October 2018

Policy Response

Budget 2018

Savills Research

UK Residential

Although little mention was made of housing in Philip Hammond's Budget speech, the full document reveals measures which will have significant impact on development and the housing market. Increasing housing supply continues to be a high priority for this government. But the focus for delivery is increasingly shifting from a market sale model to a more diversified approach.

The end of Help to Buy

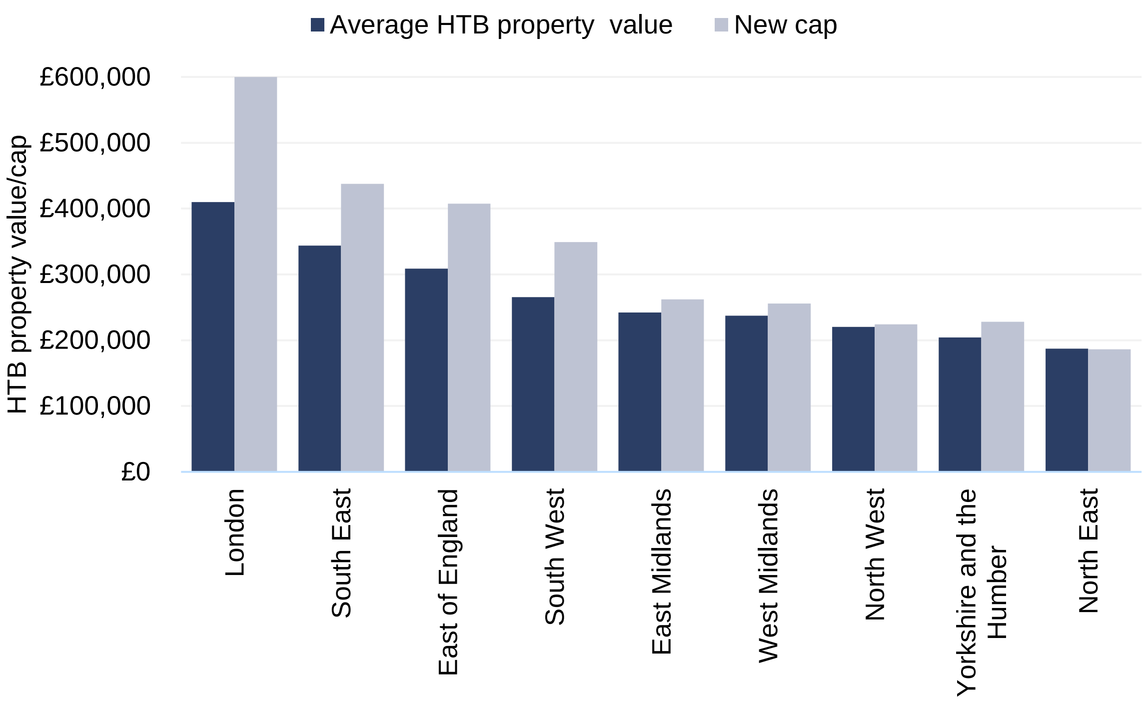
- Help to Buy in England will continue in a more restricted form from 2021 to 2023. The scheme will end in 2023.
- These details provide certainty for housebuilders, but questions remain about how to maintain housing delivery after HTB ends.

The Government announced that it will extend Help to Buy beyond the scheme's current end date of 2021, but with some important caveats. From April 2021 until March 2023, a new Help to Buy Equity Loan (HTB:EL) scheme will run. This new scheme will be restricted to first-time buyers, who currently take up 81% of HTB loans.

The revamped HTB:EL scheme will also be restricted to lower value properties in most markets. At present, buyers can use Help to Buy on properties worth up to £600,000 across England. Under the proposed new scheme, the maximum property value will be subject to a regional cap. These caps will be set at one and a half times the current regional average first-time buyer price, up to a maximum of £600,000.

Using the average value of loans completed, we have estimated the average property value purchased using Help to Buy by region. In London and the South, typical HTB property values lie well below the proposed caps. However, in the Midlands and North the caps lie much closer to the average HTB property value. In the North East, the value cap is marginally below the average value bought using the scheme.

