
Rays of recovery - UK house prices rise for fourth month

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Nationwide, UK's largest building society, said that house prices rose for a fourth month running in August as demand for properties continued to outweigh supply.

Nationwide's latest snapshot of the housing market showed the average cost of a home rose by 1.6% over the month to GBP 160,224. The monthly increase reduced the annual rate of price deflation to 2.7% compared with July's figure of 6.2%. The society said prices were now 3.2% higher than at the beginning of the year, although they were still 14.4% below their peak in October 2007.

The three month trend, which is considered a better indicator of how the market is faring than the one off monthly figure, showed acceleration in price rises from 2.7% in July to 3.3% in August. This is the highest level of 3 monthly growth since February 2007.

Mr Martin Gahbauer chief economist at Nationwide said that "The exceptionally low level of interest rates offers some explanation for why house prices have not repeated the very sharp falls of 2008."

He said that the reduction of the Bank of England base rate to just 0.5% meant households who were using around 38% of their take home pay to service their mortgage debt have seen that figure fall to just 28%. He added that "The fall in debt servicing costs has meant that fewer homeowners are under immediate financial pressure to sell than might have been expected in a recessionary economic background with rising unemployment. Partly as a result, fewer second hand properties have come on to the market than is normally the case in recessions, which has contributed to moving the balance of supply and demand more in favor of sellers over the course of 2009."

Mr Gahbauer said that "At the moment, a rise in interest rates is probably still some way off. However, the eventual exit from exceptionally loose monetary policy could make the recovery in the housing market bumpier than some might expect after the last few months of price increases."

(Sourced from www.guardianunlimited.co.uk)

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