

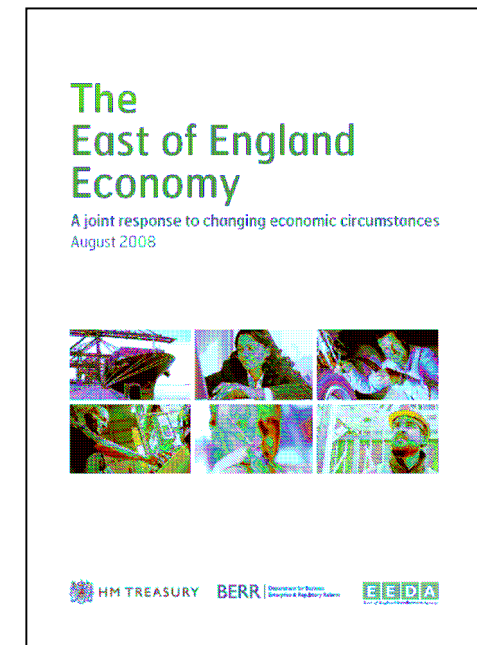
Update on Market Conditions, Housing & Economy

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The East of England Economy - background

- Note published August 2008 provides a joint response to changing economic circumstances prepared by HM Treasury, BERR and EEDA
- Highlights:
 - Coping with tougher economic conditions
 - The new East of England economy
 - The response to current economic challenges
 - Next steps



Coping with tougher economic conditions

- Significant growth in recent years
- Global economy is facing unprecedented challenges:
 - tighter credit conditions
 - increases in global commodity prices, particularly oil
- Can expect difficult times for the UK economy in the coming months - all regional economies charged with preparing themselves for a “more challenging economic climate”
- While times may be harder over coming months ***“the many strengths of the East of England economy will help it through this difficult period”***.

‘Credit crunch’ is just one part of the story...

- High commodity prices (long term trend)
- High fuel prices
- High food prices
- Low value of sterling
- Public tax receipts likely not to make forecasts = either more public debt or less expenditure (cuts)
- Less credit, higher cost of credit, lenders more risk averse

It's not all bad news

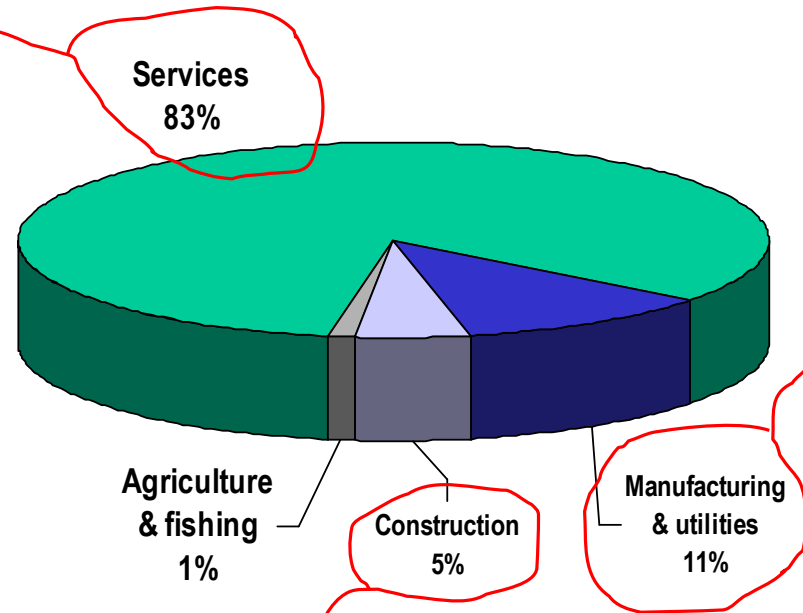
- High commodity prices (long term trend) – good time to promote resource efficiency
- High fuel prices – good time to invest in energy efficiency
- High food prices – good for farmers
- Low value of sterling – good for exporters
- Less credit, higher cost of credit, lenders more risk averse – good time to buy land

The first half of 2008

- The East of England has “*held up well to the challenges*”
- Little indication of employment restructuring or increases in unemployment.
- However a fall in business confidence across a range of measures:
 - Many businesses expect their rate of growth in turnover and profits to slow
 - Many have indicated that new orders for goods and services are falling below 2007 levels.