Figure 1: Average help to buy property values

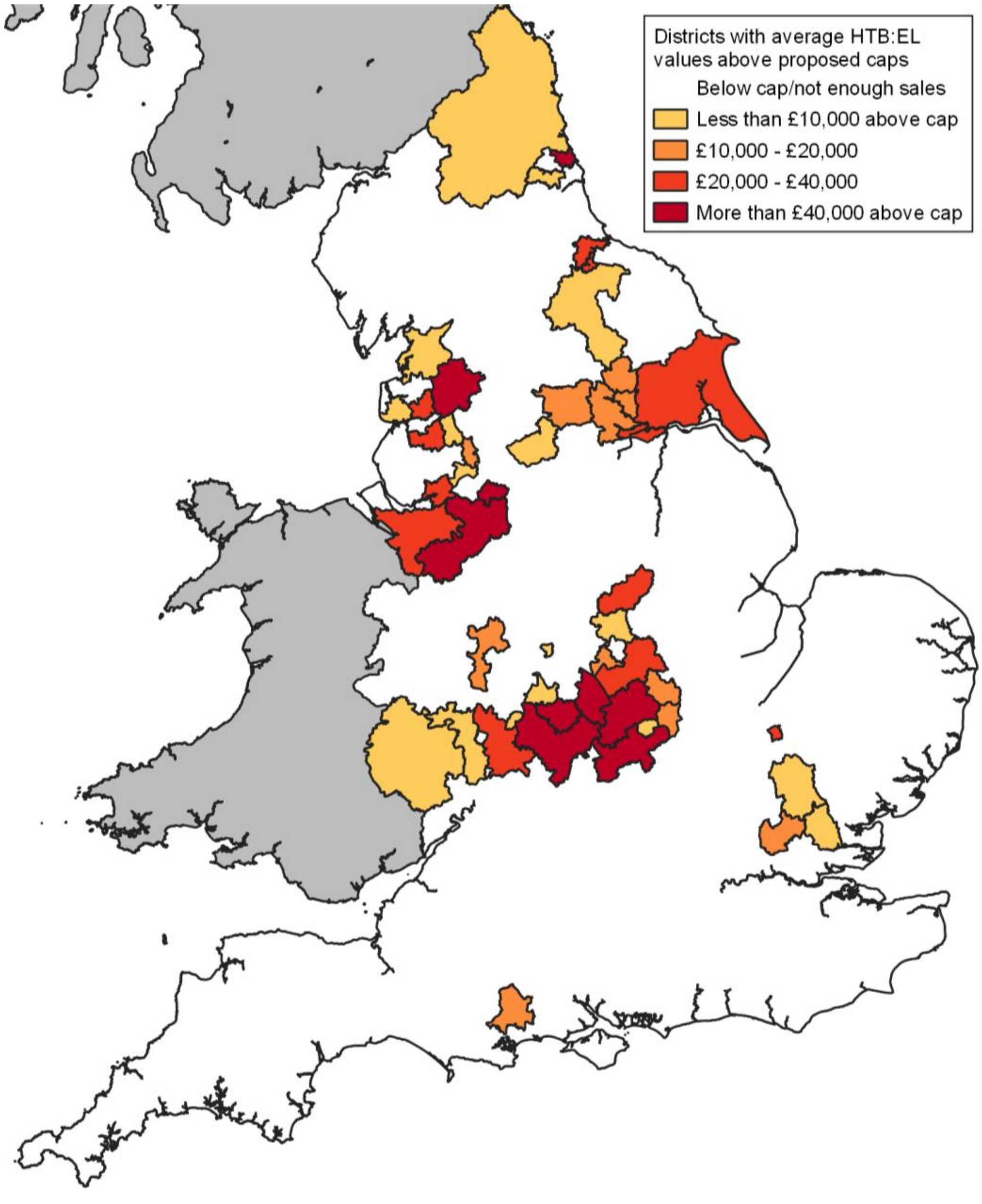


Source: Savills Research, MHCLG, HMT

These caps will have a varied impact on new housing delivery across markets. Although more effective than one national cap, regional caps are still a blunt instrument, which ignore the substantial variety of housing markets within a region: Cambridge is very different from Ipswich, for instance. While the average home bought using the HTB:EL may be below the cap at a regional level, many local authorities have much higher values. The difference between current HTB values and the proposed caps is very large in some markets: in Harrogate, Yorkshire, the gap is over £100,000.

