

Property Markets

Property markets are tightly linked into the circular flow of economic activity. The lending behaviour of banks caused the credit crunch. Their recapitalisation and reluctance to lend has prolonged it. The UK housing market remains in the doldrums. Many building programmes being undertaken by private sector construction companies have been shelved, and Britain's social housing providers have reported a decline in the rate of affordable home-builds, as they negotiate new terms with the government. A suppressed housing market impacts on consumer demand for household goods, and so on.

It is unsurprising then that the UK government recently announced a number of measures to boost the market from the bottom up. In November 2011 the mortgage indemnity scheme was launched, in which the government will undertake to underwrite some of the lenders' risks on mortgages up to 95% of the value of newly-built homes. This is expected to help 100,000 people. Signed-up lenders are Barclays, HSBC, Lloyds Banking

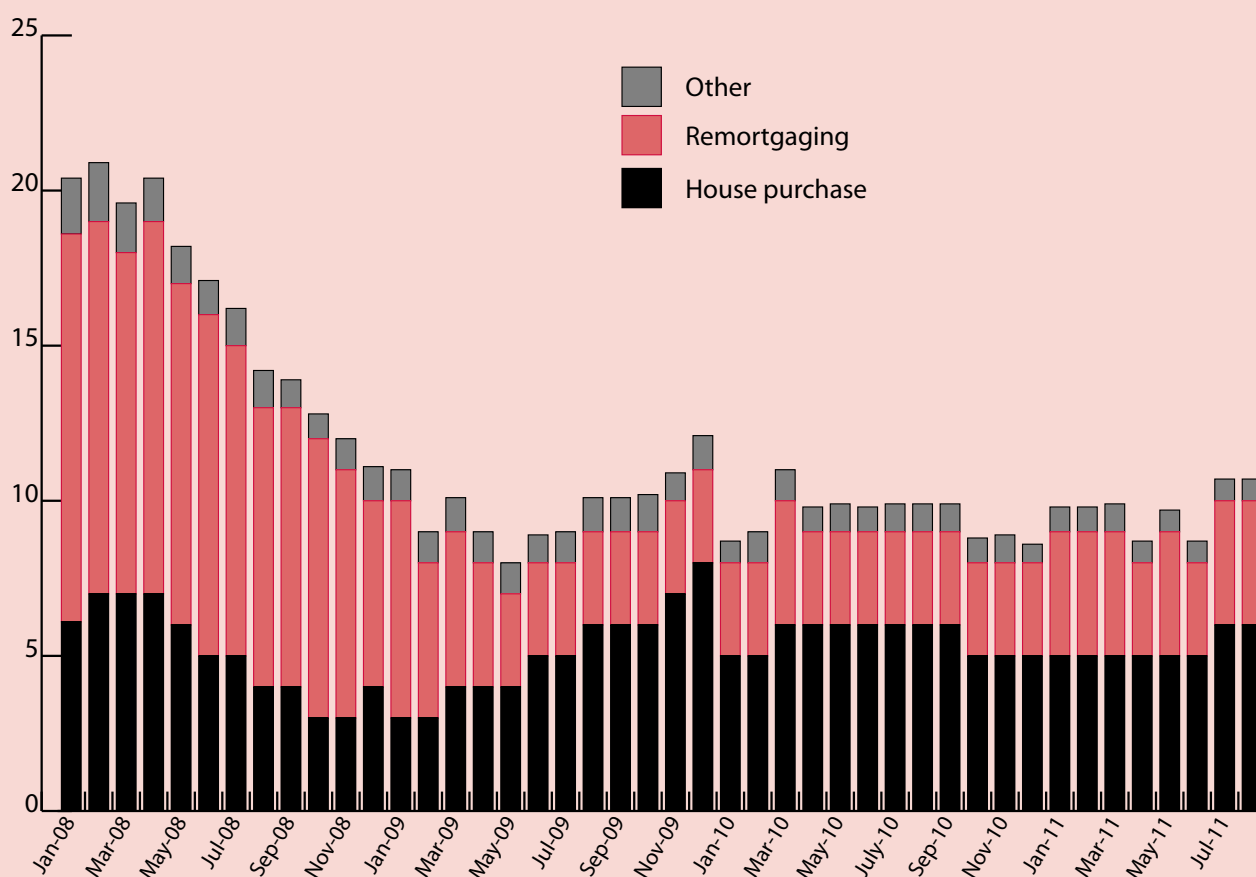
Group, Nationwide, Royal Bank of Scotland, Santander, and Yorkshire and Clydesdale Banks, who between them have 80% of the mortgage market. Among the 25 developers who have agreed to participate in the scheme are Barratt, Persimmon and Taylor Wimpey, who build around 60% of all new homes in the country.¹

