

New Homes Outlook Report

Winter 2021



Welcome to Zoopla's new homes outlook, where we focus on the key market indicators that matter to the new homes industry.

Executive summary

- Despite concerns of a cliff edge following the end of the stamp duty holiday in September, new home buyer demand outside London is currently running 15% above the five-year average. The search for space remains the primary motive for buyers' moves.
 - In London, new homes buyer demand remains 27% below the five-year average. We anticipate returning workers and overseas buyers to provide a boost to the new homes market over 2022.
 - Total delivery of new homes set to ease in 2022 after higher completion rates over the last year. Completion rates started to exceed starts levels in late 2018, and this trend was heightened by the pandemic as housebuilders prioritised sites already underway.
 - Help to Buy continues to support sales in the new homes market with the scheme supporting sales worth £91bn since its inception in 2013.
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Housebuilder scorecard

Using Zoopla's market-leading analysis, along with Government and [NHBC data](#), our housebuilder scorecard below captures data from planning decisions right through to sale volumes nationally, to provide an at-a-glance picture of the market.

	Current	12 months ago	12 month change	3 years ago	3 year trend	Coverage	Data to
Planning							
Major decisions applications	6,257	6,481	-3.5%	7,975	↓	Eng	Jun-21
Major decisions granted	5,144	5,280	-2.6%	6,443	↓	Eng	Jun-21
Starts							
Private	132,990	100,940	31.8%	134,340	—	Eng	Jun-21
Affordable + LA	33,870	25,170	34.6%	28,510	—	Eng	Jun-21
TOTAL	166,860	126,110	32.3%	162,850	—	Eng	Jun-21
Under Construction							
Private and affordable	196,900	186,400	5.6%	190,888	—	UK	Oct-21
Completions							
Private	150,220	118,180	27.1%	132,160	↑	Eng	Jun-21
Affordable + LA	33,250	27,490	21.0%	29,080	↑	Eng	Jun-21
TOTAL	183,470	145,670	25.9%	161,240	↑	Eng	Jun-21
Sales							
Transactions (newly built)	46,850	107,515	-56.4%	108,385		Eng & Wales	Dec-20
Transactions (existing)	572,668	683,736	-16.2%	753,729		Eng & Wales	Dec-20
TOTAL	619,518	791,251	-21.7%	862,114		Eng & Wales	Dec-20
Proportion of newly built sales	7.6%	13.6%		12.6%		Eng & Wales	Dec-20

Source: MHCLG, HMLR, NHBC, Zoopla Research

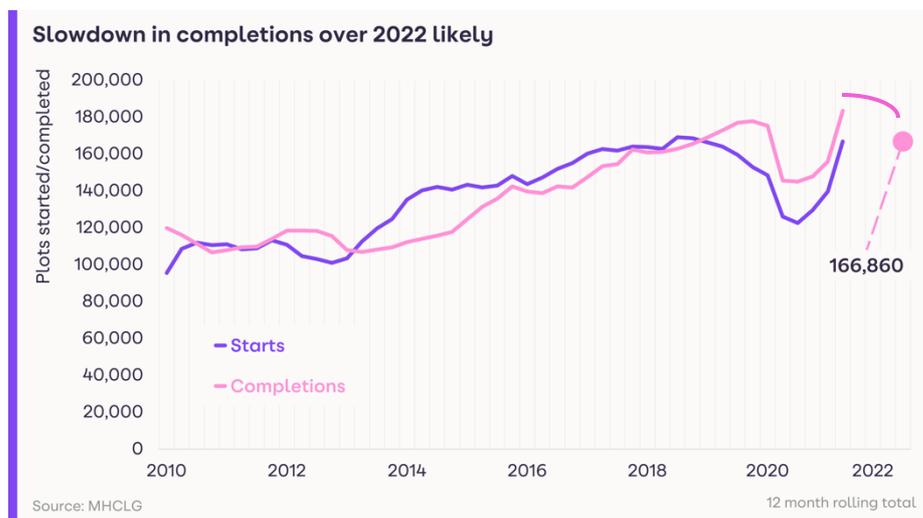
Sales: owing to a lag in in land registry data in 2021, especially for new homes, we have only reported to the end of 2020 to accurately reflect the sales market

Shifting dynamic in starts and completions to impact delivery in 2022

A strong uptick in construction activity reported in the year ending Q2 2021 for England saw starts and completions increase by +31% and +26% on the year, respectively. Though this looks encouraging at first glance, it is important to remember the previous year's activity was hampered by the introduction of COVID-19 lockdown measures from mid-March to May 2020.

