

Market Report 2012  
Prepared by Timbertrends





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## Key Findings 2012

UK housing starts down by 9.5% to 124,450

Housing starts in England down by 11.7%

Housing starts in Scotland up by 1.7%

UK housing starts by tenure:

- private sector down by 6.7% (7,126 fewer)
- social sector down 18.8% (5,194 fewer)
- timber frame housing share in the UK up to 23.6%
- timber frame share in England rises to 16.3%
- timber frame share in Scotland rises to 76.7%
- timber frame share in Wales rises to 26.6%
- timber frame share in Northern Ireland falls to 22.3%

Timber frame units of all types down 5.2% to 32,341

Timber frame housing units down 5.2% to 29,382

Non-timber frame down 10.7% to 95,068





## Message from the Chief Executive

It has been well documented that 2012 witnessed a reduction in housebuilding within the UK. Where we saw a decrease of almost 10% overall, timber frame itself was fairly resilient and our decline bucked the trend, decreasing by only a tiny amount.

As this Timbertrends report shows, there is an air of greater confidence in 2013, supported by some promising numbers. Naturally, an upturn is good news and we are sure that timber frame manufacturers and their suppliers will benefit from an increase in new home building, particularly as more builders embrace timber as a modern method of construction.

There is also good news in the fact that the Government has introduced initiatives to facilitate higher levels of lending for new home purchases, and initial forecasts indicate that the market is picking up once more. While there will be concern as to whether the recovery is sustainable, there are also issues for our sector to consider, including rising costs that can eat into profit margins and ensuring timber remains high on the agenda.

As our industry evolves and timber construction is recognised as the way forward for sustainable and cost effective building, we as an organisation have recognised the need to ensure we are truly representative of all those involved in manufacture and supply. We therefore launched as the Structural Timber Association (STA) in September 2013. Our association now includes a much wider range of businesses involved in the manufacture, supply and erection of timber buildings.

We know from our robust response to the decline in building that timber's share of the construction market will increase over the next few years, as new building regulations and the demand for more energy-efficient, low-carbon homes become increasingly important. New timber homes, commercial and public buildings will incorporate the latest advances in timber technology to provide the warm, durable and cost-effective living and working environments that people demand. It is the aim of the STA is to ensure that these benefits are clearly understood by policy makers, specifiers, developers and users.

Our industry has survived the worst period in the modern history of UK construction and we all hope that the worst is over. If the predictions contained in this report are correct, there is a real opportunity over the next few years for our industry to capitalise on some of the changes taking place and to benefit from the upturn. As an organisation we will build on the renewed confidence with plenty of ideas, programmes and initiatives to ensure timber remains a core part of the UK building sector for years to come.

**Andrew Carpenter**

Structural Timber Association  
Chief Executive





# Timber frame set to grow volume and market share to 2015

## Summary

The year 2012 was the second worst, in terms of numbers of housing starts, in living memory. The total of nearly 124,500 was around 10% lower than the previous year, which in turn was lower than in 2010. There exists strong demand for new housing, but a scarcity of funding, which provides little incentive to build, has been the main cause for the lack of any real growth for over five years.

Positive action to reverse this decline has been necessary and housing has risen to near the top of Government's agenda.

During 2012 and into 2013, a number of measures have been planned or put in place to generate more funding for home purchase to generate more home building.

The opportunities presented by these initiatives and the continual development of the timber frame industry has led to the birth of a new organisation, the Structural Timber Association, dedicated to taking forward the growth of timber in construction.

The signs of a recovery in new home building are evident and timber frame manufacturers, material suppliers and erector teams are well-placed to play their part in these developments.



## Key Predictions

Housing starts in the UK to rise in 2013 by 11%.

Growth in private sector housing starts predicted to grow throughout the period to 2015, but public housing is forecast to grow only from 2014, and modestly.

Timber frame is set to maintain or grow its market share over the forecast period to 2015.

## Looking forward to 2015

### Forecasts

#### UK housing starts forecast

2013 = 138,357 (+11.2%)

2014 = 151,000 (+9.1%)

2015 = 164,900 (+9.2%)

#### UK private sector housing starts forecast

2013 = 112,746 (+14.0%)

2014 = 124,492 (+10.4%)

2015 = 136,903 (+10.0%)

#### UK public sector housing starts forecast

2013 = 25,611 (+0.3%)

2014 = 26,509 (+3.5%)

2015 = 27,997 (+5.6%)

#### Timber frame projected market share by

2015 = 23.4%

of the private sector = 17.9%

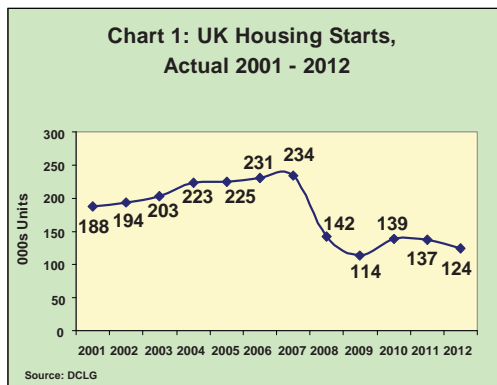
of the public sector = 50.3%

# THE UK HOME BUILDING MARKET TO 2012

## Housing Starts Fall Again in 2012

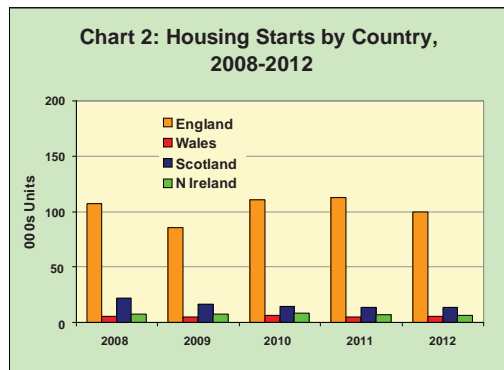
The health of the new home building market worsened in 2012. Weakness in the market, which has been present since the 'crash' in 2008, continued with housing starts lower in 2012 for the second consecutive year. In 2009, housing starts reached the lowest level in living memory, slightly above 114,000, and the number of new homes started in 2012 was little better, at 124,450. New home building has been substantially lower than pre-recessionary levels for five years and in 2012 remained at about 50% lower than the most recent peak reached in 2007.

*Housing starts fell for the second year running in 2012 and were little above the all-time low.*



## Housing Starts by Country

In England, housing starts fell by nearly 12% to just below 100,000 units in 2012. Small increases

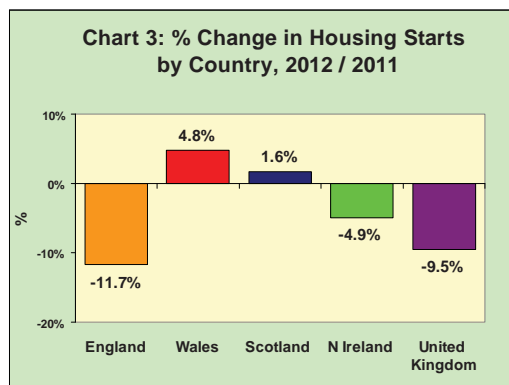


<sup>1</sup>Market share was derived from the total of 29,382 domestic units in the UKTFA survey expressed as a % of official housing starts in the UK from DCLG data.

The housing starts data from DCLG are annualised quarterly returns.

NHBC data is not used to gauge UK market share as the NHBC market coverage is incomplete. Data on home building from other warranty providers are not included in NHBC figures.

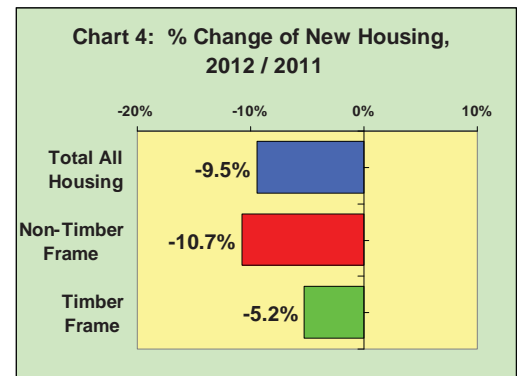
in Scotland and Wales helped to cushion the overall fall in UK starts.



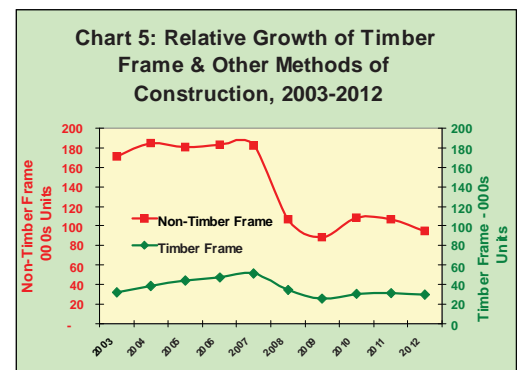
## Not All Bad News

Despite continuing market weakness, improvement was seen in Scotland and Wales. In 2012, for the first time in six years, there were more homes started in Scotland than in the previous year. The 1.7% rise in Scotland and the near 5% increase in Wales (the first increase for four years) only contributed around 500 more new homes than in 2011 in these two countries however. These increases and a small fall in numbers in Northern Ireland were overshadowed by the 13,180 fewer homes started in England in 2012.

