

# HOUSING MARKET Report

Edited by John Stewart

No. 201 March 2009

“ There is increasing evidence that housing market volumes may be stabilising, although activity is at historically low levels ”

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This issue includes data published up to 1 April 2009.

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## This month

- ◆ The balance of house builders reporting visitors down on a year ago eased to -13% in February against a trough of -80% in July last year, according to the HBF survey. Net reservations were up very slightly on a year ago (balance +1%), the first positive result since April 2007.
- ◆ House builders continued to report falling prices in February (balance -48%), and the industry continues to use sales incentives.
- ◆ House builders expect a decline in new home sales in 2009.
- ◆ Revised Bank of England forecasts suggest a peak to trough GDP decline of 4.7% , with the trough reached in the third quarter of 2009.
- ◆ UK house prices have now fallen by a fifth since their peak in Autumn 2007 to mid 2004 levels.
- ◆ The average independent forecast is for a 12.0% fall in house prices during 2009, with a further fall of 0.5% forecast during 2010. Most estate agents still report falling house prices.
- ◆ Seasonally adjusted mortgage approvals for house purchase (UK) jumped nearly 20% in February to 38,000, the highest monthly total since May last year, after remaining fairly stable over most of the previous seven months.
- ◆ In the three months to February, seasonally adjusted residential transactions (UK) were down 48.7% on a year earlier and 64% on their peak in the three months to January 2007.
- ◆ Estate agents reported rising enquiries in each of the four months to February, according to the RICS, but new instructions to sell properties remain depressed.
- ◆ Private housing starts in England in 2008 slumped 42.8%, to 86,180, according to CLG. Private completions in England fell by a less dramatic 23.9% in 2008, to 115,710.
- ◆ By contrast, social rented housing starts in England rose 20.0% in 2008, to 18,840, while completions were up 16.6% to 26,180.

We were unable to produce a February issue of *HMR*, although subscribers were sent the results of the January HBF survey and all subscriptions will be extended by one month at no extra cost to subscribers.

*John Stewart*

# Executive Summary

## Overview

There is increasing evidence that housing market volumes may be stabilising, although activity is at historically low levels. However there is no consistent evidence yet that prices have reached a trough. And with the economy deteriorating and unemployment rising very rapidly, it may be some time before the housing market produces evidence of a sustained recovery.

In February, the HBF survey recorded a net balance of +1% of house builders reporting net reservations up on a year ago, the first positive year-on-year result since April 2007. The RICS survey has now recorded four months of rising new buyer enquiries. And seasonally adjusted mortgage approvals jumped nearly 20% in March after having remained broadly stable for most of the previous seven months.

Looking at prices, however, the RICS and HBF survey price balances are still very negative, and despite erratic monthly movements, the Nationwide and Halifax indices still show prices falling.

Private house building activity shows no sign of revival, although NHBC registrations are now down to such low monthly levels that it is difficult to believe they can fall much further.

## HBF Survey

The balance of house builders reporting visitors down on a year ago eased to -13% in February against a trough of -80% in July last year, according to the HBF survey. Net reservations were up very slightly on a year ago (balance +1%), the first positive result since April 2007.

Visitors and net reservations both

recorded seasonal increases in January and February. Buy-to-let/investment demand was the weakest buyer category in February.

House builders continued to report falling prices in February (balance -48%), although there has been a gradual easing over the last few months. The industry continues to make use of sales incentives.

House builders expect a decline in new home sales in 2009.

## Economic Background

The cut to 0.5% on 5 March took Bank Rate to its lowest level on record.

Gross Domestic Product (GDP) fell by 1.6% in the final quarter of last year, the weakest quarterly figure since the second quarter of 1980.

Household expenditure fell by a revised 1.0% in the fourth quarter, the third successive quarterly decline.

Revised forecasts from the Bank of England suggest a peak to trough GDP decline of 4.7% , with the trough reached in the third quarter of 2009.

Claimant-count unemployment rose to 1.39 million in February, 75% (596,000) above the trough of 795,000 in January 2008, and the highest total since January 1998. The unemployment rate climbed to 4.3%.

## Confidence & Affordability

UK house prices have now fallen by a fifth since their peak in Autumn 2007, according to the Nationwide and Halifax indices, with both indices now back to mid 2004 levels.

According to the Treasury March monitor, the average independent forecast is for a 12.0% fall in house prices during 2009, with a further fall of 0.5% forecast during 2010.

The seasonally adjusted balance of estate agents reporting falling prices in February edged down slightly to -78%, according to the RICS survey. The situation has remained broadly flat throughout the last four months, which suggests some stabilisation.

Pessimism about the economic and unemployment outlooks for the next 12 months both eased in February, according to the NOP GfK Confidence Barometer, although people remain very pessimistic about the unemployment outlook. The balance expecting their own household finances to deteriorate also eased in February to -9% from -17% in January.

Key housing market indicators				
	ANNUAL % CHANGE			
	2008 Q4	LATEST 3 MONTHS		
Net mortgage lending (value)	-87.0	-94.0 (Dec-Feb)		
Mortgage approvals for house purchase (no.)	-63.4	-52.3 (Dec-Feb)		
Residential transactions (UK)	-50.9	-48.1 (Dec-Feb)		
House prices (Halifax)	-16.7	-17.7 (Dec-Feb)		
House prices (CLG)	-8.7	-10.1 (Nov-Jan)		
Private housing starts England (CLG)	-63.8	n.a.		
Private housing registrations (NHBC)	-76.1	-72.2 (Dec-Feb)		
Private new housing orders (ONS)	-58.1	-55.4 (Nov-Jan)		
	Balance (%)			
	Nov	Dec	Jan	Feb
<b>HBF Survey of House Builders</b>				
Site visitors against a year ago	-70	-45	-29	-13
Net reservations against a year ago	-81	-58	-28	+1
Net price change in the month	-76	-67	-50	-48
Expected sales increase in 2009	-56	-45	-41	-45
<b>European Commission Consumer Confidence</b>				
Barometer: next 12 months (UK):				
Economic situation: improve(+)/worsen(-)	-39	-44	-52	-43
Unemployment: fall(+)/increase(-)	-76	-81	-85	-79
Households' finances: improve(+)/worsen(-)	-12	-11	-17	-9
<b>Notes:</b>				
1. New orders are seasonally adjusted, all other statistics are actual measures.				
2. Mortgages, residential transactions, house prices, NHBC registrations and consumer confidence refer to the UK, housing orders and the HBF survey to GB and private housing starts to England.				
3. Annual % change is the % change on the same period a year ago. The most recent changes are often based on provisional figures.				
4. The "Balance" is the % reporting an increase less the % reporting a decrease.				
5. Mortgage value statistics cover all lenders and include lending to housing associations.				
6. The European Commission Consumer Confidence Barometer carried out by GfK NOP.				

### Housing Market Activity

Seasonally adjusted mortgage approvals for house purchase (UK) jumped nearly 20% in February to 38,000, the highest monthly total since May last year, after remaining remarkably stable over most of the seven months to January.

However approvals in the three months to February, seasonally adjusted, were down 73% on their peak in the three months to November 2007.

In the three months to February, seasonally adjusted residential transactions (UK) were down 48.7% on a year earlier and 64% on their peak in the three months to January 2007.

Estate agents reported rising enquiries in each of the four months to February, according to the RICS survey. However new instructions to sell properties remain depressed.

Net mortgage lending fell by £538 million in February, the first fall since monthly records began in April 1993.

### House Building

NHBC private housing registrations (UK) in the first two months of 2009, at 5,700, were 71.0% lower than in the same period of 2007 (19,600), and down 80% on the first two months of 2007 (28,200) and 2006 (28,700).

Private housing starts in England in 2008 slumped 42.8%, to 86,180, according to CLG. The rate of decline accelerated as the year progressed. Private completions in England fell by a less dramatic 23.9% in 2008, to 115,710.

By contrast, social rented housing starts in England rose 20.0% in 2008, to 18,840, while completions were up 16.6% to 26,180.

### Household Projections

Household growth in England is projected to average 252,000 per year for the 25 years 2006-31, under revised official projections, with more than half the increase coming from households headed by someone aged 65 or over.

### Mortgage Regulation

The Turner Review proposes more intensive regulation of lenders. It also asks whether mortgage products should be regulated, particularly loan-to-value and loan-to-income ratios. And it suggests regulation of lenders and mortgage products might in future be used counter cyclically to achieve greater macro-economic stability.

### Key economic indicators

	ANNUAL % CHANGE	
	2008 Q4	Latest
Bank Rate (end of period) (%)	2.00	0.50 (5 Mar)
Gross domestic product	-2.0	n.a.
Retail sales (volume)	2.5	2.9 (Dec-Feb)
Services output (volume)	-1.1	n.a.
Industrial production (volume)	-7.8	-9.5 (Nov-Jan)
Inflation (RPI)	0.9 (Dec)	0.0 (Feb)
Inflation (CPI)	3.1 (Dec)	3.2 (Feb)
Average earnings	3.1	1.8 (Nov-Jan)
Claimant unemployment (UK)	32.1	58.6 (Dec-Feb)
Full-time employment (UK)	-0.5	-0.5 (Nov-Jan)

**Source:** Office for National Statistics (ONS)

#### Notes:

1. Seasonally adjusted except inflation.
2. Annual % change except base rate.
3. Some figures are provisional and may be revised.
4. RPI: Headline Retail Prices Index.
5. CPI: Consumer prices index, the MPC target measure.
6. Average earnings including bonuses.

### News in Brief

Since its October 2008 trough, the House Builders' Share Price Index has staged a gradual, if erratic recovery. By 24 March 2009 it had climbed 52%, although the index had slipped back a little by 30 March.

The proportion of 'major' (10+ units) residential planning application decisions in England made within 13 weeks slipped back to 66% in the final quarter of 2008.

Two thirds (67%) of major residential applications in England were granted in the final quarter of 2008. ■

### LATE NEWS

The Nationwide and Halifax March house price indices gave conflicting signals, with the Nationwide seasonally adjusted index up 0.9%, whereas the Halifax seasonally adjusted index was down 1.9%.

However both indices suggest the rate of price decline may be easing. The Halifax first-quarter index was down 2.1% on the previous quarter, much slower than the 6.0% fall recorded in the final quarter. The Nationwide first-quarter index was down 4.0% on the previous quarter, a little slower than the 4.3% decline recorded in the fourth quarter.

