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Savills World Research
UK Residential

RESIDENTIAL PROPERTY FOCUS
2015 ISSUE 2

INSIDE
The real cost of housing

BLUE SKY THINKING
Now that the cloud of mansion tax has lifted, what is next for the prime residential markets?

Mainstream
What are the post-election prospects for housing? Will we see a surge of demand back into the market?

Investment
The housing market remains an attractive investment opportunity for many, but risks need consideration

Development
Housebuilding could reach over 200,000 units per year by 2020 if sufficient land is brought forward

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This publication
This document was published in June 2015. 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.

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth.
It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

Foreword
INTO THE BLUE

Understanding the complexities of the built environment is vital in this post-election climate

With election uncertainty over, Savills Research has relaunched its weather balloon to gauge the temperature of the UK's housing markets.

This Focus covers a wide range of themes including the future of land supply, demographics, the economy, finance, and investment. In doing so, it illustrates the complex interactions in the climate of the built environment.

The Built Environment Triangle is formed of three elements: Land, Money and Buildings. If conditions in one corner of the triangle are not favourable, they have severe implications on the others.

This is illustrated by Neal Hudson on p.10 where he shows how demand for both housing investment and renting is significantly affected by lending policy and investing conditions (in the money corner), demographic impacts and regulation (in the money and buildings corners) and housing supply (in the land and buildings corners).

All three elements of the triangle are impacted by economic, demographic, and policy forces and so cyclical and structural changes take their toll on each. Lucian Cook highlights how changing economic conditions and the structure of local economies impacts the geography of house prices (p.06) and how the experience of the built environment differs according to age and other demographic factors.

He also shows how housing cannot be considered in isolation from other land and building uses, that a successful economy depends on the accommodation of businesses and visitors as well as residents.

The dynamics of these interactions are further illustrated by Sophie Chick who adds to the complex picture on p.08 by revealing more of the interactions between money, land and buildings and the impacts of housing equity migrating from location to location.

What our commentators show is that policy makers need to have a full understanding of demographics, and land supply together with the cyclical, geographic and structural impacts of changing economic conditions in order to address issues in the built environment. A focus solely on say planning or first-time buyers will remain ineffective window dressing by comparison.

Post-election climate

In assessing the weather conditions of the post-election climate, we urge all parties to make a concerted and long-term commitment to understanding the complexities of the built environment and their interaction rather than expecting a single, shaft of sunlight to magically dissipate housing problems.

We would argue there is a strong case for treating the built environment in the same way as other long-term infrastructure investment to ensure that long-term consensus dominates the climate on a long-term basis rather than a five-year tenure.

In the run up to polling day and since, we have heard some 'sound and fury' from certain commentators in relation to solving Britain's 'housing crisis'. We hope this issue of the Focus will assist all types of decision makers with clear evidence of how the housing market works and behaves.

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EXECUTIVE SUMMARY

With the election done and dusted, will we see a surge of demand into the mainstream markets?
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What are the key drivers of house prices at a regional and local level?
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Housebuilding targets can only be met if sufficient land is brought forward, and barriers to construction removed
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Mainstream market
POST-ELECTION PROSPECTS

Will we see a surge of demand back into the housing market?

Words: Lucian Cook
Twitter: @LucianCook

"Different generations increasingly view house price growth differently"

Lucian Cook, Savills Research

The UK housing market slowed in the early part of 2015. Transactions and mortgage approvals in the first quarter of the year were 5.4% and 11.9% lower than in the same three month period of 2014. Given the general election in May, it would be easy to put this sobriety entirely down to uncertainty regarding the political backdrop in the early part of the year.

However, the housing market survey from RICS indicates that new buyer enquiries had started to weaken as early as the middle of 2014, suggesting other forces have also been at work.

The Nationwide house price index supports this view, indicating that in the nine months to the end of May of this year UK house prices rose by a total of just 3.1%. Furthermore, three month on three month house price growth (which irons out monthly price fluctuations but still gives a reasonable snapshot of where the market is at any given point in time) slowed to just 0.9%, quashing claims that the stamp duty reform introduced in the pre–election Autumn Statement would cause a bounce in mainstream house prices.

Behind the slowdown

These numbers undoubtedly reflect the fact that the Bank of England, keen to avoid another debt-driven housing market boom, has imposed more regulation on mortgage lending. By requiring lenders to stress test affordability in different interest rate scenarios since April last year, they have sought to prevent the prolonged period of low interest rates fuelling unsustainable price growth that might cause borrowers and lenders problems further down the line.

The Bank's own credit conditions survey shows the impact of that regulation, with a corresponding contraction in the availability of secured credit in the third quarter of last year and first quarter of this. This has been accompanied by a consistent fall in the proportion of mortgage applications being approved, despite loan defaults among existing borrowers falling and expectations that interest rates are likely to stay at historic lows for longer (and only rise gradually when they come off of this base).

The flipside

The flipside is that this has also limited, and will continue to limit, access to home ownership. This creates a tension between the Bank's desire to minimise risk in the housing market and politicians' desire to get people onto the housing ladder, in order to provide them with a means of attaining financial security.

This desired financial security includes the aspiration that households will be able to reduce housing costs over time and eliminate them in retirement by progressively paying down mortgage debt.

