The New Housing Paradigm

Residential forecasts – **Northern England**

UK Residential Research | *February 2018*

The New Housing

Contents

A range of factors are colluding to deliver more moderate UK house price growth over the next five to ten years. However, and despite the intrusion of Brexit, we believe this transition will provide a more stable and healthy UK housing market. This new housing paradigm should be embraced and welcomed.

It is good for government, the economy, buyers, sellers and industry participants. But it also will take some getting used-to. House price growth averaging 2½% pa for the next five years will not excite investors or homeowners, but will lay the foundations for a less volatile UK housing market in the medium-term.

Main regional city centres across the UK are expected to outperform with higher sales price and rental growth as the rise of city centre living continues.

All the main cities in Northern England – Manchester, Liverpool and Leeds, have seen resurgent sales and rental markets in recent years.

City living has gained strong momentum in Manchester, Liverpool and Leeds over the past three years and, together with a active student market, has pushed demand in both the sales and lettings markets notably higher. And with housing supply in these city centres severely constrained, prices and rents have soared.

Despite these strong increases we still anticipate further upward pressure over the next five years. Growth rates may not be as strong as the past three years but uplifts of 3-4% pa are both significant and higher than UK averages.

We are also looking forward to more development coming forward over the next five years following several years of underactivity, albeit that they will proceed with some caution given UK economic and political uncertainty.

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Paradigm

Economic backdrop

Brexit uncertainty
The outlook for the UK economy is clearly dependent on what happens with Brexit. In some respects, the range of economic scenarios and forecasts are relatively robust. There are very pessimistic and very optimistic scenarios but most produce a steady, stable and unspectacular economic growth profile.

Despite this uncertainty, and unless the terms of leaving look less favourable than most predictions, the general trends and levels of economic forecasts should only deviate slightly from our base forecasts.

The base forecasts, derived from Oxford Economics, assume a reasonably hard Brexit with immigration controls and no membership of the single market. A three year transition arrangement is expected, similar to what we currently have in place, with a free-trade agreement thereafter.

Population growth to ease
Within the base forecast assumptions, UK population growth is expected to slow from an average addition of 477,000 people per year during the ten years 2008-2017 to 333,000 per year by 2022, before falling marginally below 300,000 per year by 2027.

So, a slowdown in population growth is assumed, with a slowdown in net inward migration already underway since the EU referendum. Nevertheless the UK's population is still set to grow strongly over the next decade.

Economic growth steady
The outlook for UK economic growth within this scenario is steady and unspectacular but reassuringly robust. In 2018 and 2019 GVA growth is an under-par 1.6% and 1.7% pa but improves to 2.1-2.2% pa in 2020-2022.

Employment growth is predicted to stall over the next two years but is set to return to the recent trend level of 0.8% pa from 2020. The unemployment rate is forecast to fall further from current levels towards 4% by 2022.

Earnings growth is anticipated to be more subdued over the next two years before bouncing back above the long-term average. Wage growth of circa 3% pa will be replaced by a growth rate of closer to 4% pa during the 2020-2022 period.

Fiscal policy
UK inflation is presently running well above the government's target of 2% pa but is forecast to moderate to below this in the five years to 2022. Importantly, the containment of inflation will be achieved through only a marginal increase in the bank rate.

We expect the bank rate to rise from its current low of 0.25% to 2.25% by 2022 via small and steady incremental rises. This should imply that some real wage growth will come through over the forecast period, particularly in the later years.

The pound's exchange rate with both the US$ and the € are expected to strengthen over the next five years. By 2022 sterling is forecast to be at 1.42 to the US$ and 1.15 to the €.

Forecast risks on the upside
So, the UK economic outlook is reasonably steady but below trend GDP growth for the next two years followed by robust but unspectacular expansion during a three year transition period.

While there are more pessimistic scenarios, we believe that the balance of risk to these base forecasts is on the upside.

