

Nationwide HOUSE PRICE INDEX



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May 2010

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House prices now less than 10% below their 2007 peak

- House prices increased by 0.5% month-on-month in May
- Annual rate of house price inflation drops from 10.5% to 9.8%
- Prices up 12.2% since February 2009 trough

Headlines	May 10	Apr 10
Monthly Index*	336.0	334.0
Monthly Change*	0.5%	1.1%
Annual Change	9.8%	10.5%
Average Price	£169,162	£167,802

* Seasonally adjusted

Commenting on the figures Martin Gahbauer, Nationwide's Chief Economist, said:

"The price of a typical UK property rose by a seasonally adjusted 0.5% month-on-month (m/m) in May, following a 1.1% increase in April. The smoother 3 month on 3 month rate of increase rose from 1.1% in April to 1.7%, as February's fall in house prices dropped out of the most recent three month average. The annual rate of house price inflation dropped from 10.5% to 9.8%, which reflects the weaker pace of increase in May 2010 relative to May 2009. Since reaching a trough in February 2009 – following a drop of 19.3% from their October 2007 peak – house prices have risen by 12.2% and are now just 9.5% below the October 2007 peak.

"Housing market conditions remain characterised by thin transaction volumes and a relative scarcity of

properties for sale, despite a slow return of more sellers in recent months. The current supply-demand balance on the market is still consistent with relatively stable to modestly upward trending prices.

Impact of capital gains tax changes on house prices depends on timing of implementation

"The coalition agreement between the Conservatives and Liberal Democrats contains plans to increase the rate of capital gains tax (CGT) charged on the disposal of non-business assets, potentially including second homes and buy-to-let investment properties. Currently the CGT rate on such assets is 18%, and the coalition plans are to raise the rate to a level "similar or close to those applied to income." Precise details, however, will not be known until the Emergency Budget announcement on 22 June.

"With regard to what the short-term impact will be on the housing market and house prices, the key question is around the timing and implementation of any CGT increase. If there is a significant time lag between the announcement of the increase and its actual implementation, then some second home owners and buy-to-let landlords may decide to sell in advance of the higher rate being introduced. Such a development could lead the supply-demand balance to shift more in favour of buyers and relieve the current upward pressure on house prices. However, it is difficult to know with any precision how many people would bring forward a decision to sell.

"The incentive to try to beat the higher tax rate is most pressing for those who have owned their properties for a relatively long period of time and

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therefore have relatively large unrealised gains. Conversely, those who bought their second homes or investment property within the last five years have little incentive to sell early in order to beat the tax change. House prices have only risen back to their mid-2006 level and the first £10,100 of capital gains is currently tax free.

“If the new rate comes into effect immediately on 22 June, then supply conditions are unlikely to be affected materially as any potential sellers would not have time to react.

“There are some examples of where tax changes have had a significant short-term impact on the housing market. Most prominent was the March 1988 announcement to end double Mortgage Interest Relief At Source (MIRAS) for cohabiting couples. The implementation of the tax change was postponed until August of that year, which prompted a rush of buyers to try to beat the deadline. The result was a temporary surge in property values, with house prices increasing by 18% between Q1 1988 and Q3 1988 alone.

“However, the most recent change in CGT rates announced in the 2007 Pre-Budget Report did not have any discernable impact on the supply of property on the market. At the time, the existing CGT rates of 24-40% – depending on taper relief and income status – were cut to a flat rate of 18%. New instructions to sell property remained very low even after the tax changes were introduced, although this may also have been due to the very weak market conditions prevailing at the time.”

