Savills World Research
UK Residential

RESIDENTIAL PROPERTY
FOCUS Q3 2014

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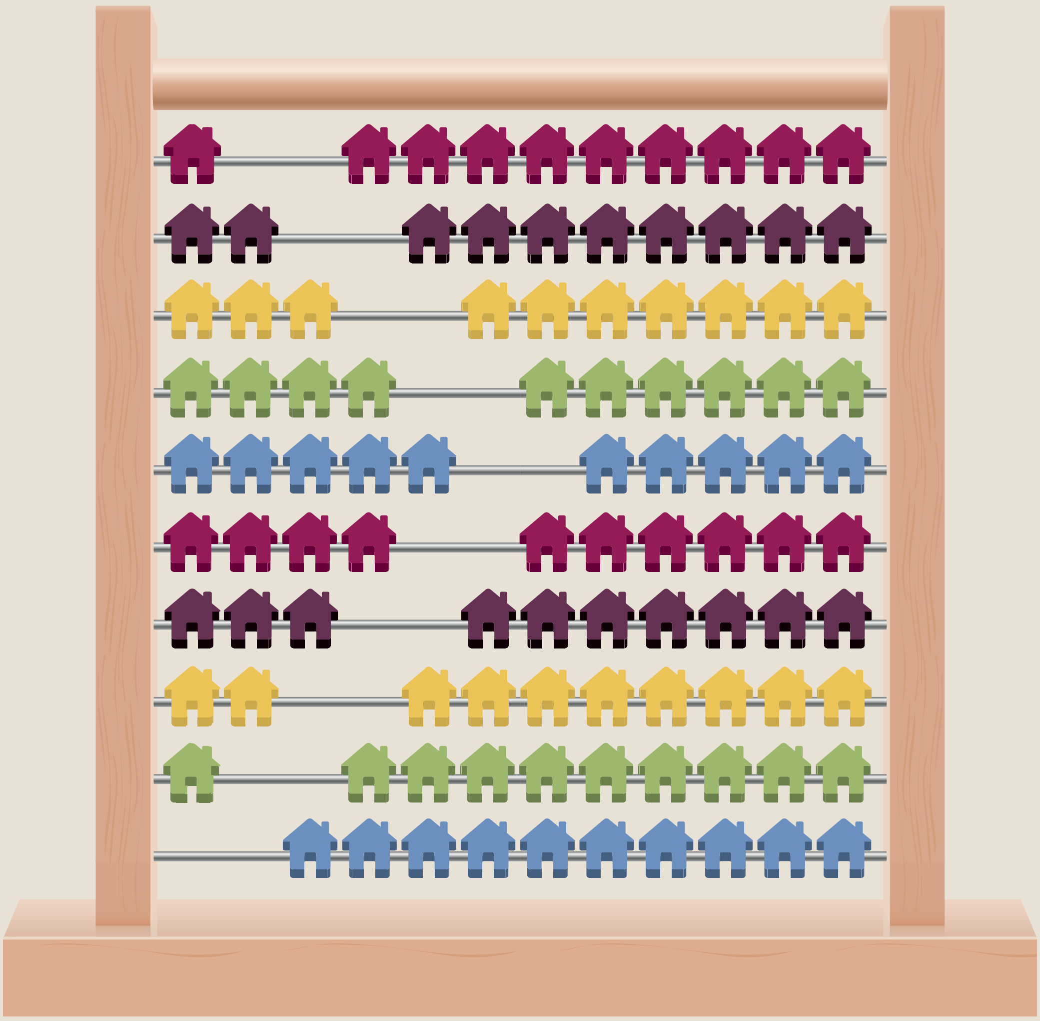
Counting the cost
What is the annual cost of housing in the UK?



Prime London: the pattern of migration

What next after Help to Buy?

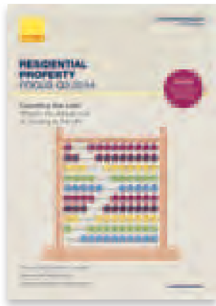
Housing market is put to the stress test

savills.co.uk/research

This publication
This document was published in August 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.



Foreword

IN DEFENCE OF OWNER OCCUPATION

The ability to accumulate equity remains a strong benefit to the mortgaged householder

The issue of housing costs and the possible impact of rising interest rates and mortgage regulation is our primary focus this quarter. Our analysis reveals some interesting, and perhaps, worrying facts that have far-reaching implications for politicians and policymakers.

The most striking for me was that renting households pay more (£9,567 p.a.) than households with repayment mortgages (£8,403 per annum). Even social housing tenants are paying more than the average interest-only element of mortgage payments.

Although we expect the bill for mortgaged owner occupiers to rise by about 28% (to £10,762) over the next five years, there is still a big discrepancy between what someone able to access a mortgage is getting for their money versus the 'dead costs' of renting.

For the mortgaged household, a proportion of monthly payments is effectively 'enforced saving', stored as equity in their property. Equity is still accumulated in a home regardless of what happens to house prices and saves further outgoing in the form of rising rents. In recent decades, house price growth has also 'geared' mortgagors' savings substantially.

So mortgaged owner occupation helps to turn 'equity poor' households into 'equity rich' ones over their lifetime. If, by pension age, ownership is mortgage-free, the saving on rent over the average 20 year duration of retirement is worth £191,340 to the average UK household.

Renters have no such access to a very cost-effective and convenient form of saving. Accumulating equity becomes harder for them as they have to make additional payments over and above annual rent costs. (Low savings rates also compound this difficulty).

It has perhaps been overlooked by the Bank of England and other policy makers that the repayment mortgage has therefore been a very effective form of saving in the UK over past years.

Closing the equity gap

Not accounted for in official savings data, high levels of mortgage repayments help to account for why the measured savings ratio is relatively low and fell significantly in the UK over the period that owner occupation grew.

