



# Asking Price Index

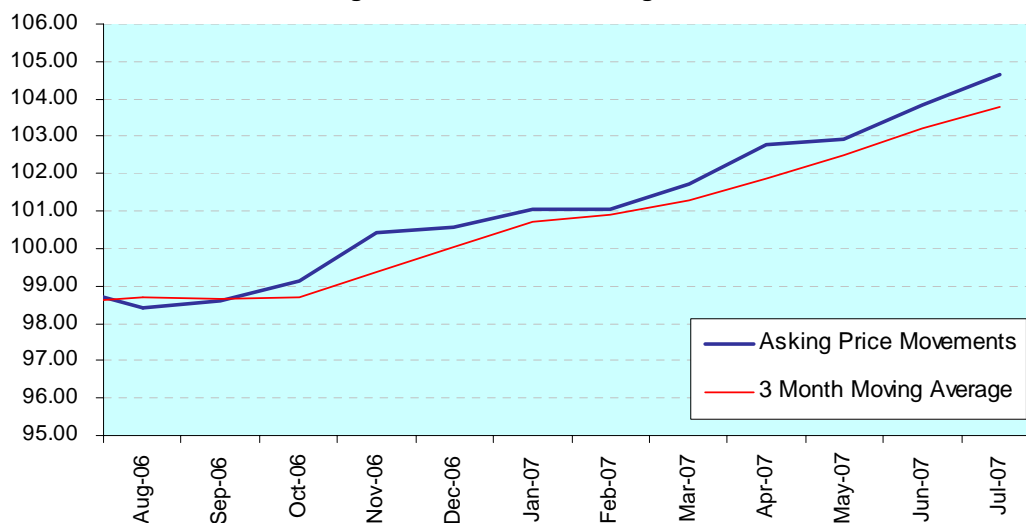
The UK's Independent Forward Market Indicator

Release date: 12<sup>th</sup> July 2007

## Still Rising Regardless of Rising Interest Rates.

"Teach a parrot the terms 'supply and demand' and you've got an economist. "  
[Thomas Carlyle](#) 1795-1881, Essayist.

Asking Price Movements for England and Wales



[Laspeyres](#) Index based on Weighted Arithmetic Mean of Weighted Arithmetic Mean of Regional House Prices. [May04 = 100]

### Summary

Asking Prices for homes in England and Wales are up 0.8% this month and are up 5.7% from a year ago.

Scottish Asking Prices have soared by 21.2% year-on-year (YoY).

Greater London Asking Prices have increased 12.8% YoY, but this month's rise of only 0.5% may now be signalling a slowdown in price growth.

Asking Prices in the South East surged by 2.3% this month and 8.6% YoY.

Asking Prices in the North suffered a fall of 2.0% this month but rose 1.8% YoY.

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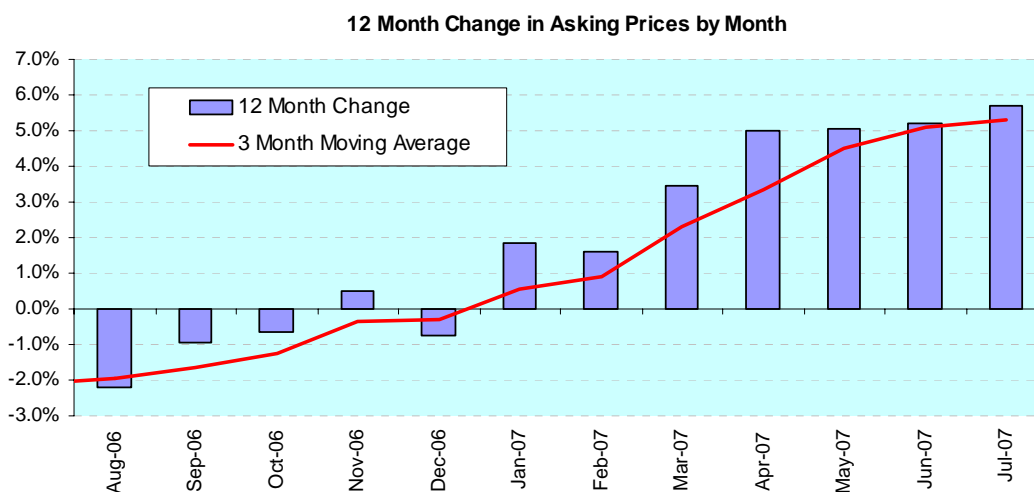
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## Overview

Asking Prices in England and Wales are rising at an annual rate of 5.7%, *ca.* 3.3% above the [CPI](#), *ca.* 1.4% above the [RPI](#) and *ca.* 1.7% above the [AEI](#) excluding bonuses. Set against a backdrop of rising borrowing costs, asking prices remain surprisingly buoyant across most regions. Favourable seasonal factors and market momentum have, so far, helped to preserve a continued high level of confidence amongst sellers of homes across most of the UK.

