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Savills World Research
UK Residential

# RESIDENTIAL PROPERTY FOCUS Q4 2013

The Forecasts Issue

## The complete picture

Putting together the pieces of the residential housing market

House price growth

The rise of transaction levels

Prime and mainstream markets

savills.co.uk/research

**This publication**
This document was published in October 2013. 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.

Abbreviations are:
- CML: Council of Mortgage Lenders
- DCLG: Department for Communities and Local Government
- LTV: Loan to value
- Peak: refers to the first half of 2007
- PCL: Prime central London
- PRS: Private rented sector


# Foreword
# PUTTING TOGETHER THE PIECES

## Assembling the jigsaw puzzle of house price forecasts is complicated by conflicting signals on transaction levels and price growth

**This issue describes a UK housing market that is diverse and fragmented, where conflicting signals on activity and price growth confuse those who are trying to put together the jigsaw puzzle of house price forecasts.**

There is still disagreement on past performance, let alone future performance. This is dependent on which part of the country you are standing in – whether focused on mortgage lending or cash transactions, looking at affordability or price sustainability.

It is a mistake though to think, because house prices are more expensive for the average household than they used to be, that market values have to come down.

High house prices have excluded households from owner occupation, but increased incidence of renting means transactions have shrunk rather than prices. The UK housing market is now the preserve only of the wealthiest 50% of households – and only if they have access to sufficient capital to use as a deposit.

Despite this, our analysis shows the housing market is not in bubble territory and could see as much as 25% growth over the next five years without significant damage to those household finances. But this doesn't rule out the possibility of a future bubble developing if scarcity value leads to the 'irrational exuberance' seen in so many past cycles.

The future of the housing market then starts to revolve around where the money is. If cash is not being generated by households, their power to participate in the owner occupied market is severely limited. This is why London has seen so much activity and growth of late while even prime properties in the country still stagnate. London isn't the only city 'rock' to which homebuyers have been clinging like limpets. Real estate price growth around the world has been an urban phenomenon, focused on the high-performing urban economies and rarely extending beyond major cities. Rural and resort locations in Asia, for example, have underperformed city properties and the recent recovery in the US is particularly focused on prime properties in major urban centres.

Understanding this helps us to understand the UK. It is the improvement in the regional economies and the movement of people from London to areas that are clearly in recovery that will prise the molluscs from their world-city foothold. We believe 2014 will be the year of the southern 'ubertowns' and the time when the London-rural prime price gap will start to close.

How far and how fast the London ripple moves out depends not only on economic factors but also on political ones. Prime properties and London stand to be affected by political change so we expect a hiatus in activity and price growth in the run up to the 2015 election. Different political forces apply to Scotland's independence vote in 2014 but, again, uncertainty can suppress market activity.

UK housing is facing a dichotomy of opposing forces. It will be more difficult for 'Help to Buy' measures to counteract the negative forces of credit scarcity, lack of cash and political uncertainty – but 2014 is probably the year it starts to do so.

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## Executive summary

### The key findings in this issue

- A five year price rise of 25% would see mortgage affordability fall but leave a sufficient household surplus to cover the basic costs of living. See pages 4/5
- We expect the underlying growth in transactions to be limited to around 27% over five years, 24% below a fully functioning market. See pages 6/7
- As we look forward there are encouraging signs that the seeds of recovery are becoming more widespread in the prime markets. The proportion of London buyers has increased in every part of the prime regional market. See pages 8/9
- Prices in other parts of the UK should start to outperform London at some point over the next five years. The greatest impact is likely to be in higher value markets with more in-built housing equity. See pages 10/11
- Government data shows housing starts in England rose 36.5% in the three months to June 2013 against the same period last year. See pages 12/13
- Our recent survey of 2,800 existing private sector tenants in association with YouGov indicates that renting is still seen as an intermediate step to home ownership by a large percentage of private renters. See page 14

## Contents

# House prices

# HUBBLE, BUBBLE, TOIL OR TROUBLE?

## Does the Government's Help to Buy scheme risk creating a house price bubble?

**Words: Lucian Cook**
**Twitter: @LucianCook**

**In the past six months, speculation over whether there could be a recovery in the housing market has mutated into speculation as to whether we are on the cusp of a housing bubble.**

Over the past year average UK house prices have risen by 5% according to the Nationwide monthly house price index; whilst mortgage approvals for house purchase have grown by over one quarter and transactions by 15%. Such statistics have fuelled the housing market hysteria over the prospect that Help to Buy will lure large numbers of new buyers into taking on unsustainable levels of debt in a scramble to get onto or move up the housing ladder.

It is difficult to find hard evidence of either a widespread housing boom or a bubble. True, in the run up to the launch of the mortgage guarantee element of Help to Buy, new buyer enquiries rose dramatically according to the RICS. But transaction levels and mortgage approvals respectively remain 40% below those in a normal market.

### Cash dominant

Cash remains the dominant source of funding for house purchase. Only 38% of the sums spent on house purchase were funded by mortgage debt in the year to the end of June 2013. In this equity-driven, partially-functioning market those taking on a mortgage have tended to be more affluent; with a distinct division having opened up between the average UK household income and that of a reduced number of

