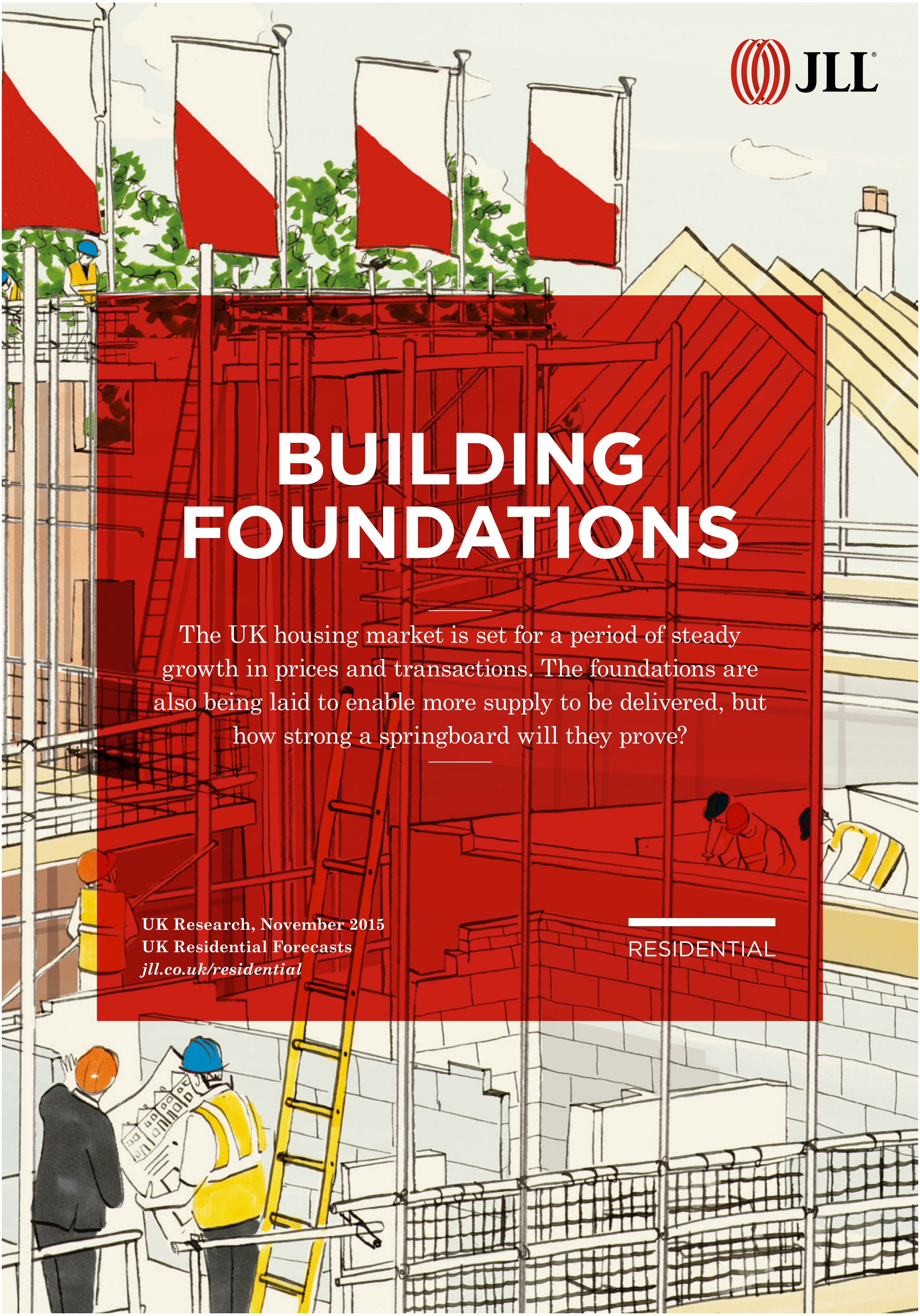

BUILDING FOUNDATIONS

The UK housing market is set for a period of steady growth in prices and transactions. The foundations are also being laid to enable more supply to be delivered, but how strong a springboard will they prove?

UK Research, November 2015
UK Residential Forecasts
jll.co.uk/residential

RESIDENTIAL

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IN THIS ISSUE

OUR VIEW

BUILDING FOUNDATIONS

The platform for a more active and dynamic UK housing market is now in place. There are various risks, but a key target for the Government will be to lay the foundations through industry engagement, creative thinking and policy to enable the UK to build more homes to at least go part-way to meeting our growing housing needs.

Positive signs

If housebuilder share prices are anything to go by, the housing market will enjoy a period of very strong growth in 2016. Listed housebuilders are up by about two-thirds over the past 12 months, with investors seeing the potential for a sector that directly benefits from the Government's renewed vigour to drive up the rate of housing delivery.

Of course, the bigger picture is also encouraging. Employment levels continue to climb, contributing to the lowest unemployment rate in seven years and boosting annual GDP growth, which is expected to finish the year amongst the strongest of the world's developed nations.

Housing activity will continue to be supported by real wage growth and record low mortgage rates, at least for a little while longer.

Regional differences

The broad housing market is holding steady, but as ever there are regional variations. By the year end, London will probably be the strongest region for price growth, but could be followed

JLL HEAD OF RESIDENTIAL
ANDREW FROST

by a resurgent Northern Ireland.

In contrast, Prime London will be among the weakest local markets, a rare statement itself. Price growth and rents will continue to push ahead in most of the UK's regional cities, as those sound fundamentals begin to drive a national market confidence not felt since 2007.

Government initiatives

For new build property, as much as things change they seem to stay the same. Despite sweeping changes to the planning system, we remain unable to unlock the higher rates of supply this country needs, across most locations and all price bands.

The Conservative Government's push for homeownership may well exacerbate the housing divide, but instead of drawing a line between North and South it will create a distinction between those who can afford a home through Help to Buy or the Starter Homes programme and those who can't.

Crossroads

We face a crossroads in some respects. All agree that there is no silver bullet to the housing supply challenge. For that reason ideology must not get in the way of determined initiatives to support not only build for sale, but also affordable and private rented initiatives.

We expect more good economic news in 2016 and an improvement in mainstream housing markets, but I have a hope that we will also see the ideas emerge that can create a housing industry that is built to last.

UK HOUSING MA

Help to Buy, equity loan

This will continue to support the relatively small proportion of new build first-time buyers until 2020.

Economy

Strong and robust UK economy will boost housing demand. International factors present the greatest risk.

Help to Buy, mortgage guarantee

This scheme will cease at the end of 2016, but this is unlikely to have any notable impact on market conditions or trends.

International factors

Economic slowdowns in countries such as China, as well as currency devaluations and stock market falls, pose a risk to global and UK economic growth, as well as housing demand in Central London.

Lower stamp duty

Reduced stamp duty costs for most properties will have minimal positive market impact although it might encourage a small release of pent up demand from people moving up the housing ladder.

Buying costs

Deposits, stamp duty and other fees will continue to be burdensome and will restrict buying and selling activity. Renovations will remain popular.

Affordability

Affordability constraints will remain the most pressing challenge for many house purchasers, especially younger generations with no family financial support.

Interest rates

The steady rise in mortgage servicing costs will impact new home buyers and existing home owners but we expect at least some of the detrimental influence will be outweighed by the stronger economy.

