

The Outlook for Home Building

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25 March 2014



Priority Government Question

By how much are house builders going to increase house building?

Increasing private home building

Demand conditions

- Demographic trends, economic conditions (real incomes, interest rates, housing market, mortgage market), policy measures

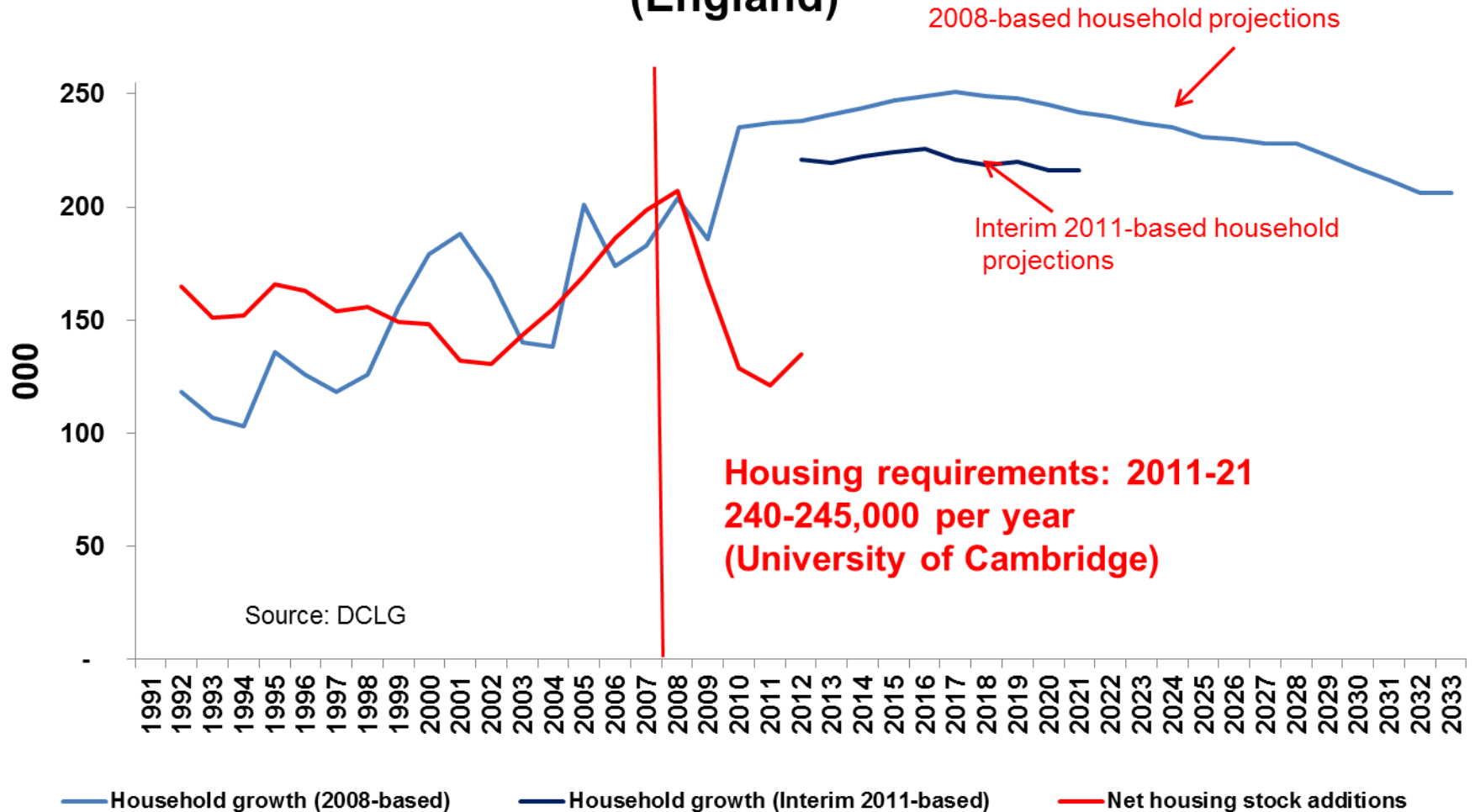
+ Length of economic upturn

Supply influences

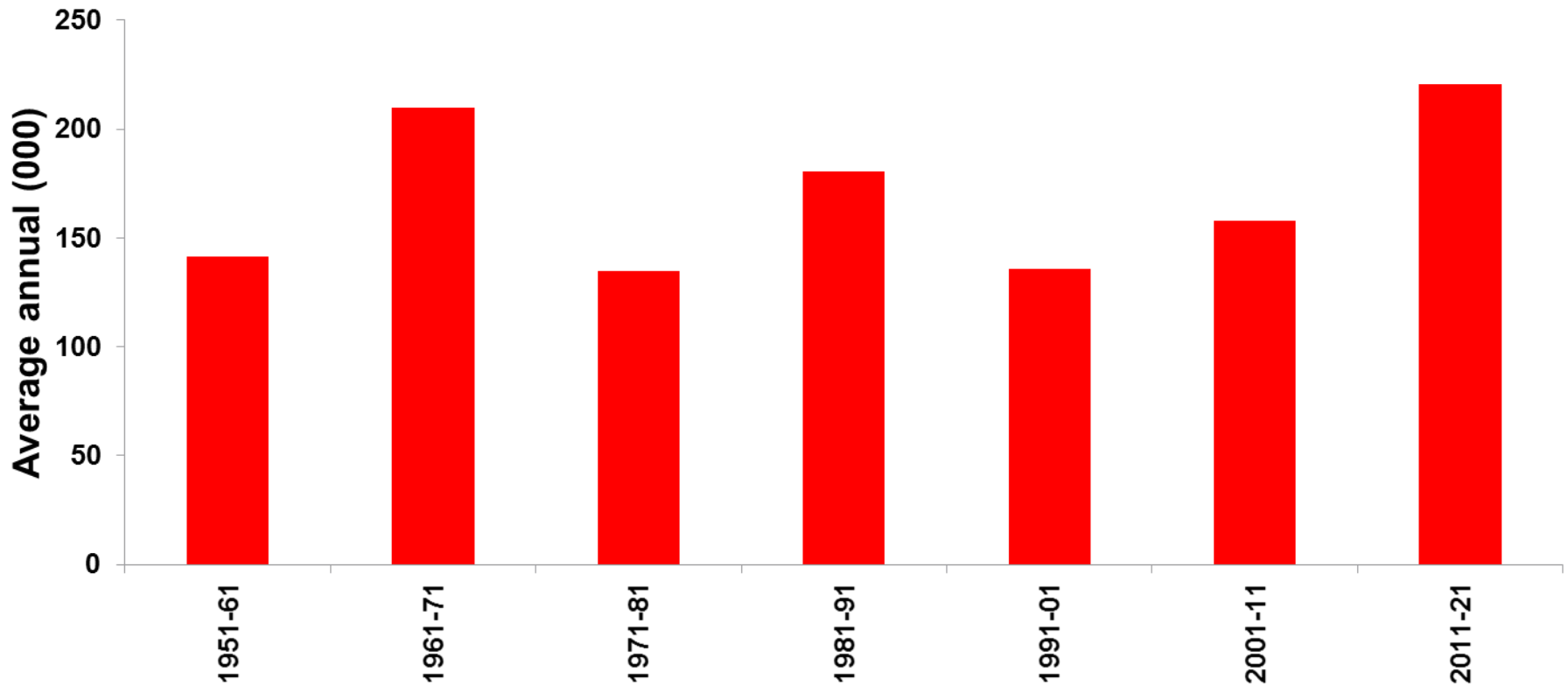
- Permissioned land, skills, finance, current capacity, industry structure and capacity to expand output, barriers to entry and expansion

LONG-TERM DEMOGRAPHIC PRESSURES

Annual Household Growth & Net Stock Additions (England)



Household Growth (England)



ECONOMIC BACKGROUND

Economic Outlook

OBR predictions (March)

- GDP recovery
- Real earnings growth
- Employment grow, unemployment fall
- House prices, housing transactions, private housing investment growth

New BoE/FPC powers

- Housing market major economic preoccupation (Treasury, Bank)
- Decouple management housing market from economy
- FPC to monitor HtB2 impact
- And monitor housing market – early action

See John Stewart Viewpoint in Housebuilder, Jan-Feb 2013

New BoE/FPC powers

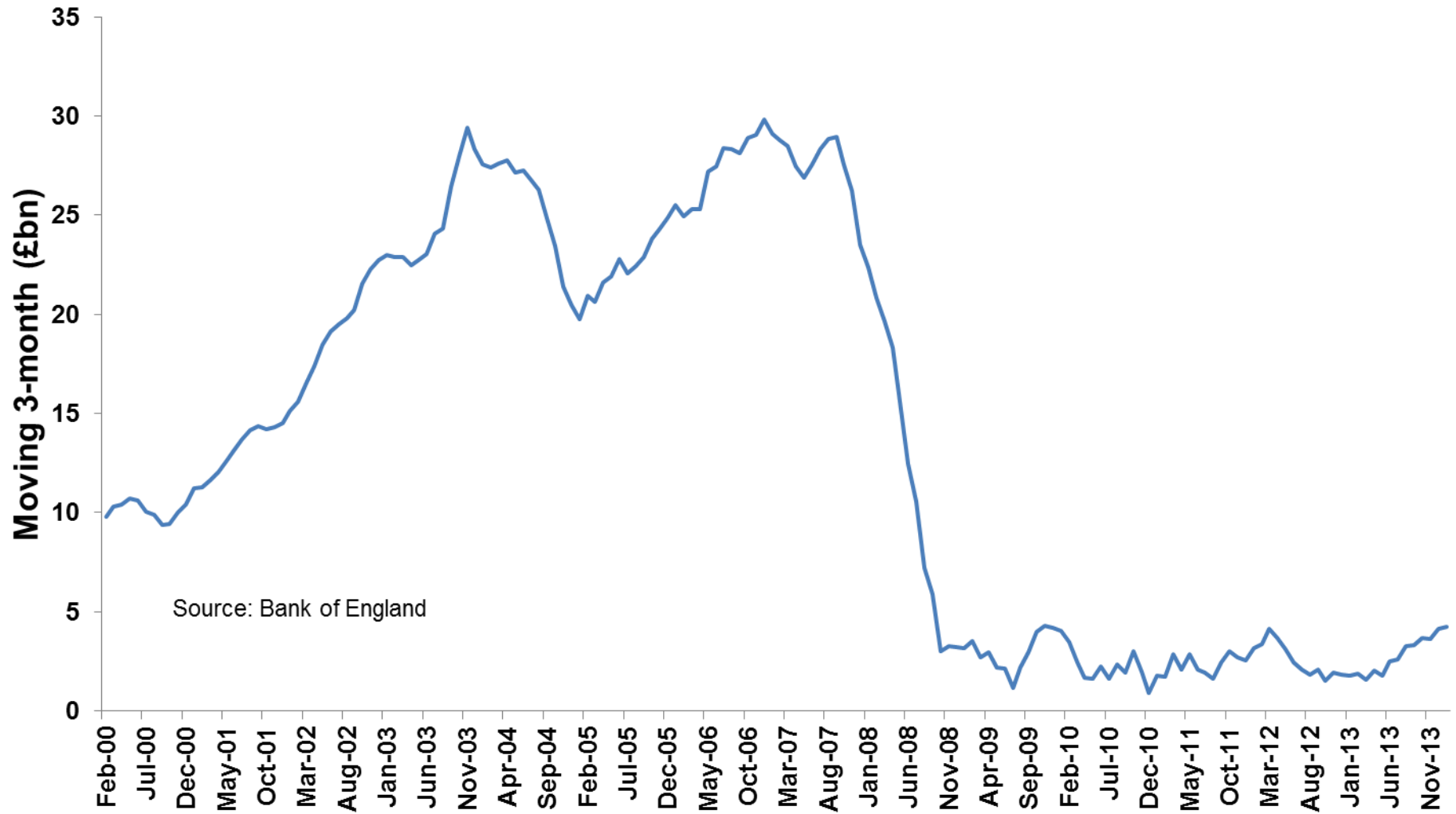
- FPC Concerns: house prices, impact long period low interest rates, household debt, mortgage underwriting standards, excessive borrowing (high LTVs, extended mortgages), lender reliance on wholesale funding, impact fall in house prices on banks and economy
- FPC tools: capital requirements; interest rate stress testing; LTV, LTI, mortgage term