When we compare to the same period in 2019, starts have remained broadly flat, up only +1.7%, while completions are up +14%.

Further analysis of MHCLG housing supply data for newly built private and affordable homes across England (chart below) shows how starts are still lagging completions, despite rising in recent quarters. This trend has been seen throughout the pandemic as delivery on sites already underway became a focus, boosting completion numbers.

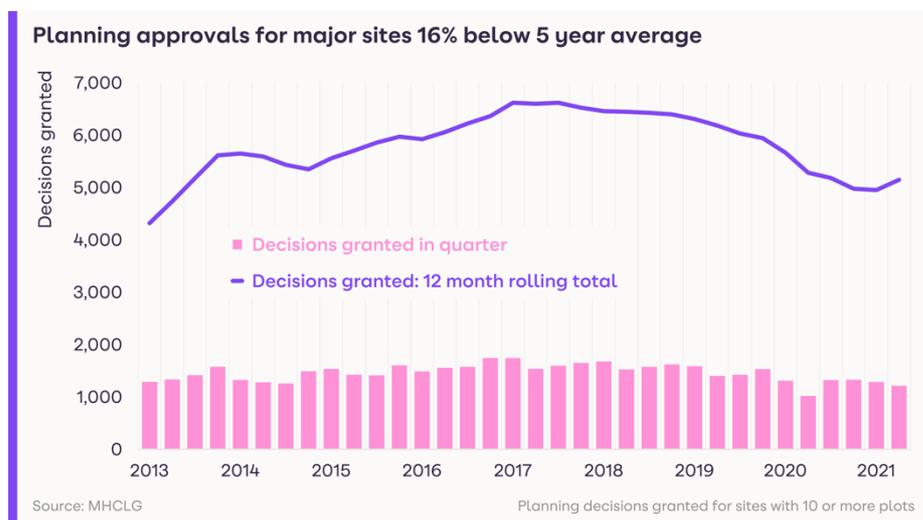


What does delivery look like in 2022?

We can project current levels of housing starts forward 12 months - the average time on site for development - to try and understand how delivery may look over schemes. By progressing annual starts 12 months to the end of 2022, we estimate that completions for the year will be similar to 2019 output at 170,000 homes in England, down from more than 180,000 in the year to June 2021.

Looking further back in the pipeline at planning approvals for major residential sites, we can see that despite a slight rebound in Q2 2021, the number of decisions granted annually was the lowest since 2013.

However, this doesn't tell all of the story; analysis of NHBC sites registered over 2021 shows they have tended to be larger, more strategic developments, which could go some way to explaining the anticipated slowdown in 2022 as larger sites are typically more demanding when going through planning but also take longer to build out fully.

