

Home Building

The long road to recovery

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13 March 2012

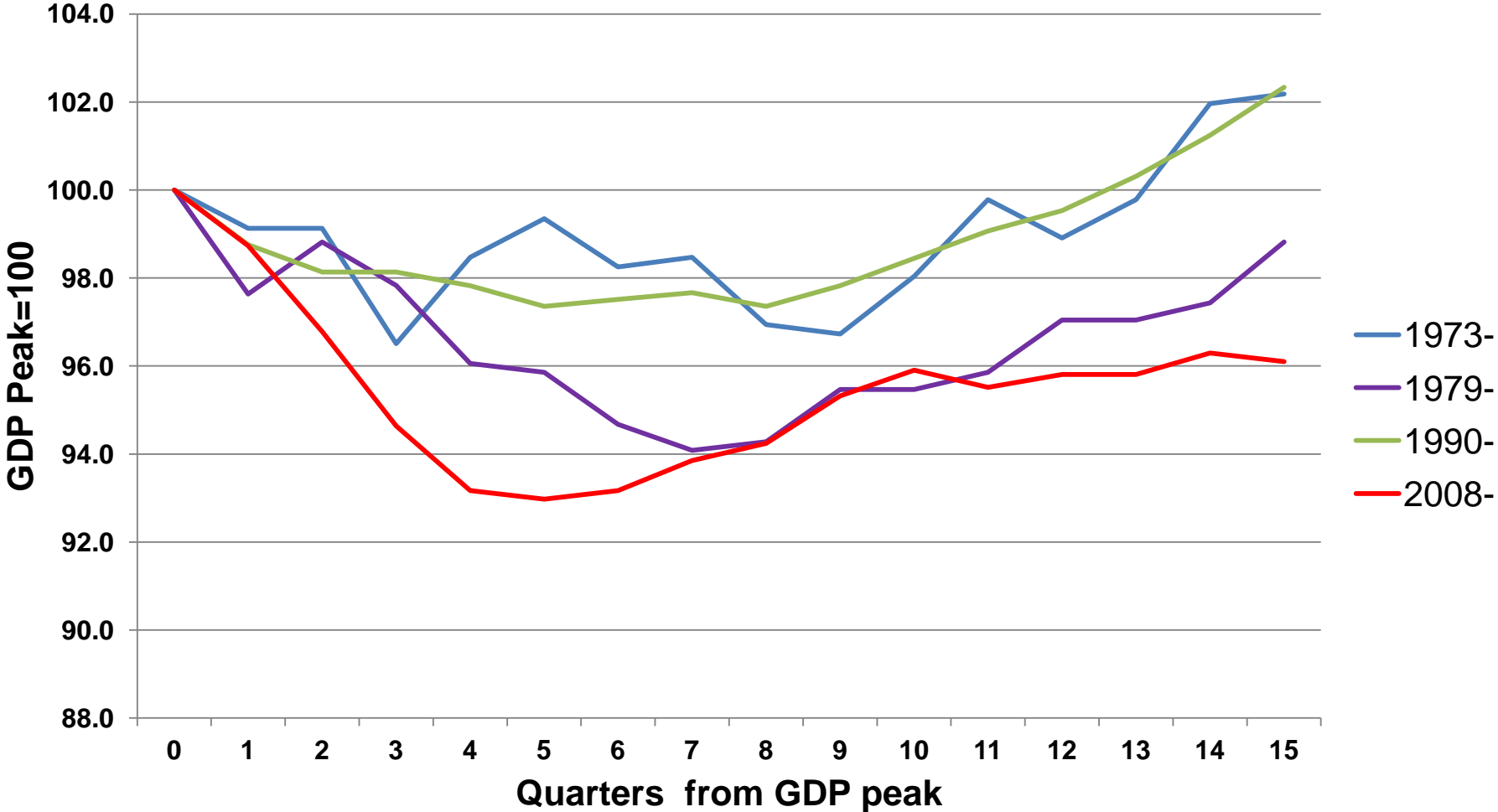


Presentation Outline

- How did we get here?
- Where are we going?
- Fundamentals: supply/demand imbalance, falling home ownership
- Government policy response
- Demand and supply challenges

HOW DID WE GET HERE?

Comparing Recessions (GDP peak=100)



Gross Domestic Product (GDP) Growth



Real post-tax incomes squeeze

“a ferocious squeeze in the purchasing power of take-home pay”

“we have now experienced the longest period over which real wages have failed to rise since the 1920s”

Sir Mervyn King, Governor, Bank of England, Jan 2012

Fiscal squeeze

“The impact of the remaining cuts to the services provided [by government] is difficult to predict; they are of a scale that has not been delivered in the UK since at least the Second World War.”

“Perhaps the only relevant example of such deep cuts being delivered elsewhere in recent decades is Ireland in the late 1980s.”

Institute for Fiscal Studies, Green Budget, Feb 2012

Fiscal squeeze

By end 2011-12, fiscal plans imply:

- 73% of planned tax rises
- 34% of public investment cuts
- 12% of benefit cuts
- 6% of cuts to non-investment spending on public services

Institute for Fiscal Studies, Green Budget, Feb 2012

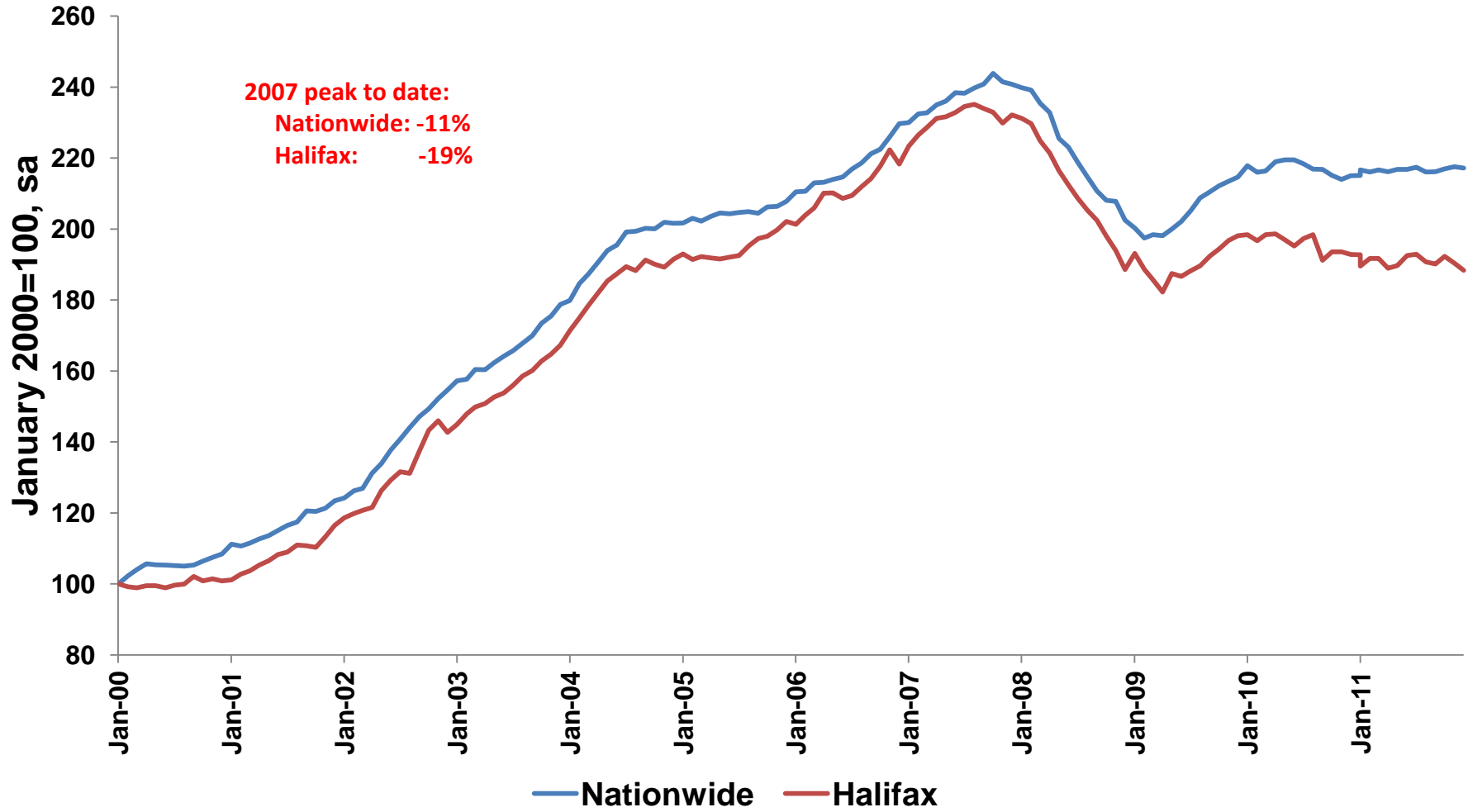
Fiscal squeeze

Local government spending:

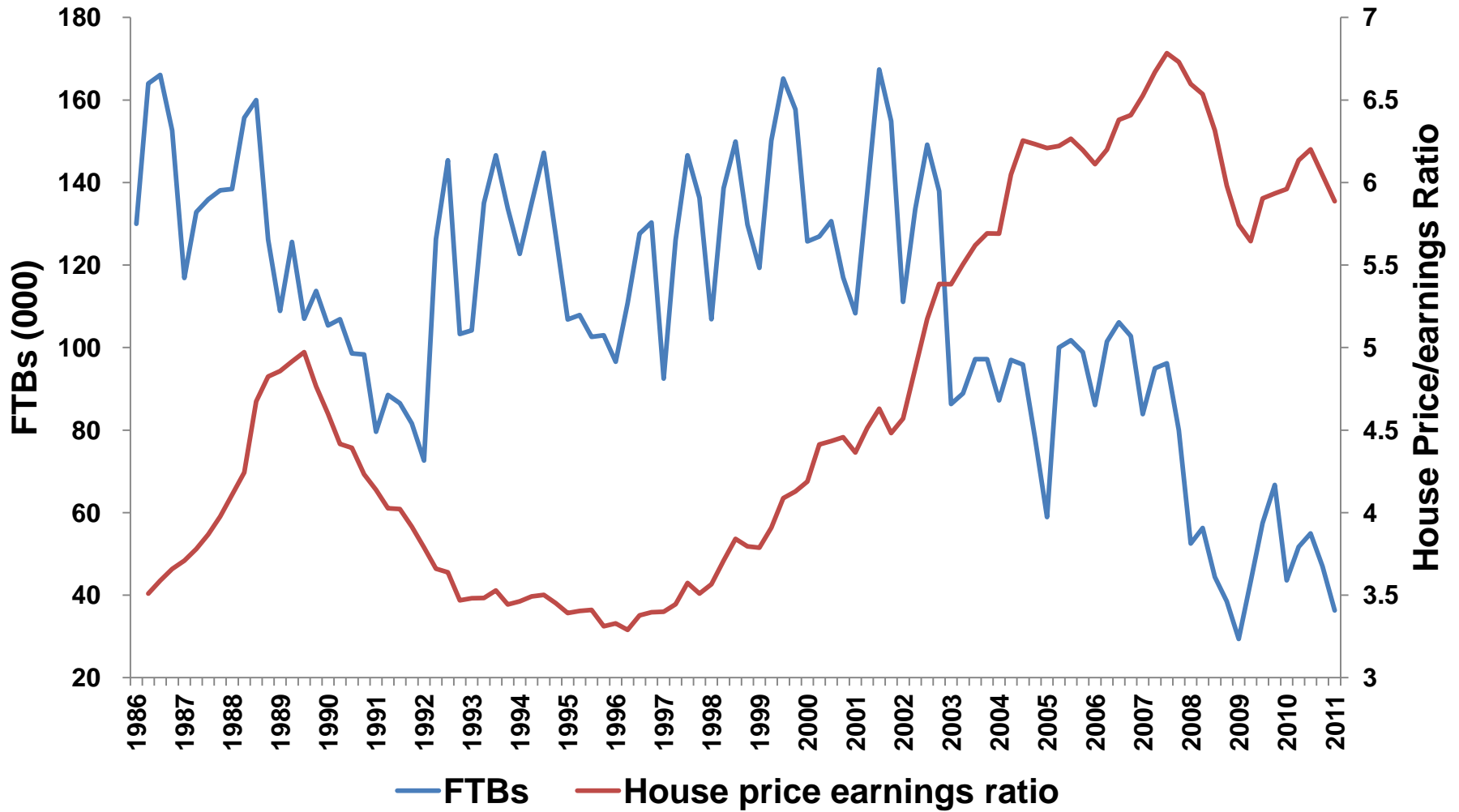
“The size of cuts varies significantly across service areas. Expenditure on planning and development services is hardest hit, with an average cut across England of 43% in the two years since 2009-10.”

