

RESIDENTIAL RESEARCH
MAY 2016



HOUSEBUILDING REPORT 2016



EXCLUSIVE
HOUSEBUILDER SURVEY
2016

HOUSING SUPPLY

DEVELOPMENT LAND UPDATE

SECTOR OUTLOOK



“This report gives a snapshot of the current state of the market, and identifies the issues which need to be tackled for volumes to continue to rise, informed by an exclusive survey of housebuilders.”

GRÁINNE GILMORE
Head of UK Residential Research

SUMMARY

Housing is at the centre of the national and local political debate. The expanding UK population, a structural historical undersupply of new housing and a slowdown in movement up and down the housing chain is now injecting a sense of urgency into the need to deliver more new-build property.

Over the last five years, the Government has made significant changes to the planning system, introduced schemes to boost development – such as Help to Buy – and put pressure on local authorities and public bodies to sell surplus land.

There has been an increase in housing delivery, but the supply of new-build homes is still lagging demand on an annual basis, disregarding the historical shortfall.

The country’s largest housebuilders, along with the Home Builders Federation (HBF), have recently pledged to help deliver one million homes by 2020, recognising that there needs to be ‘significant further action from the housebuilding industry’.

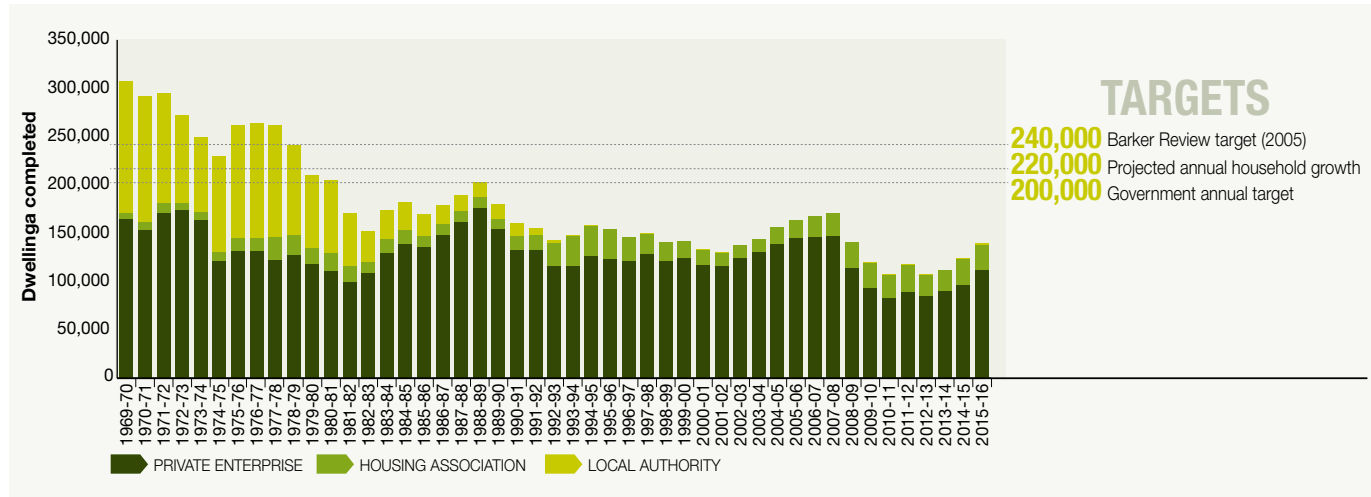
Alongside the undertakings from housebuilders to continue to boost supply, maintain build-out rates and support smaller builders to help achieve these goals, this report assesses the next steps required to address the need for housing over the coming years. For example, the need to address the increasingly onerous levels of pre-commencement conditions applied in some planning permissions and the length

of time taken to sign them off. There are calls for a time limit to be applied so as not to hold up development.