STATE OF THE MARKET

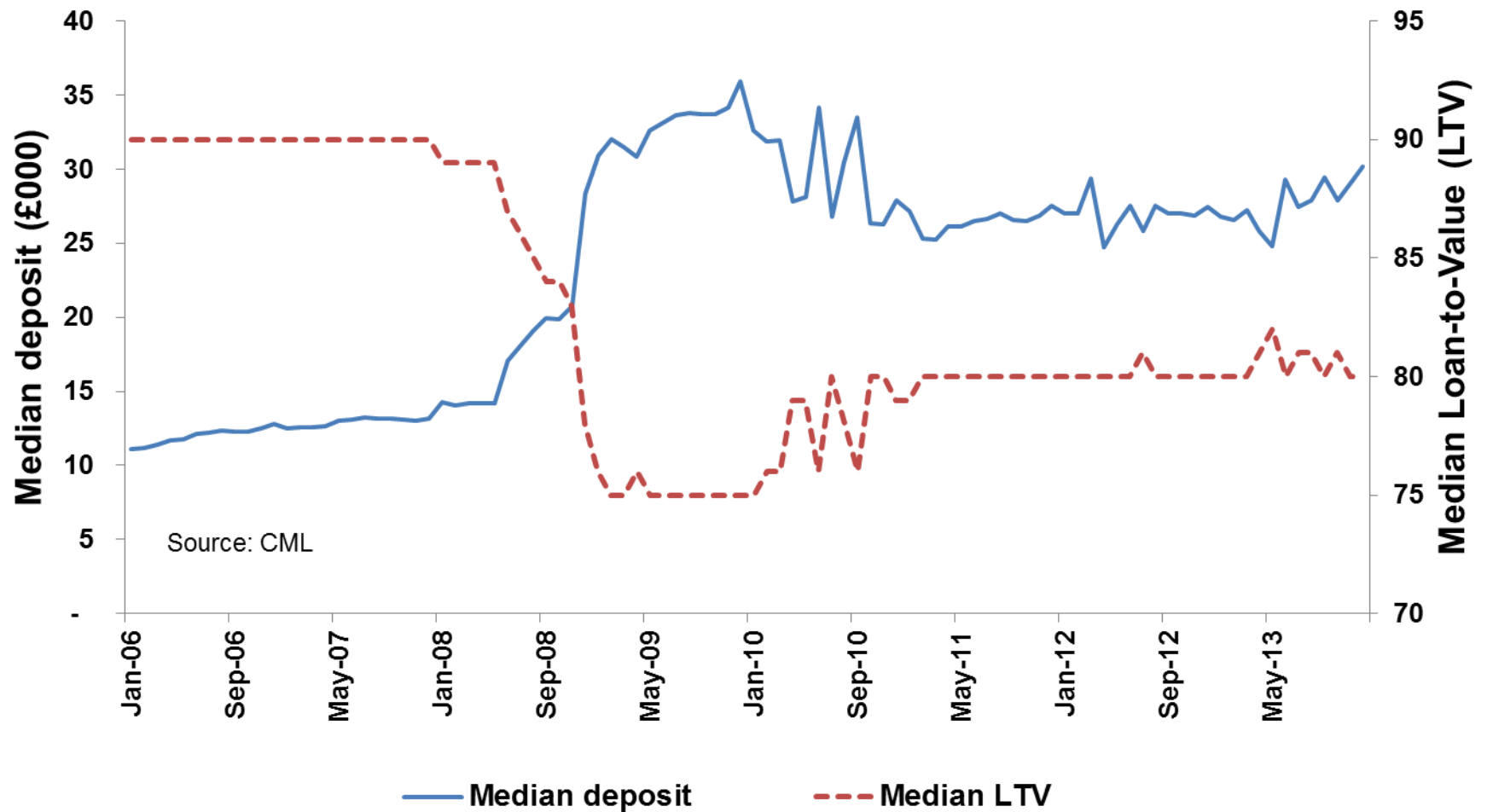
Residential Transactions & Mortgage Approvals (UK)



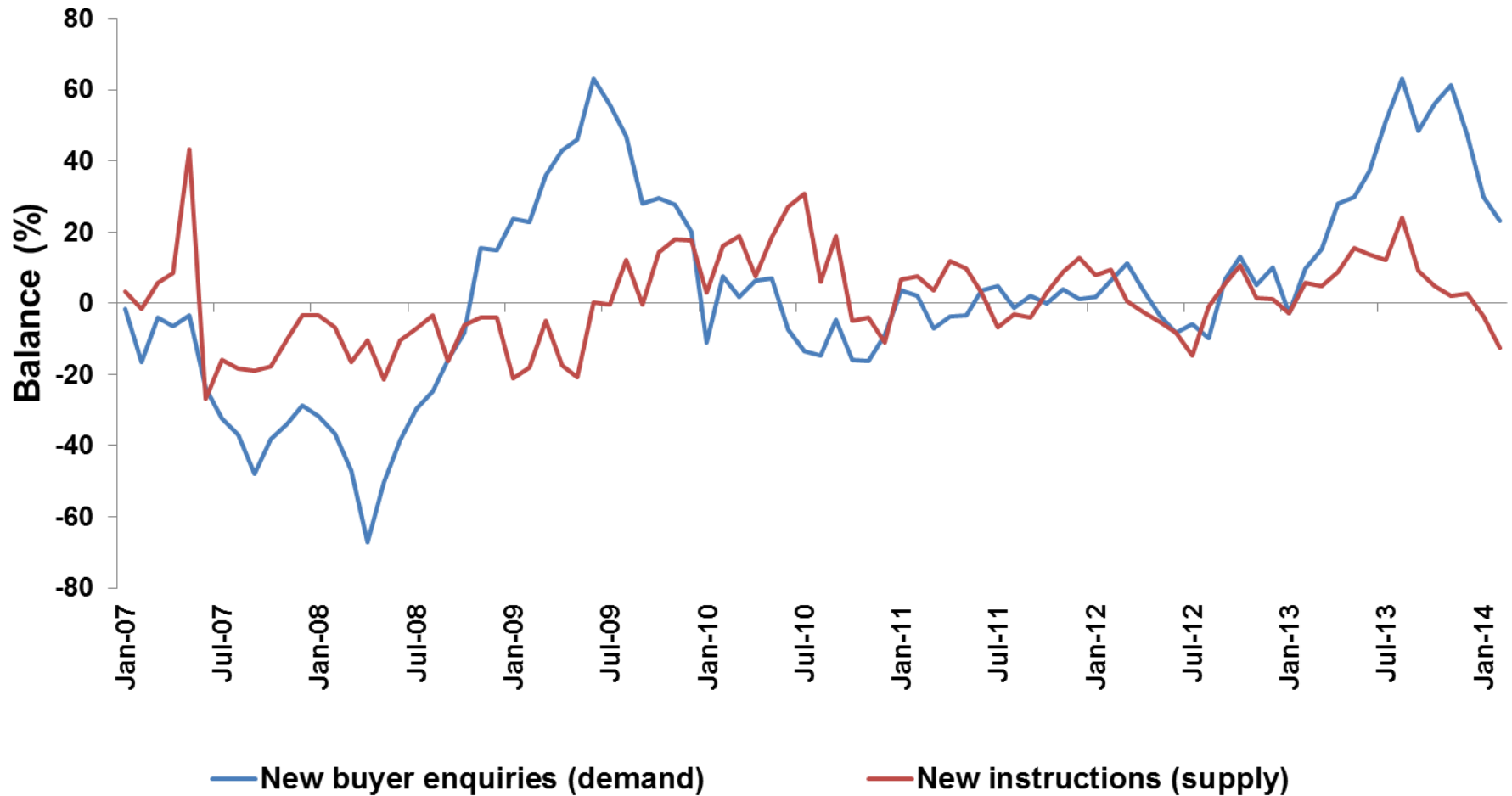
Net Mortgage Lending (UK)



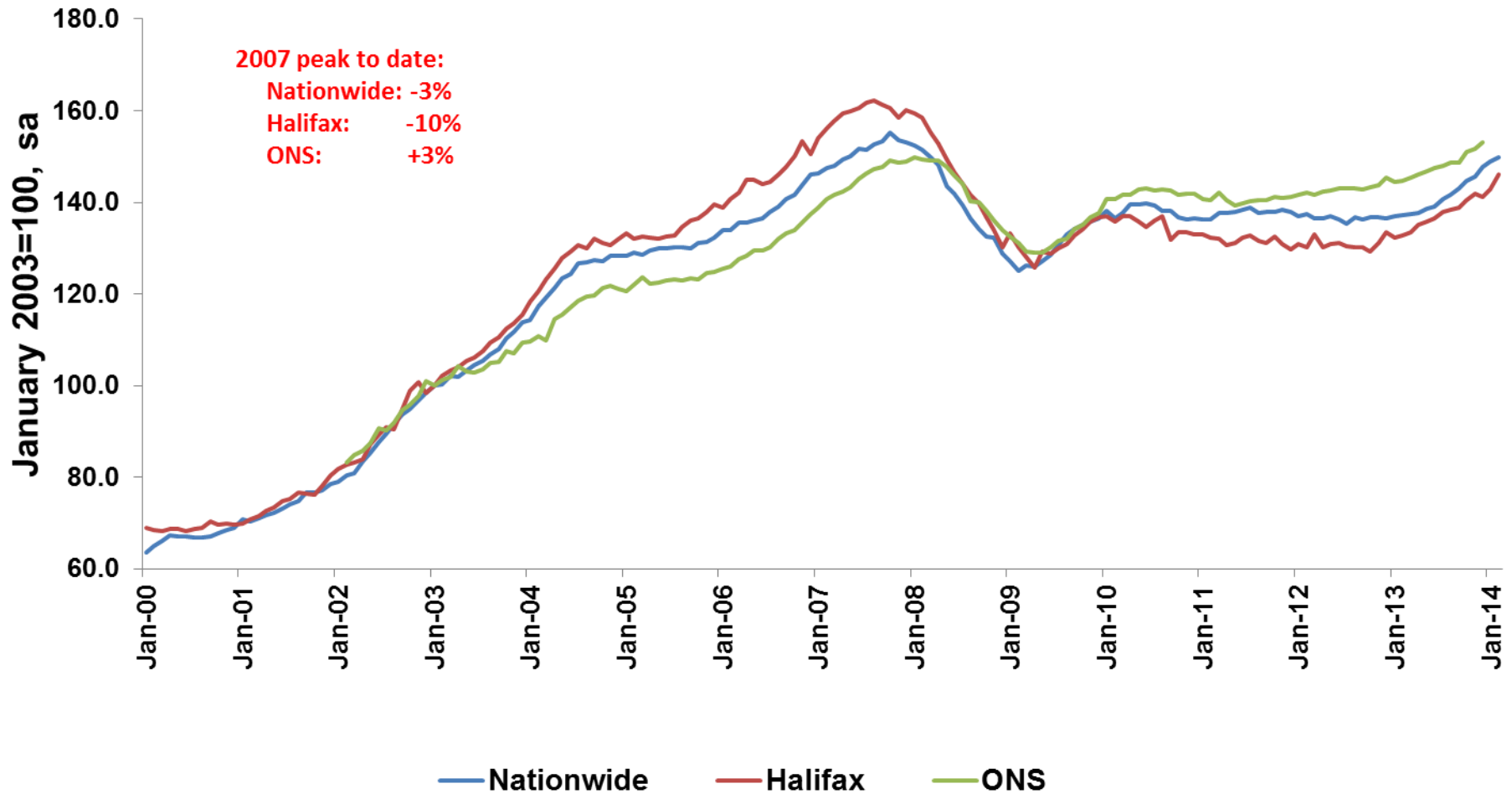
First-time Buyer Median Deposit & LTV (UK)



