Question 2 (iii)

The Draft Regulation 123 List remains unclear how CIL payments will be separated from S106 contributions. We agree that S106 contributions *may* be sought for site specific purposes where the generic type of infrastructure is included in the Reg 123 list, however the PPG extract below clearly states this is only in certain cases where it is evidenced and justified.

> *'Where the regulation 123 list includes a generic type of infrastructure (such as 'education' or 'transport'), section 106 contributions should not be sought on any specific projects in that category. Site-specific contributions should only be sought where this can be justified with reference to the underpinning evidence on infrastructure planning which was made publicly available at the charging schedule examination.'*
>
> Paragraph: 098 Reference ID: 25-098-20140612

We do not believe the Council has provided the necessary evidence to underpin the possible infrastructure contributions which may be required on specific sites. Therefore this generic 'exclusions' column of the draft Reg 123 List needs to clearly set out what evidence and assumptions have been used relating to possible site-specific infrastructure contributions for all locations for growth, not just the Gillingham Extension.

Whist we welcome the Councils suggestion of deleting the phrase 'or where the requirement can be attributed to five or fewer developments', we consider that the additional wording 'site specific' or 'on site' should be included in the exclusions list, accompanied by a list of the site specific items of infrastructure and a reference to the relevant evidence base document.

We agree with the zero-rated approach for the Gillingham Strategic Site, confirming that infrastructure should be provided via S106/278 agreements only.

Question 2 (iv)

The Inspector has asked the Council to comment on the delineation of the proposed town and rural CIL charges of £30/£45. The Council consider the headroom/buffer analysis supports these levels, however as outlined in **Question 2 (v)** below, we do not consider that these figures provide an appropriate explanation for the Council's proposed approach.

The recently adopted North Dorset Local Plan Part 1 (LP1) sets out the core spatial strategy for North Dorset (Policy 2). This identifies the 4 main towns of Blandford, Gillingham, Shaftsbury and Sturminster Newton as main focus for growth, to accommodate the *vast majority* of housing and other development. Policies 16 to 19 identify the main locations for growth at the four main towns.

Policy 2 clearly states that settlement boundaries from the 2003 local plan will be used in conjunction with Policies 16, 17,18, 19 and 21 (which identify the broad locations for housing) for development management purposes until reviewed wither through site allocations in Part 2 of the Local Plan or a neighbourhood plan.

LP1 Policies 16 to 19 identify the following locations for growth at the main towns, all of which lie outside the 2003 development boundaries and would be subject to a £45 per square metre CIL change, even though they are at locations where PBA have recommended a CIL charge of £30 per square metre:

- Policy 16 h land to the south east of Blandford St Mary
- Policy 16 i land to the west od Blandford St Mary

- Policy 18 g land to the south east of Wincombe Business Park
- Policy 18 h land to the west of the A350 opposite Wincombe Business Park
- Policy 19 g land to the north of Northfields
- Policy 19 h land to the east of the former Creamery site

Together, these site account for in excess of 1,100 homes and make a significant contribution to the Council's five year housing land supply. In addition, Neighbourhood Plans for Blandford and Sturminster Newton are being prepared which propose additional areas for growth at these towns.

Where we appreciate the PBA report was a 'high level exercise', we consider that the scenarios undertaken adequately test the proposed extensions to the settlement boundaries and conclude that a CIL rate of £30/sq m is appropriate in these locations. The Council have confirmed that proposed settlement extensions (north of Shaftesbury, south and west of Blandford, north and east of Sturminster Newton) would pay the £45/sq m rate, even though PBA's viability report only supports £30/sq m.

The Council have not provided an adequate reason for adopting these figures and their proposed approach could jeopardise the delivery of the Local Plan housing targets. We would suggest the boundary for the rural / urban CIL rate should be revised to take account the locations for growth in LP1 and emerging Neighbourhood Plans; the parish boundary for the main towns would provide an appropriate basis for this delineation.

Question 2 (v)

We have reviewed Table 1.1 which depicts the weighed averages and buffer for each value area. We would comment that it is unclear how the 'weighted headroom' values have been calculated, however for the purposes of this document, we have assumed they relate to the average headroom values stated in the sensitivity testing.

The sensitivity testing is included in Appendix C of the updated PBA Report and shows the likely impact of changes in the development climate, including increases in build costs and sales values over the next two years.

<u>Sales Values</u>

Following the Referendum held on 23 June 2016 a decision was taken for the United Kingdom to leave the European Union on terms and at a date which, as yet, are unknown. This has since led to uncertainty in the residential market with limited transactional evidence to forecast the future of house prices.

PBA's updated report was published prior to the referendum and refers to Savills research which is now considered outdated. The outdated house price growth assumptions have been adopted in the sensitivity testing, however we consider this can no longer be relied upon and the weighed averages which inform the 'buffer' are no longer accurate.

Savills national research publication 'Residential Property Focus' for Q4 2016 (attached at **Appendix A**) forecasts slower UK house price growth, suggesting zero growth in 2017 and 2% growth in 2018. Therefore the sensitivity results which incorporate a 5% and 8.15% increase in sales values are no longer relevant.

