

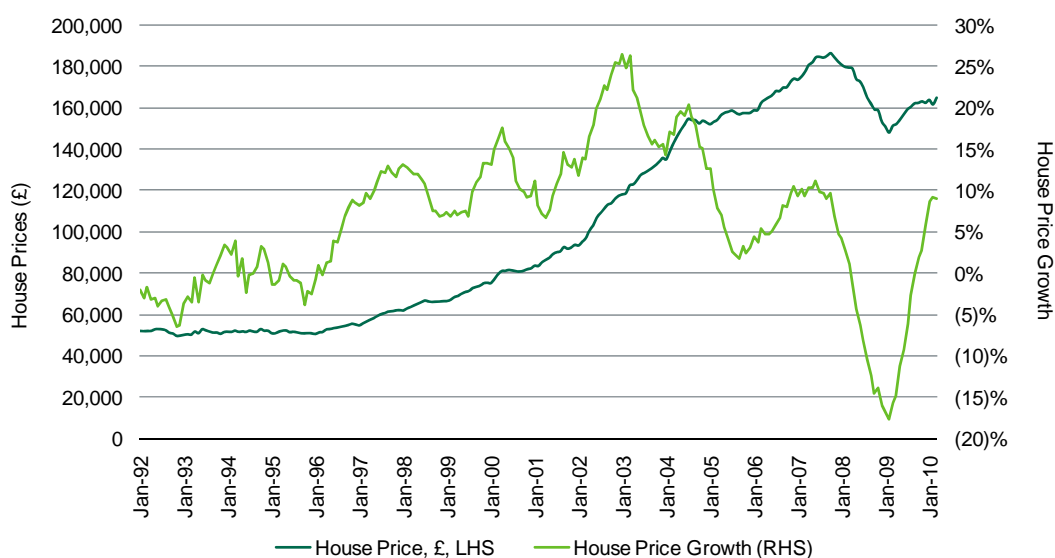
Hot Topics

- The housing market has heralded mixed fortunes for the Labour Party. Since it came to power, it has presided over a huge housing market boom; between 1997 and 2007 house prices tripled and Stamp Duty receipts increased eightfold from £830 million to £6.7billion.
- But, following the credit crunch, the housing market crashed with a 21% fall in prices and a complete contraction in the construction industry. The immediate challenge for the next Government, whatever its colour, will be to engender a smooth and sustainable housing market recovery.
- The longer term challenge for the next Government, is the delivery of housing in appropriate quantities, appropriate type and appropriate locations.

OVERVIEW

- The housing market remains weak and the recovery fundamentally fragile. Monthly house price changes are erratic; according to Nationwide, house prices increased by 0.7% in March, largely reversing February's price fall. Halifax data showed a similar pattern. Although it is difficult to interpret the data, monthly fluctuations are not unusual in the first stages of recovery. We expect this pattern to continue over the coming year with monthly price rises punctuated by falls.
- Activity remains low; just 47,094 mortgages were approved in February. However, new sales instructions have picked up and the time it takes to sell a property has stabilised at 8 weeks.
- Since Labour came to power it has presided over both a house price boom and a housing market crash. Although house prices tripled between 1997 and 2007, following the credit crunch they subsequently fell by 21%. Moreover, there has been a complete collapse in the construction industry.
- Whichever party is successful on May 6th, housing must be high on its agenda. The short term focus will be to facilitate a smooth and sustainable market recovery. A clear challenge for the government is the availability of credit for developers and purchasers. In particular, the potential £320bn mortgage funding gap and the associated risks following the removal of the Special Liquidity Scheme in 2012.
- In the longer term the new Government needs to address the fundamental demand and supply imbalance in the housing market. Estimates suggest a 1.1 million shortfall of homes in Britain.
- If Labour retains power, it will continue with top down, target based policies; the Conservatives propose a bottom up approach, branded as "localism". It is clear that whoever is successful on May 6th, they have a major challenge ahead of them.

