

Monthly Housing Market Bulletin

29 September 2009

This bulletin provides HCA staff with the latest information on housing market trends, the economy and the housebuilders' industry. For more information please refer to the links provided or contact the Investment Analysis Team.

OVERVIEW OF THE HOUSING MARKET

The housing market has started to see house price rises over the past few months and both the Halifax and the Nationwide recorded house price rises in August. House prices remain 19.4% off their August 2007 peak according to the Halifax. It is unclear whether the current upturn will be sustained or there will be a double dip once the Bank of England's Bank Rate climbs from its current record low of 0.5%. According to the Council of Mortgage Lenders there were 56,000 loans for house purchase in July, up 19% on a year earlier - the first time lending for house purchase was up on a year ago for two years. However, mortgages approvals fell back slightly in August according to the Bank of England after rising for nine months. Housebuilders have been quick to try to capitalise on the current market upturn with placing and rights issues being undertaken recently by several housebuilders including Barratt (£720 million), Redrow (£150 million) Galliford Try (£119 million) and Bovis (£60 million). Asking rents are now at their highest level for six months and have started to recover as house prices rise again and so some owners who reluctantly become landlords in the housing market downturn sell up. The UK continued to be in recession with GDP falling by 0.6% in Q2 2009 after falling 2.5% in Q1 2009 and unemployment reached 7.9%.

HOUSE PRICES

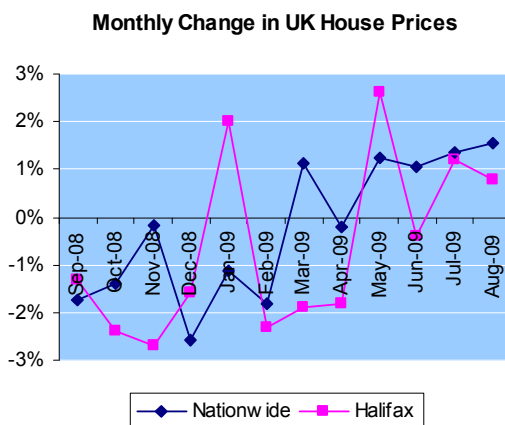
Nationwide

- UK house prices rose by 1.6% in August, the fourth consecutive monthly rise, but remain 14.4% below their October 2007 peak.
www.nationwide.co.uk/hpi

Halifax

- UK house prices rose by 0.8% in August but remain 19.4% below their August 2007 peak.
www.lloydsbankinggroup.com

The chart below shows the seasonally adjusted monthly change in UK house prices over the past year according to Nationwide and Halifax.



Hometrack

- House prices rose by 0.1% in August but fell by 6.7% in the year to August.
- Sales agreed rose by 4.8% in August.
- The proportion of asking price being achieved rose to 92.1% in August from 91.5% in July.
www.hometrack.co.uk/commentary-and-analysis/house-price-survey/

Rightmove

- The average property asking price rose by 0.6% in September but fell by 1.5% in the year to September.
www.rightmove.co.uk/news/house-price-index

RICS

- The net balance of surveyors reporting rising rather than falling prices was +11% in August, the first time the price balance has been positive in two years.
www.rics.org/site/scripts/documents_info.aspx?documentID=34

CLG

- UK house prices rose by 1.4% in the month to July but fell by 8.3% in the year to July.
www.communities.gov.uk/documents/statistics/pdf/1335311.pdf

Land Registry

- House prices in England and Wales fell by 0.1% in August and fell 9.4% in the year to August.
- The number of properties sold in England and Wales fell by 17% in the year to June 2009.
www.landreg.gov.uk/houseprices/

Please note that each house price indicator is compiled on a different basis. Nationwide and Halifax's indices are based on mortgage offers approved by them. Hometrack is based on an estate agents survey which includes the estate agents opinion of achievable selling prices. CLG and the Land Registry are based on completions data so record later in the house buying process than Halifax, Nationwide and Hometrack and are thus slower to pick up new trends. The Land Registry data is the most comprehensive available as it includes all property sales including cash buyers whereas CLG excludes cash buyers. Rightmove's index is based on asking prices from its website. The RICS survey is a confidence survey of the property market. Seasonal variations can occur because certain indices such as Halifax's, Nationwide's and the Land Registry's are seasonally adjusted whereas others such as Rightmove's and CLG's are not.

