savills

Spotlight
New Build Homes

2016/17

SUMMARY

Housebuilding numbers are potentially on target but there are challenges ahead

■ Recent announcements in the Autumn Statement confirm the Government is still committed to increasing supply and hitting its target of delivering one million new homes by 2020. New data confirms that just under 190,000 new homes were delivered in the year to March 2016, meaning at current rates there is the potential to hit this target.

■ Rising completions from the larger housebuilders has helped. But there has also been a widening range of participants expanding production across a range of sub-markets.

■ The initial concern following the vote to leave the EU has eased with many indicators now showing normal levels of housing market activity.

■ One exception is the top-end of London where activity remains much weaker due to the tax changes preceding the vote to leave.

■ Weaker consumer confidence is a significant risk in the face of rising inflation but the new homes market may benefit from lower levels of available stock in the second hand market.

■ We need the right type of new homes in the right places. This requires sufficient land supply in areas of greatest housing demand.

NEW SUPPLY, ON TARGET?

New build housing supply has been increasing and the Government is now firmly focused on hitting its target of one million new homes in England by 2020. But how will the economic outlook, mortgage-lending environment, and government policy affect the scale and type of demand for new homes?

Most Recent Findings

New housing supply in England has been rising in recent years. The latest data for net additional dwellings shows 189,650 extra homes were delivered in the year to March 2016. Of these, 163,940 were new build homes.

Analysis of Energy Performance Certificates for new homes shows that this momentum has continued throughout the summer, with just over 200,000 certificates issued over the year to September. In theory, this brings us closer to meeting the Government's target. However, we are still well below housing need which we estimate is for 300,000 new homes in England per year to make up the backlog that has built up since the last economic downturn.

Help-to-Buy

Further analysis shows a large increase in private sector sales while there has been a fall in affordable housing delivery. Private sales by the majority of listed housebuilders have continued to be supported by the Help-to-Buy equity loan scheme. There were 33,700 sales supported by the scheme in the year to March 2016, compared to 27,700 in the previous year. The majority of these were first-time buyers. Most large firms have been reporting that Help-to-Buy equity loan sales account for 30–40% of their private completions.

However, there are signs that developers are becoming increasingly dependent on the scheme since March, when additional stamp duty taxation on second homes and buy-to-let was introduced, dampening demand from second home buyers and investors.

Widening Participation

Housing delivery also increased thanks to a widening range of participants expanding production. There has been strong growth amongst the second tier of housebuilders, with completions from the top 11-50 builders up 31.3% over the year to October 2016, according to NHBC data.

Furthermore, expansion of retirement housing developers, build-to-rent development, and housing associations moving into market sale to cross-subsidise affordable housing, have all helped to drive higher private sector completions.

Overall levels of supply have also benefitted from changes to permitted development rights, with 30,600 of the net additional homes delivered this way in the year to March 2016.

EU Referendum

Pre-referendum, the housing market recovery was spreading beyond the south of England. However, the result of the EU referendum has made the situation more complex.

There was much lower activity in the immediate aftermath of the vote to leave the EU. Both new buyer enquiries and new listings fell in the second hand market while site visitors and net reservations were down on new build sites.

However, many indicators now show activity has rebounded to normal levels, albeit with much less second hand stock available for sale. One exception to this is the top-end London new build market where activity remains weaker due to the tax changes preceding the vote to leave (see box opposite).

Economic Risks

Looking ahead, the risks are weighted towards the downside, not least because of the uncertainty created as the country negotiates its exit from the EU. We currently expect economic growth to slow and although we anticipate mortgage rates will remain low, households will face pressure from weaker income growth and higher inflation.

The Bank of England base rate is currently 0.25% and mortgage lenders are continuing to lend into the market with an increasing focus on home-owners rather than buy-to-let landlords. Therefore, in the short-term we expect the economic pressure on households to be, on average, offset by more competitive mortgage lending.

