

Optimism Gives Home Prices An Early Nudge Up

Headlines

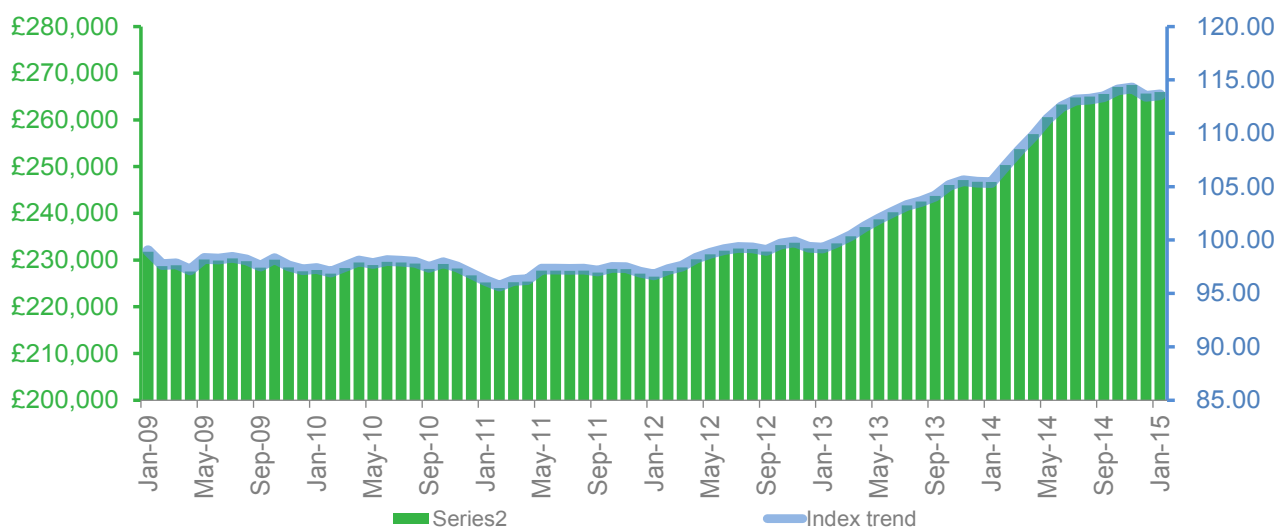
- Asking prices rise in seven English regions and in Wales.
- Prices nudge up 0.1% overall in England and Wales during the last month.
- The average annual appreciation for England and Wales edges up to 7.8%.
- Only Scotland and East Anglia show surprisingly significant month-on-month falls (0.6% and 0.8% respectively).
- Supply of property for sale in Greater London up by 20% (vs. December 2013) and by 4% across the UK.
- Number of price-cut properties at a 4-year low.
- Prices continue to fall in Prime Central London.

Summary

2015 kicks off with an air of optimism. Prices are rising in more regions than might be expected for the time of year and price discounting is at a 4-year low. The current mix-adjusted average asking price for England and Wales shows that properties on the market are valued 7.8% higher than they were in Jan. 2014. The biggest price growth was observed in Greater London over the last month (+0.6%, despite falling prices in Prime Central London). Prices also rose in the North East during the last month (+0.4%), which is encouraging given that the recovery has not yet been evident in the most northerly English region.

The positive momentum gained through the course of 2014 has clearly been carried through into 2015. Demand remains ahead of supply in most parts of the UK and looks set to stay that way as mortgage deals seemingly get better and better. The only dark clouds on the current property horizon would seem to be the alarming price falls in Prime Central London and various potential housing policy changes that will be debated in the run-up to this year's election. Flat prices have fallen by an average of 9% over the last 12 months in Central London. Over the same time, the number of flats for sale in Central London has increased by 64%. We consider that there is a significant risk that the same price correction will be perpetuated throughout Greater London and the South East over the course of 2015/16. Possible changes in property taxes and rent capping also carry uncertainty and risk for the market in a year that will be coloured by political policy change.

Home Asking Price Trend for England & Wales



Source: Home.co.uk, January 2015

Regional Market Round-up

The recovery that began in London in 2012 has now rippled out to become clearly established in most English regions, although it has yet to become truly apparent in the North. The property markets immediately adjacent to Greater London (East Anglia and the South East) are currently thriving. Low supply and significant demand will drive higher price rises in these areas over coming months, whilst in Greater London, home pricing will likely re-equilibrate after a dramatic 3-year rally (we discuss this market in greater detail later in this report). Further afield, regional property markets such as the South West, East Midlands and West Midlands put in solid performances in 2014, and they will most likely perform slightly better this year.