<u>Build Costs</u>

PBA have confirmed that externals have been calculated at 10% of the BCIS build cost figure. We agree with this approach, however would note that where PBA have reviewed the BCIS build cost figures in early 2016, these assumptions are already approximately 11% behind the latest figures for Q4 2016 (North Dorset).

Type of Development - generally (per sq m)	PBA Median	BCIS Q4 2016	Difference
Flats	£1,097	£1,227	11.9%
Houses (3 or less units)	£1,129	£1,293	14.5%
Houses (4 to 14 units)	£1,053	£1,169	11.0%
Houses (15+ units)	£976	£1,044	7.0%

We also highlight that tender prices are forecast to rise by 23% in the next five years, at a rate of 3.3 to 5.2% per annum, according to a report from RICS' BCIS Quarterly Briefing (March, 2016). Given this, any price increases in build costs will have a significant impact on the viability of future development sites.

Sensitivity Testing

When applying the above assumptions to the sensitivity testing, it is likely that build costs will increase and sales values will remain stagnant. PBA state that if this is the case, it may be a 'necessity for the CIL rate for the town centres (particularly Shaftesbury and Blandford Forum) to be re-examined'. They also confirm that where build costs are set to increase rapidly, the rural rate of £45 per square metre would need to be reviewed.

Selecting just a few of the outputs included in the sensitivity testing in Appendix C of the updated PBA Report, it is clear that a 4.6% increase is build costs renders many of the scenarios unviable, and a 9,43% increase in build costs virtually all of the scenarios are unviable. We would comment that these figures do not take the BCIS Q4 2016 increased build costs into consideration.

We do not believe the Council has adequately addressed the Inspector's question and concerns remain regarding the adequacy of the buffer, in particular for the £45/sq m rate proposed at the locations for growth at the main towns.

Savills World Research
UK Residential

RESIDENTIAL PROPERTY FOCUS
2016 Q4

Five-year forecast issue

CHANGE OF PACE
Dropping a gear on house price growth

MAINSTREAM
Market conditions to put a brake on house price growth

PRIME MARKETS
Sentiment determined when impact of Brexit is clearer

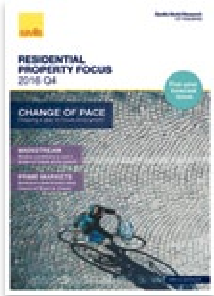
savills.co.uk/research

This publication

This document was published in October 2016. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Glossary of terms

- **Mainstream**: mainstream property refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.
- **Prime:** the prime market consists of the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value. Typically it comprises properties in the top five per cent of the market by house price.



Five-year forecast issue

FOREWORD

WHEN IT COMES TO THE CRUNCH

Forecasting in the aftermath of the Brexit vote is difficult, but its impact on the property market is considerably less than that of the credit crunch

By the time we publish this document 3,375 days will have passed since the onset of the credit crunch. That event has had by far the single biggest impact on the UK housing market in my adult life.

It is the source of the ultra low interest rate environment off which the London housing market has fed (in a way other markets have not). It carries responsibility for the much lower transaction environment, in which people now trade up the housing ladder less often. It was the catalyst for the mortgage regulation that has entrenched the divide between the haves and have nots.

By contrast, when we release the housing market forecasts contained in this report, 134 days will have passed since the EU referendum decision. The Brexit vote makes forecasting more perilous than usual. It also has the capacity to shape the market over the next five years. But in terms of its impact, it's not comparable to the events of the late summer of 2007.

Economic forecasts have been cut back. This means less impetus for house price growth. Buyer sentiment across all sectors of the market is likely to be fragile during the period of negotiations to leave the EU. Yet interest rates are expected to stay lower for longer, preserving affordability for those with a mortgage. This reduces the risk of a housing market correction, even in the highly priced markets of the capital.

Politically, the vote to leave the EU has spawned a new prime minister and a minister for housing. This has heralded a new approach to housing policy, one that is less wedded to relentlessly promoting home ownership, by giving renewed focus to driving up new housing delivery across a range of tenures.

Looking forward, politics will influence the market in other ways. Increasingly, taxation is being used as a housing policy tool, whether that be the reduction of tax reliefs for buy-to-let landlords, a stamp duty surcharge for investment properties and second homes or the high rates of stamp duty applied at the top of the market.

In the following articles we have explained in more detail how all of these factors have affected our outlook for the housing market over the next 1,883 days to the end of the year 2021.

Lucian Cook
+44 (0) 20 7016 3837
lcook@savills.com
@LucianCook

"Buyer sentiment across all sectors of the market is likely to be fragile during the period of negotiations to leave the EU"

Lucian Cook, Savills Research

CONTENTS

MAINSTREAM MARKETS

THE MARKET'S CHANGE OF GEAR

Economic uncertainty post Brexit will put a brake on house price growth, despite lower interest rates

Words: Chris Buckle

"Brexit is complicating a natural shift towards the later stages of the housing market cycle"

Chris Buckle, Savills Research

▼ House price growth is forecast to slow in the mainstream market

A year ago when we announced our five-year forecasts, we were anticipating that a stable economic backdrop would provide a period of relatively strong price growth whilst interest rates remained low.

Brexit has forced the market to change gear and created uncertainty. Against this new backdrop, our forecasts are for slower growth.

