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English Housing Supply Update

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Completions have recovered but low starts and falling consents risk longer term supply

Completions high in Q1 2021

New homes completions were unusually high for a first quarter, at 62,971 in England, according to Energy Performance Certificates (EPC) data. This was 8% above Q1 2019 and 9% above Q1 2020. Completions were particularly high in February, 16% above 2020 levels. This has been driven by housebuilders prioritising completions of homes under construction to satisfy high levels of demand before the original Stamp Duty and Help to Buy deadlines.

Despite the recovery, the number of homes delivered in the year to Q1 2021 in England was -13% below the previous year at 220,726, according to quarterly EPCs. Higher rates of delivery over the last three quarters have not made up for the disruption of the first lockdown in Q2 2020.

Starts track below completions

Starts have not recovered as quickly, remaining below pre-Covid levels. Completions in 2020 were only 10% below 2018 levels, but starts were 24% down. The trend since late 2018 of starts tracking below completions has also continued, suggesting that the construction pipeline is shrinking. So the current high level of completions is unlikely to last.

Consents fall but remain high

The number of planning consents has fallen over the last six months, having come through the early part of the pandemic relatively unaffected. Full planning consent was granted for 253,729 homes on sites over 20 units in the year to Q1 2021, 15% below the year to Q1 2020. But even with this fall, they remain far higher than new homes completions.

Meeting need in the midlands and north

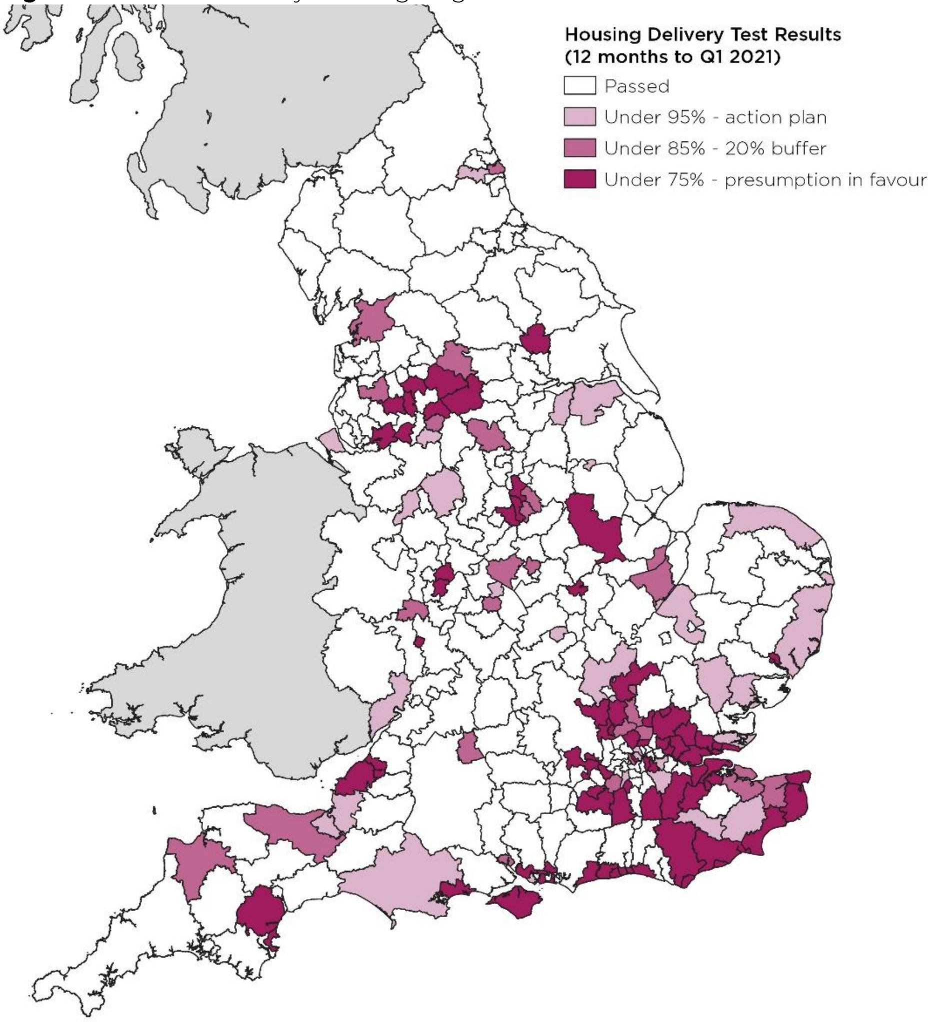
All regions saw a fall in delivery in the year to Q1 2021 compared to the previous year due to Covid disruption. But despite this, housing need was still met (or nearly met) in the midlands and northern regions. Less than half of need was met in London and less than 80% of need was met across the rest of the south of England. Full consents on sites over 20 units fell by over 30% in the South East and South West, risking longer term supply in these regions and an even greater gap between need and supply.

