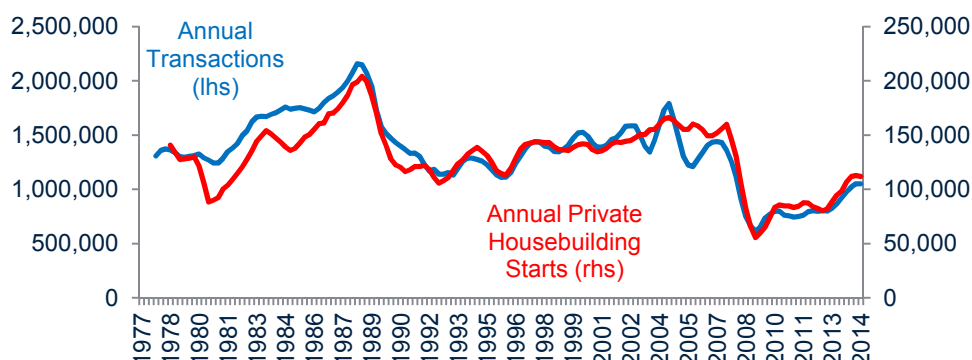


HOUSING DELIVERY

Can Affordable Housing Break The 10 to 1 Ratio

The level of private house building is closely linked to credit availability and turnover in the wider housing market. There has been a 10 to 1 ratio between overall market transactions and private housebuilding starts for the last 25 years and it appears to have held firm despite recent policy interventions. The reasons for this ratio are poorly understood but appears to be linked to the price distribution of market demand versus the house price that private developers need to sell at. That house price is in turn determined by the way the development land market currently operates (which I'll look at in a future note).

Fig 1 – Transactions & Private Housebuilding Starts, England



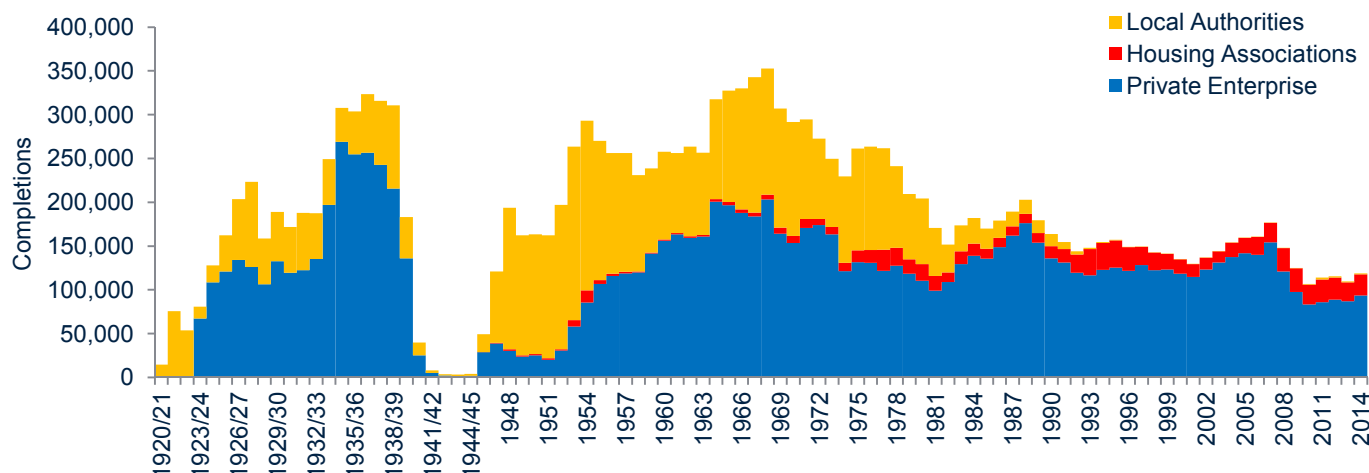
Source: HMRC, DCLG

The 10 to 1 ratio has important consequences for future levels of housing delivery. It appears that all major political parties are keen to increase housing delivery and they all appear to recognise (to varying degrees) that private developers/housebuilders will play an important role in that. However, unless we find a way to break the 10 to 1 ratio, to substantially increase housing delivery we will either need to increase overall market turnover or increase delivery of other tenures. With increased mortgage market regulation and current high house price levels, it appears unlikely that transactions will significantly increase and therefore we must look to other tenures. I'll be exploring the purpose-built private rented (multi-family) sector and other tenures in future notes but this issue looks at affordable housing delivery.

