

# LSE Lent Term Seminar

7<sup>th</sup> February 2011

Will we build again?

Making sense of the housing  
market after the crash



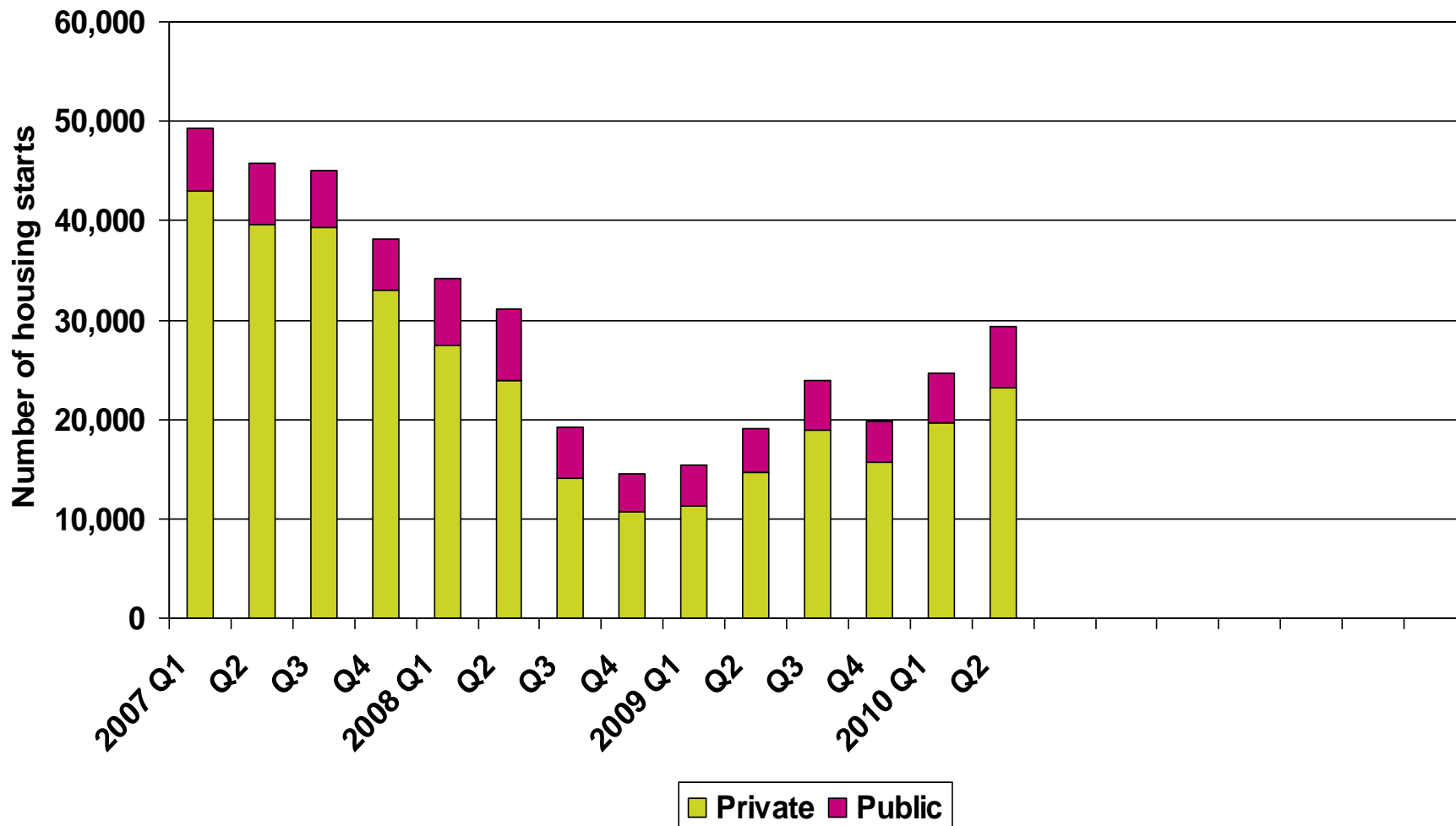
- ◆ The market – prices, trends and the role of the state
- ◆ Demand: transactions, mortgages and deposits
- ◆ Land, planning implications and developer responses
- ◆ London: context and specifics
- ◆ Policy change since the election and CSR
- ◆ Some conclusions

# Three years of turmoil - summary

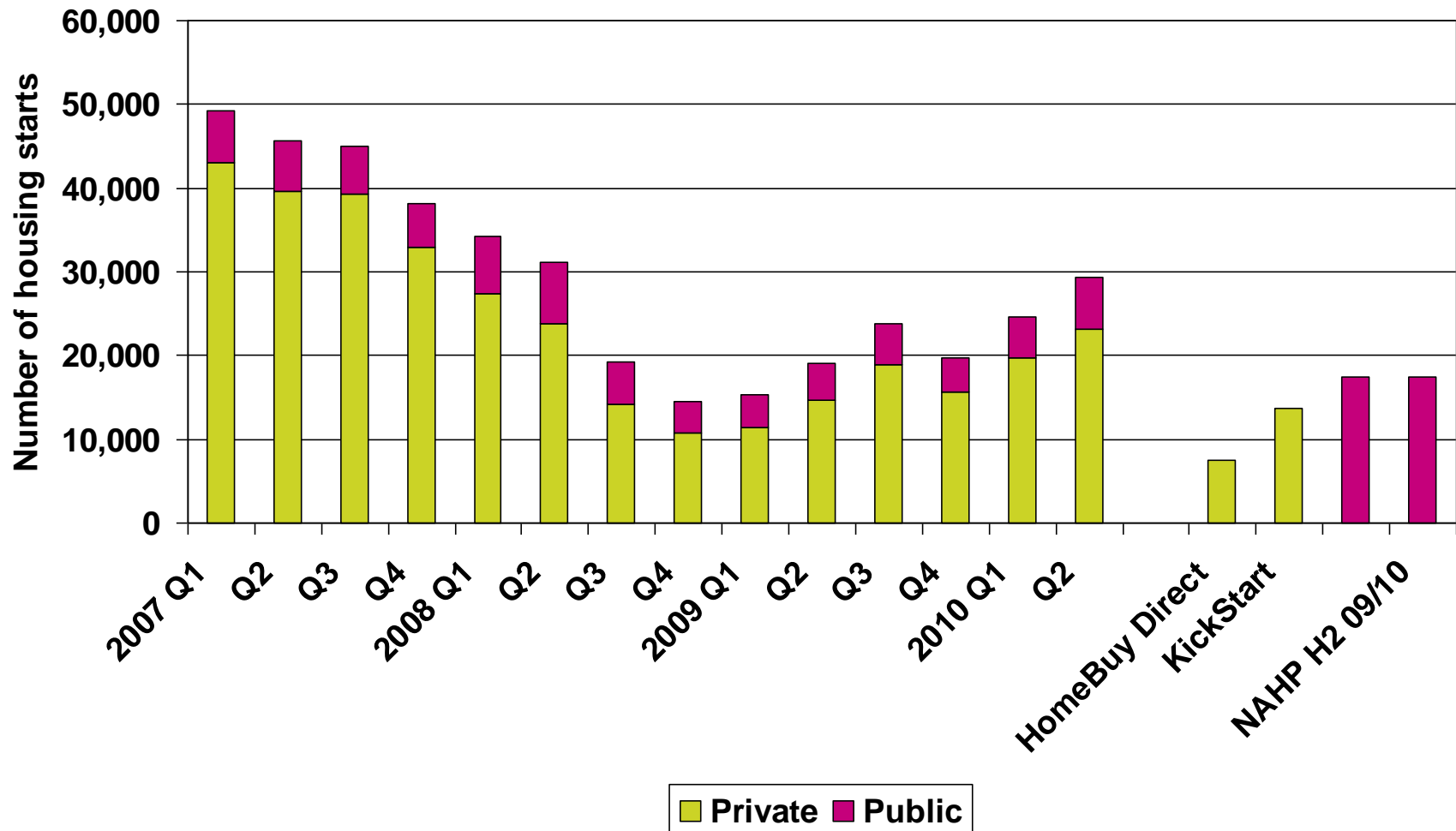
- ◆ Record crash 07/08 (20% fall in prices; 70% fall in starts)
- ◆ Fundamental changes in market dynamics as debt dried up
- ◆ Record public investment – including stimulus package (£2.8b in London) kept the show on the road
- ◆ Affordable housing has pulled HAs and developers through the recession
- ◆ 25,000 affordable completions 08/10; 26,000 projected to 2012
- ◆ A/H >40% of new supply



