

HBF Policy Conference

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UK Housing Market: Industry View

1. Where are we?
2. Why are we here?
3. Where are we going?
4. Government policy, the market and the housing target – is the target achievable?

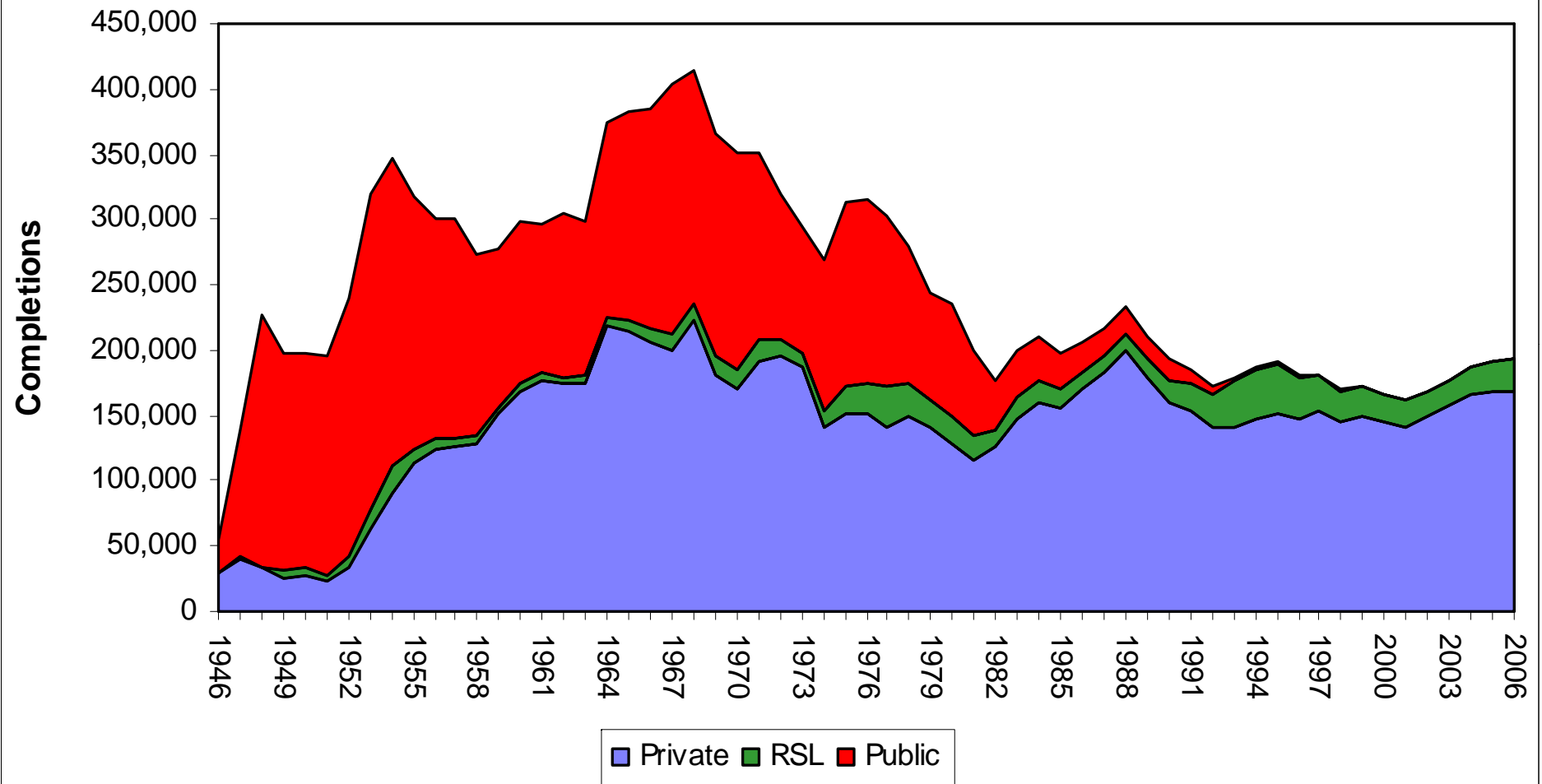
Presentation Theme

Just another cyclical downturn, returning to business and policy as usual?

Or something more fundamental, requiring permanent policy and business changes?

1. Where are we?

HOUSING COMPLETIONS (GB)



Where are we?

Economy strong in 2007 H2:

- GDP growth robust
- Retail sales buoyant (till December)
- Employment record levels
- Unemployment falling

Where are we?

But serious weakness in:

- Banking/mortgage sector
- Housing market & new build
- Commercial property

Public finances – limits fiscal action

MPC inflation fears – limits rate cuts

Where are we?

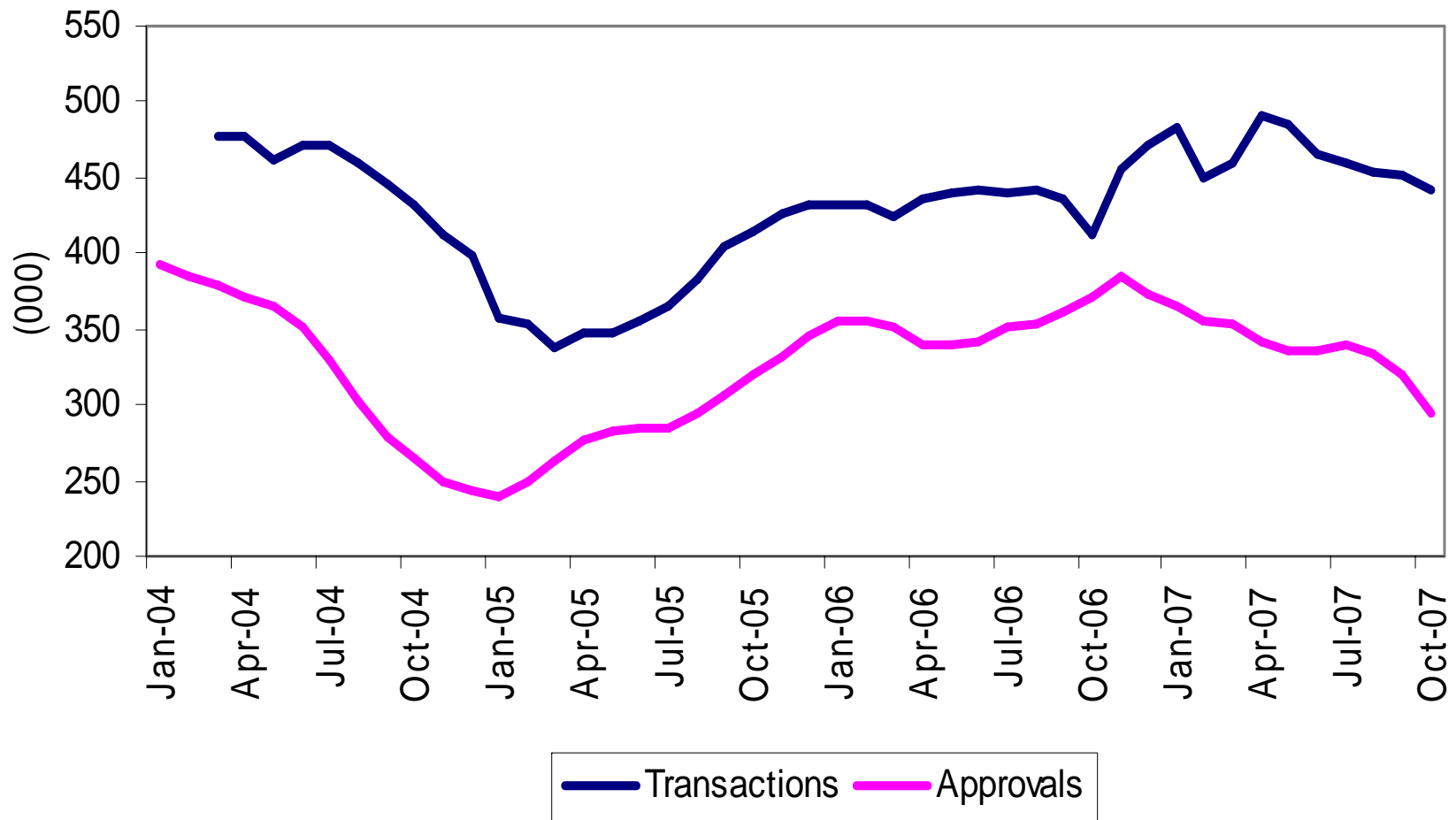
Housing market in 2007 H2:

- Volumes: down sharply
- House prices: falling
- Investment demand: weakened?

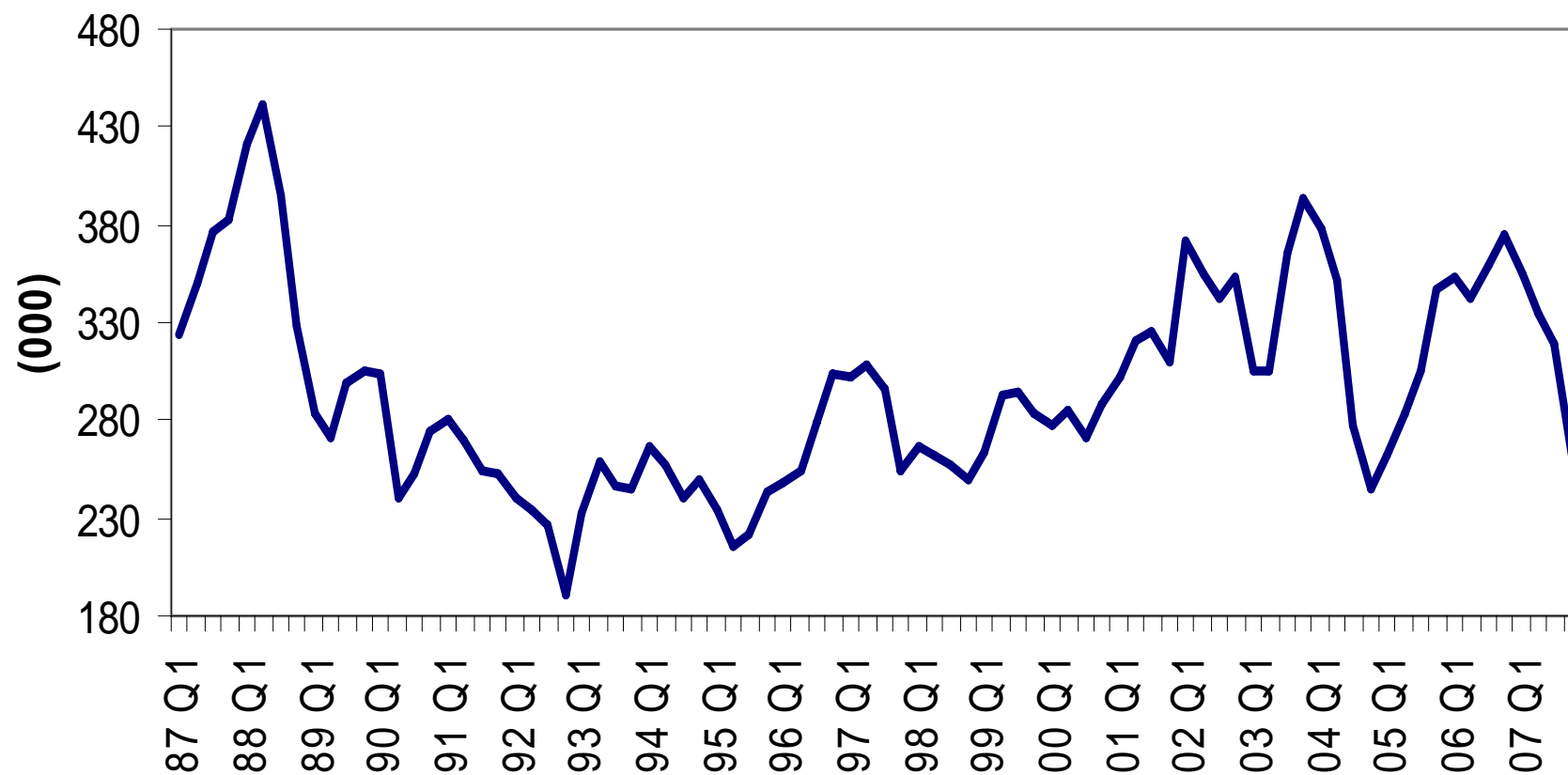
Where are we?

- New home reservations: down sharply yoy since June 2007
- Net new prices: weak, incentives up
- Mix: excess new build flats some (many?) inner-city and town markets, reliance on investors, shortage of houses

