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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The core section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the Welsh Assembly Government.

Notes for Contributors

Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words, and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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Property Markets

Successive *Welsh Economic Reviews* have reported continued strength in the housing market despite concerns regarding the sustainability of such growth and an expectation in some quarters of an imminent slow-down. The debate tends to be split between commentators from within the mortgage lending sector such as the Halifax, and the property research group, Hometrack, for example who are generally optimistic, and observers from the wider financial community.

Among the latter are David Pannell, an analyst at Durlacher investment bank who in February 2003 was predicting a 30% fall in the market, with the comment that 'the UK housing market has never experienced a soft landing'. Pannell wrote the report 'Bubble Trouble' (Reuters, February 23rd, 2004). Another is Tony Dye, a fund manager known as Dr Doom because of his accurate predictions of stock market decline made during the 1990s, who believes that the current boom 'will end in tears' (Daily Telegraph, 14th April 2004).

Whilst interest rates have risen in recent months, rates still remain relatively low,

for the time being at least, and there is very little cause yet to dampen house buyers' confidence. Towards the end of May the Council of Mortgage Lenders observed that interest rates would have to be double their current level in order to halve house price inflation (currently 20%).

A linked concern relates to the level of total domestic debt (including mortgage debt) now reached in the UK. This is fast approaching £1 trillion, and will soon equal total UK gross domestic product.

The latest figures for the first quarter of 2004, released on April 2nd 2004, show that the prices of houses in Wales

relative to the 1983 base year have risen at a spectacularly faster rate (at 35.6%) than for the UK as a whole (18.5% - a figure much moderated by the slower rises in London and the South East), second only to the North (36%). Other regions which have continued to exhibit the same sustained 'catch-up' trend which was first observed at the end of 2002, are Yorkshire and Humberside (28.3% annual rate), the North West (29.6%), West Midlands (18.8%), and Scotland (17.1%). However, Wales still has some way to go before the price of an average home is level with the UK.

Figure 5 shows the annual percentage change in house prices since the index began, and reveals clearly the boom years building up through the late eighties followed by the bust years of the early Nineties. Note that the graph merely shows the rate of inflation and not house price levels.

Within Wales, the market is equally interesting and as observed in previous *Reviews* national catch-up is accompanied by local catch-up, so for example, house price inflation in Cardiff is currently very modest (with properties increasing by only 3%) compared to Swansea where house prices have climbed by over 50% in the last year. This means that the average house in Swansea rose in value from £89,690 to £138,744 over the year. House price inflation was highest in Gwynedd rising at 56% so that the average house there is now valued at just under £132,000.

While 'affordable housing scarcity' is not so much a problem in Wales as the notorious South East of England, waves of local scarcity are created around moving hotspots, especially around Cardiff. Ebbw Vale for example, which had lagged behind rest of Wales, has been affected by demand moving up out of Cardiff, which has caused prices there to pick up recently.

Construction Output and Prospects

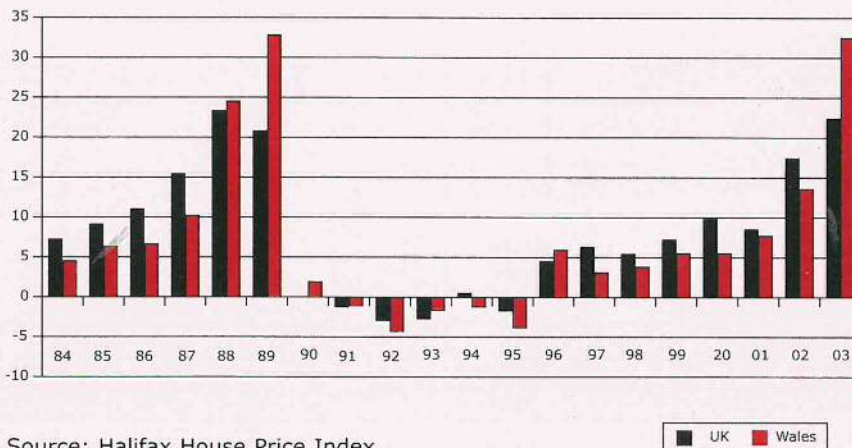
Analysis of information for the period to 2002 shows this to have been a good year for Welsh construction. Table 7 shows that overall construction output of £2.9bn was up 17% on the previous year. Public new work, which was significantly up on the previous year,

Figure 4: House Prices Index. All Houses – All Buyers Seasonally Adjusted (1983=100).



