House prices rise by a modest 2.6% in 2017

- UK annual house price growth ended 2017 at 2.6%, compared with 4.5% in 2016
- London weakest performing region, with house prices down 0.5% year-on-year
- Significant differences in regional affordability, but saving for a deposit remains challenging for most

<table>
<thead>
<tr>
<th>Headlines</th>
<th>Dec-17</th>
<th>Nov-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Index*</td>
<td>423.6</td>
<td>421.2</td>
</tr>
<tr>
<td>Monthly Change*</td>
<td>0.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Annual Change</td>
<td>2.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Average Price (not seasonally adjusted)</td>
<td>£211,156</td>
<td>£209,988</td>
</tr>
</tbody>
</table>

*Seasonally adjusted figure (note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

Commenting on the figures, Robert Gardner, Nationwide’s Chief Economist, said:

“Annual house price growth ended the year at 2.6%, within the 2.4%-4% range that prevailed throughout 2017. This was in line with our expectations and broadly consistent with the 3-4% annual rate of increase we expect to prevail over the long term (which is also our estimate for earnings growth in the long run).

“However, this marked a modest slowdown from the 4-6% rates of house price growth recorded in 2016. Low mortgage rates and healthy employment growth continued to support demand in 2017, while supply constraints provided support for house prices. However, this was offset by mounting pressure on household incomes, which exerted an increasing drag on consumer confidence as the year progressed.

“The impact of previous policy changes (including additional stamp duty on second homes, changes to tax deductibility of landlord expenses and lending criteria) meant that demand from buy to let investors remained subdued in 2017.

“The significant disparity in house prices across the UK has been a recurring theme in recent years. In this respect, 2017 saw the beginnings of a shift, as rates of house price growth in the south of England moderated towards those prevailing in the rest of the country.

“London saw a particularly marked slowdown, with prices falling in annual terms for the first time in eight years, albeit by a modest 0.5%. London ended the year the weakest performing region for the first time since 2004.

Housing affordability across the regions

“While regional house price growth rates have converged over the past year, there remain significant differences in affordability, reflecting disparities in house price levels.

“To explore how this is impacting potential buyers we used regional income data to calculate where in the income distribution a prospective purchaser would lie if they were purchasing the typical first time buyer property in each region, with a 20% deposit and borrowing four times their (single) income.

“The picture that emerges is that this ‘typical buyer’ moves up the income spectrum as you move from the north to the south of the country. In Scotland and the North of England, this buyer would lie in the 30th income percentile, while in the South East they would be at the 80th percentile and above the 90th percentile in London (the closest percentile with available data).
“The variation in affordability across regions has increased over the past ten years, as shown on the chart below. Affordability has improved in Wales, Scotland and the North of England, but the most marked improvement has been in Northern Ireland, where the typical buyer has moved from the 90th percentile to the 40th percentile. This is largely due to the significant correction in house prices in Northern Ireland, which are still around 40% lower than in 2007.

Meanwhile in London and the South East, affordability has become even more challenging, with more people priced out of the market or needing to borrow a greater multiple of their income.

Saving for a deposit remains tough for most

“Another key aspect of affordability is the deposit required and the time taken to save it. As the chart below illustrates, a 20% deposit in London is now in excess of £80,000 (based on the average first time buyer house price). This is around £30,000 higher than a decade ago. In other regions, such as the Midlands and Northern England, deposit requirements are similar to 2007, though it should be noted house prices were at or near their pre-crisis peak at this time.

“Although the deposit required may be similar, the time required to save for it has increased significantly. Based on the same incomes used for the earnings percentiles charts above, we have estimated the number of years it would take the ‘typical buyer’ to save a 20% deposit, based on saving 15% of net income (take home pay).

“In most regions, it would take around 8 years for the typical buyer (as defined above) to save for a deposit. This rises to nine years in the South East and to nearly ten years in London, even though the prospective typical buyer in the capital is in the top 10% of the income distribution.

Looking ahead to 2018

“How the housing market performs in 2018 will be determined in large part by developments in the wider economy. Brexit developments will remain important, though these remain hard to foresee.

“We continue to expect the UK economy to grow at modest pace, with annual growth of 1% to 1.5% in 2018 and 2019. Subdued economic activity and the ongoing squeeze on household budgets is likely to exert a modest drag on housing market activity and house price growth.

“Nevertheless, housing market activity is expected to slow only modestly, since unemployment and mortgage interest rates are expected to remain low by historic standards. Similarly, the subdued pace of building activity evident in recent years and the shortage of properties on the market are likely to provide ongoing support for house prices.

“Overall, we expect house prices to record a marginal gain of around 1% in 2018. Over the longer term, once the economy regains momentum, we expect house prices to rise broadly in line with earnings (around 3%-4% per annum), though if the rate of house building fails to keep up with population growth, prices may outpace earnings once again, as they have in recent years.