Property Transactions and Mortgage Approvals

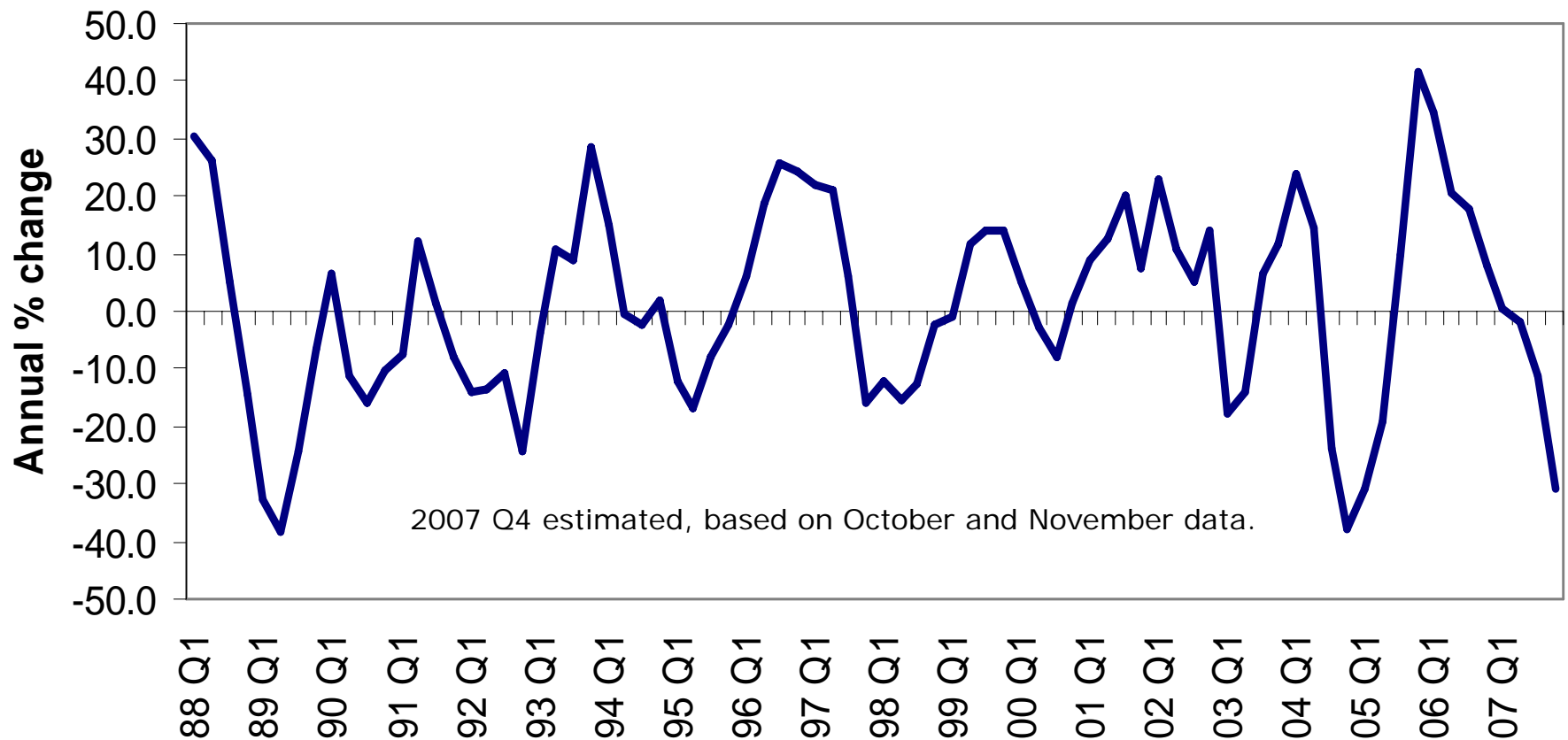


Mortgage Approvals for House Purchase Quarterly totals

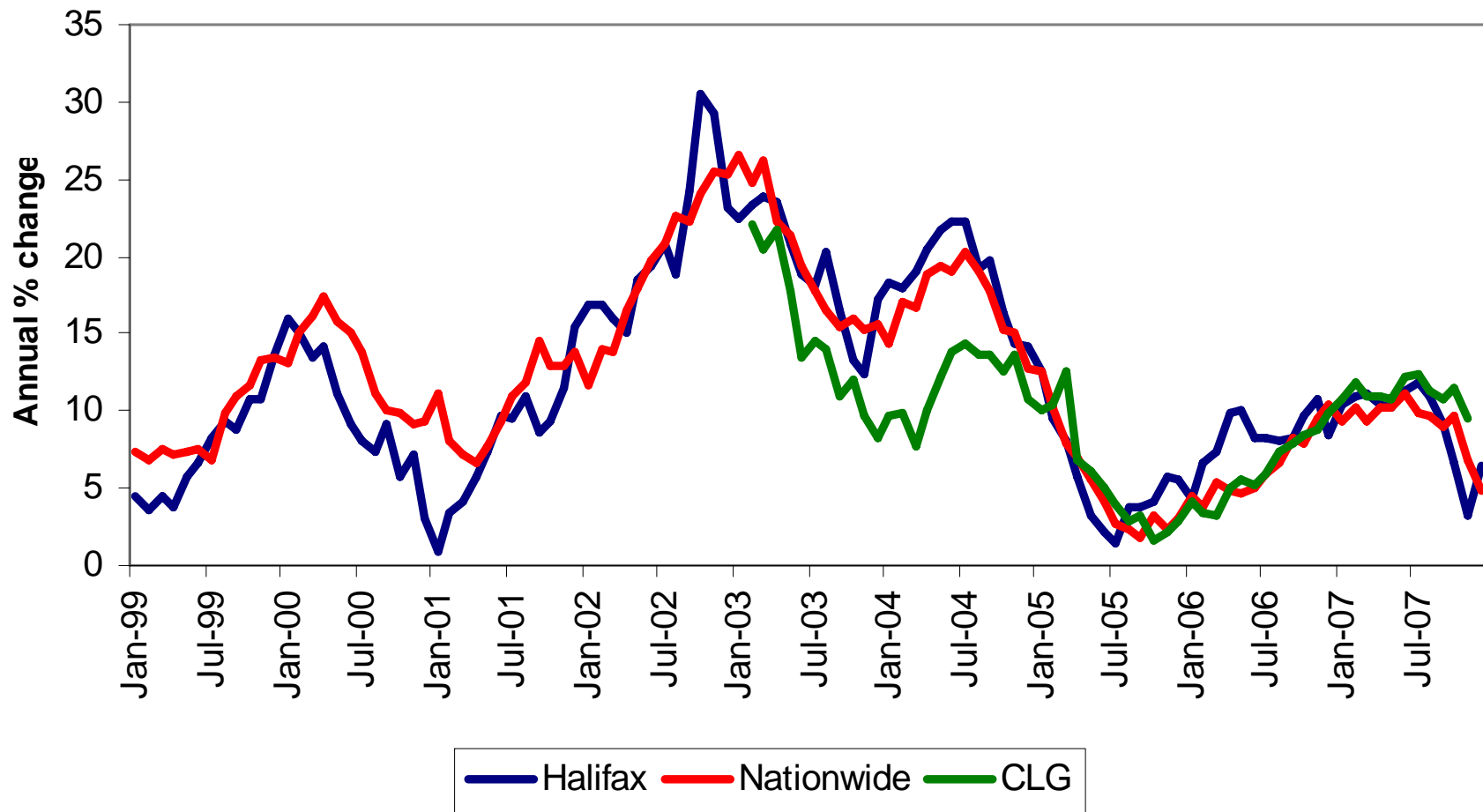


Mortgage Approvals for House Purchase

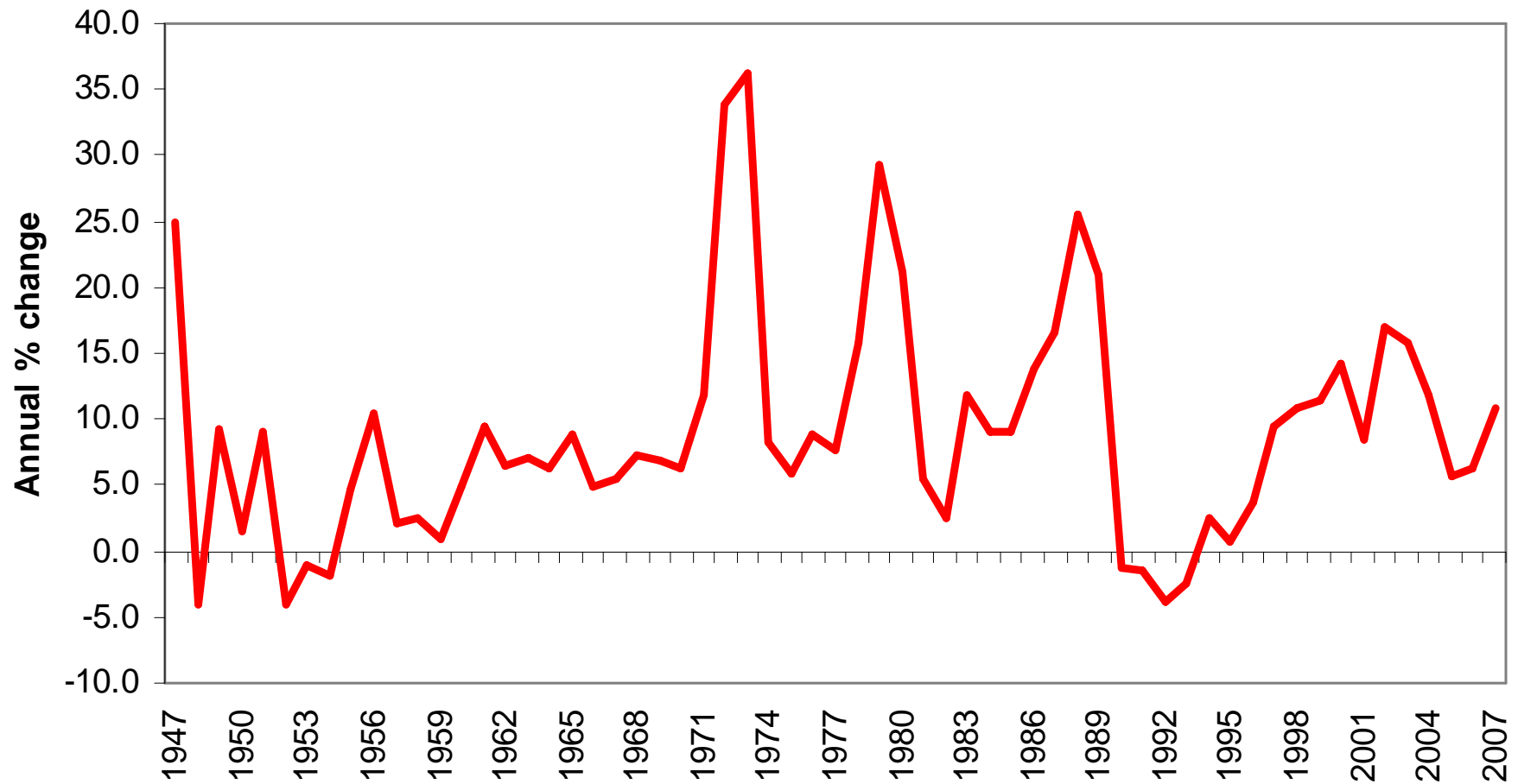
Annual % change in quarterly totals



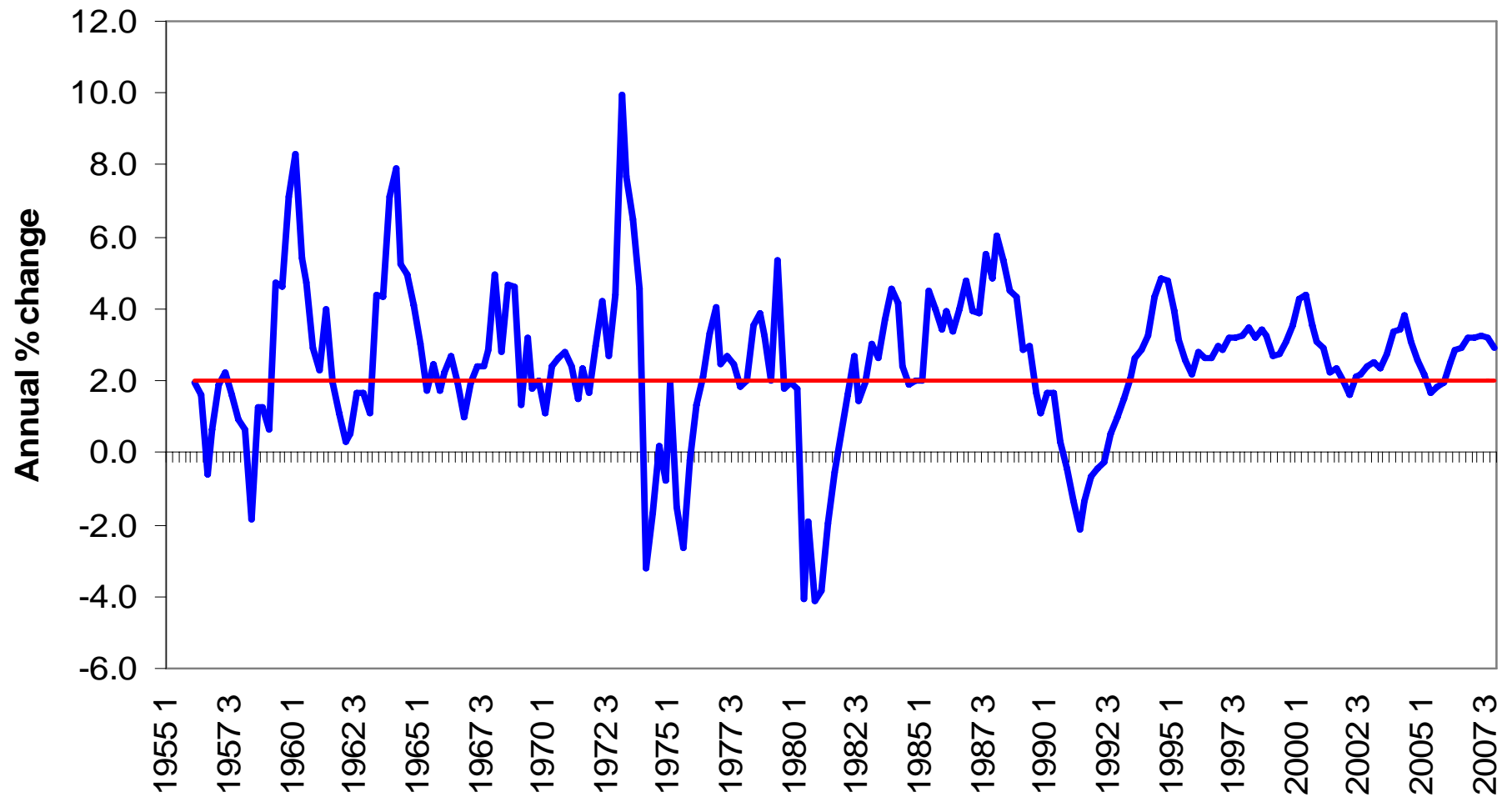
Annual House Price Inflation



