



FT HOUSE PRICE INDEX

SEPTEMBER 2008

HIGHLIGHTS

- House prices in England and Wales fell by 1.1% in September. This is the seventh consecutive month of nominal price falls and the third month in a row when the fall has exceeded 1%.
- Average prices in England and Wales (including London) are now 4.3% 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 negative at -0.4%, whilst the previously large disparity with other regions is narrowing fast.
- We are seeing a market in a continuing decline. Mortgage approvals have fallen sharply (August approvals were down 70% on a year earlier) and the latest BoE credit conditions survey suggests that they will fall again in the next quarter.
- 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 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).
- Commentators have yet to establish whether these index differences are material, insofar as they provide contradictory messages both to consumers, in terms of measuring their personal wealth and the confidence that this inspires, and to the mortgage lenders in terms of the true strength of the assets underpinning their loan books.

COMMENTARY BY DR. PETER WILLIAMS

Dr Peter Williams, Chairman of Acadameetrics, comments,

“On a **monthly** basis, house prices in England and Wales fell by 1.1% in September, making this the seventh consecutive month of nominal price falls recorded by the FT index and the third month in which falls have exceeded 1%.

“The average house price peaked in February of this year at £231,941, since when it has fallen by around 5.5% i.e. by £12,634 to £219,307. This takes the average price back to where it was in March 2007, some 19 months ago. This is unlikely to cause problems for the vast majority of households, who do not wish to move home, but it does undermine everyone’s confidence. This is reflected in the sharp cessation of housing equity withdrawal (funds borrowed against housing but not spent on it) which occurred in Quarter 2 of 2008 compared to Quarter 1.

“The annual rate of change of -4.3% is our lowest reported figure since March 1993 and this is the thirteenth month in succession in which the **annual** rate has fallen in nominal terms.

“Over the last two years, we have regularly pointed out 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, since the London market has now contracted at a pace. If London is excluded, the national monthly figure is only 0.2% lower at -1.3% and the annual rate is 0.6% lower at -4.9%.

“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 4.5% 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 18% in August 2007 to -0.9% in August 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 two county/districts with annual price inflation still in double figures. On the other hand, there are now twenty London boroughs and eighty-two districts where prices have fallen over the past year.

“Mortgage supply continues to be a very serious problem affecting the ability of many people to buy and sell their properties. We see this in the sales transactions for the first half of 2008, which were down 41% across England and Wales, compared with the first half of 2007. Looking ahead, with gross mortgage lending in 2008 expected to be about 30% down at around £260 billion (compared to £364 billion in 2007) and with lenders suggesting, in the BoE Credit Conditions survey, that there will be a continued increase in arrears and possessions, there is every likelihood that prices will continue to fall for the foreseeable future.”

NATIONAL INDEX SUMMARY

		House Price	Index	Monthly Change %	Annual Change %
March	2008	£231,235	235.4	-0.3	5.2
April	2008	£230,813	235.0	-0.2	4.2
May	2008	£229,327	233.5	-0.6	2.9
June	2008	£227,385	231.5	-0.8	1.2
July	2008	£224,620	228.7	-1.2	-0.4
August	2008	£221,725	225.7	-1.3	-2.5
September	2008	£219,307	223.3	-1.1	-4.3