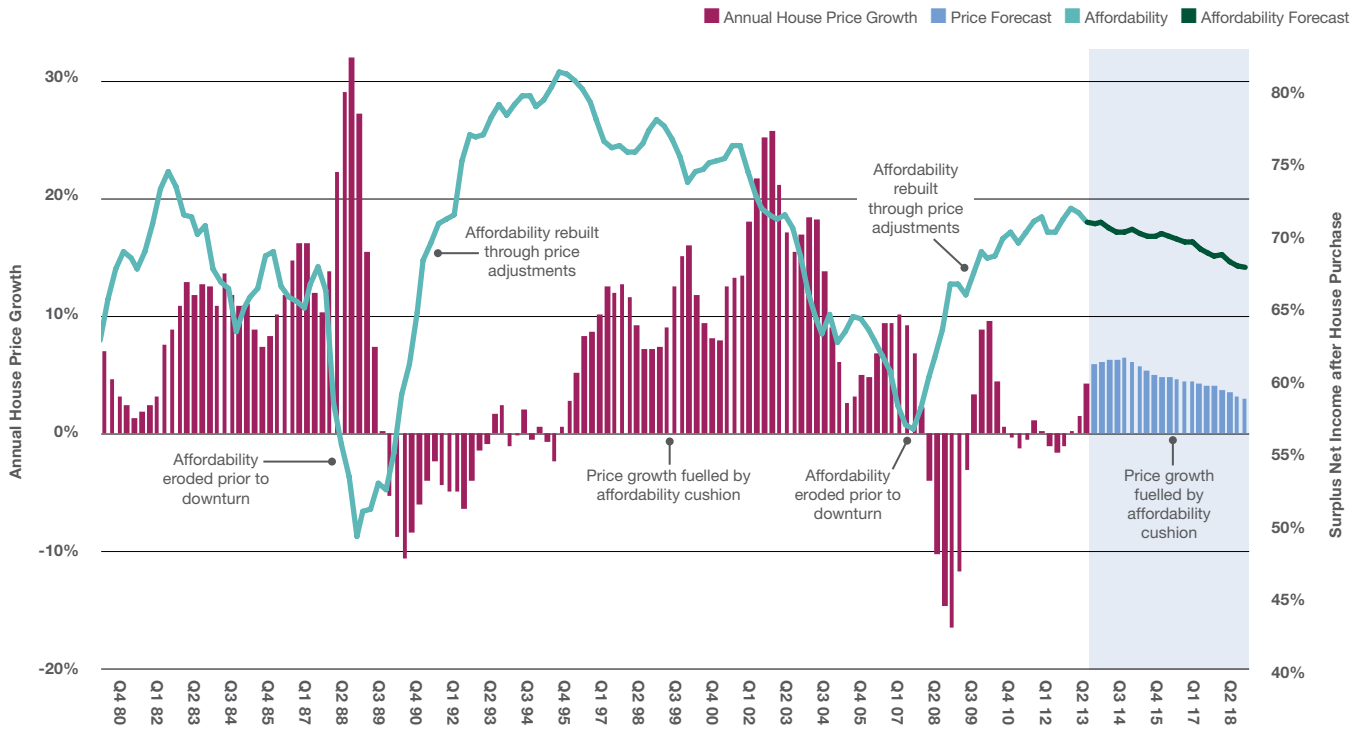
TABLE 1.1

**Mainstream markets:** Five-year forecast

| Forecast | 2014 | 2015 | 2016 | 2017 | 2018 | 5 yrs |
|---|---|---|---|---|---|---|
| UK Mainstream | 6.5% | 5.0% | 4.5% | 4.0% | 3.0% | 25.2% |

GRAPH 1.1

**House price growth and mortgage affordability through housing market cycles**




Source: Savills Research

mortgaged home buyers since 2007-08.

Consequently, the areas that have seen both the strongest levels of transactions and the highest house price growth have generally been the more valuable markets with the deepest seam of existing housing wealth.

London, where a record of £9bn of equity was applied to house purchase in the second quarter of 2013, has seen the strongest price growth though even here there is a clear divide between the most and least valuable markets. This is not unusual at this stage in the housing market cycle, though there is evidence that the ripple of positive sentiment is beginning to flow into and, in some cases beyond, London's hinterland.

## 1996 revisited?

If we were to benchmark the market by reference to previous housing market cycles and the regional pattern of current house price growth, we would be in 1996 when the last housing market recovery firmly took hold.

The affordability of mortgage payments has recovered in a similar fashion, albeit at much lower mortgage interest rates that are likely to increase over the period of our forecasts.

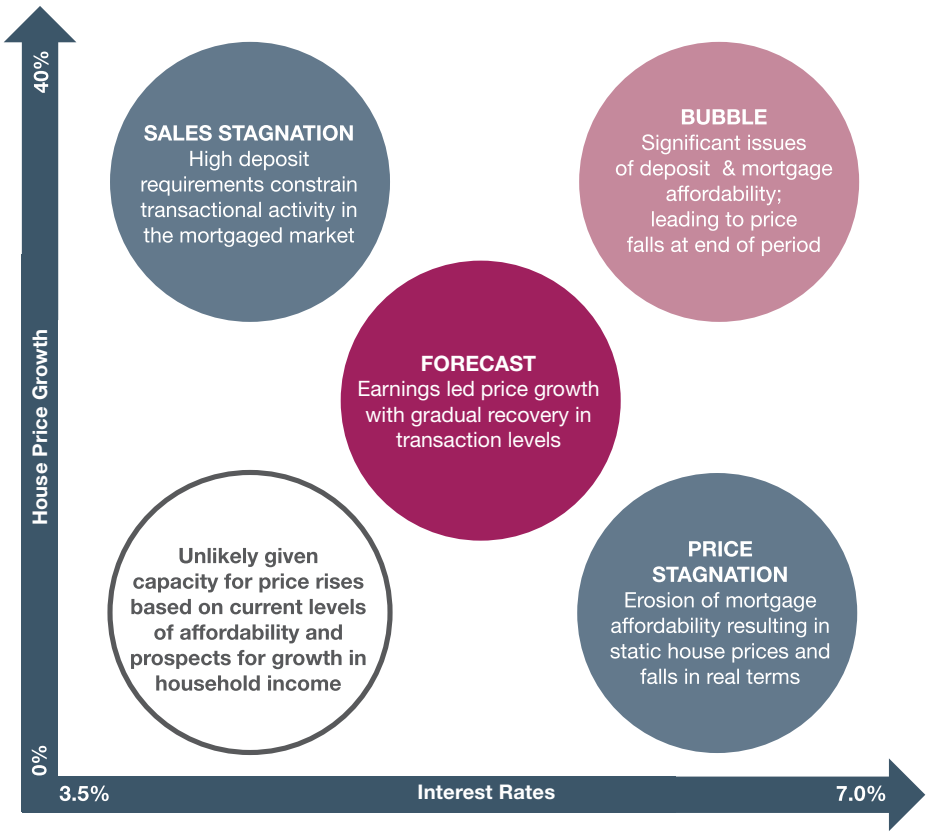
However, the average cost of a deposit is much higher relative to income than in 1996, a secondary factor that is likely to cap price growth and continue to restrict accessibility to homeownership among less affluent households and those on the lower rungs of the ladder, irrespective of government initiatives.

