



FT HOUSE PRICE INDEX

OCTOBER 2007

HIGHLIGHTS

- On a monthly basis, house prices in England and Wales rose by 0.7% in October, up from 0.3% in the previous month.
- On an annual basis, prices increased by 8.9%, down from 10.1% in June and the lowest annual growth rate since January.
- London remains completely out of step with the rest of England and Wales, with an annual growth rate of 17.8% (averaged over the last three months) which is nearly double the next highest region.
- Outside London the southern regions, South West (9.4%) and South East (9.5%) have recorded the next largest annual increases (again averaged over the last three months).
- Overall, there is widespread evidence of the market slowing. The FT index All Region annual rates, as shown in the Regional Data Table below, suggest that the market turned in around May/June.

COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

“House prices in England and Wales increased by 0.7% in October, a rate which is 0.4% up on the previous month. Set against this, and on an annual basis, the rate of house price inflation has continued the downward path recorded since June and is now 8.9%, the lowest level since January this year. The annual rate of house price inflation has fallen by more than 10% over the last four months.

“Monthly rates are subject to fluctuations and we would see the October figure as something of a blip set against the continuing fall in the annual inflation rate. On the basis of this evidence and the wider market data available, we would expect to see further reductions in the rate of house price inflation come through as we move towards the end of the year.

“London has remained completely out of step with the rest of England and Wales with annual rates of increase almost three times higher than the average for all the other regions. Not surprisingly, stripping London out of the assessment brings the overall monthly increase for England and Wales down by 0.2% to 0.5%, and the annual rate to 6.6%, i.e. over 2 percentage points lower.

“The data suggest that the market turned in around May/June 2007 and that we have been seeing reductions in the underlying annual rate of house price inflation since then. This is true both with and without London, and we should note that the monthly rate of inflation for the capital is down from 2% in June to 0.7% in September, i.e. by more than half. What we are witnessing is a market in transition - albeit at this stage it is hard to predict where it might settle. A number of organisations have published forecasts for 2008 and these range in nominal terms from +3% to -3%, in essence agreeing that, in real terms, we will have flat or falling prices.”

