

## House prices continue to fall in August

- The price of a typical house fell by 1.9% in August
- More borrowers opt for fixed rate loans to protect their payments in uncertain times
- Gloomy Governor opens the door to rate cuts

Headlines	August 2008	July 2008
Monthly index * Q1 '93 = 100	329.5	335.9
Monthly change*	-1.9%	-1.5%
Annual change	-10.5%	-8.1%
Average price	£164,654	£169,316

\* seasonally adjusted

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

"The price of a typical house fell by 1.9% in August, bringing the annual fall into double digits for the first time since the fourth quarter of 1990. The price of a typical house fell by 10.5% over the last twelve months to £164,654. While the pace of monthly falls picked up during the month, the less volatile three month on three month measure, eased very slightly in August to 4.5% from 4.6% in July.

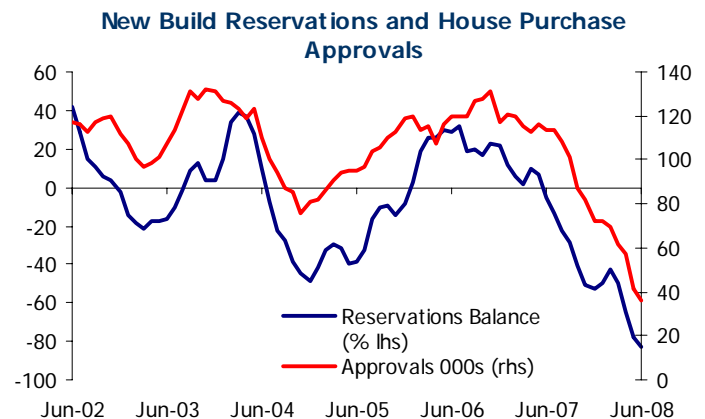
### Activity likely to remain subdued

"Recent activity levels in the housing market have been very subdued. House builders in particular have been reporting significant reductions in site visits and reservations of new properties since this time last year, in spite of a big increase in the use of sales incentives. Reservations of new property began to feel the squeeze before any slowdown was recorded in the official number of house purchase approvals, but the two series have moved closely over recent months. House builders report that a lack of confidence in the market is the biggest reason behind the drop off in demand, although changes in lending criteria are also reported as an issue.

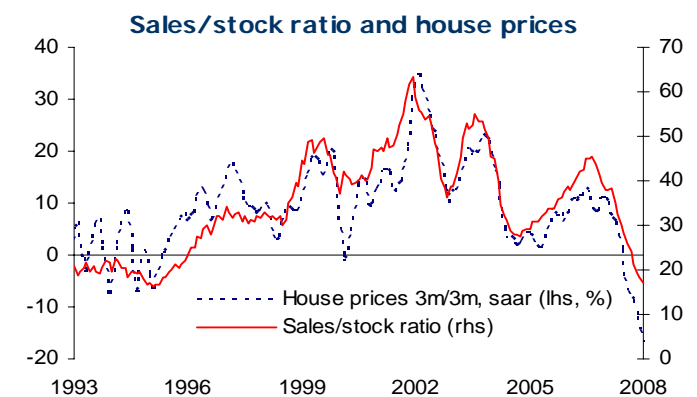
"Estate agents' data across all property types is a little more optimistic and suggests that there may be some glimmers of interest returning to the market. Agents report an improvement in new buyer enquiries, perhaps stimulated by the recent falls in prices and the opportunity to negotiate a good deal. However, the reported numbers of sales have not been encouraging. The ratio of sales to stocks has been a good predictor of movement in house prices. Current movements suggest that the increased supply of properties on agents' books will continue to act as a dampener to house price growth in the short term.

### Borrowers choosing fixed rate mortgages

"There is clearly less mortgage borrowing taking place in the current market, but those borrowers choosing a new loan are tending to opt for fixed rate loans, even though they have been more expensive than trackers. Nationwide research<sup>1</sup> shows that consumers' preferences have



Source: HBF, BoE  
Note: Reservations 3 month moving average



Source: Nationwide, RICS

<sup>1</sup> Based on a sample of 1336 UK respondents, conducted by Opinion Matters for Nationwide between 25<sup>th</sup> July and 4<sup>th</sup> August 2008

\*\*\* STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 28<sup>TH</sup> AUGUST 2008

changed since this time last year. 44% of borrowers say that they are more likely to look for a fixed rate mortgage. Furthermore 43% say that they are now more likely to consider a longer term fixed rate loan than at this time last year.

"Tracker loans have been cheaper than fixed rate loans since October 2007, but in spite of that the proportion of borrowers choosing a fixed rate loan has been increasing. This is unusual for UK borrowers who, as the Miles Review<sup>2</sup> illustrated, attach enormous weight to the level of initial monthly repayments, rather than considering the potential movements in prices over a longer period. This change in behaviour could be an indication that borrowers are keen to be sure of their outgoings in uncertain times and wish to protect themselves, even though the choice may be more expensive in the short run.

