

Nationwide HOUSE PRICE INDEX



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February 2017

UK house prices continued to rise steadily in February

- Annual house price growth edges up to 4.5%
- 0.6% month-on-month rise in February
- More households in England own outright than with a mortgage

Headlines	Feb-17	Jan-17
Monthly Index*	416.6	414.3
Monthly Change*	0.6%	0.2%
Annual Change	4.5%	4.3%
Average Price (not seasonally adjusted)	£205,846	£205,240

* 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 rate of house price growth was little changed in February at 4.5%, only slightly higher than the 4.3% recorded in January. House prices increased by 0.6% over the month, after taking account of seasonal factors.

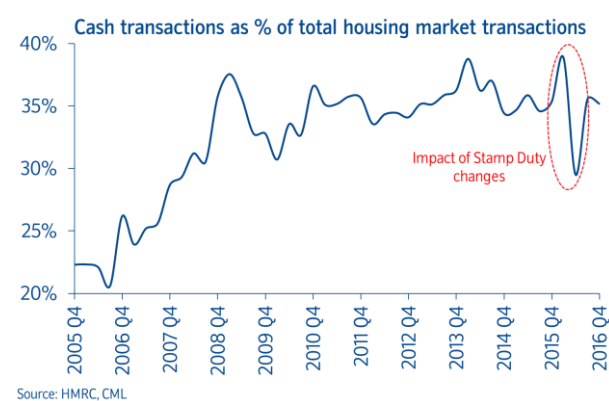
"Recent data suggests that the UK economy has continued to perform relatively strongly. The economy accelerated slightly in Q4, expanding by a healthy 0.7% quarter-on-quarter, and the unemployment rate remained stable at an 11-year low of 4.8%.

"The outlook is uncertain, but we, along with most other forecasters, expect the UK economy to slow through 2017 as heightened uncertainty weighs on business investment and hiring. Consumer spending, a key engine of growth in recent quarters, is also likely to be impacted by rising inflation in the months ahead as a result of the weaker pound.

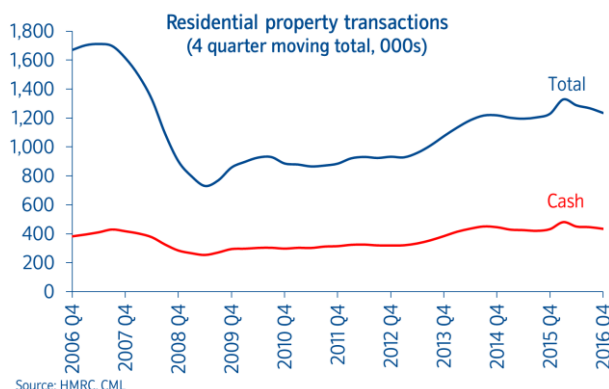
"Nevertheless, in our view a small rise in house prices of around 2% is more likely than a decline over the course of 2017, since low borrowing costs and the dearth of homes on the market will continue to support prices.

How important is the role of cash buyers?

"Cash buyers are a more important driver of housing market dynamics than they were a decade ago. Though the data¹ only extends back to 2005, it suggests that the share of cash transactions increased significantly from around 20% in 2005/06 to around 35% in 2008 and has remained fairly constant since then (see chart below).



"The sharp increase in the share of cash purchases in 2007 and 2008 was a function of mortgage transactions declining sharply, rather than the amount of cash transactions increasing (see chart below). This reflects the impact of adverse labour market conditions and the tightening of credit conditions during the financial crisis, which limited the number of people able to buy with a mortgage, while fewer such constraints would have applied to cash purchasers.



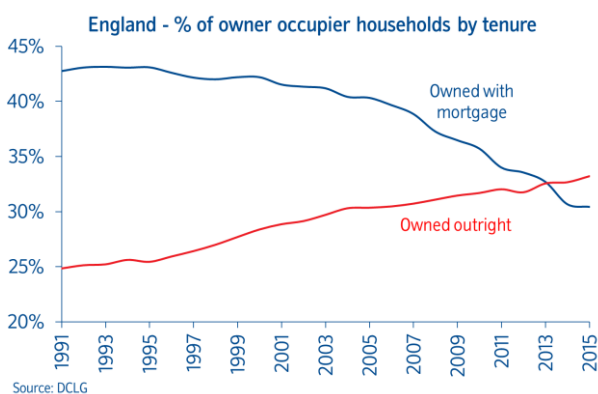
¹ We have estimated the number of cash transactions by subtracting the number of mortgage transactions (owner occupier and buy to let) from the total number of residential property transactions reported by HMRC.

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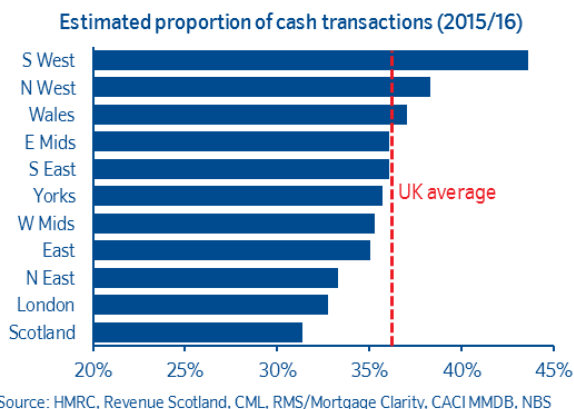
“However, it is interesting that the share of cash transactions has not fallen back as the economy has recovered. Part of the reason is that mortgage market activity has increased only modestly and remains some way below the levels recorded in the mid-2000s.

“The low interest rate environment at home and abroad has also continued to support the flow of cash into other asset classes, including UK residential property.