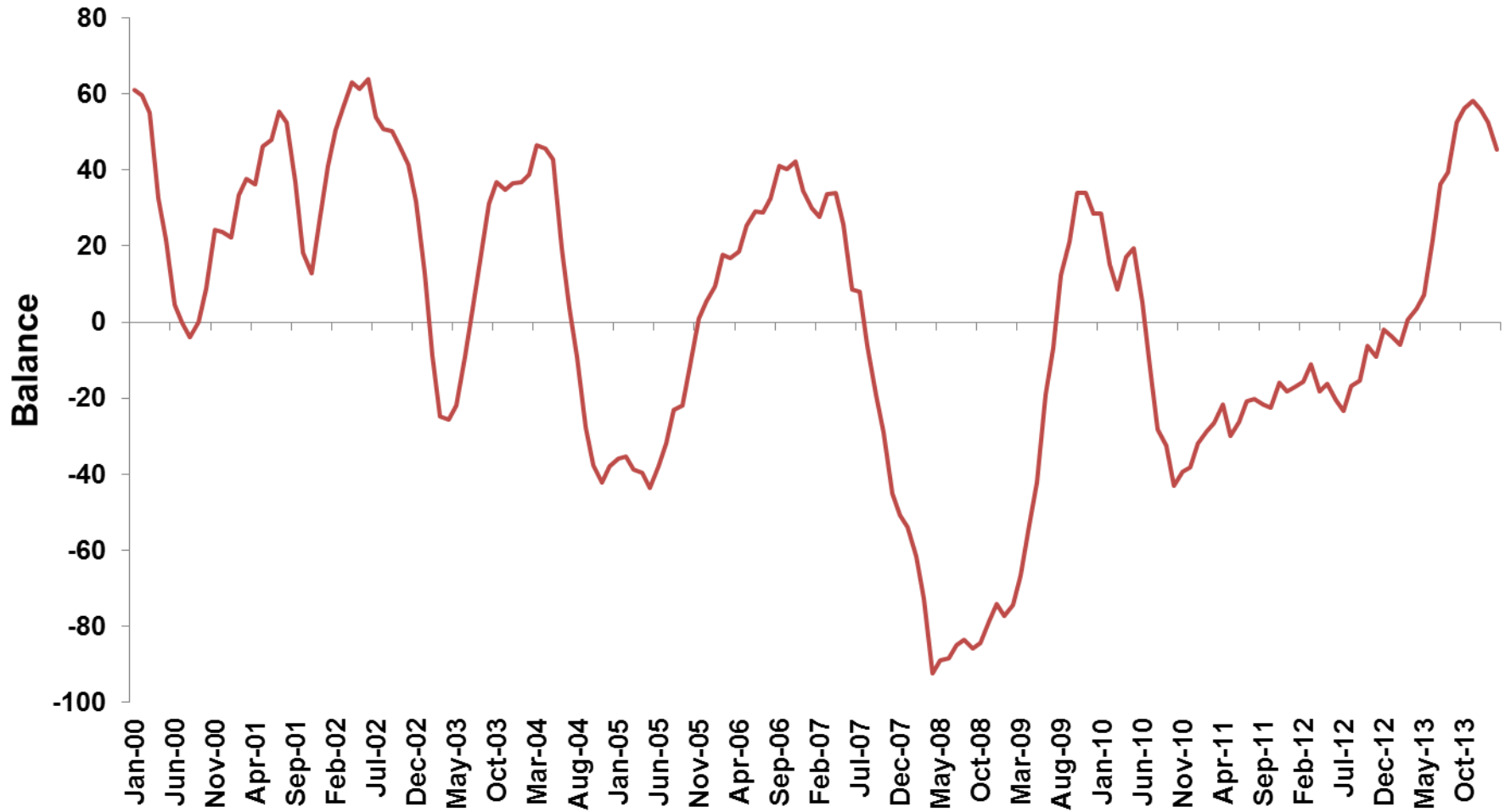
RICS Survey: Demand & Supply (E&W)



House Price Indices (UK)

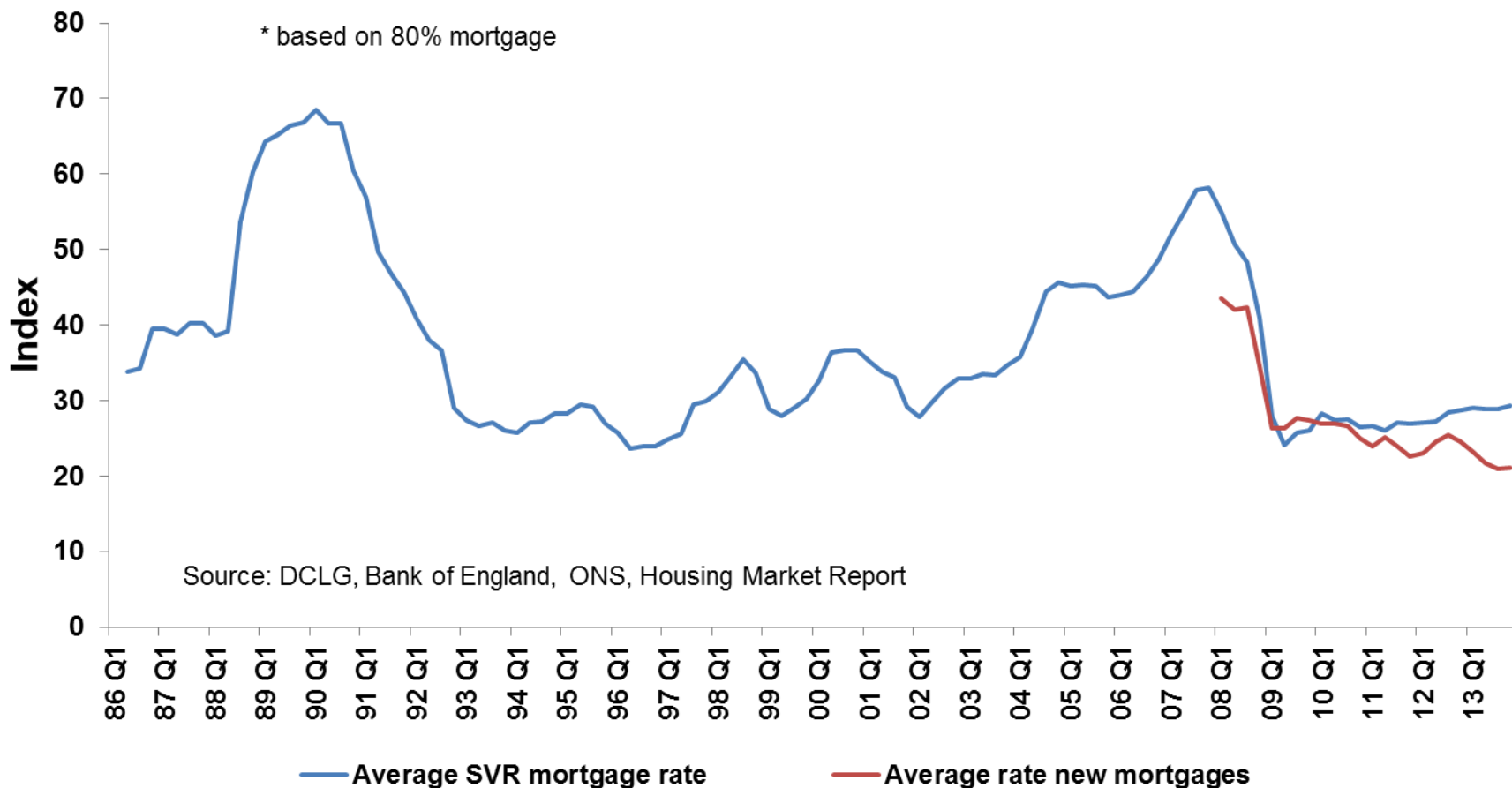


RICS Survey: Price Balance (E&W)

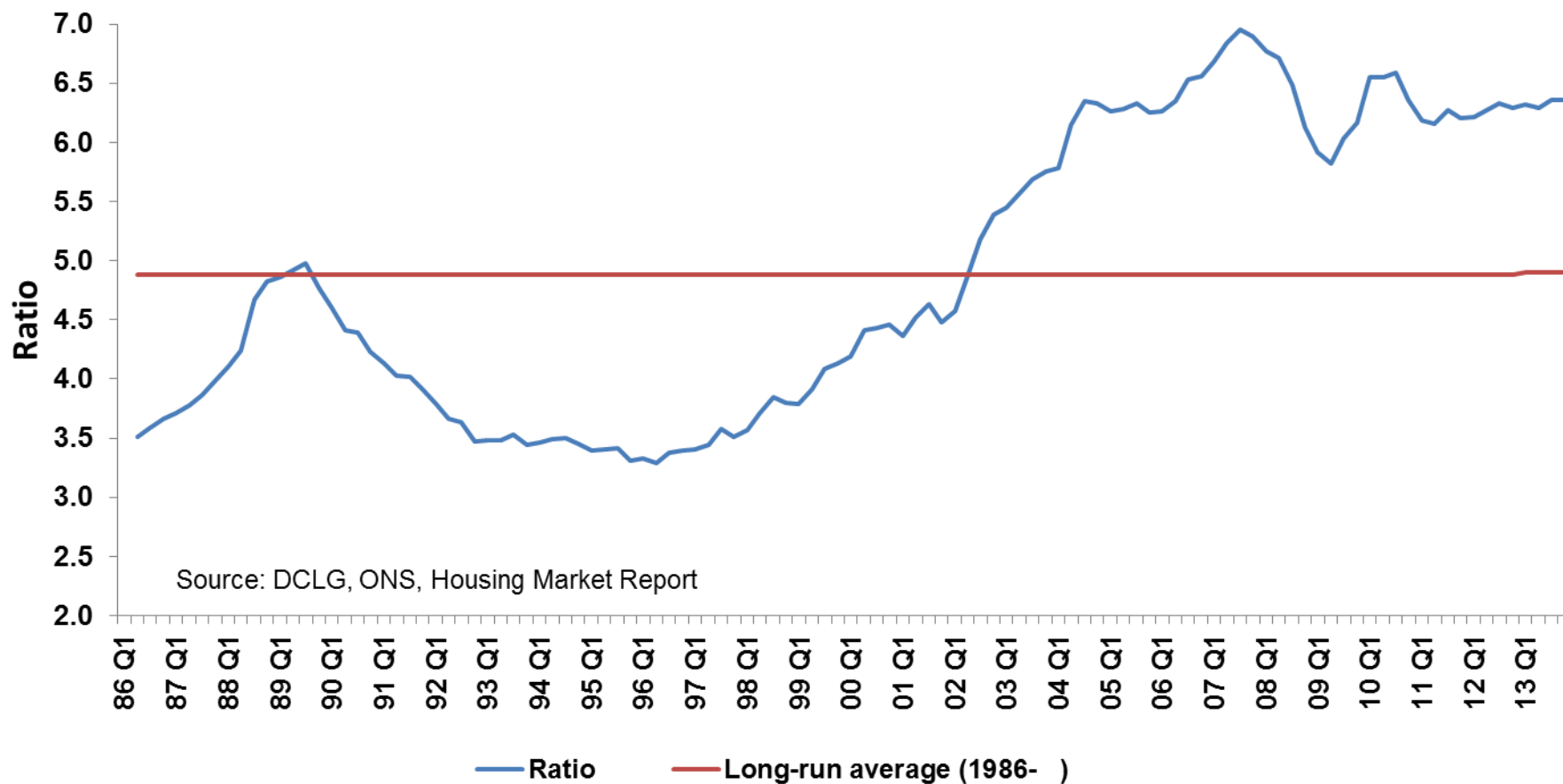


HMR Affordability Index (GB, Single Male)

