-home buyers, who are essentially making a discretionary purchase, are likely to be more fickle, particularly compared to those looking to buy a home for a family member, where the need is likely to result in a greater urgency to purchase.

That, in turn, leaves downsizers, who we believe are likely to increase in number as they seek to release capital – either to help get their children or grandchildren on the housing ladder, or to further supplement their pensions and savings for retirement. For developers, the key will be to build suitable retirement housing to help facilitate those moves. ■

HELP TO BUY

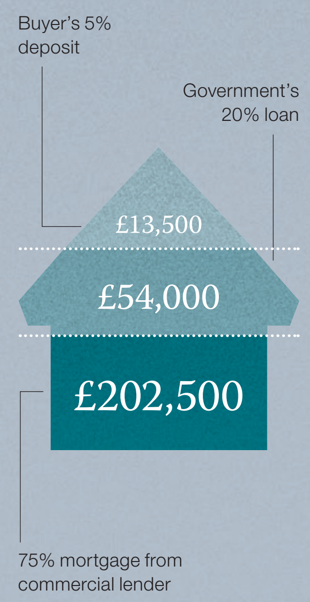
Across the board, it remains to be seen exactly what will happen when Help to Buy comes to an end in 2021. The scheme is currently supporting 40,000 new house purchases a year across England, which has been underpinned by the announcement of another £10 billion of funding. Being of such importance to the housebuilding industry, we expect that it will be extended in some form.

But, concerns over the extent to which it is fuelling housebuilder profits, and its effectiveness at getting people on the housing ladder, means it may be reduced in scope. One possibility may be that it becomes more targeted.

Currently, the average person using the scheme is buying a property worth £270,000, and has a yearly household income of £53,000.

First-time buyers make up 81% of Help to Buy loans; 36% are putting down a deposit of more than 5%.

The average Help to Buy



Pushed to the limit?

As wages return to growth, rents for the mainstream market look set to grow faster in London – although there is still potential outside the capital, with high-yielding employment hubs leading the way

There are two major factors helping to put the brakes on rental growth in the near term. First: supply. When the former Chancellor announced a 3% stamp duty surcharge on additional homes in 2016, buy-to-let investors scrambled to buy properties before the 31 March deadline.

As a result, we saw a glut of properties marketed for rent in the second half of 2016 and early 2017, which has helped to keep rental value growth low. Asking rents across England and Wales grew just 1.9% in the year to June 2017, and fell by 3.2% in London.

Since June, the London market seems to have accommodated this new supply and rental values have stabilised. And with government removing tax relief on buy-to-let mortgage payments, we expect to see new rental supply slow down over the next few years – unless build to rent developers can step in to fill the gap.

The second major factor affecting rental values over the longer term is affordability. Historically, rents have grown largely in line with wages. However, recent wage growth in the UK has been stagnant as Brexit-wary employers try to limit their costs. With rising levels of employment, this is forecast to change, with incomes set to head back to real growth by 2019.

Given how tightly affordability is stretched in London, and the levels of supply we have seen over the last two years, we see no pressure for rents to rise in excess of wage growth.

Withdrawal of mortgage interest tax relief will push investors from London to higher-yielding regional locations. Increased rental supply there will dampen potential rental growth. The outlook is strongest for cities that attract employees from high-value sectors such as finance, technology, and professional services. ■

On the up The forecast for rentals is looking brighter

Location	2018	2019	2020	2021	2022	5-year compound growth
UK	2.5%	2.5%	3.0%	3.5%	3.5%	15.5%
London	3.0%	3.0%	3.5%	3.5%	3.0%	17.0%
UK excl London	2.0%	2.0%	3.0%	3.5%	3.5%	15.0%
Wages	3.0%	3.0%	3.0%	3.5%	3.5%	17.0%
CPI	2.0%	1.5%	2.0%	2.0%	2.0%	9.5%

Source Savills Research

PRIME MARKETS

"Realism is helping to keep the prime markets moving"

Prime central London values now sit 15.2% below their 2014 peak, but recent falls have been slowing. Has the market found its level? We look at the prospects for the prime London and country markets

What has happened since 2014?

The prime London markets have had political, economic and tax headwinds to contend with over the last three years – some of which have fundamentally changed the face of the market.

The most significant has undoubtedly been the changes to stamp duty. For buyers in this market, it has become a lot more expensive to move, and those discretionary buyers adding to a national or global portfolio face a bigger financial decision. The aftermath of these reforms has meant vendors have had to adjust their price expectations as this tax is absorbed into the market.

But it is not just stamp duty that has caused these price falls. A typical £2 million house in prime central London has seen price falls of almost double the stamp duty bill.

There has also been uncertainty in the market following the Brexit result and the snap general election. And international buyers have also had to deal with a less hospitable tax environment, following changes to inheritance tax and capital gains tax. The result is a market that has become sensitive to sentiment and price.

Spring Terrace, Richmond, Greater London

What about markets outside London?

While the number of £1 million+ properties actually sold in London is down, it is a different story for the country. Since the introduction of the first stamp duty reform in December 2014, values across the prime country market are up 4.5% as these markets have been more resilient to the factors that have subdued London.

Prime country markets have been more resilient to the factors that have subdued London

However, the sentiment felt in London is beginning to ripple outwards. London's prime outlying suburbs (such as Esher, Rickmansworth and Weybridge) saw price falls of 1.1% over the last year. These markets are feeling the effects of stamp duty, as well as mortgage regulation.

How have buyers changed since 2014?

