

Nationwide HOUSE PRICE INDEX



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February 2011

Embargoed until 0700 Tue 1 March 2011

House prices increase by 0.3% in February

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- Prices 0.1% lower than one year ago

Headlines	Feb 11	Jan 11
Monthly Index*	328.0	327.2
Monthly Change*	0.3%	-0.1%
Annual Change	-0.1%	-1.4%
Average Price	£161,183	£161,211

* Seasonally adjusted

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

"House prices increased by 0.3% month-on-month in February, leaving prices 0.1% lower than the same month a year ago. The overall picture is still one of a market treading water. Indeed, the three month on three month measure of house prices, a better measure of the underlying trend, was basically flat in February at -0.1%.

"This shouldn't come as too much of a surprise. Housing market trends are closely linked to wider economic prospects. Given that the recovery hit a soft patch at the turn of the year and looks set to remain sluggish in the year ahead, the property market is likely to follow suit, with relatively low transaction levels and prices moving sideways or modestly lower through 2011.

"Demand for homes has levelled out, supported by historically low interest rates and some stabilisation in the labour market. The continued uncertain outlook for the economy is likely to keep many potential buyers on the sidelines for some time yet.

"Nevertheless, there are few signs of a glut of unsold homes building up on the market. Sellers remain reluctant to accept lower prices to secure a sale. In fact there are tentative signs that the volume of homes coming onto the market is slowing."

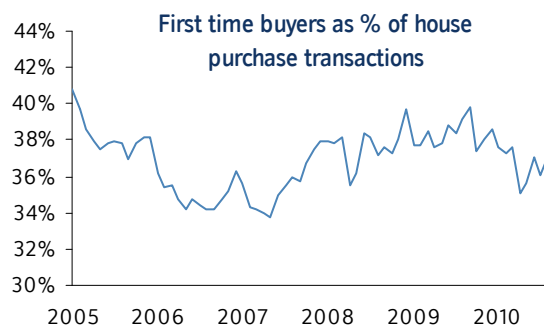
First time buyers under pressure

First time buyers play a crucial role in housing market dynamics. With the supply of housing fixed in the short term, the flow of new buyers into the market has a major impact on prices and activity.

Therefore, the fact that first time buyer numbers are well below the levels prevailing before the financial crisis casts a shadow over the outlook for the wider market. The key questions are: what lies behind the decline in first time buyer numbers and what are the prospects for the period ahead?

More resilient than you might think

The first thing to note is that low first time buyer numbers appear to be a function of challenging conditions in the wider economy. Indeed, the proportion of first time buyers has remained fairly constant in recent years – they accounted for around 37% of house purchases in recent months, compared to around 40% in 2007 and an average of 36% in the four years before the financial crisis struck (see chart below).



Source: CML

This is surprising since, in a number of respects, the headwinds facing first time buyers have been even stronger than for other sources of demand in the housing market. First time buyers tend to be younger, and labour market conditions for younger people have been more difficult.

For example, 18 to 24 year olds account for around a fifth of first time buyers and the unemployment rate for this group has

Media enquiries to: Robert Gardner, Chief Economist
robert.gardner@nationwide.co.uk
Paul Beadle, 01793 655189, paul.beadle@nationwide.co.uk or
Evelyn Turpin, 01793 656215, evelyn.turpin@nationwide.co.uk



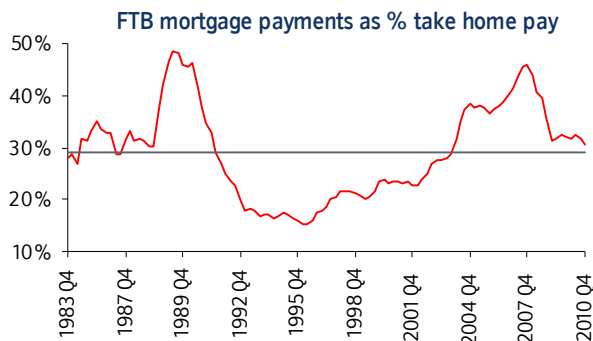
increased from 12% in 2007 to over 18% at the end of 2010, while for the population as a whole it has increased from 5.3% to 7.9% over the same period. Graduates fared even worse with their unemployment rate doubling from 10% to 20%.

Income growth has also been under more pressure. Real wages (average earnings after taking account of inflation) fell 6% between 2007 and 2010 for 22 to 29 year olds, while for all workers the decline was a more modest 3.7%.

