



FT HOUSE PRICE INDEX

AUGUST 2007

The latest FT House Price Index, updated with the most recent monthly data from the Land Registry, shows that house prices in England and Wales rose by 0.5% in August and by 9.3% over the past 12 months.

We calculate the FT House Price Index, on a seasonally and mix adjusted basis, as follows:

	House Price	Index	Monthly Change %	Annual Change %
February 2007	£218,144	222.1	1.2	9.2
March 2007	£219,486	223.5	0.6	9.3
April 2007	£221,082	225.1	0.7	9.4
May 2007	£221,833	225.8	0.3	9.2
June 2007	£223,044	227.1	0.5	9.4
July 2007	£223,780	227.8	0.3	9.3
August 2007	£224,930	229.0	0.5	9.3

COMMENTARY BY PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

“House prices increased by 0.5% in August with annual price inflation at 9.3%, continuing the broad pattern of a stable rate of annual increase which we have been reporting since the beginning of the year. However, even at this level it is high in relation to average wage increases and in that sense is unsustainable in the long term. The shortage of supply along with the continued growth of the economy are key drivers of this continued trend.

“As we go on to show, regional differences in England are considerable, and stripping London out of the analysis would bring the annual rate of house price inflation down to 7.2%. We note the London effect is getting greater over time reflecting the fact that the market there is out of kilter with the rest of England and Wales. The London ‘effect’ is now over 2 percentage points.

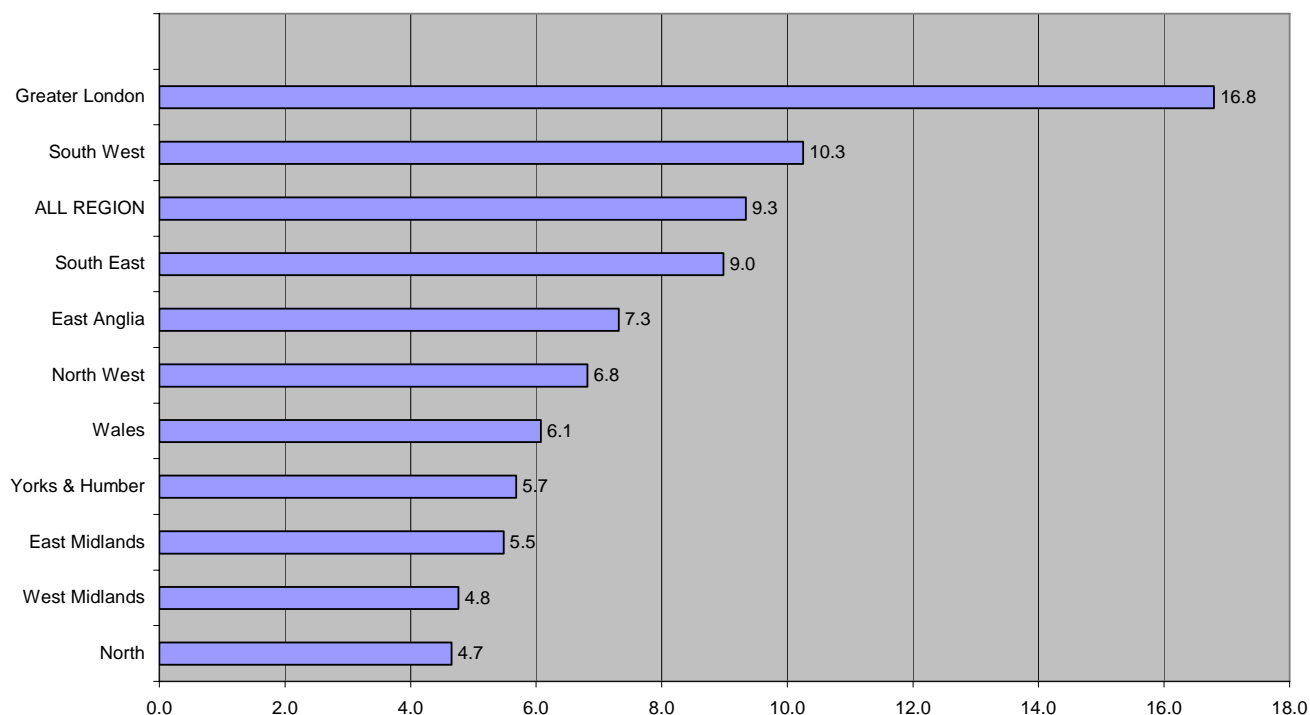
“The expectation of a slowing market as the year goes on remains, given that the effect of the 3 interest rate increases in 2007 continues to work its way through the system. The Bank’s decision to hold on rates in July was welcome, not least given the continued pressures on liquidity reflecting the uncertainty created by the difficulties in the US Sub Prime market. Regardless of their decision, rates in parts of the mortgage market have been creeping upwards adding to the overall pressure on borrowers.”