Average prices in the North West, North East, Scotland, Wales and Yorkshire all remain significantly below their Jan. 2008 values (on average 8.7% less), and it is in these regions where market recovery is most needed. 2015 may well be the year that these areas see more vibrant market activity and rises in property values. It is our opinion that an interest rate hike by the Bank of England will be on hold until asset values in these regions regain more of the ground lost in the wake of the financial crisis.

Supply of property for sale nationwide is not increasing significantly overall (+4%) but, on a

regional level, both Greater London and Scotland have recently shown significant increases in the number of properties entering the sales market of +20% and +24% respectively. Londoners are perhaps trying to cash in ahead of the impending correction (see comment on Central London), and Scots seem to have waited en masse for the referendum to be out of the way before putting their properties on the market.

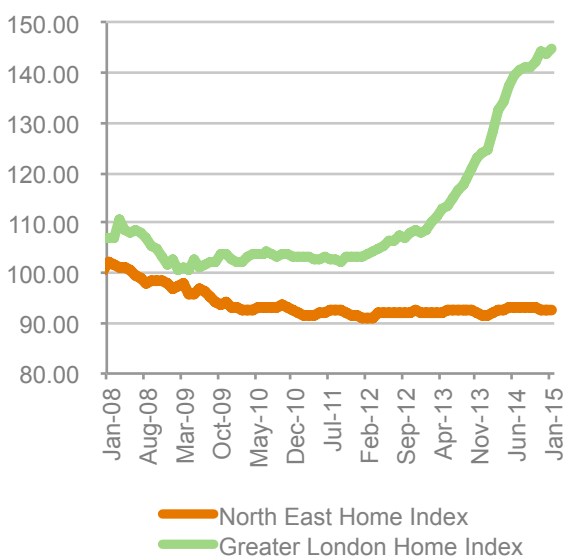
Time on market figures continue to show improvement across all regions year-on-year. The most improved property market of 2014 is East Anglia where the average time on market for unsold property (currently 155 days) has fallen by 17.5% over the last 12 months. Meanwhile, the least improved regional market, the North East, is also the most sluggish. This long-suffering market has seen a reduction of only 6% over the last 12 months, making the current average time on market a rather long 329 days.

Stock of Property for Sale Remains Very Low

The total number of properties for sale in England and Wales (458,112 homes) is just 1.5% higher than the record low set in March 2014.

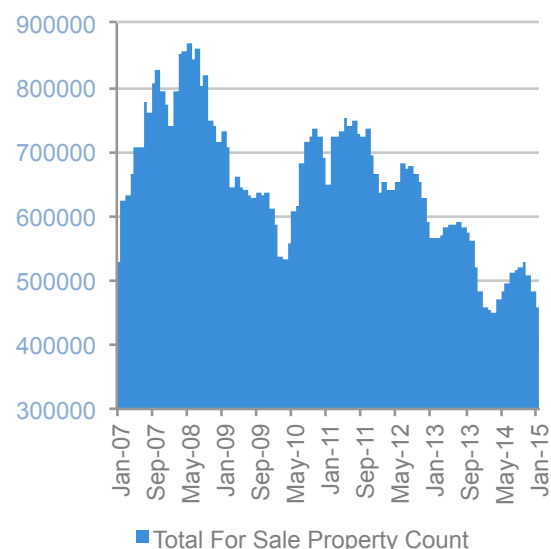
The trend for England and Wales (below) shows how relatively few properties are actually for sale in the current market. Low supply continues to be a key market driver for 2015.

Comparing the Greater London and North East price trends post-crisis.



Source: Home.co.uk, January 2015. May 2004 =100

Market Volume Trend for England and Wales



Source: Home.co.uk, January 2015

Central London: More Boom or Bust?

Belgravia was the first to fall. Prices peaked in November 2013 in this most exclusive London location. Since then, the typical price for a flat has fallen from £1,995,000 to £1,600,000: an alarming drop of 20% and much more than the price of the average UK home.

Should we be concerned about the prices of homes for the ultra-rich? Yes. History tells us that booms and busts always start in Central London and then, quite slowly, emanate out to the rest of the country.

