HOUSE PRICES Nationwide

STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 28 OCTOBER 2004

Price slowdown intensifies

- **First decline in UK property prices for three years**
- **UK property prices flat over last three months**
- **Strength of labour market suggests housing market to tread water**

Headlines	**October 2004**	September 2004
Monthly index (seasonally adjusted) Q1 '93 = 100	**304.1**	305.4
Monthly change (seasonally adjusted)	**-0.4%**	0.2%
Annual change	**15.3%**	17.8%
Average price	**£152,159**	£153,727

Commenting on the figures Alex Bannister, Nationwide's Group Economist, said:

"Following subdued house price growth in the last two months, house prices fell by 0.4% during October. This was the first monthly fall since October 2001 and the largest decline since February 2001. As a consequence, the annual rate of house price inflation slowed sharply from 17.8% last month to 15.3% in October. If prices remain static from now on, the price of an average UK property would end the year 12% up on a year earlier – 3% below our forecast made in March of this year and 3% higher than our original forecast made in December 2003. The price of the typical house now stands at £152,159, down from the peak of £154,299 in July 2004. Late summer/early autumn is normally a weaker period for house price growth and £1,970 of the £2,140 fall can be explained by normal seasonal movements in price. That means just £170 of the fall is due to underlying price falls.

"Nevertheless, this has been a period of marked deceleration in house price growth and is in part a result of 'real' factors, such as weak real take-home pay growth, rising interest rates and stretched affordability, acting as a drag on the market. Our surveys of homeowner sentiment on house prices, conducted over the last few months, clearly show a change in property price expectations. In June, 64% of consumers believed that house prices would be higher over the following six months. Now that figure is around 40%. In addition, the proportion believing house price declines are on the way has increased from 7% in June to just over 15%. This moderation in expectations combined with a deterioration in affordability for both first-time buyers and existing homeowners, who are now facing a tough time trading up, will have played a major part in slowing the market.

"Another factor that appears to be contributing to the slowdown is that there is less demand from buy-to-let investors, perhaps dissuaded by low rental yields and the prospect of limited future capital growth. In addition, there may be some investors who have placed their properties back onto the market for sale to realise capital gains from the sharp rise in property prices over the last few years. There are no statistics available to confirm the extent of this trend. However, our research suggests that in recent months smaller properties in urban areas, which fit with the profile of typical buy-to-let properties, have been more highly traded and are seeing their prices come under pressure relative to other sectors of the market.

"Interestingly, recently released data sheds some light on how buy-to-let, new build and other factors have influenced the outstanding stock of property available to rent and buy. As the table below shows, the stock of owner occupied property in England at end-March 2003 was 15.2 million compared with 2.2 million private rented accommodation. The private rented stock grew by 8,000 between March 2002 and March 2003, compared with an increase of 223,000 for owner-occupied property over the same period. The increase in the owner-occupied stock is partly explained by new build, which in the year to March 2003 totalled 124,000 private enterprise completions.

"Despite the private rented stock increasing by just 8,000, the number of outstanding buy-to-let mortgages increased by 100,000 over broadly the same period (from 233,000 in the first half of 2002 to 333,000 a year later). Given that there are also cash purchases of rented property on top of new buy-to-let mortgages, it appears that there has been some substitution of ownership. Large corporate holders of private rented properties appear to have sold up to private smaller scale investors. However, part of the increase in the number of buy-to-let mortgages may reflect equity withdrawal by (previously outright) owners of second properties rather than an increase in the stock of buy-to-let properties.

