A New Normal for Housebuilding?

The importance of sales outlets in a market without Help to Buy

savills

Contents

Executive Summary

Housing delivery and new homes sales recovered strongly after the first Covid lockdown. High levels of demand in the housing market and the continued support of Help to Buy pushed the number of sales per outlet per week to unprecedented highs. These high sales rates concealed growing land supply challenges as the number of outlets from which new homes were being sold fell to its lowest level for at least 20 years.

Now demand in the housing market has weakened and Help to Buy has ended resulting in much lower sales rates. On top of this a 31% fall in the number of sites gaining planning consent over the last five years has prevented housebuilders from opening more outlets. This combination of factors means that the annual number of new homes sales will be substantially lower, making the Government's target to deliver 300,000 new homes per year unattainable.

Local planning authorities need to recognise this change in market conditions. More sites need to gain planning consent to allow housebuilders to open more outlets and reverse the fall in new homes sales. Without the support of Help to Buy and in a lower demand housing market, new homes need to appeal to the widest possible range of buyers through delivery on sites that provide a choice of product, location and price point.

Changes to the National Planning Policy Framework need to support this by ensuring that the planning system delivers consents for the right number and range of sites as well as the right number of plots. This should cater for a diverse range of developer types and include a renewed focus on smaller sites, supporting SME housebuilders and facilitating new entrants into the industry. All of this will improve choice for buyers and contribute to an overall increase in new homes delivery.

Sales rates

Housing delivery in England is underpinned by sales of new homes to owner occupiers. These sales take place in sales outlets, the site offices on new homes development sites. Most sites have one outlet, but larger sites may have several housebuilders or housebuilder brands, selling homes from separate outlets. Most major housebuilders report the average number of sales per outlet per week in trading statements and annual reports.

Since 2012 the number of sales per outlet per week has increased, supporting increased housing delivery despite a relatively static number of outlets. This was supported by underlying housing market conditions and substantially boosted by Help to Buy from 2013. For two years from the middle of 2020, high levels of demand in the housing market alongside continued support from Help to Buy allowed the number of sales per outlet per week to reach unprecedented levels (an average of 0.8 in 2021/2). This concealed a falling number of outlets from which these sales took place. Overall, housing delivery continued at close to pre-pandemic levels through more sales taking place on fewer, larger sites.

Recent mortgage market turmoil and falling demand in the housing market, coinciding with the withdrawal of Help to Buy, has had a dramatic effect on sales rates, which fell to an average of 0.45 at the end of 2022, a level not seen since the Global Financial Crisis (GFC). Our analysis suggests that sales rates per outlet are likely to remain at between 0.5 and 0.6 over coming years. The lower end of this range is likely to persist until housing market conditions stabilise. The higher end of the range is likely to be reliant on the success of replacement schemes for Help to Buy, particularly Deposit Unlock.

We do not think it is likely that sales rates per outlet will recover to the 0.67 sales per outlet level seen before the GFC or the 0.73 between 2015 and 2021. Underlying housing market activity levels are not expected to recover to pre-GFC levels and it is not envisaged that a support scheme with the same impact as Help to Buy will become available. Without Help to Buy or a replacement scheme, we expect sales rates to be lower than the pre-GFC period in line with wider housing market activity.

Land Supply and Outlets

The number of outlets reached its lowest level in at least 20 years in 2022 and is likely to continue falling as the number of sites gaining planning consent has fallen every year since 2017. The reduced number of sites gaining consent is masked by the number of plots gaining consent, which until recently had been fairly stable at an annual average of 314,000 between 2016 and 2021. The same number of plots have been gaining consent but on increasingly large sites.

The fall in the number of sites gaining consent has been greater than the fall in the number of consented plots over the last three years. The number of consented plots was 15% lower in 2022 compared to 2017, while the number of consented sites was 31% lower. The fall in the number of sites with fewer than 100 plots was greater still, 38% down in 2022 compared to 2017.

The lack of sites with consent has been noted by some of the major housebuilders who have stated that they have struggled to open as many outlets as they wished. It is therefore a barrier to growth and even to maintaining current operations in some areas. The lack of new sites, particularly smaller sites, gaining planning consent is also a barrier to SME housebuilder growth and to new entrants into the housebuilding industry.

Impact on delivery

At the end of 2022, the average sales rate fell to a level not seen since the depths of the GFC and, with fewer outlets, this is will result in a fall in new homes completions. Even if the number of outlets remained constant at 2021/2 levels, a sales rate of 0.5 would reduce the annual number of new homes sales from 145,000 to 90,000. If a sales rate of 0.6 per outlet per week can be achieved, this would result in a total of 110,000 new homes sales from the same number of outlets.

New homes sales have averaged 70% of total new housing delivery in England over the last decade, so this would have a substantial impact and make the Government’s target to deliver 300,000 new homes per year unattainable.

What needs to change

Local planning authorities need to recognise the changed market conditions and that sales rates will be lower over coming years. When reassessing land supply, this will mean that more sites need to be included in local housing trajectories in order to maintain and increase delivery.

More sites therefore need to gain planning consent to allow housebuilders to open more outlets and reverse the fall in new homes sales. Without the support of Help to Buy and in a lower demand housing market, new homes need to appeal to the widest possible range of buyers through delivery on sites that provide a choice of product, location and price point.

Changes to the National Planning Policy Framework need to support this by ensuring that the planning system delivers consents for the right number and range of sites as well as the right number of plots. This should cater for a diverse range of developer types and include a renewed focus on smaller sites, supporting SME housebuilders, facilitating new entrants into the industry and thereby reducing the dominance of the major housebuilders.

Government policy has tried to increase the number of SME housebuilders, particularly focussing on finance challenges with schemes including the Home Building Fund. But the number of new homes registrations with NHBC by smaller builders showed no sign of recovery during the decade following the GFC and the availability of smaller sites has only deteriorated in recent years. There is an opportunity for the planning system to deliver more smaller sites and lift a major barrier to growth for SME housebuilders.

1. Introduction

1.1. Background

Richborough and LPDF want to understand the role of the number of outlets plays in the delivery of new housing in England. Housebuilders have reported difficulty in opening as many new sales outlets as desired with a lack of sites and planning delays both cited as major barriers. This has resulted in fewer active outlets per housebuilder. Over the past decade, housebuilders have mitigated this problem by selling more homes from fewer outlets. They have been able to do so due to a mostly strong housing market and supportive schemes such as Help to Buy. Recent housebuilder statements, however, have shown a rapid fall in the number of sales per outlet, as Help to Buy closed to reservations and the housing market began to cool.

1.2. Aim

This research brings together several elements of analysis to demonstrate the shortage of new homes sites, the risk it presents to delivery volumes and the impact this has on activity amongst SME developers.

It assesses what a reasonable assumption for sales per outlet is, in more normal market conditions. It also considers the role of sales outlets in supporting new housebuilding numbers. And what this means for the land pipeline of the housebuilders, opportunities for medium sized developers, and the ability of the planning system to support new homes delivery volumes.

1.3. Report structure

The first section (charter 2) of this report looks at evidence gathered from the major housebuilders on sales per outlet (or sales rates), the number of outlets, land pipelines and overall delivery volumes.

The second section (chapter 3) looks at the flow of consents through the planning system and corroborates the implications from the housebuilder data analysis in the previous section.

The third section (chapter 4) looks at what it would be reasonable to assume the sales rate should be for outlets over the next five years, against the context of our forecasts for the wider housing market, an assessment of Help to Buy and the potential of Deposit Unlock.

The final section (chapter 5) provides a summary of the analysis and three key recommendations for local and national planning policy to support delivery.

2. Housebuilder Sales Rates and Land Supply

This section looks at evidence gathered from the major housebuilders on sales per outlet (or sales rates), the number of outlets, land pipelines and overall delivery volumes.

The first part shows that delivery volumes have been increased and maintained over the last decade through higher sales per outlet, slightly higher than before the Global Financial Crisis (GFC). At the same time, the number of outlets has failed to return to pre-GFC levels, and has subsequently fallen to reach the lowest level seen since at least 2003. Housing delivery has therefore been supported by high sales rates from relatively low numbers of outlets.

The second part looks at how this was achieved, by examining the relationship between sales rates and wider housing market. Despite a generally weaker and less active housing market, housing delivery exceeded pre-GFC levels at the end of the 2010s. This was achieved by supportive Government policy on both the demand side (Help to Buy) and supply side (the introduction of the National Planning Policy Framework (NPPF) and subsequent increase in the numbers of homes and sites gaining planning permission). These in turn enabled major housebuilders to reach higher sales rates than was the norm pre-GFC, despite a lack of outlets.

Since 2019, housing delivery has been relatively stable, but this has hidden a fall in the number of outlets. Delivery volumes have been supported by exceptionally high sales rates, sustained by fewer outlets. Recent mortgage market turmoil and falling demand in the housing market, coinciding with the withdrawal of Help to Buy, has had a dramatic effect on sales rates. The average sales rate has fallen to a level not seen since the depths of the GFC and, with fewer outlets, this is will result in a fall in new homes completions (see Section 4 for our future expectations for sales rates).

The third part looks at the immediate and strategic land pipelines of major housebuilders. Housebuilder land pipelines have been broadly stable since 2016, suggesting that the number of plots entering their immediate land pipelines each year is only replacing the number of homes sold. The stability of the immediate pipeline, while the number of outlets has fallen, also suggests that sites have got larger. In other words, while the pipeline contains the same number of plots each year, these are concentrated on a smaller number of sites. In general terms, one site can sustain one sales outlet. A reduction in the number of sites, therefore explains the difficulty housebuilders have had trying to open more outlets, despite apparent stability in overall plots and land supply.

2.1. Major housebuilder sales rates and delivery

Many major housebuilders regularly report numbers of sales and outlets. A sales rate is commonly defined as the average number of homes a developer sells across each of their outlets, on a weekly basis. An outlet is a housebuilder brand presence at a site on its own or as part of a multi-outlet site with several active housebuilders. Some housebuilders have more than one brand. For example, Barratt and David Wilson Homes are both operated by Barratt Developments plc and both may be active simultaneously on a site, and this could count as two outlets. For the purposes of this report, we have amalgamated brands under their parent company – i.e. one Barratt and one David Wilson Homes outlet would count as two Barratt Developments plc outlets.

These figures have become key metrics for the housebuilding industry, and can be used to judge the strength of the sector. It is reported alongside annual financial results, half year results and at trading updates, each time for a different time period. Our data stitches these statements together, combining comprehensive monitoring since 2007 with additional data from before the Global Financial Crisis collected for this report.

A New Normal for Housebuilding?

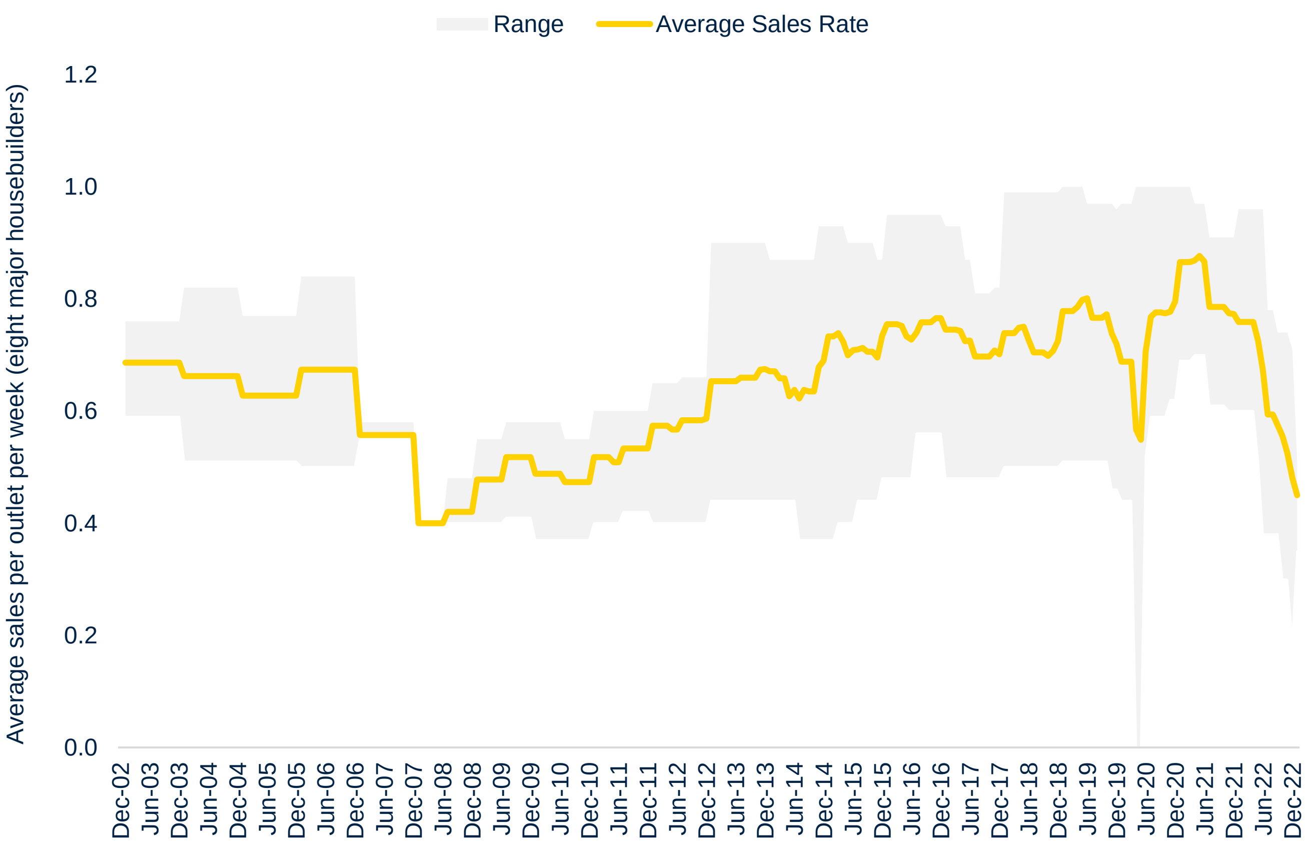
The importance of sales outlets in a market without Help to Buy

The average sales rate per outlet across our sample of major housebuilders was around 0.62 to 0.68 between 2003 and 2007, before it fell sharply during the GFC to hit a low of 0.40 in 2008. Since then, the average sales rate has gradually increased, reaching a fairly stable level of approximately 0.73 again between 2015 and 2019. Sales rates then fell during the first Covid lockdown, before rising to an average of nearly 0.87 during 2021 and 2022.