These more optimistic variations could transpire through a variety of routes. The government could be less stringent with regard to its austerity programme, as it has already yielded over the public sector pay cap. Inflation pressures may prove less severe, meaning a lower bank rate for longer over the forecast period.

Brexit rhetoric and business expansion in particular could conceivably be brighter than in our base case, leading to stronger economic growth that could feed through to a more optimistic and active consumer.

UK economic forecasts	2018	2019	2020	2021	2022	2018 - 22
GVA growth (% pa)	1.6	1.7	2.2	2.2	2.1	1.9
CPI inflation (% pa)	1.5	1.7	1.9	1.8	1.9	1.8
Bank rate (%)	0.5	0.75	1.25	1.75	2.25	1.30
Exchange rate (£ / $)	1.38	1.39	1.40	1.41	1.42	1.40
Unemployment rate (%)	4.2	4.1	4.0	4.0	4.0	4.1
Earnings growth (% pa)	3.2	3.4	4.0	4.2	4.1	3.8

Source: JLL, Oxford Economics

Northern England economic forecasts

The Northern England economy is set to slightly underperform the UK economy over the next five years.

Economic output (GVA) is predicted to increase by 1.3% in 2018 and to expand by an average rate of 1.7% pa during the 2018-2022 period, marginally below the 2.0% pa UK average.

Both consumer expenditure and personal disposable income growth across Northern England are also forecast to grow slightly below the UK at an average of 1.4% pa over the next five years. Employment growth is set to be 0.3% pa during this period, marginally below the UK average.

Population growth is anticipated to be 0.3% pa in Northern England, around half the growth rate of the UK over the next five years.

City forecasts

Continuing the recent trend of increasing urbanisation and city living, most major cities are expected to experience stronger economic growth than both their regional and national averages over the next five years.

Broadly speaking, Manchester is set to be the shining beacon of Northern England with Leeds not far behind while Liverpool is forecast to outperform Northern England but underperform the UK. The Manchester economy (GVA) is forecast to expand by an average 2.7% pa, well above regional and national averages, Leeds is predicted to expand by 2.0% pa and Liverpool 1.8% pa, all above the 1.7% pa Northern England average.

Employment growth is also forecast to be much stronger, especially in Manchester. Manchester is expected to witness employment growth averaging 1.3% pa during 2018-2022, four times the regional average, while Liverpool and Leeds are forecast to see five year average growth rates of 0.4% and 0.6% pa respectively, marginally above the regional average.

2.7% pa
Manchester
GVA growth
2018-2022

1.3% pa
Manchester
Employment growth
2018-2022

2.0% pa
Leeds
GVA growth
2018-2022

0.6% pa
Leeds
Employment growth
2018-2022

1.7% pa
Liverpool
GVA growth
2018-2022

0.4% pa
Liverpool
Employment growth
2018-2022

Northern England housing market forecasts

Northern England

The housing market in the North West has outperformed the wider UK market in the period since the EU Referendum.

The average house price in the North West was £159,000 as at Q3 2017, having increased by 7.3% since the Brexit vote in June 2016. Over the same period house prices across the UK increased by 6.2% to an average of £226,000.

However, the story is slightly different for Yorkshire & The Humber where prices grew by 4.8% since the EU Referendum to £156,000 in Q3 2017.

In the 10 years to Q3 2017 house prices in the North West and Yorkshire & The Humber increased by 5.5% and 4.0% respectively, compared with 19.3% UK-wide average growth over the same period.

This highlights how Northern England has taken longer to fully recover from the effects of the Global Financial Crisis in 2008/09, compared with other regional markets that have helped the UK average as a whole recover more strongly.

Looking forward, the prospects for the North West and Yorkshire & The Humber housing markets are good.

Average prices are still relatively affordable compared with the national average and London and the South East in particular. Meanwhile Northern England is experiencing strong economic growth, particularly in its major cities, which are attracting and retaining high volumes of relatively affluent young professionals.

