



FT HOUSE PRICE INDEX

DECEMBER 2007

HIGHLIGHTS

- On a monthly basis, house prices in England and Wales rose by 0.1% in December, the lowest monthly rate since July 2005
- On an annual basis, prices increased by 7.9%, down from 8.9% in November and the lowest annual growth rate since October 2006
- London continues to be out of step with the rest of England and Wales, with an annual growth rate of 17.4% (averaged over the last three months) which is nearly double the next highest region
- Outside London the southern regions, South West (8.4%) and South East (9.2%) have recorded the next largest annual increases (again averaged over the last three months)
- Overall, there is continuing evidence of the market slowing, but any correction must be viewed in the context of the strong performance of the market over recent years and the strong fundamentals underpinning the market, i.e. continued demand and limited supply

COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

“House prices in England and Wales increased by just 0.1% in December, the lowest monthly increase since July 2005. On an annual basis, house prices rose by 7.9%, the lowest level since October 2006. As our national index summary indicates, the market has been slowing on a monthly and annual basis since August reinforcing the view that this has been a year of two halves. If we strip London out of the assessment there was no overall monthly increase for England and Wales and the annual rate falls to 5.8%, i.e. over 2 percentage points lower.

“Although the annual increase at nearly 8% is still substantial by any standards, it is the monthly rate that has now become significant in terms of overall market direction. The FT index is trending downwards and this is very much in line with other market reporting. It is a rigorously constructed index and unlike most other indices is based on **all** property transactions in England and Wales.

“With continued weakening in consumer confidence and the extensive negative commentary on market prospects in 2008, we would expect this downward trend to continue even though the fundamentals of demand and supply, employment and interest rates remain favourable. Although there are now some welcome signs that the condition of the funding markets is easing, 2008 is likely to be a challenging year for both buyers and sellers, albeit any reduction in prices must be placed in the context of the strong performance of the market in recent years.”

