

Pick up in house price growth seals a May rate rise

- Pace of house price growth picks up in April, but trend still shows a gradual cooling
- Market demand has been supported by movers, but this too is beginning to wane
- Too rapid an increase in rates could destabilise the market
- Current economic conditions suggest that a house price crash is unlikely

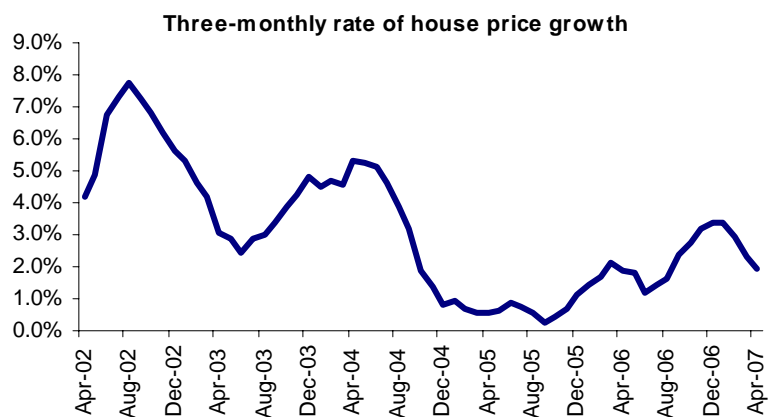
Headlines	April 2007	March 2007
Monthly index * Q1 '93 = 100	357.6	354.5
Monthly change*	0.9%	0.5%
Annual change	10.2%	9.3%
Average price	£180,314	£177,083

* seasonally adjusted

Commenting on the figures Fionnuala Earley, Nationwide's Chief Economist, said:

"The Bank of England held off raising rates at the beginning of April, but the acceleration in house prices during the month makes a rate rise on the MPC's 10th anniversary look like a certainty. The pace of house price growth almost doubled during April to 0.9%, up from 0.5% in March. This brings the annual rate of inflation back into double digits at 10.2% and the price of a typical house up to £180,314, which is £16,741 higher than at this time last year.

"However, while the monthly rise in prices is stronger than the MPC would have liked to see, it can take some comfort from the fact that the underlying trend is softening and the return to double-digit annual growth largely reflects a weak period this time last year. The three-monthly growth rate, which smoothes the volatility of the monthly series, is still cooling in response to the earlier rises in interest rates. The latest figures show prices increased by 2% between February and April, the lowest three-monthly growth rate since last August.



Source: Nationwide

Caution against sharp rate rises which could destabilise the market

"While a stable economic environment with contained inflation is essential for a well behaved housing market, we would caution against too sharp an interest rate response to current economic data. In our view, the talk of rates climbing to 6% and beyond are overblown and if implemented in the current climate could be damaging to housing market stability. With the market already showing signs of cooling, too sharp a rate hike could undermine market confidence and dry demand up swiftly. But on top of this, they could also lead to widespread payment difficulties which, in an illiquid market, could precipitate price falls.

Movers have supported market demand...

"Housing demand has been resilient, but there are signs that this is beginning to wane across the board. During 2006 there were 43,000 more first-time buyers than in the previous year and 56,000 more buy-to-let purchasers. But existing homeowners trading amongst themselves were even more active with an increase of more than 84,000 purchases. However, affordability for those entering the market has deteriorated and led to a fall in the numbers jumping onto the housing ladder more recently. Between December 2006 and February

2007, 3,200 fewer first-time buyers managed to get onto the ladder compared with the same period a year earlier. Even demand from movers may now be beginning to moderate with 2,500 fewer movers in February compared with the previous month.

...but are not immune to interest rate rises

"These existing homeowners, many with large amounts of equity as they purchased their property prior to the recent house price rises, have been able to continue to trade for longer as they could absorb some of the transactions costs such as stamp duty, deposits and fees in new mortgage borrowing. But they are not immune to further interest rate rises. As the amount borrowed has increased, so will the impact of rises in interest rates on their mortgage payments. Levels of mortgage equity withdrawal have also been increasing adding to overall debt levels and ratcheting up the impact of further rate rises.

"57% of the total number of people with a mortgage have a variable rate mortgage. Since July, the average rate payable has increased by 0.65% (less than the 0.75% increase in the base rate) from 5.46% to 6.11%. The average amount outstanding on a mortgage at the end of 2006 was £85,500 which means that the combined increases in mortgage rates have added only about £30 per month to the monthly payment. However, the average includes some very old loans and low value loans. More recent borrowers will have faced a much larger increase in monthly payments. A variable rate loan of £150,000 for example would already have seen an increase of around £60 and one of £200,000, £80 per month.

