



FT HOUSE PRICE INDEX

MAY 2008

HIGHLIGHTS

- House prices in England and Wales fell by 0.6% in May. This is the third consecutive month of price falls and the largest monthly fall since February 1995.
- On an annual basis, prices increased by 2.7%, 1.2 percentage points down from the 3.9% recorded in April. This is the ninth successive month in which the annual growth rate has fallen and it is now at its lowest since June 1996. The annual rate of growth has been declining by 1% point each month since October 2007.
- London prices continue to trend down, but an annual growth rate in the capital of 8.5% (averaged over the past three months) is still some 3% points higher than the next highest region.
- Outside London, the South East (5.3%) has recorded the largest annual increase. Seven of the ten regions in England and Wales now have an annual growth rate of less than 3%. Four regions - the North West, East Midlands, West Midlands and Wales - have an annual rate below 1%.
- The market slowdown continues to gather momentum, spurred on by the contracting mortgage market and in spite of the strong fundamentals that underpin the market.

COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

"House prices in England and Wales fell by 0.6% in May making this the third consecutive month of nominal price falls recorded by the FT index - the first time this has happened since April 1995. The average house price has fallen by £2,715 from a peak of £231,539 in February to £228,824 in May; back to where we were in August and September 2007.

"On an annual basis, house prices still rose by 2.7% but this is the lowest annual growth rate recorded since June 1996 and it is the ninth month in succession that this rate has fallen. Excluding London, this rate of increase would be even lower at 1.6%.

"Nevertheless, these figures do challenge the perception of a housing market in steep decline as suggested by some other indices. The differences are, firstly, that the FT index is based upon **all** property transactions in England and Wales (i.e. cash sales and mortgage backed transactions) and is not influenced by, for example, the current mortgage policies of lenders and by any reduction/redirection in lending. Secondly, the FT index reports on **final** transaction prices, as distinct from the asking and mortgage offer prices reported in all but one of the other house price index series. A third, reason is that there is now a great deal of haggling over prices with sellers accepting prices lower than that originally asked, albeit rather slowly. The asking price has often been based around what are now historic expectations of continued increases and there is a degree of stickiness as sellers reluctantly accept the new reality. The FT index shows significant variations by region, county and London borough. Additionally, at property type level, Acadameetrics data show that, within London, the prices of flats are strongest and detached properties are weakest whereas outside London the reverse is the case.

"Within the London region, house price inflation has more than halved from 18.7% in August 2007 to 8.6% in May 2008 and the falls were greater in other regions e.g. the South West (11% in June 2007 to 1.4%) and Wales (7.6% in August 2007 to 0.3%). The South West apart, all regions recorded negative growth in April.

"Regardless of the stage in the transaction process at which indices take data and of time differences in publishing, all the house price indices are providing a broadly similar story which is one of steadily falling house prices. The market **is** definitely deteriorating but the situation is **not** as dire as some suggest. However, such is the space given by some newspapers to the story that house prices are dropping off a cliff that confidence may now be so undermined that prophecies of yet further falls may well prove self fulfilling.

"The continued contraction and re-pricing in the mortgage market are adding to the downward pressure on prices and there is little sign yet that liquidity is recovering. But decline in the mortgage market should not be exaggerated. Mortgages continue to be taken out and April saw gross lending of over £25 billion. But with continuing evidence of the slow down gathering momentum there is now in effect a race - will any hoped-for capital market recovery arrive in time to revive the housing market? Currently, the market slowdown is winning."

