

UK HOUSING MARKET MONTHLY

June 2008



A monthly review of recent developments in UK housing markets

Editor: Roger Bootle

Housing market correction has much further to run

- **The economic backdrop – page 2**

The economy grew by 2.5%/y/y in 2008Q1, with a hefty contribution from household spending. As the housing market cools further, real disposable income growth is squeezed by higher energy/food bills and the labour market weakens, we expect household spending growth to slow to 0.5% in 2009. Above-target inflation will prevent aggressive monetary policy easing this year.

- **Housing market data and the homebuying process – page 3**

Conditions have continued to worsen at all stages of the home buying process. Weakening new buyer interest and the reduction of mortgage credit have taken their toll on housing activity which, in turn, suggests that further house price falls are in the pipeline.

- **Market conditions and search activity – page 4**

New buyer enquiries fell sharply in April. With demand so weak, market conditions have continued to loosen, adding to the downward pressure on house prices.

- **Agreed sales, mortgage approvals and transactions – page 5**

Mortgage approvals hit their lowest level on record in April. Past precedent would suggest that approvals must be close to their floor but, given current weak housing market conditions, further modest falls must be plausible.

- **House prices – page 6**

House prices on the Nationwide index fell sharply in May, posting their largest single monthly decline in the index's history. They are now 7% lower than their peak in October.

- **Conclusions**

The housing market correction has further to run. Tight credit conditions and falling house prices have fast become a deterrent to potential buyers, suggesting that activity is unlikely to make a sustained recovery in the next few months. At its current level, the slowdown in activity suggests that house price falls could be well into double digits by the end of this year.

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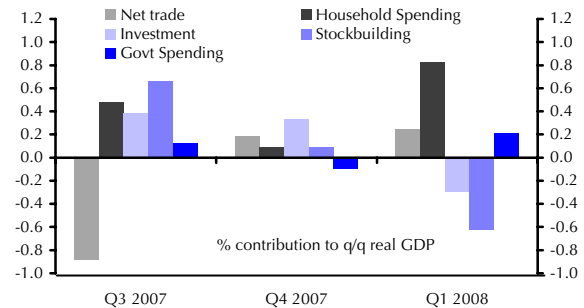
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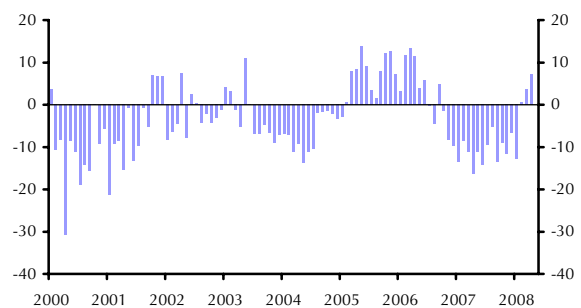
The economic backdrop

- The second release for 2008Q1 GDP confirmed that the economy grew by 2.5%/y, the slowest rate since 2005Q4. Economic growth has slowed fairly sharply even before the full impact of the housing market slowdown and credit crunch has been felt. Indeed, the 0.4% rise in GDP in Q1 was mainly due to a hefty contribution from household spending. (See Chart 1.)
- We do not, however, expect that strength to continue. For a start, it will take time for lags between house price falls and consumer spending to work through fully. In addition, unemployment has now risen for three consecutive months. (See Chart 2.) We expect the labour market to weaken further, with wage growth remaining subdued. That will place more strain on household spending.
- Will the MPC ride to the rescue? That seems unlikely. CPI inflation hit 3% in April. (See Chart 3.) What's more, rising food and energy bills are likely to push it towards 4% over the coming months. Given that this is well into "letter-writing" territory, aggressive rate-cutting is off the agenda for now.
- Indeed, the latest *Inflation Report* emphasised that the MPC will be highly reluctant to deliver activity-supporting interest rate cuts while upward price pressures are so strong. As a result, we now think that the repo rate will only drop to 4.5% by year-end. (See Chart 4.) But if the economy remains weak in 2009, as we expect, rates may still need to fall to as low as 3.5%. (See Chart 4.)

