

House prices – current situation and long term trends

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House prices – current situation and long term trends

14.1 Summary

- Data from Hometrack shows that average overall house price for the sub-region decreased by 2.5% over the year 2008. Prices for terraced houses and flats have decreased by more than the prices of semi-detached and detached homes. Prices for the second half of 2008 were broadly similar to the prices in the first half of 2007 and still around 34% higher than in the first half of 2004.
- Some analysis of the longer term data for the country and for East Anglia shows that house prices have increased significantly over the last forty years. This long term data shows the length and depth of the last price falls. Between 1989 and 1992, prices decreased by 11%. It took until 1997 for prices to get back to the level they had been at in 1989. The long term data also shows that in East Anglia, prices have generally doubled every seven years for about the last forty years.
- The number of sales has decreased dramatically over the last year. In 2007, there were around 7,700 sales per month in the sub-region as a whole. In 2008 there were just under 4,500 sales per month.

14.2 Introduction

This chapter provides a brief update of current house prices and how these have changed over the past year, and makes comparisons with long and medium term trends.

The chapter can be read in conjunction with the original Chapter 14, *Changes in property prices from 2001 to 2006* which was published in June 2008 and provides further analysis of long term price trends. It is also useful to read this long-term update alongside Chapter 13 *Snapshot of current property prices*.

14.3 Context – the last 18 months

During the past eighteen months (September 2007 to March 2009) there has been a dramatic change in the global economy, particularly in the financial world. There have been several credit crunch timelines produced (see for example EERA's autumn 2008 East of England Housing Market Update, or the BBC's Global Credit Crunch Timeline at <http://news.bbc.co.uk/1/hi/business/7521250.stm>)

Some key dates are

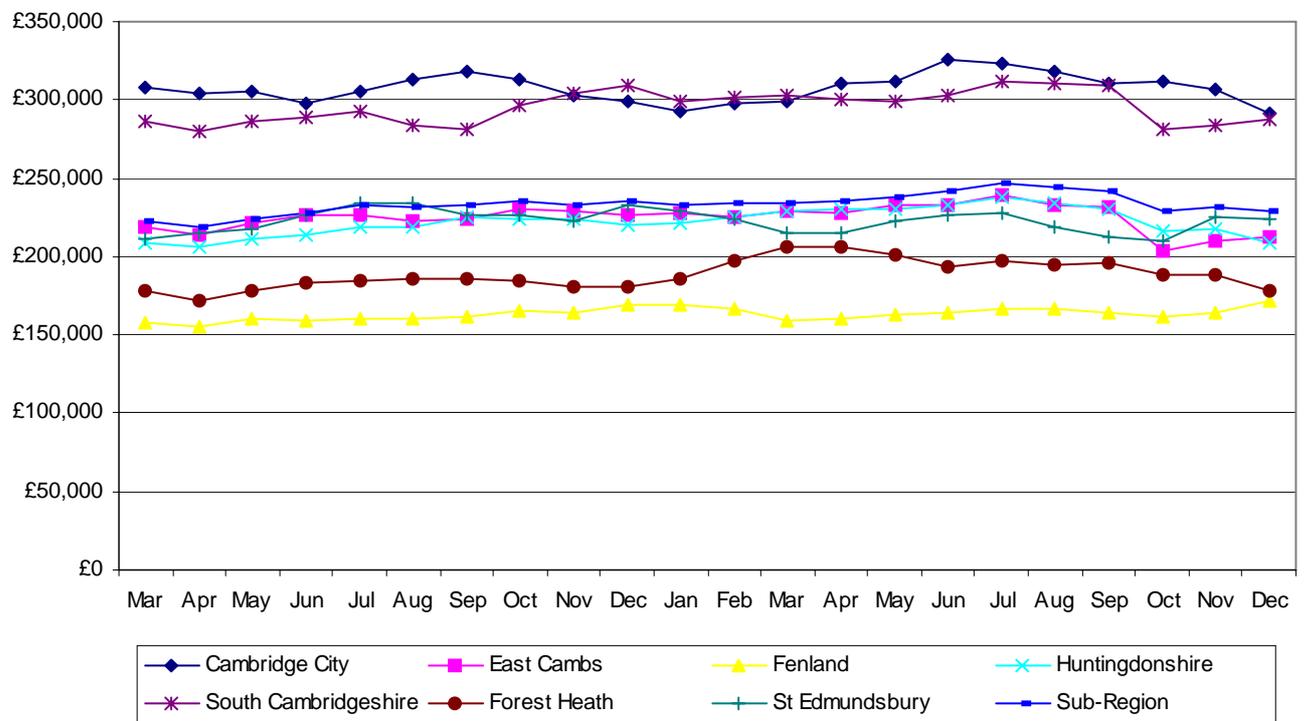
- Problems and concerns over US sub-prime lending increase including collapse of New Century, the second largest sub-prime lender (February to April 2007).
- The problems originating in the US start to seep through into the global economy (August 2007).
- The run on Northern Rock (September 2007).
- Persimmon announces cutbacks in new starts (April 2008).
- Problems with Royal Bank of Scotland (August 2008).
- Lloyds TSB takeover of HBOS, Bradford & Bingley nationalised, stamp duty threshold increased to £175,000 (September 2008).

One of the biggest impacts this has had on the UK housing market is that banks have significantly restricted their lending criteria. There has also been a dramatic reduction in the number and type of mortgage products available. Both of these factors have made it very difficult to obtain finance for buying a home, particularly at the lower end of the market, i.e. for buyers without large deposits, adverse credit histories etc. Specific areas are particularly badly affected, for example, the number of buy-to-let mortgages available has fallen by around 80%.

