



UK House Price Forecasts 2011

Jennet Siebrits, Head of Residential Research, UK

OVERVIEW

Our forecasts have not changed dramatically since our mid-year review. As expected, the housing market has weakened following a continuous flow of bad news from both the political and wider economic sphere; house prices fell by 4% in the second half of 2010. We anticipate that this pattern – albeit characterised by short-term fluctuations – to continue through 2011, with further falls of around 4% likely. Thereafter there will be a slow and protracted recovery with benign growth for several years.

The heavy restrictions on lending, as well as the overwhelming sense of caution, has kept transactions at a historical low. This will be a key indicator moving forward as interest rates climb back up and proposed FSA regulations potentially harness buyer ability even more.

Regional disparities will continue. Parts of the country – particularly in the North – will suffer disproportionately as a result of public sector cutbacks. There could be considerable pockets of job losses, repossessions and instability. In contrast London will continue to outperform.

2010: A CAUTIONARY TALE

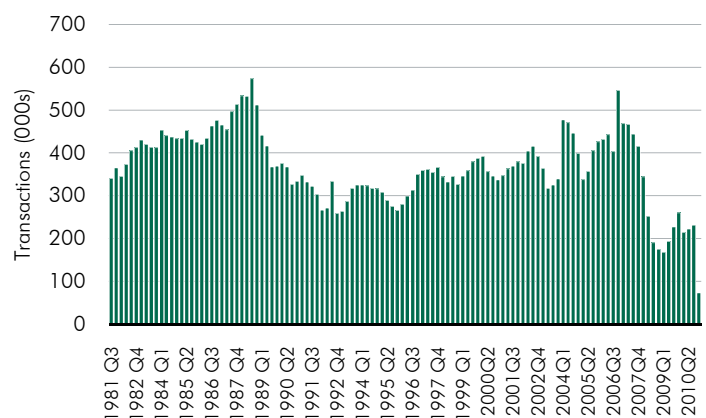
Modest house price growth in late 2009 and early 2010 prompted an uneasy sense of optimism, with the market looking like it was toying with recovery. Low interest rates helped ward off forced sellers and repossessions, while the brakes on supply – both from sellers and developers – kept a floor under house prices. However, the caution that anchored any initial hope was clearly justified, as house prices began to fall again this Summer. Nationwide figures indicate they have fallen nearly 4% since July. Perhaps foreshadowing further falls, Rightmove have noted that sellers have cut their asking prices by an average of £7,000 over the last month.

From month to month, average house prices remain jittery, largely as a reflection of the historically low levels of transactions. Indeed, the ongoing trough in sales rates reveals the true health of the market and confirms there has yet to be any meaningful revival. Sales averaged 222,000 per quarter this year, only marginally higher than last year. This is still half their 2006 levels and significantly below the ten year average of 380,000 per quarter.

The low level of transactions is in part a reflection of the overarching sense of caution, but the main issue still stems from lending constraints. Mortgage approvals fell to their lowest level in November 2008, when there were only 27,000. Although these have recovered slightly, they are still hovering around the 50,000 mark; a stark contrast to their pre-crunch levels, which sat comfortably around 120,000.

Such constrained demand has filtered through to the number of buyers registering with agents. The NAEA estimates an average of 265 registered buyers to every 62 properties per month this year. This compares with an average of 361 per month in 2006, yet still against 62 properties. Although low interest rates ease affordability for many home-owners, the burden of needing large deposits continues to block many would-be home-owners.

Chart 1: Level of Transactions, UK



Source: HMRC

©2010, CB Richard Ellis, Inc.

BORROWING: THE BALANCE

The issues currently constraining buyers looks set to continue, particularly in light of the FSA proposed mortgage regulations. Although no-one is advocating a free-wheeling lending environment, many consider the FSA's proposed regulation changes as equally dangerous. The CML estimate if the proposed affordability rules had been in effect over the last five years, nearly 50% of the 8 million mortgages would not have been granted. Furthermore, the HBF have suggested the proposals could lead to the refusal of 57,000 mortgage applications from first-time buyers and that up to 153,000 homes, potentially might not be purchased as a result.