Our economy - structure

- Finance and business services more optimistic about future business conditions than other sectors.
- Tourism indicated visitor levels unchanged April-June, compared to the previous year.
- However, most expect a decrease July-September



- Manufacturing faces cost pressures, especially raw materials
- More likely than others to reduce employment, especially those firms closely tied to house building

- Notable change in property and development.
- Redundancies in construction sector in the region.
- However, despite the forward risk of further decline in growth rates and job losses, property values and rental yields continue to hold up.

Survey evidence suggests overall levels of job shedding in East of England have been lower than other regions.

The property market

- Some redundancies in the construction sector
- Volumes of transactions have decreased in line with the national situation - halved from 13,200 in July 2007 to 6,700 in May 2008
- However regional house prices have continued to increase in the past year.
- Land Registry data records an average increase of 3.3% in house prices between May 2007 and 2008.
- The commercial office market has continued to experience low growth in rental and yield levels. However, growth static or slight in the retail and industrial markets.
- Market uncertainty and tightening credit availability is affecting the viability of new property deals, and there are examples of developments in progress being stalled.

The labour market

- East of England remained remarkably robust in the first half of 2008.
- Despite some increase in redundancies and jobs at risk of redundancy, changes in economic conditions have yet to translate into the region's main labour market indicators.
- Unemployment levels are stable within the region
- No marked changes to levels of unemployment benefit claimants since February 2008.

“The East of England is an economic success story...”

Significant economic growth	One of UK's highest long-term economic growth rates	Among Europe's 3 most R&D intensive regions	Share of people on key benefits well below national average (10%)
Fastest-growing population	Higher than average businesses and start-ups	Important gateway to global markets	Below national average for skill levels but increasing
£110bn economy, 4 th largest in UK	Country's top location for private sector research	Employment rate of 78% (one of highest in UK)	New RES for 2008-2031 drafted

Less than 4% in SCDC

“It must be remembered that the East of England is economically successful and has many strengths on which to draw.”

From “Your network”

- Monthly magazine produced by Cambridgeshire Chambers of Commerce. John Bridge comments:



“For the most part, businesses in Cambridgeshire and indeed across the Eastern region are weathering the toughening economic conditions with considerable certainty”

“Whilst the rate of home sales growth slowed considerably compared to the previous quarter, we are continuing to grow nonetheless”

“Export sales and orders both outperformed the national aggregate, with the region’s export sales up 12 points since the previous quarter.”

The housing market looking at Hometrack

- Horizons has bought a year's trial to the Housing Intelligence System, Hometrack, in 2008/9, for the housing sub-region.
- Enables rapid access to a wide range of housing data and is being used to develop the SHMA.
- The following slides give some national outputs from Hometrack, comparing them more locally where possible.

Nationally, house prices down 2.5% over first half of 2008

Based on Hometrack's survey of agents:

- House prices fell again in June - the 9th consecutive fall in a row.
- Average house prices were down by 1% over the month and by 2.5% over the first half of 2008.
- On a year on year basis the annual rate of growth fell to -3.2 (the lowest level since September 2005).

