

## Pre-Budget Thoughts: Housing

### COMMENTARY:

New homes are needed, targets being amended

But Govt has for the first time hit it's target

Renewed calls for ways to deal with shortage but no consensus.

UK actually top of European Table in Govt and Housing association owned stock. But more is needed. What do to?

Cut SDLT for FTB's is going to be unpopular once HMRC have better defined what an FTB is, as it did in 2010. In any event whole housing ladder needs to unblocked for this to work

And if qualified as an FTB, what to buy?

Construction Finance is expensive. A Govt Guarantee on ADC Loans can provide the means to build more homes

Without this, Govt may face backlash when they least need it.

**We need to build more homes. The original target, set in 2015, was to build 1,000,000 by the end of this parliament. This has now been replaced with a commitment to deliver 1,500,000 new homes by 2022.**

Housing has not been a Government priority, leaving the construction, for the most part, to the private sector. That said, in the 2016/17 financial year, the government did build 217,000 new homes, hitting it's target for the first time - an increase of 15% from last year and 74% on four years ago. At the same time, affordable housing remained low – 41,530, about 19% of the total built last year.

In the lead up to this Budget, there have been calls for new ways to deal with the housing shortage in the UK. These have ranged from cutting stamp duty to first time buyers, to building on the Green Belt, and a new £50bn construction fund promoted by Sajid Javid, the Communities Secretary. We must also remember that there is a £3bn Home Building Fund available for home builders.

In a comment piece in The Times this morning, Mark Littlewood made some interesting points about the amount of land in the UK which has been built on (10%) and the obvious (but reminders are not un-welcome) point that an increase in population without an increase in homes, will lead to increase house prices. He also notes that about a fifth of all homes are owned by councils or housing associations, "placing us on top of the European League Table". So what should we do:

- 1) Stamp Duty. A stamp duty holiday for first time buyers may well be in the budget however the 2 questions we have are 1) What is a first time buyer and 2) what are they going to buy. In 2010 Alistair Darling considered this so HMRC released their views as to what a FTB might look like: They must never have owned a property, in the UK or elsewhere and if their partner has ever owned a home, they would also be excluded. There was no mention of a maximum price, but we would assume that this would be relatively low. If a FTB qualifies, what can they buy? Those owners of property attractive to first time buyers, would need to sell (larger family, relocation etc..) but they would not benefit from and SDLT holiday and those putting homes on the market attractive to Second time buyers would face the same hurdle. The problem continues. Only a real reduction in SDLT across all price points will free up the market and then we will have a better idea of the type of housing the country needs and we can build accordingly.
- 2) The Second issue to consider is construction finance. The Government's Home Building Fund at £3bn is woefully small and requires interest payments which is difficult if the houses you are seeking to sell are still under construction. Pre-sales may cover some of this. The larger problem however is it make these loans attractive to commercial banks so that they lend at reasonable rates: Acquisition, Development and Construction Loans (ADC) have a very high risk weighting on bank balance sheets – almost 3 times that of a regular mortgage – making the cost of the loans expensive for the banks and therefore very unattractive.



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As such, and coupled with Loan To Value and Counterparty Risk Weighting all adding to cost, many home builders will choose non-bank lenders to finance their projects at rates which can easily exceed 10%+ per annum. Naturally home builders will seek to recover this and their profits from any new homes project, pushing the cost of these home upwards and this would account for why only 19% of last years' new builds were affordable.

So it's not just the imbalance between supply of housing and the demand for housing which is pushing pricing, it's also the cost of funding these housing developments. Maybe a solution is for the Home Building Fund to provide government guarantees (implicit or explicit) on private sector construction loans which would provide for better capital treatment on banks balance sheet. How? by turning the Construction loan from an ADC loan under the Basel Regulation to a Government Guaranteed Loan, which attracts better capital treatment and which banks could therefore fund via the Bank of England.

Without an increase in construction funding and a reduction in SDLT across the whole market, a cut in first time buyer stamp duty may well be seen as a political move to appeal to the Millennials who supported Labour in the last election. However, once these home seekers find there is little for them to buy (notwithstanding the more rigid mortgage rules and costs), their resentment of the current housing situation will continue and the Government will be blamed. This policy may well become a pyrrhic victory for the Tories unless meaningful funds are released to the sector