

# Do New Homes Matter?

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## New homes matter to:

- Society and the economy
- The housing market
- Lenders
- And the environment (climate change, zero carbon)



## New Home Building & the Economy

### **New home building:**

- 8.6% Fixed Capital Formation
- 1.5% GDP
- 335,000 direct jobs 2007
- And 17% construction industry output



## New Homes & the Housing Market

### **New home sales:**

- ~10% housing transactions
- But a wealth-creating 10%
- Key role in chains
- Impact on marginal prices

I.e. impact far beyond 10% market share implies



## Housing Undersupply: a Crisis

### The Evidence

- Barker Review (March 2004)
- Scale of shortfall (England) 2000-08:
  - Housing stock growth 166,000pa vs household growth 203,000pa =>40,000pa shortfall
- Projected household growth: rapid increase

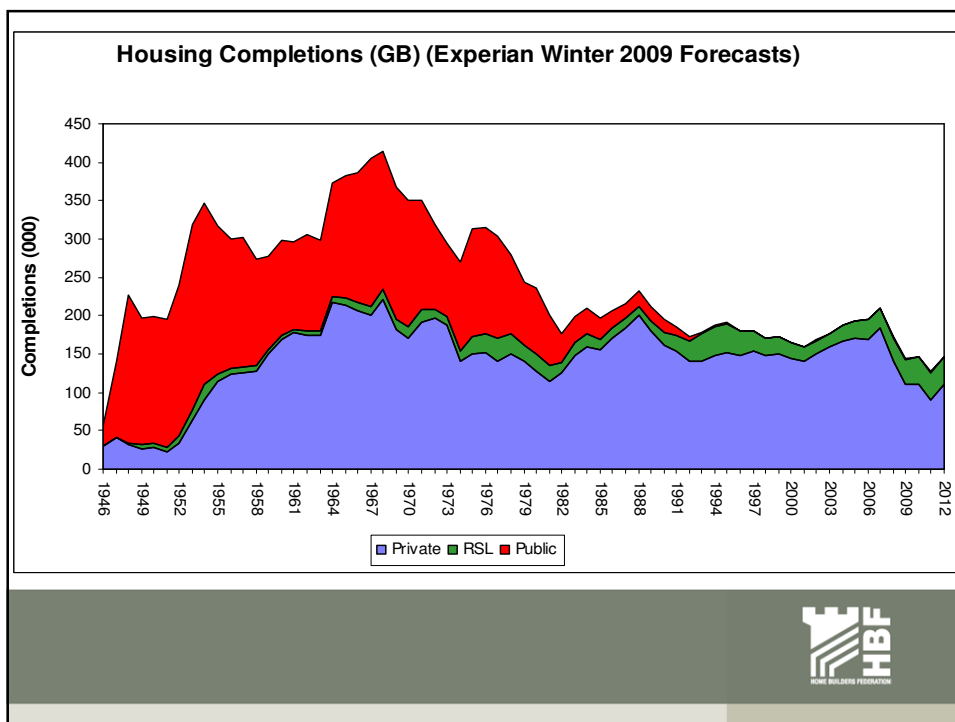
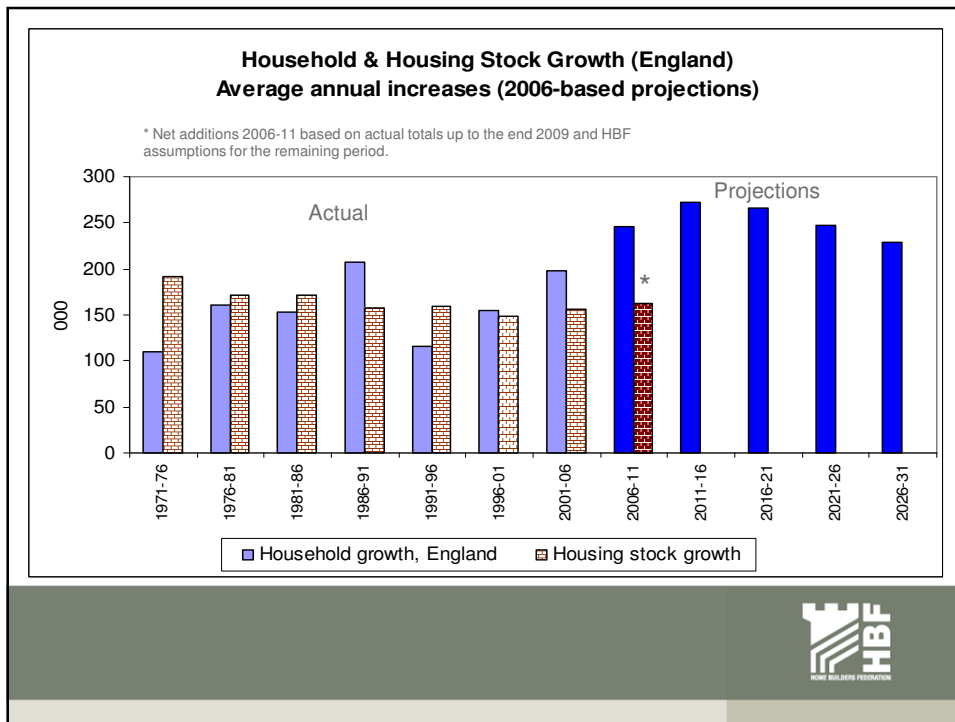


