

Prospects for the Housing Market: a building storm?

SPEAKERS

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Prospects for the Housing Market: a building storm?

SPR/SPE

5th December 2023



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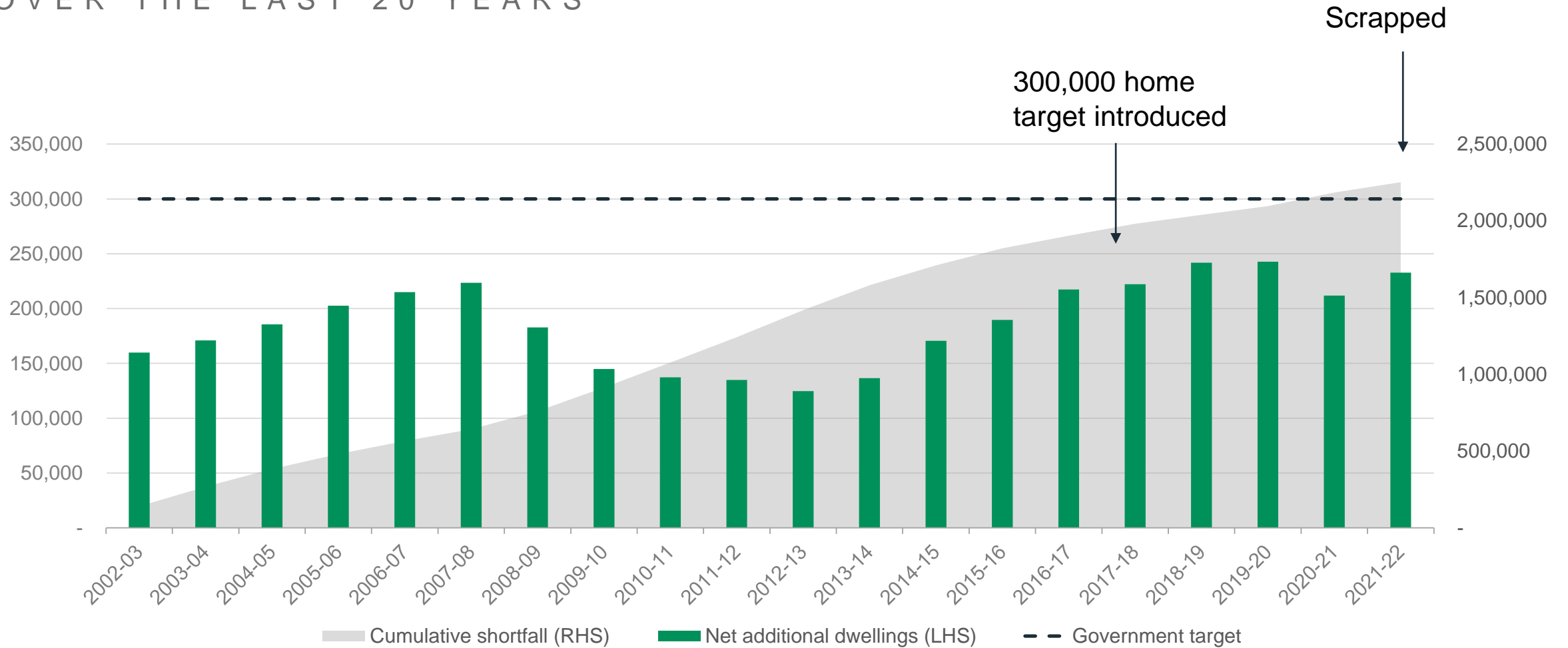


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Real Estate for a changing world

