

## House prices to end year lower but expect stability in Q1 2012

- Annual consumer price inflation peaked at 5% and will now subside, providing support for real disposable incomes and demand for houses as early as Q1 2012.
- London is bearing the brunt of higher costs of living and Eurozone debt crisis uncertainty with house prices down -0.3% over the month (-£1,000) and broadly flat over the year.
- Looking ahead, modest growth will be supported by weak supply and low mortgage interest rates.

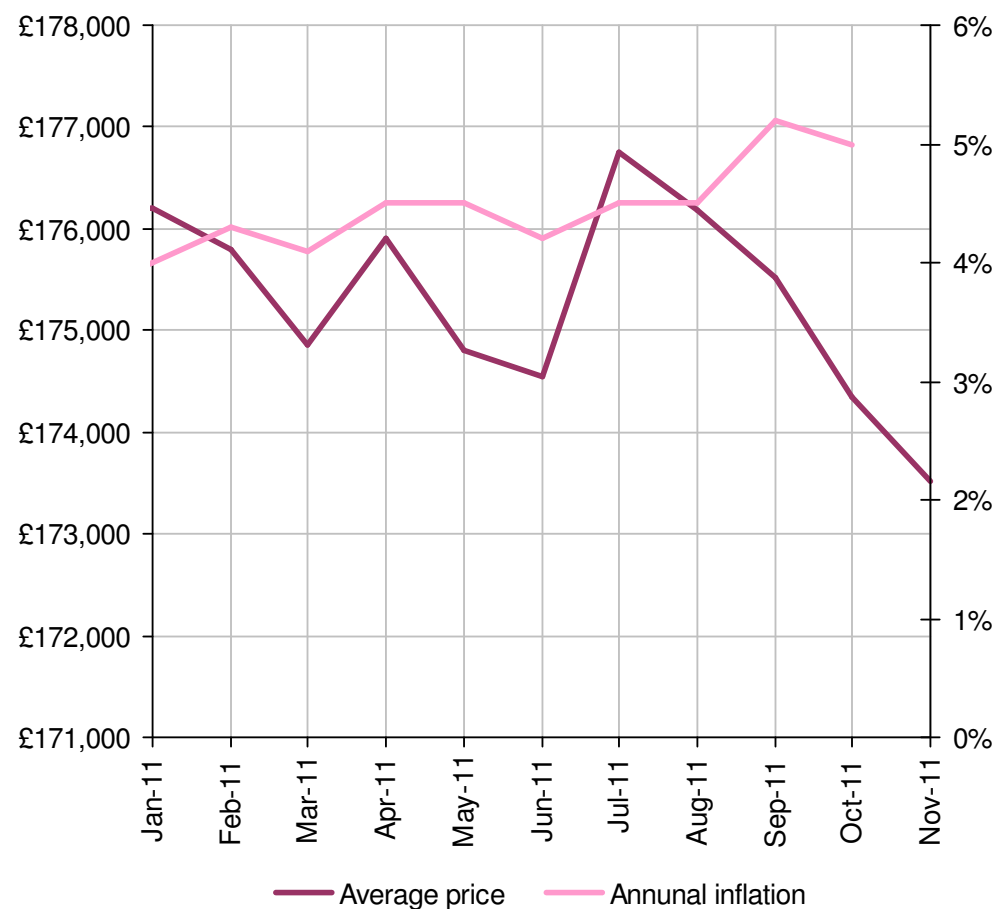
Key findings	England and Wales	London
Latest estimate	£173,525	£337,698
Month-on-month change	-0.5%	-0.3%
Year-on-year change	-2.1%	+0.1%

Chesterton Humberts  
8 Chesterfield Hill  
London W1J 5BW  
0203 040 8240  
chesterton.co.uk



making business sense

PoP House price (LHS) and annual inflation (RHS)



## contents

Overview	2
How much is your property worth?	3
Regional analysis	4
London's property market	6
By type of property	7
Sub-regional analysis	8
The other house price indices	9
Appendix & methodology	11