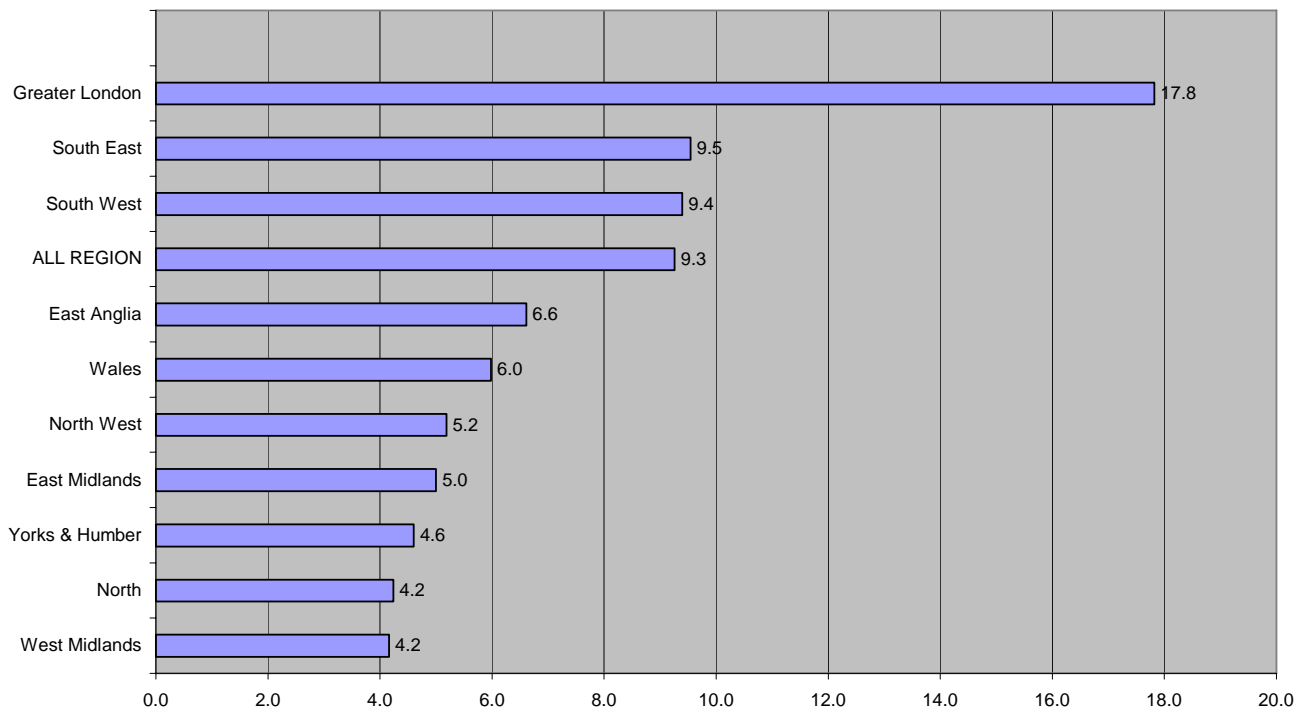
NATIONAL INDEX SUMMARY

	House Price	Index	Monthly Change %	Annual Change %
April 2007	£221,472	225.5	0.8	9.5
May 2007	£222,642	226.7	0.5	9.6
June 2007	£224,393	228.5	0.8	10.1
July 2007	£224,949	229.0	0.2	9.9
August 2007	£225,873	230.0	0.4	9.7
September 2007	£226,627	230.7	0.3	9.2
October 2007	£228,298	232.4	0.7	8.9

REGIONAL ANALYSIS

On a regional basis, the London market has continued to “outperform” all other regions. It has a rate almost twice as high as the South East and South West, and more than four times higher than the lowest regions, the West Midlands and the North. Such differentials have major implications for labour mobility. However change is underway. We can now see that, in half of the ten regions, both monthly and annual rates of growth are now falling (and this includes London). In three other regions, however, although the monthly rate is up, the annual rate has been trending down, typically over the last four or five months. Overall, a pattern of reduced rates of increase seems to be emerging across England and Wales.

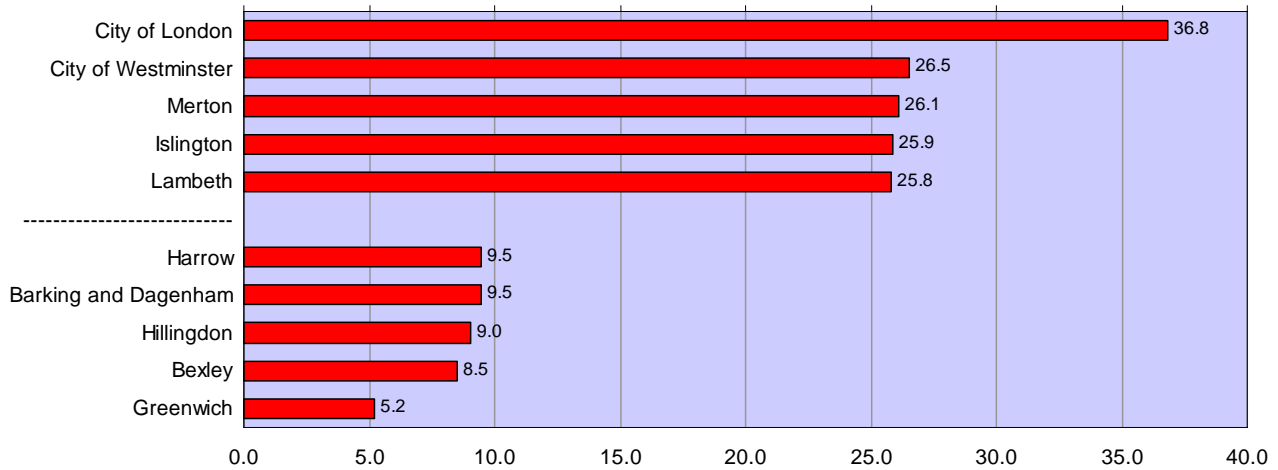
Annual Growth over last three months



LONDON BOROUGH ANALYSIS

The very strong performance of London as a whole masks the very varied performance of the market on a borough by borough basis. Some individual boroughs are still recording strong upward growth rates (including Lambeth, Merton and Haringey) but 18 boroughs are showing reductions over the previous month (including the Cities of London and Westminster and Islington).

