

# Spotlight South Wales Residential Development Sales

April 2012



## SUMMARY

Local housing markets across South Wales remain on the steady road to recovery

■ Average residential values across Cardiff, Swansea, Bridgend and Newport had shown signs of recovery during 2010, but fell back during 2011 remaining at least 10% below their 2007 peak, according to the Land Registry.

■ Urban land values for serviced land in strong residential locations have recovered close to their former peak levels due to a shortage in supply of land for family housing.

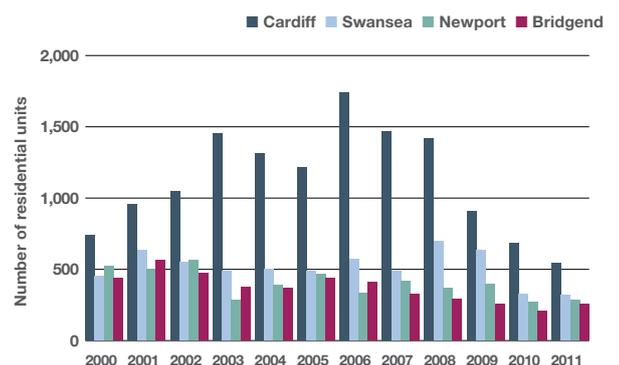
■ Like most local authorities across the UK transaction levels have failed to bounce back to their former peak

due to constrained mortgage markets and reduced levels of housebuilding.

■ The impact on the housebuilding industry from the recent recession has been widely reported nationally, with local housing markets across South Wales being particularly hard hit as lower demand and a lack of central government assistance for purchasers hits sales rates.

■ The M4 corridor has been the most active market within recent years as volume housebuilders concentrate delivery along the main routes of economic activity.

GRAPH 1  
Housing completions



Graph source: Welsh Government, Stats Wales

GRAPH 2  
Pricing and transactions vs. the peak



Graph source: Land Registry

### → Housing Delivery Across South Wales

#### Cardiff

Similar to the position back in the early 1990s just prior to the adoption of the local plan, Cardiff now finds itself with an apparent shortage of readily developable land for family housing as it awaits progress on its Local Development Plan.

Whilst there is a large stock of approved planning permissions, as well as some yet to come through the system which are awaiting the signing of legal agreements, a large number of these sites or phases are not deliverable as they hold consents for flats and are not suitable for current market demand.

The rise in supply since 2000 was due to a number of substantial releases, including a large number of high density Cardiff Bay and City Centre units and the redevelopment of former hospital sites. Since 2007 however, the change in the economic climate as well as the lack of an up to date development plan, through which further releases of appropriate sites would have been expected, has played a part in the recent falling away in the land supply position.

Average values have fallen in Cardiff due to an oversupply of flatted accommodation. Values of family housing particularly in the hotspots north of Cardiff have been less affected by the recent economic downturn.

High density flatted developments have been particularly affected by the change in market conditions. As a result housing densities are continuing to reduce due to the shift in demand for flats to houses

#### Swansea

Despite the impact of recessionary forces an average of 830 new dwellings were completed across Swansea during 2008 and 2009, an increase of 19% above the 10 year historic average.

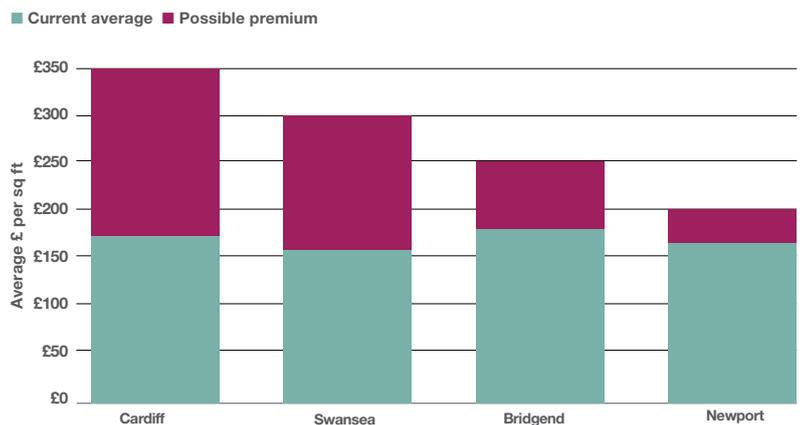
Part of the explanation for this apparent paradox continues to lie in the fact that many of the completions were located in large block schemes, on which construction had started prior to the global financial crisis, leaving

developers with little real option other than to continue through to completion.

Given the focus of recent development activity within the city centre, Maritime Quarter and The Welsh Assembly's £200m flagship waterfront project SA1, apartments have predominated accounting for over 75% of delivered units. Around a third of the 1,500 new residential dwellings at SA1 have been completed, but the start of construction work on some other private sector development proposals on the 38 hectares of land around the Prince of Wales Dock have been put on hold, although smaller exclusive housing only schemes within SA1 are outperforming.

