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cebr revises house price forecasts up on improved lending outlook and continued low interest rates

Average UK House prices will grow by over six per cent during 2010, and will be around 20 per cent higher than today's levels by the end of 2013.

This is a key finding from the latest *Consumer and Housing prospects* report published by the **centre for economics and business research (cebr)** – one of the country's leading economics consultancies and respected commentators on the UK housing market.

The forecasts are based upon an improved mortgage lending outlook with mortgage approvals predicted to reach around 72,000 per month by the end of 2010 from today's level of around 60,000 per month, and will increase to around 90,000 per month by 2013. This is still some way short of pre-credit crunch levels of mortgage lending, but will likely lead to a sustainable growth path for house prices over the medium term. In addition, cebr's central forecast for interest rates is that rates will remain on hold at 0.5 per cent until mid-to-late 2011.

The report shows that the rate of house price growth is expected to moderate in 2010, but prices will still be around six per cent higher at the end of the year than at the start. During 2011, house price growth will falter as economic growth falters on public sector cutbacks, with associated increases in unemployment. Beyond this though, the current shortage of new housebuilding will mean that supply side problems persist, and we expect to see growth of eight per cent in 2012 and a further four per cent in 2013.

Benjamin Williamson, one of the report's authors and economist at cebr said:

'The fact that house prices have already risen by almost ten per cent since the bottom of the cycle has surprised most commentators. However, with the rate of mortgage lending more than doubling over this period of time, a shortage of new properties on the market, low interest rates and unemployment not rising nearly as fast as expected, it is easy to see how prices have moved so quickly.

'This combination of factors will continue to push prices up during 2010, albeit at a more modest rate than we have seen over the last six months.'

Ben Read, managing economist at cebr added:

'The key reason behind the upward revision to our forecasts is that mortgage approvals have recovered more quickly than we had previously expected.

'Looking forward beyond this year, we envisage a tough 2011 with house prices levelling out as government action to cut the deficit puts the brakes on demand. However, supply side pressures will reassert themselves in the medium term due to the massive shortfall in housing completions seen over the past two years and likely continued weakness in new housebuilding in the years to come. This will lead to stronger growth in house prices over 2012 and 2013.'

Table 1 Summary of January 2010 cebr house price and mortgage approvals forecasts (prices based upon HBOS House Price Index and refer to prices in the fourth quarter of each year, mortgage approvals based upon Bank of England series 'LPMVTVX')

	Average UK house price in fourth quarter (£ thousands)	Annual % growth in house prices (Q4-Q4)	Average monthly mortgage approvals (thousands)	Average UK house price in fourth quarter (£ thousands) – October 2009 Forecast	Annual % growth in house prices (Q4-Q4) – October 2009 Forecast
2002	121	25.7%	118	121	25.7%
2003	140	16.1%	114	140	16.1%
2004	161	15.0%	104	161	15.0%
2005	169	5.1%	100	169	5.1%
2006	186	10.1%	119	186	10.1%
2007	197	5.4%	104	197	5.4%
2008	165	-16.4%	42	165	-16.4%
2009	167	1.3%	43	167	1.1%
2010	178	6.5%	55	171	2.6%
2011	184	3.4%	70	176	2.6%
2012	199	7.9%	85	186	5.9%
2013	207	4.0%	90	198	6.6%

— ENDS —

NOTES TO EDITORS

The consumer and housing prospects report is a quarterly report released on the last Monday of January, April, July and October of each year. The report is part of the prospects service - cebr's macroeconomic advisory package for business.

cebr is a leading independent commercial economics consultancy with particular strengths in macroeconomic and market forecasting. The report has been co-authored by cebr staff (for details see below).

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