

RESEARCH & FORECASTING UK RESIDENTIAL DATA SHOT | DECEMBER 2011



MARKET COMMENTARY:

The UK housing market in 2011 has been a polarised one. House prices have fallen across the regions, whereas in London and the South East house prices have soared, especially in the Central London super prime luxury end of the market. London's outperformance would not have happened without the strength of interest from Asian buyers.

Mortgage approvals over the last 12 months (October 2010-October 2011) have increased steadily. According to data from Haver Analytics and the Bank of England, mortgage approvals were up by 13%. These increases in mortgage approvals, as encouraging as they are, are still at a relatively low level remaining between 40,000 and 50,000, especially when compared to November 2006 when levels reached a high of around 128,000. Despite the increases over the year, approvals for the last three months of the year have remained static. This is due to the difficult lending environment and the more than 20% deposit required for many first time buyers to get a loan. The Nationwide first time buyer affordability index reports that affordability is at its most challenging in London, at 52% for Q2 2011. Affordability for the UK is around 34%, with the cheapest area being the North of England at 23%.

According to Nationwide, house prices in the North of England have stagnated for the year to date standing between £116,000 and £117,000. Even with the North of England offering the best affordability, it would appear that owners are sitting on their assets and waiting until the market picks up before selling. With the development market at a standstill there is very little stock for first time buyers. The RICS reports that three fifths of its members have reported that they expect to see no changes in prices. These results are in line with the limited house price movements we have seen for the last three months of 2011.

House prices in London have increased to pre-financial crisis, levels leading to rapid growth in rental values across the capital. Average rents in London are currently £1,190 pw (source: Lonres).

The long term security of prime London property means that while the FTSE 100 has risen since 1995, property values in London, and in particular prime London boroughs, have consistently out-performed the FTSE100 over the long term.

This long term security of prime London property has also been feeding through into the development market. According to Molior, there has been a high level of private-sale construction starts in London. Molior reports that in the third quarter "there were approximately as many private-sale residential units under construction in London as at any time during the last 20 years". This level of construction is quite significant, especially as this is not the case nationally. This level of activity is expected to carry on into 2012. Some of the developers enjoying the London boom include Taylor Wimpey, Redrow, London Square, Galliard and Crest.

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INDICATOR	LATEST DATA			COLLIERS INTERNATIONAL COMMENT
	SEPTEMBER	OCTOBER	NOVEMBER	
Nationwide House Price Growth	0.1%	0.4%	0.4%	UK house prices increased by 0.4% in November, taking the annual rate of growth to 1.6%, up from 0.8% the previous month. The price of a typical home is now £165,798.
Halifax House Price Growth	-0.3%	1.1%	-0.9%	On a monthly basis, house prices fell by 0.9% in November. This continued the very mixed picture shown by the more volatile monthly figures.
Rightmove Asking Price Growth	0.7%	2.8%	-3.1%	According to Rightmove, the lack of new sellers and the recent fall in prices indicates that the current negative economic outlook has caused the seasonal slowdown to come early this year. All regions are showing monthly price falls, the first time this has happened for over three years.
CLG House Price Growth	-0.69%	0.63%		According to the Communities and Local Government House Price Index, UK house prices decreased by 1.4% over the year and decreased by 0.7% over the month. London has the highest average house price (£346,618) whilst the North East has the lowest average price at £130,835.
Bank of England Mortgage Approval Rates	51,193	52,743		The Bank of England Trends in Lending publication reported in October that mortgage approvals by all UK-resident mortgage lenders for house purchases increased in the three months to August, though remained broadly unchanged compared to a year earlier. The major UK lenders expected mortgage approvals in 2011 to remain broadly flat.
Bank of England Base Rate	0.5%	0.5%	0.5%	Interest rates remain unchanged at 0.5% and the MPC hinted that it would take until February 2012 for the recent round of quantitative easing to take hold.
Bank of England Average Rate on Two Year Fix (75% LTV)	2.92%	3.04%	3.14%	The Bank of England reported that lenders conveyed a slight increase in risk appetite as there was an increase in credit availability to borrowers with high loan to value ratios – greater than 75% LTV.
RICS Price Expectations Survey	-23	-24	-17	The net price balance improved from -24 to -17, but still remains negative.
RICS Sales to Stock Ratio	21.3%	21.2%	21.0%	Due to the disproportionately large increase in stock over sales, the sales to stock ratio fell from 21.2 to 21.0.
ONS Housing Rent Inflation (% y/y)	3.0%	3.0%	2.9%	Housing rent inflation remains stable over the last three months of the year.
HMRC Property Transactions	68,000	73,000	85,000	The level of property transactions is in line with the market and has remained largely stable since the beginning of 2011.