“As noted above, the UK housing market has been characterised by significant regional disparities in house prices in recent years and it is not clear how Brexit will impact these dynamics. Much will depend on the nature of the Brexit impact on the UK economy (in terms of its impacts on different sectors and the resulting geographic consequences).”
Media enquiries to: Robert Gardner, Chief Economist, robert.gardner@nationwide.co.uk
Mike Pitcher, Media Relations Manager, mike.pitcher@nationwide.co.uk
Quarterly Regional House Price Statistics

Please note that these figures are for the three months to December, therefore will show a different UK average price and annual percentage change to our monthly house price statistics.

Regions over the last 12 months

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Price (Q4 2017)</th>
<th>Annual % change 2017 (Q4 YoY)</th>
<th>Annual % change 2016 (Q4 YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Midlands</td>
<td>£182,861</td>
<td>5.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>South West</td>
<td>£239,576</td>
<td>4.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£177,180</td>
<td>4.6%</td>
<td>4.9%</td>
</tr>
<tr>
<td>North West</td>
<td>£157,488</td>
<td>4.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Wales</td>
<td>£150,885</td>
<td>3.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Outer S East</td>
<td>£277,030</td>
<td>3.1%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Scotland</td>
<td>£146,578</td>
<td>2.6%</td>
<td>2.2%</td>
</tr>
<tr>
<td>N Ireland</td>
<td>£131,989</td>
<td>2.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Yorks &amp; H'side</td>
<td>£151,747</td>
<td>1.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Outer Met</td>
<td>£361,598</td>
<td>1.2%</td>
<td>6.8%</td>
</tr>
<tr>
<td>North</td>
<td>£124,535</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>London</td>
<td>£470,922</td>
<td>-0.5%</td>
<td>3.7%</td>
</tr>
<tr>
<td>UK</td>
<td>£211,433</td>
<td>2.7%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

West Midlands top performing region in 2017

All regions except London saw house price gains in 2017. The West Midlands topped the table for the first time ever (on data back to 1974), with average prices up 5.2% year-on-year. London saw a 0.5% annual decline and, for the first time since 2004, the capital ended the year as the weakest performing region.

East Anglia, last year’s top performing region, saw the biggest slowdown in annual house price growth, from 10.1% in 2016 to 2.3% in 2017.

Wales saw a slight pick-up in the rate of growth compared to last year, with a 3.3% annual increase in 2017. Scotland’s house price growth was similar to last year at 2.6%. Northern Ireland saw a slight increase in annual house price growth from 0.7% in 2016 to 2.0%.

This year has seen a notable convergence in regional house price growth rates. The gap between the weakest and strongest regions (in terms of annual price change) is just six percentage points, a record low at year end.

England: Price growth in North exceeds that in South

Average house prices in England increased by 0.5% in the final quarter of 2017 and were up 2.1% over the year. This is the smallest annual increase since 2012 (where prices fell 0.4% over the year).

For the first year since 2008, the annual rate of change in Northern England (West Midlands, East Midlands, Yorkshire & Humberside, North West and North) was above that in Southern England (South West, Outer South East, Outer Metropolitan, London and East Anglia). Northern England saw a 3.6% year-on-year increase, while in the South prices were up 1.6%.

Regional growth rates may have converged, but there are still significant disparities in price levels. This is particularly apparent when looking at prices relative to their 2007 peak. For example, prices in London are c55% above 2007 levels, while those in the North and Yorkshire & Humberside remain lower than their 2007 peaks.
UK Fact File (Q4 2017)

- Quarterly average UK house price: £211,433
- Annual percentage change: 2.7%
- Quarterly change*: 0.7%
- Most expensive region: London
- Least expensive region: North
- Strongest annual price change: West Midlands
- Weakest annual price change: London

* Seasonally adjusted

Nations – annual & quarterly price change

<table>
<thead>
<tr>
<th>Nation</th>
<th>Average Price (Q4 2017)</th>
<th>Annual % change this quarter</th>
<th>Quarterly % change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wales</td>
<td>£150,885</td>
<td>3.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Scotland</td>
<td>£146,578</td>
<td>2.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>England</td>
<td>£260,627</td>
<td>2.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>N Ireland</td>
<td>£131,989</td>
<td>2.0%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

* Seasonally adjusted

Annual house price change

-5% to 0% 0% to 5% 5% to 10% 10% to 15%

Annual house price growth

-10% to 15%
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 is 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.

More information on the house price index methodology along with time series data and archives of housing research can be found at [http://www.nationwide.co.uk/about/house-price-index/headlines](http://www.nationwide.co.uk/about/house-price-index/headlines)

Historical figures including index levels can be viewed using the following link: [http://www.nationwide.co.uk/about/house-price-index/download-data](http://www.nationwide.co.uk/about/house-price-index/download-data)

Photographs of our economist are available at: [http://www.nationwide.co.uk/about/media-centre-and-specialist-areas/media-centre/photo-library](http://www.nationwide.co.uk/about/media-centre-and-specialist-areas/media-centre/photo-library)

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