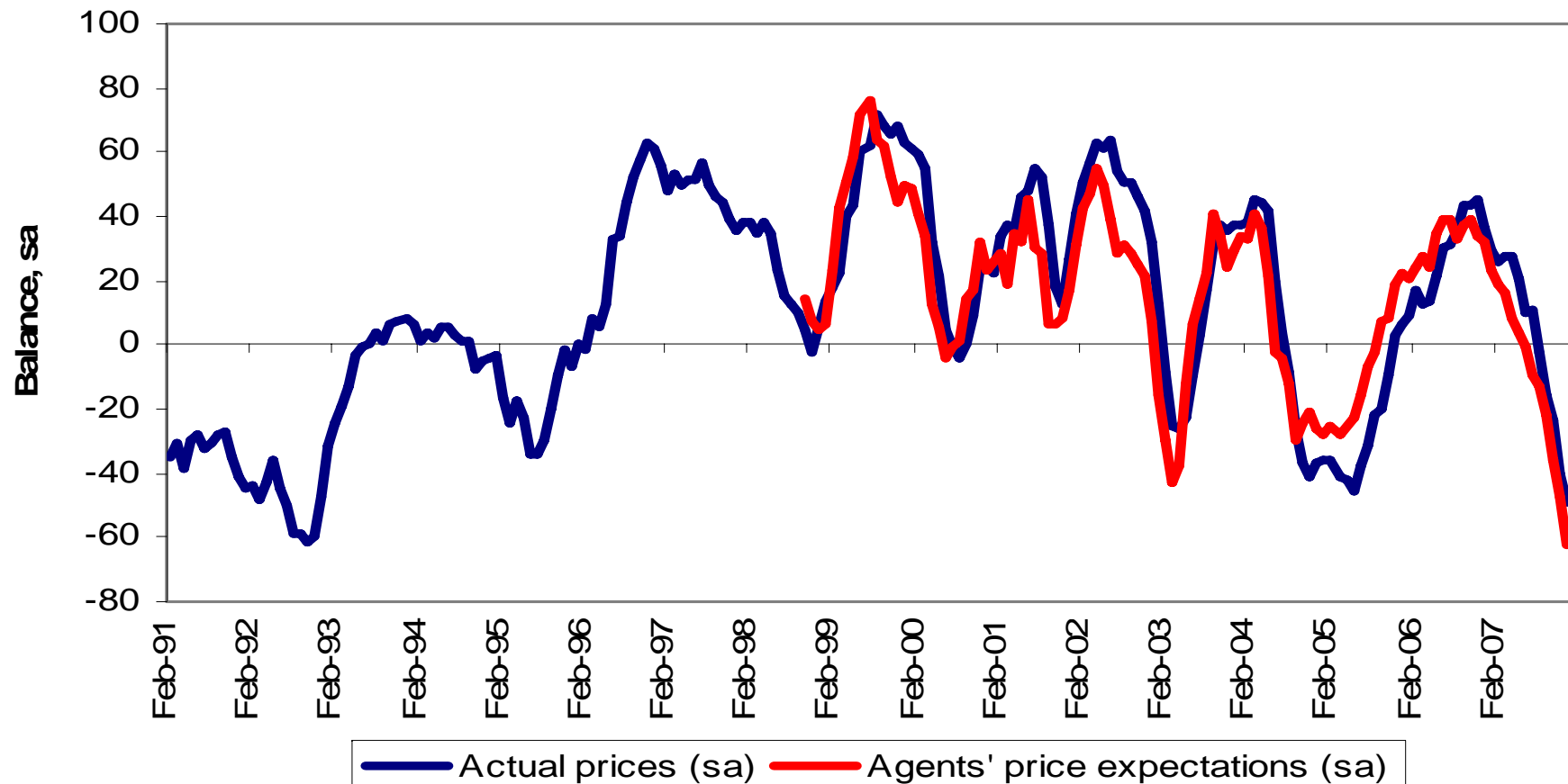
Annual House Price Inflation (UK) (CLG index)



Annual GDP Growth (UK)

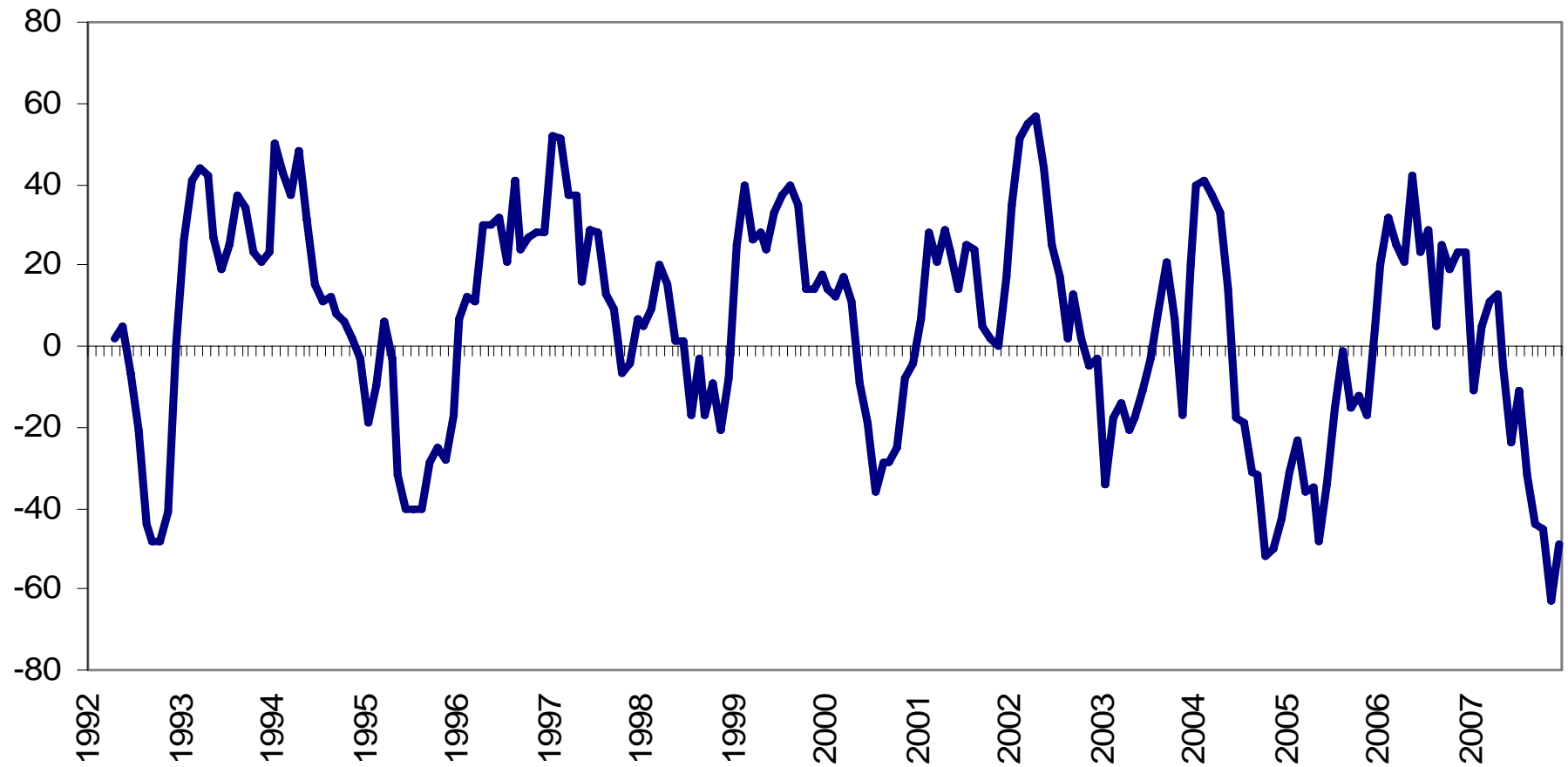


Price trends reported by estate agents (RICS) Balances, seasonally adjusted

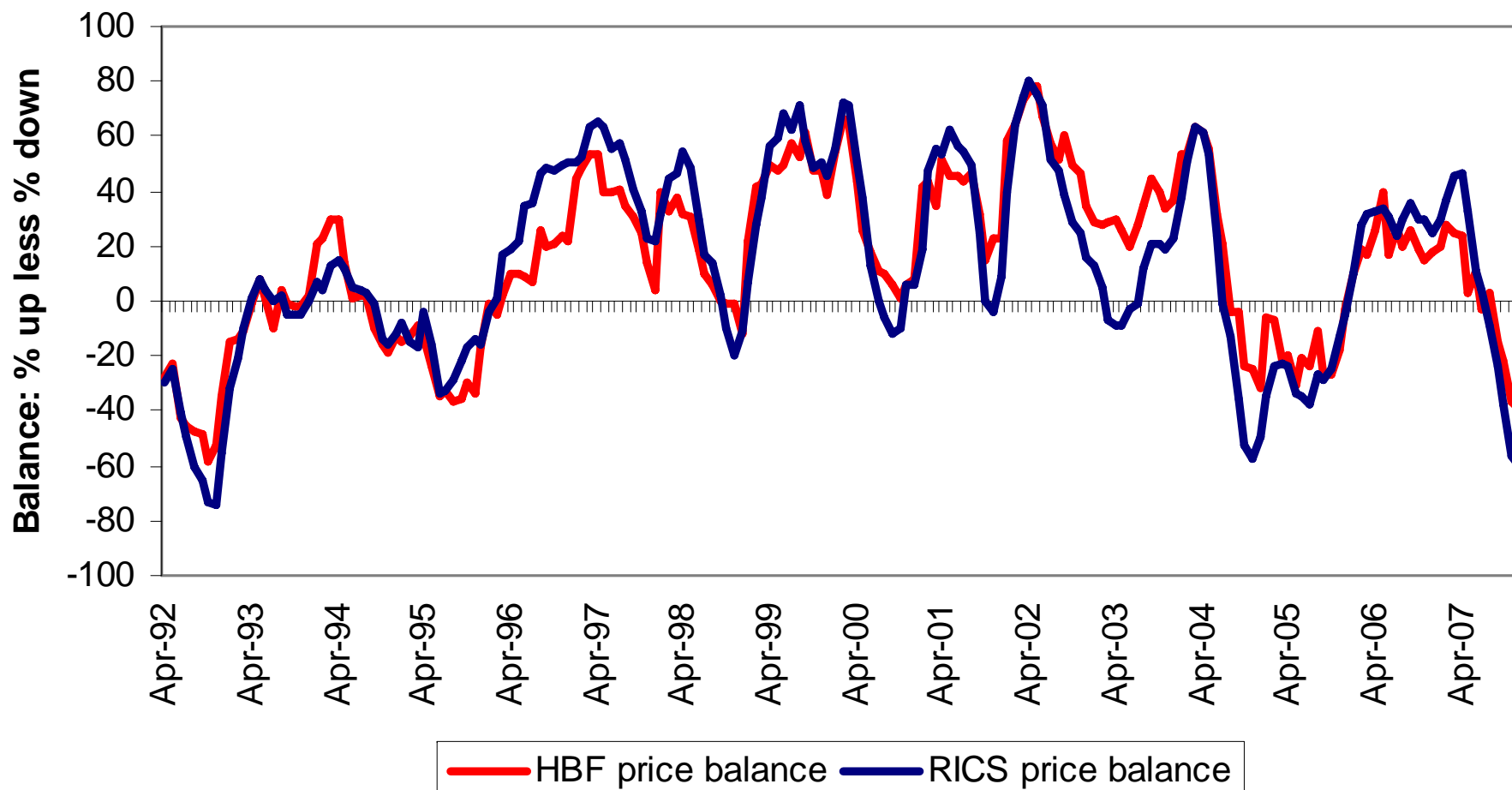


HBF Monthly Survey

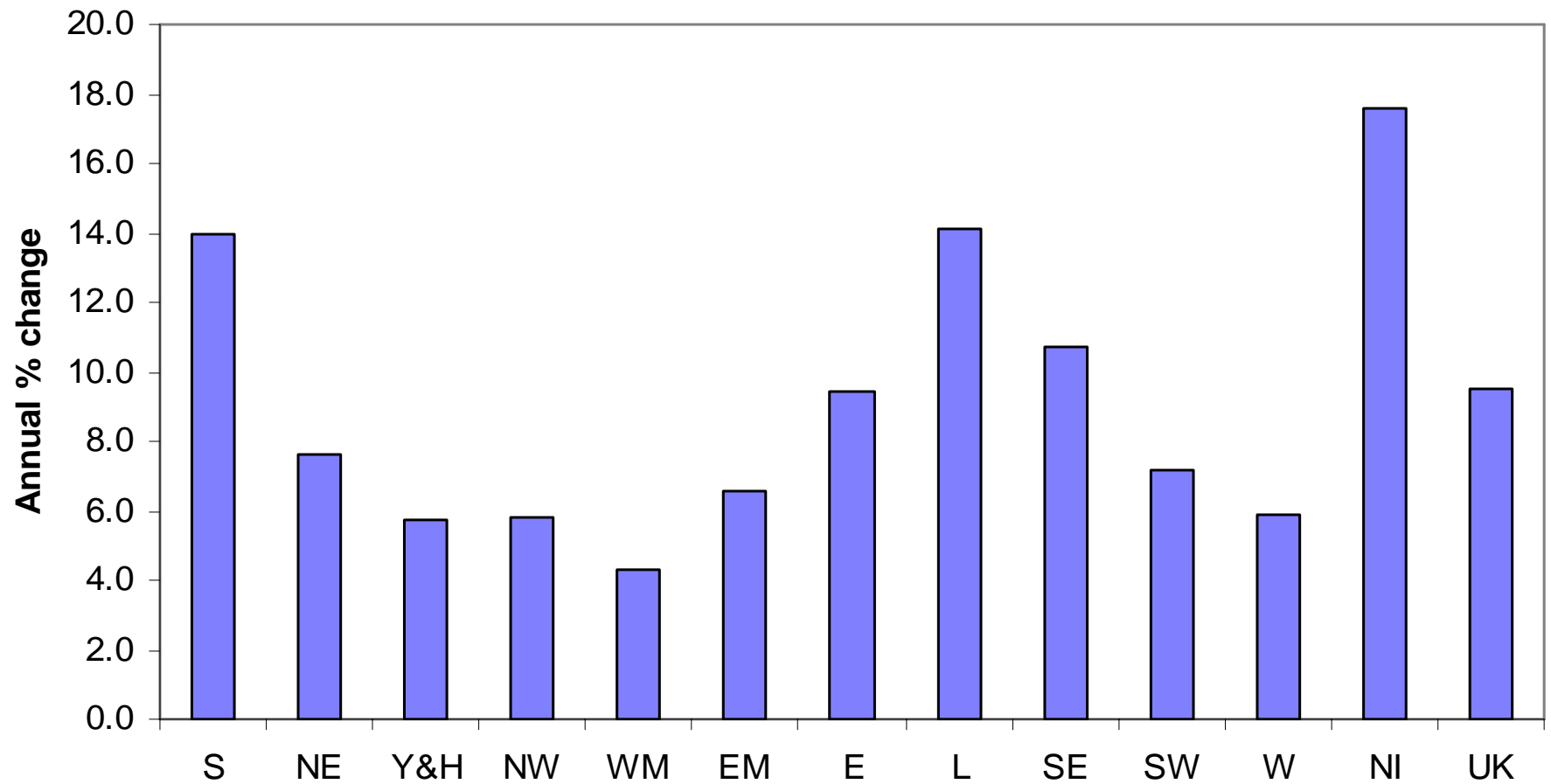
Net reservations Year-on-Year Balance %%)



