

The Outlook for Home Building

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8 October 2014



Short-term trends

**To 2020 and beyond:
can the industry deliver?**

SHORT-TERM TRENDS

Economic climate

- GDP recovering
- Employment very strong
- Mortgage market recovering
- More new build lenders
- HtB1 driving new home sales

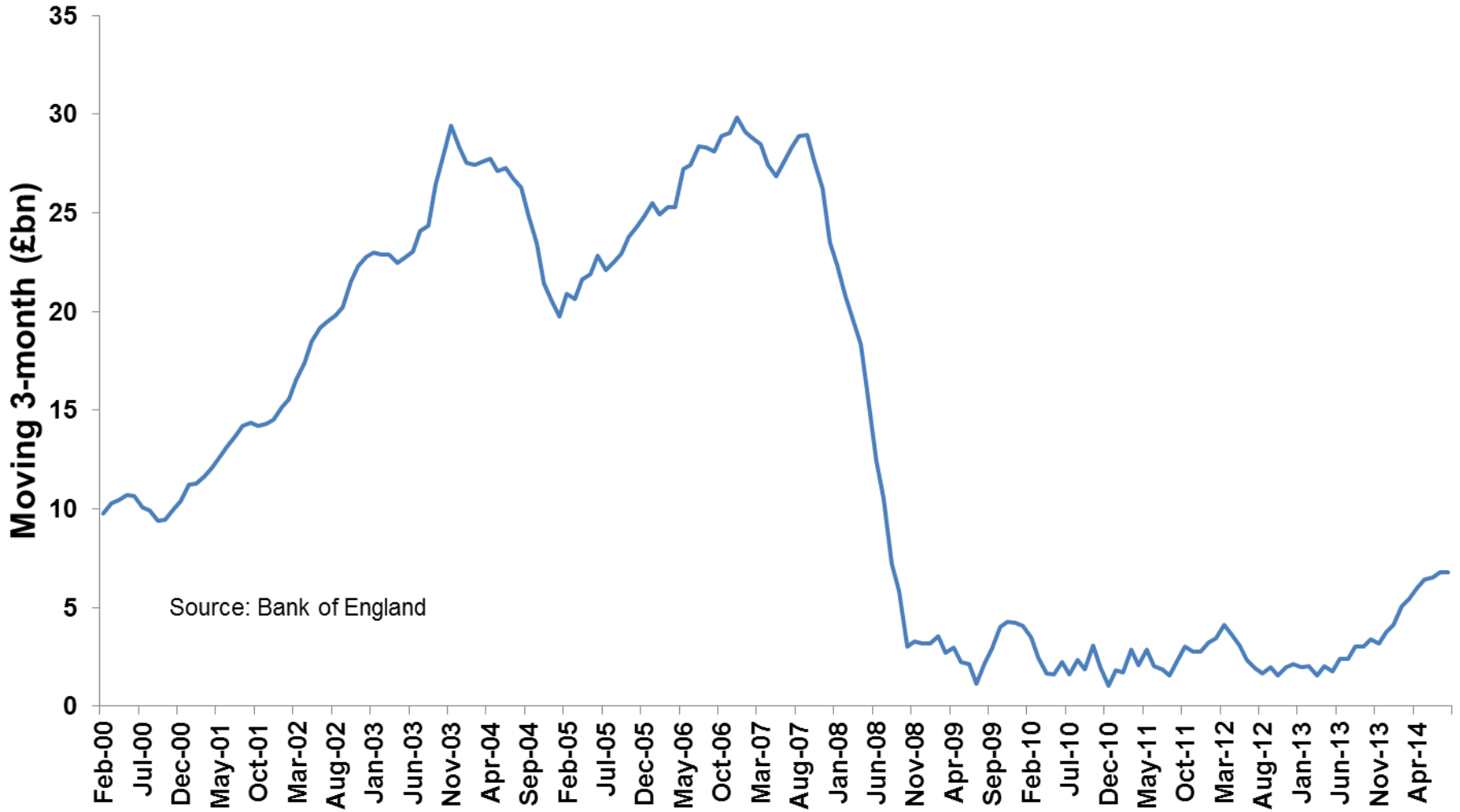
But

- Real earnings still falling
- Interest rates to rise => affordability to worsen
- Tighter mortgage regulation (MMR, FPC)

Residential Transactions & Mortgage Approvals (UK)

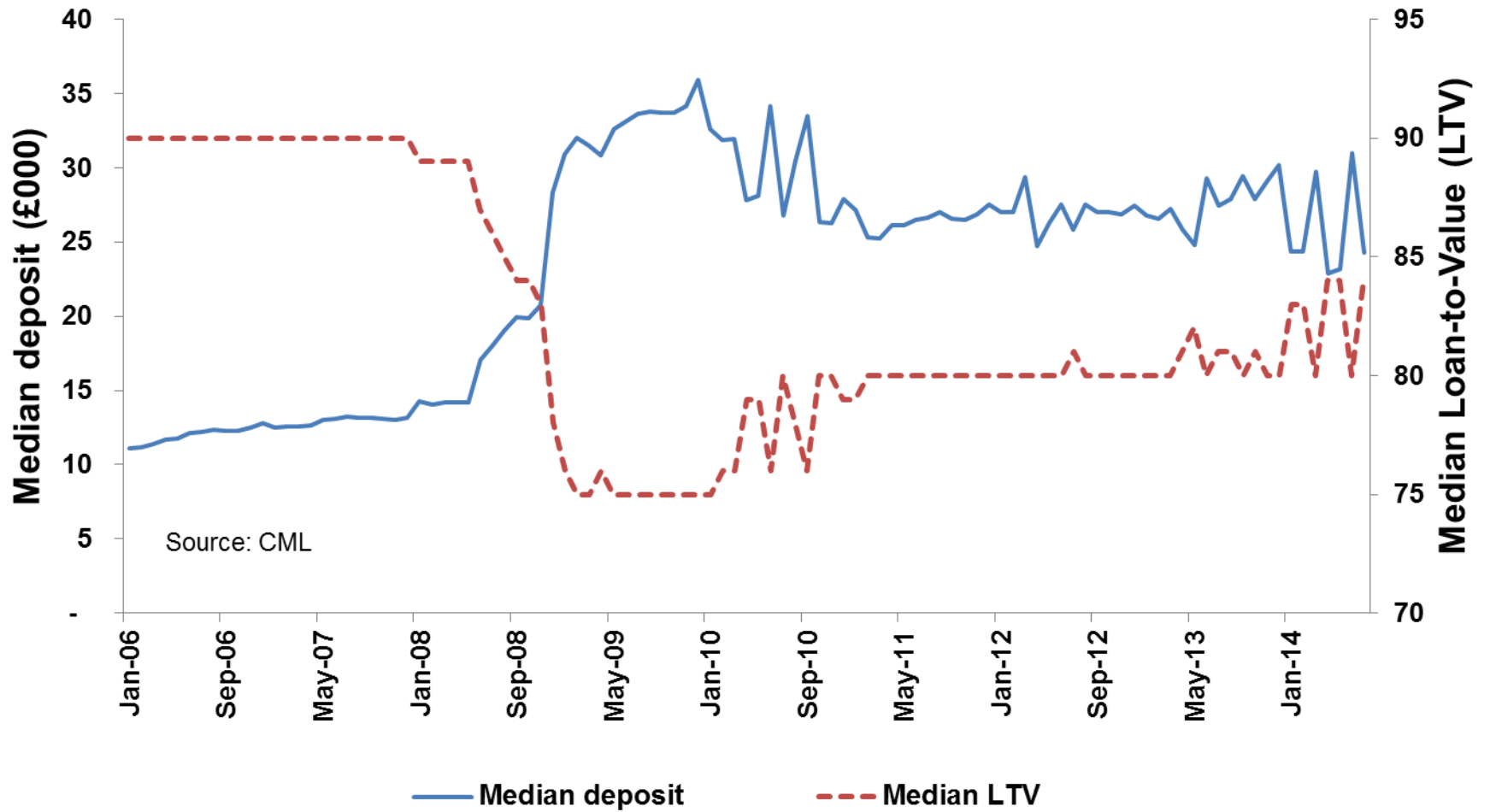


Net Mortgage Lending (UK)