ARKET DRIVERS

Bank of Mum & Dad

House prices and transaction activity will be supported by parental and family financial support.

Restricted choice

Low housing turnover will result in restricted choice for prospective home buyers, ultimately leading to higher house prices, particularly in London and the South East.

Borrowing constraints

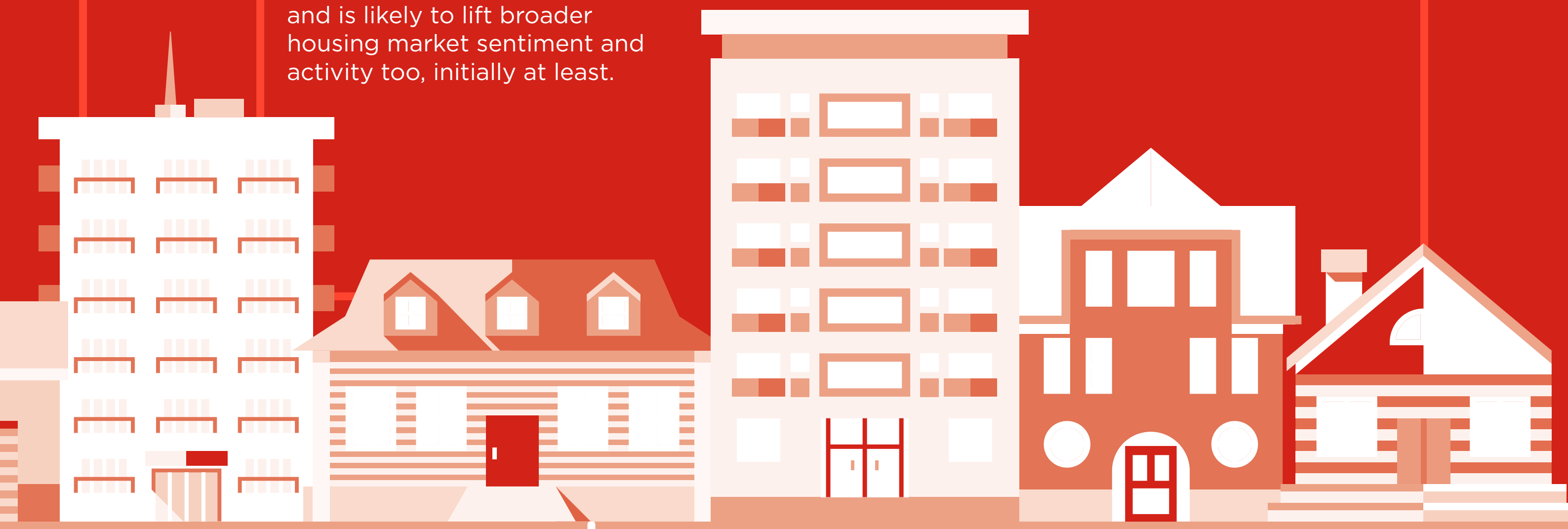
More stringent and prudent lending practices are now in place, but increased competition is putting pressure on mortgage rates and increasing mortgage choice. The lending environment will apply only a minor brake on the housing market.

Housing supply

The undersupply of housing will underpin prices.

Starter Homes

This government initiative will help increase housing supply, will boost first-time buyer demand and is likely to lift broader housing market sentiment and activity too, initially at least.



Higher stamp duty

Increased stamp duty costs for higher value properties is stifling activity and constraining price growth, but the market will eventually adjust.

2020 general election

The general election in May 2020 will probably cause a dip in transactions in the months preceding the election, but should recover afterwards.

EU referendum

Uncertainty surrounding the vote could knock activity and price growth, especially in internationally sensitive London markets.

UK ECONOMIC FORCES

The outlook for the UK economy is fundamentally sound but will not be as exuberant as usual at this point in the cycle. The risks mainly derive from overseas although higher interest rates and the EU referendum pose domestically sourced concerns.

2016 consolidation

2016 should be a year of both consolidation and progression for the UK in political and economic terms.

With the general election behind us and a Conservative Government with a full term in sole power, the next five years are a real opportunity for it to make its mark and to take some significant steps forward in terms of addressing the UK's housing problems.

In economic terms, the UK has shifted from recovery to cruising mode. The next few years should be a period of strong but not exuberant economic expansion.

GDP growth is expected to be 2.6% in 2017 while earnings growth will be far more positive than in recent years (see charts). There will be more jobs created and people will start to feel more secure in their jobs and with their household finances. All of these factors will be highly supportive of the UK housing market.

Interest rate rise

It is likely that the base rate will be raised in 2016. However, we do not anticipate much of an impact on the housing market as the hike will have been well flagged and will initially be minimal.

The main risk to this positive 2016 outlook comes from overseas. Events in China and some other emerging economies, oil prices, unrest in Syria, the refugee crisis and ongoing issues for Greece and the Eurozone all pose threats. The UK's safe haven credentials will be tested.

2017-2020

The medium-term UK economic outlook looks remarkably steady and stable. Typically during this phase of the economic cycle GDP growth is up at circa 3% pa but austerity measures as well as business investment caution this time around will dampen the pace of economic expansion.

Interest rates are set to rise steadily through this period but Mark Carney has stated that he believes the base rate will rise towards 3% rather than 5%. Assuming this is the case, the impact on household finances and the housing market will be reasonably muted partly because the effect will be offset to some degree by the stronger economy.

EU referendum

The UK's referendum on EU membership looks most likely to take place during the latter part of 2017. Although it is likely that the UK will remain in the EU, especially if David Cameron secures some notable concessions prior to the vote, the uncertainty caused by the referendum could prove to be a more significant headwind than the result of the vote itself.

There may be some domestically driven easing in UK housing transaction activity as the referendum approaches but the uncertainty is more likely to cause concern amongst overseas owners and investors creating additional concerns in London.

Regional fortunes

London, as usual, is expected to experience the strongest economic growth over the next five years, averaging 3.4% pa. But the South East and East of England regions are forecast to benefit from GDP growth in excess of 2.5% pa.

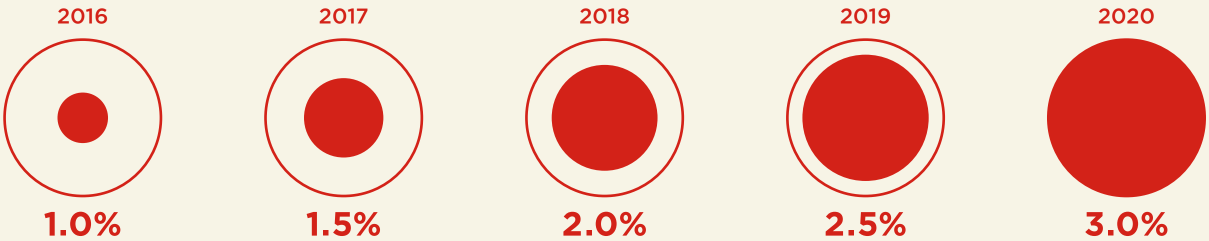
The South West, the Midlands and the North West are set to expand by 2-2.5% pa while other northern regions, plus Wales and Scotland, are destined for annual growth closer to 2% pa.

Employment growth forecasts follow a similar regional pattern as do population expectations, which will be particularly significant for London, the South East and East of England (see map).

All will clearly place additional pressures on UK and regional housing markets.

