

RESIDENTIAL PROPERTY FOCUS Q4 2014

Five-year
forecast
issue

Staring into the crystal ball
What next for house price growth?



Potential impact of a mansion tax
.....
The rise and rise of private renting
.....
Party politics and housebuilding
.....

This publication

This document was published in November 2014. 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.

Glossary 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.

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Foreword

MAKING SENSE OF THE 'UNKNOWN UNKNOWN'S'

Five-year
forecasts
pages 08/09



Political and tax changes are both on the horizon, causing uncertainty in the housing market

Forecasts can often say more about the time in which they are made rather than actual future outcomes but, at their best, they contain vital thinking and information reflecting current and likely near-future market risks.

It is telling therefore that politics feature centre stage in this forecast issue. As we have said before, housing has rarely been higher on the political agenda than it is now. While practical measures for the increase of housing supply have broad cross-party support (as exemplified by the Lyons review) other areas - particularly those relating to taxation - don't.

The threat posed to prime property values, particularly in London, by Labour's proposed mansion tax is thoroughly examined by Sophie Chick on page 6. The Opposition's mansion tax proposals are impacting the market even now but may only be the first rumblings of a much bigger debate centring around the broader issues of land value taxation - the like of which we haven't heard since the early 20th century.

The uneven burden of the current council tax system, the complex and stepped nature of stamp duty and other real estate taxes points to the need for change. Even the London Mayor, Boris Johnson, is calling for London's stamp duty revenue to be hypothecated for the use of the city.

So calls for a single, progressive and more comprehensive single real estate tax, possibly locally set and gathered, are increasingly heard not just from the followers of Henry George but also from mainstream economists. Even professional bodies like the RICS are examining the issue.

The way that all these political and tax issues, and so many 'unknown unknowns' play out over the next five years cannot be foretold so our

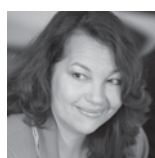
forecasts are made very much from the point of view of 'now'.

The housing market is not without its risks and, as the fascinating statistics on page 14 show, may not be nearly so affected by the colour of political parties as some might think. For example, it may surprise you to know both that annual house price inflation was never higher than under Blair's Labour government and public sector housebuilding after 1979 was at its highest during the Thatcher years.

The problems of decreasing affordability in the UK, and particularly in London, persist. Alongside this are the growing problems presented by the rapid rise in market renting and increasing exclusion of the Millennial generation from owner occupation. Set this against a recurring inability of successive regimes to successfully raise the rate of housebuilding above its long run average of the last 35 years and you see a sector beset by significant challenges.

The fundamental drivers of supply and demand in the housing market go way beyond five year political cycles and are rooted in long-run socio-demographic and economic trends coupled with very deep-rooted land supply issues.

The real challenge in housing is still to find genuinely new, imaginative and additional ways of delivering good homes in great neighbourhoods, for prices most people can afford. Without such a step-change in supply, we can expect house prices to rise in excess of general inflation for more years to come - regardless of political or tax changes. ■



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EXECUTIVE SUMMARY



Constraining factors look set to cap the prospects for price growth in the UK's mainstream market
See pages 04/05



The introduction of a new tax on high-value property would have a strong impact on the prime market
See pages 06/07



Private renting among younger households is set to increase as housing's generational divide gets wider
See pages 10/11



Housebuilding is an election issue, but will the political parties be able to deliver the homes we need?
See pages 12/13



Of the last five prime ministers, which one oversaw the greatest levels of housebuilding?
See page 14

Mainstream market **STARING INTO THE CRYSTAL BALL**

There has been strong growth since mid 2013, but what is next for house prices?

Words: Lucian Cook
Twitter: @LucianCook
.....



“Constraining factors cap the prospects for price growth across the UK”

Lucian Cook, Savills Research
.....



The performance of the UK housing market over the past 10 years has been uneven in more ways than one.

According to the Nationwide index, annual UK house price growth over this period peaked in the second quarter of 2014 at 11.5%, and at its worst fell 16.5% in the year to the end of March 2009.

Over this ten year period total net price growth has ranged from just 1% in the North East to 70% in London.

Across the decade, we have seen four distinct phases of a cycle. Understanding each phase helps us understand what might happen next and the constraints on future house price growth in different parts of the country.

Lessons from history

From the beginning of 2005 to the third quarter of 2007 we saw unexpectedly strong house price growth and buoyant transaction levels, following an extraordinary period of house price growth from 2001 to 2004. The economy appeared in good health, especially in London and the South East, interest rates and inflation were under control and mortgage finance was freely – too freely in hindsight – available.

As the credit crunch unfolded over the next 18 months, we saw an unprecedented combination of falls in values and transaction levels. This was quite different in nature from the downturn of the mid 1990s, the only parallel being the speed at which confidence drained from the market.

Between the first quarter of 2009 and the second quarter of 2010 we saw a short-lived recovery in prices, facilitated in part by historically low interest rates.

From the third quarter of 2010 to mid 2013 both prices and transactions stagnated at a national level, the former supported by low interest rates, the latter constrained by a lack of

widespread economic impetus or any real sign of improvement in lending conditions.

However, perhaps the most important feature of this period was the regional variation around this average. Prices in London rose by 8.4% as the capital's economy turned a corner, though meaningful growth did not spread beyond the M25. Prices in the North West fell by 3.5%.