Against this context the biggest determinant of house prices will be mortgage interest rates. The current mortgage interest rate of 3.5% provides capacity for sentiment driven house price growth in the short term.

Over the medium term a five year price rise of 25% would see mortgage affordability fall but leave a sustainable household surplus to cover the basic costs of living should average mortgage interest rates reach 5% by the end of 2018. At this level of growth mortgage rates would have to rise to 7% for affordability to be as stretched as it was immediately prior to the 2008 downturn.

GRAPH 1.2

**Scenarios for the UK housing market 2014—2018**




Source: Savills Research

"It is difficult to find hard evidence of either a widespread housing boom or a bubble"

Lucian Cook, Savills Research

Stronger price rises in excess of 35% to 40% over that five years would also stretch affordability in a relatively benign interest rate environment and substantially affect the affordability of deposits, even if loan to value ratios returned to their pre-crunch levels.

This would leave the market exposed to further rate rises and act as a major constraint on transactions particularly on the lower rungs of the housing ladder.

## Rational pricing

Much then depends on whether the market acts rationally or whether buyers rush to ride a wave of positive sentiment. Certainly, we know that the Bank of England is alive to the perils of an overheated housing market and will take steps to curtail recent government intervention or, if necessary, restrict the flow of mortgage finance in these instances. The problem that it faces is that this could widen the gap between the haves and have-nots in anything other than a credit-fuelled boom.

It seems to us unlikely that this will occur, earnings-led price growth remains the most likely outcome with a continued squeeze on mortgaged owner occupation that limits the recovery of transactions and results in continued growth in the levels of private renting among younger households.

# Transactions

# TRADING UP, TRADING DOWN

Transaction levels are much lower than their 2007 peak, but are forecast to increase steadlily over the next five years

Words: Chris Buckle

**While house prices inevitably catch the headlines, transaction levels arguably have much greater significance to the structure of the housing market.**

They reflect peoples willingness and ability to get on, move up or step down the housing ladder. They impact on the capacity to absorb new housing supply both across the market as a whole and within individual subsectors. They dictate the demands on the private rented sector.

Overall in the year to the end of the second quarter of this year housing transactions were 39% below the 15-year pre-credit crunch average. Never before have we seen such a prolonged period of such low sales. Nor have we seen such a divergence in the transaction levels between the most and least affluent housing markets.

An improvement in those transaction levels is heavily dependent on an improvement in the availability of mortgage finance. Cash transactions, which account for 35% of all sales, are relatively buoyant being within 16% of the long run pre-crunch norm.

"Major beneficiaries of an increase in net mortgage lending are likely to be existing home owners"

Chris Buckle, Savills Research

TABLE 2.1

**Forecasts of transactions and levels of private renting**

| Forecast | Current | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| UK Housing Transactions | 0.96m | 1.11m | 1.18m | 1.25m | 1.16m | 1.22m |
| UK Private Rented Sector Households | 4.80m | 5.02m | 5.22m | 5.44m | 5.66m | 5.83m |

Source: Savills Research

## First-time buyer trends

Within the mortgaged market, the number of first-time buyers transactions had fallen prior to the credit crunch, reflecting a structural change in the housing market that has been exacerbated by the mortgage rationing that has followed.

Greater barriers to home ownership, most notably the cost of deposits relative to income, meant that in the five years pre credit crunch the number of mortgaged first-time buyers were 23% below those 10 years before.

Relative to that immediate pre-crunch number, current transaction levels in this sub-sector are suppressed but not as much as one might expect. This reflects the fact that the first-time buyer market had already become the domain of wealthier younger households, typically with the backing of older, equity rich generations.

Consequently, on average, the growth in the private rented sector averaged 217,000 households in the period from 2003 to 2007, most of which was absorbed by the 145,000 buy to let mortgages being granted on average each year in this period.

## Slaves to the mortgage

The real beneficiaries of the pre-crunch credit boom were the mortgaged home movers, who were able to aggressively trade up the housing ladder. In the five years pre-crunch transaction levels of this subsector were 41% higher than in the 10 years before.

Since the credit crunch the mortgaged home movers have been hit particularly hard, with transaction levels down 57% on the five years pre-crunch and 50% down on the long run average.

## Help to Buy

Against this historic context, the capacity for cash transactions to rise is most limited unless a new and much expanded downsizer market develops. The constraints faced by younger households in the mortgaged sector could provide the incentive for them to do so, with increased pressures for housing wealth to be passed between generations.

Otherwise the much maligned and misunderstood Help to Buy

scheme represents one of the few other opportunities for deposit shy households to buy.

There are issues to overcome for those looking to plug into it. Exactly how keen lenders are to embrace it, remains unclear. The costs of servicing an interest and capital repayment mortgage where interest rates are at a premium to lower LTV products, will mean that it will be cheaper in the short term to rent.

For those already on the ladder but with little accumulated equity, the relatively high interest rates will mean the additional monthly outgoings will substantially increase where such households do make the move to trade up.

Furthermore, not all households with an aspiration to buy will be able to meet the bank and building society's lending criteria.