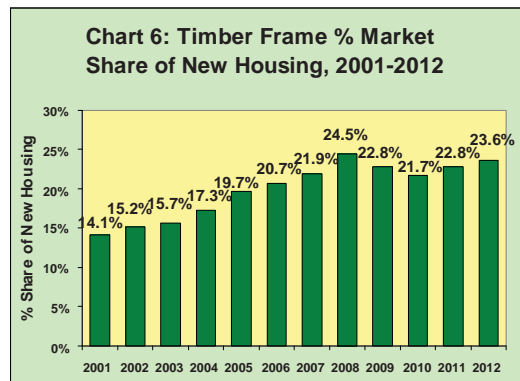
Timber frame construction fared better than other methods of construction, if only measured by a lower reduction in activity than other methods, as shown in chart 4. This



'better' performance, shown in chart 5, has



resulted in a rise in market share<sup>1</sup> in 2012.

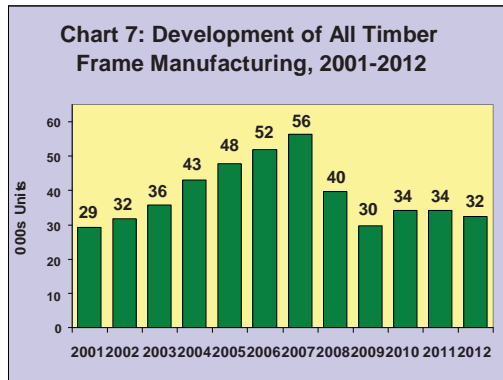




# TIMBER FRAME MARKET DEVELOPMENT TO 2012

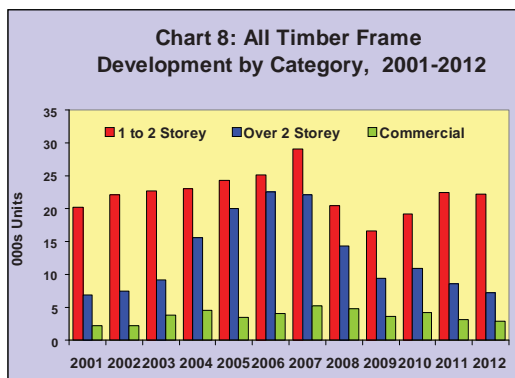
## All Timber Frame Manufacturing

The total number of new timber frame buildings in 2012 was around 5% lower than in 2011. New housing units, as shown previously, were 5.2% lower, a reduction of around 1,600 units. Commercial timber frame units were also a little lower, down by 4.8% to just under 3,000. In total, timber frame units of all types were lower by nearly 1,800 units to reach a level of around 32,300.



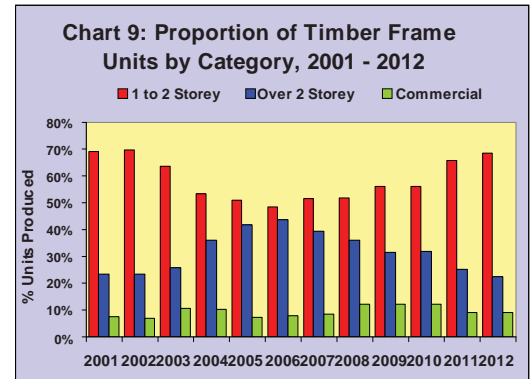
The number of timber frame commercial units built in 2012 totalled 2,960, down from the 3,108 in 2011. The number of new timber frame homes started in 2012 fell to 29,382 from the 2011 total of 31,007. These volumes resulted in the share of commercial building as a proportion of all timber frame being maintained at 9% in 2012.

The longer-term development in timber frame new home and commercial building is shown in chart 8.

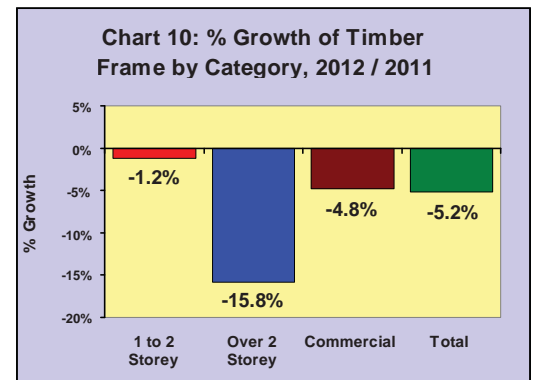


The levels of commercial timber frame building have exhibited a greater consistency than new home building over the longer-term, but remain around 40% below the peak of 2007. The performance of timber frame home building has been more volatile, especially in the over 2-storey dwelling category. From the peak of the market in 2006 to 2012, the decline in timber frame flatted developments has been in the region of 70%. This compares to a less severe reduction in 1 to

2-storey dwellings of around 23% over this period. Proportionately, as shown in chart 9 below, 1 to 2 storey units have returned to the near 70% levels seen in the early 2000s as the proportion of over 2-storey dwellings has reduced to around 22% in 2012 from a 44% level in 2006.



In another year of low levels of home building, the differential performance of the two categories of home building in 2012 was further highlighted with only a marginal reduction in the number of 1 to 2-storey timber frame homes built, but a much larger fall in the construction of over 2-storey homes. The relative performance of the different categories of timber frame buildings is shown in chart 10 below.



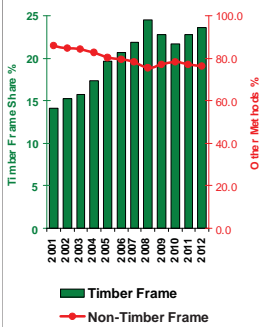
As can be seen from chart 10, the near 16% decline in over 2-storey homes built in 2012 made the greatest contribution to the overall 5.2% reduction in all timber frame units built. Of the total reduction of 1,773 units built in 2012, around 1,350 were in the over 2-storey dwelling category. The reduction in 1 to 2-storey dwellings was less than 300.

As will be shown later in this report, the reduction in over 2-storey dwellings built in 2012 by other methods of construction also experienced a reduction, down by over 13%, but a greater reduction was experienced by non-timber frame methods, compared to timber frame, in the 1 to 2-storey dwellings category in 2012; lower by over 9%.

*The lower total output of timber frame manufacturers in 2012 reflected the losses in output for all construction activity.*

*The trend away from 'over 2-storey' developments continued in 2012.*

*Timber frame market share rises in 2012, as growth returns to the housing market in Scotland.*



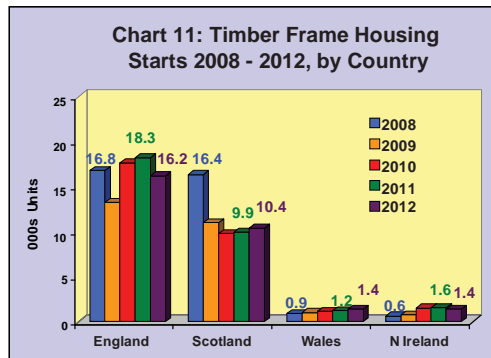
*All housing starts in the UK fell in 2012 by 9.5%.*

*Timber frame home building fared better than other methods of construction, down 5.2%.*

# TIMBER FRAME HOUSING DEVELOPMENT

## Performance by Country & Region

As reported earlier in this report, housing starts in England fell sharply in 2012, by over 13,000 units. Timber frame building in England was not immune to this decline and around 2,000 of this 13,000 reduction were timber frame units. A reduction of nearly 200 timber frame homes built in Northern Ireland also occurred in 2012, but an additional 450 timber frame homes were built in Scotland and around 160 more in Wales. These developments by country are shown in chart 11.



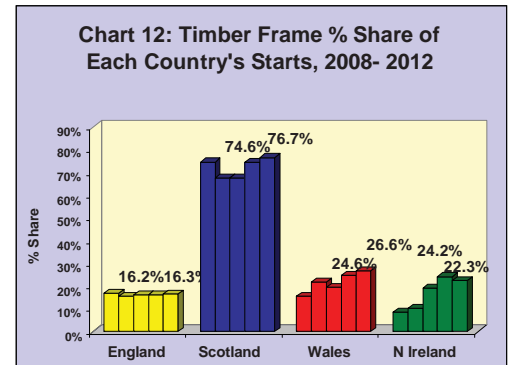
Growth in all housing starts in Scotland took place in 2012, the first time for six years. However, it was the second year running that timber frame units in Scotland were higher. This overall growth in housing starts in Scotland was entirely driven by timber frame. Growth of all housing starts in Scotland was 1.7% in 2012, which was generated by a 4.5% rise in timber frame units.

As shown in chart 11, the markets in Wales and Northern Ireland are much smaller, but timber frame construction has been making good progress in each of these markets over the last four years. In Wales, since the low point of the most recent recession in 2008, timber frame has increased the number of homes built by around 500, which, admittedly from a small base, represents a growth of around 60%. Similar levels of growth in timber frame has also taken place in Northern Ireland over the period.