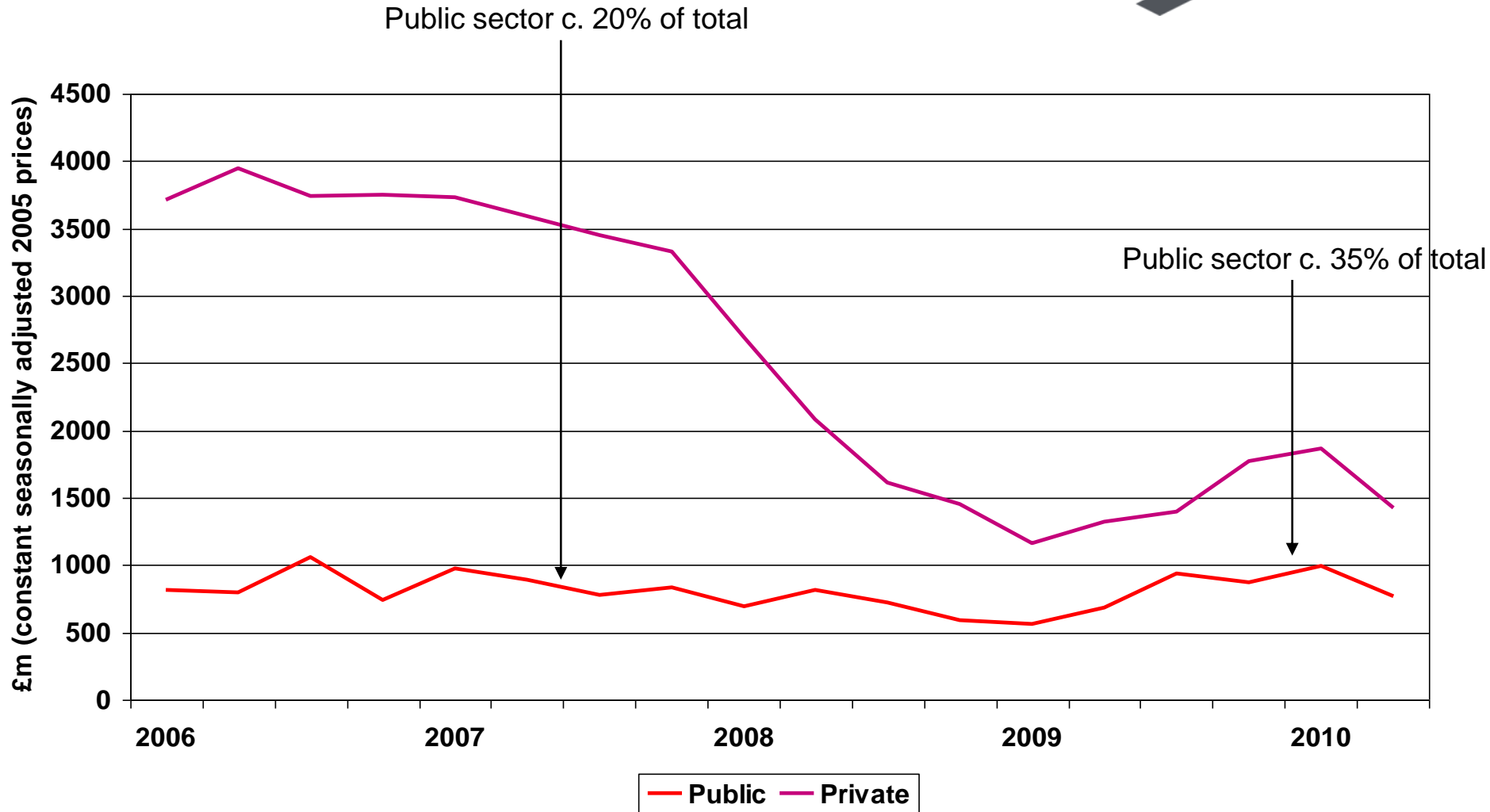
# 2010: A Genuine Recovery.....?



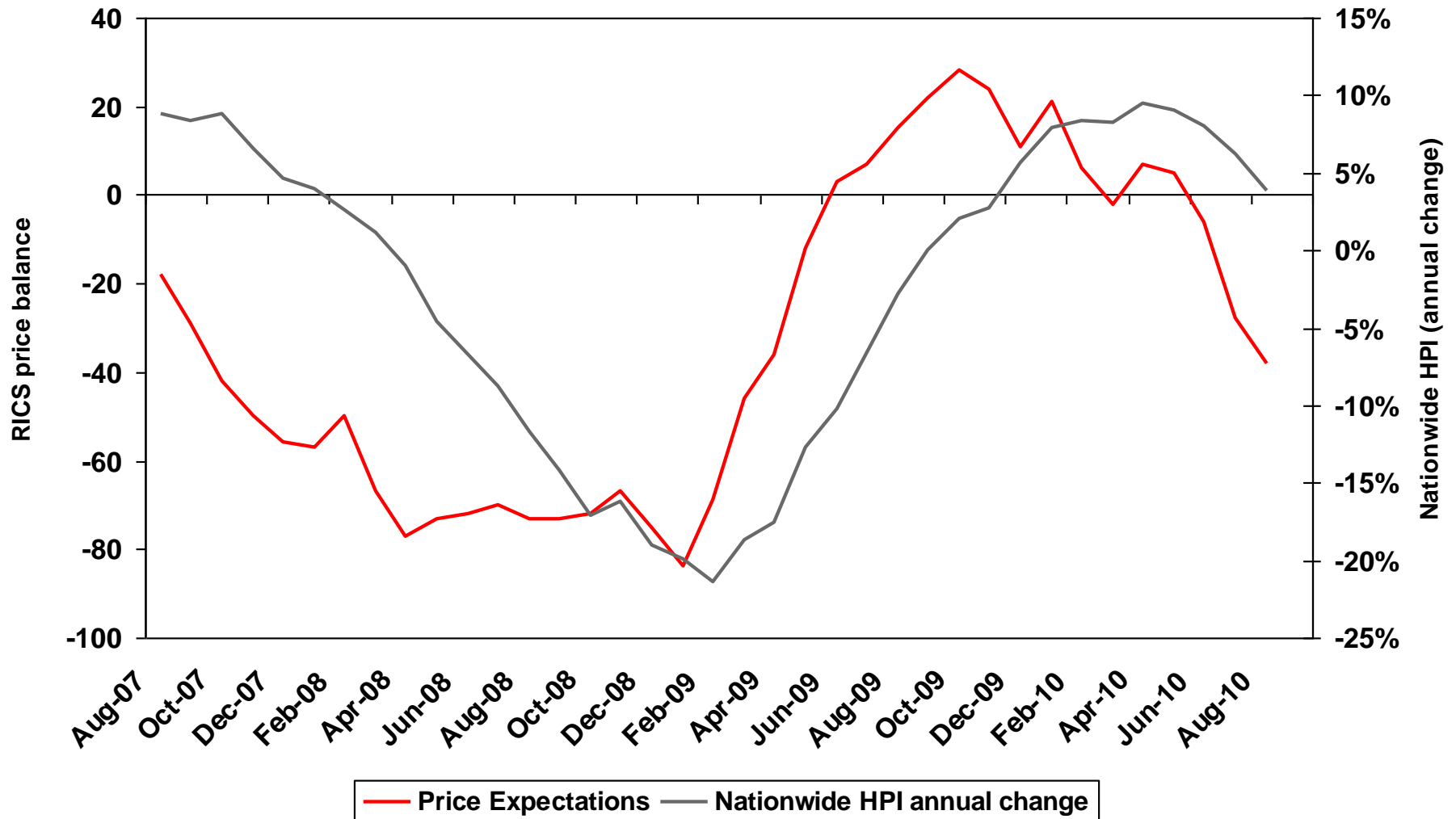
# ..Or a supported one?



