

Supply & Demand

How builders balance supply and demand in local markets

Summary

- The resale market accounts for 85-90% of sales annually and is a reliable indicator of mass-market buyer demand. In recent years, home builders have used the Help to Buy equity loan scheme to support demand, but changes to the scheme from April 2021 will impact the scale of demand for new homes in some markets. Builders need to consider a different approach, delivering new homes where demand exists that is not served today by what is for sale in the resale market (subject to land availability and local planning)
- This report examines how supply and demand compare in the new homes and resale markets regionally across Great Britain. The report focuses on four locations - London, the South, the North West and the North East-highlighting differing trends that present potential opportunities for builders on new or existing schemes.

Key findings

- **North West:** A rise of inner-city living has driven the supply of 1-bed flats, but this market faces stiff competition from the resale market. The mismatch of supply and demand occurs in larger properties, signalling development opportunities in the suburbs and wider commuter-zone.
 - **North East:** Data suggests that builders have looked past the new, lower Help to Buy price caps to take advantage of the region's relative affordability and the under-supply of larger 4+ bed homes.
 - **London:** Two-thirds of new home demand is clustered around homes under £600,000 as Help to Buy has supported strong buyer demand.
 - New homes above the £600,000 threshold have seen more muted demand of late as higher levels of prime stock and a Covid-led decline in overseas buyers have created headwinds at the top of the market in the short-term. Still, as the vaccine rolls out and cities re-open for business, this trend may reverse.
 - **London commuter belt:** The supply of new-build and resale homes has closely matched the proportion of demand, with 3-bed homes priced between £200k -£400k accounting for the largest share of supply and demand
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Introduction

The supply of new homes plays an essential role in the economy and wider society. Understanding the relationship between supply and demand allows builders to adapt to changing socio-economic trends to meet local area gaps in the wider resale market and drive buyer demand.

The chart below tracks private completions annually by bed count to show how builders respond to market conditions, including demand, to support delivery. For example, the share of smaller 1 and 2 bed homes has almost halved since 2010 as the influence of Help to Buy has supported the delivery of larger homes from 2015,



Our analysis segments resale, new home listings (including off-plan plots) and applicant leads posted over the six months by price and bed count to understand how builders look to target these ‘gaps’ in the market to unlock latent demand for new homes and how it varies by location. We also look at the prices and property types that first-time buyers (FTBs) and home movers have engaged with over the same period to understand how each audience interacts with the market.

Although the data used in this analysis is not forward-looking, buyer demand can only reflect the available listings for sale, we can still observe mismatches between supply and demand that could inform future decision making or contextualise the under/over performance of an active site.

North West

The continued rise of inner-city apartment living in the North West - especially in Manchester, Salford and Liverpool - has seen 33% of new supply cluster around the delivery of 1-bed flats under £200,000. This compares to just 10% of listings across the wider resale market, where 2 and 3-bed homes under £200,000 account for 63% of available listings.

First-time buyers primarily engage with 1 and 2-bed flats at a median price of £156,000, whilst home movers look towards larger 3 and 4-bed houses in more suburban locales priced at £190,000.

However, when we look at demand, a different story emerges. The relative affordability of 1-3 beds resale homes in the North West - 60% of homes listed are under £200,000, accounting for 79% of the region’s demand - presents a more competitive landscape for builders. A possible consideration is for builders to look towards building larger 3 and 4-bed homes in the £200,000-£400,000 price band where new homes demand is 27% compared to 15% in the wider resale market.

