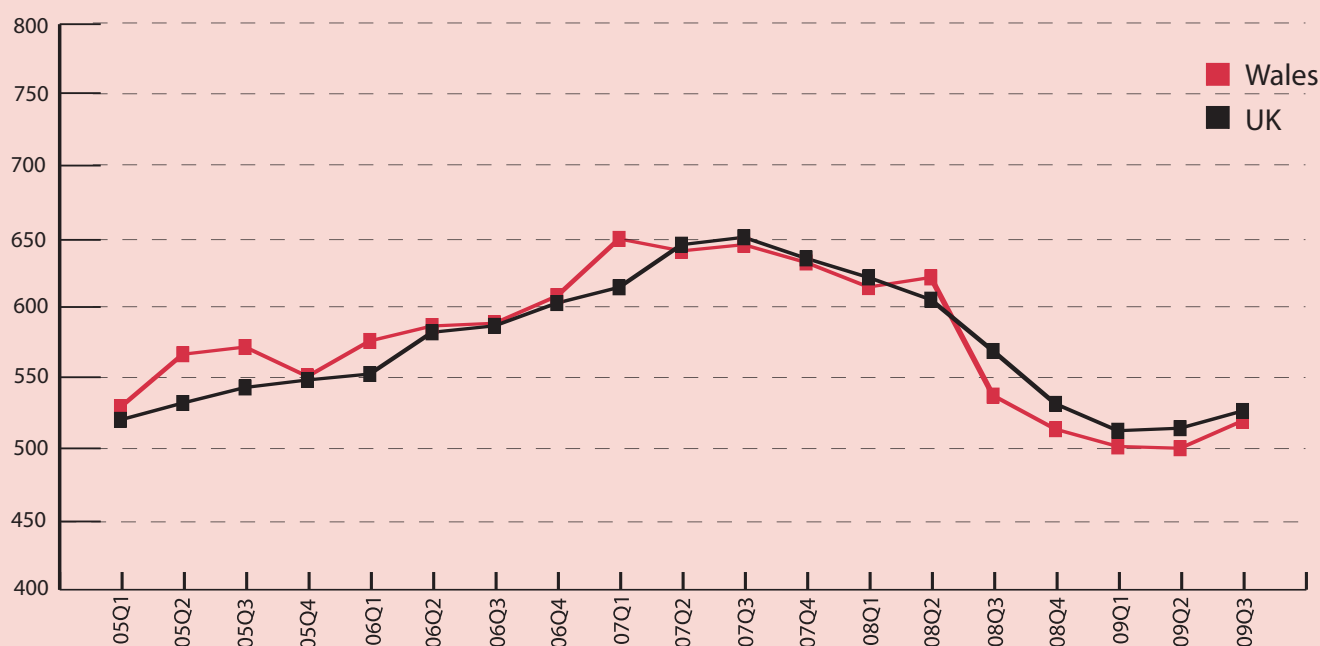


Property Markets

Following a two year absence, this report provides some catch-up commentary on the condition of the UK and Welsh housing markets. The last property markets article in the winter 2007 edition of the *Review* noted three interest rate rises of 0.25% each up to September 2007 at which point the MPC voted to hold steady at 5.75%. Even then, the most foresighted of economic commentators were arguing for a substantial and decisive drop in interest rates (even given a short-run inflationary impact) to attempt to mitigate the effects of the massive and inevitable global recession (*Welsh Economic Review* 20, 2008). Instead, the MPC took some months to vote down interest rates to their current 0.5% level; now maintained since March 2009. This, along with quantitative easing connected to an asset purchase of £175bn, (and a 'thinned-out' banking sector), has done much to revive the fortunes of banks, but done little else in the real economy.

Figure 3: House Prices Index. All Houses – All Buyers Seasonally Adjusted (1983=100).



Source: Halifax House Price Index

Table 9: All Houses, All Buyers (Seasonally Adjusted) Third Quarter 2007 – Quarter Averages.

