RESIDENTIAL PROPERTY
FOCUS Q2 2013

Steering the market
Can government intervention drive change?

Second home ownership
Planning reform reviewed
The impact of mansion tax

savills.co.uk/research
This publication
This document was published in May 2013. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Glossary of terms
- **Mainstream**: mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.
- **Prime**: the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.

Abbreviations are:
- CIL: Community Infrastructure Levy
- CML: Council of Mortgage Lenders
- CPRE: Campaign to Protect Rural England
- DCLG: Department for Communities and Local Government
- LPA: Local Planning Authority
- NPPF: National Planning Policy Framework
- Peak: refers to the first half of 2007
- PCL: Prime Central London
- PRS: Private rented sector
Foreword

Government initiatives can be seen in all areas of the housing industry, but the fundamentals of land, money and product need to be considered.

R

arely has housing ascended the political priority list so rapidly. Since the coalition government took power in 2010, we have seen many initiatives and interventions in diverse areas: planning, funding and finance, private renting, housebuilding and mortgages.

It is the contribution of construction to the economy, estimated at around 8% of GDP, that has focused political minds so sharply in this age of austerity. Any chance of growing the economy and jobs is embraced with open arms.

The housing industry has made its case well, stating that every £1 invested adds £2.84 to GDP. There is a compelling macro economic case for increasing housing supply that goes beyond the previous cases made on social and affordability grounds.

Having said this, construction covers many diverse activities, including public works and infrastructure, commercial property and repairs and maintenance of existing buildings. Private housebuilding only contributed about 13% of all construction GDP in 2008, or around 100th of all GDP output.

Nevertheless, the volume housebuilders have won the biggest prize from government recently. The new mortgage guarantees and equity loans announced in the budget aim to stimulate demand. Housebuilders are expected to respond to this with additional supply. Critics of the scheme say it will only swell developer profits. Some have even suggested it will create a mini housing boom.

We see little evidence for this. We are more positive on the implications for supply but remain concerned as to whether there will be sufficient funds for lending available to achieve the scheme’s objectives.

As with many other housing market initiatives, the current slew of interventions depend for their success on many other factors in the housing market and economy, some of which are outside policy control. This has made housing market policies particularly fraught with unintended consequences in the past and they may be so again.

The delivery of built environment has always depended on three principal elements: land, money, and product.

The great city builders such as Nash and Cubitt were not only good at delivering product but also had access to land and development finance. These elements have to be considered together in an integrated way to make good policy. Few organisations in the property industry have a complete picture of all areas in this jigsaw but a complete understanding is needed if unintended consequences are to be avoided.

A secure and diverse supply of land, possible initiatives to encourage landowners into housing production and more routes for diverse funding, including private capital into development will be needed to match initiatives aimed at increasing product numbers and demand.

The concurrent initiatives around public land, investment in market renting and planning are therefore critical components. Only if current government policies can truly integrate these factors will we see the significant uplift in housing delivery that the UK needs, for social, environmental and economic reasons.

Executive summary

The key findings in this issue

- We believe Help to Buy will stimulate values, boost transactions and encourage more private housebuilding. Assuming a successful take up of the scheme, we could see house prices rise by 15.3% over the next five years, rather than the 11.5% previously forecast. See pages 4/5

- Given the limit on funds, lenders are still likely to show a preference for borrowers with larger deposits. Therefore, we believe it is unlikely that Help to Buy will inspire banks to start lending at loan to values in excess of 90%. See pages 6/7

- We would expect the problems with a mansion tax to cause political parties to look at other more equitable options, less damaging to the perception of prime UK property. See pages 8/9

- Second home ownership continues to provoke debate. Although second homes account for just 1.1% of UK housing stock, the local concentration of second home in certain areas raises the question of whether the sector should be regulated or taxed. We examine the case. See pages 10/11

- The National Planning Policy Framework has been in place for over a year. The planning changes aim to streamline the system and engender a more positive approach to development. The onus is now on Local Planning Authorities to define the scale and nature of development locally. What are the consequences? See pages 12/13
The property market has become a political issue. House building has failed to keep pace with the needs of a growing population. The construction of social housing has slowed to a trickle. Five years after the credit crunch, a generation of first-time buyers is still largely priced out of the housing market and forced to pay increasingly higher rents. They are particularly stretched in London where property prices are over nine times average earnings and the average deposit is running at £59,000. As house prices continue to climb in more affluent parts of the country, wealth, in the form of property equity, has become concentrated in fewer hands.