Looking ahead, and bearing in mind the difficulties being encountered in

GRAPH 3  
Average and maximum new build £ per sq ft values  
A suitable product can beat local market conditions



Graph source: Savills Research

obtaining finance by both developers and purchasers alike, a further slowdown in starts is anticipated; through a continuing reduction in the number of new schemes coming forward, and the submission by developers for the re-planning of previously approved high density housing schemes and layouts.

### Newport and Bridgend

Unlike Cardiff and Swansea, Newport and Bridgend have not had the strength of demand to be regenerated by large scale flatted developments. The effects of the recession locally in both Newport and Bridgend had been slower to materialise, with completions in 2008 and 2009 slightly below the 10 year historic average.

Completions in 2010 and 2011 have now decreased as demand for family housing and apartment schemes in these more traditional manufacturing towns has contracted as affordability becomes constrained.

Anticipated progress on many sites, including Newport Unlimited's £2bn 'Gateway to Wales' regeneration scheme, have been put back due to the lack of cross subsidy from the residential, mostly flatted element.

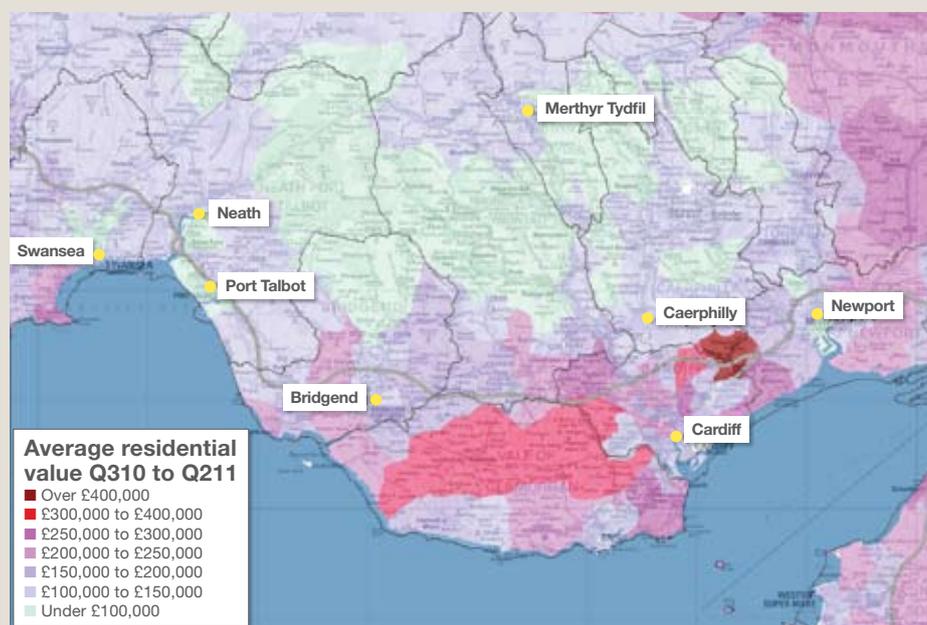
Despite being a University quarter, Newport's residential market is not underpinned by a strong rental demand. Newport has however selected Queensberry Real Estate as the development partner to deliver the new 390,000 sq. ft. shopping centre in the heart of the city centre which will boost regeneration prospects.

Bridgend has traditionally relied upon large peripheral allocations at Brackla, Broadlands and now Parc Derwen. The choice of new homes is limited to estate type development, with little differentiation of product.

### Drivers of Demand

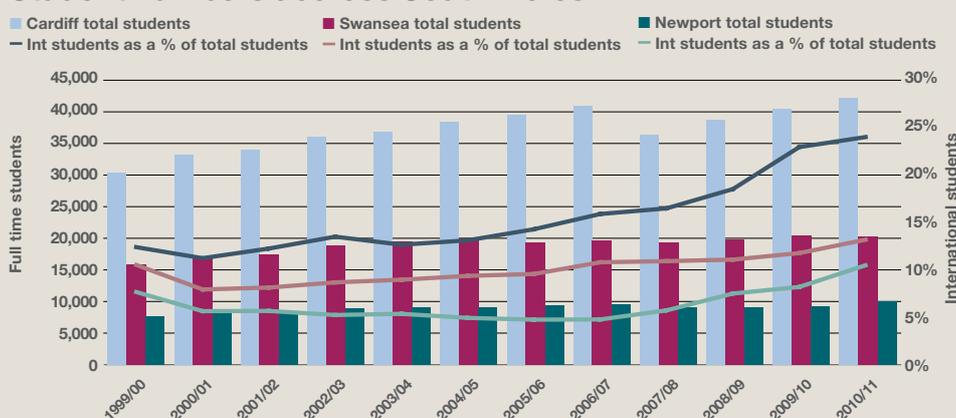
Since the downturn in the financial markets there has been a shift in new-build property purchaser, partly due to changes in recent delivery. During the boom, high loan-to-value mortgage years prior to 2008, buy-to-let investment purchasers were dominant across Swansea and Cardiff, as flatted developments were increasing in number and investors purchased as a result of high demand within the private rented sector. →