Over the next five years JLL expects average house price growth of 3.1% pa in the North West and 2.7% pa in Yorkshire & The Humber, both above the average expected for the UK of 2.4 pa%.

Manchester

The past 12 months have further cemented Manchester's position as the most attractive city centre residential investment market in the UK.

Despite national and global headwinds, Manchester's momentum has continued unabated.

The rapid growth of the city centre population has seen the emergence of distinct submarkets including a prime market around St John's Deansgate, which saw sales regularly exceed £500 psf in 2017.

Meanwhile, Grainger's purchase of the 192 unit Tribe Apartments portfolio from Cabot Square Capital for £26m in November 2017 will act as a bellwether for UK appetite for stabilised BTR assets.

On top of this there has been continued investment in boundary-pushing private sale and BTR developments with more than 30 schemes under construction equating to circa 9,000 units to be delivered over the next few years.

Pricing of new build residential property has risen from an average of circa £250 psf to £330 psf over the past 3 years. This escalation has been driven by the lack of new development, the rise of city centre living and the population increase, including the ever-growing student cohort.

During 2017 alone an average two bedroom city centre apartment increased from £230,000 to £250,000.

Manchester is now firmly established as the second most important economic hub in the UK. That point is illustrated by Manchester's graduate retention rate – an important indicator in preventing a 'brain drain' of the city's graduate talent leaving to work in other markets. Around 50% of Manchester's graduates stay in the city for work, a rate second only to London in the UK.

This ongoing success story has led JLL to once again rate Manchester as its number one prospect for residential price growth over the next 5 years with average growth of 4.2% pa compared with 2.4% pa across the UK.

Leeds

The Build to Rent market in Leeds is one of the most active across all of the UK's city centres. Demand is being fuelled not only by young professionals but a wider spectrum of renters including more affluent students.

Private rental properties account for around 75% of the circa 10,000 city centre residential properties in Leeds. Although this PRS stock is almost entirely owned by buy-to-let landlords.

However, there are now 3,500 BTR rent units and a further 2,000 private sale units in the short-term development pipeline, which once complete will see the city centre residential footprint significantly increase.

Just under 1,000 BTR units are under construction in Dandara's 744 unit Sweet Street West and Grainger's 242 unit scheme on the site of the former Yorkshire Post headquarters. The SOYO regeneration scheme, which includes 515 BTR units, is expected to start on site this spring.

Crucially the new BTR supply coming to the market will satisfy the premium tier of rental demand that is currently completely underserved.

While rents remained flat in 2017, JLL expects average rental value growth of 3.5% pa over the next 5 years. This forecast makes Leeds our standout market to watch for rental growth between 2018 and 2022.

Meanwhile, the average price of a two bedroom flat in Leeds increased by 2.8% in 2017 to £185,000.

But JLL expects stronger price growth in Leeds over the next five years, at an average of 3.7% pa - second only to Manchester in terms of growth expectations.

There is a strong appetite for high quality owner occupier stock in Leeds. We expect demand to significantly outstrip available supply over the next five years.

Manchester

Average sales price (2017 % change) 2 bedroom flat	*Average rent £pcm (2017 % change) 2 bedroom flat*	*Build to Rent net yield (typical yield range)*
£250k (8.7%)	**£1,135** (3.2%)	**4.75%** (4.50-4.75%)

House price growth forecasts

	2018	2019	2020	2021	2022
House price growth forecasts	6½%	4%	3½%	3½%	3½%
Rental growth forecasts	3½%	3%	3%	3½%	3½%

Rental growth forecasts

Source: JLL

Leeds

Average sales price (2017 % change) 2 bedroom flat	*Average rent £pcm (2017 % change) 2 bedroom flat*	*Build to Rent net yield (typical yield range)*
£185k (2.8%)	**£895** (0.0%)	**4.75%** (4.50-4.75%)

