



## FT HOUSE PRICE INDEX

## OCTOBER 2008

### HIGHLIGHTS

- The average price recorded in all completed property transactions in England and Wales fell by 1.2% in October. This is the eighth consecutive monthly price fall and the fourth month in a row when the fall has exceeded 1%.
- Average prices of completed transactions in England and Wales (including London) are now 6.2% lower than a year ago. All ten regions in England and Wales now show prices falling on both a monthly and an annual basis.
- In London prices are trending down rapidly. The annual growth rate in the capital (averaged over the past three months) is now at -2.5%, double the previous month's average rate, and the previously large disparity with other regions is narrowing fast.
- The market is still in a continuing decline. All UK house price indices are currently negative, but the index measures that are based upon the final prices achieved in a sales transaction (FTHPI, Land Registry - recently rebased - and CLG) are showing a materially less negative picture of the market than that provided by the indices based upon mortgage offer prices (Halifax, Nationwide).
- Although many negatives remain, the action by both government and the Bank is helping to ease some pressures and if this is sustained it is possible the market will stabilise in 2009.

### COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadametrics, comments,

“On a **monthly** basis, the average price of a home in England and Wales fell by 1.2% in October, making this the eighth consecutive month of nominal price falls recorded by the FT index and the fourth month in which falls have exceeded 1%.

“The average price of a home peaked in February of this year at £231,854, since when it has fallen by around 6.8% i.e. by £15,757 to £216,097. This takes the average price back to where it was in January 2007, some 21 months ago. This is unlikely to cause problems for the vast majority of households but it will be a factor for those who cannot afford their loan repayments, and/or who have to sell and move home. With further price falls anticipated over the coming months and the reality of rising unemployment, we can expect to see growing problems created by negative equity. The BoE's recent estimates show that allowing for a 6% house price reduction, well over half of borrowers still have loan to value ratios of less than 50% and under 5% of borrowers would be in negative equity.

“The annual rate of change of -6.2% is our lowest reported figure since January 1993, and this is the fourteenth month in succession in which the **annual** rate has fallen in nominal terms.

“Over the last two years, we have regularly highlighted that the London market has been out of line with all the other parts of England and Wales. As anticipated, the differentials in rates of change have now all but disappeared as the London market has contracted at a pace. If London is excluded, the England and Wales monthly figure is identical at -1.2% while the annual rate is 0.7% lower at -6.9%.

“Prices in all regions in England and Wales are declining, month on month, and all regions are now negative on both a monthly and an annual basis. The most severe annual falls have been in East Midlands and Wales, down by 6.5% 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 17.5% in October 2007 to -2.6% some 12 months later in September 2008.

“Looking at price trends in local authorities on a three month averaged basis, there are still significant variations across England and Wales. But there are now twenty-seven London boroughs and ninety-five

districts where prices have fallen over the past year, and there is now only one London borough and no county or district with annual price inflation still in double figures.

“The October Bank of England Financial Stability report commented that the fears of an adverse spiral developing had materialised triggered by deteriorating macro-economic prospects and weakening housing markets. However the widely anticipated further cut in interest rates should stabilise the housing market by easing pressures on many existing borrowers and not least those who will need to remortgage (including sub prime borrowers whose mortgages are priced off LIBOR). Together with some evidence of increased net lending and consumer confidence there is a possibility that the market will bottom out in 2009. However there is still a significant gap between asking and completion prices, suggesting seller reluctance to accept the new realities and transaction levels remain at historic lows. With the possibility of increased arrears and possessions in 2009 government and lenders will need to continue to manage the market through the next few months in order to avoid serious difficulties and restore a semblance of normality. Continuing to improve the safety net for home owners in difficulty and restoring an adequate flow of mortgage finance are key priorities.”