UK BASE RATE TO RISE STEADILY

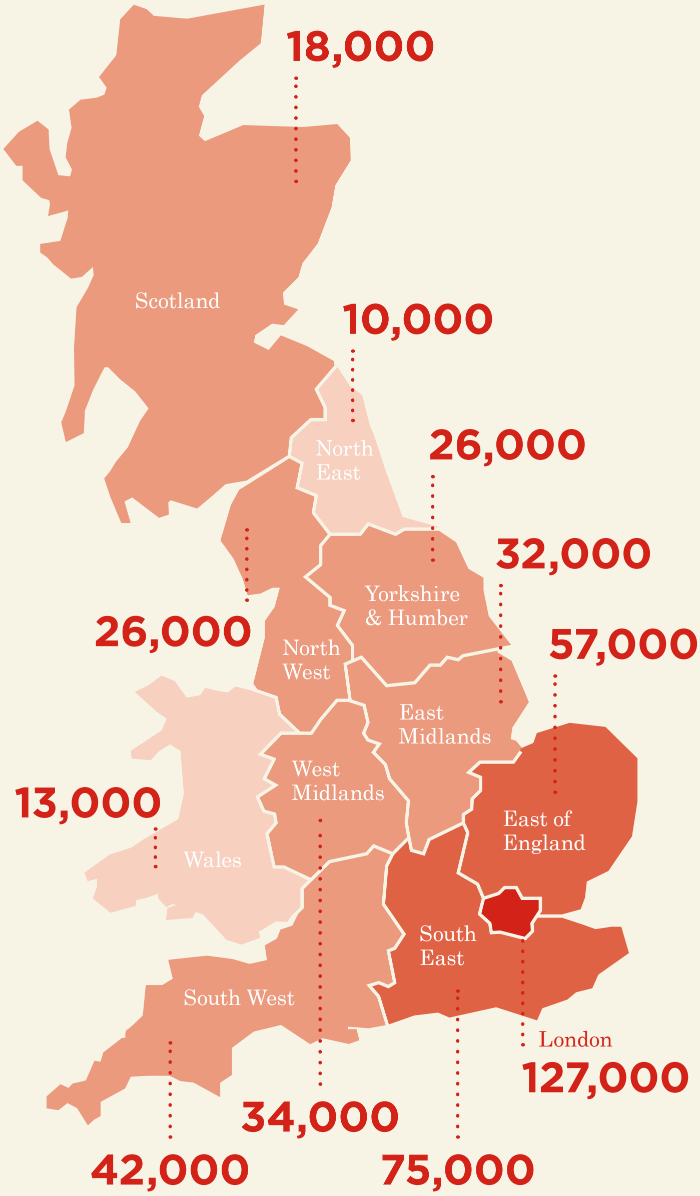
% end year



Source: JLL, Oxford Economics

POPULATION EXPANSION GREATEST IN SOUTH

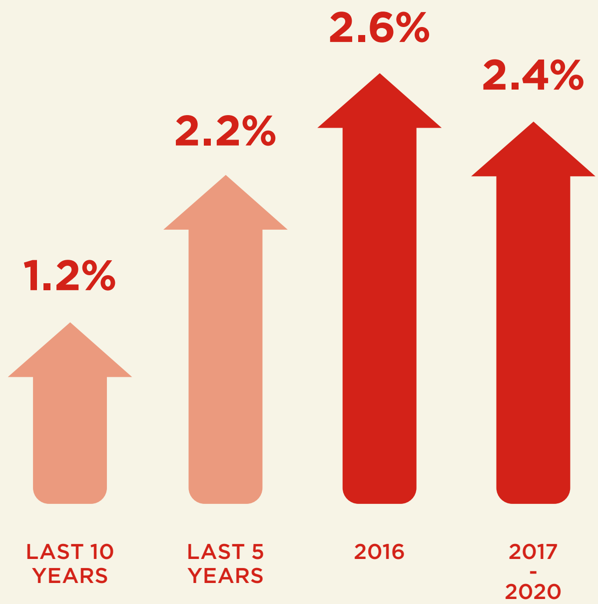
Average annual population growth 2016-2026



Source: JLL, Oxford Economics

ECONOMIC EXPANSION MORE SECURE

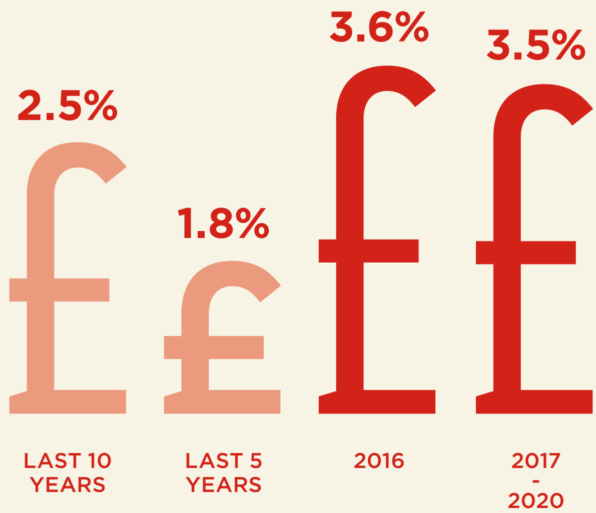
UK GDP growth % pa



Source: JLL, Oxford Economics

UK AVERAGE EARNINGS ENTER NEW PHASE

Average earnings growth % pa



Source: JLL, Oxford Economics

INTERNATIONAL DIMENSIONS

Issues overseas pose the greatest threat to the UK economy and housing markets. But how worried should we be about the potential risks and how important will they ultimately be for our otherwise robust domestic markets?

JLL HEAD OF UK RESEARCH
JON NEALE

About turn

Six years ago, in the depths of the 'Great Recession', it would have been laughable to argue that by 2015 the UK would be one of the best performing economies in the Western World, and that China and the emerging economies would be facing their own set of severe problems. Yet that is precisely what has happened.

There are now some very obvious risks in the world economy which could have implications for the UK and London housing markets.

Principally, the recent collapse in oil and commodity prices may have given us low inflation, but they have undermined resource-exporting economies from Brazil to Russia.

China crisis

China does not fall into this category, but is facing its own problems. The recent collapse of its stock market bubble highlighted the instabilities within the world's most populous nation, but this is only a symptom of a deeper malaise.

For a generation, China has been investing intensely in itself, in its infrastructure, its housing, its factories, its machinery. The population has become richer, and wages have risen, along with costs. Countries such as Indonesia and Vietnam now seem more attractive locations for manufacturing.

China now has to make the transition to being a more consumption-driven economy. Its shoppers would spend more and the level of imports from the rest of the world would rise. This is clearly a difficult change, particularly when share and property prices are under duress, with the level of debt a rising concern.

Its GDP is likely to grow by 6.6% this year. This may seem high compared to the western economies, but this is in a country that has become used to double-digit growth. Even last year's 7.4% seems low in that context, and with the economy likely to struggle more in 2016, the stresses in the country's economy and political system could become more visible.

China's importance is undeniable, it is now the world's second largest economy, and it is hard to imagine that there will not at least be some knock on impacts elsewhere.

The country's potential, given its population, remains immense, and in the long-term its central position within the world's economy seems certain. That does not mean that there will not be setbacks along the way, and in the meantime, investors may look to export capital. Overall, UK property markets remain an attractive option.

