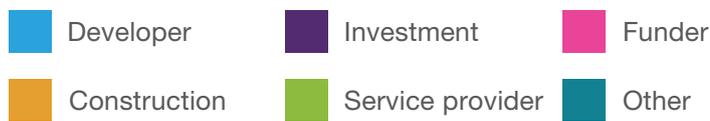




60second Property poll

Welcome to the results of our latest quarterly property poll. As always, thank you to our clients and contacts who provided responses and comments, it is very much appreciated.

Responses came from a variety of property businesses, service providers, asset managers and funders.

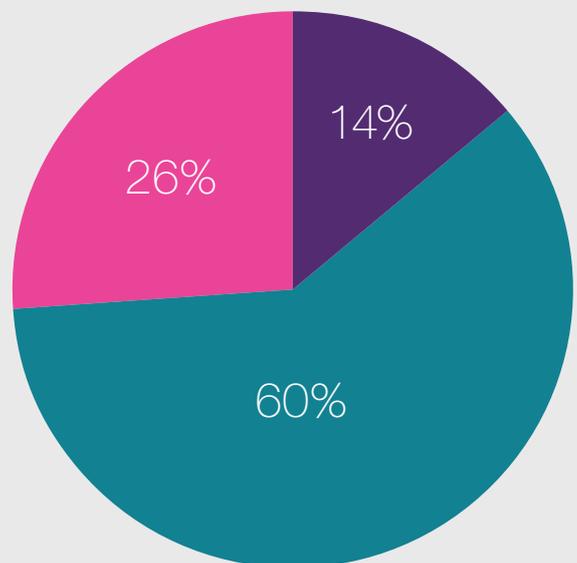


The Chancellor gave his Autumn Budget on 29 October, making a number of announcements affecting the property market, including a new allowance for structures and buildings, a temporary increase to the Annual Investment Allowance from £200k to £1million and changes to off-payroll working rules.

Q1. Within the context of an ‘end to austerity’ and this being the last Budget before Brexit, how positive do you believe the announcements were for the property industry?

The Chancellor’s biggest new announcement for the property sector surrounded capital allowances, in particular the new Structures and Buildings Allowance, an incentive for the private sector to contribute to improving UK’s infrastructure.

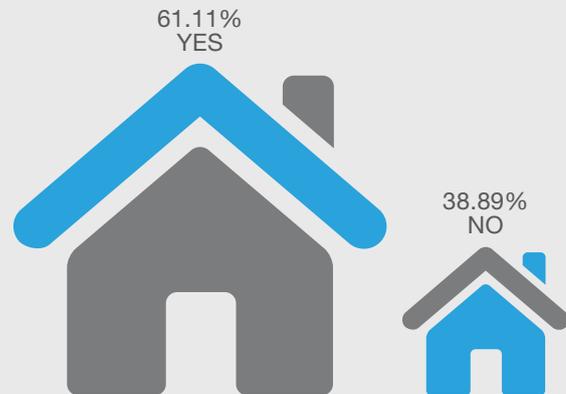
Respondents recognised the “aspiration” behind the Budget, but did not feel that the Budget was ground-breaking enough to make any significant impact on their investment and development plans. There was concern about the impact of the proposed consultation an extra 1% SDLT levy on UK residential property for foreign buyers.



“No concrete measures on how to lower the price of buying a home”

