

Signs of Housing Market Stabilisation

June 2009

Hot Topics

- "The Bank of England's latest lending figures show there were around 43,000 mortgage approvals in April; an 8% increase on the previous month but still a third lower than a year earlier."
- "The number of buyers per property on the market has risen to 9.4, from 5.3 in October 2008, but the difficulty of obtaining a mortgage without significant equity will prevent numerous first time buyers from entering the market."
- "House builders will continue to be affected by the difficulties associated with construction funding, while the high numbers of redundancies has created a leakage of skilled workers."

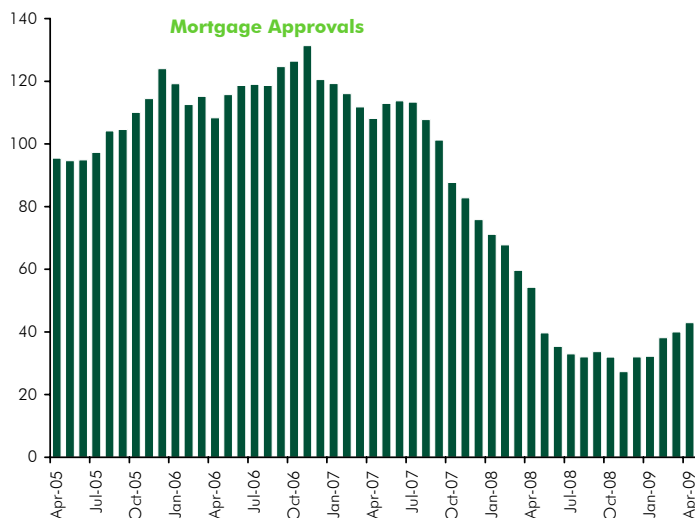
OVERVIEW

Many of the key housing market performance indicators are suggesting that it is arriving at a period of stabilisation, albeit at a recessionary level. However, the bottom of the housing market downturn has not been reached and we expect further slight falls in some of these indicators over the next six to nine months. These indicators include:

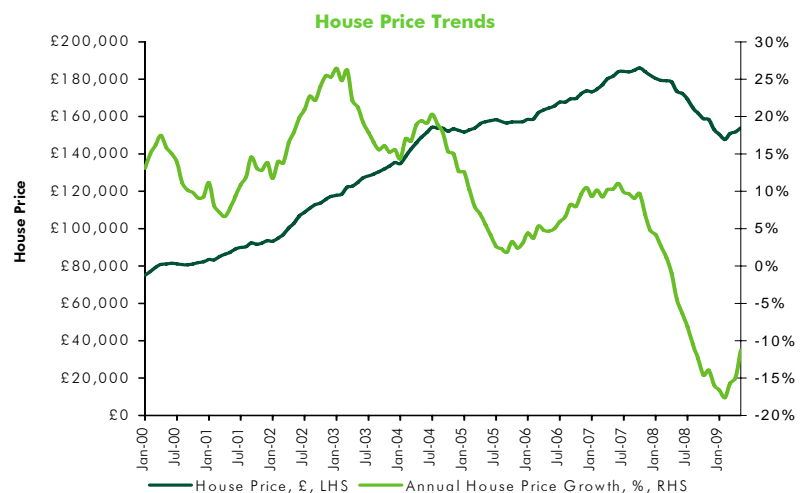
- Housing Market Activity;
- House Price Growth; and
- Housing Starts.

The Government is taking some positive steps to help stabilise the housing market. Funding through the popular "Kick Start" Housing Delivery programme will provide an extra 10,000 new homes over the next two years and will go some way towards increasing activity amongst house builders. Similarly, the strong response to the HCA's request for Expressions of Interest for the Private Rental Sector Initiative has been very positive. Build to Let could provide the vehicle that enables institutional investment and impetus into the market.

In summary, there are some clear signs of stabilisation in the housing market. But, the financial and economic climate will prevent a recovery for some time to come and may engender further falls in house prices. However, the government is setting up a number of sound schemes that will act as a cushion to the housing market going forward.



Source: Bank of England



Source: Nationwide Building Society

THE HOUSING MARKET NEARS A PLATEAU

The housing market is arriving at a period of stabilisation, albeit at a recessionary level. There are indications throughout the residential market that it is nearing the bottom of the cycle, as activity, house price falls and house building show signs of levelling out at historic lows. However, the market is unlikely to improve until pressures in the labour and credit markets ease.

ACTIVITY SHOWS SIGNS OF STABILISING

Activity in the housing market appears to have stabilised, although, at extremely low levels. The Bank of England's latest lending figures show there were around 43,000 mortgage approvals in April; an 8% increase on the previous month but still a third lower than a year earlier.

HOUSE PRICE FALLS ARE SLOWING

There are clear signs that house prices have seen the worst of the falls. Nationwide house prices have risen in two of the last three months and the year on year fall in May was 11% compared with 15% in April.