This is something that has served the baby boomer generation well. For example, our analysis shows that average annual housing costs where the head of the household is aged 65+ average just over £2,000 per year across England and Wales, the bulk of

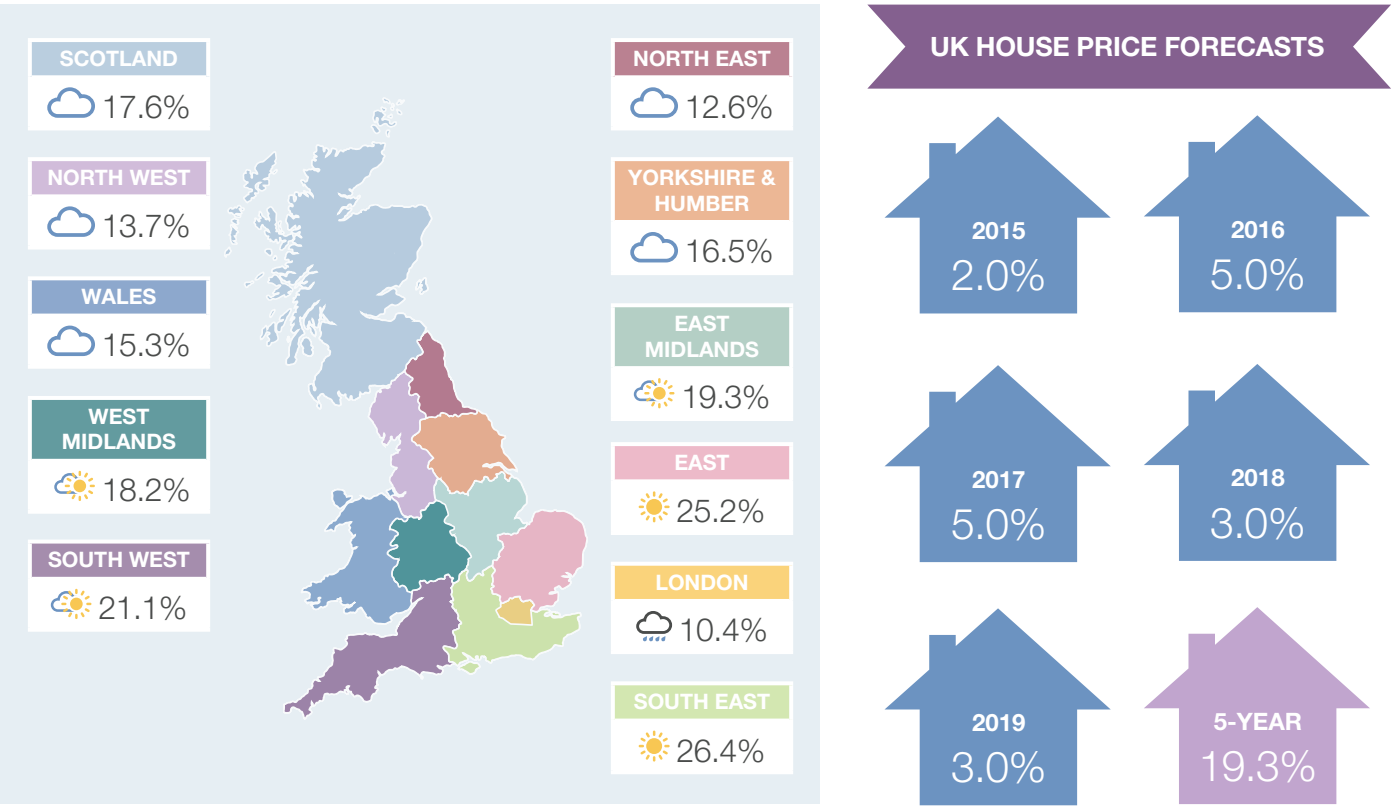
FIGURE 1

Average annual cost of housing

Source: Savills Research

FIGURE 2

Mainstream markets Five-year forecast values



Source: Savills Research

which relates to the minority who never realised the dream of home ownership. For those between the ages of 50 and 65 that cost averages £4,400 per year.

By contrast, the average for households under the age of 35 is just shy of £8,900, with rents paid to private Landlords making up 57% of this sum. In London, where housing affordability is most stretched, that rises to £15,700 on average of which two thirds is made up of private rent.

Changing perceptions

This means different generations increasingly view house price growth differently: at one end of the scale as a wealth generator, at the other as a barrier to home ownership which causes rent to make up a higher proportion of their lifetime housing costs.

These figures should be a reminder to politicians that there are major structural issues in the housing market that cannot be ignored – a widening gap between different generations and regional differences that are no longer confined to a simple north-south divide given the extent to which the London market appears to have become dislocated from the rest of the country.

Whatever the policy response, these issues will change market behaviour. It will affect where people are able or choose to live, how often they move, how far they commute and their propensity to downsize in retirement.

But none of this seems likely to dampen the nation's obsession with house prices.

Whether or not price growth is considered a good thing, it seems inevitable that it will continue in what remains a fundamentally undersupplied market. As things stand, the medium term capacity for house price growth has increased as interest rate rise expectations have softened.

However, while greater political certainty provides a platform for that growth, the extent to which it is realisable is likely to be constrained (to a degree at least) by the mortgage regulation already imposed.

-5.4%

Fall in transaction levels in Q1 2015 compared to same period in 2014

-11.9%

Fall in mortgage approvals in Q1 2015 compared to same period in 2014

2.2%

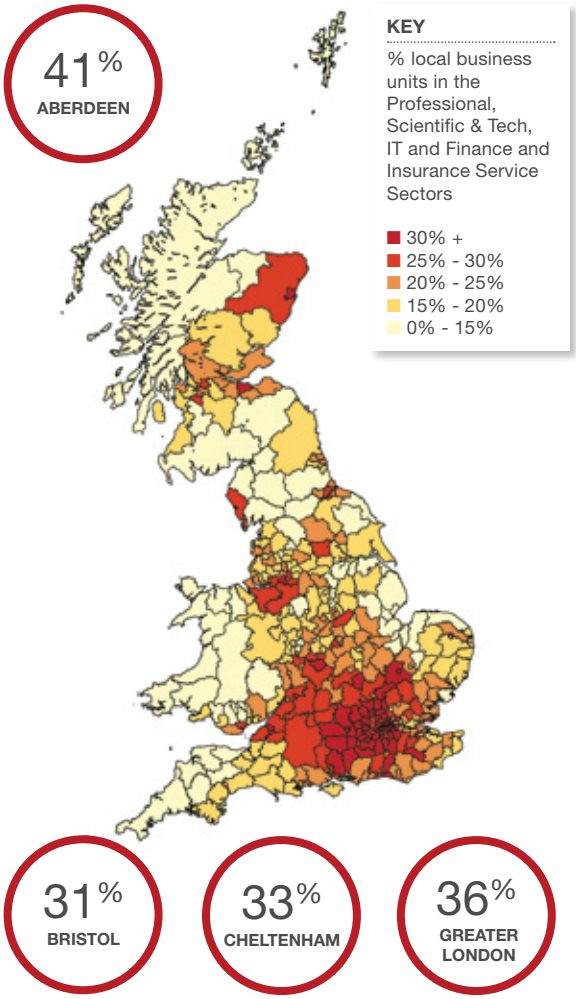
Growth of UK house prices in the nine months preceding the election

Mainstream market
CROSSING THE TREND-LINE

What are the key drivers of house prices at a regional and local level?