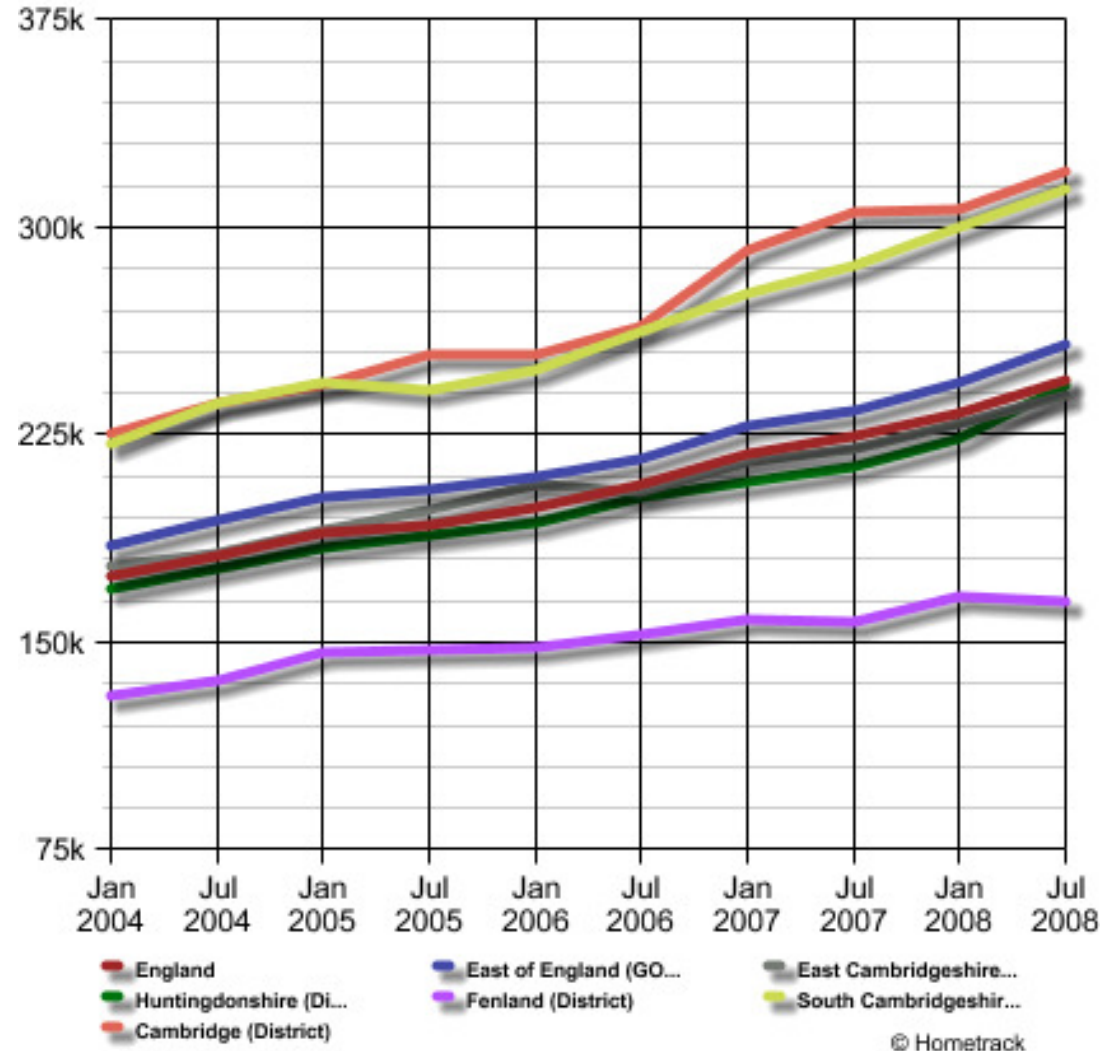
Continued loss of confidence undermines activity & prices....

- Continued loss of confidence sees new buyer registrations falling nationally
- Since the beginning of the credit crunch new buyer registrations have fallen back by 52%. This has led to a sizable drop in transaction volumes which now look set to reach levels not seen since the 1970s.
- Falling levels of demand and continuing growth in supply of homes for sale has had helped undermine values.

