

*** STRICTLY EMBARGOED UNTIL 7.00AM FRIDAY 28th DECEMBER 2007

House prices fall by 0.5% in December

- House prices fell by 0.5% in December, the second consecutive monthly decline
- The average price of a UK property is £8,334 higher than a year ago
- Rate cuts will help but are unlikely to re-ignite the housing market as in 2005

Headlines	December 2007	November 2007
Monthly index * Q1 '93 = 100	366.4	368.2
Monthly change*	-0.5%	-0.8%
Annual change	4.8%	6.9%
Average price	£182,080	£184,099

* seasonally adjusted

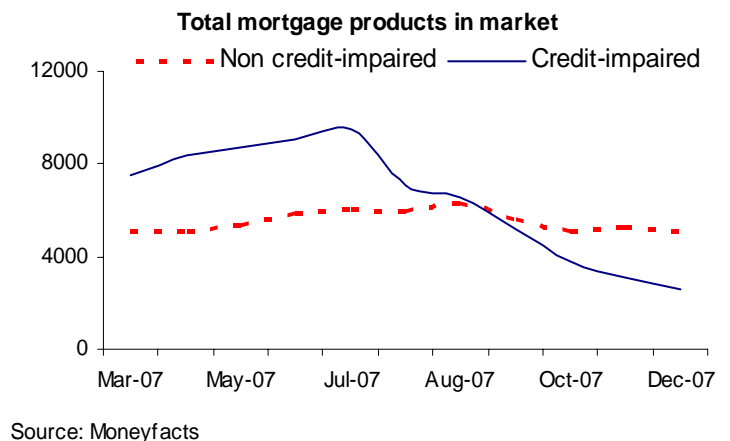
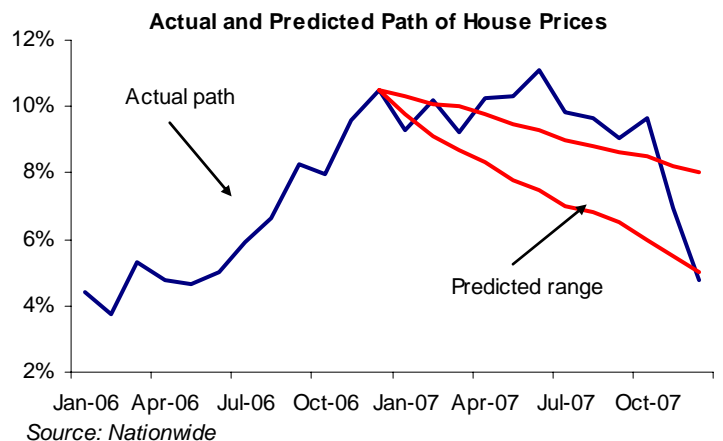
Commenting on the figures Fionnuala Earley, Nationwide's Chief Economist, said:

"UK house prices fell by a seasonally adjusted 0.5% in December, recording their second consecutive month-on-month fall. The annual rate of house price inflation fell to 4.8%, compared to 6.9% in November and 10.5% in December 2006. The average price of a UK property rose by £8,334 over the last 12 months, leaving it at £182,080 at the end of 2007. The three-month on three-month rate of growth – a smoother indicator of house price trends – fell from 1.4% in November to 0.9% in December, the lowest since November 2005.

Money market conditions worsened towards the year end, though central bank action has helped

"The housing market has weakened significantly in the closing months of 2007 after holding up more strongly than expected in the earlier part of the year. While we finish the year with house prices broadly in the range we had expected, the path to this point has been quite different to our expectations. Most indicators now show that demand is responding to the pressures of weak affordability, past increases in interest rates and the lower house price expectations that we had expected to take hold earlier in the year. However, the turmoil in the financial markets resulting from the US sub-prime mortgage issue and the problems experienced by a UK mortgage bank have swiftly added to the pace of changing sentiment in latter months.

