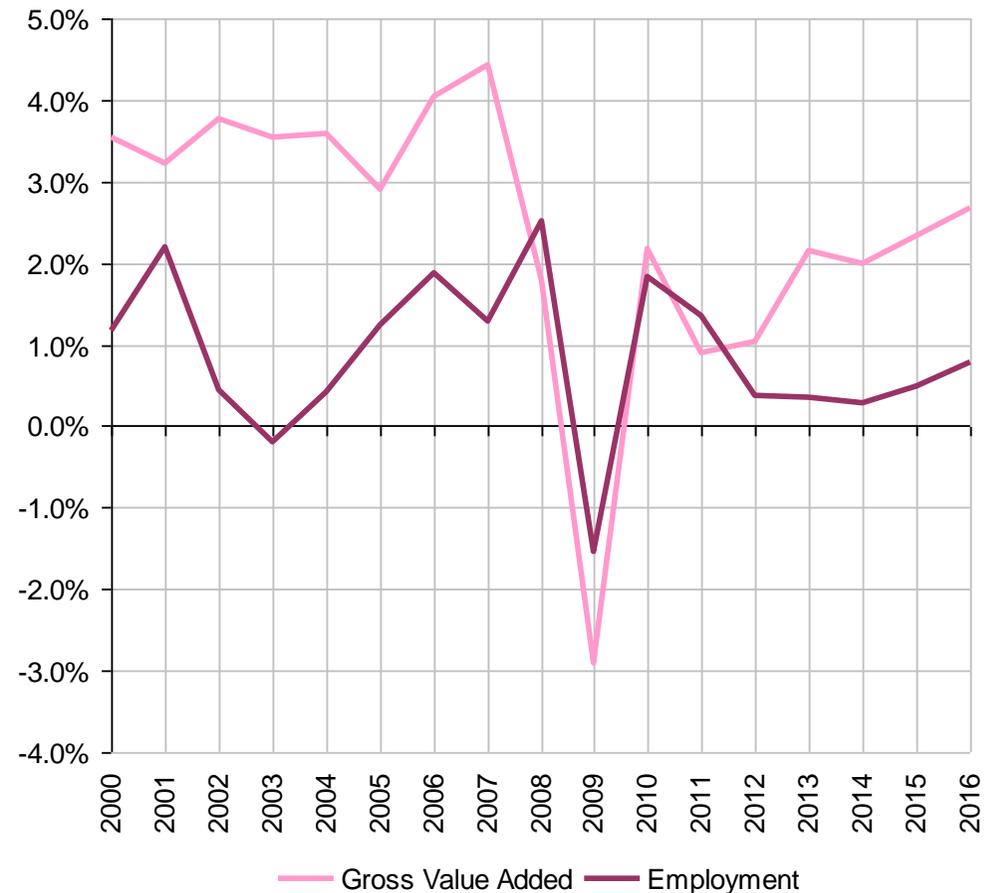


London home values put in jeopardy by shrinking City

- Losses of around 27,000 City-type jobs and a smaller bonuses pool puts London's house price recovery at risk.
- Bonus payouts (around a third of which we estimate are spent on property, on average) are expected to fall by around 38% year on year.
- London is still the only part of the UK where house prices are still currently higher compared to the same month last year.

Key findings	England and Wales	London
Latest estimate	£175,927	£348,703
Month-on-month change	-0.2%	0.0%
Year-on-year change	-1.6%	+3.2%

