EMBARGOED UNTIL 14/05/14

Asking Price Index

Released 14/05/14 May 2014

London Property Bubble Confirmed

Headlines

- Home prices in Greater London leapt a further 2.4% over the last month, bringing the annual rise to an alarming 20.8%
- Home prices accelerate, bringing the average annual appreciation for England and Wales to 9.2%
- Typical time on market drops further to 90 days as the regional markets slowly heat up
- Supply of properties for sale entering the market: down 50% vs. April 2008

Summary

The rate of ascent of the national average home price continues to rise at a breathtaking pace. However, much more worrying is the rate of price rises in the Greater London region. Prices in and around the capital have soared an unhealthy 20.8% over the last year. History tells us that, during a UK property boom, London leads the other regional markets by one to two years. Moreover, it also tells us that when prices rise too fast (ahead of inflation and wage rises), the housing market becomes unstable and eventually collapses. Government initiatives stoking demand coupled with unprecedented low supply continue to drive prices inexorably higher. The national annual rate of increase, currently 9.2%, is now considerably higher than during the last property boom as measured by this index, and around 7% higher than inflation. Overall supply of properties entering the sales market continues to fall: down 6% across the UK over the last year. The regional market of East Anglia contracted most over the last 12 months, by 21%, in terms of the number of sales properties entering the market.

Home Price Trend for England and Wales

Source: Home.co.uk, May 2014

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The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Regional Market Round-up

Home prices rose in all English regions, Scotland and Wales over the last month. Monthly price rises were strongest in the South East (2.0%) and the South West (1.5%) outside of London (2.4%), whilst Wales and the East Midlands registered only marginal gains. All the English regions, Scotland and Wales registered a drop in the average marketing time over the last month. The shortest, London at 102 days, is comparable to those previously observed pre-crisis (2006/7). However, the longest, North East (321 days) and Wales (289 days), show that there remains a considerable backlog of unsold property that must clear before it can be said these regional markets are booming.

If we take a look at typical marketing times, we can identify the markets that are in the throes of recovery. The Northern regions, Yorkshire and Wales all show significant drops in marketing times. The North West is the most improved regional market over the last month, with a drop in the median figure from 146 to 117 days. There is still clearly considerable room for improvement in all these regions, however, as the typical time on market for England and Wales combined is 90 days.

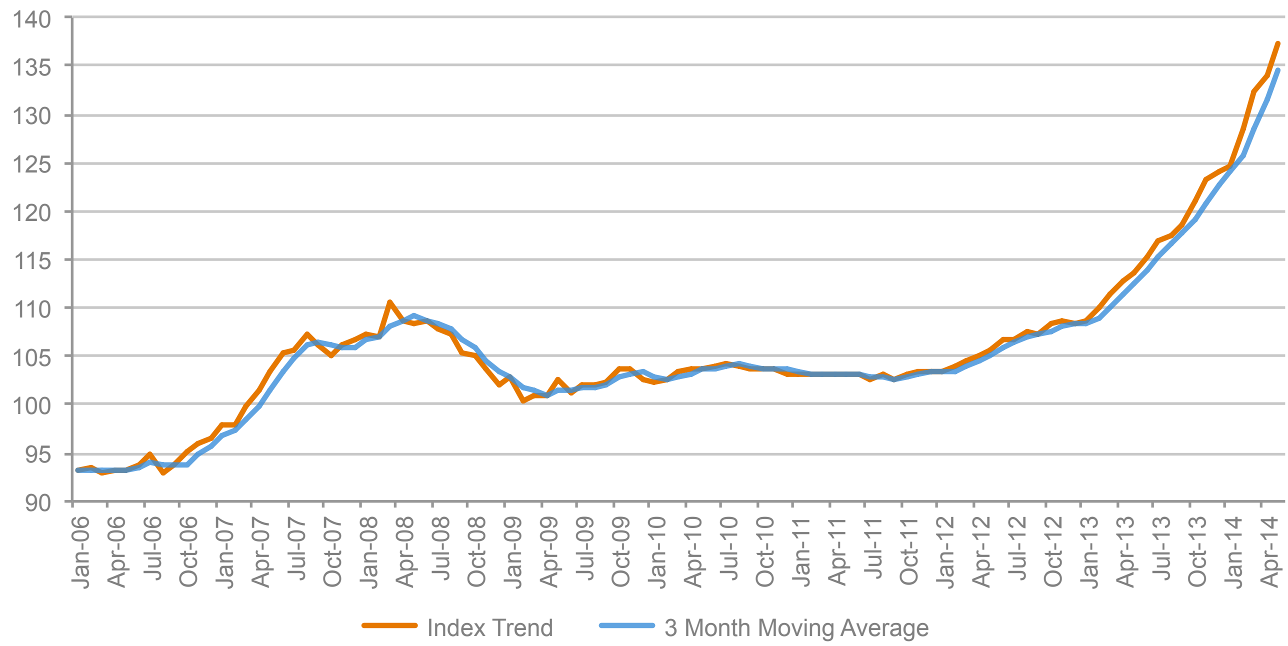
The booming English regions, Greater London, the South East, East Anglia, the South West and East Midlands, with typical marketing times of 48, 59, 69, 82 and 85 days respectively, show little or no change since last month. The top four performing regions have significantly lower marketing times than at this time last year and reduced supply of property for sale. Hence, this supply-demand imbalance will drive prices even higher over coming months.