Mortgage payments as % net earnings (year 1)*



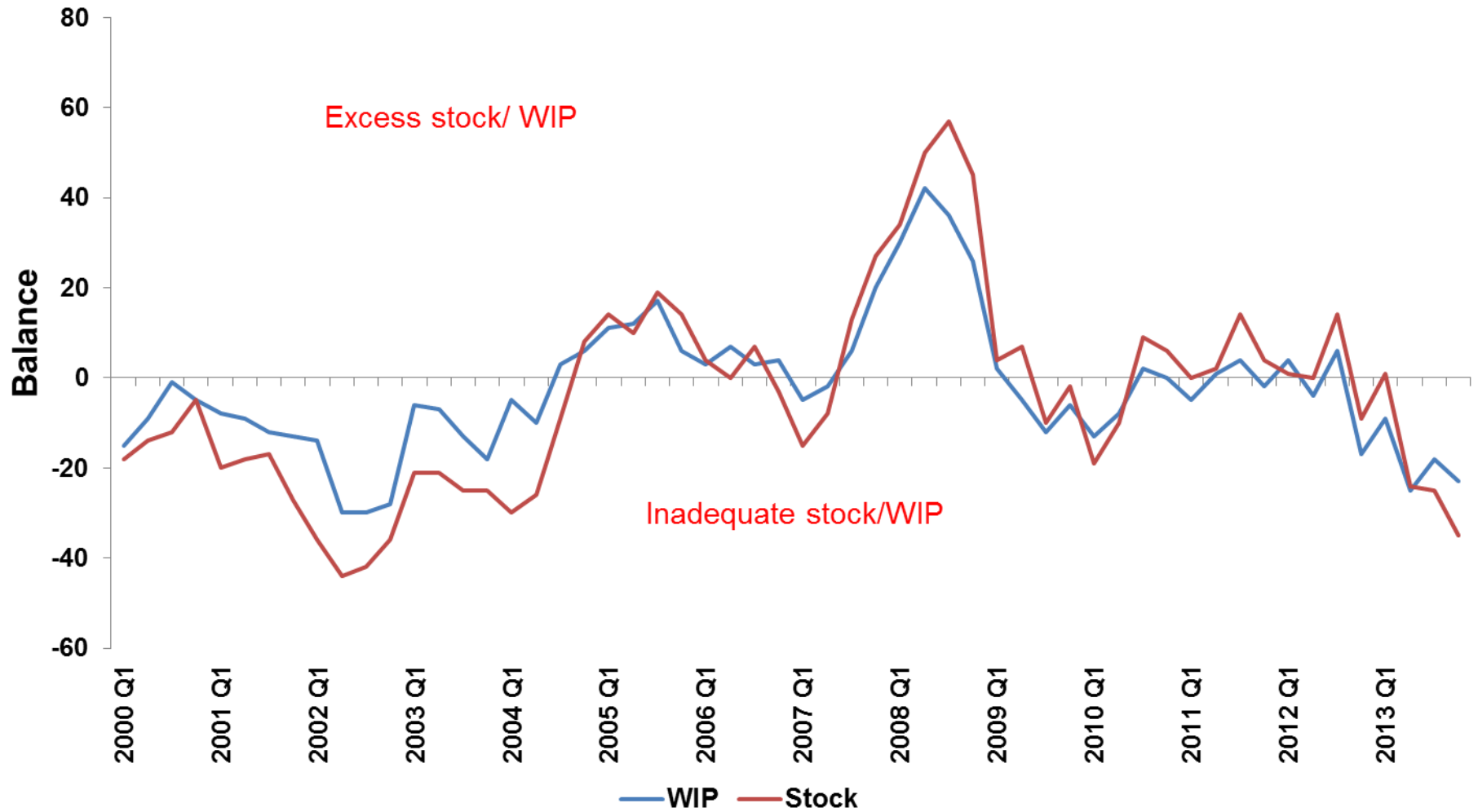
HMR House Price Earnings Ratio (GB, single male, ONS house price index)



NEW HOME TRENDS

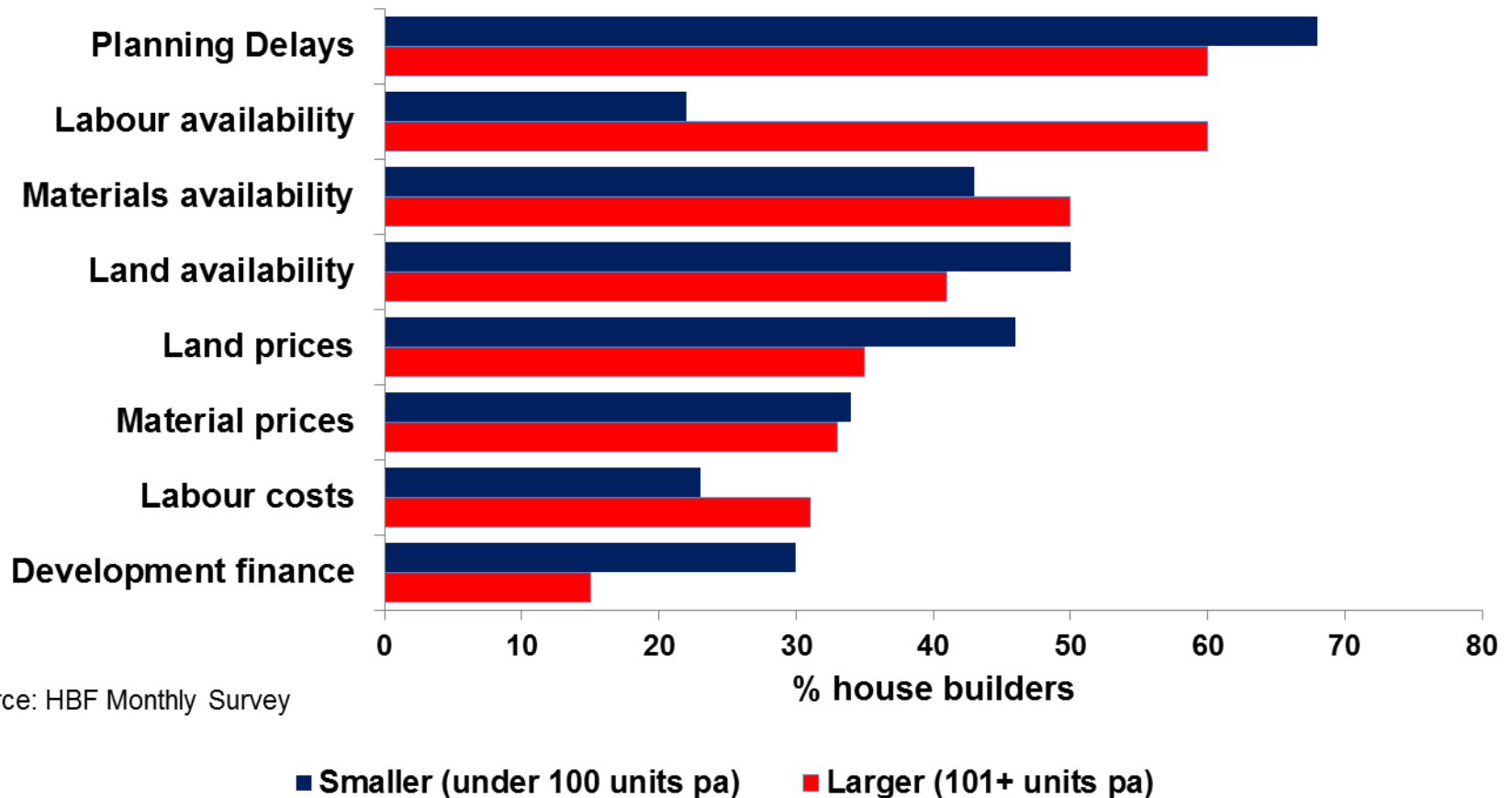


HBF Survey: Stock & WIP Balance (GB)