Indian middle class expansion

Interestingly, India, which now appears to be making some headway after years of relative underperformance, looks set to outpace China over the next few years.

Investment could accelerate over the coming years as the middle-class continues to grow, although capital controls are still an issue.

Eurozone problems fade

Concerns over China and the other BRICs have taken over from a second phase of the Greek crisis. The brinkmanship of Alexis Tsipras and German insistence on austerity combined to raise the spectre of a disorderly exit from the Eurozone.

For the time being, that problem has been avoided, but the underlying issues remain: the sheer size of Greek debt compared to its ability to raise taxes from a weakened economy.

Elsewhere in the Eurozone and, indeed, in the developed world, the situation looks brighter, and stronger growth here should ensure that the world economy continues to grow despite the risks in the emerging world.

Germany remains robust; France is returning to stronger growth; and Spain has emerged from its crisis period to become the strongest growing major economy in Western Europe after Britain, although admittedly this is from a base that was rather more eroded by the recession.

All this is a boost for the UK too, given that the Eurozone remains the UK's biggest trading partner. This should help consolidate recent improvements on this side of the Channel, helping to ensure consumer confidence and mortgage volumes remain buoyant.

Japanese recovery

Japan, still the world's third largest economy, will provide an even greater offset to the problems in its larger neighbour. Despite its demographic issues (a shrinking population), it looks set to deliver 0.8% growth this year and 1.8% in 2016, a radical shift upwards after years of stagnation.

It is no coincidence, of course, that most of these countries are energy importers, meaning both their industry and their consumers are benefiting strongly from recent price falls.

Interest rate policy is key

However, the main counterbalance to China's temporary weaknesses will be the US, which is back in its historic position as the main driver of the world economy. This year, it is set to match the UK's growth rate, albeit in an economy some four times larger, with 2016 likely to be stronger still.

Of course, there are risks to this forecast. The most significant of these is the timing and impact of the Fed's decision to raise interest rates. Most commentators are expecting a rise later this year, although the chances of this moving into 2016 are increasing.

Clearly, a spike in lending costs could be very damaging, although the implications might be most pronounced in some emerging countries with high debt levels.

Equally, in the UK, the timing and trajectory of interest rate rises will be crucial. However, ultra-low inflation and the strong pound provide yet more reasons for Governor Carney to delay beyond early 2016, implying that UK homeowners and buyers will continue to benefit from some of the lowest mortgage rates ever seen.

It is possible too that the weaknesses in the world economy could prompt central banks to move the goalposts yet again.

Indeed, the risks in the developing world, and recent stock market corrections in the US, are forcing more capital into 'safe' assets such as gilts, pushing down yields and indirectly putting downward pressure on lending costs.

Low borrowing costs should ensure that domestic demand for UK residential remains strong, particularly given that real wages are rising relatively strongly. The resulting buoyant market should also help convince overseas buyers that the UK housing market remains a strong proposition.

Safe haven enhancement

The economic problems in the BRIC economies, and elsewhere in the emerging world, may additionally lead the UK to regain some of its safe haven status, meaning overseas buyers, perhaps dismayed by the performance of some domestic developments, may look to invest more in locations such as London.

Assuming the UK's reputation for stability is not tarnished, the only potential barrier here is the strength of the pound compared with most other currencies (with the notable exception of the dollar, see chart). While this helps to ensure that base rates remain low, it also complicates investment decisions from overseas.

International risks

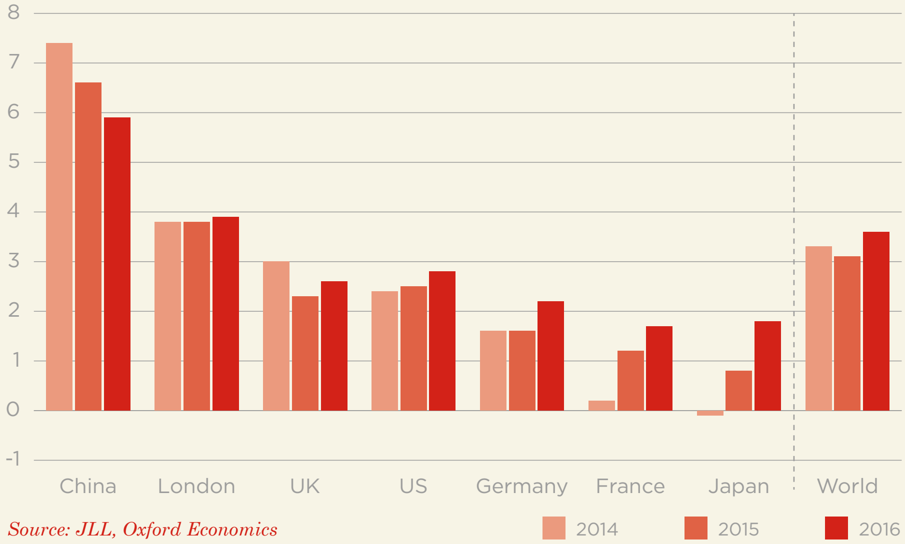
Overall, therefore, there are risks for the UK and London housing markets from overseas. UK economic growth could be lower as a result of the problems in China and other emerging countries with broader global contagion also a threat.

However, although the UK will not be totally immune from any fallout, it is better placed than most countries to weather a storm. So the risks to the UK economy, and hence the UK housing market, are real, but on balance we remain confident about a positive market backdrop for the next few years.

For now the UK housing market should press ahead with confidence, while keeping a beady eye on global influences.

GLOBAL GROWTH OUTLOOK REMAINS SOLID

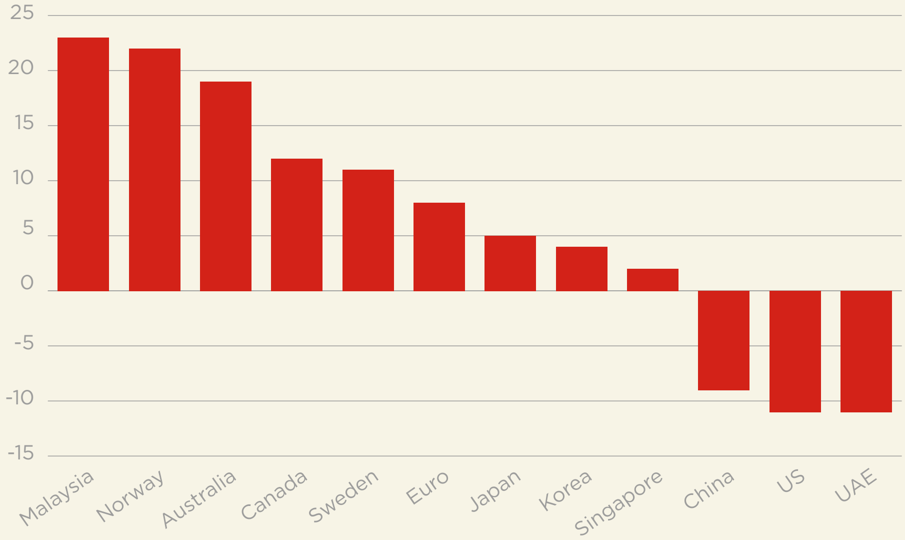
GDP growth forecasts (% pa), selected regions



Source: JLL, Oxford Economics

STERLING APPRECIATING, BUT NOT AGAINST USD

Sterling appreciation against selected currencies, Q2 2014 to Q3 2015



Source: JLL, xe.com

UK HOUSING MARKET FORECASTS

A strong and stable domestic economy will underpin the UK housing market over the next five years. We expect house price growth nationally to be in the order of 3-5% pa during this time with transaction activity improving steadily before the 2020 election year.