Rapid recent recovery

Then, nearly six years after the beginning of the credit crunch, the market sparked into life. There was a rapid recovery in prices, not just in London, but most significantly so there. Transaction levels and mortgage lending picked up as confidence returned to the market and those buyers able to do so took advantage of low interest rates as the economic outlook improved.

Loan to income ratios have been on a long term upward trajectory, but have risen rapidly, particularly in London and among first time buyers, facilitated by low costs of borrowing.

What next?

Where does that leave us in the next phase? On the one hand, the economic recovery is likely to become more widespread. On the other, interest rates can only go one way, putting pressure on mortgage affordability. Our view, however, is that rate rises are unlikely to be severe enough to trigger a wholesale housing market correction.

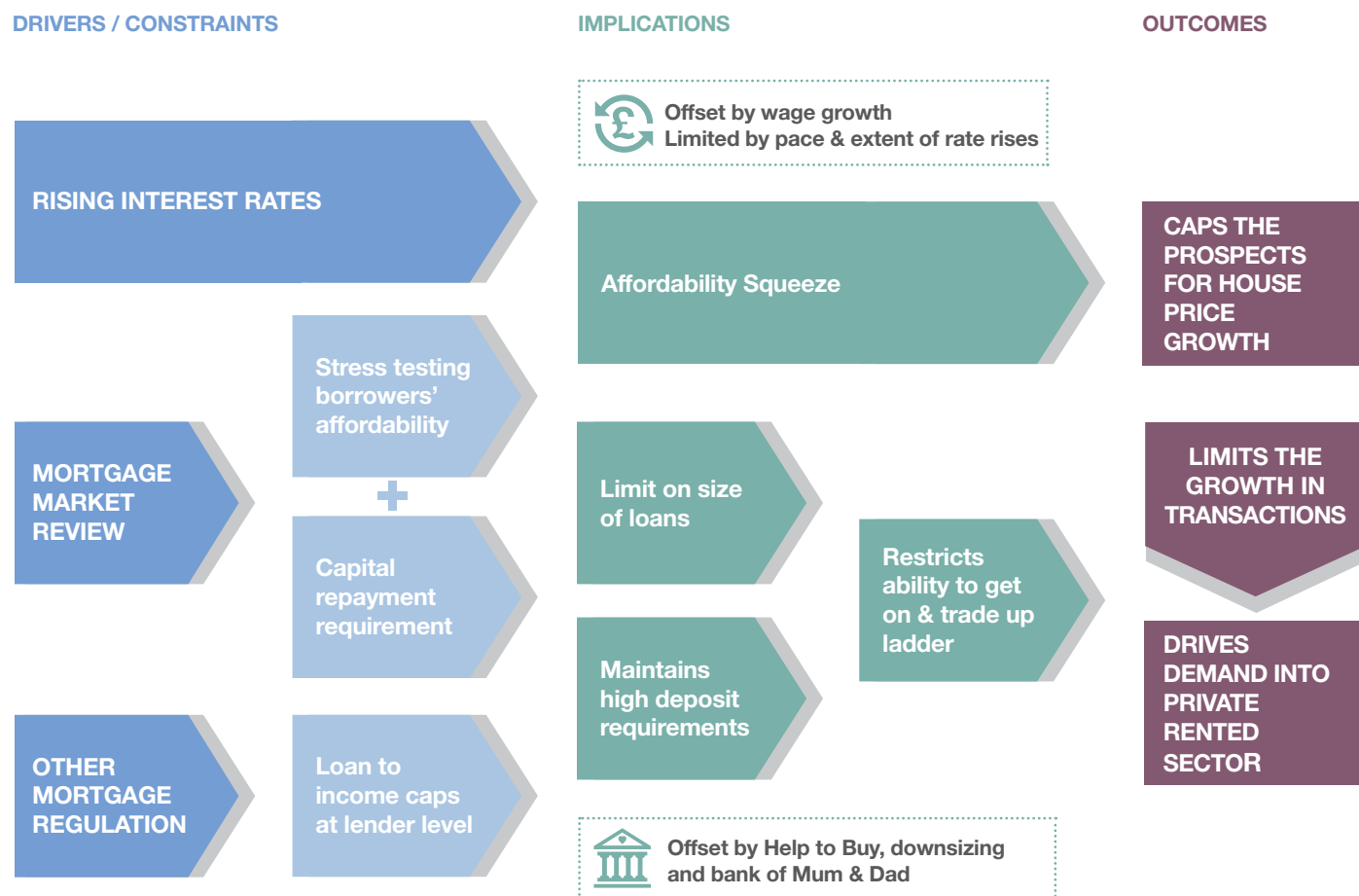
Furthermore, while there is little sign that the housing supply shortfall – at its most acute in London and the South East – will be met by a sufficient increase in house building, mortgage regulation will restrict people's ability to get on or move up the housing ladder, whatever the banks and building societies may aspire to lend.

These constraining factors will cap the prospects for price growth at a national level, particularly after the unexpectedly high levels of house price growth seen in 2014. Across the UK we expect prices to rise by 19.3% in the five years to the end of 2019 on a nominal basis, meaning that after inflation, real house price growth will be marginal.