REGIONAL TRENDS

The national index has risen by 0.5% in August and by 9.3% in the year. The annual rate of growth at a regional level, *averaged over the last three months to reduce volatility*, is shown in the chart below.

This analysis highlights the degree to which London (16.8%) remains out of step with the rest of England and Wales. Outside London it is the southern regions – South West (10.3%), South East (9.0%) and East Anglia (7.3%) - that have been showing the greatest increases, reflecting the spill-over from London. The lowest regional growth was recorded by the North (4.7%) and the West Midlands (4.8%).

Annual Growth over last three months



The Regional Data Table below highlights that eight out of the ten regions have shown a fall in annual inflation over the last month and 3 regions, the North, North West and Yorkshire and Humberside showed a fall on the month. By contrast, Greater London prices have risen by around 1.5% per month throughout 2007 and the annual rate of inflation has been going up month on month for the last 12 months.

REGIONAL DATA TABLE

Region Month	<u>North</u>			<u>North West</u>			<u>East Midlands</u>			<u>West Midlands</u>		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Aug-06	£143,921	0.0	6.2	£155,825	0.8	7.1	£164,088	0.0	4.0	£174,891	0.7	5.9
Sep-06	£144,936	0.7	5.9	£156,960	0.7	7.5	£165,822	1.1	4.3	£175,857	0.6	6.9
Oct-06	£146,532	1.1	5.5	£158,765	1.1	8.1	£166,732	0.5	4.6	£176,905	0.6	6.5
Nov-06	£148,299	1.2	6.2	£158,912	0.1	7.7	£168,341	1.0	5.4	£177,368	0.3	6.1
Dec-06	£149,280	0.7	5.8	£160,896	1.2	8.3	£168,498	0.1	6.0	£178,558	0.7	6.2
Jan-07	£150,750	1.0	6.5	£161,259	0.2	7.6	£170,322	1.1	7.0	£180,299	1.0	6.4
Feb-07	£151,401	0.4	6.1	£163,724	1.5	8.6	£172,061	1.0	7.5	£180,682	0.2	5.8
Mar-07	£151,362	0.0	6.2	£164,111	0.2	7.4	£172,727	0.4	6.9	£180,984	0.2	5.6
Apr-07	£151,154	-0.1	5.6	£165,460	0.8	8.2	£172,757	0.0	6.6	£181,071	0.0	5.2
May-07	£150,799	-0.2	5.1	£165,168	-0.2	7.3	£172,825	0.0	6.2	£181,548	0.3	5.2
Jun-07	£150,943	0.1	4.5	£165,201	0.0	7.6	£172,988	0.1	5.9	£182,148	0.3	4.9
Jul-07	£150,716	-0.2	4.8	£165,069	-0.1	6.8	£172,980	0.0	5.5	£181,815	-0.2	4.7
Wales												
Aug-06	£156,028	0.5	5.5	£155,477	0.6	6.9	£213,405	0.4	6.4	£192,066	1.7	7.3
Sep-06	£157,109	0.7	5.6	£157,187	1.1	6.8	£214,949	0.7	7.0	£193,122	0.5	7.5
Oct-06	£160,116	1.9	6.4	£159,362	1.4	7.6	£218,071	1.5	7.9	£195,817	1.4	8.5
Nov-06	£161,663	1.0	7.2	£160,540	0.7	7.9	£220,398	1.1	8.3	£195,380	-0.2	8.8
Dec-06	£162,091	0.3	6.6	£161,432	0.6	7.8	£223,673	1.5	8.9	£197,722	1.2	9.4
Jan-07	£162,794	0.4	7.4	£161,717	0.2	6.9	£224,081	0.2	8.9	£198,405	0.3	10.0
Feb-07	£163,660	0.5	6.6	£162,511	0.5	6.5	£226,755	1.2	9.4	£201,140	1.4	10.2
Mar-07	£164,313	0.4	6.4	£162,558	0.0	5.9	£227,757	0.4	9.1	£203,765	1.3	10.6
Apr-07	£163,778	-0.3	6.3	£163,675	0.7	6.5	£231,397	1.6	10.0	£204,663	0.4	9.2
May-07	£163,305	-0.3	6.3	£164,024	0.2	6.5	£232,845	0.6	10.1	£205,045	0.2	9.0
Jun-07	£164,133	0.5	6.5	£164,135	0.1	6.6	£233,962	0.5	10.4	£203,739	-0.6	8.1
Jul-07	£164,354	0.1	5.9	£163,121	-0.6	5.6	£234,373	0.2	10.2	£203,843	0.1	8.0
Yorks & Humber												
South West												
East Anglia												
South East												
Greater London												
ALL REGION												
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Aug-06	£243,653	0.5	6.7	£308,958	0.6	8.8	£205,840	0.6	6.8			
Sep-06	£245,564	0.8	7.5	£312,324	1.1	9.7	£207,567	0.8	7.4			
Oct-06	£247,456	0.8	7.9	£314,775	0.8	9.7	£209,597	1.0	7.8			
Nov-06	£249,147	0.7	8.2	£319,314	1.4	10.6	£211,287	0.8	8.2			
Dec-06	£251,326	0.9	8.1	£325,521	1.9	11.0	£213,564	1.1	8.4			
Jan-07	£253,892	1.0	8.6	£331,751	1.9	12.5	£215,544	0.9	8.8			
Feb-07	£257,338	1.4	9.1	£337,644	1.8	13.3	£218,144	1.2	9.2			
Mar-07	£259,446	0.8	9.4	£341,173	1.0	14.4	£219,486	0.6	9.3			
Apr-07	£261,198	0.7	9.3	£345,220	1.2	14.6	£221,082	0.7	9.4			
May-07	£261,623	0.2	8.9	£348,861	1.1	15.0	£221,833	0.3	9.2			
Jun-07	£263,245	0.6	9.2	£353,784	1.4	15.8	£223,044	0.5	9.4			
Jul-07	£263,954	0.3	8.9	£358,843	1.4	16.8	£223,780	0.3	9.3			
Aug-07							£224,930	0.5	9.3			