The map below shows those districts where the average property bought through HTB:EL is worth more than the proposed regional value cap. We have excluded districts where there were fewer than 50 HTB sales in the last four quarters.

Map 1: Districts with average HTB:EL values above proposed levels



Source: Savills Research using MHCLG, HMT

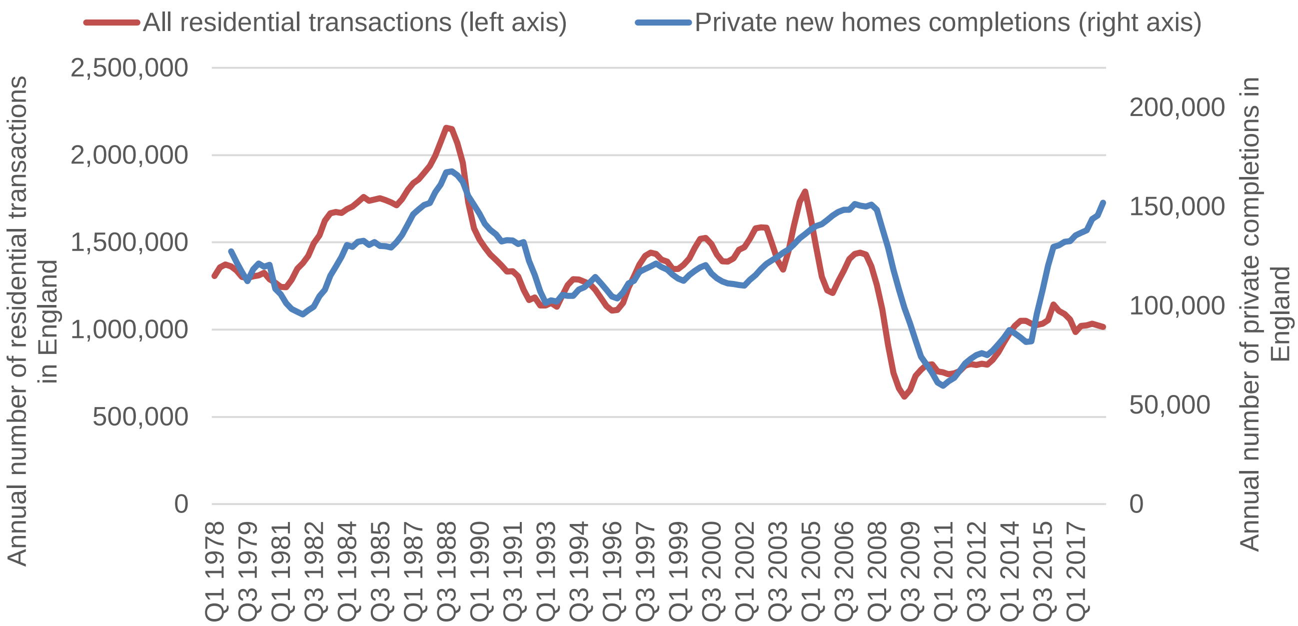
Figure 2: Top 10 local authorities where current HTB average transactions exceed regional cap

Local authority	Region	HTB:EL sales last 4 Qs	Average HTB:EL property value	Regional cap	Cap difference
Harrogate	Yorks and Humber	74	£332,586	£228,100	£104,486
Bromsgrove	West Midlands	69	£343,796	£255,600	£88,196
Trafford	North West	74	£290,898	£224,400	£66,498
Stratford-on-Avon	West Midlands	280	£315,492	£255,600	£59,892
Warwick	West Midlands	236	£311,251	£255,600	£55,651
North Tyneside	North East	239	£240,777	£186,100	£54,677
South Northamptonshire	East Midlands	280	£315,607	£261,900	£53,707
Daventry	East Midlands	237	£314,507	£261,900	£52,607
Stockport	North West	190	£275,508	£224,400	£51,108
Ribble Valley	North West	77	£274,575	£224,400	£50,175