Rises in the majority of England's regions and Wales have helped push the HAPI for England and Wales up to a new high of 104.6 [May04 = 100]. However, over the last *24 months* prices of homes on the market in England and Wales have risen a mere 3.9% overall.

## Twelve-Month Trend in Asking Prices



Year-on-year (YoY) growth in asking prices for England and Wales now stands at 5.7% and the monthly YoY trend is showing clear signs of reaching a limiting value of around 6%. Despite a year of rising interest rates, asking prices remain firmly up on a year ago and the UK housing market still carries considerable momentum as this *second wave* of house price inflation approaches a likely zenith.

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## Regional Housing Markets

Regional average asking prices for July 07 showing gains and losses since July 06.

|                      | Current average price | 12 month change |
|----------------------|-----------------------|-----------------|
| Scotland             | £173,104              | +21.2%          |
| Greater London       | £345,934              | +12.8%          |
| South East           | £292,721              | +8.6%           |
| South West           | £268,851              | +5.2%           |
| Wales                | £197,219              | +5.2%           |
| West Midlands        | £206,239              | +5.1%           |
| Yorkshire and Humber | £175,733              | +4.8%           |
| North West           | £190,419              | +2.6%           |
| East Anglia          | £259,325              | +2.4%           |
| North                | £167,908              | +1.8%           |
| East Midlands        | £191,090              | -0.3%           |

[Laspeyres](#) Indices based on Weighted Arithmetic Mean of Regional House Prices. See Notes.

## Regional Analysis

Scottish house prices continued to soar at a remarkable rate over the last year notching up a YoY gain of 21.2%. Greater London asking prices were the strongest performer in England and Wales with a YoY rise of 12.8% where the average price of a home is close to £350,000. Spill-over from the hot London market into the South East is evident as asking prices in this region jumped 2.3% this month and 8.6% since July 06. Wales and East Anglia also posted strong gains this month with rises of 2.0% and 1.4% respectively. The North was the worst performer this month with prices falling by 2.0%.

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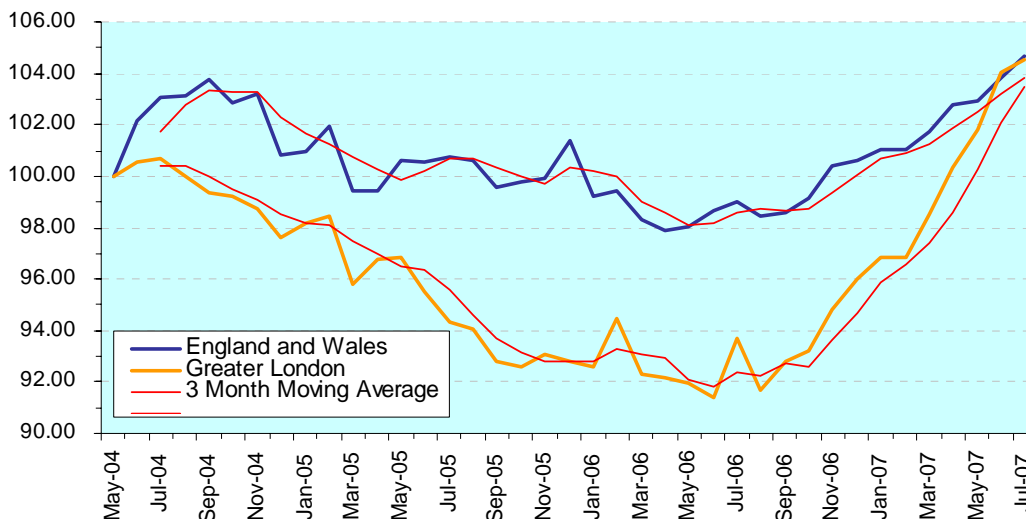
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## Greater London

Asking prices in the Greater London rose by 0.5% this month, a notably slower rate than observed in preceding months. However the recent house price growth in Greater London has been very strong, totalling 12.8% since July 06. Looking to the longer-term trend, the London property market has recovered strongly in the wake of the two-year long downturn, which began in the frothy market of July 04. That such a recovery should occur precisely when interest rates are rising is perhaps surprising to many observers. However, in contrast with other parts of the UK, this property market has been further underpinned by a booming financial services sector and considerable foreign investment.