Cebr employment and output growth forecasts for London



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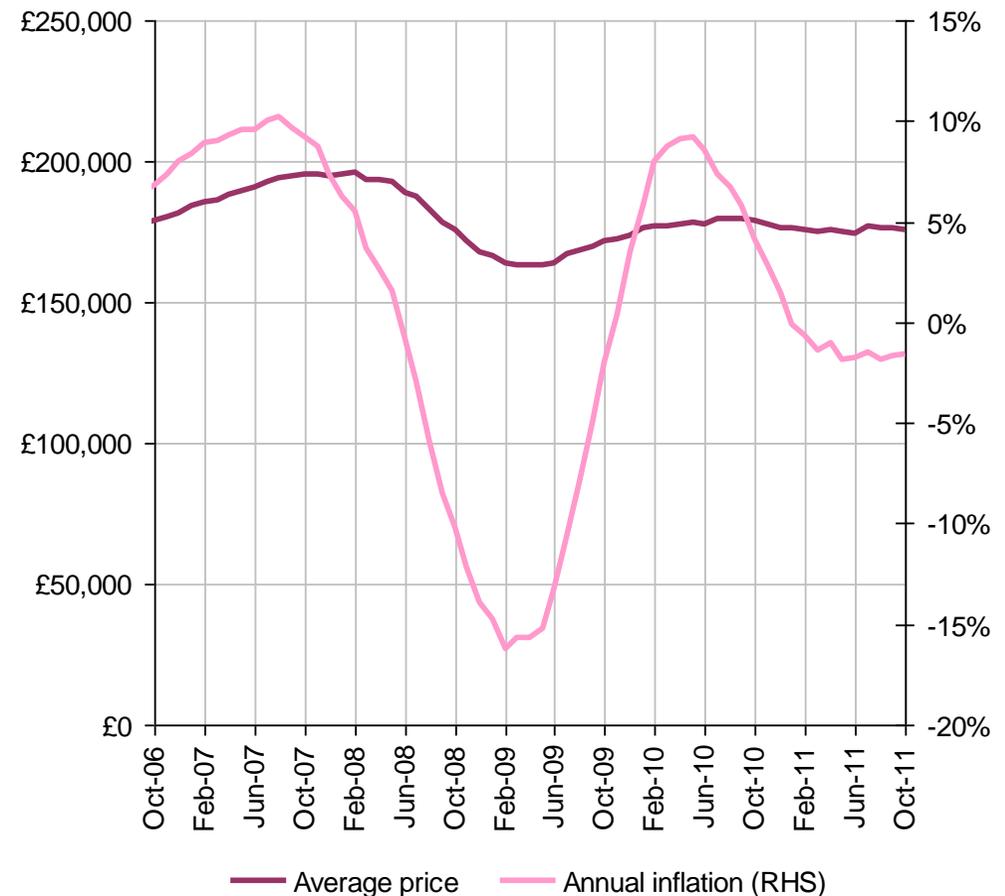
overview

The UK housing market continues to be in a state of extreme uncertainty. Depending on the analysis, house prices have either now hit a floor through which they cannot pass or are overvalued to point of posing a significant risk to the UK's economic recovery. One thing is apparent, nationally, house prices have tussled in either direction since the beginning of the year, in line with a host of other macroeconomic indicators for the United Kingdom.

This is not unheard of. Broadly speaking, financial crises are protracted affairs. A historical study by Carmen Reinhart and Kenneth Rogoff (2008) showed that real house price declines averaged 35%, stretched out over six years, in the aftermath of severe financial crises in advanced economies. At their lowest point, in 2009, UK house prices were only 17% below their 2007 peak – a figure which has since shrunk to 10%.

But there are reasons for cautious optimism. The number of mortgage approvals in August rose to its highest level since December 2009 and remained above 50,000 in September. The increase in the size of the Bank of England's Asset Purchase Facility to £275 billion should further help to boost investor confidence as well as asset price pressures in the short term.

Average residential property price & annual property price inflation / England & Wales



how much is your property worth?

For the second month in a row, exactly half of the eight house price and asking price indices tracked in this report (see slides 9-10) showed house price rises for the most recent month of data – demonstrating the continued indecision within the UK housing market.

Taking into account the timeliness, lag and accuracy of the various indices, the Chesterton Humberts' Poll of Polls shows that the average price of a residential property in England and Wales fell by -0.2% over the month to October reaching £175,927. This is -1.6% lower than the price of houses at the same time last year and 10.1% lower than its highest ever value.

