

# PROPERTY NEWS



## SUPPLY AND DEMAND

The price of land is influenced by the laws of supply and demand. There is shortage of land in the United Kingdom. The stock of suitable developable land is further limited as there are many areas of historical or outstanding natural beauty.

This has been a problem for years:

**"A record shortage of land available to developers of new homes is set to fuel the continuing property price boom and undercut the Government's ambitions to expand housing supply. Housing developers have just two and a half years' supply of land available with the appropriate planning permission."**

Source: The Times, 8th September 2003. (timesonline.co.uk)

The demand for suitable land for building is driven by the demand for housing. This demand is not just driven by how well the economy is doing but other factors like:

- Rising divorce rates
- People are living longer
- More singles
- Post war baby boom factor
- Immigration

"The population is set to rise 7.2 million by 2003, six million of this due to immigration. This is 240,000 per year."

Source: migrationwatch.uk.com

"A study at Cambridge University, shows that of an extra 175,000 households per year, almost 130,000 can be linked to growth in the adult population...."

Factors included

- |                       |                  |
|-----------------------|------------------|
| • Divorce             | 25,000 to 30,000 |
| • Increased longevity | 45,000 to 50,000 |
| • People living alone | 20,000           |
| • Baby boomers        | 40,000           |
| • Immigration         | 40,000           |

**"...By 2021, there will be 3.5 million new households....Evidence shows that upwards of 200,000 new homes per year are needed to address the existing backlog and meet future need."**

Source: Cambridge Centre for Housing, The Times, 22nd September 2005. (timesonline.co.uk)

**There is no comprehensive building programme in the UK since the end of the Second World War to address the housing needs & the growing crisis.**

"About 260,000 houses were built in 1990, rising to 294,000 in 1970 but this fell away gradually to 135,000 in 2000, increasing only last year to more than 150,000."

Source: Cambridge Centre for Housing, The Times, 22nd September 2005. (timesonline.co.uk)

**"If building levels remain as they are there will be a shortfall of 1.4 million homes in 15 years."**

Source: Cambridge Centre for Housing, The Times, 22nd September 2005. (timesonline.co.uk)

The Stock Market crash of 2001 caused disastrous losses for investors and so many looked to low risk investments in property. Many bought houses, let them out and this forced prices up.

"In 1999 there were 44,400 buy to let mortgages advanced to lenders, in 2004 it was 217,700."

Source: The Council of Mortgage Lenders. (cml.org.uk)

## EFFECTS OF THE HOUSING SHORTAGE

Fewer houses mean higher prices.

"In 1964 the average house price was 3,360 pounds, and the average income was 11,000 pounds. In 2005 average house price was 171,000 pounds and the average income was 281,000 pounds....This is six times the average income, in 1964 it was three times....House prices have risen consistently above the retail price index and annual house price growth has been 10.3% over the last four decades."

Source: Justin Calvey, 29/01/2007 40 (mortgageintroducer.com)

Shortages mean that the boom is continuing.

"Home buying and selling is being supported by a healthy job market and business climate, which looks set to continue for now, though one potential obstacle to growth could be a shortage of available properties to meet growing demand."

Source: Royal Institute of Chartered Surveyors Housing Market Survey, December 2004 (www.rics.org)

Higher prices have caused social problems. Young people can no longer afford houses. Thousands of first time buyers are struggling to afford a home.

"The Office of the Deputy Prime Minister stated that only three out of every ten 30 year olds will be able to afford their own home by 2026 unless building work stepped up."

Source: This is Money, 18th October 2005. 'Young Miss Out On Property Ladder' (thisismoney.co.uk)

## UK LAND PRICES ROCKET

"Across the UK land prices have risen from 174,000 pounds a hectare to nearly 11600,000 million, an increase of 80% between 1983 and 2003."

"Unsurprisingly, the most expensive land in the UK is in London and the South East and the cheapest is in Wales and the North. However, of late prices have been rising faster in the lagging areas and the gap closing."

Source: Study by the Halifax Bank, BBC News, 22nd February 2005 (news.bbc.co.uk)

This has not slowed as the most recent surveys show.

"Our Farmland Value survey shows that the average value for all types of farmland across Great Britain increased by around 12% during 2005... With a healthy increase recorded during 2004 the average value of farmland has risen by 28% in two years...."We expect demand from lifestyle buyers, investment buyers and commercial farmers to remain strong in 2006."

"Overall, we expect values to be supported into next year with continued growth in some sectors. However, there will be some locations where supply exceeds demand or where factors such as poor quality, low amenity or a lack of residential aspect limits interest and therefore realisable value."