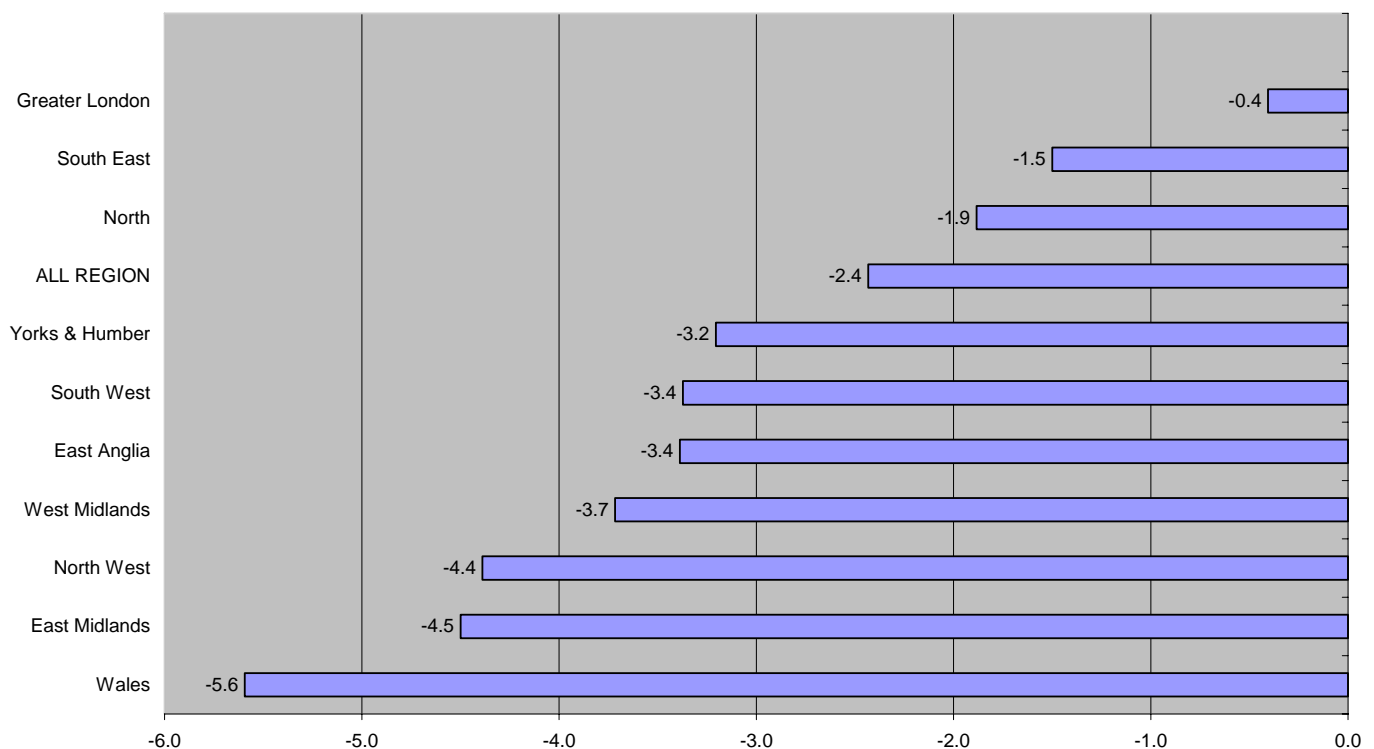
REGIONAL ANALYSIS

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

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 negative.

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.”

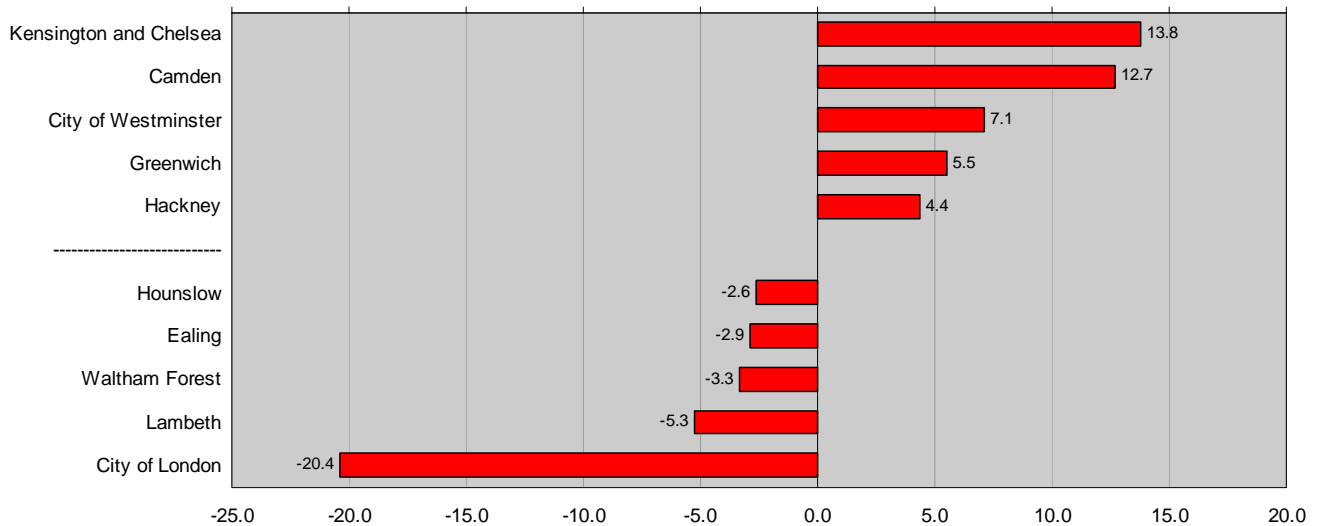
Average Annual Growth over last three months



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 13.8% in Kensington and Chelsea to -20.4% (probably for exceptional reasons) in the City of London, -5.3% in Lambeth and -3.3% in Waltham Forest.”