Prices peaked for flats in Islington in March 2014. Since then, the typical asking price has dropped 11%, which represents a 10-month loss of £85,000. Over the same period, the typical time on market for flats in Islington has risen 220% (from a frantic 35 days to a lethargic 112 days).

Further out, Holloway flat prices peaked in May 2014 and have since dropped by 13%, while the typical time on market has more than doubled.

Further north in Muswell Hill, flat prices peaked in October (and have since slipped 4%), 11 months after Belgravia prices began to slide.

Just outside of the North Circular in Barnet, flat prices have not fallen appreciably but last year the median asking price rose by 33%, and that looks ripe for a correction.

North of the M25 in Potters Bar, flat prices have soared by 29%. Out to the west, Windsor has also seen extraordinary price growth, with the typical property price rising by 44% since Jan. 2014. Again, both these local markets look ripe for a correction.

The pattern is clear: price falls are now rippling out from Central London and, for the more recent purchases, that means a wave of negative equity.



Optimism is still riding high in the rest of the country, but it comes as a shock to many to learn that prices are crumbling in the most expensive streets in London. My cab drivers certainly didn't know of this fact during a recent trip to the capital.



We are keen to track these price movements as they may soon have a knock-on effect for the rest of Greater London and, later, the Home Counties.

Prices in Central London went up too far, too fast during 2012-13. The same fate then befell the rest of London last year. Now many home buyers and investors are paying the price of their overenthusiasm.

The questions that remain to be answered are: When will the price falls stop in Central London? And will these hefty price corrections (of up to 20% so far) ripple out into the rest of Greater London and the South East?

In a synthetic property boom and bust such as London has experienced, on account of ultra-low interest rates and other stimulus measures, it is hard to imagine any possible remedial action on the part of the government. Prices this time may simply have to fall back to a more natural equilibrium.

Caveat emptor.

Doug Shephard
Director at Home.co.uk



UK Asking Prices

Scotland	Jan-15
Average Asking Price	£161,810
Monthly % change	-0.6%
Annual % change	3.5%

North East	Jan-15
Average Asking Price	£153,563
Monthly % change	0.4%
Annual % change	1.6%

Yorks & The Humber	Jan-15
Average Asking Price	£171,312
Monthly % change	0.0%
Annual % change	2.1%

North West	Jan-15
Average Asking Price	£176,345
Monthly % change	0.1%
Annual % change	2.1%

West Midlands	Jan-15
Average Asking Price	£202,759
Monthly % change	0.2%
Annual % change	4.1%

East Midlands	Jan-15
Average Asking Price	£193,234
Monthly % change	0.3%
Annual % change	5.6%

East	Jan-15
Average Asking Price	£279,929
Monthly % change	-0.8%
Annual % change	8.3%