FEAR OF UNEMPLOYMENT

As the private sector begins to crawl its way out of the recession, the public sector is bracing itself for a tough few years ahead. Both the fear of unemployment amongst individuals, as well as the fear of its widespread economic impact, is adding to the general reluctance towards making important housing decisions.

However, the reality may not be as apocalyptic as first thought; the government have already scaled back its estimates of job losses by at least 160,000. In addition, there is also a good chance that the private sector will strengthen over the next four years to mitigate the losses within the public sector. However, this will not be the case across the whole country where certain parts will be disproportionately affected.

MORE MONEY MATTERS

Earnings have been growing very slowly over the last two years; they have only grown 1.4% this year in nominal terms, but in real terms (allowing for inflation) this has actually been closer to a fall of 2.9%. In addition, the average household will now effectively lose £400 per year through changes in the tax and benefit system.

In real terms, growth in average earnings is not expected to return until late 2013. This squeeze will make it even harder to save for a deposit and service mortgage payments.

Furthermore, the low interest rates that have provided welcome respite for home-owners with heavy mortgages will at some point have to begin the process of normalisation. This should happen gradually. Our base case assumption is that it will start very tentatively in summer next year and finish 2011 at around 1%. It then looks likely to continue increasing steadily, ending 2012 at 2% and 2013 at 3.75%.

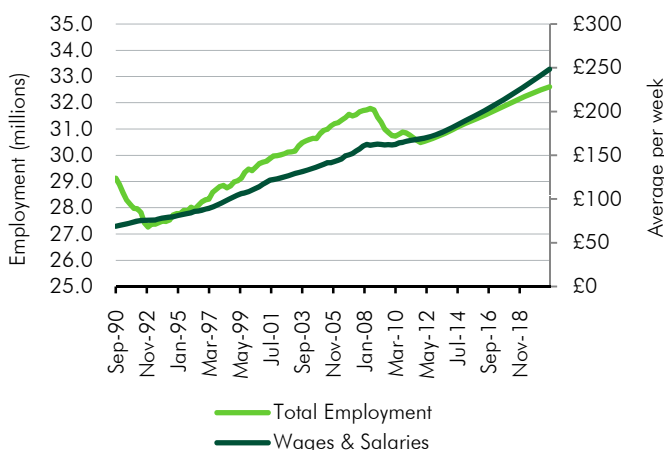
OUR FORECAST

Overall the short-term future for the housing market is pretty bleak. Our central forecast suggests house price falls of 4% in 2011. The first half of the year will fare worst, on the back of continued uncertainty and thus caution in the market. This will be exacerbated by the very real constraints on buying ability. As a result transaction levels will remain low and prices will stutter. The falls will be much more pronounced in some regions than others. The recovery will be slow and spluttery with several years of little if any growth. However, there are significant risks around this which we discuss on our last page.

REGIONAL VARIATIONS

House prices fell in nine out of the thirteen regions across the UK during the last quarter. Going forward, this trend is likely to continue, with a small handful of regions outperforming the rest of the country – namely London and the South East. The diversity of demand in the capital, particularly from international buyers, will continue to boost the high-end of the market. In addition, despite a great deal of debate around city bonuses, they have remained relatively unscathed from both market and governmental forces. The bonus pool is expected to be around £7.2bn, of which £1bn is likely to be directed towards the residential market. This could translate into some comfort for the London and South East residential market.

Chart 2: Employment and Earnings Projections

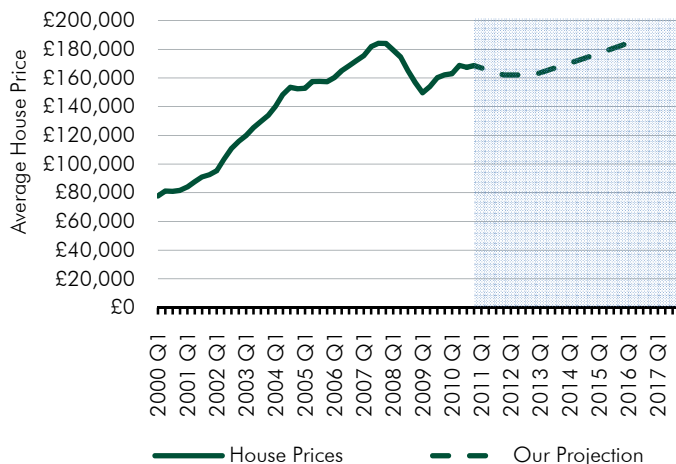


Source: Experian

Page 2

©2010, CB Richard Ellis, Inc.