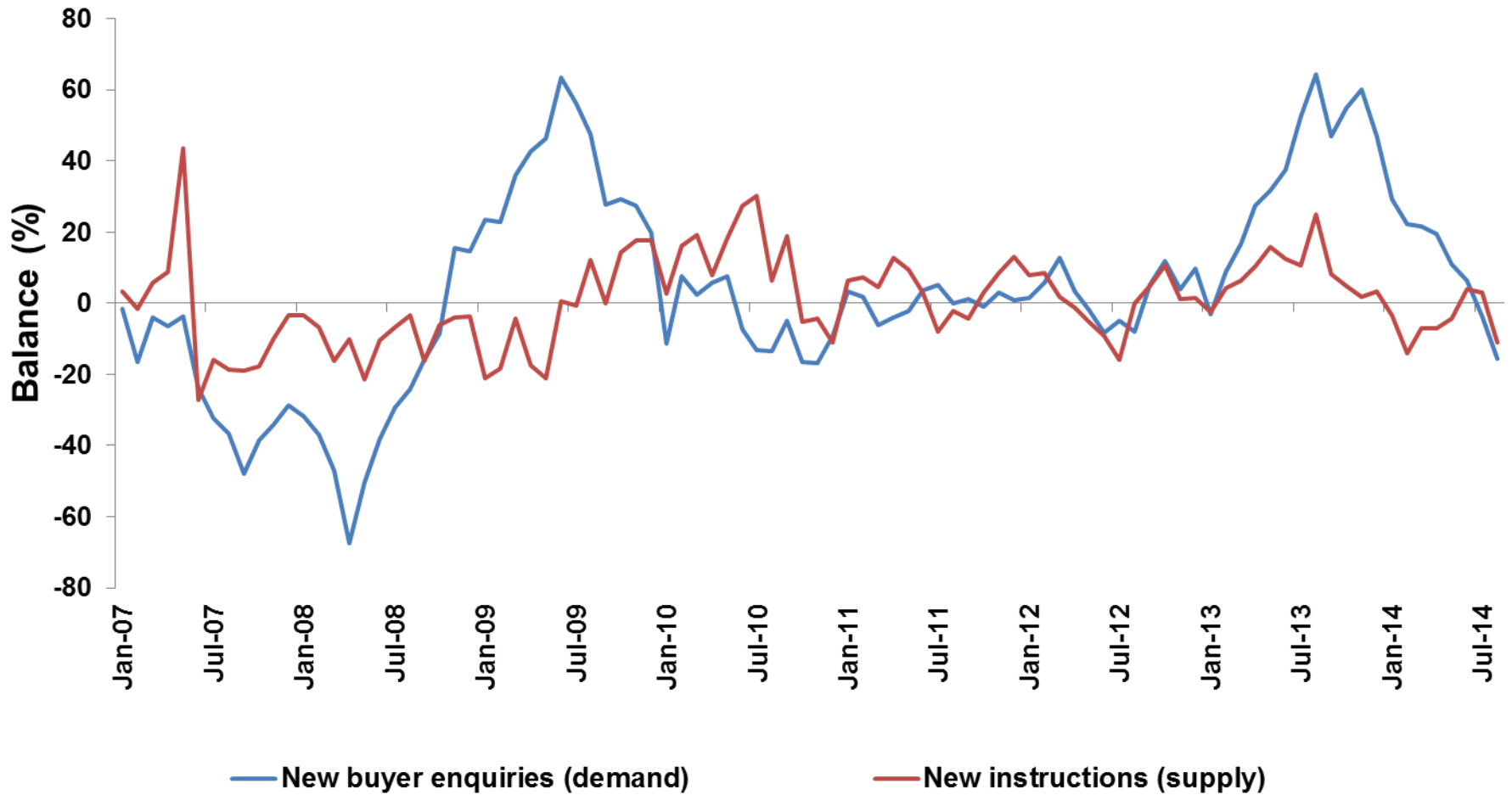


Source: Bank of England

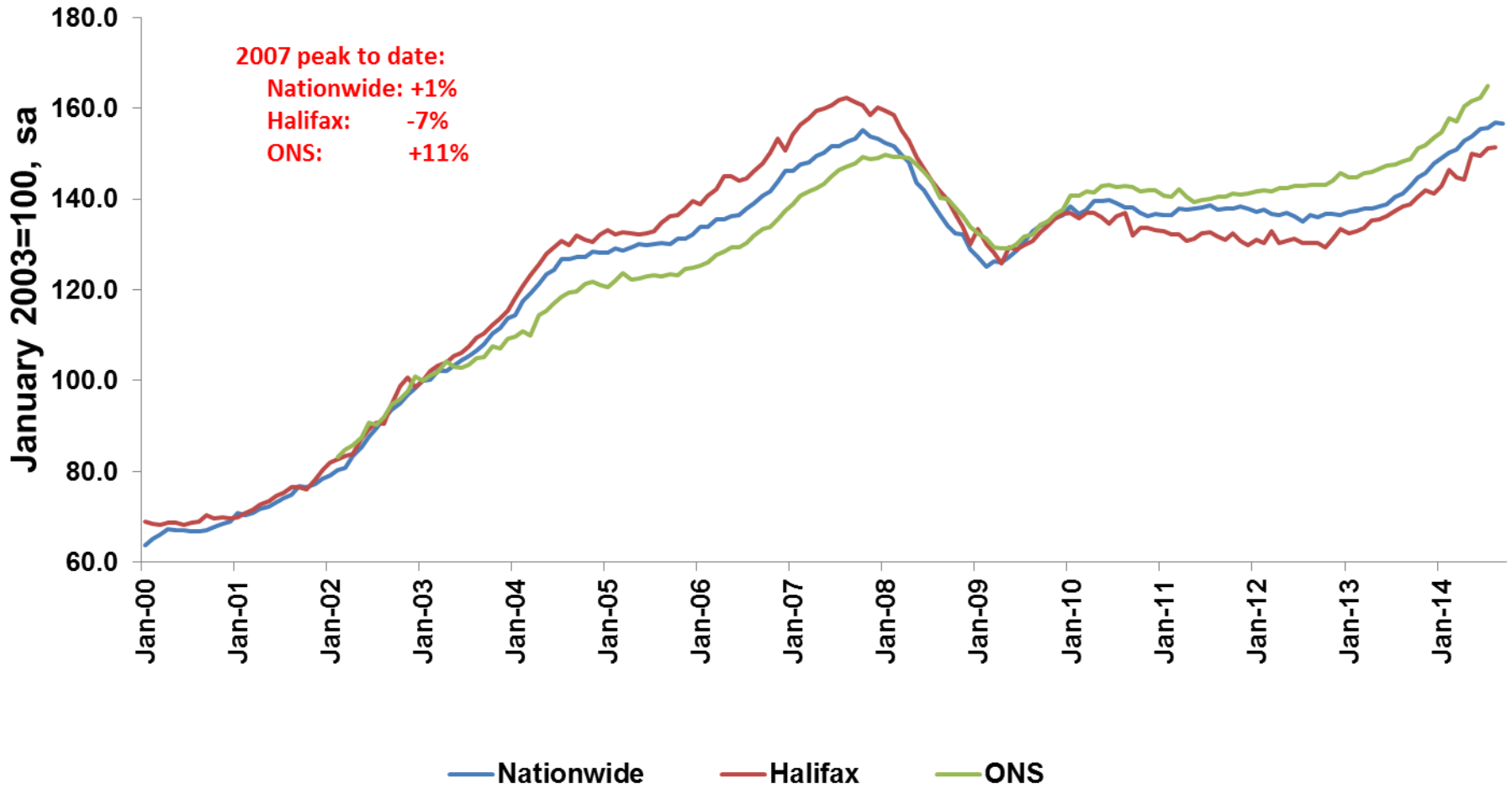
First-time Buyer Median Deposit & LTV (UK)



