

Nationwide HOUSE PRICE INDEX



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August 2017

House price growth slows in August

- Annual house price growth slows to 2.1%, from 2.9% in July
- Modest 0.1% fall month-on-month
- Stamp duty revenues rise to new highs

Headlines	Aug-17	Jul-17
Monthly Index*	417.9	418.3
Monthly Change*	-0.1%	0.2%
Annual Change	2.1%	2.9%
Average Price (not seasonally adjusted)	£210,495	£211,671

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

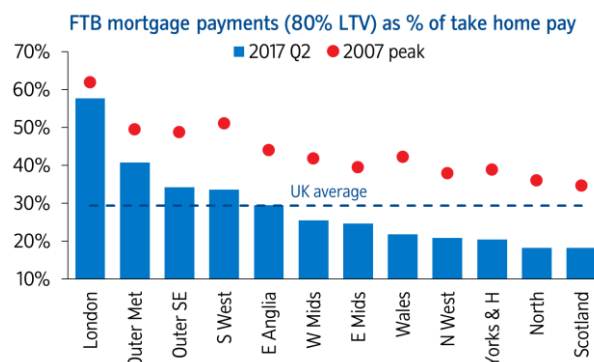
Commenting on the figures, Robert Gardner, Nationwide's Chief Economist, said:

"The annual pace of house price growth moderated to 2.1% in August, from 2.9% in July. The slowdown in house price growth to the 2-3% range in recent months from the 4-5% prevailing in 2016 is consistent with signs of cooling in the housing market and the wider economy.

"The economy grew by c.0.3% per quarter in the first half of 2017, around half the pace recorded in 2016. The number of mortgages approved for house purchase moderated to a nine-month low of c.65,000 in June and surveyors have reported softening in the number of new buyer enquiries.

"Nevertheless, in some respects the slowdown in the housing market is surprising, given the ongoing strength of the labour market. The economy created a healthy 125,000 jobs in the three months to June and the unemployment rate fell to 4.4% – the lowest rate for over forty years. In addition, mortgage rates have remained close to all-time lows.

"It may be that mounting pressure on household finances is exerting a drag. Wages have been failing to keep up with the cost of living in recent months and consumer sentiment has weakened. While measures of housing affordability are not particularly stretched at a UK level, pressures are evident in some regions – especially London and the South of England (see chart above right).



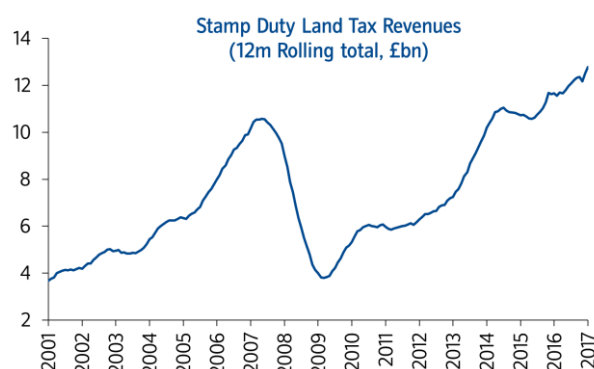
Source: Nationwide, ONS, UK Finance

"Ultimately, housing market developments will depend on wider economic performance. The UK economy slowed noticeably in the first half of the year, and there has been little to suggest a significant rebound in the months ahead. While employment growth has remained robust, household budgets are under pressure. This suggests that housing market activity will remain subdued.

"Nevertheless, constrained supply is likely to continue to provide support for house prices. The stock of homes on estate agents' books remains close to 30-year lows and the number of new homes coming onto the market remains subdued. As a result, we continue to expect prices to rise by around 2% over 2017 as a whole."

Stamp duty revenues rise to new highs

"Stamp duty land tax (SDLT) revenues have reached all-time highs in cash terms in recent quarters, reaching £12.8 billion in the twelve months to Q2 2017, well above the £10.6 billion peak recorded in late 2007 (see chart below).



