Insight

The New Build Boost

Introduction & research summary

Media and industry commentators have rightly highlighted a price premium for new builds in the UK over the last 6-12 months. This research aims to build on existing studies, offering new insights on the popularity of new build homes and reviewing trends in house price data alongside other datasets that might offer new or more detailed explanations of current market dynamics.

As demonstrated by the data we explore, the correlation between cost of living, energy prices and new build house price growth is strong. We cannot yet factor in the impact of the April energy cap rise on house prices. We also expect another energy cap rise in October along with high inflation rates. Based on the impact of these factors to date, we would expect the gulf in pricing between new builds and existing properties to continue to grow. This serves as another clear rallying call to policy makers and industry to urgently build more homes to meet demand, better manage house price growth and create a sustainable housing market that is accessible and affordable for buyers and profitable for industry.

With the local elections occurring on May 5th, 2022, this research also considers the impact of housing supply on electoral outcomes, attempting to establish whether there is a correlation between housing supply and the success of incumbent local governments.

New build popularity boom

In this section we look at the popularity of new build properties vs older homes, charting price growth over the last 20 years.

Methodology

Our house price data comes the ONS House Price Index's New Build and Existing Resold Property dataset. At the time of writing, data was available until December 2021.

We also examine the ONS house price data set against ONS inflation data (CPI 12 month) and Ofgem data on energy price tariffs. In practice, average energy price tariffs correspond with the energy set by the energy cap, so we use tariffs and the energy cap as interchangeable terms throughout the research.

Key Findings

- Until June 2021, there was little difference between price growth of new builds and older properties. They tracked each other, or the highest growth rate shifted regularly between the two groups. That is not to say that new build prices didn't have a premium to older properties, just that their rate of price growth was very similar.
- The final quarter of 2021 saw a marked departure in the difference between growth in new builds and older properties with the growth rate between 10% and 14% higher for new builds compared to older homes in each of the three months of that quarter.
- While over the last 20 years, price growth for new builds has been 42% higher than for existing properties, the majority of that growth has come in the last 2-3 years.
- The two-year pandemic period – December 2019-December 2021 – saw 9% higher growth for new builds compared to older homes. The growth differential for each of the two-year periods preceding the pandemic never topped 2.5%. This evidences the impact of the pandemic on new build housing demand, with buyers seeking out modern comforts, technological compatibility, and to limit running costs and maintenance/repair issues. *(Chart 1)*
- The rise in new build prices broadly tracks inflation rates, which rose to 5% itself over the course of 2021, in part due to the pressures on housebuilder margins caused by rising costs through the supply chain. *(Chart 2)*
- An even more stark comparison is with energy bills which shot up by 12% in October 2021. At the same time, the difference between the price growth rate of new builds vs older homes rose from 1% to 10%, by far the largest monthly rise in two decades. Q4 2021 then saw the differential in growth rates between new build and older homes grow as high as 14% as more homeowners began to feel the impact of the energy price rise on household bills. *(Chart 3)*

- In October 2021, the energy price cap rose 12%, 3% more than the last increase of 9% in April 2021. During the period between the price cap increasing 12% and the next increase (April 2022) the rate of house price growth for new builds also increased by 3% average. This further indicates a close link between cost of energy and demand for new builds.
- We expect cost of living and energy prices to continue to boost demand for the higher typical energy efficiency of new builds and we will see the difference between the price of new builds and period properties continue to grow. This could become more pronounced when we see new build house price statistics for Q1 2022, and when the impact of the April energy cap rise, and the anticipated cap rise in October are factored into future house price updates.
- This highlights the urgent need to boost supply of new builds to meet demand and ensure price growth stability long term.
- It also highlights the need to increase our new build volumes as a means of replacing more and more of the UK's energy inefficient housing over the coming decades.