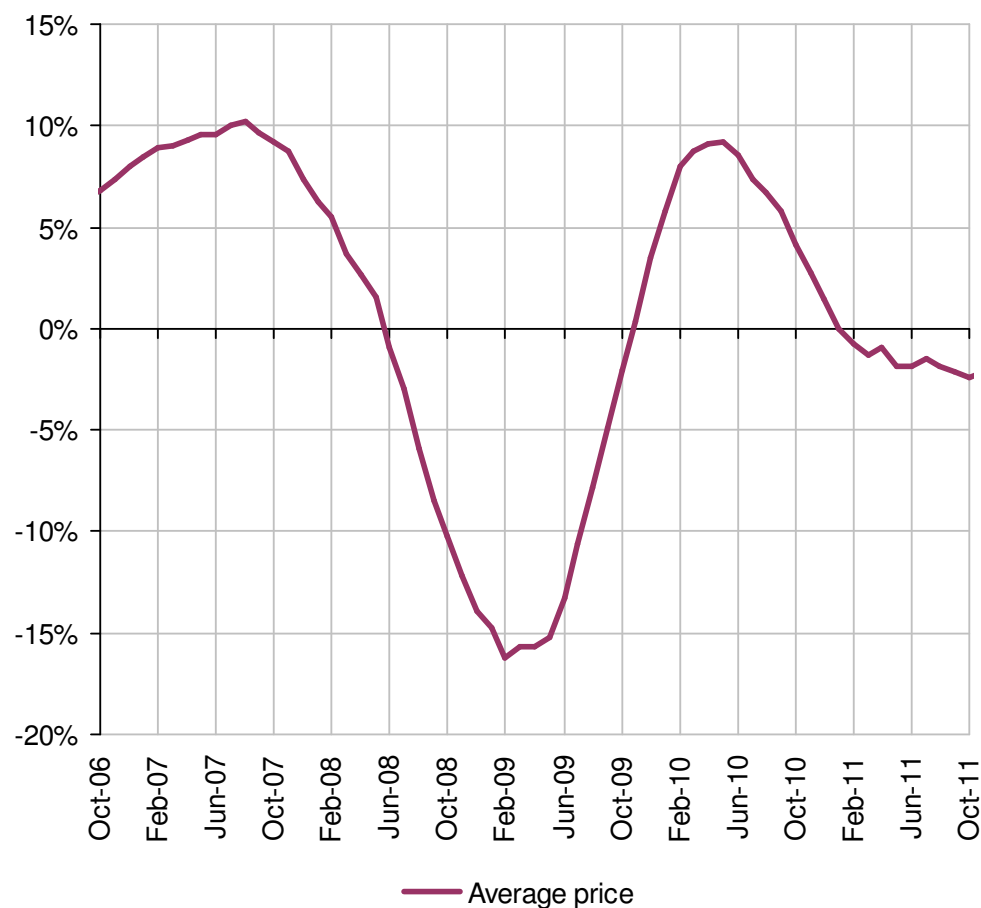
## overview

Confidence in the housing market has taken a knock as the dual effects of the Eurozone debt crisis and high inflation in the UK rein in demand. According to official Land Registry data, the number of transactions in the market are down 3.3% in the year to September as average time to sell in the market has also increased.

House prices fell at their fastest rate since December 2010 – contracting by 0.5% over the month to November. House prices are now 2.1% lower in November 2011 compared to a year ago. Dual effects of rising costs of standard of living – encapsulated by consumer price inflation of 5.0% in October and constrained lending in mortgage markets in the wake of the Eurozone sovereign debt crisis have both halted price increases.

We expect consumer price inflation to ease into next year, providing respite for household disposable incomes in real terms, and therefore shoring up confidence in the housing market. However, the effect of the Eurozone sovereign debt crisis is at this stage unclear, as a fallout in the European banking sector is likely to impact the beleaguered mortgage and credit markets in the UK. On the whole, house prices have behaved surprisingly resiliently as supply remains weak, but confidence will be tested in the coming months.

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 the worsening 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 -0.5% over the month to November reaching £173,525. This is 2.1% lower than the price of houses at the same time last year.

Last month's fall comes at a time of tremendous economic uncertainty, which has extended to the capital. Contraction in financial services output has lower employment and bonus payments in the industry. Furthermore, the Eurozone debt crisis has affected confidence, causing London house prices to fall by 0.3% over the month to November.

	Average residential property price	month-on-month change	year-on-year change
Houses on the market today will sell for...*	£173,525	-0.5%	-2.1%
Top 20% of market will sell for...	£423,740	0.1%	3.9%
Bottom 20% of market will sell for...	£104,539	-0.4%	-4.8%
Detached house	£252,483	-1.1%	-2.4%
Semi-detached house	£151,355	-0.8%	-2.6%
Terraced property	£119,527	-0.3%	-4.3%
Flat / apartment / maisonette	£148,230	-0.4%	-2.7%



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.