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### KEY EVENTS

#### MPC interest rate decisions:

9 April  
7 May

#### Bank of England *Inflation Report*

13 May

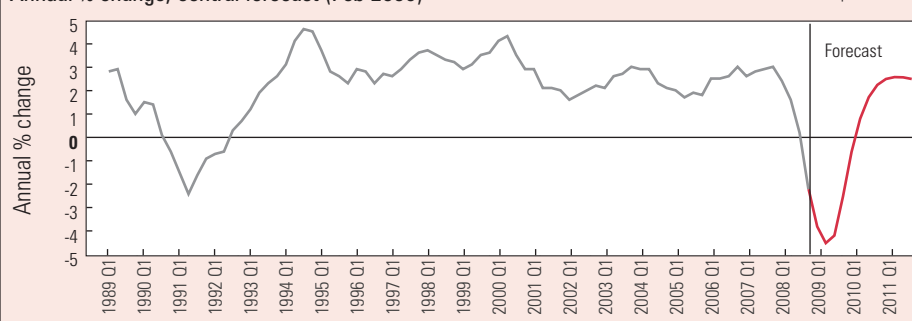
#### Budget:

22 April

# Economic Background

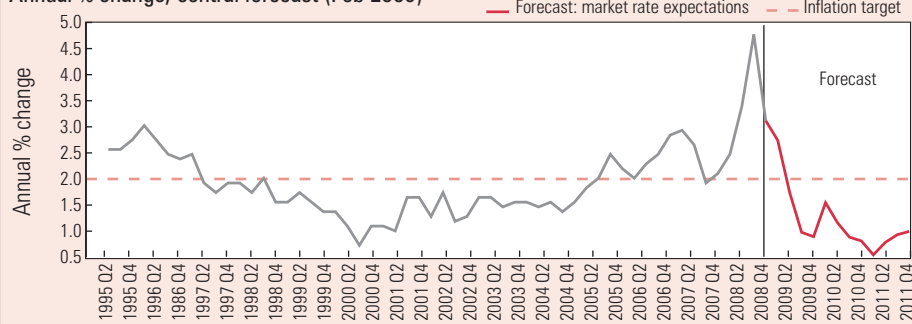
**CHART 1 Bank of England central GDP forecast**

Annual % change; central forecast (Feb 2009)



**CHART 2 Bank of England central CPI inflation forecast**

Annual % change; central forecast (Feb 2009)



**TABLE 1 Economic forecasts (UK)**

	ACTUAL FORECASTS				
	2008	HM Treasury (November 2008)		Average independent (March 2009)	
		2009	2010	2009	2010
GDP: total	0.7	-1.25 to -0.75	1.5 to 2.0	-3.1	0.4
Household consumption	1.4	-1.5 to -1.0	1.25 to 1.75	-2.2	-0.4
Government consumption	3.4	2.75	1.00	2.5	1.9
Gross fixed investment	-3.1	-8.25 to -7.75	2.25 to 2.75	-10.2	-2.1
Exports	0.1	0.25 to 0.75	3.25 to 3.75	-5.2	1.9
Imports	-0.6	-2.5 to -2.0	2.5 to 3	-5.3	1.1
Consumer price inflation (Q4) (CPI)	3.9	0.50	2.25	0.4	1.6
Average earnings	3.3	n.a.	n.a.	2.6	2.7
Real h'hold disposable income	2.2	0.5 to 1	1 to 1.5	1.1	0.7
House price inflation (Q4)		n.a.	n.a.	-12.0	-0.5
Claimant unemployment (Q4) (m)	1.08	n.a.	n.a.	1.93	2.27
Bank of England Bank Rate (Q4)(%)	3.38	n.a.	n.a.	0.62	1.12
PSNB (£bn)	n.a.	118	105	135.3	138.6

Sources: Office for National Statistics & HM Treasury.

**Notes:**

- Figures refer to annual % changes, unless otherwise specified.
- The average independent forecast is compiled monthly by the Treasury from more than 40 independent forecasts.
- Treasury forecasts for some variables are expressed as a range, not a single figure.
- Changes in GDP and its components are chain weighted.
- Individual forecasts of house price inflation are based on different indices (CLG, Halifax, Nationwide).
- Public sector net borrowing (PSNB) for financial years 2007/08, 2008/09 and 2009/10.

- ◆ In the final quarter of 2008, GDP suffered the sharpest quarterly fall for nearly 30 years.
- ◆ Household spending has now fallen for three successive quarters.
- ◆ The Bank of England expects GDP to reach its recessionary trough in the third quarter of 2009.
- ◆ Claimant-count unemployment has risen 75% from its low point in January 2008.

**Historic Bank Rate**

The cut to 0.5% on 5 March took Bank Rate to its lowest level on record. It has now fallen 5.25 percentage points since the most recent peak of 5.75% between 5 July and 6 December 2007.

The gap between Bank Rate and LIBOR has moved erratically as the Bank has slashed Bank Rate (Chart 1). The improvements achieved by early February have to some extent been reversed.

**Economic Growth**

Gross Domestic Product (GDP) fell by 1.6% in the final quarter of last year, according to revised estimates, the weakest quarterly figure since the second quarter of 1980. This followed a 0.7% fall in the third quarter and no change in the second quarter.

Fourth quarter GDP was down 2.0% on a year earlier. In the last recession, annual growth hit a trough of -2.2% in the second quarter of 1991. In the early 1980s recession, however, annual growth slumped to a trough of -4.1% in the fourth quarter of 1980.

Household expenditure fell by a revised 1.0% in the fourth quarter, the third successive quarterly decline.

**Economic Forecasts**

Revised forecasts from the Bank of England (*Inflation Report*, February 2009) show negative annual growth continuing until the second quarter of 2010 (Chart 1).

The Bank's central projections suggests a peak to trough GDP decline of 4.7%, with the trough reached in the third quarter of 2009.

Consumer price inflation is expected to

slow to only 0.3% by the first quarter of 2011 and remain below the 2% target until beyond the Bank's current forecast range which ends in the first quarter of 2012 (Chart 2). It is this projection which lies behind the Bank's Quantitative Easing. Under normal circumstances, inflation projections such as these would point to sharp cuts in Bank Rate. However this is impossible with Bank Rate already down to 0.5%.

## Economic Indicators

Claimant-count unemployment rose to 1.39 million in February, 75% (596,000) above the trough of 795,000 in January 2008, and the highest total since January 1998. The unemployment rate climbed to 4.3%.

On the broader ILO measure, there were 2.029 million unemployed in the three months to January, a 6.5% rate.

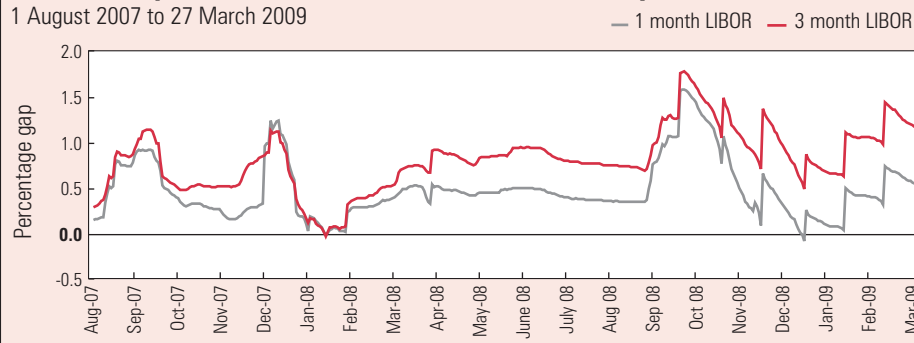
Consumer price inflation (CPI) rose to 3.2% in February from 3.0% in January. However headline retail price inflation (RPI) fell to zero in February (Chart 4).

Industrial production in January was 11.4% below a year ago, with a 12.8% fall in manufacturing output.

A 1.9% fall in the volume of retail sales in February cut the annual rate of growth to only 0.5%. ■

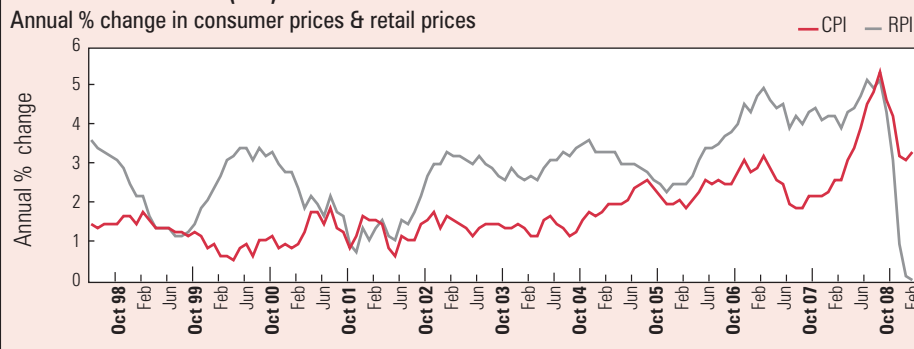
**CHART 3 Gap between UK LIBOR and Bank Rate (daily)**

1 August 2007 to 27 March 2009

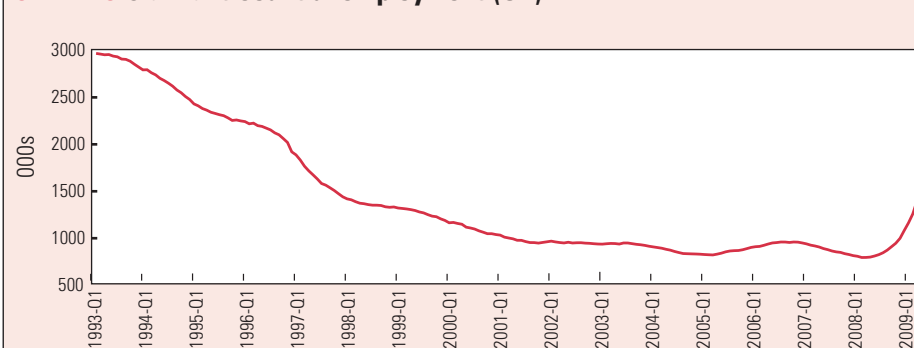


**CHART 4 Inflation (UK)**

Annual % change in consumer prices & retail prices



**CHART 5 Claimant-count unemployment (UK)**



**TABLE 2 Regional labour market trends (Labour Force Survey; seasonally adjusted)**

	Scotland	North East	Yorkshire & the Humber	North West	West Midlands	East Midlands	East of England	Greater London	South East	South West	Wales	Great Britain
<b>ILO unemployment: Nov – Jan 2008 (seasonally adjusted)</b>												
Number (000)	135	109	186	262	210	147	165	307	212	139	109	1982
Rate (%)	5.1	8.6	7.1	7.7	7.9	6.4	5.5	7.5	4.8	5.1	7.6	6.5
Quarterly change (%)	0.7	4.8	0.5	7.8	16.0	15.7	21.3	-0.3	6.0	20.9	16.0	8.4
Annual change (%)	2.3	45.3	43.1	31.0	40.9	18.5	27.9	12.0	11.6	41.8	58.0	26.2
<b>Total employment: Nov – Jan 2009 (seasonally adjusted)</b>												
Number (000)	2535	1151	2428	3152	2452	2164	2842	3787	4201	2581	1322	28616
Quarterly change (%)	-0.5	-0.4	-0.6	1.1	0.0	0.0	0.7	1.2	-0.8	0.3	-1.4	0.1
Annual change (%)	-0.4	-1.5	-1.4	-1.1	-2.1	0.9	0.5	2.2	-0.1	-0.1	-0.9	-0.2

**Source:** Office for National Statistics **Note:** The English regions are Government Office Regions (GOR).

# HBF Regional Survey of House Builders

*Housing Market Report* exclusively presents results from the February 2008 HBF regional survey of home builders.

## Key Findings

The balance of house builders reporting visitors down on a year ago eased to -13% in February against a trough of -80% in July last year. Net reservations were up very slightly on a year ago (balance +1%), the first positive result since April 2007.

Visitors and net reservations both recorded seasonal increases in January and February. Buy-to-let/investment demand was the weakest buyer category in February.