House price growth forecasts

	2018	2019	2020	2021	2022
House price growth forecasts	3½%	4%	3½%	3½%	4%
Rental growth forecasts	3½%	4%	3½%	3½%	3%

Rental growth forecasts

Source: JLL

Liverpool

Average rent £pcm (2017 % change) 2 bedroom flat	*Average rent £pcm (2017 % change) 2 bedroom flat*	*Build to Rent net yield (typical yield range)*
£205k (5.1%)	**£925** (2.8%)	**5.00%** (4.75-5.00%)

House price growth forecasts

	2018	2019	2020	2021	2022
House price growth forecasts	4½%	3%	3½%	3½%	3½%
Rental growth forecasts	3½%	3%	3%	3½%	3½%

Rental growth forecasts

Source: JLL

Liverpool

For much of the 19th and early 20th Centuries Liverpool was the second largest city in the UK. During this period, as one of the major ports of the British Empire, a large volume of trade was passing through the city. The wealth this created triggered a construction boom, and in turn a consistently rising population which peaked at 846,000 in 1931.

However, a mass council house building programme in the 1930s saw many families relocated from the city to newly created suburbs triggering a slow inner-city population decline.

The decline of the docks and traditional manufacturing industries from the mid-1970s onwards saw the population fall further as Liverpool grappled with among the highest rate of unemployment in the UK. The population of Liverpool bottomed out at 442,000 in 2001, by then the seventh largest in the UK and close to half the level it had been in its 1930s heyday.

However, the last 15 years has seen a reversal in these trends. Liverpool's population is growing once again and is now back at around the 500,000 mark, including a city centre population of circa 50,000.

This renaissance has been recognised by institutional investors and the city has seen particularly strong investment in the Build to Rent sector. More than 500 units have now been delivered at the 240 unit scheme The Keel and 324 units at Baltic Village with a further 1,000 units being built at The Lexington (304 units), The Hive (276 units) and The Strand (383 units).

Average two bedroom flat rents have risen reasonably strongly during 2017, up by 2.8%. Over the next five years we see city centre rents rising further, with the arrival of new BTR stock satisfying a demand for managed services and amenities contributing to an average 3.3% pa increase.

Sales prices in the city centre increased during the course of 2017, up 5.1% on the back of a lack of supply to meet the growing city centre demand.

Looking forward we forecast new development prices will rise strongly over the next five years in the resurgent city centre. Average price growth of 3.6% pa will be notably above the UK average of 2.4 pa%.

Household dynamics

Is the Golden Age for UK housing over?

After shrugging off the initial post-Brexit gloom, the UK residential market appears to be softening, with London leading the trend. Some of this reflects weaker economics as Brexit looms and may be temporary, but important shifts in the underlying drivers of housing demand are also impacting.

The period from the 1980s to the 2008 global financial crisis (GFC) was a Golden Age for UK homeowners. Aside from the odd cyclical hiccup, house prices marched ever upwards in both nominal and real terms. The market has recovered, but pre-crash growth trends are unlikely to be repeated.

To understand the outlook, a long perspective is required to identify the historic tailwinds for UK housing and why they may not provide the same momentum in future.

Origins – financial deregulation and the Thatcher boom

The origins of the long housing boom can be seen in the UK government's financial reforms which began in the turbulence of the 1970s and accelerated over the next decade. These led to major structural innovations in the mortgage market, while stimulating more intense competition amongst providers. A prolonged increase in borrowing resulted as well as an unprecedented rise in owner occupancy.

Market liberalisation was accompanied by a strong macroeconomic recovery in the mid-to-late 1980s. This peaked in the late-1980s as proposed limits to mortgage tax relief led to a record surge in transactions. But the period ended badly. Unsustainably rapid consumer spending brought rising inflation and eventually sharp interest rate increases. By 1990 the UK was in recession.