AN IMPLIED 2.3M SHORTFALL IN NEW HOUSING SUPPLY

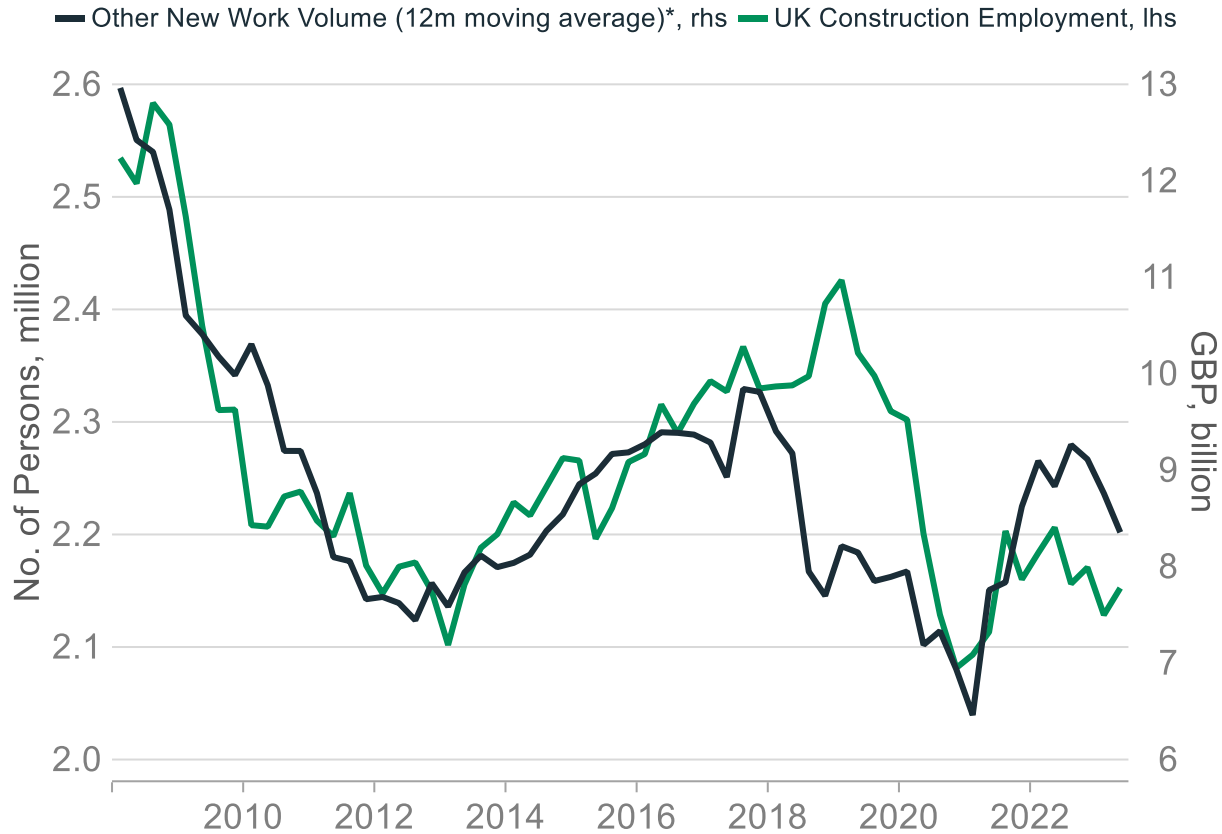
OVER THE LAST 20 YEARS



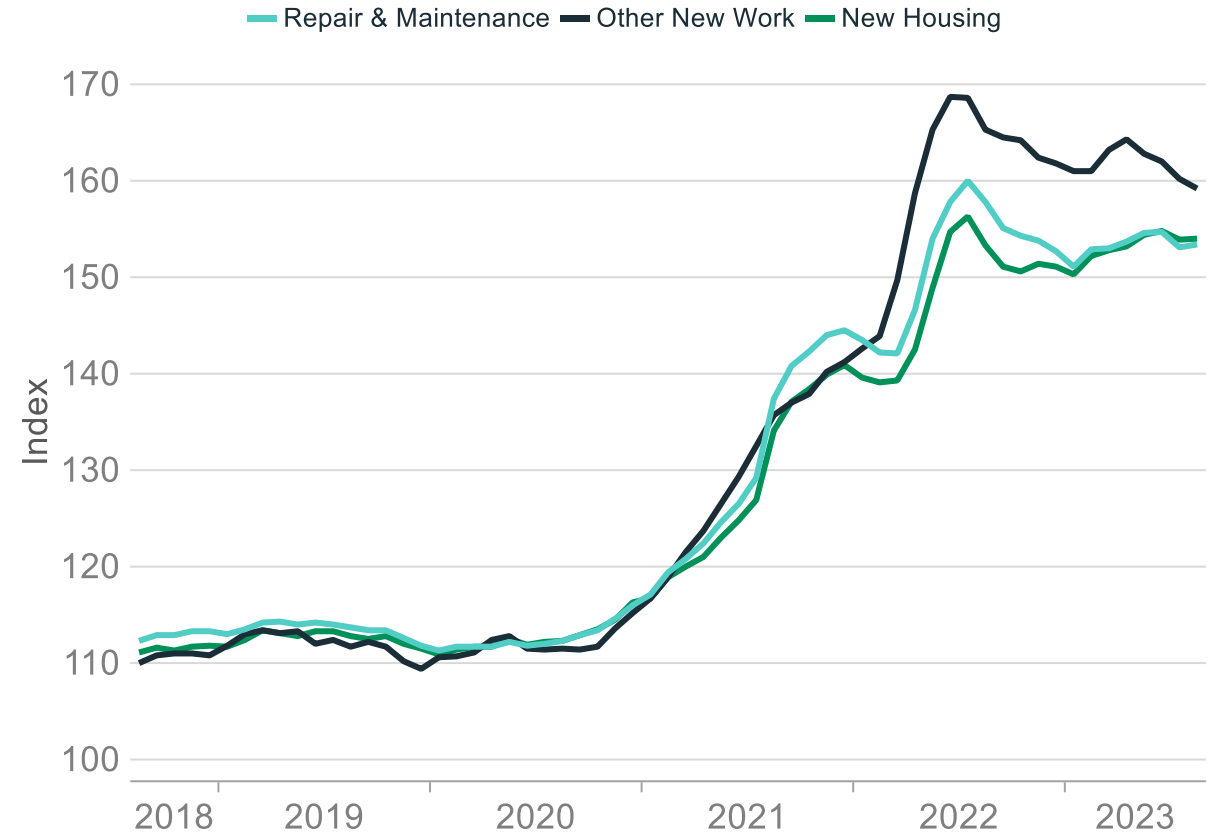
Source: DLUHC, BNPPRE

HIGH COSTS ARE WEIGHING ON CONSTRUCTION ACTIVITY

UK Construction Indicators



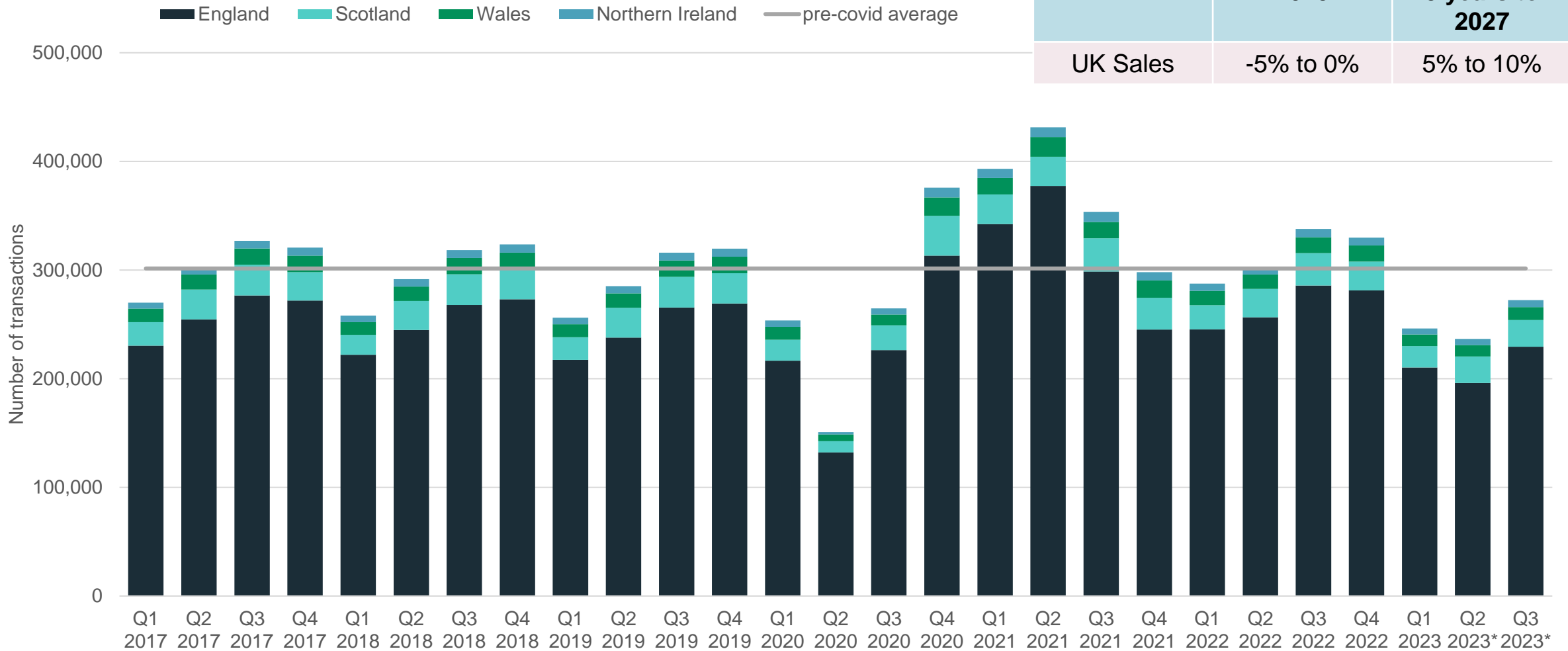
UK Construction Costs Indices



Source: ONS, UK Government, Macrobond. *Includes all construction projects except Housing.

NUMBER OF HOMES SOLD: UK

TRANSACTIONS IN LINE TO REACH A MILLION



SOURCE: HMRC

*PROVISIONAL, AS AT END OF Q3 2023

ANNUAL HOUSE PRICE GROWTH WEAK

ANNUAL PERCENT CHANGE IN UK HOUSE PRICES

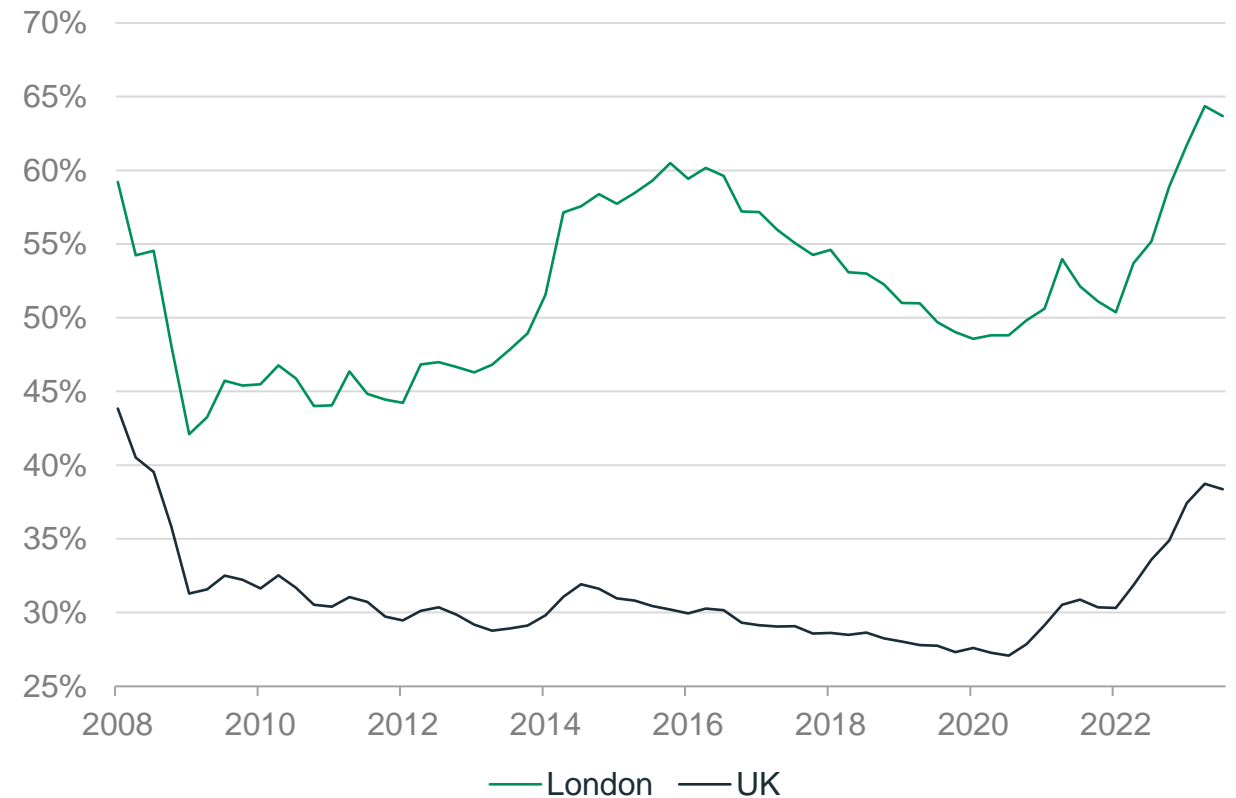


Source: Nationwide House Price Index

BUT AFFORDABILITY ISSUES REMAIN AND HOUSING LADDER ASPIRATIONS HAVE DRIFTED AWAY FOR MANY



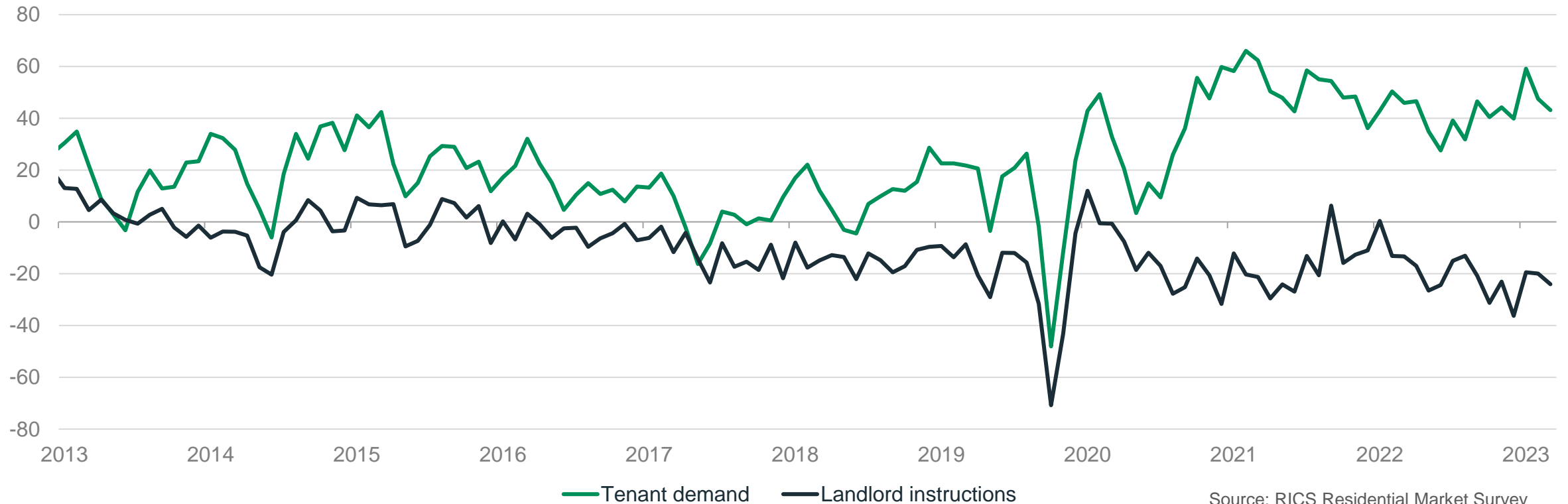
First Time Buyer Affordability
(mortgage % of take-home pay)



