

The Outlook for Home Building

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9 October 2013



Question across Government

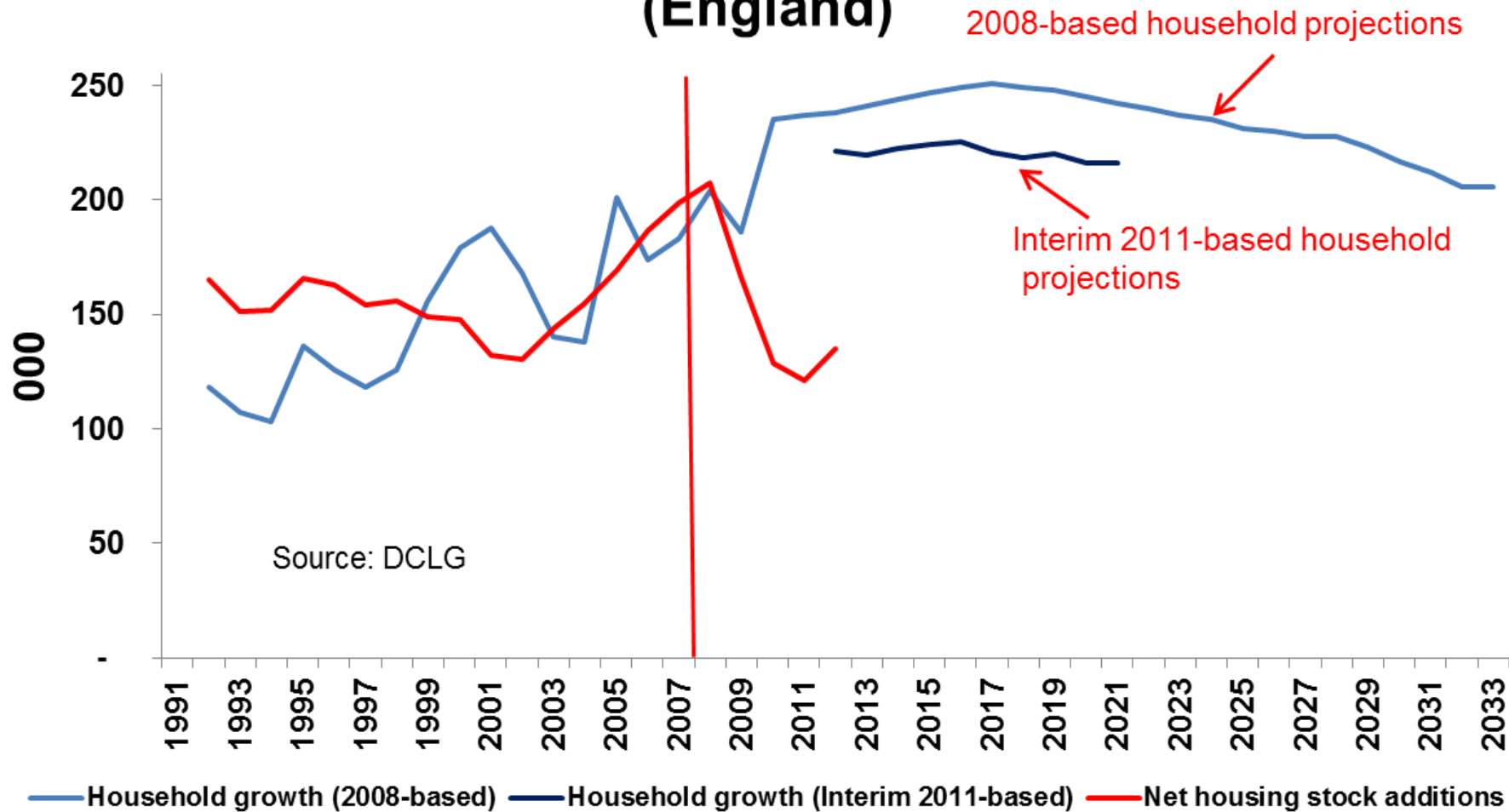
When are house builders going to increase house building, and by how much?

And a common accusation...

“Private house builders cannot meet our housing requirements. The only time we have ever seen high levels of home building is when the public sector played a major role.”

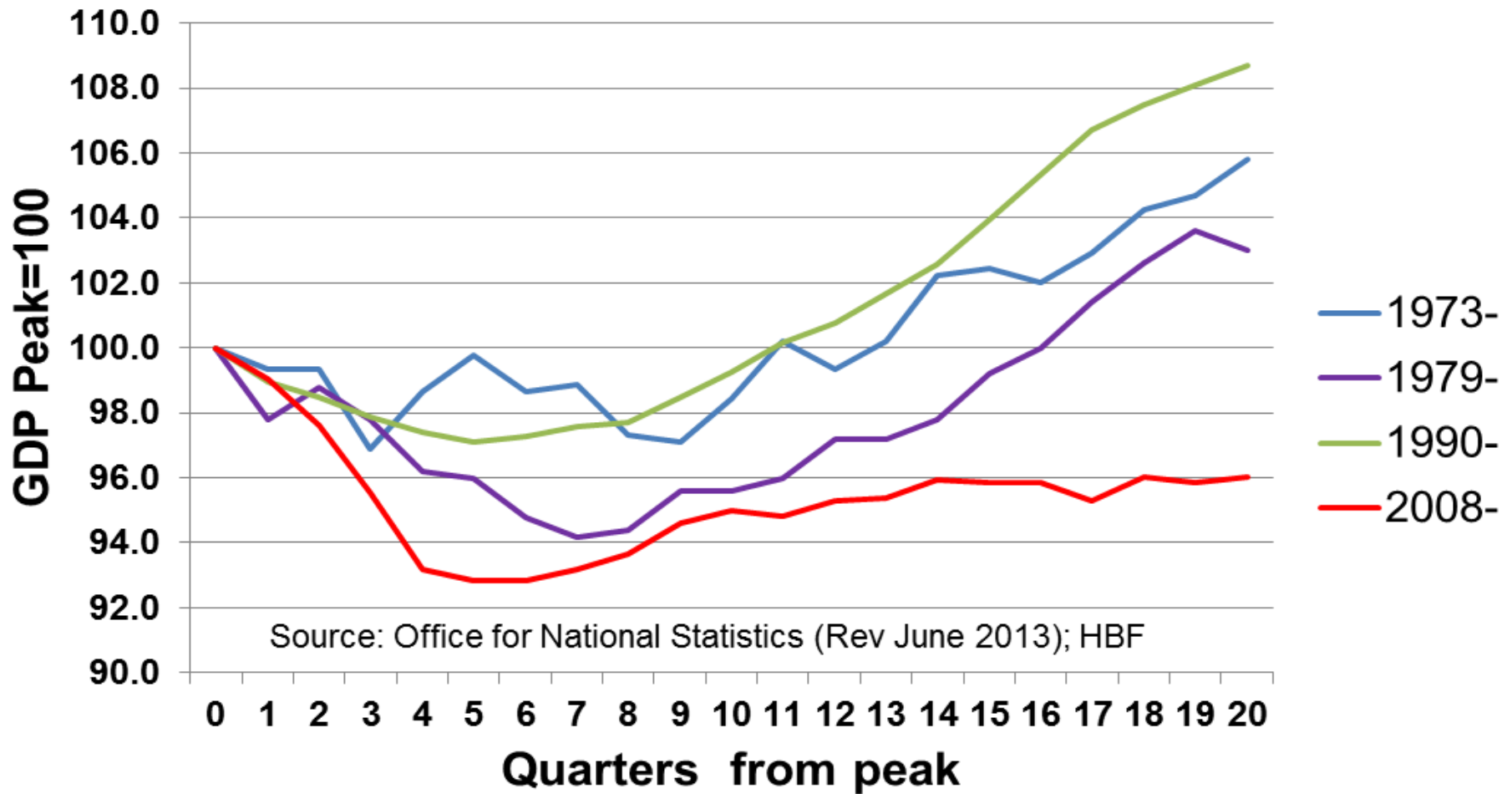
DEMOGRAPHIC PRESSURES

Annual Household Growth & Net Stock Additions (England)



ECONOMIC BACKGROUND

Comparing Recessions (GDP peak=100)



