

Nationwide HOUSE PRICE INDEX



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October 2017

Slight pick up in annual house price growth in October

- Annual house price growth picks up to 2.5%
- Modest 0.2% month-on-month increase

Headlines	Oct-17	Sep-17†
Monthly Index*	420.7	419.7
Monthly Change*	0.2%	0.4%
Annual Change	2.5%	2.3%
Average Price (not seasonally adjusted)	£211,085	£210,801

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

† Revised, see note on page 2

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

"The annual rate of house price growth picked up slightly in October to 2.5%, from a revised 2.3% in September.

"Nevertheless, annual house price growth remains within the 2-4% range that has prevailing since March. Low mortgage rates and healthy rates of employment growth are providing some support for demand, but this is being partly offset by pressure on household incomes, which appears to be weighing on confidence. The lack of homes on the market is providing support to house prices.

"Economic growth was a little stronger than expected in Q3, increasing the likelihood of a rate rise on 2nd November (most likely to 0.5% from 0.25%). But, providing labour market conditions do not weaken significantly, the impact of a small rate rise on most UK households is likely to be modest.

"The proportion of borrowers directly impacted by a rate rise will be smaller than in the past, in part because the vast majority of new mortgages in recent years were extended on fixed interest rates. The share of outstanding mortgages on variable rates (and which are therefore likely to see an increase in payments if the Bank Rate is increased) has fallen to a record low of c40%, down from a peak of c70% in 2001.

"Moreover, a 0.25% increase in rates is likely to have a modest impact on most borrowers who are on variable rates. For example, on the average mortgage, an increase of 0.25%

would increase monthly payments by £15 to £665 (equivalent to £180 per year).

"That's not to say that the rise will be welcome news for many borrowers. Household budgets are under pressure from the fact that wages have not been rising as fast as the cost of living. Indeed, in real terms (i.e. after adjusting for inflation) wage rates are still at levels prevailing in 2005.

Migration added to housing demand growth

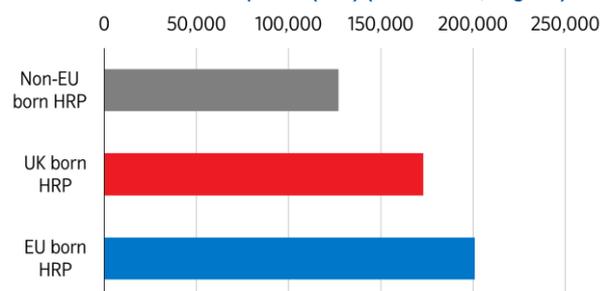
"One of the many factors that impacts housing demand is population growth. England's population increased by 11% between 2001 and 2015 (from 49.4m to 54.8m). International migration has been an important driver, accounting for 60% (3.2m) of the change over the period.

"While this trend will have contributed to the increase in demand for housing, the size and nature of the impact depends on the size of the extra households that were formed. For example, migrants who live together in a house share will have less of an impact on housing demand than those living separately.

"Between 2011 and 2015, there was a 2% increase in the number of households in England (from 21.3m to 21.9m). The increase has been largely driven by those born outside of the UK, in particular from the EU.

"The number of households where the reference person was EU-born increased by 21% between 2011 and 2015 (to 1.2m or 5.4% of households), whereas the number of households where the reference person was non-EU born increased by 6% over the same period (to 2.2m, 10.3% of the total).

Change in estimated total number of households by country of birth of household reference person (HRP) (2011 to 2015, England)



Source: Office for National Statistics - Annual Population Survey (Households)

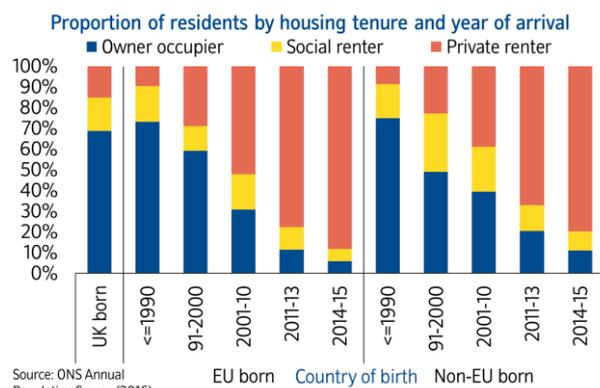
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Migration impact on tenure trends in England

“Migration trends have also influenced tenure trends. Recent migrants are more likely to privately rent than live in social housing or their own home.