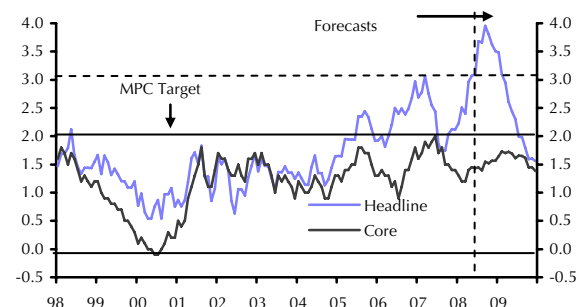
1: Contributions to quarterly rate of GDP Growth (%)



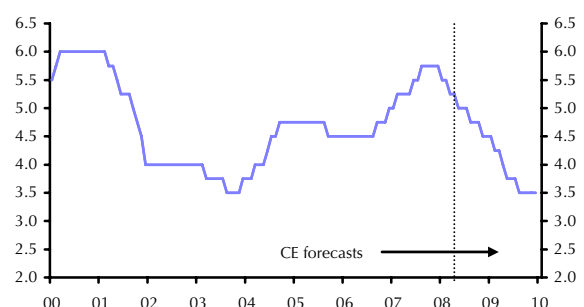
2: Claimant count unemployment, monthly change, '000s, 2000 – April 2008



3: Consumer price inflation, 1998 – 2009



4: Repo rate, %, 2000 – 2009



Sources – Thomson Datastream, Bank of England

Housing market data and the home buying process

Steps in the process	Typical timeline	Available data	Published by	Data for	Latest data	Prev. data	Market weakening?
Begin search							
	10 weeks	Unsold property per surveyor (No.)	RICS	Apr	87	90	Y
		New properties for sale (% bal)	RICS	Apr	-14	-16	N
		New buyer interest (% bal)	RICS	Apr	-68	-51	Y
		Site visits (new housing, % bal)	HBF	Mar	-55	-29	Y
		Asking prices (% m/m)	Rightmove	May	1.2	-0.1	N
		Use of sales incentives (% bal)	HBF	Mar	59	53	Y
Verbal offer							
	4 weeks	Agreed sales prices (% m/m)	Hometrack	May	-0.5	-0.6	Y
		(% bal)	RICS	Apr	-95	-79	Y
		Sale price (% asking price)	Hometrack	May	92.3	93.0	Y
		New homes prices (% bal)	HBF	Mar	-54	-36	Y
		Net reservations of new homes (% bal)	HBF	Mar	-69	-42	Y
		Agreed sales (% bal)	RICS	Apr	-56	-52	Y
		Time on the market (Weeks)	Hometrack	May	9.8	9.1	Y
		Viewings per sale (No.)	Hometrack	May	14.0	14.1	Unch.
		Price expectations - next 3m (% bal)	RICS	May-Jul	-80	-74	Y
	Sales expectations - next 3m (% bal)	RICS	May-Jul	-15	-16	Y	
Mortgage approval							
	4 weeks	Mortgage approvals (000s)	BBA	Apr	39	35	N
			BoE	Apr	58	63	Y
		Mortgage advances (000s)	CML	Mar	47	47	Unch.
		House prices (% m/m)	Nationwide	May	-2.5	-0.9	Y
		Halifax	Apr	-1.3	-2.5	Y	
Exchange contracts							
	1 week	Completed sales per surveyor	RICS	Apr	18	22	Y
Complete transaction							
	4-6 weeks	House prices (% m/m)	CLG	Mar	0.1	-1.8	N
Register transaction							
	Time elapsed 24 weeks	House prices (% m/m)	Land Registry ¹	Apr	-0.2	-0.8	Y
			FT/Acadametrics	Apr	-0.2	-0.2	Y
		Property transactions (000s)	HMRC	Feb	116	121	Y
			Land Registry ²	Feb	64	78	Y

Source – Capital Economics

1. Data from the Land Registry's new monthly house price index, seasonally adjusted month-on-month changes

2. Data also from the Land Registry's new index, 3-month moving average of seasonally adjusted transaction volumes

Comment:

Housing market indicators suggest that conditions have continued to worsen at all stages of the house buying process. The credit crunch is taking its toll on activity. New buyer enquiries continue to weaken, mortgage approvals hit a new record low in April, while completed sales per surveyor have fallen to a third of their level a year ago. House prices on the Nationwide index recorded their largest ever monthly decline in May and extended the run of house price falls to seven consecutive months – on par with the early-1990s experience.