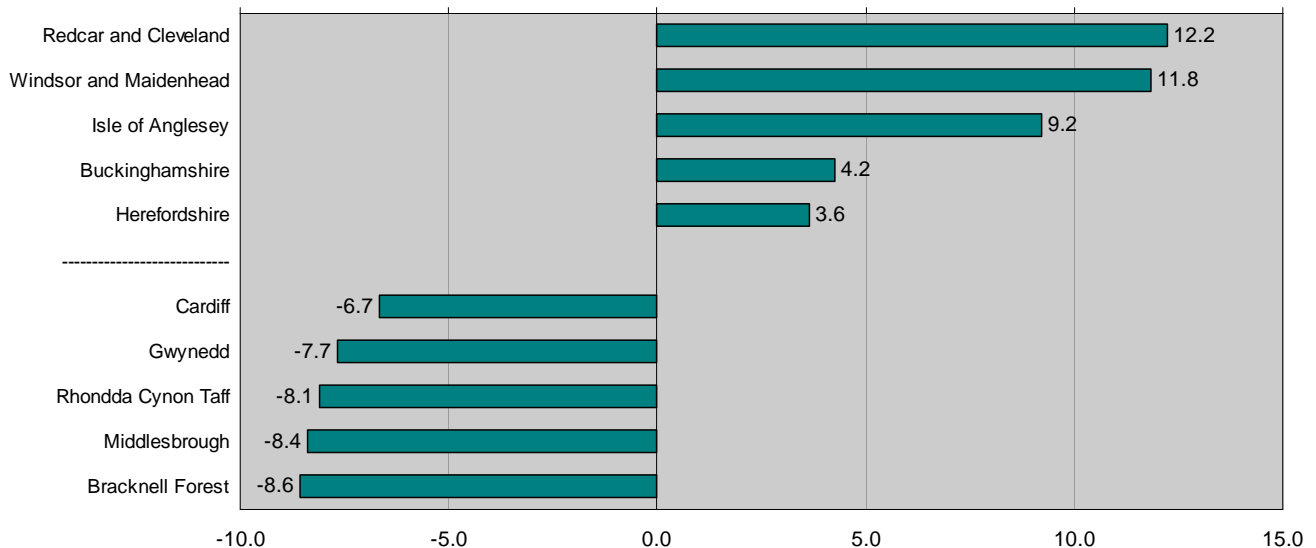
Average Annual Growth over last three months - London boroughs



UNITARY DISTRICT AND COUNTIES ANALYSIS

“Of the one hundred and eight districts and counties in England and Wales, only two recorded a growth rate in excess of 10%; eighty-two saw price reductions, seventeen of them in Wales. A distinctive pattern of change is now emerging, as more authorities record negative house price inflation, which is consolidating on a country/regional basis.”

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
Sep-07	£152,163	0.0	4.9	£168,346	1.1	7.2	£177,051	1.1	6.7	£185,355	0.7	5.4
Oct-07	£153,375	0.8	4.6	£168,676	0.2	6.2	£177,398	0.2	6.4	£186,203	0.5	5.2
Nov-07	£154,813	0.9	4.4	£168,485	-0.1	6.0	£176,823	-0.3	5.1	£185,798	-0.2	4.7
Dec-07	£154,489	-0.2	3.5	£168,174	-0.2	4.5	£175,925	-0.5	4.4	£184,612	-0.6	3.3
Jan-08	£157,030	1.6	4.0	£168,121	0.0	4.3	£175,771	-0.1	3.2	£184,683	0.0	2.4
Feb-08	£158,793	1.1	4.8	£168,464	0.2	2.9	£176,765	0.6	2.7	£185,243	0.3	2.5
Mar-08	£160,441	1.0	5.7	£166,792	-1.0	1.5	£175,127	-0.9	1.4	£185,908	0.4	2.5
Apr-08	£158,822	-1.0	4.7	£166,261	-0.3	0.6	£174,179	-0.5	0.6	£185,737	-0.1	2.2
May-08	£157,300	-1.0	3.4	£164,264	-1.2	-0.5	£171,728	-1.4	-1.4	£183,977	-0.9	0.8
Jun-08	£155,843	-0.9	2.0	£162,968	-0.8	-1.4	£171,477	-0.1	-1.8	£181,816	-1.2	-0.7
Jul-08	£152,889	-1.9	0.3	£161,120	-1.1	-2.8	£169,919	-0.9	-2.9	£179,280	-1.4	-1.8
Aug-08	£149,150	-2.4	-1.9	£159,592	-0.9	-4.1	£167,978	-1.1	-4.0	£177,232	-1.1	-3.7