Resale supply and demand

Price band		Share of supply						Share of demand					
		Bed count						Bed count					
		1	2	3	4	+5		1	2	3	4	+5	
Price band	Under £200K	10%	25%	23%	2%	0%	60%	5%	29%	39%	4%	1%	79%
	£200K-£400K	1%	6%	15%	9%	1%	32%	0%	2%	9%	6%	1%	19%
	£400K-£600K	0%	0%	1%	3%	1%	6%	0%	0%	0%	1%	1%	2%
	600K-£800K	0%	0%	0%	1%	1%	2%	0%	0%	0%	0%	0%	0%
	Over £800K	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
		10%	31%	39%	15%	4%		5%	31%	48%	11%	3%	

New homes supply and demand

Price band		Share of supply						Share of demand					
		Bed count						Bed count					
		1	2	3	4	+5		1	2	3	4	+5	
Price band	Under £200K	33%	15%	6%	0%	0%	54%	18%	20%	19%	4%	0%	62%
	£200K-£400K	2%	13%	11%	9%	1%	36%	1%	7%	13%	14%	1%	36%
	£400K-£600K	0%	1%	3%	2%	1%	6%	0%	0%	0%	1%	0%	2%
	600K-£800K	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%
	Over £800K	0%	0%	1%	0%	0%	1%	0%	0%	0%	0%	0%	0%
		36%	30%	21%	12%	2%		19%	27%	33%	20%	1%	

North East

The supply and demand profile for resale homes in the North East is extremely narrow; 72% of supply and 86% of demand are for homes below £200,000 with 2 and 3 beds accounting for the bulk of listings and buyer interest. The relative affordability of the region provides a greater choice for buyers.

As raised in our previous report on Help to Buy, the North East new homes market is most likely to be impacted by the introduction of the regional price caps from April; we estimate that 66% of homes sold in 2020 that would have qualified for Help to Buy under the 2013-20 scheme would now be above the new price cap of £186,100. Despite this risk to the sales rate and delivery, the data shows that builders have identified a market for larger homes above £200,000 where the supply - as well as quality and size - of existing 4 and 5+ bed stock in the region is slightly below the national average.

Resale supply and demand

		Share of supply					Share of demand						
		Bed count					Bed count						
		1	2	3	4	+5	1	2	3	4	+5		
Price band	Under £200K	4%	28%	35%	4%	1%	72%	4%	33%	43%	5%	1%	86%
	£200K-£400K	0%	2%	8%	11%	2%	23%	0%	1%	5%	5%	1%	12%
	£400K-£600K	0%	0%	1%	2%	1%	4%	0%	0%	0%	0%	1%	1%
	600K-£800K	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%
	Over £800K	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
		4%	30%	44%	17%	5%	4%	33%	48%	11%	4%		

New homes supply and demand

		Share of supply					Share of demand						
		Bed count					Bed count						
		1	2	3	4	+5	1	2	3	4	+5		
Price band	Under £200K	4%	10%	32%	3%	0%	49%	3%	19%	45%	3%	0%	70%
	£200K-£400K	0%	1%	15%	26%	4%	45%	0%	1%	10%	15%	2%	28%
	£400K-£600K	0%	0%	0%	2%	2%	5%	0%	0%	0%	0%	1%	1%
	600K-£800K	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Over £800K	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
		4%	11%	47%	31%	7%	3%	20%	55%	18%	3%		

London

London’s stock of homes is split between higher density developments within inner London and low-rise flats and houses in outer London. New build supply broadly follows this trend but with fewer 4 and 5+ bed homes; just 4% of new home supply versus 17% in the resale market.

Our data shows that the Help to Buy equity loan scheme, now due to run to March 2023, will continue to support FTB sales of 1 and 2-bed flats below the £600,000 threshold whilst home movers are seeking larger 3-bed homes in the more affordable parts of outer London at a median price of just under £500,000.

Some 47% of available new home supply is priced at £600,000 or higher, but the share of buyer demand is almost half that of supply at 26%. Higher levels of prime stock and a Covid-led decline in overseas buyers have created headwinds at the top of the market in the short term, but as the vaccine rolls out and cities re-open for business, this trend may reverse.