Source: Nationwide

INCREASING DEMAND FOR HOMES TO RENT AND FALL IN SUPPLY IS UNDERPINNING RENTAL GROWTH

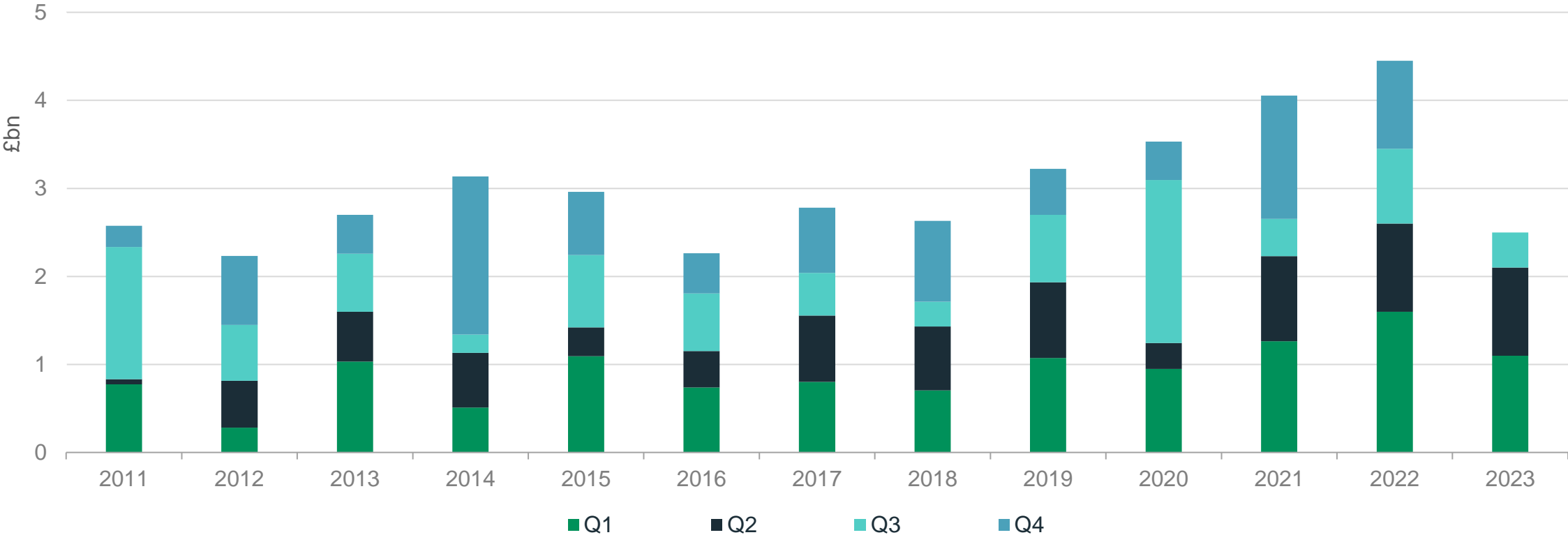
Tenant demand and new landlord instructions in past 3 months
(Net balance, % NSA)



Source: RICS Residential Market Survey

GROWTH OF INVESTMENT INTO BTR AND SFR ALTHOUGH THIS SLOWED IN 2023

Build to Rent and Single Family Rental Investment Volumes



Source: BNP Paribas Real Estate, Real Capital Analytics

BUT ALSO INTEREST IN OTHER TYPES OF SPECIALIST HOUSING DUE TO AN UNDENIABLE STORY OF DEMOGRAPHICS



SHORTFALL IN PURPOSE-BUILT & AFFORDABLE STUDENT HOMES

Growth in international student applications 2023/24

2.3%

Total number of purpose-built student beds:

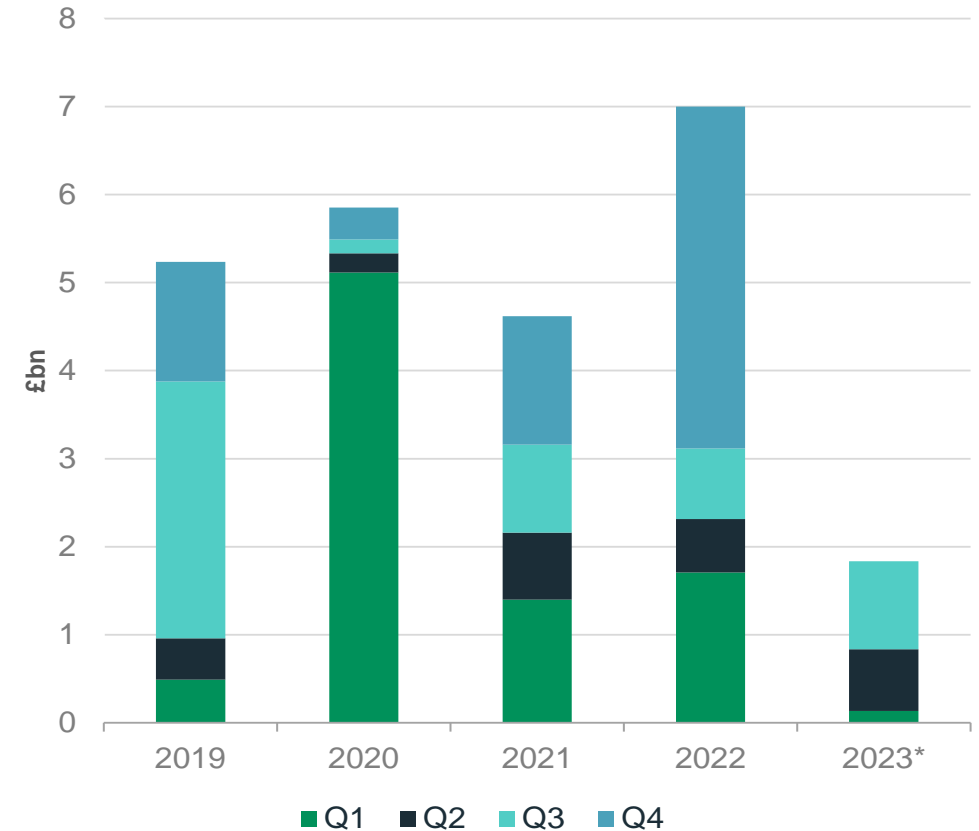
717,000

Estimated shortfall in student beds by 2026

620,000



Student Housing Investment Volumes



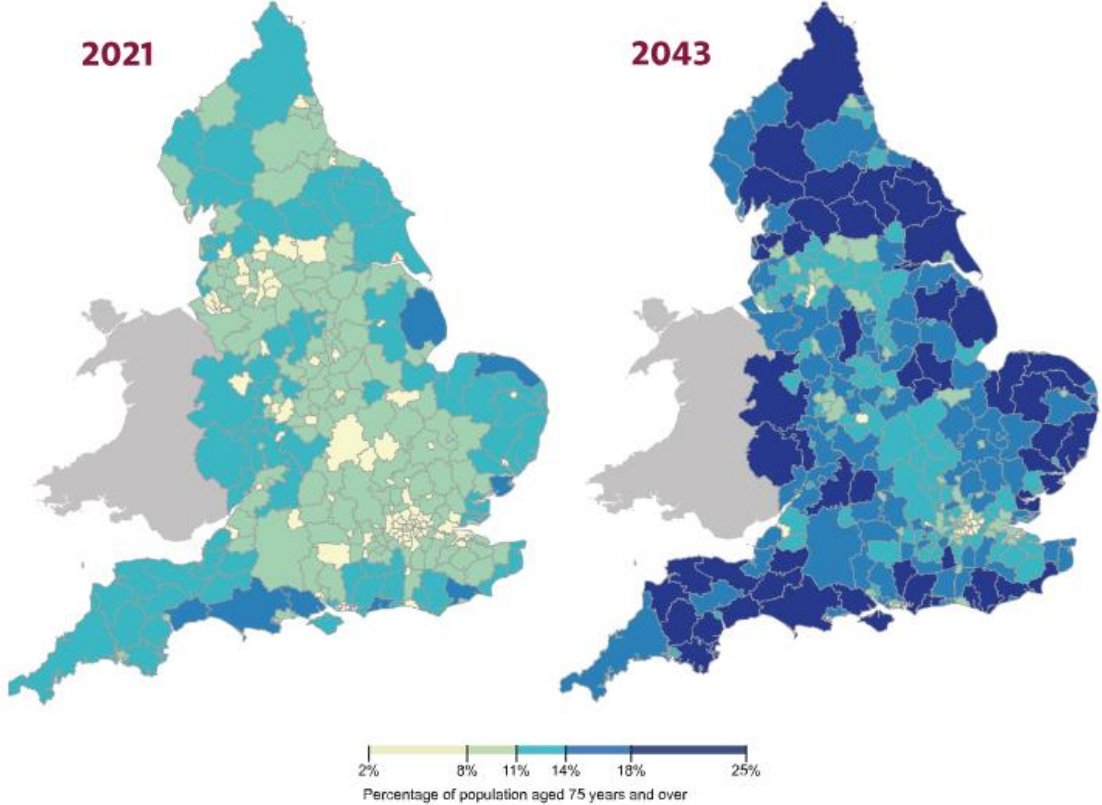
Source: UCAS, Sturents, BNP Paribas Real Estate