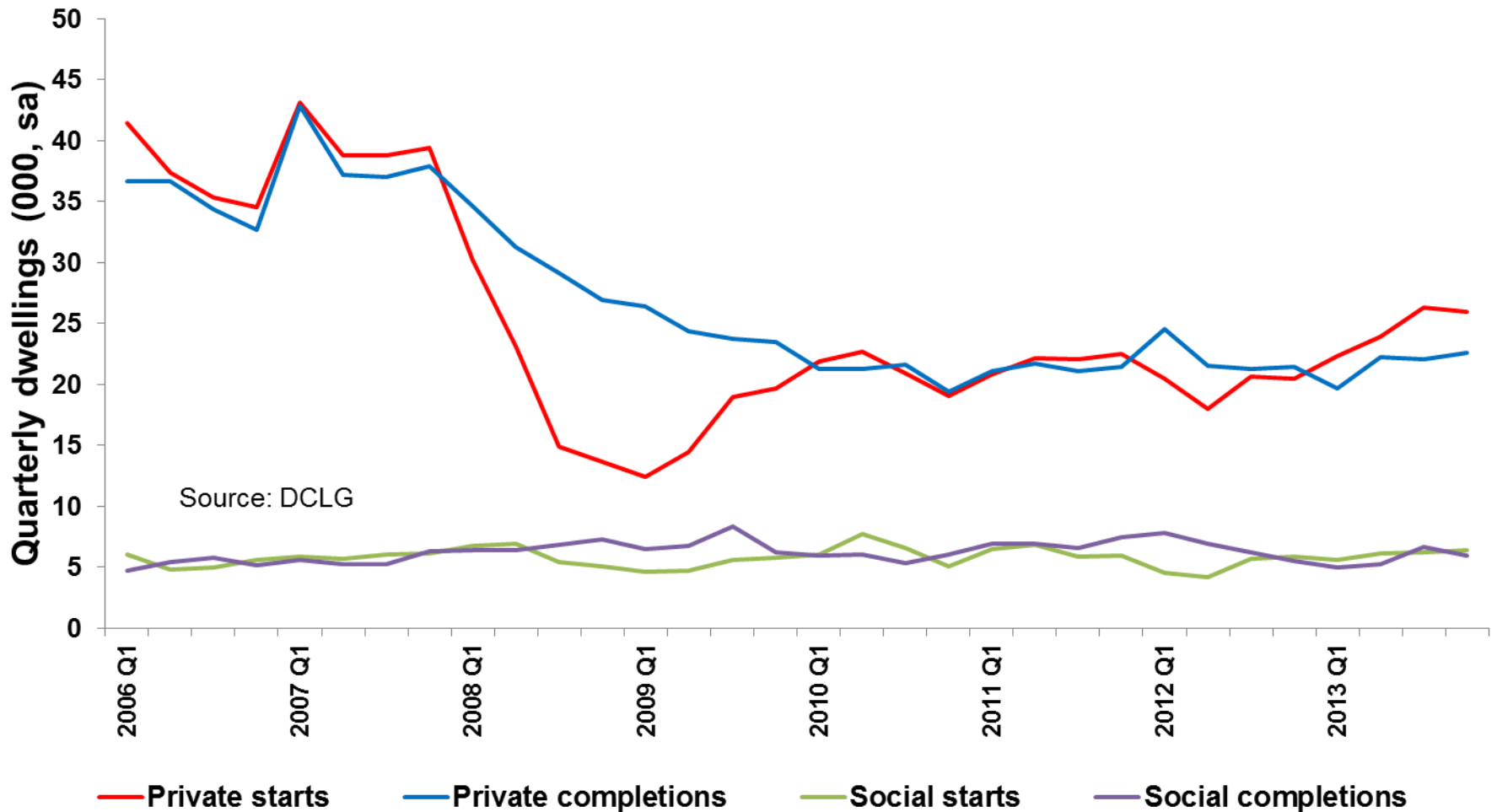


Constraints on New Home Supply, 2013 Q4

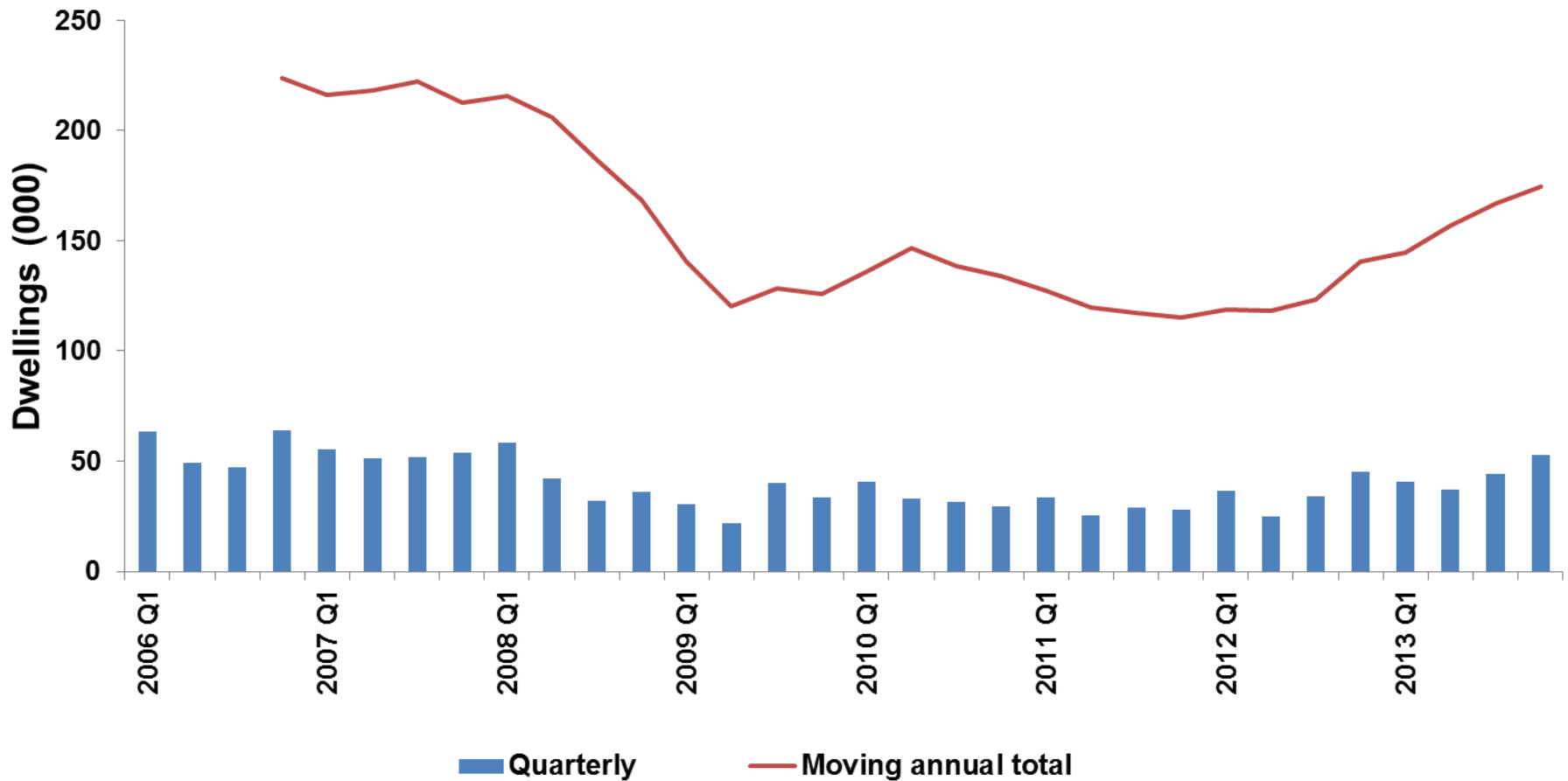
% house builders quoting as "major constraint"



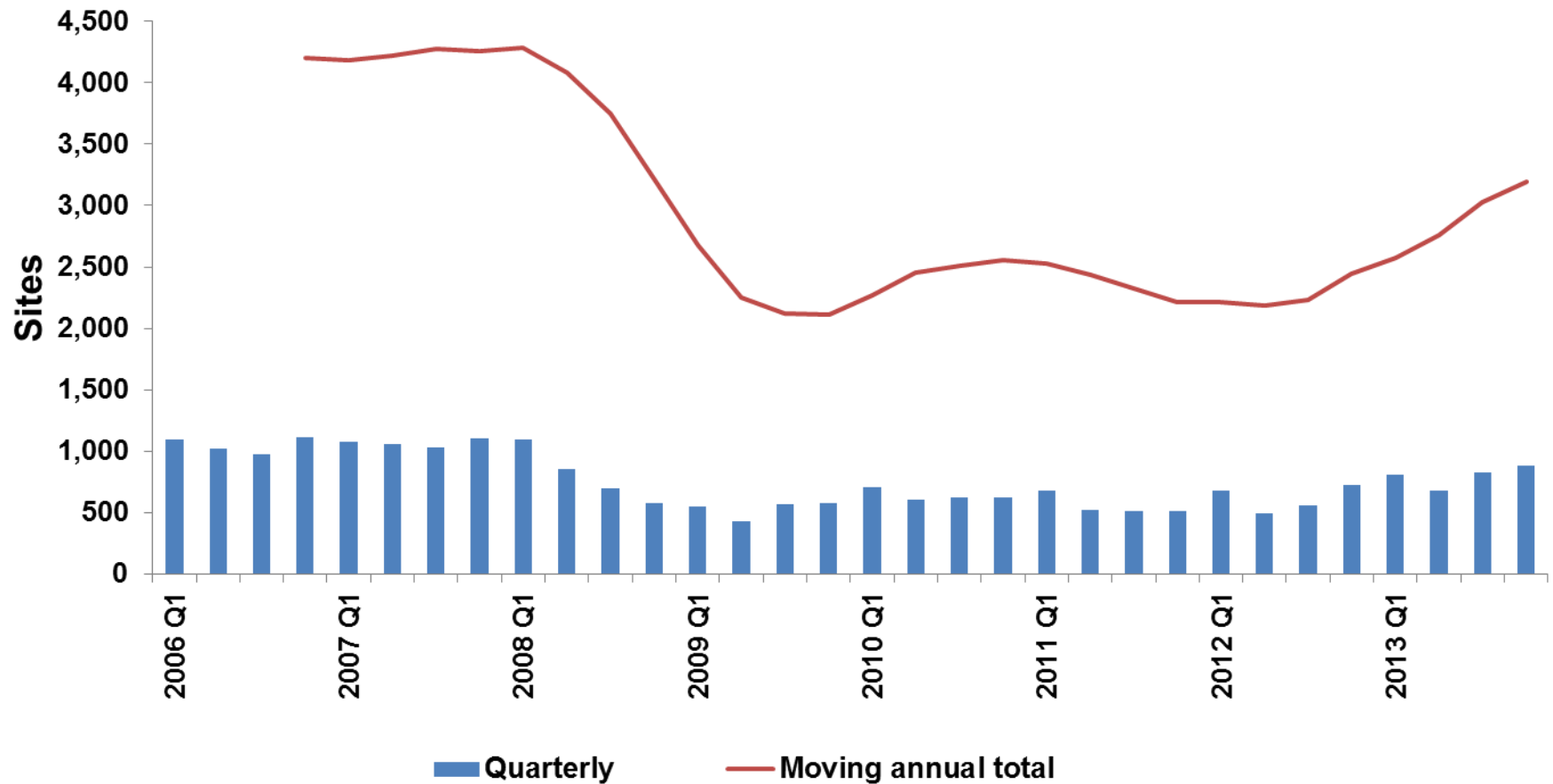
House Building (England)



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



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



OUTLOOK: POSITIVES AND NEGATIVES/RISKS

Positives

- Demographics: record owner-occ household growth
- Pent-up demand
- Economic recovery
- Rising real incomes
- Improving labour market
- Improving mortgage availability
- Higher interest rates: *but* gradual, lower than in past
- HtB1 and 2
- Home buyer expectations

Negatives

- Demographics: booming older households, move infrequently
- Stretched price/earnings ratio
- Interest rates rise + house prices rise
=> deteriorating affordability
=> negative impact on expectations?
- Household debt (most vulnerable HHs)
- Tighter mortgage regulation

Government policy support

Demand

- NewBuy – March 2015
[General Election May 2015]
- Help to Buy: Equity Loan – March 2020
- Help to Buy: Mortgage Guarantee – Dec 2016
- Private rented sector – Loan Guarantee, Build to Rent fund, PRS Taskforce

Help to Buy: Equity Loan

Scheme

- England, new homes, £3.7bn, 74,000 sales
+ £6bn 120,000 sales

But: Exit taper or cliff edge? Impact on land prices?

Help to Buy: Equity Loan

To date...

- 14,800 sales
- 25,000 reservations (2,500 per month)
- Median price: £184,000 (mean £203,137)
- 82% prices < £250,000
- 83% household incomes < £60,000
- 89% FTBs
- 76% outside L&SE
- 1200 registered builders (94% SMEs)

Help to Buy: Mortgage Guarantee Scheme

- UK, new & SH homes, £12bn (£130bn mortgages), 190,000pa, Jan 14-Dec 16

But: Exit? House price bubble? Treasury vs Bank of England? Market conditions by third year? High LTV mortgages post-HtB2?

Help to Buy: Mortgage Guarantee

To date...

- 2,600 sales
- 82% FTBs
- Mean price: £148,048
- 85% outside L&SE

SUPPLY CONDITIONS

Who will fill supply gap?

- House builders (65%):

Majors (~40%)

[Top 3: 32% GB private completions, 25% GB total completions;
Top 25: 66% NHBC GB registrations]

SMEs (1-100 per year) <14% NHBC registrations 2013

New entrants

RP's (23%)

- Local authorities (2%)
- Custom/self builders (10%)