One of the most frequently used housing market charts for new build delivery is the long-run series from DCLG showing completions split by 'tenure' as per Fig 2 below. It is quite often combined with a nominal house price index and is popular for showing the decline of house building over the last 45 years with a particular focus on Local Authorities. Although it is useful (and I regularly use it), it does have some issues. An important one for those looking at affordable housing delivery is that it doesn't actually show the tenure of new homes but instead shows the type of organisation building them. It also fails to show the net effect on overall housing stock. This is important as previous periods of record housing delivery also saw substantial demolition of poor quality homes. But perhaps most importantly, this data also under-reports the actual number of new homes being built in recent years.

Please see my previous note "Measuring Housing Need" for a chart showing the gross & net effect of housebuilding on dwelling stock <http://sav.li/3r2>

Fig 2 – Housing Completions by 'Tenure', England



Source: DCLG, Webber

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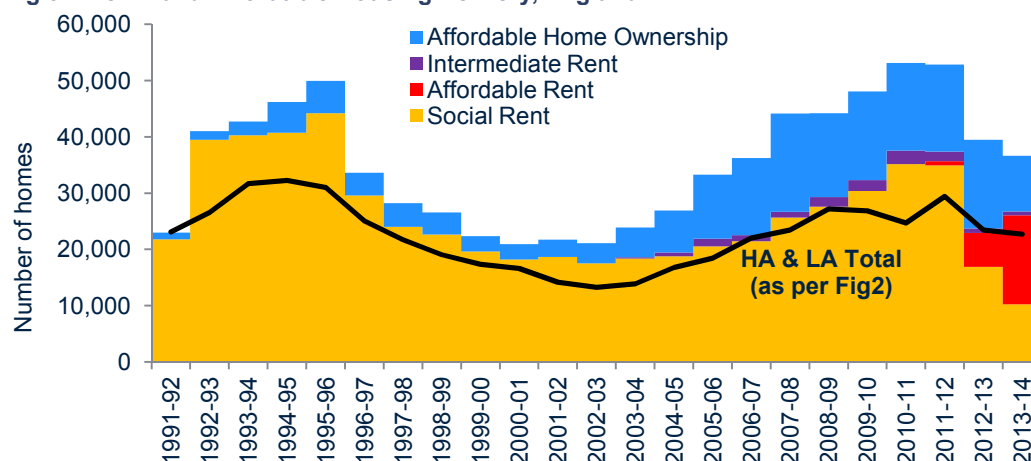
@resi_analyst



Reconciling The Numbers

Fortunately there are other data sources available that give more detail on affordable housing delivery. The chart below shows the actual level of affordable housing completions and highlights the disparity between them and the aggregate delivery of Housing Associations and Local Authorities (black line) as indicated by the previous chart. The chart also highlights how the shift from Social Rent to Affordable Rent has substantially affected the overall delivery of affordable housing in the last couple of years.