Because of difficulties such as obtaining finance, it is difficult for vendors to sell and the number of sales has decreased sharply. On a national level house prices are falling.

Fig 1 shows the average and lower quartile house price for all properties in the Cambridge sub-region from March 2007 to December 2008.

Fig 1: Average house price, Mar 2007 to Dec 2008 by district



Source: Hometrack

The average house price for the sub-region increased for most of this period and peaked at £247,221 in July 2008, but the overall average house price fell during the last three months of the year. There was a comparatively large decrease in prices between September and October but from October-December prices have been quite steady. East Cambridgeshire and Huntingdonshire show a similar pattern to the sub region as a whole. Prices in Cambridge City were low in winter 2007 and winter 2008, but strong during the summer months in both years. Prices were higher in summer 2008 compared to 2007, but prices were lower in winter 2008 than they were in winter 2007.

Prices in Fenland and St Edmundsbury both started to decrease in winter 2007. However prices fell less sharply in Fenland than in St Edmundsbury and increased slightly in the last months of the year.

Prices in Forest Heath peaked in March 2008 and have been decreasing since this time. The average house price in South Cambridgeshire in the period covered has been quite changeable month by month and generally prices were lower in 2008 than in 2007.

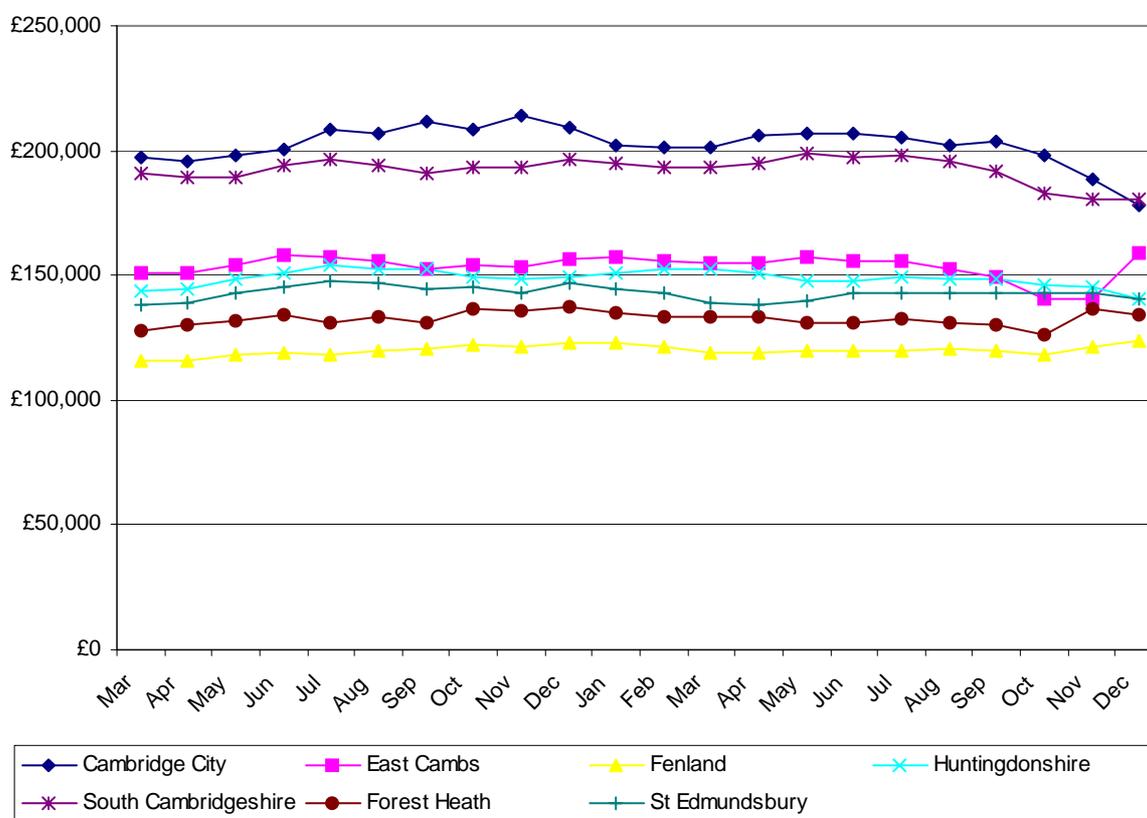
Table 1: Average price: Change by district, Dec 2007 & Dec 2008

	Dec-07	Dec-08	Difference	% change
Cambridge City	£298,700	£291,200	−£7,500	−2.5%
East Cambridgeshire	£227,100	£212,700	−£14,400	−6.3%
Fenland	£169,700	£171,900	£2,200	1.3%
Huntingdonshire	£220,800	£208,100	−£12,700	−5.8%
South Cambridgeshire	£309,700	£287,400	−£22,300	−7.2%
Forest Heath	£180,100	£177,800	−£2,300	−1.3%
St Edmundsbury	£233,000	£223,600	−£9,400	−4.0%
Sub-Region	£235,120	£229,270	−£5,850	−2.5%

Source: Hometrack

Prices fell in most places between Dec 2007 and 2008. The only exception is Fenland where there was a slight increase (£2,200). In the other districts prices fell by between 1.3% and 7.2%. As shown above, most of the decrease occurred in the last three months of the year and prices increased prior to September in the sub region as a whole.