HBF and RICS Monthly Surveys: Price Balances

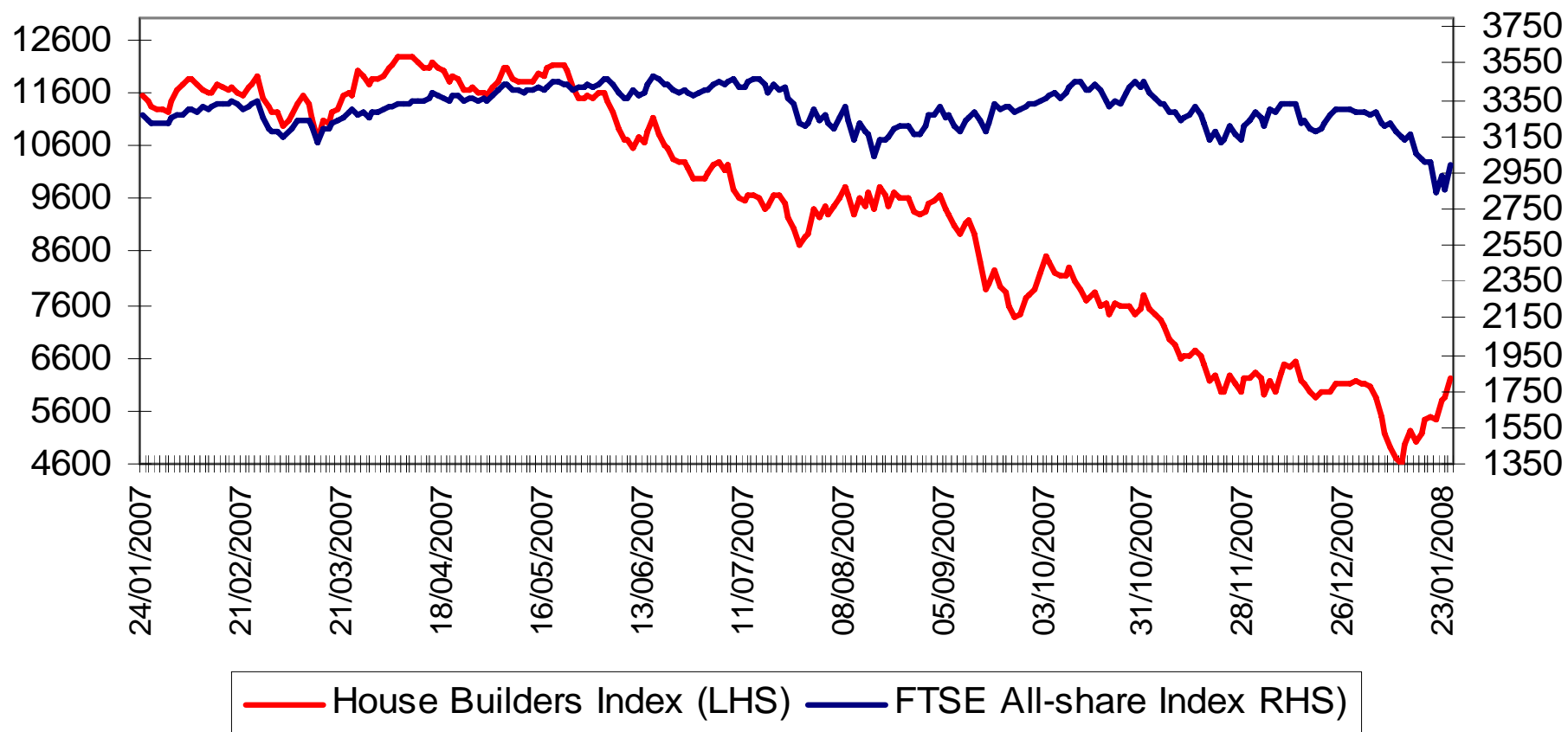


Regional House Price Inflation (CLG Index)

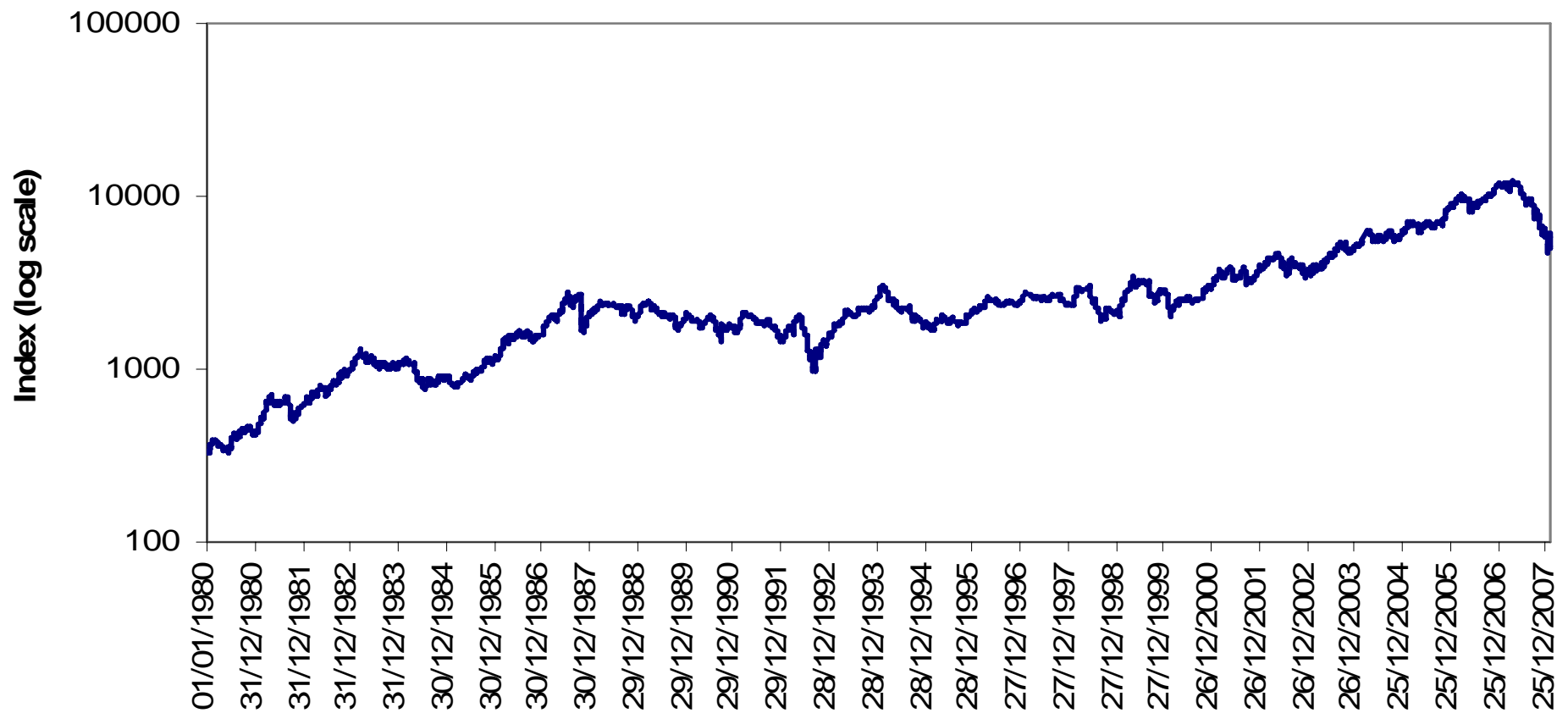


Stock market

House Builder Index; FTSE All-share Index (to 24 Jan 2008)



UK Homebuilders Share Price Index (log scale) (to 24 January 2008)



2. Why are we here?

Why are we here - longer-term perspective?

Economic and Financial Conditions:

- Long, unbroken GDP growth
 - Ultra-low interest rates, sustained low inflation
 - Financial innovation (and excess)
 - Mispricing of risk, lax lending
 - Pensions crisis
- ⇒ cheap plentiful credit, rising personal debt
- ⇒ house price boom (x 2.7 since 1/99), no economic boom
- ⇒ housing seen as investment asset

Why are we here - longer-term perspective?

Policy and Housing Conditions:

- Historic net migration shift late '90s (to persist?)
 - Excellent affordability 1996 (ready for lift off!)
 - PPG3 (March 2000) – esp. density, brownfield
 - Buy-to-let 'invented' 1998
 - English cities revival
- ⇒ historic affordability deterioration
- ⇒ higher densities, shift detached to flats, city-centre, greenfield collapse
- ⇒ investor demand boom
- ⇒ escalating land prices (house prices + density effects)

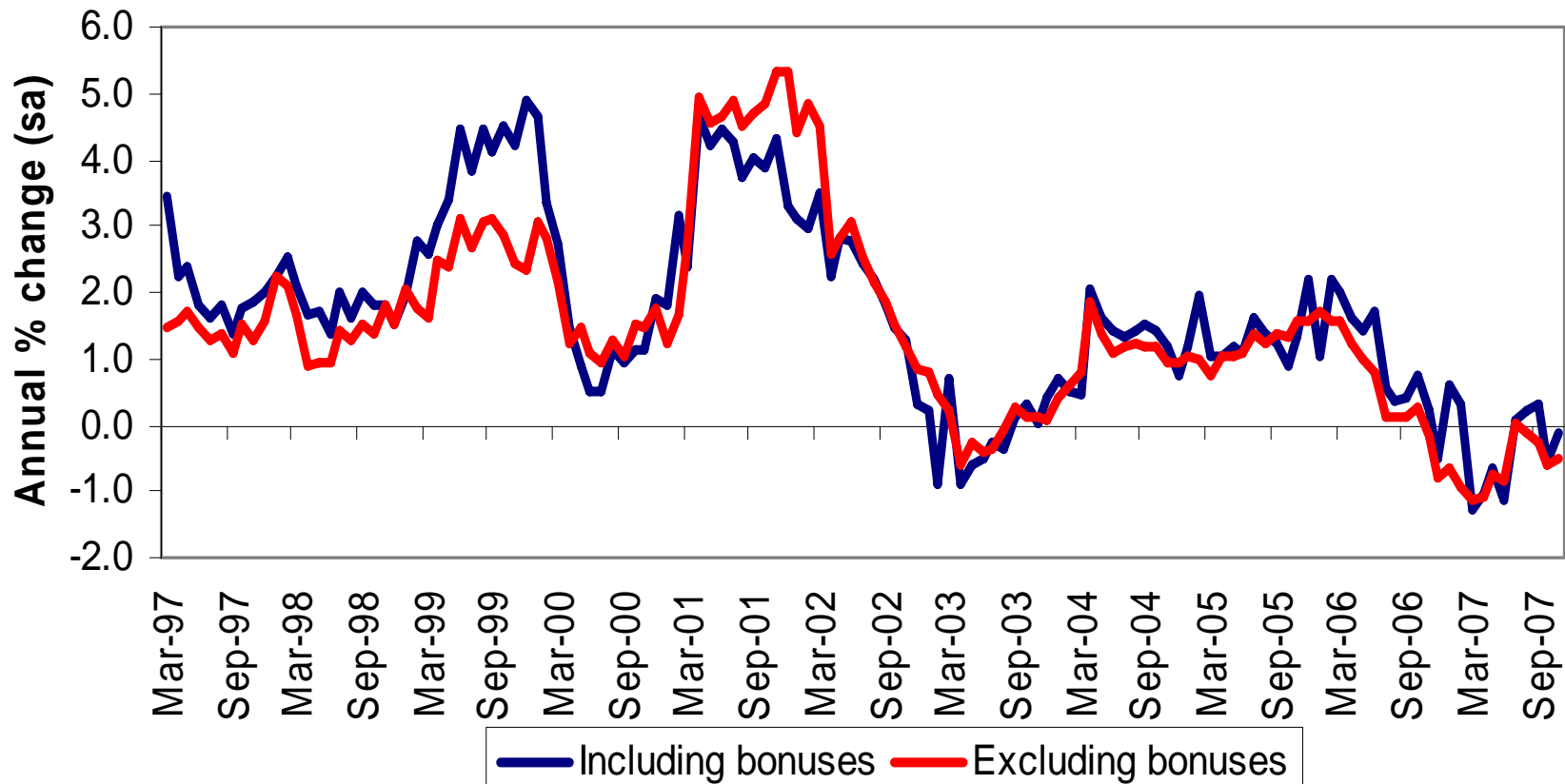
Why are we here – short term?

Housing market downturn triggered by:

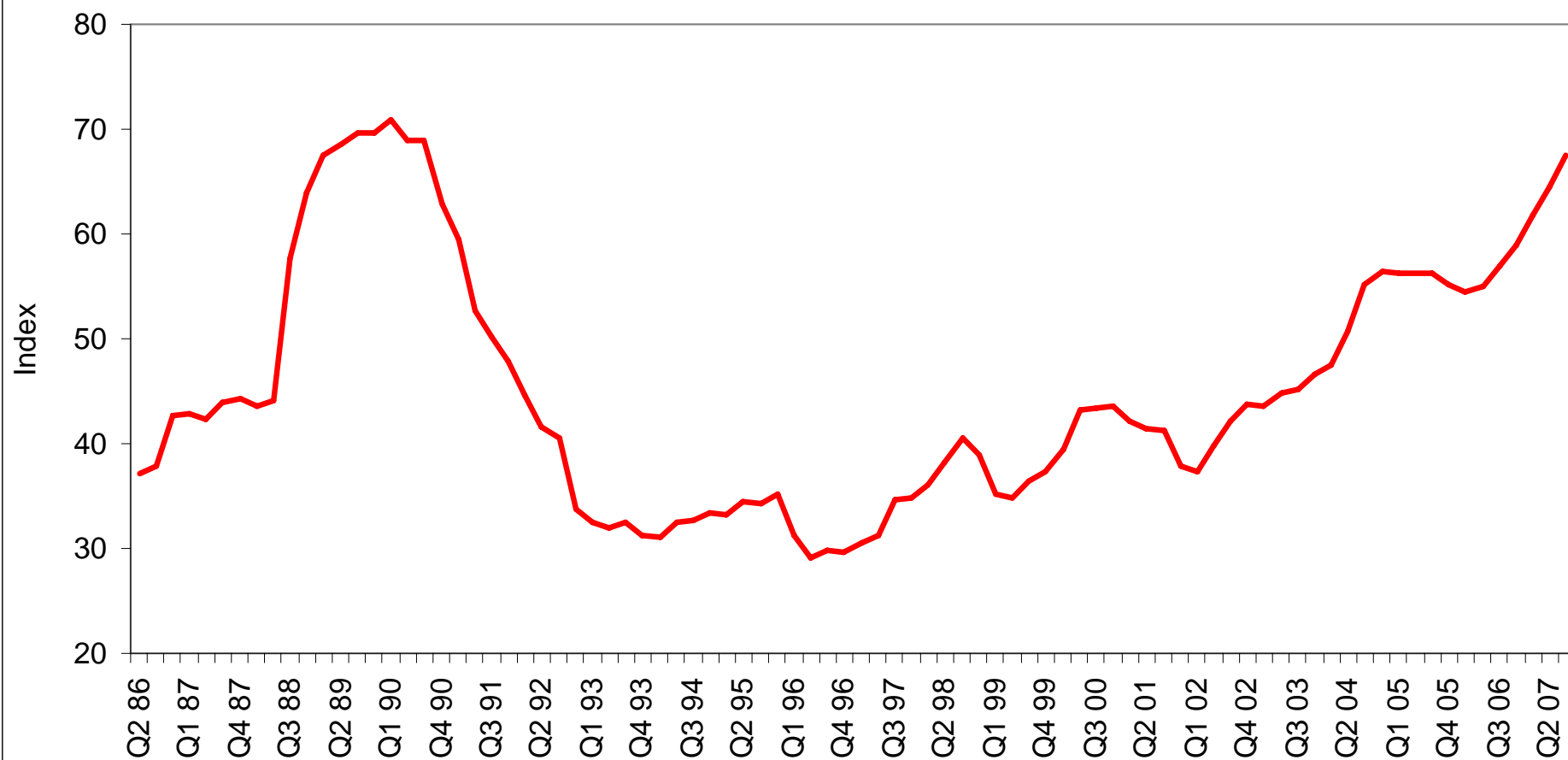
- Higher interest rates
- Falling real post-tax earnings
- Affordability very stretched
- Damaged confidence (Northern Rock, press housing & economic gloom, etc.)
- Tighter lending – re-priced risk (*permanent*), credit squeeze (*temporary*), wholesale funding crisis

