

Advisory

*PricewaterhouseCoopers LLP*  
The UK housing  
market

Demand outstripping supply

2014



**pwc**

## *The UK housing market: demand outstripping supply*

### **Introduction**

The gathering momentum of the UK housing market and the widening gap between prices in London / South East and the rest of the UK is now covered almost daily by the popular press. The drivers of price, demand for house purchases and the supply of available stock, however, are rarely unpicked in equal measure. Demand and its root causes, for example employment, mortgage availability, interest rates, Help to Buy and foreign purchasers receive much of the spotlight. But the growth in total stock and the supply of housing for sale is often neglected.

In this brief review, we look back at 2013 to better understand what happened in this pivotal year for the sector, and what this could mean for the future. Using a proprietary model of all housing transactions in England & Wales, we seek to redress the balance and shed light on the role of supply. We present here some very high-level insights and supporting analyses at a national and regional level. Detailed analyses segmented by price bands, new builds versus existing stock and a localised evaluation down to street level are possible and offer significant opportunity for insight to real estate, house builder and investor communities.

### **At a glance**

- Despite house prices now having exceeded the 2007 peak in nominal terms, transaction volumes remain c.40% below peak levels. The market is still well below its cyclical peak...
- ...however, strong volume growth in 2013 suggests the beginnings of a fuller recovery
- Although *existing* housing transactions have partially recovered since 2009, there has been very little rebound in *new build* transactions which currently remain at 2009 levels
- New build activity is not well correlated with rising prices. Growth in price does not generally flow through to an observable growth in building activity due to land constraints and other factors at play, suggesting scope for further value growth in the market
- Significant growth in price in London/South East can be partially explained by a lack of growth in new build stock. As land becomes more scarce, new build growth has been shifting further from London
- The recovery is undoubtedly being led by the premium end of the market, where transaction volumes have exceeded their 2007 peak already...
- ...but premium properties account for a very small share of the overall market and with a strong regional bias in London in particular
- Despite this, the average price of new build houses in 2013 was no higher than for existing houses, suggesting that house builders are not able to fully take advantage of the recovery in prime because of scarce land in the most desirable areas

**In the subsequent pages, we present some key insights to support these points.**

1

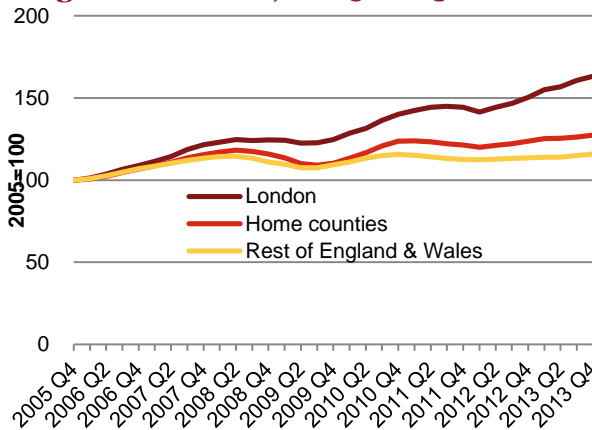
**Despite a recovery in prices, volumes remain depressed**

Although house prices in most market segments recovered soon after the 2008 recession in nominal terms, **transaction volumes in most segments remain c.40% down** on their 2007 peak. This suggests a cyclical peak is still some way off in the UK housing market.

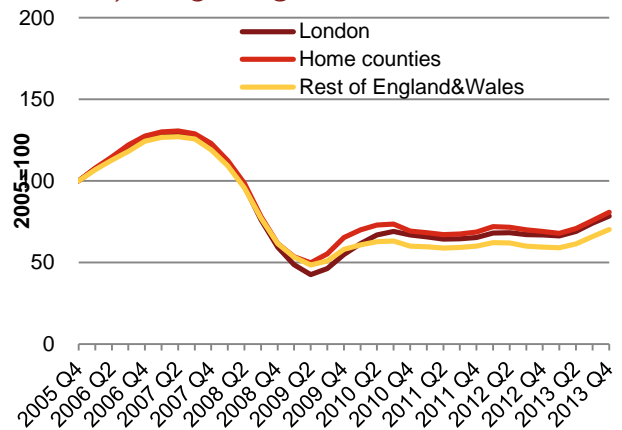
However, having plateaued from 2010-2012, **2013 has shown significant volume growth** and may indicate the beginnings of a recovery to pre-crisis levels.