Institute for Fiscal Studies, Green Budget, Feb 2012

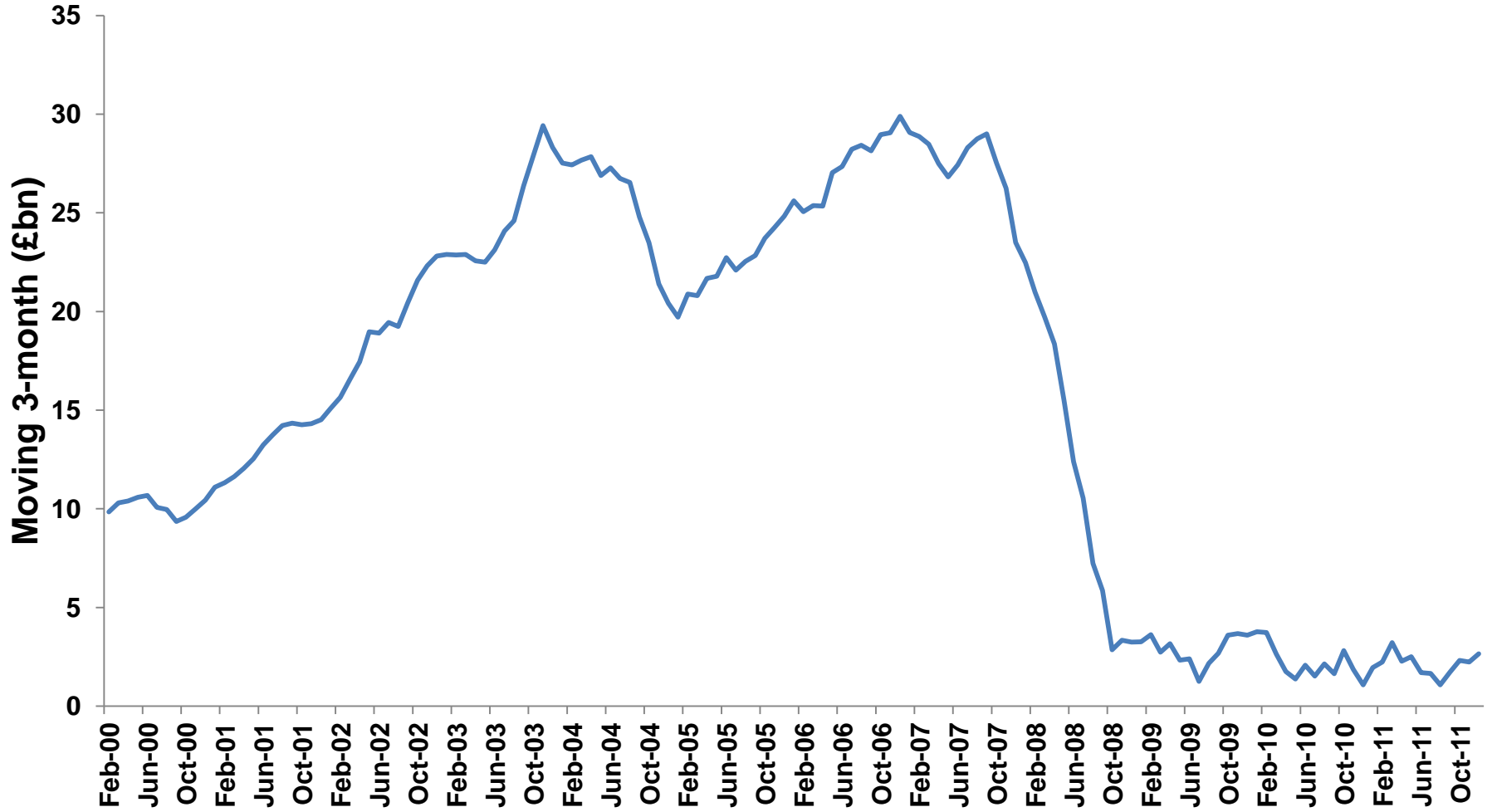
House Price Indices (UK)



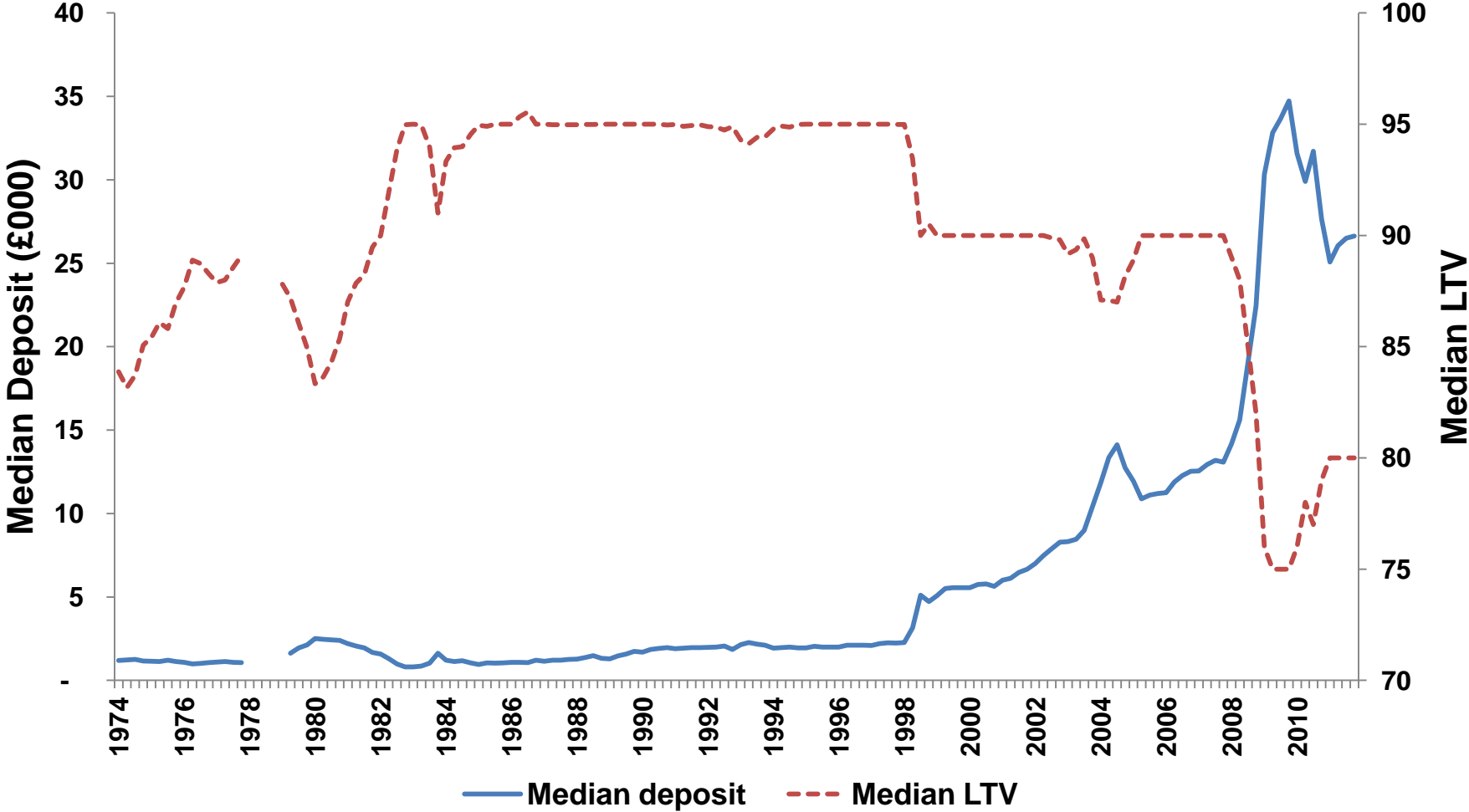
First-time Buyers (UK): Quarterly



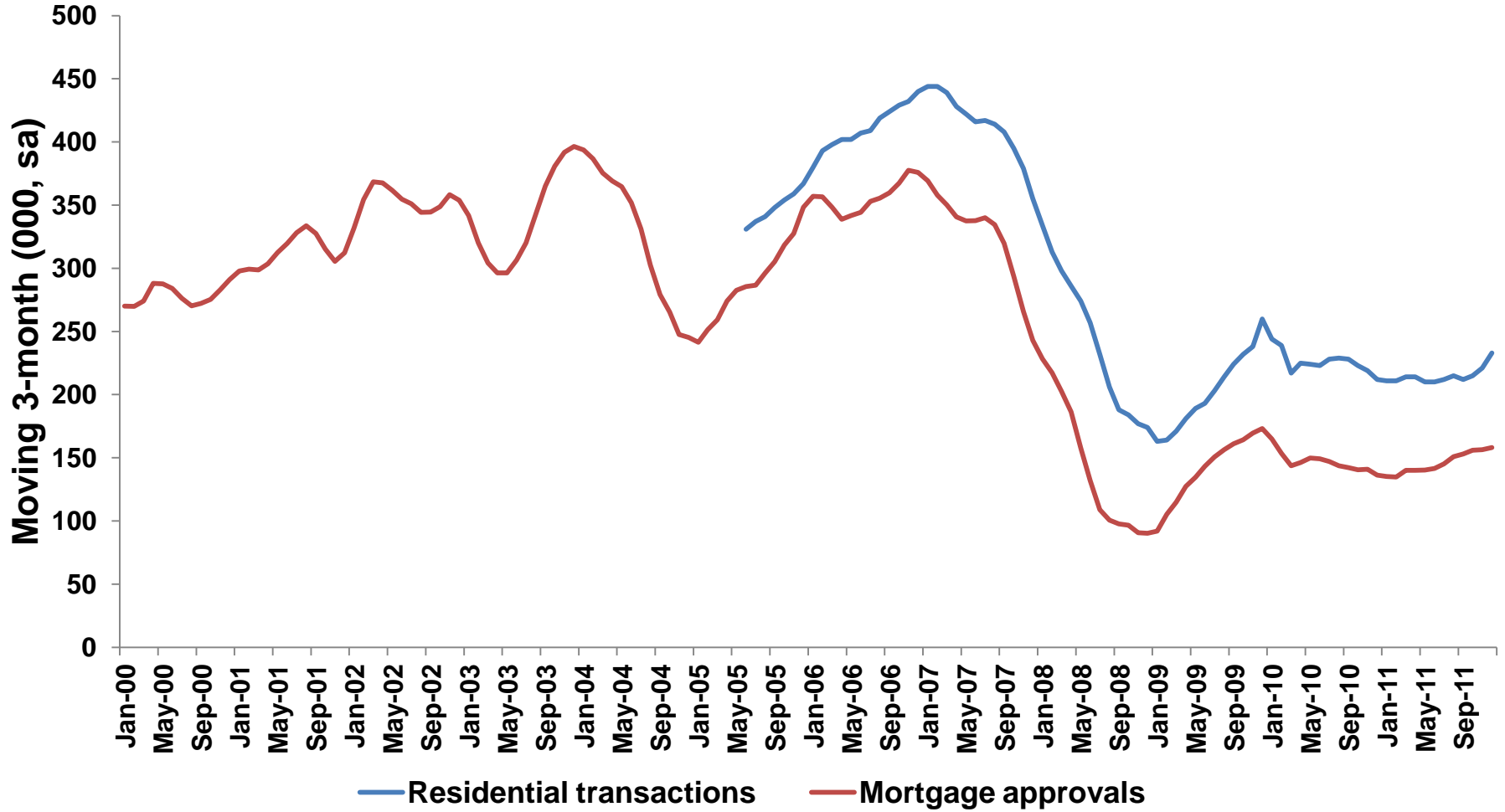
Net Mortgage Lending (UK)



