

English Housing Supply Update

Supply of new homes hangs in balance with fewer permissions and weaker development activity

New homes completions down in Q1

After last year's near-record number of new homes being built, the start of 2023 saw supply begin to contract. 246,700 new homes were completed in the 12 months to March 2023 according to Energy Performance Certificates (EPCs), a slight dip of 2% compared to the previous annualised quarter. Quarterly figures present a starker picture, however; Q1 saw completions decline by 20% compared to Q4.

The question is now whether Q1 represents a sign of things to come or merely the worst of the downturn. Higher interest rates, build costs and the end to Help to Buy all present demand-side headwinds for the year ahead.

More positively, the housebuilding sector has thus far proven resilient, with major PLC firms achieving sales rates above expectations in Q1 2023, albeit through pinched margins and

heavy use of incentive schemes.

Regardless of whether delivery stabilises or declines further, the number of new homes being built remains stubbornly below what is needed. Our calculation of the Housing Delivery Test using EPC data found 190 local authorities – about three in five – would currently pass the test. By contrast, 80 would face the most severe sanction of presumption in favour of sustainable development.

Planning permissions remain considerably below housing need

The number of homes granted full planning permission is estimated to have fallen to around 255,000 in the twelve months to March 2023. Even accounting for future revision, supply is likely to be well below the 295,000 new homes a year needed according to

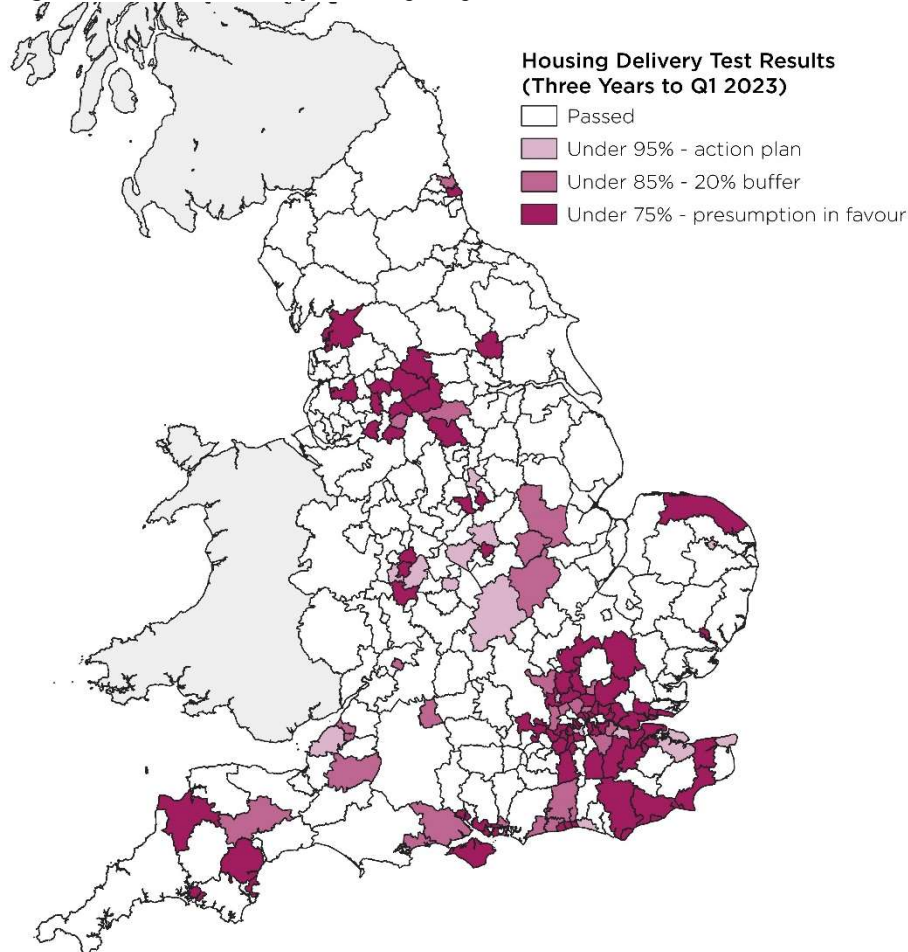
Standard Method assessment. Five English regions are at risk of seeing fewer homes built in the future; three of those – the South East, South West, and West Midlands – already fail to meet their objectively-assessed housing need at present.