2016 springboard

2016 should provide a sounder base for British businesses, consumers, home owners, home buyers, renters and landlords following 2015, which was disrupted by the general election.

Assuming international factors do not dent the UK's positive and robust outlook, many people in the UK will feel more comfortable about making important lifetime decisions; including buying a first home or moving up the housing ladder.

Many owner-occupiers have deferred moving home over the past 7-8 years following the global financial crisis, but with the outlook more positive and stable we expect at least some to seize the opportunity to move home, releasing pent-up demand, as well as more stock, onto the market.

Improved employment and wage conditions, together with a more prosperous and secure outlook, will also encourage people to find their own place to live, to move out from under their parents' feet and to buy instead of rent.

Potentially, the whole housing market, be it rental or ownership, could be notably more active. However, continued high moving costs, despite lower stamp duty burdens for most, will provide some brake on transactions, as too will the lack of choice for buyers.

The main domestic housing market risk in 2016 will come from base rate rises but we do not expect the UK housing market to be too adversely affected. The certainty of a new London Mayor following the election in May is likely to cause some anxiety at the top end of the Capital's market, especially if Labour fare well in the polls.

2017-2020 prospects

Despite the EU referendum and the likelihood of further interest rate rises, 2017 should be a further year of positive economic expansion and improved household finances and confidence.

This backdrop should lead to greater UK housing market activity, reasonably strong house price growth and a continuation of development volume growth in 2017.

Forecasting models suggest that house price growth will ease gradually over the next five years, in part at least due to growing affordability issues.

Whilst this is broadly our base case forecast, it is plausible that as UK housing demand and household confidence improve, the lack of housing and the sparse choice for buyers could become even more apparent and acute. This could then lead to greater urgency amongst buyers and result in a spike in house prices at some point during this period.

Overall, however, the underlying conditions for a strong and active UK housing market should hold firm despite some affordability drag.

Development volumes are likely to rise marginally, assisted to some extent by government initiatives, but we are not anticipating a meaningful step change, especially given resource constraints.

Perhaps the only obvious choppy waters to negotiate will be in 2020 when the next general election is due.

London and south to lead

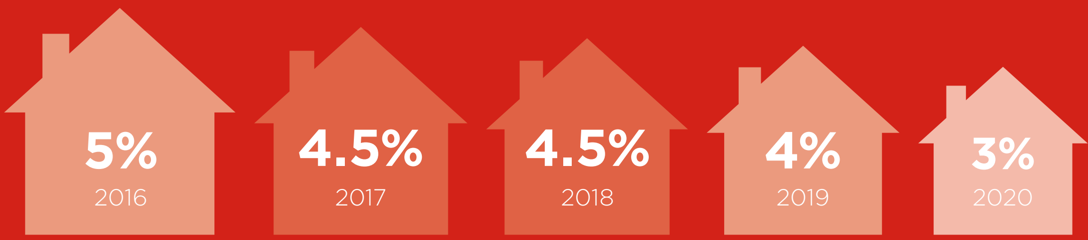
Given both the economic and population outlooks for London and also for the South East and East of England regions, it is unsurprising that house price growth forecasts for these areas are also highest, particularly given that the undersupply of housing is also most acute in these regions. A full set of regional forecasts are provided on page 22.

Key urban employment hubs such as Manchester, Leeds, Edinburgh and Bristol will continue to prosper and outperform their regional markets.

Manchester is the UK's leading light in this respect having firmly established itself as England's second city, continuing to attract businesses, workers and residents to its vibrant city scene.

UK HOUSE PRICE GROWTH FORECASTS

% change pa



NEXT 5 YEARS
4.2%

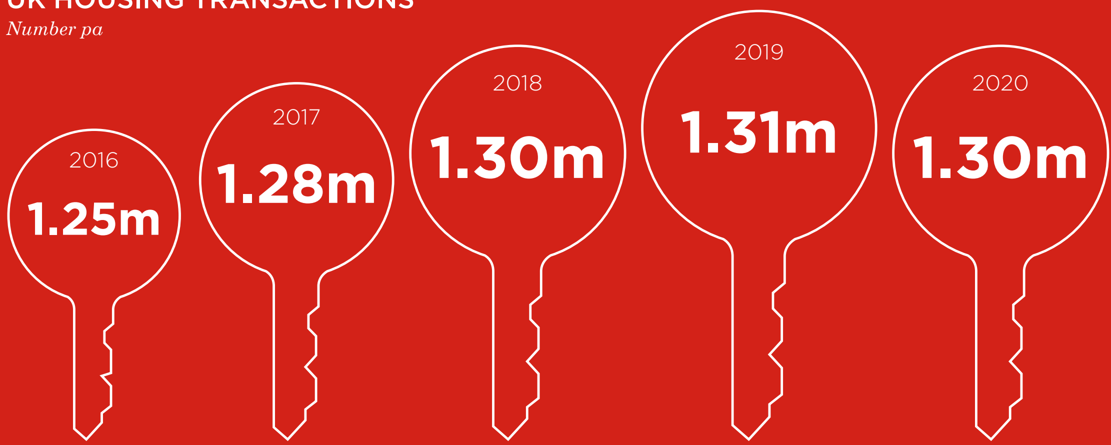
LAST 5 YEARS
3.1%

LAST 10 YEARS
1.8%

Source: JLL

UK HOUSING TRANSACTIONS

Number pa



NEXT 5 YEARS
1.29m

LAST 5 YEARS
1.07m

LAST 10 YEARS
1.13m

Source: JLL

ENGLAND HOUSING COMPLETIONS

Number pa

NEXT 5 YEARS
154k

LAST 5 YEARS
119k

LAST 10 YEARS
131k

Source: JLL

LONDON FORECASTS

London's housing market will come under increasing pressure. The underlying fundamentals are that not enough homes will be built and although affordability constraints will drag on price growth, 'ordinary Londoners' will continue to be priced out of London. Higher value markets will continue to be sensitive to policy intervention.

Underlying considerations

Many of the factors that will affect the UK housing market over the next five years will also impact on the Capital. However, there are some specific trends and influences that will shape the outlook in London.

The London housing market has two principal competing factors. On the one hand it should expect to see higher house price growth relative to the UK given its better economic growth profile, while on the other hand the high house price to income ratios dampen price growth potential.

Supply issues

The other broad issue is the lack of housing supply. Crucially, it is London where the pressures are going to grow most acute over the next 5-10 years.

London's population is set to rise by more than 1m people over the next decade, equating to more than 100,000 extra people a year. We are currently building around 20,000 homes a year, and although starts have risen recently this is not close to building the 40-50,000 homes a year we need.

The upshot will be demand outstripping available supply and upward pressure on prices, despite the well-documented affordability constraints.

Gentrified pricing

The most prominent London trend is the increasing gentrification of neighbourhoods. While upgrading locations is positive in several respects it does increase house price levels, making them less affordable.