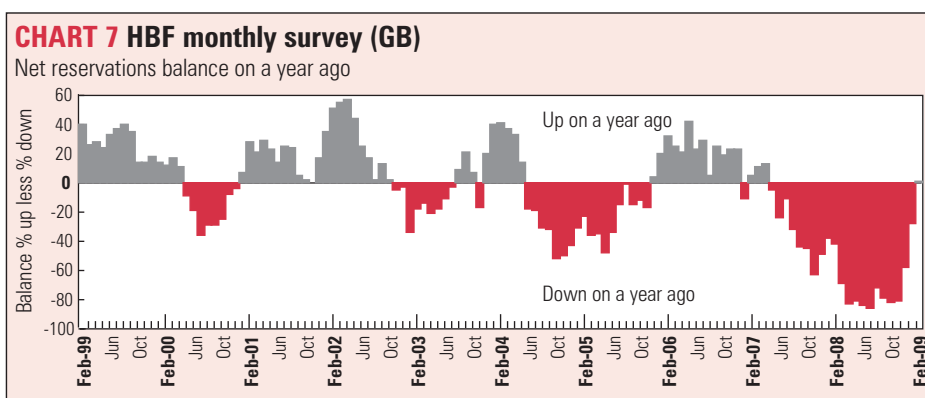
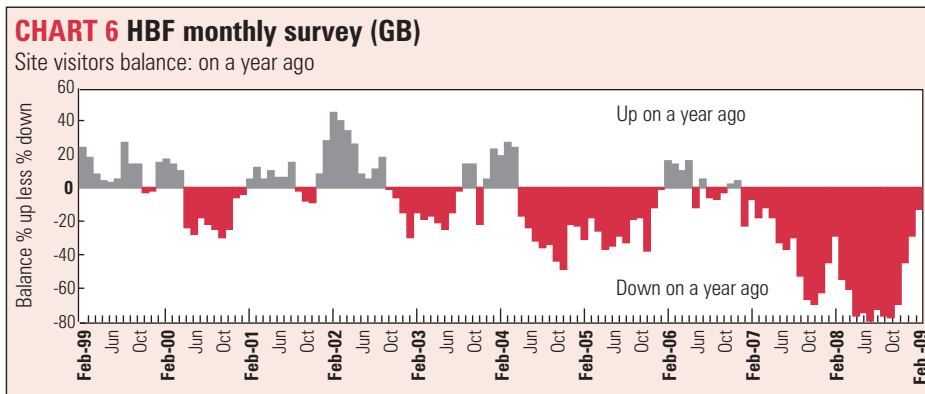
House builders continued to report falling prices in February (balance -48%), although there has been a gradual easing over the last few months. The industry continues to make use of sales incentives.

House builders expect a decline in new home sales in 2009.

## Presentation Notes

Results are weighted to take account of differences in the size of companies responding to the survey. A 'balance' is the difference between the percentage of companies reporting an increase less the percentage reporting a decrease. A positive balance indicates growth, a negative balance decline.

The size of a balance does not necessarily indicate the scale of increase or decline. For example, a balance of +40% reporting a rise would tell us that substantially more companies were



reporting a rise than a fall, but it would not tell us whether the industry was experiencing a small or a large overall percentage increase. Similarly a balance of -40% would tell us that substantially more companies were reporting a fall than a rise, but again it would not tell us anything about the scale of the fall.

Larger companies are defined in the survey as starting 100 or more dwellings

in the region in the previous year, while smaller companies started less than 100 units.

## Comparing February 2009 with February 2008

January's *HMR* noted "a hint of improvement" in the December HBF Survey results. The January and February surveys provide even stronger evidence

**TABLE 3 HBF Survey: Summary monthly results (Great Britain)**

Balance between % reporting an increase less % reporting a decrease	2008											2009	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>Compared with the same month a year ago:</b>													
Site visitors	-29	-55	-61	-77	-75	-80	-73	-77	-78	-70	-45	-29	13
Net reservations	-42	-69	-83	-81	-84	-86	-72	-79	-82	-81	-58	-28	+1
<b>Compared with the previous month:</b>													
Site visitors	+44	-22	-48	-42	-56	-42	-28	-44	-35	-56	-75	+58	+23
Net reservations	+18	-12	-46	-43	-58	-40	-28	-26	-28	-37	-64	+57	+38
Net prices during the month	-36	-54	-63	-73	-73	-82	-83	-79	-76	-76	-67	-50	-48
Current use of sales incentives	+53	+59	+62	+74	+69	+71	+67	+66	+66	+56	+54	+40	+32
Expected sales in 2009 vs 2008									-66	-56	-45	-41	-45

that the market may be nearing its trough.

The balance of house builders reporting lower site visitors than a year ago eased to -13% in February (Chart 6). At its worst, the balance reached -80% in July last year, so that the February result represents a significant improvement. It was the least negative result since May 2007.

Among larger companies, the February visitor balance was -6%, substantially better than the smaller company balance of -28%.

The net reservations balance has shown an even more dramatic improvement, with the February balance climbing to +1%, the first positive result since April 2007 (Chart 7). As recently as October and November last year, balances of -82% and -81% were being recorded.

Larger companies recorded a balance of +18%, against a balance of -35% for smaller companies.

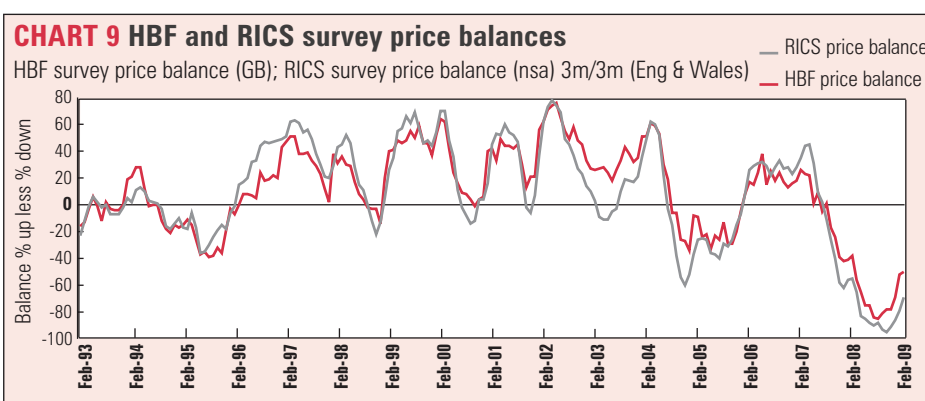
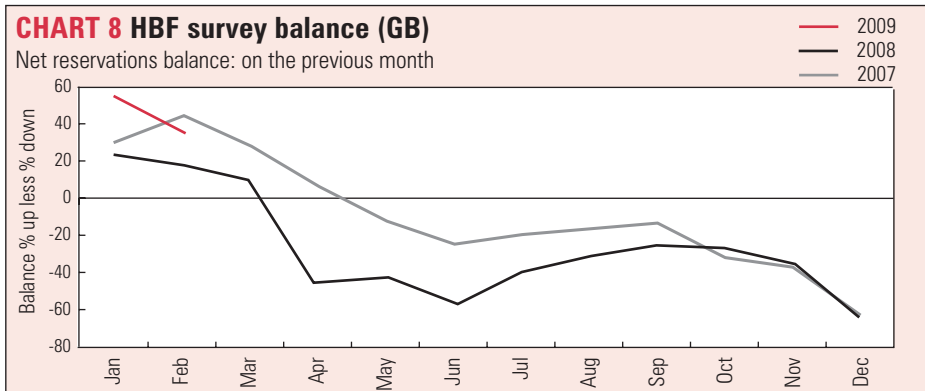
While these results are most encouraging, they must be put in context.

The steep falls in visitors and net reservations in the second half of 2007 and throughout 2008 mean that recent trends in both variables are against a very low base. Also, there is no guarantee these improvements will continue.

In addition, the fact that the HBF Survey price balance is still negative (see below) suggests discounting and sales incentives played a key role in the recent improvement in sales.

### Comparing February 2009 with January 2009

The balance of house builders reporting a seasonal rise in site visitors between December and January (+58%) was the



best January result since 2005, and only a little less than the long-term average January balance of +33%.

Visitors continued to rise in February, but the balance was weaker than in February 2007 and 2008, suggesting some loss of momentum (Chart 8).

The balance reporting a seasonal rise in net reservations in January (+57%) was the best January result since 2004, and slightly above the long-run January average (+54%). In February a balance of +38% reported increased reservations. This was stronger than the February balances in 2005, 2006 and 2008, although slightly lower than the February 2007 figure (+41%). As with the January result, February's balance was ahead of

the long-run average (+34%).

Net reservations by existing home owners recorded the strongest balance in February (+35%), followed quite closely by demand from first-time buyers (balance +28%). A positive balance of house builders reported increased demand from investment and buy-to-let buyers in February, but the balance (+9%) was much weaker than for the other two buyer categories.

### Prices & Incentives

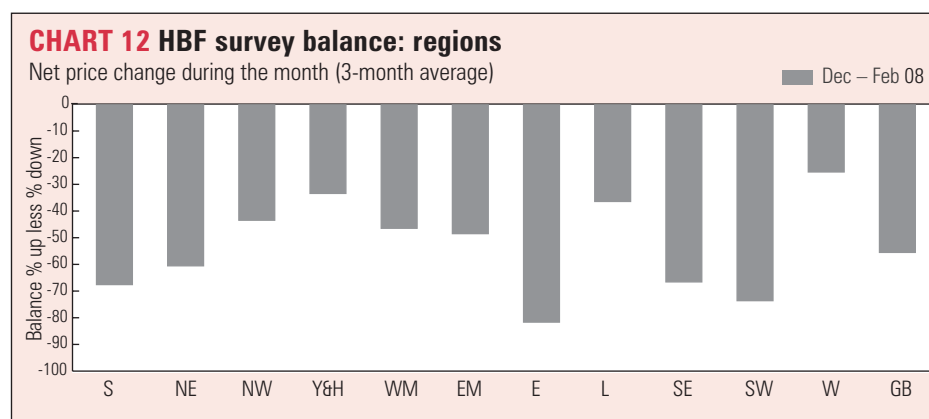
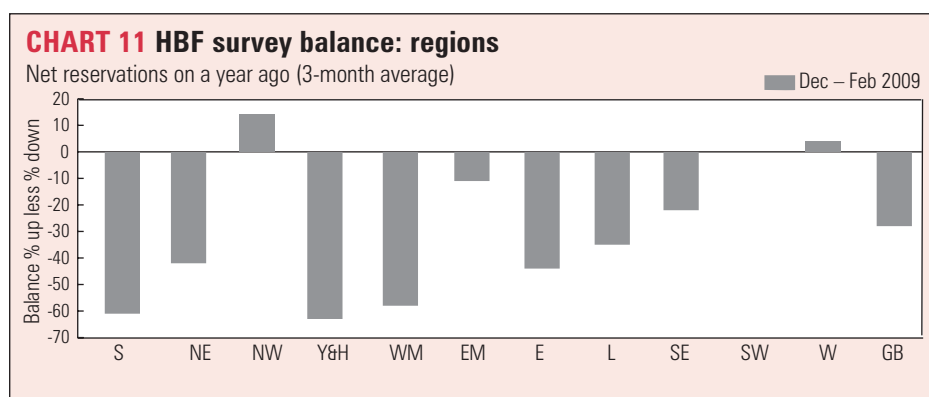
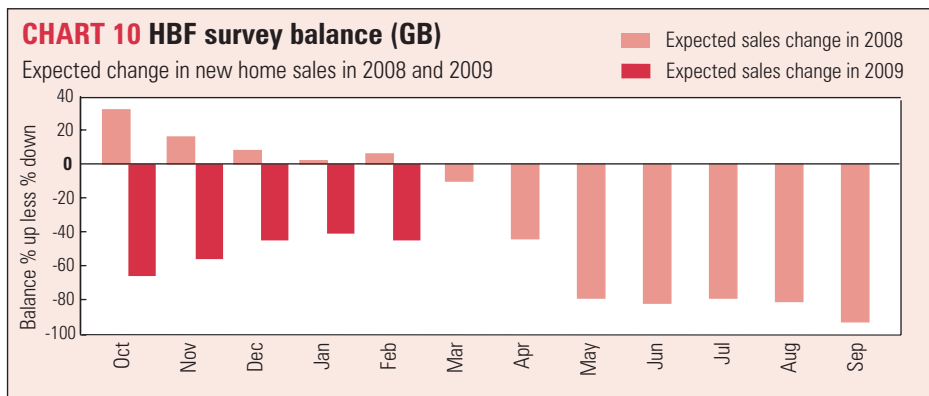
Negative balances of house builders reported lower new home prices in January (balance -50%) and February (-48%) (Chart 9). Although both results represent significant improvements on

**TABLE 4 HBF Survey: Summary quarterly results (Great Britain)**

	2006		2007				2008			
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	
Change in number of active sites in last 3 months	+13	0	+1	+8	+3	+6	-26	-32	-29	
Planned starts in 2009									-75	
Expected house price change next 12 months	+74	+66	+46	+11	-14	-47	-86	-87	-73	
Change in land prices in last 3 months	+63	+68	+63	+42	+11	-30	-63	-83	-81	
Level of work in progress to meet demand (1)	+4	-5	-2	+6	+20	+30	+42	+36	+26	
Level of completed stocks to meet demand (1)	-3	-15	-8	+13	+27	+34	+50	+57	+45	

**Notes:** 1. A positive (negative) balance indicates excess (inadequate) work in progress or stocks.

## HBF Survey



the balances of -82% and -83% in July and August last year, the scale of improvement has been far less dramatic than for visitors and net reservations (see above).