This suggests that the curtains of the bank of Mum and Dad will still be twitching when there is a knock on the door. That is not to say that Help to Buy will not have an impact.

Indeed, we believe some 325,000 transactions could be facilitated by the mortgage guarantee element of Help to Buy in the next three years, as those buyers with a strong aspiration to build up their housing wealth and the income to do so take advantage of the scheme.

This is critical, as we expect the underlying growth in transactions to be limited to around 27% over five years, leaving transactions some 24% below a pre-crunch fully functioning market. Cash buyers will retain the upper hand.

The major beneficiaries of an increase in net mortgage lending are likely to be existing home movers, particularly those with a pot of existing equity.

## Relationship with renting

There is little doubt that the private rented sector will continue to grow. Here is perhaps the biggest issue. The fall in buy to let lending means meeting this demand will fall to the cash rich investor and the institutions.

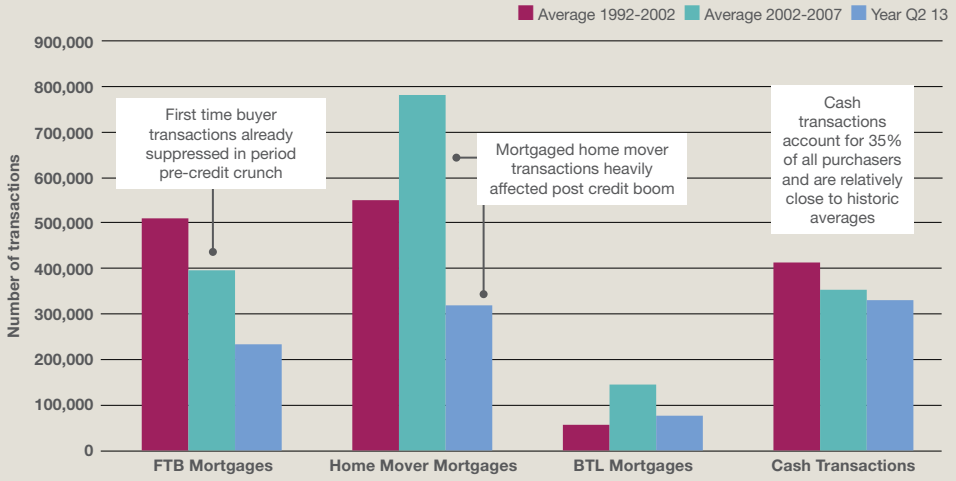
They could, if they are brave and receive sufficient government support, be on the cusp of revolutionising the provision of private rented housing. This will be critical in the polarised housing market of the next five years.

GRAPH 2.1

### Tiers of the Market (at Electoral Ward level)

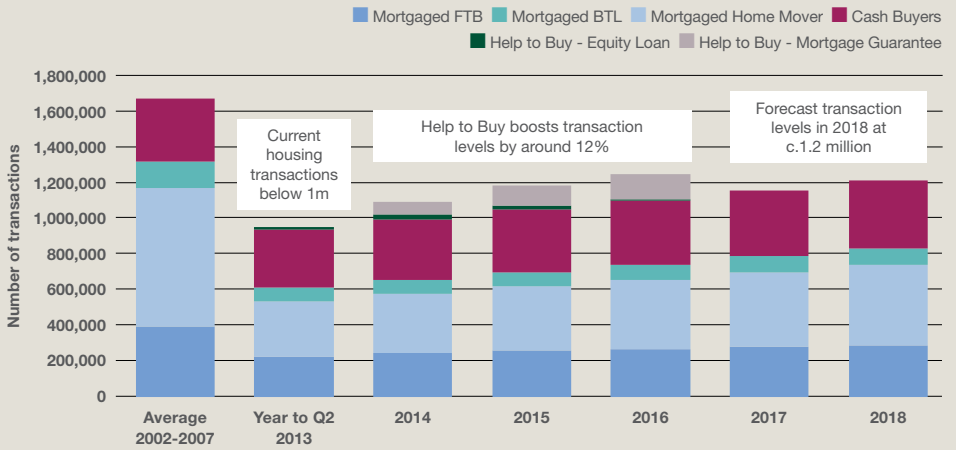

GRAPH 2.2

### Transactions in historic context




GRAPH 2.3

### Transaction forecasts




Sources: Savills Research, HMRC, CML, The Property Database Ltd

# Prime markets
# PLAYING CATCH-UP WITH THE CAPITAL

Growth in London's prime markets has soared since the downturn, the same is not true of the regions

Words: Sophie Chick

**Since the downturn prime regional and country house markets have been left in the wake of the stellar performance of the prime housing markets of London.**

While prices in prime London are 27% above their 2007 peak, prime property prices in the commuter zone are yet to recover their pre-crunch zenith.

Beyond this area prime property prices are typically 15% to 25% below 2007 levels. However, the number of sales of £5m+ property continue to set new records in London, a price threshold at £2m has become entrenched beyond the M25, following recent increases in rates of stamp duty. Whereas annual price growth of large terraced houses in Fulham is in double digit territory, the prices of country manor houses have fallen by 2.5% in the past year.

However, as we look forward there are encouraging signs that the seeds of recovery are becoming more widespread. The proportion of London buyers has increased in every part of the prime regional market. Prices across the prime regional markets returned to modest price growth in the third quarter of 2013, except in Scotland where they at least appear to have bottomed out.

Within the inner commuter zone at least, the differential between the performance of prime town and country properties has narrowed significantly.

## London's prime time

Within London the picture is not entirely straightforward. Prices in the domestic markets of prime London such as Barnes, Wandsworth and Islington are rising at a much faster rate than in central London markets such as Kensington and Knightsbridge. In the hitherto rampant ultra prime market where values exceed £10m, price growth has ground to a halt, despite relatively buoyant transaction levels.

This prime London market has been under the political microscope for some time. There has been much, often ill-informed, chatter about the pros and cons of foreign buyers in the central London market.

