



FT HOUSE PRICE INDEX

AUGUST 2008

HIGHLIGHTS

- House prices in England and Wales fell by 1.3% in August. This is the sixth consecutive month of nominal price falls and the largest monthly fall since October 1992, when the last housing market recession was being experienced.
- The average price for England and Wales (including London) is now 2.2% lower than it was a year ago.
- London prices continue to trend down. However, the annual growth rate in the capital is still positive at 1.8% (averaged over the past three months), whilst the previously large disparity with other regions is narrowing fast and the London rate of growth is now only 0.9% points higher than the next highest region.
- Seven out of the ten regions in England and Wales are now showing nominal price falls on both a monthly and an annual basis; only the North, South East and London still have positive annual growth.
- The market slowdown continues to gather momentum. We are now in a buyers market with expectations of the price to be paid being strongly influenced by negative market commentary and, to an extent, the reports of a continued slide have become a self fulfilling prophecy.
- Whilst all house price indices are currently negative, the transaction based residential measures (FTHPI, Land Registry and CLG) that report on the final prices achieved in a sales transaction are giving a materially less negative picture of the market than are the mortgage offer based price indices (Halifax, Nationwide) which reflect each firm's activity within particular market segments and prices that are still under negotiation.

COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

"On a monthly basis, house prices in England and Wales fell by 1.3% in August making this the sixth consecutive month of nominal price falls recorded by the FT index - the first time this has happened since November 1992.

"House prices peaked in February of this year at £231,908, since when they have fallen by around 4.0% or £9,452 to £222,456; this takes the market average price back to where we were in May 2007. This is not a problem for the vast majority of households - nor is it market transforming in affordability terms.

"The annual rate of change of -2.2% is our lowest reported figure since May 1993 and it is the twelfth month in succession in which the annual rate has fallen in nominal terms.

"Over the last two years we have regularly commented on the London market being out of line with all the other parts of England and Wales. As we expected, however, the differentials in rates of change are now diminishing. If London is excluded the monthly figure is unchanged at -1.3% and the annual rate is 0.4% lower at -2.6%.

"Prices in all regions in England and Wales are now declining month on month and seven regions are now negative on both a monthly and an annual basis. The most severe annual falls are in East Midlands and Wales, down by 3.0% or more. The scale of the recent change in price trends is dramatic, not least in London, where the annual rate of increase has declined from over 18% in August 2007 to 1.9% in July 2008, with every likelihood that this downward trend will continue. Looking at price trends in local authorities on a three month averaged basis, there are now only two London boroughs and one

county/district with annual price inflation still in double figures. On the other hand, there are now nine London borough and sixty-one districts where prices have fallen over the past year.

“Although mortgage supply continues to be a very serious problem, it is clear that demand has also faltered in the light of these market trends. Consumer confidence continues to fall reflecting the daily ‘bad’ news, the likely length of an extended housing market downturn and threats of a wider recession. Settling prices in such an environment is difficult. Prices achieved at auctions have been falling as buyers adjust their expectations downwards and we have seen the rise of gazundering in the mainstream market. The big question going forward is when and at what level will the market bottom out.”

