CARDIFF
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# Property Markets

### House Prices

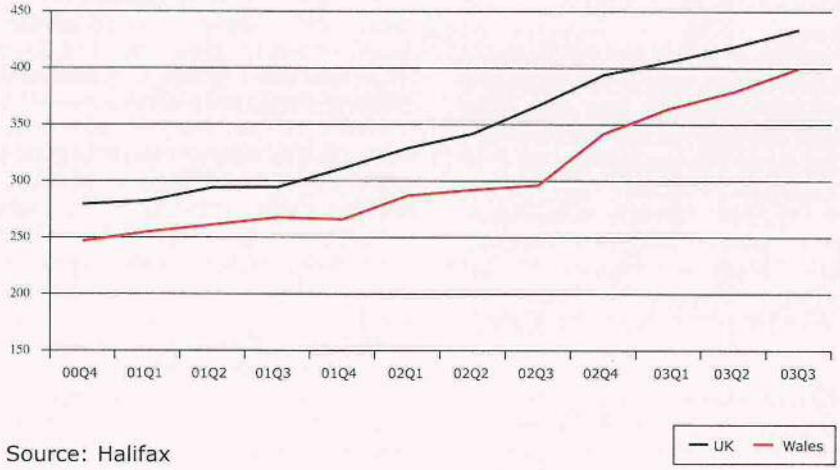
The property markets report in the spring issue of the *Review* observed that Greater London, the South East, and those other regions below the 'Severn-Wash' north-south divide were no longer leading house price inflation in the UK. It was already evident by the beginning of 2003 that house price inflation in the North of England and in Wales, previously lagging, was now overtaking the south.

Halifax recently released figures for the third quarter of 2003 (see Table 6), which confirmed that the biggest annual house price rises were in the North (37.6%), followed by Yorkshire and Humberside and Wales (both 31.9%), and the West Midlands (26.1%). Greater London had the smallest rise in prices over the year to October at 8.6%, considerably below the UK average of 18.6%.

This reversal has meant a welcome catch-up for the rest of the UK. In the first quarter of 2003 the gap between the UK average house price and the average London house price was £95,000. The second quarter saw this gap narrow to £89,000; albeit still significant, and then increase again slightly to £89,360 by the third quarter. A persistent reversal will be required to erode the gulf which amounts to London prices being almost 70% higher than the UK average. Halifax notes that ten years ago London prices were less than 25% higher than the UK average. It seems likely that, despite recent trends, the prices of property south of the divide will be much higher than elsewhere for the foreseeable future.

Table 6 shows that the average house price in the UK, by the second quarter of 2003, was £134,100. The highest value was to be found in Greater London at £223,460 and the lowest in Scotland at £82,068. In the third quarter the average house price in Wales exceeded the £100,000 barrier.

**Figure 9: House Prices Index. All Houses – All Buyers, Seasonally Adjusted (1983=100).**




Source: Halifax

The strong performance of Wales' housing market disguises mixed fortunes across the region. As in the rest of the UK, areas outside the core hotspots are experiencing higher house price inflation. House price inflation in Cardiff slowed in the last quarter to around 13%, whilst Swansea, Bridgend, and Neath all experienced house price inflation of at least 30%. This can be explained by scarcity of affordable homes in the capital forcing first timers to look further afield. According to the Halifax, Roath and Splott have become local hotspots as affluent parents purchase property for the duration of their childrens' university courses.

**Table 6: Annual House Price Inflation by Region (2002Q3 to 2003Q3).**

| Region | Standardised Average Price (£) | Annual Change % | UK standardised average price 2003Q3 = 100 |
|---|---|---|---|
| North | 94,373 | 37.6 | 70 |
| Yorkshire & Humberside | 94,042 | 31.9 | 70 |
| North West | 95,414 | 21.0 | 71 |
| East Midlands | 120,528 | 16.5 | 90 |
| West Midlands | 132,583 | 26.1 | 99 |
| East Anglia | 139,706 | 15.7 | 104 |
| South West | 157,022 | 11.6 | 117 |
| South East | 196,165 | 12.3 | 146 |
| Greater London | 223,460 | 8.6 | 167 |
| **Wales** | **101,538** | **31.9** | **76** |
| Scotland | 82,068 | 19.8 | 61 |
| Northern Ireland | 87,977 | 9.8 | 66 |
| UK | 134,100 | 18.6 | 100 |