Source: Office for National Statistics (Rev June 2013); HBF

Increasing private home building

Demand conditions

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

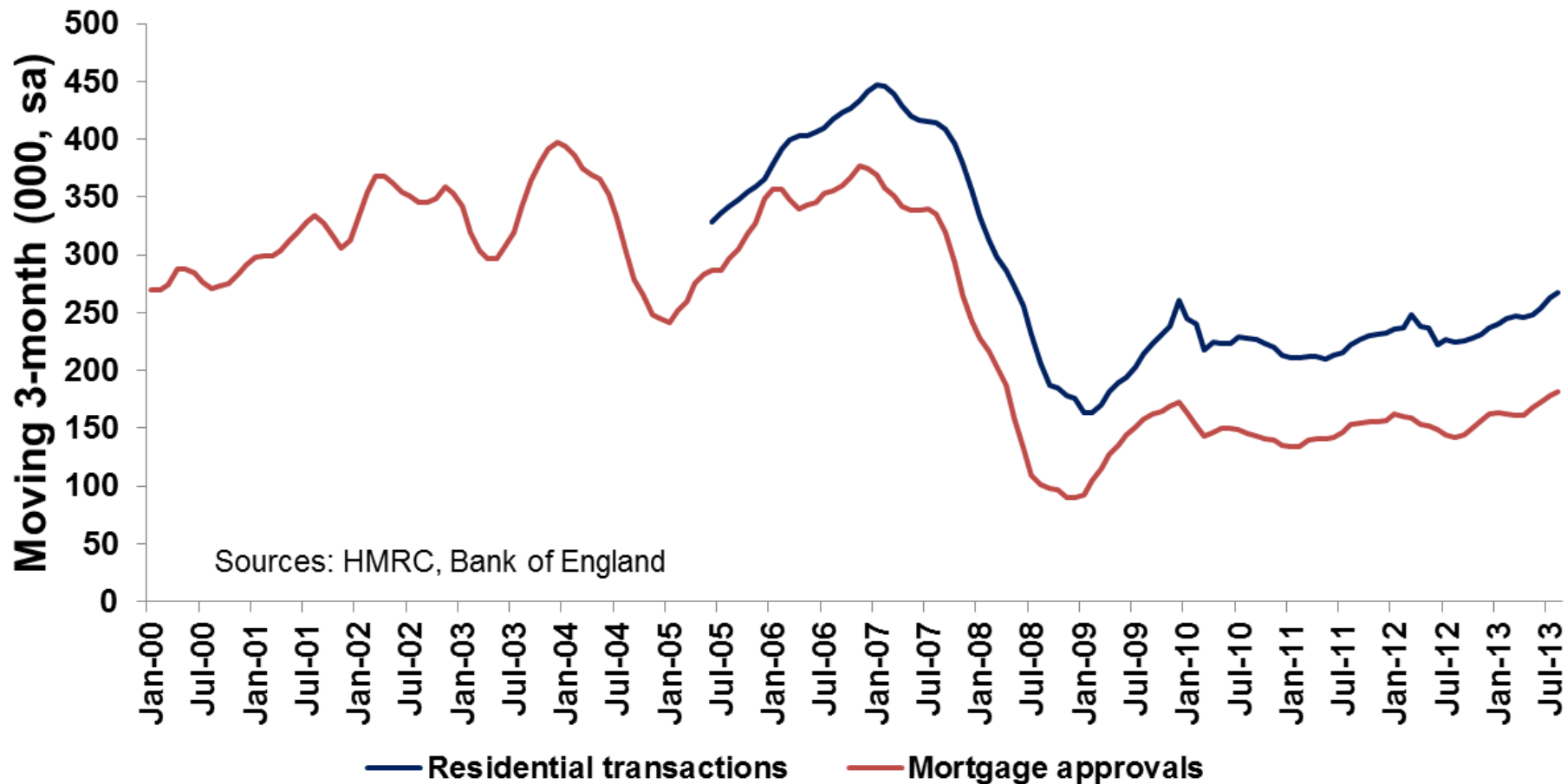
+ Length of economic upturn

Supply influences

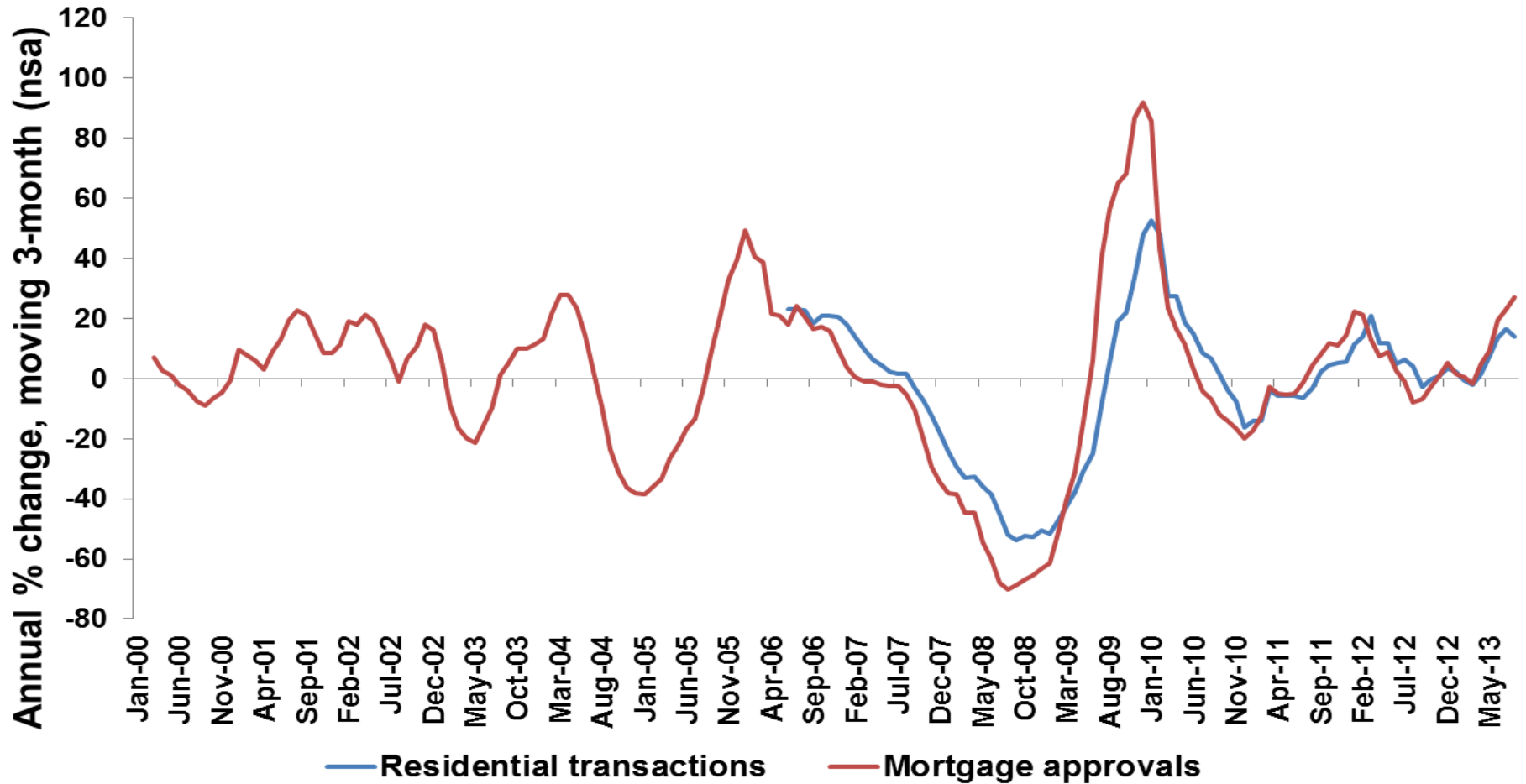
- Skills, finance, current capacity, industry structure and capacity to expand output, barriers to entry and expansion by size

DEMAND CONDITIONS

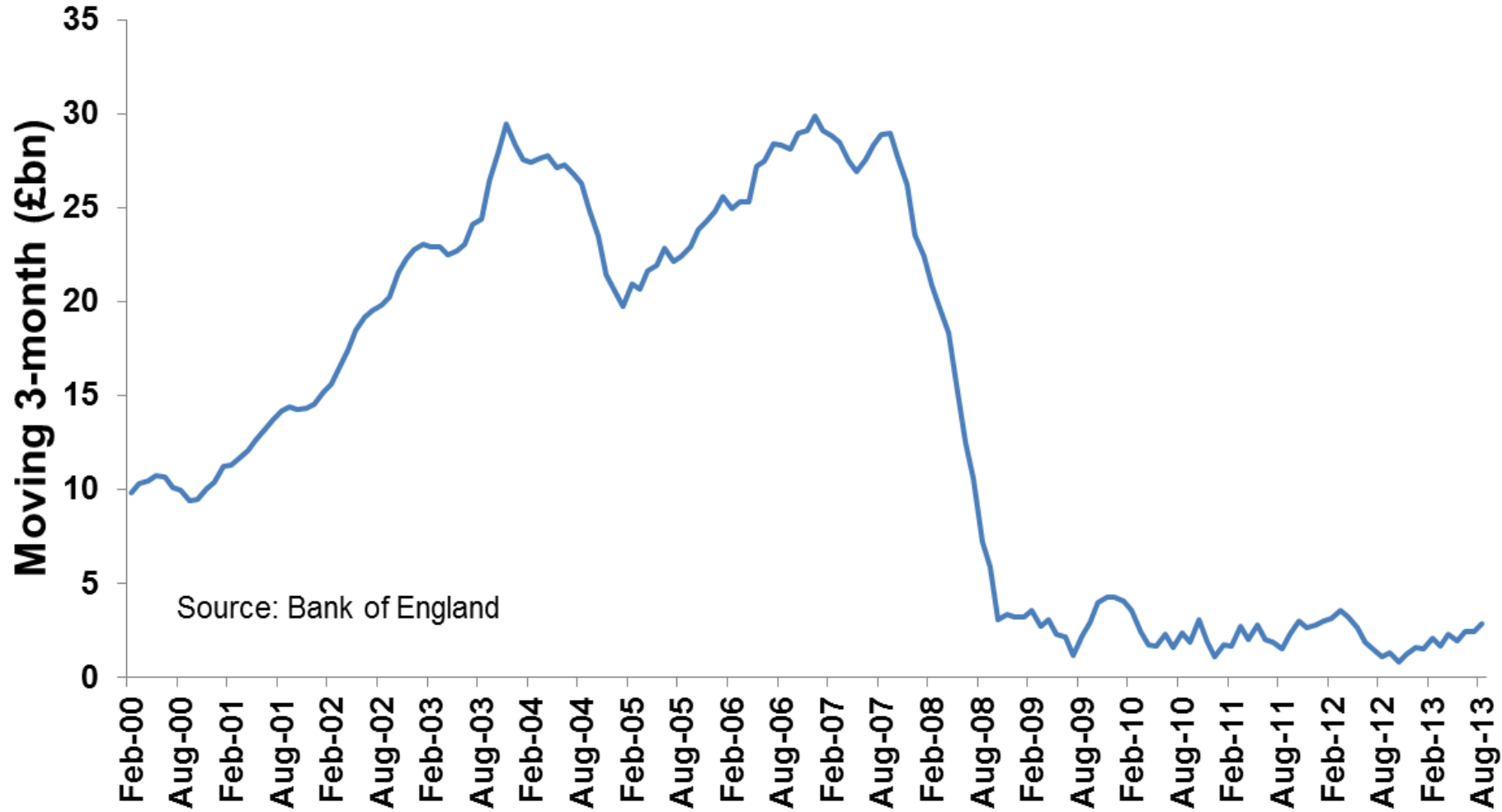
Residential Transactions & Mortgage Approvals (UK)