Since the end of the series shown above, some major housebuilders have published further results. These are broadly in line with the average sales rates at the end of 2022: Crest Nicholson at 0.35 for the eleven weeks since November 1st 2022, Vistry Group a rate of 0.46 in Q4 2022 (compared to 0.84 in H1 2022) and Barratt at 0.44 across H2 2022 (down from 0.79 in H2 2021). Two housebuilders have reported results for the beginning of 2023: Redrow reported 0.51 for the first five weeks of the year and Persimmon reported 0.52 for the first eight weeks (up from 0.3 in Q4 2022 but down from 0.96 for the same period of 2022). While slightly higher than the average sales rate in December 2022, this remains well below the levels seen a year earlier, and was partly achieved by the use of incentive schemes which will have an impact on margins.

In addition, while the publication of sales rates has become common practice, it is not compulsory, which means these reported figures may be biased towards housebuilders with better results. While they do suggest some improvement in sales rates heading into the first quarter of 2023 compared to December 2022 they are still much lower than the previous two years.

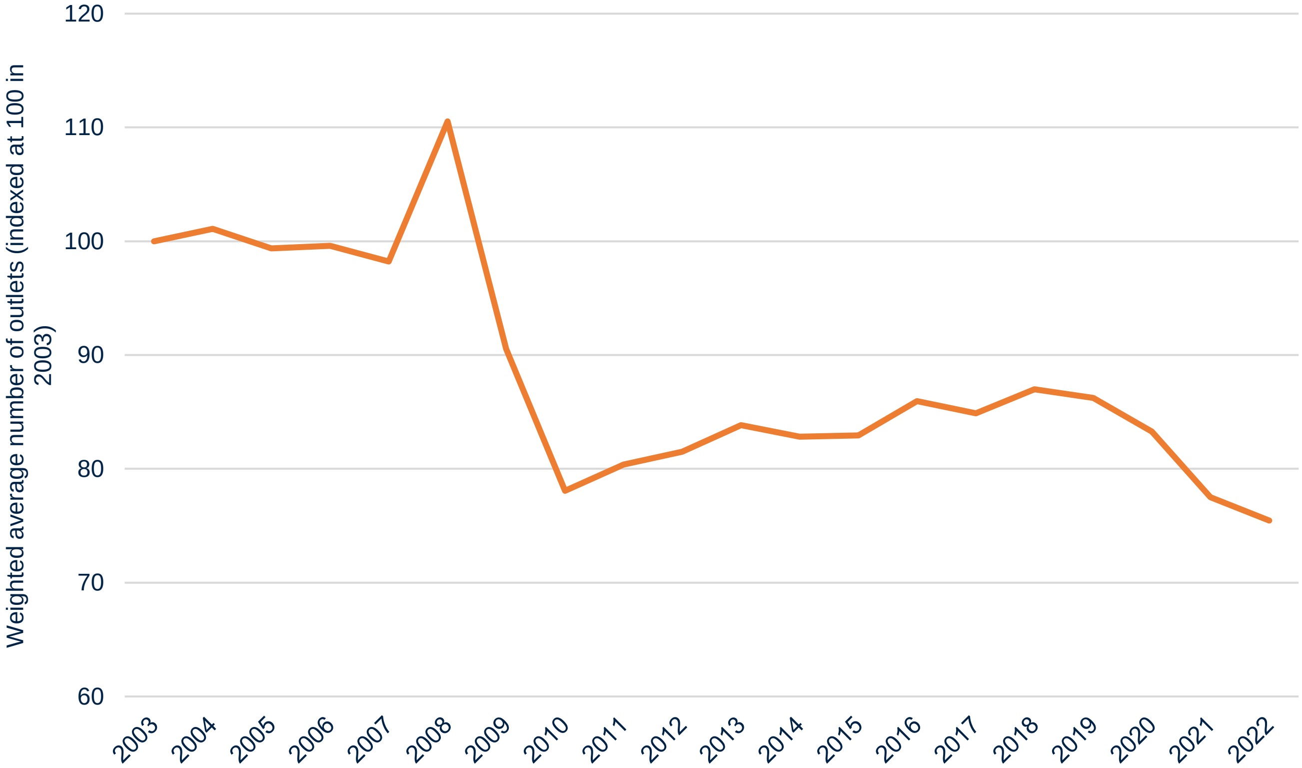
Figure 1 – Average sales rates of major housebuilders



Source: Savills Research using housebuilder trading statements and annual reports (based on eight major housebuilders)

The number of outlets has also varied over time. The chart below shows a weighted index of the average number of outlets operated by major housebuilders. Following a peak, as sales rates fell in 2008 and housebuilders struggled to finish selling homes on sites, the average number of outlets fell in 2010 to just under 20% below the level seen between 2003 and 2007. The number gradually increased from that point until 2018 and has fallen sharply since 2020, as sales rates peaked in the aftermath of the first Covid lockdown and housebuilders have struggled to secure land to open more outlets.

Figure 2 – Average number of outlets operated by major housebuilders, weighted and indexed



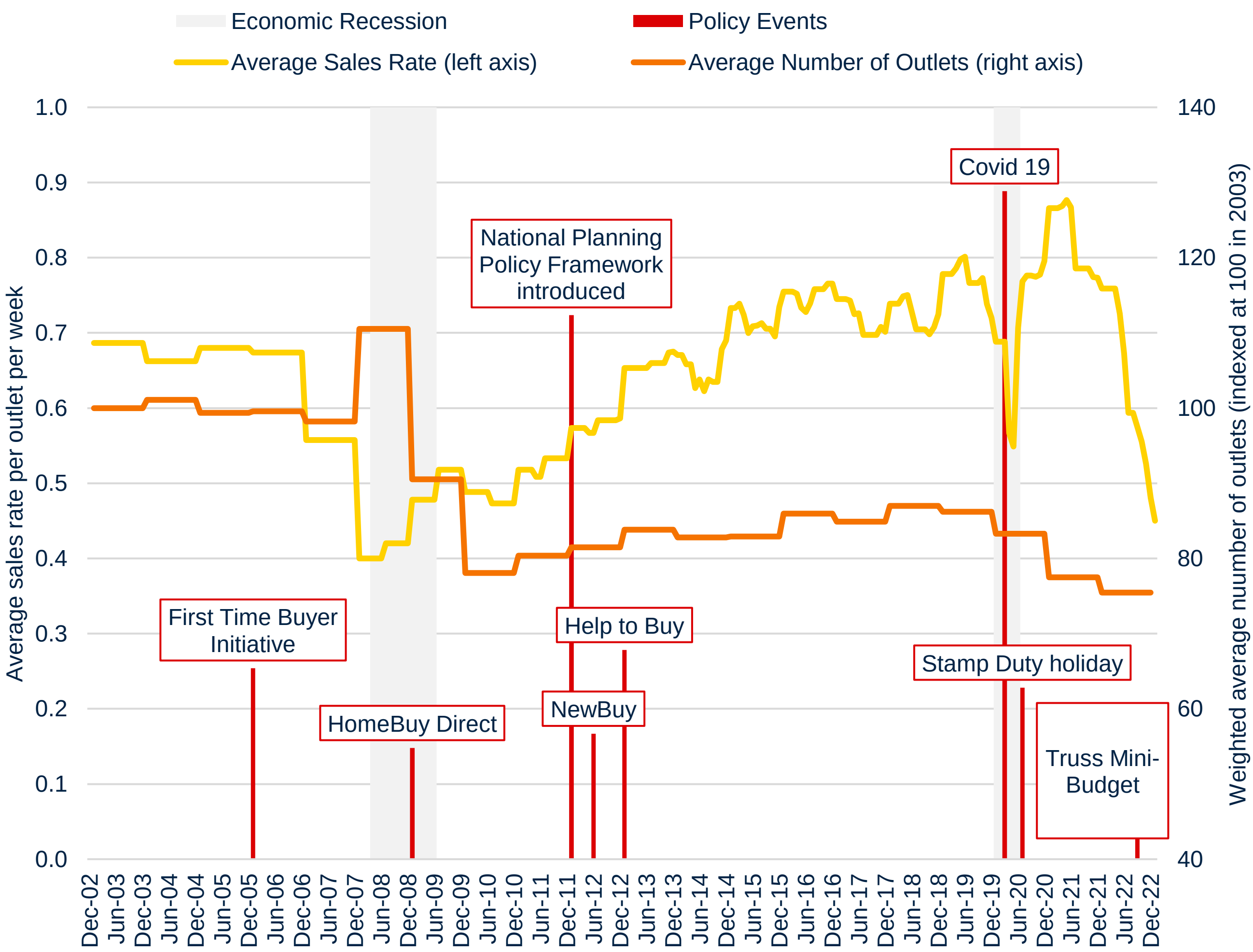
Source: Savills Research using housebuilder trading statements and annual reports (based on nine major housebuilders)

The lower number of outlets has been a barrier to housebuilder and this is behind the repeated references by housebuilders to a lack of land and planning delays in their trading statements and annual reports. Persimmon's latest annual report brings a particular focus on outlets as a barrier to delivery. The relatively low number of outlets they are operating is given alongside the reduced sales rate as a reason for expecting a significantly lower number of completions in 2023 compared to 2022. It also refers to the 'low number of selling outlets' (234) at the beginning of 2022, explaining that this has increased (to 272 by the end of the year) but that this figure is still 'relatively low for the Group', noting that it had operated 'in the high 300s in the past'.

The chart below shows both the average sales rate and our index of the average number of outlets. This shows that between 2010 and 2018 there was an increase in the sales rate, which supported the recovery in housebuilding after the GFC, although outlets remained below their pre-GFC trend. Sales rates have actually been slightly higher than pre-GFC, allowing delivery volumes to reach pre-GFC levels despite the lack of outlets. Between 2018 and Q1 2022, the sales rate has been stable or higher, but the number of outlets has fallen. This has resulted in a stabilisation and slight fall in new homes delivery over the last few years.

Also on the chart are key policy events that have had an influence on the housing market, new homes sales or land supply. The introduction of the NPPF and Help to Buy in 2012 and 2013 were major support factors that helped to drive the increase in the number of outlets and sales rates. Rising interest rates, the mini-budget and subsequent turmoil in the mortgage markets, and the Help to Buy scheme closing to new reservations at the end of October 2022 have reduced the demand for new homes, and this is reflected in the much lower sales rates at the end of 2022.

Figure 3 – Average sales rates and number of outlets of major housebuilders, with major policy events and economic recessions

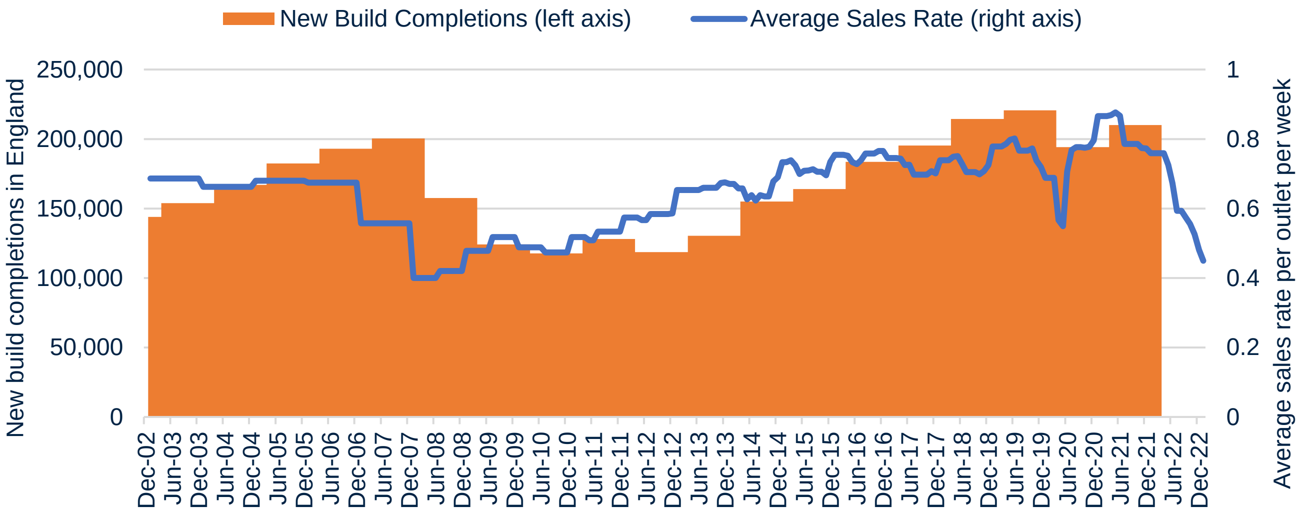


Source: Savills Research using housebuilder trading statements and annual reports (based on eight major housebuilders for sales rate and nine major housebuilders for outlets)

2.2. Relationship between sales rates and wider market metrics

The increase in the sales rates and number outlets has been fundamental in supporting the increase in housing delivery during the 2010s. By 2018/19 new housing completions in England had reached levels that exceeded those seen during the early 2000s, despite lower house price growth and a much less active housing market in terms of overall homes sales.

