On the case but missing the point? An overview of the new build supply challenge

Peter Williams, Departmental Fellow, Department of Land Economy, University of Cambridge and Intermediary Mortgage Lenders Association
My Presentation

• Shifting sands! Housing policy is in play – party wars – even supply wars?
• Overview of the supply challenge
• Focus on England but…
• Reflections on Help to Buy and Starter Homes
• What the overall balance of tenures looks like
• The Green paper and council housing
• Lenders and new build - realistic expectations?
• Conclusions
The 2017 English White Paper

‘Our housing market is broken’

‘The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes. Since the 1970s, there have been on average 160,000 new homes each year in England. The consensus is that we need from 225,000 to 275,000 or more homes per year to keep up with population growth and start to tackle years of under-supply’.
The Supply Challenge

• We are not keeping pace with household growth nor catching up on the backlog of under-supply
• Housebuilders reaching capacity in a volatile market?
• Alternative suppliers and greater efficiency essential but not easy
• Brexit looms large – imported materials and labour
• As does uncertainty re land purchase/land banks
• And market demand? More three/four bed homes – where effective demand is?
• And a mortgage market response to shrinking TFS and rising rates? Right now all very favourable and HTB allows very low risk lending
The Supply Challenge

- Government working hard to deliver – up to date plans, better assessments of needs, releasing public land, releasing more medium/small sites, diversifying suppliers, giving financial support, improving infrastructure - the list goes on!
- Becoming ever more top down and instrumental
- “I want to send the clearest possible message to our house builders. We, the government, will make sure the land is available. We’ll make sure our young people have the skills you need. In return, you must do your duty to Britain and build the homes our country needs.”
- “If you thought the heat was hot, it’s going to get even hotter”
- Politics becoming ever more urgent as expectations rising that cannot in truth be met
- The announcements on ‘council housing’ a case in point
New housebuilding since 1980

In recent decades housebuilding has been substantially lower than in the 1980s

Dwellings completed in year

1980
1990
2000
2010

250,000
249,000
200,000
176,000
148,000
144,000

Local authority
Housing association
Private
10-year moving average (all housebuilding)
Figure 15
Government support at key stages of the housebuilding and purchasing process

1. Site becomes available
   - Public land disposal policy
   - Accelerated Construction
   - Housing Infrastructure Fund
   - Planning reforms

2. Developer purchases plot
   - Capital investment schemes
   - Infrastructure loans
   - Government grants
   - Affordable Homes Programme
   - Home Building Fund
   - Home Infrastructure Fund

3. Planning applications
   - New Homes Bonus
   - Planning reform
   - Planning system

4. Construction
   - VAT relief
   - Regulatory system
   - Labour supply/skills programmes
   - Accelerated Construction
   - Home Building Fund

5. Marketing
   - Help to Buy equity loan
   - Help to Buy ISA

---

Cambridge Centre for Housing & Planning Research
MORE PEOPLE THAN PLACES TO LIVE…

(Source: DCLG)

Confidential
Figure 7: Market share by housebuilder size

2015:
- Small builders (1-100 units): 12%
- Medium-sized builders (101-2000 units): 29%
- Volume builders (2000+ units): 59%

2008:
- Small builders (1-100 units): 28%
- Medium-sized builders (101-2000 units): 40%
- Volume builders (2000+ units): 31%

Source: NHBC Registrations, Great Britain. Numbers may not add up to 100% due to rounding.
Figure 6: Productivity indices (1990 = 100): whole economy vs construction

Source: ONS 2016, Labour productivity statistics
Missing the point?

• More supply is necessary but not sufficient?
• Price is also driven by other factors – wages, mortgage supply, land and of course investment demand
• Build our way out of the problem – very long term

Fig. 4. Drivers of the 6.2 percentage point fall in home ownership rates between 2002Q1 and 2014 Q4

Percentage point change in home ownership rate

Source: Oxford Economics
Fig. 5. House price forecasts 2016-26: baseline and additional supply scenario

UK HPI, £, 2016 prices

Source: Oxford Economics
Fig. 6. Home ownership forecast, 2016-26

Home ownership rate

- Blue line: Baseline forecast
- Gray line: FTB credit scenario
- Red line: FTB income ratio scenario

Source: Oxford Economics, DCLG
Reflections on Help to Buy and Starter Homes

• HTB secure to 2021 - £22.1bn
• Running out of cash/concerns re future
• Potential to help some 360,000 households (134,000 June 2017) over its 8 year life
• Aimed to boost supply and help buyers
• It has rebuilt capacity/balance sheets
• And supply has recovered – to a degree
Reflections on Help to Buy and Starter Homes

• And it is an equity loan – so may be profitable for government
• Considerable criticisms – done enough?
• Rebuilt lender confidence in new build?
• HtB about 50% of new build output – more for some builders
• Additionality re supply and demand?
• Unrealistic expectations of builders?
• Unwinding a challenge – no cliff edge!
Reflections on Help to Buy and Starter Homes

• Lower price cap - outside London?
• Add income cap - complex
• Reduce equity loan for movers/London
• Limit to FTBs
• Recycle repayments/incentivise repayments - make self-sustaining
• Switch to Starter homes
• Return to builder equity loans?
• At the moment BAU!
Reflections on Help to Buy and Starter Homes

- Starter Homes – announced in 2014 – £2.3bn/60,000 homes, first in 2018?
- 20% discount on home via land
- 100,000 then 200,000 –now?
- £1.2bn Starter Homes Land Fund
- Q1 2017, only 5%/£61m invested in 27 sites to deliver 1,600 Starter Homes
- Other £1.1 bn to come via receipts
- Future very uncertain but regs drafted and RICS valuation guidance
Balance of Tenures

• Shifting – 65% Home ownership, 25% PRS, 10% Social?
• But Grenfell, Green Paper?
• Resource constraint, borrowing rules limit scale of recovery of social/council?
• Moved closer to EU norm – longer time as renters
• More thought on rent/own transition?
Lenders and New Build

• History of mistrust/misunderstanding – but not universal and less so now
• Commercial & retail lending synergies?
• New build premium contested
• Completion and disclosure of incentives forms helped to settle tensions
• HtB brought parties together
• But Ground rent and Bovis sagas
Lenders and New Build

• However market has moved favourably
• We now have 5/6 lenders offering 95% on new build houses – often selectively
• 16 at 90% and 16 at 85%
• Flats not a dissimilar picture though more cautious
• Suggests better understanding, investment in new build capacity and good business opportunities
Finding a way forward?

- If lenders are moving back up the LTV curve could new build be same terms as existing?
- Can other providers of new homes secure same treatment for buyers – housing associations, self build type schemes, local authorities?
- If we close the gap do we still need HtB? High LtV will meet other limits?
CHART 1.4 NHBC PRIVATE STARTS (UK) BY BUILDER SIZE

Rolling three months private starts; % year on year growth  Source: NHBC

% year on year growth

-30 -20 -10 0 10 20 30 40


Top 10 builders  Top 11-50 builders  Smaller builders  All builders
Conclusions

• 2% + in starts and 5% + in completions over 12 months
• Large builders slowing but mids on up?
• Need more supply & Green belt/land
• Mortgage supply/terms have improved
• But uncertainty/limited future growth
• More sense of common cause?
• Improve industry cooperation/dialogue?
• IMLA report forthcoming