Fig 3 – New Build Affordable Housing Delivery, England



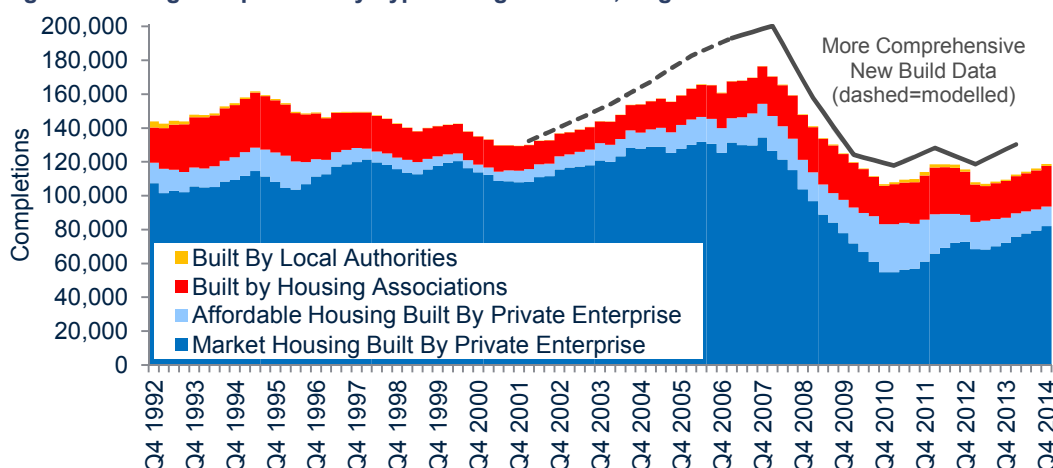
Source: DCLG

The disparity between actual affordable housing delivery and those homes built by Housing Associations and Local Authorities highlights the role of private developers/housebuilders in delivering affordable housing. The chart below (Fig 4) shows our rough estimate of the amount of affordable housing delivered by the private sector (light blue). It is probably an over-simplification as it makes no allowance for the level of private housing delivered by Housing Associations but it does appear to indicate that the recovery in market housing delivery post recession has been stronger than is indicated by the private enterprise series.

The need to build affordable housing may be a barrier to some private delivery, particularly in areas with lower house prices, where construction costs take up a larger proportion of gross development value. However, as the chart below indicates, the steps taken by the Homes and Communities Agency to fund affordable housing delivery across all sectors during the immediate aftermath of the recession probably helped to dampen the full effects of the credit crunch on output and capacity. It is too late now but perhaps if this had occurred at a larger scale, the housebuilding sector wouldn't now be facing labour and skills shortages.

The chart also highlights the under-count of total house building in the commonly used DCLG quarterly data relative to the more comprehensive though less frequent DCLG housebuilding data from their annual net housing supply series. The more comprehensive annual data suggests that housing delivery in England during the financial year 2013/14 was 130k rather than the more frequently cited 112k. Unfortunately we don't know the tenure split of the 20k homes not initially counted. Given the growing politics around housebuilding, there is a pressing need for accurate statistics that can tell us exactly how many homes have actually been built along with what tenure they are, where they are and what type/size of home they are.

Fig 4 – Housing Completions by Type of Organisation, England



New housing completions in England reached 200,000 homes during the 2007/08 financial year. Adding in the impact of conversions, changes of use, vacant properties returning to use, and demolitions; and the overall net change in housing stock was 224k

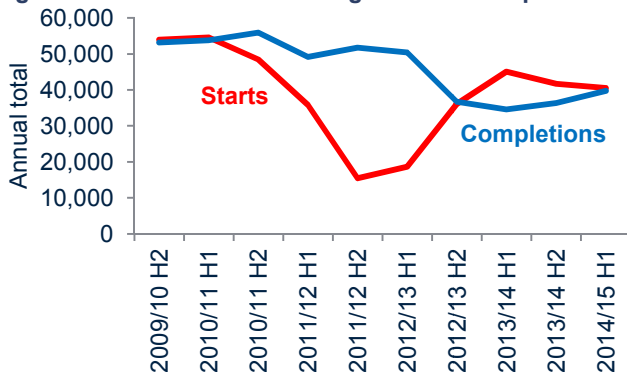
Source: Savills using DCLG

Long Term Stability

As seen in Fig 3 on the previous page, the shift from Social Rent to Affordable Rent delivery has had a substantial impact on the number of homes delivered. Fig 5 below shows the difficulties faced by the sector in maintaining delivery when there are substantial changes to the Affordable Homes Programme. The impact on completions was not as extreme as it was on starts because of carry-over from the previous programme but completions have been around 10,000 homes lower than levels prior to the change. On the positive side, the most recent data for London (Fig 6) shows a substantial increase in completions during 2014-15 (the last year of the programme) but it remains to be seen whether that trend carries across to the wider country.

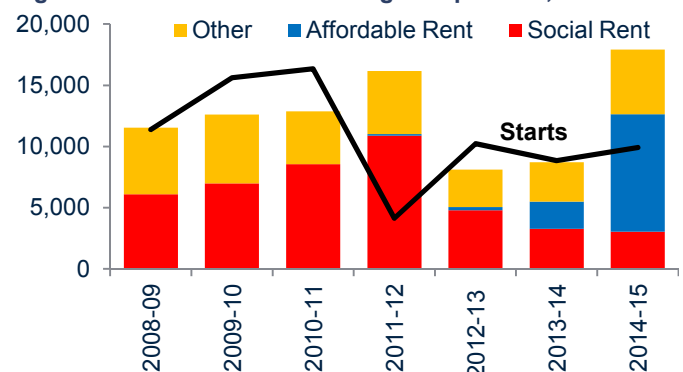
The uncertainty created by the political cycle can be a considerable barrier to delivery across all tenures. The need for a cross-party approach to housing delivery is increasingly recognised within the industry but probably is a pipe dream. The affordable housing sector's capacity to plan for the future is further compromised by the short-term nature of the funding provided by the Affordable Homes Programme. If this sector is to play a large role in building the homes required, then it will need both greater scale and certainty of funding over longer timeframes. Whether through the commitment of longer term central funding or increasing the capacity for Housing Associations and Local Authorities to borrow more against existing stock (rather than selling it off), there is the potential for affordable housing to play a larger role in housing delivery.