Last month's fall comes at a time of tremendous economic uncertainty: Inflation above 5.2% and sluggish wage growth is squeezing real incomes for UK households; public sector cuts are beginning to bite in some parts of the country; and the threat of sovereign debt default is ever-present amongst eurozone countries. Given that around half of the UK's export go to the single currency area, the success of the latest Greek bailout is paramount for the UK economy.

	Average residential property price	month-on-month change	year-on-year change
Houses on the market today will sell for...*	£175,927	-0.2%	-1.6%
Top 20% of market will sell for...	£414,959	0.3%	3.6%
Bottom 20% of market will sell for...	£106,102	-0.4%	-4.5%
Detached house	£256,955	-0.1%	-1.4%
Semi-detached house	£152,739	-0.2%	-2.2%
Terraced property	£122,363	-0.1%	-3.2%
Flat / apartment / maisonette	£152,086	-0.1%	-1.1%



Indicator is higher or lower compared to the previous month

*National average house prices are weighted by stock and may not align with house prices arranged by type, which are not weighted by stock.

regional analysis

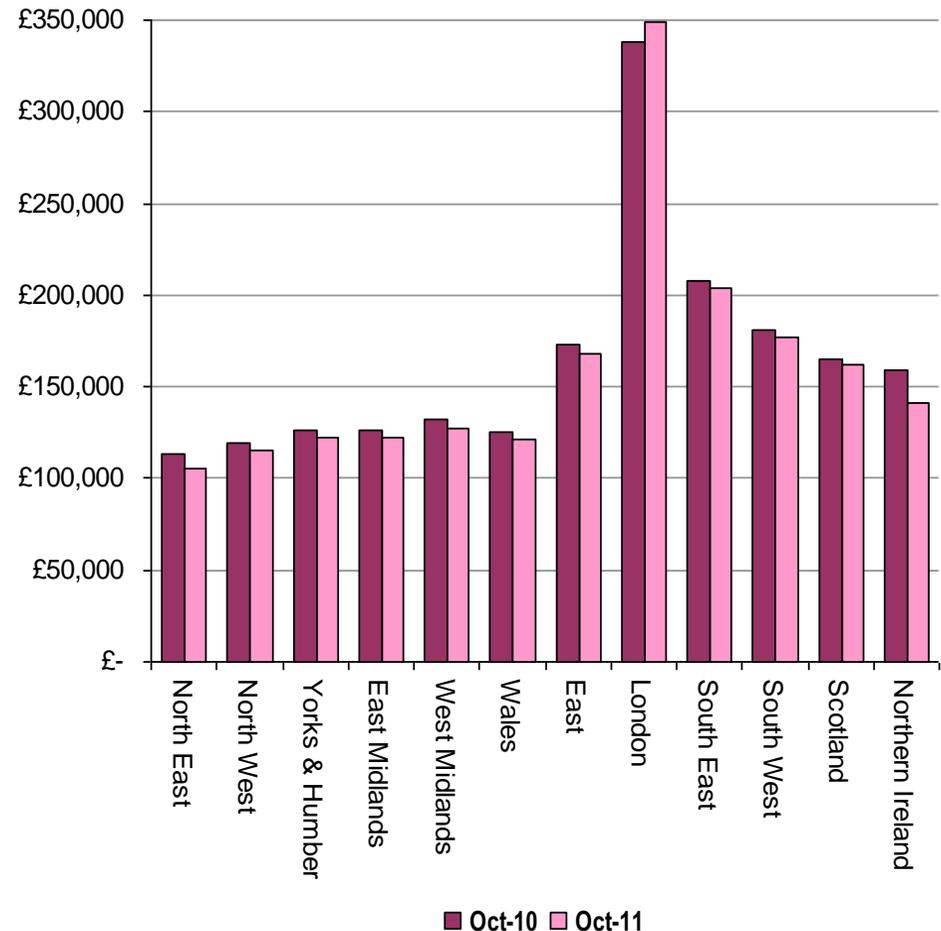
Only four of the twelve countries and regions within the UK, saw price increases between September and October. House prices slipped in all other parts of the UK, but not along the usual North-South lines regular readers will have become accustomed to.