Effect of increased interest rates on monthly mortgage payments					
Loan outstanding		£85,500	£150,000	£200,000	£300,000
Average variable rate July 06	5.46%	£523	£918	£1,223	£1,835
Average variable rate Feb 07	6.11%	£557	£977	£1,302	£1,953
Increase in monthly mortgage payment		£34	£59	£79	£118
Monthly mortgage payment with further increase in rates of:	0.25%	£570	£1,000	£1,333	£1,999
	0.50%	£583	£1,023	£1,364	£2,046
	1.00%	£610	£1,071	£1,428	£2,141
	2.00%	£666	£1,169	£1,558	£2,337

Source: Bank of England, Nationwide

Notes: 1. Bank of England effective mortgage rates. 2. Assume whole of bank base rate increase passed on. 3. Based on 25 year repayment loan.

"At this level, the past increases are not insignificant, but should be manageable, especially as larger borrowers tend to take out fixed rate loans. Indeed, 76% of all house purchase and remortgage loans were taken out on a fixed rate in February. However if the MPC was to hike rates sharply there is a risk that many borrowers on popular tracker rate products could find themselves with payment difficulties. A further 1% increase in rates would mean an extra monthly payment of £153, compared with pre-rate rise payments on a £150,000 loan – an increase of 16.7%. This could clearly be quite uncomfortable for some, and those coming off fixed rate loans priced at around 4.99% two years ago would face an even greater payment hike of around £200 per month.

House price crash predictions are premature

"Some commentators are already suggesting that the market is poised for a fall with affordability so stretched, especially for first-time buyers. At a simplistic level, a move in the house price to earnings ratio back to its long term average would imply a fall in house prices of nearly 40%. However, the long term average house price to earnings ratio is not a good benchmark given that we would expect this ratio to trend upwards over time. Reasons for this include the decline in real and nominal interest rates since the 1980s and a change in people's preferences towards housing as an investment, as a supplement or alternative to equity based pensions. In addition, as we have mentioned several times, the UK suffers from a slow response of housing supply to changes in demand, which supports house prices. Looking at mortgage payments as a proportion of take home pay, which takes lower interest rates into account, suggests that rates could increase by more than 2% before affordability (on this measure) became as stretched as in the late 1980s.

*** STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 26TH APRIL 2007 ***

"A more important factor which would suggest that large price falls are unlikely in the current economic climate is the state of the general economy. Clearly there are risks to interest rates, but in the current circumstances it is not clear how big these are. Even the tone of Mervyn King's letter to the Chancellor and his testimony to parliament seemed fairly sanguine. In both cases the Governor expressed the view that CPI inflation could fall back sharply over the next four to six months, which would suggest severe rate hikes are unlikely. Back in the 1980s the collapse in prices came about following a sharp rise in interest rates (from 7.4% in mid 1988 to around 15% two years later) and a 1.4m increase in unemployment at a time when the economy was slowing. Today the economy is continuing to grow; the labour market has been remarkably strong and interest rates have increased by only 0.75% in the last two years."

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Notes:

Indices and average prices are produced using Nationwide's updated mix adjusted House Price Methodology which was introduced with effect from the first quarter of 1995. Price indices are seasonally adjusted using the US Bureau of the Census X12 method. Currently the calculations are based on a monthly data starting from January 1991. Figures are recalculated each month which may result in revisions to historical data.

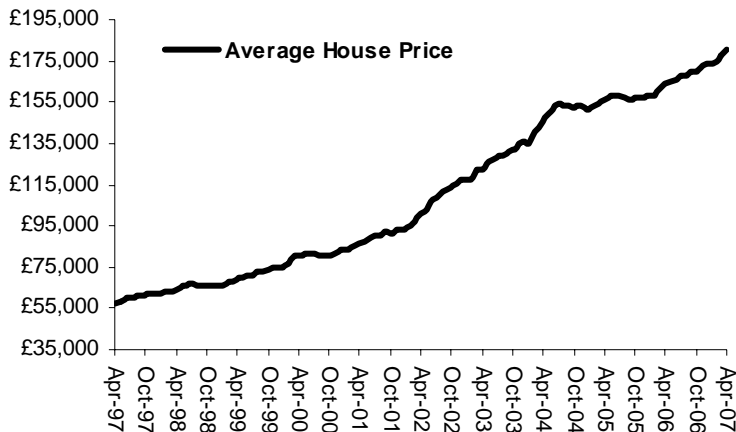
The Nationwide Monthly House Price Index is prepared from information which we believe is collated with care, but no representation is made as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue the whole or any part of the Index at any time, for regulatory or other reasons. Persons seeking to place reliance on the Index for their own or third party commercial purposes do so entirely at their own risk. All changes are nominal and do not allow for inflation.