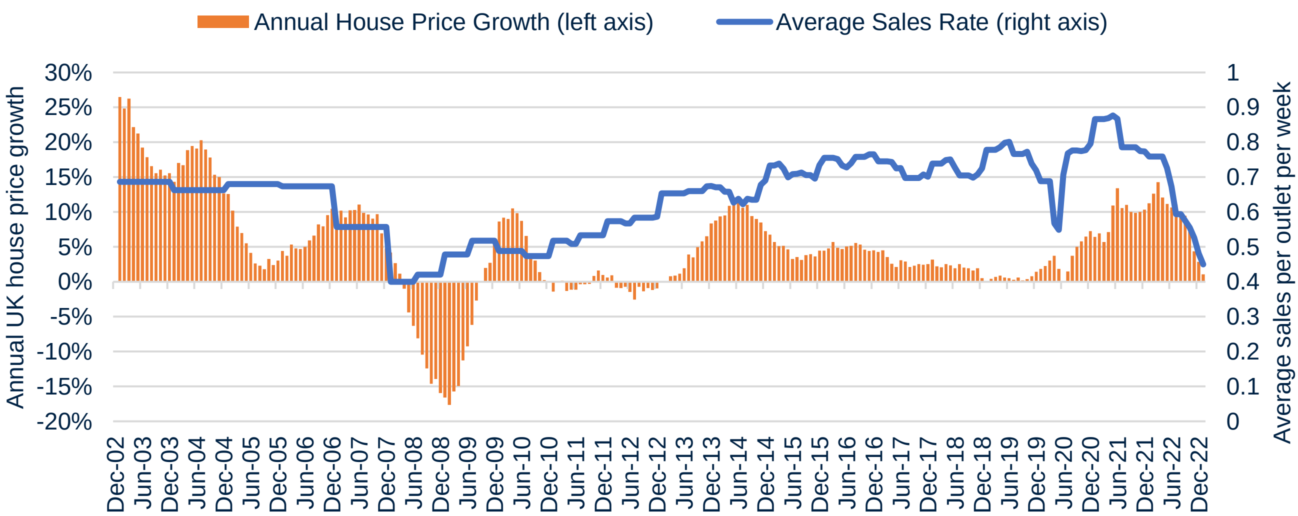
Figure 4 – Average sales rates of major housebuilders and new homes completions



Source: Savills Research using housebuilder trading statements and reports (based on eight major housebuilders), DLUHC

This is despite very different conditions in the housing market. The increase in sales rates since the GFC has been supported by a period of mostly stable or rising house prices, but house price growth has never reached the levels seen in the early 2000s. Despite this, sales rates exceeded pre-GFC levels since 2015. The higher sales rates in 2021 and 2022 have been driven by an exceptionally strong housing market following the first Covid lockdown, when compared against the rest of the last 10 years, and have fallen away as the price growth reversed during the last few months of 2022.

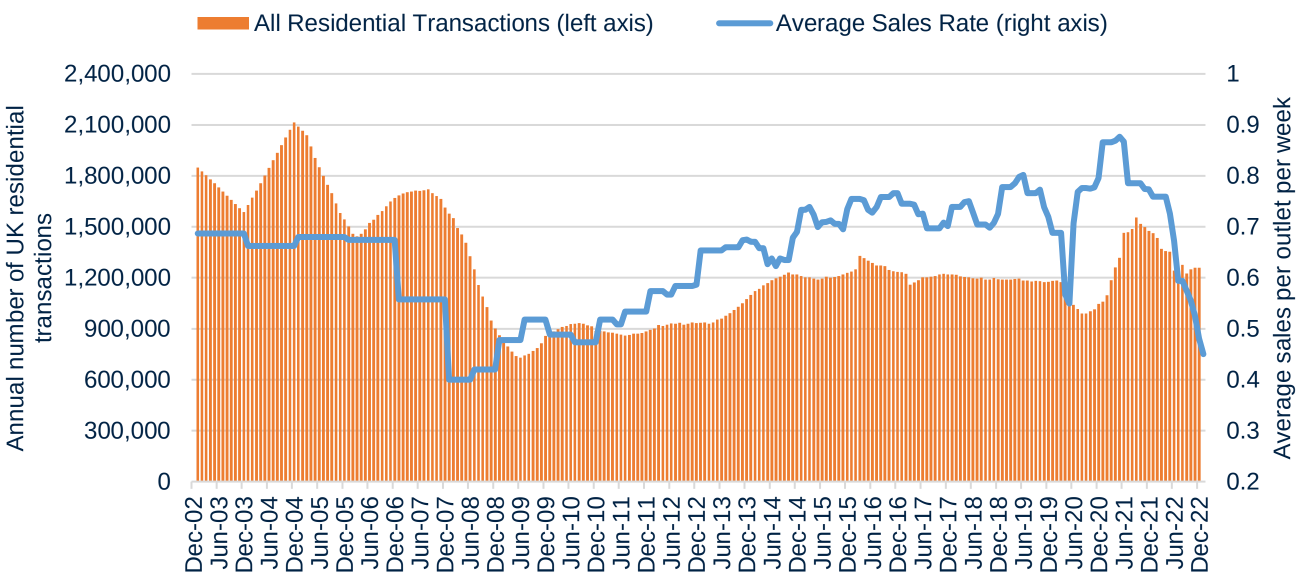
Figure 5 – Average sales rates of major housebuilders and growth in house prices



Source: Savills Research using housebuilder trading statements and reports (based on eight major housebuilders), Nationwide

A similar relationship can be seen when comparing sales rates with the total number of transactions in the whole housing market, new homes and second hand sales. Total sales volumes were much higher in the 2000s than during the 2010s, but sales rates on new homes sites have exceeded pre-GFC levels.

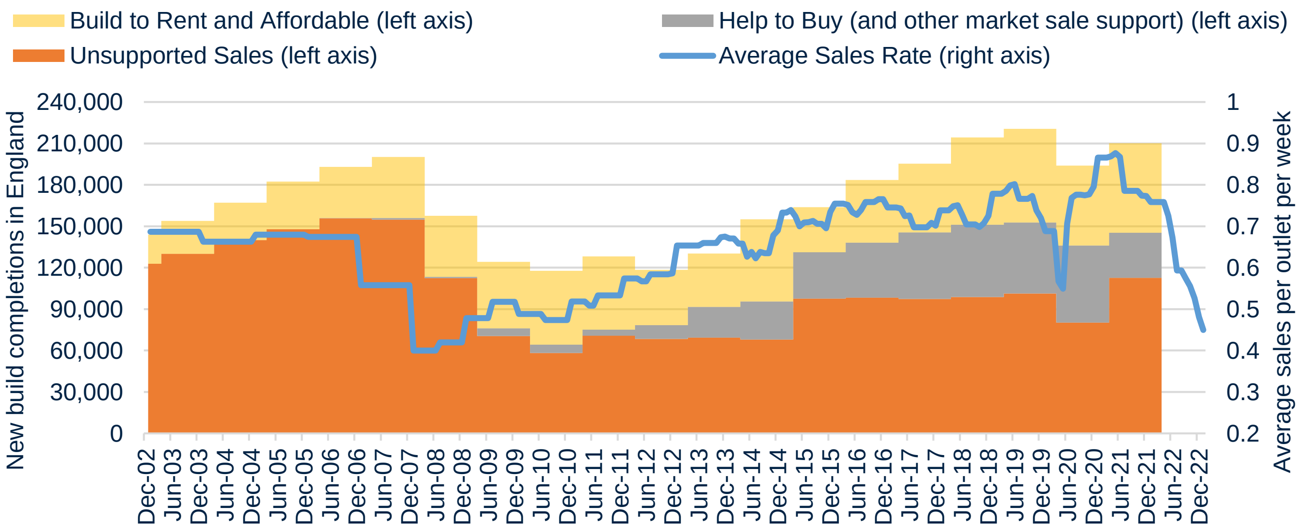
Figure 6 – Average sales rates of major housebuilders and annual transactions



Source: Savills Research using housebuilder trading statements and reports (based on eight major housebuilders), HMRC

The amount of new homes delivery, the higher sales rates and increasing number of outlets during the 2010s were all strongly underpinned by Government policy that supported housebuilding, both on the demand side and the supply side. On the demand side, Help to Buy has been fundamental to driving new home sales volumes back to levels seen in the early 2000s with sales rates per outlet higher than pre-GFC levels. This is in contrast to the wider housing market, where the number of sales has never returned to these levels.

Figure 7 – Average sales rates of major housebuilders and components of supply



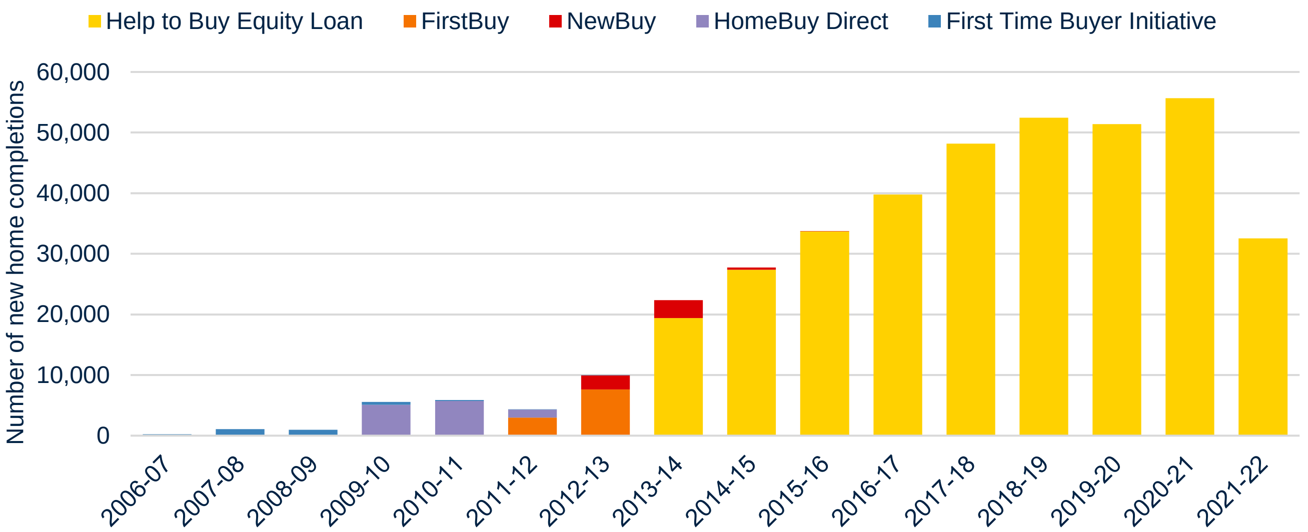
Source: Savills Research using housebuilder trading statements and reports (based on eight major housebuilders), DLUHC

A New Normal for Housebuilding?

The importance of sales outlets in a market without Help to Buy

Some form of Government support for new homes buyers has existed since 2006/7, but Help to Buy was transformative, being much larger and more generous than any previous scheme. The scheme has been a crucial support for new homes sales since its introduction, bringing a very swift boost to demand. The scaling back of the scheme in 2021, with change in eligibility to first time buyers only and the introduction of regional value caps, cut the number of sales using Help to Buy. But the strength of the housing market in the aftermath of the pandemic helped to support the new homes sales total.

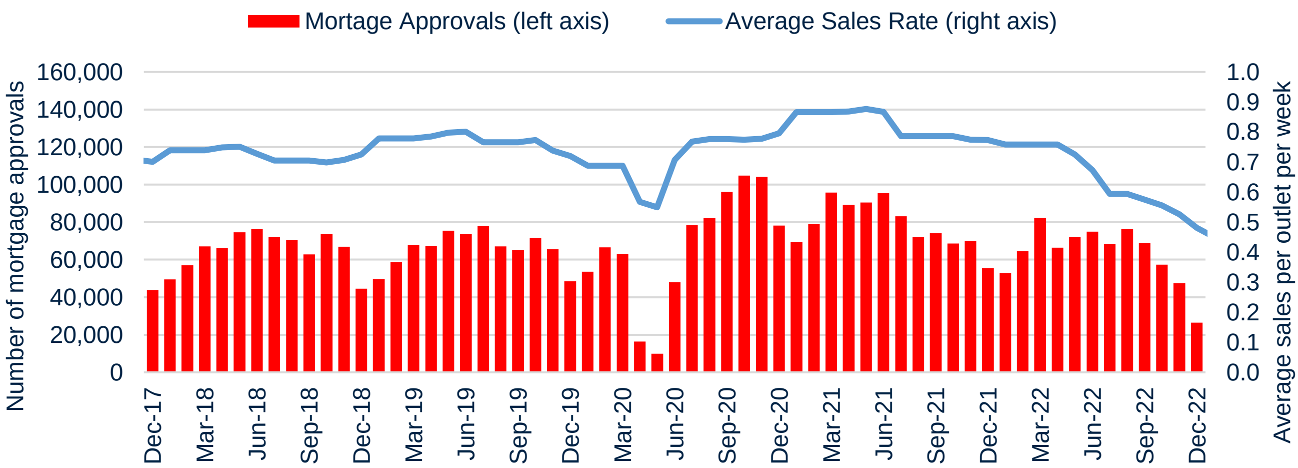
Figure 8 – Private new home completions using Government support since 2006-07



Source: DLUHC

The withdrawal of Help to Buy at a time when the housing market is adjusting to a very different mortgage environment with higher interest rates, following the mini-budget on 23rd September 2022, has resulted in a double hit for new homes sales. The support of Help to Buy for sales ended in October 2022. At the same time demand in the wider housing market fell sharply as a result of increased mortgage rates, fewer mortgage products available and, consequently, much lower numbers of mortgage approvals. The chart below shows a strong correlation between the number of mortgage approvals and sales rates per outlet.