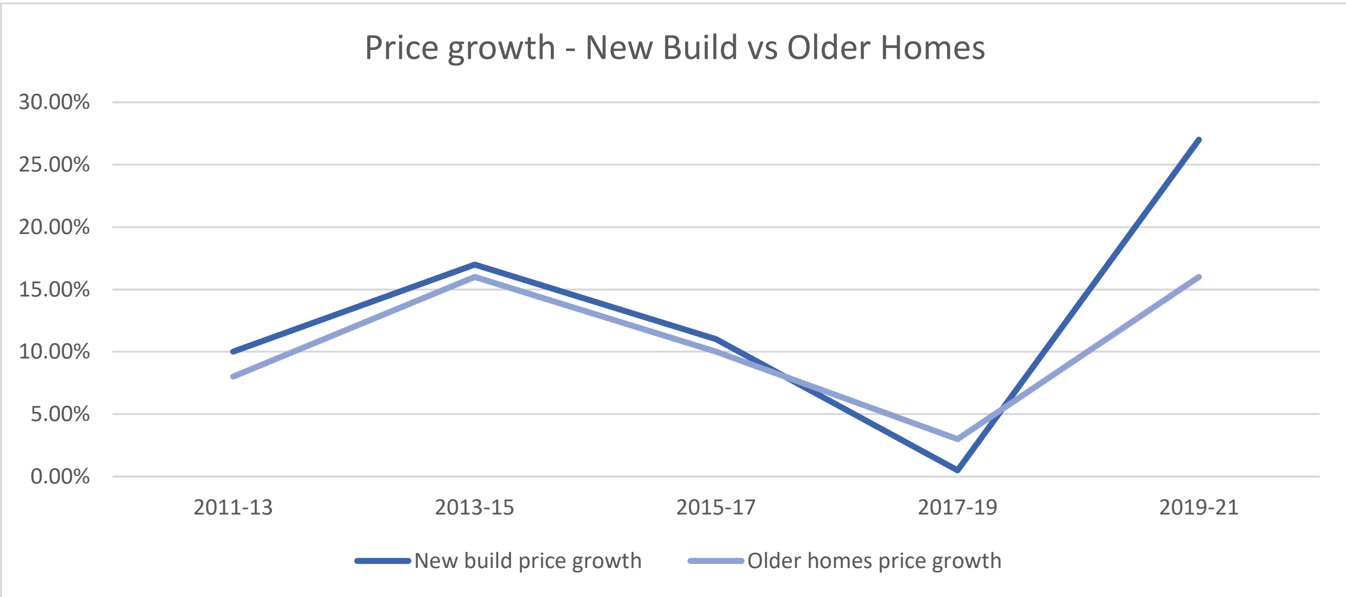

Chart 1: This graph highlights how price growth for new builds and older homes have broadly tracked each other for most of the last decade, until the two-year period 2019-2021 when new build price growth has started to notably outstrip growth in the price of period properties.