RETIREMENT COMMUNITIES EMERGING IN UK

WITH STRONG GROWTH POTENTIAL AND FAR REACHING BENEFITS

THE PROJECTED RISE IN THE PERCENTAGE OF THE POPULATION AGED 75 YEARS AND OVER IN ENGLAND

Total number of units within Retirement Communities
70,000
Estimated units shortfall
487,000



Source: ARCO, BNP Paribas Real Estate, ONS, Chief Medical Officers Annual Report 2023

CONSIDERING THE OPTIONS: REPURPOSING VS NEW BUILD

- Construction and operation of buildings accounts for 38% of global carbon emissions
- Reusing existing real estate uses less embodied carbon
- Some real estate sectors are seeing higher rates of vacancies presenting opportunities for repurposing



CONSIDERING THE OPTIONS: SUBURBAN VS. URBAN

- Urban can offer better access to amenities, local communities and staff
- Suburban can offer more space, a more peaceful environment, and more green space
- “Biodiversity Net Gain” legislation may shift trends
- E.g. IRCS can deliver a compelling ESG proposition that can benefit all stakeholders



SUMMARY

- 1) HOUSING SUPPLY CRISIS NOT LOOKING LIKELY TO IMPROVE IN SHORT TO MEDIUM TERM
- 2) DEMAND FOR HOMES TO RENT CONTINUES TO INCREASE BUT THIS IS LEADING TO HIGH RENTAL GROWTH ACROSS THE MARKET
- 3) INVESTORS CONTINUE TO FOCUS THEIR ATTENTION ON OPERATIONAL RESIDENTIAL MARKETS WHICH CAN PLAY A PART IN BOOSTING SUPPLY
- 4) IMPORTANT TO CONSIDER OPPORTUNITIES TO USE EXISTING REAL ESTATE TO BOOST SUPPLY



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THANK YOU



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**Housing: and more than Housing:
It's the Supply Side Stupid!**

Paul Cheshire: LSE & CEP

5th Dec 2023



Purposes and main points

- Housing crisis is real: inelastic supply the problem;
- Root of supply problem - restricted land/space supply;
- Build on brownfields? A long term price to pay...
- Green Belts + height restrictions;
- House prices cyclical + long term trend: ever less affordable;
- How to increase land supply?
- Green Belt - myths and realities;
- Need to preserve land for environmental and amenity reasons;
- Incentives wrong: fined if allow building! leapfrog Green Belt;
- Need to offset costs for local communities & incentivise rail-oriented not car-oriented development;
- All that uninteresting land with rail access to employment;
- So: align incentives to make development attractive:
- Build 2m houses, £100bn revenues + eliminate rail subsidies.

Housing: more than a crisis of affordability - I

- House prices have more or less doubled in **real terms** in every decade since 1950s;
- Not just obvious problems of homelessness:
- Major source of inequity between old and young:
- Those born in the 1950s? 70% owned a house by age 34;
- Over past 12 years ownership rate by 34 fallen from 59% to less than 34%.
- **Lost GDP**
- Reduces labour mobility to more productive areas:
- Hsieh & Morretti (2019): Puga & Duranton (2019) - not just cost to individuals but to economy.
- In UK increases supply price of labour in London & South East – results in loss of agglomeration economies & forgone output in most productive urban areas (e.g. Oxbridge).

Housing: more than a crisis of affordability - 2

- **Social tensions & Distorted incentives:**

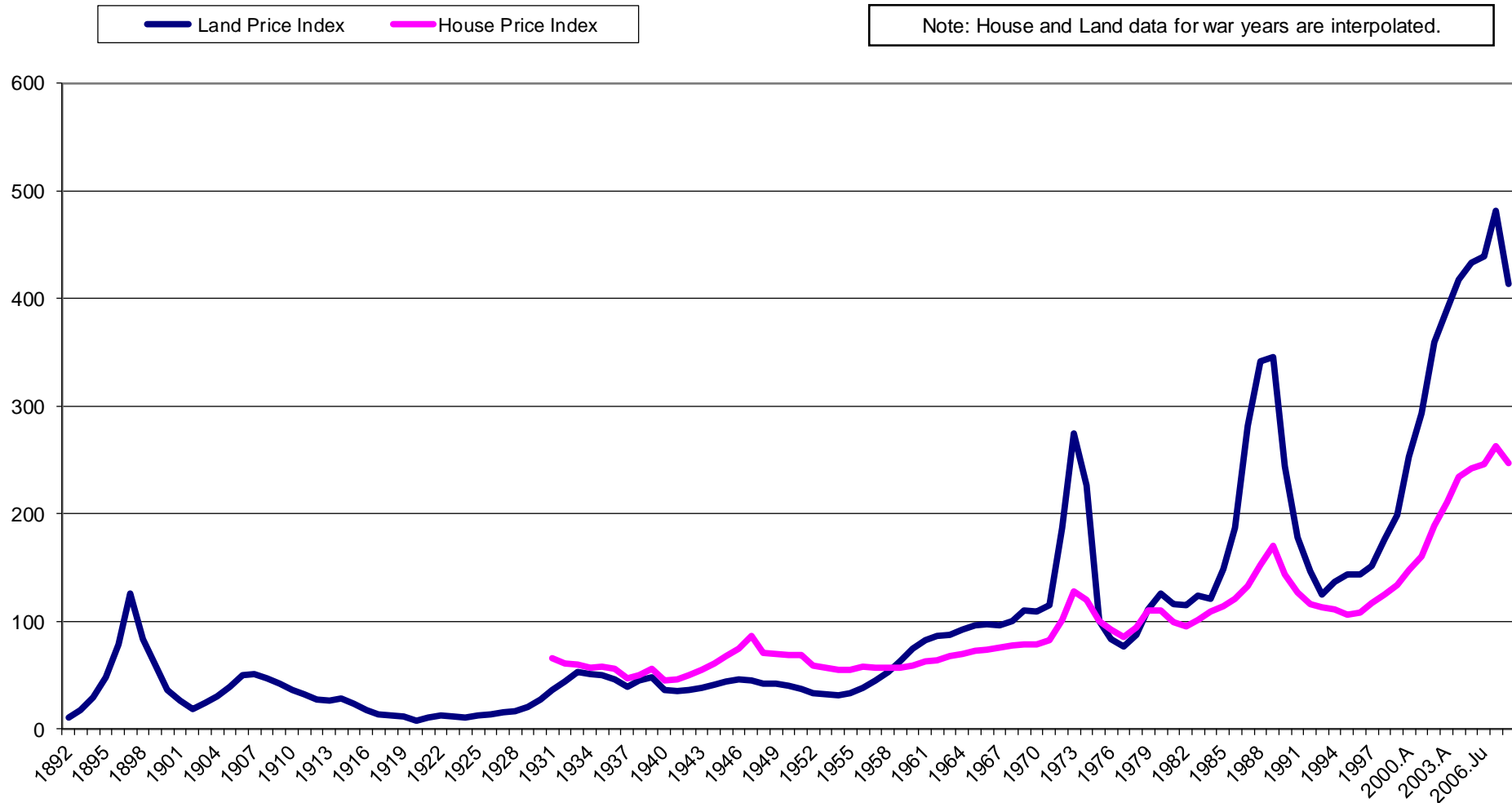
- Destroying social cohesion;
- Redistributes both assets and real incomes to old;
- Adds to regional inequalities.

- **Perverse incentives:**

- 1995 to 2015 - **land/housing** as % personal assets - 49 to 62%;
- 1700 to 1960 **land/housing** $\approx \sum \text{GDP}$: 2010 x3 GDP (Piketty);
- Total returns on property 1875-2015 exceed any other asset class (Jordà *et al.*, 2019);
- Mainly land because house prices x 5 in real terms since 1955, price of land for putting them on x 15;
- Side effect is size, poor design & construction – money in land.