It should also be noted that January's price balance is usually positive, indicating that house builders tend to raise prices in January. Yet the industry had to cut prices still further in January 2009.

The industry continued to make use of sales incentives in January and February (balances of +40% and +32% respectively).

This combination of price reductions in January and February and continuing use of sales incentives suggests pricing played a key role in generating the improvement in net reservations.

### Expected Sales in 2009

House builders expect a reduction in sales of new homes in 2009 (balance -45%). The balance expecting a decline has been broadly stable over the last three months (Chart 10).

### Regional Trends

Averaged over the three months to February, small positive balances of house builders reported increased net reservations on a year ago in the North West, South West and Wales (Chart 11). However prices fell in every region (Chart 12). ■

**TABLE 5 HBF Survey: Summary quarterly results (GB)**

	% considering factor a major constraint									
	2006		2007				2008			
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	
<b>On demand:</b>										
Buyer confidence	25	23	30	51	68	76	94	97	95	
Mortgage rates	11	9	33	40	36	59	72	73	44	
Mortgage terms	21	13	27	29	45	77	87	78	81	
House prices	34	32	34	37	34	38	42	50	36	
Delays/chains	21	28	29	22	28	38	53	52	42	
Down valuations	11	13	15	16	33	46	62	62	71	
<b>On production:</b>										
Labour availability	18	16	11	17	10	7	3	4	4	
Materials availability	3	2	3	1	2	2	3	4	0	
Land availability	68	67	63	53	41	36	12	11	19	
Land prices	69	61	69	59	48	50	32	21	18	
Planning delays	79	86	86	90	79	75	48	51	32	
Development finance	3	1	2	3	3	9	31	55	57	

### HBF Regional survey of house builders

Results from the HBF survey are weighted to take account of the size of companies responding. 177 replies were received for the February 2009 survey, of which 2 were from companies starting 501+ units in their region in 2007, 45 from those starting 101-500 units and 130 from those starting 100 units or less. 60 were from Scotland and the three northern regions of England, 44 from the Midlands and Eastern region and 73 from the southern regions and Wales.

## HBF Regional Survey: February 2009

All figures are percentages. A zero indicates the percentage is less than 0.5%. The balance is the percent reporting an increase minus the percent reporting a decrease. 177 questionnaires were completed in February 2009. Figures may not total exactly to 100% because of rounding.

<b>Compare February 2009 with February 2008: (a) Site Visitors</b>												
	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												40
No Change												7
Down												53
Balance	-64	-48	16	-68	-39	-2	-50	94	29	-74	68	-13
<b>Compare February 2009 with February 2008: (b) Net Reservations (excluding non-market bulk sales):</b>												
	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												43
No Change												15
Down												42
Balance	-34	50	30	-84	-34	2	-54	94	27	-11	66	1
<b>Compare February 2009 with January 2009:(a) Site Visitors</b>												
	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												51
No Change												21
Down												28
Balance	15	45	8	-13	43	37	0	100	26	-19	74	23
<b>Compare February 2009 with January 2009:(b) Net Reservations (excluding non-market bulk sales):</b>												
	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												60
No Change												18
Down												22
Balance	50	88	61	2	46	8	-27	94	42	10	68	38
<b>Compare February 2009 with January 2009, the trend in net reservations among:(a) First-time buyers</b>												
	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Improving												47
No Change												35
Declining												19
Balance	-12	46	60	13	11	44	3	90	28	6	44	28

## HBF Survey

### Compare February 2009 with January 2009, the net reservations among: existing owner-occupiers:

	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Improving												46
No Change												43
Declining												11
Balance	44	20	47	7	32	32	-2	7	36	79	51	35

### Compare February 2009 with January 2009, the trend in net reservations among: (c) Investment buyers / buy-to-let:

	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Improving												25
No Change												59
Declining												16
Balance	-20	33	5	-26	11	-10	-10	90	29	-4	-10	9

### Change in NET house prices during the month of February 2009 (excluding the effect of any non-market bulk sales):

	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												4
No Change												44
Down												52
Balance	-86	-6	-26	-35	-62	-46	-75	-7	-49	-76	-10	-48

### Use of sales incentives such as discounts, part exchange, etc. currently:

	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Increasing												39
Same												54
Decreasing												7
Balance	46	56	23	41	57	57	44	3	7	41	-4	32

### Level of sales expected in 2008 in the region compared with 2007 (including non-market bulk sales):

	Scotland	North East	North West	Yorkshire & the Humber	West Midlands	East Midlands	East	Greater London	South East	South West	Wales	Great Britain
Up												18
No Change												19
Down												63
Balance	-89	12	20	-96	-45	-9	-28	-83	-48	-78	-9	-45

# Confidence & Affordability

- ◆ House prices in February fell 1.8% according to Nationwide and 2.3% according to Halifax.
- ◆ The Nationwide and Halifax indices, down 20.1% and 19.7% respectively from their 2007 peaks, are now back to mid 2004 levels.
- ◆ The average independent house price forecast for the year to 2009 Q4 has been revised downward to -12.0% from -10.8% in January. A further fall of 0.5% is forecast for the year to 2010 Q4.
- ◆ Although the seasonally adjusted balance of agents reporting falling house prices worsened slightly in February, the balance has remained fairly stable for the last four months.
- ◆ People's pessimism about both the economic and unemployment outlooks eased in February, as did pessimism about prospects for people's own household finances.

## House Price Indices

UK house prices have now fallen by a fifth (20.1%) since their peak in October 2007, according to the Nationwide seasonally adjusted index.

February house prices were down 17.6% on a year earlier, according to the Nationwide, with a 1.8% seasonally adjusted fall in the month of February (Table 6, Chart 13).

According to the Halifax seasonally adjusted index, house prices in February fell 2.3%, with a 17.7% fall in the previous 12 months, almost the same as the fall recorded by the Nationwide index.

The Halifax index peaked in August 2007, two months earlier than the Nationwide index. Since then prices have fallen 19.7%.

Both indices are back to mid 2004 levels.

Whilst the decline in the CLG house price index continues to lag behind the declines in both lender indices, this gap has been closing over the last few months. In the 12 months to January 2009, prices were down 11.5%.

On the back of renewed buyer interest, the Rightmove index for the four weeks to 16 March recorded a 0.9% increase in the average asking price. Asking prices were down 9.0% on a year ago.

The Land Registry repeat-sales index recorded a 2.0% fall in completion prices

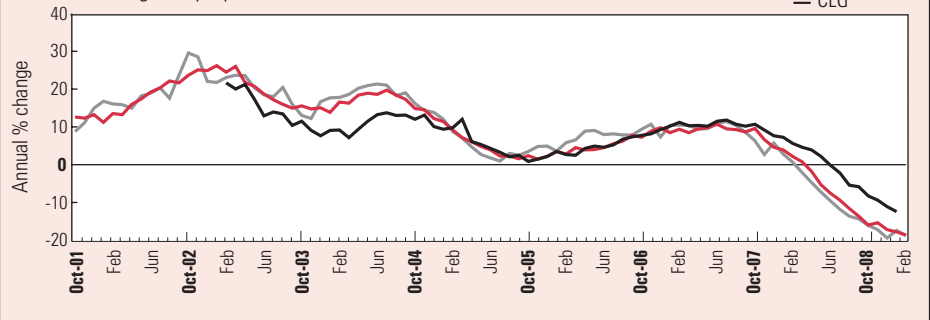
during February, with a 16.5% fall in the previous 12 months. This index excludes new-build properties which the other indices include. On the other hand cash transactions are included which the other indices exclude.

## House Price Forecasts

According to the Treasury March monitor, the average independent forecast is for a 12.0% fall in house prices during 2009, with a further fall of 0.5% forecast during 2010. (The forecasts are for Q4 against Q4. A

**CHART 13 Annual rate of house price change (UK)**

Annual % change; all properties



**TABLE 6 House prices (UK)**

	NATIONWIDE		HALIFAX		CLG			
	All (sa) Index	All (nsa) % change	All (sa) Index	All (nsa) % change	All (nsa) Index	All (nsa) % change		
2003		253.0	19.4		428.1	19.0	128.7	15.7
2004		296.3	17.1		508.5	18.8	143.9	11.9
2005		311.4	5.1		535.6	5.3	151.8	5.5
2006		331.4	6.4		580.3	8.3	161.4	6.3
2007		361.8	9.2		634.5	9.3	179.1	11.0
2008		337.4	-6.7		580.2	-8.6	177.3	
<b>Annual % change</b>								
2008 Oct		316.9	-14.6		544.2	-15.0	170.8	-7.4
Nov		316.1	-13.9		527.1	-16.2	167.7	-8.5
Dec		305.3	-15.9		512.8	-18.9	163.8	-10.2
2009 Jan		300.2	-16.6		517.2	-16.5	164.2	-11.5
Feb		294.7	-17.6		515.3	-17.7		
<b>Monthly % change</b>								
2008 Nov	316.1	-0.4		529.0	-2.7		167.7	-1.8
Dec	307.8	-2.6		520.6	-1.6		163.8	-2.3
2009 Jan	303.8	-1.3		531.2	2.0		164.2	0.2
Feb	298.3	-1.8		518.9	-2.3			

**Sources:** Nationwide Building Society, Halifax plc, Communities & Local Government (CLG)

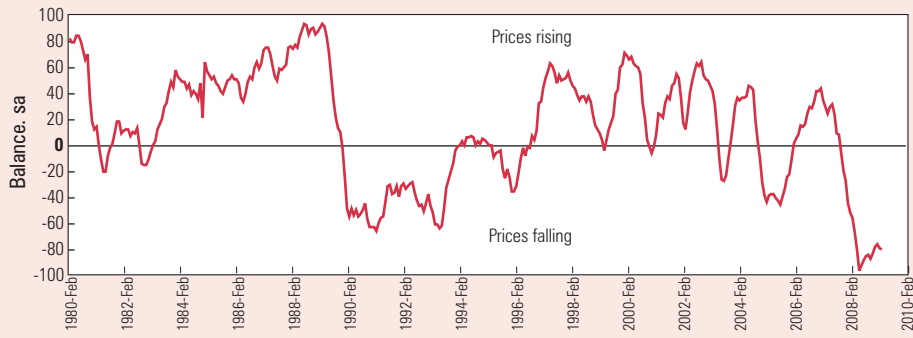
### Notes:

1. Nationwide mix-adjusted house price index (1993=100); Halifax standardised house price index (1983=100); CLG mix-adjusted house price index (Feb 2002=100).
2. The % changes shown are annual and month on previous month.
3. (nsa) indicates the series is not seasonally adjusted; (sa) seasonally adjusted.
4. The CLG house price index based on building society lending was replaced by an all-lenders index from 1993-2002. A new monthly index was launched in 2002. From September 2005, the index has been based on an enlarged sample of completions data from about 50 lenders who supply data through the CML Regulated Mortgage Survey.