FT House Price Index clb/cms

In the above table, red data above represent the FT "forecast" index, blue data represent FT "updated" index results and black data represent the FT "final" index, as explained below. Results are based upon the census i.e. every transaction, including those for cash, in England & Wales, reported to Land Registry.

About regional, county and London borough data: as explained below, despite using *all* of the Land Registry data, we have found transaction volumes at regional and, especially, at county and London borough level, too small to be stable until two months have elapsed. Thus, the monthly FTHPI Regional Data Table above shows house prices and % changes for individual regions always one month in arrears. Current month regional, county and London borough average changes are charted, as above, for indicative purposes. All FT index national, regional, county and London borough data are consistently calculated. At every geographical level, a current month price is calculated as the average of the prices for the month and for the prior and subsequent month. Each such price is centred on, and represents, the month specified, and is not weighted towards earlier months. A London borough price for any given month relates to a London region price for the same month. Likewise, county and equivalent regional prices are compatible.

At national level, some 100,000 transactions occur monthly. For any given month, only c.15% of the transactions occurring in the month are available from LR. Rather than rely upon a small sample of c.15,000 transactions (one which we have found to be unrepresentative), we base our initial results for each, most recent, month upon our academic "index of indices" forecasting model, developed at the University of Cambridge and the Sir John Cass Business School. One month later, however, LR provides c.70,000 transactions, which we use to replace our initial forecast with an FT "updated" result. A further month later, LR provides c.90,000 transactions which we use to replace the first, with a second, FT "updated" result. Three months after any given month, LR provides c.95,000 transactions. We then regard our results as sufficiently updated to describe them as the FT "final" index. The FT "final" index comprises some 95% of the ultimate LR transactions, smoothed, seasonally and mix adjusted. Every further update from LR is used monthly until the FT "ultimate" result based upon 100% of the LR data is reached. FT "ultimate" results are the census transaction data for England and Wales smoothed, seasonally and mix adjusted. Normally, these show no significant change from the FT "final" result. Our FTHPI Valuation series is calibrated to provide portfolio revaluations with standard errors.

In each region, only some 10,000 transactions occur monthly, averaged over all the ten regions. We do not publish immediate results for the most recent month at regional or lower levels, but wait one month, pending receipt from LR of the c.70% sample. Hence, we provide results, at sub-national level, always one month in arrears of the most recent month. Our sample represents every reported transaction and the whole of the available LR data; but it is small, even at regional level, and the results are susceptible to change when the sample progressively increases to 90% and 95% in the following months. We describe our regional data as the FT "final" index, once it comprises 95% of the LR data, smoothed, seasonally and mix adjusted.

