

# Preparing for Recovery

John Stewart

Director of Economic Affairs

Home Builders Federation

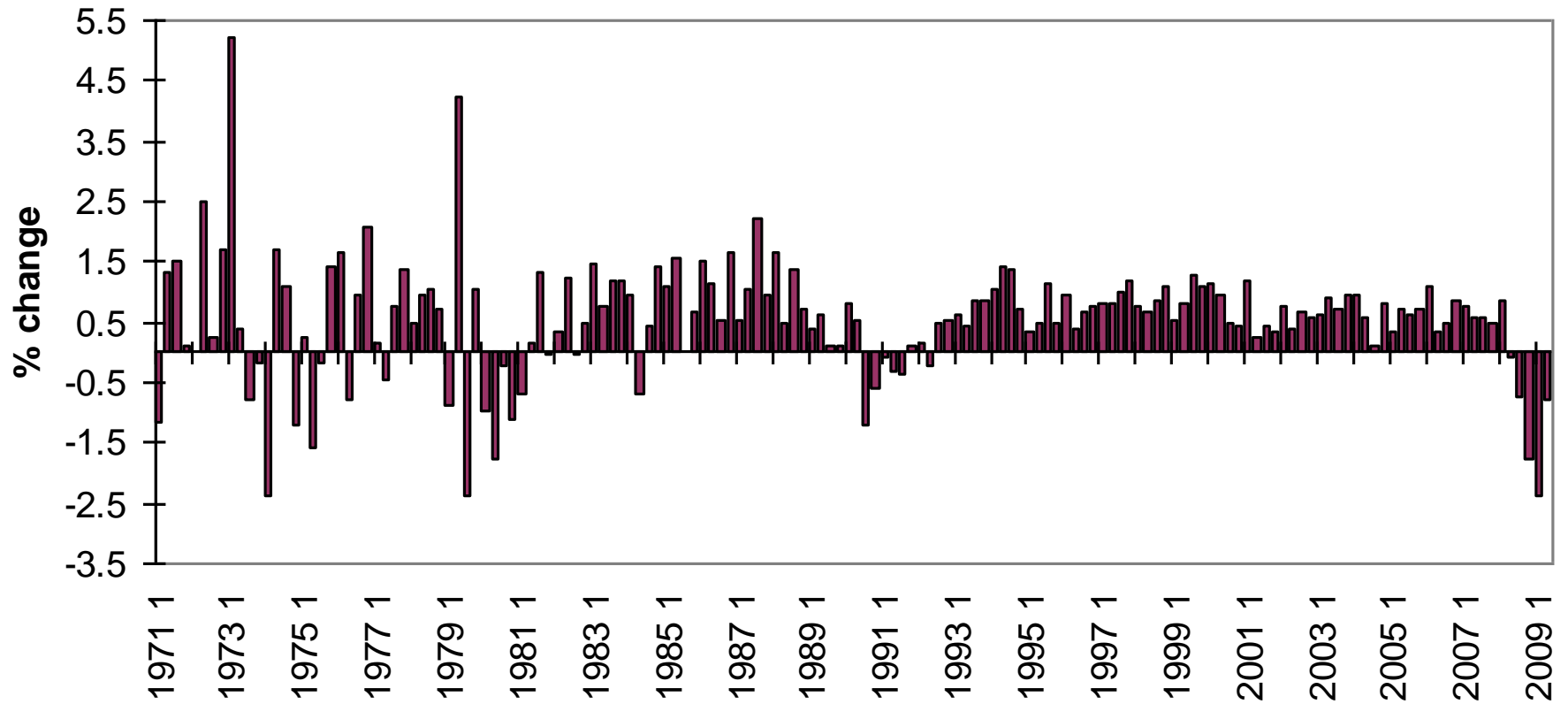
13 October 2009



# SHORT-TERM TRENDS

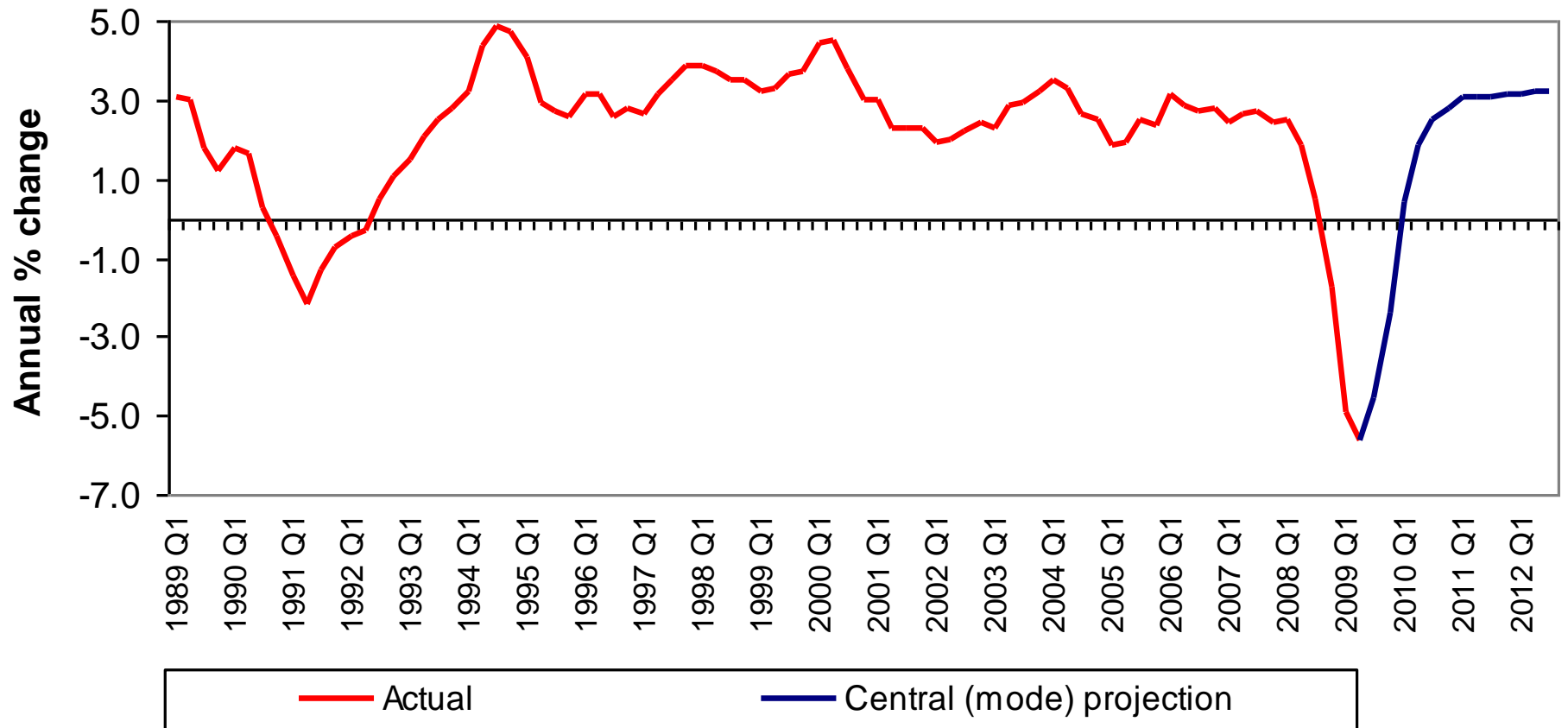
## THE ECONOMY

# Gross Domestic Product (GDP) Quarterly % change, seasonally adjusted



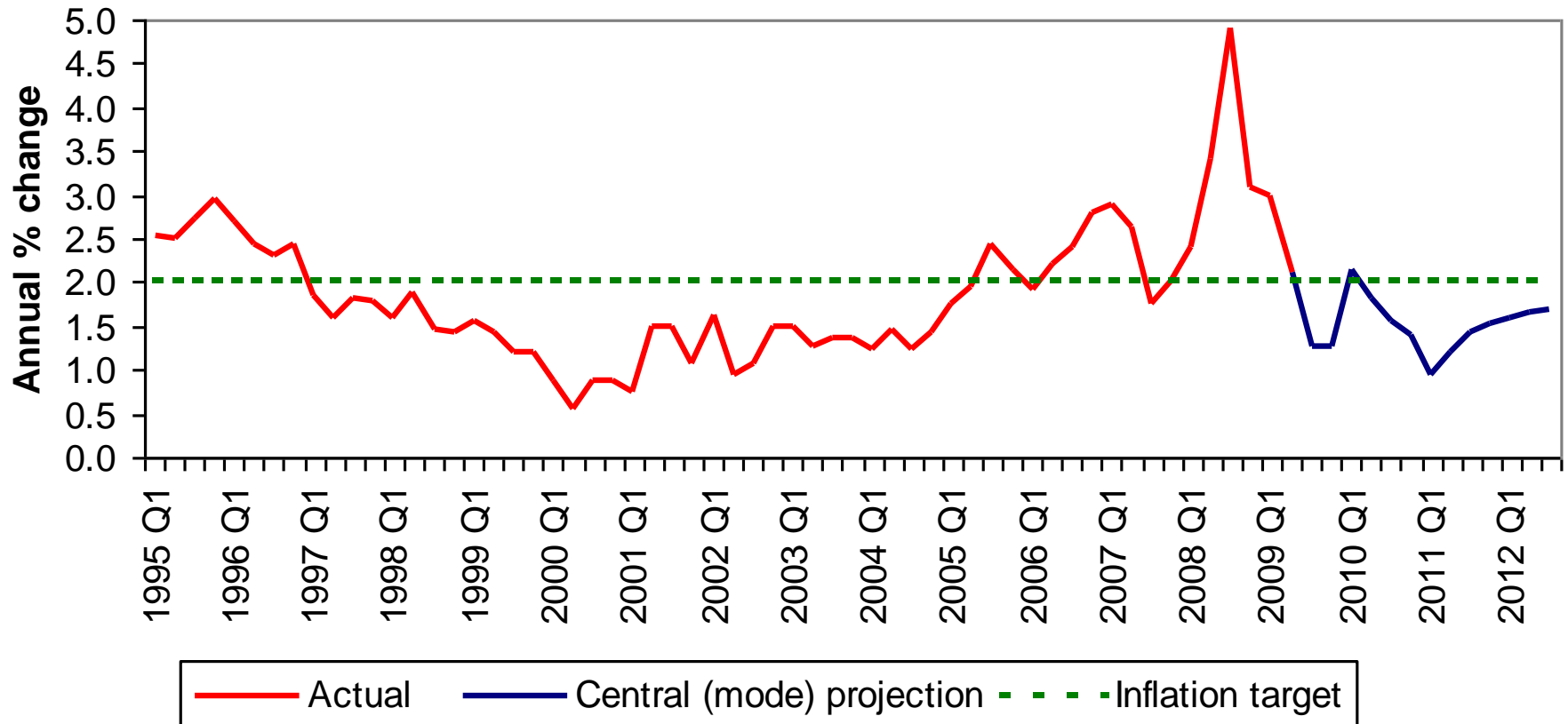
# Bank of England GDP forecast

## Annual % change; central projection (August 2009)



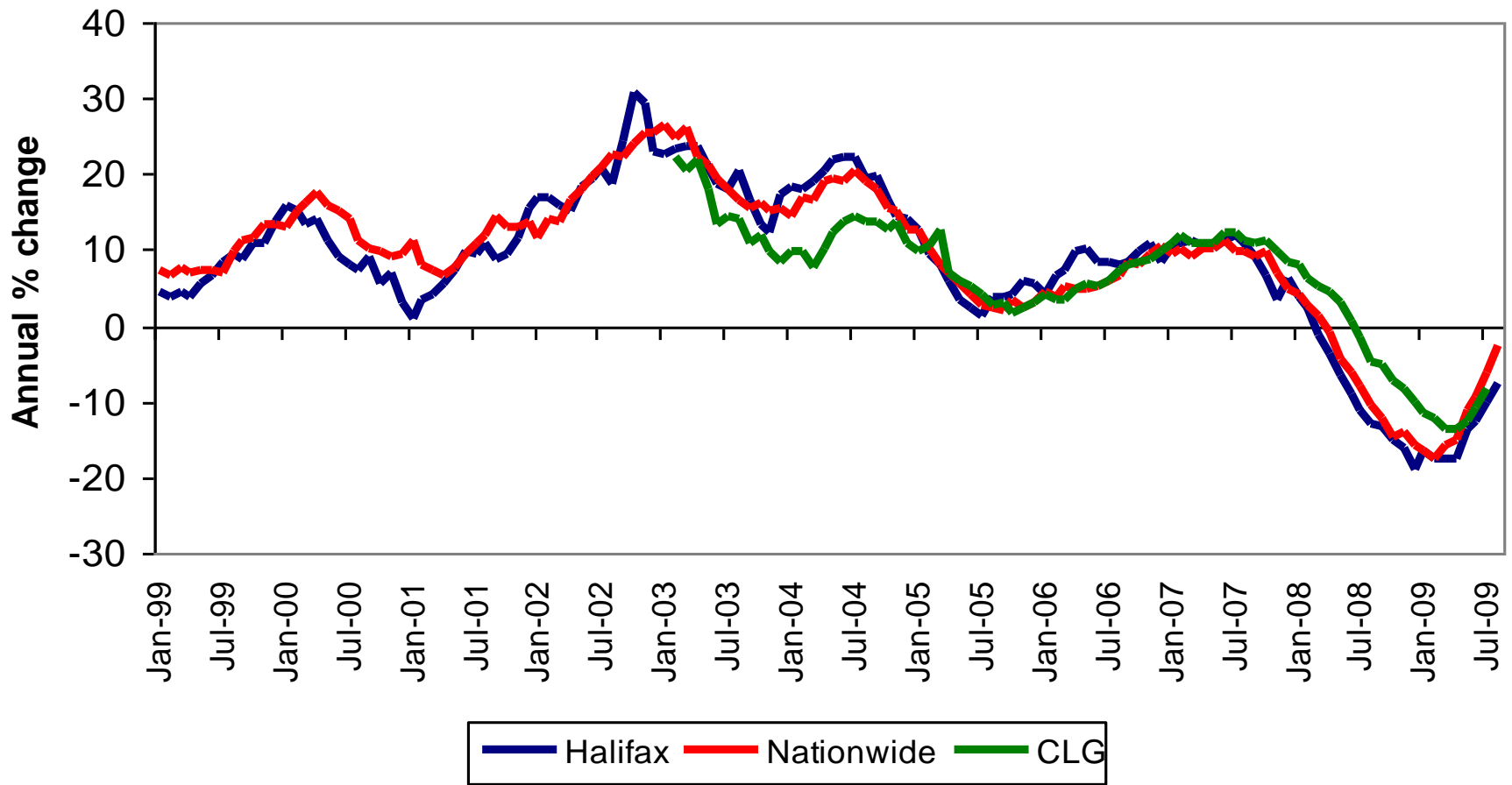
# Bank of England CPI inflation forecasts