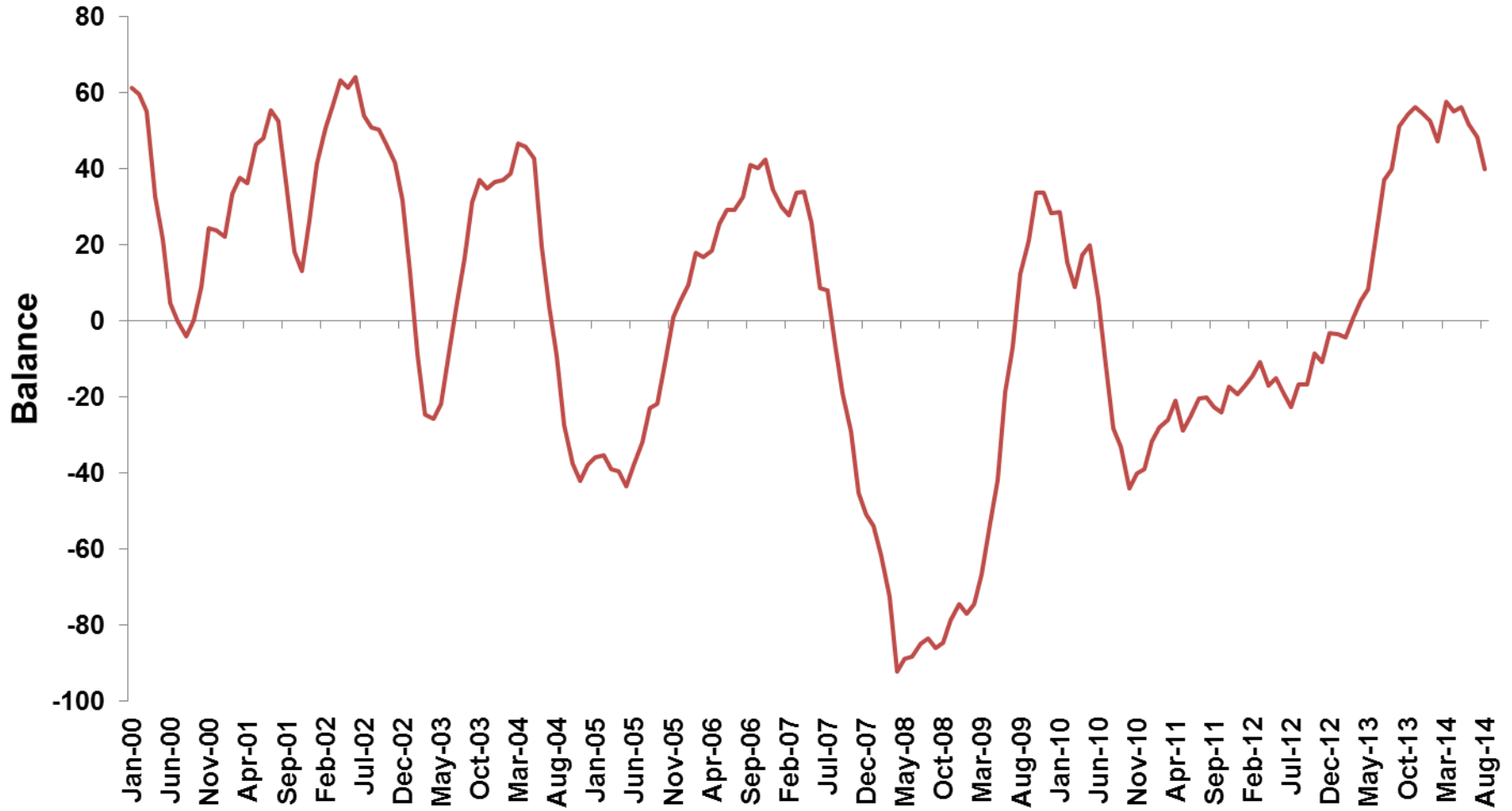
RICS Survey: Demand & Supply (E&W)



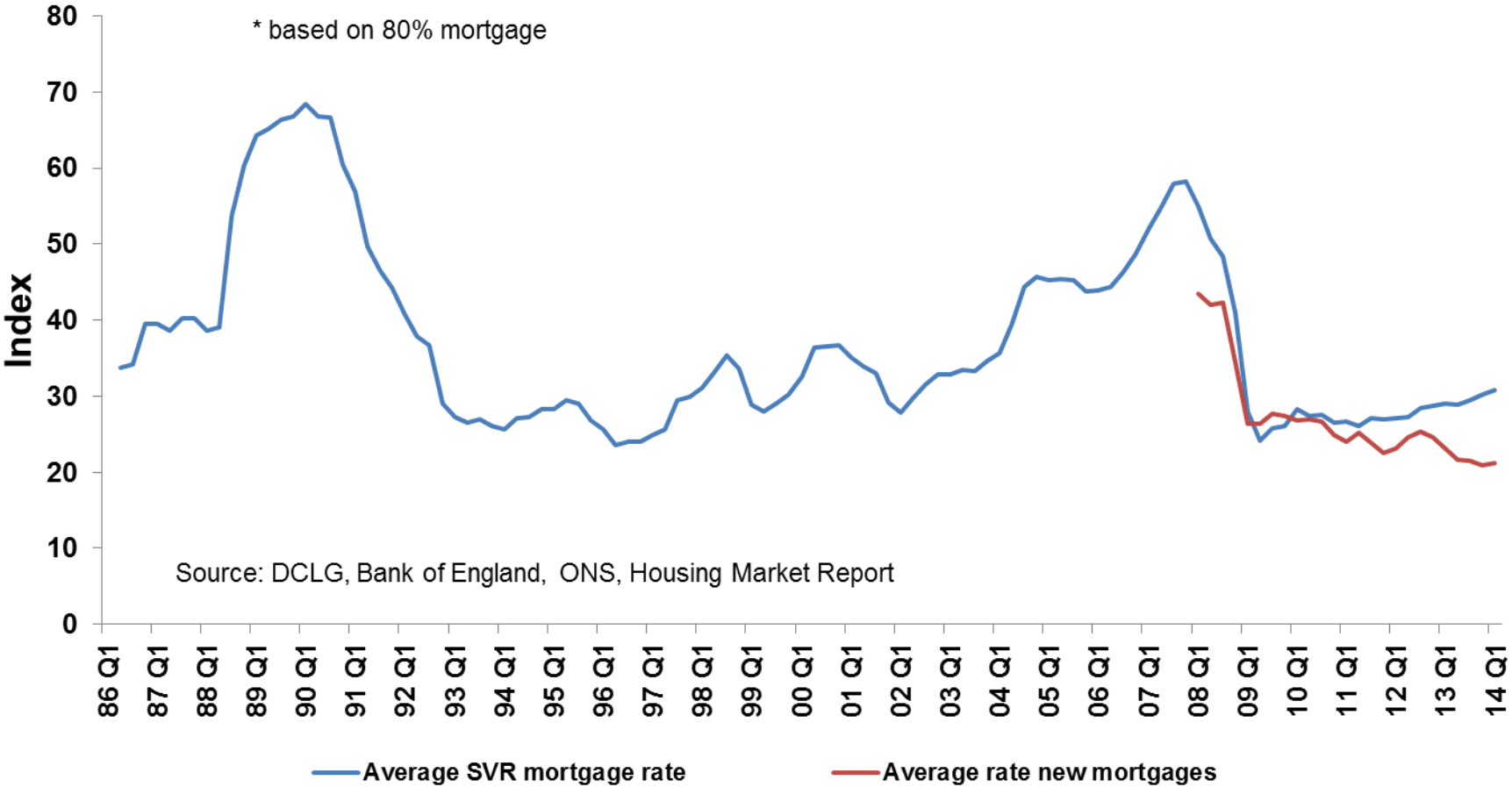
House Price Indices (UK)



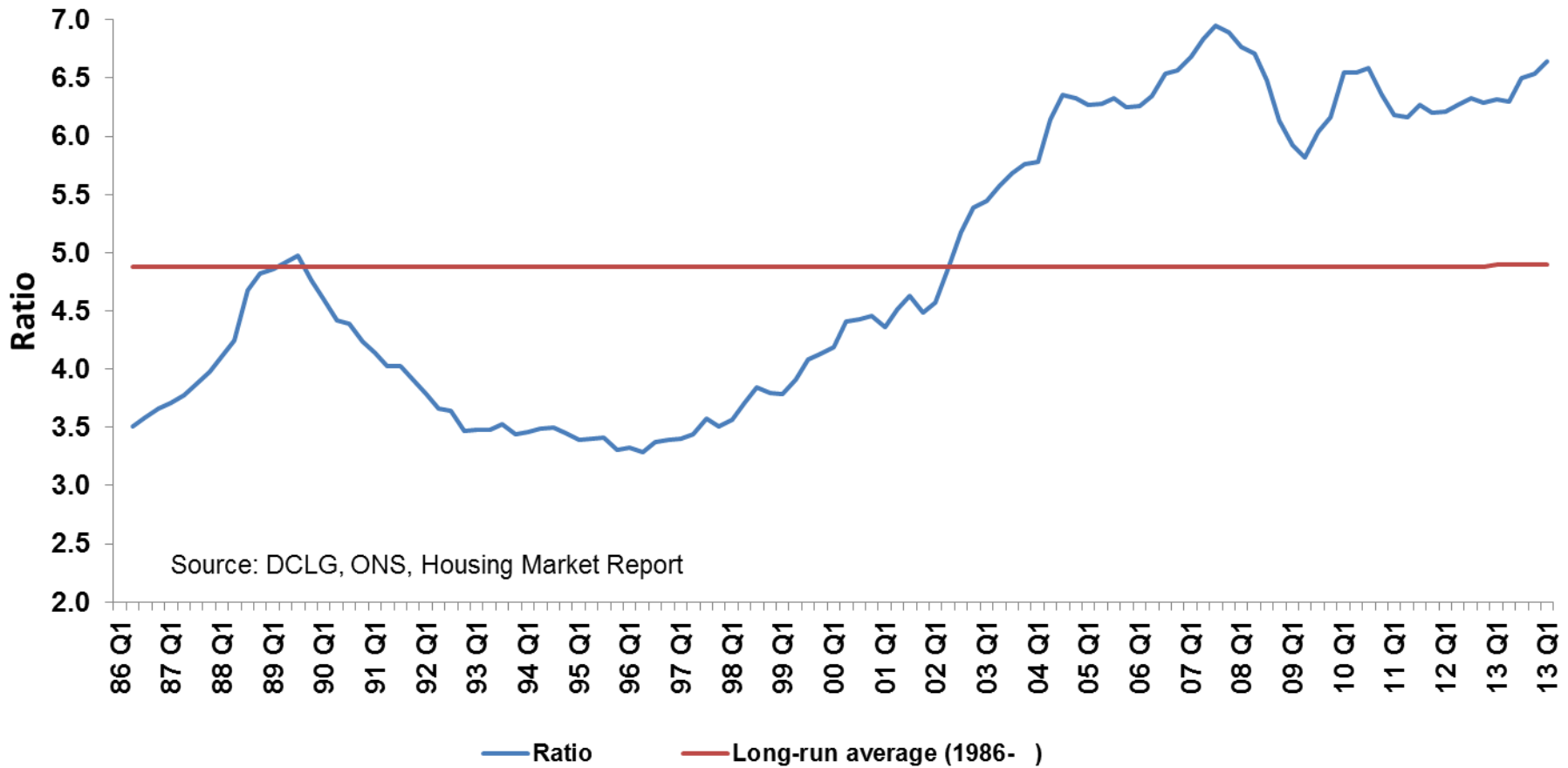
RICS Survey: Price Balance (E&W)