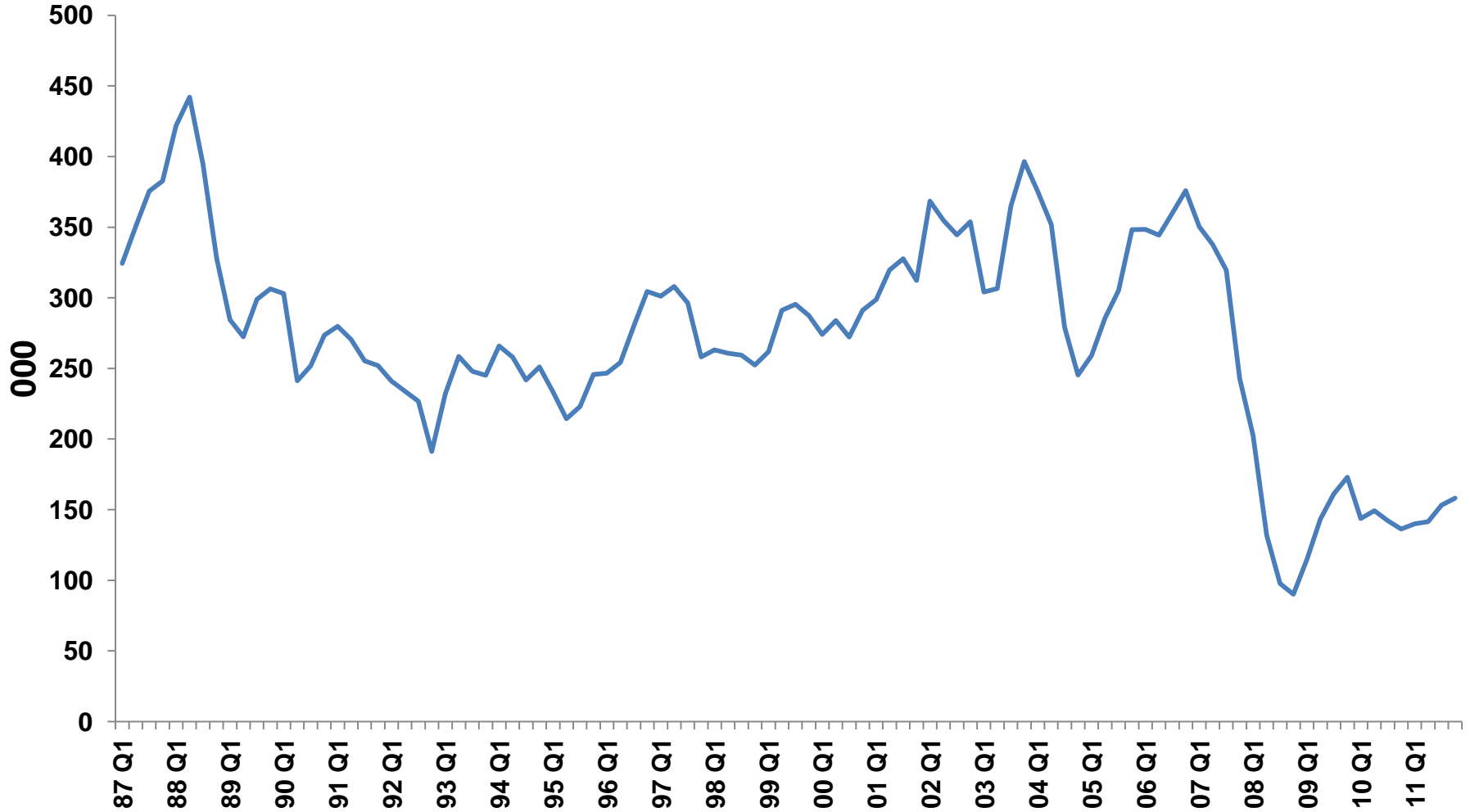
First-time Buyer Median Deposit & LTV (UK)



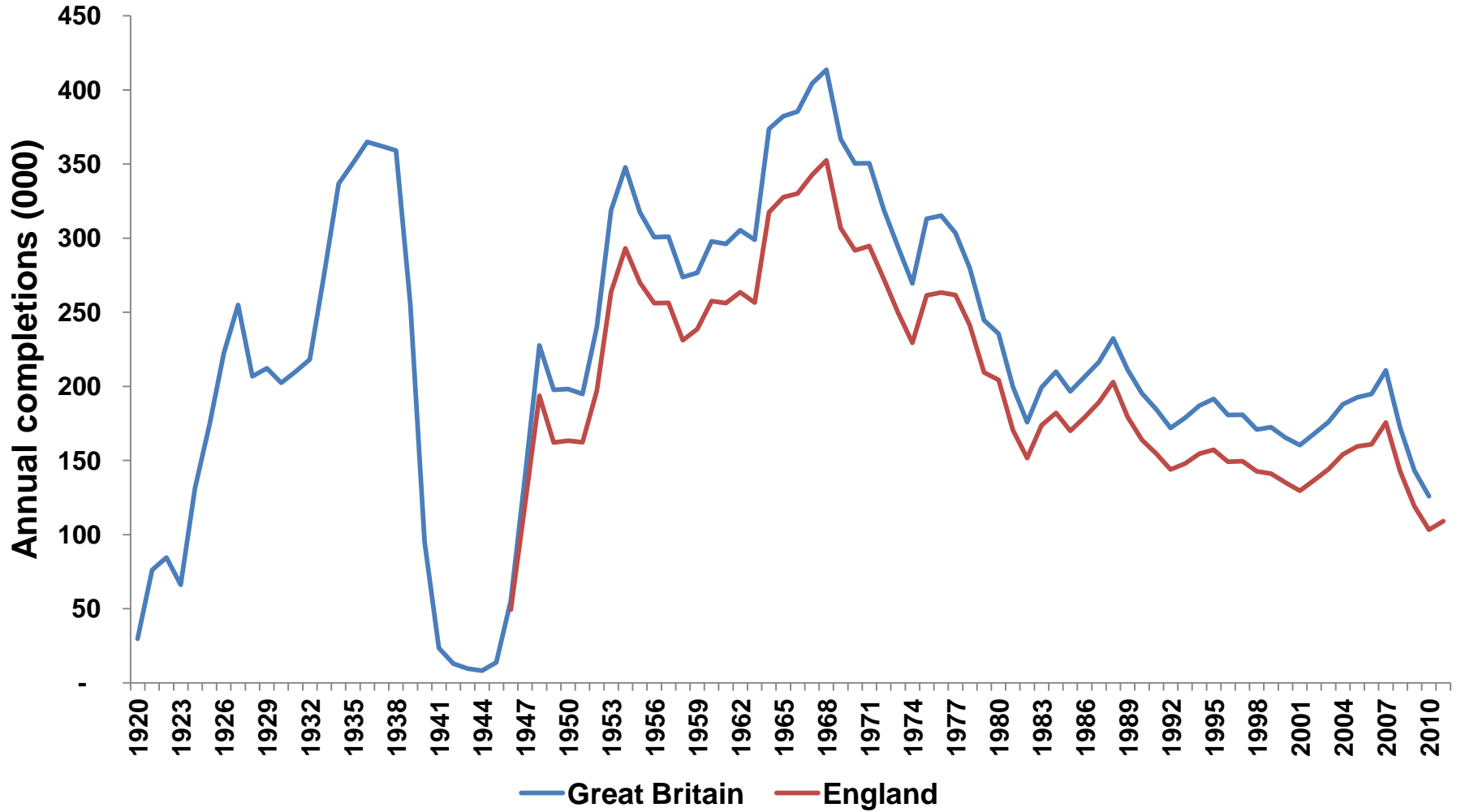
Residential Transactions & Mortgage Approvals (UK)