At county level, 100,000 national transactions spread over 119 counties and 32 London boroughs, provide an average of only 663 house prices monthly within each of these areas. Such low volumes result in volatility in our estimated monthly prices at these levels, until we are able to publish the FT "final" index using 95% of the LR data. A particular methodology difference between the FT index and the LR index exists at county and London borough level. At county and London borough level, LR provides prices for the most recent month, without publication lag, by averaging the most recent month's prices with those over the prior three months and identifying them as at the most recent month. As explained on page 3, the FT index makes no such change, at any level, in the way in which prices are estimated.

LONDON BOROUGHS, UNITARY DISTRICTS AND COUNTIES

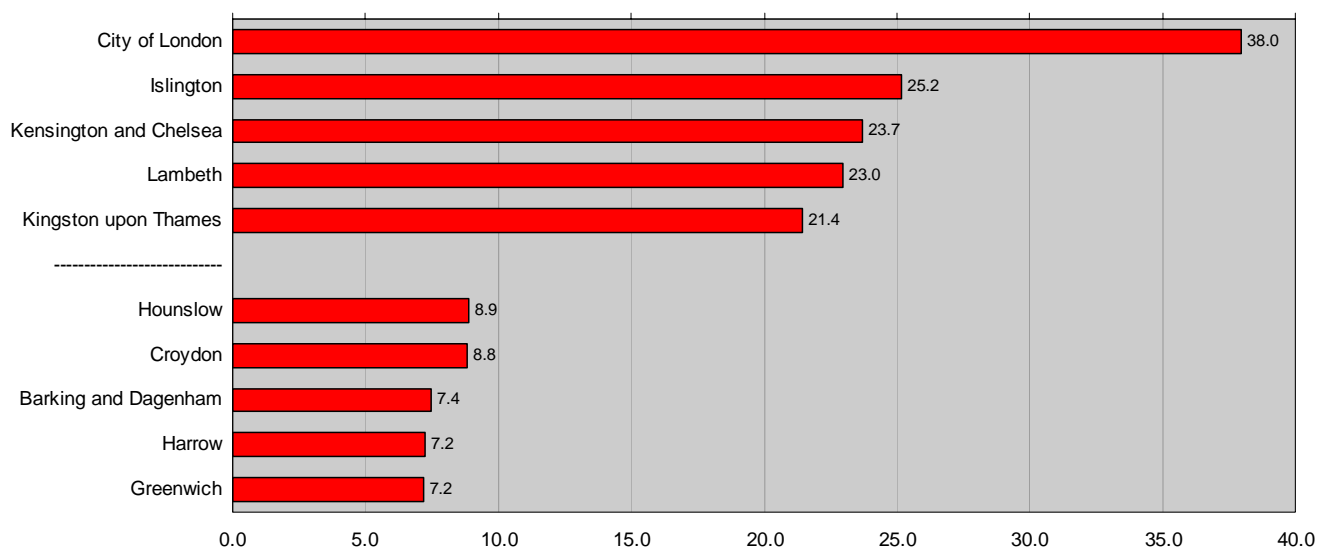
The charts below show the highest and lowest annual growth rates by unitary district, county and London borough. As is the case for the regional analysis above, we show the three month rolling average to reduce volatility.

Acadameetrics recognises the appetite for such figures but cautions that the volatility of data at these levels is such that they must be used with considerable care. However, the results do give some indication of the diversity of markets across England and Wales.

London Boroughs

Even setting aside the spectacular 38.0% annual growth recorded for the City of London, where the number of residential homes is limited, the analysis still demonstrates that the headline figures for Greater London mask an acute contrast at the local level. Four boroughs of quite different character show increases of over 20% on an annual basis whilst, at the other end of the spectrum, there are five boroughs with increases of 8.9% or less, i.e. below the national average. This contrast reinforces the need for commentators to treat London averages with caution, and emphasises that, across the capital, very different housing markets exist – a situation in which frustrated would-be buyers, prepared to move out of a borough, might well find that they can meet at least some of their aspirations.