# Residential Construction Orders Trouble Ahead?



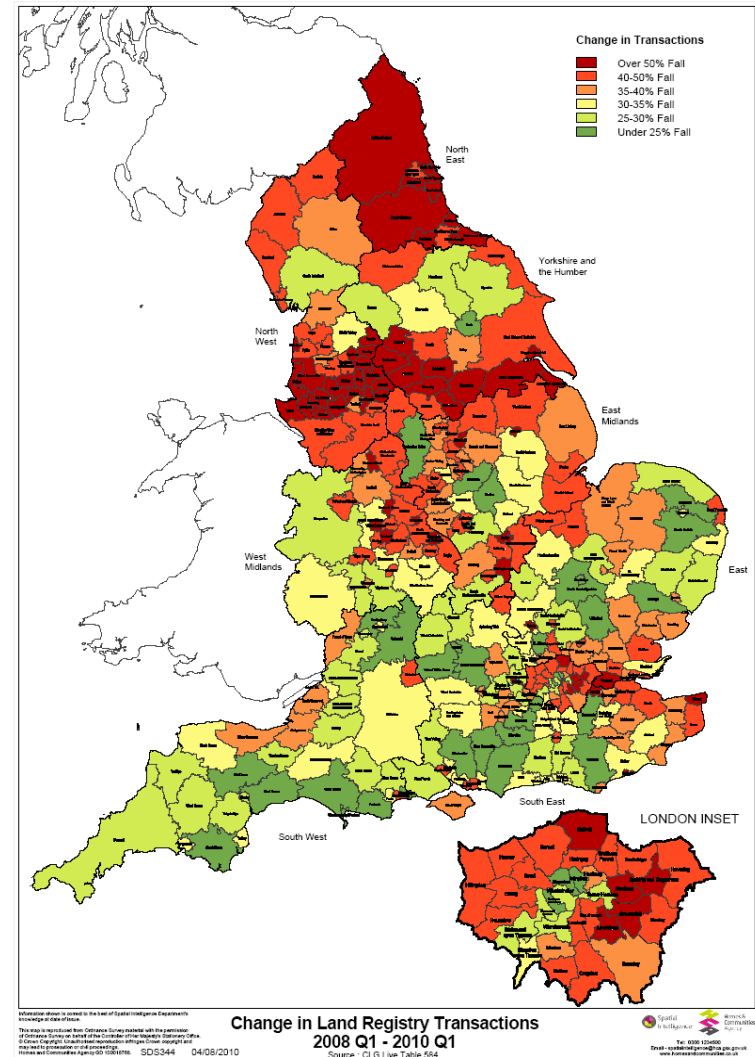
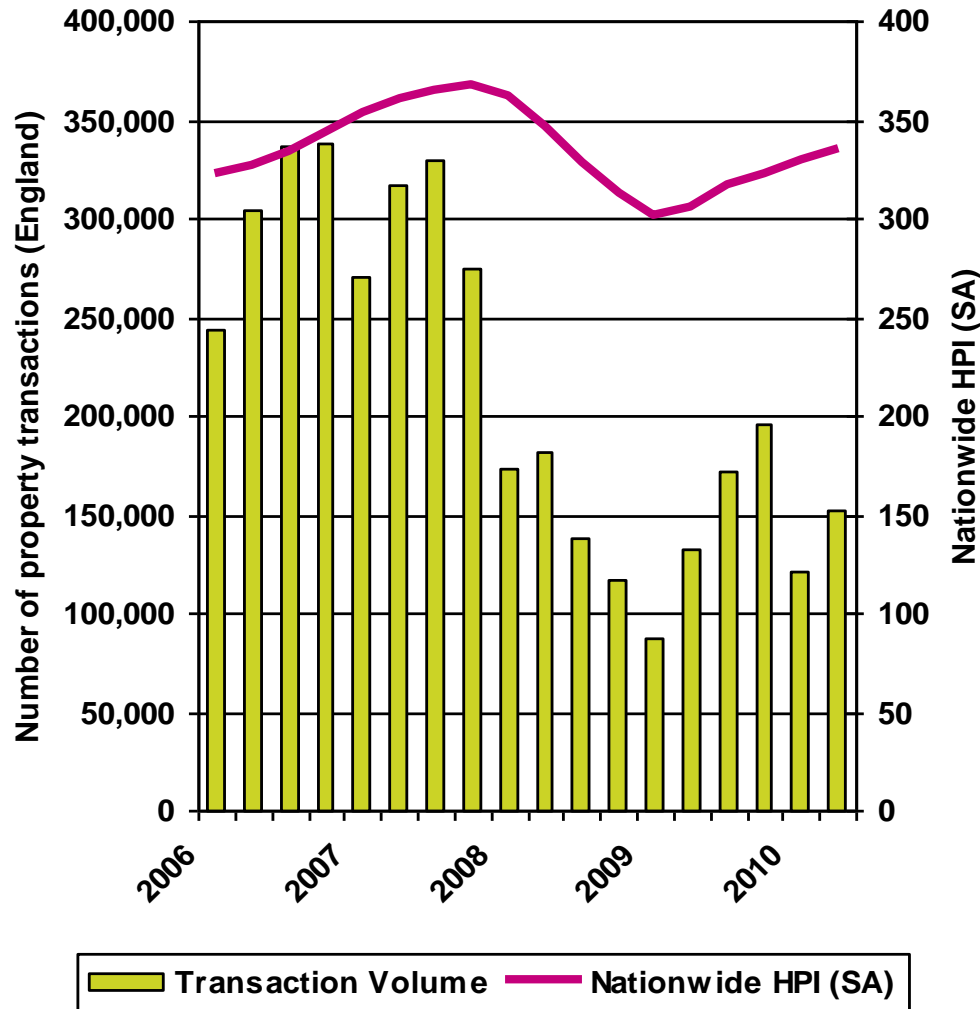
# House Prices – rallied, but falling again







# Transactions - The real 'crash'

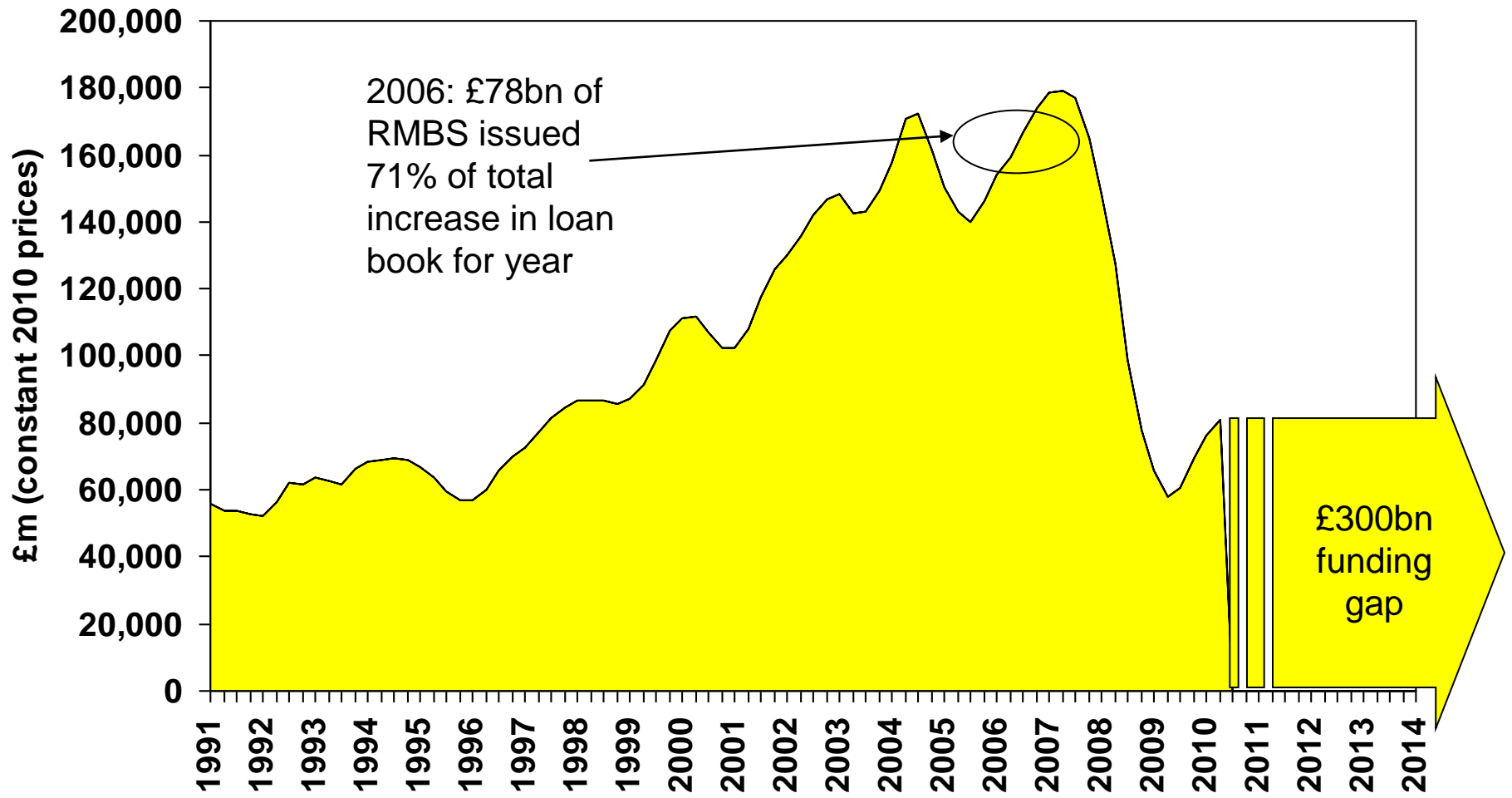


# Mortgage Lending

For House Purchase (at constant 2010 prices)