HMR Affordability Index (GB, Single Male) Mortgage payments as % net earnings (year 1)*

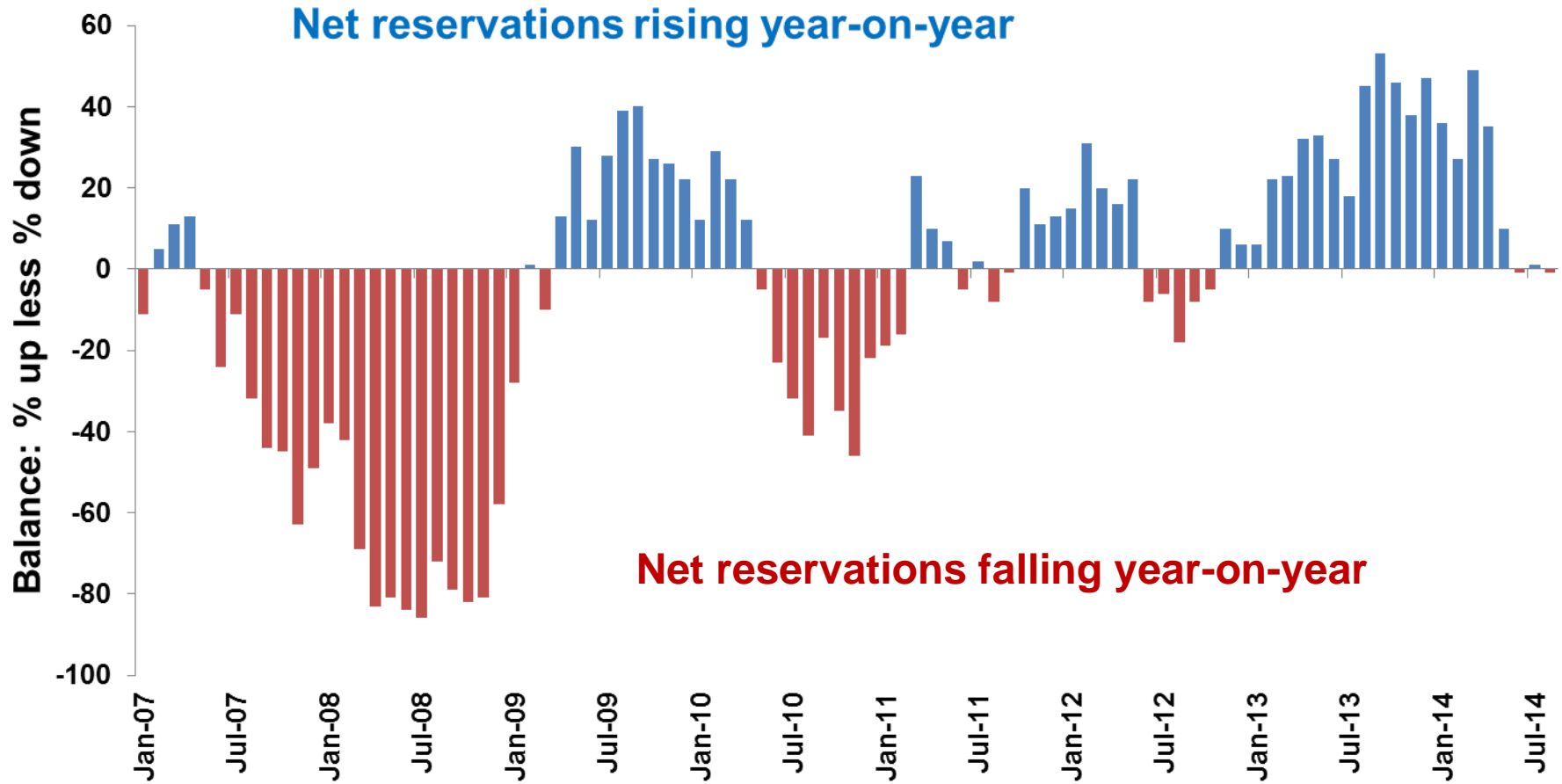


HMR House Price Earnings Ratio (GB, single male, ONS house price index)

