

MARKET COMMENTARY:

In the current UK residential market, there is very little development activity and very little mortgage finance available for low LTV borrowers. The UK government has taken steps to increase the number of developments and to make mortgage finance more readily available.

Firstly, the government has introduced a scheme that will free up public sector land with planning permission to cash poor developers in a bid to facilitate the building of 100,000 new homes. Whitehall departments with large land banks will publish plans in the autumn on how they will release the land to house builders. It is expected that £10bn worth of public sector land will be offered for sale. The government has devised a plan called “build now, pay later” where developers will not have to pay for the land until the first house is built. This would give smaller developers an opportunity to build homes on land they would never have been able to afford to buy outright.

Without easier access to mortgage finance, easing the housing supply chain will have little effect on the UK residential market. Recently, Housing Minister Grant Schapps held a First Time Buyers’ summit. Attending this summit were house builders, mortgage lenders and bankers. A number of significant issues were discussed. For example, the need for a rapid resolution to the Mortgage Market Review being undertaken by the FSA, the important role the government can play in brokering a mortgage indemnity insurance scheme, the potential of further shared equity products like the FirstBuy Direct scheme and the use of the assets of public agencies to unlock capital.

The Housing and Communities Agency has just announced that first allocations for the FirstBuy Direct scheme have been confirmed. FirstBuy Direct is a shared equity loan scheme announced in the March Budget, designed to help first-time buyers and give developers security of sales. A total of £180m has been allocated to provide nearly 10,500 homes across England over the next two years. The first homes will be available for sale in September.

It is positive to see that the government is keen to ‘kick-start’ the housing sector in the UK in innovative ways benefitting both builders and buyers alike. Progress will be carefully monitored, especially given the government’s backpedalling on other proposed reforms and initiatives.

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INDICATOR	LATEST DATA			COLLIERS INTERNATIONAL COMMENT
	MAR	APR	MAY	
Nationwide House Price Growth	0.5%	-0.2%	0.3%	The modest increase in house price growth in May is an indication of the same indecisive trend in the wider economy.
Halifax House Price Growth	0.0%	-1.4%	0.1%	Halifax house prices continue to show weakness. Low earnings growth, higher taxes, high inflation and weak consumer confidence are contributing to lower housing demand and putting pressure on prices.
Rightmove Asking Price Growth	0.8%	1.7%	1.3%	In May, the average asking price was at its highest for almost three years. The last time it was higher was in June 2008. Transaction levels, however, remain flat.
CLG House Price Growth	1.2%	1.1%		During April, the prices paid by first time buyers fell by 1.1% on average, compared to a 0.6% monthly increase in April last year. The average price of properties bought by former owner occupiers increased by 0.2% to £237,742 over the year to April 2011.
Bank of England Mortgage Approvals	47,145	45,166	n/a	Mortgage approvals are still low. London continues to see increased interest from foreign buyers, especially the Chinese and those Middle Eastern and European countries with political and sovereign debt troubles.
Bank of England Base Rate	0.5%	0.5%	0.5%	Interest rates remain unchanged since March 2009. Base rate increase expectations have been pushed back from 2011 to early 2012. Many observers believe base rates will not increase until much later.
Bank of England Average Rate on Two Year Fix (75% LTV)	3.68%	3.66%	3.47%	There is a greater desire amongst lenders to lend to borrowers with high LTV especially as competition has limited the margins on lending to borrowers with low LTV ratios.
RICS Price Expectations Survey	-23	-21	-28	Price expectations are lower than previously reported by the RICS. Anecdotal evidence indicates that the prolonged Bank Holiday period at the end of April and beginning of May affected the number of house sales. Although 28% more chartered surveyors reported price falls, these falls were marginal between 0% - 2%.
RICS Sales to Stock Ratio	22.1%	23.1%	20.6%	As housing stock levels have increased the level of housing sales has fallen, putting downward pressure on the sales-to-stock ratio, which fell to 20.6%.
ONS Housing Rent Inflation (% y/y)	1.7%	2.3%	2.2%	Housing rent inflation has remained relatively stable since March and in line with general market trends.
HMRC Property Transactions	69,000	73,000		A marginal increase in housing property transactions is in line with market sentiment, but still remains well short of pre-credit crunch levels.