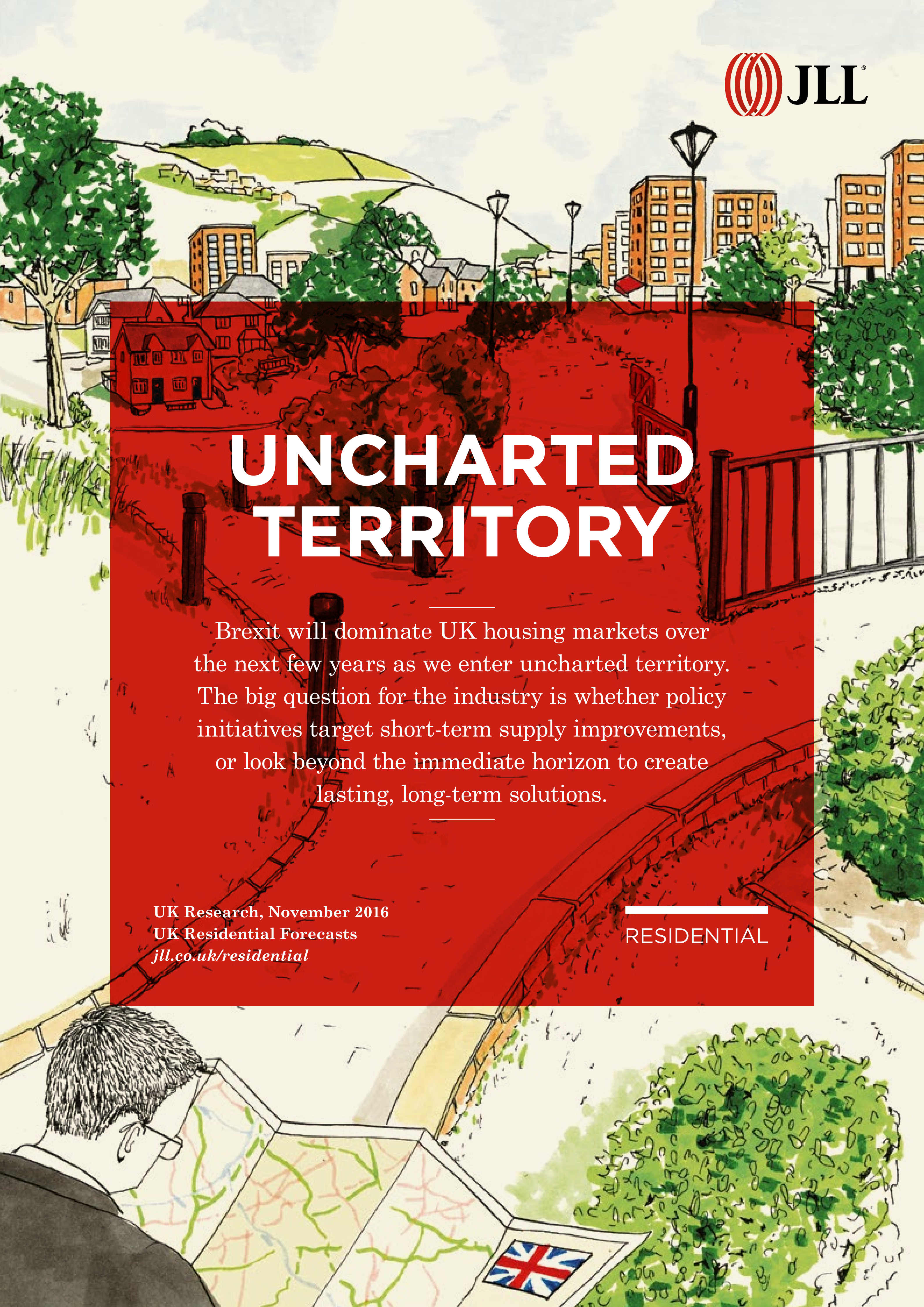

UNCHARTED TERRITORY

Brexit will dominate UK housing markets over the next few years as we enter uncharted territory. The big question for the industry is whether policy initiatives target short-term supply improvements, or look beyond the immediate horizon to create lasting, long-term solutions.

UK Research, November 2016
UK Residential Forecasts
jll.co.uk/residential

RESIDENTIAL

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OUR VIEW
UNCHARTED TERRITORY

Uncertainty over the next few years is likely to result in slower housing delivery despite policies designed to encourage development. Both central and local government have a battle on their hands to maintain, let alone increase the current volume of homes built in present circumstances. The best approach will be to balance short-term supply stimulus with plans that improve the long-term capacity and resilience of the sector.

Brexit domination

The five year outlook for the UK is almost wholly dependent on the terms of the exit from the EU and the agreements we manage to put in place. The UK is entering uncharted territory.

The new Prime Minister has stated that we will invoke Article 50 of the Lisbon Treaty before the end of March 2017, implying that we could leave the EU before the end of Q1 2019.