Previous attempts by the coalition government to alter the picture have had limited impact. However, measures announced in the 2013 Budget, including Help to Buy which provides £3.5 billion of equity loans and £12 billion of mortgage guarantees, are more far reaching than earlier schemes aimed at assisting new buyers and stimulating housing construction.

The initiatives follow an overhaul in the planning system brought in over a year ago that are now beginning to bed down. What effect will political intervention have this time?

Help to Buy

Savills research shows that the initiative will have a much bigger impact on the number of property transactions and help more people to buy than previous incentive schemes such as FirstBuy and NewBuy.

The measures, designed to help creditworthy buyers on and up the housing ladder, is comprised of two

### Graph 1.1

**Mortgage Guarantee prospective take up** An assessment of the capacity of the market

<table>
<thead>
<tr>
<th>Category</th>
<th>Lending Capacity</th>
<th>Expected Take Up</th>
<th>Remortgaging</th>
<th>House Purchase</th>
<th>Mortgage Prisoners</th>
<th>Private Renters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£210 billion</td>
<td>£74 billion</td>
<td>£26 billion</td>
<td>£48 billion</td>
<td>£31 billion</td>
<td>£17 billion</td>
</tr>
<tr>
<td></td>
<td>1,400,000 loans</td>
<td>490,000 loans</td>
<td>165,000 loans</td>
<td>325,000 transactions</td>
<td>215,000 transactions</td>
<td>110,000 transactions</td>
</tr>
</tbody>
</table>

2014: 75,000 transactions
2015: 110,000 transactions
2016: 140,000 transactions

At peak lending

Reduced to reflect demand from borrowers and ability of lenders to extend loan book

Source: Savills Research

Words by Susan Emmett
parts – an equity loan scheme, which came into play in April 2013, and a mortgage guarantee scheme which will be introduced in January 2014.

Both parts of the scheme will run for three years and help those with deposits of between 5% and 20%. Unlike previous schemes, this one is not means tested and will be available to existing homeowners as well as first-time buyers purchasing any home worth up to £600,000.

While the equity loan part of the measure is restricted to new build homes, the mortgage guarantee can be applied to second hand property.

**Effect of prices**

Critics have expressed concerns that the scheme may yet prove self-defeating by stoking up house prices and pushing them even further out of reach of first-time buyers.

We believe Help to Buy will stimulate values, boost transactions and encourage more private housebuilding. Assuming a successful take up of the scheme, we could see house prices rise by 15.3% over the next five years, rather than 11.5% previously forecast.

However, we do not expect it will cause a house price bubble. Help to Buy is unlikely to transform the market and reverse the demand in rental homes.

Our analysis shows that demand for privately rented homes will continue to rise by at least 210,000 households in the next three years. Most of that demand will continue to be centred on London where property prices are highest and the population is set to exceed nine million by 2018.

Although the Government expects that the new two part initiative will help over 500,000 home buyers, Savills research estimates the move is more likely to help 400,000 buyers.

The take up may be limited by buyers’ affordability constraints and lenders’ take up of the initiative. For both schemes, borrowers will need to meet their chosen lender’s credit and affordability checks.

Details of the mortgage indemnity scheme have yet to emerge. We still don’t know which lenders will take part and whether the mortgage rates they offer will be competitive.