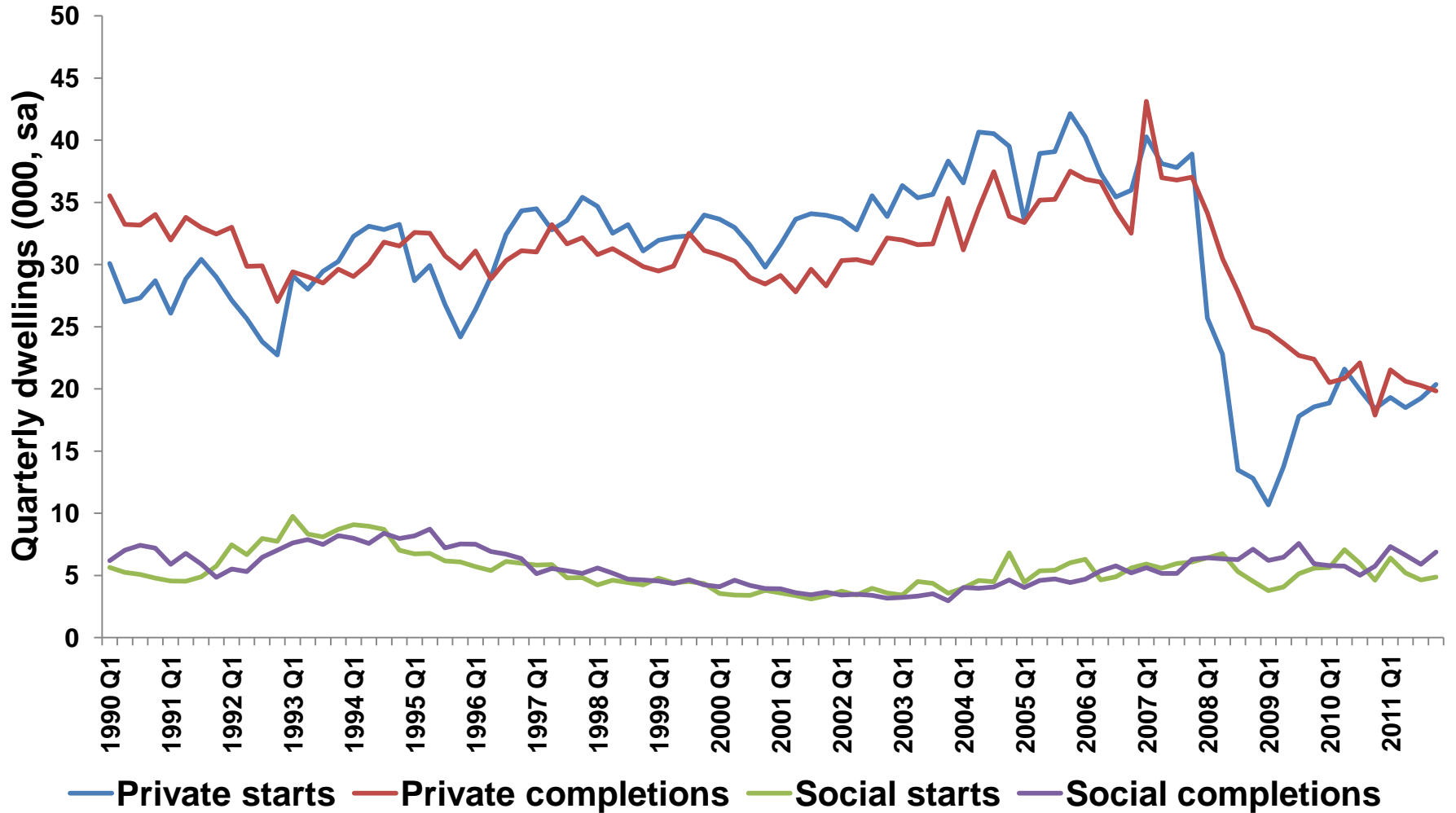
Mortgage Approvals (UK): Quarterly



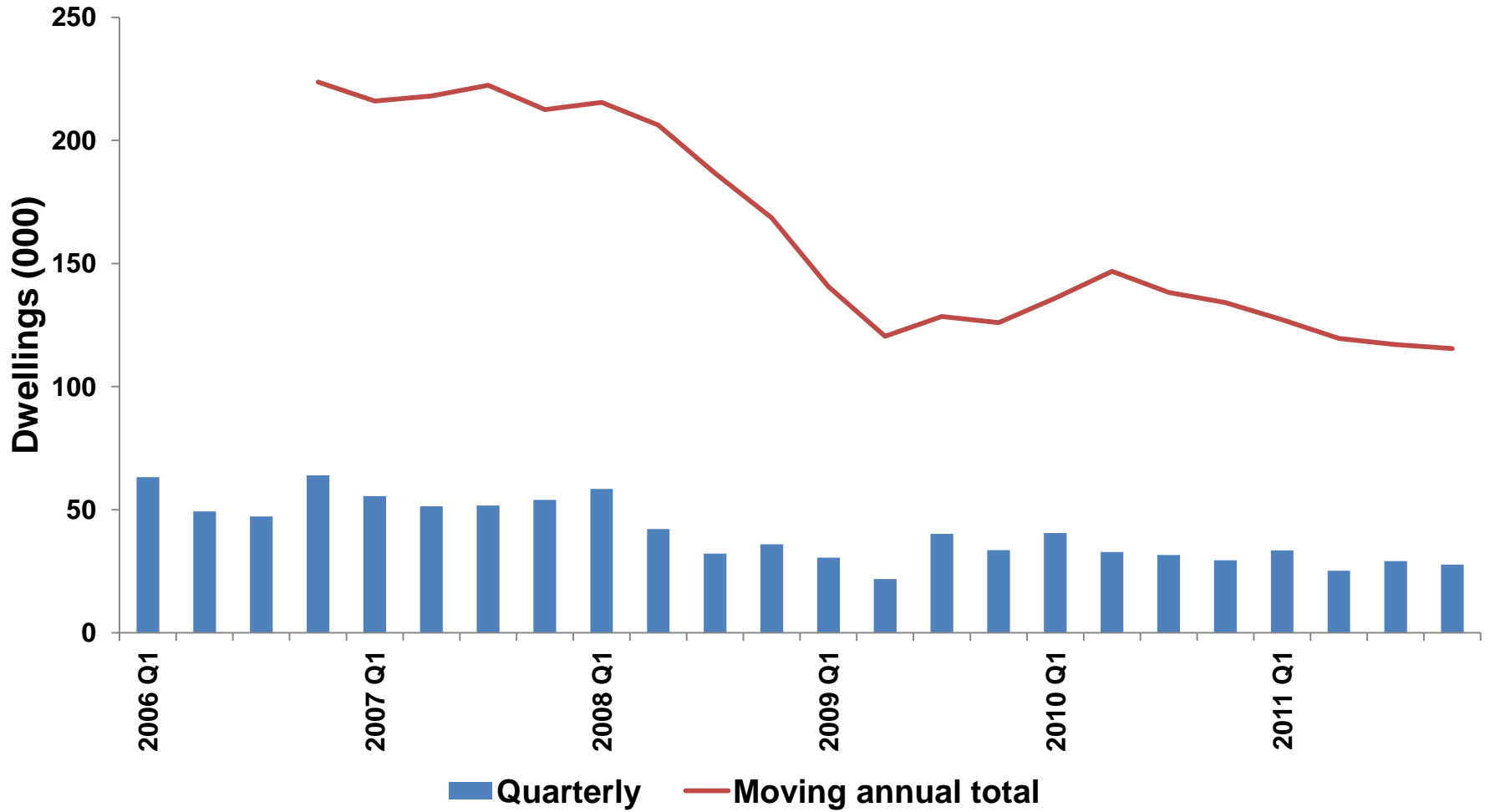
Total Housing Completions (GB)



House Building (England)

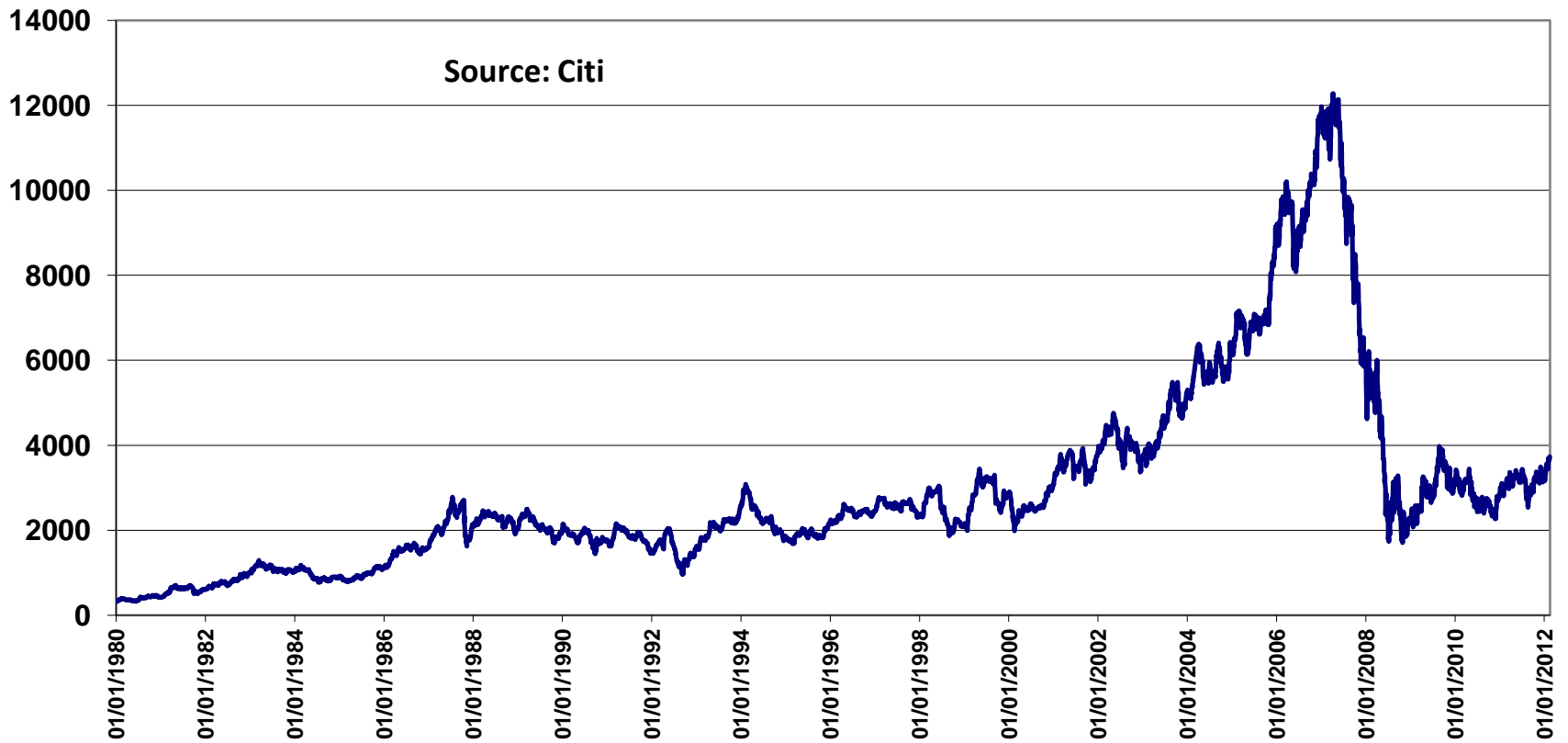


Planning Permissions: Dwellings (England) (Glenigan)



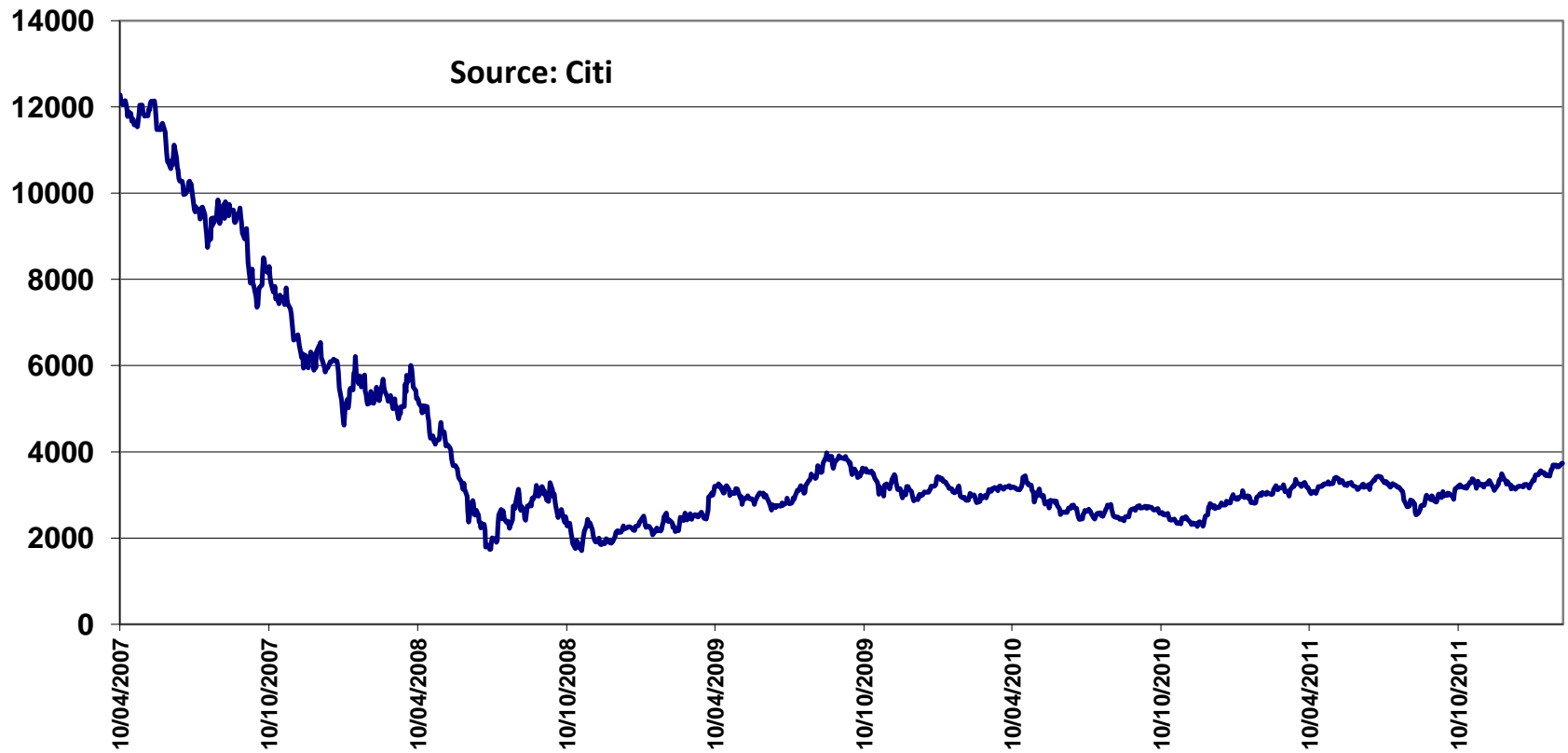
UK Home Builders' Stock Market Index

(to 15 February 2012)