Average price

England, East of England and 5 Cambs districts

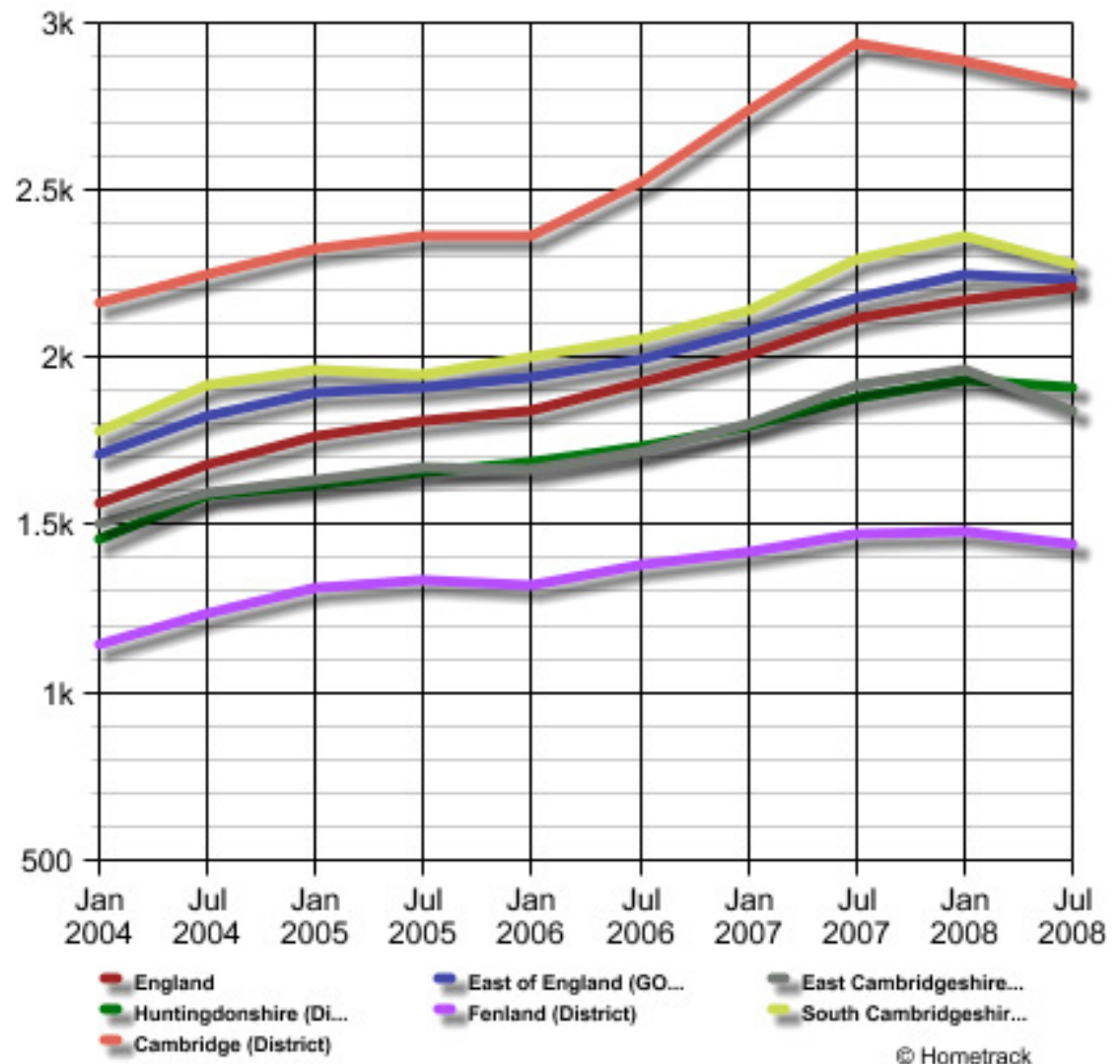
- Shows the average property price over time, for all types of housing (from Hometrack's automated valuation model).
- Overall shows increase in average prices, but this is due to a fall in lower value entry-level purchases.
- All lines following largely the same pattern.