Worse, planning permissions may fall further still. Uncertainty over planning policy has contributed to a contraction in planning applications, with applications 14% lower in 2022 than the previous year according to government data. The uncertainty has also led to a slowing down in adoption of new local plans, preventing new housing allocations from being confirmed. Add in a mixed economic picture and a lack of resolution around environmental issues such as nutrient neutrality, and the number of new homes gaining planning permission is unlikely to increase in the near-term.

Build to Rent activity slows but sector sustained by strong pipeline

The Build to Rent (BtR) sector continues to see slowing of activity from the breakneck pace of recent years. Delivery of homes has fallen considerably, with construction starts down by over a third in the twelve months to Q1 compared to last year. Nevertheless, with a record 49,500 homes under construction, future supply in the sector remains healthy.

Figure 1 Where is delivery meeting targets?



Source: DLUHC Live Tables and ONS

NB This is an estimate of how the Housing Delivery Test might turn out using 2023 test thresholds (including a deduction of 91 days to account for Covid disruption), using data in the three years to Q1 2023. 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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246,700 new homes were built in the year to March 2023, according to EPC data. Quarterly results dropped sharply with completions down 20% between Q4 2022 and Q1 2023, well above seasonal trends and a sign of more difficult market conditions at the start of the year.

Around 255,300 new homes gained full planning consent in the year to Q1 2023, according to initial estimates from Glenigan and the HBF. Annualised consents are 17% below the 2017-19 average, limiting capacity to deliver new homes in the future.

The quarterly starts and completions series based on NHBC data does not capture all new homes being built, but does give an update on direction of travel for new build delivery.

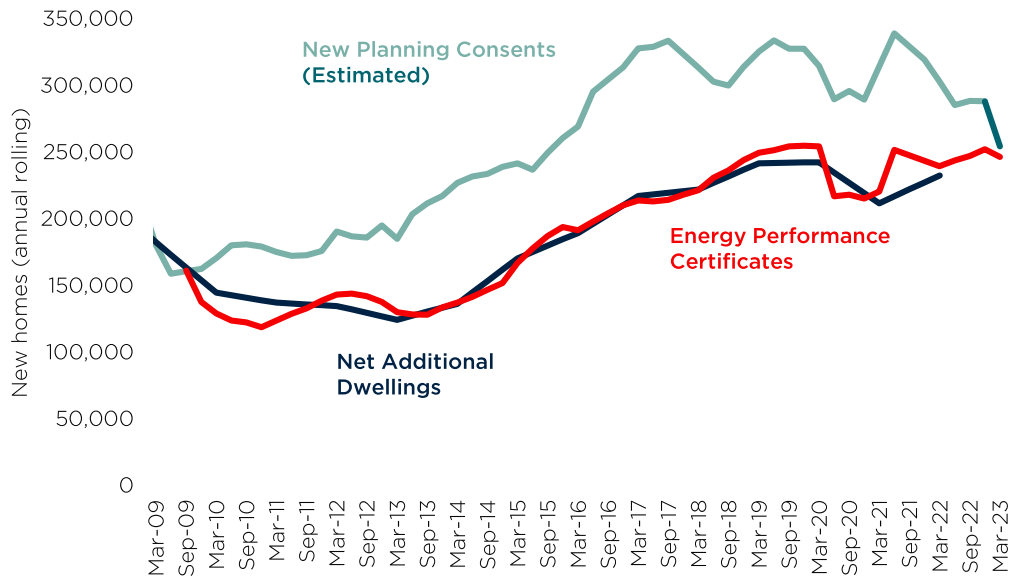
2022 saw starts and completions remain more or less on par with 2021, but this was thanks to a very strong first half of the year. Q4's data showed signs of a slow-down in the aftermath of rising interest rates with quarterly starts sliding 29% compared to Q3.

