

Monthly Housing Market Bulletin

30 October 2009

This bulletin provides HCA staff with the latest information on housing market trends, the economy and the housebuilders' industry. For more information please refer to the links provided or contact the Investment Analysis Team.

OVERVIEW OF THE HOUSING MARKET

The housing market has now seen several months of house price rises and both the Halifax and the Nationwide recorded house price rises in September. House prices remain 18.1% off their August 2007 peak according to the Halifax. There is considerable doubt, however, over whether the current upturn can be sustained or whether there will be a double dip once the Bank of England's Bank Rate climbs from its current record low of 0.5%. The house price to earnings ratio remained above its long-run average of 4.0 at 4.48 in September according to the Halifax despite the economy being in recession. Mortgage lending is slowly starting to recover - there were 52,700 loans for house purchase in August 2009, 29% up on a year earlier according to the Council of Mortgage Lenders. However, this is still significantly lower than the August average of the seven years before the credit crisis of 100,000 loans. Largely due to the fall in house prices residential building land values have fallen by 40% in England and Wales excluding London from their peak in January 2008 to July 2009 according to the Valuation Office Agency. Housing starts increased slightly - by 2% - in Q3 2009 in England over the previous year according to NHBC. The UK continues to be in recession with GDP having fallen by 5.2% over the past year and unemployment now stands at 7.9%.

HOUSE PRICES

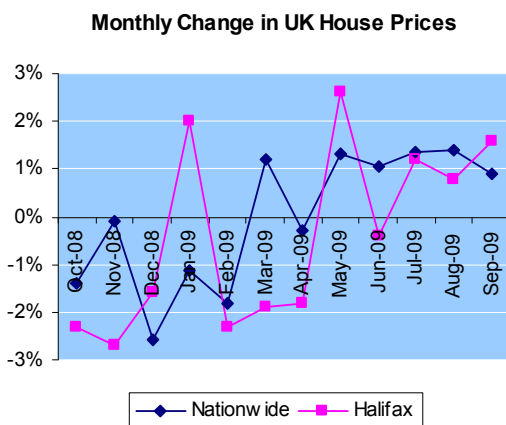
Nationwide

- UK house prices rose by 0.9% in September, the fifth consecutive monthly rise and are now at the same level as a year ago.
www.nationwide.co.uk/hpi

Halifax

- UK house prices rose by 1.6% in September but remain 18.1% below their August 2007 peak.
www.lloydsbankinggroup.com

The chart below shows the seasonally adjusted monthly change in UK house prices over the past year according to Nationwide and Halifax.



Hometrack

- House prices rose by 0.2% in September but fell by 5.6% in the year to September.
- Sales agreed rose by 2.5% in September.
- The proportion of asking price being achieved rose to 92.4% in September from 92.1% in August.
www.hometrack.co.uk/commentary-and-analysis/house-price-survey/

Rightmove

- The average property asking price rose by 2.8% in October and rose by 0.2% in the year to October.
www.rightmove.co.uk/news/files/2009/10/october-2009.pdf

RICS

- The net balance of surveyors reporting rising rather than falling prices was +22% in September, the second time the price balance has been positive in two years.
www.rics.org/site/scripts/documents_info.aspx?documentID=34

CLG

- UK house prices rose by 0.5% in the month to August but fell by 5.6% in the year to August.
www.communities.gov.uk/publications/corporate/statistics/hpi082009

Land Registry

- House prices in England and Wales rose by 0.9% in September but fell 5.6% in the year to September.
- The number of properties sold in England and Wales rose by 9% in the year to July 2009.
www.landreg.gov.uk/houseprices/

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

Housing Affordability

- According to the Halifax the house price to earnings ratio – a key affordability measure - has fallen from a peak of 5.84 in July 2007 to an estimated 4.48 in September 2009. In the last housing market downturn the price earnings ratio peaked at 5.01 in March 1989 and fell to 3.09 in October 1995. The long-run average is 4.0.
www.lloydsbankinggroup.com/