Fig 2: Lower quartile house price, Mar 2007 to Dec 2008 by district



Source: Hometrack

Fig 2 below shows the changes in lower quartile prices from March 2007 to December 2008. The lower quartile price has generally fallen over the last 18 months, particularly in the City and South Cambridgeshire.

In East Cambridgeshire, the lower quartile price fell for most of the period, but increased in the final month of 2008.

Table 2: Lower quartile price Change by district, Dec 2007 & Dec 2008

	Dec-07	Dec-08	Difference	% change
Cambridge City	£209,000	£178,300	−£30,700	−14.7%
East Cambridgeshire	£156,300	£159,200	£2,900	1.9%
Fenland	£123,300	£124,000	£700	0.6%
Huntingdonshire	£149,300	£140,500	−£8,800	−5.9%
South Cambridgeshire	£196,300	£180,200	−£16,100	−8.2%
Forest Heath	£137,700	£134,400	−£3,300	−2.4%
St Edmundsbury	£146,800	£140,700	−£6,100	−4.2%

Source: Hometrack

From December 2007 to December 2008 the lower quartile house price fell in most areas. Cambridgeshire City saw the largest reduction (14.7%). The lower quartile price increased slightly in Fenland and East Cambridgeshire. In terms of lower quartile price East Cambridgeshire and Fenland prices hit their peak for the year in December 2008. Between December 2007 and November 2008, the lower quartile price in East Cambridgeshire decreased by 10%. Given the low number of sales during 2008, the drastic change may be due to the sale of one or two outliers. The trough for the year in both districts was in October (£140,800 in East Cambridgeshire and £118,500 in Fenland). This is also true in Forest Heath, which peaked at in £136,300 in November. The other districts all hit their peak in the first half of the year and show the lowest sales prices in December, with the exception of St Edmundsbury. The most expensive month of 2007 in St Edmundsbury was January (£144,800) and the cheapest month was April (£138,300).

The price change has not been even across all types of properties. Table 3 shows the property price by type in each district in December 2008. Tables 4 and 5 show the change in price between June 2007 and December 2008, first in cash and then by percentage.

Table 3: Average price by property type and district, December 2008

	Detached	Semi-detached	Terraced	Flat
Cambridge City	£521,900	£299,300	£265,200	£190,000
East Cambridgeshire	£284,100	£191,200	£152,800	£111,600
Fenland	£209,700	£130,300	£122,800	£77,000
Huntingdonshire	£281,400	£177,100	£144,500	£106,300
South Cambridgeshire	£397,700	£219,700	£184,900	£139,600
Forest Heath	£208,000	£176,500	£133,900	£178,300
St Edmundsbury	£324,400	£186,500	£153,700	£142,100
Sub-Region	£303,834	£198,458	£172,393	£150,516

Source: Hometrack

Table 4: Price difference June 2007 to December 2008

	Detached	Semi-detached	Terraced	Flat
Cambridge City	-£28,600	+£10,200	-£36,900	-£15,400
East Cambridgeshire	-£13,100	+£1,600	-£30,100	-£27,500
Fenland	+£3,700	-£6,900	+£100	-£12,500
Huntingdonshire	-£8,600	-£6,500	-£11,500	-£32,200
South Cambridgeshire	+£11,800	-£19,800	-£12,500	-£16,100
Forest Heath	-£24,400	+£6,300	-£17,300	-£3,000
St Edmundsbury	+£8,500	-£12,500	-£24,600	+£12,800
Sub-Region	+£1,691	+£513	-£11,355	-£8,183

Source: Hometrack

Table 5: Price change June 2007 to December 2008

	Detached	Semi-detached	Terraced	Flat
Cambridge City	-5%	+4%	-12%	-7%
East Cambridgeshire	-4%	+1%	-16%	-20%
Fenland	+2%	-5%	+0.1%	-14%
Huntingdonshire	-3%	-4%	-7%	-23%
South Cambridgeshire	+3%	-8%	-6%	-10%
Forest Heath	-10%	+4%	-11%	-2%
St Edmundsbury	+3%	-6%	-14%	+10%
Sub-Region	+1%	+0.3%	-6%	-5%

Source: Hometrack

Tables 4 and 5 show that the average price of terraced homes and flats has fallen by more than the average price of detached and semi-detached properties. The two tables only compare the prices for June 2007 and December 2008, but in most cases for most types of properties in each of the districts, there has been some fluctuation in prices:

- In Cambridge City terraced prices peaked in July 2008 (£320,900) and were at their lowest in the 18 month period covered in November 2008 (£264,100). Flat prices peaked in February 2008 (£221,900) and have been falling ever since. The average price for detached properties peaked at £722,000 in October 2007 and was at its lowest in the 18 month period in January 2008 (£447,700). The price for this type of property increased between January and October and has been falling since. Semi-detached prices in the city increased between June 2007 and January 2008 (£329,900) and have generally decreased since. The lowest average price for this type of property was reached in October 2008 (£293,200).
- In East Cambridgeshire, detached property prices increased between June 2007 and July 2008 (£337,200) and have since fallen. The lowest average price for this type of property in this period was recorded in October (£278,000) and it has increased slightly since then. Semi detached prices were at their highest in November 2007 (£195,800) and then decreased to 177,300 in October 2008, but have increased slightly since then. Terraced prices in the district have fallen for the whole of the period from June 2007 to December 2008. There was a slight rally in March and April 2008, but the general trend for this type of property was decreasing. Flat prices in the district dropped quite steeply between June and October 2007 (£112,700) and then

increased steadily between October 2007 and November 2008 (£133,400), but the price in December for flats was back down to £111,600.