Monthly UK House Price Statistics

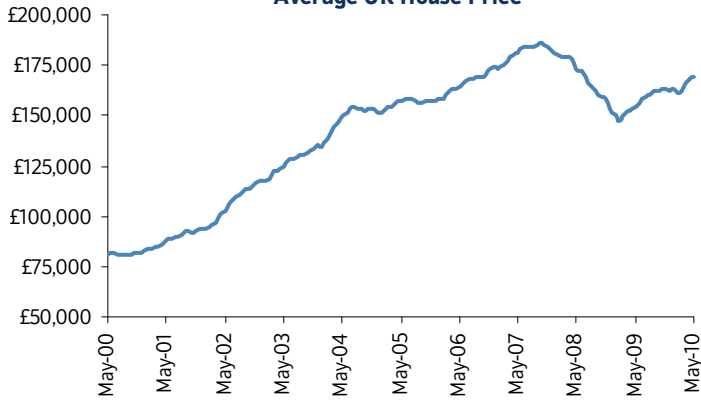
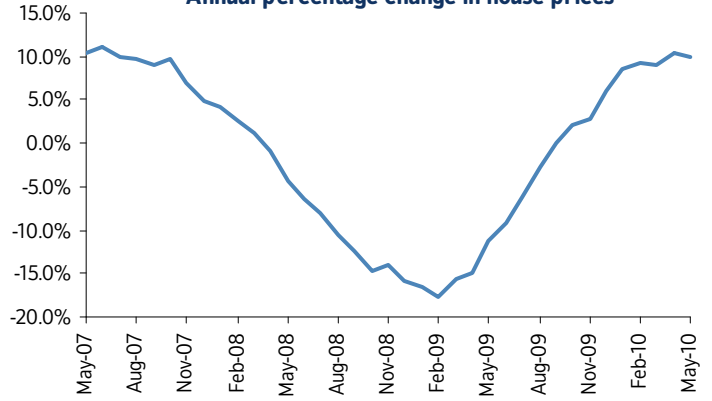
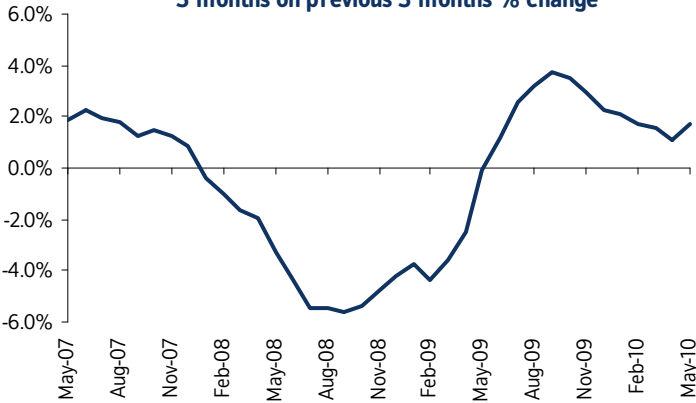
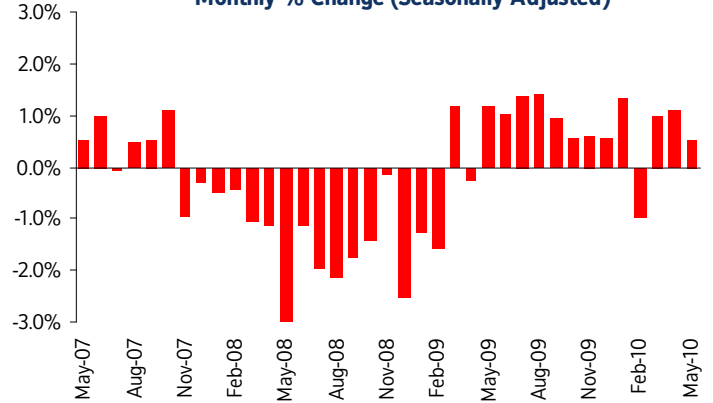
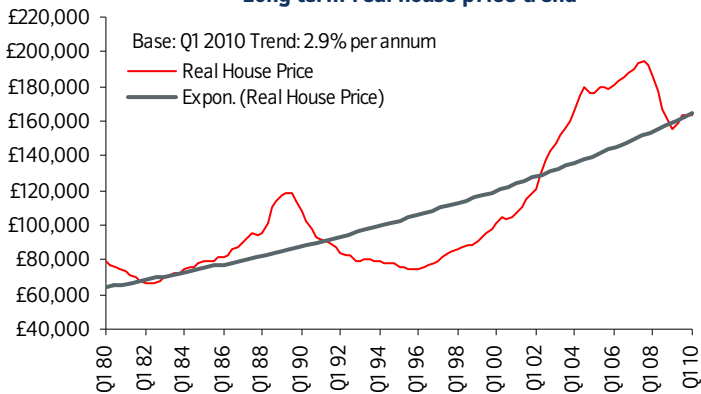
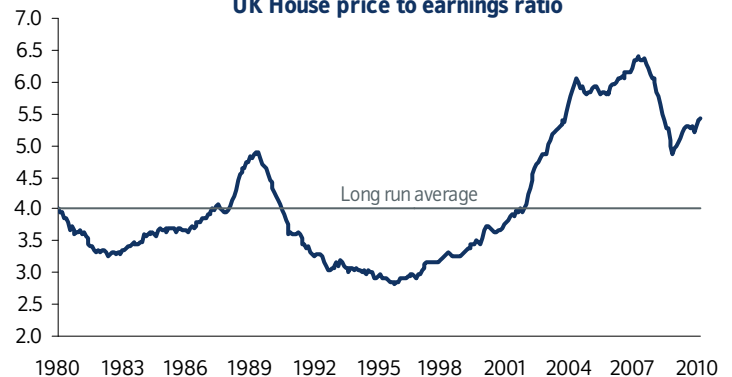
	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
May-08	-3.0	-3.3	-4.4	173,583
Jun-08	-1.1	-4.3	-6.3	172,415
Jul-08	-1.9	-5.4	-8.1	169,316
Aug-08	-2.2	-5.4	-10.5	164,654
Sep-08	-1.8	-5.6	-12.4	161,797
Oct-08	-1.4	-5.4	-14.6	158,872
Nov-08	-0.1	-4.8	-13.9	158,442
Dec-08	-2.5	-4.2	-15.9	153,048
Jan-09	-1.3	-3.7	-16.6	150,501
Feb-09	-1.5	-4.4	-17.6	147,746
Mar-09	1.2	-3.6	-15.7	150,946
Apr-09	-0.3	-2.5	-15.0	151,861
May-09	1.2	-0.1	-11.3	154,016
Jun-09	1.0	1.1	-9.3	156,442
Jul-09	1.4	2.6	-6.2	158,871
Aug-09	1.4	3.2	-2.7	160,224
Sep-09	0.9	3.8	0.0	161,816
Oct-09	0.6	3.5	2.0	162,038
Nov-09	0.6	2.9	2.7	162,764
Dec-09	0.6	2.3	5.9	162,103
Jan-10	1.3	2.1	8.6	163,481
Feb-10	-1.0	1.7	9.2	161,320
Mar-10	1.0	1.6	9.0	164,519
Apr-10	1.1	1.1	10.5	167,802
May-10	0.5	1.7	9.8	169,162

Note: Historical figures including index levels can be viewed using the following link:

www.nationwide.co.uk/hpi/downloads/Monthly.xls

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Average UK House Price**Annual percentage change in house prices****3 months on previous 3 months % change****Monthly % Change (Seasonally Adjusted)****Long term real house price trend****UK House price to earnings ratio**

Source: Nationwide, ONS

Notes

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. The data are drawn from Nationwide's house purchase mortgage lending at the post survey approvals stage. Price indices are seasonally adjusted using the US Bureau of the Census X12 method. Currently the calculations are based on a monthly data series starting from January 1991. Figures are recalculated each month which may result in revisions to historical data.

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.

More information on the house price index methodology along with time series data and archives of housing research can be found at www.nationwide.co.uk/hpi

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