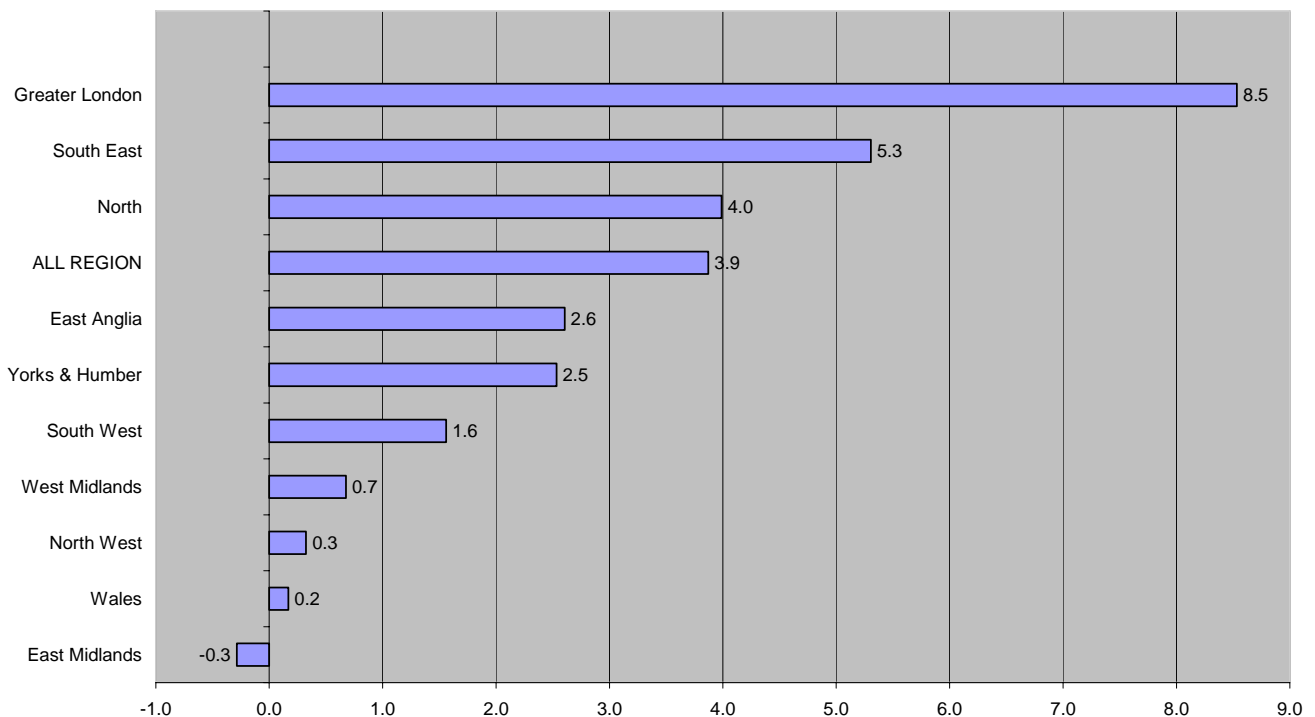
NATIONAL INDEX SUMMARY

	House Price	Index	Monthly Change %	Annual Change %
November 2007	£230,097	234.3	-0.2	8.9
December 2007	£230,301	234.5	0.1	7.8
January 2008	£230,730	234.9	0.2	7.0
February 2008	£231,539	235.7	0.4	6.1
March 2008	£230,760	234.9	-0.3	5.0
April 2008	£230,137	234.3	-0.3	3.9
May 2008	£228,824	233.0	-0.6	2.7

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 and has now moved to single digits. The South West has witnessed rapid deflation and has now moved to 6th place in the table, having stood alongside London and the South East in recent times.

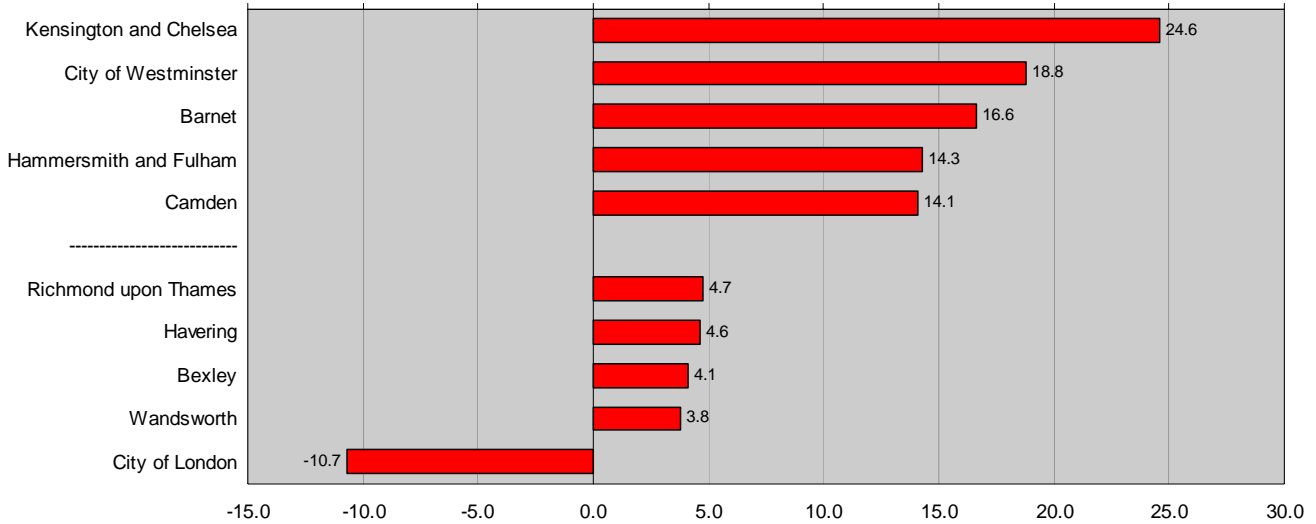
Average Annual Growth over last three months