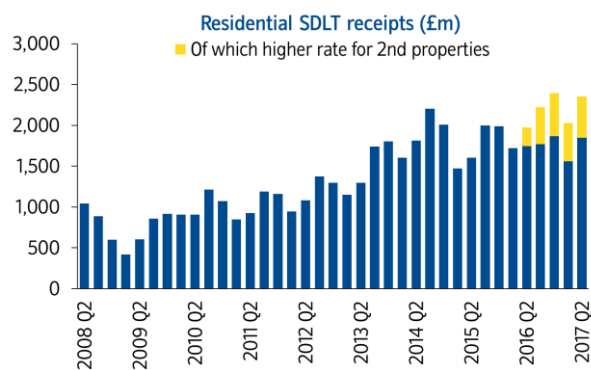
Source: Macrobond

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“This may appear surprising, given that the number of residential property transactions in the year to June 2017 was 30% below that recorded in the same period of 2007.

“Higher house prices are part of the explanation. UK prices are 12% above their 2007 peak. More importantly, house prices in London, the Outer Metropolitan and the Outer South East regions are significantly higher (56%, 38% and 26% higher than the 2007 peak respectively). This is important because these regions contribute significantly more than their par share of stamp duty revenues as house prices are well above the UK average. For example, in 2007, London and the Outer Metropolitan regions accounted for 25% of housing transactions, but an estimated 50% of total stamp duty revenues (in England & Wales).

“The imposition of a 3% levy on the purchase of second homes in April 2016 is the other major factor – the levy accounted for 22% of total residential SDLT revenues in the last 12 months.



Source: HMRC (England, Wales & Northern Ireland)

Southern England’s share of stamp duty revenues likely to have risen further

“The abolition of the “slab” structure of SDLT¹ tax rates is unlikely, by itself, to have increased the total amount of SDLT raised (indeed, we estimate the new system raises slightly less revenue). But, by making the system more progressive, with higher valued properties paying an even greater share of total tax than before, London and the South East are likely to be paying an even greater proportion of SDLT than under the old “slab” system, compounding the impact of stronger house price growth in these regions in recent years.

“This trend is likely to be further exacerbated by the introduction of the 3% levy on second homes in 2016, given the greater role of the private rental sector and investment properties in London and the South of England. While the