## Confidence & Affordability

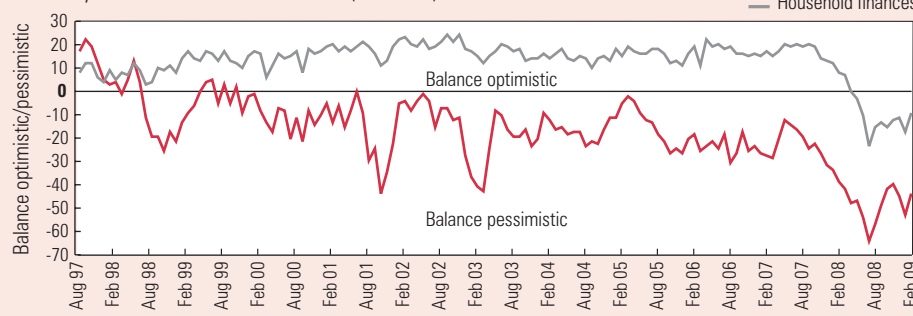
**CHART 14 Price trends reported by estate agents (RICS)**

Balance: prices over last 3 months, seasonally adjusted



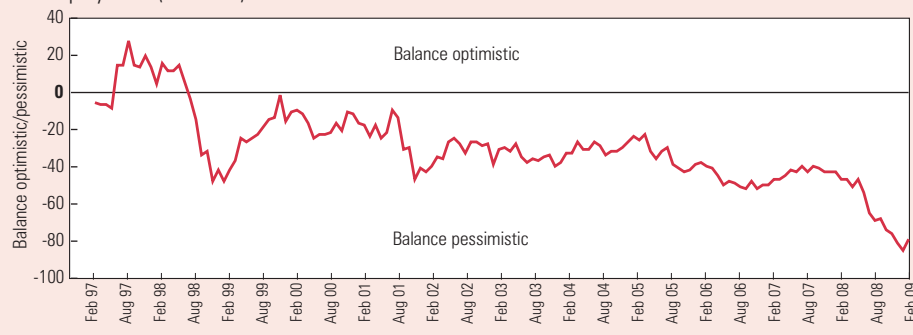
**CHART 15 Consumer confidence: outlook for next 12 months**

Economy & households' own finances (GfK NOP)



**CHART 16 Consumer confidence: outlook for next 12 months**

Unemployment (GfK NOP)



limitation with the average forecast is that forecasters use different indices – Halifax, Nationwide, CLG.)

Individual forecasts for 2009 range from no change to -19.8%. Within this range, 11

forecasters put the fall in the range 0% to -12%, whereas another nine put the fall in the range -12.1% to -17.0%. Another three (Capital, Deutsche Bank, UBS) expect prices to fall in excess of 17.0%.

Around half the forecasters predict modest house price increases during 2010.

### Estate Agents

The seasonally adjusted balance of estate agents reporting falling prices in February edged down slightly to -78%, according to the RICS survey (Chart 14). The situation has remained broadly flat, at mid 70's levels, throughout the last four months, which suggests some stabilisation.

Unadjusted figures show 28% of agents in February said prices had remained unchanged over the previous three months, up from only 5% five months ago. The proportion reporting higher prices, which remained at zero from September to December last year, edged up to 1% in January and 3% in February.

At the other extreme, the proportion of agents reporting price falls in excess of 5% had eased back from 33% last October to 14% by February.

### Consumer Confidence

Pessimism about the economic and unemployment outlooks for the next 12 months both eased in February, according to the NOP GfK Confidence Barometer (Charts 15 and 16). However people remain very pessimistic about the unemployment outlook, with only 8% expecting a fall over the next 12 months, against 87% expecting a rise.

The balance expecting their own household finances to deteriorate also eased in February to -9% from -17% in January.

### Affordability

Tables 8 and 9 show *HMR's* affordability indices based on capital and interest payments. The interest-only indices were published in the January issue of *HMR*. ■

**TABLE 7 Regional house price change (CLG index): All dwellings (Government Office Regions)**

(Annual % change)

		Scotland	North East	Yorks & Humber	North West	West Midlands	East Midlands	East of England	Greater London	South East	South West	Wales	Northern Ireland	United Kingdom
2008	Aug	-0.2	-4.6	-4.2	-4.2	-4.5	-6.2	-4.5	-4.6	-4.1	-4.6	-5.5	-17.9	-4.6
	Sep	-0.8	-6.0	-5.6	-4.5	-6.8	-7.0	-4.6	-5.0	-4.3	-4.5	-5.2	-15.8	-5.1
	Oct	-4.2	-6.5	-7.7	-6.0	-8.7	-9.5	-6.0	-7.1	-6.5	-9.6	-7.6	-19.8	-7.4
	Nov	-3.7	-7.5	-8.4	-8.0	-8.1	-9.9	-10.5	-7.0	-9.1	-9.3	-9.5	-15.4	-8.5
	Dec	-6.0	-8.9	-10.8	-9.3	-10.2	-11.5	-10.8	-9.6	-11.3	-10.2	-10.3	-17.9	-10.2
2009	Jan	-6.3	-9.8	-10.0	-10.5	-9.3	-14.1	-11.3	-13.9	-11.6	-11.7	-10.4	-14.3	-11.5

Note: The table shows annual % changes in the experimental CLG regional house price indices launched in February 2002

**TABLE 8 First-year capital & interest payments as % average net earnings: single male income**

Q2:	Scotland	North East	Yorks & Humber	North West	West Midlands	East Midlands	East	London	South East	South West	Wales	Great Britain
1987	31	26	29	31	33	34	45	61	68	48	26	42
1988	27	24	26	29	36	36	52	62	71	52	26	44
1989	39	36	50	49	62	61	78	83	105	82	48	69
1990	46	44	57	62	64	64	71	80	97	78	47	69
1991	40	35	48	49	52	45	52	61	71	57	36	53
1992	34	30	39	40	42	38	40	44	52	44	31	42
1993	28	25	29	30	29	28	31	34	38	31	24	32
1994	28	25	29	29	30	29	31	36	39	33	25	33
1995	29	25	31	33	34	30	33	35	42	35	26	34
1996	25	22	27	26	29	26	28	30	35	30	22	29
1997	27	23	27	28	30	27	32	34	38	32	23	31
1998	31	28	31	30	35	33	40	43	49	40	27	38
1999	26	24	27	28	30	29	35	43	44	36	25	35
2000	30	29	31	33	38	34	43	54	56	46	28	43
2001	27	26	30	30	35	33	43	50	57	45	30	41
2002	26	26	30	30	35	35	46	47	50	46	29	40
2003	28	32	34	33	42	43	53	50	58	53	34	45
2004	35	40	42	41	50	48	57	56	62	60	43	51
2005	41	45	48	48	55	53	63	59	68	66	51	56
2006	42	46	49	47	52	51	61	60	64	65	51	55
2007 Q2	52	53	55	53	59	58	71	74	76	73	59	65
2008 Q1	52	51	54	52	57	56	71	76	77	73	56	64
2008 Q2	51	49	52	50	54	53	68	72	73	69	53	61
2008 Q3	48	46	49	47	51	50	64	69	69	66	50	58
2008 Q4p	42	41	42	41	45	43	55	60	60	56	43	50

Sources: CLG, ONS and Housing Market Report r: revised p: provisional **Late 1980s peak.**

**TABLE 9 First-year capital & interest payments as % average net earnings: two income couple**

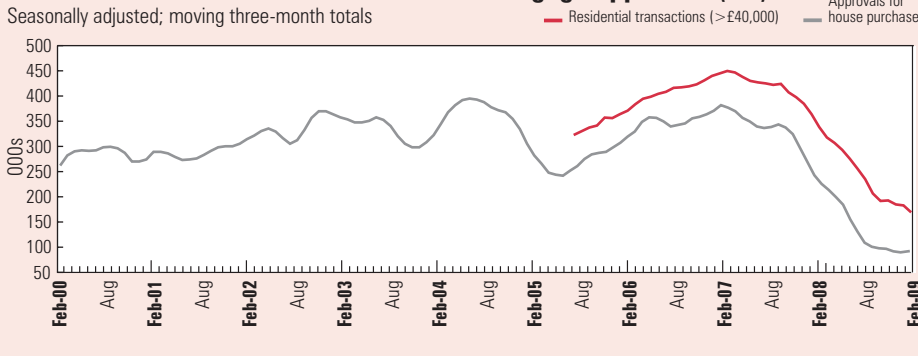
Q2:	Scotland	North East	Yorks & Humber	North West	West Midlands	East Midlands	East	London	South East	South West	Wales	Great Britain
1987	18	15	16	18	19	20	26	35	39	27	15	25
1988	15	14	15	16	21	21	31	36	41	30	15	26
1989	22	21	28	28	35	36	45	49	60	47	27	40
1990	26	25	33	35	37	37	41	47	55	44	27	40
1991	22	20	27	28	29	26	30	35	40	32	20	30
1992	19	17	22	22	24	22	23	25	30	25	17	24
1993	16	14	16	17	16	16	18	20	22	18	13	18
1994	16	14	16	17	17	16	18	20	22	19	14	18
1995	16	14	17	19	19	17	19	20	24	20	14	19
1996	14	12	15	14	16	15	16	17	20	17	12	16
1997	15	13	15	16	17	15	18	20	21	18	13	18
1998	18	16	17	17	20	19	22	25	28	22	15	22
1999	15	13	15	16	17	16	19	25	25	20	14	20
2000	17	16	17	19	22	20	25	32	32	26	15	25
2001	15	15	17	17	20	19	24	30	33	25	17	24
2002	15	15	17	17	20	20	26	27	29	26	16	23
2003	16	18	19	19	24	24	30	29	33	30	19	25
2004	19	22	23	23	28	27	33	32	35	34	24	28
2005	23	25	27	27	31	29	36	34	38	37	28	32
2006	23	25	27	26	29	28	35	34	37	36	28	31
2007 Q2	29	29	31	29	33	32	40	43	43	41	32	36
2008 Q1	28	28	30	29	32	31	39	44	44	41	31	36
2008 Q2	28	27	29	27	30	30	37	42	42	39	29	34
2008 Q3	26	25	27	26	29	28	35	39	40	37	28	32
2008 Q4p	23	22	24	23	25	24	30	34	34	31	24	28

Sources: CLG, ONS and Housing Market Report r: revised p: provisional **Late 1980s peak**