Market conditions and search activity

- The net balance of housebuilders reporting a rise in site visits compared to a year earlier fell sharply in March, from -29 to -55. Tight credit conditions have fast become a serious problem for house-builders. The balance of house-builders reporting that a decline in borrowers' ability to obtain a large enough mortgage is a "major constraint on demand" has surged. (See Chart 1.)
- With the housing market correction firmly underway, falling house prices are becoming another deterrent to potential buyers. Unsurprisingly then, the RICS new buyer enquiries balance fell sharply from -51 in March to -69 in April. This is the lowest level recorded since 1999 when this question was first included in the RICS survey. (See Chart 2.)
- Completed sales per surveyor have also tumbled. In April they were a third lower than a year ago and on par with the record low set in November 1992. With demand so weak, the stock of unsold property is close to a decade high. As a result, market conditions (as measured by the ratio of sales to unsold stock) have continued to loosen. (See Chart 3.)
- Hometrack has reported that, on average, properties are now taking almost 10 weeks to sell, up from eight weeks just six months ago. (See Chart 4.) At the same time, the number of viewings required to achieve a sale remained close to its high of 14. Buyer registrations also fell again in May, confirming that buyers failed to return to the market in what is usually a busy period for estate agents.

Chart 1: House builders reporting mortgage rates and terms a major constraint on demand, % of respondents, 1993–Mar 2008

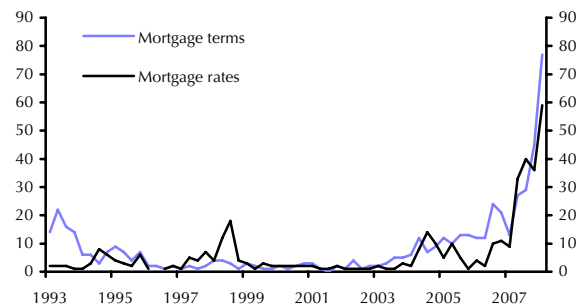


Chart 2: RICS new buyer enquiries, 1999 – April 2008

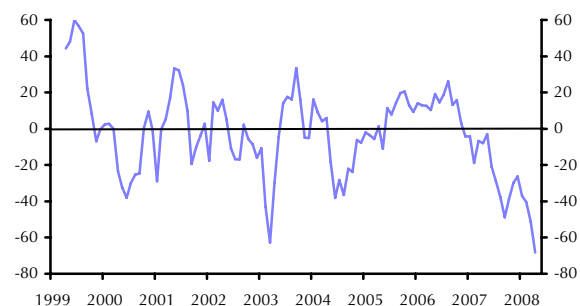


Chart 3: Ratio of sales to unsold stock on surveyors' books and Halifax house prices, 1985 - April 2008

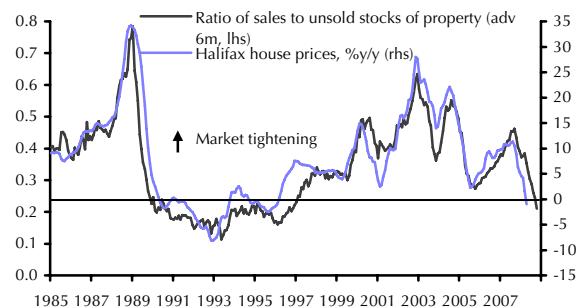
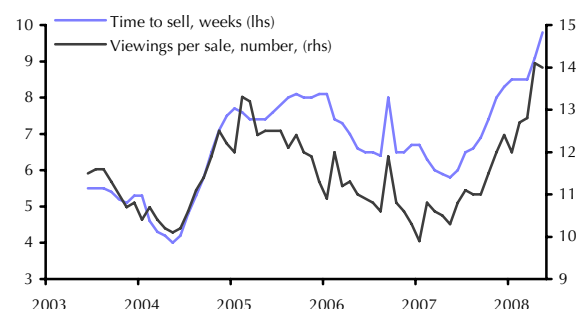