The taxation of prime property has already been addressed through an increase in stamp duty and the imposition of annual charges where property is held in essentially corporate structures.

> "There are encouraging signs that the seeds of recovery are becoming more widespread"
>
> Sophie Chick, Savills Research

Figures from HMRC show that while transactions fell by 3% in the two boroughs of Kensington & Chelsea and the City of Westminster in the 2102/13 financial year, the stamp duty take from housing rose by over 29% to £708m.

This is £73m more than Scotland, Wales, Northern Ireland, the North East, North West and Yorkshire & the Humber put together.

Despite this, Labour and the Liberal Democrats continue to push proposals for a mansion tax on political rather than economic grounds. This is likely to cause uncertainty in the run up to the next general election, at a time when conversely, the mainstream housing market will be receiving a boost through government stimuli.

## Flow of wealth

Ultimately, future price growth in this sector will be underpinned by the growth of global and domestic wealth. This has delivered inflation adjusted average annual price growth of 4.9% since 1979.

However, in the period of our forecasts the outcome of the election could determine whether there is a subsequent bounce in values or a modest fall and a slower return to these previous levels of growth.

TABLE 3.1

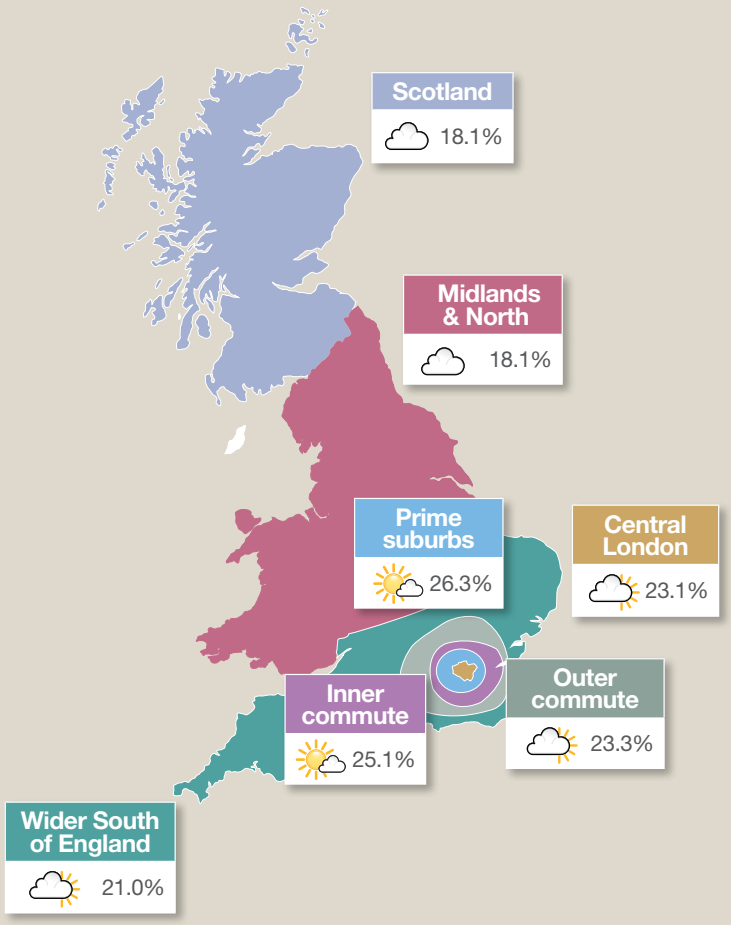
## Prime markets: Five-year forecast values (assuming no further changes to the taxation of high value property)

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 5yrs to end 2018 |
| Central London | 3.0% | -1.0% | 8.0% | 6.5% | 5.0% | 23.1% |
| Other London | 6.0% | 0.0% | 6.0% | 5.0% | 4.0% | 22.7% |
| Suburbs | 6.0% | 1.0% | 6.0% | 6.0% | 5.0% | 26.3% |
| Inner Commute | 5.5% | 1.0% | 6.0% | 5.5% | 5.0% | 25.1% |
| Outer Commute | 5.0% | 1.0% | 5.0% | 5.5% | 5.0% | 23.3% |
| Wider South of England | 4.0% | 1.0% | 4.5% | 5.0% | 5.0% | 21.0% |
| Midlands and North | 3.0% | 1.0% | 4.0% | 4.0% | 5.0% | 18.1% |
| Scotland | 1.0% | 2.0% | 4.5% | 4.5% | 5.0% | 18.1% |

Source: Savills Research

MAP 3.1

## Five year change to end 2018




Source: Savills Research

## Scottish independence

The question over whether Scotland will remain part of the UK following the vote in September 2014 does not yet seem to be impacting demand for Scottish property. It remains the most searched location outside London on the Savills website. However, political elections of any type cause market uncertainty and the Scottish market is likely to experience something similar. Answers to how independence might affect the economy may become clearer with the publication of the White Paper this autumn.

Changes to Stamp Duty in Scotland could have a bigger impact on the market than that of the Independence Referendum. From April 2015, this will be replaced by the Land and Building Transaction Tax (LBTT), which will be collected within Scotland only. The final tax rates will not be announced until autumn 2014, however, the proposed structure favours residential sales at £180,000 or less, with sales above £200,000 incurring a higher rate of tax than at present.

"Political elections of any type cause market uncertainty"

Faisal Choudhry, Savills Research

# Mainstream markets
# REGIONALLY SPEAKING

## Mainstream's upper sectors set to drive the next phase of housing market recovery and price growth

**Words: Lucian Cook**
**Twitter: @LucianCook**

**Given the diversity within the UK housing market, national measures of the performance rarely reflect regional or local market trends.**

At the current time this is most noticeable when considering the difference between the performance of London and the rest of the UK housing market. Land Registry statistics suggest that prices in London have risen by around 7% in the past year leaving them 10% above their pre credit crunch level.