In the meantime, sentiment and confidence is likely to ebb and flow en route to this historic date. Philip Hammond, the Chancellor, has already warned of a possible rollercoaster ride.

Although turbulence is likely, there have already been some encouraging signs that the Brexit economic effect will be smaller than predicted. Indeed the IMF has admitted that it "got it wrong" having previously forecast a UK recession given a vote to leave the EU.

Positives

The UK economy will undoubtedly ease down over the next couple of years. UK GDP growth is predicted to slow to 1.2% pa by Q4 2017, down from 2.1% in Q2 2016. Business investment will be the key casualty of the uncertain outlook.

JLL RESIDENTIAL RESEARCH
NEIL CHEGWIDDEN

The real key, however, seems to be the widespread positive attitude adopted within the UK. Much will depend on the trade agreements negotiated, but with greater certainty the economic outlook should brighten along with consumer and business confidence as we head into 2019.

Housing market

As a result, we expect the UK housing market to be more subdued over the next 2-3 years. However, it will remain reasonably active with little chance of meaningful price corrections.

Assuming Brexit negotiations are not too detrimental, we could see a rebound in London housing markets in 2020, before the rest of the country follows.

Supply worries

Of deeper concern is that housebuilder activity could pull back from current rates of construction.

Although levels of new housing delivery were still woefully low prior to the referendum at least the direction of travel was positive and encouraging. This will now fall back again. We are predicting England starts to drop to 134,000 units next year.

In London, we expect the house building slowdown to be more marked. Not only is London's economy more vulnerable to Brexit but the housing market is also more reliant on investors, both domestic and international, and is hence more susceptible to buyer confidence.

The short-term London supply prognosis, however, implies that prices should bounce back when confidence returns. The work stream of new supply should then pick up, albeit slowly.

While central and local government policies will be pro-development, we question whether they will really be able to outweigh the more cautious approach adopted by housebuilders in response to weaker market forces.

Most worryingly, both the UK's and London's housing shortages will be even more acute by this point.

OUR FORECASTS

HOUSE PRICE GROWTH (% pa)	2017	2018	2019	2020	2021	2017-2021*
Prime Central London	0.0	1.0	3.0	5.5	5.0	15.2
Central London Developments	0.0	1.0	2.5	6.5	5.0	15.8
Greater London	1.0	2.0	3.0	5.0	7.0	19.2
South East	1.0	1.5	2.0	4.0	5.5	14.7
East of England	1.0	1.5	2.5	4.0	5.5	15.3
South West	0.0	0.5	1.5	3.5	4.5	10.3
East Midlands	0.5	1.0	2.0	3.5	5.0	12.5
West Midlands	0.5	1.0	2.0	3.5	5.0	12.5
Yorkshire & The Humber	0.5	1.5	2.0	4.0	5.0	13.6
North West	2.0	2.0	3.0	4.5	5.5	18.1
North East	-1.0	0.0	1.0	3.0	4.0	7.1
Wales	-1.0	0.5	1.0	3.0	4.0	7.6
Scotland	0.0	1.0	2.0	3.0	4.5	10.9
UK	0.5	1.0	2.0	4.0	5.0	13.1

RENTAL GROWTH (% pa)	2017	2018	2019	2020	2021	2017-2021*
Prime Central London	0.0	1.0	2.5	3.5	4.0	11.4
Central London Developments	1.0	1.0	3.0	3.5	4.0	13.1
Greater London	2.5	3.5	4.0	4.0	4.5	19.9
UK	2.5	3.0	3.5	3.5	4.0	17.6

ACTIVITY AND DEVELOPMENT (000s)	2017	2018	2019	2020	2021	2017-2021**
UK transactions	1,080	1,110	1,150	1,200	1,260	1,160
England housing starts	134	134	136	140	146	138
England housing completions	145	140	135	135	136	138
London housing starts	16	16	18	21	23	19
London housing completions	23	20	17	17	18	19

* cumulative growth; ** average pa

BREXIT OUTCOME KEY TO UK ECONOMIC FUTURE

The economic and political landscape for the next five years will be particularly uncertain. The outlook is highly dependent on the negotiations, ongoing rhetoric and the final Brexit deals agreed but output growth is expected to remain positive throughout and to return to trend within five years even if a hard Brexit is the ultimate decision.

2016 Brexit influence

The vote to leave the EU has heightened both political and economic risks for the UK.

The economy is expected to slow in 2016 with business investment falling sharply. This said, post-Brexit surveys suggest that the economic slowdown will not be as harsh as many had feared, while averting a recession now looks highly likely.

The Bank of England has reacted swiftly and decisively. It cut the bank rate to just 0.25% in August from its previous historic low of 0.5%, as well as announcing other Quantitative Easing measures, in a move intended to bolster the economy.

A further cut in the bank rate to 0.1% is also expected later this year unless greater economic resilience takes hold.

Regardless, the economy will continue to be affected by the referendum. GDP growth, which had increased to 2.1% pa in Q2 2016, is forecast to slow back to 1.6% pa by Q4 this year. An easing in consumer and business confidence and uncertainty about the future are the principal drivers of slower growth.