Completions are now running ahead of starts, meaning the pipeline of homes under construction will shrink.

Five out of nine English regions granted planning permission for fewer new homes than are currently being built - constricting future supply and potentially seeing fewer new homes being delivered. The problem is especially acute in the North East and the West Midlands, where homes gaining planning permission are 29% and 20% below current delivery.

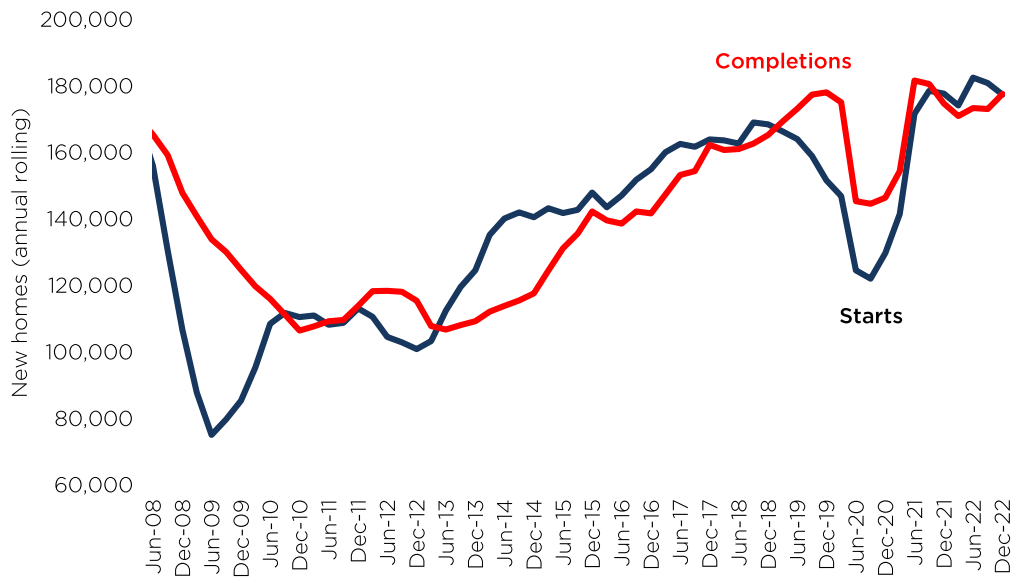
In the South East (which is only building 84% of the homes it needs at present), a further 12% fall in the number of new homes being built may put considerable pressure on existing stock and drive further price inflation.

Figure 2 Consents see further decline while delivery of new homes stalls



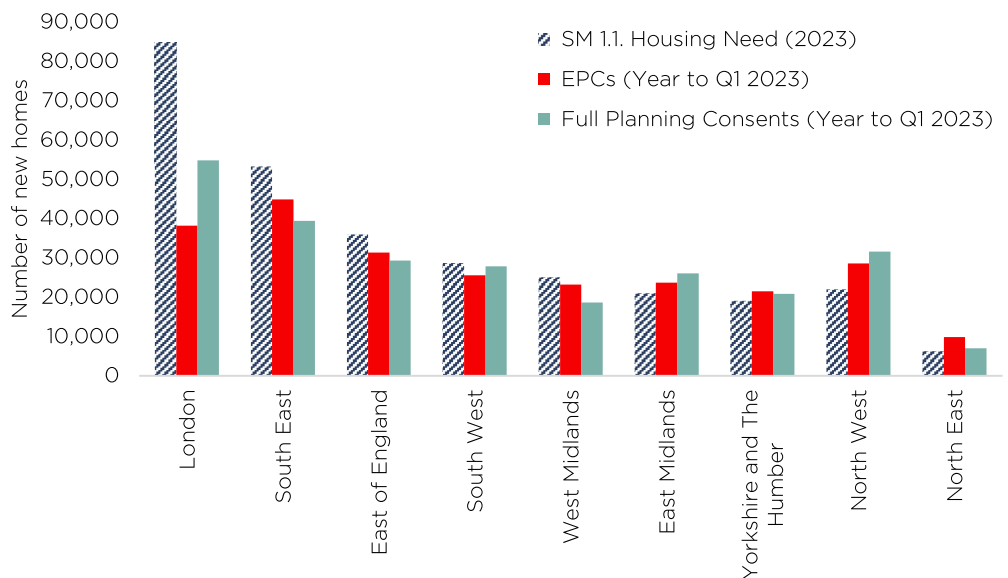
Source DLUHC Live Tables 122, NBI, HBF, Glenigan (only 10+ units)