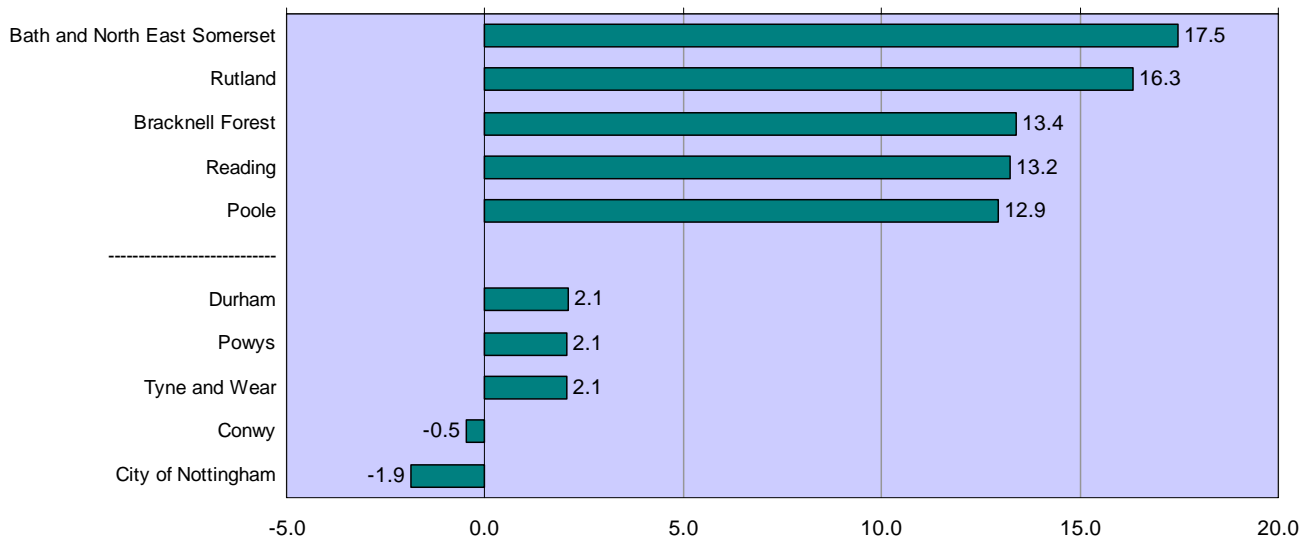
Annual Growth over three months - London boroughs



UNITARY DISTRICT AND COUNTIES ANALYSIS

Like London the performance at district and county levels is very varied. In the South East, in 15 out of 25 areas, the rate of increase has fallen over the last month and, in the South West, that is true of 10 out of 15 areas. In the North, prices in 6 out of 9 areas are still declining. Overall there does remain a strong North/South split in terms of overall performance but we should note that the weakening in the market is spreading more widely.