House price growth was positive across areas in the middle of the UK last month. Wales, West Midlands, East Midlands and the East all saw monthly increases of between 0.2% and 0.7%. Not untypically, Northern Ireland saw the steepest price decline, with a -1.8% fall between September and October.

Prices were flat in the North East over the month, but the annual decline in prices fell to -7.2%. That is more than twice the pace of price declines seen in any other part of the country, with the exception of Northern Ireland.

At a recent conference in Westminster, the Business Minister, Vince Cable, outlined a number of investments in manufacturing in the North of England designed to boost the local economy. Such schemes will have to provide sufficient jobs to shore up housing demand in the wake of cuts to public spending.

United Kingdom average property price by region / October 2010 & October 2011



region summary

	Average residential property price	month-on-month change	year-on-year change	Monetary value of monthly change
North East	 £105,282	 0.0%	 -7.2%	 -£35
North West	 £115,162	 -0.4%	 -3.5%	 -£433
Yorkshire & Humber	 £122,350	 -0.1%	 -3.0%	 -£100
East Midlands	 £122,179	 0.5%	 -3.4%	 £628
West Midlands	 £127,409	 0.2%	 -3.8%	 £289
Wales	 £120,861	 0.7%	 -3.8%	 £796
East	 £168,348	 0.5%	 -2.7%	 £912
London	 £348,703	 0.0%	 3.2%	 -£10
South East	 £203,722	 -0.1%	 -1.9%	 -£227
South West	 £177,346	 -0.3%	 -1.8%	 -£495
Scotland	 £162,207	 -0.2%	 -1.9%	 -£255
Northern Ireland	 £141,210	 -1.8%	 -11.1%	 -£2,535

  Indicator is higher or lower compared to the previous month

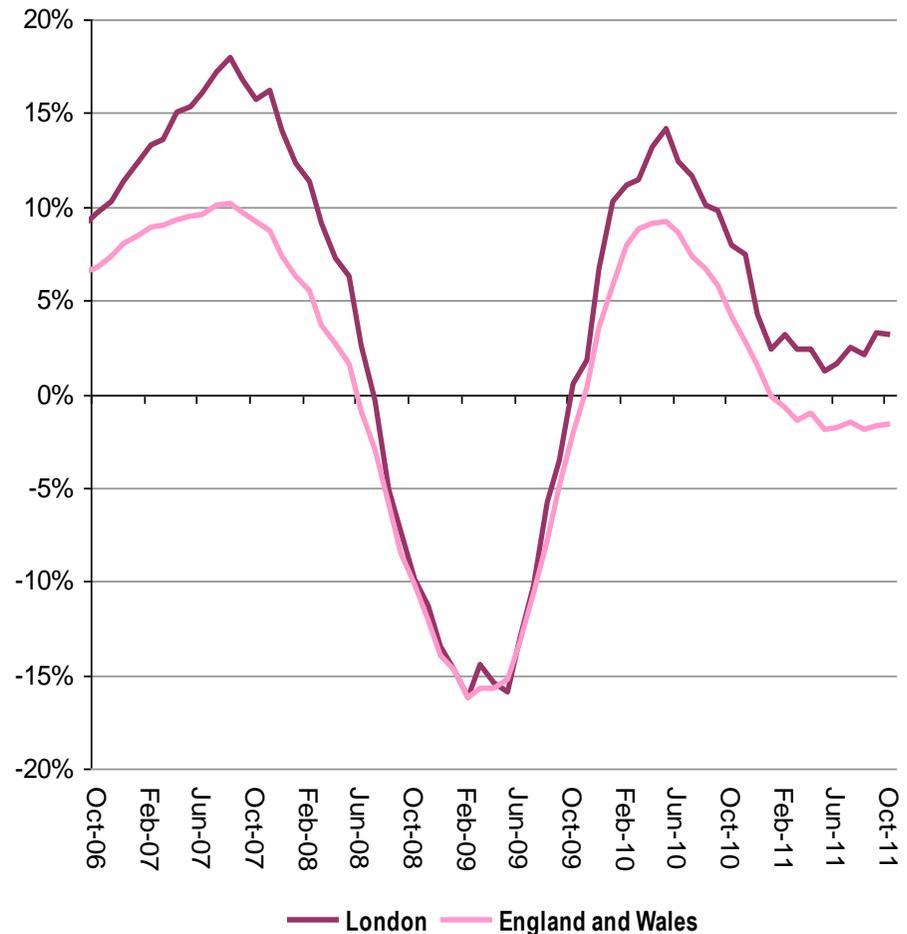
London's property market

House prices were roughly unchanged in the capital between September and October, with an average price increase of only £10, the smallest change of any part of the country.