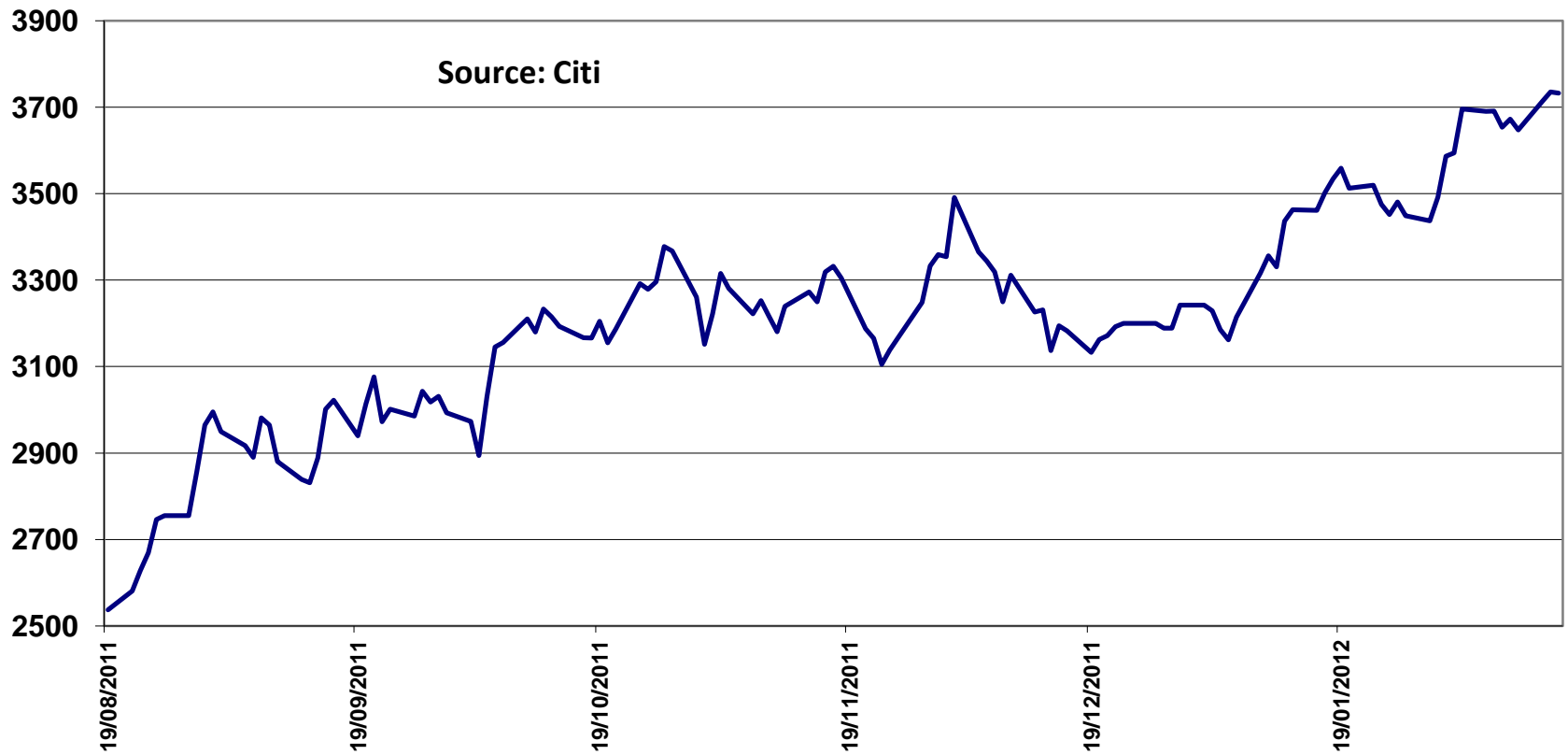
UK Home Builders' Stock Market Index

(all-time peak to 15 February 2012)

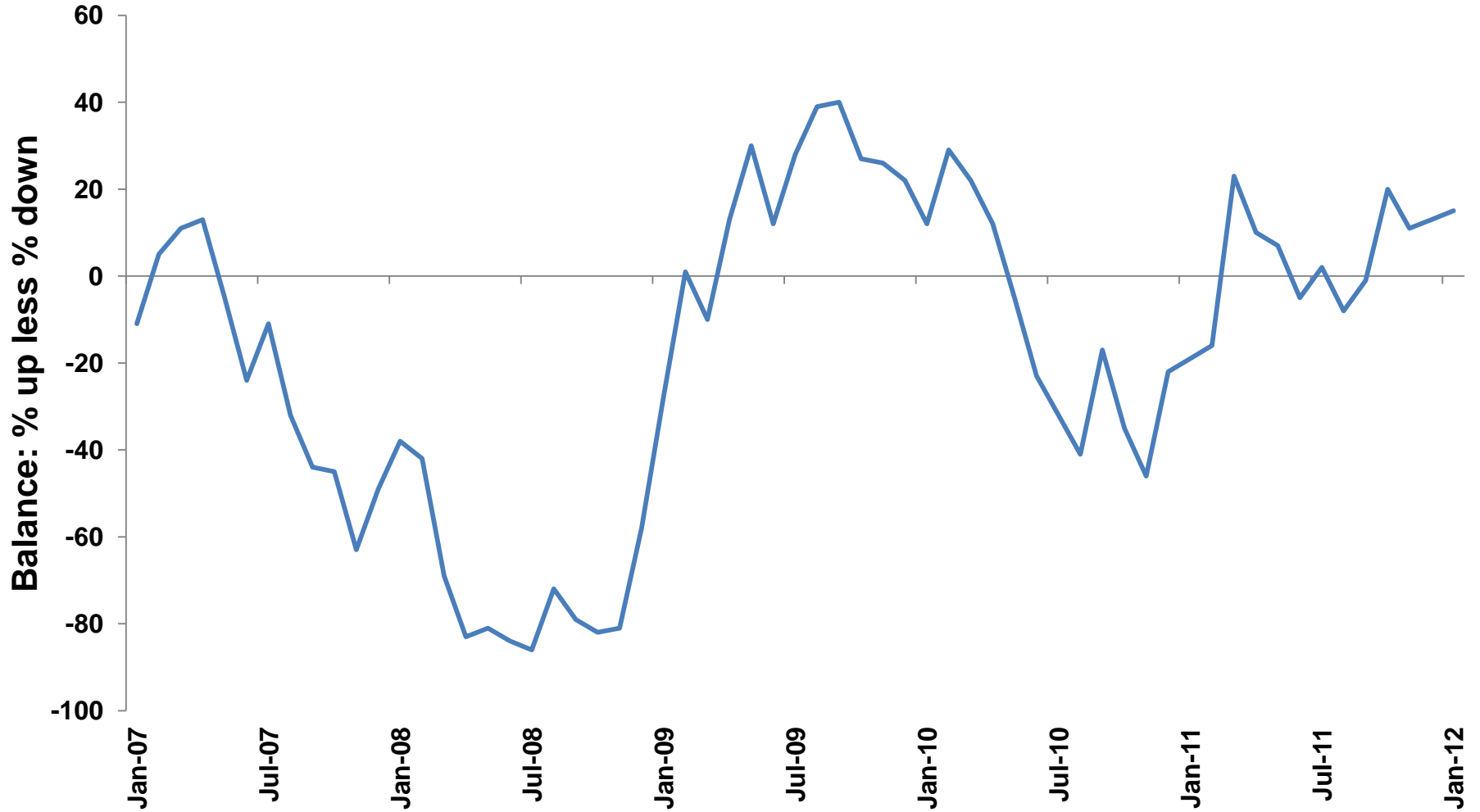


UK Home Builders' Stock Market Index

(recent trough to 15 February 2012)



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



House building employment

Down by third to half

While coping with..

- **Radical planning reform (NPPF, hiatus)**
- **World-beating sustainability regulations**
(Part L/zero carbon; Flood and Water Management Act)

WHERE ARE WE GOING?

Economic outlook

“Near-term prospects are bleak”

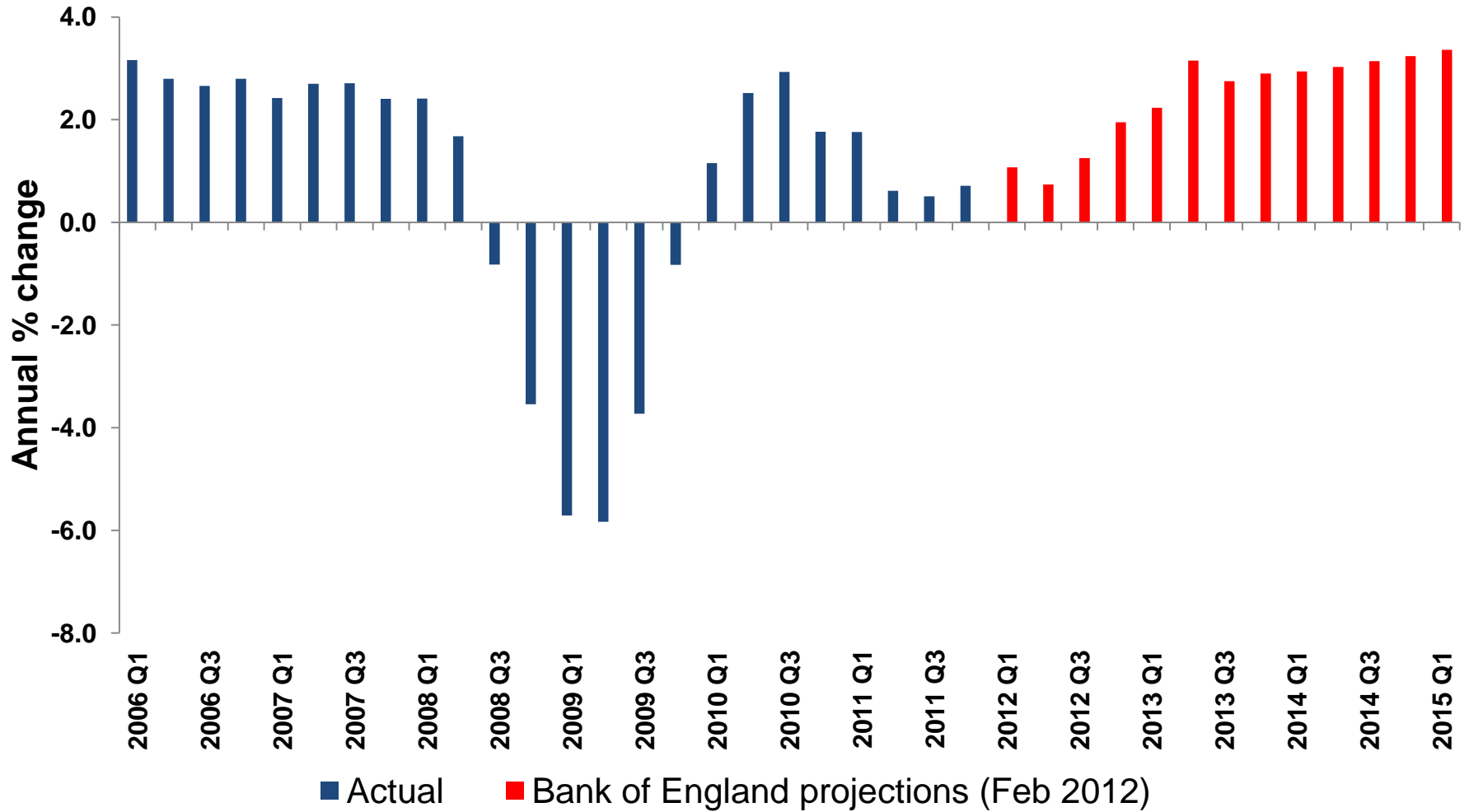
“GDP...is expected to grow on average
by 2.1% over the next five years”

Institute for Fiscal Studies, Green Budget, Feb 2012

GDP Annual % Growth Forecasts (at February 2012)

	IFS Green Budget	Bank of England	Average independent
2011	0.9	0.9	0.9
2012	0.3	1.3	0.4
2013	1.9	2.8	1.8
2014	2.8	3.1	
2015	2.8		
2016	2.7		

Gross Domestic Product (GDP) Growth



Mortgage outlook

Slow recovery to 'normal'

- Funding recovery (wholesale, securitisation)
- Regulation (MMR, Basle II, III)
- New caution, risk pricing, indemnity guarantees

New build outlook

Industry expectations GB housing starts:

“little change expected in 2012. Even by 2016, the forecast average was 153,000 starts, which is still nearly 30% below previous peak levels”

NHBC Foundation survey of 54 private home builders
(November 2011, before NewBuy announced)