By contrast prices are below their pre-downturn level in all of the other regions. In the extreme case of the North East they are some 24% below their 2007 high.

### London vs the UK

Indices such as the Nationwide house price index suggest a lesser, but still significant, polarisation in the market. This indicates that the ripple effect out of London has recently gathered some momentum, in the light of recent more widespread improvements in buyer sentiment.

London has outperformed the rest of the UK since the middle of 2005, effectively on both sides of the downturn. Over this time, prices in the capital have risen by a net 37% according the Nationwide index, whilst across the UK as a whole they have risen by just 8%.

This corresponds to a similar pattern of growth in the period after the previous downturn; with prices in London doubling in the period between 1994 and 2000, effectively growing at twice the rate of growth of the wider UK market.

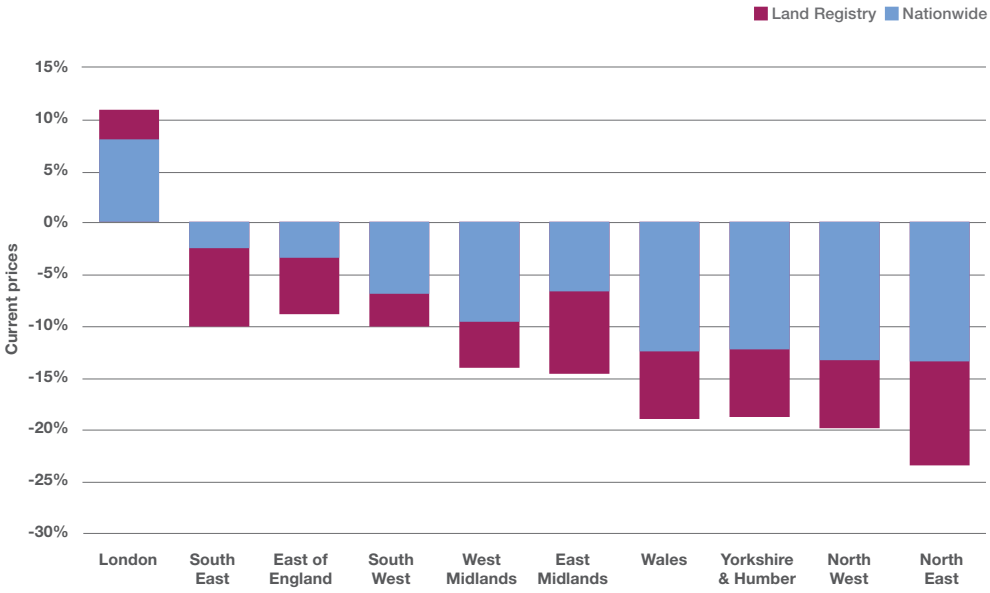
However in this period, markets in London's hinterland were much quicker to pick up. Subsequently, the wider UK market played catch up, with price growth in less affluent markets being facilitated by more accessible mortgage debt.

### Ripple overdue

As things currently stand, there is little doubt that the ripple effect from London is overdue, having taken longer than usual to breach the boundaries of the M25. Prices in other parts of the UK will start to outperform London at some point over the next five years, though not uniformly.

> "There is little doubt that the ripple effect from London is overdue, having taken longer to breach the boundaries of the M25"
> Lucian Cook, Savills Research

GRAPH 4.1
**Regional Variations** Current prices vs pre-crunch peak




Source: Savills Research

Fuelled by the wider pattern of economic recovery, the recovery beyond London is likely to be strongest within the South of England. More specifically because we expect a modest, but progressive, improvement in mortgage lending, the greatest impact is likely to be in higher value local markets with more in-built housing equity.

Consequently, the upper parts of the mainstream market are likely to drive the next phase of housing market recovery and price growth. This will favour areas such as Woking over Slough, Bath over Gloucester, Solihull over Coventry and York over Leeds.

The extent to which lower value sectors of the UK market will follow this lead, will be limited by the extent of ongoing constraints on mortgage lending. This means, even in a more widespread recovery, there will still be regional and local market divides.

TABLE 4.1

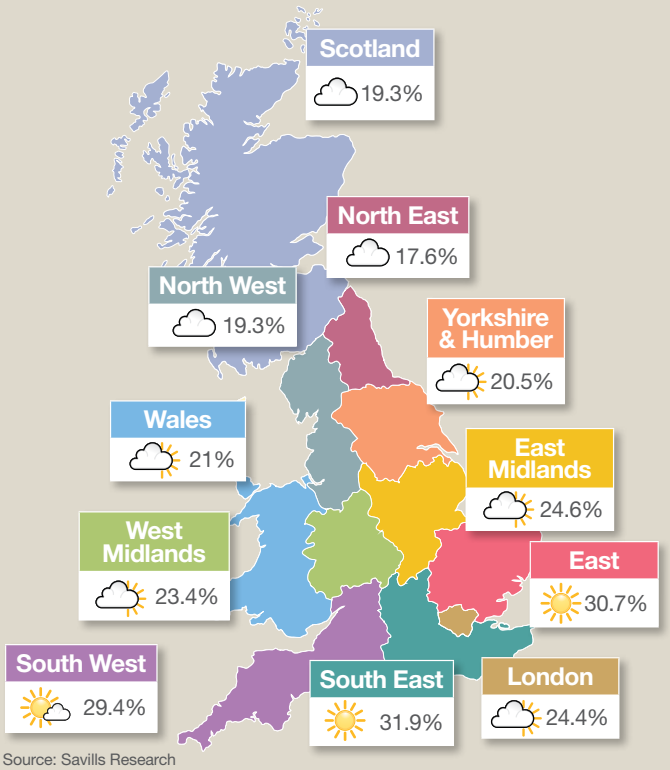
## Mainstream markets: Five-year forecast values