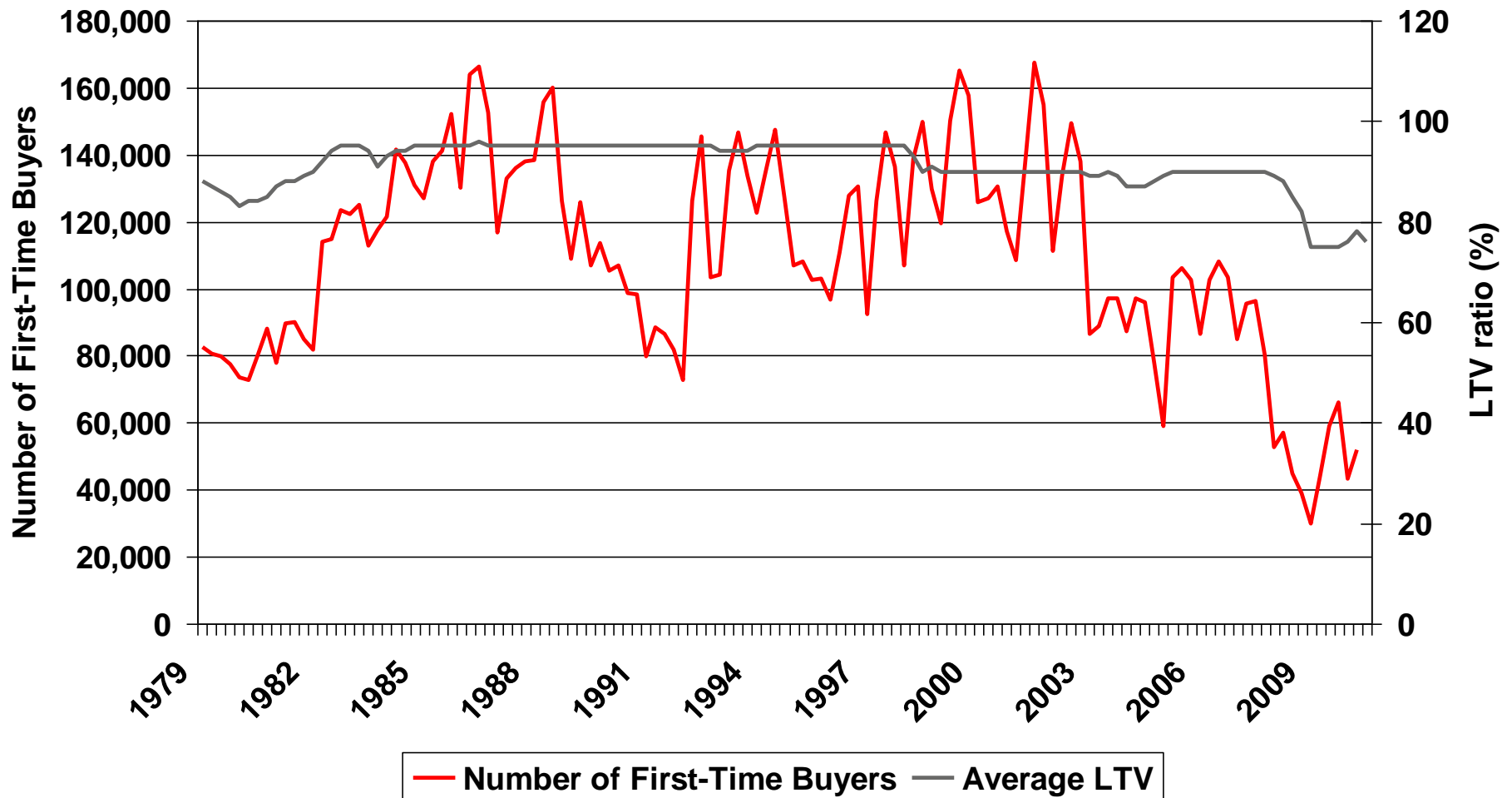


Homes &  
Communities  
Agency



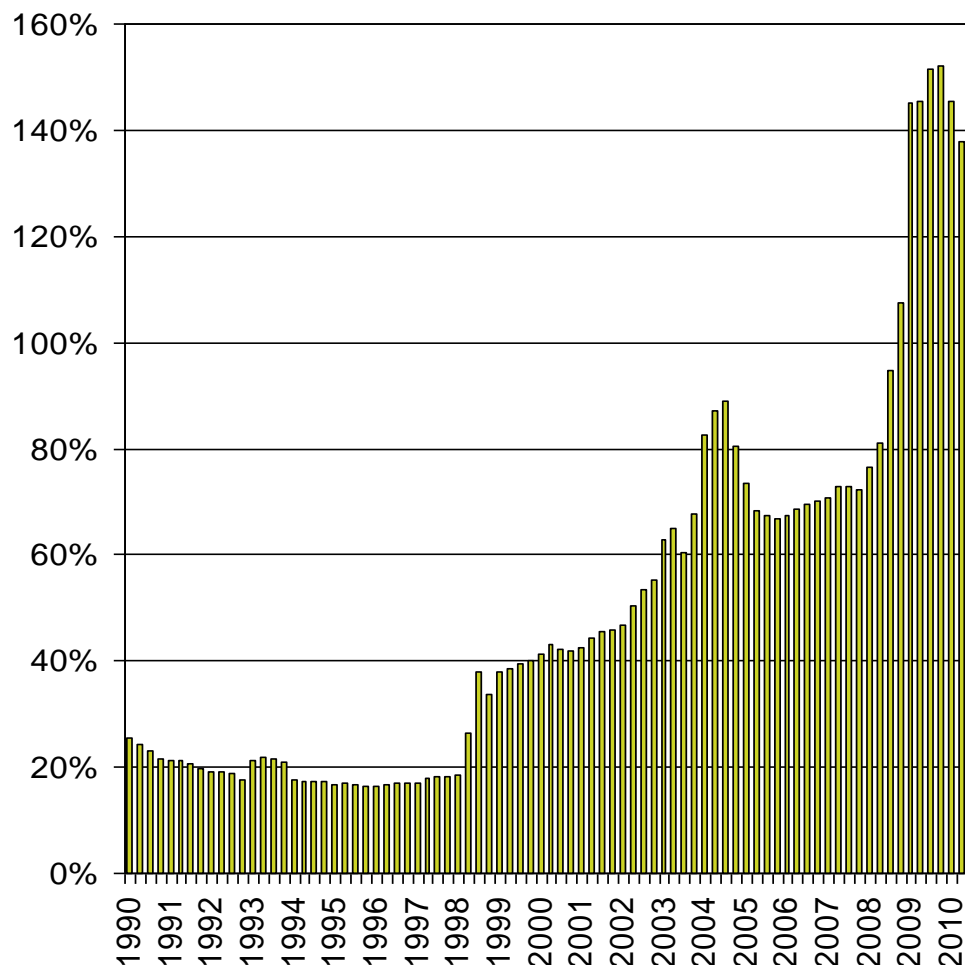
# First time buyers

## A declining species?



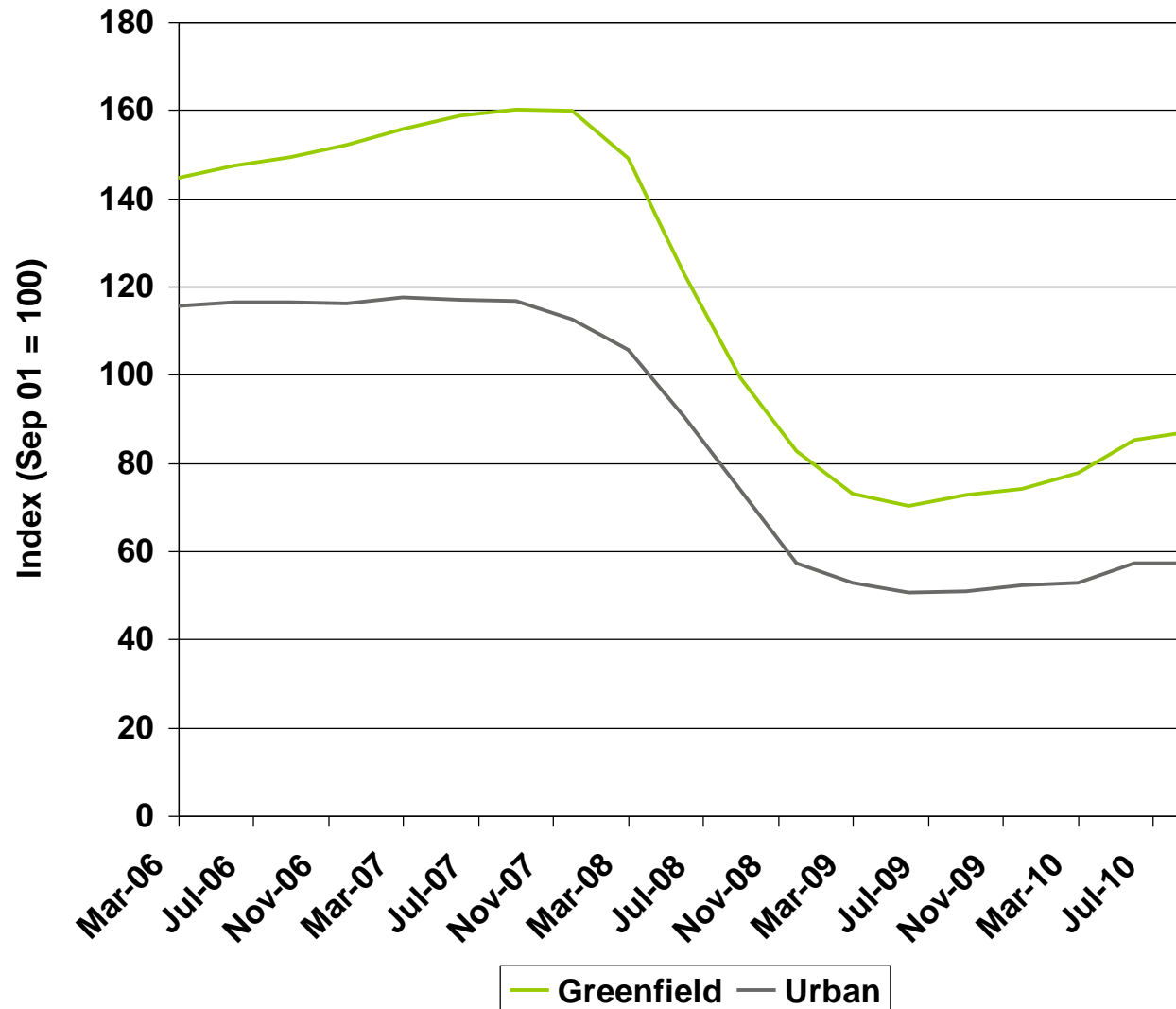
# First-time buyer deposits

## As % of median full-time wages



- First time buyers have found it progressively harder to save a deposit for some time – but that trend has intensified since the financial crisis
- London FTB average deposit was £86,400 in 2009 (73% higher than national average) and 66% higher than 2007
- Those in more affluent areas are more likely to have higher disposable incomes which they can shift to savings and are also more likely to benefit from parental equity