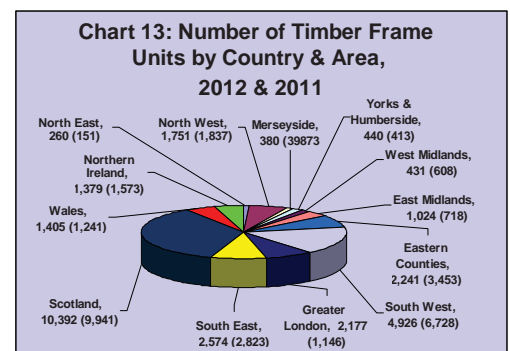
The improvement in timber frame volumes in Wales and Northern Ireland since 2008 has led to regular improvements in market share for timber frame in these two countries. The growth of timber frame in each of these two countries has enabled the market share of timber frame in Wales and Northern Ireland to outstrip that in England. Timber frame market share in England has remained broadly the same over the last five years, at a level of between 16% and 17% of all new homes built. Timber Frame market share in Wales at the end of 2012 stood at nearly 27% and over 22% in Northern Ireland. The housing market in Scotland is traditionally the largest

timber frame market, in terms of market share and despite weakness in the market in Scotland over the last six years, timber frame has continued to account for around three quarters of all homes built over this period.

Further amendments of housing data from DCLG during 2013 for previous years has had the effect of slightly altering the market share estimates provided in previous reports. Consequently, timber frame market share in England in 2011 has been amended to 16.2%, based upon the DCLG housing starts data for 2012 and the estimates of timber frame units from the survey conducted among UKTFA manufacturing members, timber frame market share in England has moved marginally higher, to 16.3%. As shown in chart 12 below, timber frame share in Scotland rose to nearly 77% in 2012, a rise of over two percentage points over 2011.



The increase in timber frame share in England was generated by a mixture of large increases in some English regions and equally large falls in others. In chart 13, estimates of the number of timber frame units built in each English region are provided from which it can be seen that the largest rises in activity came in London, the East

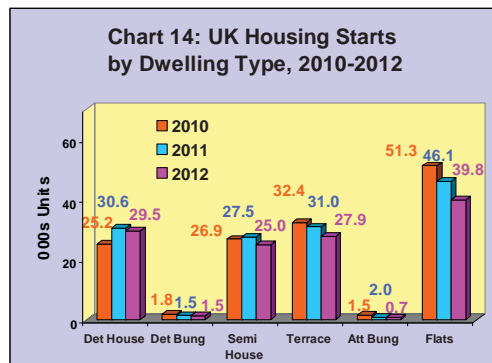


Midlands and the North East. The largest reductions in activity, compared to 2011 were in the South West, Eastern Counties and the West Midlands. The changes in timber frame units in Scotland, Wales and Northern Ireland are also shown in chart 13. These breakdowns are based on data supplied by the Communities and Local Government department (DCLG) and NHBC.

# THE UK NEW HOUSING MARKET, TO 2012

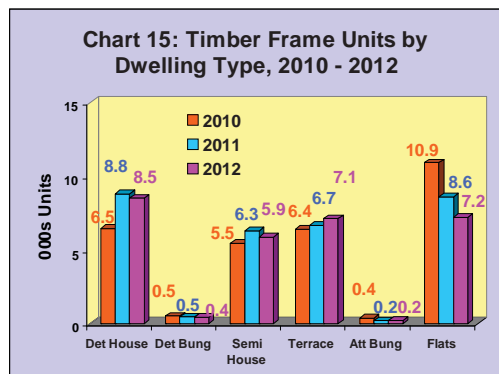
## By Dwelling Type

Housing starts in the UK, as shown in chart 1 of this report, have fallen over the last two years. Not all new housing types have followed the general pattern however. The small decline of 1% in starts in 2011 over 2010 was brought about by reductions in terraced dwellings, but especially a further decline in flatted developments. In comparison, more detached and semi-detached dwellings were built in 2011. This differential development ended in 2012 however with the substantial reduction of housing starts in 2012 of 9.5%. A decline of this magnitude affected all dwelling types and as shown in chart 14 below, lower volumes all housing types were present in 2012.



Of the four major types of dwelling built in 2012, detached dwellings declined in numbers less severely than other types, lower by 3.6% in 2012. Other dwelling types experienced sharper reductions with semi-detached dwellings lower by nearly 9% and terraced dwellings lower by 10%. The trend away from the building of flats continued in 2012 with the number of flatted developments started in 2012 at the lowest level this century. From the peak of over 106,000 flats started in 2006, the approximate 40,000 started in 2012 represents a reduction of 62% over the seven year period.

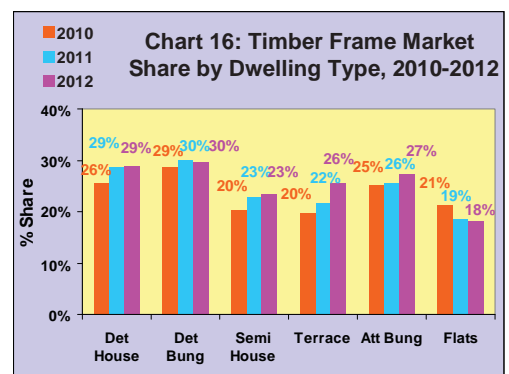
The development of timber frame home building by dwelling type followed a similar pattern to the overall development in the UK.



The only deviation from the general trend was the greater number of timber frame terraced dwellings built in 2012 compared to 2011. A growth of nearly 7% in terraced dwellings took place in 2012 with a little growth in Wales, but the higher number of terraced properties built in Scotland was the main reason for this increase. Other developments were more in line with the UK trend. The number of timber frame detached dwellings built in 2012 was 3.3% lower than in 2011, compared to the drop in the national average of 3.6% and the decline in timber frame semi-detached dwellings was close to 5%, compared to nearly 9% nationally. The lower number of flats built in 2012 nationally had an impact on the number of timber frame flats built with the reduction in timber frame flatted developments a little higher than the national average at nearly 16%. This slightly poorer performance of timber frame flat building compared to other methods of construction has been present over the seven year period from the peak of flat building in 2006. Since that time, timber frame flatted developments have declined by 68%.

The timber frame market in England in 2011 was around twice the size of the market in Scotland, but this gap narrowed in 2012 with a 4.5% growth in Scotland and an 11% fall in timber frame units built in England. As previously noted, more terraced dwellings were built in Scotland in 2012, but marginally more detached dwellings were also built with an estimated 3,955 new timber frame detached homes built in Scotland. This small growth compares to an estimated decline of around 350 homes in England to a level of approximately 3,600 in 2012.

The sharp reduction in flatted developments was particularly evident in England and Scotland where the large scale of these two countries has dictated the size of the decline in flat building over the years. While timber frame enjoys an estimated 23% to 24% share of the market for all dwelling types, the share of timber frame flatted developments fell to around 18% in 2012.



*Further significant reductions in starts of flatted developments took place in 2012, resulting in volume losses in this category of over 60% since 2006.*

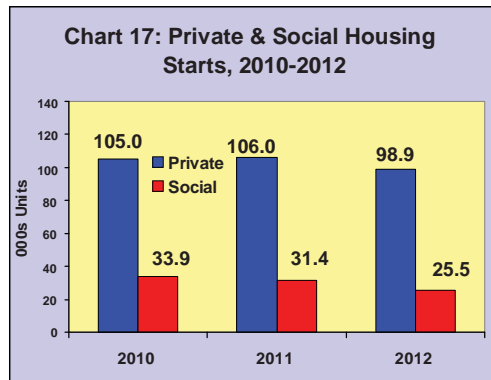
*Much of the increase in timber frame market share in 2012 came in the terraced dwelling category, although increases were also registered in the detached and semi-detached categories.*



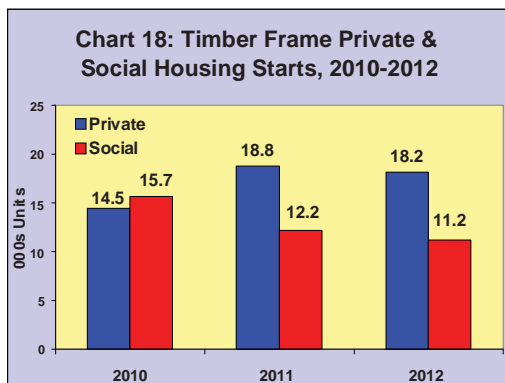
# THE NEW HOUSING MARKET IN THE UK

## By Tenure (Private & Social)

The widely expected reduction in social housing starts duly transpired in 2012 with a fall of nearly 19% to just over 25,000 units. The expected rise in private housing starts in the UK in 2012 did not take place however. The Construction Products Association (CPA) forecast a 3% rise in private housing starts in 2012, but a near 7% reduction in numbers occurred. Small increases in private housing starts did take place in Scotland, Wales and Northern Ireland, but with around 8,000 fewer private housing starts in England in 2012, the overall development became negative. The changes in the private and social sectors in the UK in 2012 are shown in chart 17.



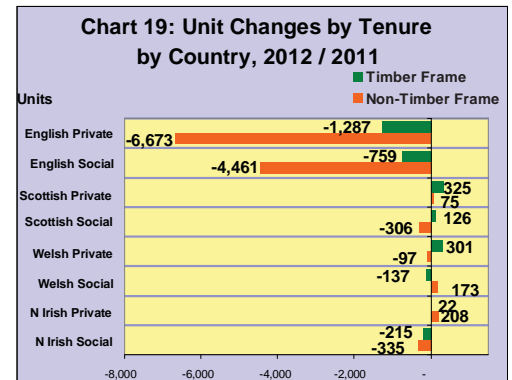
The UK developments by tenure were reflected by timber frame units by tenure. The scale of the falls in activity were not as large as the national average however with private sector timber frame building falling by just over 3% (nearly 7% nationally) and social sector timber frame building falling by around 8%, compared to 19% nationally. The changes in timber home building by tenure are shown in chart 18.