Source: Savills Research using MHCLG, HMT

A more targeted Help to Buy is likely to impact on the sales rate and delivery of new homes for private sale in markets that are most affected by the cap, and its withdrawal after 2023 means housebuilding will need to adopt new strategies. Historically, new build completions have tended to follow overall market activity, averaging 9% of all residential transactions. The introduction of Help to Buy broke this relationship; since 2017, private new homes completions have averaged 14% of all residential transactions.

Figure 3: Help to Buy has helped break the link between housing delivery and transactions



Source: Savills Research using HMRC, MHCLG

The support of Help to Buy has therefore enabled new build completions to continue growing, despite the relatively stagnant number of transactions. MHCLG's most recent evaluation of the scheme suggests that it has resulted in 37% demand additionality across England, and 16% supply additionality. However, there are significant regional variations. In London. supply additionality from Help to Buy is estimated to be only 7%, reflecting the low proportions of Help to Buy sales there. The Midlands has the highest level of supply additionality at 19%. The North West has seen the highest proportion of Help to Buy Sales, but has a lower level of supply additionality of 17%, as house prices are lower and therefore there are more options available to buyers without having to use Help to Buy.

As we do not anticipate the overall number of housing transactions in England to increase or return to their pre-global financial crisis levels in the near future, without Help to Buy it is likely that the number of new build completions will fall if housing delivery is not diversified. To increase output and reach the government's target of 300,000 homes by the mid-2020s, developers will instead need to tap into demand in other parts of the housing market. This will require more diversity of tenure, namely private rented homes and affordable housing, both of which are currently underserved by new housing development.

Additional Funding for development

- £500 million allocated to the Housing Infrastructure Fund, bringing the total to £5.5 billion
- £2 billion for the 2021-29 Affordable Homes Program confirmed, but our analysis shows this is below what is needed

Further funding has been announced to support housebuilding, although not on the scale of the commitments in the 2017 Budget. A further £500 million has been allocated to the Housing Infrastructure Fund, increasing the total available to £5.5 billion, and the £1 billlion of lending aimed at SME housebuilders announced in September was reconfirmed.

£10 million is newly available to support housing deals with local authorities in areas to high housing need to deliver above their Local Housing Need. As the Local Housing Need figure only amounts to 266,000 homes per year in England, establishing these deals will be essential if housing delivery is to approach 300,000 per year.

Funding for Affordable Housing

The major announcements on funding affordable housing delivery were already revealed in September. The promise of an additional £2 billion for the Affordable Homes Program beyond 2021 was reconfirmed. This announcement should give Housing Assocations more certainty and enable them to invest in a longer term land pipeline. This should help HAs to increase delivery, as a lack of land has often been cited as a key constraint on development.

However, in the Budget it notes that this £2 billion will provide "long term certainty to 2028-2029". We have previously estimated that to deliver enough social rented housing to meet need would require £7 billion of grant funding per year. Consequently there will need to be further funding allocated beyond this £2 billion for the remainder of the 2021-2029 funding period to fully realise the capacity and ambition of Housing Associations to build new homes.

The abolition of the Housing Revenue Account cap was also reconfirmed. This has been immediately abolished in England, and the Welsh Government is taking steps to do the same. This will enable local authorities to deliver more homes. With prudent long-term planning, we estimate that local authorities could release between £10bn and £15bn of extra borrowing capacity, enabling delivery of up to 15,000 homes per year in the long term. However, many will need to establish a land pipeline and build up construction capacity. The Office for Budget Responsibility only anticipates this measure to deliver an additional 9,000 homes by 2023 due to constrained construction capacity. Partnerships with private sector developers will be key to increasing delivery.