## Structural under-supply

“I do not believe that continuing at the current rate of housebuilding is a realistic option, unless we are prepared to accept increasing problems of homelessness, affordability and social division, decline in standards of public service delivery and increasing costs of doing business in the UK – hampering our economic success.”

(Kate Barker *Review of Housing Supply. Final Report.* March 2004)





## Under-supply Crisis

### Consequences/Stress Indicators

- House building jobs & contribution to GDP depressed
- High house prices against incomes
- Rental yields inadequate for institutional investors
- Escalating 'affordable housing' need
- Low vacancy and demolitions (1100 year replacement rate!)
- Homelessness
- Waiting lists (1.8m households, nearly 5m people)
- Overcrowding (1m children, 565,000 households)



## Under-supply Crisis

### Consequences/Stress Indicators

- Dwelling and plot sizes squeezed
- First-time Buyers:
  - Historic low levels
  - 80% dependent on financial assistance
  - Average age unassisted: 37
- Living at home: 18-34 year olds (2008):
  - 29% males, 18% females
- Delayed marriage and first child



## Under-supply Crisis

### Consequences/Stress Indicators

- Uneven distributional impact
- Excessive household debt (especially young)
- Labour shortages, including public services
- Reduced labour mobility
- Upward wage pressures
- Aggravated unemployment
- Reinforce regional economic differences
- Loss of company competitiveness



## Future Housing Supply

- Severe constraints on housing association supply (public funding/grant, S106 supply, cross subsidy)
- Local authorities modest contribution
- So private sector supply is key



## Private Sector Supply

### Supply Conditions

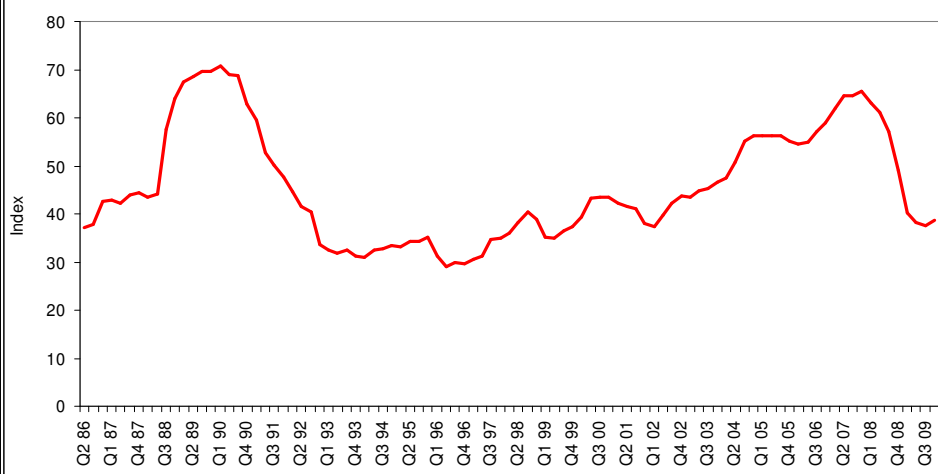
- Sufficient viable, permissioned land
- Industry capacity (finance, skills, capacity)
- Ability to meet demand (products, mix, densities)