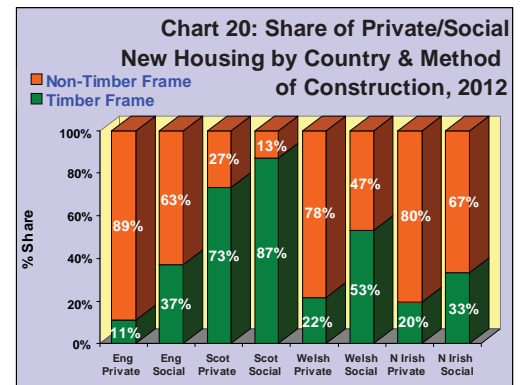
The other striking difference between timber frame home building and that of other methods is in the composition of the total by tenure. Nearly 80% of non-timber frame home building was carried out in the private sector in 2012 compared to just over 60% of timber frame construction. With timber frame commanding a large share of

social sector building in the UK, the large downturn in social sector housing starts in the UK might have been expected to adversely affect the overall UK share of timber frame. However, with a 19% reduction in social housing starts, against the predicted CPA decline of 23% and timber frame social sector building declining at a rate of less than half of that of other methods of construction, timber frame's share of the social sector rose to nearly 44% in 2012, supporting overall growth in timber frame market share.

As noted earlier in this report, the housing market in England was largely responsible for the overall decline of 9.5% in UK housing starts. Both the private sector and the social sector in England were lower in 2012, and this reduction in activity was the major cause of the overall national fall in timber frame building in 2012. In England, the reduction in timber frame units was estimated to be 11.2% and for non-timber frame, 11.8%. The much smaller numbers in Wales and Northern



Ireland makes estimation less reliable, but reports from timber frame manufacturers indicate that timber frame outperformed other methods in these countries. The estimated timber frame market share of the four countries of the UK and by tenure in 2012 is described in chart 20.



This chart demonstrates where the strength and weaknesses of timber frame lie in the penetration of the UK's new home building market. The dominate position in Scotland is in contrast to private sector activity in England.

*The percentage of public housing starts in the UK fell to 20% of the total in 2012 from 26% in 2009.*

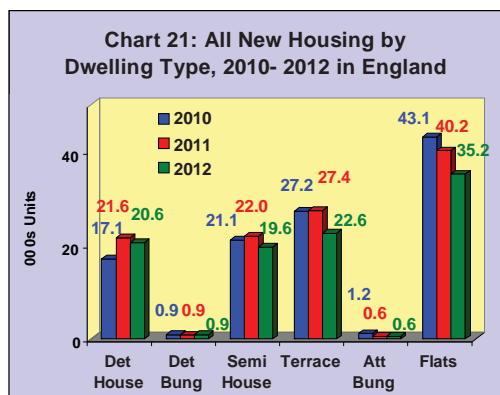
*The loss of volume in England in 2012 was shared across both the public and private sector.*

## COUNTRY PERFORMANCE / DWELLINGS & TENURE

### Performance by Dwelling Type & by Tenure - ENGLAND

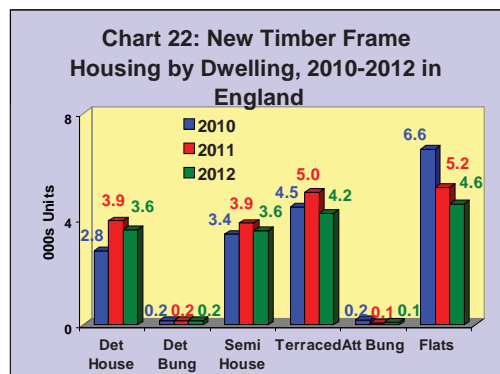
A reduction in housing starts in England of around 13,200 in 2012, from a total of over 112,000 in 2011, brought about falls in all the main categories of dwelling. The least affected dwelling type was for detached homes where a 4.7% decline in 2012 followed a 26% rise the previous year. Double digit falls were present in the other main dwelling types with a near 11% decline in the number of semi-detached homes started, an 18% fall in terraced dwellings and a 13% decline in flatted developments in 2012.

These changes are shown in chart 21.



The new home building market in England is different to the other three countries of the UK with a much higher proportion of flats, compared to other dwelling types. In 2012, 35% of all new homes built were flats in England, compared to 21% in Scotland and Wales and 11% in Northern Ireland. The decline of flatted developments in England has nevertheless been significant as at the peak of building activity in 2006, 90,000 flats were started in England. This represented around 50% of the total. In 2012 however, the decline in numbers in England was equally shared by terraced dwellings and flats, comprising around 10,000 of the 13,200 decline.

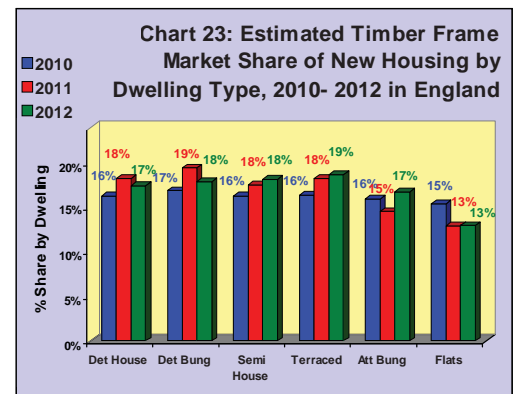
A broadly similar pattern has occurred with timber frame over the last three years, as shown in chart 22.



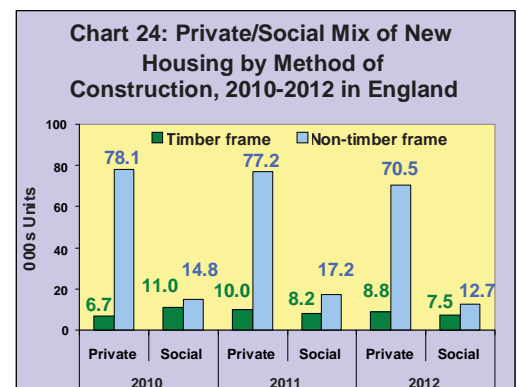
The contribution to the 13,200 fewer homes started in 2012 in England by timber frame was 2,000 units. As with the total in England, the decline in terraced and flatted developments were the main reasons for this performance. A total of approximately 1,600 fewer terraced and flats combined, accounted for the overall reduction in numbers in England of around 2,000. The decline in timber frame flatted developments, although following a similar downward path as for other methods of construction, has, as reported earlier, been of a greater magnitude. Timber frame flats in England accounted for around 28% of all timber frame home building in 2012, but at the peak of flat building in 2006, timber frame flats accounted for nearly 58% of the total of all timber frame dwellings.

A reduction in numbers of timber frame detached dwellings also occurred in 2012, along with reductions in other areas in one of the worst years for new home building in England, but at a level of around 3,600 new timber frame detached homes, this is little different from the peak building period in 2006 and 2007, when all housing starts in England were around 175,000.

These changes in timber frame market share by dwelling type over the last three years are shown in chart 23.



The progress of timber frame in the social and private sectors and for other methods in the private sector in England is shown in chart 24.



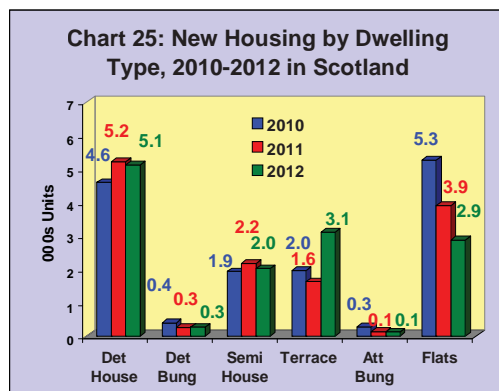
*The greatest impact of the 11.7% fall in housing starts in England was felt in the terraced dwellings and flatted development categories.*

*A marginal improvement in timber frame market share in England came in the terraced and semi-detached dwelling categories.*

## COMPETITIVE POSITION / DWELLINGS & TENURE

### Performance by Dwelling Type & by Tenure - SCOTLAND

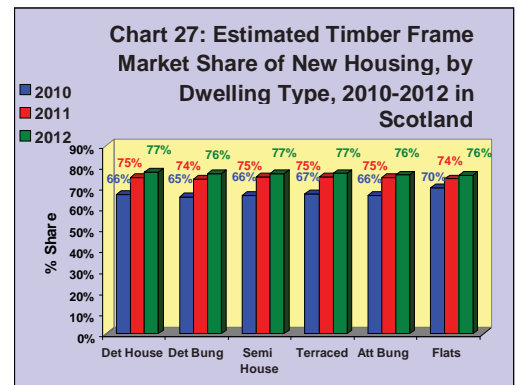
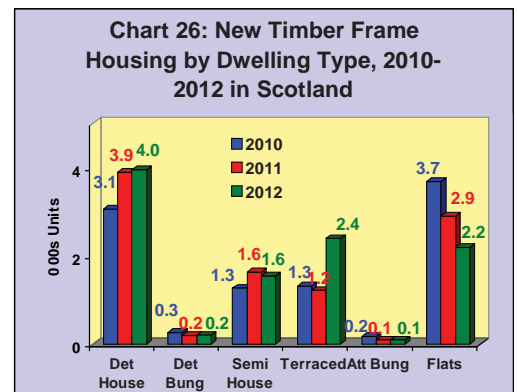
After five consecutive years of declining housing starts, the first signs of a recovery emerged in 2012 with a small increase of nearly 2%. In the period from 2006 to 2011, housing starts in Scotland declined by over a half, falling from around 28,600 to just over 13,300 in 2011. The small increase of 220 housing starts in 2012 was not distributed evenly across the different dwelling types however. Of the four main housing types, only terraced dwellings witnessed growth in 2012 over 2011. Small decreases in volume took place in the building of detached and semi-detached homes, accompanied by a larger and further decline in the number of flats started in Scotland. Using NHBC dwelling type data, the decline in detached dwellings started was less than 2% and a near 7% decline took place in semi-detached dwellings, but the fall in flatted developments was over 26%. Consequently, the small overall growth in Scotland in 2012 was entirely due to the near doubling of terraced dwellings started. These changes in housing starts are shown in chart 25.