FT HOUSE PRICE INDEX CHART AUGUST 2008 ANNUAL GROWTH IN HOUSE PRICES - COMPARISON OF INDICES

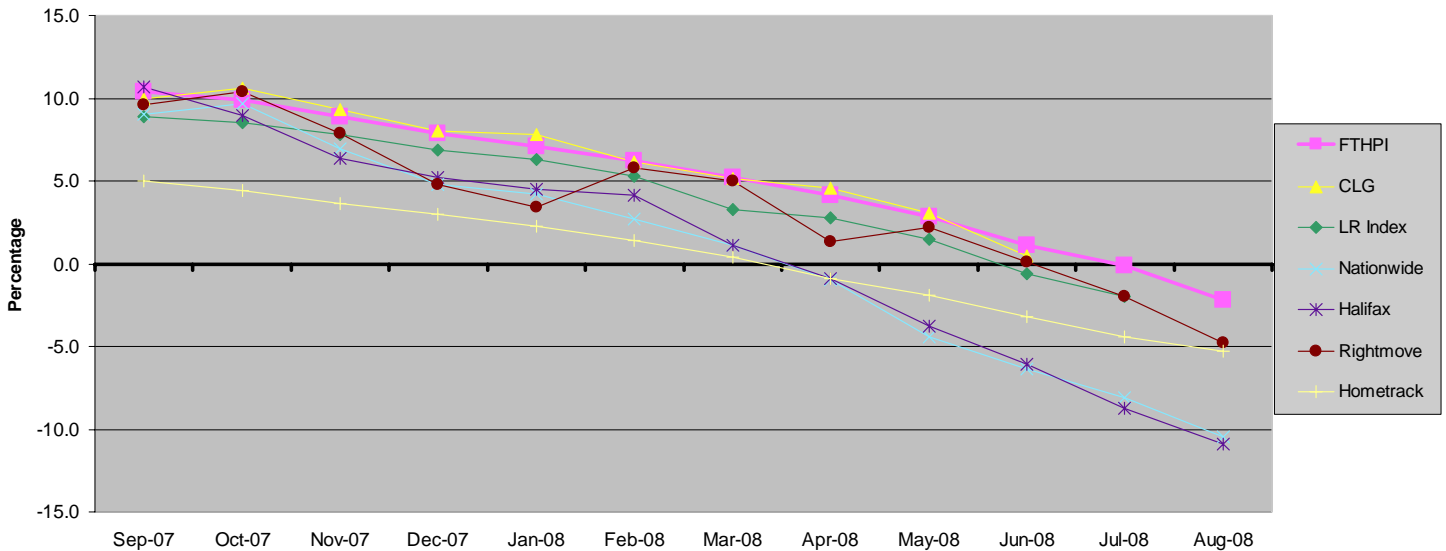


Chart 1

“The FT index, like the Land Registry and CLG indices, is based upon the final selling price of a property and it is the only index that is based upon **all** property transactions in England and Wales (i.e. all cash sales and mortgage backed transactions). As such, it is bound to be different from the mortgage offer indices, published by Nationwide Building Society and HBOS, which have been reporting more dramatic declines based on their own lending data. As Chart 1 shows, since February 2008, these two mortgage offer based indices have diverged even further from the sales transaction based indices. Setting aside the obvious generic difference between the different types of indices, the fact is that it is not entirely clear why this should have happened.”

