

# The Housing Market Ahead: Forecasts from Economists

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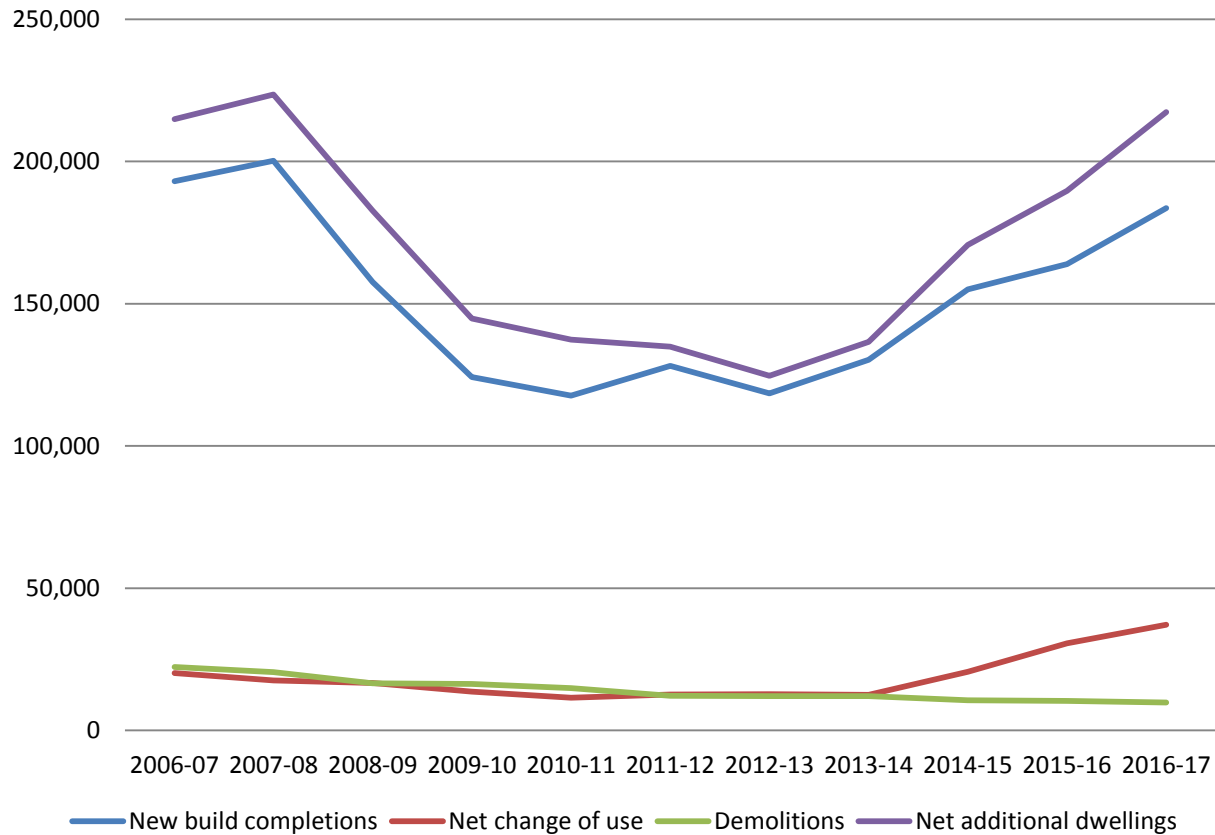
# The Core Issues: Demand

- Demographics – based on past trends in population and household formation (which include effect of affordability and financial crises) household projections suggest around 260,000 additional households per annum;
- Incomes: income elasticity around 1 but incomes growing slowly and major constraints on first time buyers through deposit requirements etc;
- Relative prices - rents relatively buoyant but prices still falling in some parts of the country – and London definitely slowing. But also where else do you put your money – Buy to Let demand?