HOUSING MARKET

Housing Affordability

- According to the Halifax the house price to earnings ratio – a key affordability measure - has fallen from a peak of 5.84 in July 2007 to an estimated 4.39 in August 2009. In the last housing market downturn the price earnings ratio peaked at 5.01 in March 1989 and fell to 3.09 in October 1995. The long-run average is 4.0.
www.lloydsbankinggroup.com/

House Price Forecasts

- Ernst & Young predicts that property values will fall again in the first half of 2010 and will not return to their 2007 peak for at least another 5 years.
www.ey.com
- House prices are predicted to fall in 2010 according to Jones Lang LaSalle.
www.building.co.uk/story.asp?sectioncode=284&storycode=3148594&channel=29&c=2

MORTGAGES

Mortgage Lending – Council of Mortgage Lenders

- There were 56,000 loans for house purchase in July 2009, up 19% on July 2008 and up 24% from June 2009. This was the first time lending for house purchase was up on a year ago for two years.
- There were 20,400 loans to first time buyers in July 2009, 18% up on June 2009 and 22% up on July 2008. The average first-time buyer deposit was 25% in July, up from 14% a year earlier. The average income multiple was 3.02 in July 2009, down from 3.27 in July 2008.
- There were 35,700 loans for home movers in July 2009, up 28% on June 2009 and up 17% on July 2008. The average deposit was 34% in July 2009, up from 29% a year earlier.
- In July over three quarters of borrowers took out fixed rate mortgages at an average fixed rate of 4.7%.
www.cml.org.uk/cml/media/press/2397

Mortgage Lending - Bank of England

- There were 52,317 loans approved for house purchase in August on a seasonally adjusted basis, down slightly from 52,404 in July according to the Bank of England.
www.bankofengland.co.uk/statistics/li/2009/aug/index.htm

REPOSSESSIONS AND HOMELESSNESS

Repossession

- Repossessions fell 9% between Q1 and Q2 2009 according to the FSA.
www.insidehousing.co.uk/story.aspx?storycode=6506363

Homelessness

- 10,650 applicants were accepted as owed a main homelessness duty in Q2 09, 32% down on Q2 08.
www.communities.gov.uk/publications/corporate/statistics/homelessnessq22009

COMMERCIAL PROPERTY

Commercial Property - IPD

- Commercial property saw capital growth for the first time in 26 months in August with values rising by 0.2%. The return to growth ended a 25 month peak to trough decline in capital growth of 44.2%. This compares to a 43 month nominal capital growth decline of 27.1% between October 1989 and May 1993.
www.ipd.com

RENTAL MARKET

Rental Market – FindaProperty.com

- Average asking rents rose to reach £829pcm in August, their highest level for six months. UK rents have fallen by 4.8% over the past year but rose 0.5% in August. Rentals on UK flats rose by 0.1% in August and rentals on UK houses rose 0.6% in August. Rental stock has fallen 3.7% over the past quarter as the housing market strengthens and some people who reluctantly became landlords due to the housing market downturn sell up. However stock remains 48.5% higher than in August 2008.
www.findaproperty.com/rental-index.aspx

Rental Market - RICS

- According to the RICS rents continued to decline in Q2 2009 but at a slower pace.
www.rics.org

THE ECONOMY

Growth

- GDP fell by 0.6% in Q2 2009 following a 2.5% fall in Q1 2009, as the UK continued to be in recession. The 2.5% quarterly fall was the biggest quarterly decline since Q2 1958. GDP has fallen by 5.5% over the past year.
www.statistics.gov.uk/cci/nugget.asp?id=192
- The OECD forecasts a third quarter return to growth in the US and the eurozone. The OECD predicts UK GDP will shrink by 4.7% in 2009.
<http://news.bbc.co.uk/1/hi/business/8235763.stm>

Interest Rates

- The Bank of England held the Bank Rate at 0.5% in September, the lowest level in the Bank's 315 year history.
www.bankofengland.co.uk/publications/news/2009/065.htm

Inflation

- In August CPI inflation was 1.6% and RPI inflation was -1.3%.
www.statistics.gov.uk/cci/nugget.asp?id=19