Note: percentages are % total UK new build completions unless otherwise stated

Sources: DCLG, NHBC, HBF

Government policy support

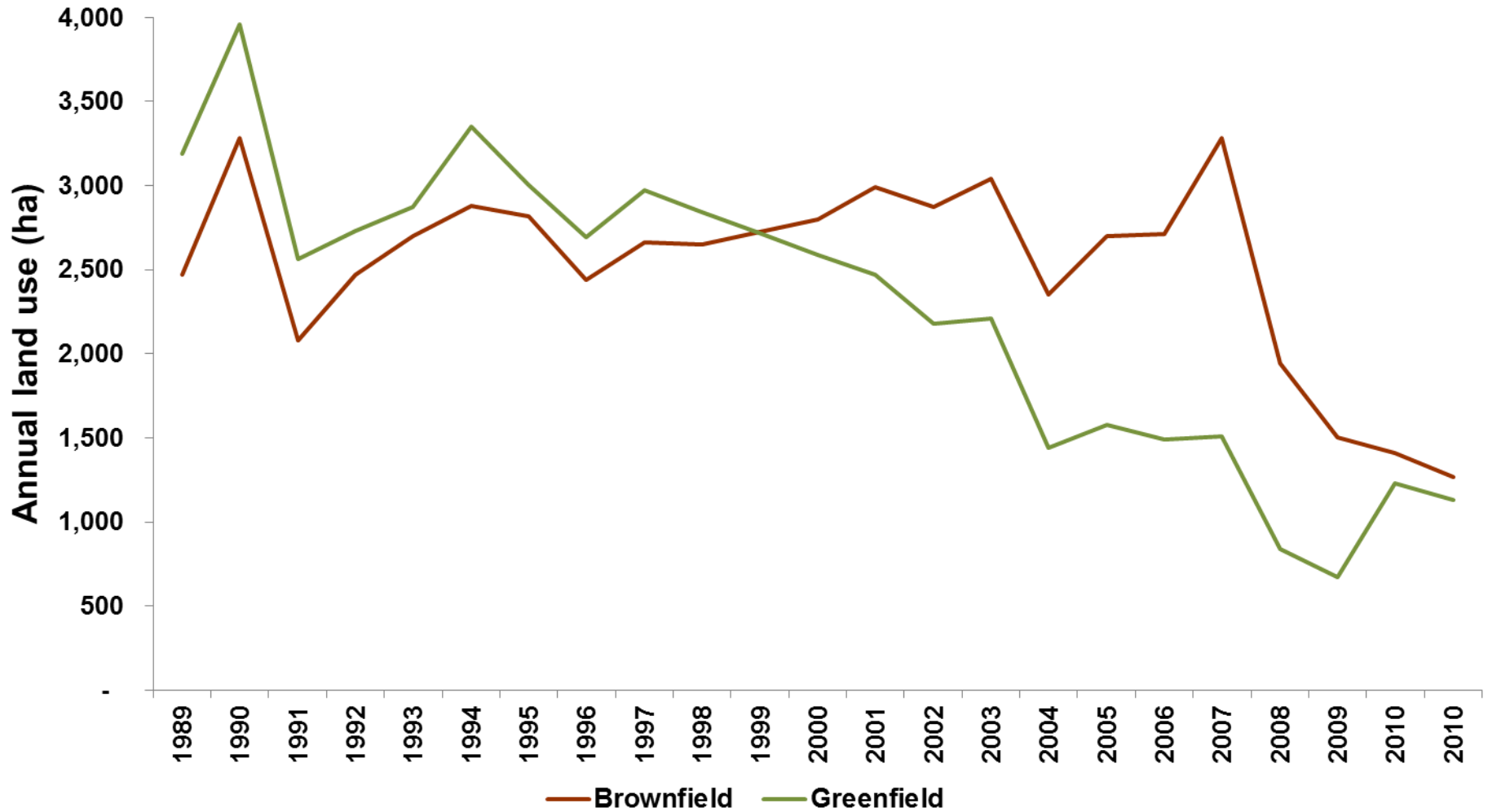
Supply

- NPPF & other planning reforms
- Regulatory burden - regulation, standards, planning
- Get Britain Building (GBB)
- Builders Finance Fund (£500m)
- Private Rented Sector
- Affordable Housing
- Public sector land
- Custom build
- Garden Cities

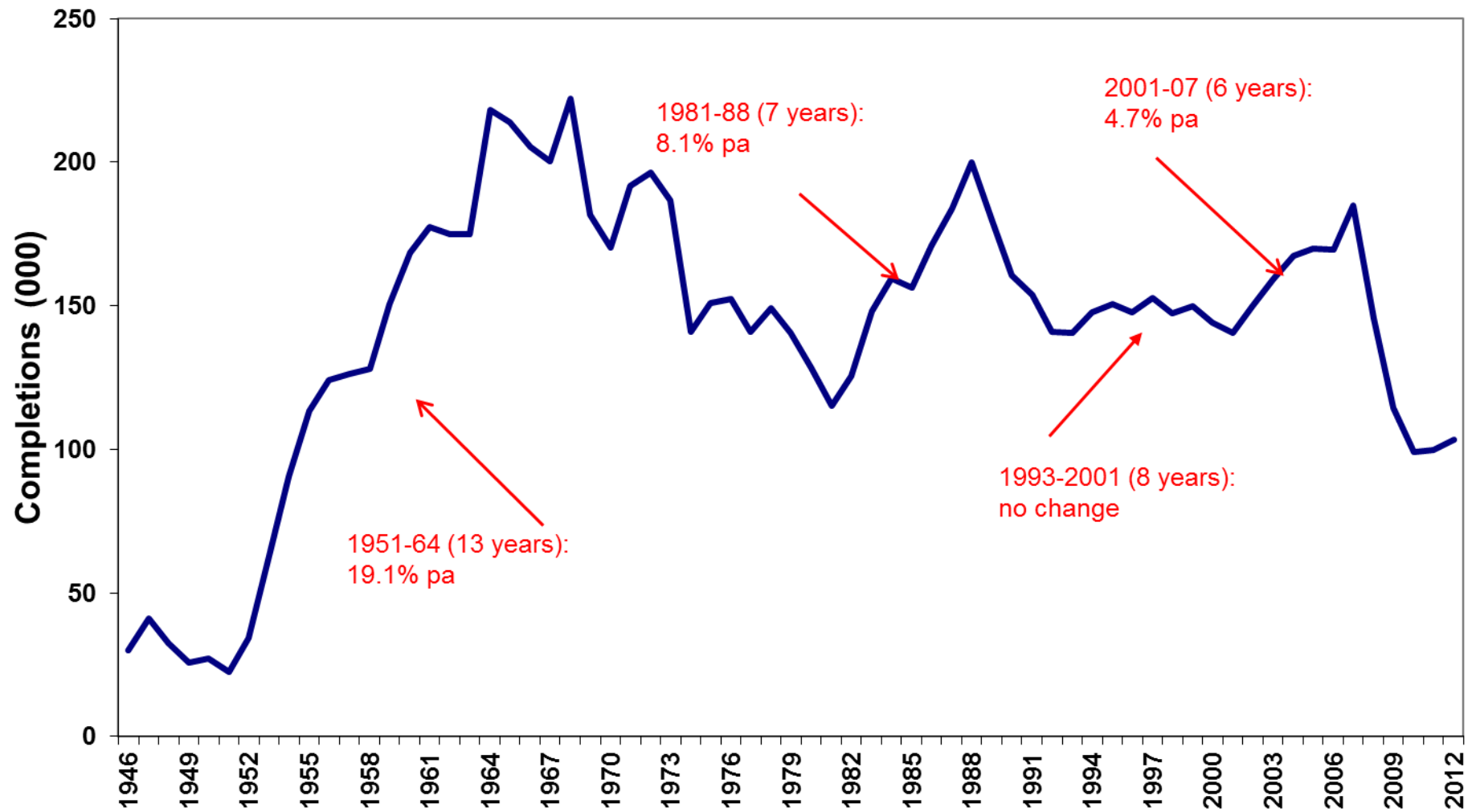
Supply influences

- Permissioned land
- Skills: trades, professions, management
- Finance: SMEs, Regionals, Majors
- Capacity: industry structure, barriers to entry and expansion (by size), willingness/ability to expand

Housing Land Use (England)



Private Housing Completions (GB)

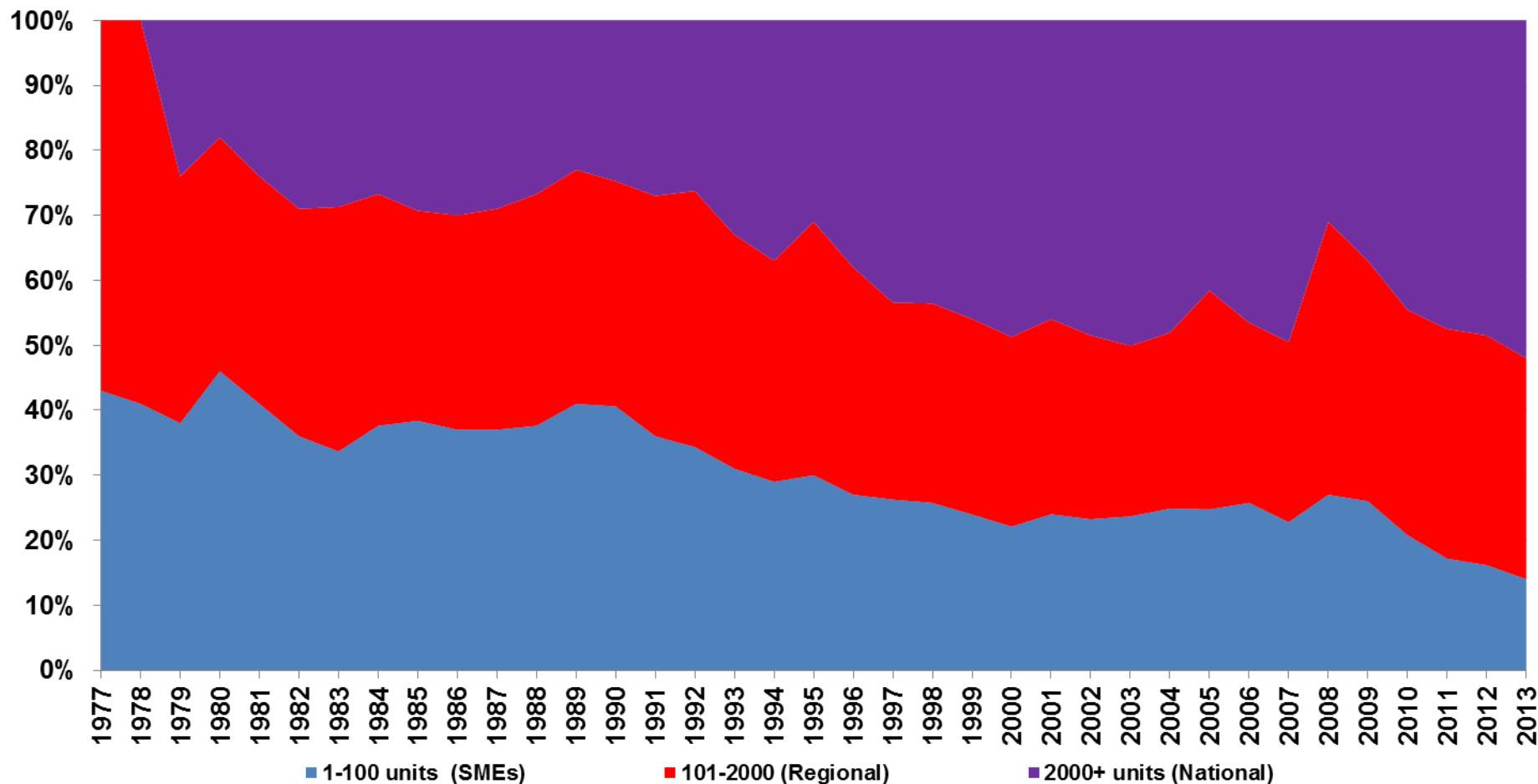


So who will meet demand?