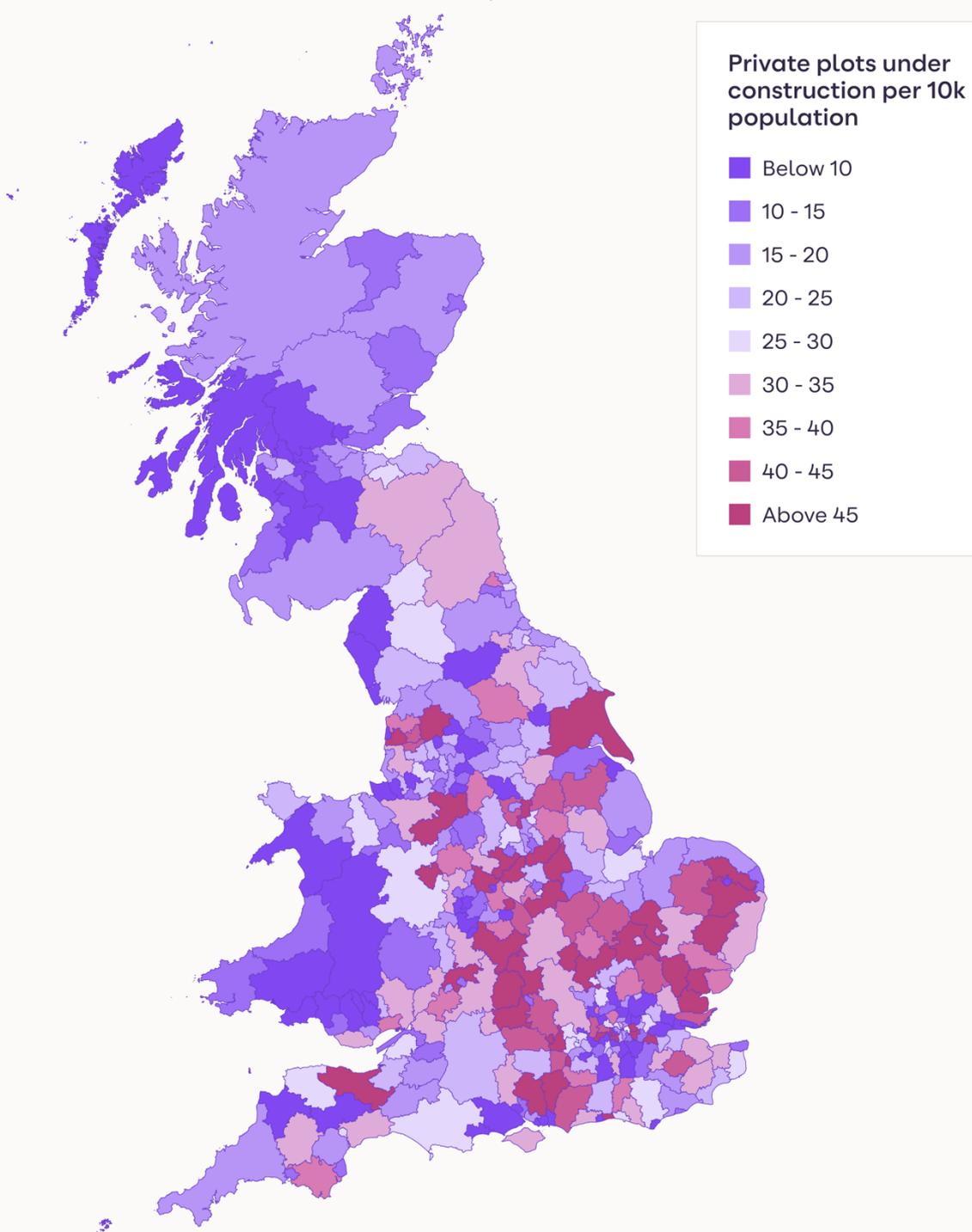


Where does the pipeline of new homes look strongest nationally?

The map overleaf shows the number of private plots registered with the NHBC currently under construction per 10,000 people. At the end of September, the pipeline of private supply had increased by 5.6% year-on-year to just under 197,000 plots across the UK as of the end of September.

There are clear concentrations of supply in more affordable markets in suburban and rural areas, and across the Oxford-Cambridge Arc.

On this measure pipeline supply, activity in major cities and towns is more subdued, although to activity levels in many LAs will also reflect local housing need calculations.