Words: Lucian Cook
Twitter: @LucianCook

FIGURE 3
Business units in high value sectors



Source: ONS

The UK housing market is an amalgamation of local markets with different drivers. Understanding what the future holds at a local level requires an understanding of where each market sits in the housing market cycle and the underlying pressures on housing.

Q What is the net effect of house price growth of the past 10 years?

A Despite widespread concerns over the cost of housing, Land Registry figures indicate that on average house prices across England and Wales have fallen by 16% on an inflation-adjusted basis over the past 10 years. Prices are below their level 10 years ago in real terms in 145 of the 179 local markets covered by the index.

Yet in London prices have risen by an average of 25% after the cost of inflation, with real house prices more than 50% above their level of 10 years ago in nine out of the city's total 33 boroughs. By contrast, in the North East prices have fallen by 35% in real terms in the past decade and at the most extreme, by more than 40% in Darlington, Blackpool & Durham.

Q Does this just reflect where we were in the market cycle in 2005?

A The headline numbers certainly reflect the fact that house prices were well ahead of the 'trend-line' in 2005. This trend analysis suggests that, ignoring the peaks and troughs in the market, price growth has on average exceeded the general rate of inflation by 2.7% over the past 40 years.

By 2005, however, we were approaching the end of a sustained period of house price growth, typified by the fact that at this stage of the cycle traditional 'lagging' markets across the North of England and Wales had been through a period of catch-up.

Q Are house prices therefore now generally back in line with where they should be?

A Our analysis indicates that at a national level prices now sit on average 8% below the trend-line but there is significant regional variation, with London looking like it is at a different point in the cycle compared to the rest of the UK.

Q But aren't London's market drivers different to the rest of the country?

A This is certainly true, to a degree. Again, ignoring marked highs and lows across market cycles, the inflation-adjusted, long-term trend rate of house price growth in London is 3.6% per annum compared to 2.3% in the North East of England. This may not sound like a big difference, but over a 40-year period it equates to real house price growth of 322% compared to 146%.

This partly reflects different earnings and wealth creation drivers in different parts of the country. For example, VAT and PAYE records show that 36% of local business units in London are in the Professional, Scientific & Technical, Information & Communication, or Finance & Insurance sectors. This compares to 20% in the North East.

In turn, migration to the employment markets of London and the South East has created very different levels of pressure on housing stock at a regional and local level.

6,100
Number of additional businesses in Hackney, Camden & Islington in the past five years

81%
In real terms, the % of England & Wales where house prices are below the value of 10 years ago

Q How much of an impact has this had recently?

A In London, over the past five years, when house prices have risen by 20% in real terms, the number of business units in these high value employment sectors has risen by 26%. This compares to 17% in the North East and 12% in Wales.

In Hackney, Islington and Camden – some of the hottest housing markets of the past five years – the number of business units in these sectors had risen by 6,100. This compares to 8,640 across the whole of the North West of England.

Q So where does that leave the capital?

A The cost of this economic success is a high cost of housing in London, particularly among younger households (as touched on in our lead article). In future this could affect decisions about where to live and work, potentially pushing them to other towns and cities which offer reasonable job prospects but relatively low housing costs.

Notably, irrespective of the fact that London has a higher long-run trend rate of house price growth, prices still sit above that trend-line currently, in contrast to the rest of the country. This does not mean prices in London need to fall, but it does mean the capacity for price growth among mortgaged buyers is lower than elsewhere in the country.

In particular, the markets across the remainder of the South of England generally have higher trend rates of house price growth than those of the Midlands and the North. They are also currently priced slightly below their trend-line and are likely to feel the stimulus of economic activity in the next phase of the economic cycle.

Go online to see our interactive maps of 10-year real house price growth and the proportion of businesses in high value sectors.

www.savills.com/research

FIGURE 4

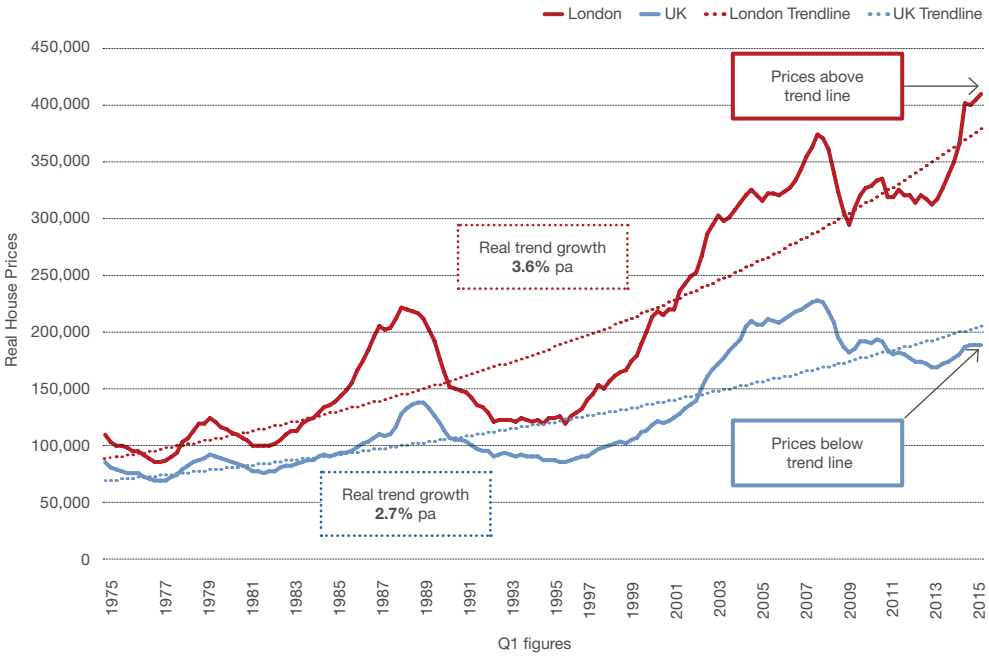
House prices and business activity The business environment contributes to the highest rate of price growth in London