The Brexit vote had an immediate impact on exchange rates with the pound notably weaker relative to all currencies. This has also led to a rise in imported inflation with CPI inflation nudging up from its low of -0.1% pa in 2015 and is expected to be as high as 1.6% pa by the end of 2016.

2017 reasonably robust

Brexit uncertainty will continue to be the overriding characteristic in 2017. Rhetoric emanating from Brexit negotiations, including the invoking of Article 50 in Q1, is likely to mean quite a turbulent time in terms of business and consumer confidence.

This will mean lower business investment, postponed capital spending and deferred employment plans. Overall business investment is forecast to fall by 3.2% in 2017 following a 2.3% decline in 2016.

3.2%

Fall in business investment in 2017

Consumer spending growth is expected to ease as the supports of very low inflation and a strong jobs market both subside.

There will be a shallow rise in unemployment, further dampening household spending power. UK unemployment is predicted to rise from 5.1% of the workforce in 2016 to 5.3% in 2017.

Overall GDP growth is predicted to slow to 1.2% pa by Q4 2017.

Medium-term 2018-2021

Despite some form of hard Brexit, the UK economy is expected to regain some forward momentum after 2017. The Brexit roadmap is likely to be a little clearer instilling a greater degree of certainty and confidence for both businesses and consumers.

GDP growth is expected to rise from 1.5% pa in 2018 towards a very respectable 2.5% pa by 2021. The bank rate is only anticipated to be increased marginally in order to maintain economic expansion momentum. Even by the end of 2021 the bank rate is only forecast to be 1.5%.

The jobs market should have returned to today's levels by 2021 while earnings growth is forecast to be as buoyant as 4.3% pa. Even exchange rates are predicted to have recovered some post-Brexit lost ground with the pound pushing above $1.40.

Forecast risks

The forthcoming five year UK economic outlook is particularly uncertain. Clearly much depends on the nature and detail of our EU exit. Our base economic forecast assumes a hard Brexit with access to the single market sacrificed in favour of immigration controls.

Despite this, the economic prognosis is not too detrimental for the UK. There is clearly downside risk to this quite benign outlook, if trade agreements and financial-sector passporting rights are not favourable.

However, this base assumption also implies that there is significant upside potential too, so the economy could prove more robust next year and could also expand faster thereafter.

UK ECONOMIC FORECASTS

	GDP GROWTH *% pa*	BANK RATE *%*	EXCHANGE RATE *£/$*	EARNINGS GROWTH *% pa*	UNEMPLOYMENT RATE *%*
2014	3.5%	0.5%	$1.56	4.0%	5.7%
2015	1.7%	0.5%	$1.48	2.9%	5.1%
2016	1.6%	0.1%	$1.25	3.2%	5.0%
2017	1.2%	0.1%	$1.25	2.5%	5.3%
2018	1.5%	0.1%	$1.27	3.0%	5.3%
2019	1.7%	0.5%	$1.30	3.4%	5.2%
2020	2.3%	1.0%	$1.34	4.0%	5.2%
2021	2.4%	1.5%	$1.38	4.3%	5.1%

Source: JLL, Oxford Economics

BREXIT ROAD UNCERTAIN

Negotiating as smooth and as favourable a path to a Britain outside of the EU will dominate events over the next few years. The road, however, is likely to be rocky. The final deals will be of vital importance. Some options will fill the country with optimism while others may leave us feeling vulnerable.

JLL HEAD OF UK RESEARCH
JON NEALE

Type of Brexit critical

There are a few and often conflicting signals on what sort of exit the UK government will be seeking. Key figures within the European Union and within member governments have made it clear that the UK cannot remain within the single market if it wants to control freedom of movement of European citizens.

Given that immigration controls were a key feature of the "out" campaign, this would suggest that a so-called "soft" Brexit – in which the UK remains within the single market, like Norway or Switzerland – is implausible. If the UK leaves the single market, it would find it difficult to retain the so-called "passporting" rights which are important to banks, and there would be tariffs and strict rules of origin tests applied to British imports and exports.

These barriers could be more significant if the UK also decides to leave the customs union, which would allow it the freedom to negotiate its own free trade agreements with third parties. To further complicate issues, the UK would have to submit articles to the World Trade Organisation (WTO), with unanimous approval from members, before it can trade outside the EU.

The negotiations referred to under Article 50 only refer to the details of exit and do not necessarily address the issues of trading relationships after exit. They also have a two year maximum time period, which can only be extended with unanimous agreement from the other 27 members.

Partly out of our hands

The final agreement is voted on by the other EU members, with the UK excluded. This implies that, unless there are transition mechanisms put in place (such as EEA membership), then there will be uncertainty throughout 2017 and 2018.

This will be complicated by the French and German national elections in 2017. In reality, however, it is likely that the direction of travel will become apparent over the next 12 months, reducing uncertainty for business and enabling decision making.