It is a singular feature of the post credit crunch environment that this ability to accumulate equity has been impaired for younger generations. We have been very much in favour of the expansion of the private rented sector since the 1980s. However, renting has now become less a tenure of choice and convenience (as it should be) to one of necessity, as more people on adequate incomes, but without access to a deposit, have been prevented from becoming owner occupiers. This has the potential to create both social and economic problems which need to be addressed.

Right now regulators are seeking to curb owner occupation levels rather than expand them. Maybe, with longer longevity, the arguments for 30 year mortgages at higher multiples, (as described by Susan Emmett on page 6) should be more compelling if the equity gap in housing is to be closed.

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EXECUTIVE SUMMARY

£142bn
The total annual cost of housing in GB
See pages 04-05

New mortgage affordability stress tests are putting a strain on the market
See pages 06-07

The prime residential markets have entered the next phase of the housing cycle
See pages 08-09

Migration patterns away from London indicate locations where housing wealth may be redistributed
See page 10

The Equity Loan part of Help to Buy has helped to increase completions
See pages 12-13

Market dynamics

COUNTING THE ANNUAL COST OF HOUSING

The market is recovering, but what happens in the event of an increase in interest rates?

Words: Lucian Cook
Twitter: @LucianCook

The recovery in the housing market has been underpinned by low interest rates. However, any increase in interest rates from such a low base will substantially impact on the monthly mortgage costs of many households and stretch affordability.

We calculate that for every 1% increase in mortgage interest rates the total annual housing bill in the UK will rise by £10 billion. If house prices rise too dramatically when rates are low, thereby prompting higher levels of borrowing, the impact of rate rises will be all the greater.

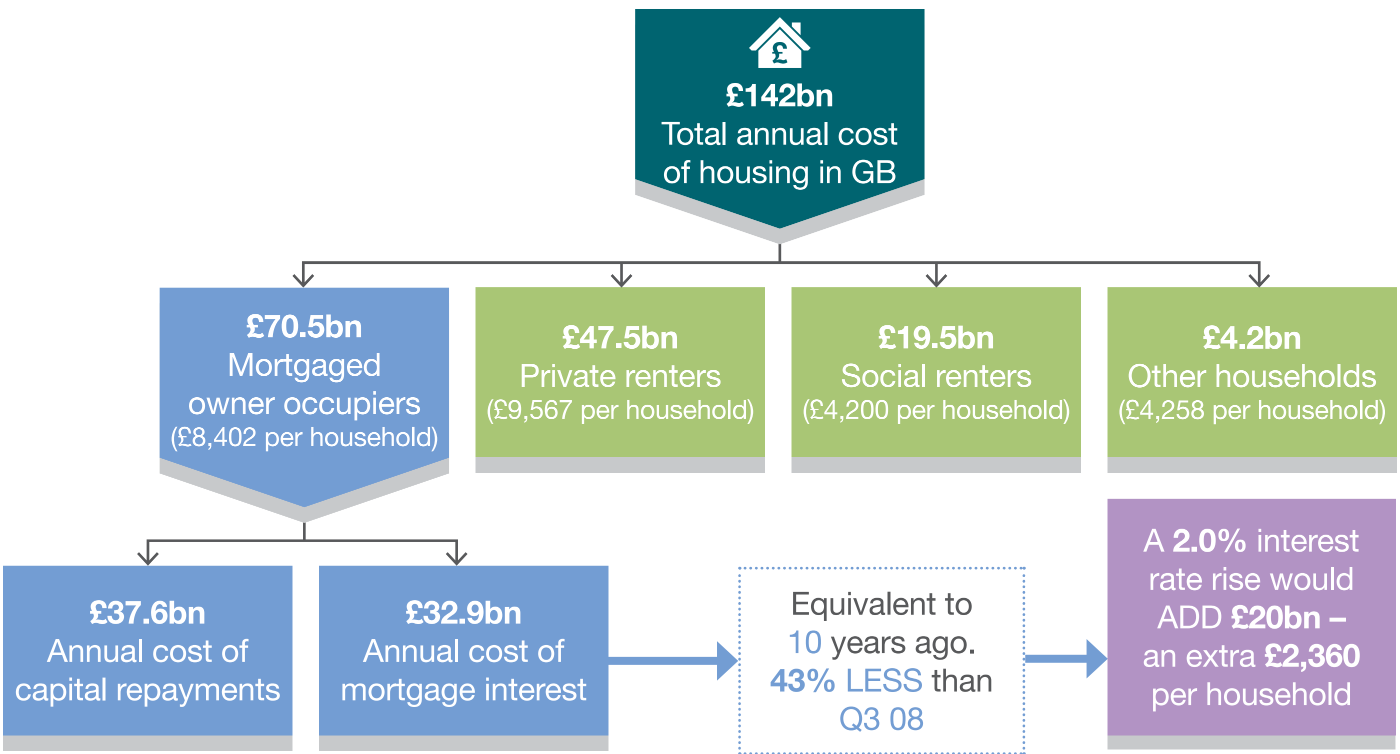
This begs the question whether parts of the housing market need reining in?

The Nationwide House Price Index shows that average annual house price growth reached 11.5% at the end of the second quarter of 2014. In itself, such growth is not unusual at this point in the recovery cycle, but policymakers have expressed concern over a potential house price boom that would require households to take on more debt, and the potential risks to the economy when interest rates do rise.

In reality much of that concern focuses on London. The Nationwide Index has recorded annual price

FIGURE 1.1

The annual cost of housing in Great Britain The current distribution between different tenures



Source: Savills Research

growth of over 26% in the capital, which suggests that prices are 30% above their peak (whereas in the North West they are on average 10% below).

A £33bn interest bill

In the current low interest rate environment this is less of a concern. Current mortgage rates, combined with falling levels of owner occupation, mean that the total annual cost of mortgage interest stands at nearly £33 billion across the UK. This is almost exactly where it stood 10 years ago and well below the £61 billion reached in the third quarter of 2008 (Figure 1.1).