Region	Real Annual Trend-line Growth	Current Prices vs Trend-line	% of business units in high value sectors*	Growth in past five years
London	3.6%	7.9%	36%	26%
South East	3.0%	-5.0%	29%	16%
South West	3.0%	-11.2%	21%	16%
East of England	2.8%	-7.6%	24%	14%
North West	2.8%	-18.7%	22%	17%
East Midlands	2.7%	-11.4%	20%	13%
West Midlands	2.6%	-14.7%	20%	9%
Wales	2.3%	-14.1%	15%	12%
North East	2.3%	-12.1%	20%	17%
Yorkshire and the Humber	2.0%	-11.5%	19%	15%
Scotland	1.9%	-9.3%	22%	19%

Source: Savills Research *Professional, Scientific & Tech, Information & Communication and Finance & Insurance Sectors

FIGURE 5

Real house prices (actual vs trend-line)



Source: Savills Research, Nationwide

Prime market

ARE THERE BLUE SKIES AHEAD?

What next for the prime market now that the cloud of mansion tax has been lifted?

Words: Sophie Chick
Twitter: @SophieChick

"It would be foolish to believe buyers will flock back with reckless abandon"

Sophie Chick, Savills Research

Given some of the policies being promoted in the general election campaign and the pollsters' predictions that the result was too close to call, it was no surprise that the prime housing markets stuttered in the run up to 7th May this year.

With the threat of a mansion tax having now lifted, signs indicate that those who adopted a wait and see approach prior to the election will return to the prime housing market with a new found confidence. This should mean restored transaction levels in London, which in turn are expected to allow the resumption of a flow of wealth into the commuter zone and a ripple effect to other markets. However, it would be foolish to believe that buyers will flock back with reckless abandon.

We should be mindful that prior to the period of electioneering, the prime London markets in particular, benefited from a prolonged bull run that left them looking relatively fully priced compared to other domestic and international markets.

Also, irrespective of the mansion tax proposals now consigned to the

FIGURE 6

Prime markets Five-year forecast values

	2015	2016	2017	2018	2019	5-year
Central London	-1.0%	8.0%	6.5%	5.0%	5.0%	25.5%
Other London	0.0%	6.0%	5.0%	4.0%	4.0%	20.4%
Suburbs	1.0%	7.0%	6.0%	5.0%	4.5%	25.7%
Inner Commute	1.0%	7.0%	5.5%	5.0%	4.5%	25.1%
Outer Commute	1.0%	6.0%	5.5%	5.0%	5.0%	24.5%
Wider South of England	1.0%	4.5%	5.0%	5.0%	5.0%	22.2%
Midlands/North	1.0%	4.0%	4.0%	5.0%	5.0%	20.4%
Scotland	0.0%	4.0%	4.5%	4.0%	4.0%	17.5%

Source: Savills Research

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

policy equivalent of Room 101, the tax burden on high value property rose substantially over the course of the coalition government.

This culminated in the 2014 Autumn Statement, when the stamp duty regime was overhauled and the annual charges for those holding property in unconventional structures was increased by 50%. As a result, the prime London market also started to look fully taxed.

As an example, a house in South West London worth £1.85m in 2007, would at that time have attracted a stamp duty liability of £74,000. By the end of 2014 that same house would have been worth £2.5m and, given the successive increase in rates, its purchase would now attract a stamp duty bill of £214,000.

Those expecting a dramatic bounce in values should also be aware that while the pre-election uncertainty has undoubtedly created a pool of pent up demand, it has also produced a reservoir of unsold stock, with more now likely to come to the market.

So, although these factors are likely to prevent values soaring, the much greater political certainty is likely to restore some of the fundamentals of demand – underpinned by a low interest rate environment and growing domestic and international wealth generation – resulting in a more buoyant market.

£31.5bn
Amount spent on housing valued over £1m per annum (2011-13)

£6.2bn
Amount of mortgage debt taken out to fund these purchases

-3.1%
Change in prime London house prices in six months to the end of March

DEBT IN THE PRIME MARKETS

Will mortgage reform affect the prime housing markets?

One of the distinguishing features of the prime housing markets is the extent to which they are driven by flows of equity rather than mortgage debt. Our analysis shows that across these markets 54% of buyers acquire their property with no debt whatsoever, with a further 25% taking a mortgage of less than 50% of the value of their property.

This would indicate that of the average of £31.5bn spent on property worth over £1m in the period 2011-13 across the UK, £6.2bn was funded by borrowing.

Typically, the higher up the value scale the less the reliance on mortgage debt, with two thirds of buyers in the £2m+ market buying solely with cash. In the global equity magnet that is Central London only one quarter of buyers of prime housing use a mortgage.

