

Nationwide HOUSE PRICE INDEX



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January 2014

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House prices continued to rise in January

- UK house prices increased by 0.7% in January and were 8.8% higher than January 2013
- House prices are around 4% below their 2007 peak

Headlines	Jan-14	Dec-13
Monthly Index*	355.9	353.4
Monthly Change*	0.7%	1.4%
Annual Change	8.8%	8.4%
Average Price (not seasonally adjusted)	£176,491	£175,826

* 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:

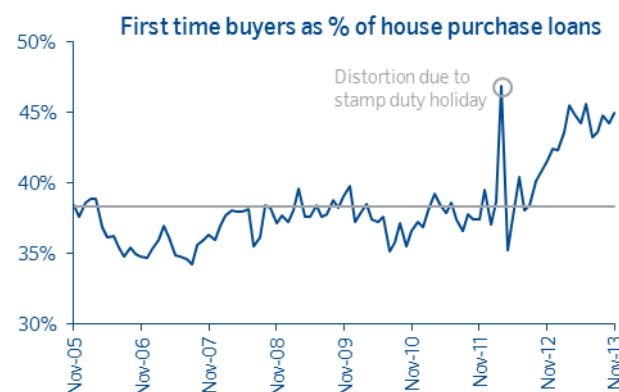
"The housing market is continuing to gather momentum on the back of further solid gains in employment, record low mortgage rates and rising confidence. House prices recorded their thirteenth successive monthly increase in January, rising by 0.7% on the month. The price of a typical home was 8.8% higher than January 2013.

"There have been encouraging signs that activity levels in the housing market are also gradually returning towards more normal levels. According to HMRC, the total number of housing transactions increased to 103,000 in December, 30% higher than the same month in 2012. The pickup in activity appears to be fairly broad-based, and it is encouraging that first time buyers are a key driving factor behind the upturn.

First time buyer activity picking up

"First time buyers are the lifeblood of the housing market. As well as accounting for a significant proportion of housing transactions (historically around 40% of transactions involving a mortgage), they also play an important role in the wider market, for example in helping to complete chains, enabling those that already own a property to move.

"For this reason, it is particularly encouraging that first time buyer numbers have been rising strongly in recent quarters. Indeed, at 73,700 in Q3 2013, they were up 32% compared with the same period in 2012 and accounted for around 44% of activity – close to an all-time high as a share of lending activity.



Source: CML

"At present, the typical first time buyer home costs 4.6 times average earnings. While this is above the 20 year average of 3.6 times earnings, it is well below the highs of 5.4 recorded in 2007.

"Moreover, thanks to the decline in interest rates, lower house prices (currently 4% below their 2007 peak) and a modest increase in nominal earnings, the typical mortgage now accounts for around 19% of borrowers' average monthly earnings, below the 24% recorded before the financial crisis and slightly below the long term average.

First Time Buyers	2007 Q3	2012 Q3	2013 Q3
Number of loans	97,600	56,000	73,700
% of total house purchase	35%	39%	44%
Median age	29	29	30
Median income	£35,500	£34,500	£35,923
Median LTV	90%	80%	80%
Interest rate	6.0%	4.4%	3.7%
Median income multiple	3.38	3.25	3.36
Mtg payments/income	24%	20%	19%

Source: Council of Mortgage Lenders

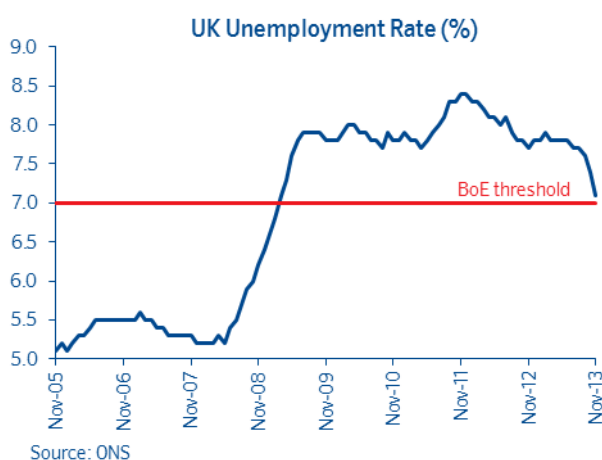
Media enquiries to: Robert Gardner, Chief Economist, robert.gardner@nationwide.co.uk
Mike Pitcher, 01793 657225, mike.pitcher@nationwide.co.uk



“There is less scope for buyers to reduce monthly payments by opting for an interest only mortgage, as these products are less readily available (interest only accounted for 2% of new lending to first time buyers in November, down from a peak of 37% in September 2007).

