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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 National Assembly.

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

House Prices

The property markets report in the Autumn 2002 *Review* revealed that house price inflation had increased throughout 2001 and into the second quarter of 2002. Examination of the data for 2002Q3-Q4 reveals that markets have remained buoyant, with for example, annual house price inflation to 2002Q4 of 7.4% for the UK, and 15.4% for Wales. A key feature of previous *Review* commentary has been the apparent polarisation of house price inflation around Greater London, the South East, East Anglia and the South West, and a consequent growing North-South divide in terms of house price inflation. However, the annual house price inflation figures for Wales for 2002Q4 demonstrate a significant catch-up. There was also evidence that increases in Wales were sustained into the first quarter of this year, with annual house price inflation in the year to February 2003 at an estimated 28.1% (compared to 26.4% for the UK) (Halifax Building Society).

Table 11 shows that Greater London no longer leads house price growth. Meanwhile, some other regions experienced levels that were previously typical only for London and the South East. The East and West Midlands had the highest annual change with 42.1% and 35.8% respectively.

House price inflation continues to be uneven across Wales. In North Wales, the seaside resorts of Llandudno and Prestystyn are popular locations, whilst Wrexham saw an annual house price increase of 34% (in the year to February 2003). However, Cardiff retains its reputation as the hottest spot in the Welsh housing market. The strength of demand, coupled with poor supply of houses in Cardiff, has meant that buyers are increasingly having to consider adjacent locations such as Pontypridd, Caerphilly and the Vale of Glamorgan. This has reinforced upward price movements in these locations.

A second observation in previous commentary has been concerns that the UK, along with a number of other EU

countries, is developing a two-speed economy (RICS Policy Unit and RICS Residential Property Faculty, 2003). On the one hand, the housing market and consumer expenditure show few signs of cooling down, whilst UK production indices (see next section) and exports are far less buoyant. There are a number of disadvantages associated with an overheated property market. Potential young entrants might delay their first purchase as prices rise beyond their means and remain in the rental market for much longer than otherwise. Alternatively, they might take advantage of the low interest rates and borrow at increasingly higher income to debt ratios. The consequences of either of the above decisions may not be felt for a number of years. The Halifax published new research in March 2003 illustrating that the age of the average first time buyer has increased from 31 years in 1983 to 33 years in 2002.

During the April 2003 Budget three new strategies have been announced to end the boom and bust cycle in the property market. Mortgages, house building and

the planning system are all to be reviewed with the aim of making the housing market more stable. The most important review is expected to centre on the fixed rate mortgage market, and to assess why home-buyers continue to be reluctant to fix payments over the very long term (10 years or more). A movement to these type of mortgages, which are common in the US, could remove some of the volatility from the housing market, and mean that house prices would be less responsive to interest rate movements. The government has also stated that it was examining whether or not to impose new rules to speed up house-building where local councils were failing to meet targets.

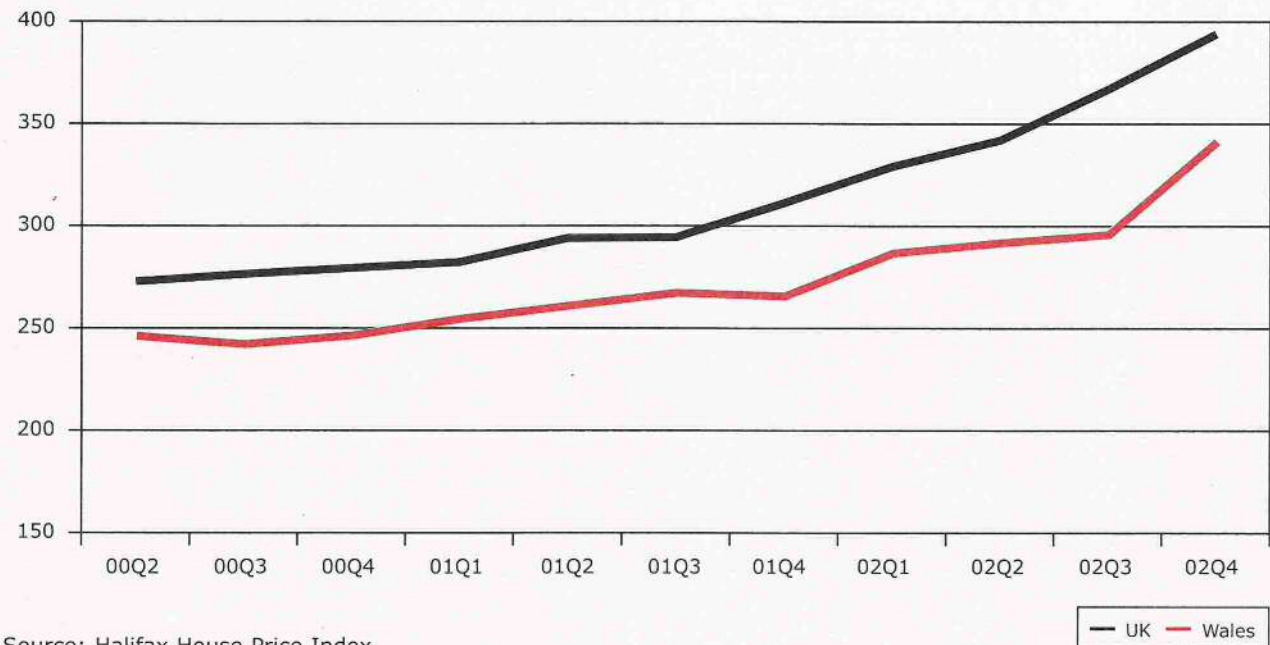
Meanwhile, a creeping anomaly, yet to be corrected by the Chancellor of the Exchequer, is the inheritance tax threshold on property. In the Budget the Inheritance Tax threshold increased by just £5000, to £255,000. Consequently the strong trend in price rises in the South East (and elsewhere) will place many more properties into this