Region	Index 1983=100	Standardised Average Price £	Quarterly Change %	Annual Change %
North	602.0	151,898	-2.1	5.4
Yorks & Humber	648.3	149,695	0.4	8.2
North West	596.8	152,650	0.1	5.2
East Midlands	642.9	168,046	1.2	8.2
West Midlands	634.4	179,048	0.1	4.7
East Anglia	646.9	194,627	0.9	11.1
South West	642.4	212,400	0.5	8.0
South East	653.2	265,117	1.8	13.7
Greater London	805.8	320,847	2.3	18.6
Wales	639.4	165,472	1.2	9.5
Scotland	488.0	141,158	0.7	14.2
Northern Ireland	859.4	221,004	-3.2	29.1
U.K.	643.7	198,898	0.9	10.7

Source: Halifax 2007

Table 10: All Houses, All Buyers (Seasonally Adjusted) Q2 2009

Region	Index 1983=100	2009 Q2 Standardised Average Price £	2009 Q2 Annual Change %
North	491.3	123,969	-10.7
Yorks & Humber	512.8	118,418	-13.0
North West	474.3	121,311	-17.6
East Midlands	512.8	134,038	-13.4
West Midlands	517.9	146,178	-15.5
East Anglia	477.2	143,568	-22.8
South West	513.8	169,871	-13.4
South East	511.0	207,431	-13.7
Greater London	595.8	237,250	-17.6
Wales	494.1	127,876	-19.5
Scotland	594.6	152,891	-15.8
Northern Ireland	410.0	118,605	-14.3
U.K.	507.9	156,944	-15.0

Source: Halifax 2009

Table 11 Average House Price by Welsh Unitary Authority, 12 months to September 2009

Local Authority	Average house Price (£) September 2009	% Monthly Change	% Annual Change*
Blaenau Gwent	72,973	-4.1	-18.3
Bridgend	120,681	-0.7	-8.3
Caerphilly	101,588	0.9	-10.4
Cardiff	144,149	1.2	-4.6
Carmarthenshire	111,506	-0.1	-11.1
Ceredigion	172,288	1.0	-4.0
Conwy	140,262	1.2	-1.6
Denbighshire	120,714	2.0	-6.2
Flintshire	130,276	0.6	-7.1
Gwynedd	135,358	-0.1	-8.3
Isle of Anglesey	131,889	0.8	-6.3
Merthyr Tydfil	70,347	-1.2	-13.7
Monmouthshire	170,762	0.5	-11.0
Neath Port Talbot	86,510	0.1	-18.7
Newport	114,814	-2.8	-14.5
Pembrokeshire	148,698	1.2	-7.9
Powys	146,558	-0.2	-9.3
Rhonda Cynon Taff	80,425	1.7	-8.9
Swansea	117,989	2.7	-6.9
Vale of Glamorgan	156,055	-0.6	-7.0
Torfaen	105,335	-2.2	-15.6
Wrexham	120,048	-2.5	-4.9

* 12 months to September 2009

Source: Land Registry 2009 <http://www1.landregistry.gov.uk/assets/library/documents/HPIReport091021wyd.pdf>
Last accessed 17 November 2009

Table 9 reproduces the standardised house prices for the UK regions that appeared in the winter 2007 edition of the *Welsh Economic Review*.

The change in conditions from the last report is, of course, substantial. Data for Q3 2007 revealed that the annual rate of house price inflation was then 10.7% for the UK as a whole, with a standardised average house price in the UK of £198,898 (having dropped from a £200K+ peak). Meanwhile in Wales, at that time, annual house price inflation was 9.5%, with an average house price of £165,472.

Table 10 shows that the annual change from Q2 2008 to Q2 2009 is of downward movement in prices reflecting the scarcity of mortgage products compared with the easy days of old, and indeed the requirement for much higher deposits.

However, Martin Ellis (housing economist at the Halifax) observed in the latest release of the Halifax price index (6th October 2009) that house prices nationally had in fact gained 1.6% in September; the third consecutive monthly increase and the fifth gain in 2009. Therefore, mortgage providers appear to be able to see the elusive green shoots of recovery. There are a number of explanations for these recent rises, which are hard to unpick as they are correlated. Rising prices result from fewer houses on the market (as reported by the latest RICS monthly survey) but also from increased demand (attributed to improvements in affordability) and so the cycle rolls on. Over the two years from August 2007 to August 2009 mortgage approvals dropped from 106,770 to 52,300, but since November 2008 to August 2009 (seasonally adjusted) approvals have doubled. The recent trend is positive, therefore, but should be moderated in the future by changes to regulation which place a greater duty of care on lenders.

