



The Saturday Economist

Economics news and updates every week, with Professor Milton Keynes



Housing Market Update October 2013



Up, Up and
Away





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Housing Market Update October 2013

Summary

- 1 House Prices set to rise by over 5% this year and by over 8% in 2014.
- 2 Regional Prices will rise too.
- 3 Long Term Fundamentals support the price move.
- 4 As prices rise, the real cost of borrowing falls stimulating transactions.
- 5 Mortgage Lending will increase by over 20% this year
- 6 Housing transactions will increase by over 12% this year
- 7 House building set to increase by over 30%
- 8 Building costs are set to rise
- 9 The Bank of England will act to curb house prices.



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Housing Market Update October 2013

1 House Prices set to rise by over 5% this year and by over 8% in 2014.

House prices are rising with the latest data from Nationwide and Halifax suggesting house prices are rising by 5%. Data from the ONS, indicates prices are rising slightly less in the information available to July. We expect the year on year out turn to be around 5.5% with a further increase in prices of between 7.5% to 10% next year.

2 Regional Prices will rise too ...

London and the South East are leading the way with price rises averaging 10% in London based on both the Nationwide and ONS data. The ONS suggest prices are increasing less markedly across the regions with some indication prices are still falling in the North West. The Nationwide data suggests the increases are far more widespread averaging over 3.5% across the UK, with marked increases in the East Midlands specifically.

Price rises will spread across the UK, like a tidal wave across the flood plain. We expect an acceleration of house prices across the regions into the final quarter of 2014 and into 2015.

3 Long Term Fundamentals support the price move

The Nationwide long term fundamentals will support the price rise. Real long term house prices are below the trend rate. And the house price to earnings ratio appears to have established a resilient higher level post 2008.

4 As prices rise, the real cost of borrowing falls

As prices rise, the real cost of borrowing falls and with no immediate base rate rises on the horizon for a further two years, the real cost of borrowing will fall to -2% or more increasing to -5% next year. Of itself this is a great stimulus to house market activity.

5 Mortgage Lending will increase by over 20% this year

Mortgage lending is set to increase by over 30% in the third quarter and by over 20% for the year as a whole. This will still be less than half the activity at peak of market but a dramatic turnaround in any case. We anticipate an increase in lending to over £225 billion by 2015.

6 Housing transactions will increase by over 12% this year

Housing transactions, after a slow start to the year, will increase by 24% in the third quarter and by over 12.5% for the year as a whole. We are projecting an increase to over one million transactions in the year, still well down on the peak 1.8 million in 2007 but a significant recovery from the lows of 2008-9.

7 House building set to increase by over 30%

House builders are reacting to the recovery with a significant increase in housing starts. We are forecasting an increase of 30% over the year as activity accelerates into the second half.

We expect further skill shortages in bricklaying and plastering and a significant increase in the cost per 000 index for brick layers.

8 Is this the right time for Help to Buy Stage 2?

Probably not. The house market is on the move. No need to impart a significant demand shock to the recovery which the help to buy scheme represents. The scheme could increase house market transactions by as much as 100,000 in each of three years. The housing sector may increase the new build from 125,000 last year to over 150,000 this year. If we assume further supply increase in 2014, cost price pressures will begin to place additional pressure on the demand price shock.

The Bank of England will not hesitate to take action in this cycle to mitigate price increases. Help to buy will be pared back in the September 2014 review. The spreads on high LTV loans will rise and higher capital provisions for high LTV lending will be in the mixer.

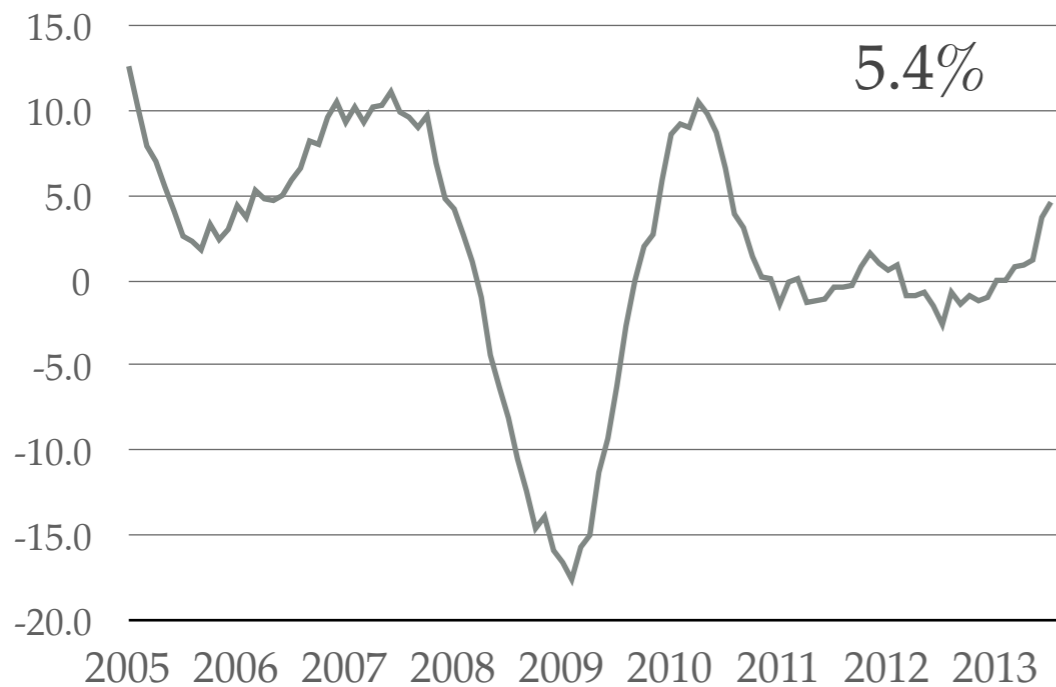
John Ashcroft October 2013



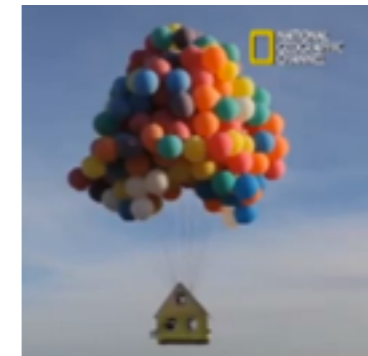
House Prices

House prices moving higher ...