Over the year to date London's house prices have increased by roughly £11,000 on average, equivalent to a rise of 3.2%. In all other parts of the UK, house prices are lower now compared to the same point last year, demonstrating the divergence between London and the rest of the country that has been taking place over the last year and a half, and neatly observed in the chart on the right.

Cebr recently estimated that City-type jobs will have shrunk by 27,000 in total over the course of 2011 and will remain roughly flat in 2012, due mostly to the impact of tighter financial regulation and the turmoil created by the debt crisis in the eurozone. Given the reliance of London's housing market on the capital's financial services industry and its employees, the current trend and its implications for housing investment in the capital is worrying.

**London and England & Wales /
year-on-year average residential property price changes
/ October 2006 –October 2011**



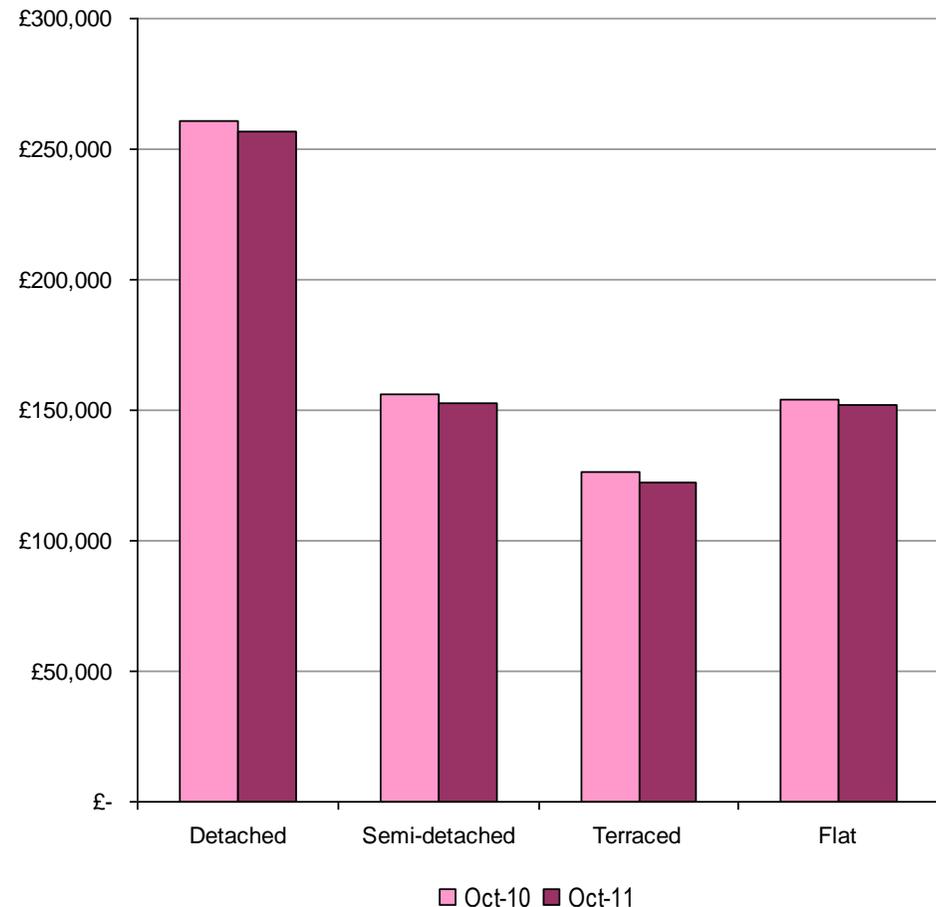
by type of property

All of the four main property types fell by similar amounts between September and October, demonstrating that the current uncertainty affects most socio-economic groups of home owners evenly.