HOUSE PRICES

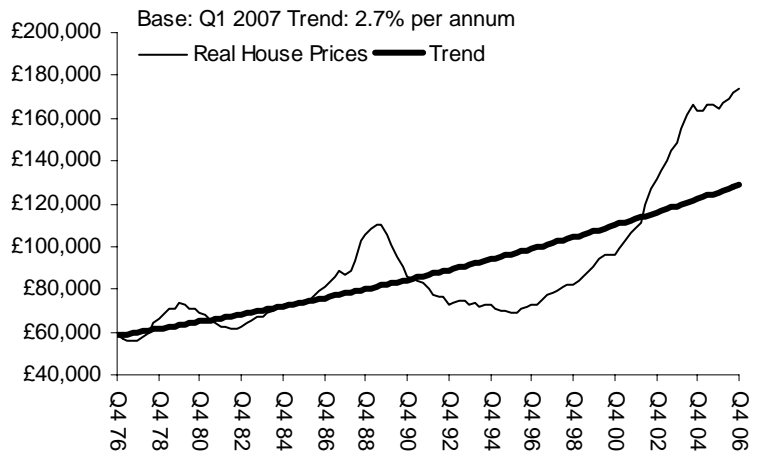


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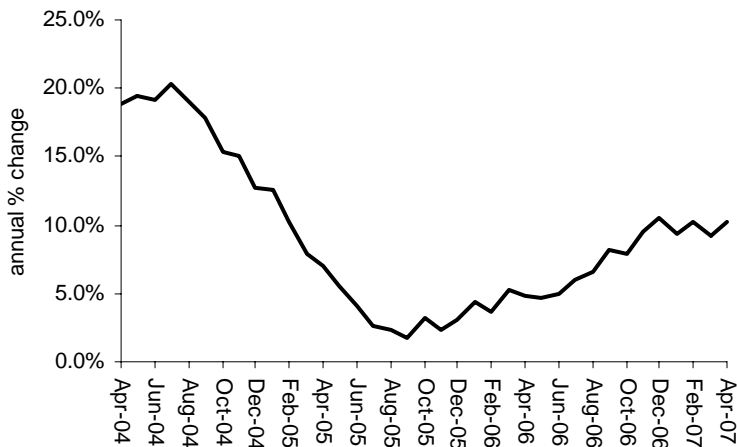
Average UK House Price



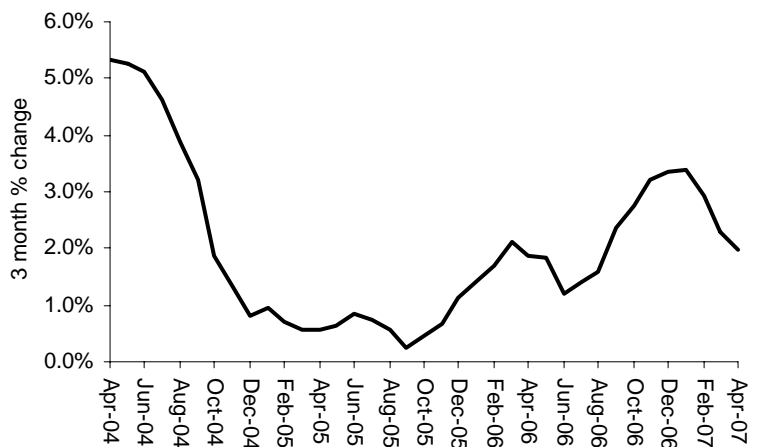
Long Term Real House Price Trend



Annual % Change in House Prices



3 months on previous 3 months % change



Historical Data

Month	Monthly Index Q1 93 = 100 seasonally adjusted	Monthly Change %	Latest 3 months on previous 3 months % change	Monthly Index Q1 93 = 100 not seasonally adjusted	Annual Change %	Average Price £
2006 Apr	324.5	0.0	1.9	326.3	4.8	163,573
May	325.6	0.3	1.8	328.4	4.7	164,632
Jun	327.2	0.5	1.2	330.6	5.0	165,730
Jul	330.2	0.9	1.4	334.6	5.9	167,733
Aug	332.9	0.8	1.6	334.6	6.6	167,721
Sep	337.3	1.3	2.4	338.0	8.2	169,413
Oct	340.0	0.8	2.8	338.4	8.0	169,623
Nov	344.8	1.4	3.2	343.5	9.6	172,185
Dec	349.1	1.2	3.3	346.6	10.5	173,746
Jan	350.4	0.4	3.4	345.6	9.3	173,225
Feb	352.7	0.6	2.9	348.5	10.2	174,706
Mar	354.5	0.5	2.3	353.3	9.3	177,083
2007 Apr	357.6	0.9	2.0	359.7	10.2	180,314