Recovery to crash – benign inflation and rising migration

The downturn that followed was perhaps the deepest adjustment UK homeowners have ever faced, with the emergence of negative equity triggering record repossessions. But the long downturn also allowed the market to reset and paved the way for recovery by the mid-1990s.

Gradually, a prolonged upturn was established. The benefits of market deregulation continued to play out and after a pause owner occupation rose again. There were some tax headwinds as tax relief was phased out and stamp duty was raised, but house prices continued to accelerate.

A new influence over this period was population change. Before this, demographic growth was slow and largely driven by natural increments. From the mid-1990s, in-migration became increasingly important, in turn sharply boosting the overall rate of UK increases – a trend that continued for more than a decade (see chart).

There were also important policy changes in the 1990s. The recession led the Bank of England to adopt inflation targeting. With Central Bank independence confirmed in 1997, interest rates became the central tool for economic stabilisation. Global trends helped ensure a period of low inflation and interest rates, along with a less volatile economic cycle than in previous decades.

By the early-2000s, plentiful liquidity and loosening credit conditions were stimulating another borrowing boom. Loans for housing were at the heart of this, spurred by initiatives such as investing into the expanding buy-to-let market, self-certification and ever-higher income multiples. House prices spiralled, but then collapsed in the financial crisis of 2008. The deepest recession in post-war history followed.

Realities of post-GFC world

The sharp correction to house prices at the end of the 2000s is well documented, but the downturn was relatively brief and a sluggish national revival followed. House prices eventually recovered to exceed their previous peaks in most locations, but only in cash terms.

Even this upturn required help from inter-generational transfers, government initiatives such as Help to Buy and extraordinary monetary conditions, namely near-zero interest rates and huge injections of liquidity to the financial sector (QE).

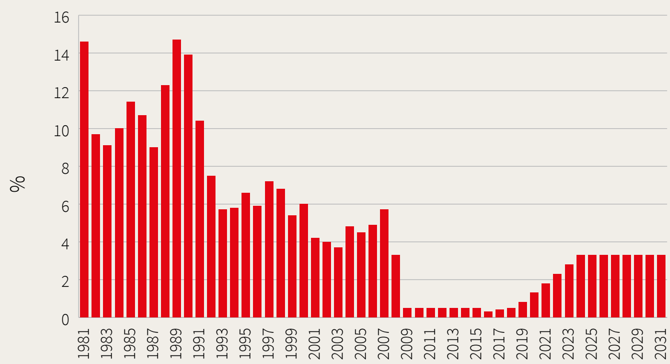
By 2010, many of the positive structural influences on housing had turned. Although hidden by the final excesses of the credit boom, financial deregulation had largely run its course by the 2000s and owner occupation was declining.

The crisis implied tighter regulation of banks, leading to bigger deposits and lower income multiples. The situation has eased, but there is little chance of a return to the easy money of a decade ago.

Extraordinary policy prevented total economic collapse in 2008-09, but the cost of the crisis has been felt in a glacial recovery. The trend of flat or falling real household incomes is particularly insidious. This has left housing affordability well below previous norms and, as a result, a cohort of younger buyers remain priced out of the UK market.

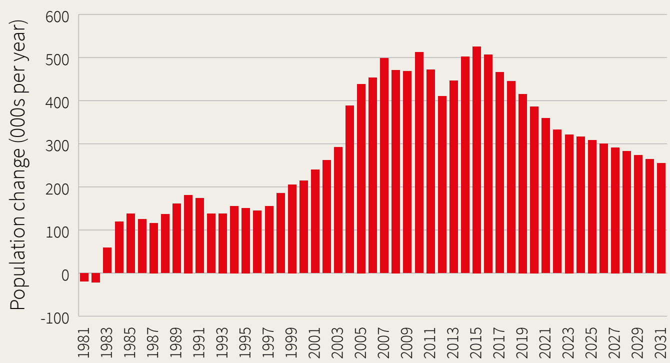
Brexit delivered another blow in undermining the support to demand from demographics. There is already evidence that EU arrivals have declined sharply since the vote. While migration will continue, the outlook for overall population growth is significantly weaker than in the recent past (see chart).

