

## London house prices under strain from lacklustre city employment figures

- London house prices have fallen by 1% in Q4 2011 compared to Q3 2011, or £3,130 in monetary terms.
- London house prices have finished the year 2.1% in 2011 compared to 2010 as a whole. This compares to prices in the UK falling by 1.4% as a whole.
- The level of city-type jobs employment is a lead indicator of London house price growth. City job employment fell year-on-year by 8.5% in 2011.

Key findings	England and Wales	London
Latest estimate (Dec)	£174,637	£342,286
Month-on-month change (Dec)	-0.3%	-0.1%
Year-on-year change (Dec)	-0.9%	+2.5%

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making business sense

**Annual growth in London house prices and city-type jobs**



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## overview

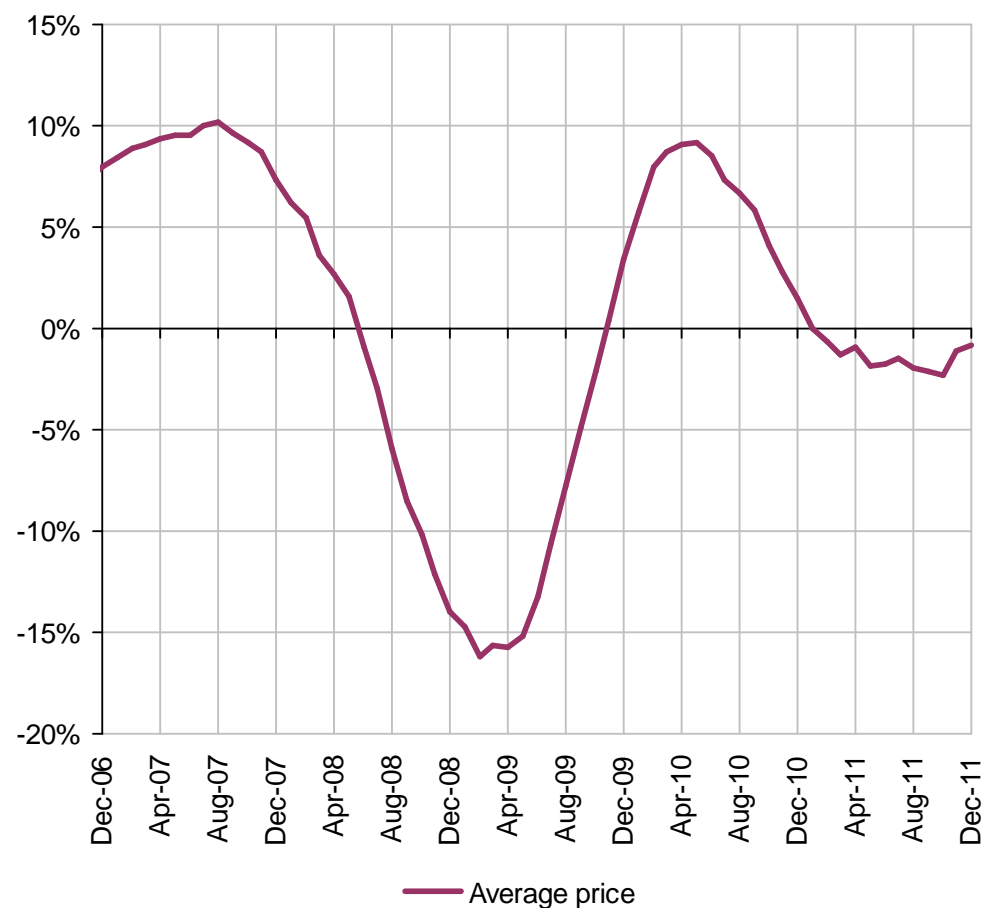
A stagnant mortgage market and weak economic growth in the economy have kept a lid on house price growth throughout 2011. The total level of mortgage approvals from January to November 2011 equalled 544,072 – 2.1% lower than the same period a year earlier.

House prices have fallen year-on-year by 0.9% in December, which is still marginally better than the 1.2% fall reported in the previous month. This is owing to better economic conditions in December 2011 compared to the same month last year – when freezing conditions gripped the UK and stalled growth.

