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# Housing Market Overview

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- December rise of 1.3% reverses previous fall for Halifax
- Nationwide records second successive monthly fall
- Land Registry index slows for third successive month
- MPC under pressure for February base rate cut
- Mortgage approval data suggests sales set to decline further

| | | December | November |
|---|---|---|---|
| Halifax | Monthly | 1.3% | -1.1% |
| | Annual | 5.2% | 6.3% |
| Nationwide | Monthly | -0.5% | -0.8% |
| | Annual | 4.8% | 6.9% |

## Halifax

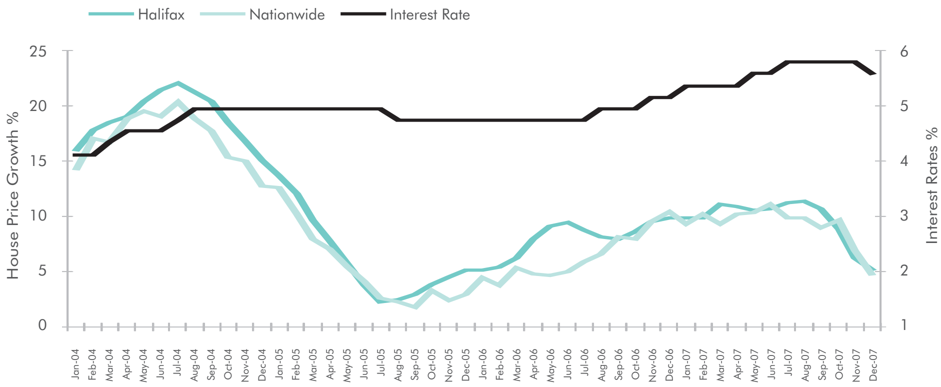
Average house prices grew by 1.3% in December, bringing to an end the three successive falls in the monthly growth rate. Indeed December's figure is the largest increase recorded since February 2007 and has reversed the fall recorded in November, yet this is more to do with short term irregularities in the index consistent with a subdued market rather than the first shoots of a recovery.

The three monthly growth rate recorded a fall of 1.4% in the three months to December compared to the previous three months, down from -1.0% for the same period in November. Having peaked at 3.7% in May, this figure gives a more accurate reflection on the underlying trend in house price growth than the monthly rate as any blips are ironed out.

"December's increase has reversed the fall recorded in November."

Meanwhile, the annual rate of house price growth eased to 5.2% in December, down from the 6.3% recorded the month before. In the last four months of the year, the annual growth rate has reduced by more than half to its lowest level since November 2005 as a result of the five interest rate rises from August 2006 and more lately, the continued fallout from the US sub prime mortgage market.

### Annual House Price Growth v Interest Rates




Source: Nationwide, Halifax, Colliers CRE

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“Last months fall was the first in 20 months.”

## Nationwide

In contrast to the Halifax, Nationwide reported a fall of 0.5% in December. This follows from the 0.8% drop in the monthly rate recorded in November and is the first time that there has been consecutive falls since September 2005 when the soft landing was coming to an end, while last months fall was the first in 20 months.

The slowdown in house price growth in recent months is highlighted further by the growth in the last three months compared to the previous three, which for December stands at 0.9%, the lowest since November 2005. Having peaked at 3.7% in January 2006, this measure of growth has been on the continual slide over the course of the past year.

Annual house price growth in December was 4.8%, down by over 50% from October marking a rather more sudden correction in year on year growth than that recorded by the Halifax. The year on year rate of growth has been in decline since July, barring one rise in October, but only in the last two months has the momentum increased.

“This is the third successive month that the annual growth rate has slowed.”

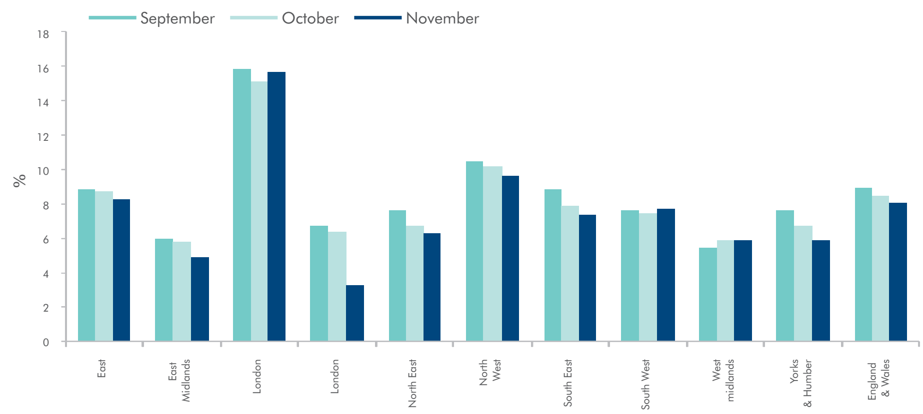
## Land Registry

The softening trend continues with the latest Land Registry data which shows that average house prices increased by 0.6% in November. On a regional basis, the highest increase was in London, up by 1.1% from October. Across the rest of the regions, only Wales at 1.0% saw a significant increase. In contrast, prices fell by 0.9% in the North East while average prices remained unchanged in the East Midlands.