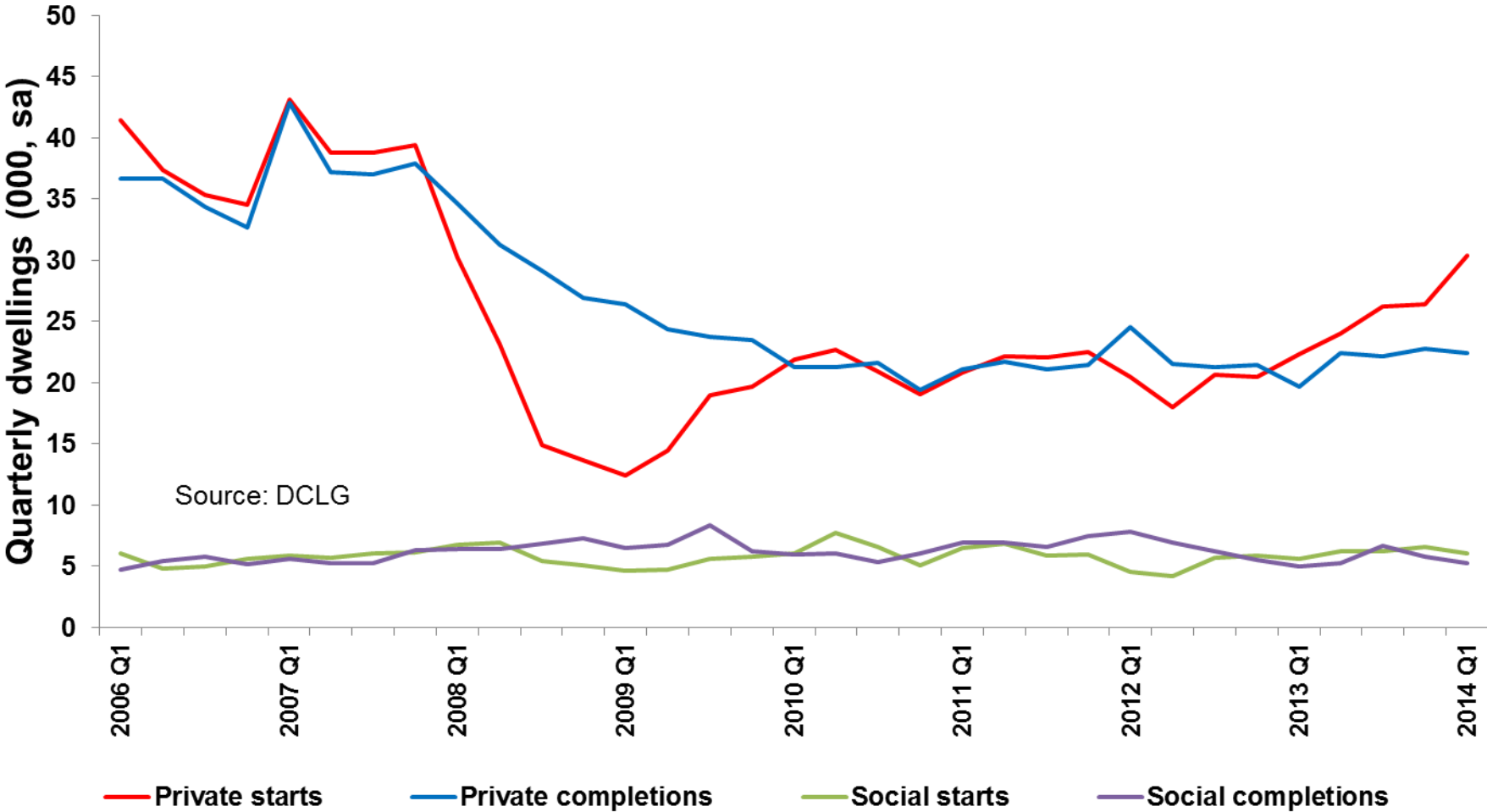


NEW HOME TRENDS

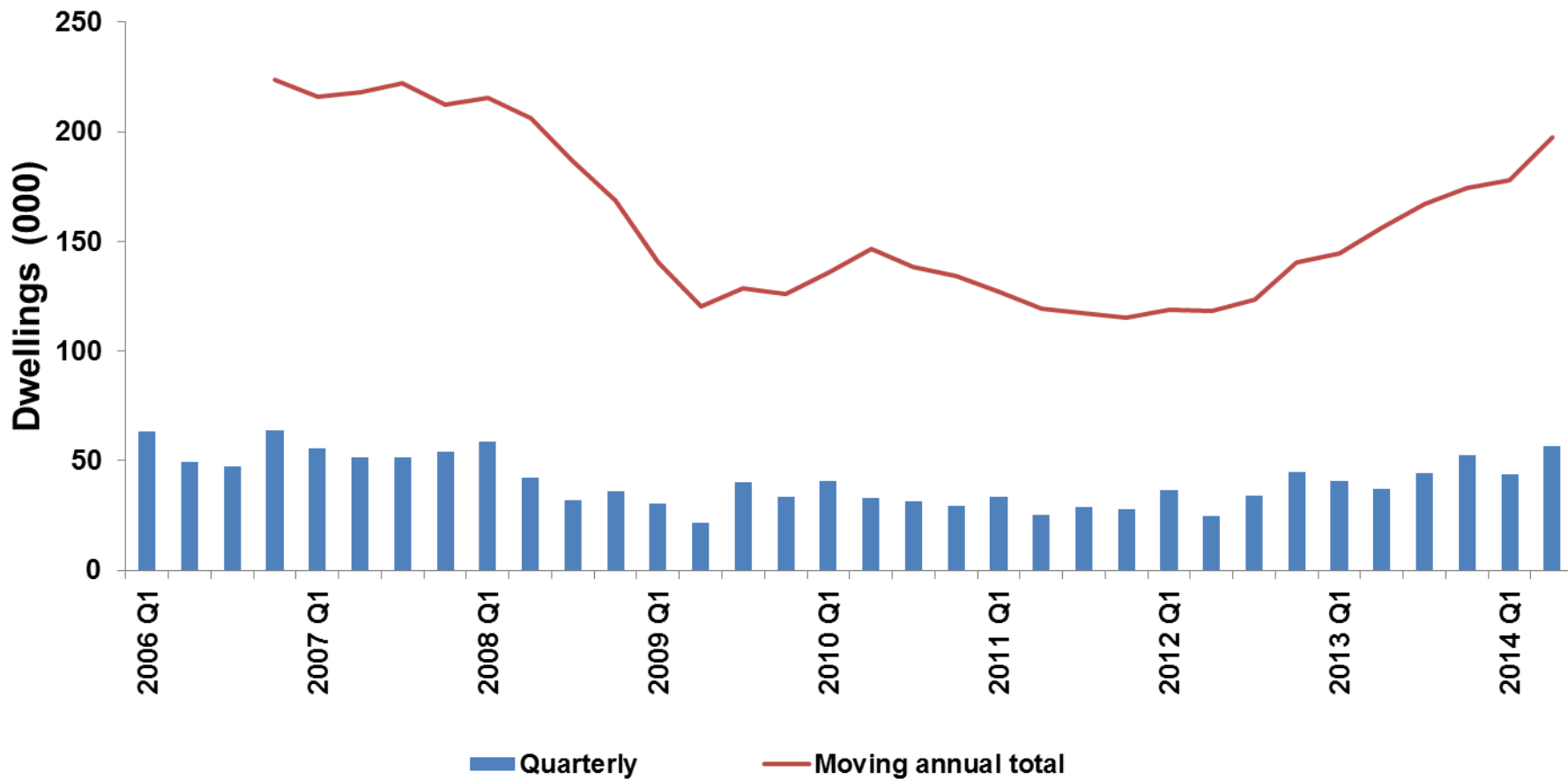
HBF Survey: Net Reservations on Year Ago (Balance, GB)



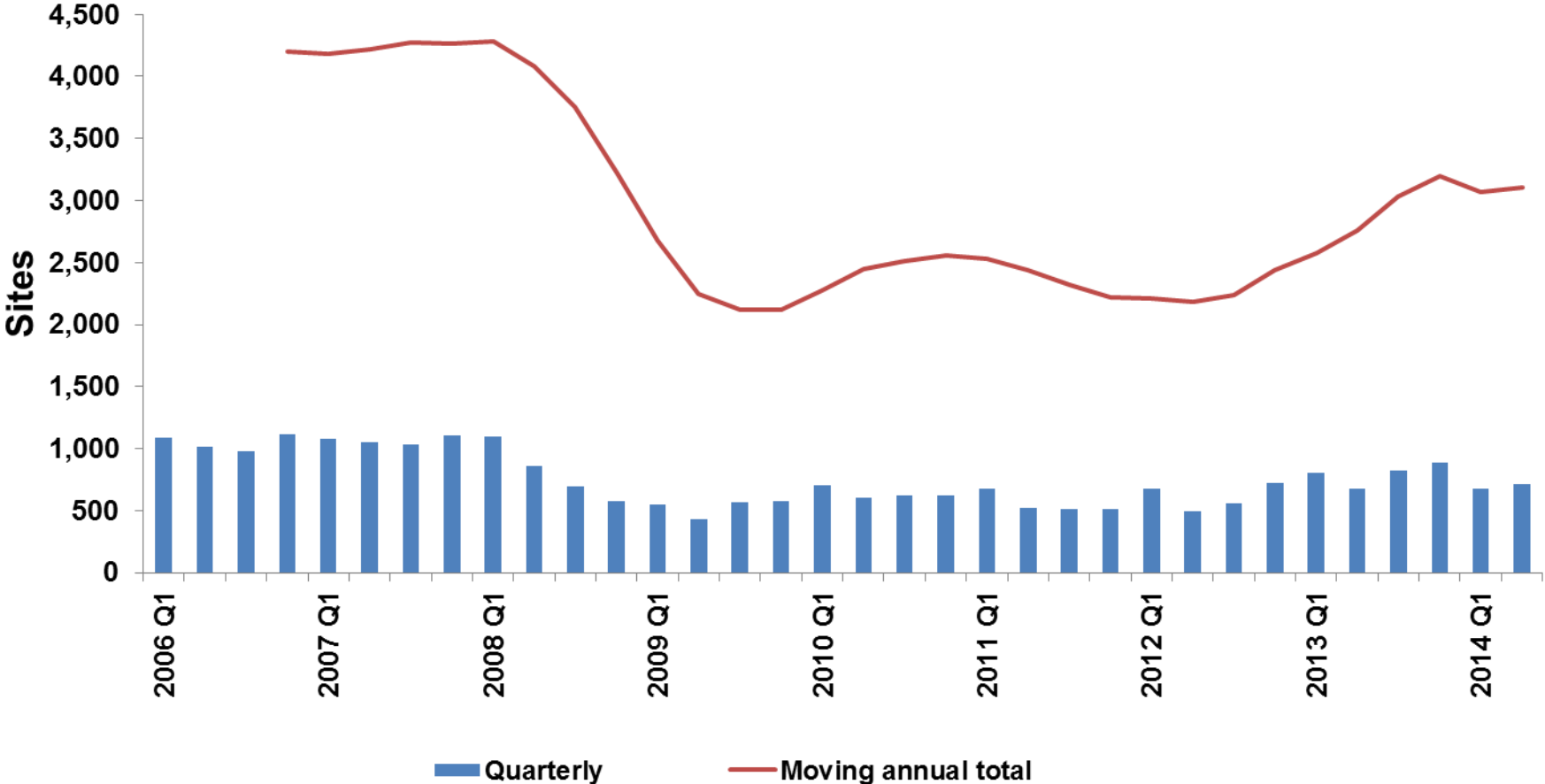
House Building (England)



Planning Permissions: All Dwellings (England) (HBF/Glenigan)