However, judging from previous lending patterns, we expect that buyers with a 10% deposit will be more likely to get a favourable response from lenders than those who can only put down 5%.

As the scheme allows existing homeowners to refinance, about a third of the mortgage guarantee element is likely to be diverted to those remortgaging.

**Effect on housebuilding**

The equity loan element of Help to Buy is a more generous extension of the existing FirstBuy scheme which was introduced in 2011. Potentially it can provide funding for 75,000 extra equity loans in England between 2013 and 2016.

The fact it is fully funded by the Government will open up the programme to smaller developers that could not put up the extra loan required by FirstBuy in the past. As a result there should be more widespread take up among housebuilders. There is also established demand for equity loans among prospective homeowners.

Over 2012/13 FirstBuy is likely to have supported around 14,000 sales, in addition to around 2,000 supported by NewBuy (a mortgage indemnity scheme launched in 2012). These deals have accounted for between 20% and 25% of sales among major volume housebuilders.

We anticipate the equity loan element of Help to Buy could build up the numbers of supported sales to more than 43,000 in 2015/16, particularly given its application beyond the first-time buyer market.

On this basis we believe that Help to Buy could increase levels of private sector housebuilding by around 30% assuming that lenders are prepared to advance mortgages on the remaining 75% value of the property on competitive terms.

There is no question that the Government seeks to influence the property market as a means to drive wider economic growth. Measures promoting homeownership may also help deliver some votes for the Conservatives in a run up to the election in 2015. But Help to Buy alone is unlikely to plug the gap in housing need. To deliver the numbers of homes required, the growth of the private rented sector remains key.

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**“The take up may be limited by buyers’ affordability constraints and lenders’ take up of the initiative”**

Susan Emmett, Savills Research

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**GRAPH 1.2**

**Effect of government schemes on housebuilding**

Source: Savills Research / DCLG
Mainstream markets

LIMITED IMPACT FOR FIRST-TIME BUYERS

Many first-time buyers will continue to rent as house prices remain out of reach despite the introduction of government initiatives

Help to Buy could assist over 160,000 first-time buyers to acquire their first home over the next three years, a 25% increase in first home purchases on 2012 levels, according to our calculations.

The new two-part initiative announced in the 2013 Budget is the latest in a long line of government schemes designed to boost homeownership. It aims to help buyers with smaller deposits of between 5% and 20% purchase homes priced up to £600,000.

Given that the average first-time buyer’s deposit stood at £27,200 in 2012, the scheme will assist many aspiring buyers who are being forced to rent. However, it will not restore the number of first-time buyers to pre-credit crunch levels.

The years between 2003 and 2007 saw an average of 371,000 mortgages a year by first-time buyers. Even with Help to Buy, the number of loans to first-time buyers is unlikely to exceed 75% of these historic levels.

There are a number of reasons for the limited impact.

With median full time earnings at £26,500 per annum and the average house price at £230,000, affordability remains the biggest hurdle for first-time buyers. The schemes do nothing to address this and some fear it may even push up prices further out of reach.

Unlike previous incentive schemes, Help to Buy is not targeted exclusively at first-time buyers but is available to all credit worthy borrowers. The equity loan part of the scheme, launched in April, is aimed at those buying new build while the mortgage guarantee scheme, which will come into force in January 2014, is open to purchasers of all property. Crucially, the mortgage guarantee scheme will also be available to existing homeowners who wish to remortgage.

Critics say that the equity loan part of the deal will do more to help housebuilders than new buyers. Although we expect the scheme to boost public sector building by 30%, housebuilders will not deliver schemes where an increase in supply could lead to price drops.

The 5% deposit myth

The most widely reported aspect of the Help to Buy schemes has been their aim to increase the availability of higher loan-to-value (LTV) mortgages, specifically those between 80% and 95%, to first-time buyers.

However, the scheme itself does not increase the wholesale funds available to mortgage lenders. The intention is to decrease the risk profile of loans so that more funds are made available for mortgage lending. It is not clear that banks will be able to find sufficient funds to take up the entire mortgage guarantee potential. Neither is it clear how these loans will be treated for the purpose of capital requirements.