Furthermore, the total mortgage interest bill is 30% below the annual cost of housing borne by a much smaller pool of private tenants. Looked at another way, the average amount of mortgage interest paid by mortgaged owner occupiers is less than the average rent paid in the social housing sector.

This reflects the fact that many of the 8.9 million mortgaged owner occupiers have paid down their mortgage over their period of home ownership, with the aim of joining the 8.1 million owner occupiers with no mortgage bill whatsoever.

The erosion of outstanding mortgage debt requires home owners to make capital repayments, in a form of enforced savings plan. Compared to interest alone, capital repayments currently more than double the costs of housing for those with a mortgage and makes a significant contribution to the total cost of housing of £142 billion per annum across all tenures in Britain as a whole.

Economic risk

How much and how quickly will the total cost of housing increase as interest rates rise? Bank of England Governor, Mark Carney has indicated that the "new normal" for bank base rates will be 2.5%, potentially applying as early as 2017.

Such a 2% increase would result in a £20 billion rise in the total amount of mortgage interest paid, up to within 10% of its recent peak. This would equate to an extra £2,360 a year per mortgaged household across Britain and £4,000 per mortgaged household in London. The greatest risk will be to younger households with the largest mortgages relative to household income.

Regulatory response

It is therefore of little surprise that the regulatory arm of the Bank of England has a close eye on the extent of high loan to income mortgage lending. There is a particular focus on London, where rapid price growth has been accompanied by a steady increase in the proportion of new mortgages at income multiples of 4.5 times or more. According to a recent Financial Policy Committee (FPC) report, one in five new mortgages in the capital falls into this category, more than double the proportion across the UK as a whole.

Much is dependent on the Mortgage Market Review and the extent to which this ensures that borrowers do not take on unsustainable levels of debt.

Cooling effect

This, together with the prospect of interest rate rises, is likely to curb house price growth in the mortgaged market and, in time, will act as a drag on growth in the more equity rich markets.

There are early signs that this will cool the housing market. Mortgage approvals were 12% lower in June than in January on a seasonally adjusted basis. The Royal Institution of Chartered Surveyors (RICS) reported a fall in new buyer enquiries in London in both May and June.

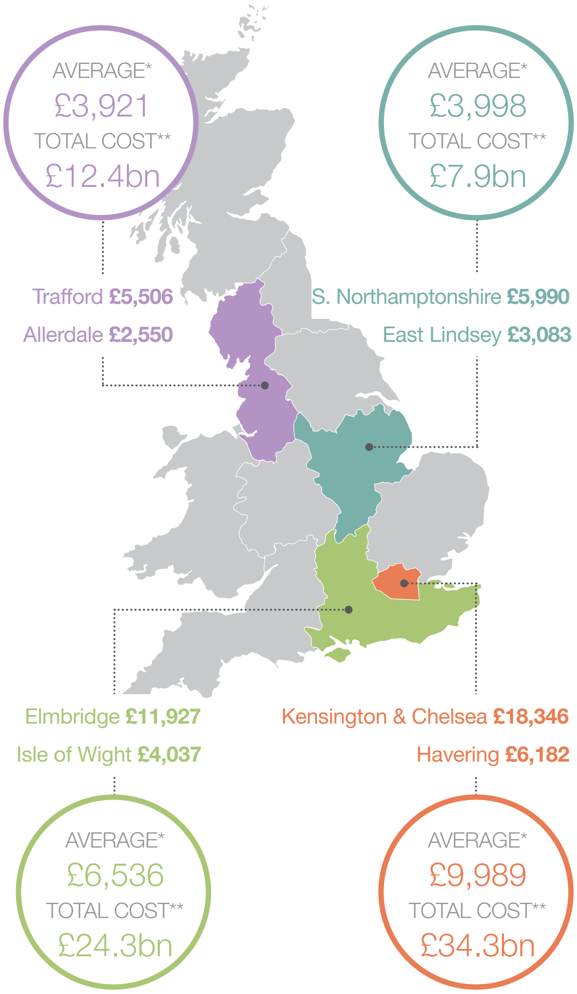
This indicates that the rate of price growth in London in particular may have peaked and could slow significantly, especially with a general election on the horizon. It is also likely to mean that other markets with more remaining capacity for price growth do not witness the same peak levels of annual increases that have followed price rises in London in previous housing market cycles.

> "At the current time, regular capital repayments more than double the total costs of housing for those with a mortgage"
> Lucian Cook, Savills Research

GEOGRAPHY LESSONS

Average annual housing costs vary **significantly** from region to region

Within each region there are also **significant** variations between locations



24% of all annual housing costs are incurred in London and the South East

Source: Savills Research

*Per household **Per region

Mortgage affordability
HOUSING MARKET IS PUT TO THE STRESS TEST

Londoners and first-time buyers could be the first to feel the impact of new mortgage rules

Words: Susan Emmett
Twitter: @saemmett

"Restricting mortgage lending will exclude greater numbers of first-time buyers"

Susan Emmett, Savills Research

The new affordability stress tests introduced by the Bank of England in June were designed to ensure financial stability rather than to control the property market and subdue house price growth.

However, building on the regulatory changes set up by the Mortgage Market Review (MMR), the Bank's latest set of measures look increasingly likely to rein in the more bubbly parts of the housing market and to curtail the growing number of first-time buyers.

Under the new rules brought in by the Bank's Financial Policy Committee (FPC), lenders are required to assess whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, rates were to be three percentage points higher than the rate at origination.

Mortgage lenders are also required to limit the proportion of mortgages at 4.5 times income or above to no more than 15% of their new mortgages. These latest changes are far more prescriptive than the tighter lending rules introduced by the MMR in April which required stress tests but did not set a rate.

Furthermore, the UK banking sector is currently undertaking a particularly stringent collective stress test, which examines the resilience of banks should house prices fall by around 35%. The exercise is to be completed by the end of the year.