MAP 1  
Average house prices along M4 corridor



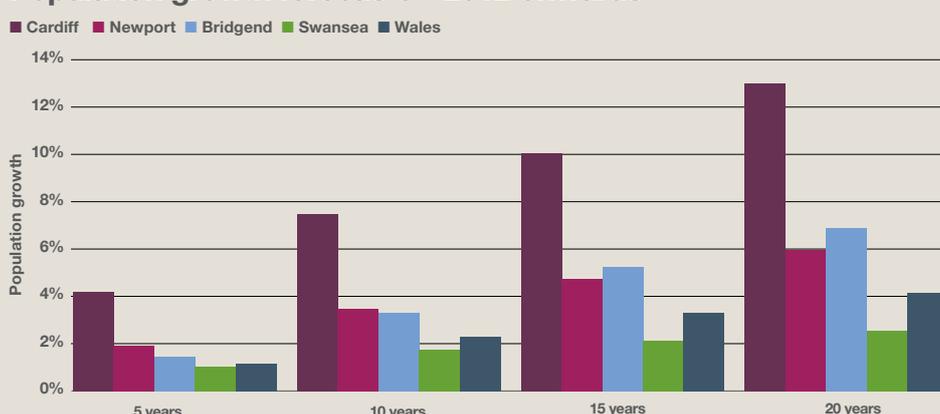
Graph source: Land Registry

GRAPH 5  
Student numbers across South Wales



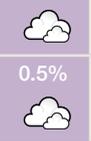
Graph source: HESA

GRAPH 6  
Population growth forecasts – 2012 onwards



Graph source: Oxford Economics

## HOUSE PRICES Five-year forecast values

Forecasts	2012	2013	2014	2015	2016	2012 - 2016
Wales	-2.0% 	0.5% 	0.5% 	1.5% 	4.5% 	5.0% 
UK	-2.0% 	0.5% 	1.0% 	2.0% 	4.5% 	6.0% 

Data source: Savills Research

→ Demand for private rented property was partly influenced by increasing levels of students within University towns along the M4 corridor. Rising student levels to 73,000, equivalent to 45% growth over the past 15 years and 35% over the past decade, allowed investors to purchase at yields around 5% to 6%. Growth has been facilitated by an increasing number of international students, which now constitute around 25% of all students in Cardiff, 13% in Swansea and 11% in Newport, according to latest 2010/11 HESA data.

Strong demand for rental accommodation from international students, as the supply of purpose built student stock lags behind demand, and increasing numbers of first time buyers unable to raise funds for deposits, consequently locked out of the sales market, has kept rental yields strong even during a period of house price devaluation.

This is providing a boost to the rental

sector; according to the LSL buy-to-let index, rental values across Wales increased by 4.2% during 2011, outperforming most regions of the UK, with growth strongest in Cardiff.

Employment levels across South Wales have not eased the housing market, as Cardiff, Swansea, Newport and Bridgend have all suffered at least two years of continuous negative employment growth since 2007. This trend will soon reverse, with Oxford Economics forecasting growth in all four areas from 2013/14 onwards, which is reflected in population growth projections.

Signs of the employment market returning have been boosted by companies such as Admiral, and other large scale employers, announcing expansion plans. Future employment growth will sequentially have a positive impact on the housing market, which links to the recovery trend in our five year house price forecast. ■

## OUTLOOK

### The market in 2012 and beyond

- In the short term, rising unemployment and the spectre of increasing numbers of repossessions are likely to remain dark clouds on the horizon.
- Compared to the English housing market higher build costs (a consequence of the political agenda to promote sustainable housing to deliver housing to higher code standards) and a lack of government financial assistance for first time buyers will keep levels of housebuilding below historic delivery rates.
- Recent undersupply since the economic downturn will mean that housebuilders begin to unlock land in strategic locations and target the middle market housing sector where there is an undercurrent of demand.
- Population projections provide further evidence that demand for housing will return, provided that pricing and tenure is appropriate, with Cardiff being the major growth city, underpinned by growth in employment and full-time students
- Over the next five years we forecast house price growth in Wales to mirror that of the UK. Wales is forecast to see five year house price growth of 5% between 2012 and 2016.

## Please contact us for further information

### Residential Research

### Development Sales



**Paul Savitz**  
Associate  
020 7016 3835  
psavitz@savills.com



**Lisa Howells**  
Head of Residential  
Development Sales  
02920 368 931  
lhowells@savills.com



**Gareth Carter**  
Director of Development  
02920 368 913  
gcarter@savills.com



**Scott Caldwell**  
Director of Development  
02920 368 943  
scaldwell@savills.com

#### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.