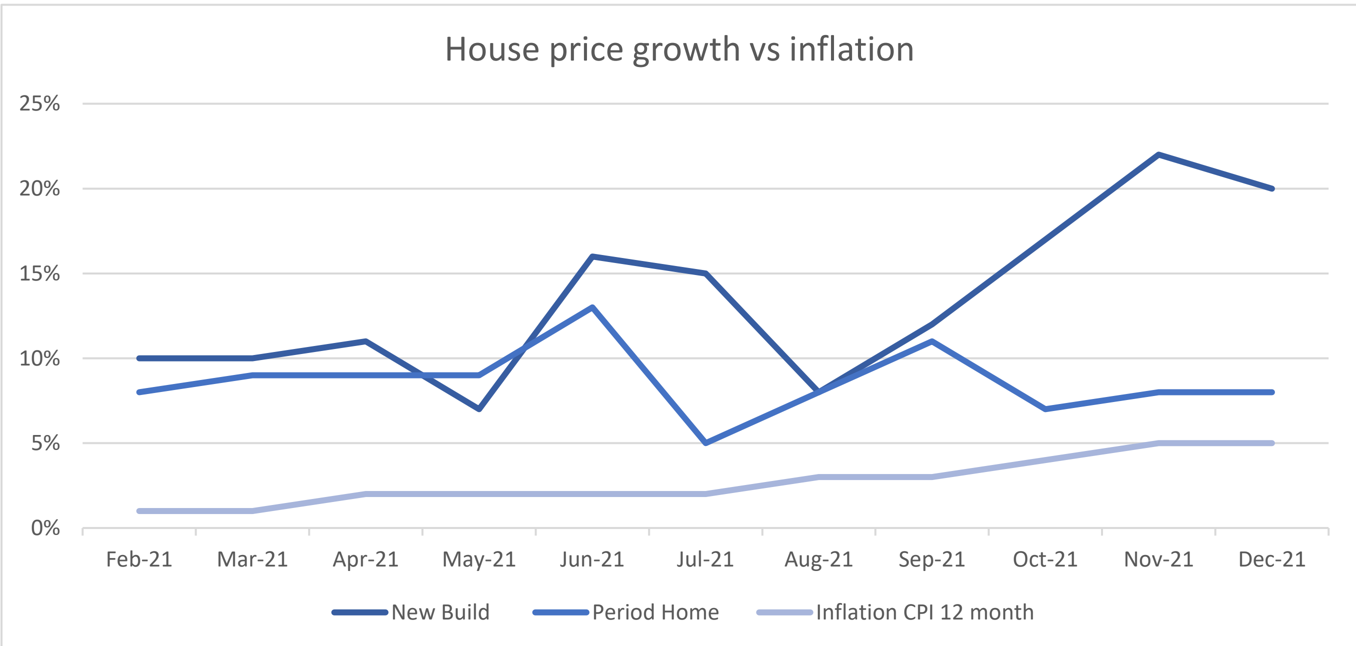

Chart 2: This chart shows the new build growth rate broadly tracking inflation rate rises, while the price of older homes has seen much smaller, more volatile growth levels.

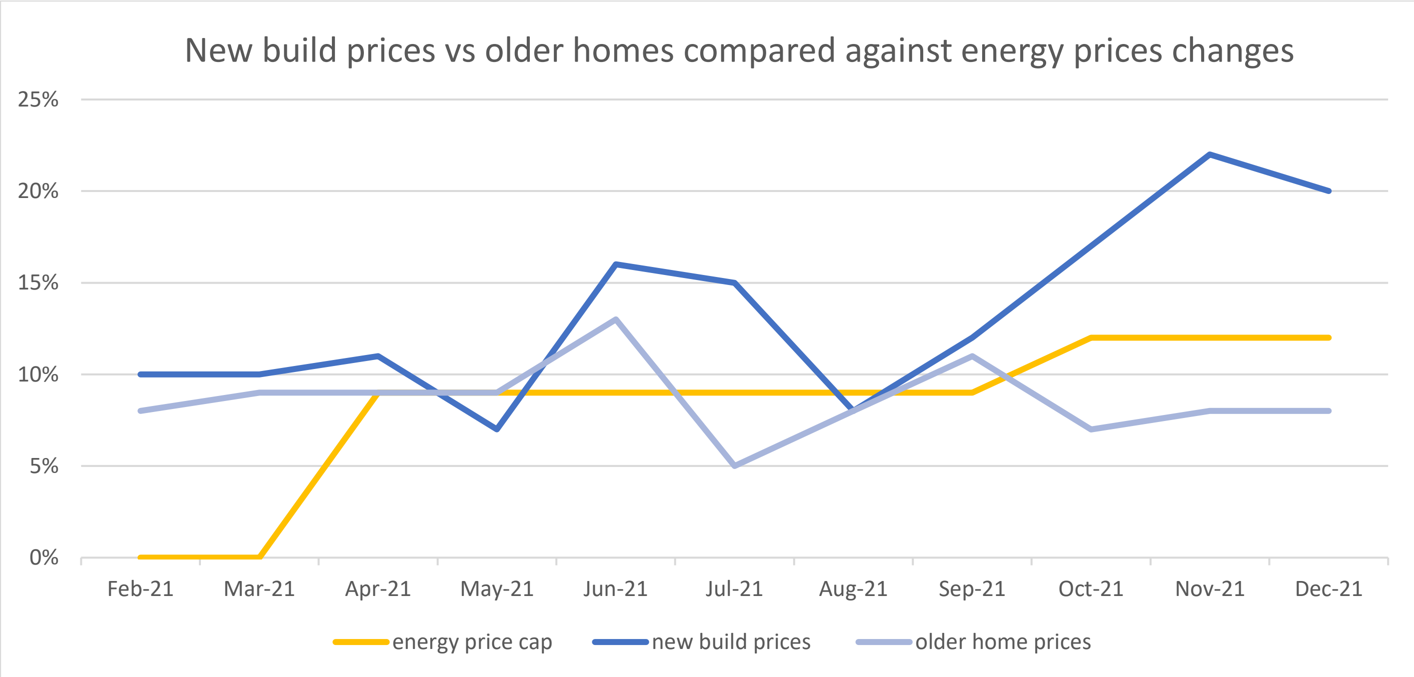

Chart 3: This chart shows the correlation between rises in the average price of energy and the average price of new build homes outstripping the price of older properties. Note the cap rise in October 2021 which corresponds to a large jump in new build prices while the price growth for older properties was much more muted. Similarly, a 9% increase in energy costs in April 2021 saw process shoot up in May and will have cumulatively impacted new build prices later in the year.