But more variation at local level

We expect only 61% of local authorities to pass the 2021 Housing Delivery Test and 23%, 72 local authorities, to deliver less than 75% of their housing requirement and fall under the presumption in favour of sustainable development. The greatest concentrations of local authorities to fail the test are located in and around Greater Manchester and Greater London. And most have large parts of their area designated as green belt.

It is likely that the actual results, not expected until the end of the year, will be better than this. The housing requirement in the 2020 test was reduced by a month to reflect the disruption at the end of Q1 2020. It is likely that there will be a more substantial reduction in the 2021 test.

Figure 1 Where is delivery meeting targets?



Source MHCLG Live Tables and ONS

NB This is an estimate of how the Housing Delivery Test might turn out using the 2020 test thresholds. We have assessed housing delivery based on EPCs plus an estimate of communal dwellings based on past delivery rates. Baseline target is calculated with reference to Planning Practice Guidance, Housing Delivery Test measurement rulebook and Housing Delivery Test technical note. Figures used are based on Local Plans, household projections, standard housing need assessment and the London Plan.

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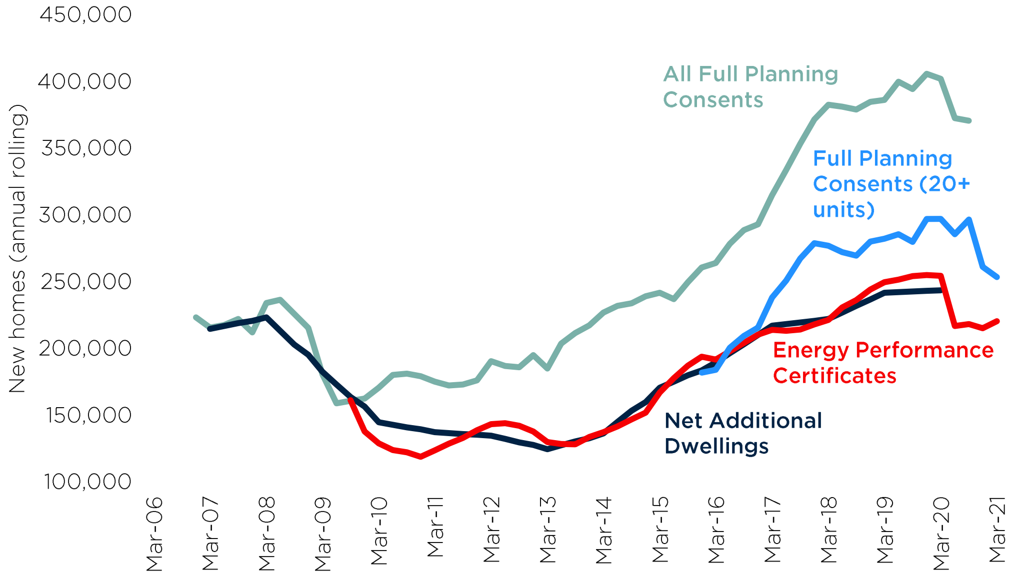
Figure 1 Completions recovering, consents falling