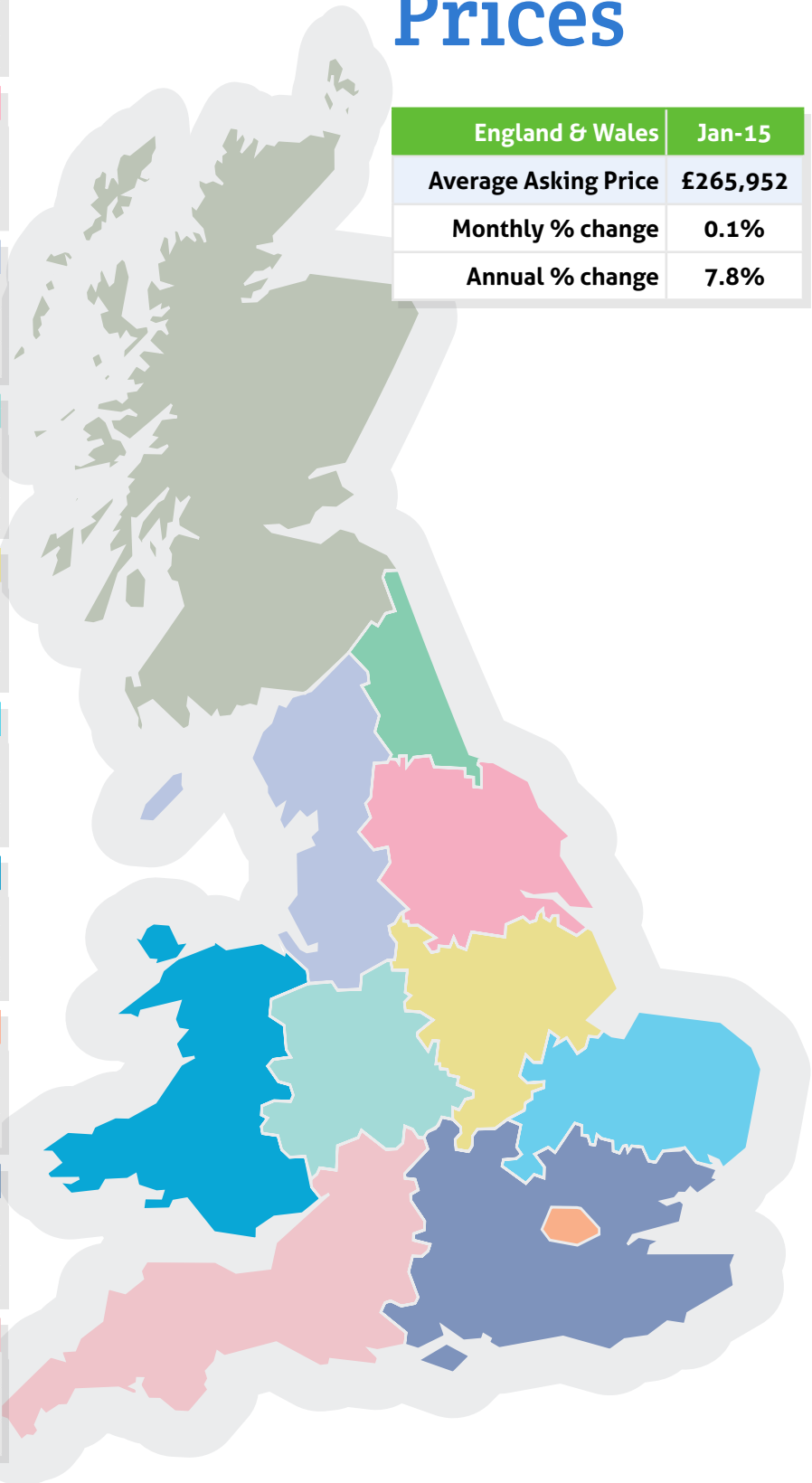
Wales	Jan-15
Average Asking Price	£179,543
Monthly % change	0.2%
Annual % change	1.4%

Greater London	Jan-15
Average Asking Price	£478,488
Monthly % change	0.5%
Annual % change	16.1%

South East	Jan-15
Average Asking Price	£342,770
Monthly % change	-0.1%
Annual % change	8.2%

South West	Jan-15
Average Asking Price	£279,635
Monthly % change	0.3%
Annual % change	5.2%

England & Wales	Jan-15
Average Asking Price	£265,952
Monthly % change	0.1%
Annual % change	7.8%



Source: Home.co.uk, January 2015

UK Time on Market

Scotland	Jan-15
Average Time on Market	272
Typical Time on Market	156
Annual % supply change	24%

North East	Jan-15
Average Time on Market	329
Typical Time on Market	179
Annual % supply change	-2%

Yorks & The Humber	Jan-15
Average Time on Market	256
Typical Time on Market	152
Annual % supply change	-6%

North West	Jan-15
Average Time on Market	254
Typical Time on Market	154
Annual % supply change	2%

West Midlands	Jan-15
Average Time on Market	210
Typical Time on Market	129
Annual % supply change	-3%

East Midlands	Jan-15
Average Time on Market	198
Typical Time on Market	123
Annual % supply change	2%

East	Jan-15
Average Time on Market	155
Typical Time on Market	102
Annual % supply change	-1%