UK bank rate entering new phase



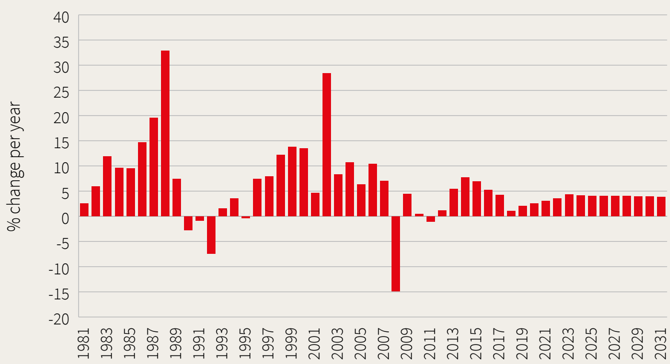
Source: JLL, Bank of England, Oxford Economics

UK population growth to slow



Source: JLL, ONS, Oxford Economics

UK house price growth to moderate



Source: JLL, Land Registry, Oxford Economics

House price rises more closely aligned with inflation

This does not mean a complete standstill for UK housing. Demographics remain healthy in the UK, while housebuilding has rarely kept pace with demand. In addition, real earnings are expected to recover, if not quite to their past growth rates. The result is a market where affordability will remain low and demand more constrained.

There are other headwinds, as ultra-loose UK monetary policy cannot last forever. Rises in policy rates are expected to be slow and gradual, leaving UK market rates well below their pre-GFC norms. But even a small change will increase costs for homeowners and put further pressure on already stretched incomes. Currently there is speculation that the Bank of England could hike interest rates as early as this November.

The prospects are for less rapid house price rises with forecast rates more closely in line with inflation. It may be a less exciting prospect, but it should be more sustainable and less volatile than in the recent past.

So this can be viewed as an end to the Golden Age for house prices, or (more realistically) as a return to the pre-1970 era of stability.

Andrew Burrell

JLL Head of Economics & Forecasting

UK housing market forecasts

Forecast rationale

The next five years will be the start of a new housing paradigm. House price growth will be more moderate than over the past 20 years. Consumers and industry participants will have to adapt and become comfortable with the new state of play.

The principal reason for this new paradigm is a shift in dynamics which is giving less strength to the drivers of higher house prices and greater weight to the drags on prices.

In short, many of the housing market boosts we have seen in the recent past, such as an expanding population, low interest rates, previous affordability relative to incomes and the escalation of housing as a lifetime investment, have now largely played out.

Constraining factors are also likely to play a bigger role. So affordability in terms of income multiples, heightened mortgage market stringency, less support from the Bank of Mum & Dad (as parents need to use housing wealth for their retirement) will start to loom larger. The investor landscape is also now less favourable meaning that owner-occupiers and the affordability issue become even more significant.

So demand drivers are likely to be weaker over the forecast period – and quite possibly beyond - compared with most of the last 20 years.

These factors will converge over the next two years at precisely the time when the UK economy is in its weakest state since 2012.

Supply support

We also believe that one of the supports for the high house price growth of the past 20 years has been an undersupply of housing relative to the rise in population.

And while a significant improvement in housing delivery volumes is still needed to redress the balance, we believe that the undersupply-generated price pressure will not be as strong in future.

There are two reasons for this. The first is that Brexit will mean a slower rate of population growth relative to the past two decades and the second is a permanent step up in the volume of housing which will be delivered. This second element is discussed in greater detail on the page opposite.

The upshot is that although supply will continue to fall short of need, we believe that the fillip the housing shortage has provided to house prices will be diminished over the medium-term.