Real Prices Land & Housing 1892/1931-2007

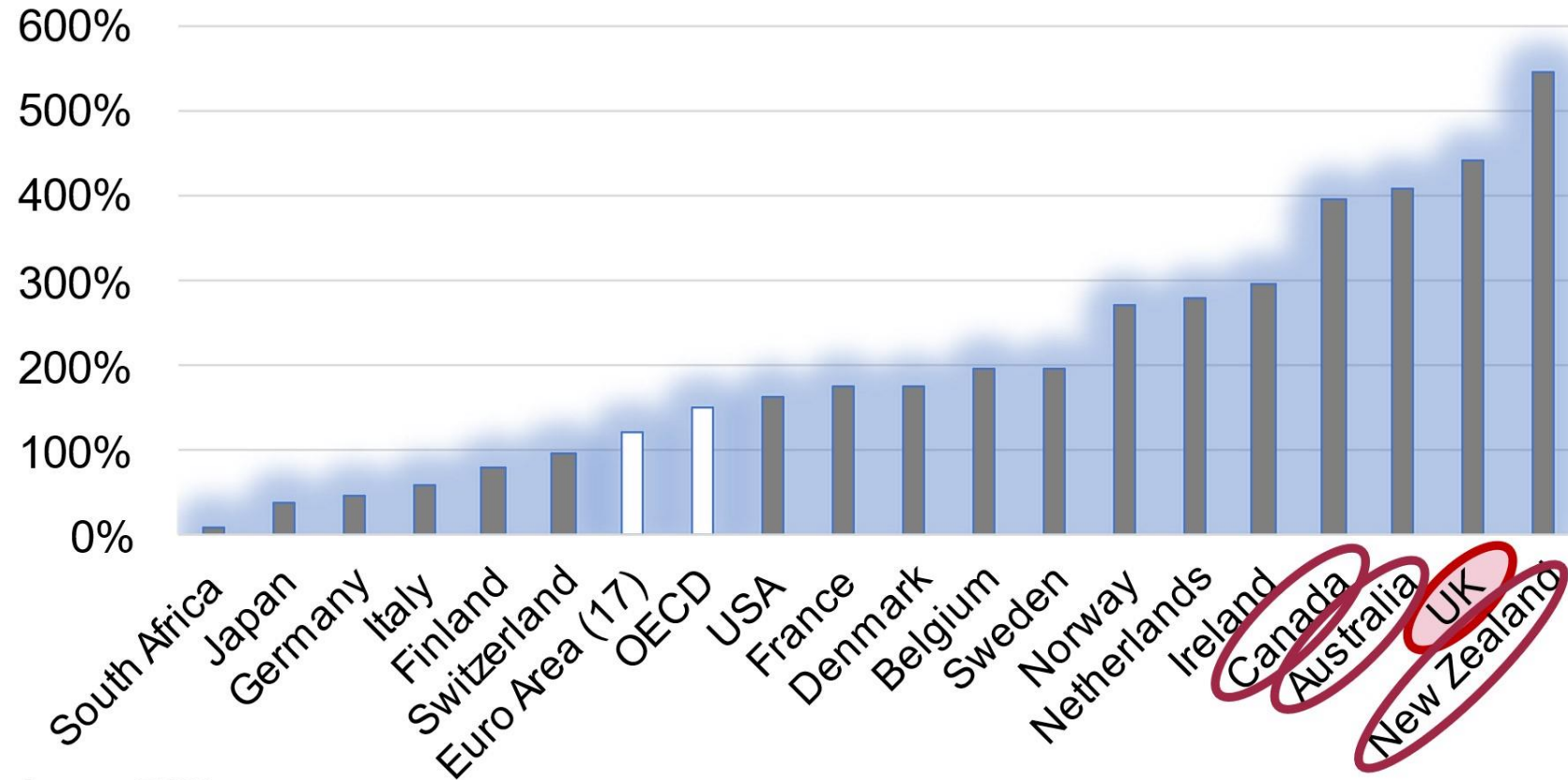
Real Land & House Price Indices (1975 = 100)



Note: House and Land data for war years are interpolated.

Source: Cheshire, 2014

**One cause — Britain has a discretionary planning system: generates uncertainty:
% Increase in real house prices: 1970 - 2021**



Source: OECD

House Prices Cyclical + Upward trend

- Real estate markets cyclical:
 - Supply of new construction very small : to stock; + time to build;
- House building in Britain all but **totally inelastic** with respect to price;
- Demand mainly determined by real incomes:
 - +complementary goods & numbers in market.
- Distinct demands for 1) Houses; 2) Space in houses; & 3) Space in gardens:
- **All highly income elastic** – as we get richer demand more houses, bigger houses & bigger gardens.
 - **But...**ration land.
 - So prices rise **and** cycles more volatile.

So — LONG TERM undersupply

1. PCC – simple calculation:

In 30 years to 2019 built **3,062,620 fewer houses** than in previous 30 years.

2. Centre for Cities (Watling & Breach, 2023) more sophisticated comparison Britain & European countries

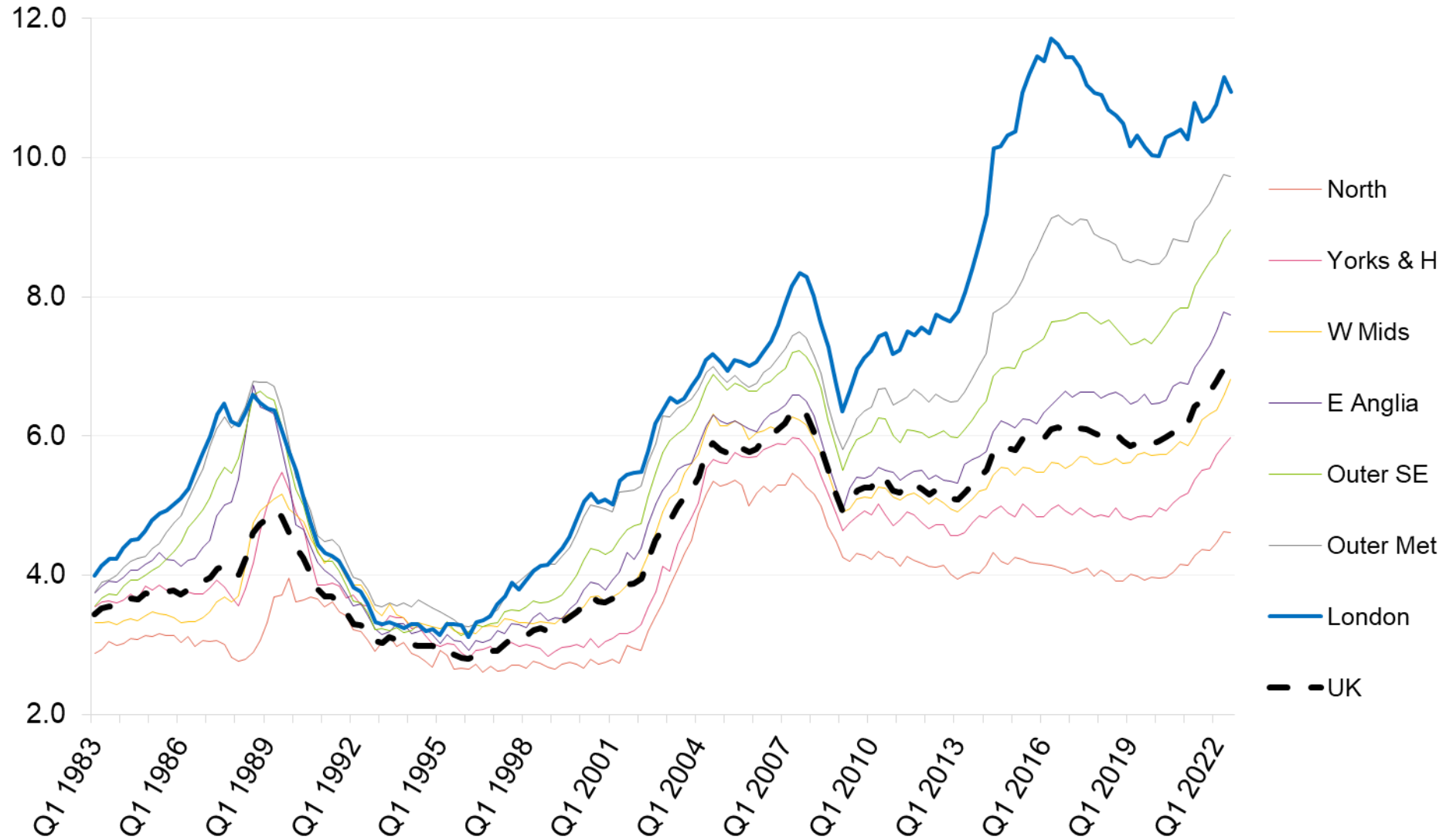
➤ **Implies shortfall of 4.3 m since 1945: AND**

3. What we build is where houses least unaffordable!

1980-2018: Local Building & Population Growth

Area	Population Growth	Houses Built
Barnsley + Doncaster	22,796	56,340
Cambridge + Oxford	95,079	29,430

House price to Earnings Ratio: selected regions Q1 1983 to Q3 2022



Outlook for Economy and Supply

1. Abolition of affordability & house building targets has released more NIMBY LAs (where affordability tends to be worst) to roll back on even the small number of houses they were permitting.
 - And stop having plans at all (July 2023 only 33%)
 - Result?
 - Worsening medium term supply in least affordable areas. But not much immediate impact on prices.
2. Because real constraint on supply is lack of land: Green Belts – in place since 1955 – a Conservative innovation – Not *Green Lungs* but to stop outward spread of London into Home Counties – or other Tory shires.

Can only have a working policy for land allocation if you know how much land is allocated!

- Lack of land is **the** single most critical factor in England & Wales holding back house building;
- 1st essential to know how much land LAs are allocating.
- But we have no idea: spent 18 months research time looking at individual LAs' plans – when they had them.
- Only able to find comparable data for 73 of some 350.
- For them negatively correlated with population change.
- Take Sevenoaks: 'presumption authority' (on the naughty step):
- Claimed in 2021 had a 2.9 year 'land supply';
- FOI to get the sites: Double counting, built out, 'generous' windfalls. Net effect 1.74 years best estimate.