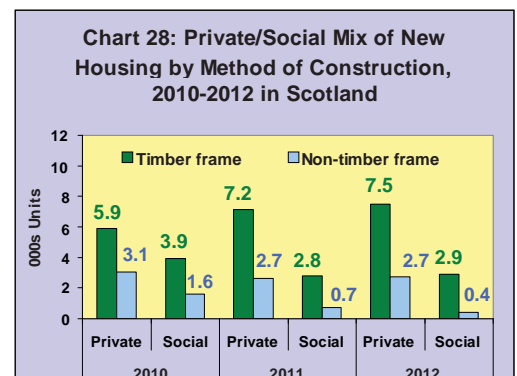
The substantially lower level of home building in Scotland over the last six years has resulted in a very different mix of housing types. In 2006, the year when housing starts reached its modern-day peak in Scotland there were almost as many flats started as detached homes. In 2006, 42% of homes started in Scotland were detached and 37% were flats. By 2012, the proportion of detached homes had slipped a little to account for 38% (of a much smaller number) but flatted developments only accounted for 21% of the total. These changes have to be matched against an increase in real terms in the building of terraced properties which has seen the percentage of this type of dwelling increase from 8% in 2006 to 23% of the total in 2012.

The direction and development of the new home building market in Scotland is governed by the

scale of timber frame building in Scotland, because of the high market share - regularly in excess of 70%. Consequently, the development of the market presented in chart 25 was driven in the main by the changes that occurred in timber frame home building. The only minor variation was the slight increase in detached timber frame building compared to a slight decrease in this dwelling type for other methods of construction. The changes in timber frame building by type shown in chart 26 translate into timber frame market share by type, as shown in chart 27.



The 4.5% growth in timber frame home building in Scotland in 2012 was generated mostly by increases in the private sector, but social sector timber frame building also exhibited a small increase in activity. The small decline in non-timber frame methods of building resulted from lower volumes in the social sector.



*In 2012, housing starts in Scotland rose for the first time in five years.*

*All of the growth in housing starts in Scotland came in the terraced dwelling category.*

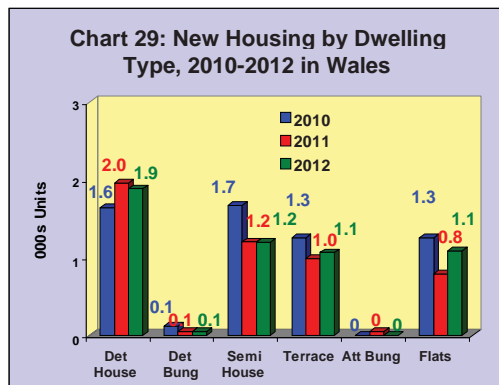


## COMPETITIVE POSITION / DWELLINGS & TENURE

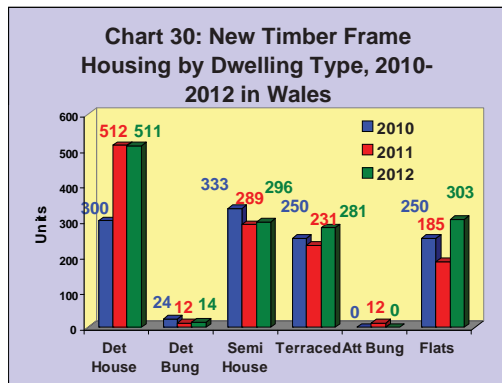
### Performance by Dwelling Type & by Tenure - WALES

In contrast to its larger neighbour, housing starts in Wales rose in 2012. A relatively small market, the increase in housing starts of 240 homes represented growth of nearly 5%.

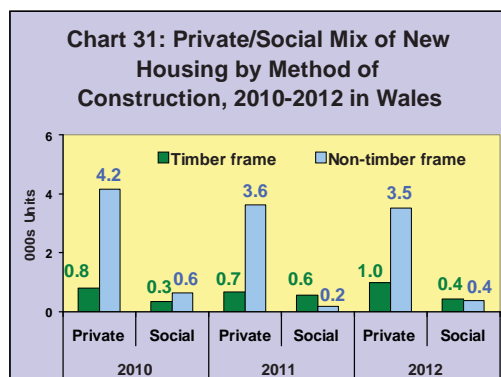
A small increase was recorded in the number of terraced dwellings started, but - and against the trend elsewhere in the UK - more flats were started in Wales in 2012. The development by all dwelling types is provided in chart 29.



Timber frame market share grew in Wales in 2012 as a result of marginally more semi-detached and terraced dwellings built and the highest number of flats built since 2007.

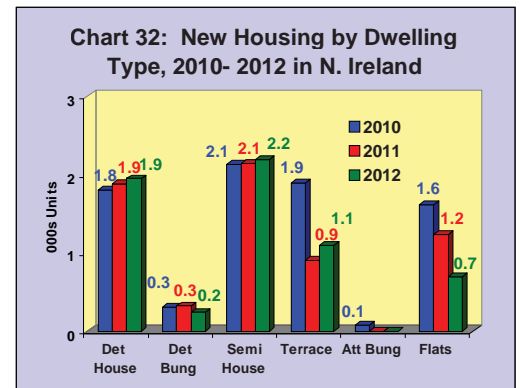


Timber frame growth in Wales came entirely from the private sector.

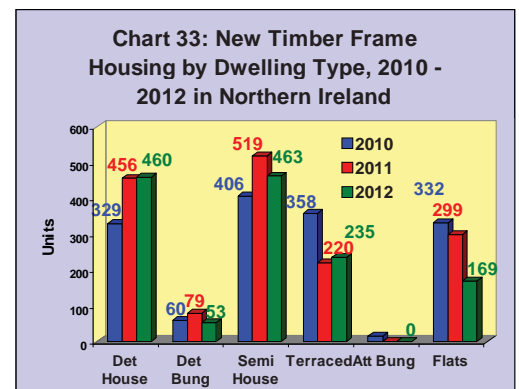


### Performance by Dwelling Type & by Tenure - N. IRELAND

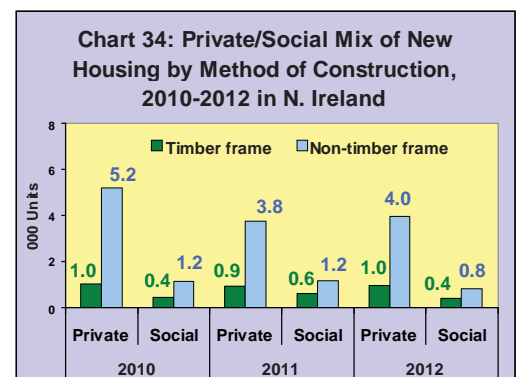
The approximate 5% growth in housing starts in Wales was mirrored by a near 5% decline in Northern Ireland. A little growth was nevertheless experienced in the building of detached, semi-detached and terraced homes. The decline was seen mainly in the building of flats.



Timber frame home building lost ground in the semi-detached sector, but small increases were recorded in the building of detached and terraced dwellings.



Less social sector home building in 2012 was the main cause of lower housing starts in total in Northern Ireland in 2012. More private sector homes were built in timber frame and other methods in 2012.



*Outperforming all other UK countries in 2012, the growth rate of housing starts in Wales was 4.8%.*

*The 4.9% reduction in housing starts in Northern Ireland in 2012 would have been higher without the detached homes category recording volumes similar to 2011.*

## MARKET FORECASTS TO 2015

### Moderate Improvement to 2014

Housing starts in the UK, as shown elsewhere in this report, have been at historically low levels for the last five years. The latest year for which data is available, 2012, was the second worst in living memory, beaten only by the recessionary stricken 2009. This report - among many others - has repeatedly provided forecasts that have, once final housing data was available, been too optimistic.