Resale supply and demand

		Share of supply					Share of demand						
		Bed count					Bed count						
		1	2	3	4	+5	1	2	3	4	+5		
Price band	Under £200K	1%	0%	0%	0%	0%	2%	2%	1%	0%	0%	0%	3%
	£200K-£400K	12%	12%	3%	0%	0%	27%	10%	16%	8%	1%	0%	34%
	£400K-£600K	6%	14%	10%	2%	0%	33%	4%	12%	17%	4%	1%	37%
	600K-£800K	1%	6%	5%	3%	1%	17%	1%	4%	4%	3%	1%	13%
	Over £800K	1%	5%	6%	5%	4%	22%	0%	3%	4%	4%	3%	13%
		22%	37%	25%	11%	6%	16%	35%	34%	11%	4%		

New homes supply and demand

		Share of supply					Share of demand						
		Bed count					Bed count						
		1	2	3	4	+5	1	2	3	4	+5		
Price band	Under £200K	1%	0%	0%	0%	0%	1%	2%	0%	0%	0%	0%	3%
	£200K-£400K	13%	4%	0%	0%	0%	17%	17%	11%	1%	0%	0%	29%
	£400K-£600K	13%	18%	4%	0%	0%	35%	10%	21%	10%	1%	0%	42%
	600K-£800K	5%	10%	4%	1%	0%	20%	1%	7%	3%	1%	0%	13%
	Over £800K	3%	11%	9%	2%	1%	27%	1%	4%	5%	2%	1%	13%
		35%	42%	18%	3%	1%	31%	44%	19%	4%	2%		

London commuter belt (South East & Eastern regions)

Supply and demand for both resale and new homes closely mirror each other in the London commuter belt, with both sets of charts seeing the greatest share of supply and demand concentrated in the top right diagonal (see above).

When we look at buyer behaviour, FTBs mainly engage with 2-bed flats and 3-bed semi-detached properties with a median price of £229,000, while home movers are looking for 3 and 4-bed houses with a median price of £375,000.

Although the end of Help to Buy in 2023 could dent demand as buyers struggle to raise the necessary deposit on their own, the flow of would-be buyers from London looking for larger family homes as they progress up the housing ladder should remain a reliable source of demand.

Resale supply and demand

		Share of supply					Share of demand					
		Bed count					Bed count					
		1	2	3	4	+5	1	2	3	4	+5	
Price band	Under £200K	6%	7%	2%	0%	0%	15%	5%	7%	3%	0%	0%
	£200K-£400K	4%	19%	22%	5%	1%	50%	3%	19%	31%	5%	1%
	£400K-£600K	0%	3%	9%	8%	2%	21%	0%	2%	10%	6%	1%
	600K-£800K	0%	0%	2%	4%	2%	8%	0%	0%	1%	2%	1%
	Over £800K	0%	0%	1%	3%	3%	7%	0%	0%	0%	1%	2%
		10%	29%	35%	19%	7%	8%	28%	45%	15%	5%	

New homes supply and demand

		Share of supply					Share of demand					
		Bed count					Bed count					
		1	2	3	4	+5	1	2	3	4	+5	
Price band	Under £200K	3%	2%	1%	0%	0%	6%	4%	3%	1%	0%	0%
	£200K-£400K	9%	18%	16%	4%	0%	48%	7%	22%	20%	4%	0%
	£400K-£600K	0%	5%	10%	12%	2%	28%	0%	3%	12%	9%	1%
	600K-£800K	0%	1%	2%	6%	2%	10%	0%	0%	1%	4%	1%
	Over £800K	0%	0%	1%	3%	3%	7%	0%	0%	0%	2%	2%
		13%	26%	30%	24%	7%	12%	29%	35%	19%	5%	

Conclusion

Supply and demand forms an important part of housing delivery and provides a clear insight into how local markets operate and the parameters that builders work within.

This analysis highlights the different approaches that builders take to meet local demand and maintain delivery and sales. For example, we see how Help to Buy sustained housing markets in London and the South and their dependence on two 'external' buyer types; London emigres looking for space in the South and overseas buyers investing in prime London.

Whilst builders have been constrained by market fundamentals in the South, The North East and North West have seen builders take a more active approach to targeting gaps/deficits in the market where they can insert supply and offer something different to the wider resale market.

Looking forward, Government policy around planning and the 'levelling up' agenda will ensure that builders continue to play a crucial part in delivering the right homes into local communities to support economic growth.

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