	Wales			Yorks & Humber			South West			East Anglia		
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual
Sep-07	£168,894	0.6	7.5	£167,940	1.2	6.8	£237,416	0.6	10.4	£209,799	0.8	8.6
Oct-07	£170,389	0.9	6.4	£170,187	1.3	6.8	£238,895	0.6	9.5	£210,516	0.3	7.4
Nov-07	£169,469	-0.5	4.8	£170,506	0.2	6.2	£238,280	-0.3	8.1	£208,713	-0.9	6.7
Dec-07	£168,893	-0.3	4.1	£170,805	0.2	5.7	£238,774	0.2	6.7	£209,513	0.4	5.8
Jan-08	£166,887	-1.2	2.5	£170,444	-0.2	5.2	£236,045	-1.1	5.3	£210,264	0.4	6.0
Feb-08	£166,696	-0.1	1.8	£169,983	-0.3	4.4	£234,764	-0.5	3.5	£211,947	0.8	5.2
Mar-08	£166,407	-0.2	1.3	£170,050	0.0	4.3	£233,939	-0.4	2.6	£211,523	-0.2	3.6
Apr-08	£165,948	-0.3	1.2	£169,741	-0.2	3.1	£235,423	0.6	1.4	£209,550	-0.9	2.0
May-08	£163,544	-1.4	-0.2	£168,381	-0.8	1.9	£235,594	0.1	0.6	£208,611	-0.4	1.3
Jun-08	£161,850	-1.0	-1.9	£165,527	-1.7	-0.1	£233,028	-1.1	-0.9	£206,973	-0.8	1.1
Jul-08	£159,581	-1.4	-3.8	£162,678	-1.7	-1.2	£230,308	-1.2	-2.1	£204,485	-1.2	-0.9
Aug-08	£158,564	-0.6	-5.6	£160,919	-1.1	-3.0	£228,045	-1.0	-3.3	£200,998	-1.7	-3.5

	South East			Greater London			ALL REGION				
	Av HP	%monthly	%annual	Av HP	%monthly	%annual	Av HP	%monthly	%annual		
Sep-07	£271,210	0.7	10.4	£368,969	0.7	18.1			£229,177	0.8	10.4
Oct-07	£273,116	0.7	10.3	£370,031	0.3	17.6			£230,439	0.6	9.9
Nov-07	£273,244	0.0	9.7	£368,620	-0.4	15.5			£230,092	-0.2	8.9
Dec-07	£274,434	0.4	9.1	£369,886	0.3	13.7			£230,389	0.1	7.9
Jan-08	£275,830	0.5	8.6	£373,221	0.9	12.6			£230,887	0.2	7.1
Feb-08	£277,679	0.7	7.8	£376,782	1.0	11.6			£231,941	0.5	6.3
Mar-08	£276,776	-0.3	6.5	£375,284	-0.4	10.1			£231,235	-0.3	5.2
Apr-08	£276,290	-0.2	5.4	£374,665	-0.2	8.7			£230,813	-0.2	4.2
May-08	£274,987	-0.5	4.4	£372,854	-0.5	6.8			£229,327	-0.6	2.9
Jun-08	£272,791	-0.8	2.5	£370,600	-0.6	4.1			£227,385	-0.8	1.2
Jul-08	£269,223	-1.3	0.9	£367,341	-0.9	1.7			£224,620	-1.2	-0.4
Aug-08	£264,763	-1.7	-1.7	£363,367	-1.1	-0.9			£221,725	-1.3	-2.5
Sep-08									£219,307	-1.1	-4.3

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 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.