SAVILLS RESEARCH

Residential development in the 2021 Budget

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Short term market support and investment for Levelling Up

Government announced a series of measures which will support the housing and development market in the Budget yesterday:

- A further extension to the stamp duty (SDLT) holiday for England and Northern Ireland;
- A new mortgage guarantee scheme;
- Support for regional investment and development through the "Levelling Up" agenda; and
- A new MMC taskforce and tax incentives for investment in machinery and plant assets.

Our analysis suggests the stamp duty holiday extension and the mortgage guarantee scheme will support residential market activity and values over the course of 2021.

The OBR predicts a strong economic recovery in the second half of the year, and measures outlined in the Budget are intended to support economic recovery and growth in the medium term. Government has announced significant investment to support the regional levelling up agenda, alongside measures designed to increase productivity, investment and innovation, which could lead to developments in construction methods.

Stamp Duty holiday extension

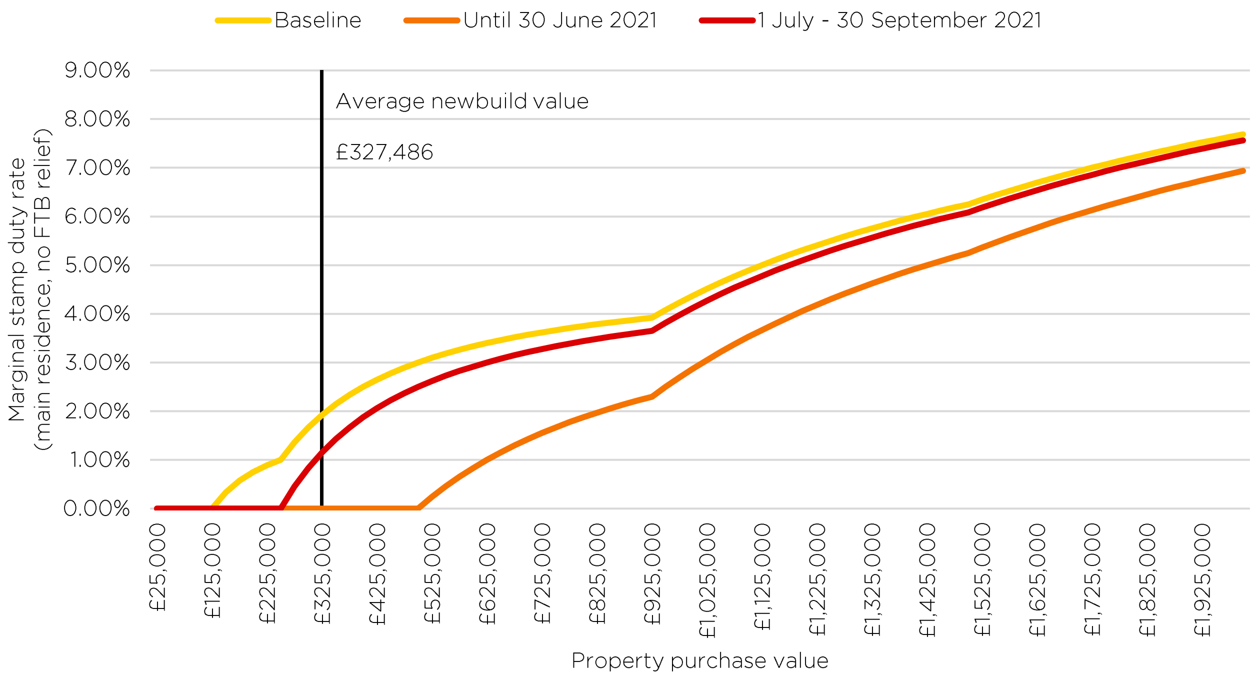
The Chancellor announced an extension to the SDLT holiday in England and Northern Ireland. Rather than ending on 31 March 2021, as originally announced, the nil rate threshold for Stamp Duty will remain at £500,000 until 30 June. It will then taper to £250,000 until 30 September, before returning to £125,000. The threshold for first time buyers will remain at £300,000. Scotland has confirmed the LBTT holiday will end on 31 March.

Extending the SDLT holiday helps those in the process of buying a home. It will also benefit new buyers who are in a position to act quickly but have not yet been able to find a suitable property. The extension should also encourage sellers to bring more stock to the market.