December's better than expected services sector performance suggest that the UK will narrowly avoid contraction in Q3 2011. Furthermore, falling consumer price inflation since September 2011 has also relieved the squeeze on real disposable incomes, increasing mortgage affordability and supporting demand.

Despite conditions improving in the short term, the housing market remains in a state of fragility. Furthermore, house prices are falling month-on-month across all regions including London, where reduced bankers bonuses and weak financial services activity has stymied house price growth.

**Average residential property price inflation  
England & Wales**



## how much is your property worth?

Five out of eight house price and asking price indices tracked in this report (see slides 9-10) showed house price falls for the most recent month of data – demonstrating weak conditions in the 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 -0.3% over the month to December reaching £174,637. This is 0.9% lower than the price of houses at the same time last year.

Terraced properties have fallen the most on a year-on-year basis across all types of properties, decreasing by 2.5%. Adverse economic conditions, particularly in the manufacturing-dominant North, where terraced properties are more prevalent, are likely to cause prices for these types of properties to continue to fall during 2012.

	Average residential property price	month-on-month change	year-on-year change
Houses on the market today will sell for...*	£174,637	-0.3%	-0.9%
Top 20% of market will sell for...	£392,170	0.2%	2.6%
Bottom 20% of market will sell for...	£103,549	-0.3%	-5.0%
Detached house	£252,905	-0.7%	-1.5%
Semi-detached house	£152,932	-0.2%	-0.9%
Terraced property	£120,472	-0.5%	-2.5%
Flat / apartment / maisonette	£149,603	0.0%	-1.2%



Indicator is higher or lower compared to the previous month

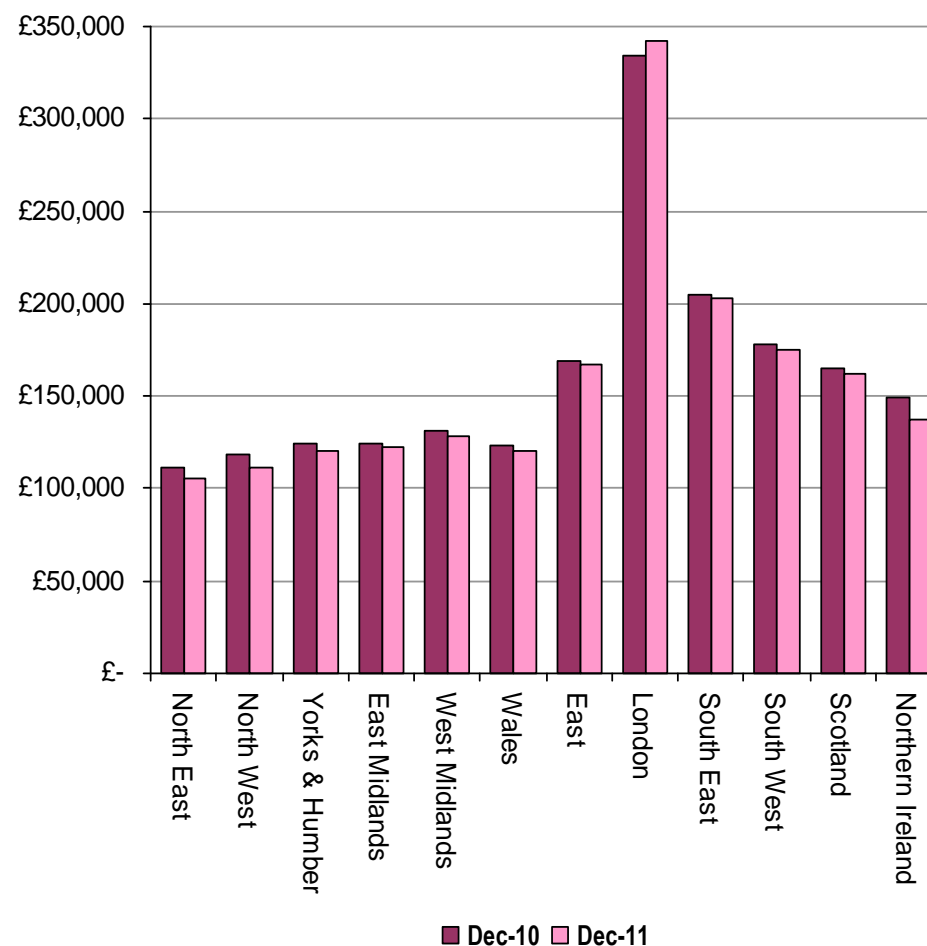
\*National average house prices are weighted by stock and may not align with house prices arranged by type, which are not weighted by stock.