Figure 9 – Mortgage approvals and average sales rates



Source: Savills Research, Bank of England

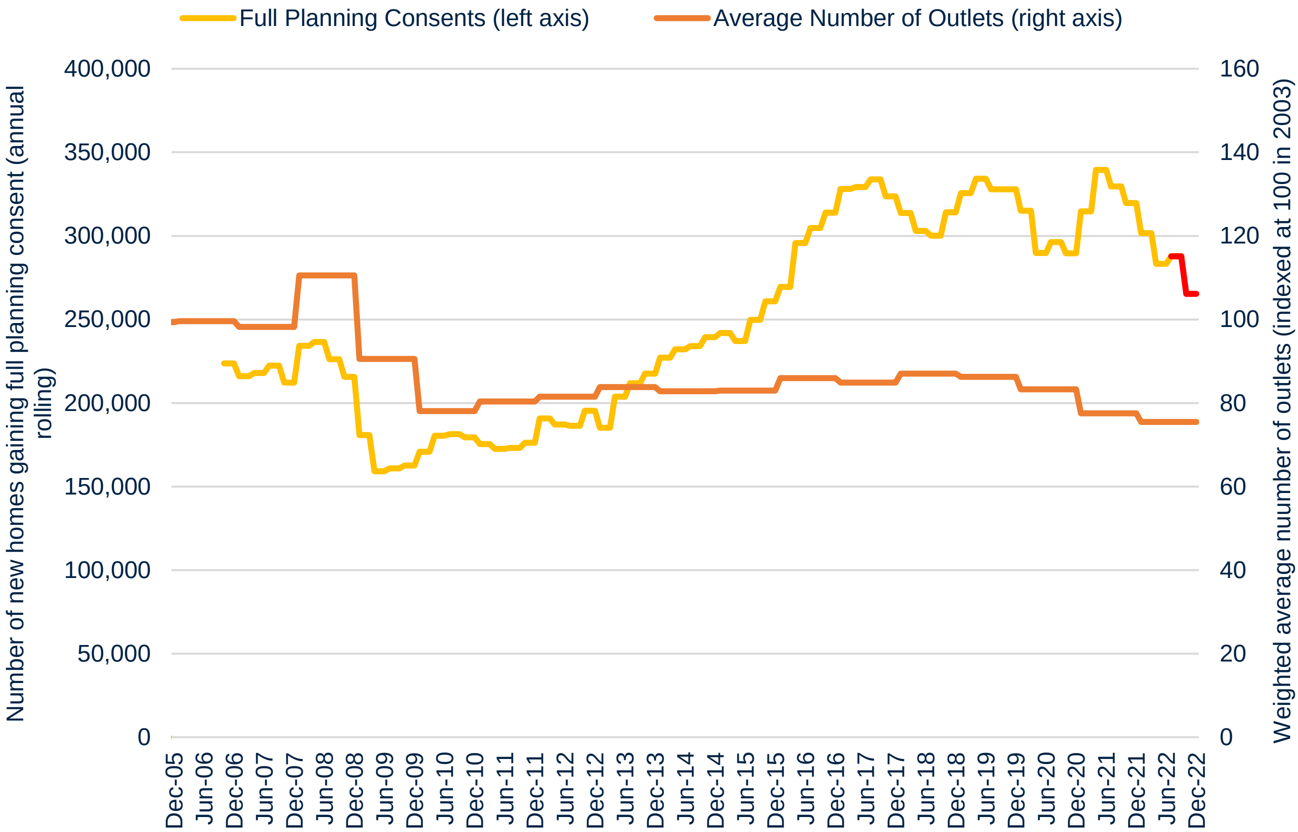
A New Normal for Housebuilding?

The importance of sales outlets in a market without Help to Buy

On the supply side, the introduction of the NPPF successfully increased the number of planning permissions being granted for new homes, supporting the increased number of outlets and allowed for higher delivery levels. Since Q2 2008, the number of homes gaining full planning consent has risen from a low of 159,000 to a fairly stable average of around 300,000 consents per annum since 2016, although the number has fallen more recently. The number of outlets started falling earlier, however, as the sustained number of new consents each year was delivered on fewer sites (see Section 3.2).

Although sales rates increased during the period since the first Covid lockdown, planning consents did not increase to replenish the pipeline of developable land. This has resulted in the number of outlets falling, as sites sold out before replacement sites were available.

Figure 10 – Average number of outlets of major housebuilders and full planning consents for new homes



*Source: Savills Research using housebuilder trading statements and reports (based on nine major housebuilders), HBF, Savills using Glenigan (*Estimated), DLUHC*

2.3. Housebuilder land pipeline

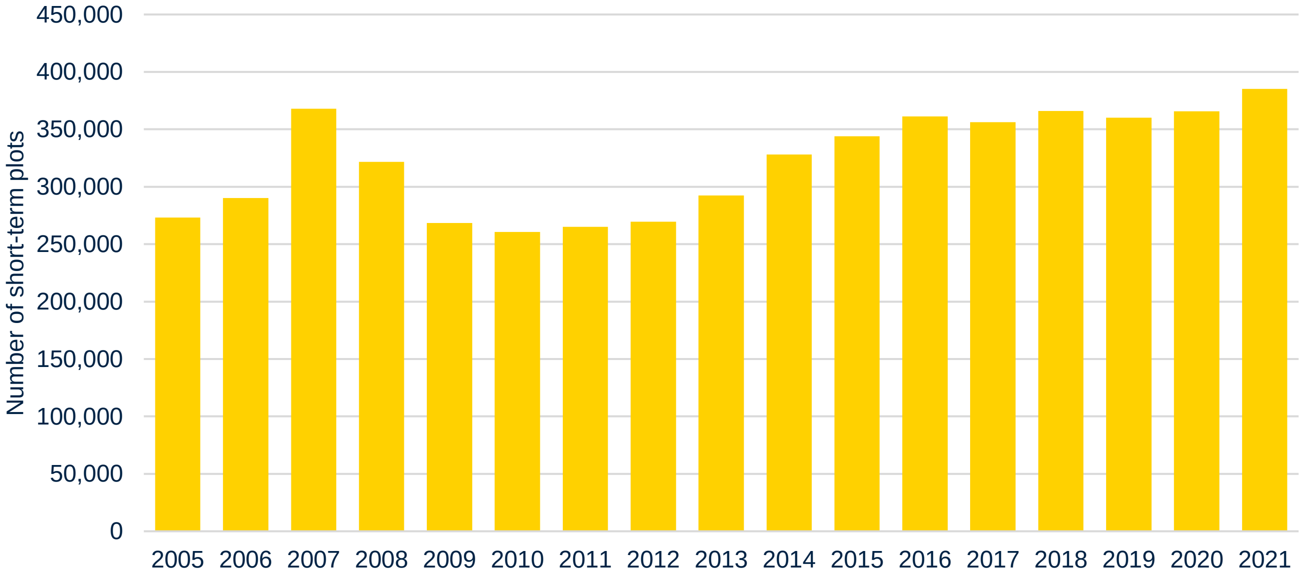
Another key metric many major housebuilders report on is the quantity of land they control or own. Although less comprehensive and precisely defined than sales rates, there is enough data on land pipelines to judge overall trends in the market.

Housebuilder land pipelines are generally divided into two categories; short-term or immediate land (which usually has planning permission and is ready to be developed), and strategic land (which lacks planning permission or may require remedial work before it can be developed). Housebuilders generally aim to convert a certain amount of strategic land into immediate land each year, usually though obtaining detailed planning consents.

The chart below shows how the amount of short-term land, measured in individual plots with planning consent, controlled by a sample of major housebuilders. After a period of growth between 2005 and 2007, the quantity of ready-to-develop land controlled by housebuilders contracted in response to the downturn in 2008. The overall sector began to see stocks of short-term land increase again from 2011, but the sector took until 2015 to surpass the level of number of plots controlled back in 2007. Since 2016, the aggregate amount of short-term land has been fairly stable before a slight increase into 2021, reaching c. 385,000 plots across our sample of housebuilders.

This suggests that the increase in planning consents allowed housebuilders to build their pipelines of developable land until 2016, but that since then the supply of planning consents has only served to replace those plots that have been developed out and sold. The increase in 2021 is likely to be a consequence of increase in new homes sales rates after the first Covid lockdown; the number of outlets fell sharply in 2021 and our monitoring of the land market at the time recorded the major housebuilders actively buying sites with planning consent, including smaller sites and those outside their usual profile.

Figure 11 – Short-term land controlled by major housebuilders

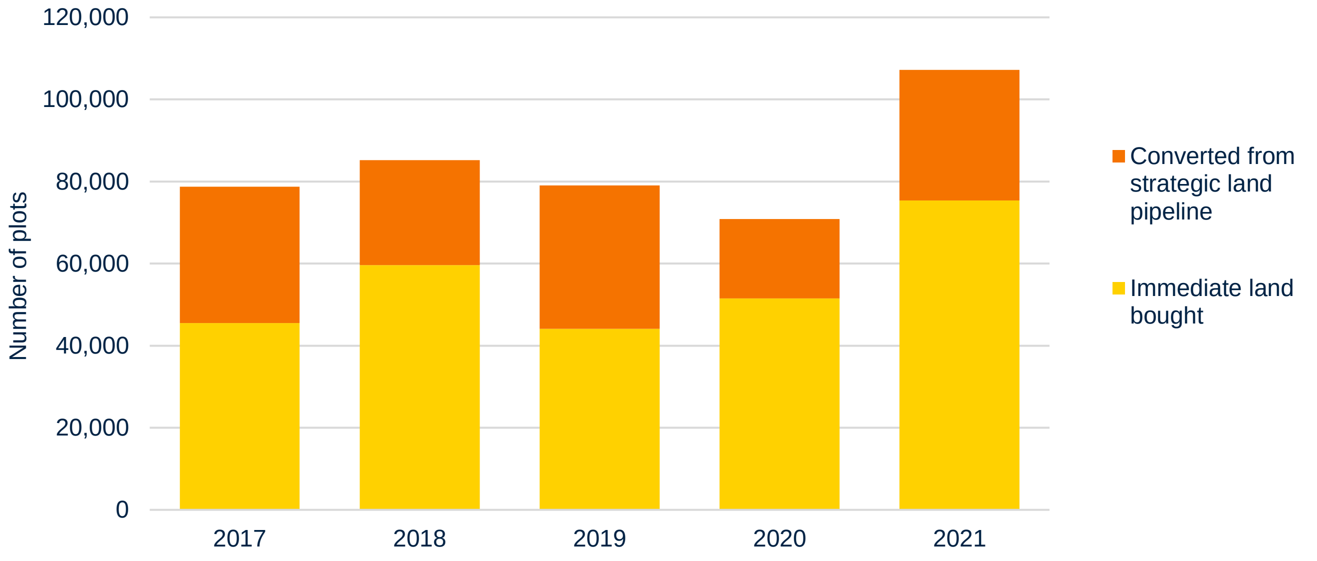


Source: Savills Research using housebuilder reports and Housing Market Intelligence report (based on nine major housebuilders)

The importance of sales outlets in a market without Help to Buy

Analysis of how housebuilders stated they grew their immediate pipeline shows that this came from a relatively high level of conversion from strategic pipelines. But also a very high number of plots purchased.

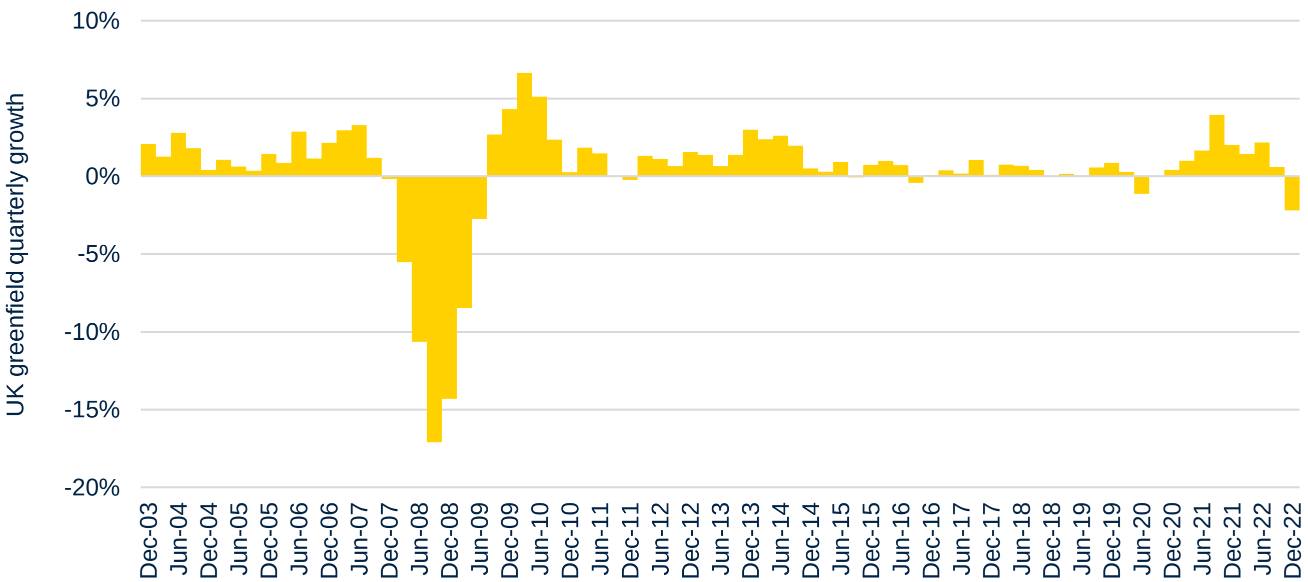
Figure 12 – Land added to immediate housebuilder pipelines



Source: Savills Research using trading statements and reports based on six major housebuilders

This heightened land buying activity of the major housebuilders in the land market during 2021 generated the highest land value growth since 2014. Greenfield development land values increased in every quarter between Q4 2020 and Q3 2022, increasing by 8.8% in 2021 and peaking at 9.9% growth in the 12 months to June 2022.