- Detached properties in Fenland increased in price between June 2007 and February 2008, but have been mostly decreasing since then. The average detached house price reached £199,500 October 2008, but has increased slightly since then. Semi detached property prices peaked in October 2007 (£148,100) and have been generally decreasing since then. Prices for this type of property were at their lowest in November (£127,400) and increased slightly in December 2008. Terraced house prices have been around £120,000 for most of the time between September 2007 and August 2008. There was a drop to around £113,600 in September 2008 and the price has increased slightly again since then. The average price for flats in Fenland has fluctuated quite a lot in the 18 months since June 2007, but generally the prices for this type of property has decreased. In July 2007 the average price for a flat in the district was £96,300. By December 2008 it was £77,000.
- In Huntingdonshire, detached properties increased from £290,000 in June 2007 to £340,900 in May 2008, but the average price for this type of home has since fallen. Semi-detached property prices increased in the second half of 2007 and peaked at £200,200 in January of 2008, but have since decreased. Prices in November were slightly lower (£176,300) than in December. Terraced prices in the district peaked at £166,200 in October 2007, but these have also been decreasing from this time. Flat prices peaked in August 2007 at £148,400 and fell throughout the last quarter of 2007 and the whole of 2008.
- Detached house prices have been quite changeable month-on-month in South Cambridgeshire, but generally have increased since the middle of 2007. Semi detached and terraced prices in the district peaked towards the end of 2007 but decreased during 2008. For terraced properties there was a particularly large drop between July and October from £201,700 to £178,900 and there has been a small increase since this. The decrease in the price of semi-detached properties has been more gradual and consistent. The average flat price was at its lowest in November 2007 (£136,700) and increased throughout most of 2008 until August 2008 and has been decreasing since.
- Prices for detached properties in Forest Heath increased until reaching £318,100 in March 2008 and have since fallen to £208,000. Prices for semi-detached houses were between £160,000-165,000 from November 2007 to Aug 2008. Prices for this type of property fell to a low of £156,300 in September, but increased in the last quarter of the year. Terraced house prices have been decreasing since June 2007. Flat prices peaked in July 2007 at £200,100, and decreased for most 2008, but there was a slight increase in the last quarter of the year.
- Detached homes in St Edmundsbury increased from £315,900 in June 2007 to £340,800 in May 2008 and have since dropped. In October the average price for this type of property was £292,600, but there has been a small increase. The average price of semi-detached and terraced properties in this district has fallen over the 18 months covered, although there was quite a large jump in price for semi-detached properties in December 2007 to £215,800. Flat prices in this area have mostly fallen in since June 2007, although there was a jump to £136,300 in July 2008, and the price increased from £106,400 in November 2008 to £142,100 in December of that year¹.

¹ However, this is based on a very small sample size, which may distort the figure.

14.4 Number of sales

The number of sales in each district has been decreasing over the course of the last year. Fig 3 shows the number of sales across the sub-region.

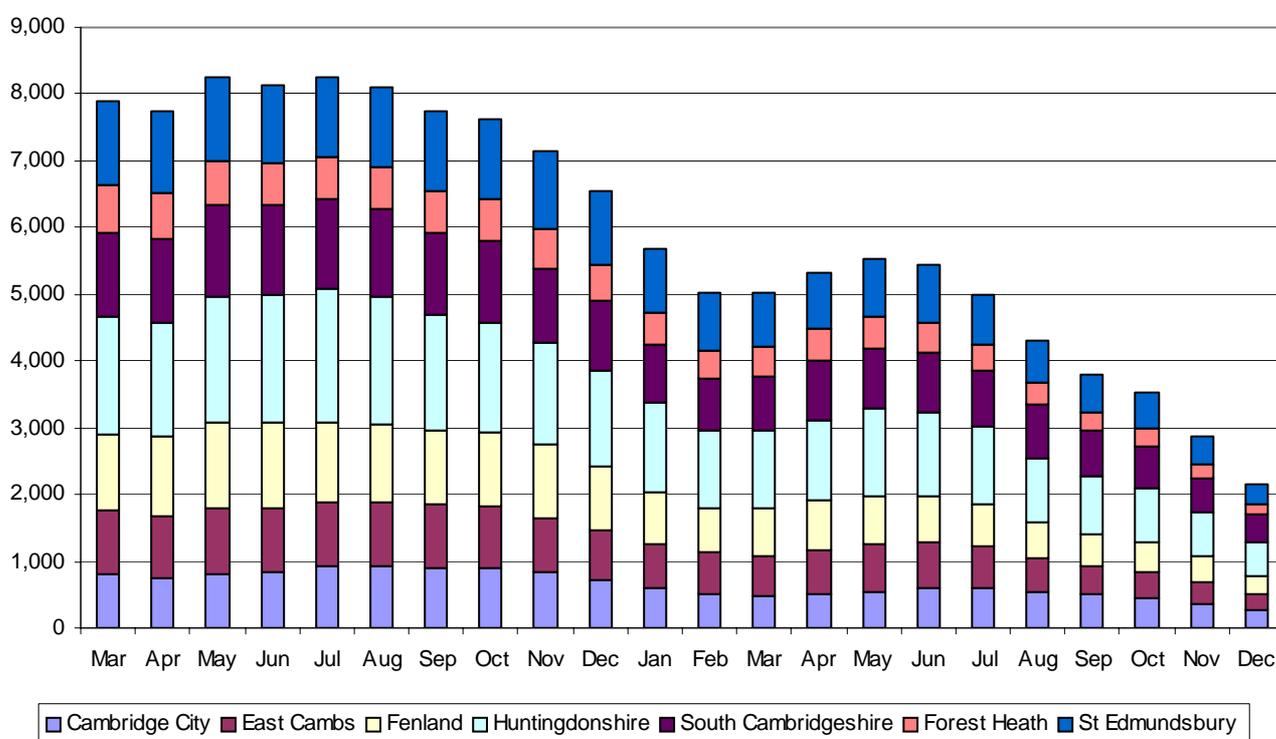
Between March and August of 2007, there were around 8,000 sales per month across the sub-region.