Price per m²

England, East of England and 5 Cambs districts

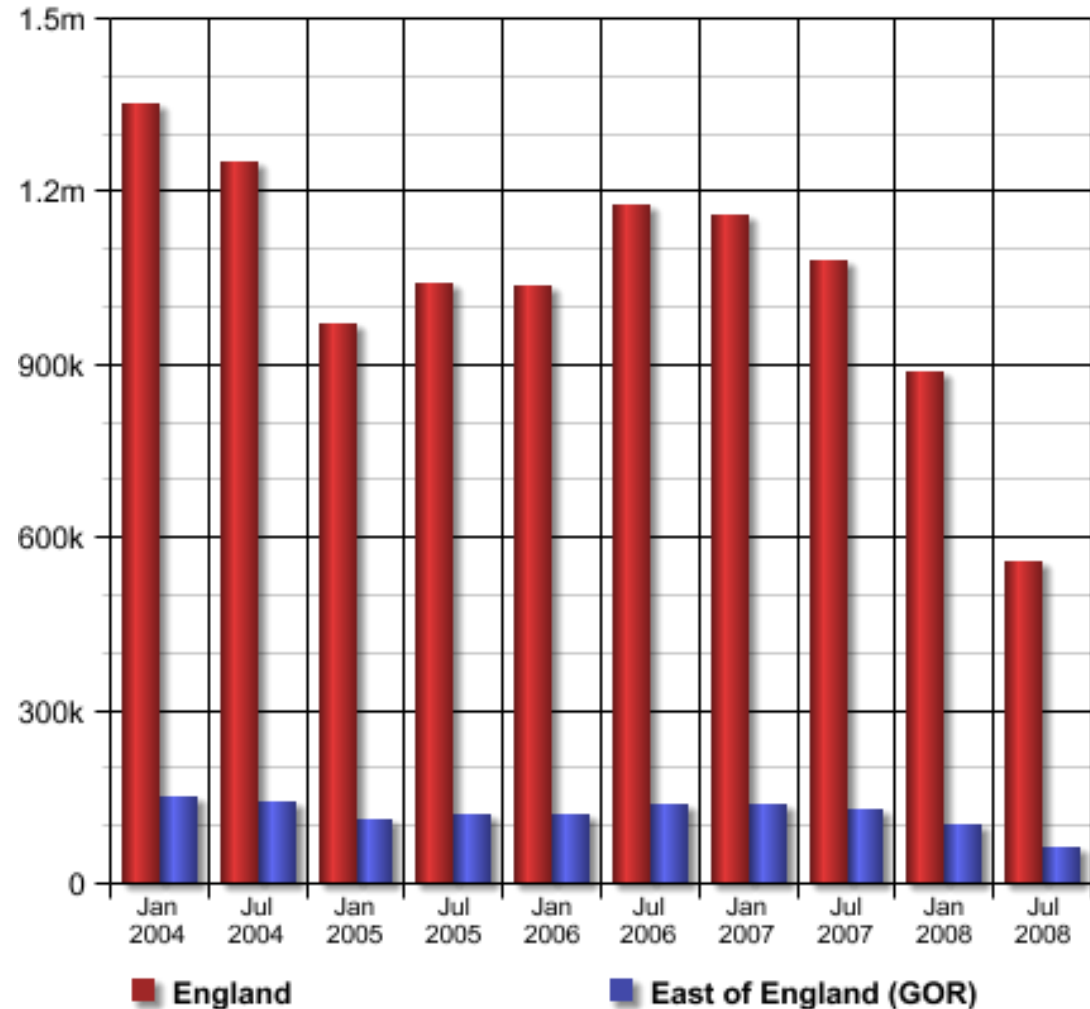
- Shows the average property price per square metre over time, for all types of housing.
- England shows continued increase in price, again bearing in mind the sample used.
- The region shows a slight drop, and more significant falls seen in each district, with Hunts slightly less dramatic.