HOUSE PRICES



Source: Nationwide

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A SPLUTTERING FIRST QUARTER

According to the latest data from Nationwide, house prices increased by 0.7% in March. This largely reversed February's price fall. In total, prices have increased by 1.6% in the first quarter of 2010; this compares with a 3.6% fall this time last year. House prices now stand at £164,519.

Halifax's house price data shows a similar pattern. Prices rose by 1.1% in March compared with a 1.6% decline in February. Although it is difficult to interpret the data, monthly fluctuations are not unusual in the first stages of recovery. We expect this pattern to continue over the coming year with monthly price rises punctuated by falls.

LONDON LEADS THE WAY

London and the South Eastern regions are leading the "recovery". London in particular has more acute supply shortages in housing stock, which have supported price growth of 2.5% over the quarter. In addition, London, which attracts significant overseas demand, has benefited from the fall in sterling, which has made investing in UK property more attractive.

ACTIVITY STILL FUNDAMENTALLY WEAK

According to the Council of Mortgage Lenders, gross mortgage lending in February increased to £9.2 billion, a 6% rise from £8.7 billion in January; however, this represents a 6% fall compared with the previous year.

47,094 mortgages were approved in February, marginally lower than January's figure of 48,099, see Chart 2. This is consistent with RICS's data which showed a slight fall in "newly agreed sales".

Although both RICS and Hometrack report a pick up in new sales instructions, buyer interest has stabilised. If these trends continue it will reverse the recent supply shortages which have largely contributed to the recent price rises; ultimately this could cause further price falls.

In general, the indicators suggest the market remains fragile and weak and the recovery is still in its infancy.

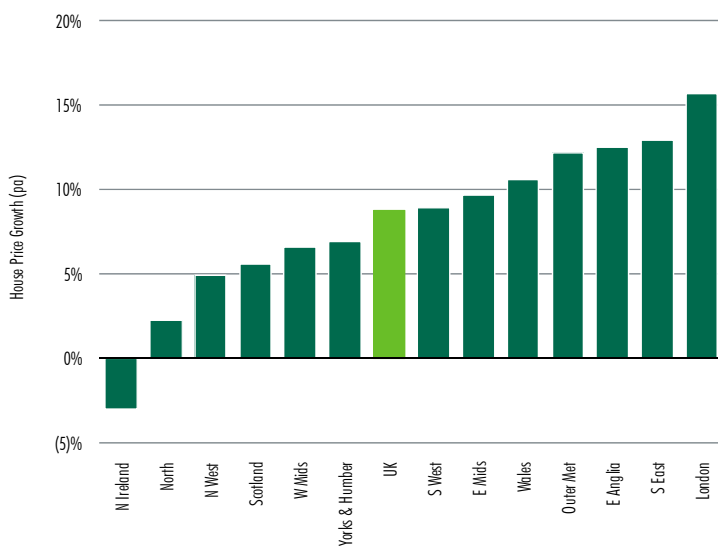
STAMP DUTY HOLIDAY EXTENDED

In the last budget the Chancellor announced an increase in the nil rate threshold for Stamp Duty Land Tax from £125,000 to £250,000 for first time buyers (FTBs). As the average price for most FTBs is well below this, the majority will be exempt; only 4% of FTB purchasers exceeded the new threshold in 2009, see Table 1. The highest average FTB house price is in London which, at £214,724, is still well within the nil rate band.