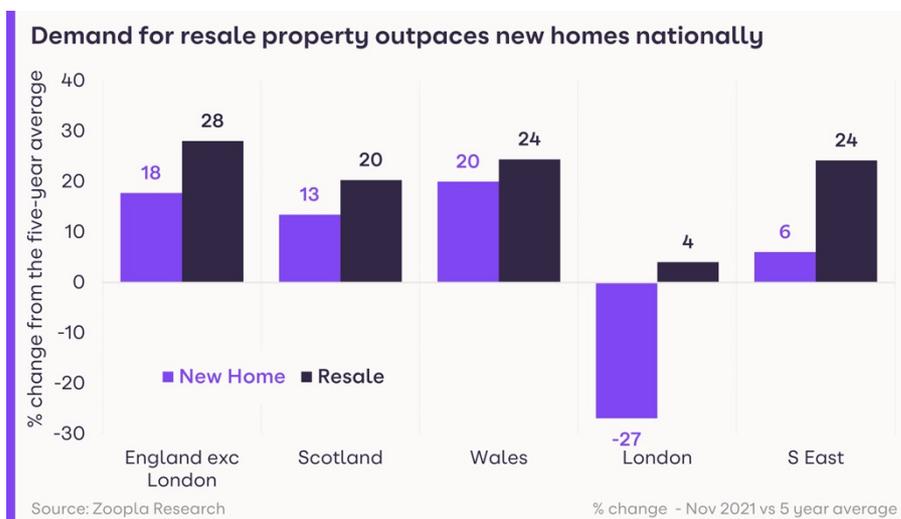


Source: NHBC, ONS, Zoopla Research

What are the prospects for new home buyer demand?

Following the end of the stamp duty holiday, buyer demand for existing homes outside London remains well above the five-year average - perhaps an unexpected trend, but one that reinforces our view that buyer consideration for space is the main driver for strong market conditions at present.

Buyer demand levels for new homes also remain above 5-year levels in most markets, but have not reached the same peaks seen in the resale market. The chart below shows the difference between resale and new homes demand in relation to the five-year long run average. The most noticeable differences are in London and the South East.



Buyer demand in London is running more than 25% below the five-year average. London is made up of several markets, and typically demand for houses in outer London has followed the wider England trends. The inner London market is a global real estate market, which has felt the impact of changing working patterns and pandemic-related travel restrictions. However, with employees returning to work and restrictions on international travel lifted, the capital will see a boost to demand and sales over 2022.

The North West, Yorkshire and the North East have seen strong new home buyer demand, which is running 30% above the 5-year average, as the relative affordability of these markets prices in buyers and fuels demand.

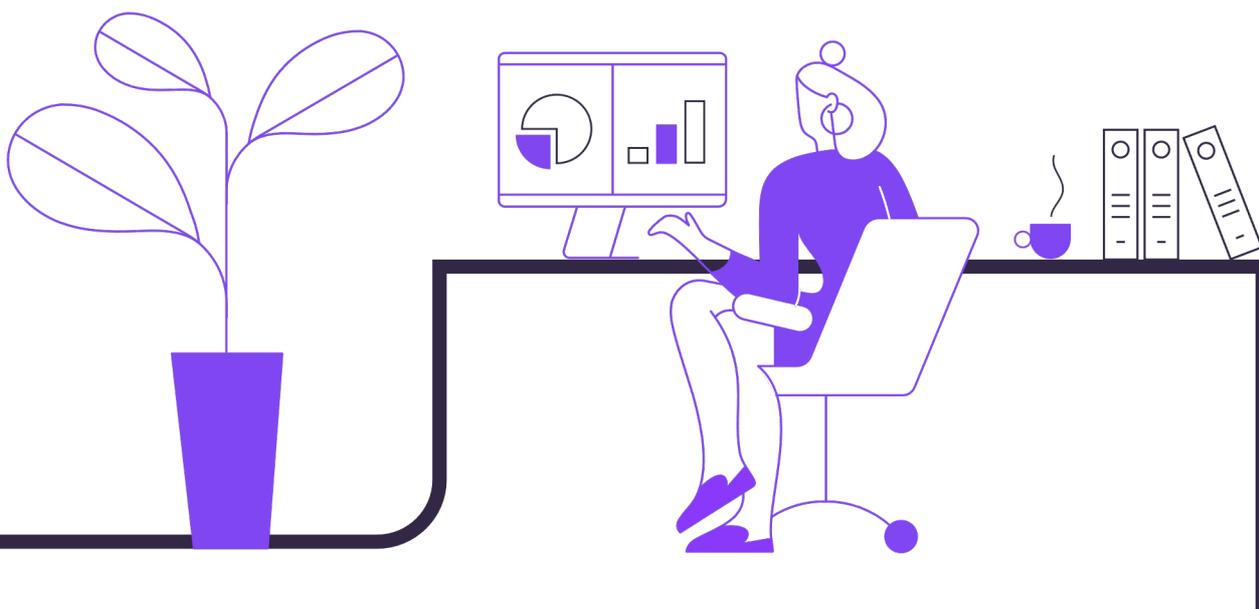
Help to Buy

Help to Buy continues to be an important lever for new-build homeownership, with transactions completed under the scheme totalling 55,649 in the year to 31 March 2021, up +8% compared to the previous year. First-time buyers made up 83% of completions.