For the whole of 2008, the number of sales never exceeded 5,600 per month.

The total number of sales for 2008 represented 53% of the number of sales in 2007.

Fenland had the largest decrease in sales and South Cambridgeshire had the smallest decrease.

Fig 3: Property sales per month



Source: Hometrack

The balance of property types being sold has also changed (see Fig 4 below).

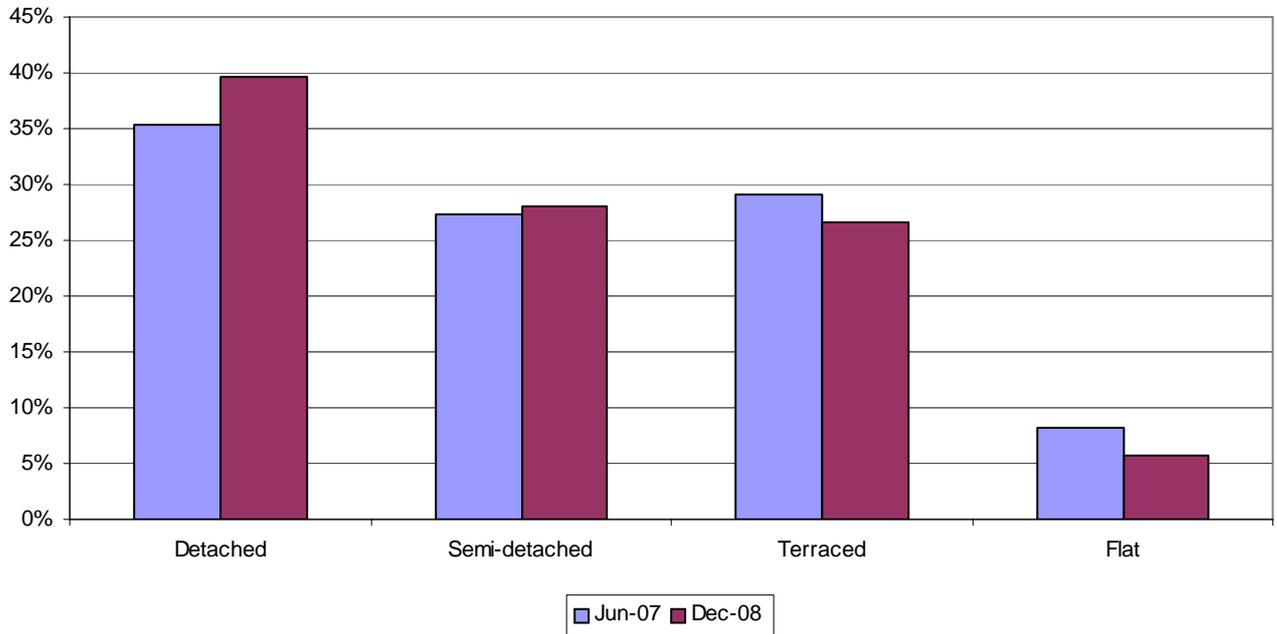
Proportionately, more larger homes were being sold in December 2008 compared to July 2007. This is one reason why the overall price change data shows a smaller decrease than most people perceive has happened.

These larger properties tend to be more commonly purchased by existing homeowners (who already have equity). Smaller terraced and flatted properties tend to be more popular with first time buyers and buy-to-let.

The shift in balance in favour of these larger properties suggests that existing homeowners are moving (or looking to move) but there is very little first time buyer activity. This is supported by the 2008 survey of estate agents in the sub-region who had noticed a

significant decrease in first time buyer and buy-to-let activity, and difficulty in starting “chains”.

Fig 4: Percentage of properties sold by type, Jun 2007 and December 2008



Source: Hometrack

14.5 House prices – Medium term (2004-2008)

Hometrack also provides some longer term half yearly data going back to January -June 2004.

Tables 6 and 7 show the average and lower quartile price for all properties over time.

Although most areas show a decrease, or very little change in price over 2008, prices have still increased since the first half of 2004. In the sub-region as a whole, the average house price in the second half of 2008 was 32% higher than the first half of 2004. The lower quartile price over the same period has increased by between 13% in Forest Heath and 26% in Fenland. Average prices peaked around the first half of 2008 in all districts except for Fenland and St Edmundsbury (the average price in Fenland was at it's highest in December 2008, and in St Edmundsbury in December 2007). The lower quartile price peaked in most districts in December 2007. Average prices in all districts are still higher than they were in the first half of 2007. In all districts except East Cambridgeshire and St Edmundsbury, lower quartile prices are higher than they were at the end of 2006 and in these two districts they are at about the same level as in 2006.