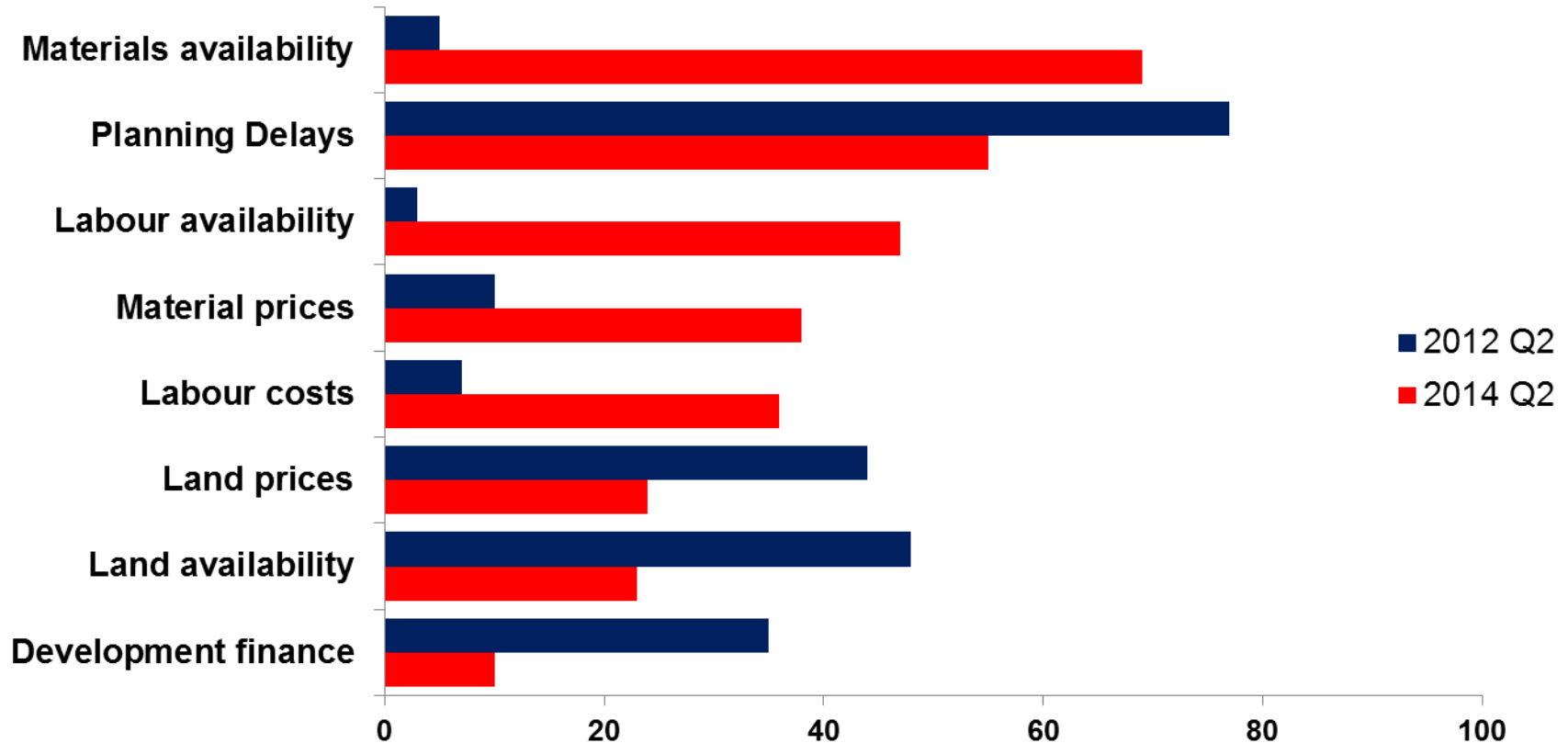


Planning Permissions: All Sites (England) (HBF/Glenigan)



Constraints on New Home Supply

% house builders quoting as "major constraint"



Source: HBF Monthly Survey

TO 2020 AND BEYOND: CAN THE INDUSTRY DELIVER?

The Challenge

Household projections => 240-245,000 pa homes required 2011-31 (England)

- Labour: at least 200,000 homes pa by 2020
- LibDems: need 300,000 homes per year

“But the industry couldn’t build more than X,000 [150-160,000] homes per year”, or

“The only time we have built large numbers is when we had a big public sector programme”

200,000+ by 2020 (England)

Fiscal constraints => no major public programme

- RPs + LAs: 45-50,000 pa (my estimate)
- So private: 150-155,000+

2013 completions (provisional*):

