

House prices remain stubbornly robust despite weakening demand

- House prices rose strongly in October, but underlying market activity is clearly slowing
- Although demand is weakening, existing homeowners appear in no rush to sell
- New buy-to-let landlords will need a long investment horizon to realise good returns

Headlines	October 2007	September 2007
Monthly index * Q1 '93 = 100	372.7	368.7
Monthly change*	1.1%	0.7%
Annual change	9.7%	9.0%
Average price	£186,044	£184,723

* seasonally adjusted

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

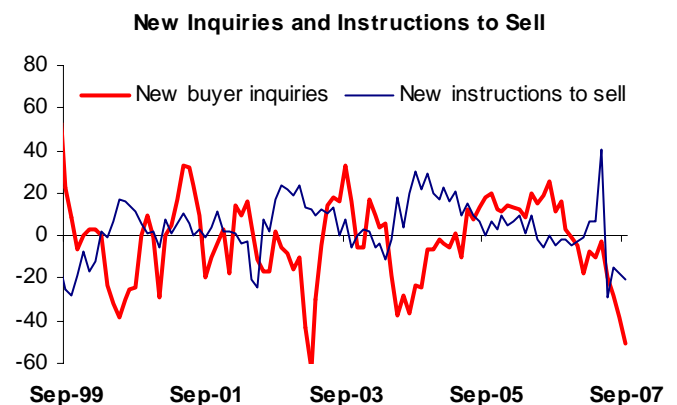
"House prices recorded a surprisingly strong increase of 1.1% in October, tying it with June for the highest month-on-month growth rate so far in 2007. The average price of a typical UK property was £186,044 in October, £16,421 more than the same month last year. The annual rate of price growth picked up from 9.0% in September to 9.7%, but this is still down from a peak of 11.1% in June and was partly driven by base effects. The rise in the annual rate temporarily breaks the slowing in price growth we have seen since June, but is unlikely to mark the start of a new upward trend. November and December saw particularly robust gains in 2006, and unless prices perform very strongly for the rest of this year, the annual rate of price growth will resume a downward path. The 3-month on 3-month rate of price growth – which helps smooth monthly volatility – edged up only modestly from 1.7% to 1.9%, which is still below the average of 2.2% seen so far in 2007.

Strength of house prices masks weakening of market activity

"While some may be tempted to interpret October's numbers as a sign that house prices are immune to deteriorating affordability and tightening credit conditions, such a conclusion would be misguided. Most leading indicators of housing market activity are continuing to weaken. Surveyors are reporting the weakest levels of new buyer inquiries in many years and mortgage approvals are falling from recent highs amid weaker demand and tighter lending criteria for riskier borrowers. Slowing demand, however, will not have an immediate impact on prices if homeowners are in no rush to sell.

New instructions to sell have in fact been falling since May, when there had been a temporary surge of property onto the market.

Different factors could be driving the low level of instructions, including a reluctance to trade up amid current uncertainties and the fact that low unemployment is limiting the number of forced sales. The overall result is that the stock of unsold homes is still relatively low, and this is providing some residual support to prices. The underlying dynamics of the market, however, are clearly not as strong as this time last year.



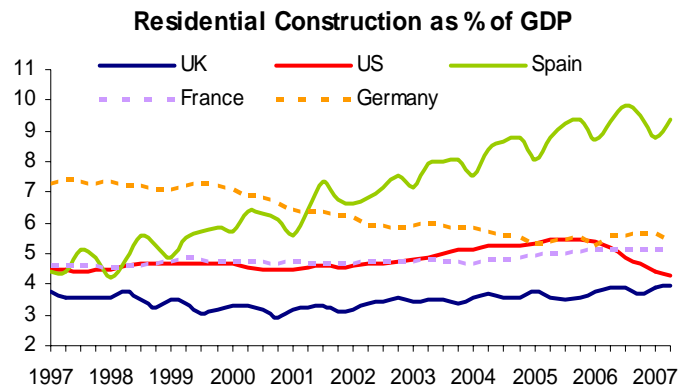
Source: Royal Institution of Chartered Surveyors (RICS)

IMF report on overvaluation raises important issues, but undersupply cannot be ignored