Property count

England and East of England

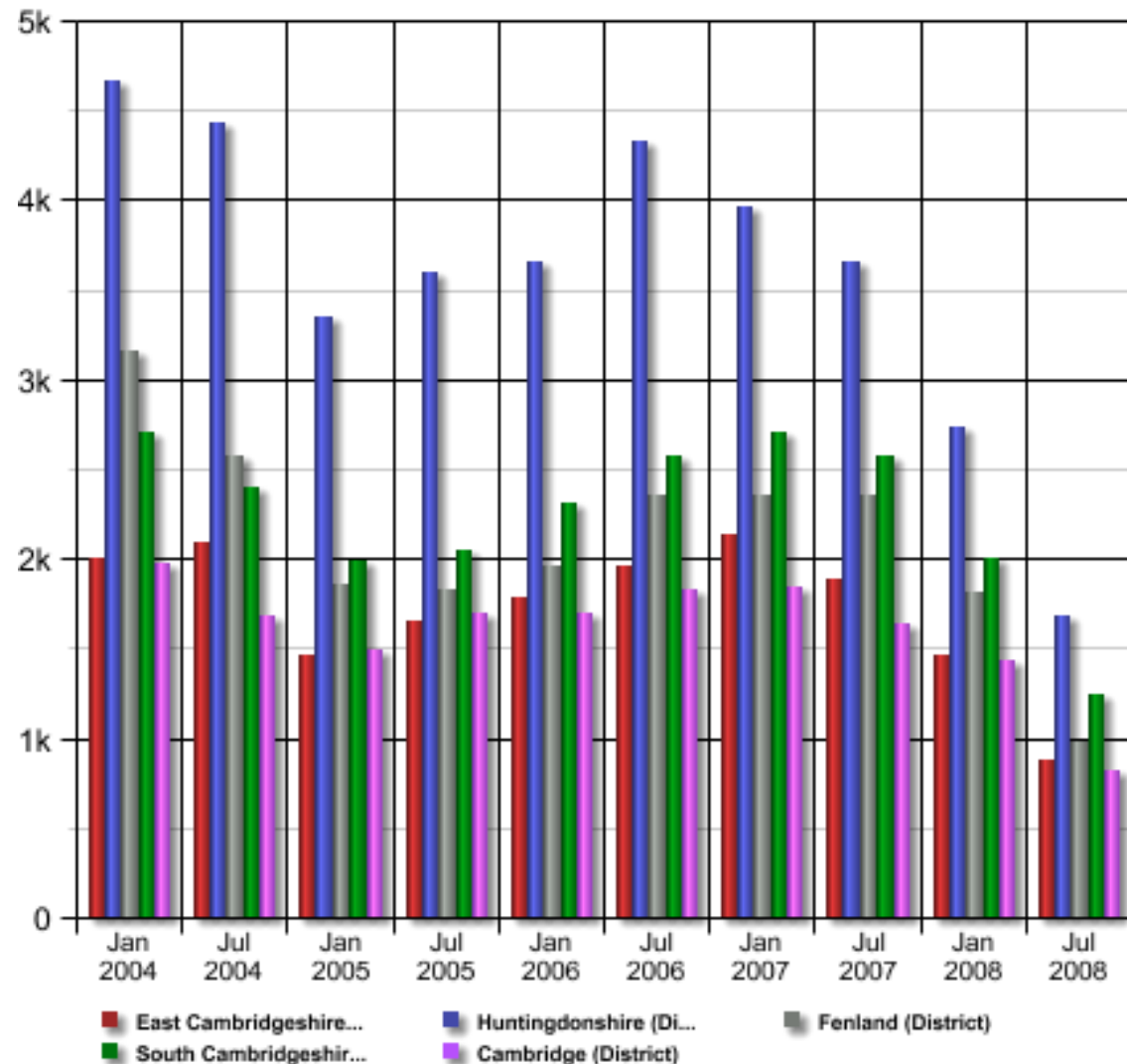
- Shows a **drop of about 50%** in number of transactions over the past 6 months, nationally and regionally.
- Those who **can** afford to move are still moving.
- The drop in transactions is down to mortgage availability, i.e. those with no deposit or equity are staying put, far fewer entry-level moves.
- This keeps the overall average price steady or reporting a slight increase.



Property count

The 5 Cambs districts

- Again, locally the number of properties driving the average property price data is **falling significantly** in all 5 districts
- Most significant drop between January and July 2008.
- Matches national and regional patterns.