Constraints on price growth are most likely to be felt in London, given where pricing sits after a prolonged bull run. There is already evidence of a change in sentiment among buyers

FIGURE 1.1

Housing market constraints and their likely impact over the next five years



Source: Savills Research

who are increasingly aware that the housing market in the capital looks fully priced. Following evidence of a shift in the balance of supply and demand from the RICS, the Nationwide House Price Index reported rises of just 0.2% in the third quarter of 2014.

On affordability grounds alone there is limited capacity for house price growth in the mortgaged part of the London market over the next five years. A period of sustained low price growth is needed to rebalance the market. At the other end of the scale, there is more capacity for price growth in the North East, though the economic drivers for it to be realised are weak.

Against this context, we expect the South East to see the highest levels of house price growth over the next five years and London the lowest, with buyers priced out of one moving to the other.

TABLE 1.1

UK mainstream house price forecasts

	2015	2016	2017	2018	2019	5-year
UK	2.0%	5.0%	5.0%	3.0%	3.0%	19.3%

Source: Savills Research NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

The bigger picture

However, this is only one part of a much bigger picture. Over the next five years we expect the housing market to undergo further structural change, in terms of the mix of transactions, the way existing housing wealth is recycled and the balance between renting and owner occupation. We have looked at all of these in more detail in the article on pages 10-11. ■

19.3%

The five-year
UK mainstream
house price growth
forecast to 2019

Prime market

PLAYING POLITICS WITH THE PRIME MARKET

As fresh details emerge about the form a mansion tax might take, we consider the market impact and less damaging alternatives

Words: Sophie Chick
Twitter: @SophieChick
.....



“We believe the focus may shift away from mansion tax towards council tax reform”

Sophie Chick, Savills Research
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Rarely have the prospects for the prime property markets potentially been so dependent on the tax policy adopted by a future government, making it impossible to give a single forecast for the UK’s prime housing markets without a plethora of assumptions and caveats. Much hangs on the fate of proposals for a mansion tax.

Increased tax burden
Already we’ve seen previous increases in the tax burden on prime property curtail price growth in London, interrupt the flow of wealth into the prime regional and country house markets and create a two tier market above and below a £2m price threshold.

Although there have already been increases in the rate of stamp duty for high value homes, the introduction of annual charges targeted at those perceived to be avoiding other taxes and a clampdown on property owning non-doms, two of the main political parties have proposals for a loosely described ‘mansion tax’. This has compounded buyer caution. The

prime market does not like uncertainty. Whether a mansion tax is introduced, what form it might take and how much it will cost are all uncertain.

Known unknowns
What we do know is both Labour and the Liberal Democrats have moved away from the original proposal for a tax at 1% on the value of a property in excess of £2m, not least because of the difficulty in establishing precise values for the 97,000 properties we believe could be affected. We also know Labour favours a progressive charge levied by reference to different valuation bands with properties valued between £2m and £3m paying no more than £3,000 per year.

Furthermore, we are told Labour aspires to raise in the order of £1.2bn annually from such a tax. This enables us to estimate how much households would have to pay for properties over £3m, having made an assessment of the number of properties that fall into different value bands using a combination of HMRC and Land Registry sales data.

The calculation is complicated by a stated desire to have a higher, as yet unspecified, charge for overseas second home owners whom we estimate account for 17% of the prime central London market and 6% of the prime London market as a whole.

We have assumed the additional sums raised from these owners are applied to offset tax leakage from both Stamp Duty Land Tax and Inheritance Tax that are likely to result because of the impact of a mansion tax on the market.

Possible structure
We estimate that there are around 40,000 properties valued between £2m and £3m, 30,000 between £3m and £5m and another 17,000 between £5m and £10m. To raise £1.2bn, the tax charges for properties worth between £3m and £5m might be in the order of £7,000 per year, rising to

TABLE 2.1
Savills estimates of annual charges based on Labour’s target of £1.2bn

Value Band	Number of properties	Average value	Prospective charge	Tax Raised
£2m - £3m	40,300	£2.49m	£3,000	£121m
£3m - £5m	30,600	£3.82m	£7,000	£214m
£5m - £10m	17,300	£6.79m	£18,000	£311m
£10m - £15m	5,200	£12.37m	£41,000	£213m
£15m - £20m	2,100	£17.73m	£71,000	£149m
£20m+	1,500	£26.50m	£125,000	£188m
Total	97,000	N/A	N/A	£1.2bn

Source: Savills Research

£125,000 for properties over £20m.

Because of the expected graduated scale of charges it is likely that a mansion tax will have different impacts in different parts of the market, potentially having a more modest effect in the lower bands. Correspondingly, it has the potential to have more of an impact in prime London than in the lower value prime regional markets.

Market impact

Theoretically, this impact can be modelled in some of the lower bands by calculating its impact on the amount buyers can borrow. However, the market is unlikely to be this rational, particularly in the short term.

We would expect price falls to initially reflect a change in sentiment. Thereafter, we would expect values to recover to more accurately reflect the financial impact of the liability.

Although all the indications are that, if introduced, the tax would be confined to properties worth in excess of £2m, it could have a trickle down effect into other parts of the prime market. But it is likely that this effect will be offset by buyers looking to meet their requirements in lower value markets without a fiscal penalty.

In particular, it may draw demand out of London to prime regional property. As a result, the impact would be much less acute for the far greater number of properties which are valued between £1m and £2m, though their capacity for five year growth is more affected by the rising cost of mortgage interest.

