

LSL New Build Index

The market indicator for New Builds

July 2019



In the year to end June 2019 new build prices per m² rose by an average of 4.35% across the UK...

The Market

With a new Prime Minister, who could in short order be replaced by another new Prime Minister, and a Brexit outcome that could be anywhere between an agreed settlement and no deal; it is clear that we continue to live in uncertain times. Whilst not as dramatic, things are equally uncertain in the housing market, with some sources finding reason for enthusiasm, whilst others see a market downturn and others again suggest a thriving new build market. But whilst the political and property environments are producing mixed messages, the general economic background does show some signs of stagnation.

The Royal Institution of Chartered Surveyors (RICS) carries out a monthly survey of their members. It has reported that in June there was the first increase in new buyers since November 2016. The RICS has identified various signs indicating that the market is starting to stabilise. For the first time since 2016, sales and new instructions started to pick up in June, and after four months of decline the measure of price changes indicated stabilisation.

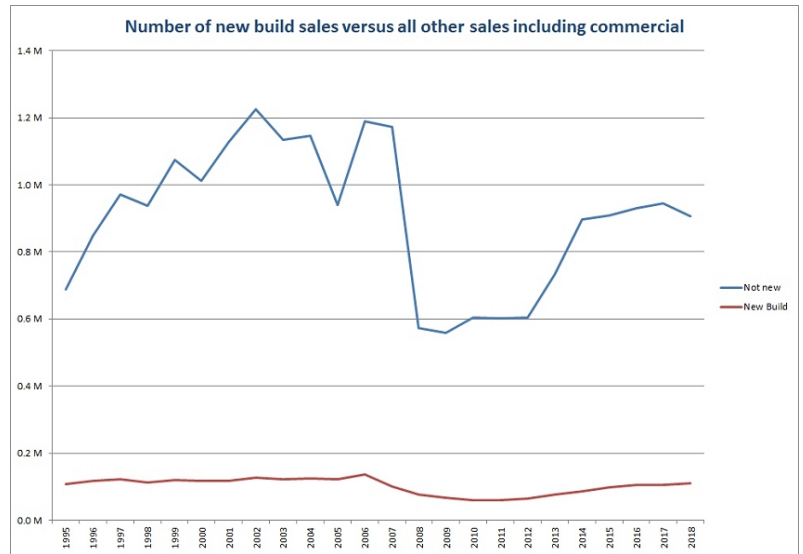
Whilst the RICS does not see cause for unbounded optimism, they see that prices seem on average to be settling down and that the low interest rate

environment, combined with record employment levels and a shortage of homes for sale, are putting a floor under prices.

The latest Office for National Statistics (ONS) UK House Price Index covers the period to the end of May 2019 and has recently been published. The report finds that average UK price increases are 1.2% in the year to the end of May 2019, down from 1.5% in the year to the end of April. This reflects the general slowdown in price rises, driven mostly from the South East and East of the country, which are the regions that have experienced most growth in recent years. Over the period in question prices fell in London by 4.4%, which is the biggest annual fall since August 2009 when an annual fall of 7% was recorded. That said, the fall in London in the year to April was 1.7%, so it may well turn out that we are looking at a blip. As previously noted, it is London and the North East that are falling in price terms, other regions are showing some increase in prices, which suggests that demand is outstripping supply.

The long view

Fans of the TV series ‘Gentleman Jack’ will know that it was filmed at Shibden Hall, a timber framed building constructed nearly 600 years since. In Scotland 83% of all housing starts are timber framed, where as in England the number is just 23%. Moving further afield, offsite construction is the accepted means of construction across much of the rest of the