## NATIONAL INDEX SUMMARY

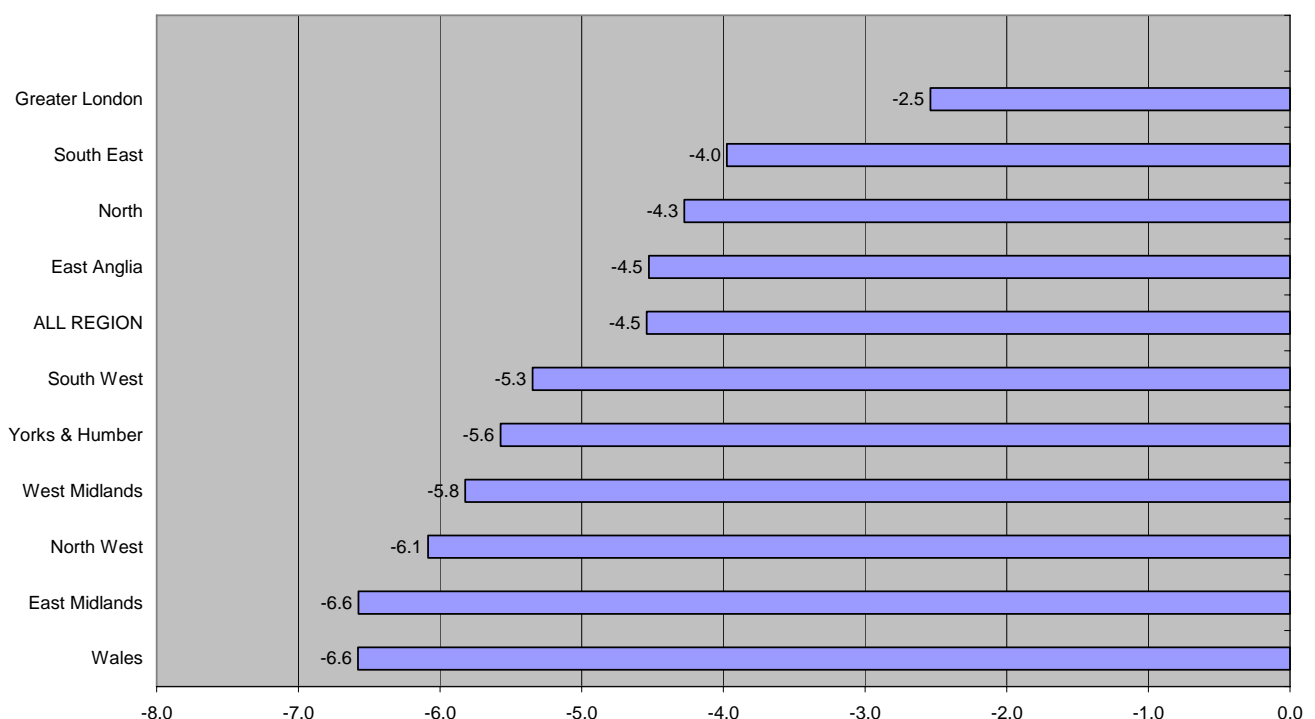
		House Price	Index	Monthly Change %	Annual Change %
April	2008	£230,723	234.9	-0.2	4.1
May	2008	£229,336	233.5	-0.6	2.9
June	2008	£227,433	231.6	-0.8	1.2
July	2008	£224,355	228.4	-1.4	-0.6
August	2008	£221,167	225.2	-1.4	-2.8
September	2008	£218,624	222.6	-1.2	-4.6
October	2008	£216,097	220.0	-1.2	-6.2

## REGIONAL ANALYSIS

“All regions are now recording negative growth in nominal terms as measured by a 3 month average.

The South West has witnessed the most rapid deflation and has now dropped to 5th place in the table, having stood alongside London and the South East in recent times. Both these regions record below average falls in prices, at -2.5% and -4.0% respectively.”

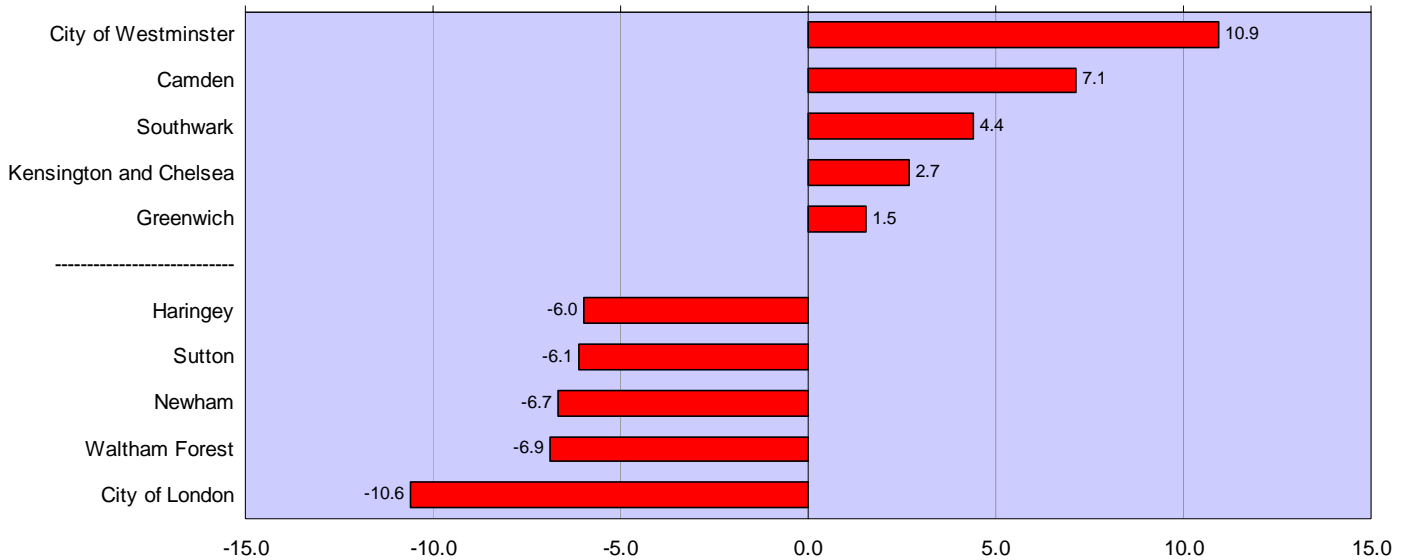
Average Annual Growth over last three months