Given the size of the UK's economy and its strategic importance to Europe, it seems unlikely that the options on offer will be completely rigid. After all, the UK will become the EU's largest export market upon leaving the union. The single market is also the destination of more than 50% of British goods and services.

Striking a deal

On the other hand, it seems implausible that Britain will be able to retain all that it finds amenable about being an EU member while jettisoning the rest. There will be trade-offs involved, but it is not outlandish to suggest that there will be a negotiated settlement involving free trade in goods and aspects of services, as well as allowing for some movement of labour.

However, there is a huge number of issues that need to be resolved, and much depends on how long it takes for business and the public to get clarity on the nature of the future relationship. It is worth noting that trade deals are rarely easy or quick, and few have involved partners as important as this.

Upside potential

In the longer term, the UK could see some upside from Brexit. It could benefit enormously from preferential deals from fast-growing parts of the world and a greater freedom to act both domestically and internationally.

However, this is not a certainty and depends on the skill of negotiators and wider geopolitical developments. The EU is also in a state of flux, and there may be further changes in its modus operandi during the negotiation period and immediately afterwards.

Whatever the final deals, the next 2-3 years will be tricky and uncertain. But getting the right deals will be absolutely crucial for the long-term prosperity of the UK.

UK HOUSING MARKET FORECASTS

The path towards Brexit will dictate what happens in the UK housing market. However, although we expect some turbulence, we believe the housing market will remain reasonably strong and active. Demand will be undermined in the short-term by uncertainty and a more subdued economy while supply issues will exacerbate, lending support to prices.

2017

The UK housing market was returning to a more normal and healthy state prior to the referendum. Although UK house price growth was a little too high, at 8-10% pa, UK transaction levels had pushed above 1.2m pa and new housing starts in England had escalated to 144,000 homes pa.

However, the referendum vote has created uncertainty for businesses, households and housebuilders. Early indications since the vote suggest a mild slowdown in housing transactions and marginal easing in house price growth but nothing more sinister.

Importantly, the market slowdown is being caused by an easing in economic growth predicated by an uncertain outlook rather than by a fundamental lending and global crisis as we experienced in 2008.

This is important as there is not a sound underlying reason why house prices should decline notably. There will not be widespread job losses or household financial problems.

However, we still predict a circa 11% fall in transactions in 2017.

We expect prices will be broadly flat during 2017 as the number of buyers diminishes slightly and their urgency to buy and to pay top dollar subsides. However, we still expect demand to be robust with some buyers taking advantage of more subdued conditions.

Although housing completions will be rising during 2017, they will still fall well short of need leading to some upward pressure on prices.

The rental market should be stronger and more active. We expect UK rents to rise in the order of 2½%.

2018

Brexit negotiations will be ongoing during 2018 but the principles of our departure should become clearer. While the hard exit may not be the best outcome for all, the key here is that there will be greater certainty. This will create a stronger base and a more optimistic outlook whatever the terms of our exit.

Companies will be able to plan for the future, investing in their businesses and staff once again while households will also be more certain of what the future holds. The economy will start to expand more strongly again, albeit slowly and cautiously at first. Employment levels will begin to pick up along with wage growth.

This will lead to slightly higher housing transaction levels as households feel more confident about buying their first home or moving up the housing ladder. There will also be increased turnover as more people move through job changes.

Housing construction starts are likely to be very low in 2018 while completions will still be slowing from greater activity in previous years.

Despite this, with demand accelerating and new supply low, there is likely to be increased pressure on prices. This will begin in quite muted fashion before intensifying in future years.

The UK lettings market will again feel more stable with the need and desire to remain flexible a key consideration for occupants. Rental growth is forecast to rise by 3% in 2018.

2019-2021

The UK will formally leave the EU during this time. Our exit route should already have been clearly defined before exit, with economic sentiment becoming more optimistic and the economy already on a slight upward trajectory.

Businesses and households will be feeling more confident and certain, although economic conditions will be sound and positive rather than exuberant.

Many people will now be feeling that they should get onto the housing ladder before the next wave of strong upward price movement and this will create some urgency, albeit from a reasonably benign starting point.

Others will be feeling more confident about moving up the housing ladder while investors are also likely to be more active given the more positive housing market prospects.

Improved confidence will also be aided by a supportive mortgage market and low interest rates.

Transaction levels and house prices should begin to rise more strongly in 2020, as everyone settles into life post-Brexit.

Rental growth should also accelerate during this period, rising to around 4% pa by 2021.

Regional price growth

Regionally, we expect London and Southern England housing markets to outperform once conditions pick up from 2020. We also expect house price growth in the North West to be higher both next year and throughout the next five years, led by a particularly strong and active Manchester market.