Given the limit on funds, lenders are still likely to show a preference

Graph 2.1

First-time buyer activity vs growth in private renting

Sources: Savills Research / DCLG / CML
for borrowers with larger deposits. Therefore, we believe it is unlikely that Help to Buy will inspire banks to start lending at loan to values in excess of 90%.

Furthermore, as the mortgage guarantee element of the scheme is also available to those remortgaging, we estimate that about £256 billion of the funds will be diverted to refinancing existing loans compared with £48 billion used for purchases.

**Buying vs renting**
There are still many questions surrounding the mortgage guarantee part of the scheme, not least whether the interest rates offered by lenders will be attractive. We do know that the loans will only be offered on a capital repayment basis.

While this structure is a more sensible way to ensure the debt is covered, it makes for higher monthly payments compared with interest-only loans. For a first time buyer, servicing a repayment mortgage at 80% LTV remains more expensive than renting an equivalent property and we expect this to continue over the next five years.

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**Private Rented Sector Will Continue to Grow**

**210,000 new households over next three years**

Help to Buy is unlikely to halt the rapid growth in the private rented sector that we have seen over the last 10 years.

Even before the credit crunch, when mortgage lending was readily available, there were problems with deposit and mortgage affordability. Following price growth of 15% per annum since 2000, the average first-time buyer deposit rose above 30% of income for the first time in 2003.

Between 2003 and 2007, the private rented sector grew at an average rate of 7% per annum, as entry into the owner occupied market became increasingly challenging.

However, we still expect the private rented sector to grow by at least 210,000 households per annum over the next three years. This is a similar level of annual growth to the 217,000 per annum seen between 2003 and 2007.

Accordingly, the Budget included incentives for housing providers to build more rental homes. The Build to Rent fund was increased five-fold to £1 billion. A first round of 45 projects are set to receive a share of £700 million. The schemes could deliver up to 10,000 homes.

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**TABLE 2.1**

**Mainstream markets**
Five-year forecast values

<table>
<thead>
<tr>
<th>Actual</th>
<th>Forecast</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>5yrs to end 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td></td>
<td>-1.1%</td>
<td>0.5%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>11.5%</td>
</tr>
<tr>
<td>London</td>
<td></td>
<td>0.7%</td>
<td>1.5%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>5.0%</td>
<td>4.5%</td>
<td>21.0%</td>
</tr>
<tr>
<td>South East</td>
<td></td>
<td>-0.2%</td>
<td>1.5%</td>
<td>3.5%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>South West</td>
<td></td>
<td>0.2%</td>
<td>1.0%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>East</td>
<td></td>
<td>-1.9%</td>
<td>1.0%</td>
<td>3.0%</td>
<td>3.5%</td>
<td>4.5%</td>
<td>4.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>East Midlands</td>
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<td>-0.8%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>4.0%</td>
<td>3.5%</td>
<td>13.0%</td>
</tr>
<tr>
<td>West Midlands</td>
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<td>-0.8%</td>
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<td>0.5%</td>
<td>1.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>North East</td>
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<td>-1.3%</td>
<td>-0.5%</td>
<td>-0.5%</td>
<td>0.0%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>North West</td>
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<td>-1.6%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td></td>
<td>-2.5%</td>
<td>0.0%</td>
<td>-0.5%</td>
<td>0.5%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Wales</td>
<td></td>
<td>-2.7%</td>
<td>0.5%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td>-3.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: Savills Research forecasts based on Nationwide actuals

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**Annual house price growth:**
- Below 0%
- 0% to 2%
- 2% to 4%
- 4% to 6%
- 6% to 8%
- 8% and over

**Five year house price growth:**
- 4% to 10%
- 10% to 15%
- 15% to 20%
- 20% to 25%
Prime markets
LOCATION, TAXATION, LOCATION

A political hot potato, we assess the potential impact of a mansion tax on the prime housing markets of the UK.