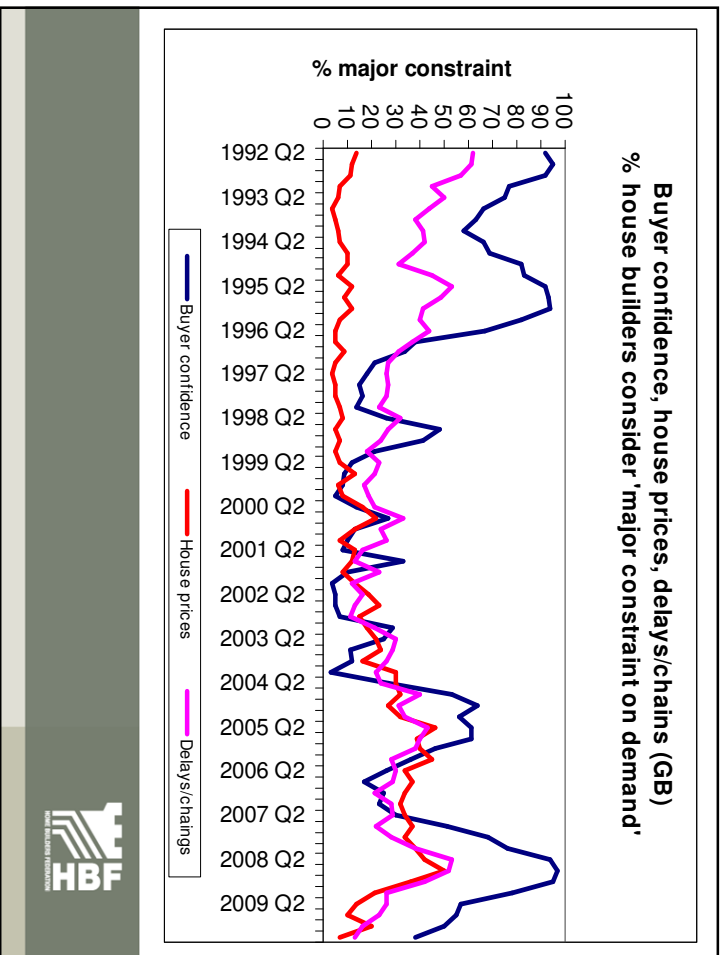
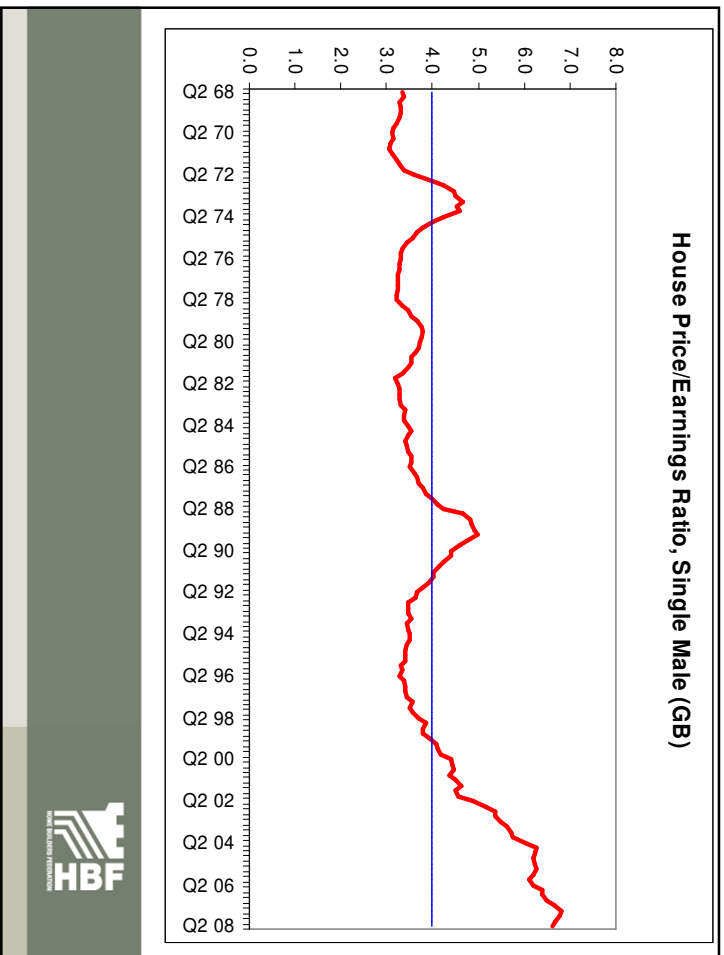
### Demand Drivers