- Over time, this will help “solidify” patterns of ‘good’ and ‘bad’ areas – which has implications for house building as well as social policy

# Land Values

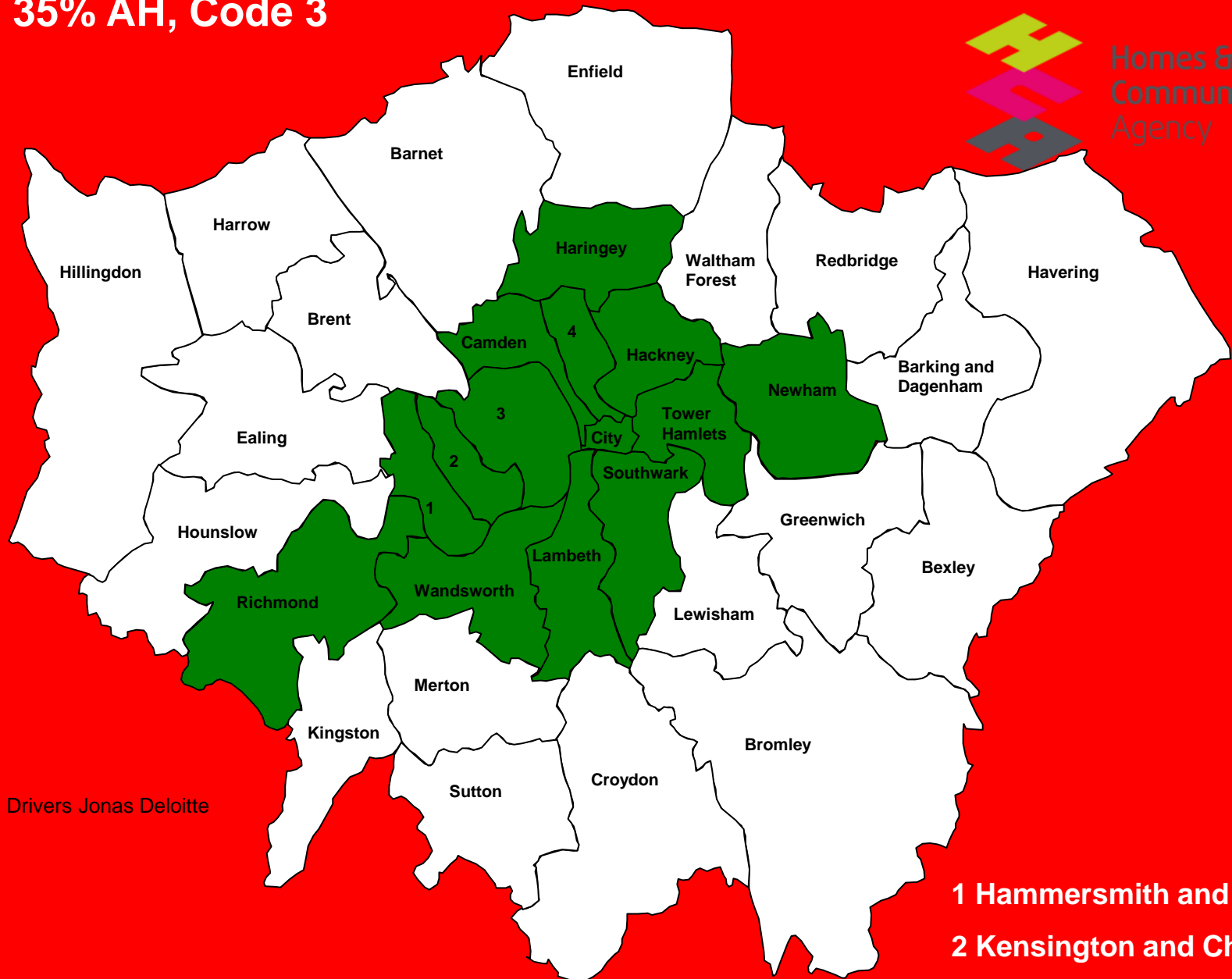


- Low values have not led to an abundance of cheap land - price expectations will take several years to adjust
- In the short-term falls have stymied supply and made many schemes unviable
- Virtually no development debt (Irish & Scottish banks) - no funds for infrastructure
- Greenfield recovering faster – particularly for small serviced sites in the south-east
- Larger strategic sites are more long-term and require more upfront investment – hence more risky

**2007: 35% AH, Code 3**



Homes &  
Communities  
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Source: Drivers Jonas Deloitte

