

Market Insights - July 2009

UK HOUSING MARKET A Review of Opportunities and Analysis of Issues

In association with
Barbour ABI
BDS Marketing & Research

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About This Report

The report is designed for industry professionals and housing policymakers. It provides an in depth review of the issues facing the UK housing sector. It sets out clear arguments for the future direction of one of the most important aspects of UK life – where we live and how we house our nation.

Good or bad, the housing industry affects all our lives. It has far reaching effects upon society and the national economy. Hundreds of thousands of jobs, livelihoods and the economy at large depend upon a healthy housing market. The report provides valuable insight into the future direction of the UK Housing market.

This report is updated 4 times each year, July, October, January and April. The next edition will be published in October 2009.

Future Topics

- 2010 election – what will this mean for housing?
- Impact from rising unemployment?
- Will local authorities re-enter the housing market, if so when and how?
- What is the future for mortgage lending?
- Will we see new models for affordable housing supply?

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HOUSING DEMAND – 2009 & 2010

There is a modest upturn in demand. This will lead to improved build rates in the second half of 2009.

The housing market has warmed considerably since the dark days of late 2008. This is in sharp contrast to the outlook for non-residential construction, which escaped lightly last year. Does this amount to green shoots or a lull before another dip?

Many in the industry have seen short-lived revivals before and are wary of calling the current situation a sustained recovery. Many expect the market to turn down again and are planning for the worst. For example, the recent Construction Products Association forecast makes for a gloomy read and suggests 2009 will continue to be a challenge for housing with some improvement in 2010.

Our view is different. The immediate outlook for housing is positive. This is because supply had been cut back so much last year that almost any upward trend would result in a positive reaction. Industry was prepared for the very worst, so anything that is classed as simply 'bad' is in effect pretty reasonable.

Housebuilders cut new build activity aggressively to conserve cash. This reduction was much greater than the reduction in sales because of de-stocking. The upturn in sales activity, which is reported by all the major builders, will translate to a modest upturn in housing starts in the private sector. We expect the year to finish around 90-95,000 starts¹ with further upside potential. This will be slightly lower than 2008 as a whole but much improved on the last 6 to 9 months.

Prices will improve because of reduced supply.

We expect the current stabilisation in prices to continue, building slowly to modest monthly gains by the end of the year. This is based on the drastic reductions in supply over the past year, which will underpin prices.

New build activity in 2010 will depend upon confidence in the autumn. If builders see continued strength in the market they will plan for stronger volumes in 2010. Our forecast is for modest gains in activity. This will underpin further increases in starts in 2010 to around 120,000 to 130,000 units. The supply of credit will remain the main constraint.

DEMAND – 2011 TO 2014

We will see a chronic shortage of supply within 5 years.

Our forecast is for market to completely reverse within the next 5 years to become a chronic shortage of supply.

Limited credit and the recession will impede a full recovery in the next few years. The impact from Government debt will have a longer effect but this will mainly be felt in the non-residential market, where investment is likely to remain low for many years. However, by 2011 we expect the outlook will be considerably brighter for the housing market. Limited increases in supply during 2009 and

¹ Throughout this document figures for housing relate to England unless stated otherwise. This is because Government figures are typically published for England and quarterly updates on housing starts and completions only has England data for the most recent period.

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The effect of an ageing population will have major implications for housing need – increasing demand by circa 100,000 units per year over past levels.

Chart 2 shows new house completions from 1946 through to 2008 and the growth in households from 1946 through to 2031. There are approximately 21 million households in England, with an average of 2.32 people per household. The current projection for the average size of households is to reduce to 2.13.

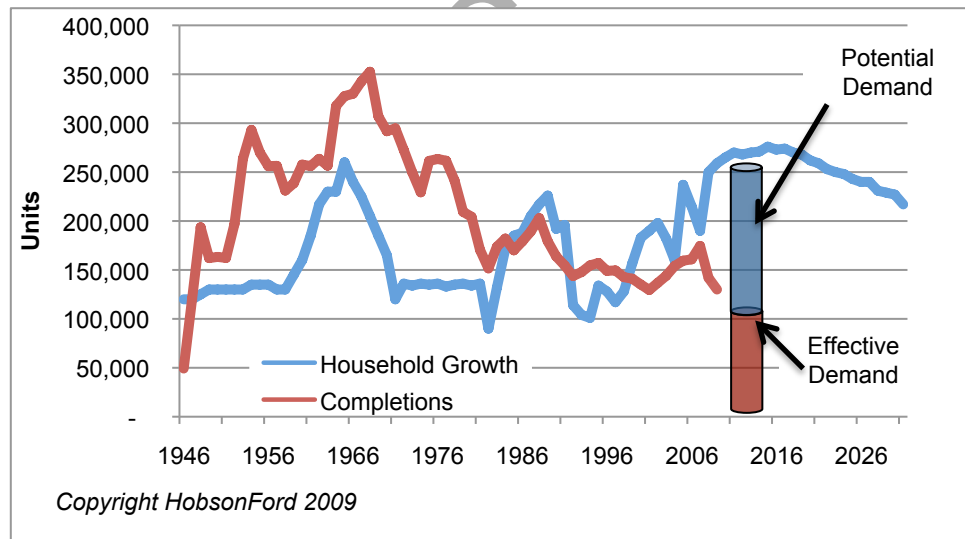
Since 1946 the rate of growth has varied from just over 100,000 to 250,000 per year in the late 1960s with a surge again in the late 1980s. Over the past 10 years, the number of households has steadily increased and the growth of new households is expected to remain at circa 250,000 for the next 20 years, after which it is expected to decline. This figure increases to 290,000 new households when taken for the UK as a whole.

