

## Development Consultancy Valuation April 2022 Economic & Property Market Commentary

The Office for Budget Responsibility (OBR) published its latest Economic and Fiscal Outlook (EFO) in March 2022. The publication sets out forecasts for the economy over a five-year horizon:

*"Two years since the start of the pandemic, this EFO is presented against the backdrop of another unfolding global shock. The Russian invasion of Ukraine...has major repercussions for the global economy, whose recovery from the worst of the pandemic was already being buffeted by Omicron, supply bottlenecks, and rising inflation. A fortnight into the invasion, gas and oil prices peaked over 200 and 50 per cent above their end-2021 levels respectively. Prices have since fallen back but remain well above historical averages."*

The OBR publication considers that the UK is a net energy importer with a high dependence on gas and oil, which means increases in energy prices will weigh heavily on the UK, where the economy has only recently recovered to pre-pandemic levels. An increase in energy prices combined with 40-year high inflation means that an erosion in real incomes will cut GDP growth this year from the previously predicted 6.0% to 3.8%. With inflation now outpacing growth in earnings, real living standards are set to fall by 2.2% in the year 2022-23 which is the largest financial fall on record. Living standards are not expected to recover to their pre pandemic level until 2024-2025. However, it is of note that public finances have continued to recover from the pandemic more quickly than expected with tax receipts up by 4% due to strong growth in tax paid by higher earners and companies.

On 17 March 2022 The Bank of England announced a 0.25% increase in its base rate from 0.50% to 0.75%. However, it is predicted that rises in mortgage rates will be "slow and measured", which would mean mortgages would stay cheap by historical standards for some time.

In its April 2022 Press Release, the ONS reported Gross Domestic Product (GDP) is estimated to have grown by 0.1% in February 2022, and 0.8% in January 2022. They report that GDP is now 1.5% above pre pandemic levels.

It is of note that monthly construction output decreased by 0.1% in February 2022 however increased by 1.6% in January 2022. Overall, construction output is 1.1% above its pre-pandemic levels. The small decrease in monthly construction output in February 2022 was driven by a decrease in repair and maintenance, whereas new work saw a small increase of 0.1%.

According to the Consumer Price Index including owner occupiers' housing costs (CPIH), inflation in the 12 months to March 2022 rose by 6.2%, compared with an increase of 5.5% in the 12 months to February 2022. The upward contributions to the change in the CPIH 12-month inflation rate were wide ranging with the largest coming from housing and household services (1.49 percentage points) and transport (1.47 percentage points) principally from motor fuels and second-hand cars.

In its April release, The Land Registry reported that property prices increased by 0.5% in February 2022 compared to the previous month; and when compared with the same month in 2021 they have risen by 10.9%.

Nationwide's March 2022 press release reported annual house price growth at 14.3% in March, up from 12.6% in February with UK house price growth surging to its highest level since 2004. Wales has remained the strongest performing region, while London has continued to lag behind the rest of the market.

Nationwide reported that the continued buoyancy of the housing market has retained a surprising amount of momentum, given the mounting pressure on household budgets and steady rise in borrowing costs. A combination of high demand and limited housing stock on the market has kept upwards pressure on prices.

The publication however does predict that the housing market is likely to slow in the quarters ahead as a result of the squeeze on household incomes which is set to intensify, especially if inflation reaches double figures.

Halifax's April 2022 House Price Index Commentary reports that house prices had an annual change of +11% since March 2021. They report that:

*"Average UK house prices rose again in March for the ninth month in a row. The increase of 1.4%, or £3,860 in cash terms, was the biggest jump since last September. With 2021's strong momentum continuing into the beginning of this year, the annual rate of house price inflation (+11.0%) continues to track around its highest level since mid-2007. The new record price of £282,753 is up some £28,113 on a year ago, not far off average UK earnings over the same period (£28,860\*)..."*

*"...The story behind such strong house price inflation remains unchanged: limited supply and strong demand, despite the prospect of increasing pressure on households' finances. Although there is some recent evidence of more homes coming onto the market, the fundamental issue remains that too many buyers are chasing too few properties. The effect on house Average house prices makes it increasingly difficult for first time buyers looking to make their first step onto the ladder, but also challenges home movers who face ever bigger leaps to move up the rungs to a larger property"*

*"Lack of supply continues to underpin rising house prices, with recent industry surveys showing a dearth of new properties being listed, now a long-term trend. This may be a particular issue at the larger end of the property market. Over the past two years the average house price has risen by 18.2% or £43,577 in cash terms. This has taken the national average house price from £239,176 in March 2020 to £282,752 in March 2022.*

*"However, in the long-term we know the performance of the housing market remains inextricably linked to the health of the wider economy. There is no doubt that households face a significant squeeze on real earnings, and the difficulty for policymakers in needing to support the economy yet contain inflation is now even more acute because of the impact of the war in Ukraine. Buyers are therefore dealing with the prospect of higher interest rates and a higher cost of living. With affordability metrics already extremely stretched, these factors should lead to a slowdown in house price inflation over the next year."*

**By Eloise Garnett and Lottie Smallwood**

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- Valuation advice to support development transactions
- Development Consultancy and S106 advice
- Income Threshold testing
- Land Valuation / Development Appraisals
- Options appraisals and feasibility testing
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