A 'Get Britain Building Fund' of £400m was also announced to reinvestigate

building projects which have been moth-balled, providing these projects meet the criterion of a commitment to affordable homes. This will be rolled out in the summer of 2012. However, against a background of cuts, it is impossible to determine whether any or how much of this is new money.

Another interesting development is HSBC's new mortgage deal at 3.84% two-year discount with no fee to pay,

Figure 2 Mortgage lending by the major UK lenders (seasonally adjusted) £ billion



Source: Bank of England

Note: The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split from 2009 onwards is reported data from the major UK lenders, rather than estimated data. Data from the major UK lenders on secured gross lending are provided to the Bank on a 'best endeavours' basis. Data covers lending in both sterling and foreign currency, and is expressed in sterling terms.

¹ http://www.estateagenttoday.co.uk/news_features/New-mortgage-indemnity-scheme-could-hit-mainstream-homes-market

with a 10% deposit. For the first two years the rate will be 0.1% below the bank's standard variable rate (SVR), and thereafter at the SVR (currently 3.94%). It is not without potential problems since the lending rate is fixed

to the banks own rate which can be varied at any time, and the bank is likely to undertake rigorous credit checks. Nonetheless it appears to go against the grain of other lenders who are raising their mortgage rates to cover costs

incurred from a rising London Interbank Offered Rate (LIBOR). For example, the Woolwich, Halifax and Santander have increased their mortgage tracker rates and fixed-rate mortgages, and the Bank of Scotland has increased its SVR by

Table 8: Land Registry House Price Index, November 2011

	Monthly change %	Annual change %	Average price (£)
North West	1.4	-4.8	112,374
Wales	1.1	-1.6	118,370
London	0.8	1.4	342,749
West Midlands	0.6	-1.8	131,303
Yorkshire & The Humber	0.5	-3.4	120,057
South West	0.3	-1.9	172,150
North East	0.3	-5.4	101,954
East Midlands	0.0	-2.5	123,352
South East	-0.1	-0.9	206,371
East	-0.6	-2.3	171,619
England & Wales	0.3	-1.9	160,780

Source: Land Registry (2011).

Table 9: Average house price by Welsh unitary authority, twelve months to November 2011

Local authority	Average house price (£) November 2011	Monthly change (%)	Annual change (%)
Blaenau Gwent	71,818	2.0	-4.8
Bridgend	116,773	0.3	-6.9
Caerphilly	98,763	-0.9	-5.3
Cardiff	145,557	0.4	1.0
Carmarthenshire	107,683	-2.2	-5.8
Ceredigion	161,367	1.2	-6.0
Conwy	137,055	-0.9	-0.5
Denbighshire	116,330	-1.4	-3.9
Flintshire	124,264	-1.6	-4.4
Gwynedd	137,419	-2.7	-5.4
Isle of Anglesey	134,044	-1.9	-0.4
Merthyr Tydfil	66,699	-5.9	-8.6
Monmouthshire	176,660	-0.7	-1.9
Neath Port Talbot	85,992	3.3	-5.6
Newport	115,111	-0.3	-4.1
Pembrokeshire	140,990	-1.0	-5.9
Powys	150,144	0.2	-6.7
Rhondda Cynon Taf	75,559	-0.1	-6.2
Swansea	107,981	-1.5	-6.1
The Vale of Glamorgan	155,059	0.3	-1.8
Torfaen	103,997	-1.8	-3.6
Wrexham	120,771	-1.1	-1.7

Source: Land Registry (2011).