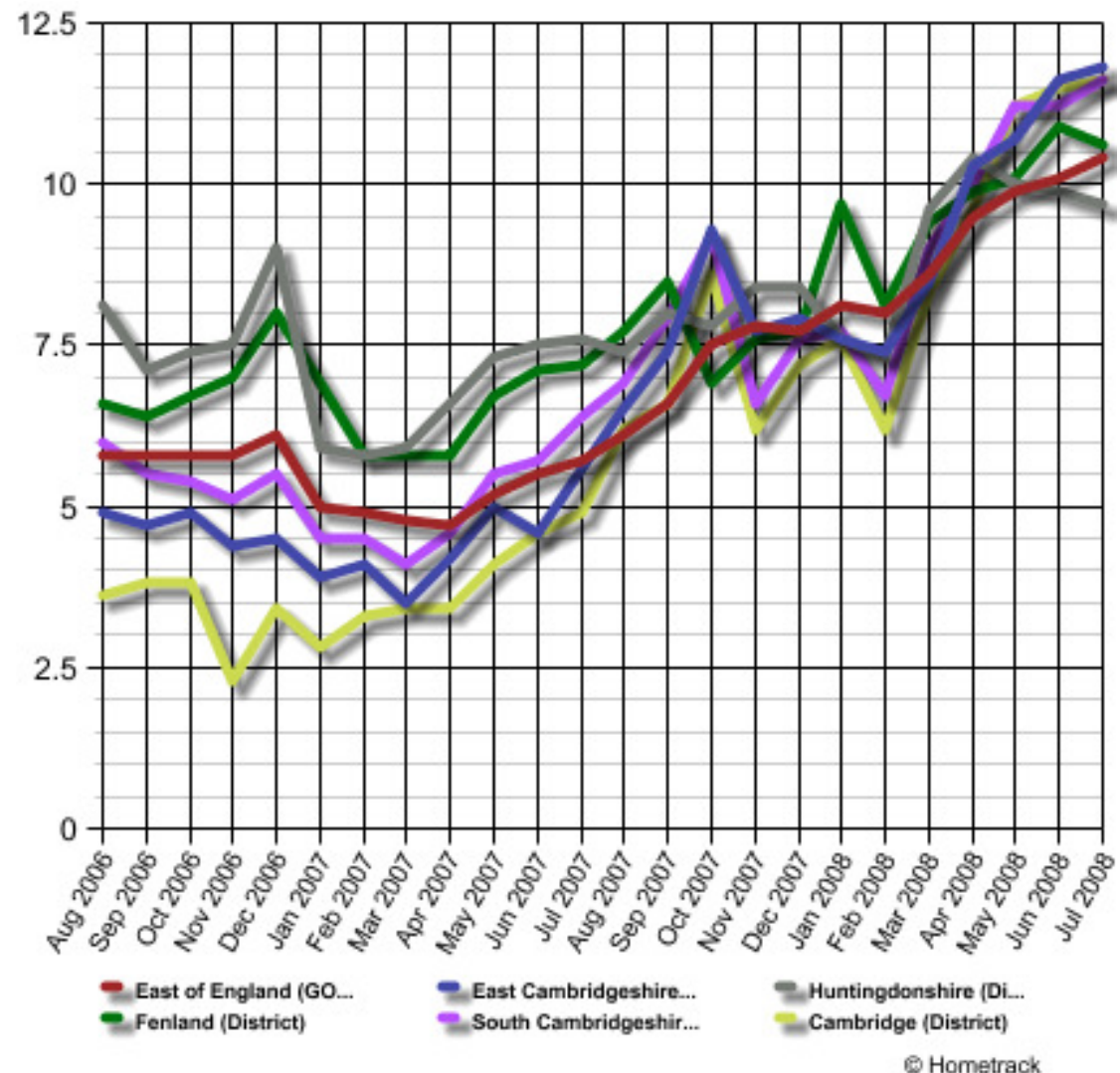
Nationally, time taken to sell increases...

- The latest survey also shows a further increase in the time taken to sell a property
- Now stands at 10.3 weeks - up from just 6 weeks in January 2007.

Time taken to sell

East of England and 5 Cambs districts

- Shows the average time taken to sell a property in weeks
- Data from Hometrack's monthly survey of estate agents based on postcode districts
- All 5 districts follow a similar pattern to the region, however a slight drop in time taken to sell in Hunts and Fenland in July.
- All fall between 9 and 12 weeks.