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 5yrs to end 2018 |
| UK | 6.5% | 5.0% | 4.5% | 4.0% | 3.0% | 25.2% |
| London | 8.5% | 6.0% | 4.0% | 2.0% | 2.0% | 24.4% |
| South East | 7.0% | 6.5% | 6.0% | 5.0% | 4.0% | 31.9% |
| South West | 7.0% | 6.0% | 5.5% | 4.5% | 3.5% | 29.4% |
| East of England | 7.0% | 6.0% | 5.5% | 5.0% | 4.0% | 30.7% |
| East Midlands | 6.0% | 5.0% | 4.5% | 4.0% | 3.0% | 24.6% |
| West Midlands | 6.0% | 4.5% | 4.0% | 4.0% | 3.0% | 23.4% |
| North East | 5.0% | 4.0% | 3.0% | 3.0% | 2.0% | 17.6% |
| North West | 5.5% | 4.5% | 3.0% | 3.0% | 2.0% | 19.3% |
| Yorks & Humber | 5.0% | 4.5% | 3.5% | 3.5% | 2.5% | 20.5% |
| Wales | 6.0% | 4.0% | 3.5% | 3.5% | 2.5% | 21.0% |
| Scotland | 4.5% | 4.5% | 3.5% | 3.5% | 2.0% | 19.3% |

Source: Savills Research

MAP 4.1

## Five year change to end 2018




Source: Savills Research

## Mainstream market outlook

We expect local variation in the house price growth seen in each region over the next five years, with equity rich housing markets outperforming those more dependent on mortgage finance. This will favour areas such as Woking over Slough, Bath over Gloucester, Solihull over Coventry and York over Leeds.

| | Mortgage free Housing Stock | Av Sale Price Yr to Q2 2013 |
|---|---|---|
| Woking | 32% | £350,300 |
| Slough | 19% | £215,800 |
| Bath | 35% | £282,600 |
| Gloucester | 29% | £155,400 |
| Solihull | 37% | £246,200 |
| Coventry | 29% | £141,100 |
| York | 34% | £205,700 |
| Leeds | 26% | £165,100 |

Source: 2011 Census, The Property Database Ltd

# Development

# HOUSEBUILDERS RESPOND TO DEMAND

Housebuilders are increasing production to meet demand stimulated by Government measures. Yet constraints to delivery remain

**Words: Susan Emmett**
**Twitter: @saemmett**

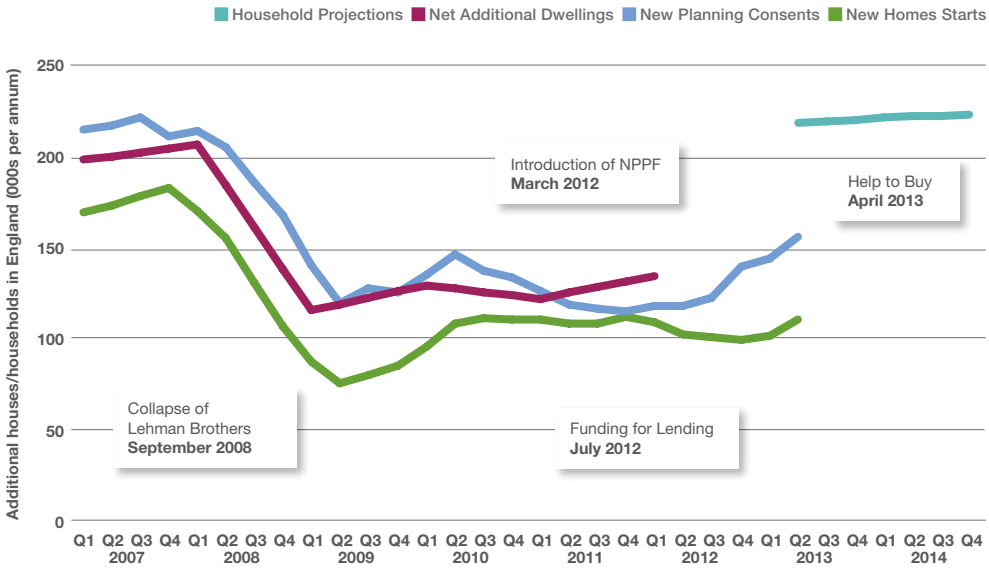
**The biggest criticism heaped upon the Government's Help to Buy scheme which allows buyers to move on and up the ladder with deposits of just 5%, is that it stokes up demand without addressing the problems of undersupply.**

As the property market strengthens, the strong surge in interest from homebuyers fuels fears that government stimuli may deliver another housing bubble rather than more homes. That the Prime Minister decided to bring forward the introduction of the mortgage guarantee element of the scheme, originally scheduled for January 2014, only adds to the concerns.

However, behind the headlines there is growing evidence that homebuilders are responding to demand – building more, bringing forward sites and buying land.

GRAPH 5.1

**The supply gap is large** But supply is starting to pick up from a low base and the new planning system is starting to provide more consents




Source: Savills Research, HBF, DCLG

While there is no quick fix to half a decade of underproduction, housing supply is increasing once again, albeit from a very low level.

Around 37,053 residential units were granted planning approval in England during the second quarter of this year, according to Glenigan. Although this represents a drop in the three months to March 2013, the figures are up 49% compared to the same period in 2012.

The strengthening of approvals in the North of England and the Midlands during the first half of 2013 suggests that confidence is returning to markets badly affected by the downturn. Southern England saw only a modest rise in approvals while London suffered a fall.

Government data shows housing starts in England rose 36.5% in the three months to June 2013 against the same period last year. The Department for Communities and Local Government (DCLG) recorded 33,220 starts, a 23% rise on the previous quarter.

Yet the most bullish set of data comes in the shape of the Markit/CIPS construction purchasing managers index (PMI) which showed residential construction rising at its sharpest rate since November 2003.