This report gives a snapshot of the current state of the market, and identifies the issues which need to be tackled for volumes to continue to rise, informed by an exclusive survey* of housebuilders. The survey shows:

- More than half of respondents said their businesses would be stepping up starts and completions over the next 12 months
- Some 56% said they were planning to recruit more skilled workers in the next three years
- More than three-quarters urged additional resources in local authority planning departments. Some 30% said making the planning process for public sector land more streamlined would help boost development numbers
- 73% said the cost and availability of labour will have a negative impact on future housing supply
- 57% said they had not seen an increase in access to public sector land

FIGURE 1
Housebuilding by provider – England: 1969-2016



Source: DCLG / Knight Frank Research

The numbers

Official housebuilding data released each quarter from Department for Communities and Local Government (DCLG) shows that some 152,440 new homes were completed across the UK in 2014/15, and we estimate this will rise to around 172,000 in 2015/16.

New quarterly data on English new-build completions show a 12% rise in 2015/16 to just under 140,000.

However, separate retrospective data published by the DCLG shows that 155,080 new homes were completed in 2014/15. This suggests that the quarterly data is underestimating total housebuilding across England.

While many in the industry refer to **new-build completions**, others look at **gross additions**. This is the total sum of new housing delivered once conversions,

and ‘change of use’ – for example changing an office into apartments – are taken into account – as shown in figure 2.

Once homes which have been demolished are discounted from the figure – this gives a **‘net additions’** figure, which is again used in some instances.

Gross and net additions in England rose by 19% in 2014/15, partly due to the 65% increase in units being completed through change of use, linked to the new rules surrounding permitted development rights. This allows office conversion without a full planning application, now that permitted development rights have been extended indefinitely, this trend may well continue. Although recent movements in the commercial market may lead some investors and developers to examine the case for residential conversions more carefully in some markets.