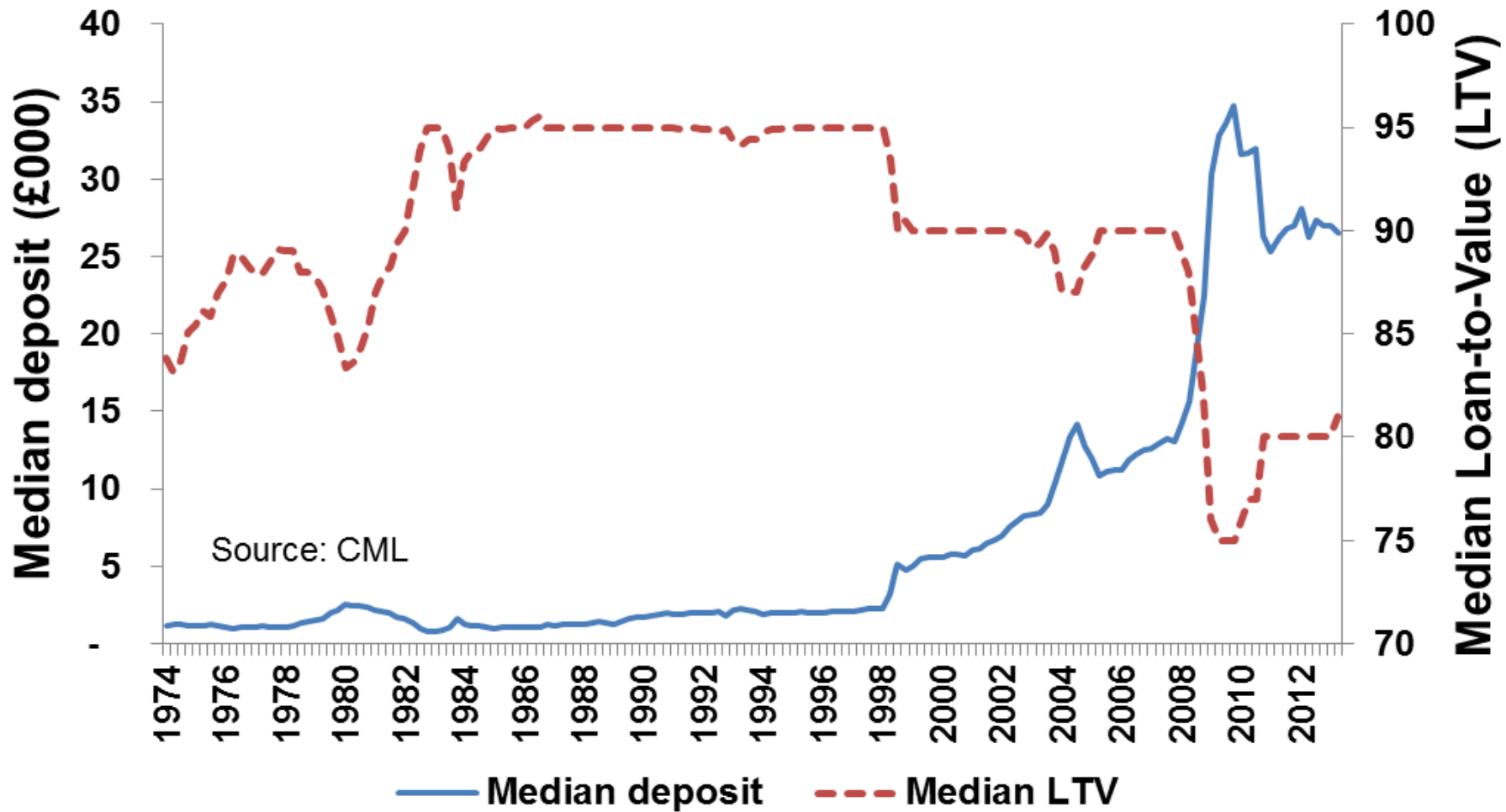
Annual % Change in Residential Transactions & Mortgage Approvals (UK)



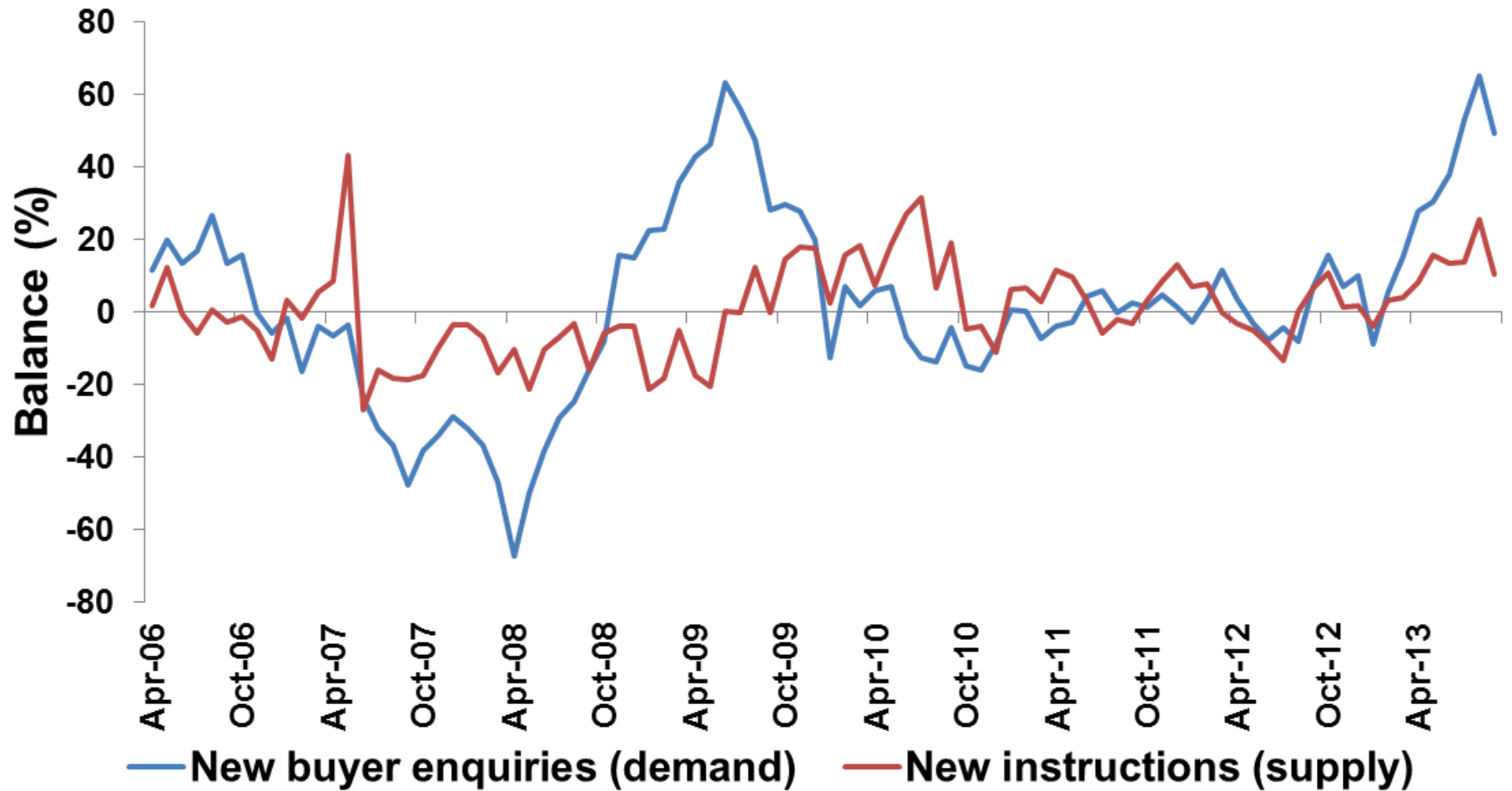
Net Mortgage Lending (UK)



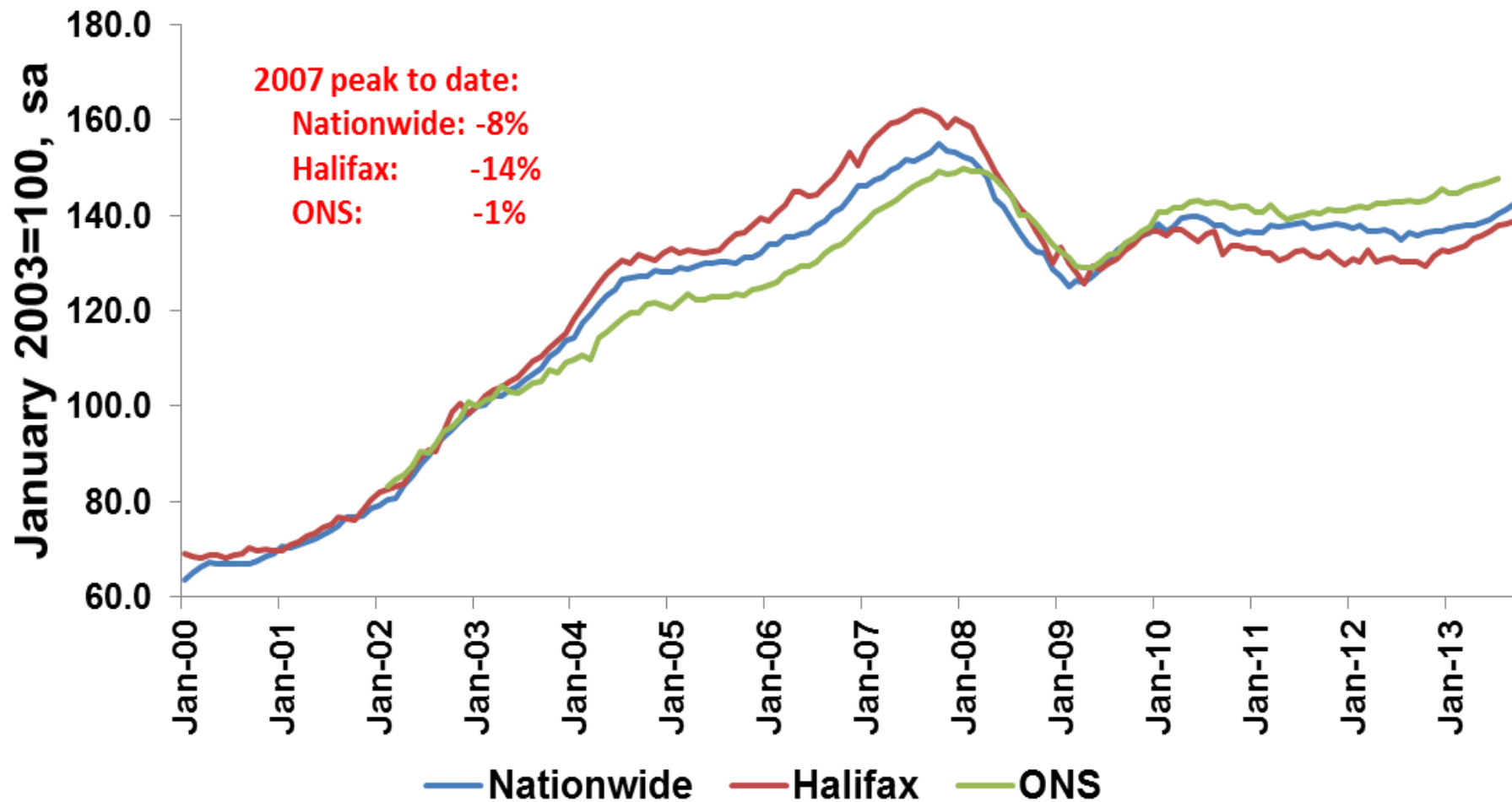
First-time Buyer Median Deposit & LTV (UK)



