

# Briefing Note

## Forecasting 2017/18 Housing Supply

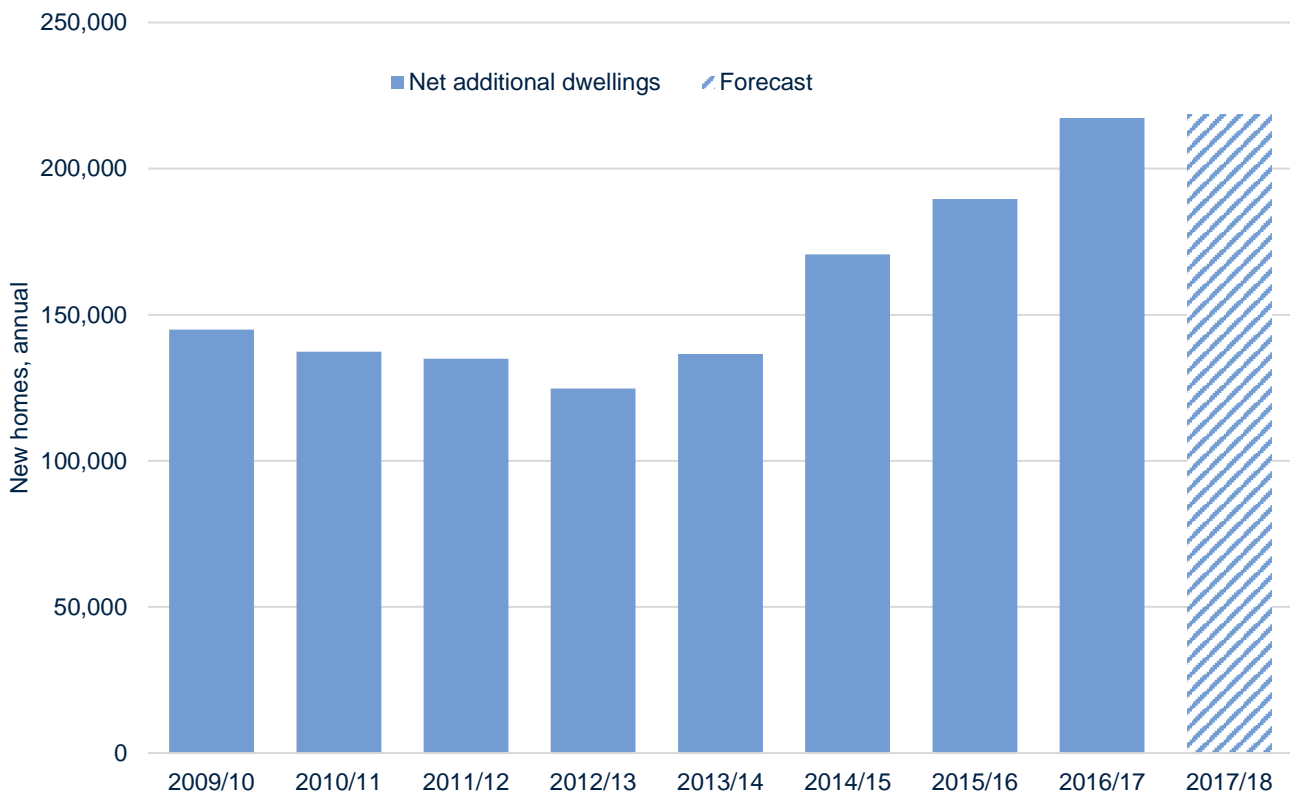
### Housebuilding growth could stall as London supply slowdown hits national output

Delivery of new homes in England for 2017/18 is unlikely to be significantly higher than the previous year, despite planning permissions reaching record levels. Our forecast model predicts that net additional dwellings for the year to March 2018 will be around 218,000 homes, compared to 217,000 for the 12 months prior (model based on Energy Performance Certificates issued for newly-built properties). There is a clear regional divide in performance, with London set to fall by around 15%, the North likely to see annual growth of around 10%, and smaller increases in the South and Midlands.