## Annual % change; central projection (August 2009)

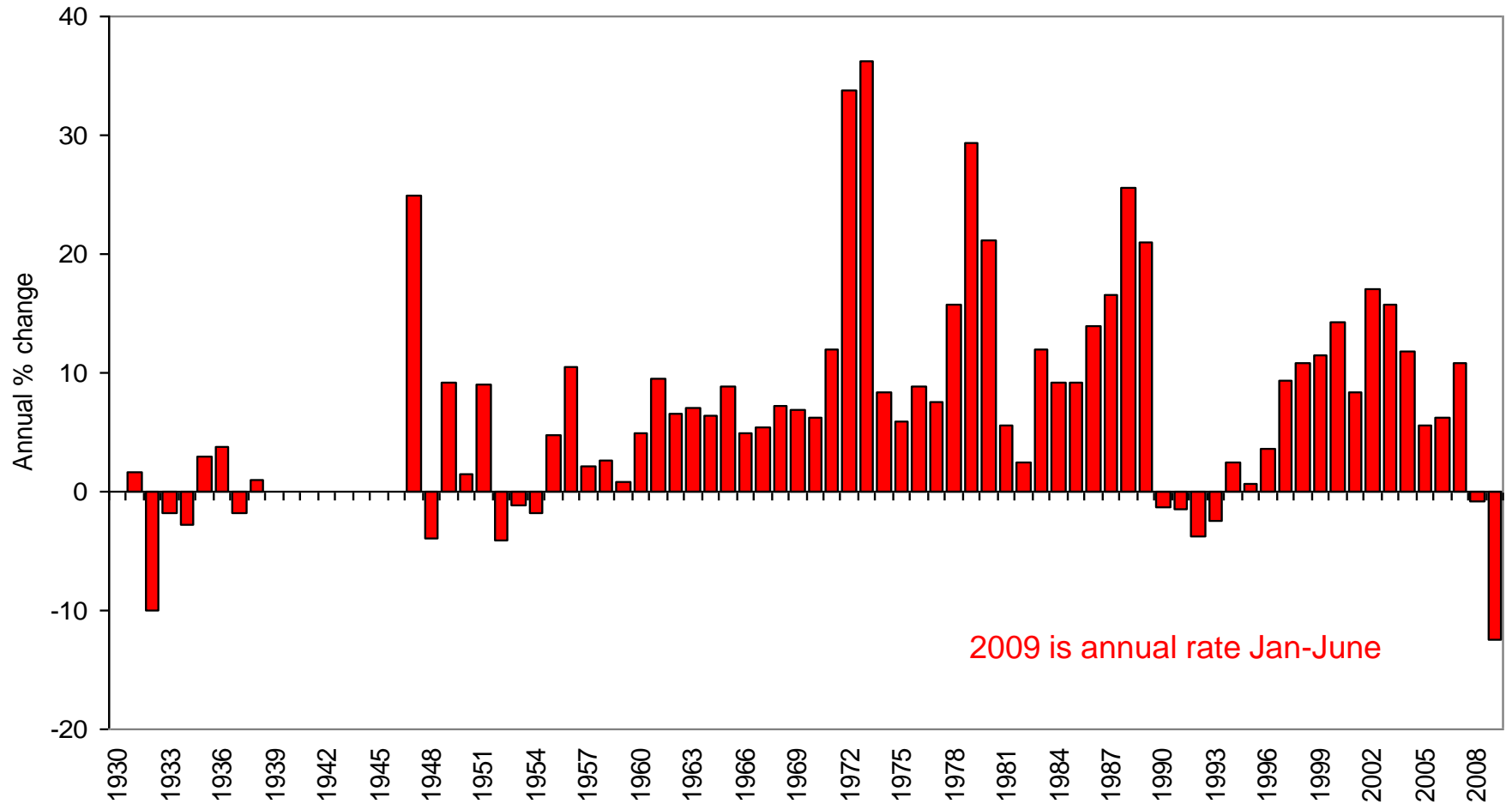


# SHORT-TERM TRENDS THE HOUSING MARKET

# Annual House Price Inflation



# House Price Change (GB)

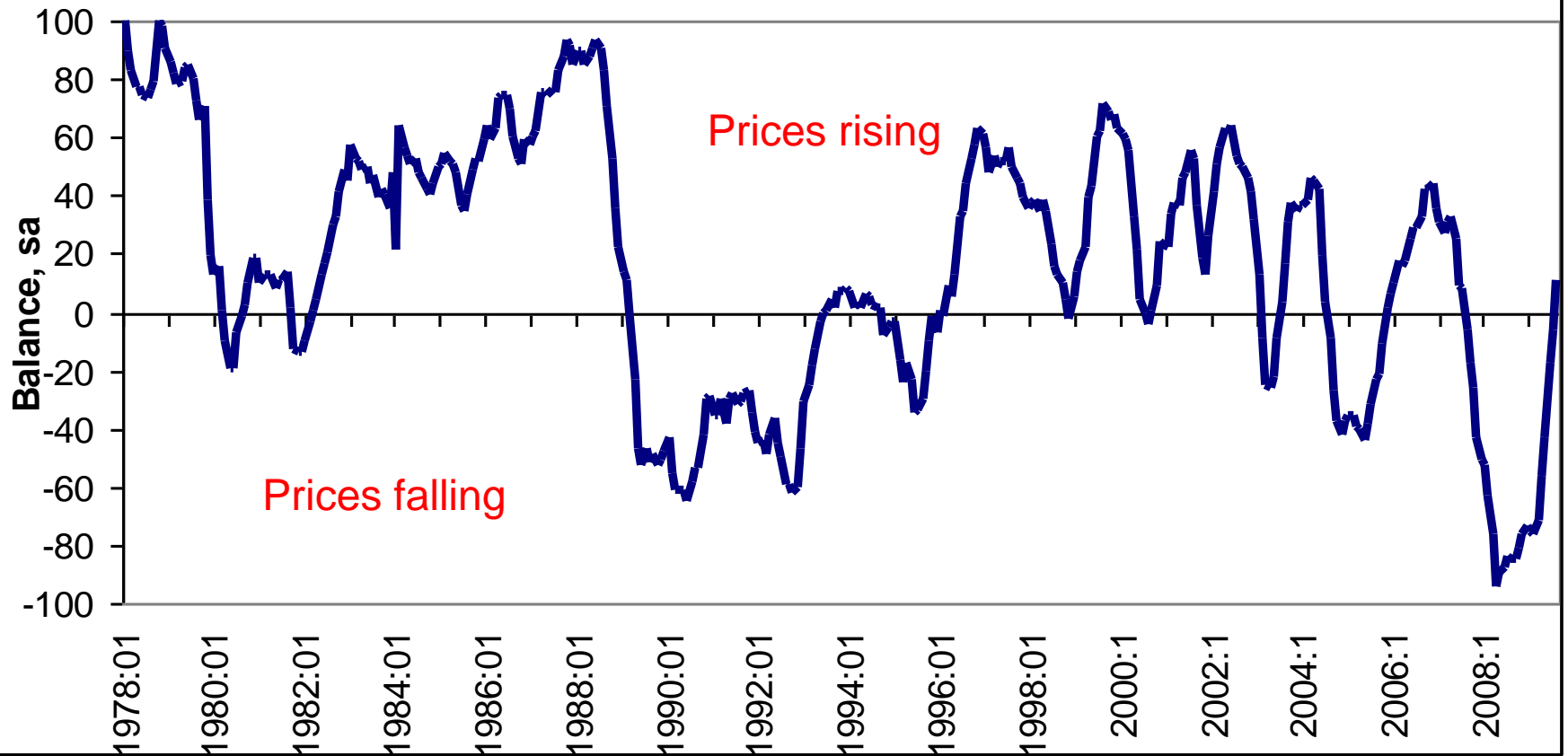


2009 is annual rate Jan-June

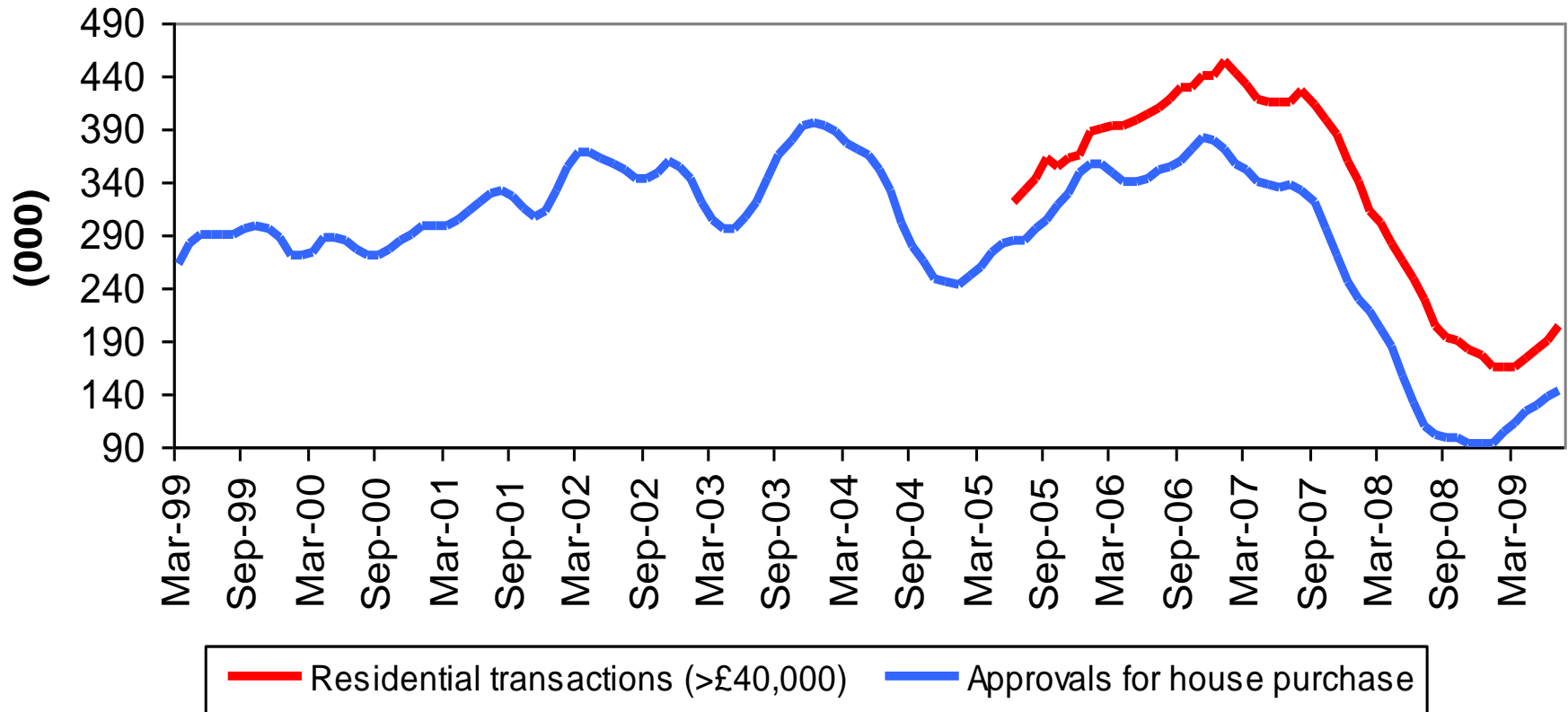


# Price trends reported by estate agents (RICS)

## Balance: prices over last 3 months, seasonally adjusted

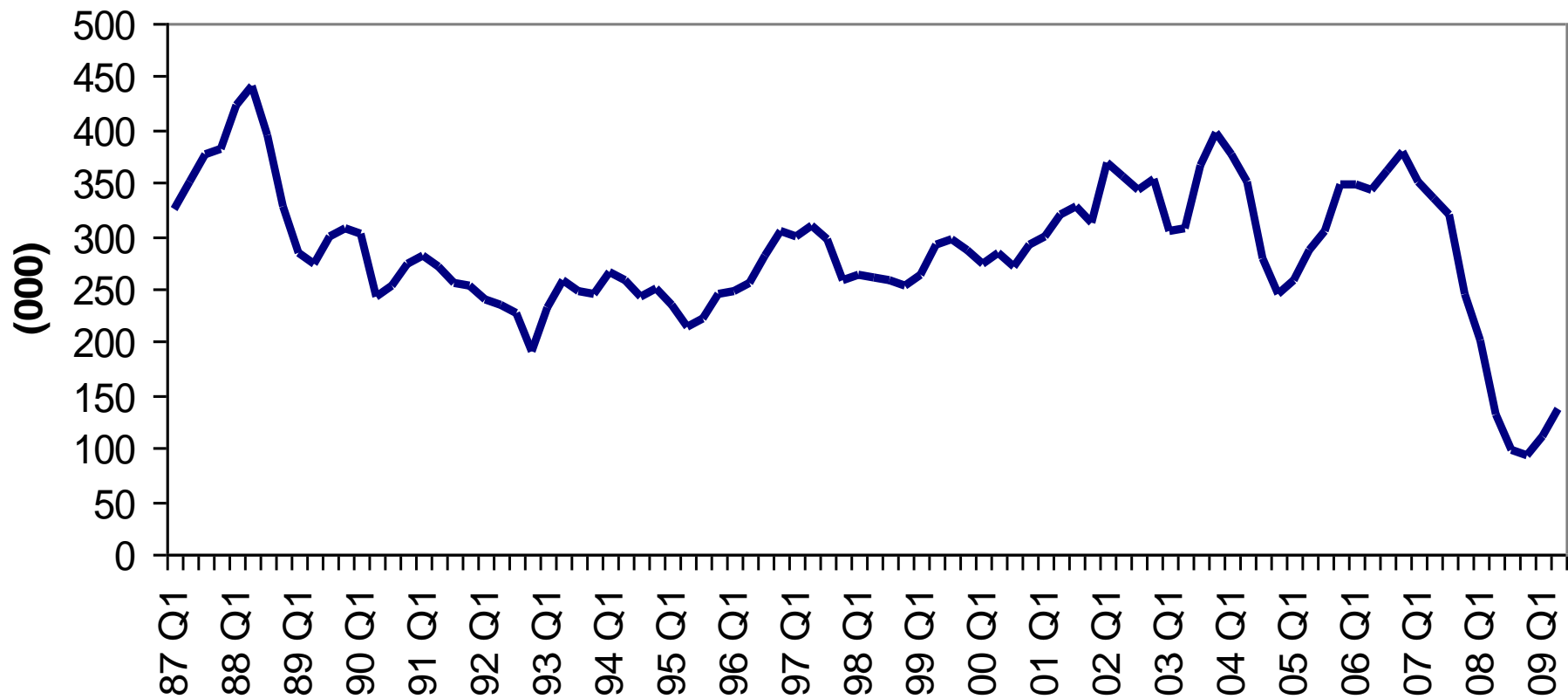


## Residential Transactions & Mortgage Approvals (UK) Seasonally adjusted; moving three-month totals

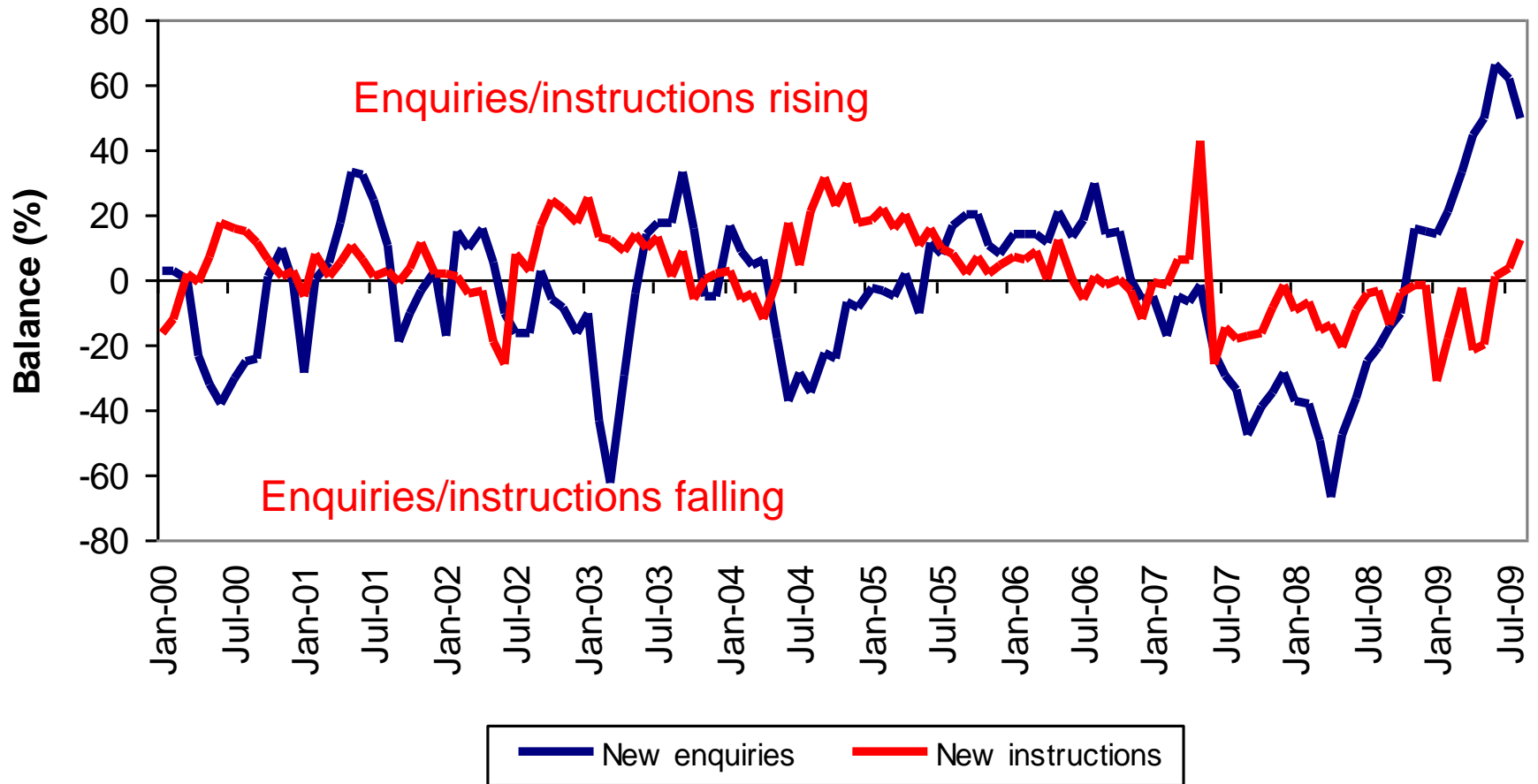