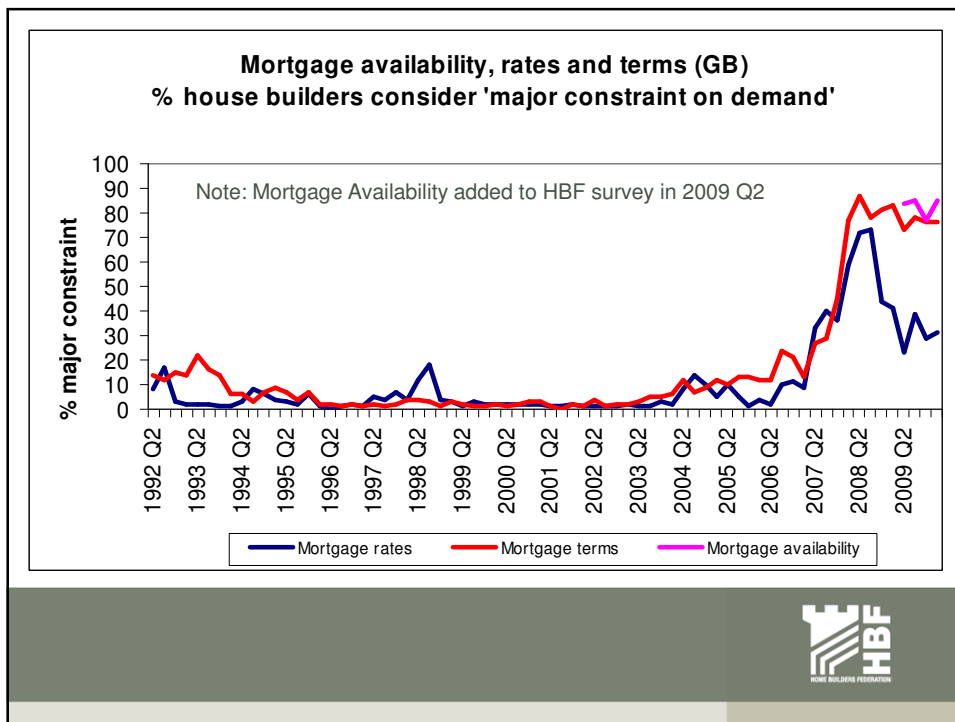
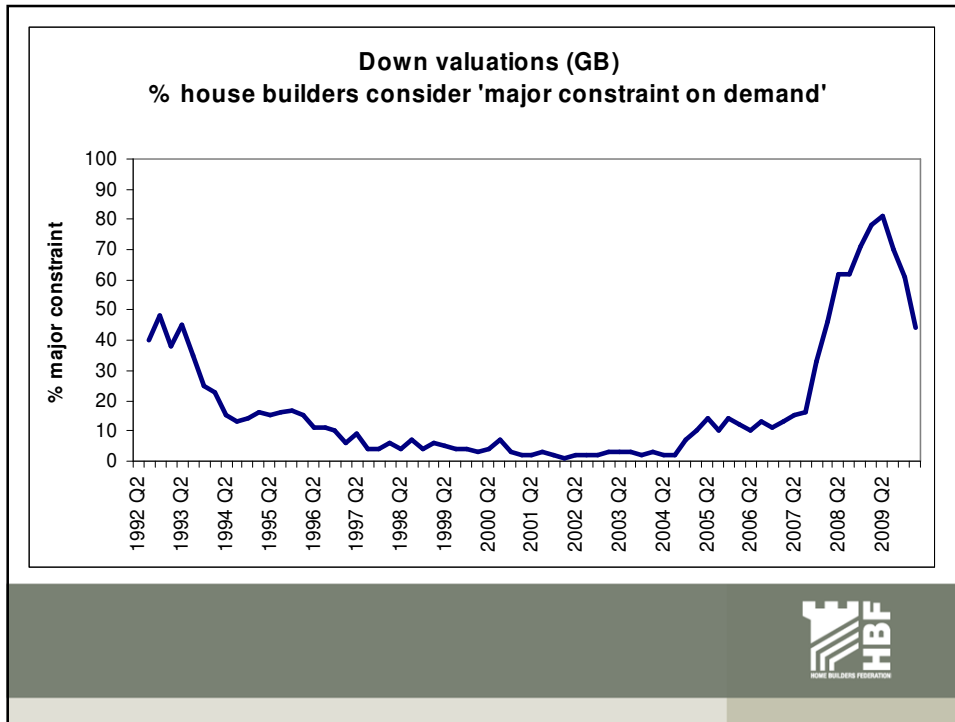
- Economic recovery, jobs
- Interest rates, real post-tax earnings and affordability
- Mortgage availability, terms



HMR Affordability Index, Single Male (GB)







## Turning potential demand into effective demand

### The New Home Perspective

- More funds to lend
- More lenders & competition
- Valuation improvements
- Level playing field new vs second-hand
- Return of higher LTVs
- Less draconian credit scoring/refusals



## Putting our own house in order

Lasting legacy of mistrust – need to restore lender confidence in new home valuations/prices:

- Disclosure of Incentives Form (DiF)
- Company practices
- Liaison home builders, lenders, valuers



## New Home Valuation Issues

- Lenders using valuations as part of risk management
- Differential lending new vs second-hand
- No differentiation by builder or product
- Lender instructions: diverge from Red Book
- Widespread downvaluations
- Inconsistencies, irrational valuations
- Refusal to accept legitimate challenges/ignoring evidence
- Valuing “sustainability” value added (zero carbon)



## Imagine trying to sell when...

- Only 75% LTV (because new)
- More onerous terms (because new)
- Draconian credit scoring
- Irrational downvaluation
- Refusal to look at comparable evidence, or revisit valuation



And finally...

**HBF New Home Customer Satisfaction  
Survey 2008-09**

- **88%** buyers very or fairly satisfied with overall quality of their home (6% dissatisfied)
- **88%** would recommend builder to friend

Sample: 17,000 new home buyers 15 large home builders, October 2008 to September 2009



Yes, New Homes Do Matter

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