

Monthly Housing Market Bulletin

19 November 2008

This Economics Team bulletin provides EP staff with an update of the most recent information on housing market trends, the economy and the housebuilders' industry. For more information please refer to the links provided or contact the Economics Team.

OVERVIEW OF THE HOUSING MARKET

House prices continued to fall sharply over the past month – falling by 2.2% in October, taking the fall in house prices over the past year to 13.7% according to the Halifax. The credit crisis combined with lower consumer confidence due to falling house prices led to the number of properties sold in the UK falling by 53% in the year to September according to HMRC. The credit crisis continued with the number of new mortgages approved for house purchase falling by 57% in the year to September according to CML. Residential building land values have fallen sharply in the past year as house prices have declined. According to Knight Frank the value of urban development land outside London has fallen by 33% over the past year and by 15% in the past quarter. The economy appears to be at the start of a recession with GDP falling by 0.5% in Q3 2008, shrinking for the first time in 16 years and unemployment has reached an 11 year high. The Bank of England reduced the Bank Rate by 1.5 percentage points to 3% on 6 November aiming to avoid inflation undershooting in the medium term.

HOUSE PRICES

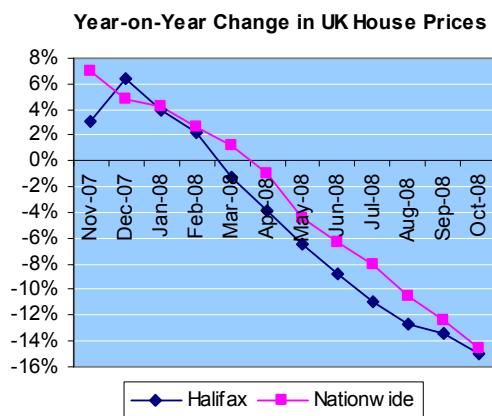
Nationwide

- UK house prices fell by 1.4% in October and have fallen every month since November 2007.
- Annual fall in UK house prices is now 14.6%.
- The price of the average house is now £158,872 – nearly £30,000 less than a year ago.
www.nationwide.co.uk/hpi/

Halifax

- UK house prices fell by 2.2% in October, taking the UK average price back to the level it was in October 2005.
- UK house prices were 13.7% lower than a year earlier in October.
www.hbosplc.com/economy/HousingResearch.asp

The chart below shows the annual change in UK house prices according to Halifax and Nationwide.



Note: Halifax figure for October 2008 is -14.9% as annual growth is calculated here month on month whereas Halifax quoted annual figure is calculated on a quarterly year-on-year basis.

Hometrack

- House prices fell by 1.3% in October.
- House prices have fallen by 7.3% over the last year.
- The proportion of asking price being achieved fell to 89.2% in October.
www.hometrack.co.uk/commentary_survey.aspx

CLG

- UK house prices fell by 0.1% in the month to September 2008.
- UK house prices fell by 5.1% in the year to September 2008. Prices paid by first-time buyers fell 7.8% whereas prices paid by former owner occupiers fell 4.0% over the year.
www.communities.gov.uk

Land Registry

- House prices fell by 2.2% in England and Wales in September 2008.
- House prices fell by 8.0% in England and Wales in the year to September 2008.
- The number of properties sold in England and Wales fell by 57% in the year to July 2008.
www.landregistry.gov.uk

Rightmove

- The average property asking price fell by 2.9% in November.
- Asking prices fell 7.1% in the year to November.
www.rightmove.co.uk

RICS

- 81.8% more surveyors reported a fall than a rise in house prices in October.
- Completed sales per surveyor over the last 3 months fell to 10.9, the lowest figure on record.
www.rics.org

Please note that each house price indicator is compiled on a different basis. Nationwide and Halifax's indices are based on mortgage offers approved by them. Hometrack is based on an estate agents survey which includes the estate agents opinion of achievable selling prices. CLG and the Land Registry are based on completions data so record later in the house buying process than Halifax, Nationwide and Hometrack and are thus slower to pick up new trends. The Land Registry data is the most comprehensive available as it includes all property sales including cash buyers whereas CLG excludes cash buyers. Rightmove's index is based on asking prices from its website. The RICS survey is a confidence survey of the property market. Seasonal variations can occur because certain indices such as Halifax's, Nationwide's and the Land Registry's are seasonally adjusted whereas others such as Rightmove's and CLG's are not.