Analysis and Insight

Stuart Law, CEO Assetz Group

“Covid-19 really instigated the nation’s new build obsession as the realities of the pandemic and lockdown made homeowners increasingly value comfort, technology, cheap running costs and hassle-free maintenance - factors which all favour new homes. The shortage of older properties coming onto the market over recent years has also supported price rises introduced by house builders who initially took advantage of the huge difference between supply and demand. But, whilst we have seen significant changes in the new build vs older home growth rate for the best part of two years, the real difference in pricing kicked in in Q4 2021. The correlation with rising inflation, cost of living and, in particular, soaring energy bills is clear, with energy costs now becoming the main story behind the price trends. This research doesn’t yet take into consideration the energy cap rise in April 2022, and we believe that future statistics are only going to show a widening gulf between new properties and older homes, as homebuyers think long term about how their home can help them save on their costs, particularly energy bills. Buyers seem more and more willing to pay a new build premium to benefit from longer term savings that come from modern design, building, insultation and growing levels of energy saving technologies like air and ground source heat pumps instead of gas boilers.

“While previous decades have been defined by UK homeowners’ love of heritage, high ceilings, period features and the kerb appeal of imposing historic houses, the coming decades will be defined by a new generation of buyer looking for modern properties equipped with the latest technology that reduce energy and maintenance issues and improve comfort and quality of life. Indeed, with inflation still rising, we could be looking at updated data in the next few months that show older house prices losing money as the inflation rate goes up.

“In terms of other likely changes we will see shortly, it seems that the high cost of insulating homes to optimise the impact of air-source heat pumps is going to become one of the main stories of 2022/23. With costs of £15-100,000 to make a UK home well insulated, on top of the costs of replacing the old fossil-fuel heating systems, we are likely to see

increasing levels of mortgage retentions applied to non-energy efficient homes, putting older properties under even more downward price pressure as those retentions reduce the pool of buyers further. We expect older energy inefficient properties to be fundamentally rerated and see prices fall materially over the next couple of years, further exacerbating the differential between the cost of new builds compared with older homes.

"We believe this trend isn't going away, it's only going to become more defined. We need to boost our stock of new homes urgently to meet growing demand but also to help address climate change and energy cost inflation. The secondary issue is that, apart from not providing enough new homes to meet the growth in demand, we now have to start to replace a lot of older homes that will prove impossible to make energy efficient in an economic way, effectively doubling the challenge we face.

"Currently the housebuilding sector is held back by an overbearing planning system and economic challenges around cost of labour and materials, challenges that are hard to overcome because there is little to no interest from traditional lenders in providing flexible, bespoke finance solutions to the industry. This is especially the case for SMEs who don't have the balance sheets to manage significant upfront costs without support. That has led to SME housebuilders declining in number significantly over recent decades and we must solve this problem for our housing market to reach its full potential and satisfy the wave of demand for new builds that is only going to intensify."

Housing supply and local elections

This section of the report aims to explore whether there is a link between local government's ability to facilitate housebuilding and the electability of incumbent governments.

Methodology

To prepare this analysis we have looked at councils that changed hands in May local elections from 2010 to 2019. We then looked at the housing supply statistics for the two years preceding the election for each local authority in that list, comparing year on year to look for either growth or decline in housing completions, to understand whether incumbent local governments with declining housing supply were more or less likely to lose control of their council.

To provide a second metric, we also looked at the largest party nationally, in terms of total number of council seats held going into the election (this only looks at seats up for election in a specific year, not total number of seats overall). We considered all May elections from 2010 to 2019 noting whether the largest party (as defined) lost or gained council seats in that election overall (when all council results were considered nationwide). This was then cross referenced with housing completions nationally for the two years prior to each election to understand if the largest party before the election was more or less likely to gain or lose seats based on whether housing supply had increased or decreased.

This analysis doesn't aim to suggest housing supply was or is the sole deciding factor in elections. A multitude of issues impact voters' decisions at the ballot box. However, we did want to explore whether there was any correlation between the success of local political leaders in terms of housing delivery and their electoral prospects.