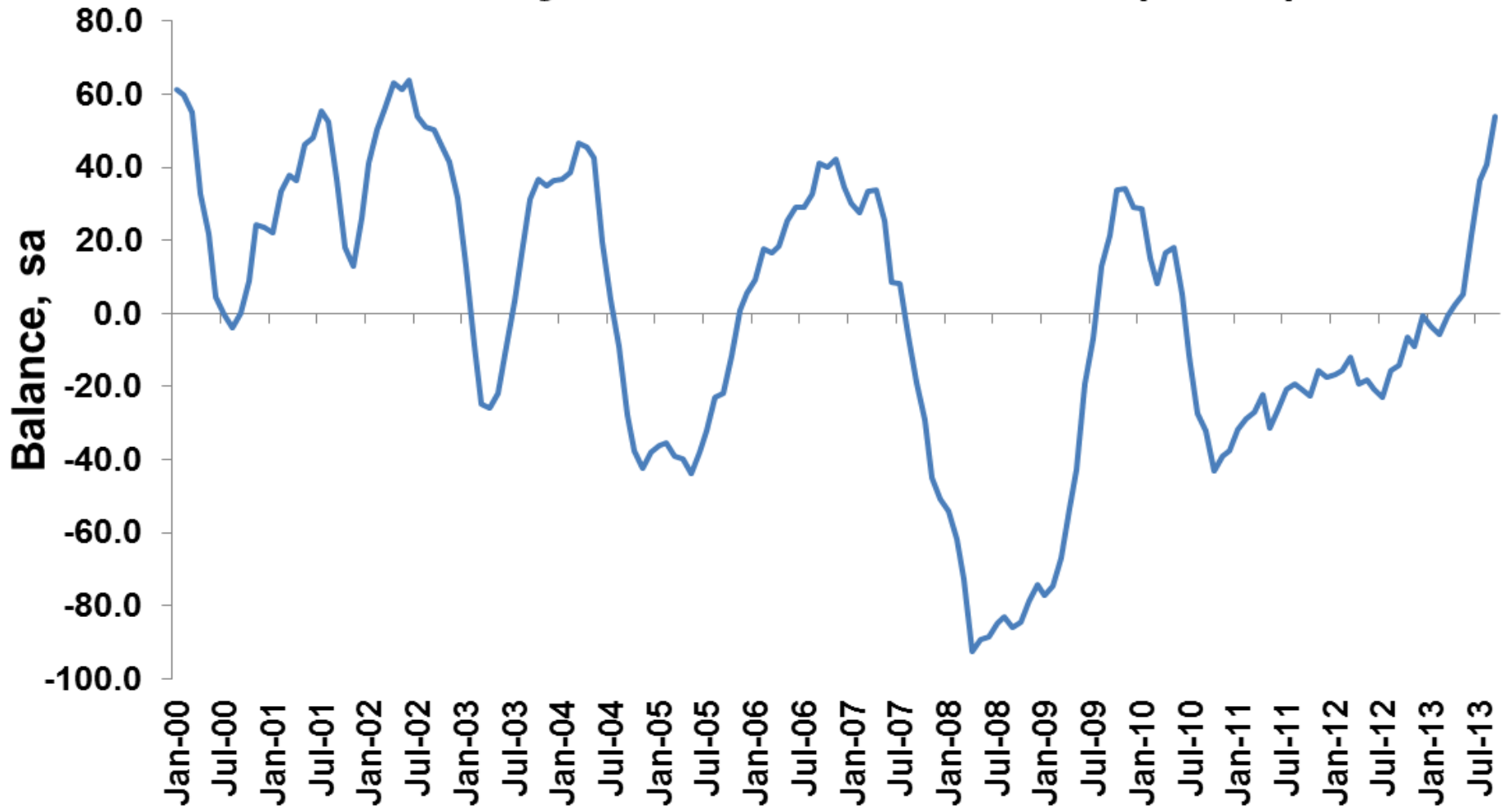
RICS Survey: Demand & Supply (E&W)



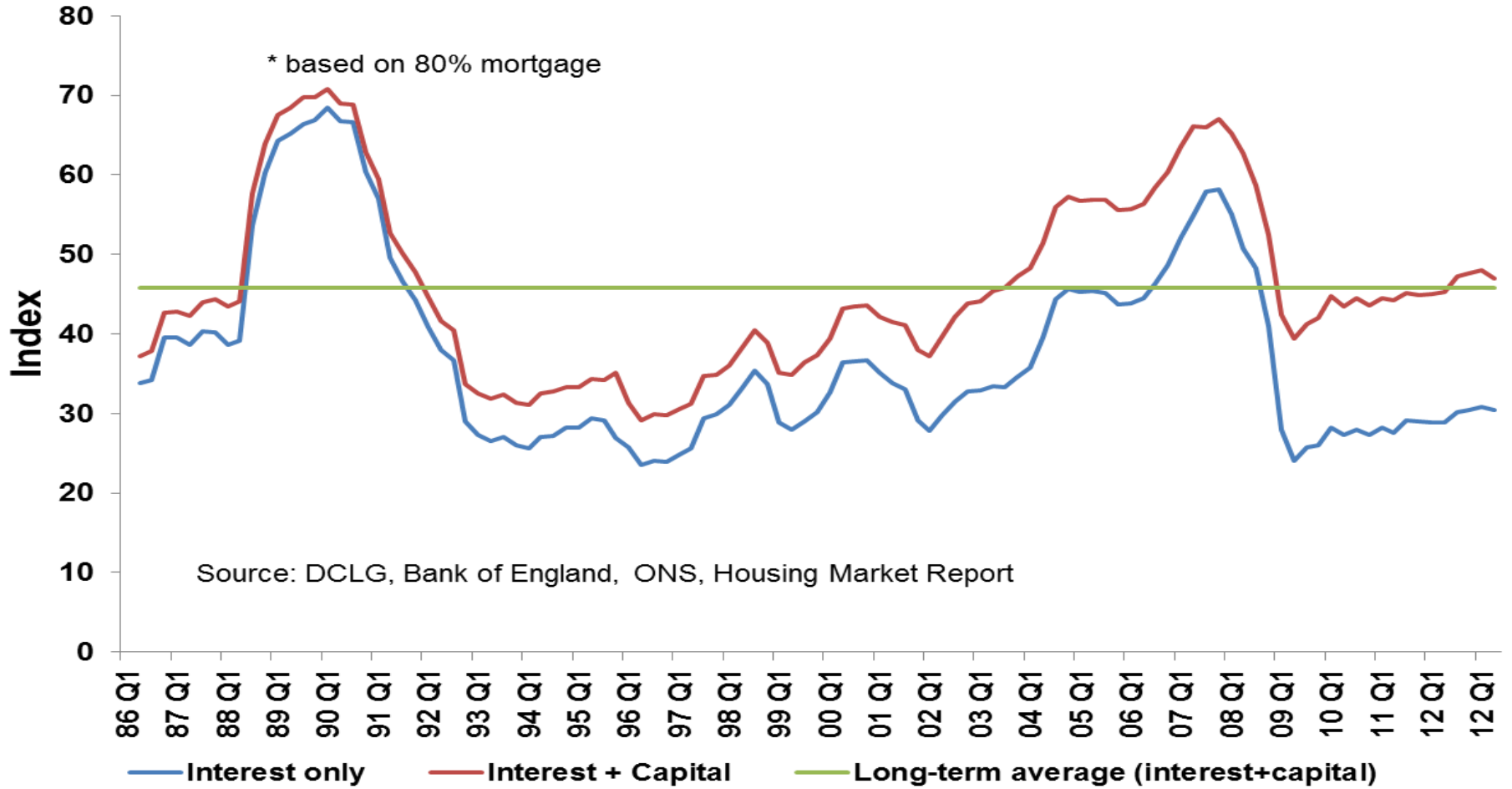
House Price Indices (UK)



