SAVILLS RESEARCH

English Housing Supply Update

A quarter of a million new homes delivered, but is this the peak?

Delivery of new homes reached 250,552 in 2019 according to Energy Performance Certificate (EPC) data. This is the first time a quarter of a million homes has been delivered in a year since the 1970s. But housing delivery is growing more slowly than before. In Q4 2019, delivery was 5% higher than the year before, down from 13% higher in Q1 2019. This follows a sustained fall in starts, which were down 7% over the year to September 2019.

There were around 380,000 consents in the year to Q2 2019, a number that has been stable since it reached this record height in 2018, but there is still no sign of this translating into more delivery.

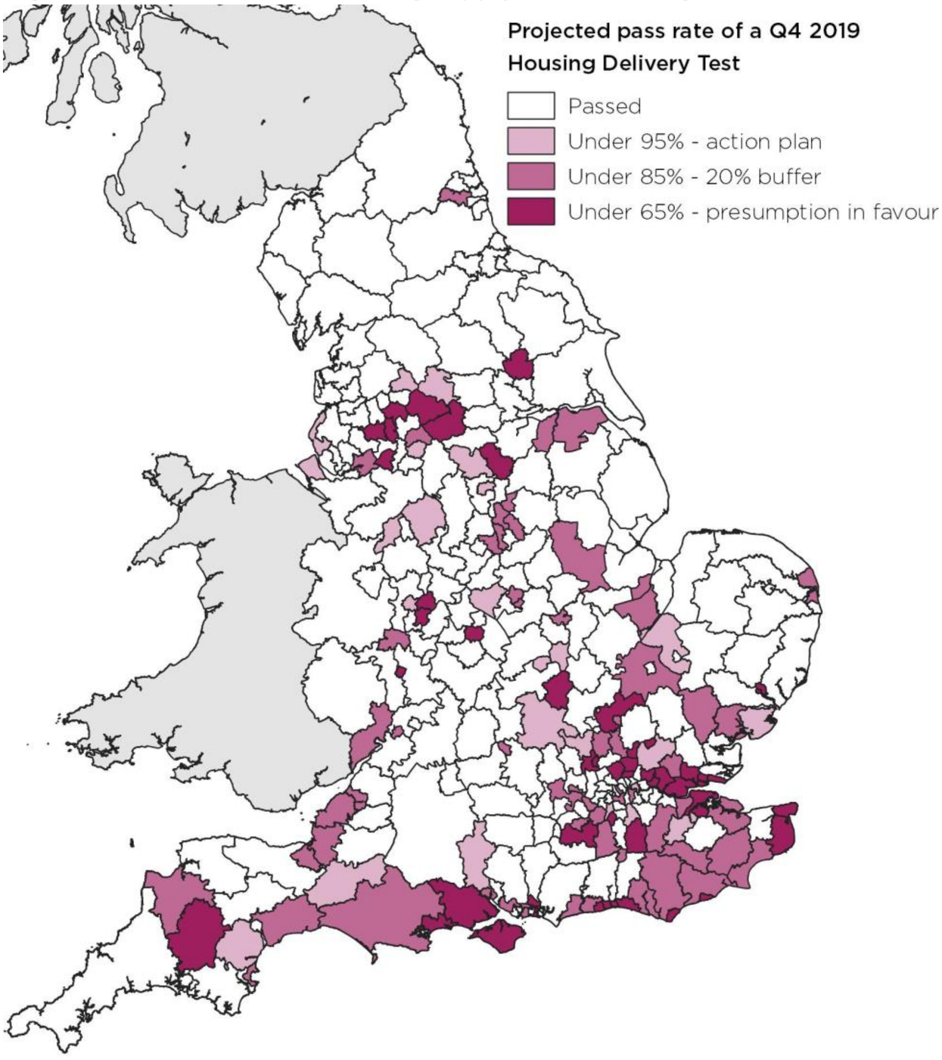
Housing delivery is growing in some regions more slowly than in others. The South West, West Midlands, and North East have followed London's path from last quarter with delivery in 2019 remaining flat compared to 2018. Growth in delivery was still strong in Yorkshire and Humber, the North West, and East at over 10%, with more moderate growth of 7% and 3% for the South East and East Midlands respectively.