Back to fundamentals

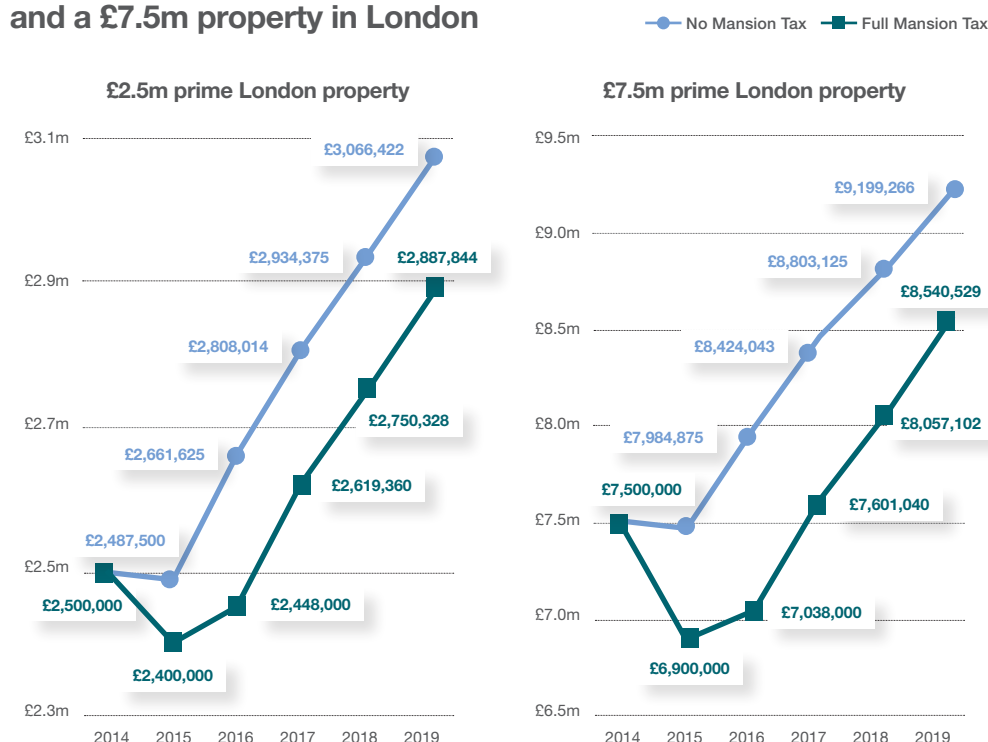
We should also be mindful of the difficulties in administering such a tax. Its likely inefficiencies as a revenue raiser have already drawn criticism from a number of sources including a number of Labour MPs and donors.

This means that even in the event that further taxes are introduced, the measures may well be further watered down. We believe the focus may shift from raising an arbitrary amount of 'mansion' tax in a fairly crude manner to ironing out the inefficiencies of the existing council tax system, by introducing further bands at the top end of the market as we discussed in our Spotlight on Prime London.

This would have a far less severe impact on the market and, dependent on the wider economic and fiscal backdrop, result in performance far closer to that supported by the other market fundamentals. ■

GRAPH 2.1

Potential effect of a full mansion tax on the value of a £2.5m and a £7.5m property in London



Source: Savills Research

TABLE 2.2

Prime London house price forecasts

	2015	2016	2017	2018	2019	5-year
Central scenario*	-0.5%	7.0%	5.5%	4.5%	4.5%	22.7%
With full mansion tax** as per Savills estimates	-5.0%	2.0%	7.5%	5.5%	5.5%	15.9%

Source: Savills Research

*Assuming no mansion tax but allowing for revision of the council tax system

**Assuming the mansion tax is introduced in 2015

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate






































Market forecasts

WHAT DOES THE FUTURE HOLD FOR HOUSE PRICES?


























See online
for more forecasts
[savills.co.uk/
research](http://savills.co.uk/research)

PRIME MARKETS Five-year forecast values (2015-2019)

PRIME LONDON

	Band	2015	2016	2017	2018	2019	5-year
Central scenario*	All Prime London	 -0.5%	 7.0%	 5.5%	 4.5%	 4.5%	22.7%
With full mansion tax as per Savills estimates**	£10m+	 -10.0%	 2.0%	 8.0%	 6.0%	 6.0%	11.4%
	£5m - £10m	 -8.0%	 2.0%	 8.0%	 6.0%	 6.0%	13.9%
	£3m - £5m	 -6.0%	 2.0%	 8.0%	 6.0%	 6.0%	16.4%
	£2m - £3m	 -4.0%	 2.0%	 7.0%	 5.0%	 5.0%	15.5%
	£1m - £2m	 -2.0%	 2.0%	 5.5%	 4.5%	 4.5%	15.2%
	All Prime London	 -5.0%	 2.0%	 7.5%	 5.5%	 5.5%	15.9%


PRIME REGIONAL

	Band	2015	2016	2017	2018	2019	5-year
Central scenario*	Prime Regional	 1.0%	 6.0%	 5.0%	 5.0%	 5.0%	23.9%
With full mansion tax as per Savills estimates**	£3m+	 -7.0%	 3.0%	 7.0%	 6.0%	 5.5%	14.6%
	£2m - £3m	 -4.0%	 3.0%	 7.0%	 6.0%	 5.5%	18.3%
	£1m - £2m	 -2.0%	 6.0%	 6.0%	 5.0%	 5.0%	21.4%
	Prime Regional	 -3.0%	 4.5%	 6.5%	 5.5%	 5.0%	19.6%

Source: Savills Research

*Assuming no mansion tax but allowing for revision of the council tax system **Assuming the mansion tax is introduced in 2015
NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

IF A MANSION TAX IS INTRODUCED...