The price of detached homes saw a marginally shallower fall than the other housing types. Its -0.1% contraction brought the typical price of a detached house to £265,955, -1.4% below the same level in October 2010. This is more than double the price of a typical terraced house, which also saw a modest -0.1% decline over the month. However, terraced houses have experienced the sharpest annual contraction of any of the four main property types with a -3.2% since October last year.

These figures show that no particular type of property has fared well over the last year, demonstrating how broad-based the decline in the UK housing market has become.

Property price by type /
 October 2010 & October 2011



sub-regional analysis

The chart on the right hand side presents further evidence of the divergence of house prices in London from those across the rest of the country.

The five most expensive property areas, which are all in London, saw price rises of an average of 0.8% between September and October. In contrast, four of the five least expensive property areas saw falls over the most recent month, with an average value of 1.1%.

Widening the net slightly further reveals that the top 20% of housing arranged by value saw prices increase by an average of 0.3% over the month to October. Whereas, the cheapest 20% of homes saw prices fall by around -0.4%. This was an almost identical change to the one reported last month, demonstrating little relief in the growing disparity.

The division is even more apparent over an extended time line. Over the year to date prices have risen by 3.6% in the most expensive fifth of property areas and fallen by -4.5% in the least expensive fifth.

Average property price & annual inflation in most expensive and least expensive local authorities / England & Wales / October 2011

	Average residential property price	Annual change%	Monetary value
Kensington And Chelsea	£950,274	8.1%	£70,851
City Of Westminster	£672,920	7.1%	£44,755
Camden	£587,576	3.7%	£20,870
Hammersmith And Fulham	£523,345	1.9%	£10,001
Islington	£467,675	7.8%	£33,838
Hartlepool	£76,598	-22.0%	-£21,647
Oldham	£73,880	-20.8%	-£19,373
City Of Kingston Upon Hull	£69,444	-14.2%	-£11,520
Stoke-On-Trent	£68,298	-10.0%	-£7,628
Merthyr Tydfil	£65,809	-11.5%	-£8,588

what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Department of Communities and Local Government	August	+0.6%	In August UK house prices decreased by 1.3% over the year and increased by 0.6% over the month. The average mix-adjusted UK house price was £208,476. Average house prices remain unchanged over the quarter to August, compared to a quarterly decrease of 0.2% over from the quarter to May.
Halifax	September	-0.5%	House prices in Quarter 3 (July to September) were slightly higher than in Quarter 2 (April to June). The 0.1% increase between the two quarters was the first quarterly rise since Quarter 1 2010. The more volatile monthly figures showed a 0.5% decline in prices in September.
Land Registry (Calnea Analytics)	September	-0.3%	The rate of annual change of -2.6% is on a similar level to the past five months. The average property price in England and Wales is now £162,109. This compares with the same time last year when the average price stood at £166,364.
Nationwide	September	+0.1%	UK house prices continued to tread water in September, with prices rising by 0.1% during the month. Prices were also essentially flat over the year, just 0.3% lower than September 2010. The three-month on three-month measure of house prices was unchanged in September.

what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Financial Times (Acadameetrics)	September	-0.3%	The modest summer recovery came to an abrupt end in September, reminding us there are still serious barriers to a sustained property market recovery. Outside London, prices are falling throughout England and Wales and this has contributed to a fall in the average house price of 2.3% in the last 12 months.
Home.co.uk (Calnea Analytics)	October	+0.3%	The mix-adjusted average asking price for homes on the market in England and Wales has risen 0.3% since September. Home asking prices were cut, on average, by £15,968 in September, the highest figure since November 2010.
Hometrack	October	-0.2%	Average house prices fell by 0.2% in October. This compared to falls of 0.1% over each of the previous five months. The year on year rate of growth currently stands at -2.8%.
Rightmove.co.uk	October	+2.8%	The 2.8% monthly rise in new sellers' average asking prices, and a two year high in mortgage approvals are positive signals, although they mask the tough state of the market in the north of the country while highlighting the more buoyant conditions in the south.

appendix & methodology

There are a number of house price indices currently available which track the United Kingdom housing market. However, they vary in terms of their accuracy, timeliness and the stage of the transaction process to which they relate.