We can also see variance in delivery within regions in our estimation of a Q4 2019 Housing Delivery Test (HDT), against the 2020 test thresholds. Only 56% of local authorities would pass the test. Crucially, 45 authorities would meet less than 65% of their housing requirement and fall under the presumption in favour of sustainable development. A big increase on the eight local authorities to suffer this sanction in the 2019 test (published on 13th February 2020). Many of them are located in the green belts of London and Manchester.

The Build to Rent (BTR) sector has increasingly become a bright spark in the delivery story with completions rising to nearly 10,000 homes in 2019 which, whilst a small part of the market, is still growing. BTR could become a particularly important part of new homes delivery in London as the number of BTR homes starting construction ramped up over 2019 to around 7,000.

Whilst Affordable Homes delivery increased in the year to Q1 2019 compared to the year before, data in the year to Q3 suggests that delivery in this sector may have fallen slightly. A rise in Social Rent delivery has not been enough to offset a fall in the much larger delivery of Affordable Rent.

Figure 1 Where does new housing supply fail to hit targets?



Source MHCLG Live Tables and ONS

NB This is an estimate of how the Housing Delivery Test might turn out using the 2020 test thresholds. We have assessed housing delivery based on EPCs plus an estimate of communal dwellings based on past delivery rates. Baseline target is calculated with reference to Planning Practice Guidance, Housing Delivery Test measurement rulebook and Housing Delivery Test technical note. Figures used are based on Local Plans, household projections, standard housing need assessment and the London Plan.

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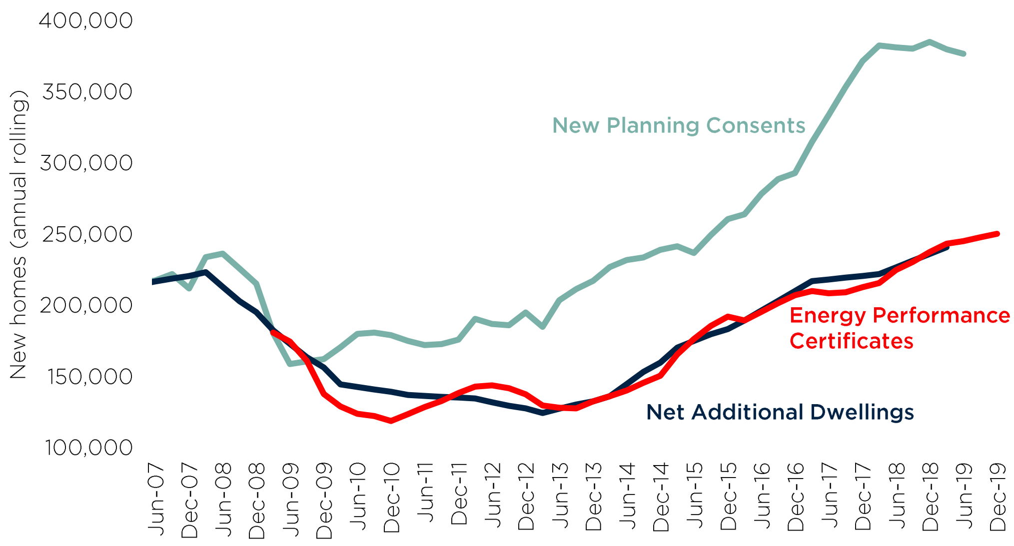
There were 250,552 new homes delivered in 2019 according to Energy Performance Certificate data. This is the first time delivery reached a quarter of a million since the 1970s. This is 5% more than was delivered in 2018 but slower growth than the peak rate of 13% in the year to Q1 2019.

The number of consents recorded by the HBF in the year to Q2 2019 remained stable at around 380,000.