Regional price caps were introduced in Q2, and the scheme was limited to first-time buyers (FTBs) only. As such, it's reasonable to expect a fall in future completions in Q2 2021 when MHCLG issues the next round of statistics.

The Government is promoting its First Homes scheme, under which homes will be sold at a permanent discount. At the same time, the housebuilding industry has also clubbed together to introduce the Deposit Unlock - working with lenders to offer mortgage deals to those with smaller deposits. It will be difficult for any scheme to match the quantum of demand facilitated through Help to Buy, which has supported sales worth more than £90 billion since 2013.

At the same time, [Zoopla research](#) shows that new homes typically have a wider geographical reach among potential buyers, so there may be more scope for developers to identify additional demand pools moving into 2022 and 2023.



Looking ahead: Zoopla house price forecasts

Following a record year for transactions and house price inflation due to the ongoing re-evaluation of the home and the extension to stamp duty holiday, Zoopla has published its house price forecasts for 2022.

Nationally, we expect average house prices to increase by +3% on the year in 2022, down from +5% in 2021 as economic headwinds emerge. The outlook varies regionally, with the North West and East Midlands posting expected growth rates of +4%. In comparison, growth in London looks set to remain below the UK average at +2% as affordability constraints continue to impede growth prospects in the short term.

Regional annual price change and forecasts for 2022 (whole of market)

Region	Annual price change (Sept-21)	Dec-22 forecast
1 Wales	9.8%	4.0%
2 N Ireland	8.4%	3.0%
3 N West	8.0%	4.0%
4 E Mids	7.4%	3.8%
5 Yorkshire & H	7.2%	4.0%
6 S West	7.0%	3.0%
7 N East	6.6%	4.0%
8 W Mids	6.1%	3.0%
9 Eastern	5.6%	2.5%
10 S East	5.4%	2.0%
11 Scotland	5.2%	3.0%
12 London	2.2%	2.0%

What's happening to sales volumes?

This year has seen the largest number of transactions since 2007 with 1.5m sales across the whole market. We expect transaction volumes to fall back to the long-run average of 1.2m next year.

Housebuilders have reported strong forward sales into 2022. We expect the proportion of new home transactions to fall slightly below the average of 15% of all sales as the pipeline of homes coming to market slows over 2022. However, there will be concentrations in areas, such as Oxford-Cambridge arc, where higher levels of supply will make up a greater share of all sales.

As inflation rises, and the Bank of England looks to respond by raising interest rates, there will be additional pressure on household finances in 2022 and 2023. While any interest rate rises - and subsequent mortgage rate rises - will be very small, just the fact that interest rates are rising could prompt a shift in sentiment, especially among those considering their first purchase.

Considerations for 2022

Opportunities

Above-average buyer demand still has further to run into 2022

Competitive mortgage market

Continued price growth especially in most affordable housing markets

Potential challenges

Rising construction costs

Shifting Government policy around planning and fire safety

Small rises to mortgage rates impacts buyer sentiment

Summary

As we entered the first national lockdown, housebuilders (and Zoopla analysts) anticipated fierce headwinds across the housing market. Today, strong house price growth coupled with robust buyer demand looks set to provide a sturdy platform for 2022. However, the increasing cost of living and the expected rise in mortgage rates will likely have some impact on household buying power over the next two to three years.

There are also still many questions around policy and regulation and how these decisions will ladder up to the levelling up agenda and the target of delivering 300,000 homes annually by the mid-2020s.

The industry has absorbed regulatory change in the past, and with the new planning rules likely to be delivered next year, it will adapt once more. Amid this shifting policy landscape, access to the latest trends in pricing, demand and supply can help inform business decisions from planning right through to completion.

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