Words by Lucian Cook

“...It would raise relatively little revenue, perhaps £1.6 billion, if it were adopted in the form suggested by the Liberal Democrats...”

Lucian Cook, Savills Research

TABLE 3.1
Prime markets Five-year forecast values

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>5yrs to end 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central London</td>
<td>5.3%</td>
<td>0.0%</td>
<td>3.5%</td>
<td>8.0%</td>
<td>6.5%</td>
<td>5.5%</td>
<td></td>
<td>25.6%</td>
</tr>
<tr>
<td>Outer Prime London</td>
<td>5.0%</td>
<td>0.0%</td>
<td>3.5%</td>
<td>6.5%</td>
<td>5.5%</td>
<td>5.0%</td>
<td></td>
<td>22.1%</td>
</tr>
<tr>
<td>Prime Suburbs</td>
<td>0.4%</td>
<td>1.0%</td>
<td>3.5%</td>
<td>5.5%</td>
<td>5.0%</td>
<td>5.5%</td>
<td></td>
<td>22.2%</td>
</tr>
<tr>
<td>Inner Commute</td>
<td>-0.1%</td>
<td>1.0%</td>
<td>3.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td></td>
<td>21.0%</td>
</tr>
<tr>
<td>Outer Commute</td>
<td>-1.6%</td>
<td>0.0%</td>
<td>3.0%</td>
<td>4.5%</td>
<td>5.0%</td>
<td>5.5%</td>
<td></td>
<td>19.2%</td>
</tr>
<tr>
<td>Wider South of England</td>
<td>-2.3%</td>
<td>-1.0%</td>
<td>2.0%</td>
<td>3.5%</td>
<td>4.5%</td>
<td>5.0%</td>
<td></td>
<td>14.7%</td>
</tr>
<tr>
<td>Mids North &amp; Wales</td>
<td>-2.6%</td>
<td>-2.0%</td>
<td>1.0%</td>
<td>2.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td></td>
<td>10.2%</td>
</tr>
<tr>
<td>Scotland</td>
<td>-4.8%</td>
<td>-2.0%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td></td>
<td>9.2%</td>
</tr>
</tbody>
</table>

Source: Savills Research
property to the extent that it exceeds £2 million. Accordingly the annual charge for a property worth £2.1 million would be £1,000, that for a £5 million property would be £30,000 and that for a £10 million property would be £80,000.

If this proposal were to be adopted it would mean that the tax charge would be tapered, as theoretically would any impact on value.

By contrast, a flat rate tax on the total value of the property would create more entrenched price thresholds in the market and much greater potential for a trickle down effect into lower value markets.

Number of drawbacks
We believe that a mansion tax has a number of drawbacks that are likely to limit its effectiveness:

- It would raise relatively little revenue, perhaps £1.6 billion, if it were adopted in the form suggested by the Liberal Democrats
- It would have no regard to the disproportionate tax burden already borne by high value properties, most notably in London and the South East, given the nature of both stamp duty and inheritance tax
- It would be costly to administer given the contentious nature of valuations and the consequential potential for dispute
- It would punish the capital rich, income poor and owners of large listed buildings with a high cost of upkeep
- It would be poorly targeted at properties which the general public might consider excessive because of regional and local price differentials
- It would not discriminate between those who are perceived to make an insufficient contribution to taxes in the UK, as opposed to those liable to the full spectrum of domestic taxation.

Potential market impact
Accordingly there is a reasonable chance that it would prove to be ineffective, or worse, counterproductive. Much like the development land taxes of the 1970s, there would be a strong prospect of it being repealed by a Conservative government, even if it were introduced on a change in administration.

Though we would expect buyers would have to regard to higher overall costs of ownership, these factors are likely to limit the underlying impact on value and volume of demand.