Figure 2 Growth of new homes delivery is slowing



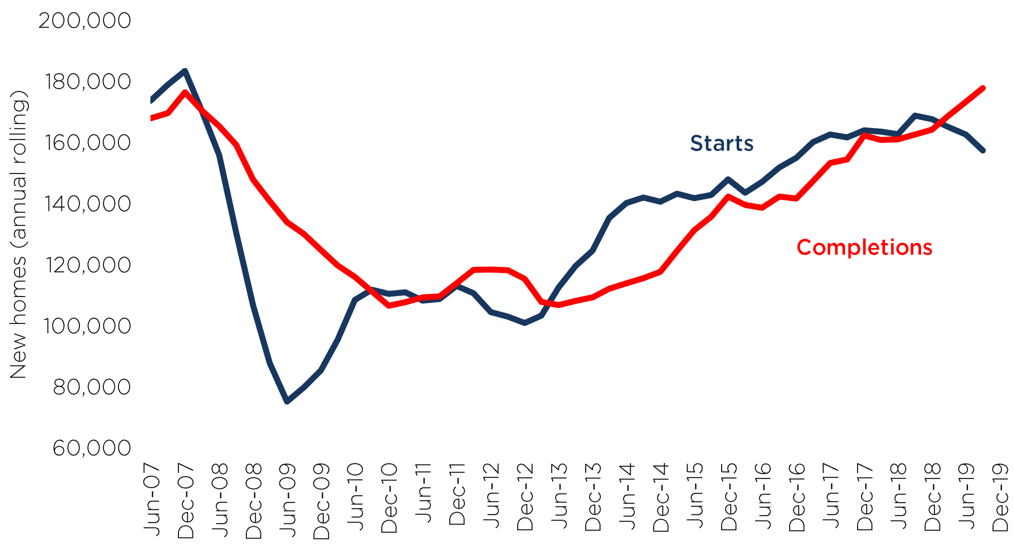
Source MHCLG Live Tables 120 and NB1, Glenigan for HBF

The quarterly starts and completions series based on NHBC data does not capture all new homes being built. They do give a timely update on direction of travel for new build delivery.

Completions in the year to Q3 2019 overtook the 2007 peak for the first time.

However, starts have fallen by 7% since peaking a year ago. This is the largest such fall since 2012 and is likely to lead to a decline in completions.

Figure 3 Sustained falls in starts suggest delivery could fall

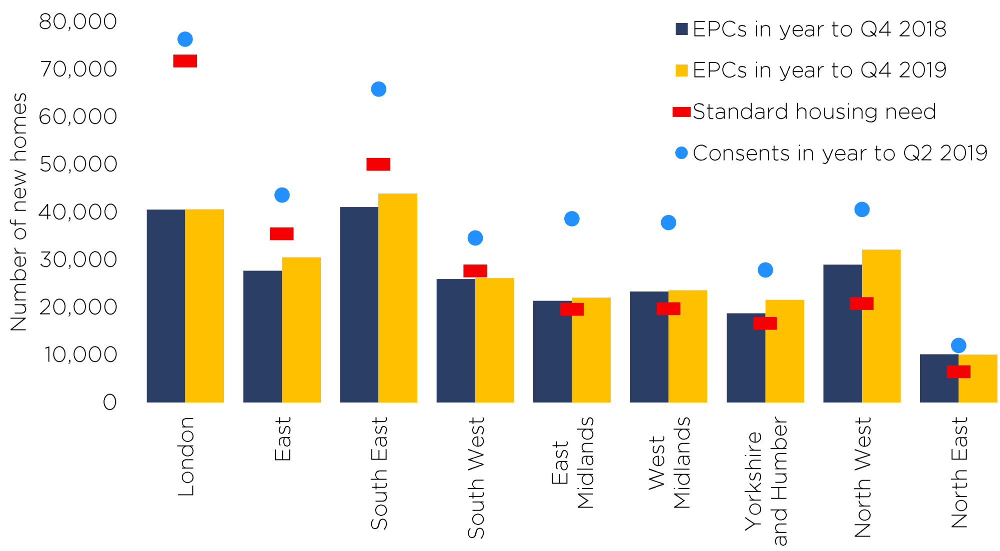


Source MHCLG Live Table 213

Delivery of new homes stopped growing in 2019 in the South West, West Midlands, and North East. For London, this was the second quarter of no growth in new homes delivery.