But **not** driven by economic boom/bust

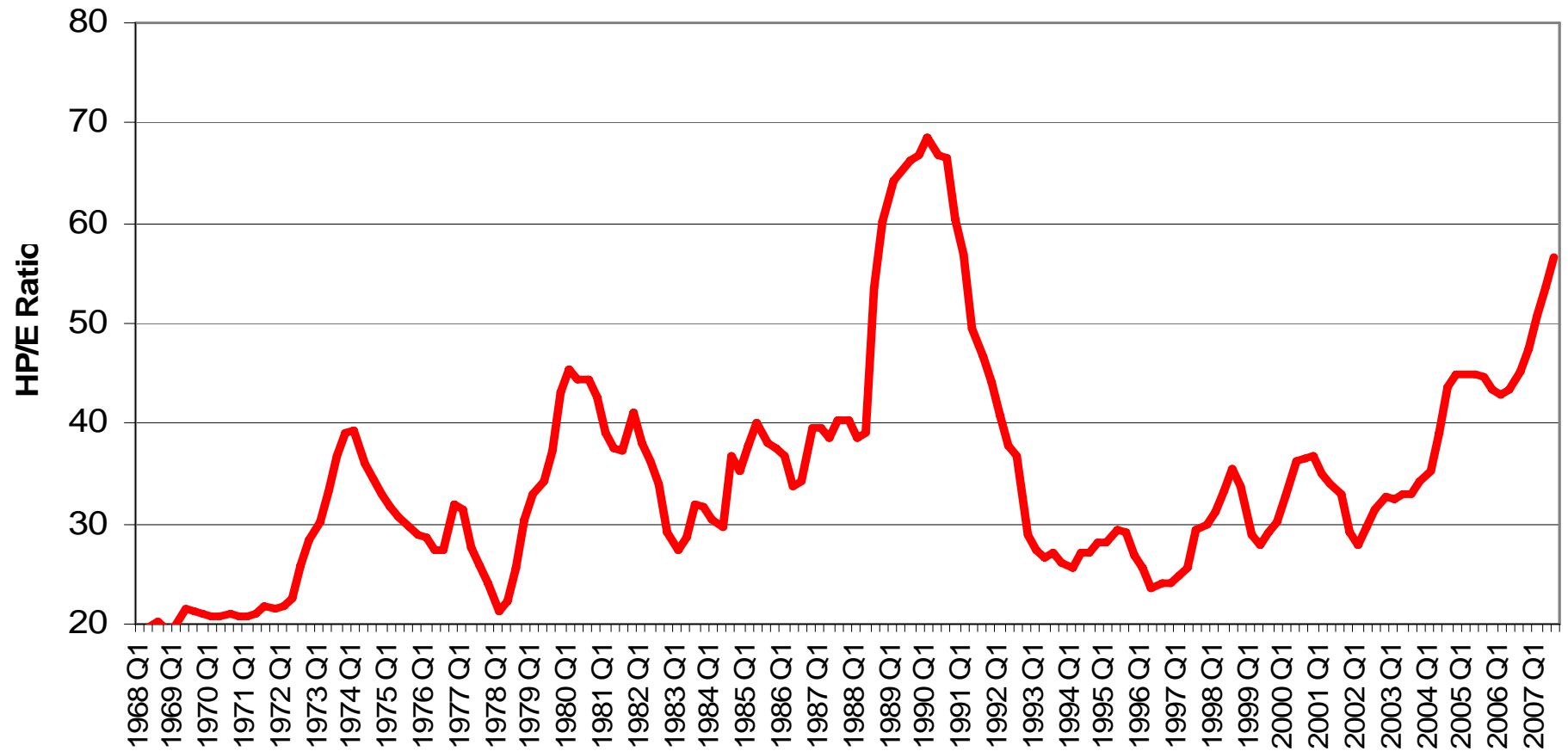
Real post-tax earnings growth (UK) Annual % change, seasonally adjusted



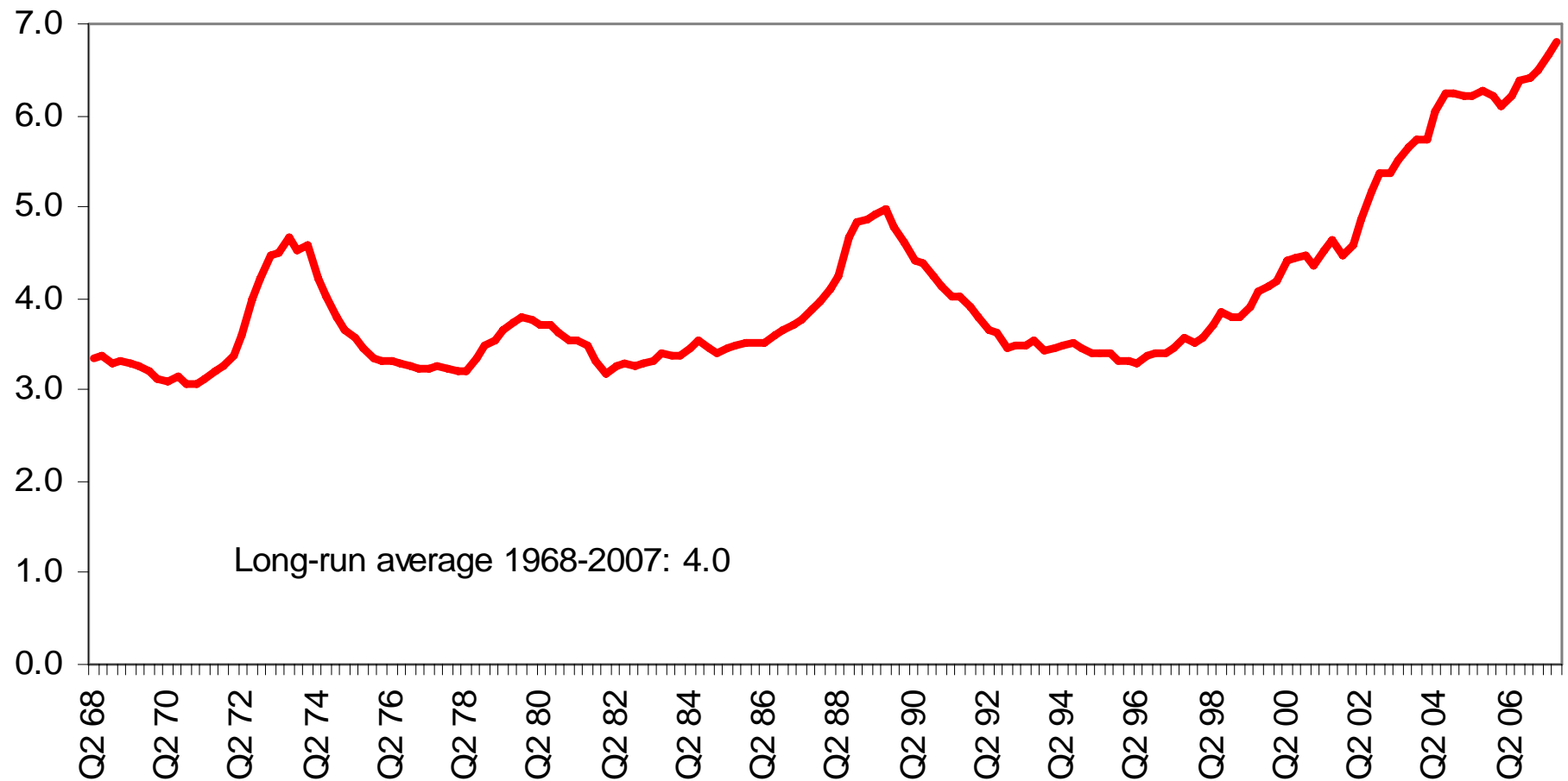
HMR Affordability Index, Single Male (GB) First-year interest + capital as % post-tax earnings



HMR Affordability Index: Single Male First-year interest as % post-tax earnings (GB)



House Price/Earnings Ratio, Single Male (GB)



Affordability Crisis

Primary causes

- 1988-92: high mortgage rates
- 2006-07: high house prices

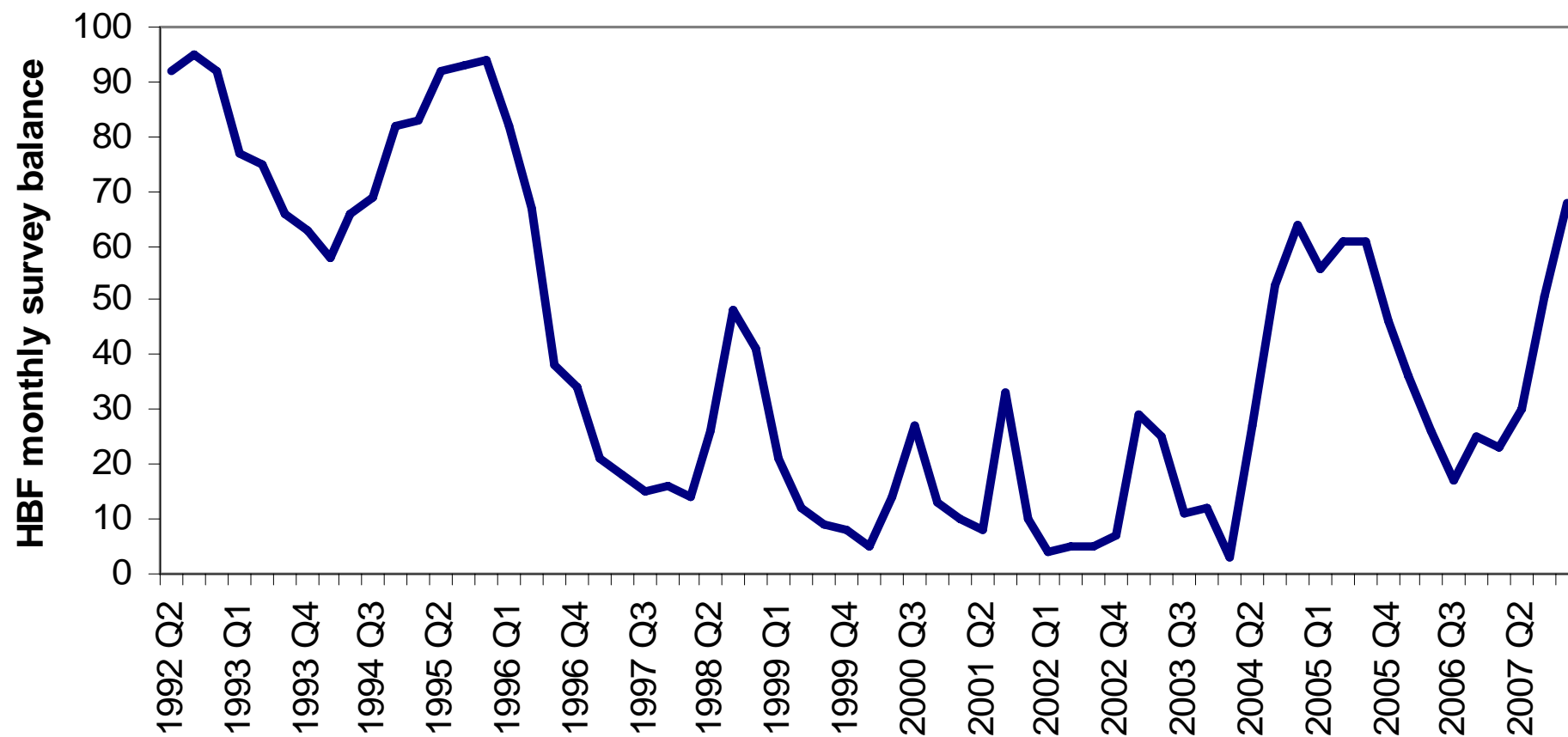
Solving the Affordability Crisis

Correction mechanisms

- House prices
- Earnings
- Interest rates
- Time

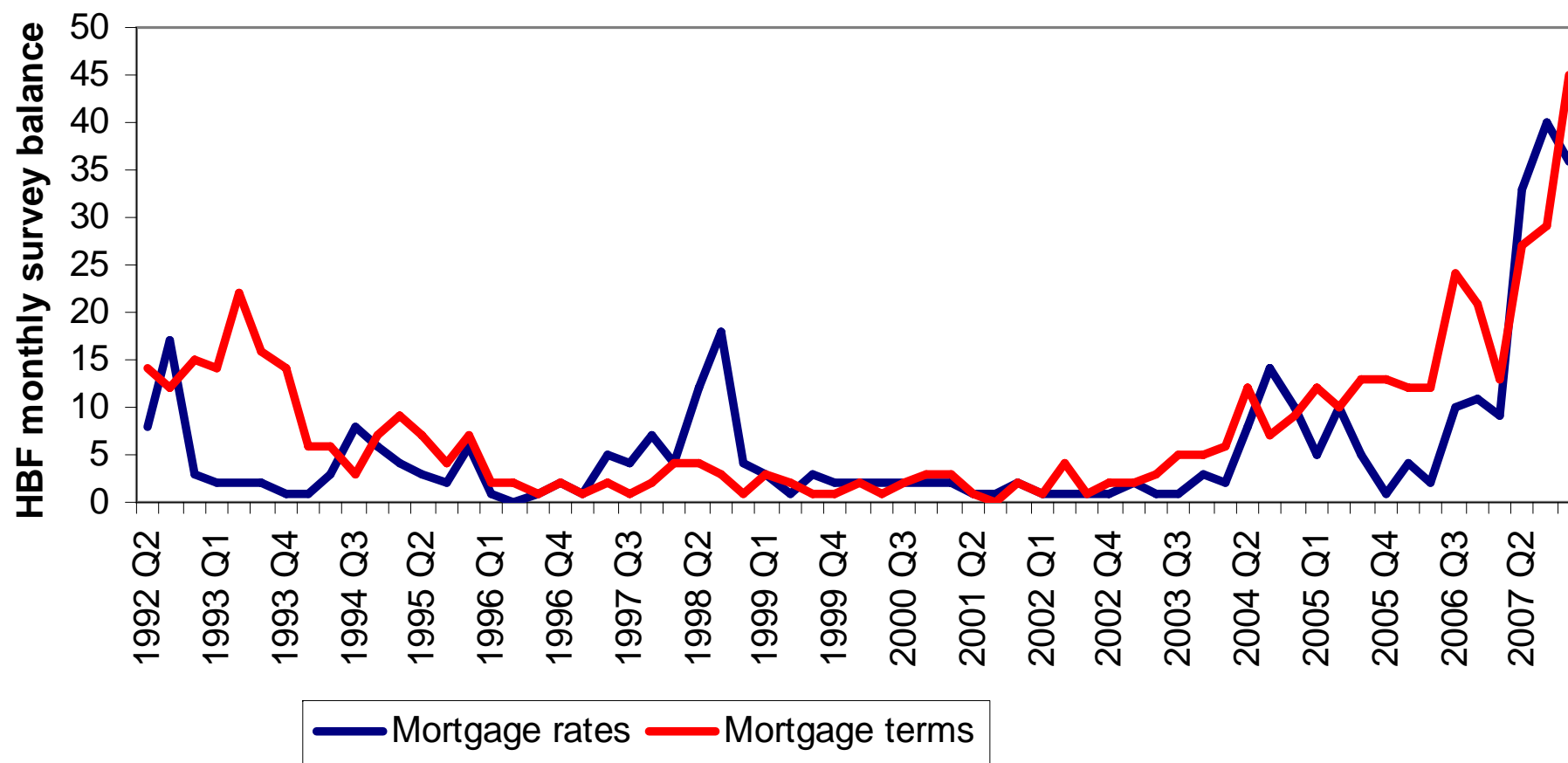
New home buyer confidence

% house builders consider 'major constraint on demand'