London Shifts from Boom to Bubble

Capital home price growth accelerates to a new record.

The below chart shows the recent stratospheric growth in London property prices that is taking the market into bubble territory. Moreover, with more price rises almost certainly in the pipeline, we have yet to see the peak. The current key economic drivers for this housing market (ultra-low interest rates, government buyer schemes, foreign investment, buy-to-let and shortage of supply) suggest that this asset bubble will be much bigger than any previous. Even when adjusted for seven years of inflation*, house prices in the capital are higher than at the peak of the last boom, which turned to bust spectacularly and painfully.

London Price Growth Trend

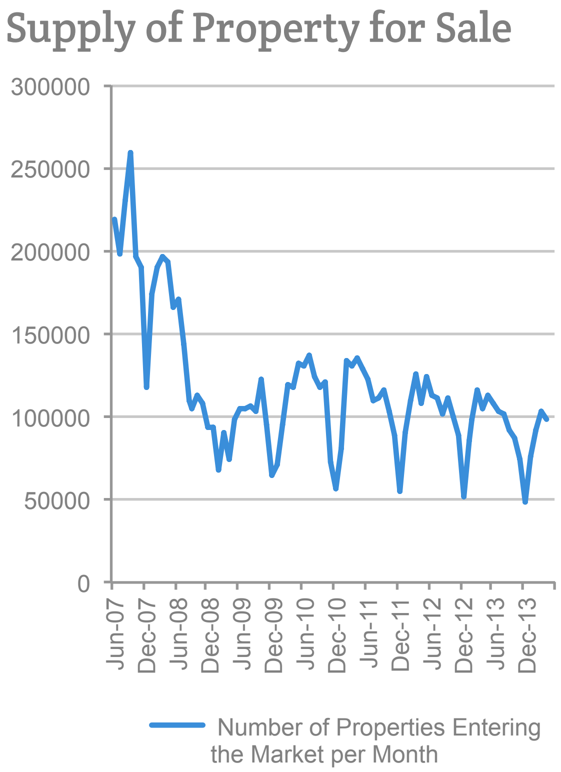


Source: Home.co.uk, May 2014

*Inflation since May 2007 estimated to be 31% (RPI ex housing. Source ONS).