FIGURE 2
Housing monitor, England, 2014/15

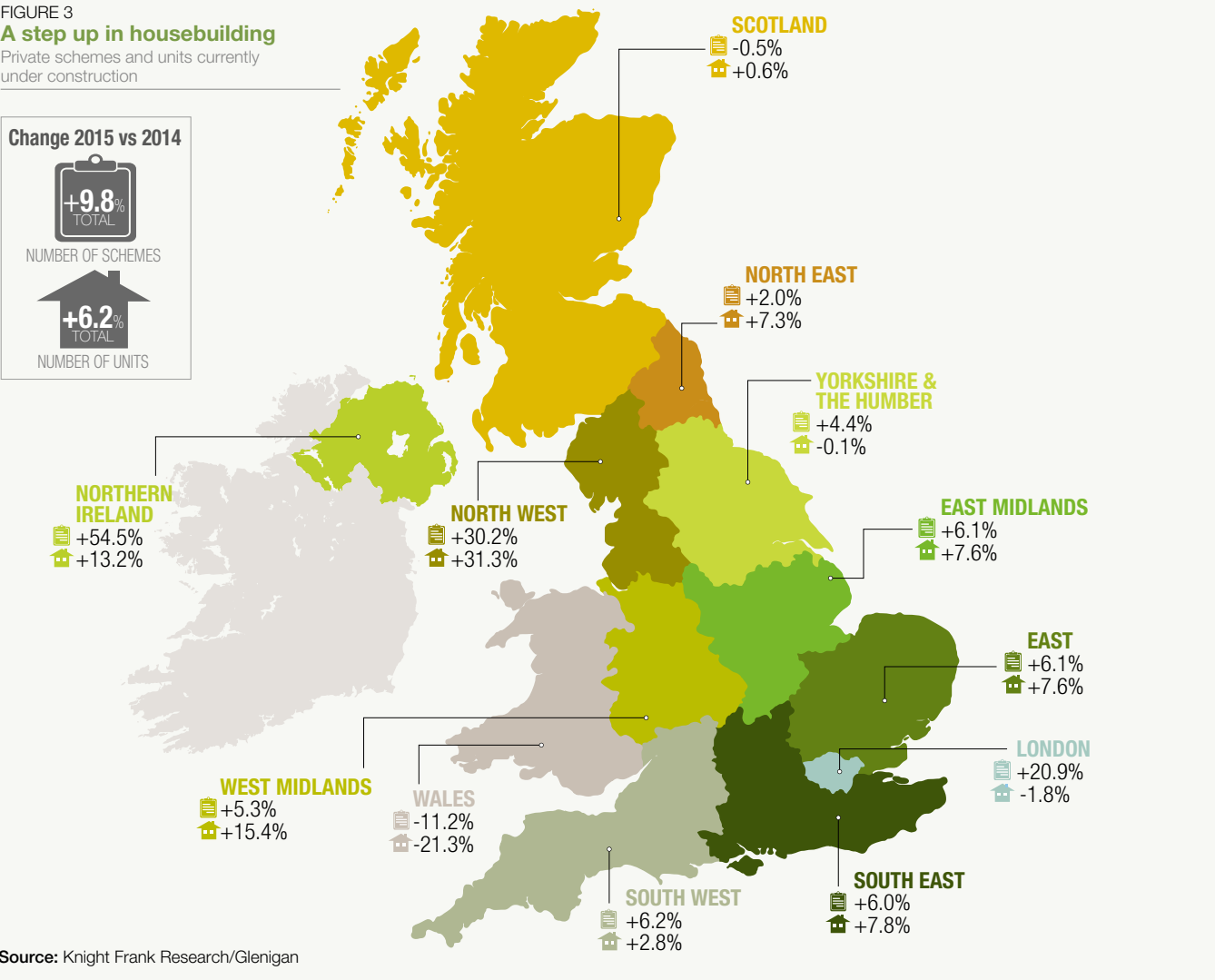
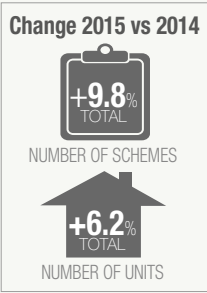
New build completions	155,080
+ Net conversions	4,950
+ Net change of use	20,650
+ Net other gains	630
Gross additions	181,310
- Demolitions	10,610
= Net additional dwellings	170,690

Source: DCLG

Housing supply

Whatever data is considered, there has been a significant step up in the delivery of new homes over the last few years – large housebuilders are now constructing 60% more homes than in 2010.

FIGURE 3
A step up in housebuilding
Private schemes and units currently under construction



Source: Knight Frank Research/Glenigan

On an annual basis, Knight Frank estimates a 12% rise in new-build completions in the last year. However, on both DCLG measures, this would still indicate that in England, housebuilding is some way under the Government's goal of 200,000 new homes a year.

Reaching the Government's target would be a milestone. However, it is still fewer new homes than government projections suggest will be needed. The household growth projections, produced by the DCLG, indicate a potential 220,000 additional households being created every year in England on average over the next decade. Achieving this level of housebuilding would mean keeping up with current demand, but would not address the structural undersupply that has been running for several decades.

Also, there is the continuing challenge of delivering the spectrum of housing to meet all household demand, something that we investigate further in our [Retirement Housing Report](#).

In the wider political landscape, uncertainty remains about the outcome of the [EU Referendum](#). The Chancellor, George Osborne, has said that a vote to leave the EU could result in a fall in house prices.

However, overall, developers expect the number of new home starts and completions to rise in the coming years, chiming with the recent pledge by the UK's largest housebuilders to keep working towards 200,000 homes a year, and to build double the number of houses in 2019 than they did in 2010.

Housebuilders' View: Activity

The majority of housebuilders and developers questioned in our survey are set to increase their activity over the next year, with 56% saying that completions volumes will rise. Some 24% said their completions would rise by 10% and a further 11% said they expected a rise of up to 25%. Looking further into the future of supply, some 22% of respondents said that they plan to

increase start volumes by up to 10%, while 17% said their business was poised for an increase of between 25% to 50%.