This compares to current build rates of around 100,000 new houses, reduced from a previous level of around 160-170,000. This will exert considerable pressure in the medium-term to increase housing supply.

Chart 2 also shows the dramatic fall in the provision of housing over the past 20 years compared to build rates in the 1950s, 1960s and 1970s. This has left a shortage in social housing stock and a burgeoning council house waiting list.

Future demand of around 240-300,000 homes per year is around three times current supply of around 100,000.

Chart 2 – Housing Completions v Household Growth – England: 1946 to 2031
Source: DCLG



Economic Effects on Housing Demand

There is likely to be some moderation of household growth due to the recession, as the effects of inward migration and more independent living (single occupancy by younger people) are curtailed by economic pressures.

AFFORDABILITY

Affordability is driven by a number of factors. The availability of finance, interest rates, house price movements, average earnings, the economy and financial regulations all have an impact upon affordability.

Affordability is a normal market reaction to changes in supply and demand. As in other markets, price is a result of changes in the balance between supply and demand. Affordability, therefore, serves to regulate demand.

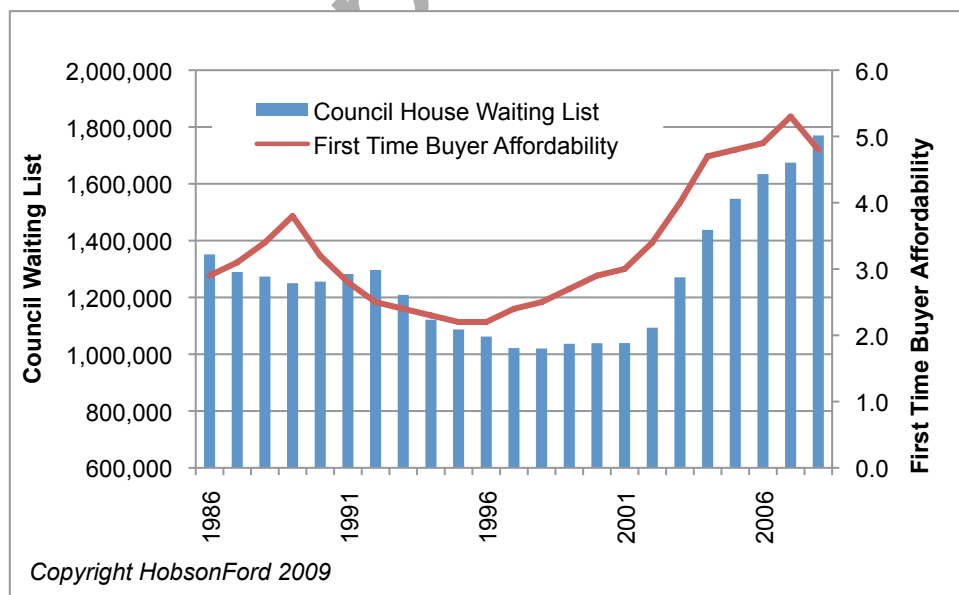
If affordability improves then more people are able to enter the housing market. Worsening affordability is the market reaction to curb demand. This means that changes in actual demand can be acute and swift, as changes in finance are not subject to physical factors. We have seen what can happen when finance is cut back severely – and the same can happen in reverse.

There is a clear link between affordability and the demand for social housing.

Affordability and the demand for social housing

One important point to note is that affordability does not quell the physical demand but determines how many people can afford housing. Chart 3 below illustrates the link between affordability and social housing demand. The council waiting list is shown as the number of households and currently stands at around 1.8 million. This equates to around 4.5 million people. This charts the rise in the council waiting list since 1986 and shows a strong correlation with first time buyer affordability over the past 10 years.

Chart 3 – Council House Waiting List v First Time Buyer Affordability
Source: DCLG / Hansard & Nationwide



Worsening affordability from 2001 matches sharp increases in council waiting lists.

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HobsonFord Associates

HobsonFord Associates brings together a wealth of experience across a range of disciplines. Its Market Insights team is focused on understanding the implications of key market changes. Glen Ford, who spent 20 years working with Tarmac and was Head of Development for their Building Materials Division, heads up this team and has closely followed trends in the UK housing market for the past 10 years.

Barbour ABI

Barbour ABI is the leading provider of sales leads and construction contract data for the UK market. Our UK-based research team track 100% of all planning applications on every planned project valued over £100,000 - we are the only company who provides national coverage for all scales of construction projects.

BDS Marketing & Research

BDS Marketing Research Ltd is an independent marketing and market research consultancy based in Bath. Established in 1989 by Julian Clapp, the company is now a leading research company offering a range of services to meet clients' needs in both the public and private sector.

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