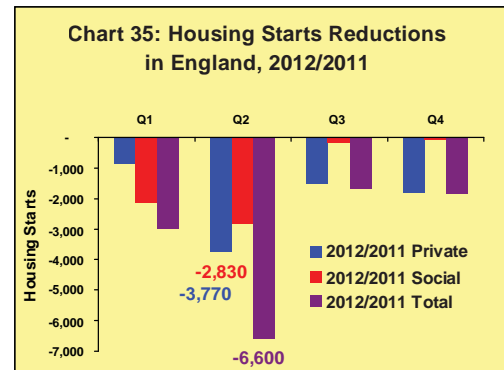
The 2011 Market Report predicted a further fall in housing starts in the UK for the year 2012, by approximately 3%, to a level of around 132,000. The eventual outcome was 124,450. While the direction that housing starts were headed in 2012 was predicted correctly, the scale of the decline in 2012 was under-estimated, with a 9.5% decline.

The forecasts for this report are provided from data extracted from the Construction Products Association (CPA) housing starts forecasts and from members of the UKTFA responding to the survey conducted specifically for this report.

As recently as the Summer 2013 forecast supplied by the CPA, housing starts in Great Britain for 2012 were forecast to be in the region of 133,000. On publication of final year data by DCLG in August 2013, the actual number was a little over 118,000. This provided a difference of around 11% between the forecast and the actual outcome. This short-term optimism was shared by UKTFA members in their view of the immediate future. In the forecast of timber frame home building in 2011, for the year 2012, the forecast provided was 10% higher than the eventual outcome.

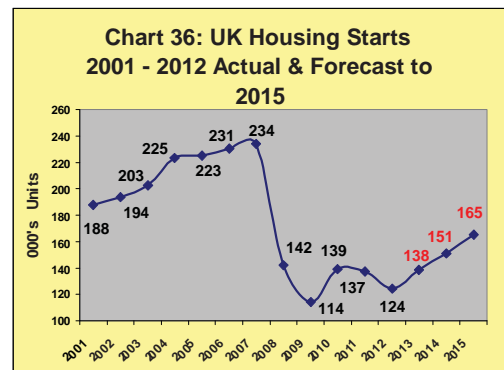
In defence of the forecasters, while the direction of housing starts was correctly predicted, the depth of the further reduction in housing starts in England was not foreseen.

Cutbacks in Government spending and housing programme reductions resulted in the expected drop in public housing starts, down 21% in England in 2012, but the extent of the reduction in private housing starts was not predicted. The CPA forecast indicated a 2.7% rise in private housing starts for 2012 in the summer of 2012, but the eventual outcome was a 7% reduction. Specifically in England, private housing starts were lower in each quarter in 2012 with quarter 2 accounting for nearly 50% of the annual loss in private housing starts volume. The volume losses and their timings, for the private and public sectors in England are shown in chart 35.



### Housing Starts Forecast to 2015

The CPA has forecast growth in 2013 and for this to continue throughout the forecast period. The members of the UKTFA also predict that timber frame home building in 2013 will finish higher than in 2012. Adding an estimate for Northern Ireland to the CPA forecasts for Great Britain, the prediction of a 13% growth in housing starts in 2013 will raise the number of housing starts to a little over 138,000. This, and the forecasts for 2014 and 2015, is shown in chart 36.



Within this total, timber frame manufacturers believe that timber frame housing volume will rise by 8% in 2013.

If 2012 was a disappointing year in terms of the eventual outcome in housing starts with forecasters thwarted by the unexpected weakness of demand in the private sector in England, why should the current forecast, as shown in chart 36, be any more credible?

### Evidence Supporting the Forecast

Weakness was very evident in the housing market in 2012 and had been for four years previously. Confidence had not returned and this was confirmed with a housing market forecast in last year's report which identified a further a reduction in housing starts. Continuing weakness in the market and lack of confidence, combined with, at the time, a

*One half of the 13,180 fewer housing starts in England for the whole of 2012 were recorded in the second quarter with a total reduction of 6,600 starts.*

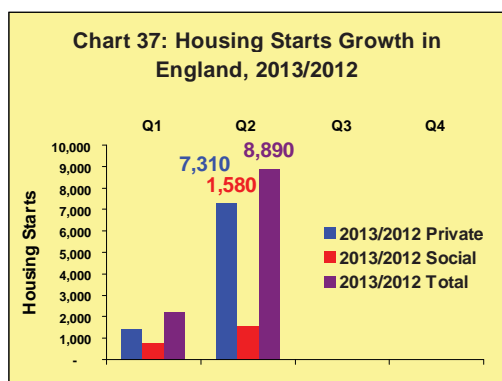
*The CPA predicts good growth in housing starts over the next three years.*

## MARKET FORECASTS TO 2015 - CONTINUED

continuation of the low levels of lending that had restricted home purchase since the banking crisis of 2008, contributed to housing starts in England falling below 100,000 for only the second time in ninety years.

Against this background, the 13% rise in housing starts for 2013 predicted by the CPA would appear to be ambitious. However, market conditions have changed.

Quarter 2 of each year is often - but not always - the best quarter of the year for housing starts and clear improvements in housing starts in England were evident in Q2 2013. Where the large losses in volume occurred in Q2 2012 over Q2 2011, large gains have been made in Q2 2013 over Q2 2012, as shown in chart 37.



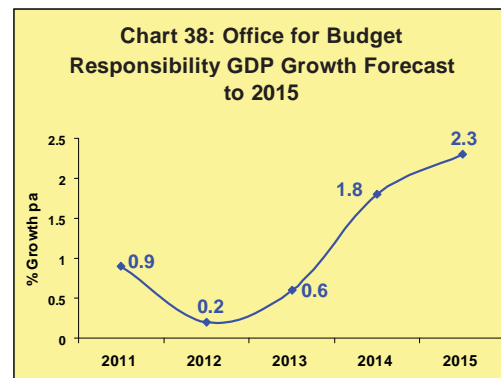
The growth in Q2 2013 shown above is, of course, matched against the weak Q2 2012 and is therefore overstated in an annual context, but even after smoothing seasonal effects, growth has unquestionably returned to the market in England in 2013.

### The Economy, Lending & the Housing Market

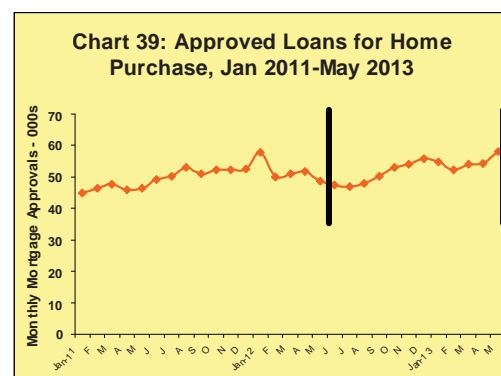
Economic recovery from the 2008 recession has been slow and for some sectors, including construction, recovery stalled in 2012. Construction output in 2012 fell by nearly 8%. By the middle of 2013, the mood had changed. The Office for National Statistics (ONS) revealed that for the first time since the 2008/9 recession all three major sectors (production, construction and services) of the economy were in growth at the same time. Economic growth, as measured by Gross Domestic Product (GDP) increased by 0.3% in the first quarter of 2013 and by 0.7% in the second quarter. These small improvements in growth, when combined with previous marginal improvements has enabled the economy to recoup around a half of the output lost in the 2008/9 recession. External bodies, such as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) raised their growth forecasts for the UK

economy in September. The IMF considers that growth in GDP for the UK will reach 0.9% by the end of 2013 and rise to 1.5% in 2014.

The Office for Budget Responsibility (OBR) published growth forecasts for the next few years indicating that the balance of probabilities has shifted towards further growth, at around the levels shown in chart 38.



A further sign of recovery supporting the housing starts forecast is the rising levels of mortgage approvals. The Bank of England has recorded a 23% rise in the number of approvals over the year to May 2013, as highlighted in chart 39.



Another key measure of the health of the housing market is the development in new orders. The rise in the volume of new orders for both the private and public housing sectors over the last three quarters, compared to the corresponding quarters of the previous year suggests a strong recovery. According to ONS, in Q4 2012, the volume of new housing orders was higher than in Q3 2011 by 22%. This growth increased in Q1 2013 to be 29% higher than in Q1 2012 and by Q2 2013, growth of new housing orders had outstripped Q2 2012 by 52%. Growth in the private sector, which comprises 75% of new housing output, has been strong, but the growth in new orders in the public sector has been even stronger. These key measures, along with other factors, point to a housing market recovery.