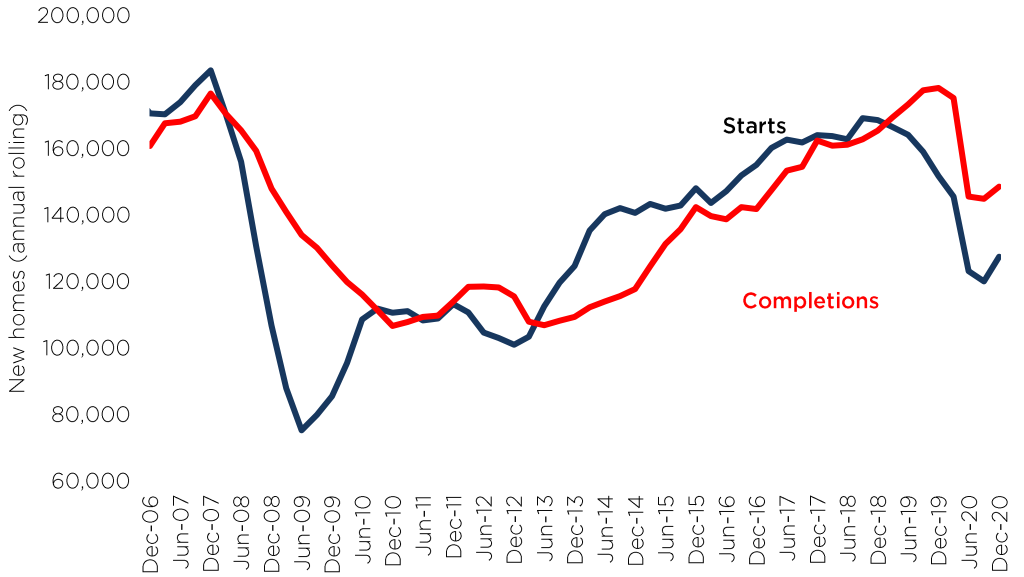


Source MHCLG Live Tables 120, NB1 and Council Tax Stats, Glenigan for HBF, Savills using Glenigan

New homes delivery was 220,726 in the year to Q1 2021, a fall of 13% on the previous year, according to quarterly Energy Performance Certificates data. But delivery in Q1 2021 was 8% above Q1 2019.

The number of full planning consents on sites over 20 homes in the year to Q1 2021, was 253,729, 15% below consents in the year to Q1 2020. If consents do not pick up, this risks longer term supply.

Figure 2 Completions continue to track above starts

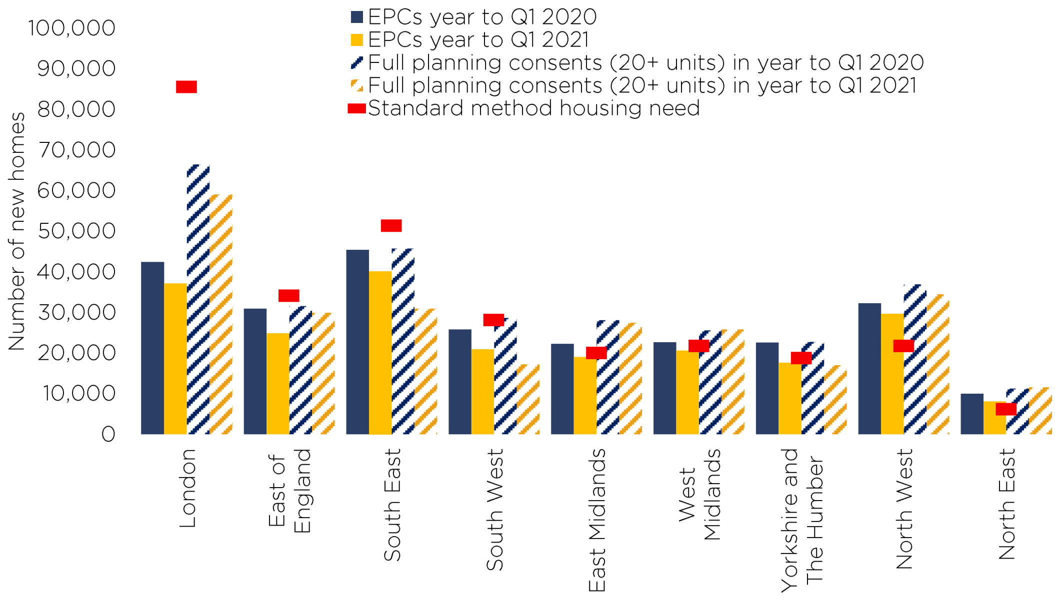


Source MHCLG Live Table 213

The quarterly starts and completions series based on NHBC data does not capture all new homes being built. They do give a timely update on direction of travel for new build delivery.