## regional analysis
















































All twelve countries and regions within the UK saw price falls between November and December. Prices have fallen for three consecutive months to December, equating to a 1% fall over this period. London, South East and the East Midlands saw the smallest falls in house prices over the month.

On an annual basis, house prices in the North East and West have fallen the most – by around 5.1% and 5.7% year-on-year respectively in December. London is the only region where house prices in December are higher compared to a year ago – increasing by 2.5%.

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



## region summary

	Average residential property price	month-on-month change	year-on-year change	Monetary value of monthly change
North East	 £105,695	 -0.6%	 -5.1%	 -£587
North West	 £111,623	 -1.5%	 -5.7%	 -£1,651
Yorkshire & Humber	 £120,510	 -0.5%	 -3.2%	 -£562
East Midlands	 £122,383	 -0.1%	 -2.8%	 -£137
West Midlands	 £128,230	 -0.4%	 -1.9%	 -£485
Wales	 £120,235	 -0.3%	 -2.4%	 £410
East	 £167,470	 -0.4%	 -2.2%	 £674
London	 £342,286	 -0.1%	 2.5%	 -£262
South East	 £203,132	 -0.3%	 -0.7%	 -£709
South West	 £174,730	 -0.6%	 -1.6%	 -£1,045
Scotland	 £162,116	 -0.2%	 -1.9%	 -£358
Northern Ireland	 £136,980	 -0.9%	 -7.9%	 -£1,248