In previous downturns, after the initial sharp fall in house prices, there were periods of house price stabilisation followed by further falls as the various stages of the economic downturn hit the residential market. We would expect to see a similar pattern take place in this downturn.

HOUSING STARTS MAYBE NEARING THE BOTTOM

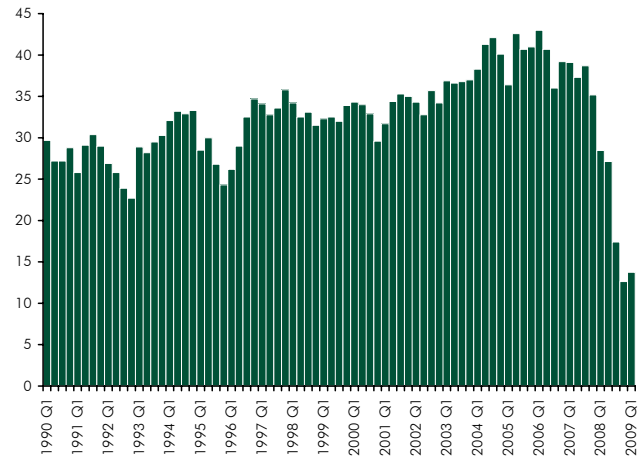
In line with the wider market, there are tentative signs that the fall in housing starts has levelled off with the number of housing starts stabilising over the last few months, but at historically low levels. There were 13,700 private starts in Q1 2009, an increase of 9% on Q4 2008.

THERE ARE STILL FINANCIAL HURDLES TO OVERCOME

Underlying demand for housing has risen steadily since the beginning of the year, for example the number of buyers per property on the market has risen to 9.4, from 5.3 in October 2008. However, there remains a difficulty for many without significant equity in obtaining a mortgage, which will prevent numerous first time buyers from entering the market. There are currently 90% fewer mortgage products available than in July 2007, two thirds of which require a deposit of at least 25%.

The Bank of England's May 2009 Inflation Report states that it is likely to take longer for bank lending to return to normal than previously thought and the availability of credit to companies and households may improve only gradually. Therefore, the current tight access to credit is likely to pervade for some time to come, which will slow and restrict potential recovery in the housing market.

Chart 1: Seasonally Adjusted Private Housing Starts (England) (000s)



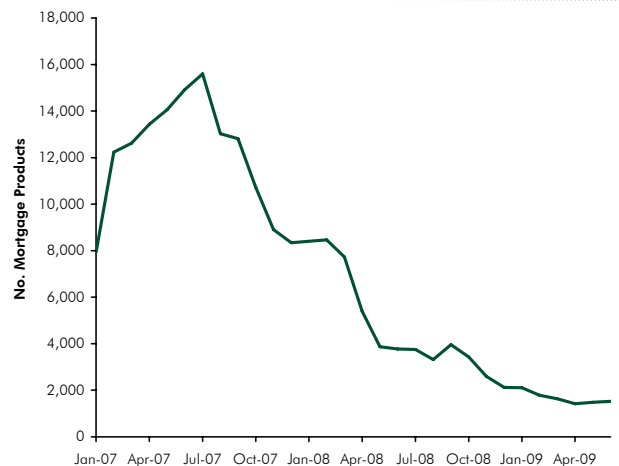
Source: DCLG

Chart 2: The number of Buyers per Instruction



Source: Hamptons International

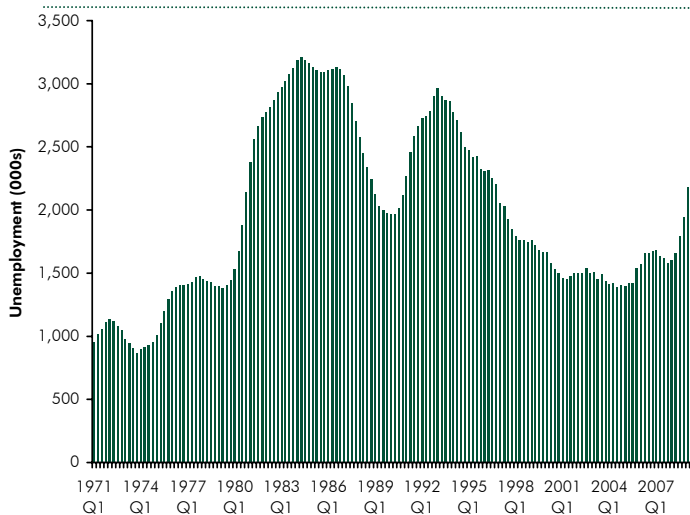
Chart 3: The Number of Mortgage Products Available