Halifax House Prices



Halifax - Prices in the three months to August were 5.4% higher than in the same three months a year earlier. This was higher than June's 3.7% increase and is the highest annual rate since June 2010 (6.3%).



Nationwide House Prices



Nationwide prices increased by 5.0% in September compared to a year earlier.

but overall volumes still muted as yet.

House Prices - ONS

House prices moving higher ... also according to the ONS



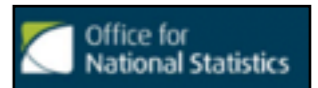
ONS Data - Rate of Change



In the 12 months to July 2013 UK house prices increased by 3.3%, up from a 3.1% increase in the 12 months to June 2013.

House price growth remains stable across most of the UK, although prices in London are increasing faster than the UK average.

ONS Data - Index



The year-on-year increase reflected growth of 3.3% in England and 4.3% in Wales, offset by falls of 0.9% in Scotland and 0.4% in Northern Ireland.

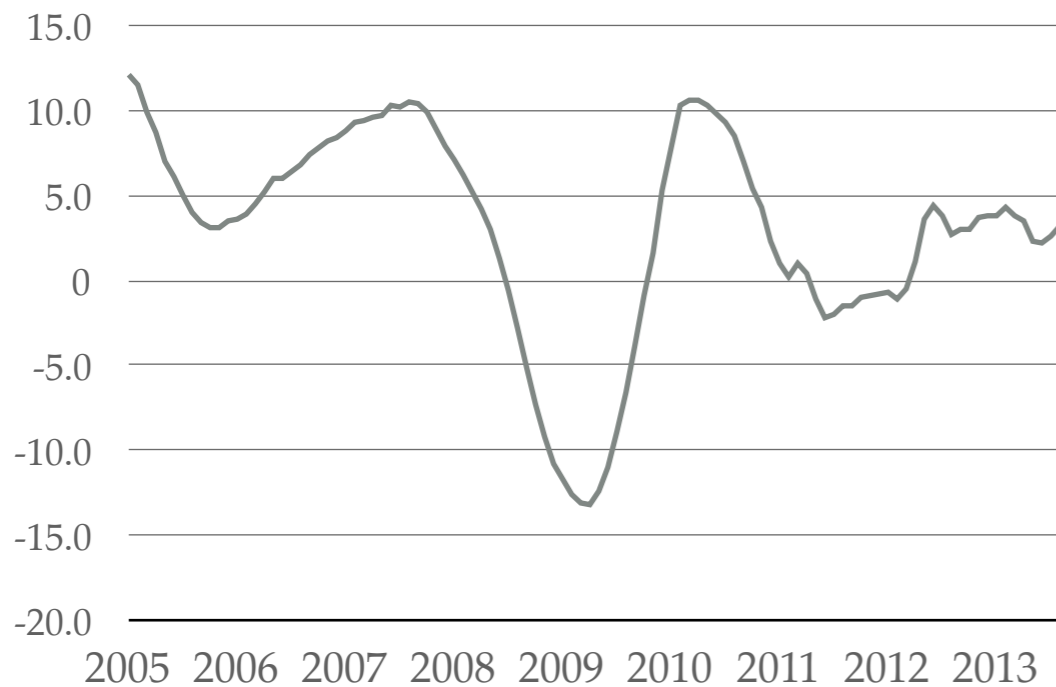
Annual house price increases in England were driven by London (8.1%), the West Midlands (3.1%) and the South East (2.9%).

House Prices -



House prices moving higher ... and the LSL Acadametrics index

LSL Acadametrics - Rate of Change



In the 12 months to August 2013 UK house prices increased by 3.2%, According to the LSL Acadametrics data.