£2m-£3m market
Growth constrained
by **7%**

stamp duty

£1m-£2m market
Outside London
London homeowners
wanting to avoid **tax**

move out for **MORE space**

2015
Market **UNLIKELY**
to behave rationally;
negative sentiment
drives price falls


2017
Market absorbs **TAX**;
bounce back
in values begins


MAINSTREAM MARKETS Five-year forecast values (2015-2019)

	2014	2015	2016	2017	2018	2019	5-year
UK	8.5%	2.0%	5.0%	5.0%	3.0%	3.0%	19.3%
London	15.0%	0.0%	3.0%	3.0%	2.0%	2.0%	10.4%
South East	12.0%	3.0%	6.5%	6.5%	4.0%	4.0%	26.4%
South West	7.5%	2.5%	5.0%	5.0%	3.5%	3.5%	21.1%
East of England	11.0%	3.0%	6.0%	6.0%	4.0%	4.0%	25.2%
East Midlands	8.0%	2.0%	5.0%	5.0%	3.0%	3.0%	19.3%
West Midlands	7.0%	2.0%	4.5%	4.5%	3.0%	3.0%	18.2%
North East	5.0%	1.0%	3.5%	3.5%	2.0%	2.0%	12.6%
North West	5.0%	1.0%	4.0%	4.0%	2.0%	2.0%	13.7%
Yorks & Humber	4.0%	1.5%	4.5%	4.5%	2.5%	2.5%	16.5%
Wales	4.0%	1.5%	4.0%	4.0%	2.5%	2.5%	15.3%
Scotland	5.0%	3.5%	4.0%	4.0%	2.5%	2.5%	17.6%

Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

THE MAINSTREAM VIEW

AFFORDABILITY

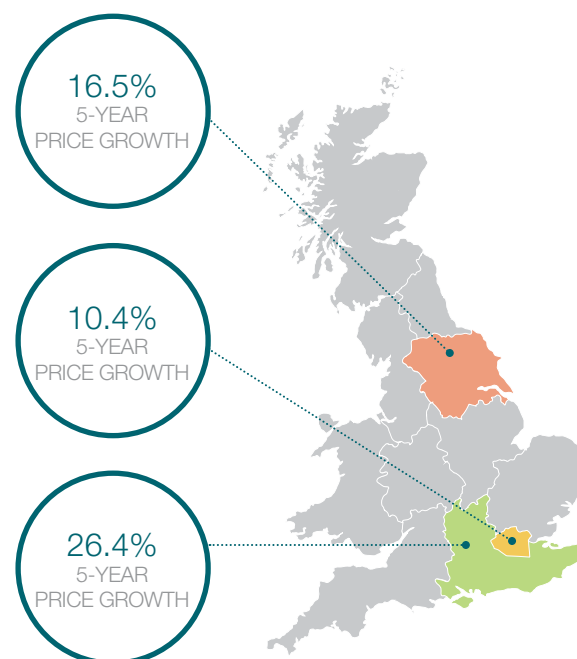
constraints are **limiting**

capacity for price growth




SCOTLAND
strongest
 performer in **2015**
 following referendum

Market in 
South East England
strongest performer over
FIVE year period



Market dynamics

THE SHIFTING SANDS OF HOMEOWNERSHIP

Our tenure forecasts chart the inexorable rise of private renting among younger households

Words: Neal Hudson
Twitter: @resi_analyst
.....



“The generational divide in the UK housing market will continue to widen”

Neal Hudson, Savills Research
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Over the past seven years it has become abundantly clear that the credit crunch has fundamentally changed the way the UK housing market operates. Combined with the recent regulation of the mortgage markets, accessibility to the debt required to step on to and up the housing ladder has been fundamentally altered.

Whatever the best intentions of the various political parties, the legacy of the credit crunch means the generational divide in the UK housing market will continue to widen, as private renting grows and homeownership among both the under 35s and 35-49 year olds falls further.

Seeds of change

The seeds of that change were planted ten years ago. At the end of 2004, the average UK house price had risen by 63% in just three years, resulting

in a significant shift in house price to household income ratios.

Together these two factors mean that the housing market has been, and will continue to be shaped as much by the affordability of a mortgage deposit as by servicing that mortgage on a monthly basis.

In our leading article we have looked at what the second of these two drivers means for house prices as interest rates rise, but what the two together mean for transaction levels is as big an issue. In turn, this will impact on how the different generations occupy their homes, whether as homeowners or tenants.

Transactions

At the time of writing, annual transaction levels across the UK have just broken through the 1.2m mark, up by more than 20% in a year. Encouragingly, despite continued high levels of cash transactions, this has until recently been supported by similar growth in lending for house purchase.