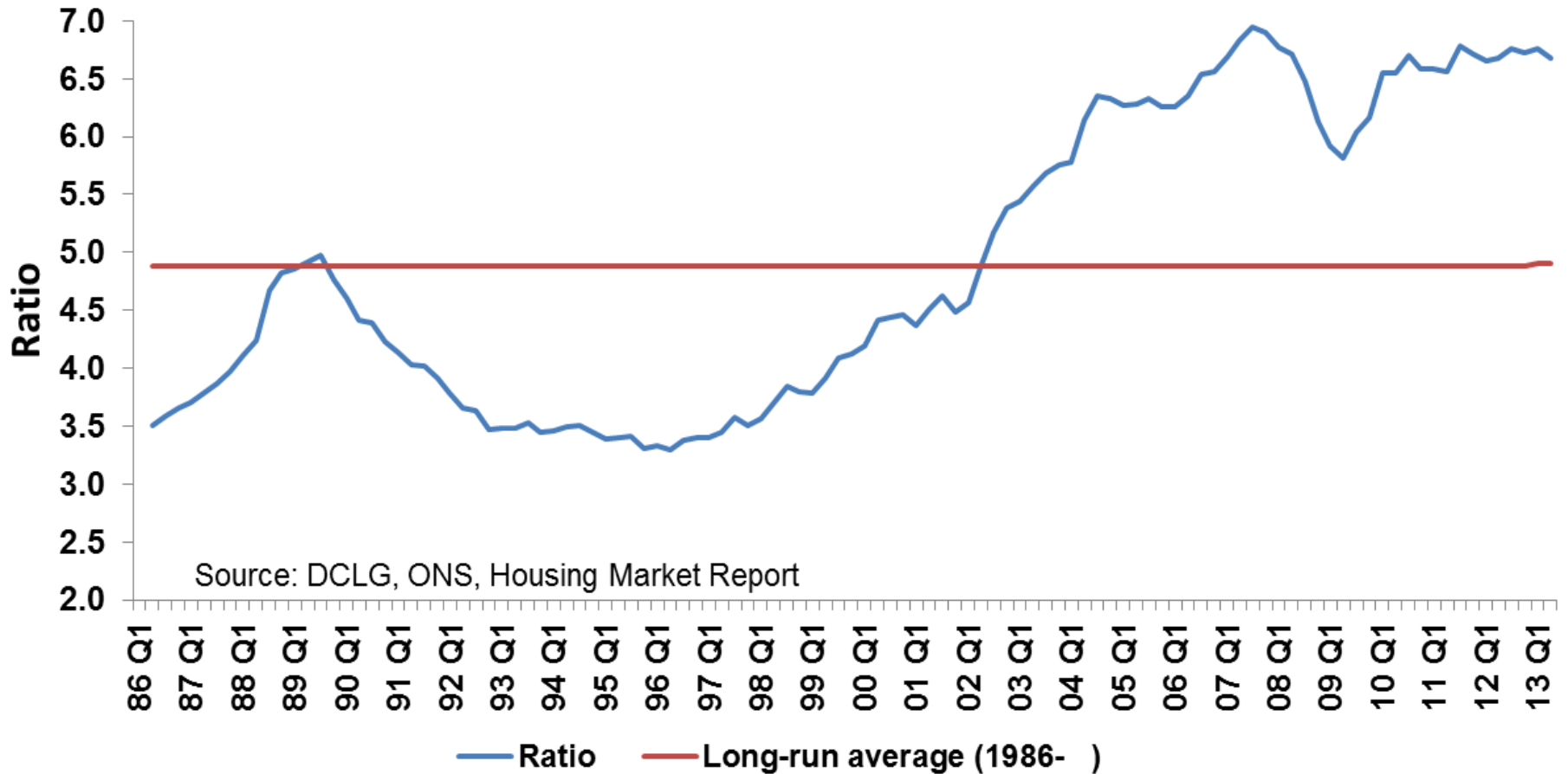
RICS Survey: Price Balances, sa (E&W)



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



HMR House Price Earnings Ratio (GB, Single Male)



Government policy support

Demand

- Funding for Lending Scheme (FLS) – Jan 2015
- NewBuy – March 2015
- Help to Buy: Equity Loan – March 2016
- 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, £3.5bn, 74,000 sales
Apr 2013-Mar 2016

But: What if budget exceeded? Exit?

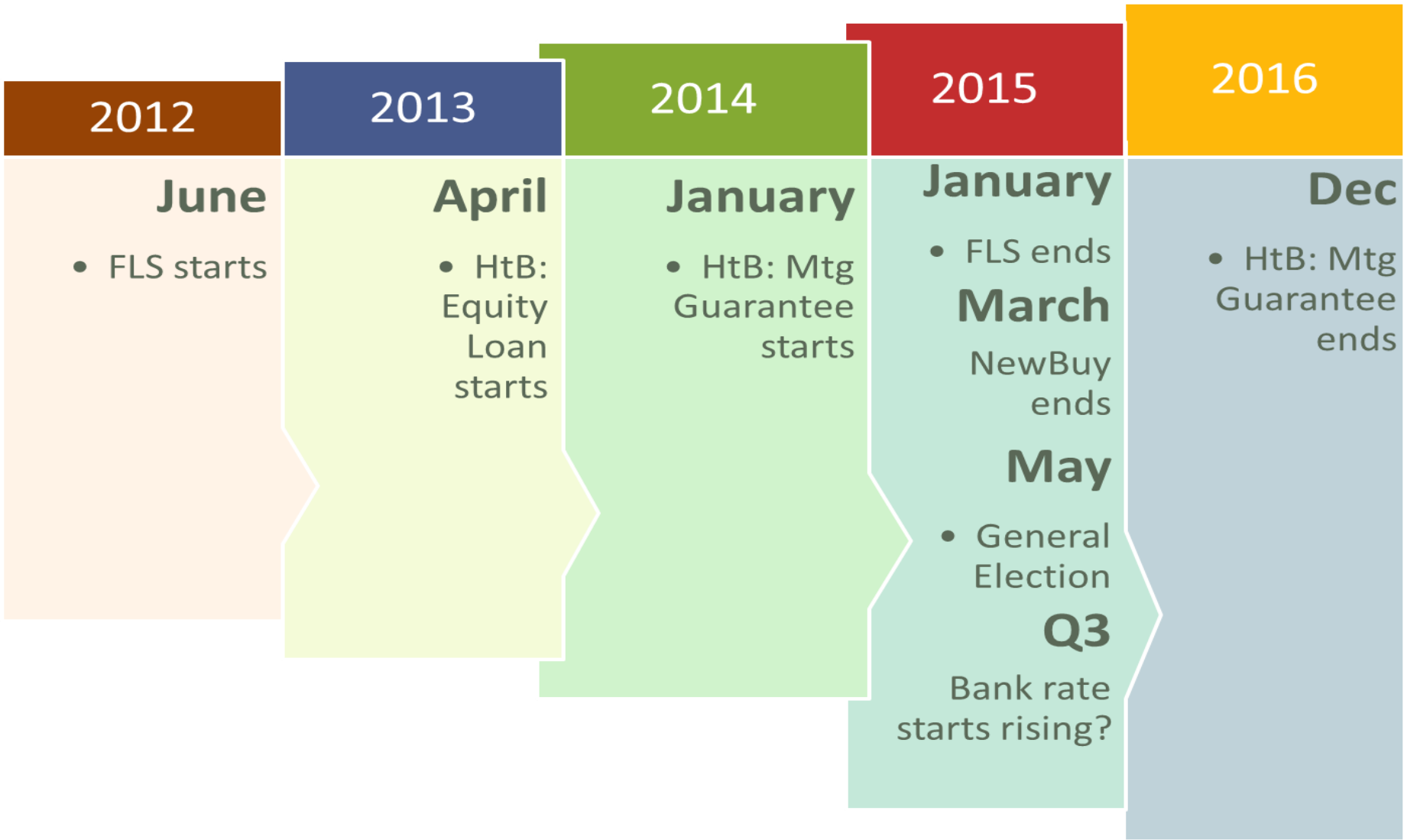
To date...

- 12,500 reservations April-August
- 750 registered builders (many 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? Life post-HtB?