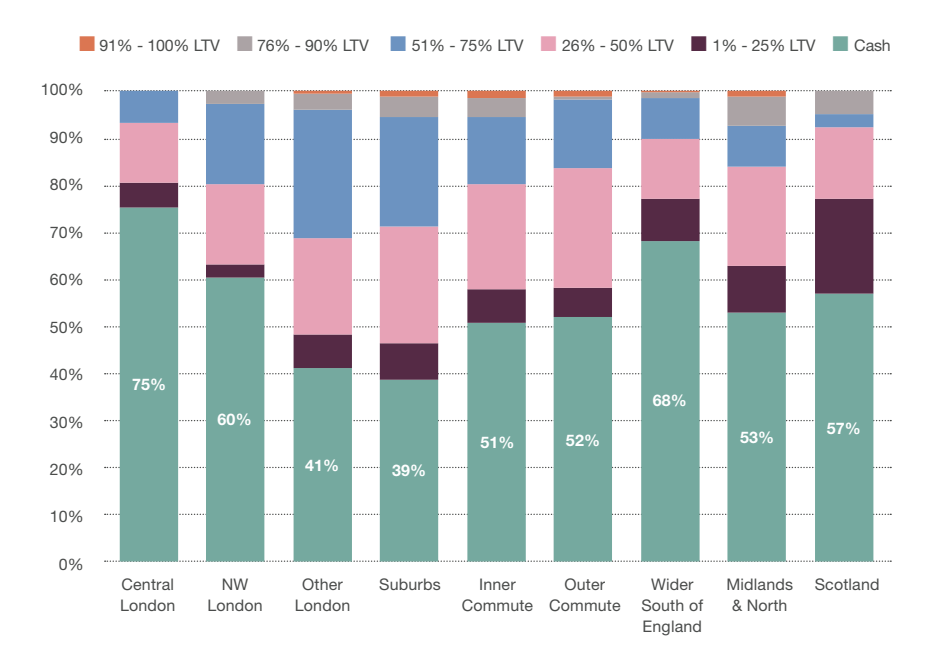
It is typically the younger buyers, working their way up the prime housing ladder, who are most reliant on mortgage finance. So, for example, buyers in their 30s and 40s make up 82% of all mortgaged buyers in the prime market but just over half of all cash buyers. That means the use of debt is greatest in the wealth corridors running north and south west out of London and the prime suburban markets, as younger home owners move out in order to upsize.

By contrast further out into the commuter zone buyers will often import the equity they have accumulated in the London market, while beyond these areas the level of debt needed falls further as older buyers who have paid down more of their debt become more dominant.

Therefore, while the regulation of the mortgage markets is less relevant to the prime as opposed to mainstream market, it is still likely to have an influence. In particular, it is likely to be a catalyst for buyers who might previously have bought in the well-established parts of London either to look to emerging prime markets or to those in commuter towns, as they seek to make the debt they are able to secure stretch further and minimise the extent to which stamp duty eats into their equity.

FIGURE 7

Use of cash and mortgage debt in the prime markets



Source: Savills Research

LTV = Loan-to-value

Investment

WHAT'S DRIVING RESIDENTIAL INVESTMENT?

The housing market remains an attractive investment opportunity, but risks need consideration

Words: Neal Hudson
Twitter: @Resi_Analyst

"The market is split between those who can raise a deposit and those who can't"

Neal Hudson, Savills Research

Owning a home is well within affordable levels for many existing homeowners thanks to low mortgage rates. The problem is that actually buying a home has become far less accessible.
A housing market with high prices relative to incomes inevitably requires large deposits. Help to Buy 2 has increased the availability of higher loan to value mortgages that eases this problem, but they generally carry an interest rate premium that makes them more costly to service.

A split market

The market is therefore split between those who can raise a deposit and those who can't. For those who can, the stability and security of homeownership is the reward. For those who can't, the private rented sector is often the only option.

The UK private rented sector does a fairly good job of offering a short-term flexible tenure for the traditional students and young professionals. But there are increasing numbers of other household types living in the sector, including 20% of all children.

Policymakers need to recognise that private renting is no longer just a stepping off point on the way to home ownership. For many households it is increasingly the only long-term housing option. However, getting the right balance of policy to meet the needs of those who require long-term stability and those who value short-term flexibility will be difficult. Policy will also have to balance the needs of typically younger households against the substantial political power of the older property-owning generations.

Buy-to-let

The emergence of buy-to-let mortgage lending at scale during the early 2000s provided an easy route to property investment for many of those lucky enough to have been born in the right decades. Coinciding with a period of substantial house price growth, the buy-to-let lending created for many an easy route to wealth generation far in excess of what can be earned in even a relatively high paying job. It also meant that small-scale investors own the majority of homes in the private rented sector, with 60% of properties owned by landlords with four or fewer investment properties.

The small-scale nature of the market means there are massive inefficiencies in the management of the sector. Large proportions of income are lost to third party management firms and other costs. Many investors also underestimate the amount of time and emotional energy required to manage their own property. To date, the returns so far have generally counterbalanced the difficulties.

The buy-to-let mortgage market is now coming under greater scrutiny but it remains to be seen whether its regulation will be brought in line with the wider mortgage market.

Equity rich investors

Buy-to-let mortgage lending may have tripled since the depths of the downturn but remains 40% below its 2007 peak and accounts for only 8.5% of current transactions. With access to equity the key to buying a home, people buying with no mortgage debt now account for 36% of all transactions (440,000 per year). A small proportion of these will be overseas buyers in central London but most will be (typically older) home movers or investors who have built up sufficient equity thanks to the rapid price growth of the last 20 years.

Pension reform

With gross income yields averaging around 5.5% across the UK and the prospect of further capital value

growth, the housing market remains an attractive investment opportunity for many. Anticipating the recent pension reforms many speculated that a large 'wall of private money' was going to hit the market. The reality is that although people aged 55-64 have defined contribution pensions totalling £120 billion, the median pension pot is only £25,000.

The distribution of pension wealth is such that only the top 7% of these pension holders could afford the average priced UK house. Factoring in the propensity to actually invest in property, we estimate that the pension reforms will only lead to an additional 10-20 thousand transactions per year.

For those who do decide to invest their funds into the market, there are risks. House price growth is likely to be more limited in coming years than that seen over the last 20. Mortgage market regulation will limit the capacity for price growth to run ahead of incomes in all but the highest demand markets. As such, higher income yielding markets may appear more attractive to investors.

It is worth noting the associated risks in higher yielding rental markets. Higher yields will already reflect a greater incidence of voids and other risks. Many of these high yielding markets have high proportions of housing benefit recipients living in the private rented sector.

A reduction to the overall benefit cap will hit that housing benefit disproportionately. This could leave some households unable to pay existing rents, leading to increased arrears, evictions and possibly lower rents.