## LONDON BOROUGH ANALYSIS

“The performance of London, as a whole, masks a widely varying performance on a borough by borough basis. Of the thirty three London boroughs, rates range from a 10.9% increase in City of Westminster to a fall of -10.6% in the City of London, though both are probably for exceptional reasons and related to a number of specific transactions. However declines are being recorded across London with the highest being -6.9% in Waltham Forest and -6.7% in Newham.”

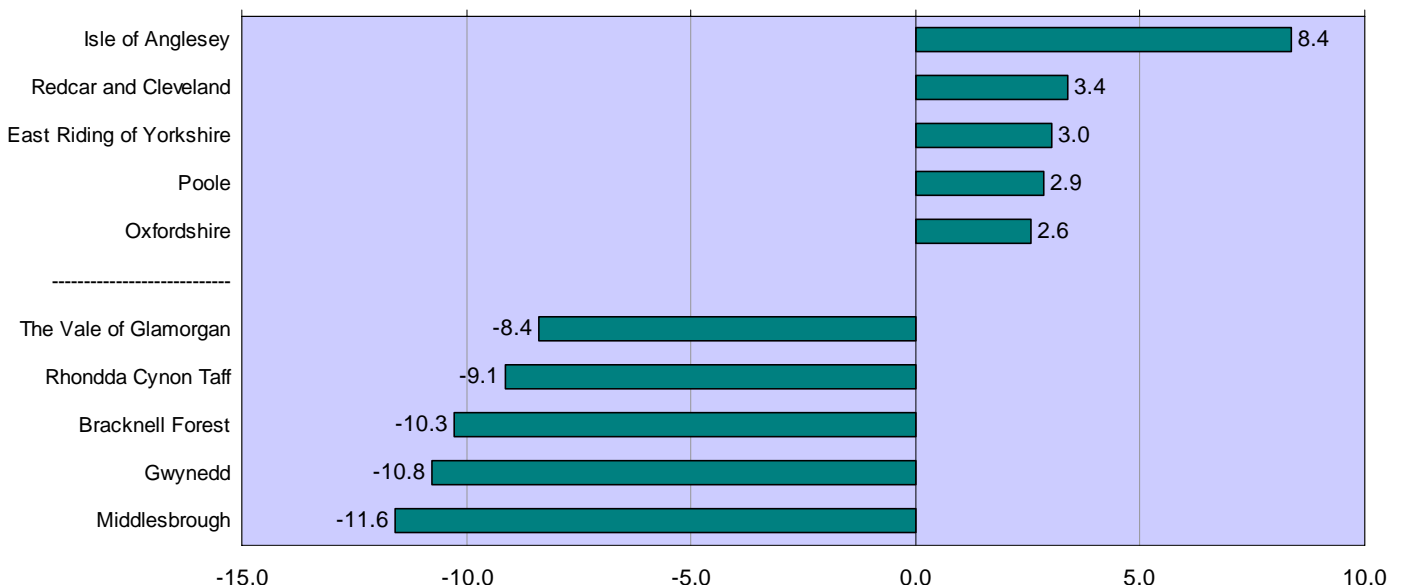
**Average Annual Growth over last three months - London boroughs**



## UNITARY DISTRICT AND COUNTIES ANALYSIS

“Of the one hundred and eight districts and counties in England and Wales, ninety-five (nearly 90%) saw price reductions. A distinctive pattern of change is now emerging, as more authorities record negative house price inflation, which is consolidating on a country/regional basis. For example all but two authorities in Wales are now showing declines in prices.”