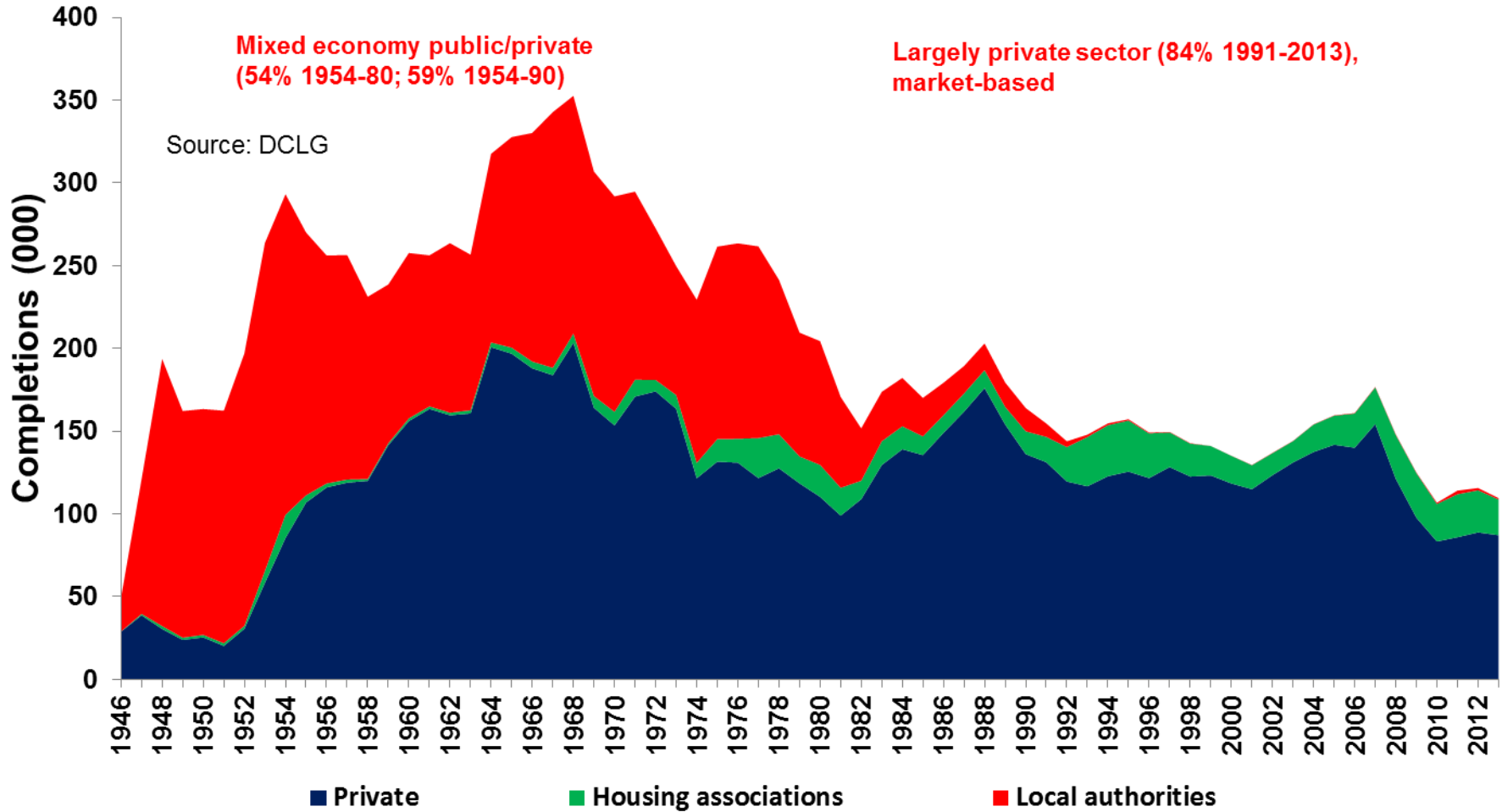
Private: 87,040

RPs: 21,610

LAs: 840

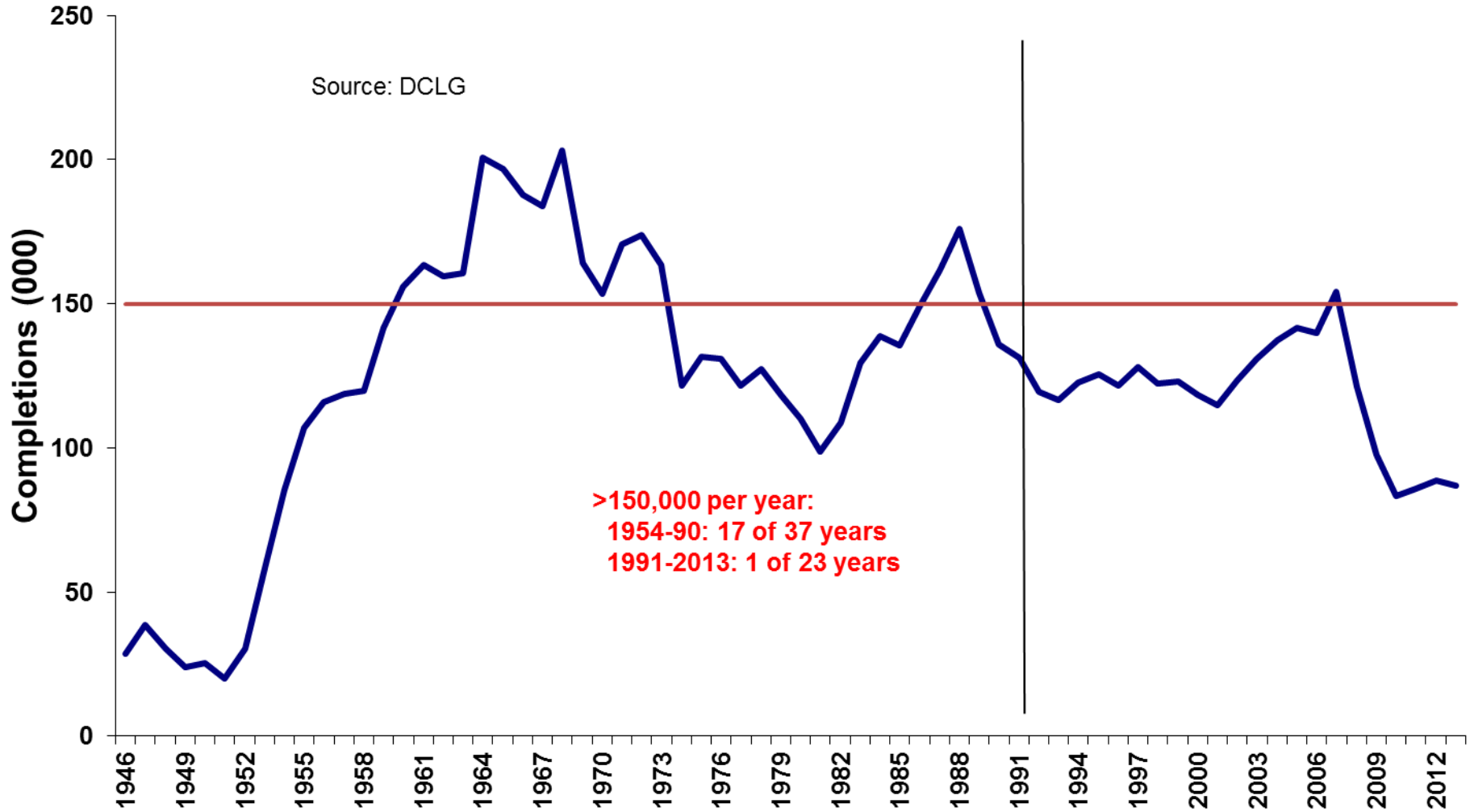
*DCLG does an annual reconciliation which adds about 8-10% to completions as recorded in its quarterly statistics.

Housing Completions (England)



Private Housing Completions (England)

Source: DCLG



>150,000 per year:
1954-90: 17 of 37 years
1991-2013: 1 of 23 years

Since early 1990s

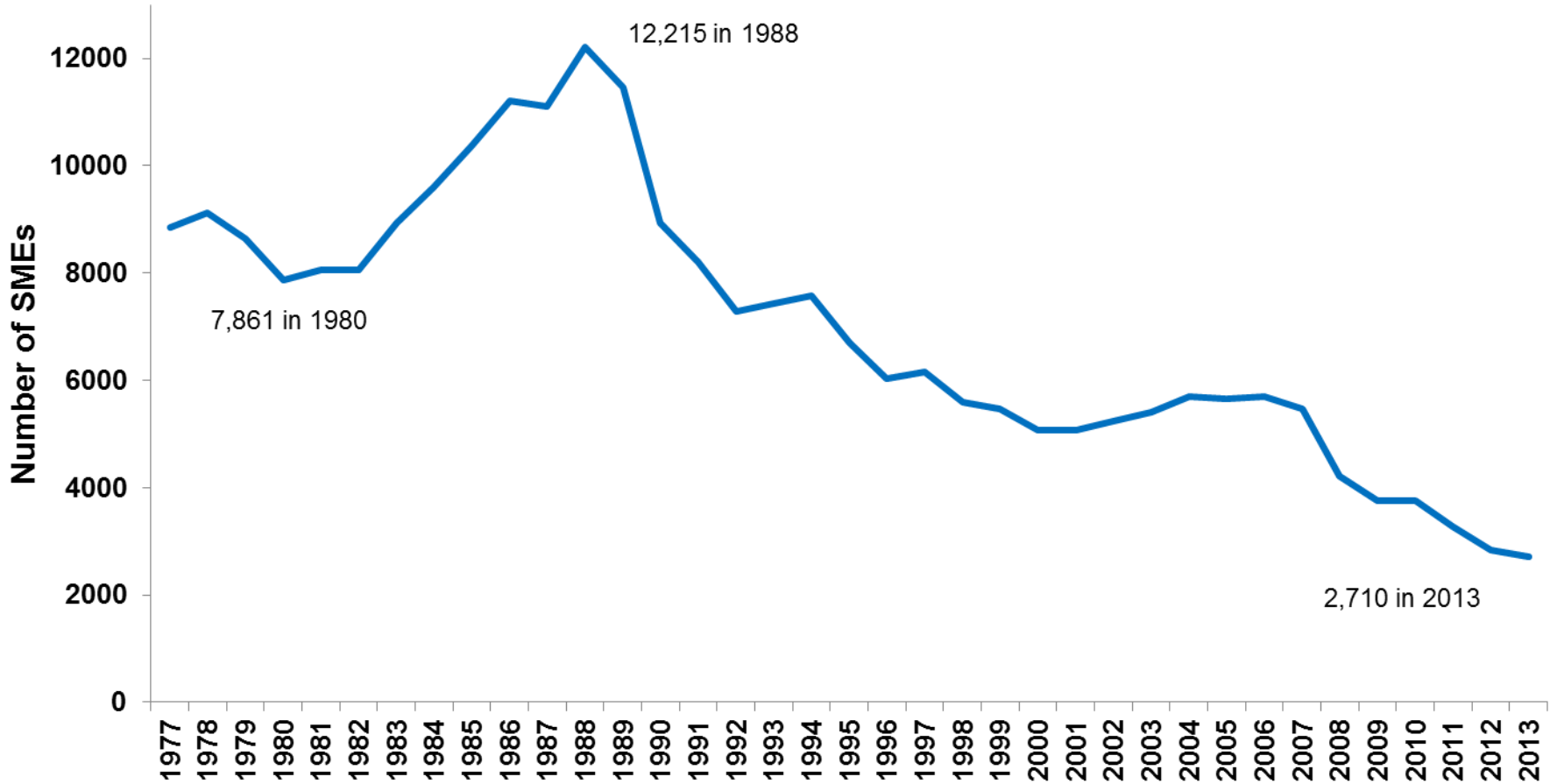
- Plan-led system 1991: LPAs ration land
- Growing LPA focus maximising land value capture (S106, CIL, standards), viability
- Increasingly prescriptive local policies (mix, building performance, design, materials)
- PPG3: 2000-2011 (brownfield, density, etc)

