Forward House Prices Lose Some of Their Previous Gains

The non-seasonally adjusted Halifax HPI for June 2009 was £2,088 down (or -1.28%) on the month at £158,807 negating some of the gain in the average house price in the previous month.

The Tradition Future HPIs, which are forward prices (prices representing a future date) from the residential property derivatives market expressed in simple average house price terms, show the house price one year hence fell £1,932 from £148,828 to £146,896 after traders’ re-adjusted the derivative prices following publication of the June 2009 index.

Three year forward house prices remain at the low point for the house price at £142,132, some £18,673 below the current price. The house price expectation five years hence was the biggest loser falling £7,511 to £142,926 some £17,969 below today’s house price.

Commenting, Peter Sceats, Director of the real estate division of Tradition, said:

"The recent rally in house price forward values came to an end during June and early July, but one needs to view this retracement in context. The worst of the market’s destruction phase is over, but the road to recovery will be neither smooth or quick.

While first time buyers are excluded from the physical housing market by severely limited bank lending, the relatively small number of house purchase transactions can make for choppy movement in the index month to month. Expect more of the same.

News that one building society had offered a more than 100% Loan to Value mortgage to existing clients caused some consternation in the newspapers, but it needn’t have. After such a mark down of the house price why shouldn’t LTV rates recover for prime borrowers?

However lending banks ought to take more notice of forward house prices and hedging their exposures if they are to avoid the mistakes of the past."
Notes to Editors

The Tradition Future HPI

The Tradition Future HPI is published every month by the Property Derivatives Team at Tradition Financial Services Limited (“Tradition”), a global leader in interdealer broking. The index provides an estimate of the future price of an average UK house. It uses derivative prices quoted in the over-the-counter (OTC) residential property market with Lloyds TSB PLC’s Halifax House Price Index as its basis.

The Tradition Future HPIs are not a guarantee of future property returns; rather they illustrate dynamic forward prices which are subject to change. The indices are an economic reference tool representing the changing forward value of UK housing. The OTC market in UK house price derivatives is accessible to suitably authorised banks and institutions via Tradition. For more information on house price derivatives, please call Tradition on +44 (0) 207 796 1510 or e-mail property@tradition.com.

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