Dwelling stock and tenure

Region	Owner Occupied (end-March 2003)			Private Rental (end-March 2003)		
	Stock (000s)	Change on year earlier	Proportion of total dwelling stock	Stock (000s)	Change on year earlier	Proportion of total dwelling stock
North East	736	1.4%	65.6%	80	2.6%	7.1%
North West	2,109	1.2%	71.1%	233	0.0%	7.9%
Yorks & H'side	1,504	2.1%	69.1%	214	0.0%	9.8%
East Midlands	1,353	1.7%	74.0%	159	0.6%	8.7%
West Midlands	1,606	1.6%	71.4%	172	0.0%	7.7%
East	1,738	1.6%	74.2%	234	0.4%	10.0%
London	1,856	1.9%	59.4%	489	0.6%	15.7%
South East	2,613	0.8%	75.9%	366	0.8%	10.6%
South West	1,672	1.7%	75.4%	252	-1.2%	11.4%
England	**15,186**	**1.5%**	**70.8%**	**2,200**	**0.4%**	**10.2%**
Source: ODPM						

"Of course this brings with it uncertainty, because despite some surveys suggesting that the majority of buy-to-let investors are 'in it for the long run' it remains to be seen what will happen if, as we expect, property prices tread water over the next few years. On top of this, there is likely to be an expansion of property supply as the Government responds to the findings of the Barker Report. It is not clear whether these increases will be met in full, but the government announced plans earlier this year for the building of 500,000 properties in the east of England, including the Thames Gateway, over the next 20 years. The Barker report suggested that increasing the current level of new build by 145,000 properties per year (from c.150,000 to 295,000 properties per year) would lower the trend in annual real house price growth to 1.1 per cent.

"Despite price growth over the last three months being slightly weaker than we had expected, developments remain consistent with our view that over the coming years, house prices are more likely to grow at a very subdued rate rather than fall sharply. This does not mean that prices will not fall in isolated months. In fact there have now been seven monthly declines in house prices since the start of 1999; a period which saw house prices more than double. However, a sustained period of falling prices appears unlikely while the economy is growing quickly and the jobs market remains strong. In addition, we believe that interest rates will also remain supportive if the base rate peaks close to 5% as this represents a historically low level – particularly given the highly competitive mortgage market. Our view is that the current moderation in price growth expectations will not translate into widespread panic and that instead the market will experience subdued levels of turnover and price growth."

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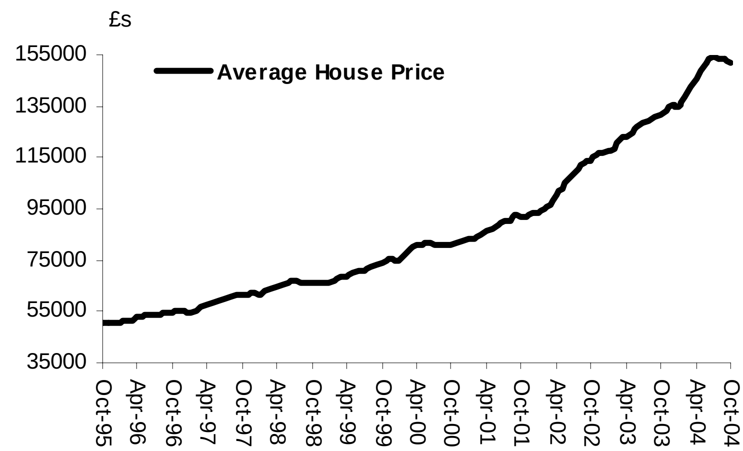
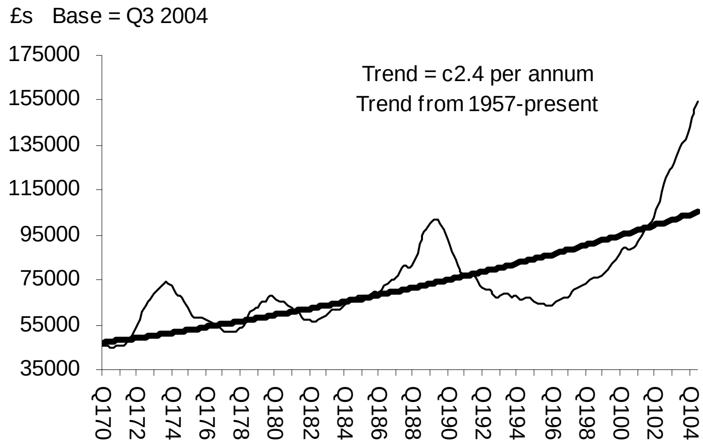
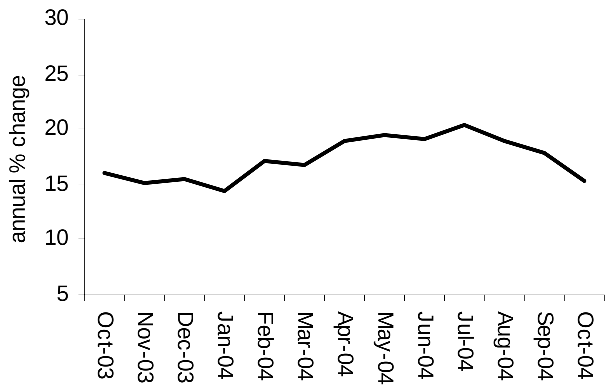
Average UK House Price