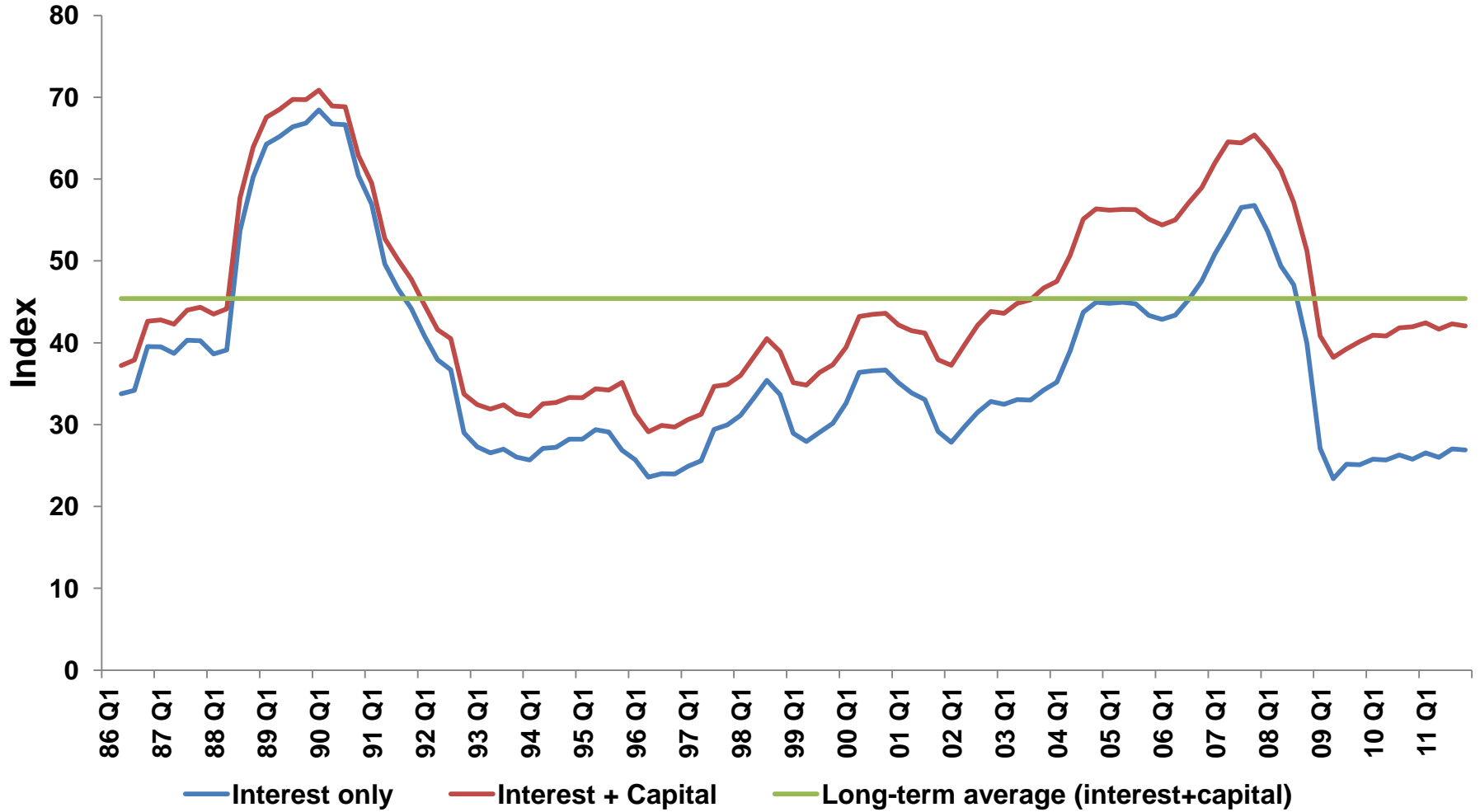
New build outlook

Industry expectations UK house prices:

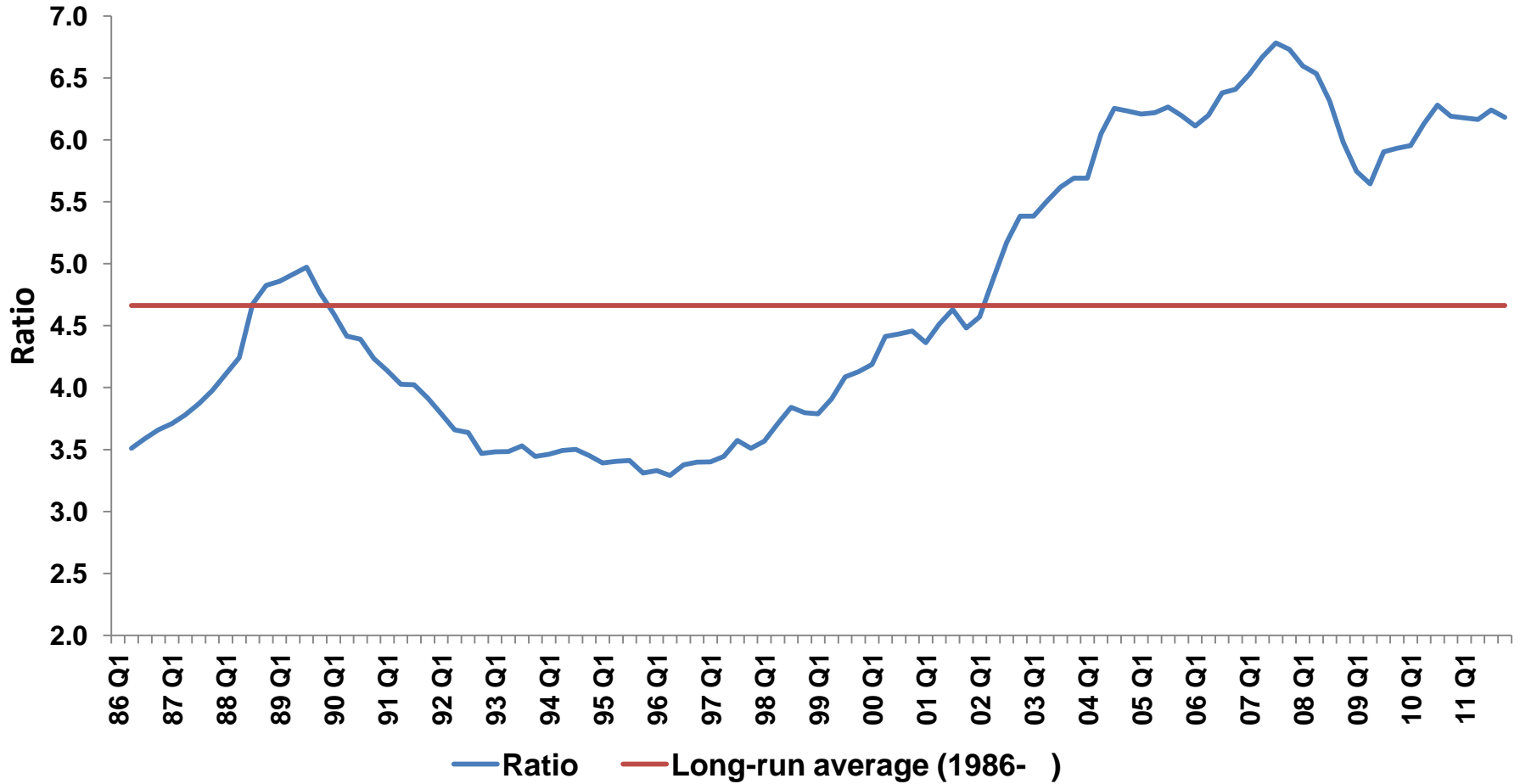
In 2016 approx 9% above 2011 => a decline in real (inflation-adjusted) terms

NHBC Foundation survey of 54 private home builders
(November 2011, before NewBuy announced)

HMR Affordability Index (GB, Single Male)

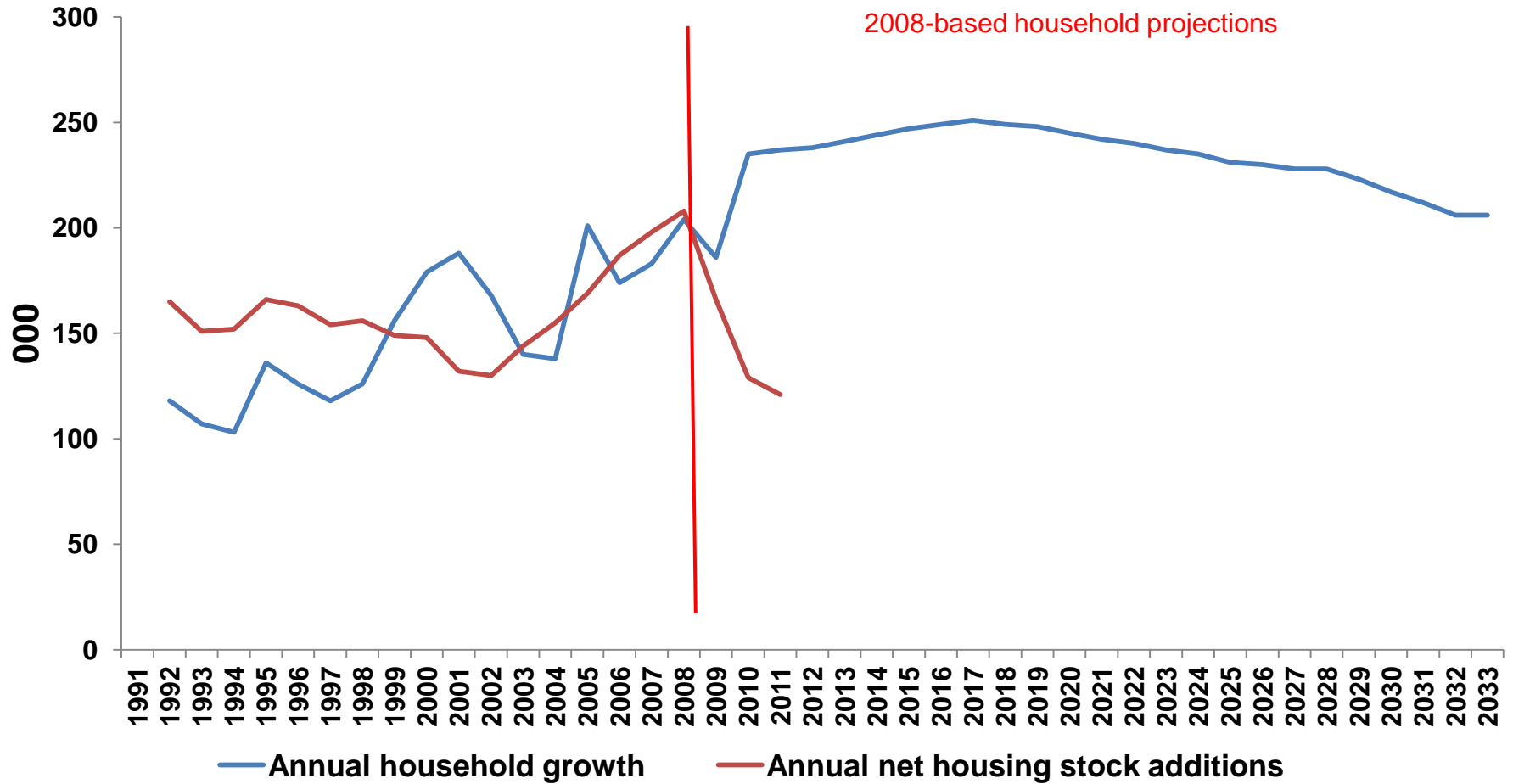


HMR House Price Earnings Ratio (GB, Single Male)



FUNDAMENTALS
SUPPLY/DEMAND IMBALANCE
FALLING HOME OWNERSHIP

Household Growth & Annual Net Stock Additions (England)



Housing undersupply (England)