# Housing Market Activity

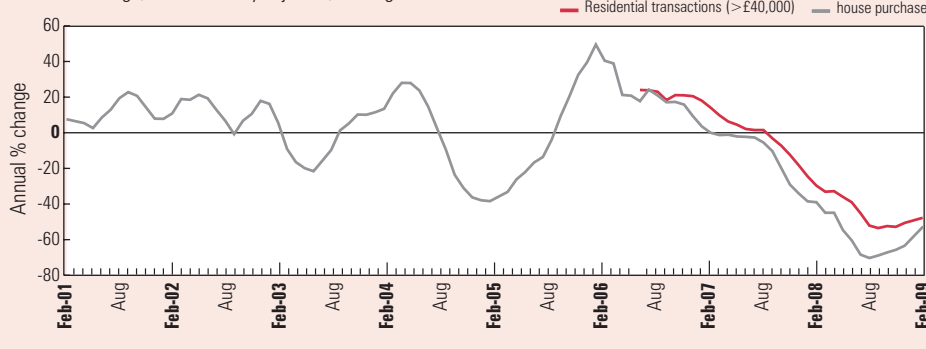
**CHART 17 Residential transactions and mortgage approvals (UK)**

Seasonally adjusted; moving three-month totals



**CHART 18 Residential transactions and mortgage approvals (UK)**

Annual % change; not seasonally adjusted; moving three-month totals



**TABLE 10 Residential transactions (over £40,000)**

	Actual (not seasonally adjusted)					UK Annual % change	Seasonally adjusted UK (000)
	England (000)	Scotland (000)	Wales (000)	N Ireland (000)	UK (000)		
2006	1418	144	71	52	1685	n.a.	1679
2007	1374	148	67	39	1627	-3.4	1632
2008	756	98	35	15	905	-44.4	925
2007 Q4	320	37	16	6	379	-18.3	360
2008 Q1	209	25	10	4	248	-33.1	303
Q2	219	31	11	5	263	-39.0	253
Q3	172	23	8	3	207	-53.5	192
Q4	156	19	7	3	186	-50.9	177
2008 Feb	72	8	3	1	85	-25.0	106
Mar	69	9	3	1	83	-41.2	93
Apr	74	10	4	2	89	-30.5	90
May	75	11	4	2	91	-35.7	89
Jun	70	10	3	1	84	-48.5	74
Jul	63	8	3	1	75	-50.6	70
Aug	58	8	3	1	70	-57.2	63
Sep	51	7	2	1	62	-52.4	59
Oct	60	8	3	1	72	-46.6	69
Nov	46	6	2	1	55	-59.3	52
Dec	50	5	2	1	59	-45.6	56
2009 Jan	34	4	1	1	41	-48.7	53
Feb	36	4	2	1	42	-50.6	52
Last 3 mths	120	13	5	3	142	-48.1	161
Year to date	70	8	3	2	83	-49.7	105

Sources: HM Revenue and Customs

**Notes**

1. Transactions are now recorded in the month of completion.
2. Residential transaction statistics are only available back to April 2005.

◆ Seasonally adjusted mortgage approvals for house purchase jumped by almost 20% in February after remaining broadly stable for most of the previous seven months.

◆ However approvals in the three months to February were down 53% on a year ago and 73% on their peak in the three months to November 2007.

◆ Residential transactions, which are down by nearly two thirds on their peak in early 2007, do not yet show any sign of recovery.

◆ Estate agents reported rising new buyer enquiries (demand) in each of the four months to February, but new instructions to sell (supply) remain depressed.

◆ Net mortgage lending fell by £0.5 billion in February, the first monthly fall since records began in April 1993.

**Market Volumes**

Seasonally adjusted mortgage approvals for house purchase had been remarkably stable over most of the seven months to January. With the exception of November when approvals fell to a record low of 27,000, between July 2008 and January 2009 monthly approvals hovered in the narrow range 32-34,000 (Table 11, Charts 17 and 18). Approvals then jumped nearly 20% in February to 38,000, the highest monthly total since May last year.

The figures support evidence from the HBF and RICS surveys that housing market volumes may be stabilising.

However approvals are still well down on previous levels. In the three months to February, seasonally adjusted approvals (102,000) were down 52.6% on the same three months last year (215,000) and 73% on their peak in the three months to November 2007 (383,000).

Residential transactions, seasonally

adjusted, hit a trough of 52,000 in November, then recovered modestly to 56,000 in December before falling away to 53,000 in January and 52,000 in February (Table 10).

In the three months to February, seasonally adjusted transactions (161,000) were down 48.7% on a year earlier (314,000) and 64% on the peak in the three months to January 2007 (447,000).

## Estate Agent Trends

The trend in new buyer enquiries to estate agents is one of the most encouraging pieces of housing market evidence at present.

According to the RICS survey, agents reported rising enquiries in each of the four months to February, an indication that demand is beginning to revive modestly (Chart 19).

However on the supply side, new instructions to sell properties remain depressed, with worsening balances of agents reporting falling instructions during the first two months of 2009 (Chart 19).

## Mortgage Lending

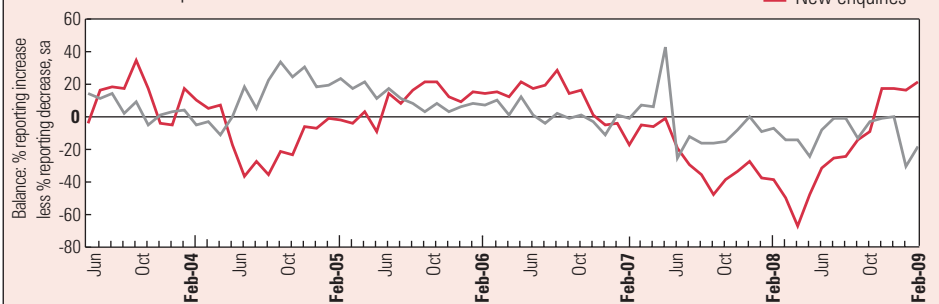
Net mortgage lending fell by £538 million in February, the first fall since monthly records began in April 1993 (Table 11, Chart 20). This means mortgage capital repayments to lenders exceeded gross lending, so that the stock of outstanding mortgages contracted.

The CML's most recent forecast is for a £25 billion fall in net lending in 2009 following increases of £40 billion and £108 billion in 2008 and 2007 respectively.

Seasonally adjusted monthly net lending totals have moved rather erratically in recent months (Table 11), so it is difficult to discern any clear trend. However on a three-month basis, seasonally adjusted lending has shown a clear upward trend since the trough in the three months to October (Chart 20). ■

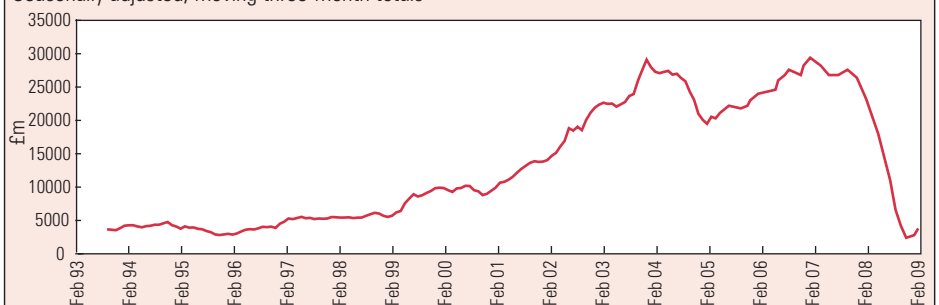
**CHART 19 Estate agents volume trends**

Balances: new enquiries & new instructions



**CHART 20 Net mortgage lending for house purchase (UK)**

Seasonally adjusted; moving three-month totals



**TABLE 11 Mortgage lending (UK)**

	Net lending Seas. adjusted (£m)	Actual (£m)	House purchase approvals Seas. adjusted (000)	Actual No. (000)	Annual % change	Share of mortgages First-time buyers (%)
2003		101,083		1,363	-4.5	29
2004		100,706		1,262	-8.0	29
2005		91,160		1,196	-5.0	37
2006		110,450		1,427	19.4	36
2007		108,068		1,259	-11.8	35
2008		39,764		512	-59.3	n.a.
2007 Q4	24,195	23,136	246	223	-34.4	36
2008 Q1	19,661	16,630	199	173	-44.9	38
Q2	11,656	12,718	129	152	-60.3	38
Q3	4,894	7,406	99	105	-69.0	38
Q4	3,675	3,010	91	82	-63.4	
2008 Oct	863	1,277	32	34	-63.1	n.a.
Nov	856	494	27	25	-69.5	n.a.
Dec	1,956	1,239	32	23	-54.2	n.a.
2009 Jan	1,081	336	32	21	-57.2	n.a.
Feb	1,507	-538	38	34	-46.9	n.a.
<b>Annual % change</b>						
Last 3 mths		-94.0		-52.3		
Year to date				-51.4		

Sources: Bank of England, CML

Notes: 1. Net lending includes bank and building society lending to housing associations.

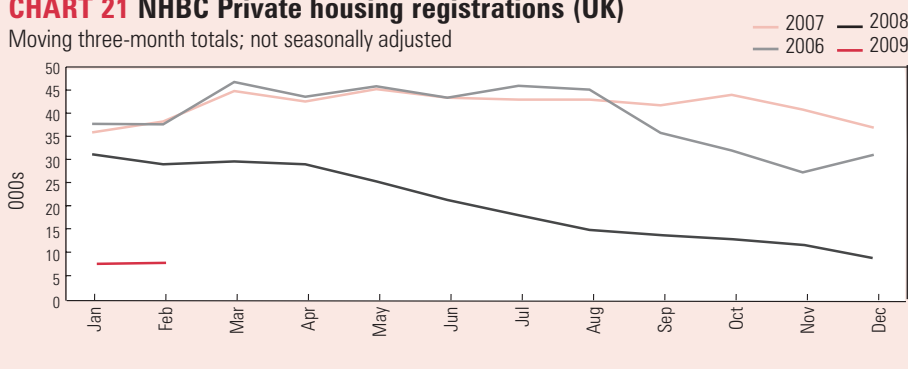
2. Mortgage approvals are net of cancellations and exclude remortgages.

3. The first-time buyer share of mortgages is from the CML Regulated Mortgage Survey. Because of a change in the way first-time buyers were calculated in 2006 Q2, earlier data are not comparable.

# House Building

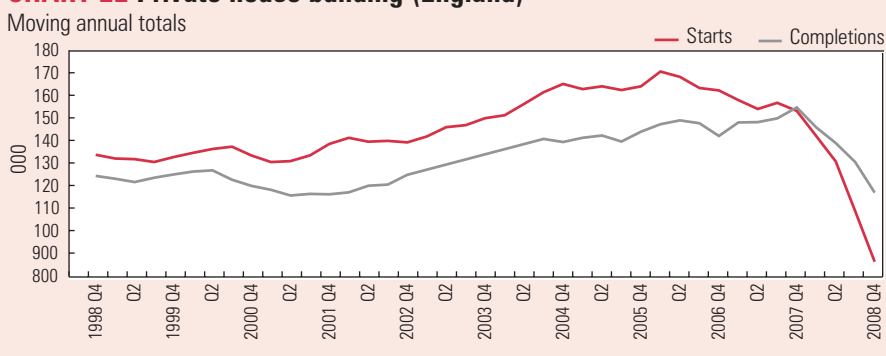
**CHART 21 NHBC Private housing registrations (UK)**

Moving three-month totals; not seasonally adjusted



**CHART 22 Private house building (England)**

Moving annual totals



**TABLE 12 Private housebuilding indicators**

	CLG: PRIVATE HOUSING STARTS		ONS: VOLUME PRIVATE NEW HOUSING ORDERS		NHBC: PRIVATE APPLICATIONS	
	Great Britain	England	Great Britain	Great Britain	United Kingdom	United Kingdom
	Actual	Actual	Seasonally adjusted	Annual	Actual	Annual
	Number	Number	Orders	Orders	Number	Number
	(000)	(000)	(£m 2005)	(£m 2005)	(000)	(000)
	% change	% change	% change	% change	% change	% change
2005	191.2	161.1	13,171	13,171	151.0	151.0
2006	192.0	159.4	12,794	12,794	154.0	154.0
2007	181.5	150.6	12,004	12,004	163.5	163.5
2008		86.2	6,827	6,827	72.1	72.1
2007 Q4	42.4	33.9	2,984	2,984	36.2	36.2
2008 Q1	34.6	28.4	2,297	2,297	29.1	29.1
Q2	36.2	28.1	1,966	1,966	21.0	21.0
Q3		17.4	1,313	1,313	13.4	13.4
Q4		12.3	1,251	1,251	8.6	8.6
2008 Nov			401	401	2.9	2.9
Dec			461	461	2.3	2.3
2009 Jan			418	418	2.6	2.6
Feb					3.1	3.1
Last 3 months			1,279	1,279	7.9	7.9
YTD	70.8				5.7	5.7

**Sources:** Department for Communities and Local Government (CLG); NHBC; Office for National Statistics (ONS).

**Notes:**

- NHBC warranty applications are by private developers only.
- The CLG ceased collecting monthly house building statistics in March 2003.
- NHBC data Sep-Dec 2006 distorted by changes to computer system and registration procedures. This in turn distorted the year-on-year comparison for the same months in 2007.