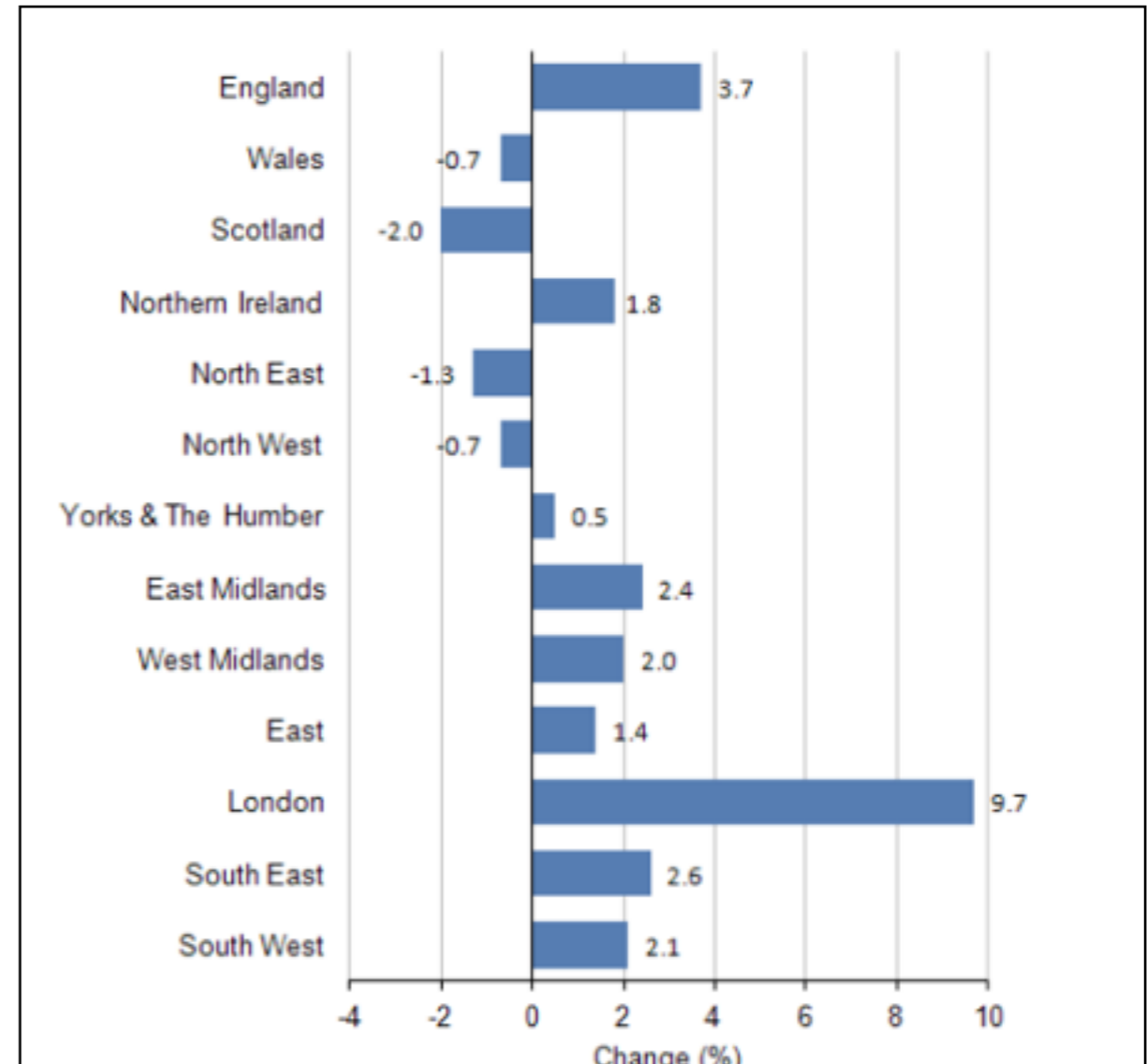
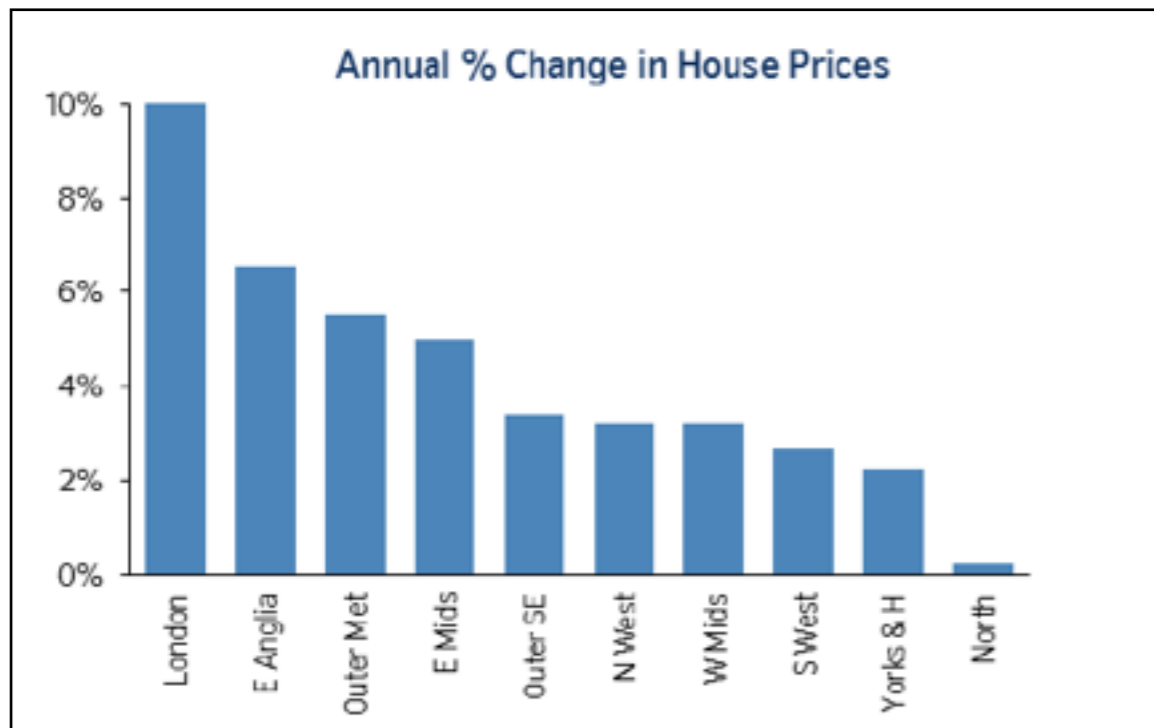
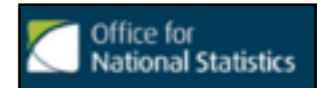
LSL Acadametrics Index



The index is slightly above the peak level recorded in 2007 - 2008.

but overall volumes still muted as yet.

House Prices - Regional data



Regional house prices are on the move according to latest data from Nationwide. With the exception of the North, prices outside of London and the South East are increasing by over 3.5%. Particularly strong growth in the East Midlands.

The ONS data set presents a much more varied picture of price growth across the UK. Prices rising by 10% in London and averaging 3.7% across the UK.

Major Towns and Cities

Best performing regional towns / cities

Rank	Town / City	Annual % change	Average Price
1	Manchester	10%	£193,753
2	Newcastle	8%	£172,663
3	London*	7%	£368,812
4	Brighton	7%	£336,816
5	Birmingham	6%	£177,020