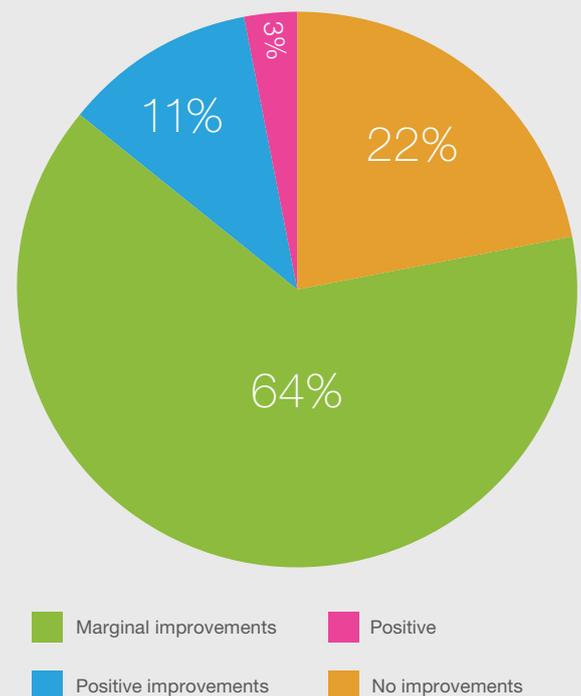
In 2017 Theresa May was publicly concerned that residential developers were landbanking and this was causing a lag between planning being awarded and units being completed. Sir Oliver Letwin was commissioned to prepare a report and announced his conclusions in November 2018. His main finding was that developers only built what could be absorbed by the market and a lack of diversity in the type of units developed restricted the pool of potential buyers.

Q2a. Sir Oliver Letwin has proposed new planning regulations for development sites with more than 1,500 units and a legal requirement for more diverse developments. Do you agree that the lack of diversity of units developed causes a lag in the delivery of developments?



Q2b. How effective do you believe the proposals set out by Sir Oliver will be in delivering faster outputs?

The scope of the report was restricted at sites where planning permission has already been received. The majority of the poll's respondents agree a lack of diversity does lead to a lag, but a number of responses point the finger to issues at an earlier stage in the process, specifically at planning. The poll also illustrates that though diversity is agreed to be a problem, little if any improvements are expected to flow from the proposed changes. The expectation is that this will generate a greater burden at planning. The changes should offer an opportunity for smaller property developers to work in partnership on larger sites with the national house-builders.



“The planning system needs a total overhaul before we can see housing catching up to what the market requires.”

Speaking at the October 2018 Housing Market Intelligence Conference in London, Housing Minister Kit Malthouse was critical of house builders for not being innovative enough. He said “Not much has changed since 1985”. “Technological change will come to this industry through MMC, offsite, change in plumbing and electrical methods and robotic bricklayers”. “Innovation is coming – I would urge you to grasp it. You cannot allow yourselves to become the Kodaks of housebuilding.”

Q3. Whether you agree with Mr Malthouse's sentiments or not, there are at least some innovations very much on the scene, including offsite construction/modular housing. How do you see that innovation specifically impacting your business in the near future?

The responses to this question seem to be quite measured. Respondents acknowledged that there will be an impact on their business, which over the course of the next five years will increase, but in general they predict the effect will be relatively slow and progressive. This infers businesses feel comfortable they will have time to adapt to the impact of new technology in the industry, and/or are in the process of doing so already.

The sentiment of the commentary responses seems to be that construction as an industry is slow to innovate, affirming Mr Malthouse's own sentiments.

Interestingly, the outliers who saw these changes as being “game changers” in their industry, were all service providers. This is perhaps understandable with examples like architects, which may see a decline in need for their services if a more standardised/flat-pack construction methodology becomes the norm.



“Again the market dictates. The last innovation was timber framed buildings and there was a huge scare making them difficult to sell. Developers are not going to ‘experiment’ if there is a risk of poor market reaction and generally the UK house buyers are fairly conservative. They don't want to buy something that might be the subject of a slating in Panorama etc and cause the value to fall / difficulties in selling.”

“The issues with housing relate predominantly to issues with respect to planning policy and the approval process and govt intervention in the market such as changes to SDLT, etc. There is no point building product which the market is unwilling or unable to afford! Innovation in construction does nothing to impact these items and in fact is likely to increase costs in the short-term via R&D.”

“The change to robotic bricklayers is still some way off and offsite construction does not usually provide much if anything in cost savings.”

The government have extended the help to buy scheme for a further two years to April 2023, after declaring it a huge success in tackling both the first time buyer problems (150,000 of the 170,000 purchases supported by HTB were to first time buyers) and the housing supply issues, like no other policies before it.