Housing Equity

- Individuals injected a net total of £7.0 billion into housing equity in Q2 2009 according to the Bank of England. Housing equity withdrawal occurred every quarter in the ten years to Q2 2008 following which the housing market downturn caused households to become more cautious and there have been net injections into housing equity every quarter since Q2 2008.
www.bankofengland.co.uk/statistics/hew/2009/jun/index.htm

MORTGAGES

Mortgage Lending – Council of Mortgage Lenders

- There were 52,700 loans for house purchase in August 2009, 5% down on July 2009 but 29% up on a year earlier. This was the second time lending for house purchase was up on a year ago in two years. However, the August figure is still significantly lower than the August average in the seven years before the credit crisis of 100,000 loans.
- There were 19,200 loans to first time buyers in August 2009, 5% down on July 2009 but 32% up on August 2008. The average first-time buyer deposit was 25% in August, up from 15% a year earlier. The average income multiple was 3.03 in August 2009, down from 3.21 in August 2008.
- There were 33,400 loans for home movers in August 2009, 6% down on July 2009 but 27% up on August 2008. The average deposit was 34% in August 2009, up from 29% a year earlier.
- In August over three quarters of borrowers took out fixed rate mortgages and on a full repayment basis.
www.cml.org.uk/cml/media/press/2424

Mortgage Lending - Bank of England

- There were 52,317 loans approved for house purchase in August on a seasonally adjusted basis, down slightly from 52,404 in July according to the Bank of England.
www.bankofengland.co.uk/statistics/li/2009/aug/index.htm

Deposits

- According to Moneyfacts the number of mortgages requiring a minimum 15% deposit has risen from 189 in the past month to 226, the highest number for more than a year. However, 66% of mortgages still need a 25% deposit.
<http://news.bbc.co.uk/1/hi/business/8338140.stm>

RENTAL MARKET

Rental Market – FindaProperty.com

- Average asking rents remained at £829pcm in September. UK rents fell by 4.4% over the past year but remained unchanged in September. Rentals on UK flats rose by 0.1% in September and rentals on UK houses fell 0.2% in September. Rental stock fell by 6.2% over the month, however, stock remains 37% higher than a year ago.
www.findaproperty.com/rental-index.aspx

US Housing Market

- According to the S&P/Case-Shiller Home Price Indices average home prices across the US were at similar levels to where they were in the autumn of 2003 in August 2009. From the peak in the second quarter of 2006 through to the trough in April 2009 the 20 City Composite fell 32.6%. With the relative improvement in the past few months the peak to date figures to August 2009 is -29.3%. The 20 City Composite Index rose 1.2% in the month to August.
http://www2.standardandpoors.com/spf/pdf/index/CSHomePrice_Release_102706.pdf

THE ECONOMY

Growth

- GDP decreased by 0.4% in Q3 2009 following a 0.6% fall in Q2 2009 and a 2.5% fall in Q1 2009, as the UK continued to be in recession. The 2.5% quarterly fall was the biggest quarterly decline since Q2 1958. GDP has fallen by 5.2% over the past year.
www.statistics.gov.uk/cci/nugget.asp?id=192
- The IMF said in its latest World Economic Outlook that the global economy is expanding again but the pace of recovery is expected to be slow. The IMF forecasts that the UK will grow by 0.9% in 2010.
<http://news.bbc.co.uk/1/hi/business/8284217.stm>

Interest Rates

- The Bank of England held the Bank Rate at 0.5% in October, the lowest level in the Bank's 315 year history.
www.bankofengland.co.uk/publications/news/2009/076.htm

Inflation

- In September CPI inflation was 1.1% and RPI inflation was -1.4%.
www.statistics.gov.uk/cci/nugget.asp?id=19

Unemployment

- UK unemployment increased by 88,000 to 2.47 million in the three months to August. UK unemployment now stands at 7.9%.
<http://news.bbc.co.uk/1/hi/business/8306212.stm>

Average Earnings

- Average earnings, excluding bonuses, rose by 1.9% in the year to August 2009.
www.statistics.gov.uk/cci/nugget.asp?id=10

LAND VALUES

Residential Building Land Values

– Valuation Office Agency

- According to the Valuation Office Agency residential building land values fell by 40% in England and Wales excluding London from their peak in January 2008 to their value in July 2009. The largest falls in land values between January 2008 and July 2009 were in the North East (49%) and in the East Midlands (48%). The smallest fall in land values was in the West Midlands (32%).