Chart 4: Time taken to sell a property and viewings per sale, June 2003 – May 2008



Sources – HBF, RICS, Halifax, Hometrack

Agreed sales, mortgage approvals and transactions

- Housing market activity remains very subdued. According to the BBA, mortgage approvals for new house purchase rose slightly in April. However, this was an increase from the record low reached in March, and still 38% lower than a year ago. Data from the Bank of England showed an even worse picture, with the number of mortgage approvals falling to half the level of a year ago and a new record low. (See Chart 1.)
- With mortgage finance still expensive and difficult to obtain and new buyer interest weakening, there is little reason to expect approvals to make a sustained recovery over the next few months. If approvals remain at current levels for the next few months, or weaken further, house price falls could be well into double digits by the end of this year. (See Chart 2.)
- With mortgage demand so weak, it is little surprise to see tenant demand strong. The RICS new tenant demand balance rose from +17 to +28 in the three months to April. (See Chart 3.) The past rents balance remained high at +32, while the rental expectations balance also held up well. With significant house prices falls expected over the next few years, tenant demand will remain firm.
- Despite the strong rental outlook, buy-to-let activity has suffered a steep fall as the sector has also been hit by the mortgage credit squeeze. House-builders have continued to report declining numbers of net reservations from investors in the early part of this year. (See Chart 4.) In addition, according to the CML, BTL advances in 2008Q1 were 22% lower than a year ago, and 31% lower than the high point reached in the third quarter of last year.

Chart 1: Mortgage approvals for new house purchase, '000s, 1991 – April 2008

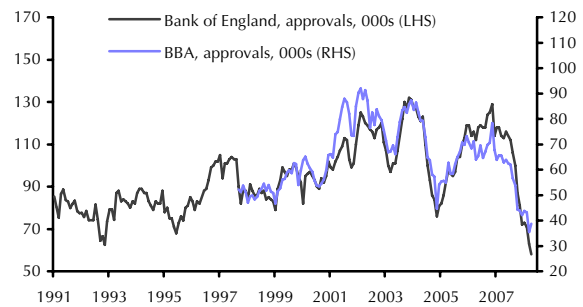


Chart 2: Mortgage approvals and Nationwide house prices, 1991 – May 2008

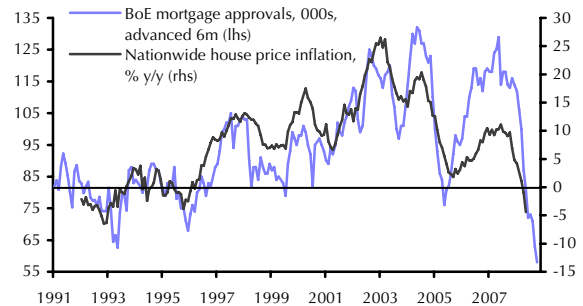


Chart 3: RICS residential letting activity, 1999 – April 2008

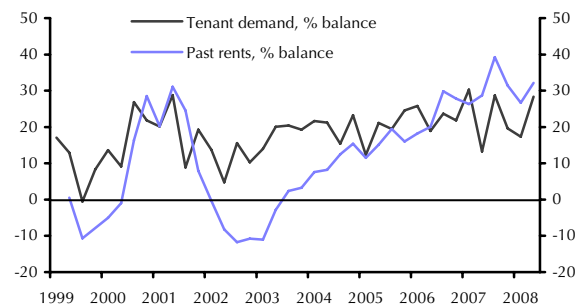
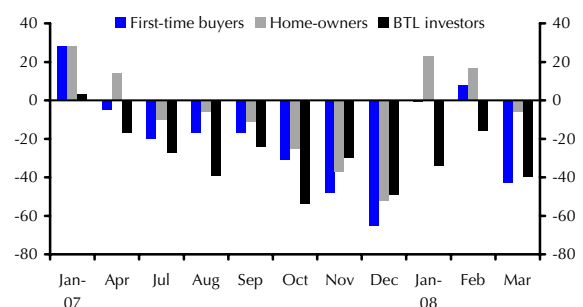


