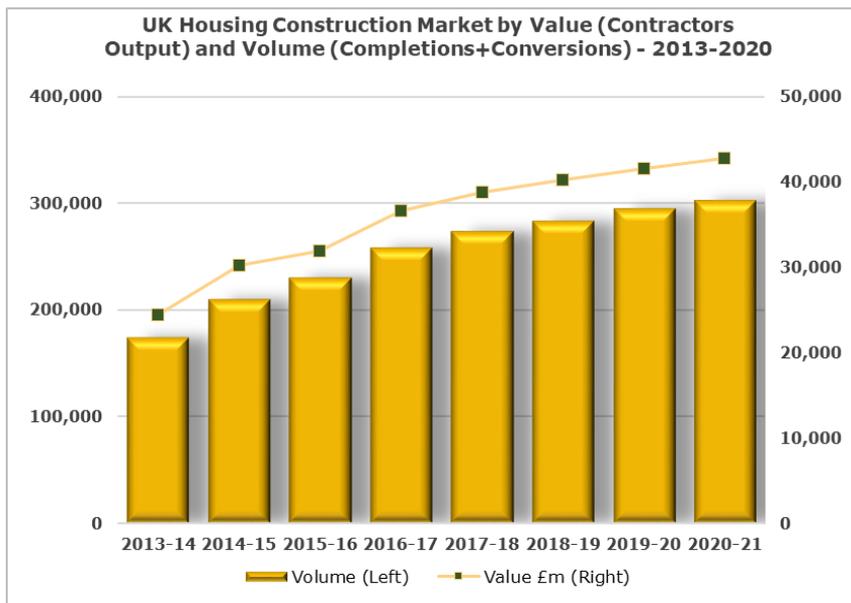




Build to Rent forecast to become a key growth area in the UK housebuilding market

August 2018 – Cheltenham, UK



Including residential conversions, there were around 258,000 new dwellings delivered across the UK in 2016/17, up by 13% on the previous year. For 2017/18, it is estimated the rate of growth has been similar, with 280,000 new homes being added. Average selling prices have also been increasing year on year over the same period, contributing towards strong growth in total housebuilding contractors output, which nearly doubled between 2011/12 and 2017/18, though forecast growth to 2021 is more modest.

Source: Source: MHCLG - components of housing supply; net additional dwellings, England; Scottish Government housing statistics; Welsh Government housing statistics, Northern Ireland housing statistics

Volume growth has largely been driven by increasing activity levels in the private housing sector, underpinned by a combination of low interest rates, competitive mortgage deals and especially the *Help to Buy* equity loan scheme.

The key reason for this strong growth in value has been a marked shift away from 1-3 bedroom flats towards higher value 4+ bedroom detached and semi-detached homes, particularly across London, the South East and East of England. London has also been where demand for flats /apartments has also remained strongest. As with commercial properties, the luxury apartment sector has been a key area of investment for overseas investors, though following the EU Referendum result, confidence among foreign investors in the UK has been wavering.

However, most other regions of the UK have also been affected by price increases, albeit to a lesser degree. While interest rates remain on the lower side, mortgage deals are likely to remain competitive although interest rate rises could easily reverse growth in the market. Affordability will therefore continue to be a key factor in sustaining demand, with the extension of *Help to Buy* equity loans in England through to 2021 expected to underpin demand for private sector new housing.

In contrast to the private housing sector, public sector housing completions have remained below Government targets, despite significant growth in demand for affordable homes. The main reason for this has been cuts to public sector funding, with the amounts available to housing associations and local authorities having resulted in falling investment in social housing schemes. However, with more housing associations now diversifying into affordable homes construction, there should be more of a balance between demand and supply over the longer term.

"What has been critical to growth in net additions to the UK's housing stock has been sharp growth in the numbers of conversions, which has been driven by government's granting of permitted development rights for the conversion of empty offices into dwellings. Although there will inevitably soon be a shortage of empty offices suitable for conversion, we expect there to be a shift towards conversions of vacant High Street facilities" said Keith Taylor, Director of AMA Research. *"There has also been a recent relaxation of permitted rights concerning barns and stable conversions, which should contribute towards growth in the total number of conversions over the next few years"*.

Taking these factors into consideration, we would expect the combination of completions and conversions to drive further growth in total completions and market values, to over 300,000 and over £42bn by 2021. Market prospects beyond 2019 will largely depend on levels of confidence among both consumers and business within the context of 'Brexit', the uncertainty of which leads to some degree of procrastination on the part of investors at this stage.

Purpose-built private rented housing (Build To Rent) is forecast to become one of the key areas of growth within the housebuilding industry. As well as attracting some of the larger housing associations an increasing number of larger private housebuilding groups are also diversifying into this sector, usually in partnership with private investors. To achieve desired rates of return, the focus of their investment is on large-scale apartment developments - in key parts of London, the West Midlands and the North West - which offer economies of scale. As with PBSA, this is mainly being achieved through the increased specification of prefabricated building components and even full offsite building systems such as volumetric modular construction.

The '[Housebuilding Market Report – UK 2018-2022 Analysis](#)' report is available now and can be ordered online at www.amaresearch.co.uk or by calling 01242 235724.

Editors Note:

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