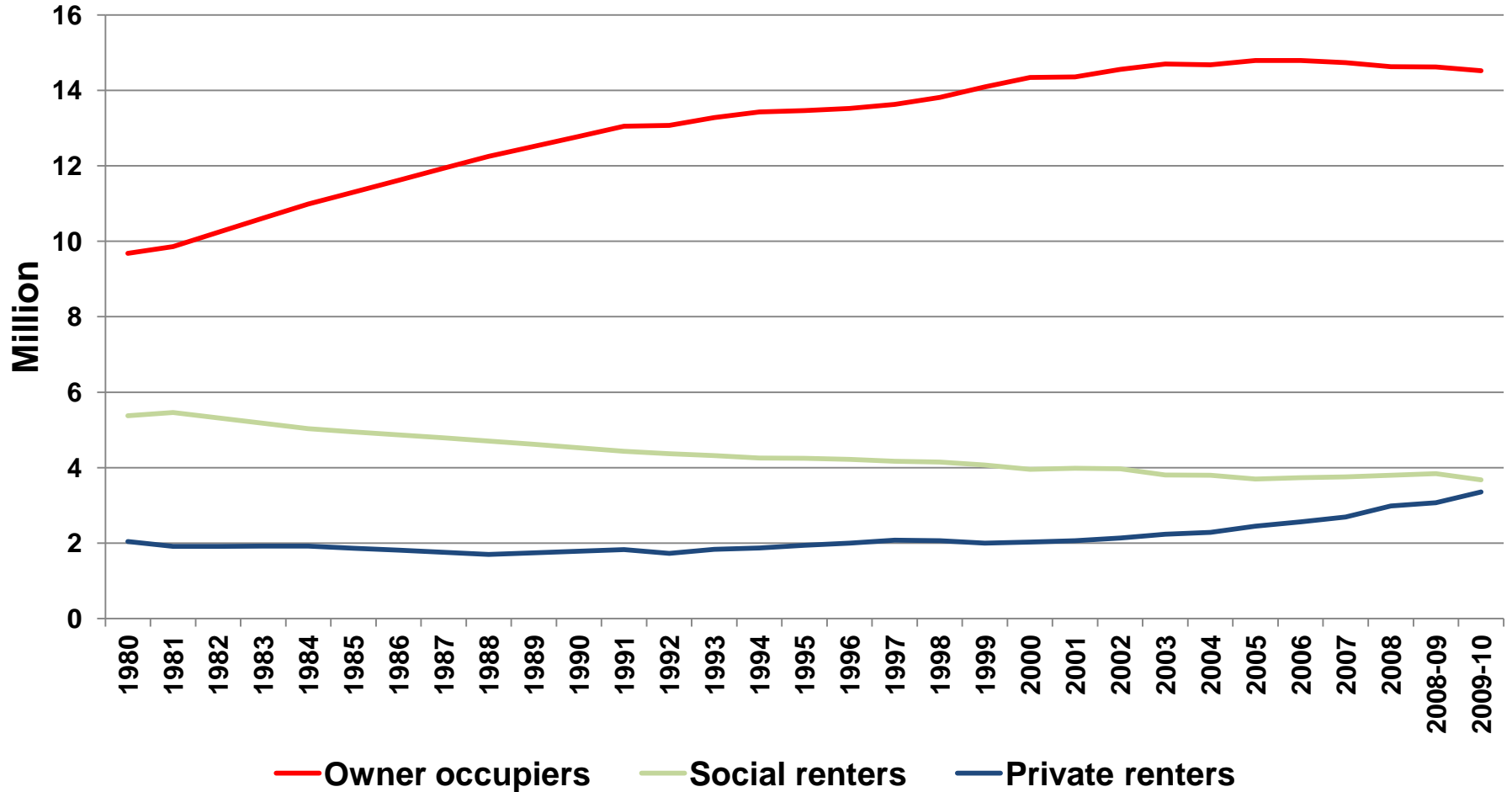
Net additions:

- 2007/08: 207,370
- 2009/10: 128,680

Requirement 2008-26: 270,000+ pa

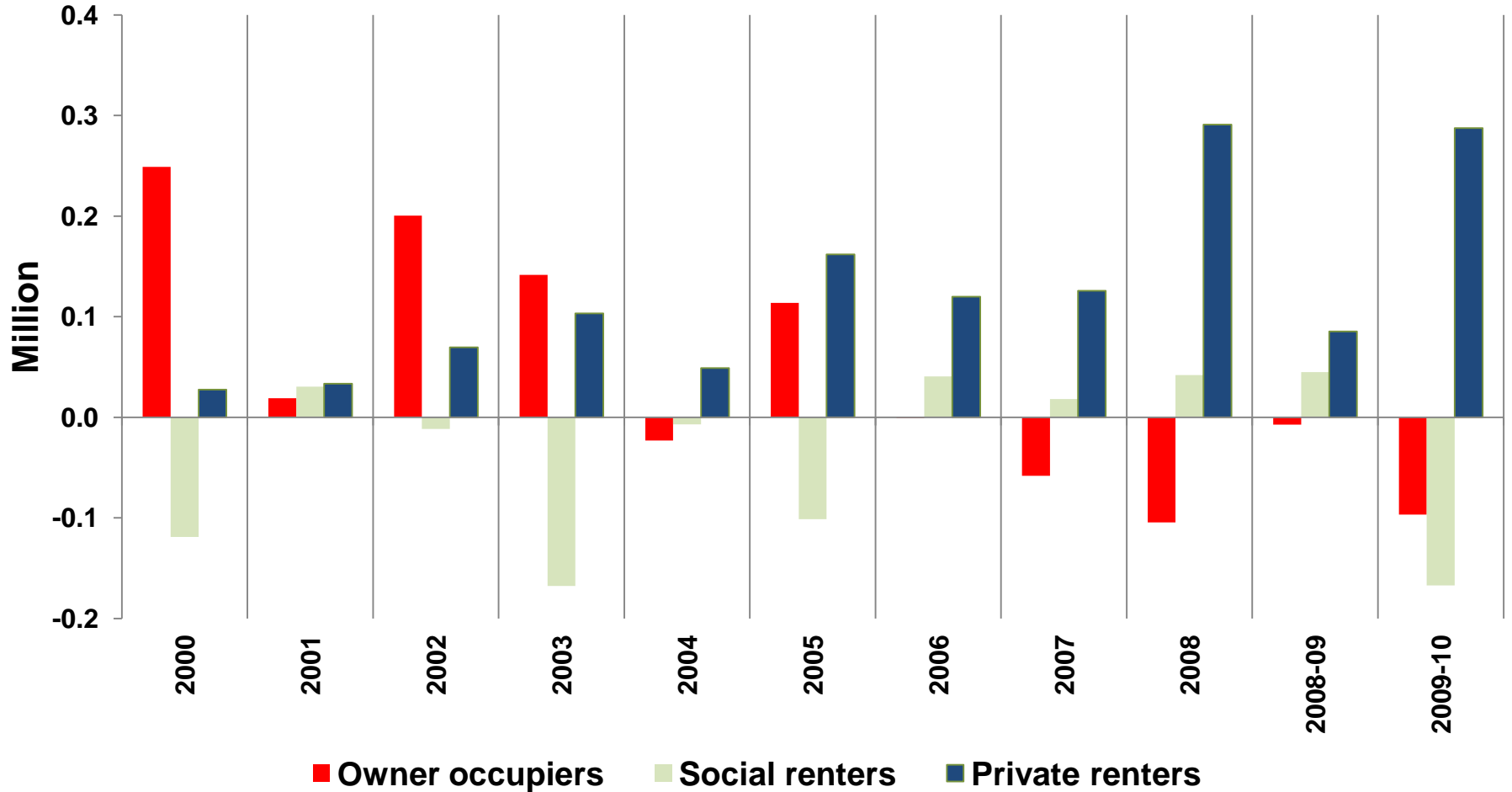
Trends in Tenure (England)

Total in tenure

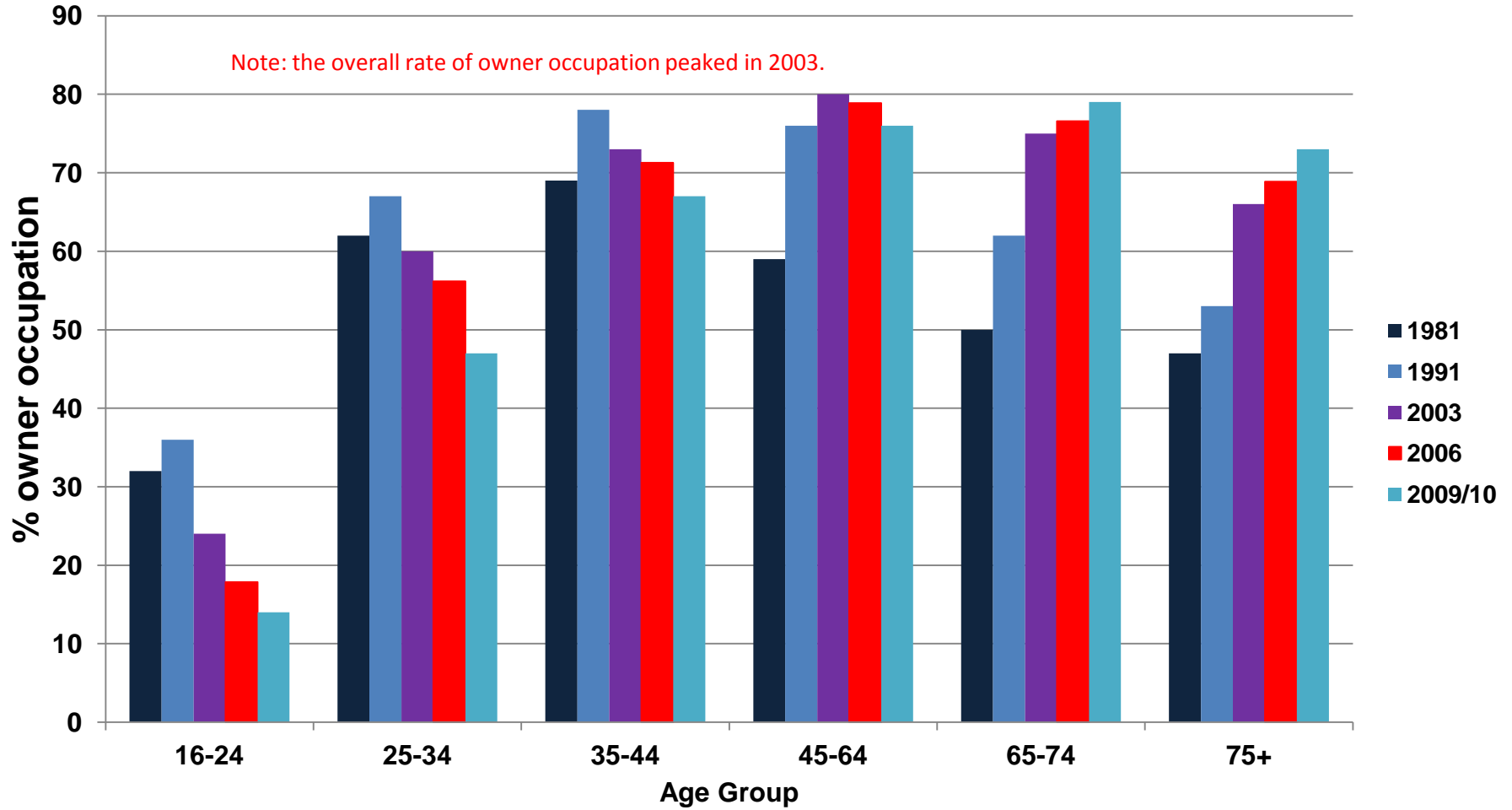


Trends in Tenure (England)

Annual change



Owner occupation by age (England)



GOVERNMENT POLICY RESPONSE

Policy response

Demand (deposit gap)

- FirstBuy (10,500)
- NewBuy (indemnity scheme) (100,000)

Supply

- NPPF, New Homes Bonus, CIL
- Reduce regulatory burden
- Get Britain Building (16,000)
- Public land disposal (100,000)
- PRS independent review (Sir Adrian Montague)

BUILDING RECOVERY DEMAND AND SUPPLY CHALLENGES

Demand challenges

- Slow economic/market recovery
- Slow mortgage funding recovery
- Permanent mortgage regulation constraints
- PRS demand to expand further
- Affordable housing: uncertain outlook

But underlying housing requirements strong

Supply challenges

Permissioned land supply

NPPF “streamlines national policy from over 1,000 pages to just 52 pages of policy”

- But does it simplify the system?
- Will it leave aggregate shortfall?
- How will Government & PINS react to shortfall, and when?

Industry response

House builders must take the world as it is...