UK HOUSE PRICE GROWTH FORECASTS

% change pa

2017	2018	2019	2020	2021
½%	1%	2%	4%	5%

2008	-14.6%
2012	2.0%
2014	7.8%
2015	7.8%
2016	7.0%*

Source: JLL, Land Registry

*estimate

UK HOUSING TRANSACTIONS

Number pa

2017	2018	2019	2020	2021
1.08m	1.11m	1.15m	1.20m	1.26m

2006	1.67m
2009	0.86m
2014	1.22m
2015	1.23m
2016	1.22m*

Source: JLL, HMRC

*estimate

UK RENTAL GROWTH FORECASTS

% change pa

2017	2018	2019	2020	2021
2½%	3%	3½%	3½%	4%

2012	2.6%
2013	1.7%
2014	1.7%
2015	2.5%
2016	2.2%*

Source: JLL, ONS

*estimate

HOUSING SUPPLY OUTLOOK

The most concerning housing market impact from Brexit will be the detrimental impact on housing supply. Policymakers are reacting, but the big question is whether market forces or inducements from government will win the battle of the building site. We suspect market forces will win round 1 and that the best policymakers can realistically hope for is increased housing delivery in round 2.

Recovering supply

The national housing supply picture has improved significantly in recent years. The extent of the recovery following the global financial crisis has been remarkable with the number of housing starts rising from just 86,000 in 2009 to 146,000 units in 2015 – a 68% increase.

However, this figure is still significantly shy of the 184,000 starts we saw in 2007 and well below need – the most recent estimate coming from the House of Lords Economic Affairs Committee at 300,000 homes pa.

Brexit slowdown inevitable

Although there are no post-Brexit national housebuilding statistics yet, we are expecting the number of new starts to slow during both Q3 and Q4 this year in response to the EU vote.

Housebuilders will quite naturally be more cautious as the outlook for households and housing demand has become more uncertain. Fundamentally development risk has increased.

Many developments will still go ahead, albeit less urgently in some cases, but some schemes will get postponed. Importantly, however, there is not a lending or financial crisis as we saw in 2008, so the impact of this “confidence” slowdown is likely to be relatively muted.

Government action

The housebuilding slowdown will nevertheless come as a huge disappointment for policymakers who have been trying to tackle the national housing supply crisis and have been buoyed to some extent by rising numbers in recent years.

The Government has made various announcements and floated a number of ideas and targets. These include Starter Homes, a £3bn Home Building Fund and an initiative to build on public land. These also come on the back of the successful Help to Buy schemes. The Government is also due to launch a housing white paper imminently.

A fuller discussion on supply initiatives is provided later in this report, but whilst these latest announcements are encouraging and welcome, the big question is whether they will be able to have any quick or material impact in boosting supply.

Ultimately housebuilders will only build if it makes financial sense for them to do so and if the risks are manageable. Given current circumstances it will be difficult to entice housebuilders on site in greater volumes.

It could be argued that the waters will muddy further. Not only will UK housebuilders have to contend with the fallout from the EU referendum but they will also have to weigh up the potential impact of government initiatives. If, for example, they believe these will lead to increased development, how should they react? This is especially difficult during the embryonic stages of new policies.

Government initiatives will have to be so financially attractive so as to compel development. They will have to enforce development within a tight timeframe and will have to be large enough in scale and volume to counteract the inevitable slowdown in development on private land.

If development on public land simply displaces what would have been built on private land then nothing has been gained.

Realistic hopes

Overall, therefore, we believe that market forces will win the day in the short-term.

We think it will be very difficult, if not impossible, to manufacture any kind of increase in development activity in the current climate.

We therefore expect England housing starts to slip to just 134,000 in both 2017 and 2018, down from 146,000 in 2015.

Hope for the future?

Government initiatives, therefore, may be able to have a marginal effect in preventing too sharp a slide in housebuilding activity over the next 2-3 years, but nothing more.

However, perhaps the best that government can achieve, and what they should really be focussed on attaining, is to evolve policies and initiatives which will bear fruit when the economy improves and greater housing market confidence returns. This will be when perceived risk is lower and housebuilders are more assured that greater supply can be absorbed at acceptable sales rates and prices.

London housing supply

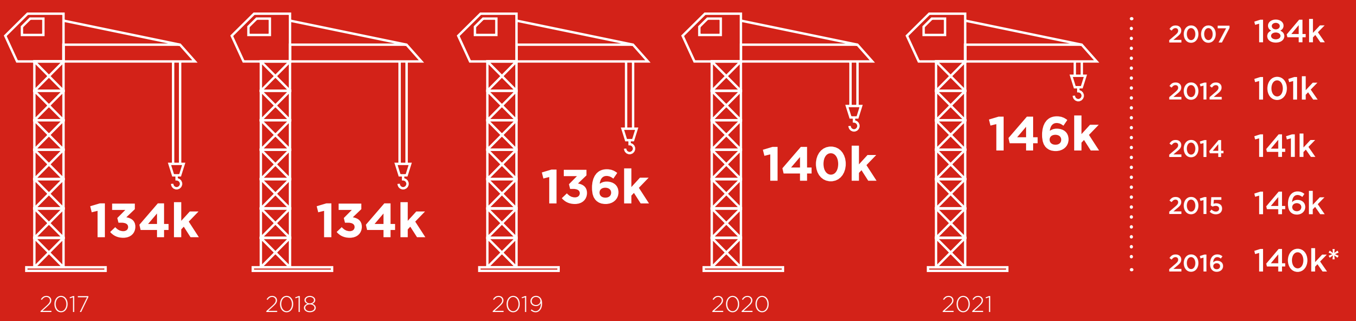
In London it could be argued that the housing supply crisis and the affordability problem are even more acute. The new London Mayor and his team are working hard to introduce policies aimed at increasing new housing supply, and affordable housing supply in particular, as well as helping people to buy.