This is reflected in construction data, which shows a rise in the number of private units currently being constructed in most regions of the country (see map on page 3). The data from Glenigan shows that the number of units approved and on site in April this year is up 6.2% overall compared to 2014, with a 14.3% rise in units with planning but not yet on site.

Yet while private supply looks set to rise overall, the data suggests that total supply may not be rising at the same rate, owing to the downturn in affordable housing. The number of affordable units currently on site is down 1% year-on-year in April.

Affordable housing

The construction data chimes with our survey, as when it comes to affordable homes, the largest proportion of respondents expect delivery to remain unchanged in the coming 12 months.

The affordable housing sector is facing multiple hurdles at present. The cut in social rents has affected income, while Right-to-Buy has created a level of uncertainty around cash flow. In order to boost income, some registered providers are likely to move more towards developing private housing – further cutting into the prospective supply of affordable homes.

Consolidation in this sector is likely to gain momentum, with the recent proposed merger of L&Q, Hyde Group and East Thames a prime example. This merger will create the country's fourth-largest house builder, one which has pledged to build 100,000 new homes over the next decade, with half being affordable units, either for purchasers or for renters.

The introduction of the new Starter Homes scheme is examined in more detail below. It is also likely to impact the delivery of alternative tenures of affordable housing, due to a combination of policy pressure, and the challenges faced by some registered providers.

Starter Homes

The Government has pledged to deliver 200,000 Starter Homes – a new type of affordable housing – by 2020. Under the new scheme, starter homes will be sold at a 20% discount to market rates to first-time buyers under the age of 40 on homes worth up to £250,000 outside London and £450,000 in the capital. These homes are squarely aimed at those hoping to climb onto the housing ladder for the first time, underlining the Government's commitment to home ownership.

One of the sticking points on the Housing and Planning Bill was how targets for Starter Homes should be set. The legislation says the number of starter homes will be set centrally, but there are arguments that LAs should have more input on local requirements.

Another factor that needs confirmation in the Starter Homes legislation is the discount period – in other words, how

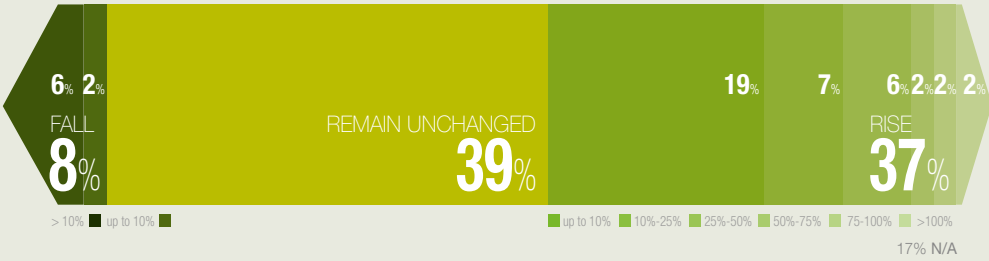
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FIGURE 4
Activity
OVER THE NEXT TWELVE MONTHS HOUSEBUILDERS SAY THAT...



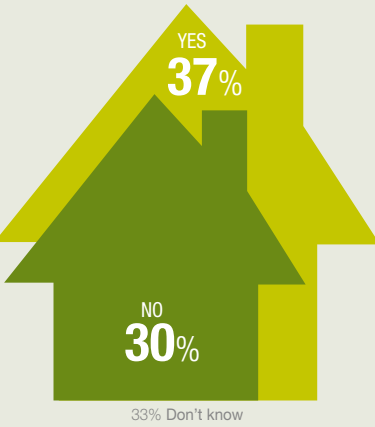
Delivery of affordable homes over the next year will...
Expected activity over the next year