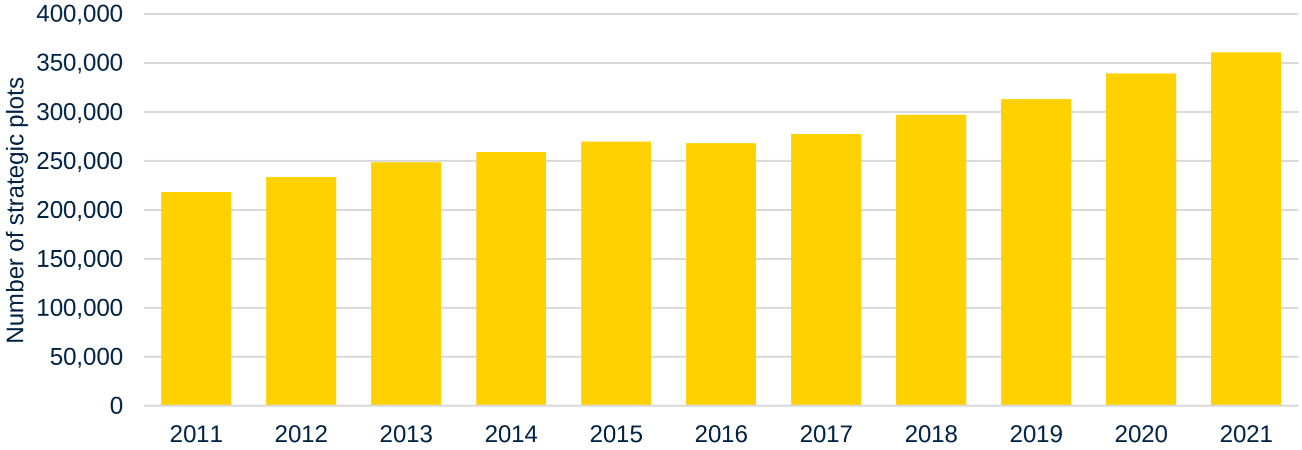
Figure 13 – Quarterly growth in UK greenfield residential development land values



Source: Savills Research

The chart below shows the number of plots controlled by major housebuilders within their strategic pipelines, showing that these have grown in terms of number of plots fairly steadily since 2011. This has not translated into any significant growth in immediate pipelines since 2016, although conversions from strategic pipelines have helped maintain the level of immediate plots.

Figure 14 – Strategic land controlled by major housebuilders since 2011



Source: Savills Research using housebuilder trading statements and reports based on six major housebuilders
NB: this is a smaller sample of housebuilders than for short-term land.

As highlighted above, the immediate / short-term pipeline of housebuilders encompasses land that is permitted and ready to be developed. This includes sites with a full or outline planning consent, as well as homes yet to be delivered on sites currently under construction. Below we look at the planning status of a selected sample of housebuilders to show how the immediate pipeline breaks down.

Between them, our sample of major housebuilders have a combined planning pipeline of 435,000 plots. This includes any sites that have reached at least outline application stage, and for the purposes of this study we have not investigated the allocated or promoted land held by any parties. Across the pipeline, 341,000 plots held by these major housebuilders are immediate or short-term, representing 78% of the total in planning. At 201,000 homes, homes on sites under construction account for 46% of all homes held by our selected major housebuilders, representing the largest contribution to the immediate pipeline.

Table 1 – Planning pipeline of selected major housebuilders

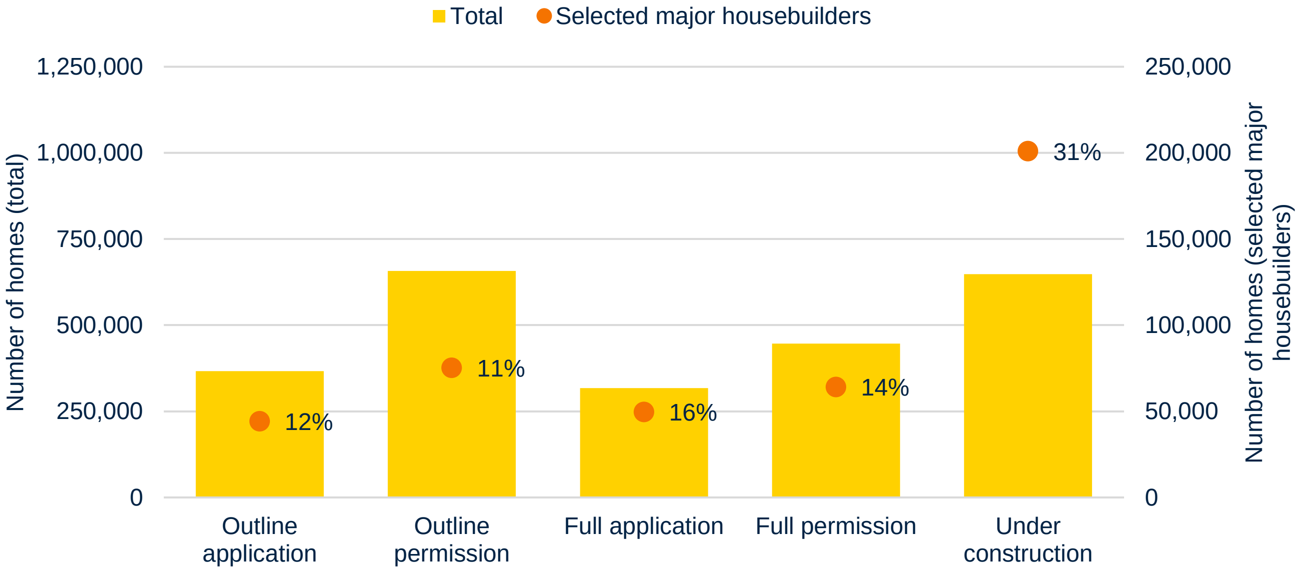
Development status	Plots controlled by major housebuilders	Proportion of plots controlled by major housebuilders	Proportion of all plots in the planning system
Outline application	44,341	10%	15%
Outline permission *	75,346	17%	27%
Full application	49,644	11%	13%
Full permission *	64,285	15%	18%
Under construction *	201,083	46%	27%
*Consented total	340,714	78%	72%
Total	434,699	-	-

Source: Savills Research using Glenigan data based on six major housebuilders.

There are currently 2.44 million plots across the planning pipeline in England over 11,700 sites, with an average site size of 208 homes. At 657,000 plots, or 27% of the planning pipeline, the largest share of prospective homes are currently at outline permission stage. This is closely followed by homes on sites currently under construction, with 648,000 homes accounting for a similar share of the planning pipeline.

Major housebuilders depart from the wider market in terms of land held at different stages in planning. Across all stages of planning, plots held by our selected sample of housebuilders represent 18% of the total pipeline, or just under one in every five plots. However, this varies between different stages of planning, and major housebuilders control a higher share of sites that are currently being delivered. The housebuilders in our sample control just 11% of plots with outline permission, but 31% of plots on sites currently under construction.

Figure 15 – Planning pipeline of selected major housebuilders



Source: Savills Research using Glenigan data based on six major housebuilders

3. Land Supply and Planning

The analysis at the end of the previous section showed that although the number of outlets has fallen over recent years, the sales rate per outlet has increased, maintaining overall delivery volumes. Housebuilder land pipelines have been broadly stable since 2016, suggesting that the number of plots entering their immediate land pipelines each year is only replacing the number of homes sold. The stability of the immediate pipeline, while the number of outlets has fallen, also suggests that sites have got larger; i.e. the pipeline contains the same number of plots each year but on a smaller number of sites. The smaller number of sites restricts the number of outlets it is possible to open, as there is typically one outlet on each site with only the largest sites having more than one housebuilder or housebuilder brand operating from separate outlets.

This section looks at the flow of consents through the planning system and corroborates the implications from the housebuilder data analysis in the previous section. It confirms that although the number of plots gaining consent has been fairly stable until very recently, the number of sites gaining consent has fallen significantly and this fall has been greater for smaller sites. This has meant that housebuilders have been unable sustain the number of active outlets.

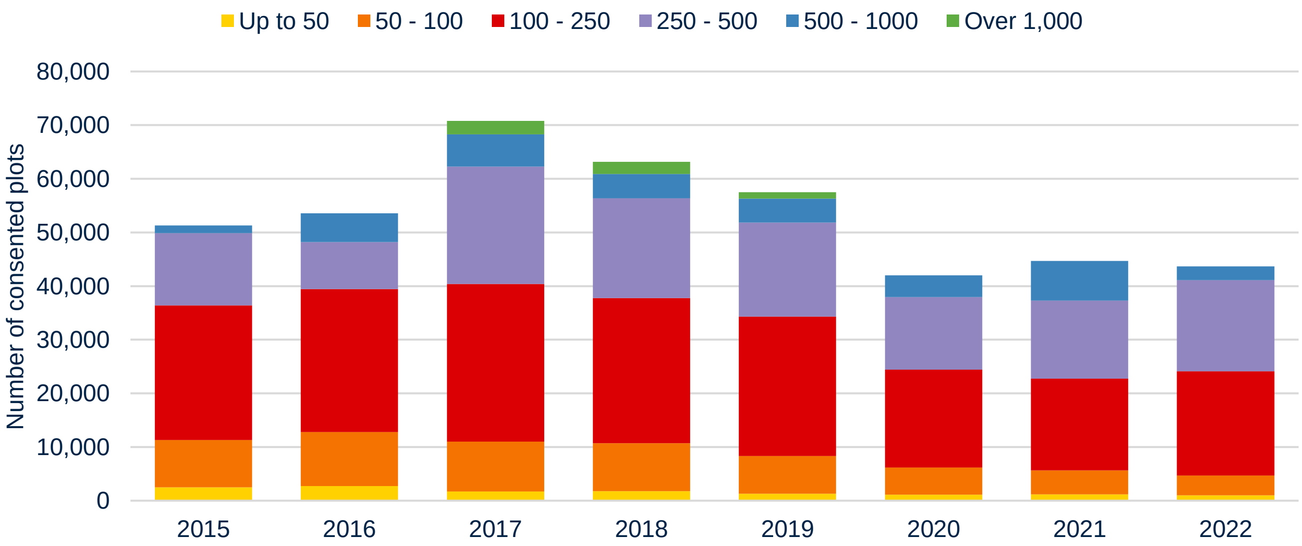
The lack of sites gaining consent and particularly the lack of smaller sites presents a major problem for the housebuilding industry. It is a barrier to growth for the major housebuilders and makes it increasingly difficult for smaller players to compete for a continually diminishing pool of opportunities. It is also a significant barrier to entry for any potential new entrants to the industry.

3.1. Flow of consents for major housebuilders

Our analysis of consents from Glenigan data extends back to 2015. It shows that the number of plots gaining consent that were controlled by the major housebuilders peaked in 2017 and this is likely to have been a key factor in driving the peak level of new housebuilding in 2018/19. Since 2020, the number of plots gaining consent has been lower.

There has also been a shift in sizes of sites on which those consents are located. Plots on sites of under 100 homes have fallen from 21% of the flow of consents in 2015 to 11% in 2022. Larger sites, over 250 homes, accounted for just 29% of consented plots in 2015, but this had risen to 45% in 2022.

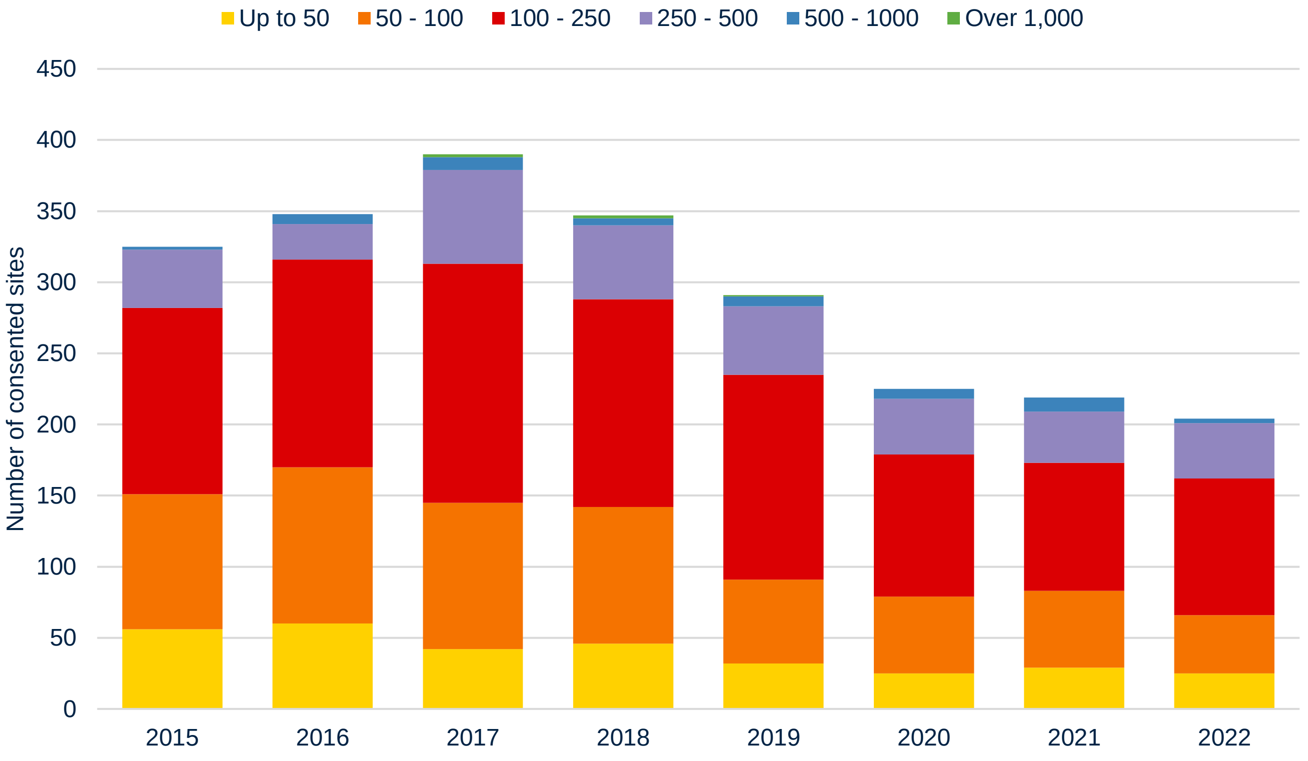
Figure 16 – Number and size of consented plots controlled by major housebuilders



Source: Savills Research using Glenigan based on six major housebuilders

The trend towards larger sites is even clearer when looking at the number of sites gaining consent (as opposed to the number of plots). The number of sites controlled by major housebuilders gaining consent has fallen each year since 2017. The number of larger sites, over 250 homes, has fallen from 77 in 2017 to 42 in 2022, a 45% reduction. Looking at smaller sites, under 100 homes, the number gaining consent peaked at 170 a year earlier in 2016 and this has since fallen 61% to just 66 sites in 2022.