# Mortgage Approvals for House Purchase (UK)

## Quarterly totals

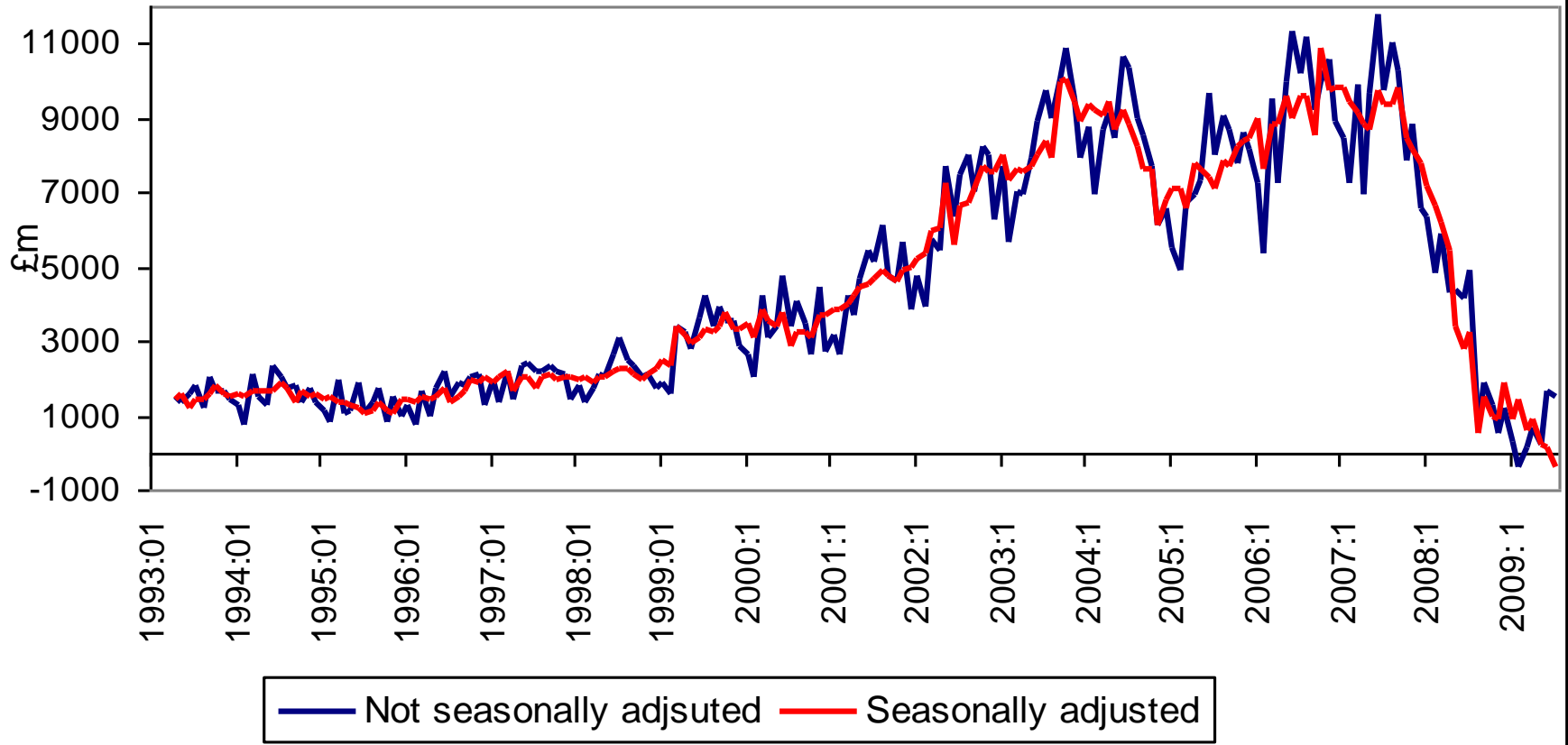


# Estate Agency Enquiries & New Instructions

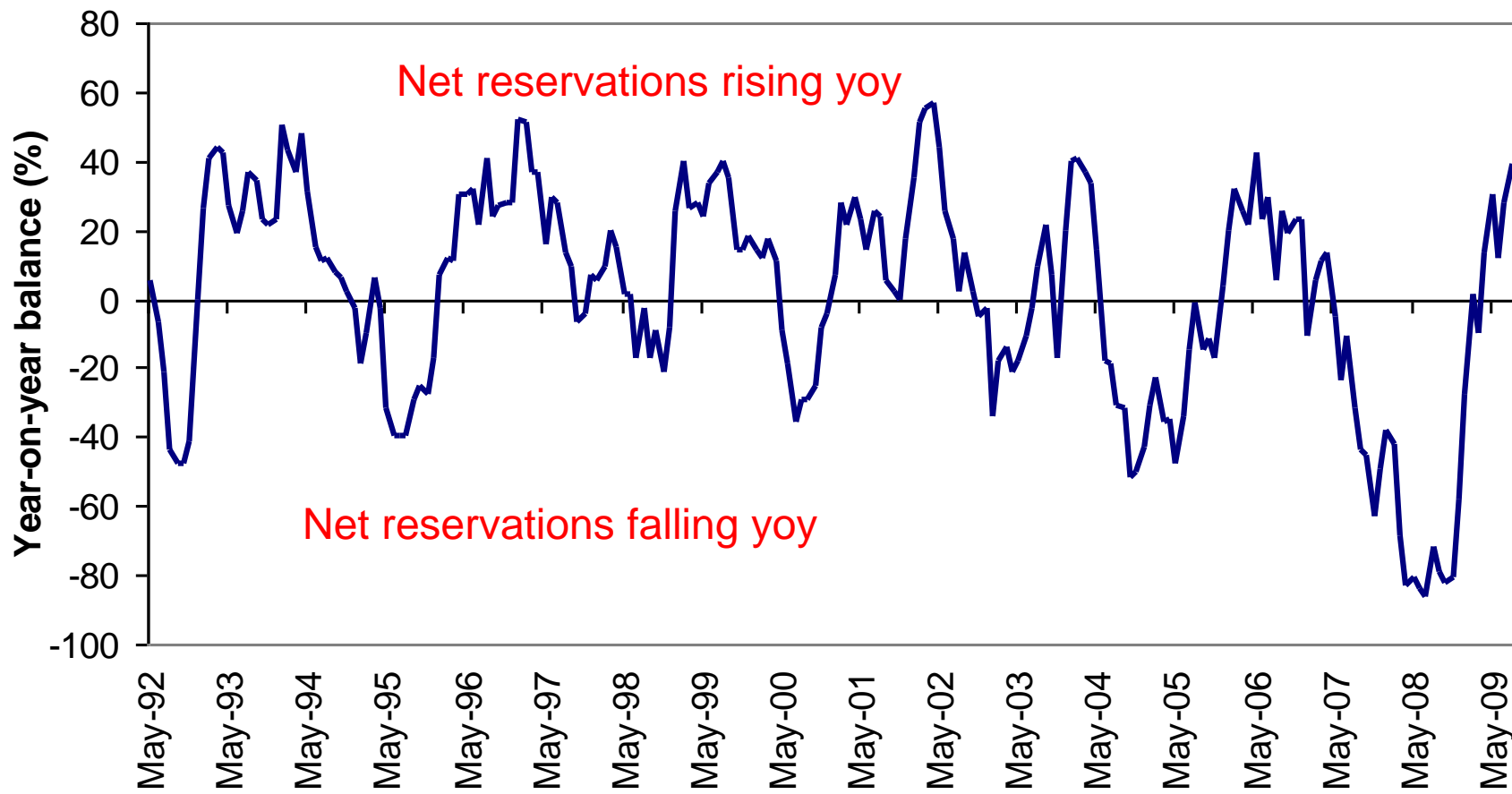


# Net Mortgage Lending (UK)

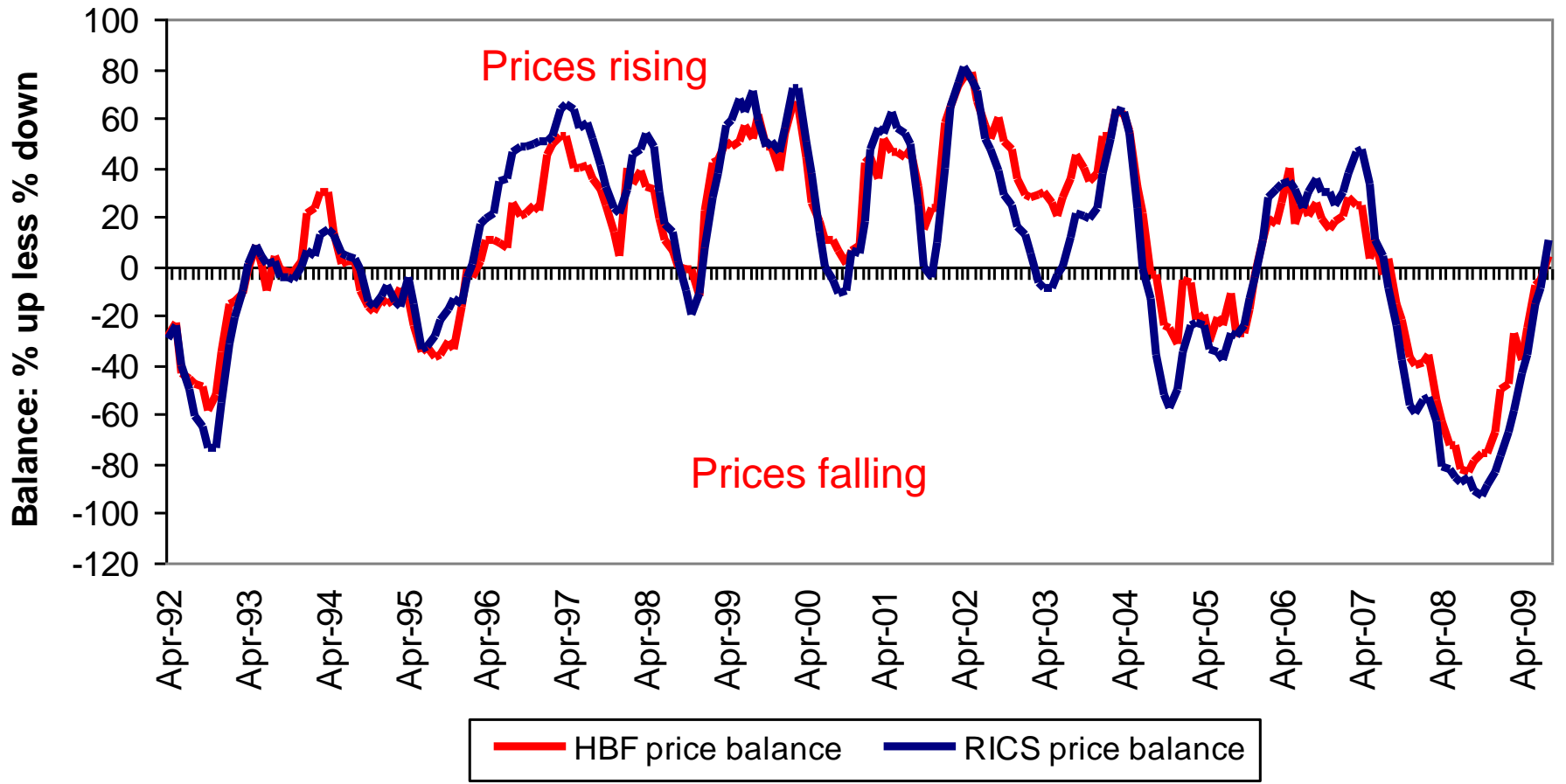
£m



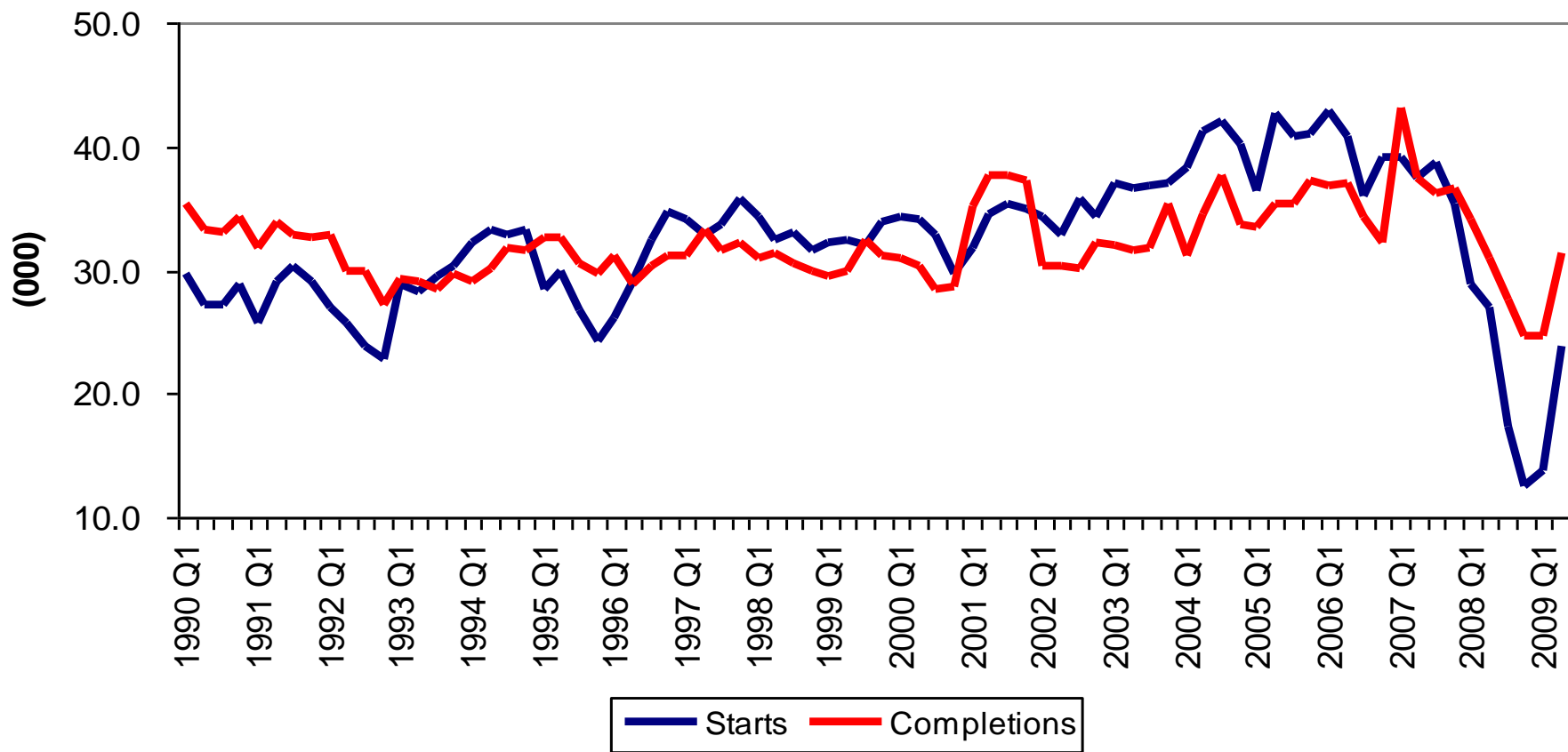
# HBF Survey: Net Reservations Balance (year-on-year) (GB)



# HBF and RICS Monthly Surveys: Price Balances

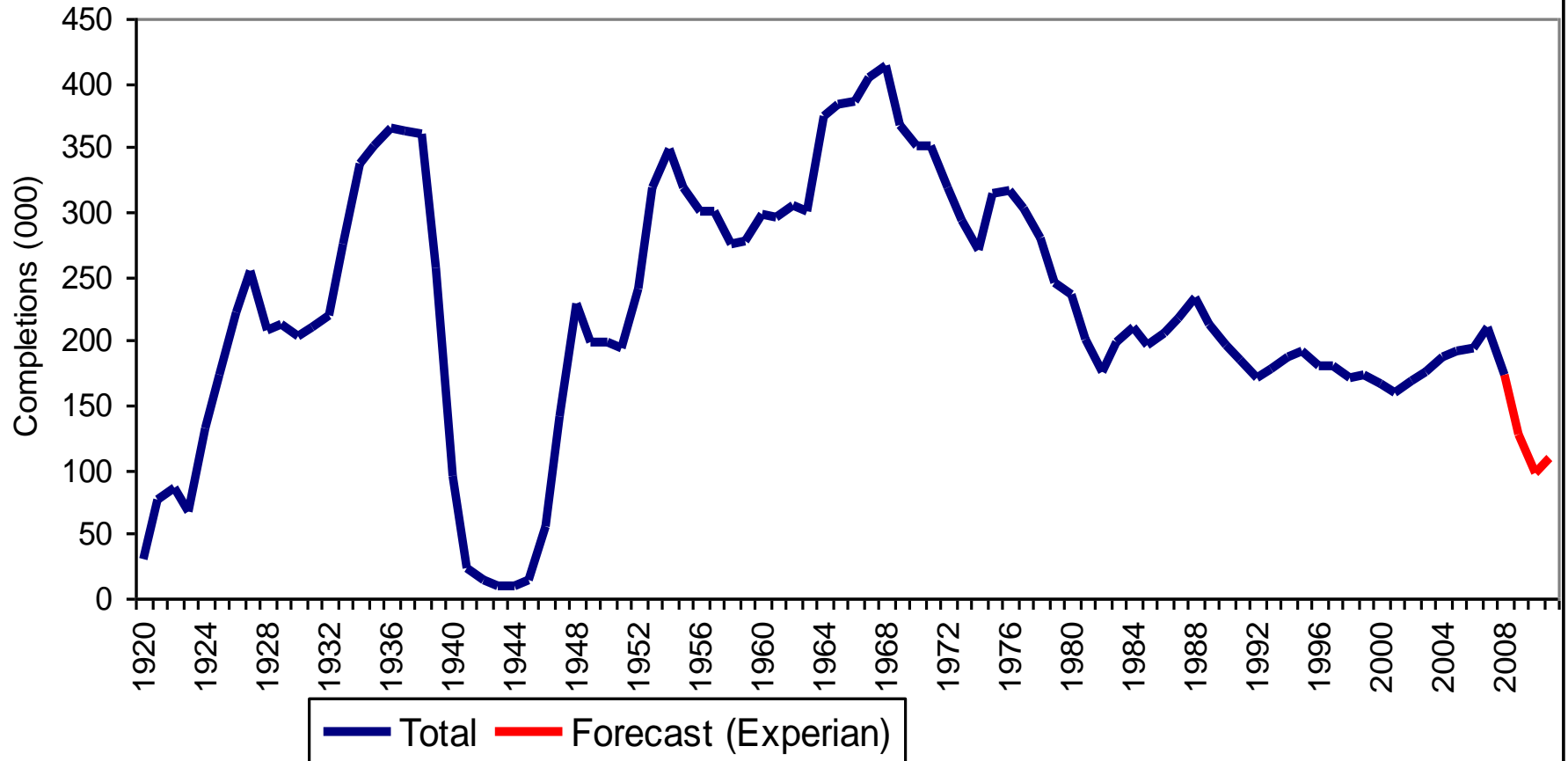


# Private house building (England) Quarterly; seasonally adjusted





# Private Housing Completions (GB)



# But not out of the woods yet...

Treasury review of 22 independent economic forecasts (September)