"As funding conditions have tightened and risk aversion has risen amongst banks, there has been a decline in the availability of mortgages at the riskier end of the borrowing spectrum and an increase in their price. This will undoubtedly choke off new sub-prime lending in 2008, but may also make it more difficult and expensive for existing sub-prime borrowers to re-mortgage. By contrast, credit supply in the prime lending sector has still been largely unaffected. Nonetheless, a return of more normal trading conditions in the money markets will be important for the health of both the housing market and the wider economy in 2008. The co-ordinated response by the world's central banks has been a welcome development in this respect, helping to bring inter-bank rates down

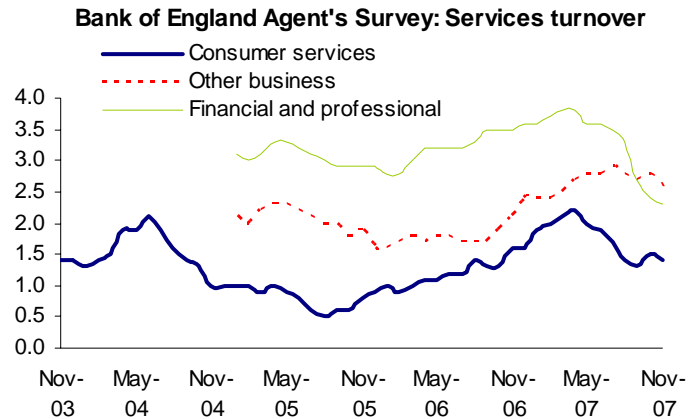


*** STRICTLY EMBARGOED UNTIL 7.00AM FRIDAY 28th DECEMBER 2007

significantly from the peaks reached earlier in December. However, it is likely to take more clarity about the extent of losses in the US sub-prime mortgage sector for conditions to fully return to normal. The speed and extent of this normalisation process will be one of the main factors to watch in 2008.

Bank of England delivers early Christmas present in response to slower growth...

"The MPC voted unanimously to reduce interest rates to 5.5% at the December meeting. It judged that the downside risks to economic activity and inflation from financial market turmoil for now outweighed the upside risks to inflation from short-run cost pressures in the energy and food sectors. Indeed, there are now clearer signs that the economy is slowing noticeably. Although activity in the manufacturing sector still appears to be holding up relatively well, a significant pullback has been observed in the more important services sector. The biggest slowdown has been in financial and professional services, a major contributor to economic growth over the last two years. This sector is certainly feeling the effects of recent market events and is unlikely to make as big a contribution to economic growth in 2008.



Source: Bank of England

... but this is unlikely to re-ignite the housing market in 2008

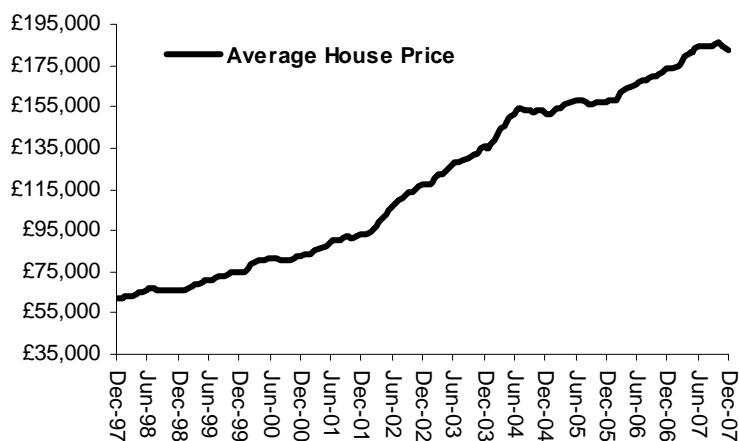
"As the economy slows below its trend rate in 2008 and demand pressures ease, the MPC appears likely to cut rates by another 50 basis points, but possibly more. However, the response of the housing market is unlikely to mirror that of August 2005. It is true that lower interest rates will probably help market activity recover somewhat later in 2008, as lower house price growth restores some affordability and allows pent-up demand from first-time buyers to be released. However, it seems unlikely that there will be a big recovery in activity and prices mirroring the 2005 experience. This is mainly because housing affordability is starting from a much worse position than in 2005, while interest rate cuts have started from a higher and more restrictive level. Therefore, this time around lower interest rates are more likely to stabilise market activity rather than re-ignite it.