Although we are expecting economic growth to remain positive, households will face weaker income growth and there may be some job losses over the next two years. The period of negotiation with the EU is likely to be a rollercoaster of confidence, with volatile sentiment indicators and lower levels of business investment.

As importantly, the amount buyers are borrowing relative to their incomes is already stretched in some parts of the market. In particular, it is bumping up against the limits of mortgage regulation in London.

While falling mortgage interest rates will create some capacity for house price growth over the next two years, buyers are unlikely to want to stretch their finances much further in uncertain times.

So it is difficult to see any significant potential for house price growth until the terms of the withdrawal from the EU are agreed and economic growth picks up.

BACK TO NORMAL?

Brexit negotiations are expected to be concluded by early 2019, bringing to an end the two-year period of greatest uncertainty. As buyer confidence returns, low mortgage rates should mean there is capacity for a small bounce-back in house prices.

It is anticipated that economic growth will return to trend from 2020, but this is likely to coincide with some gradual upward pressure on

Other economic scenarios to consider

Our forecasts are based on Article 50 being triggered in the first quarter of 2017. They also assume negotiations with the EU are broadly positive, but result in limited additional access to the single market beyond standard World Trade Organisation rules.

But rarely, if ever, has economic forecasting been less certain. The myriad of possible Brexit outcomes means there are numerous divergent scenarios for the economy, which have the potential to affect the outlook for house prices.

■ **Growth comes earlier** If consumer confidence holds up through 2017 and job losses are muted, house price growth could occur earlier in the forecasting period. This would leave markets more susceptible to an affordability squeeze when interest rates rise.

■ **Fiscal stimulus** Increased public sector investment would support employment and deliver stronger economic growth. This would boost consumer confidence, incomes and, in all likelihood, house prices. However, rising interest rates would reduce affordability to put a cap on it.

■ **Low growth** The current resilience of the UK economy may be short-lived, with a greater negative economic impact becoming clear over the course of the negotiation. This may lead to a further weakening of the pound, higher inflation and rising interest rates, which would reduce the capacity for house price growth.

interest rates. Brightening economic prospects should lift consumer sentiment, but increasing interest rates will work as a brake on potential house price growth in this period.

REGIONAL DIFFERENCES

The effect of Brexit is complicating a natural shift towards the later stages of the housing market cycle, when the strongest growth is seen beyond London and the South East.

All regions are expected to see reduced house price growth as the economy slows. But as interest rates start to rise, this is likely to be most acute in London.

Here competition for housing, fuelled by low levels of housebuilding, has increasingly led buyers to stretch their borrowing levels. The average buyer borrows four times their income in the capital, though their ability to do so has been dependent on low interest rates.

The tightening of affordability is likely to be most significant in those parts of inner London that have seen the highest house price growth and still rely on the availability of mortgage debt. In comparison, outer boroughs of London are likely to perform more in line with markets in the commuter zone.

The impact of higher mortgage rates is likely to be much less acute in the more affordable markets of the Midlands, Wales and the North of England. These areas have more capacity for house price growth, but most lack the economic catalyst needed to unlock this potential. Economically active markets such as Manchester are expected to outperform their regions.

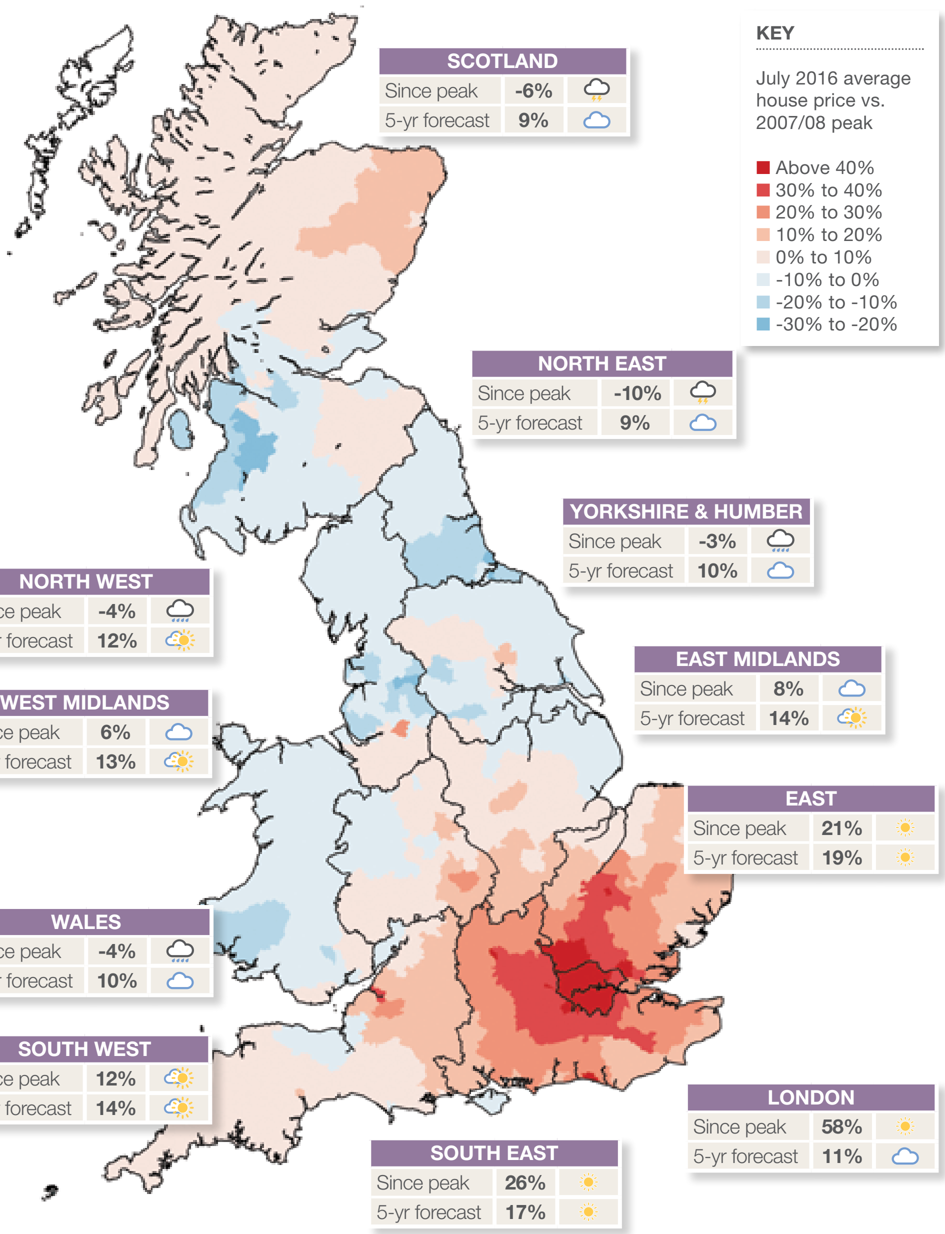
Scotland is likely to continue to see price growth in line with the North of England, with the strongest growing markets focused in the central belt. Aberdeen, which showed the strongest post credit crunch growth, will continue to be a drag on the national numbers as long as oil prices remain low.