Table 11: Regional House Price Indices Percentage Annual and Quarterly Change (February 2003)

Region	Annual Change	Quarterly Change
North	25.5	13.5
Yorkshire & Humberside	26.3	10.2
North West	25.1	5.8
East Midlands	42.1	8.0
West Midlands	35.8	12.9
East Anglia	20.3	4.6
South West	32.7	8.1
South East	25.8	8.7
Greater London	19.4	3.7
Wales	28.1	15.4
Scotland	11.6	4.1
Northern Ireland	5.8	2.4
UK	26.4	7.4

Source: Halifax Building Society

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



bracket. Overall the fact that the tax threshold does not fully reflect the increase in house prices will mean that the government continues to net a substantial windfall. The Treasury estimates that at present just 5% of people have an estate that would be liable. This could rise to as much as 10% of people by 2010, lifting the Treasury tax take from £2.4bn to an estimated £8bn.

The Royal Institute of Chartered Surveyors (RICS) published its European Housing Review in 2003. Housing market activity, prompted by low interest rates, was considered to have helped prevent recession in the European economies. Mortgage demand throughout the euro area grew by 8% in 2002. However, Germany, which has low levels of home ownership (around 40% of housing stock), also experienced dramatic falls in house building in both 2001 and 2002. The United Kingdom and Spain stand out in Europe as having sustained double-digit house price inflation throughout 2002. In Spain, house building accelerated sharply in 2001 and 2002, while in the UK private

sector house building has been static since the mid 1990s (at an average of around 150,000 completions per year) and social house building has declined. Indeed, the RICS consider the UK as having one of the poorest housing supply records in Europe, at odds with the scale of house price rises and the strong market orientation of the housing system.

Property and Construction News

In June 2002 came the announcement of a new £250m village development outside Merthyr incorporating 1,700 houses, a shopping village, cinema multiplex, two hotels a country park and a business estate. Backers of the project have gained local authority consent to carry out remedial work on the 550 acre derelict industrial site near Rhyd-y-car, with the building element of the scheme scheduled to be considered during Spring of this year. Opposition to the scheme is based upon the removal of a number of slag heaps which are considered important relics of the town's industrial past.

Another project facing controversy is United Utilities plan to build 30, 400 feet high wind turbines at Scarweather Sands off Porthcawl. An 8,000 signature petition has forced a review of the plans.

Perhaps more popular with the local community will be plans to create a TV village near Tregaron in Ceredigion, based on the S4C children's Sali Mali television programme, and involving the renovation of farm buildings to create a permanent set, holiday accommodation and a Welsh learners centre.

The new debating chamber for the Welsh Assembly has been controversial for its non-appearance against a backdrop of rising costs. The project was initially expected to cost £12m, but estimates have now risen to in excess of £37m. In January, the Welsh Assembly Government, who are now seeking a fixed price contract, announced that construction firm Taylor Woodrow is the preferred bidder for the project. Construction, which could begin this summer, is expected to take five years.