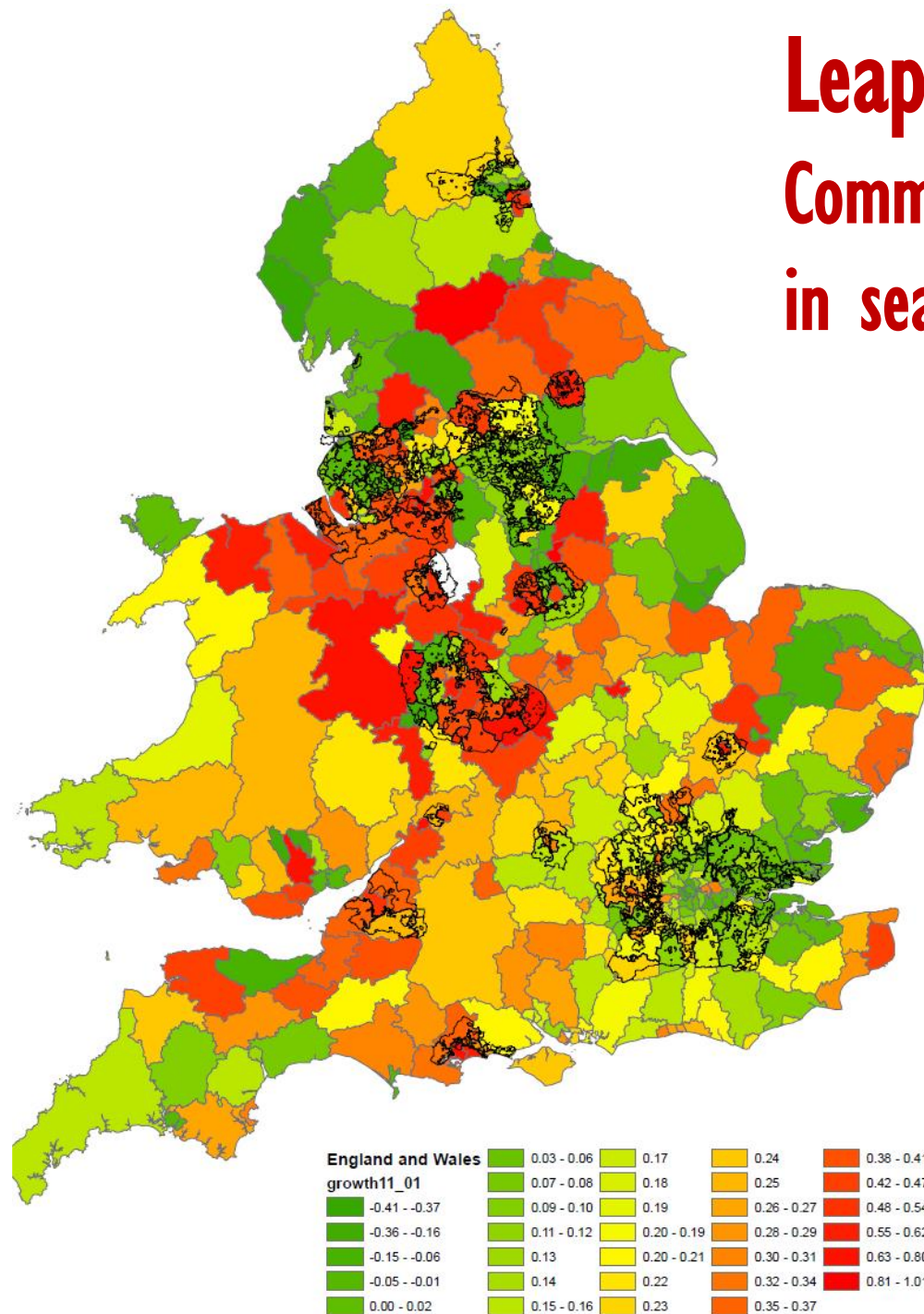
If to build houses be ambitious: Review Green Belt!

1. People leapfrog them to find affordable housing space:
 - 2001 to 2011: mean distance of the 10 wards with the biggest % increase in workers commuting to London was 166km – a round trip of 332km per day
2. Most common land use is intensive agriculture:
 - imposes net environmental costs (Firbank *et al. National Ecosystem Assessment*, 2011)
 - Negligible amenity value
3. Only benefit inhabitants within Green Belt:
 - Hedonic housing studies imply only valued by people actually surrounded by Green Belt; no premium for proximity

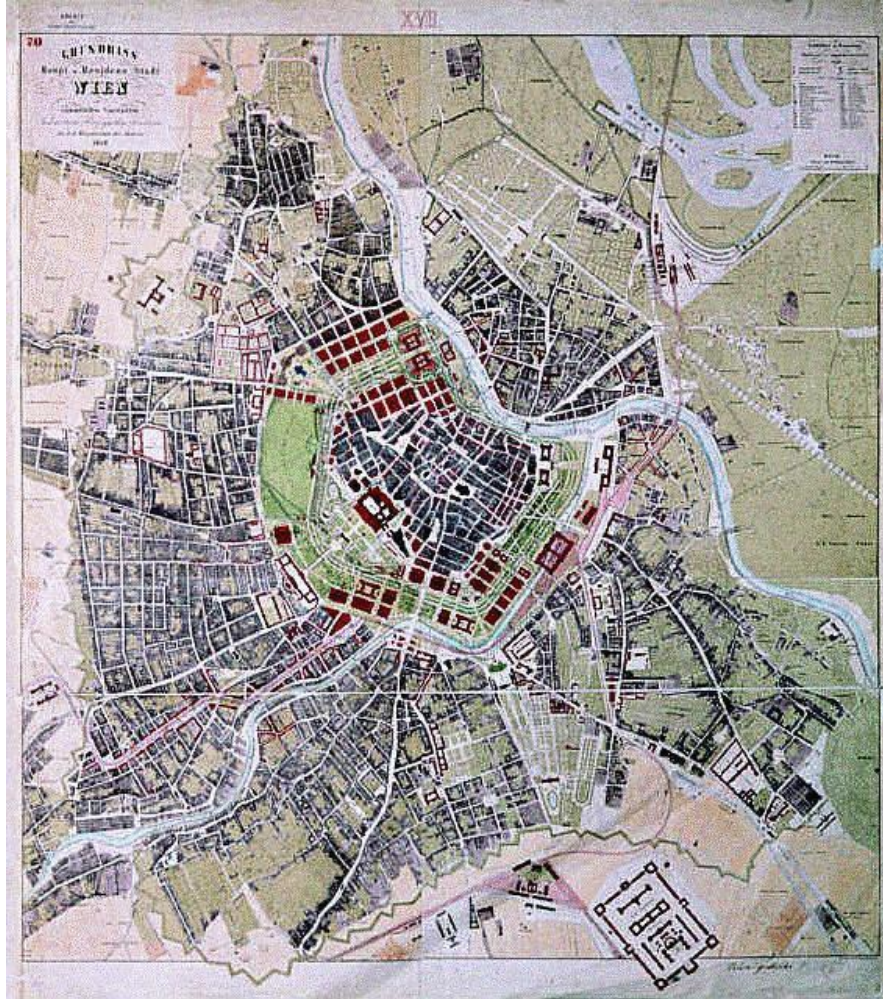
Leapfrogging: Commuters jump the Green Belt in search of affordable space

Change in proportion
of resident working
population commuting
to jobs in Inner London
2001 to 2011:
Local Authority
level data.

Source: Census



The purpose of Green Belts has changed



Originated in Vienna

When Vienna demolished its ancient city walls in 1857 there was a proposal to convert the space into a *Ringstrasse Park*: the original Green Belt?

In 1889 Lord Meath – eccentric philanthropist & LCC Alderman - proposed a *Green Belt* or *Girdle* for London