**1 Hammersmith and Fulham**

**2 Kensington and Chelsea**

**3 Westminster**

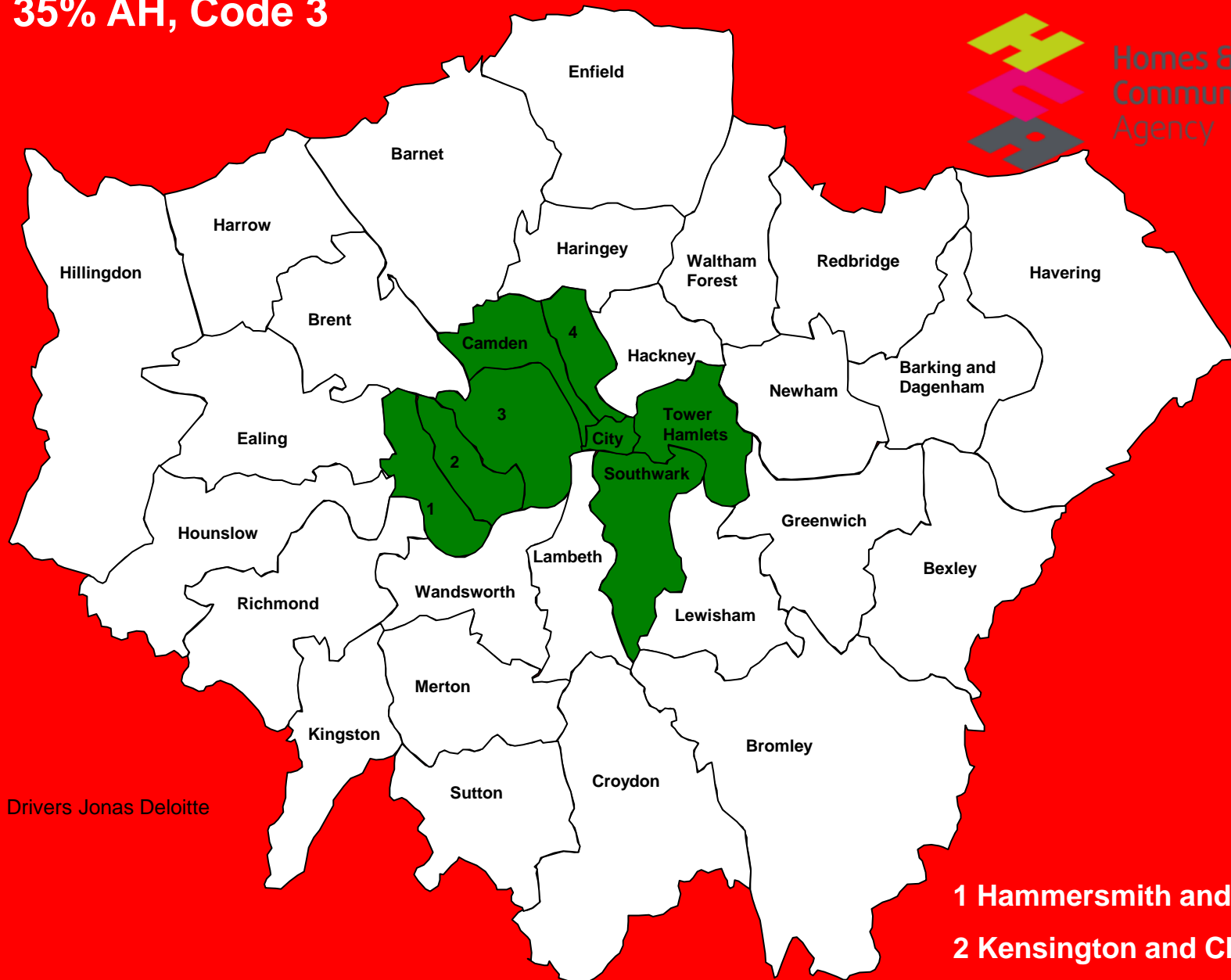
**4 Islington**

Thriving communities, affordable homes

**2009: 35% AH, Code 3**



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Communities  
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Source: Drivers Jonas Deloitte

Thriving communities, affordable homes

**1 Hammersmith and Fulham**

**2 Kensington and Chelsea**

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**4 Islington**

# Implications for development



- ♦ Mortgage market is dictating activity
  - Insufficient funds to finance an increase in development volumes
  - Lending strongly biased to low-risk schemes and customers – i.e. high LTV, established affluent areas, houses not flats, south not north
  - This is also where deposits are more readily available
- ♦ Developers strategies reflect this
  - Financial crisis has made them highly risk-averse
  - Houses can be built on a 'build one, sell one' basis
- ♦ Land and infrastructure factors reinforce this
  - Strong demand for 'oven-ready' land
  - Shortage of supply as owners wait for improvement in market conditions
  - Fears over shortage of planning consents due to policy uncertainty
  - Obvious strategy is to operate a longer land bank → Lower volumes
  - Viability issues ('burden of regulation')
- ♦ (Some exceptions– e.g. Prime London)



Our priority continues to be maximising the value achieved from each home completion rather than looking to grow volumes.



Half year results, September 2010

We continue to focus on achieving the best possible selling price for our new homes rather than increasing volumes.

Our focus continues to be on optimising selling prices rather than pursuing volumes.



Half year results, August 2010

These three firms account for 41.4% of all NHBC starts over the past year.



**BARRATT**  
DEVELOPMENTS PLC

Annual results, September 2010

# London – global city specifics



- ◆ Demographics and need require 32,000 new homes pa. Currently building far less.
- ◆ >80% of demographics is childless
- ◆ But...>200,000 households overcrowded
- ◆ Chronic undersupply of affordable housing
- ◆ Three quarters of all England's households in temporary accommodation are in London
- ◆ Highest prices (lower quartile incomes to house prices is 9.3, compared to 7 nationally)
- ◆ Rise in private renting (now at >20%)
- ◆ Deposits for FTB now double average annual salaries

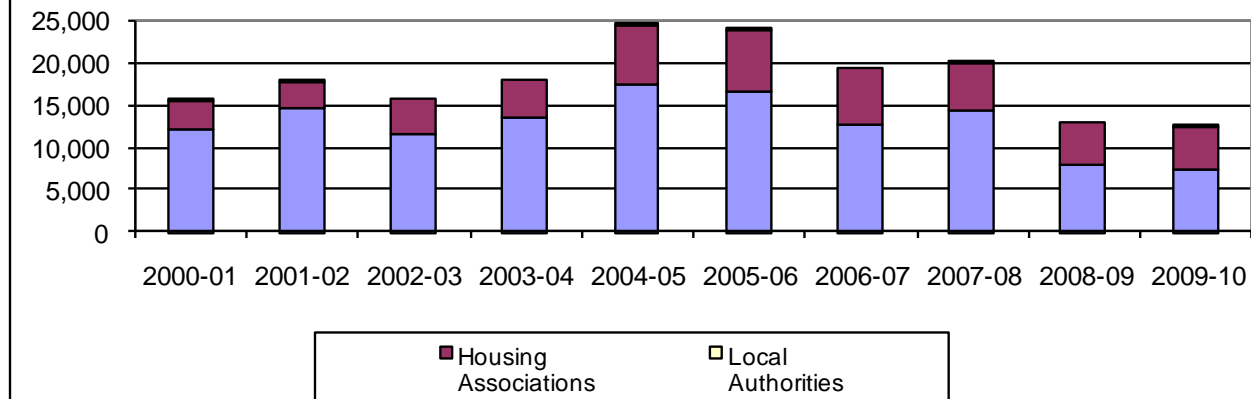
# London – market summary



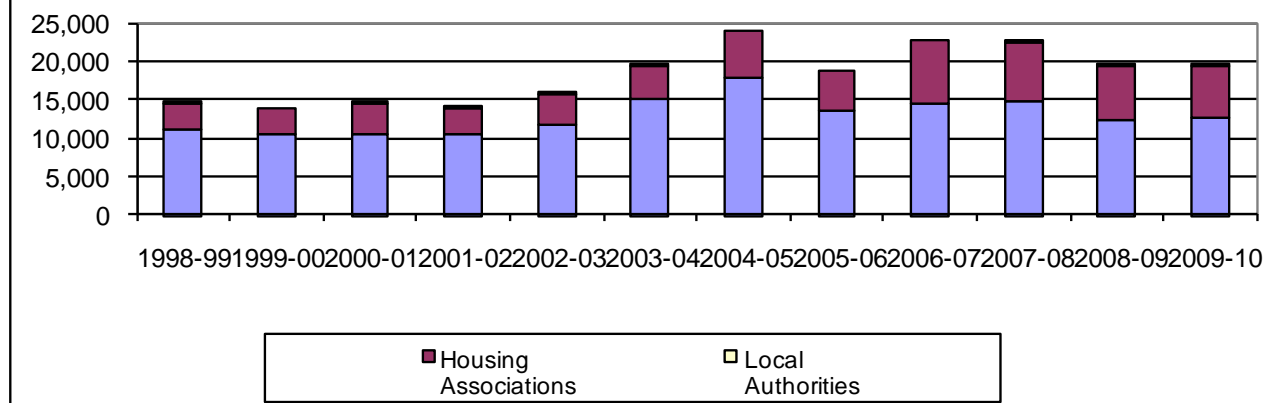
- ◆ 20% fall in prices peak to trough
- ◆ Market remains fragile despite price recovery
- ◆ HCA investment in around 75% of sites
- ◆ Strong recovery in prime locations – virtually nothing in marginal locations
- ◆ Market extremely diverse: sub-£200 psf to One Hyde Park!
- ◆ Nearly 18,000 new homes underway – but 30% below peak
- ◆ Pre-sales are enabling viability and remain at >40%
- ◆ Buyers are world's wealthy owner-occupiers; domestic and foreign investors; baby-boomers and their kids (BoMD); struggling first time buyers
- ◆ Regeneration sites remain unviable without gap funding
- ◆ Margin, not volume, is the order of the day