This extension will support transaction activity and pricing until the end of June, and with the extension of furlough, should limit the risk of a market slowdown in the middle of the year. However, the saving during the tapering period is less generous in scope than the original payment freeze. The maximum SDLT saving is currently £15,000; between July and September the most buyers will save is £2,500.

Extending the SDLT holiday will help support new home sales. This will boost housebuilders' confidence. We may see some developers accelerate their build programmes to meet the deadline, especially those who are selling at values where the changes to stamp duty will have the biggest impact. However, it is too limited in scope and timing to have a significant impact on land values.

SDLT rates due as a proportion of property value



Source Savills Research, Land Registry

Mortgage Guarantee

Government has pledged to support home buyers' access to mortgage finance through a new guarantee. We estimate this will have a limited direct impact on transaction activity and pricing. However, guaranteeing mortgages sends a powerful message to the market about Government's support for home ownership and for residential values. This support will help maintain strong consumer confidence and put modest upward pressure on house prices.

The guarantee announced yesterday resembles the Help to Buy: Mortgage Guarantee. This scheme supported 105,000 transactions during its life from October 2013 to June 2017, or 28,000 transactions per year.

Government's proposed mortgage guarantee will be available to both first-time buyers and home movers. First-time buyers made up 80% of guarantees under Help to Buy: Mortgage Guarantee.

But borrowing at high loan-to-value ratios (LTVs) is expensive. The average quoted mortgage rate for a 95% LTV mortgage was 4.07% in January 2021, according to the Bank of England. Mortgages at 75% LTV cost less than half that, 1.75%.

Even if a Government guarantee helped bring high-LTV mortgage rates down, these loans would still be much more expensive than the 75% mortgages HTB users can access.

The table below illustrates how monthly housing costs differ when buying the average first-time buyer home (£274,000) with a HTB equity loan or with a 95% LTV mortgage. In each case the deposit is the same at £13,700. But the monthly housing cost for a household using the mortgage guarantee is almost 50% higher than when using the HTB equity loan, or an extra £388 per month.

Raising a deposit is not the only barrier buyers face. They also face limits to what they can borrow relative to their incomes. Mortgage lenders can only advance up to 15% of their loan book to people borrowing more than 4.5 times their income. The minimum income required for a 95% LTV mortgage on the average FTB home in England, £274,000, is £57,844. This is a higher income than 75% of households nationally.

This suggests take up for the mortgage guarantee will be greatest where house prices are relatively low and loan-to-income ratios lower. Take up will be limited in areas where affordability is already stretched.

Take up for the Help to Buy: Mortgage Guarantee scheme was greatest in Leeds (1,404 transactions) and Birmingham (1,385). By contrast, less affordable areas such as Cambridge and Camden each saw fewer than 50 transactions as loan-to-income caps prevented buyers taking advantage of the scheme.

Illustrative income requirements and housing costs

	HTB equity loan	95% mortgage guarantee
Full property value	£274,000	£274,000
Mortgage balance	£205,500	£260,300
Minimum income required at 4.5x LTI	£45,667	£57,844
Indicative mortgage rate	1.75%	3.00%
Monthly mortgage payment	£846	£1,234

Source Savills Research, Bank of England, UK Finance

Long-term investment and growth

Although the Chancellor did not announce any direct funding for either the development industry or affordable housing, the Budget contained many announcements that confirmed Government's commitment to the "Levelling Up" agenda. This gives an indication of where Government is aiming to support economic and employment growth, and therefore where development and regeneration opportunities are likely to be located.

