*** STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 31ST DECEMBER 2009 ***

House prices up 5.9% over 2009

- **House prices rose by a further 0.4% in December**
- **Year-on-year house price inflation up from 2.7% in November to 5.9% in December**
- **Future outlook for house prices still uncertain**

Headlines	**December 2009**	November 2009
Monthly index * Q1 '93 = 100	**325.7**	324.2
Monthly change*	**0.4%**	0.5%
Annual change	**5.9%**	2.7%
Average price	**£162,103**	£162,764

*** seasonally adjusted**

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

"House prices rose by a further 0.4% in December, continuing the recent trend of moderate month-on-month increases. The 3 month on 3 month rate of change – a smoother indicator of the near term price trend – dropped from 2.8% in November to 2.1% in December, as house price increases toward the end of the year moderated in comparison to those seen in the summer.

"At £162,103, the average price of a typical UK property has ended the year 5.9% higher than at the end of 2008. Few could have foreseen this development at the start of the year, when the near term price trend was still pointing to a repeat of the double digit annual decline experienced in 2008. Although house prices are still 12.2% lower than their October 2007 cyclical peak, they have now rebounded by an impressive 8.9% since their February 2009 trough.

A look back at 2009

"The increase in house prices over the last year has surprised most commentators. However, with the benefit of hindsight, there are good reasons why prices have been able to stage a rebound even as the UK has endured the worst recession since WWII. With house purchase transactions having fallen by 65% between their January 2007 peak and their November 2008 low, a significant amount of pent-up demand had begun to build up in the housing market at the start of 2009. As interest rates hit record lows, those potential buyers with enough cash to circumvent tight credit conditions re-entered the market, leading to a steady pick-up in housing transactions throughout the year.

"The re-entry of cash rich buyers into the market coincided with an extremely low supply of property available for sale, as low interest rates limited the number of distressed sales and a significant number of home movers decided to offer their properties for rent rather than sale. This restriction in supply meant that even a relatively modest pick-up in demand was able to put upward pressure on house prices.

"There are of course other factors that have been important in driving the recovery of house prices. Most notably, unemployment has not risen by as much as would normally be the case in such a deep recession, as many employers have kept workers on using reduced hours and lower pay. In addition, the stabilisation of the banking system and emerging signs of economic recovery have helped to boost consumer confidence and tempt previously hesitant buyers back into the market.

Key factors to watch for in 2010

"Looking ahead into next year, a number of factors appear key to the outlook for house prices. As ever, the prospects for interest rates will be an important driver. Although house prices remain quite high relative to earnings, the low level of interest rates has led to a significant improvement in mortgage affordability that has supported prices. At this stage, it looks like the Bank of England base rate will not increase until at least the second half of 2010, as the Monetary Policy Committee (MPC) will need to see firmer evidence of economic recovery before it considers increasing the cost of borrowing. However, inflation has been surprisingly resilient in 2009, due in part to the weakness of the exchange rate. If the pound slips further and inflation continues to surprise to the upside, interest rates may increase earlier than widely assumed. In addition, government bond yields may increase as the Bank of England's quantitative easing programme comes to a halt and concerns over the fiscal deficit prompt investors to demand a higher return on government debt. All else equal, higher government borrowing costs would also increase the cost of fixed rate mortgages from today's low levels. On balance, however, it still looks like interest rates will remain generally supportive for the housing market and mortgage borrowers during most of 2010.

"A further uncertainty is whether cash rich buyers can continue to support housing demand. Although there are tentative signs that mortgage credit conditions are beginning to loosen slightly, they remain significantly tighter than before the downturn due to the after effects of the financial crisis. As a result, the housing market continues to depend on those with relatively large amounts of cash or housing equity to support demand. It is not clear, however, how large the pool of cash rich buyers is and how long it will continue to support transactions. If the steady trickle of cash rich buyers into the housing market loses momentum, the supply-demand balance could once again shift in favour of buyers and cause the upward trend in house prices to stall.

"Another major factor of uncertainty remains the outlook for the labour market. Recent news from the job market has certainly been encouraging, with the latest figures on claims of jobseekers allowance even showing a decline for November. In the near term, the recent trend of stabilising employment conditions may continue. However, it appears likely that the public sector will eventually see significant job losses as fiscal policy is tightened. If the economy does not recover quickly enough, the private sector may not be in a position to create enough jobs to offset these losses.

"Taking everything together, there is still a significant amount of fog clouding the outlook for house prices. This year's recovery has to some extent been driven by transitory factors and there are reasons to believe that it will lose momentum over the coming year. At the same time, there is no obvious catalyst on the near-term horizon that would trigger significant renewed falls in prices, such as a sharp spike in interest rates or a further pronounced tightening of credit conditions from present levels. At this stage, therefore, it seems likely that 2010 will see no significant house price movements in either direction. However, the experience of 2009 demonstrates how unpredictable the market is at the current juncture and that one should always be prepared for the UK housing market to surprise."

