



House price index

UK House prices	AUGUST 2008 (seasonally adjusted)
Annual change	-10.9%
Monthly change	-1.8%
Average Price	£174,178

Commenting, Martin Ellis, chief economist, said:

"House prices declined by 1.8% in August. A solid labour market, low interest rates and a shortage of new houses continue to support the market. The pressure on householders' income, together with the reduction in the availability of mortgage finance due to the global financial markets crisis, is resulting in both lower property prices and activity levels."

"This week's announcement on stamp duty is a welcome development and will benefit a significant number of homebuyers, particularly outside the south east of England. Market conditions, however, will remain challenging."

Key facts

- **House prices fell by 1.8% in August.** This was similar to the previous two months – June (-1.9%) and July (-1.7%) - but lower than in March (-2.5%) and May (-2.5%).
- **House prices in August were 10.9% lower on an annual basis.** The UK average price has returned to the level it was at in February 2006.
- **A solid employment market and low interest rates underpin the housing market.** Our research shows that the labour market is the key driver of the housing market. The number of people in employment increased by 20,000 over the three months to June compared with the previous quarter and by 384,000 over the past year to a record 29.56 million.
- **House price to earnings ratio is declining.** The house price to average earnings ratio – a key affordability measure – has fallen from a peak of 5.84 in July 2007 to 5.13 in June 2008. We expect a further decline as prices continue to soften.
- **The temporary raising of the initial stamp duty threshold from £125,000 to £175,000 should reduce the stamp duty burden for a significant number of homebuyers, especially outside the south east of England.** Almost a quarter of a million (230,000) homebuyers in England and Wales would not have paid stamp duty over the past year if the threshold had been £175,000 rather than £125,000.

ABOUT THE HALIFAX HOUSE PRICE INDEX

The Halifax House Price Index is the UK's longest running monthly house price series with data covering the whole country going back to January 1983. The Index is typically based on around 15,000 house purchases per month, and covers the whole calendar month. From this data, a "standardised" house price is calculated and property price movements on a like-for-like basis (including seasonal adjustments) are analysed over time. The annual change is calculated as an average for the latest three months compared with the same period a year earlier. This provides a better picture of the underlying trend compared to a monthly year-on-year number as it smoothes out any short-term fluctuations.

For more information on our housing market research, click on www.hbosplc.com/economics





- **Significant regional differences in stamp duty burden.** Increasing the lowest stamp duty threshold will benefit buyers in all regions, but will have a more pronounced impact outside the south east. For example, only 12% of total sales were below £175,000 in London over the past year compared to 75% in the North.

Strong labour market supports the housing market

The labour market is the key driver of the housing market. The number of people in employment increased by 20,000 over the three months to June compared with the previous quarter and by 384,000 over the past year to a record 29.56 million.

Housing demand falls due to pinch on incomes, affordability levels and reduced mortgage availability

Higher food and fuel prices - which have increased by 12% and 17% respectively over the past year - have reduced the amount of discretionary income available to households. The pinch on incomes, together with the high level of average house prices in relation to earnings, has made it difficult for potential house purchasers to enter the market. In addition, the decline in credit availability resulting from the crisis in the financial markets is a further constraint on buyers. These factors are curbing housing demand, causing house prices and activity to fall.

Housing market activity declines further

The number of mortgages approved to finance house purchase fell by 6% from a seasonally adjusted 35,000 in June to 33,000 July and was 71% lower than in July 2007. (Source: Bank of England)

The number of new buyers interested in home purchase and the number of agreed sales both continued to fall in July, but the pace of decline slowed for the third successive month. (Source: RICS)

Annual house price inflation at -10.9% in August

The annual rate of house price inflation – measured by the average price over the three latest months compared with the same period a year earlier – was -10.9% in August. The UK average price has returned to where it was in early 2006.

House price to earnings ratio is declining

The house price to average earnings ratio – a key measure of housing affordability – has fallen from a peak of 5.84 in July 2007 to 5.13 in June 2008. We expect a further decline over the coming months as property prices continue to soften.

The Halifax House Price Index is prepared from information that we believe is collated with care, but we do not make any statement as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue/withdraw this, or any other report. Any use of this report for an individual's own or third party commercial purposes is done entirely at the risk of the person making such use and solely the responsibility of the person or persons making such reliance. © Bank of Scotland plc all rights reserved 2008.