Other market impacts are just as likely. For example, we would expect a greater tendency among retired owners to downsize and more families to buy outside of London and keep a smaller second property in the capital.

To date, with discussions regarding a mansion tax sporadically making the headlines, there has been little if any evidence of buyers changing their behaviour. Whether and how this changes is entirely dependent on the politicians and the stance they take as a general election draws closer.

We would expect the problems with mansion tax to cause political parties to look at other more equitable options, less damaging to the perception of prime UK property. For example, a restructuring of council tax would be less contentious and, subject to the nature of any changes, might have less of an effect on a market already generating significant tax receipts.

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**TABLE 3.2**

**Proposed mansion tax charges**
Based on Liberal Democrat proposals

<table>
<thead>
<tr>
<th>Property value (£ million)</th>
<th>Tax (£)</th>
<th>Effective Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,100,000</td>
<td>1,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>3,000,000</td>
<td>10,000</td>
<td>0.33%</td>
</tr>
<tr>
<td>5,000,000</td>
<td>30,000</td>
<td>0.60%</td>
</tr>
<tr>
<td>10,000,000</td>
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<td>0.80%</td>
</tr>
<tr>
<td>20,000,000</td>
<td>180,000</td>
<td>0.90%</td>
</tr>
</tbody>
</table>

Source: Savills Research
Home ownership

SECONDS OUT ON SECOND HOMES

As the market becomes more polarised so the debate on second homes becomes more intense. But is government intervention justified?

Words by Sophie Chick

TABLE 4.1
Significance of second homes

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>% second homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of London</td>
<td>25.9%</td>
</tr>
<tr>
<td>Isles of Scilly</td>
<td>16.3%</td>
</tr>
<tr>
<td>South Hams</td>
<td>9.9%</td>
</tr>
<tr>
<td>North Norfolk</td>
<td>9.0%</td>
</tr>
<tr>
<td>Kensington &amp; Chelsea</td>
<td>8.6%</td>
</tr>
<tr>
<td>Purbeck</td>
<td>7.4%</td>
</tr>
<tr>
<td>Scarborough</td>
<td>7.3%</td>
</tr>
<tr>
<td>South Lakeland</td>
<td>7.3%</td>
</tr>
<tr>
<td>Westminster</td>
<td>6.1%</td>
</tr>
<tr>
<td>West Somerset</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: Savills Research

GRAPH 4.1
Relationship between second home ownership and house prices in Cornwall

With households struggling to get onto the housing ladder, the issue of second home ownership, whether that be in the garden squares of central London or along the attractive British coastline, has rarely been more emotive.

Arguments that second home ownership makes housing unaffordable to local residents and deprives communities of social vibrancy have come to the fore. Not only have council tax discounts for second homes come under scrutiny, but questions have been raised by local authorities and lobbyists such as the Campaign to Protect Rural England (CPRE) as to whether second home ownership should be regulated through the planning system or be the subject of additional taxes.

Policy context

In an age of austerity and at a time when home ownership among the under 35s has fallen by one third in 10 years, it is difficult to argue that second homes, considered by most to be a luxury, should be treated any differently to main homes for council tax purposes. Neither is it easy to argue that non doms, who reside in London for part of the year, should be able to take advantage of stamp duty loopholes.

While measures in these two areas have been taken, proposals for further regulation and taxation of this market need to have regard to the extent and distribution of second home ownership and its wider impacts both positive and negative.

National numbers

Council Tax records indicate there are some 255,000 second homes in the UK, just 1.1% of the UK housing stock. In the context of Britain’s housing need it is a small figure, broadly equivalent to the number of houses which need to be built in Britain each year to meet growing housing demand. However, it is the local concentration of second homes and the consequential impact which this has on house prices that generates so much debate.

Local concentrations

Second home ownership is generally high in Central London and in the most attractive rural locations.