Affordability remains a major constraint

Weak labour market conditions aren't the only factor at play. In the wake of the financial crisis, mortgage lenders have become more conservative - a shift that has a greater impact on those taking their first steps into the housing market. For example, the average deposit on a home has increased from 10% of the property's value to 21%. This means that, for an average worker earning an average salary saving 15% of take home pay, it would take eight years to put down a typical deposit to buy the average house.

However, the more fundamental issue is that housing is still expensive on a number of metrics, which is keeping potential buyers on the sidelines. House prices are currently around five times average incomes, compared to the long-run average of four. A typical mortgage payment for a first time buyer accounts for 30% of disposable income, slightly above the long-term average of 29%, even though interest rates are still close to historic lows.



Source: Nationwide, ONS, CML

Supply side also needs to respond

Part of the reason for stretched affordability lies on the supply side of the housing market. The rate of building has not been sufficient to keep up with the growing number of households in recent years. Between 1992 and 2000, house building broadly kept pace with household formation, with 145,000 homes being built in England each year. Between 2004 and 2008 there was a cumulative building shortfall of about 300,000 homes.

The pace of building was even more subdued over the past two years, with the number of completions at around 100,000 a year in 2009 and 2010. This is providing underlying support to

house prices, which in turn, is reducing affordability and limiting the scope for first time buyers to enter the market.

Where next?

Looking forward, the number of first time buyers is only likely to increase substantially when labour market conditions strengthen.

With the UK economic recovery set to remain fairly modest, the improvement in employment and wages is likely to be slow going. This in turn suggests that first time buyers will be slow to return to the market, further reinforcing our view that the housing market will remain sluggish through 2011. The most likely outcome is that wages will outpace house price growth over many years, gradually improving affordability over time.

Over the longer-term, the supply side of the housing market also needs to respond if affordability is to improve on a sustained basis – the housing stock needs to grow at least as fast as the number of households. A near-term loosening of credit conditions would not solve the problem and could ultimately prove counterproductive.

Indeed, since the supply of housing is fixed in the short-term, a sharp increase in demand would put further upward pressure on prices, making the fundamental affordability constraints even more pronounced.

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Feb-10	-1.1	1.8	9.2	161,320
Mar-10	0.7	1.4	9.0	164,519
Apr-10	1.0	0.8	10.5	167,802
May-10	0.4	1.2	9.8	169,162
Jun-10	0.0	1.3	8.7	170,111
Jul-10	-0.5	1.1	6.6	169,347
Aug-10	-0.9	-0.1	3.9	166,507
Sep-10	0.0	-1.0	3.1	166,757
Oct-10*	-0.7	-1.5	1.4	164,279
Nov-10*	-0.3	-1.3	0.2	163,133
Dec-10*	0.3	-1.1	0.1	162,249
Jan-11*	-0.1	-0.7	-1.4	161,211
Feb-11	0.3	-0.1	-0.1	161,183

*Continual monitoring and improvements to the index has meant that the House Price Index has been revised for the October 2010 to January 2011 period. The revisions are small – reducing the annual percentage change recorded over those months by 0.2 percentage points and the monthly change by 0.1 percentage points, on average. Analysts who use this data in their own systems are advised to download the whole series and refresh their databases.

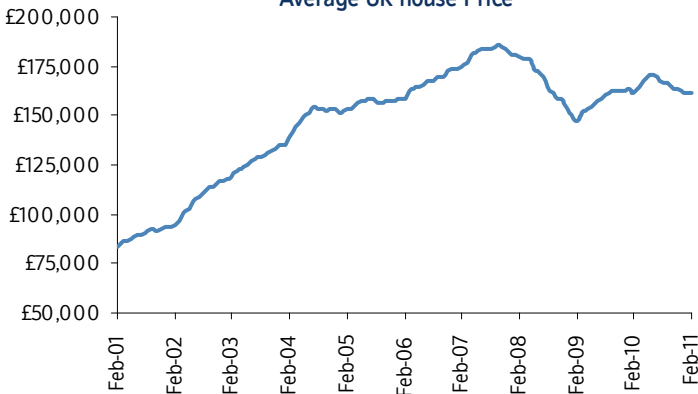
Note: Historical figures including index levels can be viewed using the following link:

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

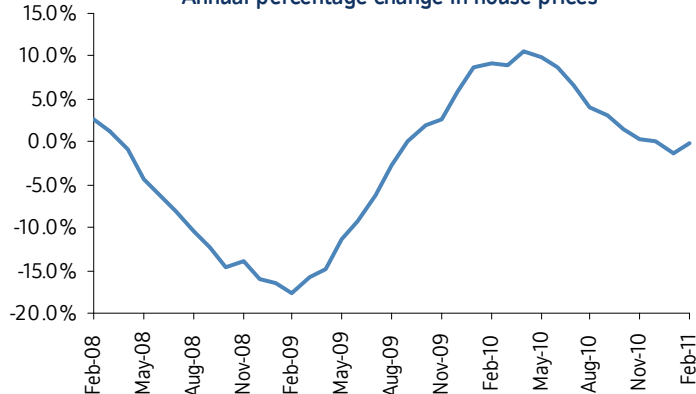
Media enquiries to: Robert Gardner, Chief Economist
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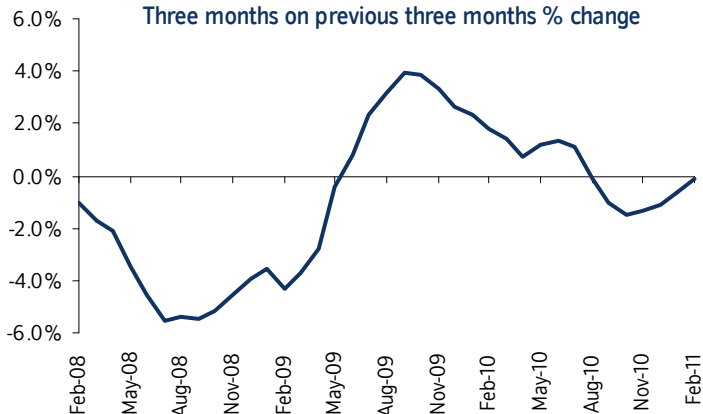
Average UK house Price



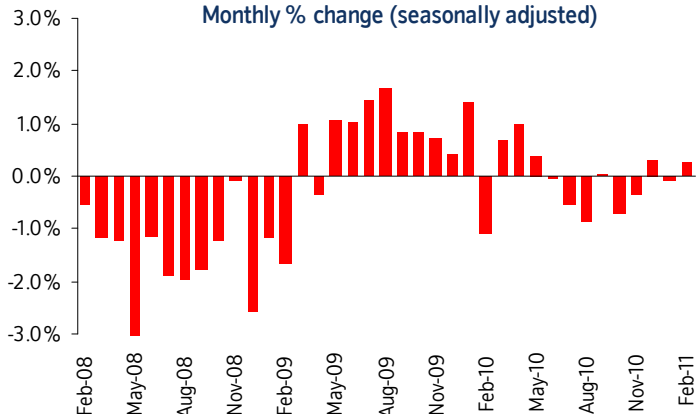
Annual percentage change in house prices



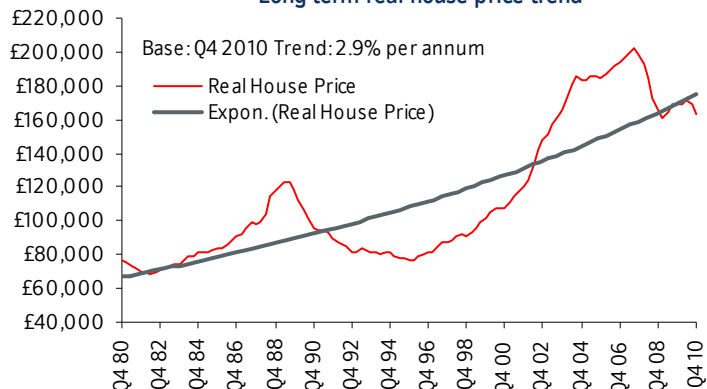
Three months on previous three months % change



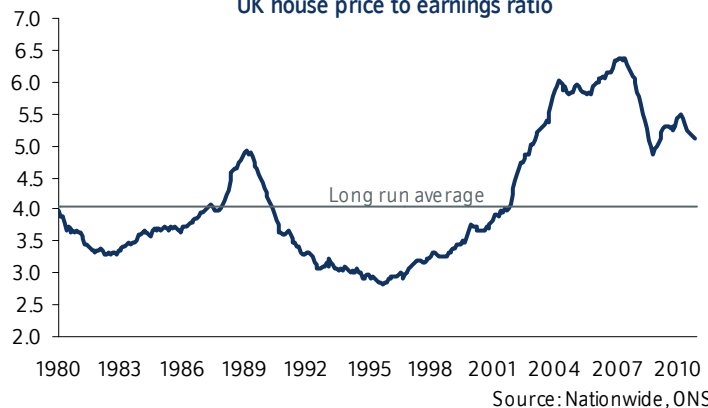
Monthly % change (seasonally adjusted)



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

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