Housing Market Forecasts

- The CEBR predicts house prices will fall in value by 25% from their peak to a trough at the end of 2009 and house prices will not get back to the levels they peaked at in 2007 until 2013.
<http://news.bbc.co.uk>
- Knight Frank predicts that house prices will fall almost a third from their peak last year to values last seen in September 2003.
www.ft.com
- Nationwide expects house prices to continue to fall in 2009/10.
<http://news.bbc.co.uk/1/hi/business/7719158.stm>

House Sales – HM Revenue and Customs

- The number of property sales in the UK fell 53% in the year to September 2008 according to HMRC. 59,000 homes were sold in September 2008, down from 126,000 a year earlier.
<http://news.bbc.co.uk>

Rental Market - RICS

- The latest RICS survey shows that the number of surveyors who said rents were now falling outstripped those that said they were rising by 12%, the first fall in rents since 2003.
<http://news.bbc.co.uk>

MORTGAGES

Council of Mortgage Lenders (CML)

- There were 34,900 loans for house purchase in September 2008, a 57% fall on September 2007. The number of loans was down 14% from August 2008.
- There were 13,400 loans to first time buyers in September 2008, 52% down on 28,200 a year earlier. The average first-time buyer income multiple was 3.18 in September, its lowest level since March 2006. The average first-time buyer deposit was 16% in September, up from 10% a year earlier.
www.cml.org.uk/cml/statistics

Bank of England

- According to the Bank of England the number of new mortgages approved for home purchase was 33,000 in September. This was slightly up from August's record low but well below the average of the previous six months.
www.bankofengland.co.uk/

Repossessions

- There were 11,054 repossessions in Q2 2008, up 71% on a year earlier according to the FSA.
<http://news.bbc.co.uk/1/hi/business/7694819.stm>

Mortgage Rates

- Since the Bank of England cut interest rates by 1.5 percentage points Abbey, Lloyds TSB/C&G, Northern Rock, Nationwide, HBOS, Bradford & Bingley and RBS/NatWest have announced they are cutting their standard variable rate by 1.5 percentage points. Gordon Brown met lenders to urge them to pass on the full rate cut. Many tracker deals for new borrowers were withdrawn at the time of the cut in the Bank rate.
<http://news.bbc.co.uk>

Deposits

- The number of mortgage deals for people with a 5% or 10% deposit has reduced substantially. According to Moneyfacts there are now just 35 deals available to those with a 5% deposit compared to 1,126 a year ago. Similarly there are now just 66 deals available to those with a 10% deposit, down from 1,152 a year ago.
<http://news.bbc.co.uk/1/hi/business/7729291.stm>

THE ECONOMY

Growth

- The economy shrank for the first time in 16 years in Q3 2008. GDP decreased by 0.5% in Q3 2008, compared with 0.0% in Q2 2008. Services output fell by 0.4%, construction output fell by 0.8% and total production output fell by 1.0% in Q3 2008.
www.statistics.gov.uk/cci/nugget.asp?id=192
- The Eurozone is now in recession according to EU figures which show that the eurozone economy shrank by 0.2% in Q3 2008 and by 0.2% in Q2 2008.
<http://news.bbc.co.uk>

Interest Rates

- On 6 November the Bank of England reduced the Bank Rate by 1.5 percentage points to 3%, its lowest level since 1955. The Bank states that since mid September the global banking system has experienced its most serious disruption for almost a century. The Bank believes that inflation should drop back sharply soon as commodity prices have fallen sharply since mid-summer with oil prices down by more than half.
www.bankofengland.co.uk/ and
<http://news.bbc.co.uk/1/hi/business/7713006.stm>

Inflation

- CPI inflation was 4.5% in October, down from 5.2% in September but still more than double the Government's 2% target.
- RPI inflation was 4.2% in October.
www.statistics.gov.uk/cci/nugget.asp?id=19

Bank of England's Inflation Report

- The Bank of England's latest Inflation Report says it now expects inflation to decline to 1% by 2010, below its 2% target. The Bank of England's central projection for growth is now for the economy to contract by 2% by early next year. The Bank says the UK entered a recession in the middle of 2008 which will continue well into 2009.
<http://news.bbc.co.uk/1/hi/business/7724215.stm>

Average Earnings

- Average earnings, excluding bonuses, rose by 3.6% in the year to September 2008.
www.statistics.gov.uk/cci/nugget.asp?id=10