The implication is that 'ordinary Londoners' are now having to move further afield and are often having to live outside of the Capital altogether in order to find affordable homes.

We expect this trend to continue and to lead to stronger price growth in outer London locations and more subdued increases in the higher priced markets.

Taxation strife

Unfortunately, the heavy burden of stamp duty rates at the top end of the market have dramatically affected transaction levels, most notably in the Prime Central London market, but also in any higher value areas or higher value units in new developments. It has also led to some price falls.

On a positive note, it should signal the death knell of the mansion tax or to any other increases in taxation at the upper ends of the market.

However, we would strongly urge the Government to review the new stamp duty rates; ultimately they will see a reduction in aggregate tax take if they do nothing.

New Mayor

London will welcome a new Mayor in May 2016. With Labour's strong showing across London in the general election there is a distinct possibility that the next London Mayor will be Labour.

At the very least we expect the uncertainty surrounding the election, coupled with additional nervousness at the top end of the market, to detrimentally impact on transactions and price growth.

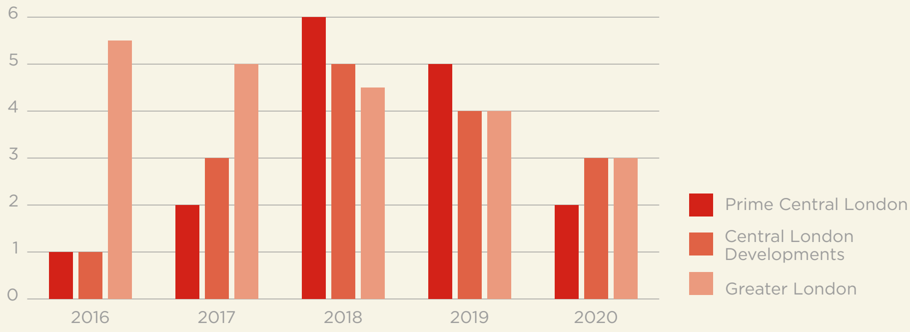
UK EU referendum

We are also expecting the UK's referendum on EU membership to play a part in the London housing market. We believe that the UK will probably vote to remain in the EU but, as is the case around general election time, uncertainty can creep in and distort the market.

We expect slightly lower activity and marginally softer pricing pressures during the second half of 2017, with international buyers and central locations more sensitive than domestic buyers and outer London submarkets.

LONDON HOUSE PRICE GROWTH FORECASTS

% pa



International turbulence

The recent weakness in China, and some other emerging nation economies, is yet to fully unravel, but will clearly impact adversely on overseas demand for London residential property. Unrest in parts of the Middle East and elsewhere will also play some part too.

But although these events will knock aggregate demand, they can often aid the London residential market as we are fortunate enough to benefit from our much heralded safe haven status.

Cautiously positive

Overall, while there are several potential negatives for Central and Prime Central London markets in particular, the fundamentals are that London has insufficient supply to meet demand and that this trait will not only remain over the next five years but it will deepen.

As a result we are expecting quite strong price rises for the mainstream Greater London market over the next five years, but lower price growth in higher value markets and those more sensitive to external influences such as the Mayoral election, the EU referendum and global economic turbulence.

Prime Central London

The outlook for the Prime Central London market is particularly sensitive. The stamp duty reforms have created huge uncertainty, knocking prices and transaction levels. No-one is quite sure whether the market will have adjusted fully by the end of this year or whether 2016 will be affected too.

Additional uncertainty is also likely in 2016 with the spectre of further taxation or other intervention a possibility as we expect Labour to feature prominently in the Mayoral elections even if they do not win. So price growth and transaction levels could be quite weak during the first half of 2016. However, there is the possibility that greater certainty in the second half of the year will lead to a modest market bounce.

2017 could also be affected by overseas concerns surrounding the EU referendum and with the vote unlikely to take place until later in the year, Prime Central London transaction levels and prices could be detrimentally affected.

So 2018 is likely to be the first year of greater stability and certainty for Prime Central London in our forecast period. We see quite a rebound in transactions and prices with robust growth in 2019 too, before uncertainty creeps back in again during the 2020 general election year.

Central London Developments

New development activity has picked-up notably in the past few years, but still not enough product is being built. Developers are keen to build more but are increasingly wary of sales prices, build costs and sellability at the top end of the market despite strong trading conditions in the sub £1m market.

Price points are key with more central and higher value schemes affected by Prime Central London influences while lower value schemes are driven more by Greater London factors. We are expecting price growth to reflect both of these influences, with some potential weak points in the next couple of years.

Greater London

The residential market outside of Central and Prime Central London is driven principally by domestic buyers. Affordability is an issue for many, especially first-time buyers, although London's Bank of Mum & Dad is a key source of support. Investors play an important role too, with both UK and international participants active.

The gentrification and outward push of 'ordinary Londoners' is a key trend while the market is also far less sensitive to government intervention and taxation factors. The undersupply of housing will also be a critical influence.

Overall, we see pretty steady and strong upward pressure on prices over the next five years with increases in the region of 3-6% pa, despite affordability applying some dampening pressures.

RENTAL FORECASTS

Demand for rental accommodation has accelerated quickly over the past decade and there is little to suggest this trend will run out of steam anytime soon. With supply constraints possible in the medium-term, we believe there will be additional upward pressures on rents over the next five years.

Expanding sector

The UK's private rented sector continues to expand. Figures from the latest English Housing Survey suggest that 4.4m of the 22.6m households in England, 19.4%, are privately rented.

Significantly, the number of rented households has escalated from just 2.3m, or 11% of all households, ten years ago.

The situation is even more acute amongst younger age groups. It is astounding to think that almost half of all 25-34 year olds now privately rent in England. This has risen from just over 20% ten years ago (see chart).

Current trends also suggest that the number and proportion of private renters are set to rise further in the medium-term, despite political rhetoric in support of more owner-occupation.

Housing unaffordability and onerous deposits are the main drivers of this trend. Government initiatives such as 20% discounted starter homes offer some hope for would-be young homebuyers, but this is unlikely to reverse, or even notably alter the strong upward march of the private rented sector.

Active PRS

Unsurprisingly, given both the high moving and buying costs in the owner-occupier market and the greater number of renters, the most active part of the national housing market is households moving within the private rented sector.

Of the 2m or so household moves in England in 2013-14, as estimated by the English Housing Survey, around half were moves within the private rented sector. If households new to the sector are added in, 65% of all house moves were to private rented accommodation.

Tenant demand to rise

We are also expecting economic influences as well as demographic and social trends to lead to greater private rented demand over the next five years.

A strong and stable UK economy, including higher employment and salaries, is anticipated in the medium-term, albeit with some international risks. These conditions will undoubtedly lead to greater demand for rental accommodation from young people starting work or wanting to move out of the parental home.

An increasingly pertinent point is whether there will be enough rental accommodation to house this considerable demand, especially given the recent tax relief changes for buy-to-let investors.

Rental ownership changes

The vast majority of private rented properties across Britain are owned by private landlords, but many of these have been dealt a blow in the Chancellor's budget in July 2015.

In an initiative that was aimed at levelling the playing field with owner-occupiers, it was announced that higher rate mortgage tax relief on private rental income was going to be phased out by 2020.

As the vast majority of private landlords are higher rate tax payers, the impact could be significant, leading to a sizeable sell-off of properties, especially those which are highly geared and therefore most affected by this tax change.