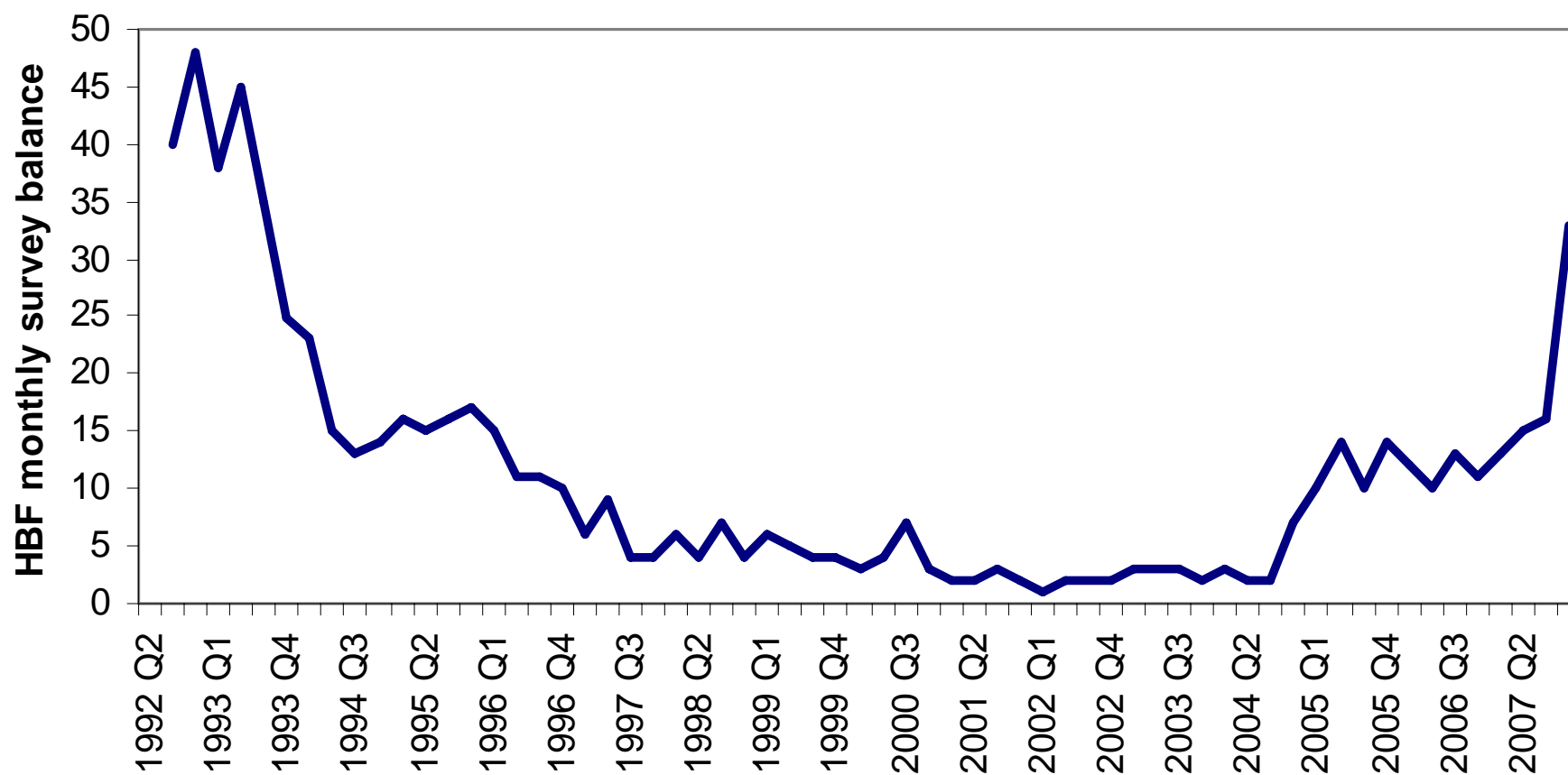


Mortgage rates and terms

% house builders consider 'major constraint on demand'



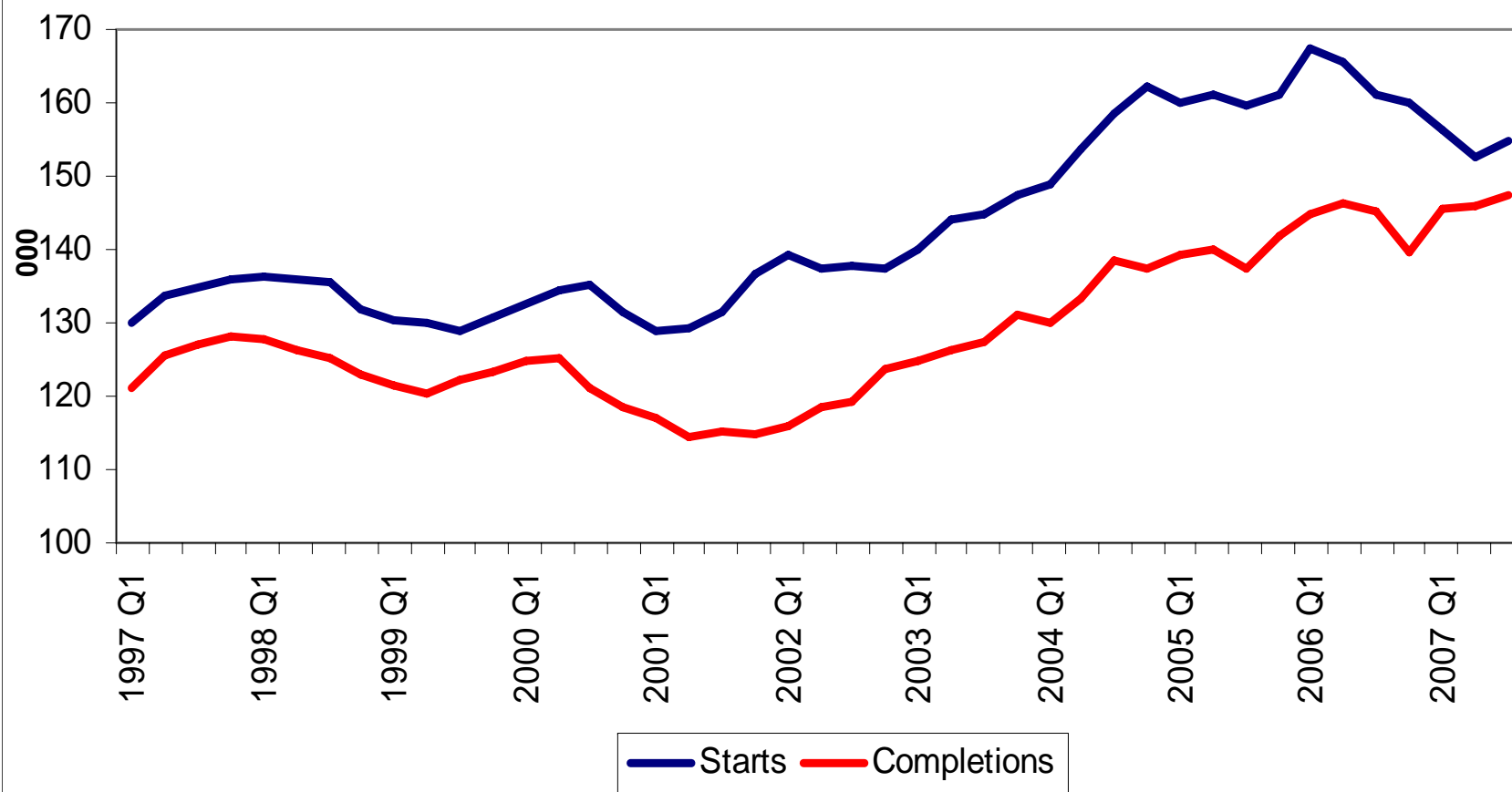
Down valuations % house builders consider 'major constraint on demand'