Annual Growth over three months - Counties



REGIONAL DATA TABLE

Region	<u>North</u>			<u>North West</u>			<u>East Midlands</u>			<u>West Midlands</u>		
	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>
Month												
Oct-06	£146,550	1.1	5.5	£158,868	1.1	8.2	£166,704	0.5	4.6	£176,909	0.6	6.5
Nov-06	£148,244	1.2	6.1	£159,011	0.1	7.7	£168,284	0.9	5.4	£177,449	0.3	6.1
Dec-06	£149,274	0.7	5.8	£160,997	1.2	8.3	£168,503	0.1	6.0	£178,656	0.7	6.2
Jan-07	£150,818	1.0	6.6	£161,361	0.2	7.6	£170,353	1.1	7.0	£180,364	1.0	6.4
Feb-07	£151,458	0.4	6.1	£163,823	1.5	8.7	£172,082	1.0	7.5	£180,769	0.2	5.8
Mar-07	£151,566	0.1	6.3	£164,318	0.3	7.5	£172,717	0.4	6.8	£181,248	0.3	5.7
Apr-07	£151,640	0.0	5.9	£165,511	0.7	8.2	£173,101	0.2	6.8	£181,716	0.3	5.5
May-07	£151,619	0.0	5.6	£165,389	-0.1	7.4	£174,066	0.6	7.0	£182,300	0.3	5.6
Jun-07	£152,057	0.3	5.3	£165,487	0.1	7.7	£174,466	0.2	6.9	£182,968	0.4	5.4
Jul-07	£151,522	-0.4	5.3	£165,194	-0.2	6.9	£174,420	0.0	6.4	£182,056	-0.5	4.8
Aug-07	£151,344	-0.1	5.1	£165,214	0.0	6.0	£173,451	-0.6	5.7	£183,019	0.5	4.7
Sep-07	£151,087	-0.2	4.2	£165,236	0.0	5.2	£173,732	0.2	4.7	£182,906	-0.1	4.0
	<u>Wales</u>			<u>Yorks & Humber</u>			<u>South West</u>			<u>East Anglia</u>		
	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>
Oct-06	£160,115	1.9	6.4	£159,396	1.4	7.7	£218,092	1.5	8.0	£195,896	1.4	8.6
Nov-06	£161,667	1.0	7.2	£160,588	0.7	7.9	£220,417	1.1	8.3	£195,544	-0.2	8.9
Dec-06	£162,177	0.3	6.6	£161,499	0.6	7.9	£223,699	1.5	8.9	£197,863	1.2	9.5
Jan-07	£162,878	0.4	7.4	£161,799	0.2	7.0	£224,123	0.2	8.9	£198,446	0.3	10.0
Feb-07	£163,789	0.6	6.6	£162,735	0.6	6.6	£226,859	1.2	9.4	£201,266	1.4	10.3
Mar-07	£164,372	0.4	6.4	£162,783	0.0	6.0	£227,918	0.5	9.2	£204,045	1.4	10.8
Apr-07	£163,886	-0.3	6.4	£164,461	1.0	6.9	£232,048	1.8	10.3	£205,230	0.6	9.5
May-07	£163,625	-0.2	6.5	£165,048	0.4	7.2	£234,023	0.9	10.7	£205,749	0.3	9.4
Jun-07	£164,689	0.6	6.9	£165,435	0.2	7.4	£235,304	0.5	11.1	£204,247	-0.7	8.4
Jul-07	£165,378	0.4	6.5	£164,035	-0.8	6.2	£234,940	-0.2	10.5	£205,080	0.4	8.6
Aug-07	£166,384	0.6	6.6	£164,128	0.1	5.5	£234,724	-0.1	10.0	£205,574	0.2	7.0
Sep-07	£167,090	0.4	6.3	£164,552	0.3	4.7	£235,628	0.4	9.6	£206,673	0.5	7.0
	<u>South East</u>			<u>Greater London</u>			<u>ALL REGION</u>					
	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>	<u>Av HP</u>	<u>%monthly</u>	<u>%annual</u>			
Oct-06	£247,536	0.8	7.9	£314,754	0.8	9.7	£209,632	1.0	7.8			
Nov-06	£249,128	0.6	8.2	£319,218	1.4	10.5	£211,295	0.8	8.2			
Dec-06	£251,337	0.9	8.1	£325,431	1.9	11.0	£213,595	1.1	8.4			
Jan-07	£253,960	1.0	8.6	£331,677	1.9	12.5	£215,592	0.9	8.8			
Feb-07	£257,551	1.4	9.2	£337,743	1.8	13.4	£218,274	1.2	9.3			
Mar-07	£259,742	0.9	9.5	£340,884	0.9	14.3	£219,628	0.6	9.3			
Apr-07	£261,920	0.8	9.6	£344,688	1.1	14.4	£221,472	0.8	9.5			
May-07	£262,864	0.4	9.4	£348,944	1.2	15.0	£222,642	0.5	9.6			
Jun-07	£265,330	0.9	10.0	£355,756	2.0	16.4	£224,393	0.8	10.1			
Jul-07	£266,260	0.4	9.8	£360,206	1.3	17.3	£224,949	0.2	9.9			
Aug-07	£267,855	0.6	9.9	£364,012	1.1	17.8	£225,873	0.4	9.7			
Sep-07	£268,782	0.3	9.4	£366,417	0.7	17.3	£226,627	0.3	9.2			
Oct-07							£228,298	0.7	8.9			

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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 119 counties and 32 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.