Market impact

It is still too early to truly assess the full impact of these measures on the housing market. The current available data reflects the market prior to the FPC announcement, leading to some confusion over the direction of the market.

Some commentators argue that some of the weaker data recently released reflect a temporary reaction to the new mortgage rules brought in by the mortgage review. Figures from the Council of Mortgage Lenders (CML) showing that the number of loans advanced to first-time buyers rose by 9% between April and May, could support that view.

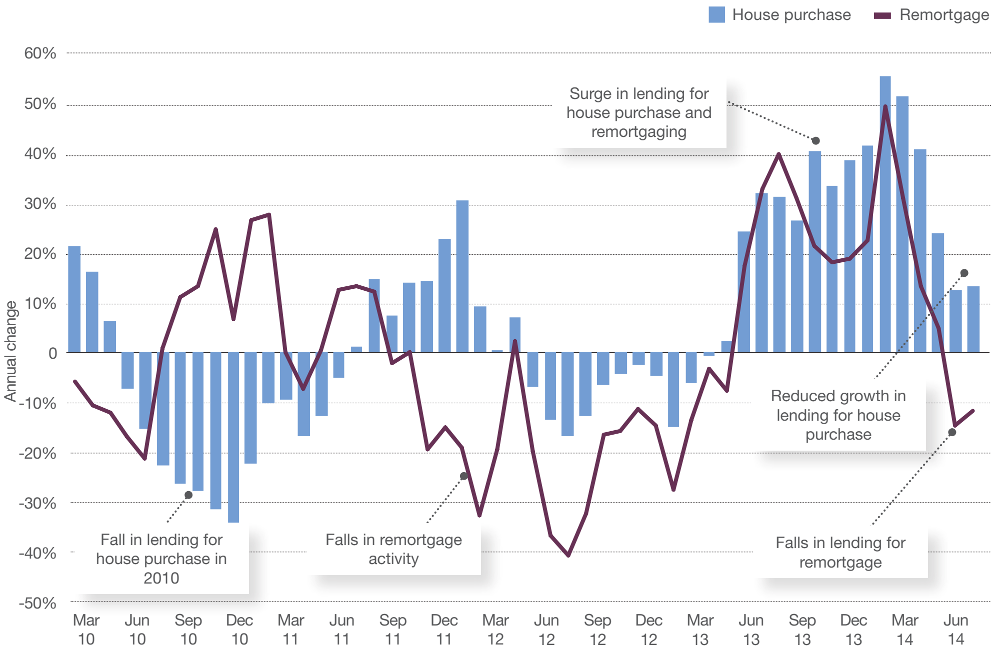
However, as we touched on in our lead article (see page 4) other data suggest that the market could be cooling already.

Although the number of homes changing hands remains higher than this time last year, the HMRC estimates that the number of seasonally adjusted residential property transactions decreased by 3.5% between April and May. In fact, there has been a gradual decrease in the number of transactions since February, following particularly strong winter months.

Separate data from Hometrack suggest a fall in the percentage of postcodes showing monthly price

GRAPH 2.1

Seasonally adjusted mortgage approvals



Source: BBA

GRAPH 2.2

Stretching affordability Proportion of borrowers taking out loan to income (LTI) multiples greater than 4.5 has risen since 2005, especially in London. Mortgage terms for first-time buyers (FTB) have also increased

UK LTI Multiple >4.5	LONDON LTI Multiple >4.5	FTB LTI >4.5 Av. Mortgage length
2005 - 07 6.3%	2005 - 07 9.1%	2005 - 07 28.8 YRS
Q1 2013 8.4%	Q1 2013 16.1%	Q1 2013 30.5 YRS
Q1 2014 10.7%	Q1 2014 22.0%	Q1 2014 30.5 YRS

Source: BoE, FCA Product Sales Data

increases, falling from 42% in May to 24% in July. In London that figure is as low as 12%, only marginally higher than the proportion of postcodes showing a price fall.

Stretched borrowers

The Bank of England's Financial Stability Report which accompanied the FPC's announcement in June, highlights growing debt levels among some households.

The proportion of borrowers taking out Loan to Income (LTI) multiples greater than 4.5 rose to almost 11% in the three months to March 2014 compared with just under 9% last year and an average of 6.3% in the pre-downturn period of 2005-07.

Unsurprisingly, LTI multiples are particularly high among those buying higher value properties with mortgage debt, especially in London. Almost 17% of buyers spending over £300,000 were borrowing more than 4.5 times income. One in five new mortgages in the capital were above this multiplier, over twice the UK average.

However, across the market as a whole the Bank expects the share of new mortgages at LTIs at or above 4.5 to be within the newly imposed limit. So, while the cap will not affect lending on a national level, it does highlight the higher levels of borrowing in the capital and hence where banks are likely to tighten their lending to reduce their risk exposure.

Further tightening?

Stretched first-time buyers are also spreading their debt over a longer term. The Bank's report shows the average length of a mortgage among those borrowing 4.5 times or more is now 30.5 years compared with 26 years for those borrowing between 2 and 3 times incomes.

While alive to the issue so far, the FPC has articulated no plans to attempt to reduce mortgage length. But should there be further need to tighten lending, this is a possibility.

Restricting mortgage lending will inevitably exclude greater numbers of first-time buyers who will face greater barriers to homeownership.

As a result the number of people able to participate in the property market is set to fall, reducing demand among buyers but increasing the need for more rental homes.

57%
Mortgage approvals rise year to Jan 2014

14%
Mortgage approvals rise year to June 2014

Prime markets

PRIME GOES WITH THE FLOW

As we enter the next stage of the housing cycle, market wealth is beginning to flow out of London

Words: Sophie Chick
Twitter: @SophieChick

Within the prime residential markets of the UK, there are clear signs that we have entered the next stage of the housing cycle. The London suburbs outperformed the capital for the first time since the credit crunch, recording growth of 5.7% in the first six months of 2014, compared to the prime London average of 4.9% according to Savills prime index.