The Green Belt/Girdle Plan of 1901

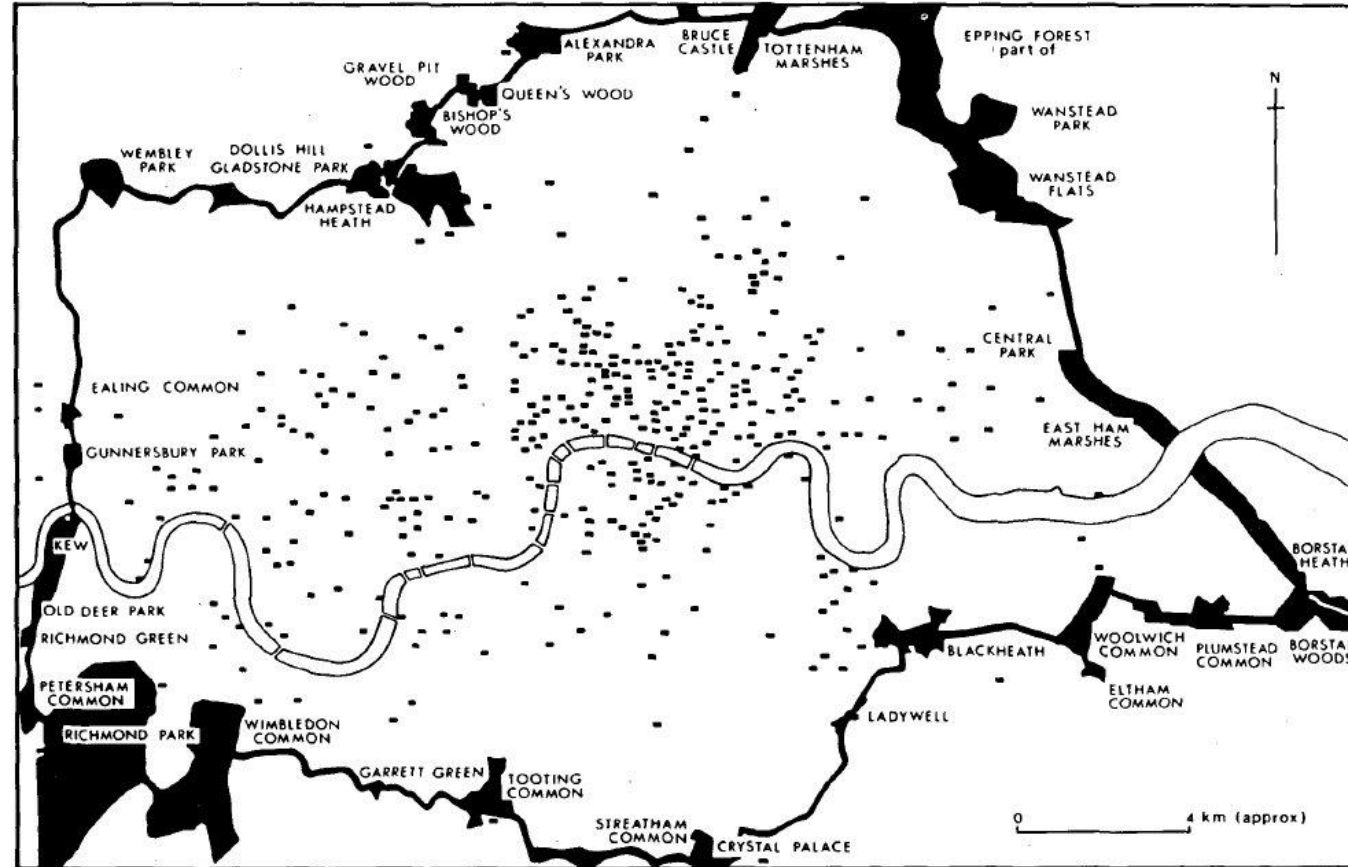
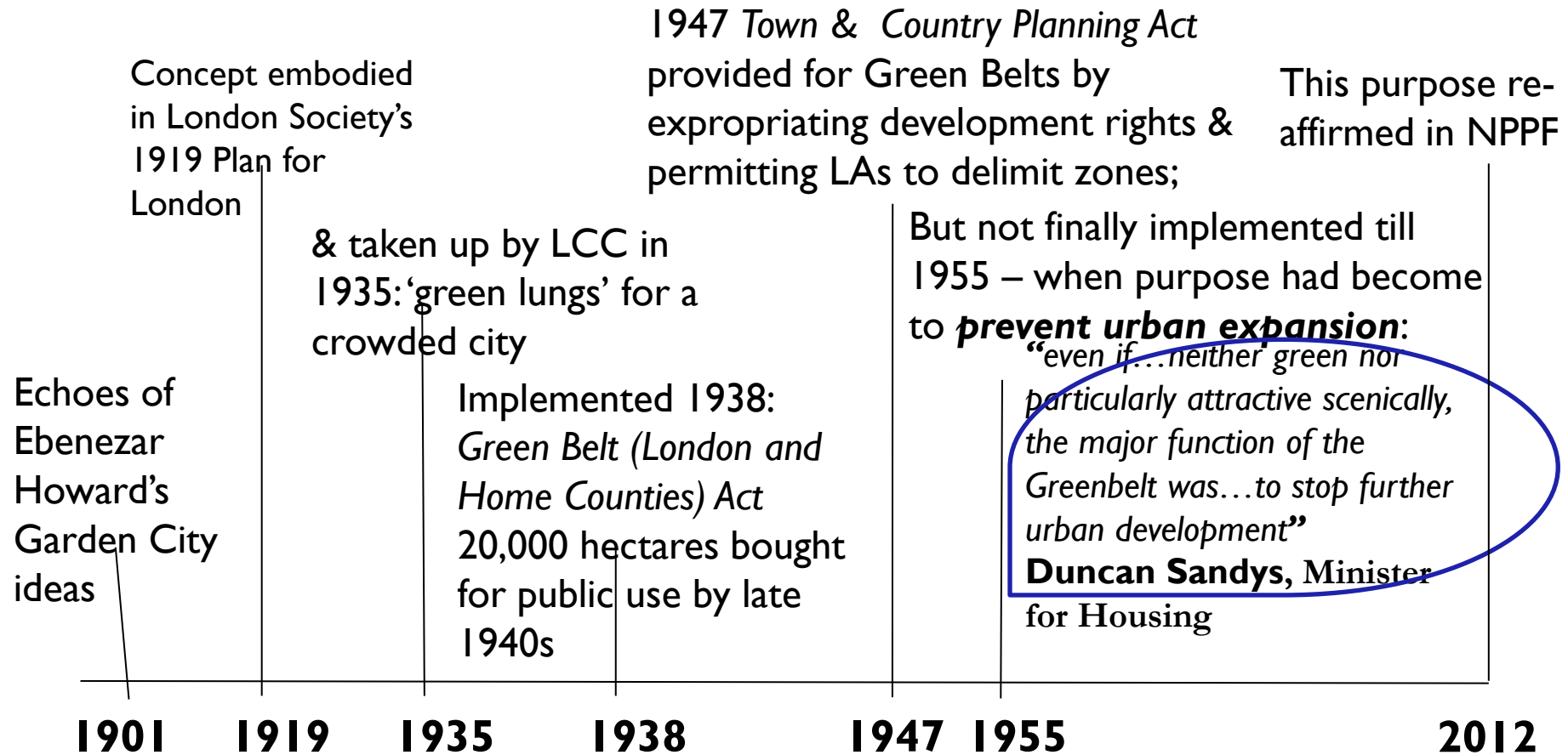


Figure 2. The parks and connecting links forming Lord Meath's green girdle round London. The map also shows the position of the churchyards and burial grounds, and small areas, open to the public (Redrawn from *The Sphere*, July 20, 1901, p. 64).

From Green Lungs to Empty Privately Owned Space



What a Surprising Amount of the Green Belt is like: Derelict Golf Course: Can't Build here!

Zone 6 Station, 35 minutes to London Bridge: M25 Junction



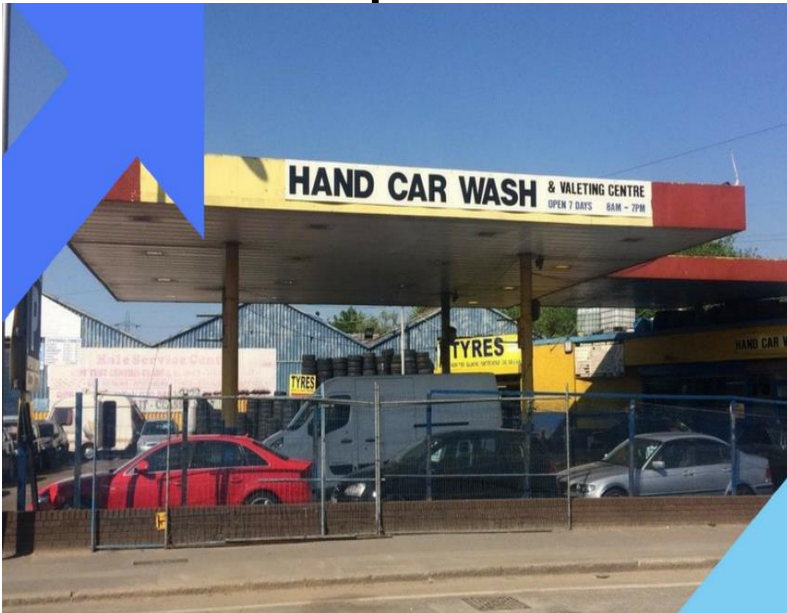
And Another: Can't Build here!

Tube Station, 35 minutes to Kings Cross : MI junction



Or even this....

- Many stations with service to city centres in 45 mins surrounded by uninteresting, amenity-free & not publically accessible Green Belt land.
- For example:



Tottenham Hale 2016: Housing rejected

“The reason for this is that the Green Belt boundary at the northern end of the site is open to interpretation and the GLA... have taken a cautious view.”



**Northwood
Hills:**

Baker St

30 mins

£100,000:

**No
humans!**

Make the Green Belt Serve Green Purposes

- Identify and preserve amenity rich, environmental valuable land
 - i. within reach of people;
 - ii. maximise its accessibility
- **Permit** development on land with no amenity or environmental markers close to rail stations
 - New fixed rail transport too expensive to support from development;

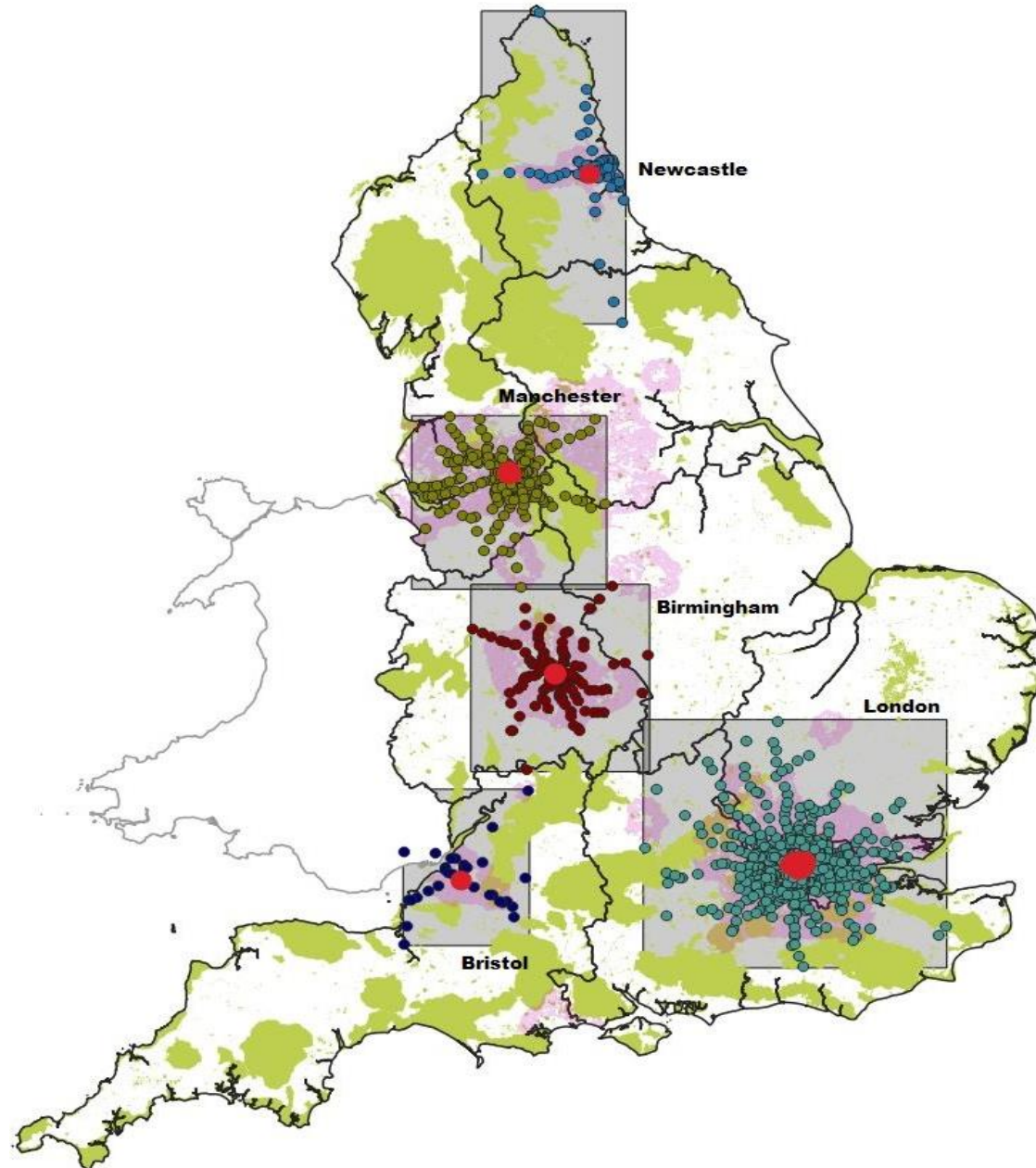
This would release more than enough land for development with no loss of amenity or environmental damage:

➤ In fact environmentally positive.