### Reaching a plateau

Housing supply has increased from a trough of 125,000 in 2012/13 to 217,000 in 2016/17, growth of 74% in four years, according to the official net additional dwellings data (the Government’s favoured measure of supply). But the early indication is that this rapid expansion won’t be sustained, at least in the short term. This is despite three positive drivers: major housebuilders’ growth ambitions, the emergence of large housing associations as bigger players in the development market, and a generally supportive Government policy environment.

Figure 1 – Net additional dwellings 2009/10 to 2016/17, plus 2017/18 forecast



Source: Savills Research using MHCLG data

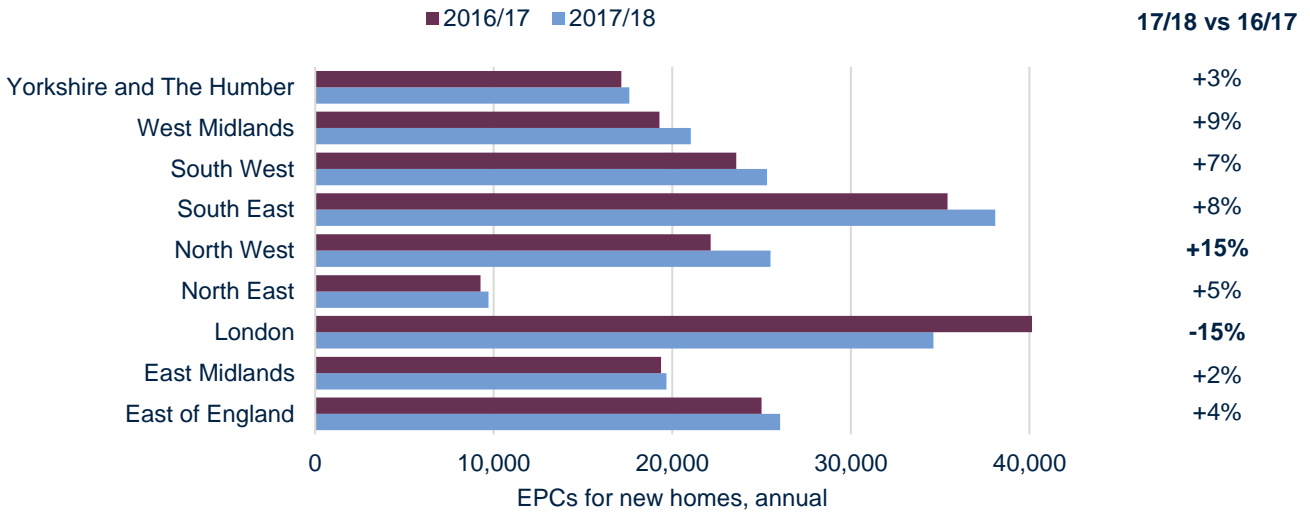
<h1>74%</h1> <p>Increase in housing supply in four years to 2016/17</p>	<h1>No change</h1> <p>In housing supply estimated for 2017/18 vs. 2016/17</p>	<h1>17%</h1> <p>Contribution to 2016/17 net supply from change of use</p>
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**North West is best**

Housing supply in the North West increased by 15% in 2017/18 compared to the previous year, according to the Energy Performance Certificate data. London saw the largest falls in output on this measure, of -15%. These changes broadly align with recent regional housing market performance – the Savills Repeat Sales Index reported the lowest annual price growth in London in our latest Housing Market Update (July 2018<sup>1</sup>), with stronger growth seen in the Midlands and North West.