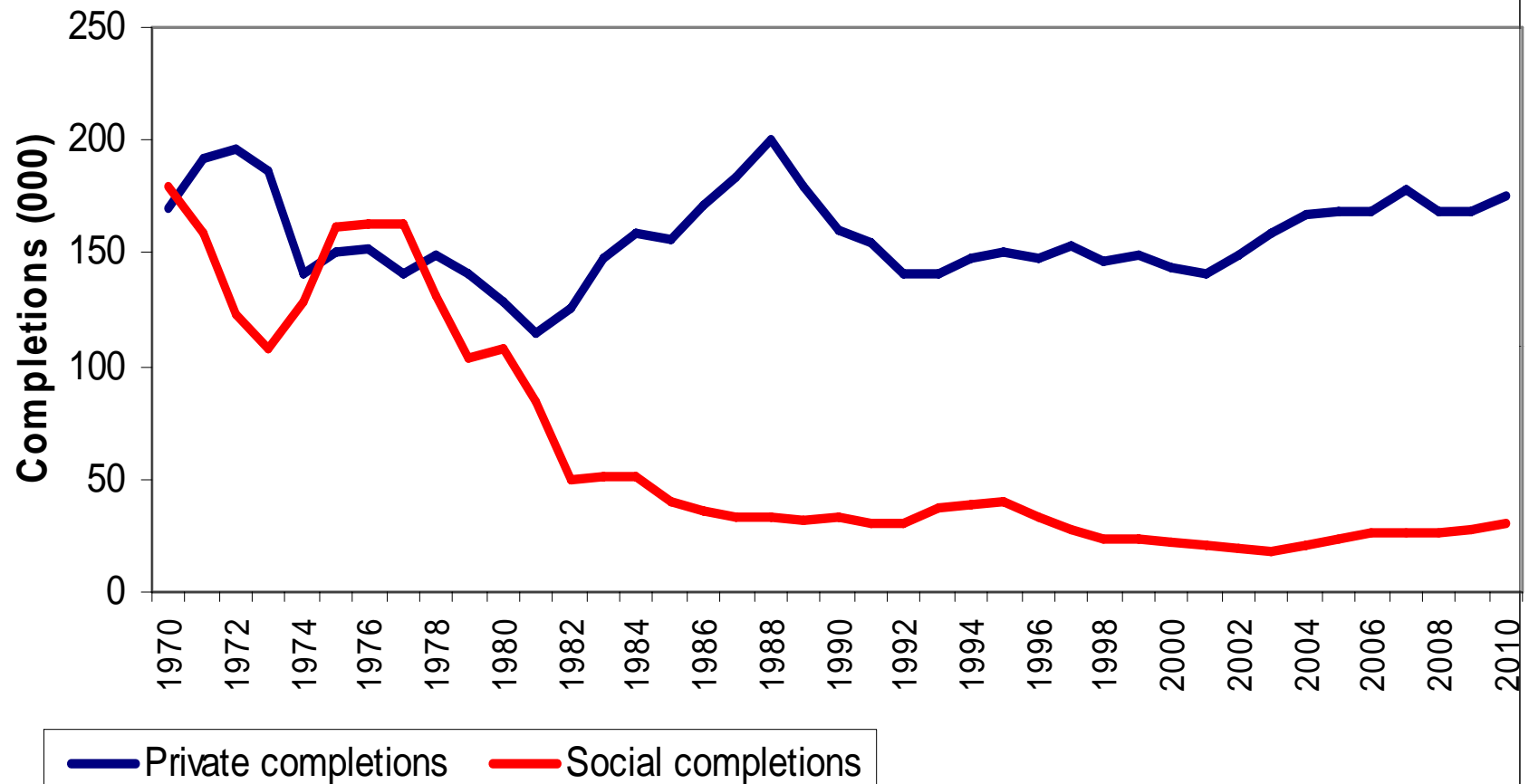
New Build Trends



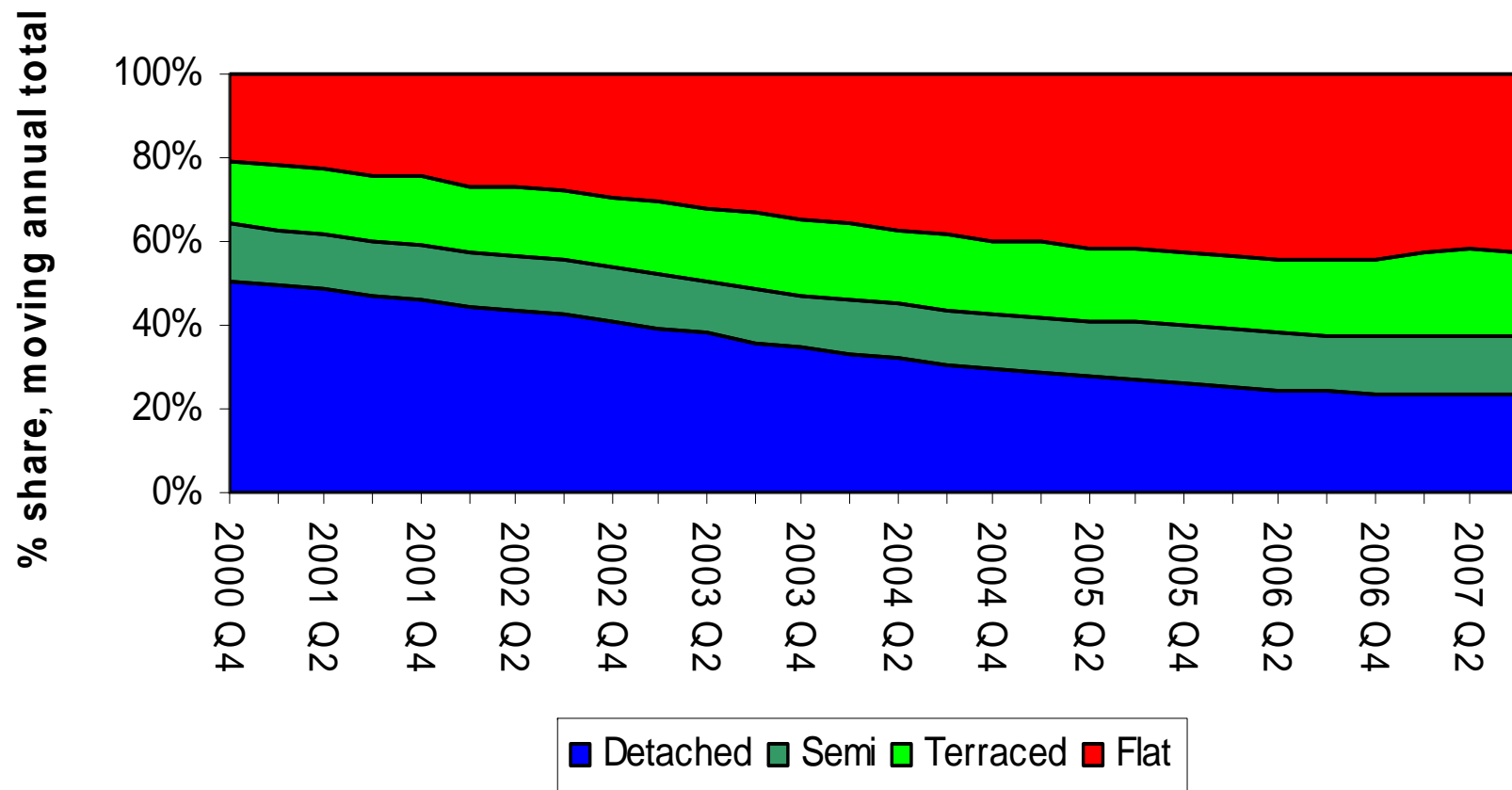
Private house building (England) Moving annual totals



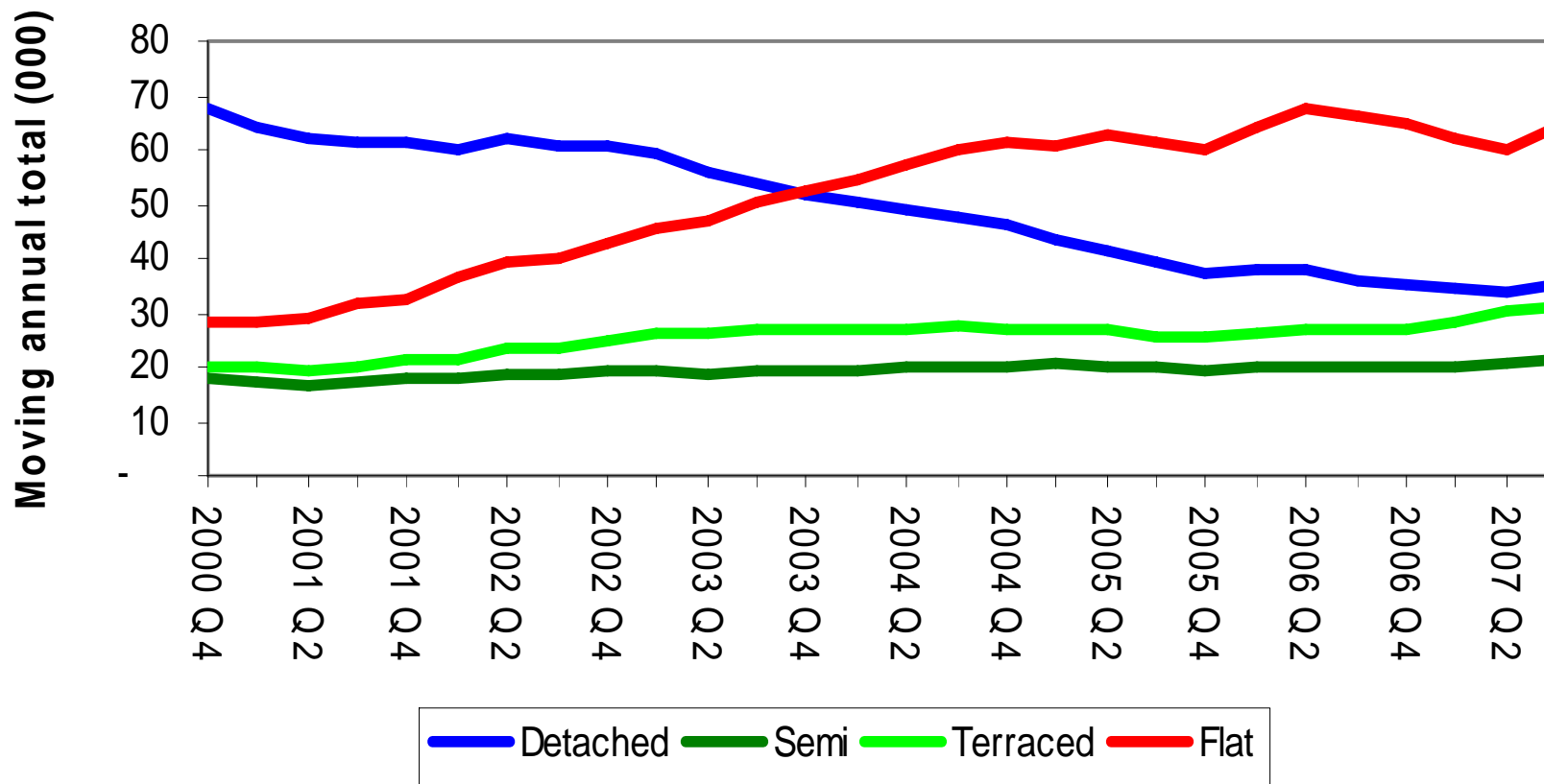
Housing Completions (GB): CPA forecasts (Jan 2008)



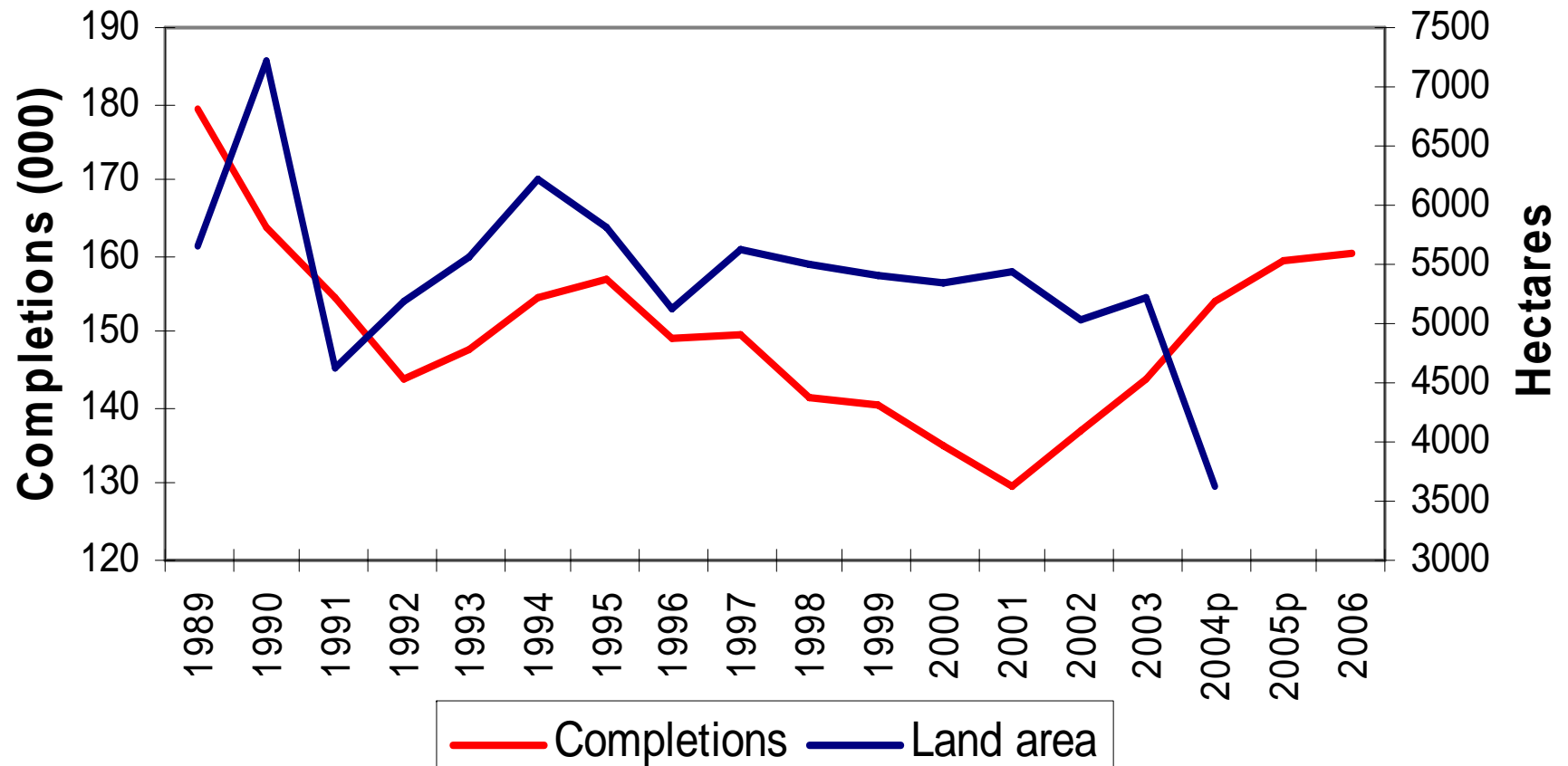
Private Housing Registrations, by Type (NHBC, GB) % share of total registrations (moving annual totals)



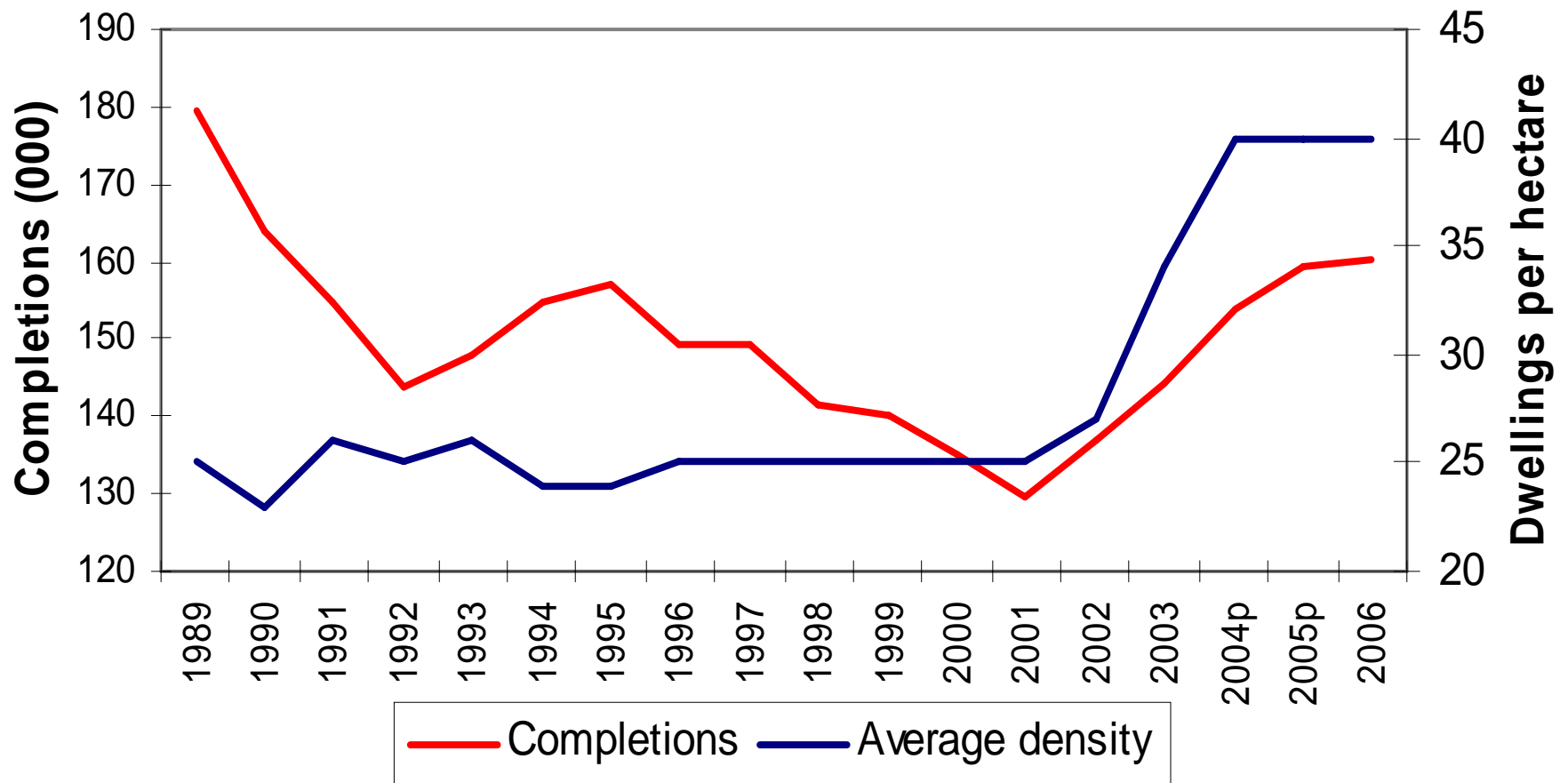
Private Housing Registrations, by Type (NHBC, GB) Registrations (moving annual totals)