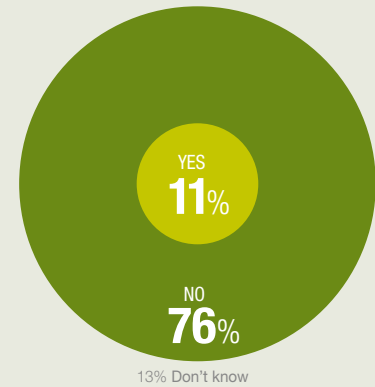
How the schemes compare

	HELP TO BUY EQUITY LOAN (ENGLAND)	STARTER HOME
SIZE	73,813 purchases to Dec 2015 Scheme open to 2021	Pledge to build 200,000 units by 2020
BASICS	20% Equity Loan (40% London)	20% discount
ELIGIBILITY	First-time buyers and home movers	First-time buyers
AGE LIMIT	None	Under 40
HOUSE PRICE LIMIT	£600,000	£250,000 (£450,000 London)
TERMS	Equity Loan becomes payable after 5 years Interest charged at 1.75% (rising every year by RPI+1%) Loan repayable on sale of home or after 25 years	Discount applied for 5 years** After this term, property reverts to market value

**Subject to consultation



Will the Government meet its target of 200,000 Starter Homes by 2020?



CHALLENGES

Accessing **public sector land** remains a challenge for housebuilders, despite a large-scale effort from policymakers to release such unused land. Earlier this year, the Government announced another tranche of public land sales, some 600 acres. However, there still seems to be a blockage in the system, hampering the swift movement from the identification of a potential site for sale to development. This can often happen in and around the disposal, especially when the owner may want to retain an interest in the site. Only a quarter of respondents of the survey said that they had seen a rise in the availability of land owned by public bodies such as local government, the NHS or the Ministry of Defence, for sale over the last 12 months. More than a half said they had not seen a difference.

The **planning system** also poses challenges, housebuilders say, with four in five respondents saying it will have a negative impact on supply. While the changes brought about by the introduction of the National Planning Policy Framework (NPPF) in 2012 have largely been absorbed, there are still some key issues around the time taken to achieve planning decisions, and the conditions applied to those permissions – with suggestions for a time-limit to be applied to signing these off. The need to bolster local planning departments is still seen as the biggest priority for policymakers (see figure 7), echoing the findings of last year’s survey, and underlining that there is still room for progress in this area.

Access to labour is also an ongoing problem in the construction sector. Many skilled construction workers moved away from the

sector as activity largely ground to a halt after the financial crisis. Skilled workers from overseas have always made up a significant part of the construction sector, and this remains the case. There are wider concerns in the industry that the vote to leave the EU could ratchet up the pressure on skilled workers if free movement of labour around the EU is impaired. However any changes made as a result of June’s vote are still likely to be a couple of years away.

Luring former construction workers back to the sector and training younger entrants to the market is a key challenge, especially as the average age of workers in the sector is relatively high, exacerbating labour shortages as older workers start to retire. As a result, the Home Builders Federation (HBF) and the Construction Industry Training Board (CITB) earlier this year announced a scheme to boost

the number of workers in the industry. They pledged £2.7m to help train an additional 45,000 workers by 2019 in a bid to increase capacity in the sector – thereby allowing a continued rise in the supply of new homes.

Certainly the demand for skilled workers is set to remain strong, with more than half of respondents saying they were set to increase hiring over the next three years.

Re-examining the **Community Infrastructure Levy (CIL)** is also needed. The Government’s taskforce on CIL have recommended a radical overhaul of the system, stripping CIL back to its original purpose by funding local infrastructure with a simple, national base tax on all new developments, while Section 106 charges would return for infrastructure requirements on large developments. The Government will consider these proposals in the Autumn.