LONDON BOROUGH ANALYSIS

The very 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) has an averaged annual growth rate of 20% or more, whilst twenty-six have recorded rates of less than 10%. The rates range from 24.6% in Kensington and Chelsea to -10.7% in the City of London and + 3.8% in Wandsworth.

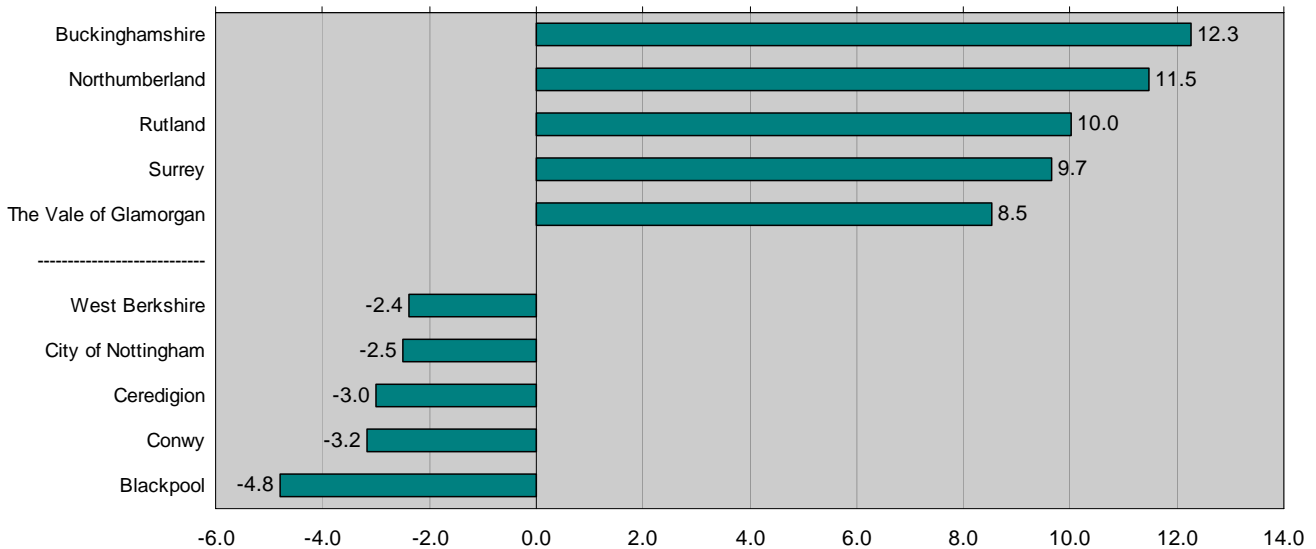
Average Annual Growth over last three months - London boroughs



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 three recorded growth rates in excess of 10%; eighty-nine had growth rates of less than 5% and of these twenty-four saw price reductions, nine 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.