Unemployment

- UK unemployment increased by 210,000 to 2.47 million in the three months to July. UK unemployment now stands at 7.9%.
<http://news.bbc.co.uk/1/hi/business/8258405.stm>

Average Earnings

- Average earnings, excluding bonuses, rose by 2.2% in the year to July 2009.
www.statistics.gov.uk/cci/nugget.asp?id=10

HOUSEBUILDING

Barratt

Barratt issued its results for the year to 30 June 2009 on 23 September 2009 stating that:

- It completed 13,202 homes in the year to June 2009, a 29% decrease on the previous year. The average selling price was £157,200, 14% down on the previous year. Prices are now around 27% lower than at their peak in the summer of 2007.
- Houses accounted for 50.5% of the group's completions, excluding Central London, and Barratt expects to increase the proportion of houses available on sites in future.
- Properties sold to investors rose to 20.9% of total completions from 14.1% in 2008.
- Barratt made a loss before tax of £678.9 million. Operating exceptional items were £519.5 million including £499.5m impairment of inventories.
- Net debt has reduced by £373.7 million since 30 June 2008 to £1,276.9 million.
- In July and August 2008 it amended its financial covenants and arranged a refinancing. Barratt continues to comply with its financial covenants and expects to continue to be within its financial covenants in the absence of a further downturn. Barratt warns however that if the conditions of the placing and rights issue are not satisfied and therefore the amended finance arrangements do not become effective a further housebuilding downturn could result in the group not being able to comply with its covenants.
- Forward sales at 30 June were £464.3 million, down from £697.6 million in 2008.
- 11.4% of the group's completions during the year depended on shared equity.
- Barratt plans to strengthen its balance sheet and reduce its debt levels via a placing and a rights issue to raise around £720 million. Amended financing arrangements will come into effect upon successful completion of the placing and rights issue.
- Barratt says the initial signs of stabilisation seen at the start of 2009 have continued, underpinned by a greater degree of price stabilisation and improved consumer sentiment. Barratt does not however expect to see a sustained improvement in trading conditions until the availability of mortgage finance improves further.
www.londonstockexchange.com

Berkeley

Berkeley issued an Interim Management Statement for the four months to 31 August 2009 stating that:

- Berkeley says housing market stability has continued with cancellation rates at normal levels and forward sales maintained at over £600 million.
- Berkeley had net cash in excess of £300 million at 31 August 2009.
- In the first four months Berkeley has agreed to acquire a number of new sites.
- Berkeley does not anticipate and land writedowns.
www.londonstockexchange.com

Bovis

- On 3 September Bovis announced that it had raised £60 million via an equity issue to spend on land.
www.londonstockexchange.com

Miller Group

- Miller Group made a £33.8 million pre-tax loss in six months to end of June. Miller said that its markets were showing some signs of stability.
www.building.co.uk/story.asp?sectioncode=30&storycode=3148337&channel=29&c=2

Redrow

Redrow published results for the year to 30 June 2009 on 10 September 2009 stating that:

- Redrow's revenue fell by 54% in the year to June 2009 from £650.1 million in 2008 to £301.8 million in 2009.
- Redrow made a pre-tax loss before exceptionals of £44.2 million and a pre-tax loss of £140.8 million after exceptional charges of £96.6 million due to the Group's restructure and review of land and work in progress.
- Redrow's net debt is £214.6 million, down slightly from £223.3 million in 2008. Redrow's gearing was 73% in 2009, up from 55% in 2008 reflecting the reduction in net assets.
- Completions fell 46% to 2,113 in the year to June 2009. 45% of Redrow's legal completions were apartments.
- Average selling prices fell 12% in the year to June 2009 to £137,400. Redrow estimates its overall selling prices have declined by around 25% since the peak.
- Cancellation rates are running at around 18% with the majority of these being the result of surveyor's down valuations.
- Steve Morgan, Chairman, rejoined the business in March 2009.
- Redrow restructure has led to the number of employees falling from 1,321 at June 2007 to 652 in April 2009. Redrow has implemented a pay freeze for most of its employees.
- Since April 2009 Redrow has recommenced construction in a carefully controlled manner across all existing developments and several new sites which were previously mothballed.
- Redrow said it made errors by purchasing a lot of land in 2006 and 2007 at the peak of the market.
- Redrow is to refocus on family homes.
- Reservations during the first 10 weeks of the financial year are up 72% over the same period last year.
www.londonstockexchange.com
- John Tutte has been appointed Group Managing Director of Redrow.
www.londonstockexchange.com
- Redrow announced a rights issue on 23 September to raise net proceeds of c. £150 million and the proposed acquisition of Harrow Estates. The rights issue will strengthen the balance sheet and reduce net gearing.
www.londonstockexchange.com