Completions have diverged from starts since December 2018. This trend has continued through 2020. Whilst both fell in 2020 due to Covid disruption, 2020 starts sit 24% below 2018 levels compared to 10% below for completions, according to MHCLG. This suggests that the construction pipeline of new homes is shrinking and the current high levels of completions are unlikely to last.

Figure 4 North meeting need despite lower completions



Source MHCLG Table NB!, Savills using Glenigan

Delivery of new homes in the year to Q1 2021 was down in all regions due to the pandemic. The North West saw the smallest fall in delivery, with delivery falling only 8% compared to the year to Q1 2020.

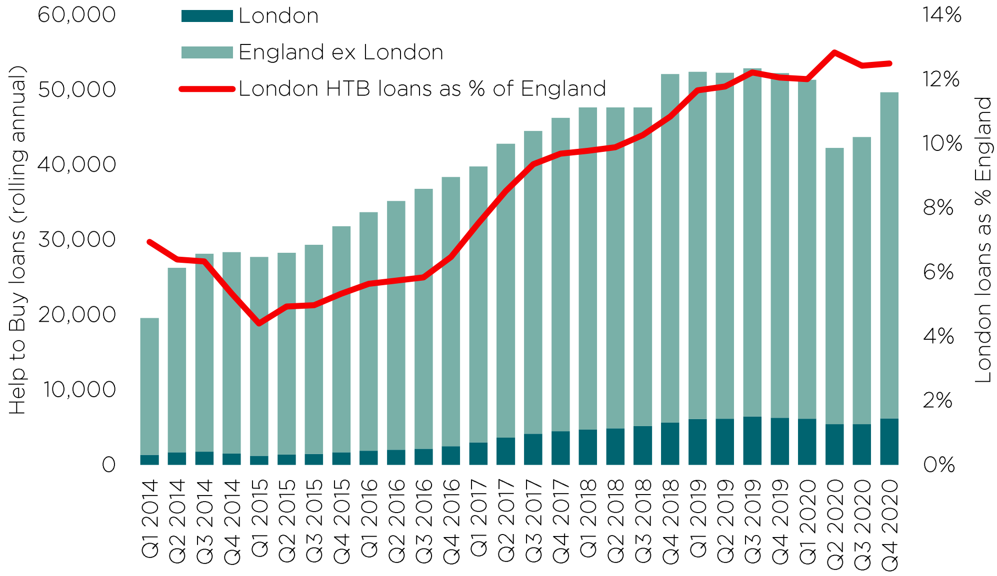
Despite lower delivery than the previous year, need was still met (or nearly met) in the midlands and north. Less than half of need was met in London and less than 80% of need was met in the South West, South East and East of England.

Consents on sites over 20 units fell in every region except the West Midlands, East Midlands and North East where they were unchanged. The South East and South West saw the greatest falls in consents, of more than 30%.

Help to Buy transactions were 40% higher in Q4 2020 than Q4 2019 as buyers rushed to meet the Help to Buy deadline.

But the sharp fall in Q2 2020 meant that Help to Buy loans fell -5% in the year to Q4 2020 with 49,714 loans issued. London continues to take a significant market share of Help to Buy loans, 12% during the year to Q4 2020.