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
May-07	£152,029	0.2	5.9	£165,069	0.0	7.2	£174,135	0.6	7.0	£182,436	0.4	5.7
Jun-07	£152,730	0.5	5.7	£165,234	0.1	7.5	£174,657	0.3	7.0	£183,139	0.4	5.5
Jul-07	£152,275	-0.3	5.8	£165,829	0.4	7.3	£175,037	0.2	6.8	£182,550	-0.3	5.1
Aug-07	£152,026	-0.2	5.5	£166,584	0.5	6.8	£175,015	0.0	6.6	£184,101	0.8	5.3
Sep-07	£152,108	0.1	4.9	£168,452	1.1	7.3	£176,966	1.1	6.7	£185,355	0.7	5.4
Oct-07	£153,296	0.8	4.6	£168,708	0.2	6.2	£177,508	0.3	6.5	£186,170	0.4	5.2
Nov-07	£154,622	0.9	4.2	£168,400	-0.2	5.9	£177,113	-0.2	5.2	£185,725	-0.2	4.6
Dec-07	£154,121	-0.3	3.2	£167,985	-0.2	4.3	£176,158	-0.5	4.5	£184,566	-0.6	3.3
Jan-08	£156,033	1.2	3.4	£167,788	-0.1	4.0	£175,645	-0.3	3.1	£184,414	-0.1	2.2
Feb-08	£157,374	0.9	3.8	£168,098	0.2	2.6	£175,796	0.1	2.1	£184,641	0.1	2.1
Mar-08	£159,001	1.0	4.7	£166,410	-1.0	1.3	£174,348	-0.8	0.9	£184,185	-0.2	1.6
Apr-08	£158,063	-0.6	4.2	£165,786	-0.4	0.4	£173,290	-0.6	0.1	£183,260	-0.5	0.8

	Wales			Yorks & Humber			South West			East Anglia		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
May-07	£163,875	-0.1	6.7	£165,250	0.4	7.3	£234,084	0.9	10.7	£205,834	0.2	9.4
Jun-07	£164,986	0.7	7.1	£165,649	0.2	7.8	£235,108	0.4	11.0	£204,733	-0.5	8.6
Jul-07	£166,062	0.7	7.0	£164,652	-0.6	6.8	£235,256	0.1	10.7	£206,345	0.8	9.3
Aug-07	£167,935	1.1	7.6	£165,900	0.8	6.9	£235,796	0.2	10.5	£208,184	0.9	8.4
Sep-07	£168,873	0.6	7.5	£167,900	1.2	6.8	£237,326	0.6	10.4	£209,765	0.8	8.6
Oct-07	£170,197	0.8	6.3	£170,187	1.4	6.8	£238,835	0.6	9.5	£210,409	0.3	7.4
Nov-07	£169,303	-0.5	4.7	£170,325	0.1	6.0	£238,214	-0.3	8.1	£208,366	-1.0	6.5
Dec-07	£168,699	-0.4	4.0	£170,598	0.2	5.5	£238,775	0.2	6.7	£209,170	0.4	5.7
Jan-08	£166,846	-1.1	2.5	£170,088	-0.3	5.0	£236,467	-1.0	5.5	£209,797	0.3	5.7
Feb-08	£166,366	-0.3	1.6	£169,861	-0.1	4.3	£235,953	-0.2	4.0	£211,672	0.9	5.1
Mar-08	£165,592	-0.5	0.7	£169,228	-0.4	3.8	£234,861	-0.5	3.0	£211,336	-0.2	3.5
Apr-08	£164,562	-0.6	0.3	£168,396	-0.5	2.3	£235,312	0.2	1.4	£210,345	-0.5	2.4

	South East			Greater London			ALL REGION			
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	
May-07	£263,253	0.4	9.5	£348,855	1.2	15.0		£222,765	0.6	9.7
Jun-07	£266,220	1.1	10.4	£355,880	2.0	16.5		£224,691	0.9	10.2
Jul-07	£266,721	0.2	10.0	£361,295	1.5	17.6		£225,591	0.4	10.2
Aug-07	£269,398	1.0	10.6	£366,675	1.5	18.7		£227,478	0.8	10.5
Sep-07	£271,234	0.7	10.5	£369,337	0.7	18.3		£229,217	0.8	10.4
Oct-07	£273,081	0.7	10.3	£370,386	0.3	17.7		£230,463	0.5	9.9
Nov-07	£273,195	0.0	9.6	£369,129	-0.3	15.6		£230,097	-0.2	8.9
Dec-07	£274,242	0.4	9.1	£370,096	0.3	13.8		£230,301	0.1	7.8
Jan-08	£275,591	0.5	8.5	£373,498	0.9	12.7		£230,730	0.2	7.0
Feb-08	£277,087	0.5	7.6	£376,048	0.7	11.4		£231,539	0.4	6.1
Mar-08	£276,358	-0.3	6.4	£375,205	-0.2	10.0		£230,760	-0.3	5.0
Apr-08	£275,967	-0.1	5.2	£374,344	-0.2	8.6		£230,137	-0.3	3.9
May-08								£228,824	-0.6	2.7

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**, 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) 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.