HOUSEBUILDING

Galliford Try

Galliford Try issued its results for the year to 30 June 2009 on 10 September 2009 stating that:

- It completed 1,769 units in the year ended 30 June 2009 compared to 2,524 last year and 1,526 the year before.
- It had net cash of £34.1 million at 30 June 2009, compared to net debt of £1.7 million a year earlier.
- It reduced employee levels in its housing businesses but minimised numbers involved by implementing a 4 day week from January to June 2009.
- It restructured a number of its regeneration schemes with the HCA.
- Galliford Try's landbank is currently 7,850 plots, down from 8,900 in 2008 of which 1,100 plots are on terms agreed since July 2008.
- It announced a rights issue of £119 million (net) to recommence expansion in housebuilding.
- It had sales carried forward of £161 million compared to £150 million in 2008.
www.londonstockexchange.com

MJ Gleeson

MJ Gleeson issued its results for the year to 30 June 2009 on 24 September 2009 stating that:

- Revenue from continuing operations fell 42% to £55 million. It made a pre-tax loss from continuing operations of £54.3m, after exceptional items of £46m of which £44.6m was related to downward asset revaluations.
- Year end net cash totalled £10.9 million.
- Gleeson Regeneration and Homes sold 317 units, down 27% on 2008, at an average selling price of £102,000, down 32% on 2008, partly reflecting a higher proportion of sales to RSLs.
- It said that although conditions in the housing market remain difficult, esp. in regeneration areas in the north, recently there have been some signs of improvement in buyer interest.
www.londonstockexchange.com

Housebuilder Share Prices (Closing)

Housebuilder share prices have fallen over the past month but remain considerably above the troughs they reached in the second half of 2008.

| Company | Peak in Share Price | Trough in Share Price | Peak to Trough Change in Share Price | Recent Share Price |
|---------------|---------------------|-----------------------|--------------------------------------|--------------------|
| Barratt | 1,289p (06/02/07) | 39p (08/07/08) | -97% | 246p (25/09/09) |
| Bellway | 1,690p (05/04/07) | 378p (02/07/08) | -78% | 811p (25/09/09) |
| Berkeley | 1,938p (22/05/07) | 613p (02/07/08) | -68% | 887p (25/09/09) |
| Bovis | 1,204p (05/04/07) | 271p (20/10/08) | -77% | 458p (25/09/09) |
| Persimmon | 1,543p (02/01/07) | 184p (03/12/08) | -88% | 453p (25/09/09) |
| Redrow | 727p (03/01/07) | 96p (08/07/08) | -87% | 212p (25/09/09) |
| Taylor Wimpey | 377p (03/07/07) | 4p (25/11/08) | -99% | 41p (25/09/09) |

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OFT fines 103 building companies £129.5 million

- The Office of Fair Trading has fined 103 building companies £129.5 million for rigging bids for contracts. It said firms colluded amongst themselves during the bidding process, leading to customers, such as local authorities having to pay too much. The fines were largely for cover pricing which is where building firms submit quotes for jobs that are not priced to win the contract so the client gets a misleading idea about the real extent of competition. Kier Group was fined £17.9 million, more than any other building company. Other firms fined included Galliford Try and Crest Nicholson.
<http://news.bbc.co.uk/1/hi/business/8268116.stm>

HOUSING ASSOCIATIONS

Housing Associations

- Housing Associations are facing a loss of income as their rents track the RPI each September which is now negative so some are now selling off properties.
www.telegraph.co.uk/finance/newsbysector/constructionandproperty/6110541/Housing-associations-face-selling-off-social-homes-to-meet-interest-bill.html