**New build transactions peaked earlier and troughed later** than transactions of existing buildings around the time of the recession. Furthermore, **since 2009 existing housing transaction volumes have grown by 27%, compared to just 2% for new build transaction volumes**, showing there has been little recovery in new build, even accounting for lag effects. This implies that house builders have not yet been able to fully respond to improving market conditions.

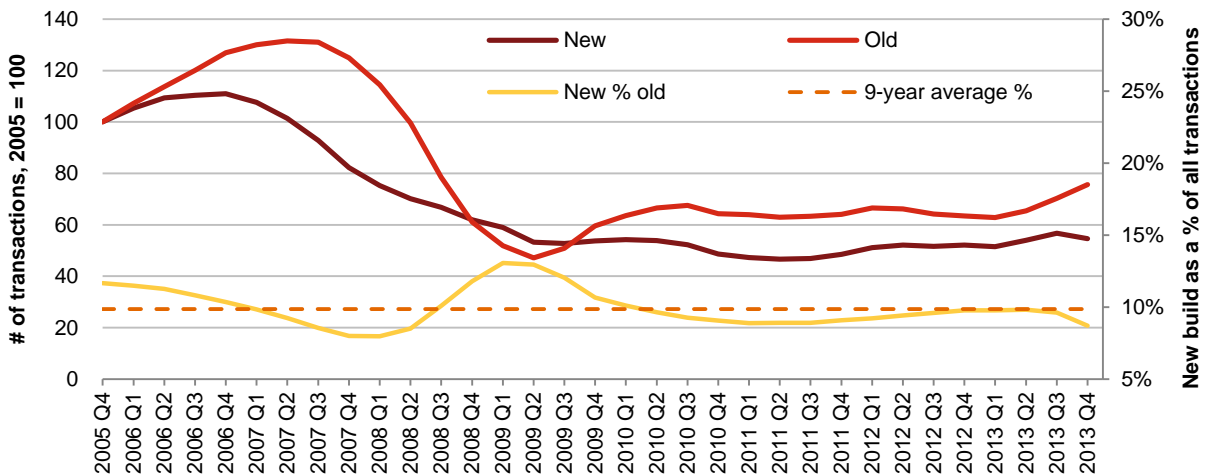
**Figure 1.1: Average transaction values for residential in England & Wales, 2005-2013**



**Figure 1.2: Transaction volumes for residential in England & Wales, 2005-2013**



**Figure 1.3: New build transactions vs existing property transactions, 2005-2013**



Note: Volumes and average prices are year-to-date for each quarter, to adjust for seasonality effects