FIGURE 5
Impact of CIL on development volumes

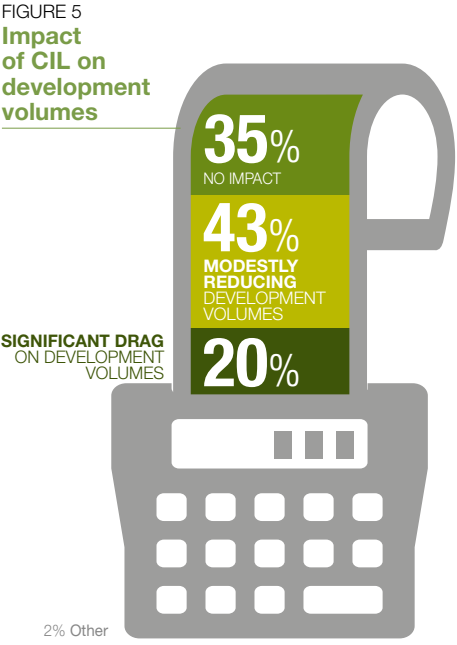


FIGURE 6
Are you planning to recruit more skilled workers in the next three years?

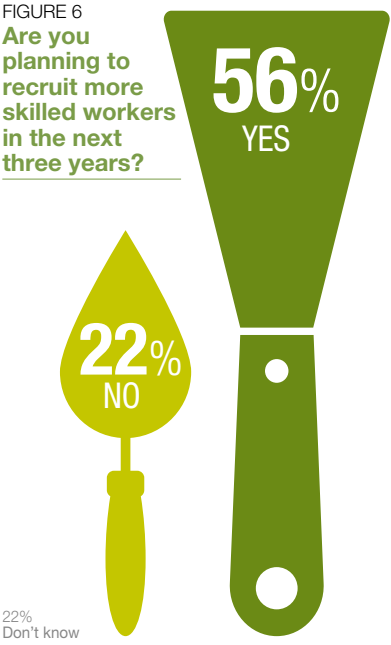
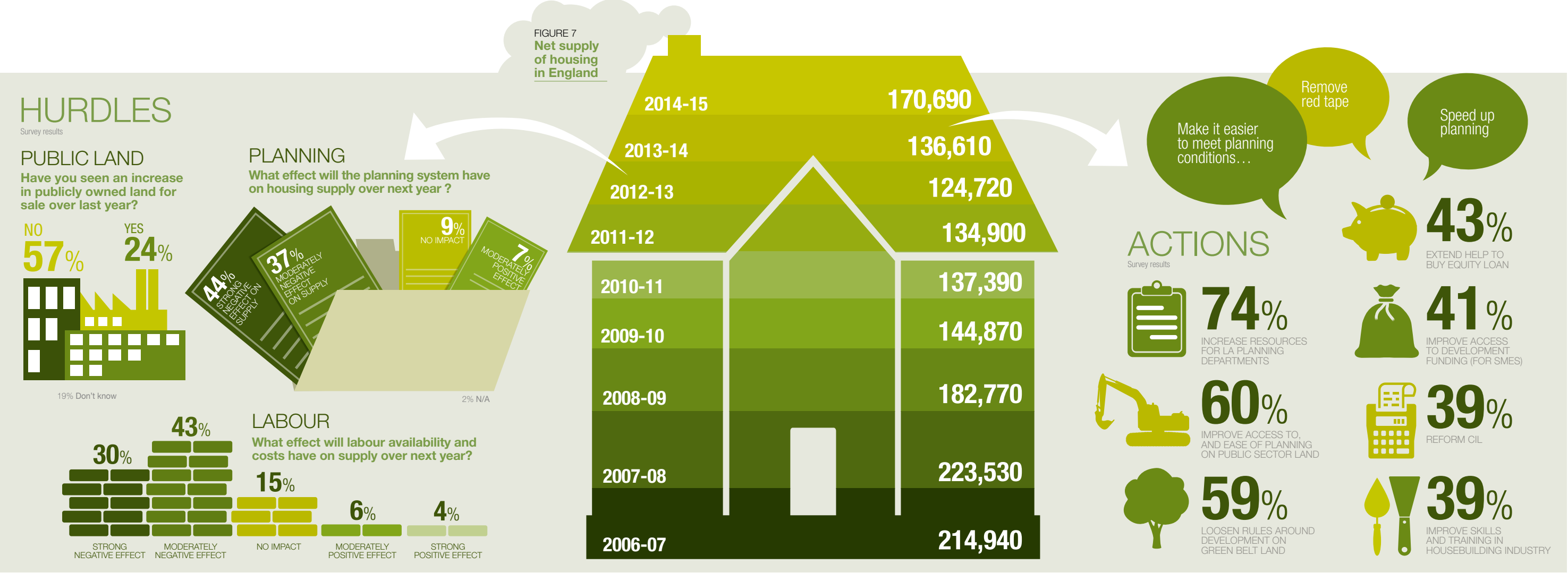


