**Director’s Management Team Meeting**

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| **Date of meeting**: | 13 September 2024 |
| **Title of paper:** | Possible scenarios of housing supply in London |
| **To be presented by**: | Gábor Csontos, Senior Analyst |
| **Cleared by:** | Kate Webb, Head of Housing Strategy |

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| Is this paper commercially sensitive or to be deemed confidential? (Delete as applicable) |  | **No** |

# Executive Summary

* 1. Lorem ipsum

# Recommendations

* 1. that DMT comment on the scenarios outlined and the assessment mad
  2. that DMT consider the implications for the directorate's work
  3. that we consider to monitor and report back to DMT - perhaps in six months

# Introduction and background

* 1. This is a very important moment for understanding possible future scenarios of London housing supply for several reasons. **First**, the new Government has announced a range of reforms affecting the housing delivery pipeline.[1] Chiefly, local authorities will have to conform to mandatory housing targets calculated with a new methodology. Under the new target, London will have to deliver over 80,000 new homes a year.[2] **Second,** housing delivery has faced several setbacks in recent years, falling to historic lows in both the public and private sectors. This is amidst a growing housing affordability and homelessness crisis in London.[3]
  2. As our main approach to understand the future of housing supply, we developed three scenarios, which cover the plausible best-case, worst-case and business-as-usual pathways of housing delivery. The three scenarios are described in both qualitative and quantitative terms, focusing on **advance indicators** – factors that would reveal which scenario we find ourselves in before completions on ground.
  3. **Qualitatively,** we looked at the key contingencies in the present situation. What are the factors that contribute to the current state of delivery, and how might they change in the different scenarios? We identified economic and policy factors.
  4. **Quantitatively,** we built a simple transmission model with real-world data on the state of the housing pipeline. This allowed us to make some uncertain but quantifiable predictions about future states of the pipeline given certain outcomes. E.g., for a given number of completions at a given future time, our model estimates when these would need to show up as planning applications, approvals and starts. (See [Appendix – Detailed methodology])
  5. For the general approach and methodology we relied on a range of similar work, including the [Macroeconomic scenarios research], [Savill’s research] and [the JRF stagnation research – tidy up references later]. The Macroeconomic scenarios research is similar in outlining three plausible scenarios for London’s future economic trajectory at a crucial moment. We take from it the general design and presentation of the research. Savill’s research directly addresses the potential future of supply, but doesn’t really offer a range of scenarios. The JRF research specifically addresses the question of stagnation, and lays emphasis on the ways policy can be the key contingent factor in the future. (More on this later.)
  6. The system of housing supply is highly complex, so we had to make a range of assumptions to specify the scope of this research. We proceeded first from the present, by identifying the key factors that affect housing supply in the present. We divided these into **economic, policy** and **long-standing** factors. Based on an understanding of their effects, we could describe the three scenarios as outcomes of various arrangements of these factors.
  7. Approach: modelling outcomes. (Link to Appendix for more detail.)
  8. Approach: assumption behind models and limitations. (Link to Limitations section for more detail.)

# Key factors of supply

Economic factors

* 1. **Macroeconomy.** Most homebuyers rely on mortgages to afford a house. The amount they can borrow therefore has a direct effect on house prices and effective demand, and thereby supply by private sector developers. Borrowing power in turn is determined by the general level of interest rates, largely dependent on the headline interest rate set by the Bank of England.
  2. **Inflation.** Interest rates were raised since the Coronavirus pandemic to curb inflation. According to the Bank of England, inflation was caused by economic conditions after the pandemic (large levels of spending from pandemic savings and a strong labour market) and the impacts of the war in Ukraine (especially on energy prices, but this has a knock-on effect on the rest of the economy.) As of August 2024 year-on-year inflation is down to the 2% target. But the Bank of England warns that “ there is a risk that inflationary pressures from second-round effects will prove more enduring in the medium term. A stronger-than-expected path for demand, and structural factors such as a higher equilibrium rate of unemployment, could affect domestic wage and price-setting more persistently.”
  3. **Interest rates.** With falling inflation, the Bank of England cut interest rates for the first time since 2020 [double check]. The BoE is reluctant to influence future expectations, but both markets and analysts expect interest rates to be lowered from their recent highs. The IMF suggests rates should be cut to 3.5%. However, this might not happen if the BoE judges that inflationary pressures are still present.
  4. Economic growth
  5. Housing effective demand
  6. Construction costs
  7. Labour costs and supply