Region	£s per hectare January 2008	£s per hectare July 2009	Change in Land Values January 2008 to July 2009
Inner and Outer London	8,590,000	5,355,000	-38%
South East	3,830,000	2,370,000	-38%
North East	2,590,000	1,320,000	-49%
North West and Merseyside	2,808,000	1,730,000	-38%
Yorkshire and the Humber	2,520,000	1,420,000	-44%
East Midlands	2,190,000	1,150,000	-48%
West Midlands	2,440,000	1,650,000	-32%
Eastern	4,250,000	2,675,000	-37%
South West	2,800,000	1,620,000	-42%
England and Wales excl. London	2,950,000	1,770,000	-40%

Source: Valuation Office Agency Property Market Report July 2009 (Published October 2009)

Land Values - Savills

- Savills says there is now a North-South divide in the land market. Urban land in the North of England fell in value by 11.8% in the third quarter and is now 69.9% below its peak of March 2004. Land like this was used before the recession for apartments, but demand for such property has collapsed due to the demise of buy-to-let and housebuilders want to cut the amount they spend on cleaning up sites ready to build on. Greenfield sites in the West of England rose by 6.3% in the same period and 4.6% in the East, led by growth in the southern regions. Savills said that smaller, oven ready sites are vastly preferred to large infrastructure intensive ones.

www.telegraph.co.uk/finance/newsbysector/constructionandproperty/6260759/North-South-divide-in-land-for-houses-as-builders-focus-on-greenfield-sites.html

HOUSING STARTS AND COMPLETIONS

CLG issued downwardly revised housebuilding figures for Q2 2009 on 28 October 2009:

Housing Starts - CLG

- There were 21,580 housing starts in England in Q2 2009 on a seasonally adjusted basis, 18% higher than the previous quarter but 34% lower than Q2 2008.
- There were 17,550 housing starts by private enterprise in Q2 2009 in England, 37% less than in Q2 2008. Housing starts by RSLs fell 22% from 4,930 in Q2 2008 to 4,530 in Q2 2009. Starts by local authorities decreased from 10 in Q2 2008 to 50 in Q2 2009. RSLs accounted for 20% of starts in Q2 2009, down from 22% in Q2 2008.
- Annual housing starts in England totalled 78,570 in the year to June 2009, 47% down on the year to June 2008.

Housing Starts by Region - CLG

- The number of housing starts by region in Q2 2009 and Q2 2008 is shown in the table below. In the year to Q2 2009 all regions saw large falls in housing starts. The biggest percentage falls in starts over the year occurred in the north of the country - Yorkshire and the Humber (53% fall), the North East (51% fall) and the North West (50% fall). The smallest percentage falls mainly occurred in the south of the country – South East (25% fall), West Midlands (25% fall), South West (27% fall) and London (32% fall).

Region	Q2 2009	Q2 2008	% Change
North East	750	1520	-51%
North West	1530	3030	-50%
Yorkshire and the Humber	1340	2840	-53%
East Midlands	1450	2550	-43%
West Midlands	2020	2700	-25%
East	2920	4400	-34%
London	4020	5890	-32%
South East	5140	6870	-25%
South West	2960	4080	-27%