Supply of Property for Sale

Supply (or lack thereof) is a key driver of the housing market. Prices are rising quickest in areas where the supply of properties for sale is falling. Similarly, house prices are moving up only gradually where supply remains at or near normal levels. Overall, the supply of properties entering the market each month has fallen by 50% since April 2008. Moreover, the current amount of stock for sale is only 54% of what it was six years ago.



Source: Home.co.uk, May 2014

We have observed that, over the course of the development of the current property boom, supply has actually fallen steadily and consistently. Potential vendors have not been tempted to enter the market place; instead they hold on to their well performing assets, reluctant to park their money elsewhere. The result: falling supply and scarcity creating further price rises – a characteristic not seen in the previous boom. Back during April 2007, in the heyday of the last boom and prior to the fall of Lehman's, just over 214,000 properties entered the market, more than twice the total in April 2014 (98,000).

The property market continues to race ahead of many people's expectations. The current booming areas are self-generating price momentum as falling supply leads to a severe demand-supply imbalance, which leads to further spiralling price rises and an even greater reluctance to sell.

Such a feedback loop is highly dangerous for the stability of any market and explains why London property has overheated and now looks like an asset bubble. The Bank of England Governor may be 'keeping an eye' on the property market, but it is difficult to imagine how the supply problem can be dealt with quickly and efficiently before the market spirals out of control.

In 2006, the Bank failed to contain rising property prices by raising interest rates. Applying the brakes didn't work and disaster ensued. Overheating property markets present structural risk and imbalance to the entire UK economy. The UK needs a stable and relatively calm housing market if it is to rebalance the economy. A property boom will only inhibit this by reducing the international competitiveness of the labour market and soaking up investment capital that could be invigorating other parts of the economy and creating jobs.

Doug Shephard
Director at Home.co.uk

UK Asking Prices

England & Wales	May-14
Average Asking Price	£260,609
Monthly % change	1.4%
Annual % change	9.2%

Scotland	May-14
Average Asking Price	£162,191
Monthly % change	1.0%
Annual % change	0.0%

North East	May-14
Average Asking Price	£154,456
Monthly % change	2.2%
Annual % change	19.5%

Yorks & The Humber	May-14
Average Asking Price	£171,204
Monthly % change	0.7%
Annual % change	0.9%

North West	May-14
Average Asking Price	£177,324
Monthly % change	0.7%
Annual % change	2.6%

West Midlands	May-14
Average Asking Price	£201,448
Monthly % change	1.2%
Annual % change	4.9%

East Midlands	May-14
Average Asking Price	£187,128
Monthly % change	0.1%
Annual % change	5.1%