Source: Moneyfacts

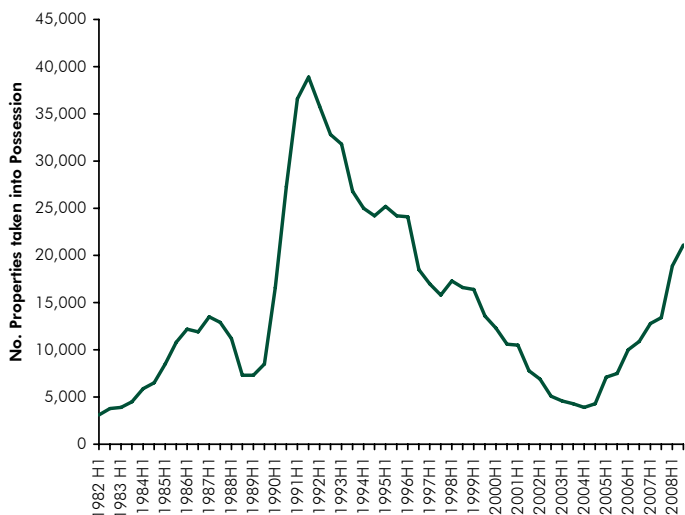


Chart 4: LFS Unemployment



Source: ONS

Chart 5: Repossessions



Source: CML

Hale Village, Haringey



Source: Lee Valley Estates

AND, THE LABOUR MARKET IS LOOKING WEAKER

Many labour market indicators have weakened further over the last couple of months. Unemployment has risen sharply as companies continue to battle in the poor economic climate. The latest figures show that unemployment rose by over 12% (244,000 people) in the first quarter 2009. This is the largest quarterly increase since 1981. Similarly, the redundancy level rose by 27,000 over the last quarter reaching 286,000, the highest figure since records began in 1995.

Increasing unemployment leads to increases in the numbers of repossessions as people are unable to meet their monthly mortgage payments. Our analysis suggests that for every 500,000 people unemployed, there will be around 20,000 repossessions. The government’s Mortgage Rescue Scheme is aimed at helping families facing repossession, however, its effectiveness is yet to be proven. Similarly, with the continued risks of redundancy people are more likely to defer their house selling and purchasing decisions until signs of stability are more evident.

HOUSEBUILDERS WILL FACE CAPACITY ISSUES

A sharp rebound in house building is unlikely. House builders will continue to be affected by the difficulties associated with construction funding in the current market and there will be a capacity problem going forward.

House building has contracted dramatically over the last two years and the high numbers of redundancies has created a leakage of skilled workers, many of whom may not return in the upturn. This presents a long term challenge to the sector and an immediate dampener of the recovery. It could take several years before the skills and general capacity to build houses at pre crash levels returns.

SOME GOVERNMENT INITIATIVES WILL HELP THE HOUSING MARKET

Around £320 million of funding was allocated to help private developers “Kick Start” development on mothballed/ stalled sites. According to the HCA this funding will provide an extra 10,000 new homes over the next two years. The deadline for this scheme is June 8th and it is already looking oversubscribed. This will do much to help the struggling Olympic development in East London and the HCA has agreed to invest over £16 million in Clapham Park, Lambeth and Hale Village, Haringey to enable the immediate progressions of these projects despite the adverse market conditions. However, despite the limited budget, this will go some way to boosting the house building industry and buoying housing starts.

The HCA has also launched its marketing campaign to establish interest from investors and fund managers for new investment in the private rental sector. The closing date for the expression of interest in this Private Rented Sector Initiative was 1st June. This scheme has the potential to be very good for the industry as it could act as a catalyst to establishing a new (and much needed) professional investment class in private rented accommodation. Page 3

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HOUSE PRICE INDICES

	M-on-M	Q-on-Q	Y-on-Y	Level
Nationwide (May)	1.2%	1.9%	-11.3%	£154,016
Halifax (May)	2.6%	-1.1%	-16.3%	£158,565
Land Registry (Apr)	-0.3%	-2.8%	-16.2%	£152,898
Hometrack (May)	-0.3%		-10.1%	
CLG (Mar)	-1.4%	-3.8%	-13.6%	£187,193
Rightmove (May)	2.4%	5.2%	-6.2%	£227,441

ACTIVITY INDICATORS

	M-on-M	Q-on-Q	Y-on-Y	Level
Mortgage Approvals (Mar)	8%	34%	-20%	43,200
Gross Mortgage Lending (Mar)	-9%	-11%	-60%	10,400
Housing Completions (Q4)		-4%	-23%	31,100
Housing Starts (Q4)		-13%	-44%	18,300

ECONOMIC INDICES

	M-on-M	Q-on-Q	Y-on-Y	Rate
GDP (Q1)		-1.9%	-4.1%	
CPI (Mar)			2.3%	
RPI (Mar)			-1.2%	
Unemployment (Q1)		0.8%	1.8%	7.1%

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