

# Market Commentary

Residential Analysts

## United Kingdom – August 2021

### • New Build's Missed Opportunity

Housing market activity has boomed over the last year but there is at least one part of the market that appears to have missed out: new build homes. A combination of drivers including the stamp duty holiday and race for space have helped propel transactions to levels not seen since 2007. But, while new housing supply has recovered to normal pre-pandemic levels, it appears to have missed out on the current boom in demand from home buyers.

#### New Build's Missed Opportunity

The housing market is booming with high activity levels but the new build market has failed to follow the same upwards trajectory. Total housing market activity rocketed in the first half of 2021 with 800,000 residential transactions across the UK, a level not seen since 2007 and 50% higher than the ten-year average leading up to the pandemic. When the housing market reopened last summer, the new build market also quickly returned to normal levels (Fig 1). However, since then there has been little sign of the transaction boom seen in the wider market. New build supply has simply continued to track 2019 levels with new build Energy Performance Certificates (EPCs), a leading indicator for gross supply, running at about 250,000 homes per year.

The new build sector's recovery back to pre-pandemic levels is welcome news given our fears for the sector in 2020. However, with high levels of demand for housing in the wider market we might have expected the new build sector to also reflect the current state of the market with higher levels of new supply. More detailed analysis shows it is not just the overall new build market that has failed to increase delivery beyond pre-pandemic levels. For example, the latest data from selected listed housebuilders (Fig 2) shows their completions had only just returned to pre-pandemic levels in the first half of 2021 and our analysis of EPCs by property type shows that the delivery of both new build flats and houses has only returned to similar levels. This last point is perhaps surprising given the multiple challenges facing the new build flat market and clear buyer preference for houses over the last year but demonstrates the difficulties the new build sector faces when demand and economic conditions change.

Rapid changes in market conditions can be difficult for developers to adjust to given the type and location of new build housing can be set years in advance. For example, the recent strong recovery in the new build flat market will reflect the need to complete delivery on projects that had started construction and probably have large financial commitments that need to be repaid. The longer-term future of high rise flat supply is less promising. Meanwhile, the market for new build houses had been showing some small localised signs of trouble prior to the pandemic with an expected slowdown in demand for larger houses as regional price caps and limits to first-time buyers were introduced to the Help-to-Buy equity loan scheme. The recent resurgence in demand for large homes

Fig 1: Weekly New Build EPCs

Source: MHCLG, England

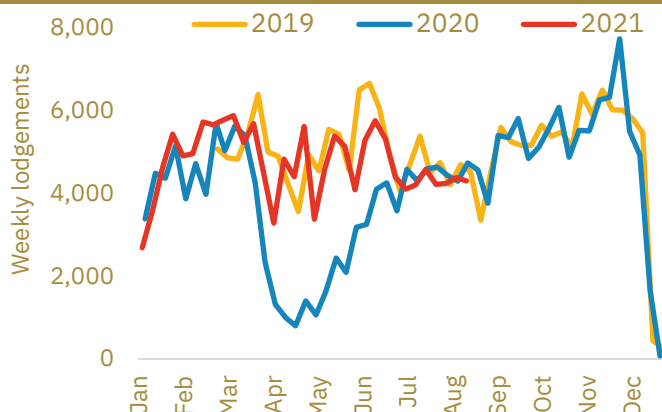
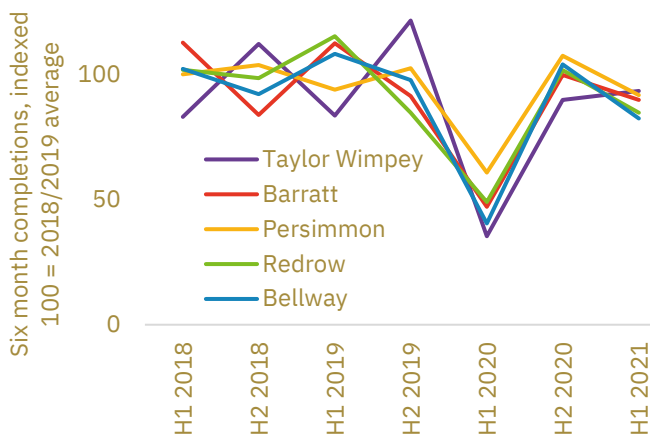