*The buoyant forecast for the second quarter of 2013 in England is in sharp contrast to the poor second quarter of 2012.*

*Lending for home purchase has continued its growth path during the middle of 2013.*

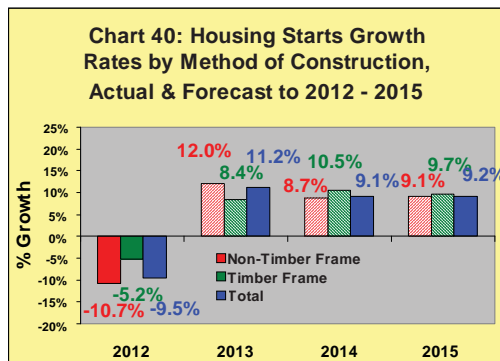


*The growth of timber frame from 2014 is expected to outstrip that of other methods of building.*

*Timber frame manufacturers take a more conservative view of growth in 2013, hence the small decrease in share before rising again in 2014 and beyond.*

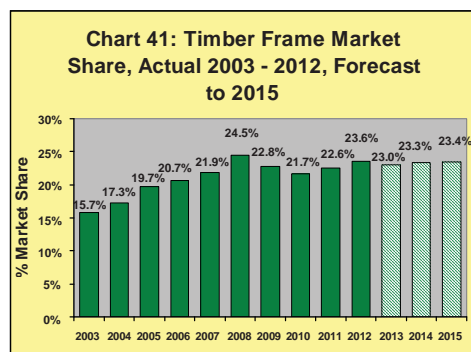
## GROWTH FORECASTS & MARKET SHARE

The improved economic, lending and housing data suggest that recovery in home building is underway. Whether this recovery can be sustained is subject to debate, but it is clear that the year 2013 will be very different from 2012. With housing starts in England for the first half of 2013 higher than in the first half of 2012 by around 23%, growth is virtually assured. The CPA has forecast a 15% growth in private sector starts in Great Britain in 2013, but a fall in public sector housing, by 5%. The overall effect would generate a 13% growth for the year. A more conservative outlook by timber frame manufacturers has resulted in a growth forecast for timber frame home building in 2013 of 8%. This is made up by a 14% uplift in private sector timber frame units and a tiny increase (0.3%) in public housing. Using these forecasts, the total growth forecast of 11.2% for 2013 is shown alongside the changes by building method for 2014 and 2015 in chart 40.



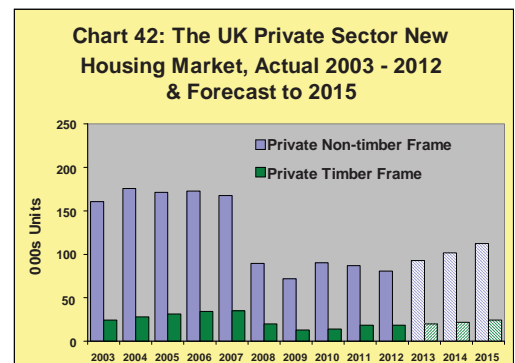
According to the CPA and timber frame manufacturers, growth is likely to be sustained throughout the forecast period to 2015, although not at quite the same levels as in 2013.

As shown in chart 40, timber frame is forecast to grow at a slightly slower rate than non-timber frame methods in 2013 before recording better growth in 2014 and 2015, resulting in a small drop in share in 2013 followed by increase in market share thereafter.

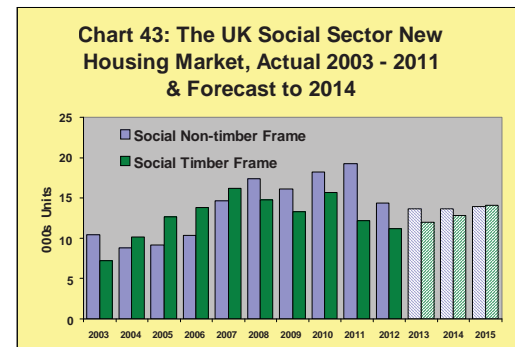


## GROWTH FORECASTS BY TENURE & METHOD

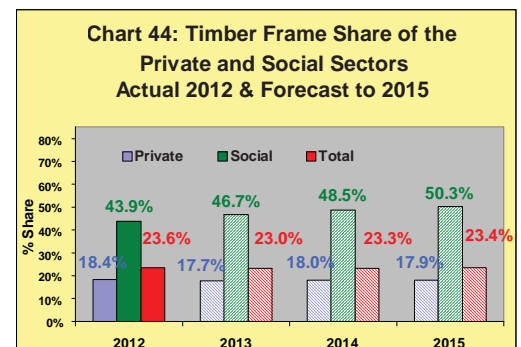
The greatest difference in growth rates between timber frame and other methods are predicted to occur in 2013 as timber frame private units rise by nearly 10%, while private sector for other methods increase by 15%. By 2014, the forecast for timber frame private sector growth is a little over 12% compared to 10% for other methods and for 2015, around a 10% growth for each method is predicted. These developments are plotted in chart 42.



Timber frame building in the public sector is forecast to outstrip the growth of other methods to 2015. A 7% growth in 2013 is forecast to precede an 8% rise in 2014, followed by a 9% increase in 2015. Growth by other methods is predicted to be small between 2013 and 2015 and remain below the levels of 2012. This results in timber frame share of the



private sector being maintained at around 18% over the period, while share of the public sector rises to over 50%, as shown in chart 44.



## TIMBER FRAME FORECASTS BY COUNTRY & TENURE

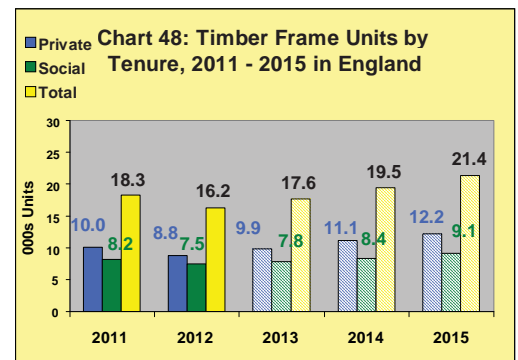
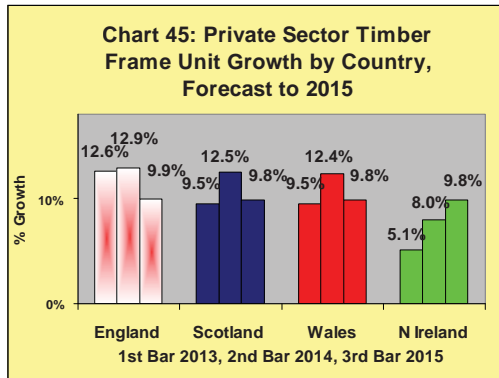
Without exception, timber frame manufacturers in each of the four countries of the UK predict increased rates of growth in 2014 compared to 2013.

As the forecasting period extends, there often appears to be less certainty over growth prospects and this is the case for timber frame building out to 2015. In the private sector, timber frame growth by 2015 is predicted to slow, but still be close to 10% in each of the four countries.

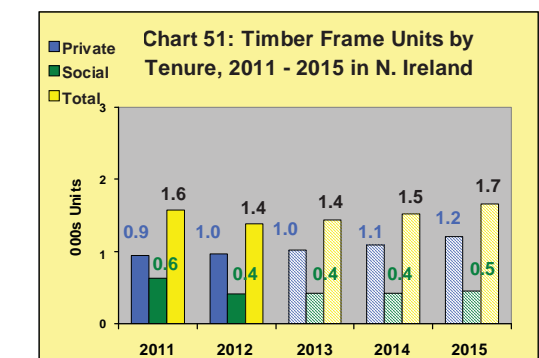
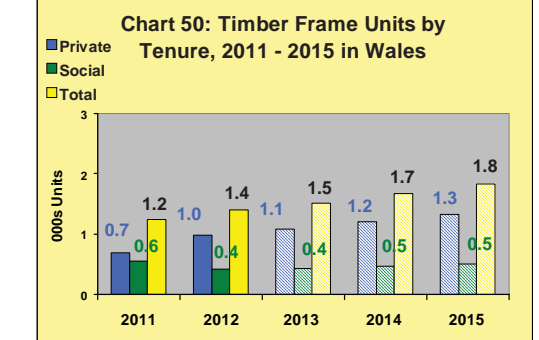
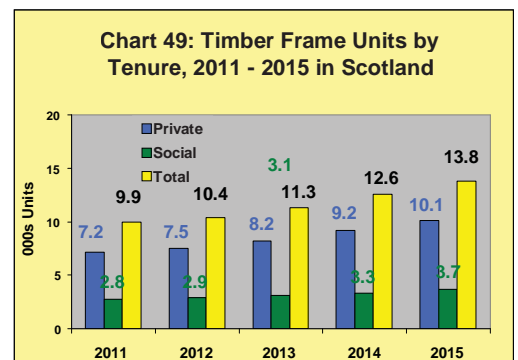
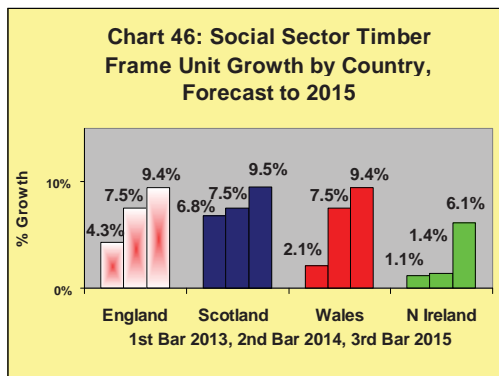
The forecast development by units in each country tends to follow a similar pattern, with growth predicted in 2013, but prospects for higher growth improving thereafter.

The lower growth prospects in the public sector have influenced the conservative nature of these forecasts in each country to 2015, but should the improvement in this sector be faster and greater than predicted, timber frame is well-placed to exceed the forecasts in each country as shown in the charts below.