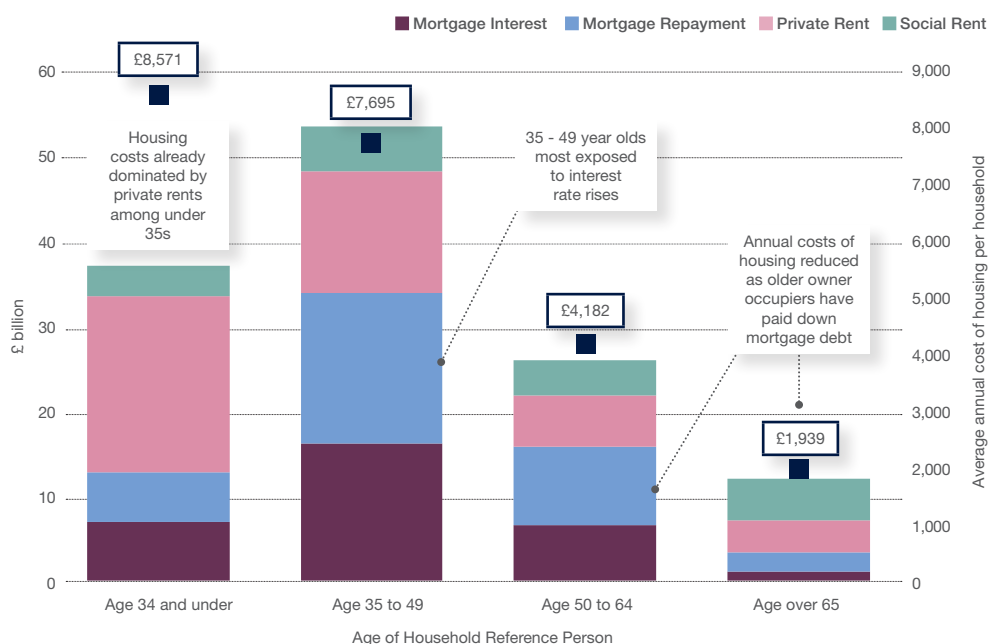
However, transactions remain 28% below the average for the 25 years prior to the credit crunch, and data from the British Bankers Association indicates mortgage approvals have plateaued in the short term at least.

In future, the implementation of the Mortgage Market Review is likely to limit both the number of people who can access mortgage debt and the amount they can borrow. Furthermore, there is little sign that the issue of deposit affordability will be anything but permanent unless there is a major housing correction, something we do not anticipate.

Impacts on ownership

This will have several impacts. It will suppress the recovery in transaction levels and continue to put downward pressure on levels of mortgaged homeownership. Combined with limited prospects for a significant expansion of social housing provision, this means continued growth in

GRAPH 3.1
Annual costs of housing per household by age



Source: Savills Research

the number of households in the private rented sector and a widening of the generational divide in the UK housing market.

In our recent analysis of the annual cost of housing we found that the under 35s have the highest outgoing on housing, equivalent to an average of £8,571 per household across England and Wales. Some 56% of the £37bn paid by these households was to a private landlord.

By contrast, the annual housing costs of the 50-64 age group fell to an average of £4,182 per household, reflecting the extent to which they have been able to access homeownership historically, pay down their mortgage and enjoy the benefits of low interest rates on their remaining debt.

Younger households

The census tells us that in 2011 private renters accounted for 46% of all households under the age of 35 across England and Wales, a figure that rose to 54% in London. Among 35-49 year olds the level of private renting almost doubled between 2001 and 2011, to account for one in five households nationally.

Initiatives such as Help to Buy can only limit the flow of households into the private rented sector to a degree. When the cost of servicing a mortgage rises as interest rates eventually climb, mortgaged owner occupation will continue to fall, while limited accessibility to mortgages means that the bulk of new households will be private renters.

As a result, we are forecasting the number of private rented households in England and Wales will increase by 1.2m over the next five years and levels of owner occupation will fall by 202,000 households. This would mean that by the end of 2019, over 24% of all households across the UK would be in the private rented sector.

Among the under 35s, the proportion of households in the private rented sector would increase to 66%, with homeownership falling to just 16% of the total. Even in the next age band (35-49), homeownership would fall to just 55% of all households, with private renting accounting for 28% of households – rising to 38% in London.

This trend will present opportunities for investors and major challenges for government. More fundamentally, it has the potential to change the way we look at housing in the UK and the role of homeownership in particular. ■

TENURE FORECASTS TO 2019

Forecasts show large rise in Private Rented Sector households

	5-year forecast	No. of Households (Millions)		Forecast change		% of Households	
		2014	2019	Millions	%	2014	2019
ENGLAND & WALES	Owner Occupiers	14.87	14.67	-0.20	-1.4%	62%	59%
	Private Renters	4.86	6.04	+1.2	+24.3%	20%	24%
	Social Renters	4.09	4.04	-0.05	-1.1%	17%	16%
LONDON	Owner Occupiers	1.56	1.46	-0.10	-6.8%	47%	42%
	Private Renters	0.99	1.24	+0.25	+24.8%	30%	36%
	Social Renters	0.78	0.77	-0.01	-1.1%	23%	22%

Age band forecasts show generational divide widening in England & Wales

Owner occupier levels: 16% for under 35s to 80% for 65+

UNDER 35	35-49	50-64	65+
+566K more PRS households	+483K more PRS households	+175K more PRS households	-42K fewer PRS households
-520K fewer owner occupied households	-275K fewer owner occupied households	+337K more owner occupied households	+256K more owner occupied households
16% owner occupied down from 28%	31% growth in private renting	72% of households remain in owner occupation	5% growth in owner occupied households

Source: Savills Research, 2011 Census, DCLG

TABLE 3.1
UK housing transaction levels (millions) forecasts to 2019

25 years pre crunch (Av)	2014	2015	2016	2017	2018	2019
1.687	1.245	1.293	1.321	1.325	1.333	1.340

Source: Savills Research, HMRC, CML

Development

HOUSEBUILDING IS AN ELECTION ISSUE

Housing is high on the political agenda. But will the policies deliver the homes we need?