Figure 17 – Number and size of consented sites controlled by major housebuilders



Source: Savills Research using Glenigan based on six major housebuilders

This analysis therefore confirms that the flow of consents is not supplying the major housebuilders with sufficient sites with consent on which to open sales outlets. The number of plots owned by major housebuilders gaining consent has fallen, but the number of sites gaining consent has fallen much more as the size of sites gaining consent has increased.

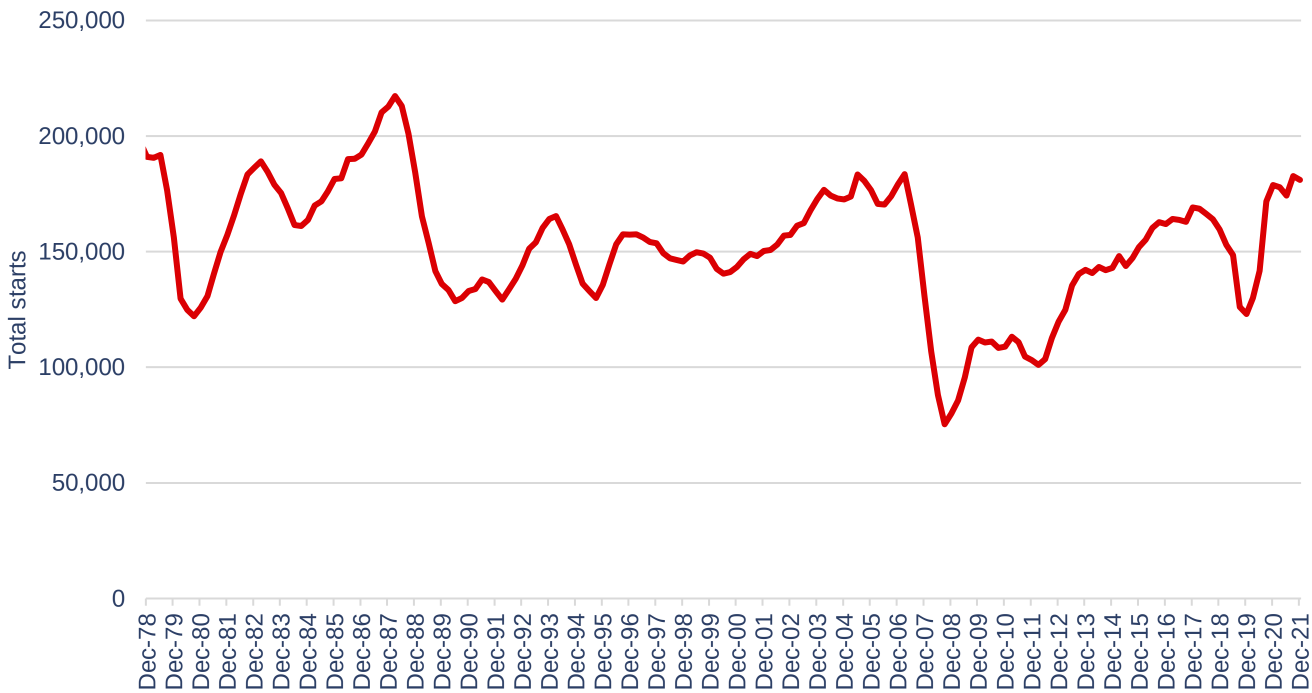
This presents a serious challenge for housebuilders business operations. Regional housebuilder divisions are made economic through operating a number of outlets; if the number of outlets falls, even if the number of consented plots remains the same, then this erodes the financial viability of a division. If, ultimately, a housebuilder decides to close or merge a region, then this can result in a loss of capacity that is then hard to recover even if market and planning conditions improve.

A New Normal for Housebuilding?

The importance of sales outlets in a market without Help to Buy

Previous downturns show that housebuilding can contract very quickly, but that expansion usually is much slower. For example, it took until the mid-2000s for the volume of starts to recover to levels seen before the downturn in the late 1980s. The recovery from the fall in starts during the GFC was faster, but it still took nearly a decade.

Figure 18 – Total number of starts in England



Source: DLUHC

The importance of this is demonstrated by the repeated references to a lack of land in housebuilder statements during the period between the end of the first Covid lockdown and the mini-budget in 2022, despite the fact that the number of plots in their pipelines has been relatively stable.

Bellway and Persimmon, for example, both noted what the latter referred to as "well-documented planning delays suffered by the industry" as a restraint on adding new land into their immediate pipelines while driving the need the acquire more to offset risk. Vistry's 2021 report noted an increase of competition for land, while Redrow, which temporarily postponed land buying at the start of the pandemic, cited difficulties in opening new outlets once it re-entered the land market, suggesting a struggle to find immediate or easily converted strategic sites of the right quality and price.

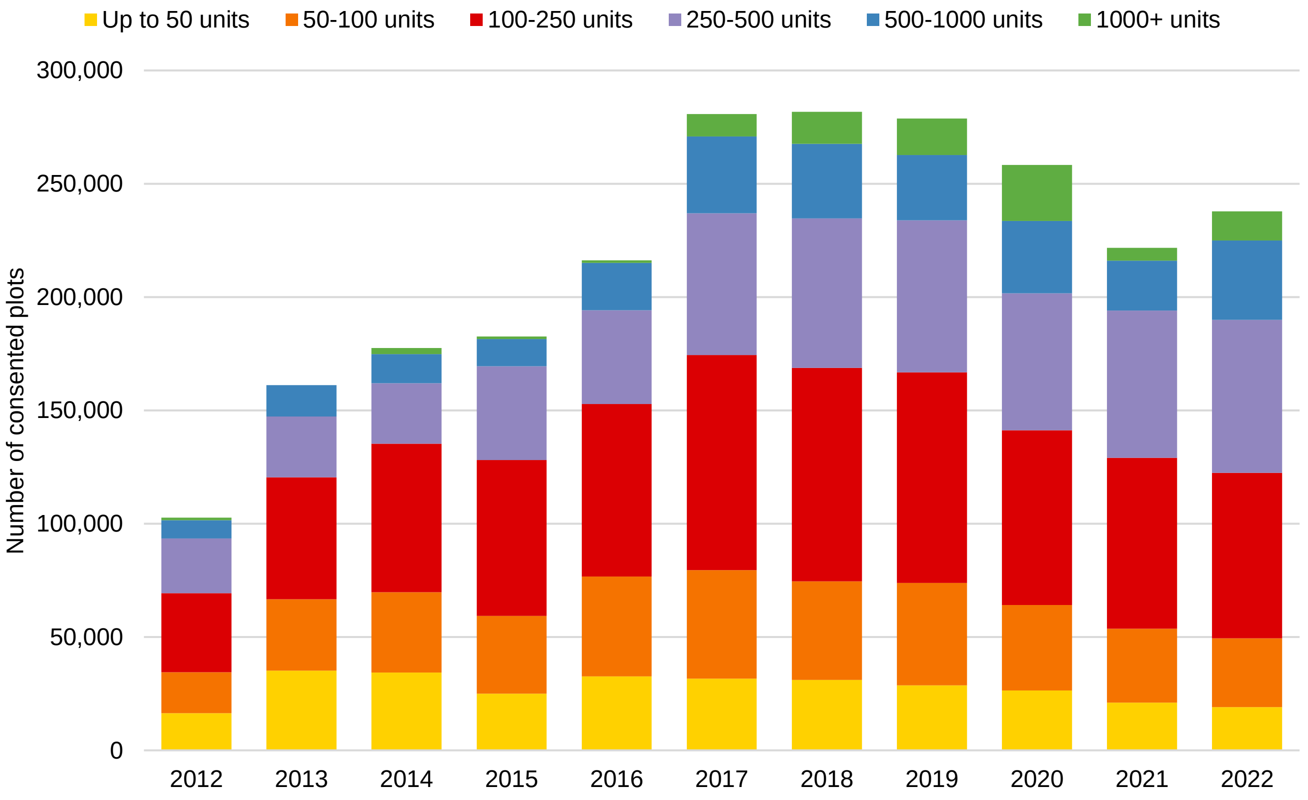
A falling number of sites and outlets is also a barrier to housebuilders expanding their businesses and opening new divisions. Without this, it is unlikely that the Government's target to delivery 300,000 homes per year by the middle of the decade can be achieved.

3.2. Consents across the whole housebuilding industry

This section expands the analysis of consents controlled by the major housebuilders to look at the whole housebuilding industry and the total flow of consents coming through the planning system. Is the challenge experienced by the bigger players replicated across the whole market?

The chart below shows that broadly the major housebuilders experience with planning consents has been in line with the wider market. The slightly longer data series in the chart below shows how quickly the number of consented homes increased from 2012 until 2017 before stabilising and then falling back in 2021 and 2022. Most of the expansion has come from larger sites gaining consent, with the number of plots on sites under 100 homes gaining consent largely stable between 2013 and 2020 before falling in 2021 and 2022. The number of plots on sites under 100 homes gaining consent in 2022 was at its lowest level for a decade.

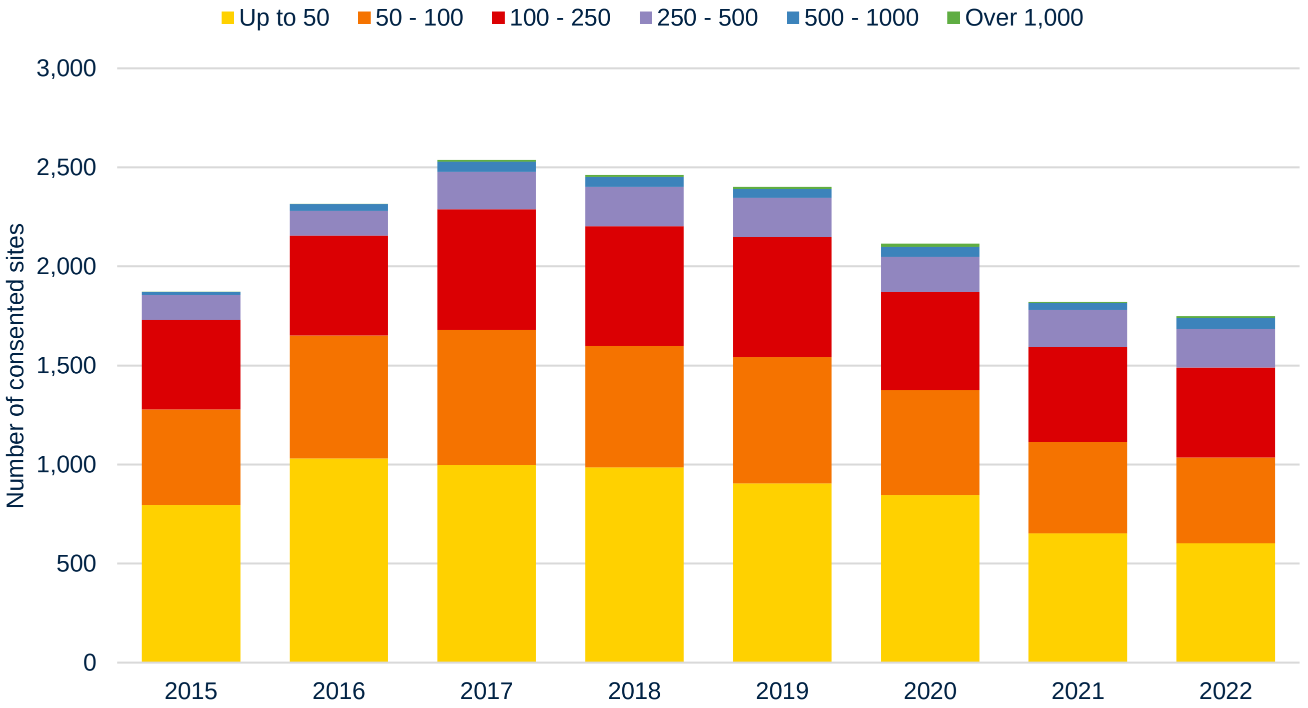
Figure 19 – Number of consented plots across England, by site size



Source: Savills Research, Glenigan.

The data on number of sites is only available from 2015, but clearly shows the fall in the number of sites has been greater than the fall in the number of consented plots over the last three years. Indeed the number of sites being consented in England has fallen every year since 2017. The number of consented plots was 15% lower in 2022 compared to 2017, while the number of consented sites was 31% lower. The fall in the number of sites with fewer than 100 plots was greater still, 38% down in 2022 compared to 2017.

Figure 20 – Number and size of consented sites across England



Source: Savills Research, Glenigan

As a general principle, residential development sites typically have capacity to support one sales outlet each. This may increase to two or more outlets in certain circumstances, with much larger sites delivering a diverse range of property types more likely to support a larger number of outlets.