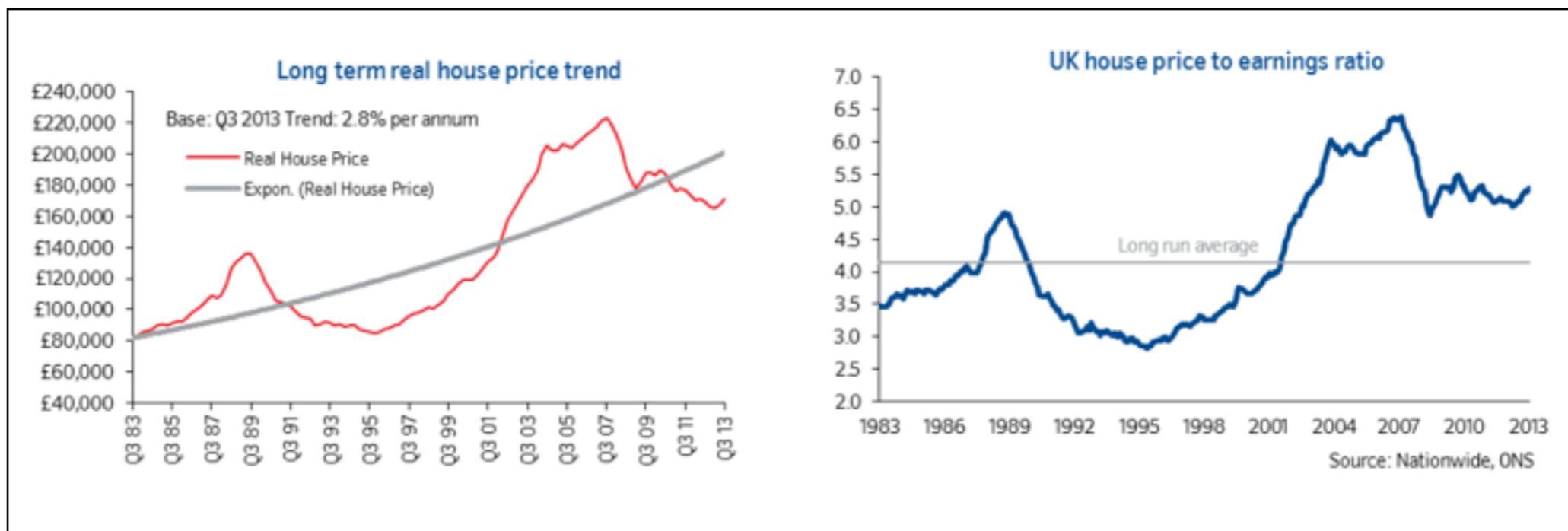
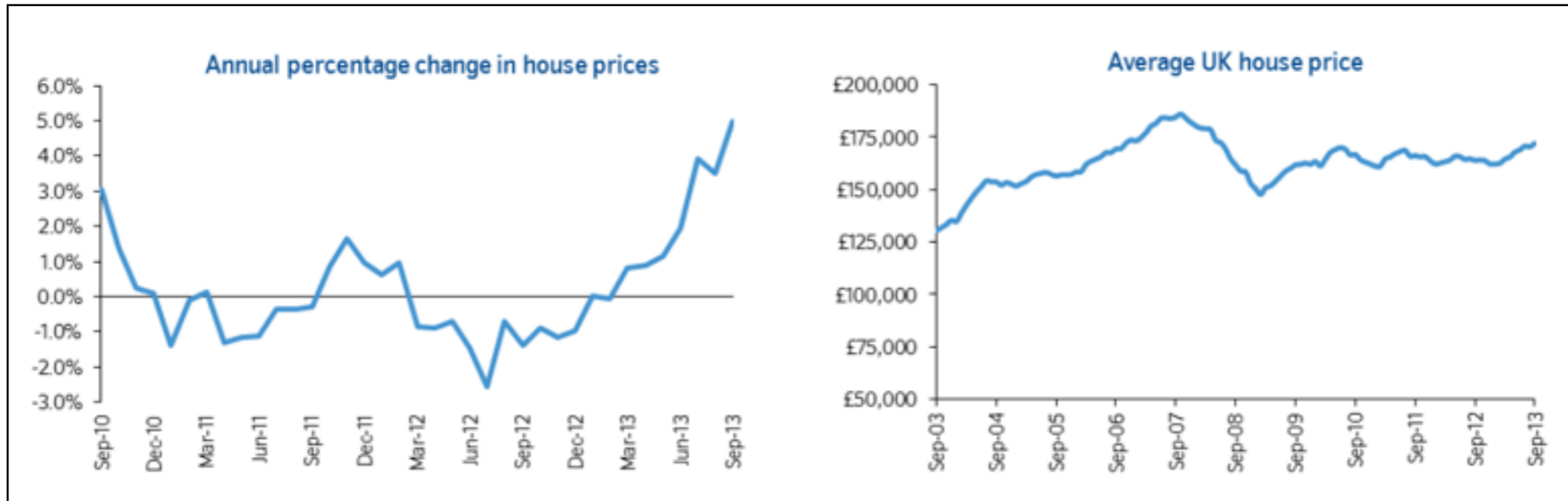
Worst performing regional towns / cities

Rank	Town / City	Annual % change	Average Price
1	Carlisle	-3%	£133,833
2	Southampton	-2%	£204,718
3	Glasgow	-1%	£155,511
4	Bradford	-1%	£146,902
5	Sheffield	0%	£171,273

* This figure is on a different basis to the London regional index to enable a direct comparison with other towns and cities.

House Prices ...