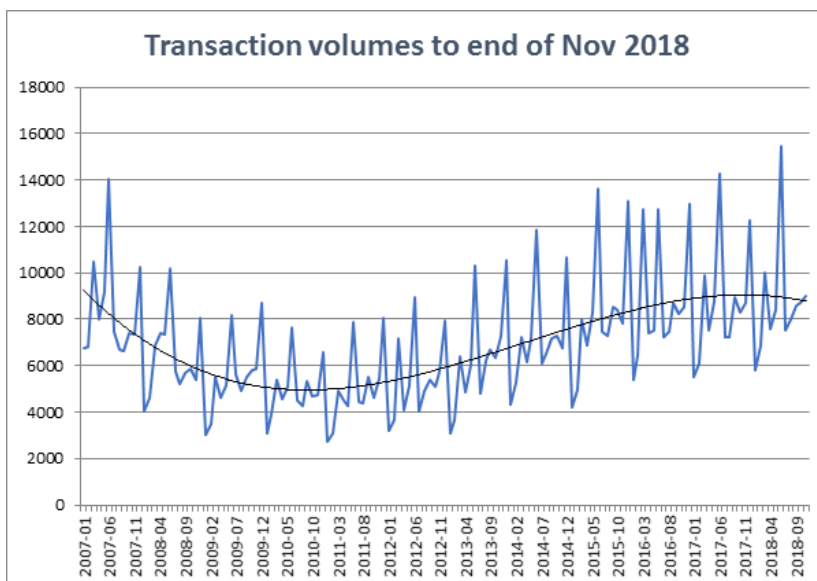


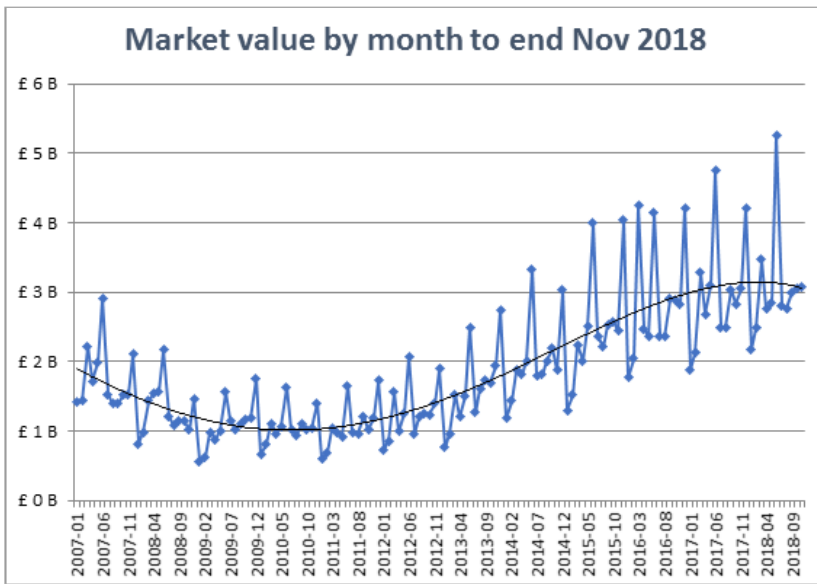
world. In England however, we tend to prefer ‘Brick and block’ construction and it tends to follow that it is more difficult to guarantee consistently good build quality when each site is unique.

The obvious solution seems to be to move towards Modern Methods of Construction (MMC) and timber frames, as these use offsite manufacturing which allows less variation in the finished product. But the reason for the caution may be a bit more complex. Some post war non traditional housing, largely built for the social housing sector, turned out to have inherent defects and mortgage lenders stopped lending on these ‘Designated Defective’ houses. More recently, external cladding issues caused some lenders to stop lending on some blocks of flats. So it may very well be the case that the stigma attached to

anything other than ‘Brick and Block’ still stands – even though Gentleman Jack’s timber framed house is still standing too. It is a simple fact that the more control you have over a process, the better you can guarantee the output. But there seems to be increasing reason for English house builders to start moving away from brick and block construction, and to start implementing the alternatives.

Recent research by Savills predicts that the number of households living in Build to Rent (BtR) property will grow from 30,000 today to 1.74 million when the market matures in approximately one decade’s time. This would account for around one third of the





to 43.1 in June which is below expectations and this indicated the fastest fall off in workloads in the past 10 years. However, the data does show a cyclic effect over time, with the distance between peaks being 2-4 years since 2004.

In recent months there has been talk of a strengthening manufacturing sector, spurred on by stock piling as a result of Brexit concerns. This view may change given that June proved to be the worst month for manufacturing since 2013. The UK slowdown is also blamed on a wider Global slowdown and the migration of manufacturing operations away from the UK due to lower operating costs elsewhere.