Source: Land Registry; PwC analysis

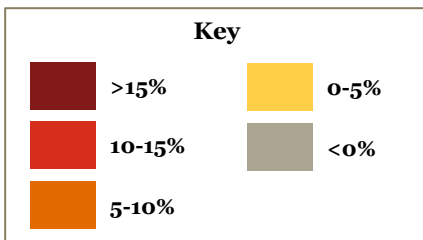
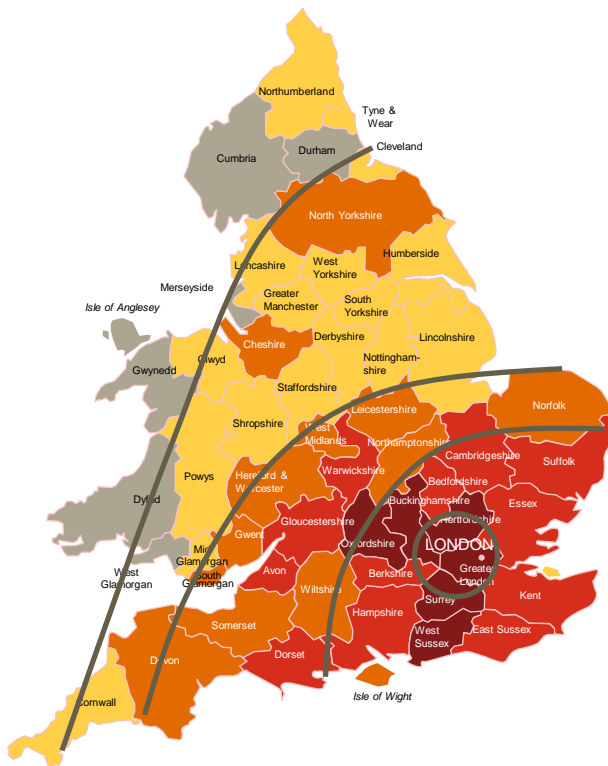
**2** *New build activity is weakly correlated with rising house prices*

Growth in house prices since 2009 has shown an **almost radial pattern** around London, with **larger and larger price rises approaching the capital**.

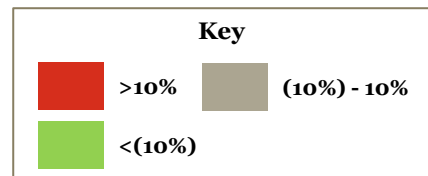
Despite this, **shortage of land available for development** in much of the South East has constrained house building. As a result, **much new building has moved away from the traditional home counties** (e.g. Surrey), to counties slightly more distant, such as Bedfordshire.

Broadly, across England & Wales, **the correlation between rising house prices and house building activity appears weak**. This likely reflects the importance of land supply constraints in new build construction. This is true even when analysing over a longer time-series to minimise lag effects.

**Figure 2.1: % change in average house price from 2009 to 2013, by county**



**Figure 2.2: % change in new build transactions, 2009 to 2013, by county**



Source: Land Registry; PwC analysis

### 3 The premium segment is leading the recovery, but with little impact

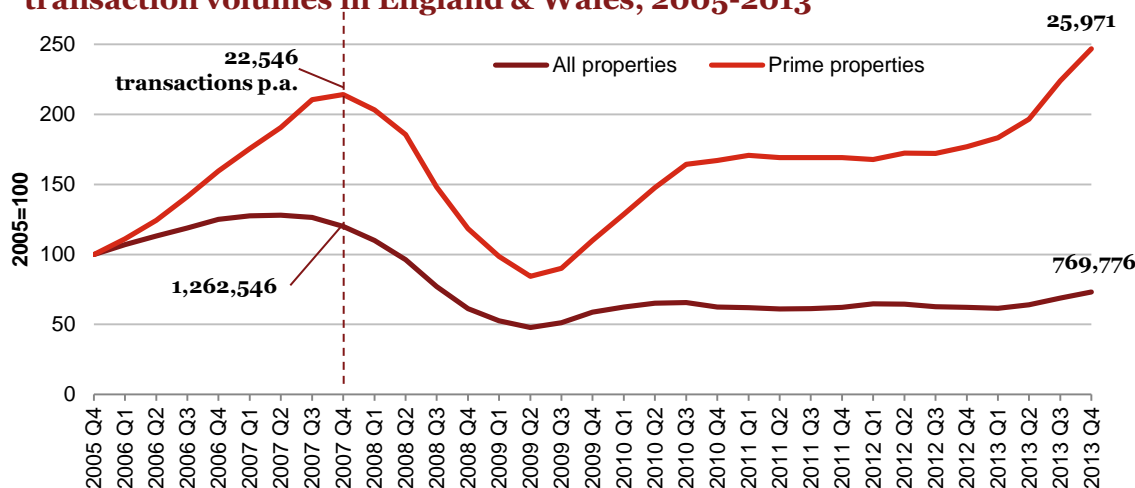
The prime property market (defined here as flats sold for >£500k and houses sold for >£800k) is dominated by London, with 70% of all prime transactions in England & Wales in 2013; followed by the Home Counties, with another 20%. Other hotspots include Avon & Dorset.