September

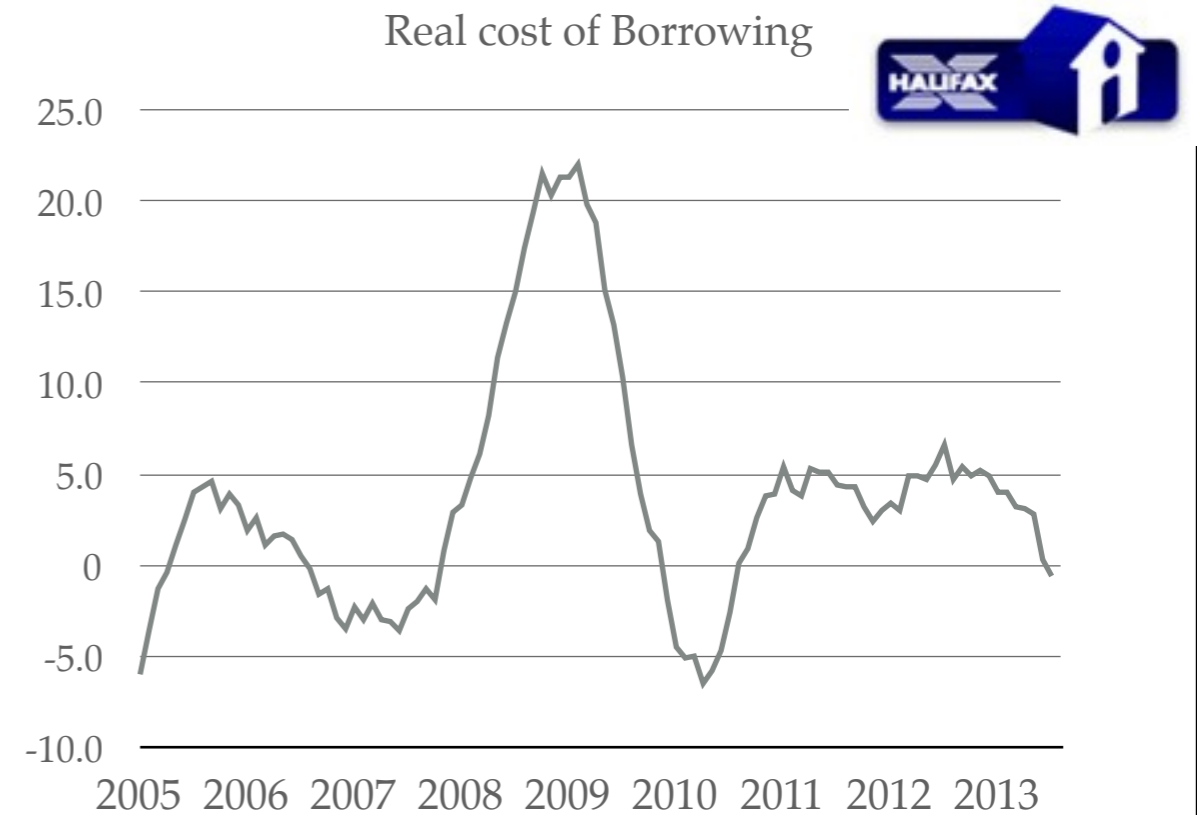


House Prices ...

House prices moving higher ...



... real cost of borrowing is falling.



Assuming a standard variable rate mortgage of 4%...the real cost of borrowing is falling and turning negative.

RICS Housing market on road to recovery
 13 Aug 2013
 RICS July 2013 UK Residential Market Survey

The UK housing market appears to have finally turned a corner as buyers returned to the market in their biggest numbers for four years says the latest [RICS Residential Market Survey](#) (13 August 2013).

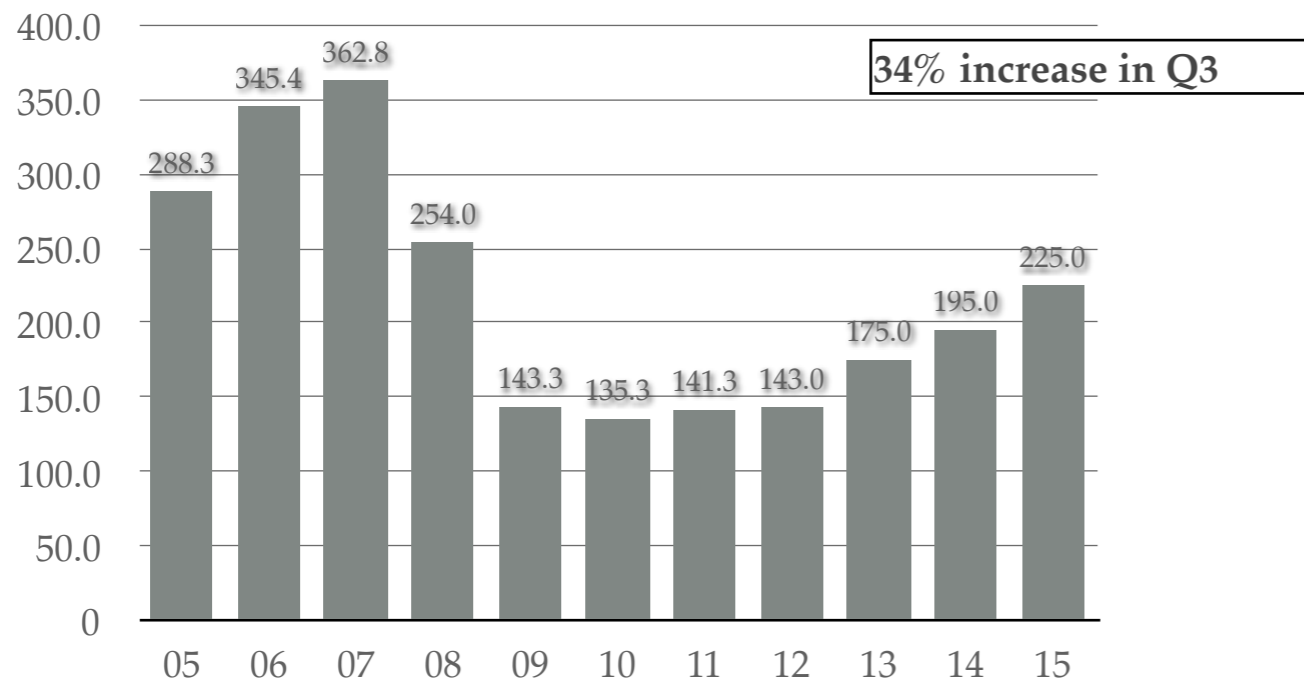
RICS
 Click here.

House Prices ...



Gross Mortgage Lending increasing according to CML data

Gross Mortgage Lending CML data



£ BILL	2011	2012	2013
Q1	30.5	33.8	33.9
Q2	33.4	34.5	41.9
Q3	39.4	37.3	49.8
Q4	38.0	37.4	50.0
Tot	141.3	143.0	175.0

First time buyers lending at highest level since 2007.