Figure 5 Rush to beat Help to Buy deadline

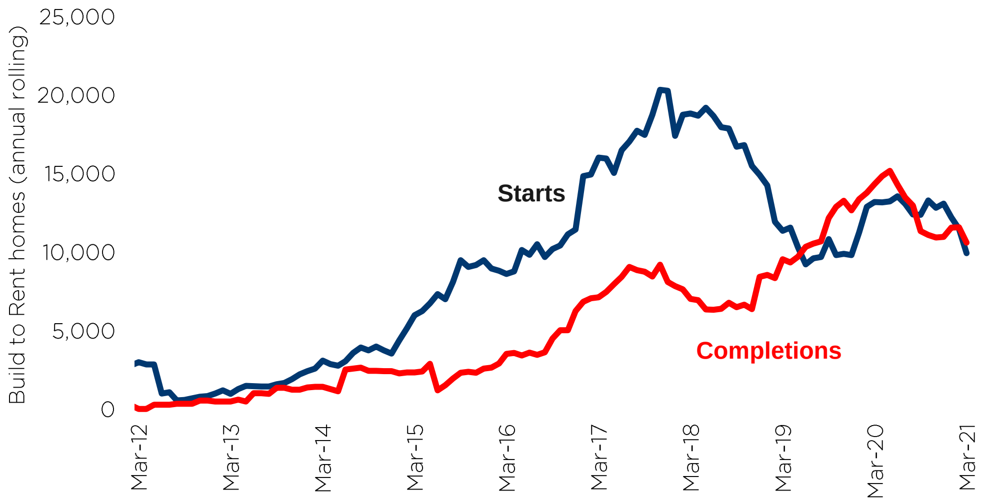


Source MHCLG Live Table Help to Buy

Build to Rent (BtR) completions in the 12 months to March 2021 were down -26% on the year before at 10,645 homes. The first lockdown slowed down completions of BtR homes which peaked in 12 months to May 2020.

Starts have also fallen by a quarter in the year to March 2021 on the year before to just under 10,000.

Figure 6 Build to Rent starts and completions decreasing

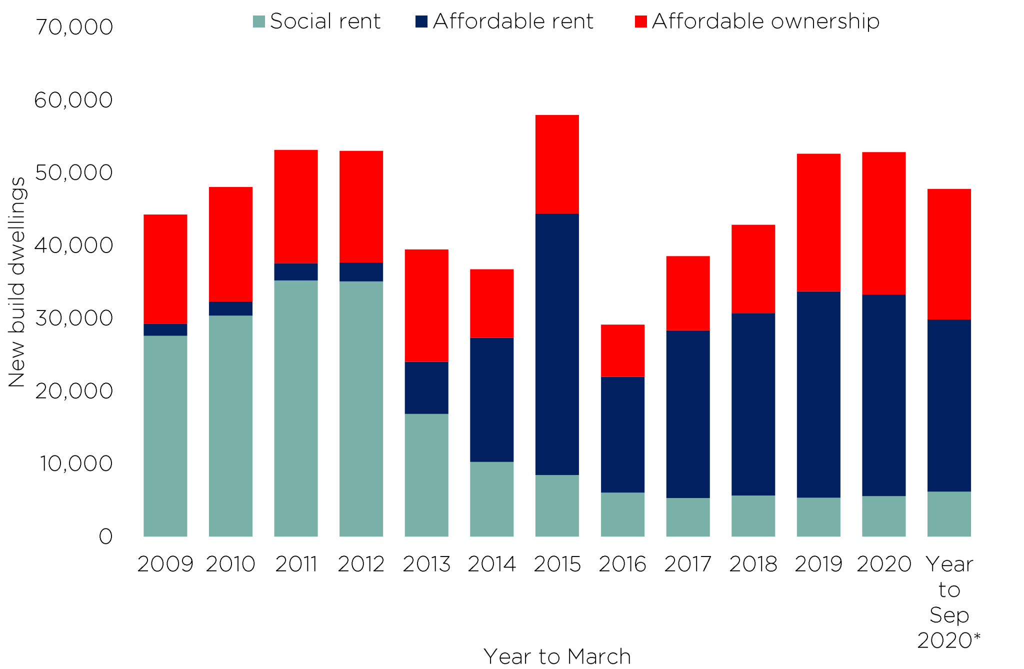


Source Savills, British Property Federation, Molior

National Housing Federation (NHF) figures suggest a dip in affordable delivery in the year to September 2020 due to lower delivery between March and June 2020. If delivery picked up in the second half of 2020/21, as seems likely given the recovery of EPCs, the overall fall in affordable delivery from the 52,857 recorded by MHCLG in the year to March 2020 may be limited.

Data collected by NHF from its housing association members provides an early indication of affordable housing delivery.

Figure 7 Affordable delivery dips due to Covid disruption



Source MHCLG Live Table 1009, *Estimated using NHF data