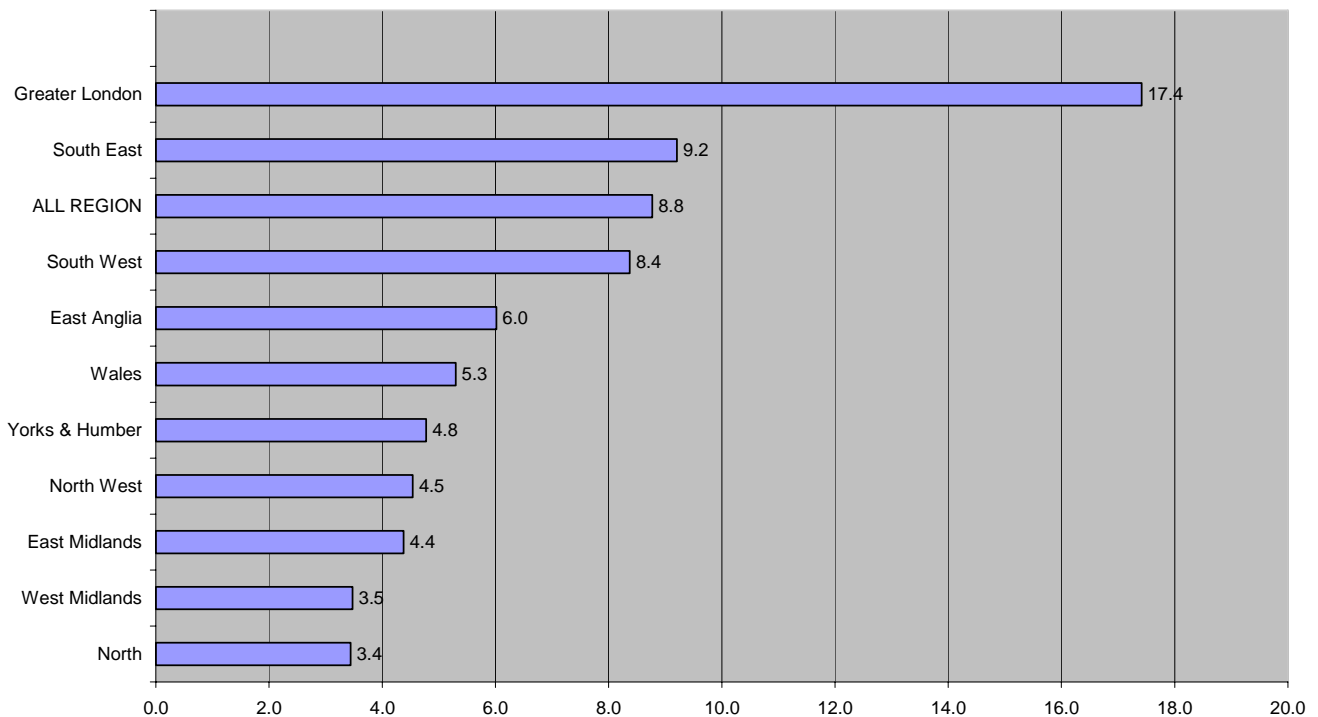
NATIONAL INDEX SUMMARY

		House Price	Index	Monthly Change %	Annual Change %
June	2007	£224,636	228.7	0.9	10.2
July	2007	£225,452	229.5	0.4	10.1
August	2007	£227,068	231.2	0.7	10.3
September	2007	£228,287	232.4	0.5	10.0
October	2007	£229,653	233.8	0.6	9.5
November	2007	£230,189	234.4	0.2	8.9
December	2007	£230,392	234.6	0.1	7.9

REGIONAL ANALYSIS

London has a rate of house price inflation that is almost twice as high as the next highest region, the South East, and more than five times higher than the lowest region (the North). This month, however, along with **all** other regions, London's annual rate of increase is falling; the same is true on a monthly basis although we have less confidence in these data; three regions, East Anglia, West and East Midlands recorded monthly price falls.

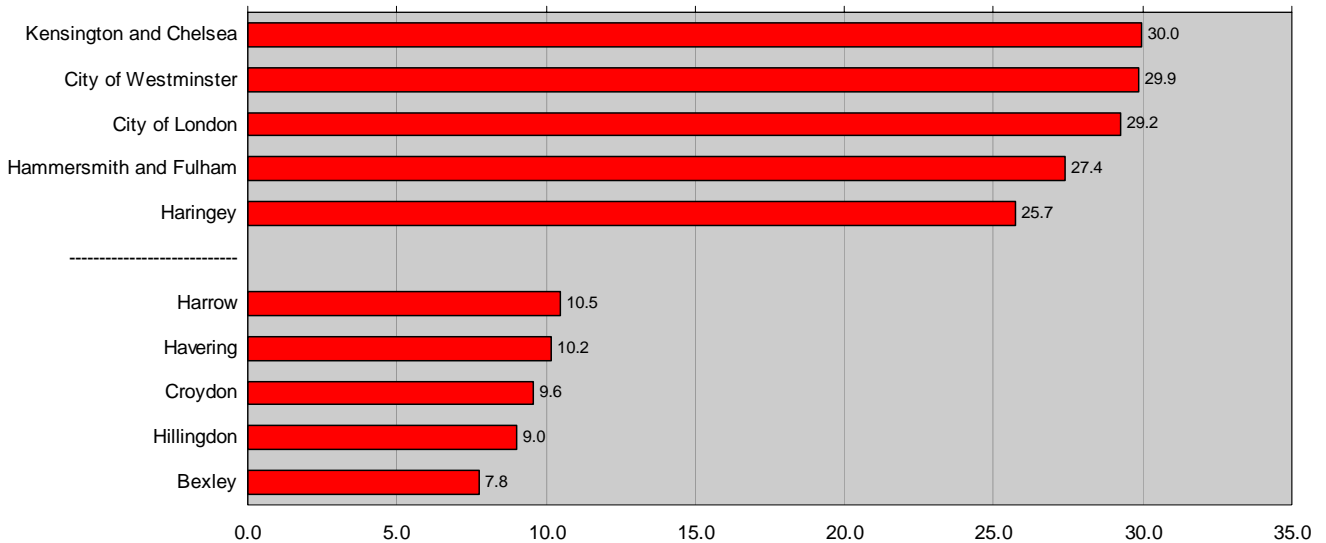
Average Annual Growth over last three months



LONDON BOROUGH ANALYSIS

The very strong performance of London as a whole masks the widely varying performance of the market on a borough by borough basis. A number of inner London boroughs continue to record very strong upward growth rates (above 25% on an annual basis), reflecting in some cases international as well as national demand. However only 3 boroughs show increases under 10% which is what almost all authorities elsewhere in England and Wales recorded.

