



Housing Market Overview

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- Halifax records third month of negative growth for the first time since 1995.
- Nationwide growth of -0.8% is the first monthly fall since February 2006.
- Half of Land Registry regions witness zero or negative growth.
- MPC cuts base rate to 5.5%, further cuts expected in New Year.
- House price growth forecasts for 2008 at 0%.

		November	October
Halifax	Monthly	-1.1%	-0.5%
	Annual	6.3%	8.7%
Nationwide	Monthly	-0.8%	1.1%
	Annual	6.9%	9.7%

Halifax

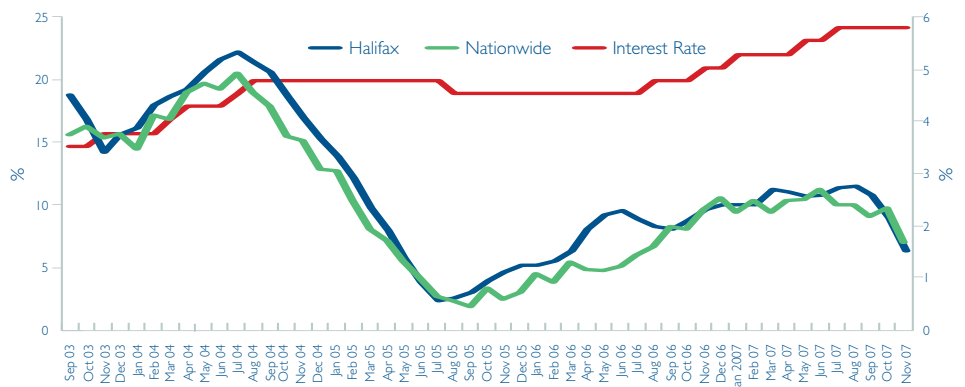
Average house prices fell by 1.1% in November, the third month in succession that the monthly house price index has recorded a fall - the first time that this has happened since May 1995. It is the largest drop on record since December 2006, when average house prices slipped by 1.3%.

November also saw a noticeable fall in the annual rate of house price growth, falling to 6.3% year on year compared to 8.7% in October. Having peaked at 11.4% in August, the Halifax annual house price growth rate has since dropped by 5.1% following five successive months of interest rates held at 5.75%, while average house prices are now at the same level as they were in March of this year.

Further highlighting the recent downturn in house price growth is the three monthly growth rate, which peaked at 3.8% in December 2006 and in May 2007 stood at 3.6%. In the three month period to November, average house prices fell by 1%, compared to growth of 1.1% for the three months to September.

“Average house prices fell by 1.1% in November, the largest drop on record since December 2006.”

Figure 1 Annual House Price Growth (LHS) v Interest Rates (RHS)



Source: HBOS, Nationwide, Colliers CRE



www.collierscre.com

“House prices fell by 0.8% in November, the largest fall since June 1995.”

“All regions have seen average house price growth ease since August, with the exception of Wales and the West Midlands.”

Nationwide

The monthly data from Nationwide shows that average house prices fell by 0.8% in November following on from the unsuspected 1.1% rise in October. This represents the first fall in monthly house price growth since February 2006 and it is the largest fall since June 1995, highlighting the noticeable correction currently underway in the housing market.

The annual rate of house price growth also recorded a significant reduction, falling from 9.7% last month to 6.9% in November - a drop of 2.8%. The current rate of year on year growth is now just 0.9% off Nationwide's amended forecast figure for 6% growth in 2007. Given the current sentiment within the housing market at present, it is becoming increasingly likely that year on year growth for 2007 will be below this figure.

The three monthly growth rate shows that average house prices have increased by 1.5% in the three months to November compared to the previous three months, continuing the general softening that has been evident since peaking in January this year at 3.5%.

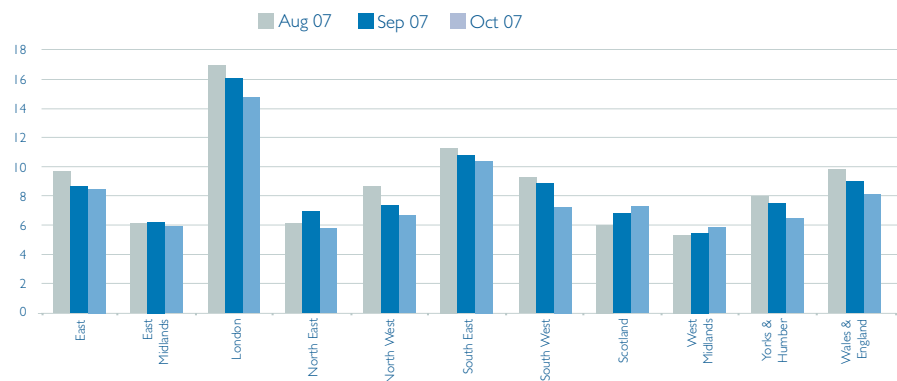
Land Registry

The Land Registry House Price Index, although one month behind the other major indices, also showed continued signs of a slowdown in October, with monthly growth of just 0.1% compared to September. Having seemingly peaked at 9.7% in August, the annual rate of house price growth has since slowed to 8.1% over the space of two months, the lowest it has been over the year to date.