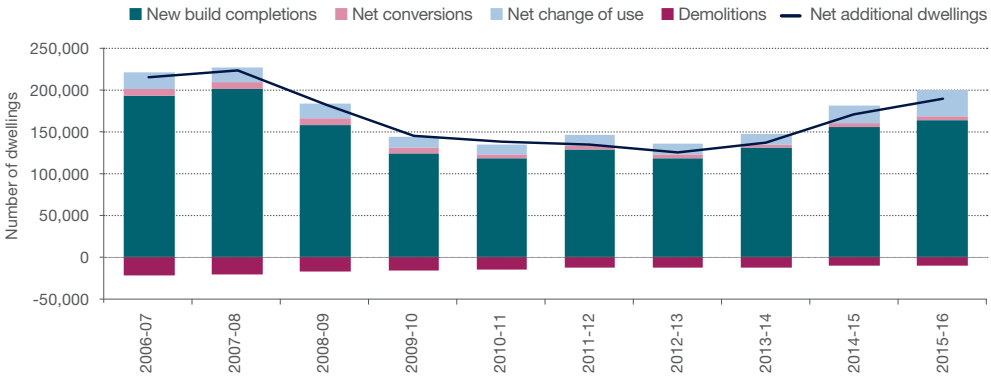
On that basis, we are forecasting that national house prices will rise by 13% over the next five years, though there will be substantial variance across the country depending on local economic and consumer confidence.

Autumn Statement

Government subsidy will play a large role in supporting housing delivery. A plethora of funds were announced in the Autumn Statement including a £2.3bn Housing Infrastructure Fund to unlock new housing supply, £2bn Accelerated Construction fund to speed up house building on public sector land and £1.4bn to deliver an additional 40,000 affordable housing starts by 2021. We expect to hear further details in the forthcoming Housing White Paper.

FIGURE 1

Net Additional Dwellings in England



Source: Savills using DCLG

Home-ownership continues to be the preferred tenure for the majority of people and the private sector housebuilders are by far the most important contributors to overall housing supply. The new homes market may benefit from lower levels of available stock in the second hand market but weaker consumer confidence is a significant risk.

Creating long-term stability is essential for an industry where projects can take many years if not decades from start to finish. Meanwhile increasing competition and a diverse range of products will help more people to buy a new build home but care needs to be taken to ensure these homes are in the most appropriate locations and are of the right type, size and quality.

Location, Type, Quality & Design

The location, type and size of new homes has changed considerably since the recession. Development has shifted from high-density flats in northern cities to family homes in the South and Midlands.

In 2006/07 one and two bed flats accounted for 44% of all private new homes. They now account for just 22% and it would be lower if London were excluded. Meanwhile the proportion of new homes that are houses with three or more bedrooms has risen from 50% to 70%.

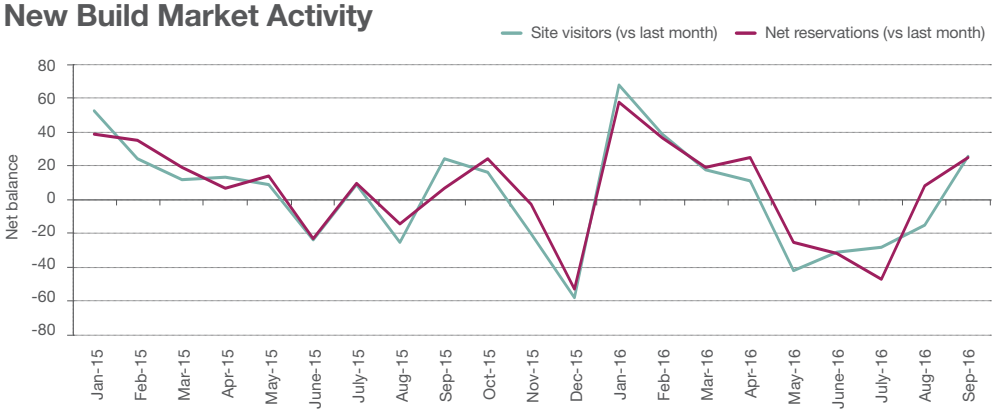
These trends indicate that new build homes are not as small as regularly suggested. The average size of a new build home in 2015 was 91m^2, just 1m^2 smaller than the average second hand home. The problem is the distribution of sizes. We are building lots of small flats and a sizeable number of large houses but not enough average sized homes.

This highlights a potential issue with the Government focus on overall supply levels. Chasing headline numbers at the expense of quality and design risks a return to some of the negative aspects of the pre-recession development market. It also ignores the value that can be created via appropriate placemaking.