Within prime London, the rate of price growth has slowed dramatically as the heat came out of segments of the market that have seen the highest levels of price growth. Prime central London growth slowed to just 0.4% in the second quarter of 2014.

Price variations

However, the different tiers of the prime central London market are not performing in line with each other. At the very top end of the market, homes worth over £10 million, fell by -1.5% in the second quarter of 2014, meaning such homes saw no net growth on annual basis. Conversely, steady price growth has continued for properties valued under £2 million.

The strongest growth in prime London is now being seen in the lower value core prime markets of Islington, Canary Wharf and Wapping, reflecting confidence among young financial sector employees and investor buyers targeting City based renters.

Wealth corridors

Perhaps it is most telling that the prime south west London market has also slowed over the past three months as more stock comes to the market from sellers who are finally making the traditional move out of the capital.

So far this year, 35% of sales in commutable locations have been to buyers from London, compared to just 28% during 2013. This change comes as the price differential between the capital and the rest of the UK reaches an all time high, encouraging them to make the big lifestyle change that previously they have been reluctant to do.

These London buyers are an important source of demand for the commuter locations and have contributed to the strong growth seen in these markets. Values throughout the commuter zone saw annual growth of 6.0% or more and are now back to or above their 2007 peak levels.

Beyond London's sphere

While all prime markets are now seeing positive price growth, the gap in values is still very pronounced beyond the sphere of influence of London. Despite seeing values increase by 6.4% over the past year, prices in the wider south of England remain on average -10.4% below their 2007 peak.

The picture is similar for prime property further afield. In the Midlands and the North, values have increased by 2.3% over the past 12 months but remain -15% below their 2007 levels.

Independence?

In Scotland, where values are still 22% below their peak, the impending

TABLE 3.1

Distribution of price movement in Savills prime index, Q2 2014

QUARTERLY PRICE GROWTH Q2 2014	LONDON PROPERTIES	REGIONAL PROPERTIES
Less than -5%	6%	1%
-5% to 0%	17%	4%
0%	25%	52%
0% to 2%	21%	18%
2% to 5%	18%	19%
5% to 10%	10%	5%
More than 10%	3%	1%

Source: Savills Research

referendum in September is undoubtedly having an impact on the property market.

While the outcome is unlikely to affect dramatically the intentions of existing Scottish residents, the uncertainty has had an impact on the number of buyers moving from London who, until the summer, were keen to take advantage of the value gap.

We would expect a decisive 'No' vote majority, to boost activity and consumer confidence in the housing market. In the event of a decisive 'Yes' vote, we would expect the current uncertainty to continue, with a further delay in the recovery.

PRIME FORECASTS, 2014-2018

The outlook for growth looks positive, but tax reform remains on the agenda

The 2015 election means the taxation of high value properties is back on the political agenda.

We expect values to plateau or possibly see small falls in locations with a high concentration of properties over £2 million, as both overseas and domestic buyers remain cautious.

Sellers should price for a London market that looks fully valued both in domestic and international terms.

While the prime markets outside of London are more buoyant, headlines of house price growth can give sellers a false impression of the value of their property. This creates a gap between their expectations and those of the buyers who are sensitive to headlines about interest rate rises.

Assuming there are no further changes to the taxation of high value property, our outlook for the prime markets remains positive. We expect the suburbs and commuter locations to see the strongest growth as homeowners continue to make the move out of the capital.

TABLE 3.2

Prime markets Five year forecast value, 2014-2018*

	2014	2015	2016	2017	2018	5-year
Central London	3.0%	-1.0%	8.0%	6.5%	5.0%	23.1%
Outer 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

*Assuming no further changes to the taxation of high value property

Wealth flows

MIGRATION PATTERNS

Movers away from London's most expensive boroughs give an indication as to where housing wealth in the future will be distributed

Words: Lucian Cook
Twitter: @LucianCook

With the capacity for future house price growth across the capital as a whole seemingly constrained, attention will now become focused on whether there are still parts of London with capacity for price growth and the areas beyond the capital that are most likely to benefit from an injection of housing wealth generated in the big smoke.

Migration patterns can provide us with a good indication of how this might play out.

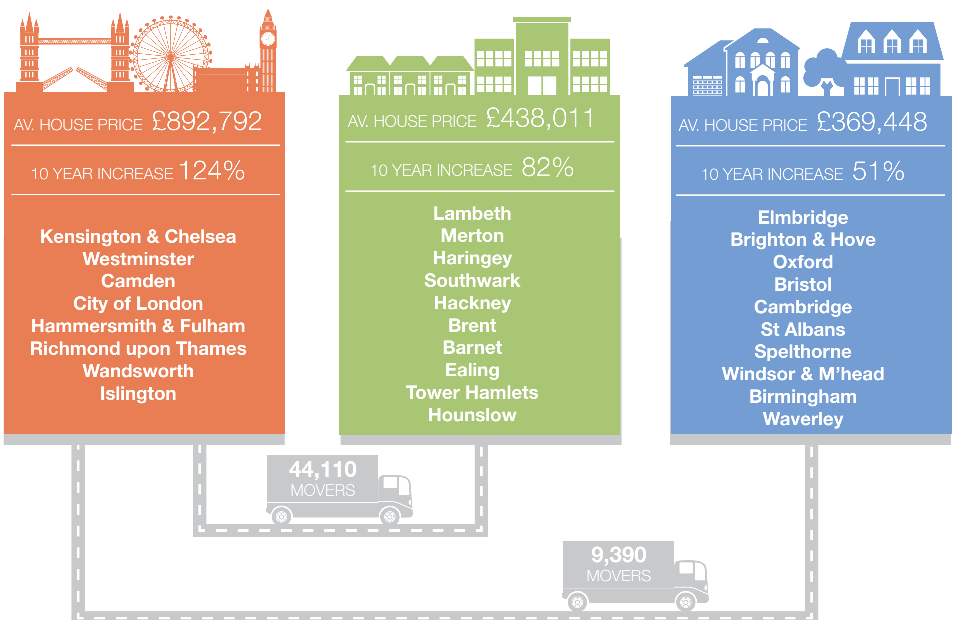
Q How does this explain the recent pattern of house price growth?