Table 6: Average house price (all properties) 2004-2008

	Jun-04	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08
Cambridge City	£233,600	£241,600	£250,400	£254,700	£261,500	£287,300	£302,500	£309,600	£313,700	£303,900
East Cambridgeshire	£179,400	£188,600	£197,000	£207,900	£202,800	£212,900	£222,400	£225,000	£231,500	£224,800
Fenland	£134,400	£144,400	£147,500	£148,900	£151,300	£157,300	£158,700	£165,400	£162,100	£167,200
Huntingdonshire	£176,000	£181,900	£187,900	£194,100	£199,100	£207,900	£211,200	£223,100	£231,100	£222,200
South Cambridgeshire	£230,800	£245,400	£241,100	£248,700	£257,400	£273,000	£288,000	£294,200	£302,600	£300,600
Forest Heath	£153,700	£163,900	£164,000	£167,000	£164,500	£181,700	£180,700	£183,200	£200,200	£189,100
St Edmundsbury	£171,400	£181,600	£182,000	£191,100	£191,400	£211,500	£218,600	£230,000	£220,600	£219,400
Sub-Region	£180,408	£191,083	£195,661	£202,215	£203,754	£218,723	£225,116	£233,954	£237,915	£237,614

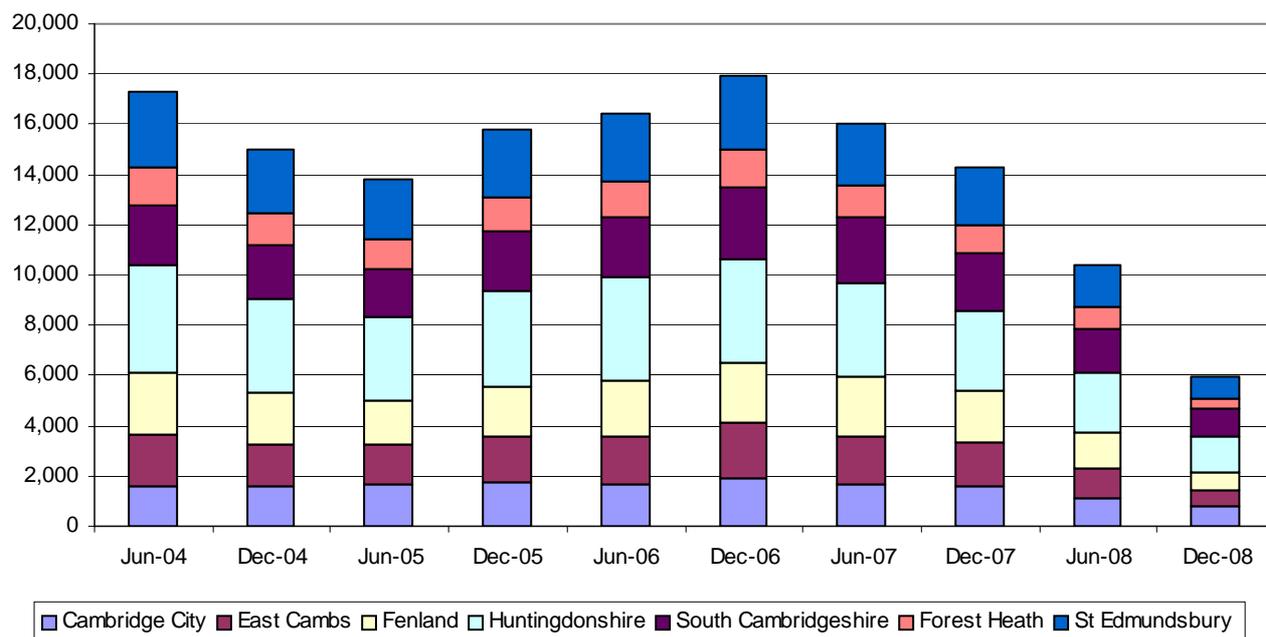
Source: Hometrack

Table 7: Lower quartile house price (all properties) 2004-2008

	Jun-04	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08
Cambridge City	£159,000	£165,000	£168,000	£173,500	£173,000	£186,000	£200,000	£210,000	£200,000	£195,000
East Cambridgeshire	£126,300	£135,000	£138,000	£140,000	£142,000	£148,800	£155,000	£154,900	£155,000	£148,700
Fenland	£95,500	£104,000	£106,000	£108,000	£110,500	£116,000	£118,000	£121,000	£120,000	£120,000
Huntingdonshire	£123,500	£127,500	£130,000	£135,000	£137,500	£140,500	£147,000	£150,000	£150,000	£145,000
South Cambridgeshire	£155,000	£164,000	£165,000	£168,500	£170,000	£182,500	£192,000	£194,000	£197,000	£185,000
Forest Heath	£115,000	£119,500	£120,000	£120,000	£120,000	£129,600	£130,000	£135,000	£132,000	£130,000
St Edmundsbury	£117,500	£125,000	£124,800	£127,000	£130,500	£140,000	£142,000	£145,000	£140,000	£140,000

Source: Hometrack

Fig 5: Properties sold, 2004-2008



Source: Hometrack

Fig 5 shows that for 2004-2007, there were on average 30,000 properties sold per year. This number had decreased to about 16,000 in 2008.