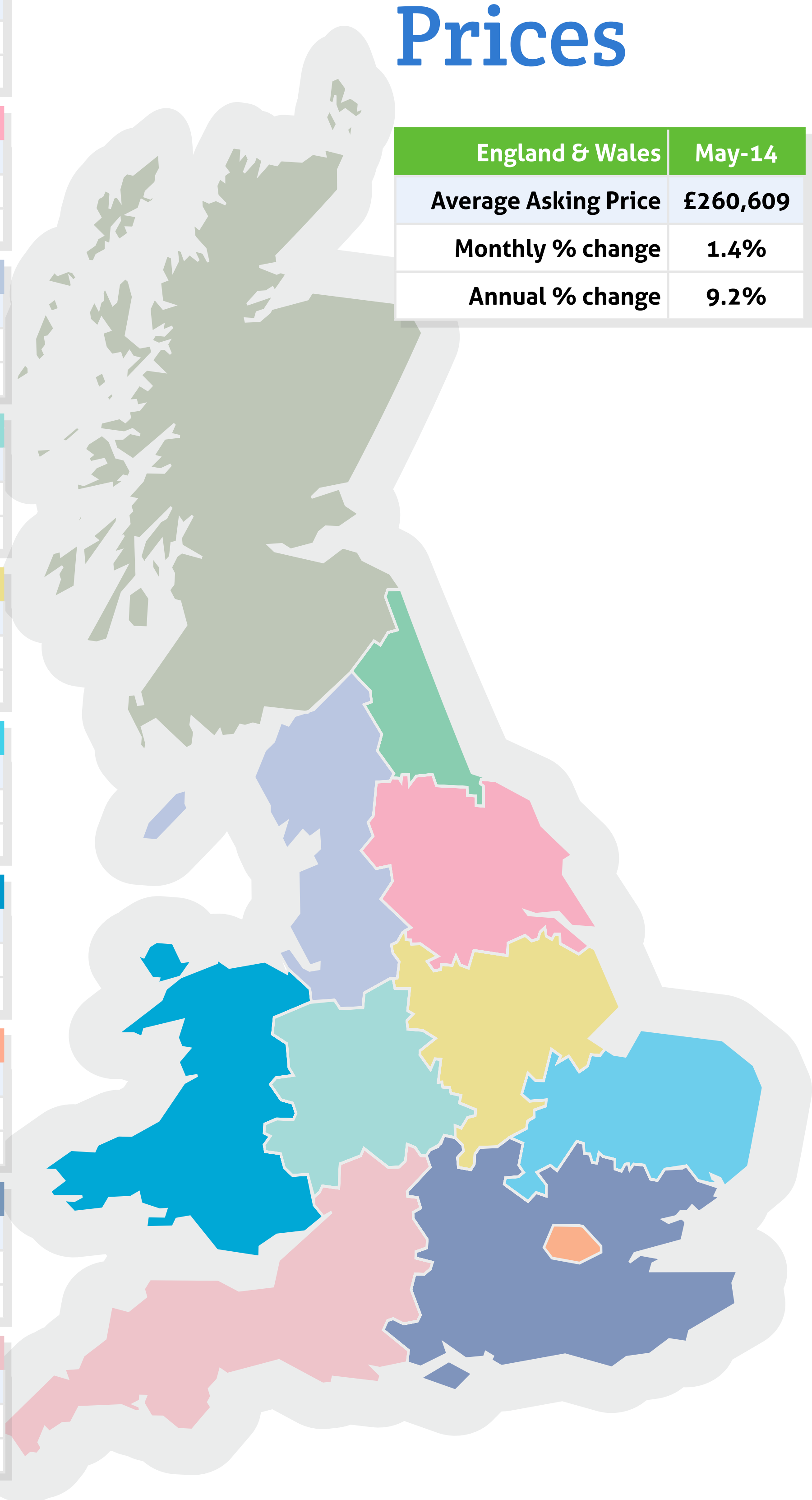
East	May-14
Average Asking Price	£272,828
Monthly % change	0.7%
Annual % change	7.5%

Wales	May-14
Average Asking Price	£179,435
Monthly % change	0.3%
Annual % change	2.4%

Greater London	May-14
Average Asking Price	£454,034
Monthly % change	2.4%
Annual % change	20.8%

South East	May-14
Average Asking Price	£338,852
Monthly % change	2.0%
Annual % change	10.6%

South West	May-14
Average Asking Price	£277,684
Monthly % change	1.5%
Annual % change	6.4%



Source: Home.co.uk, May 2014

Typical Time on Market Falls Further

The typical Time on Market for England and Wales (90 days) is now the shortest it has been since April 2008. In fact, one could argue that this figure is consistent with 'normal' market conditions.

However, 90 days is simply the median figure across both overheating and cooler regional markets. Britain's property market still remains bipolar, and this is especially true from the perspective of marketing times. Looking at the same metric across the regions shows a very diverse property market.

At one extreme, Greater London indicates an ultra-low marketing time of 48 days, which is equivalent to the on-market time observed in the previous boom. The South East is also showing boom-time length marketing times as supply slows to a mere trickle and properties get snapped up by eager buyers spurred on by the Help to Buy scheme.