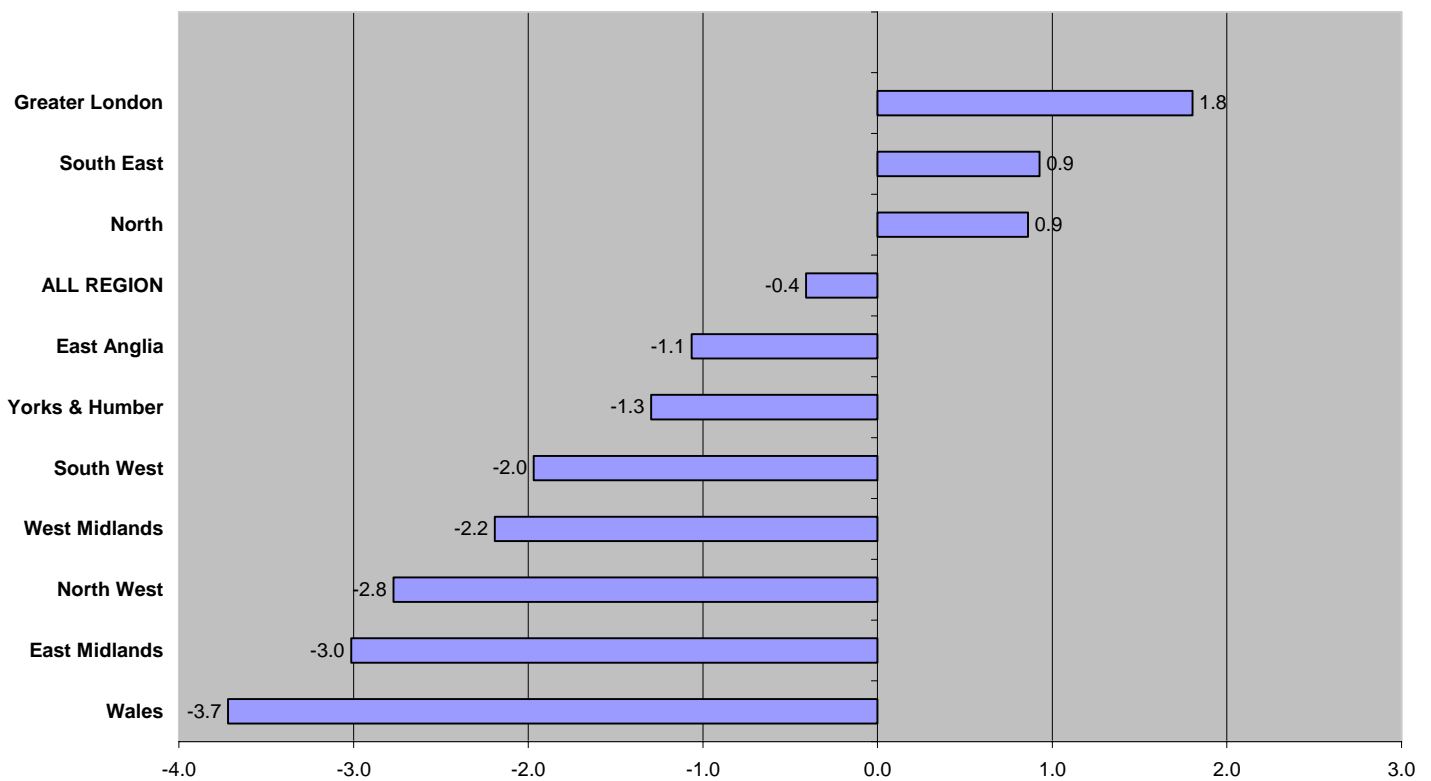
NATIONAL INDEX SUMMARY

	House Price	Index	Monthly Change %	Annual Change %
February 2008	£231,908	236.1	0.5	6.2
March 2008	£231,198	235.4	-0.3	5.2
April 2008	£230,780	235.0	-0.2	4.2
May 2008	£229,149	233.3	-0.7	2.9
June 2008	£227,256	231.4	-0.8	1.1
July 2008	£225,297	229.4	-0.9	-0.1
August 2008	£222,456	226.5	-1.3	-2.2

REGIONAL ANALYSIS

“Although London remains “top” of the house price inflation league table in England and Wales, the fact is that the rate is coming down quickly and is now below 2%. The South West has witnessed rapid deflation and has now dropped to 6th place in the table, having stood alongside London and the South East in recent times. Seven regions are now recording negative growth in nominal terms as measured by a 3 month average and we can expect all regions to dip below the line over the next few months.”

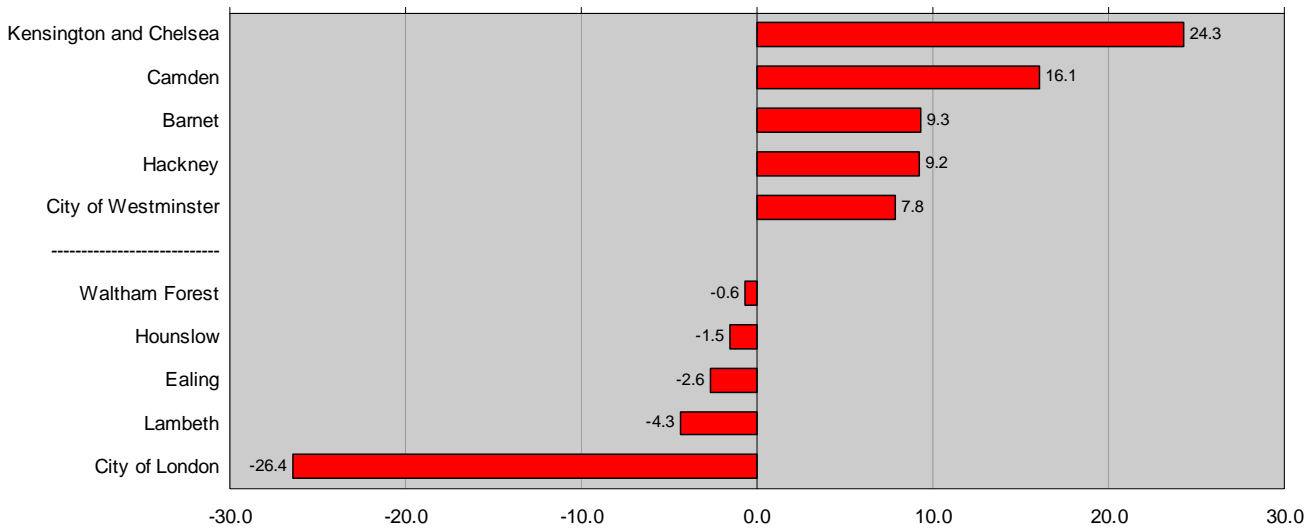
Average Annual Growth over last three months



