Property Markets

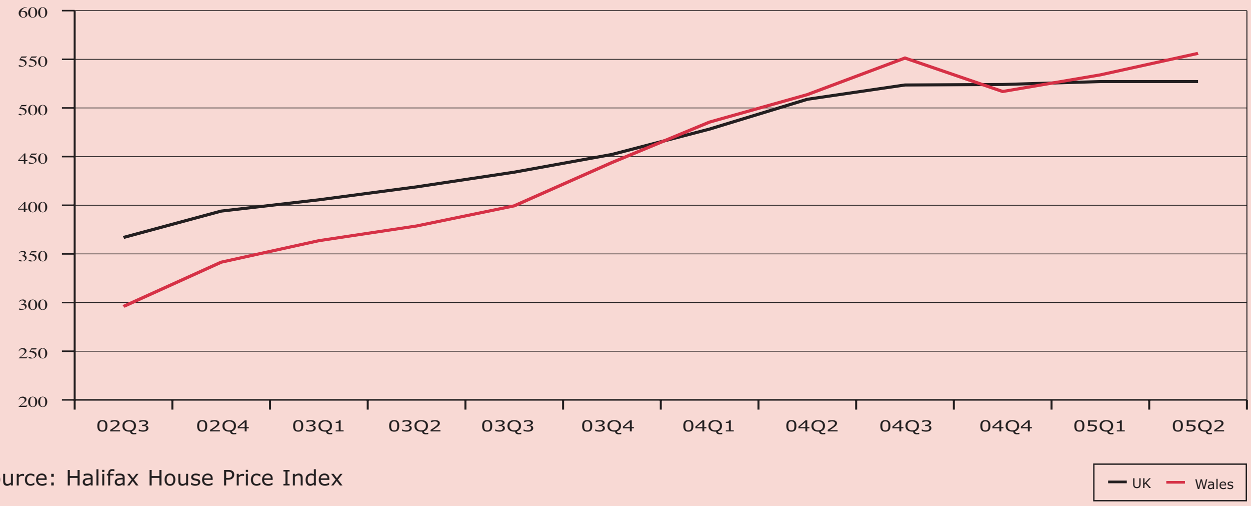
It was reported in July that the number of members of the Bank of England's Monetary Policy Committee (MPC) voting to lower the interest rate from 4.75% had increased in response to concerns that consumer spending for non-essential goods and the housing market had slowed sufficiently to justify a little fine-tuning. That notwithstanding the Committee maintained the rate at 4.75%. The tide finally turned in August when the MPC voted to cut rates by a quarter percent. The minutes of the August meeting suggest that the strongest reason for the decision was to maintain consumer confidence which had been somewhat dented by the lagged effect of past interest rate rises and high levels of household debt. Hence, somewhat perversely other factors such as rising oil prices, higher than expected inflation, stronger than expected manufacturing output, a depreciating pound, and a consumer bounce-back in June were overridden. Interest rates have been maintained at 4.5% in both the September and October meetings.

The MPC also noted that house prices and mortgage approvals had been 'broadly flat', and certainly there have been significant easings in the housing market over much of the South of the United Kingdom. Headlines from the Halifax (HBOSplc) refer to a slowing market in Greater London and the South East, below average house price inflation in East Anglia, a flattening market in the East Midlands, and very slow growth (1.6%) in the South West. The North and Wales are however maintaining quite vigorous growth, showing that the North/South house price divide remains a feature of this market.

The effect of this 'divide' is that while prices have risen substantially since 1995 in London and the South East, the gap between them and the rest of the UK has become its most narrow since the final quarter of 1997.

This remains a difficult market to forecast, but given the regional variation, none of the predictions cited in the Spring *Review* were incorrect with growth remaining in the North, stability in the South West and some falls in the South East.

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



Source: Halifax House Price Index

Table 6: All Houses, All Buyers (Seasonally Adjusted) Second Quarter 2005.

Region	Index 1983=100	Standardised Average Price £	Quarterly Change %	Annual Change %
North	510.1	128,711	-0.9	4.9
Yorks & Humber	536.7	123,920	0.7	8.9
North West	509.2	130,254	0.5	7.8
East Midlands	568.6	148,616	0.2	2.9
West Midlands	562.9	158,881	0.3	4.0
East Anglia	527.3	158,648	-1.6	1.7
Wales	**559.4**	**184,973**	**1.6**	**1.6**
South West	530.8	215,456	-1.2	-0.6
South East	600.1	238,950	-1.1	-2.5
Greater London	556.5	144,023	4.2	8.7
Northern Ireland	370.9	107,294	1.4	12.5
Scotland	477.6	122,813	3.9	26.9
UK	**527.1**	**162,850**	**0.0**	**3.7**

Source: Halifax 2005

Table 6 clarifies the current regional picture. In the second quarter of 2005 the highest annual change in house prices occurred in those regions furthest from Greater London. While Greater London house price growth remained strong over the year, the South West and South East experienced house price deflation. Over the latest quarter, deflation also occurred in the North, East Anglia as well as in the South West and South East.