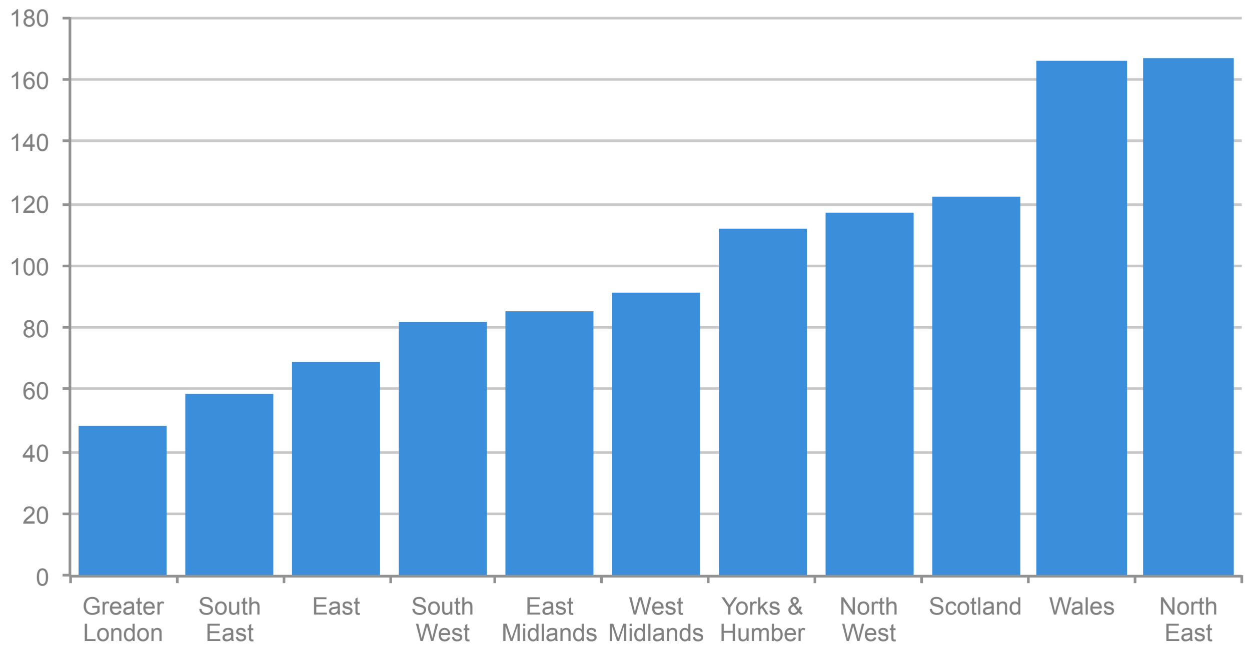
By contrast, the North East and Wales show a typical on-market time of 167 and 166 days respectively. These and similar regions are burdened by a backlog of properties that have been on the market a long time, in many cases more than a year. Vendors there are simply waiting for the market to pick up, and yet the harsh economic conditions in the North, Wales and Scotland coupled with ample supply relative to demand are hindering recovery of these regional markets, despite the Help to Buy scheme and low interest rates.

Doug Shephard, director at Home.co.uk, commented:

"The UK property market remains highly diverse in respect of marketing times. London seems a world away from the difficult and slow markets in the North. The sub-inflation price rises observed in Yorkshire, the North West, Scotland, Wales and the North East correlate well with the long marketing times shown above and indicates that, contrary to the rest of the country, supply is broadly in balance with demand in these regions.

However, market conditions are currently improving rapidly in the North, Scotland and Wales. Hence, we may soon be able to add some, if not all, to the list of booming regional markets over the next 12 months. Goodness knows how the London and South East markets will look by then."

Typical Time on Market by Region (Median Days on Market. May 2014)



Source: Home.co.uk, May 2014

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 700,000 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 June**
- **Tuesday 15th July**
- **Wednesday 13th August**