## Demand unleashed

All this activity is not just a reflection of an improving economy and positive sentiment but the result of the release of pent up demand from homebuyers. The Government's Funding for Lending Scheme, introduced in July 2012, has helped boost levels of consumer lending whilst keeping rates down on higher loan-to-value mortgages.

More recently, the introduction of the more controversial Help to Buy scheme has raised even more interest from buyers, particularly those who have yet to set foot on the housing ladder.

It is still too soon to gauge how much of the interest generated by the surprise early launch of the mortgage guarantee part of the scheme will actually convert into sales.

However, the popularity of the equity loan element of Help to Buy, aimed at buyers of new build homes, is reflected in the 15,410 reservations made since that part of the scheme was introduced in April.

Figures from the Home Builders

Federation show the biggest take up has been outside London with 3,898 reservations made in the Midlands followed by the East and South East where 3,133 signed up. London saw 1,099 deals made, the lowest of all regions.

The figures suggest that even with the assistance of Help to Buy, London is still out of reach of many first-time buyers – the principle consumers of the scheme so far.

However, the data also shows that the equity loan is having the greatest effect where it is needed most – outside the capital where the ripple effect of London's robust housing market has yet to reach.

The stimulation of demand in areas where the market has been more subdued, is likely to prompt builders not only to deliver existing sites faster but also to bring forward new sites and go shopping for land.

GRAPH 5.2

**Take up of Help to Buy** Equity loan (April to September)


Source: HBF, HM Land Registry

## Land prices

Renewed confidence in the housing market has encouraged builders to channel their debt and equity into longer term sites and to start work on strategic sites from existing land banks.

Average land prices are now rising in line with house prices. Savills figures shows greenfield land values are up 5% on an annual basis while the cost of urban land rose by 5.2%. In comparison, average house prices rose by 4.3% over the same period according to Nationwide.

Developers are once again targeting more challenging urban and strategic land rather than simply opting for the readily developable greenfield sites. In the third quarter of 2013, urban land values grew by 2.2% against 1.3% growth in greenfield land values. The greatest increases were recorded in the South East (3.2%) and West (3.3%).

Although some sites are achieving prices last seen at the height of the market, overall growth is still well below those high levels.

## Constraints to delivery

Despite the increase in activity, it is unlikely that private housebuilders will deliver enough homes to meet the projection for current household growth. The decline in capacity from SMEs and regional housebuilders, which played a significant part in delivery of homes in previous housebuilding upturns, puts added pressure on the bigger players. Housebuilders are also citing a shortage of materials and skilled workers. After five years of reduced training schemes, it will take time to train a new generation.

Given that many of the props supporting growth are temporary, the timing may work against the industry. Help to Buy is presumed to last three years.

Government support in the form of Funding for Lending will at some stage be withdrawn and interest rates will inevitably rise again. All eyes are on 2016.

"The stimulation of demand in areas where the market has been more subdued is likely to prompt builders not only to deliver existing sites faster, but also to bring forward new sites and go shopping for land"

Susan Emmett, Savills Research

# Private rented sector UNDERGOING CHANGE

## The private rented sector will need to develop as it expands

Words: Jacqui Daly

**The private rented sector grew by some two million households in the UK in the decade to 2011, much of the largest growth being in the mortgage rationed period since 2007. Despite initiatives to support home ownership, we expect the sector to grow by a further one million households in the next five years.**

Our recent survey of 2,800 existing private sector tenants, in association with YouGov, indicates that renting is still seen as an intermediate step to home ownership by a large percentage of private renters. It shows that the main reason for renting is the prohibitive cost of raising a deposit to buy a property. However, difficulty in meeting lending criteria becomes an increasing constraint for older households who are longer term tenants, which we expect to be a pointer to the future.

### The needs of tenants

As a consequence, the need for longer term tenancies is much less evident among younger households for whom flexibility is more attractive.

For older households in the sector, there is much greater appetite, although in the 35-44 age bracket some 30% of renters still do not agree that they need a longer term.

What becomes very clear is the need for a better standard of accommodation. This is cited as the single biggest reason behind moving within the sector; being more relevant than the level of rent. As a consequence those looking to provide rental stock, particularly the institutions, are keen to understand the needs of tenants and the features that add value.

Location and proximity to public transport are critical to an urban rental population. The survey results indicate that this, together with providing a good standard of basic accommodation and management, are most important to tenants.

"The main reason for renting is the prohibitive cost of raising a deposit to buy a property"

Jacqui Daly, Savills Research

Taking a cue from the multi family models of the US, there are additional facilities and services that have the potential to add value, particularly among the expanding pool of more affluent renters. Those with the greatest current potential are physical amenities, though in a sector where there has been little provision of additional service this is likely to evolve.

All of the above indicate that the private rented sector will develop as it expands over the next decade. To facilitate this requires private renting to be given much greater prominence in government policy.

This policy should specifically be aimed at encouraging significantly greater supply of an appropriate standard of accommodation on terms that meet the changing needs of tenants. To do so through incentives is likely to be most successful in a sector which could be inhibited by excessive regulation.

TABLE 6.1

**Rental growth:** Five-year forecast values

| Forecast | 2014 | 2015 | 2016 | 2017 | 2018 | 5yrs to end 2018 |
|---|---|---|---|---|---|---|
| UK Mainstream | 2.0% | 2.5% | 4.0% | 5.5% | 5.5% | 21.0% |
| London Mainstream | 3.5% | 3.5% | 4.5% | 6.0% | 6.0% | 25.8% |
| Prime London | 2.5% | 3.0% | 4.5% | 4.5% | 4.5% | 20.4% |

Source: Savills Research

# Research publications

## Our latest reports

- **Spotlight | London Demand**
- **Spotlight | Investing in Rental Britain**
- **Market in Minutes | Prime London Residential Markets**
- **Market in Minutes | Prime Regional Residential Markets**
- **Market in Minutes | Prime Lettings**
- **Spotlight | Scotland's Prime Residential Property Market**

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