House price inflation in year to 2010 Q4:

- 12 predict fall
- 3 no change
- 7 rise (most <3%)

Average -0.2%

# PREPARING FOR RECOVERY

## SHORT TERM

# Economic Preconditions

- Restoration of mortgage market
- End to recession (& rising unemployment?)

# Government New Home Intervention

## HCA Initiatives

- RSL private stock purchases (£350m+): **9,000 homes**
  - HomeBuy Direct (£300m+): **10,000 homes** (~£2bn sales)
  - Kickstart: mothballed sites (£400m + £660m): **9,000 + 13,000 homes**
  - Public Land Initiative/Delivery Partner Panel: **1,350 homes** initially
- TOTAL: ~42,000 new homes (~£1.7bn) 2008-09 to 2011-12**
- Affordable Housing (grant rates, Intermediate Rent, tenure mix)
  - Private rental initiative
  - Local authority building

# Local Authority Flexibility

To restore viability:

- Renegotiate:
  - S106 agreements
  - Mix, density permissions
- Review other policy/regulatory demands

# New Home Valuations

- CML Disclosure of Incentives Form – **restore lender confidence**
- New home valuation (RICS new guidance, lender instructions, valuer behaviour)

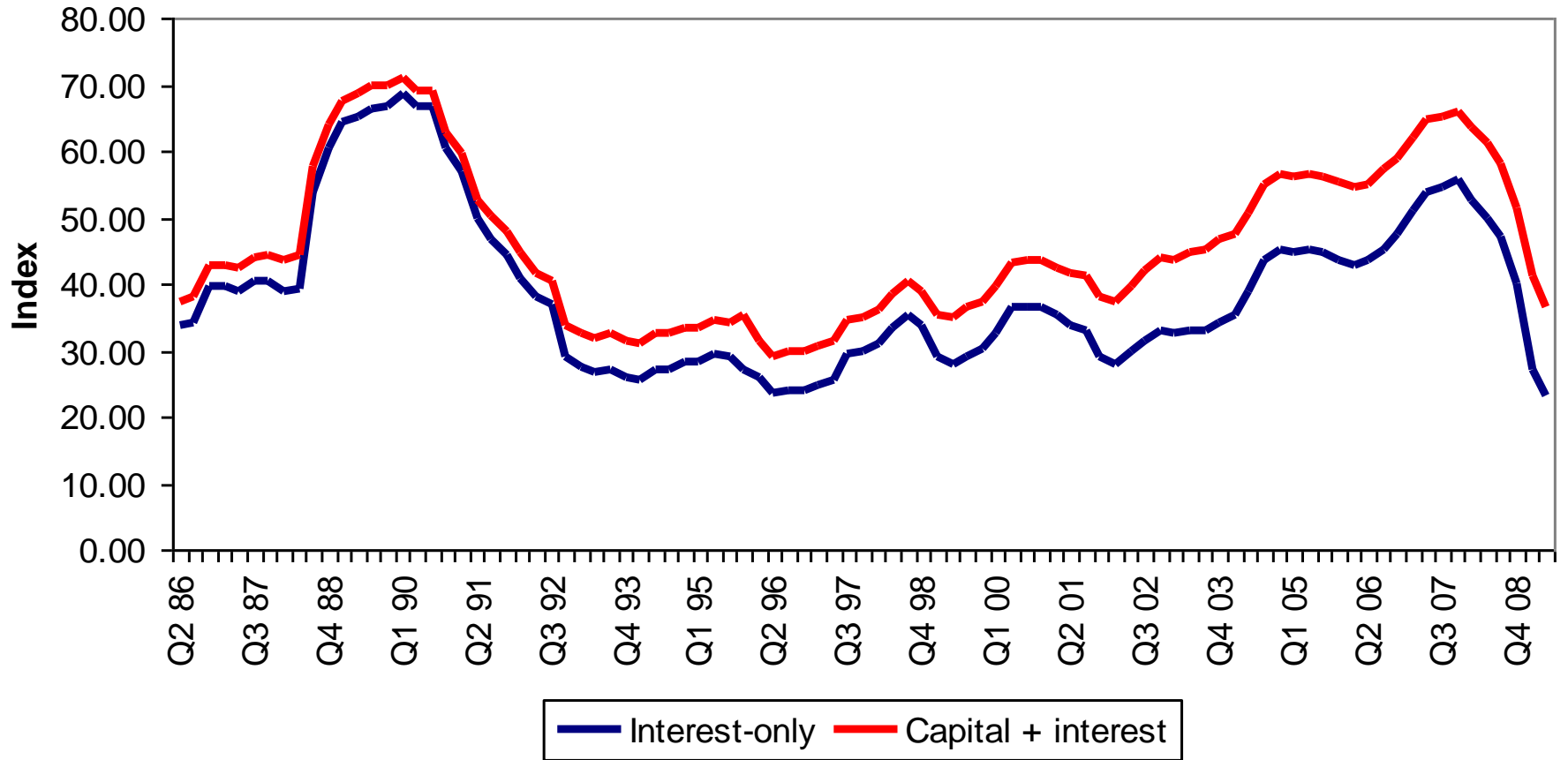
# Affordability

Major influences:

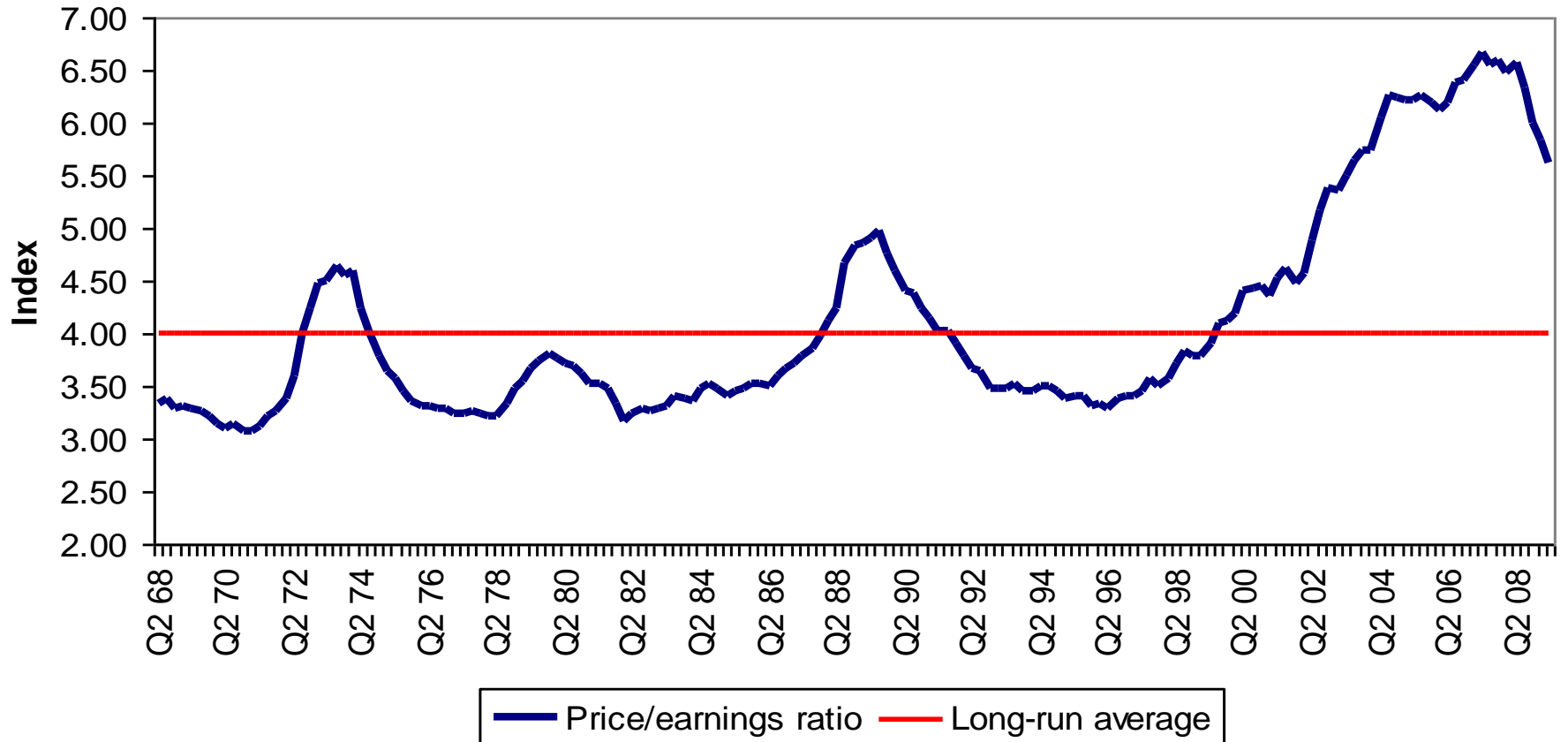
- House prices
- Earnings
- Interest rates
- Mortgage terms (especially higher LTVs)



## HMR Affordability indices (GB): Single male First-year payments as % post-tax earnings



# House Price/Earnings Ratio (GB): Single male Long-run: 1968 Q2 to 2009 Q2



# PREPARING FOR RECOVERY LONGER-TERM

# Mortgage Market

## Restoration of mortgage market

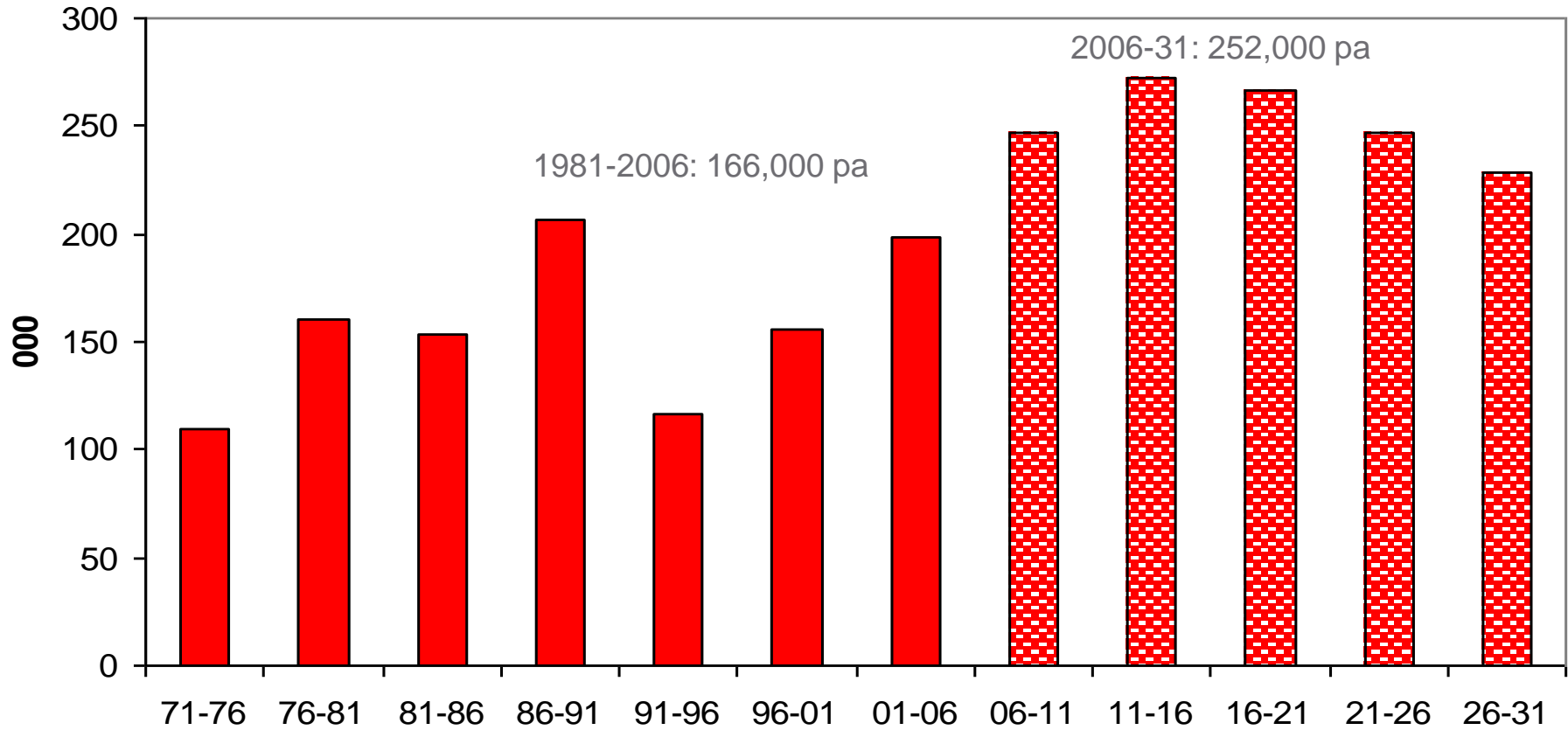
- Availability of funds (wholesale, securitisation)
- Terms, especially higher LTVs
- New lenders/competition
- New build lending
- MORTGAGE REGULATION

# But first, do we really need more homes?

Structural long-term housing under-supply

Demographic, social and economic  
necessity to raise supply

## Household Growth Average, England Annual Increase (2006-based Projections)



# Structural under-supply

“I do not believe that continuing at the current rate of housebuilding is a realistic option, unless we are prepared to accept increasing problems of homelessness, affordability and social division, decline in standards of public service delivery and increasing costs of doing business in the UK – hampering our economic success.”

(Kate Barker *Review of Housing Supply. Final Report.* March 2004)

# Structural under-supply

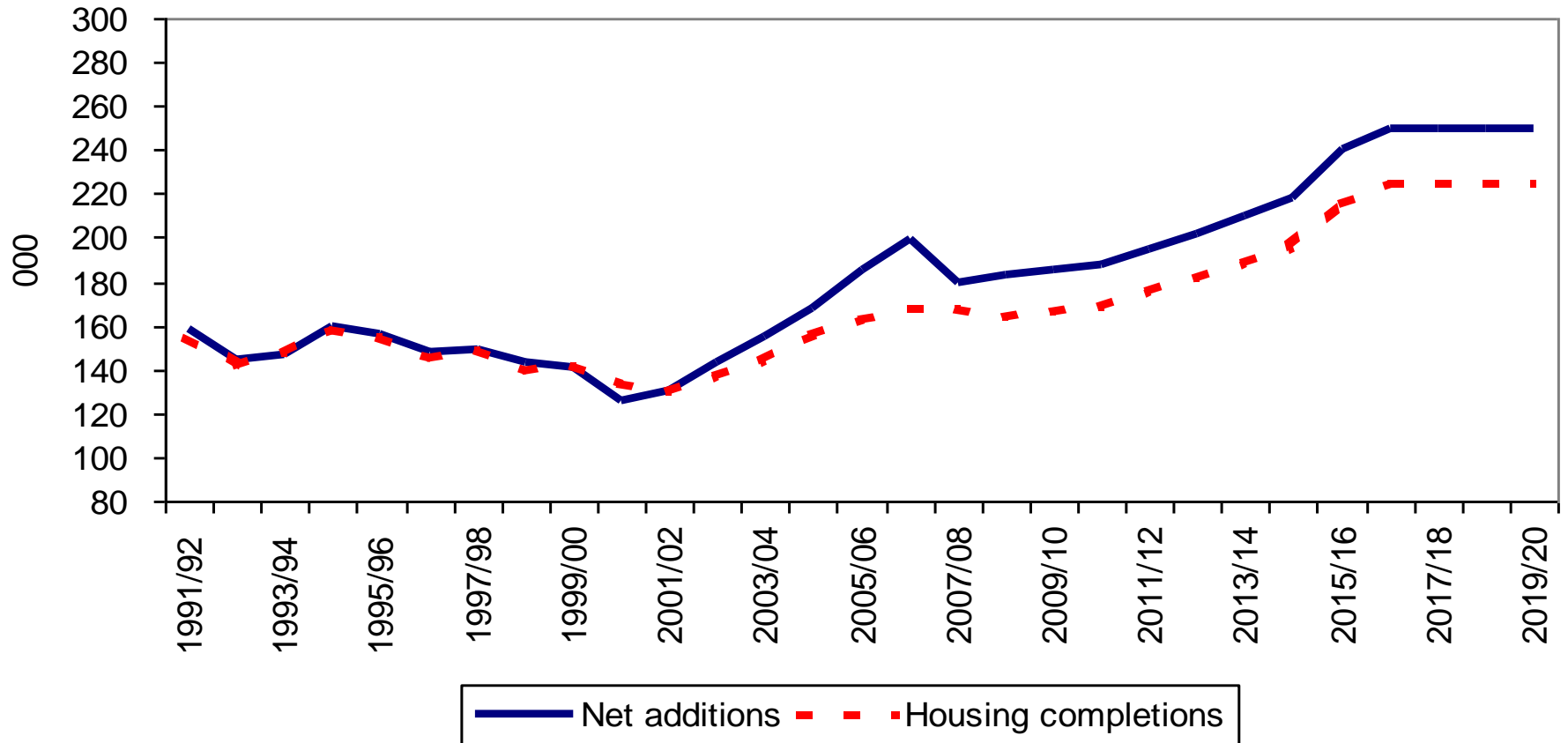
“If the state controls the location of residential development, rations the supply of permissioned land, heavily influences housing mix, density and product, and “taxes” housing land to the limits of viability and beyond, then it shouldn’t be surprised the supply of housing is inadequate!”