14.6 Property Prices by type, 2004-08

Table 8 shows the recent half-year price change:

Table 8: Price change by property type, Jan-Jun 2008 and Jul-Dec 2008

	Detached	Semi-detached	Terraced	Flat
Cambridge City	-2%	0.2%	-13%	-8%
East Cambridgeshire	-1%	-0.4%	-9%	1%
Fenland	-2%	-4%	-3%	-1%
Huntingdonshire	-8%	-6%	-7%	-2%
South Cambridgeshire	3%	-6%	-7%	-1%
Forest Heath	-12%	0.4%	-6%	-1%
St Edmundsbury	-5%	-4%	-2%	-1%
Sub-Region	-3%	-0.2%	-3%	-2%

Source: Hometrack

Over 2008, prices for all types of properties in all districts have mostly decreased by between 1 and 9%, with a few exceptions. The price of detached properties in South Cambridgeshire, semi-detached properties in Forest Heath and Cambridge City and flats in East Cambridgeshire increased slightly between the two six-month periods. Prices for detached properties fell by 12% in Forest Heath and prices for terraced homes fell by 13% in Cambridge City.

Table 9 shows the price change between the first half of 2004, and the last half of 2008:

Table 9: Price change by property type between Jan-Jun 2004 and Jul-Dec 2008

	Detached	Semi-detached	Terraced	Flat
Cambridge City	49%	25%	18%	31%
East Cambridgeshire	37%	15%	18%	31%
Fenland	21%	16%	20%	25%
Huntingdonshire	26%	20%	18%	22%
South Cambridgeshire	32%	20%	16%	13%
Forest Heath	24%	12%	10%	21%
St Edmundsbury	33%	19%	18%	19%
Sub-Region	35%	25%	23%	31%

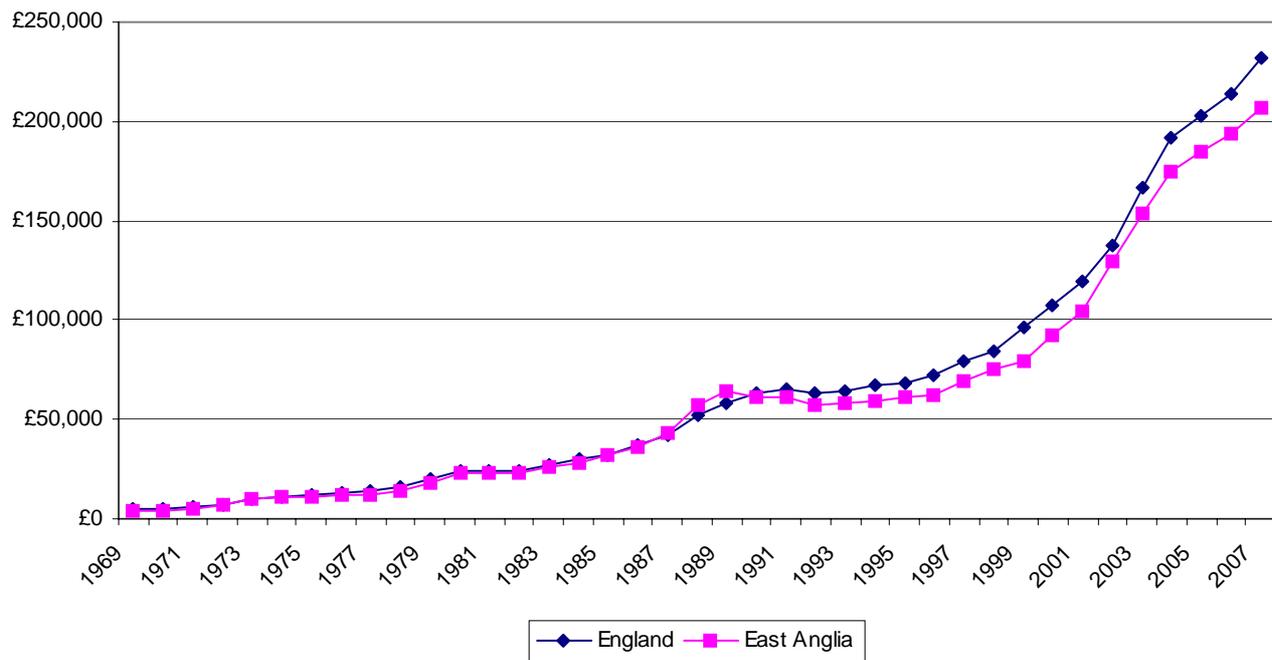
Source: Hometrack

While there has been a decrease in price over the past year, the longer term view shows that house prices have increased substantially over the last four years. At the current rate of change it would take longer than four years for prices to return to the 2004 levels.

14.7 The long view

Fig 6 below shows the simple average house price for England and East Anglia (there is no more local data available). Although it does not pick up the average price for 2008, it does show the last time house prices fell. This occurred in regionally in 1990, where house prices fell by 4% on the previous year. Prices decreased from £64,610 in 1989 to £57,308 in 1992, but increased again from 1993 onwards. It took around 4 more years (until 1997) for prices to return to the level they had been prior to 1990.

Fig 6: Average house price, 1969-2007



Source: CLG

From table 10, over all but one seven year period covered in the data above the average house price increased.