Words: Susan Emmett

Twitter: @saemmett

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"All three main parties agree that housebuilding needs to increase"

Susan Emmett, Savills Research

.....

The recognition that England is facing a housing crisis has pushed housing to the top of the political agenda. As the general election approaches, all three main parties agree that housebuilding needs to increase in order to meet the needs of a growing population.

However, with the party conferences now over and the election battle lines drawn, political differences on how to achieve higher levels of housebuilding are coming to the fore. So what are the key differences between the housing policies emerging from the main parties and what are the prospects for housebuilding?

Labour

The Labour party has said it aspires to increase housebuilding numbers to at least 200,000 by 2020. This

ambition was emphasised in the long-awaited Lyons Housing Review commissioned by Ed Miliband to map out ways of delivering higher housing numbers.

The broad and comprehensive review offers a range of recommendations, from ways to improve the planning system and increase land for housing, to emphasis on the importance of building for different tenure types, including private rent. There were also recommendations for helping SMEs. There was no mention in the review of Ed Miliband's promise at the Party's conference to ensure 400,000 first-time buyers get on the property ladder. Details on that proposal remain elusive.

Conservatives

Although the Tories have set no targets for housebuilding, emerging policies have focused on homeownership. Since its launch in April 2013, the Government's flagship policy Help to Buy has supported 53,000 sales, including 37,600 through the Equity Loan part of the scheme aimed at purchases of new build homes.

As an extension to that, the new Help to Buy: Starter Home, will enable first-time buyers under 40 to purchase a home at 20% discount to the market price.

Under the scheme, which the Conservatives say will deliver 100,000 over five years on new brownfield land, developers would be exempt from paying Community Infrastructure Levy (CIL), off-site S106 contributions, including affordable housing and the homes would not have to meet the full zero-carbon standard.

Liberal Democrats

The Liberal Democrats are calling for 300,000 new homes and to help deliver these numbers, the party is proposing at least ten new Garden Cities. Plans include the re-opening of the Oxford to Cambridge rail link and expanding three to five of the towns along the route 'along Garden Cities' principles. Building on the 'brain-belt' would enable 50,000 new homes to be built, they say.

Housebuilding forecasts

Current projections for household growth suggests that we should be building 240,000 to 245,000 new

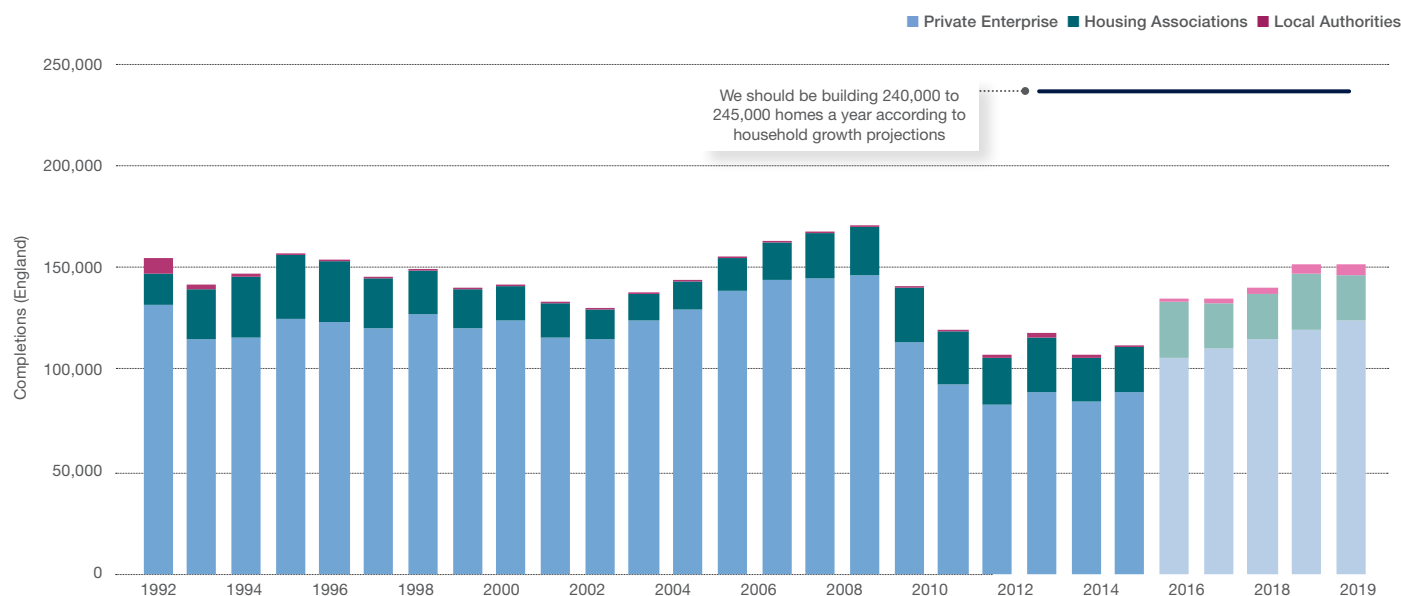
GRAPH 4.1
The impact of Help to Buy



Source: DCLG

GRAPH 4.2

Housebuilding forecast to 2019: A shortfall of 90,000 remains



Source: DCLG, Savills Research

homes in England a year. Just over 112,000 new homes were completed in the 12 months to March 2014 this year in England. This represents an increase of 4.5% on the previous year but remains well below the 170,000 achieved in 2008.