The aforementioned downturn was caused by a series of interest rate hikes by the Bank of England, which began in Nov 03 when, at the same time, prices were rising rapidly in Greater London. A similar combination of rising interest rates and asking prices has occurred over the last year, which may cause a similar pattern of exaggerated falls in Greater London property prices to emerge in the short to medium term. (see comment)

Asking Price Movements for Greater London vs. England and Wales



[Laspeyres](#) Index based on Weighted Arithmetic Mean of Regional House Prices [May04 = 100]

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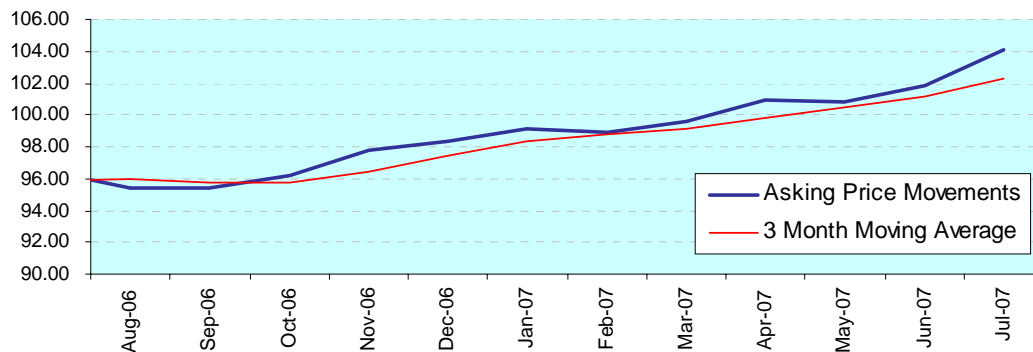
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## South East

House prices on the South East property market surged by a further 2.3% this month, bringing the total gains since July 06 up to 8.6%. The effect of higher borrowing costs on market sentiment is conspicuous by its absence in this region.

Asking Price Movements for the South East

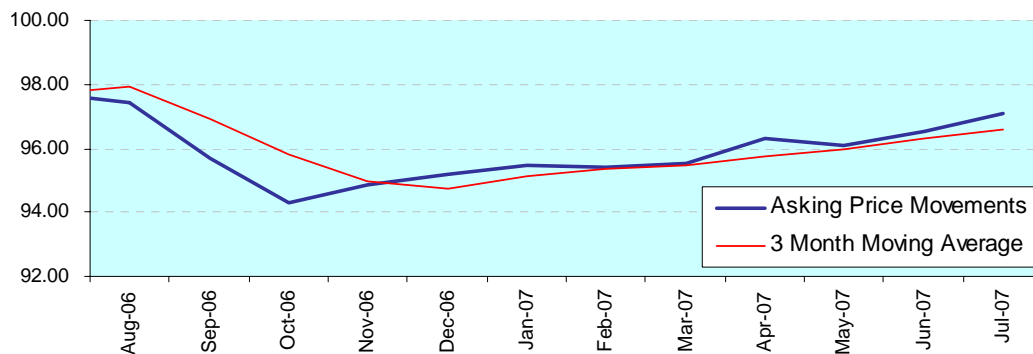


Laspeyres Indices based on Weighted Arithmetic Mean of Regional House Prices [May04 = 100]

## East Midlands

Asking prices in the East Midlands have risen steadily since Nov 06, recovering most of the ground lost in price falls during Autumn 06.

Asking Price Movements for the East Midlands



Laspeyres Indices based on Weighted Arithmetic Mean of Regional House Prices [May04 = 100]