  Indicator is higher or lower compared to the previous month

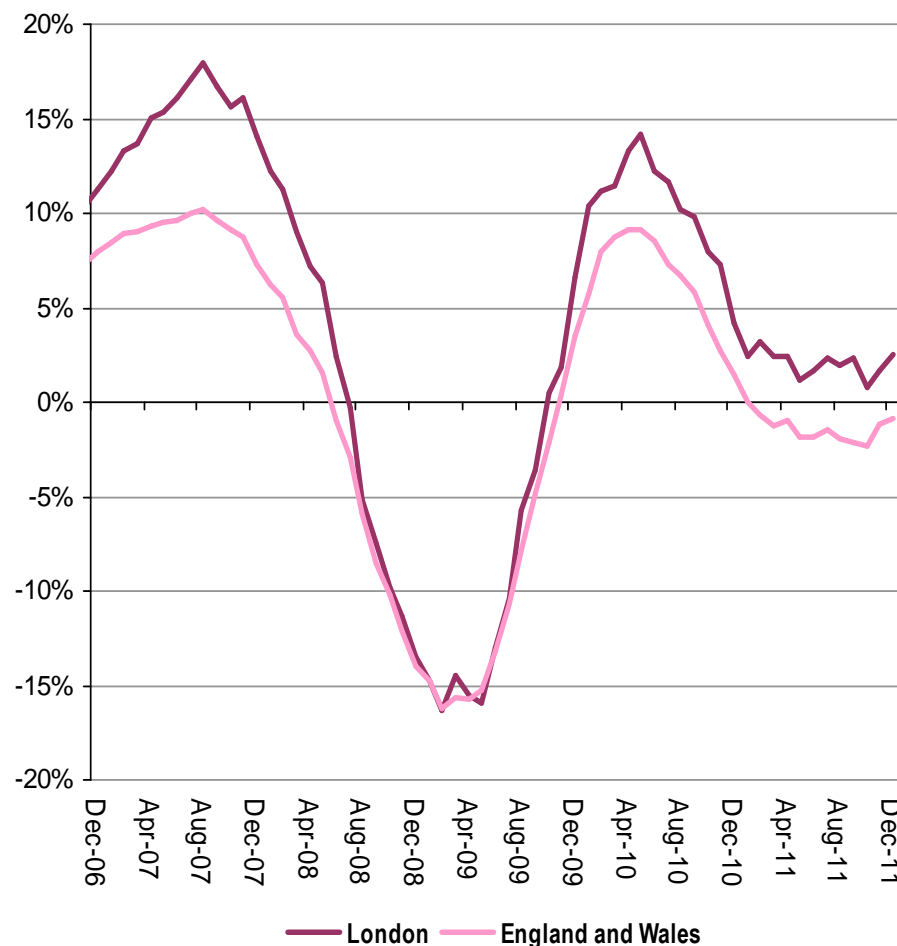
## London's property market

House prices were 0.1% lower in the capital between November and December, with an average price decrease of £262. This represents the second consecutive month-on-month decrease in London house prices – a feat last repeated in November 2010.

Over the year to December London's house prices have increased by 2.5%, which is a figure that is flattered by a period of weak house price growth caused by adverse weather conditions a year earlier.

Looking ahead, the supply of housing in the capital is still extremely constrained and as such we expect price growth to return later in 2012. However, the effects of the Eurozone debt crisis on the London and UK housing market and wider availability of credit can not be underestimated. Indeed, employment of city jobs and London house prices are significantly correlated.

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

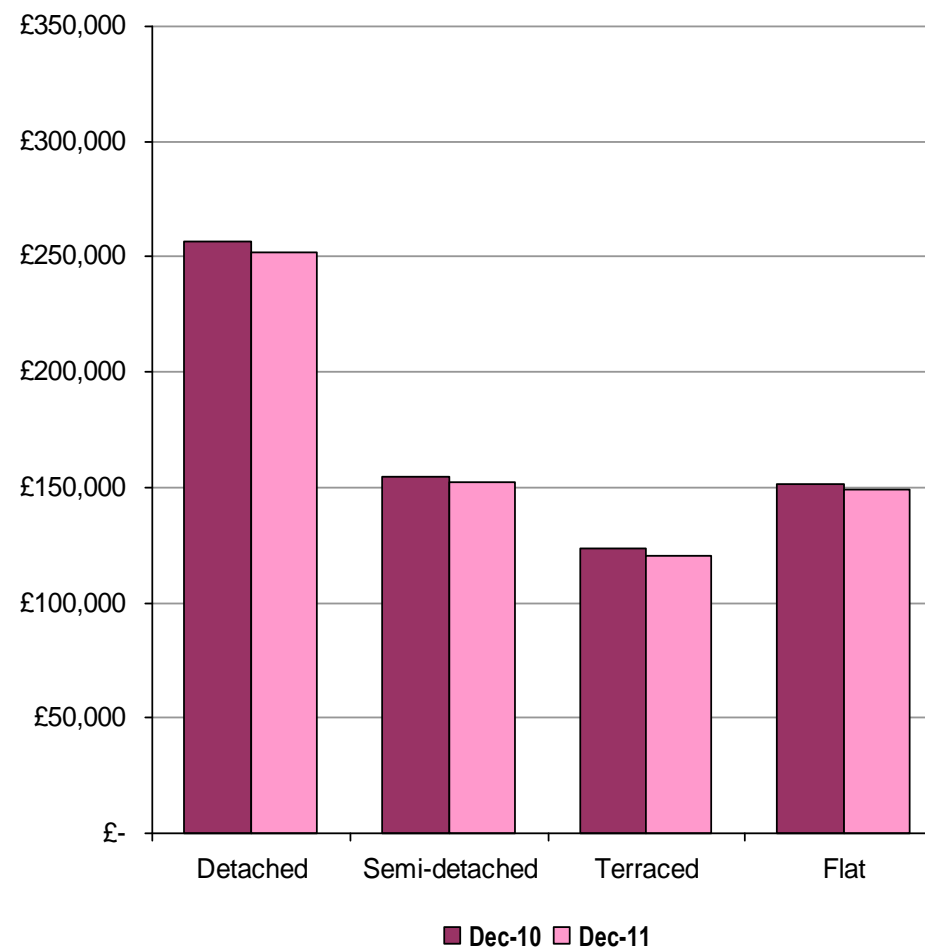


## by type of property

All of the four main property types fell between October and November, demonstrating that the current uncertainty still affects most socio-economic groups.