However, despite the political will to support housebuilding, the strengthening economy and growing consumer demand, we expect the number of housing completions to increase to 152,000 in 2019, as current conditions stand. This falls well short of Labour's and Liberal Democrat's targets and assumes that private housebuilders will continue to deliver the bulk of new homes.

Private housebuilders have responded to strong demand for homes by increasing production. Over 111,000 new homes were started by private builders in the year to March 2014, an increase of 28% on the previous year. We expect the momentum to feed into the completions data next year but constraints such as a shortage of labour and materials will prevent continued growth at this level.

The private sector has become increasingly dominated by larger developers (500+ units per annum), which are currently delivering 73% of private homes. Judging from housebuilders' performance over the last two decades, we believe

this part of the sector is close to maximum capacity. In contrast, small builders (up to 100 units per annum) are producing just 14% of all private homes compared with 26% at the height of the market in 2006/7. It is difficult to see a full recovery any time soon.

Therefore, we forecast completion rates for private housebuilders will grow by around 4% a year from 2015 onwards. Within this, there is less Section 106 affordable housing than in the past, squeezed by viability, including the lower value of affordable housing without grant. This squeeze will be exacerbated by Community Infrastructure Levy as its implementation is rolled out.

Public sector and affordable housing

While housing associations and local authorities have the potential to play a significant part in boosting housing numbers, we do not expect the public sector to fill the gap between private developers' output and housing need in the short-term.

Housing associations have not delivered more than 27,000 new homes a year at any time in the last 15 years and there is little sign of this changing soon, particularly as there seems to be limited appetite for the Government's 2015-18 Affordable Homes Programme, which was

48% 'underbid' in the most recent round. Local authorities are developing a lot more, but much of this is via joint ventures, so it is likely to be recorded in the house building statistics as activity by either the private sector or housing associations.

So the capacity for new homes development under established models is unlikely to get much above 150-155,000 per annum, with affordable housing delivery falling short of Government targets, unless and until we get radical change in the way that homes for rent and other flexible tenures are delivered.

With the weight of money looking to invest in large scale rented housing and a shortfall in private rented supply, there must be a policy priority to bring forward large sites with substantial elements of build to rent, in addition to established forms of development. ■








Over 110,000 new homes were started by private builders in the year to March 2014

Postscript

PRIME MINISTERIAL NUMBERS

Of the last five prime ministers, Tony Blair oversaw the highest house price growth, and Margaret Thatcher the greatest levels of housebuilding

 PRIME MINISTERIAL NUMBERS					
	THATCHER 11 years	MAJOR 7 years	BLAIR 10 years	BROWN 3 years	CAMERON 4 years
From	May-79	Nov-90	May-97	Jun-07	May-10
To	Nov-90	May-97	Jun-07	May-10	?
 HOUSE PRICES					
Total House Price Growth Nominal	187.9%	6.3%	211.3%	-7.2%	11.9%*
Annualised House Price Growth Nominal	9.6%	1.0%	12.0%	-2.5%	2.7%*
Total House Price Growth Real	21.5%	-11.8%	136.8%	-14.3%	-2.3%*
Annualised House Price Growth Real	1.7%	-1.9%	9.0%	-5.0%	-0.5%*
 COST OF BORROWING					
Effective Mortgage Lending Rate (Av)	9.5%	6.7%	5.5%	5.2%	3.6%*
Bank Base Rate (Av)	12.1%	7.4%	5.1%	2.9%	0.5%*
High	17.0%	13.9%	7.5%	5.8%	0.5%
Low	7.6%	5.1%	3.5%	0.5%	0.5%
 TRANSACTIONS AND HOUSEBUILDING					
Annual Housing Transactions (Av)	1,676,000	1,267,000	1,540,000	995,000	985,000 *
Annual Private Housing Completions (Av)	157,000	153,000	170,000	143,000	109,000 **
Annual Public Housing Completions (Av)	55,000	36,000	23,000	33,000	32,000 **
 BASIS OF OCCUPATION					
Change in Owner Occupation	3,931,000	1,248,000	1,508,000	-215,000	-422,000 ***
Change in Private Renting	-522,000	249,000	1,297,000	830,000	1,193,000 ***
Change in Social Renting	-990,000	-226,000	-726,000	19,000	89,000 ***

* to date ** estimated to Q2 2014 using recent trends *** estimated to May 2015 using recent trends

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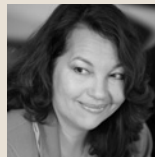
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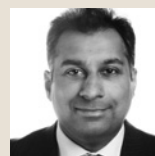
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