A As we looked at in last quarter's edition of this publication the gap between London and most of the rest of the country is currently very wide.

This reflects the fact that recently a lot of housing wealth has been recycled in the London market and relatively little exported beyond the M25. In 2013 ONS statistics tell us that 360,880 people across all ages moved from one London borough to another. This is 50% more than moved beyond the boundaries of Greater London.

GRAPH 4.1

Migration from London's eight most expensive boroughs in 2013



Source: Savills Research, ONS

Q Where has London's housing wealth been made and distributed?

A Over the past 10 years the most housing wealth has been generated in London's eight most expensive boroughs, across which the average sales price has more than doubled to reach just under £900k last year.

In 2013, over 44,000 people moved from these boroughs to 10 other London boroughs that include the likes of Lambeth, Hackney and Ealing, all of which have shown very strong recent price growth. The 10 local authorities beyond London that saw the most migration from the capital's prime boroughs, still only saw under 10,000 incomers from these areas.

Q What of the future?

A The likes of Brighton, Bristol, Cambridge and St Albans are most likely to see the biggest wave of future price growth in the housing market, especially as a 51% increase in the average sales price over the past decade leaves them looking good value compared to London.

This list reflects the rise of urban prime markets that sees much higher migration from prime London boroughs than larger Metropolitan areas in the Midlands and the North. Though Birmingham sits just inside the top ten and Manchester and Leeds just outside it, the extent of migration from the most expensive parts of London is small relative to the wider local housing market, such that the effect becomes much more diluted.

Q What is the impact of migration from less expensive London boroughs?

A Migration from the eight cheapest London boroughs to other parts of London is held back by the additional costs of moving to more affluent areas.

Four of the five biggest non-London relocation hotspots from these cheaper boroughs are relatively low value markets. Average sales prices in Thurrock, Dartford, Medway and Basildon were between £185,000 and £225,000 in 2013. In these areas relatively low 10 year price growth reflects a much lower injection of housing wealth from the capital and that will also contain future price growth.

Mainstream forecasts
HOUSE PRICES 2014-2018

Our lead article reports on the potential impact of interest rate rises on the total housing costs both across the UK and at a household level in different regions. It shows that the affordability constraints that are already biting in London, are likely to increase over the five year period of our forecasts.

This limits the capacity for price growth over this period at both a regional and national level. The pattern of price growth will be dictated by the extent of growth while rates remain low and, in turn, how quickly those rates rise.

The growth shown by the mainstream market indices has been stronger in the first six months of 2014 than we would have expected. This leaves less capacity for price growth over the remainder of the period.

This is particularly the case in London, where lead indicators suggest a change in sentiment that is likely to limit price growth over the remainder of 2014.

With sentiment fairly volatile, there is every possibility that London market will see a return to growth through 2015 before meaningful interest rate rises. However, the limited remaining capacity for price growth means any future spikes in house prices would have to unwind, either by way of a price correction or a prolonged period of broadly static prices, and that process could potentially last beyond our forecast period.

There is more capacity for price growth in other parts of the UK, though the timing will be dependent on the regional pattern of economic growth.

Over the period of our forecasts, markets in the South of England are expected to be the strongest performers, with the markets of the Midlands and the North having the potential to outperform these areas subsequently as has been the case in other market cycles.

TABLE 5.1

Mainstream markets Five year forecast value, 2014-2018*

	2014	2015	2016	2017	2018	5-year
UK	9.5%	4.0%	3.5%	3.5%	3.0%	25.7%
London	15.0%	5.0%	0.0%	1.0%	2.0%	24.4%
South East	12.0%	5.0%	4.0%	4.0%	3.5%	31.6%
South West	11.0%	4.5%	4.0%	4.0%	3.5%	29.9%
East of England	11.5%	5.0%	4.0%	4.0%	3.5%	31.1%
East Midlands	6.0%	4.0%	3.5%	3.5%	3.0%	21.6%
West Midlands	6.0%	4.0%	3.5%	3.5%	3.0%	21.6%
North East	5.0%	4.0%	3.0%	2.5%	2.5%	18.2%
North West	5.5%	4.5%	3.0%	3.0%	2.5%	19.9%
Yorks & Humber	5.0%	4.5%	3.0%	3.0%	2.5%	19.3%
Wales	8.0%	3.5%	3.0%	3.0%	2.5%	21.6%
Scotland	6.5%	2.5%	3.0%	3.0%	2.5%	18.7%

Source: Savills Research

*Assuming no further changes to the taxation of high value property

Housebuilding

WHAT NEXT AFTER HELP TO BUY?

For some developers, over 40% of completions are being supported by the Equity Loan part of the scheme. It is crucial to think ahead

Words: Nick Gregori

"Help to Buy Equity Loan has had the greatest impact in lower value markets"

Nick Gregori, Savills Research

The Equity Loan part of Help to Buy has assisted over 27,000 transactions since its launch in April 2013. This is more than three times the number of deals carried out over the previous 12 months with the assistance of FirstBuy, the Government scheme it replaced. There is more to come.

According to the Government, the initial investment of £3.5 billion is expected to support 74,000 sales by 2016. The extension of the scheme to 2020 and a further £6 billion investment should help 120,000 more householders purchase a home. The Equity Loan scheme is now also available in Scotland and Wales, albeit under slightly different rules.