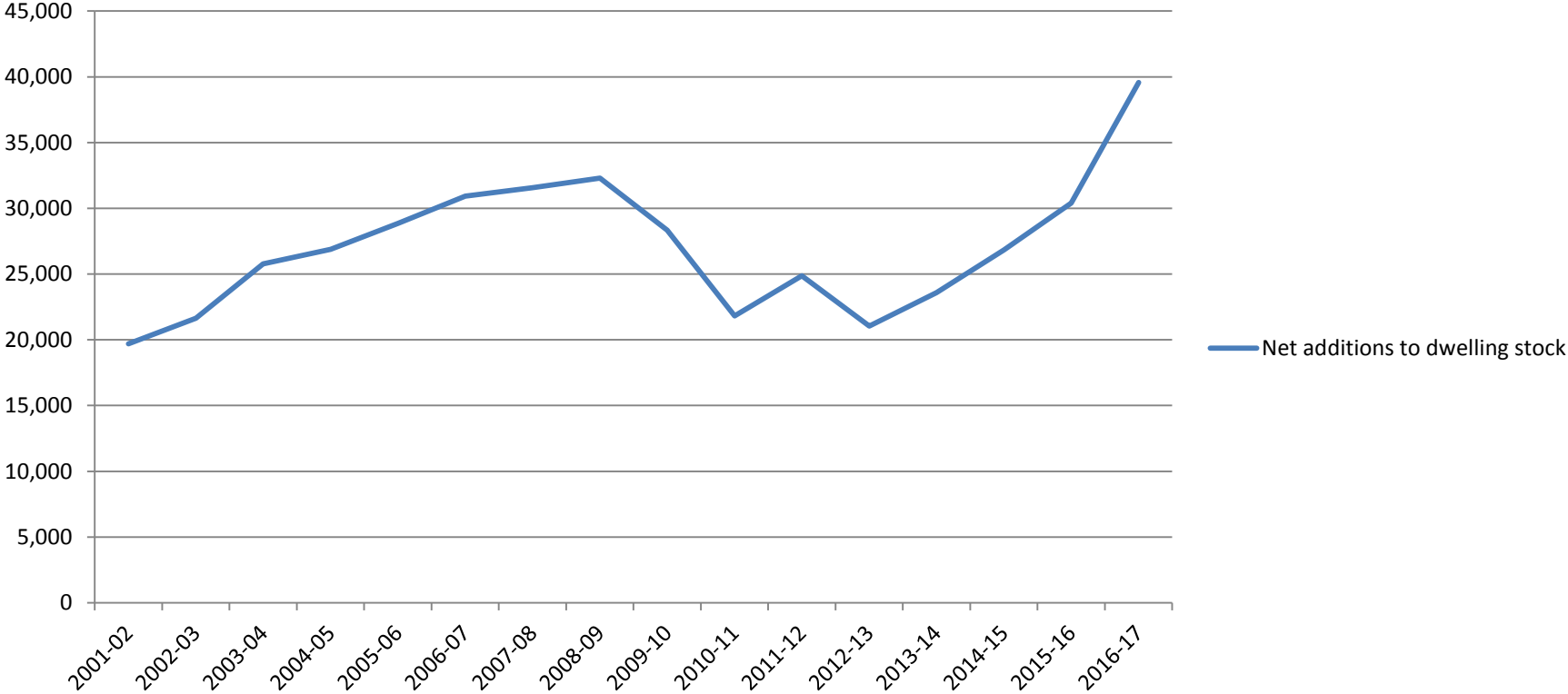
# The Core Issues: Supply

- Long run supply elasticities in the UK have been very low – supply does not respond well to increasing demands but falls in response to volatile macro-economy;
- Housebuilding is demand led with 80% plus of output from major builders (who also build the affordable homes as part of S106 and as contractors);
- Private market has generally not built more than 160,000 – 170,000 per annum – and around 100,000 after the crisis;
- But higher levels of housebuilding depend on changes to supply conditions – land; planning permissions; reduced risks; and in particular subsidy for affordable housing – issues around demand v. need.
- The latest figures suggest supply has been expanding quite rapidly – net additions running at nearly 220,000, almost up to 2007/8 levels;
- London has done particularly well but will this continue.