Unemployment

- UK unemployment rose to 1.82 million in the three months to September - the highest in 11 years. The unemployment rate rose to 5.8% from 5.4% in the previous quarter.
<http://news.bbc.co.uk/1/hi/business/7724084.stm>

LAND VALUES

Residential building land values have fallen sharply across the country in the past year. According to the Knight Frank Residential Development Land Index the value of urban development land outside London fell by 33% in the year to September 2008 and by 15% in the past quarter. Similarly, greenfield site values have fallen by 30% over the past year and by 13% over the past quarter. The Valuation Office Agency (VOA), by comparison, recorded a 14.8% fall in residential building land values in England and Wales excluding London in the year to July 2008. Land values have fallen largely in response to the sharp decline in house prices. UK house prices fell by 11% in the year to July 2008 according to the Halifax. Land values tend to be more variable than the other costs involved in housebuilding such as build costs, infrastructure costs and the cost of regulation. Thus a change in house prices can lead to a much larger change in land values. Furthermore, as house sales were 57% down in the year to July 2008 according to the Land Registry, many developers have put their land acquisition activities on hold over the past year, reducing demand for sites by as much as 60% in some parts of the country, according to Knight Frank. Some developers are also selling sites as they need to raise cash to bolster their balance sheets which has increased the supply of land on the market, further depressing values.

Residential building land values previously rose rapidly with the housing market boom of 1995 to 2007 – land prices rose by 394% between Autumn 1995 and July 2007 in England and Wales excluding London according to the VOA. This compares to a rise of 225% in UK house prices over the same period (October 1995 to July 2007) according to the Halifax. Normally around 30% of the selling price of a house for a developer is the cost of land.

Valuation Office Agency – Property Market Report July 2008 (Published October 2008)

- According to the VOA land values fell sharply across the country between January and July 2008 as shown in the table below.

Change in Land Values January to July 2008

Area	Change in Residential Building Land Values Jan 08 to July 08	Price per Hectare July 2008
North East	-20.5%	£2,060,000
Eastern	-19.4%	£3,425,000
Yorkshire and the Humber	-18.7%	£2,050,000
Inner and Outer London	-15.7%	£7,240,000
East Midlands	-15.1%	£1,860,000
South West	-14.3%	£2,400,000
South East	-13.8%	£3,300,000
North West and Merseyside	-13.8%	£2,421,000
West Midlands	-13.1%	£2,120,000
England & Wales excl. London	-15.9%	£2,480,000

www.voa.gov.uk

Knight Frank (Published 29 September 2008)

- The value of urban development land outside London has fallen by 33% over the past year and by 15% in the past quarter according to the new Knight Frank Residential Development Land Index. Greenfield site values have fallen by 30% over the past year and by 13% over the past quarter.
- Yorkshire and the Humber has seen the largest fall in prices, with both urban and greenfield land just worth around half its value a year ago. London, by contrast, has been least hit by the downturn with urban land prices falling by 5% in super prime London, by 10% in prime and inner London and by 15% in outer London.
- Developers have put their land acquisition activities on hold over the past year, reducing demand for sites by as much as 60% in some parts of the country, according to Knight Frank. Developers have found it hard to access finance to buy land and the slowdown in the sale of new homes has deterred them from buying land. Many developers are selling sites to raise cash and bolster their balance sheets which has increased the supply of land on the market, further depressing values. According to Knight Frank only well-located plots with planning permission are attracting interest.
- Developers and housebuilders account for 29% of vendors and government agencies and local councils for 31%.
- Outside London Housing Associations now represent 30% of all acquisition activity - compared to 16% for private sector developers. Speculators represent 21% of buyers nationally and in London where development sites have always been in short supply they represent almost 50% of the market place.
- Knight Frank believes values are likely to continue to fall, albeit at a lower rate of around 10% over the next 12 months. Knight Frank expects that the regions that have suffered the earliest and largest falls may be among the first to see recovery.