"Recent analysis from the IMF on housing markets in the industrialised world has added to the debate about housing overvaluation. In its latest *World Economic Outlook*, the IMF concluded that a substantial proportion of UK house price gains over the last decade could not be entirely explained by income growth, interest rates, credit growth and the working-age population. However, this estimate of overvaluation will not account for

other key drivers such as the housing supply. A simple comparison shows that investment in residential construction accounts for a much smaller share of the economy in the UK than elsewhere, despite the fact that the population has been growing strongly and is projected to continue doing so. As the NHPAU reminds us, the UK's unresponsive housing supply has been instrumental in driving house prices and affordability ratios to current levels.¹

“Nonetheless, the IMF findings serve as a reminder that UK house prices have risen ahead of certain key fundamentals – particularly earnings. This finding is indisputable, but it does not mean that house prices are destined to fall. In fact, in the absence of an early 1990s-style shock to unemployment or interest rates, they are unlikely to do so. Yet, unless interest rates fall back to the lows of 2003, house prices will need to rise at a slower pace than earnings over the medium-term in order to bring housing affordability back to historical norms. As a result, homeowners may well need to content themselves with less spectacular returns on their houses over the next decade.

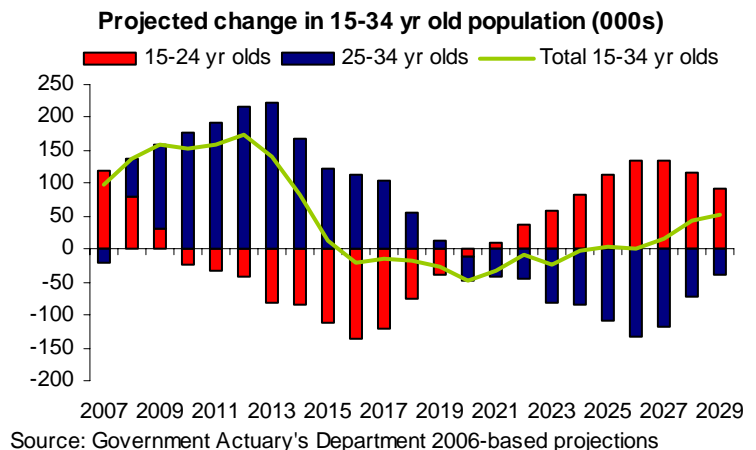


Source: Reuters Ecowin

New buy-to-let investors may need more patience to realise good returns

“Lower house price inflation may have especially strong implications for aspiring buy-to-let investors. Landlords who entered the buy-to-let sector near the start of the decade have made enormous returns. But strong house price growth relative to rents has pushed net rental yields well below the current cost of a mortgage. This implies that without very strong capital gains, a new entrant into the market would make negative total returns in the short term until rents caught up sufficiently to cover operating and mortgage expenses. There is now evidence that after several years of weakness, private sector rents are growing more robustly. Even so, rents would have to rise very strongly relative to house prices to make short-term buy-to-let investments profitable at current interest rates.

“That being said, investors with long horizons can still make satisfactory returns if long-term historical trends for house prices and rents hold up. The government's latest projections show that the 15-34 year old population will be increasing until the middle of the next decade, and this should be supportive of both tenant demand and rents. Even with only modest house price inflation, these conditions would produce relatively healthy returns over a 10-15 year horizon.



Source: Government Actuary's Department 2006-based projections

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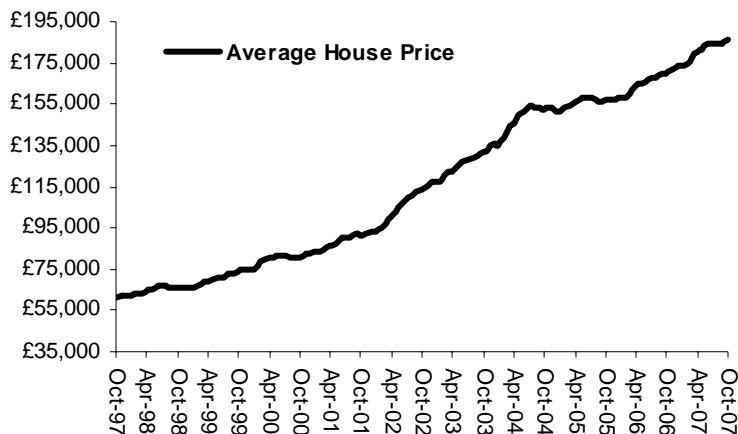
¹ National Housing and Planning Advice Unit (NHPAU). *Developing a target range for the supply of new homes across England*. October 2007.