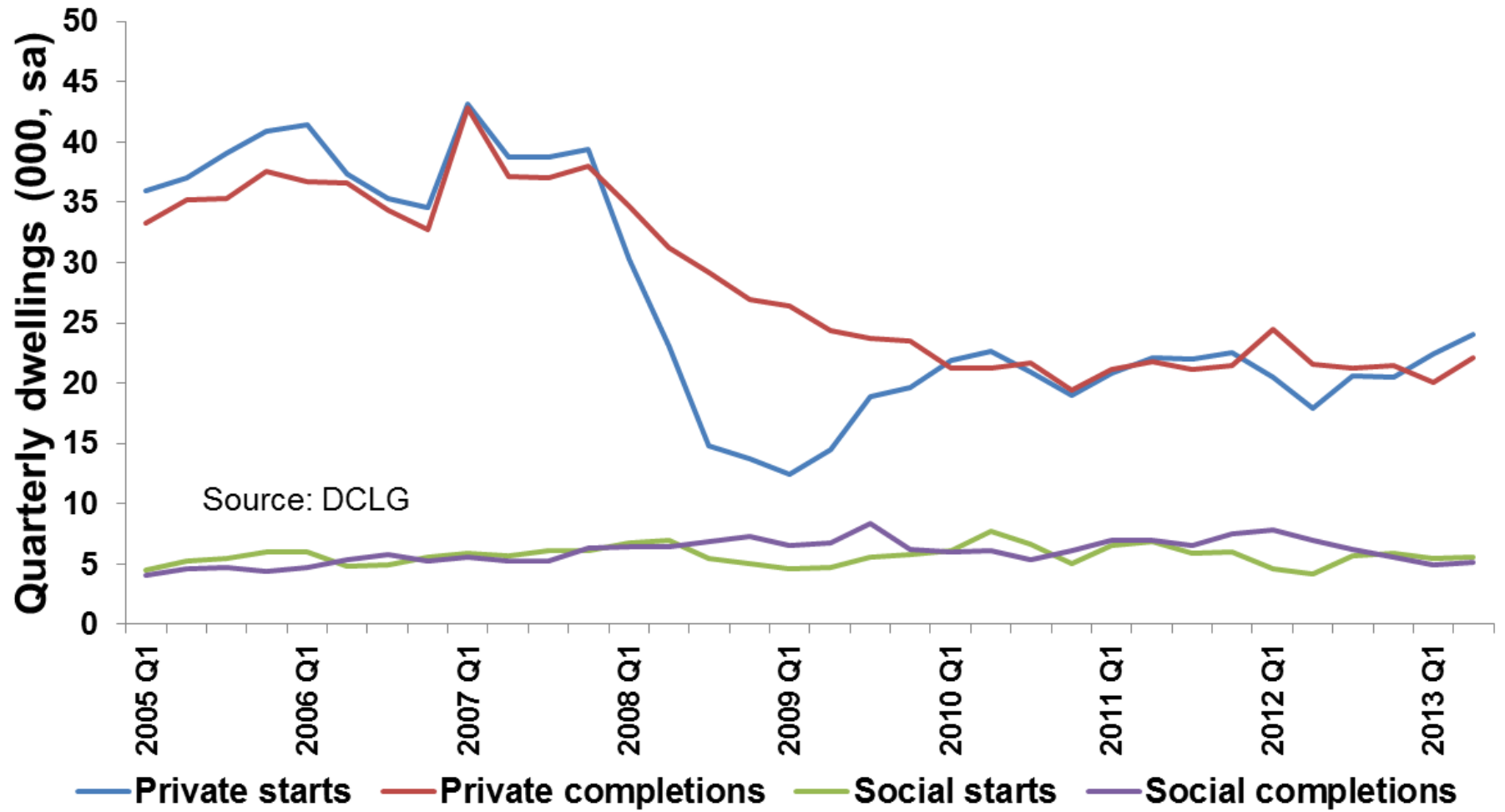
SUPPLY CONDITIONS

Who will fill supply gap?

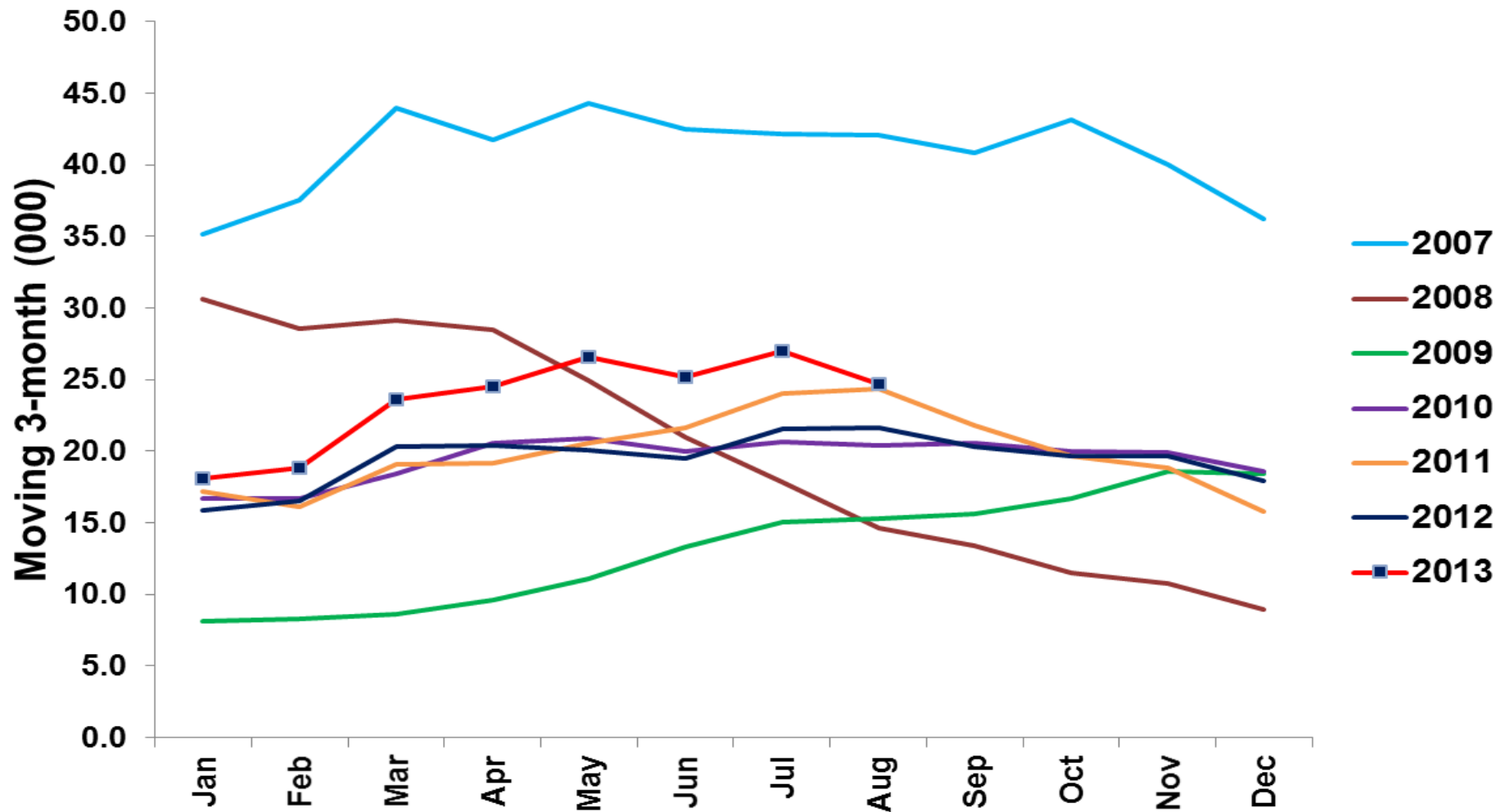
- House builders (65%):
 - Majors (~40%)
 - [Top 3: 32% GB private completions, 25% GB total completions;
Top 25: 66% NHBC GB registrations]
 - SMEs (1-100 per year: <16% NHBC registrations 2012)
 - New entrants
 - RPs (23%)
 - Local authorities (2%)
 - Custom/self builders (10%)

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

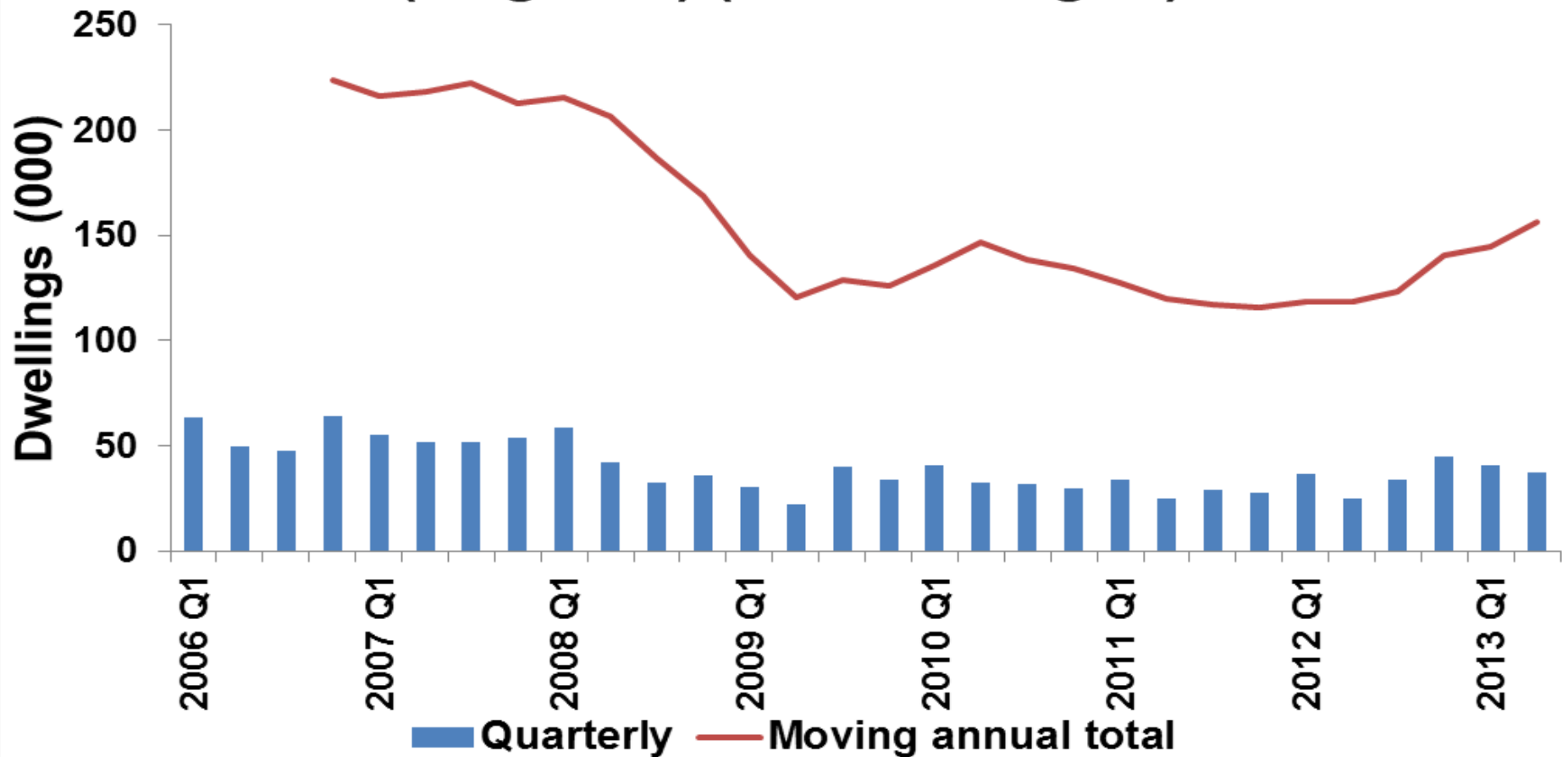
House Building (England)



NHBC Private Registrations (UK)