However, whilst HTB may have seen some success as a short term fix, is it helping to solve the longer term underlying intergenerational issues causing its introduction? A generation ago, a first time buyer could expect to pay a 10% deposit on a property valued around three times household income. Now, it is more like a 20% deposit on a five times household income value.

The second hand market also remains sluggish, which HTB does not address and potentially exacerbates.

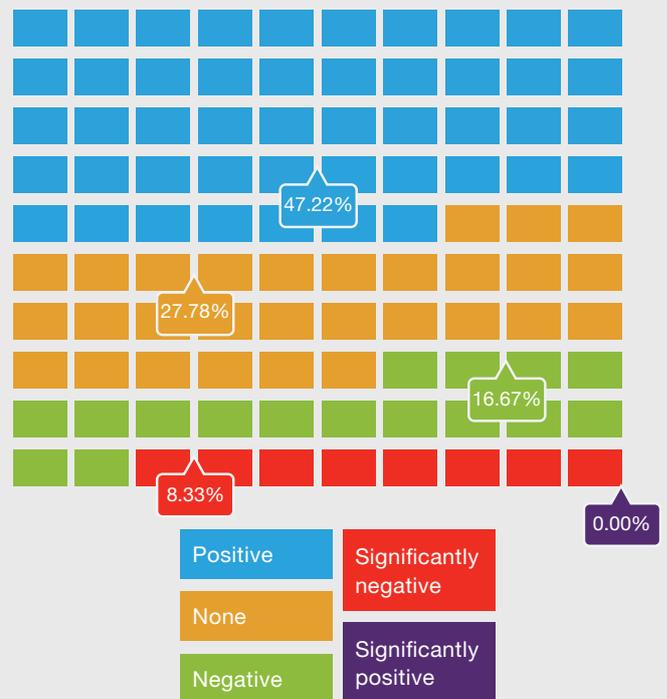
Q4. Overall, what do you think the lasting effect HTB will have on the UK property market?

The response to this question was very interesting due to somewhat polarised views.

The overall scoring shows that 75% of respondents thought HTB had a positive or no effect on the UK property market, leaving only 25% thinking the effect was negative or significantly negative.

Despite that statistical result, the overwhelming commentary responses to this question were critical of HTB, highlighting in particular a view point that HTB has inflated house prices, thus exacerbating the housing crisis and leading to an equity gap in the second hand market. The sentiment of commentary respondents seems to be that HTB is not the success it is made out to be, and worse is potentially damaging the housing market, causing a market distortion.

Could the extension of HTB be less about keeping a good thing going, and more kicking a problem can down the road? If HTB comes to an end in 2023, will that precipitate a market correction?



“Help to Buy actually pushes up prices for homes. From my perspective, there are many homes being built today, however, the real challenge is no one can afford them giving the income ratio to house prices. The average house is costing almost 10 times the average income. Therefore, we either have to focus on growing our economy to support higher incomes to bridge the affordability gap or we need councils to start building again. The councils already have a land bank, so it is feasible that they could build homes a lot cheaper than it would cost a private company and they could offer these discounts to buyers.”

“I think it has inflated prices and demand for new builds for the immediate benefit of the larger developers at the expense of the rest of the market, causing an artificial bubble in the market that can only go one way in the short/medium term given current uncertainty in the broader economy.”

“HTB is inflating prices and will this have an impact on saleability when first time buyers look to move on (and up) but, depending on the cycle, may be caught in a situation where equity is less than needed.”

“It will cause significant issues in the second hand market, where first time buyers will be unable to progress.”

How Kingston Smith's Property team can help

We believe that, for any property business, getting the right advice at the start of a project from advisers who understand a business's goals, as well as the issues affecting the sector, can make a significant difference to the financial results of any project.

We provide clients with a dedicated property partner who is accessible and who will co-ordinate a team of property tax, accounting and audit specialists to help them realise their potential.

Kingston Smith's Property team brings a new dimension to their clients: a fresh perspective, and suggestions on how to move their businesses forward.

We'd love to hear your thoughts on our poll, please do get in touch on Twitter @kingstonsmith

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