# Overall house building rates in London

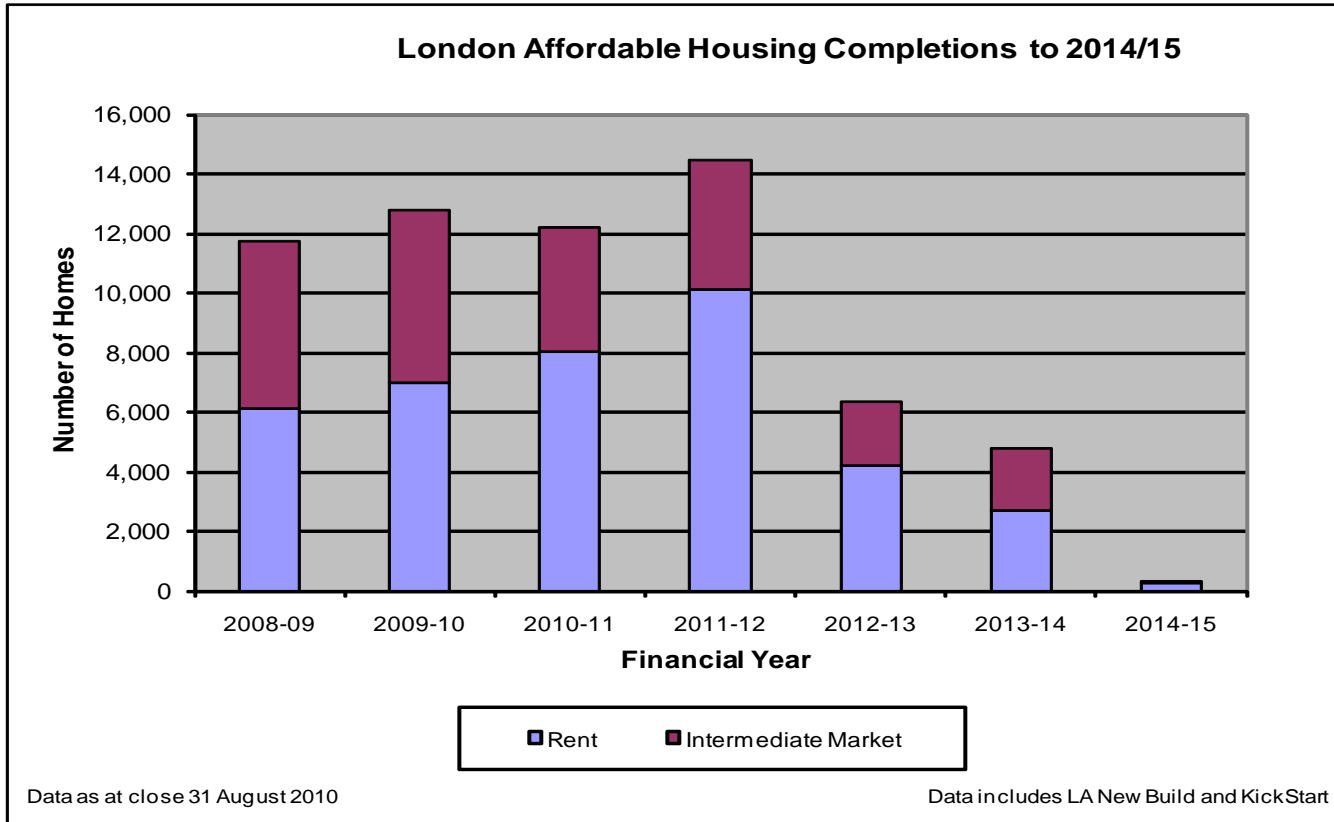
## Starts



## Completions

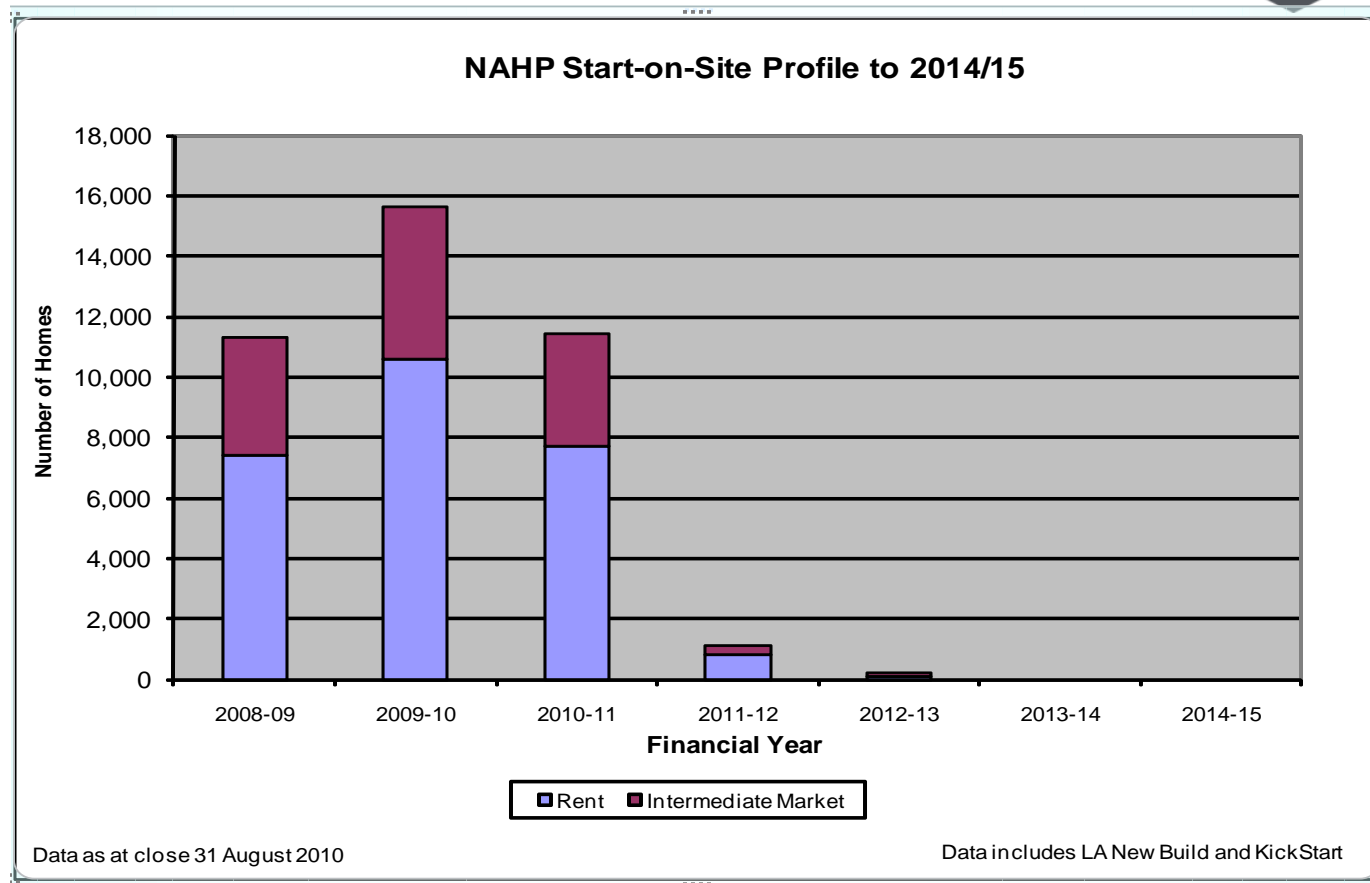


# Trends and projections - Completions



Tenure	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Rent	6,100	6,992	8,010	10,094	4,214	2,678	240	38,328
Intermediate Market	5,649	5,780	4,170	4,354	2,110	2,124	57	24,244
Grand Total	11,749	12,772	12,180	14,448	6,324	4,802	297	62,572