*Despite a more conservative forecasting approach by timber frame manufacturers, good growth in volume is predicted over the period to 2015.*

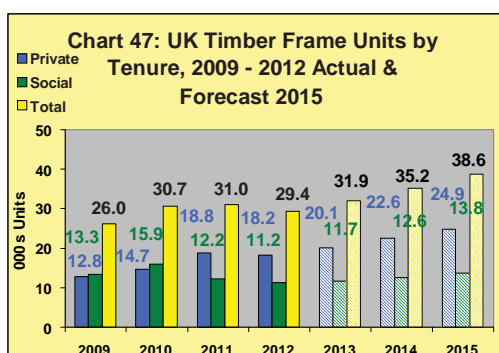


Timber frame growth in the public sector is forecast to take longer to accelerate, but by the end of the period is expected to be equivalent to the growth rates in the private sector.



*Growth in timber frame housing in all four countries of the UK has been forecast to 2015.*

Combining the forecasts by country to arrive at a UK forecast, the overall development of timber frame housing by units can be presented. In chart 47 below, the number of units built is predicted to climb back over 31,000 in 2013 and grow to reach nearly 39,000 in 2015.

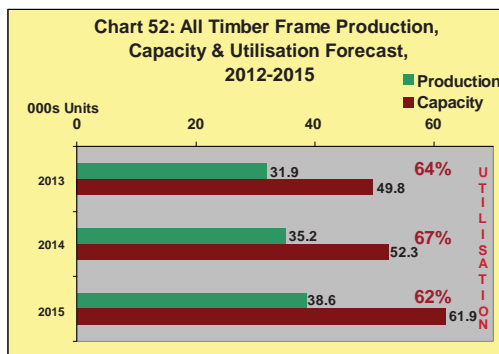


## PRODUCTION CAPACITY / INDUSTRY STRUCTURE

### Production Capacity and Utilisation of UK Timber Frame Manufacturing, 2012-2015

The timber frame industry, in common with many other industries has been working well below capacity as demand for new homes has remained weak over the last five years.

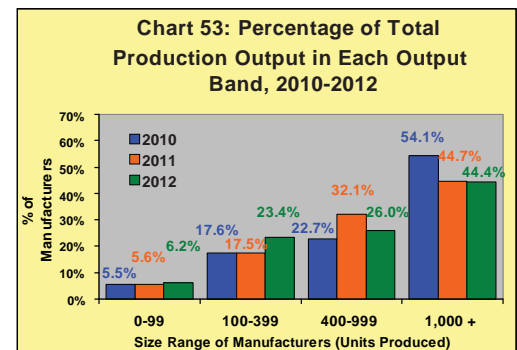
Against this background, many timber frame manufacturers have managed to strike a balance between meeting current demand; utilising existing plant and equipment to meet this demand whilst maintaining sufficient production capacity to meet a possible upturn in future demand - and attempting to remain solvent. Such a balancing act is testament to good day-to-day production planning and faith in the future. Added pressures are created when faith in the future is dashed by housing forecasts that do not materialise. This has happened over the last five years with an upturn one year followed by a downturn the next. The year 2012 was no exception as housing starts declined at a rate faster than many predicted. As shown previously in this report, a 5% reduction in timber frame volume occurred in 2012 against a forecast growth of 5% predicted by timber frame manufacturers. The expected level of production utilisation of 65% for 2012 therefore did not materialise. The actual level of utilisation fell to 60% in 2012, but, as described in chart 52 below is expected to rise above this level over the forecast period to 2015.



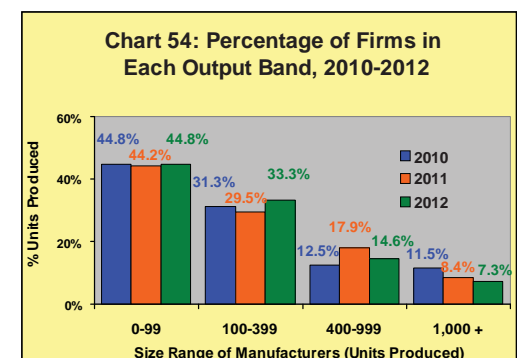
This better, but relatively low level of utilisation highlights the continuing excess capacity in the industry. Once again, the balancing of resources will be key to company profitability, however, on an encouraging note, it should be noted that a major difference between levels of production capacity reported last year and those shown this year, above, is the rising levels of capacity. The industry is predicting an additional 6,000 units will have come on stream in 2013, followed by a further 8,000 in 2014. After a period of falling capacity in recent years, these plans are a clear act of faith in the future.

### Changes in Industry Structure

UKTFA members represent the great majority of timber frame manufacturing in the UK, consequently the structure of the membership, in terms of company size and distribution of turnover, is a reliable guide to the entire industry. The continuing weakness of the housing market in 2012, resulting in lower levels of output generally, has brought about a number of significant changes to the 'size and shape' of the industry. Segmenting timber frame companies into four 'bands' of production output - from below 100 units to over 1,000 - the percentage of companies populating the two lower bands (0-99 and 100-399) has increased while the percentage of companies in the two higher bands has decreased. There has been a clear migration towards lower levels of output. As a group, the greatest movement has occurred with mid-size companies where the largest migration has seen a net movement away from the 400-999 band into the 100-399 band. As expected, the majority of timber frame production is still carried out by those firms that produce more than 400 units pa,



however the percentage of industry turnover accounted for by these mid-size and larger companies fell from 77% in 2011 to 71% in 2012. These structural changes can also be viewed by the change in the number of firms in each turnover band with 22% of output provided by mid-size and larger firms in 2012, down from 26% in 2011.



*Timber Frame manufacturers expect additional capacity to be added as the recovery in home building begins to take hold.*

*The poor year of 2012 was reflected in a lower number of units produced overall and the movement of some companies to lower turnover bands*





*The Structural Timber Association will support its members; nurture growth and champion the development of timber in construction.*



Further copies of this report can be downloaded from the Members' area of our website.

## SUSTAINABLE RECOVERY & THE STA

After two years of moderate growth in timber frame home building, hopes of a sustained recovery were dashed in 2012 with housing starts of all types falling once again to a level only slightly above 2009, the worst year for ninety years. Confidence in the UK housing market was fragile once more in 2012 with unemployment high, incomes squeezed and lending for home purchase showing little sign of improvement. During 2012, Government introduced a number of measures aimed at overcoming these problems. One of these initiatives was "New Buy", a mortgage indemnity insurance scheme backed by Government and home builders and designed to help home buyers with little capital. In September 2012, Government provided further stimulus through increased capital investment for home builders and introduced the Affordable Home Guarantee Scheme, aimed at delivering more new homes for the private rented sector and around 15,000 additional new affordable homes. In the 2013 Budget, a further £225 million was added to help double the building of new affordable homes. Despite Government backed programmes being a welcome support for the housing market, it was clear that the largest obstacle to sustainable recovery remained the difficulty in obtaining finance for new home purchase. To stimulate greater levels of lending, also in the 2013 Budget, Government announced its "Help to Buy" scheme which is designed to provide mortgage guarantees for lenders offering mortgages with a deposit of between 5% and 20% - to a property value of £600,000. By reducing the risk to lenders, it is believed that more mortgages will become available, thereby helping to convert the demand for new homes into sales. Included in the "Help to Buy" scheme is the provision of a Government-backed equity loan of up to 20% of the value of a property. The attraction for home purchasers is that the loan is not repayable until the home is subsequently sold. A further measure designed to increase the flow of finance to the housing market was the "Funding for Lending" scheme, introduced in July 2012 by the Bank of England. Under this programme, banks have the ability to borrow capital at half the existing bank rate with the proviso that these funds are used by lenders for providing mortgages and for providing investment funds for small to medium-size enterprises.

It appears that the combination of these measures is beginning to take effect. As show earlier in this report, on page 14, the number of approved loans for home purchase has risen in 2013. Whether these and other encouraging signs are sustainable has yet to be confirmed, but the timing of this recovery provides the newly formed Structural

Timber Association (STA) the opportunity to support the greater use of timber in a construction market under recovery.

Timber frame manufacturers have, over the last decade with support from the UKTFA, the representative body over this time, expanded the use of timber in housing and in many other forms of construction. Market share has risen to a point where around one in every four homes built in the UK is constructed of timber frame. This has been achieved through the delivery of buildings of high quality with innovative solutions over a wide range of building types. The many different types of timber products that are now being increasingly used in construction has been instrumental in defining the wide-ranging vision that the new STA has set out. Innovation and collaboration is central to the STA's objectives, as is the imperative of good communications with customers, stakeholders and members. As recovery in construction begins to take hold, the STA is positioned to continue much of the good works of the last few years, not least in the development of programmes designed to help grow the market for timber in construction. The high level representation that the STA has on the Housing Forum; dialogue with the CBI and involvement at ministerial level will lead to the voice of timber manufacturers, suppliers and construction teams being heard when housing policy is being formed. The expert work of the committees tasked with ensuring that health and safety and technical matters are addressed and clearly communicated to members and other stakeholders continues. The STA will be vigorously participating in seminars, workshops, conferences and factory tours in the support and promotion of the interests of its members; throughout this critical time of recovery in construction. The STA will be widening its commercial remit also. New initiatives have begun with members benefitting from reciprocal arrangements with other bodies. The communicating of commercial opportunities for members will be further developed to enable the real benefits of using timber in construction to be used in members' own business development programmes.

The newly formed STA is uniquely positioned to provide the type of support and expertise that will enable timber manufacturers and suppliers to make a vital contribution to a recovery in construction that is both sustainable and rewarding.



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