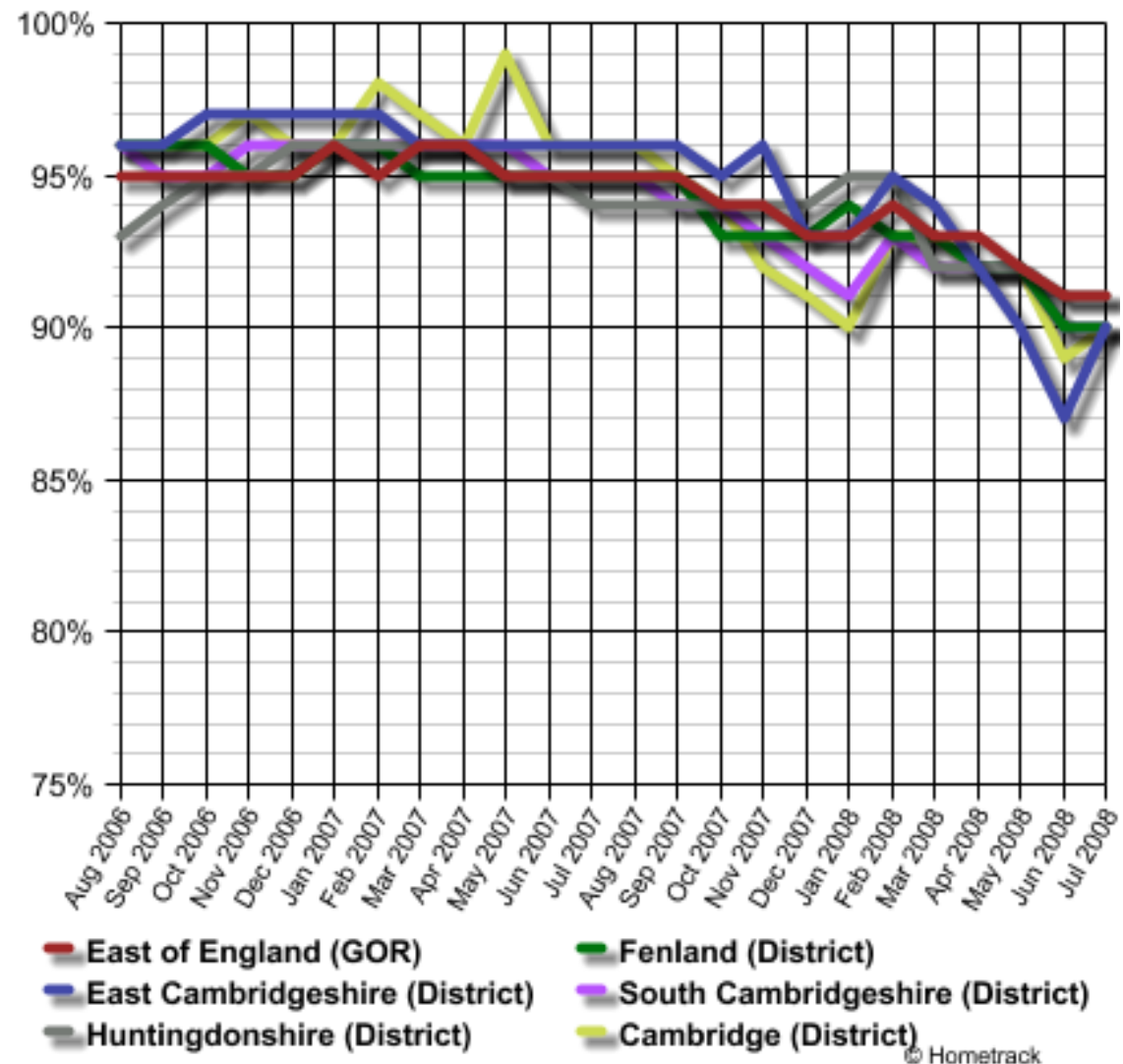
Nationally, further falls in the % of asking price being achieved...

- In June, nationally the proportion of asking price being achieved stood at 91.6% - down from 95.6% a year ago.

Sale to asking price

East of England and 5 Cambs districts

- Again, our 5 districts follow largely the same pattern as across the region.
- East Cambs seems to be the exception, showing a more marked fall in June and a recovery in July. Suspect this may partly be due to sampling.
- All districts end at around 90% in July 2008.



Overall

Current

- Some redundancies in construction
- Property values and rental yields holding up, but transactions halved
- Land Registry data records an average increase of 3.3% in house prices (2007 to 2008)
- Hometrack shows ave house prices down by 2.5% in first half of 2008.
- Market uncertainty and tightening credit availability affects viability of new property deals
- Some examples of developments in progress stalling

Future

- House building – targets may look unachievable in the short run – leaves a lot to catch up on in later years
- Opportunity to move on with infrastructure, if funds available?
- Financial models based on last year's land values, likely to be open to challenge
- Possible house prices won't decrease dramatically - but lack of new homes, affordability and access still problematic – vital to keep monitoring
- Land acquisition cheaper –an opportunity for cash-rich house builders to land bank?