(John Stewart, *an irate email*, 24 September 2009)

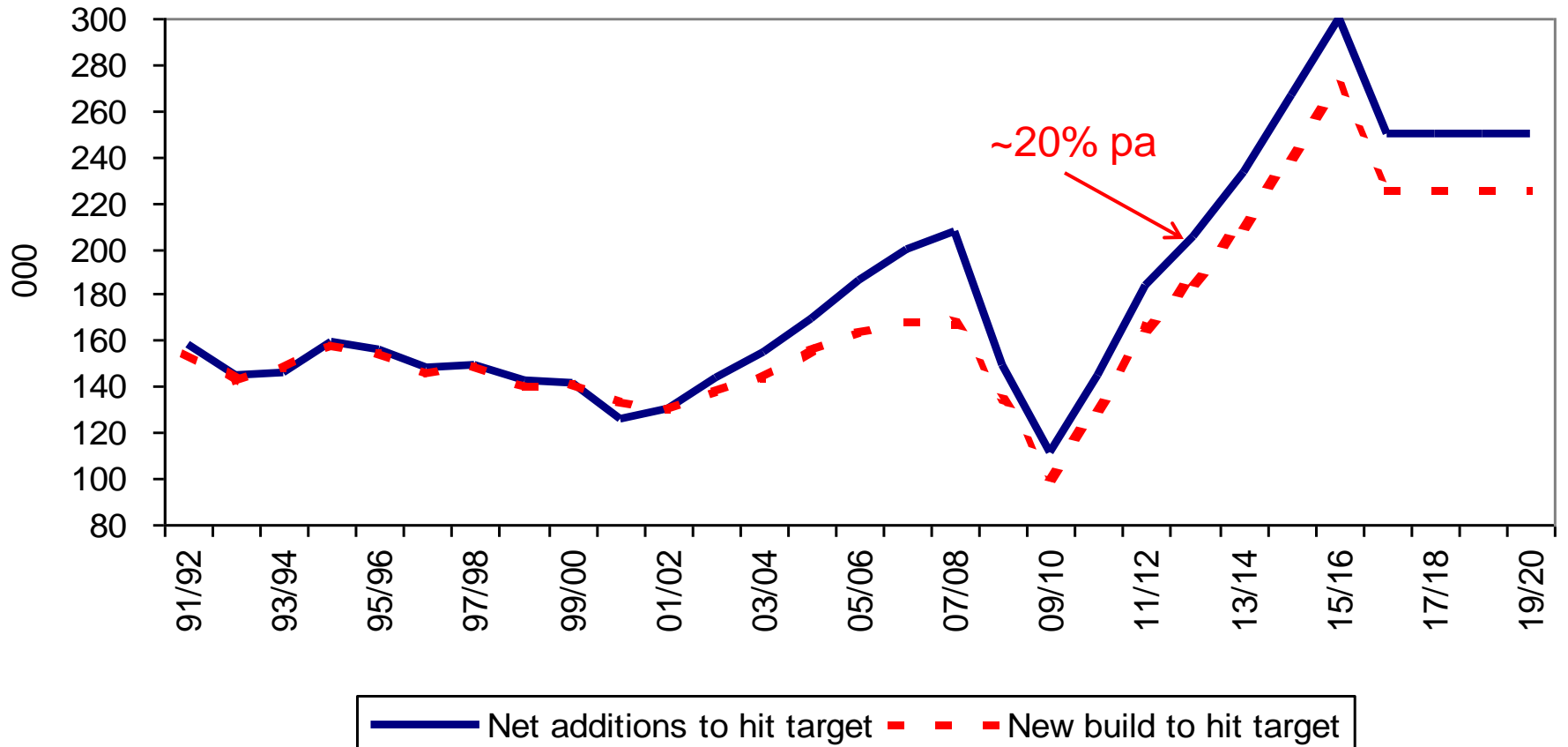


# Achieving the Government's Housing Targets (England)

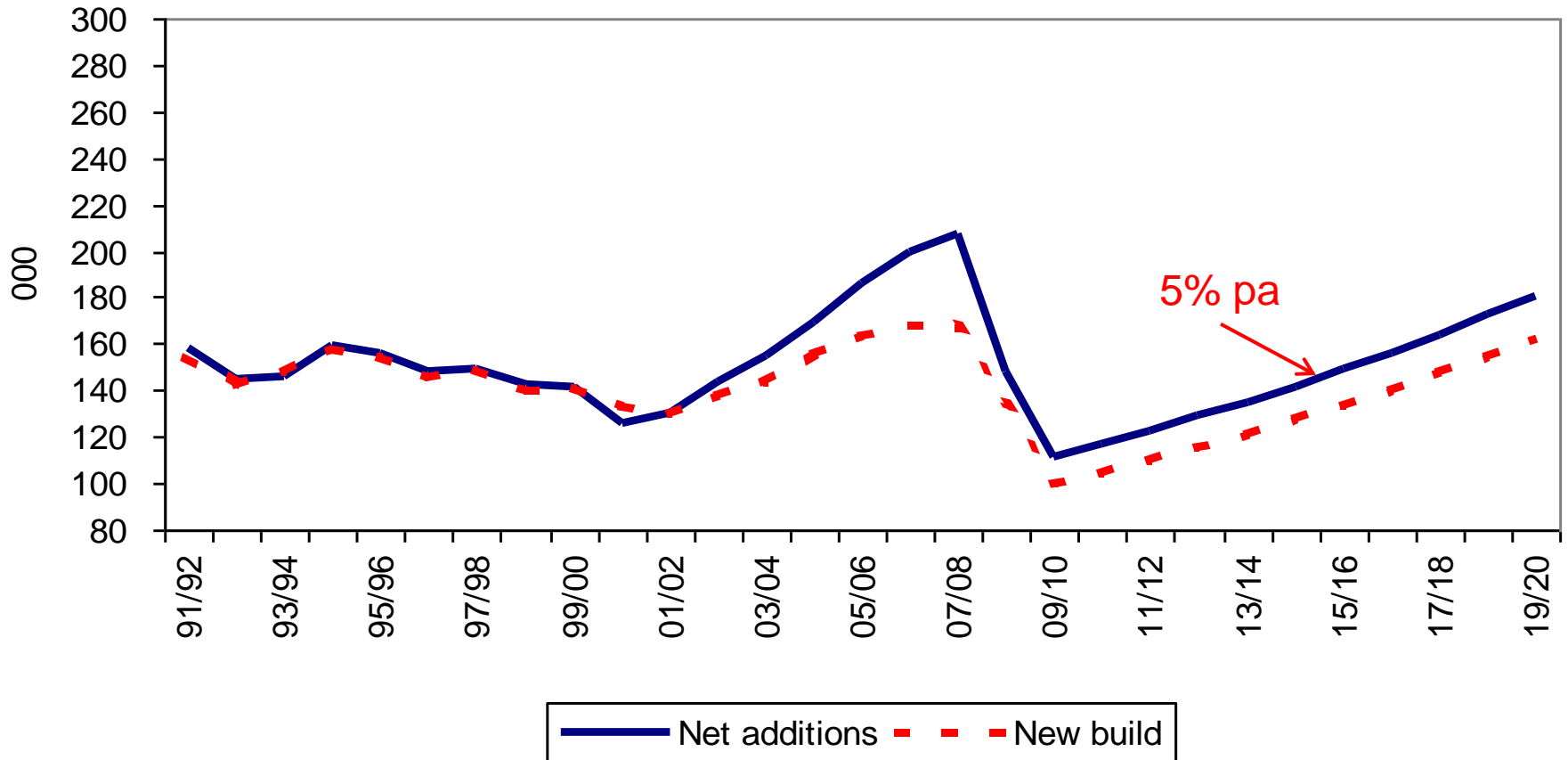
**Chart 2. Net Additions to Housing Stock, England**  
**Indicative Trajectory: Before Current Downturn**



**Chart 3. Net Additions to Housing Stock, England**  
**Illustrative Trajectory: to Hit Targets with Current Downturn**



**Chart 4. Net Additions to Housing Stock, England**  
**Illustrative Trajectories: Current Downturn, 5% pa Growth**



# Maximising House Building in the Recovery

**Lifting growth above 5% pa**

# Affordable Housing Delivery Model

## Developed in boom

- S106 private land value subsidy
- Cross subsidy
- Ready access to keenly price funds
- HCA grant

**No longer viable delivery/funding model**

# Development Models

- Is the private 'current trader' model broken?
  - New entrants, competition?
- “Strong and diverse housebuilding sector”
- What alternative models/suppliers?
  - Is public 'intervention' required?



**The market will solve, if enough land!**

# Current Trader Model

## Common public sector views

- Returns too high (vs contractor margins)
- Need “new players”, competition
- Too driven by cycles/land market
- Low output
- Too labour intensive (labour/materials balance)
- Sales driven (“sell one, build one”)
- Inefficient
- Poor innovation (MMC)
- Poor R&D
- Excessive waste