In Kensington and Chelsea around one in every 12 dwellings are second homes. There is a temptation to think that this is purely down to very...
wealthy overseas buyers who have parked their money in London’s most expensive districts. In reality 11% of band G and H properties in the Royal Borough of Kensington and Chelsea (RBKC) are second homes. One half of second homes are in lower council tax bands. These are often used as a weekday base for those working in London’s tertiary employment sectors. Nowhere is this more evident than in the City of London where 25% of the 6,000 or so dwellings are second homes.

Second home ownership also exceeds 7% of the housing stock in the likes of the South Hams, North Norfolk, Purbeck and South Lakeland. Evidence from Cornwall gives perhaps the most useful insight into the impact of home ownership in these essentially rural areas.

Lessons from Cornwall
It shows that while overall second homes account for 5.7% of all housing in the county, there is wide variation. This means there are 2.7 times the number of homes in the swathes of inland Cornwall where second home ownership is less than 2%, compared to those coastal areas where second home ownership runs at more than 10%.

Furthermore, a significant proportion of second homes, some 39%, are in areas where second homes account for less than one in 10 dwellings. While there are wide areas where second home ownership is not a major concern and a large number of second homes in areas of Cornwall where they have little impact on the social infrastructure, there are undoubtedly areas of high second home ownership that have a greater impact on both house prices and, the economic sustainability of rural services.

Impact on prices
Certainly as levels of second home ownership rise so too do average house prices. At one end, second home owners are not attracted to low value housing markets. At the other, prices are pushed up by the budgets of affluent second home owners. In the five parishes of Cornwall where second homes account for more than 35% of all housing the average house price is 87% above the county average. This premium falls to 46% where second home ownership is between 20% and 30% and further to 23% where it is between 10% to 20%.

Local buyers will therefore be priced out of some but certainly not all housing markets. Where they are, access to affordable housing is often in larger towns, as reflected in the price differential of neighbouring areas such as Padstow on the one hand and Wadebridge on the other.

Policy perspective
So the case for further taxation and regulation of second homes is far from clear cut. In the capital, second homes provide an important base for those working in London. In the country the impact on prices and local services is localised and far from universal. In both, regular visitors bring spending to the local economy.

Overall second home ownership is an inevitable consequence of a society where wealth, particularly housing wealth, is unevenly distributed. Perhaps the attention which it has recently received simply reflects society’s heightened awareness of the differences between the haves and have-nots.
Planning

NPPF, ONE YEAR ON: EFFECT ON SUPPLY

Has the National Planning Policy Framework had the intended effect of smoothing the way for housing delivery in England?

Words by Melys Pritchett

How CIL works

Funding strategic infrastructure

Where adopted, the Community Infrastructure Levy (CIL) is a tax charged per square metre of new build development, which is then pooled to pay for the delivery of strategic infrastructure. The intention was that the Levy would give more certainty to developers and house-builders, compared to Section 106 planning obligations that were negotiated on a case by case basis.

Since 2010, when the CIL Regulations were first introduced only 14 CILs have been implemented across England and Wales, but 217 are in the process of producing them. The main driver behind their adoption by LPAs is the further tightening of restrictions on the pooling of Section 106 planning obligations after April 2014; a deadline which the Government currently propose to extend by a year.

CIL and the local planning process are inherently linked. CIL is to fund infrastructure identified within an up-to-date Local Plan and the rate of the Levy should be set having regard to the scale and nature of planned development. It is therefore a prerequisite that a Local Plan is in place, or that CIL is developed and tested alongside an emerging Plan.

The delay in bringing forward Plans may therefore result in communities missing out on the collection of CIL levies towards community infrastructure.

In March 2012, the Government ripped up 1,300 pages of planning policy and condensed it into the 65 pages that form the National Planning Policy Framework (NPPF). The aim was to streamline the planning system in order to engender a more positive approach to development.

The NPPF also devolved power to Local Planning Authorities (LPAs), enabling them to define the scale and nature of future development in their area within a Local Plan, the benchmark against which planning applications will then be considered.