Chart 4: House-builders reporting a rise in net reservations compared to previous month, by type of buyer, % balance, 2007 – March 2008



Sources – RICS, BoE, BBA, Thomson Datastream, Nationwide

House prices

- Rightmove asking prices rose by 1.2% in May following a 0.1% decline in the previous month. (See Chart 1.) Rightmove data has been very volatile in recent months, however, so we doubt this is evidence of a strengthening market. What's more, the weakness in demand has meant that fewer sellers are achieving their asking price. Hometrack reported that homes sold at 92% of their asking price in May, down from 94% a few months ago.
- The RICS balance of surveyors reporting house price falls dropped to a new record low of -95% in April. During the early 1990s housing market crash, the furthest this balance fell was -64%. (See Chart 2.) The RICS past prices balance appears to have correctly anticipated the current downturn, and suggests that this housing market correction still has much further to run.
- According to the Nationwide, house prices fell by a staggering 2.5% m/m in May. This was the seventh consecutive monthly fall, on par with the longest run of house price falls recorded during the early 1990s. It was also the largest single monthly decline in the index's history – greater than any drop recorded during the early-1990s housing market slump. As a result, annual house price growth fell further to -4.4%, the worst since late 1992. (See Chart 3.)
- House prices measured at the completion stage (therefore lagging other house price indices) are also showing clear signs of a housing market slowdown. According to the Land Registry, average house prices fell for a third consecutive month in April, and the quarterly rate of house price growth turned negative for the first time in the index's history. (See Chart 4.) House prices on the FT/Academetrics index fell by 0.2% m/m in both March and April.

Chart 1: House prices: Rightmove asking prices, 2002 – May 2008

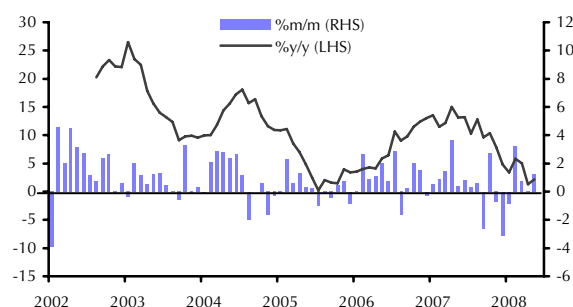


Chart 2: House prices: RICS past prices and Halifax house prices, 1990 – April 2008

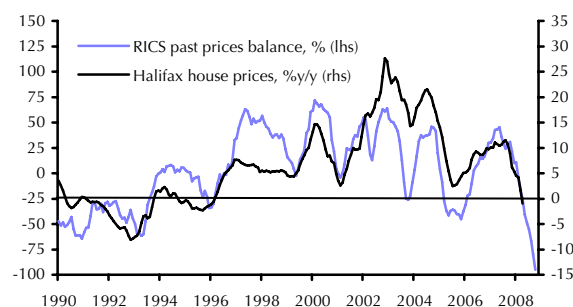


Chart 3: House prices: Mortgage approval stage, %y/y 1992 – May 2008

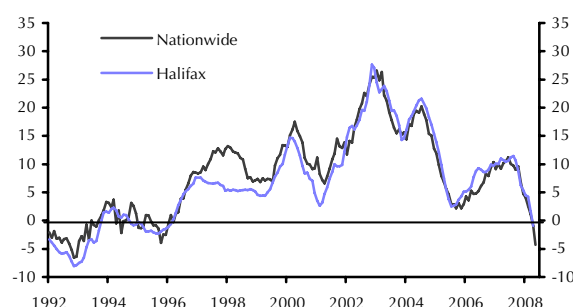
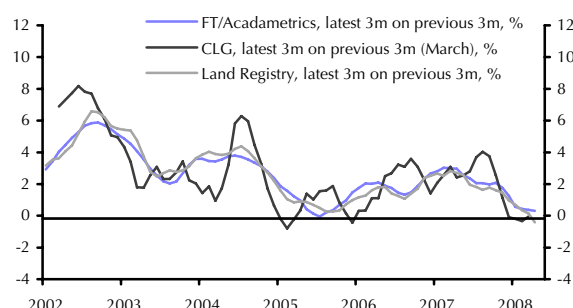