Possible solutions

Further investment is urgently required in the private rented sector, but needs to go hand in hand with making the tenure a better place to live. Recognising the private rented sector as more than just a temporary stop between leaving home and buying a first home would be a good start. Greater enforcement of existing regulations would help, but rent controls would not. Increased investment from institutional landlords has the potential to make a substantial difference, though cannot offer a short term fix. Best of all would be to build more homes of all tenures starting in the most unaffordable of markets.

FIGURE 8

Key market considerations

FUNDING

- Buy-to-let lending may have tripled since the bottom of the market but it is still 40% below its 2007 peak
- The amount and distribution of pension wealth suggests pension reform will only lead to an additional 10,000-20,000 transactions a year
- Increased investment from institutions has the potential to make a substantial difference, though not in the short term

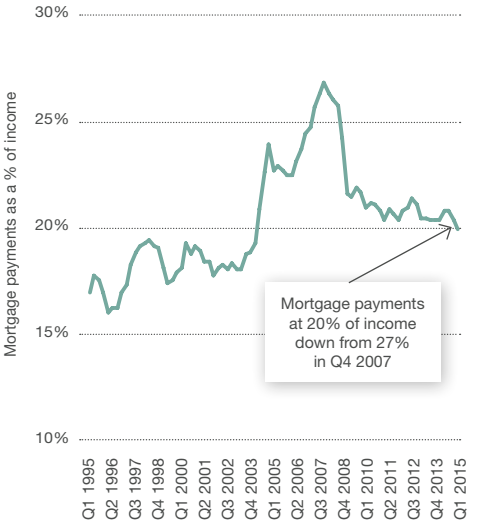
POLICY

- Policy makers need to recognise that private renting is no longer just a stepping off point on the way to home ownership
- Policy needs to strike a balance between those who require long-term security and those who value short term flexibility
- Expect greater buy-to-let mortgage regulation, more enforcement of existing letting regulations & a reduction in housing benefit

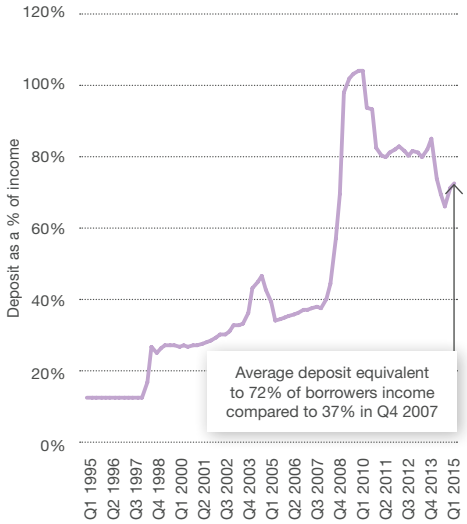
Source: Savills Research

FIGURE 9

Cost of owning vs cost of buying (First-time buyers)



COST OF OWNING



COST OF BUYING

Source: Savills Research, CML

Buy-to-let mortgage lending remains 40% below its 2007 peak

36%

Percentage of all transactions involving no mortgage debt

Development
INCREASING HOUSING SUPPLY

Housebuilding could reach over 200,000 units per year by 2020 if sufficient land is brought forward and barriers to construction removed

Words: Emily Williams

"In 2014, full permission for 196,000 units was granted in England"

Emily Williams, Savills Research

Last year, 156,000 new homes were started in Great Britain. This is the highest number of new starts since the downturn in 2008 but still just over half of what we should be building.

Following the introduction of the NPPF, and with the improving economic circumstances, consents for residential development have been rising over the past three years. In 2014, full permission for 196,000 units was granted in England, a 20,000 increase on the previous year.

However, although the number of consents has been rising, they are not being delivered in high enough quantities in areas where there is greatest housing need and where it is viable to build. In parts of the country where there is high housing demand such as Brighton, Oxford and East Cambridgeshire, the number of consents delivered per annum amounts to less than 20% of need.

Other local authorities in areas of lower demand such as Fylde and Middlesbrough appear to have sufficient consents, but given these are in lower value areas, it is more likely some of these schemes will not be delivered. Our analysis of stalled sites from Glenigan planning database shows 58% of the 100,000 stalled consented units in England and Scotland are in areas with residential values below £200 per square foot.

This partly explains why new home starts have not increased at the same rates as planning consents. We have also seen an increasing number of large sites coming through the planning system which take longer to build out. Growth may have also slowed due to the constrained mortgage market and fears of Help to Buy being withdrawn after the election, which created uncertainties over future demand.

LAND VALUES

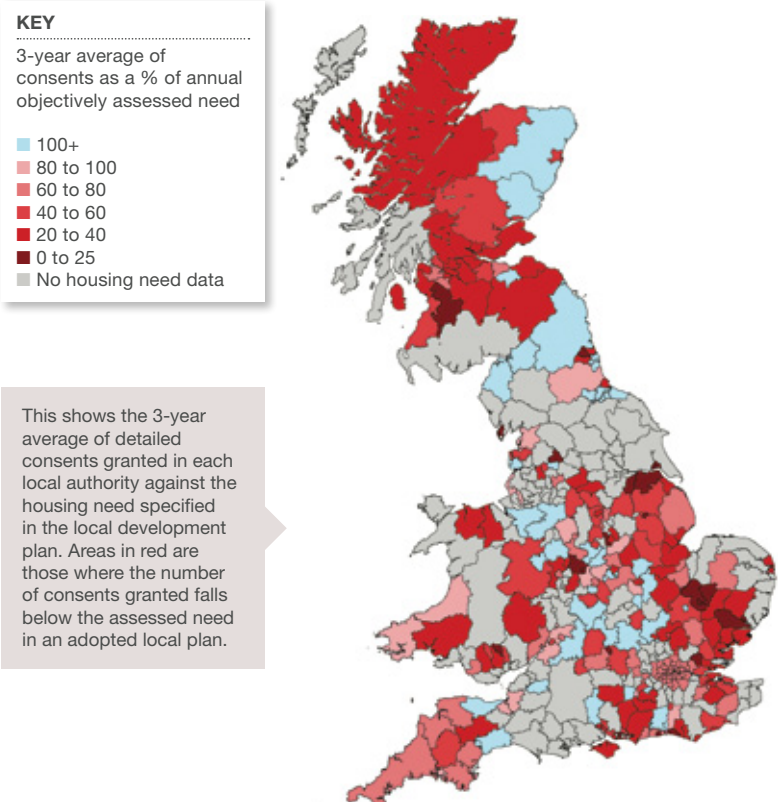
Demand intense in South East

Development land values in the UK have remained stable with only a slight increase of 0.5% over the last three months. However, the picture across the country is varied and becoming increasing polarised.