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



Government policy support

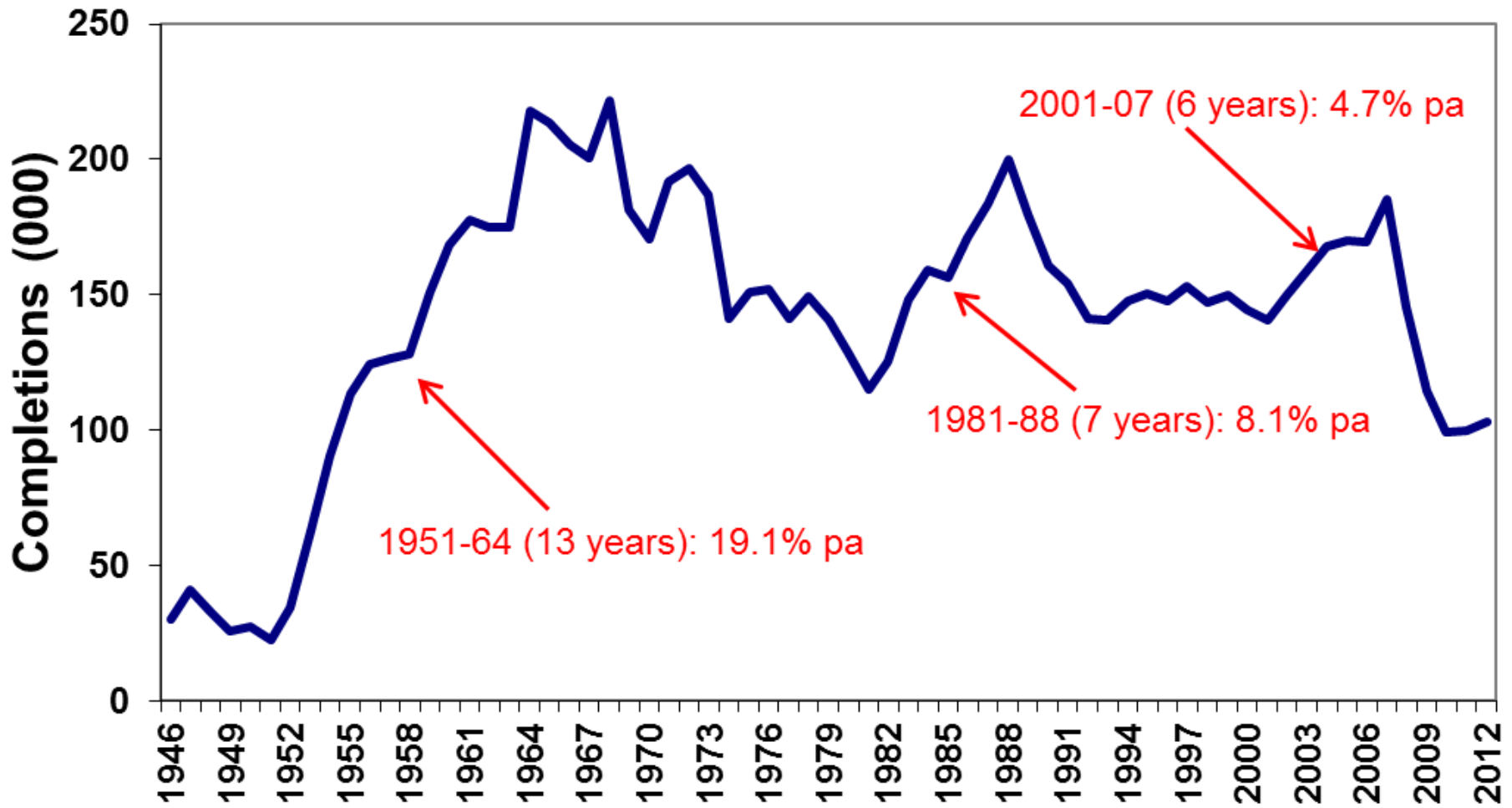
Supply

- NPPF & other planning reforms
- Regulatory burden - regulation, **standards**, planning
- Get Britain Building (GBB)
- **Private Rented Sector**
- Affordable Housing
- **Public sector land**
- Custom build

Supply influences

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

Private Housing Completions (GB)

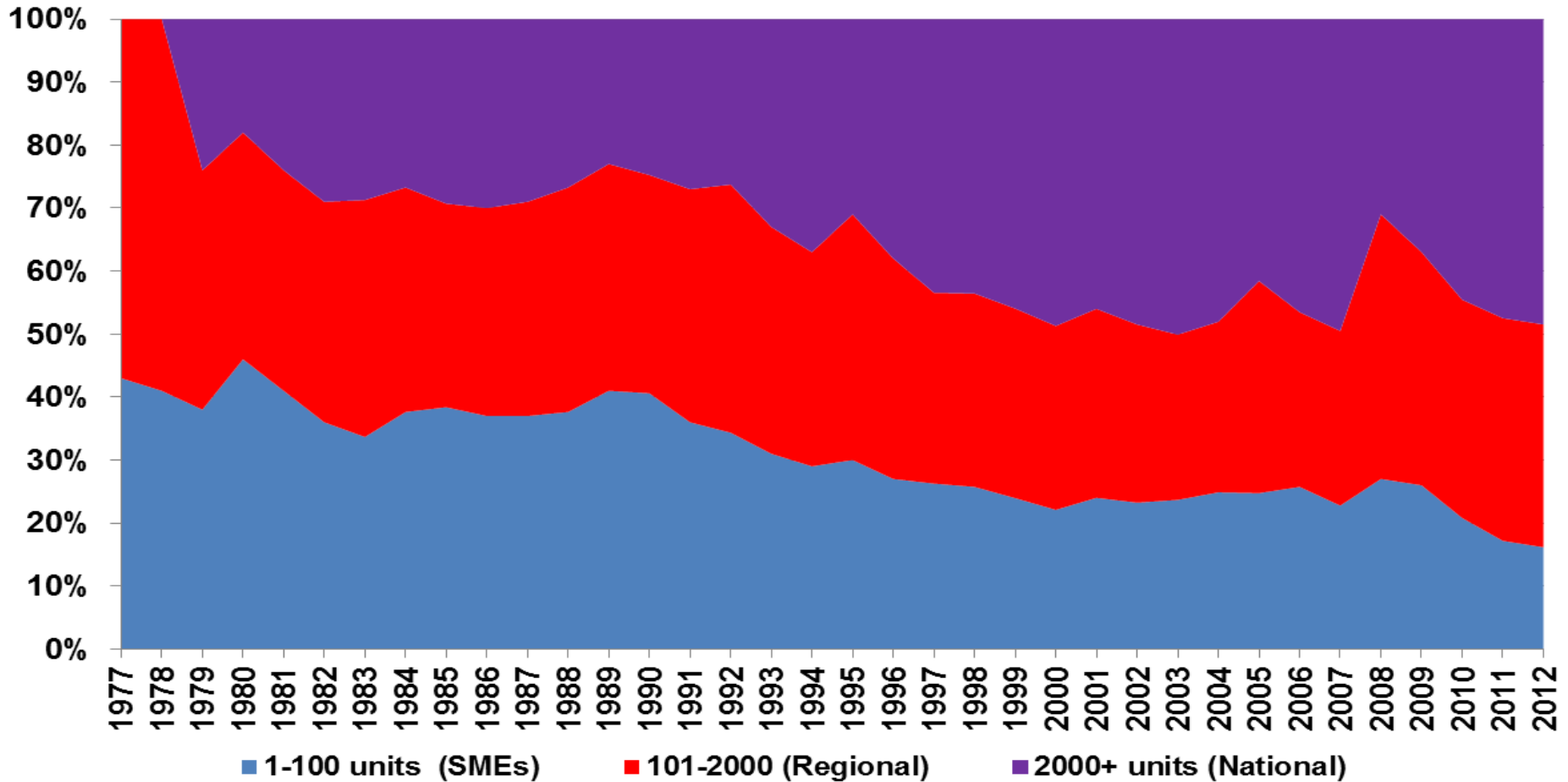


So who will meet demand?