Change in Residential Development Land Values over Past Year

Area	Urban Land	Greenfield Land
Yorkshire and the Humber	-49%	-48%
North West	-41%	-36%
East Midlands	-31%	-36%
East of England	-31%	-33%
South East	-31%	-29%
South West	-27%	-23%
North East	-25%	-24%
West Midlands	-25%	-21%
Outer London	-15%	n/a
Inner London	-10%	n/a
Prime London	-10%	n/a
Super Prime London	-5%	n/a
Unweighted average (excl. London)	-33%	-30%

www.knightfrank.com

HOUSEBUILDING

Barratt

Barratt issued an Interim Management Statement on 18 November stating that:

- Private net reservations are down 23% on the same period last year. Forward order book stands at 5,513 plots (2007: 10,424).
- Barratt expects net borrowings to be lower than prior year levels.
- Further writedown to land and work-in-progress expected at 31 December 2008. Only investing in land where contractually committed to do so. www.londonstockexchange.com

Bovis Homes Group

Bovis issued an Interim Management Statement on 6 November stating that:

- There have been no purchases of land in the second half of 2008 to date. The Group has restricted commencement of new sites and new build releases on existing sites. Homes under construction have been held at a predetermined stage unless a reservation has been achieved. www.londonstockexchange.com

Crest Nicholson

- Crest Nicholson has reached a standstill agreement with its lenders that will allow it to stop paying interest on its loans. <http://business.timesonline.co.uk>

Land Securities

- Land Securities has taken £1.7bn off the value of its property portfolio due to the slump in the commercial property market. www.ft.com

Persimmon

Persimmon issued an Interim Management Statement on 27 October stating that:

- It has encountered deteriorating trading conditions since August.
- Persimmon expects to increase social housing sales volumes by c.25% this year.
- Persimmon will make a land writedown of c. £600m and will continue with the reduction of its landbank in line with the scale of its business. www.londonstockexchange.com

Housebuilder Share Prices

Company	Share Price – 18/11/08	Share Price – 21/10/08	52 Week High	52 Week Low	LSE Consensus Broker Recommendation – 19/11/08
Barratt	£0.68	£0.62	£5.28	£0.35	Sell
Bellway	£5.33	£4.48	£10.36	£3.42	Hold
Berkeley	£7.29	£8.00	£12.74	£5.77	Buy
Bovis	£3.38	£3.00	£6.94	£2.65	Hold
Persimmon	£2.48	£2.36	£9.15	£1.94	Hold
Redrow	£1.75	£1.55	£3.70	£0.89	Hold
Taylor Wimpey	£0.10	£0.12	£2.33	£0.08	Hold

Disclaimer - English Partnerships makes no warranty as to the content, accuracy, timeliness or completeness of the information or that the information may be relied upon for any reason. English Partnerships shall not be liable for any losses or damages (including any special, incidental, indirect or consequential damages of any kind) or any damages whatsoever arising out of or in connection with the use or performance of this publication or the similar use of other documents which are referenced by or linked to this publication. Any links to other websites do not constitute an endorsement or an approval by English Partnerships of any products, services, policies or opinions of the organisation or individual.

Other Briefings from the Economics Team include:

- Housebuilding Market Report
- Bi-monthly House Price Bulletin

Contact:

Justine Lovatt - Economist, Policy & Economics Team
Tel: 020 7881 1636
Email: JustineLovatt@englishpartnerships.co.uk

Redrow

Redrow issued an Interim Management Statement on 5 November stating that:

- Overall net reservations in the financial year to date have been 45% lower than the prior year.
- Redrow is exerting strict control over work in progress with limited new construction activity taking place. It has not committed to any new land contracts during the current financial year. www.londonstockexchange.com

Taylor Wimpey

Taylor Wimpey issued an Interim Management Statement on 11 November stating that:

- Net private reservations for the second half to date are 27% below the second half of 2007.
- Build rate is now running below current sales rates, at around 40% of normal levels.
- The current order book stands at 6,607 homes, 40% down on the same point in 2007 (11,074).
- Taylor Wimpey has reduced UK headcount by nearly 1,900 in the year to date.
- The Group is likely to need to make further provisions against land and work-in-progress.
- Net debt currently stands at c£1.9bn. The Group is trying to negotiate a revised covenant package but it is likely this will only be concluded early next year. The Board is also considering other options to reduce debt. www.londonstockexchange.com
- Taylor Wimpey has held exploratory talks with private equity groups about injecting cash or taking a stake in the company. Analysts at Panmure Gordon have said that Taylor Wimpey will need to make further writedowns of £1.2bn between now and 2010, representing a 45% cut to gross asset value. <http://business.timesonline.co.uk>

David McLean

- The £130m turnover developer David McLean has gone into administration. The group's housebuilding division has been sold to a new company called Elan Homes, led by the former finance director and backed by Barclays. www.building.co.uk

Urban Splash

- Urban Splash has made 60 of its 280 staff redundant. www.regen.net