The price of detached homes saw the largest fall over the month – contracting by 0.7%. The average detached house is worth £252,905. By contrast, a semi-detached house is worth £152,932 and has seen values fall by 0.2% over the month.

Property price by type /  
December 2010 & December 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.

Islington has surpassed Richmond-upon-Thames as the fifth most expensive area in the UK. Four of the five most expensive property areas, which are all in London, saw 6%+ price rises between November and December. However, Camden saw a slight fall of 1.4% over the month.

Widening the net slightly further reveals that the top 20% of housing arranged by value saw prices increase by an average of 0.2% over the month to December. Whereas, the cheapest 20% of homes saw prices fall by around -0.3%.

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

	Average residential property price	Annual change%	Monetary value
Kensington And Chelsea	£951,249	8.4%	£75,380
City Of Westminster	£667,705	8.0%	£49,313
Camden	£558,785	-1.4%	-£7,920
Hammersmith And Fulham	£539,467	7.2%	£36,308
Islington	£465,369	6.8%	£29,442
Rhondda Cynon Taff	£69,924	-13.0%	-£10,477
Blackburn With Darwen	£69,806	-14.2%	-£11,521
Stoke-On-Trent	£69,047	-0.3%	-£198
Blaenau Gwent	£67,423	13.7%	£8,146
Merthyr Tydfil	£59,808	-8.7%	-£5,721

## what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Department of Communities and Local Government	October	0.0%	In October UK house prices fell by 0.9% over the year and fell by 0.7% over the month. The average mix-adjusted UK house price was £210,828.
Halifax	December	-0.9%	House prices in the final quarter of 2011 were 0.1% lower than in the previous quarter. This compared with a 0.1% rise between Quarter 2 (April to June) and Quarter 3 (July to September). On a monthly basis, prices fell by 0.9% between November and December.
Land Registry (Calnea Analytics)	November	0.3%	November's data shows a monthly price change of 0.3 per cent. The annual change now stands at -1.9 per cent and has not risen above zero since December 2010. This brings the average house price in England and Wales to £160,780.
Nationwide	December	+0.2%	House prices declined by 0.2% in December, but increased by 1% in 2011 as a whole. Price of a typical home is now £163,822. London sees strongest growth in 2011, but less regional variation in house prices compared with previous years.

## what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Financial Times (Acadameetrics)	November	0.0%	No movement in house prices in November (but transactions rise 4.5%). In the year to November, prices fell by 0.7%. London prices rose 3.1% since November 2010 – making the capital the only region to see growth in England and Wales.
Home.co.uk (Calnea Analytics)	December	0.0%	0.4% since November, in line with seasonal expectations. 62,475 sellers cut their asking prices in November: 13% more than in November 2010. Homes in the North East spend 88% longer on the market than in Greater London.
Hometrack	December	-0.2%	Average prices moved downwards by 2.1% over the year, this compared to a 1.6% decline in 2010. The strength of the London market, where prices were up 1% and by more than 5% in the most affluent postcodes, has flattered the national picture. Over the last 12 months 78% of postcodes across the country have registered price falls.
Rightmove.co.uk	December	-2.7%	New sellers' average asking prices fell by 2.7% in December to leave prices marginally up year-on-year (+1.5%), perhaps a surprising performance given the challenging market. With RPI still at 5.2%, this represents a fall of nearly 4% in real terms, though with wages failing to keep pace with inflation this does not necessarily indicate a corresponding increase in affordability.

## 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 Index<sup>1</sup>
- 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.

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<sup>1</sup>A 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.