On a month on month basis, of all the regions across England and Wales, five recorded a rise in prices, one saw no change and prices fell in the remaining four. The largest rise was in Wales, with average house prices rising by 2% in October, more than double the next highest, being the East with 0.9%. Prices in the North West saw no change, while in the East Midlands, the South West, London and Yorkshire and The Humber prices all fell, with the Capital recording the biggest drop of 0.6%.

In annual terms, all regions have seen average house price growth ease since August, with the exception of Wales and the West Midlands, although both these regions witnessed significant reductions in the summer months and have year on year growth rates significantly below those for May.

Figure 2 Land Registry House Price Growth



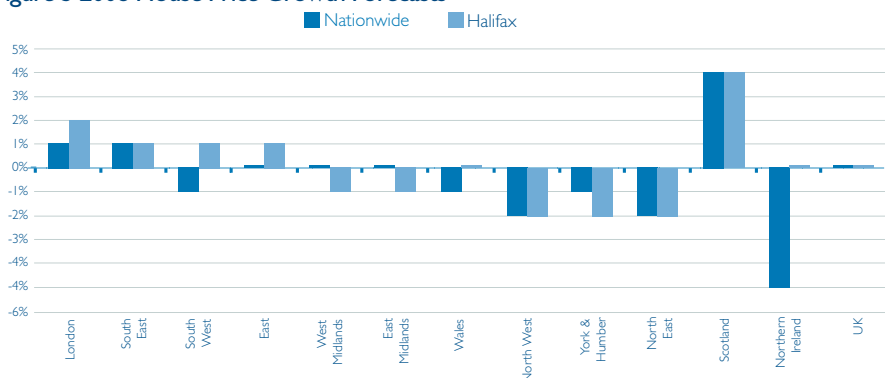
Source: Land Registry Price Index

Forecasts for 2008

As the year comes to an end on the back of the first interest rate cut since August 2005 and increased economic uncertainty in the wake of the credit crunch, all eyes are now focusing on the prospects for the housing market in the year ahead.

The overwhelming consensus is that house price growth will stall to 0% in 2008, with Nationwide reporting falls in six of the 12 regions, compared to five for the Halifax. The strongest levels of growth are predicted in Scotland, while London, the South East, the South West and the East are all expected to record modest growth. Wales, the Midlands and the Northern regions are set to see prices fall by up to 2% over the next 12 months, increasing the risk of a greater North–South divide in the housing market.

Figure 3 2008 House Price Growth Forecasts



Source: Nationwide, Halifax

For the past two years, the main indices have been rather conservative with their initial forecasts and both have been compelled to upwardly correct them mid-year. As can be seen in Figure 1, the current rate of annual house price growth is starting to show signs of sharp decline and at the current rate may fall into negative growth within the first few months of 2008.

Capital Economics has forecast a fall of 3% next year and, although this is far more reserved than the 20% decrease predicted the last time the housing market was in decline, it still expects many of the gains in recent years to be relinquished. The negative sentiment is also echoed by the City, with Tradition Financial Services (TFS) predicting a fall of up to 10% based on the recent performance of residential property derivatives.

Outlook

Although the current figures suggest that the housing market is in a state of serious correction or decline, depending upon your point of view, this has been on the back of a prolonged period of interest rates held at 5.75% amid the continued fallout of the financial crisis and the impact this will have on lending for the months to come.

The decision by the Monetary Policy Committee (MPC) to cut interest rates before the year is out will help alleviate the pressure for some households and investors, while further cuts are expected in the next few months. Some economic observers are even going as far as suggesting interest rates to be at 4% by the end of 2009.

The MPC bringing interest rates down to nearer 5% should do enough to stop house prices declining too steeply next year, while the wider economic outlook is set to improve in the second half of 2008. Any concerns that the Bank of England may have about further cuts reigniting the housing market should be satisfied by the stricter lending environment.

The only area for concern remains with inflation, driven, in particular, by rising food and fuel costs. If the MPC manages to keep to the 2% target, then further interest rate cuts can be expected, if not, then house price growth forecasts may well have to be readjusted for the third year in succession.

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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.

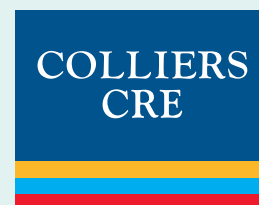
Nationwide's indices are based on monthly data starting from January 1991. Figures, covering England and Wales, are seasonally adjusted and are recalculated at six month intervals, in June and December each year

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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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