Fionnuala Earley,
Chief Economist
 Tel: 01793 656370
 Mobile: 07985 928029
fionnuala.earley@nationwide.co.uk

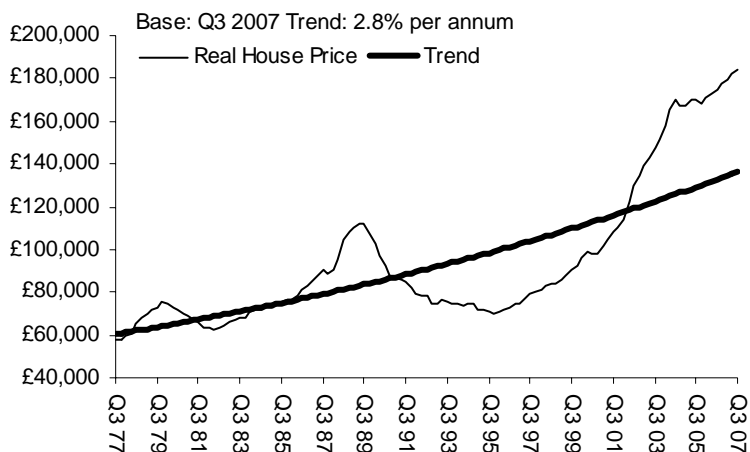
Kate Cremin,
Press Officer
 Tel: 01793 656517
kate.cremin@nationwide.co.uk

*** STRICTLY EMBARGOED UNTIL 7.00AM FRIDAY 28th DECEMBER 2007

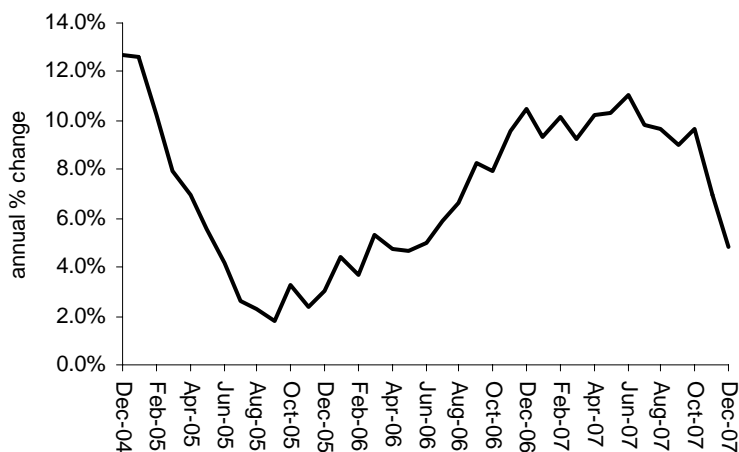
Average UK House Price



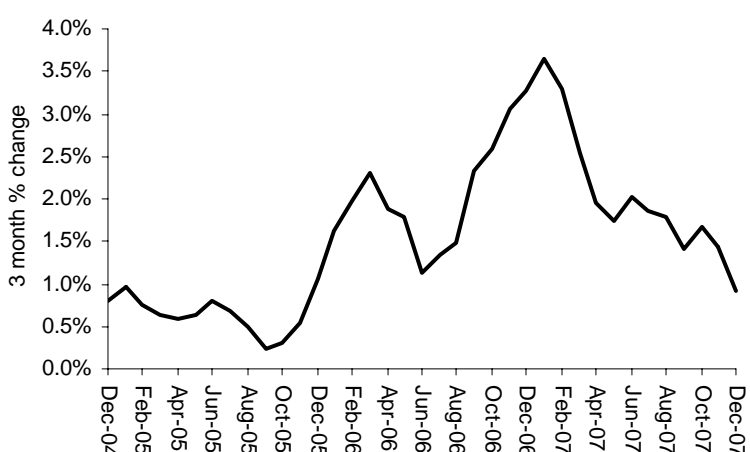
Long Term Real House Price Trend



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 Dec	349.7	1.5	3.3	346.6	10.5	173,746
Jan	351.0	0.4	3.7	345.6	9.3	173,225
Feb	353.0	0.6	3.3	348.5	10.2	174,706
Mar	354.9	0.5	2.5	353.3	9.3	177,083
Apr	357.8	0.8	2.0	359.7	10.2	180,314
May	359.4	0.5	1.7	362.2	10.3	181,584
Jun	363.0	1.0	2.0	367.2	11.1	184,070
Jul	363.1	0.0	1.9	367.6	9.9	184,270
Aug	365.1	0.6	1.8	366.9	9.6	183,898
Sep	367.4	0.6	1.4	368.5	9.0	184,723
Oct	371.2	1.0	1.7	371.1	9.7	186,044
Nov	368.2	-0.8	1.4	367.3	6.9	184,099
2007 Dec	366.4	-0.5	0.9	363.2	4.8	182,080

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

Photographs of Fionnuala Earley are available at: www.nationwide.co.uk/mediacentre/economist.asp