Such measures, which come on top of national policies, include increasing the affordable housing quotient and the London Help to Buy programme.

The real test will be whether London supply can really be increased given current Brexit uncertainties. We suspect not, and believe starts could decline to circa 16,000 pa in 2017 and 2018. Ultimately, market forces will always prevail.

ENGLAND HOUSING STARTS

Number pa

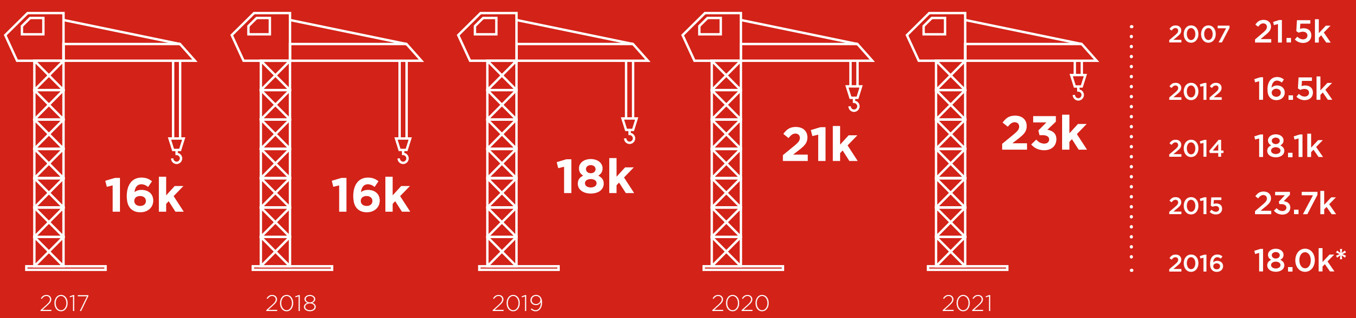


Source: JLL, DCLG

**estimate*

LONDON HOUSING STARTS

Number pa



Source: JLL, DCLG

**estimate*

LONDON FORECASTS

Despite London's housing market being more vulnerable to downside Brexit risk, we expect house price growth will outperform regional counterparts over the next five years. A sharp collapse in housing starts in 2017-18, especially in central London, will result in a disparity between demand and available supply leading to strong upward pressure on prices once confidence returns.

Underlying considerations

It could be argued that London is at greater risk from Brexit given its international links while its financial sector is particularly vulnerable, most specifically in terms of passporting rights.

While this may be true in principle, there are many reasons to believe that London's place on the global stage will not be undermined.

Firstly, London's business powerhouse is as crucial to the EU as it is to the UK. It is therefore in the EU's interest to maintain strong links with London and to transition trade as seamlessly as possible. This is true for financial businesses and other sectors.

Additionally, London has no true viable European competitor, especially in terms of financial services, with London's role in global markets alongside New York, Singapore, Hong Kong and Tokyo a vital consideration.

Furthermore, London is viewed by many as the best place to do business, and this applies to both overseas and UK businesses when deciding where in the world to set up.

These fundamentals, which combine with language, legal and cultural benefits, strongly suggest that London's global status will not diminish notably, if at all, as a result of Brexit. There are in fact strong arguments to indicate that London's stature could even be improved given its greater independence. Overall, therefore, we expect only a temporary pause before a transformed and strong London emerges once more.

Greater London

Housing demand in Greater London and away from the higher value central locations should continue relatively strongly over the next few years.

With prices high in central boroughs, the search for value and for higher price growth prospects in recent years has led to a surge in demand in Outer London locations. These characteristics are being sought by both owner-occupiers and investors and we expect this trend to escalate over the next five years.

In aggregate, however, we expect the Greater London housing market to cool during 2017 and 2018 from current levels as the uncertainty surrounding Brexit impacts on buyer confidence.

This said, we expect activity to be maintained at reasonable levels as the economic slowdown will not hit households too hard while many first-time buyers may opt to take the opportunity to buy while interest rates are at such low levels and when the market is a little softer.

Transaction volumes have already been slowing steadily since peaking in Q3 2014 and we expect only a mild further slowdown during 2017 and 2018.

Annual price growth is running at circa 15% pa in mid-2016 and needs to slow so that the problems of affordability and getting onto the housing ladder do not deteriorate further. We expect annual price growth to ease notably over the next year or so, finishing 2017 at around 1%.