Our analysis focusses on English council elections (not including country councils). We chose not to include the 2021 elections in our analysis as the housing supply statistics in 2020 were dramatically impacted by the pandemic.

Key Findings

- In 70% (7 out of 10) of May local elections since 2010, a decline in housing supply overall nationally has corresponded with the largest party (as defined in the methodology) losing ground (in terms of seats held nationally) across the country, or vice versa – an increase in housing supply has corresponded with the largest party gaining council seats compared to its nearest electoral rival nationally.
- At a local level, 272 councils have changed hands during local elections in May since 2010, with voters demanding a change in administration at the ballot box. In the majority of these case, 146 (54%), housing supply had declined in the year preceding the vote.

Election	% increase or decrease in yoy housing completions	Result
May-19	4%	largest party loss
May-18	9%	largest party gain
May-17	5%	largest party loss
May-16	12%	largest party gain (on nearest rival)
May-15	11%	largest party gain
May-14	4%	largest party gain
May-13	-8%	largest party loss
May-12	9%	largest party loss
May-11	-9%	largest party loss (to nearest rival)
May-10	-16%	largest party loss

70%

(… of local elections since 2010 saw the largest party gain seats if housing supply had increased, or lose seats if housing supply had decreased)

Table 1: Highlighted rows show elections since 2010 where there has been a positive relationship between the success or failure of the largest party going into the election and housing supply trends.

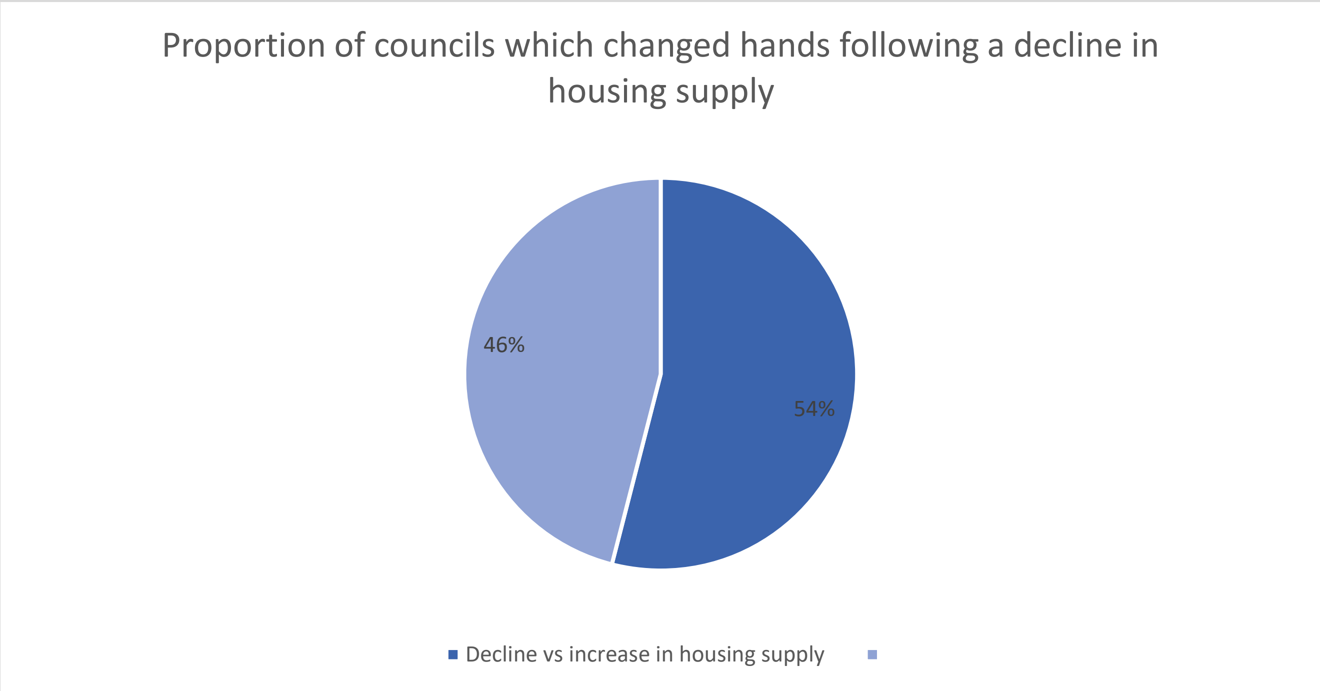

Chart 4: The proportion of council's where the incumbent has lost control, and housing completions have dropped in the preceding year.