2018 & 2019

As a result of the aforementioned factors, we believe that 2018 and 2019 will be relatively weak trading conditions for the UK housing market. Principally this will be led by a slower economy courtesy of Brexit, which will mean subdued consumer and household confidence. March 2019 will also mark the end of UK membership of the EU.

We expect UK house price growth to be just 1% in 2018 and 2% in 2019. We believe transaction levels will remain just below 1.2m pa. The lettings market will be a little more robust during this time but rental growth will still be more muted than usual at 2% pa.

Importantly, and in a major shift from the rollercoaster rides of the past, housing supply will remain relatively high. UK starts are forecast to stay at circa 200,000 pa during 2018 and 2019.

It will also be notable during this period that house price growth will be stronger outside of the less affordable London and South East regions.

2020 - 2022

The economic and trading landscape is still likely to be somewhat uncertain in 2020, with some form of transition arrangement likely, but greater clarity and a stronger economy should then evolve. This should be accompanied by growing consumer confidence.

We believe that house price growth will improve steadily during the 2020-2022 period, reaching 3½% pa in the UK, with transaction volumes also rising slightly to 1.30m pa.

The rental market will continue to expand, both because of continued unaffordability in the sales market but also supported by the growing trend of renting by choice. We expect rents to rise steadily by around 2½% pa during the 2020-2022 period.

Improved consumer confidence and housing market dynamics will encourage housebuilders to raise output levels. They will - modestly - but by this stage the industry revolution towards a wider range of delivery organisations and greater adoption of digital construction techniques will make this easier and quicker to achieve. We therefore anticipate housing starts in the UK to increase towards 215,000 homes a year by 2022.

UK house price growth forecasts

% change in house prices pa

2018	2019	2020	2021	2022
1%	2%	2½%	3%	3½%

Last 20 years

- Average: **6.9% pa**
- Peak: **28.4% pa**
- Trough: **-15.6% pa**

Source: JLL

UK housing transaction forecasts

Number of transactions pa

2018	2019	2020	2021	2022
1.18m	1.19m	1.21m	1.26m	1.30m

Last 20 years

- Average: **1.24m pa**
- Peak: **1.72m pa**
- Trough: **0.73m pa**

Source: JLL

UK housing start forecasts

Number of unit starts pa

2018	2019	2020	2021	2022
200k	200k	205k	210k	215k

Last 20 years

- Average: **181k pa**
- Peak: **234k pa**
- Trough: **102k pa**

Source: JLL

The reinvented UK 'housebuilder'

A combination of factors are already leading to a much changed housebuilding industry. But an even more seismic change is on its way.

The Farmer Review of 2016 told the industry to 'modernise or die'. This will involve a mindset change as well as a skills and working practices change. Much of this will be at an organisational level. The biggest changes for the public will be the resurgence of a wider range of delivery organisations – from Registered Providers to Build to Rent investors to SMEs - driving a shift towards more digital construction activity and a step up in housing supply.

The reinvented UK housebuilding industry will be based on the potential for higher delivery volumes. Construction timelines will often be shorter, quality will be more uniform and output capacity less constrained. Perhaps the only challenges to this new vision are the availability of different types of skilled and unskilled labour and the potential for building material inflation, although the impact of both will be diminished by these new practices.

All of these enhancements will also be supported by the release of more public land for housing development as well as further encouragement from government initiatives. Help to Buy, for example, which was promised more funds recently, has helped housebuilders deliver notably more housing in recent years than they would otherwise have done.

The upshot will be higher volumes of housing delivery but also a less volatile profile of output. Within this changing environment it will be a question of new and expanding market entrants alongside the housebuilders, some of whom will embrace change in order to become the pillars of the industry for the future. Housebuilder dominance means there is no need to act urgently and a 'fast follower' strategy will be more palatable for shareholders. However, we are confident that the disruptive forces requiring a modernisation of our industry are upon us and the time is right for serious consideration and planning.