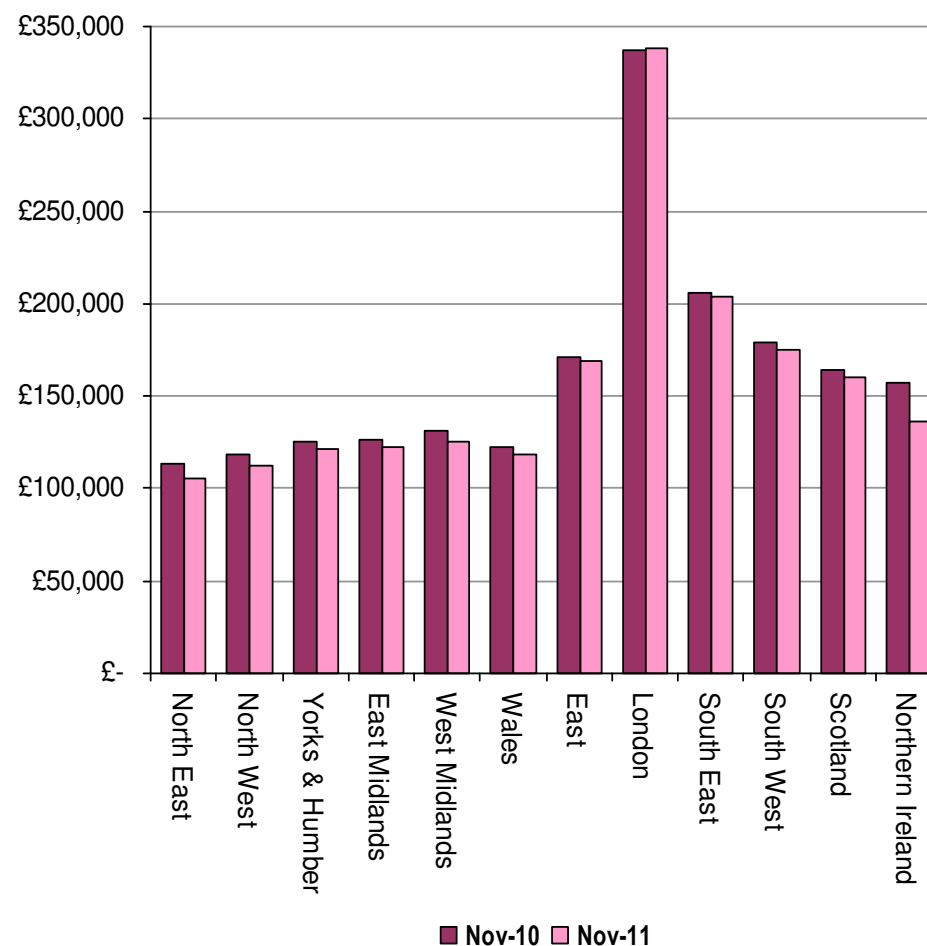
## regional analysis

Only two of the twelve countries and regions within the UK, saw price increases between October and November. House prices slipped in all other parts of the UK, including London where prices had increased consecutively for nine months in a row.




























The South and North both saw house prices fall over the month as higher consumer price inflation impacted standards of living and willingness to pay. House price growth was positive across areas in the middle of the UK last month. Wales, the Midlands and East Anglia saw lesser falls in prices over the month.

Looking at the year to November 2011, house prices in Northern Ireland and the North East have fallen the most – by 13.4% and 6.8% respectively. London is the only region where house prices are higher than a year ago. Although, prices in the capital are only 0.1% higher than last year – mainly due to weak activity in the financial services sector.

**United Kingdom average property price by region / November 2010 & November 2011**



## region summary

	Average residential property price	month-on-month change	year-on-year change	Monetary value of monthly change
North East	 £105,131	 -0.5%	 -6.8%	 -£494
North West	 £111,964	 -0.4%	 -5.1%	 -£445
Yorkshire & Humber	 £121,652	 -0.2%	 -2.6%	 -£199
East Midlands	 £122,523	 -0.1%	 -2.8%	 -£154
West Midlands	 £125,196	 -0.2%	 -4.4%	 £285
Wales	 £118,740	 0.6%	 -2.9%	 £686
East	 £169,153	 0.1%	 -1.3%	 £99
London	 £337,698	 -0.3%	 0.1%	 -£1,042
South East	 £203,483	 -0.4%	 -1.0%	 -£766
South West	 £174,628	 -0.4%	 -2.4%	 -£786
Scotland	 £159,841	 -0.2%	 -2.6%	 -£364
Northern Ireland	 £135,784	 -1.8%	 -13.4%	 -£2,461