Source: PDF Savills Rural Research Bulletin No 08-05 December 2005. Farmland and Market Outlook for 2006 (savills.co.uk/research)



# PROPERTY NEWS



## LAND PRICES, WITHOUT PLANNING PERMISSION

Land is a scarce commodity and the market price of the land that could be suitable for building is driven up due to the same factors that drive up the property market. This is simply because people in the United Kingdom will not live in apartments like here in Singapore. They **aspire to live in houses** and this takes up much more space or more precisely, land. As an investment it is exceptionally reliable. The statistics speak for themselves:

**"In 1995 the average value of one acre of edge of town serviced greenfield land was 326,000 pounds. Now it is worth about 1.184 million pounds. 4050 square metres per acre divided by 1.184 million = 292.34 pounds per square metre."**

Source: Yolande Barnes, head of Research at PDF Savills, The Times, 9 December 2005. (timesonline.co.uk)



## GOVERNMENT'S ACTION TO SOLVE HOUSING PROBLEM

Gideon Amos, director of the Town and Country Planning Association, said that the housing "ticking time bomb" would prove as critical as the looming pension crisis unless ministers took urgent action.

**The housing shortage is an enormous problem for the social and economic future well being of the UK. Therefore it is a huge political problem.**

**The government has recognized this and has recently begun action to solve it.**

Kate Barker, a member of the Bank of England's Monetary Policy Committee concluded that fewer homes are being built in Britain at any time since the 1920's.

**"Britain needs to build up to 140000 extra new homes a year if housing supply is to match demand."**

Source: BBC News 17th March 2004 (news.bbc.co.uk)

**This has led to the government taking direct action to solve the problem.**

The Office of the Deputy Prime Minister has set up unelected regional assemblies in 2004. They will set out the scale, priorities and broad location for change. The new planning system emphasises on measures to achieve implementation and

delivery to solve the housing shortages. The assemblies, such as the South East England Regional Assembly have overriding powers to speed up the approval of planning for residential properties and to overturn the objections of local residents and local government planners alike.

**"One of the best kept secrets of British politics is the extraordinary power wielded by Mr. John Prescott, through his "Office of the Deputy Prime Minister...by ditching our existing planning rules and allowing the Government to brush aside the views of local communities."**

**"Mr. Prescott is using similar methods to push through his plans to see 1400,000 new homes built in the south east of England over the next 20 years."**

**"This is equivalent to nearly 30 new cities the size of Oxford or Cambridge."**

Source: Daily Telegraph, 18th August 2004 (dailytelegraph.co.uk)

**"An average of 21400 acres of undeveloped green belt is being built on each year, the Government has admitted in a parliamentary written answer... Boundaries have already been moved by the Government to accommodate more housing...around London and Cambridge."**

**"Figures show that 162 planning applications in green belts went unchallenged by the Government between 1997 and last year."**

**"In the last year for which figures are available 111 acres of green belt were lost in the North East; 271 in the North West; 148 in Yorkshire; 172 in the East Midlands; 185 in the West Midlands; 123 in the East of England; 36 in London; 1072 in the South East and 284 in the South West."**

Caroline Spelman the Conservative spokeswoman for local government and communities, who asked the parliamentary questions, said:

**"We should be safeguarding the green belt but sadly the Government is moving in the opposite direction by removing swathes of the green belt and transferring powers to the unelected regional assemblies to bulldoze England's green fields"**

Source: Daily Telegraph, 11th June 2005 (dailytelegraph.co.uk)

**Investing in land has always been a safe and reliable investment but the action plan to increase building markedly means that much more land will be given permission for building. The potential returns for the land that is granted planning permission are enormous.**

## LAND PRICES, WITH PLANNING PERMISSION

**Over time the cost of land has been rising but the cost of actually building a house has largely remained static. This trend is set to continue for reasons outlined above.**

**"In 1992 land costs accounted for only 15 per cent of the value of a new home but by 2002, this proportion had risen to 34 per cent."**

Source: The Times, 8th September 2005. (timesonline.co.uk)

**"Land, which used to account for a third, now accounts for more than half the price of a new home. Everybody knows that it is not the value of bricks and mortar that has gone up. It is the value of the land. You only have to look at buildings insurance to know that rebuilding costs have stayed low."**

Source: Yolande Barnes, head of Research at PDF Savills, The Times, 9th December 2005. (timesonline.co.uk)

**Therefore the value of land once it gains planning permission can be estimated by assessing the value of the houses that will be built on it. The value of these houses over time rises due to demand.**