Buyers are likely to be much more savvy about pricing – evident in the number of price cuts we've seen. Across the country, there has been a 90% increase in the number of £1 million+ properties that have had a price cut in the first half of this year compared to last. But where vendors are realistic, transactions have held up.

In addition, we have seen a reduction in investor buyers. In London, they have gone from accounting for 21% of Savills buyers in 2014 to 16% this year.

The uncertainty in the market has also made sales and purchases more needs based. Across London and the country, the number of £1 million+ properties that have been brought to the market in the first half of this year against the first half of last year is down by 16%.

Where does it leave us going forward?

Historically, we have seen an average of 5.7% real growth per annum in prime central London, boosted by London's transformation into a global city. Yet the changes that have occurred since 2014 suggest a departure from this trend. With tax changes and uncertain sentiment, it is difficult to see what would support the growth to get us back to the same level.

Instead, we are expecting to see two more years of subdued growth – both across the prime London and country markets. Once a degree of uncertainty starts to clear we should see growth, when London will appear comparatively good value. Yet this bounce-back and growth is likely to be less than we've seen in previous cycles. London has already matured into a world city, and the effects of mortgage regulation in the more domestic parts of the market will limit huge amounts of growth.

In the country markets, the price gap remains, and growth will be reliant on wealth moving out of the capital into the commuter zone. Beyond here, it will be local economic drivers supporting prices. ■

Gaby Day, Analyst
Gaby specialises in prime London and country markets

Prime house prices Our five-year forecast

Prime	2018	2019	2020	2021	2022	5-year compound growth
Central London	0.0%	2.0%	8.0%	5.5%	3.5%	20.3%
Other London	-2.0%	0.0%	5.0%	4.5%	2.5%	10.2%
Suburban	0.0%	0.0%	4.5%	4.5%	3.0%	12.5%
Inner commute	0.0%	2.0%	4.0%	4.0%	4.0%	14.7%
Outer commuter	0.0%	1.0%	5.0%	4.5%	4.0%	15.3%
South England and Wales	1.0%	1.5%	3.5%	3.5%	4.0%	14.2%
Midlands and North	1.5%	1.0%	3.0%	3.0%	3.5%	12.6%
Scotland	1.5%	1.5%	3.5%	3.5%	3.5%	13.7%

Source Savills Reasearch **Note** These forecasts apply to average prices in the secondhand market. New build values may not move at the same rate

Stepping up on delivery

To have any impact on affordability, we need to build more homes. We look at the catalysts that could shape meaningful progress: government pressure on developers, new housebuilders, and increasing land supply

The housebuilding industry is producing 210,000 new homes per year in England, more than at any time since the global financial crisis (GFC). But there is still a need to do more. The Government's consultation on assessing housing need sets annual housing need in England at 266,000, while the House of Lords Economic Affairs Committee suggested over 300,000 new homes are needed each year to have any impact on affordability.

Government wants to hold developers to account for new home delivery and ensure that sites with planning permission are built

GOVERNMENT PRESSURE

The white paper explicitly identifies slow delivery as one of the major difficulties facing the housing market. It proposes a more streamlined approach to planning, giving local authorities increased powers to deliver community infrastructure, and applying a standardised method to calculating housing need that could result in increased land supply in high-demand areas. It also suggests that local planning authorities could have powers to turn down applications from developers who have not shown a strong track record of delivering previously consented sites.

The Government wants to hold developers to account for new home delivery and ensure sites with planning permission are built. Although it's unclear how this will take effect, it is evident that this pressure, combined with the new housing delivery test for local authorities, means that the development industry can't merely maintain current levels of delivery.

DEMAND AND DELIVERY

A step change in delivery is most likely to come from new entrants to the market. Over the past 18 months, we've seen small and medium housebuilders, much reduced during the GFC, re-enter the land market. But their resurgence relies on government support and continued housing market strength.

Institutional investors are also starting to fund build-to-rent schemes. In the UK, 17,000 build-to-rent homes have been completed, but this is an emerging sector. We expect delivery to increase as confidence grows; 79,000 build-to-rent units are in the development pipeline.

The greatest untapped potential comes from housing associations. The Savills *Housing Sector Survey 2017* revealed that 66% of housing associations plan to deliver market-sale homes over the next five years, and more than 80% want to build homes for shared ownership or affordable rent. Delivering affordable housing increases the potential for absorption of new homes and allows for continued housebuilding in the event of a market downturn.

If housing associations are to achieve these ambitions, they need to have access to land and construction capacity, either their own or through partnerships. In our survey, 82% of housing associations said they plan to or are considering partnering with a private developer in the next five years. As many traditional builders are at capacity, the new development ambitions of housing associations could start to bring modern methods of construction (MMC) into the mainstream. We estimate that there could be capacity to build over 60,000 homes per year through MMC by 2022.

LAND AVAILABILITY

The potential to deliver homes will always be limited by the supply of land, especially in high-demand areas. The planning system could do more to respond to market signals to release land where affordability is most stretched. While the number of homes gaining permission each year has increased 56% since the 2012 introduction of the National Planning Policy Framework, this has been spread across England, and not where new homes are needed the most.

For housing delivery to reach 300,000 homes per year, we need to make full use of the untapped market capacity in higher-demand areas. There is a shortfall of almost 90,000 planning consents each year in the least affordable areas in the country. More land availability in these areas would allow new entrants in the market without pushing up land values. This can then support higher output from smaller developers and mixed tenure delivery programmes from housing associations, which would move us towards being able to deliver the housing needed to support continued economic growth. ■

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