“The rise in the cash share to an all-time high of 38.9% in Q1 2016 (and the fall back in Q2) was due to the introduction of Stamp Duty on second homes from April 2016. This policy change prompted investors to bring forward their purchases to Q1 2016 to avoid the additional Stamp Duty liabilities (a large proportion of these transactions are likely to have been conducted in cash).



“Demographics is also playing a role in boosting the number of cash transactions. As the UK population ages, so the proportion of people who own their home outright has increased, and when these people transact – for example, moving home or downsizing – they are more likely to do so in cash. Indeed, the number of people in England who own their home outright overtook those who own with a mortgage in 2014, as shown in the chart above.



“Interestingly, the data suggests that the share of cash purchases in London is below the UK average. On the surface, this may seem surprising, given the greater

involvement of investors (domestic and overseas) in the London property market.

“The fact that house prices in the capital are more than double the level prevailing in the rest of the UK (£473,073 versus £205,937 in Q4 on our measure) presumably acts as a limiting factor.”

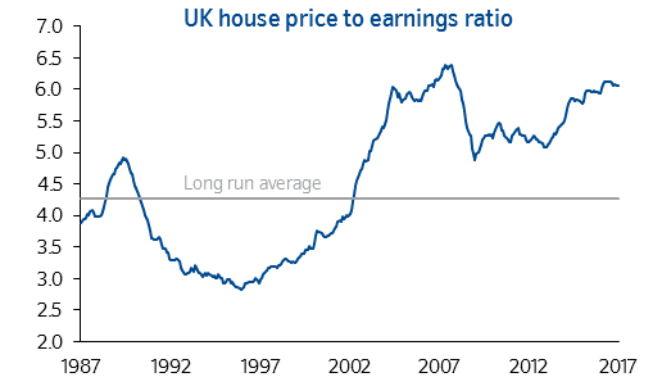
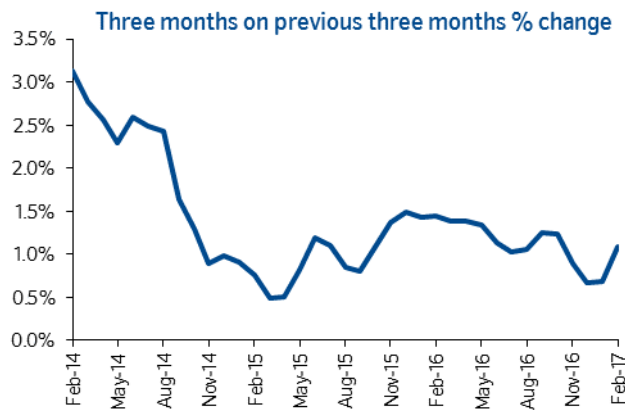
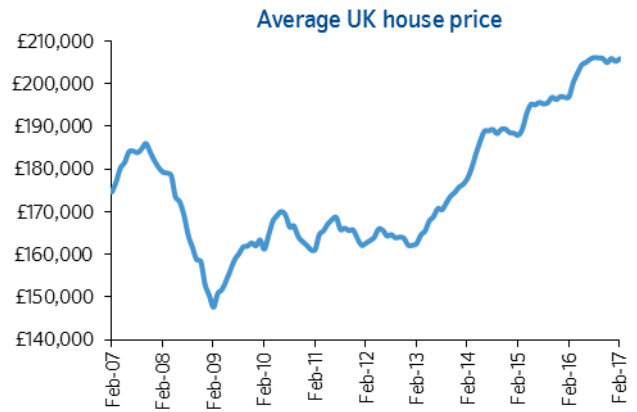
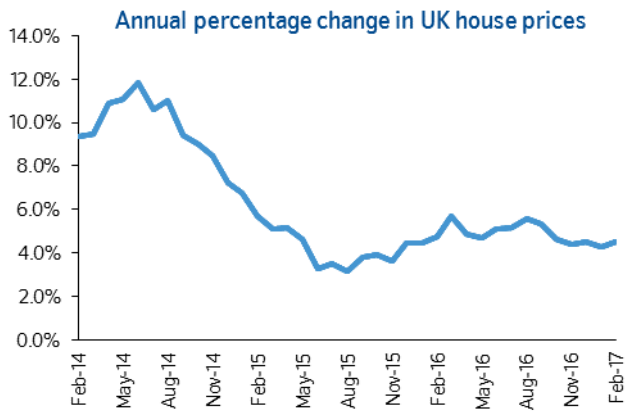
Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
Feb-15	-0.1	0.8	5.7	187,964
Mar-15	-0.1	0.5	5.1	189,454
Apr-15	1.1	0.5	5.2	193,048
May-15	0.3	0.8	4.6	195,166
Jun-15	-0.1	1.2	3.3	195,055
Jul-15	0.4	1.1	3.5	195,621
Aug-15	0.3	0.8	3.2	195,279
Sep-15	0.6	0.8	3.8	195,585
Oct-15	0.7	1.1	3.9	196,807
Nov-15	0.2	1.4	3.7	196,305
Dec-15	0.7	1.5	4.5	196,999
Jan-16	0.4	1.4	4.4	196,829
Feb-16	0.3	1.4	4.8	196,930
Mar-16	0.7	1.4	5.7	200,251
Apr-16	0.3	1.4	4.9	202,436
May-16	0.3	1.3	4.7	204,368
Jun-16	0.3	1.1	5.1	204,968
Jul-16	0.5	1.0	5.2	205,715
Aug-16	0.6	1.1	5.6	206,145
Sep-16	0.3	1.3	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	0.8	0.7	4.5	205,898
Jan-17	0.2	0.7	4.3	205,240
Feb-17	0.6	1.1	4.5	205,846

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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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