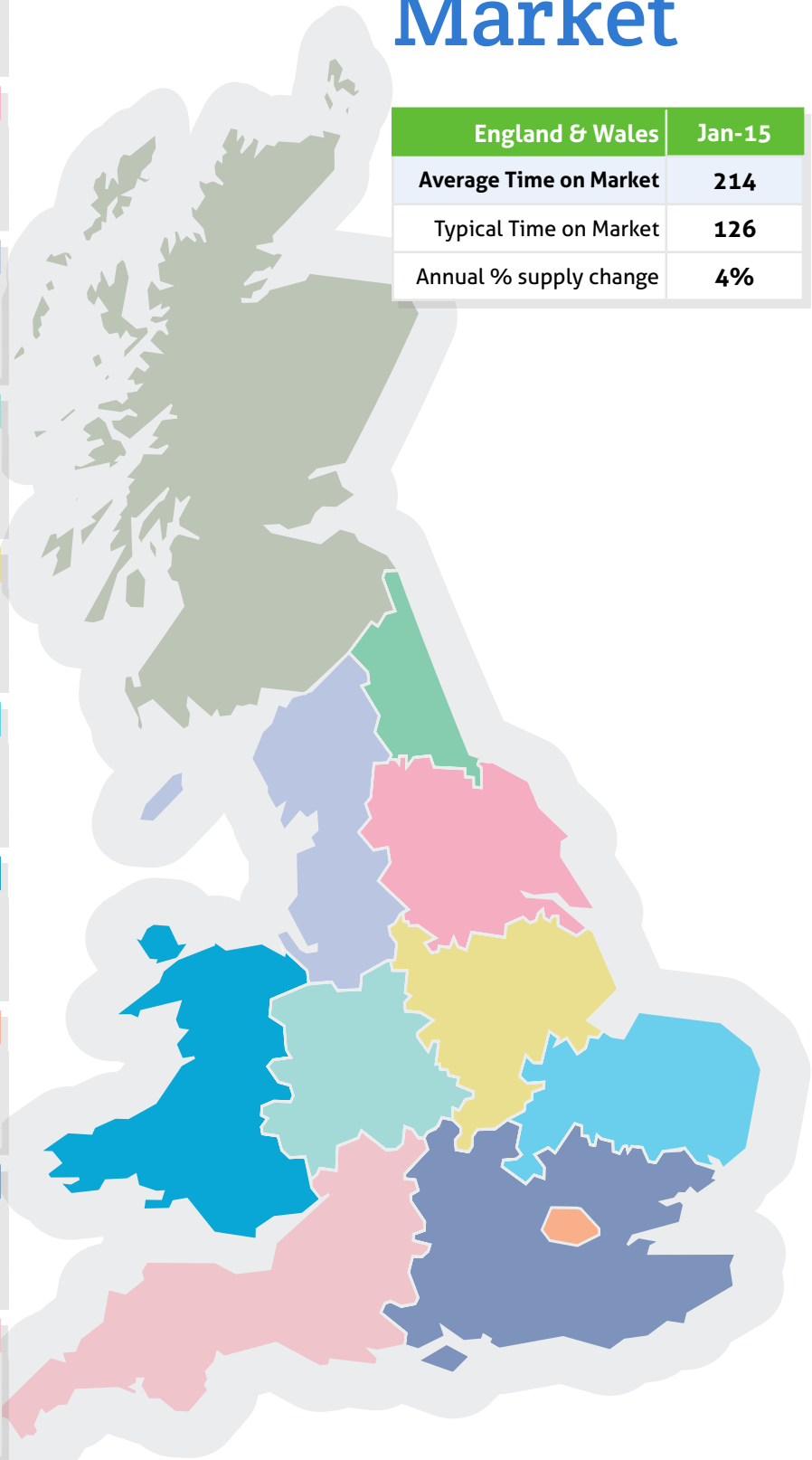
Wales	Jan-15
Average Time on Market	294
Typical Time on Market	172
Annual % supply change	4%

Greater London	Jan-15
Average Time on Market	129
Typical Time on Market	91
Annual % supply change	20%

South East	Jan-15
Average Time on Market	137
Typical Time on Market	94
Annual % supply change	11%

South West	Jan-15
Average Time on Market	183
Typical Time on Market	121
Annual % supply change	-6%

England & Wales	Jan-15
Average Time on Market	214
Typical Time on Market	126
Annual % supply change	4%



Source: Home.co.uk, January 2015. Note: Average = Mean (days), Typical = Median (days)

About the Home.co.uk Asking Price Index

- The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics: the statistical consultancy responsible for the production of the official 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 (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.
- 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 around 500,000 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.
- 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.

Contact details and further information

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- To learn more about Home.co.uk please visit:
<http://www.home.co.uk/company/about.htm>
- For further details on the methodology used in the calculation of the HAPI please visit:
http://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
<http://www.home.co.uk/company/data/>

Future release dates:

- Thursday 12th February
- Thursday 12th March
- Tuesday 14th April