

# LSL New Build Index

The market indicator for New Builds

Feb 2020



In the year to end January 2020 new build prices per m<sup>2</sup> rose by an average of 2.19% across the UK...

## The Market

The latest house price data from the Office for National Statistics finds that average UK house prices are up 2.2% over the year to December 2019, and up from a figure of 1.7% in the year to November (see also tables 3-6). England, Scotland and Wales saw a price rise of 2.2% over the year and Northern Ireland saw a rise of 2.5%.

In England, at a regional level, all regions experienced price rises, the first time that this has happened since February 2018. The data runs off completed sales so it will reflect a pickup in activity towards the back end of 2019 as opposed to a post-election boost, although this effect may now be occurring too.

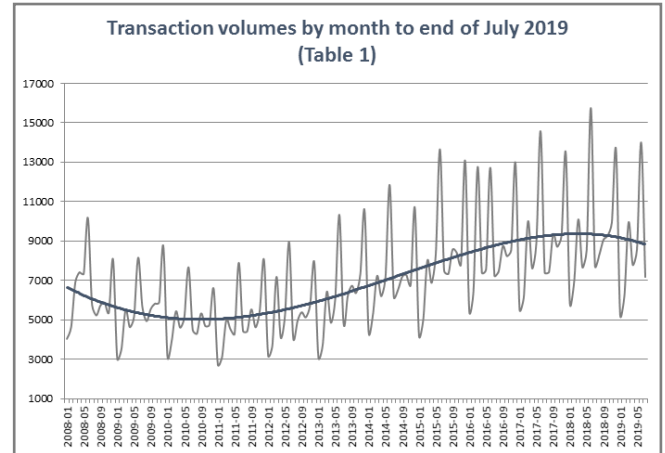
Looking over the past two decades, house price growth across the UK peaked at 10% around June 2007 before falling to -15% around February 2009. In the years since August 2016, year on year growth has been steadily declining, heading from the 5% mark down towards zero. However, over the past few months the trend line appears to have bottomed out and turned upwards and the coming months will confirm if this is a move towards a stronger market.

At a regional level it is Yorkshire and the Humber that has experienced the strongest house price growth with an annual figure of 3.9%, followed by the East Midlands at 2.8%. The South West, East and London

have experienced growth rates between 2% and 2.5%; the North West and North East experienced growth rates between 1.5% and 2.0% and the South East and West Midlands have seen growth between 1% and 1.5%.

HMRC produce residential transaction statistics through the ONS. Simple economics dictates that supply and demand combine to set price levels and changes in supply and demand determine whether or not market prices are rising or falling. So it is worth noting whether the positive indications coming from the price data are underpinned by transaction data. Although subject to updating, the provisional seasonally adjusted estimate of UK residential property transactions for January 2020 was 102,810 which was 5.2% higher than the January 2019 figure and 4.1% higher than the December 2019 figure. When looking at month on month residential transaction data there is a repeating 'heartbeat' pattern as transaction volumes change through the year (Table 1). The seasonally adjusted figures smooth this out and on this basis transaction volumes have been relatively steady for the last five or so years. It does however look as if there may now be a sign of an uptick in activity and these indications are coming from this and various other sources.

The latest RICS UK Residential Market Survey supports the positive data coming from the ONS. It finds that buyer enquiries, agreed sales and new instruction have all risen over the month. The surveyors who responded to the survey are upbeat about sales activity in the coming year and house prices are up at the National level, driven by a turnaround in London and the South East. The RICS