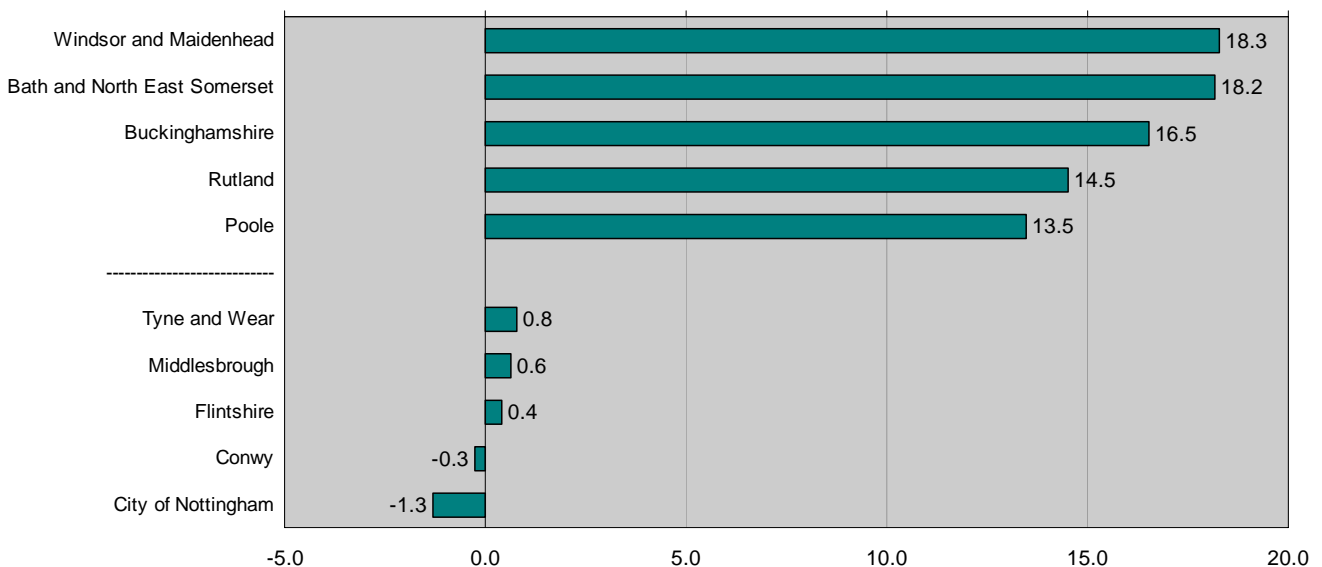
Average Annual Growth over last three months - London boroughs



UNITARY DISTRICT AND COUNTIES ANALYSIS

In a similar fashion to London, the performance at a district and county level is very varied. Only 17 of these districts and counties recorded growth rates in excess of 10% on an annual basis – 3 of these were in Wales, and of the 14 in England all but two were in the South East.

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
Dec-06	£149,272	0.7	5.8	£161,054	1.3	8.4	£168,534	0.2	6.0	£178,693	0.7	6.2
Jan-07	£150,831	1.0	6.6	£161,437	0.2	7.7	£170,418	1.1	7.1	£180,398	1.0	6.4
Feb-07	£151,507	0.4	6.1	£163,907	1.5	8.7	£172,152	1.0	7.5	£180,808	0.2	5.9
Mar-07	£151,716	0.1	6.4	£164,324	0.3	7.5	£172,735	0.3	6.8	£181,260	0.3	5.7
Apr-07	£151,714	0.0	5.9	£165,440	0.7	8.1	£173,073	0.2	6.8	£181,627	0.2	5.4
May-07	£151,723	0.0	5.7	£165,279	-0.1	7.3	£174,103	0.6	7.0	£182,281	0.4	5.6
Jun-07	£152,420	0.5	5.5	£165,477	0.1	7.7	£174,665	0.3	7.0	£183,004	0.4	5.4
Jul-07	£151,887	-0.3	5.5	£165,609	0.1	7.1	£175,011	0.2	6.8	£182,482	-0.3	5.0
Aug-07	£151,901	0.0	5.4	£166,075	0.3	6.5	£174,684	-0.2	6.4	£183,912	0.8	5.2
Sep-07	£151,740	-0.1	4.6	£166,777	0.4	6.2	£175,987	0.7	6.1	£184,278	0.2	4.8
Oct-07	£152,787	0.7	4.2	£167,069	0.2	5.2	£175,933	0.0	5.5	£184,464	0.1	4.3
Nov-07	£153,281	0.3	3.4	£167,063	0.0	5.1	£175,447	-0.3	4.3	£183,956	-0.3	3.6