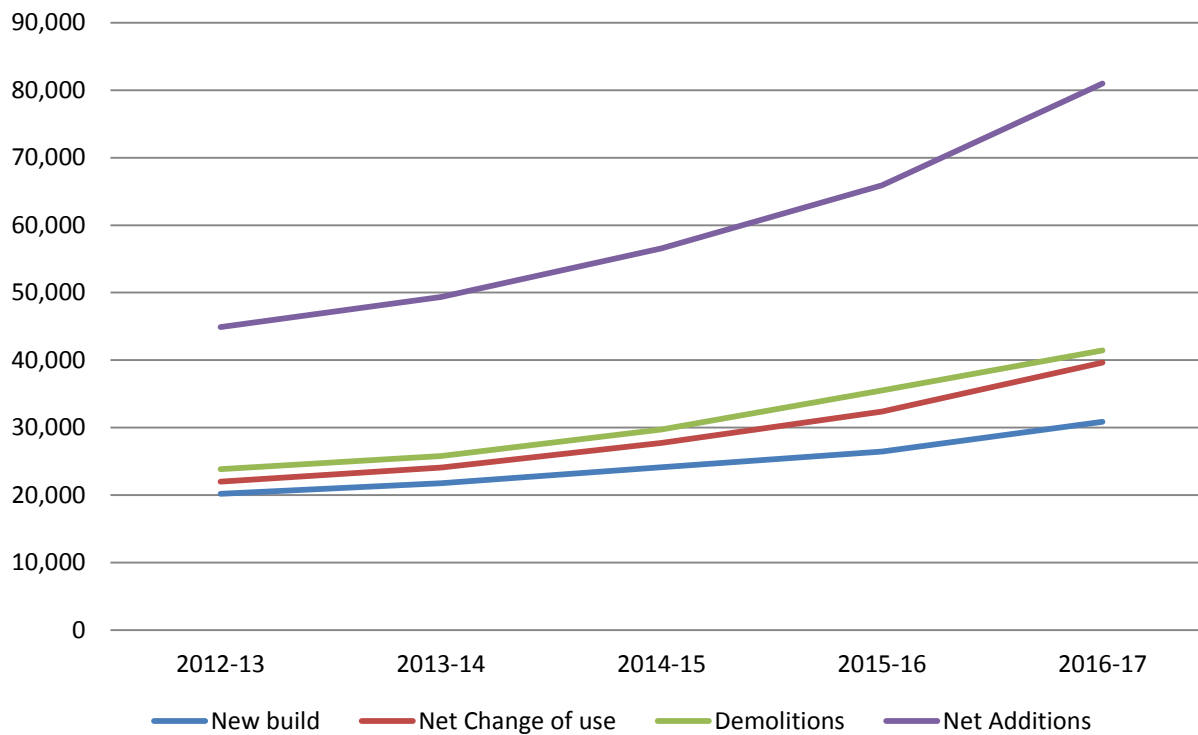
**Table 120 Components of net housing supply,  
England 2006-07 to 2016-17**



