

*** STRICTLY EMBARGOED UNTIL 7.00AM FRIDAY 26th FEBRUARY 2010 ***

House prices slip in the winter snow during February

- House prices fell by 1.0% month-on-month in February
- Price decline may be explained by snowy weather and expiry of stamp duty holiday
- Too early to say whether February's drop is start of a new trend

Headlines	February 2010	January 2010
Monthly index * Q1 '93 = 100	327.1	330.2
Monthly change*	-1.0%	1.4%
Annual change	9.2%	8.6%
Average price	£161,320	£163,481

* seasonally adjusted

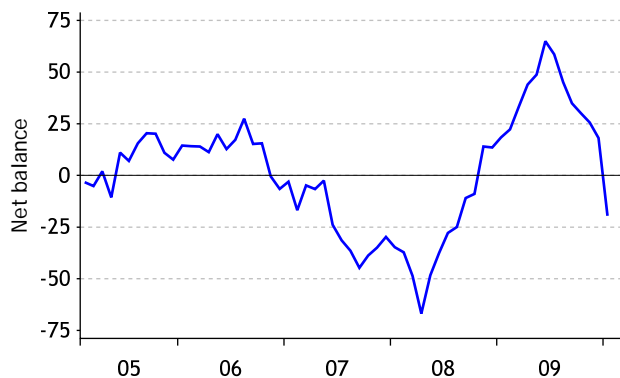
Commenting on the figures Martin Gahbauer, Nationwide's Chief Economist, said:

"The price of a typical UK property fell by a seasonally adjusted 1.0% month-on-month (m/m) in February, ending a strong run of nine consecutive monthly increases. The relatively smoother three month on three month rate of inflation remained positive at +1.6%, though this is down from +2.0% in January and a peak of +3.7% in September 2009. The annual rate of price inflation still managed to increase from 8.6% to 9.2% year-on-year, as this month's fall was smaller than the 1.5% m/m decline recorded in February 2009. The average price of a typical property sold in the UK during February was £161,320.

One-off factors may have played a role in February

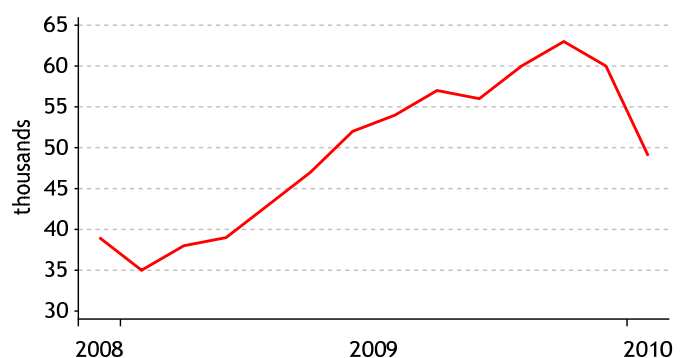
"There is evidence from a range of indicators that the market may have lost momentum in early 2010 as the stamp duty holiday ended and house hunters were obstructed by the icy weather. New buyer enquiries dropped sharply in the New Year and there was also an associated drop in the number of new mortgages taken out by homebuyers in January. This drop in demand seems to have fed into agreed prices during February. Judging from the fall in retail sales during January, however, the housing market does not appear to be the only sector of the economy to have experienced a setback related to adverse weather and the expiry of economic stimulus measures. At this stage, it is difficult to gauge how much of the drop in housing activity is attributable to one-off factors and therefore whether February's fall in prices is just a temporary blip or the start of a new trend.

Chart 1: New buyer enquiries



Source: RICS

Chart 2: Mortgages approved for house purchase by major UK lenders



Source: Bank of England Trends in Lending Report

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“Even without the impact of stamp duty changes and the snowy weather, it would have been surprising to see house prices maintain the very strong upward momentum seen for most of 2009. In light of low growth in household incomes and elevated levels of unemployment, house prices were beginning to move ahead of the recovery in general economic conditions. With the longer term stability of the market in mind, it would be a positive development for house prices not to become decoupled from the economic fundamentals. A pause in the upward trend will also be a relief to potential first-time buyers who are no longer benefiting from the stamp duty holiday and for whom affordability had begun to deteriorate again over the course of 2009.