13%

UK house price growth five-year forecast

FIGURE 1

Regional diversity Five-year forecasts in context



Source: Savills Research using HM Land Registry and Registers of Scotland

FIGURE 2

Mainstream drivers and house price forecasts

Central Five-year forecast	2017	2018	2019	2020	2021	Total
UK house price growth	0.0%	2.0%	5.5%	3.0%	2.0%	13%
Household income, y/y change	1.0%	1.9%	2.6%	3.3%	3.2%	13%
Employment, y/y change	-0.4%	0.0%	0.4%	0.8%	1.0%	2%
Bank of England base rate	0.1%	0.1%	0.4%	0.9%	1.4%	n/a

Source: Savills Research, Oxford Economics

TRANSACTIONS

SLOW ON THE UPTAKE

Transaction levels are set to fall back in the period to 2018 with a recovery to follow. What exactly does this mean for different buyer types across the UK?

Housing transactions are arguably of more relevance to the general public and the housing industry than house prices.

After all, they reflect people's inclination and ability to get on, trade up, trade down or invest in the housing market. In turn, that can effect how much and what we build, not to mention the pressure placed on everything from family housing to the private rented sector.

A FALL IN SALES

Without pulling our punches, we expect transaction levels to fall back by 16% in the period to the end of 2018. Having reached a post credit crunch peak of 1.33 million at the end of March this year, we then expect a recovery back towards around 1.24 million sales per annum by 2021.

These headline figures initially reflect the short-term impact on buyer sentiment of economic and political uncertainty. They then echo the longer term effect of mortgage regulation, that prevents a return to levels regularly seen pre credit crunch. However, this is far from being the whole story.

HELP NEEDED

First-time buyers will face significant ongoing challenges in raising a deposit without financial assistance.

While the Bank of Mum and Dad will continue to play a role in meeting their funding shortfall, we also expect they will continue to rely on schemes such as Help to Buy. Increasingly, such measures look like they will need to become long-term features of Government efforts to sustain house building and home ownership.

Meanwhile, the numbers of home movers with a mortgage continues to be heavily suppressed, having shown precious little growth in the past five years, as existing owners trade up the housing ladder less often.

IMPENDING REGULATION

In comparison, buy-to-let investors with a mortgage have seen their numbers almost double in the past five years. While only representing 10% of the market, this has been a concern for both the Government and the Bank of England. The result has been a combination of tax disincentives and impending mortgage regulation. Though these measures do not herald the death of the mortgaged buy-to-let buyer, they are likely to become thinner on the ground.

Finally, there is the cash buyer. Greater in number than before the credit crunch, their power may be tempered by greater stamp duty for the investors among them. But this is likely to be offset by greater pension freedom and more downsizing as they look to help younger generations follow their path to financial security through home ownership.