Figure 3 2022 housing delivery on par with previous year, but Q4 shows sign of strain



Source DLUHC Live Table 213

Figure 4 Over half of regions likely to see fewer new homes in future



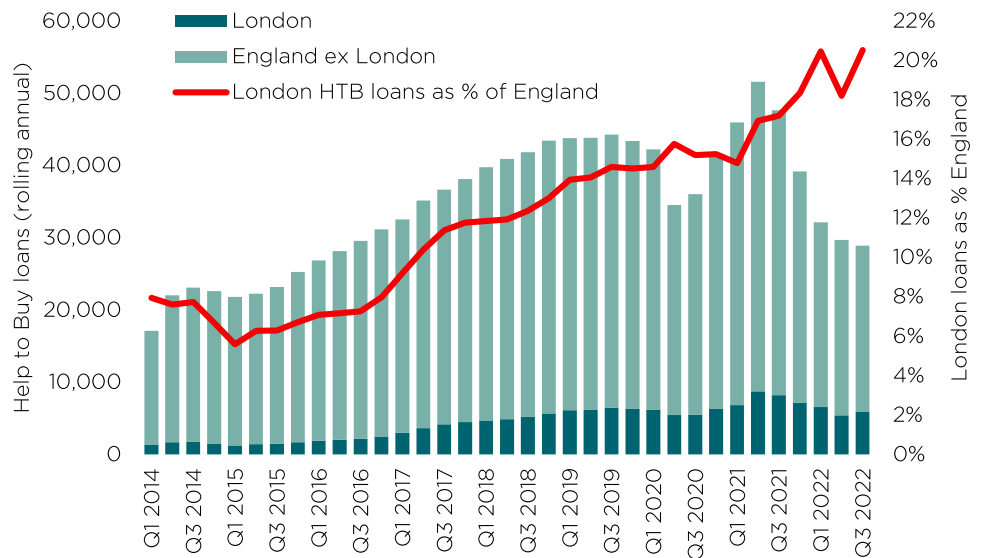
Source DLUHC Table NBI, HBF (Revised), Glenigan

Sales using Help to Buy (HtB) loans continued to decrease due to regional price caps and developers ensuring sales complete before the March 2023 deadline. Apart from during the pandemic, Q3 2022 saw issuance of new loans fall to their lowest level since 2016.

HtB sales remained steady in London (which was exempted from regional price caps introduced elsewhere in Q2 2021). By contrast, the rest of England saw new loans fall by 42% year-on-year.

Though final HtB sales completed on 31st March 2023, at the time of writing the government is reported to be considering a new scheme, potentially open to second-hand as well as new build homes.