Table 10: Percentage price change over seven year periods, East Anglia, 1969-2007

Start year	End year	End year price	Percentage change
1969	1976	£11,850	176%
1970	1977	£12,176	170%
1971	1978	£13,968	181%
1972	1979	£18,461	163%
1973	1980	£22,808	132%
1974	1981	£23,060	110%
1975	1982	£23,358	103%
1976	1983	£25,830	118%
1977	1984	£28,296	132%
1978	1985	£31,661	127%
1979	1986	£36,061	95%
1980	1987	£42,681	87%
1981	1988	£57,295	148%
1982	1989	£64,610	177%
1983	1990	£61,427	138%
1984	1991	£61,141	116%
1985	1992	£57,308	81%
1986	1993	£57,882	61%
1987	1994	£59,583	40%
1988	1995	£60,971	6%
1989	1996	£61,819	-4%
1990	1997	£69,764	14%
1991	1998	£74,888	22%
1992	1999	£79,349	38%
1993	2000	£92,628	60%
1994	2001	£103,964	74%
1995	2002	£129,395	112%
1996	2003	£153,666	149%
1997	2004	£174,363	150%
1998	2005	£184,966	147%
1999	2006	£194,243	145%
2000	2007	£206,745	123%

Source: CLG

Table 10 shows the simple average (i.e. non-adjusted) house price. In 20 of the 32 periods covered, prices doubled. In six of the periods where the average price did not double, it still increased significantly – for example between 1986 and 1993, prices increased by around 8% per year. Three periods saw an increase of less than 3% per year (1988-1995, 1990-

1997 and 1991-1998) and only one seven year period saw a decrease in price (1989-1996) of roughly 0.6% per year.

Circumstances of and reasons for the current downturn are very different to the situation in 1990, so it is not possible to infer about what this means for 2008. However, based on past experience and patterns, prices will probably be higher in 2015 than they were 2008.

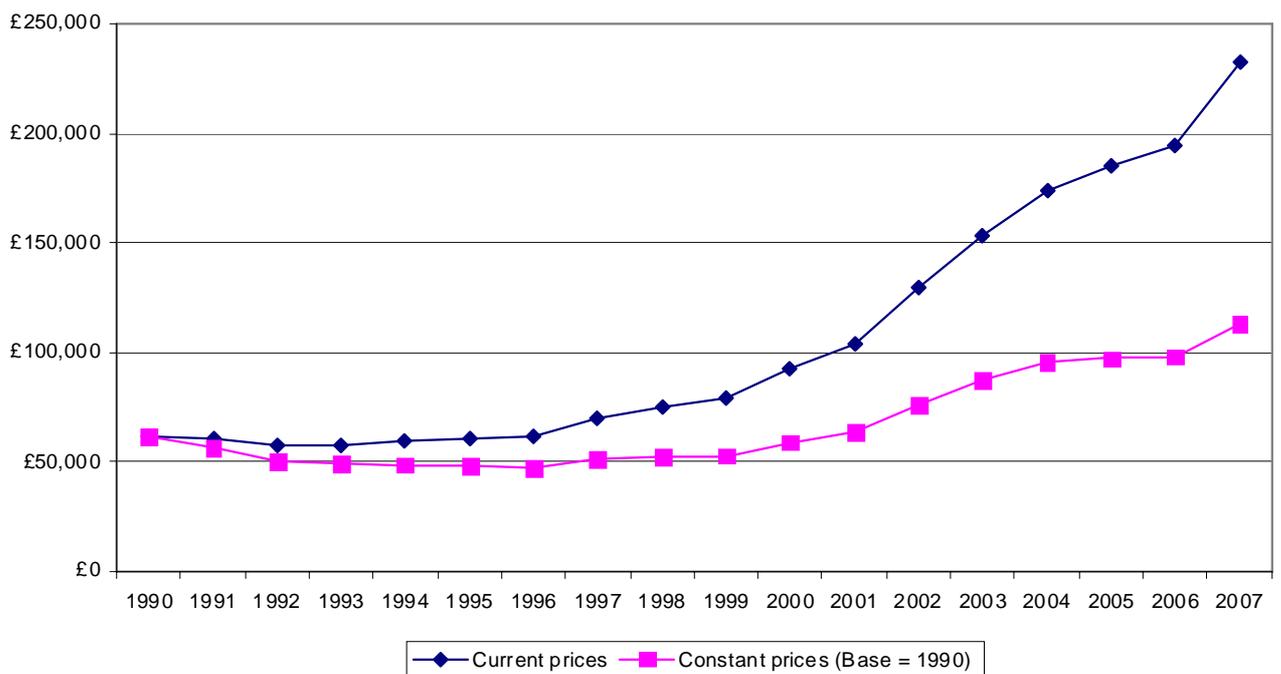
Table 10 suggests that house prices do double every seven years, but currently the average house price for the East of England is over £200,000. If this pattern does continue, then by 2015 it will be over £400,000, which raises the question of whether we have reached the point where this is no longer sustainable.

14.8 Inflation

House prices and inflations are closely linked. Both the Retail Price Index (RPI) and the Consumer Price Index (CPI) include housing costs, although the RPI gives them more weight. House price increases are an important factor driving inflation. However, conversely, much of the increase in house prices over time has not been caused by inflation driven by other factors. That is one way of understanding what it means to have an overheated housing market – house prices rising faster than inflation (i.e. faster than general prices increases). Therefore, adjusting for inflation using measures which include house prices would be to some extent circular. Because of this close relationship it is difficult to disentangle house price increase from inflation.

Fig 7 shows house price increase adjusted by average earnings index as this measure has the least direct relationship to house prices (no data is available prior to 1990). This shows that house prices have increased significantly faster than earnings in recent years. The pink line shows that if the relationship between house prices and earnings were the same in 2007 as it was in 1990, house prices would be around half of what they were.

Fig 7: House Prices and Average Earning Index



Source: Land Registry, ONS