"In addition, among the fixed rate loans available, borrowers seem to be keeping true to their word and opting for longer term fixed rate loans. Two and three year fixed rates have historically been more popular with house buyers and remortgagers respectively, but in both cases five and ten year fixed rate loans have become more popular this year. At the start of the year five and ten year fixed rate loans accounted for only 21% of house purchase and 19% of remortgage fixed rate borrowing. In June the respective proportions were 39% and 47%.

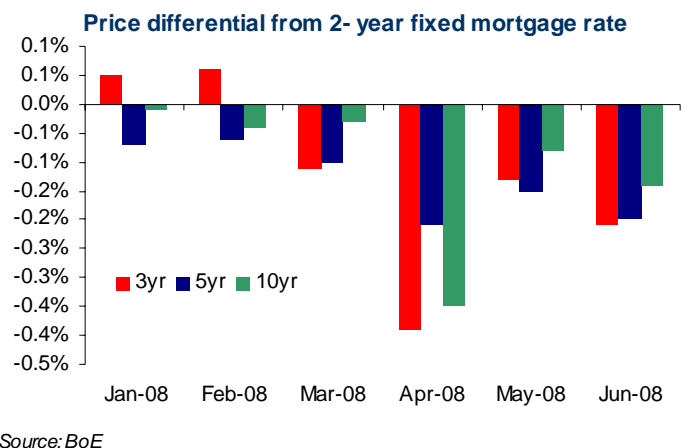
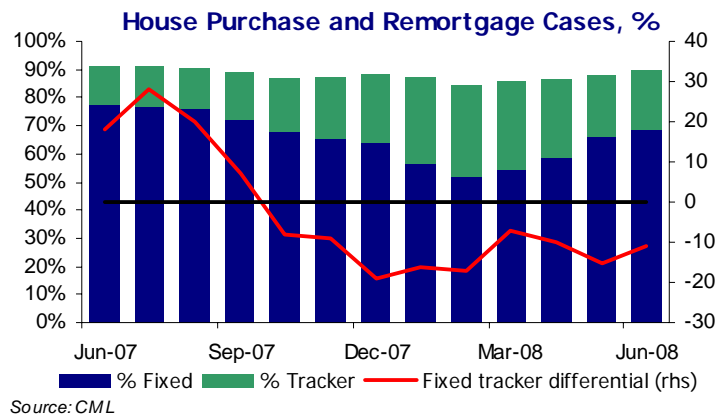
"As the Miles Review states, there are benefits to borrowers from taking out longer term fixed rate loans as they insulate them from the impact of unexpected changes in interest rates. This is particularly at times when the stock of debt is large relative to income and when the impact of changes in interest rates on affordability is high. However, it seems that price remains an important feature. The cost of all fixed rate loans has increased since the start of the year, but two year fixed rate loans became the most expensive. It is not clear whether borrowers are opting for longer fixed rate loans for certainty over a longer period, but it seems likely that price is playing a part in the choice of fixed rate term.

## Economic chill remains

"The August *Inflation Report* struck a markedly more dovish tone than in May, even though inflation is at its highest level since 1992 and at more than twice its official target. There is still a great deal of uncertainty, but the Bank of England's forecasts of growth and inflation have been widely interpreted as opening the door to rate cuts. Market rates have reacted to this and as a consequence mortgage rates, particularly fixed rates, have continued to come down. We expect the next move in the Bank Rate to be down, but the extent to which this will revive the mortgage and housing market is likely to be limited while overall confidence in economic and housing market conditions is low."

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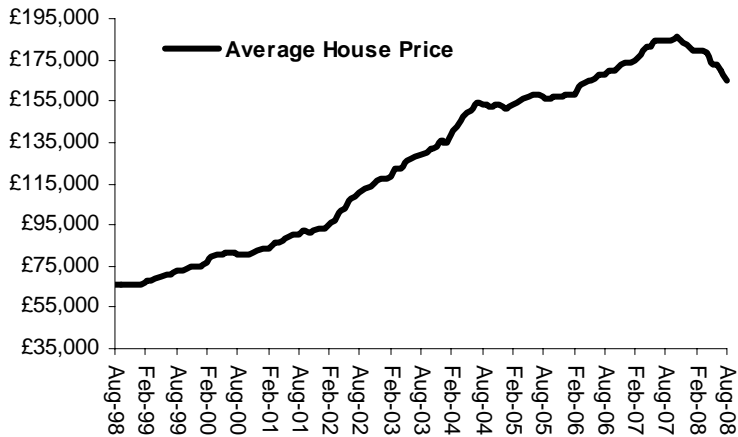
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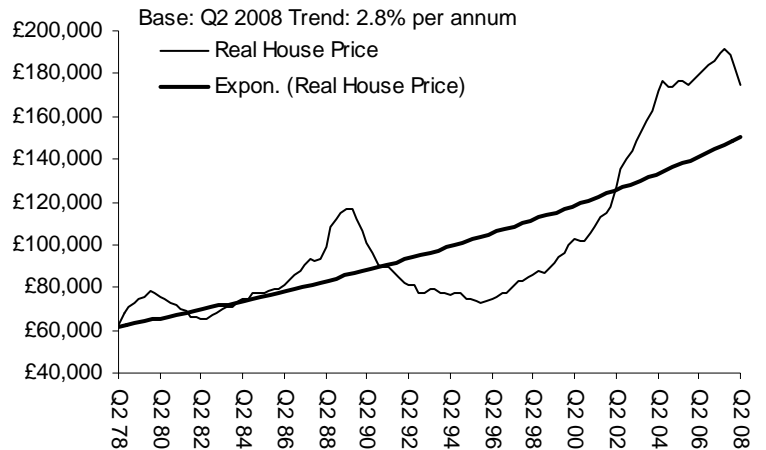
<sup>2</sup> [http://www.hm-treasury.gov.uk/consultations\\_and\\_legislation/miles\\_review/consult\\_miles\\_index.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/miles_review/consult_miles_index.cfm)