**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
Oct-07	£153,396	0.8	4.6	£168,664	0.2	6.2	£177,389	0.2	6.4	£186,214	0.5	5.2
Nov-07	£154,804	0.9	4.4	£168,474	-0.1	6.0	£176,816	-0.3	5.1	£185,815	-0.2	4.7
Dec-07	£154,489	-0.2	3.5	£168,087	-0.2	4.5	£175,940	-0.5	4.4	£184,651	-0.6	3.3
Jan-08	£157,068	1.7	4.0	£168,020	0.0	4.2	£175,781	-0.1	3.2	£184,731	0.0	2.4
Feb-08	£158,821	1.1	4.8	£168,473	0.3	2.9	£176,724	0.5	2.7	£185,239	0.3	2.5
Mar-08	£160,471	1.0	5.7	£166,937	-0.9	1.5	£175,072	-0.9	1.3	£185,871	0.3	2.5
Apr-08	£158,839	-1.0	4.7	£166,418	-0.3	0.7	£174,158	-0.5	0.6	£185,725	-0.1	2.1
May-08	£157,498	-0.8	3.6	£164,499	-1.2	-0.4	£171,795	-1.4	-1.4	£183,995	-0.9	0.8
Jun-08	£155,675	-1.2	1.9	£163,395	-0.7	-1.2	£171,915	0.1	-1.6	£181,986	-1.1	-0.6
Jul-08	£152,249	-2.2	-0.1	£161,678	-1.1	-2.5	£170,097	-1.1	-2.8	£179,402	-1.4	-1.7
Aug-08	£148,407	-2.5	-2.5	£159,716	-1.2	-4.1	£167,661	-1.4	-4.2	£177,093	-1.3	-3.8
Sep-08	£145,843	-1.7	-4.2	£157,729	-1.2	-6.3	£164,595	-1.8	-7.0	£174,540	-1.4	-5.8

	Wales			Yorks & Humber			South West			East Anglia		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Oct-07	£170,340	0.9	6.4	£170,192	1.3	6.8	£238,882	0.6	9.5	£210,502	0.4	7.4
Nov-07	£169,447	-0.5	4.8	£170,500	0.2	6.2	£238,267	-0.3	8.1	£208,722	-0.8	6.7
Dec-07	£168,867	-0.3	4.1	£170,767	0.2	5.7	£238,746	0.2	6.7	£209,490	0.4	5.8
Jan-08	£166,746	-1.3	2.4	£170,455	-0.2	5.2	£236,114	-1.1	5.4	£210,290	0.4	6.0
Feb-08	£166,568	-0.1	1.7	£169,995	-0.3	4.4	£234,861	-0.5	3.6	£212,003	0.8	5.3
Mar-08	£166,315	-0.2	1.2	£170,129	0.1	4.4	£234,014	-0.4	2.6	£211,605	-0.2	3.6
Apr-08	£166,035	-0.2	1.2	£169,784	-0.2	3.1	£235,374	0.6	1.4	£209,607	-0.9	2.0
May-08	£163,601	-1.5	-0.2	£168,312	-0.9	1.8	£235,562	0.1	0.6	£208,857	-0.4	1.4
Jun-08	£162,093	-0.9	-1.7	£165,556	-1.6	-0.1	£233,015	-1.1	-0.9	£207,538	-0.6	1.4
Jul-08	£159,894	-1.4	-3.6	£162,608	-1.8	-1.2	£229,912	-1.3	-2.3	£204,563	-1.4	-0.9
Aug-08	£159,362	-0.3	-5.0	£160,826	-1.1	-3.1	£227,051	-1.2	-3.7	£201,900	-1.3	-3.0
Sep-08	£157,691	-1.0	-6.6	£158,791	-1.3	-5.5	£224,847	-1.0	-5.3	£199,407	-1.2	-4.9

	South East			Greater London			ALL REGION			
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	
Oct-07	£273,131	0.7	10.3	£370,045	0.3	17.6		£230,440	0.5	9.9
Nov-07	£273,269	0.1	9.7	£368,646	-0.4	15.5		£230,098	-0.1	8.9
Dec-07	£274,480	0.4	9.2	£369,682	0.3	13.7		£230,359	0.1	7.8
Jan-08	£275,849	0.5	8.6	£373,092	0.9	12.5		£230,873	0.2	7.1
Feb-08	£277,679	0.7	7.8	£376,061	0.8	11.4		£231,854	0.4	6.2
Mar-08	£276,797	-0.3	6.5	£374,608	-0.4	9.9		£231,176	-0.3	5.2
Apr-08	£276,292	-0.2	5.4	£373,807	-0.2	8.5		£230,723	-0.2	4.1
May-08	£275,120	-0.4	4.5	£372,311	-0.4	6.7		£229,336	-0.6	2.9
Jun-08	£272,733	-0.9	2.5	£370,067	-0.6	3.9		£227,433	-0.8	1.2
Jul-08	£268,704	-1.5	0.8	£366,037	-1.1	1.3		£224,355	-1.4	-0.6
Aug-08	£263,799	-1.8	-2.1	£361,572	-1.2	-1.3		£221,167	-1.4	-2.8
Sep-08	£260,407	-1.3	-4.0	£359,423	-0.6	-2.6		£218,624	-1.2	-4.6
Oct-08								£216,097	-1.2	-6.2

also see [www.ft.com/houseprices](http://www.ft.com/houseprices)

[www.acadmetrics.co.uk](http://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 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. 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](mailto:information@acadametrics.co.uk).