From the ground up

Dealing with the new paradigm

For industry practitioners, our forecasts make for difficult reading. In truth, the market will invariably deal with greater volatility over the next 5 years due to unanticipated events. And anyway, markets rarely stay that rational for that long.

This will allow some developers to maintain returns by timing development well in the cycle.

However, the overall direction of travel is clear and these trends should be ignored with peril. The period of great capital boosts to housing markets is ending and adjustments will need to be made.

But what to do? Well, it depends very much on market segments and appetite for change. Digital construction - that is to say, a combination of Building Information Modelling, Off-Site Construction techniques, and active management of lifecycle costs to generate customer and business intelligence - will play a role. How much of one depends on business models and planned roles in the future production of new homes.

Implications for housebuilders

For the plc housebuilders, with extremely efficient business models and preferred positions in the supply chain, there is already quite good cost control in place borne largely from scale.

Digital construction will make sense around the edges but probably not at a fundamental level for some time to come. With £10 billion of Help to Buy money extending out into the 2020s, and a tight grip on the end to end housing delivery process, disruption will come late.

However, for developers, registered providers, build to renters and SMEs, digital construction can offer salvation. Not only will it lower the reliance on the vagaries of skilled labour cost inflation during high supply markets, it will also help pin down materials costs up front.

The funding model is lumpy and therefore challenging, but with the exception of SMEs in this grouping, the balance sheets will largely adjust.

New delivery

In return, we will get precision design translated into precision delivery. This isn't about building cheaper, as many seem to suggest. For example, modular construction averages 10%-15% above traditional build costs today.

But those efficiencies will creep in, with parity and beyond becoming achievable in the not too distant future. Perhaps more importantly, precision delivery means accuracy, less waste, and the holy grail of a feedback loop to learn and codify best practice into future schemes.

It would be naive to think these changes will happen quickly, or indeed to think they will happen without pain. However, it is at least as naive for the industry to ignore their inevitability.

Winners and losers

The housing paradigm shift will create a new list of winners and losers. In the meantime, houses will remain unaffordable for too many and insufficient in number for most.

As ever, the most successful businesses reflect the needs of their customers and for housing it couldn't be a more important time to grasp the nettle.

Our forecasts 2018 - 2022

House price growth % pa	2018	2019	2020	2021	2022	2018-22 *
Manchester	6½	4	3½	3½	3½	22.8
Liverpool	4½	3	3½	3½	3½	19.3
Leeds	3½	4	3½	3½	4	19.9
UK	1	2	2½	3	3½	12.6

Rental growth % pa	2018	2019	2020	2021	2022	2018-22 *
Manchester	3½	3	3	3½	3½	17.6
Liverpool	3½	3	3	3½	3½	17.6
Leeds	3½	4	3½	3½	3	18.8
UK	2	2½	2½	2½	2½	12.6

House price growth % pa	2018	2019	2020	2021	2022	2018-22 *
Greater London	-1	1½	2	3½	4	10.3
South East	0	1½	2	3	3½	10.4
Eastern	½	1½	2½	3	4	12.0
South West	1	1½	2½	3	3½	12.0
East Midlands	2	2½	2½	3	3	13.7
West Midlands	2	2	3	3	3½	14.2
Yorkshire & The Humber	2	2½	3	3	3	14.2
North West	3	3	3	3	3½	16.5
North East	1	1	2	2	3	9.3
Wales	1	1½	2	2½	3	10.4
Scotland	1	1½	2	2½	3	10.4
UK	1	2	2½	3	3½	12.6

Activity and development	2018	2019	2020	2021	2022	2018-22 **
UK transactions (m)	1.18	1.19	1.21	1.26	1.30	1.23
UK housing starts (000s)	200	200	205	210	215	206
UK housing completions (000s)	180	185	200	200	205	194

** cumulative growth; ** average pa*

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