Policy factors

* 1. Planning
  2. Planning system performance
  3. Building regulations
  4. Second staircases
  5. Affordable housing
  6. Policy levers
  7. Economic effects
  8. Long-standing issues

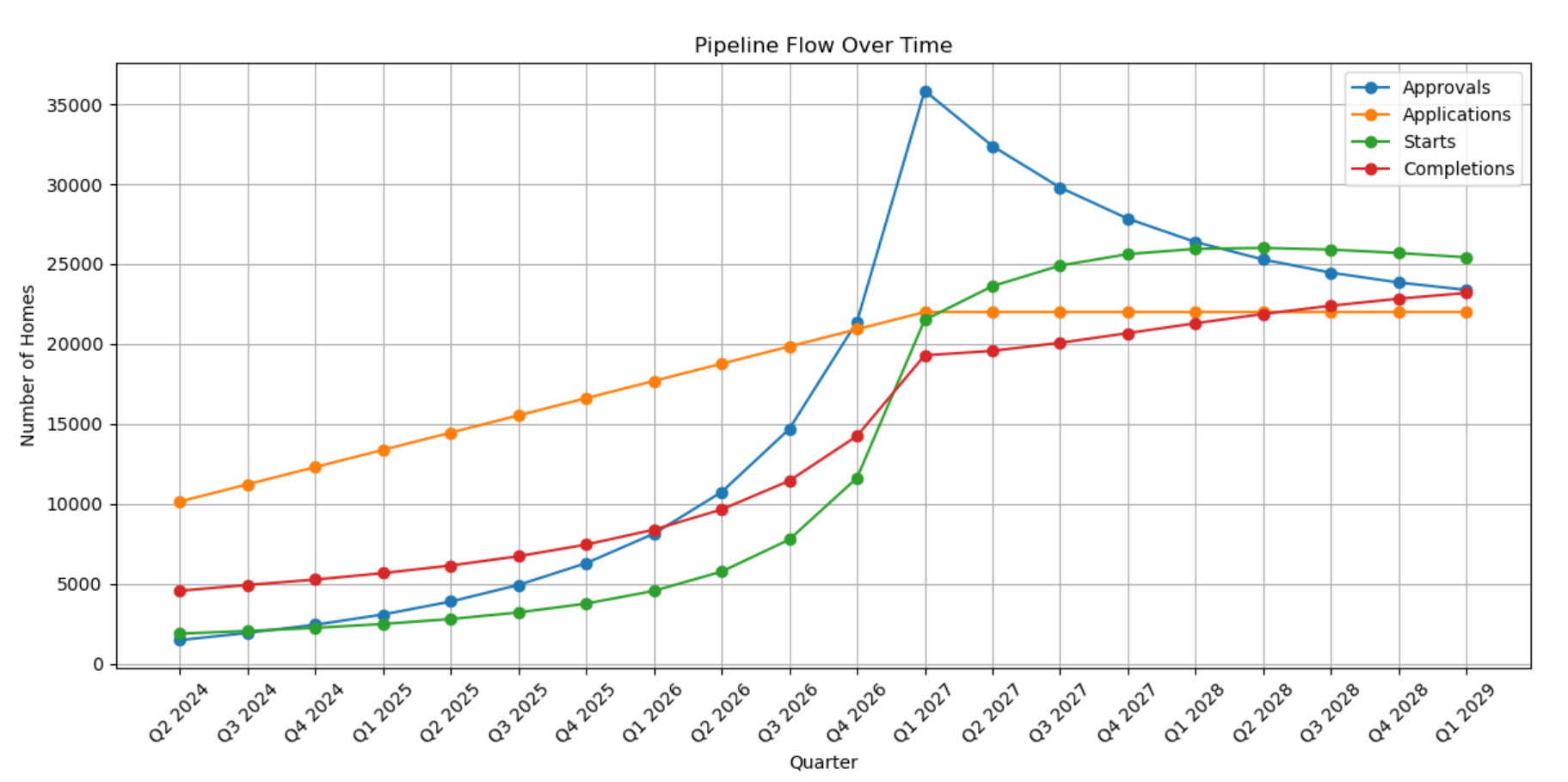
# Quantitative factors and data sources

* 1. Planning applications
  2. Time in planning
  3. Planning approvals
  4. Time between approvals and starts
  5. New starts
  6. Time to completions
  7. Completions