- ◆ NHBC (UK) private registrations in the first two months of 2009 were down 71.0% on a year earlier.
- ◆ In the three months to January, private housing orders were down 55.4% on a year ago.
- ◆ Private housing starts in England in 2008 slumped 42.8%, to 86,180. Private completions fell 23.9% to 115,710.
- ◆ However social rented housing starts in England rose 20.0% to 18,840, while social completions rose 16.6% to 26,180.

**Private House Building Trends**

NHBC private housing registrations (UK) in the first two months of 2009, at 5,700, were 71.0% lower than in the same period of 2007 (19,600), and down 80% on the first two months of 2007 (28,200) and 2006 (28,700) (Table 12, Chart 21).

January 2009 new private housing orders were down 47.1% on a year ago, with a 55.4% fall in the three months to January. Private housing orders in 2008 fell 43.1% (Table 12).

Private housing output (the volume of construction work carried out on private housing sites) in 2008 was down 19.0% on the previous year. The rate of decline steadily escalated during the year, reaching 27.8% in the fourth quarter.

Private housing starts in England in 2008 slumped 42.8%, to 86,180, according to Communities and Local Government (CLG). The rate of decline accelerated as the year progressed, with the final quarter down 63.8% on a year earlier (Table 12, Chart 22).

Private completions in England fell by a less dramatic 23.9% in 2008, to 115,710, with a 31.7% fall in the final quarter (Table 13, Chart 22).

**Regional Private House Building Trends**

Private housing starts last year suffered their most severe reductions in the northern regions and West Midlands, followed closely by the East Midlands and Eastern region. London recorded the smallest percentage fall (Table 14).

Over the last two years, the North West and East Midlands have suffered the biggest declines, with reductions of 59.6% and 58.7% respectively between 2006 and 2008.

### Social House Building Trends

Public new housing orders in the three months to January were down 45.4%, broadly in line with the decline in private housing orders. However public housing orders in 2008 were down by only 16.6%, far less than the fall in private housing orders (-43.1%).

CLG figures show a dramatic contrast between private and social rented housing starts in England in 2008, with the latter up 20.0%, to 18,840, compared with a 42.8% decline in private starts. Similarly, social rented housing completions in England were up 16.6% in 2008, to 26,180, against a 23.9% fall in private completions.

To date, at least, social housing for rent has escaped the adverse impact of declining private housing activity on overall Affordable Housing delivery through S106 agreements. This must reflect the refocusing of RSL activity on social rented housing and drastic reduction in shared-ownership, and increased Homes and Communities Agency (HCA) grant rates. ■

### TABLE 13 Housing Completions (GB)

	CLG: PRIVATE COMPLETIONS				NHBC: COMPLETIONS	
	Great Britain		England		United Kingdom	
	Number (000)	Annual %change	Number (000)	Annual %change	Number (000)	Annual %change
2004	166.9	5.1	137.3	4.8	170.2	-1.9
2005	170.7	2.3	141.7	3.2	172.1	1.1
2006	169.3	-0.8	139.9	-1.3	185.0	7.5
2007	182.7	7.9	152.1	8.7	186.5	0.8
2008			115.7	-23.9	149.2	-20.0
2007 Q4	49.2	11.4	41.2	12.7	53.4	2.1
2008 Q1	36.3	-20.2	29.9	-22.1	35.2	-14.1
Q2	39.0	-18.2	31.8	-17.4	44.5	-12.2
Q3			25.8	-23.9	33.3	-19.5
Q4			28.1	-31.7	36.2	-32.2
2008 Dec					11.7	-34.8
2009 Jan					7.4	-20.3
Feb					7.8	-36.3
Last 3 months					26.9	-31
Year to date	75.2	-19.1	115.7	-23.9	15.2	-29.4

Sources: Department for Communities & Local Government (CLG); National House Building Council

#### Notes:

1. Annual % change is the change compared with the same period a year earlier
2. NHBC completions include house builders and housing associations.
3. The CLG ceased collecting monthly house building statistics in March 2003.

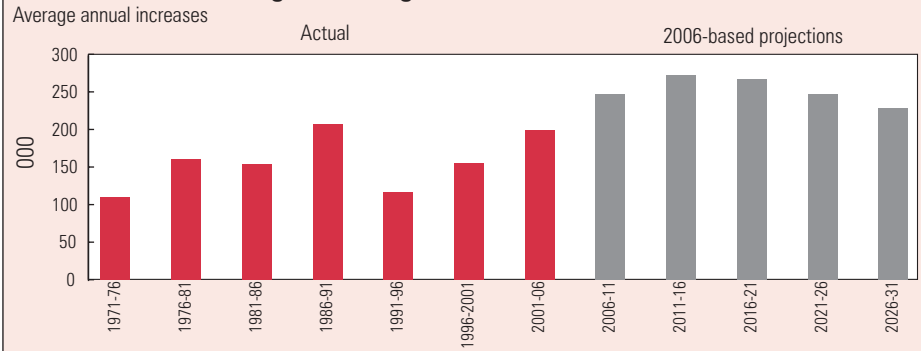
### TABLE 14 Regional private housing starts (CLG)

Number	Scotland	North East	Yorks & Humber	North West	West Midlands	East Midlands	East	London	South East	South West	England	Wales	Great Britain
2003	20690	6,910	16,150	19,250	15,700	16,470	19,630	12,940	24,690	15,810	147,550	9,400	177,640
2004	23040	6,770	17,260	21,490	15,490	17,880	21,030	18,700	27,210	16,340	162,170	8,920	194,130
2005	21320	7,420	15,870	21,610	15,180	17,230	21,030	19,390	25,870	17,530	161,130	8,640	191,090
2006	23490	7,480	15,610	21,380	14,860	17,880	19,450	14,710	28,000	20,010	159,380	9,180	192,050
2007	21040	7,030	16,520	17,680	14,030	14,630	20,160	15,320	27,940	17,340	150,650	9,840	181,530
2008	n.a.	3,380	7,460	8,640	6,890	7,390	11,250	11,790	17,980	11,390	86,170	n.a.	n.a.
2007 Q4	5,780	1,540	3,300	3,650	3,040	3,300	5,170	4,250	5,960	3,700	33,910	2,750	42,440
2008 Q1	4,400	1,220	2,620	3,280	2,620	3,150	3,640	2,630	5,420	3,820	28,400	1,780	34,580
Q2	6,260	1,220	2,540	2,830	2,220	2,090	3,680	4,110	2,780	3,620	25,090	1,840	33,190
Q3	n.a.	530	1,490	1,380	1,260	1,310	2,270	2,880	3,870	2,410	17,400	1,200	n.a.
Q4	n.a.	410	810	1,150	790	840	1,660"	2,170"	2,910	1,540	12,280	n.a.	n.a.
<b>Annual % change</b>													
2004	11.4	-2.0	6.9	11.6	-1.3	8.6	7.1	44.5	10.2	3.4	9.9	-5.1	9.3
2005	-7.5	9.6	-8.1	0.6	-2	-3.6	0	3.7	-4.9	7.3	-0.6	-3.1	-1.6
2006	10.2	0.8	-1.6	-1.1	-2.1	3.8	-7.5	-24.1	8.2	14.1	-1.1	6.3	0.5
2007	-10.4	-6.0	5.8	-17.3	-5.6	-18.2	3.7	4.1	-0.2	-13.3	-5.5	7.2	-5.5
2008	n.a.	-51.9	-54.8	-51.1	-50.9	-49.5	-44.2	-23	-35.6	-34.3	-42.8	n.a.	n.a.
2007 Q4	-27.8	-10.5	-11.5	-26.1	-17.6	-15.6	4.9	4.4	-6.4	-7.3	-9.2	3.4	-3.9
2008 Q1	18.4	-28.2	-44.4	-31.1	-24.9	-19	-24.2	-42.8	-18.5	-16.4	-27.5	7.2	-24.6
Q2	-10.4	-30.7	-36.8	-40.5	-38.5	-41.1	-28.5	3	-22.4	-22	-27.8	-8.7	-23.8
Q3	n.a.	-73.9	-66.8	-69.4	-67.6	-66.3	-55	16.1	-50.9	-45.6	-55	-32.8	n.a.
Q4	n.a.	-73.4	-75.5	-68.5	-74	-74.5	-67.9	-48.9	-51.2	-58.4	-63.8	n.a.	n.a.

Source: CLG, Scottish Government, Welsh Assembly Government

# Household Projections

**CHART 23 Household growth, England**



Household growth in England is projected to average 252,000 per year for the 25-years 2006-31, under revised official projections, with more than half the increase coming from households headed by someone aged 65 or over.

## Household Totals

Household growth in England is projected to accelerate from 198,600 per year in the five years 2001-06 to a peak of 271,800 per year in the period 2011-16, according to new official projections (Chart 23). Over the 10 years 2006-16, the core period for the Government's housing targets, household growth is projected to average 259,000 per year.

In the 25 years 2006-31, projected household growth averages 252,000 per year, up from 166,000 per year in the 25 years 1981-2006. The total number of households is projected to rise to 27.8 million by 2031, an increase of 6.3 million, or 29%, on the 2006 total.

The previous, 2004-based projections showed an average increase of 223,000 household per year in the 20 years 2006-26. For the same 20-year period, the latest

projections have been raised 16% (35,000) to 258,000 households per year. This increase in growth is driven by both a higher projected population and revised assumptions about household formation.

## Household Types

Nearly two thirds (65%) of the increase in households from 2006-31, or 4 million, is accounted for by one-person households. By 2031, 18% of the total projected population will live alone, and 39% of all households will be one-person (10.9 million).

A further quarter (26%) of projected household growth from 2006-31 will come from cohabiting households. Cohabiting and married-couple households will account for 47% of all households by 2031, or 13 million.

## Household Ages

More than half of the increase (53%) in households from 2006-31 will be headed by someone aged 65 or over, so that by 2031 almost two third (32%) of households will be headed by someone 65 or over, up from just over a quarter

(26%) in 2006. Nearly a third (31%) of total household growth will be among households headed by someone 75 or over.

Households aged under 45, which account for a large majority of home movers, are projected to expand more slowly than overall household numbers, so that their share of total households will shrink from 40% in 2006 to 36% by 2031.

## Regional Household Growth

The largest projected increases in households from 2006-31 are in the South East (39,000 per year), London and the East (both 34,000), and the South West (32,000) (Table 15).

