14/2016 Brexit – the Housing Implications

27/04/16

Key Points

- In the days immediately following the EU referendum there were significant falls in the value of sterling and in the share prices of the major British housebuilders; both have since recovered although not to their pre-referendum levels.
- There is some evidence of a slowing in house price increases, however, this trend was already in evidence before the referendum, and may have other causes, in particular the increases in stamp duty affecting buy-to-let purchases and second homes. It is too soon to tell whether prices will fall or simply level out.
- It is too soon to judge the impact of the Brexit decision on investment decisions by housebuilders. While it may not lead to a reduction in new housing starts, however, achievement of the Government's million homes ambition would require a 50% increase in new starts which now looks unlikely to be delivered by the private sector without a new stimulus from Government.
- ARCH has written to Gavin Barwell, the new Housing Minister, arguing that the Government should take early action to boost public investment in housing and rebalance priorities away from an almost-exclusive focus on homes for sale to a more balanced mix of homes for sale, shared ownership, market and social rent, and offering councils' help in delivering this.

Background

In the run-up to the EU referendum, Remain campaigners claimed, based on Treasury analysis, that house prices would fall by at least 10% and up to 18% over the next two years in the event of a vote for Brexit, among other damaging impacts on the UK economy and businesses. This briefing considers whether the impact so far measures up to these predictions.

Immediate impact

The morning after the referendum sterling fell by 11% against the Euro and the price of shares in the major housebuilders, including Barratt, Berkeley Homes, Persimmon and Taylor Wimpey fell by up to a third. Further falls continued in the next few days and on 27 June trading in construction shares was suspended for five minutes to restore calm. Subsequent weeks have seen a partial bounce-back. At its lowest, the pound was worth 1.15 euros, but has now recovered to 1.18 euros and is forecast to reach 1.20 towards the end of the year. This would still be well below its May level of 1.32 euros. Housebuilders' share prices have also recovered to some extent, but current prices remain between 70 and 90 per cent of their pre-referendum levels.

House Purchases and House Prices

It is too soon to tell whether Treasury predictions of house price falls will come true. The ONS index of UK house prices shows that the annual rate of increase in house prices slowed from 9.7% in June to 8.1% in July. In England prices rose by 0.5% between June and July, again showing a slowing in the rate of house price increases rather than an absolute fall. However, these data reflect the completion of purchases where in the great majority of cases a sale price would have been agreed before the referendum. Seasonally adjusted HMRC data show that the number of purchases in July was 0.9% less than in June, and 8% lower than a year previously. This may have been because buyers and sellers chose to defer until the referendum result was known. However, it is equally plausible that the fall was caused by the stamp duty changes introduced from 1 April which have deterred buy-to-let purchases.

Impact on housing investment

Several major housebuilders have shown strong financial results for the last year and remain bullish about future investment. However, the business model on which these assessments are based envisages housebuilding activity continuing at more or less current levels. Housebuilding starts in the year to June 2016 totalled 144,280 – hardly different from the previous year. Achieving the Government's ambition of a million homes by 2020 would mean increasing annual output by at least 50%. Market conditions are not at all conducive to an increase in private investment on this scale. Arguably there are three problems:

- there is insufficient demand for new homes for sale at current or expected future price levels, but a substantial unmet demand for affordable rented housing;
- the housebuilding industry lacks the capacity to expand production; there are too few housebuilders alongside labour and material shortages;
- the market is dominated by large housebuilders whose business model includes no incentive for a large expansion of output.

ARCH has written to the new Housing Minister, Gavin Barwell, urging the Government to stick to its ambition of a million new homes by 2020, but to recognise that this will not be achieved without a significant increase in public investment, including council investment, together with a refocusing of Government policy away from an almost exclusive emphasis on homes for sale to a more balanced mix including shared ownership and homes for market and social rent. A meeting to discuss our proposals has been arranged for 12 October.