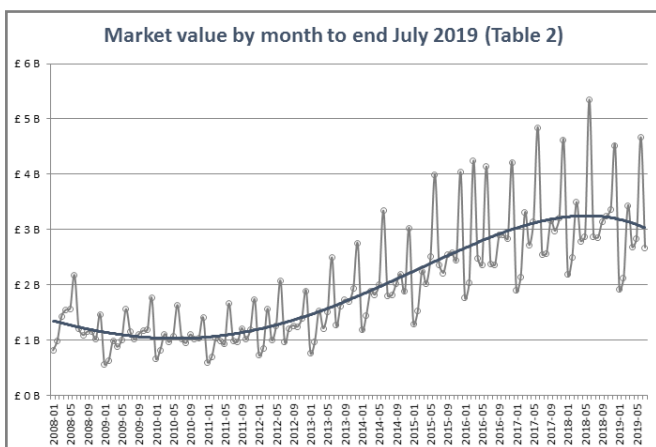


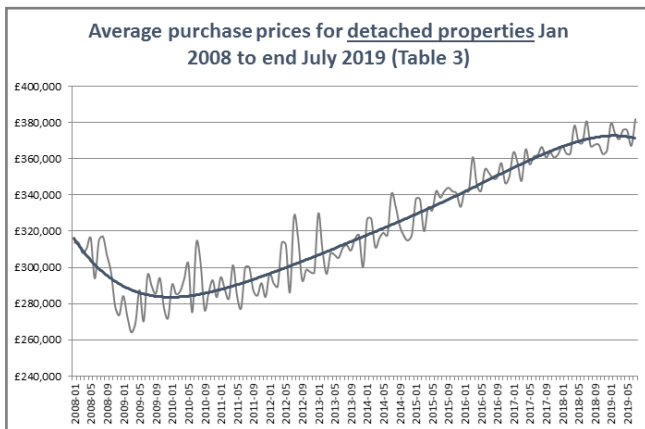
expects to see house price inflation gathering pace both in the near and longer terms.

The body representing the mortgage and other personal finance sectors across the UK is called UK Finance and their Mortgage Trends update has just been released for December 2019. The figures support the idea that the market is stabilising and perhaps beginning to rise, as suggested by the above data sets. In December 2019 there were 29,490 new First Time Buyer mortgages which was 0.3% more than the December 2018 figure. There were 29,400 Homemover (not FTB's) mortgages which was 3.2% more than the December 2018 figure.

Hometrack produce a Cities Index which focuses on house price changes at city level. There is a long-term trend to move back into cities and this is perhaps reflected in the 3.9% 20 City Index house price growth that was recorded for December 2019, the highest level in the past two years. Cities in the North and Midlands are registering stronger growth than those in the South. Nottingham is the best performing English City with 5.2% growth whilst Manchester, Liverpool and Leicester all have over 4% growth. All cities in the North and Midlands are experiencing over 3% growth and most Southern cities are in the 1% to 2% growth band.

Analysis of sales volume and value data for new build homes up to the end of July 2019 suggests that the market has topped out at around 9000 transactions per month and may now be dipping slightly. It reached a low point of around 5000 transactions per month in 2010 and thereafter saw an increasing trend for several years. In value terms the trend line





shows a peak of over £3 billion per month in sales value around 2018, having fallen to a low point of £1 billion per month in 2010.

### The Long View

The English Housing Survey has recently published its report on peoples housing circumstances and the condition and energy efficiency of homes for the period 2018 to 2019.

Owner occupation rates, which peaked at 71% in 2003, have remained steady for the sixth year in a row at 64% or 15 million households. There had been a steady growth in owner occupation from the 1980's to 2003 after which it declined and then steadied around the present figure.

Similarly, the proportion of households in the private rented sector has remained unchanged for six years whilst the proportion in the social rented sector has remained unchanged for a decade. 4.6 million or 19% of households are in the private rented sector whilst 4 million or 17% are in the social rented sector.