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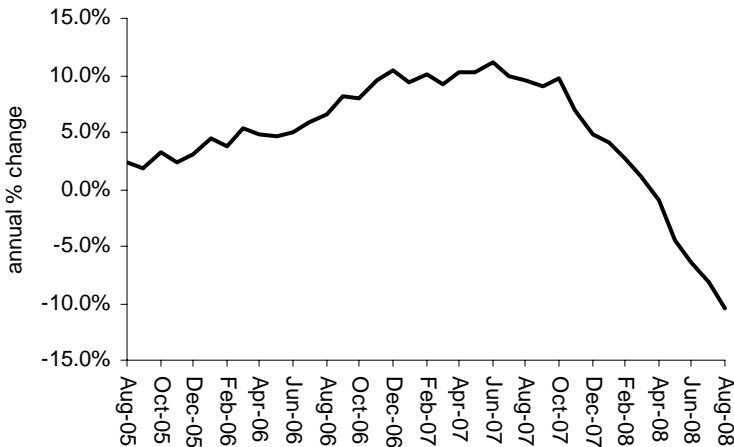
### Average UK House Price



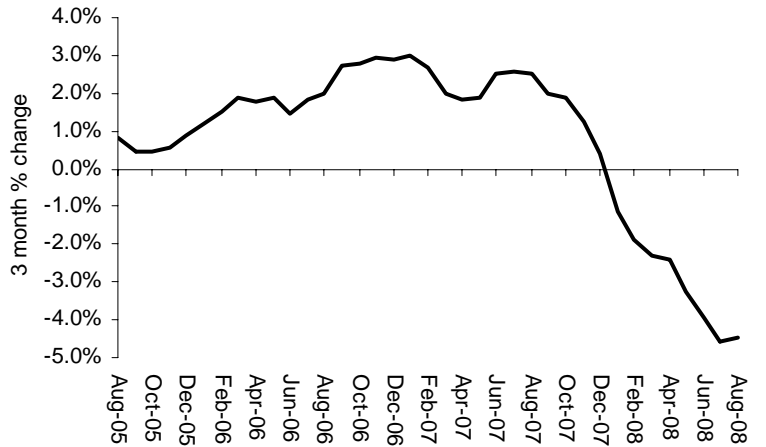
### Long Term Real House Price Trend



### 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 £
2007 Aug	367.4	0.7	2.5	366.9	9.6	183,898
Sep	369.3	0.5	2.0	368.5	9.0	184,723
Oct	372.5	0.9	1.9	371.1	9.7	186,044
Nov	368.0	-1.2	1.2	367.3	6.9	184,099
Dec	365.3	-0.7	0.4	363.2	4.8	182,080
Jan	363.1	-0.6	-1.2	360.0	4.2	180,473
Feb	360.5	-0.7	-1.9	357.8	2.7	179,358
Mar	356.7	-1.1	-2.3	357.3	1.1	179,110
Apr	352.9	-1.1	-2.4	356.2	-1.0	178,555
May	344.1	-2.5	-3.2	346.3	-4.4	173,583
Jun	341.1	-0.9	-3.9	343.9	-6.3	172,415
Jul	335.9	-1.5	-4.6	337.8	-8.1	169,316
2008 Aug	329.5	-1.9	-4.5	328.5	-10.5	164,654

## 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 series 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.

More information on the house price index methodology along with time series data and archives of housing research can be found at [www.nationwide.co.uk/hpi](http://www.nationwide.co.uk/hpi)

Photographs of our economists are available at: [www.nationwide.co.uk/mediacentre/economist.asp](http://www.nationwide.co.uk/mediacentre/economist.asp)