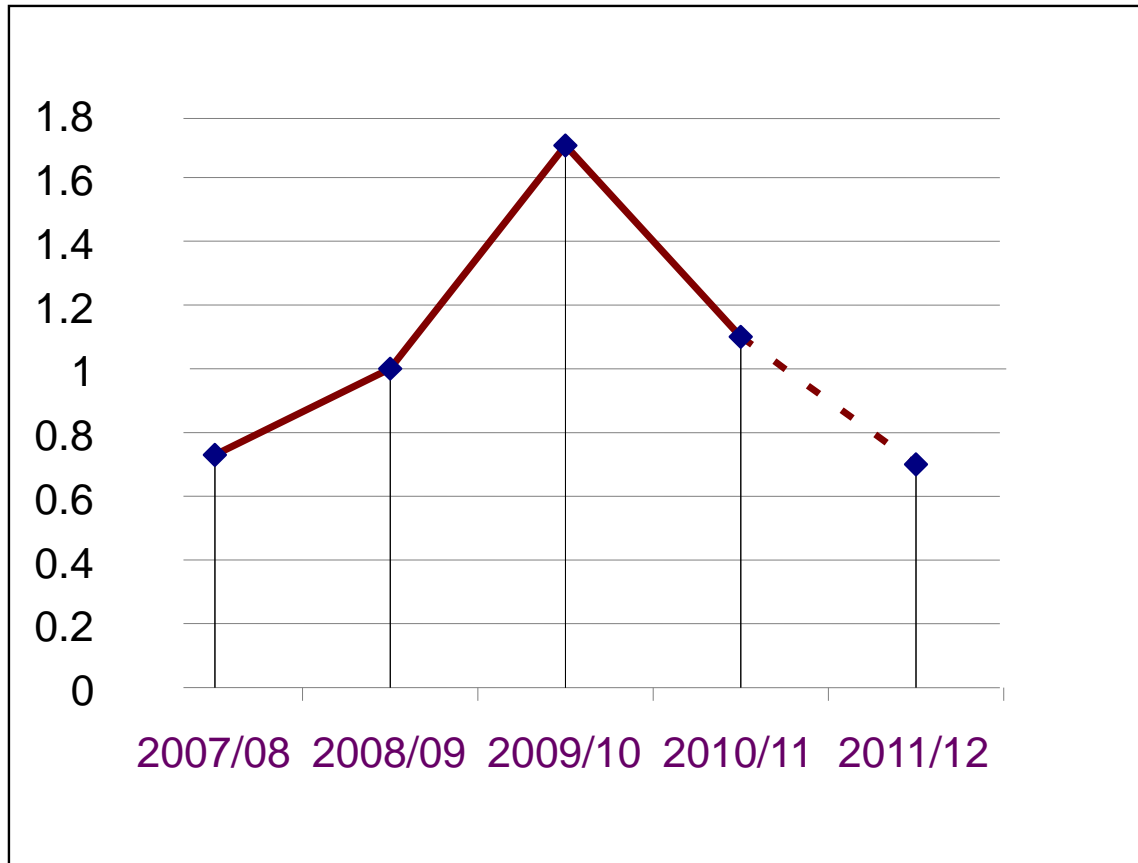
# Recent trends and Projections - Starts



Tenure	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Rent	7,393	10,612	7,714	793	70	0	0	26,582
Intermediate Market	3,943	5,043	3,734	342	122	0	0	13,184
Grand Total	11,336	15,655	11,448	1,135	192	0	0	39,766

# London's affordable housing budget

(£billions)



- Completion commitments for 11/12 stand at £650m
- This year and last we programme-built more than £1b of new homes

# New policy regime

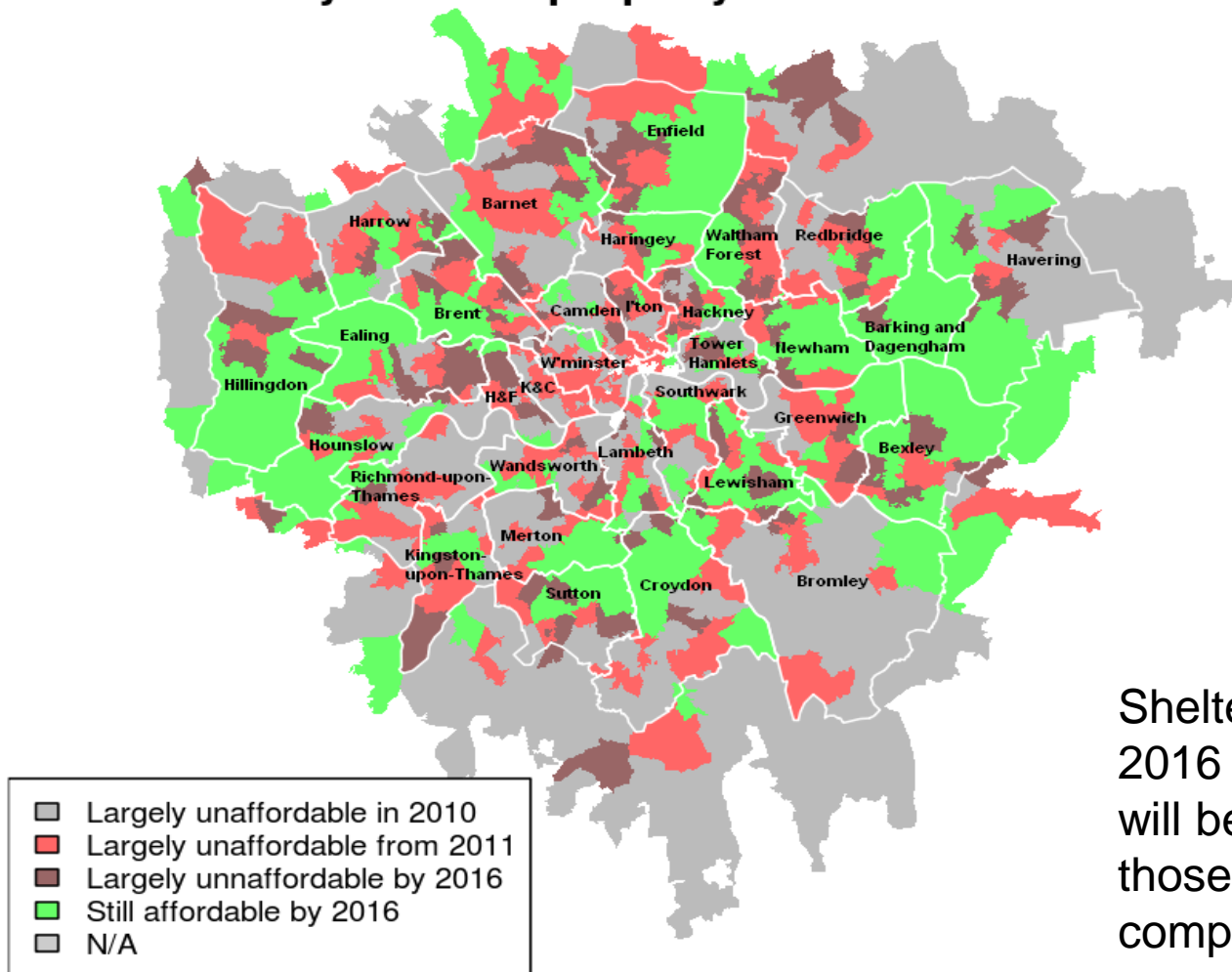


- ◆ Deep cuts to capital and revenue: loss of capacity
- ◆ Localism and the new planning regime
- ◆ Targets scrapped: new incentives introduced
- ◆ Devolution to London government
- ◆ New affordable rent model
- ◆ Welfare reform



# Impact of new benefit caps

## Affordability of 2-bed property to HB claimants in London



Shelter calculates that by 2016 only 36% of London will be affordable for those on benefit, compared to 75% today

# New Affordable Rent



- ◆ 75% cut in new capital funding for affordable housing
- ◆ New 4 year programme seeking up to 150,000 new homes
- ◆ Up to 80% market rent: switch from capital to revenue subsidies
- ◆ HA relets at new higher rents
- ◆ Major shift in risk profile & HA gearing
- ◆ Interplay with new benefit system is critical
- ◆ Rent & benefit caps will shift profile of affordable housing in London
- ◆ Local politics and planning remains uncertain

# Conclusions

- ◆ Less new development in all sectors
- ◆ Building will continue – but overseas and high net-worth buyers will be key
- ◆ S106 contributions will be scarce for some time as schemes remain unviable
- ◆ Loss of capacity and new rent policies may lead to planning ‘freeze’
- ◆ No early recovery of lending, so demand will remain tight
- ◆ New rent model will take time to gear up
- ◆ New Homes Bonus may have impact in some high supply boroughs, but localism may add to risk an uncertainty
- ◆ London will become more polarised between strong and weak market areas, because of both welfare and development regimes
- ◆ Larger homes and high density development at particular risk
- ◆ Regeneration sites especially challenging
- ◆ Time for institutional investment into long-term private renting?
- ◆ Greater role for public land?
- ◆ Help for first time buyers?
- ◆ London will be in charge from 2012!