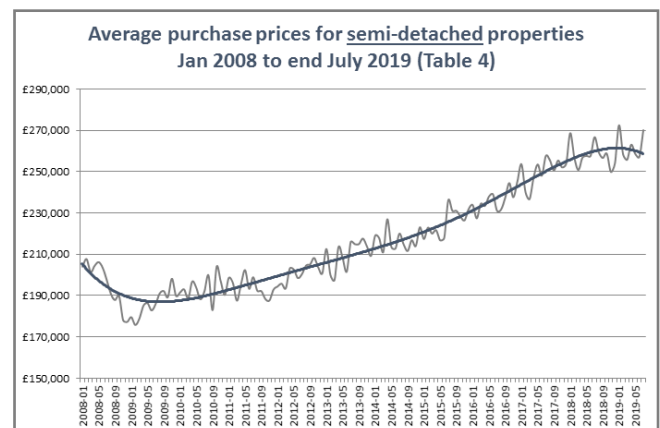
But when the above figures are examined in more detail, they reveal that there is a shift in favour of owner occupation within the younger end of the population and away from it amongst the older end. In the decade between 2003-4 and 2013-14 the proportion of owner occupiers in the 25 to 34 age group fell from 59% to 36%. Since then the proportion has steadily increased up to this year's figure of 41%. A corresponding move out of the Private Rented sector by this age group has happened over the same period. But as the 25 to 34 age group move into the owner-occupied sector the 55 to 64 age group move out of it. Over the past

decade, the proportion of the 55 to 64 age group in the owner-occupied sector has fallen from 79% to 73%. 10% of 55 to 64 year olds now live in the private rented sector (up from 7% a decade since) and 17%, up from 14%, are now in the social rented sector. So as older people move into the rented sector, perhaps to free up equity in their homes, more younger people are moving into owner occupation. This is good for the housing market as younger people tend to move up the housing ladder, so creating more buyers and sellers whilst older generations tend to remain in their homes.

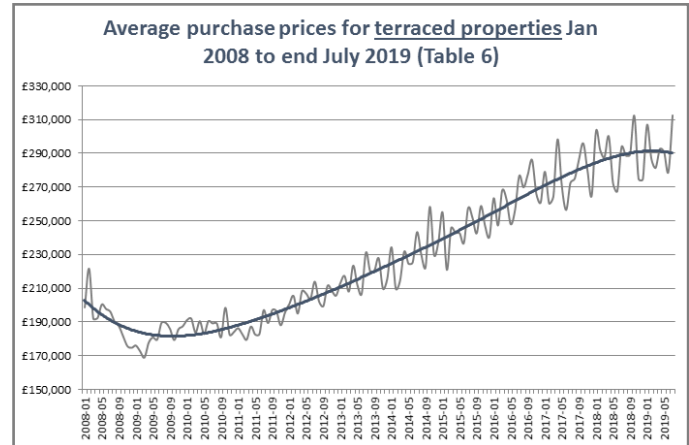
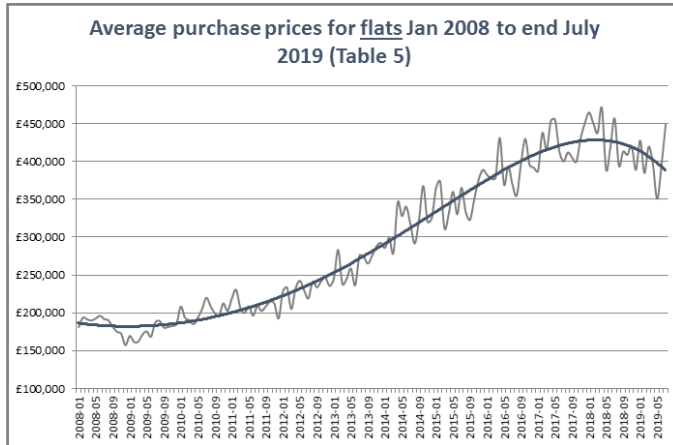
### Current News

The Government has recently issued a consultation document on its proposed 'First Homes' scheme which is intended to deliver owner occupied housing to key workers and First Time Buyers. The consultation is running around what the scheme will comprise of and how it will be delivered. It appears that the scheme will be based on a permanent discount being applied to the initial sale and subsequent resales of the properties that are included. It is not clear what the benefit is over a shared ownership type scheme and an immediate concern is how easy it will be to police the true value of the properties when they are subsequently sold at an enforced discount price. Time will tell how this evolves but it appears as if the house building sector will be required to deliver the scheme.