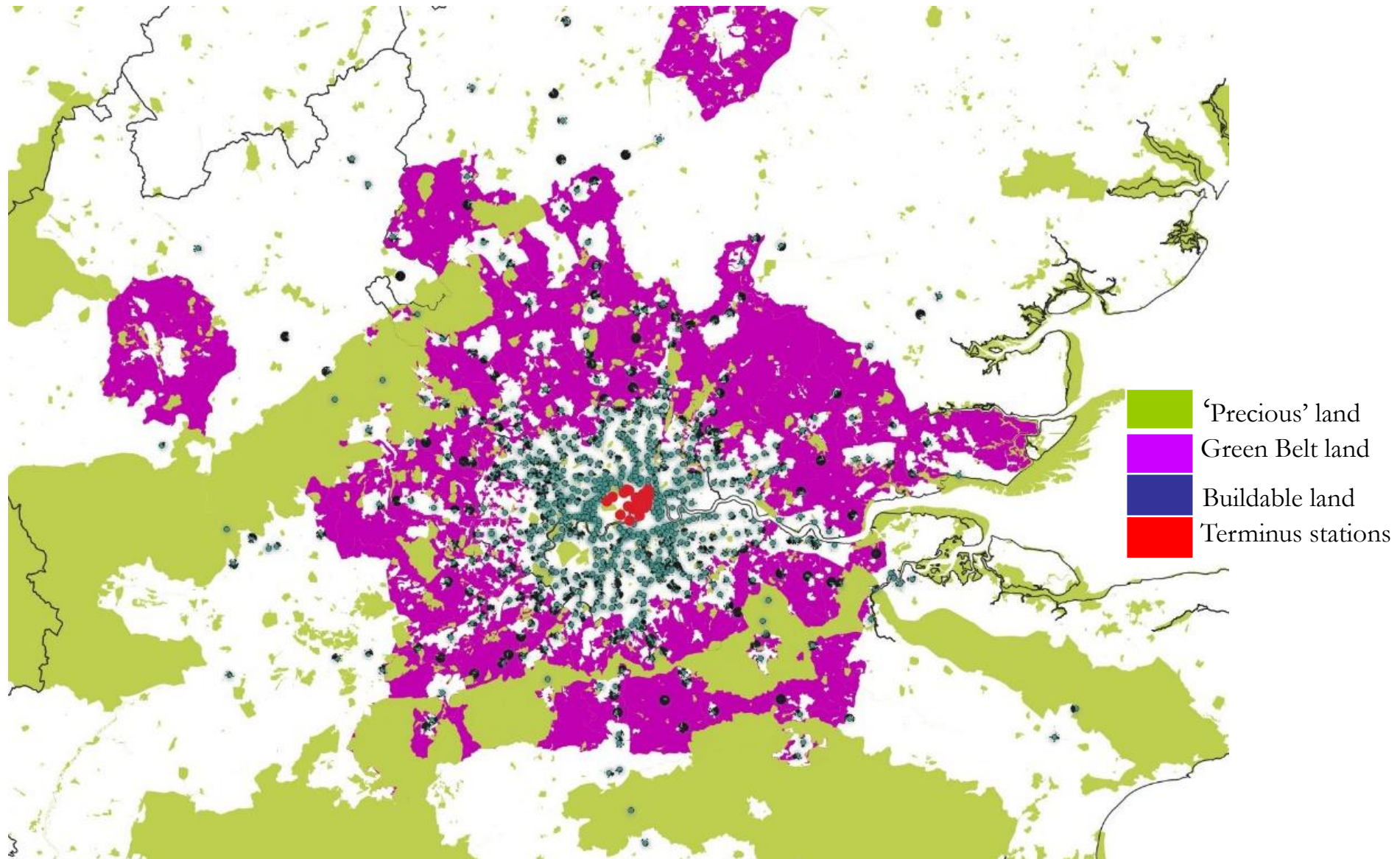
Demonstrated in Centre for Cities (2019)

+ novel mechanism for land value capture

Example for 5 Major City-regions



What this looks like for the London Region



The effects of the proposals

1. A 'Green Development Corporation' (GDC)
2. A strong incentive to build rail- not car-oriented - new developments, co-ordinated with rail capacity;
2. Build out fast (incentive of losing tax subsidies & GDC);
3. Provision of supporting infrastructure & services would reduce NIMBYism - currently new homes impose costs but generate no revenue to local communities;
4. Pay for (lots of) social housing, transparently;
5. Provide new accessible open space + wildlife habitat;
6. Reduce carbon footprint of built environment by reducing commuting distances, transferring to train; + new houses;
7. Reduce tax burden of, and invest in, commuter rail;
8. Build houses – improving affordability, relieving crisis.

Conclusions: a lot of houses, a lot of revenue and a net environmental gain

- Depending on assumptions as to building densities and house prices, yields:
 - 1.7 to 2.1 million additional homes – equals all the homes built in past 15 years: 7 to 9% of stock;
 - £93 to £116 billion of revenue gross from Land Development Charge (over time);
- Saves most or all of tax payers' subsidy to commuter rail;
- Funds to invest in rail services;
- Produces new areas of accessible open space/habitat: 15 times Hampstead Heath; takes less than 1.8% of GB
- Pays for new Social housing and local supporting infrastructure;
- Reduces carbon footprint of human settlement.

To sum up...

- Critical cause of housing crisis – including market volatility
 - is shortage of land (& space) for building;
- This affects all housing but most critically housing near prosperous/productive cities;
- Social housing not a financially viable answer – mainly because of land costs;
- Brownfield land no solution;
- Radical reforms essential including:
- Release Green Belt land where there is;
 - No significant amenity loss/environmental damage;
- Build plenty of houses with good access to existing rail infrastructure
- Have mechanism for capturing land value uplift and apply to social purposes including social housing.

Supplementary Slides

We Told You!

*“In the absence of radically less restrictive policies the short term problems will certainly get worse. Wait for the next big one in the housing market cycle... but it is really a long term problem...Advocating a less restrictive containment policy should not be confused with a build anywhere policy however. Landscape that generates...public amenities, heritage coastline and...semi-wild habitats modern agriculture has not destroyed need strong protection. But strong protection of real amenities and environmental assets is quite different from blanket protection of all farmland.” Cheshire & Sheppard, Building on Brown Fields: The long term price we pay, **2000**.*

*“Soaring land prices....certainly represent the biggest single failure of the system of planning introduced with the 1947 Act...the planners may have been inaccurate....in the predictions....for growth of population but they were wrong in terms of thousands of percentage points as far as land prices were concerned....Green Belts became [in the 1950s] political weapons in....a fight against takeover attempts [of rural counties] by the cities” Hall et al., Containment of Urban England, **1973**.*

Not just systematically too little building...

- Not just building too few houses year on year.
- Building wrong sort of houses in the wrong places.
- Demand is for more space in areas close to productive jobs.
- Good for people: good for productivity of economy.
- Affordability 3rd Q 2016 [Median House Price: Median Income]
 - Barnsley: 3.4; Doncaster: 3.7
 - Cambridge: 6.8; Oxford: 6.4; London: 8.2

1980-2018: Local Building & Population Growth

Area	Population Growth	Houses Built
Barnsley + Doncaster	22,796	56,340
Cambridge + Oxford	95,079	29,430

The overall impact of the proposals

City-Region	Total Buildable Area		New Open Green Space Ha	House prices (£)	Houses at 40 per Ha	£ mn LDC revenue	Houses at 50 per Ha	£ mn LDC revenue
	Ha	of which % G.B.						
Birmingham	5,786	72	579	195,000	208,280	8,123	260,340	10,153
Bristol	1,532	24	153	265,000	55,200	2,926	68,950	3,654
London	24,766	68	2,477	370,000	891,600	65,978	1,114,500	82,473
Manchester	10,977	62	1,098	152,000	395,200	12,014	494,000	15,018
Newcastle	3,805	40	381	130,000	136,990	3,562	171,250	4,453
TOTAL	46,867	63	4,687		1,687,270	92,603	2,109,040	115,751

It's not household growth but income growth

- Rising house prices in London the result of population growth – right? WRONG!

- **GLA Area**

Period	% Change Pop	%Change Real House Prices
1981-2011	+20.5	+227.6
1951-1981	-16.9	+71.9
1951-2011	+0.1	+463.2

- Some modelling I did in 1999 – effects on real house prices of alternative policies for land release: IF population increased at then projected rate to 2016 and 60% on 'brownfields' => house prices increased 4.4%; if population increased as projected AND real incomes increased at historic rates then => house prices up 131.9%;
- Key driver of rising demand is rising incomes.