0.11 percentage points to 4.95%. It will be interesting to see how influential HSBC will be in reversing the lending sentiment.

Figure 2 shows mortgage lending by major UK lenders. The house purchase lending contour depicts the trough of 2008 followed by the green shoots (or false dawn) of 2009/10, and the protracted lumpiness since.

The average house price for England and Wales was £160,780 in November 2011 according to the Land Registry. This is very close to the Halifax figures of £160,907. It is now some years since the average house price broke through the £200,000 threshold. The average house price was £211,453 according to the Land Registry's quarterly report for July to September 2006. After a difficult period of declining values, the average house price rose once again to over £200,000 by January 2010, subsequently dropping back to its current value. However, the Centre for Economics and Business Research predict that by 2015 the average house price will have once again risen to over £200,000. This predicted rise is expected to be very gentle and below inflation; premised on the chronic lack of homes in the UK. There is little prospect of another housing boom.

Returning to the current position, Table 8 shows that house prices have fallen the most in the North West and North East followed by Yorkshire and Humberside, reflecting the old and persistent North South divide. Wales sits in the middle of this depressing picture,

while house prices in London are holding their own, as ever. On a more optimistic note, the monthly change reported has turned positive for the regions – but these are hardly 'green shoots'.

Table 9 shows that average house prices in Wales are highly variable. The lowest house prices are found in Merthyr Tydfil (£66,699) with the highest prices to be found in Monmouthshire some 2.6 times higher (£176,660). In the last property report the highest prices were to be found in Ceredigion (£172,288); around 1.8 times higher than the lowest (Merthyr £70,347). At the moment conditions in Wales are conspiring to widen existing local differences. Demand for housing is typically stronger in Monmouthshire, Caerphilly, Cardiff and the Vale, and the annual figures reflect this. Meanwhile, Merthyr Tydfil experienced the highest *annual* price change in November, with a downward movement of 8.6%, and Neath Port Talbot experienced the strongest *monthly* growth with an increase of 3.3%. On the whole though, the picture in Wales is more optimistic than that reported in the last Review, in which the percentage annual change was negative across the board.

Construction News

Most people will be able to call to mind an abandoned building site in their neighbourhood. The speculative builds that were typical of the early 2000s can no longer be countenanced. However, construction is still active in the public and not for profit sectors that have longer term building programmes, and this includes the Higher Education

sector which needs to fulfil demand for student accommodation (often driven by demand from overseas students).

The Welsh Assembly Government recently announced funding of £15m to back Swansea University's science and innovation campus. This is a £400m regeneration scheme for 69 acres of land on Fabian Way, previously owned by BP.

Other developments include the £5m Milford Marina project, being undertaken by Pembrokeshire Marine Group. The five year scheme will incorporate a new dry stack berthing facility, upgraded berthing pontoons, and new safety equipment. Some 38 acres of land in Cardiff Bay are also under redevelopment; a joint venture between Igloo and the Welsh Government. The Porth Teigr development, which incorporates the BBC Roath Lock Studios, includes proposals for new commercial, retail and residential space.

In recognition of the impact of current economic conditions on construction businesses in Wales four organisations have recently convened (Civil Engineering Contractors Association (CECA Wales), National Federation of Builders (NFB), Federation of Master Builders (FMB) and Home Builders Federation (HBF)) to form the Wales Construction Federation Alliance (WCFA). This new 'voice' was keen to emphasise that businesses employing fewer than 10 people account for almost 98% of the construction sector in Wales.