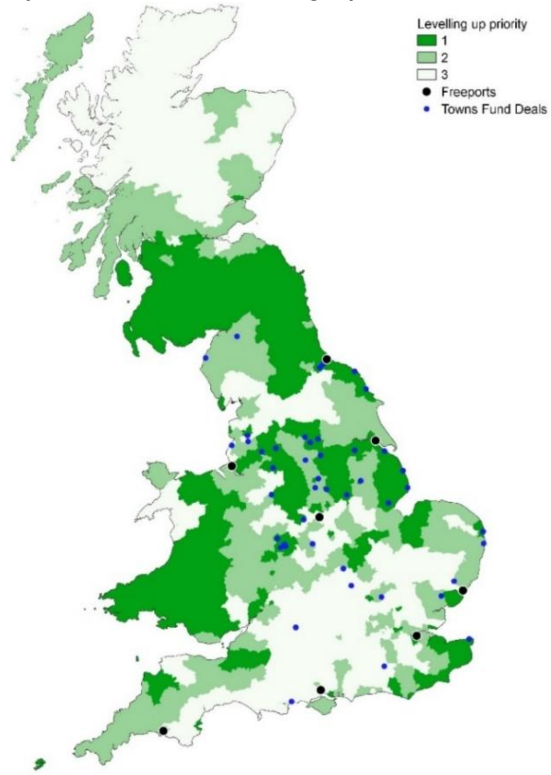
The £4.8bn Levelling Up Fund will invest in infrastructure that improves everyday life across the UK, including town centre and high street regeneration, local transport projects, and cultural and heritage assets. Most of the local authorities prioritised for funding in the fund's prospectus are in the North of England, southern Scotland and central and west Wales. This matches the pattern of investment in the £1bn Towns Fund in England, with the greatest proportion of investment in the East Midlands, North West and Yorkshire and the Humber.

The Budget also confirmed funding for several major infrastructure projects, including:

- £135m for the construction of the A66 Trans-Pennine upgrade
- £50m to develop proposals for transport improvements around the HS2 Birmingham Interchange station, supporting regeneration at Arden Cross in Solihull
- £59m for the construction of five new stations on the Camp Hill and Walsall to Wolverhampton lines in the West Midlands
- £40m to reinstate passenger services on the Okehampton to Exeter line.

These projects should catalyse further investment in these locations. This will help to drive economic and employment growth, increasing demand for housing.

Priority Locations for Levelling Up



Source Savills Research, HMRC, HMT

The Budget also confirmed the first tranche of a five year funding program for intra-city transport planning for seven city regions, previously announced in 2020. Our 2018 research into the value of transport improvements found that house prices within 2km of an upgraded station outperformed the wider market over five years by between 6%-20%, suggesting significant potential for value uplift around these schemes.

Government confirmed the eight locations successful in their bid to become freeports: East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames. From late 2021, when they start operating, businesses there will be able to claim for five years. This will include full relief from Stamp Duty Land Tax on the purchase of land or property within Freeports for qualifying commercial purposes. The relief will be available until 30 September 2026, and alongside wider government support, is designed to bring increased investment and employment to these regions.

Distribution of Town Fund Deals

Region	Town Deals	Total Investment (millions)
East Midlands	Newark, Clay Cross, Skegness, Mablethorpe, Boston, Lincoln, Northampton, Mansfield, Staveley,	£200
Yorkshire and the Humber	Wakefield, Whitby, Scarborough, Grimsby, Castleford, Goldthorpe, Scunthorpe, Morley, Stocksbridge	£199
North West	Preston, Workington, Bolton, Cheadle, Carlisle, Leyland, Southport, Rochdale	£196
West Midlands	Wolverhampton, Kidsgrove, Rowley Regis, Smethwick, West Bromwich, Burton-on-Trent, Nuneaton	£155
East of England	Lowestoft, Colchester, Stevenage, Great Yarmouth, Ipswich,	£125
South East	Crawley, Margate, Milton Keynes	£66
North East	Middlesbrough, Thornaby-On-Tees	£46
South West	Swindon, Bournemouth	£41

Source HMT

Modern Methods of Construction

The Budget confirmed £10 million in seed funding for a new Modern Methods of Construction (MMC) taskforce within MHCLG. The taskforce will accelerate the take up of modern construction methods across the UK, working closely with local authorities. Currently, around 36,000 homes are built using MMC per year, but it is viewed by government as a crucial part of increasing housebuilding capacity and lowering emissions from UK housing stock.

Further expansion of MMC could also be supported by the newly announced tax super deduction. From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will benefit from a 130% first-year capital allowance. This upfront super-deduction will allow companies to cut their tax bill by up to 25p for every £1 they invest. Savills' research on MMC developers has previously highlighted the high initial start-up costs as a barrier to entry, so this tax break could see the expansion in manufacturing capacity necessary for MMC to take a larger share of the development market.

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