  Indicator is higher or lower compared to the previous month

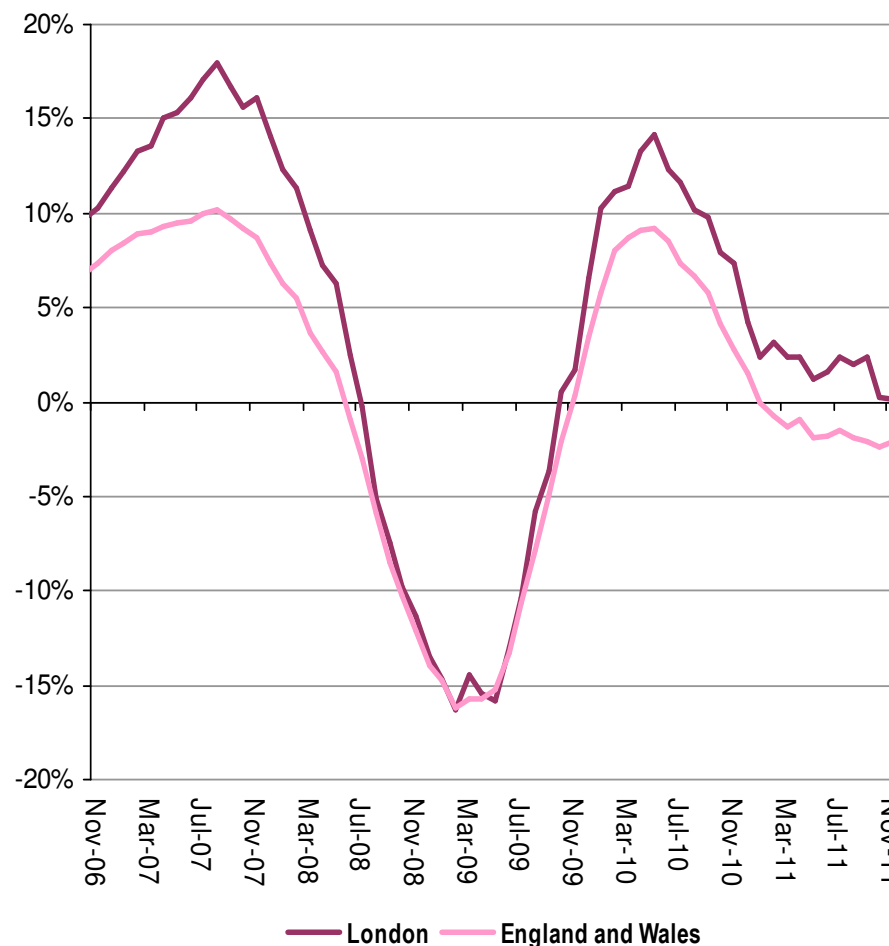
## London's property market

House prices were 0.3% lower in the capital between October and November, with an average price decrease of £1,042, the largest change of any part of the country.

Over the year to date London's house prices have increased by only 0.2% as the dual effects of increasing costs of standard of living and the Eurozone debt crisis have eaten into price growth.

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.