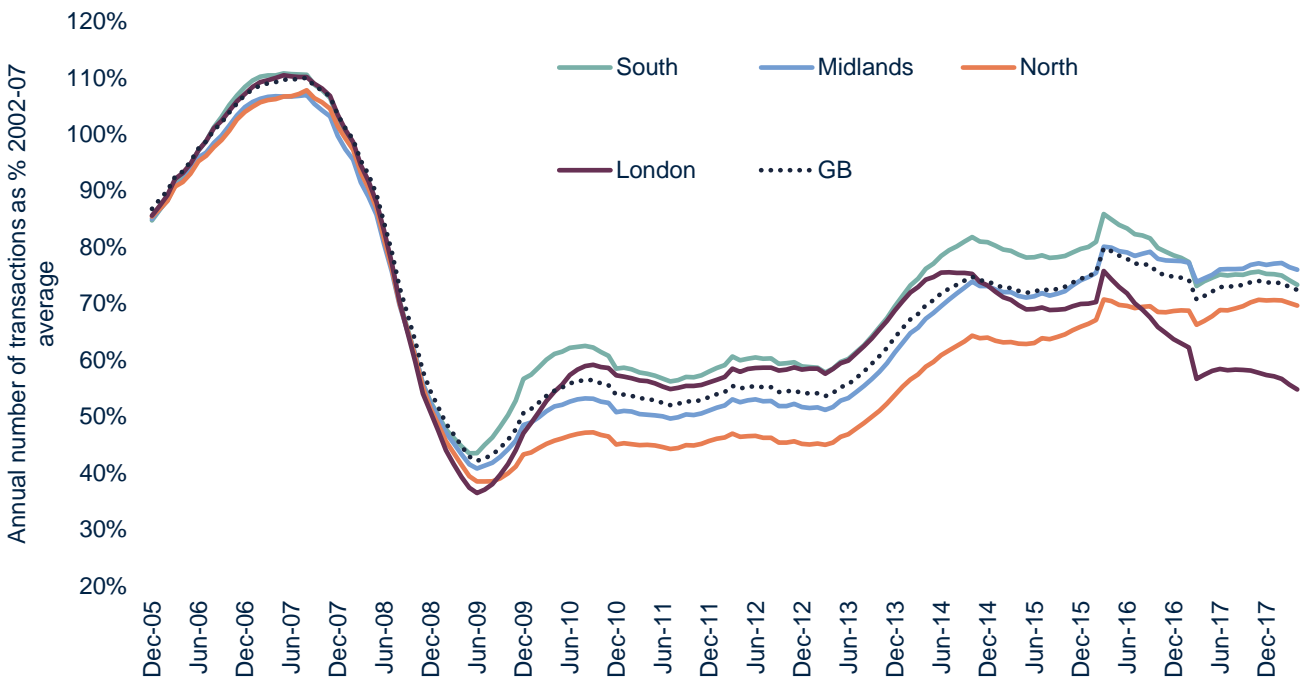
**Figure 2 – Energy performance certificates for new homes, by region**



Source: Savills Research using MHCLG data

The relationship between price growth and increasing delivery is important, suggesting that it will be difficult to expand overall housing supply without a pickup in market performance in the wider South East. Recent changes in total transactions (new and second hand) show a similar pattern along North/South lines. Sales numbers are relatively stable in the Midlands and North, but 25% lower in London and 10% lower in the South in the year to March, compared to the same period three years previously.

**Figure 3 – Total transactions by combined region, to March 2018.**



Source: Savills using HM Land Registry (adjusted for count lag)

<sup>1</sup> <https://pdf.euro.savills.co.uk/residential---other/uk-housing-market-update-july-2018.pdf>

**Flat forecasts**

If an active market is a key requirement to absorb more new homes, the outlook for increased supply is poor. Our five year forecasts<sup>2</sup> for house prices and transactions set out limited real terms value growth even for the regions we expect to outperform, and we anticipate transactions in 2022 to be broadly in line with 2017.

Changing non-residential space (mostly offices) into homes has been making a significant contribution to net supply since permitted development rights were expanded in 2012, but the stock of suitable properties for conversion is a finite resource. This source of new homes is likely to drop away in the near future, a further barrier to continuing to increase housing supply.

Despite the subdued sales market potentially limiting absorption – especially in the least affordable areas – housing need remains very high in many locations. Moving outside the traditional sales market is essential to get closer to delivering the target of 300,000 new homes per year. That means more affordable, build to rent and retirement housing on top of more homes where there is sufficient market demand.

See our 2017 series of papers for more detail on the scale of housing need and demand across the country, and how to meet it through a diverse range of developers and housing products:

[Planning to solve the housing crisis](#)

[On track to solve the housing crisis?](#)

[Investing to solve the housing crisis](#)

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<sup>2</sup> <https://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight-residential-property-forecasts---autumn-2017.pdf>