The fastest percentage increases are projected in the East Midlands (37%), South West (36%), East (35%) and Yorkshire and the Humber (34%).

## Growth Drivers

Projected growth in the population is the main driver of the upward revision to household growth, accounting for three quarters of the increase from 2006-31. This reflects the impacts of higher fertility, longer life expectancy and net migration.

To explore the sensitivity of the projections to different assumptions about fertility, life expectancy and net migration, the ONS produces variant projections.

Changes in the fertility and life expectancy assumptions have a relatively modest impact. However alternative migration assumptions produce significant changes in projected household growth.

The principle national population projections for England, based on net migration gains of 171,500 people per year, produce 252,000 additional households per year from 2006-31. Raising the migration assumption to 231,500 per year (an additional 60,000 people per year), produces household growth of 285,000 per year. Alternatively, a 60,000 per year reduction in annual net migration gains, to 111,500 people per year, cuts household growth to 221,000 per year.

Zero net migration further reduces projected household growth to 153,000 per year, which implies net migration accounts for two fifths of growth under the central projection, with natural change accounting for three fifths. ■

**TABLE 15 Household projections, by Region**

	Household numbers (000)			Change per year		% change 2006-31
	2006	2016	2031	2006-16	2006-31	
North East	1,110	1,201	1,316	9	8	19
North West	2,931	3,221	3,617	29	27	23
Yorks & Humber	2,181	2,494	2,932	31	30	34
East Midlands	1,849	2,138	2,539	29	28	37
West Midlands	2,237	2,454	2,762	22	21	23
East	2,371	2,715	3,211	34	34	35
London	3,178	3,516	4,016	34	34	26
South East	3,447	3,838	4,425	39	39	28
South West	2,211	2,529	3,001	32	32	36
England	21,515	24,106	27,819	259	252	29

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# Mortgage Regulation

The Turner Review proposes more intensive regulation of lenders. It also asks whether mortgage products should be regulated, particularly loan-to-value and loan-to-income ratios. And it suggests regulation of lenders and mortgage products might in future be used counter cyclically to achieve greater macro-economic stability.

## Understanding the financial crisis

In his introduction to *The Turner Review: a Regulatory Response to the Global Banking Crisis*, Lord Turner says "the world's financial system has gone through its greatest crisis for at least a century, indeed arguably the greatest crisis in the history of financial capitalism".

He concludes: "We therefore need to ask profound questions about what went wrong, whether past intellectual assumptions about the nature of financial risk were seriously mistaken, and what needs to be done to reduce the probability and the severity of future financial crises."

## What went wrong?

The Review locates the origins of the current financial crisis in an explosion of global macroeconomic imbalances. In particular, massive surpluses accumulated in the oil exporting countries and in Japan, China and a number of other east Asian countries, were invested almost exclusively in government bonds or government guaranteed bonds, driving down real risk-free interest rates to historically low levels. Very low medium and long-term real interest rates in turn drove credit booms in some developed countries, notably the US and UK. This flood of credit, accompanied by a deterioration in credit standards, fuelled property price booms.

The Review also notes that risk assessment methods and the increasing complexity of credit instruments created "strongly pro-cyclical market interactions".

Summarised very simply: "Characteristics of the new global financial system, combining with macroeconomic imbalances, helped create an unsustainable credit boom and asset price inflation."

And just as irrational exuberance drove financial and property markets up, "when

confidence broke and risk aversion rose, [the system] was highly susceptible to a self-reinforcing cycle of deleveraging, falling asset prices and collapsing liquidity".

In the UK, as in the US, the decade up to 2007 saw rapid credit growth in the household sector. "House prices grew rapidly with very strong demand for houses relative to physical supply." The supply of high loan-to-value mortgages increased, credit was extended to social categories which would not previously have enjoyed access, and the buy-to-let sector grew to significant proportions.

Mortgage-backed securities became an increasingly important source of mortgage funding in the UK, particularly for a number of specific banks, so that by 2007 some 18% of mortgage credit was funded through securitisation.

## What to do?

The "light touch" regulatory regime until 2007 was focused entirely on individual financial institutions. By contrast, the new form of regulation is termed "intensive supervision".

On the tools available to the FSA, "the most fundamental changes required to create a sounder banking system for the future are therefore those relating to capital adequacy, accounting, and liquidity policies."

The Review concludes that the optimal level of capital "is likely to be significantly higher than that which appeared appropriate in the past". It also suggests bank capital buffers should in future be counter cyclical, so that higher requirements in the good times would constrain bank lending and build a buffer which could then be drawn down during a recession.

On systemic risk, the Review says the "lack of such a perspective, and the failure to specify and to use macro-prudential levels to offset system risks, were far more important to the origins of the crisis than any specific failure in supervisory process relating to individual firms. Getting macro-prudential analysis and tools right for the future is vital."

It defines macro-prudential analysis as identifying "the trends in the economy and the financial system which have implications for financial stability and as a

result for macroeconomic stability, and to identify the measure which could be taken to address the resulting risks".

Among the macro factors to be monitored, those with particular significance for home builders are the extension of credit to the economy, its pricing, levels of borrower leverage, the implications of the risks which both borrowers and lenders are running, and "asset prices in property, equity and securitised credit markets and their possible relationship to long run equilibrium levels". The Review proposes that the FSA and Bank of England should both undertake such analysis.

## Mortgage product regulation

The Review's third chapter addresses what it calls "open questions", areas where changes may be appropriate, but where a debate on principles is required. These include whether the regulator should play a role in product regulation, something it has been reluctant to do in the past, and whether, in addition to capital and liquidity requirements, the FSA and Bank should use other tools to achieve counter-cyclical effects.

On the regulation of mortgages, the Review asks whether the FSA should impose maximum loan-to-value (LTV) and loan-to-income (LTI) ratios. For the time being Turner has not proposed a particular maximum for either ratio, although the Prime Minister has suggested that mortgages of 100% or more should be controlled. The FSA will publish a further paper in September which will consider these and other options for mortgage market reform.

Turner questions whether mortgage LTV and LTI ratio limits should not only be introduced, but also varied through the cycle. However he adds that this approach should only be considered within the context of a far wider debate about the instruments that should be used to achieve monetary and macro-stability objectives. Because these are issues for the Bank of England and Treasury even more than the FSA, they will not be a focus of the September Discussion Paper on the mortgage market.■

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This is an edited version of John Stewart's *Viewpoint* in the *April Housebuilder* magazine.

# News in Brief

## House Builders' Share Prices

The House Builders' Share Price Index reached an all-time peak of 12,276 on 7 July 2007, according to data provided to *HMR* by Citigroup. It then fell 86% to a record low of 1,707 on 28 October 2008 (Chart 26).

However since the October trough, the index has staged a gradual, if erratic recovery. By 24 March 2009 it had climbed 52% to a peak of 2,597 although the index had slipped back a little by 30 March.

To regain the July 2007 record, the index would have to rise by a multiple of five times its 30 March 2009 level.

## Planning Performance

The proportion of 'major' (10+ units) residential planning application decisions in England made within eight weeks held steady at 12% in the fourth quarter of 2008, according to latest CLG estimates (Chart 24). Eight-week decisions reached a record low of 8-9% in the second half of 2007 and first quarter of 2008, before climbing to 10% in the second quarter and 12% in the third and fourth quarters.

The proportion of decisions made within 13 weeks slipped back to 66% in the final quarter of 2008 from 67% in the third quarter and 68% in the first and second quarters.

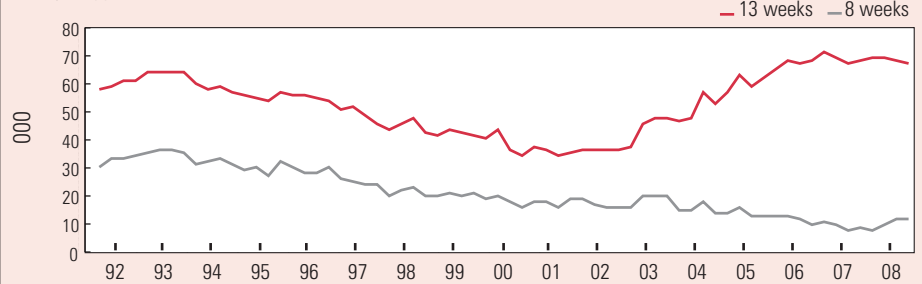
The 13-week share has been hovering in the range 64-70% for the last three years after roughly doubling from all-time lows of 34% in the final quarter of 2000 and the third quarter of 2001.

Two thirds (67%) of major residential applications in England were granted in the final quarter of 2008. This share has hovered in the range 64-67% since the second half of 2004, having fallen from well over 80% during the 1990s (Chart 25).

The impact of the housing downturn can be seen from the latest statistics. The number of major residential decisions peaked at around 2,800-2,900 per quarter

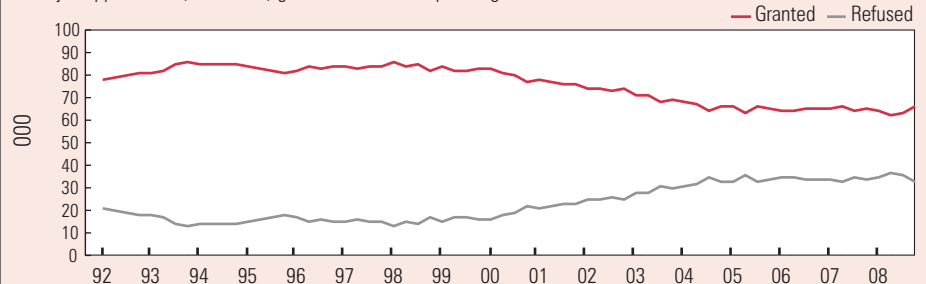
### CHART 24 Residential planning performance (England)

% 'major' applications (10+ units) decided within 8 and 12 weeks



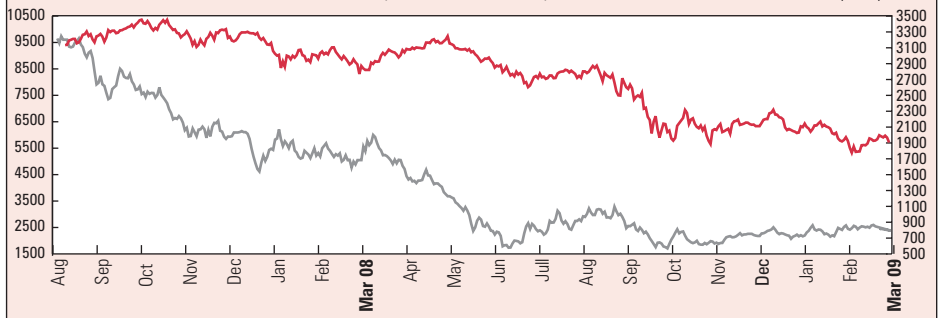
### CHART 25 Residential planning performance (England)

% 'major' applications (10+ units) granted and refused planning consent



### CHART 26 Stock market

House Builder Index; FTSE All-share Index (to 30 March 2009)



during late 2004 and early 2005, then fell to around 2,300-2,500 per quarter during 2007. This figures dropped to 1,800 in the third quarter of 2008 and 1,600 in the fourth quarter, of which 1,100 were granted.

## European Housing Markets

In 2008, house prices declined or remained static across all European markets without

exception, according to the *RICS European Housing Review 2009*. The Baltic States experienced the sharpest falls (Estonia fell 23%), followed closely by the UK (-16%), Ireland (-9%) and Scandinavian countries (Norway dropped 8%).■

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