FIGURE 3

Transaction forecasts

	2016	2017	2018	2019	2020	2021
Total Housing Transactions	1,245,000	1,125,000	1,040,000	1,145,000	1,195,000	1,240,000

Sources: Savills Research, HMRC, CML

1st

FIRST-TIME BUYERS WITH MORTGAGE

START POINT

325,000
transactions in 2016

- **26%** of the market
- **-15%** below 5-year pre crunch
- **+68%** growth in past five years

DRIVERS

SUPPORTED BY
- Help to Buy
- Starter Homes
- Shared ownership
- Access to Bank of Mum & Dad

RESTRICTED BY
- Mortgage regulation
- Tighter lending criteria
- High deposit requirements

FORECAST

-15%
to 275,000 by **2018**

+8%
to 350,000 by **2021**

OUTLOOK

FOOT UP NEEDED
Getting on the first rung of the housing ladder will prove increasingly difficult without financial assistance

HOME MOVERS WITH MORTGAGE

START POINT

360,000
transactions in 2016

- **29%** of the market
- **-53%** below 5-year pre crunch
- **+14%** growth in past five years

DRIVERS

SUPPORTED BY
- Continued low interest rates
- Option to accelerate mortgage repayments

RESTRICTED BY
- Economic uncertainty
- Mortgage regulation
- Ability to accumulate equity

FORECAST

-10%
to 325,000 by **2018**

+6%
to 380,000 by **2021**

OUTLOOK

STAYING PUT
Trading up the housing ladder continues to be suppressed with more owners choosing to stay put rather than move

BUY-TO-LET WITH MORTGAGE

START POINT

120,000
transactions in 2016

- **10%** of the market
- **-16%** below 5-year pre crunch
- **+95%** growth in past five years

DRIVERS

SUPPORTED BY
- Low returns on alternative investments
- Growth in rental demand
- Historic investment track record

RESTRICTED BY
- Additional 3% stamp duty
- Reduced tax relief
- Tighter lending criteria
- Impending mortgage regulation

FORECAST

-33%
to 80,000 by **2018**

-25%
to 90,000 by **2021**

OUTLOOK

A RARER BREED
Impending mortgage regulation and tax disincentives means buy-to-let owners are much thinner on the ground

CASH BUYERS

START POINT

440,000
transactions in 2016

- **35%** of the market
- **+17%** above 5-year pre crunch
- **+40%** growth in past five years

DRIVERS

SUPPORTED BY
- Greater pension freedom
- Increased downsizing

RESTRICTED BY
- Additional 3% stamp duty on investment property and second homes

FORECAST

-18%
to 360,000 by **2018**

-5%
to 420,000 by **2021**

OUTLOOK

LESS OF AN IMPACT
Greater pension freedom and more opportunity to downsize tempered by greater stamp duty charges

FORECASTS

MARKET PREDICTIONS

PRIME MARKETS FIVE-YEAR FORECAST VALUES

	2017	2018	2019	2020	2021	5-year
Central London	0.0%	0.0%	8.0%	5.0%	6.5%	21%
Other Prime London	-1.0%	0.0%	6.0%	4.0%	5.0%	15%
Suburban	-1.0%	1.0%	5.5%	4.0%	6.0%	16%
Inner Commute	1.0%	1.5%	6.5%	4.0%	6.0%	20%
Outer Commute	1.0%	1.5%	6.5%	4.0%	5.0%	19%
Wider South England	1.0%	1.0%	5.5%	3.5%	5.0%	17%
Midlands/North	0.0%	1.0%	5.0%	3.0%	4.0%	14%
Scotland	0.0%	0.0%	4.5%	3.0%	4.0%	12%

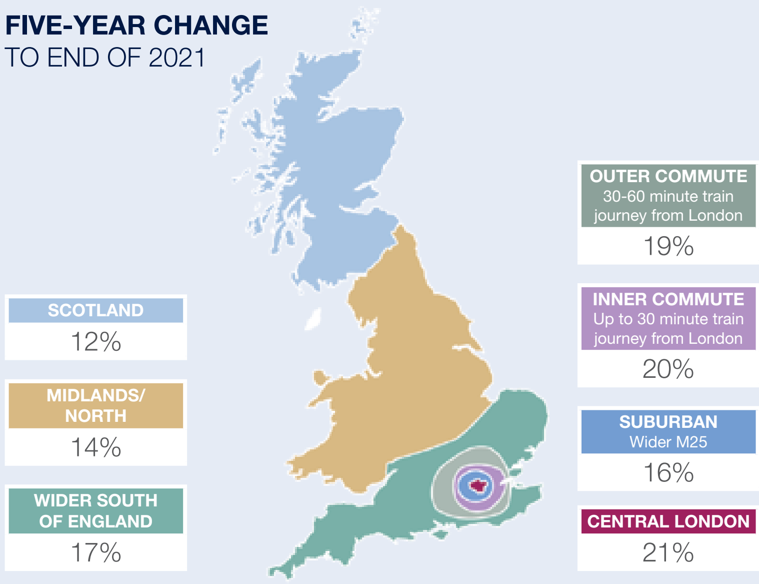
Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

PRIME MARKETS

▲ The prime markets will return to growth as uncertainty clears

FIVE-YEAR CHANGE TO END OF 2021



MAINSTREAM MARKETS FIVE-YEAR FORECAST VALUES

	2017	2018	2019	2020	2021	5-year
UK	0.0%	2.0%	5.5%	3.0%	2.0%	13%
London	0.0%	3.0%	4.5%	2.0%	1.0%	11%
South East	2.0%	2.0%	6.5%	4.0%	1.5%	17%
East of England	2.5%	2.5%	6.5%	4.0%	2.0%	19%
South West	1.0%	2.0%	6.0%	3.0%	1.5%	14%
East Midlands	0.0%	2.0%	5.5%	3.5%	2.0%	14%
West Midlands	-0.5%	2.0%	5.0%	3.5%	2.0%	13%
North East	-2.5%	1.5%	5.0%	2.0%	3.0%	9%
Yorks & Humber	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
North West	-2.0%	2.0%	5.5%	3.0%	3.0%	12%
Wales	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
Scotland	-2.5%	1.5%	5.0%	2.0%	3.0%	9%

Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

MAINSTREAM MARKETS

▲ Economic uncertainty will slow down house price growth

FIVE-YEAR CHANGE
TO END OF 2021

SCOTLAND
9%

NORTH WEST
12%

WALES
10%

WEST MIDLANDS
13%

SOUTH WEST
14%

NORTH EAST
9%

YORKSHIRE & HUMBER
10%

EAST MIDLANDS
14%

EAST
19%

LONDON
11%

SOUTH EAST
17%

PRIME MARKETS

PRIME'S PERIOD OF CONVALESCENCE

Taxation and caution during the EU negotiations will hold back the market until 2019

Words: Lucian Cook
Twitter: @LucianCook

▼ Prices continue to adjust in London

If the UK's prime housing markets were compared to an ailing patient, we would probably say they have been afflicted by a bad case of over exposure to taxation complicated by Brexit-induced malaise.

To pursue the analogy, there may be a little more pain to come. But after a reasonable period of recuperation as the UK negotiates to leave the EU, we fully expect their health to be restored.

REFERENDUM RUN UP

Prior to the decision to leave the EU, the prime housing markets of London, in particular, faced a number of challenges. Historical price growth had left them looking expensive.

Successive increases in stamp duty had substantially added to transaction costs. The tax environment for overseas buyers was fast becoming less hospitable. It had become more difficult to borrow against less generous city bonuses. Buyers had become a lot more cautious.

In the prime housing markets across the rest of the country stamp duty costs above £1 million were impacting on demand. But generally the issues affecting London were less of a concern.

In Scotland, where the snappily titled Land and Buildings Transaction Tax created a bigger tax burden than Stamp Duty Land Tax, the impact was more keenly felt. Still, compared to London, prime property in the regions looked relatively good value.

EXPERIENCE TO DATE

So the vote to leave the EU came at a difficult time. Caution has fed into an underlying lack of urgency among buyers.

In the capital it has meant prices have continued to adjust. For overseas buyers the temptation of a currency play on the back of a fall in the value of the pound, has been offset by the changed tax environment.

It has also meant price growth has been put on hold for prime country houses and high value property in urban areas such as Bath, Oxford, Cambridge, Cheltenham, Chester and York.

AUTUMN ADJUSTMENTS

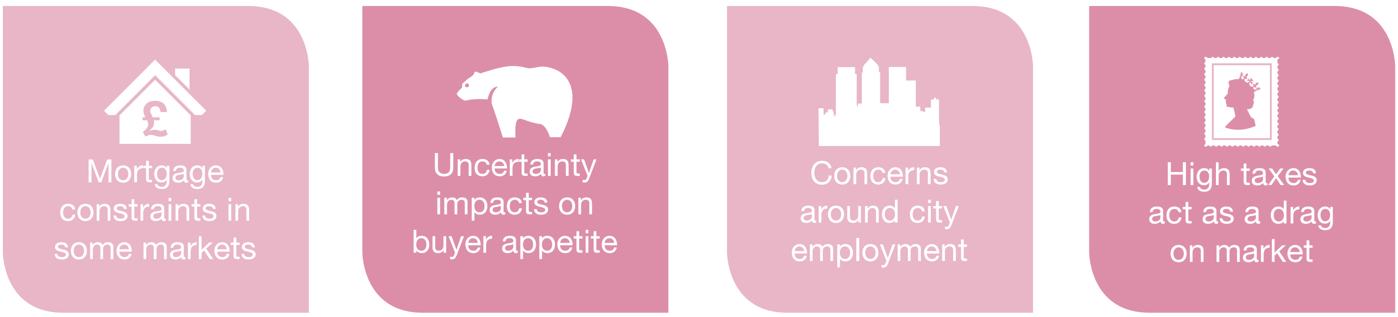
As we look forward, sentiment in these markets will be determined by the perceived impact which the Brexit vote will have on the economy and the prospects for wealth generation. This is likely to be dictated by how the negotiations to leave the EU proceed. Inevitably it will ebb and flow.

In the short term, the temptation for buyers to sit on their hands until they believe that property represents identifiably good value, is likely to mean further price adjustments in London.

The need for further price falls beyond London is less obvious, though the prime regional markets are likely to become more needs-based.

There are, of course, exceptions to every rule. Short-term price

FIGURE 4
Key drivers in the prime housing market



Source: Savills Research

adjustments cannot be ruled out in more volatile niche markets, such as the private estates of Surrey and Berkshire.

Similarly, sectors affected by the additional 3% stamp duty, such as the coastal second home markets of the South West and East Anglia, are likely to remain particularly price sensitive.