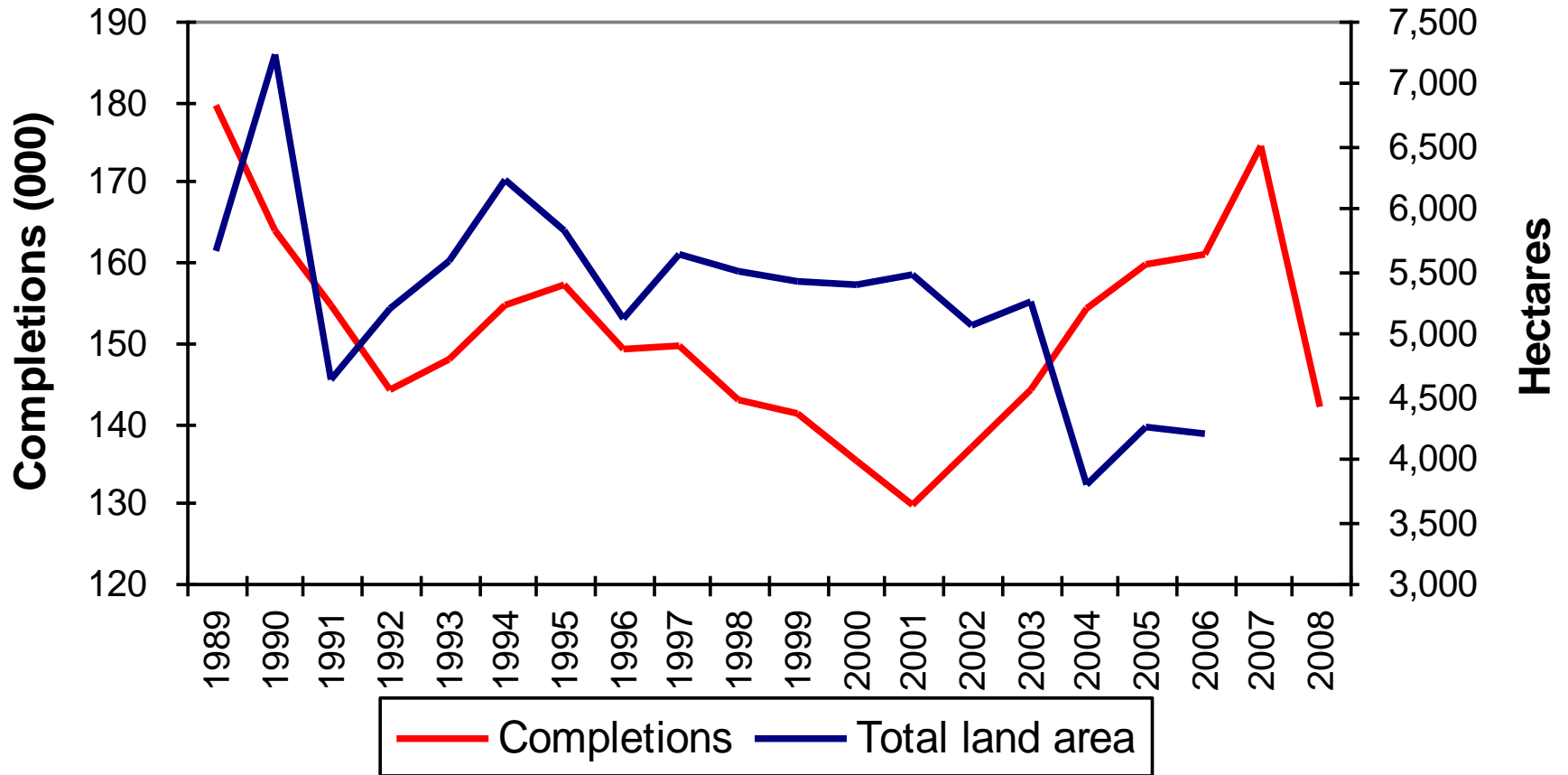




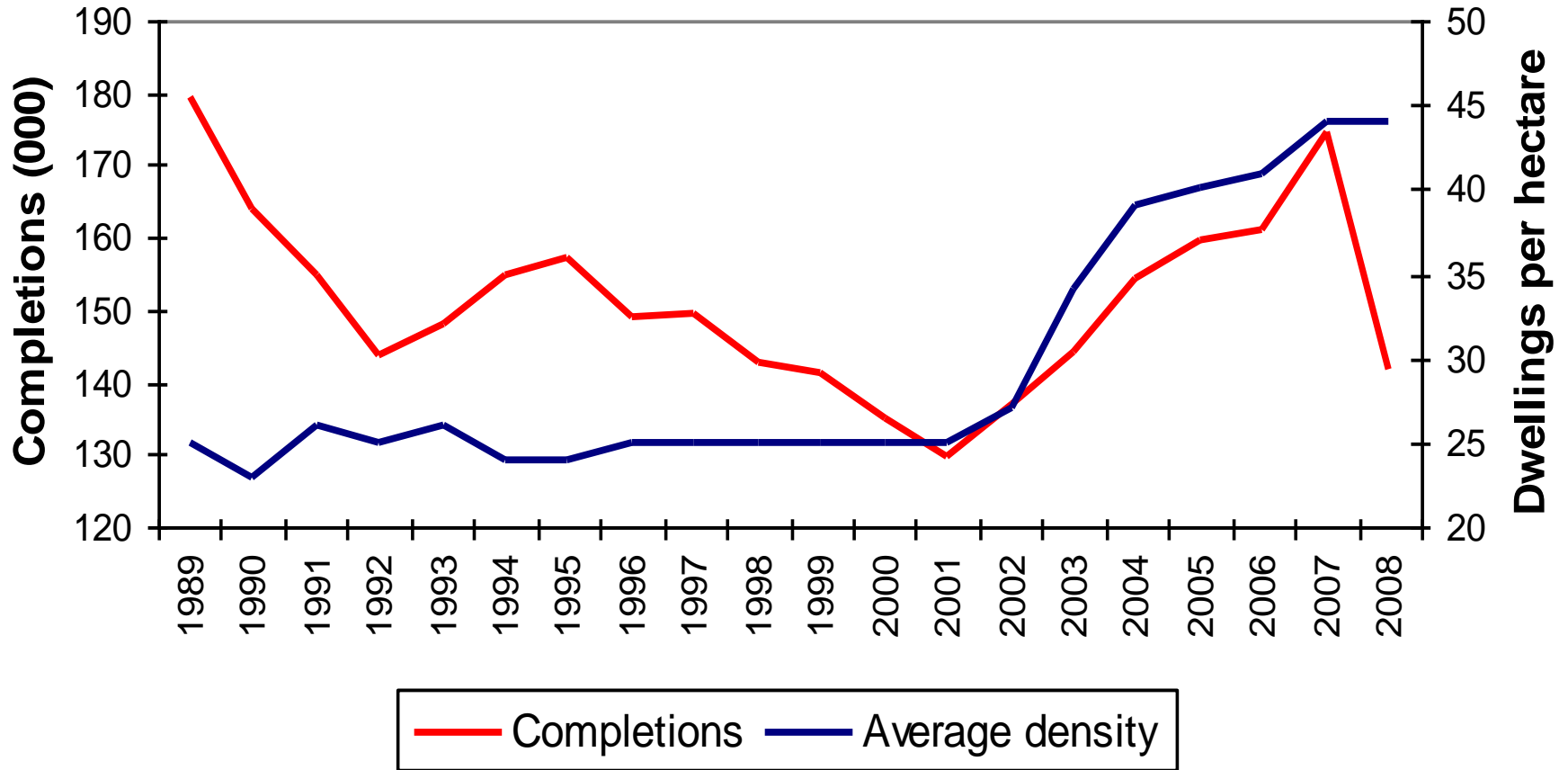
# Permissioned Land Supply & Planning

To increased supply, you can only go out or up

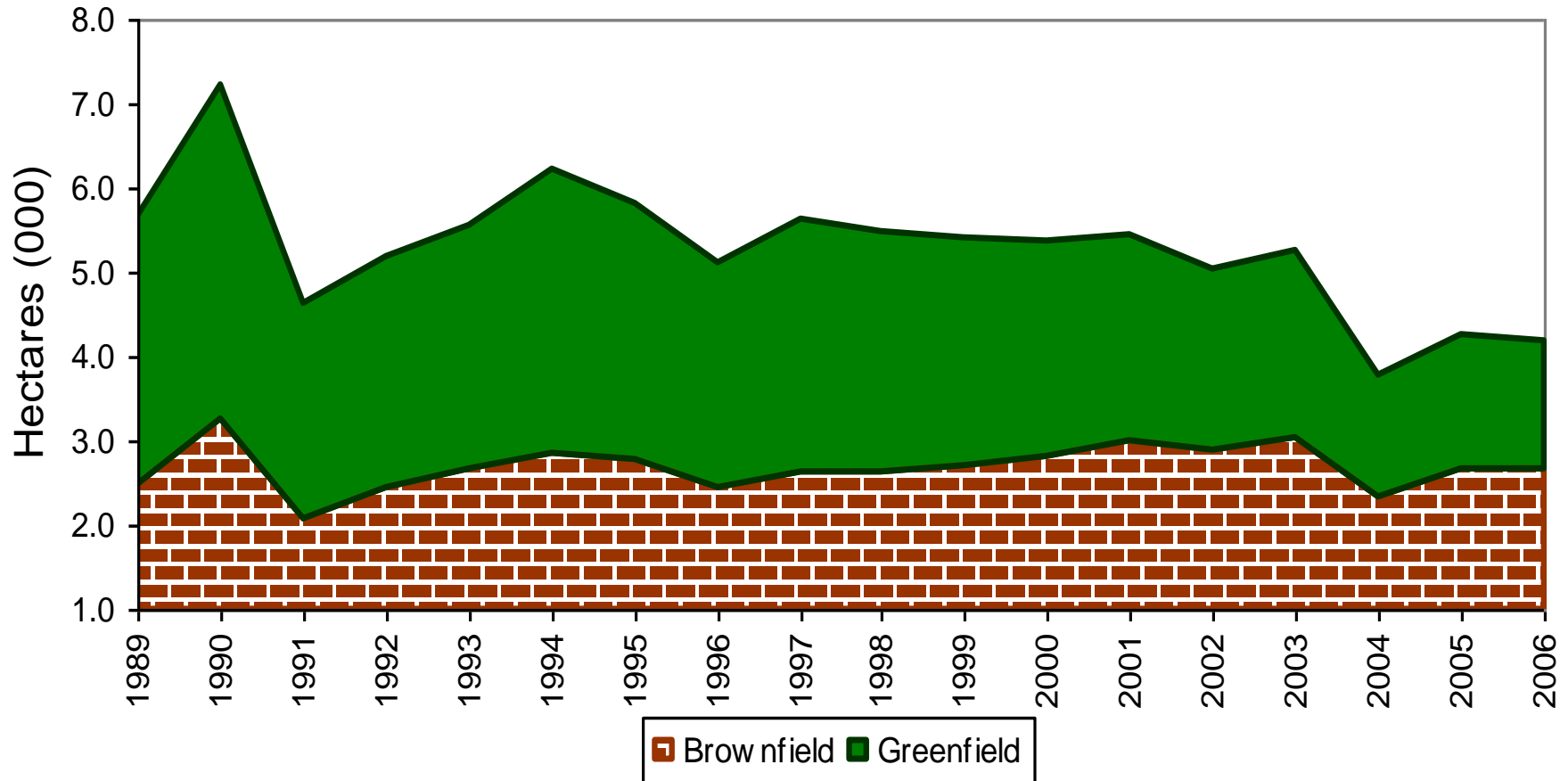
# Housing Completions and Land Use, England



# Housing Completions and Density, England



# Chart 5. Residential Land Use, by Land Type, England



# Conservative Planning Policy

- Abolish
  - National target
  - Regional targets, RSSs, RAs, RDAs
- Devolve responsibility to LPAs
- Incentives to encourage LPAs to “welcome development”

# Housing Products, Mix and Density

Home builders will only build products they can sell (i.e. to meet local demand)

## **Outcome**

Fewer apartments

More houses

i.e. lower average densities

# Development 'Viability'

Two essential conditions for development:

- Profitable, and
- Land value sufficient to persuade land owner to sell/exceed current or alternative use value

Land Value Viability

Cumulative

Cost Impact

of

Taxation, Policy & Regulation

on

Land Value



# Taxed to the limits of viability and beyond

- Regeneration projects
- Strategic greenfield with high infrastructure costs
- Northern brownfield/infill sites

# Industry Delivery Capacity

- Development finance, 'excess' debt
- Skills – management, professional, trades, new skills (e.g. sustainability), skilled teams
- Expand company output
- Expand number of companies
- Innovation and productivity improvements

# Meeting Intermediate Demand New Role for Private Rented Sector?

- Large-scale institutional funding, suitable vehicles/fund managers, professional management, focus on yield, location critical, purpose-built products, long-term model vs short-term opportunism
- Issues: taxation, S106 demands, planning attitudes, Affordable Housing (PPS3), right products/locations

**But can it be made viable for institutional yields?**

# Summary: Recovery Conditions

## Axioms

- Serious supply/demand imbalance
- Majority aspiration home ownership
- Private sector 'current trader' primary delivery model

# Recovery Conditions: Short Term

- Positive market indicators 2009
- Slow, possibly halting recovery
- Critical demand constraint: mortgage availability/terms

# Recovery Conditions: Long Term

- Drastically reduce cumulative impact taxation, policy, regulation on land value
- Sufficient permissioned land, right locations
- Products, mix & density – market responsive
- Industry capacity (skills, finance) – more partnerships?
- New Affordable Housing delivery/funding model
- New model for private rented sector?

# Preparing for Recovery

John Stewart

Director of Economic Affairs

Home Builders Federation

13 October 2009