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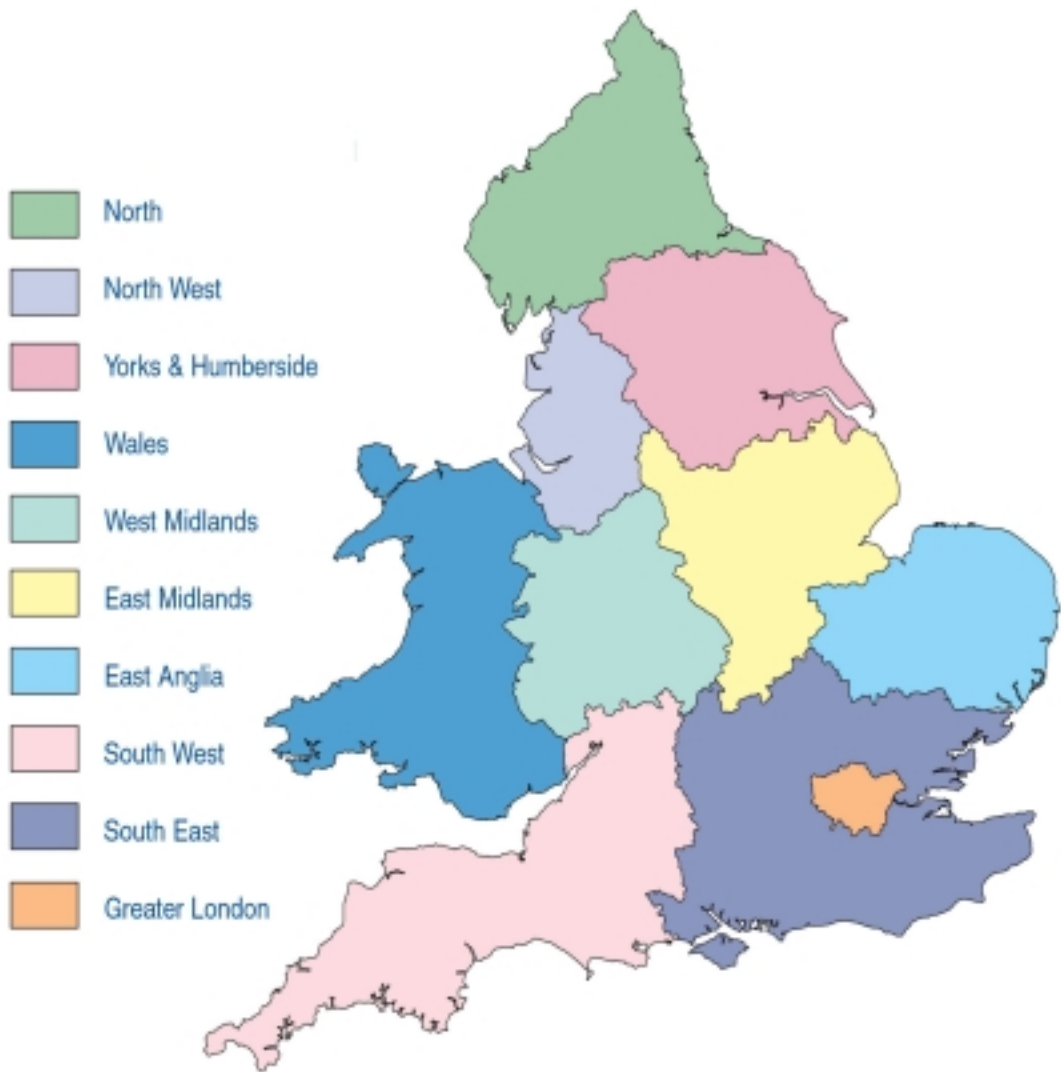
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**Regions** (as per DCLG)