2018 should see a slight pick-up in activity and price growth before pushing notably higher from 2020.

Central London Developments

The Central London development market was already slowing following the post-crisis surge when construction increased, price growth pushed into double figures and sales rates rocketed. The 3% additional home stamp duty tax and concerns around Brexit have simply amplified the slowdown.

We now have fewer investors overall, although many are active, while owner-occupiers represent a larger slice of the demand pie. Demand below £600,000 is still sound while the very top end has also proved resilient. Demand between these price points has been softer and is the principal cause of the lower prices during 2016.

Looking forward we expect development activity to ease further over the next two years as developers reduce their exposure and risk profile. However, plenty of developments will continue to progress, especially in Outer Core markets where the price points are more favourable.

There is likely to be a window of opportunity for developers to launch schemes as the market picks up. This could be as early as H2 2019. However, this is more likely to be in 2020 especially if the Brexit conditions are less favourable or exit is delayed. Either way, developers would be wise to position themselves ready to take advantage of the limited competition and the consequential acceleration in prices.

Price growth is predicted to be quite muted during 2017 and 2018, especially in higher priced locations, but with buyers poised to return once the waters are calmer, as we saw in 2009, we expect prices to ratchet up quickly before growing more steadily.

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Prime Central London

The Prime Central London sales market has softened considerably over the past couple of years. The stamp duty reforms from December 2014 have been the main cause as the tax burden has increased significantly for higher value properties.

This has led to price falls across the board but especially above £5m where the stamp duty differential has been most marked.

Transaction levels slowed in the immediate aftermath of the stamp duty change and also eased during Q2 2016 prior to the Brexit vote. However, turnover has remained reasonably robust during the past couple of years.

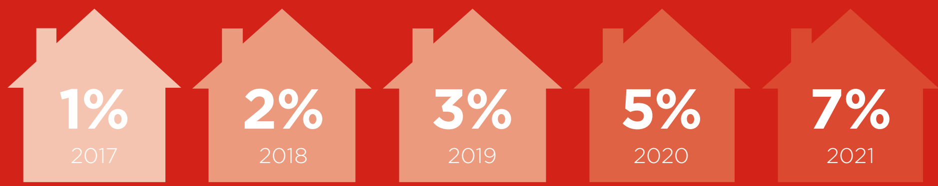
Looking forward we believe that most of the price declines have now washed through and that prices will be broadly flat next year. Some vendors with high expectations on price or with pre-2015 price aspirations will have to accept offers below asking price to sell but for properties where prices have already been adjusted we do not anticipate any further downgrading.

However, the market is likely to be relatively subdued over the next couple of years as Brexit concerns hang over the market.

We are anticipating annual price growth in the order of 0% in 2017, +1% in 2018 and +3% in 2019 before stronger growth and greater normality returns to the country, London and the Prime Central London housing market from 2020.

GREATER LONDON RESIDENTIAL PRICE FORECASTS

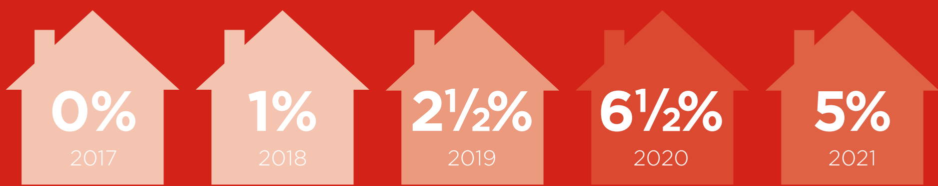
% change pa



Source: JLL

CENTRAL LONDON RESIDENTIAL PRICE FORECASTS

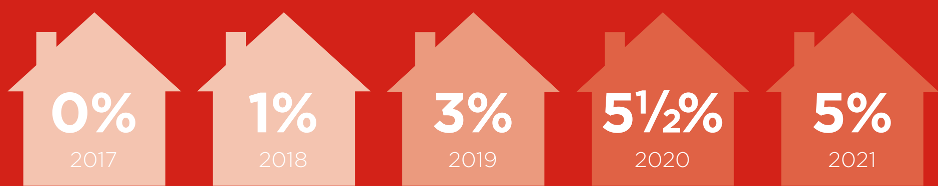
% change pa



Source: JLL

PRIME CENTRAL LONDON RESIDENTIAL PRICE FORECASTS

% change pa



Source: JLL

TACKLING SUPPLY
ALL AT SEA

Housing supply and delivery remain high on the political agenda, across the country and in London. There are no simple, viable solutions. However, the next 12 months should see renewed impetus, fresh ideas and new policies, starting with the imminent housing white paper.

JLL HEAD OF RESIDENTIAL RESEARCH
ADAM CHALLIS

Anything new?

Press headlines have made much of the new "interventionist" housing policy approach from Theresa May's Government. Yeah - so what else is new?