For more information on our housing market research, click on www.hbosplc.com/economics





House price index

STAMP DUTY

The government's announcement this week that it is raising the lowest stamp duty threshold from £125,000 to £175,000 for a year from 3rd September will reduce the stamp duty burden for a significant number of homebuyers. This brings the lowest threshold broadly in line with the current average house price.

Almost a quarter of a million (230,000) homebuyers in England and Wales would not have paid stamp duty over the past year if the threshold had been £175,000 rather than £125,000. (There were a total of 475,623 sales below £175,000 over the four quarters from 2007 Q3 to 2008 Q2 with 245,414 below £125,000.)

In percentage terms, 49% of sales in the last year were below £175,000 compared with 26% below £125,000. Therefore, around a half of all sales would not have been potentially liable to stamp duty under the new criteria compared with one quarter under the previous £125,000 threshold.

First-time buyers (FTB), in particular, will benefit from the change to the stamp duty threshold. The average price paid by a FTB in Q2 2008 was £144,283 with an average stamp duty bill of £1,443. By comparison, the average FTB will pay no stamp duty over the next 12 months. The proportion of FTBs who would have paid stamp duty if the threshold had been £175,000 over the past year would have been 31% rather than the 60% of FTB purchases that were above the existing threshold of £125,000. We estimate that a threshold of £175,000 rather than £125,000 would have removed 80-90,000 FTBs from the stamp duty tax net over the past year.

The table below illustrates some significant regional differences. For example, only 12% of total sales were below £175,000 in London over the past year compared to 75% in the North.

% of All Properties by Stamp Duty Thresholds				
Total for Quarter 3 2007 to Quarter 2 2008				
	<£125k	<£175k	>£250k	>£500k
North	53%	75%	8%	1%
Yorkshire and the Humber	45%	72%	10%	1%
North West	46%	72%	10%	1%
East Midlands	39%	69%	11%	1%
West Midlands	37%	66%	13%	2%
East Anglia	20%	54%	18%	2%
Wales	42%	70%	10%	1%
South West	12%	40%	26%	4%
South East	9%	30%	34%	7%
Greater London	2%	12%	53%	13%
Scotland	38%	65%	12%	1%
Northern Ireland	10%	41%	16%	2%
UK	24%	51%	20%	3%

Source: Land Registry and Halifax

For more information on our housing market research, click on www.hbosplc.com/economics



UK House Prices: Historical Data All Houses, All Buyers (Seasonally Adjusted)

	Index 1983=100 1	Standardised Average Price £ 2	Monthly Change %	Annual Change %*	Price/ Earnings Ratio 3
Period					
Aug 2007	646.0	199,612	0.3	11.4	5.83
Sep	641.8	198,305	-0.7	10.7	5.76
Oct	637.6	197,000	-0.7	8.9	5.73
Nov	629.5	194,500	-1.3	6.3	5.63
Dec	638.1	197,163	1.4	5.2	5.69
Jan 2008	638.4	197,243	0.0	4.5	5.66
Feb	635.9	196,465	-0.4	4.2	5.60
Mar	620.1	191,590	-2.5	1.1	5.46
Apr	610.7	188,704	-1.5	-0.9	5.41
May	595.5	183,984	-2.5	-3.8	5.25
Jun	583.9	180,417	-1.9	-6.1	5.13
July	574.2	177,421	-1.7	-8.8	-
August	563.7	174,178	-1.8	-10.9	-

EDITORS' NOTES

* The annual change numbers are the quarterly year-on-year figures. These figures provide a better picture of underlying trends compared to a monthly year-on-year number as it smoothes out any short-term fluctuations.

1. INDEX

The standardised index is seasonally adjusted using the U.S. Bureau of the Census XII moving-average method based on a rolling 84-month series. Each month, the seasonally adjusted figure for the same month a year ago and last's month figure are subject to revision.

2. STANDARDISED AVERAGE PRICE

The standardised average price is calculated using the Halifax's mix adjusted methodology.

3. PRICE/EARNINGS RATIO

Ratio of the Halifax standardised average price to national average earnings for full-time male employees. Price Earnings ratios revised to reflect new data in the Annual Survey of Hours and Earnings (ASHE)

For further information please contact:

Helpline No 08456 045404

Email Groupeconomics@hbosplc.com

ISDN facilities are available for broadcast media interviews

For more information on our housing market research, click on www.hbosplc.com/economics