On a year on year basis, the rate of house price growth eased further in November to 8.1%, compared to a revised figure of 8.5% for October. This is the third successive month that the annual growth rate has slowed, having peaked at 9.7% in August. In contrast to the other indices, the Land Registry HPI records all sales, including cash, and focuses on completion prices which explains the smoother price variations.

“House price growth levels have continued to strengthen in the first half of the year.”

**Land Registry House Price Index:Annual Growth**




Source: Land Registry House Price Index

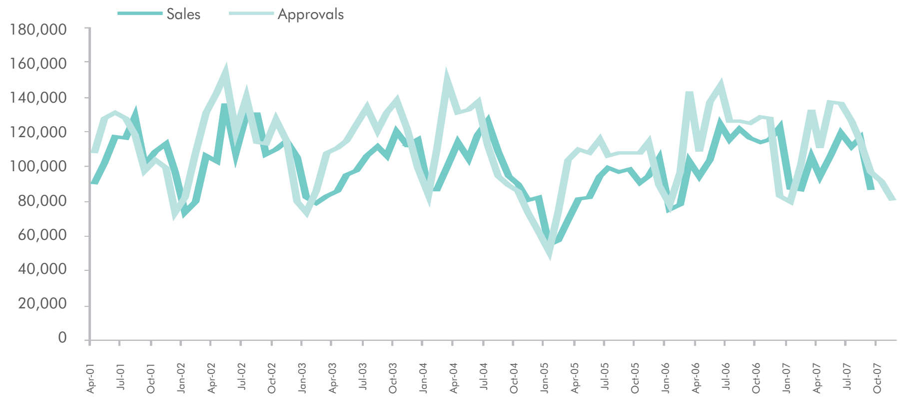
"No county recorded a negative annual price change"

London continues to be the region with the highest levels of annual house price growth, standing at 15.6% in November. Only two other regions, the South East (9.6%) and the East (8.3%), recorded growth higher than the average for England and Wales, all the rest were below with the North East again the lowest at 3.3%. Despite the varying picture across the country, no county or unitary authority recorded a negative annual price change.

## Activity Levels

Whilst falls in house price growth has been capturing the biggest headlines in recent months, sales activity has also declined in the wake of the credit crunch. The total number of transactions in September was just over 87,000 representing a drop of 25% from the month before and also on a year on year basis. In annual terms, this represented the largest drop in sales levels since April 2005. The number of mortgage approvals for house purchase

### Land Registry Sales Per Month v BoE Mortgage Approvals (NSA)




Source: Bank of England, Land Registry

has also seen a strong decline in recent months. This data has a very strong correlation with the number of transactions and generally precedes sales volume by two to three months. The higher ratio of approvals to sales also takes into account deals which fall through, re-mortgages and the varying time span between mortgage approval and completion of sale.

For September, the year on year number of house purchase approvals was down by 22.4%. This rate increased to -28.7% in October and -36.7% in November, with just 81,000 house purchase approvals compared to 128,000 a year ago. In this instance we can reasonably assume that the number of sales is set to fall even further for the last few months of 2007 while traditionally quiet January and February are due to be even more subdued.

# Outlook

The latest decision by the Bank of England to keep interest rates on hold means that the tightened lending conditions are set to continue for another month at least. Some lenders are still to pass on the previous interest rate cut and while the base rate remains unchanged, they will be under little pressure to do so.

The news that CPI inflation remained unchanged in December at 2.1% while RPI eased from 4.3% to 4% should satisfy the Monetary Policy Committee and guarantee that a further rate cut will go ahead in February, providing an element of relief for the high street following a difficult Christmas period for many retailers.

Despite this though, the current downward trend in house price growth is set to continue. The mortgage data suggests that sales levels will continue to decline, while criteria for lending still remains tight. It is becoming increasingly likely that annual house price growth will turn negative in the short term, although with further interest rate cuts expected later in the year and the expected improved economic outlook, growth should stabilise to 0% by the year end.

A few encouraging signs are starting to emerge from the commercial sector amid the gloom and doom, although this does not mean that the downturn is necessarily over. Similarly with the housing market, all the information available points towards further decline but as with any falling market, or rising for that matter, there comes a point when sentiment and data no longer portray the true state of affairs.

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Notes:

The Halifax Price Index is a seasonally adjusted monthly house price series covering England and Wales going back to January 1983. The index is typically based on around 15,000 purchases per calendar month.

Nationwide's indices are based on monthly data starting from January 1991. Figures, covering England and Wales, are seasonally adjusted and are recalculated at six month intervals, in June and December each year.



This paper is intended as a general market overview. Colliers CRE holds equivalent data for all the Central London submarkets and postcodes. If you wish to discuss anything in greater detail then please contact any of the above.

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