Taxation: Stamp duty changes

- Government will consult on a 1 per cent stamp duty surcharge for non-UK resident buyers
- This could raise up to £120 million per year, a small fraction of the revenue from the 3 per cent additional home surcharge

Earlier in October, Theresa May unexpectedly announced proposals for a further stamp duty surcharge on non-UK resident buyers of between 1% and 3% of a property's purchase price. The proposal was confirmed in the Autumn Budget and it was said that the Government will publish a consultation on the duty in January 2019, but that the surcharge will only be of 1% and not the 3% previously mentioned.

The measure aims to raise up to £120 million a year, only a fraction of the £1.9 billion raised from the more widespread levy on additional homes in 2017/18. Nonetheless, it is likely to dampen overseas buyer demand in the short term and mean that the market remains price sensitive in the medium term. However, this may be on a lesser scale than previously anticipated, had the rate been announced at 3%. We also would not rule out a spike in activity to beat the deadline before the surcharge comes in.

There is also a risk that any additional tax for international investors will affect investment into Build to Rent. The BPF estimates that 22,000 Build to Rent homes, 15 per cent of the total pipeline, are reliant on funding from overseas investors. Introducing further barriers to this kind of investment could jeopardise the supply of these much needed homes.

The Letwin Review conclusions and recommendations

- Letwin proposes new planning rules for sites over 1,500 homes in areas of high demand to ensure diversity of housing types and tenure
- Suggests local authorities could effectively cap land values at 10 times existing use value
- Proposes local authorities should gain the same CPO powers as development corporations

The final conclusions and recommendations of the Letwin Review were published alongside the Budget. The Review, announced in last year's Budget, was tasked with investigating the rate of building on large sites. The recommendations of the Review largely focus on increasing the diversity of housebuilding, through a wider range of size and types of housing, and increased variety of tenure, including affordable housing and Build to Rent.

To deliver this, the review proposes revisions to the planning system to enable local authorities to put more requirements in place for the mix of homes to be built on large sites (over 1,500 homes). This would be a planning requirement established through the Section 106 agreement for each site. In theory, if the diversity of product on sites is increased, developers will be tapping into more parts of the market, enabling new homes to be absorbed more quickly and therefore sites built out faster. Local authorities could also identify through allocations sites below this size threshold that they want to be build out under the same method.

Anyone applying for outline consent for a large site under Letwin's proposals would be required to demonstrate a diversification strategy. Local authorities would be assisted in assessing whether the strategy fully met the requirements of that area by a National Expert Committee. The proposals would apply to sites coming forward after 2021. Letwin suggests that for large sites currently being developed, any government funding should be dependent on the remainder of the site being developed in accordance new planning policy on differentiation, but the government has already confirmed that Help to Buy Equity Loan and any existing funding commitments would not be contingent on this.

Aside from the additional demands on developers and local authorities to identify different types of housing need, the key impact of Letwin's proposals would be on the land market. The wider tenure mix that the review calls for will restrict GDV and therefore uplift from existing use value for land. Letwin goes as far as calling for local authorities to use Section 106 agreements to produce a level of diversification of product that would effectively cap residual land value at 10 times existing use value.

The unanswered question is whether this level of uplift will still incentivise landowners to bring forward sites for residential development. Sites may already have an existing-use value that is higher than the residual land value for housebuilding, or could be suitable for sale for an alternative use such as distribution that would generate a higher return for the landowner. If there is no longer sufficient incentive to bring sites forward, CPO powers could have to be used more often to ensure that there is sufficient land supply to deliver the government's target of 300,000 new homes a year. Letwin has proposed more active use of local authority led development corporations to acquire land and take the master developer role, using private capital and selling serviced plots to builders. Alternatively, the local authority could act as masterplanner and then sell the site on through a competitive process to a privately funded Development Infrastructure Company.

However, CPO in its present form is unlikely to be the key to unlocking sites if landowners decline to bring sites forward for housing. Hope value for prospective permission for other uses (in the absence of the development scheme) has to be taken into account under the 1961 Land Compensation Act, which could in some areas generate a land value higher than that generated by residential use with the new diversification rules applied. This would limit the potential to deliver schemes with the mix of product and tenure that Letwin calls for.

The government has stated it will respond to the recommendations of the Letwin Review in February 2019.

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