Figure 5 Annualised HTB loans down 42% in year to Q3 2022

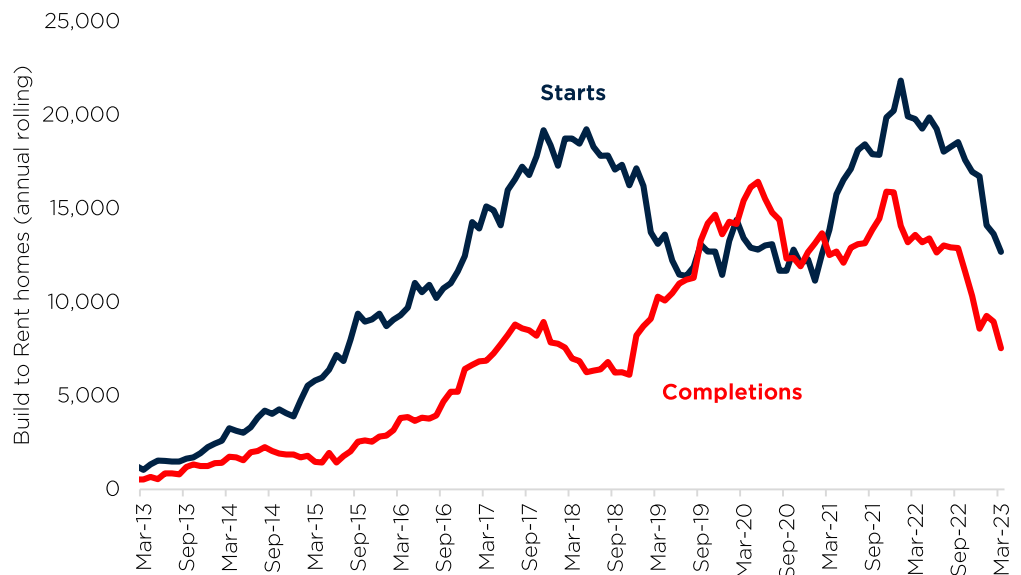


Source DLUHC Live Table Help to Buy

After a very strong two years, construction activity in the UK Build to Rent (BtR) sector sharply contracted over the first three months of 2023. Annualised starts and completions fell by 36% and 45% during the twelve months to March, compared to the same period last year.

More positively, Q1 saw the total size of the sector surpass 250,000 homes either complete or in development or planning, with record investment in 2021/22 ensuring there is still a healthy construction pipeline of around 49,500 homes coming forward.

Figure 6 Sharp decline in Build to Rent starts, but robust pipeline supports sector



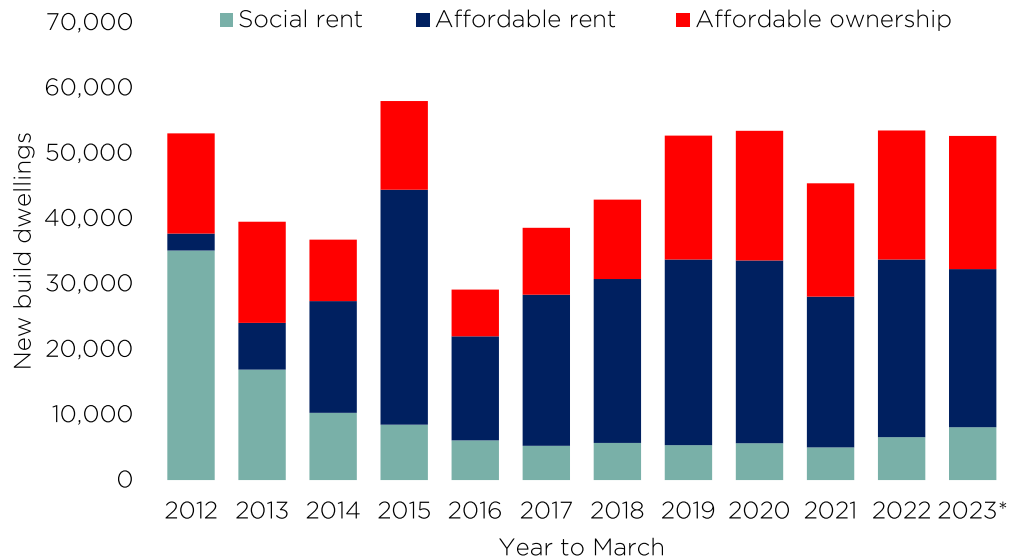
Source Savills, British Property Federation, Molior

Delivery of affordable homes is expected to fall marginally in the year to March 2023, according to the latest data from NHF, but will remain in line with recent years.

The tenure mix of new affordable homes is likely to change. Social rented homes are expected to see a 23% increase on the number of homes delivered in the year to March 2022, with more completions than in any year since 2014/15. Affordable ownership is also likely to see a small increase of 3%.

On the other hand, delivery of affordable rented homes will likely decrease by 11% compared to the previous year.

Figure 7 Affordable delivery set to remain in line with recent trends



Source DLUHC Live Table 1009. *2023 total estimated using NHF data