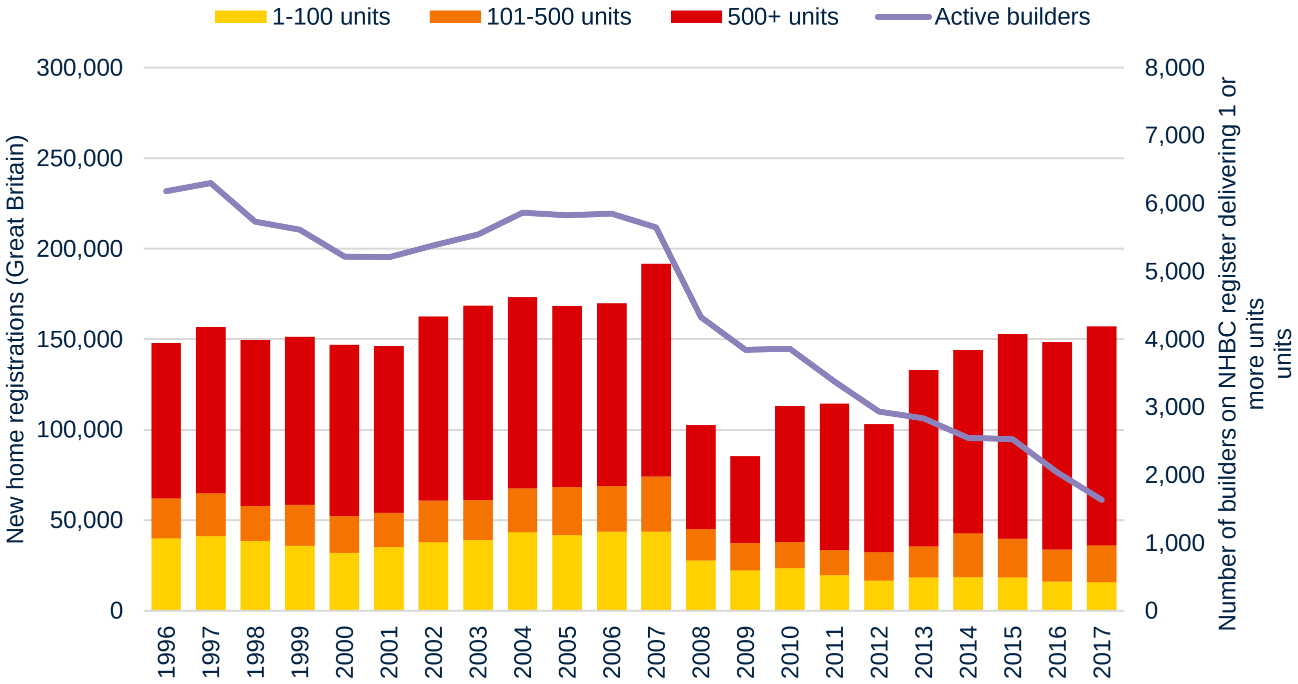
Our analysis of a selected sample of major housebuilders supports this concept, with sites gaining full consent and sales outlets reflecting each other at approximately a 1:1 ratio. Similarly, our analysis found that exceptionally large or diverse residential projects were able to support a greater number of outlets. So the number of residential sites gaining consent across England is a reasonable proxy for the expected number of outlets. Fewer sites gaining consent in recent years, as highlighted above, will result in fewer sales outlets across the country. Our evidence suggests that this was as low as 1,748 sites in 2022.

A New Normal for Housebuilding?

The importance of sales outlets in a market without Help to Buy

The lack of sites and particularly the lack of small sites is a major barrier to growth in the housebuilding industry, with fewer outlets reducing the opportunities for SME housebuilders, housing associations and new entrants to the market. The chart below shows the NHBC records for active housebuilders alongside the number of new homes registrations by size of builder. This illustrates the rapid and sustained fall in the number of active builders since the GFC, and also the lack of any recovery in registrations by smaller housebuilders. The HBF estimated that SMEs comprised an annual average of 39% of new build delivery before 1990, falling to just 12% in 2017[1]. It is likely that this trend has been driven at least in part by the lack of smaller sites and outlets provided by the planning system, alongside a more challenging lending environment for smaller developers.

Figure 21 – Number of new home registrations across Great Britain by size of housebuilder



Source: Savills Research, NHBC

The demise of smaller housebuilders has been repeatedly regretted by ministers and government policy has aimed to reverse the trend. A key conclusion of the 2018 Letwin Review was that the homogeneity of development was the key barrier to increasing housing delivery. Homes England has focused on supporting smaller developers. The £3 billion Home Building Fund was launched in 2017 to offer flexible funding to developers who could not otherwise access lending, and in 2018 further support was offered with the launch of a £1 billion loan financing fund.

SMEs had been able to compete more effectively in the land market than in the years immediately following the GFC, although Savills land agents were reporting in early 2022 that rising build costs are leading these businesses to become more cautious. Unlike the major housebuilders, who have revolving debt facilities with the banks, SMEs rely on project by project funding. With the recent market turmoil and increased cost of debt, lenders have had stricter margin requirements and borrowing has become a lot more expensive, causing many SMEs to pause their land buying activities and focus on building out their existing sites for the moment.

[1] Home Builders Federation, Reversing the decline of small housebuilders, 2017

Therefore although there is intent to support SME housebuilders, they face many challenges and are unable to significantly increase their output or expand the number of sites they buy and develop in many cases.

The lack of small sites coming through the planning system and the lack of any recovery in SME housebuilders may be self-reinforcing. Fewer SME builders may be promoting fewer smaller sites through the planning system. While the lack of small sites coming through the planning system may also create fewer opportunities for SMEs to secure sites on which to build. There is an opportunity for the planning system to actively bring forward more smaller sites to increase the opportunities for SME builders and new entrants.

4. What sales rates to expect in the future?

The previous two sections show a challenging prospect for future housing delivery. On the demand side, weaker housing market conditions and the absence of Help to Buy has already cut the number of sales of new homes. On the supply side, the number of housebuilder outlets is falling and the planning system is delivering ever larger sites into the market, which will reduce the number of new homes available for sale.

This section looks at what it would be reasonable to assume the sales rate should be for outlets over the next five years, against the context of our forecasts for the wider housing market, an assessment of Help to Buy and the potential of Deposit Unlock.

Our analysis suggests that sales rates per outlet are likely to remain at between 0.5 and 0.6. The lower end of this range is likely to persist until housing market conditions stabilise. The higher end of the range is likely to be reliant on the success of replacement schemes for Help to Buy, particularly Deposit Unlock.

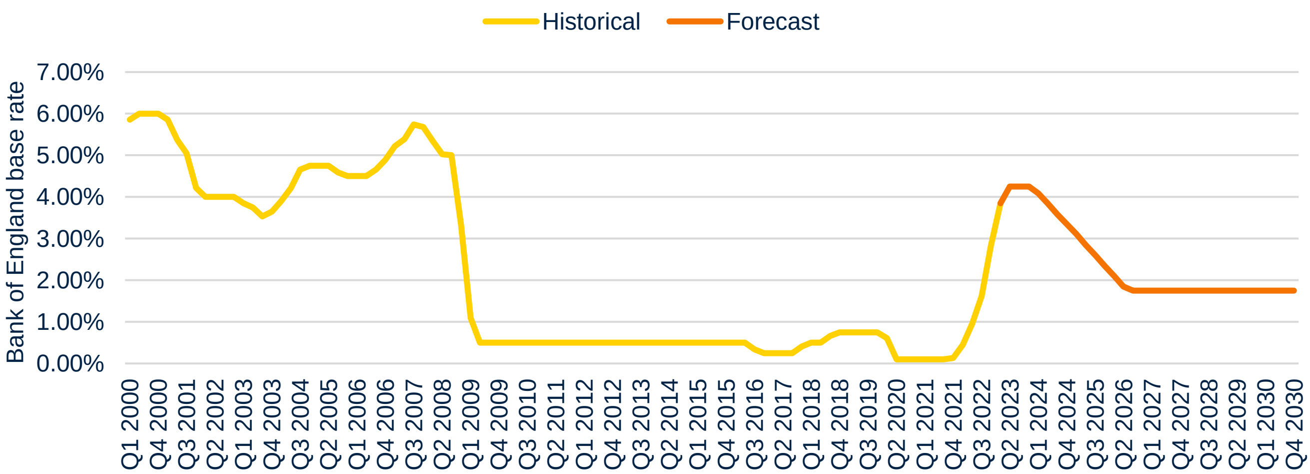
We do not think it is likely that sales rates per outlet will recover to the 0.67 sales per outlet level seen before the GFC or the 0.73 between 2015 and 2021. Underlying housing market activity levels are not expected to recover to pre-GFC levels and it is not envisaged that a support scheme with the same impact as Help to Buy will become available.

The number of outlets has already been falling for several years and is likely to fall further as fewer sites gain planning consent. Alongside a lower sales rate, this will result in substantially lower numbers of new homes sales over the coming years. The combination of these factors makes it very unlikely that the Government can achieve its target for 300,000 new homes per year by the middle of the decade.

4.1. Forecasts for the housing market

The new homes market is strongly linked with the wider housing market. The current downturn was initiated by the sudden rise in the cost of mortgage lending, following the mini-budget in September 2022. Oxford Economics forecast that the Bank of England base rate will peak early in 2023 and then fall back, reaching a long term equilibrium rate of 1.75% by 2026. Whilst much lower than the current rate, this is still substantially higher than the low interest rates that have supported the housing market since the GFC. The combination of higher mortgage interest rates and a higher cost of living has substantially reduced buyer budgets.

Figure 22 – Bank of England base rate since 2000 and Oxford Economics forecast



Source: Oxford Economics, 17th February 2023

The outlook for the wider economy is also weak, with most forecasters expecting a shallow recession this year. The outlook for employment is more positive, however, and it is not expected that employment will rise sufficiently to cause widespread distress in the housing market and forced sales.

We therefore expect house prices to fall by around 10% in 2023, before stabilising in 2024 and rising again from 2025 as interest rates fall and reduce the cost of borrowing.

Table 2 – UK house price forecast

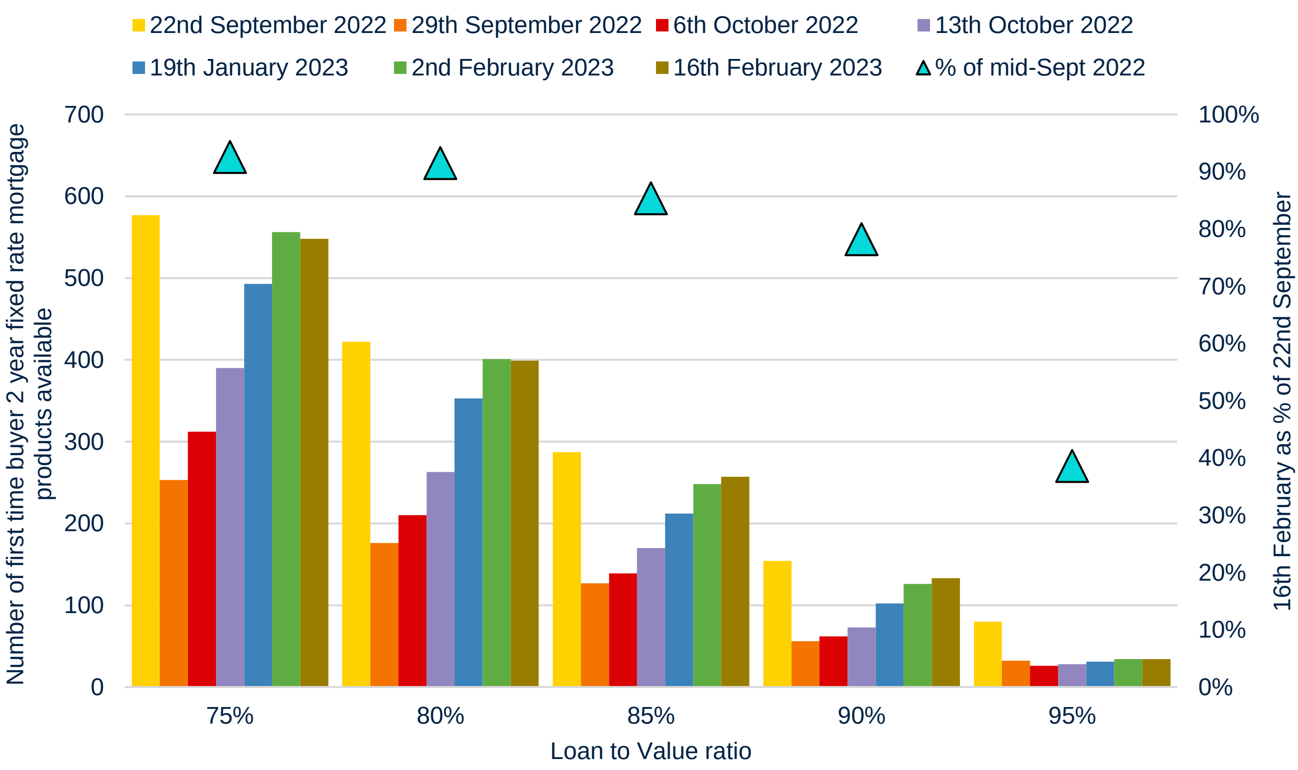
	2023	2024	2025	2026	2027	2023-27
UK house price forecast	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%

Source: Savills Research, published November 2022

Although pricing is important for new homes sales and house price growth tends to be aligned with confidence in the market, it is the level of market activity and sales volumes that matter most.

Mortgage availability was hit hard by the sudden change in financial markets that followed the mini-budget and has not yet fully recovered. Higher loan to value mortgages were most affected and have been slowest to recover. These mortgages are most helpful for first time buyers, particularly in the absence of Help to Buy.

