



STIMULATING PRIVATE HOUSEBUILDING OUTPUT

Introduction

The need to make urgent reductions in public expenditure will inevitably affect housing. In order to avoid an even greater fall in housebuilding output, urgent action is required to stimulate the private sector.

The credit crunch has seen new private housing output fall by 50% and prices by 25%-30%. This has particularly exposed the unsustainable cost of regulation.

Unlike previous recessions a recovery is difficult to predict with any certainty and most indicators of house prices and costs give no confidence in a recovery of profitability in residential development, over the next five years unless serious action is taken on two fronts. First, mortgage availability. Second, regulatory costs.

Current Challenges

Mortgage availability: is likely to be extremely constrained for the next five years and new sources of mortgage lending are not currently apparent, according to CML. Government needs to encourage and underwrite new sources of loans.

Bank lending: will be constrained by the need to start repaying £200bn+ in loans to government in 2011 and by the lack of obvious replacements for that funding. This will affect housebuilders' ability to fund new development.

House prices: are still falling in the new build sector and none of the traditional drivers of house prices look positive, for the next two to five years. Real disposable incomes and consumer spending look particularly vulnerable. This is politically attractive in that it increases affordability but unless costs are reduced, housing output will fall further.

Regulatory costs: have risen and will continue to rise, with CIL or local levies set to supplement S.106. The zero carbon/sustainability agenda is a particular source of uncertainty and of unquantifiable, but undoubtedly large, costs.

Profitability: has been severely damaged across the industry by a combination of lower sales volumes, falling prices and regulatory costs that cannot now be justified by land values. Any recovery would be threatened by further regulatory cost increases.

Land supply: will remain constrained, as vendors decline today's prices and banks dare not crystallise their balance sheet losses by instigating fire sales of land. Public sector land will therefore become more important. This must not be disposed of with too many terms and conditions attached that severely curtail commercial freedom and profitability.

Planning: has become significantly slower and more expensive, as all the major changes introduced by the previous Government to forward planning, process and efficiency have failed to a greater or lesser extent. There are no convincing proposals to improve this and planning is now a major regulatory and cost burden.

Household formation: is projected to continue to grow by around 25% between 2006-2031. However, with the prospect of first-time buyers facing long term problems in accessing mortgages and an ageing population under-occupying much of the existing family-sized stock for up to 40 years, there is a risk of far less mobility, and hence activity, in the market than the raw data has been believed to imply. Potential first-time buyers are increasingly turning to renting.

Professor Michael Ball has produced a report, "The Housebuilding Industry - promoting recovery in housing supply" for CLG which amplifies many of these points.

Action required

Banks and funders: an urgent review of lending, consistent with this Government's agenda for public expenditure reduction, must be undertaken with the lenders. This must also look at loans to business, particularly the smaller housebuilding sector, which has been particularly badly affected. The nationalised banks must review their policy of propping up several large plc housebuilders which is preventing their land from coming to the market at today's prices.

Regulation: there is a large programme of work in CLG on regulatory costs awaiting decision and action. The previous administration was too conflicted to take hard decisions and choices. It is essential that the new Government significantly reduces regulatory costs and burdens to stimulate the private housebuilding sector, to produce local employment and stimulate GDP.

Zero carbon: development of the zero carbon agenda is confused and only a few larger housebuilders are able to understand and participate. Simplification, sensible decisions about the practical rate of progress and serious reductions in the cost of this agenda are essential otherwise most small builders will be put out of business by these policies.

Planning applications: the new Government should revisit the decisions and outstanding proposals made by the previous administration on the Killian-Prety Report. There is considerable scope for greater improvements in the efficiency and speed of handling planning applications and great scope for reducing costs.

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