Source: HM Land Registry

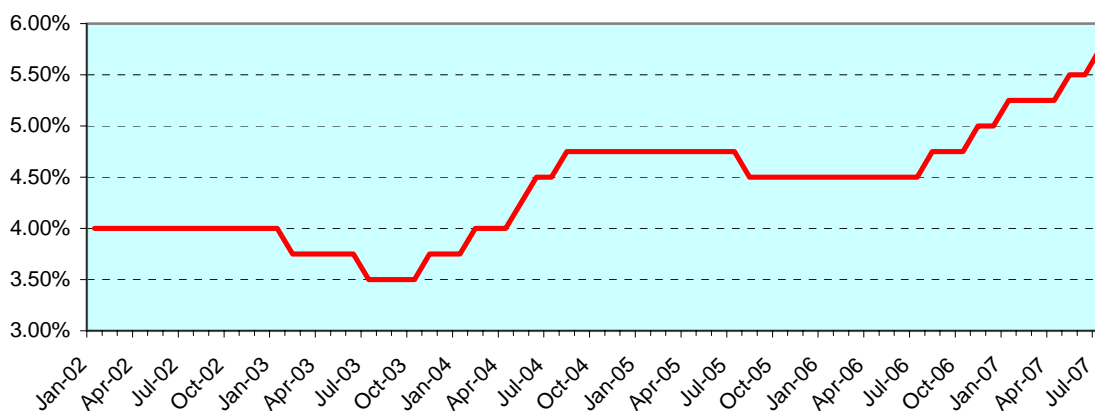


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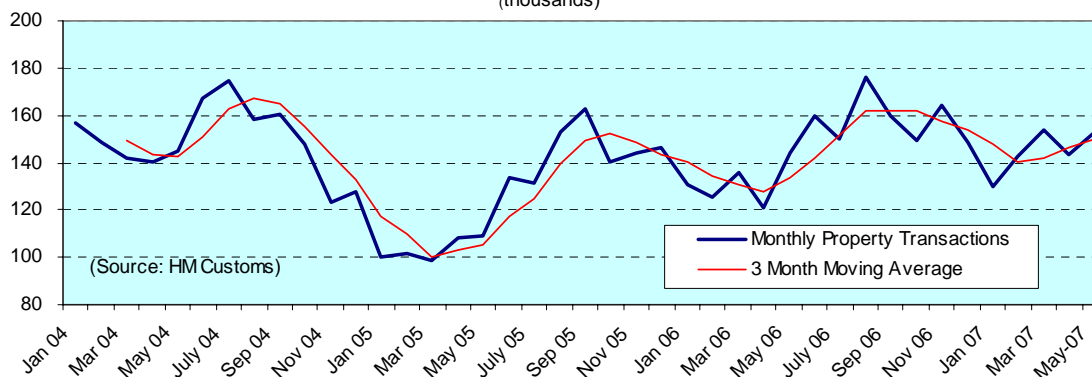
## Comment

### Bank of England Base Rate



The Bank of England (BoE) base rate now stands at 5.75%, which is 2.25% higher than the previous low of 3.50% set in 2003 when UK house price inflation went through the roof. This month's interest rate (IR) hike is just the latest in a second series of inflation fighting measures on the part of the UK central bank. The first series of IR hikes ran from Nov 03 to Aug 04 and took the BoE IR rate up to 4.75%. This credit tightening measure caused a subsequent downturn in the UK property market in 2005. Asking prices fell as the market stalled and property transactions plummeted.

### Monthly Property Transactions in England & Wales (thousands)



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## Second series of Interest Rate hikes

Approximately two years later monthly transaction rates had recovered and the BoE embarked on a second series of IR hikes in Aug 06. By analogy with previously recorded events, we might expect to see strong downward pressure on asking prices around 12 months after the IR hikes began. Therefore, using this timescale, the first indications of eroding asking prices should be observable within the next few months (Q3 07), signifying the commencement of a further downturn in the UK property market. Asking price growth in London has already shown the first signs of slowing down this month but August and September will show if this turning point has truly arrived.

The delayed effect of rises in interest rates on the residential property market is widely understood and owing to the increased proportion of fixed rate mortgage deals over recent years we may find that the lag time is even longer than previously observed. A formula devised by the US Federal Reserve suggests that, in such scenarios, house prices typically begin to decline 18 months to two years later. The [European Central Bank has been urged](#) to come up with a similar predictive tool.

However long it takes, in the current climate of low wage inflation, the increased cost of servicing debt will eventually filter through to owner-occupiers and landlords alike. This will cause further increases in mortgage arrears, which in turn will lead to more distressed sales and repossessions. Meanwhile a greater proportion of potential buyers are becoming priced out of the market.

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## The Home.co.uk Asking Price Index

The [Home.co.uk](http://Home.co.uk) Asking Price Index produced in association with [Calnea Analytics](http://Calnea Analytics): the statistical consultancy responsible for the production of the official [Land Registry House Price Index](http://Land Registry House Price Index).

The Home.co.uk Asking Price Index (HAPI) is calculated using a weighting system based on the DCLG (formerly ODPM) [Survey of English Housing Stock](http://Survey of English Housing Stock) (published March 2006). This allows for enhanced regional delineation and conforms to the current geographical orthodoxy as set out by the [Office of National Statistics](http://Office of National Statistics).

The HAPI is the UK's only independent forward market indicator. The published figures reflect current and historic confidence of buyers and sellers of UK property on the open market. The HAPI is calculated every month using 600,000+ UK property house prices found in the Home.co.uk Property Search Index. This figure represents the majority of the property for sale on the open market in the UK at any given time.



Source: Home.co.uk Search Index Date: November 06

The HAPI is based on *asking price* data which means the index can provide insights into price movements around 5 months ahead of mortgage completion and actual sales data - thus making it the most forward looking of all house price indices. Properties above £1m and below £20k are excluded from the calculations.

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To learn more about Home.co.uk please visit:  
<http://www.home.co.uk/company/about.htm>

For details on the methodology used in the calculation of the HAPI please visit:  
<http://www.calnea.com/asking-price-index/>

## Future release dates:

Monday 13<sup>th</sup> August 07  
Wednesday 12<sup>th</sup> September 07  
Friday 12<sup>th</sup> October 07



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