According to the latest CML data, the value of gross mortgage lending was £42 billion in the second quarter, an increase of 20% in the same period last year. Our forecast for the year is £175 billion up by 22% on 2012. Still some way off the £363 billion recorded in 2007. Gross mortgage lending in August and was an estimated £16.6 billion. This is almost identical to July's gross lending total of £16.7 billion and is 28% higher than August last year (£13 billion).



First-time buyers lending at highest level since 2007
 12 Aug 13 | Lending to first-time buyers has hit its largest quarterly total since 2007 with 68,200 purchasing their first home in the second quarter of 2013, according to new figures released by the CML today.

Buy-to-let lending tops £5 billion in second quarter

08 Aug 13

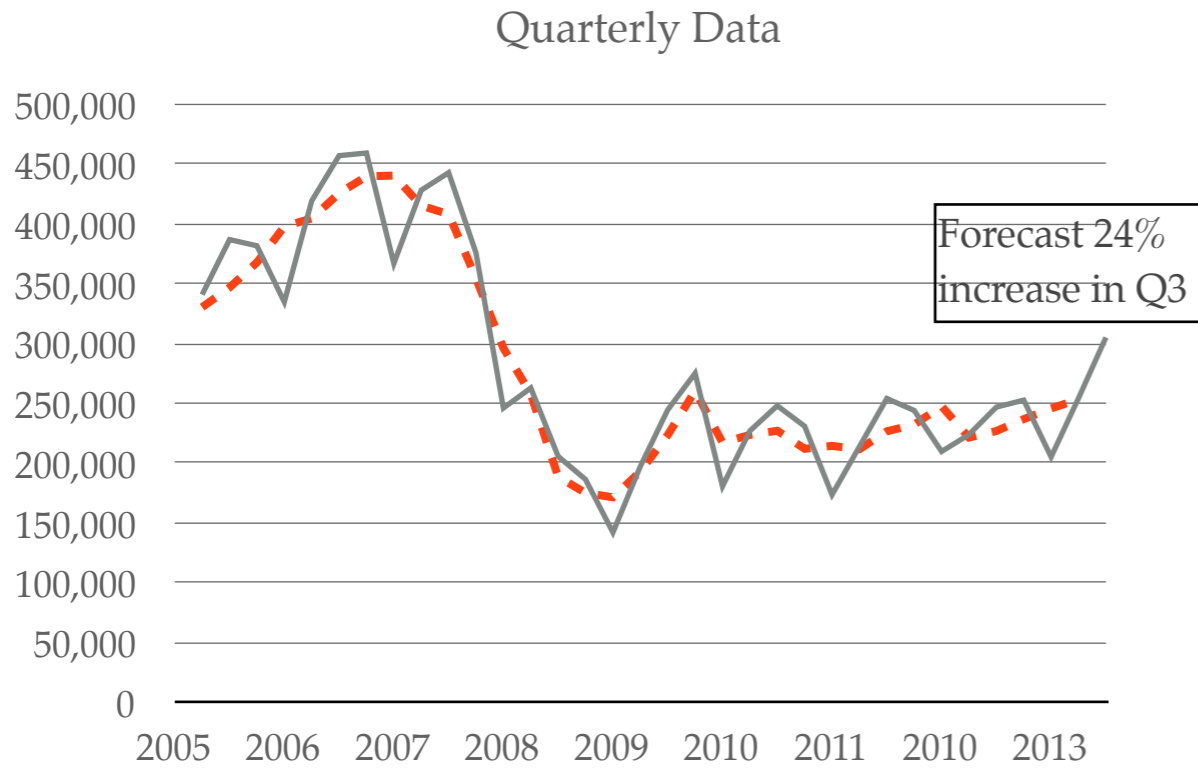


Lenders advanced 40,000 mortgages, worth £5.1 billion, to buy-to-let investors in the second quarter of 2013, according to data published today by the CML. Both the number of buy-to-let loans, and the value of lending, were the highest since the third quarter of 2008.

our forecast for the year is £175 billion.

Housing market

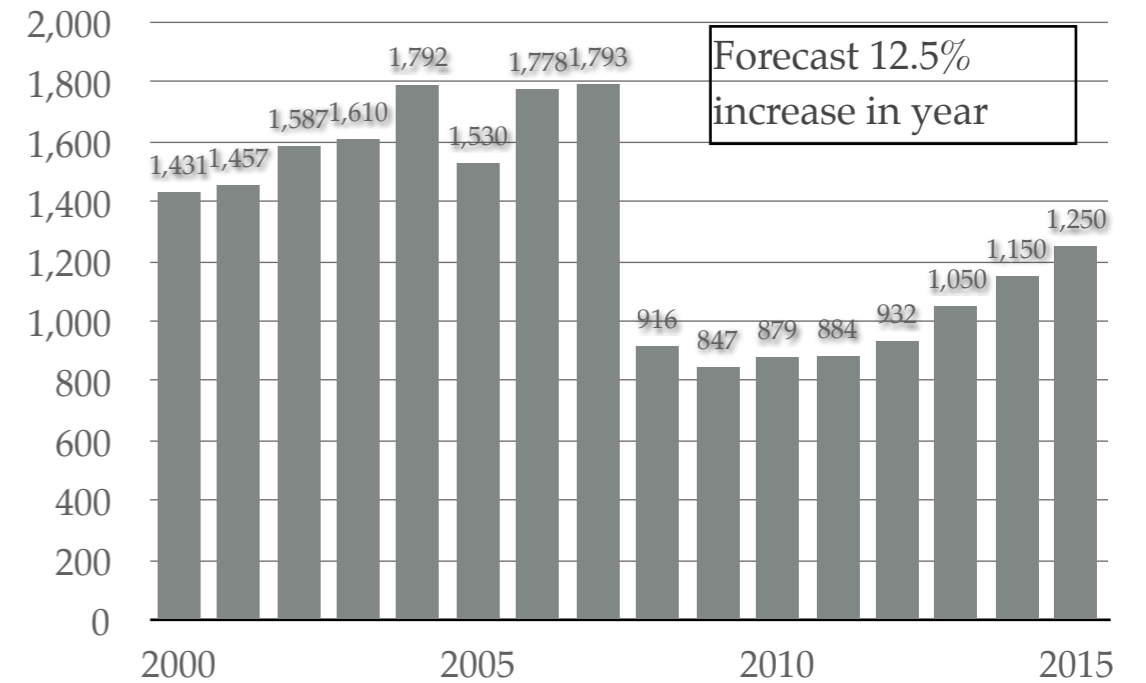
Housing Transactions



Primary data from the Office for National Statistics, latest date to Q4 2012. Estimates for 2013 are derived from The National House Builders Council data for Q1 to generate estimates for starts and completions in the first quarter.