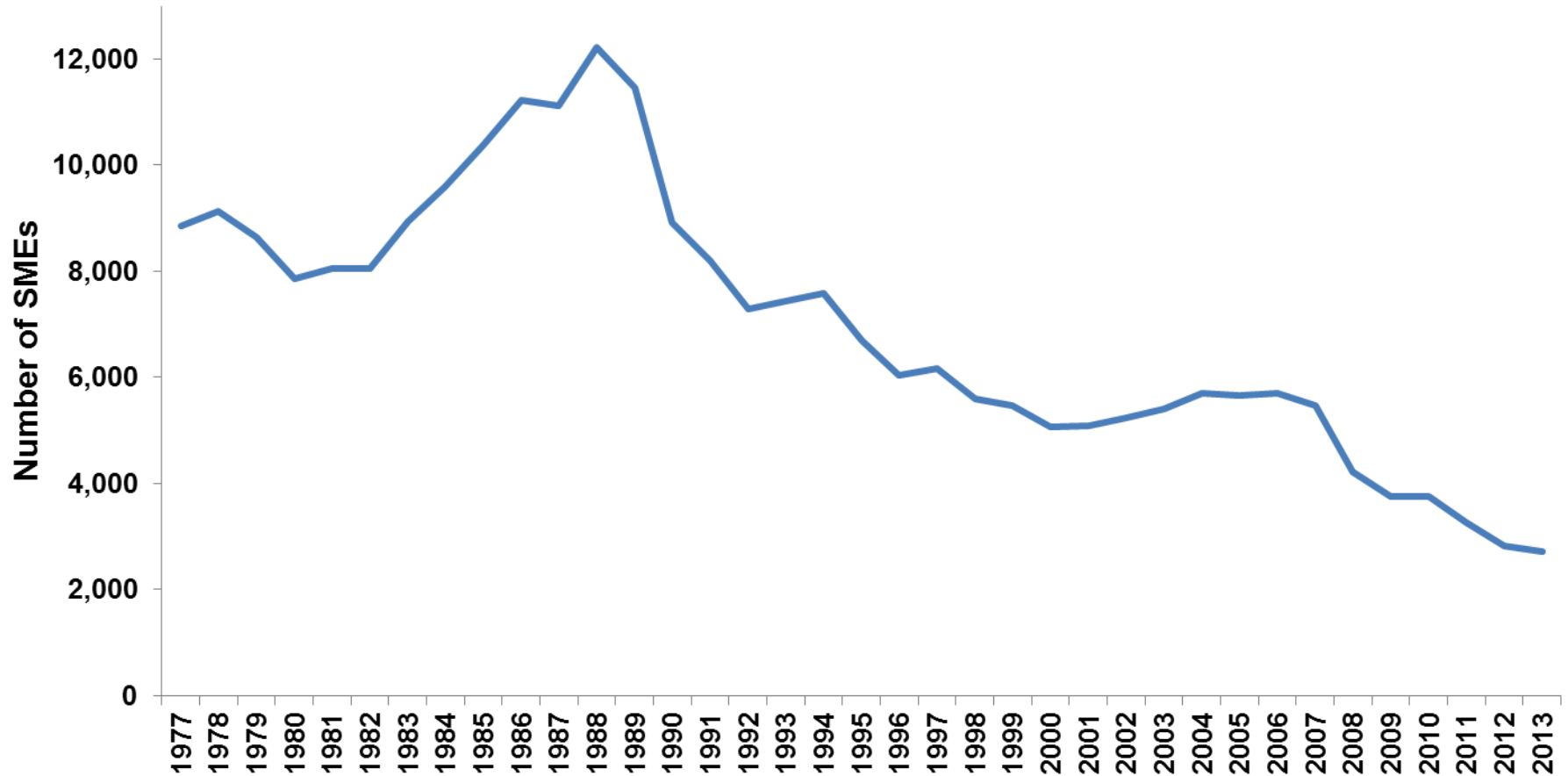
Primarily private sector

- SMEs, regional companies, nationals?
- Pro rata to today's shares?
- Through increased production per company and/or more companies?
- New entrants?

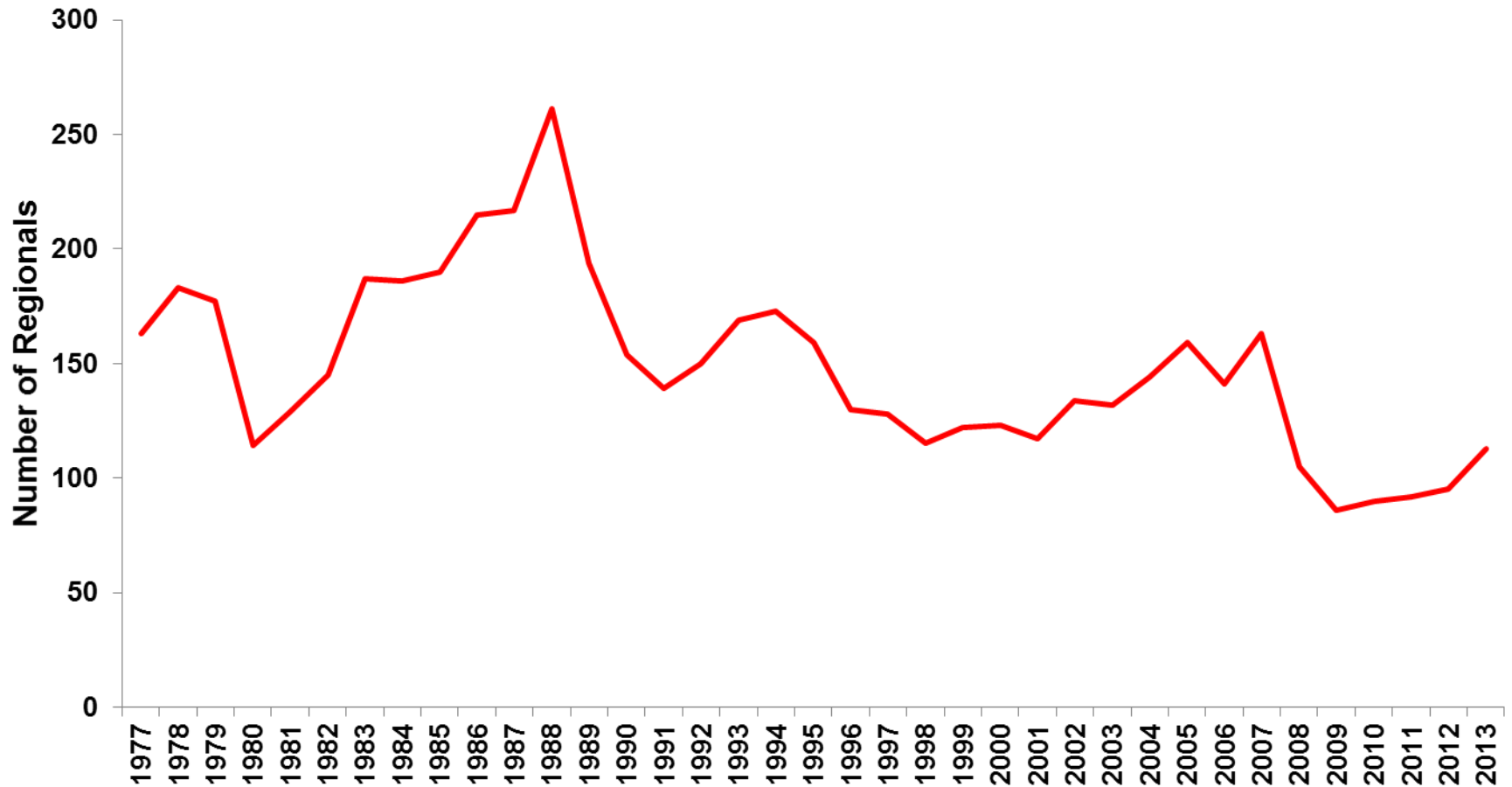
Home Building Industry Structure (Size bands by % NHBC starts)



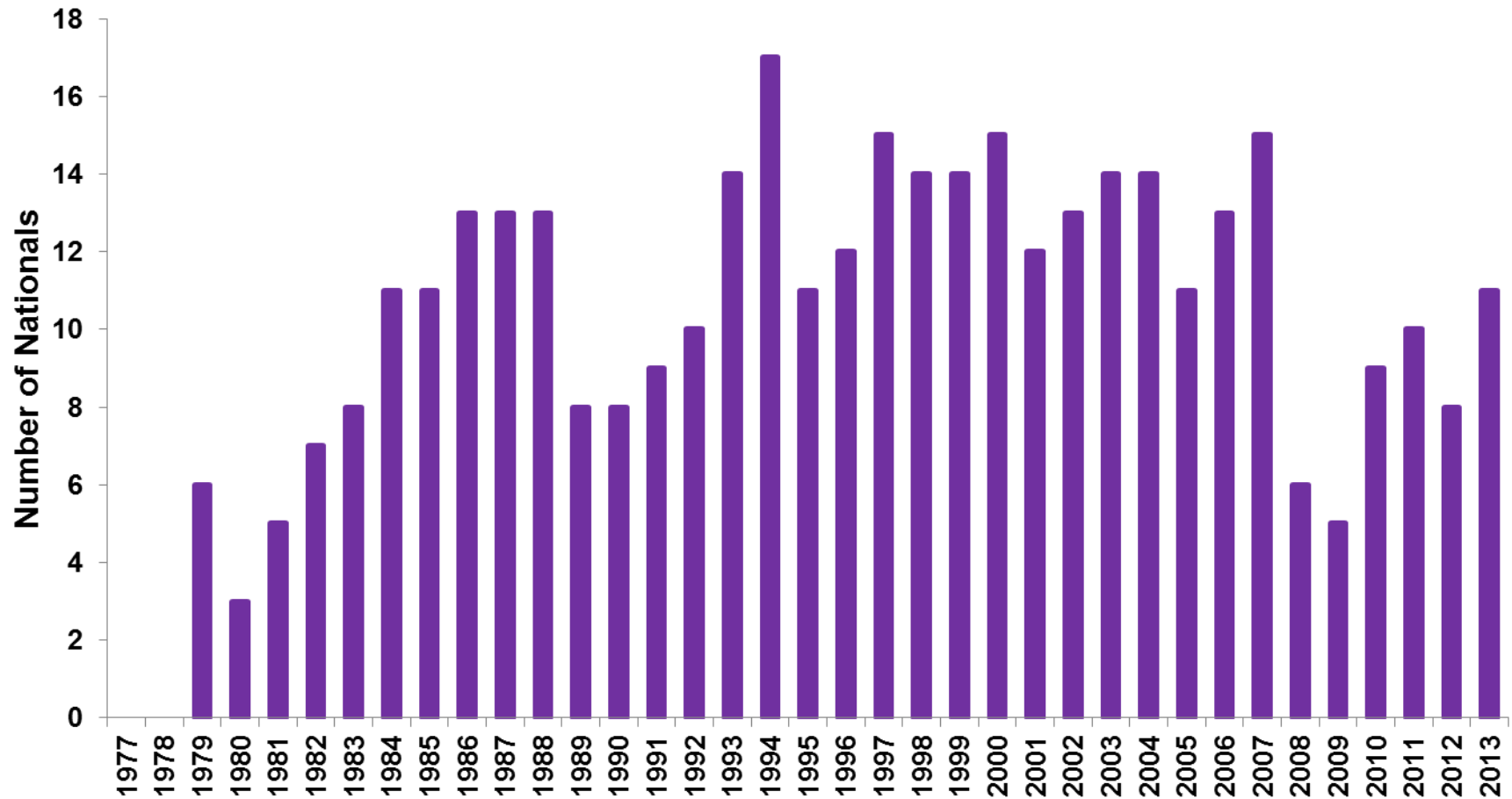
Number of Home Building SMEs (1-100 NHBC starts per year)