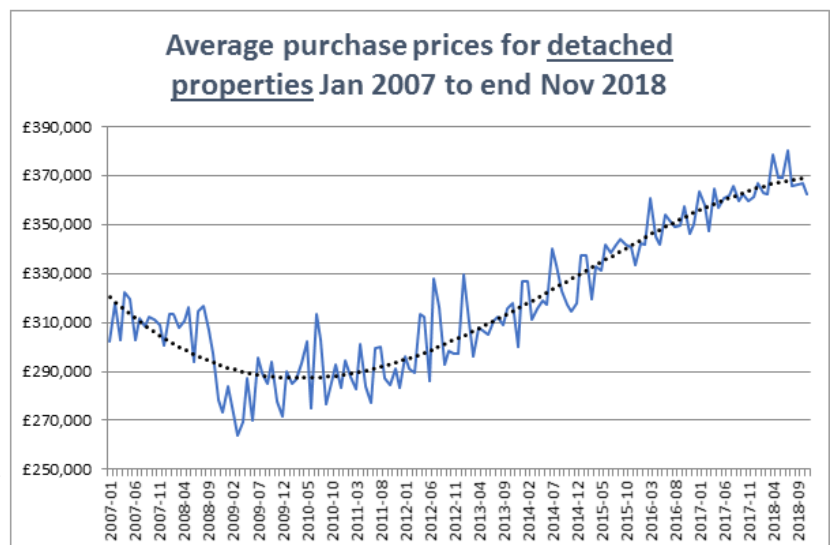
private rented market and represents a growth in value of the BTR sector from £9.6 billion in 2019 to £543 billion when the market matures (assuming today's prices), the report finds. In part the growth in BtR is matched by the fall in private landlords, with the report estimating that 100,000 have left the private rented sector since recent tax changes were introduced.

The recently published LSL Land & New Homes 'New Build Market Review 2006 to December 2018' looks at the long run trends in the new build industry. The number of recorded new build transaction in June 2017 and June 2018 have both exceeded all years back to at least January 2007. In value terms the new build market has roughly doubled between the months of December 2007 and December 2017. Looked at from a regional perspective, the report details transaction volumes for each year between 2007 and 2018. It shows that many regions have seen steady growth in transaction volumes in recent years with London being the exception, where volumes have fallen over the past few years.

Current News

There is now the suggestion that the UK economy may have contracted in the second quarter of 2019 and the Purchasing Manager's Index (PMI) has shown the construction sector has seen the steepest fall since 2009. The IHS Markit / CIPS purchasing managers index fell

But in apparent contradiction to the problems of the wider construction sector, the latest figures from the NHBC show that new build starts (13,500 in April) are running 21% ahead of last years comparable figure. This figure is however partly a response to the 'Big Freeze' and the coming months may start to reflect the decline reported by the PMI. The Government's live tables on house building are projecting that 2018 to 2019 new build 'all dwellings' starts in England will be about 1.3% above the 2017 to 18 figure; the comparable completions figure is 5.7%. The difference between the two is probably a reflection of concern within the sector for future sales levels and the decision to reduce the level of upcoming supply in the event of a market slow down.



Over the past month at least two of the leading house builders have given trading updates indicating that their output and profitability figures are broadly in line with last years. Notwithstanding negative news from some sources, the overall volume of house sales is staying roughly steady and new build is at least maintaining its share of that market.

First time buyers - Affordability

	2 bed 70 sq m Starter home	Ave annual earnings Full Time employees		Affordability Index
East Anglia	£236,477	£34,273	6.90	115
East Midlands	£148,030	£29,165	5.08	85
Greater London	£421,356	£41,400	10.18	170
North East	£125,418	£27,642	4.54	76
North West	£142,906	£29,063	4.92	82
Scotland	£160,363	£30,700	5.22	87
South East	£247,603	£36,116	6.86	115
South West	£182,036	£29,992	6.07	101
Wales	£145,426	£28,240	5.15	86
West Midlands	£175,503	£29,457	5.96	100
Yorkshire and the Humber	£143,467	£28,951	4.96	83
			5.98	100

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.









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.