Source: Halifax

Another preoccupation of housing commentators is the effect of house price inflation on newcomers to the property market. Home ownership is a very British affair, and intensely so during the 1980s boom years. Meanwhile, the period from the late 1990s until recently, have been characterised by increasing shares of house purchases made with a view to rent. This has had the effect of reducing the value of the residential rental market.

Despite this, property ownership is not easily discouraged and first time buyers face several choices. They can defer purchase for a few years and remain in the rental market, or reside with their parents (an increasing trend). Another option for these buyers is to prevail upon their parents (who may have only small mortgages or none) to take out new loans in this low cost credit market to finance the first rung on the property ladder.

Alternatively, first timers venturing into the property market on their own, can opt for short term fixed interest rate mortgages, often of no longer than two years duration, moving to a variable rate subsequently. One disadvantage of this apparently low risk strategy is that the transaction costs may be higher in the medium to long run (if new lenders are sought), with the true beneficiary being the lender or their agents. Lending conditions have seldom been more 'favourable' with some offers exceeding 4-5 times borrower's income, and 100% mortgages much less costly than in the past. There is every indication that the lending industry is simply stoking the fire of house price inflation, and providing the conditions to maintain a steady demand for affordable properties, having implications for the construction sector and its labour market.

'*Housing, Consumption and European Monetary Union*' featured among the eighteen reports commissioned by the Treasury to assist in their contemplation of economic convergence as a prerequisite for joining the Euro. This report examined potential divergence in interest rate sensitivity arising from the differences between the UK and European housing market. Five household consumption issues were identified; variations in house price trends, levels of mortgage debt, interest rates (and whether fixed or variable), levels of house ownership and finally, variations in the ability of householders to withdrew equity from housing.

The report found that the UK is different from the rest of Europe in several important respects. UK house prices were found to be both more volatile and more buoyant than the rest of Europe, making housing a more valuable asset, as a result of poor housing supply. Moreover, mortgage debt in the UK at 60% of GDP was well above the EU average. Over 60% of UK mortgages were variable rate, with the rest being short-term fixed rate over one to five years. This contrasted with Germany where 80% of mortgages were at long term fixed rates of over 5 years and France, where 60% were long term fixed rates and the rest short term fixed. Only Italy resembled the UK in terms of proportions of fixed to variable rate mortgages while having a much lower mortgage debt. Greater liberalisation of the UK mortgage market has also resulted in higher personal borrowing to fund non-property expenditure. The report concluded that given the current structural differences between the UK and the continental housing market, any change in European interest rates (which would be decided by European Central Bank) would have a fundamentally different effect on consumption in the UK than elsewhere.

**Construction News**

In September 2003, the Flintshire-based firm Redrow announced record pre-tax profits of £106m. Redrow reported confidence in their ability to cope with any changes to the housing market, having accumulated a substantial land bank and a healthy order book. The average selling price of a Redrow home across the UK rose by 6% to £147,900 in the year to June. The company has a UK-wide focus and will position itself to participate in opportunities arising from Government-identified housing needs in the South East of England.

Project Red Dragon, a £77m super hanger currently under construction at St Athan, is one of the largest building projects in Wales. The steelwork (around 7,000 tonnes) is being supplied by Corus. The building is programmed for completion in November 2004.

The Irish development company Niall J Mellon Group has announced plans to build, subject to consents, over 250 apartments on a 1.5 acre site at Swansea Marina. The proposed scheme includes a 25 storey tower with a restaurant on the top floor, and four seven storey seafront mixed-use towers.

The WDA's new technology Parc Aberporth near Cardigan, recently received the go-ahead. The site will be aimed at high technology businesses such as aerospace, defence, bio-science, media and engineering. The first phase of the development will provide three units capable of accommodating over 130 jobs, and is to be completed by next summer.