Recent news that Lloyds Banking Group has reduced the amount it will lend under the Help to Buy equity loan scheme from £500,000 to £150,000, corresponding to a maximum house price of £200,000, has generated further debate over the controversial Government initiative. The Group, which includes Halifax and Bank of Scotland, controls a 50% share of this market, prompting speculation over whether their retreat could encourage other lenders to follow suit.

The Lloyds' measure will constrain lending under the scheme particularly to buyers in higher value markets. As Graph 6.1 shows, almost 22% of Help to Buy 1 buyers have acquired homes worth between £200,000 and £250,000. This is more than the maximum purchase price possible with a 20% Help to Buy equity loan plus a 5% deposit. However, 58% of deals would have been unaffected by the changes.

While the number of transactions supported by the Help to Buy Equity Loan (HTB1) remains a small part the overall number of house purchases in England, which currently run at just under one million a year, there is little doubt the scheme has been popular.

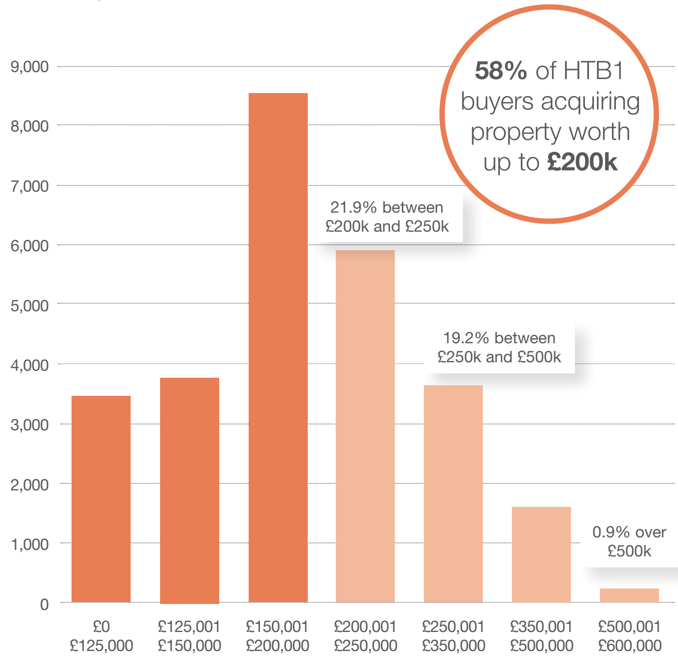
How successful has HTB been?

Developers are not required to contribute to the advance as they

GRAPH 6.1

Help to Buy Equity Loan (HTB1)

House price bands

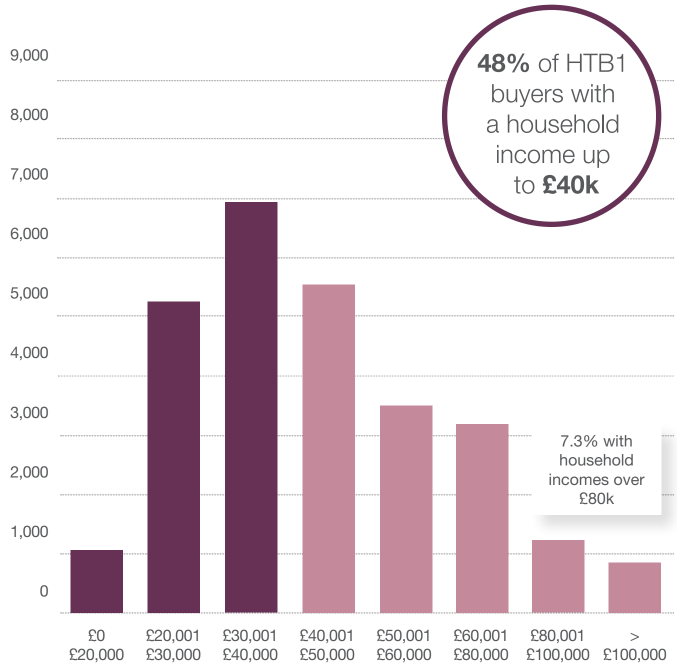


Source: Savills Research, DCLG

GRAPH 6.2

Help to Buy Equity Loan (HTB1)

Income bands



Source: Savills Research, DCLG

did under previous equity loan schemes. The Home Builders Federation says more than 1,200 companies have registered, 94% of which are small or medium sized businesses. Many of the major players are reporting increased profits and rising share prices over the 15 months that it has been running.

The latest annual reports show that profits at the large listed housebuilders are at their highest level since the final boom year of 2007. Recent trading updates show that very significant proportions of completions are taking place through Help to Buy: 35% at Persimmon, 40% at Crest Nicholson, and 42% at Taylor Wimpey.

What has it meant for housebuilders?

Savills analysis shows that Help to Buy Equity Loan has had the greatest impact in lower value markets. Yet while the scheme has played a part in reviving parts of the market lagging in the recovery, not all completions achieved under Help to Buy necessarily represent additional transactions. Some of the deals may have happened under different house builder led incentives.