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



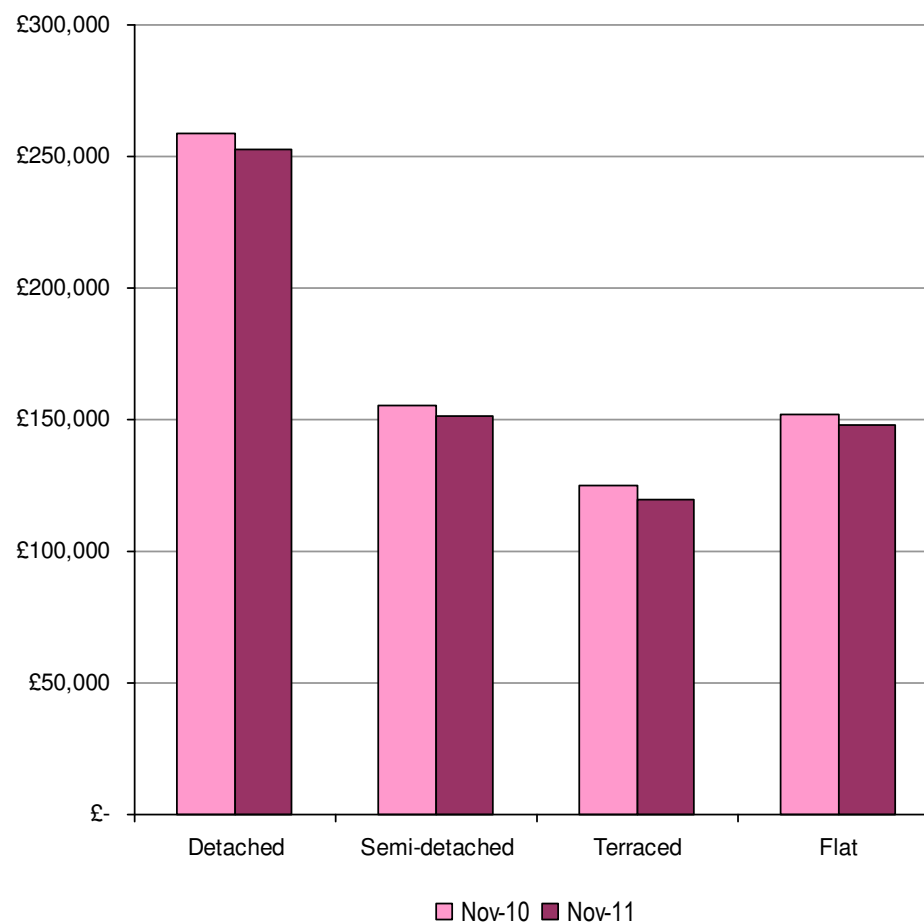
## by type of property

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 1.1%. The average detached house is worth £252,483. By contrast, a semi-detached house is worth £151,355 and has seen values fall by 0.8% over the month.

Over the year, detached, semi-detached and apartments have performed similarly – falling by between 2.4%-2.7%.

Property price by type /  
November 2010 & November 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 5%+ price rises between October and November. In contrast, four of the five least expensive property areas have seen falls over the year, averaging around 12%.

Widening the net slightly further reveals that the top 20% of housing arranged by value saw prices increase by an average of 0.1% over the month to November. Whereas, the cheapest 20% of homes saw prices fall by around -0.4%.

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

	Average residential property price	Annual change%	Monetary value
Kensington And Chelsea	£1,010,792	8.1%	£75,380
City Of Westminster	£709,409	13.4%	£83,601
Camden	£574,168	5.6%	£30,534
Hammersmith And Fulham	£534,398	8.9%	£43,698
Richmond Upon Thames	£474,406	5.7%	£25,607
Hartlepool	£74,460	-20.5%	-£19,195
Blaenau Gwent	£72,859	-6.6%	-£5,119
Merthyr Tydfil	£71,955	16.5%	£10,204
Stoke-On-Trent	£70,895	-6.8%	-£5,180
City of Kingston Upon Hull	£65,519	-13.5%	-£10,253

## what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Department of Communities and Local Government	September	-0.4%	In September UK house prices decreased by 1.8% over the year and decreased by 0.4% over the month. The average mix-adjusted UK house price was £212,273.
Halifax	October	+1.2%	House prices in the three months to October were 0.3% lower than in the preceding three months. There was a 1.2% increase between September and October, according to the more volatile monthly figures, continuing the highly mixed monthly picture.
Land Registry (Calnea Analytics)	October	-0.9%	The data for October shows a monthly house price change of -0.9 per cent, which is the largest monthly fall since February 2009. The annual change now stands at -3.2 per cent. This brings the average house price in England and Wales to £159,999.
Nationwide	November	+0.4%	UK house prices increased by 0.4% in November, taking the annual rate of growth to 1.6%, up from 0.8% the previous month. The price of a typical home is now £165,798.

## what happened to the other indices this month?

Index	Month which report refers to	Monthly inflation	Details
Financial Times (Acadometrics)	October	0.2%	The sharp rise in transactions in September has given way to an October slump. Last month, growing fears about the Eurozone crisis caused lenders to rein themselves in and that has reduced the volume of transactions.
Home.co.uk (Calnea Analytics)	November	-0.0%	The mix-adjusted average asking price for homes on the market in England and Wales remains unchanged since October. Sellers who cut their prices cut deeper in October, knocking a total £1.3 billion off the UK's property portfolio. Home prices fell in 7 out of 9 English regions and in Scotland and Wales, during the last month.
Hometrack	November	-0.2%	Against an uncertain economic and financial backdrop the housing market has – over the last three years - adapted to a low turnover, finance constrained environment. House prices have fallen consecutively for the last 16 months, but on a year-on-year basis are down just 2.3%.
Rightmove.co.uk	October	-3.1%	Economic uncertainty spooks sellers, sending an early warning to sectors reliant on consumer spending. The average asking price of a property coming to market tumbles by £7,528 (-3.1%) in a month, the largest monetary fall since December 2007 and third largest percentage fall on record.

## 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.

---

<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.