Chart 3: House Price Forecasts

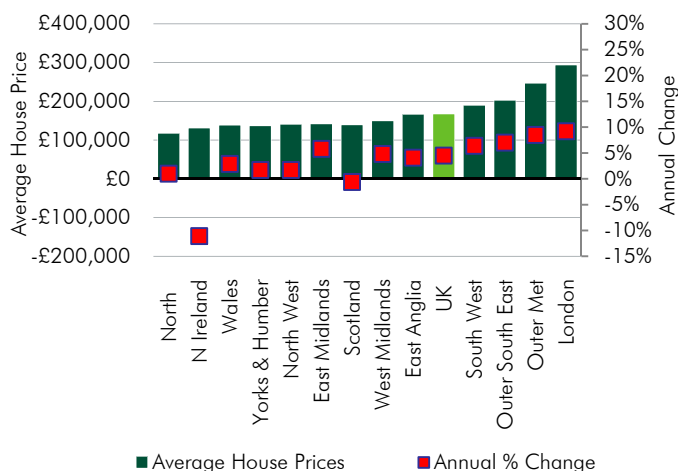


Source: Nationwide / CBRE

CBRE
CB RICHARD ELLIS

Most other regions, particularly in the north of the country, will struggle as the fear of public sector unemployment becomes a reality. Some areas are particularly vulnerable; for example, 40% of Liverpool's workforce is employed by the public sector. Private companies who rely on public sector contracts could also be sucked into the turmoil, while the private sector in these areas is not strong enough to mitigate the damage. This means that some areas will suffer disproportionately to the rest of the country. There is a high risk of pockets of repossessions, forced sellers or those who at best will 'wait and see', thus pulling house prices down further.

Chart 4: Regional House Prices



REGIONAL FORECASTS

Source: Nationwide

UK	
2010 House Price	£167,354
Annual Change	4.50%
Projected Annual Change	-4.00%

Scotland	
2010 House Price	£139,313
Annual Change	-11.1%
Projected Annual Change	-8%

North East / North	
2010 House Price	£117,234
Annual Change	1.0%
Projected Annual Change	-6%

Northern Ireland	
2010 House Price	£130,877
Annual Change	-11.1%
Projected Annual Change	-10%

Yorks & Humbs	
2010 House Price	£136,906
Annual Change	1.7%
Projected Annual Change	-6%

Wales	
2010 House Price	£138,603
Annual Change	2.9%
Projected Annual Change	-6%

North West	
2010 House Price	£140,217
Annual Change	1.7%
Projected Annual Change	-5%

East Midlands	
2010 House Price	£141,804
Annual Change	5.8%
Projected Annual Change	-2%

South West	
2010 House Price	£189,603
Annual Change	6.4%
Projected Annual Change	-1%

West Midlands	
2010 House Price	£149,778
Annual Change	4.8%
Projected Annual Change	-3%

East Anglia	
2010 House Price	£165,706
Annual Change	4.1%
Projected Annual Change	-3%

Outer Metropolitan	
2010 House Price	£246,538
Annual Change	8.5%
Projected Annual Change	2%

London	
2010 House Price	£293,582
Annual Change	9.2%
Projected Annual Change	6%

South East	
2010 House Price	£201,999
Annual Change	7.0%
Projected Annual Change	2%

Source: Nationwide / CB Richard Ellis

Note: These projections are based on Q3 2010 average prices, going forward to Q3 2011.