Table 11 gives Unitary Authority data for Wales, sourced from the Land Registry, which is not comparable with Halifax data (the latter tending to show greater variance than the former). The first observation is that the annual change to September 2009 is negative across the board, with the most marked annual falls experienced in Neath Port Talbot (NPT -18.7) and Blaenau Gwent (-18.3%). In fact, the annual price fall in NPT was the greatest across the UK, while Conwy (-1.6) was the smallest across the UK. The monthly change figures do give weight to signs of recovery, with the appearance of

positive values, and moreover, with these just outnumbering the negatives. According to the Land Registry, Isle of Anglesey, Merthyr Tydfil, Blaenau Gwent, Torfaen and Ceredigion were among the UK areas having very low transaction volumes in the months from March 2009 to June 2009.

Fluctuations in the housing market present a challenge for those who are buying and selling but climate change presents a much greater challenge for *all* home-owners. In October 2009 the Committee on Climate Change (CCC) announced that carbon emissions from people's homes will have to be cut by 35% by 2020. The Committee was set up to oversee government measures undertaken to meet legally binding climate change targets. In order to make an impression on those targets the CCC believes that the UK needs to roll-out street by street energy audits, led by local authorities and supported by government and the energy companies. Visiting 'auditors' would advise on a range of energy saving measures from loft insulation, cavity wall insulation, solar panels etc. It is estimated that 10m lofts and 7.5m cavity walls will need to be insulated by 2015, and 12m inefficient boilers will need to be replaced in the UK by 2022 (www.telegraph.co.uk, 13th October 2009).

Construction News

In the last housing report (2007) it was noted that commercial development appeared to be experiencing a 'massive building boom' (Western Mail, March 27th 2007). At that time a chunk of Cardiff's retail district was being demolished in preparation for the St David's 2 development. As we write, the centre has been completed and the new John Lewis (2nd only to Oxford Street in terms of size) has opened its doors. The question most people are asking is whether the new development will simply shift Cardiff's centre of gravity slightly away from Queen Street. Other projects completed or nearing completion include Friars Walk shopping centre in Newport, Meridian Quay in Swansea, and Eagles Meadow in Wrexham.

2009 has not been an easy year for the construction sector. The first three months were particularly bad, with output down 9% on the quarter compared to the year before. According to the RICS Construction Market Survey Q2 2009, the decline in construction workloads continued in Q2 but at a slower pace than in Q1 2009. In the private commercial sector 41% of surveyors reported a drop in workloads.

Construction works associated with the public sector are faring better, giving weight to the notion that this activity is helping to maintain capacity across the board. Over the next twelve months, the sector is likely to continue to shrink (although more slowly) and profit margins will continue to be squeezed.

Against this less than optimistic backdrop, a number of developments have been announced or are in the pipeline. A new 2,800 sq ft office block in St Andrew's Place Cardiff has started, and will be complete by early 2010, despite difficult trading conditions. The developers, Charnwood Group, believe the offer to be of a very high standard in a prime position.

Cardiff has been considered to lack Grade A office space, a fact which is reflected in low costs per work station (falling by 22% on 2008) according to research by DTZ. However, the quality of office space in Cardiff is fast improving with space available at Global Reach, Callaghan Square, Cardiff Waterside and Central Link. DTZ believe that this availability needs to be marketed internationally. Cardiff has many attractive attributes, including an excellent retail offer and a gold standard arts centre.

A £250m scheme to regenerate Barry's waterfront has been submitted to planners. The plans include a new link road to Barry's waterfront, a café quarter, retail space and 2,000 new homes. The investors estimate that the ten year scheme could generate 2,000 construction jobs over its life with 5000 permanent jobs on completion

In spring 2009, a £10m environmentally-friendly apartment block in Swansea has been announced overlooking Prince of Wales Dock on land acquired by Coastal Housing from the Welsh Assembly Government. The building will have a bio-diverse roof which will be allowed to seed naturally with local flora, will have low carbon emissions, a biomass boiler and an energy saving central hot water distribution system. Other carbon-saving measures will include low-flow taps and showers, a sustainably-sourced timber frame, and the locating of City Wheels Car Club vehicles on the site. It would be the first building in Wales to achieve such a level of sustainability. A local supply chain has also been set up to ensure that Welsh companies benefit from the development. While itself small, the development is an exemplar.