What do these changes mean in practice?

The onus is now on LPAs to plan for enough housing land supply to meet local needs. Previously, Regional Spatial Strategies (RSSs) dictated the housing targets for individual LPAs, but their ongoing revocation leaves LPAs to set their own targets. Once these are set, the NPPF then requires LPAs to demonstrate a deliverable five year supply of housing land plus a buffer of up to 20% extra where an authority has historically under-delivered.

How fast are changes being adopted?

According to the Department for Communities and Local Government (DCLG), 71% of LPAs have at least published a draft development plan. However, a recent Savills review of 190 LPAs in Southern England revealed that nearly half do not have a fully up-to-date plan. Only 6.3% have Local Plans which have been judged by a Planning Inspector to be consistent with the NPPF.

How does this affect future housing?

The number of homes planned per year in both draft and adopted plans has dropped by 6.1% since the process of scrapping RSS was initiated. This has the knock-on effect of resulting in lower land supply requirements. Across the greater south east of England specifically, the average housing land supply reported by LPAs themselves is only marginally above the current minimum requirement of 5.25 years at just 5.7 years (see Map 5.1).

Overall, however, a third of those LPAs reviewed report not having the required five year housing land supply.

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What are the implications?

If a LPA does not have an up-to-date Local Plan or a demonstrable five year housing land supply, planning applications will have to be considered against the principles outlined in the NPPF that gives a “presumption in favour of sustainable development”.

The lack of a five year land supply is being given greater weight by Planning Inspectors where planning applications are being determined at Appeal. This is likely to be an important factor behind the increasing number of planning permissions that are now coming through the system, as reported by the Home Builders Federation.

Savills has reviewed all significant residential planning appeals to see how this fallback provision has been implemented. Since April 2012, almost three quarters of planning appeals for large residential developments have been allowed, granting permission for a total of 11,669 dwellings. Previously, it was far harder to secure large scale permissions through appeal.

Looking forward

The Localism Act 2011 and the NPPF give LPAs the freedom to plan locally to meet the needs of their area, providing the basis on which communities can justify their defence against inappropriate or unwanted development.

However, our research suggests that the delay in bringing forward these plans and the marginal supply of housing land identified by LPAs, affords the development industry the opportunity to bring forward planning applications much earlier than perhaps would have been planned, with a far greater chance of success than before.

As these implications come to light, and pressure from local communities increases, we expect to see LPAs increase the pace of their Plan production, with greater involvement from the public through neighbourhood planning.

The financial support and incentives that the house building industry has been provided with by the Government is likely to add further to the impetus to pursue planning permissions, very much in alignment with the Government’s pro-growth attitude to housing development.

“Since April 2012, almost three quarters of planning appeals for large residential developments have been allowed”

Melys Pritchett, Savills Research
The £1 million plus property market... statistically speaking

**7,734** The total number of £1 million+ sales in England and Wales in 2012

**6,719** The total number of £1 million+ sales in London and the South East

**7.8%** The increase in the number of £1 million+ transactions in London last year

**-23%** Drop in the number of £1 million+ sales in the South East compared with 2007 peak

**258** The total number of £1 million+ sales in the Midlands, the North West, North East, Wales and Yorkshire and The Humber combined

**129%** The increase in the number of £1 million+ sales in Oxford between 2007 and 2012

**25.9%** Proportion of second homes in the City of London

**£30,000** The annual cost of mansion tax on a £5 million home under Liberal Democrats proposals

**£1.6 billion** The amount of revenue mansion tax could raise

**£12 billion** The value of the mortgage guarantees that will be available through the Help to Buy scheme in January 2014

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“The delivery of built environment has always depended on three principal elements: land, money, and product”

Yolande Barnes

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“The taxation of high value property has been one of the key topics of discussion within the prime housing markets over the past two years”

Lucian Cook

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“There is no question that the Government seeks to influence the property market as a means to drive wider economic growth”

Susan Emmett

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