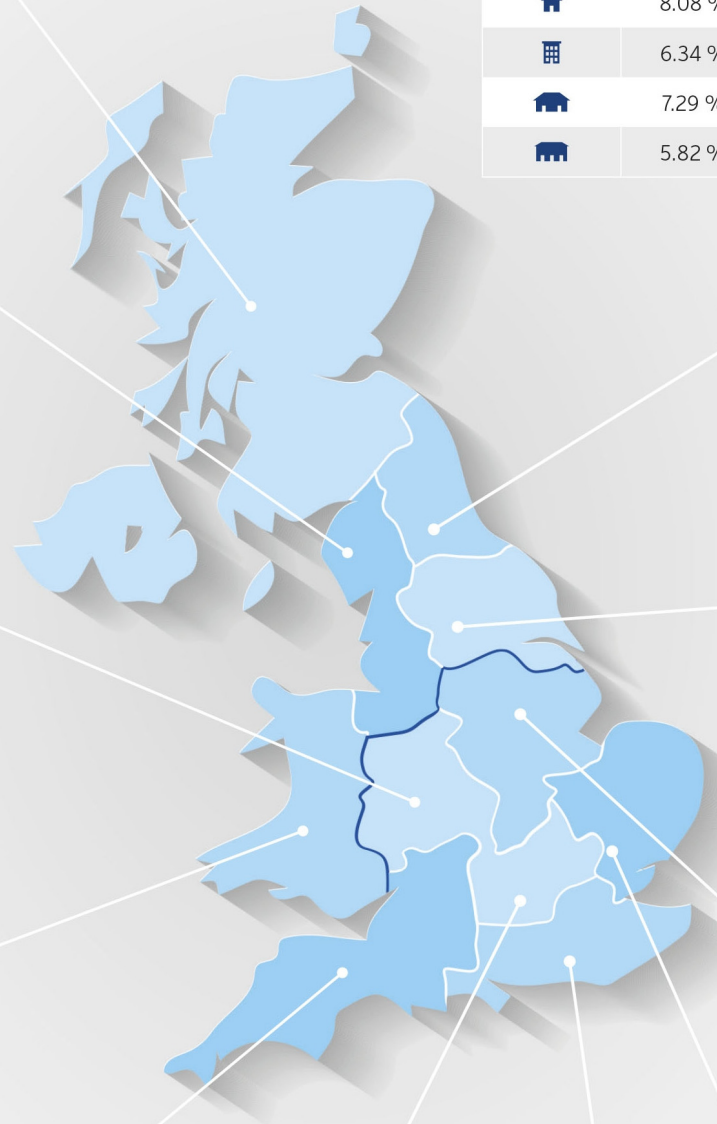
-  Detached
-  Flats
-  Semis
-  Terrace





Average New Home price per m²





Period July 2018 to June 2019.





North/South Average % Change





NORTH		% AVERAGE	SOUTH		% AVERAGE
		8.08 %			4.67 %
		6.34 %			-0.76 %
		7.29 %			1.84 %
		5.82 %			3.21 %











SCOTLAND	£ AVERAGE / M ²
	£1,810
	£2,296
	£1,863
	£2,126





NORTH WEST	£ AVERAGE / M ²
	£2,185
	£2,450
	£1,922
	£2,016





WEST MIDLANDS	£ AVERAGE / M ²
	£2,334
	£2,849
	£1,854
	£2,273





WALES	£ AVERAGE / M ²
	£1,734
	£2,382
	£1,883
	£1,750





SOUTH WEST	£ AVERAGE / M ²
	£2,669
	£2,988
	£2,438
	£2,512





GREATER LONDON	£ AVERAGE / M ²
	£4,942
	£6,849
	£5,255
	£5,247

SOUTH EAST	£ AVERAGE / M ²
	£3,489
	£3,976
	£3,441
	£3,338

NORTH EAST	£ AVERAGE / M ²
	£1,837
	£1,959
	£1,696
	£1,618

YORKSHIRE & THE HUMBER	£ AVERAGE / M ²
	£2,026
	£2,429
	£1,829
	£1,845

EAST MIDLANDS	£ AVERAGE / M ²
	£2,116
	£2,193
	£2,096
	£2,055

EAST ANGLIA	£ AVERAGE / M ²
	£2,886
	£3,977
	£3,061
	£3,119

Notes

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[For further information or enquiries regarding the underlying data of the LSL New Build Index, please contact Shaun Peart via email](#)

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[For further information about the LSL Property Services Group including LSL Land & New Homes and e.surv, visit \[www.lslps.co.uk\]\(http://www.lslps.co.uk\)](#)

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