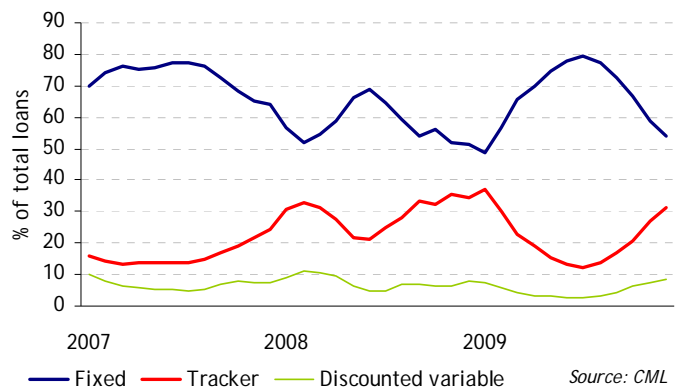
Increase in borrowers taking out variable rate deals over fixed

“Since the middle of 2009, there has been a steady increase in the proportion of new loans being taken out at variable rather than fixed rates. In July, the proportion of new loans taken out on base rate tracker or discounted variable rate deals hit a low of just 14%. By December it had risen to 39%, with the proportion of fixed rate deals dropping from 80% to 54% over the same period.

“It is not yet clear what has driven the steady increase in preference for variable rate deals. One possibility is that borrowers believe that base rate will remain low for longer than they did in July, making them more willing to take on interest rate risk over the course of the deal period. The relatively dovish messages coming out of recent Bank of England Inflation Reports are supportive of this explanation. Another possibility is that as house prices rose considerably over the course of 2009, new borrowers increasingly preferred to take out cheaper variable rate deals in order to keep their initial mortgage payments relatively low.

According to Bank of England figures, there is currently a 1.58 percentage point gap between fixed and variable rate deals. This difference is largely due to the steepness of the UK yield curve, with rates on longer term government bonds much higher than those on short-term borrowing. As long as the yield curve remains steep, the proportion of homebuyers preferring variable rate deals may stay relatively high, even though the next move in the base rate is much more likely to be up rather than down.”