Analysis and Insight

Stuart Law, CEO Assetz Group

"Clearly, it's too simplistic to claim a direct correlation between housing supply indicators and electoral success or that that housing supply is the primary issue determining election results in all cases. Yet what this data does do is suggest that, more often than not, electoral success will correspond with an incumbent local government's record on housing delivery. Housing is clearly a critical issue that politicians need to be addressing on the doorstep.

"The other thing that's interesting from the data is that it doesn't go the other way. There isn't a correlation between low supply numbers and electoral success as you might predict based on the common perception of local political discourse grounded in nimbyism. Perhaps the data tells us that we have seen an end of an era of nimbyism, with more communities wanting their leaders to champion development rather than seek ways to restrict it? Perhaps the rise in stated importance of young voters to the success of political parties in elections also brings with it an increasing bias towards people wanting new homes to be built, not preventing them being built and the parties will need to react to that new reality to attract enough votes.

"It is heartening that the indicators we've looked at suggest that communities generally tend to hold political leaders to account over their record on housing delivery. This is further evidences that the majority of people feel the impact of our inability to meet housing demand on some level, and therefore want their communities, businesses and policy makers to galvanise and deliver housing growth strategies that ensure a strong supply of quality, affordable homes for future generations."

Conclusion

Stuart Law, CEO Assetz Group

"The idea that the price of new build homes is rising faster than older properties is not a new concept. However, this report does evidence how clear the differential is while also demonstrating an incredibly clear correlation with the rising costs of living and energy bills. Of course, there are other factors at play like land costs, the planning system, and ongoing issues with labour and materials, all of which impact housing supply, drive up build costs, and necessitate price

growth. But, in this study we can clearly see how closely recent energy price surges and inflation more generally are linked to demand for new build homes and their associated lower running costs. As people anticipate a further big rise in the energy cap later this year along with continued rises in the cost of food, clothing and other essential items, we would expect the gap between price growth of older homes and new builds to continue to grow. Indeed, we expect to see prices of older homes begin to lose money in real terms later in 2022 against a backdrop of strong inflation elsewhere. We may even begin to see some people stuck with a depreciating asset in the form of an older, energy inefficient home with unaffordable upgrade costs and a mortgage market that won't particularly support a new buyer through down-valuations and mortgage retentions.

"This research demonstrates again how critical it is that we create conditions that allow us to build more homes, and more energy efficient ones at that. Demand is vastly outstripping supply, driving up pricing and, while rising interest rates may take some heat out of the market, post-pandemic lifestyle drivers and a desire to curb living costs, and indeed climate change, through energy efficiency will vastly outweigh any other market dynamics. While people are willing and able to pay the price now, price growth can't go on at this pace forever before many more people find they are locked out of the new build market. That creates a dangerous cliff edge that we want to avoid.

"A sustainable housing market which doesn't sway wildly between boom and bust cycles should be the goal of all businesses and policy makers. Achieving this is simple. Build more homes. To do that, we need to take a radical approach to planning to promote growth and reduce regulation. We also need to stimulate and mobilise the SME sector, which historically has been a lynchpin for housing delivery, but has declined in recent decades after a series of banking crises and recessions. As well as creating the right policy framework for growth, we also need innovative approaches to finance and that means using all the tools available to us, from public sector money to private capital from retail and institutional investors.

"We are committed to supporting the UK's housebuilding industry through alternative finance solutions that unlock development and allow developers to negotiate turbulent economic conditions. To do that we will increase our lending available to SMEs to £1bn this year and £1.5bn by 2023. Ultimately, Assetz is aiming to fund a quarter of all new build homes produced by SMEs. We believe providing this at-scale financial support is absolutely vital to meet the huge demand for new homes and balance supply and demand to create a market that is more accessible, more affordable and more sustainable for all."

Sources and Datasets

House price data

ONS House Price Index – New Build vs existing resold properties dataset https://www.gov.uk/government/statistical-data-sets/uk-house-price-index-data-downloads-february-2022#download-the-data

Energy price data

Ofgem retail market indicators - https://www.ofgem.gov.uk/retail-market-indicators

Inflation rates

ONS CPI - https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23