Under a shakeup of the immigration system to be introduced from January 2021, a new points-based system will be introduced to limit business reliance on low paid labour from the EU. The care homes, farming and construction sectors are amongst those likely to be hardest hit by these changes. Those



earning between £20,480 and the £25,000 threshold may be able to come in if they are skilled in an area with a labour shortage. But fear not, the Home Secretary says that there are 8 million economically inactive people aged between 16 and 64 who can be trained to do these jobs.



### First time buyers - Affordability

| Region                   | 2 bed 70 sq m Starter home | Ave annual earnings Full Time employees | HPE         | Affordability Index |
|--------------------------|----------------------------|---|-------------|---------------------|
| East Anglia              | £232,679                   | £34,676                                 | 6.71        | 115                 |
| East Midlands            | £150,580                   | £29,578                                 | 5.09        | 87                  |
| Greater London           | £424,719                   | £42,503                                 | 9.99        | 171                 |
| North East               | £122,997                   | £28,232                                 | 4.36        | 75                  |
| North West               | £142,527                   | £30,011                                 | 4.75        | 81                  |
| Scotland                 | £158,782                   | £31,672                                 | 5.01        | 86                  |
| South East               | £248,047                   | £36,464                                 | 6.80        | 117                 |
| South West               | £187,577                   | £30,600                                 | 6.13        | 105                 |
| Wales                    | £138,806                   | £28,867                                 | 4.81        | 82                  |
| West Midlands            | £170,514                   | £30,055                                 | 5.67        | 97                  |
| Yorkshire and the Humber | £142,458                   | £29,244                                 | 4.87        | 83                  |
|                          |                            |   | <b>5.84</b> | <b>100</b>          |

Based on a simple average of property prices for the current year  
 Ave annual earnings from ONS EARN 05: Average Gross Earnings of Full Time Employees.









Table 7: The First Time Buyers Affordability Index above looks at the average selling price of a 70 sq m property, which would typically be 2 beds in each region. The figures are derived from the selling prices of new build terraced houses and flats across the regions. These average selling prices for a typical 70 sq m property are then compared with the average earnings in each region to create the average price to earnings ratio.





# Average New Home price per m<sup>2</sup>





Period February 2019 to January 2020.





-  Detached
-  Flats
-  Semis
-  Terrace





## North/South Average % Change





| NORTH   |  | % AVERAGE | SOUTH   |  | % AVERAGE |
|---|--|-----------|---|--|-----------|
|  |  | 1.66 %    |  |  | 2.00 %    |
|  |  | 8.20 %    |  |  | -0.86 %   |
|  |  | 3.72 %    |  |  | 1.31 %    |
|  |  | 5.32 %    |  |  | -2.16 %   |





| SCOTLAND  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £1,770                     |
|  | £2,305                     |
|  | £1,959                     |
|  | £2,191                     |





| NORTH WEST  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|    | £2,207                     |
|    | £2,343                     |
|    | £1,936                     |
|  | £1,999                     |





| NORTH EAST  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|    | £1,917                     |
|    | £2,039                     |
|    | £1,741                     |
|  | £1,623                     |





| WEST MIDLANDS   | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £2,392                     |
|  | £2,851                     |
|  | £2,275                     |
|  | £1,707                     |





| YORKSHIRE & THE HUMBER  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £2,103                     |
|  | £2,606                     |
|  | £1,931                     |
|  | £1,957                     |





| WALES   | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £1,432                     |
|  | £2,527                     |
|  | £1,901                     |
|  | £1,984                     |

| EAST MIDLANDS   | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £2,196                     |
|  | £2,154                     |
|  | £2,093                     |
|  | £2,179                     |

| SOUTH WEST  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £2,605                     |
|  | £3,285                     |
|  | £2,578                     |
|  | £2,508                     |

| GREATER LONDON  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £4,704                     |
|  | £6,832                     |
|  | £5,173                     |
|  | £5,147                     |

| SOUTH EAST  | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £3,451                     |
|  | £3,973                     |
|  | £3,496                     |
|  | £3,354                     |

| EAST ANGLIA   | £ AVERAGE / M <sup>2</sup> |
|---|----------------------------|
|  | £2,916                     |
|  | £4,008                     |
|  | £2,942                     |
|  | £2,993                     |

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