Therefore, alongside the focus on increasing supply, we also need to ensure that there is sufficient land supply in the places that need new homes the most. Plans for this land need to have the appropriate mix of homes alongside the required infrastructure, amenities and services.

FIGURE 2

New Build Market Activity



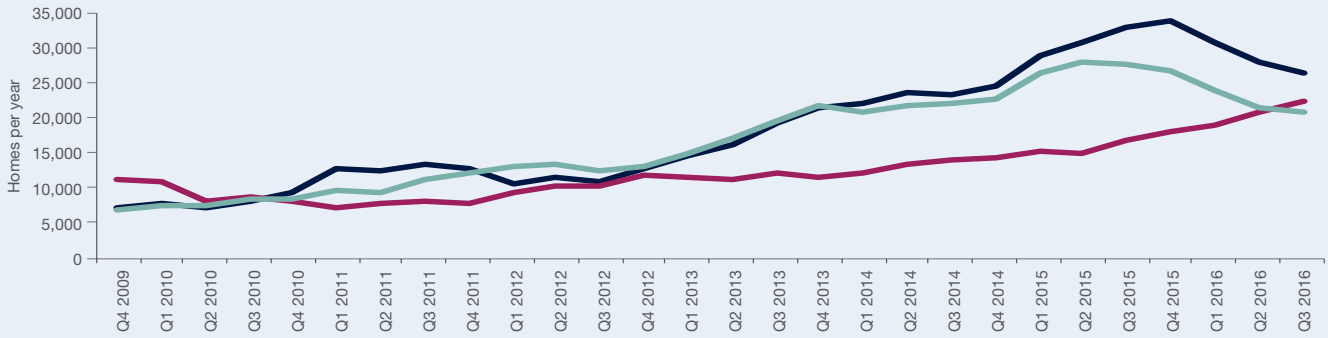
Source: HBF

LONDON: Tax at the top end

The vote to leave the EU in June has added to the uncertainties facing the capital's housing market. The top-end was already struggling thanks to stamp duty tax reform. While the changes to stamp duty may have reduced the cost of buying a new home for the majority of buyers, the higher effective rates for higher value properties and/or for properties bought via a company have disproportionally affected activity in the London new build market. Housing starts and sales are down 22% since Q4 2015 but have shown some signs of stabilisation in the latest quarter while completions are still increasing.

FIGURE 3

New Market Housing Supply, London



Source: Molior

FIGURE 4

The Future of New Home Demand

FIRST TIME BUYERS	**CHALLENGES:** Deposit affordability is the biggest constraint, particularly in London and other high value markets but mortgage market regulation and tighter lending criteria are also barriers. **OPPORTUNITIES:** Help-to-Buy, Shared Ownership and possibly Starter Homes will help lower income and/or deposit households access the market. Competition amongst mortgage lenders could lead to better deals and hence higher demand in more affordable markets.
HOME MOVERS	**CHALLENGES:** Economic uncertainty and mortgage market regulation will be a constraint while lower turnover in the second hand market may make it more difficult to sell and so demand may be limited to those needing to move. **OPPORTUNITIES:** Lower mortgage rates may encourage some to move while others will trade on recent divergences in localised house price growth, particularly those looking to move out of London.
DOWNSIZERS	**CHALLENGES:** The single greatest challenge is in designing new build homes that older people want to live in, at a price that makes downsizing cost-effective for those living in an average priced house. **OPPORTUNITIES:** Older generations hold the majority of housing wealth and are a growing demographic. Increased mortgage availability for older people will help but new financial models are needed to enable downsizing.
BUY-TO-LET	**CHALLENGES:** The combination of Government reductions in tax relief on interest paid, higher stamp duty, and tighter regulation on Buy-to-Let mortgage lending has and will limit demand from this sector. **OPPORTUNITIES:** Around 50% of all Buy-to-Let purchases are without a mortgage. There will continue to be demand for investment properties, particularly in competitive rental markets with high demand from tenants and appropriate yields.
BUILD-TO-RENT	**CHALLENGES:** Build-to-Rent developers' capacity to successfully bid for new stock or even compete for development land is constrained by their required returns relative to the yields set by market sale demand. **OPPORTUNITIES:** It may be an attractive proposition for developers looking to raise capital during the early phases of a development, particularly on large sites with good transport links.

Source: Savills Research

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