Fig 2: Listed Housebuilder Completions

Source: Company Accounts & Updates



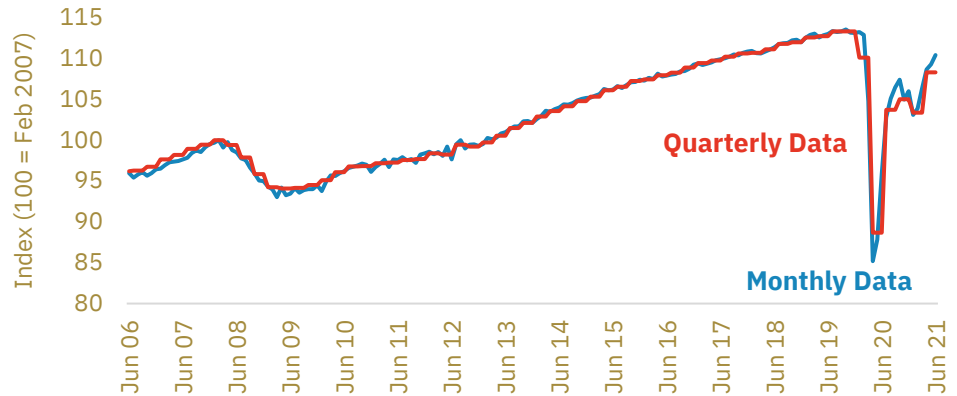
has helped some developers with larger homes for sale. Unfortunately, it has also left many with a mis-match between the type of homes they were expecting to sell and the homes current buyers are now looking for. Ultimately, it is not surprising developers have not increased delivery in recent quarters, with many preferring to maximise profit on existing schemes thanks to rising house prices, rebuild pipelines to meet current levels of delivery following last year's lockdown, and wait to see if the current boom is sustained beyond the end of the stamp duty holiday. There is still a great deal of uncertainty and the fallout from the financial crisis is not easily forgotten. They are also now facing additional pressures created by labour and material shortages that could limit the growth in new housing supply over the second half of the year. The future path of new housing supply is far from certain.

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## Market At A Glance

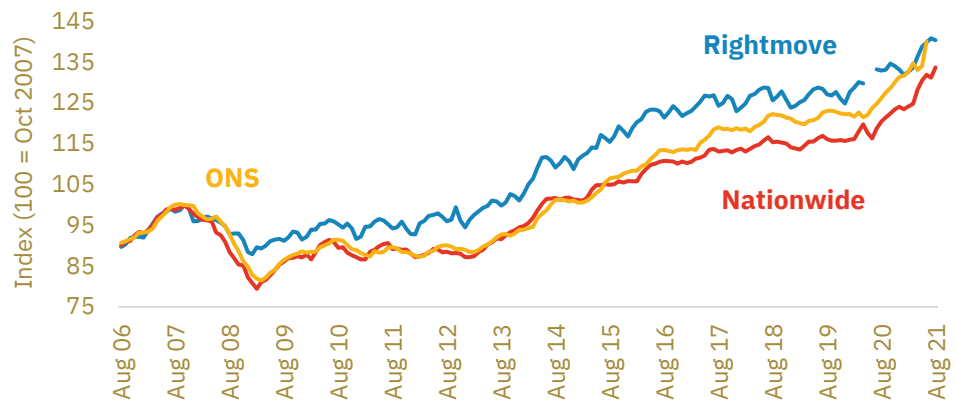
### Economy - UK

The ONS reported a 1.0% monthly rise in GDP during June and the economy is now just 2.5% smaller than January 2020. The first estimate of GDP for Q2 2021 reported a 4.8% rise in the quarter. This data will almost certainly be revised in coming months and years.



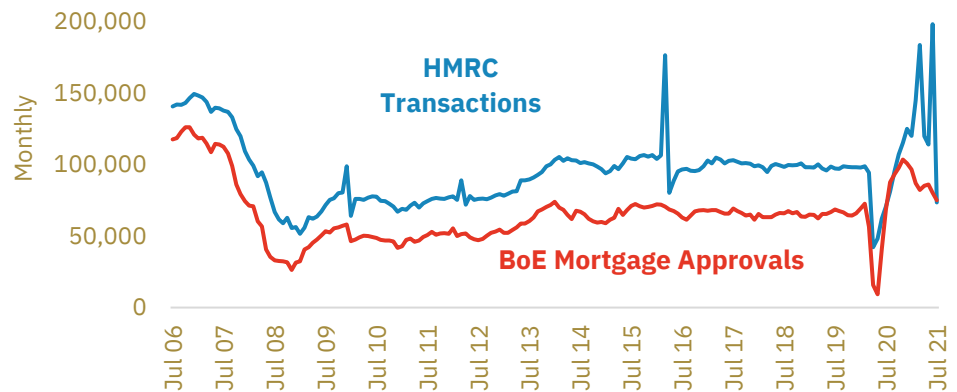
### House Prices - UK

Rightmove reported a 5.6% rise in asking house prices in the year to Aug 2021 while Nationwide reported an 11.0% annual rise in their mortgage approval based index over the same period. The ONS is reporting very high growth in its completed sales index with a 13.2% rise in the year to June 2021 though they are struggling with low sample sizes due to the [Land Reg Lag](#).



### Transactions - UK

HMRC provisionally reported 73,740 transactions in July, 63% lower than the previous month. This fall was expected given the rush to complete in the previous month before the stamp duty nil rate threshold was lowered. Meanwhile, the Bank of England reported another fall in mortgage approvals for house purchase but they are still above their pre-pandemic average.



### New Supply - England

There are [issues](#) with MHCLG's quarterly data though we have used it to suggest the potential path of completions (dotted line). The best leading indicator for supply is Energy Performance Certificates (EPCs) for new build homes with data for Q2 2021 showing a return to normal levels of 250,000 EPCs in the year to June 2021.