“However, there is a trend towards borrowers lengthening the term of their mortgage, with 52% of mortgages currently over 25 years, up from 40% in 2007. This may, in part be to lower monthly repayments, though the shift may also reflect that people are both living and working for longer.

“The typical first time buyer is still putting down a 20% deposit, but the greater availability of mortgages for borrowers with a smaller deposit is also likely to be supporting demand.



“However, the most decisive factor in achieving a sustained increase in first time buyer numbers is likely to be the performance of the wider economy - especially the labour market with 280,000 new jobs created in the three months to November – the largest increase on record.

No room for complacency

“The significant improvement in the labour market in recent months also raises the prospect of higher interest rates ahead. After all, the unemployment rate, at 7.1% in the three months to November, is rapidly approaching the 7% threshold the MPC stated would prompt it to consider the case for raising interest rates.

“Moreover, more than a million first time buyers have entered the market since the Bank Rate was cut to a 300 year low in early 2009, many of whom have yet to experience a hike in interest rates. While we do not expect interest rates to rise until mid-2015, borrowers should be prepared for the prospect of interest rates increasing back towards more normal levels.”

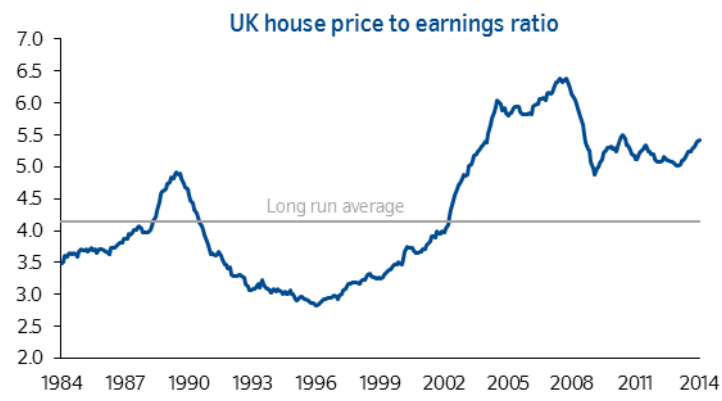
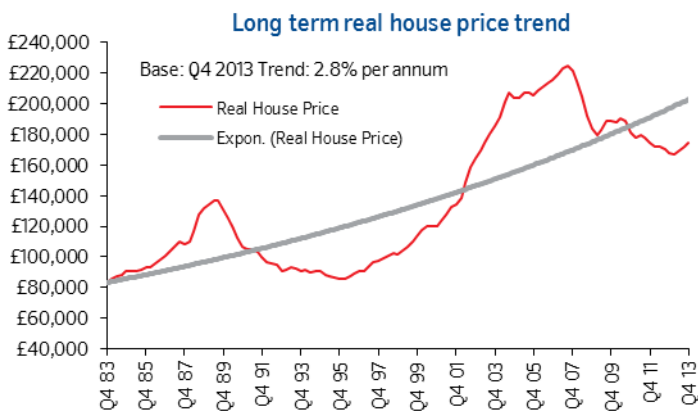
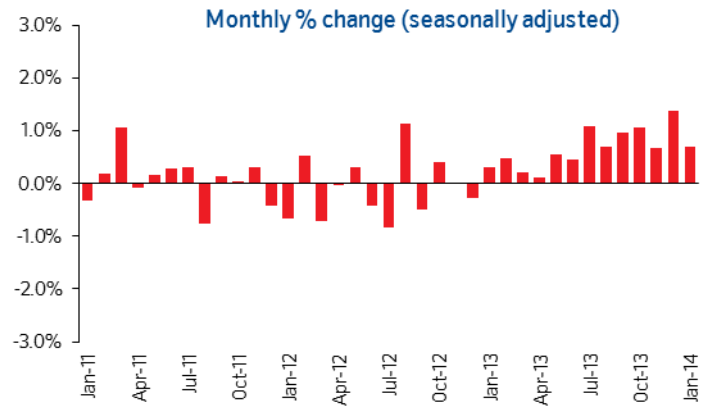
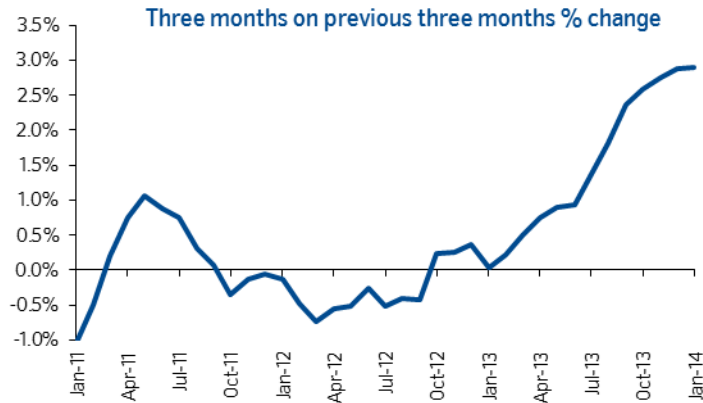
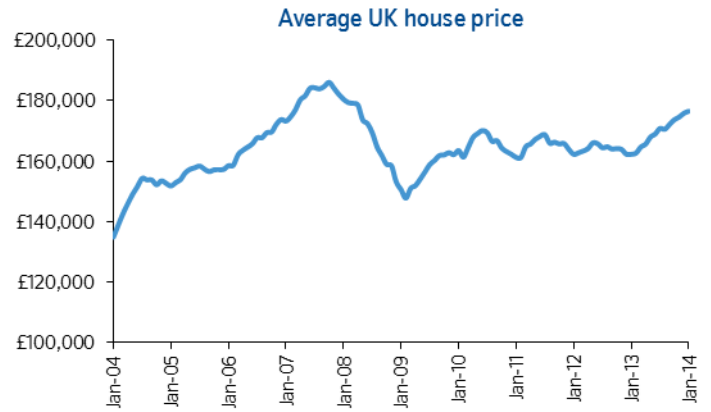
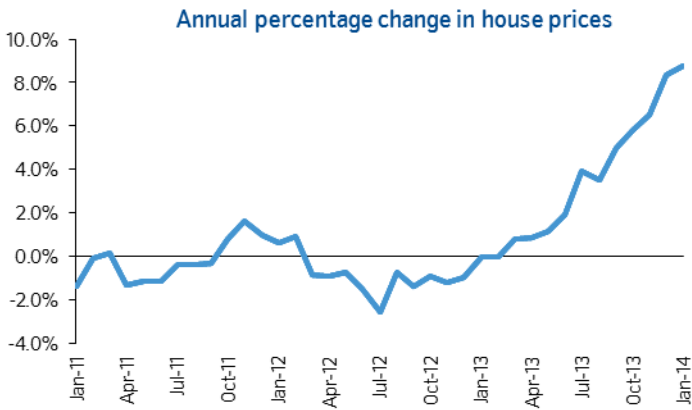
Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
May-12	0.3	-0.5	-0.7	166,022
Jun-12	-0.4	-0.3	-1.5	165,738
Jul-12	-0.8	-0.5	-2.6	164,389
Aug-12	1.1	-0.4	-0.7	164,729
Sep-12	-0.5	-0.4	-1.4	163,964
Oct-12	0.4	0.2	-0.9	164,153
Nov-12	0.0	0.3	-1.2	163,853
Dec-12	-0.3	0.4	-1.0	162,262
Jan-13	0.3	0.0	0.0	162,245
Feb-13	0.5	0.2	0.0	162,638
Mar-13	0.2	0.5	0.8	164,630
Apr-13	0.1	0.8	0.9	165,586
May-13	0.6	0.9	1.1	167,912
Jun-13	0.4	0.9	1.9	168,941
Jul-13	1.1	1.4	3.9	170,825
Aug-13	0.7	1.8	3.5	170,514
Sep-13	1.0	2.4	5.0	172,127
Oct-13	1.1	2.6	5.8	173,678
Nov-13	0.7	2.8	6.5	174,566
Dec-13	1.4	2.9	8.4	175,826
Jan-14	0.7	2.9	8.8	176,491

Note: Historical figures including index levels can be viewed using the following link: www.nationwide.co.uk/hpi/datadownload

Media enquiries to: Robert Gardner, Chief Economist, robert.gardner@nationwide.co.uk
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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 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.

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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