With the market in perpetual "crisis" mode, housing policy will remain highly populist and therefore politicised for some time. The crisis is unsettling, not least because solutions to the supply challenge continue to disappoint.

It is neither surprising nor unexpected to see the new Government wish to invoke new solutions. Unfortunately, this activity drives its own uncertainty that markets must absorb.

Over the course of 2017, there will be issues that persist for the development and investment community to contend with.

Accelerated delivery

First and foremost, "Accelerated Construction" will be the new raison d'être for housing policy. For some - many, I hope - this will mean driving through fresh negotiations with Government on practical solutions to unblock delivery on large sites.

For smaller developers, a new pot of funding and pooled risk managed by the HCA will allow the industry to say "welcome back" to the legion of lost infillers and innovators since the global recession.

The previously sacrosanct world of housebuilder delivery models will be shaken up - a bit - by use it or lose it challenges from Government. This will end up more as wheeze than reality and there will be a rise in option agreements to avoid penalties if necessary, but I think a by-product may well be a more pragmatic conversation in this love / hate relationship to drive "Accelerated Construction".

Range of tenures

Secondly, affordability will see renewed focus. Thank goodness.

The direction of travel exclusively towards aspirational home-ownership was narrow, and it was wrong.
We need delivery across the broad spectrum. This makes sense in its own right, as it is the difference between building for "want" as well as "need", but a wider range of market segments will also improve absorption rates and get more homes built faster.

Modernise or die

Finally, the industry will have to contend with the implications of the Farmer Review. A greying workforce, no discernible R&D, and increasing demand to deliver "pre-manufactured" homes to site. "What is BIM?" will be among the easier but more important questions to answer.

An Apprenticeship Levy or deeper strategic engagement with Government will produce much thornier problems to overcome. But the challenge couldn't be clearer – "Modernise or Die" as the Review so succinctly puts it.

5 issues that matter in London

If the above are the big issues that will shape residential delivery across the UK, in London the issues will be somewhat more nuanced.

As noted in the JLL Central London Development update in September, housing starts have begun to slow dramatically in 2016; down 58% during H1 2016. Although the reasons have more to do with SDLT changes and wider macroeconomic factors, it will fall to the Mayor's Office to resolve.

LONDON

5 ISSUES THAT WILL MATTER IN 2017

1

Overseas sales

The current review is long overdue and the industry needs to engage. There are too many myths about the negative impacts and not enough voices arguing for the important role that investment capital plays to underwrite development activity to deliver both private and affordable homes. Ignore at your peril.

2

Build to rent

The perennial "thing to watch", Private Rented Communities remain important in 2017 because we will see for the first time direct Government support and promotion of the sector. Forget the use-class argument; we need to focus on selling the virtues of the sector to many Local Planning Authorities and in London, adjust models to allow for the London Living Rent. This won't be straightforward.

3

Space standards

Where bigger is not necessarily better in design terms and smaller is definitely cheaper for renters or purchasers, we need to think about more efficiently designed properties, in the locations that people want to be. When combined with communal amenities (eg, roof garden, business centres, private dining room), quality of life can be enhanced, while offering a more affordable home. It deserves a more open debate.

4

50% AH requirement

Like it or not, it's coming and for London's housing market, it is probably right in principle. Crucially, the transition from where we are to a higher level of affordable housing provision will be full of challenges that will need to be managed by LPAs in a pragmatic way. Ultimately, if the forgone upside comes out of the land value, but not to the extent that a scheme is made unviable, then development volumes should be maintained. A few ifs and buts, which is why Deputy Mayor James Murray refers to it as a marathon, not a sprint. Pacing will be key.

5

Retirement housing

Because we need it. The heavy focus on first-time buyers in policy term ignores the important role that releasing family housing at the other end of the housing ladder can play to create market liquidity. There is a case to be made for planning covenants in favour of retirement living in order to push up land values and create the type of places that will allow people to aspire to retire.

THE FINAL WORD

"The UK is entering uncharted territory. The ultimate finishing point is clearly critical, especially as the UK is such a key global and EU force. Ironically the Brexit vote came at a time when the UK had by far the fastest growing and most stable economy in Europe.

There will be considerable uncertainty and turbulence as we traverse the road towards Brexit with consumer and business confidence likely to fluctuate most. Plenty of knee-jerk reactions on financial markets are possible too.

The uncertainty will impact on housing markets. Price growth will moderate, which is no bad thing. But transaction levels will also slow meaning reduced mobility. Most worrying of all, the supply tap will be turned down as housebuilders adopt a more cautious approach despite inadequate new supply volumes.

The Government and the GLA are poised to intervene. Changes in leadership seem to have escalated the supply issue to red alert. Clever, innovative, enforceable and impactful policies are needed. The puzzle is not easily solved but the political direction of travel and the will to make a generational change are now emerging.

As with Brexit, the end-game is key, but it is the path towards uncharted territory that requires attention. The whole country is waiting with bated breath for housing policy announcements to help alleviate our national crisis. Government and housebuilders - now is the time to deliver."

—

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