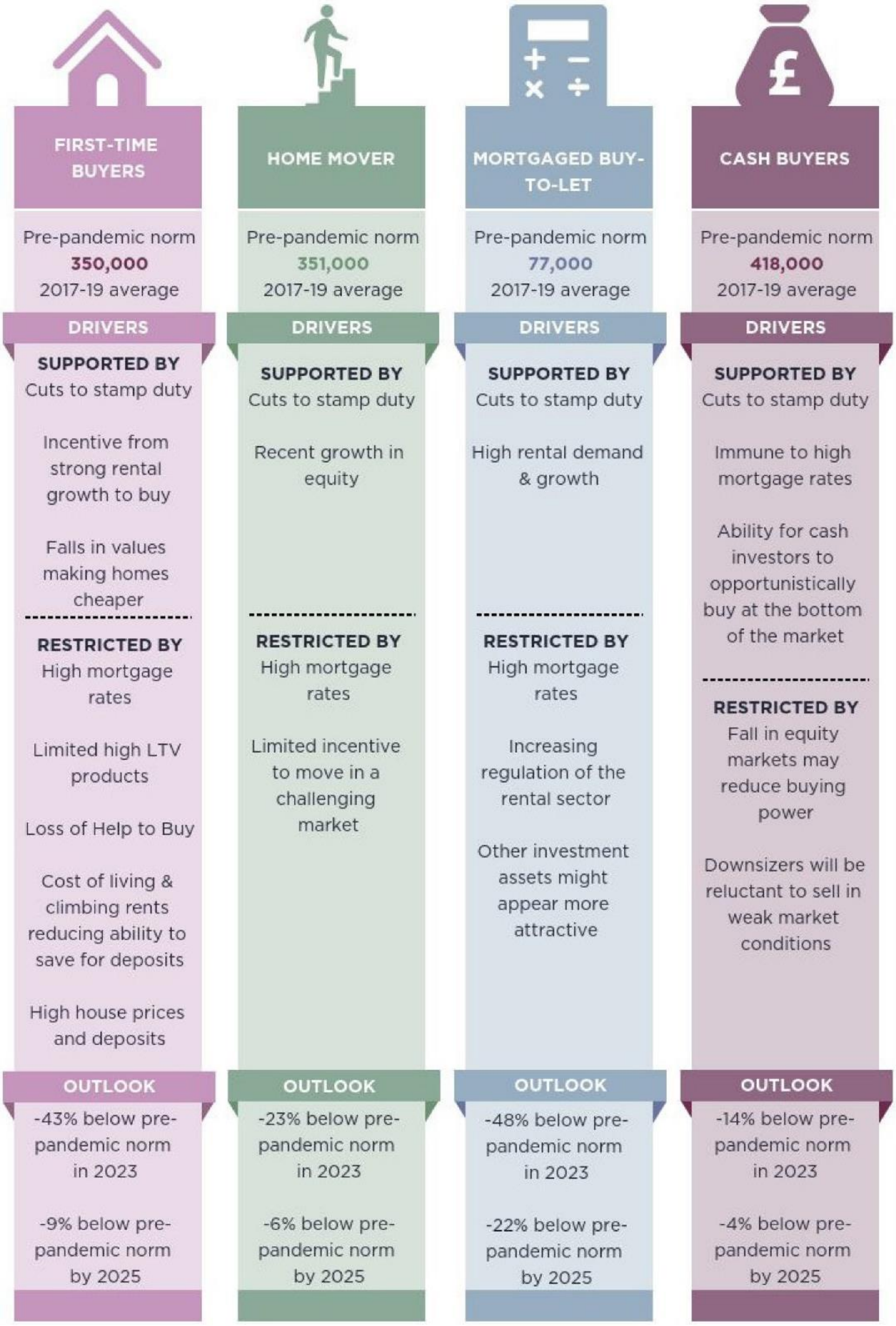
Figure 23 – Mortgage availability compared to immediately before the mini-budget in September 2022



Source: Savills using Moneyfacts

We therefore expect the number of sales in the housing market to fall sharply in 2023 before recovering to a level slightly below pre-pandemic numbers. Recovery will then vary according to buyer type, with cash-buyers and home movers the first to recover, followed by first time buyers and mortgaged buy-to-let investors. Looking longer term, we expect activity to plateau at around 1.1m transactions a year. This is slightly lower than the pre-Covid figure of about 1.2m, due to the higher underlying interest rate environment, with buyers weighted towards more affluent households even after a correction in values.

Figure 24 – Market drivers by buyer type



Source: Savills Research, published November 2022

Table 3 – UK transactions forecast

	2022	2023	2024	2025	2026	2027
Total transactions	1,060,000	870,000	1,000,000	1,110,000	1,110,000	1,110,000
First time buyers	310,000	200,000	250,000	320,000	320,000	320,000
Home movers	290,000	270,000	300,000	330,000	330,000	330,000
Mortgaged buy-to-let	90,000	40,000	50,000	60,000	60,000	60,000
Cash buyers	420,000	360,000	400,000	400,000	400,000	400,000

Source: Savills Research, published November 2022

4.2. How important was Help to Buy?

The Government has so far been clear that there will be no extension or replacement for Help to Buy. This leaves a very substantial gap in demand support for new homes sales, which so far does not have a clear replacement.

We estimate that Help to Buy accounted for around half of all house purchases by buyers with up to a 10% deposit since its inception. Just over half of Help to Buy users (54%) have used only a 5% deposit and a further 24% used up to a 10% deposit. Two thirds of these buyers would find it very difficult to make the same purchase without Help to Buy or a similar scheme to help them overcome the deposit barrier.

Bank of England analysis of the first four years of Help to Buy looked at loan to income multiples as well as deposits. Of those buyers with a deposit of 10% or more, only one third of them would be able to obtain a mortgage without breaching the 4.5 income multiple barrier. Combining consideration of both income and deposit, the Bank of England analysis suggests that only between 10 and 15% of Help to Buy users would be able to make the same purchase without Help to Buy.

This estimate appears to conflict with the findings of the Government commissioned evaluation of Help to Buy, published in 2017. It found that 45% of Help to Buy users could have afforded to buy the property they wanted or the property they actually bought without using the scheme. This was based on a survey of 1,500 users of the scheme, conducted by Ipsos Mori.

This could be right if those Help to Buy users have substantial savings that they could have used for their deposit, but chose not to. Since house prices have risen consistently across most of the country since 2013, this would be an unusual choice. The equity loan remains a proportion of the property value, so if prices are going up, the cash value of the equity loan also increases, whereas returns on cash savings have been very low.

It is possible that respondents to the survey thought they would have used an alternative scheme to buy their chosen home, if Help to Buy hadn't been available. Shared Ownership would have been an option for many, but volumes are limited by the amount of grant funding available through the Affordable Homes Programmes and number of homes delivered through Section 106.

This suggests that Help to Buy has been a very important contributor to new homes demand and the withdrawal of the scheme will result in a significant decrease in demand for new homes, which will in turn have an impact on sales rates.

4.3. Deposit Unlock

Deposit Unlock may act as a partial replacement for Help to Buy. The scheme enables buyers to acquire new homes with only a 5% deposit, thereby replicating one of the key selling points of Help to Buy. This scheme means that buying a new home will be much easier than purchasing an existing home for those with a 5% deposit, so new build will retain some of the competitive advantage that Help to Buy bestowed.

Mortgage lenders are protected by a mortgage guarantee funded by the housebuilder that covers 35% of the property value. This is done in the background so, as far as they buyer in concerned, their loan is a standard mortgage product.

The buyer must however borrow the remaining property value and the challenge will be avoiding the 4.5x loan to income multiple cap. The Bank of England's analysis of Help to Buy users suggests 46% of them could have made the same purchase at 95% LTV without falling foul of the loan to income cap. This scheme may have the potential to help that substantial proportion of Help to Buy users to continue buying new homes.

At time of writing, 39 builders had signed up to the scheme alongside three lenders.

Higher interest rates do present a challenge for Deposit Unlock and may limit take-up over the next 12-24 months, but the scheme's potential to lift the deposit barrier to home ownership is likely to be compelling for many buyers who would previously have used Help to Buy.

4.4. Future sales rate scenarios

Market conditions are likely to make sales harder over the short term and have already cut sales rates per outlet per week to only 0.3 during the last few months of 2022. Early reports from January 2023 suggest that more stable mortgage market conditions have already enabled sales rates to recover to around 0.5.

We think sales rates will increase from this low, but are unlikely to recover to the 0.67 sales per outlet per week level seen before the GFC or the 0.73 between 2015 and 2021. Underlying housing market activity levels are not expected to recover to pre-GFC levels and, without schemes to lend new homes a competitive advantage over second hand alternatives, this lower level of sales activity is likely to translate across to the new homes sales market too.

What is therefore a reasonable assumption for future sales rates?

If we assume that around 20% of Help to Buy users would have been able to buy without the scheme (a proportion between the two analyses referenced above, but closer to that derived from the Bank of England analysis), then there would be a been around 110,000 new homes sales per year between 2015/16 and 2019/20. This would have been 24% down on the 145,000 new homes sales that actually took place, supported by Help to Buy.

Applying this reduction to the average sales rate per outlet suggests that in the absence of Help to Buy, in the same wider market conditions that existed during the late 2010s, the average sales rate per outlet per week would have been approximately 0.55.

This assumes there are no replacement schemes for Help to Buy. But it is likely that with strong take-up and in a more stable interest rate environment, Deposit Unlock could allow 40% of people who would have used Help to Buy to purchase a new home. If Deposit Unlock was used more widely, therefore, it would imply an average sales rate per outlet per week of 0.6 could be achieved, based on the same logic as above.

It is important to note that these sales rates are broad averages for a wide range of sites across the country. Within this average there is likely to be wide variation, not only between housebuilders (see Figure 1), but also between sites depending on local market conditions, product mix, competition from other sites, etc..

5. Summary and Recommendations

Housebuilders have enjoyed strong and consistent sales rates over the past decade, boosted in part by Help to Buy, which has driven demand for new homes over and above historic trends. But Government support for new home sales has allowed underlying structural issues to develop across the residential development market. And as a result, the market has been able to grow and maintain delivery levels by operating across larger consented sites, fewer sales outlets and fewer active players.

The end of Help to Buy, and the increasing costs of mortgage debt, mean significantly less consumer buying power, weaker market conditions, and lower sales rates anticipated in the immediate future. As sales rates slow, the existing environment will make it difficult to deliver homes at speed and scale, meaning an overall reduction in the capacity for new home sales and delivery across England over the next decade.

5.1. Sales rates

Major housebuilders have seen an upward trend in sales rates over the past 10 years. A typical rate of 0.7 sales per outlet per week was not unusual amongst the top housebuilders prior to the GFC, and this rate of delivery has been met and exceeded in recent years, with average sales rates reaching an average of 0.8 in 2021/2.

This growth in sales rates was supported by relatively favourable market conditions, with low interest rates allowing greater accessibility of mortgage debt. When combined with the Government's Help to Buy scheme, and stamp duty land tax relief offered to various buyer types across the decade, home ownership, especially through buying a new home, became a more attractive and attainable prospect for many.

Assuming there is no Help to Buy replacement, the current weaker market conditions will reduce the capacity for prospective buyers to access the market, resulting in downward pressure on sales rates that will endure beyond the recent market turmoil. This presents a significant problem when considered alongside the decline in sales outlets recorded in recent history.

5.2. Consents and outlets

Over the past five years, the number of homes gaining full planning consent has remained consistent, at around 300,000 plots per annum across England. At the same time, the number of sites gaining permission has steadily declined, representing a trend towards larger sites achieving planning consent. Most residential sites (except the largest sites) can support one sales outlet each, and a reduced supply of consented sites means a reduced supply of available outlets.

The lack of sites and particularly the lack of smaller sites is also a problem for SME housebuilders. SME developers face a number of challenges in delivering new homes, including access to finance, navigating a complex and costly planning system, and less capacity to address increasing build costs through the economies of scale that benefit larger housebuilders. Above all, SME developers are finding it increasingly difficult to compete in the land bidding process, particularly against larger housebuilders and on a smaller pool of available sites. The 'lack of available and viable land' was the most cited constraint on SME housebuilders ability to build more homes in the 2022 Federation of Master Builders Survey.

Finally, the lack of sites also presents a barrier to any potential new entrants to the market. This has a negative impact on diversity of the range of homes that can be delivered, and therefore absorbed by the market. This places further downwards pressure on sales rates for new homes.

5.3. The future of new homes delivery

Weaker market conditions will result in a lower sales rates, with our analysis indicating a rate of between 0.5 and 0.6 sales per outlet per week. This range, and particularly the lower end of this range, will continue until we see an improvement in housing market conditions. Higher rates could be achieved with the successful emergence of a support scheme that replaces some of the features of Help to Buy, such as Deposit Unlock.

The issues of low sales rates is compounded by the trend towards an ever diminishing supply of available sales outlets. A restrictive planning system will exacerbate this issue, with fewer sites expected to gain consent over the coming years. Lower sales rates, fewer sales outlets and the reduction in active parties delivering new homes will mean a substantial reduction in new home delivery. As a result, the Government's target for 300,000 homes per annum by the mid-2020s appears very unlikely.

Even if the number of outlets remained constant at 2021/2 levels, a sales rate of 0.5 would reduce the annual number of new homes sales from 145,000 to 90,000. If a sales rate of 0.6 per outlet per week can be achieved, this would result in a total of 110,000 new homes sales from the same number of outlets.

5.4. Recommendations

Many of the barriers to new home delivery discussed in this report are a result of entrenched issues related to the dynamic between land supply and housebuilders. In order to reverse the impact on future delivery of new homes, these issues need addressing at their core, and the following recommendations aim to achieve this.

1. Local planning authorities (LPAs) need to recognise changed market conditions

The production of Annual Monitoring Reports (AMR), typically around April each year, represents a key opportunity to LPAs to reappraise land supply within their administrative boundaries. LPAs need to recognise the substantial reduction in sales rates that has emerged over recent months and make an assessment of the likely future sales rates that are not based on a continuation of the past. This report gives our view on what the average rate of sale is likely to be and adopting this would lead to LPAs bringing forward more sites that allow housebuilders to open more outlets. Only by doing this will we maintain and increase housing delivery volumes.

2. The planning system should actively promote diversity in the delivery of new homes

The Letwin Review[2] showed that diversity in the size, type and tenure of homes was central to ensuring the strongest rates of new home delivery on large sites in areas of high housing need. Diversity of product will be paramount to maintaining levels of supply in the weaker housing market conditions expected over the next few years and in the absence of Help to Buy. Revisions to the NPPF therefore need to support a greater variation in the sizes and types of sites gaining consent. In turn this will allow an increased pool of developers to build a wider range of homes across different locations.

3. The planning system should actively create opportunities for SMEs and new entrants

The sustained fall in the number of smaller sites gaining consent is a major barrier to SME growth and new entrants to the housebuilding market. Changes to the NPPF should empower LPAs to actively create opportunities for smaller builders and new entrants in their areas through the allocation of smaller sites. This would support the wider Government agenda to reverse the decline in SME builders and increase competition in the housebuilding sector.

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752124/Letwin_review_web_version.pdf

Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.