

PLANNING TO FAIL

REVIEW OF THE WEEK
26 FEBRUARY 2024

OBSTRUCTIVE PLANNING LAWS ARE CURTAILING THE SUPPLY OF HOMES IN THE UK, THE REGULATOR SAYS. MEANWHILE, THE QUALITY OF BUILDING IS SLIPPING, SUGGESTING WE'RE WRAPPED UP IN THE WRONG RED TAPE.

After a year's investigation, the UK's Competition and Markets Authority (CMA) has reported back on the reason for a lack of new homes. It found that a "complex and unpredictable planning system" was mostly to blame. No surprises there. The CMA also believed that big, unused land banks owned by housebuilders were a symptom of the problem, rather than one of the causes of muted development. This should bolster the case for planning reform, which has been shaping up as a potential battleground for the upcoming election. The conclusion that large land banks are a symptom and not a cause of market failure, combined with a renewed impetus for planning reform to allow more building, should be good news for property developers.

Interestingly, while red tape is the main issue, it hasn't been doing what you would expect to be its primary role: ensuring quality. The CMA had concerns about the low quality of buildings and incidences of major errors, such as collapsing ceilings and staircases. The current planning regime seems to be focused on the wrong areas, perhaps where and why something can be built, rather than what and how.

The CMA has also implicitly argued for local authorities having a greater role in house building, by noting that targets haven't been hit in the past without substantial building by councils.

The regulator has also opened an investigation into major housebuilders after it had found evidence of sharing information on rates of sales, prices and incentives that may have lessened competition. Housebuilder share prices dropped slightly in response.

Interestingly, the CMA's report was released only a few days after it was leaked that the government plans to create a loans scheme for 99% mortgages, turbo-charging the 2021 scheme that offered 95% mortgages which ended in December. Under the new plans, the government will subsidise first-time buyers, allowing them to make up a 5%

deposit and, presumably, offer guarantees on the rest to induce the lenders to offer the mortgage. The new policy will apparently appear in next month's Budget.

Businesses upbeat despite recession

Just a week after the news broke that the UK had fallen into recession last year, measures of British economic activity improved by more than expected.

The UK Composite Purchasing Manager Index (PMI), which combines surveys of services, manufacturing and construction businesses, rose from 52.9 to 53.3. This suggests the UK economy is growing slightly. That's in line with our belief that the UK's downturn will be small and relatively brief. The improvement was entirely driven by a jump in manufacturing, albeit the survey suggests the output of the nation's makers is still shrinking.

As we noted last week, current data shows people are more upbeat and spendthrift than the headline GDP figures would suggest. The services section of the PMI, which includes everything from accountants and pubs to tour operators and lawyers, reinforced this. The survey was flat on the previous month, but that's an eight-month high and should mean moderate growth.

Businesses' outlooks were very positive – which makes a nice change! Across the economy, expectations for future work surged to levels not seen in years. That being said, labour market measures have become less rosy. Meanwhile, there were some signs of stickiness in UK inflation – costs for services companies in particular appear to be rising. The same could be seen in Europe as well. While we still think inflation is likely to fall in the UK, we remain mindful of the risk that it could stay belligerently above target.

If you have any questions or comments, or if there's anything you would like to see covered here, please get in touch by emailing review@rathbones.com. We'd love to hear from you.

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