PUT ON PAUSE

As negotiations to leave the EU proceed, it is difficult to see any sustained upward pressure on prices across the prime markets. Nor is there likely to be sustained downward pressure on prices, not least because of the prospect of ultra low interest rates. Throughout this period of convalescence we expect demand to be strongest for property which is best in class.

For those prospective buyers taking a medium to long-term view on prices, the key question is what happens next?

RETURN TO GROWTH

For London, much depends on the extent to which the UK capital retains its status as a global financial centre and world city. The loss of some jobs to other European cities is inevitable, though we expect this to be limited.

The UK Government will undoubtedly seek to protect the status of the City of London. It will do so in the expectation that EU regulations, due to come into force in January 2018, will strengthen its hand. Additionally, a lack of viable alternatives will work in London's favour.

This indicates the prime markets of London will return to growth as the uncertainty clears. It may not be the kind of double-digit growth that we have seen when markets have bounced back in the past, given the changed tax environment. Instead, we expect it to be more in line with the long-term average.

This is likely to support a pick up in the prime regional markets. A renewed flow of buyers into key commuter markets is expected to combine with a more general improvement in sentiment as buyers realise that they cannot put major financial decisions, and their lives, on hold forever.

RELATED CONTENT:
For more information, Prime London Residential Markets Q3 can be found on the Savills website

"The prime markets of London will return to growth as the uncertainty clears"

Lucian Cook, Savills Research

FIGURE 5

Prime markets Five-year forecast values

	HISTORICAL ANNUAL		FORECAST ANNUAL						5-YEAR FORECAST	
	2014	2015	2016	2017	2018	2019	2020	2021	2016 – 2020	2017 – 2021
Prime Central London	-0.4%	-3.3%	-9.0%	0.0%	0.0%	8.0%	5.0%	6.5%	3%	21%
Other Prime London	3.3%	2.3%	-5.0%	-1.0%	0.0%	6.0%	4.0%	5.0%	4%	15%
Prime Regional Markets	3.2%	2.3%	1.5%	0.5%	1.0%	6.0%	3.5%	5.0%	13%	17%

Source: Savills Research

*NB: these forecasts apply to average prices in the second hand market. New build values may not move at the same rate

Domestic buyers concentrate on value for money

Weak £ presents overseas buyer opportunity

Demand strongest for best in class

Price gap drives demand into commuter zone

HOUSEBUILDING

SUPPORT FOR MORE NEW HOMES

Government measures are announced to help boost the number of new homes

Words: Susan Emmett
Twitter: @saemmett

"A much broader approach to housebuilding is needed more than ever before"

Susan Emmett, Savills Research

Theresa May wants to use the power of Government to repair the "dysfunctional housing market". In her first party conference speech as leader, the Prime Minister announced measures to increase the number of new homes being built. These include using public sector land and more Government investment to meet the need for more homes.

Our analysis shows that we should be building around 300,000 new homes a year to meet need and address years of undersupply. Yet, in the year to March 2015, even with the support of Help to Buy, we delivered 171,000 net additional homes. This leaves an annual shortfall of 129,000.

With transaction levels likely to come under some pressure, it is essential that new markets are opened up to narrow this gap. So, it is important that we have also seen a shift away from a single focus on building new homes for home ownership to a recognition that we need to deliver more homes of every single type.

▼ A multi-tenure approach may be adopted

We expect to see more detail in a Housing White Paper later in the year as well as further announcements in the Autumn Statement on the 23rd November.

Below is a summary of recent policy announcements so far:

Home Building Fund

This source of funding is administered by the Homes and Communities Agency (HCA). It will provide £1 billion of short-term loan funding targeted at SMEs and custom builders, with the aim to deliver 25,000 homes by 2020.

The scheme will also provide £2 billion funding for infrastructure with the emphasis on brownfield land and aims to unlock a pipeline of up to 200,000 homes over the longer term. Loans can range from £250,000 to £250 million.

Accelerated Construction Fund

This fund will use £2 billion of public sector borrowing to support faster delivery of housing on public sector land. Government will deliver outline planning permission and undertake the costs of some remediation work to reduce development risks on their sites. It will also offer support to local authorities to do the same on theirs.

As part of the initiative to help reduce development risk, this scheme could also be used to buy unsold stock. Both of these funds are accompanied by plans to create a presumption for housing development on suitable brownfield land.

BEYOND HOME OWNERSHIP

Gavin Barwell, the housing minister, has also signalled that the Government may shift away from the "statutory definition" of Starter Homes. Instead we may see a more multi-tenure approach to housing delivery and Starter Homes emerge in a slightly different guise.

A much broader approach to housebuilding is needed more than ever before. Although it is early days, the initial signs are that the new Government is alive to this.

We now need to see a suite of policies which support increasing supply through widening the range of developers, diversifying tenure and increasing land supply in the right places.

RENTAL MARKETS

RENT ASCENT

Our new and improved forecasts show the rental growth outlook at a city level

Words: Lawrence Bowles

The outlook for rents is stronger and more stable than for house prices over the next five years. Like the sales market, the rental market faces uncertainty. However, rental values are more closely linked with incomes than with measures that drive house price growth such as interest rates and mortgage availability.

Rental growth will slow next year because of tightening affordability and the effects of Brexit. Greater uncertainty, higher inflation, and a weak pound will impact how much households can spend on rents. However, the barriers to home ownership remain high. Renting will remain the tenure of choice for younger households.