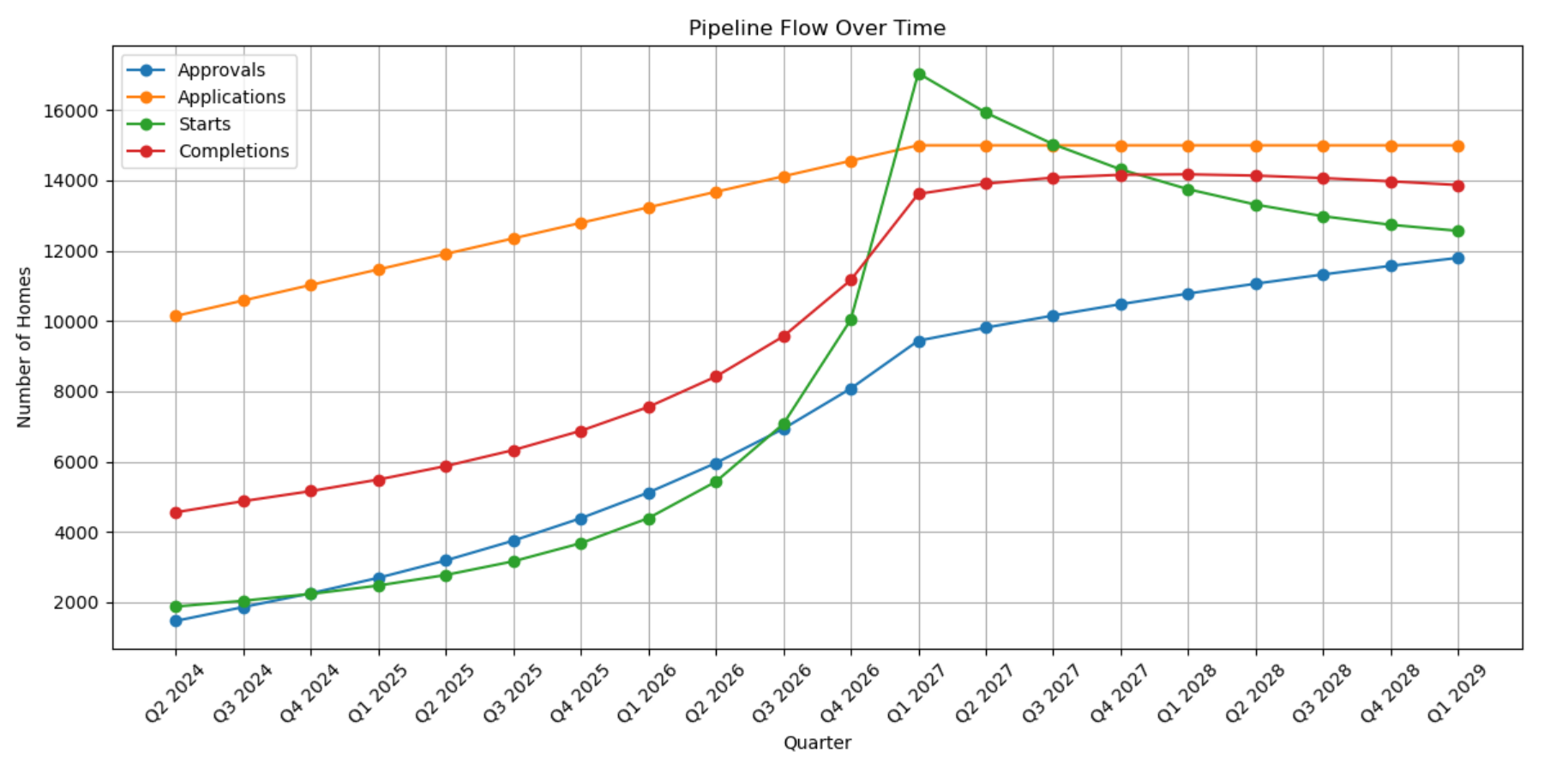
# Three scenarios

* 1. In each scenario, we start from the present situation and model reaching a certain different state by a certain point in time. This is to represent a transitional period while policies and market developments slowly roll out.

