Making sense of the housing market

CHC Annual Conference
December 2016
Helen Collins
Market overview
Government priorities

Reclassification and deregulation
20,000 homes
Abolish RTB
Home ownership – Help to Buy Wales
<table>
<thead>
<tr>
<th>Central Five-year forecast</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK house price growth</td>
<td>0.0%</td>
<td>2.0%</td>
<td>5.5%</td>
<td>3.0%</td>
<td>2.0%</td>
<td>13%</td>
</tr>
<tr>
<td>Household income, y/y change*</td>
<td>1.0%</td>
<td>1.9%</td>
<td>2.6%</td>
<td>3.3%</td>
<td>3.2%</td>
<td>13%</td>
</tr>
<tr>
<td>Employment, y/y change*</td>
<td>-0.4%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>0.8%</td>
<td>1.0%</td>
<td>2%</td>
</tr>
<tr>
<td>Bank of England base rate*</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>1.4%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

* Oxford Economics
10 year house price growth

North East: -2%
Wales: 3%
North West: 8%
Y & H: 9%
West Midlands: 15%
East Midlands: 17%
Scotland: 16%
South West: 26%
East: 45%
South East: 49%
Outer London: 80%
Inner London: 106%

Source: ONS
Performance against peak

Source: Savills using land Registry
Brexit?
Brexit - The effect on sentiment so far – a thin market probably happening anyway

Source: RICS
Brexit world?

- Uncertainty over exit terms and timing feeds into economic growth
- Potential fiscal stimulus – we’ll put off balancing the books
- More consumer debt and looser monetary policy (markets permitting)
- Stamp duty and tax relief on investment properties
- Weak productivity growth
- Inflation and depressed real income growth
- Base rate remains low for longer
- Squeeze on welfare
- Desperate need for new homes remains
• Does his rhetoric survive contact with reality?
• Unpredictable
• Tariffs on trade & protectionism – helps no one
• Could accelerate populism across Europe?
• Period of uncertainty?
Informed investment
The challenge for HA’s

• Threat of more austerity
• CHC ‘Housing Horizons’
• A government that gets social housing
• And wants 20,000 more homes
• Do more of what you do already? Yes.
• But will this be enough? No.

Conclusion: we have to find new ways to create the housing we need
Better run businesses house more people

- Clarity of purpose – what is your offer?
- Efficiency
- Simplicity
- Transparency
- Data
- Reporting
- Return on assets?
- Capacity for new homes
Emergence of different models?

• Traditional HA – minimal growth. Rent only please. Stick to knitting. Under used assets?

• Prudent risk takers - focused and actively driving efficiencies. Know their markets. Know their asset base. Up for tenure diversification.


Clarity of purpose?? What is the business all about?
Results and Decisions

30 Year NPV per Unit by Asset Group

- £(15,000)
- £(10,000)
- £(5,000)
- £-
- £5,000
- £10,000
- £15,000
- £20,000
- £25,000
- £30,000
- £35,000

- OK to Invest
- Optimise
- Recovery and Improvement Plan
- Option Appraisal

Range of NPVs across portfolio
Not All About The Money – Social Returns

Comparing social and financial performance
Additional Analysis – Underlying Asset Value

High potential receipt value versus weak in current use. Decision at void?

30 Year NPV vs OMV

Red = NPV
Blue = Open Market Values
Tenanted sale to RP

Vacant sale to private investor/developer
Wales depth of market

Source: Land Registry

- New houses
- New flats
- Old houses
- Old flats

Residential value (top of band)

Number of Sales
Average house prices in Bangor

Source: Land Registry

Average transaction values
(Year to August 2016)

- Over £225,000
- £200,000 - £225,000
- £150,000 - £200,000
- £100,000 - £150,000
- Up to £100,000
Average house prices in Swansea

Average transaction values (Year to August 2016)

- Over £225,000
- £200,000 - £225,000
- £150,000 - £200,000
- £100,000 - £150,000
- Up to £100,000
To Market Knowledge

GAP

Annual housing need/delivery vs Household income

More market
Starter Homes?

Shared ownership
Social rent
Affordable rent
Market supply
Welsh HAs: a new real estate sector?

Blend of tenures – range of price points and segments
Non RP subsidiaries
Partnerships and JVs
But....skill and expertise shortages
And market capacity....
Opportunity for direct investment
Finding the right partners: risk, skills and common objectives
Questions?
Thank you!

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