How is ours different?

We bring the leading house price indices together to create a **house price poll of polls**. This poll of polls is timely, accurate, and includes the total stock of properties in the United Kingdom.

The leading indicators included in our index are the following:

- Communities and Local Government House Price Index¹
- The Land Registry House Price Index
- Halifax House Price Index
- Nationwide House Price Index
- Rightmove.co.uk House Price Index
- Home.co.uk Asking Price Index
- Hometrack National Survey

These indices are aligned and weighted to take into account a mixture of factors including:

- Timeliness
- Accuracy
- Relevance for each region
- Relevance for type of property
- Availability
- Statistical methods used

Our weighting is based on a statistical methodology, using regressions to analyse the historical accuracy of each of the indices.

To ensure the index captures all residential properties, rather than only those which have been sold or for sale, we incorporate the stock of residential properties in England and Wales using a weighting process.

For a full picture of the current United Kingdom housing market we disaggregate our findings into four main areas:

- Average property price by region
- Average price by type of property
- Average price by county

Separate models are built for England and Wales as a whole, the twelve regions in the United Kingdom and for four types of property.

Our poll of polls methodology and report were improved as of December 2007. As a result previous reports are not directly comparable. However, we have backdated our new methodology and figures are compared to revised results.

¹A full explanation of the indices is included in the full methodology. This is available upon request

appendix & methodology

In summary we:

- **Align** the **indices** – taking into account their timeliness, accuracy, relevance, availability and the statistical methods used – and develop this into a **poll of polls**
- **Weight** our index by **stock** to take into account all residential property prices

Aligning the indices

The accuracy, timeliness and relevance of each index's house price level and inflation rate were assessed using both analytical and statistical techniques. As a part of the statistical analysis we compared the historical relationship of each index with the Land Registry's index. We use regression analysis to quantify the correlation of each index with the Land Registry data. Separate regressions were run for each region and for each type of property.

Weighting by stock

To ensure the index captures all residential properties, rather than only those which have been sold or been for sale, we weight house price figures by the stock of residential properties. The index for England and Wales is calculated using the average price of a property in every county and its corresponding stock level.

We repeat this weighting process for every region, using the price of each county in the specified region and its respective stock level. Using the weighted index we calculate the inflation rates for each region in the United Kingdom and for England and Wales as a whole. Using a similar process we weight our indices for each type of property by stock levels.

Creating a timely index

To create a timely index we use an econometric model which analyses the housing market's relationship with the economic environment and the latest available house price indices. Separate models are built for England and Wales as a whole, the **twelve regions in the United Kingdom** and the **four types of property**.

Residential property price by county

Residential county property prices are available from the Land Registry. We take these county prices and use the relationship between the Land Registry's index and our poll of polls to calculate the inflation rate for each county.

This report has been produced by Chesterton Humberts' and the centre for economics and business research (Cebr).

With a network of 60 offices across the United Kingdom, including 27 in London, Chesterton Humberts is one of the United Kingdom's leading property consultancies with a full range of property services including residential sales and lettings, commercial agency and management, rural land management, professional advisory services, professional valuation and other surveying services. The company also has a significant international presence with offices in St Tropez, Gibraltar, Lake Como, Mallorca, Singapore, Abu Dhabi, Sydney and Brisbane.

Cebr is an independent economics and business research consultancy established in 1993 providing forecasts and advice to City institutions, government departments, local authorities and numerous blue chip companies throughout Europe. The contributors to this report are economists Douglas McWilliams and Benjamin Williamson.

Whilst every effort has been made to ensure the accuracy of the material in this report, the authors, Chesterton Humberts' and Cebr will not be liable for any loss or damages incurred through the use of this report.