Fig 5 – Total Affordable Housing Starts & Completions

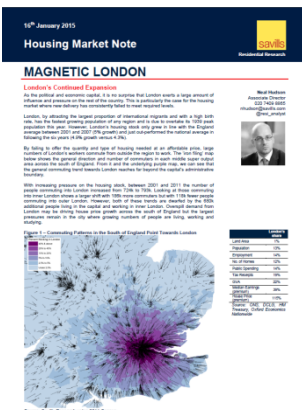
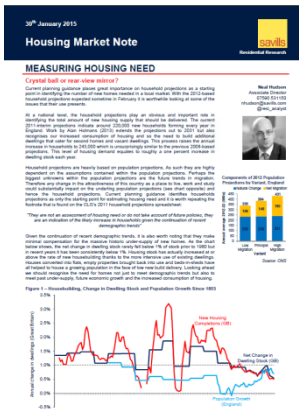
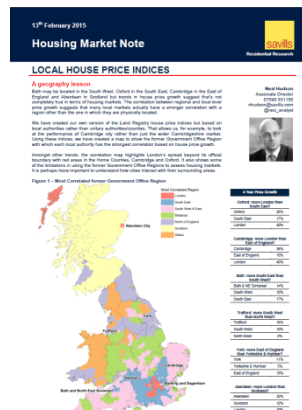
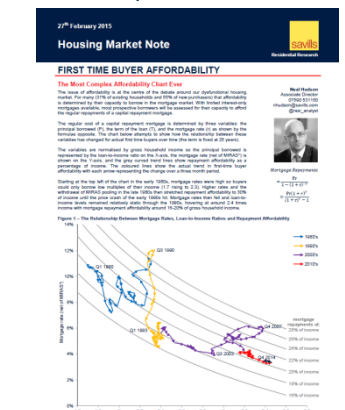
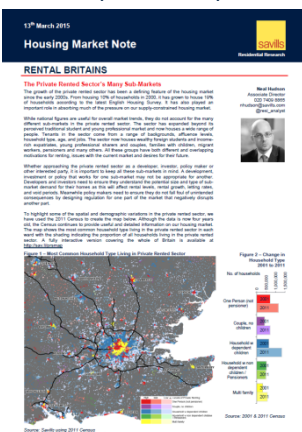
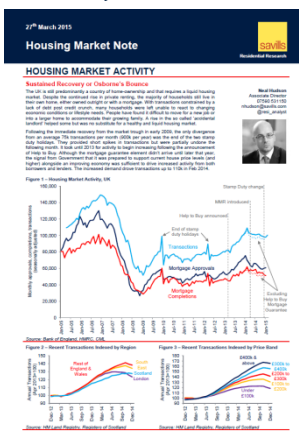
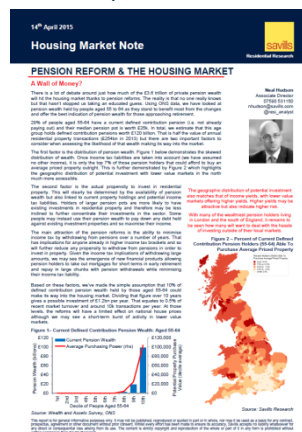


Source: DCLG (data is for England only)

Fig 6 – Gross Affordable Housing Completions, London



Source: GLA

Magnetic London
<http://sav.li/3r3>Measuring Housing Need
<http://sav.li/3r2>Local House Price Indices
<http://sav.li/3r1>First Time Buyer Affordability
<http://sav.li/3r0>Rental Britain's
<http://sav.li/3qz>Housing Market Activity
<http://sav.li/3rk>Pension Reform
<http://sav.li/3ul>

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