Housing delivery did grow in Yorkshire and Humber, the East, and North West, with over 10% growth. Delivery in the South East and East Midlands saw smaller increases of 7% and 3% respectively.

Figure 4 Growth in housing delivery in most regions is levelling off

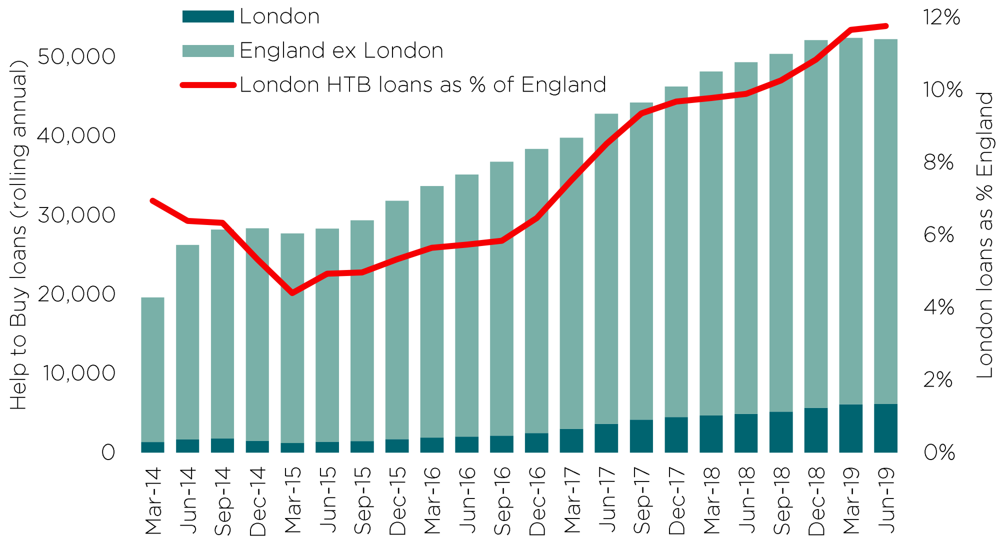


Source MHCLG Live Table NB1, MHCLG housing need consultation, Glenigan for HBF

The total number of Help to Buy transactions in England edged downwards as the overall number decreased in the year to Q2 2019, which is the second quarter on quarter fall.

There were only 30 more London Help to Buy transactions in the year to Q2 2019 than the quarter before suggesting that London may now be stabilising at around 12% of the England total.