- Localism, local consultation, new skills
- Location search (matrix: demand scale & policy attitude)
- Strategic vs oven-ready land

Supply challenges

Regulatory burden

- Government commitment to reduction
 - One In One Out Rule
 - Spending Review commitment
- But burden has increased (Part L, Flood & Water Management Act, biodiversity offsetting, etc.)
- And little control over local burden (Harman Review)

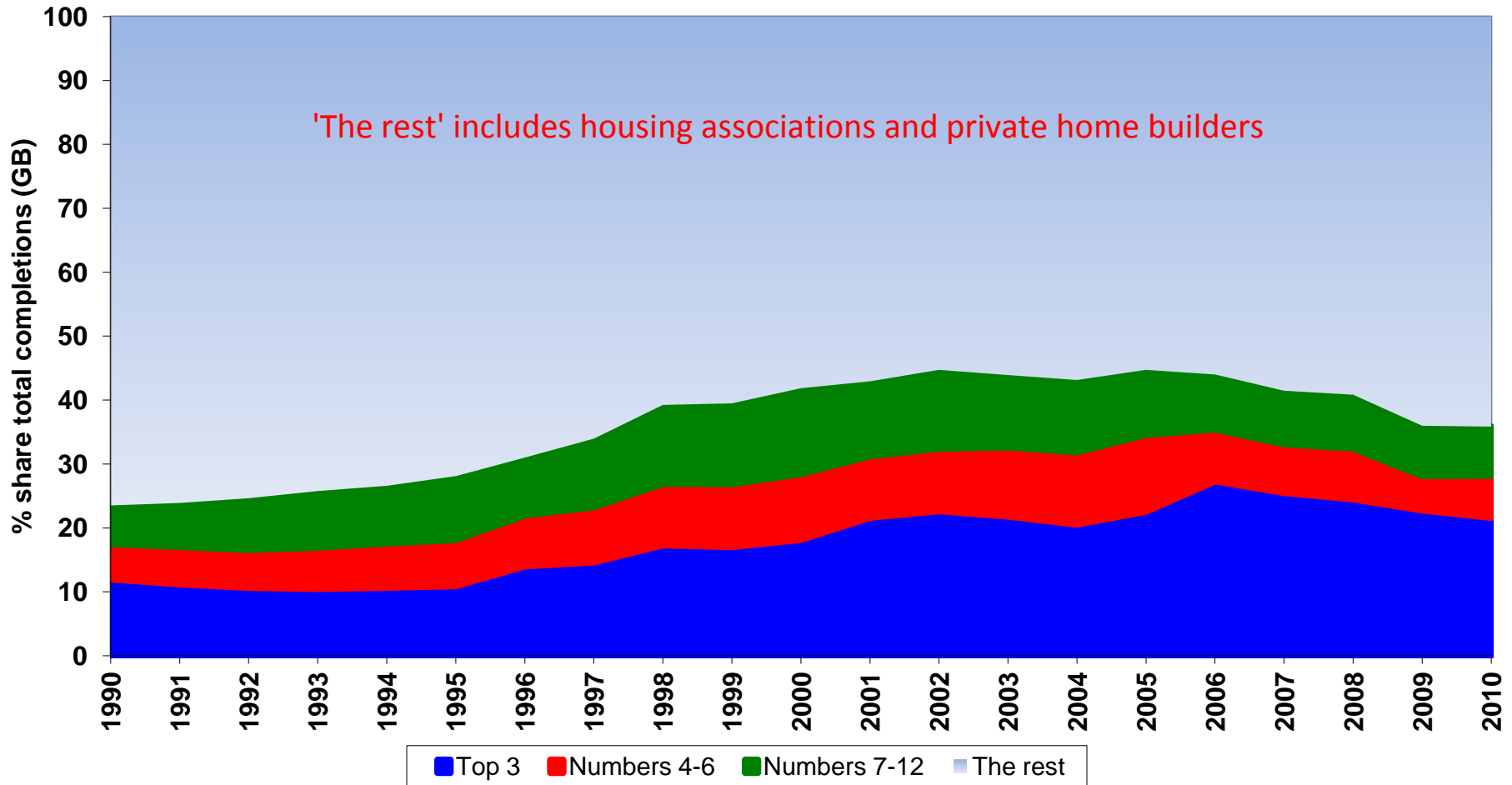
Industry capacity

Structural shifts

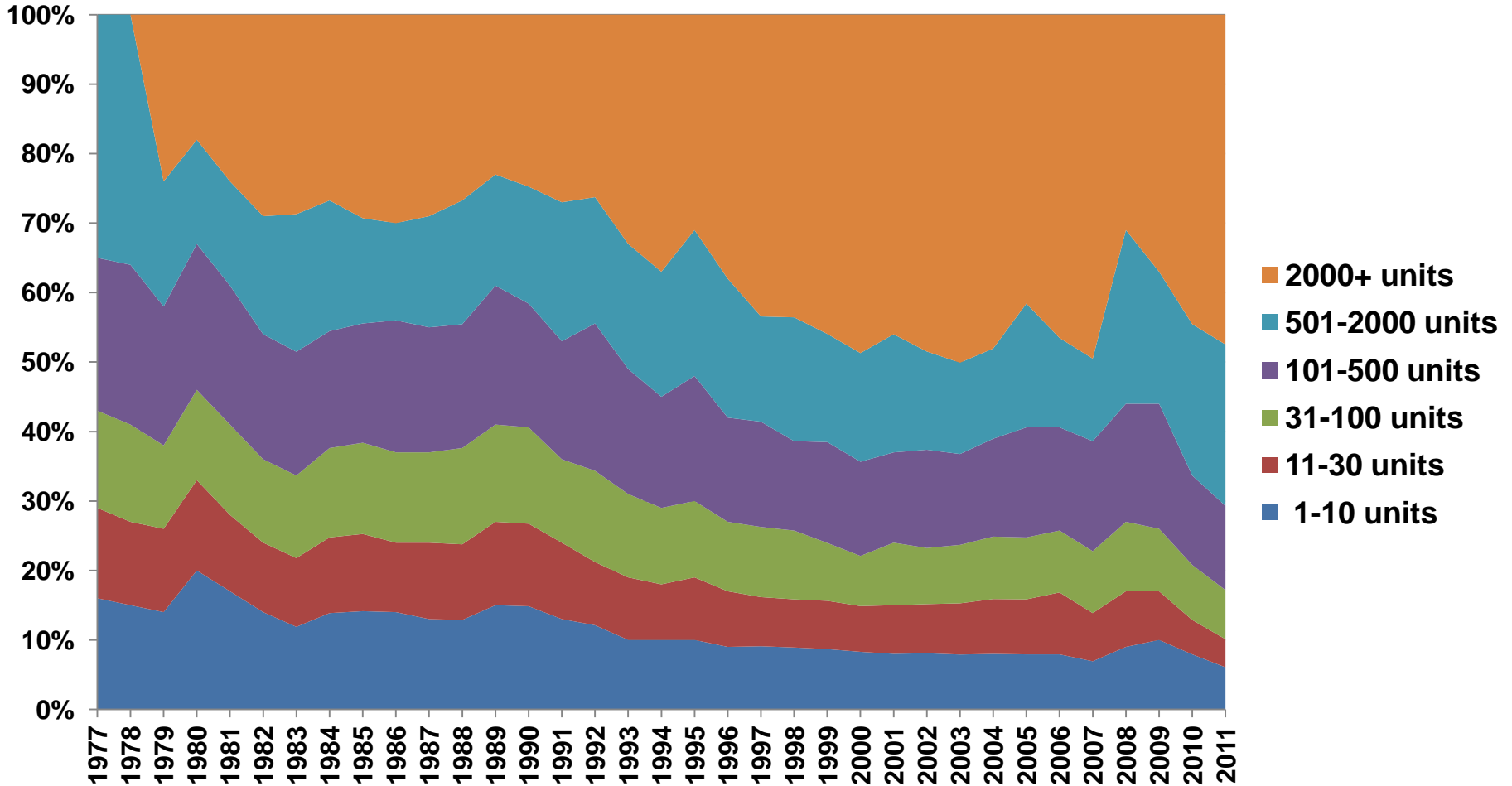
- **1980s**: home builders diversified, owner occupier demand
- **1990s**: home builders specialists, owner occupier demand
- **1991-** : plan-led system – ceiling on home building
- **1995-2007**: consolidation (Persimmon takeover Ideal 1995)
- **2000s**: **Increasing complexity of demand** (PPG3 density & brownfield, Affordable Housing, investors/buy-to-let, shared equity, Government schemes) **and supply** (planning, public land, regulatory burden, Part L, public supply-side schemes)

Market Share: Top 12 Home Builders

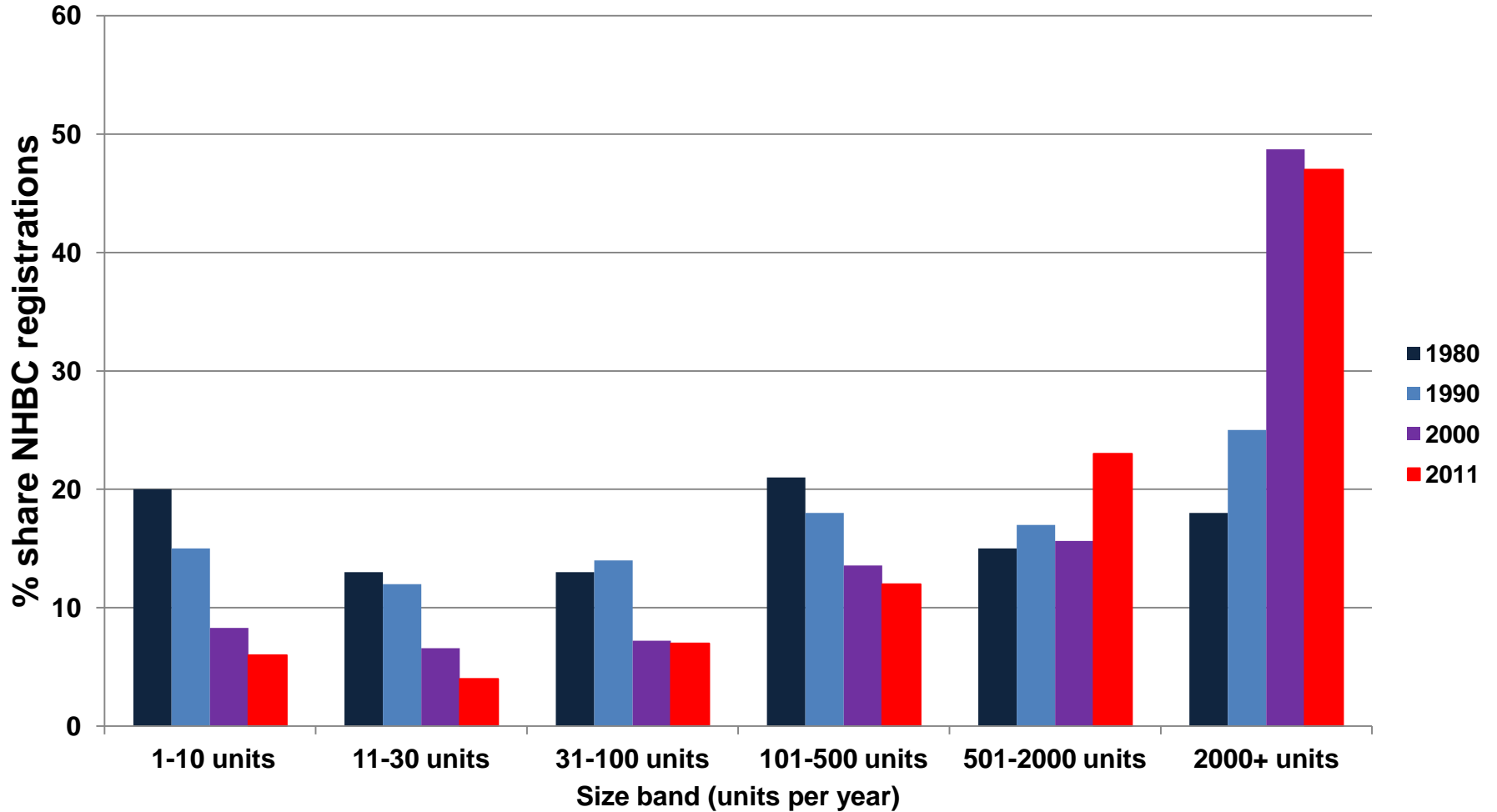
% Share of Total Completions (GB)



Home Building Industry Structure (Size bands by NHBC registrations)



Home Building Industry Structure



Industry capacity

Industry structure

- How far can/will the Majors expand?
- Role of squeezed SMEs?
- Consolidation?
- New entrants?
- Partnerships/JVs, public and private?
- Land developers?
- Housing association private new build?
- Other home builders (e.g. commercial developers)?

Key influences: finance, planning complexity, localism, regulatory complexity

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