POST ELECTION CHALLENGES FOR NEXT GOVERNMENT

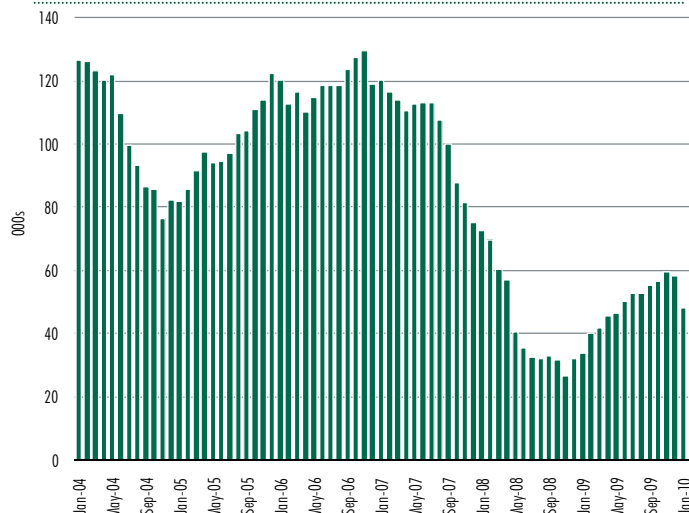
The housing market has heralded mixed fortunes for the Labour Party. Since it came to power, it has presided over a huge housing market boom; between 1997 and 2007 house prices tripled and Stamp Duty receipts increased eightfold from £830 million to £6.7billion. But, following the credit crunch, the housing market crashed with a 21% fall in prices and a complete contraction in the construction industry. The immediate challenge for the next Government, whatever its colour, will be to engender a smooth and sustainable housing market recovery.

CHART 1: REGIONAL HP GROWTH (PA)



Source: Nationwide Building Society

CHART 2: MORTGAGE APPROVALS, 000S



Source: Bank of England

TABLE 1: FIRST TIME BUYERS AND STAMP DUTY THRESHOLDS

Region	FTB Average Price Q4 2009	% of FTB Purchases Greater Than £250K
North	£97,917	0%
Yorkshire and Humberside	£98,283	1%
North West	£97,629	1%
East Midlands	£102,387	1%
West Midlands	£109,802	1%
East Anglia	£123,342	1%
Wales	£102,613	1%
South West	£137,769	3%
South East	£163,453	6%
Greater London	£214,724	20%
Northern Ireland	£93,185	1%
Scotland	£92,815	2%
UK	£126,218	4%

Source: CML

TABLE 2: SINCE LABOUR CAME TO POWER IN MAY 1997

	May 1997	Highest Point Value	Date	Lowest Point Value	Date	Current
House Prices	£58,196	£186,044	Oct 2007	£58,196	May 1997	£164,519
House Price Growth (pa)	10.00%	26.47%	Jan 2003	-17.63%	Feb 09	9.00%
Interest Rates	6.25%	7.50%	Jun 1998	0.50%	Since Mar 2009	0.50%
English Completions (Quarterly)	38,410	48,420	Q4 2007	27,480	Q3 2009	31,010
Mortgage Approvals	102,911	134,188	Nov 2003	26,676	Nov 2008	47,094
Stamp Duty Receipts (pa)	£830m	£6,680m	2007/08	£830m	1997/98	£2,950m

Source: Nationwide; Bank of England; DCLG; ONS

While the housing market recovery will partly rely on the wider economic recovery, it will also depend on the underlying availability and cost of credit. According to the CML, the collapse in wholesale markets have left a £320 billion mortgage funding gap; equivalent to 25% of the UK's stock of residential mortgage lending. This is currently being filled by the Bank of England and Treasury's Special Liquidity Scheme (SLS) and the Credit Guarantee Scheme (CGS). However, both are temporary. The SLS provides near to £200 billion of cheap funding and its withdrawal by 2012 leaves the recovery vulnerable.

There has also been a complete collapse in the construction industry. In 2009 just 117,990 homes (92,440 private units and 25,550 affordable) were completed in England; a third lower than in 2007. To support the industry, Labour, through the HCA, introduced a number of initiatives. These included Kickstart, HomeBuy Direct and the Private Rental Sector Initiative (PRSI). Labour have announced in their manifesto, they will continue with the HomeBuy Direct Scheme, a shared equity programme. In contrast the conservatives will continue to encourage buyers into the market by keeping the stamp duty threshold at £250,000.