It has become a tradition in this section to comment on some of the more interesting challenges and developments facing the UK housing market, and there has been a preoccupation with the vexed issue of inadequate supply of affordable homes.

Previous *Reviews* have referred to 'pod living' as a remedial measure to address this shortage. Two other possibilities have recently attained press coverage. The first comes from East Germany where ugly high rise tower blocks from the communist era are now being transformed into 'chic family homes' in a far-sighted and novel eco-friendly recycling project. In the past, as these monstrosities were torn down the concrete was crushed for hard-core. Now a Berlin team have pioneered the 'recyclinghaus'. The first of these took nine days from dismantle to basic reconstruction and cost around £118,000 (*Daily Telegraph*, 11th August 2005). Some might consider more alarming a prospect that arises from reports of active government lobbying on the part of the British Holiday and Home Park Association (BH&HPA), an organisation which believes that 'park homes' or 'prefabs' could provide a viable answer to the starter home shortage. While much of this industry's output is fuelled by demand for replacement homes, and the concept has yet to gain acceptability in government circles, there are those who believe this could be a solution to increasing housing stock – and quickly. In the United States over 8 million people live in trailer park homes, but negative aspects of the American experience include the 'trailer trash' stigma and the vulnerability of such occupants to exploiting park owners. Such short term quick fixes have an unhappy knack of enduring with the effect, in this case, of downgrading the overall quality of the British housing stock.

The debate highlights an interesting schism in government. On the one hand, Mr Prescott (in his capacity as Minister of Transport, Environment and the Regions) recently pledged to get 100,000 more householders onto the property ladder by 2010 (in reality a modest promise). On the other hand Mr Brown's plans to give tax breaks on second homes could exacerbate the lower end housing shortage in rural areas.

Construction News

In July the controversial Bluestone Project in Pembrokeshire passed through the latest (and perhaps final) legal hurdle when an attempt to overturn planning permission by the Council for National Parks failed in the Appeal Court. The organisation continues to express concerns that permissions on the development, which ingresses into the Pembrokeshire National Park, will create alarming precedents for other similar encroaching developments should they occur elsewhere in the future. The judgement

Table 7: Average House Price by Welsh Local Authority, 2004 and 2005.

County	Average House Price - £ 2004**	Average house Price - £ 2005**	% Change
Blaenau Gwent	66,417	92,082	39
Bridgend	111,559	127,414	14
Caerphilly	92,646	121,831	32
Cardiff	142,495	163,926	15
Carmarthenshire	110,132	140,379	27
Ceredigion	143,213	160,513	12
Conway	130,075	156,369	20
Denbighshire	117,205	132,728	13
Flintshire	123,576	150,820	22
Gwynedd	104,579	135,042	29
Isle of Anglesey	114,328	147,846	29
Merthyr Tydfil	73,284	94,841	29
Monmouthshire	169,772	193,061	14
Neath Port Talbot	80,961	111,925	38
Newport	123,595	143,827	16
Pembrokeshire	138,129	162,266	17
Powys	144,387	183,709	27
Rhonda Cynon Taff	89,134	105,405	18
Swansea	118,658	133,365	12
Vale of Glamorgan	149,250	177,221	19
Torfaen	107,364	129,128	20
Wrexham	134,604	145,293	8

** 12 months to June.

Source: Halifax 2005

in favour of the project appears to reflect the view that, in this case, the economic benefits along with careful landscaping of the 300 log cabins outweigh the arguments made by the Council for National Parks. Construction work is likely to begin this year and will take seven years to complete.

A less controversial but nonetheless interesting project also became newsworthy in July when site work began on Dragon International Studios (often referred to as Valleywood), after it received confirmation of Objective One funding. The project, chaired by Lord Attenborough, will cost £330m and comprises a number of phases which will take over a decade to complete. The first phase involves the construction of five studios which will be used by small film-makers, and fulfil a gap in the market for affordable facilities outside the M25 boundary. Eventually, the studios will provide around 300 permanent jobs, but a fully commissioned studio could be associated with activities employing over a thousand people; albeit in an ephemeral manner. The development is timely in a world of proliferating broadcast channels and the significance of the initiative far exceeds employment provision.

Revised plans for a £275m mixed development at Merthyr were also unveiled in the summer. The plans involve the construction of 1,750 new homes on currently derelict land in Rhydycar.

Smaller projects include a luxury cinema and a branch of Debenhams in Camarthen. The store will create 150 jobs, and MAV Developments have submitted outline plans for a £50m industrial and office development on a 48 acre site in Magor. Alfred McAlpine have also submitted plans for a nearby 100 bed hotel and a pub/restaurant. Finally, construction has resumed on Cardiff University's bioscience building. Work was stalled for many months as a result of planning difficulties.

In September a series of important schemes were announced along the Carmarthenshire coast. The developments, together to be known as Llanelli Waterside, comprise 5 key sites: North Dock (18 acres), Delta Lakes (34 acres), Sandy Water Park A (4 acres), Old Castle Works (7.5 acres) and Machynys (25 acres). The total investment, involving new homes, businesses and leisure will be worth £250m with the potential for creating 1,500 jobs.