Briefing note

Budget Commentary

Savills research and planning teams consider the implications for new homes delivery

"Can George erode the housing shortage mountain?" asks Yolande Barnes, head of Savills Research

In his speech today, George Osborne announced a series of measures to increase housing supply in a bid to assist and contribute to economic growth. Measures announced included encouraging the release of land, reforming the planning system, encouraging regeneration and helping first time buyers.

Taken together, these all have the potential to increase housing delivery at a local level but the scale of the underlying problem is huge – especially if viewed in the light of the backlog of past years.

Savills housing shortfall forecast

Savills research team has looked at past housing delivery since 1990 and projected future housing completion numbers on the basis of past practice. They have set these against projections of household growth.

"If things continue as they have been we forecast that there will be a shortfall of 1.1million properties in England by 2016 and 1.7m by 2029," says Yolande Barnes.

"In order to prevent this shortfall of homes for households, an additional 75,000 homes a year will need to be built, on top of the 140,000 per annum that Savills think likely if current industry, funding and planning practices prevail."

A significant proportion of the shortfall (27% by 2016) will be in London and the South East

"London and the South East combined will need to see over 60,000 homes built each year between now and 2029 to meet household demand," says Barnes. "Our expectation is that without successful reforms of the housebuilding industry, finance and planning, this figure is likely to remain nearer 40,000 – a cumulative shortfall of almost 500,000 homes.

"As details emerge the question will be whether George Osborne has done enough to bring about these reforms to boost housing delivery?"

A perspective from Roger Hepher, head of Savills Planning

In this context, it is reassuring that the Chancellor chose to make a number of announcements about changing the planning system with a view to encouraging development.

Unusually for a budget speech, a number of Planning measures have been announced - albeit only in headline terms:

Enterprise Zones

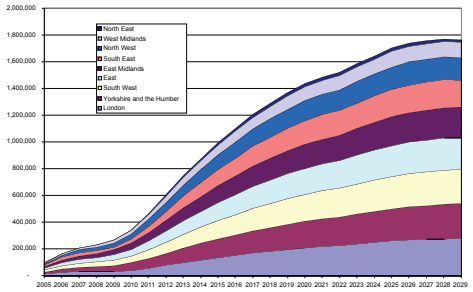
With traditional public spending so restrained, the designation of EZs is a sensible measure: it is a potentially effective way of providing a catalyst to regeneration in circumstances where market conditions are tough and public funding scarce.

Housing Shortfall

Region	Average number of houses that will be built each year from 2011 to 2029 (forecast based on recent rates of build)	Number of new households forming each year (Savills forecasts)	Shortage of housing each year	Annual housing shortage totalled up to 2016	Annual housing shortage totalled up to 2029
North East	6,000	7,000	1,000	20,000	19,000
North West	17,000	23,500	6,500	117,500	167,000
Yorkshire and the Humber	13,000	23,500	10,500	151,000	259,000
East Midlands	14,000	23,500	9,500	137,000	227,500
West Midlands	13,500	18,000	4,500	83,000	113,500
East	18,500	28,500	10,000	150,000	237,000
London	16,500	29,000	12,500	157,500	281,500
South East	24,500	33,500	9,000	137,000	203,000
South West	16,000	27,000	11,000	153,000	257,500
North and Midlands	64,000	96,000	32,000	509,000	786,000
South	75,000	117,500	42,500	597,500	979,000
ENGLAND	139,000	213,500	74,500	1,100,000	1,765,000

Source: Savills

Cumulative housing shortfall by region



Source: Savills

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Osborne has announced 21 EZs: one in London (location to be determined by Mayor Boris Johnson); 10 in other major urban areas; and 10 more to be announced in the summer.

The features of EZs will include rate discounts, capital allowances and 'radically reduced planning restrictions'. No details have been announced.

Presumption in favour of sustainable development

The Chancellor explained that he intends the default position on development proposals to be "yes".

The Presumption in Favour of Sustainable Development has been an element in Government policy since the Coalition programme was first drawn up. However, its restatement in such a high-profile way is to be welcomed.

There used to be a presumption in favour of development in the 1980s and '90s, but it somehow got dropped from the legislation, and that gave succour to NIMBYs throughout the kingdom. At a time when economic growth is so important, it is right that it be brought back - but in a new form, reflective of the fact that climate change, energy conservation and other environmental concerns are now centre stage.

We have yet to see how Sustainable Development will be defined, and how the Presumption will work, and it is to be hoped that the Government doesn't spend so long deliberating over the definitions and regulations that opportunities are missed.

The Presumption will also play an important role in counter-balancing the potential anti-development effect of localism. Local communities will still have an important role to play in shaping their areas, but this power will now be tempered by the responsibility to respect the Presumption.

Changes of use

The Chancellor referred to changes to the Use Classes Order. This could cover many things, but (if pre-Budget speculation is to be believed) is likely to include allowing more flexibility to change from office/industry to residential.

The implications of this will depend very much upon the detail. However, it could have the effect of opening up land for residential development that has hitherto been protected for employment purposes, especially in parts of London.

Brownfield land targets scrapped

Brownfield land development targets were introduced by John Prescott. It looks as though they will now be removed. This would seem to signal a greater preparedness to allow greenfield development (although - Osborne was specific about this - not development in the Green Belt).

Auctioning of land

This is a potentially a very radical measure. In essence, it is expected to involve inviting landowners to indicate at what price they would be prepared to sell their land to the Council. The Council can then opt to buy at that price, grant planning permission, then re-sell at development value, thus capturing much of the planning value gain for the community. Thus, for example, a farmer may have a plot of farmland worth £1m; be prepared to sell it under the new system for £5m; the Council could then buy it, grant planning permission and resell for £25m, pocketing a £20m profit.

It could be effective, and anything that might get development moving again is worth trying. However, it could prove ineffective, and/or to have unintended consequences. We therefore think it is wise that the Chancellor has proposed to introduce the system on an experimental basis, and it is important that the experiments are conducted with care.

An important announcement for private rented sector investors

The Chancellor's announcement today regarding stamp duty paid on investment portfolio sales is an important step in levelling the playing field between investors and owner occupiers and will remove a significant barrier to more widespread institutional and corporate investment in let properties.

It means that in future an investor buying a portfolio of 100 properties worth an average of £200,000 each (a £20m portfolio) will pay stamp duty at the rate appropriate for the mean unit value, in this case 1%, not the value of the whole portfolio. (In this example, this would amount to £200,000).

If this rule had not been introduced, then after April such an investor would have had to pay £1m in stamp duty on the same portfolio as the SDLT rate on a transaction over £1m would have been 5%.

Investors in very high value properties will experience no change after this ruling. If the £20m portfolio were comprised of ten £2m homes, the SDLT rate would be determined by the average value, so would remain at 5%.

If the portfolio were made up of fifty £400,000 properties, the SDLT rate will now be 3% on the whole portfolio. (The prevailing rate for properties priced between £250,000 and £500,000).

Contacts:

Roger Hepher
+44 (0) 20 3320 8270
+44 (0) 7807 999 230
rhepher@savills.com

Yolande Barnes
+44 (0) 20 7409 8899
+44 (0) 7967 555 501
ybarnes@savills.com

savills