- Urban land values in Scotland bounced back following the referendum, increasing by 6.9% in the last quarter. This replicates the rise in greenfield land values in the previous quarter.
- Demand for land is more intense in the South East; land values are highest and have surpassed their 2007/08 peak in some places including Oxford and Sevenoaks.
- In the medium term residential development land values in high demand areas are likely to rise unless significantly more supply is brought to the market. This could pose a barrier to small and medium builders seeking to return to the market.

FIGURE 10

Residential consents and housing need



This shows the 3-year average of detailed consents granted in each local authority against the housing need specified in the local development plan. Areas in red are those where the number of consents granted falls below the assessed need in an adopted local plan.

Source: Savills Research, Glenigan

In order to increase housebuilding and progress towards meeting housing need, there must be a steady supply of land in high demand areas. Positive steps have been made towards this in London with the establishment of the London Land Commission, which seeks to identify surplus brownfield public sector sites. It is estimated the commission could support the delivery of 400,000 homes on brownfield and public sector land by 2025.

Can housebuilders increase capacity?

Private housebuilders have been increasing starts over the last six years, reaching 115,400 starts in England in the year to Q1 2015. This amounts to 82% of total starts, and we expect to see the private sector continue to deliver the majority of new homes.

We estimate the output of private housebuilders could rise to 150,000 per annum in England by 2020. Several have plans for significant volume expansion; Bovis plan to double their output to 5,000–6,000 homes per annum by 2018, and Galliford Try are aiming to increase completions by 50% on 2013 levels.

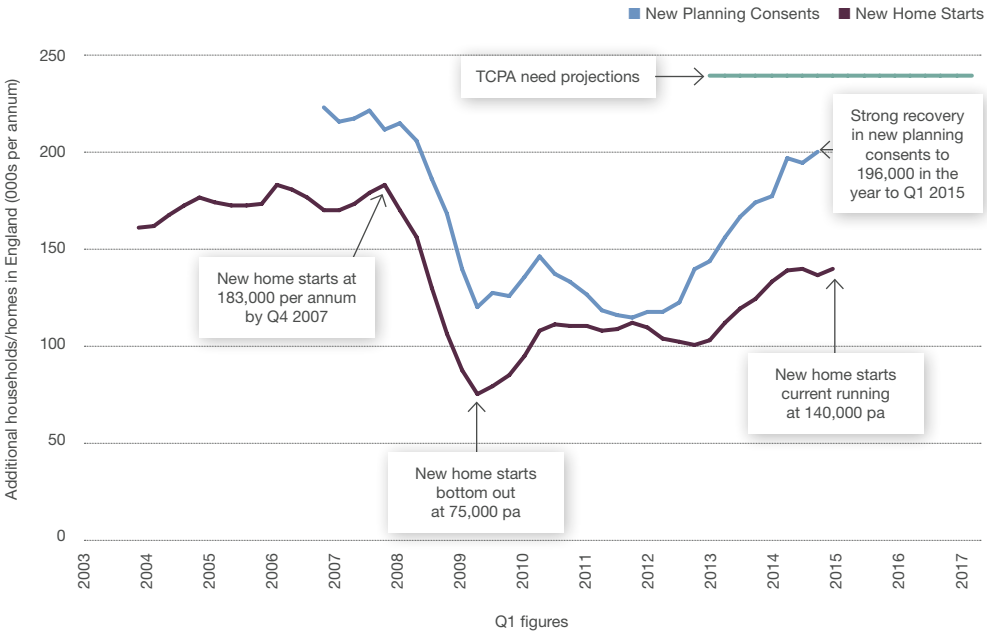
The medium sized housebuilders (those building 100 to 2,000 homes per year) have the greatest capacity to expand their output as they are starting to benefit from better finance conditions and opportunities that are not in direct competition with the larger housebuilders. We expect this group to be producing around 31% more homes per year by 2020.

However, there are constraints in the market that could hinder this expansion. As previously outlined, the supply of land is a crucial issue: as are planning delays as local authorities have reduced capacity to deal with applications due to public spending cuts.

The availability of labour has also become a considerable constraint, with 49% of builders citing it as a major constraint in the most recent HBF survey. Bricklayers and joiners are in particular demand and the shortage of labour has delayed the completion of some sites. Yet, the issue of cost and availability of materials is easing, and some two billion bricks are expected to be produced in the UK this year.

FIGURE 11

Housing consents and starts in England



Source: HBF, DCLG, TCPA

Alternative developers

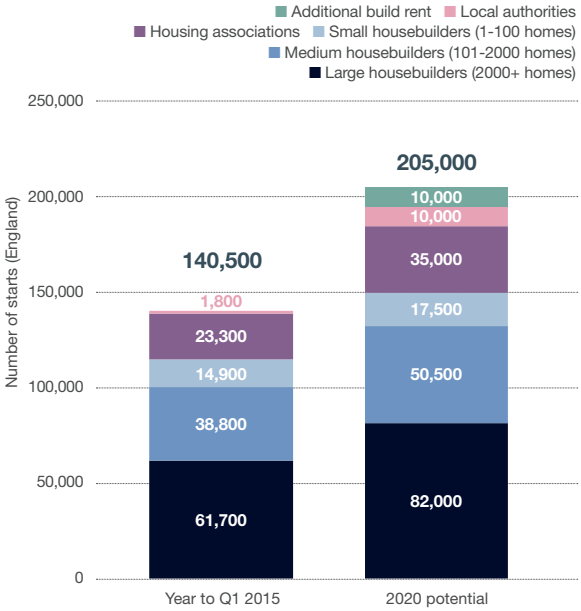
The capacity to build more homes would grow significantly if we support a wider mix of developers and organisations commissioning housing. Our analysis shows that housing associations and local authorities have the potential to start building 45,000 new homes a year in England by 2020, with housing associations delivering 35,000 of these.