LONDON BOROUGH ANALYSIS

“The strong performance of London, as a whole, masks a widely varying performance on a borough by borough basis. Of the thirty three London boroughs, only one (Kensington and Chelsea - probably for exceptional reasons, i.e. its global demand base and limited supply) has an averaged annual growth rate of 20% or more, whilst thirty one have recorded rates of less than 10%. The rates range from 24.3% in Kensington and Chelsea to -26.4% (again probably for exceptional reasons) in the City of London and -4.3% in Lambeth and -2.6% in Ealing.”

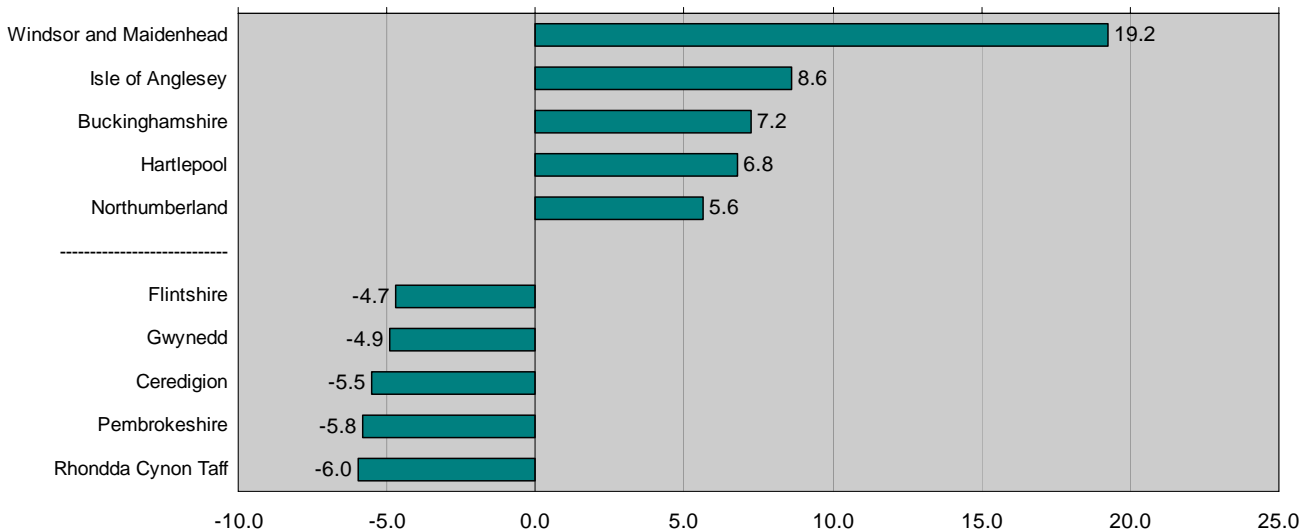
Average Annual Growth over last three months - London boroughs



UNITARY DISTRICT AND COUNTIES ANALYSIS

“In a similar fashion to London, performance at a district and county level is very varied. Of the one hundred and eight districts and counties in England and Wales, only one recorded a growth rate in excess of 10%; one hundred and two had growth rates of less than 5% and of these sixty-one saw price reductions, fourteen of them in Wales. We can see a pattern of change beginning to build up, each month, with more authorities recording low or negative house price inflation and that beginning to consolidate on a country/regional basis, e.g. Wales with fourteen out of twenty two authorities with price falls.”