LONGER TERM CHALLENGE OF HOUSING DELIVERY

While the recent credit boom has facilitated the house price boom, the underlying cause is the long standing demand and supply imbalance. Even ignoring the recent collapse in construction, the new supply of housing has been persistently lower than household formation. Between 1997 and 2006, housing completions totaled 1.453 million. Over the same period household formation totaled 1.65 million households; a shortfall of nearly 200,000 houses. The Joseph Rowntree Foundation estimates there is a total shortfall of supply of around 1.1 million homes. Without an extensive building programme this can only worsen – forecasts suggest around 238,000 new households will be formed each year between 2011 and 2016. Housing delivery will be a major challenge for the new Government.

This is recognised by each of the major parties, who have various policies to encourage greater house building. For example, Labour will continue with its target led policy and is aiming for 2 million new homes by 2016 and 10,000 new council houses per year by 2014/15. They are also allowing councils to retain their local receipts to enable them to support house building and maintain properties. The Liberal Democrats propose bringing 250,000 empty homes back into use and restricting second home ownership. The Conservatives are embracing localism and will reward councils for building more homes and create local housing trusts. They will also abolish the regional planning tier. Regardless of the approach, it is clear that whoever is successful on May 6th has a major housing market challenge ahead of them.

TABLE 3: PARTY PROPOSALS FOR THE RESIDENTIAL MARKET

	Labour	Conservative	Liberal Democrats
Housing Supply	Build 200,000 new houses a year until 2016, then 240,000 a year until 2020; Up to 10,000 new council houses a year by 2014/15 and more affordable housing; Councils will retain their local rental receipts locally, enabling them to support house building and maintain properties.	Reward Councils for building more homes by allowing them to keep more of the proceeds from council tax and business rates from new development; Create local Housing Trusts to allow communities to build affordable homes; Give councils stronger powers to prevent infill development in suburbs, and build more family homes.	Bring 250,000 empty homes back into use by giving owners cheap loans to renovate them.
Stamp Duty	2 year Stamp Duty holiday for FTBs on transactions up to £250,000; Permanent new stamp duty top rate of 5% on transactions over £1m from April 2011.	Permanently increase the stamp duty threshold for first time buyers to £250,000.	
Lending	Agreements with banks to lend £105bn to homebuyers and businesses over the next year; The standard interest rate on the Support for Mortgage Interest Scheme to be maintained until December.		Repossessions will be stopped in cases where the lender has not pursued options.
Housing Standards	Guaranteed housing standards for social tenants; New homes to be zero carbon by 2016.		Energy improvement packages of up to £10,000 per home, paid for by the savings from lower energy bills; New homes to be fully energy efficient.
Planning	Infrastructure Planning Commission will help streamline and speed up decision-making on major projects.	Abolish the unelected tier of regional planning, allowing communities to determine the right level of development.	A new planning "use class" for second homes, allowing communities to control the number of homes given over to holiday makers.
Other	A crackdown on tenancy cheats who fraudulently sub-let social housing.	Abolish HIPs; Give council tenants an equity stake in their home to restore pride in their area and encourage social mobility.	

HOUSE PRICE INDICES

	M-on-M	Q-on-Q	Y-on-Y	Level
Nationwide (Mar)	0.7%	1.6%	9.0%	£164,519
Halifax (Mar)	1.1%	0.6%	5.2%	£168,521
Land Registry (Feb)	-0.3%		7.0%	£164,455
Hometrack (Mar)	0.3%		1.3%	
CLG (Jan)			6.2%	£207,159
Rightmove (Mar)	0.1%		5.3%	£229,614

ACTIVITY INDICATORS

	M-on-M	Q-on-Q	Y-on-Y	Level
Mortgage Approvals (Feb)	-2.1%		17.5%	47,094
Gross Mortgage Lending (Feb)	-6.0%		-6.0%	£9.2bn
Housing Completions (Q4)		12.8%	-13.0%	31,010
Housing Starts (Q4)	The DCLG has revised the methodology and historic starts are currently unavailable			19,720

ECONOMIC INDICES

	M-on-M	Q-on-Q	Y-on-Y	Rate
GDP (Q4)		0.4%		
CPI (Feb)	-0.5%		3.0%	
RPI (Feb)	0.0%		3.7%	
Unemployment (Nov 09 to Jan 10)		-0.1%		7.8% (2.45 million)

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