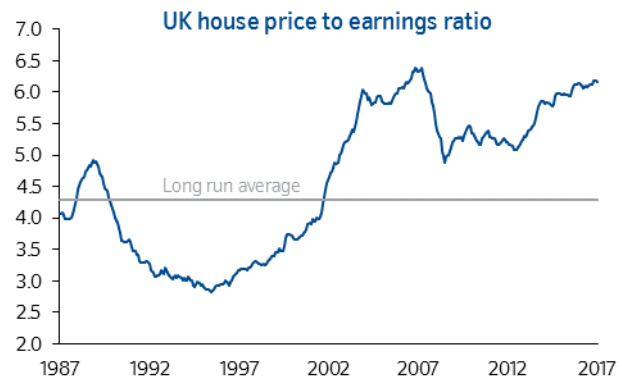
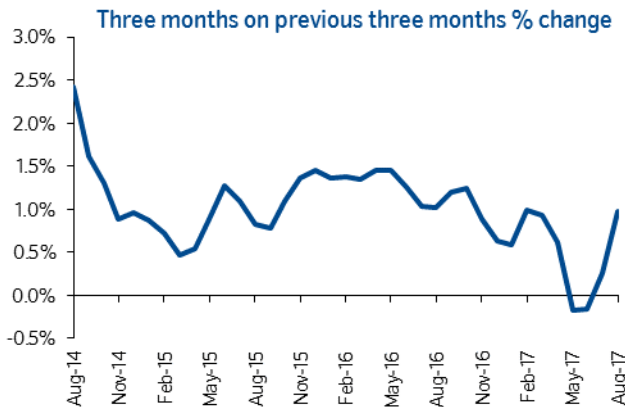
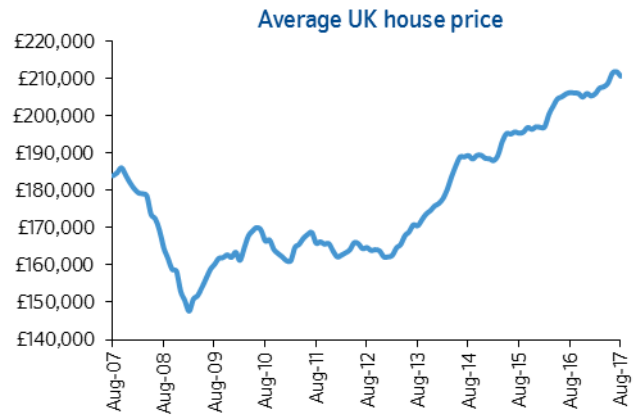
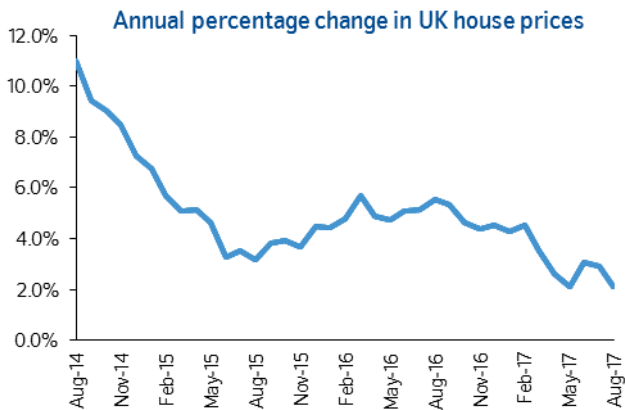
¹ Under the old “slab” structure, successively higher tax rates were charged on the whole of the property purchase price. This meant that there were sudden increases in stamp duty when the price went above the next threshold. For example, someone buying a home for £250,000 would pay £2,500 (or 1%) in stamp duty. But if the price was £1 more, they would pay an extra £5,000, as they then paid 3% on the whole purchase price.

In England, Wales and Northern Ireland this “slab” structure was abolished in December 2014. It was later abolished in Scotland when the Land and Building Transactions Tax was introduced in April 2015.

data is not yet available from HMRC, it is likely to show that London and the South of England also recorded a higher concentration of transactions, attracting the additional 3% stamp duty levy on second homes.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
Aug-15	0.3	0.8	3.2	195,279
Sep-15	0.5	0.8	3.8	195,585
Oct-15	0.6	1.1	3.9	196,807
Nov-15	0.2	1.4	3.7	196,305
Dec-15	0.7	1.4	4.5	196,999
Jan-16	0.4	1.4	4.4	196,829
Feb-16	0.4	1.4	4.8	196,930
Mar-16	0.7	1.3	5.7	200,251
Apr-16	0.5	1.4	4.9	202,436
May-16	0.2	1.4	4.7	204,368
Jun-16	0.2	1.3	5.1	204,968
Jul-16	0.4	1.0	5.2	205,715
Aug-16	0.7	1.0	5.6	206,145
Sep-16	0.3	1.2	5.3	206,015
Oct-16	0.0	1.2	4.6	205,904
Nov-16	0.0	0.9	4.4	204,947
Dec-16	0.7	0.6	4.5	205,898
Jan-17	0.1	0.6	4.3	205,240
Feb-17	0.6	1.0	4.5	205,846
Mar-17	-0.3	0.9	3.5	207,308
Apr-17	-0.4	0.6	2.6	207,699
May-17	-0.2	-0.2	2.1	208,711
Jun-17	1.1	-0.2	3.1	211,301
Jul-17	0.2	0.3	2.9	211,671
Aug-17	-0.1	1.0	2.1	210,495



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 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>

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

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