Housing delivery could be boosted further if more support is given to companies building for the rental market. We estimate that institutionally-funded PRS could add 10,000 new homes to the mix under the right conditions.

This would bring the potential number of homes that could be started by alternative developers to 55,000 a year by 2020, an increase of 120% on the 25,000 new homes started by housing associations and local authorities in the year to March 2015.

FIGURE 12

Housebuilding potential



Source: Savills Research

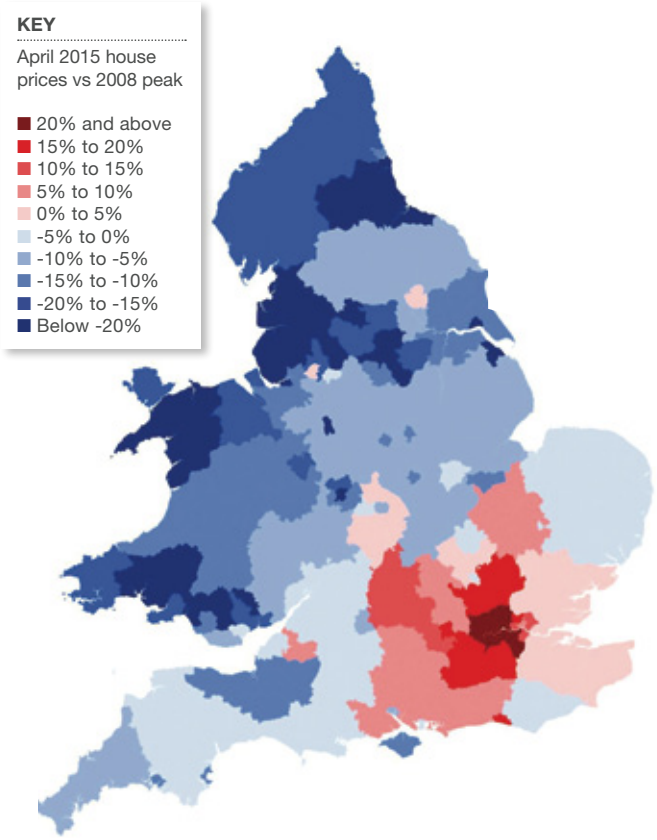
Consents for residential development have been rising over the past 3 years

Two billion bricks are expected to be produced in the UK this year

Market snapshot
MAPPING OUT THE MARKET

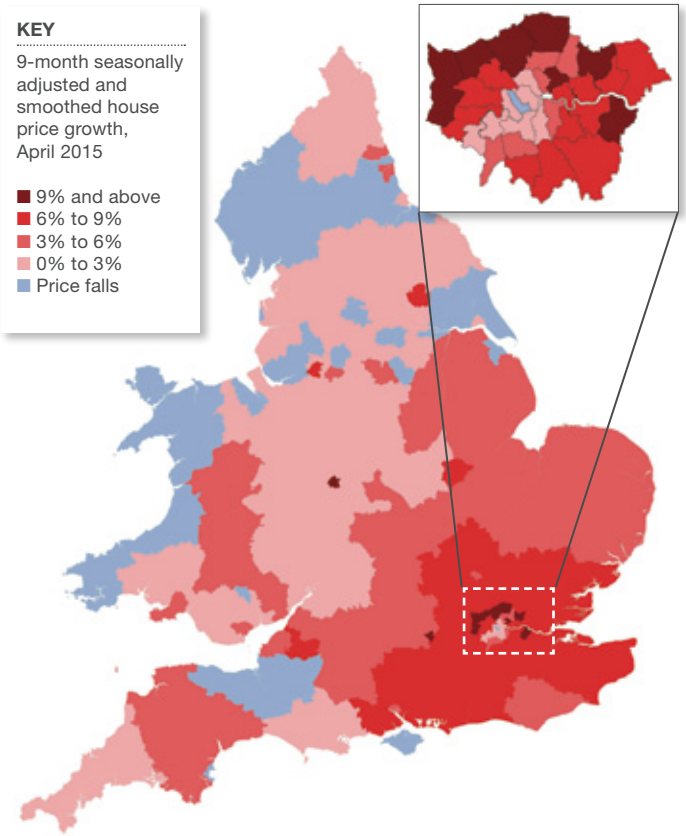
Over the past 10 years real house prices have varied dramatically across England and Wales; with early indications that the pattern is changing

FIGURE 13
Change in prices vs pre-crunch peak



Source: Savills Research, Land Registry

FIGURE 14
Recent house price movements



Source: Savills Research, Land Registry

FIGURE 15
10 year real house price growth

Top 10	10 year
Kensington & Chelsea	88.0%
City of Westminster	80.0%
Hammersmith & Fulham	68.2%
Hackney	62.0%
Camden	61.5%
Islington	56.4%
Lambeth	51.8%
Southwark	51.5%
Wandsworth	49.9%
Haringey	38.8%

Top 10 outside London	10 year
Brighton & Hove	6.7%
Windsor & Maidenhead	4.9%
Surrey	3.6%
Wokingham	-1.0%
Bracknell Forest	-1.5%
Oxfordshire	-2.2%
Hertfordshire	-2.3%
Buckinghamshire	-3.9%
City of Bristol	-5.1%
Bath & North East Somerset	-5.4%

Bottom 10	10 year
Newport	-34.5%
Liverpool	-34.9%
Darlington	-36.4%
St Helens	-36.6%
Sunderland	-37.1%
Blaenau Gwent	-39.0%
Hartlepool	-39.2%
Blackpool	-39.4%
Knowsley	-39.5%
Durham	-41.0%

Source: Savills Research, Land Registry

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