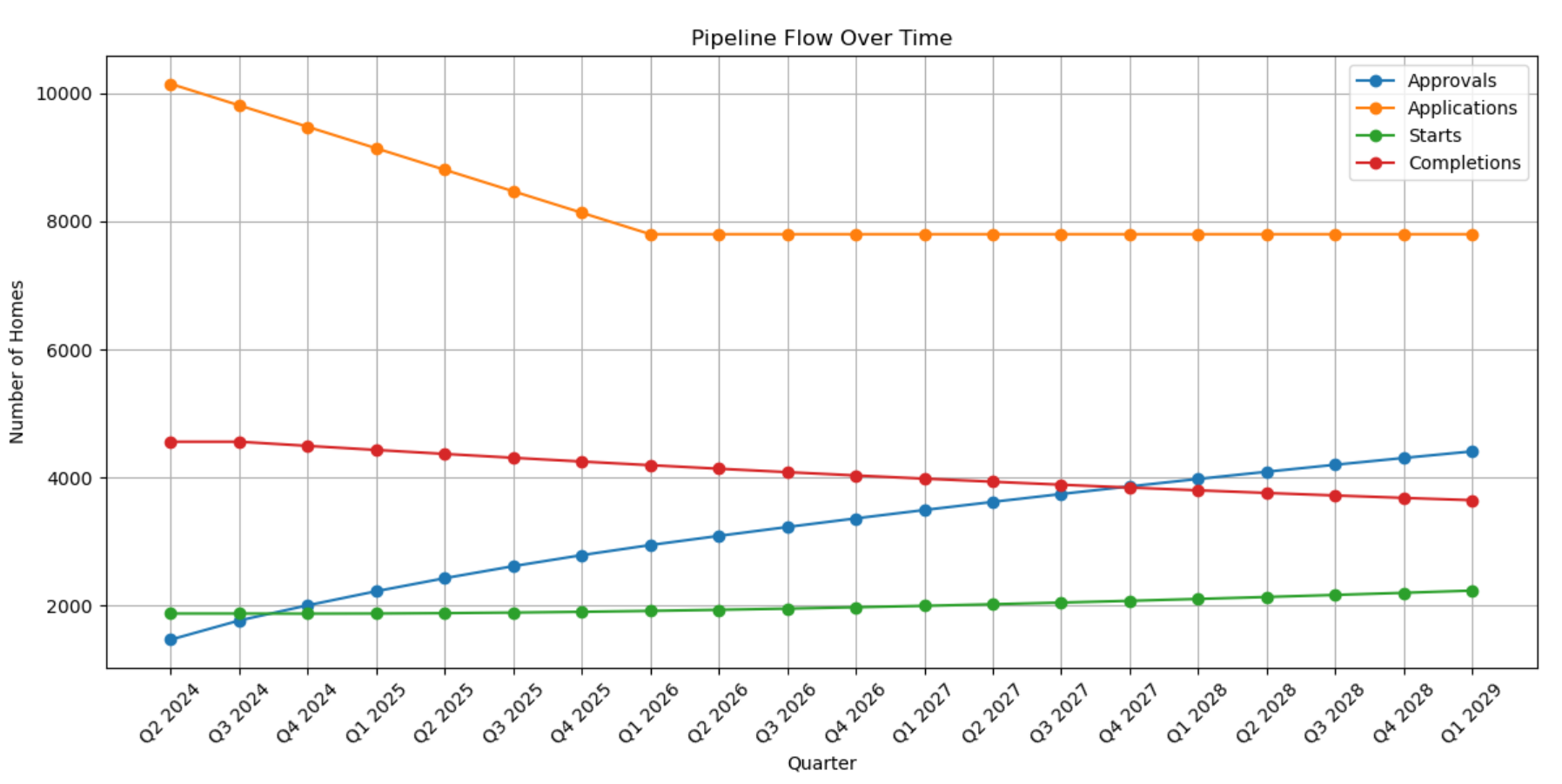
Scenario 1 – Successful government policy and favourable market conditions



Scenario 2 – Business as usual (reversal to the means of the 5 pre-pandemic years)



Scenario 3 – Unsuccessful policy and recession



# Issues and limitations

* 1. Summary
  2. Limitations of scenario design
  3. Limitations of quantitative modelling of lead indicators

# Next steps

* 1. Fine-tuning the model parameters
  2. Research into better quantitative description of the housing pipeline
  3. Understanding the GLA’s role and policy levers

# ****Appendix 1 – Description of the flow model****