FIGURE 7
Net supply of housing in England



Figures may not add up to 100 due to rounding

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long before a Starter Home returns to full market value. The Government had planned for this to be five years, and has said it will not support a period of longer than 8 years, but the House of Lords suggested a taper over 20 years. The results of the consultation on this question will come in during Summer 2016.

However, the delay in detail of the scheme seems likely to make it more challenging for the Government to meet the target it set itself for 200,000 Starter Homes by 2020.

The results of the Housebuilding Survey seem to bear this out. Only one in ten respondents said that the Government was likely to meet its Starter Home target under current market conditions.

When asked if Starter Homes would increase the total number of affordable housing units delivered across the country, some 37% of respondents said yes. However a further 46% of respondents said it would not make a difference, underlining the expectations the new regime may simply result in Starter Homes replacing other tenures of affordable housing. There is also a consideration that developers delivering Starter Homes could lose out on capital injections from social housing providers on their developments, which could ultimately affect or change viability.

There is also some expectation that demand for Help to Buy Equity loans on properties worth up to £250,000 outside London may ease as these buyers look at Starter Homes instead.

Development Land Index

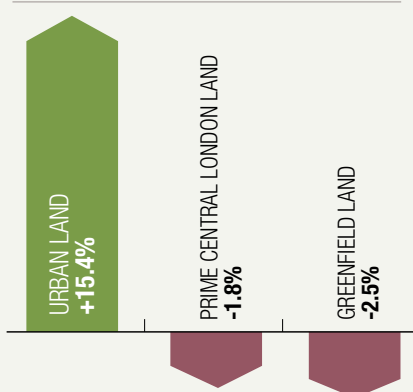
The data from Knight Frank's quarterly residential development land index shows that greenfield land prices across England declined for the fifth consecutive quarter in Q1 2016. However, in urban areas, brownfield site values are rising strongly, with a 15.4% increase in the year to the end of March.

The development land index, which is based on the valuations of more than 70 actual development sites around the country, illustrates the multi-speed nature of the housing market, with buyer demand stronger in key urban markets than more rural areas.

Greenfield land prices are now down 2.5% year-on-year, and agents report that while housebuilders are in the market for "oven-ready" sites, especially for schemes of around 50-200 units, many have replenished their pipeline of strategic land. However, the

housebuilder survey indicates that some may be ready to come back to the fray with more than a half of respondents saying they expected acquisitions of strategic land and land with outline consents to rise over the next year.

FIGURE 8
Annual change in development land values, Q1 2016



Source: Knight Frank Research

Front cover image: Be Newhall, Linden Homes Eastern – Image provided by Paul Riddle
Our thanks to the respondents to the survey for their time

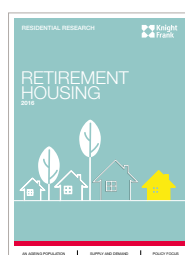
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