Average Annual Growth overlast three months - Counties



REGIONAL DATA TABLE

	North			North West			East Midlands			West Midlands		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Aug-07	£152,082	-0.2	5.6	£166,506	0.4	6.8	£175,061	0.0	6.7	£184,076	0.8	5.2
Sep-07	£152,155	0.0	4.9	£168,325	1.1	7.2	£177,049	1.1	6.7	£185,314	0.7	5.4
Oct-07	£153,360	0.8	4.6	£168,631	0.2	6.2	£177,393	0.2	6.4	£186,179	0.5	5.2
Nov-07	£154,770	0.9	4.3	£168,420	-0.1	5.9	£176,832	-0.3	5.1	£185,794	-0.2	4.7
Dec-07	£154,407	-0.2	3.4	£168,130	-0.2	4.5	£175,806	-0.6	4.3	£184,646	-0.6	3.3
Jan-08	£156,909	1.6	3.9	£168,020	-0.1	4.2	£175,599	-0.1	3.1	£184,685	0.0	2.4
Feb-08	£158,703	1.1	4.7	£168,319	0.2	2.8	£176,523	0.5	2.6	£185,257	0.3	2.5
Mar-08	£160,423	1.1	5.7	£166,700	-1.0	1.5	£175,060	-0.8	1.4	£185,890	0.3	2.5
Apr-08	£158,740	-1.0	4.7	£166,241	-0.3	0.6	£174,134	-0.5	0.6	£185,569	-0.2	2.1
May-08	£156,998	-1.1	3.2	£164,293	-1.2	-0.5	£171,607	-1.5	-1.5	£183,774	-1.0	0.7
Jun-08	£155,638	-0.9	1.9	£162,985	-0.8	-1.4	£170,935	-0.4	-2.2	£181,423	-1.3	-0.9
Jul-08	£154,176	-0.9	1.2	£161,330	-1.0	-2.7	£169,929	-0.6	-2.9	£179,315	-1.2	-1.8

	Wales			Yorks & Humber			South West			East Anglia		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Aug-07	£167,926	1.2	7.6	£165,908	0.8	6.9	£235,897	0.2	10.5	£208,191	0.9	8.4
Sep-07	£168,872	0.6	7.5	£167,893	1.2	6.8	£237,404	0.6	10.4	£209,795	0.8	8.6
Oct-07	£170,253	0.8	6.4	£170,145	1.3	6.7	£238,854	0.6	9.5	£210,531	0.4	7.4
Nov-07	£169,314	-0.6	4.7	£170,491	0.2	6.2	£238,221	-0.3	8.1	£208,659	-0.9	6.7
Dec-07	£168,775	-0.3	4.0	£170,772	0.2	5.7	£238,857	0.3	6.8	£209,750	0.5	6.0
Jan-08	£166,683	-1.2	2.4	£170,394	-0.2	5.2	£236,128	-1.1	5.4	£210,487	0.4	6.1
Feb-08	£166,478	-0.1	1.7	£169,925	-0.3	4.3	£234,939	-0.5	3.6	£212,282	0.9	5.4
Mar-08	£166,195	-0.2	1.1	£169,963	0.0	4.3	£234,119	-0.3	2.7	£211,493	-0.4	3.6
Apr-08	£165,605	-0.4	0.9	£169,651	-0.2	3.1	£235,583	0.6	1.5	£209,700	-0.8	2.1
May-08	£163,283	-1.4	-0.4	£168,498	-0.7	2.0	£235,657	0.0	0.7	£208,559	-0.5	1.3
Jun-08	£161,323	-1.2	-2.2	£165,743	-1.6	0.1	£233,035	-1.1	-0.9	£206,640	-0.9	0.9
Jul-08	£159,988	-0.8	-3.6	£163,155	-1.6	-0.9	£230,851	-0.9	-1.9	£204,740	-0.9	-0.8

	South East			Greater London			ALL REGION					
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual			
Aug-07	£269,371	1.0	10.6	£366,539	1.4	18.6				£227,461	0.8	10.5
Sep-07	£271,147	0.7	10.4	£369,017	0.7	18.1				£229,155	0.7	10.4
Oct-07	£273,063	0.7	10.3	£370,089	0.3	17.6				£230,411	0.5	9.9
Nov-07	£273,228	0.1	9.7	£368,661	-0.4	15.5				£230,066	-0.1	8.9
Dec-07	£274,434	0.4	9.1	£369,944	0.3	13.7				£230,390	0.1	7.9
Jan-08	£275,784	0.5	8.6	£372,771	0.8	12.4				£230,789	0.2	7.1
Feb-08	£278,002	0.8	7.9	£376,130	0.9	11.4				£231,908	0.5	6.2
Mar-08	£277,113	-0.3	6.6	£374,550	-0.4	9.9				£231,198	-0.3	5.2
Apr-08	£276,451	-0.2	5.4	£374,331	-0.1	8.6				£230,780	-0.2	4.2
May-08	£274,538	-0.7	4.3	£372,592	-0.5	6.8				£229,149	-0.7	2.9
Jun-08	£272,567	-0.7	2.4	£370,860	-0.5	4.2				£227,256	-0.8	1.1
Jul-08	£270,528	-0.7	1.4	£368,422	-0.7	1.9				£225,297	-0.9	-0.1
Aug-08										£222,456	-1.3	-2.2