The NHBC are reporting a 30% rise in potential starts (and completions) for the year 2013 compared to 2012.

Annual Data and Forecasts



National House Builders Council

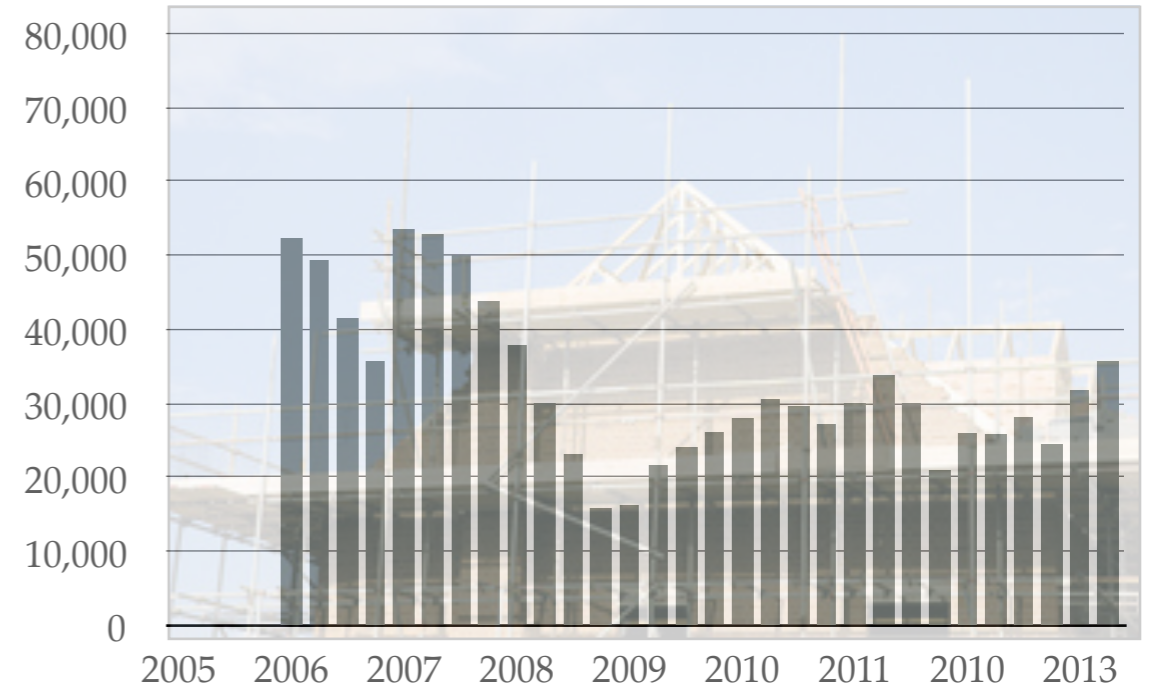


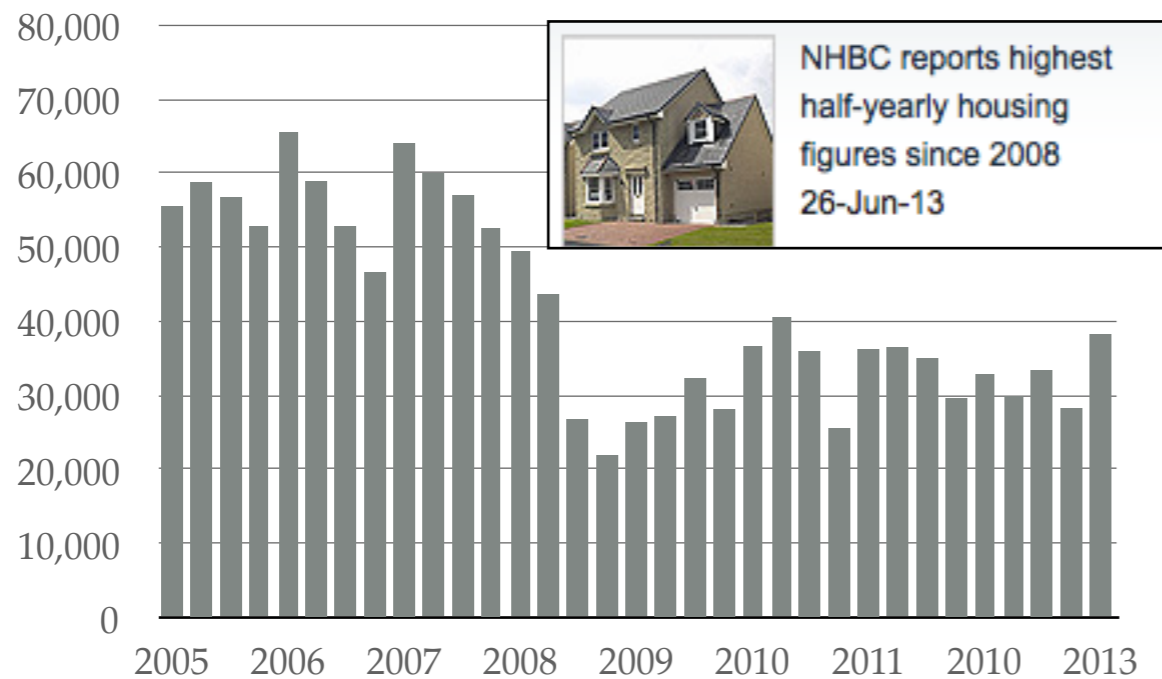
Table 211 House building: permanent dwellings started and completed, by tenure¹, United Kingdom (quarterly)

our forecast for the year is a 12.5% rise in housing activity.