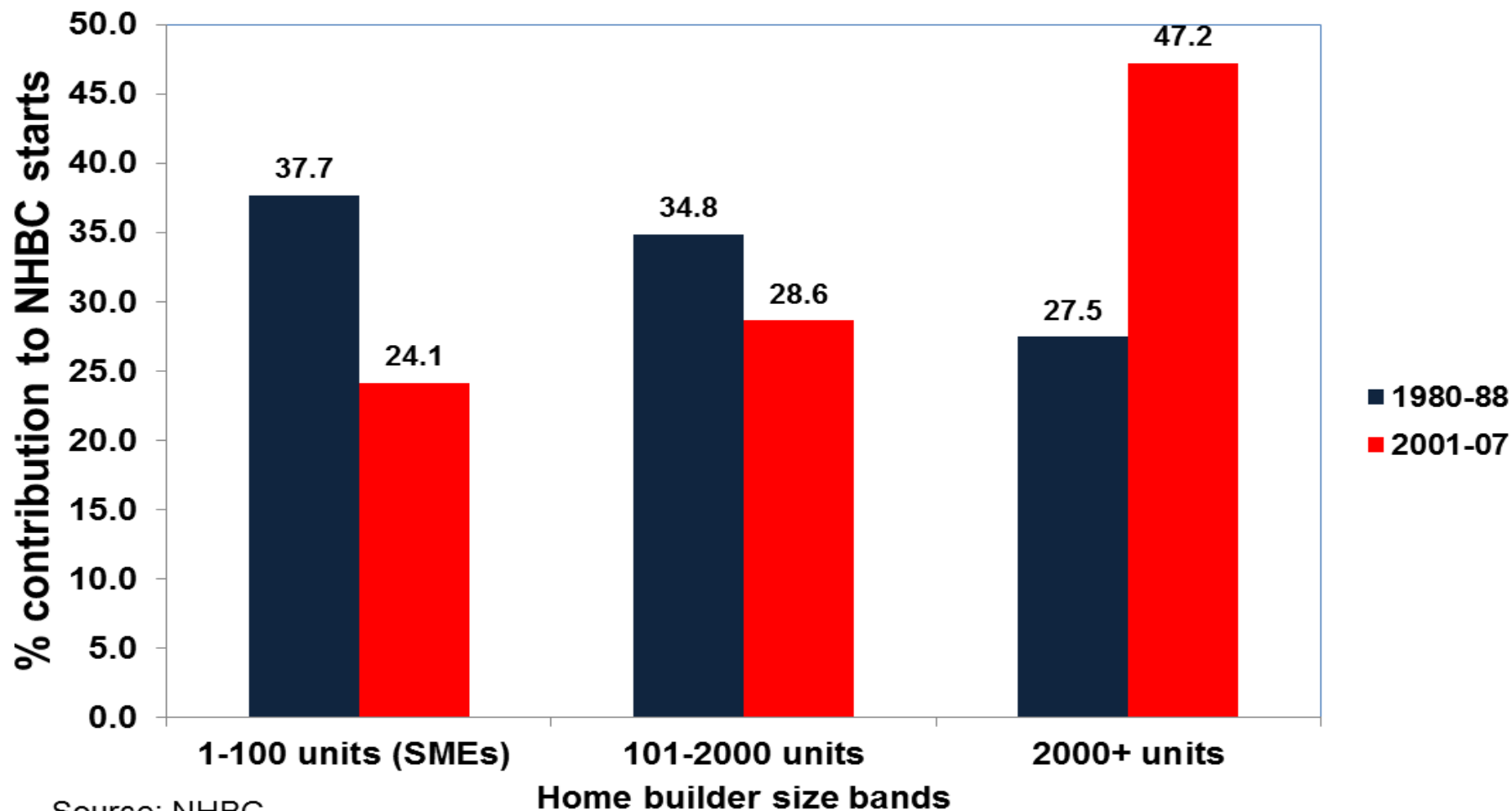
Number of Home Building Regionals (101-2000 NHBC starts per year)



Number of Home Building Nationals (2000+ NHBC starts per year)

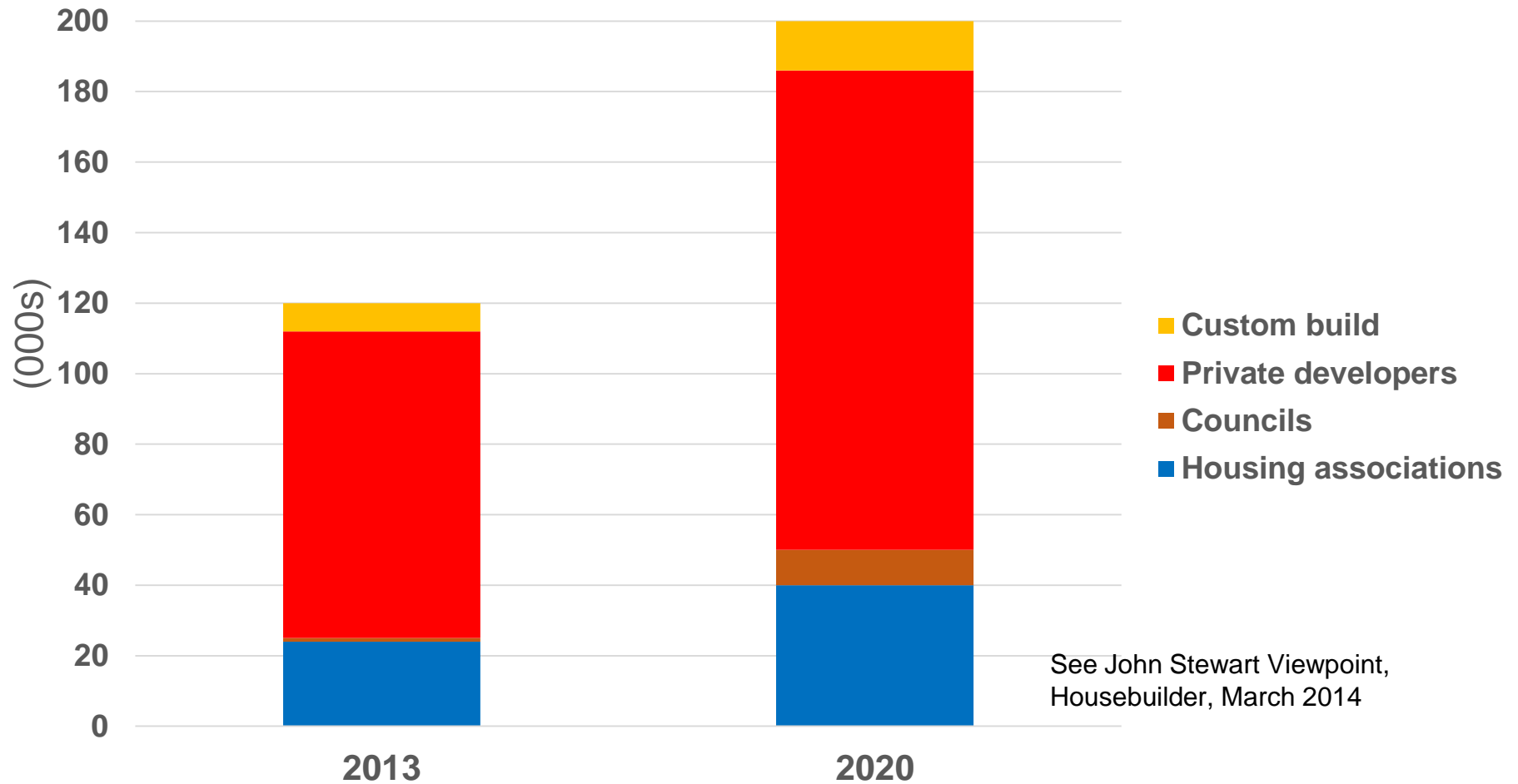


Contribution (%) to home building upturns



Housing completions: by supplier types

Indicative scenario



House builder landbanking

‘The Review has found **little evidence**, at least across the country as a whole, to substantiate concerns that option contracts and **the practice of landbanking allow housebuilders to erect barriers to entry** into the market’

Barker Review of Housing Supply, 2004

‘There are no doubt some individual cases where housebuilders hold land for longer than they need. But, in our view, the **current evidence does not support the suggestion that this practice is at all widespread**’

Callcutt Review of Housebuilding Delivery, 2007

House builder landbanking

‘We have **not found any evidence** to support the view that, at the national level, **homebuilders are hoarding a large amount of land with implementable planning permission on which they have not started construction.** This suggests competition has not been impaired by homebuilders mothballing permissioned land to create a barrier to entry and artificially raise prices even during the long upturn in the market until 2007. Equally, there is little evidence to suggest that homebuilders have been able to systematically obtain market power at a local level by acquiring planning permissions’.

OFT Housebuilding in the UK, 2008

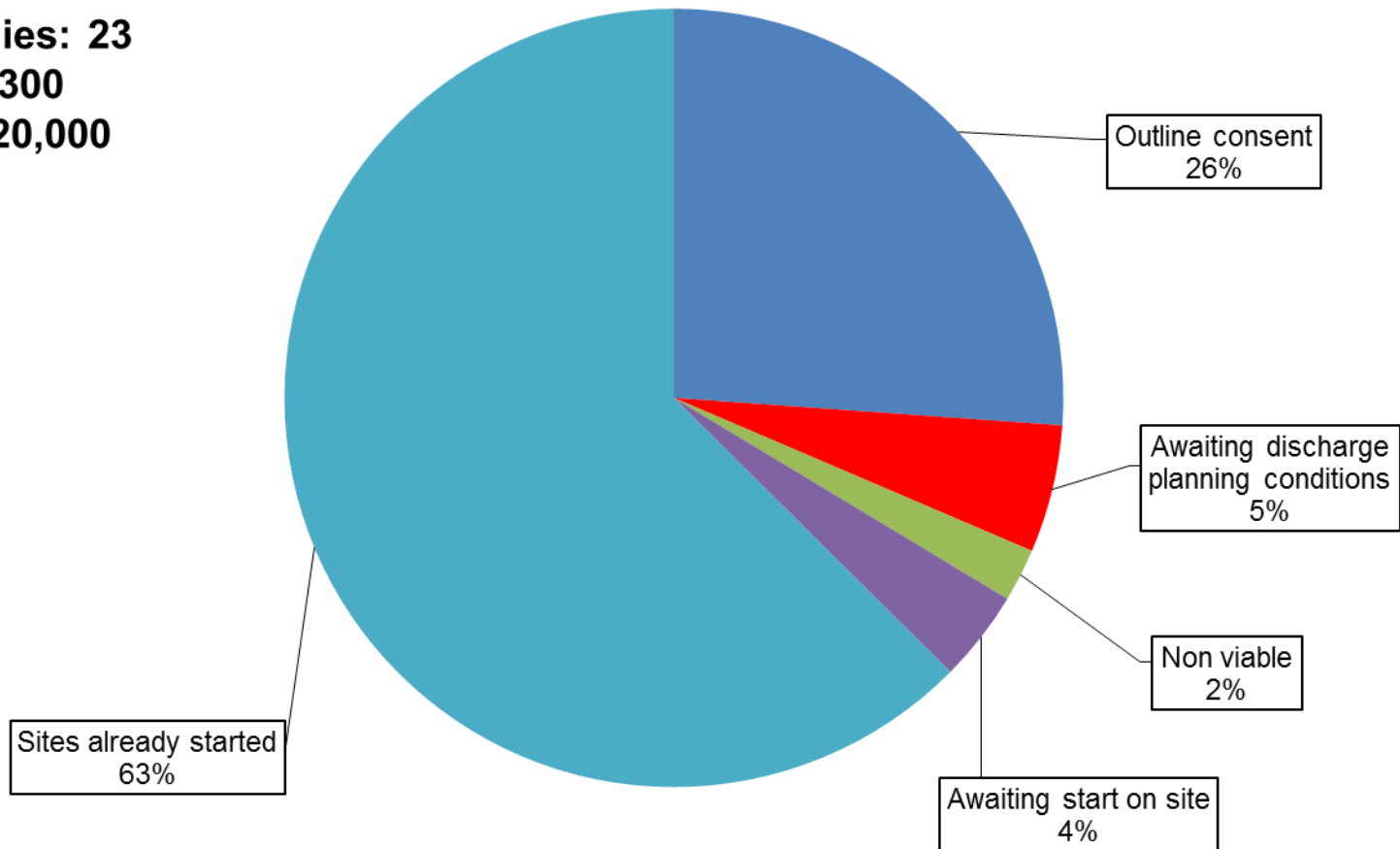
Land banks: larger home builders (HBF Survey 2013)

Survey

Companies: 23

Sites: 2,300

Plots: 220,000



KEY ISSUES FOR NEXT 5 YEARS

Key Issues...

- How much will industry increase production?
- Who will produce the increase?
- Post-election Government & policy focus
- Economic life beyond HtB2 2016:
economy, interest rates, real incomes, housing market,
mortgage market (and high LTVs), house building,
market vs policy support for new home sales
- Affordability and house prices
- FPC action to control housing market?

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