For the first time, we have forecasts for local cities as well as the UK and London. In many areas, such as London and Bristol, affordability is already stretched. Rental growth in these markets will be supported by an increase in the number of sharers as well as income growth. As affordability tightens further, households will seek to split their rents between more earners.

High housing and office costs in London make regional cities look increasingly attractive. The prospects for Bristol, Birmingham and Manchester are particularly strong. Their knowledge intensive and high tech economies draw in the most highly skilled (and paid) employees. A vibrant cultural scene, world class universities, and extensive regeneration all help to drive the rising demand for properties. This demand has been largely unmet by new stock, supporting rental value growth.

Cities with fewer jobs in knowledge intensive sectors such as law and consultancy are expected to have lower income growth, limiting the capacity for rents to rise. Similarly, economies that rely more on the public sector will see lower income growth over the next five years as the Government continues with budget cuts. As a result, we have forecast lower rental value growth for cities such as Sheffield and Nottingham.

FIGURE 6

Mainstream rents Five-year forecast values

	2017	2018	2019	2020	2021	5-year
UK	2.5%	4.0%	5.0%	3.5%	3.0%	19%
London	3.0%	4.5%	5.5%	5.0%	4.5%	25%

Source: Savills Research

"Bristol, Birmingham and Manchester are particularly strong"

Lawrence Bowles, Savills Research

FIGURE 7

Five-year rental growth forecast

UK	19.0%
London	24.5%
Bristol	27.5%
Birmingham	17.0%
Manchester	17.0%
Newcastle	14.0%
Leeds	13.5%
Nottingham	12.5%
Liverpool	11.0%
Sheffield	8.0%

Source: Savills Research

RELATED CONTENT: More information on the Prime London Rental Markets Q3 can be found on the Savills website

EXECUTIVE SUMMARY

WHAT NEXT FOR RESIDENTIAL PROPERTY?

Uncertainty over the economy as the Government negotiates its exit from the EU means a period of adjustment across all of the housing markets in the UK

History will probably rank the credit crunch a much bigger single event for the UK housing market than Brexit. It has left a legacy of low interest rates, mortgage regulation and, in turn, a lower transaction market.

Still we expect uncertainty in the economy and the knock-on impact on buyer sentiment to force the housing market to shift into low gear. At a national level we expect little house price growth in the next two years. A return to price rises in 2019 is likely to be tempered by interest rate rises in 2020 and 2021.

Across the UK as a whole we expect price rises of 13% over five years. London, where affordability is most stretched, is expected to see lower growth than across the remainder of the South of England over that period. Other regions will rely on local economic catalysts to trigger house price growth later in the cycle.

Market volumes are expected to fall by one fifth in the next two years. The effects of mortgage regulation and taxation are likely to impact on investment demand, while Government support is likely to support mortgaged home buyers. Recovery will be to a post not pre-credit crunch norm.

Stamp duty and other tax changes are likely to combine with Brexit uncertainty to hold back the prime markets in the short term. With less reliance on mortgage debt than in the mainstream, we then expect a return to trend levels of price growth.

The UK needs to build more housing, but must move away from building only to sell, particularly in a low transaction market. The new Government appears to recognise this and we await policy detail of how they intend to fix, in Theresa May’s words, a “dysfunctional market”.

Rental growth will slow next year because of tightening affordability and the effects of Brexit. Greater uncertainty, higher inflation, and a weak pound will impact how much households can spend on rents. However, the barriers to home ownership remain high. Renting will remain the tenure of choice for younger households.

Research publications

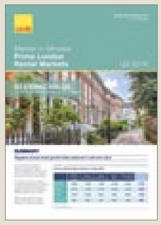
Our latest reports

Residential Research

savills.co.uk/research/uk/residential-research

Spotlight | Prime London Residential Markets
MIM | Prime Country Residential Markets
MIM | Prime London Rental Markets





For more publications, visit **savills.co.uk/research**
Follow us on Twitter **@Savills**

Savills research team

Please contact us for further information

Lucian Cook
UK Residential
+44 (0) 20 7016 3837
lcook@savills.com
@LucianCook

Susan Emmett
UK Residential
+44 (0) 20 3107 5460
semmett@savills.com
@saemmett

Katy Warrick
London Residential
+44 (0) 20 7016 3884
kwarrick@savills.com
@katywarrick

Chris Buckle
UK Development
+44 (0) 20 7016 3881
cbuckle@savills.com

Lawrence Bowles
UK Development
+44 (0) 207 299 3024
lbowles@savills.com

Yolande Barnes
World Residential
+44 (0) 20 7409 8899
ybarnes@savills.com
@Yolande_Barnes

Jim Ward
Development
+44 (0) 20 7409 8841
jward@savills.com

Jacqui Daly
Investment
+44 (0) 20 7016 3779
jdaly@savills.com
@jacquidaly

Faisal Choudhry
Scotland Residential
+44 (0) 141 222 5880
fchoudhry@savills.com
@fesmanfaisal

Nick Gregori
UK Development
+44 (0) 20 7409 5907
ngregori@savills.com

33 Margaret Street
London W1G 0JD
020 7499 8644

savills.co.uk