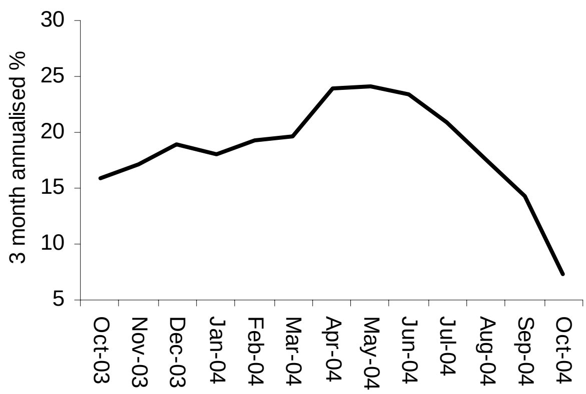
Long Term Real House Price Trend



Annual % Change in House Prices



Trend in House Price Inflation (1)



Historical Data (2)

Month	Monthly Index (3) Q1 93 = 100 Seasonally adjusted	Monthly Change (4) % seasonally adjusted	Monthly Index Q1 93 = 100 not seasonally adjusted	Annual Change (5) % not seasonally adjusted	Average Price £ not seasonally adjusted
2003 Oct	263.7	1.8	263.2	16.1	131,947
Nov	267.1	1.3	266.1	15.2	133,388
Dec	271.5	1.6	270.2	15.6	135,444
2004 Jan	273.3	0.7	268.9	14.3	134,806
Feb	280.8	2.7	276.8	17.1	138,730
Mar	285.1	1.5	284.4	16.7	142,584
Apr	290.7	2.0	291.1	18.9	145,918
May	295.6	1.7	297.3	19.5	149,020
Jun	298.1	0.9	302.3	19.1	151,524
Jul	304.5	2.1	307.8	20.3	154,299
Aug	304.7	0.1	306.7	18.9	153,743
Sep	305.4	0.2	306.7	17.8	153,727
Oct	304.1	-0.4	303.5	15.3	152,159

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Notes:

1) Chart shows % change in the 3 month moving average over the last 3 months annualised. Conceptually it is akin to the quarter on quarter annualised % change, but it uses monthly data.
2) Indices and average prices are produced using Nationwide's updated mix adjusted House Price Methodology which was introduced with effect from the first quarter of 1995.
3) Price indices are seasonally adjusted using the US Bureau of the Census X11 method. Currently the calculations are based on a monthly data starting from January 1991. Figures are recalculated at six month intervals, in June and December.
4) % change over previous month.
5) % change over same month last year.

The Nationwide Monthly House Price Index is prepared from information which we believe is collated with care, but no representation is made as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue the whole or any part of the Index at any time, for regulatory or other reasons. Persons seeking to place reliance on the Index for their own or third party commercial purposes do so entirely at their own risk. All changes are nominal and do not allow for inflation.