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HOUSE PRICES

Nationwide

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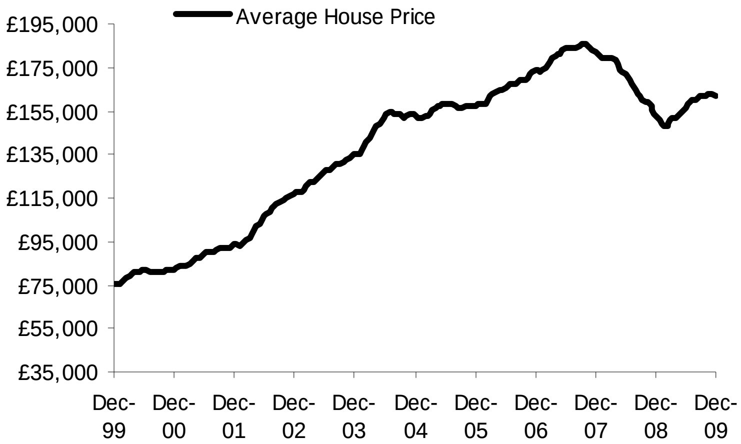
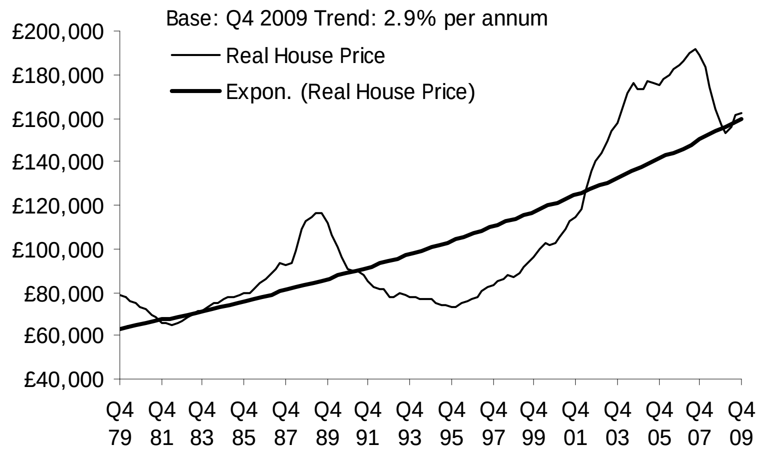
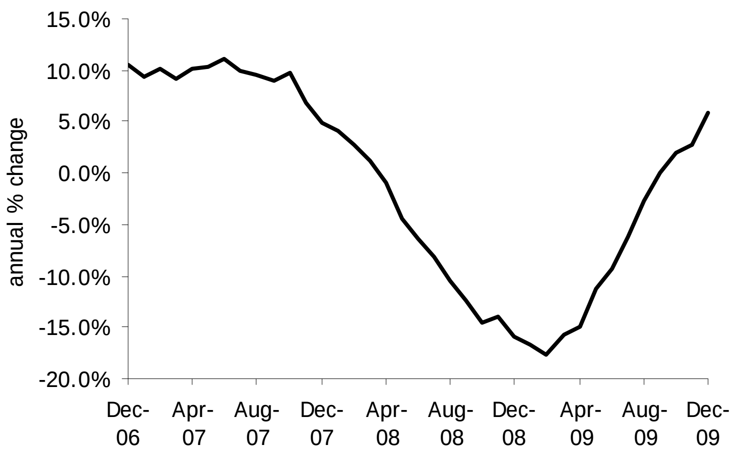
Average UK House Price



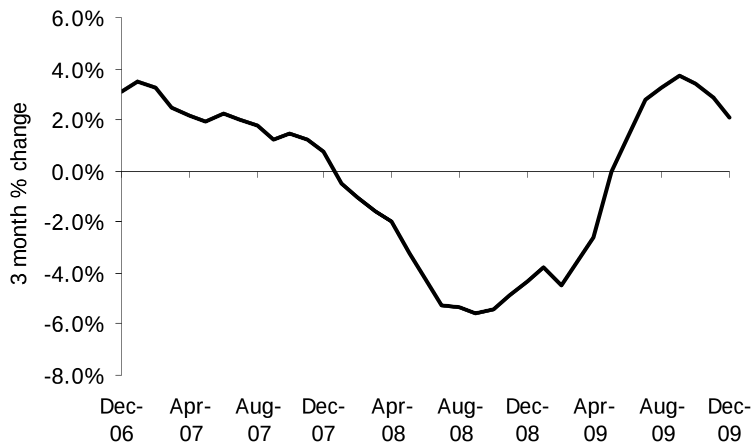
Long Term Real House Price Trend



Annual % Change in House Prices



3 Months on Previous 3 Months % Change



Historical Data

Month	Monthly Index Q1 93 = 100 seasonally adjusted	Monthly Change %	Latest 3 months on previous 3 months % change	Monthly Index Q1 93 = 100 not seasonally adjusted	Annual Change %	Average Price £
2008 Dec	307.5	-2.6	-4.3	305.3	-15.9	153,048
Jan	304.3	-1.0	-3.8	300.2	-16.6	150,501
Feb	299.1	-1.7	-4.4	294.7	-17.6	147,746
Mar	302.7	1.2	-3.6	301.1	-15.7	150,946
Apr	302.1	-0.2	-2.6	302.9	-15.0	151,861
May	306.2	1.4	0.0	307.2	-11.3	154,016
Jun	309.3	1.0	1.3	312.1	-9.3	156,442
Jul	313.5	1.4	2.8	316.9	-6.2	158,871
Aug	317.9	1.4	3.3	319.6	-2.7	160,224
Sep	320.8	0.9	3.8	322.8	0.0	161,816
Oct	322.5	0.5	3.5	323.2	2.0	162,038
Nov	324.2	0.5	2.8	324.7	2.7	162,764
2009 Dec	325.7	0.4	2.1	323.4	5.9	162,103

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

Photographs of our economist are available at: www.nationwide.co.uk/mediacentre/economist.asp