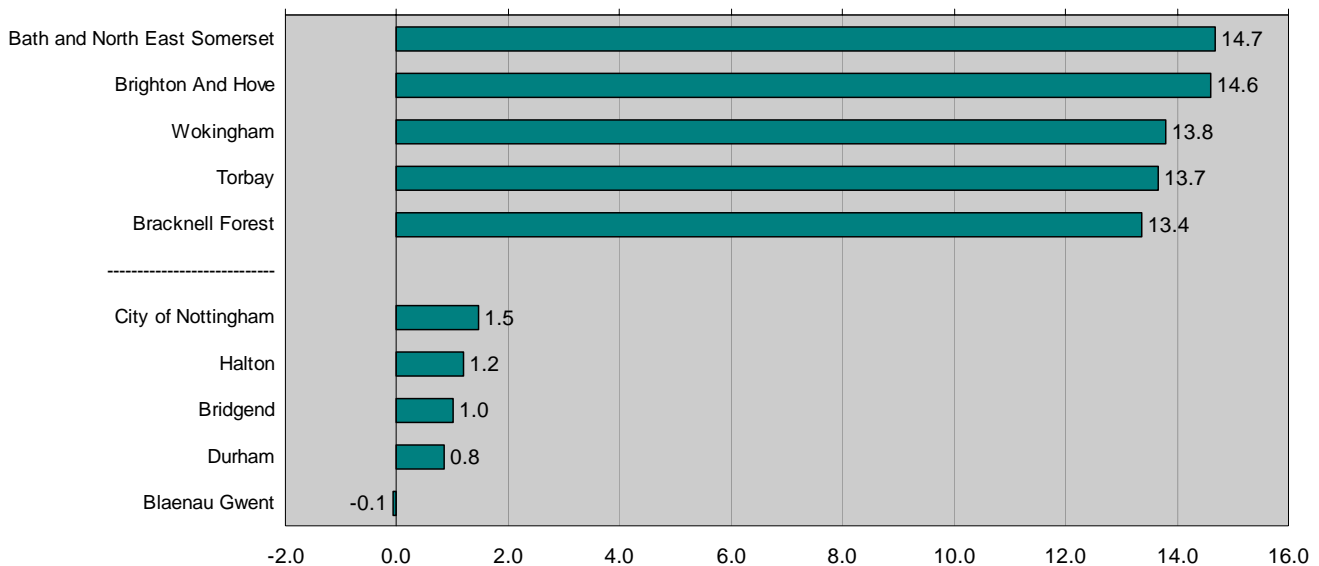
Annual Growth over three months - London boroughs



Unitary Districts and Counties

Outside London, the unitary district and county growth figures bring together an even more diverse set of authorities, and present evidence of equally significant variances between the highs and the lows as being witnessed in London. The contrast between Brighton and Hove (14.6%) and Bath and Somerset (14.7%) with the City of Nottingham (1.5%) and Durham (0.8%) is worthy of note.

Annual Growth over three months - Counties



FOOTNOTE

The FT House Price Index comprises the published Land Registry house price data, smoothed and seasonally and mix adjusted by Acadametrics, combined with an “index of indices” model in order to account for transactions not yet reported to the Land Registry. The FT index includes cash purchases and is the only index to use **all** of the Land Registry data. As such, it provides the factual record of domestic property prices in England and Wales and a true guide to house price inflation.

Acadametrics [FTHPI Calibration paper](#) is important reading for all those concerned with house prices and the use of indices, and is available for download from our website. It describes the benefits of using the Land Registry census data for England and Wales; the use of the Valuation series derived from the FT index to re-value individual properties within a portfolio; and how to calibrate the accuracy of the results obtained from this valuation process. It also demonstrates the level of accuracy achieved and how, at the national level, the Valuation series provides results within 0.9% of the recorded value.

The FT House Price Index is prepared from Land Registry data using a methodology designed to provide the best possible guide to house price movements in England and Wales. We do not guarantee the accuracy of the results and neither the Financial Times nor Acadametrics shall be liable for any loss or damage, whatsoever, consequential upon any error, misdescription or other inadequacy in the data. Persons using the data do so entirely at their own risk. No part of the house price index may be reproduced in any form or for any purpose without the prior permission of Acadametrics. Please email information@acadametrics.co.uk: regional, county and London borough historic data are available.

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ACADAMETRICS PRESS CONTACTS:

Peter Williams	020 8390 5872 or 07718 120858	peter.williams@acadametrics.co.uk
Troy Martin	01444 230325 or 07986 176124	troy.martin@acadametrics.co.uk
David Thorpe	020 8392 9082 or 07764 236781	david.thorpe@acadametrics.co.uk

also see www.ft.com/houseprices

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