Housing Completions - CLG

- There were 29,790 housing completions in England in Q2 2009 on a seasonally adjusted basis, 6% down on the previous quarter and 19% down on Q2 2008.
 - There were 24,510 housing completions by private enterprise in Q2 2009 in England, 23% down on Q2 2008. Housing completions by RSLs fell 1% to 5,610 in Q2 2009 from 5,640 in Q2 2008. Completions by Local Authorities fell to 60 in Q2 2009 from 140 in Q2 2008. RSLs accounted for 19% of completions in Q2 2009, up from 15% in Q2 2008.
 - Annual housing completions in England totalled 126,500 in the year to June 2009, 22% down on the year to June 2008.
- www.communities.gov.uk/publications/corporate/statistics/housingbuildingq22009rev

HOUSING STARTS

Housing Starts - NHBC

- The NHBC received 20,679 applications to build new homes in England during Q3 2009, a 2% increase on the same period last year.
- The North East had the strongest growth in England at 149%, followed by the North West at 37%.
- Several regions saw falls in housebuilding over the past year with a 13% fall in the West Midlands, an 11% fall in Merseyside, a 7% fall in Greater London, a 6% fall in Yorkshire and the Humber and a 5% fall in the Eastern region.

Housing Starts by Region – NHBC

Region	Q3 2009	Q3 2008	% Change
North East	858	344	149%
North West	1,388	1,011	37%
Merseyside	203	228	-11%
Yorkshire and the Humber	1,204	1,283	-6%
East Midlands	1,885	1,813	4%
West Midlands	1,341	1,548	-13%
Eastern	3,379	3,543	-5%
Greater London	3,689	3,961	-7%
South East	3,912	3,896	0%
South West	2,820	2,612	8%
England – Total	20,679	20,239	2%
UK - Total	24,136	23,185	4%

www.nhbc.co.uk/NewsandComment/Name.39080.en.html

HOUSEBUILDING

Bellway

Bellway issued its results for the year to 31 July 2009 on 13 October stating that:

- Bellway completed the sale of 4,380 homes in the year to July 2009, 33% down from 6,556 in the year to July 2008. Sales in the six northern divisions were 45% down on the previous year and sales in the seven southern divisions were 21% down on the previous year.
- Bellway achieved an average price of £154,005 in the year ended July 2009, 9% down on £169,729 the previous year.
- Turnover was £683.8m in the year to July 2009, down from £1,149.5m in the year to July 2008.
- The group ended the year with net bank borrowings of £36.8m (£217.7m in 2008) and gearing is now at 3.8%.
- The Group's borrowing facilities were renegotiated in April 2008.
- The net realisable value of land and work in progress was reviewed in January 2009 and an exceptional charge of £66.3 million arose. Further writedowns have not been made.
- It wants to acquire land selectively especially in the south of England. 5.7m shares were placed with existing shareholders on 6 August 2009 in order to help finance this, raising net proceeds of £43.7m. Since 1 August it has contracted or agreed terms for the acquisition of over £120m of land where there is potential to develop in excess of 3,370 homes.
- The Group intends to selectively open new outlets and increase work in progress.
- By the end of July 2009 27 sites remained mothballed.

www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-detail.html?announcementId=10228757

Housebuilder Share Prices (Closing)

Housebuilder share prices have fallen over the past month but remain considerably above the troughs they reached in the second half of 2008.

Company	Peak in Share Price	Trough in Share Price	Peak to Trough Change in Share Price	Recent Share Price
Barratt	1,289p (06/02/07)	39p (08/07/08)	-97%	139p (30/10/09)
Bellway	1,690p (05/04/07)	378p (02/07/08)	-78%	731p (30/10/09)
Berkeley	1,938p (22/05/07)	613p (02/07/08)	-68%	853p (30/10/09)
Bovis	1,204p (05/04/07)	271p (20/10/08)	-77%	412p (30/10/09)
Persimmon	1,543p (02/01/07)	184p (03/12/08)	-88%	403p (30/10/09)
Redrow	727p (03/01/07)	96p (08/07/08)	-87%	141p (30/10/09)
Taylor Wimpey	377p (03/07/07)	4p (25/11/08)	-99%	37p (30/10/09)

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