Housing market

Housing starts and completions ...

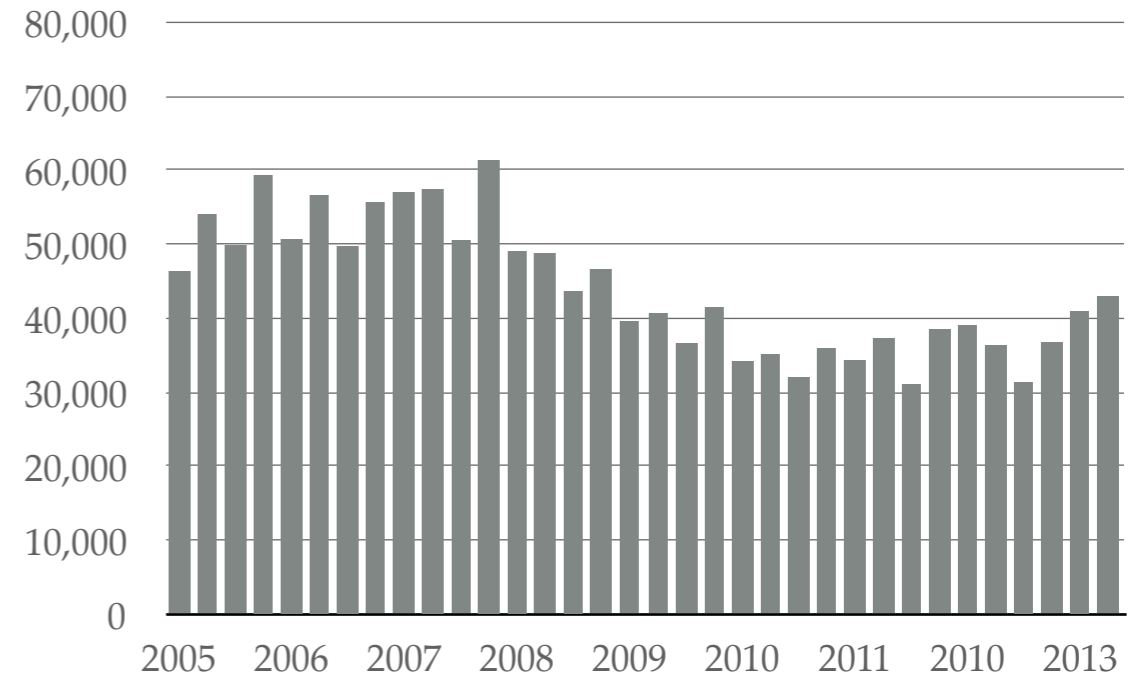
Housing Starts - 30% increase in 2013



Primary data from the Office for National Statistics, latest date to Q4 2012. Estimates for 2013 are derived from The National House Builders Council data for Q1 to generate estimates for starts and completions in the first quarter.

The NHBC are reporting a 30% rise in potential starts (and completions) for the year 2013 compared to 2012.

Housing Completions



National House Builders Council

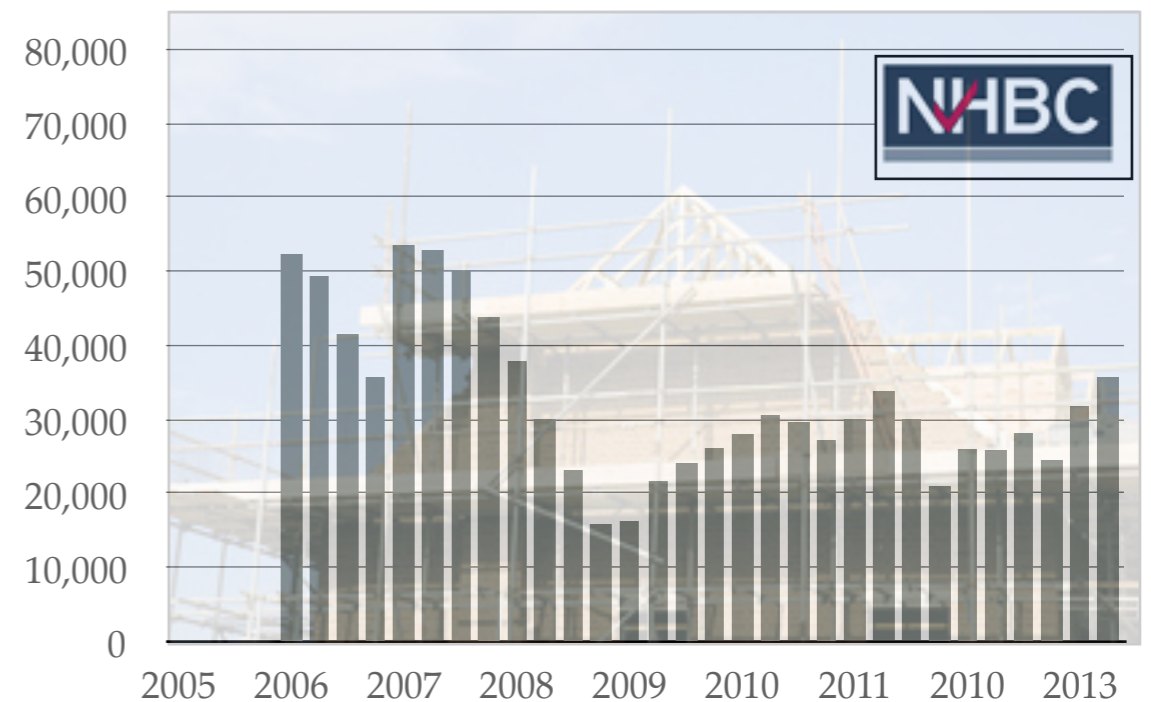


Table 211 House building: permanent dwellings started and completed, by tenure¹, United Kingdom (quarterly)

our forecast for the year is a 30% rise in housing activity.

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