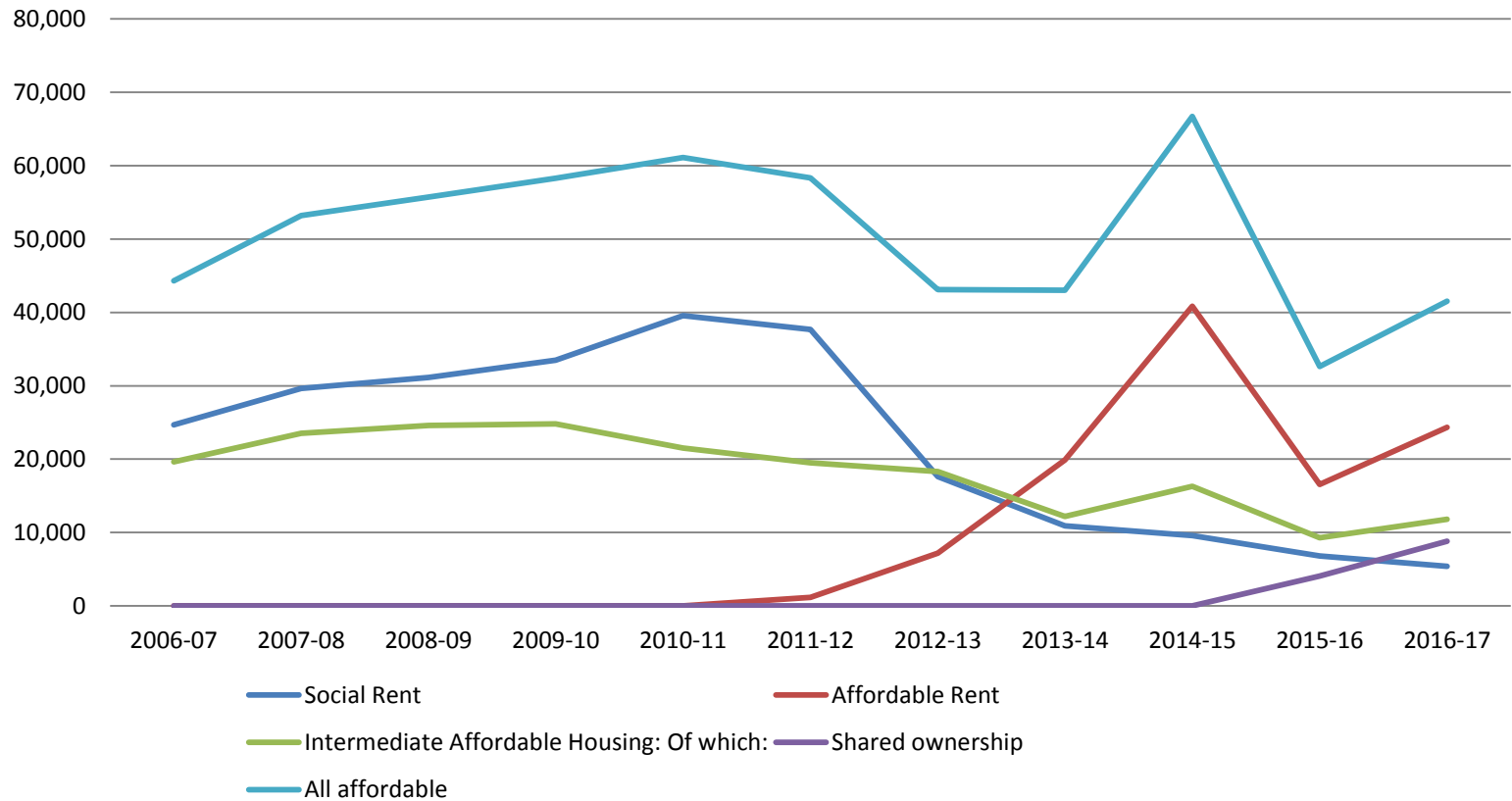
## Net additions to dwelling stock, London, 2001-02 to 2016-17



**Table 123 Housing supply; net additional dwellings,  
component flows of, London, 2012-13 2016-17**



**Table 1000: Additional affordable homes provided by tenure, England**



# Major Policy Changes: Planning

- Permitted development – enables transfer from vacant commercial properties to residential – particularly effective in London and in the Build to Rent market. Also enables extensions to allow adjustment in place;
- Planning permissions have increased – but often on large sites where build out inherently slow and infrastructure and other constraints;
- Difficult issues around Nimbyism; types of site made available and concerns that land often available only in lower demand areas.



# Major Policy Changes: Support for New Housing

- Help to Buy – based on equity sharing between purchasers and government – demand led policy which reduces risks of expansion for developers;
- Encouraging housing associations and now local authorities to enter the private market;
- Release of public land – very slow process and mainly sold at ‘highest and best use’;
- But direct supply subsidies for affordable housing very limited - but note this is the case in countries such as Netherlands and Sweden where affordable housing required to pay for itself;
- Far too many initiatives which change the rules – what is wanted is a stable environment and robust economy.

# Implications for the Future Housing Market

- The fundamentals of the market do not look great – nearer the next downturn than the last – in parts of the country already here
- Current rates of building – let alone higher levels - dependent on government support through Help to Buy and other incentives;
- Fundamental issues around access to mortgages remain;
- And new supply at best will always be a tiny part of the overall housing system – necessary but cannot solve the affordability crisis.