	Wales			Yorks & Humber			South West			East Anglia		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Dec-06	£162,202	0.3	6.7	£161,577	0.6	7.9	£223,709	1.5	8.9	£197,957	1.2	9.5
Jan-07	£162,866	0.4	7.4	£161,849	0.2	7.0	£224,119	0.2	8.9	£198,468	0.3	10.0
Feb-07	£163,762	0.6	6.6	£162,755	0.6	6.6	£226,768	1.2	9.4	£201,296	1.4	10.3
Mar-07	£164,374	0.4	6.4	£162,787	0.0	6.0	£227,884	0.5	9.2	£203,963	1.3	10.7
Apr-07	£163,963	-0.2	6.4	£164,469	1.0	6.9	£231,952	1.8	10.2	£205,213	0.6	9.5
May-07	£163,686	-0.2	6.5	£165,137	0.4	7.2	£233,994	0.9	10.7	£205,742	0.3	9.4
Jun-07	£164,843	0.7	7.0	£165,630	0.3	7.8	£235,404	0.6	11.1	£204,582	-0.6	8.6
Jul-07	£165,926	0.7	6.9	£164,544	-0.7	6.7	£235,444	0.0	10.7	£206,016	0.7	9.1
Aug-07	£167,707	1.1	7.4	£165,364	0.5	6.5	£236,001	0.2	10.6	£207,410	0.7	8.0
Sep-07	£168,635	0.6	7.3	£166,599	0.7	6.0	£236,969	0.4	10.2	£208,611	0.6	8.0
Oct-07	£169,366	0.4	5.8	£167,802	0.7	5.3	£238,381	0.6	9.3	£208,590	0.0	6.5
Nov-07	£169,789	0.2	5.0	£168,211	0.2	4.7	£239,082	0.3	8.5	£208,033	-0.3	6.4

	South East			Greater London			ALL REGION			
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	
Dec-06	£251,364	0.9	8.1	£325,334	1.9	11.0		£213,615	1.1	8.4
Jan-07	£253,947	1.0	8.6	£331,595	1.9	12.5		£215,601	0.9	8.8
Feb-07	£257,547	1.4	9.2	£337,699	1.8	13.3		£218,282	1.2	9.3
Mar-07	£259,799	0.9	9.6	£340,955	1.0	14.3		£219,655	0.6	9.4
Apr-07	£262,080	0.9	9.6	£344,576	1.1	14.4		£221,474	0.8	9.5
May-07	£263,028	0.4	9.4	£348,823	1.2	15.0		£222,666	0.5	9.6
Jun-07	£265,910	1.1	10.2	£355,888	2.0	16.5		£224,636	0.9	10.2
Jul-07	£266,465	0.2	9.9	£361,200	1.5	17.6		£225,452	0.4	10.1
Aug-07	£268,805	0.9	10.3	£366,013	1.3	18.5		£227,068	0.7	10.3
Sep-07	£270,126	0.5	10.0	£368,898	0.8	18.1		£228,287	0.5	10.0
Oct-07	£271,899	0.7	9.8	£373,138	1.1	18.5		£229,653	0.6	9.5
Nov-07	£272,525	0.2	9.4	£375,755	0.7	17.7		£230,189	0.2	8.9
Dec-07								£230,392	0.1	7.9

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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**, some 100,000 transactions occur monthly. 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 such a small and unrepresentative sample, we base our current month results upon a combination of our academic “index of indices” forecasting model, developed by Dr Steve Satchell (University of Cambridge) and Dr George Christodoulakis (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. 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 [FTHPI Calibration 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.