Chart 4: House prices: completion stage, 2002 – April 2008



Sources – Rightmove, RICS, Halifax, N'wide, LR, CLG, FT/Academetrics

Housing market data snapshot

TABLE 1: ALTERNATIVE MEASURES OF HOUSE PRICES

	Latest data	Avg. price £000s	% m/m			% y/y		
			12m earlier	Previous	Latest	12m earlier	Previous	Latest
Rightmove (nsa)	May	242.5	0.4	-0.1	1.2	13.1	1.3	2.2
Hometrack (nsa)	May	172.2	0.6	-0.6	-0.5	6.7	-0.8	-1.9
Nationwide (sa)	May	173.3	0.8	-0.9	-2.5	10.3	-1.0	-4.4
Halifax (sa)	Apr	189.0	1.1	-2.5	-1.3	10.7	1.6	-0.9
CLG (nsa)	Mar	217.3	1.1	-1.8	0.1	10.9	6.3	5.3
FT/ Acadametrics (sa)	Apr	230.6	0.8	-0.2	-0.2	9.6	5.2	4.1
Land Registry (sa)	Apr	183.6	0.3	-0.8	-0.2	8.8	3.2	2.7

Sources – Rightmove, Hometrack, Nationwide, Halifax, CLG, FT/Acadametrics, Land Registry

TABLE 2: MORTGAGE BORROWING AND RESIDENTIAL PROPERTY TRANSACTIONS

April 2008	Levels			% y/y			Year to date	
	12m earlier	Previous	Latest	12m earlier	Previous	Latest	Previous year	Current year
BBA Net mortgage lending £bn, sa	5.1	5.1	5.4	-3.3	-0.2	6.4	20.1	21.0
BoE Value of loans approved, £bn, sa	30.1	24.2	23.8	6.5	-22.4	-20.9	126.8	104.0
- For house purchase, £bn, sa	15.7	9.0	8.3	5.6	-46.1	-47.0	66.3	38.2
- Re-mortgage, £bn, sa	11.8	13.6	14.1	6.5	9.3	19.1	50.7	56.9
BoE Mortgage approvals, 000s								
Total	285	216	216	1.1	-25.3	-24.2	1,181	924
- For house purchase	113	63	58	0.9	-44.7	-48.7	463	265
- Re-mortgage	99	98	106	4.2	-3.0	7.1	417	433
- Other	73	55	52	-2.7	-25.7	-28.8	301	266
HMRC Transactions, 000s, sa (Feb)	165	121	116	13.8	-11.7	-29.7	302	237
CML/BankSearch Regulated Mortgage Survey (latest, Mar)								
- FTB share of house purchase loans	37	36	38					

Sources – British Bankers' Association, Bank of England, HM Revenue and Customs, Council of Mortgage Lenders/BankSearch

TABLE 3: REGIONAL SNAPSHOT

	Latest data	Ldn	S.E	E.A	Wal	S.W	Y&H	N.E	N.W	W.M	E.M	Scot	N.I
House prices, N'wide, %y/y													
- Latest	Q1	5.6	3.3	1.8	1.0	0.3	0.2	2.3	-0.2	0.2	0.3	6.3	-3.4
- Previous	Q4	12.8	7.2	5.7	4.2	6.4	2.6	3.7	3.5	4.4	2.8	10.1	24.2
- Same period a year earlier	Q4	11.3	7.7	7.5	8.9	7.1	7.3	8.6	6.2	5.8	6.3	16.0	44.1
Property sales, Land Reg.													
- '000s	Q4	34.2	45.3	60.4	12.1	27.1	25.1	13.3	34.0	23.5	30.4	n/a	n/a
- %y/y	Q4	-21.5	-23.2	-24.3	-26.3	-27.3	-25.4	-18.3	-23.9	-25.8	-24.3	n/a	n/a

Sources – Nationwide, Land Registry