also see www.ft.com/houseprices

www.acadmetrics.co.uk

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FOOTNOTES ON DATA AND METHODOLOGY

1) The FT House Price Index comprises the published Land Registry house price data, smoothed and seasonally and mix adjusted, combined with an “index of indices” forecasting model 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 aims to provide a factual record of domestic property prices in England and Wales and a true guide to house price inflation.

2) In the Regional data table, **red** data represents the FT “forecast” index, **blue** data represent FT “updated” index results and black data represent the FT “final” index.

3) **Data Limitations.** Despite using *all* of the Land Registry data, transaction volumes at regional and, especially, at county and London borough level, are too small to be stable until two months after the end of the month in question. Therefore, the monthly FTHPI Regional Data Table shows *average* house prices and % change for individual regions one month in arrears. The current month regional, county and London borough three month average changes are charted as above, including the projection of the current month, for indicative purposes. The FT index data are calculated on a consistent basis from county and London borough through to region and ultimately to national level; at every level, the current month price represents the average of the prices for the current month and for the prior and subsequent months (three month centre month smoothing).

4) **At national level**, in normal years, some 100,000 transactions occur monthly in the normal market. For any given month, only c.15% of the transactions occurring in the month are available from LR at the end of that particular month. So, rather than rely upon a small sample (one which we have found to be unrepresentative), we base our current month results upon a combination of our academic “index of indices” forecasting model, developed by Dr Stephen Satchell (University of Cambridge) and Dr George Christodoulakis (then at Sir John Cass Business School), and a series of auto regression and averaging models. One month later, however, LR provides c.70% of the transactions, which we use to replace our initial forecast with a first “updated” result. A further month later, LR provides c.90% of transactions which we use to replace the first, with a second, “updated” result. Three months after any given month, LR provides c.95 % of transactions. We then regard our results as sufficiently updated to describe them as the “final” index. The FT “final” index comprises some 95% of the ultimate total of the LR transactions for any particular month, smoothed, seasonally and mix adjusted. Every further update from LR is used monthly until we achieve the “ultimate” result based upon 100% of transactions. The FT “ultimate” index results are based upon every single residential property transaction in England and Wales (smoothed, seasonally and mix adjusted). Normally, these “ultimate” figures will show no significant change from the FT “final” result.

5) **In each region**, only some 10,000 transactions occur monthly, over all the ten regions – in normal years. We do not publish results for the most recent month at regional, county or London Borough level, but wait one month, pending receipt from LR of the c.70% sample. Hence, we always provide results at sub-national level that are one month in arrears of the most recent month. We describe our regional data as “final”, once it comprises 95% of the LR data, smoothed, seasonally and mix adjusted.

6) **At county level and London borough level**, the c.100,000 national monthly transactions are spread over 118 regions/counties and 33 London boroughs and provide an average of only 663 house prices monthly within each of these areas. Such low volumes result in volatility in monthly prices at these levels, until we are able to publish the “final” index using 95% of the LR data.

7) Our [“House Price Indices – Fact or Fiction?” paper](#) is useful reading for all those concerned with house prices and the use of indices, and is available for download from our website. It discusses the question “A True Measure of House Price Inflation?” and explains the rationale for the use of all the Land Registry data for England and Wales for the FT index. The paper also provides an overview of the alternative indices aimed assisting an understanding of the unique view which each provides of house prices. We explain the valuation series derived from the FT index to revalue individual properties within a property portfolio and our procedure for calibrating the accuracy of these revaluations. We demonstrate the level of accuracy achieved and how, at the national level, the valuation series provides results within 0.9% of the recorded value, for the test portfolio as a whole.

8) 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. 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, incorrect description of or 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. Monthly regional, county and London borough results and historic data by property type are available. Please email information@acadametrics.co.uk.