However, it should also be noted that approximately 65% of rental properties are owned outright, rather than being reliant on a buy-to-let mortgage, meaning that the Budget changes make no difference to them.

All-in-all, there is unlikely to be any meaningful sell-off of private landlord rental property over the next few years, especially as we see both prices and rents rising steadily. However, there may be slightly less exuberant enthusiasm from new investors, which may have a longer-term impact on rental supply.

There are also changes afoot in the institutional investment market. For the past few years there has been notably greater and more serious interest in the private rented sector. It has taken time for this to come to fruition, but genuine enthusiasm and action is now happening in London and in several towns and cities across the country.

And whilst institutional investors will always be dwarfed in volume terms by private landlords they could make a notable contribution to raising standards and competition within the sector, especially at a local level.

Forecasts

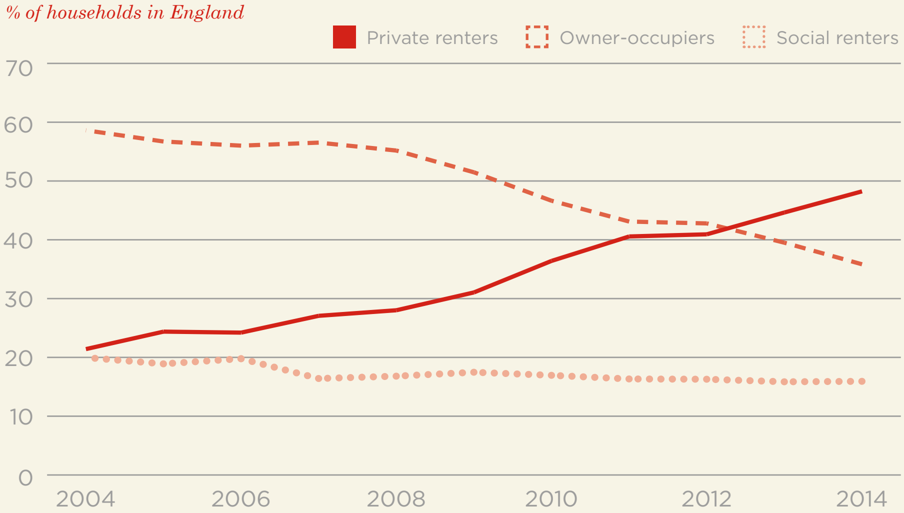
Overall, despite believing that demand will increase and available supply will remain constrained, we anticipate only moderate positive rental growth on a national basis over the next five years.

The main limiters are that tenants will move to smaller properties or to cheaper areas in order to ensure their rental costs suit their financial aspirations which frequently will include setting aside sufficient funds to save for a housing deposit.

Notably, compared to our forecasts from last year, we see slightly greater upward pressure on rents throughout our forecast period.

ALMOST HALF OF 25-34 YEAR OLDS PRIVATELY RENT

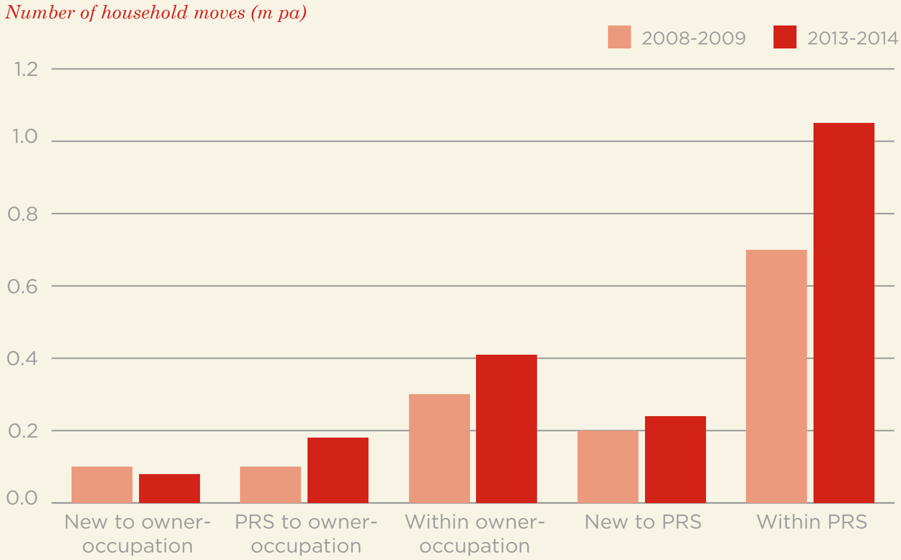
% of households in England



Source: JLL, English Housing Survey

PRS IS THE MOST ACTIVE HOUSING MARKET

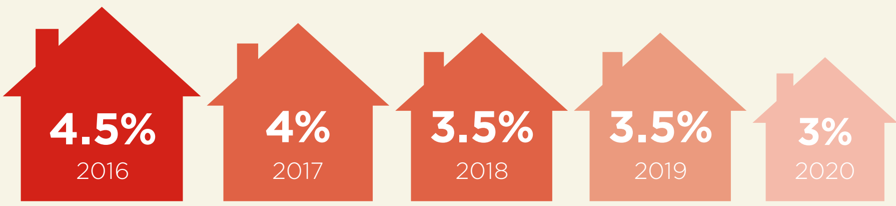
Number of household moves (m pa)



Source: JLL, English Housing Survey

UK RENTAL GROWTH FORECASTS

% change pa



Source: JLL

SETTING THE FOUNDATIONS

A year ago we launched 'The Supply Conundrum', JLL's views on the challenges to housing delivery. Twelve months later and the industry has moved on in some respects, but in other ways is no further forward towards solving the housing crisis.

JLL HEAD OF RESIDENTIAL RESEARCH
ADAM CHALLIS

Industry challenges

The debate now rightly centres on expanding supply volumes to reverse affordability challenges. Policy is firmly behind this principle as the one long-term solution to curbing house price inflation and ensuing instability.

What has remained less-clear is the method by which the UK will achieve this aim. In particular, a solution that deals with the basic structural shortcomings of the current industry delivery model.

Supportive policy

We are living in one of the most supportive policy environments to boost housing supply in a generation. However, this has proven insufficient to make the step-change towards higher rates of delivery, let alone being responsive to overwhelming market need.

The Government has been highly interventionist; direct action with programmes such as Help to Buy, Right to Buy, the National Planning Policy Framework and, more recently, the raft of planning changes proposed in the Housing & Planning Bill – all demonstrate a bold clarity of purpose.

However, it is increasingly clear that these programmes alone are insufficient to drive the changes to the supply programme that the UK needs.

Building blocks

It also set out its interpretation of the challenges and solutions in the summer white paper titled 'Fixing the Foundations'. Our view is that while much contained in the paper with respect to housing supply is laudable, it misses the real issue, which is that the foundations for a higher supply, less-volatile programme of housing delivery in the UK do not actually exist.

In short, at a fundamental level the UK does not have a system of delivery – even with a supportive planning system – that can sustain the high housing delivery rates this country needs.

The 'foundation requirements' aren't necessarily bold, nor are they radical. Delivering structural change is about creating the building blocks for a housebuilding industry that can deliver at these higher volumes across market cycles.

Fundamentally, it is about driving long-term programming into the heart of delivery.