All supported by central government

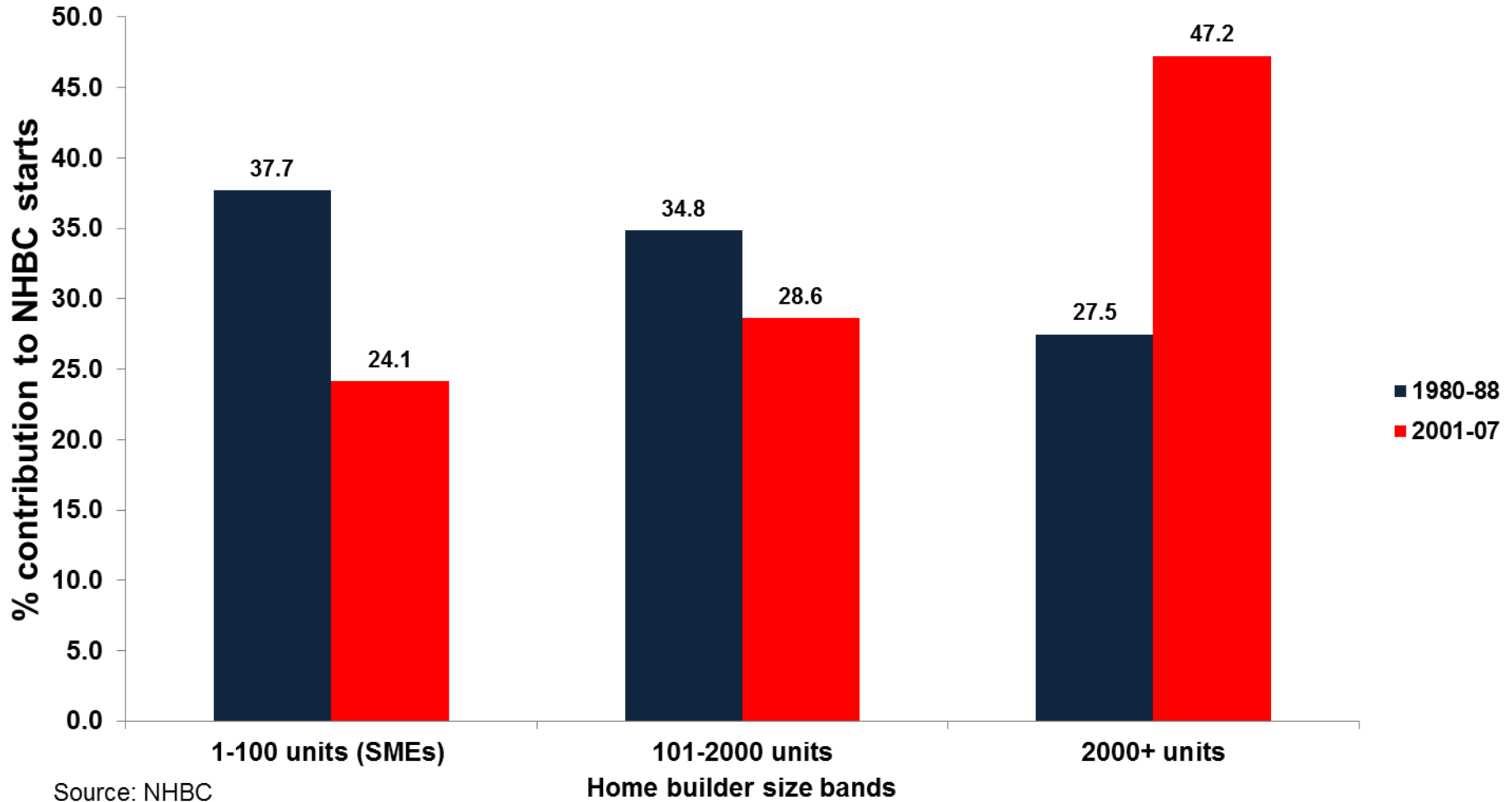
More planning = worse outcomes

- Low numbers, inelastic supply (Barker 2004)
- Collapse in SMEs 1988-2013
- Consolidation (11 of top 20 in 1995 gone by 2007)
- Growing % by nationals; falling %s regionals and SMEs
- Collapse in greenfield, no brownfield rise

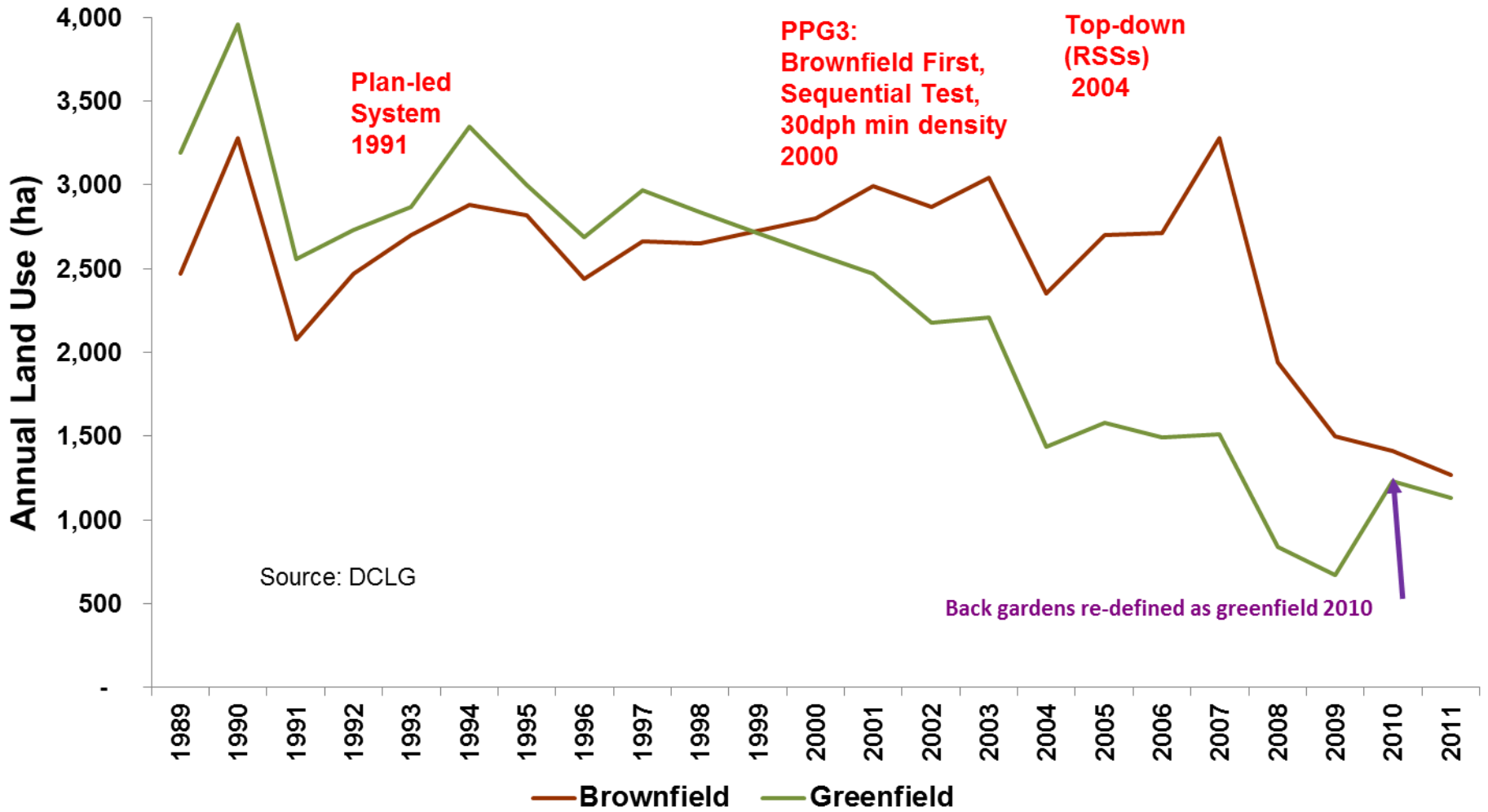
Number of home building SMEs (SME: 1-100 NHBC starts per year)



Contribution (%) to home building upturns



Housing Land Use (England)



Conditions for industry to deliver

Needs major, sustained cooperative effort:

Central government

Local government

Home building industry

Supply chain

Affordable housing providers

Public agencies

Private utilities

And realistic, deliverable policies and actions

Conditions for industry to deliver

New government May 2015

- Support/improve NPPF + support PINS
- Radical end-to-end planning reform (efficiency, resources)
- No new national regulatory burdens
- Public sector land disposal (OFT: 25-33% potential residential land)
- Improved incentives local government to support home building
- New Towns/Garden Cities – long term

- Commitment to HtB1 to 2020 to *accelerate* new home sales/production and capacity rebuilding

Conditions for industry to deliver

Local government

- LPA culture change: planning to enable home building, not control/restrict – and accept supply primarily market-based
- Focus on outlets, not large sites/land area
- Radical reduction in Local Plan policies and micro-management (but space and accessibility standards very negative impact)
- Radical end-to-end planning reform

Conditions for industry to deliver

Economic/market environment

- Long enough economic upturn (“unknown unknown”)
- Mortgage supply/terms improve, mortgage regulation
- Affordability: recovery *accelerated* by HtB1

Conditions for industry to deliver

Industry and market-based solutions

- Rebuild industry capacity (*accelerated* by HtB1): SMEs, regionals, nationals, new entrants
- Skills – industry problem, requires industry solution
- Finance, materials: market-based solutions
- How to accelerate home building: maximise outlets, custom build, PRS, private sector Affordable Housing models, etc?

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