Chart 3: New lending by type of interest rate

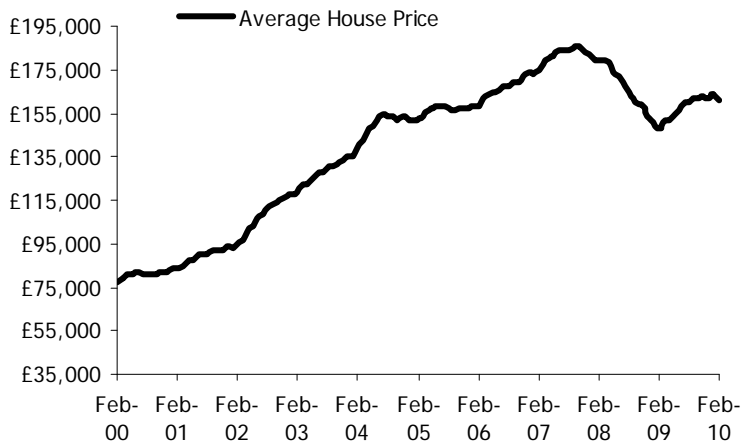


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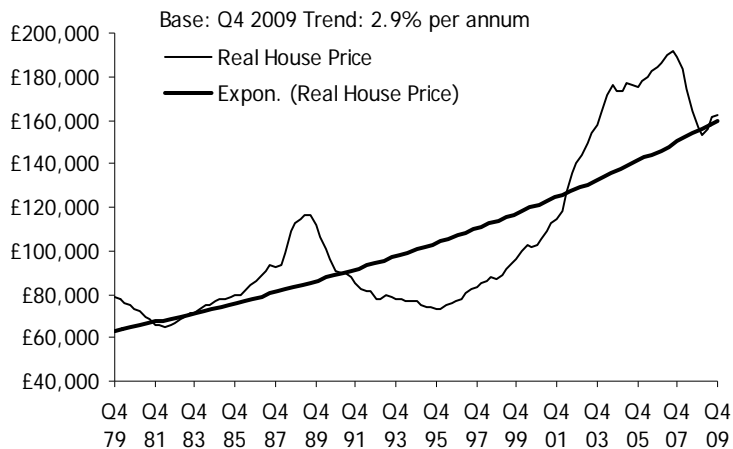
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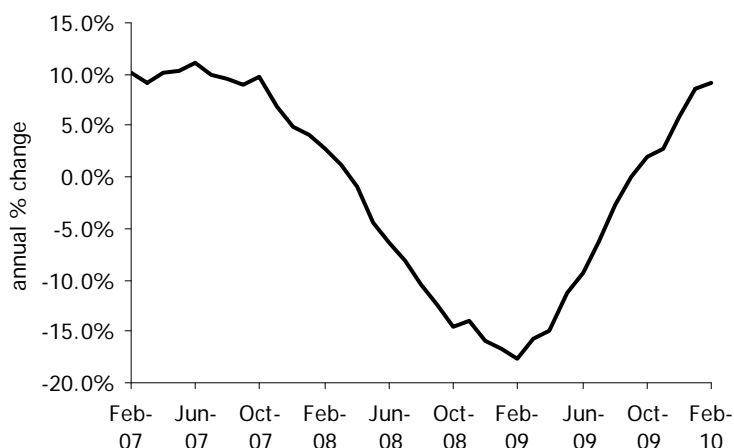
Average UK House Price



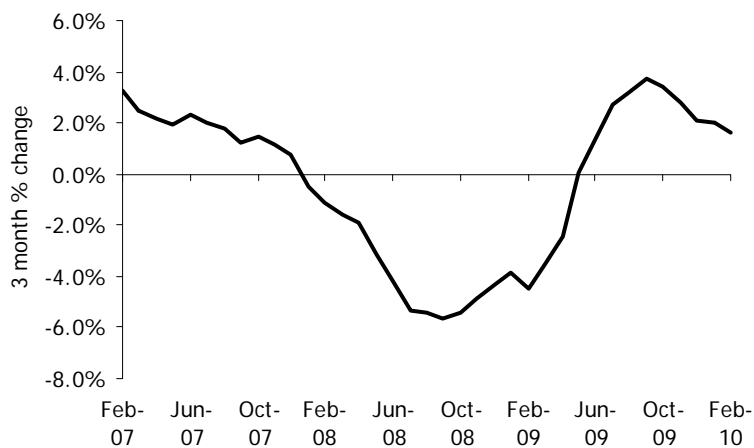
Long Term Real House Price Trend



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 £
2009 Feb	299.3	-1.5	-4.5	294.7	-17.6	147,746
Mar	302.8	1.2	-3.6	301.1	-15.7	150,946
Apr	302.4	-0.1	-2.5	302.9	-15.0	151,861
May	306.3	1.3	0.1	307.2	-11.3	154,016
Jun	309.3	1.0	1.3	312.1	-9.3	156,442
Jul	313.5	1.3	2.7	316.9	-6.2	158,871
Aug	317.8	1.4	3.2	319.6	-2.7	160,224
Sep	320.7	0.9	3.7	322.8	0.0	161,816
Oct	322.3	0.5	3.4	323.2	2.0	162,038
Nov	324.2	0.6	2.8	324.7	2.7	162,764
Dec	325.6	0.4	2.1	323.4	5.9	162,103
Jan	330.2	1.4	2.0	326.1	8.6	163,481
2010 Feb	327.1	-1.0	1.6	321.8	9.2	161,320

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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 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