Although the wider market has a long way to go before it returns to pre-crisis volumes, the prime property market exceeded 2007's peak of transactions in 2013.

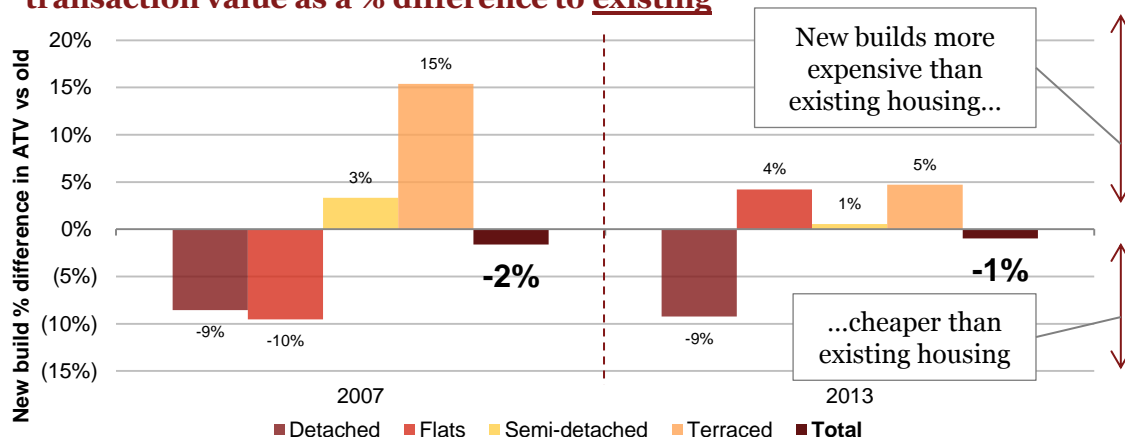
Despite this, the average price of new build properties remains in line with average transaction values of all existing houses, showing that house builders have not been able to fully capitalise on the higher relative demand in the premium segment of the market.

Since the recession, however, there has been a shift toward building higher-value apartments but there has been a depression in average value elsewhere driving the overall average lower.

**Figure 3.1: Prime vs non-prime property market transaction volumes in England & Wales, 2005-2013**



**Figure 3.2: Pre- and post-recession new build average transaction value as a % difference to existing**



Note: Volumes are year-to-date for each quarter, to adjust for seasonality effects; ATV = average transaction value  
Source: Land Registry; PwC analysis

## About the authors

The UK Engineering & construction sector faces more challenges than any other following the recent recession. According to our latest CEO survey 88% of engineering & construction CEOs are concerned about uncertain or volatile economic growth.

We have a UK team of Engineering & Construction industry experts who can help and are committed to delivering quality assurance, tax and advisory services. We also have specialists working in areas like public/private partnerships, sustainability services, strategy, environmental taxation, construction dispute resolution and environmental services.

## Contact:



Chris is a strategy consulting partner who leads our UK Engineering & construction team. Chris has extensive experience of buy and sell side commercial due diligence through his work with private equity and strategic buyers. He has worked across the whole construction supply chain including aggregates, building product manufacture, distribution, house building, contracting and plant hire.

Chris Temple

Email: [christopher.j.temple@uk.pwc.com](mailto:christopher.j.temple@uk.pwc.com)

Tel: +44 (0) 20 721 34601



Richard McCole

Email: [richard.f.mccole@uk.pwc.com](mailto:richard.f.mccole@uk.pwc.com)

Tel: +44 (0) 20 721 32445



Andy MacGillp

Email: [andrew.macgillp@uk.pwc.com](mailto:andrew.macgillp@uk.pwc.com)

Tel: +44 (0) 779 6262 085



Alex Dear

Email: [alexander.j.dear@uk.pwc.com](mailto:alexander.j.dear@uk.pwc.com)

Tel: +44 (0) 20 721 34262

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