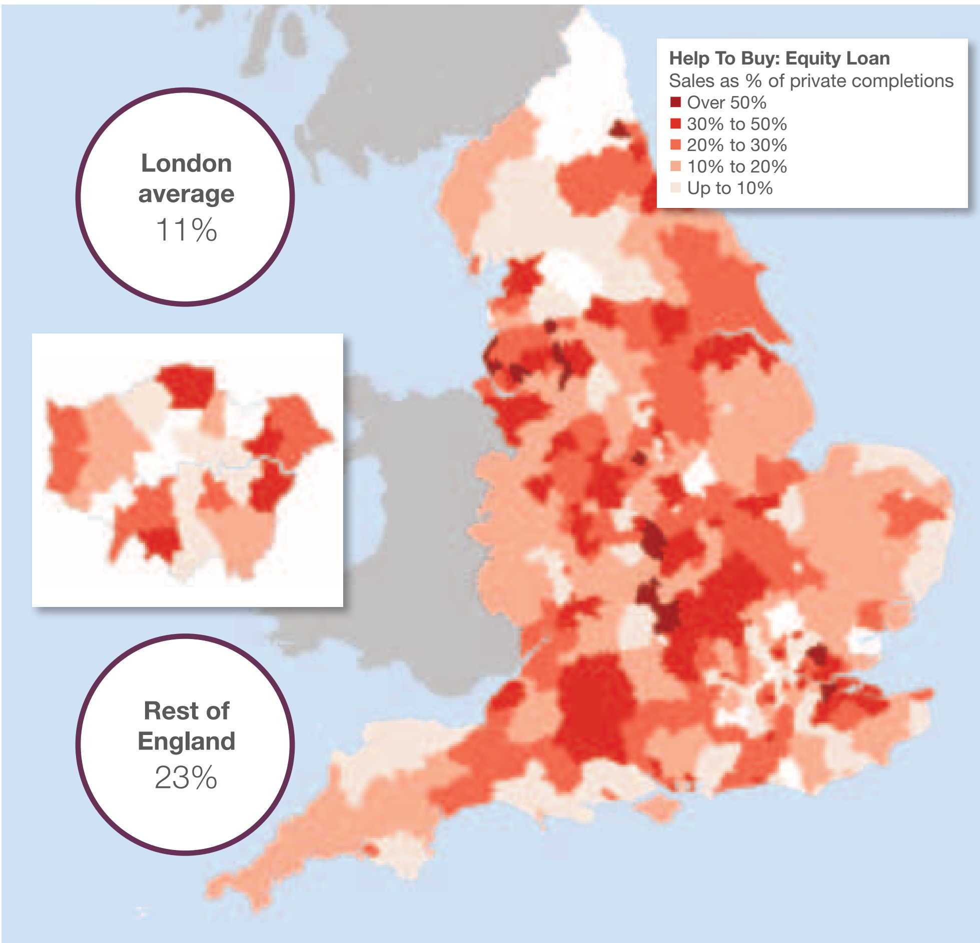
At Barratt, 29% of completions went through the Equity Loan scheme in their 2013/14 half year results. But a year earlier 17% of sales were assisted by "other" shared equity schemes, so the net effect is not as large as it first appears. Bovis has reported 872 shared equity completions in 2013 compared with 535 the year before, and "sees the Help to Buy scheme as an attractive replacement for other shared equity products".

Housebuilders also stimulate demand in other ways, including part exchange and contributions to deposits or stamp duty. In their 2012 results Persimmon stated they retained a shared equity interest in 26% of completions over the year, and 25% of private customers utilised a part exchange offer. Therefore, Help to Buy may be partly replacing sales made through previous Government or internal schemes.

After Help to Buy was introduced in April 2013 use of 'sales incentives' fell sharply, according to HBF survey data. In April 2014 this measure reached its lowest level since March 2002. Incentives include part exchange schemes and contributions to deposits or stamp duty.

MAP 6.1

Help to Buy Equity Loan by local authority as % of new build completions



Source: Savills Research, DCLG

What does it mean for the future?

Numbers of starts and planning permissions have risen in the year to March 2014 in England, admittedly this is off a very low base. Many of the larger housebuilders have stated that the increased certainty from the Help to Buy extension has allowed them to plan increases in their numbers of completions. Hence, across the major builders there is an intention to increase annual output by a total of 25,000 units.

Over the last six months, the scheme has supported 2,387 sales per month on average at a mean price of £213,252. At this rate the funding is set to last comfortably until the scheduled end date. However, at the rate of 4,000 per month, surpassed for the first time in June, they would be exhausted some time during 2018.

2020 may seem a long time away, particularly with a general election in between. However, planning an orderly end to the scheme is essential to avoid disrupting the markets where it has had the greatest impact. A gradual phasing out is likely to be the best option.

85%

of sales have been to first-time buyers

4,357

sales in June 2014

Postscript

GROWTH CYCLE

Leaders and laggers: house price growth figures show London was lagging behind the rest of the country in 2000 through to 2005

	JAN 95 - JAN 00	JAN 00 - JAN 05	JAN 05 - JAN 10	JAN 10 - NOW	JAN 95 - NOW
National House House Price Growth	England & Wales 28%	England & Wales 95%	England & Wales 5%	England & Wales 6%	England & Wales 177%
Highest Regional House Price Growth	London 75%	North East 121%	London 20%	London 34%	London 378%
Lowest Regional House Price Growth	North East -8%	London 70%	East Midlands -4%	North East -8%	North East 82%
Highest Local House Price Growth	Wandsworth 106%	Pembrokeshire 171%	Kensington & Chelsea 57%	Kensington & Chelsea 58%	Hackney 621%
Lowest Local House Price Growth	City of Kingston Upon Hull -30%	Kensington & Chelsea 50%	City of Nottingham -15%	Blackburn with Darwen -17%	Middlesbrough 26%

Source: Savills Research, Land Registry

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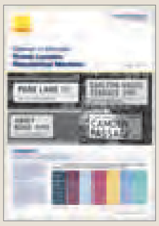
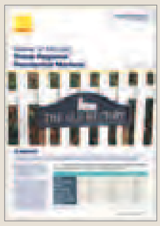

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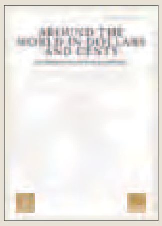

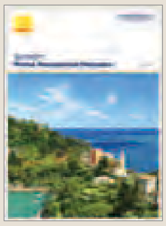

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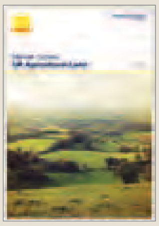
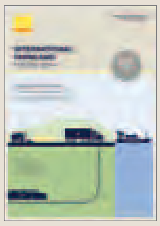
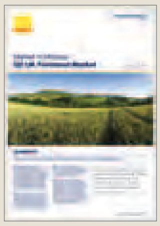

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