Source: Halifax House Price Index

Figure 5: House Price Index. Annual % Change 1984 to 2003. All Houses, All buyers, not seasonally adjusted.



Source: Halifax House Price Index.

Table 6: Annual House Price Inflation by Region. All Buyers Seasonally Adjusted, 2003Q4 & 2004Q1

Region	Standardised Average Price £		Annual Change %		UK standardised average price 2004Q1=100
	2003Q4	2004Q1	2003Q4	2004Q1	
North	103,314	113,571	8.9	36.0	30.1
Yorkshire & Humberside	97,688	106,421	24.7	28.3	38.8
North West	100,534	111,354	4.7	29.6	32.7
East Midlands	125,546	132,022	12.7	15.7	89.3
West Midlands	135,984	142,035	15.5	18.8	99.8
East Anglia	144,910	148,119	14.6	9.3	100.2
South West	160,899	171,218	6.7	11.6	115.8
South East	199,328	208,105	5.8	7.2	136.7
Greater London	232,421	239,552	8.6	9.1	162.0
Wales	114,870	125,629	31.8	35.6	85.0
Scotland	84,086	85,212	17.1	16.5	73.4
Northern Ireland	92,718	93,692	13.8	21.9	57.7
UK	139,716	147,785	15.4	18.5	100

Source: Halifax House Price Index

accounts in large part for this good performance, with growth in private commercial construction a much more modest 3.1%. Repairs and maintenance output was down nearly 15% on the previous year to £1.2bn, while private industrial work was down nearly 10% on 2001. However, new housing was up 12.5% to £477m in 2002.

The value of new orders in Wales are shown in Table 8, and make favourable reading. New housing contract values were up over 16%, and private commercial orders were also up by a fifth on 2001. The highest growth was seen in infrastructure and public new work, up by 54% and 91.5% respectively. Growth in public sector construction output can be linked to a

number of high profile construction projects which began during 2002, including the Cardiff Bay Centre for excellence for the arts, and the new wetlands reserve and boardwalk also in Cardiff Bay.

Chesterton's City Centre Office Markets report 2003, which analyses activity and pricing in ten major office centres across Britain, noted a general increase in the availability of office space after five years of decline, accompanied by vacancy rates on total stock rising to 6.4% compared to 4.7% at the beginning of 2002. Cardiff and Croydon were singled out as having availability levels in excess of the ten-year average. Meanwhile demand for office space was strong in Birmingham, weak in

Edinburgh and falling in Bristol, Glasgow and Manchester.

With falling demand and rising availability, office rents grew at their slowest rates since 1996. Leeds, Edinburgh, Birmingham and Manchester were reported as having the lowest rental yields at around 6.65%, while North East and North West regions produced the highest returns at 12.6%. Average yields in Cardiff for 2002 were 7.0%.

Chesterton's considered 2003 to be a relatively subdued year, resulting from political and economic uncertainties, but were predicting office space shortage in the medium term if GDP and employment growth recovered.

Table 7: Value at current prices of contractors output 2001-2002 £m

	2001	2002	% change 2001/02
New Housing	424	477	12.5
Infrastructure	343	364	6.1
Public new work	193	391	102.6
Private industrial	101	92	-9.7
Private commercial	379	391	3.1
Repairs and maintenance	1047	1201	-14.7
All work	2488	2915	17.1

Table 8: Value of new orders obtained by contractors at current prices £m

	2001	2002	% change 2001/02
New Housing	331	385	16.3
Infrastructure	165	255	54.4
Public new work	178	341	91.5
Private industrial	82	82	0.0
Private commercial	256	313	22.2
All work	1009	1376	36.3