LONG TERM RISKS

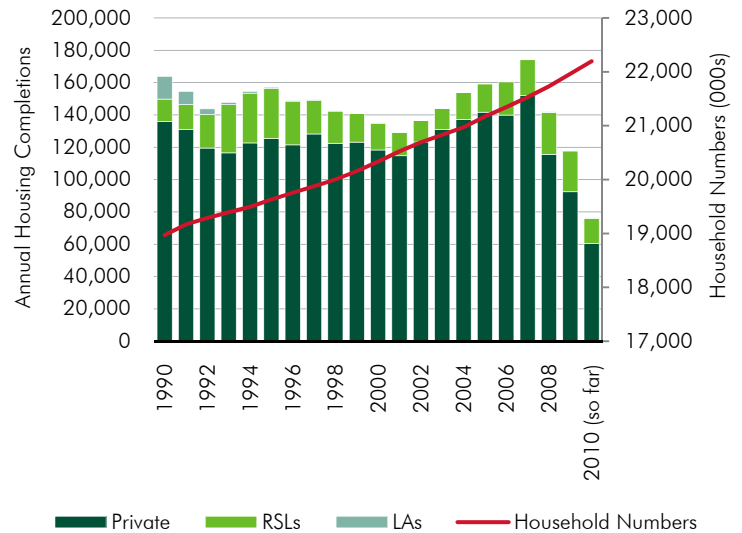
There are significant risks around our central forecasts, which are inherently difficult to quantify. A number of factors could put further pressure on the balance of supply and demand, such that the bottleneck of buyers could erupt at some stage, causing considerable volatility.

There are still a number of unknowns in the wider economy. For example, the impact of Ireland's financial bail-out, as well as the impending rise in unemployment across the whole country, could both be detrimental to the housing market. There could also be instability from the political sphere as the coalition struggles to deliver its difficult policies. In the longer-term, the serious hikes in tuition fees could also play a role; first-time buyer activity could dampen, given that it will take longer to save for a deposit.

A more immediate issue for the market is the proposed FSA regulations. The potential additional restrictions on lending could exacerbate current market weaknesses as more people are prevented from entering the market. This could keep transaction levels compressed and continue to aggravate pricing stability. It could also create such considerable pent-up demand that the platform for genuine recovery in the longer term would be very unstable.

A potential bottleneck of demand is growing. Population growth, as well as a decrease in average household size, is driving household growth. Next to dwindling construction rates, this points to further pressure on the supply / demand imbalance in the market, which could erupt at some stage, forcing pricing upwards.

Chart 5: Housebuilding Vs Household Numbers



Lending restrictions are clearly a double-edged sword; both too loose or too tight could be equally harmful. In addition, a sharp change in interest rates could have a similar effect. A measured approach in both respects would encourage a slow and steady recovery.

A recovery could occur sooner than expected; in the first instance, the private sector, particularly in London and the South East, continues to outperform its own forecasts. This will help mitigate the wider impact of public sector cuts. Furthermore, as we enter our fifth year of economic crises, a general feeling of 'recession fatigue' will eventually kick in, particularly amongst those who have been waiting five years to move house. As confidence returns, transaction levels should see some form of resurrection. Once this happens, and aside from the many risks we have outlined, a steady recovery could start to look more like a real possibility.

For more information regarding the ViewPoint, please contact:

Helen Gray

Senior Analyst, Residential Research
t: +44 20 7182 2068
e: helen.gray@cbre.com

Jasper Masters

Senior Director, Land Agency
t: +44 20 7182 2258
e: jasper.masters@cbre.com

Harry Downes

Senior Director, Project Marketing
t: +44 20 7182 2322
e: harry.downes@cbre.com

Jennet Siebrits

Head of Residential Research
t: +44 20 7182 2066
e: jennet.siebrits@cbre.com

Chris Lacey

Executive Director, Residential Funding
t: +44 20 7182 2318
e: chris.lacey@cbre.com

Jason Hardman

Senior Director, Residential Valuation
t: +44 20 7182 2802
e: jason.hardman@cbre.com

Disclaimer 2010 CB Richard Ellis

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.

© Copyright 2010 CB Richard Ellis