HOUSE PRICES

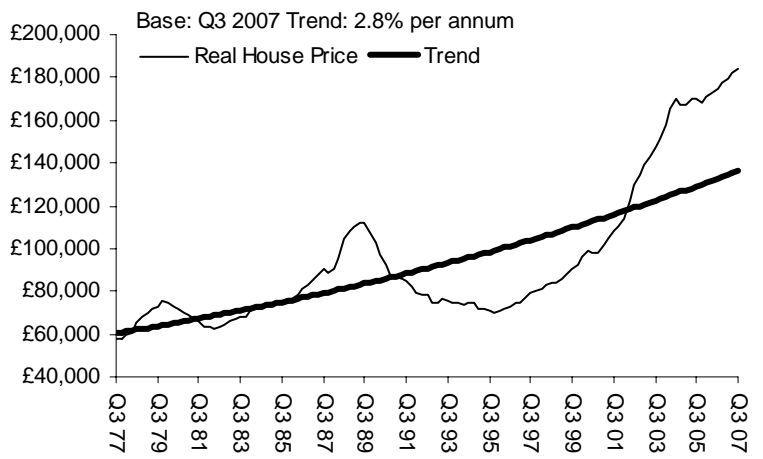


*** STRICTLY EMBARGOED UNTIL 7.00AM Wednesday 31st October 2007 ***

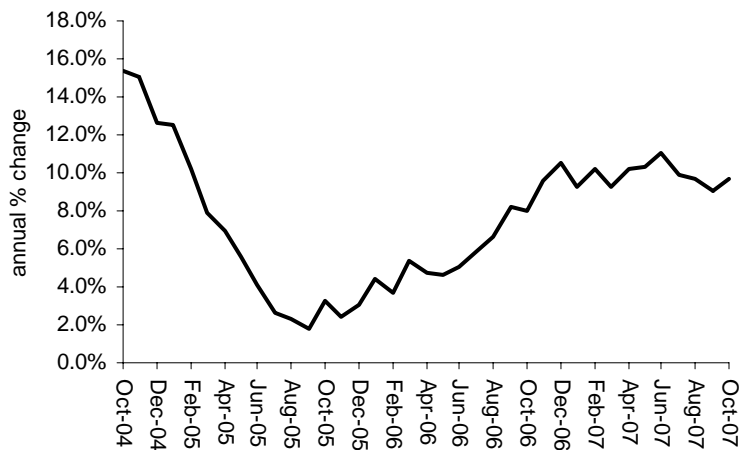
Average UK House Price



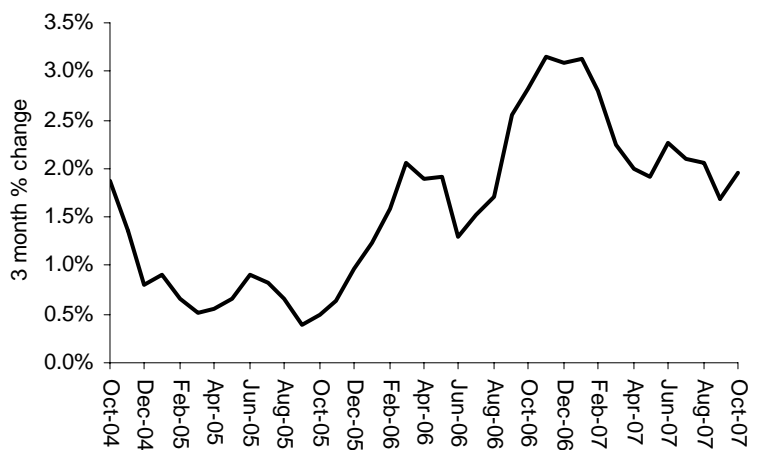
Long Term Real House Price Trend



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 Oct	339.8	0.5	2.8	338.4	8.0	169,623
Nov	344.5	1.4	3.2	343.5	9.6	172,185
Dec	348.7	1.2	3.1	346.6	10.5	173,746
Jan	349.8	0.3	3.1	345.6	9.3	173,225
Feb	352.4	0.7	2.8	348.5	10.2	174,706
Mar	354.1	0.5	2.2	353.3	9.3	177,083
Apr	357.5	1.0	2.0	359.7	10.2	180,314
May	359.4	0.5	1.9	362.2	10.3	181,584
Jun	363.3	1.1	2.3	367.2	11.1	184,070
Jul	363.7	0.1	2.1	367.6	9.9	184,270
Aug	366.0	0.6	2.1	366.9	9.6	183,898
Sep	368.7	0.7	1.7	368.5	9.0	184,723
2007 Oct	372.7	1.1	1.9	371.1	9.7	186,044

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.