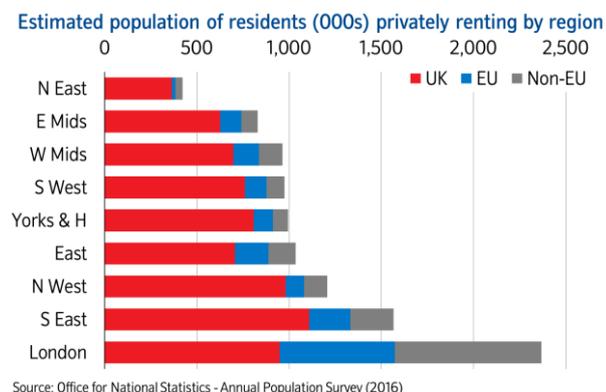
“The number of residents privately renting in England has increased significantly in recent years. Between 2011 and 2016 there was an estimated 1.5m increase in the resident population privately renting, of which 0.6m was due to migration - three quarters of whom were born in the EU. Indeed, 88% of EU born residents and 80% of non-EU born residents arriving between 2014 and 2015 rented privately.

“Migrant tenure trends are influenced by the length of stay in the UK and age (older residents are more likely to own their homes). The longer that migrants are in the UK, the more tenure patterns tend to resemble the UK born average. For example, while the vast majority of recent arrivals are renters, those who migrated to the UK before 2001 are more likely to be owner occupiers than renters, and those who migrated before 1990 have a slightly higher owner occupier proportion than UK born average (see below).



Larger impact in the capital

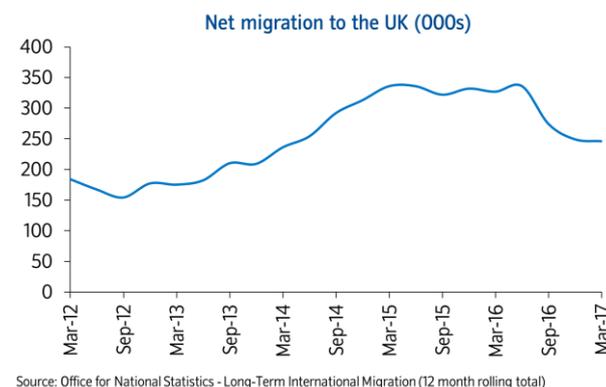
“There is also a regional dynamic, with migrants accounting for a much higher proportion of the private renting population in London than elsewhere in England. Indeed, London has absorbed around one third of the increase in the EU-born population that rents privately in the last five years.



“Of London’s private renting population 60% were born outside of the UK (26% in the EU and 34% outside of the

EU), compared with less than 20% in the North East, North West and Yorkshire & Humberside. There are around 1.6m EU-born renters in England (of which 1m are in London, the South East and East regions).

“With the ongoing uncertainty around Brexit and the rights of EU citizens once the UK leaves the EU, we may see a slowing in housing demand (and particularly rental demand) in the years ahead, if it results in slower migrant flows. Recent data points to a significant slowing, though the data can be volatile (see chart below).”

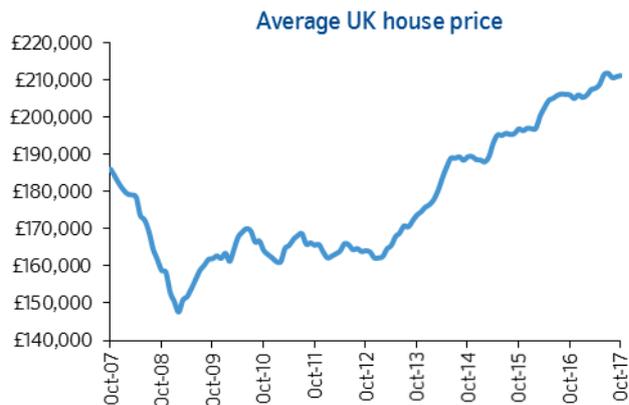
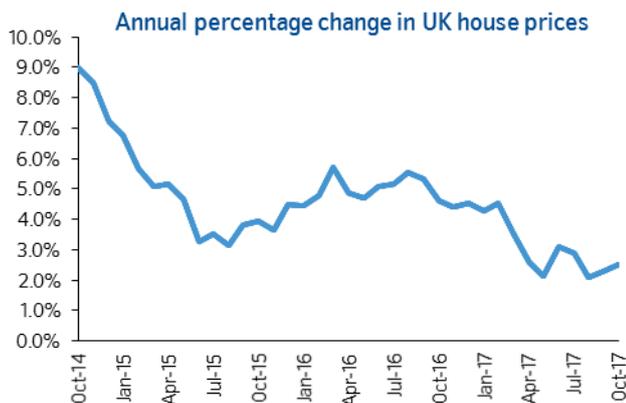


Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
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	1.5	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	0.2	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	-0.1	3.1	211,301
Jul-17	0.2	0.3	2.9	211,671
Aug-17	-0.1	1.0	2.1	210,495
Sep-17†	0.4	1.0	2.3	210,801
Oct-17	0.2	0.8	2.5	211,085

† The UK House Price Index has been revised for September 2017 and Q3 2017 due to a minor error in the weighting applied to the calculations in September/Q3. The revisions are small - increasing the annual percentage change for September by 0.3 percentage points. These revisions only impact the UK monthly and quarterly all properties series; there are no changes to any other indices, including the regional data. Analysts who use this data in their own systems are advised to download the whole series and refresh their databases.

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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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