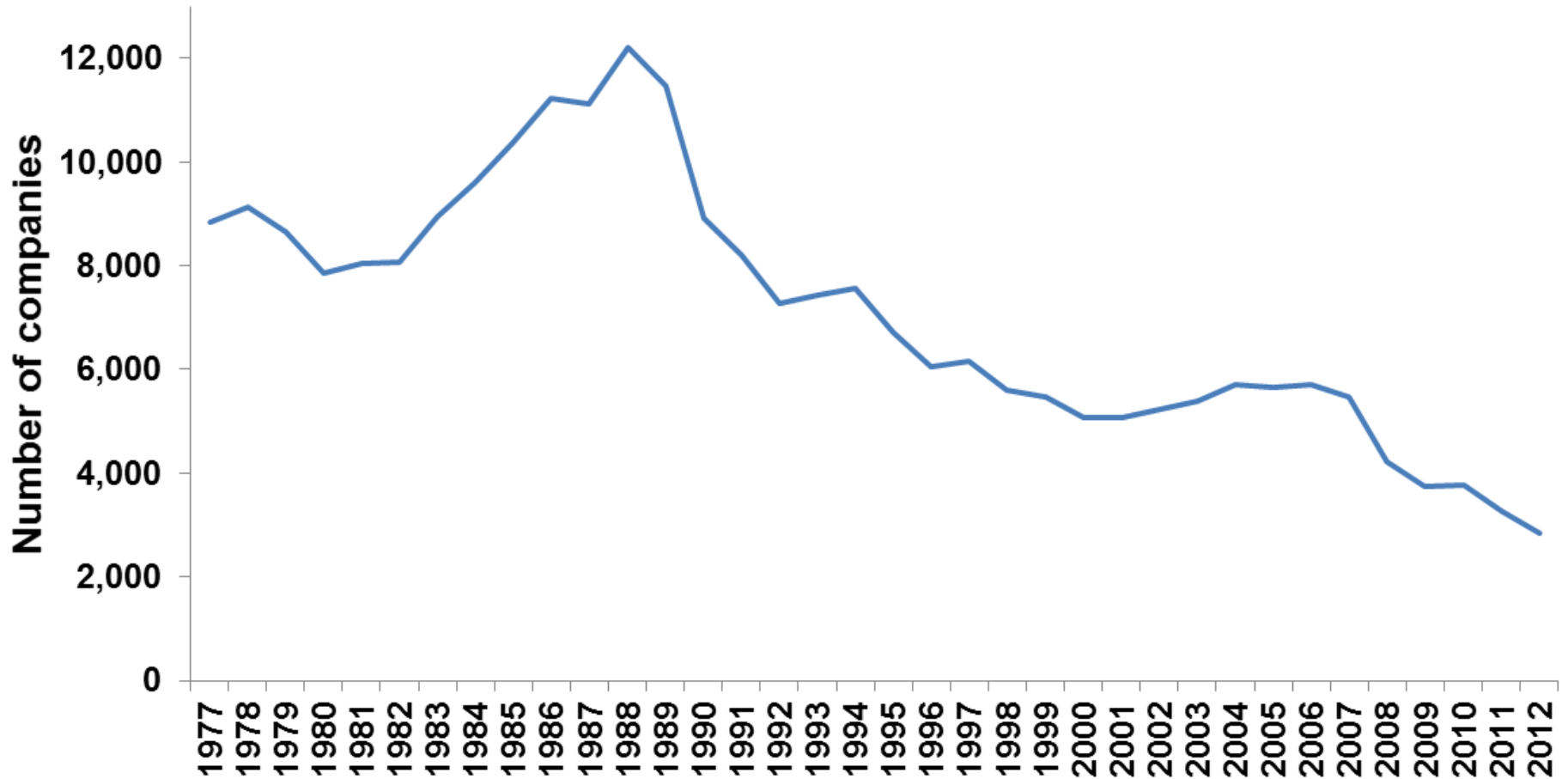
Primarily private sector

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

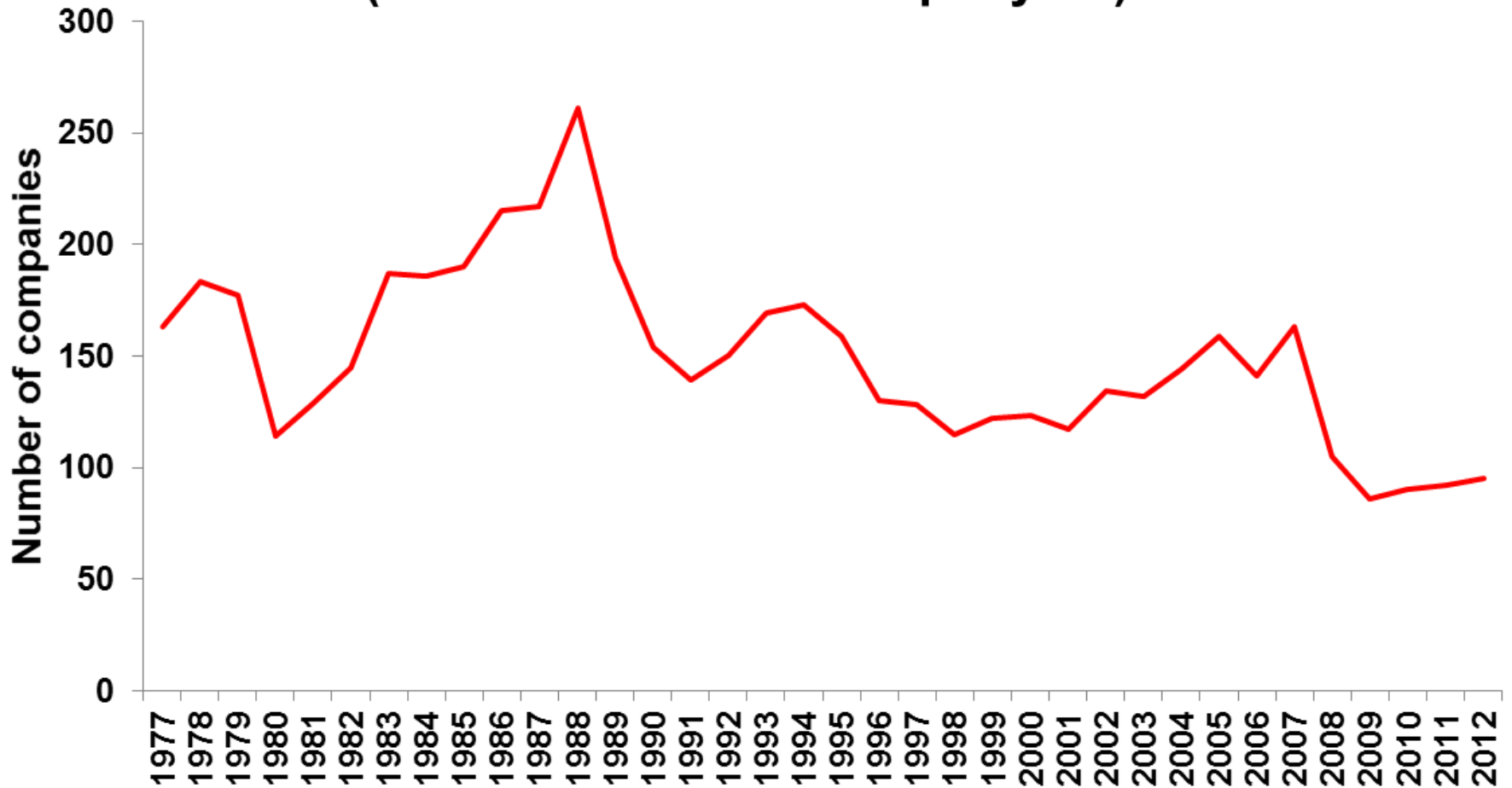
Home Building Industry Structure (Size bands by % NHBC starts)



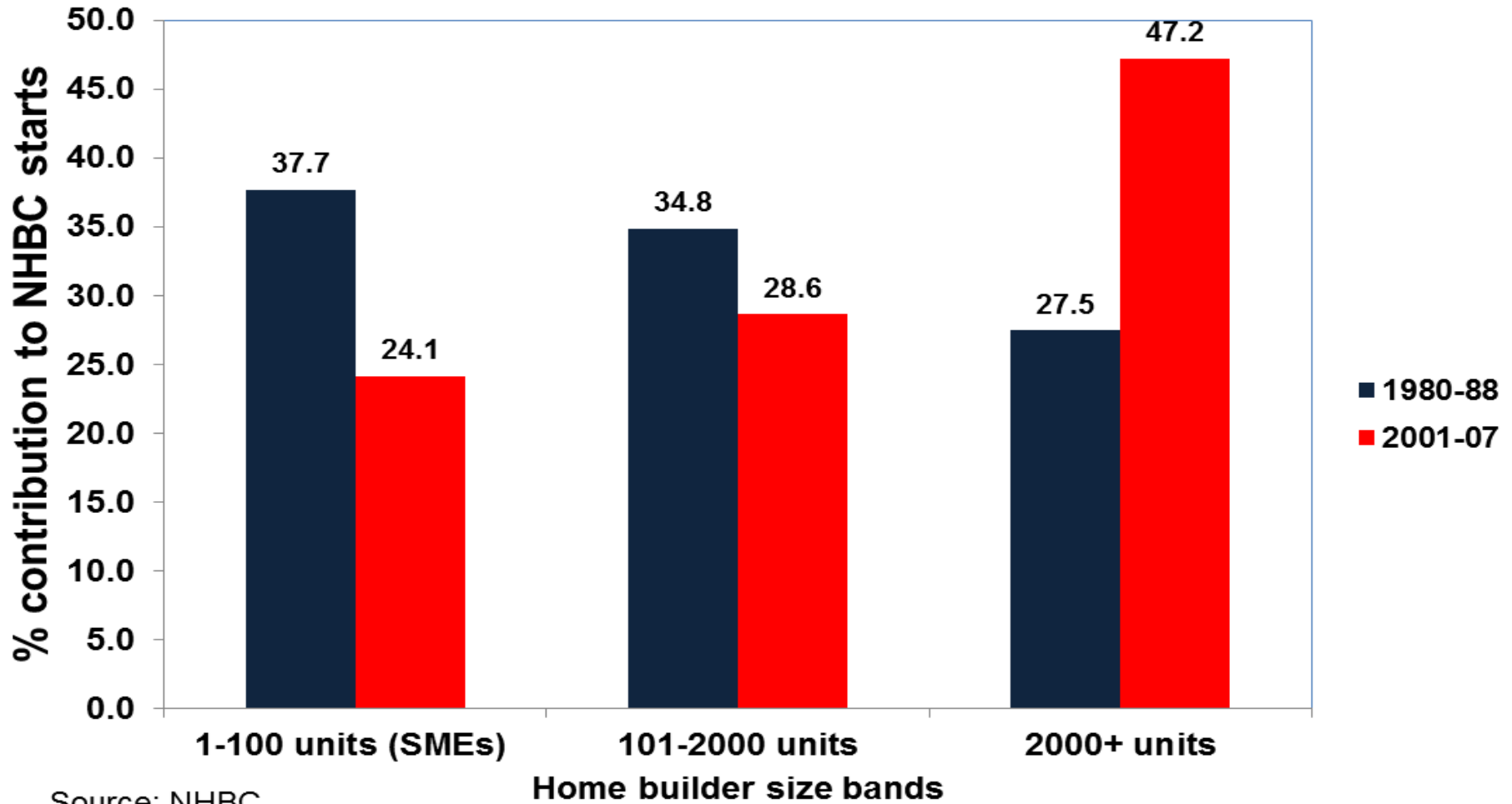
Number of SME home builders (1-100 NHBC starts per year)



Number of 'regional' home builders (101-2000 NHBC starts per year)



Contribution (%) to home building upturns



Source: NHBC

KEY ISSUES FOR NEXT 5 YEARS

Key Issues...

- How much will industry increase production?
- Who will produce the increase?
- Withdrawal of policy supports to 2016
- Post-election Government & policy focus
- Economic life beyond 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

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