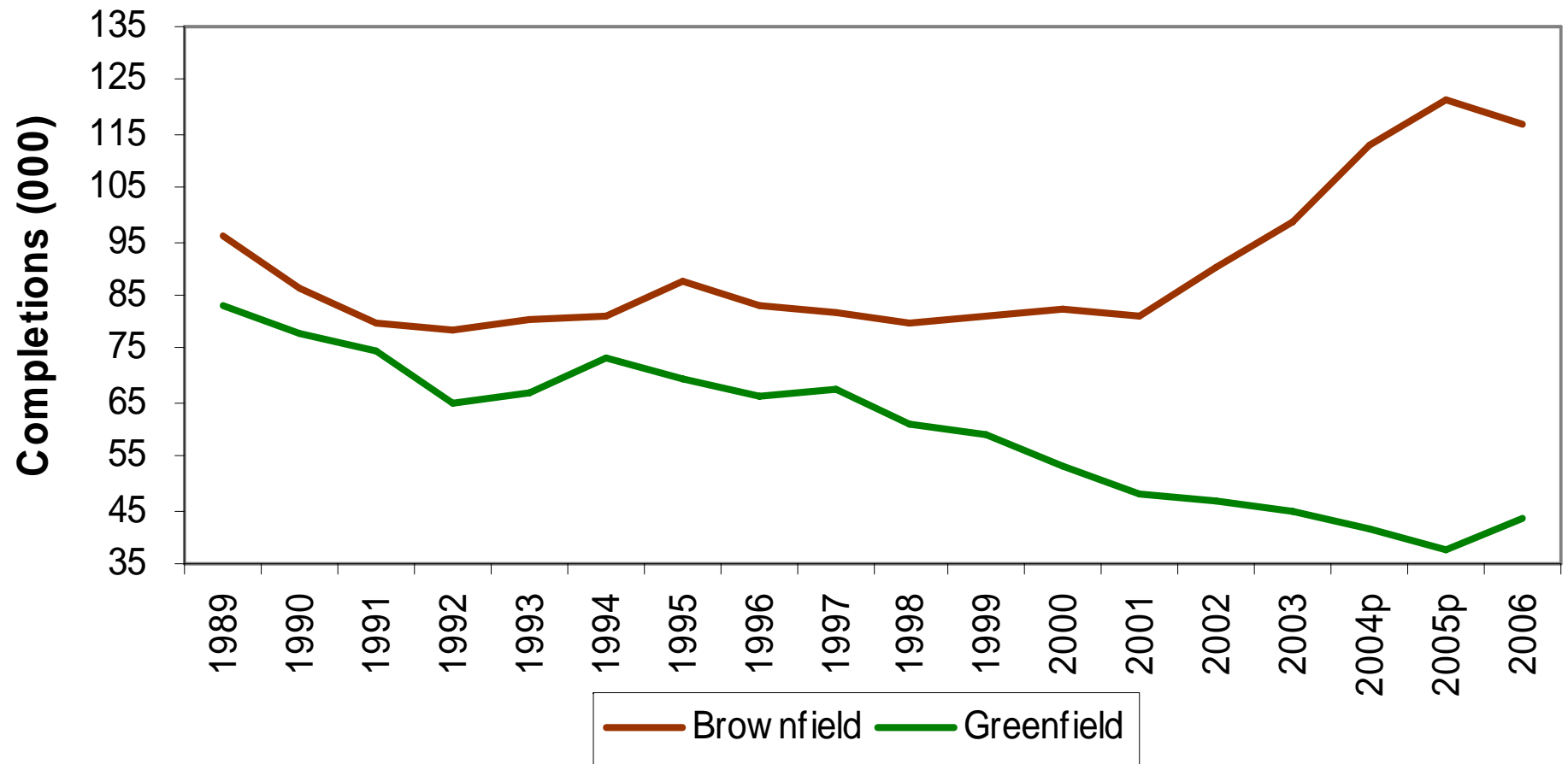
Housing Completions and Land Use, England



Housing Completions and Density, England



Housing Completions, by Land Type, England



3. Where are we going?

Where are we going?

- Transactions down in 2008 (Capital -19%)
- House price inflation 2008: +3 to -5%
(Capital: -8% 2009)

New build

- Falling starts & completions to 2009?
- Mix shift – from flats to houses?

What's different this time?

- No UK boom/bust – asset price boom only
 - US recession, risk global slowdown
 - Inflation re-emerged, trade-off with growth (monetary policy)
 - Financial crisis – mid-2008 minimum, probably longer
 - Re-pricing risk, tighter lending (price, terms, availability) - permanent
 - Affordability at crisis levels – to persist?
- ⇒ end era of cheap credit, risk under-pricing, financial excess
- ⇒ more subdued house price growth?
- ⇒ re-appraisal of housing as investment?

What's different this time?

- PPS3 more market-friendly than PPG3 (housing targets, land supply, brownfield, densities)
- Migration driving population/household growth
- Supply/demand imbalance to persist

Where is this leading?

- ⇒ Fewer buy-to-let investments?
- ⇒ Less demand for flats?
- ⇒ Re-appraisal of densities, mix
- ⇒ Adjustment of land values?

Social now depends on private

In 2005-06:

- 61% social for rent
- 55% all 'Affordable Housing' provided through S106 agreements*

Pro-cyclical vs counter-cyclical

*Source: Yvette Cooper, answer to written PQ, 22/01/07

4. Government policy, the market and the housing target
– is the target achievable?

Short-term threat to target?

Depends on:

depth and duration of volume & price falls,
and house builders' responses

Is the target achievable at all?

- New planning system in theory will deliver - but only if CLG enforces and LPAs implement (RSSs, LDFs, PPS3)
- Biggest threat in practice **viability**: cost burden of regulation on land values (Affordable Housing, other S106, Community Infrastructure Levy (CIL), Zero-carbon target, etc.) plus brownfield remediation, on-site infrastructure, etc.
- And can house builders build products to sell (locations, mix, types, sizes, densities, zero-carbon design and look, on-site renewable arrangements, etc.)

Housing Target

Net additions to stock: England

- 240,000 pa by 2016
- Extra 2 million by 2106
- Extra 3 million by 2020

NOT a new build target

Housing Target

New build additional 'targets'

- Quality
- Zero carbon by 2016

Affordable Housing Target

“At least 70,000 more affordable homes a year by 2010-11” (England)

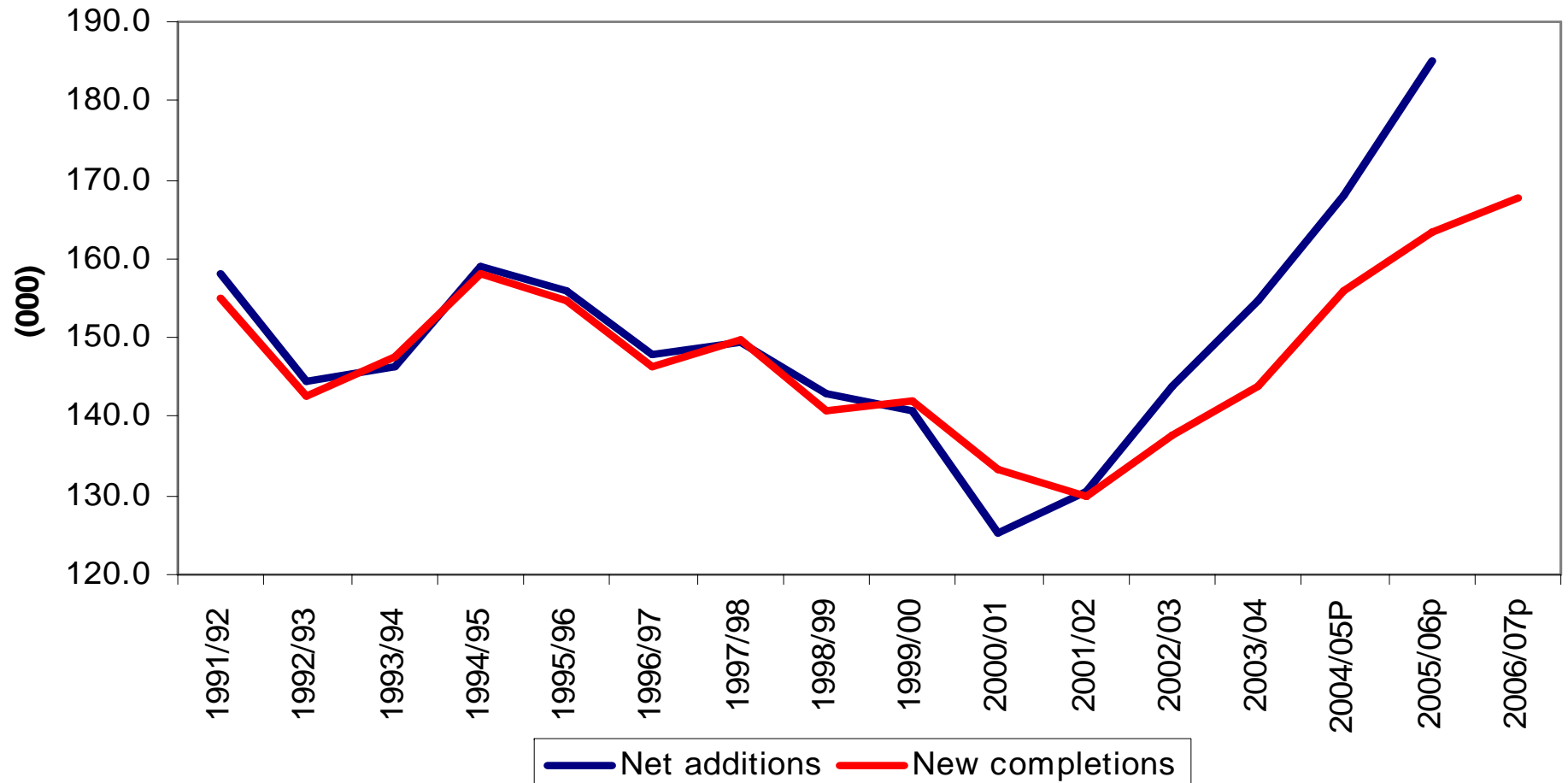
NOT net additions to total stock target

Includes:

- New build: social for rent, intermediate
- RSL buy-ins (new, second hand)
- Open market homebuy

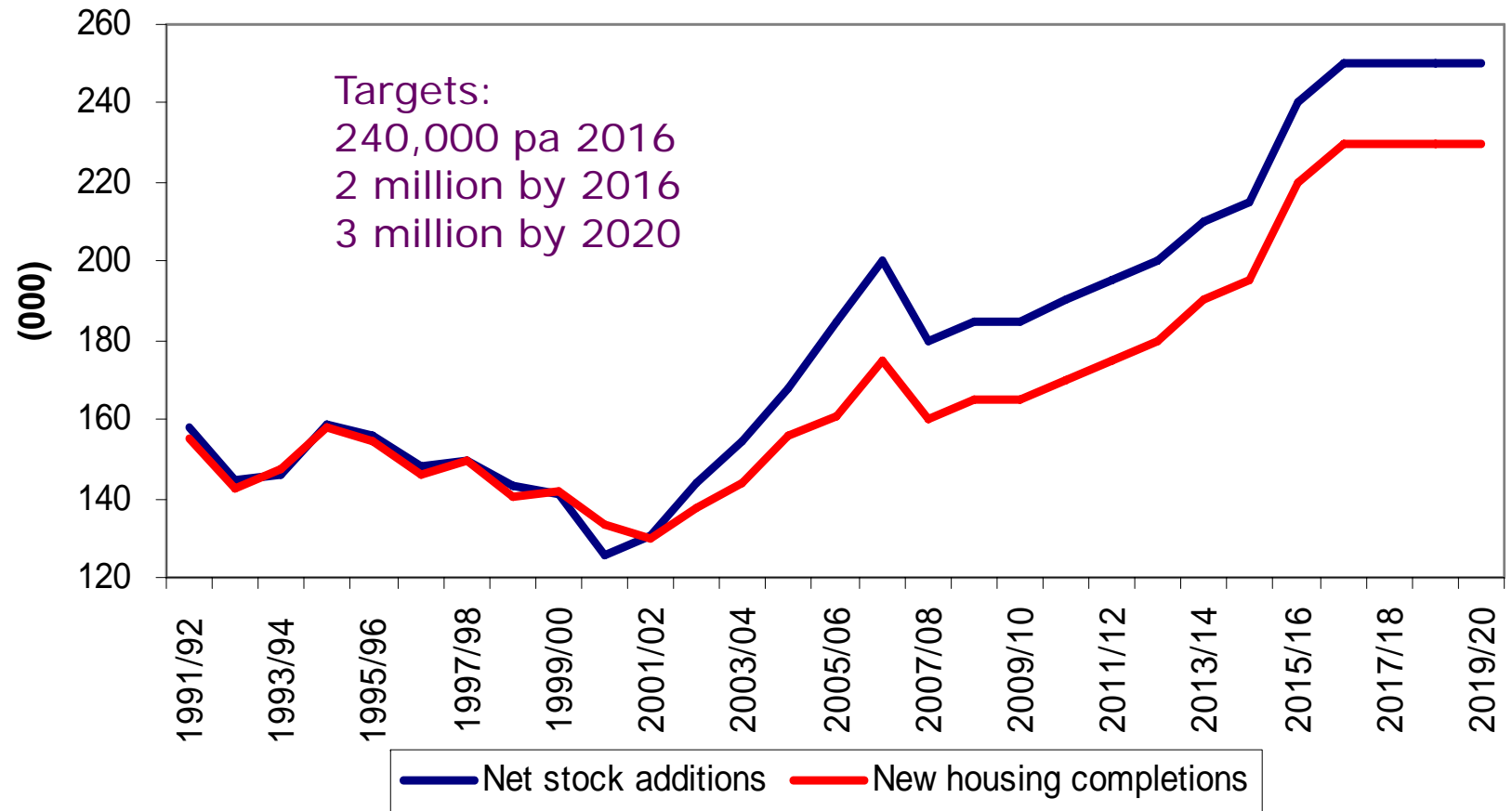
Note: CLG house building statistics: RSL and LA starts and completions = social rent only

Net Additions to Housing Stock, England



The Government's Housing Targets, England

Indicative Trajectories: Net Additions & New Completions



Key Conclusions

Serious housing market downturn

- Falling volumes & nominal prices well into 2008
- New home mix exacerbating slowdown
- Confidence damaged
- Affordability – no quick correction
- Mortgage lending tight well into 2008
- Downvaluations worsening
- Fiscal & monetary policy responses restricted
- Slowing UK economic growth, US recession threat

Permanent new home consequences

- Affordability remain stretched unless big price falls
- Mix, density to be re-assessed
- Values/valuation to be re-assessed
- Land prices to adjust (house prices, density, mix)?
- Investor demand less buoyant?
- Greenfield/brownfield supply unresolved (but PPS3)
- But supply/demand imbalance to persist
- Government response – panic at target missed, further efforts to reform planning/land supply?
- Cost burden of regulation elephant in the room

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