Figure 5 Help to Buy transactions edging down, with London's share stabilising



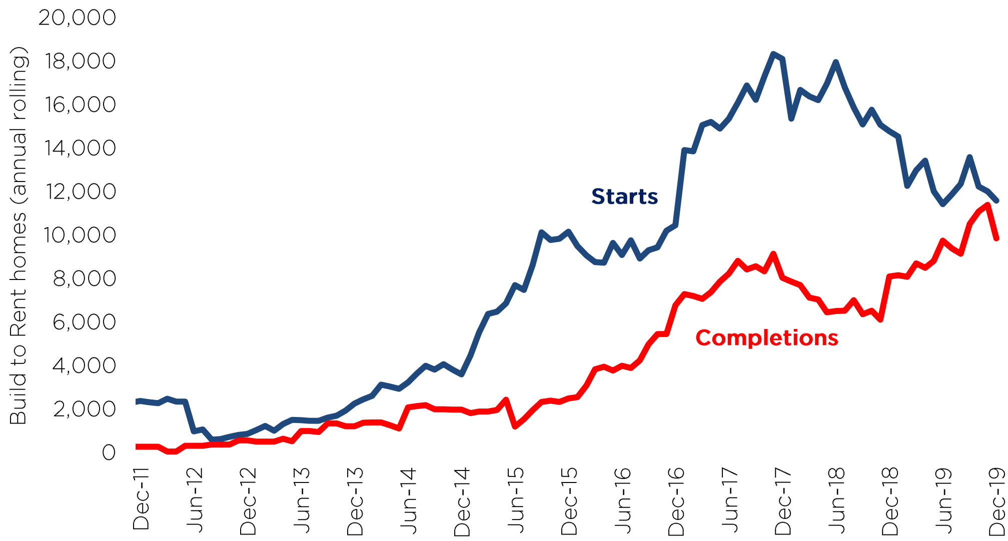
Source MHCLG Live Table Help to Buy

Build to Rent (BTR) completions increased to 9,870 in the year to Q4 2019. This is up 22% on the year before, if down slightly on the last quarter.

Starts remain stable overall having fallen on the quarter before to 11,405, 18% above completions. This means the BTR pipeline is still expanding.

Whilst starts have fallen relative to their 2017 peak, starts in London grew to 7,000 during 2019. With total housebuilding in London flat-lining, BTR may become increasingly important to London's overall delivery.

Figure 6 Build to Rent starts remain stable as completions rise



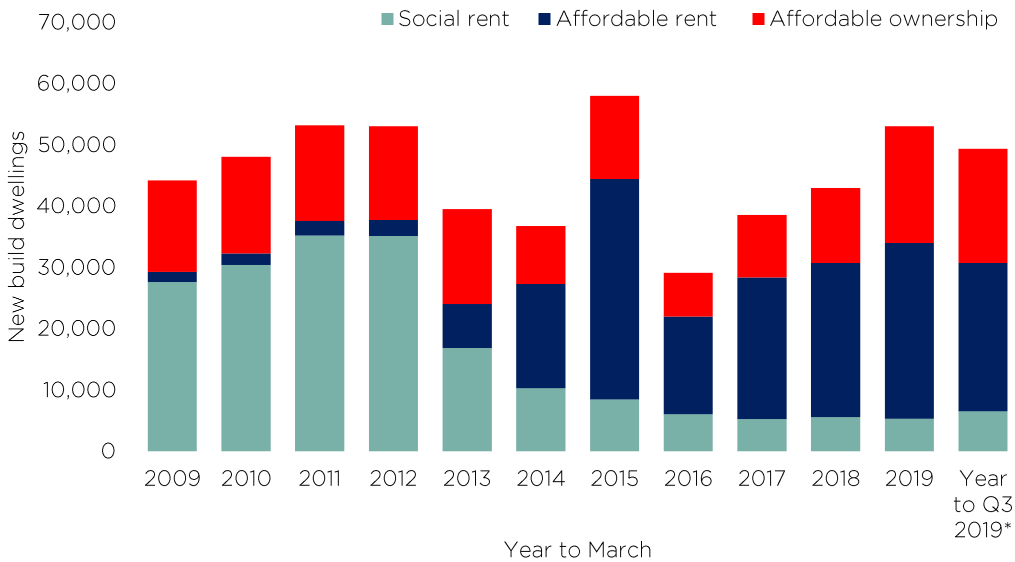
Source Savills for BPF using Molior and Glenigan

National Housing Federation (NHF) figures suggest a 23% rise in Social Rent delivery was not enough to offset a 15% fall in Affordable Rent in the year to Q3 2019.

If delivery picks up in the second half of 2019/20, an overall fall in Affordable delivery from the 53,000 recorded by MHCLG in the year to Q1 2019 may be avoided.

Data collected by NHF from its housing association members provides an early indication of affordable housing delivery.

Figure 7 An increase in Social Rent doesn't offset declines in Affordable rent



Source MHCLG Live Table 1009, *Estimated using NHF data