This Government may have nearly five, but possibly ten years, to set housebuilding on a path to meet the desperate need for sustained higher rates of housing supply.

The opportunity to lay the right foundations exists, but will require the de-politicisation of housing policy so that the long-term adjustments set out in the four-point plan on pages 20 and 21 can be allowed to work.

JLL DIRECTOR, GOVERNMENT & INFRASTRUCTURE
PAUL SPENCER

The current Government has made a strong push for development land supply from surplus public land and buildings. Is this likely to make a difference to delivery?

Government has been quite clear with the general policy direction, but bringing land and buildings forward for development can be a complex process. In times of austerity it can be difficult for government to lever the skills and capacity to move forwards at pace.

What are the main barriers that have prevented more land from coming forward in the past?

It is often assumed that this land could be turned into housing quite quickly but public land is not always well located for development, or allocated in planning policy for development, and may require significant investment in infrastructure and servicing or even land assembly to make a marketable proposition. Bringing sites to the market requires skilled input, time and investment.

Are the changes proposed in the latest Housing & Planning Bill helpful or counterproductive?

Ultimately this attention could make a big difference, but I think it will take a lot longer for higher public land supply to feed through to a big increase in homes delivered. These things need to bed down over many years and often over different parliaments before they become entrenched programmes. Of course, government doesn't control where or how many homes get built; market forces dictate.

We know there is no silver bullet, but are there one or two things that you think would bring forward more public land for housing?

Money. It doesn't have to be from the public purse, but creating the conditions for the private sector to invest in infrastructure and for the public sector to de-risk land has to be better understood. There is considerable interest from the investment funding community in financing infrastructure and large scale housing delivery but a fully integrated solution matching public land to willing investors has yet to emerge.

SETTING THE BRIGHT

Housing Land Agency

Public land or buildings with development potential are held by a range of departments – from the Ministry of Defence to the Homes and Communities Agency to the Government Property Unit – as well as with public bodies such as the National Health Service, National Rail and Local Authorities. Attempts to simply understand the full extent of what development land might be available have floundered in the past.

Often, there are a lack of incentives for public bodies to sell assets, as receipts are in part or whole accrued to Central Government. A scenario that sees public bodies retain a proportion of capital receipts, or in cases where capturing a future revenue stream would be of greater value (ie Build to Rent for Local Authorities) would ultimately drive forward development land release programmes.

Housing Delivery Agency

The merger of the Housing Corporation with English Partnerships (EP) created a Homes and Communities Agency (HCA) that is a housing-focussed government department with extensive surplus land that had been targeted for regeneration.

As the national regeneration agency, EP had a role to enable land for more productive activity and, where successful, release the land and recycle the capital back into future sites. However, the original regeneration purpose of EP has been lost, ultimately due to the Comprehensive Spending Review and economic downturn, but it could now be reshaped as a housing delivery organisation.

Government must recognise that quite a lot of surplus public land is too big, complex or fraught with risk to be delivered by the private sector alone. The original EP provided a vital role in de-risking regeneration opportunities and its absence has placed too much reliance on Section 106 agreements and developers to deliver up front infrastructure. Returning this back to a Housing Delivery Agency would drive value for the public estate, while also bringing forward and de-risking complex sites.

FOUNDATIONS

IDEAS

Housing Investment Bank

We have an industry in which there are not enough participants. The loss of small and medium-sized developers through the economic downturn has meant that 30-40,000 homes per annum are not being delivered on small sites up and down the country.

This represents lost innovation and lost competition in housebuilding, while also slowing the delivery of infill sites that are often vital to local regeneration and renewal projects.

A Government-backed investment bank that provides development funding for SMEs could pool the higher risk of this type of lending, supporting the sector and enabling a much bigger proportion of small sites to be developed. This could even be extended to self-build programmes, supporting another of the current Government’s manifesto pledges.

Housing Innovation Fund

The housebuilding industry needs to modernise, both in terms of the methods of construction and the skills required to meet the needs of off-site construction. The current rate of retirement far outpaces the rate of new recruitment, while at the same time our methods of housing delivery have hardly changed in over 100 years.

However, market cyclicality significantly impedes the ability of developers and housebuilders to invest and to drive long-term change in the way housing is delivered in the UK. Could the Government act as a seed investor to an industry innovation fund, ensuring that we are constantly seeking to identify best practice for the benefit of all, while training up the next generation of the construction workforce?

OUR FORECASTS

HOUSE PRICE GROWTH (% pa)	2016	2017	2018	2019	2020	2016-2020*
Prime Central London	1.0	2.0	6.0	5.0	2.0	17.0
Central London Developments	1.0	3.0	5.0	4.0	3.0	17.0
Greater London	5.5	5.0	4.5	4.0	3.0	24.0
South East	5.5	5.0	5.0	4.5	4.0	26.4
Eastern	5.5	5.0	5.0	4.5	3.5	25.8
South West	4.5	4.5	4.0	3.5	3.0	21.1
East Midlands	4.5	4.5	4.0	3.5	2.5	20.5
West Midlands	4.0	4.5	4.5	3.5	3.0	21.1
Yorkshire & Humbs	4.0	4.5	4.0	3.5	3.0	20.5
North West	5.0	4.5	4.0	3.5	3.0	21.7
North East	4.0	4.0	3.5	3.0	2.0	17.6
Wales	4.0	4.0	4.0	3.5	2.0	18.8
Scotland	3.5	4.0	4.0	3.5	3.0	19.3
UK	5.0	4.5	4.5	4.0	3.0	22.8

RENTAL GROWTH (% pa)	2016	2017	2018	2019	2020	2016-2020*
Prime Central London	3.5	3.5	3.0	2.5	2.5	15.9
Central London Developments	4.0	3.5	3.0	3.0	3.0	17.6
Greater London	5.0	4.5	4.0	3.5	3.0	21.7
UK	4.5	4.0	3.5	3.5	3.0	19.9

ACTIVITY AND DEVELOPMENT (000s)	2016	2017	2018	2019	2020	2016-2020**
UK transactions	1,250	1,280	1,300	1,310	1,300	1,288
England housing completions	140	155	160	160	155	154
London housing completions	22	24	25	26	24	24

* cumulative growth   ** average pa

THE FINAL WORD

“The baseline outlook for the UK housing market is for a steady rise in transactions and house prices. Overseas economies and unrest pose some risk but fundamentally the UK economy is in a stronger and more stable place than almost anywhere else in the world.

Higher value London markets, which are being rocked by punitive levels of stamp duty, face an uneasy and vulnerable short-term outlook, but most regional mainstream housing markets are looking in good health. Positive economics and more secure household confidence and finances, alongside insufficient new housing delivery, will place upward pressure on prices and will lead to more transactions.

The most critical threat, for both the UK economy and housing market, comes from within, and it cannot be understated. As has been the case for a decade or more, we are not building enough homes. The problem has deepened during this time and now desperately needs addressing. Importantly, the time and opportunity have now arrived, and it sits with the new Government to deliver.

The Conservatives now have five years, perhaps ten, to make their mark and to lay the foundations that can really enable and empower the housing industry to deliver a greater number of homes. A whole nation is baying for solutions and an entire generation’s housing needs are now in their hands.”

—

Neil Chegwidden
JLL Director Residential Research

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With over 300 professionals operating from a comprehensive network of UK regional offices, the Residential team at JLL is the most comprehensive full service advisor in the market.

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